

Rallis India Ltd | Trading BUY

05th July, 2018

Key Rationale

- The new launches Odis, Cenator and Pulito have registered good growth in 2017-18 and will be key drivers of growth going forward. The company's performance in the International business continues to be better than last year due to improving situation in key markets such as Brazil and strong demand for herbicides.
- Brazil situation is improving, showing a positive impact however Chinese competition continues to impact margins in Acephate. Herbicides sales continue with good season leading to demand in EU. Fungicides continued to grow due to good season in Vietnam.
- Rallis Samrudh Krishi ® (RSK) is the company's solution based approach to create value for farmers by enhancing productivity through end-to-end Agri solutions has been scaled up to touch 91 lakh farmers during the year.
- Margins should see recovery every quarter on QoQ basis going forward in FY-19. The company imports around 40% of its total raw material from China. Due to supply side constraint in China, the landed costs of these raw materials have increased substantially in past 2 quarters.
- The Company has plans to invest in backward integration so as to manufacture some of these intermediates and reduce the import dependency.
- The company has fully commissioned the Dahej plant and the new contract manufacturing order which is secured last year will be executed in FY-19.
- The company also took some price increases in April 18 which should help in easing the margin pressure. Metahelix has seen around 7-8% growth in net sales. The company has now increased its presence in various seeds. The company expects Metahelix to breakeven in FY 19.
- Going forward growth drivers will be digital led RSK + seeds + contract manufacturing.

Accumulate between(Rs)	180-190
Target (Rs)	225
Target (%)	22%
Stop Loss (Rs)	167
Time Horizon	6-9 mnths

Key Data	
NSE Code	RALLIS
52-week range (H/L)	290 / 183
30-day avg. volume	242,212
Market Cap (Rs. crs)	3642
No. of shares (crs)	19.45
Face Value	1
Book Value (cons.)	61.22
EPS (FY-18)	8.62
P/E (x)	22.49
Sales (Rs. crs)	1808.46
Net Profit (Rs. crs)	167.02
EBITDA (Rs. crs)	279.94
ROE (%)	14.02
Div. Yield (%)	1.44

Price Performance (%)	1M	3M	1Yr
Absolute	-7.5	-18.2	-23
Rel. to Nifty	1.65	4.3	11.7

Shareholding Pattern (Mar-18)	
Promoters	50.09%
FII's	3.90%
DII's	18.37%
Govt.	0.41%
Public & Other	27.23%

Valuation

We expect the company to report a revenue growth of 8% for FY19. The PAT is expected to be 175 crores the EPS for FY19 works out to Rs. 9 which when discounted 25 times, translates into a target price of Rs. 225 implying an upside of 21% from entry of Rs185.

Technical Analysis



Rallis India is in its seventh month of corrective decline from the peak of Rs.290 in Dec-17. A look at the monthly chart appended, shows the stock has been in a long-term uptrend making higher yearly highs. A trend line emerging from 2013 low – 2016 low is likely to act as a very strong support at Rs180. While we are the beginning of a new month, the monthly candlestick is exhibiting a 'long-legged doji' candlestick, which after a steep decline is an efficient reversal pattern. A volume signature in this recent fall has been on the lower side signaling a weak correction.



Moving down onto lower degree time frame, the daily chart exhibits an Elliott Wave 'leading diagonal' pattern from the start of the rally from Rs142 upto Rs290 and is now undergoing an a-b-c corrective wave 'B' that has reached its equality target and is ready for a bullish reversal. Momentum oscillator RSI is recovering from an oversold territory and barring a test of the previous major swing low of Rs180, the momentum on weekly RSI too will be near oversold levels. Considering the low downside risk based on charts, it is recommended to accumulate the stock for a sustainable recovery over the medium term.

Analysts

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