


Top Investment ideas

08 Nov. 2017

STEWART & MACKERTICH
LEGACY | TRUST | GROWTH

Table of Contents

Top Investment Ideas - November 2017					
Company Name	**Sector**	**Market Cap (INR Cr.)**	**CMP (INR)***	**Target (INR)**	**Upside (%)**
BASF India Ltd	Chemicals	7404.69	1714.05	2122.00	23.80%
Minda Corporation Ltd	Auto Ancillary	3037.11	145.10	208.00	43.35%
Pearl Global Industries Ltd	Textiles	318.83	147.20	207.40	40.89%
Rallis India Ltd	Chemicals	4598.95	236.45	295.00	24.76%
* Price as on 7th Nov 2017					

BASF India Limited

Sector : Chemicals

8 November 2017

CMP (INR) (As on 7th Nov. 2017)	1714.05
Target (INR)	2122
Upside(%)	23.80
Recommendation :	Strong Buy

BSE Code	500042
NSE Code	BASF
Reuters Ticker	BASF.BO
Bloomberg Ticker	BASF IN

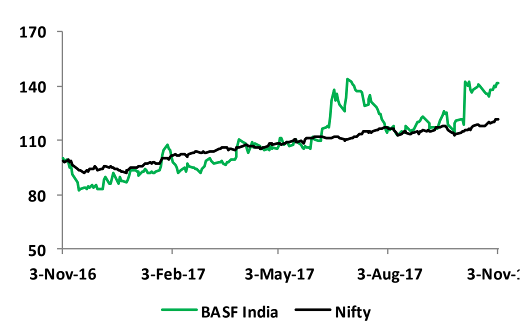
Stock Scan

Market cap (INR Cr.)	7404.69
Outstanding Shares (Cr.)	4.32
Face Value (INR)	10.00
Dividend Yield(%)	0.06
P/E (x)	NA
Industry P/E (x)	50.66
Debt/Equity	0.96
Beta vs. Sensex	1.13
52 Week High/ Low (INR)	1812.30/988.5
Avg. Daily Volume (NSE)	25352

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	73.33	73.33	73.33
Institutions	9.74	9.86	9.76
Non-Institution	16.92	16.80	16.90

Stock vs. Nifty



Research Analyst: Mononita Mitra

Email: m.mitra@smifs.com

Investment Rationale

Dahej Plant to drive revenue growth:

Post the commencement of Dahej operations in FY15, the gross block of the company increased to INR2032.02 Crore, the revenue growth was not in tandem with that. However, the Dahej Plant stabilized in the last 2 years and technical issues have also been resolved. Over the next 3years, based on the plant capacity, the plant can add INR2840 Crore to the manufacturing revenue. This can be a key trigger for EBITDA expansion going forward. The commencement of Dahej site will also reduce the company's reliance on imports to cater to the domestic market.

Agrochemical business will auger well:

The agrochemical business looks promising. On the back of normal monsoon, agricultural solution business grew by 8% last year. The crop protection business faced pricing pressure due to eroded margins of generics, however that was partly offset by cost saving measures taken by the company. The company also received approval for 11 new crop protection products. The products will give the company enough room for growth as it will increase the scope to serve larger base of farmers

Demand from Automotive Industry looks positive:

BASF produces chemicals for automotive industry which provides protection against corrosion, overheating and frost. Some chemicals also reduces noise, vibration and harshness in both two-wheeler and four-wheeler vehicles. These products have official approvals from most manufacturers in the automotive industry. The company also produces automotive coatings for cars of all types. The coatings and fuel lubricant teams won many awards from key customers like Ford Motors and Mahindra. Going forward the Automotive Industry is expected to do well. This will result in higher growth for the company. Sales of Functional Materials & Solutions grew by 8% last fiscal benefiting from the growth of the auto industry.

Restructuring operation will give further impetus to growth:

As part of strategic portfolio management, the company divested the Industrial Coatings business to AkzoNobel and the Leather Chemicals business to the Stahl Group. The leather business witnessed challenges due to stringent pollution norms implemented by the Government. Such divestments will help the company to focus resources on profitable growth opportunities in the future.

(Rationale continued…)

Financial Performance at a glance (Standalone)

Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Net Sales	4694.88	4729.66	5065.78	5700.90	6305.19
Growth(%)	6.25%	0.74%	7.11%	12.54%	10.60%
EBITDA	133.36	256.69	271.32	456.07	592.69
EBITDA Margin (%)	2.84%	5.43%	5.36%	8.00%	9.40%
Net Profit	-66.90	-30.37	-27.89	114.93	159.23
Net Profit Margin (%)	-1.42%	-0.64%	-0.55%	2.02%	2.53%
EPS (INR)	-19.82	-32.78	-5.75	26.60	36.86
BVPS (INR)	268.47	257.83	254.65	281.25	318.11
P/E (x)	-	-	-	64.43	46.50
P/BV (x)	4.17	3.40	5.38	6.09	5.39
ROE (%)	-5.55	-2.67	-1.27	9.46%	11.59%
EV/EBITDA (x)	47.42	20.04	25.84	19.65	16.47
Mcap/ Sales	1.03	0.80	1.16	1.30	1.17

Source: Company Data, Ace Equity, Bloomberg

Strong support from the parent company will aid new product launches:
BASF SE invests heavily in R&D. The strong R&D activities will also help BASF India to introduce newer products in the domestic market.

Company Overview

BASF India Ltd is a part of BASF SE , the largest chemical company in the world. BASF India is engaged in the business of manufacturing and marketing of Styropor, tanning agents, leather chemicals and auxiliaries, crop protection chemicals, among others. The company caters to the needs of various industries such as textiles, leather, paper, cosmetics, plastics, pharmaceuticals, packaging and insulation.

In FY11, the company merged 3 BASF entities (BASF Construction Chemicals India Pvt Ltd, BASF Coatings India Ltd and BASF Polyurethanes India Ltd) with BASF India, and separately acquired Cognis Specialty Chemicals Pvt. Ltd. Post the major consolidation profitability suffered significantly as these businesses were low-margin or loss-making due to lower volumes and lack of manufacturing base in India.

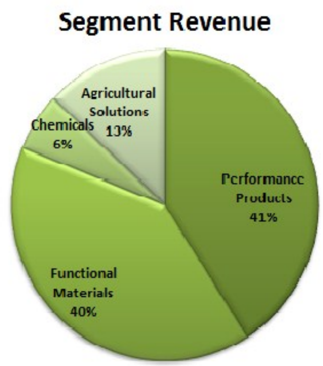
Business Overview

Performance Products: This segment includes products like performance chemicals, dispersions & pigments, care chemicals, nutrition & health products and paper chemicals. The business caters to the requirements of a wide spectrum of industries, including leather, plastics & coatings, detergent formulators, pharmaceuticals, automobile and oil.

Functional Materials & Solutions: Functional Materials & Solutions segment of the Company comprises of the automotive Coatings, Construction Chemicals, Performance Materials and Process Catalyst businesses. The Performance Materials business of the Company caters to the requirements of the Consumer, Construction, Industrial Product applications and Transportation Industries. The Process Catalysts business caters to the refining, petrochemicals and downstream base and fine chemicals industries.

Chemicals: Company's Chemicals business includes intermediates, petroche micals & monomers. The chemicals supplied by the Company cater to the requirement of a wide range of user industries including coatings, life sciences, construction additives, food and feed, pharmaceuticals, agrochemicals, plastics and fibers, process chemicals and intermediates.

Agricultural Solutions: The Agricultural Solutions business includes agrochemicals like insecticides, herbicides, fungicides and plant growth regulators.



Industry Overview

The world witnessed political and economic volatility in 2016. The chemical industry at USD4.4 Tn contributes 6% to the world economy. It grew by 1.5% in 2016. India grew by 7% but is still much behind the top 3 countries namely China, USA and Germany. This calls for huge investment in this sector.

Moreover, China is expected to cleanse its environment by shutting down or shifting 1,000 plants to a 'green belt'. This is a great opportunity for Indian companies as the cost of production is 10-15% lower than that of China after investment in environmental protection. Also, there is a huge demand coming from the user industries. The domestic automotive industry performed well on the wake of new launches. With increasing govt focus in agriculture sector the demand for agrochemicals is also likely to surge. The Pharmaceutical industry is also growing well because of increasing awareness about diseases and health.

Key Risks

- The Company is exposed to foreign-currency risks during the normal course of business. However these risks are hedged through a determined strategy employing derivative instruments.
- Crop Protection business are susceptible to pricing pressures due to generics eroded margins moreover they are also dependent on monsoon.
- Lower feedstock prices and limited volume availability impact the performance of the chemical business.
- Local availability of Toluene diisocyanate (TDI) and increasing capacity for Isocyanate in Asia with fluctuating raw material prices continues to be a challenge.

Outlook And Valuation

The company continued to expand its business due to which the sales increased by 7% to INR5065.78 Crores over the previous year. Capacity and asset utilization as well as operating margins improved significantly. All the technical issues at the Dahej site are resolved and obtained key customer approvals after successful audits. Company continued to increase their I nvestment with the opening of sixth construction chemical plant in India, in Kharagpur, to meet the increasing demand for high quality construction chemicals in eastern part of the country.

The company introduced a host of new products and solutions in crop protection business. The company's Agrochemicals division has suffered from single crop dependence. Diversification efforts were pursued during the year. The Fuel and Lubricants business caters to the automotive, fuel, lubricants, refinery and refrigeration Industries. New markets for coolants for tractors were identified and products introduced. Additionally, brake fluids were established in the service fill replacement markets of the automotive OEM's (Original Equipment Manufacturers) during the year. With new product launches and entry into new market segments, growth prospects for this business looks optimistic. Strong market conditions in sectors such as Construction, Footwear, Flexible packaging etc. will contribute to the growth of the company's monomer business. Rise in disposable income and increased awareness amongst consumers will contribute to the increase in sales in the personal care industry. This will provide a fillip to the care chemicals business.

Such Initiatives taken by the company, particularly the recent capex in its Dahej Plant and increase in product portfolio of the agrochemical business will bode well for the company and will propel higher margins. We expect the margin expansion from 5.3% in FY17 to 7.6% in FY19. The company also has the least market capitalization to sales among its MNC peers which implies that the company is relatively undervalued among its peers. Considering such favourable situation we assign a EV/EBITDA of 18x for FY19E EBITDA and arrive at Target Price of 2122.

MINDA CORPORATION LIMITED

Sector : Auto Ancillary

8 November 2017

CMP (INR) (As on 7th Nov. 2017)	145.10
Target (INR)	208.00
Upside(%)	43.35%
Recommendation :	Strong BUY

BSE Code	538962
NSE Code	MINDACORP
Reuters Ticker	MINC.NS
Bloomberg Ticker	MDA.IN

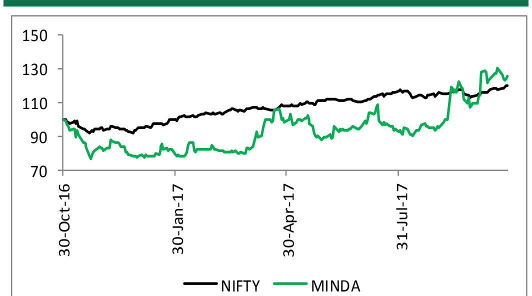
Stock Scan

Market cap (INR Cr.)	3037.11
Outstanding Shares (Cr.)	20.93
Face Value (INR)	2.00
Dividend Yield(%)	0.34
P/E (x)	31.78
Industry P/E (x)	35.83
Debt/Equity	0.98
Beta vs. Sensex	1.25
52 Week High/ Low (INR)	154.05/85.50
Avg. Daily Volume (NSE)	369371

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	70.21	70.21	70.21
Institutions	7.56	8.50	8.37
Non-Institution	22.23	21.29	21.42

Stock vs. Nifty



Research Analyst: Debjit Maji
Email: debjit.maji@smifs.co.in

Investment Rationale

Minda Furukawa: A turnaround strategy with long-term visibility intact:
Minda Corp. Ltd. (MCL) acquired 51% stake in the Japan-based Furukawa Company, under its Driver Information and Telematic segment. This JV known as Minda Furukawa, is largely engaged in supplying wireless harness & steering roll connectors to Japanese PV manufactures Maruti Suzuki, Honda and Renault Nissan.

However, after acquiring the stake, this joint venture faced headwinds in the initial phase with EBITDA margin falling to negative territory in FY17 on the back of an unprofitable product pipeline for Renault Nissan and increasing raw material prices. To make this unit profitable the management had outlined a turnaround plan which consisted of stopping the unprofitable Renault Nissan supply by end of Q1FY18, renegotiating the raw material prices with suppliers and reduction in royalty payments to Furukawa. Hence, the management expects this entity to turn profitable and sustainable in the long-term backed by the implementation of stringent crash safety norms and BS6 norms.

Minda Corp is poised to grow through acquisitions and JVs:
The Company is keen to increase its presence domestically and globally through acquisitions and JVs. Minda Corp's strong free cash flow helped it to grow through organic and in-organic way earlier and expects to grow further through additional investment to increase their product offerings. Apart from that, the management's strong focus on R&D certainly gives a competitive edge over its peers while strengthening its presence in the industry.

Robust Current Order Book:
MCL has reported a strong order book under the three major business verticals it is operating in. Under the Safety & Security Systems, it has registered a figure of INR1270 crore while reporting impressive figure of INR1614 crore and INR71.59 crore under Driver Information & Telematics and Interior Systems respectively.

(Rationale continued…)

Financial Performance at a glance (Standalone)

Particulars (INR Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	1970.64	2445.52	2962.04	3376.73	3883.24
Growth(%)	24%	24%	21%	14%	15%
EBITDA	208.21	244.33	227.68	308.07	392.95
EBITDA Margin (%)	10.57	9.99	7.69	9.12	10.12
Adjusted PAT	87.14	93.54	93.77	148.28	198.09
Net Profit Margin (%)	4.42%	3.82%	3.17%	4.39%	5.10%
EPS	4.16	4.47	4.48	7.08	9.46
BVPS	22.29	27.11	31.08	37.23	44.75
P / E (x)	21.41	20.20	20.37	20.48	15.33
P / BV (x)	4.29	3.96	3.10	3.90	3.24
ROE (%)	18.68	16.49	14.41	19.03	21.15
EV / EBITDA (x)	11.50	10.81	11.22	13.16	10.46

Source: Company Data, Ace Equity, Bloomberg

Sustainable CapEx to deepen their product line and increase their global footprint:

The management has guided for a CapEx of INR150 crore p.a which will be majorly funded by the income generated by the business. The firm approximately invested USD10 mn in Mexico which is likely to generate USD24 mn in sales from FY17-18 onwards. The company has also invested INR75 crore in Pune to boost their die casting business which is expected to make INR20 crore in sales from FY19-20 onwards. It has ventured into starter motor business and a contribution of INR200 crore is expected by FY20. The firm has managed to make inroads in exhaust gas temperatures and niche engine temperature systems. The Company is guiding for an EBITDA margin of 10%-12% by Q4FY18 and expects to maintain that in FY19.

Company Overview

Minda Corporation Limited (MCL) is a leading Indian supplier of diversified auto components, having a product portfolio consisting of electronic and mechanical security systems, driver information and telematics systems and plastic interiors to two wheelers, three wheelers, four wheelers and off-road vehicles. It supplies to auto original equipment manufacturers (OEMs) across the globe and boasts of a strong clientele consisting of Ashok Leyland, Bajaj Auto, Maruti Suzuki, HMSI, Mahindra & Mahindra, Nissan, Tata Motors, Volkswagen, Yamaha Motors etc.

The company generates 20% of its revenue from exports to USA(0.7%), EU(15.7%) & South East Asia(4.76%). MCL has established a global manufacturing presence with 25 plants in India, 3 plants in Europe, 2 in SE Asia and 1 in North America. It has recently started a greenfield project to supply plastic interiors in Mexico for the VW group, a new aluminum die casting plant in Pune and established a technical centre in Pune to develop its product offerings in future growth areas like Electronic Fuel Injection/Engine Management Systems, connected cars, sensors, advanced driver assistance systems etc. It is the only company to have its own patented magnetic shutters for two wheeler application and it also has a patent for the Immobilizer application for vehicles operating with drained or no battery condition.

Minda Corp's revenue mix is well diversified across product segments as well as end markets. Safety and Security (SS) systems accounts for 39% of revenue, Driver Information and Telematics (DIT) accounts for 47% of revenue and Interior Systems accounts for 14% of the revenue. Minda has diversified presence across Passenger vehicles accounting for 36% of the revenue followed by two wheelers at 31%, Commercial vehicles at 23% and the after market contributing 10%.

Industry Outlook

The Indian auto-components industry has experienced healthy growth over the last few years (over the last decade this industry has scaled three times to USD39 billion in FY15-16 while exports have grown even faster to USD10.8 billion) and is expected to continue that trend going forward. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment, stable government framework regarding automotive sector, return of adequate liquidity in the financial system after demonetization and a favourable GST environment for economical automakers.

According to the report published by Indian Brand Equity Foundation & Make in India in October 2017, the auto component industry is expected to account for 5% - 7% of India's GDP by FY26 and currently employs as many as 19 million people, both directly and indirectly. The Indian auto component industry is expected to attain an impressive USD200 billion in revenue, with exports of $80 billion and it contributed 4% to the India's overall exports last financial year.

Reduction in excise duties in motor vehicles will spur the demand for auto components and this industry is expected to become the 3rd largest in the world by 2025.

Key Risks

- **Raw Material & Supply Risk:** The Company procures raw materials for various manufacturing purposes which are prone to price fluctuation in global markets. Any upward movement in the cost of raw materials can have an adverse impact on profitability.

- **Geo-Economic Risks:** Outside India, the firm's business are concentrated in Europe & ASEAN. Any unexpected uncertainties and volatilities in these economies will have an adverse impact on profitability.

- **Exchange Rate Risk:** The Company has multi-country operations and is prone to the currency fluctuations. This is likely to impact the products pricing and profitability.

- **Technology Innovation Factor:** MCL manufactures different auto components that need continuous technological upgradation. A good amount of investment in research & development is necessary to stay relevant .

- **Delay in localization efforts:** Any major delay in localization efforts across businesses like Minda VAST & Minda Furukawa (that have high import content) can impact the company's operating margin and profitability.

- **Success of new models by OEMs:** Revenue increase and gain in market share depends on the success of the new models launched by OEMs for which company has won orders. Failure of these models can have a substantial impact on the MCL's operating performance and profitability.

Outlook And Valuation

Going forward we believe, BS-IV to BS-VI transitions, mandatory Anti-lock Braking System for two wheelers above 125 CC engines and Combined Braking System for two wheelers below 125CC engines, electric vehicles and the concept of smart cities are opportunities for the company which should result into healthy orders for Minda Corp.

We believe company's focus on bringing technologically advanced product and solutions at low cost should help company make inroads with large OEMs both on domestic and export front leading to healthy revenue growth with good margins. While the company focuses on low cost technology and innovation on other hand company's focus on turning around its key JVs and subsidiaries and bringing in operational efficiency should help company in faster turnaround.

Considering the many initiatives taken up by the firm, particularly the recent CapEx in Mexico & Pune to increase their product portfolio are expected to augur well for the company and stripping of nonproductive contracts with Nissan will propel higher margins. We expect the EBITDA margin to expand from 7.69% in FY17 to 10.12% in FY19E. We assign a P/E of 22x for FY19E Earnings and arrive at Target Price of 208.

PEARL GLOBAL INDUSTRIES LIMITED

Sector : Textile
8th Nov 2017

CMP(INR)(As on 7th Nov. 2017)	147.20
Target (INR)	207.4
Upside(%)	40.89
Recommendation :	Strong Buy

BSE Code	532808
NSE Code	PGIL
Reuters Ticker	HOPF.BO
Bloomberg Ticker	PGIL IN

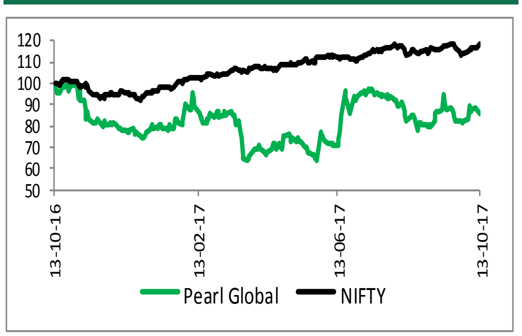
Stock Scan

Market cap (INR Cr.)	318.83
Outstanding Shares (Cr.)	2.17
Face Value (INR)	10.00
Dividend Yield(%)	1.98
P/E (x)	7.67
Industry P/E (x)	27.79
Debt/Equity	0.68
Beta vs. Sensex	0.85
52 Week High/ Low (INR)	225/110
Avg. Daily Volume (NSE)	15100

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	66.48	66.48	66.48
Institutions	12.28	12.35	12.60
Non-Institution	21.13	21.07	20.82

Stock vs. Nifty



Research Analyst: Pratim Roy
Email: pratim.roy@smifs.com

Investment Rationale

Multi Location Manufacturing Facility:

Global apparel sourcing market is witnessing a shift from China to other low-cost Asian countries, primarily Bangladesh, India and Indonesia. The Company (PGIL) already has a strong manufacturing presence in leading sourcing nations such as India, Bangladesh and Indonesia. Each of these countries exhibits certain core advantages like low raw material cost, employee benefit etc.

Global Clients and Full Capacity Utilization:

They have a total capacity to manufacture around 5.5 million garments per month .Their revenue structure is primarily export based, with a major contribution coming from exports to the United States. They are associated with global clients like GAP, Banana Republic, Kohl's, Macy, Ralph, Lauren, Tom Tailor, Next and others. They have total manufacturing capacity of 35 lakh pcs of garments on a per monthly basis plus outsourcing capacity of 12 lakhs garments annually.

In-House operation:

They have largest in-house embroidery facilities. In North India they have 500 machines and another 100 installed in Bangladesh. Their in-house washing capacity is established in North India and Bangladesh with a capacity of 50,000 pieces a day and 35,000 pieces a day, respectively. A garment dyeing facility has been established in Bangladesh, with a capacity of 10,000 pieces a day. These three factors will help them to improve their bottom line.

New Capacity Expansion:

Currently company is investing INR23 Cr to increase their capacities in Bangladesh by 25% (3.5 lakhs pic annually), which will increase the revenue by INR100 Cr. They are also planning to start their operation in Vietnam from this year onwards, which will add another INR100 Cr mileage in their revenue.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Net Sales	1023.74	1393.42	1524.19	1680.2	1835.9
Growth (%)	-78.21%	36.11%	9.38%	10.24%	9.27%
EBITDA	73.69	85.77	82.83	91.5	103.5
EBITDA Margin (%)	7.00%	6.00%	5.43%	5.45%	5.64%
Net Profit	24.31	36.54	34.89	40.5	45
Net Profit Margin (%)	2.00%	3.00%	2.29%	2.41%	2.45%
EPS (INR)	11.57	16.92	15.47	18.66	20.74
BVPS (INR)	143.6	156.29	171.29	191.01	211.01
P/E (x)	21.13	13.48	7.67	8.59	7.72
P/BV (x)	1.7	1.46	0.95	0.79	0.72
ROE (%)	5%	11%	9%	11%	12%
EV/EBITDA (x)	8.17	6.77	4.84	5.23	4.56

Source: Company Data, Ace Equity, Bloomberg

Company Overview

PGIL is a multinational ready to wear apparel manufacturing conglomerate. PGIL provides supply chain solu tions for the fashion industry globally along with warehousing and distribution networks in the UK and the US. They have a complete control on the entire value chain from design and development, manufacturing or sourcing till offering a range of pre-retailing services, warehousing and delivering at the door step on a call off (Call-off Order is an order created to cover multiple supplies or deliveries from a single company) basis. They have teams of international designers working in New York, Los Angeles, London, Hong Kong and India, who are constantly looking at the latest fashion trends, exchanging ideas and feeding design inputs to all their offices across the globe. They manage two brands Kool Hearts, DCC in the United States of America. The brand Kool Hearts focuses on the young fashion, whereas the focus of DCC is more towards Missy segment. The product range of the company includes Men's Wear, Women's Wear and Kids Wear. They have already ventured into e-retail through their own retail platform www.SbuyS.com. Their vision behind this is to provide internationally trending and fashionable garments to the Indian consumer at an attractive value.

Capacity breakup and utilizations

From India- Capacity 17 lakhs pcs (Utilisation-60%) (Realizations- $5-6). Since India is rich in cotton availability they produce 85% cotton women tops. Company is focusing to add new customers in markets like UK, Germany, Canada, Mexico, South Africa to increase utilization. Australia has opposite climatic condition compared to US during (Aug-Nov) which helps to utilize available capacity as US market experience a seasonal decline in sales during fall season (Aug-Nov).

From Bangladesh– Capacity 14 lakh pcs (Utilisation-75%) (Realization-$4-5). This unit mainly focuses on Men & Women Bottoms, and they are taking the advantage of lower wage cost which is considerably cheaper than India.

From Indonesia– Capacity 4 lakh pcs (Utilisation-55%) (Realization- $8-9). This unit mainly focuses on polyester based high end fine fabric and women's tops and bottoms. They are enjoying the benefit of cheap raw material from this unit.

From Vietnam– They have started their production from this year onwards and they are expecting a realization around $30-40, purpose of this unit to focus on winter wear for US market. Their Vietnam business is under JV with a German Individual where Pearl Global holds a stake of 80%.

Industry Outlook

The future of India's textile industry looks promising. This positive outlook is driven by improving revenue prospects from rebounding economic growth in key export destinations; and by stabilizing input costs and continuing favorable policies supporting our industry. The future for the domestic textile industry is also buoyant due to strong domestic consumption. With consumerism and disposable incomes on the rise, the textile sector is experiencing a rapid growth and we hope to surf forward on this positive wave. They are geographically well positioned to produce from the most cost-effective supply bases in Asia, keeping them highly competitive and relevant to their customers. Above all, They are expecting to maintain and step up their profitability from superior value-added products and meticulous management of their costs and processes.

Business Strategy

Their main market in the USA looks relative healthy with both employment and consumption on a steady rise. Simultaneously, they will maintain their steady penetration into other markets, allowing them to use their capacity in lean seasons and so gradually improve their ROI. They are geographically well positioned to produce from the most cost-effective supply bases in Asia, keeping them highly competitive and relevant to their customers. They have dedicated in-house design team of 75 plus designers in Hong Kong, India and Indonesia.

The design teams continuously observe the trends in all markets across the world and visit almost all the globally renowned fashion and textile fairs to refresh their inspiration for new design ideas.

Key Risks

High Bargaining Power:
The Overseas buyers are putting pressure on prices due to high competition in the market, thereby the margins may be under threat.

Changes in Labour Policy:
Garment manufacturing is largely and will remain a labour intensive industry, despite the introduction of greater automation. The obsolete and antiquated labour laws have hindered the growth of this labour intensive industry.

Labour Costs and Changing Prices of Raw materials:
The industry is generally facing rising labour wages and input costs of key raw materials such as cotton.

Lower duty drawback rate may hit textile exports:
The sharp reduction drawback rates announced by the government for textile and clothing products may slow down exports of these goods, according to the industry source. The drawback rate announced for garments is 2% as against 7.7% earlier. In the case of made-ups, it was 7.3% and has been reduced to 2% now.

Outlook And Valuation

Company has total 11 factories in India, 2 new factories were added in FY17 in Gurgaon & Chennai (Combined utilization-10%). They are waiting for approval of various potential clients and existing clients, which may increase their revenue by INR200 Cr. Currently company is investing INR23 Cr to increase capacities in Bangladesh by 25% (3.5 lakhs pcs annually), which will increase the revenue by INR100 Cr. They are planning for a CAPEX of INR13 Cr in Bangladesh in FY18. Their Online channel is used to sell products which are exports surplus, current sales from online segment INR1 Cr, and expected to INR10 Cr in next 3 years. Pearl Global has exposure to states of Tamil Na du, Karnataka, Gurgaon. The company hedges 80% of its expected sales for a period of 12 months (plain forward con tract), rest 20% is kept open. Management expects moderate performance in Indian business to continue for FY18 & FY19 till the time 2 new units get optimally utilized. By FY2020 will be better as CAPEX will be behind. It is expected that by FY2020 Sales will be INR2000 Cr, EBIDTA 10-11% & PAT-4%.

As per the current business strategy of this company and cost optimization through in house operation we are expecting a 20% YoY growth in EPS. We assign a PE of 10 to FY19E, deriving a price target of INR207.40. Also their current and projected P/BV (x) is less than 1 and they are trading near at their 52 week low. By considering all facts and figures we have assigned a **'Strong Buy'** rating for this stock.

CMP (INR) (As on 7th Nov. 2017)	236.45
Target (INR)	295
Upside(%)	24.76
Recommendation :	Strong BUY

BSE Code	500355
NSE Code	RALLIS
Reuters Ticker	RALL.BO
Bloomberg Ticker	RALI IN

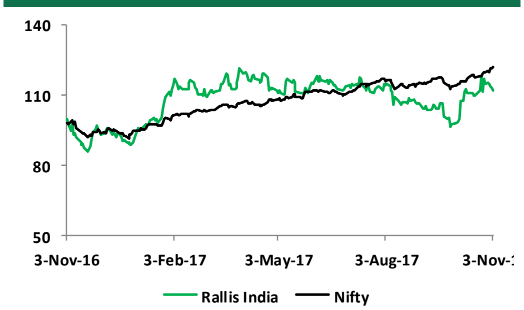
Stock Scan

Market cap (INR Cr.)	4598.95
Outstanding Shares (Cr.)	19.45
Face Value (INR)	1.00
Dividend Yield(%)	0.02
P/E (x)	33.06
Industry P/E (x)	22.12
Debt/Equity	0.04
Beta vs. Sensex	0.86
52 Week High/ Low (INR)	264.60/180.25
Avg. Daily Volume (NSE)	270689

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	50.09	50.09	50.09
Institutions	18.29	17.98	17.88
Non-Institution	31.61	31.92	31.61

Stock vs. Nifty



Research Analyst: *Mononita Mitra*

Email: *m.mitra@smifs.com*

Investment Rationale

Rallis launches new products at regular intervals:

The company makes a point to launch at least three products each year. Rallis benchmarks its performance through an internally defined parameter called Innovation turnover Index (ITI) which measures the contribution by new products introduced in the last four years to the revenue of the present year. This year however the innovation turnover ratio fell from 11% to 7% mainly due to exclusion of certain brands like Taffin and GeoGreen from the list of ITI and slower than expected performance of some newly launched products like Duton, Hunk and Origin. Recent launches are well accepted but are yet to draw large volumes. However with the help of healthy distribution network the company will regain traction in the domestic market.

Metahelix's performance is a key growth driver for the company:

Rallis is targeting to increase it's share of non pesticide business in total sales from current 31% in FY17 to 40% in FY18. The non pesticide portfolio comprises of seeds and agri services. Rallis is focusing on establishing its own seed brands in various segments of cotton, rice, maize, millet, wheat and mustard. During FY2016, the company increased its stake in Metahelix to 100%. The subsidiary reported 15 per cent growth in net sales and 55% growth in PAT in FY17 mainly from corn and millet. In FY17 the sales volume grew 35% over previous year. The company expects the sales from seed division to grow by 20% in FY18. It touched 3.5 million farmers through Product Differentiation Activities (PDA) & Pre–Season Activities (PSA). Metahelix commands a market size of 3% in the domestic seed market and going forward this segment would grow further.

Rallis is partnering with leading companies for contract manufacturing:

Rallis is partnering with leading companies in the business segments of crop protection chemicals, Specialty Chemicals, Polymers and Intermediates .They have been qualified for couple of new business in contract manufacturing. A capex of INR40-50 Crore has been allocated for the CRAMS facility at Dahej for which supplies will start soon. It is about to supply two molecules. Production of the first molecule started in Q1FY18. This would generate an incremental revenue of INR50 Crore with an estimated EBITDA margin of around 20 per cent in FY18.

(Rationale Continued)

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Net Sales	1814.58	1529.12	1678.31	1894.52	2171.71
Growth(%)	*3.89%*	*-15.73%*	*9.76%*	*12.88%*	*14.63%*
EBITDA	283.12	245.72	278.07	292.24	335
EBITDA Margin (%)	*15.60%*	*16.07%*	*16.57%*	*15.43%*	*15.43%*
Net Profit	159.8	147.09	297.07	182.71	208.34
Net Profit Margin (%)	*8.66%*	*9.38%*	*8.29%*	*9.64%*	*9.59%*
EPS (INR)	8.09	7.38	7.15	9.39	10.71
BVPS (INR)	41.88	45.68	57.14	66.53	77.24
P/E (x)	27.99	23.04	17.07	25.18	22.08
P/BV (x)	5.4	3.72	4.57	3.55	3.06
ROE (%)	*20.85*	*17.27*	*29.71*	14.11%	13.87%
EV/EBITDA (x)	15.96	13.78	18.37	18.33	17.12

Source: Company Data, Ace Equity, Bloomberg

Company's International Business doing good

Rallis has been able to hold its presence in International business. Brazil has recorded better start to the season with weak El Nino weather patterns and improvement in water availability. There was a double digit volume growth for Pendi and Metri in the EU as well in last fiscal . The company's international business division's performance was satisfactory showing a revenue growth of 10%. Ten new registrations were obtained during the year and the company commercialized three products in different geographies. During FY18 company expects registration approvals from 8-9 countries.

Debt free company with an abundance of cash

Rallis is a debt free company with good return ratios. Since March 2016 its long term loans and advances reduced to nil. In March 2017 its short term borrowings also came down to INR12.49Crore from INR34.21 Crores in September 2016. Total debt has now reduced to INR51.8 Crores from 89.7 Crores in FY16 and INR125.30 Crores in FY15. As a result of this the debt to equity ratio has been falling since FY15. Now it stands at 0.04. The total cash with the company increased from INR7.7 Crores in FY16 to INR9.8 Crores in the present financial year.

Company Overview

Rallis, a subsidiary of Tata Chemicals, is one of the leading agrochemical companies of India with a history of around 150 years. Its core business is crop protection. The company undertakes contract farming and helps farmers arrange finance for their inputs and a fair price for their harvest and also exports technical-grade pesticides, branded formulations and contract-manufactured products around the world. In the agro-chemical space, the company has ~7% market share domestically while in the seeds segment through its subsidiary i.e. Metahelix, it commands a market share of ~3%. With factories in five locations in India and a network of 1,500 distributors that reach more than 40,000 retail counters it has the largest agrochemicals capacity in the country.

Business Overview

- **Crop Protection:** In crop protection business they have both domestic as well as international presence. Their domestic product portfolio includes pesticides, seed treatment chemicals and other household products. Their range of insecticides, fungicides and herbicides has been designed keeping Indian crops in perspective. Rallis also continued to expand its international business .It exports to more than 70 countries. They mainly export technical grade pesticides and branded formulations.
- **Contract Manufacturing:** Rallis has partnered with leading companies to provide cost effective products from their state of the art manufacturing facility. Alliance with Dow Agro Science, Syngenta and Nihon Nohyaku helped the company introduce some of the world's best crop protection molecules .Rallis has also created a manufacturing plant at Dahej in Bharuch district of Gujarat to meet the commitments with these companies.
- **Seeds:** Metahelix Life Science, a wholly owned subsidiary of Rallis manufactures hybrid seeds for paddy, bajra and maize. It commands a market share of 3 per cent from domestic seed market. Presently the share of seeds and other non pesticide portfolio in total sales is 31 per cent and the company is aiming to increase it to 40 per cent by FY18. Revenues from seeds grew well over previous year.
- **Crop Nutrition:** Rallis has a range of specialist solutions which give the plants the micro nutrients and growth requirements for a healthy crop . Revenues from the plant growth nutrient grew 15% in FY17 over the previous year.
- **Agri Services:** Rallis also provides agri services to the farming community. Some of the important initiatives taken by Rallis to impart agri based knowledge from seed to harvest to farmers includes Rallis Kisan Kutumba , MoPu , Samrudh Krishi .

Industry Overview

India is the fourth largest producer of agrochemicals after USA, Japan, and China. The industry is likely to grow at 7.5% per annum from the current industry size of USD4.4 Billion in FY15 toUSD6.3 Billion by FY20. Approximately 50%of the demand comes from domestic consumers and the rest from exports. While the domestic demand is expected to grow at 6.5% per annum, exports are estimated to grow at 9% per annum during the same period, as per a report on Indian Agrochemical Industry published by FICCI in July, 2016. Approximately 25% of the global crops are lost due to pest attacks. Agrochemicals plays an important role in enhancing the productivities of crop post-harvest. Insecticides are the largest sub-segment of agrochemicals with 60% market share followed by herbicides with 16% market share.

Key Risks

- High Dependence on monsoon , unpredictable weather patterns, reduction in arable land, decreasing farm sizes, low per hectare yield are the main challenges faced by the sector.

- Dependency on global economy, business environment, fluctuation in currency, global logistics and socio-political environment have direct or indirect impact on the Agrochemicals Industry and can lead to disruption of business in specified products as most players source 25-30% of raw materials through imports.

- Agrochemical industry works under stringent regulatory environment, wherein chances of frequent changes in regulatory guidelines are very high. This could lead to delays in obtaining necessary approvals.

- The growing acceptance of genetically modified seeds will lower the use of agrochemicals which is why Rallis is targeting to increase its share of non pesticide business in total sales from current 31% in FY17 to 40% in FY18.

Outlook And Valuation

The Union Budget 2017-18 gave a push towards agricultural reforms mainly to heal the wounds caused by demonetization. Rural and agriculture sectors has been allocated INR1,87,223 Crore which is 24% higher than 2016-17's allocation. This year's budget also increased funding for crop allocation and set a higher target for farm credit. With all this the agricultural growth is expected to be 4.1% this year.

Moreover, Government as well as registration body are getting stricter over the period with tighter regulatory norms. This will auger well for the branded players in the long run. Molecules registered under manufacturing category are not granted certificates of registration for imports and those companies possessing certificates for manufacturing those molecules are not permitted for import category registration. This will however benefit those companies like Rallis who have backward integrated manufacturing capacity.

Rallis has a healthy distribution system which would help the company to capture the emerging opportunities in the market. Rallis has a domestic market share of around 7% for agrochemicals and is likely to improve going forward. The new contracts taken by the company will also drive export sales and reduce dependency on domestic markets. To accomplish that the plant at Dahej is working at full capacity and contributed immensely on the overall growth of the company. The seed segment also witnessed robust growth. It touched 3.5 million farmers through PDA & PSA activities. Moreover Rallis has been able to hold its presence in International business.

In such an optimistic situation, we expect the company to achieve a CAGR growth of 13.75% in net sales by FY19 and a PBT growth of 9.8%. Besides, the strong cash flow of the company will help the company sustain growth. We Initiate a BUY for a TP of 290 by assigning a P.E of 27xFY19E EPS.

Research & Development Strategies

Mr. Monal Desai
Sr. VP—Institutional Sales
monal.desai@smifs.co.in
+91 2242005555
Mobile: +91 9821137303

Mr. Ashiwini Kumar Tripathi
Director
aswin.tripathi@smifs.com
+91 33 30515415 / 40115415
Mobile: +91 9831155058

Mr. Shivaji Roy
Sr. VP – Retail Sales
shivaji.roy@smifs.co.in
+91 33 30515400/40115400
Mobile: +91 9830173200

Mr. Ajay Jaiswal
President: Strategies and Head Research
ajaiswal@smifs.com
+91 33 30515408 / 40115408
Mobile: +91 9836966900

Mr. Vishal Prabhakar
Sr. VP – PMS & PCG
vishal.prabhakar@smifs.com
+91 33 30515400 / 40115400
Mobile: +91 9831554477

Fundamental Research

Mr. Ajay Srivastava
Associate VP—Research
ajay.srivastava@smifs.co.in
+91 33 30515400

Mr. Saurabh Ginodia
Associate VP -- Research & Strategies
saurabh.ginodia@smifs.com
+91 33 30515407

Mr. Dipanjan Basuthakur
Research Analyst
dipanjan.basuthakur@smifs.com
+91 33 30515486

Ms. Sutapa Biswas
Research Analyst
Economy
sutapa.biswas@smifs.com
+91 9836020612

Mr. Aditya Jaiswal
Research Analyst
Aviation and Hospitality
aditya.jaiswal@smifs.com
+91 33 30515433 / 30515468

Mr. Pratim Roy
Research Analyst
Oil & Gas/Textiles
pratim.roy@smifs.co.in
+91 33 30515468

Ms. Mononita Mitra
Research Analyst
Agro & Agro Chemicals
m.mitra@smifs.com
+91 33 30515468

Mr. Harshit Mantri
Research Analyst
BFSI
harshit.mantri@smifs.com
+91 33 30515433 / 30515468

Mr. Kapil Joshi
Research Analyst
Infrastructure/Power
kapil.joshi@smifs.com
+91 33 30515468

Mr. Abhishek Roy
Research Analyst
FMCG/Retail
abhishek.roy@smifs.com
+91 33 30515468

Mr. Sarthak Mukherjee
Research Analyst
Logistics and Media - Broadcasting
sarthak.mukherjee@smifs.co.in
+91 33 30515468

Mr. Anupam Goswami
Research Analyst
Building Products/Capital Goods/
Construction Equipment
anupam.goswami@smifs.co.in
+91 33 30515433

Mr. Anmol Das
Research Analyst
Metals and Mining
anmol.das@smifs.co.in
+91 33 30515468

Mr. Debjit Maji
Research Analyst
IT-Telecom/Pharmaceuticals /
Auto & Auto Ancillary
debjit.maji@smifs.co.in
+91 33 30515468

Technical Research

Mr. Jaydeb Dey
Technical Analyst Equities
jaydeb.dey@smifs.com
+91 33 30515433

Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

Investor Relations and Data Support

Ms. Debjani Sen
Officer – Investor Relations
debjani.sen@smifs.com
+91 33 30515401

Ms. Sulagna Mukherjee
Executive – Customer Care
sulagna.mukherjee@smifs.com
+91 33 30515436

Mr. Deepankar Saha
Research Assistant
deepankar.saha@smifs.co.in
+91 33 30515468

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

Contact Details

REGISTERED OFFICE
Mr. Sandipan Chatterjee
Vaibhav, 4 Lee Road,
Kolkata 700020, India.
Phone: +91 33 30515400 / 40115400
Fax No: +91 9748899161

MUMBAI
Mr. Monal Desai
Office No. 5G, New Marine Lines, Court Chamber, Mumbai - 400 020, Maharashtra, India
Phone: +91-9821137303

NEW DELHI
Mr. Taj Mohammad
6th Floor, 654, Aggarwal Metro Heights, Netaji Subhash Place, Pitampura, New Delhi – 110034, India.
Phone: +91 9818754786

BANGALORE
Mr. S. Srikanth
No.153, 2nd Floor, Sheela Arcade, 7th Block Koramangala, (Opp.—Sai Baba Mandir) Bangalore - 560095, India.
Phone: +91 9845020017

CHENNAI
Mr. K.K.Raja Gopalan
New No.4/2, Bajaj Apartments, Seethamal Colony, 1st Cross Corner, Alwarpet, Chennai – 600018, India.
Phone: +91 9383931590

LUCKNOW
Mr. Ashish Verma
6 Park Road, UGF 4, Hazratganj, Lucknow - 226001, Uttar Pradesh, India.
Phone: +91 9870398545

BHUBANESHWAR
Mr. Jaydeep Pattanayak
Plot No. 15-B, Bapuji Nagar, Unit-I, Ashok Nagar, Bhubaneswar - 751009, Odissa, India.
Phone: +91 9583099025

PATNA
Mr. Ram Singh
606/A, Ashiana Plaza, Budha Marg, Patna – 800001, Bihar, India.
Phone: +91 9570507409

KANPUR
Mr. Amit Kumar Gupta
Office No.212 - 213, 2nd Floor, KAN Chamber, Adjacent to UP Stock Exchange, 14/113, Civil Lines, Kanpur - 208001, Uttar Pradesh, India.
Phone: +91 9151104767

DHANBAD
Mr. Vinay Kumar Singh
Room No. 308, 3rd Floor, Shriram Plaza Bank More, Dhanbad - 826001, Jharkhand, India.
Phone: +91 9835351951

BALASORE
Mr. Jyoti Bhusan Das
Plot No. 891/1632, Bhaskarganj – A, Station Chhak, Municipality Holding No. 648 (32), Balasore – 756001, Odissa. India.
Phone: +91 9776265566

LYONS RANGE
Mr. Deepak Gupta
7, Lyons Range, CSEA Building, 3rd Floor, Kolkata - 700001, India.
Phone: +91 9674793553

NOIDA
Mr. Prakash Srivastava
1st, Floor, Wave Silver Tower, Sector-18, Noida - 201301, Uttar Pradesh, India.
Phone: +91 9910497783

PATHANKOT
Ms. Anuradha Marwaha
SCO G - 69, Netaji Market, Opp. Hindu Co.op. Bank, Dalhousie Road, Pathankot - 145001, Punjab, India.
Phone: 0186 - 2222201/ 2222205

MANALI
Mr. Sachin Jolly
Village & Post Office - Bahang, Tehsil Manali, Rohtang Pass Road, District - Kullu, Pin - 175103, Himachal Pradesh, India
Phone: +91 9816036136

PORT BLAIR
Mr. Gulam Hassan
24, S.J.Lane, 8/3, Sahajeevan Housing, Co-operative, P.O. Haddo, Port Blair 744102, India.
Phone: 233-175 Mobile No. 9932081381/9933236406

Members: NSE | BSE | MCX | NCDEX | NSDL | CDSL | Repository

(For Disclosures and Disclaimers please follow the page below)

STEWART & MACKERTICH
LEGACY | TRUST | GROWTH

Disclaimer

Any document, including this report, which is prepared by the research team of Stewart & Mackertich Wealth Management Ltd. (SMIFS) is circulated for the purpose of information only to the intended recipient and should not be replicated or quoted or circulated to any person/corporate or legal entities in any form. This document/ documents/ reports/ opinion should not be interpreted as an Investment/ taxation/ legal advice. While the information contained in the report has been procured in good faith, from sources considered/ believed to be reliable, all/ part of the statement/ statements/ opinion/ opinions/ view/ views in the report may not be considered to be complete or accurate. Therefore, it should only be relied upon at the recipients own risk.

Research Analysts/ Economists/ Advisors/ Investment Strategists or any other spokes persons of the company (SMIFS) are often sought after for expressing their views on print/ electronic/ web media. The views expressed are purely based on their assumption/ understanding on fundamental approach/ technical and historic facts on the subject. The views expressed should not be construed as an offer to buy/ sell or hold equity/ commodity/ currencies or their derivatives. The views/ opinions expressed is for information purpose only, and may change due to underlying factors, related or unrelated or other market conditions and may or may not be updated.

Stewart & Mackertich Wealth Management Ltd, its subsidiaries, or any of its directors, employees, agents, and representatives shall not be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information/ research reports/ opinions expressed.

Disclosure: Clients/ associates of SMIFS Group may be holding positions in equities or their derivatives on which the research report is made or opinion is formed or views are expressed in print or electronic media. We ensure all compliance is adhered to with this report/ reports/ opinion or views expressed.

Analyst ownership of the stock – NIL
Analyst's dependent relatives' ownership in the stock – NIL

Analyst Certification: *The matter related to the report has been taken from sources believed reliable and the views expressed about the subject or issues in this report accurately reflect the personal views of the analyst/ analysts. Stewart & Mackertich Wealth Management Ltd. does not compensate partly or in full, directly or indirectly, related to specific recommendations or views expressed by the research analysts/ market strategists/ Portfolio Managers.*

REGISTRATION as required under SEBI (Research Analyst) Regulation 2014 has been granted by Securities & Exchange Board of India (SEBI), registration number being INH300001474.

Stewart & Mackertich Wealth Management Ltd.
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Tel.: +91 33 3051 5408 /, Fax: 91 33 22893401

Website: www.smifs.com

For queries related to compliance of the report, please contact:
- Sudipto Datta, Compliance Officer
Contact No.: +91 33 30515414 / 4011 5414
Email Id.: compliance@smifs.com / sudipta@smifs.com