

Rallis India

Date
26/04/2011

Sensex
19602

Nifty
5984

Sector
Agriculture - Chemical

CMP
Rs.1438

Face Value
Rs.10/share

Equity Capital
Rs.12.96 cr

52 Week H/L in Rs.
901.01/1509.45

Market cap Rs. Cr.
2833

Share Holding

Holder's Name	No of Shares (Lakhs)	% holding
Promoters	98.59	50.7%
General Public	39.78	20.5%
Banks & Mutual Funds	34.87	17.9%
Domestic Institutions	7.98	4.1%
Foreign Institutions	6.21	3.2%
Financial Institutions	6.17	3.2%
Others	0.85	0.4%

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Summary

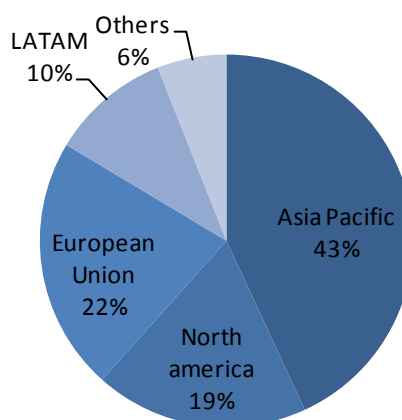
Rallis India, a subsidiary of Tata Group is one of the leading agro chemical manufacturers in India. It manufactures for both domestic and International market which is used for plant protection. 97% of its revenue is generated from the pesticides sales while remaining comes from seeds sales and contract manufacturing. The EBITDA Margin of Rallis India is at a healthy 20% level and is expected to go up to 21.5% in 2012. Currently, the stock is trading at a P/E of 15.1x and 11.3x on FY11E and FY12E EPS. During Q3 2011, there has been an increase in per acre production in India for all the crops except for jowar and maize. Minimum Support Price of agricultural commodities plays a vital role in pricing of the agro chemical products in the Country. We expect the sector to grow by a CAGR of 10.6% over the next two years. Rallis India holds a market share of 12% in the agro chemical sector and it is also looking for an increased presence in the value chain of the agro business by entering the seed and packaged pulses. Valuations at current levels look attractive and we recommend a **BUY** on the stock.

Introduction of the Company

The Company has a strong distribution network reaching out to 5 lakh farmers across the Country. The company's main business segment is agriculture inputs, which consists of crop protection chemicals, seeds and plant growth nutrients. The crop protection chemicals consist of domestic formulation business, institutional business and international business. Company's seed business includes distribution of Bt cotton, hybrid paddy and hybrid maize seeds. In the institutional business, they provide technical support and bulk of various molecules to other agro chemical manufacturers.

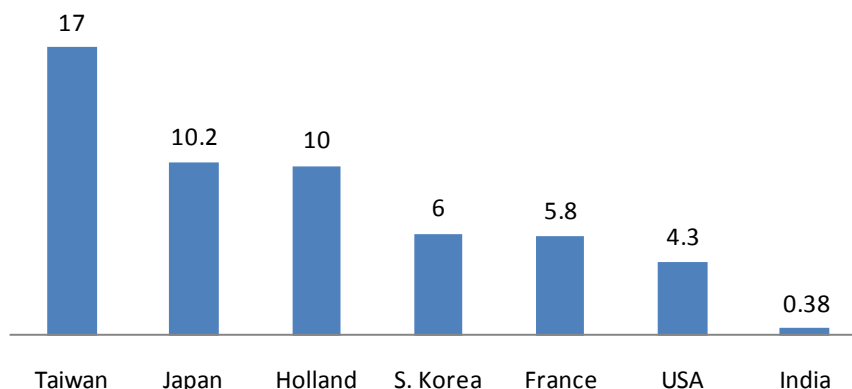
Industry Structure

Global Agrochemical Consumption Q3 2011



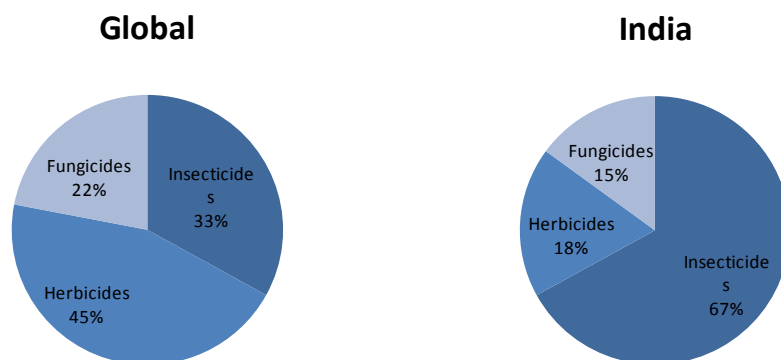
Globally, Asia Pacific is the largest consumer of pesticides with 43% of the total pesticide consumption, followed by USA, which contributes nearly 29% of the total consumption.

Global Pesticide Consumption Kg/Hectare



India’s consumption of agro chemical per hectare is one of the lowest in the world, standing at 0.48 kg per hectare. This compares with countries which have less per acre production on land under coverage. Countries like Taiwan, Japan, Holland and Korea have higher consumption of agro chemical than India.

Global/India share of Pesticide Consumption

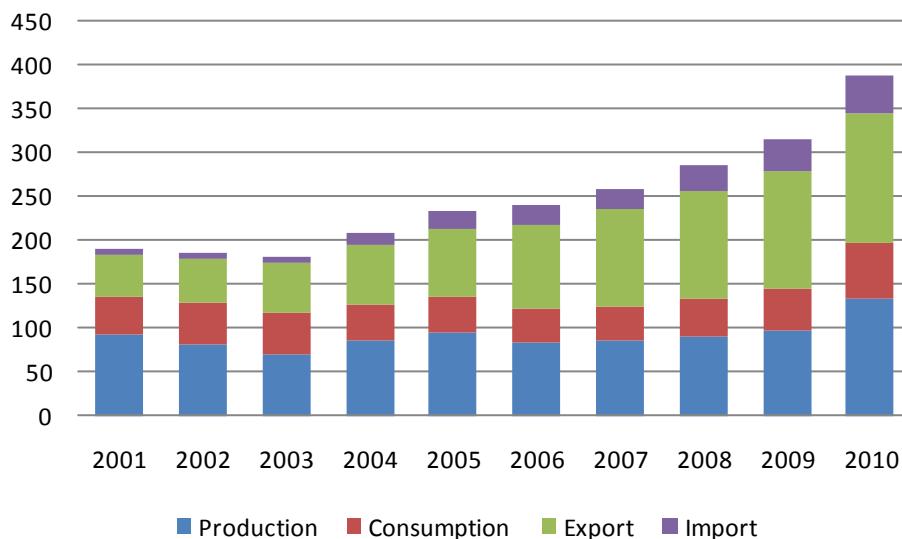


India has predominantly been an insecticides market due to its tropical climate and availability of cheap labor. Insecticides in India are mainly used for controlling pest for paddy and cotton. India being the largest producer of rice globally, paddy & cotton account for more than 50% of India’s pesticide usage.

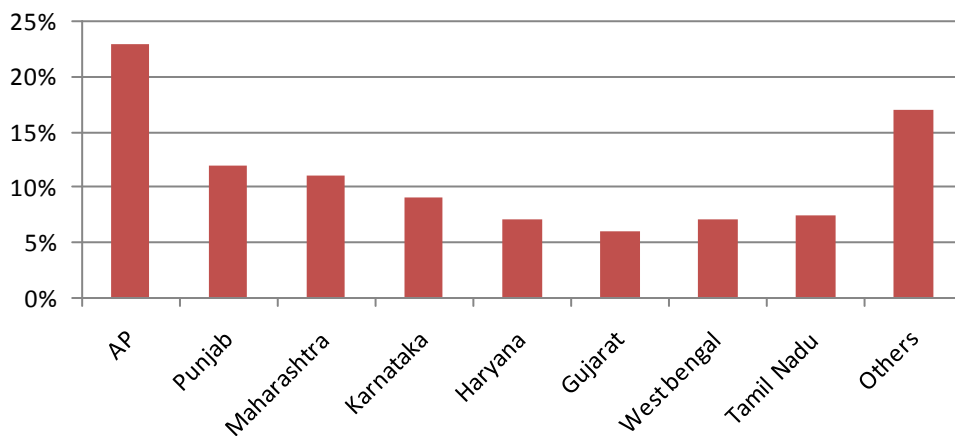
Domestic scenario

On a yearly basis, India loses nearly 30% of its potential crops to insects and weeds. In 2010, total crop losses due to non usage of proper pesticide amounted to around Rs.101500 crore which is around 2.2% of India’s GDP. This crop loss has seen a CAGR growth of 2% over the last 8 years. The agro chemical industry in India is expected to grow at a CAGR of 10.6% for next 5 years and the industry is also upbeat about the export possibilities in addition to robust domestic growth. India is the 4th largest producer of pesticides in the World after USA, China and Japan. Globally, India accounts for 16% of total food grain output but consumes only 2% of the world’s total pesticide consumption. India’s export has seen a massive growth post 2007 due to shifting down of pesticides units in China for Olympic Games 2008 and shift in pesticide production to developing countries.

India Pesticide Production/Consumption

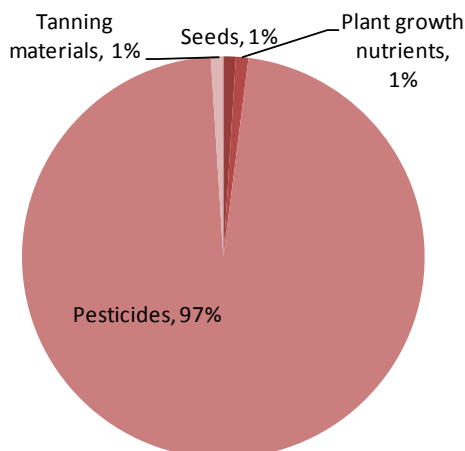


State wise Pesticide Consumption



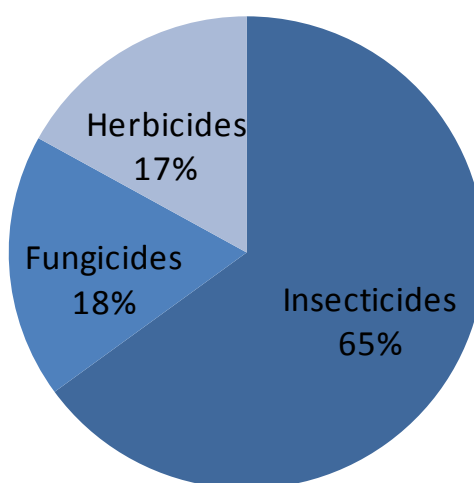
Andhra Pradesh is the single largest consumer of pesticides in India, with a total share of 22%. Eight states in India including Andhra Pradesh consume 83% of total agro chemicals sold. This points out to the fact that an untapped market in India for agro chemical exists in the remaining states where 67% of India’s total workforce is engaged in agriculture output. This presents a significant growth opportunity for Indian pesticide manufacturers.

Rallis India Product mix



Rallis India is one of the well positioned agro chemical players in the Indian market with a market share of 12%. The domestic market constitutes nearly 78% of the Rallis total revenue and the remaining 22% is from International market. Pesticides contribute 97% of the total revenue. The management expects 5% revenue contribution from seeds business. It also expects nearly 1000 crores revenue from contract manufacturing segment over the next five years which has a major scope in the international market. During Q3, Rallis India has commissioned its Dahej plant with an investment of Rs.150 crores which has an annual capacity of 5000 tonnes and will provide a massive contribution to the growth in contract manufacturing.

Product mix (Pesticides)



- 1) With 65% revenue contribution, Insecticides leads the pesticide revenue distribution in Rallis. Insecticides in India are mainly used for pest control in cotton and paddy where more than 50% of Country's pesticides are used.
- 2) With 18% contribution, Fungicides are only used in the domestic market. Herbicides, with 17% share and a robust demand globally are produced mainly for international market. Globally, herbicides have a 45% contribution in total pesticides market.
- 3) The Minimum Support Price (MSP) for paddy and wheat is increasing Y-O-Y, the current MSP per ton for Rice and Wheat are Rs.1000 and Rs.1100 respectively. Though it has been increasing, the farmers are not benefited by the increase in the price level.
- 4) Seeds business for Rallis contributes 1% of the total revenue. Rallis expects a 5% contribution of seeds in next year's revenue on the back of its acquisition of Metahelix, a Bangalore based Bio-Technology Company for nearly Rs.100 crores.

New Product Development

As the market for pest control looks more challenging and innovative, the companies are expected to come up with new products regularly and create awareness of the same for the farmers. Rallis is treated as one of the most innovative companies in the agro chemical sector. On a yearly basis, Rallis spends around 0.45% of its revenue on Research and Development.

In 2010, it launched a new product called Ergon which is formulated on the active ingredient Kresoxim-methyl. Rallis has a 3 year patent for this product, which comes also with exclusivity. The global market size of Kresoxim-methyl is estimated at \$400 billion.

On an average, Rallis registers 6 new products in a year and launches around 4 new products from it. On a yearly basis, new products in Rallis contribute nearly 30% of the total revenue. The Management expects to increase it to 35% in coming years.

Future plans

Rallis India's Dahej plant to cater exports under contract manufacturing is likely to be commissioned by the end of this fiscal 2011. The management expects Rs.1000 crore cumulative revenue from contract manufacturing for the next five years, driving a 20% CAGR growth in exports for next three years. This will help Rallis to generate continuous revenue from international business where it has seen a downtrend in exports in the last year from 34% to 22% in revenue distribution.

Rallis India has tied up with Group Company Tata Chemicals, and has recently forayed into branded pulses segment under I-shakthi brand. Rallis will act as a distribution partner for Tata Chemicals and will market the product through its vast distribution network. It has launched four pulses namely chana, toor, urad and moong in the domestic market. The demand and supply scenario of pulses in India looks positive as there is a deficit of 3 million tonnes as of 2012.

The Company has acquired Metahelix Life Sciences, a Bangalore based Company for its seeds business where the Management is expecting 5% sales. This will help the Management to increase their top line growth and allow the seeds business to grow exponentially in the coming years. The

seeds market in India is estimated at Rs.6500 crore in 2010. The market is growing at a CAGR of 12-13%. Hybrid seeds which Metahelix manufactures accounts for only 25% of the total market size.

Quarterly Results

Rs in Crores	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	QOQ (%)	YOY (%)
Sales	206.8	202.9	202.8	368.0	271.4	-26.3%	31.2%
Total Expenditure	164.0	165.4	180.1	279.7	220.1	-21.3%	34.2%
EBITDA	42.8	37.6	22.7	88.3	51.2	-42.0%	19.7%
EBITDA %	20.7%	18.5%	11.2%	24.0%	18.9%		
Depreciation	3.7	3.7	3.6	4.0	4.4	10.4%	18.4%
Interest	1.0	0.5	-0.9	-0.1	1.1	-1850.0%	8.2%
Other Income	2.7	1.6	1.6	1.1	2.2	99.1%	-20.1%
EBT	35.4	33.2	21.6	85.5	48.0	-43.9%	35.6%
TAX	11.3	11.3	6.8	26.8	14.3	-46.6%	26.2%
PAT	24.1	21.9	14.8	58.7	33.7	-42.6%	40.0%
PAT%	11.6%	10.8%	7.3%	16.0%	12.4%		

- 1) Rallis India's net sales have shown a growth of 31% YOY to Rs.272 crores from Rs.206 crores on the back of strong volume growth of more than 25% during Q3 FY11. Rallis has seen a volume growth of approximately 30% driven by Company's robust performance in domestic market which witnessed a strong demand for pesticides and revival in Company's exports.
- 2) During the last two quarters, Rallis has launched three new products in the domestic market which has been reflected in Company's top line growth by nearly 30% of the revenue.
- 3) Agro chemical prices are stable on YOY basis and have improved QOQ basis mainly on account of higher raw material costs and an increase in excise duty from 8% to 10%, leading to a decline in EBITDA margin by 180 bps YOY to 18.9%.
- 4) PAT grew by 14% YOY to Rs.33.7 crores with PAT margin of 12.4% despite India experiencing normal monsoons during the quarter.
- 5) The domestic agro chemical industry is expected to have lost some sales during the quarter due to late rainfall witnessed in Nov – Dec 2010. However, this sale is likely to pick up in Q4.

Valuation

Rs in Crores	FY 10	FY11E	FY 12E
Sales	933.5	1077.3	1363.8
Sales Growth %		15%	27%
EBDITA	181.0	197.8	271.4
EBDITA%	19%	18%	20%
PAT	112.4	125.0	167.3
PAT%	12%	12%	12%
No of outstanding shares	1.3	1.3	1.3
EPS	86.7	96.5	129.1
Price	1453.0	1453.0	1453.0
P/E x	16.8	15.1	11.3
EV/EBITDA x	10.4	9.5	6.9

Peer comparison

Company	CMP	Mkt Cap (Rs Bn)	P/E		EV/EBITDA		ROE %	
			FY11 E	FY12 E	FY11 E	FY12 E	FY11 E	FY12 E
Rallis India	1453	2538	15.1	11.3	9.5	6.9	24.1%	25.8%
Monsanto	1893	1633	24.3	21.2	20.4	18.7	16.7%	16.6%
Bayer crop science	901.85	3562	18.3	16	11.1	9.5	25.3%	23.5%

Rallis India is well positioned in Indian agro chemical sector compared to its peers. Bayer Crop Science is the market leader in agro chemical sector in India has shown 28% growth in sales and a 13% growth in profits for the nine month. Rallis India has seen a 21% growth in sales and a 35% growth in profits for the same period due to a strong distribution network and a strong farmer relationship. Rallis has a PAT margin of 12.49% in 2011 compared to Bayer's 9.1%. Rallis future growth potential has been exemplified in its performance in 2010 and 2011 (9months) compared to its competitors. While comparing the valuation of Rallis with its peers, one can see Rallis is trading at a huge discount compared to the market leader Bayer Crop Sciences which is trading at a P/E of 18 for FY11E and 16 for FY12E. With the strong farmer relationship and a diversification in the product portfolio through acquisitions, we believe Rallis India has a strong growth potential in its future revenues and earnings.

Recommendations

Monsoons are expected to be above normal and the late rainfall affected sales are expected to be booked in the last quarter of 2011. Rallis India's revenues are expected to be Rs.1078 crores for FY11E, a growth of 15% over the previous year. On a consolidated basis, its revenues are expected to be Rs.1363.8 crores by FY12E a growth of 27% over the previous year where the agro chemical sector is expected to grow at a CAGR of 10.6% for next three years. By looking at the past performance of the stock, it has out performed Sensex by 102% over the year and at the current levels

the stock is trading at a fair valuations of 11.3x FY2012 EPS. Insecticides contribute nearly 65% of its revenues which is mainly used for controlling pest for cotton and paddy.

- 1) As population of India has grown at 17.45% for the decade and a continuous demand for India's rice in international market, this insecticides business for Rallis is expected to grow.
- 2) Rallis innovation index is maintained above 28% for the last 6 years and nearly 30% of its total revenue is contributed by new products introduced by Rallis. Rallis expects a strong growth from contract manufacturing with cumulative revenue of Rs.1000 crores for the next five years.
- 3) Commissioning of Dahej plant in early Q4 2011 will help Rallis to achieve this target easily. The Management plans for a non – diversified growth by expanding its seeds business to the extent of 5% to its sales where the Company has acquired a Bangalore based bio tech Company Metahelix with a majority stake of 53.5% which will be technically helpful to achieve the growth in seeds business.
- 4) A strong distribution network with around 500000 farmers Rallis has plans to foray into the branded pulses market under the brand I-Shakthi with tie up from Tata Chemicals. We recommend a **BUY** on the stock as the Company is looking for potential growth in the industry.

Projected Financials

Rs in Cr	Fy 10	Fy 11E	Fy 12E	Balance Sheet	Fy 10	Fy 11E	Fy 12E
Net Sales	903.6	1001.2	1259.9	Paid up Capital	13	13	13
Growth %		10.8%	25.8%	Reserves & Surplus	412	507	635
Total Expenditure	722.5	803.5	988.5	Total Shareholders Equity	425	520	648
EBITDA	181.0	197.8	271.4	Total Debt	8	7	6
Growth %		9.3%	37.3%	Total Liabilities	434	527	654
Depreciation	15.2	16.4	26.1	Net Fixed assets	153	248	282
EBIT	165.8	181.4	245.3	Capital work in progress	112	60	40
Interest	2.3	1.0	4.9	Investments	140	140	140
Current Tax	0.8	0.5	0.5	Total Current assets	326	385	486
PAT	112.4	125.0	167.3	Total Current Liabilities	304	306	304
Growth %	0.0	11.3%	33.8%	Net Current Assets	22	79	183
				Total Assets	434	527	654
Key ratios	Fy 10	Fy 11E	Fy 12E	Operating ratios	Fy 10	Fy 11E	Fy 12E
EBITDA %	20.0%	19.8%	21.5%	Sales/Gross FA	2.9	2.4	2.6
EBIT %	18.3%	18.1%	19.5%	Sales/Net FA	5.9	4.0	4.5
PAT %	12.4%	12.5%	13.3%	Debtor days	30.5	34.4	34.2
ROE %	26.4%	24.1%	25.8%	Creditor days	104.8	94.6	75.2
ROCE %	38.2%	34.4%	37.5%	Inventory days	60.1	67.8	67.4
EPS	86.7	96.5	129.1	Depreciation/GFA	0.0	0.0	0.1
P/E	16.8	15.1	11.3	Depreciation/NFA	0.1	0.1	0.1
Book value/Share	328.2	400.9	500.2				
Sales/Share	697.2	772.6	972.2				

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