

January 18, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 1,313	Rs 1,800
EPS change FY11E/12E (%)	7% / -
Target Price change (%)	NA
Nifty	5,724
Sensex	19,092

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(7)	10	87
Rel. to Nifty	1	(1)	3	72

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Agri-input & Chemicals
Bloomberg	RALI@IN
Equity Capital (Rs mn)	194
Face Value(Rs)	10
No of shares o/s (mn)	19
52 Week H/L	1,591/692
Market Cap (Rs bn/USD mn)	26/572
Daily Avg Volume (No of sh)	32621
Daily Avg Turnover (US\$m)	1.0

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	50.7	50.7	50.2
FII/NRI	3.2	3.6	2.4
Institutions	21.1	20.1	21.8
Private Corp	4.1	4.4	4.8
Public	20.9	21.3	20.9

Source: Capitaline

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- **Q3FY11 revenue growth of 31% yoy - driven by strong exports - was ahead of our estimates**
- **APAT at Rs 337 mn (+14% yoy) was below estimates due to lower than expected EBITDA margins of 18.9%**
- **Adjust FY11E estimates downward by 7% to Rs 72.3 (from Rs 77.3) while maintain FY12E/FY13E at Rs 96.3 / Rs 120.5**
- **Entry into seeds business, commissioning of Dahej plant and initiatives to sell pulses are future growth drivers. Maintain BUY**

Q3FY11 revenue growth of 31% surprised positively however....

Rallis India Q3FY11 revenues increased by 31% yoy to Rs 2.7 bn and were ahead of our estimates of Rs 2.4 bn. Though the quarter witnessed untimely rains and floods in various part of the country, Rallis was able to report strong revenue growth on account of its focus on strengthening topline and attractive performance of international markets which helped it report higher exports. Management indicated that some sales have spilled over to Q4FY11 (we estimate around Rs 300 mn) – following which the company expects to report strong results in Q4FY11.

....EBITDA margins at 19% were below our estimates

EBITDA margins at 18.9%, down by 180bps yoy, were below our estimates of 24%. Company's focus on topline growth has adversely affected margins. Increase in excise duty from 8% previous year to 10% in current year and rising raw material prices (crude link derivatives witnessed price increase) have affected EBITDA margins of the company. Due to lower than expected EBITDA margins, APAT was below estimates of Rs 388 mn. Overall APAT increased by 14% yoy to Rs 337 mn. Rallis reported RPAT growth of 40% over Q3FY10 since company's previous year results included EO loss of Rs 55 mn on account of accelerated depreciation and ex-gratia amortisation of VRS. AEPS for the quarter stood at Rs 17.3 as against Rs 15.2 previous year.

Downgrade FY11 estimates by 7%, maintain FY12E / FY13E estimates

On account of lower than expected Q3FY11 results, we are downgrading our FY11 estimates by 7% to Rs 72.3 (from earlier Rs 77.3). We maintain our FY12E / FY13E estimates of Rs 96.3 / Rs 120.5.

Future growth drivers remain intact, maintain BUY

Leveraging its strong distribution network, Rallis is expected to derive benefits from its recent acquisition of Metahelix (seed company), thus capturing a larger share of the Indian agri-input pie. We expect added revenues from the seed business to start flowing in from Q1FY12. Commissioning of Dahej plant by Q4FY11 is expected to drive the revenues further from Q1FY12E. Its new initiative with parent company - Tata Chemicals, to sell pulses under brand of I-Shakti will further boost the company's revenues and profitability in the near future. Though benefit from all these initiatives is likely to flow in the next 2-3 years, we believe that the company will be able to maintain its growth on the back of these various ventures. With strong visibility and earnings growth of 30%, we 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	25.5	16.6	6.0
FY11E	10,980	2,128	19.4	1,406	72.3	44.3	29.5	18.2	11.7	4.8
FY12E	12,745	2,784	21.8	1,873	96.3	33.2	31.2	13.6	8.5	3.8
FY13E	15,549	3,456	22.2	2,344	120.5	25.1	30.9	10.9	6.5	3.0

Key Financials – Quarterly

Rs Mn

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	2,066	2,031	2,028	3,680	2,714	31.4	(26.3)	8,421	6,939	21.4
Expenditure	1,638	1,656	1,801	2,797	2,201	34.4	(21.3)	6,800	5,569	22.1
as % of sales	79.3	81.5	88.8	76.0	81.1			80.7	80.3	
Consumption of RM	1,179	1,053	1,219	2,109	1,593	35.1	(24.5)	4,921	3,981	23.6
as % of sales	57.1	51.9	60.1	57.3	58.7			58.4	57.4	
Employee Cost	162	172	184	184	185	14.4	0.7	553	496	11.5
as % of sales	7.8	8.4	9.1	5.0	6.8			6.6	7.1	
Other expenditure	297	431	399	504	424	42.7	(16.0)	1,326	1,093	21.4
as % of sales	14.4	21.2	19.7	13.7	15.6			15.7	15.7	
EBITDA	428	375	227	883	512	19.7	(42.0)	1,622	1,370	18.4
Depreciation	37	37	36	40	44	18.4	10.1	119	115	3.4
EBIT	391	338	191	843	468	19.9	(44.5)	1,502	1,254	19.8
Other Income	27	16	16	11	22	(20.1)	99.1	49	50	(0.4)
Interest	10	5	-9	-1	11	8.2		1	18	
PBT	409	349	216	855	480	17.5	(43.9)	1,551	1,286	20.6
Total Tax	113	113	68	268	143	26.2	(46.6)	478	398	20.1
Adjusted PAT	295	235	148	587	337	14.1	(42.6)	1,073	888	20.7
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
APAT after MI	295	235	148	587	337	14.1	(42.6)	1,073	888	20.7
Extra ordinary items	55	18	0	0	0			0	-96	
Reported PAT	241	218	148	587	337	40.1	(42.6)	1,073	793	35.3
Reported EPS	12.4	11.2	7.6	30.2	17.3	40.1	(42.6)	55.2	38.8	42.2

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	20.7	18.5	11.2	24.0	18.9	(183)	(512)	19.3	19.7	(48)	
EBIT	18.9	16.6	9.4	22.9	17.3	(166)	(565)	17.8	18.1	(24)	
EBT	18.4	16.4	9.8	22.9	16.9	(157)	(606)	17.8	17.8	0	
PAT	14.3	11.6	7.3	16.0	12.4	(188)	(354)	12.7	12.8	(7)	
Effective Tax rate	27.7	32.5	31.3	31.3	29.8	207	(152)	30.8	30.9	(11)	

Source: Company, Emkay Research

Revision Table

Rs Mn

	FY11			FY12E	FY13E
	Old Estimates	New Estimates	% Change	Unchanged	Unchanged
Net Sales	10872	10980	1.0%	12745	15549
EBITDA	2192	2128	-2.9%	2784	3456
EBITDA %	20.2%	19.4%	-78.0%	21.8%	22.2%
PAT	1504	1406	-6.5%	1873	2344
EPS (Rs)	77.3	72.3	-6.5%	96.3	120.5

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	8,787	10,980	12,745	15,549
Growth (%)	5.5	25.0	16.1	22.0
Expenditure	7,225	8,853	9,961	12,093
Materials Consumed	5,034	6,405	7,137	8,863
Employee Cost	667	737	833	900
Other Exp	1,524	1,710	1,991	2,331
EBITDA	1,562	2,128	2,784	3,456
Growth (%)	45.9	36.3	30.8	24.1
EBITDA margin (%)	17.8	19.4	21.8	22.2
Depreciation	183	159	265	287
EBIT	1,378	1,969	2,519	3,169
EBIT margin (%)	15.7	17.9	19.8	20.4
Other Income	275	69	211	233
Interest expenses	27	11	54	54
PBT	1,626	2,027	2,676	3,348
Tax	512	621	803	1,004
Effective tax rate (%)	31.5	30.6	30.0	30.0
Adjusted PAT	1,114	1,406	1,873	2,344
Growth (%)	64.2	26.3	33.2	25.1
Net Margin (%)	12.7	12.8	14.7	15.1
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	1,114	1,406	1,873	2,344
E/O items	(14)	-	-	-
Reported PAT	1,099	1,406	1,873	2,344
PAT after MI	1,114	1,406	1,873	2,344
Growth (%)	64.2	26.3	33.2	25.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	1,527	2,027	2,676	3,348
Depreciation	183	159	265	287
Interest Provided	23	11	54	54
Other Non-Cash items	9	-	-	-
Chg in working cap	1,077	(1,555)	(193)	(307)
Tax paid	-667	-621	-803	-1,004
Operating Cashflow	2,152	21	1,999	2,377
Capital expenditure	(949)	(600)	(400)	(400)
Free Cash Flow	1,203	-579	1,599	1,977
Other income	8	-	-	-
Investments	28	-	-	-
Investing Cashflow	36	0	0	0
Equity Capital Raised	9	(0)	-	-
Loans Taken / (Repaid)	(744)	724	-	-
Interest Paid	(28)	(11)	(54)	(54)
Dividend paid (incl tax)	(440)	(290)	(351)	(468)
Income from investments	0	0	0	0
Others	(2)	-	-	-
Financing Cashflow	-1,205	423	-406	-523
Net chg in cash	35	-156	1,193	1,455
Opening cash position	84	119	(37)	1,156
Closing cash position	119	-37	1,156	2,611

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	130	194	194	194
Reserves & surplus	4,115	5,104	6,509	8,267
Net worth	4,245	5,299	6,704	8,461
Minority Interest	0	0	0	0
Secured Loans	16	248	248	248
Unsecured Loans	65	557	557	557
Loan Funds	81	805	805	805
Net deferred tax liability	(53)	(53)	(53)	(53)
Total Liabilities	4,272	6,050	7,455	9,213
Gross Block	3,091	4,211	4,811	5,211
Less: Depreciation	1,564	1,723	1,987	2,274
Net block	1,527	2,489	2,824	2,937
Capital work in progress	1,120	600	400	400
Investment	1,402	1,402	1,402	1,402
Current Assets	3,263	4,173	5,898	8,198
Inventories	1,489	1,955	2,270	2,769
Sundry debtors	755	1,354	1,571	1,917
Cash & bank balance	119	-37	1,156	2,611
Loans & advances	886	886	886	886
Other current assets	15	15	15	15
Current lia & Prov	3,041	2,614	3,069	3,724
Current liabilities	2,595	2,106	2,444	2,982
Provisions	446	508	625	742
Net current assets	222	1,559	2,829	4,473
Misc. exp	-	-	-	-
Total Assets	4,272	6,050	7,455	9,213

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	16.5	19.4	21.8	22.2
Net Margin	11.4	12.8	14.7	15.1
ROCE	36.6	39.5	40.4	40.8
ROE	26.1	29.5	31.2	30.9
RoIC	62.6	68.9	58.7	68.2
Per Share Data (Rs)				
EPS	50.1	72.3	96.3	120.5
CEPS	60.9	80.5	109.9	135.2
BVPS	236.1	272.5	344.7	435.1
DPS	11.6	18.1	24.1	30.1
Valuations (x)				
PER	25.5	18.2	13.6	10.9
P/CEPS	21.6	16.3	11.9	9.7
P/BV	6.0	4.8	3.8	3.0
EV / Sales	2.7	2.3	1.9	1.4
EV / EBITDA	16.6	11.7	8.5	6.5
Dividend Yield (%)	1.2	0.8	0.9	1.4
Gearing Ratio (x)				
Net Debt/ Equity	(0.3)	(0.1)	(0.3)	(0.4)
Net Debt/EBIDTA	(1.0)	(0.3)	(0.6)	(0.9)
Working Cap Cycle (days)	(15)	40	40	40

Recommendation History: Rallis India – RALI IN

Date	Reports	Reco	CMP	Target
27/12/2010	Rallis India Management Meet Update	Buy	1,391	1,800
15/10/2010	Rallis India Q2FY11 Result Update	Buy	1,416	1,800
19/07/2010	Rallis India Q1FY11 Result Update	Buy	1,177	1,440
26/04/2010	Rallis India Q4FY10 Result Update	Buy	1,437	1,703

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/01/2011	Coromandel Inter Q3FY11 Result Update	Buy	279	435
31/12/2010	Kajaria Ceramics Company Update	Buy	73	100
29/12/2010	United Phosphorus Company Update	Buy	161	230
16/12/2010	GSFC Company Update	Buy	349	530

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