Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Larsen & Toubro Infotech

Set to outshine peers

IT & ITES	Sharekhan code: LTI	Result Update

Stock Update

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		⟷	
RQ		⟷	
RV		⟷	

Reco/View	Change
Reco: **Buy**	⟷
CMP: **Rs. 4,092**	
Price Target: **Rs. 4,800**	↑

↑ Upgrade ⟷ Maintain ↓ Downgrade

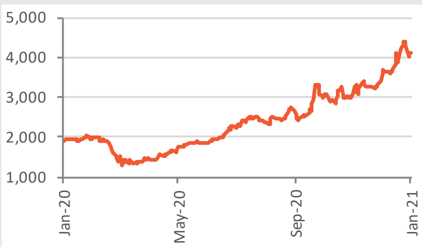
Company details

Market cap:	Rs. 71,465 cr
52-week high/low:	Rs. 4.499 / 1,207
NSE volume: (No of shares)	4.0 lakh
BSE code:	540005
NSE code:	LTI
Free float: (No of shares)	4.4 cr

Shareholding (%)

Promoters	74.3
FII	14.6
DII	4.8
Others	6.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.5	32.2	79.5	114.4
Relative to Sensex	11.2	9.9	48.3	93.9

Sharekhan Research, Bloomberg

Summary

- We stick to our Buy rating on L&T Infotech (LTI) with a PT of Rs. 4,800, anticipating that it would clock industry-leading growth.
- Strong quarter, with beat in EBIT margin and net profit. Company reported record-high large deal win TCVs, healthy deal pipeline, new logo additions, growth acceleration in top accounts and strong OCF generation. Digital business grew 17.4% y-o-y.
- Management expects a sequential revenue growth in Q4FY2021, implying a high-single digit revenue growth in FY2021. Management remains confident on delivering top quartile revenue growth in the industry in FY2022E with a stable margin.
- LTI could deliver industry-leading growth over next few years, led by large deal ramp-ups, deep relationship with top accounts, addition of new logos, consistency in deal wins and robust partner ecosystem. Expect LTI's USD revenue/earnings to clock a CAGR of 16%/19% over FY2021-FY23E.

L&T Infotech (LTI) delivered strong performance across all parameters, by delivering better-than-expected EBIT margin and net profit. Further, the company's strong operating cash flow (OCF) generation, new logos addition, strong deal win TCVs and a strong deal pipeline impressed us. Constant currency (CC) revenue grew 5.3% q-o-q and up 7.4% y-o-y, largely in-line with our estimates, led by strong growth in BFS, manufacturing, other and hi-tech and media vertical. On a reported basis, USD revenue grew by 5.8% q-o-q and 8.5% y-o-y to $427.8 million. EBIT margin improved 75bps q-o-q to 20.6%, ahead of estimates., led by revenue growth, operational efficiencies and higher offshoring revenue. EBIT margin for BFSI and hi-tech and media verticals improved 156 bps and 311 bps, sequentially. Net profit came in at Rs. 519.2 crore (up 13.7% q-o-q and 37.8% y-o-y) and was 4.5% above our estimates aided by higher EBIT margin and higher other income. Management cited that company would surpass its Q3FY2021 revenue in Q4FY2021 and expect a high-single digit revenue growth in FY2021. Despite a significant beat in revenue growth among its peers in FY2021E, the management remains confident on delivering top quartile revenue growth in the industry in FY2022E. The growth would be driven by increasing spends on transformation initiatives, prudent client mining, new accounts opening, ramp-up of large deals, conversion of deal pipeline and strong digital competencies. Notably, the company added 22 new logos across verticals and won two large deal (with TCVs of over $278 million). Management stated that the quality of conversation with the clients indicate a meaningful increase in spends in the transformation initiatives. We expect LTI's revenue to grow at 16% CAGR over FY2021-23E with a stable margin, led by higher spends on Cloud-related technologies, market share gains, robust deal pipeline, consistent in deal wins and new logos addition, robust partner ecosystem and strong digital capabilities. The management guided that net profit margin would remain in band of 14-15% going ahead despite disproportionate investments in areas such as 1) building capabilities in technologies, 2) sales and marketing, 3) digital banking platform in Nordic region and 4) building infrastructure around Cloud and products.

Key positives

- EBIT margin at 20.6%, exceeded our estimates
- Operating cash flow to net profit ratio stood at 116%
- Net-new deal TCVs remained strong at $278 million

Key negatives

- Insurance vertical revenue declined 8.3% y-o-y, expect to recover in Q4FY2021
- Number of clients in $50 million bucket dropped by one client

Our Call

Valuation – Focus on industry leading growth at stable margin: We have revised our earnings estimates upwards for FY2021E/FY2022E/FY2023E, factoring in beat in operating margin, strong deal wins, health deal pipeline and improving demand environment. We expect LTI would continue to deliver industry-leading growth in FY2022E and FY2023E, led by a ramp-up of large deals, deep relationship with top accounts, addition of new logos and end-to-end execution capabilities. Further, the management eyes a net profit margin of 14-15% going ahead despite investments in capability building, bolstering of the sales team and infrastructure around cloud and banking platform, aided by higher digital mix, higher offshoring, comprehensive cost management and hedging strategy. We estimate LTI would deliver industry-leading USD revenue/EPS CAGR of 16%/19% over FY2021-FY2023E. At CMP, the stock is trading at 33x/27.4x its FY2022E/FY2023E earnings, which although expensive, is justified given possibilities of its industry-leading growth momentum and strength in its business model. Hence, we maintain our Buy rating on LTI with a revised price target of Rs. 4,800.

Key Risks

Rupee appreciation or/and adverse cross-currency movements and macro pressures would affect earnings.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	9,445.8	10,878.6	12,388.0	14,513.5	16,921.1
OPM (%)	19.9	18.7	21.9	21.3	21.1
Adjusted PAT	1,515.5	1,520.5	1,866.3	2,204.8	2,625.5
% YoY growth	*36.2*	*0.3*	*22.7*	*18.1*	*19.1*
Adjusted EPS (Rs.)	86.4	86.6	106.0	125.3	149.2
P/E (x)	47.3	47.2	38.6	32.7	27.4
P/B (x)	14.7	13.3	9.9	7.6	6.0
EV/EBITDA (x)	37.5	34.8	26.0	22.8	19.8
RoNW (%)	34.6	29.5	30.9	29.7	32.1
RoCE (%)	36.2	35.1	37.9	36.2	38.4

Source: Company; Sharekhan estimates

Strong quarter

LTI reported strong quarterly performance beating in operating profitability and net profit, along with large deal wins, healthy deal pipeline and strong free cash flow (FCF) generation. Constant currency (CC) revenue grew 5.3% q-o-q and up 7.4% y-o-y, largely in-line with our estimates, led by strong growth in BFS (up 7.5% q-o-q CC), manufacturing (up 9.2% q-o-q CC) and hi-tech and media vertical (up 5.8% q-o-q CC). Notably, India business revenue grew 29.7% q-o-q because of strong growth in pass-through elements. On a reported basis, USD revenue grew by 5.8% q-o-q and 8.5% y-o-y to $427.8 million. Digital business (44.4% of total revenue) reported growth momentum of 17.4% y-o-y. EBIT margin improved 75bps q-o-q to 20.6%, ahead of estimates. A sequential improvement in margin was led by revenue growth, operational efficiencies and higher offshoring revenue. EBIT margin for BFSI and hi-tech and media verticals improved 156 bps and 311 bps, sequentially. Net profit came in at Rs. 519.2 crore (up 13.7% q-o-q and 37.8% y-o-y) and was 4.5% above our estimates aided by higher EBIT margin and higher other income.

Revenue growth likely to be in the leaders' quadrant of the industry in FY2022E

Management guided that the company would achieve high-single digit revenue growth in FY2021, led by strong performance in 9MFY2021 (up 9.7% y-o-y, one of best performance among Indian IT companies), deal ramp-ups and improving demand environment. Further, the management cited that company would surpass its Q3FY2021 revenue in Q4FY2021. Despite strong growth in FY2021E compared to other leading Indian IT company, management remains confident to deliver top quartile revenue growth in the industry in FY2022E. The growth would be driven by increasing spends on transformation initiatives, prudent client mining, new accounts opening, large deal win TCVs, conversion of deal pipeline and strong execution. Notably, the company added 22 new logos across verticals and won two large deal (with TCVs of over $278 million). These large deals would contribute to revenues from Q1FY2022E. In addition, management stated that the quality of conversation with the clients provide confidence on meaningful increase of spends on transformation area by its clients. Consistency in deal wins, strong client relationship, must-have logos (F-500 clients), superior digital competencies, and opportunities around data products business would help the company to outperform and help to position it in the top quadrant of the industry in terms of revenue growth in FY2022.

Expect net profit margin to stay in a narrow range

The company positively surprised us with significant sequential improvement of its operating profitability, led by operational efficiency, recovery in revenue growth and higher operational efficiencies. We believe work-from-home (WFH) efficiencies, continued lower travel and administration expenses and higher offshoring revenue are expected to help the company to maintain the margin in a narrow band in the near-to-medium terms. However, management indicated that investments in new technology areas, sales and marketing (S&M) team, go-to-market (GTM) strategy, digital banking platform in Nordic region, infrastructure around cloud and products and wage revision would impact margin performance in coming quarters. The company has rolled out of wage hikes, effective from January 1, 2020. The management believes it will have an impact of 160 - 170bps on margins during Q4FY2021. Further, the company indicated that the current utilisation level is not sustainable and it expects utilization level would drop in Q4FY2021. The management retained its net profit margin guidance of 14-15% because of improved business profitability and higher offshoring revenues. We expect the offshoring revenue mix to be sustainable in the medium term, given higher acceptance of offshoring by large global enterprises.

Key result highlights

- **Strong deal pipeline:** Though new deal win TCVs remained weak during 1HFY2021, the company reported strong large deal win TCVs during the quarter. The company closed two large deals with net new TCVs of over $278 million in Q3FY2021 as against new deals of TCVs $40 million/$20 million in Q2FY2021/Q1FY2021. Apart from the large $204 million five-year deal in partnership with Injazat (Mubadala's portfolio company), the company signed another large deal TCV of $74 million with Fortune-500 energy company. As Mubadala's portfolio companies are undergoing digital transformation, LTI would provide infrastructure and application operations support and maintenance for its existing and new customers. Further, LTI will also participate in the journey to cloud programs which involves digital transformation and ERP projects. Notably, the net-new deal wins in 9MFY2021 was up 82% y-o-y as compared to 9MFY2020. The management highlighted that the deal pipeline remained strong (up 62% y-o-y to $1.9 billion, highlighted on the analysts meet held on December 11, 2020) during the quarter. Closure of large deals is taking longer than normal.

- **Revenue outlook and net profit margin guidance:** LTI remains focussed on its 3x3 strategy (1) customer first thinking, (2) resilience in operations and (3) protecting its P&L to deal with the impact from the COVID-19 pandemic. With a healthy deal pipeline and sustained client mining strategies, the company would surpass its Q3FY2021 revenues in Q4FY2021. The management remains confident that LTI would deliver high-single digit growth in FY2021 and would remain in leaders' quadrant of the industry in terms of revenue growth in FY2022. The company has rolled out annual wage hike for 97% of its employees from January 1, 2020. The management stated that wage hike for offshore employees remained in the range of 6-7%, while the compensation increase for the onshore employees remained at 2%. The impact of wage revision would be around 160-170 bps in Q4FY2021. Further, LTI would continue to invest on building capabilities, sales and marketing, infrastructure around cloud and product units and digital banking platform in the Nordic region to drive its growth. Despite investments and wage revision, management remains confident in maintaining net profit margin guidance at 14-15% going ahead.
- **Strong growth in key verticals:** During Q3FY2021, there was strong growth in BFS (+7.5% q-o-q CC vs. +9.5% in Q2FY2021), manufacturing (+9.2% q-o-q vs. +5.4% in Q2FY2021), hi-tech and media (up 5.8% q-o-q versus a decline of 5.3% in Q2FY2021) and other vertical (+10.8% q-o-q vs. +6.7% in Q2FY2021). CPG, retail & pharma verticals reported revenue growth of 4.5% q-o-q versus a decline of 2.8% in Q2FY2021. Revenue from insurance and energy and utilities verticals were down 1.0% q-o-q, and 0.3% q-o-q respectively in CC terms.
- **Service offering performance:** Revenue from analytics, AI and cognitive, enterprise integration and mobility, enterprise solutions and infrastructure management services reported a strong sequential CC growth of 18.5%, 11.3%, 7.3% and 4.7%, respectively. Revenue from ADM & testing service offering declined 1.5% in CC terms.
- **Geography-wise performance:** India and North America reported strong revenue growth, registering CC revenue growth of 29.7% q-o-q (versus +2.0% q-o-q in Q2FY2021) and 4.4% q-o-q (versus +0.4% q-o-q in Q2FY2021). Revenue growth in Europe grew 3.9% q-o-q on CC, while revenue in rest-of-the-world (RoW) declined 5.2% q-o-q on CC terms.
- **Opportunities around cloud and data product businesses:** The management highlighted that two areas have emerged as new opportunity areas based on the conversion of market trends and its capabilities in new-age technologies. These areas are (1) cloud business – work along with the hyperscalers (AWS, Azure and GCP) and (2) data product business with marketing platform (Mosaic and Lymbyc). LTI is working with some of the largest company of the world. This would be a key investment area for the company in terms of sales, marketing, alliance and capabilities. As most of the enterprises have started adopting transformation technologies, the company believes that this unit would drive its growth by helping clients in their transformational journey.
- **Strong growth in BFS vertical, while insurance vertical remained soft:** The BFS vertical's revenue grew by 7.5% q-o-q and 17.3% y-o-y in CC terms, while the insurance vertical's revenue continued to decline by 1.0% q-o-q and 8.3% y-o-y. Top clients continued to grow during the quarter. The insurance vertical continues to struggle as impact created by COVID-19. Management expects insurance sector would come back to growth trajectory in Q4FY2021.
- **The energy and utilities vertical:** The vertical's revenue growth remained flat (down 0.3% q-o-q in CC terms versus an increase of 0.6% q-o-q in Q2FY2021), while revenue growth continued to decline 5% y-o-y in CC terms. The management highlighted that budgets of clients in this space continues to remain soft.
- **Manufacturing vertical:** The manufacturing vertical's revenue growth accelerated to 9.2% q-o-q in revenue growth on CC terms as against +5.4% q-o-q in Q2FY2021. On a y-o-y basis, manufacturing revenue growth further decelerated to 3.6% on CC in Q3FY2021 versus 9.2% y-o-y in Q1FY2021. The growth was driven by pass-through element in India business, which is similar to last year.
- **CPG, Retail and Pharma:** CPG, retail and pharma vertical's revenue sharply recovered to 4.5% q-o-q on CC terms and increased by 3.7% y-o-y during the quarter. Company added F-500 client in this vertical.
- **Hi-tech, media and entertainment:** Revenue recovered to +5.8% q-o-q in CC terms (in-line with the expectations) and increased by 6.5% y-o-y in CC during the quarter.

- **Strong growth in digital business:** Revenue of the digital business accelerated to 9.4% q-o-q and grew by 17.4% y-o-y. Revenue contribution of this segment to overall revenue improved to 44.4% as against 42.9% in Q2FY2021. The core business revenue growth accelerated to 3.0% q-o-q and grew by 2.2% y-o-y during the quarter.
- **Revenue growth accelerated in top accounts:** Revenue from the top five accounts accelerated to 3.3% q-o-q (versus a growth of 1.9% q-o-q in Q2FY2021). Similarly, revenue from the top 10/20 accounts grew by 3.5%/4.5% on a q-o-q basis (versus a growth of 2.4%/2.9% q-o-q in Q2FY2021).
- **Stable client metrics in large categories:** LTI added 22 new clients (versus 22 new clients in Q2FY2021) across all verticals in Q3FY2021. The company added a new F-100 logo during the quarter, taking total F-500 logos to 69. The number of clients under the $100 million and $10 million client buckets remained flat q-o-q, while the number of clients under the $50 million declined by once client on a q-o-q basis. The number of clients under $20 million increased by 2 on a q-o-q basis. On y-o-y basis, the number of clients under the $50 million client buckets declined by one, while the number of clients under the $10 million and $5 million category grew by 4 and 12 respectively.
- **Operating cash flow to net profit:** Operating cash flow stood at Rs. 604.9 crore (up 36% q-o-q and up 57% y-o-y). Operating cash flow to net profit remained at 117% versus 98% in Q2FY2021. Cash and liquid investment stood at Rs. 3,856 crore as of Q3FY201 versus Rs. 3,547.2 crore as of Q2FY2021.
- **DSO:** Billed DSO increased by one day to 63 days. DSO including unbilled revenues stood at 93 days, a decline of 1 day sequentially.

Results Rs cr

Particulars	Q3FY21	Q3FY20	Q2FY21	Y-o-Y (%)	Q-o-Q (%)
Revenue ($ mn)	**427.8**	**394.4**	**404.5**	**8.5**	**5.8**
Revenue in INR (cr)	**3,152.8**	**2,811.1**	**2,998.4**	**12.2**	**5.1**
Direct costs	2,050.7	1,918.8	1,953.7	6.9	5.0
SG&A	370.1	364.9	359.1	1.4	3.1
EBITDA	**732.0**	**527.4**	**685.6**	**38.8**	**6.8**
Depreciation	81.9	70.9	89.9	15.5	-8.9
EBIT	**650.1**	**456.5**	**595.7**	**42.4**	**9.1**
Other income (including FX)	49.2	43.3	17.4	13.6	182.8
PBT	699.3	499.8	613.1	39.9	14.1
Tax provision	180.1	123.1	156.3	46.3	15.2
Net profit	**519.2**	**376.7**	**456.8**	**37.8**	**13.7**
EPS (Rs.)	**29.5**	**21.5**	**26.0**	**37.3**	**13.8**
Margin (%)				**BPS**	**BPS**
EBITDA	23.2	18.8	22.9	446	35
EBIT	20.6	16.2	19.9	438	75
NPM	16.5	13.4	15.2	307	123

Source: Company; Sharekhan Research

Operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	QoQ %	YoY %	QoQ %	YoY %
Revenue ($ mn)	428	100	5.8	8.5	5.3	7.4
Geographic mix						
North America	290	67.9	4.5	6.0	4.4	5.9
Europe	69	16.1	5.8	11.9	3.9	4.8
ROW	32	7.4	-4.6	8.5	-5.2	8.4
India	37	8.6	31.8	22.7	29.7	25.5
Industry verticals						
BFS	131	30.6	8.2	19.4	7.5	17.3
Insurance	64	15.0	-0.8	-8.1	-1.0	-8.3
Manufacturing	72	16.8	9.7	4.1	9.2	3.6
Energy & Utilities	43	10.0	-0.2	-4.0	-0.3	-5.0
CPG, Retail & Pharma	47	10.9	4.8	5.6	4.5	3.7
High-Tech, Media & Entertainment	45	10.6	5.8	6.5	5.8	6.5
Others	26	6.0	11.3	75.9	10.8	78.3
Service offerings						
ADM & Testing	144	33.6	-1.3	1.8	-1.5	0.9
Enterprise Solutions	134	31.4	7.8	18.7	7.3	7.5
Infrastructure Management Services	61	14.3	5.0	34.9	4.7	32.4
Analytics, AI & Cognitive	51	11.9	18.7	0.8	18.5	0.2
Enterprise Integration & Mobility	38	8.8	12.1	12.3	11.3	11.6
Digital business						
Digital	190	44.4	9.4	17.4	NA	NA
Core	238	55.6	3.0	2.2	NA	NA

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Expect acceleration in technology spending going forward

Industry analysts such as Gartner estimates IT services spending would grow by 5-8% over CY2021-CY2024E, as compared to an average of 4.2% achieved in CY2010-CY2019. Forecasts indicate higher demand for cloud infrastructure services, potential increase in specialised software, potential investments in transformation projects by clients, and increased online adoption across verticals. Implications of the COVID-19 outbreak have accelerated digital activities among large global enterprises, leading to increased spending on workplace transformation and collaboration tools, cyber security, and higher cloud migration.

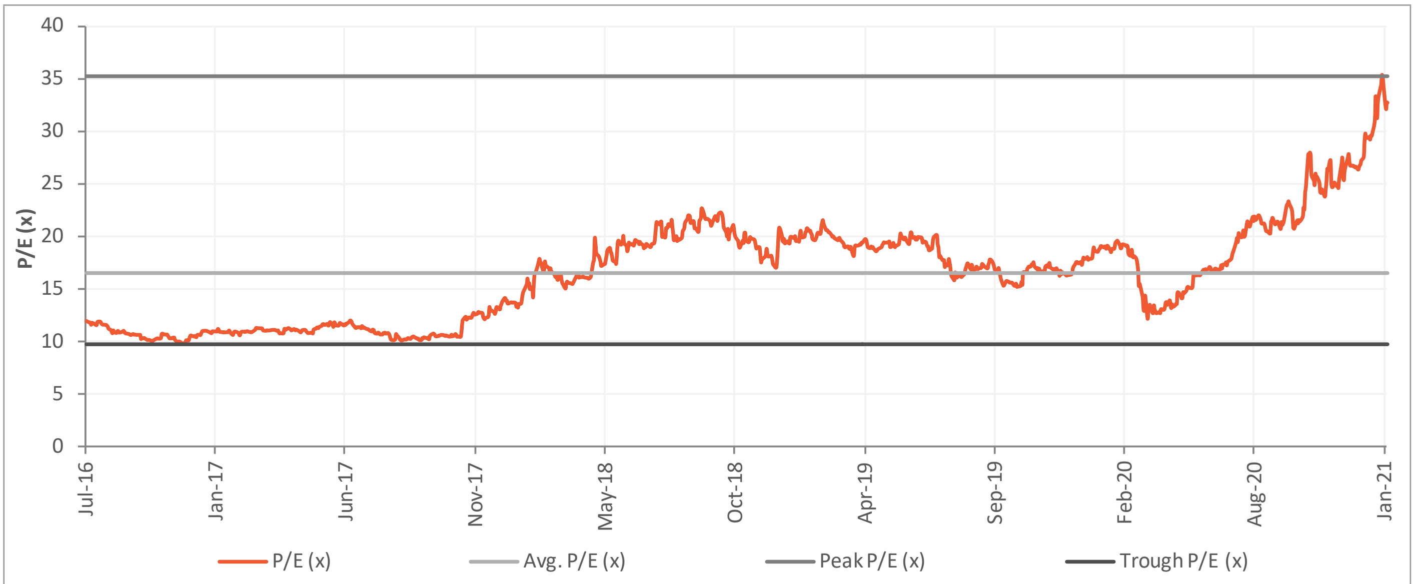
■ Company outlook - Superior execution likely to drive outperformance

We believe LTI's prudent strategies along with an efficient sales force would lead to market share gains in large accounts and new deal wins. Hence, we expect LTI to deliver industry-leading revenue growth in the long term on account of consistency in large deal wins and pipeline, a higher digital mix, prudent account mining strategies, and a marquee client base. Further, LTI's sharp focus on bringing new-age disruptive technologies along with leveraging platforms (in-house as well as external) would help the company transform the core business of enterprises on a large scale.

■ Valuation - Superior execution justifies premium valuation

We have revised our earnings estimates upward for FY2021E/FY2022E/FY2023E, factoring in beat in operating margin, strong deal wins, health deal pipeline and improving demand environment. We expect LTI would continue to deliver industry-leading growth in FY2022E and FY2023E, led by ramp-up of large deals, deep relationship with top accounts, addition of new logos and end-to-end execution capabilities. Further, the management eyes a net profit margin of 14-15% going ahead despite investments in capability building, bolstering of the sales team and infrastructure around cloud and banking platform, aided by higher digital mix, higher offshoring, comprehensive cost management and hedging strategy. We estimate LTI would deliver industry-leading USD revenue/EPS CAGR of 16%/19% over FY2021-FY2023E. At CMP, the stock is trading at 33x/27.4x its FY2022E/FY2023E earnings, which although expensive, is justified given possibilities of its industry-leading growth momentum and strength in its business model. Hence, we maintain our Buy rating on LTI with a revised price target of Rs. 4,800.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HCL Tech	999	271	2,71,054	20.3	19.2	13.4	12.0	4.7	4.2	24.5	23.1
Persistent	1,635	8	12,493	29.7	24.1	18.6	15.5	4.8	4.4	16.8	18.8
TCS	3,308	375	12,41,364	36.7	31.6	25.5	22.2	13.8	12.7	38.4	41.8
LTI	4,092	17	71,465	38.6	32.7	26.0	22.8	9.9	7.6	30.9	29.7

Source: Company, Sharekhan estimates

About company

Promoted by Larsen & Toubro (L&T) in 1996, Larsen & Toubro Infotech (LTI) is the sixth largest ($1,525 million in FY2020) IT services company in India in terms of export revenue and is among the top-20 IT service providers globally. With operations in 27 countries, LTI provides technology consulting and digital solutions to around 289 clients across the globe. LTI provides services to 69 of the Fortune Global 500 companies. The company has 23 delivery centres and 43 sales offices, with employee strength of over 23,000. LTI's vertical focus is heavily towards banking and financial services, insurance, and energy and utilities, which together contribute ~56% of total revenue.

Investment theme

A multitude of factors such as strong execution capabilities, a dynamic sales team, accelerating revenue contribution from its digital business, leverage of domain experience, solid top account mining and healthy deal wins have been helping LTI to outpace the average industry growth rate. Further, the gradual increase in digital deal sizes along with high volume digital deals and migration of the legacy business has helped the company grow at a rapid pace compared to its peers. We believe the sharpened focus on large account mining and new client additions augur well for LTI to deliver above-industry average revenue growth.

Key Risks

1) Rupee appreciation or/and adverse cross-currency movements; 2) any hostile regulatory visa norms could affect employee expenses; and 3) macro pressure would hit growth in key verticals.

Additional Data

Key management personnel

A. M. Naik	Founder Chairman
S. N. Subrahmanyan	Non-Executive Vice Chairman
Sanjay Jalona	CEO & MD
Sudhir Chaturvedi	President sales

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	UTI Asset Management Co Ltd	1.84
2	Invesco limited	1.31
3	St James's Place PLC	1.03
4	Auburn Limited	1.01
5	Wasatch advisors Inc	0.78
6	Blackrock Inc	0.78
7	Vanguard Group	0.77
8	Goldman Sachs Group Inc	0.62
9	Aditya Birla Sun life Asset management	0.52
10	ICICI Prudential Asset Management	0.48

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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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