

CMP: INR 368

Target Price: INR 398

Rating: HOLD

Stock Info

BSE	500355
NSE	RALLIS
Bloomberg	RALLIS:IN
Reuters	RALLIS.BO
Sector	Agrochemicals
Face Value (INR)	1
Equity Capital (INR Bn)	19.5
Mkt Cap (INR mn)	71,570
52w H/L (INR)	379 / 205
Avg. Yearly Volume (in 000')	1,344

Shareholding Pattern %

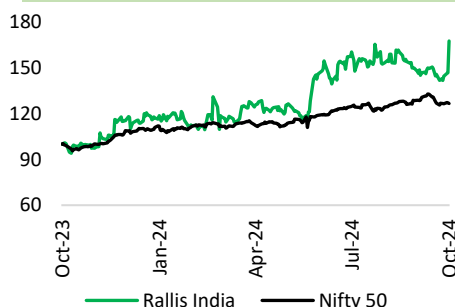
(As on June, 2024)

Promoters	55.08
DIs	12.77
FIs	9.20
Others	22.54

Stock Performance (%)

	1M	6M	1Y
Rallis India	12.8%	30.7%	64.9%
Nifty 50	-1.8%	13.5%	26.5%

Rallis India Vs Nifty



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Rallis India announced its Q2FY25 earnings which reflected the strong monsoonal rains seen in the domestic market causing healthy demand during the months of August & September in Q2FY25. As the domestic crop care business maintained positive volume growth attributed to good rains causing increased demand of Pesticides, the Exports though remained impacted with volumes remaining flat while lower prices saw a 9% drop in exports revenue for Q2FY25. The Company launched 2 products in Crop Nutrition segment: Aquafert Banang grade (a Water Soluble Fertilizer) and Consorich (a N,P,K Bio Fertilizer), and unified digital platform for enhanced engagement with the retailers, named as “Anubandh Edge”. The Company also successfully completed the Pilot production of Flavocide, a novel Insecticide for Bio Gene Technology Ltd, an Australian company. We believe the IMD reports regarding good monsoon this year is auguring well for the company’s domestic crop care business.

While the domestic markets outperformed export markets during the quarter due to the international markets being still oversupplied by Chinese suppliers as per the Management. However, while the price levels may seem to remain subdued for international markets, we believe the change in Management with Dr Gyanendra Shukla coming as the new MD & CEO, they could harness operational efficiencies with better management.

Q2FY25 Result Highlights:

- Revenues came at INR 9,280 mn (up 11.5% YoY / up 18.5% QoQ) higher than our estimates of INR 8,456 mn.
- EBITDA for Q2FY25 stood at INR 1,660 mn (up 24.8% YoY/ up 72.9% QoQ) against our estimates of an EBITDA of INR 1,037 mn.
- EBITDA Margins expanded by 190 bps YoY/563 bps QoQ to 17.9% against our estimates of 12.3%.
- Q2FY25 Net Profits reported was INR 980 mn against PAT of INR 480 mn in Q1FY25 and Net Profits of INR 820 mn in Q2FY24 beating our estimates of INR 518 mn.

Outlook & Valuations: Rallis India Ltd. has beaten our estimates in their earnings for Q2FY25, on account of better than expected demand scenario in the domestic markets due to the still extended monsoon in the current year. The company faced a tough task in their international business front due to both the Red Sea crisis which caused insurance premiums on shipping soar high while prices & demand remained subdued in export markets. The Company has completed its capex and will now have to await for better demand scenario to pick up both volumes and prices while focusing on their marketing. **We value the company at 30x of its FY27E EPS of INR 21.2 while reducing our rating to Hold due to recent rally while increasing the Target Price to INR 398 per share (from INR 332) with an upside of 8%.**

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	2,980	2,648	3,125	3,688	4,351
EBITDA	231	311	388	457	540
PAT	91	148	185	219	258
EPS	4.72	7.60	9.53	11.24	13.27
EBIDTA Margin	7.75%	11.75%	12.40%	12.40%	12.40%
ROCE	7.48%	10.04%	12.45%	13.68%	14.85%

Quarterly Result – Q2FY25

Particulars (INR Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from operations	9,280	7,830	8,320	18.52%	11.54%
Cost of material consumed	3,960	3,710	4,330	6.74%	-8.55%
Purchase of stock-in-trade	630	920	300	-31.52%	110.00%
Changes in inventories	970	210	450	361.90%	115.56%
Gross Profit	3,720	2,990	3,240	24.41%	14.81%
<i>Gross Profit Margin</i>	40.1%	38.2%	38.9%	190bps	114bps
Employee Cost	690	670	640	2.99%	7.81%
Other Expenses	1,370	1,360	1,270	0.74%	7.87%
EBITDA	1,660	960	1,330	72.92%	24.81%
<i>EBITDA Margin</i>	17.9%	12.3%	16.0%	563bps	190bps
Depreciation	300	310	260	-3.23%	15.38%
EBIT	1360	650	1070	109.23%	27.10%
Finance Cost	30	50	30	-40.00%	0.00%
EBT before Other Income	1,330	600	1,040	121.67%	27.88%
Other Income	100	50	50	100.00%	100.00%
Exceptional items	0	0	10		NA
Profit Before Tax	1,430	650	1,100	120.00%	30.00%
Tax Expenses	450	170	280	164.71%	60.71%
<i>Effective Tax Rate</i>	31.5%	26.2%	25.5%	531bps	601bps
Profit After Tax	980	480	820	104.17%	19.51%
<i>Net Profit Margin</i>	10.6%	6.1%	9.9%	443bps	70bps
Number of Shares (Cr)	19.5	19.5	19.5		
EPS (INR per share)	5.04	2.46	4.23	-330.05%	-24.49%

Source: Company, Arianth Research

Concall Takeaways:

Guidance:

- The Company expects flat volumes along with single digit price hikes.
- Management did not want to comment on Pricing as they fear that Chinese suppliers have huge capacities, and are ready to offer at competitive prices.
- The Company has spent INR 6.5 bn out of INR 8 bn of Capex planned over the last 5 years.
- The Company expects INR 1 bn of Capex to be spent on the commencement of the new R&D centre in a phased manner soon.

Key Highlights:

- The Management stressed that production & Supplies from China continue to be high, impacting and suppressing Indian Agro Chemicals producer's margins.
- Extensive monsoon between mid August & September have led to challenges along with opportunity as this is the period of peak demand for Agro Chemicals companies.
- The Management said that the Monsoon was 8% above normal and area under Kharif sowing has increased beyond 110 mn hectares against 108.8 mn hectares
- The Management says the demand for more Pesticides was observed due to continuous and extensive rain in the season.
- The Company has a healthy Cash & cash Equivalent levels of INR 2.29 bn as of Sept 2024.
- Cotton as a Portfolio is the largest crop in the Company's usage crops.
- The Management said that the near term Sales Outlook for the Export business remains challenging, specially the Inventory situation in the US and other American markets. Hence, the Management says that they aren't confident of the revival as of yet.
- Cotton has shown the highest growth both in the topline as well as bottomline growth for the company.
- The Management said that the Area under Paddy acreage went up by 2% in the current year, pulses by 8%, Maize by 4% whereas Cotton declined by 9%.
- In the Crop care segment, the Company's business saw 7% YoY growth led primarily by the domestic business as the export business saw challenges. The Domestic business saw 11% growth with 17% volume growth.
- The Seed business saw a growth of 48% YoY in Q2FY25.
- The Company has successfully completed the Pilot scale productions of Flavocide, a novel insecticide for Bio-Gene Technology Ltd, an Australian company.
- Herbicide and Crop Nutrition category saw growth of 25% and 29% respectively.

Financials

Income Statement

P&L (INR Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	2,604	2,980	2,648	3,125	3,688	4,351
Change (%)	7.2%	14.4%	-11.1%	18.0%	18.0%	18.0%
Cost of Goods Sold	1,510	1,786	1,377	1,750	2,065	2,437
Employee costs	239	256	241	284	336	396
Other expenses	581	707	719	703	830	979
Total operating Expense	2,330	2,749	2,337	2,738	3,230	3,812
EBITDA	274	231	311	388	457	540
Other Income	30	13	16	18	22	26
Depreciation	74	91	114	135	159	187
Interest	7	12	18	21	25	29
PBT	222	127	195	250	296	349
Extra-ordinary	0	1	1	0	0	0
PBT after ext-ord.	222	127	196	250	296	349
Tax	58	36	48	65	77	91
Rate (%)	26.2%	28.5%	24.4%	26.0%	26.0%	26.0%
PAT	164	91	148	185	219	258
Change (%)	-28.2%	-44.8%	63.0%	25.3%	18.0%	18.0%

Balance Sheet

Balance Sheet (INR Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	19	19	19	19	19	19
Reserves & Surplus	1,677	1,711	1,810	1,908	2,058	2,248
Net Worth	1,697	1,730	1,829	1,927	2,078	2,268
Long term debt	4	24	113	16	16	16
Short term debt	50	113	21	88	88	88
Total Debt	54	137	134	104	104	104
Deferred Tax & other liabilities	43	55	43	43	43	43
Current liabilities	1,016	865	984	1,266	1,425	1,612
Provisions	49	11	13	13	13	13
Total Liabilities	2,858	2,798	3,003	3,354	3,663	4,040
Net Block	531	520	661	727	800	840
Capital Work-in-Progress	56	179	19	161	117	35
Other Non-Current Assets	477	454	543	499	448	397
Net fixed assets	1,064	1,153	1,223	1,387	1,365	1,272
Investments	209	219	247	239	339	439
Debtors	446	499	579	539	636	751
Inventories	938	793	808	856	909	954
Cash & bank balance	63	46	32	218	299	372
Loans & advances & other CA	138	87	114	114	114	114
Total current assets	1,794	1,644	1,780	1,967	2,298	2,768
Total Assets	2,858	2,798	3,003	3,354	3,663	4,040

Source: Company, Arianth Research

Cash Flow Statement

Cash Flow Statement (INR Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax (PBT)	222	128	196	250	296	349
Depreciation	74	91	114	135	159	187
Chg in working cap	-60	-7	-1	273	9	28
Tax Paid	-58	-36	-48	-65	-77	-91
Other Operating cash flow	7	12	18	21	25	29
Others	-20	-25	-22	-25	-25	-25
Net Operating Cash Flow	165	163	257	589	386	478
Capital Expenditure	129	250	250	100	100	100
Free Cash Flow	36	-87	7	489	286	378
Investments	209	219	247	239	339	439
Other Investing cash flows	-233	-240	-220	-220	-220	-220
Cash Flow from Investing	104	229	277	119	219	319
Equity Capital Raised / (Repaid)	0	0	0	0	0	0
Debt raised / (Repaid)	16	30	20	0	0	0
Dividend paid (incl tax)	-58	-58	-68	-68	-68	-68
Other Financing Cash Flow	-19	-21	-18	-18	-18	-18
Cash Flow from Financing	-61	-49	-66	-86	-86	-86
Net change in cash	-1	-116	-87	385	81	73
Opening cash	37	36	-80	-167	218	299
Closing Cash	36	-80	-167	218	299	372

Key Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per share (Rs)						
EPS	8.4	4.7	7.6	9.5	11.2	13.3
CEPS	12.3	9.4	13.5	16.5	19.4	22.9
BVPS	87.2	89.0	94.1	99.1	106.8	116.6
Valuation (x)						
P/E	38.5	68.9	42.7	34.1	28.9	24.5
P/CEPS	26.5	34.5	24.1	19.8	16.7	14.2
P/BV	3.7	3.7	3.5	3.3	3.0	2.8
EV/EBITDA	23.0	27.7	20.6	16.0	13.4	11.2
Return Ratios (%)						
Gross Margin	42.0%	40.1%	48.0%	44.0%	44.0%	44.0%
EBIDTA Margin	10.5%	7.8%	11.7%	12.4%	12.4%	12.4%
PAT Margin	6.3%	3.1%	5.6%	5.9%	5.9%	5.9%
ROE	9.7%	5.3%	8.1%	9.6%	10.5%	11.4%
ROCE	11.4%	7.5%	10.0%	12.4%	13.7%	14.8%
Leverage Ratio (%)						
Total D/E	0.0	0.1	0.1	0.1	0.1	0.0
Turnover Ratios						
Asset Turnover (x)	0.9	1.1	0.9	1.0	1.0	1.1
Inventory Days	131	125	120	100	90	80
Receivable Days	63	63	63	63	63	63
Payable days	105	103	103	103	103	103

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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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