

October 15, 2010

### BUY

Price	Target Price
Rs 1,416	Rs 1,800
Sensex	20,125

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	26	54	122
Rel. to Sensex	(9)	12	34	90

Source: Bloomberg

### Stock Details

Sector	Agri-input & Chemicals
Reuters	RALLBO
Bloomberg	RALI@IN
Equity Capital (Rs mn)	194
Face Value(Rs)	10
No of shares o/s (mn)	19
52 Week H/L	1,591/550
Market Cap (Rs bn/USD mn)	28/635
Daily Avg Volume (No of sh)	56932
Daily Avg Turnover (US\$m)	1.8

### 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

### Rohan Gupta

rohan.gupta@emkayglobal.com  
+91 22 6612 1248

### Pragya Bhardwaj

pragya.bhardwaj@emkayglobal.com  
+91 22 6612 1272

- **Q2FY11 results were broadly in line with estimates with EBITDA margins of 24% and PAT growth of 23% to Rs 587 mn**
- **Revenues, +15% yoy, were below estimates due to floods in northern region - expected to catch up in the coming quarters**
- **Outlook for H2FY11 remains encouraging with estimated APAT growth of 44% based on strong domestic outlook**
- **With strong visibility, we rollover our price target to FY13E and revise price target to Rs 1,800 (from Rs 1,440) and maintain BUY**

### Q2FY11 revenues increased by 15% but were below estimates

Q2FY11 results for Rallis India were broadly inline with estimates despite lower than expected revenues. Net sales at Rs 3.7 bn, +15% yoy, were short of expectations of Rs Rs 4 bn. Recent floods in various parts of the country have affected sales in Q2FY11 despite increase in acreages of key crops like paddy. However aided by the launch of new products (Ralligold, Toran and Taarak) along with strong portfolio of branded products, the company managed revenue growth of 15% yoy. Management indicated some sales have spilled over to the coming quarter following which we expect H2FY11 revenues to grow by 26%. Further, commissioning of Dahej plant is likely to support revenues in Q4FY11.

### EBITDA margins of 24% were above our estimates

EBITDA margins at 24%, +80bps yoy, were above our estimates of 23%. Rallis India's thrust on driving its branded portfolio and successful launch of new products has helped the company to improve its margins. On the back of revenue growth and margin expansion, APAT increased by 23% yoy to Rs 587 mn and was a tad below our estimates of Rs 626 mn. EPS for the quarter stood at Rs 30.2 as against Rs 23.6. Company's Dahej plant project is likely to commission by end of Dec'10 and we expect revenue contribution to start from Q4FY11.

### Rollover price target to FY13, maintain BUY

We believe that Rallis is one of the biggest beneficiaries of the structural changes witnessed in the domestic agro chemical industry on the back of increase in MSPs and improving farmers' profitability. We believe that Rallis will continue to post strong growth on the back of its strong brand, rural reach and farmers' association. We expect Rallis to leverage its Dahej plant (expected to commission by Dec'10) to benefit from strong growth opportunity in exports and CRAMS market. We also do not rule out the possibility of inorganic growth in the near future, though we have not factored any such opportunity in our estimates.

With higher visibility of growth in earnings we are factoring FY13E estimates with an 18 month price target. While introducing FY13 estimates, we expect the company to report revenues of Rs 15.5 bn (+22% yoy), EBITDA of Rs 3.5 bn (+24% yoy) and PAT of Rs 2.3 bn (+25% yoy) with an EPS of Rs 120.5. Subsequently we are revising our price target from Rs 1440 to Rs 1800 based on 15x FY13E EPS estimates and continue to maintain our BUY recommendation on the stock.

### Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	8,787	1,562	17.8	1,114	50.1	62.2	26.1	28.6	18.7	6.7
FY11E	10,872	2,192	20.2	1,504	77.3	54.3	31.3	19.0	12.7	5.3
FY12E	12,745	2,784	21.8	1,873	96.3	24.5	30.8	15.3	9.6	4.2
FY13E	15,549	3,456	22.2	2,344	120.5	25.1	30.6	12.2	7.3	3.4

## Key Financials – Quarterly

Rs Mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>3,209</b>	<b>2,066</b>	<b>2,031</b>	<b>2,028</b>	<b>3,680</b>	<b>14.7</b>	<b>81.5</b>	<b>5,708</b>	<b>4,873</b>	<b>17.1</b>
<b>Expenditure</b>	<b>2,463</b>	<b>1,638</b>	<b>1,656</b>	<b>1,801</b>	<b>2,797</b>	<b>13.5</b>	<b>55.3</b>	<b>4,598</b>	<b>3,931</b>	<b>17.0</b>
<i>as % of sales</i>	76.8	79.3	81.5	88.8	76.0			80.6	80.7	
Consumption of RM	1,791	1,179	1,053	1,219	2,109	17.7	73.1	3,328	2,801	18.8
<i>as % of sales</i>	55.8	57.1	51.9	60.1	57.3			58.3	57.5	
Employee Cost	156	162	172	184	184	17.6	(0.4)	368	334	10.1
<i>as % of sales</i>	4.9	7.8	8.4	9.1	5.0			6.4	6.9	
Other expenditure	516	297	431	399	504	(2.3)	26.5	903	796	13.4
<i>as % of sales</i>	16.1	14.4	21.2	19.7	13.7			15.8	16.3	
<b>EBITDA</b>	<b>745</b>	<b>428</b>	<b>375</b>	<b>227</b>	<b>883</b>	<b>18.5</b>	<b>289.8</b>	<b>1,110</b>	<b>942</b>	<b>17.8</b>
Depreciation	43	37	37	36	40	(6.8)	10.9	76	78	(3.7)
<b>EBIT</b>	<b>703</b>	<b>391</b>	<b>338</b>	<b>191</b>	<b>843</b>	<b>20.0</b>	<b>342.2</b>	<b>1,034</b>	<b>864</b>	<b>19.7</b>
Other Income	11	27	16	16	11	2.8	(32.9)	27	22	24.0
Interest	6	10	5	-9	-1			-10	8	
<b>PBT</b>	<b>708</b>	<b>409</b>	<b>349</b>	<b>216</b>	<b>855</b>	<b>20.8</b>	<b>295.6</b>	<b>1,071</b>	<b>878</b>	<b>22.0</b>
Total Tax	230	113	113	68	268	16.4	295.3	335	285	17.7
<b>Adjusted PAT</b>	<b>478</b>	<b>295</b>	<b>235</b>	<b>148</b>	<b>587</b>	<b>22.9</b>	<b>295.8</b>	<b>736</b>	<b>593</b>	<b>24.1</b>
(Profit)/loss from JV's/Ass/MI	-	1	2	3	4			-	-	
<b>APAT after MI</b>	<b>478</b>	<b>294</b>	<b>233</b>	<b>145</b>	<b>583</b>	<b>22.1</b>	<b>301.2</b>	<b>736</b>	<b>593</b>	<b>24.1</b>
Extra ordinary items	21	55	18	0	0			0	-41	
<b>Reported PAT</b>	<b>499</b>	<b>349</b>	<b>251</b>	<b>145</b>	<b>583</b>	<b>17.0</b>	<b>301.2</b>	<b>736</b>	<b>552</b>	<b>33.2</b>
<b>Reported EPS</b>	<b>22.5</b>	<b>12.4</b>	<b>11.2</b>	<b>7.6</b>	<b>30.2</b>	<b>34.1</b>	<b>295.8</b>	<b>37.8</b>	<b>26.4</b>	<b>43.2</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	23.2	20.7	18.5	11.2	24.0	77	1,283	19.4	19.3	11
EBIT	21.9	18.9	16.6	9.4	22.9	102	1,351	18.1	17.7	39
EBT	21.7	18.4	16.4	9.8	22.9	121	1,309	18.3	17.6	72
PAT	14.9	14.2	11.5	7.2	15.9	96	868	12.9	12.2	72
Effective Tax rate	32.5	27.7	32.5	31.3	31.3	(117)	(3)	31.3	32.5	(115)

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	<b>8,787</b>	<b>10,872</b>	<b>12,745</b>	<b>15,549</b>
Growth (%)	5.5	23.7	17.2	22.0
<b>Expenditure</b>	<b>7,225</b>	<b>8,680</b>	<b>9,961</b>	<b>12,093</b>
Materials Consumed	5,034	6,164	7,137	8,863
Employee Cost	667	771	833	900
Other Exp	1,524	1,744	1,991	2,331
<b>EBITDA</b>	<b>1,562</b>	<b>2,192</b>	<b>2,784</b>	<b>3,456</b>
Growth (%)	45.9	40.4	27.0	24.1
<b>EBITDA margin (%)</b>	<b>17.8</b>	<b>20.2</b>	<b>21.8</b>	<b>22.2</b>
Depreciation	183	211	265	287
<b>EBIT</b>	<b>1,378</b>	<b>1,981</b>	<b>2,519</b>	<b>3,169</b>
<b>EBIT margin (%)</b>	<b>15.7</b>	<b>18.2</b>	<b>19.8</b>	<b>20.4</b>
Other Income	275	222	211	233
Interest expenses	27	54	54	54
<b>PBT</b>	<b>1,626</b>	<b>2,149</b>	<b>2,676</b>	<b>3,348</b>
<b>Tax</b>	<b>512</b>	<b>645</b>	<b>803</b>	<b>1,004</b>
Effective tax rate (%)	31.5	30.0	30.0	30.0
<b>Adjusted PAT</b>	<b>1,114</b>	<b>1,504</b>	<b>1,873</b>	<b>2,344</b>
Growth (%)	64.2	35.1	24.5	25.1
<b>Net Margin (%)</b>	<b>12.7</b>	<b>13.8</b>	<b>14.7</b>	<b>15.1</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>1,114</b>	<b>1,504</b>	<b>1,873</b>	<b>2,344</b>
E/O items	(14)	-	-	-
<b>Reported PAT</b>	<b>1,099</b>	<b>1,504</b>	<b>1,873</b>	<b>2,344</b>
<b>PAT after MI</b>	<b>1,114</b>	<b>1,504</b>	<b>1,873</b>	<b>2,344</b>
Growth (%)	64.2	35.1	24.5	25.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>1,527</b>	<b>2,149</b>	<b>2,676</b>	<b>3,348</b>
Depreciation	183	211	265	287
Interest Provided	<b>23</b>	<b>54</b>	<b>54</b>	<b>54</b>
Other Non-Cash items	9	-	-	-
Chg in working cap	1,077	(1,543)	(205)	(307)
Tax paid	-667	-645	-803	-1,004
<b>Operating Cashflow</b>	<b>2,152</b>	<b>226</b>	<b>1,987</b>	<b>2,377</b>
Capital expenditure	(949)	(600)	(400)	(400)
<b>Free Cash Flow</b>	<b>1,203</b>	<b>-374</b>	<b>1,587</b>	<b>1,977</b>
Other income	8	-	-	-
Investments	28	-	-	-
<b>Investing Cashflow</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	9	(0)	-	-
Loans Taken / (Repaid)	(744)	724	-	-
Interest Paid	(28)	(54)	(54)	(54)
Dividend paid (incl tax)	(440)	(290)	(376)	(468)
Income from investments	0	0	0	0
Others	(2)	-	-	-
<b>Financing Cashflow</b>	<b>-1,205</b>	<b>380</b>	<b>-430</b>	<b>-523</b>
<b>Net chg in cash</b>	<b>35</b>	<b>6</b>	<b>1,157</b>	<b>1,455</b>
Opening cash position	84	119	125	1,281
<b>Closing cash position</b>	<b>119</b>	<b>125</b>	<b>1,281</b>	<b>2,736</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	130	194	194	194
Reserves & surplus	4,115	5,178	6,583	8,340
<b>Net worth</b>	<b>4,245</b>	<b>5,372</b>	<b>6,777</b>	<b>8,535</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
Secured Loans	16	248	248	248
Unsecured Loans	65	557	557	557
<b>Loan Funds</b>	<b>81</b>	<b>805</b>	<b>805</b>	<b>805</b>
Net deferred tax liability	(53)	(53)	(53)	(53)
<b>Total Liabilities</b>	<b>4,272</b>	<b>6,124</b>	<b>7,529</b>	<b>9,286</b>
Gross Block	3,091	4,211	4,811	5,211
Less: Depreciation	1,564	1,774	2,039	2,325
<b>Net block</b>	<b>1,527</b>	<b>2,437</b>	<b>2,773</b>	<b>2,886</b>
Capital work in progress	1,120	600	400	400
<b>Investment</b>	<b>1,402</b>	<b>1,402</b>	<b>1,402</b>	<b>1,402</b>
<b>Current Assets</b>	<b>3,263</b>	<b>4,302</b>	<b>6,023</b>	<b>8,322</b>
Inventories	1,489	1,936	2,270	2,769
Sundry debtors	755	1,340	1,571	1,917
Cash & bank balance	119	125	1,281	2,736
Loans & advances	886	886	886	886
Other current assets	15	15	15	15
<b>Current lia &amp; Prov</b>	<b>3,041</b>	<b>2,617</b>	<b>3,069</b>	<b>3,724</b>
Current liabilities	2,595	2,085	2,444	2,982
Provisions	446	532	625	742
<b>Net current assets</b>	<b>222</b>	<b>1,684</b>	<b>2,954</b>	<b>4,598</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>4,272</b>	<b>6,124</b>	<b>7,529</b>	<b>9,286</b>

## Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	16.5	20.2	21.8	22.2
Net Margin	11.4	13.8	14.7	15.1
ROCE	36.6	42.4	40.0	40.5
ROE	26.1	31.3	30.8	30.6
RoIC	62.6	70.4	59.7	68.9
<b>Per Share Data (Rs)</b>				
EPS	50.1	77.3	96.3	120.5
CEPS	60.9	88.2	109.9	135.2
BVPS	236.1	276.2	348.5	438.9
DPS	11.6	19.3	24.1	30.1
<b>Valuations (x)</b>				
PER	28.6	19.0	15.3	12.2
P/CEPS	24.2	16.7	13.4	10.9
P/BV	6.7	5.3	4.2	3.4
EV / Sales	3.1	2.6	2.1	1.6
EV / EBITDA	18.7	12.7	9.6	7.3
Dividend Yield (%)	1.1	0.7	0.8	1.3
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(0.3)	(0.1)	(0.3)	(0.4)
Net Debt/EBITDA	(1.0)	(0.3)	(0.7)	(1.0)
Working Cap Cycle (days)	(15)	40	40	40

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

Date	Reports	Reco	CMP	Target
19/07/2010	<a href="#">Rallis India Q1FY11 Result Update</a>	Buy	1,177	1,440
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

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
12/10/2010	<a href="#">Kajaria Ceramics Q2FY11 Result Update</a>	Buy	80	91
03/08/2010	<a href="#">GSFC Q1FY11 Result Update</a>	Accumulate	312	368
03/08/2010	<a href="#">GNFC Q1FY11 Result Update</a>	Buy	115	157
03/08/2010	<a href="#">Tata Chemicals Q1FY11 Result Update</a>	Accumulate	349	393

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.