

Rallis India

Performance Highlights

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)
Net sales	342	306	11.7	315	8.6
Other income	15	5	208.2	6	132.1
Gross profit	148	148	0.3	148	0.0
Operating profit	36	31	14.5	39	(8.3)
Adj. Net profit	32	20	58.0	21	51.3

Source: Company, Angel Research

For 4QFY2016, Rallis India (Rallis) posted sales of ₹342cr V/s ₹315cr in 4QFY2015, a growth of 8.6% yoy. The same was driven by higher offtake in export orders which have been getting differed since the past two quarters due to a challenging environment faced by global companies. Domestic growth continued to remain muted during the quarter. On the operating front, the gross margin came in at 43.3% V/s 47.0% in 3QFY2015, leading the OPM for the quarter to decline to 10.4% V/s 12.3% in 3QFY2015. In spite of the same, the PAT came in at ₹32cr V/s ₹21cr in 3QFY2015, a growth of 51.3% yoy. This was on back of the depreciation dipping by 55.4% yoy and a 132.1% yoy growth in other income (which came in at ₹15cr V/s ₹6cr in 4QFY2015). **We remain Neutral on the stock.**

Margins disappoint: Company posted a robust growth in the top-line of 8.6% yoy to ₹342cr, mainly driven by exports. On the operating front, the gross margin for the quarter came in at 43.3% V/s 47.0% in 4QFY2015, while the OPM came in at 10.4% V/s 12.3% in 4QFY2015. The PAT came in at ₹32cr V/s ₹21cr in 4QFY2015, posting a growth of 51.3% yoy which is in spite of a contraction in the OPM. The PAT was aided by a 55.4% yoy dip in depreciation and 132.1% yoy growth in other income (which came in at ₹15cr V/s ₹6cr in 4QFY2015).

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 FY2017E. At the current levels, the stock is trading at a fair valuation of 17.9x its FY2018E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	1,822	1,637	1,937	2,164
% chg	4.3	(10.1)	18.3	11.7
Adj. Net Profit	157	143	176	214
% chg	3.5	(9.0)	22.8	21.9
EBITDA %	14.2	13.3	13.3	14.3
FDEPS (₹)	8.1	7.4	9.0	11.0
P/E (x)	24.4	26.9	21.9	17.9
P/BV (x)	4.7	4.3	3.8	3.3
RoE (%)	20.5	16.7	18.4	19.8
RoACE (%)	24.7	19.2	20.2	22.1
EV/Sales (x)	2.3	2.6	2.2	1.9
EV/EBITDA (x)	16.4	19.5	16.4	13.3

Source: Company, Angel Research; Note: CMP as of April 28, 2016

NEUTRAL

CMP	₹196
Target Price	-

Investment Period	-
-------------------	---

Stock Info

Sector	Agrichemical
Market Cap (₹ cr)	3,803
Net debt (₹ cr)	126
Beta	0.9
52 Week High / Low	274/142
Avg. Daily Volume	83,582
Face Value (₹)	1
BSE Sensex	25,603
Nifty	7,847
Reuters Code	RALL.BO
Bloomberg Code	RALI@IN

Shareholding Pattern (%)

Promoters	50.1
MF / Banks / Indian FIs	19.3
FII / NRIs / OCBs	7.6
Indian Public / Others	23.0

Abs. (%)	3m	1yr	3yr
Sensex	4.6	(6.5)	32.7
Rallis India	19.2	(10.0)	56.9

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91-22-39357800 ext. 6806
 sarabjit@angelbroking.com

Exhibit 1: 4QFY2016 performance (Consolidated)

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)	FY2016	FY2015	% chg
Net sales	342	306	11.7	315	8.6	1,612	1,801	(10.5)
Other income	15	5	208.2	6	132.1	30	25	19.9
Total income	357	311	14.8	321	11.1	1,642	1,826	(10.1)
Gross profit	148	148	0.3	148	0.0	773	806	(4.1)
Gross margin (%)	43.3	48.2		47.0		48.0	44.8	
EBDITA	36	31	14.5	39	(8.3)	214	256	(16.5)
EBDITA margin (%)	10.4	10.2		12.3		13.3	14.2	
Financial cost	3	4	(17.9)	3	17.3	14	10	35.5
Depreciation	6	14	(57.9)	13	(55.4)	45	50	(10.8)
PBT	42	18	127.5	30	41.3	186	221	(16.0)
Provision for taxation	10	0	-	8	16.7	39	62	(37.2)
PAT Before Exc. And MI	32	19	70.9	21	50.9	147	160	(8.3)
Minority	(0)	(2)		(0)		4	3	-
Exceptional	0	0		0		0	0	
Reported PAT	32	20	58.0	21	51.3	143	157	(9.0)
Adjusted PAT	32	20	58.0	21	51.3	143	157	(9.0)
EPS (₹)	1.7	1.1		1.1		7.4	8.1	

Source: Company, Angel Research

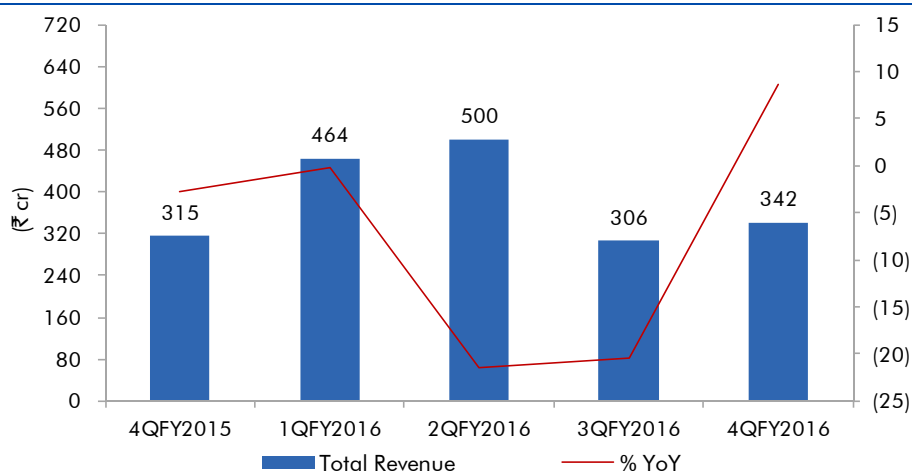
Sales rose by 8.6% yoy

(Rallis) posted sales of ₹342cr V/s ₹315cr in 4QFY2015, a growth of 8.6% yoy. The same was driven by higher offtake in export orders which have been getting differed since the past two quarters due to a challenging environment faced by global companies. Domestic growth continued to remain muted during the quarter.

For the entire year FY2016, Rallis' exports business witnessed pressure on account of global weakness in the agrochemical industry. As a result, the company's revenues dropped by 20% yoy to ₹400cr in FY2016. The company's primary export market remains Brazil where sluggish demand environment, currency volatility and macro headwinds led to deferment/cancellation of many orders. For FY2016, the share of exports in overall revenue remained at 30%. However, export orders saw some revival in 4QFY2016, but the Management still remains cautious on recovery in Brazil anticipating sluggishness for a couple of more quarters. This would likely keep the exports business revenues under pressure.

During FY2016, Rallis' seed business under Metahelix reported decent growth of 8% yoy to ₹344cr 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% margins in a good monsoon year.

Exhibit 2: Total revenue performance

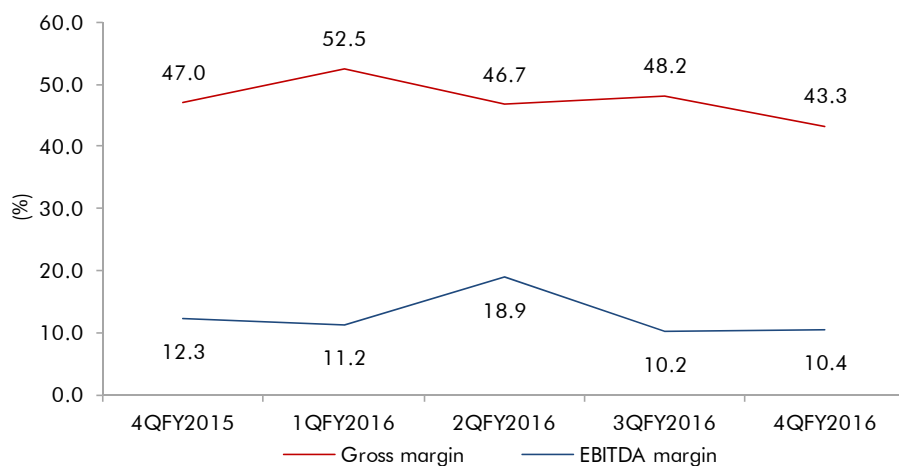


Source: Company, Angel Research

OPM dips yoy

On the operating front, the gross margin came in at 43.3% V/s 47.0% in 4QFY2015, while the OPM came in at 10.4% V/s 12.3% in 4QFY2015. The gross margin for the quarter dipped by 370bp, while the OPM dipped by 190bp. Other expenditure for the quarter rose by 1.2% yoy.

Exhibit 3: Margin trend (%)

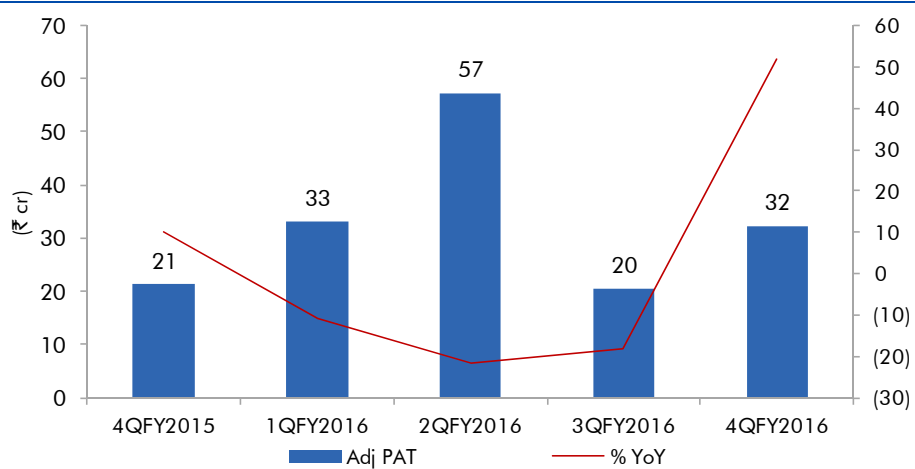


Source: Company, Angel Research

Earnings rise by 51.3% yoy on back of other income

The PAT for the quarter came in at ₹32cr V/s ₹21cr in 4QFY2015, posting a growth of 51.3% yoy. The growth came in spite of a contraction in the OPM and was aided by a 55.4% yoy dip in depreciation and 132.1% yoy growth in other income (which came in at ₹15cr V/s ₹6cr in 4QFY2015).

Exhibit 4: Adjusted PAT trend



Source: Company, Angel Research

Concall highlights

- The company's innovation index for FY2016 improved to 11% from 10% in the previous year. However, the Management indicated that the index could have improved further but the same was restricted due to a challenging demand environment which resulted in new products not achieving the desired level of growth during the year.
- The company has bagged two CRAMS projects on pilot basis during the year. The Management expects to convert these pilot projects into full commercial contracts in FY2017 and expects them to contribute to earnings growth from FY2018-2019. Currently, Rallis has two molecules under CRAMS which are being manufactured at its Dahej facility.

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. 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/cancellation 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 ₹3,34cr (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% margins 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 expects them to contribute to earnings growth from FY2018-2019. Currently, Rallis has two molecules under CRAMS which are being manufactured at its Dahej facility.

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 FY2017E, driven by above normal monsoons. At the current levels, the stock is trading at a fair valuation of 17.9x its FY2018E EPS. **Hence, we maintain our Neutral recommendation on the stock.**

Exhibit 5: Key assumptions

Particulars (%)	FY2017E	FY2018E
Domestic growth	24.0	11.0
Export growth	5.0	15.0
Total revenue growth	19.6	11.8
EBITDA margin	13.3	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 (%)	
						FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	Sales	PAT
Rallis	Neutral	3,802	196	-	-	26.9	21.9	2.6	2.2	19.5	16.4	16.7	18.4	15.0	22.3
United Phosphorus	Neutral	23,502	517	-	30.1	17.3	14.4	2.0	1.7	10.8	9.0	20.0	20.3	9.9	15.8

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
Gross sales	1,535	1,840	1,922	1,730	2,059	2,302
Less: Excise duty	95	114	121	119	147	164
Net Sales	1,440	1,726	1,801	1,612	1,911	2,138
Other operating income	18	21	21	26	26	26
Total operating income	1,458	1,747	1,822	1,637	1,937	2,164
% chg	14.4	19.8	4.3	(10.1)	18.3	11.7
Total Expenditure	1,241	1,485	1,545	1,398	1,656	1,832
Net Raw Materials	823	1,008	995	839	1,110	1,242
Other Mfg costs	304	342	341	404	382	406
Personnel	94	111	129	132	137	154
Other	20	24	25	22	27	30
EBITDA	199	240	256	214	255	306
% chg	3.9	20.8	6.5	(16.5)	19.1	20.3
(% of Net Sales)	13.8	13.9	14.2	13.3	13.3	14.3
Depreciation & Amort.	32	41	50	45	56	61
EBIT	186	221	228	195	225	271
% chg	(1.5)	18.9	3.1	(14.3)	15.1	20.8
(% of Net Sales)	12.9	12.8	12.6	12.1	11.8	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.	-	-	-	-	-	-
Recurring PBT	170	214	222	186	220	268
% chg	(3.5)	26.3	3.4	(16.2)	18.2	21.9
Extraordinary Exp./(Inc.)	3	-	-	-	-	-
PBT (reported)	172	214	222	186	220	268
Tax	53	62	62	39	44	54
(% 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
PAT (reported)	119	152	157	143	176	214
ADJ. PAT	114	152	157	143	176	214
% chg	4.6	32.9	3.5	(9.0)	22.8	21.9
(% of Net Sales)	7.9	8.8	8.7	8.9	9.2	10.0
Basic EPS (₹)	5.9	7.8	8.1	7.4	9.0	11.0
Fully Diluted EPS (₹)	5.9	7.8	8.1	7.4	9.0	11.0
% chg	4.6	32.9	3.5	(9.0)	22.8	21.9

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	19	19	19	19	19	19
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	601	699	795	880	987	1,132
Shareholders Funds	621	718	815	899	1,006	1,152
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
Total Liabilities	821	853	993	1,038	1,184	1,270
APPLICATION OF FUNDS						
Gross Block	581	651	687	764	834	904
Less: Acc. Depreciation	195	233	282	327	383	444
Net Block	386	418	405	437	451	460
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
Current Assets	488	549	680	650	778	895
Cash	26	9	7	8	25	53
Loans & Advances	28	40	28	35	69	77
Other	435	500	645	607	684	765
Current liabilities	368	445	443	467	462	517
Net Current Assets	120	104	237	183	316	379
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	821	853	993	1,038	1,184	1,270

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	172	214	222	186	220	268
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)	(44)	(54)
Cash Flow from Operations	150	186	63	246	117	227
(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.	-	-	-	-	-	-
Cash Flow from Investing	(2)	(61)	(35)	(80)	(70)	(70)
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)
Cash Flow from Financing	(134)	(142)	(29)	(165)	(29)	(129)
Inc./ (Dec.) in Cash	15	(17)	(2)	1	17	28
Opening Cash balances	11	26	9	7	8	25
Closing Cash balances	26	9	7	8	25	53

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	33.6	25.3	24.4	26.9	21.9	17.9
P/CEPS	25.5	19.9	18.6	20.5	16.6	14.0
P/BV	6.2	5.3	4.7	4.3	3.8	3.3
Dividend yield (%)	1.0	1.0	1.0	1.5	2.0	2.5
EV/Sales	2.9	2.4	2.3	2.6	2.2	1.9
EV/EBITDA	21.3	17.4	16.4	19.5	16.4	13.3
EV / Total Assets	5.2	4.9	4.2	4.0	3.5	3.2
Per Share Data (₹)						
EPS (Basic)	5.9	7.8	8.1	7.4	9.0	11.0
EPS (fully diluted)	5.9	7.8	8.1	7.4	9.0	11.0
Cash EPS	7.7	9.9	10.6	9.6	11.9	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	51.7	59.2
Dupont Analysis						
EBIT margin	12.9	12.8	12.6	12.1	11.8	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	1.8
ROIC (Post-tax)	16.6	19.0	18.0	15.4	16.4	17.9
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	0.1	0.1
Operating ROE	18.0	20.6	19.6	16.1	17.3	18.7
Returns (%)						
ROCE (Pre-tax)	23.8	26.4	24.7	19.2	20.2	22.1
Angel ROIC (Pre-tax)	33.7	35.9	32.4	25.7	27.6	29.9
ROE	19.5	22.7	20.5	16.7	18.4	19.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.6	2.8	2.7	2.3	2.4	2.5
Inventory / Sales (days)	67	62	74	89	81	85
Receivables (days)	34	35	37	44	40	42
Payables (days)	111	98	105	119	102	98
WC cycle (ex-cash) (days)	16	20	33	46	45	53
Solvency ratios (x)						
Net debt to equity	0.2	0.1	0.2	0.1	0.1	0.0
Net debt to EBITDA	0.7	0.3	0.5	0.4	0.4	0.1
Interest Coverage (EBIT / Int.)	9.0	17.5	22.5	14.4	24.3	33.9

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange of India Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. Angel/analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

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)