Rallis India

- Rallis, a leading player in Indian crop protection industry, reported fantastic performance for FY 2009 driven by healthy growth of sales volumes of its key products in domestic as well as international markets. Net sales grew by 24.1% to Rs. 832.85 crore (Rs. 671.07 crore). OPM% enhanced to 13.9% (9%) owing to better product mix, significant improvement in operating efficiencies leading to cost advantage and improved operations in international market (also aided by weakening rupee). Its enterprise wide value creation programme DISHA has been key in improving business profitability. Consequently, PBT (before exceptional items) zoomed to Rs. 118.3 crore (Rs. 65.5 crore), growth of 81%. However, extra ordinary expenses of Rs. 12.3 crore as against net extra ordinary income of Rs. 80.7 crore led to 43% decline in reported PAT of Rs. 71.29 crore (Rs. 125.19 crore).

- Rallis is known for its manufacturing capabilities in crop protection chemicals and various types of chemistries with ability to develop new processes & formulations supported by capability to register new products.

- Company focuses on building relationship both with farmers and with key customers/ alliances by leveraging its own generic products and latest products thru alliance partners. Innovative products (introduced in past 4 years) contribute ~ 30% of sales and growing well. Company has sufficient product pipeline till 2012-2013. Company has introduced 2 products in FY 2009, which have no equivalent molecules in India. This is not crop specific, but aim is to target for rice.***Rallis has also secured long term contracts from its key customers with revenue potential of over Rs 1,000 crore in next five years.***

- It has contract manufacturing alliances with several multinational agrochemical companies like FMC, Nihon Nohyaku, DuPont, Syngenta, Makhteshim Chemical Works, Bayer, Borax International, etc., for bringing in new molecules and new formulation technologies for commercialization in India. Going ahead, Rallis will continue to focus on growing and building existing alliances, thereby continuously enriching product offering based on changing market needs and enhancing value of its service to customers.

- Company is focusing on strengthening its international presence and establishing new capacities for contract manufacturing. Progress on international growth initiative - Apollo was satisfying during FY 2009 with this segment contributing to 32% of revenue portfolio.

- Company has set up Polyether Ketone (PEKK) facility at Ankleshwar to produce advanced composites for US based Cytec Engineered Material, which will further go into new-age aircraft making. For the 100,000 kg of production facility, Rallis has invested Rs 10 crore and aims to achieve exports of ~ Rs 400 crore over next 5 years. New facility can be scaled up to 400,000 kg in next 5 years, if required. With major new age aircraft manufacturers booked till 2012, there will be increased usage of advanced composites in aerospace industry and this will bring major gains to Rallis. This expansion will be funded thru internal accruals and sale of non productive assets.

- Company has capex plan of setting up new multi-product facility in special chemical zone in Dahej with an initial investment of Rs 100 crore. Company may go for further phases in next 2-3 years and spend the rest of Rs 100-150 crore as the project progresses. This project would be funded by growing internal accruals and sale of surplus assets. Dahej facility is expected to start from June 2010. First will start only SEZ part for exports. With commissioning of Dahej, EBIDTA will improve but because of higher depreciation, EBIT will not improve.

- Rallis is 150 years old company and has surplus assets held for disposal having book value of Rs. 8.22 crore (as on March 31, 2008). In addition to that, company has over and above 150 acres of land in Hyderabad, value of which is more than current enterprise value of the company. Company plans to monetize surplus assets to fund future capex / inorganic growth plans.

- Rallis has 25% stake in contract research firm Advinus Therapeutics-Bangalore (Formerly R&D division of Rallis). Advinus has commenced US operations. Advinus is JV between Tata Sons and Rallis engaged in high value research in partnership with global MNCs for kala azar, neglected diseases and unidentified targets in pharma sector that can create great value for Rallis.

- With several ongoing initiatives mentioned above, Rallis is poised to deliver sustained performance in future. At CMP of Rs. 489/-, the share is trading at 8.1 times FY 2009 actual EPS of Rs. 60.2 and 6.7 times FY 2010 expected EPS of Rs. 73/-. Hence, we recommend to "BUY" the share at CMP.

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