

## Rallis India

### Performance Highlights

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (qoq)	2QFY2016	% chg (yoy)
<b>Net sales</b>	<b>540</b>	<b>445</b>	<b>21.4</b>	<b>447</b>	<b>20.8</b>
Other income	12	7	75.2	5	136.6
Gross profit	210	202	4.2	234	(10.3)
Operating profit	96	70	36.5	86	11.2
<b>Adj. Net profit</b>	<b>67</b>	<b>49</b>	<b>35.1</b>	<b>51</b>	<b>31.0</b>

Source: Company, Angel Research

For 2QFY2017, Rallis India (Rallis) reported a yoy growth of 20.8% in sales to ₹540cr (vs. ₹447cr in 2QFY2016). On the operating front, the gross margin came in at 38.9% (vs. 52.4% in 2QFY2016), which along with sales growth aided the OPM to come in at 17.7% (V/s 19.2% in 2QFY2016). Aided by sales growth, a good operating performance and surge in other income (₹12cr vs. ₹5cr in 2QFY2016), the Adj. Net profit grew by 31.0% yoy to ₹67cr (vs. ₹51cr in 2QFY2016). **We maintain our Neutral view on the stock.**

**Robust numbers mainly aided by robust growth:** For 2QFY2017, the company reported a yoy growth of 20.8% in sales to ₹540cr (vs. ₹447cr in 2QFY2016). On the operating front, the gross margin came in at 38.9% (vs. 52.4% in 2QFY2016), which along with sales growth aided the OPM to come in at 17.7% (vs. 19.2% in 2QFY2016). Aided by sales growth, a good operating performance and surge in other income (₹12cr V/s ₹5cr in 2QFY2016), the Adj. Net profit grew by 31.0% yoy to ₹67cr (vs. ₹51cr in 2QFY2016).

**Outlook and valuation:** For FY2016-18E, we expect a CAGR of 15.0% and 22.3% in net sales and profit, respectively, with recovery expected in FY2017. At the current levels, the stock is trading at a fair valuation of 20.5x its FY2018E EPS.

**Hence, we maintain our Neutral view on the stock.**

### Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>Net Sales</b>	<b>1,822</b>	<b>1,637</b>	<b>1,937</b>	<b>2,164</b>
% chg	4.3	(10.1)	18.3	11.7
<b>Adj. Net Profit</b>	<b>157</b>	<b>143</b>	<b>167</b>	<b>214</b>
% chg	3.5	(9.0)	16.6	28.2
EBITDA %	14.2	13.3	14.3	14.3
<b>FDEPS (₹)</b>	<b>8.1</b>	<b>7.4</b>	<b>8.6</b>	<b>11.0</b>
P/E (x)	27.8	30.6	26.2	20.5
P/BV (x)	5.4	4.9	3.9	3.5
RoE (%)	20.5	16.7	16.5	18.0
RoACE (%)	24.7	19.2	20.9	20.3
EV/Sales (x)	2.3	2.6	2.1	1.9
EV/EBITDA (x)	16.4	19.5	14.9	13.0

Source: Company, Angel Research; Note: CMP as of November 1, 2016

## NEUTRAL

CMP	₹221
Target Price	-

Investment Period	-
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### Stock Info

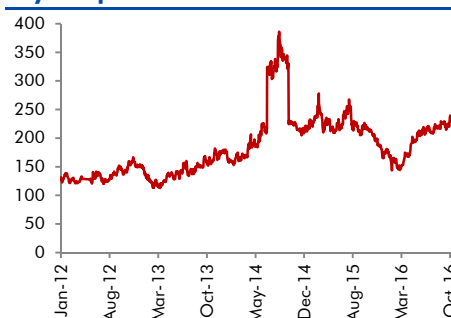
Sector	Agrichemical
Market Cap (₹ cr)	4,295
Net debt (₹ cr)	126
Beta	0.9
52 Week High / Low	246/142
Avg. Daily Volume	88,414
Face Value (₹)	1
BSE Sensex	27,877
Nifty	7,502
Reuters Code	RALL.BO
Bloomberg Code	RALI@IN

### Shareholding Pattern (%)

Promoters	50.1
MF / Banks / Indian Fls	19.8
FII / NRIs / OCBs	6.4
Indian Public / Others	23.7

Abs. (%)	3m	1yr	3yr
Sensex	(0.5)	4.6	31.5
Rallis India	0.0	6.9	40.5

### 3-year price chart



Source: Company, Angel Research

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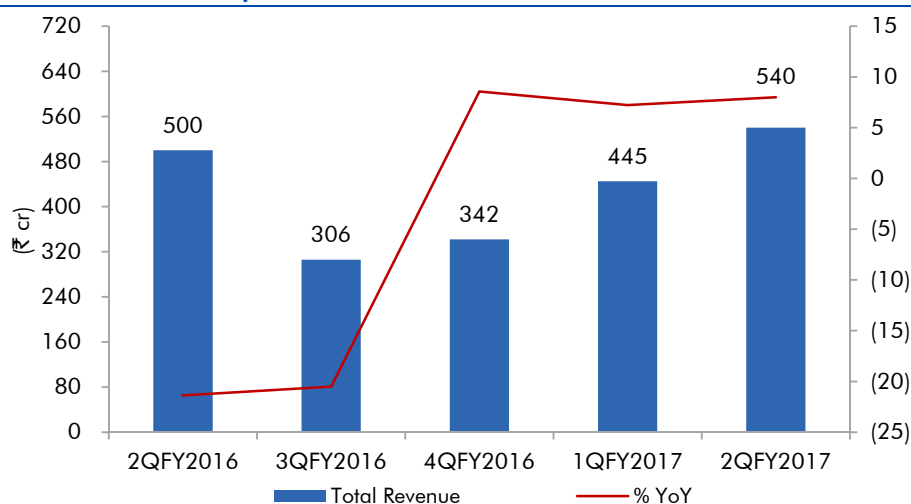
**Exhibit 1: 2QFY2017 performance (Consolidated)**

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (QoQ)	2QFY2016	% chg (YoY)	1HFY2017	1HFY2016	% chg
<b>Net sales</b>	<b>540</b>	<b>445</b>	<b>21.4</b>	<b>447</b>	<b>20.8</b>	<b>985</b>	<b>862</b>	<b>14.2</b>
Other income	12	7	75.2	5	136.6	178	10	1679.7
<b>Total income</b>	<b>553</b>	<b>452</b>	<b>22.3</b>	<b>453</b>	<b>22.1</b>	<b>1,163</b>	<b>872</b>	<b>33.3</b>
Gross profit	210	202	4.2	234	(10.3)	412	390	5.6
<b>Gross margin (%)</b>	<b>38.9</b>	<b>45.4</b>		<b>52.4</b>		<b>41.8</b>	<b>45.3</b>	
EBDITA	96	70	36.5	86	11.2	166	142	16.6
<b>EBDITA margin (%)</b>	<b>17.7</b>	<b>15.8</b>		<b>19.2</b>		<b>16.8</b>	<b>16.5</b>	
Financial cost	1	2	(51.1)	3	(60.4)	3	7	(50.4)
Depreciation	11	12	(11.2)	13	(13.6)	23	24	(3.2)
PBT	96	62	53.6	76	26.8	317	121	161.8
Provision for taxation	29	47	(37.1)	25	18.2	76	28	173.4
<b>PAT Before Exc. And MI</b>	<b>67</b>	<b>16</b>	<b>320.7</b>	<b>51</b>	<b>31.0</b>	<b>241</b>	<b>93</b>	<b>158.4</b>
Minority	0	0		0		0	0	-
Exceptional	0	158		0		120	0	
<b>Reported PAT</b>	<b>67</b>	<b>174</b>	<b>(61.8)</b>	<b>51</b>	<b>31.0</b>	<b>241</b>	<b>93</b>	<b>158.4</b>
<b>Adjusted PAT</b>	<b>67</b>	<b>49</b>	<b>35.1</b>	<b>51</b>	<b>31.0</b>	<b>120</b>	<b>93</b>	<b>29.1</b>
<b>EPS (₹)</b>	<b>3.4</b>	<b>2.5</b>		<b>2.6</b>		<b>6.2</b>	<b>4.8</b>	

Source: Company, Angel Research

**Sales rose by 20.8% yoy**

For 2QFY2017, the company's sales rose by 20.8% yoy to ₹540cr (vs. ₹447cr in 2QFY2016). Monsoon 2016 ended on a positive note with rainfall for the season at 97% of LPA against interim fears of below normal monsoons. Rainfall was muted at the start of the season with 89% of LPA in June but gained pace during the crucial period with 107% of LPA in July. The subsidiary business (Metahelix), on the other hand, witnessed growth of 66% yoy albeit on a lower base. Subsidiaries sales for the quarter came in at ₹45cr.

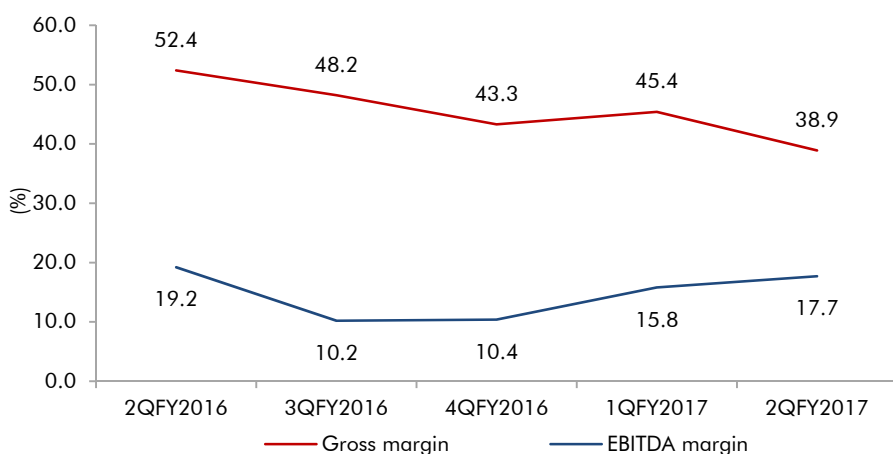
**Exhibit 2: Revenue performance**


Source: Company, Angel Research

### OPM dips yoy

On the operating front, the gross margin came in at 38.9% (vs. 52.4% in 2QFY2016), a yoy dip of 13.5%. In spite of this, the OPM came in at 17.7% (vs. 19.2% in 2QFY2016). This was mainly on back of only 10.8% yoy rise in employee expenses and 8.6% yoy dip in other expenses.

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

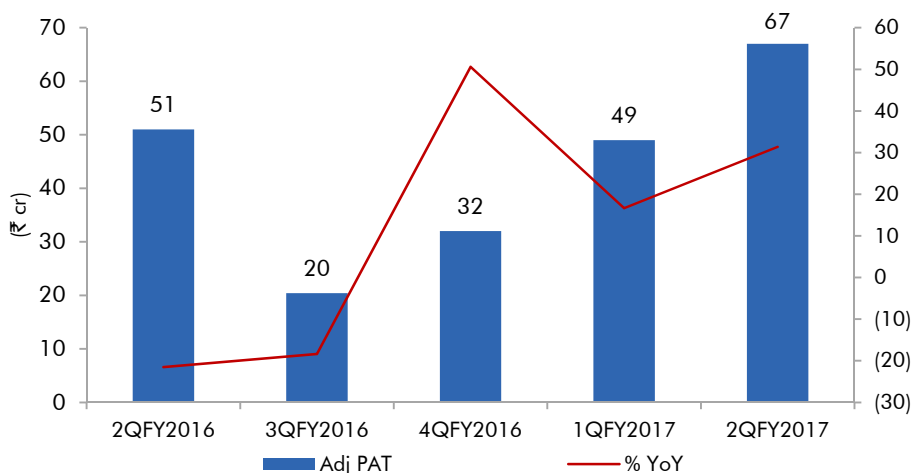


Source: Company, Angel Research

### Earnings rise 31% yoy

Aided by sales growth, a good operating performance and surge in other income (₹12cr vs. ₹5cr in 2QFY2016), the Adj. Net profit grew 31.0% yoy to ₹67cr (vs. ₹51cr in 2QFY2016).

**Exhibit 4: Adjusted PAT trend**



Source: Company, Angel Research

## Investment arguments

**The 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. FY2016 has been challenging on back of poor monsoons but the outlook for FY2017 is favorable and should bode well for domestic sales growth. A lower base would result in 17.3% CAGR in the domestic business during FY2016-18E.

**Exports under pressure:** 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 FY2016. In FY2016, the global weakness in the agrochemical industry put pressure on Rallis' exports business, where the revenues dropped by 20% yoy to ₹400cr. The company's primary export market is Brazil where a sluggish demand environment, currency volatility and macro headwinds led to deferment/cancelation of many orders. However, export orders saw a revival in 4QFY2016; still the management remains cautious on recovery in Brazil, which could take more than a couple of quarters. This would likely keep the exports business revenues under pressure. Going forward, the segment will continue to post a 7.2% CAGR over FY2016-18E.

**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 FY2016, Rallis' seed business, under Metahelix reported a decent growth of 8% yoy to ₹334cr (almost 23% of the domestic business) on back of increased market share and despite significant reduction in acreages for some of the key crops such as paddy 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. During FY2016, the company increased its stake in Metahelix to 100%.

**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.

## Outlook and valuation

Over FY2016-18E, we expect the company to post a CAGR of 15.0% and 22.3% in net sales and profit, respectively, with recovery expected in FY2017 driven by above normal monsoons. At the current level, the stock is trading at a fair valuation of 20.5x its FY2018E EPS. **Hence, we maintain our Neutral view on the stock.**

**Exhibit 5: Key assumptions**

Particulars (%)	FY2017E	FY2018E
Domestic growth	24.0	11.0
Export growth	5.0	15.0
<b>Total revenue growth</b>	<b>18.3</b>	<b>11.7</b>
EBITDA margin	14.3	14.3
Capex (₹ cr)	70	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 (%)	
						FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	Sales	PAT
Rallis	Neutral	4,377	221	-	-	26.2	20.5	2.1	1.9	14.9	13.0	16.5	18.0	15.0	22.3
UPL	Neutral	35,259	696	-	-	16.1	13.5	1.8	1.5	9.6	8.0	21.4	21.2	16.0	18.9

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)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Gross sales</b>	<b>1,535</b>	<b>1,840</b>	<b>1,922</b>	<b>1,730</b>	<b>2,059</b>	<b>2,302</b>
Less: Excise duty	95	114	121	119	147	164
<b>Net Sales</b>	<b>1,440</b>	<b>1,726</b>	<b>1,801</b>	<b>1,612</b>	<b>1,911</b>	<b>2,138</b>
Other operating income	18	21	21	26	26	26
<b>Total operating income</b>	<b>1,458</b>	<b>1,747</b>	<b>1,822</b>	<b>1,637</b>	<b>1,937</b>	<b>2,164</b>
% chg	14.4	19.8	4.3	(10.1)	18.3	11.7
Total Expenditure	1,241	1,485	1,545	1,398	1,637	1,832
Net Raw Materials	823	1,008	995	839	1,110	1,242
Other Mfg costs	304	342	341	404	363	406
Personnel	94	111	129	132	137	154
Other	20	24	25	22	27	30
<b>EBITDA</b>	<b>199</b>	<b>240</b>	<b>256</b>	<b>214</b>	<b>274</b>	<b>306</b>
% chg	3.9	20.8	6.5	(16.5)	27.9	11.9
(% of Net Sales)	13.8	13.9	14.2	13.3	14.3	14.3
Depreciation & Amort.	32	41	50	45	56	61
<b>EBIT</b>	<b>186</b>	<b>221</b>	<b>228</b>	<b>195</b>	<b>244</b>	<b>271</b>
% chg	(1.5)	18.9	3.1	(14.3)	24.8	11.3
(% of Net Sales)	12.9	12.8	12.6	12.1	12.7	12.7
Interest & other Charges	21	13	10	14	9	8
Other Income	5	6	4	4	4	4
(% of PBT)	3	3	2	2	2	2
Share in profit of Asso.	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>170</b>	<b>214</b>	<b>222</b>	<b>186</b>	<b>238</b>	<b>267</b>
% chg	(3.5)	26.3	3.4	(16.2)	28.4	12.1
Extraordinary Exp./(Inc.)	3	-	-	-	(120)	-
<b>PBT (reported)</b>	<b>172</b>	<b>214</b>	<b>222</b>	<b>186</b>	<b>358</b>	<b>267</b>
Tax	53	62	62	39	72	53
(% of PBT)	31.0	28.8	27.9	21.0	20.0	20.0
Minority Interest	(0)	0.8	2.6	3.7	3.7	3.7
<b>PAT (reported)</b>	<b>119</b>	<b>152</b>	<b>157</b>	<b>143</b>	<b>287</b>	<b>214</b>
<b>ADJ. PAT</b>	<b>114</b>	<b>152</b>	<b>157</b>	<b>143</b>	<b>167</b>	<b>214</b>
% chg	4.6	32.9	3.5	(9.0)	16.6	28.2
(% of Net Sales)	7.9	8.8	8.7	8.9	8.7	10.0
<b>Basic EPS (₹)</b>	<b>5.9</b>	<b>7.8</b>	<b>8.1</b>	<b>7.4</b>	<b>8.6</b>	<b>11.0</b>
<b>Fully Diluted EPS (₹)</b>	<b>5.9</b>	<b>7.8</b>	<b>8.1</b>	<b>7.4</b>	<b>8.6</b>	<b>11.0</b>
% chg	4.6	32.9	3.5	(9.0)	16.6	28.2

**Balance sheet (Consolidated)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	19	19	19	19	19	19
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	601	699	795	880	1,098	1,243
<b>Shareholders Funds</b>	<b>621</b>	<b>718</b>	<b>815</b>	<b>899</b>	<b>1,117</b>	<b>1,263</b>
Minority Interest	5	10	10	4	4	4
Total Loans	131	75	111	75	110	50
Other Long Term Liabilities	6	4	4	4	4	4
Long Term provisions	30	15	19	18	18	18
Deferred Tax Liability	28	32	36	39	39	39
<b>Total Liabilities</b>	<b>821</b>	<b>853</b>	<b>993</b>	<b>1,038</b>	<b>1,295</b>	<b>1,380</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	581	651	687	764	834	904
Less: Acc. Depreciation	195	233	282	327	383	444
<b>Net Block</b>	<b>386</b>	<b>418</b>	<b>405</b>	<b>437</b>	<b>451</b>	<b>460</b>
Capital Work-in-Progress	35	21	21	21	21	21
Goodwill	169	186	196	259	259	259
Investments	20	25	24	28	28	28
Long Term Loans and Adv.	92	98	110	110	109	122
<b>Current Assets</b>	<b>488</b>	<b>549</b>	<b>680</b>	<b>650</b>	<b>889</b>	<b>1,006</b>
Cash	26	9	7	8	136	164
Loans & Advances	28	40	28	35	69	77
Other	435	500	645	607	684	765
Current liabilities	368	445	443	467	462	517
<b>Net Current Assets</b>	<b>120</b>	<b>104</b>	<b>237</b>	<b>183</b>	<b>427</b>	<b>490</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>821</b>	<b>853</b>	<b>993</b>	<b>1,038</b>	<b>1,295</b>	<b>1,380</b>

**Cash flow statement (Consolidated)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	172	214	222	186	358	267
Depreciation	32	41	50	45	56	61
(Inc)/Dec in Working Capital	(61)	(7)	(147)	55	(115)	(47)
Direct taxes paid	(53)	(62)	(62)	(39)	(72)	(53)
<b>Cash Flow from Operations</b>	<b>150</b>	<b>186</b>	<b>63</b>	<b>246</b>	<b>228</b>	<b>227</b>
(Inc.)/ Dec. in Fixed Assets	(5)	(56)	(36)	(76)	(70)	(70)
(Inc.)/ Dec. in Investments	3	(5)	1	(4)	-	-
Inc./ (Dec.) in loans and adv.	-	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(2)</b>	<b>(61)</b>	<b>(35)</b>	<b>(80)</b>	<b>(70)</b>	<b>(70)</b>
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(6)	(73)	40	(36)	35	(60)
Dividend Paid (Incl. Tax)	(50)	(55)	(68)	(68)	(68)	(68)
Others	(78)	(14)	(1)	-	-	(1)
<b>Cash Flow from Financing</b>	<b>(134)</b>	<b>(142)</b>	<b>(29)</b>	<b>(165)</b>	<b>(29)</b>	<b>(129)</b>
Inc./ (Dec.) in Cash	15	(17)	(2)	1	128	28
<b>Opening Cash balances</b>	<b>11</b>	<b>26</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>136</b>
<b>Closing Cash balances</b>	<b>26</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>136</b>	<b>164</b>



**Key ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	38.3	28.8	27.8	30.6	26.2	20.5
P/CEPS	29.1	22.7	21.2	23.3	12.8	15.9
P/BV	7.0	6.1	5.4	4.9	3.9	3.5
Dividend yield (%)	0.9	0.9	0.9	1.3	1.8	2.2
EV/Sales	2.9	2.4	2.3	2.6	2.1	1.9
EV/EBITDA	21.3	17.4	16.4	19.5	14.9	13.0
EV / Total Assets	5.2	4.9	4.2	4.0	3.1	2.9
<b>Per Share Data (₹)</b>						
EPS (Basic)	5.9	7.8	8.1	7.4	8.6	11.0
EPS (fully diluted)	5.9	7.8	8.1	7.4	8.6	11.0
Cash EPS	7.7	9.9	10.6	9.6	17.6	14.1
DPS	2.0	2.0	2.0	3.0	4.0	5.0
Book Value	31.9	36.9	41.9	46.2	57.5	64.9
<b>Dupont Analysis</b>						
EBIT margin	12.9	12.8	12.6	12.1	12.7	12.7
Tax retention ratio	69.0	71.2	72.1	79.0	80.0	80.0
Asset turnover (x)	1.9	2.1	2.0	1.6	1.7	1.6
ROIC (Post-tax)	16.6	19.0	18.0	15.4	16.9	16.4
Cost of Debt (Post Tax)	10.1	8.7	7.9	11.6	8.0	8.0
Leverage (x)	0.2	0.2	0.2	0.2	(0.0)	(0.0)
Operating ROE	18.0	20.6	19.6	16.1	16.8	16.2
<b>Returns (%)</b>						
ROCE (Pre-tax)	23.8	26.4	24.7	19.2	20.9	20.3
Angel ROIC (Pre-tax)	33.7	35.9	32.4	25.7	29.9	29.9
ROE	19.5	22.7	20.5	16.7	16.5	18.0
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	2.6	2.8	2.7	2.3	2.4	2.5
Inventory / Sales (days)	67	62	74	89	87	96
Receivables (days)	34	35	37	44	43	48
Payables (days)	111	98	105	119	103	97
WC cycle (ex-cash) (days)	16	20	33	46	45	53
<b>Solvency ratios (x)</b>						
Net debt to equity	0.2	0.1	0.2	0.1	(0.0)	(0.1)
Net debt to EBITDA	0.7	0.3	0.5	0.4	(0.0)	(0.3)
Interest Coverage (EBIT / Int.)	9.0	17.5	22.5	14.4	26.4	33.9

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

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)