

INDUSTRY AGROCHEMICAL
CMP (as on 21 Jan 2015) Rs 216
Target Price Rs 251

Nifty 8,730

Sensex 28,889

KEY STOCK DATA

Bloomberg/Reuters RALI IN/RALL.BO

No. of Shares (mn) 194

MCap (Rs bn) / (\$ mn) 42/686

6m avg traded value (Rs mn) 88

STOCK PERFORMANCE (%)
52 Week high / low Rs 255/151

	3M	6M	12M
Absolute (%)	(3.6)	1.6	23.6
Relative (%)	(12.3)	(10.7)	(12.3)

SHAREHOLDING PATTERN (%)

Promoters 50.09

FIs & Local MFs 5.05

FIIIs 16.65

Public & Others 28.21

Source : BSE

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At an inflection point

Rallis India's 3QFY15 results were disappointing on account of lower Rabi sowing (-5% YoY) and weak profitability for farmers in kharif. Revenues came in at Rs 3.9bn (-3% YoY) while APAT stood at Rs 255mn (-16%). Inventory losses (Rs 54mn, due to fall in RM prices) and higher other expenses led to the contraction in EBITDA margin to 13% (-91 bps).

RALI is a direct beneficiary of Indian agriculture growth. Lower penetration of agrochemicals in India and its cost advantage underpin a long term growth. A strong brand, complete portfolio and extensive distribution network command a premium for Rallis.

Despite the world class facility at Dahej, revenues from exports have only doubled in the last 5 years for RALI vs ~5x growth for the CSM leader in India. We expect CSM along with seeds (biz to grow 2.5x over FY14-17E) to be the key drivers for the company.

RALI is trading at 15.5/3.7x FY17E EPS/BV. Attractive valuation, zero debt, strong RoE/RoCE and new product launches are key positives for the stock. Upgrade to BUY with a TP of Rs 251 (18x FY17E EPS).

FINANCIAL SUMMARY (CONSOLIDATED)

Year Ending March (Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	3,895	4,008	(2.8)	6,419	(39.3)	14,582	17,466	18,854	21,996	25,905
EBITDA	505	556	(9.2)	1,214	(58.4)	2,106	2,613	2,793	3,405	4,250
APAT	255	303	(15.8)	742	(65.6)	1,190	1,519	1,628	2,088	2,716
Diluted EPS (Rs)	1.3	1.6	(15.8)	3.8	(65.6)	6.1	7.8	8.4	10.7	14.0
P/E (x)						35.3	27.7	25.8	20.1	15.5
EV / EBITDA (x)						20.1	16.3	15.1	12.2	9.6
RoE (%)						20.3	22.7	21.1	23.3	25.8

Source: Company, HDFC sec Inst Research

3QFY15 Highlights

- Crop protection** : Performance was muted led by lower rabi sowing and weak crop prices in the domestic and international markets. Company remained focused on cash collection vs growth. RALI has moved further ahead in CSM with a new commercial trial order (to be executed in 4QFY15).
- Seeds** : Seeds biz (Metahelix) revenues grew by 55% YoY to ~Rs 350mn. However, margins were under pressure and consequently, EBITDA loss increased to Rs 67mn (vs Rs 35mn YoY). Lower paddy acreage in AP and shift from maize in Bihar led to below expected performance.
- Robust financials** : Healthy OCF with a capex of Rs 1bn/yr will lead to an FCF of ~Rs 1.3bn/yr over FY15-17E. RoE/RoCE expected to improve to 26/24% by FY17E from 23/20% in FY14.
- Outlook** : RALI will benefit from strong farmer connect, sound product portfolio & robust financials. Focus on custom synthesis manufacturing and seeds could further open up a vast opportunity.

QUARTERLY FINANCIALS SNAPSHOT (CONSOLIDATED)

(Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)
Net Sales	3,895	4,008	(2.8)	6,419	(39.3)
Material Expenses	1,862	1,899	(2.0)	3,200	(41.8)
Traded Goods	185	444	(58.2)	710	(73.9)
Employee Expenses	342	291	17.3	310	10.3
Other Expenses	1,002	818	22.4	986	1.6
EBITDA	505	556	(9.2)	1,214	(58.4)
Depreciation	126	94	34.7	127	(0.4)
Other Income	9	14	(39.4)	8	11.7
Exchange gain/(loss)	-	24	(100.0)	-	-
PBIT	387	501	(22.7)	1,095	(64.6)
Interest	26	31	(17.6)	26	1.2
E/o items	-	-	-	-	-
PBT	361	469	(23.0)	1,070	(66.2)
Tax	128	185	(30.7)	340	(62.3)
PAT	233	284	(18.0)	729	(68.1)
Minority Interest	(22)	(19)	-	(12)	-
APAT	255	303	(15.8)	742	(65.6)
AEPS (Rs/sh)	1.3	1.6	(15.8)	3.8	(65.6)

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

Margin Analysis (% of Net Sales)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)
Material Expenses as % of Net Sales	47.8	47.4	41	49.8	(205)
Employee Expenses as % of Net Sales	8.8	7.3	151	4.8	395
Traded Goods as % of Net Sales	4.8	11.1	(631)	11.1	(630)
Other Expenses as % of Net Sales	25.7	20.4	531	15.4	1,036
EBITDA Margin (%)	13.0	13.9	(91)	18.9	(595)
Net Profit Margin (%)	6.5	7.6	(101)	11.6	(501)
Tax Rate (%)	35.5	39.4	(392)	31.8	371

Source: Company, HDFC sec Inst Research

Revenues decline and inventory losses of Rs 54mn resulted in muted EBITDA

Higher other expenses led to contraction in EBITDA margins

ASSUMPTIONS

	FY12	FY13	FY14E	FY15E	FY16E	FY17E
Sales Growth (%)						
Domestic	5.1	19.0	20.9	8.0	15.5	16.0
Exports	49.8	8.3	17.3	8.0	20.0	22.5
Metahelix		42.2	46.3	30.0	40.0	35.0
Total	17.4	14.4	19.8	8.0	16.7	17.8
Gross Margin (%)	41.7	39.8	42.3	43.9	44.2	44.4
Tax Rate (%)	32.6	31.0	28.8	28.6	28.3	28.4
Working capital (days)	31	45	40	40	37	37
Inventory	78	67	69	70	67	67
Debtors	30	41	35	35	35	35
Creditors	77	63	64	65	65	65
Capex (Rs mn)	531	349	543	1,000	1,000	1,000

Source : Company, HDFC sec Inst Research

CHANGE IN ESTIMATES

	FY16 Old	FY16 New	% Change
Net Sales	23,632	21,996	(6.9)
EBIDTA	3,655	3,405	(6.8)
APAT	2,358	2,088	(11.5)
AEPS	12.1	10.7	(11.5)

	FY17 Old	FY17 New	% Change
Net Sales	27,508	25,905	(5.8)
EBIDTA	4,283	4,250	(0.8)
APAT	2,811	2,716	(3.4)
AEPS	14.5	14.0	(3.4)

Cut in estimated factoring lower growth

PEER VALUATIONS

	CMP (Rs/sh)	Mcap (Rs bn)	Rating	EPS (Rs/sh)				P/E				P/BV				ROE (%)			
				FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Chambal Fert	61	25.4	BUY	5.9	7.8	8.7	9.2	10.4	7.8	7.0	6.6	1.2	1.1	1.0	0.9	12.5	14.9	14.9	14.1
Coromandel Int	304	86.0	NEU	12.6	18.5	24.0	26.9	24.1	16.4	12.7	11.3	3.8	3.2	2.7	2.3	15.9	21.2	23.3	22.0
Deepak Fert	104	41.3	NEU	8.6	12.8	14.2	15.5	12.1	8.1	7.3	6.7	1.0	0.9	0.8	0.7	8.4	11.6	11.7	11.6
GSFC	140	12.3	SELL	26.8	13.8	17.3	24.2	5.2	10.1	8.1	5.8	0.8	0.8	0.7	0.7	16.8	8.0	9.5	12.4
PI Industries	497	68.1	NEU	13.9	17.4	21.3	25.5	35.9	28.6	23.3	19.5	9.8	7.6	6.0	4.7	30.7	29.7	28.4	26.9
Rallis India	216	42.0	BUY	7.8	8.4	10.7	14.0	27.7	25.8	20.1	15.5	5.9	5.1	4.4	3.7	22.7	21.1	23.3	25.8
UPL Ltd	364	156.1	BUY	24.1	25.8	28.0	31.4	15.1	14.1	13.0	11.6	3.0	2.5	2.2	1.9	20.9	19.4	18.2	17.7

Source : Company, HDFC sec Inst Research

INCOME STATEMENT (CONSOLIDATED)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	14,582	17,466	18,854	21,996	25,905
Growth (%)	14.4	19.8	8.0	16.7	17.8
Material Expenses	7,624	8,376	9,069	10,525	12,331
Traded Goods	1,155	1,709	1,508	1,760	2,072
Employee Expenses	944	1,105	1,271	1,461	1,681
Other Operating Expenses	2,753	3,663	4,213	4,845	5,572
EBITDA	2,106	2,613	2,793	3,405	4,250
EBITDA Margin (%)	14.4	15.0	14.8	15.5	16.4
EBITDA Growth (%)	3.7	24.1	6.9	21.9	24.8
Other Income	117	64	91	104	151
Depreciation	315	407	490	541	591
EBIT	1,908	2,270	2,394	2,968	3,810
Interest & Financial charges	185	126	100	40	-
EO profit/(loss)	-	-	-	-	-
PBT	1,723	2,144	2,294	2,927	3,810
Tax	535	617	657	830	1,084
RPAT	1,188	1,527	1,638	2,098	2,726
Minority interest	(2)	8	10	10	10
APAT	1,190	1,519	1,628	2,088	2,716
APAT Growth (%)	7.5	27.6	7.2	28.3	30.1
AEPS	6.1	7.8	8.4	10.7	14.0
EPS Growth (%)	7.5	27.6	7.2	28.3	30.1

Source: Company, HDFC sec Inst Research

BALANCE SHEET (CONSOLIDATED)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
SOURCES OF FUNDS					
Share Capital	194	195	195	195	195
Reserves	6,013	6,986	8,044	9,449	11,255
Total Shareholders Funds	6,207	7,180	8,239	9,644	11,450
Long Term Debt	107	261	161	-	-
Short Term Debt	433	484	344	-	-
Total Debt	540	745	505	-	-
Minority Interest	47	105	105	105	105
Other long-term liabilities	60	35	35	35	35
Long-term provisions	305	145	145	145	145
Net deferred tax liability	281	315	315	315	315
TOTAL SOURCES OF FUNDS	7,440	8,525	9,344	10,244	12,050
APPLICATION OF FUNDS					
Net Block	3,878	4,182	4,297	4,559	4,548
CWIP	345	211	605	803	1,222
Goodwill	1,676	1,860	1,860	1,860	1,860
Investments	187	187	187	187	187
LT Loans & Advances	918	977	1,026	1,078	1,131
Other non current assets	-	-	-	-	-
Inventories	2,672	3,295	3,616	4,038	4,755
Trade Receivables	1,648	1,679	1,808	2,109	2,484
Cash & Equivalents	269	153	270	496	1,443
ST Loans & Advances	277	402	402	402	402
Other Current Assets	27	26	26	26	26
Current Assets	4,893	5,555	6,122	7,072	9,111
Trade Payables	2,503	3,051	3,358	3,917	4,613
Other Current Liabilities	1,582	811	811	811	811
Provisions	372	585	585	585	585
Current Liabilities	4,457	4,447	4,753	5,313	6,009
Net current Assets	436	1,109	1,369	1,759	3,102
TOTAL APPLICATION OF FUNDS	7,440	8,525	9,344	10,244	12,050

Source: Company, HDFC sec Inst Research

CASH FLOW (CONSOLIDATED)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Reported PAT	1,363	1,519	1,628	2,088	2,716
Non-operating inc & EO items	62	43	61	70	101
PAT from Operations	1,301	1,476	1,566	2,018	2,615
Interest	178	126	100	40	-
Depreciation	315	407	490	541	591
Working Capital Change	(407)	(1,157)	(192)	(215)	(450)
OPERATING CASH FLOW (a)	1,388	852	1,965	2,385	2,756
Capex	(349)	(543)	(1,000)	(1,000)	(1,000)
Free cash flow (FCF)	1,039	309	965	1,385	1,756
Investments	(79)	0	-	-	-
Non-operating income	10	43	61	70	101
INVESTING CASH FLOW (b)	(418)	(501)	(939)	(930)	(899)
Share capital Issuance	-	-	-	-	-
Debt Issuance	(220)	205	(240)	(505)	-
Dividend	(495)	(546)	(569)	(683)	(910)
Interest	(179)	(126)	(100)	(40)	-
FINANCING CASH FLOW (c)	(895)	(467)	(909)	(1,228)	(910)
NET CASH FLOW (a+b+c)	76	(116)	117	226	947
EO items	51	-	-	-	-
Closing Cash & Equivalent	269	153	270	496	1,443

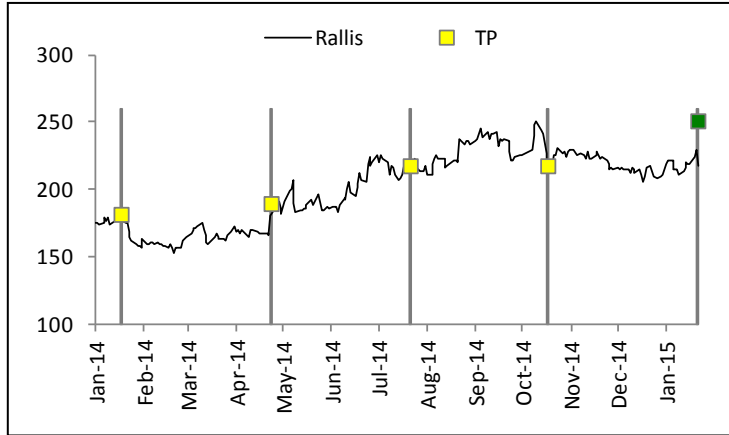
Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY13	FY14	FY15E	FY16E	FY17E
PROFITABILITY (%)					
GPM	39.8	42.3	43.9	44.2	44.4
EBITDA Margin	14.4	15.0	14.8	15.5	16.4
EBIT Margin	13.1	13.0	12.7	13.5	14.7
APAT Margin	8.2	8.7	8.6	9.5	10.5
RoE	20.3	22.7	21.1	23.3	25.8
Core RoCE	17.2	20.1	18.7	21.7	25.6
RoCE	17.8	20.1	19.0	21.6	24.4
EFFICIENCY					
Tax Rate (%)	31.0	28.8	28.6	28.3	28.4
Asset Turnover (x)	2.0	2.2	2.1	2.2	2.3
Inventory (days)	67	69	70	67	67
Debtors (days)	41	35	35	35	35
Payables (days)	63	64	65	65	65
Cash Conversion Cycle (days)	45	40	40	37	37
Debt/EBITDA (x)	0.3	0.3	0.2	0.0	0.0
Net D/E	0.0	0.1	0.0	(0.0)	(0.1)
Interest Coverage	10.3	18.0	23.9	73.5	NA
PER SHARE DATA					
EPS (Rs/sh)	6.1	7.8	8.4	10.7	14.0
CEPS (Rs/sh)	7.7	9.9	10.9	13.5	17.0
DPS (Rs/sh)	2.3	2.4	2.5	3.0	4.0
BV (Rs/sh)	31.9	36.9	42.4	49.6	58.9
VALUATION					
P/E	35.3	27.7	25.8	20.1	15.5
P/BV	6.8	5.9	5.1	4.4	3.7
EV/EBITDA	20.1	16.3	15.1	12.2	9.6
OCF/EV (%)	3.3	2.0	4.6	5.7	6.8
FCF/EV (%)	2.5	0.7	2.3	3.3	4.3
FCFE/MCap (%)	2.0	0.4	2.1	3.2	4.2
Dividend Yield (%)	1.1	1.1	1.2	1.4	1.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-Jan-14	177	NEU	182
23-Apr-14	180	NEU	190
19-Jul-14	217	NEU	218
20-Oct-14	212	NEU	218
21-Jan-15	216	BUY	251

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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