



Rallis India

DOLAT CAPITAL

CMP: ₹ 123

TP: ₹ 132

Accumulate

High Points

- Revenue in line with estimates. Metahelix reports ₹ 18mn loss at EBITDA level
- One-offs include Turbhe - cessation cost of ₹ 242mn and forex loss of ₹ 82mn
- Dahej to operate at peak capacity utilisation in FY13E.
- We recommend Accumulate with revised target price of ₹ 132

Topline in line with estimates. Poor Metahelix performance dents earnings growth.

- Rallis India's consolidated revenue grew 20% YoY at ₹ 3.3bn, mainly led by higher contribution from Metahelix (₹ 153mn to topline), opportunistic launches and enhanced marketing thrust in the domestic market.
- The company launched one new product - Tata Bahaar (plant growth regulator) in Q3FY12 and it aims to grow in this domain.
- Consolidated EBITDA margins declined by 200bps YoY to 17% on account of increase in other expenses and employee costs, while lower raw material costs restricted further margin deterioration. Metahelix recorded loss of ₹ 18mn at EBITDA level (excl. other income).
- Interest costs increased to ₹ 35mn due to higher working capital requirement linked to scale up in operations and increased promotional expenditure.
- Depreciation also jumped by 65% YoY to ₹ 72mn with further capitalization of the Dahej facility (commissioned in June '11).
- Operations at Turbhe facility have been discontinued. Consequently, a one-time cessation cost of ₹ 242mn has been recognized. Forex losses at ₹ 82mn are on account of MTM losses on trade payables.
- PAT (after minority interest; excl. cessation cost) de-grew by 5% to ₹ 319mn. Metahelix recorded a net loss of ₹ 35mn.

Scrip Details

Equity	₹ 194mn
Face Value	₹ 1/-
Market Cap	₹ 24bn
	USD 474mn
52 week High / Low	₹ 186 / 113
Avg. Volume (no)	258,238
BSE Sensex	16752
NSE Nifty	5025
Bloomberg Code	RALI IN
Reuters Code	RALL.BO

Q3FY12 Result (₹ mn) - Consolidated

Particulars	Q3FY12	Q3FY11	YoY (%)	9MFY12	9MFY11	YoY (%)
Net Sales	3179	2681	18.6	10395	8272	25.7
Other Operating Inc.	72	32		226	153	
Income from Operations	3251	2712	19.9	10621	8425	26.1
Other Income	3	23		8	46	
Total Income	3254	2735	19.0	10629	8471	25.5
Total Expenditure	2698	2198	22.8	8586	6793	26.4
PBIDT	556	538	3.4	2043	1678	21.8
OPM (%)	17.0%	19.0%		19.2%	19.4%	
Interest	35	11		103	1	
PBDT	521	527	-1.2	1940	1677	15.7
Depreciation	72	44	65.4	200	119	67.4
PBT	449	484	-7.2	1741	1558	11.8
Tax	57	143	-60.1	430	478	-10.1
Profit After Tax (before EOI)	392	341	15.0	1311	1079	21.5
Cessation cost - Turbhe Operations	242	0		242	0	
Forex Losses	82	4		154	7	
EOI	325	4		397	7	
Minority Interest	-10	0		21	0	
PAT	77	337	-77.3	893	1072	-16.7
Adj. PAT (after MI; excl. cessation cost)	319	337	-5.3	1135	1072	5.9

Financials (Consolidated)

Year	Net Sales	Growth-%	EBITDA	OPM%	Net Profit	Growth-%	EPS(₹)	Growth-%	PER(x)	ROANW-%	ROACE-%
FY10	9,005	5.2	1,750	19.4	1,015	40.9	5.2	40.9	23.6	26.2	37.8
FY11	10,934	21.4	1,991	18.2	1,260	24.2	6.5	24.2	19.0	27.1	35.3
FY12E	13,583	24.2	2,381	17.5	1,339	6.3	6.9	6.3	17.9	24.5	30.5
FY13E	16,152	18.9	2,897	17.9	1,715	28.1	8.8	28.1	13.9	26.5	32.1

Figures in ₹ mn

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- The domestic agrochem industry is expected to record lower single digit growth during the year. Moreover, there is a notable preference for generic products compared to specialties. Rallis having a balanced product portfolio is in a comfortable position to absorb this trend. International markets have seen a bounce back with pricing points being remunerative.
- Scale-up in revenues from its seeds business (Metahelix) and the recently commissioned Dahej facility (capacity utilization to increase from current 75% while third line for CRAMS is under construction) are key growth drivers.

Financial highlights

Rallis India's consolidated revenue grew 20% YoY at ₹ 3.3bn. The core business saw growth mainly led by opportunistic launches and enhanced marketing thrust. Higher contribution from Metahelix (₹ 153mn in sales) aided topline growth.

The company has launched one new product, Tata Bahaar, in Q3FY12 (ten in 9MFY12). This product falls under the plant growth regulator segment and can be applied across various crops and geographies. The management aims at strengthening its presence in this segment.

Consolidated EBITDA margins declined by 200bps YoY to 17%. Other expenses and employee cost stood at 17.7% (+220bps YoY) and 7.2% (+40bps YoY) of sales. Lower raw material costs at 58.1% of sales (-70bps YoY) restricted further margin contraction. Metahelix recorded loss of ₹ 18mn at EBITDA level (excluding other income).

Interest outgo during the quarter stood higher at ₹ 35mn (₹ 11mn income in Q3 FY11). This was mainly due to higher working capital requirement linked to increased promotional expenditure and scale up in operations. The company has raised its stake in Metahelix to 76% (Sep'11 - 73%)

Depreciation also jumped by 65% YoY to ₹ 72mn with further capitalisation of the Dahej facility (currently 75%).

Exceptional items include a) one-time impairment charges of ₹ 242mn towards discontinuation of operations at Turbhe facility and b) forex losses of ₹ 82mn on account of MTM losses on trade payables.

PAT (after minority interest; excluding cessation cost) de-grew by 5% to ₹ 319mn. Metahelix recorded a net loss of ₹ 35mn.

Analysts meet: Key takeaways

- Update on monsoon up to December 31, 2011: Rainfall has been 50% deficient as compared to the long period average. Andhra Pradesh, the key region for paddy sowing, saw 75% deficient rains.
- This quarter saw lower pest menace across crops (except for Soyabean). Opportunistic launches coupled with greater marketing push aided topline growth for Rallis.
- The management expects the industry to record single digit growth rate during the year. International markets have seen a bounce back with pricing points being remunerative.
- The capacity utilization of Dahej facility stands at 75% and is expected to further improve hereon. A third line dedicated for contract manufacturing operations is under construction. All pending regulatory approvals have been cleared during this quarter.

- The management has guided capex of ₹ 500mn – ₹ 1bn for FY13E. It is constantly working towards easing the working capital stress.
- Metahelix sales were impacted due to the deferment of a hybrid rice supply contract that was supposed to take place in Q3FY12. The management plans to increase production levels to support aggressive market penetration. It will also incur capex to ramp up its seed processing division.

Revised Estimates

Particulars (In ₹Mn)	Revised*		Earlier		Change %	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sales	13,583	16,152	14,097	16,772	-3.6%	-3.7%
EBITDA	2,381	2,897	2,693	3,365	-11.6%	-13.9%
PAT	1,339	1,715	1,558	2,024	-14.0%	-15.3%

* Adjusted for deceleration in revenues from domestic biz, factored in lower EBITDA margins (lowered EBITDA contribution from Metahelix)

Valuation

We expect revenue growth from domestic market to moderate in the near term on account of deceleration in volume off-take. However, scale up in the Metahelix business and incremental revenue contribution from Dahej shall aid overall growth momentum. At CMP of ₹ 123, the stock trades at 17.9x FY12E and 13.9x FY13E earnings. **We recommend Accumulate on the stock, with revised target price of ₹ 132 (15x FY13E EPS).**

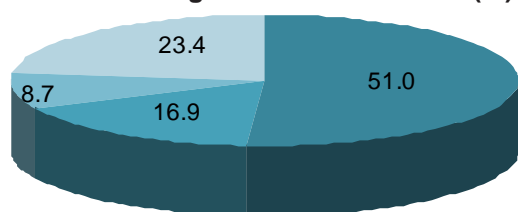
INCOME STATEMENT (Consolidated)					CASH FLOW				
Particulars	Mar10	Mar11	Mar12E	Mar13E	Particulars	Mar10	Mar11	Mar12E	Mar13E
Net Sales	8,787	10,657	13,305	15,892	Profit before tax	1,610	1,845	1,976	2,446
Operating Income	218	277	278	260	Depreciation & w.o.	183	175	277	349
Income from Operations	9,005	10,934	13,583	16,152	Net Interest Exp	23	25	136	132
Non Operating Income	66	54	8	30	Direct taxes paid	(512)	(581)	(621)	(716)
Total Income	9,071	10,988	13,591	16,182	Chg in Working Capital	726	(525)	(730)	(459)
Total Expenditure	7,256	8,944	11,202	13,256	(A) CF from Opt. Activities	2,029	939	1,038	1,752
EBIDTA (Excl. Other Income)	1,750	1,991	2,381	2,897	Capex {Inc./ (Dec.) in FA n WIP}	(544)	(1,540)	(650)	(750)
EBIDTA (Incl. Other Income)	1,815	2,045	2,389	2,927	Free Cash Flow	1,485	(601)	388	1,002
Interest	23	25	136	132	Inc./ (Dec.) in Investments	(41)	1,146	0	0
Gross Profit	1,793	2,020	2,253	2,795	Other (Bal.fig)	(365)	(1,197)	(266)	(16)
Depreciation	183	175	277	349	(B) CF from Investing Activities	(949)	(1,590)	(916)	(766)
Profit Before Tax & EO Items	1,610	1,845	1,976	2,446	Issue of Equity/ Preference	9	65	0	0
Extra Ordinary Exps/(Income)	83	0	0	0	Inc./ (Dec.) in Debt	(744)	1,091	481	(300)
Profit Before Tax	1,527	1,845	1,976	2,446	Interest exp net	(23)	(25)	(136)	(132)
Tax	512	581	621	716	Dividend Paid (Incl. Tax)	(286)	(453)	(498)	(543)
Net Profit	1,015	1,264	1,355	1,730	(C) Cash Flow from Financing	(1,043)	678	(152)	(975)
Minority Interest		4	16	15	Net Change in Cash	37	27	(31)	11
Net Profit after Minority Interest	1,015	1,260	1,339	1,715	Opening Cash balances	82	119	146	115
					Closing Cash balances	119	146	115	126

BALANCE SHEET				
Particulars	Mar10	Mar11	Mar12E	Mar13E
Sources of Funds				
Equity Capital	130	194	194	194
Preference Capital	0	0	0	0
Share Premium	879	879	879	879
Other Reserves	3,236	3,975	4,817	5,988
Net Worth	4,245	5,049	5,890	7,062
Secured Loans	16	1,087	1,283	1,083
Unsecured Loans	65	85	370	270
Loan Funds	81	1,172	1,653	1,353
Minority Interest	0	21	16	15
Deferred Tax Liability	0	32	32	32
Total Capital Employed	4,326	6,275	7,592	8,462

Applications of Funds				
Gross Block	3,091	4,057	6,401	7,151
Less: Accumulated Depreciation	1,564	1,743	2,020	2,369
Net Block	1,527	2,314	4,382	4,783
Capital Work in Progress	1,120	1,695	0	0
Goodwill on Consolidation	0	1,236	1,481	1,481
Investments	1,402	256	256	256
Deferred Tax asset	53	0	0	0
Current Assets, Loans & Advances				
Inventories	1,489	2,289	2,807	3,309
Sundry Debtors	755	1,064	1,349	1,567
Cash and Bank Balance	119	146	115	126
Loans and Advances	886	1,154	1,304	1,454
Other Current Assets	15	13	13	13
<i>sub total</i>	3,263	4,666	5,588	6,469
Less : Current Liabilities & Provisions				
Current Liabilities	2,595	3,306	3,416	3,783
Provisions	446	586	698	743
<i>sub total</i>	3,041	3,891	4,114	4,526
Net Current Assets	222	774	1,473	1,943
Misc Expenses	0	0	0	0
Total Assets	4,326	6,275	7,592	8,462

E-estimates

Shareholding Pattern as on Dec'11 (%)



■ Promoter ■ MF/Banks/FIs ■ FIs ■ Public / Others

IMPORTANT RATIOS

Particulars	Mar10	Mar11	Mar12E	Mar13E
(A) Measures of Performance (%)				
Contribution Margin				
EBIDTA Margin (excl. O.I.)	19.4	18.2	17.5	17.9
EBIDTA Margin (incl. O.I.)	20.2	18.7	17.6	18.1
Interest / Sales	0.3	0.2	1.0	0.8
Gross Profit Margin	20.4	19.0	16.9	17.6
Tax/PBT	33.5	31.5	31.4	29.3
Net Profit Margin	11.3	11.5	9.9	10.6

(B) As Percentage of Net Sales

Raw Material	56.1	57.9	58.1	57.4
Employee Expenses	7.5	6.7	6.5	6.8
Other Operating Expenses	17.0	17.2	17.8	17.8

(C) Measures of Financial Status

Debt / Equity (x)	0.0	0.2	0.3	0.2
Interest Coverage (x)	80.0	81.5	17.6	22.2
Average Cost Of Debt (%)	5.0	4.0	9.6	8.8
Debtors Period (days)	31	36	37	36
Closing stock (days)	62	78	77	76
Inventory Turnover Ratio (x)	5.9	4.7	4.7	4.8
Fixed Assets Turnover (x)	2.8	2.6	2.1	2.2
Working Capital Turnover (x)	39.6	13.8	9.0	8.2
Non Cash Working Capital (₹ Mn)	103	628	1,358	1,817

(D) Measures of Investment

EPS (₹) (excl EO)	5.2	6.5	6.9	8.8
EPS (₹)	7.8	6.5	6.9	8.8
CEPS (₹)	9.2	7.4	8.3	10.6
DPS (₹)	1.7	2.0	2.2	2.4
Dividend Payout (%)	22.2	30.9	31.9	27.2
Profit Ploughback (%)	77.8	69.1	68.1	72.8
Book Value (₹)	32.7	26.0	30.3	36.3
Adj.RoANW (%)	26.2	27.1	24.5	26.5
RoACE (%)	37.8	35.3	30.5	32.1
RoAIC (%) (Excl Cash & Invest.)	37.2	29.6	28.1	30.6

(E) Valuation Ratios

CMP (₹)	123	123	123	123
P/E (x)	23.6	19.0	17.9	13.9
Market Cap. (₹ Mn.)	15,947	23,920	23,920	23,920
MCap/ Sales (x)	1.8	2.2	1.8	1.5
EV (₹ Mn.)	15,909	24,946	25,458	25,147
EV/Sales (x)	1.8	2.3	1.9	1.6
EV/EBDITA (x)	9.1	12.5	10.7	8.7
P/BV (x)	3.8	4.7	4.1	3.4
Dividend Yield (%)	1.4	1.6	1.8	2.0

E-estimates



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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