

Rallis India

Performance Highlights

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)
Net sales	306	500	(38.7)	385	(20.4)
Other income	5	5	1.5	6	(18.7)
Gross profit	148	233	(36.7)	180	(18.0)
Operating profit	31	95	(67.1)	46	(32.4)
Adj. Net profit	20	57	(64.4)	25	(19.9)

Source: Company, Angel Research

Rallis India (Rallis) posted a disappointing set of numbers for 3QFY2016. Sales for the quarter came in at ₹306cr V/s ₹385cr in 3QFY2015, a dip of 20.4% yoy. Higher sales return in the domestic segment and cancellation of orders by clients in global markets, along with a dip in the seed business, led to the decline in the top-line. On the operating front, the gross margin came in at 48.2% V/s 46.8% in 3QFY2015; still the OPM declined to 10.2% V/s 12.0% in 3QFY2015. This was owing to lower sales during the quarter. The PAT came in at ₹20cr V/s ₹25cr in 3QFY2015, a dip of 19.9% yoy. **We remain Neutral on the stock.**

Disappointing numbers for the quarter: Sales for the quarter came in at ₹306cr V/s ₹385cr in 3QFY2015, a dip of 20.4% yoy. Higher sales return in the domestic segment and cancellation of orders by clients in global markets, along with a dip in the seed business, led to the decline in the top-line. On the operating front, the gross margin came in at 48.2% V/s 46.8% in 3QFY2015; still the OPM declined to 10.2% V/s 12.0% in 3QFY2015. This was owing to lower sales during the quarter. The PAT came in at ₹20cr V/s ₹25cr in 3QFY2015, a dip of 19.9% yoy. The dip in PAT was lower than that in the EBDITA as tax outgo during the quarter was lower than in the corresponding quarter of last year.

Outlook and valuation: Given the pressure on the financials, we expect Rallis to register an 8.9% dip in sales in FY2016. For FY2015-17E, we expect a CAGR of 3.7% and 3.4% in net sales and profit, respectively, with recovery expected in FY2017E. At the current levels, the stock is trading at a fair valuation of 17.3x its FY2017E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	1,747	1,822	1,660	1,960
% chg	19.8	4.3	(8.9)	18.0
Adj. Net Profit	152	157	140	168
% chg	32.9	3.5	(11.0)	20.2
EBITDA %	13.9	14.2	14.4	14.4
FDEPS (₹)	7.8	8.1	7.2	8.6
P/E (x)	19.2	18.5	20.8	17.3
P/BV (x)	4.1	3.6	3.3	3.0
RoE (%)	22.7	20.5	16.5	18.0
RoACE (%)	26.4	24.7	20.1	22.3
EV/Sales (x)	2.4	2.3	2.5	2.1
EV/EBITDA (x)	17.4	16.4	17.6	14.8

Source: Company, Angel Research; Note: CMP as of January 19, 2016

NEUTRAL

CMP	₹150
Target Price	-

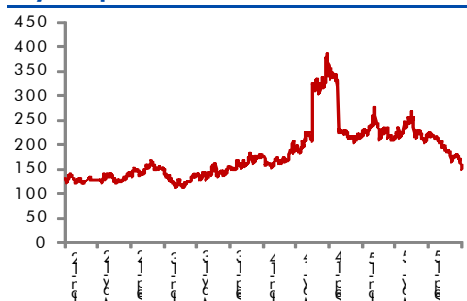
Investment Period	-
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Stock Info	
Sector	Agrichemical
Market Cap (₹ cr)	2,908
Net debt (₹ cr)	126
Beta	0.9
52 Week High / Low	299/143
Avg. Daily Volume	84,191
Face Value (₹)	1
BSE Sensex	24,480
Nifty	7,435
Reuters Code	RALL.BO
Bloomberg Code	RALI@IN

Shareholding Pattern (%)	
Promoters	50.1
MF / Banks / Indian Fls	14.5
FII / NRIs / OCBs	13.6
Indian Public / Others	21.8

Abs. (%)	3m	1yr	3yr
Sensex	(10.5)	(13.4)	22.2
Rallis India	(30.1)	(33.3)	2.2

3-year price chart



Source: Company, Angel Research

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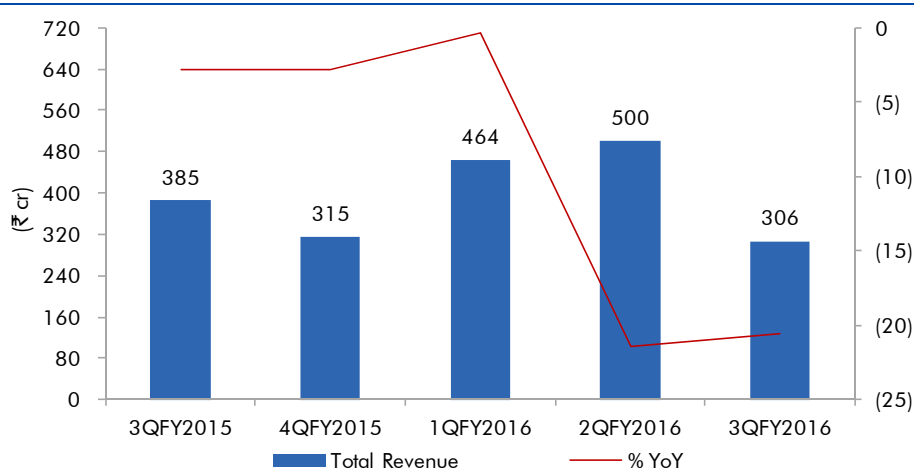
Exhibit 1: 3QFY2016 performance (Consolidated)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)	9MFY2016	9MFY2015	% chg
Net sales	306	500	(38.7)	385	(20.4)	1,270	1,486	(14.6)
Other income	5	5	1.5	6	(18.7)	15	17	(12.3)
Total income	311	505	(38.3)	391	(20.4)	1,284	1,503	(14.5)
Gross profit	148	233	(36.7)	180	(18.0)	625	660	(5.3)
Gross margin (%)	48.2	46.7		46.8		49.2	44.4	
EBDITA	31	95	(67.1)	46	(32.4)	178	219	(18.6)
EBDITA margin (%)	10.2	18.9		12.0		14.0	14.7	
Financial cost	4	3	27.4	3	21.0	11	8	32.1
Depreciation	14	13	7.5	13	7.5	39	36	7.5
PBT	18	84	(78.0)	36	(49.0)	144	192	(25.1)
Provision for taxation	0	28	(101.4)	13	(103.1)	29	53	(44.8)
PAT Before Exc. And MI	19	56	(66.4)	23	(18.4)	115	139	(17.5)
Minority	(2)	(1)		(2)		4	3	-
Exceptional	0	0		0		0	0	
Reported PAT	20	57	(64.4)	25	(19.9)	111	136	(18.5)
Adjusted PAT	20	57	(64.4)	25	(19.9)	111	136	(18.5)
EPS (₹)	1.0	2.9		1.3		5.7	7.0	

Source: Company, Angel Research

Sales decline by 20.4% yoy

Sales for the quarter came in at ₹306cr V/s ₹385cr in 3QFY2015, a dip of 20.4% yoy. Higher sales return in the domestic segment and cancellation of orders by clients in global markets, along with a dip in the seed business, led to the decline in the top-line. The seed business posted a 17% yoy decline for the quarter to ₹29cr against our estimate of ₹36.5cr in a seasonally short quarter for seeds. The company's domestic agrochemical business saw weak demand during the shortened rabi season as low ground water level and extension of kharif season into rabi reduced the sowing window available to farmers. Consequently, channel inventory remained high, thereby forcing the company to take back inventory from the system. As a result, sales return remained high during the quarter.

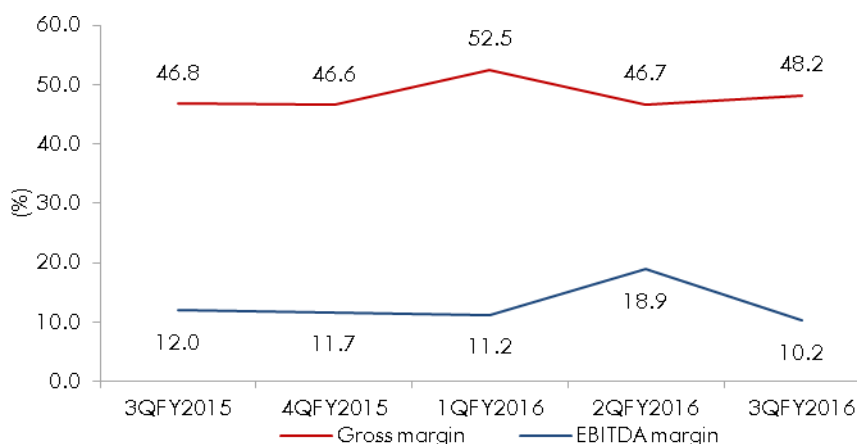
Exhibit 2: Total revenue performance


Source: Company, Angel Research

OPM dips yoy

On the operating front, the gross margin came in at 48.2% V/s 46.8% in 3QFY2015, inspite of which the OPM dipped to 10.2% V/s 12.0% in 3QFY2015, mainly on lower sales. A 6.0% and 15.7% yoy rise in staff costs and other expenditure, respectively, weighed down margins.

Exhibit 3: Margin trend (%)

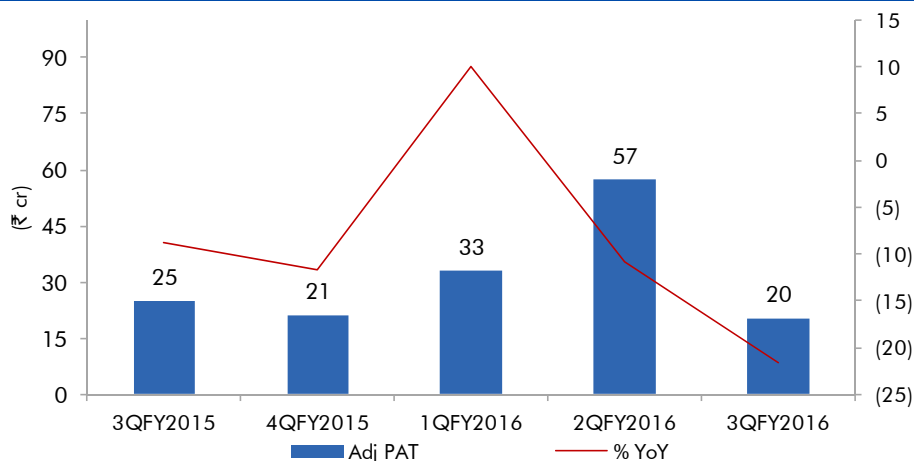


Source: Company, Angel Research

Earnings decline

The PBT for the quarter posted a decline of 49.0% yoy owing to an 18.7% dip in other income. The Adj. net profit declined by 19.9% yoy to ~₹20cr. There was a tax credit during the quarter of ₹0.4cr V/s tax outgo of ₹25cr in 3QFY2015.

Exhibit 4: Adjusted PAT trend



Source: Company, Angel Research

Concall highlights

- The company's domestic agrochemical business saw weak demand during the shortened rabi season as low ground water level and extension of kharif season into rabi reduced the sowing window available to farmers. Consequently, channel inventory remained high, thereby forcing the company to take back inventory from the system. As a result, sales return remained high during the quarter.
- The company's export business saw the adverse impact of global slowdown for the second straight quarter. Tough operating environment in key geographies such as Brazil and USA have led to many orders getting differed or even cancelled. Exports account for 30-33% of Rallis' total revenues. The Management expects some of the orders lost during 1HFY2016 to come back in 4QFY2016.

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. On back of a weaker FY2016, we expect the company to post a dip in domestic sales, which should bounce back in FY2017E.

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.

Outlook and valuation

Given the pressure on the financials, we expect Rallis to register an 8.9% dip in sales in FY2016. For FY2015-17E, we expect a CAGR of 3.7% and 3.4% in net sales and profit, respectively, with recovery expected in FY2017E. At the current levels, the stock is trading at a fair valuation of 17.3x its FY2017E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

Exhibit 5: Key assumptions

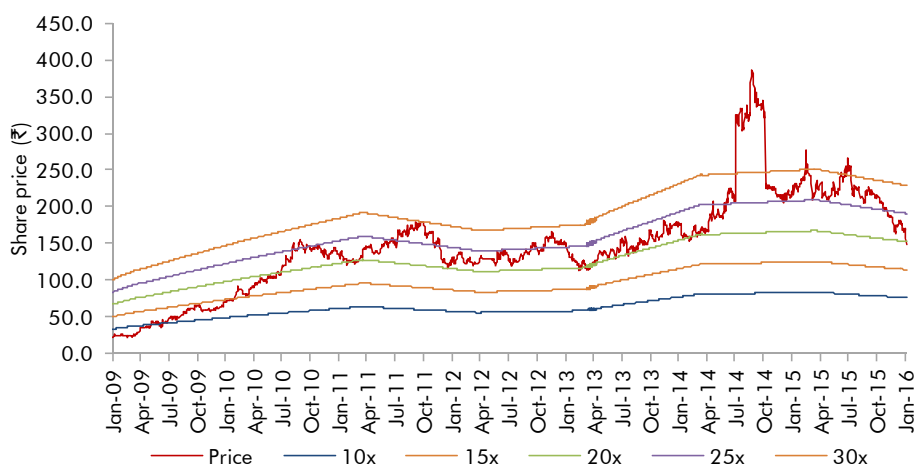
Particulars (%)	FY2016E	FY2017E
Domestic growth	(20.0)	13.0
Export growth	(16.7)	28.0
Total revenue growth	(8.9)	18.0
EBITDA margin	14.4	14.4
Capex (₹ cr)	50	70

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
Rallis	Neutral	2,908	149	-	-	20.8	17.3	2.5	2.1	17.6	14.8	16.5	18.0	3.7	3.4
United Phosphorus	Buy	13,698	392	510	30.1	12.2	10.2	1.3	1.1	7.5	6.2	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
Gross sales	1,328	1,535	1,840	1,922	1,736	2,048
Less: Excise duty	79	95	114	121	97	109
Net Sales	1,249	1,440	1,726	1,801	1,639	1,939
Other operating income	25	18	21	21	21	21
Total operating income	1,275	1,458	1,747	1,822	1,660	1,960
% chg	17.4	14.4	19.8	4.3	(8.9)	18.0
Total Expenditure	1,058	1,241	1,485	1,545	1,404	1,660
Net Raw Materials	695	823	1,008	995	952	1,126
Other Mfg costs	255	304	342	341	311	367
Personnel	90	94	111	129	118	139
Other	18	20	24	25	23	27
EBITDA	192	199	240	256	236	279
% chg	10.0	3.9	20.8	6.5	(8.0)	18.3
(% of Net Sales)	15.3	13.8	13.9	14.2	14.4	14.4
Depreciation & Amortisation	29	32	41	50	50	54
EBIT	188	186	221	228	207	246
% chg	6.3	(1.5)	18.9	3.1	(9.1)	18.8
(% of Net Sales)	15.1	12.9	12.8	12.6	12.6	12.7
Interest & other Charges	17	21	13	10	11	10
Other Income	5	5	6	4	4	4
(% of PBT)	3	3	3	2	2	2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	176	170	214	222	200	240
% chg	(4.2)	(3.5)	26.3	3.4	(9.8)	20.2
Extraordinary Expense/(Inc.)	(23)	3	-	-	-	-
PBT (reported)	153	172	214	222	200	240
Tax	49	53	62	62	60	72
(% 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
PAT (reported)	99	119	152	157	140	168
ADJ. PAT	109	114	152	157	140	168
% chg	(13.3)	4.6	32.9	3.5	(11.0)	20.2
(% of Net Sales)	8.7	7.9	8.8	8.7	8.5	8.7
Basic EPS (₹)	5.6	5.9	7.8	8.1	7.2	8.6
Fully Diluted EPS (₹)	5.6	5.9	7.8	8.1	7.2	8.6
% chg	(13.3)	4.6	32.9	3.5	(11.0)	20.2

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity Share Capital	19	19	19	19	19	19
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	534	601	699	795	866	966
Shareholders Funds	553	621	718	815	886	986
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
Total Liabilities	736	821	853	993	1,069	1,137
APPLICATION OF FUNDS						
Gross Block	551	581	651	687	737	807
Less: Acc. Depreciation	189	195	233	282	332	386
Net Block	362	386	418	405	405	421
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	94	111
Current Assets	432	488	549	680	725	833
Cash	11	26	9	7	79	69
Loans & Advances	45	28	40	28	59	70
Other	375	435	500	645	587	694
Current liabilities	387	368	445	443	396	469
Net Current Assets	45	120	104	237	329	364
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	736	821	853	993	1,069	1,137

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	153	172	214	222	200	240
Depreciation	29	32	41	50	50	54
(Inc)/Dec in Working Capital	(28)	(61)	(7)	(147)	(3)	(63)
Direct taxes paid	(38)	(53)	(62)	(62)	(60)	(72)
Cash Flow from Operations	144	150	186	63	187	160
(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.						
Cash Flow from Investing	(52)	(2)	(61)	(35)	(50)	(70)
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)	-	-
Cash Flow from Financing	(95)	(134)	(142)	(29)	(65)	(100)
Inc./ (Dec.) in Cash	(3)	15	(17)	(2)	72	(10)
Opening Cash balances	15	11	26	9	7	79
Closing Cash balances	11	26	9	7	79	69

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	26.6	25.5	19.2	18.5	20.8	17.3
P/CEPS	16.2	19.3	15.1	14.1	15.3	13.1
P/BV	5.3	4.7	4.1	3.6	3.3	3.0
Dividend yield (%)	1.3	1.3	1.3	1.3	2.0	2.7
EV/Sales	3.4	2.9	2.4	2.3	2.5	2.1
EV/EBITDA	22.3	21.3	17.4	16.4	17.6	14.8
EV / Total Assets	5.8	5.2	4.9	4.2	3.9	3.6
Per Share Data (₹)						
EPS (Basic)	5.6	5.9	7.8	8.1	7.2	8.6
EPS (fully diluted)	5.6	5.9	7.8	8.1	7.2	8.6
Cash EPS	9.3	7.7	9.9	10.6	9.8	11.4
DPS	2.0	2.0	2.0	2.0	3.0	4.0
Book Value	28.4	31.9	36.9	41.9	45.6	50.7
Dupont Analysis						
EBIT margin	15.1	12.9	12.8	12.6	12.6	12.7
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	1.6	1.8
ROIC (Post-tax)	19.0	16.6	19.0	18.0	14.2	15.8
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	0.1	0.1	0.1
Operating ROE	22.4	18.0	20.6	19.5	15.0	16.5
Returns (%)						
ROCE (Pre-tax)	27.3	23.8	26.4	24.7	20.1	22.3
Angel ROIC (Pre-tax)	44.1	33.7	35.9	32.4	26.8	30.3
ROE	20.6	19.5	22.7	20.5	16.5	18.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.7	2.6	2.8	2.7	2.3	2.5
Inventory / Sales (days)	72	67	62	74	93	87
Receivables (days)	30	34	35	37	46	44
Payables (days)	131	111	98	105	109	95
WC cycle (ex-cash) (days)	4	16	20	33	53	51
Solvency ratios (x)						
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	0.2	0.1
Interest Coverage (EBIT / Int.)	10.9	9.0	17.5	22.5	18.7	25.7

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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

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)