

India

REDUCE (no change)

Consensus ratings*:	Buy 2	Hold 6	Sell 9
Current price:	Rs234		
Target price:	Rs218 ▲		
Previous target:	Rs180		
Up/downside:	-6.8%		
InCred Research / Consensus:	9.1%		
Reuters:	RALL.NS		
Bloomberg:	RALI IN		
Market cap:	US\$549m		
	Rs45,408m		
Average daily turnover:	US\$1.8m		
	Rs151.1m		
Current shares o/s:	194.5m		
Free float:	49.9%		
*Source: Bloomberg			



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.8	22.3	3.7
Relative (%)	8.6	18.3	(5.1)

Major shareholders	% held
Promoter & Promoter Group	50.1
SBI Funds Management Ltd	6.2
Nippon Life India Asset Management	3.5

Rallis India Ltd

Demand subdued; earnings to decline

- Rallis India is facing multiple headwinds, including global inventory destocking, reduced realization, likely raw material inflation, and competition from China.
- Acephate, metconazole & hexaconazole are some of the company's main products. These are witnessing a fall in exports along with reduced realization.
- We value Rallis India at 24.9x its one-year forward EPS to arrive at a higher target price of Rs218. Retain our REDUCE rating on the stock.

Weak domestic and export demand

Rallis India, a manufacturer of generic agrochemicals, heavily relies on the domestic market for its revenue. Although exports contribute less than 20% to its overall revenue, both domestic and export earnings are predominantly driven by traditional insecticides and fungicides. The challenge faced by the company's domestic operations is less monsoon rains which can impact crop acreage. Rallis India's exports have fallen in the wake of the global agrochemicals destocking trend.

Decline in realization of key products

Rallis India has brand names like Tata Master, Taquat, and Hunk for its domestic market product offerings. All of them are generic agrochemicals but under the distinct brand names. The prices of its key products like acephate, fenvalerate, metalaxyl and metconazole are exhibiting a sequential fall. At the same time, we expect an upward trend in raw material costs alongside rising crude oil prices.

Higher dependency on metconazole and acephate is very risky

A significant portion of Rallis India's exports comprise metconazole and acephate. It's important to note that both acephate and metconazole have limited demand due to their potential negative environmental impact. Notably, acephate encompasses all the hazards found in metconazole, albeit with a greater intensity. The Environmental Protection Agency (EPA) has categorized acephate as a "highly hazardous" pesticide, indicating a substantial risk to human health and the environment if not utilized correctly. As a result, the demand for both these products carries inherent risk.

We value the stock at 24.9x FY26F EPS to arrive at a TP of Rs218

Given the fact that Rallis India is facing multiple headwinds, we believe this will lead to volatility in earnings. Expecting the gross margin to hover around 35%, we have determined the stock's value at 24.9x FY26F EPS (in line with average trading multiple of last 14 years), leading to a higher target price of Rs218 (from Rs180 earlier). Retain our REDUCE rating on the stock. Upside risk: A sudden surge in product demand can lead to a higher EPS.

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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	26,039	29,670	32,725	36,194	40,034
Operating EBITDA (Rsm)	2,741	2,183	2,358	2,663	3,083
Net Profit (Rsm)	1,642	919	1,367	1,508	1,702
Core EPS (Rs)	8.4	4.7	7.0	7.8	8.8
Core EPS Growth	(25.9%)	(44.3%)	49.4%	10.3%	12.9%
FD Core P/E (x)	27.66	49.40	33.23	30.13	26.68
DPS (Rs)	3.0	1.3	2.0	2.2	2.5
Dividend Yield	1.28%	0.57%	0.84%	0.93%	1.05%
EV/EBITDA (x)	15.79	20.06	18.63	16.49	14.17
P/FCFE (x)	75.22	44.78	(1,386.47)	92.57	57.92
Net Gearing	(12.6%)	(9.3%)	(8.0%)	(7.7%)	(8.4%)
P/BV (x)	2.68	2.63	2.48	2.34	2.21
ROE	10.0%	5.3%	7.7%	8.0%	8.5%
% Change In Core EPS Estimates			(41.39%)	(49.91%)	(43.43%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Demand subdued, earnings to decline

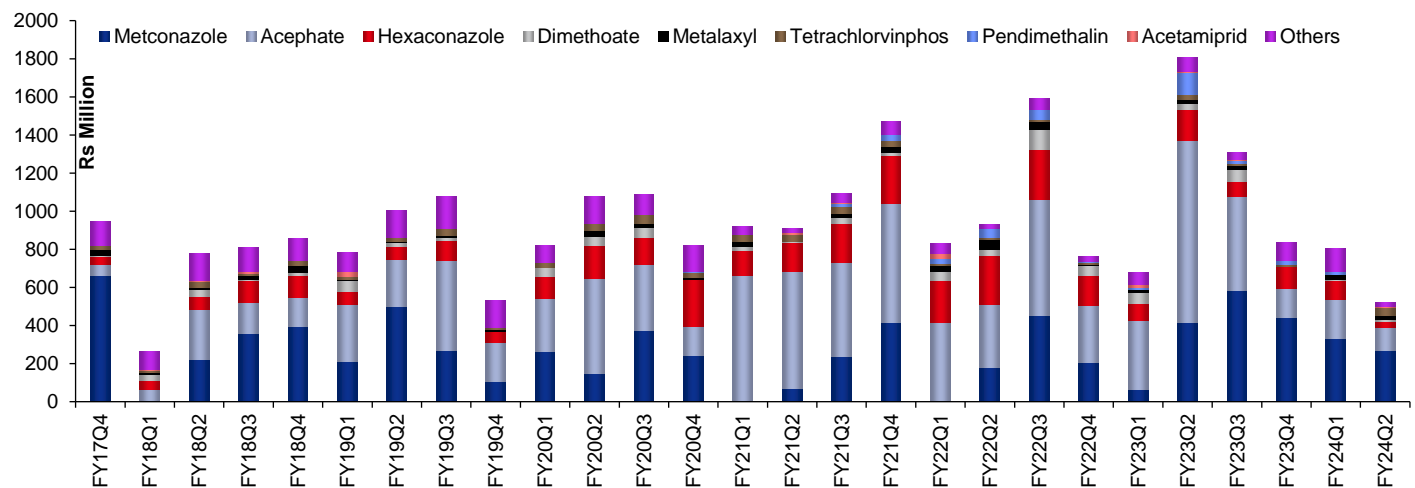
The best of overseas & domestic demand is behind us

Rallis India is a generic agrochemicals manufacturer relying mostly on the domestic market for its revenue. Exports are still less at 20% of its overall revenue. Domestic as well as export revenue is mostly driven by traditional insecticides and fungicides. Rallis India is not a very big player in the herbicide market, which is understandable given that insecticide forms ~ two-thirds of India's agrochemicals consumption basket.

Exports are falling >

Rallis India's exports are falling as global agrochemicals destocking is underway. The normalization of supply chains is leading to a fall in exports for all the companies and Rallis India is no exception.

Figure 1: Interestingly, metconazole is one of the biggest export items of Rallis India; please note that metconazole is the biggest export molecule for the company



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Acephate and metconazole have limited demand because of the potential negative impact on the environment >

The environmental concerns about metconazole include:

- Toxicity to aquatic organisms:** Metconazole is highly toxic to aquatic organisms including fish, algae, and invertebrates. It can also bioaccumulate in the food chain, posing a risk to higher trophic-level organisms such as birds and mammals.
- Persistence in the environment:** Metconazole is relatively persistent in the environment, with a half-life of up to 120 days in the soil. This means that it can remain in the environment for a long time, potentially posing a risk to wildlife and human health.
- Potential for run-off and leaching:** Metconazole can be easily washed off treated surfaces and can leach into the groundwater. This can contaminate drinking water supplies and pose a risk to human health.
- Impact on beneficial insects:** Metconazole can be harmful to bees and other beneficial insects. This can disrupt pollination and other important ecosystem services.

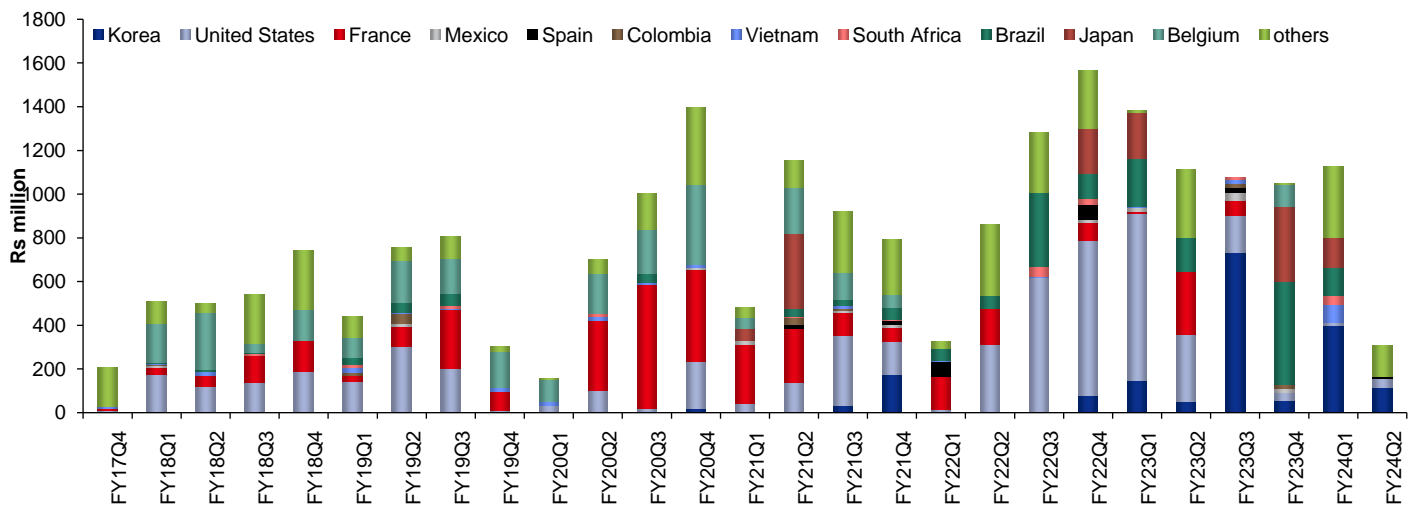
The Environmental Protection Agency (EPA) has classified metconazole as a "moderately hazardous" pesticide. This means that it can pose a risk to human health and the environment if not used properly. The EPA has also set limits on the amount of metconazole that can be used in certain areas, such as near water bodies.

The environmental concerns about acephate are as follows:

Acephate has all the hazards which are present in metconazole, but in higher intensity. The Environmental Protection Agency (EPA) has classified acephate as a "highly hazardous" pesticide. This means that it can pose a significant risk to human health and the environment if not used properly. The EPA has also set limits on the amount of acephate that can be used in certain areas, such as near water bodies.

The geographical spread of its exports indicate that most of the exports in FY22/23 were led by channel-filling ➤

Figure 2: While FY23 was not a great year for Rallis India, it was somewhat saved because of higher exports to USA (primarily led by channel-filling); as destocking is underway now, exports to USA are down to a fraction of what they were earlier

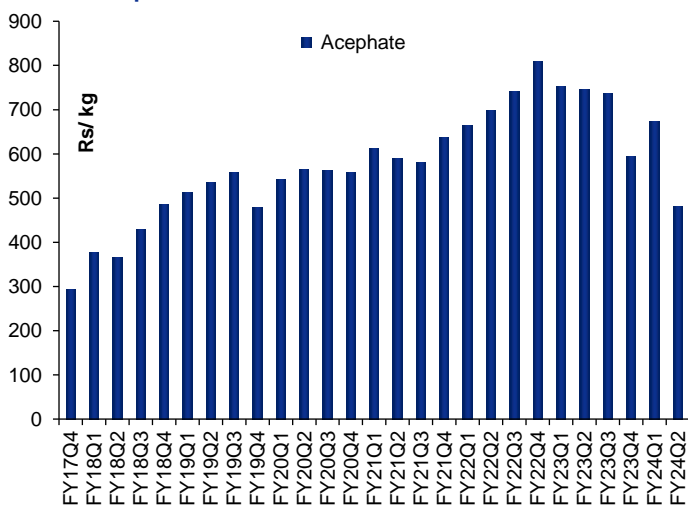


SOURCE: INCRED RESEARCH, COMPANY REPORTS

India business is mainly driven by various insecticides whose prices are under stress ➤

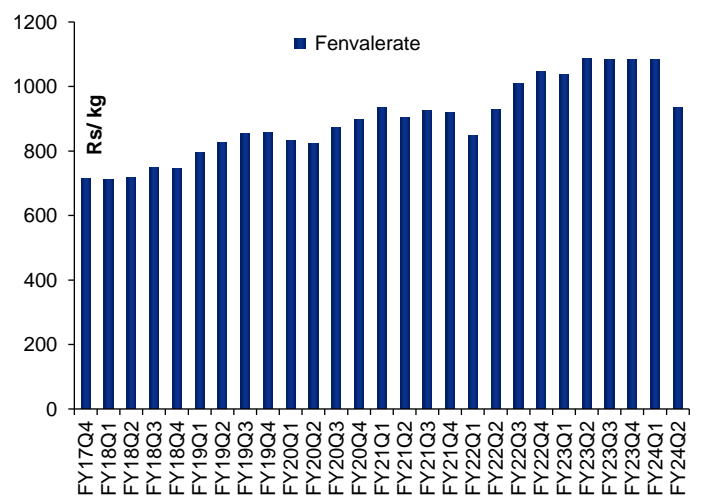
In India, Rallis India doesn't sell its products under generic names, and they are mostly sold under the brand names like Tata Master, Taquat, Hunk, etc. An analysis of the pricing of its products indicates that the prices of most of its products are falling.

Figure 3: Acephate prices are at the lowest level witnessed in the last 17 quarters



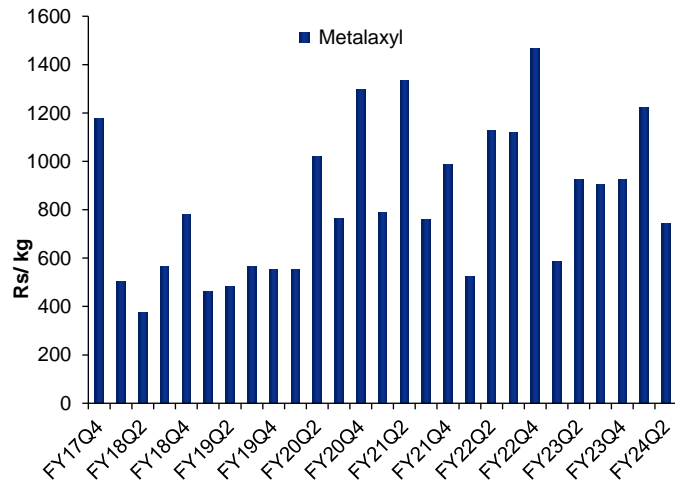
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Similarly, fenvalerate prices are falling sequentially



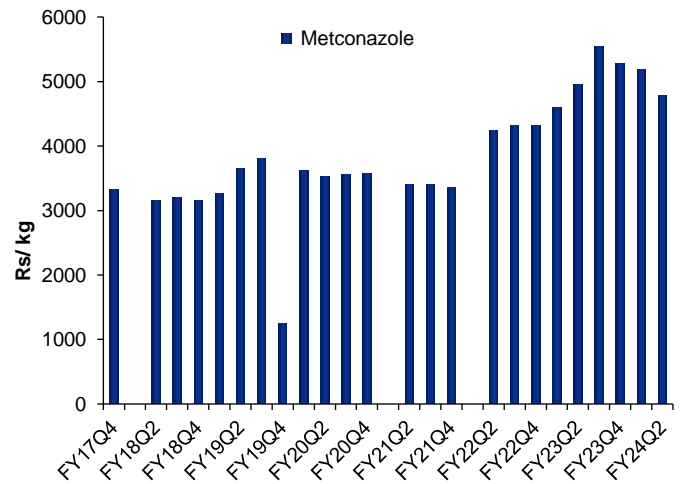
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Metalaxyl prices have been very volatile in the past; they are also falling sequentially



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Metconazole prices are at a four-quarter low



SOURCE: INCRED RESEARCH, COMPANY REPORTS

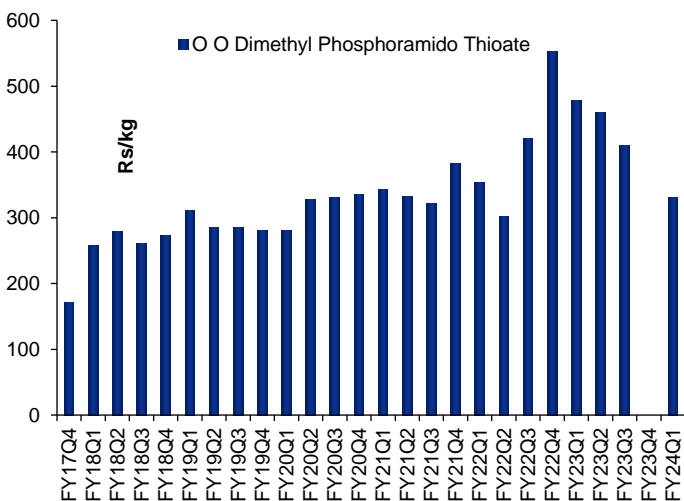
Weather is also playing spoilsport for all Indian agrochemical companies ➤

The dry August month is also leading to lower demand for agrochemicals. The El Nino effect is likely to impact the winter-sowing season and hence, there is lower demand for agrochemicals.

Raw material costs are likely to rise as crude oil prices rise ➤

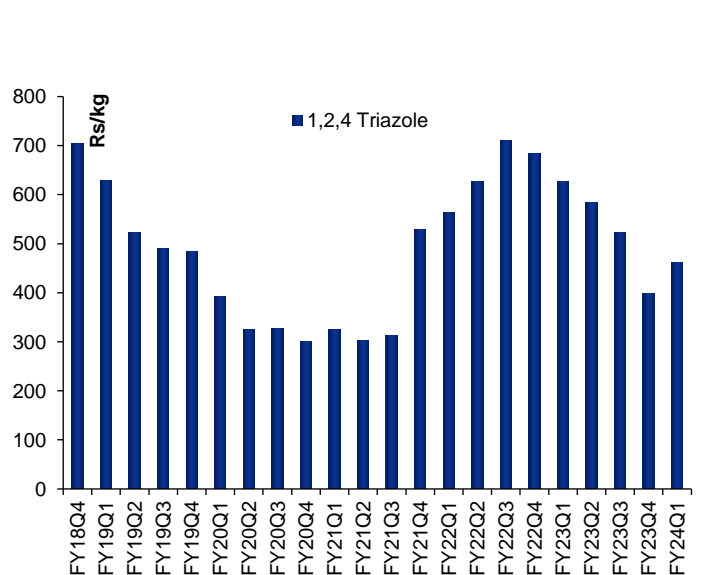
In our view, crude oil prices are likely to rise. Please click our earlier report: [IN: Chemicals - Overall - Demand declines, RM pressure will follow](#). Rallis India had a bit of advantage last quarter as its raw material costs were soft because of lower crude oil prices but as pointed out in our report, the crude oil price-driven rise in base petrochemical prices will lead to a rise in almost all raw material prices.

Figure 7: This chemical is an intermediate to makes various agrochemicals; raw materials for its production are petrochemicals like methanol and hence, its prices are going to rise



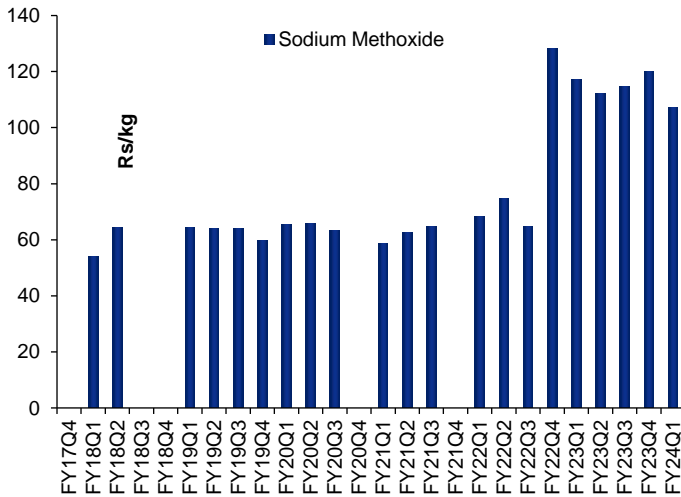
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 1,2,4 triazole prices are also likely to rise



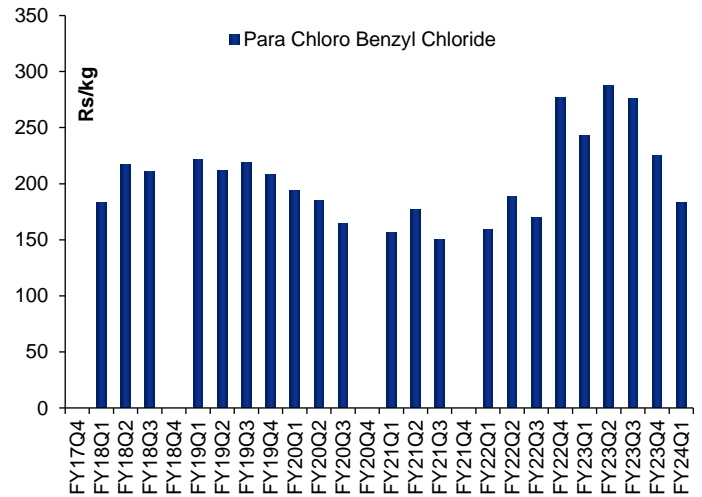
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Sodium methoxide hasn't seen a big price correction in any manner



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: The rise in naphtha prices will lead to a rise in the prices of para chloro benzyl chloride



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We value Rallis India at an average valuation of the last 14 years to arrive at our higher target price of Rs218 ➤

Figure 11: Rallis India traded at close to 24.9x its one-year forward average in the last 14 years



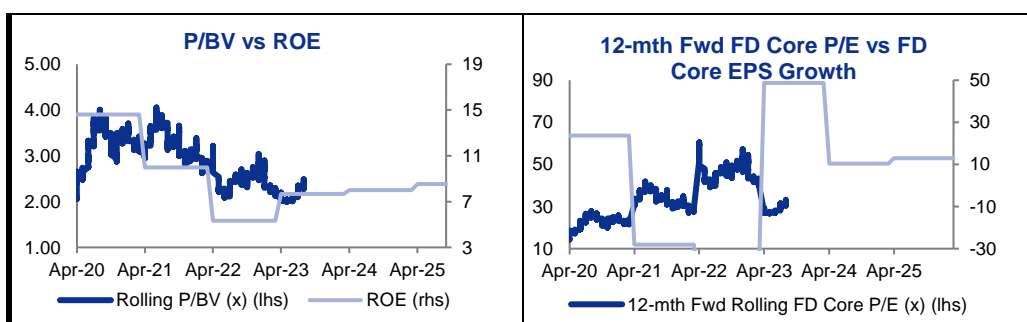
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: We value the stock at 24.9x FY25F EPS to arrive at a higher TP of Rs218

Target Price Methodology	Unit	
FY25F EPS	Rs/share	7.8
FY26F EPS	Rs/share	8.8
Sep 2025F EPS	Rs/share	8.3
P/E multiple	x	24.9
Target price	Rs/share	218

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	26,039	29,670	32,725	36,194	40,034
Gross Profit	9,804	10,236	11,290	12,487	13,812
Operating EBITDA	2,741	2,183	2,358	2,663	3,083
Depreciation And Amortisation	(743)	(914)	(873)	(1,057)	(1,223)
Operating EBIT	1,997	1,270	1,486	1,607	1,860
Financial Income/(Expense)	(48)	(122)	(81)	(58)	(58)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	275	127	422	466	474
Profit Before Tax (pre-EI)	2,224	1,274	1,827	2,015	2,276
Exceptional Items		6			
Pre-tax Profit	2,224	1,281	1,827	2,015	2,276
Taxation	(582)	(361)	(460)	(508)	(574)
Exceptional Income - post-tax					
Profit After Tax	1,642	919	1,367	1,508	1,702
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,642	919	1,367	1,508	1,702
Recurring Net Profit	1,642	915	1,367	1,508	1,702
Fully Diluted Recurring Net Profit	1,642	915	1,367	1,508	1,702

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	2,741	2,183	2,358	2,663	3,083
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(750)	(433)	(784)	(644)	(713)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	80	779	280	13	14
Other Operating Cashflow	(1,053)	(733)	(418)	(491)	(615)
Net Interest (Paid)/Received	(48)	(122)	(81)	(58)	(58)
Tax Paid	688	494	460	508	574
Cashflow From Operations	1,658	2,168	1,817	1,991	2,284
Capex	(1,806)	(1,860)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	764	439	108		
Cash Flow From Investing	(1,042)	(1,421)	(1,391)	(1,500)	(1,500)
Debt Raised/(repaid)	(13)	267	(458)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(585)	(584)	(383)	(422)	(477)
Preferred Dividends					
Other Financing Cashflow	(17)	(93)	(81)	(58)	(58)
Cash Flow From Financing	(614)	(410)	(922)	(480)	(535)
Total Cash Generated	2	337	(496)	11	249
Free Cashflow To Equity	604	1,014	(33)	491	784
Free Cashflow To Firm	664	870	507	549	842

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	2,719	2,655	2,051	2,062	2,311
Total Debtors	4,459	4,986	5,499	6,082	6,727
Inventories	9,380	7,929	8,745	9,673	10,699
Total Other Current Assets	1,267	1,296	1,631	1,760	1,902
Total Current Assets	17,825	16,866	17,927	19,576	21,639
Fixed Assets	6,730	7,564	8,192	8,635	8,912
Total Investments	32	33	32	32	32
Intangible Assets	1,958	1,958	1,958	1,958	1,958
Total Other Non-Current Assets	2,035	1,556	1,346	1,346	1,346
Total Non-current Assets	10,755	11,111	11,527	11,971	12,248
Short-term Debt	542	1,011	542	542	542
Current Portion of Long-Term Debt					
Total Creditors	7,525	5,882	6,488	7,176	7,937
Other Current Liabilities	2,700	2,994	3,269	3,576	3,915
Total Current Liabilities	10,767	9,888	10,299	11,294	12,394
Total Long-term Debt	38	27	38	38	38
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	217	224	217	217	217
Total Non-current Liabilities	255	251	255	255	255
Total Provisions	592	538	615	628	642
Total Liabilities	11,614	10,676	11,170	12,177	13,291
Shareholders Equity	16,967	17,301	18,285	19,370	20,596
Minority Interests					
Total Equity	16,967	17,301	18,285	19,370	20,596

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	7.2%	13.9%	10.3%	10.6%	10.6%
Operating EBITDA Growth	(15.1%)	(20.3%)	8.0%	12.9%	15.8%
Operating EBITDA Margin	10.5%	7.4%	7.2%	7.4%	7.7%
Net Cash Per Share (Rs)	11.00	8.31	7.57	7.62	8.90
BVPS (Rs)	87.23	88.95	94.01	99.59	105.89
Gross Interest Cover	41.70	10.37	18.37	27.72	32.09
Effective Tax Rate	26.2%	28.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	35.5%	28.2%	28.0%	28.0%	28.0%
Accounts Receivables Days	59.73	58.10	58.47	58.40	58.39
Inventory Days	191.23	162.55	141.97	141.78	141.78
Accounts Payables Days	(151.59)	(125.91)	(105.33)	(105.19)	(105.19)
ROIC (%)	12.8%	7.7%	8.4%	8.6%	9.4%
ROCE (%)	11.6%	7.0%	7.9%	8.2%	9.0%
Return On Average Assets	6.2%	3.7%	5.0%	5.1%	5.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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