

Higher input cost inflation to weigh on performance

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

Q4FY22 Results: Numbers were below our estimates, impacted by lower growth from international market and higher COGS.

- Revenues increased 7.7% to ₹ 507.5 crore, led by 25% growth in the domestic crop care segment
- Gross margins contracted 663 bps YoY to ~34.8%, leading operational performance to remain in loss
- Loss of ₹ 2.8 crore at EBITDA level vs. profit of ₹ 17.7 crore in Q4FY21
- Loss at PAT level was at ₹ 14.1 crore against profit of ₹ 6.9 crore in Q4FY21, dented by a poor operational performance

What should investors do? The stock appreciated at 24% CAGR in last three years.

- We revise the rating downward from HOLD to **REDUCE** on the back of input cost inflation pressure

Target Price and Valuation: We value Rallis India at 19x P/E FY24E EPS to arrive at a revised target price of ₹ 235 per share (earlier ₹ 305 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 likely to translate into improvement in gross margins
- Increase in custom synthesis/CRAMS business revenue

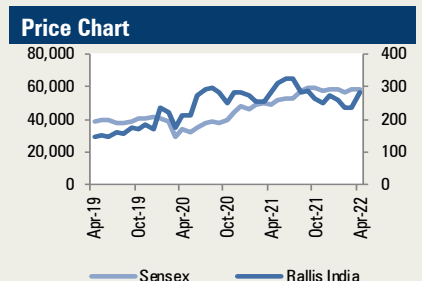
Alternate Stock Idea: Apart from Rallis India, in our chemical coverage we also like Sumitomo Chemical.

- 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	Amount
Market cap (₹ Crore)	4,937
FY22 Total Debt (₹ Crore)	93
FY22 Cash & Inv (₹ Crore)	272
EV (₹ Crore)	4,758
52 Week H/L	363/227
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

Shareholding pattern					
in %	Jun-21	Sept-21	Dec-21	Mar-22	
Promoter	50.1	50.1	50.1	50.1	
DII	17.3	16.2	16.4	16.1	
FII	7.1	6.6	6.0	6.1	
Others	25.5	27.2	27.5	27.8	



- ### Recent Event & Key risks
- Input price inflation remains a key concern for the business
 - Key Risk:** (i) Softness in RM and thereby improvement in the OPM to have upside risk to our estimates (ii) Better than expected price increase to pose upside risk to our estimates

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

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	18.0x	14.5x	17.4x		17.3x	12.4x	
P/E	28.1x	22.3x	30.1x		28.6x	20.5x	
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

Q4FY22 Results: Lower sales from international market, higher COGS dent overall growth

- **Domestic business:** Revenues were up 23% YoY to ₹ 294 crore, driven by strong sales from domestic crop care. The revenue from crop care was up 25% YoY to ₹ 268 crore, led by better realisation growth while revenue from seeds remained steady at ₹ 26 crore
- **International business:** Shortage of RM led to a fall in sales of one key molecule while a phasing issue with one international customer dragged the overall performance. The revenue from international market declined 8% YoY to ₹ 213 crore
- **Operational performance:** Owing to a rise in input cost for crop care, the segmental OPM fell 307 bps YoY to 4.6% while the seed business registered operational loss of ₹ 25 crore against loss of ₹ 16 crore in Q4FY21

Q4FY22 Earnings Conference Call highlights

Crop care business:

- Owing to input inflation pass on, part of the growth in domestic market was driven by realisations. Around 12% growth during the quarter was led by volumes
- In the international market, realisation growth was around 14%. There was supply side disruption in pendimethalin, which dragged performance for the quarter. Moreover, higher inventories in Metribuzin impacted exports growth for the quarter
- There have been higher inventories of Metribuzin in the US market, which has been getting resolved now. The company expects major shipment of Metribuzin to start from Q2FY23E onwards
- Revenue from international crop care was at ₹ 780 crore for the full year while for the quarter, it was ~₹ 215-220 crore
- The company has been diversifying RM procurement base from China to India. It entered into an agreement for one molecule with an Indian supplier

Capex:

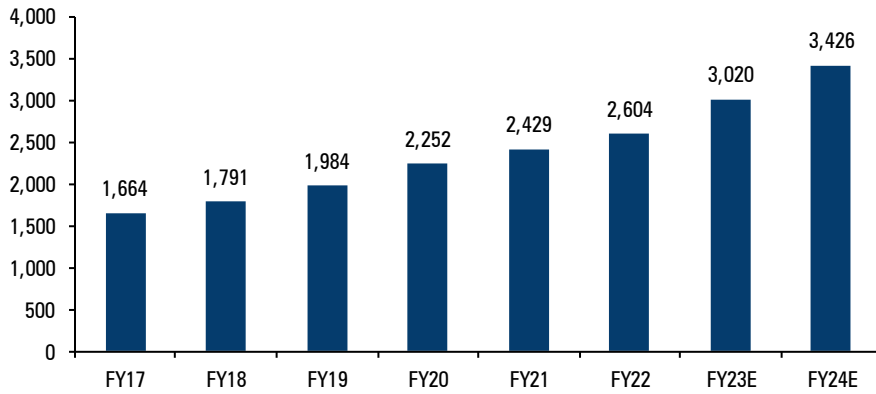
- The company has commissioned phase 1 of formulation plant. The commercial production for the same has started
- There had been good progress on EPC of MPP plant, which is expected to be commissioned by H1FY23
- Capex for FY23E is estimated to be ~₹ 250 crore

Other updates:

- The company got two new contracts for CRAMS. The quantum of the same is small. The commercialisation may take around a year
- It has introduced seven new products for domestic crop care during FY22, while another six were into crop nutrition
- PEKK volumes remained subdued during the quarter

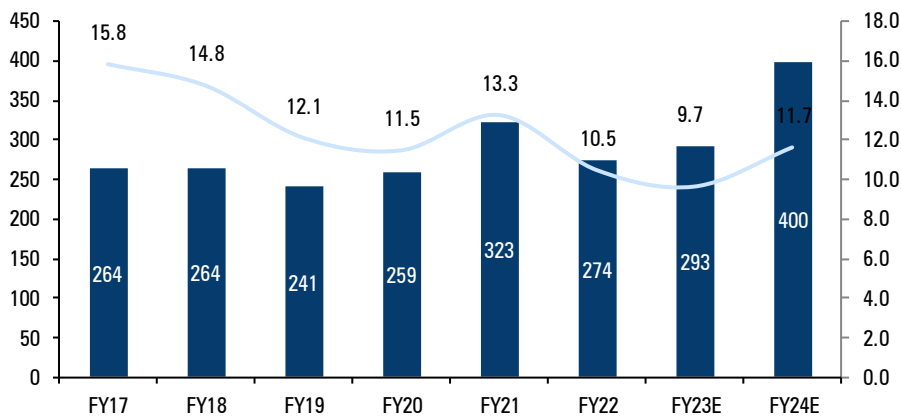
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



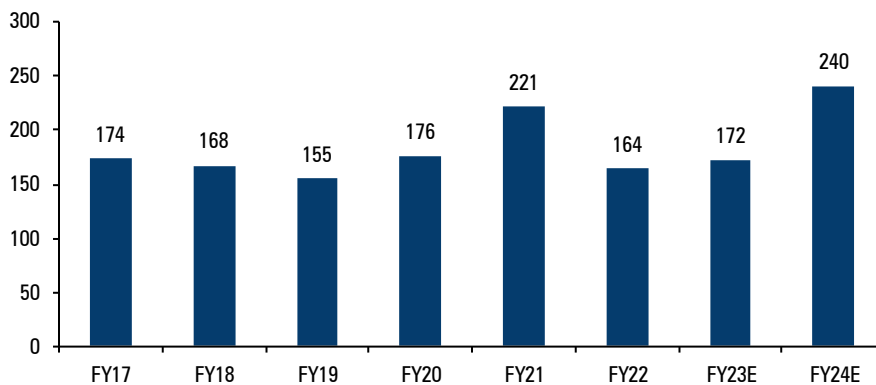
Source: Company, ICICI Direct Research

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 RoIC (%)	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	20.1	18.0	14.5	17.4	17.3	12.4
P/E	31.8	28.1	22.3	30.1	28.6	20.5
P/B	3.8	3.5	3.1	2.9	2.7	2.5
EV/Sales	2.4	2.1	1.9	1.8	1.7	1.4

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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SRF	2490	3,065	Buy	81,517	40.4	63.7	73.4	61.6	39.1	33.9	37.2	25.9	22.5	18.7	24.3	24.0	17.5	23.5	22.9
PI Industries	2878	3,375	Buy	44,358	48.6	55.4	70.1	59.3	52.0	41.1	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	922	1,175	Buy	35,154	14.5	37.1	35.1	63.6	24.9	26.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	973	1,035	Hold	25,466	10.1	42.0	54.9	96.7	23.1	17.7	17.3	11.4	9.0	4.1	6.5	8.1	1.8	7.1	8.6
Vinati Organics	2203	2,320	Buy	20,493	26.2	31.5	41.8	84.1	70.0	52.7	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	427	520	Buy	21,254	6.9	8.7	10.3	61.7	48.9	41.5	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	4031	4,520	Hold	20,306	45.0	53.6	76.8	89.5	75.2	52.5	60.8	51.6	34.4	21.0	19.2	23.6	13.6	14.4	17.7
Rallis India	254	235	Reduce	4,937	11.4	8.4	8.9	22.3	30.1	28.6	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	529	695	Buy	3,723	20.4	19.7	25.7	26.0	26.9	20.6	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1582	2,160	Buy	4,142	13.4	16.5	33.5	117.8	95.8	47.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1853	2,120	Buy	3,544	33.2	43.1	55.0	55.8	43.0	33.7	32.0	23.9	19.3	18.9	21.6	22.4	21.0	21.6	21.9

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Dhavan Shah, MS (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.