

AGRI & SPECIALTY CHEMICALS

Favourable scenario in challenging time

India Equity Research | Agriculture



The Edelweiss Agri and Specialty Chemicals Virtual Conference (held on 29–30th June) yielded good insights. Key management executives of ten leading agri and specialty chemicals players found audience in more than 70 clients, who benefited from virtual meetings in excess of 300.

Agri input companies (agrochemicals) are gung-ho about current demand benefiting from a bumper rabi output, government support to farmers in the wake of Covid-19, and a normal monsoon so far (highlighted in our latest report too: [Agri Inputs – Set for a bumper boost](#)). In spite of emerging issues such as the ban on 27 generic agrochemicals and supply disruptions from China, agro management teams sounded confident of logging 15–20% growth in FY21E. Specialty chemicals companies faced supply disruptions in Q1FY21 due to the lockdown, but are gradually increasing production subject to end-demand from user industries. What's unmissable is that players with bigger shares in agro, pharma and FMCG are less likely to be impacted. We maintain the bullish view on agri and specialty chemicals sector. Our top picks are UPL, Coromandel, Dhanuka, Aarti, SRF and Galaxy Surfactants.

Agri input industry: Strong growth likely

Agrochemical companies invariably mentioned the solid growth in Q1FY21 so far, despite the challenges posed by the lockdown. The benefit of a bumper rabi crop, large rabi procurement by the government (wheat) and expectation of a normal monsoon are driving the demand for agri inputs. Increased sowing of the kharif crop in the current season (up almost 100% YoY) on last year's low base and early sowing in the current year in many crops due to adequate water availability and a timely monsoon has triggered trade demand.

Players confident of fulfilling demand

Despite initial challenges pertaining to logistics and labour availability in the early part of the lockdown (March, April), many players have ramped up plants to 80–90% utilisation. As consumption picks up June onwards, the industry should be able to meet the demand. That said, few players are contending with packaging and labour availability issues.

Working capital: Surprisingly stable

Poor availability of many products due to the lockdown and an early start to the kharif season pushed many dealers/distributors into making advance payments to secure orders. Hence, contrary to the expectation of a spike in working capital cycle due to a potential cash crunch in the economy in the wake of the lockdown, agrochemical companies are now likely to maintain their respective working capital cycles.

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Product ban, raw materials from China unlikely to pose threat

The management personnel we extensively interacted with mentioned that the recent government notification banning 27 generic agrochemicals is being strongly contested by the industry and that the government has relaxed the timeline to submit the data to 90 days (from 45 days). Besides, the government has clarified that exports would be exempted from this. Given its implications for farmers and many products not being in red triangle category, the industry at large is confident that the product list will be significantly curtailed. (Refer to our note : [Proposed generic products ban: Bolt from the blue.](#))

Heightened surveillance delays custom clearance on Chinese imports

In view of the increased surveillance by the government on imports from China, companies have been experiencing delays in custom clearance by 15–20 days. The agrochemicals companies too are facing similar delays. That said, availability so far has not been impacted and imports from China continue to be cleared.

Domestic manufacturers may gain in medium term

With border tension between India and China escalating and posing a threat to imports of agrochemical raw materials and technicals from China, management teams we spoke to believe that the government is unlikely to put any immediate ban on imports as 40–50% of raw materials/technical are imported from China. Besides, there are no alternatives to many in India and any ban thereof can cause agrochemical availability issues.

Over the medium term, this challenge is likely to offer manufacturing opportunities for domestic manufacturers such as Rallis India, Insecticides India, UPL, Gharda Chemicals, and Bharat Rasayan to name a few. The government is also likely speed up the registration process to encourage domestic manufacturers to build relevant capabilities.

Specialty chemicals suffer in lockdown; slowdown in user industries

Specialty chemical players have been deeply affected in Q1FY21 due to the lockdown. Players catering to agro, pharma and essentials including FMCG, hygiene, etc have faced limited demand destruction, but more on account of labour availability and logistics issues. Now however, those with higher exposure to agri, pharma and FMCG/hygiene have ramped up utilization to ~80%, e.g. Galaxy Surfactants and Neogen Chemicals; both have seen a pickup in revenues.

Growth opportunity in specialty chemicals have accelerated

The current challenges notwithstanding, the management teams we spoke to believe that opportunity in specialty chemicals for India has now widened further in the wake of Covid-19 as global players will continue to reduce their dependency on China.

Key risks

Managements believe opportunities in domestic manufacturing in both agro chemicals and specialty chemicals shall grow due to rising tensions with China and the government's focus on "Atmanirbhar Bharat". They do, however, also feel a current lack of government support on infrastructure development and policy framework.

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AARTI INDUSTRIES

Diversified player; high growth visibility

India Equity Research | Midcap Chemicals



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Key takeaways

- Aarti Industries (AIL) resumed operations in April post-lockdown and is now operating at 80% utilisation. Given the impact on business due to the lockdown, management expects PAT to be flat for FY21. That said, management continues to be confident of logging a CAGR of 15–20% in PAT in the long run.
- Agrochemicals, pharma and FMCG make up 60% of the company's revenue, and it has not seen any big impact on demand. The other 40% of the business comes from textiles, aerospace, paints & housing, petroleum additives, etc, wherein the company estimates a 20–25% drop in aggregate demand in FY21.
- AIL is likely to receive a compensation of USD120–130mn due to the termination of a long-term contract by a customer (cash flow of USD20mn each in FY21 and FY22, and USD80mn by end of FY22) with or without off take of product.
- AIL plans to utilise this windfall from cancellation of the long-term contract towards additional capex or inorganic expansion. The criteria for acquiring any company will be either a potential entry into new chemistry/new product line or a new customer base. Inorganic expansion, thus, can shorten gestation.
- AIL continues to remain positive in light of a series of opportunities coming towards India due to various issues in China such as environmental challenges, US-China trade war, and now COVID-19. Thus, given the strong growth opportunities in place, AIL expects INR10–12bn in capex each year for the next four–five years, including FY21.
- AIL's specialty chemicals business does not depend on China for raw materials while it exports a marginal 3–4% of its sales to China. On the other hand, its pharma business is dependent on raw material imports from China. AIL's surfactants business has received approval for a listing in June; this is likely to be listed in a couple of weeks.

Investment conclusion

In our view, the corona virus crisis has favourable implications for India's specialty chemical industry, precipitating leading to accelerated growth opportunity emerging from China; AIL being the leading player will be the largest beneficiary. Reiterate **'BUY'** with a TP of INR1,088 (25x FY22E PE).

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: ARTI.BO, B: ARTO IN)

CMP	: INR 926
Target Price	: INR 1,088
52-week range (INR)	: 1,192 / 662
Share in issue (mn)	: 174.2
M cap (INR bn/USD mn)	: 161 / 1,821
Avg. Daily Vol. BSE/NSE ('000)	: 156.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	47.7	48.2	48.3
MF's, FI's & BKs	16.6	16.7	16.4
FII's	8.3	7.5	7.7
Others	27.4	27.6	27.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	(2.6)	(0.6)
3 months	(24.4)	0.1	24.5
12 months	(24.6)	7.3	32.0

Financials

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	47,055	46,207	42,087	52,121
EBITDA	9,651	9,773	10,913	14,199
Adjusted Profit	4,917	5,361	5,379	7,527
Diluted EPS (INR)	28.4	30.9	31.0	43.4
Diluted P/E (x)	32.7	30.0	29.8	21.3
EV/EBITDA (x)	18.4	18.1	16.5	12.2
ROAE (%)	23.1	18.9	16.9	20.4

Edelweiss Research is also available on www.edelresearch.com,
Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	-	6.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Financial assumptions				
Spec chem rev gwth(%)	33.3	(2.9)	(20.0)	10.0
Pharma chem rev gwth(%)	30.5	4.1	18.0	10.0
Spec chem EBIT margin(%)	20.6	21.1	24.5	24.7
Pharma EBIT margin(%)	15.5	18.2	21.0	21.0
Interest(% of Avg loans)	7.1	-	8.5	7.9
Tax rate (%)	18.9	19.1	19.0	19.0
Capex (INR mn)	6,702	11,305	14,000	7,000
Trade payables days	74.4	181.4	75.0	75.0
Inventory days	104.5	122.5	120.0	100.0
Receivables days	60.2	59.5	70.0	60.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	47,055	46,207	42,087	52,121
Cost of mat. Consumed	26,946	24,907	20,202	26,061
Employee costs	2,428	3,052	3,510	4,212
Other Expenses	8,030	8,474	7,463	7,649
Total operating expenses	37,404	36,434	31,175	37,922
EBITDA	9,651	9,773	10,913	14,199
Depreciation	1,627	1,852	2,402	2,948
EBIT	8,024	7,921	8,511	11,251
Less: Interest Expense	1,825	1,248	1,793	1,859
Add: Other income	21.00	88.4	75.00	75.00
Profit Before Tax	6,220	6,762	6,792	9,466
Less: Provision for Tax	1,178	1,294	1,291	1,799
Less: Minority Interest	124	107	123	141
Reported Profit	4,917	5,361	5,379	7,527
Adjusted Profit	4,917	5,361	5,379	7,527
Shares o /s (mn)	173	173	173	173
Basic EPS (INR)	28.4	30.9	31.0	43.4
Diluted shares o/s (mn)	173	173	173	173
Adj. Diluted EPS (INR)	28.4	30.9	31.0	43.4
Adjusted Cash EPS	38.5	42.2	45.6	61.2
Dividend per share (DPS)	5.0	5.0	8.0	8.0
Dividend Payout Ratio(%)	21.3	19.6	31.2	22.3

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Cost of revenues	57.3	53.9	48.0	50.0
EBITDA margins	20.5	21.2	25.9	27.2
EBIT margins	17.1	17.1	20.2	21.6
Net Profit margins	10.7	11.8	13.1	14.7

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	23.6	(1.8)	(8.9)	23.8
EBITDA	38.0	1.3	11.7	30.1
EBIT	45.1	(1.3)	7.4	32.2
PBT	45.0	8.7	0.5	39.4
Adjusted Profit	47.7	9.0	0.3	39.9
EPS	38.5	9.0	0.3	39.9

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	433	871	871	871	
Reserves & Surplus	25,872	28,917	32,618	38,466	
Shareholders' funds	26,306	29,788	33,489	39,338	
Minority Interest	840	946	1,069	1,210	
Long term borrowings	8,148	5,808	5,808	5,808	
Short term borrowings	15,863	12,297	16,297	16,297	
Total Borrowings	24,011	18,105	22,105	22,105	
Long Term Liabilities	2,032	5,509	5,509	5,509	
Def. Tax Liability (net)	1,930	2,110	2,348	2,679	
Sources of funds	55,118	56,458	64,520	70,841	
Tangible assets	21,454	24,676	36,273	40,325	
Intangible Assets	13	9	9	9	
CWIP (incl. intangible)	7,946	14,176	10,000	10,000	
Non current investments	332	370	370	370	
Cash and Equivalents	8,042	2,473	4,028	11,039	
Inventories	7,718	8,357	7,605	3,570	
Sundry Debtors	7,760	7,534	8,072	8,568	
Loans & Advances	4,971	5,402	5,402	5,402	
Other Current Assets	344	328	328	328	
Current Assets (ex cash)	20,793	21,621	21,406	17,867	
Trade payable	2,793	3,452	4,151	5,355	
Other Current Liab	668	3,415	3,415	3,415	
Total Current Liab	3,461	6,867	7,566	8,770	
Net Curr Assets-ex cash	17,332	14,754	13,839	9,097	
Uses of funds	55,118	56,458	64,520	70,841	
BVPS (INR)	151.8	171.8	193.2	226.9	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	4,917	5,361	5,379	7,527	
Add: Depreciation	1,627	1,852	2,402	2,948	
Interest (Net of Tax)	1,480	1,009	1,452	1,506	
Others	552	873	626	751	
Gross cash flow	7,298	15,152	10,774	17,474	
Less: Changes in WC	1,278	(6,057)	(914)	(4,742)	
Less: Capex	6,698	11,301	9,824	7,000	
Free Cash Flow	600	3,851	951	10,474	

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Operating cash flow		7,298	15,152	10,774	17,474
Financing cash flow		6,959	(9,470)	529	(3,537)
Investing cash flow		(6,537)	(11,251)	(9,749)	(6,925)
Net cash Flow		7,721	(5,569)	1,555	7,012
Capex		(6,698)	(11,301)	(9,824)	(7,000)
Dividend paid		(1,049)	(1,049)	(1,678)	(1,678)

Profitability and efficiency ratios		FY19	FY20	FY21E	FY22E
Year to March					
ROAE (%)		23.1	18.9	16.9	20.4
ROACE (%)		18.2	16.0	16.3	19.0
Inventory Days		103	118	144	78
Debtors Days		55	60	68	58
Payable Days		43	46	69	67
Cash Conversion Cycle		115	132	143	70
Current Ratio		8.3	3.5	3.4	3.3
Gross Debt/EBITDA		2.5	1.9	2.0	1.6
Gross Debt/Equity		0.9	0.6	0.6	0.5
Adjusted Debt/Equity		0.9	0.6	0.7	0.6
Net Debt/Equity		0.6	0.5	0.5	0.3
Interest Coverage Ratio		4.4	6.3	4.7	6.1

Operating ratios		FY19	FY20	FY21E	FY22E
Year to March					
Total Asset Turnover		1.0	0.8	0.7	0.8
Fixed Asset Turnover		2.3	2.0	1.4	1.4
Equity Turnover		2.2	1.6	1.3	1.4

Valuation parameters		FY19	FY20	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)		28.4	30.9	31.0	43.4
Y-o-Y growth (%)		38.5	9.0	0.3	39.9
Adjusted Cash EPS (INR)		38.5	42.2	45.6	61.2
Diluted P/E (x)		32.7	30.0	29.8	21.3
P/B (x)		6.1	5.4	4.8	4.1
EV / Sales (x)		3.8	3.8	4.3	3.3
EV / EBITDA (x)		18.4	18.1	16.5	12.2
Dividend Yield (%)		0.5	0.5	0.9	0.9
EV		177,371	177,141	179,709	172,838

CRYSTAL CROP

Strong start to kharif season

India Equity Research | Midcap Agri

Key takeaways

- **Industry:** According to management, MNCs (ex-Adama) lost market share between 2015 and 2018. The aggregate market share of top five would be 42%. In this season, planting of pulses, grains and cotton is expected to be higher. Horticulture is looking weak.
- **Locust situation:** There is a second wave. The FAO tracks it from Africa to Afghanistan, and has managed to control it. The Ministry of Agriculture has certain officers looking into locusts. Swarms came in between Kharif and Rabi, so there were not many crops.
- **RM sourcing:** Need to watch out this week and next to ascertain if any disruption is happening on imports. Prices are not stable; they have declined by 1–2%. The company passes through the increase.
- **Q1FY21:** It has been a very good quarter with potential growth of 40% YoY (INR7bn versus INR5bn). There is panic buying, the trade has picked up. Besides, market share is consolidating.
- The company has a healthy pipeline of new innovative products. Its core focus is formulation R&D. Seeds have been carved out with a separate independent sales team. Earlier, teams were common with the agrochemical team. For the farm equipment business, the company has created independent dedicated sprayer distributors.

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DHANUKA AGRITECH

Growth buoyancy to continue

India Equity Research | Midcap Agri



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Key takeaways

- A strong rabi season leading to higher crop production has lifted farmers' income levels. With government procurement levels on the higher side too, farmers' liquidity position remains sound, which will eventually drive overall agri-input consumption during the kharif season.
- The raw material situation from China has eased off post-April. However, due to political tensions with China, some of the materials are still stuck at ports. A potential hike in anti-dumping duty or a ban on chemicals from China would impact the overall industry. Dhanuka Agritech has a roughly 5% exposure to China regarding procurement of raw materials.
- Based on improved sowing levels along with advance sales of agri-inputs during Q1FY21, the company expects the kharif season to play out well for the overall industry. Hence, it expects to achieve 20%-plus growth in FY21.
- The government is likely to withdraw the proposed ban on 27 agrochemicals given the concerns raised by the industry and the farmer community. Dhanuka believes the government won't take the drastic step given these molecules contribute around INR80bn for the industry.
- New products are likely to remain crucial in driving growth momentum. Though the Innovation Turnover Index fell to 13% in FY20, the company believes it would improve to 15% in FY21 driven by the success of Largo, Chempa and Apply.
- Dhanuka's core strengths are marketing and distribution-reach. Innovators want to encash the profitability in the shortest possible time. Companies have an 85% margin or thereabouts even after sharing a 15% margin with Dhanuka.

Investment conclusion

Expectations of a normal monsoon coupled with the addition of new products to the portfolio are likely to sustain Dhanuka's growth trajectory over FY21. Hence, we believe the company is well placed to deliver double-digit revenue growth in FY21. Maintain 'BUY' with a TP of INR841, valuing the stock at 22x FY22E EPS.

Financials

Year to March	FY19	FY20	FY21E	FY22E
Revenues (INR mn)	10,058	11,201	12,545	13,799
EBITDA (INR mn)	1,460	1,734	2,070	2,346
Adjusted Profit (INR mn)	1,126	1,413	1,597	1,820
Adjusted Diluted EPS (INR)	23.7	29.7	33.6	38.2
EPS growth (%)	(8.0)	25.6	13.0	14.0
Diluted P/E (x)	31.1	24.7	21.9	19.2
EV/EBITDA (x)	24	20	17	14
ROACE (%)	23.8	26.4	27.9	27.7
ROAE (%)	17.7	20.9	21.2	21.3

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Outperform

MARKET DATA (R: DHNP.BO, B: DAGRI IN)

CMP	: INR 736
Target Price	: INR 841
52-week range (INR)	: 804 / 261
Share in issue (mn)	: 47.6
M cap (INR bn/USD mn)	: 35 / 631
Avg. Daily Vol. BSE/NSE ('000)	: 34.2

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	75.0	75.0	75.0
MF's, FI's & BKs	12.7	12.1	12.2
FII's	-	-	-
Others	12.3	12.9	12.8
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	27.9	29.9
3 months	(24.4)	7.3	31.7
12 months	(24.6)	43.5	68.2

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Employee (% of net rev)	10.4	9.4	9.0	9.5
Admin exp (% of rev)	13.8	11.6	12.0	12.0
Net sales growth	4.5	11.4	12.0	10.0
Cost assumptions				
RM(% of net sales)	61.3	63.5	62.5	61.5
Financial assumptions				
Tax rate as % of PBT	28.0	28.0	28.0	28.0
Capex (INR mn)	61	137	100	100
Net borrowings (INR mn)	(96)	(780)	(726)	(1,468)
Debtor days	77	75	75	77
Inventory days	122	117	122	123
Payable days	48	49	54	53
Cash conversion cycle	152	143	144	147
Dep. (% gross block)	6.0	6.0	6.0	6.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	10,058	11,201	12,545	13,799
Materials costs	6,167	7,117	7,840	8,487
Gross profit	3,892	4,084	4,704	5,313
Employee costs	1,047	1,052	1,129	1,311
Other Expenses	1,385	1,298	1,505	1,656
Total operating expenses	8,598	9,467	10,475	11,453
EBITDA	1,460	1,734	2,070	2,346
Depreciation	123	164	184	194
EBIT	1,336	1,570	1,886	2,152
Less: Interest Expense	9	16	16	16
Add: Other income	212.04	250.88	258.6	290.31
Profit Before Tax	1,540	1,805	2,129	2,426
Less: Provision for Tax	414	392	532	607
Reported Profit	1,126	1,413	1,597	1,820
Adjusted Profit	1,126	1,413	1,597	1,820
Shares o /s (mn)	48	48	48	48
Adjusted Basic EPS	23.7	29.7	33.6	38.2
Diluted shares o/s (mn)	48	48	48	48
Adjusted Diluted EPS	23.7	29.7	33.6	38.2
Adjusted Cash EPS	42.1	52.5	59.4	68.4
Dividend per share (DPS)	0.6	12.0	12.0	12.0
Dividend Payout Ratio(%)	3.1	48.6	43.1	37.8

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Gross margin	38.7	36.5	37.5	38.5
Interest Expense	0.1	0.1	0.1	0.1
EBITDA margins	14.5	15.5	16.5	17.0
EBIT margins	13.3	14.0	15.0	15.6
Net Profit margins	11.2	12.6	12.7	13.2

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	4.5	11.4	12.0	10.0
EBITDA	(12.2)	18.7	19.4	13.3
PBT	(7.8)	17.3	17.9	14.0
Adjusted Profit	(10.8)	25.6	13.0	14.0
EPS	(8.0)	25.6	13.0	14.0

Balance sheet (INR mn)				
As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	95	95	95	95
Reserves & Surplus	6,327	6,981	7,890	9,022
Shareholders' funds	6,422	7,076	7,985	9,118
Short term borrowings	222	80	251	276
Total Borrowings	222	80	251	276
Long Term Liabilities	177	217	171	190
Def. Tax Liability (net)	122	53	53	53
Sources of funds	6,944	7,426	8,460	9,637
Gross Block	1,528	1,700	1,800	1,900
Accumulated depreciation	385	548	732	926
Capital work in progress	10	37	37	37
Tangible assets	1,143	1,151	1,068	974
Intangible Assets	25	23	23	23
Total net fixed assets	1,179	1,211	1,128	1,034
Non current investments	898	991	991	991
Cash and Equivalents	318	860	977	1,744
Inventories	2,068	2,499	2,744	2,970
Sundry Debtors	2,187	2,424	2,760	3,036
Loans & Advances	363	352	540	590
Other Current Assets	1,340	984	1,254	1,380
Current Assets (ex cash)	5,958	6,259	7,298	7,976
Trade payable	775	1,132	1,176	1,273
Other Current Liab	634	764	758	834
Total Current Liab	1,409	1,896	1,934	2,107
Net Curr Assets-ex cash	4,549	4,363	5,364	5,869
Uses of funds	6,944	7,426	8,460	9,637
BVPS (INR)	135.0	148.7	167.8	191.6

Free cash flow (INR mn)				
Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	1,126	1,413	1,597	1,820
Add: Depreciation	123	164	184	194
Interest (Net of Tax)	7	11	11	11
Others	(245)	(125)	(254)	(286)
Less: Changes in WC	877	(158)	1,047	485
Operating cash flow	133	1,621	491	1,254
Less: Capex	61	137	100	100
Free Cash Flow	72	1,484	391	1,154

Cash flow metrics				
Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	133	1,621	491	1,254
Financing cash flow	(866)	(930)	(532)	(677)
Investing cash flow	632	(443)	159	190
Net cash Flow	(101)	247	117	767
Capex	(61)	(137)	(100)	(100)
Dividend paid	(172)	(599)	(571)	(571)

Profitability and efficiency ratios				
Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	17.7	20.9	21.2	21.3
ROACE (%)	23.8	26.4	27.9	27.7
Inventory Days	122	117	122	123
ROA	16.4	19.7	20.1	20.1
Debtors Days	77	75	75	77
Payable Days	48	49	54	53
Cash Conversion Cycle	152	143	144	147
Current Ratio	4.5	3.8	4.3	4.6
Gross Debt/EBITDA	0.2	-	0.1	0.1
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	149.7	100.8	117.9	134.5
LT debt /Cap empl. (%)	3.2	1.1	3.0	2.9
Debt / Cap employed (%)	25.3	27.3	26.5	25.3

Operating ratios				
Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	1.5	1.6	1.6	1.5
Fixed Asset Turnover	8.1	9.6	11.1	13.2
Equity Turnover	1.6	1.7	1.7	1.6

Valuation parameters				
Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	23.7	29.7	33.6	38.2
Y-o-Y growth (%)	(8.0)	25.6	13.0	14.0
Adjusted Cash EPS (INR)	42.1	52.5	59.4	68.4
Diluted P/E (x)	31.1	24.8	21.9	19.2
P/B (x)	5.4	4.9	4.4	3.8
EV / Sales (x)	3.5	3.0	2.7	2.4
EV / EBITDA (x)	23.9	19.7	16.6	14.3
Dividend Yield (%)	0.1	1.6	1.6	1.6

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Key takeaways

- The company's Q4FY20 revenues were impacted by: i) the lockdown in the end of March with no shipments in the last eight-ten days of the month; and ii) international markets depending on the spread of COVID-19.
- The recovery in the exports market (~55% of sales) is better than the domestic market, and management expects normalcy to return soon.
- Last year, the company's margins at 23% benefitted from lower raw material cost and rupee depreciation. However, on sustainable basis, management expects margins to be in a range of 18–21%.
- The company is naturally hedged to some extent with exporting making up 55% of its total sales and imports of raw materials up to 35%. Furthermore, the company hedges 40% of its net exports for the maximum period of 12 months.
- The major challenges that the company is currently facing is new business development, which involves introducing products to new clients as most customers need a trial given 90% of FOIL's products are technicals.
- In the polymers space, the company's products have found applications in PPE kits and N-95 masks. Its traditional polymer-based applications have seen some slowdown. In the food additives space, while breads and biscuits have seen high consumption, cakes and confectionery have taken a hit.
- FOIL's 10,000tonnes capacity at Patalganga, Maharashtra is likely to be commissioned by Q4FY21, whereas its German JV is likely to run into delays given travel restrictions. The company is also open to looking into other growth opportunities.

Investment conclusion

We expect FOIL's large diversified product basket with exposure to food and the food packaging polymer industry to help it sail through the current uncertain environment. We expect a slow ramp-up of the new plant and weakness in margins to result in muted PAT growth of 8.7% in FY21E; it would bounce to 30% in FY22E. We maintain the 'HOLD' rating with a TP of INR2,044 (27x FY22 EPS).

EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

MARKET DATA (R: FINO BO, B: FINEORG IN)

CMP	: INR 1,860
Target Price	: INR 2,044
52-week range (INR)	: 2,550 / 1,310
Share in issue (mn)	: 30.7
M cap (INR bn/USD mn)	: 57 / 0
Avg. Daily Vol. BSE/NSE ('000)	: 17.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	75.0	75.0	75.0
MF's, FI's & BKs	15.8	15.6	16.3
FII's	5.3	5.3	5.3
Others	3.9	4.1	3.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	(2.3)	(0.2)
3 months	(24.4)	(11.9)	12.5
12 months	(24.6)	29.5	54.1

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Financials

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	10,603	10,381	12,575	15,013
EBITDA	2,336	2,405	2,751	3,425
Adjusted Profit	1,363	1,648	1,791	2,321
Adjusted diluted EPS (INR)	45.5	55.4	58.4	75.7
Diluted P/E (x)	40.9	33.6	31.8	24.6
EV/EBITDA (x)	24.4	23.2	19.9	15.6
ROAE (%)	30.4	29.5	26.3	28.1

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Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Total capacity (tonnes)	69,300	101,300	111,300	121,300
Production (tonnes)	63,063	74,049	80,563	92,213
Utilisation (%)	91.0	73.1	72.4	76.0
Sales volumes (tonnes)	60,540	67,220	73,557	85,913
Volume Growth (%)	7.5	11.0	9.4	16.8
Realisation (INR/tonne)	175,144	166,387	170,960	174,742
Realisation Growth (%) -	14.0	(5.0)	2.7	2.2
Gross margins (%)	38.2	41.3	40.0	40.0
Employee as (% of net rev)	5.9	7.0	6.6	6.4
Other expenses as (% of net rev)	10.3	11.2	11.5	10.8
Depreciation (% of Avg GFA)	7.2	10.4	11.0	10.0
Int (% of avg G.debt)	2.2	4.7	3.0	3.0
Tax rate as % of PBT	40.4	23.2	28.0	28.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	10,603	10,381	12,575	15,013
Materials costs	6,552	6,093	7,545	9,008
Employee costs	628	725	833	958
Other Expenses	1,088	1,158	1,446	1,621
Total operating expenses	8,267	7,976	9,825	11,587
EBITDA	2,336	2,405	2,751	3,425
Depreciation	175	347	478	465
EBIT	2,161	2,058	2,273	2,961
Less: Interest Expense	18	48	27	27
Add: Other income	198.25	201.86	242.23	290.68
Profit Before Tax	2,341	2,212	2,488	3,224
Less: Provision for Tax	945	513	697	903
Associate profit share	(34)	(51)	-	-
Reported Profit	1,363	1,648	1,791	2,321
Adjusted Profit	1,363	1,648	1,791	2,321
Shares o/s (mn)	31	31	31	31
Adjusted Basic EPS	44.4	53.8	58.4	75.7
Diluted shares o/s (mn)	31	31	31	31
Adjusted Diluted EPS	45.5	55.4	58.4	75.7
Adjusted Cash EPS	50.1	65.1	74.0	90.9
Dividend per share (DPS)	13.7	16.6	17.5	22.7
Dividend Payout Ratio(%)	0.3	0.3	0.3	0.3

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Materials costs	61.8	58.7	60.0	60.0
Staff costs	5.9	7.0	6.6	6.4
S G & A expenses	10.3	11.2	11.5	10.8
Depreciation	1.6	3.3	3.8	3.1
Interest Expense	0.2	0.5	0.2	0.2
EBITDA margins	22.0	23.2	21.9	22.8
Net Profit margins	12.9	15.9	14.2	15.5

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	22.6	(2.1)	21.1	19.4
EBITDA	47.5	2.9	14.4	24.5
PBT	54.9	(5.5)	12.5	29.6
Adj. net profit	43.0	21.0	8.7	29.6
EPS	46.5	21.7	5.4	29.6

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	153	153	153	153	
Reserves & Surplus	4,849	6,036	7,289	8,914	
Shareholders' funds	5,002	6,189	7,443	9,068	
Long term borrowings	928	915	915	915	
Short term borrowings	202	-	-	-	
Total Borrowings	1,130	915	915	915	
Long Term Liabilities	39	76	76	76	
Deferred tax (net)	(2)	1	-	1	
Sources of funds	6,170	7,180	8,433	10,059	
Gross Block	2,468	4,195	4,495	4,795	
Net Block	778	2,159	1,981	1,817	
Capital work in progress	1,063	58	58	58	
Intangible Assets	3	9	9	9	
Total Fixed Assets	1,845	2,226	2,048	1,884	
Non current investments	100	328	328	328	
Cash and Equivalents	1,092	2,104	3,113	4,475	
Inventories	893	1,317	1,137	1,357	
Sundry Debtors	1,556	1,323	1,895	2,262	
Other Current Assets	1,537	1,222	1,222	1,222	
Current Assets (ex cash)	3,986	3,862	4,254	4,842	
Trade payable	534	858	827	987	
Other Current Liab	318	483	483	483	
Total Current Liab	852	1,341	1,310	1,471	
Net Curr Assets-ex cash	3,134	2,521	2,944	3,371	
Uses of funds	6,170	7,180	8,433	10,059	
BVPS (INR)	163.2	201.9	242.7	295.7	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	1,363	1,648	1,791	2,321	
Add: Depreciation	175	347	478	465	
Interest (Net of Tax)	11	37	20	20	
Others	(69)	(117)	8	8	
Less: Changes in WC	493	(415)	422	427	
Operating cash flow	987	2,329	1,874	2,386	
Less: Capex	(818)	(722)	(300)	(300)	
Free Cash Flow	168	1,608	1,574	2,086	

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Cash flow from ops	987	2,329	1,874	2,386	
Financing cash flow	924	(367)	(565)	(724)	
Investing cash flow	(823)	(844)	(300)	(300)	
Net cash Flow	1,088	1,117	1,009	1,362	
Capex	(818)	(722)	(300)	(300)	

Profitability and efficiency ratios		FY19	FY20	FY21E	FY22E
Year to March					
ROAE (%)	30.4	29.5	26.3	28.1	
ROACE (%)	44.4	34.1	32.5	35.5	
Inventory Days	50	66	59	51	
Debtors Days	52	51	47	51	
Payable Days	34	42	41	37	
Cash Conversion Cycle	67	75	65	64	
Current Ratio	6.0	4.4	5.6	6.3	
Gross Debt/EBITDA	0.5	0.4	0.3	0.3	
Gross Debt/Equity	0.2	0.1	0.1	0.1	
Adjusted Debt/Equity	0.2	0.1	0.1	0.1	
Net Debt/Equity	-	(0.2)	(0.3)	(0.4)	
Interest Coverage Ratio	117.5	42.7	82.8	107.9	

Operating ratios		FY19	FY20	FY21E	FY22E
Year to March					
Total Asset Turnover	2.0	1.6	1.6	1.6	
Fixed Asset Turnover	12.7	7.0	6.0	7.9	
Equity Turnover	2.4	1.9	1.8	1.8	

Valuation parameters		FY19	FY20	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)	45.5	55.4	58.4	75.7	
Y-o-Y growth (%)	46.5	21.7	5.4	29.6	
Adjusted Cash EPS (INR)	50.1	65.1	74.0	90.9	
Diluted P/E (x)	40.9	33.6	31.8	24.6	
P/B (x)	11.4	9.2	7.7	6.3	
EV / Sales (x)	5.4	5.3	4.3	3.5	
EV / EBITDA (x)	24.4	23.2	19.9	15.6	
Dividend Yield (%)	0.7	0.9	0.9	1.2	

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Key takeaways

- GSL has a presence in FMCG-linked defensive sector wherein growth has ranged from 10–12% in good cycles and 6–8% in bad ones, thereby providing stability to its operations.
- Management expects normalcy to return in six months while there can be some down-trading in certain categories as there is likely to be a cut in spending on premium products, which may impact performance of specialty surfactants. Sales of performance surfactants are likely to remain stable.
- GSL's major raw materials are fatty alcohol and fatty acids with no major dependency on China. The company gets 60-65% of its raw material from Indonesia and Malaysia.
- The company continues to hold onto its strong market position in certain product categories such as SLS (~6% market share), SLES (3.5–4% market share), and preservatives. It is among the top three globally in these categories.
- Egypt logged 22% growth in FY20 driving the performance surfactants division. The market in Egypt has come back to its previous levels with a 62% market share being held by MNCs.
- Growth for the company will be driven by: i) strong growth in existing markets; ii) healthy growth in end-user industries, iii) leveraging the existing customer base to expand the product basket; and iv) expanding the customer base via client additions across geographies.
- FY20 capex stood at INR2.3bn, out of which INR800mn pertained to land acquisition at Jagadia for future use while the rest was utilized for expansion in the US and Egypt. Galaxy expects to spend INR1bn each in FY21 and FY22 with investments in both performance and specialty surfactants.

Investment conclusion

We remain bullish on GSL's FMCG-linked business model that can well capture the strong structural growth opportunity. Maintain **'BUY'** with a target price of INR1,628 based on 22x FY22E EPS.

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Outperform
MARKET DATA (R: GALX NS, B: GALSURF IN)	
CMP	: INR 1,557
Target Price	: INR 1,628
52-week range (INR)	: 1,781 / 975
Share in issue (mn)	: 35.5
M cap (INR bn/USD mn)	: 55 / 0
Avg. Daily Vol. BSE/NSE ('000)	: 19.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	70.9	70.9	70.9
MF's, FI's & BKs	13.6	13.2	12.8
FII's	3.3	3.2	3.0
Others	12.2	12.6	13.2
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	(6.1)	(4.0)
3 months	(24.4)	(17.6)	6.8
12 months	(24.6)	24.4	49.0

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Financials

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	27,630	25,964	27,944	30,778
EBITDA	3,534	3,689	3,805	4,448
Adjusted Profit	1,910	2,304	2,199	2,624
Adjusted diluted EPS (INR)	53.9	65.0	62.0	74.0
Diluted P/E (x)	28.9	24.0	25.1	21.0
EV/EBITDA (x)	16.3	15.7	14.6	12.1
ROAE (%)	23.9	23.7	19.0	19.4

Edelweiss Research is also available on www.edelresearch.com,
Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

Edelweiss Securities Limited

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Total sales volume (tonnes)	214,711.0	224,237.0	241,368.8	265,815.7
Total volume growth (%)	8.8	4.4	7.6	10.1
Performance volume (tonnes)	135,337.0	143,521.0	155,002.7	170,813.0
Performance volume growth (%)	3.6	6.0	8.0	10.2
Specialty volume (tonnes)	79,374.0	80,716.0	86,366.1	95,002.7
Specialty volume growth (%)	18.8	1.7	7.0	10.0
Gross margins (%)	29.5	33.9	31.0	31.5
Employee (% of net rev)	6.0	6.9	6.9	6.7
Other expenses as (% of net rev)	10.7	12.9	10.5	10.3
Depreciation (% of Avg GFA)	5.1	4.8	6.1	6.2
Int (% of avg G.debt)	11.0	8.3	10.0	10.0
Tax rate as % of PBT	31.0	20.2	25.0	25.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	27,630	25,964	27,944	30,778
Materials costs	19,481	17,153	19,281	21,083
Employee costs	1,646	1,781	1,923	2,077
Other Expenses	2,969	3,341	2,934	3,170
Total operating expenses	24,096	22,275	24,139	26,331
EBITDA	3,534	3,689	3,805	4,448
Depreciation	512	622	822	897
EBIT	3,022	3,067	2,983	3,550
Less: Interest Expense	300	238	151	151
Add: Other income	46.8	59.2	100.00	100.00
Profit Before Tax	2,769	2,888	2,932	3,499
Less: Provision for Tax	859	584	733	875
Reported Profit	1,910	2,304	2,199	2,624
Adjusted Profit	1,910	2,304	2,199	2,624
Shares o/s (mn)	35	35	35	35
Adjusted Basic EPS	53.9	65.0	62.0	74.0
Diluted shares o/s (mn)	35	35	35	35
Adjusted Diluted EPS	53.9	65.0	62.0	74.0
Adjusted Cash EPS	68.3	82.5	85.2	99.3
Dividend per share (DPS)	14.5	11.7	11.2	13.4
Dividend Payout Ratio(%)	0.3	0.2	0.2	0.2

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Materials costs	70.5	66.1	69.0	68.5
Staff costs	6.0	6.9	6.9	6.7
S G & A expenses	10.7	12.9	10.5	10.3
Depreciation	1.9	2.4	2.9	2.9
Interest Expense	1.1	0.9	0.5	0.5
EBITDA margins	12.8	14.2	13.6	14.5
Net Profit margins	6.9	8.9	7.9	8.5

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	13.5	(6.0)	7.6	10.1
EBITDA	22.8	4.4	3.1	16.9
PBT	26.5	4.3	1.5	19.3
Adj. net profit	20.9	20.6	(4.6)	19.3
EPS	20.9	20.6	(4.6)	19.3

Balance sheet				
(INR mn)				
As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	355	355	355	355
Reserves & Surplus	8,413	10,323	12,125	14,275
Shareholders' funds	8,767	10,678	12,479	14,629
Long term borrowings	892	1,166	1,166	1,166
Short term borrowings	1,640	2,030	2,030	2,030
Total Borrowings	2,532	3,196	3,196	3,196
Long Term Liabilities	110	342	342	342
Deferred tax (net)	321	241	242	241
Sources of funds	11,730	14,457	16,260	18,409
Gross Block	10,068	12,974	13,974	14,974
Net Block	5,112	7,396	7,574	7,677
Capital work in progress	826	660	-	-
Intangible Assets	75	82	82	82
Total Fixed Assets	6,013	8,138	7,656	7,759
Cash and Equivalents	257	545	3,003	4,574
Inventories	3,513	3,250	3,698	4,043
Sundry Debtors	4,268	4,394	4,211	4,638
Loans & Advances	37	4	4	4
Other Current Assets	1,592	1,788	1,788	1,788
Current Assets (ex cash)	9,410	9,436	9,700	10,473
Trade payable	3,059	2,731	3,170	3,466
Other Current Liab	892	931	931	931
Total Current Liab	3,950	3,663	4,101	4,397
Net Curr Assets-ex cash	5,460	5,774	5,601	6,076
Uses of funds	11,730	14,457	16,260	18,409
BVPS (INR)	247.3	301.2	352.0	412.7

Free cash flow				
(INR mn)				
Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	1,910	2,304	2,199	2,624
Add: Depreciation	512	622	822	897
Interest (Net of Tax)	207	190	113	113
Others	72	350	38	38
Less: Changes in WC	(129)	304	(174)	476
Operating cash flow	2,829	3,162	3,346	3,196
Less: Capex	1,689	1,416	340	1,000
Free Cash Flow	1,140	1,746	3,006	2,196

Cash flow metrics				
Year to March	FY19	FY20	FY21E	FY22E
Cash flow from ops	2,829	3,162	3,346	3,196
Financing cash flow	(1,192)	(1,438)	(548)	(625)
Investing cash flow	(1,673)	(1,511)	(340)	(1,000)
Net cash Flow	(36)	213	2,457	1,571
Capex	(1,689)	(1,416)	(340)	(1,000)
Dividend paid	2	3	3	3

Profitability and efficiency ratios				
Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	23.9	23.7	19.0	19.4
ROACE (%)	28.7	24.8	20.9	21.8
Inventory Days	65	72	66	67
Debtors Days	56	61	56	52
Payable Days	59	62	56	57
Cash Conversion Cycle	62	71	66	62
Current Ratio	2.4	2.7	3.1	3.4
Gross Debt/EBITDA	0.7	0.9	0.8	0.7
Gross Debt/Equity	0.3	0.3	0.3	0.2
Adjusted Debt/Equity	0.3	0.3	0.3	0.2
Net Debt/Equity	0.3	0.2	-	(0.1)
Interest Coverage Ratio	10.1	12.9	19.8	23.5

Operating ratios				
Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	2.5	2.0	1.8	1.8
Fixed Asset Turnover	5.7	4.1	3.7	4.0
Equity Turnover	3.5	2.7	2.4	2.3

Valuation parameters				
Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	53.9	65.0	62.0	74.0
Y-o-Y growth (%)	20.9	20.6	(4.6)	19.3
Adjusted Cash EPS (INR)	68.3	82.5	85.2	99.3
Diluted P/E (x)	28.9	24.0	25.1	21.0
P/B (x)	6.3	5.2	4.4	3.8
EV / Sales (x)	2.1	2.2	2.0	1.8
EV / EBITDA (x)	16.3	15.7	14.6	12.1
Dividend Yield (%)	0.9	0.8	0.7	0.9

INSECTICIDE INDIA

Domestic scenario remains positive

India Equity Research | Midcap Agri

Key takeaways

- Despite the expectation of strong growth during the kharif season, the company is facing issues pertaining to labour availability. The current utilisation is about 70%.
- Product launches remain crucial for sustaining the growth trajectory. The company expects to launch 12 products before Diwali this year. Most of them would be under the 9(3) category.
- The company is targeting more than INR1bn in exports for FY21. During FY20, it failed to achieve the guided INR1bn contribution from exports due to the ban on exports to Pakistan.
- R&D expense is about 1% of turnover. Associated to plant to keep expense low. Five R&D centres are being run. i) Reverse engineering. ii) Formulations. iii) Biological (three new biological products to be introduced). iv) A JV with Japanese companies.
- Capex: INR1.5bn to be spent over three–four years. INR1bn to be spent on an SEZ plant in Dahej, largely to expand its technical manufacturing capabilities.
- Nearly 130 formulations on industry levels are being made from the proposed ban of 27 molecules. The contribution of these molecules to total industry is roughly 25% of the aggregate market size.

EDELWEISS RATINGS

Absolute Rating	NOT RATED
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MARKET DATA (R: ISIL.BO, B: INST IN)

CMP	: INR 447
Target Price	: NA
52-week range (INR)	: 691 / 207
Share in issue (mn)	: 20.6
M cap (INR bn/USD mn)	: 9 / 122
Avg. Daily Vol.BSE/NSE('000)	: 33.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	68.9	68.8	68.8
MF's, FI's & BK's	15.3	15.7	15.7
FII's	4.4	3.9	3.9
Others	11.4	11.7	11.7
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	4.8	15.5	10.7
3 months	23.5	51.1	27.6
12 months	(12.0)	(30.8)	(18.8)

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July 1, 2020

Financial Statements (Consolidated)

Income statement		(INR mn)			
Year to March	FY17	FY18	FY19	FY20	
Net revenues	9,942	10,733	11,919	13,632	
Raw material costs	6,699	6,942	8,226	10,093	
Employee Benefits Expense	455	506	652	747	
Other expenses	1,674	1,806	1,185	1,233	
Total expenses	8,828	9,254	10,063	12,074	
EBITDA	1,114	1,478	1,856	1,559	
Depreciation & amortization	160	170	197	241	
EBIT	954	1,308	1,659	1,318	
Less: Interest Expense	202	159	152	239	
Add: Other income	68	32	7	26	
Add: Exceptional items	0	0	0	0	
Profit Before Tax	819	1,176	1,514	1,105	
Less: Provision for Tax	226	341	306	244	
Less: Minority Interest	0	0	0	0	
Add: Share of profit from assoc.	3	3	0	0	
Reported Profit	593	834	1,208	860	
Less: Excep. Items (Net of Tax)	0	0	0	0	
Adjusted Profit	593	834	1,208	860	
No. of Shares outstanding (mn)	21	21	21	21	
Adjusted Basic EPS	29	40	58	42	
No. of dil. shares outstand. (mn)	21	21	21	21	
Adjusted Diluted EPS	29	40	58	42	
Adjusted Cash EPS	36	49	68	53	
Dividend per share	0	2	2	2	
Dividend Payout Ratio (%)	0%	5%	3%	5%	

Common size metrics - as % of revenues

Year to March	FY17	FY18	FY19	FY20
Materials costs	67.4	64.7	69.0	74.0
Staff costs	4.6	4.7	5.5	5.5
SG & A expenses	16.8	16.8	9.9	9.0
Depreciation	1.6	1.6	1.7	1.8
Interest Expense	2.0	1.5	1.3	1.8
EBITDA margins	11.2	13.8	15.6	11.4
Net Profit margins	6.0	7.8	10.1	6.3

Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20
Revenues	0.6	8.0	11.1	14.4
EBITDA	21.0	32.7	25.6	(16.0)
PBT	62.8	43.5	28.8	(27.1)
Adjusted Profit	50.0	40.6	44.8	(28.8)
EPS	50.0	40.6	44.8	(28.8)

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19	FY20	
Share capital	207	207	207	207	
Other Equity	4,438	5,272	6,407	7,096	
Total shareholders funds	4,645	5,478	6,613	7,302	
Long term Borrowings	154	83	13	19	
Short term Borrowings	2,212	1,061	2,952	1,835	
Total Borrowings	2,366	1,144	2,965	1,854	
Long Term Liabilities & Prov.	175	259	7	28	
Deferred Tax Liability (net)	89	188	179	187	
Sources of funds	7,276	7,069	9,765	9,371	
Gross Block	1,968	2,601	2,872	3,082	
Capital work in progress	569	127	127	329	
Intangible Assets	45	73	93	111	
Total Fixed Assets	2,428	2,484	2,592	2,781	
Non current investments	110	165	118	104	
Cash & bank balances	92	201	92	742	
Inventories	4,258	4,073	7,051	5,193	
Sundry Debtors	2,116	2,348	2,442	3,198	
Loans & Advances	885	934	183	183	
Other Current Assets	65	51	1,070	730	
Total Current Assets (Ex Cash)	7,324	7,406	10,746	9,303	
Trade payable	1,987	2,434	2,799	2,466	
Other Current Liab. & ST Prov.	691	753	986	1,093	
Total Current Liab. & Provisions	2,678	3,187	3,784	3,558	
Net Current Assets (ex cash)	4,646	4,219	6,962	5,745	
Uses of funds	7,276	7,069	9,765	9,371	
Book value per share (BV) (INR)	225	265	320	353	

Free cash flow

Year to March	FY17	FY18	FY19	FY20
Reported Profit	593	834	1,208	860
Add: Depreciation	160	170	197	241
Interest (Net of Tax)	147	113	121	186
Others	(1,679)	1,535	(5,778)	2,282
Less: Changes in WC	(989)	580	(2,920)	1,151
Operating cash flow	211	2,073	(1,331)	2,419
Less: Capex	144	282	379	290
Free cash flow	67	1,791	(1,710)	2,129

Cash flow statement

Year to March	FY17	FY18	FY19	FY20
Operating cash flow	211	2,073	(1,331)	2,419
Investments cashflow	(132)	(256)	(490)	(241)
Financing cash flow	301	(1,270)	1,715	(1,590)
Net cash Flow	379	546	(106)	588
Capex	(144)	(282)	(379)	(290)

Profitability & liquidity ratios

Year to March	FY17	FY18	FY19	FY20
RoAE (%)	13.6	16.5	20.0	12.4
RoACE (%)	15.5	19.7	20.6	14.3
Debtors Days	77	76	73	76
Payable Days	112	116	116	95
Cash conversion cycle (days)	177	179	204	202
Current Ratio	2.8	2.4	1.4	1.3
Gross Debt/EBITDA	2.1	0.8	0.0	0.0
Gross Debt/Equity	0.5	0.2	0.4	0.3
Net Debt/Equity	0.5	0.2	0.4	0.2
Interest Coverage Ratio	4.7	8.2	10.9	5.5

Operating ratios

Year to March	FY17	FY18	FY19	FY20
Total asset turnover(x)	4.5	4.7	4.4	4.6
Fixed asset turnover(x)	3.3	3.8	4.5	4.7
Equity turnover(x)	2.3	2.1	2.0	2.0

Valuation parameters

Year to March	FY17	FY18	FY19	FY20
Adjusted Diluted EPS (INR)	28.7	40.4	58.5	41.6
Y-o-Y growth (%)	50.0	40.6	44.8	(28.8)
Adjusted Cash EPS (INR)	36.5	48.6	68.0	53.3
Diluted P/E (x)	15.3	10.9	7.5	10.6
Price/BV (x)	2.0	1.7	1.4	1.2
EV/Sales (x)	1.1	0.9	1.0	0.7
EV/EBITDA (x)	10.2	6.8	6.4	6.5
Dividend yield (%)	-	0.5	0.5	0.5

NEOGEN CHEMICALS

Specialty segment: Key growth driver

India Equity Research | Midcap Agri

Key takeaways

- Neogen is a specialty chemicals player dealing in bromine derivatives and lithium products. The company's products are mainly used in agrochemicals/pharmaceuticals. Inorganic products are used in engineering and specialty cooling.
- Product mix: Almost 50% of revenue comes from bromine-based products, 30% from advance intermediates, and 20% from inorganic lithium-based products.
- Globally, bromine has a very limited number of players. Only ten companies are known for bromine-based chemistry. Globally, 0.5mn tonnes of bromine is produced, out of which 50,000 is used in specialty chemicals. The rest is used as bulk.
- Client concentration:** The company has technologies for more than 200 molecules, out of which 100 are produced and supplied to 300 customers. No customer contributes more than 15% to revenue. Three-fourths of revenue comes from customers with whom the company has had more than five years of relationship.
- Exports:** Over time, exports have increased significantly, mainly because the cost of manufacturing in India is lower than Europe. But it is on a par with China. The company is witnessing increased order enquiries lately, with innovators keen on reducing their dependence on China.
- Prices of bromine products vary from USD7 to USD13 while advance intermediate products are priced in a range of USD25–100. Advance intermediates are largely procured for consumption by API manufacturing companies.
- Working capital: Historically, the company's cash conversion cycle has been in a range of 100–110 days. The preference continues to be growth.

EDELWEISS RATINGS

Absolute Rating **NOT RATED**

MARKET DATA (R: NA.BO, B: NEOGEN IN)

CMP	: INR 480
Target Price	: NA
52-week range (INR)	: 555 / 301
Share in issue (mn)	: 23.3
M cap (INR bn/USD mn)	: 11 / 148
Avg. Daily Vol.BSE/NSE('000)	: 46.0

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	70.0	70.0	70.0
MF's, FI's & BK's	17.1	17.9	17.9
FII's	0.6	0.4	0.4
Others	12.3	11.7	11.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	4.8	2.0	(2.8)
3 months	23.5	43.1	19.6
12 months	(12.0)	33.2	45.3

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Financial Statements (Consolidated)

Income statement					Balance sheet				
(INR mn)					(INR mn)				
Year to March	FY17	FY18	FY19	FY20	As on 31st March	FY17	FY18	FY19	FY20
Net revenues	1,101	1,612	2,391	3,061	Share capital	200	200	201	233
Raw material costs	691	1,010	1,407	1,841	Other Equity	220	304	501	1,329
Employee Benefits Expense	54	87	112	172	Total shareholders funds	420	504	702	1,562
Other expenses	155	224	438	467	Long term Borrowings	368	385	506	304
Total expenses	901	1,322	1,956	2,481	Short term Borrowings	323	437	652	1,019
EBITDA	200	290	434	581	Total Borrowings	690	822	1,158	1,323
Depreciation & amortization	13	19	28	52	Long Term Liabilities & Prov.	34	39	40	128
EBIT	187	271	406	528	Deferred Tax Liability (net)	37	40	49	56
Less: Interest Expense	75	104	119	119	Sources of funds	1,180	1,406	1,949	3,069
Add: Other income	3	7	5	1	Gross Block	598	688	874	0
Add: Exceptional items	0	0	0	0	Capital work in progress	13	14	4	27
Profit Before Tax	115	174	292	410	Intangible Assets	0	0	0	0
Less: Provision for Tax	38	64	83	124	Total Fixed Assets	576	684	832	1,132
Less: Minority Interest	0	0	0	0	Non current investments	5	4	5	6
Add: Share of profit from assoc.	0	0	1	1	Cash & bank balances	31	18	20	15
Reported Profit	77	110	209	287	Inventories	400	500	724	1,299
Less: Excep. Items (Net of Tax)	0	0	0	0	Sundry Debtors	322	414	607	752
Adjusted Profit	77	110	209	287	Loans & Advances	100	156	252	344
No. of Shares outstanding (mn)	20	20	20	23	Other Current Assets	90	28	24	0
Adjusted Basic EPS	3.8	5.5	10.4	12.3	Total Current Assets (Ex Cash)	912	1,097	1,607	2,395
No. of dil. shares outstand. (mn)	20	20	20	23	Trade payable	310	367	428	359
Adjusted Diluted EPS	4	5	10	12	Other Current Liab. & ST Prov.	33	32	88	121
Adjusted Cash EPS	4	6	12	15	Total Current Liab. & Provisions	343	399	516	479
Dividend per share	0	0	0	0	Net Current Assets (ex cash)	569	699	1,091	1,916
Dividend Payout Ratio (%)	0%	0%	0%	0%	Uses of funds	1,180	1,406	1,949	3,069
					Book value per share (BV) (INR)	21	25	35	67
Common size metrics - as % of revenues					Free cash flow				
Year to March	FY17	FY18	FY19	FY20	Year to March	FY17	FY18	FY19	FY20
Materials costs	62.8	62.7	58.9	60.1	Reported Profit	77	110	209	287
Staff costs	4.9	5.4	4.7	5.6	Add: Depreciation	13	19	28	52
S G & A expenses	14.1	13.9	18.3	15.3	Interest (Net of Tax)	50	66	85	83
Depreciation	1.2	1.1	1.2	1.7	Others	11	59	505	715
Interest Expense	6.8	6.5	5.0	3.9	Less: Changes in WC	149	134	865	1,483
EBITDA margins	18.2	18.0	18.2	19.0	Operating cash flow	2	118	(37)	(345)
Net Profit margins	7.0	6.8	8.8	9.4	Less: Capex	327	139	184	263
					Free cash flow	(325)	(20)	(221)	(609)
Growth metrics (%)									
Year to March	FY17	FY18	FY19	FY20					
Revenues	9.7	46.4	48.3	28.1					
EBITDA	41.7	45.0	49.8	33.7					
PBT	35.2	51.6	67.7	40.6					
Adjusted Profit	48.3	42.9	90.8	36.8					
EPS	48.3	42.9	90.0	17.7					

Midcap Agri

Cash flow statement

Year to March	FY17	FY18	FY19	FY20
Operating cash flow	2	118	(37)	(345)
Investments cashflow	(329)	(127)	(201)	(286)
Financing cash flow	333	(4)	240	626
Net cash Flow	6	(13)	2	(5)
Capex	(327)	(139)	(184)	(263)

Profitability & liquidity ratios

Year to March	FY17	FY18	FY19	FY20
RoAE (%)	22.1	23.8	34.7	25.3
RoACE (%)	23.0	22.8	25.8	22.3
Debtors Days	80	83	78	81
Payable Days	139	122	103	78
Cash conversion cycle (days)	130	124	134	204
Current Ratio	1.2	1.2	1.1	0.9
Gross Debt/EBITDA	0.2	0.1	0.1	0.2
Gross Debt/Equity	0.1	0.1	0.1	0.1
Net Debt/Equity	1.6	1.6	1.6	0.8
Interest Coverage Ratio	2.5	2.6	3.4	4.4

Operating ratios

Year to March	FY17	FY18	FY19	FY20
Total asset turnover(x)	1.26	1.25	1.43	1.22
Fixed asset turnover(x)	2.8	2.5	3.1	3.1
Equity turnover(x)	3.2	3.5	4.0	2.7

Valuation parameters

Year to March	FY17	FY18	FY19	FY20
Adjusted Diluted EPS (INR)	3.8	5.5	10.4	12.3
Y-o-Y growth (%)	48.3	42.9	90.0	17.7
Adjusted Cash EPS (INR)	4.5	6.4	11.8	14.5
Diluted P/E (x)	124.7	87.2	45.9	39.0
Price/BV (x)	22.8	19.0	13.7	7.2
EV/Sales (x)	8.3	5.6	3.7	3.3
EV/EBITDA (x)	45.9	31.4	20.5	17.2

RALLIS INDIA

Growth visibility in domestic business

India Equity Research | Midcap Agri



Edelweiss

Ideas create, values protect

Key takeaways

- **Domestic business:** Monsoon has been good and early. A sharp improvement in sowing corroborates that. However, labour availability continues to be a challenge. Some of the companies are struggling with regard to freight and manpower movement for brand promotions/connect with distributors.
- Crop shifts have been happening. Paddy moved to cotton in northern India due to labour situation and crop prices.
- **Product ban:** An extension of 45 days subsequent to earlier 45 days. The industry view is that the government might resort to further consultations before making any further decisions. The banned products constitute 25% of the domestic industry.
- **International business:** Positive sentiment in global markets as well. The company has INR500mn worth of consignments waiting to be dispatched. No cancellation have taken place, orders have got deferred. Pressure on dispatches is expected to ease in Q2FY21.
- **Raw material:** China accounts for nearly 50% of the raw material procurement. Though supply from China has resumed, there are issues at ports with regard to Chinese imports. Clearance from cargo is taking time and this may have implications for the agrochemicals and pharmaceuticals industries.
- **Capex:** Investing in expanding product categories. Last year, metribuzin capacity was enhanced. Commissioning new formulation at Dahej over FY21. Synthesis of off-patent molecules, the company will build capacity for that (commissioning in FY22).

Investment conclusion

Overhang of metribuzin inventory across US markets along with demand issues for CRAMS products is likely to keep Rallis's export business under pressure. Though domestic business is expected to do well given the expectation of normal monsoon, labour-related concerns across facilities could hit production level. We maintain 'HOLD' with a TP of INR283 (22x FY22E EPS).

Financials

Year to March	FY19	FY20	FY21E	FY22E
Revenues (INR mn)	19,840	22,518	24,811	28,376
EBITDA (INR mn)	2,409	2,593	3,119	3,774
Adjusted Profit (INR mn)	1,548	1,722	2,068	2,506
Adjusted Diluted EPS (INR)	8.0	8.9	10.6	12.9
Diluted P/E (x)	33.8	30.4	25.3	20.9
EV/EBITDA (x)	21.4	19.1	16.0	13.2
ROACE (%)	17.6	16.4	18.3	20.1
ROAE (%)	12.5	12.8	14.0	15.5

EDELWEISS RATINGS

Absolute Rating **HOLD**

Investment Characteristics **None**

MARKET DATA (R: RALL.BO, B: RALI IN)

CMP	: INR 269
Target Price	: INR 283
52-week range (INR)	: 279 / 125
Share in issue (mn)	: 194.5
M cap (INR bn/USD mn)	: 52 / 750
Avg. Daily Vol. BSE/NSE ('000)	: 330.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	50.1	50.1	50.1
MF's, FI's & BKs	19.3	18.3	18.4
FII's	4.9	4.4	4.7
Others	25.7	27.2	26.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	3.2	5.3
3 months	(24.4)	(6.1)	18.3
12 months	(24.6)	36.2	60.8

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	3.0	6.0
Inflation (Avg)	3.4	4.3	4.0	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Raw Material (% net rev)	59.1	61.7	60.6	59.6
Domestic rev. growth (%)	(2.7)	15.0	10.0	12.0
Export rev growth (%)	35.7	10.3	15.0	20.0
Seeds revenue growth (%)	6.8	17.3	3.0	10.0
Org. manure rev grw. (%)	6.2	8.0	10.0	15.0
Other exp (% net rev)	19.7	17.9	18.3	18.1
Int (% of avg G.debt)	11.8	9.3	10.0	9.5
Employee cost (% of rev)	9.1	8.9	8.5	9.0
Capex (INR mn)	(465)	(620)	(1,000)	(2,000)
Net borrowings (INR mn)	(825)	(2,853)	(2,384)	(2,485)
Debtor days	78	73	75	77
Inventory days	194	180	185	190
Payable days	165	154	169	172
Cash conversion cycle	107	99	92	94
Dep. (% gross block)	9.0	10.6	11.0	11.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	19,840	22,518	24,811	28,376
Materials costs	11,715	13,900	15,041	16,908
Gross profit	8,124	8,618	9,770	11,469
Employee costs	1,806	2,001	2,109	2,554
Other Expenses	3,908	4,024	4,542	5,141
Operating expenses	5,715	6,025	6,651	7,695
Total operating expenses	17,430	19,925	21,692	24,602
EBITDA	2,409	2,593	3,119	3,774
Depreciation	461	615	692	829
EBIT	1,949	1,978	2,427	2,945
Less: Interest Expense	53	61	70	78
Add: Other income	306.5	343.3	400.00	475.00
Profit Before Tax	2,203	2,260	2,757	3,342
Less: Provision for Tax	655	538	689	835
Less: Minority Interest	6	-	-	-
Reported Profit	1,542	1,722	2,068	2,506
Adjusted Profit	1,548	1,722	2,068	2,506
Shares o/s (mn)	195	195	195	195
Adjusted Basic EPS	8.0	8.9	10.6	12.9
Diluted shares o/s (mn)	195	195	195	195
Adjusted Diluted EPS	8.0	8.9	10.6	12.9
Adjusted Cash EPS	10.3	12.0	14.2	17.1
Dividend per share (DPS)	4.2	4.2	4.2	4.2
Dividend Payout Ratio(%)	52.9	47.4	39.5	32.6

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Gross margin	40.9	38.3	39.4	40.4
Operating expenses	28.8	26.8	26.8	27.1
Interest Expense	0.3	0.3	0.3	0.3
EBITDA margins	12.1	11.5	12.6	13.3
EBIT margins	9.8	8.8	9.8	10.4
Net Profit margins	7.8	7.6	8.3	8.8

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	10.8	13.5	10.2	14.4
EBITDA	(9.7)	7.6	20.3	21.0
Adjusted Profit	(7.3)	11.3	20.1	21.2
EPS	(7.3)	11.3	20.1	21.2

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	195	195	195	195	
Reserves & Surplus	12,665	13,900	15,149	16,836	
Shareholders' funds	12,859	14,095	15,343	17,030	
Minority Interest	18	7	7	7	
Long term borrowings	158	124	158	158	
Short term borrowings	530	496	620	709	
Total Borrowings	688	620	778	867	
Long Term Liabilities	284	466	466	466	
Def. Tax Liability (net)	164	285	285	285	
Sources of funds	14,014	15,472	16,879	18,655	
Gross Block	5,513	6,039	6,539	8,539	
Net Block	3,698	3,608	3,416	4,587	
Capital work in progress	129	288	788	788	
Intangible Assets	2,433	2,789	2,789	2,789	
Total net fixed assets	6,260	6,684	6,992	8,163	
Non current investments	93	39	93	93	
Cash and Equivalents	1,512	3,473	3,162	3,352	
Inventories	6,736	6,992	8,273	9,299	
Sundry Debtors	4,491	4,506	5,707	6,243	
Loans & Advances	77	91	91	91	
Other Current Assets	2,458	2,700	2,812	2,990	
Current Assets (ex cash)	13,761	14,288	16,881	18,622	
Trade payable	5,348	6,373	7,520	8,454	
Other Current Liab	2,264	2,639	2,729	3,121	
Total Current Liab	7,613	9,013	10,250	11,575	
Net Curr Assets-ex cash	6,149	5,275	6,632	7,047	
Uses of funds	14,014	15,472	16,879	18,655	
BVPS (INR)	66.1	72.5	78.9	87.6	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	1,542	1,722	2,068	2,506	
Add: Depreciation	461	615	692	829	
Interest (Net of Tax)	35	41	47	52	
Others	(5)	22	(377)	(449)	
Less: Changes in WC	1,232	(969)	1,410	416	
Operating cash flow	801	3,368	1,020	2,523	
Less: Capex	465	620	1,000	2,000	
Free Cash Flow	335	2,749	20	523	

Cash flow metrics					
Year to March	FY19	FY20	FY21E	FY22E	
Operating cash flow	801	3,368	1,020	2,523	
Financing cash flow	(515)	(744)	(731)	(808)	
Investing cash flow	(514)	(2,459)	(600)	(1,525)	
Net cash Flow	(229)	165	(311)	190	
Capex	(465)	(620)	(1,000)	(2,000)	
Dividend paid	(585)	(587)	(819)	(819)	

Profitability and efficiency ratios					
Year to March	FY19	FY20	FY21E	FY22E	
ROAE (%)	12.5	12.8	14.0	15.5	
ROACE (%)	17.6	16.4	18.3	20.1	
Inventory Days	194	180	185	190	
ROA	11.7	11.7	12.8	14.1	
Debtors Days	78	73	75	77	
Payable Days	165	154	169	172	
Cash Conversion Cycle	107	99	92	94	
Current Ratio	2.0	2.0	2.0	1.9	
Debt/EBITDA (x)	0.3	0.2	0.2	0.2	
Adjusted Debt/Equity	0.1	-	0.1	0.1	
Net Debt/Equity	(0.1)	(0.2)	(0.2)	(0.1)	
LT debt /Cap empl. (%)	1.1	0.8	0.9	0.8	
Debt / Cap employed (%)	4.9	4.0	4.6	4.6	

Operating ratios					
Year to March	FY19	FY20	FY21E	FY22E	
Total Asset Turnover	1.5	1.5	1.5	1.6	
Fixed Asset Turnover	3.3	3.6	3.9	4.2	
Equity Turnover	1.6	1.7	1.7	1.8	

Valuation parameters					
Year to March	FY19	FY20	FY21E	FY22E	
Adj. Diluted EPS (INR)	8.0	8.9	10.6	12.9	
Y-o-Y growth (%)	(7.3)	11.3	20.1	21.2	
Adjusted Cash EPS (INR)	10.3	12.0	14.2	17.1	
Diluted P/E (x)	33.8	30.4	25.3	20.9	
P/B (x)	4.1	3.7	3.4	3.1	
EV / Sales (x)	2.6	2.2	2.0	1.8	
EV / EBITDA (x)	21.4	19.1	16.0	13.2	
Dividend Yield (%)	1.6	1.6	1.6	1.6	

SHARDA CROPCHEM

Global business less affected by Covid-19

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Key takeaways

- **Covid-19:** The company has not been adversely affected by the Covid-19 lockdowns as majority of its operations are outside India and most countries outside unlocked much quicker. Hence, seeing strong traction in Q1FY21 as well.
- **Raw material supply:** There has been no disruption in availability of raw materials from China and most suppliers there were up and running immediately after the Chinese New Year break.
- **NAFTA:** The company has been impacted due to the ongoing US-China trade war with the US imposing stringent import duties on agro-chemicals from China. However, the company has it passed through to farmers there.
- **Volume growth:** Given the company's product profile, the spring season is the best for the company, and they had adequately stocked up inventory before China shut down in February for its New Year. That helped the company record good volumes across geographies.
- **Locust attack:** While India and Pak have been severely impacted by locust attacks, the company hasn't seen any major pest attack globally; hence, there hasn't been a spike in demand for insecticides or fungicides.
- **Logistics:** Though there were some issues during the lockdown across the globe, the company is not witnessing any logistical challenges at present.

Investment conclusion

While SCC has been facing pressure on margins for the past few quarters, we believe it would ease going forward as the company is focusing on garnering new registrations across high-margin markets. Given an uptick in global agri-demand, we have aligned our target multiple to 14x (in line with its five-year average). Maintain **'BUY'** with a TP of INR280 (14x FY22E EPS).

Financials

Year to March	FY19	FY20	FY21E	FY22E
Revenues (INR mn)	19,976	20,030	22,128	24,827
EBITDA (INR mn)	3,266	2,970	3,386	3,923
Adjusted Profit (INR mn)	1,763	1,647	1,617	1,802
Adjusted Diluted EPS (INR)	19.5	18.3	17.9	20.0
Diluted P/E (x)	14.0	15.0	15.2	13.7
EV/EBITDA (x)	6.5	7.4	6.4	5.4
ROAE (%)	14.6	12.3	11.1	11.3

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: SHCR BO, B: SHCR IN)

CMP	: INR 276
Target Price	: INR 280
52-week range (INR)	: 346 / 99
Share in issue (mn)	: 90.2
M cap (INR bn/USD mn)	: 25 / 675
Avg. Daily Vol. BSE/NSE ('000)	: 27.7

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	74.8	74.8	74.8
MF's, FI's & BKs	17.0	16.9	16.7
FII's	4.9	5.1	5.4
Others	3.3	3.2	3.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	0.7	2.7
3 months	(24.4)	(32.6)	(8.2)
12 months	(24.6)	(60.0)	(35.4)

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	5.0	5.8	6.5
Inflation (Avg)	3.4	4.3	4.8	5.0
Repo rate (exit rate)	6.3	5.2	4.5	5.0
USD/INR (Avg)	70.0	71.5	71.0	70.0
Company				
Raw Material (% net rev)	69.5	69.3	69.0	69.0
Other exp (% net rev)	12.5	14.1	13.8	13.3
Employee cost (% of rev)	1.7	1.7	1.9	1.9
Tax rate as % of PBT	25.0	10.9	25.0	25.0
Capex (INR mn)	(1,430)	(1,899)	(2,012)	(2,000)
Net borrowings (INR mn)	(3,355)	(2,689)	(2,905)	(3,462)
Debtor days	156	164	172	170
Inventory days	118	98	96	95
Payable days	167	174	170	165
Cash conversion cycle	106	88	98	99
Dep. (% gross block)	20.5	19.8	18.9	18.6

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Net revenue	19,976	20,030	22,128	24,827
Materials costs	13,873	13,888	15,268	17,131
Gross profit	6,102	6,143	6,860	7,696
Employee costs	335	349	420	472
Other Expenses	2,501	2,824	3,054	3,302
Operating expenses	2,836	3,173	3,474	3,774
Total operating expenses	16,709	17,060	18,743	20,904
EBITDA	3,266	2,970	3,386	3,923
Depreciation	994	1,371	1,670	2,010
EBIT	2,273	1,599	1,715	1,912
Less: Interest Expense	84	19	10	10
Add: Other income	161.63	269.32	450.00	500.00
Profit Before Tax	2,350	1,849	2,155	2,402
Less: Provision for Tax	587	202	539	601
Reported Profit	1,763	1,647	1,617	1,802
Adjusted Profit	1,763	1,647	1,617	1,802
Shares o/s (mn)	90	90	90	90
Adjusted Basic EPS	19.5	18.3	17.9	20.0
Diluted shares o/s (mn)	90	90	90	90
Adjusted Diluted EPS	19.5	18.3	17.9	20.0
Adjusted Cash EPS	30.6	33.5	36.4	42.3
Dividend per share (DPS)	4.0	4.0	4.0	4.0
Dividend Payout Ratio(%)	24.6	26.4	26.9	24.1

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Gross margin	30.5	30.7	31.0	31.0
Operating expenses	14.2	15.8	15.7	15.2
Interest Expense	0.4	0.1	-	-
EBITDA margins	16.4	14.8	15.3	15.8
EBIT margins	11.4	8.0	7.8	7.7
Net Profit margins	8.8	8.2	7.3	7.3

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	17.0	0.3	10.5	12.2
EBITDA	(5.4)	(9.1)	14.0	15.9
Adjusted Profit	(7.6)	(6.6)	(1.8)	11.5
EPS	(7.6)	(6.6)	(1.8)	11.5

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	902	902	902	902	
Reserves & Surplus	11,850	13,126	14,308	15,675	
Shareholders' funds	12,752	14,028	15,210	16,577	
Minority Interest	2	3	-	-	
Long term borrowings	1	1	-	-	
Total Borrowings	1	1	-	-	
Def. Tax Liability (net)	855	855	855	855	
Sources of funds	13,661	14,937	16,116	17,483	
Gross Block	6,025	7,825	9,825	11,825	
Accumulated depreciation	2,447	3,818	5,488	7,498	
Tangible assets	135	278	278	278	
Intangible Assets	3,582	4,012	4,341	4,331	
CWIP (incl. intangible)	2,198	1,614	1,500	1,500	
Total net fixed assets	5,915	5,904	6,120	6,109	
Cash and Equivalents	3,356	2,690	2,905	3,462	
Inventories	3,649	3,822	4,183	4,693	
Sundry Debtors	8,114	9,894	10,913	12,243	
Loans & Advances	-	-	-	-	
Other Current Assets	944	1,250	1,300	1,350	
Current Assets (ex cash)	12,707	14,966	16,396	18,287	
Trade payable	6,362	6,867	7,320	8,213	
Other Current Liab	1,868	1,629	1,984	2,162	
Total Current Liab	8,231	8,496	9,304	10,375	
Net Curr Assets-ex cash	4,477	6,470	7,091	7,911	
Uses of funds	13,661	14,937	16,116	17,483	
BVPS (INR)	141.3	155.5	168.6	183.7	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	1,763	1,647	1,617	1,802	
Add: Depreciation	994	1,371	1,670	2,010	
Others	63	14	8	8	
Gross cash flow	3,042	3,162	3,287	3,812	
Less: Changes in WC	(2,522)	1,699	621	820	
Operating cash flow	5,563	1,463	2,665	2,992	
Less: Capex	1,430	1,899	2,012	2,000	
Free Cash Flow	4,133	(436)	653	992	

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Operating cash flow	5,563	1,463	2,665	2,992	
Financing cash flow	(2,155)	(597)	(438)	(435)	
Investing cash flow	(3,598)	(678)	(2,012)	(2,000)	
Net cash Flow	(191)	188	215	557	
Capex	(1,430)	(1,899)	(2,012)	(2,000)	
Dividend paid	(361)	(541)	(435)	(435)	

Profitability and efficiency ratios		FY19	FY20	FY21E	FY22E
Year to March					
ROAE (%)	14.6	12.3	11.1	11.3	
ROACE (%)	18.9	13.9	14.8	15.2	
Inventory Days	118	98	96	95	
ROA	12.9	11.0	10.0	10.3	
Debtors Days	156	164	172	170	
Payable Days	167	174	170	165	
Cash Conversion Cycle	106	88	98	99	
Current Ratio	2.0	2.1	2.1	2.1	
Debt/EBITDA (x)	-	-	-	-	
Debt/Equity (x)	-	-	-	-	
Adjusted Debt/Equity	-	-	-	-	

Operating ratios		FY19	FY20	FY21E	FY22E
Year to March					
Total Asset Turnover	1.5	1.4	1.4	1.5	
Fixed Asset Turnover	6.7	5.0	5.0	5.4	
Equity Turnover	1.7	1.5	1.5	1.6	

Valuation parameters		FY19	FY20	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)	19.5	18.3	17.9	20.0	
Y-o-Y growth (%)	(7.6)	(6.6)	(1.8)	11.5	
Adjusted Cash EPS (INR)	30.6	33.5	36.4	42.3	
Diluted P/E (x)	14.1	15.1	15.4	13.8	
P/B (x)	2.0	1.8	1.6	1.5	
EV / Sales (x)	1.1	1.1	1.0	0.9	
EV / EBITDA (x)	6.6	7.5	6.5	5.5	
Dividend Yield (%)	1.4	1.4	1.4	1.4	

UPL

Positive scenario globally

India Equity Research | Midcap Agri

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Key takeaways

- Industry:** Weather conditions are good this year. There is a shift in crops. Sugarcane and cotton are seeing a fall in demand.
- LATAM:** The season starts in September. Generally, pre-buying begins in June, but the company did not see such a phenomenon this year. Farmers/distributors are planning to purchase closer to season. This is driven by the fluctuations in prices and volatile currency.
- Europe:** It's a challenging landscape. Mancozeb also kept under the watch list by the registration committee in Europe. A palpable shift is taking place towards bio-solution products. Arysta has a good product basket in bio-solutions.
- Product ban:** Of the 27 products banned, 24 are still in use in OECD. At the most, one or two products would be banned. Besides, for UPL, domestic mancozeb sales are very low at just 6,000–7,000 MT out of total sales of 70,000–80,000MT.
- Debt & Cash:** All the cash is liquid, and not kept as current investments. It is kept outside India, mainly in USD.
- Glyphosate:** Glyphosate has been banned for home-use, not in general. Glyphosate is a great molecule, it has lost efficacy on 180 weeds but still works well on others.
- Raw materials:** The company is looking to reduce dependence on China. Alternative suppliers are present in India and other geographies. (percentage of RM imports from China: 20–25% at present versus 40% two–three years ago).

Investment conclusion

We are keeping FY21/22 estimates and the target multiple at 8.5x FY22E EV/EBITDA unchanged as the company's performance is on track with only a limited dent from the COVID-19 dislocation. Retain **'BUY'** with a TP of INR597, valuing it at 8.5x FY22E EV/EBITDA.

Financials

Year to March	FY19	FY20	FY21E	FY22E
Revenues (INR mn)	218,370	357,560	382,429	407,384
EBITDA (INR mn)	38,130	67,730	81,662	90,847
Adjusted Profit (INR mn)	15,538	22,744	32,118	38,666
Adjusted Diluted EPS (INR)	30.5	29.8	42.0	50.6
EPS growth (%)	(25.0)	(2.3)	41.2	20.4
Diluted P/E (x)	14.6	14.9	10.6	8.8
ROAE (%)	12.0	13.1	15.0	15.7

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: UPLL.BO, B: UPLL IN)

CMP	: INR 447
Target Price	: INR 597
52-week range (INR)	: 709 / 240
Share in issue (mn)	: 763.9
M cap (INR bn/USD mn)	: 341 / 5,784
Avg. Daily Vol. BSE/NSE ('000)	: 3,503.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	27.9	27.9	27.9
MF's, FI's & BKs	12.6	11.4	10.9
FII's	41.9	43.5	43.8
Others	17.6	17.2	17.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(2.0)	9.0	11.1
3 months	(24.4)	(30.9)	(6.4)
12 months	(24.6)	(44.2)	(19.6)

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Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	-	6.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
N. America rev growth(%)	6.8	13.4	3.0	3.0
Europe rev growth (%)	7.3	(6.5)	-	4.0
RoW revenue growth (%)	6.0	12.3	3.0	3.0

Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Income from operations	218,370	357,560	382,429	407,384
Materials costs	109,040	187,430	195,039	207,766
Employee costs	20,950	33,910	37,301	41,031
Other Expenses	50,250	68,490	68,428	67,740
Total operating expenses	180,240	289,830	300,768	316,537
EBITDA	38,130	67,730	81,662	90,847
Depreciation	8,800	20,120	23,357	25,818
EBIT	29,330	47,610	58,304	65,030
Less: Interest Expense	9,630	14,810	15,101	12,858
Add: Other income	(580.00)	1,040.00	2,400.00	2,800.00
Profit Before Tax	19,120	33,840	45,603	54,972
Less: Provision for Tax	1,980	5,860	9,121	10,994
Less: Minority Interest	840	4,020	4,265	5,211
Associate profit share	140	30	(100)	(100)
Exceptional items	(4,510)	(6,230)	-	-
Reported Profit	11,930	17,760	32,118	38,666
Exceptional Items	(3,608)	(4,984)	-	-
Adjusted Profit	15,538	22,744	32,118	38,666
Shares o/s (mn)	510	764	764	764
Adjusted Basic EPS	30.5	29.8	42.0	50.6
Diluted shares o/s (mn)	510	764	764	764
Adjusted Diluted EPS	30.5	29.8	42.0	50.6
Adjusted Cash EPS	47.7	56.1	72.6	84.4
Dividend per share (DPS)	8.0	8.5	8.5	8.5
Dividend Payout Ratio(%)	40.8	41.1	22.7	18.9

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Staff costs	9.6	9.5	9.8	10.1
Cost of revenues	49.9	52.4	51.0	51.0
Operating expenses	23.0	19.2	17.9	16.6
Depreciation	4.0	5.6	6.1	6.3
Interest Expense	4.4	4.1	3.9	3.2
EBITDA margins	17.5	18.9	21.4	22.3
Net Profit margins	7.5	7.5	9.5	10.8

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	25.7	63.7	7.0	6.5
EBITDA	8.7	77.6	20.6	11.2
PBT	(22.3)	77.0	34.8	20.5
Adjusted Profit	(25.0)	46.4	41.2	20.4
EPS	(25.0)	(2.3)	41.2	20.4

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	1,020	1,530	1,530	1,530	
Reserves & Surplus	146,130	191,290	220,480	257,166	
Shareholders' funds	147,150	192,820	222,010	258,696	
Minority Interest	34,540	33,120	37,385	42,596	
Long term borrowings	263,830	273,710	238,710	208,710	
Short term borrowings	24,780	12,980	12,980	12,980	
Total Borrowings	288,610	286,690	251,690	221,690	
Long Term Liabilities	1,560	6,550	6,550	6,550	
Def. Tax Liability (net)	14,660	11,220	11,220	11,220	
Sources of funds	486,520	530,400	528,855	540,752	
Gross Block	93,040	122,470	144,470	168,470	
Net Block	46,650	55,960	54,603	52,785	
Capital work in progress	11,660	10,590	10,590	10,590	
Intangible Assets	281,480	307,390	307,390	307,390	
Total Fixed Assets	339,790	373,940	372,583	370,765	
Non current investments	7,060	5,580	5,580	5,580	
Cash and Equivalents	28,510	67,520	44,161	50,725	
Inventories	91,330	78,500	93,512	99,614	
Sundry Debtors	116,790	118,670	130,969	139,515	
Loans & Advances	2,330	2,480	3,100	3,200	
Other Current Assets	29,800	26,810	28,675	30,546	
Current Assets (ex cash)	240,250	226,460	256,255	272,874	
Trade payable	98,470	102,330	106,871	113,844	
Other Current Liab	9,120	11,100	12,500	12,500	
Total Current Liab	36,090	48,660	50,743	53,238	
Net Curr Assets-ex cash	105,690	75,470	98,642	105,792	
Uses of funds	486,520	530,400	528,855	540,752	
BVPS (INR)	288.5	252.4	290.6	338.6	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	11,930	17,760	32,118	38,666	
Add: Depreciation	6,452	9,923	10,118	8,615	
Others	2,018	9,087	6,948	6,755	
Gross cash flow	20,730	37,880	55,475	64,483	
Less: Changes in WC	5,640	(30,500)	23,172	7,150	
Operating cash flow	23,560	87,390	49,369	72,703	
Less: Capex	315,160	19,800	22,000	24,000	
Free Cash Flow	(291,600)	67,590	27,369	48,703	

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Operating cash flow		23,560	87,390	49,369	72,703
Financing cash flow		288,940	(21,750)	(53,129)	(44,939)
Investing cash flow		(309,200)	(26,430)	(19,600)	(21,200)
Net cash Flow		3,300	39,210	(23,359)	6,564
Capex		(315,160)	(19,800)	(22,000)	(24,000)

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	12.0	13.1	15.0	15.7
ROACE (%)	9.1	9.9	11.9	13.1
Inventory Days	229	165	161	170
Debtors Days	148	120	119	121
Payable Days	260	196	196	194
Cash Conversion Cycle	117	90	84	97
Current Ratio	7.4	6.0	5.9	6.1
Gross Debt/EBITDA	7.6	4.2	3.1	2.4
Gross Debt/Equity	1.6	1.3	1.0	0.7
Adjusted Debt/Equity	1.6	1.3	1.0	0.7
Interest Coverage Ratio	3.0	3.2	3.9	5.1

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	0.7	0.7	0.7	0.8
Fixed Asset Turnover	1.2	1.0	1.1	1.1
Equity Turnover	1.6	1.8	1.6	1.5

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	30.5	29.8	42.0	50.6
Y-o-Y growth (%)	(25.0)	(2.3)	41.2	20.4
Adjusted Cash EPS (INR)	47.7	56.1	72.6	84.4
Diluted P/E (x)	14.7	15.0	10.6	8.8
P/B (x)	1.5	1.8	1.5	1.3
EV / Sales (x)	2.4	1.7	1.5	1.4
EV / EBITDA (x)	13.7	8.8	7.2	6.1
Dividend Yield (%)	1.8	1.9	1.9	1.9

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Coverage group(s) of stocks by primary analyst(s): Midcap Agri

Bayer Cropscience, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Sharda Cropchem, UPL

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Jun-20	Agri Inputs	Set for a bumper boost; <i>Sector Update</i>		
25-May-20	Sharda Cropchem	Bazooka quarter; <i>Result Update</i>	225	Buy
30-Apr-20	Agri Inputs	Resilient during uncertainty ; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
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