

CMP: INR 216

Target Price: INR 320

Rating: BUY

Stock Info

BSE	500355
NSE	RALLIS
Bloomberg	RALLIS:IN
Reuters	RALLIS.BO
Sector	Agrochemicals

Face Value (INR)	1
Equity Capital (INR Mn)	194
Mkt Cap (INR Bn)	42
52w H/L (INR)	271 / 186
Avg. Yearly Volume (in 000')	423

Shareholding Pattern %

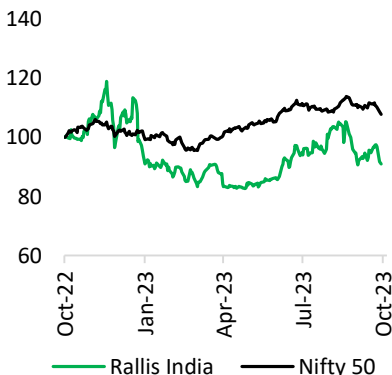
(As on Sept, 2023)

Promoters	55.08
DIs	13.47
FIs	8.23
Others	23.22

Stock Performance

(%)	1M	6M	1Y
Rallis India	-4%	9%	-11%
Nifty 50	-4%	5.4%	6.5%

Rallis India Vs Nifty



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Rallis India Ltd. is engaged in the business of crop protection and seeds. India is the major market for the company, but it also has sizeable presence in international markets, mainly America and Europe, and has aspirations of 40% international. It is on the verge of completion of a major capital expenditure cycle and the result will be evident in the next 2-3 years.

The company announced its Q2FY24 results, where-in the top-line was largely in-line with our estimates. The reported bottom-line however surprised the streets. The company benefitted from falling raw materials cost and lower cost of utilities. However, there were multiple challenges in the international market front, which impacted the business performance during the quarter. Domestic markets outperformed export markets during the period. However, going forward, the export market is expected to recover and continue its growth momentum.

Q2FY24 Result Highlights:

- In Q2FY24, Revenue from operations decreased by 12.5% YoY / up 6.4% QoQ to INR 8.32 bn.
- Employee cost was largely flat annually but fell sequentially by 3% QoQ basis to INR 64 mn. Other Expenses fell sharply by 11.8% YoY/1.6% QoQ due to decline in Power & Fuel costs.
- Resultantly, EBITDA increased by 13.7% YoY/20.9% QoQ to INR 133 mn and surprised the streets.
- Operating margins increased by 368 bps YoY/192 bps QoQ to 16%.
- Net profit stood at INR 82 mn for Q2FY24 rising by 13.9% YoY/30.1% QoQ for the company.
- Net Profit margin inflated by 228 bps YoY/180 bps QoQ to 9.86%.
- Effective tax expenses stood at INR 28 mn with an effective tax rate of 25.45%.

Outlook & Valuations: Rallis India Ltd. has reported good set of earnings for Q2FY24, which are better than the expectation from its sector Peers. The company faced a tough task in their international business where Pricing issues along side volume destocking is affecting the overall demand badly. However, we believe the inventory destocking will gather up pace in the H2, especially in Q4 and onwards. The Management intends to launch 1 catalog product each year in the future with focus on scaling up the market of the recently launched products across Insecticides and Herbicides. We value the company at 17.75x times its FY26E EPS of INR 18 and maintain our rating with a Target Price of INR 320 per share with an upside of 48%.

Exhibit 1: Financial Performance

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	2,604	2,980	3,635	4,290	5,062
EBITDA	274	231	414	532	628
PAT	164	91	225	297	350
EPS	8.44	4.72	11.55	15.26	18.01
EBIDTA Margin	10.52%	7.75%	11.40%	12.40%	12.40%
ROCE	11.40%	7.48%	15.22%	18.04%	18.89%

Source: Company, Arihant Research

Quarterly Result

Particulars (INR Mn)	Q2FY24	Q1FY24	Q2FY23	QoQ	YoY
Revenue from operations	832	782	951	6.39%	-12.51%
Cost of material consumed	433	425	501	1.88%	-13.57%
Purchase of stock-in-trade	30	124	47	-75.81%	-36.17%
Changes in inventories	45	-68	78	-166.18%	-42.31%
Gross Profit	324	301	325	7.64%	-0.31%
<i>Gross Profit Margin</i>	38.94%	38.49%	34.17%	45bps	477bps
Employee Cost	64	66	64	-3.03%	0.00%
Other Expenses	127	125	144	1.60%	-11.81%
EBITDA	133	110	117	20.91%	13.68%
<i>EBITDA Margin</i>	15.99%	14.07%	12.30%	192bps	368bps
Depreciation	26	25	22	4.00%	18.18%
EBIT	107	85	95	25.88%	12.63%
Finance Cost	3	3	2	0.00%	50.00%
EBT before Other Income	104	82	93	26.83%	11.83%
Other Income	5	3	2	66.67%	150.00%
Exceptional items	1	0	0		
Profit Before Tax	110	85	95	29.41%	15.79%
Tax Expenses	28	22	23	27.27%	21.74%
<i>Effective Tax Rate</i>	25.45%	25.88%	24.21%	-43bps	124bps
Profit After Tax	82	63	72	30.16%	13.89%
<i>Net Profit Margin</i>	9.86%	8.06%	7.57%	180bps	228bps
Number of Shares (Cr)	19.5	19.5	19.5	0.00%	0.00%
EPS (INR per share)	4.23	3.26	3.65	29.75%	15.89%

Source: Company, Arianth Research

Conference Call Highlights:

Management Guidance:

- There is a challenge particularly in the Peninsular India where lower rainfall has caused lower levels of reservoirs, which could have significant impact on the Rabi season crops, and the Management recognizes that.
- Management maintains that the global Crop Protection business for the current year may see a decline of low double digits (down by 11-14% YoY) against an earlier prediction of low single digits (down by 1-4% YoY) as channel inventories are getting consumed very slowly.
- Channel inventories still continue to stay high across all geographies. Channel Inventories to come down at least after this quarter.
- The Company doesn't see any significant volume growth in the domestic business in the near to medium term.

Key Highlights:

- The company repaid INR 1 bn of Working Capital loan to become a zero net debt company except for a small Sales Tax deferral.
- Post July, demand is impacted due to lower rainfall.
- Distributors increased to 4,900 distributors in numbers with the retail footprint increasing to 61,800.
- Distribution overlap between the two businesses is 25-30%.
- The cotton hybrid has done well in the northern markets.
- The international business continued to remain under stress due to the lesser demand and ongoing destocking in export markets.
- Capex of INR 1.50 bn for the current year for the Dahej Plant.
- Company is focussing on scaling up the new Products which have been launched recently.
- As per the Management, the company is facing lesser pressure in terms of margins in the International markets compared to the pressure they faced in the same period last year.
- Between Rice, Maize & Cotton, the Cotton crop gave the highest returns for the company.
- The company is targeting the South East Asian markets for the CSM Product as well as other products.
- The Company will be rolling out a new SAP software for better employee and administrative experience.
- Company intends to launch 1 new Catalog Product every year as a long term plan.
- Management says they have been able to navigate well with their serving products, and they didn't have to do much of the Liquidation of high cost inventory like some of their Peers.
- Company has launched 2 products in Technicals category in domestic markets while for the International markets, they will be supplying both Technicals & Formulations products.
- The company did several optimization programs to control the expenses of the company, which led to the improved margins.
- They will be getting the contract for manufacturing the first product for Multi-Purpose Plant (MPP).
- Only about 10-15% dip in the international business is due to the Price drop, and more of the business is down due to the volume drop, due to the already elevated volumes of channel inventory.

Financials

P&L (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	2,604	2,980	3,635	4,290	5,062
<i>Change (%)</i>	7.2%	13.0%	22.0%	18.0%	18.0%
Cost of Goods Sold	1,510	1,786	2,072	2,402	2,835
Employee costs	239	256	331	390	461
Other expenses	581	707	818	965	1,139
Total operating Expense	2,330	2,749	3,221	3,758	4,434
EBITDA	274	231	414	532	628
Other Income	30	13	16	18	22
Depreciation	74	91	111	132	155
Interest	7	12	15	18	21
PBT	222	127	304	401	473
Extra-ordinary	0	1	0	0	0
PBT after ext-ord.	222	127	304	401	473
Tax	58	36	79	104	123
<i>Rate (%)</i>	26.2%	28.5%	26.0%	26.0%	26.0%
PAT	164	91	225	297	350
<i>Change (%)</i>	-28.2%	-44.8%	147.6%	32.1%	18.0%

Balance Sheet (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	19	19	19.4	19	19
Reserves & Surplus	1,677	1,711	1,867	2,096	2,378
Net Worth	1,697	1,730	1,887	2,115	2,397
Long term debt	4	24	16	16	16
Short term debt	50	113	88	88	88
Total Debt	54	137	104	104	104
Deferred Tax & other liabilities	43	55	55	55	55
Current liabilities	1,016	865	1,303	1,487	1,705
Provisions	49	11	11	11	11
Total Liabilities	2,858	2,798	3,359	3,773	4,273
Net Block	531	520	890	889	925
Capital Work-in-Progress	56	179	85	50	50
Other Non-Current Assets	477	454	415	364	313
Net fixed assets	1,064	1,153	1,390	1,302	1,288
Investments	209	219	139	239	339
Debtors	446	499	627	740	874
Inventories	938	793	1,195	1,410	1,664
Cash & bank balance	63	46	-79	-7	21
Loans & advances & other CA	138	87	87	87	87
Total current assets	1,794	1,644	1,969	2,470	2,985
Total Assets	2,858	2,798	3,359	3,773	4,273

Source: Company, Arianth Research

Cash Flow Statement (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax (PBT)	222	128	304	401	473
Depreciation	74	91	111	132	155
Chg in working cap	-60	-7	-94	-143	-169
Tax Paid	-58	-36	-79	-104	-123
Other Operating cash flow	7	12	15	18	21
Others	-20	-25	-22	-25	-25
Net Operating Cash Flow	165	163	235	278	332
Capital Expenditure	129	250	250	100	100
Free Cash Flow	36	-87	-15	178	232
Investments	209	219	139	239	339
Other Investing cash flows	-233	-240	-220	-220	-220
Cash Flow from Investing	104	229	169	119	219
Equity Capital Raised / (Repaid)	0	0	0	0	0
Debt raised / (Repaid)	16	30	20	0	0
Dividend paid (incl tax)	-58	-58	-68	-68	-68
Other Financing Cash Flow	-19	-21	-18	-18	-18
Cash Flow from Financing	-61	-49	-66	-86	-86
Net change in cash	-1	-116	1	73	27
Opening cash	37	36	-80	-79	-7
Closing Cash	36	-80	-79	-7	21

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	8.4	4.7	11.5	15.3	18.0
CEPS	12.3	9.4	17.3	22.0	26.0
BVPS	87.2	89.0	97.0	108.8	123.3
Valuation (x)					
P/E	26.1	46.6	19.0	14.4	12.2
P/CEPS	17.9	23.4	12.7	10.0	8.5
P/BV	2.5	2.5	2.3	2.0	1.8
EV/EBITDA	15.6	18.9	10.8	8.3	6.9
Return Ratios (%)					
Gross Margin	42.0%	42.5%	43.0%	44.0%	44.0%
EBIDTA Margin	10.5%	7.8%	11.4%	12.4%	12.4%
PAT Margin	6.3%	3.1%	6.2%	6.9%	6.9%
ROE	9.7%	5.3%	11.9%	14.0%	14.6%
ROCE	11.4%	7.5%	15.2%	18.0%	18.9%
Leverage Ratio (%)					
Total D/E	0.0	0.1	0.1	0.0	0.0
Turnover Ratios					
Asset Turnover (x)	0.9	1.1	1.0	1.1	1.2
Inventory Days	131	125	120	120	120
Receivable Days	63	63	63	63	63
Payable days	105	103	103	103	103

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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