

December 4, 2020

## Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	275		275	
Sales (Rs. m)	26,080	28,272	26,080	28,272
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,690	4,600	3,690	4,600
% Chng.	-	-	-	-
EPS (Rs.)	12.1	15.4	12.1	15.4
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	22,515	22,960	26,080	28,272
EBITDA (Rs. m)	2,602	3,031	3,690	4,600
Margin (%)	11.6	13.2	14.2	16.3
PAT (Rs. m)	1,743	1,978	2,352	2,994
EPS (Rs.)	9.0	10.2	12.1	15.4
Gr. (%)	12.2	13.5	18.9	27.3
DPS (Rs.)	2.5	3.3	3.5	3.5
Yield (%)	0.9	1.1	1.2	1.2
RoE (%)	12.9	13.5	14.6	16.6
RoCE (%)	14.1	15.0	16.8	19.4
EV/Sales (x)	2.3	2.3	2.0	1.8
EV/EBITDA (x)	20.3	17.4	14.3	11.1
PE (x)	32.0	28.2	23.7	18.6
P/BV (x)	4.0	3.6	3.3	2.9

### Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.340 / Rs.125
Sensex / Nifty	44,633 / 13,134
Market Cap	Rs.56bn/ \$ 754m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.357.33m

### Shareholding Pattern (%)

Promoter's	50.09
Foreign	6.55
Domestic Institution	17.05
Public & Others	26.30
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	22.1	26.6	54.6
Relative	10.2	(3.3)	40.9

### Prashant Biyani

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## Reiterating commitment towards growth

In our recent interaction with management of RALI, they reiterated their strategy of both, capacity & portfolio expansion driven growth. Capacity is being enhanced in both domestic (formulation) and international (MPP, pendimethalin, intermediates, etc) crop protection segment. Similarly, portfolio is being enhanced by way of new product introduction, expanding crop portfolio, eyeing more co-marketing tie-ups, introducing new AIs, etc. The current focus seems to be more on topline growth rather than catapulting EBITDA margins to industry average of 17-20%. We estimate topline/ EBITDA/ APAT CAGR of 8%/21%/20% between FY20-23E. We are assigning target P/E multiple of 20x given ample levers for structural topline growth. Margins may continue to be volatile given the commodity nature of RALI's key molecules. Maintain HOLD with target price of Rs 275 (Unchanged) based on 20x Sep'22 EPS of Rs 13.7.

**Healthy order book in International business:** Order book in international business is healthy across all molecules. Ex-off metribuzin, order book for the division is full. RALI plans to expand pendimethalin capacity while it has Hexaconazole capacity already expanded post debottlenecking in 1H. Metribuzin orders have started to build up and currently entire capacity is being utilised. RALI's global market share in metribuzin stands at 15%.

**Rabi season has started on a positive note:** Rabi season started on a positive note even though business in some states was disrupted due to excessive rains. The management expects industry growth of 10-12% in 2H. RALI plans to launch two 9(3) molecules and 2 in-licensing molecules in the coming months. The company is working on bringing new products for Wheat and soybean crop. It also plans to bolster its presence in MP, UP, Rajasthan, Punjab and Haryana.

**CRAMS- another focus area:** RALI is renewing its focus on CRAMS. They have also appointed a new head of business. The company is in discussion with few innovators but there is nothing concrete to report yet. Management's endeavour is to be a part of the innovators' supply chain in the form of exclusive business agreement for any AI or intermediate.

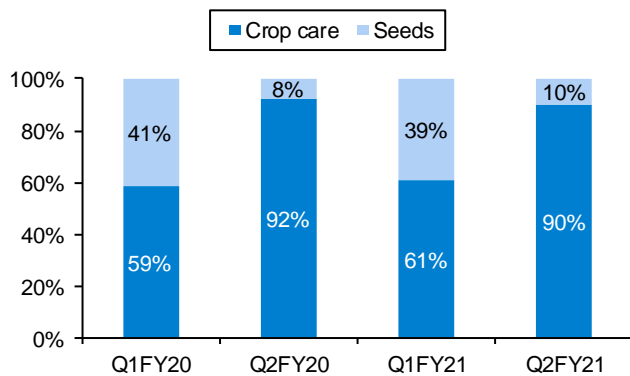
### Other Highlights:

- RALI has raw material dependency of ~50% on China which is likely to reduce gradually overtime. The management plans to manufacture some of the AIs that it is currently importing but substantial reduction in imports from China is unlikely in the short term.
- Raw material prices are largely flattish except for the Triazinone, which has reduced substantially.

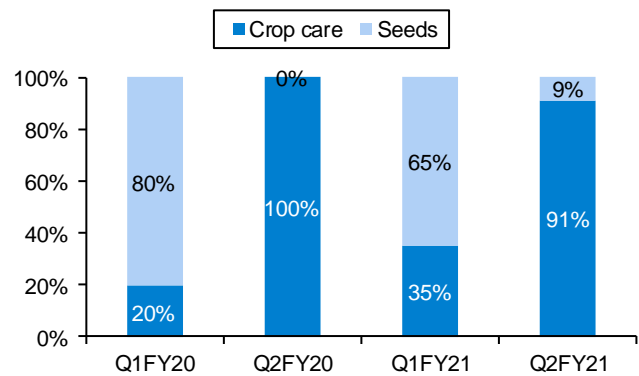
**Exhibit 1: Pressure on international business taking a toll on numbers**

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)	H1FY21	H1FY20	YoY gr. (%)
<b>Cons Net Sales</b>	<b>7,250</b>	<b>7,487</b>	<b>(3.2)</b>	<b>6,627</b>	<b>9.4</b>	<b>13,877</b>	<b>13,719</b>	<b>1.2</b>
<b>Expenditure</b>								
Raw Materials	4,488	4,791	(6.3)	3,996	12.3	8,484	8,692	(2.4)
<i>% of Net Sales</i>	<i>61.9</i>	<i>64.0</i>		<i>60.3</i>				
Employee Cost	544	503	8.0	492	10.6	1,035	992	4.4
<i>% of Net Sales</i>	<i>7.5</i>	<i>6.7</i>		<i>7.4</i>				
Other Expenses	1,051	1,006	4.4	857	22.6	1,908	1,901	0.4
<i>% of Net Sales</i>	<i>14.5</i>	<i>13.4</i>		<i>12.9</i>				
Total Expenditure	6,083	6,300	(3.5)	5,344	13.8	11,427	11,585	(1.4)
<b>EBITDA</b>	<b>1,168</b>	<b>1,187</b>	<b>(1.6)</b>	<b>1,283</b>	<b>(9.0)</b>	<b>2,451</b>	<b>2,134</b>	<b>14.8</b>
<i>Margin (%)</i>	<i>16.1</i>	<i>15.8</i>		<i>19.4</i>		<i>17.7</i>	<i>15.6</i>	
Depreciation	203	186	9.0	179	13.3	382	329	16.3
<b>EBIT</b>	<b>965</b>	<b>1,000</b>	<b>(3.6)</b>	<b>1,104</b>	<b>(12.6)</b>	<b>2,068</b>	<b>1,806</b>	<b>14.5</b>
Interest	14	19	(25.5)	20	(28.9)	34	35	(2.3)
Other Income	131	68	92.8	118	11.1	248	148	68.1
Exceptional Items	17	-		-		17	-	
<b>PBT</b>	<b>1,098</b>	<b>1,049</b>	<b>4.6</b>	<b>1,202</b>	<b>(8.7)</b>	<b>2,299</b>	<b>1,919</b>	<b>19.8</b>
Tax	268	201	33.6	283	(5.2)	551	468	17.7
<i>Tax Rate (%)</i>	<i>24.4</i>	<i>19.1</i>		<i>23.5</i>		<i>24.0</i>	<i>24.4</i>	
<b>RPAT</b>	<b>830</b>	<b>849</b>	<b>(2.3)</b>	<b>919</b>	<b>(9.7)</b>	<b>1,748</b>	<b>1,451</b>	<b>20.5</b>
<b>APAT</b>	<b>813</b>	<b>858</b>	<b>(5.2)</b>	<b>919</b>	<b>(11.5)</b>	<b>1,732</b>	<b>1,462</b>	<b>18.5</b>
<b>R. EPS</b>	<b>4.3</b>	<b>4.4</b>	<b>(2.3)</b>	<b>4.7</b>	<b>(9.7)</b>	<b>9.0</b>	<b>7.5</b>	<b>20.5</b>
<b>Adj EPS</b>	<b>4.2</b>	<b>4.4</b>	<b>(5.2)</b>	<b>4.7</b>	<b>(11.5)</b>	<b>8.9</b>	<b>7.5</b>	<b>18.5</b>

Source: Company, PL

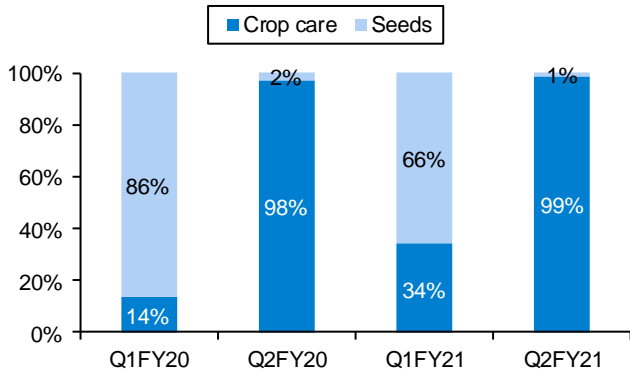
**Exhibit 2: Lower CP growth CP leads to rising share of seed**


Source: Company, PL

**Exhibit 3: Crop Care EBITDA mix down due to Int'l business**


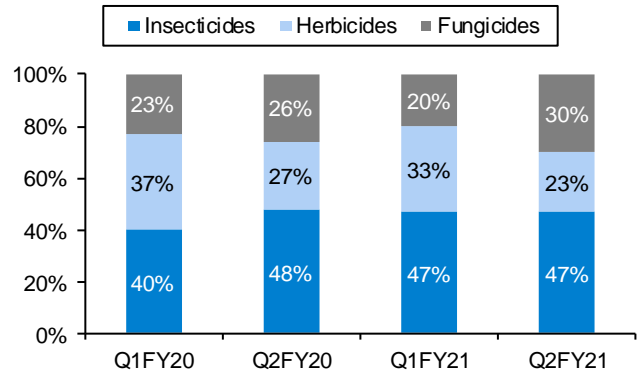
Source: Company, PL

**Exhibit 4: PAT mix largely same on YoY basis**



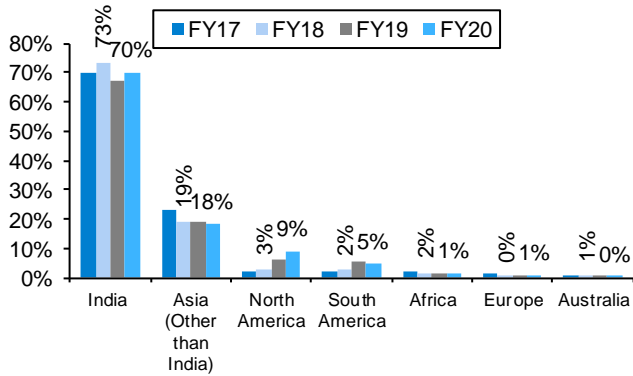
Source: Company, PL

**Exhibit 5: Herbicides mix down 400 bps due to Metribuzin**



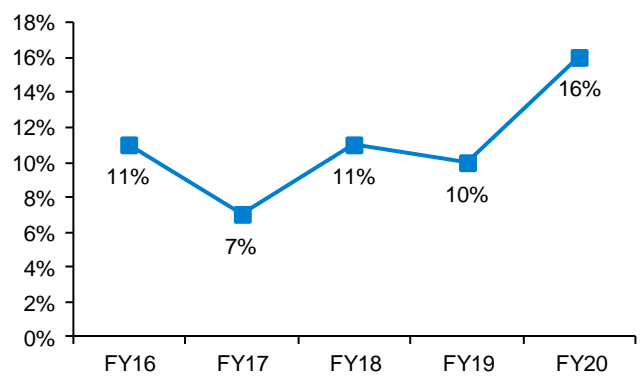
Source: Company, PL

**Exhibit 6: zIndia dominates overall revenue pie...**

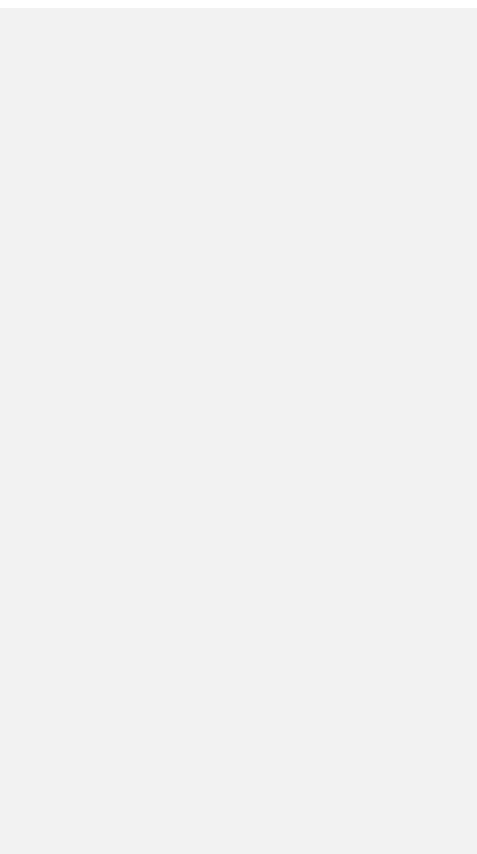


Source: Company, PL

**Exhibit 7: Increase in ITI driven by 6 new launches in FY20**



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>22,515</b>	<b>22,960</b>	<b>26,080</b>	<b>28,272</b>
YoY gr. (%)	13.5	2.0	13.6	8.4
Cost of Goods Sold	13,888	13,937	15,687	16,406
Gross Profit	8,627	9,023	10,393	11,866
Margin (%)	38.3	39.3	39.9	42.0
Employee Cost	2,001	2,089	2,347	2,544
Other Expenses	4,024	3,903	4,355	4,721
<b>EBITDA</b>	<b>2,602</b>	<b>3,031</b>	<b>3,690</b>	<b>4,600</b>
YoY gr. (%)	8.0	16.5	21.8	24.6
Margin (%)	11.6	13.2	14.2	16.3
Depreciation and Amortization	615	765	963	1,111
<b>EBIT</b>	<b>1,987</b>	<b>2,266</b>	<b>2,728</b>	<b>3,489</b>
Margin (%)	8.8	9.9	10.5	12.3
Net Interest	61	55	50	50
Other Income	343	395	415	497
<b>Profit Before Tax</b>	<b>2,383</b>	<b>2,623</b>	<b>3,092</b>	<b>3,937</b>
Margin (%)	10.6	11.4	11.9	13.9
Total Tax	538	629	742	945
Effective tax rate (%)	22.6	24.0	24.0	24.0
<b>Profit after tax</b>	<b>1,845</b>	<b>1,993</b>	<b>2,350</b>	<b>2,992</b>
Minority interest	(12)	(2)	(2)	(2)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,743</b>	<b>1,978</b>	<b>2,352</b>	<b>2,994</b>
YoY gr. (%)	12.2	13.5	18.9	27.3
Margin (%)	7.7	8.6	9.0	10.6
Extra Ord. Income / (Exp)	114	17	-	-
<b>Reported PAT</b>	<b>1,857</b>	<b>1,995</b>	<b>2,352</b>	<b>2,994</b>
YoY gr. (%)	19.5	7.5	17.9	27.3
Margin (%)	8.2	8.7	9.0	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,857	1,995	2,352	2,994
<b>Equity Shares O/s (m)</b>	<b>194</b>	<b>194</b>	<b>194</b>	<b>194</b>
<b>EPS (Rs)</b>	<b>9.0</b>	<b>10.2</b>	<b>12.1</b>	<b>15.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,917</b>	<b>7,889</b>	<b>9,774</b>	<b>10,759</b>
Tangibles	5,467	7,289	9,024	10,009
Intangibles	450	600	750	750
<b>Acc: Dep / Amortization</b>	<b>2,211</b>	<b>2,975</b>	<b>3,938</b>	<b>5,049</b>
Tangibles	1,858	2,500	3,309	4,243
Intangibles	353	475	629	806
<b>Net fixed assets</b>	<b>3,706</b>	<b>4,914</b>	<b>5,836</b>	<b>5,710</b>
Tangibles	3,609	4,789	5,715	5,766
Intangibles	97	125	121	(56)
Capital Work In Progress	1,022	971	1,008	1,015
Goodwill	1,958	1,958	1,958	1,958
Non-Current Investments	136	130	142	151
Net Deferred tax assets	(285)	(285)	(285)	(285)
Other Non-Current Assets	1,520	1,083	1,260	1,520
<b>Current Assets</b>				
Investments	2,987	2,487	2,287	4,087
Inventories	6,992	7,234	8,217	8,908
Trade receivables	4,506	4,403	5,216	5,654
Cash & Bank Balance	487	889	618	446
Other Current Assets	1,064	1,079	1,226	1,329
<b>Total Assets</b>	<b>24,200</b>	<b>24,975</b>	<b>27,604</b>	<b>30,620</b>
<b>Equity</b>				
Equity Share Capital	194	194	194	194
Other Equity	13,900	15,097	16,679	18,894
<b>Total Network</b>	<b>14,095</b>	<b>15,291</b>	<b>16,873</b>	<b>19,089</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	124	74	74	-
Provisions	256	262	297	322
Other non current liabilities	144	147	151	155
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	496	196	-	-
Trade payables	6,373	6,290	7,145	7,746
Other current liabilities	2,639	2,642	2,982	3,221
<b>Total Equity &amp; Liabilities</b>	<b>24,200</b>	<b>24,975</b>	<b>27,604</b>	<b>30,620</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,375	2,623	3,092	3,937
Add. Depreciation	615	765	963	1,111
Add. Interest	61	-	-	-
Less Financial Other Income	343	395	415	497
Add. Other	(88)	(395)	(415)	(497)
Op. profit before WC changes	2,963	2,993	3,640	4,550
Net Changes-WC	969	307	(974)	(688)
Direct tax	(564)	(629)	(742)	(945)
<b>Net cash from Op. activities</b>	<b>3,368</b>	<b>2,670</b>	<b>1,924</b>	<b>2,917</b>
Capital expenditures	(656)	(1,885)	(1,885)	(985)
Interest / Dividend Income	62	395	415	497
Others	(1,865)	500	200	(1,800)
<b>Net Cash from Inv. activities</b>	<b>(2,459)</b>	<b>(991)</b>	<b>(1,270)</b>	<b>(2,287)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(40)	(350)	(196)	(74)
Dividend paid	(587)	(632)	(681)	(681)
Interest paid	(35)	(55)	(50)	(50)
Others	159	2	2	2
<b>Net cash from Fin. activities</b>	<b>(503)</b>	<b>(1,035)</b>	<b>(925)</b>	<b>(802)</b>
<b>Net change in cash</b>	<b>407</b>	<b>644</b>	<b>(271)</b>	<b>(172)</b>
Free Cash Flow	2,582	784	39	1,933

Source: Company Data, PL Research

**Key Financial Metrics**

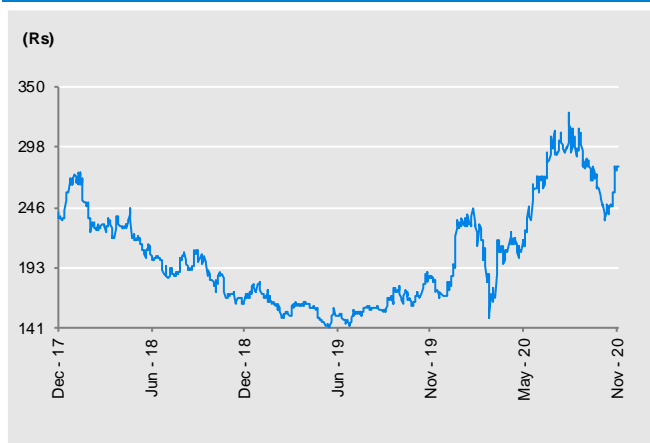
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	9.0	10.2	12.1	15.4
CEPS	12.1	14.1	17.0	21.1
BVPS	72.5	78.6	86.8	98.2
FCF	13.3	4.0	0.2	9.9
DPS	2.5	3.3	3.5	3.5
<b>Return Ratio(%)</b>				
RoCE	14.1	15.0	16.8	19.4
ROIC	14.4	14.6	15.5	19.7
RoE	12.9	13.5	14.6	16.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	83	85	88	88
<b>Valuation(x)</b>				
PER	32.0	28.2	23.7	18.6
P/B	4.0	3.6	3.3	2.9
P/CEPS	23.6	20.3	16.8	13.6
EV/EBITDA	20.3	17.4	14.3	11.1
EV/Sales	2.3	2.3	2.0	1.8
Dividend Yield (%)	0.9	1.1	1.2	1.2

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>5,336</b>	<b>3,463</b>	<b>6,627</b>	<b>7,250</b>
YoY gr. (%)	27.9	2.0	6.3	(3.2)
Raw Material Expenses	3,302	1,956	3,996	4,488
Gross Profit	2,034	1,507	2,632	2,762
Margin (%)	38.1	43.5	39.7	38.1
<b>EBITDA</b>	<b>557</b>	<b>(98)</b>	<b>1,283</b>	<b>1,168</b>
YoY gr. (%)	102.0	(245.4)	35.4	(1.6)
Margin (%)	10.4	(2.8)	19.4	16.1
Depreciation / Depletion	160	127	179	203
<b>EBIT</b>	<b>398</b>	<b>(225)</b>	<b>1,104</b>	<b>965</b>
Margin (%)	7.5	(6.5)	16.7	13.3
Net Interest	16	11	20	14
Other Income	101	95	118	131
<b>Profit before Tax</b>	<b>483</b>	<b>(27)</b>	<b>1,202</b>	<b>1,098</b>
Margin (%)	9.1	(0.8)	18.1	15.1
Total Tax	103	(33)	283	268
Effective tax rate (%)	21.2	125.6	23.5	24.4
<b>Profit after Tax</b>	<b>381</b>	<b>7</b>	<b>919</b>	<b>830</b>
Minority interest	(1)	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>381</b>	<b>(108)</b>	<b>919</b>	<b>813</b>
YoY gr. (%)	175.4	(833.2)	52.1	(5.2)
Margin (%)	7.1	(3.1)	13.9	11.2
Extra Ord. Income / (Exp)	-	114	-	17
<b>Reported PAT</b>	<b>381</b>	<b>7</b>	<b>919</b>	<b>830</b>
YoY gr. (%)	175.4	(55.8)	52.1	(3.3)
Margin (%)	7.1	0.2	13.9	11.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>381</b>	<b>7</b>	<b>919</b>	<b>830</b>
Avg. Shares O/s (m)	195	195	195	195
<b>EPS (Rs)</b>	<b>2.0</b>	<b>(0.6)</b>	<b>4.7</b>	<b>4.2</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-Oct-20	Hold	275	262
2	10-Oct-20	Accumulate	321	270
3	25-Aug-20	Accumulate	321	325
4	23-Jul-20	Accumulate	321	303
5	7-Jul-20	Accumulate	246	269
6	6-May-20	Accumulate	246	222
7	16-Apr-20	Accumulate	240	211
8	19-Jan-20	Accumulate	248	220
9	3-Jan-20	Accumulate	174	180

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	6,090	5,680
2	Coromandel International	Reduce	676	733
3	Dhanuka Agritech	Accumulate	868	735
4	Godrej Agrovet	Accumulate	587	511
5	Insecticides India	BUY	595	421
6	P.I. Industries	Hold	2,026	2,161
7	Rallis India	Hold	275	262
8	Sharda Cropchem	BUY	358	270
9	Sumitomo Chemical India	Hold	284	277
10	UPL	BUY	606	453

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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