

## Rallis India

### Performance Highlights

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)
<b>Net sales</b>	<b>500</b>	<b>464</b>	<b>7.8</b>	<b>636</b>	<b>(21.4)</b>
Other income	5	6	(19.6)	7	(31.3)
Gross profit	233	243	(4.1)	245	(4.8)
Operating profit	95	52	82.7	116	(18.4)
<b>Adj. Net profit</b>	<b>57</b>	<b>33</b>	<b>73.1</b>	<b>73</b>	<b>(22.0)</b>

Source: Company, Angel Research

Rallis India (Rallis) posted disappointing results for 2QFY2016. Sales for the quarter came in at ₹499.7cr V/s ₹635.9cr in 2QFY2015, a dip of 21.4% yoy. Sales were adversely impacted due to poor monsoon in India, while the international market also faced pressure with Brazil (a key market for the company) witnessing a severe drought. In USA, low crop commodity prices along with higher inventory prices impacted consumption. On the operating front, the gross margins came in at 46.7% V/s 38.5% in 2QFY2015, which lead the OPM to come in at 18.9% V/s 18.2% in 2QFY2015. The PAT came in at ₹57cr V/s ₹73cr in 2QFY2015, a yoy dip of 22.0%. **We remain Neutral on the stock.**

**Disappointing sales:** For 2QFY2016, sales came in at ₹499.7cr V/s ₹635.9cr in 2QFY2015, a dip of 21.4% yoy. Sales were adversely impacted due to poor monsoon in India, while the international market also faced pressure with Brazil (a key market for the company) witnessing a severe drought. In USA, low crop commodity prices along with higher inventory prices impacted consumption. On the operating front, the gross margins came in at 46.7% V/s 38.5% in 2QFY2015, which lead the OPM to come in at 18.9% V/s 18.2% in 2QFY2015. The PAT came in at ₹57cr V/s ₹73cr in 2QFY2015, a yoy dip of 22.0%.

**Outlook and valuation:** The Management is confident about the long-term prospects of the agrochemicals industry. We expect Rallis to register a CAGR of 15.1% and 16.7% in net sales and profit, respectively, over FY2015-17E. At the current levels, the stock is trading at a fair valuation of 18.7x its FY2017E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

#### Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
<b>Net Sales</b>	<b>1,747</b>	<b>1,822</b>	<b>2,097</b>	<b>2,415</b>
% chg	19.8	4.3	15.1	15.2
<b>Adj. Net Profit</b>	<b>152</b>	<b>157</b>	<b>184</b>	<b>214</b>
% chg	32.9	3.5	16.9	16.4
EBITDA %	13.9	14.2	14.4	14.4
<b>FDEPS (₹)</b>	<b>7.8</b>	<b>8.1</b>	<b>9.5</b>	<b>11.0</b>
P/E (x)	26.4	25.5	21.8	18.7
P/BV (x)	5.6	4.9	4.3	3.7
RoE (%)	22.7	20.5	21.1	21.3
RoACE (%)	26.4	24.7	25.6	26.6
EV/Sales (x)	2.4	2.3	2.0	1.7
EV/EBITDA (x)	17.4	16.4	14.0	11.9

Source: Company, Angel Research; Note: CMP as of November 3, 2015

## NEUTRAL

CMP ₹206  
 Target Price -

Investment Period -

#### Stock Info

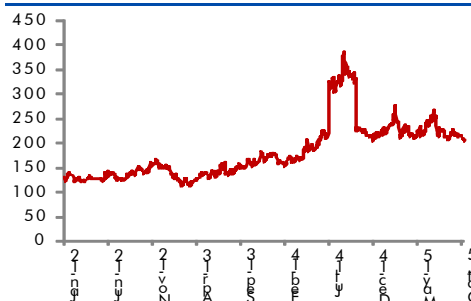
Sector	Agrichemical
Market Cap (₹ cr)	4,010
Net debt (₹ cr)	126
Beta	0.8
52 Week High / Low	299/201
Avg. Daily Volume	47,701
Face Value (₹)	1
BSE Sensex	26,591
Nifty	8,061
Reuters Code	RALL.BO
Bloomberg Code	RALI@IN

#### Shareholding Pattern (%)

Promoters	50.1
MF / Banks / Indian Fls	14.5
FII / NRIs / OCBs	13.6
Indian Public / Others	21.7

Abs. (%)	3m	1yr	3yr
Sensex	(5.7)	(4.6)	41.8
Rallis India	(3.4)	(9.9)	46.0

#### 3-year price chart



Source: Company, Angel Research

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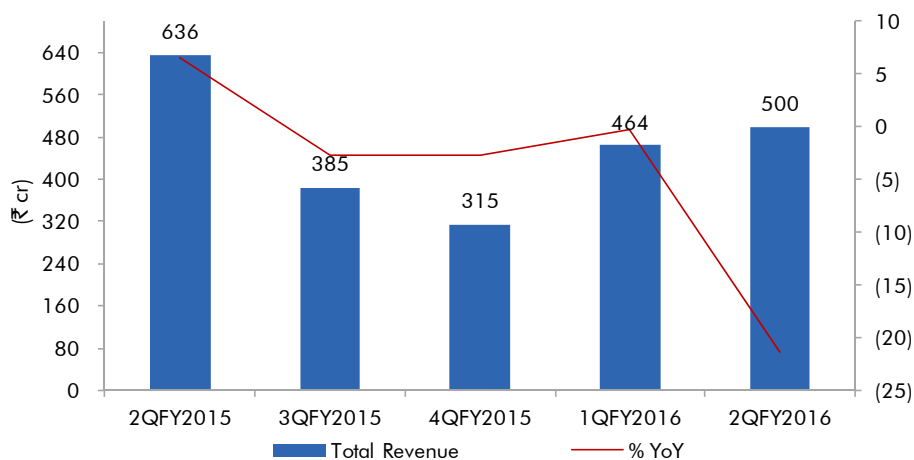
**Exhibit 1: 2QFY2016 performance (Consolidated)**

Y/E March (₹ cr)	2QFY2016	1QFY2016	% chg (qoq)	2QFY2015	% chg (yoy)	1HFY2016	1HFY2015	% chg
<b>Net sales</b>	<b>500</b>	<b>464</b>	<b>7.8</b>	<b>636</b>	<b>(21.4)</b>	<b>963</b>	<b>1,101</b>	<b>(12.5)</b>
Other income	5	6	(19.6)	7	(31.3)	11	13	(17.0)
<b>Total income</b>	<b>505</b>	<b>470</b>	<b>7.4</b>	<b>643</b>	<b>(21.5)</b>	<b>974</b>	<b>1,114</b>	<b>(12.6)</b>
Gross profit	233	243	(4.1)	245	(4.8)	477	479	(0.5)
<b>Gross margin (%)</b>	<b>46.7</b>	<b>52.5</b>		<b>38.5</b>		<b>49.5</b>	<b>43.5</b>	
EBDITA	95	52	82.7	116	(18.4)	146	172	(14.9)
<b>EBDITA margin (%)</b>	<b>18.9</b>	<b>11.2</b>		<b>18.2</b>		<b>15.2</b>	<b>15.6</b>	
Financial cost	3	4	(30.3)	3	(5.0)	7	5	38.8
Depreciation	13	12	10.9	13	0.0	25	24	3.0
PBT	84	42	99.2	107	(21.9)	126	156	(19.5)
Provision for taxation	28	2	1,386.1	34	(18.3)	30	40	(25.9)
<b>PAT Before Exc. And MI</b>	<b>56</b>	<b>40</b>	<b>39.2</b>	<b>73</b>	<b>(23.6)</b>	<b>96</b>	<b>116</b>	<b>(17.3)</b>
Minority	(1)	7		(1)		6	5	-
Exceptional	0	0		0		0	0	
<b>Reported PAT</b>	<b>57</b>	<b>33</b>	<b>73.1</b>	<b>73</b>	<b>(22.0)</b>	<b>90</b>	<b>110</b>	<b>(18.2)</b>
<b>Adjusted PAT</b>	<b>57</b>	<b>33</b>	<b>73.1</b>	<b>73</b>	<b>(22.0)</b>	<b>90</b>	<b>110</b>	<b>(18.2)</b>
<b>EPS (₹)</b>	<b>2.9</b>	<b>1.7</b>		<b>3.8</b>		<b>4.6</b>	<b>5.7</b>	

Source: Company, Angel Research

**Sales de-grew by 21.4% yoy**

For 2QFY2016, sales were adversely impacted due to poor monsoon in India, while the international market also faced pressure with Brazil (a key market for the company) witnessing a severe drought. In USA, low crop commodity prices along with higher inventory prices impacted consumption. The company's seed business also posted a 35% yoy drop in sales due to lower purchases by the government and shift in cropping pattern. On account of weak monsoon, the company's domestic business posted flat growth.

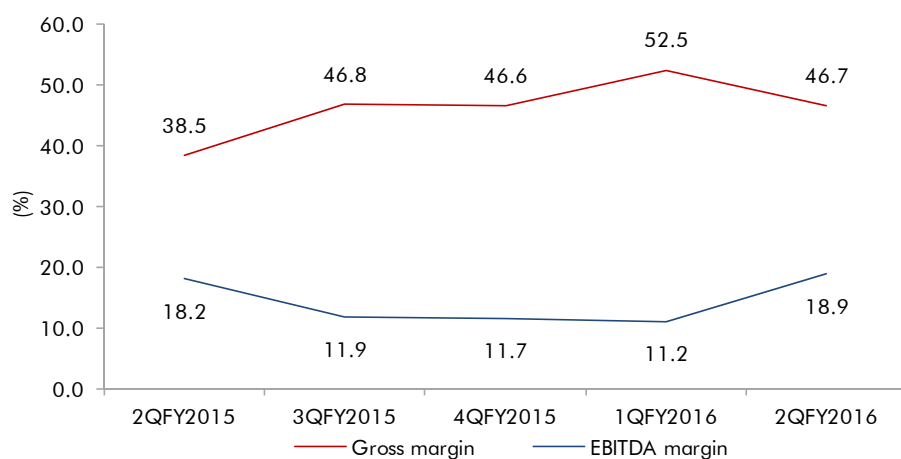
**Exhibit 2: Total revenue performance**


Source: Company, Angel Research

### OPM dips yoy

On the operating front, the gross margin for the quarter came in at 46.7% V/s 38.5% in 2QFY2015, which led the OPM to come in at 18.9% V/s 18.2% in 2QFY2015. An 11% and 5.0% yoy rise in staff costs and other expenditure, respectively, weighed down margins.

**Exhibit 3: Margin trend (%)**

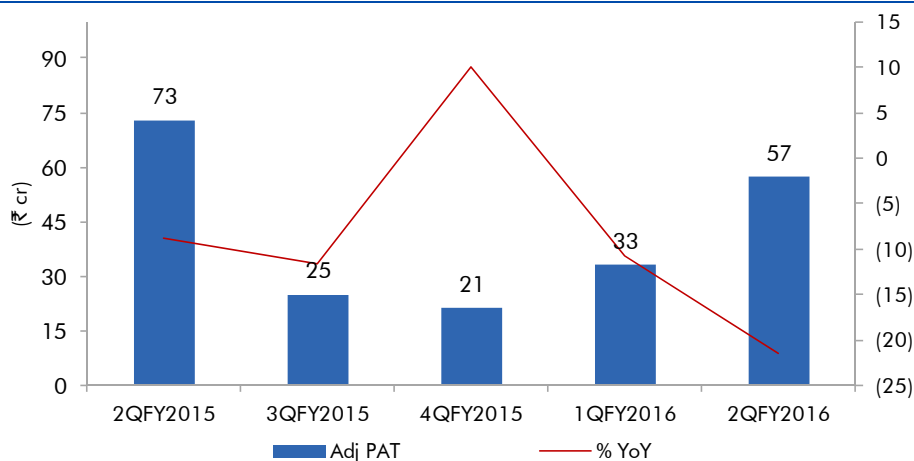


Source: Company, Angel Research

### Earnings decline

The PBT for the quarter posted a decline of 21.9% yoy owing to a 31.3% dip in other income. The Adj. net profit declined by 22.0% yoy to ~₹57cr. Tax expenses during the quarter dipped by 18.3% to ₹28cr V/s ₹34cr in 2QFY2015.

**Exhibit 4: Adjusted PAT trend**



Source: Company, Angel Research

## Concall Highlights

- The Management has maintained its cautious outlook for the ensuing Rabi season as low ground water level remains a concern. Water in reservoirs is lower by 20-25% compared to the average levels. However, rainfall in late September, especially in the farming regions of Maharashtra and Karnataka, has given some hope to farmers of a decent harvest.
- The company has taken a decision to offer higher credit to its dealers / distributors and bring it in line with the industry.

## 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. Further, the company has enhanced focus on the non-pesticide side of the business, which is a high growth segment, and now constitutes around 30% of its overall sales. Thus, we estimate Rallis to post a 13.0% CAGR in its domestic sales over FY2015-17E.

**Exports to register steady growth:** 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 ~30% of sales in FY2015. Going forward, the segment will continue to post a 20% CAGR over FY2015-17E.

**Contract manufacturing to be the next growth driver:** 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. Overall, Rallis targets to achieve a cumulative revenue of ₹1,000cr over the next five years from this segment alone. Currently, the company is working on 12-13 projects in the CRAMS business and expects this business to ramp up significantly over the next few years

## Outlook and valuation

The Management is confident of the prospects of key crops such as cotton and paddy due to generally normal monsoons, which should aid continued healthy growth in the agrochemicals industry. We expect Rallis to register a CAGR of 15.1% and 16.7% in net sales and profit respectively, over FY2015-17E. At the current levels, the stock is trading at a fair valuation of 18.7x its FY2017E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

**Exhibit 5: Key assumptions**

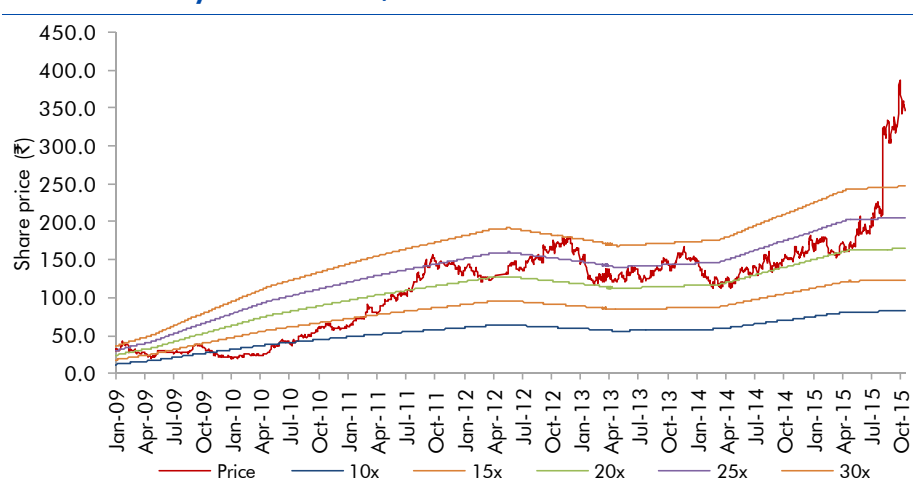
Particulars (%)	FY2016E	FY2017E
Domestic growth	13.0	13.0
Export growth	20.0	20.0
<b>Total revenue growth</b>	<b>15.1</b>	<b>15.2</b>
EBITDA margin	14.4	14.4
Capex (₹ cr)	50	70

Source: Company, Angel Research

**Exhibit 6: Peer valuation**

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		CAGR (%)	
						FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	Sales	PAT
<b>Rallis</b>	<b>Neutral</b>	<b>4,011</b>	<b>206</b>	-	-	<b>21.8</b>	<b>18.7</b>	<b>2.0</b>	<b>1.7</b>	<b>14.0</b>	<b>11.9</b>	<b>21.1</b>	<b>21.3</b>	<b>15.1</b>	<b>16.7</b>
United Phosphorus	Accumulate	19,347	451	510	13.1	14.0	11.6	1.8	1.5	10.3	8.6	21.4	21.3	15.0	20.0

Source: Company, Angel Research, Bloomberg

**Exhibit 7: One-year forward P/E band**


Source: C-line, Angel Research

**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. Pesticides account for 97% of the company's total revenues, while plant nutrients, seeds and leather chemicals contribute the balance. Contribution from the domestic business stands at ~70%, while exports account for the balance.

**Profit & loss (Consolidated)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Gross sales</b>	<b>1,328</b>	<b>1,535</b>	<b>1,840</b>	<b>1,922</b>	<b>2,212</b>	<b>2,548</b>
Less: Excise duty	79	95	114	121	136	154
<b>Net Sales</b>	<b>1,249</b>	<b>1,440</b>	<b>1,726</b>	<b>1,801</b>	<b>2,075</b>	<b>2,394</b>
Other operating income	25	18	21	21	21	21
<b>Total operating income</b>	<b>1,275</b>	<b>1,458</b>	<b>1,747</b>	<b>1,822</b>	<b>2,097</b>	<b>2,415</b>
% chg	17.4	14.4	19.8	4.3	15.1	15.2
Total Expenditure	1,058	1,241	1,485	1,545	1,777	2,050
Net Raw Materials	695	823	1,008	995	1,206	1,391
Other Mfg costs	255	304	342	341	393	454
Personnel	90	94	111	129	149	172
Other	18	20	24	25	29	33
<b>EBITDA</b>	<b>192</b>	<b>199</b>	<b>240</b>	<b>256</b>	<b>298</b>	<b>344</b>
% chg	10.0	3.9	20.8	6.5	16.5	15.3
(% of Net Sales)	15.3	13.8	13.9	14.2	14.4	14.4
Depreciation & Amortisation	29	32	41	50	50	54
<b>EBIT</b>	<b>188</b>	<b>186</b>	<b>221</b>	<b>228</b>	<b>269</b>	<b>311</b>
% chg	6.3	(1.5)	18.9	3.1	18.4	15.4
(% of Net Sales)	15.1	12.9	12.8	12.6	13.0	13.0
Interest & other Charges	17	21	13	10	11	10
Other Income	5	5	6	4	4	4
(% of PBT)	3	3	3	2	2	1
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>176</b>	<b>170</b>	<b>214</b>	<b>222</b>	<b>263</b>	<b>306</b>
% chg	(4.2)	(3.5)	26.3	3.4	18.5	16.4
Extraordinary Expense/(Inc.)	(23)	3	-	-	-	-
<b>PBT (reported)</b>	<b>153</b>	<b>172</b>	<b>214</b>	<b>222</b>	<b>263</b>	<b>306</b>
Tax	49	53	62	62	79	92
(% of PBT)	31.8	31.0	28.8	27.9	30.0	30.0
Minority Interest	2	(0)	0.8	2.6	2.6	2.6
<b>PAT (reported)</b>	<b>99</b>	<b>119</b>	<b>152</b>	<b>157</b>	<b>184</b>	<b>214</b>
<b>ADJ. PAT</b>	<b>109</b>	<b>114</b>	<b>152</b>	<b>157</b>	<b>184</b>	<b>214</b>
% chg	(13.3)	4.6	32.9	3.5	16.9	16.4
(% of Net Sales)	8.7	7.9	8.8	8.7	8.9	8.9
<b>Basic EPS (₹)</b>	<b>5.6</b>	<b>5.9</b>	<b>7.8</b>	<b>8.1</b>	<b>9.5</b>	<b>11.0</b>
<b>Fully Diluted EPS (₹)</b>	<b>5.6</b>	<b>5.9</b>	<b>7.8</b>	<b>8.1</b>	<b>9.5</b>	<b>11.0</b>
% chg	(13.3)	4.6	32.9	3.5	16.9	16.4

**Balance sheet (Consolidated)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	19	19	19	19	19	19
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	534	601	699	795	910	1,056
<b>Shareholders Funds</b>	<b>553</b>	<b>621</b>	<b>718</b>	<b>815</b>	<b>930</b>	<b>1,075</b>
Minority Interest	1	5	10	10	10	10
Total Loans	151	131	75	111	111	80
Other Long Term Liabilities	0	6	4	4	4	4
Long Term provisions	18	30	15	19	19	19
Deferred Tax Liability	13	28	32	36	36	36
<b>Total Liabilities</b>	<b>736</b>	<b>821</b>	<b>853</b>	<b>993</b>	<b>1,113</b>	<b>1,227</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	551	581	651	687	737	807
Less: Acc. Depreciation	189	195	233	282	332	386
<b>Net Block</b>	<b>362</b>	<b>386</b>	<b>418</b>	<b>405</b>	<b>405</b>	<b>421</b>
Capital Work-in-Progress	60	35	21	21	21	21
Goodwill	155	169	186	196	196	196
Investments	23	20	25	24	24	24
Long Term Loans and Adv.	91	92	98	110	119	137
<b>Current Assets</b>	<b>432</b>	<b>488</b>	<b>549</b>	<b>680</b>	<b>850</b>	<b>1,007</b>
Cash	11	26	9	7	32	64
Loans & Advances	45	28	40	28	75	86
Other	375	435	500	645	743	857
Current liabilities	387	368	445	443	502	579
<b>Net Current Assets</b>	<b>45</b>	<b>120</b>	<b>104</b>	<b>237</b>	<b>348</b>	<b>428</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>736</b>	<b>821</b>	<b>853</b>	<b>993</b>	<b>1,113</b>	<b>1,227</b>

**Cash flow statement (Consolidated)**

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	153	172	214	222	263	306
Depreciation	29	32	41	50	50	54
(Inc)/Dec in Working Capital	(28)	(61)	(7)	(147)	(94)	(67)
Direct taxes paid	(38)	(53)	(62)	(62)	(79)	(92)
<b>Cash Flow from Operations</b>	<b>144</b>	<b>150</b>	<b>186</b>	<b>63</b>	<b>139</b>	<b>201</b>
(Inc.)/ Dec. in Fixed Assets	(55)	(5)	(56)	(36)	(50)	(70)
(Inc.)/ Dec. in Investments	3	3	(5)	1	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(52)</b>	<b>(2)</b>	<b>(61)</b>	<b>(35)</b>	<b>(50)</b>	<b>(70)</b>
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	35	(6)	(73)	40	0	(31)
Dividend Paid (Incl. Tax)	(47)	(50)	(55)	(68)	(68)	(68)
Others	(82)	(78)	(14)	(1)	-	-
<b>Cash Flow from Financing</b>	<b>(95)</b>	<b>(134)</b>	<b>(142)</b>	<b>(29)</b>	<b>(64)</b>	<b>(99)</b>
Inc./ (Dec.) in Cash	(3)	15	(17)	(2)	25	32
<b>Opening Cash balances</b>	<b>15</b>	<b>11</b>	<b>26</b>	<b>9</b>	<b>7</b>	<b>32</b>
<b>Closing Cash balances</b>	<b>11</b>	<b>26</b>	<b>9</b>	<b>7</b>	<b>32</b>	<b>64</b>



**Key ratios**

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	36.7	35.1	26.4	25.5	21.8	18.7
P/CEPS	22.3	26.6	20.8	19.4	17.2	15.0
P/BV	7.3	6.5	5.6	4.9	4.3	3.7
Dividend yield (%)	1.0	1.0	1.0	1.0	1.5	1.9
EV/Sales	3.4	2.9	2.4	2.3	2.0	1.7
EV/EBITDA	22.3	21.3	17.4	16.4	14.0	11.9
EV / Total Assets	5.8	5.2	4.9	4.2	3.8	3.3
<b>Per Share Data (₹)</b>						
EPS (Basic)	5.6	5.9	7.8	8.1	9.5	11.0
EPS (fully diluted)	5.6	5.9	7.8	8.1	9.5	11.0
Cash EPS	9.3	7.7	9.9	10.6	12.0	13.8
DPS	2.0	2.0	2.0	2.0	3.0	4.0
Book Value	28.4	31.9	36.9	41.9	47.8	55.3
<b>Dupont Analysis</b>						
EBIT margin	15.1	12.9	12.8	12.6	13.0	13.0
Tax retention ratio	68.2	69.0	71.2	72.1	70.0	70.0
Asset turnover (x)	1.8	1.9	2.1	2.0	2.0	2.1
ROIC (Post-tax)	19.0	16.6	19.0	18.0	18.1	18.8
Cost of Debt (Post Tax)	8.9	10.1	8.7	7.9	7.0	7.0
Leverage (x)	0.3	0.2	0.2	0.2	0.2	0.1
Operating ROE	22.4	18.0	20.6	19.7	19.8	19.8
<b>Returns (%)</b>						
ROCE (Pre-tax)	27.3	23.8	26.4	24.7	25.6	26.6
Angel ROIC (Pre-tax)	44.1	33.7	35.9	32.4	33.0	34.4
ROE	20.6	19.5	22.7	20.5	21.1	21.3
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	2.7	2.6	2.8	2.7	2.9	3.1
Inventory / Sales (days)	72	67	62	74	80	84
Receivables (days)	30	34	35	37	40	42
Payables (days)	131	111	98	105	97	96
WC cycle (ex-cash) (days)	4	16	20	33	48	52
<b>Solvency ratios (x)</b>						
Net debt to equity	0.3	0.2	0.1	0.2	0.1	0.0
Net debt to EBITDA	0.8	0.7	0.3	0.5	0.3	0.1
Interest Coverage (EBIT / Int.)	10.9	9.0	17.5	22.5	24.3	32.6

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Disclosure of Interest Statement	Rallis India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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