

International business upbeat; margin improvement to be the key...

About the stock: Rallis India is a leading agrochemical company with a presence across agri input value chain and a strong, healthy pipeline of sustainable products.

- The company has a diversified portfolio, supported by a strong channel network of more than 6,700 dealers and 79,000 retailers
- In terms of revenue contribution, domestic crop care constitutes 54% of overall revenue followed by international crop care of 30% and the rest from the seeds business

Q1FY23 Results: Sales were above estimates majorly led by increase in exports while bottom-line was below estimate due to higher than expected COGS.

- Revenues increased 16.5% to ₹ 863 crore, driven by 51% YoY growth from international business. Domestic crop care increased by 17% YoY, while seed segment remained flat.
- Gross margins contracted 300 bps YoY to ~35.8%.
- EBITDA declined by 7.3% YoY to ₹ 113 crore. Crop Care segment EBITDA increased by 50% YoY to ₹ 57 crore, while Seeds segment EBITDA declined by 33% to ₹ 56 crore.
- Adjusted PAT declined by 19% YoY to ₹ 67 crore

What should investors do? The stock appreciated at 10% CAGR in last three years.

- We revise our rating on the stock from **REDUCE** to **HOLD** but maintain our neutral stance as we await progress on margins front and capex

Target Price and Valuation: We value Rallis India at 16x P/E FY24E EPS to arrive at a revised target price of ₹ 200 per share (earlier ₹ 235 per share).

Key triggers for future price performance:

- Lower pricing pressure for key molecules in the international market along with better volume growth visibility
- Backward integration of few technicals could help translate into improvement in gross margins
- Incremental traction from custom synthesis/CRAMS business

Alternate Stock Idea: Apart from Rallis India, in our chemical coverage we also like Sumitomo Chemical.

- Trigger for Sumitomo Chemical's future revenue growth would be increasing CRAMS opportunity from SCC Japan and Nufarm
- BUY with a target price of ₹ 520



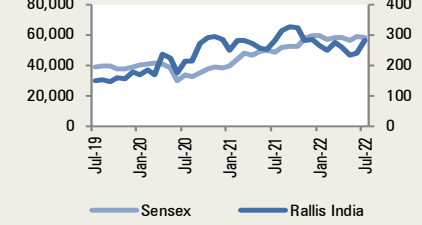
Particulars

Particular	Amount
Market cap (₹ Crore)	3,987
FY22 Total Debt (₹ Crore)	93
FY22 Cash & Inv (₹ Crore)	272
EV (₹ Crore)	3,808
52 Week H/L	337/182
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	50.1	50.1	50.1	50.1
DII	16.2	16.4	16.1	15.2
FII	6.6	6.0	6.1	6.0
Others	27.2	27.5	27.8	28.7

Price Chart



Recent Event & Key risks

- International business witnessed a strong growth
- Key Risk:** (i) Slowdown in domestic crop care to impact earnings (ii) Better than expected price increase to have upside risk to our estimates

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	2,251.8	2,429.4	2,603.9	9.4%	3,020.4	3,426.3	14.7%
EBITDA	259.4	322.9	274.1	0.8%	292.9	399.6	20.8%
EBITDA Margins (%)	11.5%	13.3%	10.5%		9.7%	11.7%	
Adj. PAT	176.0	221.5	164.2	-1.1%	172.5	240.4	21.0%
Adj. EPS (₹)	9.0	11.4	8.4		8.9	12.4	
EV/EBITDA	14.4x	11.5x	13.9x		14.1x	10.1x	
P/E	22.7x	18.0x	24.3x		23.1x	16.6x	
ROE (%)	12.5	13.9	9.7		9.5	12.1	
ROCE (%)	15.5	18.0	12.7		11.6	15.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Strong growth from international market led overall performance

- **Domestic business:** Revenues were up 9% YoY to ₹ 664 crores, driven by decent sales from domestic crop care. The revenue from crop care was up 17% YoY to ₹ 397 crores, led by better realisation growth, while the revenue from seeds declined by 1% YoY to ₹ 267 crores.
- **International business:** Strong volumes along with realisation growth in the key molecules led beat in the international crop care business revenues. The volumes and realisations grew by 25% YoY each during the quarter. The revenues stood at ₹ 198.9 crore (up 51% YoY).
- **Operational performance:** Owing to a passing on input inflation in the crop care segment, OPM improved by 150bps YoY to 9.6%, while seeds business recorded fall in the OPM by 990bps YoY to 21%. The subdued operational performance in the seed business is on account of provisioning of ₹ 13 crore in the cotton seed portfolio.

Q1FY23 Earnings Conference Call highlights

Crop care business:

- Domestic Business was up in Bihar and West Bengal. Median price hike of 4-5% was seen during the quarter. Two new herbicide plant of cotton and paddy were launched during the year. Company has witness good run rate in launching new products.
- International business has witness strong growth driven by both volume and price hike. Raw Material and Logistics challenges seem to come at ease as compared to last quarter. Company has tied up with domestic partner to source RM for one of its molecule.
- Company is planning to increase business of formulation in international market. Metribuzin molecules to gain traction post H1FY23.

Capex:

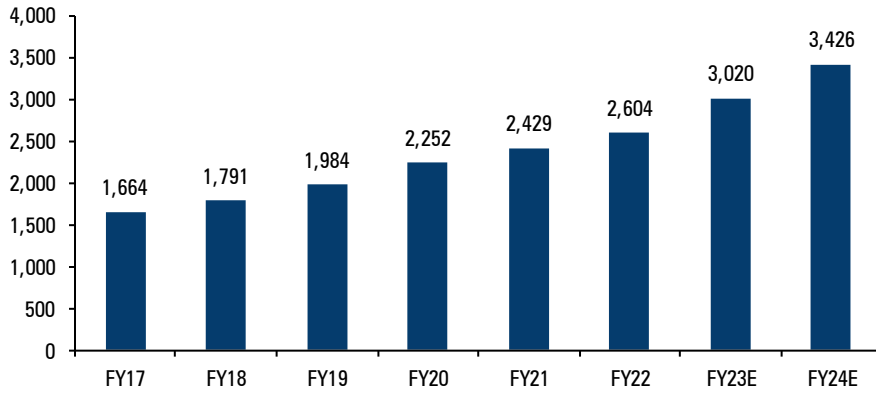
- MPP Plant is expected to be commissioned by H1FY23.
- Capex for FY23E is estimated to be around ₹ 250 crore.

Other updates:

- Launching of New Products - The company has launched new products in Paddy and Tomato to boost market share and growth. They have also commercialised 2 branded products in Myanmar and 1 in Uganda.
- Crop Care Nutrition – Revenue of crop care nutrition is entirely domestic. Company is planning to enter in neighbouring countries but boost in revenue can't be expected.
- Increase in Other Expenses Cost – Increase is due to Ocean Freight and Inland Freight Cost.
- Seed Business – Company is amongst the Top 3 players in Paddy Business. Company is focusing to strengthen its position in southern part of India. Overall business still remains challenging.
- CRAMS – Company has 2 contracts. Company sees a silver lining in PEKK plant, hence company is planning to restart the production by end of Q4FY23.
- Capacity Utilization –
 - Acephate Plant – 100%
 - Metribuzin Plant – 60%
 - Hexa Plant – lower utilisation due to seasonal demand.

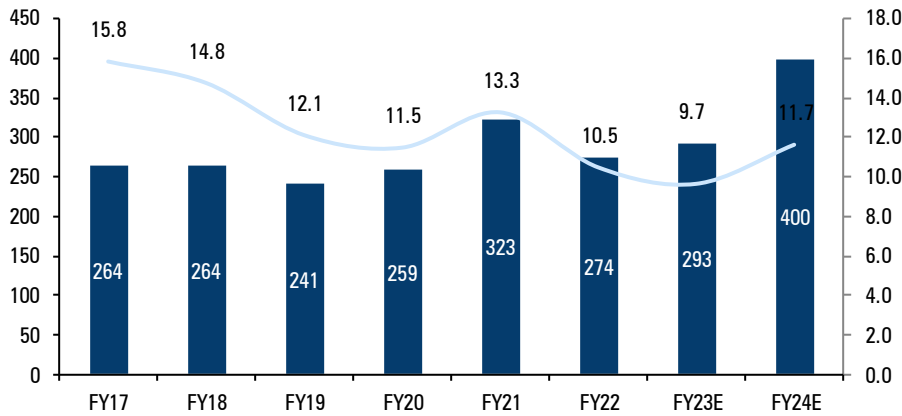
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



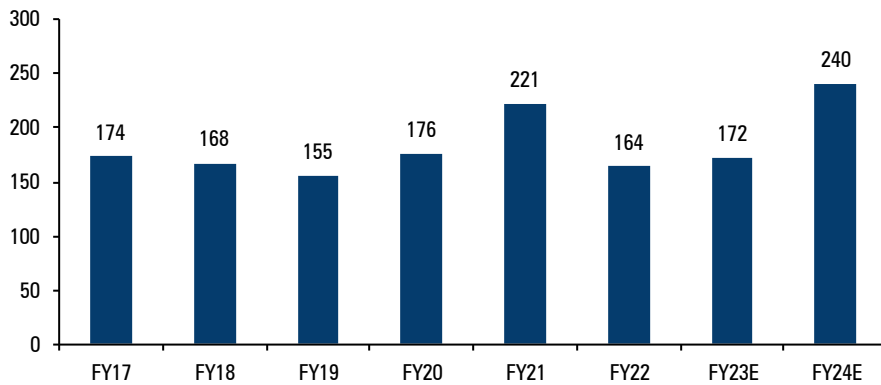
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement							₹ crore
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E	
Total Operating Income	1,984.0	2,251.8	2,429.4	2,603.9	3,020.4	3,426.3	
Growth (%)	10.8	13.5	7.9	7.2	16.0	13.4	
Raw Material Expenses	1,171.5	1,390.0	1,475.2	1,623.6	1,902.8	2,124.3	
Gross Profit	812.4	861.8	954.2	980.4	1,117.5	1,302.0	
Employee Cost	180.6	200.1	216.0	239.1	259.8	287.8	
Other Operating Expenses	390.9	402.4	415.3	467.2	564.9	614.5	
EBITDA	240.9	259.4	322.9	274.1	292.9	399.6	
Growth (%)	-8.9	7.6	24.5	-15.1	6.9	36.4	
Other Income	30.7	34.3	40.5	27.5	31.7	34.4	
EBITDA, including OI	271.6	293.7	363.3	301.5	324.6	434.0	
Depreciation	46.1	61.5	64.1	74.3	84.3	100.2	
Net Interest Exp.	5.3	6.1	5.2	4.8	10.3	13.3	
Other exceptional items	0.0	11.4	9.5	0.0	0.0	0.0	
PBT	220.3	237.5	303.5	222.4	230.0	320.6	
Total Tax	65.5	53.8	74.9	58.2	57.5	80.1	
Tax Rate	29.7%	22.7%	24.7%	26.2%	25.0%	25.0%	
PAT	154.8	183.7	228.6	164.2	172.5	240.4	
Adj.PAT after Minority interest	155.4	176.0	221.5	164.2	172.5	240.4	
Adj. EPS (₹)	8.0	9.0	11.4	8.4	8.9	12.4	
Shares Outstanding	19.5	19.5	19.5	19.5	19.5	19.5	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement							₹ crore
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E	
PBT & Extraordinary	220.3	237.5	303.5	222.4	230.0	320.6	
Depreciation	46.1	61.5	64.1	74.3	84.3	100.2	
After other adjustments							
(Inc) / Dec in Working Capital	-123.2	96.8	-60.2	-74.9	-317.6	-22.0	
Taxes	-70.9	-56.4	-74.6	-68.8	-57.5	-80.1	
Others	7.8	-2.6	-16.0	12.8	10.3	13.3	
CF from operating activities	80.1	336.9	216.8	165.8	-50.4	331.9	
Purchase of Fixed Assets	-46.5	-78.6	-168.5	-185.0	-200.0	-150.0	
Others	-4.9	-167.3	6.9	80.9	108.7	0.0	
CF from investing activities	-51.5	-245.9	-161.6	-104.2	-91.3	-150.0	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0	0.0	
Borrowings (Net)	12.5	4.5	0.4	16.2	170.0	-70.0	
Others	-64.0	-78.9	-67.8	-77.7	-68.7	-71.6	
CF from financing activities	-51.5	-74.4	-67.4	-61.5	101.3	-141.6	
Net cash flow	-22.9	16.5	-12.2	0.2	-40.4	40.2	
Effects of foreign currency translation	31.2	0.0	0.0	0.0	0.0	0.0	
Opening Cash	33.4	45.8	48.7	55.1	63.2	22.8	
Closing Cash	45.8	48.7	55.1	63.2	22.8	63.1	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet							₹ crore
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E	
Liabilities							
Share Capital	19.5	19.5	19.5	19.5	19.5	19.5	
Reserves	1,266.5	1,390.0	1,571.4	1,677.2	1,791.3	1,973.4	
Total Shareholders Funds	1,285.9	1,409.5	1,590.8	1,696.7	1,810.8	1,992.8	
Minority Interest	1.8	0.7	0.7	0.0	0.0	0.0	
Long Term Borrowings	15.8	26.8	29.3	25.4	145.4	105.4	
Net Deferred Tax liability	38.2	52.1	30.5	24.2	24.2	24.2	
Other long term liabilities	6.5	0.1	0.1	0.1	10.1	11.5	
Long term provisions	21.9	25.7	26.9	37.9	30.6	34.7	
Current Liabilities and Provisions							
Short term borrowings	53.0	63.5	42.5	67.3	117.3	87.3	
Trade Payables	534.8	637.3	596.1	752.5	868.9	985.7	
Other Current Liabilities	210.2	215.8	257.5	246.1	285.4	323.8	
Short Term Provisions	16.3	17.1	14.3	7.9	9.2	10.4	
Total Current Liabilities	814.2	933.7	910.4	1,073.8	1,280.8	1,407.2	
Total Liabilities	2,184.3	2,448.5	2,588.6	2,858.0	3,301.9	3,575.8	
Assets							
Net Block	385.0	397.0	435.2	574.9	746.3	796.1	
Capital Work in Progress	12.9	28.8	105.7	55.7	0.0	0.0	
Intangible assets under devl.	37.8	47.0	58.8	74.3	74.3	74.3	
Goodwill on Consolidation	195.8	195.8	195.8	195.8	195.8	195.8	
Non-current investments	3.8	3.8	3.2	3.2	3.2	3.2	
Deferred tax assets	21.7	110.0	88.0	93.0	93.0	93.0	
Long term loans and advances	7.2	9.8	10.9	19.2	12.5	14.2	
Other Non Current Assets	107.0	42.0	35.7	47.8	197.3	223.8	
Current Assets, Loans & Advances							
Current Investments	105.5	298.7	280.3	208.7	100.0	100.0	
Inventories	673.6	699.2	763.2	938.0	1,158.5	1,220.3	
Sundry Debtors	449.1	450.6	406.3	445.9	537.9	610.2	
Cash and Bank	45.8	48.7	55.1	63.2	22.8	63.1	
Loans and Advances	0.9	0.0	0.0	0.0	0.0	0.0	
Other Current assets	138.4	117.1	150.5	138.1	160.2	181.7	
Current Assets	1,413.2	1,614.2	1,655.4	1,794.0	1,979.4	2,175.3	
Total Assets	2,184.3	2,448.5	2,588.6	2,858.0	3,301.9	3,575.8	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios						
Year end March	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)						
Adj. EPS	8.0	9.0	11.4	8.4	8.9	12.4
Adj. Cash EPS	10.4	12.2	14.7	12.3	13.2	17.5
BV	66.1	72.5	81.8	87.2	93.1	102.5
DPS	2.5	2.5	3.0	3.0	3.0	3.0
Operating Ratios (%)						
Gross Margin (%)	40.9	38.3	39.3	37.6	37.0	38.0
EBITDA Margin (%)	12.1	11.5	13.3	10.5	9.7	11.7
PAT Margin (%)	7.8	7.8	9.1	6.3	5.7	7.0
Debtor Days	83	73	61	63	65	65
Inventory Days	124	113	115	131	140	130
Creditor Days	98	103	90	105	105	105
Cash Conversion Cycle	108	83	86	89	100	90
Return Ratios (%)						
Return on Assets (%)	7.1	7.2	8.6	5.7	5.2	6.7
RoCE (%)	16.6	15.5	18.0	12.7	11.6	15.3
Core RoC (%)	16.2	17.2	19.5	13.2	10.7	14.8
RoE (%)	12.1	12.5	13.9	9.7	9.5	12.1
Solvency Ratios						
Total Debt / Equity	0.1	0.1	0.0	0.1	0.1	0.1
Interest Coverage	43.0	38.0	57.4	47.4	23.2	25.2
Current Ratio	1.7	1.7	1.8	1.7	1.5	1.5
Quick Ratio	0.9	1.0	1.0	0.8	0.6	0.7
Valuation Ratios (x)						
EV/EBITDA	16.2	14.4	11.5	13.9	14.1	10.1
P/E	25.7	22.7	18.0	24.3	23.1	16.6
P/B	3.1	2.8	2.5	2.4	2.2	2.0
EV/Sales	2.0	1.7	1.5	1.5	1.4	1.2

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2066	2,755	Buy	61,233	63.5	69.2	83.7	32.5	29.8	24.7	24.0	21.9	18.1	23.8	22.7	23.6	22.1	20.3	20.6
PI Industries	2729	3,155	Buy	41,403	55.5	64.4	78.9	49.2	42.4	34.6	35.0	29.4	23.8	16.3	17.2	18.4	13.8	13.9	14.7
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	3763	4,040	Hold	18,648	52.3	67.4	89.8	72.0	55.8	41.9	54.4	38.9	28.4	17.8	19.4	20.3	14.0	15.8	18.0
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1959	2,215	Buy	3,840	45.1	54.8	69.3	43.4	35.7	28.3	25.0	21.0	16.7	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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