Arihant Capital
Generating Wealth

Q1FY24 - Result Update
18th July 2023

Rallis India Ltd.

Poised for strong performance

CMP: INR 215

Rating: BUY

SOTP Target Price: INR 278

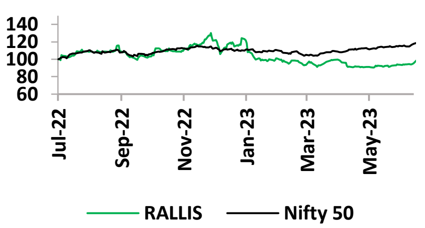
Stock Info	
BSE	500355
NSE	RALLIS
Bloomberg	RALI:IN
Sector	Agrochemicals
Face Value (INR)	1
Equity Capital (INR Cr)	19.4
Mkt Cap (INR Cr)	4,182
52w H/L (INR)	271/187
Avg Yearly Volume (in 000')	464

Shareholding Pattern %
(As on Jun, 2023)

Promoters	50.09
Public & Others	49.91

Stock Performance (%)	1m	6m	12m
RALLIS	10.8%	-12.6%	3.6%
NIFTY	5.1%	8.5%	21.1%

RALLIS vs Nifty



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Revenues in Q1FY24 came in at INR 782 Cr (down 9% YoY), lower than our estimate of INR 801 Cr. EBITDA stands at INR 109 Cr (down ~3% YoY), better than our QoQ estimate. The margins stood at 14% (Vs 13% YoY). Margins are bottoming out, and gross margin uptakes are sustainable with further growth expected. Dahej facility will be generating revenues from Q2FY24 as the plant will reach 60% capacity utilization. More volume growth is expected in the near term due to the anticipated increase in consumption and price stability is expected in 2 month.

Investment Rationale

CAPEX nears completion: -

The company has planned a total CAPEX of INR 800 Cr for the next 5 years to enhance capacities for formulations and new active ingredients and achieve backward integration, out of which INR ~575 Cr has already been spent and ~150 Cr will be spent in FY24 on R&D facility. We expect the company will reap the benefits of the same over the next several years.

New plant promises abundant returns: -

Trial production has commenced at the Dahej MPP facility and revenues are expected from Q2FY24. At this plant, the capacity of 1 key formulation has been expanded for both domestic and international markets, and the plant is expected to reach 60% capacity utilization by the end of FY24 and we expect new products to be added. Additionally, the company is scheduled to engage in contract manufacturing of a specific molecule at the aforementioned plant, expected to commence by Q3FY24. Simultaneously, the company is investing in enhancing its research and development at its Bengaluru facility and upgrading the pilot plants to improve process scale-up capabilities. These expanded capacities will contribute to achieving the volume growth that is anticipated.

New products driving growth: -

In FY24, the company introduced 3 new products and has developed an intermediate that is being exported under contract manufacturing. Rallis India plans to introduce at least one new molecule into manufacturing plants every year. The company's cotton hybrid "Diggaz" received a good response from the north Indian markets and a corresponding increase in volumes. The company has reached regulatory trials for its 'genetically modified cotton and maize crops' which are designed to reduce the cost of cultivation and improve yield and is working on developing temperature-resistant hybrids to counter rising temperature problems. The introduction of these new products will contribute to the company's revenue generation, thereby enhancing profitability.

Sustainable uptake in margins, and further growth going forward: -

Margins are bottoming out, and gross margin uptakes are sustainable with growth on QoQ basis. The seeds business has recognized relatively better margins and the company expects the business to be on a growth trajectory in the next 2 years. The company is adopting dynamic pricing to tackle the issue of falling prices. More volume growth is expected in the near term which will be driving the profitability for the company due to the anticipated increase in consumption and price stability is expected in 2 months.

OUTLOOK

The company believes its long-term strategy to be on track and will intensify investments to improve manufacturing capacity and expand its product portfolio. More volume growth in the near term is expected as price volatility is high. Trade is picking up in anticipation of good planting. Customer engagement Is back at pre-covid levels, a team is closely monitoring the developing El Nino and is coordinating with customers and trade partners to make its products available to reduce risk. Also, INR 800 Cr CAPEX is almost completed and the returns are expected in the coming years. We upgrade to BUY with a SOTP target price of INR 278.

Earnings Call KTAs

Margins are bottoming out, and gross margin uptakes are sustainable with further growth expected. Dahej facility will be generating revenues from Q2FY24 as the plant will reach 60% capacity utilization. More volume growth is expected in the near term due to the anticipated increase in consumption and price stability is expected in 2 months. China dumping is still ongoing on the RM side, pulling down prices. Seeds business expected to grow from the current levels in the next 2 years. We upgrade to BUY with a price objective of INR 278.

Results

• The Q1FY24 revenue decreased to INR 782 Cr (down 9% YoY), lower than our estimate of INR 801 Cr. EBITDA stands at INR 109 Cr (down ~3% YoY), better than our QoQ estimate. The margins stand at 14% better than 13% last year.PAT reported at INR 63 Cr, down 6% YoY.

• The company was able to sustain margins by controlling overheads while finance costs were controlled through inventory reduction.

• Late monsoons and high channel inventory continue to pose challenges for the company.

Products

• In FY24, company introduced three new products, namely Gateway-I, Gateway Gr-I, and Boris Super-I.

• The export of a newly developed intermediate under contract manufacturing has commenced.

• Rallis India plans to introduce at least one new molecule into manufacturing plants every year.

• Difenoconazole and one more CM molecule to be commissioned this year.

• The company is among the top 3 in the hybrid millet category with its products and is working towards developing a portfolio around millets which Is being promoted by GoI.

• The company expects its herbicides to perform well going forward as it helps with de-weeding given the current labor shortage problem.

• Paddy and cotton are most affected by the delayed monsoon. Overall kharif sowing is at a 4.3% low YoY.• Acetate has seen large price erosion.

Dahej Multipurpose Plant

• Trial production has commenced and revenues are expected from Q2FY24.

• Capacity of 1 key formulation has been expanded for both domestic and international markets.

• The plant is expected to reach 60% capacity utilization with new product manufacturing.

• The company will also be contract manufacturing 1 molecule in that plant by Q3FY24.

CAPEX

• The company has planned a total CAPEX of INR 800 Cr for the next 5 years to enhance capacities for formulations and new active ingredients and achieve backward integration, out of which INR ~575 Cr has been spent and ~150 Cr will be spent in FY24 on R&D facility.

• The company is investing in enhancing its research and development at its Bengaluru facility and upgrading the pilot plants to improve process scale-up capabilities.

Crop Care

• Overall Crop care revenue at INR 519 Cr, down 13% YoY, EBITDA INR 58 Cr, up 2% YoY.Domestic crop care decreased by 4.5% YoY due to falling prices, and late monsoon, while exports dropped 29.6% YoY due to reduced volumes caused by higher global inventories.

• PAT stood at INR 28 Cr, down 5% YoY.

• Crop Protection market growth has been limited by less pest pressure and obviated need for fungicides.

• Inventory oversupply and pricing pressure is more pronounced in generic active ingredients dominated by China.

• The company working on network expansion and making a relevant product portfolio.

• Volume growth is restricted by late monsoons and excess channel inventory, due to carryover from the previous year.

Seeds

• Seeds revenue stands at 262 Cr, down 2% YoY, with EBITDA at 52 Cr, down 7% YoY.PAT stands at 35 Cr, down 7% YoY.

• In FY23, the cotton hybrid product "Diggaz" received a good response from the north Indian markets. The product has seen good volume growth as the sales stand at 4 lakh packets against 1 lakh last year.

• The company has reached regulatory trials for its 'genetically modified cotton and maize crops' which are designed to reduce the cost of cultivation and improve yield. Also, the company is working on developing temperature-resistant hybrids to counter rising temperature problems.

• The company has realized relatively better margins and expects this business to be on a profitable growth trajectory in the next 2 years.

Exports

• The business remains steady after a revival of PEKK and volumes are expected to pick up.

• The company is working towards increasing international registrations and customer base for both supply and contract manufacturing services.

• The company remains positive on Pendimethalin which received technical equivalence in EU market and has procured the raw materials needed. The prices for this product remain stable.

Contract Manufacturing

• Signed 3 new opportunities for the company and commenced dispatch of 1 intermediate in the last quarter.

Guidance

• The company will increase its marketing activities.

• The estimated revenue mix for FY25 is 60% from domestic markets and 40% from exports.

• The company will be adopting dynamic pricing to tackle the pricing issue.

• To reduce dependence on imports, the company is looking for alternate Vendor development for key molecules and critical intermediaries.

INR, Cr	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Revenue	**782**	**523**	**862.8**	**49.52%**	**-9.36%**
Cost of material consumed	425	305	514.8	39.34%	-17.44%
Purchase of stock in trade	124	7	79.34	1671.43%	56.29%
Change in inventories	-68	71	-40.64	-195.77%	67.32%
Total	481	383	553.5	25.59%	-13.10%
Gross Profit	**301**	**140**	**309.3**	**115.00%**	**-2.68%**
Gross Profit Margin	*38.49%*	*26.77%*	*35.85%*		
Other Income	3	4	4	-25.00%	-25.00%
Employee Cost	66	61	65.98	8.20%	0.03%
Other Expenses	125	143	130.6	-12.59%	-4.29%
EBITDA	**113**	**-60**	**116.72**	**NA**	**-3.19%**
EBITDA Margin	*14.45%*	*-11.47%*	*13.53%*		
Depreciation and Amortization Expense	25	23	24.67	8.70%	1.34%
EBIT	88	-83	92.05	NA	-4.40%
Interest Cost	3	5	1.67	-40.00%	79.64%
EBT	85	-88	90.38	-196.59%	-5.95%
Tax Expense	22	-19	23.49	-	-
PAT	**63**	**-69**	**66.89**		
NPM	*8.06%*	*-13.19%*	*7.75%*	*-142.7*	*113.3*
No. of Shares	19.4	19.4	19.4	-	-
EPS (INR per share)	3.25	-3.56	3.45		

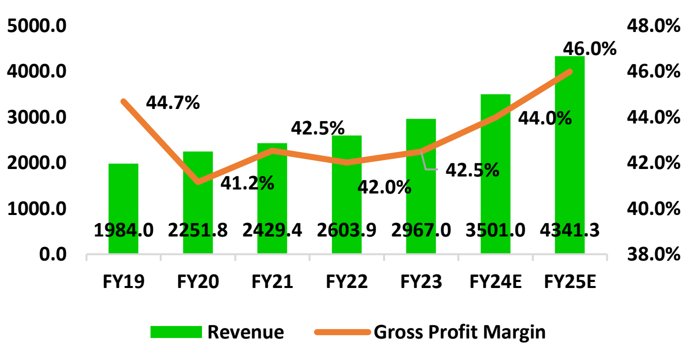
Financial Statements

Income Statement

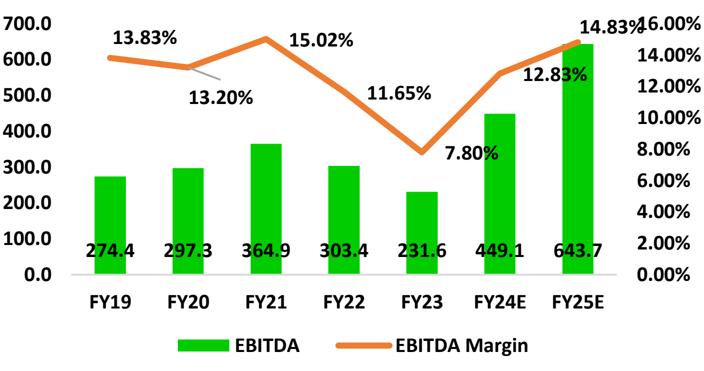
P&L (INR Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenues	**2,429**	**2,604**	**2,967**	**3,501**	**4,341**
Change (%)	7.9%	7.2%	13.9%	18.0%	24.0%
Cost of Goods Sold	1,396	1,510	1,943	1,961	2,344
Employee costs	216	239	256	319	395
Other expenses	**493**	**581**	**550**	**788**	**977**
Total operating Expense	**2,105**	**2,330**	**2,748**	**3,067**	**3,716**
EBITDA	**324**	**274**	**219**	**434**	**625**
Other Income	40	30	13	15	19
Depreciation	64	74	91	108	134
Interest	7	7	12	14	18
PBT	**294**	**222**	**128**	**327**	**492**
Extra-ordinary	-9	0	1	0	0
PBT after ext-ord.	**304**	**222**	**127**	**327**	**492**
Tax	75	58	36	85	128
Rate (%)	*24.7%*	*26.2%*	*28.4%*	*26.0%*	*26.0%*
PAT	**229**	**164**	**91**	**242**	**364**
Change (%)	*24.4%*	*-28.2%*	*-44.4%*	*165.2%*	*50.6%*

Source: Company, Arihant Research

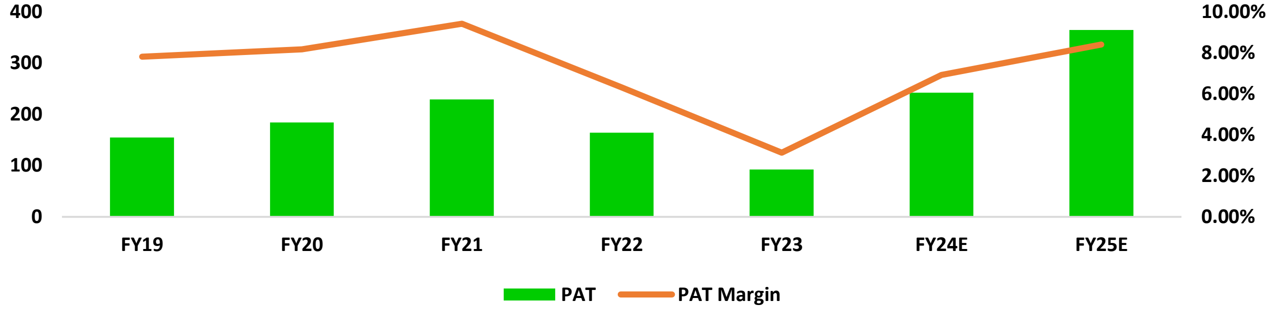
Revenue & Gross Profit Margin



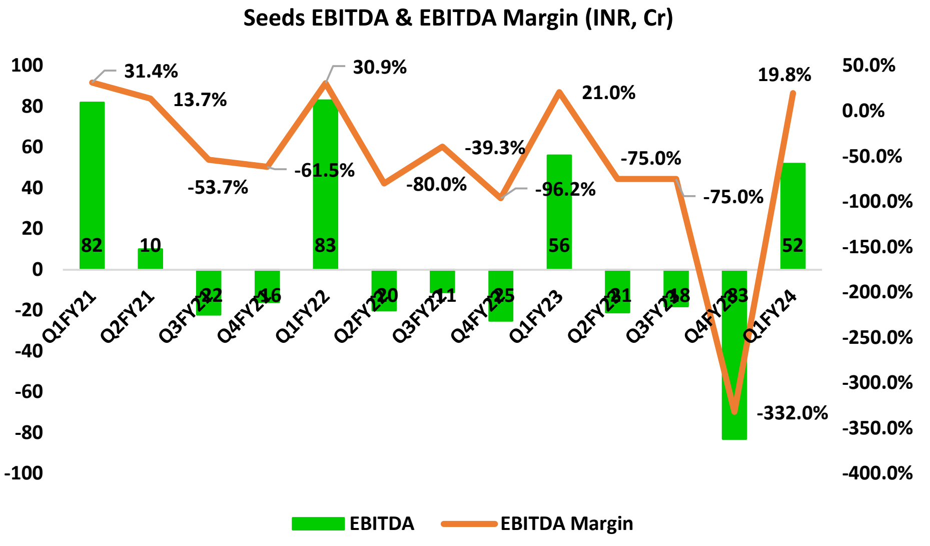
EBITDA & EBITDA Margin

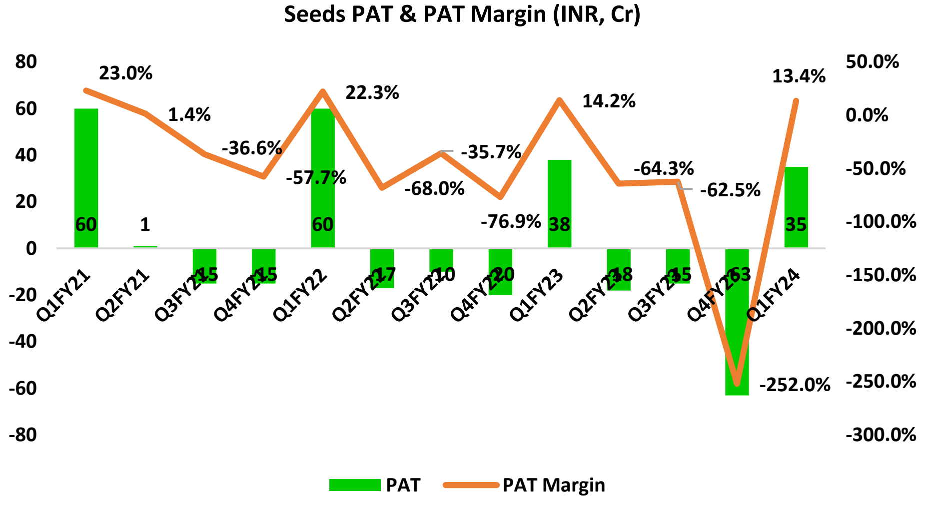


PAT & PAT Margin



Source: Arihant Research, Company Filings





Source: Arihant Research, Company Filings

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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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