Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharti Airtel

Time to dial in

Telecom	Sharekhan code: BHARTIARTL	Result Update

Stock Update

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

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 451**	
Price Target: **Rs. 710**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

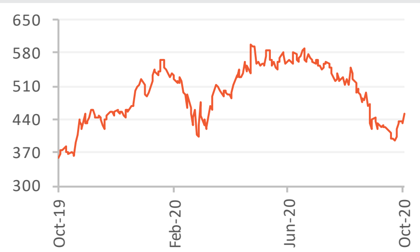
Company details

Market cap:	Rs. 246,291 cr
52-week high/low:	Rs. 611 / 350
NSE volume: (No of shares)	231.1 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	191.4 cr

Shareholding (%)

Promoters	56.2
FII	19.5
DII	22.1
Others	2.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	-20.3	-7.1	25.4
Relative to Sensex	-3.3	-25.2	-31.4	25.2

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Bharti Airtel with an unchanged price target (PT) of Rs. 710, given favourable market structure and continued weakness in Vodafone Idea.
- Beat on revenue and margin fronts; ARPU improvement surprised positively, led by strong net 4G subscriber additions; growth was broad-based across portfolio, though star segment was India wireless business (EBITDA grew 12.8% q-o-q)
- Digital capabilities have been helping Bharti to acquire quality customers, increase wallet share, reduce churn rate and strip out waste from the business; digital services though partnership to aid growth going ahead
- We remain positive on Bharti, considering its strong EBITDA performance, continued growth in the number of 4G subscribers and potential improvement in free cash flows; recent correction in stock price increased the valuation gap with Reliance Jio

Bharti Airtel reported better-than-expected performance on both revenue and margin fronts, while reported net loss missed our expectations owing to lower other income and higher-than expected finance costs. Further, the company positively surprised by reporting improvement in ARPU in India wireless business despite no tariff hike. Consolidated revenues increased by 7.7% q-o-q (up 22% y-o-y) to Rs. 25,785 crore, ahead of our estimates, led by 6.6% q-o-q growth in India business and 12.5% q-o-q growth in Africa business revenue. ARPU in India wireless business grew 3.4% q-o-q (up 26.7% y-o-y) to Rs. 162 without taking any tariff hike, led by a strong addition of quality 4G subscribers. Number of subscribers in India wireless business increased 13.9 million (up 5% q-o-q) during the quarter. EBITDA margin improved ~167BPS q-o-q to 45.2%, exceeding our estimates, led by the addition of quality 4G customers and cost optimization. The reported net loss was at Rs. 763 crore. Adjusted net loss (excluding exceptional items) came at Rs. 735 crore and was below our expectations, owing to higher interest expenses. Airtel's management stated that ARPUs should improve to Rs. 200 in the short term (from Rs. 162 currently) and thereafter it should improve to Rs. 300 in the long term for profitable growth. Bharti Airtel is ready to take tariff hike once its competitors increase their tariff, as it wants to maintain the premium in pricing with the competitors. We anticipate telecom operators would take tariff hike in coming months given an increased base of smartphone users, a higher focus on profitability and less aggression for tariff discounts from Jio in its post- paid segment. Apart from tariff hikes, greater 2G to 4G upgrades, digital strategies, higher postpaid subscribers and bundling of other services (DTH and broadband) would help Airtel drive ARPU. Management highlighted that its digital capabilities have been helping the company to acquire quality customers, increase wallet share, reduce churn rate and eliminate waste. Digital capabilities along with digital services though partnership and scaling omni-channel are expected to drive Bharti Airtel's growth going ahead.

Key positives

- ARPU grew 3.3% q-o-q to Rs. 162 despite no tariff hike
- Strong addition of 4G subscribers, up 10.4% q-o-q
- Africa, home broadband and enterprise segment are poised for healthy growth going ahead

Key negatives

- Capex increased by 71% q-o-q to Rs. 6,791 crore, resulted decline in FCF
- Net debt to EBITDA increase to 2.91x from 2.74x in Q1FY2021

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 710: We have tweaked our earnings estimates for FY2021E/FY2022E/FY2021E on the back of impressive operating profitability, broad-based growth across other verticals and higher interest expenses. The stock has underperformed broader indices by ~31% since mid-July, factoring in concerns of a delay in price hike. The management expects to get the required approvals for all its downstream subsidiaries such as DTH, payment banks to increase foreign investments limit to 100% within next week or could be extended to maximum four months. Further, the recent series of fund-raising in the last one year, proceeds from Carlyle fund infusion, dividends from Infratel and Airtel Africa and potential monetization of Infratel stake alleviates concerns on increase of net debt. We remain positive on Bharti, considering its steady EBITDA performance, continued growth in the number of 4G subscribers and potential improvement in free cash flows. Further, the valuation of Reliance Jio (~15x of 1 year forward EV/EBITDA) from deals with large global companies indicate a significant premium to Bharti Airtel FY2022 EV/EBITDA of 6x. We believe that the company would be a beneficiary given the favourable market structure and continued weakness in Vodafone Idea (lost 3.7 million users in July and higher cash burn). Given favorable risk-reward balance, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 710.

Key risk

Increasing competition could keep up the pressure on realisations. Any slowdown in data volume growth could affect revenue growth.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	80,780.2	87,539.0	103,581.8	118,150.4	126,219.4
OPM (%)	32.0	41.7	45.8	48.5	52.8
Adjusted PAT	-3,977.8	-3,630.4	1,048.7	8,008.5	12,898.2
% YoY growth	NM	NM	NM	NM	61.1
Adjusted EPS (Rs.)	-10.0	-7.0	1.9	14.7	23.7
P/E (x)	NM	NM	234.7	30.7	19.1
P/B (x)	3.4	3.2	3.9	2.8	1.5
EV/EBITDA (x)	13.9	9.2	7.8	6.0	4.9
RoNW (%)	NM	NM	1.4	9.9	9.9
RoCE (%)	2.4	4.5	8.6	12.2	13.2

Source: Company; Sharekhan estimates

Impressive margin performance: Bharti Airtel reported better-than-expected performance on both its revenue and margin fronts, while its reported net loss missed our expectations owing to lower other income and higher-than expected finance costs (up 9% q-o-q owing to AGR liabilities). We note that company continued to surprise us with reporting an improvement in ARPU despite no tariff hike. Consolidated revenues increased by 7.7% q-o-q (up 22% y-o-y) to Rs. 25,785 crore, ahead of our estimates, led by a 6.6% q-o-q growth in India business and 12.5% q-o-q growth (in constant currency terms) in its Africa business revenue. India wireless business revenue grew 7.4% q-o-q and 26% y-o-y during the quarter. ARPU in India wireless business grew 3.4% q-o-q (up 26.7% y-o-y) to Rs. 162 without taking any tariff hike, led by strong addition of quality 4G subscribers. Number of subscribers in India wireless business increased 13.9 million (up 5% q-o-q) during the quarter. EBITDA margin improved ~167BPS q-o-q to 45.2%, exceeding our estimates, resulting in 11.9%/31.7% q-o-q/y-o-y growth in EBITDA. India wireless business EBITDA grew 12.8% q-o-q. In addition, EBITDA margin of Africa business expanded 130bps q-o-q during the quarter. There was an exceptional item (Rs. 49 crore) comprising cost relating to employee restructuring in one of the group's subsidiaries. The reported net loss was at Rs. 763 crore. Adjusted net loss (excluding exceptional items) came at Rs. 735 crore and was below our expectations, owing to higher interest expenses.

Expect to maintain a premium on ARPU; digitization initiatives to drive growth: The management reiterated its earlier stance that ARPU should improve to Rs. 200 in the short term from the current level of Rs. 162 and thereafter it should improve to Rs. 300 in the long term for profitable growth. The improvement in ARPU in the coming quarters would be supported by continued up-gradation from 2G to 4G, increasing post-paid subscribers and segmentation price hike for premium users. Management indicated that it would immediately take tariff hike after an increase in tariff by its competitors as it wants to maintain the gap in price with the competitors. We anticipate telecom operators would take another round of tariff hike in next 12 months given an increased base of smartphone users, a higher focus on profitability and a largest subscriber base of Reliance Jio. We believe the bundling of home broadband, DTH and wireless services under one-bill initiative would help the company to improve its ARPU going forward. The management highlighted that its digital capabilities have been helping the company to acquire quality customers, increase wallet share, reduce churn rate and eliminate waste. It remains optimistic that its digital assets together with digital services though partnership and scaling omni-channel would drive its growth going ahead.

Key result highlights

- **Strong performance in a seasonally weak quarter:** The management highlighted that strong recovery in revenue was on account of people and investments in digital over last few years. Consolidated revenues increased by 7.7% q-o-q and 22% y-o-y to Rs. 25,785 crore in a seasonally weak quarter. Growth was broad-based across the segments. However, the star segment during the quarter was the India wireless business. Operating leverage also kicked in during the quarter, resulting in a in 167bps q-o-q expansion in the EBITDA margin in the consolidated business. EBITDA grew 11.9%/31.7% q-o-q/y-o-y during the quarter.
- **India wireless business reported strong performance despite no tariff hike:** India wireless business revenue grew 7.4% q-o-q and 26% y-o-y to Rs. 13,832 crore, despite a seasonally weak quarter, led by strong 4G net subscriber additions of 14.4 million. Over the last 12 months, the company has added around 50 million customers over its 4G networks. It has also added 755K subscribers in the post-paid segment during the quarter, which is the highest in the recent times. Overall customer net ads remained at 13.9 million and churn remains at an all-time low at 1.7%. ARPU improved from Rs. 157 to Rs. 162 on the back of quality customer additions in the 4G segment. EBITDA margin of India wireless business improved by 204 bps q-o-q to 42.6%, while the EBIT increased 4x q-o-q.
- **Healthy India wireless operating metrics:** Data subscribers increased by 13.1 million at 162 million, an increase of 8.8% q-o-q and 30.5% y-o-y. The number of 4G subscribers increased by around 14.4 million to 152.7 million, a growth of 10.4% q-o-q and 48.1% y-o-y. The management highlighted that 4G customer additions driven by up-gradation of its 2G customers to 4G and shifting of subscribers from the competitors. Overall data was up by 6%/58% q-o-q/y-o-y, while usage per customer remained flat on q-o-q basis and

increased 58% y-o-y to 16.4 GB per subscriber due to work-from-home modes and online educations. There was a strong growth (up 20% y-o-y) in voice traffic to 952 billion minutes.

- **Expect strong growth in Home broadband going ahead, ARPU likely to decline:** Broadband category is at a cusp in terms of growth. With the outbreak of the COVID-19 crisis, there is strong demand for broadband services led by work-from-home (WFH), online education, streaming services and reduction in pricing. In order to drive the growth home business, the company adopted 4 strategies – (1) Rapid expansion of its own coverage. It added one million home passes in the cities during the quarter. (2) Acceleration of LCO partnership model. During the quarter, the company expanded to 29 new cities with the help of LCO partnership model. (3) Bringing full power of Airtel services as well as partnership services to deliver integrated converged offer encompassing connectivity, entertainment and more. Airtel Xstream bundle now combines Xstream fibre, unlimited data, Airtel Xstream Android 4K TV box and access to OTT content. (4) Adjustment to entry prices due competitive reasons towards end of Q2FY2021. These approaches helped the company drive its home business during the quarter, resulted in 130k net ads. The entire price reduction has not factored during the quarter as the company reduced its price in broadband segment during the of September quarter. Hence, we believe that the decline in ARPU in broadband segment would continue in Q3FY2021. Management indicated that it focuses on (1) rapidly expanding its presence in existing cities and (2) scaling its LCO model to acquire more customers to drive the growth of Home broadband business.

- **Implementing strategies to drive growth in DTH business:** Revenue in DTH business grew 1.3% q-o-q during the quarter. Company added 549K customers during the quarter. The growth was driven by the distribution synergy by leveraging its larger mobility sales infrastructure. The management highlighted that it would continue to focus on this strategy to drive the growth of its DTH business.

- **Huge growth opportunity in Enterprise business:** Airtel business revenue grew 2.3% q-o-q and 7.5% y-o-y during the quarter. It highlighted that it continues to witness strong demand from its enterprise customers. Hence, the company focuses on - (1) Enhancement of service quality, strengthening network resilience, and reducing overall cost for customers. Company added 7.6 terabit capacities in its transport network. Bharti also made investments to strengthening its customer experience. Company also launched several solutions such as Airtel work@home, Airtel BlueJeans, Airtel office-in-a-box, Airtel Cloud by signing multi-year strategic collaboration agreement with AWS and Nxtra to lower the cost of its enterprise customers; (2) Launched Airtel IQ as Bharti Airtel's enterprise customers are looking to engage digitally with their customers for their growth. Airtel IQ would enable enterprises to deepen engagement with customers through timely and secure communication. Swiggy, Justdial, Urban Company, Havells, Dr. Lal Path Labs and Rapido have signed up as customers for Airtel IQ. We believe that Airtel IQ is well positioned to become a key player in the $1 billion cloud communication market which is growing at a rapid pace; and (3) protect data and information of customers from increased cybersecurity threat. Company launched Airtel Secure which is a comprehensive suite of advanced cyber security solutions for business customers. This is built through the strategic partnerships with global leaders such as Cisco, Radware, VMWare, and Forcepoint.

- **Digital revenue is considered to be the heart of the business:** Digital revenue is considered the heart of the business as it complements the core business and helps in enhancing the overall business and profitability. Management highlighted that its digital capabilities have been helping the company to acquire quality customers, increase wallet share, reduce churn rate and eliminate waste. It highlighted that around 50% of its business is online, while 40%+ of high value customer acquisition are now on omni-channel. This is helping the company reduce the expenses. It has four strengths – (1) Data – Out of 294 million mobile customer base, the company has 20 million homes and 1 million offices customers. The company has 160 million month active users in its digital assets. Company has monthly active users (MAUs) of 59.3 million in Q2FY2021, with an addition of ~9 million during the quarter, while Thanks platform has 81.6 million MAUs, with an addition of ~8 million. Airtel Xstream is at 33.7 million MAUs, addition of ~8 million users during the quarter. (2) Mitra App - there are over 1.1 million retailers transacting and making payments every day. (3) Distribution – access to 294 million customers, 160 million digitally engaged customers, 20 million homes, and 1 million offices makes the company's position attractive. (4) Network – Allows the company to find the location of customer and provide value added services. The company's partnership model would drive the growth. Though this partnership model would help company to sell financial services like insurance and content. Management remains optimistic that digital capabilities, digital services though partnership and scaling omni-channel would help it to drive growth going ahead.

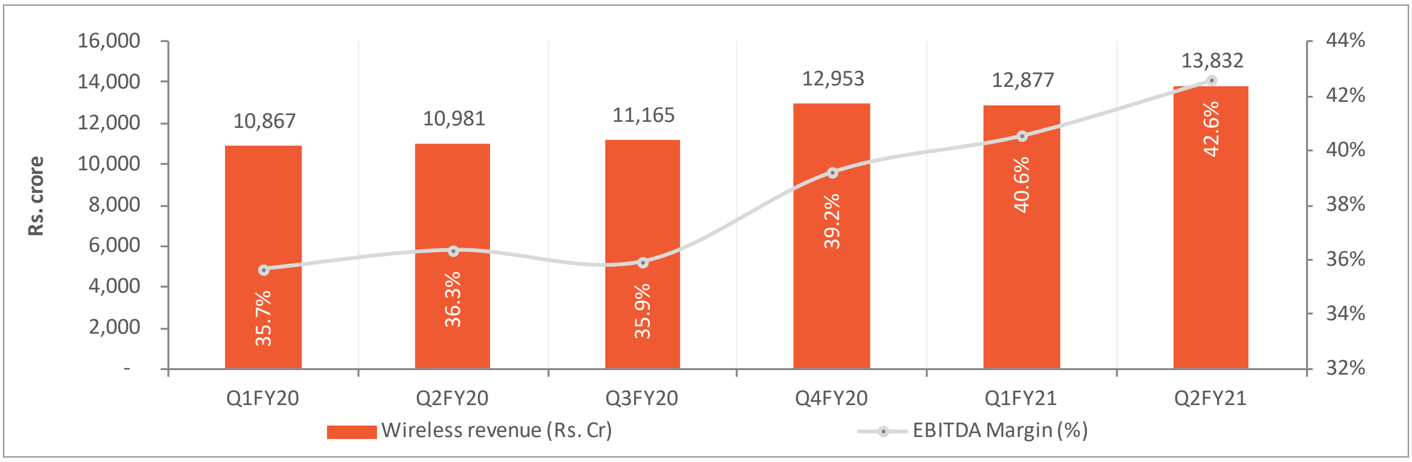
- **Commentary on Tariff hike:** The management reiterated its stance that ARPU should increase to Rs 200 and thereafter to Rs 300 in the long-term. Management indicated that ARPU is extremely low for the allowance in terms of data, unlimited voice and content are being provided to the customers. The management indicated that competitive readiness is required to take tariff hike. Management believes that the prevailing tariff is not sustainable situation from long term for the industry. The company's tariff is already at premium. Management indicated that it would increase the tariff once other competitors in the industry increase their tariff hike to its level. It noted that the premium beyond certain point can't be sustainable. The company is ready to follow the tariff hike immediately after the price increase of competitors.
- **Capex intensity increased:** Total capex during the quarter increased to Rs 6,791 crore from Rs. 3,975 crore from Q1FY2021, up 71% q-o-q, led by massive surge of data on the back of WFH and online education, expanding coverage and absence of restriction of movement of equipment (restricted movement in Q1FY2021 owing to nationwide lockdown). Capex is expected to remain at this level as company focuses on providing better customer experience to the subscribers. However, management indicated that the peak level of capex is behind now.
- **Net debt increased owing to AGR liabilities:** Net debt is linked to AGR judgment. Infratel, Africa and India business continue to be free cash flow positive during the quarter. Management highlighted 50% of over net debt is DoT deferred spectrum liability. Remaining outstanding net debt is external debt, of which 20% is financial lease obligation. External lenders' debt remained at 28-30%, of which 20% is global bonds. Only 8-10% of bank debt is short term across the countries. This can be reduced going ahead from the proceeds of Carlyle fund infusion, dividends from Infratel and Airtel Africa and potential monetization of Infratel holdings.
- **Refrain from bidding 5G spectrum:** The department of telecommunication (DOT) might conduct auction for 5G spectrum early next year (between January and March 2021). The management indicated that it may refrain from bidding for 5G spectrum given higher reserve price. It also indicated that 5G roll out in India is couple of years away, owing to (1) nascent ecosystem (higher device prices), (2) applications yet to be developed (high speed and low latency characteristics/industrial application) and (3) high reserve prices for spectrums. The company has invested in its own R&D team based in Bangalore as it aims to be part of ORAN movement. Using ORAN tech, company aims to bring down the overall cost of the company.
- **Exiting Ghana to curtail losses:** AirtelTigo is a joint venture between Bharti Airtel and Millicom wherein Airtel holds a non-controlling 49.95% share in the merged entity. The company is in advanced stages of discussions for conclusion of the commercial agreement for the transfer of AirtelTigo on a going concern basis to the government of Ghana. Accordingly, Airtel has voluntarily taken a charge of Rs 184.1 crore ($25 million) in Q2FY2021.
- **Expect to get approval for foreign investment limit of subsidiaries:** Management indicated that Airtel has full approval for 100% FII limit. Company is working to get the required approvals for all its downstream subsidiaries such as DTH, payment banks and among others. The Management expects it would get the approval for its subsidiaries within next week or can be extended to a maximum of four months.

Results | Rs cr

Particulars	Q2FY21	Q2FY20	y-o-y (%)	Q1FY21	q-o-q (%)
Net sales	**25,785.0**	**21,131.3**	**22.0**	**23,938.7**	**7.7**
License fees and spectrum charges	2,235.5	1,699.5	31.5	2,076.8	7.6
Employee expenses	1,100.8	946.4	16.3	1,156.6	-4.8
Access and interconnection charges	2,922.9	2,638.9	10.8	2,801.1	4.3
Network operating expenses	5,456.4	4,968.9	9.8	5,103.6	6.9
Other expenses	1,553.0	1,282.3	21.1	1,662.6	-6.6
Operating profit	**11,642.0**	**8,837.2**	**31.7**	**10,407.9**	**11.9**
Interest expenses	3,760.4	3,187.2	18.0	3,456.2	8.8
Depreciation	7,421.1	6,935.1	7.0	7,226.8	2.7
Tax	551.7	-8,503.9	-	3,817.5	-
Reported net income	**-763.2**	**-23,044.9**	**-**	**-15,933.1**	**-**
Adjusted net income	**-735.1**	**-650.5**	**-**	**-544.3**	**-**
EPS (Rs.)	-1.3	-1.3	-	-1.0	-
Margins (%)					
OPM	45.2	41.8	333	43.5	167
NPM (adjusted)	-2.9	-3.1	-	-2.3	-

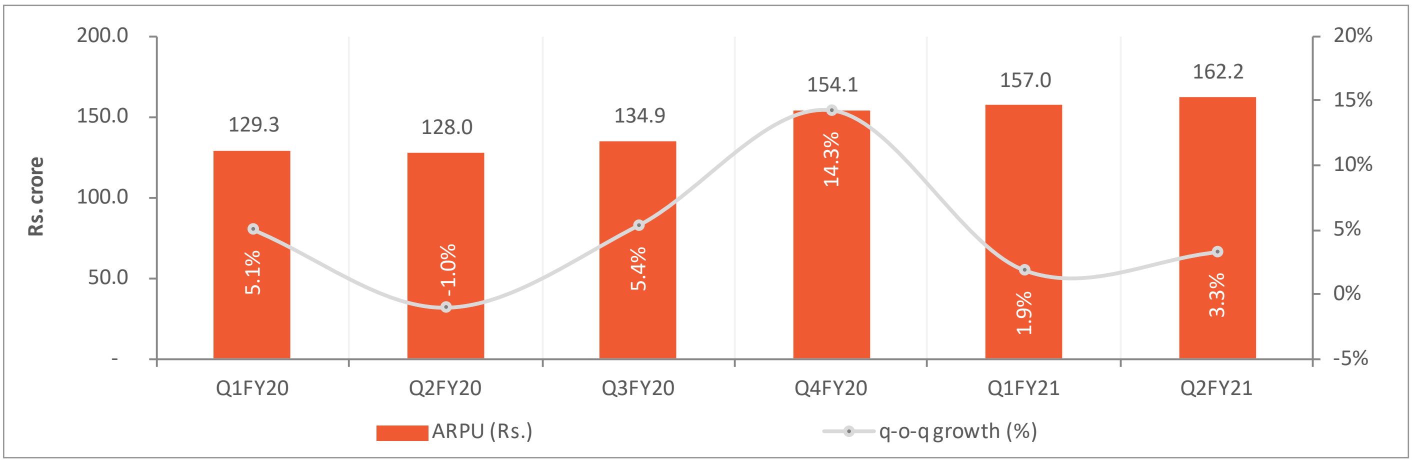
Source: Company; Sharekhan Research

India wireless EBITDA grew 13% q-o-q, exceeding our estimates



Source: Company, Sharekhan Research

ARPU was up 3.3% q-o-q, led strong 4G subs adds



Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – large addressable market

Jio's entry in the Indian telecom space led to the reversal of pricing paradigm that benefited incumbent telecom players. After extensive consolidation, the structure of telecom industry has changed from more than eight players to now a structure of three private and one government operator. The momentum has now shifted towards data, led by 4G services, although voice will continue to grow in underpenetrated areas in rural India. As smartphones are becoming more affordable, the uptake of data services is increasing. India has become the second largest telecommunication market and has the second highest number of internet users in the world. We believe, higher bundling with home entertainment, partnerships with content providers and increasing data consumption due to work from home could be major drivers for price hikes going ahead.

Company Outlook – Resilient performance amid uncertainty

Though Bharti Airtel will be able to withstand competition, we believe that the company's capex intensity will rise in its wireless business and investments in content to create differentiation in the market. Further, its free cash flow is set to improve going ahead with the increase of ARPU and better cost management. Higher digitisation would enable the company increase monetisation of digital assets and value-added services, a reduced churn rate across verticals and improved wallet share from subscribers. With a comparatively a strong balance sheet and adequate network investments, Bharti is well-placed to capitalize on recovery opportunities in the industry.

Valuation – Best-play in telecom space

We have tweaked our earnings estimates for FY2021E/FY2022E/FY2021E on the back of impressive operating profitability, broad-based growth across other verticals and higher interest expenses. The stock has underperformed broader indices by ~31% since mid-July, factoring in concerns of a delay in price hike. The management expects to get the required approvals for all its downstream subsidiaries such as DTH, payment banks to increase foreign investments limit to 100% within next week or could be extended to maximum four months. Further, the recent series of fund-raising in the last one year, proceeds from Carlyle fund infusion, dividends from Infratel and Airtel Africa and potential monetization of Infratel stake alleviates concerns on increase of net debt. We remain positive on Bharti, considering its steady EBITDA performance, continued growth in the number of 4G subscribers and potential improvement in free cash flows. Further, the valuation of Reliance Jio (~15x of 1 year forward EV/EBITDA) from deals with large global companies indicate a significant premium to Bharti Airtel FY2022 EV/EBITDA of 6x. We believe that the company would be a beneficiary given the favourable market structure and continued weakness in Vodafone Idea (lost 3.7 million users in July and higher cash burn). Given favorable risk-reward balance, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 710.

One-year forward EV/EBITDA (x) band

Source: Sharekhan Research

About company

Established in 1995, Bharti Airtel is one of the leaders in the Indian mobile telephony space with operations in 18 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers. Airtel is a diversified telecom service provider offering wireless, mobile commerce, fixed line, home broadband, enterprise and DTH services. It expanded into Africa by acquiring Zain's Africa operations in 2010 and is present in 14 African markets. Bharti Airtel had over 420 million customers across its operations at the end of March 2020. It owns a 53.51% stake in Bharti Infratel, which in turn owns a 42% stake in Indus Towers.

Investment theme

Revenue accretion from the 4G upgrade, minimum-ARPU plans (rolled out across India) and recent tariff hike helped the company to report improvement in ARPU. Further, the government's data localisation policies with an increasing penetration of smartphones are likely to boost strong demand for data over medium-to-long term. Despite a predatory pricing strategy from new entrants since its commercial launch in September 2016, Bharti Airtel has been resilient in sustaining its revenue market share (RMS) as it has been drastically standardising its plans to retain customers and acquiring subscribers through M&A activities. In DTH, Bharti expects to maintain steady growth by adding new subscribers in rural areas by launching USB-enabled STBs, increasing reach in cities taking advantage of flat-screen TV upgrades and driving up ARPUs by selling OTT boxes and hybrid HD STBs. We believe the company is well-poised to deliver strong multi-year EBITDA growth phase given recent developments in the Indian wireless industry.

Key Risks

1) Increasing competition could pressurise realisations; and 2) Slower growth in data volumes could affect data revenue growth.

Additional Data

Key management personnel

Sunil Mittal	Chairman
Gopal Vittal	MD & CEO (India and South Asia)
Raghunath Mandava	CEO (Africa)
Badal Bagri	Chief Financial Officer
Pankaj Tewari	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	3.22
2	LIC of India	2.78
3	SBI Funds Management Pvt Ltd	2.37
4	GIC Pte Limited	1.70
5	Vanguard Group Inc/The	1.40
6	Capital Group Companies	1.38
7	HDFC Asset Management Pvt Limited	1.24
8	Reliance Capital Trustee Co Limited	1.12
9	ICICI Prudential Life Insurance Co	1.10
10	BlackRock Inc	1.09

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

Sharekhan

by BNP PARIBAS

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