

April 26, 2013

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Rating	Accumulate
Price	Rs123
Target Price	Rs140
Implied Upside	13.8%
Sensex	19,407
Nifty	5,916

(Prices as on April 26, 2013)

Trading data

Market Cap. (Rs bn)	23.9
Shares o/s (m)	194.5
3M Avg. Daily value (Rs m)	43

Major shareholders

Promoters	50.09%
Foreign	10.62%
Domestic Inst.	7.13%
Public & Other	32.16%

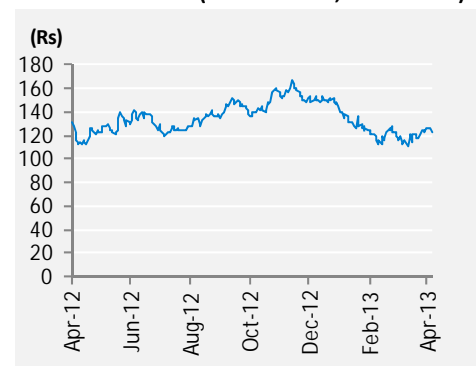
Stock Performance

(%)	1M	6M	12M
Absolute	7.3	(12.3)	5.9
Relative	3.7	(16.0)	(6.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	7.8	8.4	-6.6
2015	9.5	9.9	-4.2

Price Performance (RIC: RALL.BO, BB: RALI IN)



Source: Bloomberg

Rallis India reported Q4FY13 results broadly in line with expectations. Adjusted PAT for the quarter stood at Rs105m, 253% YoY, driven by better rabi season & lower base. Working Capital requirements also reduced to Rs1.8bn compared to Rs2.2bn at the end of H1FY13. We believe Rallis will continue to benefit from its leadership position in domestic agrochemicals market, strong product pipeline in Metahelix and ramp-up in Dahej. Stock is currently trading at 15.7x FY14E earnings (long-term average of 18x based on 1-yr forward earnings). Maintain 'Accumulate' with TP of Rs140.

- Q4FY13 results were broadly in line:** Rallis reported consolidated sales of Rs2.9bn, 32% YoY (against an est. of Rs2.5bn). Standalone sales stood at Rs2.6bn, 33% YoY, while Metahelix sales stood at Rs196m, 18% YoY. However, consolidated margins at 9.9% were lower than estimate of 11.7%. EBITDA for the quarter stood at Rs282m, 128% YoY, in line with estimates. Adj. PAT for the quarter stood at Rs105m, 253% YoY (low base effect) in line with estimates.
- New product launches, ramp-up in Dahej & strong product pipeline of Metahelix to drive growth:** We expect domestic agrochemicals industry to rebound over the next year and Rallis being one of the leading players is expected to be a major beneficiary. Consistent launch of new products & ramp-up in Dahej would further spur growth. Metahelix has a strong product portfolio across corn, millets, paddy and vegetable seeds and is well-positioned to achieve 25% p.a. growth over the medium-term.
- Maintain 'Accumulate' with target price of Rs140:** Rallis is currently trading at 15.7x FY14E earnings of Rs7.8 (long-term average of 18x based on 1-yr forward earnings). Rallis continues to trade at a premium of 25-30% to domestic peers which, we believe, will continue over the medium term. We value Rallis at 18x FY14E earnings, resulting in target price of Rs140 (potential upside of 14%) and recommend 'Accumulate'.

Key financials (Y/e March)	2012	2013	2014E	2015E
Revenues (Rs m)	12,781	14,582	16,224	18,412
Growth (%)	19.9	14.1	11.3	13.5
EBITDA (Rs m)	2,086	2,131	2,557	2,974
PAT (Rs m)	1,156	1,157	1,526	1,853
EPS (Rs)	5.9	6.0	7.8	9.5
Growth (%)	(8.1)	0.1	31.9	21.4
Net DPS (Rs)	2.2	2.3	2.5	2.5

Profitability & Valuation	2012	2013	2014E	2015E
EBITDA margin (%)	16.3	14.6	15.8	16.2
RoE (%)	21.9	19.7	22.8	23.7
RoCE (%)	18.5	17.8	21.4	22.4
EV / sales (x)	2.0	1.7	1.5	1.3
EV / EBITDA (x)	12.1	11.4	9.5	8.0
PE (x)	20.7	20.7	15.7	12.9
P / BV (x)	4.3	3.9	3.3	2.8
Net dividend yield (%)	1.8	1.9	2.0	2.0

Source: Company Data; PL Research

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Exhibit 1: Q4FY13 Result Overview (Rs m) - Consolidated

Y/e March	Q4FY13	Q4FY12	YoY gr (%)	Q3FY13	FY13	FY12	YoY gr (%)
Net Sales	2,849	2,160	31.9	3,425	14,582	12,781	14.1
Expenditure							
Raw Materials	1,760	1,253	40.5	2,067	8,820	7,428	18.7
<i>% of Net sales</i>	<i>61.8</i>	<i>58.0</i>		<i>60.4</i>	<i>60.5</i>	<i>58.1</i>	
Personnel	219	207	5.7	239	934	902	3.5
<i>% of Net sales</i>	<i>7.7</i>	<i>9.6</i>		<i>7.0</i>	<i>6.4</i>	<i>7.1</i>	
Other Expenditure	588	577	1.9	653	2,698	2,364	14.1
<i>% of Net sales</i>	<i>20.6</i>	<i>26.7</i>		<i>19.1</i>	<i>18.5</i>	<i>18.5</i>	
Total Expenditure	2,567	2,036	26.1	2,959	12,451	10,695	16.4
EBITDA	282	124	128.0	466	2,131	2,086	2.1
<i>Margin (%)</i>	<i>9.9</i>	<i>5.7</i>		<i>13.6</i>	<i>14.6</i>	<i>16.3</i>	
Depreciation	84	87	(3.3)	80	315	287	10.0
EBIT	198	37	440.4	386	1,815	1,800	0.9
Interest	33	28	19.9	46	185	130	42.0
Other Income	11	26	(58.9)	16	60	35	73.0
PBT	176	35	397.2	356	1,690	1,704	(0.8)
Tax	79	57	37.4	121	535	487	9.8
<i>Tax Rate (%)</i>	<i>44.8</i>	<i>162.0</i>		<i>34.0</i>	<i>31.7</i>	<i>28.6</i>	
Adjusted PAT before minority	97	24	309.7	235	1,155	1,171	(1.4)
Minority interest	(8)	(6)		(12)	(2)	15	(114.6)
Adjusted PAT	105	30	252.8	247	1,157	1,156	0.1
Extraordinary Income	8	69	(88.7)	(27)	33	(165)	(120.3)
Reported PAT	113	99	14.5	220	1,191	992	20.1
Adjusted EPS	0.5	0.2	252.8	1.3	6.0	5.9	0.1

Source: Company Data, PL Research

Exhibit 2: Q4FY13 Result Overview (Rs m) - Standalone

Y/e March	Q4FY13	Q4FY12	YoY gr (%)	Q3FY13	FY13	FY12	YoY gr (%)
Net Sales	2,653	1,994	33.0	3,230	13,238	11,839	11.8
Expenditure							
Raw Materials	1,715	1,214	41.3	2,032	8,363	7,091	17.9
<i>% of Net sales</i>	<i>64.7</i>	<i>60.9</i>		<i>62.9</i>	<i>63.2</i>	<i>59.9</i>	
Personnel	180	177	2.0	201	768	781	(1.7)
<i>% of Net sales</i>	<i>6.8</i>	<i>8.9</i>		<i>6.2</i>	<i>5.8</i>	<i>6.6</i>	
Other Expenditure	462	472	(2.1)	514	2,050	1,944	5.5
<i>% of Net sales</i>	<i>17.4</i>	<i>23.7</i>		<i>15.9</i>	<i>15.5</i>	<i>16.4</i>	
Total Expenditure	2,358	1,862	26.6	2,748	11,181	9,817	13.9
EBITDA	295	132	123.7	482	2,057	2,022	1.7
<i>Margin (%)</i>	<i>11.1</i>	<i>6.6</i>		<i>14.9</i>	<i>15.5</i>	<i>17.1</i>	
Depreciation	76	82	(7.6)	73	288	269	7.1
EBIT	219	50	339.5	409	1,769	1,753	0.9
Interest	18	16	15.0	28	125	88	41.8
Other Income	10	27	(62.0)	14	57	47	22.2
PBT	211	61	244.7	395	1,701	1,712	(0.6)
Tax	83	57	45.8	121	540	487	10.8
<i>Tax Rate (%)</i>	<i>39.5</i>	<i>93.3</i>		<i>30.6</i>	<i>31.7</i>	<i>28.5</i>	
Adjusted PAT	128	41	211.4	274	1,161	1,156	0.4
Extraordinary Income	7	77	(90.7)	(27)	33	(142)	NA
Reported PAT	135	118	14.3	248	1,194	1,014	17.8
Adjusted EPS	0.7	0.2	211.4	1.4	6.0	5.9	0.4

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Net Revenue	12,781	14,582	16,224	18,412
Raw Material Expenses	7,428	8,820	9,681	10,936
Gross Profit	5,353	5,762	6,543	7,476
Employee Cost	902	1,029	1,129	1,275
Other Expenses	2,364	2,602	2,856	3,227
EBITDA	2,086	2,131	2,557	2,974
Depr. & Amortization	287	315	328	328
Net Interest	96	125	56	16
Other Income	35	60	84	84
Profit before Tax	1,704	1,690	2,173	2,630
Total Tax	532	535	632	737
Profit after Tax	1,171	1,155	1,542	1,893
Ex-Od items / Min. Int.	(314)	65	16	40
Adj. PAT	1,156	1,157	1,526	1,853
Avg. Shares O/S (m)	194.5	194.5	194.5	194.5
EPS (Rs.)	5.9	6.0	7.8	9.5

Cash Flow Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
C/F from Operations	946	2,104	1,067	1,346
C/F from Investing	(740)	(292)	(300)	(300)
C/F from Financing	(242)	(1,668)	(721)	(705)
Inc. / Dec. in Cash	(37)	144	46	342
Opening Cash	122	112	256	302
Closing Cash	112	256	302	644
FCFF	(515)	1,361	611	1,289
FCFE	(158)	396	611	1,289

Key Financial Metrics

Y/e March	2012	2013	2014E	2015E
Growth				
Revenue (%)	19.9	14.1	11.3	13.5
EBITDA (%)	21.8	2.1	20.0	16.3
PAT (%)	(8.1)	0.1	31.9	21.4
EPS (%)	(8.1)	0.1	31.9	21.4
Profitability				
EBITDA Margin (%)	16.3	14.6	15.8	16.2
PAT Margin (%)	9.0	7.9	9.4	10.1
RoCE (%)	18.5	17.8	21.4	22.4
RoE (%)	21.9	19.7	22.8	23.7
Balance Sheet				
Net Debt : Equity	0.3	—	—	—
Net Wrkng Cap. (days)	31	48	40	48
Valuation				
PER (x)	20.7	20.7	15.7	12.9
P / B (x)	4.3	3.9	3.3	2.8
EV / EBITDA (x)	12.1	11.4	9.5	8.0
EV / Sales (x)	2.0	1.7	1.5	1.3
Earnings Quality				
Eff. Tax Rate	31.3	31.7	29.1	28.0
Other Inc / PBT	2.0	3.5	3.9	3.2
Eff. Depr. Rate (%)	5.2	5.4	5.4	5.1
FCFE / PAT	(13.6)	34.2	40.1	69.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
Shareholder's Funds	5,530	6,207	7,168	8,456
Total Debt	1,506	540	540	540
Other Liabilities	192	411	411	411
Total Liabilities	7,228	7,159	8,119	9,407
Net Fixed Assets	3,986	3,973	3,945	3,917
Goodwill	1,783	1,926	1,926	1,926
Investments	1,109	1,107	1,107	1,489
Net Current Assets	480	434	1,423	2,356
<i>Cash & Equivalents</i>	<i>112</i>	<i>256</i>	<i>302</i>	<i>644</i>
<i>Other Current Assets</i>	<i>4,236</i>	<i>4,634</i>	<i>4,760</i>	<i>5,359</i>
<i>Current Liabilities</i>	<i>3,868</i>	<i>4,457</i>	<i>3,639</i>	<i>3,647</i>
Other Assets	(131)	(281)	(281)	(281)
Total Assets	7,228	7,159	8,119	9,407

Quarterly Financials (Rs m)

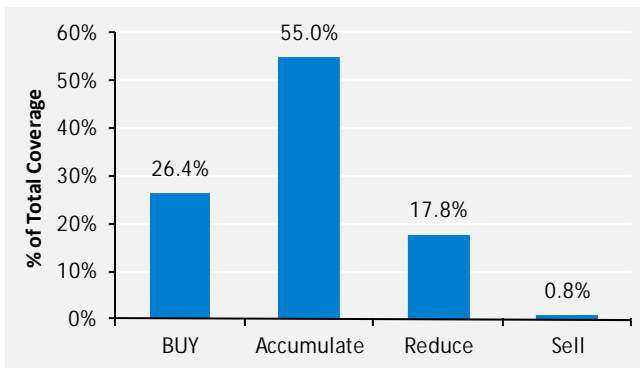
Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Net Revenue	3,453	4,855	3,425	2,849
EBITDA	415	967	466	282
<i>% of revenue</i>	<i>12.0</i>	<i>19.9</i>	<i>13.6</i>	<i>9.9</i>
Depr. & Amortization	74	77	80	84
Net Interest	36	36	31	22
Other Income	16	18	16	11
Profit before Tax	305	854	356	176
Total Tax	62	273	121	79
Profit after Tax	242	616	220	113
Adj. PAT	213	591	247	113

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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