

# RALLIS INDIA

## International Business saves the day

India Equity Research | Midcap Agri

Rallis India (Rallis) reported sales growth of 9%YoY driven by an uptick in International Business (IB; up 12% YoY). Domestic operations suffered as the lacklustre monsoon kept agrochemical sales mushy, down 2% YoY, and seed business stunted, up only 3% YoY. Margins remain under pressure primarily due to persistent hikes in raw materials prices and the pressure on Pendimethalin prices. Though management has reiterated its focus on driving growth through capex and by strengthening the distribution network and accelerating revenue in CRAMS, we remain cautious in light of intensifying competition in both domestic and CRAMS. Maintain 'HOLD' with a TP of INR156 (PE of 15x June 2020).

### Weakness in Domestic operations; exports drive momentum

In Q1FY20, standalone revenue inched up 3% YoY primarily due to a 12% YoY uptick in exports that was offset by a 2% decline in domestic revenue (dragged by poor placement of agrochemicals amid lacklustre monsoon). The share of IB in overall standalone revenue improved to 39% from 36% in FY19. Growth in the seeds business shrunk due to contraction in sowing with revenue creeping up 3% YoY driven by bajra, maize and cotton. All in all, the impact on gross margins continues (down about 150bps YoY) as the spike in raw material prices persists, albeit marginally, along with pressure on Pendimethalin. Besides, implementation of IND AS 116, while neutral on PAT/PBT, saw other expenses come in lower by about INR25mn.

### Capex to remain key growth trigger

To accelerate growth, Rallis plans to incur capex of INR8bn over four–five years. The company completed the first stage of capacity expansion of Metribuzin (500MT) in June and has started commercial production; an additional 500MT would be commissioned by December. To improve its market share in IB, Rallis is looking at ramping up utilization in Pendimethalin and other key intermediates.

### Outlook and valuations: waiting for execution; maintain 'HOLD'

We are monitoring product launches and execution of large-scale capex. Though the company is doing well in exports and eyeing an opportunity thereof, weakness in domestic markets and lack of blockbuster products remain our key concern. We, hence, maintain 'HOLD' with a target price of INR156 based on a PE of 15x June 2020.

#### Financials

(INR mn)

Year to March	Q1FY20	Q1FY19	% Chg	Q4FY19	% Chg	FY19	FY20E	FY21E
Net revenues	6,232	5,731	8.7	3,397	83.5	19,840	22,113	25,430
EBITDA	948	831	14.0	68	1,293.8	2,409	2,834	3,388
Adjusted Profit	676	547	23.4	13	4,905.2	1,548	1,919	2,325
Adjusted Diluted EPS	3.5	2.8	23.4	0.1	4,918.1	8.0	9.9	12.0
Diluted P/E (x)						19.0	15.3	12.6
EV/EBITDA (x)						11.9	9.8	8.2
ROAE (%)						12.5	14.3	15.8

Edelweiss Research is also available on [www.edelresearch.com](http://www.edelresearch.com), Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.



#### EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

#### MARKET DATA (R: RALL.BO, B: RALI IN)

CMP	: INR 155
Target Price	: INR 156
52-week range (INR)	: 215 / 139
Share in issue (mn)	: 194.5
M cap (INR bn/USD mn)	: 30 / 428
Avg. Daily Vol. BSE/NSE ('000)	: 280.2

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	50.1	50.1	50.1
MF's, FI's & BKs	20.0	20.0	20.2
FII's	4.0	4.0	3.8
Others	25.9	25.9	26.0
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(3.6)	3.3	7.0
3 months	(5.8)	(2.9)	2.9
12 months	(7.3)	(16.8)	(9.5)

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## Q1FY20: Conference call highlights

### Industry

- The monsoon has improved in the first two weeks of July. However, the lacklustre rainfall in the start of the kharif season has forced many farmers to shift their crop patterns. In Maharashtra, sowing of pearl millet has picked up. In Gujarat, sowing for cotton and groundnut has taken a backseat. Despite a hike in the price of maize, its acreage remains low.

### Company

- Gross margin: The company's inability to pass through prices to the trade channel due to weak industry scenario coupled with falling prices of one of its key molecules, Pendimethalin, have impacted gross margin.
- Implementation of IND AS 116 led to a fall in other expenses by INR25mn. The expense pertaining to promotions along with advertisement expense for two products launched in July would show up in Q2FY20.

### Domestic business

- New products: Management is focusing on introducing products and expects to launch five in FY20, out of which two products have been registered.
- Formulation expansion at Dahej will be operational before the next the kharif season.
- The company maintains a strong leadership position in herbicides.
- Due to delayed start to the kharif season, distributors have not been able to clear their agrochemicals inventory. Until seeds move out, there is limited space and carrying ability for agrochemicals in the trade channel.

### Seeds

- A delayed start has impacted the season. The seeds division posted growth of 2.6% YoY.
- Cotton and maize seeds contribute 40-45% to overall seed revenue.

### International Business

- B2B business accounts for about 65%, with contract manufacturing contributing ~35%.
- Metribuzin 500MTPA has been commissioned. The second phase, including another 500MTPA, should be operational by December 2019. The capacity will increase to 2,000 MTPA.
- Pendimethalin is experiencing oversupply and there could be some softness. At 2000 MTPA, the company would command 15% of the global market.
- The company manufactures two molecules in Contract manufacturing space (CRAMS). However, it is exploring opportunity to develop two more molecules.
- Acephate has infused volume growth in IB.

**Guidance**

- High inventory in pendimethalin may impact sales in remaining quarters.
- The pressure on raw materials prices continues.
- Seed business will be impacted by late sowing.
- FY20 spend will be INR1.50–2bn.

## Financial snapshot

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Net revenues	6,232	5,731	8.7	3,397	83.5	19,840	22,113	25,430
Raw material	3,856	3,462	11.4	1,930	99.8	11,715	12,566	14,128
Staff costs	488	446	9.5	481	1.5	1,806	2,023	2,286
Other expenses	940	992	(5.2)	918	2.4	3,909	4,690	5,628
Total expenditure	5,285	4,900	7.9	3,329	58.7	17,430	19,279	22,043
EBITDA	948	831	14.0	68	1,293.8	2,409	2,834	3,388
EBIT	805	716	12.5	(37)	(2,270.6)	1,949	2,306	2,787
Interest	16	9	74.4	17	(4.8)	53	30	25
Other income	80	49	62.5	110	(27.1)	307	353	423
Add: Prior period items								
Profit before tax	869	756	15.0	56	1,455.3	2,203	2,628	3,185
Provision for taxes	194	210	(7.9)	42	356.8	655	710	860
Minority interest		(2)	(100.0)					
Associate profit share								
Exceptional Items								
Reported net profit	676	547	23.4	14	4,905.2	1,548	1,919	2,325
Adjusted Profit	676	547	23.4	13	4,905.2	1,548	1,919	2,325
Diluted shares (mn)	195	195		195		195	195	195
Adjusted Diluted EPS	3.5	2.8	23.4	0.1	4,918.1	8.0	9.9	12.0
Diluted P/E (x)	-	-		-		19.0	15.3	12.6
EV/EBITDA (x)	-	-		-		11.9	9.8	8.2
ROAE (%)	-	-		-		12.5	14.3	15.8
As % of net revenues								
Raw material	61.9	55.6		56.8		59.1	56.8	55.6
Employee cost	7.8	7.2		14.2		9.1	9.1	9.0
Other expenses	15.1	15.9		27.0		19.7	21.2	22.1
EBITDA	15.2	13.3		2.0		12.1	12.8	13.3
Reported net profit	10.8	9.6		0.4		7.8	8.7	9.1

## Company Description

Rallis is a Tata Group owned Agrochemical Company and a key player in India. Tata Chemicals holds 50.09% in Rallis India. Company has employee strength of 909 as on March 31, 2015 and have plants located at Akola, Ankaleshwar, Ratnagiri and Bharuch. Agrochemical and seed business constitute ~83% and ~17% in consolidated FY15 sales. Company acquired Bangalore based seed players Metahelix during FY11 and entered into an agreement to acquire 51% stake in 'Zero Waste Agro Organics' in April 2012. Rallis has broad and diversified product portfolio in terms of crops as well as type of pesticide. According to customer engagement survey by Gallop, Company has 7 of the top 12 brands when it comes to awareness of brands in Indian agrochemical market. Rallis has strong relationship with global majors and entered into several alliances such as Dupont, Syngenta, Bayer, among others. These tie-ups enable it to offer a bouquet of specialty products, addressing varied crop protection needs.

## Investment Theme

Rallis is an established agrochemical player in India. The company, with market share of ~10% is well placed to capture emerging opportunities in the domestic agrochemical market on back of healthy distribution network, branded farm solutions and launch of new products. The newly commissioned Dahej SEZ facility is anticipated to boost export sales, consequently reducing its domestic market dependence.

The organised hybrid seed market is expected to post 12-15% CAGR in the coming years. India has a dismal ~2mha of the total 40mha under hybrid seed in rice crop, thus leaving enough room for penetrating untapped markets. Post acquisitions of Metahelix, Rallis is well equipped to ride this surge armed with the former's formidable R&D capabilities and robust product pipeline.

## Key Risks

**Weather:** Crop protection industry faces the risks of seasonal weather factors. The weather can affect the presence of pest infestations as well as affect the demand for crop-protection products. In the domestic market, sales are highly seasonal, mainly during the monsoon. Any adverse change in the weather will have a negative effect on the sales.

**GM crops:** The usage of crop protection products is significantly less for GM crops. Hence, growth and acceptance of GM crops by consumers may have an adverse effect on Rallis' business.

**Overseas regulation:** Rallis is registering its products in the overseas market. Any negative measure by the respective countries can affect the company's growth adversely.

## Financial Statements

### Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	7.1	7.2	7.3
Inflation (Avg)	3.7	4.0	5.9	4.5
Repo rate (exit rate)	6.3	5.8	7.5	5.8
USD/INR (Avg)	70.0	72.0	61.1	72.0
<b>Company</b>				
Raw Material (% net rev)	56.0	59.1	56.8	55.6
Domestic rev. growth (%)	(10.1)	(1.3)	10.0	10.0
Export rev growth (%)	8.6	36.0	20.0	20.0
Seeds revenue growth (%)	4.5	5.0	10.0	15.0
Org. manure rev grw. (%)	15.1	-	20.0	20.0
Other exp (% net rev)	20.1	19.7	21.2	22.1
Int (% of avg G.debt)	15.1	11.8	7.1	15.8
Employee cost (% of rev)	9.2	9.1	9.1	9.0
Capex (INR mn)	(574)	(462)	(1,300)	(1,300)
Net borrowings (INR mn)	(1,052)	(825)	(1,476)	(1,628)
Debtor days	68	78	77	77
Inventory days	176	194	185	162
Payable days	156	166	155	144
Cash conversion cycle	87	106	107	95
Dep. (% gross block)	10.2	9.2	9.4	9.5

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	17,909	19,840	22,113	25,430
Materials costs	10,024	11,715	12,566	14,128
Gross profit	7,886	8,124	9,547	11,302
Employee costs	1,649	1,806	2,023	2,286
Other Expenses	3,592	3,909	4,690	5,628
Operating expenses	5,241	5,715	6,713	7,914
Total operating expenses	15,265	17,430	19,279	22,043
EBITDA	2,645	2,409	2,834	3,388
Depreciation	463	461	528	600
EBIT	2,182	1,949	2,306	2,787
Less: Interest Expense	43	53	30	25
Add: Other income	131.75	306.5	352.57	423.19
Profit Before Tax	2,270	2,203	2,628	3,185
Less: Provision for Tax	600	655	710	860
Less: Minority Interest	(6)	-	-	-
Reported Profit	1,676	1,548	1,919	2,325
Adjusted Profit	1,676	1,548	1,919	2,325
Shares o/s (mn)	195	195	195	195
Adjusted Basic EPS	8.6	8.0	9.9	12.0
Diluted shares o/s (mn)	195	195	195	195
Adjusted Diluted EPS	8.6	8.0	9.9	12.0
Adjusted Cash EPS	10.6	10.3	12.6	15.0
Dividend per share (DPS)	4.2	4.2	4.2	4.2
Dividend Payout Ratio(%)	49.1	52.9	42.7	35.2

### Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	44.0	40.9	43.2	44.4
Operating expenses	29.3	28.8	30.4	31.1
Interest Expense	0.2	0.3	0.1	0.1
EBITDA margins	14.8	12.1	12.8	13.3
EBIT margins	12.2	9.8	10.4	11.0
Net Profit margins	9.3	7.8	8.7	9.1

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	7.7	10.8	11.5	15.0
EBITDA	0.3	(8.9)	17.6	19.5
Adjusted Profit	20.5	(7.7)	24.0	21.2
EPS	20.5	(7.7)	24.0	21.2

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	195	195	195	195	
Reserves & Surplus	11,711	12,665	13,764	15,270	
Shareholders' funds	11,906	12,859	13,959	15,465	
Minority Interest	11	18	18	18	
Long term borrowings	199	158	158	158	
Short term borrowings	2	530	-	-	
Total Borrowings	200	688	158	158	
Long Term Liabilities	219	283	283	283	
Def. Tax Liability (net)	(523)	(588)	(588)	(588)	
<b>Sources of funds</b>	<b>11,813</b>	<b>13,261</b>	<b>13,830</b>	<b>15,336</b>	
Gross Block	4,751	5,269	5,969	6,669	
Net Block	3,640	3,698	3,869	3,969	
Capital work in progress	123	129	729	1,329	
Intangible Assets	2,390	2,433	2,433	2,433	
Total net fixed assets	6,154	6,260	7,032	7,731	
Non current investments	94	93	93	93	
Cash and Equivalents	1,252	1,512	1,634	1,786	
Inventories	5,722	6,736	5,987	6,582	
Sundry Debtors	3,997	4,491	4,885	5,862	
Loans & Advances	94	77	77	77	
Other Current Assets	1,745	1,706	1,706	1,706	
Current Assets (ex cash)	11,558	13,009	12,655	14,227	
Trade payable	5,306	5,348	5,322	5,851	
Other Current Liab	1,938	2,265	2,262	2,649	
Total Current Liab	7,244	7,614	7,584	8,500	
Net Curr Assets-ex cash	4,314	5,396	5,071	5,727	
<b>Uses of funds</b>	<b>11,813</b>	<b>13,261</b>	<b>13,830</b>	<b>15,336</b>	
BVPS (INR)	61.2	66.1	71.8	79.5	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	1,676	1,548	1,919	2,325	
Add: Depreciation	463	461	528	600	
Interest (Net of Tax)	29	35	20	17	
Others	(105)	(11)	(20)	(17)	
Less: Changes in WC	1,649	1,232	(324)	655	
Operating cash flow	414	801	2,771	2,271	
Less: Capex	574	462	1,300	1,300	
<b>Free Cash Flow</b>	<b>(160)</b>	<b>339</b>	<b>1,471</b>	<b>971</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Rallis India	428	15.7	12.9	10.1	8.4	14.3	15.8
Bayer Cropscience	1,673	23.1	20.2	13.5	11.3	16.3	16.5
Dhanuka Agritech	274	13.9	12.6	9.6	8.6	19.5	19.3
PI Industries	2,260	28.0	23.2	20.5	16.6	21.1	21.1
UPL	7,283	11.0	9.4	7.5	6.5	17.8	17.9

Source: Edelweiss research

Cash flow metrics					
Year to March	FY18	FY19	FY20E	FY21E	
Operating cash flow	414	801	2,771	2,271	
Financing cash flow	(1,041)	(515)	(1,349)	(819)	
Investing cash flow	888	(514)	(1,300)	(1,300)	
Net cash Flow	260	(229)	122	151	
Capex	(574)	(462)	(1,300)	(1,300)	
Dividend paid	(877)	(585)	(819)	(819)	

## Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	14.5	12.5	14.3	15.8
ROACE (%)	19.6	17.6	19.2	21.6
Inventory Days	176	194	185	162
ROA	14.5	12.3	14.2	15.9
Debtors Days	68	78	77	77
Payable Days	156	166	155	144
Cash Conversion Cycle	87	106	107	95
Current Ratio	1.8	1.9	1.9	1.9
Debt/EBITDA (x)	0.1	0.3	0.1	-
Adjusted Debt/Equity	-	0.1	-	-
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.1)
Interest Coverage Ratio	50.7	-	-	-
LT debt /Cap empl. (%)	1.7	1.2	1.1	1.0
Debt / Cap employed (%)	1.7	5.2	1.1	1.0

## Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.6	1.6	1.6	1.7
Fixed Asset Turnover	3.0	3.3	3.6	4.0
Equity Turnover	1.6	1.6	1.6	1.7

## Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	8.6	8.0	9.9	12.0
Y-o-Y growth (%)	20.5	(7.7)	24.0	21.2
Adjusted Cash EPS (INR)	10.6	10.3	12.6	15.0
Diluted P/E (x)	18.0	19.4	15.7	12.9
P/B (x)	2.5	2.3	2.2	1.9
EV / Sales (x)	1.6	1.4	1.3	1.1
EV / EBITDA (x)	11.0	12.2	10.1	8.4
Dividend Yield (%)	2.7	2.7	2.7	2.7

## Additional Data

### Directors Data

Mr. Bhaskar Bhat	Chairman	Mr. V Shankar	Managing Director & CEO
Mr. Prakash R Rastogi	Director	Mr. Bharat Vasani	Director
Mr. R Mukundan	Director	Dr. Y. S. P.Thorat	Director
Dr. Punita Kumar Sinha	Director	Mrs. Padmini Khare Kaicker	Director
C.V. Natraj	Director		

Auditors - Deloitte Haskins & Sells

### Holding Top -10

	Perc. Holding		Perc. Holding
HDFC Life Insurance Co Ltd	3.57	HDFC Asset Management Co Ltd	2.03
SBI Funds Management Pvt Ltd	3.25	TATA Asset Management	2.02
Reliance Capital	2.35	Sundaram Asset Management Co Ltd	1.53
Franklin Templeton India Pte Ltd	2.15	Dimensional Fund Advisors	1.13
SBI Magnum	2.08	BlackRock Inc	0.98

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

*\*as per last available data*



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### Coverage group(s) of stocks by primary analyst(s): Midcap Agri

Bayer Cropscience, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Sharda Cropchem, UPL

#### Recent Research

Date	Company	Title	Price (INR)	Recos
19-Jul-19	<b>Dhanuka Agritech</b>	Muted show, but valuation comfort; <i>Result Update</i>	388	Buy
05-Jul-19	<b>Agri Inputs</b>	Monsoon blip to dampen quarter; <i>Sector Update</i>		
28-Jun-19	<b>Agri Inputs</b>	Mixed outlook for kharif season; <i>Sector Update</i>		

#### Distribution of Ratings / Market Cap

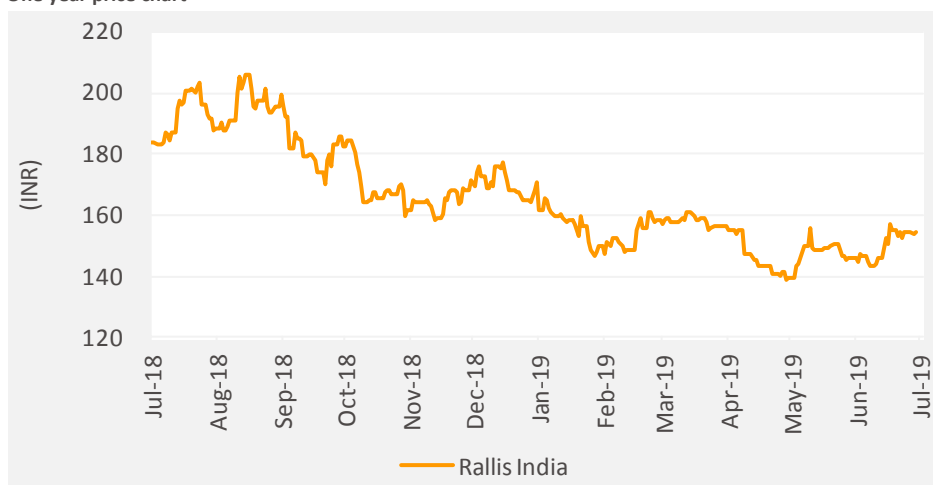
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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