

## Decline in international business leads to overall de-growth

**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 6,800 dealers and 93,000 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

**Q3FY23 Results:** Rallis' numbers were below I-direct estimates led by erratic rainfall in the domestic market and headwinds in international markets.

- Revenues remained flat YoY to ₹ 630 crore. Domestic crop care increased 7% YoY while seed segment was down 14%. Geography wise, domestic crop protection business grew ~8%, crop nutrition business by 22% but exports declined 6.5%
- Gross margins contracted 83 bps YoY to ~39.4%. However, gross margins increased 508 bps QoQ reflecting a softening of raw material costs
- EBITDA declined 20.9% YoY to ₹ 53 crore. Crop care segment EBITDA increased 134% YoY to ₹ 71 crore while seeds segment EBITDA declined 64% to -₹ 18 crore. Adjusted PAT declined 43.1% YoY to ₹ 22.5 crore

**What should investors do?** The stock appreciated at 2% CAGR in last three years.

- We maintain **HOLD** rating with a neutral stance as we await progress on the margins front and capex

**Target Price and Valuation:** We value Rallis India at 16x FY25E EPS of ₹ 13.9 to arrive at a revised target price of ₹ 225 per share (earlier ₹ 250 per share).

### Key triggers for future price performance:

- Increases in commodity prices such as wheat, paddy and cotton may aid the crop protection business in the coming quarters
- Backward integration of few technical could help translate into improvement in gross margins
- Good growth momentum in crop nutrition segment can lead to decent gross margins ahead

**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 ₹ 570



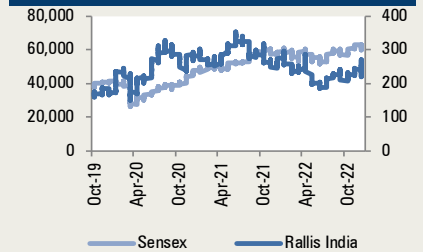
### Particulars

Particular	Amount
Market cap (₹ Crore)	4,353
FY22 Total Debt (₹ Crore)	93
FY22 Cash & Inv (₹ Crore)	272
EV (₹ Crore)	4,174
52 Week H/L	298/182
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

### Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sept-22
Promoter	50.1	50.1	50.1	50.1
DII	16.4	16.1	15.2	15.3
FII	6.0	6.1	6.0	6.0
Others	27.5	27.8	28.7	28.6

### Price Chart



### Recent Event & Key risks

- Launch of new product Daksh Plus (Pendimethalin + Metribuzin).
- Key Risk:** (i) Slowdown in international business to impact earnings (ii) Better than expected price increase compared to our estimates

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Revenue	2,251.8	2,429.4	2,603.9	9.4%	2,979.4	3,303.7	3,663.9	12.1%
EBITDA	259.4	322.9	274.1	0.8%	288.8	384.6	447.3	17.7%
EBITDA Margins (%)	11.5%	13.3%	10.5%		9.7%	11.6%	12.2%	
Adj.PAT	176.0	221.5	164.2	-1.1%	169.6	230.2	270.2	18.1%
Adj. EPS (₹)	9.0	11.4	8.4		8.7	11.8	13.9	
EV/EBITDA	15.8x	12.7x	15.2x		15.5x	11.4x	9.6x	
P/E	24.8x	19.7x	26.5x		25.7x	18.9x	16.1x	
ROE (%)	12.5	13.9	9.7		9.4	11.6	12.3	
ROCE (%)	15.5	18.0	12.7		11.4	14.7	16.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q3FY23 Results: International market growth muted, resulting in weak performance

- **Domestic business:** Revenues were up 5% YoY to ₹ 392 crore, driven by decent sales from the domestic crop care and crop nutrition segment. The revenue from crop care and crop nutrition was up 7% YoY to ₹ 368 crore, led by better price hike while revenue from seeds declined 14% YoY to ₹ 24 crore
- **International business:** Weak volumes despite realisation growth in key molecules impacted the international crop care business revenues. International business grew 31% in nine months of the current fiscal year. Revenues were at ₹ 238.5 crore (down 6% YoY)
- **Operational performance:** Owing to de-growth in volumes of the crop care segment, OPM contracted by 145 bps YoY to 11.7% while the seeds business recorded losses almost same at the last years' level. EBITDA was impacted due to higher marketing and demand generation spend

Rallis - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	24.0	30.1	NA
Social	37.0	35.2	NA
Governance	86.0	86.1	NA
<b>Overall ESG Score</b>	<b>49.1</b>	<b>50.5</b>	<b>NA</b>

*Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

### Q3FY23 Earnings Conference Call highlights

#### Industry Overview:

- Demand in the domestic market was overall sluggish during the quarter, largely owing to delay in sowing on account of the extended monsoon and high channel inventory
- Water reservoirs level continued to remained healthy
- Erratic monsoon in the domestic business and headwinds in international business restricted volume growth during the quarter

#### Domestic Business:

- In the domestic business, overall revenues were impacted. Overall margins in crop care were impacted by headwinds in margins from international business
- Inventory levels were elevated at the end of Q2 and moderated in Q3
- One 9(3) product Daksh Plus (Pendimethalin + Metribuzin) was launched. The product was used as a herbicide for wheat crops
- The company is working toward expanding distribution and selling products in e-commerce models. In Q3FY23, the retail footprint reached 60000 for the crop care business
- In the seeds segment, the company saw a decline in volumes on a YoY basis. Further, it is focusing on field level demonstration and preparation for the Kharif season

#### International Business:

- The company has seen a decline in revenues during the quarter. The decline was standalone led by volumes. High inventory stocking in some of the markets for products has been the main cause
- Drought situation in some overseas market did not impact the business
- The company expects international business volume growth to be back to normal by Q1FY24

#### Contract Manufacturing Business:

- Contract manufacturing business will take two to three years to reach meaningful sales
- The company expects PKK shipments to commence in small ways from Q4 after a gap of two years
- Two recently won contracts are awaiting regulatory approval in respective markets prior to commercialisation

- The company is engaged with new customers and not existing customers for the CRAMS business. Rallis is expecting CRAMS revenue to get commercialised in FY24 provided everything works well

**Crop Nutrition Business:**

- Crop nutrition segment is seeing good traction. The company is planning to add newer products including bio-pesticides

**Management on raw material:**

- The company is reducing dependence on China for meeting raw material requirements
- Rallis has made good progress in the area. It procures 100% raw material domestically for two products. For two important intermediates it procures 20% domestically and is targeting 80% of other intermediate by year end

**Management on capex:**

- Capex has been reduced to ₹ 200 crore from ₹ 250 crore. Currently the management is focusing on completion and commissioning of MPP plant. The project is running behind estimated time

**Management on capacity utilisation:**

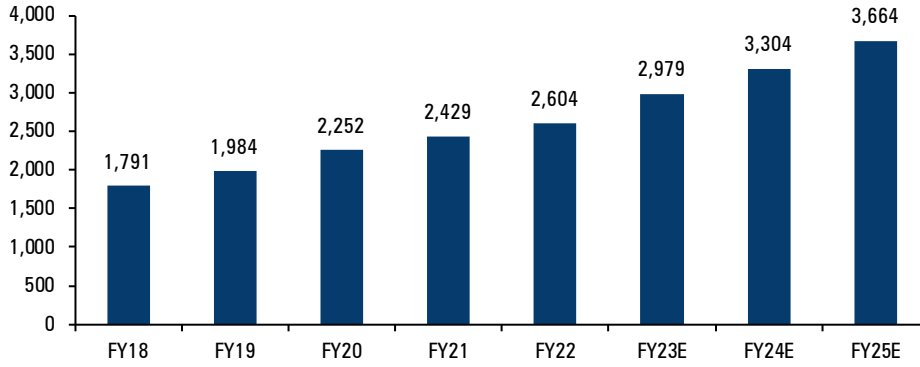
- Acephate plant – 100%
- Pendimethalin/ Metribuzin Plant - ~80-90%
- Hexa Plant – Slightly lower due to Vietnam and China market
- CRAMS – Good utilisation
- PEKK – Was shut for a few years and will be started in Q4FY23

**Others**

- Volume and price growth in 9MFY23
  - Domestic business – 14.6% YoY
  - International business – 31% YoY

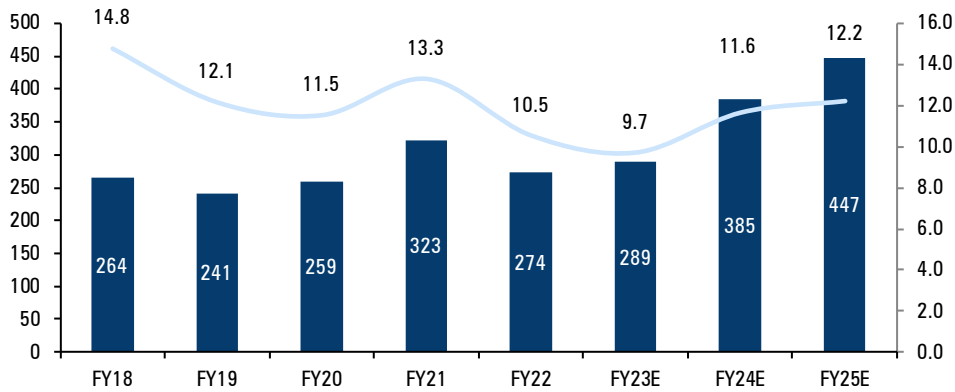
## Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



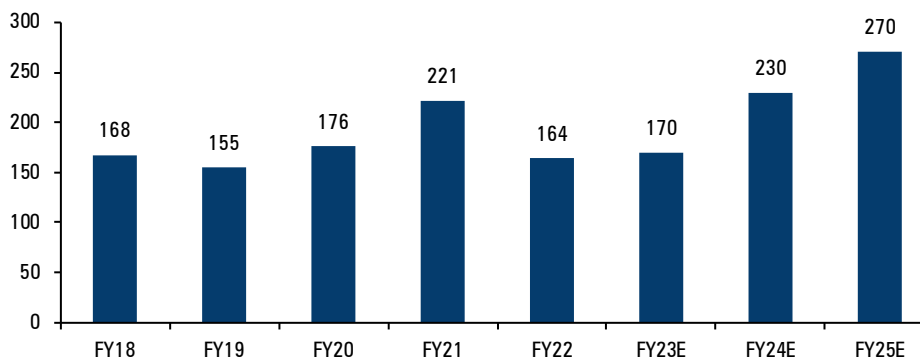
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E	FY25E	
<b>Total Operating Income</b>	<b>2,429.4</b>	<b>2,603.9</b>	<b>2,979.4</b>	<b>3,303.7</b>	<b>3,663.9</b>	
Growth (%)	7.9	7.2	14.4	10.9	10.9	
Raw Material Expenses	1,475.2	1,623.6	1,877.0	2,048.3	2,198.3	
<b>Gross Profit</b>	<b>954.2</b>	<b>980.4</b>	<b>1,102.4</b>	<b>1,255.4</b>	<b>1,465.6</b>	
Employee Cost	216.0	239.1	256.2	277.5	311.4	
Other Operating Expenses	415.3	467.2	557.3	593.3	706.8	
<b>EBITDA</b>	<b>322.9</b>	<b>274.1</b>	<b>288.8</b>	<b>384.6</b>	<b>447.3</b>	
Growth (%)	24.5	-15.1	5.4	33.2	16.3	
Other Income	40.5	27.5	32.0	35.8	36.0	
<b>EBITDA, including OI</b>	<b>363.3</b>	<b>301.5</b>	<b>320.8</b>	<b>420.4</b>	<b>483.3</b>	
Depreciation	64.1	74.3	84.3	100.2	113.9	
Net Interest Exp.	5.2	4.8	10.3	13.3	9.2	
Other exceptional items	9.5	0.0	0.0	0.0	0.0	
<b>PBT</b>	<b>303.5</b>	<b>222.4</b>	<b>226.1</b>	<b>307.0</b>	<b>360.3</b>	
Total Tax	74.9	58.2	56.5	76.7	90.1	
Tax Rate	24.7%	26.2%	25.0%	25.0%	25.0%	
<b>PAT</b>	<b>228.6</b>	<b>164.2</b>	<b>169.6</b>	<b>230.2</b>	<b>270.2</b>	
Adj.PAT after Minority interest	221.5	164.2	169.6	230.2	270.2	
Adj. EPS (₹)	11.4	8.4	8.7	11.8	13.9	
Shares Outstanding	19.5	19.5	19.5	19.5	19.5	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement						₹ crore
Year end March	FY21	FY22	FY23E	FY24E	FY25E	
<b>PBT &amp; Extraordinary</b>	<b>303.5</b>	<b>222.4</b>	<b>226.1</b>	<b>307.0</b>	<b>360.3</b>	
Depreciation	64.1	74.3	84.3	100.2	113.9	
After other adjustments						
(Inc) / Dec in Working Capital	-60.2	-74.9	-305.9	-2.1	-52.8	
Taxes	-74.6	-68.8	-56.5	-76.7	-90.1	
Others	-16.0	12.8	10.3	13.3	9.2	
<b>CF from operating activities</b>	<b>216.8</b>	<b>165.8</b>	<b>-41.6</b>	<b>341.6</b>	<b>340.5</b>	
Purchase of Fixed Assets	-168.5	-185.0	-200.0	-150.0	-200.0	
Others	6.9	80.9	108.7	0.0	0.0	
<b>CF from investing activities</b>	<b>-161.6</b>	<b>-104.2</b>	<b>-91.3</b>	<b>-150.0</b>	<b>-200.0</b>	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0	
Borrowings (Net)	0.4	16.2	170.0	-70.0	-70.0	
Others	-67.8	-77.7	-68.7	-71.6	-67.5	
<b>CF from financing activities</b>	<b>-67.4</b>	<b>-61.5</b>	<b>101.3</b>	<b>-141.6</b>	<b>-137.5</b>	
Net cash flow	-12.2	0.2	-31.6	50.0	2.9	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0	
Opening Cash	48.7	55.1	63.2	31.6	81.6	
<b>Closing Cash</b>	<b>55.1</b>	<b>63.2</b>	<b>31.6</b>	<b>81.6</b>	<b>84.6</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						₹ crore
Year end March	FY21	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>						
Share Capital	19.5	19.5	19.5	19.5	19.5	
Reserves	1,571.4	1,677.2	1,788.5	1,960.3	2,172.2	
<b>Total Shareholders Funds</b>	<b>1,590.8</b>	<b>1,696.7</b>	<b>1,807.9</b>	<b>1,979.8</b>	<b>2,191.6</b>	
Minority Interest	0.7	0.0	0.0	0.0	0.0	
Long Term Borrowings	29.3	25.4	145.4	105.4	65.4	
Net Deferred Tax liability	30.5	24.2	24.2	24.2	24.2	
Other long term liabilities	0.1	0.1	10.0	11.1	12.3	
Long term provisions	26.9	37.9	30.1	33.4	37.1	
<b>Current Liabilities and Provisions</b>						
Short term borrowings	42.5	67.3	117.3	87.3	57.3	
Trade Payables	596.1	752.5	857.1	950.4	1,204.6	
Other Current Liabilities	257.5	246.1	281.5	312.2	346.2	
Short Term Provisions	14.3	7.9	9.1	10.1	11.2	
Total Current Liabilities	910.4	1,073.8	1,265.0	1,359.9	1,619.3	
<b>Total Liabilities</b>	<b>2,588.6</b>	<b>2,858.0</b>	<b>3,282.7</b>	<b>3,513.8</b>	<b>3,949.9</b>	
<b>Assets</b>						
Net Block	435.2	574.9	746.3	796.1	882.2	
Capital Work in Progress	105.7	55.7	0.0	0.0	0.0	
Intangible assets under devel.	58.8	74.3	74.3	74.3	74.3	
Goodwill on Consolidation	195.8	195.8	195.8	195.8	195.8	
Non-current investments	3.2	3.2	3.2	3.2	3.2	
Deferred tax assets	88.0	93.0	93.0	93.0	93.0	
Long term loans and advances	10.9	19.2	12.4	13.7	15.2	
Other Non Current Assets	35.7	47.8	194.6	215.8	239.3	
<b>Current Assets, Loans &amp; Advances</b>						
Current Investments	280.3	208.7	100.0	100.0	100.0	
Inventories	763.2	938.0	1,142.8	1,176.7	1,465.6	
Sundry Debtors	406.3	445.9	530.6	588.3	602.3	
Cash and Bank	55.1	63.2	31.6	81.6	84.6	
Loans and Advances	0.0	0.0	0.0	0.0	0.0	
Other Current assets	150.5	138.1	158.0	175.2	194.3	
Current Assets	1,655.4	1,794.0	1,963.0	2,121.8	2,446.7	
<b>Total Assets</b>	<b>2,588.6</b>	<b>2,858.0</b>	<b>3,282.7</b>	<b>3,513.8</b>	<b>3,949.9</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
Adj. EPS	11.4	8.4	8.7	11.8	13.9
Adj. Cash EPS	14.7	12.3	13.1	17.0	19.7
BV	81.8	87.2	93.0	101.8	112.7
DPS	3.0	3.0	3.0	3.0	3.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	39.3	37.6	37.0	38.0	40.0
EBITDA Margin (%)	13.3	10.5	9.7	11.6	12.2
PAT Margin (%)	9.1	6.3	5.7	7.0	7.4
Debtor Days	61	63	65	65	60
Inventory Days	115	131	140	130	146
Creditor Days	90	105	105	105	120
Cash Conversion Cycle	86	89	100	90	86
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.6	5.7	5.2	6.6	6.8
RoCE (%)	18.0	12.7	11.4	14.7	16.0
Core RoIC (%)	19.5	13.2	10.5	14.3	15.7
RoE (%)	13.9	9.7	9.4	11.6	12.3
<b>Solvency Ratios</b>					
Total Debt / Equity	0.0	0.1	0.1	0.1	0.1
Interest Coverage	57.4	47.4	22.9	24.2	40.2
Current Ratio	1.8	1.7	1.6	1.6	1.5
Quick Ratio	1.0	0.8	0.6	0.7	0.6
<b>Valuation Ratios (x)</b>					
EV/EBITDA	12.7	15.2	15.5	11.4	9.6
P/E	19.7	26.5	25.7	18.9	16.1
P/B	2.7	2.6	2.4	2.2	2.0
EV/Sales	1.7	1.6	1.5	1.3	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	2237	2,735	Buy	66,324	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3333	3,710	Buy	50,572	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Tata Chemical	960	1,370	Buy	24,451	47.5	63.6	73.0	24.3	18.2	15.8	14.7	10.9	8.5	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2032	2,320	Hold	20,890	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	485	565	Buy	24,216	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	3963	4,450	Hold	19,635	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	379	515	Hold	2,621	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1245	1,645	Buy	3,109	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1710	2,215	Buy	3,356	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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