

Rallis India

Performance Highlights

Y/E March (` cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)
Net sales	588	442	33.1	539	9.1
Other income	3	5	(26.2)	12	(72.1)
Gross profit	354	205	72.2	210	68.4
Operating profit	122	69	76.5	96	27.6
Adj. Net profit	77	45	70.7	67	16.1

Source: Company, Angel Research

For 2QFY2018 Rallis India (Rallis) reported a yoy growth of 9.1% in sales to `588cr (v/s. `539cr in 2QFY2017). The performance of Rallis was impacted during the quarter on the back of transition to GST and high channel inventory. On the operating front, the OPM came in at 20.8% (v/s. 17.8% in 2QFY2017). Owing to lower sales growth the Adjusted Net profit grew by 16.1% yoy to `77cr (v/s. `67cr in 2QFY2017). **We recommend a Sell.**

Decent performance; aided by OPM expansion: For 2QFY2018, the company reported a yoy growth of 9.1% in sales to `588cr (v/s. `539cr in 2QFY2017). The performance, was impacted during the quarter on back of transition to GST and high channel inventory. On the operating front, the gross margin came in at 39.8% (v/s. 39.0% in 2QFY2017), while marginally higher other expenses aided the OPM to come in at 20.8% (v/s. 17.8% in 2QFY2017). Owing to lower sales growth, the Adj. Net profit grew by 16.1% yoy to `77cr (v/s. `45cr in 1QFY2018).

Outlook and valuation: For FY2017-19E, we expect a CAGR of 10.5% and 24.9% in net sales and profit respectively. At the current levels, the stock is trading at a fair valuation of 20.8x its FY2019E EPS. **Hence, we downgrade our view from Neutral to Sell.**

Key financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net Sales	1,637	1,687	1,837	2,058
% chg	(10.1)	3.0	8.9	12.1
Adj. Net Profit	143	139	180	216
% chg	(9.0)	(3.0)	29.6	20.3
EBITDA %	13.3	15.7	15.0	16.0
FDEPS (`)	7.4	7.1	9.2	11.1
P/E (x)	31.5	32.5	25.0	20.8
P/BV (x)	5.0	4.1	3.7	3.3
RoE (%)	16.7	13.8	15.5	16.9
RoACE (%)	19.2	20.1	18.4	20.1
EV/Sales (x)	2.7	2.5	2.3	2.0
EV/EBITDA (x)	20.7	15.7	15.1	12.7

Source: Company, Angel Research; Note: CMP as of November 21, 2017

SELL

CMP	`231
Target Price	`189
Investment Period	12 months

Stock Info

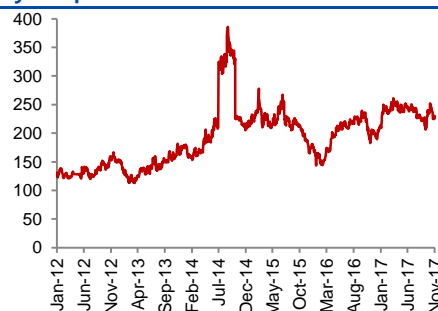
Sector	Agrichemical
Market Cap (` cr)	4,501
Net debt (` cr)	(212)
Beta	0.8
52 Week High / Low	265/180
Avg. Daily Volume	50,723
Face Value (`)	1
BSE Sensex	33,478
Nifty	10,327
Reuters Code	RALL.BO
Bloomberg Code	RALI@IN

Shareholding Pattern (%)

Promoters	50.1
MF / Banks / Indian FIs	21.4
FII / NRIs / OCBs	3.6
Indian Public / Others	25.0

Abs. (%)	3m	1yr	3yr
Sensex	7.0	29.9	18.2
Rallis India	2.0	26.8	3.3

3-year price chart



Source: Company, Angel Research

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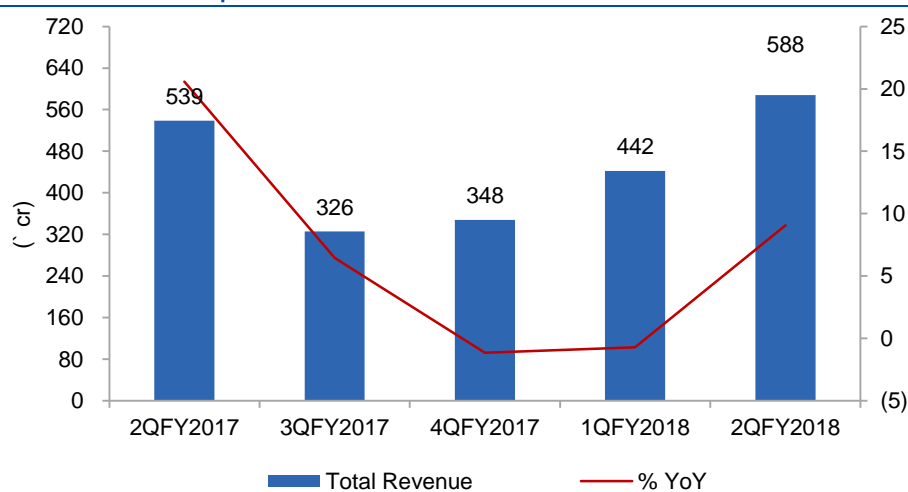
Exhibit 1: 2QFY2018 performance (Consolidated)

Y/E March (₹ cr)	2QFY2018	1QFY2018	% chg (QoQ)	2QFY2017	% chg (YoY)	1HFY2018	1HFY2017	% chg
Net sales	588	442	33.1	539	9.1	1,030	985	4.5
Other income	3	5	(26.2)	4	(10.9)	8	178	(95.2)
Total income	591	446	32.5	551	7.4	1,038	1,163	(10.8)
Gross profit	234	205	14.0	210	11.5	440	412	6.7
Gross margin (%)	39.8	46.5		39.0		42.7	41.8	
EBDITA	122	69	76.5	96	27.6	192	166	15.6
EBDITA margin (%)	20.8	15.7		17.8		18.6	16.9	
Financial cost	1	1	(32.2)	1	(22.0)	2	3	(35.7)
Depreciation	13	11	9.8	11	14.4	24	23	4.5
PBT	112	61	83.4	96	17.2	174	317	(45.2)
Provision for taxation	35	16		29	21.5	51	76	(32.5)
PAT Before Exc. And MI	77	45	70.7	67	16.1	123	241	(49.2)
Minority	0	0		0		0	0	-
Exceptional	0	0		0		0	120	
Reported PAT	77	45	70.7	67	16.1	123	241	(49.1)
Adjusted PAT	77	45	70.7	67	16.1	123	120	1.8
EPS (₹)	4.0	2.3		3.4		6.3	6.2	

Source: Company, Angel Research

Sales 9.1% yoy growth

For 2QFY2018, the company's sales grew by 9.1% yoy to ₹588cr (v/s. ₹539cr in 2QFY2017). Management has indicated that though the transition to GST has been smooth, restocking has not been adequately executed. This is owing to a scanty monsoon and an extended dry spell during Aug-Sept'2017. During the quarter, Seeds business (Metahelix) reported de-growth of 13% yoy in revenue at ₹39.3cr. Operating efficiency narrowed the EBITDA loss at ₹4.4cr Vs. ₹5.5cr in 2QFY2017.

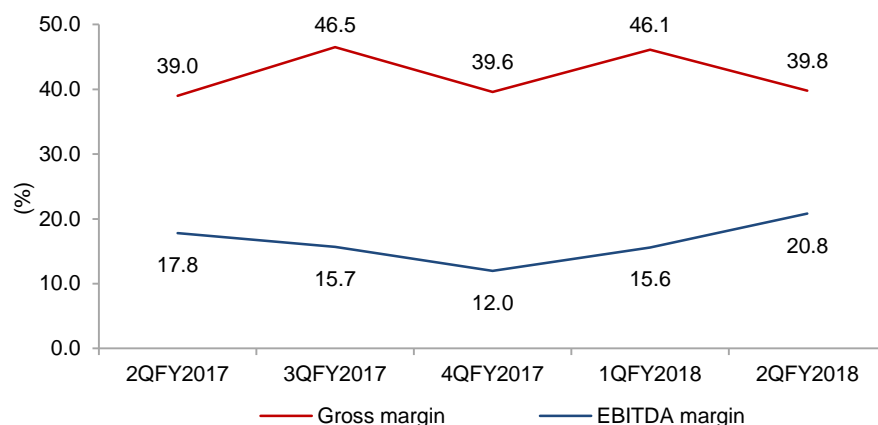
Exhibit 2: Revenue performance


Source: Company, Angel Research

OPM expands

On the operating front, the gross margin came in at 39.8% (v/s. 39.0% in 2QFY2017). Thus, the OPM came in at 20.8% (v/s. 17.8% in 2QFY2017). The expansion in the OPM was mainly on back of the other expenses which rose by 1.1% yoy during the quarter.

Exhibit 3: Margin trend (%)

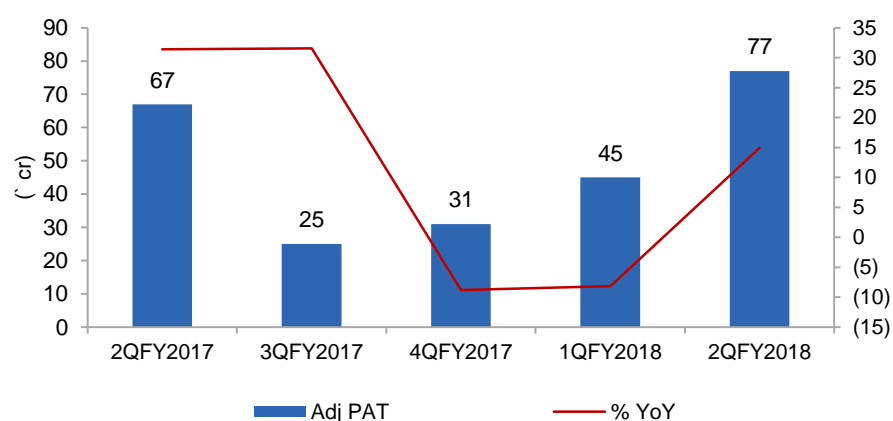


Source: Company, Angel Research

Earnings grow; driven by OPM expansion

The Adj. Net profit grew by 16.1% yoy to `77cr (v/s. `67cr in 2QFY2017). The Reported Net Profit came in at `77cr v/s. `67cr, yoy growth of 16.1%, mainly driven by OPM expansion. Other income was `3.4cr in 2QFY2018 (v/s. 3.8cr 2QFY2017).

Exhibit 4: Adjusted PAT trend



Source: Company, Angel Research

Investment arguments

Company set to seize rising opportunities in the domestic crop protection market: India's overall pesticide consumption is one of the lowest in the world and has a huge potential to grow. We believe Rallis is well placed to seize this opportunity on the back of its wide distribution network, strong brands, and a robust new product pipeline. According to industry estimates, the unorganized market accounts for 50% of the industry. Nonetheless, we believe Rallis is in a position to wrest market share as well as charge a premium for its products. A lower base would result in 11.0% CAGR in the domestic business during FY2017-19E.

Exports remain flat: Although a late entrant, the company has been enhancing its focus in the exports market, which is now turning out to be its main growth driver. Overall exports formed ~31% of sales in FY2017. In FY2017, the global weakness in the agrochemical industry had put pressure on Rallis' exports business, which resulted in revenue coming in at `450cr. Moreover, going forward, the segment will continue to post a 15.0% CAGR over FY2017-19E.

Seed business to augment the domestic portfolio: After the acquisition of Metahelix seeds business in 2010, the seeds business forms a major part of the domestic business of the company. During FY2017, Rallis' seeds business (under Metahelix) reported a decent growth of 15% yoy to `280cr on the back of increased market share, and despite significant reduction in acreages for some of the key crops such as millet seeds and corn. The company is also strengthening its cotton portfolio and will be launching a new product to take on the market leaders in this crop. The management remains confident of Metahelix achieving 12-14% margin in a good monsoon year.

Contract manufacturing ramping up slowly: Rallis plans to focus on contract manufacturing for exports and selectively target top players. To facilitate the same, the company has set up a plant at Dahej, which in FY2013 was working at full capacity and contributed significantly to the overall growth of the company. The company has bagged two CRAMS projects on a pilot basis during the year. The management expects to convert these pilot projects into full commercial contracts in FY2017 and contribute to earnings growth from FY2018-2019 onwards.

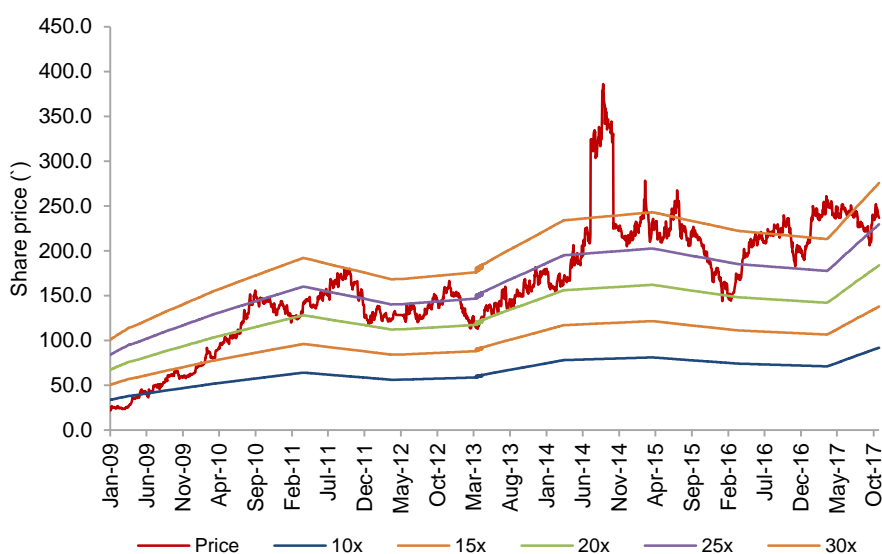
Outlook and valuation

Over FY2017-19E, we expect the company to post a CAGR of 10.5% and 24.9% in net sales and profit respectively. At the current level, the stock is trading at a fair valuation of 20.7x its FY2019E EPS. **Hence, we are downgrading our view from Neutral to Sell.**

Exhibit 5: Key assumptions

Particulars (%)	FY2018E	FY2019E
Domestic growth	11.0	11.0
Export growth	15.0	15.0
Total revenue growth	11.0	12.1
EBITDA margin	15.0	16.0
Capex (` cr)	70	70

Source: Company, Angel Research

Exhibit 6: P/E Band

Exhibit 7: Peer valuation

Company	Reco	Mcap (` cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	Sales	PAT
Rallis	Sell	4,501	231	189	(18.3)	25.0	20.8	2.3	2.0	15.1	12.7	15.5	16.9	10.5	24.9
UPL	Accumulate	44,006	754	805	7.0	20.7	16.9	2.5	2.1	13.7	11.4	22.8	23.4	15.0	12.2

Source: Company, Angel Research, Bloomberg

Company background

Rallis is one of the oldest and second largest pesticide agrichemical companies in the country with a market share of around 13% and belongs to the Tata Group. The company also has a credible presence in the international market. Contribution from the domestic business stands at ~70%, while exports account for the balance.

Profit & loss (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	1,840	1,922	1,730	1,783	1,957	2,193
Less: Excise duty	114	121	119	105	130	144
Net Sales	1,726	1,801	1,612	1,678	1,828	2,049
Other operating income	21	21	26	9	9	9
Total operating income	1,747	1,822	1,637	1,687	1,837	2,058
% chg	19.8	4.3	(10.1)	3.0	8.9	12.1
Total Expenditure	1,485	1,545	1,398	1,415	1,554	1,722
Net Raw Materials	1,008	995	839	950	1,023	1,127.11
Other Mfg costs	344	343	406	319	347	389
Personnel	111	129	132	146	159	179
Other	23	23	21	23	24	27
EBITDA	240	256	214	263	274	327
% chg	20.8	6.5	(16.5)	23.2	3.9	19.7
(% of Net Sales)	13.9	14.2	13.3	15.7	15.0	16.0
Depreciation & Amort.	41	50	45	47	53	58
EBIT	221	228	195	225	230	279
% chg	18.9	3.1	(14.3)	15.2	2.4	21.3
(% of Net Sales)	12.8	12.6	12.1	13.4	12.6	13.6
Interest & other Charges	13	10	14	7	4	6
Other Income	6	4	4	4	4	4
(% of PBT)	3	2	2	2	2	2
Share in profit of Asso.						
Recurring PBT	214	222	186	222	230	277
% chg	26.3	3.4	(16.2)	19.3	4.0	20.3
Extraordinary Exp./ (Inc.)	-	-	-	158	-	-
PBT (reported)	214	222	186	63	230	277
Tax	62	62	39	83	51	61
(% of PBT)	28.8	27.9	21.0	131.2	22.0	22.0
Minority Interest	0.8	2.6	3.7	3.7	3.7	3.7
PAT (reported)	152	157	143	(20)	180	216
ADJ. PAT	152	157	143	139	180	216
% chg	32.9	3.5	(9.0)	(3.0)	29.6	20.3
(% of Net Sales)	8.8	8.7	8.9	8.3	9.8	10.6
Basic EPS (`)	7.8	8.1	7.4	7.1	9.2	11.1
Fully Diluted EPS (`)	7.8	8.1	7.4	7.1	9.2	11.1
% chg	32.9	3.5	(9.0)	(3.0)	29.6	20.3

Balance sheet (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS						
Equity Share Capital	19	19	19	19	19	19
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	699	795	880	1,092	1,194	1,332
Shareholders Funds	718	815	899	1,111	1,213	1,352
Minority Interest	10	10	4	0	0	0
Total Loans	75	111	75	37	37	80
Other Long Term Liabilities	4	4	4	-	-	-
Long Term provisions	15	19	18	23	23	23
Deferred Tax Liability	32	36	39	26	26	26
Total Liabilities	853	993	1,038	1,198	1,300	1,482
APPLICATION OF FUNDS						
Gross Block	651	687	764	717	787	857
Less: Acc. Depreciation	233	282	327	374	427	484
Net Block	418	405	437	343	360	372
Capital Work-in-Progress	21	21	21	21	21	21
Goodwill	186	196	259	237	237	237
Investments	25	24	28	239	239	239
Long Term Loans and Adv.	98	110	110	137	137	137
Current Assets	549	680	650	728	748	1,028
Cash	9	7	8	10	28	26
Loans & Advances	40	28	35	324	65	269
Other	500	645	607	394	654	733
Current liabilities	445	443	467	507	442	553
Net Current Assets	104	237	183	221	306	475
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	853	993	1,038	1,198	1,300	1,482

Cash flow statement (Consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	214	222	186	63	230	277
Depreciation	41	50	45	47	53	58
(Inc)/Dec in Working Capital	(7)	(147)	55	(63)	(66)	(171)
Direct taxes paid	(62)	(62)	(39)	(83)	(51)	(61)
Cash Flow from Operations	186	63	246	(35)	166	102
(Inc.)/ Dec. in Fixed Assets	(56)	(36)	(76)	47	(70)	(70)
(Inc.)/ Dec. in Investments	(5)	1	(4)	(211)	-	-
Inc./ (Dec.) in loans and adv.						
Cash Flow from Investing	(61)	(35)	(80)	(164)	(70)	(70)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(73)	40	(36)	(33)	-	43
Dividend Paid (Incl. Tax)	(55)	(68)	(68)	(78)	(78)	(78)
Others	(14)	(1)	-	-	(0)	0
Cash Flow from Financing	(142)	(29)	(165)	202	(78)	(34)
Inc./ (Dec.) in Cash	(17)	(2)	1	2	18	(2)
Opening Cash balances	26	9	7	8	10	28
Closing Cash balances	9	7	8	10	28	26

Key ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)						
P/E (on FDEPS)	29.5	28.4	31.3	32.3	24.9	20.7
P/CEPS	23.2	21.6	23.8	162.1	19.2	16.3
P/BV	6.2	5.5	5.0	4.0	3.7	3.3
Dividend yield (%)	0.9	0.9	1.3	1.7	2.2	2.6
EV/Sales	2.6	2.5	2.7	2.5	2.3	2.0
EV/EBITDA	18.4	17.4	20.7	15.7	15.1	12.7
EV / Total Assets	5.2	4.5	4.3	3.5	3.2	2.8
Per Share Data (₹)						
EPS (Basic)	7.8	8.1	7.4	7.1	9.2	11.1
EPS (fully diluted)	7.8	8.1	7.4	7.1	9.2	11.1
Cash EPS	9.9	10.6	9.6	1.4	11.9	14.1
DPS	2.0	2.0	3.0	4.0	5.0	6.0
Book Value	36.9	41.9	46.2	57.1	62.4	69.5
Dupont Analysis						
EBIT margin	12.8	12.6	12.1	13.4	12.6	13.6
Tax retention ratio	71.2	72.1	79.0	(31.2)	78.0	78.0
Asset turnover (x)	2.1	2.0	1.6	1.5	1.5	1.5
ROIC (Post-tax)	19.0	18.0	15.4	(6.3)	14.4	15.7
Cost of Debt (Post Tax)	8.7	7.9	11.6	(4.1)	7.8	7.8
Leverage (x)	0.2	0.2	0.2	0.1	0.0	0.0
Operating ROE	20.6	19.6	16.1	(6.5)	14.6	16.0
Returns (%)						
ROCE (Pre-tax)	26.4	24.7	19.2	20.1	18.4	20.1
Angel ROIC (Pre-tax)	35.9	32.4	25.7	26.7	23.7	25.2
ROE	22.7	20.5	16.7	13.8	15.5	16.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.8	2.7	2.3	2.3	2.4	2.5
Inventory / Sales (days)	62	74	89	89	88	94
Receivables (days)	35	37	44	45	44	47
Payables (days)	98	105	119	126	111	105
WC cycle (ex-cash) (days)	20	33	46	42	49	65
Solvency ratios (x)						
Net debt to equity	0.1	0.2	0.1	0.0	0.0	0.1
Net debt to EBITDA	0.3	0.5	0.4	0.2	0.1	0.2
Interest Coverage (EBIT / Int.)	17.5	22.5	14.4	30.8	62.3	47.7

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Rallis India

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)

Neutral (-5 to 5%)

Reduce (-5% to -15%)

Sell (< -15)