

October 21, 2011

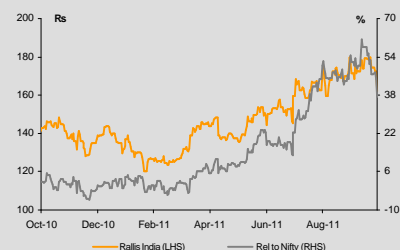
| Reco | Previous Reco |
|--------------------------|---------------|
| Buy | Buy |
| CMP | Target Price |
| Rs 162 | Rs 197 |
| EPS change FY12E/13E (%) | -10/-6 |
| Target Price change (%) | -6 |
| Nifty | 5,092 |
| Sensex | 16,936 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------|-----|----|----|-----|
| Absolute | (6) | 11 | 13 | 15 |
| Rel. to Nifty | (5) | 21 | 30 | 35 |

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

| | |
|-----------------------------|------------------------|
| Sector | Agri-input & Chemicals |
| Bloomberg | RALI@IN |
| Equity Capital (Rs mn) | 194 |
| Face Value(Rs) | 1 |
| No of shares o/s (mn) | 194 |
| 52 Week H/L | 186/117 |
| Market Cap (Rs bn/USD mn) | 31/631 |
| Daily Avg Volume (No of sh) | 412868 |
| Daily Avg Turnover (US\$m) | 1.4 |

Shareholding Pattern (%)

| | Jun-11 | Mar-11 | Dec-10 |
|--------------|--------|--------|--------|
| Promoters | 50.7 | 50.7 | 50.7 |
| FII/NRI | 6.5 | 4.2 | 3.2 |
| Institutions | 19.0 | 21.0 | 21.1 |
| Private Corp | 4.6 | 3.7 | 4.1 |
| Public | 19.3 | 20.4 | 20.9 |

Source: Capitaline

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- **Q2FY12 PAT at Rs 585mn (flat yoy) were below est due to operating losses at Metahelix and lower standalone margins**
- **Cons revenues grew by 19% yoy to Rs 4.39 bn with EBITDA margins of 22.2% vs 24% previous year. Lower pest occurrence and delayed sowing affected revenue growth**
- **Thrust on revenue growth and aggressive products launch to put pressure on working capital resulting in higher interest**
- **Downgrade EPS estimates to Rs 8/10.9 (previous Rs 8.9/11.6) for FY12/13. Maintain BUY with revised target price of Rs 197 (previous Rs 209)**

Revenues marginally lower than est due to lower contribution from Metahelix and Dahej

Rallis India reported consolidated revenues of Rs 4.39bn, +19% yoy, marginally lower than our est of Rs 4.7bn. This was primarily on account of lower than expected revenue contribution of Metahelix, the seed business and slower ramp-up in Dahej. Metahelix reported revenues of Rs 31mn against est of Rs 100mn. Standalone revenues grew by 19% yoy to Rs 4.36bn, aided by higher volumes.

Margin disappointment led by operating losses in Metahelix & lower margins in standalone

Rallis reported consolidated EBITDA of Rs 975mn, +10%yoy, lower than our est of Rs 1.13bn. EBITDA margins during the quarter declined by 182bps yoy to 22.2% against est of 24.0%. Margin disappointment during the quarter was led by operating losses reported by Metahelix. Metahelix reported revenues of Rs 31 mn however it posted EBITDA losses of Rs 35mn. On a standalone basis, EBITDA increased by 14% yoy to Rs 1bn against est of Rs 1.1bn. Standalone EBITDA margins declined by 90bps yoy to 23.1% (against est of 24.7%). Rallis reported consol APAT of Rs 585mn, flat yoy and AEPS of Rs 3.0

Working capital situation deteriorated during the quarter

Due to their renewed focus on topline growth, working capital situation deteriorated during the quarter. Inventories increased to Rs 2.7bn compared to Rs 2.1bn at the end of FY11. Similarly, sundry debtors increased to Rs 2bn against Rs 1.1bn at end of FY11. Consequently, net working capital increased to Rs 1.6bn compared to Rs 313mn at end of FY11. Management indicated that working capital requirements are likely to be higher for the next few quarters due to their topline focus, though they have been prudently managing their requirements.

Downgrade EPS estimates to Rs 8/10.9 for FY12 & FY13, maintain BUY

On back of weak results in current quarter due to operating losses at Metahelix and lower margins in standalone business along with deterioration in working capital, we have downgraded our FY12/FY13 estimates to Rs 8/10.9 (previous Rs 8.9/11.6) and subsequently reduced our price target by 6% to Rs 197. However despite short term pressure, we continue to maintain our BUY recommendation on the stock.

Financial Snapshot

Rs Mn

| YE-Mar | Net | | EBITDA | | EPS | | RoE | EV/ | |
|--------|--------|--------|--------|-------|------|-------|------|------|-------------|
| | Sales | (Core) | (%) | PAT | (Rs) | % chg | (%) | P/E | EBITDA P/BV |
| FY10 | 8,787 | 1,562 | 17.8 | 1,114 | 5.0 | 62.2 | 26.1 | 31.5 | 20.8 7.4 |
| FY11 | 10,657 | 1,713 | 16.1 | 1,259 | 6.5 | 29.2 | 27.1 | 25.0 | 18.8 6.2 |
| FY12E | 13,950 | 2,624 | 18.8 | 1,551 | 8.0 | 23.2 | 27.6 | 20.3 | 12.4 5.1 |
| FY13E | 17,607 | 3,525 | 20.0 | 2,124 | 10.9 | 36.9 | 30.5 | 14.8 | 8.9 4.1 |

Key Financials – Quarterly

Rs Mn

| Rs mn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 3,680 | 2,714 | 2,321 | 2,975 | 4,395 | 19.4 | 47.7 |
| Expenditure | 2,797 | 2,201 | 1,941 | 2,540 | 3,420 | 22.3 | 34.6 |
| <i>as % of sales</i> | <i>76.0</i> | <i>81.1</i> | <i>83.6</i> | <i>85.4</i> | <i>77.8</i> | | |
| Consumption of RM | 2,109 | 1,593 | 1,362 | 1,664 | 2,624 | 24.4 | 57.7 |
| <i>as % of sales</i> | <i>57.3</i> | <i>58.7</i> | <i>58.7</i> | <i>55.9</i> | <i>59.7</i> | | |
| Employee Cost | 184 | 185 | 143 | 240 | 220 | 19.9 | (8.2) |
| <i>as % of sales</i> | <i>5.0</i> | <i>6.8</i> | <i>6.2</i> | <i>8.1</i> | <i>5.0</i> | | |
| Other expenditure | 504 | 424 | 436 | 637 | 577 | 14.3 | (9.4) |
| <i>as % of sales</i> | <i>13.7</i> | <i>15.6</i> | <i>18.8</i> | <i>21.4</i> | <i>13.1</i> | | |
| EBITDA | 883 | 512 | 380 | 435 | 975 | 10.4 | 124.2 |
| Depreciation | 40 | 44 | 52 | 54 | 73 | 83.4 | 33.8 |
| EBIT | 843 | 468 | 328 | 380 | 902 | 6.9 | 137.1 |
| Other Income | 11 | 22 | 5 | 2 | 3 | (72.7) | 42.9 |
| Interest | -1 | 11 | 18 | 28 | 39 | (6,616.7) | |
| PBT | 855 | 480 | 315 | 354 | 866 | 1.3 | 144.4 |
| Total Tax | 268 | 143 | 95 | 78 | 295 | 10.3 | 279.8 |
| Adjusted PAT | 587 | 337 | 220 | 277 | 571 | (2.8) | 106.4 |
| (Profit)/loss frm JV's/Ass/MI | - | - | - | 45 | (15) | | |
| APAT after MI | 587 | 337 | 220 | 231 | 585 | (0.4) | 153.1 |
| Extra ordinary items | 0 | 0 | -30 | 0 | 0 | | |
| Reported PAT | 587 | 337 | 190 | 231 | 585 | (0.4) | 153.1 |
| Reported EPS | 3.0 | 1.7 | 1.0 | 1.2 | 3.0 | (0.4) | 153.1 |

| Margins (%) | | | | | | (bps) | (bps) |
|--------------------|------|------|------|------|------|-------|-------|
| EBIDTA | 24.0 | 18.9 | 16.4 | 14.6 | 22.2 | (182) | 756 |
| EBIT | 22.9 | 17.3 | 14.1 | 12.8 | 20.5 | (239) | 774 |
| EBT | 22.9 | 16.9 | 13.4 | 11.8 | 19.6 | (330) | 780 |
| PAT | 16.0 | 12.4 | 9.5 | 7.8 | 13.3 | (264) | 554 |
| Effective Tax rate | 31.3 | 29.8 | 30.3 | 21.9 | 34.1 | 278 | 1,215 |

Source: Company, Emkay Research

Metahelix reported operating losses during the quarter

Metahelix reported revenues of Rs 31mn during the quarter while it posted operating losses of Rs 35mn. As is typical with seed companies, they get 70-80% of their revenues during the 1st quarter while subsequent quarters are subdued. Hence company reported operating losses while at the PAT level it reported losses of Rs 33mn. During the quarter, Rallis also increased its stake in Metahelix to 72.98% from 60.21%. Management indicated that Metahelix would become a 100% subsidiary in the long term as per company's earlier plans.

Monsoons were quite strong, though erratic....

Monsoons were quite strong for the year despite the fact that they were erratic in South & West India. 92% of India received normal rainfalls this year with kharif acreages increasing by 2%. However, monsoons were quite erratic this season. Even though rains arrived early in June (3 days before schedule) but there was deficiency of 24% as compared to normal till mid July. August witnessed normal rains but slowdown in June & July had already impacted sowing of cotton, pulses & coarse grains.

.....leading to non conducive environment for usage of pesticides

Erratic and heavy monsoons this year had some unfavorable impact on sowing patterns during the kharif season. Punjab witnessed resowing of cotton in Punjab, Haryana due to rains in last week of May. Minimum fungal disease occurrence and pest attack in paddy, low caterpillar attack in soybean and cotton, negligible weed emergence because of frequent rains created non-conducive environment for usage of pesticides. Further, cotton sowing was delayed in western India while reduced acreage for pulses also led to lower usage of pesticides.

Dahej ramp- up by end of FY12- positive sign

Dahej plant was commissioned in Q1FY12 and it is currently operating at 40-50% capacity utilization. Management indicated that Dahej will be ramped up over the next few quarters and achieve 95- 100% capacity utilization by the end of FY12. At full capacity utilization, Dahej is expected to achieve revenues of Rs 1.5-1.7bn.

Downgrade EPS estimates by 10%/6% in FY12 & FY13, maintain BUY

We have revised our estimates to reflect ramp-up in Dahej & increased interest costs due to higher working capital requirements. Despite revenues increasing by 7% & 13% in FY12 & FY13 resp., our EBITDA margin assumptions contract by 80/140bps for FY12 & FY13 due to lower margins in Dahej. Further, due to higher interest costs resulting out of increased working capital requirements, we reduce our EPS estimates by 10% & 6% for FY12 & FY13 respectively. Revised EPS stands at Rs 8.0/Rs 10.9 for FY12/FY13. Consequently, we have revised our target price to Rs 197 (previous Rs 209) based on 18x FY13 EPS.

| Rs mn | FY12E | | | FY13E | | |
|-----------|---------------|---------------|----------|---------------|---------------|----------|
| | Old Estimates | New Estimates | % Change | Old Estimates | New Estimates | % Change |
| Net sales | 13,086 | 13,950 | 6.6% | 15,520 | 17,607 | 13.4% |
| EBITDA | 2,563 | 2,624 | 2.4% | 3,322 | 3,525 | 6.1% |
| EBITDA % | 19.6% | 18.8% | -78 | 21.4% | 20.0% | -138 |
| APAT | 1,722 | 1,551 | -9.9% | 2,249 | 2,124 | -5.6% |
| AEPS | 8.9 | 8.0 | -10.4% | 11.6 | 10.9 | -5.9% |

Key Financials

Income Statement

| Y/E, Mar (Rs. mn) | FY10 | FY11 | FY12E | FY13E |
|--------------------------------------|--------------|---------------|---------------|---------------|
| Net Sales | 8,787 | 10,657 | 13,950 | 17,607 |
| Growth (%) | 5.5 | 21.3 | 30.9 | 26.2 |
| Expenditure | 7,225 | 8,944 | 11,326 | 14,082 |
| Materials Consumed | 5,034 | 6,283 | 8,222 | 10,439 |
| Employee Cost | 667 | 696 | 877 | 1,015 |
| Other Exp | 1,524 | 1,762 | 2,227 | 2,628 |
| EBITDA | 1,562 | 1,713 | 2,624 | 3,525 |
| Growth (%) | 45.9 | 9.7 | 53.1 | 34.4 |
| EBITDA margin (%) | 17.8 | 16.1 | 18.8 | 20.0 |
| Depreciation | 183 | 175 | 277 | 320 |
| EBIT | 1,378 | 1,539 | 2,347 | 3,205 |
| EBIT margin (%) | 15.7 | 14.4 | 16.8 | 18.2 |
| Other Income | 275 | 340 | 17 | 40 |
| Interest expenses | 27 | 40 | 157 | 265 |
| PBT | 1,626 | 1,839 | 2,206 | 2,980 |
| Tax | 512 | 580 | 656 | 857 |
| Effective tax rate (%) | 31.5 | 31.6 | 29.7 | 28.7 |
| Adjusted PAT | 1,114 | 1,259 | 1,551 | 2,124 |
| Growth (%) | 64.2 | 13.0 | 23.2 | 36.9 |
| Net Margin (%) | 12.7 | 11.8 | 11.1 | 12.1 |
| (Profit)/loss from JVs/Ass/MI | - | - | - | - |
| Adjusted PAT After JVs/Ass/MI | 1,114 | 1,259 | 1,551 | 2,124 |
| E/O items | (14) | - | - | - |
| Reported PAT | 1,099 | 1,259 | 1,551 | 2,124 |
| PAT after MI | 1,114 | 1,259 | 1,551 | 2,124 |
| Growth (%) | 64.2 | 13.0 | 23.2 | 36.9 |

Cash Flow

| Y/E, Mar (Rs. mn) | FY10 | FY11 | FY12E | FY13E |
|------------------------------|---------------|--------------|--------------|--------------|
| PBT (Ex-Other income) | 1,527 | 1,845 | 2,206 | 2,980 |
| Depreciation | 183 | 175 | 277 | 320 |
| Interest Provided | 23 | 25 | 157 | 265 |
| Other Non-Cash items | 9 | (124) | (57) | 132 |
| Chg in working cap | 1,077 | (236) | (579) | (1,129) |
| Tax paid | -667 | -697 | -656 | -857 |
| Operating Cashflow | 2,152 | 987 | 1,350 | 1,711 |
| Capital expenditure | (949) | (1,378) | (400) | (400) |
| Free Cash Flow | 1,203 | -391 | 950 | 1,311 |
| Other income | 8 | 54 | - | - |
| Investments | 28 | (116) | - | - |
| Investing Cashflow | 36 | -63 | 0 | 0 |
| Equity Capital Raised | 9 | - | - | - |
| Loans Taken / (Repaid) | (744) | 849 | - | - |
| Interest Paid | (28) | (39) | (157) | (265) |
| Dividend paid (incl tax) | (440) | (357) | (388) | (531) |
| Income from investments | 0 | 0 | 0 | 0 |
| Others | (2) | - | - | - |
| Financing Cashflow | -1,205 | 453 | -545 | -796 |
| Net chg in cash | 35 | -1 | 404 | 515 |
| Opening cash position | 84 | 119 | 146 | 550 |
| Closing cash position | 119 | 146 | 550 | 1,065 |

Balance Sheet

| Y/E, Mar (Rs. mn) | FY10 | FY11 | FY12E | FY13E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Equity share capital | 130 | 194 | 194 | 194 |
| Reserves & surplus | 4,115 | 4,855 | 5,983 | 7,576 |
| Net worth | 4,245 | 5,049 | 6,177 | 7,770 |
| Minority Interest | 0 | 21 | 21 | 21 |
| Secured Loans | 16 | 1,087 | 1,087 | 1,087 |
| Unsecured Loans | 65 | 85 | 85 | 85 |
| Loan Funds | 81 | 1,172 | 1,172 | 1,172 |
| Net deferred tax liability | (53) | 32 | 32 | 32 |
| Total Liabilities | 4,272 | 6,275 | 7,446 | 9,027 |
| Gross Block | 3,091 | 4,057 | 5,751 | 6,151 |
| Less: Depreciation | 1,564 | 1,743 | 2,020 | 2,340 |
| Net block | 1,527 | 2,314 | 3,732 | 3,812 |
| Capital work in progress | 1,120 | 1,695 | 400 | 400 |
| Goodwill | - | 1,236 | 1,236 | 1,236 |
| Investment | 1,402 | 256 | 256 | 256 |
| Current Assets | 3,263 | 4,666 | 5,504 | 7,364 |
| Inventories | 1,489 | 2,289 | 2,478 | 3,252 |
| Sundry debtors | 755 | 1,064 | 1,308 | 1,880 |
| Cash & bank balance | 119 | 146 | 550 | 1,065 |
| Loans & advances | 886 | 1,154 | 1,154 | 1,154 |
| Other current assets | 15 | 13 | 13 | 13 |
| Current lia & Prov | 3,041 | 3,891 | 3,682 | 4,041 |
| Current liabilities | 2,595 | 3,306 | 3,161 | 3,377 |
| Provisions | 446 | 586 | 521 | 664 |
| Net current assets | 222 | 774 | 1,822 | 3,323 |
| Total Assets | 4,272 | 6,275 | 7,446 | 9,027 |

Key Ratios

| Y/E, Mar | FY10 | FY11 | FY12E | FY13E |
|----------------------------|-------|------|-------|-------|
| Profitability (%) | | | | |
| EBITDA Margin | 16.5 | 16.1 | 18.8 | 20.0 |
| Net Margin | 11.4 | 11.8 | 11.1 | 12.1 |
| ROCE | 36.6 | 35.7 | 34.7 | 39.7 |
| ROE | 26.1 | 27.1 | 27.6 | 30.5 |
| RoIC | 62.6 | 53.2 | 45.4 | 47.7 |
| Per Share Data (Rs) | | | | |
| EPS | 5.0 | 6.5 | 8.0 | 10.9 |
| CEPS | 6.1 | 7.4 | 9.4 | 12.6 |
| BVPS | 21.8 | 26.0 | 31.8 | 40.0 |
| DPS | 1.2 | 2.0 | 2.0 | 2.7 |
| Valuations (x) | | | | |
| PER | 31.5 | 25.0 | 20.3 | 14.8 |
| P/CEPS | 26.6 | 22.0 | 17.2 | 12.9 |
| P/BV | 7.4 | 6.2 | 5.1 | 4.1 |
| EV / Sales | 3.4 | 3.0 | 2.3 | 1.8 |
| EV / EBITDA | 20.8 | 18.8 | 12.1 | 8.9 |
| Dividend Yield (%) | 1.0 | 0.6 | 0.7 | 1.2 |
| Gearing Ratio (x) | | | | |
| Net Debt/ Equity | (0.3) | 0.2 | 0.1 | (0.0) |
| Net Debt/EBITDA | (1.0) | 0.4 | 0.1 | (0.0) |
| Working Cap Cycle (days) | (15) | 2 | 16 | 36 |

Recommendation History: Rallis India – RALI IN

| Date | Reports | Reco | CMP | Target |
|------------|---|------|-------|--------|
| 17/08/2011 | Rallis India Management Meet Update | Buy | 167 | 209 |
| 22/07/2011 | Rallis India Q1FY12 Result Update | Buy | 159 | 209 |
| 02/05/2011 | Rallis India Q4FY11 Result Update | Buy | 1,390 | 1,735 |
| 18/01/2011 | Rallis India Q3FY11 Result Update | Buy | 1,313 | 1,800 |

Recent Research Reports

| Date | Reports | Reco | CMP | Target |
|------------|---|------------|-----|--------|
| 19/10/2011 | Coromandel International Q2FY12 Result Update | Buy | 307 | 435 |
| 18/10/2011 | Chambal Fertilisers Q2FY12 Result Update | Accumulate | 87 | 98 |
| 13/10/2011 | Kajaria Ceramics Q2FY12 Result Update | Buy | 118 | 143 |
| 28/09/2011 | GSFC Company Update | Buy | 434 | 530 |

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