

April 23, 2022

Q4FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY23E | FY24E | FY23E | FY24E |
| Rating | HOLD | | HOLD | |
| Target Price | 260 | | 280 | |
| Sales (Rs. m) | 29,528 | 33,264 | 29,707 | 33,486 |
| % Chng. | (0.6) | (0.7) | | |
| EBITDA (Rs. m) | 3,654 | 4,473 | 3,831 | 4,544 |
| % Chng. | (4.6) | (1.6) | | |
| EPS (Rs.) | 11.7 | 14.7 | 12.8 | 15.4 |
| % Chng. | (8.3) | (4.3) | | |

Key Financials - Standalone

| Y/e Mar | FY21 | FY22 | FY23E | FY24E |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 24,294 | 26,039 | 29,528 | 33,264 |
| EBITDA (Rs. m) | 3,229 | 2,741 | 3,654 | 4,473 |
| Margin (%) | 13.3 | 10.5 | 12.4 | 13.4 |
| PAT (Rs. m) | 2,191 | 1,642 | 2,274 | 2,856 |
| EPS (Rs.) | 11.3 | 8.4 | 11.7 | 14.7 |
| Gr. (%) | 22.0 | (25.1) | 38.5 | 25.6 |
| DPS (Rs.) | 3.0 | 3.0 | 3.5 | 4.0 |
| Yield (%) | 1.2 | 1.2 | 1.4 | 1.6 |
| RoE (%) | 14.6 | 10.0 | 12.9 | 14.7 |
| RoCE (%) | 16.7 | 11.8 | 15.3 | 17.7 |
| EV/Sales (x) | 1.9 | 1.8 | 1.6 | 1.4 |
| EV/EBITDA (x) | 14.4 | 17.2 | 12.9 | 10.3 |
| PE (x) | 22.5 | 30.0 | 21.7 | 17.3 |
| P/BV (x) | 3.1 | 2.9 | 2.7 | 2.4 |

Key Data

RALL.BO | RALI IN

| | |
|---------------------|-------------------|
| 52-W High / Low | Rs.363 / Rs.227 |
| Sensex / Nifty | 57,197 / 17,172 |
| Market Cap | Rs.49bn / \$ 645m |
| Shares Outstanding | 194m |
| 3M Avg. Daily Value | Rs.111.5m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 50.09 |
| Foreign | 6.08 |
| Domestic Institution | 16.07 |
| Public & Others | 27.76 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-----|-------|--------|
| Absolute | 2.7 | (7.9) | (9.9) |
| Relative | 4.2 | (2.1) | (24.3) |

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Rallis India (RALI IN)

Rating: HOLD | CMP: Rs254 | TP: Rs260

RM cost headwinds being the spoilsport

Quick Pointers:

- Domestic business up 25% YoY on the back of 12%/13% growth in volume and prices.
- International business declined 8% YoY led by RM shortage of one key product and phasing out of one customer.
- Gross margins declined 660bps YoY led by RM cost headwinds and inability to fully pass on prices.

Rallis India (RALI) 4QFY22 results were lower than our and consensus expectations primarily led by miss on margins front. Despite revenue growth being in-line with our/cons estimates, RM cost headwinds during the quarter dented overall performance. Key highlights are: 1) domestic revenue grew 25% YoY led by both price and volume growth of 13%/12% YoY respectively (FY22 +14% YoY); while crop care segment was up 8% YoY (FY22 +11% YoY), 2) export revenues were down 8% YoY (FY22 +6% YoY), 3) seeds revenue remained flat YoY (FY22 -13% YoY), 4) pricing and volume pressure in metribuzin eased out, 5) there was pressure on margins, largely led by inflated RM cost and inability to fully pass on the cost, 6) launched 19 new products in FY22- 2 fungicides; 4 herbicides; 1 insecticide; 2 water soluble fertilizers; 3 bio pesticides, 1 organic manure and 6 hybrid seeds respectively and 7) ITI for FY22 stood at 11% (12% in FY21).

Going forward, we believe headwinds related to supply chain and availability of certain intermediates will likely continue in subsequent quarter. Though RALI took price hikes in recent past however it was not sufficient to mitigate entire cost inflation, hence more such hikes are possible in the near term too. Citing above reasons, we trim our estimates for FY23/24 by 8%/4% respectively. We expect RALI to clock revenue/PAT CAGR of 11%/9% over FY21-FY24E, led by domestic market share gain and export ramp-up. Maintain HOLD rating on the stock with revised TP of Rs260 based on 18x FY24 EPS.

Decent revenue growth offset by lower margins: Consolidated revenues stood at Rs5.0bn up 8% YoY (PLe Rs5.2bn) aided by 25% YoY increase in domestic revenues and 8% YoY decline in exports business. However, seeds revenues remained flat on YoY basis. Gross margins declined by 660bps YoY to 34.8% led by a) higher RM cost; b) inability to fully pass on inflated cost and c) Rs70mn write-off in seeds inventory that has in turn resulted into an EBITDA loss of Rs28mn. Crop care EBITDA margin declined 310bps YoY to 4.5%, while seeds segment reported EBITDA loss of Rs250mn as against a loss of Rs160mn in the base quarter. Other income dipped by 7% YoY to Rs75mn led by a) lower export incentive and b) lower yield on liquid investments. Adjusted PAT came at a loss of Rs142mn.

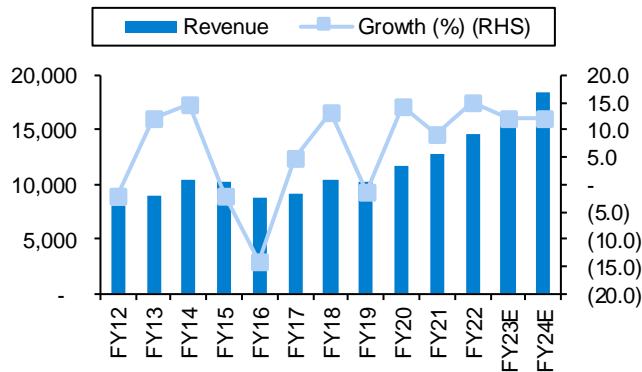
Other key highlights

- **New Product launches:** RALI launched 19 products in FY22- 2 fungicides; 4 herbicides; 1 insecticide; 2 water soluble fertilizers; 3 bio pesticides, 1 organic manure and 6 hybrid seeds respectively.
- **Plans to address RM volatility:** The company has been tying up with domestic suppliers for RM's which in turn would help to reduce their dependence on imports and restrict supply chain issues faced in recent past.
- **Expand distribution network:** Achieve deeper penetration by expanding distribution network in FY22. The company achieved 4,100 distributors and 55,000 retailers in crop protection business.
- **Capex Guidance:** RALI has guided for Rs2.5bn of capex in FY23E. Dahej CZ plant commissioned. The company completed this year with record production of Pendimethalin, Hexaconazole, Metalaxyl, Acetamiprid, and Lambda Cyhalothrin. Going forward, it intends to set up herbicide MPP plant which is currently at discussion stage (likely to be finalised by 1QFY23).

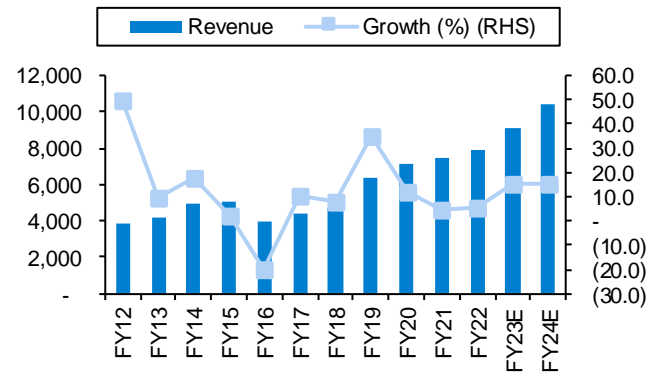
Exhibit 1: Q4FY22 Result Overview (Rs mn)

| Y/e March | 4QFY22 | 4QFY21 | YoY gr. (%) | 3QFY22 | QoQ gr. (%) | FY22 | FY21 | YoY gr. (%) |
|-------------------------------------|--------------|--------------|-------------|--------------|---------------|---------------|---------------|---------------|
| Revenues | 5,075 | 4,713 | 7.7 | 6,281 | (19.2) | 26,039 | 24,294 | 7.2 |
| Raw material | 3,311 | 2,761 | 19.9 | 3,755 | (11.8) | 16,236 | 14,752 | 10.1 |
| Staff costs | 552 | 587 | (5.9) | 623 | (11.4) | 2,391 | 2,160 | 10.7 |
| Others | 1,241 | 1,188 | 4.5 | 1,229 | 1.0 | 4,672 | 4,153 | 12.5 |
| Total expenditure | 5,104 | 4,535 | 12.5 | 5,607 | (9.0) | 23,299 | 21,066 | 10.6 |
| EBITDA | (28) | 177 | NA | 674 | NA | 2,741 | 3,229 | (15.1) |
| Depreciation | 197 | 148 | 32.8 | 184 | 6.7 | 743 | 641 | 16.0 |
| EBIT | (225) | 29 | NA | 490 | NA | 1,997 | 2,588 | (22.8) |
| Interest | 12 | 11 | 17.1 | 14 | (12.1) | 48 | 52 | (8.1) |
| Add: Other income | 75 | 80 | (6.5) | 55 | 36.4 | 275 | 405 | (32.1) |
| Profit Before Tax | (162) | 99 | NA | 531 | NA | 2,224 | 2,941 | (24.4) |
| Less: Provision for Tax | (21) | 34 | NA | 135 | NA | 582 | 749 | (22.3) |
| Less: Minority Interest | 0 | - | NA | - | NA | - | - | NA |
| Adjusted Profit | (142) | 64 | NA | 396 | NA | 1,642 | 2,191 | (25.1) |
| Add: Exceptional items (net of tax) | - | 17 | NA | - | NA | - | - | NA |
| Reported Profit | (142) | 81 | NA | 396 | NA | 1,642 | 2,191 | (25.1) |
| No. of shares (mn) | 195 | 195 | | 195 | | 195 | 195 | |
| Adjusted Diluted EPS | (0.7) | 0.3 | NA | 2.0 | NA | 8.4 | 11.3 | (25.1) |
| As % of net revenues | | | | | | | | |
| Raw material | 65.2 | 58.6 | | 59.8 | | 62.4 | 60.7 | |
| Staff expenses | 10.9 | 12.4 | | 9.9 | | 9.2 | 8.9 | |
| Other expenses | 24.5 | 25.2 | | 19.6 | | 17.9 | 17.1 | |
| EBITDA | (0.6) | 3.8 | | 10.7 | | 10.5 | 13.3 | |
| Net profit | (2.8) | 1.4 | | 6.3 | | 6.3 | 9.0 | |

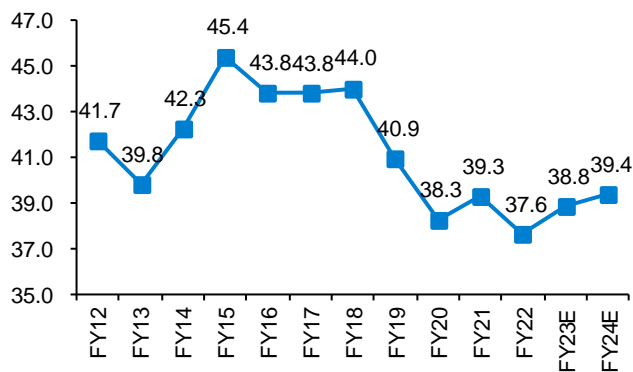
Source: Company, PL

Exhibit 2: Domestic Revenue Trend (Rs mn)


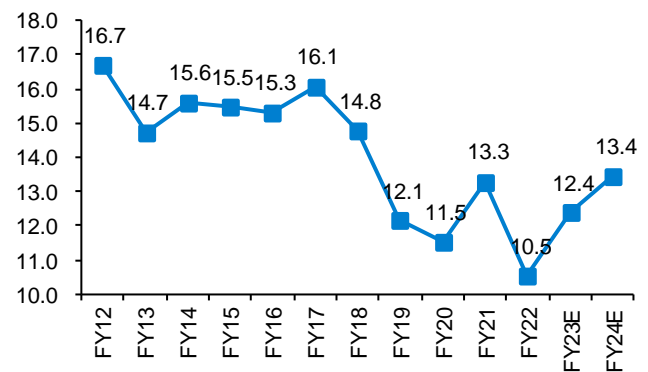
Source: Company, PL

Exhibit 3: International Revenue Trend (Rs mn)


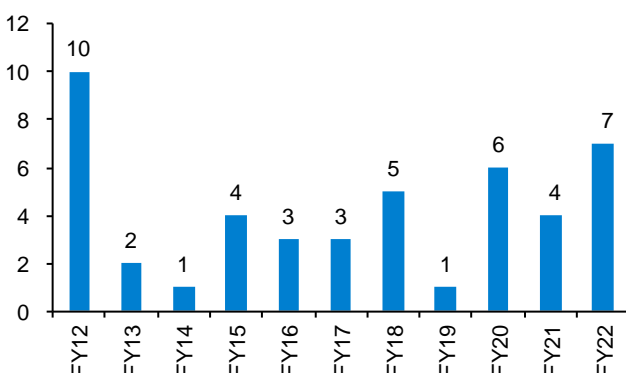
Source: Company, PL

Exhibit 4: Gross Margin Trend (%)


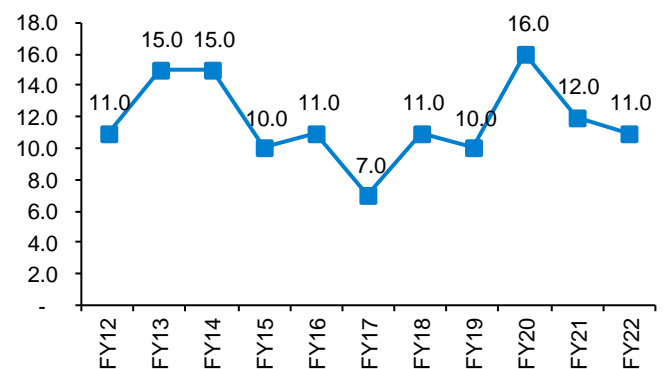
Source: Company, PL

Exhibit 5: EBITDA Margin Trend (%)


Source: Company, PL

Exhibit 6: Consistently banging on new products


Source: Company, PL

Exhibit 7: ITI momentum disrupted due to slowdown in market development led by COVID-19


Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY21 | FY22 | FY23E | FY24E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 24,294 | 26,039 | 29,528 | 33,264 |
| YoY gr. (%) | 7.9 | 7.2 | 13.4 | 12.7 |
| Cost of Goods Sold | 14,752 | 16,236 | 18,057 | 20,166 |
| Gross Profit | 9,542 | 9,804 | 29,528 | 33,264 |
| Margin (%) | 39.3 | 37.6 | 100.0 | 100.0 |
| Employee Cost | 2,160 | 2,391 | 2,654 | 2,946 |
| Other Expenses | 4,153 | 4,672 | 5,162 | 5,678 |
| EBITDA | 3,229 | 2,741 | 3,654 | 4,473 |
| YoY gr. (%) | 24.5 | (15.1) | 33.3 | 22.4 |
| Margin (%) | 13.3 | 10.5 | 12.4 | 13.4 |
| Depreciation and Amortization | 641 | 743 | 866 | 936 |
| EBIT | 2,588 | 1,997 | 2,788 | 3,536 |
| Margin (%) | 10.7 | 7.7 | 9.4 | 10.6 |
| Net Interest | 52 | 48 | 50 | 50 |
| Other Income | 405 | 275 | 302 | 332 |
| Profit Before Tax | 2,941 | 2,224 | 3,040 | 3,819 |
| Margin (%) | 12.1 | 8.5 | 10.3 | 11.5 |
| Total Tax | 749 | 582 | 766 | 962 |
| Effective tax rate (%) | 25.5 | 26.2 | 25.2 | 25.2 |
| Profit after tax | 2,191 | 1,642 | 2,274 | 2,856 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 2,191 | 1,642 | 2,274 | 2,856 |
| YoY gr. (%) | 22.0 | (25.1) | 38.5 | 25.6 |
| Margin (%) | 9.0 | 6.3 | 7.7 | 8.6 |
| Extra Ord. Income / (Exp) | 95 | - | - | - |
| Reported PAT | 2,286 | 1,642 | 2,274 | 2,856 |
| YoY gr. (%) | 22.2 | (28.2) | 38.5 | 25.6 |
| Margin (%) | 9.4 | 6.3 | 7.7 | 8.6 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 2,286 | 1,642 | 2,274 | 2,856 |
| Equity Shares O/s (m) | 195 | 195 | 195 | 195 |
| EPS (Rs) | 11.3 | 8.4 | 11.7 | 14.7 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY21 | FY22 | FY23E | FY24E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 7,580 | 9,875 | 12,375 | 13,375 |
| Tangibles | 7,580 | 9,875 | 12,375 | 13,375 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 2,708 | 3,451 | 4,317 | 5,253 |
| Tangibles | 2,708 | 3,451 | 4,317 | 5,253 |
| Intangibles | - | - | - | - |
| Net fixed assets | 4,872 | 6,424 | 8,058 | 8,122 |
| Tangibles | 4,872 | 6,424 | 8,058 | 8,122 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 1,165 | 667 | 667 | 667 |
| Goodwill | 1,958 | 1,958 | 1,958 | 1,958 |
| Non-Current Investments | 32 | 32 | 32 | 32 |
| Net Deferred tax assets | (264) | (213) | (213) | (213) |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | 2,803 | 2,087 | 2,087 | 2,087 |
| Inventories | 7,632 | 9,380 | 9,152 | 10,221 |
| Trade receivables | 4,063 | 4,459 | 5,057 | 5,697 |
| Cash & Bank Balance | 551 | 631 | 866 | 1,967 |
| Other Current Assets | 1,464 | 1,340 | 1,474 | 1,621 |
| Total Assets | 25,886 | 28,580 | 31,128 | 34,344 |
| Equity | | | | |
| Equity Share Capital | 195 | 195 | 195 | 195 |
| Other Equity | 15,714 | 16,772 | 18,227 | 20,146 |
| Total Network | 15,908 | 16,967 | 18,421 | 20,341 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 78 | 38 | 38 | 38 |
| Provisions | 751 | 806 | 806 | 806 |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 301 | 542 | 542 | 542 |
| Trade payables | 5,961 | 7,525 | 7,916 | 8,840 |
| Other current liabilities | 2,617 | 2,489 | 3,193 | 3,564 |
| Total Equity & Liabilities | 25,886 | 28,580 | 31,128 | 34,344 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY21 | FY22 | FY23E | FY24E |
|---------------------------------------|----------------|----------------|----------------|--------------|
| PBT | 3,035 | 2,224 | 3,040 | 3,819 |
| Add. Depreciation | 641 | 743 | 866 | 936 |
| Add. Interest | 52 | 48 | 50 | 50 |
| Less Financial Other Income | 405 | 275 | 302 | 332 |
| Add. Other | (212) | 80 | (302) | (332) |
| Op. profit before WC changes | 3,516 | 3,095 | 3,654 | 4,473 |
| Net Changes-WC | (602) | (750) | 414 | (756) |
| Direct tax | (746) | (688) | (766) | (962) |
| Net cash from Op. activities | 2,168 | 1,658 | 3,302 | 2,755 |
| Capital expenditures | (1,528) | (1,773) | (2,500) | (1,000) |
| Interest / Dividend Income | - | - | - | - |
| Others | (87) | 731 | 302 | 332 |
| Net Cash from Invt. activities | (1,616) | (1,042) | (2,198) | (668) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (165) | (13) | (50) | (50) |
| Dividend paid | (488) | (585) | (819) | (937) |
| Interest paid | - | - | - | - |
| Others | (21) | (17) | - | - |
| Net cash from Fin. activities | (674) | (614) | (869) | (987) |
| Net change in cash | (122) | 2 | 235 | 1,100 |
| Free Cash Flow | 847 | 141 | 802 | 1,755 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY21 | FY22 | FY23E | FY24E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 11.3 | 8.4 | 11.7 | 14.7 |
| CEPS | 14.6 | 12.3 | 16.1 | 19.5 |
| BVPS | 81.8 | 87.2 | 94.7 | 104.6 |
| FCF | 4.4 | 0.7 | 4.1 | 9.0 |
| DPS | 3.0 | 3.0 | 3.5 | 4.0 |
| Return Ratio(%) | | | | |
| RoCE | 16.7 | 11.8 | 15.3 | 17.7 |
| ROIC | 15.9 | 10.4 | 13.6 | 16.6 |
| RoE | 14.6 | 10.0 | 12.9 | 14.7 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.2) | (0.1) | (0.1) | (0.2) |
| Net Working Capital (Days) | 86 | 89 | 78 | 78 |
| Valuation(x) | | | | |
| PER | 22.5 | 30.0 | 21.7 | 17.3 |
| P/B | 3.1 | 2.9 | 2.7 | 2.4 |
| P/CEPS | 17.4 | 20.7 | 15.7 | 13.0 |
| EV/EBITDA | 14.4 | 17.2 | 12.9 | 10.3 |
| EV/Sales | 1.9 | 1.8 | 1.6 | 1.4 |
| Dividend Yield (%) | 1.2 | 1.2 | 1.4 | 1.6 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 7,405 | 7,278 | 6,281 | 5,075 |
| YoY gr. (%) | 11.7 | 0.4 | 10.1 | 7.7 |
| Raw Material Expenses | 4,529 | 4,641 | 3,755 | 3,311 |
| Gross Profit | 2,876 | 2,637 | 2,526 | 1,765 |
| Margin (%) | 38.8 | 36.2 | 40.2 | 34.8 |
| EBITDA | 1,215 | 880 | 674 | (28) |
| YoY gr. (%) | (5.3) | (24.6) | 12.1 | (116.0) |
| Margin (%) | 16.4 | 12.1 | 10.7 | (0.6) |
| Depreciation / Depletion | 185 | 177 | 184 | 197 |
| EBIT | 1,030 | 702 | 490 | (225) |
| Margin (%) | 13.9 | 9.7 | 7.8 | (4.4) |
| Net Interest | 9 | 12 | 14 | 12 |
| Other Income | 70 | 75 | 55 | 75 |
| Profit before Tax | 1,091 | 765 | 531 | (162) |
| Margin (%) | 14.7 | 10.5 | 8.4 | (3.2) |
| Total Tax | 268 | 201 | 135 | (21) |
| Effective tax rate (%) | 24.5 | 26.2 | 25.5 | 12.9 |
| Profit after Tax | 823 | 564 | 396 | (142) |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 823 | 565 | 396 | (142) |
| YoY gr. (%) | (10.4) | (30.5) | 0.1 | (320.3) |
| Margin (%) | 11.1 | 7.8 | 6.3 | (2.8) |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 823 | 565 | 396 | (142) |
| YoY gr. (%) | (10.4) | (31.9) | (13.3) | (274.8) |
| Margin (%) | 11.1 | 7.8 | 6.3 | (2.8) |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 823 | 565 | 396 | (142) |
| Avg. Shares O/s (m) | 195 | 195 | 195 | 195 |
| EPS (Rs) | 4.2 | 2.9 | 2.0 | (0.7) |

Source: Company Data, PL Research

Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1 | 08-Apr-22 | Hold | 280 | 263 |
| 2 | 20-Jan-22 | Hold | 280 | 277 |
| 3 | 12-Jan-22 | Accumulate | 270 | 279 |
| 4 | 27-Dec-21 | Accumulate | 270 | 257 |
| 5 | 22-Jul-21 | Hold | 321 | 326 |
| 6 | 06-Jul-21 | Hold | 321 | 323 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|--------------------------|------------|---------|------------------|
| 1 | Bayer Cropscience | BUY | 5,350 | 4,823 |
| 2 | Coromandel International | BUY | 960 | 745 |
| 3 | Dhanuka Agritech | BUY | 870 | 755 |
| 4 | Godrej Agrovet | Accumulate | 614 | 526 |
| 5 | Insecticides India | Hold | 680 | 638 |
| 6 | P.I. Industries | BUY | 3,340 | 2,858 |
| 7 | Rallis India | Hold | 280 | 263 |
| 8 | Sharda Cropchem | BUY | 630 | 664 |
| 9 | Sumitomo Chemical India | BUY | 500 | 426 |
| 10 | UPL | BUY | 990 | 803 |

PL's Recommendation Nomenclature (Absolute Performance)

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

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