

## Momentum to continue, Target price upgraded by 27%

July 19, 2010

### BUY

|                   |                          |
|-------------------|--------------------------|
| Price<br>Rs 1,177 | Target Price<br>Rs 1,440 |
| Sensex            | 17,928                   |

#### Price Performance

| (%)            | 1M | 3M | 6M | 12M |
|----------------|----|----|----|-----|
| Absolute       | 13 | 28 | 67 | 143 |
| Rel. to Sensex | 11 | 25 | 65 | 100 |

Source: Bloomberg

#### Stock Details

|                             |                        |
|-----------------------------|------------------------|
| Sector                      | Agri-input & Chemicals |
| Reuters                     | RALL.BO                |
| Bloomberg                   | RALI@IN                |
| Equity Capital (Rs mn)      | 194                    |
| Face Value(Rs)              | 10                     |
| No of shares o/s (mn)       | 19                     |
| 52 Week H/L                 | 1,225/447              |
| Market Cap (Rs bn/USD mn)   | 23/489                 |
| Daily Avg Volume (No of sh) | 33497                  |
| Daily Avg Turnover (US\$mn) | 0.7                    |

#### Shareholding Pattern (%)

|              | J'10 | M'10 | D'09 |
|--------------|------|------|------|
| Promoters    | 50.2 | 50.2 | 50.2 |
| FII/NRI      | 2.4  | 1.6  | 1.2  |
| Institutions | 21.8 | 23.1 | 22.8 |
| Private Corp | 4.8  | 4.2  | 3.9  |
| Public       | 20.9 | 20.9 | 22.0 |

Source: Capitaline

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- **Q1FY11 results were marginally below estimates due to lower than expected EBITDA margins however topline growth was ahead of est**
- **Despite deficient monsoon, revenue grew by 22% which is mainly driven by volume growth**
- **Management shared encouraging outlook about the industry and expects monsoon for the year to be average while increase in acreages in various key crops is likely to drive growth**
- **We expect the company's earnings to remain robust with 31% CAGR and believe that the stock will command scarcity premium. We are revising our target price by 27% to Rs 1440 based on 15x FY12E EPS of Rs 96.2. Maintain BUY**

#### Q1FY11 PAT growth of 29%, marginally below est

Rallis India's Q1FY11 results were a tad below estimates. Though company surprised with 22% YoY growth in revenues to Rs 2 bn which was mainly driven by higher volume growth, aggregate margins were below est. Exports increased however headline numbers were not shared by the management. Margins were primarily affected due to 42% increase in other exp which includes maintenance shutdown, marketing exp on the launch of two new products. As a result, EBITDA margins at 11.2% were below our est of 14.5% and EBITDA increased by 15% YoY to Rs 227 mn. Consequently, APAT grew by 29% YoY to Rs 148 mn resulting in AEPS of Rs 7.6 (we est Rs 8.5).

#### Higher acreages and normal monsoon to drive industry growth

In the current quarter, Rallis witnessed strong volume growth despite weak monsoon. Monsoon in India has been weak with key regions like North West, Central India and North East reporting deficit of 18%, 15% and 22% respectively. Only southern region has reported surplus rainfall of 5%. However with recent rainfall in month of July, the company expects normal monsoon figures to catch up for the year. Acreages for various crops are also up by 5-20% which is likely to keep the growth momentum for crop protection industry buoyant.

#### Price target revised to Rs 1443, Maintain BUY

With normal monsoon this season, strong performing innovative products in its basket, strategic tie-ups with global majors and commissioning of its Dahej facility, Rallis in our view, is poised to continue its northward performance in the upcoming quarters. We expect company to keep its momentum with revenue and PAT CAGR (FY10-12E) of 19% and 31%, respectively. Rallis remains our preferred pick in the domestic crop protection industry and we believe the company to command scarcity premium over other players. With further re-rating, we value the stock at 15x FY12 estimated EPS of Rs 96.2 and subsequently revise our price target by 27% to Rs 1440 and maintain our BUY recommendation on the stock.

#### Financial Snapshot

Rs Mn

|        | Net    | EBITDA | EPS  | EPS   | RoE  | EV/    |      |      |        |      |
|--------|--------|--------|------|-------|------|--------|------|------|--------|------|
| YE-Mar | Sales  | (Core) | (%)  | PAT   | (Rs) | % chg  | (%)  | P/E  | EBITDA | P/BV |
| FY09   | 8,328  | 1,159  | 13.9 | 836   | 63.3 | 112.9  | 25.5 | 32.0 | 19.2   | 6.6  |
| FY10   | 8,970  | 1,745  | 19.4 | 1,124 | 55.8 | (11.8) | 29.1 | 22.7 | 12.3   | 5.4  |
| FY11E  | 10,872 | 2,192  | 20.2 | 1,504 | 77.3 | 38.6   | 31.3 | 15.2 | 10.3   | 4.3  |
| FY12E  | 12,745 | 2,745  | 21.5 | 1,870 | 96.2 | 24.4   | 30.8 | 12.2 | 7.6    | 3.4  |

### Launch of two new products to keep innovator turnover index healthy

Rallis launched two new products – ‘Tarak’ and ‘Ralligold’ this quarter and got encouraging response from the market. While ‘Tarak’ is a post emergence rice herbicide, ‘Ralligold’ is a plant growth nutrient targeted to improve root growth and yield of the crop. Ralligold can be used across a range of products like – Cotton, groundnut, paddy, vegetables, soyabean, pulses etc. This will help the company to maintain its innovation turnover index (revenue contribution from products launched in previous last years) at upwards of benchmark 25% levels.

### Company’s other initiatives to drive growth

- The company’s Dahej plant is in the final stages of commissioning and expected to roll commercial production from Oct 2010. With an investment of Rs 1.5 bn in the first phase, Rallis expects a turnover to the tune of Rs 5 bn in the next 3 years.
- This quarter, Rallis also entered into a co-operation agreement with Syngenta under which it will source fungicide – ‘Azoxystrobin’ (world market size US\$ 600-800 mn) and market in India. Going forward, Rallis will have the exclusive rights to sell any formulations of the product developed by their R&D team in Indian and other geographies.

#### Monsoon across regions

| Region             | Deficit / Surplus |
|--------------------|-------------------|
| North West         | -18%              |
| Central India      | -15%              |
| Southern Peninsula | 5%                |
| North East         | -22%              |

Source: Company

#### Key crop acreages - 2010

| Crop           | Increase / (decrease) in acreages |
|----------------|-----------------------------------|
| Paddy          | 2%                                |
| Coarse Cereals | 13%                               |
| Oilseeds       | 3%                                |
| Pulses         | 18%                               |
| Sugarcane      | 13%                               |

Source: Company

## Key Financials – Quarterly

Rs Mn

| Rs mn                          | Q1FY10       | Q2FY10       | Q3FY10       | Q4FY10       | Q1FY11       | YoY (%)     | QoQ (%)       |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|---------------|
| <b>Revenue</b>                 | <b>1,665</b> | <b>3,209</b> | <b>2,066</b> | <b>2,031</b> | <b>2,028</b> | 21.8        | (0.2)         |
| <b>Expenditure</b>             | <b>1,468</b> | <b>2,463</b> | <b>1,638</b> | <b>1,656</b> | <b>1,801</b> | <b>22.7</b> | <b>8.8</b>    |
| <i>as % of sales</i>           | 88.2         | 76.8         | 79.3         | 81.5         | 88.8         |             |               |
| Consumption of RM              | 1,010        | 1,791        | 1,179        | 1,053        | 1,219        | 20.7        | 15.7          |
| <i>as % of sales</i>           | 60.7         | 55.8         | 57.1         | 51.9         | 60.1         |             |               |
| Employee Cost                  | 178          | 156          | 162          | 172          | 184          | 3.4         | 7.5           |
| <i>as % of sales</i>           | 10.7         | 4.9          | 7.8          | 8.4          | 9.1          |             |               |
| Other expenditure              | 280          | 516          | 297          | 431          | 399          | 42.5        | (7.6)         |
| <i>as % of sales</i>           | 16.8         | 16.1         | 14.4         | 21.2         | 19.7         |             |               |
| <b>EBITDA</b>                  | <b>197</b>   | <b>745</b>   | <b>428</b>   | <b>375</b>   | <b>227</b>   | <b>15.0</b> | <b>(39.6)</b> |
| Depreciation                   | 36           | 43           | 37           | 37           | 36           | -           | (3.2)         |
| <b>EBIT</b>                    | <b>161</b>   | <b>703</b>   | <b>391</b>   | <b>338</b>   | <b>191</b>   | <b>18.4</b> | <b>(43.5)</b> |
| Other Income                   | 11           | 11           | 27           | 16           | 16           | 43.9        |               |
| Interest                       | 2            | 6            | 10           | 5            | -9           |             |               |
| <b>PBT</b>                     | <b>170</b>   | <b>708</b>   | <b>409</b>   | <b>349</b>   | <b>216</b>   | <b>27.0</b> | <b>(38.1)</b> |
| Total Tax                      | 55           | 230          | 113          | 113          | 68           | 22.9        | (40.3)        |
| <b>Adjusted PAT</b>            | <b>115</b>   | <b>478</b>   | <b>295</b>   | <b>235</b>   | <b>148</b>   | <b>28.9</b> | <b>(37.0)</b> |
| (Profit)/loss from JV's/Ass/MI | -            | -            | -            | -            | -            |             |               |
| <b>APAT after MI</b>           | <b>115</b>   | <b>478</b>   | <b>295</b>   | <b>235</b>   | <b>148</b>   | <b>28.9</b> | <b>(37.0)</b> |
| <b>Extra ordinary items</b>    | <b>20</b>    | <b>21</b>    | <b>55</b>    | <b>18</b>    | <b>0</b>     |             |               |
| <b>Reported PAT</b>            | <b>135</b>   | <b>499</b>   | <b>350</b>   | <b>253</b>   | <b>148</b>   | <b>9.9</b>  | <b>(41.4)</b> |
| <b>Reported EPS</b>            | <b>3.9</b>   | <b>22.5</b>  | <b>12.4</b>  | <b>11.2</b>  | <b>7.6</b>   | <b>95.5</b> | <b>(31.8)</b> |

| Margins (%)        |      |      |      |      |      | (bps) | (bps) |
|--------------------|------|------|------|------|------|-------|-------|
| EBIDTA             | 11.8 | 23.2 | 20.7 | 18.5 | 11.2 | (66)  | (728) |
| EBIT               | 9.7  | 21.9 | 18.9 | 16.6 | 9.4  | (27)  | (723) |
| EBT                | 9.5  | 21.7 | 18.4 | 16.4 | 9.8  | 31    | (653) |
| PAT                | 6.9  | 14.9 | 14.3 | 11.6 | 7.3  | 40    | (428) |
| Effective Tax rate | 32.4 | 32.5 | 27.7 | 32.5 | 31.3 | (105) | (117) |

Source: Company, Emkay Research

## Key Financials

## Income Statement

| Y/E, Mar (Rs. mn)                    | FY09         | FY10         | FY11E         | FY12E         |
|--------------------------------------|--------------|--------------|---------------|---------------|
| <b>Net Sales</b>                     | <b>8,328</b> | <b>8,970</b> | <b>10,872</b> | <b>12,745</b> |
| Growth (%)                           | 24.1         | 7.7          | 21.2          | 17.2          |
| <b>Expenditure</b>                   | <b>7,169</b> | <b>7,225</b> | <b>8,680</b>  | <b>10,000</b> |
| Materials Consumed                   | 5,056        | 5,034        | 6,164         | 7,137         |
| Employee Cost                        | 664          | 667          | 771           | 833           |
| Other Exp                            | 1,449        | 1,524        | 1,745         | 2,030         |
| <b>EBITDA</b>                        | <b>1,159</b> | <b>1,745</b> | <b>2,192</b>  | <b>2,745</b>  |
| Growth (%)                           | 92.8         | 50.5         | 25.6          | 25.3          |
| <b>EBITDA margin (%)</b>             | <b>13.9</b>  | <b>19.4</b>  | <b>20.2</b>   | <b>21.5</b>   |
| Depreciation                         | 170          | 152          | 211           | 231           |
| <b>EBIT</b>                          | <b>989</b>   | <b>1,592</b> | <b>1,981</b>  | <b>2,515</b>  |
| <b>EBIT margin (%)</b>               | <b>11.9</b>  | <b>17.8</b>  | <b>18.2</b>   | <b>19.7</b>   |
| Other Income                         | 223          | 66           | 222           | 211           |
| Interest expenses                    | 30           | 23           | 54            | 54            |
| <b>PBT</b>                           | <b>1,183</b> | <b>1,635</b> | <b>2,148</b>  | <b>2,671</b>  |
| <b>Tax</b>                           | <b>347</b>   | <b>512</b>   | <b>644</b>    | <b>801</b>    |
| Effective tax rate (%)               | 29.4         | 31.3         | 30.0          | 30.0          |
| <b>Adjusted PAT</b>                  | <b>836</b>   | <b>1,124</b> | <b>1,504</b>  | <b>1,870</b>  |
| Growth (%)                           | 0.0          | 34.5         | 33.8          | 24.4          |
| <b>Net Margin (%)</b>                | <b>10.0</b>  | <b>12.5</b>  | <b>13.8</b>   | <b>14.7</b>   |
| <b>Adjusted PAT After JVs/Ass/MI</b> | <b>836</b>   | <b>1,124</b> | <b>1,504</b>  | <b>1,870</b>  |
| E/O items                            | (119)        | (113)        | -             | -             |
| <b>Reported PAT</b>                  | <b>716</b>   | <b>1,011</b> | <b>1,504</b>  | <b>1,870</b>  |
| <b>PAT after MI</b>                  | <b>836</b>   | <b>1,124</b> | <b>1,504</b>  | <b>1,870</b>  |
| Growth (%)                           | 92.8         | 34.5         | 33.8          | 24.4          |

## Cash Flow

| Y/E, Mar (Rs. mn)            | FY09         | FY10          | FY11E       | FY12E        |
|------------------------------|--------------|---------------|-------------|--------------|
| <b>PBT (Ex-Other income)</b> | 1,060        | 1,635         | 2,148       | 2,671        |
| Depreciation                 | 170          | 0             | 211         | 231          |
| Interest Provided            | <b>30</b>    | <b>0</b>      | <b>54</b>   | <b>54</b>    |
| Other Non-Cash items         | 67           | (485)         | -           | -            |
| Chg in working cap           | 407          | 1,017         | (1,543)     | (205)        |
| Tax paid                     | -308         | -451          | -644        | -801         |
| <b>Operating Cashflow</b>    | <b>1,426</b> | <b>1,716</b>  | <b>226</b>  | <b>1,950</b> |
| Capital expenditure          | (644)        | (544)         | (400)       | (400)        |
| <b>Free Cash Flow</b>        | <b>782</b>   | <b>1,172</b>  | <b>-174</b> | <b>1,550</b> |
| Other income                 | 25           | -             | -           | -            |
| Investments                  | (806)        | (41)          | -           | -            |
| <b>Investing Cashflow</b>    | <b>-781</b>  | <b>-41</b>    | <b>0</b>    | <b>0</b>     |
| Equity Capital Raised        | -            | 9             | (0)         | -            |
| Loans Taken / (Repaid)       | 374          | (724)         | 724         | -            |
| Interest Paid                | (32)         | (23)          | (54)        | (54)         |
| Dividend paid (incl tax)     | (302)        | (302)         | (291)       | (376)        |
| Income from investments      | 0            | 0             | 0           | 0            |
| Others                       | -45          | 0             | 0           | 0            |
| <b>Financing Cashflow</b>    | <b>-5</b>    | <b>-1,039</b> | <b>378</b>  | <b>-430</b>  |
| <b>Net chg in cash</b>       | <b>-4</b>    | <b>92</b>     | <b>204</b>  | <b>1,119</b> |
| Opening cash position        | 75           | 26            | 118         | 322          |
| <b>Closing cash position</b> | <b>71</b>    | <b>118</b>    | <b>322</b>  | <b>1,442</b> |

## Balance Sheet

| Y/E, Mar (Rs. mn)             | FY09         | FY10         | FY11E        | FY12E        |
|-------------------------------|--------------|--------------|--------------|--------------|
| Equity share capital          | 1,000        | 130          | 194          | 194          |
| Reserves & surplus            | 2,487        | 4,115        | 5,178        | 6,580        |
| <b>Net worth</b>              | <b>3,487</b> | <b>4,245</b> | <b>5,372</b> | <b>6,775</b> |
| Secured Loans                 | 248          | 16           | 248          | 248          |
| Unsecured Loans               | 557          | 65           | 557          | 557          |
| <b>Loan Funds</b>             | <b>806</b>   | <b>81</b>    | <b>805</b>   | <b>805</b>   |
| Net deferred tax liability    | (102)        | (53)         | (53)         | (53)         |
| <b>Total Liabilities</b>      | <b>4,191</b> | <b>4,272</b> | <b>6,124</b> | <b>7,526</b> |
| Gross Block                   | 3,377        | 3,091        | 4,211        | 4,611        |
| Less: Depreciation            | 1,791        | 1,564        | 1,774        | 2,005        |
| <b>Net block</b>              | <b>1,586</b> | <b>1,527</b> | <b>2,437</b> | <b>2,607</b> |
| Capital work in progress      | 291          | 1,120        | 400          | 400          |
| <b>Investment</b>             | <b>1,362</b> | <b>1,402</b> | <b>1,402</b> | <b>1,402</b> |
| <b>Current Assets</b>         | <b>3,473</b> | <b>3,263</b> | <b>4,499</b> | <b>6,183</b> |
| Inventories                   | 1,473        | 1,489        | 1,936        | 2,270        |
| Sundry debtors                | 1,144        | 755          | 1,340        | 1,571        |
| Cash & bank balance           | 72           | 119          | 322          | 1,442        |
| Loans & advances              | 774          | 886          | 886          | 886          |
| Other current assets          | 11           | 15           | 15           | 15           |
| <b>Current lia &amp; Prov</b> | <b>2,591</b> | <b>3,041</b> | <b>2,616</b> | <b>3,066</b> |
| Current liabilities           | 1,951        | 2,595        | 2,085        | 2,444        |
| Provisions                    | 640          | 446          | 531          | 622          |
| <b>Net current assets</b>     | <b>881</b>   | <b>222</b>   | <b>1,884</b> | <b>3,117</b> |
| Misc. exp                     | 71           | -            | -            | -            |
| <b>Total Assets</b>           | <b>4,191</b> | <b>4,272</b> | <b>6,123</b> | <b>7,526</b> |

## Key ratios

| Y/E, Mar                   | FY09  | FY10  | FY11E | FY12E |
|----------------------------|-------|-------|-------|-------|
| <b>Profitability (%)</b>   |       |       |       |       |
| EBITDA Margin              | 13.9  | 19.4  | 20.2  | 21.5  |
| Net Margin                 | 10.0  | 12.5  | 13.8  | 14.7  |
| ROCE                       | 32.0  | 39.2  | 42.4  | 39.9  |
| ROE                        | 25.5  | 29.1  | 31.3  | 30.8  |
| RolC                       | 38.9  | 77.7  | 70.4  | 60.7  |
| <b>Per Share Data (Rs)</b> |       |       |       |       |
| EPS                        | 63.3  | 55.8  | 77.3  | 96.2  |
| CEPS                       | 83.9  | 65.6  | 88.2  | 108.0 |
| BVPS                       | 190.0 | 236.1 | 276.2 | 348.4 |
| DPS                        | 30.2  | 29.1  | 37.6  | 46.8  |
| <b>Valuations (x)</b>      |       |       |       |       |
| PER                        | 32.0  | 22.7  | 15.2  | 12.2  |
| P/CEPS                     | 14.0  | 17.9  | 13.4  | 10.9  |
| P/BV                       | 6.6   | 5.4   | 4.3   | 3.4   |
| EV / Sales                 | 2.7   | 2.4   | 2.0   | 1.6   |
| EV / EBITDA                | 19.2  | 12.3  | 10.0  | 7.6   |
| Dividend Yield (%)         | 2.6   | 2.5   | 3.2   | 4.0   |
| <b>Gearing Ratio (x)</b>   |       |       |       |       |
| Net Debt/ Equity           | (0.2) | (0.3) | (0.2) | (0.3) |
| Net Debt/EBITDA            | (0.5) | (0.8) | (0.4) | (0.7) |
| Working Cap Cycle (days)   | 29    | (14)  | 40    | 40    |

**Recommendation History: Rallis India – RALI IN**

| Date       | Reports   | Reco | CMP   | Target |
|------------|---|------|-------|--------|
| 26.04.2010 | <a href="#">Rallis India Q4FY10 Result Update</a> | Buy  | 1,437 | 1,703  |
| 18.01.2010 | <a href="#">Rallis India Q3FY10 Result Update</a> | Buy  | 1,055 | 1,153  |
| 15.10.2009 | <a href="#">Rallis India Q2FY10 Result Update</a> | Buy  | 957   | 1,153  |
| 26.08.2009 | <a href="#">Rallis India Company Update</a>       | Buy  | 745   | 961    |

**Recent Research Reports**

| Date       | Reports   | Reco | CMP | Target |
|------------|---|------|-----|--------|
| 14.07.2010 | <a href="#">Kajaria Ceramics Q1FY11 Result Update</a>   | Buy  | 67  | 91     |
| 27.05.2010 | <a href="#">Deepak Fertilisers Q4FY10 Result Update</a> | Buy  | 110 | 128    |
| 27.05.2010 | <a href="#">Tata Chemicals Q4FY10 Result Update</a>     | Hold | 304 | 321    |
| 27.05.2010 | <a href="#">TNPL Q4FY10 Result Update</a>               | Buy  | 102 | 143    |

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