

CMP: INR 260

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 Bn)	19.5
Mkt Cap (INR Bn)	49
52w H/L (INR)	272 / 186
Avg. Yearly Volume (in 000')	423

Shareholding Pattern %

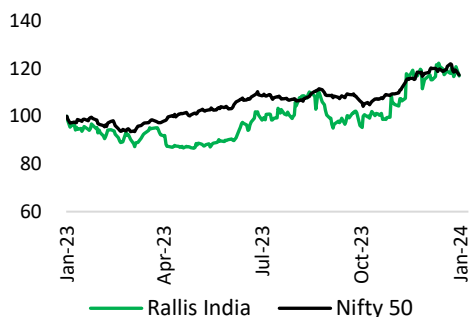
(As on December, 2022)

Promoters	50.09
DIIs	12.15
FIIIs	9.44
Others	28.32

Stock Performance (%)

	1M	6M	1Y
Rallis India	-10%	9%	-19%
Nifty 50	-2%	10%	2%

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. 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 Q3FY24 results, where-in the top-line was impacted due to the delayed and unpredictable monsoon. The company benefitted from reducing raw material cost inflation and lower cost of utilities. However, there were multiple challenges on the international market front, which affected the business performance during the quarter. The Red Sea crisis resulting in increased freight charges impacted the Export volumes and demand. Domestic markets outperformed export markets during the period. However, going forward, the export market is expected to recover and continue its growth momentum.

Q3FY24 Result Highlights:

- In Q3FY24, Revenue from operations decreased by 5.1% YoY / 28.1% QoQ to INR 5.98 bn.
- Employee cost was largely flat increasing 3.1% QoQ basis to INR 660 mn. Other Expenses fell sharply by 3.1% YoY/down 0.8% QoQ due to decline in Power & Fuel costs.
- Resultantly, EBITDA increased by 17% YoY/53.4% QoQ to INR 620 mn as a result of the seasonality of their business.
- Operating margins increased by 196 bps YoY/down 562 bps QoQ to 10.4%.
- Net profit stood at INR 240 mn for Q3FY24 down 70.7% YoY/14.3% QoQ for the company.
- Net Profit margin fell to 4% down 584 bps YoY/up 68 bps QoQ.

Outlook & Valuations: Rallis India Ltd. has reported poor set of earnings for Q3FY24, which was expected due to the seasonality of their business. The company faced a tough task in their international business front due to the Red Sea crisis which has caused insurance premiums on shipping soar high. However, we believe the inventory destocking will gather up pace in the coming quarters, especially in Q4 & Q1FY25. 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 23%.

Financial Snapshot:

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%

Quarterly Result

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Revenue from operations	5,980	8,320	6,300	-28.13%	-5.08%
Cost of material consumed	3,280	4,330	3,810	-24.25%	-13.91%
Purchase of stock-in-trade	190	300	250	-36.67%	-24.00%
Changes in inventories	-30	450	-240	-106.67%	-87.50%
Gross Profit	2,540	3,240	2,480	-21.60%	2.42%
<i>Gross Profit Margin</i>	42.5%	38.9%	39.4%	353bps	311bps
Employee Cost	660	640	650	3.13%	1.54%
Other Expenses	1,260	1,270	1,300	-0.79%	-3.08%
EBITDA	620	1330	530	-53.38%	16.98%
<i>EBITDA Margin</i>	10.4%	16.0%	8.4%	-562bps	196bps
Depreciation	300	260	220	15.38%	36.36%
EBIT	320	1070	310	-70.09%	3.23%
Finance Cost	40	30	40	33.33%	0.00%
EBT before Other Income	280	1,040	270	-73.08%	3.70%
Other Income	20	50	20	-60.00%	0.00%
Exceptional items	0	10	0	-1	NA
Profit Before Tax	300	1100	290	-72.73%	3.45%
Tax Expenses	60	280	80	-78.57%	-25.00%
<i>Effective Tax Rate</i>	20.0%	25.5%	27.6%	-545bps	-759bps
Profit After Tax	240	820	210	-70.73%	14.29%
<i>Net Profit Margin</i>	4.0%	9.9%	3.3%	-584bps	68bps
EPS (INR per share)	1.25	4.23	1.16	-70.45%	7.76%

Source: Company, Arianth Research

Conference Call Highlights:

Guidance:

- The Management is expecting impact on all kinds of kharif crops due to the moderate demand as seen across several states.
- Inventory destocking is taking longer than what the Management had earlier anticipated.

Key Highlights:

- Revenue declined by 28.1% QoQ/5.1 YoY to INR 5.98 bn in Q3FY24. EBITDA came at INR 0.62 bn, down 53.4% QoQ/17% YoY and Net profits dropped to INR 0.24 bn, down 70.7% QoQ/14.3% YoY.
- The delayed and unpredictable monsoon impacted the topline in Q3FY24. The sequential fall is due to the seasonal nature of the business while the YoY decline in topline is due to the channel inventory levels at higher levels.
- The Management acknowledges that the entire agro-chemicals industry is facing challenges due to inventory stockpile.
- The North, Central & South East Asia markets were resilient, while Maharashtra & Karnataka witnessed challenges in crop care demand.
- The company has launched 16 products in the 9MFY24 till now.
- Product prices remain soft across US and European markets due to higher inventories.
- Company has signed 3 contracts with a Japanese company for a new formulation.
- The company has a network of 2,750 distributors and 47,000 lakh retailers.

Conference Call Highlights (Continued):

- During the quarter, there were challenges in the export market due to higher inventory levels across regions.
- The Management says that they are trying to match the prices of Agro-chemicals offered by Chinese suppliers. The prices of agro-chemicals is lower by 15-30% against last year.
- Insecticides category saw good volume growth in the domestic markets.*
- Fungicides business is facing challenges in the domestic markets.
- The Chilli crop has seen more demand for their product Insecticide “Plasto”.
- The higher freight cost is impacting the company’s exports as they have a good market in the Eastern European region. The management expects the impact to be more severe in Q4FY24 due to the increased Insurance and overall freight cost for ships moving around the Red Sea region.
- International business will remain profitable in gross margins terms.
- The company is expecting 60% Capacity Utilization in FY25. The Company is building a new R&D centre which will start operations in the next 15-18 months. This will require a capex of INR 1.5 bn for FY24 and INR 1.7 bn for FY25.
- The Management says that the imports coming to the US markets have better prices compared to 1 year back. However, the inventory levels are still very high, and the Management cannot give any guidance as to when it will normalize down.
- By the Wheat & Paddy crops season, the company is expecting better prices. Also, they have few products in the pipeline coming to markets by then.
- The company will be starting the Digitization process before which they are gathering as much information as possible for some products on their targeted markets and regions where they will introduce those products.
- For older contracts, the company has long term commitments between their customers as well as suppliers. The shorter term contracts are for those molecules which are yet to be established in the markets.

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	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, Arihant 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

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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