



Abhishek Jain
abhishek.jain@arihantcapital.com
022 4225 4871

Yogesh D. Tiwari
yogesh.tiwari@arihantcapital.com
022 4225 4834

Growth augmentation through capacity expansion and market penetration

CMP: INR 239
Target Price: INR 336
Rating: BUY

Stock Info

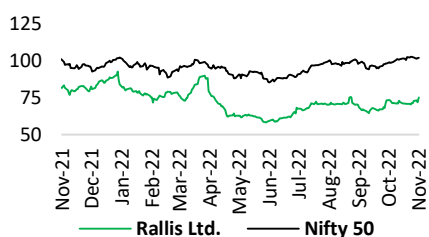
BSE	500355
NSE	RALLIS
Bloomberg	RALLIS:IN
Reuters	RALLIS.BO
Sector	Agrochemicals
Face Value (INR)	1
Equity Capital (INR Cr)	19.5
Mkt Cap (INR Cr)	4,649
52w H/L (INR)	299 / 191
Avg. Yearly Volume (in 000')	423

Shareholding Pattern %

(As on September, 2022)

Promoters	50.09
DII's	12.15
FII's	9.44
Others	28.32

Rallis India Ltd. Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com

022 4225 4871

Yogesh Tiwari

yogesh.tiwari@arihantcapital.com

022 4225 4834

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. Factoring in the future growth prospects, we initiate coverage on Rallis India Ltd.

Capacity expansion to drive volume growth

The company embarked on a significant capital expenditure program with a focus to increase capacity of existing products and install capacity for introduction of new products. The capital expenditure program will be completed in phases. The total capital outlay is about INR 800 crores. This also includes strengthening and ramp-up of the Research and Development (R&D) capabilities of the company. It has also increased the capacity of Metribuzin and completed the debottlenecking of Hexaconazole.

Buoyancy in export markets

In Q1FY23, export market revenues increased by more than 50% YoY, facilitated by growth in volumes and value. It posted a monthly export turnover of INR 100 crores in June 2022, which was a record for the company and was supported by strong demand for its products. Based on our interaction with other pesticide players, we expect growth momentum in exports to continue in FY23.

Rallis expanding into the lucrative Brazilian market

Brazil is amongst the leading crop protection market in the world. It is followed by the USA, China, India and Japan. Rallis India received the registration to market Acephate formulations in all the 27 provinces of the Brazil. Given the size of the country's agrochemical market and the sales potential of Acephate product, we believe it to be a significant revenue driver for the company. Also, the product registration process in Brazil is time-consuming and requires approval from three federal government bodies, namely, the Ministry of Agriculture, Livestock and Food Supply (MAPA), the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA) and ANVISA. These agencies perform independent evaluations.

Recovery in seeds business to aid margins and revenues

The Seeds business segment contributes about one-third of the overall revenues of Rallis India Ltd. The product portfolio is majorly tilted towards cotton and paddy crops. The seeds business has higher margin compared to the crop protection segment. However, in the past few quarters, the business has experienced margin pressure and disruption due to increased usage of illegal herbicide tolerant (HT) cotton seeds. Consequently, the organized sector lost some market share to the unorganized players. However, the challenges from illegal cotton seeds has softened in the current quarter owing to loss of farm productivity. Resultantly, farmers are shifting back to organized players, which is positive for the company. and will support higher margins in future.

Valuation & Outlook

Rallis India Ltd. Is implementation a multi-pronged strategy to drive growth, which includes capacity expansion, introduction of new products and deeper penetration into important markets. Post the completion of its capital expenditure cycle, it will benefit from volume growth. The investments in Research & Development (R&D) will facilitate introduction of new products. It has received product registration in important markets and has applied for additional registrations for future growth. Factoring in the above growth drivers, we have a positive view on the company. We value the company at 20x times its FY25E EPS of INR 16.8 and arrive at a Target Price of INR 336 per share. Accordingly, we have a Buy Rating on the stock.

Investment Rationale

Capacity expansion to drive volume growth

The company embarked on a significant capital expenditure program with a focus to increase capacity of existing products and install capacity for introduction of new products. The capital expenditure program will be completed in phases. The total capital outlay is about INR 800 crores. This also includes strengthening and ramp-up of the Research and Development (R&D) capabilities of the company. It has also increased the capacity of Metribuzin and completed the debottlenecking of Hexaconazole.

Specifically, with regards to Metribuzin, the company has re-organized the production facility at a single plant in a single building. Overall capacity of Metribuzin has increased from 1,100 tonnes (about three years ago) to 2,300 tonnes currently. It is used in the protection of crops like soybean, potatoes, tomatoes and sugar-cane. The major market for the export of Metribuzin is the U.S. The company has a strong order book and pipeline for Metribuzin and optimum capacity utilization is expected from Q3FY23.

They have also completed the debottlenecking of an insecticide plant at Ankleshwar, alongwith a herbicide product. They have commissioned all the lines of the new formulation facility at Dahej and the trickle down effect will be visible in FY23.

Amongst the major capital expenditure incurred, it will be commercializing the Multi Purpose Plant (MPP) at Dahej, Gujarat in H2FY23. This facility will be utilized to introduce and launch new products. Consequently, the company will benefit from significantly higher volumes, mainly in FY24.

Simultaneously, it has increased capacity utilization in the herbicide segment, which is relatively higher margin product compared to insecticides. Capacity utilization for Pendimethalin, a major herbicide for the company is operating around 70%-75%.

Factoring in the total capital expenditure of INR 800 crores and considering industry asset turnover ratios, the company can generate additional revenues in the range of INR 2,000 – 2,400 crores in the next 2-3 years.

Addressable Market Opportunity for certain products:



(Source: Company filings, Arihant Research, data as of 2019)

Buoyancy in export markets

Rallis India has presence across most export markets including Americas, Europe, Africa and Asia. The below exhibit shows the highlighted international presence of the company. In Q1FY23, export market revenues increased by more than 50% YoY, facilitated by growth in volumes and value. It posted a monthly export turnover of INR 100 crores in June 2022, which was a record for the company and was supported by strong demand for its products. Based on our interaction with other pesticide players, we expect growth momentum in exports to continue in FY23.



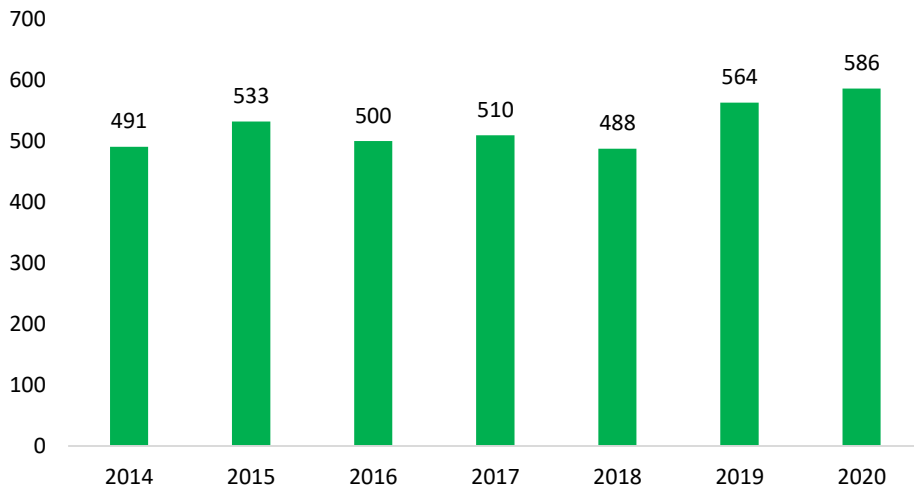
(Source: Company website, Arihant Research)

Rallis expanding into the lucrative Brazilian market

Brazil is amongst the leading crop protection market in the world. It is followed by the USA, China, India and Japan. Majority (about 80%) of the crop protection market in Brazil is concentrated in soybean, corn, sugarcane and cotton. Soybean is the main crop representing around 50% of planted area, leading global production and exports as well, responsible for 53% of the sprayed value, corn is the second crop with 12%, sugar cane, 11% and cotton, 8%.

With context to crop protection segments, fungicides are the most important with 31% of sprayed value, insecticides are the second most relevant with 29% and herbicides and seed treatment with 27% and 12% respectively.

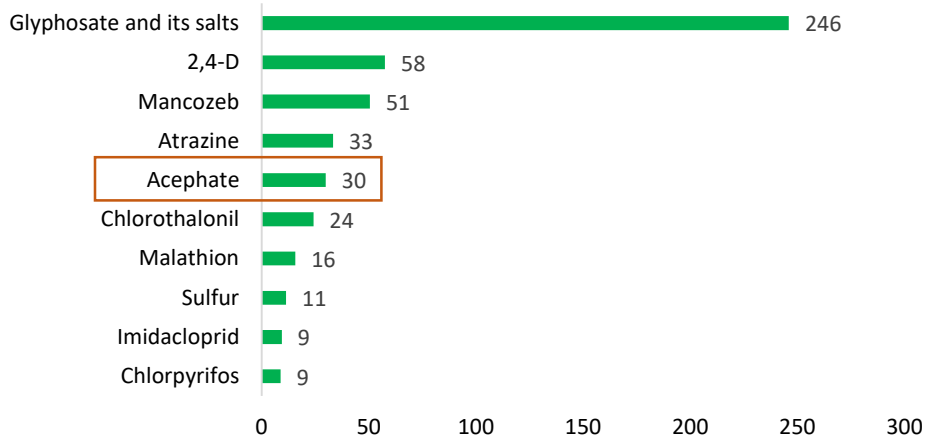
Brazil - Agrochemical Production in 1,000 metric tons of AI*



(Source: Statista, AI* = Active Ingredient, Arihant Research)

Agricultural production has increased in Brazil at a compounded annual growth rate of 3.0% between 2014 and 2020.

Brazil - Sales of top-selling agrochemicals in 2020 (in 1,000 metric tons of active ingredient)



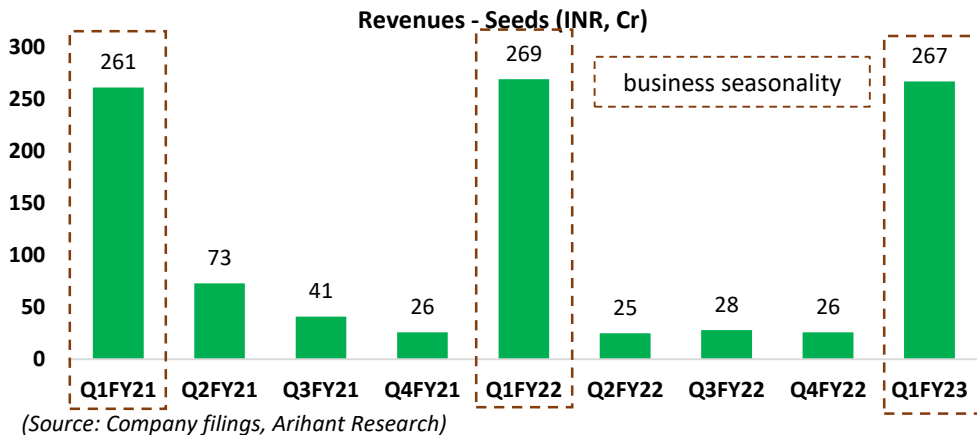
(Source: Statista, Arihant Research)

Acephate is amongst the top 5 selling agrochemical products in Brazil. It is an organophosphate foliar insecticide sold as a soluble powder, as emulsifiable concentrates, as pressurized aerosol, and in tree injection systems and granular formulations. It is popular due to its overall effectiveness in controlling many species of insects. It is widely used in Brazil to control the stink bug, a sucking insect that greatly reduces the productivity of grain crops, especially soy, as well as cotton boll weevil, one of the main cotton pests.

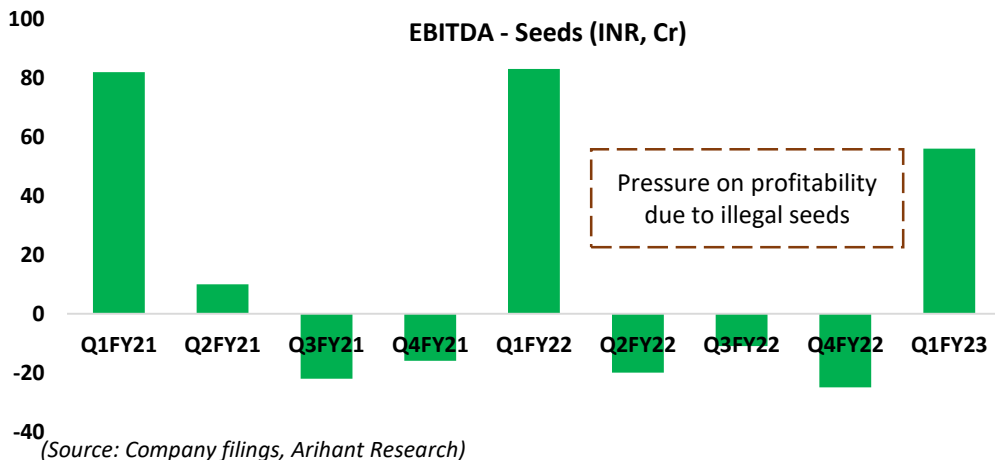
Rallis India had filed for the respective product registration in Brazil. It has received the registration to market Acephate formulations in all the 27 provinces of the country. Given the size of the country's agrochemical market and the sales potential of Acephate product, we believe it to be a significant revenue driver for the company. Also, the product registration process in Brazil is time-consuming and requires approval from three federal government bodies, namely, the Ministry of Agriculture, Livestock and Food Supply (MAPA), the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA) and ANVISA. These agencies perform independent evaluations.

Recovery in seeds business to aid margins and revenues

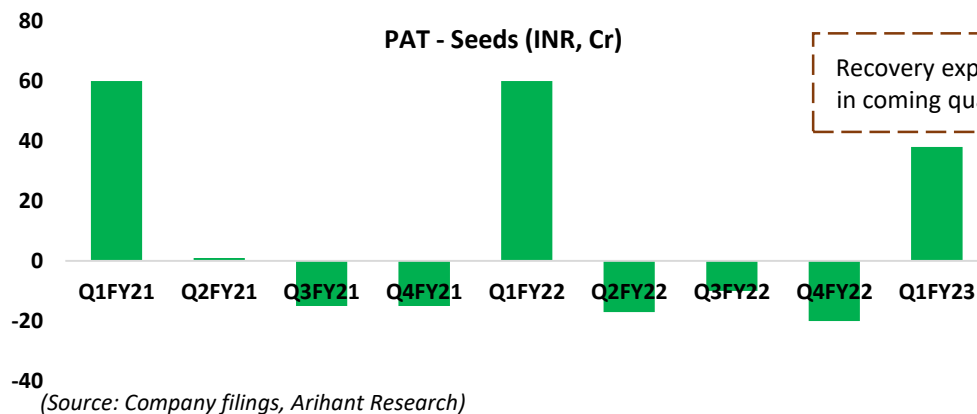
The Seeds business segment contributes about one-third of the overall revenues of Rallis India Ltd. The product portfolio is majorly tilted towards cotton and paddy crops. However, it is establishing itself in other crops like Millet, Maize, Mustard and selected vegetable crops.



It is a seasonal business with majority of the revenues coming in the first quarter owing to ramp up in farming activity with the onset of monsoon.



The seeds business has higher margin compared to the crop protection segment. However, in the past few quarters, the business has experienced margin pressure and disruption due to increased usage of illegal herbicide tolerant (HT) cotton seeds. Consequently, the organized sector lost some market share to the unorganized players.



Rallis India Ltd. also booked a provision of INR 14 crores in Q1FY23 due to lower margin in seeds on account of stock liquidation and aging base provisions on seed stocks. However, the challenges from illegal cotton seeds has softened in the current quarter owing to loss of farm productivity. Resultantly, farmers are shifting back to organized players and established products and slowly phasing out illegal seeds. This is a positive development for Rallis India and the seeds' business is expected to gradually recover, which will support higher margins for the company.

in INR Cr	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,429	2,604	2,942	3,590	4,236
EBITDA	324	274	321	409	525
EBITDA Margin (%)	13.4	10.5	10.9	11.4	12.4
PAT	229	164	194	250	327
PAT Margin (%)	9.4	6.3	6.6	7.0	7.7
EPS	11.8	8.4	10.0	12.9	16.8
PE(x)	20.3	28.5	23.9	18.5	14.2

Source: Company, Arihant Research

Outlook & View:

Rallis India Ltd. is implementing a multi-pronged strategy to drive growth, which includes capacity expansion, introduction of new products and deeper penetration into important markets. Post the completion of its capital expenditure cycle, it will benefit from volume growth. The investments in Research & Development (R&D) will facilitate introduction of new products. It has received product registration in important markets and has applied for additional registrations for future growth. Factoring in the above growth drivers, we have a positive view on the company. We value the company at 20x its FY25E EPS of INR 16.8 and arrive at a Target Price of INR 336 per share. Accordingly, we have a Buy Rating on the stock.

Product – Dealer Check:

The main products of the company include Pendimethalin, Metribuzin, Hexaconazole and Acephate. Apart from this, it is focusing on increasing the product basket of synthetic pyrethroids. We conducted a dealer check for some of its products and following are the observations.

Pendimethalin:

In FY22, there were several price hikes taken for Pendimethalin. One of the reason was to pass-on the increase in raw material prices. However, in the recent months, the prices of Pendimethalin has stabilized. Correspondingly, the prices of its raw material has also stabilized. The demand for the product is strong and it is a well accepted product in the domestic market. Our view is that prices of Pendimethalin will not increase significantly going forward. The price trend will be in-line with its raw material prices. The growth in the product will be driven by volumes and higher capacity utilization going-forward.

Metribuzin:

It is a popular herbicide, both domestically and in the export markets. The prices and availability is stable and will remain so in the upcoming quarters. The company's version of Metribuzin technical and formulation is well-received by distributors and farmers. Our view is that it will be a major revenue driver for the North America market. International markets are largely dominated by herbicides and therefore, the company can strategically utilize the product to gain market share in the international arena.

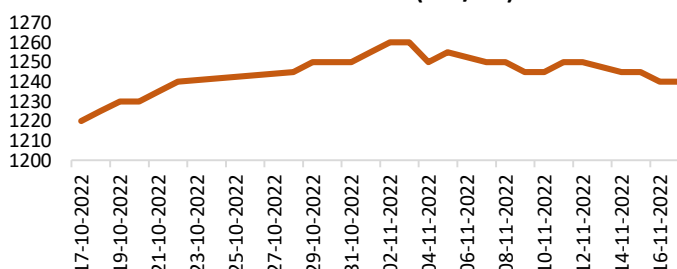
Acephate:

It is an effective insecticide in domestic and international market. The company has got its registration in the important market of Brazil, where it is amongst the top 10 selling pesticides. However, there has been some pricing pressure in Acephate in Brazil and Asian markets. We believe that it is driven by declining raw material prices and absence of insect-attacks recently. Our view is that the company will ramp up the product in the important market of Brazil and the future revenue growth will be driven by volumes and distribution channels.

Hexaconazole:

It is a triazole fungicide. The prices have stabilized after increasing in previous months (Source: IndianPetroChem). The company has also increased the capacity and capacity utilization of the product to target growth in volumes, going forward. Our view is that prices will remain range bound as input prices have also stabilized.

Hexaconazole Price (INR/KG)



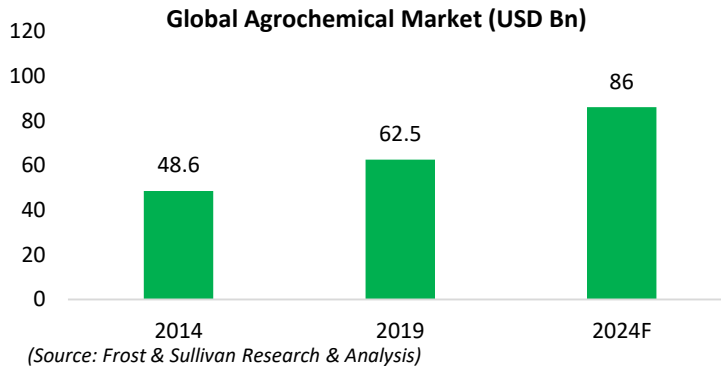
Overall, the product of the company has good market acceptance in-line with major global competitors.

Industry Overview:

Global Agrochemicals Industry:

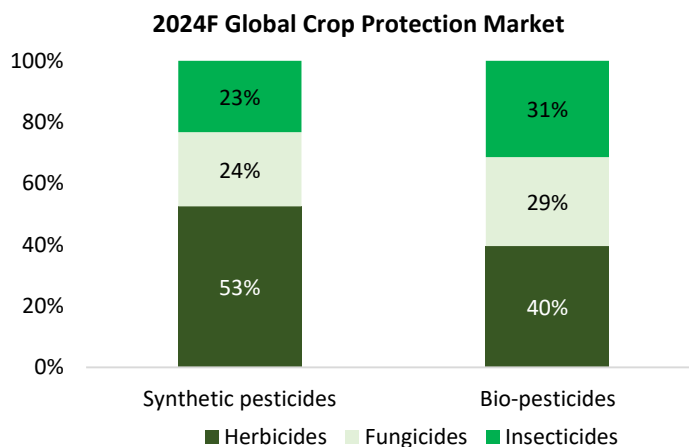
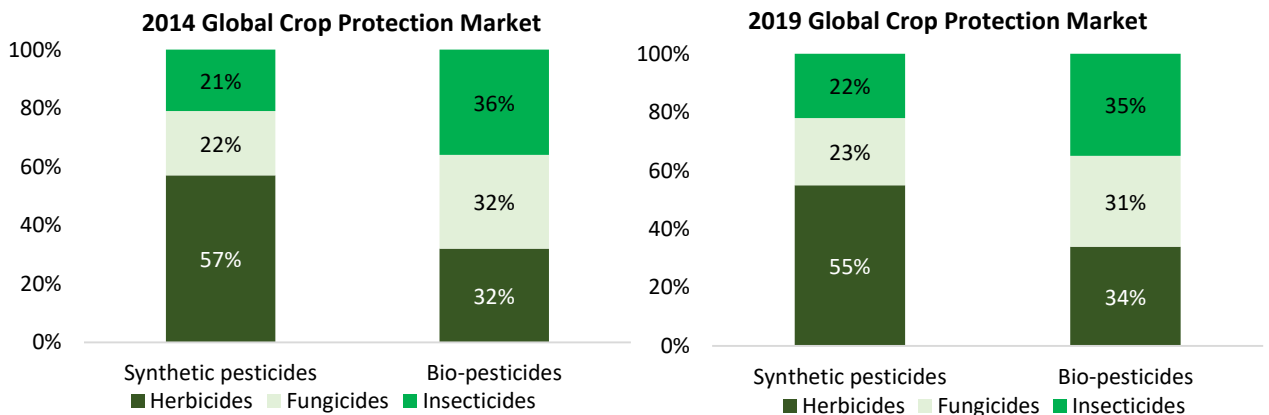
Crop protection chemicals are primarily classified into insecticides, herbicides and fungicides, followed by nematicides and rodenticides.

The global agrochemicals market size stood at USD 62.5 billion in 2019 and is estimated to increase at a compounded annual growth rate (CAGR) of 6.6% and reach USD 86 billion by 2024.



Market Segmentation:

Global agrochemicals market can be further distinguished into synthetic pesticides and bio-pesticides. Over the next 5 years, bio-pesticides market is expected to witness higher traction and increase at a compounded annual growth rate of 16%, compared to 5% CAGR in the synthetic pesticides segment.



(Source: Frost & Sullivan Research & Analysis)

Herbicide is the largest component within the agrochemical basket, followed by fungicide and insecticide. However, going forward, the share of herbicide is likely to decline and replaced by fungicide and insecticide.

Growth Rates

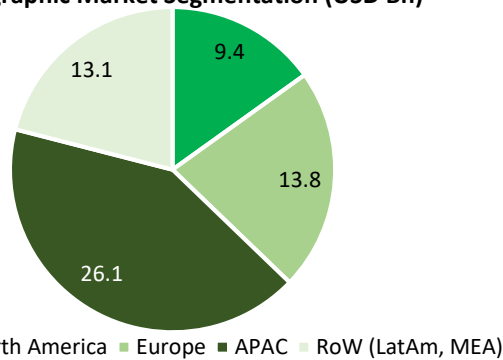
CAGR (%)	Synthetic Pesticides			Bio-pesticides		
	Herbicides	Fungicides	Insecticides	Herbicides	Fungicides	Insecticides
2014-2019	4.2%	5.9%	6.0%	13.1%	11.1%	11.1%
2019-2024F	4.1%	6.2%	6.3%	19.1%	14.2%	13.1%

(Source: Frost & Sullivan Research & Analysis)

Geographic segmentation of the agrochemicals market

The Asia-Pacific region is the major market driving demand for agrochemicals, owing to agriculture consumption needed to feed a vast, growing population. Countries such as India, China, Indonesia and Australia dominate the usage of crop protection chemicals in the Asia Pacific region. Asia Pacific region is followed by Europe, North America and Latin America.

Geographic Market Segmentation (USD Bn)

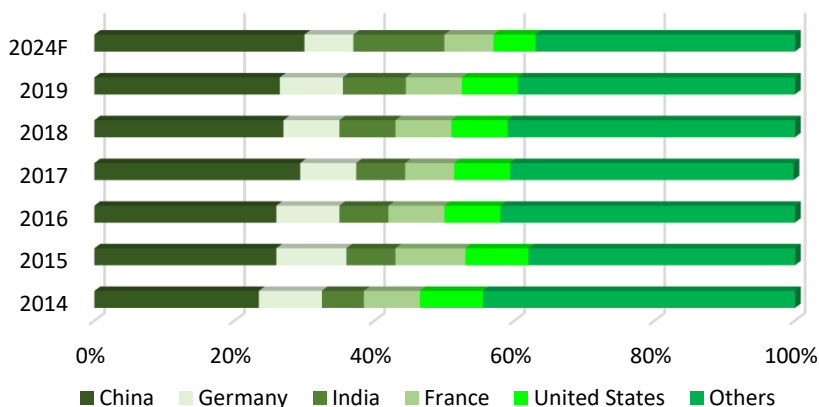


(Source: Frost & Sullivan Research & Analysis)

Global agrochemicals exports by countries (in volume), 2014-2024F

Globally, China is the biggest exporter of agrochemicals and will maintain the leadership position, going forward. However, importantly, the share of China is expected to decline and replaced by India. This transfer of global export share will be a key positive for the Indian agrochemical manufacturers. India is emerging as an export destination due to cheaper manufacturing costs, skilled labour, research and development expertise, chemistry capabilities and Environmental, Health and Safety compliances.

Global Export Volume Share (%)



(Source: Frost & Sullivan Research & Analysis)

Active ingredients

Active ingredients are also known as technical material for crop protection formulations. These are derived from intermediates, such as thiols, hydrazine hydrate and derivatives and amines. Each class of pesticide has a particular basic content which is responsible for controlling the intended pest group.

Class of pesticide	Major active ingredients	Applications	Comments
Insecticides	Monocrotophos, Permethrin, Imidachloprid, Alphamethrin, Chlorpyrifos, Cypermethrin, etc.	Cotton, rice, etc.	Applied on the leaves of the crops in pre/post emergent phase
Fungicides	Mancozeb, Ziram, Hexaconazole, Carbendazim, Thiram, Captan Folpet, Cymoxanil, Thiocarbamate, etc.	Fruits, vegetables, etc.	Applied on the leaves before rains & prior/after development of fungus
Herbicides	Glyphosate, Isoproturon, Pretilachlor, Chlordinofop Propargyl, Benthiocarb, Prosulfocarb, Thiocarbamate, etc.	Rice, wheat, etc.	Applied on the ground depending on the germination status of the crop
Bio-pesticides	Spinosyns, neem derivatives, etc.	Rice, maize, etc.	
Others	Zinc phosphide, Aluminium phosphides, etc.	Grains, pulses, etc.	

(Source: Industry, Frost & Sullivan Research & Analysis)

Global agrochemical active ingredients market overview:

The following table highlights the top active ingredient molecules:

Active Ingredient	Pesticide Type	Crops
Glyphosate	Herbicide	Soy, maize (corn), canola, alfalfa, sugar beets, cotton, etc.
Metolachlor	Herbicide	Cabbage, citrus, coffee, corn, cotton, green peas, maize, onion, soybeans, sugar beets, vineyards, etc.
Pyraclostrobin	Fungicide	Tomato, etc.
Mesotrione	Herbicide	Corn, etc.
Thiamethoxam	Insecticide	Mostly vegetables
Acetochlor	Herbicide	Cabbage, citrus, coffee, corn, cotton, green peas, maize, cotton, soybeans, sugar beets, vineyards, etc.
Azoxystrobin	Fungicide	wheat, barley, oats, rye, soya, cotton, rice, strawberry, peas, beans, onions and many other vegetables
Atrazine	Herbicide	Sorghum, maize, sugarcane, lupins, pine, etc.
Abamectin	Insecticide	Ornamentals, cotton, citrus fruit, pome fruit, nut crops, etc.
Clathianidin	Insecticide	Corn, cotton, soybeans, root and tuber vegetables, etc.

(Source: Fernandez – Cornejo, Et'al)

Active ingredient molecule going off-patent

There are around 22 pesticide active ingredients which are about to get out of their Intellectual Property Rights (IPR) period in the next 10 years, i.e. between 2021 and 2030. These are: bixafen, chlorantraniliprole, cyantraniliprole, fenpyrazamine, flubendiamide, fluopicolide, fluopyram, fluxapyroxad, isopyrazam, mandipropamid, penflufen, penthiopyrad, pinoxaden, pyriofenone, pyroxsulam, sedaxane, thiencazone-methyl, valifenalate, benzovindiflupyr, sulfoxaflor, saflufenacil and aminopyralid.

The demand for some of these off-patent technical-grade molecules in the global market is expected to increase drastically, It is expected that the market size of these products will cross over USD 4.1 billion by 2026. The reason is that the products like chlorantraniliprole, fluopyram, fluxapyroxad, cyantraniliprole, bixafen, sedaxane, fenpyrazamine, and flupicolide have a huge market. Industry players will have an opportunity, specifically in regulated markets, to choose the generic according to the demand of the market where so many products are becoming off-patent. In India, these generic products will provide enormous growth for generic manufacturers and also for formulators who are directly or indirectly affected while the products are under Intellectual Property Rights (IPR).

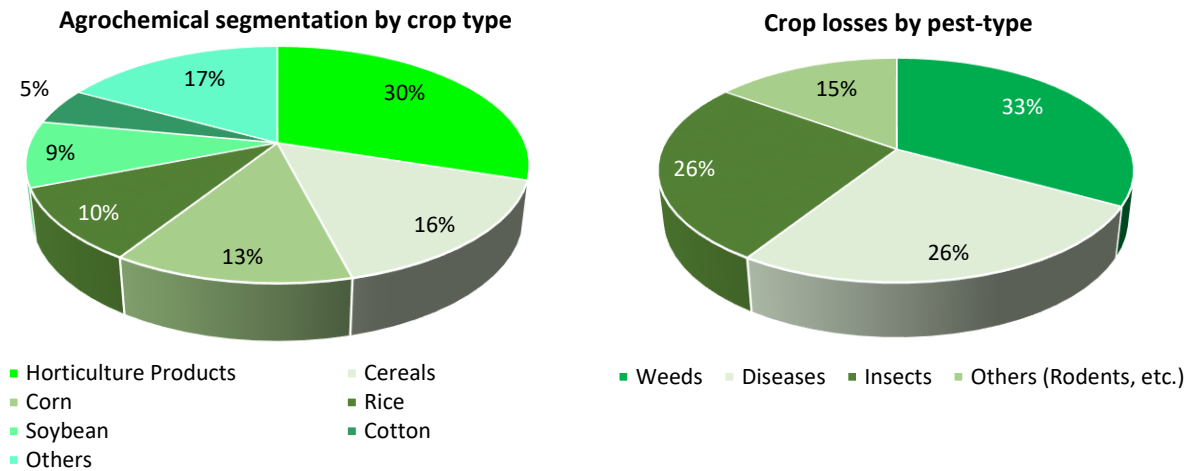
Off-patented molecules by 2030:

Sl. No.	Name of Molecule	Name of Inventor	Market Size USD Mn, 2019	Patent Expiry	Usage
1	Bixafen	Bayer Crop Science	276	2023	Broad spectrum fungicide for cereals
2	Chlorantraniliprole	Corteva/FMC	1750	2024	Chewing insects of soybean, F&V, rice, cotton, maize, pome fruit, sugarcane, potato and cereals
3	Cyantraniliprole	Corteva/FMC/Syngenta	120	2026	Effective against the larval stages of lepidopteran insects; and also on thrips, aphids, and some other chewing and sucking insects on a variety of crops
4	Fenpyrazamine	Sumitomo Chemical	11	2022	Highly effective against grey mold, stem rot, and brown rot in fruits and vegetables.
5	Flubendiamide	Bayer Crop Science	507	2024	Mainly effective for controlling lepidopteron pests including resistant strain in rice, cotton, corn, grapes, other fruits, and vegetables.
6	Fluopicolide	Bayer Crop Science	45	2024	Fungicide for grapes, potatoes, fruits, and vegetables.
7	Fluopyram	Bayer Crop Science	87	2024	Used against fungal diseases such as gray mold (Botrytis), powdery mildew, apple scab, Alternaria, Sclerotinia, and Monilinia.
8	Fluxapyroxad	BASF SE	491	2022	Broad spectrum fungicide for cereals, soybean, specialty crops, and turf.
9	Isopyrazam	Syngenta AG	129	2023	Broad spectrum fungicide. Controls a wide range of fungal pathogens including Septoria tritici, Puccinia recondita, and Puccinia striiformis on wheat, Pyrenophora teres, Rhynchosporium secalis, and Ramularia collocygni on barley, Puccinia recondita on rye, and triticale and Pyrenophora avenae on oats. It also controls Mycosphaerella fijiensis on banana.
10	Mandipropamid	Syngenta AG	179	2023	Late blight of potato and tomato. Also used in tobacco, F&V, and vine.

Sl. No.	Name of Molecule	Name of Inventor	Market Size USD Mn, 2019	Patent Expiry	Usage
11	Penflufen	Bayer Crop Science	170	2024	Potato: Black Scurf (<i>Rhizoctonia solani</i>), Silver Scurf (<i>Helminthosporium solani</i>), Dry rot (<i>Fusarium</i> spp.). Cereals: Root rot (<i>Rhizoctonia</i> spp.), Smut, (Rape, Soybean, Cotton), and a number of seed-borne pathogens.
12	Penthiopyrad	Corteva Agriscience	85	2024	It offers unique RootingPower™ that results in stronger, healthier roots for higher crop productivity.
13	Pinoxaden	Syngenta AG	421	2026	Highly selective systemic herbicide used to control monocotyledonous grass weeds in crops such as wild oats, rye-grass, and black grass in winter and spring wheat and winter and spring barley. Controls a broad spectrum of grass weeds in wheat.
14	Pyriofenone	Ishihara	5	2024	Fungicide developed for the control of powdery mildew in cereals and grape vines.
15	Pyroxulam	Corteva Agriscience	215	2024	Broad spectrum grass and broadleaf weeds of cereals.
16	Sedaxane	Syngenta AG	108	2024	Long-lasting protection against difficult-to-control seed-, soil-, and air-borne pathogens such as: <i>Rhizoctonia</i> spp., <i>Ustilago</i> spp. (on cereals), <i>Tilletia caries</i> , <i>Urocystis occulta</i> , <i>Pyrenophora graminea</i> , <i>Microdochium nivale</i> , <i>Typhula</i> spp., <i>Sphacelotheca reiliana</i> , <i>Macrophomina</i> , <i>Sclerotium</i> spp. and also some activity on <i>Verticillium</i> , <i>Phoma</i> , <i>Helminthosporium solani</i> , <i>Phakopsora</i> , <i>Cochliobolus sativus</i> of cereals, soybeans, canola/oilseed rape, corn, potatoes, rice, sugar beets, cotton, and pulses. It offers unique RootingPower™ that results in stronger, healthier roots for higher crop productivity.
17	Thiencarbazone-methyl	Bayer Crop Science	155	2024	Herbicide used for the selective control of grasses and broadleaf weeds primarily in corn.
18	Valifenalate	Ishihara	25	2024	Used to control mildew in many crops including grapes, potatoes, and tomatoes.
19	Benzovindiflupyr	Syngenta AG	419	2028	Control broad range of fungal diseases-blight, mildew, rust, scab, leafspot on corn, soybean, ornamentals, turf, etc.
20	Sulfoxaflor	Corteva Agriscience	190	2027	Sucking pests of turf, soybean, cotton, cereals, and F&V.
21	Saflufenacil	BASF	225	2024	Broadleaf weeds of soybean, maize, sugarcane, cereals, non-crop, and orchards.
22	Aminopyralid	Corteva Agriscience	160	2021	Broad spectrum weedicide for pasture, rangeland, oil palm, rubber, F&V, and cereals.

Source: IHS Markit, Arihant Research

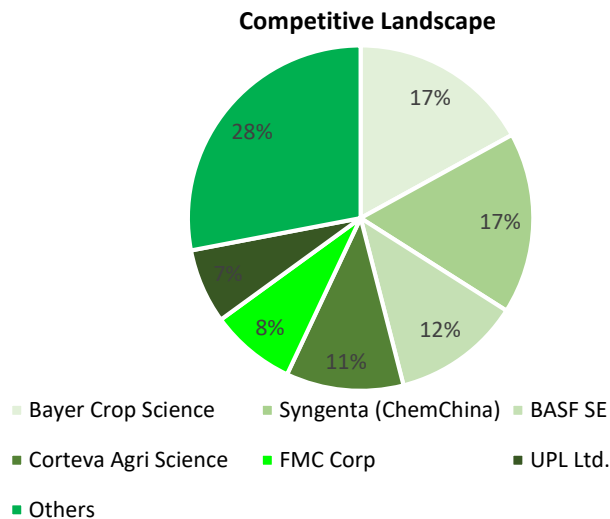
Crop Protection Market by Crop Type:



(Source: Industry Research, Year = 2019)

Competitive Landscape:

Globally, there are four big agro-chemical companies including China National Chemical Corporation Ltd. (ChemChina), Corteva Inc., BASF SE and Bayer AG.



(Source: Frost & Sullivan research & analysis)

There are multiple stakeholders involved in the customer landscape of the global agrochemical actives/formulations market. The consumers of pesticides are largely divided into (i) consumption through custom synthesis; and (ii) direct route to consumption.

Regulatory Framework: Developed Region

A large number of different regulatory authorities are involved in regulation and/or control of pesticides internationally. Consequently, systems for registration or authorization of plant protection products and post registration monitoring controls vary in different countries and regions internationally, although the underlying objectives to develop safe and effective pesticide products that do not cause harm to consumers or the environment are the same.

To summarize, high entry barriers for pesticide companies to ensure compliance with United States, European Union, Japan and other developed nation’s specifications, in terms of safety and toxicity, is among some of the restraints in the crop protection market

Production Facilities:

The company has the following production facilities and capabilities.

Ankleshwar (Unit – 1 and Unit – 3)

It was established in 1984 and is located at Bharuch district in South Gujarat. The total area of the facility is about 60,000 sq.mts. It has locational advantage with close proximity to Hazira sea port. It is also well-connected with major roadways, including NH8 and Delhi-Mumbai road corridor, which facilitates proper supply chain transit with suppliers and customers.

The plant capacity is about 2,100 TPA with additional facility of 120 MT for manufacture of a polymer product, PEKK (Poly Ether Ketone Ketone). PEKK is a high-end application polymer used in the aerospace industry. Rallis India Ltd. undertakes contract manufacturing for the product for Cytex Engineered Material, USA.

The products manufactured at the site include Fungicide Technical (Hexaconazole, Metalaxyl, Metconazole, Kresoxim Methyl) and Insecticide Technical (Acetamiprid, Lambda Cyhalothrin and a Larvicide Technical Tetrachlorvinphos (TCVP).

Unit – 1 also has formulation facility and its clients include Domestic Formulations, Domestic Institutional Business and International Business Division.

Capacity:

Product Stream	UOM (Unit of Measurement)	Licensed	Installed
Liquid Formulations	KL	60,000	6,000
Solid Formulations	MT	43,500	5,000
Total	KL / MT	1,03,500	11,000

(Source: Company Filings, Arian Research)

Products from Unit -3 are supplied to domestic formulation companies and domestic institutional business.

Dahej (SEZ 110 and SEZ 112)

It was established in 2011 and is located at Bharuch district in South Gujarat. It consists of two plots, Plot No. Z – 110, which consists of land area of 20 acres and Plot No. Z – 112, which consists of 40 acres. In terms of supply chain and logistics, it is well-connected by road through Delhi-Mumbai road corridor and is also at close proximity to Hazira sea port.

The Technical capacity is 6,760 MT/KL and Formulation capacity is 3,100 MT/KL. Pendimethalin and Metribuzin are manufactured at the Dahej SEZ facility. It consists of effluent treatment plant with capacity of 500 kld. The energy requirement is met by Torrent Power and it also has a DG set.

The product is exported to destinations like Australia, Bangladesh, Brazil, etc. The overall capacity of the facility is about 3,100 MT/KL.

As part of future capital expenditure program, the company is setting up a Multi-Purpose Plant (MPP) at Plot No. Z – 112, which is expected to be completed by November 2022. Most of the products, which the company has planned to manufacture at the Multi-Purpose Plant (MPP) are new products and includes entities like Difenconazole, which is a fungicide technical.

Capacity:

Product Stream	UOM (Unit of Measurement)	Licensed	Installed
Liquid Formulations	MT	5,000	700
Solid Formulations	KL	5,000	2,400
Total	MT / KL	10,000	3,100

(Source: Company Filings, Arian Research)

Dahej (CZ – 44)

It was established in 2021 and is located at Bharuch district in South Gujarat. The total area of the facility is about 136 acres. Of this, a new formulation plant consisting of solid and liquid formulations has been recently commissioned in about 15 acres of land.

It has locational advantage with close proximity to Hazira sea port. It is also well-connected with major roadways, including Delhi-Mumbai road corridor, which facilitates proper supply chain transit with suppliers and customers.

Capacities and Equipment:

S.No.	Type of formulation	YTD capacity in MT / KL	Major Equipment
1.	EC/OD/SL	9,600	Mixing Reactors, Hold up tanks, Filtration system, Filling machine
2.	SC/CS/SE	9,000	Homogenizer reactors, Hold up tanks, Dyno Mills, Filling Machine
3.	WP	3,600	Jet Mill, Pin Mill, Air Classifier Mill, Packing machine
4.	WDG/WG	2,400	Wet Mixer, Granulator, Fluid Bed Drier, Packing machine
5.	GR	30,000	Mixer, Drum Drier, Packing machine

(Source: Company Filings, Arihant Research;

Provision to expand with above capacity of formulations (EC, SL, SC, CS, SE, OD, WP, WDG))

Lote

It was established in 1997 and is located at Khed, Ratnagiri district in Western Maharashtra. The total plant area is about 50,029 sq.mt. In terms of supply chain and logistics, it is at proximity to the J.N.P.T. port, Nhava Sheva and is well-connected by road through National Highway (NH17).

The total capacity of the facility is about 4,400 MT per annum. The main products manufactured at the plant include Acephate and Asataf. The energy requirement is met through Maharashtra State Electricity Distribution Company Ltd. (M.S.E.D.C.L.) and it also has DG Facility. The company supplies its products to domestic formulators, domestic institutional business, and international business division.

Capacity:

Product Stream	UOM (Unit of Measurement)	Licensed	Installed
Asataf	MT	4,000	4,000

(Source: Company Filings, Arihant Research)

Akola

It was established in 1995 and is located at Akola district in Maharashtra. The total plant area is about 52,000 sq.mt. In terms of supply chain and logistics, it is at proximity to Central Railway main line and closeness to airports at Nagpur, Nanded and Aurangabad. The products manufactured at the site include insecticides, fungicides and PGN (Tracel, Surplus and Solubor). It is supplied to domestic formulators, domestic institutional business and international business division.

Capacity:

Product Stream	UOM (Unit of Measurement)	Licensed	Installed
Liquid Formulations	KL	12,200	9,000
Solid Formulations	MT	4,500	-
PGN	MT	10,000	2,980
Total	KL / MT	26,700	11,980

(Source: Company Filings, Arihant Research)

Key Management:

Personnel	Designation	Description
Mr. Sanjiv Lal	Managing Director & CEO	He is a Chemical Engineer Graduate from IIT, New Delhi. Mr. Lal was the Chief Operating Officer of the India Chemicals Business of Tata Chemicals. After he joined Tata Chemicals in 2004, he has handled its Agri Retail Business, headed the organizational transformation and business excellence function, headed the information technology function and was also nominated as the Joint Managing Director to IMACID, a JV in Morocco. Before joining Tata Chemicals, Mr. Lal worked with Hindustan Unilever for 21 years in various functions.
Mr. S. Nagarajan	Chief Operating Officer	He is currently the Chief Operating Officer of Rallis India Ltd., overseeing the operations of Seeds and Crop Care businesses. Previously, he was the Managing Director and Chief Executive Officer of Metahelix Life Sciences Ltd., the seeds business subsidiary of Rallis India which merged with the parent in February 2020. He has over 29 years of experience working in several Tata companies including CXO level business leadership. With deep experience in Automobile, Telecom, Media & Entertainment and Technology oriented sectors; he has been associated with running both large-scale operations and smaller, relatively more entrepreneurial entities of challenging scope. He is actively involved in Business Excellence efforts of the Tata Group having led a number of TBEM (Tata Business Excellence Model) assessments across industries. He is an alumnus of the Indian Institute of Technology, Madras (B.Tech.) and a Gold Medallist MBA (PGDM) from the Indian Institute of Management, Ahmedabad.
Ms. Subra Gourisaria	Chief Financial Officer	She is the Chief Financial Officer of the company, effective June 24, 2021. Till recently, she was the General Manager – Finance, Home Care (South Asia) at Hindustan Unilever Ltd. (HUL). She joined HUL in 2007 and has handled various business functions in the South Asian vertical thereon including Senior Commercial Manager – Hair/Pureit, Senior Competition Intelligence Manager and General Manager and General Manager – Control Assurance. Before joining Hindustan Unilever Ltd. in 2007, Gourisaria started her career with Oil and Natural Gas Corporation Ltd. (ONGC) in 2003, where she was part of the Finance team overseeing the operations of ONGC’s multiple Joint Ventures. She has over 17 years of experience in Business Finance, Financial Strategy, P&L Management, Controllership and handling financial operations in multi-geographical businesses.

Source: Company, Arihant Research

Risks and Concerns:

- Slowdown in export markets can affect the demand for products of Rallis India in the international markets. In the crop protection segment, export contributes about 35% of the total sales revenue.
- The company is undertaking capital expenditure projects. Any delay in the execution of the project can lead to cost over-runs and can affect the financial performance of the company.
- Sales realization depends upon prices of the underlying pesticides. Decline in prices of pesticides globally or locally can affect the sales realizations and overall revenue of the company.
- The company sources some of its raw materials from the international market. Increase in freight and logistic cost and price of underlying raw materials can negatively impact the operating margins of the company.
- Unevenness in the distribution of rainfall can affect the demand scenario for pesticides in the country. In the crop protection segment, domestic sales contribute about 65% of the total revenue.

Financials

P&L (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	2,429	2,604	2,942	3,590	4,236
<i>Change (%)</i>	7.9%	7.2%	13.0%	22.0%	18.0%
Cost of Goods Sold	1,396	1,510	1,692	2,046	2,372
Employee costs	216	239	271	327	385
Other expenses	493	581	659	808	953
Total operating Expense	2,105	2,330	2,622	3,181	3,711
EBITDA	324	274	321	409	525
Other Income	40	30	33	41	48
Depreciation	64	74	84	102	121
Interest	7	7	8	9	11
PBT	294	222	263	338	442
Extra-ordinary	-9	0	0	0	0
PBT after ext-ord.	304	222	263	338	442
Tax	75	58	68	88	115
<i>Rate (%)</i>	24.7%	26.2%	26.0%	26.0%	26.0%
PAT	229	164	194	250	327
<i>Change (%)</i>	24.4%	-28.2%	18.4%	28.8%	30.5%

Balance Sheet (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	19	19	19	19	19
Reserves & Surplus	1,572	1,677	1,813	1,996	2,254
Net Worth	1,591	1,697	1,833	2,015	2,274
Long term debt	8	4	13	16	16
Short term debt	30	50	71	88	88
Total Debt	38	54	84	104	104
Deferred Tax & other liabilities	48	43	43	43	43
Current liabilities	866	1,016	1,094	1,276	1,459
Provisions	45	49	49	49	49
Total Liabilities	2,589	2,858	3,102	3,487	3,928
Net Block	631	771	885	1,041	1,056
Capital Work-in-Progress	106	56	100	85	50
Other Non-Current Assets	215	265	279	236	185
Net fixed assets	952	1,091	1,265	1,362	1,292
Investments	280	209	139	139	239
Debtors	406	446	508	620	731
Inventories	763	938	1,008	1,180	1,393
Cash & bank balance	37	36	45	49	136
Loans & advances & other CA	150	138	138	138	138
Total current assets	1,637	1,767	1,837	2,125	2,636
Total Assets	2,589	2,858	3,102	3,487	3,928

Source: Company, Arianth Research

Cash Flow Statement (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax (PBT)	304	222	263	338	442
Depreciation	64	74	84	102	121
Chg in working cap	-76	-60	-54	-102	-142
Tax Paid	-75	-58	-68	-88	-115
Other Operating cash flow	7	7	8	9	11
Others	-6	-20	-25	-22	-25
Net Operating Cash Flow	217	165	207	238	292
Capital Expenditure	106	129	250	250	100
Free Cash Flow	111	36	-43	-12	192
Investments	280	209	139	139	239
Other Investing cash flows	-225	-233	-240	-220	-220
Cash Flow from Investing	162	104	149	169	119
Equity Capital Raised / (Repaid)	0	0	0	0	0
Debt raised / (Repaid)	-2	16	30	20	0
Dividend paid (incl tax)	-49	-58	-58	-68	-68
Other Financing Cash Flow	-17	-19	-21	-18	-18
Cash Flow from Financing	-67	-61	-49	-66	-86
Net change in cash	-12	-1	9	4	87
Opening cash	49	37	36	45	49
Closing Cash	37	36	45	49	136

Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	11.8	8.4	10.0	12.9	16.8
CEPS	15.0	12.3	14.3	18.1	23.0
BVPS	81.8	87.2	94.2	103.6	116.9
Valuation (x)					
P/E	20.3	28.5	23.9	18.5	14.2
P/CEPS	15.9	19.4	16.7	13.2	10.4
P/BV	2.7	2.5	2.3	2.1	1.9
EV/EBITDA	13.2	15.7	13.5	10.6	8.1
Return Ratios (%)					
Gross Margin	42.5%	42.0%	42.5%	43.0%	44.0%
EBIDTA Margin	13.4%	10.5%	10.9%	11.4%	12.4%
PAT Margin	9.4%	6.3%	6.6%	7.0%	7.7%
ROE	14.4%	9.7%	10.6%	12.4%	14.4%
ROCE	16.0%	11.4%	12.4%	14.5%	17.0%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.1	0.0
Turnover Ratios					
Asset Turnover (x)	0.9	0.9	0.9	1.0	1.1
Inventory Days	115	131	125	120	120
Receivable Days	61	63	63	63	63
Payable days	90	105	103	103	103

Source: Company, Aриhant Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880