Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 502**	
Price Target: **Rs. 632**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

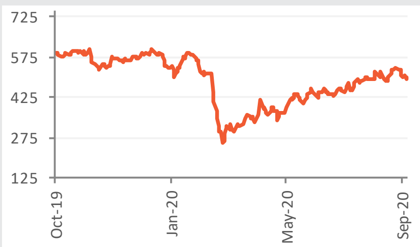
Company details

Market cap:	Rs. 38,378 cr
52-week high/low:	Rs. 618 / 240
NSE volume: (No of shares)	62.2 lakh
BSE code:	512070
NSE code:	UPL
Free float: (No of shares)	55.10 cr

Shareholding (%)

Promoters	28
FII	41
DII	13
Others	19

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1	12	64	-16
Relative to Sensex	1	5	29	-15

Sharekhan Research, Bloomberg

Stock Update

UPL Limited

Robust product pipeline to drive growth; Debt reduction key to re-rating

Agri Chem	Sharekhan code: UPL	Company Update

Summary

- We maintain our Buy rating on UPL with a revised PT of Rs. 632 (higher PE multiple of 13x and rollover of target multiple to FY23E EPS). Improving earnings outlook and balance sheet deleveraging to be key rating catalyst.
- Management expects sustainable 7-8% revenue growth, backed by focus to increase share of BioSolutions and product innovation. Long-term EBITDA margin guidance of 24-25% (vs. 19% in FY2020) led by high-margin products and cost synergies.
- Q2FY2021 to witness improved revenue growth from Latin America, healthy growth in India, and flat revenue trend in Europe and the US. Reiterated FY2021 revenue/ EBITDA growth guidance of 6-8%/10-12%.
- Expect FCF generation of Rs. 12,584 crore over FY21E-FY23E (led by 16% PAT CAGR and efficient WC cycle) to reduce net debt/EBITDA to 1.8x by FY23E vs. 3.2x in FY20.

We recently interacted with the management of UPL Limited (UPL) to get an update on its business outlook. Management commentary was positive with respect to sustainable 7-8% growth in revenue (much higher than industry growth 2-3%), given: 1) UPL's focus to increase share of fast growing (15-18% growth annually) BioSolutions portfolio to 20% (from 5% currently) over the next couple of years; and 2) product innovation to lead to market share gain (for example UPL's Glufosinate product offers significant growth opportunity as it could substitute banned Dicamba glyphosate in the US). Management expects EBITDA margin to reach 24-25% (from 17-19% over FY2019-FY2020) with potential rise in share of high-margin products (BioSolutions product margin at 40%) and cost synergies. Moreover, Q2FY2021 would witness improved revenue growth from Latin America, healthy growth in India, and flat revenue trend in Europe and the US. Management indicated that there is scope to further reduce working capital (WC) cycle by 4-5 days (from WC cycle of 84 days in Q1FY2021) and this coupled with expectation of PAT CAGR of 16% over FY2020-FY2023E would help generate cumulative FCF of Rs. 12,584 crore over FY2021E-FY2023E and drive balance sheet deleveraging (expect net debt/EBITDA reduce to 1.8x FY2023E versus 3.2x in FY2020). Hence, we maintain our Buy rating on UPL with a revised price target (PT) of Rs. 632.

Focus on BioSolutions portfolio and product innovations to drive 7% revenue CAGR over FY2020-FY2023E; LT EBITDA margin guidance of 24-25%: UPL's management is focused on increasing the share of revenue from high-margin BioSolutions to 20% (from only 5% currently) over the next few years and enhance its product offering (38 new active ingredients in early stage and 14 in late stage of development, with a potential sales value of US$1 billion–1.5 billion for the next five to eight years). This is expected to drive 7% revenue CAGR over FY2020-FY2023E, much higher than the agrochemical industry's growth rate of 2-3%. On the margin front, management has guided that current product portfolio has the potential to deliver 24-25% EBITDA margin (versus 17-19% over FY2019-FY2020), given the likely increase in share of high-margin products such as ProNutiva (BioSolutions has 40% margin versus 20% for conventional crop protection products), likely better performance in Europe and US (high-margin regions), and cost synergies of $200 million from acquisition of Arysta over the three-year period. For Q2FY2021, management has guided for pick-up in revenue growth from Latin America region as some portion of revenue lost in Q1FY2021 would be reflected in Q2FY2021. North America and Europe are expected to witness flat growth in Q2FY2021, while growth in India is expected to remain healthy in Q2FY2021.

Our Call

Valuation - Maintain Buy on UPL with a revised PT of Rs. 632: We have largely maintained our FY2021 and FY2022 earnings estimates and have introduced our FY2023 earnings estimate in this report. Improving earnings outlook (expect PAT CAGR of 16% over FY2020-FY2023E; RoE of 16-17%) and focus on balance sheet deleveraging would act as key re-rating catalyst for UPL. Moreover, management's target of net debt to equity of 2x by March 2021 (versus our expectation of 2.7x) seems ambitious, but success on the same could accelerate re-rating of UPL as concerns over debt would recede earlier than street expectations. We maintain our Buy rating on UPL with a revised PT of Rs. 632 [increased to reflect higher valuation multiple of 13x (in-line with historical average one-year forward PE of 13x) and roll over of target multiple to FY2023E EPS]. At the CMP, the stock is trading at 11.3x its FY2022E EPS and 10.3 FY2023E its EPS.

Key Risks

Slowdown in the global agrochemical industry and delay in flow of benefits from Arysta's integration might impact performance. Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	21,837	35,756	38,080	41,127	43,800
OPM (%)	17.5	18.9	20.0	21.1	21.9
Adjusted PAT	1,942	2,399	2,879	3,387	3,719
% YoY growth	*(6.9)*	*23.5*	*20.0*	*17.6*	*9.8*
Adjusted EPS (Rs.)	25.4	31.4	37.6	44.3	48.6
P/E (x)	19.8	16.0	13.3	11.3	10.3
P/BV (x)	2.6	2.4	2.1	1.8	1.6
EV/EBITDA (x)	16.9	8.9	7.7	6.6	5.8
RoCE (%)	9.7	9.3	10.3	11.9	12.6
RoNW (%)	16.3	15.5	16.6	17.2	16.4

Arysta's financials included in FY2019 numbers since February 1, 2019; hence, they are not comparable
Source: Company; Sharekhan estimates

We interacted with IR head of UPL. Following are the key takeaways.

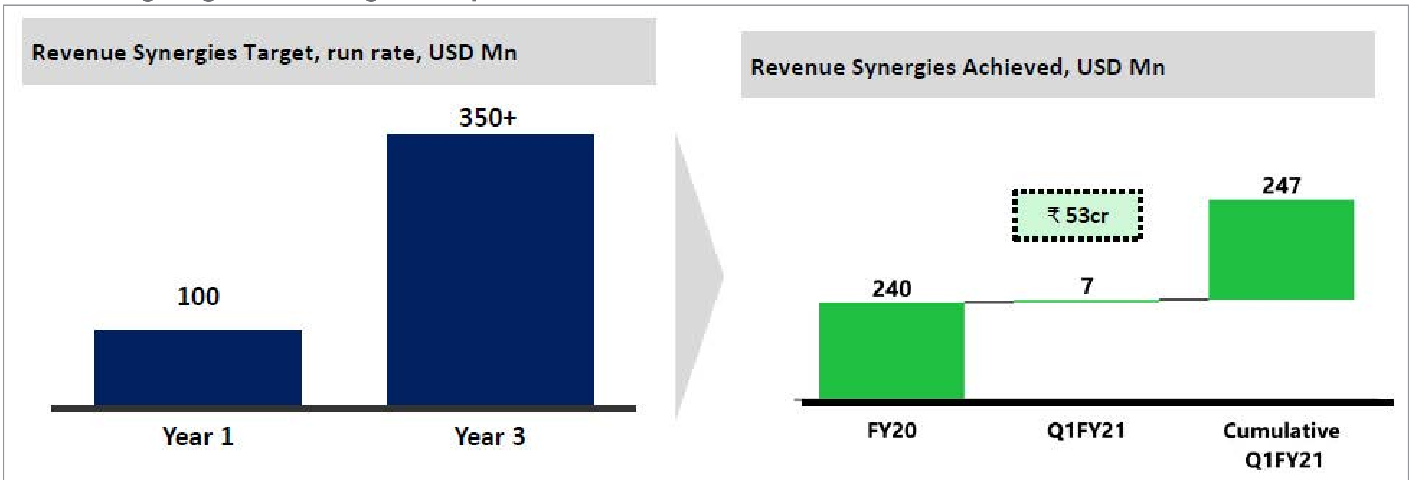
Focus on BioSolutions portfolio and product innovations – Revenue to grow at 7-8%, well above the industry's growth rate of 2-3%

BioSolutions' global market size is estimated at ~$6 billion and is expected to grow at 15-18% annually (versus only 2-3% growth for agrochemical industry). The acquisition of Arysta has provided UPL access to BioSolutions space and the company intends to build on products such as ProNutiva crop packages for accelerated growth. Thus, UPL is focused on increasing the share of BioSolutions in overall revenue to 20% in the coming years as compared to only 5% currently. The company is aggressively pushing for products with crop chemicals and BioSolutions, as the same would improve farm yield and productivity. Furthermore, management believes its Glufosinate product (top five products of UPL) provides significant growth opportunity in the US, as it is a substitute for Dicamba glyphosate (usage banned in the US). UPL has set a target of $350 million in revenue synergies from acquisition of Arysta over a three-year period. The progress on synergies is progressing well and is on track to be achieved as per management's target. Until Q1FY2021, UPL on cumulative basis has achieved revenue synergies of $247 million (much ahead than year one target of $100 million).

UPL has launched OpenAg initiative (an open agriculture network that feeds sustainable growth for all) and a research and development centre in North Carolina (US) to build a portfolio of innovative farming products and solutions. For example, the company is planning to connect food companies to farmers and act as a mediator to know about sustainable requirement of food companies and develop argi products/solutions for farmers. For example, development of differentiated products and solutions for cultivation of potatoes, which could be used by food companies to produce potato chips with limited risk of farm produce getting spoiled over a longer period.

We highlight here that UPL has 38 new active ingredients in early stage and 14 in late stage of development, with a potential sales value of US$1 billion–1.5 billion for the next five to eight years. Additionally, reconfiguration and differentiating existing off-patent active ingredient, creating new mixtures and formulations, could also yield $2 billion–2.5 billion in the same time frame. Large geographical presence (#4 position in Brazil and #1 in Mexico and Colombia) and strong product offerings would help UPL to witness revenue CAGR of 7% over FY2021E-FY2023E, which is much higher than the global agrochemical industry's growth rate of only 2-3%.

Revenue synergies from Arysta acquisition



Source: Company

Propriety pipeline (38 new active ingredients in early stage and 14 new active ingredients of development)

Exploit our capital efficient OpenInnovation R&D platform to claim top share of proprietary chemical market

Established UPL Proprietary AIs

- Clethodim
- Amicarbazone
- Fluoxastrobin
- Bifenazate
- Flucarbazone
- Carboxin

Potential for New UPL Proprietary AIs

# of AIs in the Pipeline	Early Stage	Late Stage
Herbicides	5	1
Insecticides	10	3
Fungicides	15	7
BioStimulants	4	2
Seed Treatments	4	1
Total	**38**	**14**

Peak sales value of UPL's Proprietary pipeline accounts for US$ 1,000 to 1,500 Mill. with projects reaching sales maturity progressively in 5 to 8 years

- UPL managed to create one of the leading R&D pipelines in the industry
- Strong R&D team led by Adrian Percy as CTO (ex Head R&D Bayer Crop Science)
- Legacy Arysta research capabilities are strongly complementary to UPL's formulation development expertise
- Proprietary pipeline includes:
  - 38 new active ingredients in early stage (thereof 10 New MOAs, 8 Biologicals)
  - 14 new active ingredients in late stage (thereof 1 New MOA, 1 Biological)

Source: Company

Post patent AIs include (15 future off patent active ingredients and new formulations of 76 active ingredients already in UPL's portfolio)

Dominate the growing post-patent market through differentiation and best-in-class cost efficiency

Established UPL Post Patent AIs

- Glufosinate
- Azoxystrobin
- Mancozeb
- Cypermethrin
- Metribuzin
- Sulfentrazone
- Pendimethalin

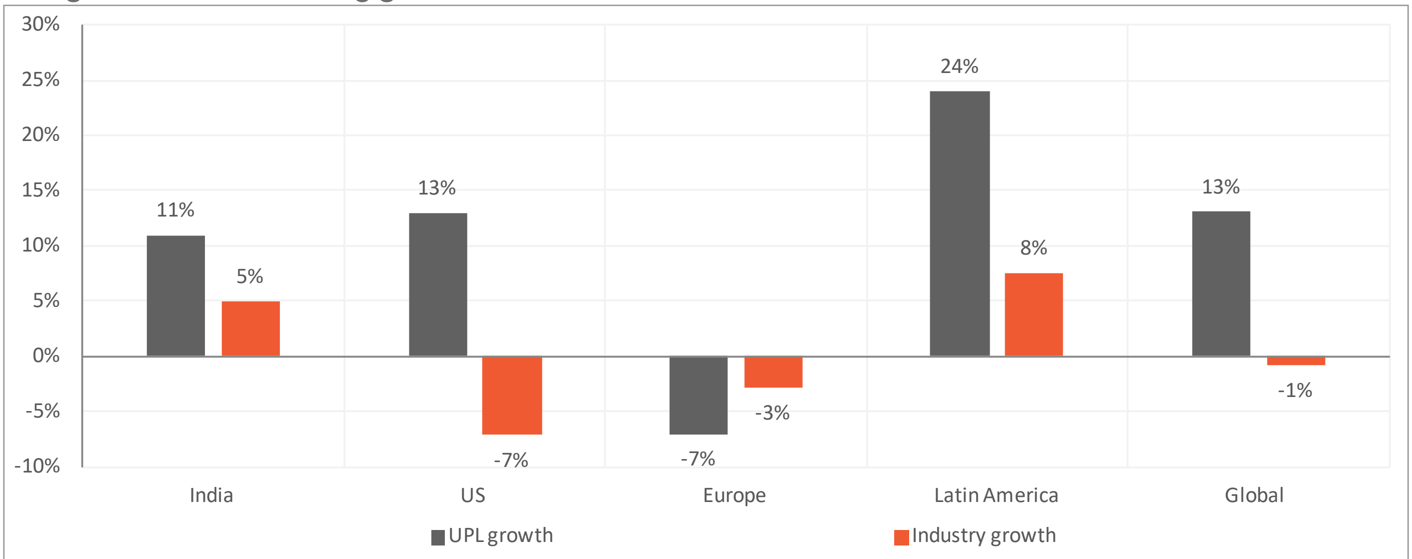
Potential for New UPL Post Patent Ais*

Peak sales value of UPL's Post Patent pipeline accounts for US$ 2,000 to 2,500 Mill. with projects reaching sales maturity progressively in 5 to 8 years

- UPL is well positioned to capture significant share of this growing market
- Backwards integration, scale and SG&A efficiency ensures necessary competitiveness to lead
- Through our R&D platform we create differentiation and generate IP with new unique formulations and mixtures
- Post-patent pipeline includes:
  - 15 future off-patent active ingredients
  - new formulations for 76 active ingredients already in our portfolio

Source: Company

UPL growth versus industry growth in FY2020



Source: Company

Q2FY2020 outlook – Latin America to recover sharply; India to post decent growth; North America and Europe to remain flat

Latin America – Management has guided for pick up in revenue growth from Latin America region in Q2FY2021 as demand is witnessing recovery (since July 2020) and some portion of revenue lost in Q1FY2021 (due to deferment of purchase decisions by farmers amid fluctuations in local currency) would be reflected in Q2FY2021. Moreover, new product launches would also drive revenue growth from the region. Management indicated that price hike in Latin America would be a continuous process with key monitoring of depreciation in Brazilian currency.

North America and Europe – Both the regions are expected to witness flat growth in Q2FY2021. Agronomic conditions remain good in both US and Europe and growth is expected to pick up over Q3FY2021-Q4FY2021.

India – Revenue growth in India is expected to remain healthy in Q2FY2021, but the pace of growth would slow down (27% y-o-y growth in Q1FY2020) due to excess monsoon in the country.

Regions wise highlights for FY2020 and management outlook for FY2021E

Regions	Revenue growth in FY20	Share in revenues in FY20	FY20 performance highlights	Management guidance for FY2021E
India	11%	11%	Average production from Kharif followed by abundant Rabi crops	Rural economy not much impacted by the pandemic and expectation of normal monsoons is a positive for agri inputs
			Growth was driven by strong performance in cotton under both insecticides and herbicides categories	Herbicides and fungicides are expected to lead industry growth
			A strong show in wheat herbicides and grape fungicide	Leveraging high levels of vertical integration and low dependence on imports
				High growth in biologicals and seed treatment products along with continued success of ProNutiva® crop packages
Latin America	24%	38%	Achieved #4 position in Brazil and #1 in Mexico and Colombia	Outlook remains stable for key Latin American regions such as Mexico, Central America, Colombia, and Southern Cone where there is no extended lockdown.
			Sales were driven by complete portfolios in soy, corn, sugar cane, and cotton	Stable domestic markets but exports might get impacted
			After integration of Arysta, higher wallet share was acquired from customers and 30+ products were launched	Focus to push strong BioSolutions portfolio
			Completed the acquisition and integration of Bioquim in Central America	Launching innovative products and deepening R&D focus (investments in Mexico facilities for supporting global research and LATAM necessities)
Europe	-7%	15%	Dry/hot weather conditions in Western European Union and Eurasian Economic Union affected crop yields	Early spring in Q4 showing signs of market recovery in FY2021 season
			Excellent growth with BioSolutions portfolio and ProNutiva® programmes	Continuous launch of new innovations from R&D pipeline for Europe
			Achieved high share of herbicides, while share of fungicide was impacted by dry weather	Increasing proximity to customers and organisational efficiency with a leaner organisational structure in Europe
North America	13%	16%	Strong growth in a declining market led by market share growth in major product lines	Early signs indicate good weather, which is expected to have a positive impact on acreages and on application of pre-plant and pre-emergence herbicides
			Strong growth in Canada guided by integrated portfolio synergies	Gaining market share with herbicides
			Positive impact of additional tariffs on Chinese imported goods on Clethodim sales	Biostimulants with the introduction of newest technology GoActivMAX across key channel partners will result in growth wallet share
				Seed treatment custom blending capability has been established in key geographies to support blends for soybeans, wheat, cotton, potatoes, sorghum, and peanuts

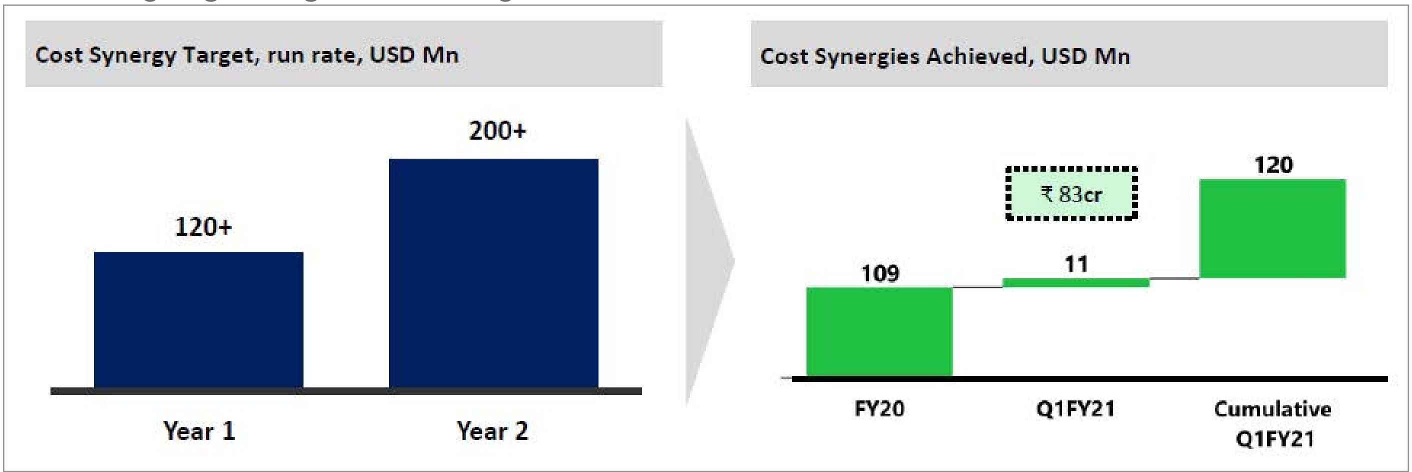
Rest of World (RoW)	12%	20%	Leveraged synergies in Japan driven by broader customer base and J-maker partnerships	Expect COVID-19 to negatively impact few crops such as flowers in East Africa and cotton in Western and Central Africa due to a drop in global demand
			Solid market development in South East Asia driven by rainfall return and fusion synergies	Focus to build on ProNutiva strategy should help growth in bio-solutions business given expectation of normal climate year in Southern and Eastern Africa. To start bio-solution development programme for Australia.
			Laoting Yoloo's strategic acquisition closed in China	Expansion of herbicide business in South East Asia through branding and demand generation
			Strong margin growth due to sales growth and improved COGS of in-house products in AMEANZ	Expanding and leveraging the Laoting Yoloo's portfolio in Asia
			Africa and drought/wildfires in Australia with some late recovery in the season	Sharpening the value proposition of ProNutiva concepts in Asia to drive BioSolutions
			Achieved the synergy targets set for AMEANZ region	

Source: UPL FY2020 Annual Report; Sharekhan Research; Note - AMEANZ region: Africa, Middle East, Australia and New Zealand

Margin has potential to improve to 24-25% versus 17-19% seen over FY2019-FY2020

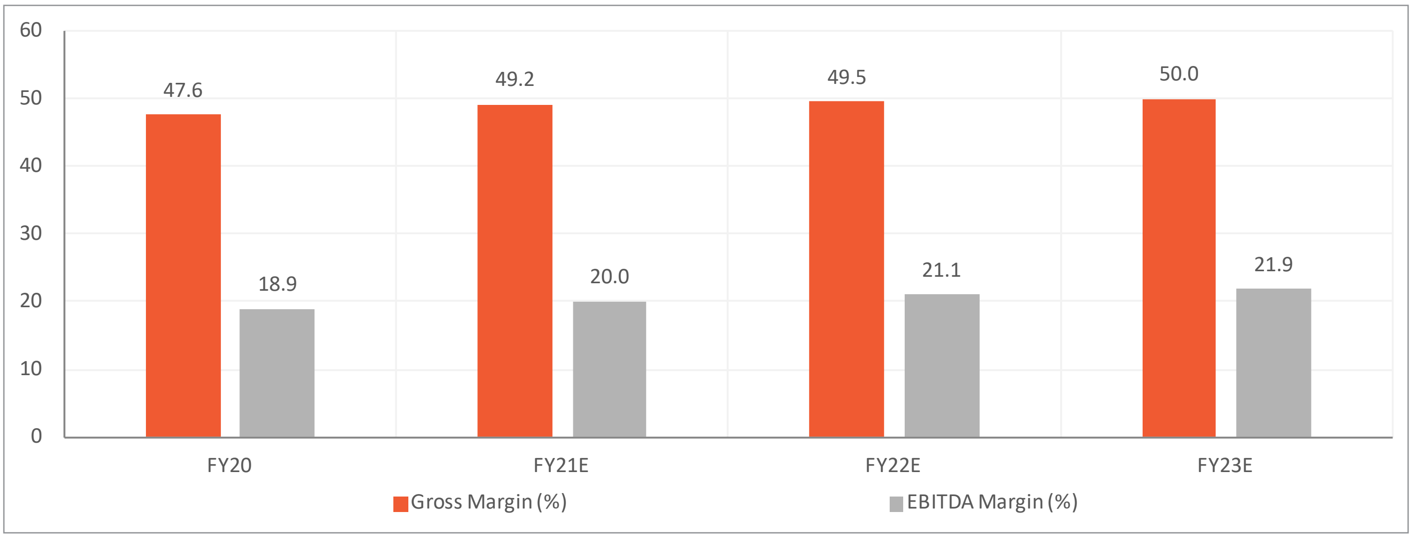
Management has guided that EBITDA margin has the potential to reach 24-25% as compared to 17-19% over FY2019-FY2020. The key levers for margin improvement would be rise in revenue share of high-margin products/solutions such as ProNutiva (BioSolutions), which have double the margin at 40% when compared to traditional crop protection products. Additionally, management expects better performance from high margin regions like Europe (witnessed decline of 7% in FY2020) and US, given improved weather conditions. Additionally, UPL has set target of $200 million in cost synergies from the acquisition of Arysta over the three-year period. The progress on synergies is progressing well and is on track to be achieved as per management's target. Until Q1FY2021, UPL on cumulative basis has achieved cost synergies of $120 million (in-line with year one target of $120 million). Moreover, the company is focused on improving efficiencies given reduction in redundant functions. Thus, we factor improvement in EBITDA margin by 291 bps over FY2020-FY2023E and expect EBITDA margin to reach 22% level by FY2023E (which is lower than management's long term margin target of 24-25%).

UPL cost synergies target over three years



Source: UPL

Margin expected to improve by 291 bps over FY2020-FY2023E and reach ~22% by FY2023E



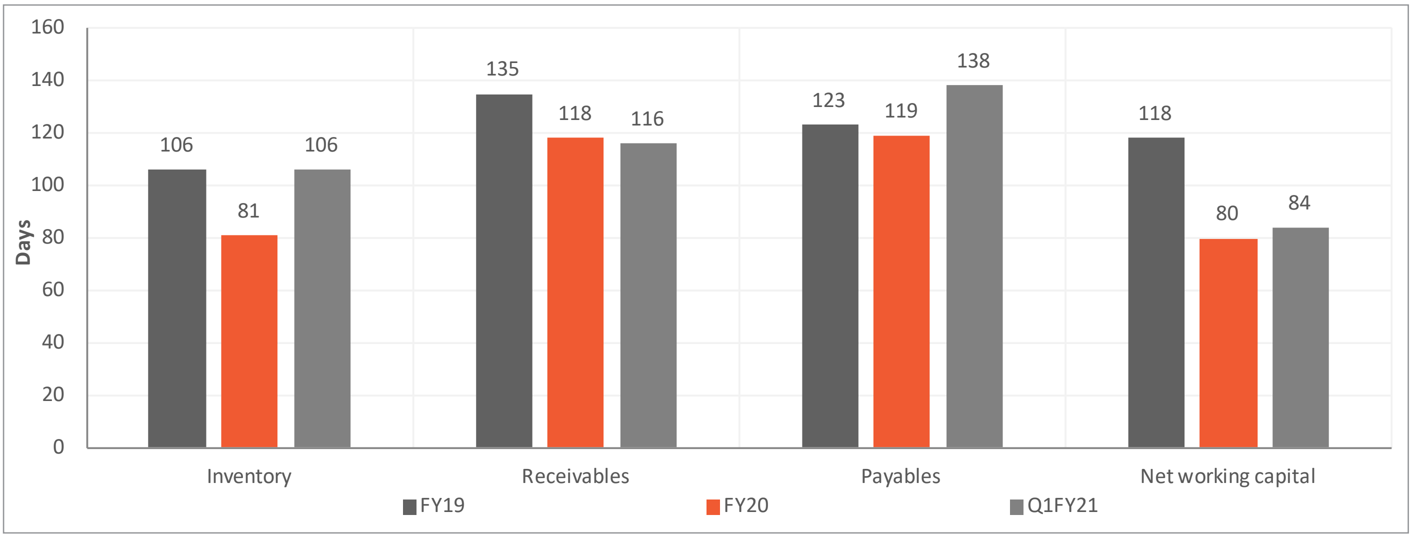
Source: company, Sharekhan Research

Improvement in cash conversion cycle to improve FCF; Net debt/EBITDA target of 2x by FY2021E

UPL's focus to reduce working capital requirement through reduction in inventory debtor's days has improved cash conversion cycle by 38 days in FY2020. This has released close to Rs. 3,050 crore stuck in working capital in FY2020. This coupled with strong EBITDA growth of 78% y-o-y to Rs. 6,773 crore led to operating cash flow of Rs. 8,739 crore (versus only Rs. 2,356 crore in FY2019). FCF generation was also strong at Rs. 5,998 crore, given limited capex of Rs. 2,741 crore in FY2020.

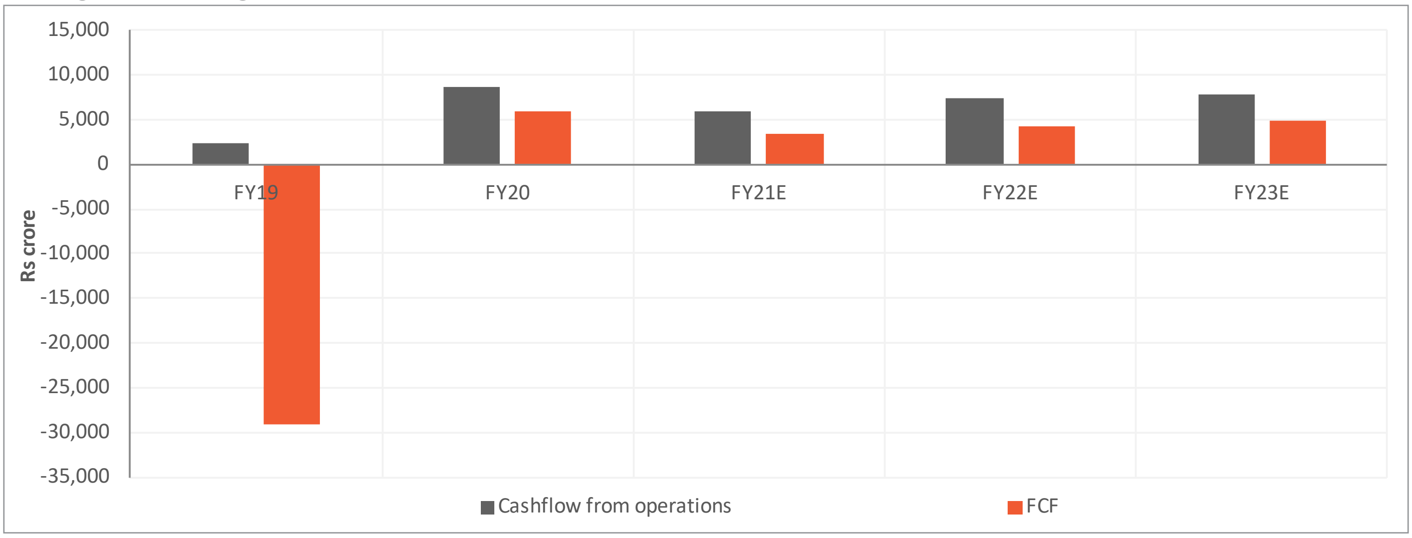
Management is focused to further reduce working capital days by 4-5 days, which would further release ~Rs. 900 crore-950 crore stuck in working capital. This coupled with EBITDA CAGR of 12% over FY2020-FY2023E would drive robust FCF generation of Rs. 12,584 crore over FY2021E-FY2023E and help reduce net debt (Rs. 22,000 crore net debt as of June 2020). Moreover, management has guided to reduce net debt/EBITDA to 2x by FY2021E as compared to 3.2x as of March 2020.

Sharp improvement in net working capital by 38 days and scope for further improvement by 4-5 days



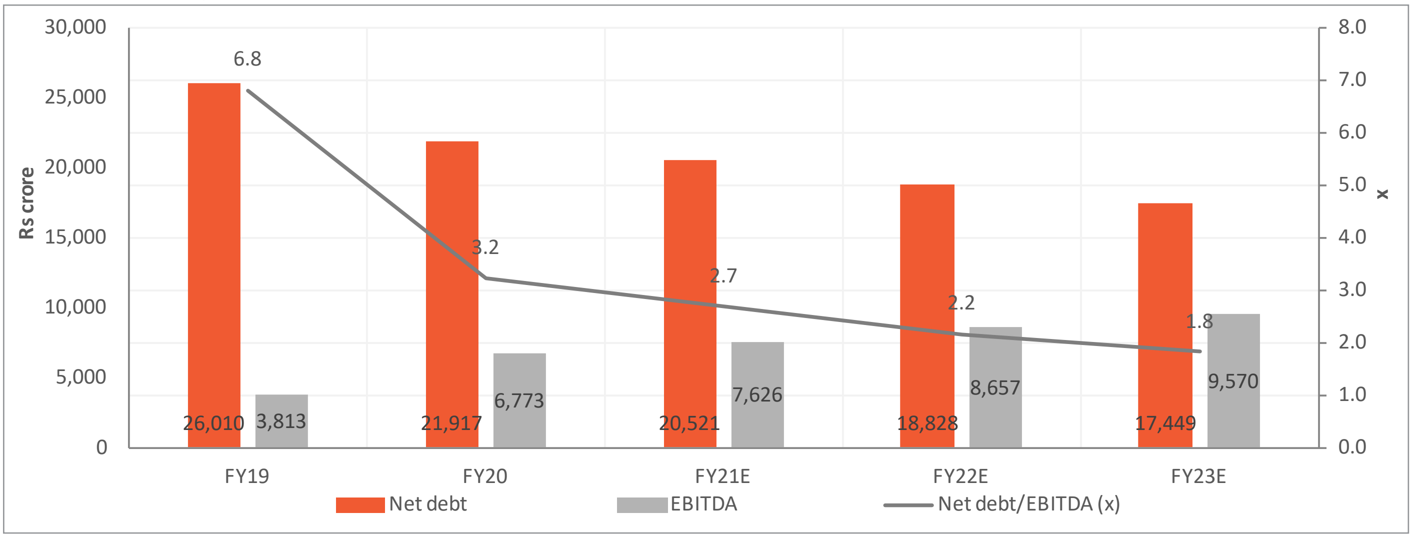
Source: Company

Strong cash flow generation over FY2020-FY2023E



Source: Company; Sharekhan Research

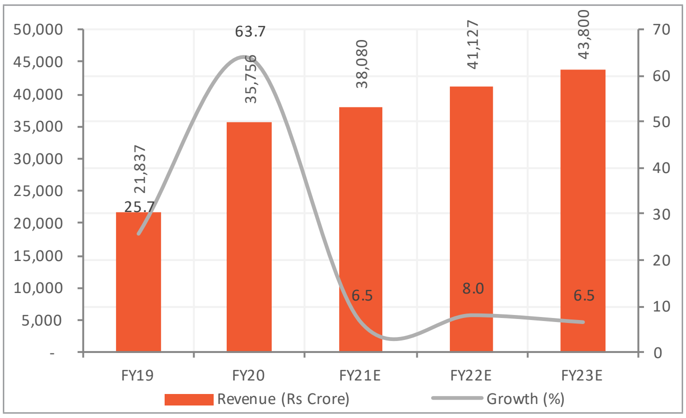
Net debt/equity expected to decline to 1.8x by FY2023E versus 3.2x FY2020



Source: Company; Sharekhan Research

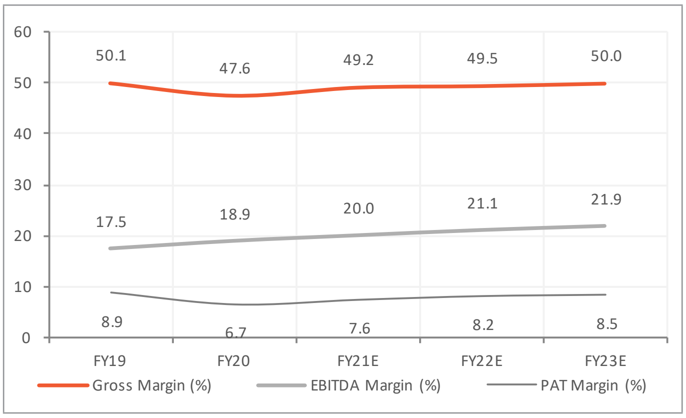
Financials in charts

Revenue to report 7% CAGR over FY2020-FY2023E



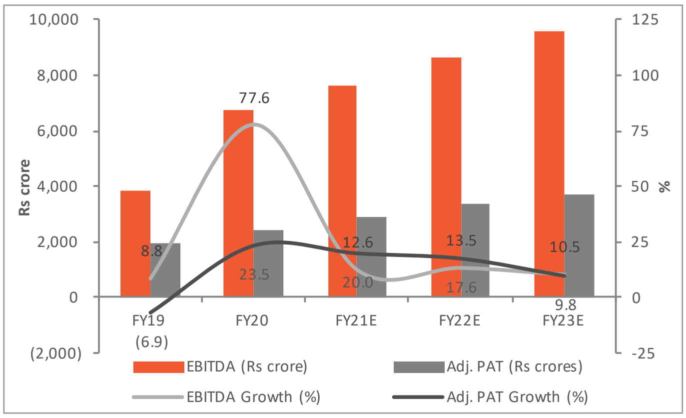
Source: Company, Sharekhan Research

Gross and EBITDA margin to improve given large scale



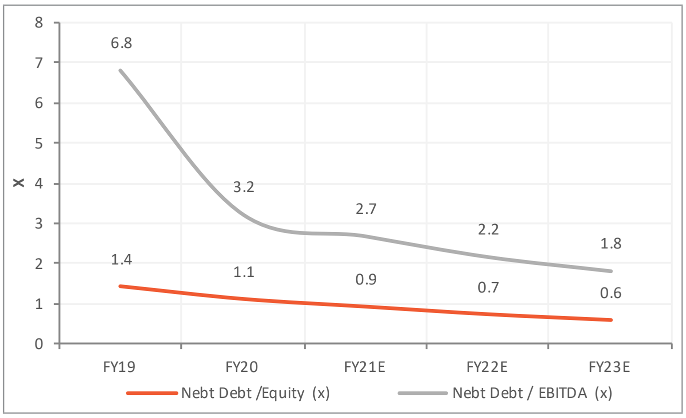
Source: Company, Sharekhan Research

EBITDA/PAT to post 12%/16% CAGR over FY2020-FY2023E



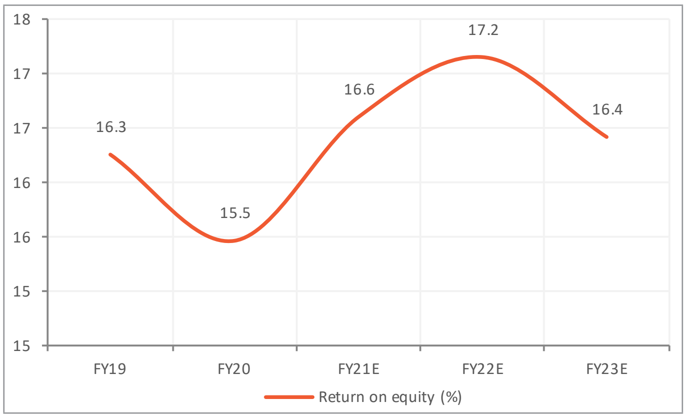
Source: Company, Sharekhan Research

Robust FCF to help deleverage balance sheet



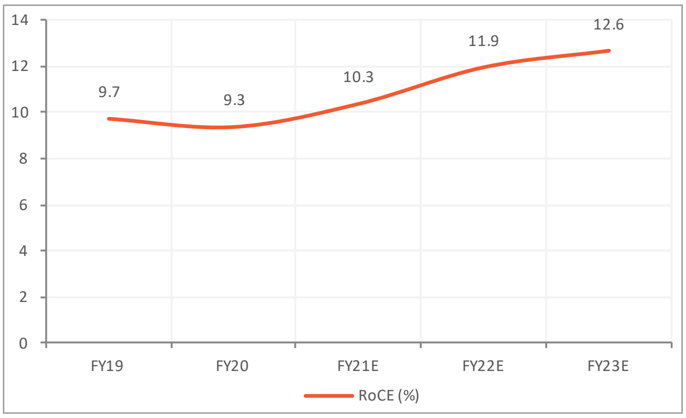
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector View - Rising food demand provides ample growth opportunities for agri-input players:**

Outlook for the Indian agrochemical industry is encouraging, primarily driven by rising food grain production and domestic demand, favourable regulatory reforms for farmers (government passed key agri sector reforms namely Farmers Produce Trade and Commerce Bill 2020 and Farmers (Empowerment & Protection) Agreement of Price Assurance & Farm Services Bill) and vast opportunity from products going off-patent. The government's focus is to double the farmers' income (higher MSPs for crops); near-normal monsoon and higher reservoir levels would augment demand for agri-input in India. We also expect exports from India to grow at a strong pace as India is being looked as preferred supplier for agri-input products given supply disruption from China. Thus, we expect India's agrochemical industry to witness 7-8% growth annually on sustained basis over the next few years. Moreover, international markets such as Latin America (grew by 7.6% in CY2019 and 10.6% in CY2019) would continue to grow at a robust pace supported by higher demand for crop protection and farm solutions mitigating slower growth in the US and Europe.

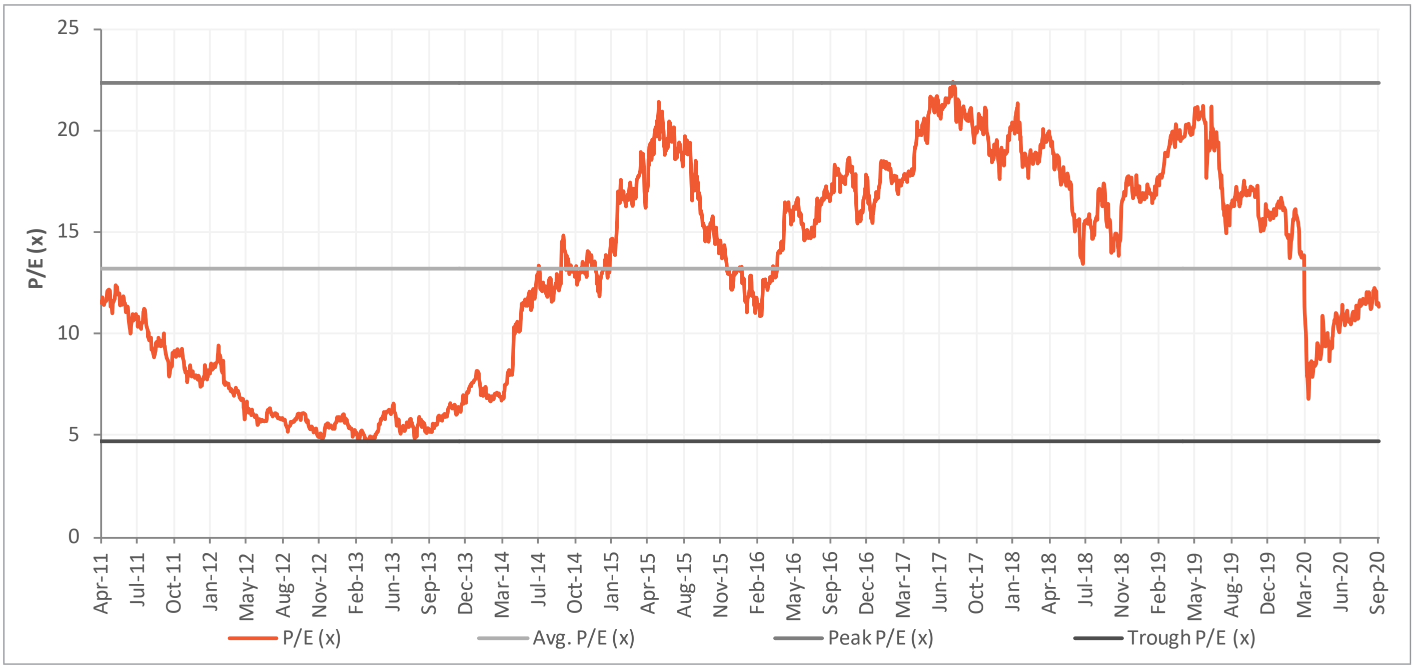
■ **Company outlook - Strong growth outlook across regions; Focus on balance sheet deleveraging:**

Management anticipates good agronomic conditions in most key markets, which is expected to drive robust demand going forward. Revenue synergies through cross-selling of products and price hikes in a few markets is expected to drive revenue growth momentum, while cost synergies and cost efficiencies would enhance margins. The company is expected to generate healthy cash flow and repay debt (Rs. 22,000 crore of net debt with net debt/equity at 3.2x in FY2020). Management expects to deliver revenue growth of 6-8%, EBITDA growth of 10-12%, and achieve net debt/equity of 2x during FY2021E.

■ **Valuation - Maintain Buy on UPL with a revised PT of Rs. 632**

We have largely maintained our FY2021 and FY2022 earnings estimates and have introduced our FY2023 earnings estimate in this report. Improving earnings outlook (expect PAT CAGR of 16% over FY2020-FY2023E; RoE of 16-17%) and focus on balance sheet deleveraging would act as key re-rating catalyst for UPL. Moreover, management's target of net debt to equity of 2x by March 2021 (versus our expectation of 2.7x) seems ambitious, but success on the same could accelerate re-rating of UPL as concerns over debt would recede earlier than street expectations. We maintain our Buy rating on UPL with a revised PT of Rs. 632 [increased to reflect higher valuation multiple of 13x (in-line with historical average one-year forward PE of 13x) and roll over of target multiple to FY2023E EPS]. At the CMP, the stock is trading at 11.3x its FY2022E EPS and 10.3 FY2023E its EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

UPL is a global leader in agricultural solutions and has a healthy mix of high-value crops and high-growth geographies. The company is well positioned to achieve sustainable growth as it is present across the agricultural input segment, ranging from seeds to crop-protection products and post-harvest activities. Arysta's acquisition strengthens UPL's global positioning and helps it to emerge as an end-to-end solutions provider in the global agri input space.

The company has manufacturing facilities across 48 locations (earlier 34) and is present across more than 138 countries. The company's thrust on research and innovation has helped it garner 1,023 patent and over 12,400 registrations. The acquisition has strengthened UPL's long-term growth prospects as product registration has doubled from its earlier levels of 6,500, considering the fact that it takes between 2-5 years for getting products registered. The company has a workforce representation of over 75 countries with total employee strength of over 10,300.

Investment theme

UPL has moved up in global ranking to the fifth position post Arysta's acquisition (earlier seventh). The company has successfully integrated 25+ companies post the acquisition in the past 20 years. The company is among the top five post patent agrochemical manufacturers in the world and is the largest producer of agrochemicals in India. UPL has mostly outperformed the industry's growth rate. The acquisition (UPL + Arysta) brings in a prudent mix of own manufacturing and outsourcing, which is expected to lead to improved margin profile coupled with capital efficiencies resulting in better return ratios. New product launches in key geographies and flowing of synergy benefits of Arysta's acquisition are likely to fuel growth at a faster pace.

Key Risks

- Slowdown in the global agrochemical industry and a delay in flow of benefits from Arysta's integration might impact performance.
- Currency fluctuation might have an impact, as UPL has a significant presence in various geographies.
- Fresh ongoing US-China trade war post the COVID-19 crisis might have an impact on commodity prices.

Additional Data

Key management personnel

Rajnikant Devidas Shroff	Chairman and Managing Director
Sandra Rajnikant Shroff	Vice Chairman
Jaidev Rajnikant Shroff	Global CEO of the Group
Vikram Rajnikant Shroff	Executive Director
Arun Chandrasen Ashar	Executive Director Finance
Diego Casanello	Global COO - Crop Protection
Rajendra Darak	Group CFO
Anand Vora	Global CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.0
2	Capital Group Cos Inc/The	3.5
3	GOVERNMENT PENSION FUND - GLOBAL	2.9
4	Norges Bank	2.8
5	Vanguard Group Inc/The	2.5
6	BlackRock Inc	2.5
7	NEW WORLD FUND INC	1.6
8	Lazard Ltd	1.5
9	Skagen AS	1.4
10	HDFC Asset Management Company Ltd	1.4

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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