Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Elxsi Limited

Healthy Q1; set to gallop ahead of peers

IT & ITeS	Sharekhan code: TATAELXSI	Result 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. 4,303**	
Price Target: **Rs. 5,000**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

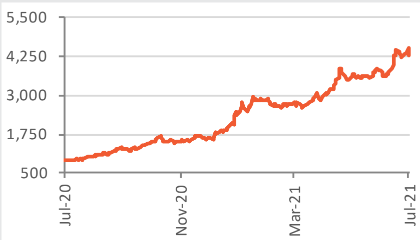
Company details

Market cap:	Rs. 26,795 cr
52-week high/low:	Rs. 4,572 / 893
NSE volume: (No of shares)	4.8 lakh
BSE code:	500408
NSE code:	TATAELXSI
Free float: (No of shares)	3.5 cr

Shareholding (%)

Promoters	45
FII	7
DII	14
Others	35

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	45.2	73.1	370.9
Relative to Sensex	12.7	36.4	65.9	325.2

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Tata Elxsi with a revised PT of Rs. 5,000, as revenue is set to grow at twice the industry average, margin profile is superior and company has differentiated technological capabilities.
- CC revenues grew by 37.4% y-o-y continuing strong outperformance seen in past four quarters, but EBITDA margin lagged estimates owing to a one-time bonus; net staff additions stayed strong.
- Growth momentum likely to continue given a strong order book, robust deal pipeline, improving deal size, presence in high-growth verticals and hyper-digitisation and technology adoption across industries.
- EBITDA margin to remain in a narrow band in FY22 despite headwinds, given strong revenue growth, higher offshoring, and better realisations in complex projects. We expect USD revenue/earnings to clock a 24%/26% CAGR over FY2021-FY2024E.

Q1FY22 revenue growth was strong, led entirely by volumes, while OPM lagged expectations owing to a special one-time bonus (Rs. 33 crore) offered to all employees. CC revenue grew by 6.4% q-o-q and 37.4% y-o-y, beating our estimates, led by a strong 6.3% q-o-q/29.5% y-o-y and 11.8% q-o-q/128% y-o-y growth in embedded product design (EPD) and industrial design and visualization (IDV) businesses, respectively. Revenue growth in top five accounts accelerated to 17.2% q-o-q from 12.1% q-o-q in Q4FY2021, given a better account mining strategy. EBITDA margin contracted by 554 bps q-o-q to 26.9%, owing to the special one-time bonus. Excluding the bonus effect, adjusted EBITDA margin was actually higher q-o-q at 32.8%. The company rolled out its wage revision of 7-8% from July 1, 2021. Though Q2FY2022 margin would be impacted by this, retention expenses and a gradual increase in discretionary expenses, we believe operating profitability in FY2022 would be in a narrow band, given strong revenue growth, higher offshoring revenue, and better realisation in complex projects. The management indicated growth momentum would continue in the subsequent quarters, given strong order book, a robust deal pipeline, ramp-up of deals won earlier, strong deal wins, a continued recovery in the transportation vertical, and strong growth in other vertical. During Q1FY2022, the company won large and strategic deals in segments such as EVs, autonomous technologies, digital health, OTT and video platform development, which indicates its strong digital engineering capability and participation in clients' transformation journey. Aggregate net staff additions remained at 1,098 (14% of Q3FY2021 employee base) for the past two quarters, which hints at anticipation of strong deal inflows, ramp-up of large deals and a strong deal pipeline. We believe TEL's growth is likely to remain strong in the coming years, as it focuses on high-growth sectors (media and healthcare) and emerging technology areas (connected, autonomous, OTT, digital health, and medical devices, etc.), where the client allocates a higher budget.

Key positives

- CC Revenue grew by 6.4% q-o-q, beating our estimates
- Top 5/10 accounts grew by 17.2%/12.3% q-o-q, respectively
- IDV business' revenue growth continued to outrun EPD's growth rate
- Healthcare and medical devices vertical's revenue posted a 23% CQGR over the past four quarters

Key negatives

- Attrition rate inched up by 280 bps q-o-q to 10.2%
- SIS revenue declined by 15.7% q-o-q on a CC basis

Our Call

Valuation – Strong growth outlook going ahead: We have raised earnings estimates for FY2022E/FY2023E/FY2024E, factoring in strong revenue beat, order bookings across verticals, healthy deal pipeline, strong account mining, and shift of ER&D budget towards digital engineering. Although the management expects a gradual recovery in the automotive segment in 2021, it expects increased hyper-digitisation and technology adoption across industries, including media and communication and healthcare and medical devices vertical. Operating profitability is expected to be impacted post the return of normalisation as discretionary expenses would come back. TEL's USD revenue and earnings are likely to post a CAGR of 24% and 26%, respectively, over FY2021-FY2024E. We continue to prefer TEL, given its differentiated technological capabilities, investments in right capabilities, long-standing client relationships, and increasing deal sizes. At the CMP, the stock is trading at 53x/44x/37x its FY2022E/FY2023E/FY2024E earnings, which though expensive is justified against anticipated 2x revenue growth as compared to industry's average growth rate, superior margin, and solid execution. We maintain our Buy rating on TEL with a revised a price target (PT) of Rs. 5,000, given a strong balance sheet, consistent dividend payout, improving cash generation and its status as a preferred partner for clients.

Key Risks

(1) Slowdown in the global economy especially in the automotive industry might affect growth momentum; (2) currency risks; and (3) slower growth in the automotive and broadcast sectors.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,826.2	2,433.3	2,998.6	3,582.9
OPM (%)	28.6	28.0	27.9	27.7
Adjusted PAT	368.1	505.8	614.8	728.0
% YoY growth	*43.7*	*37.4*	*21.5*	*18.4*
Adjusted EPS (Rs.)	59.1	81.2	98.7	116.9
P/E (x)	72.8	53.0	43.6	36.8
P/B (x)	19.8	15.7	12.4	9.8
EV/EBITDA (x)	50.3	38.6	31.4	26.4
RoNW (%)	27.2	29.7	28.4	26.6
RoCE (%)	30.8	32.9	32.0	30.0

Source: Company; Sharekhan estimates

Strong revenue growth, margin below expectations

TEL impressed with reporting strong revenue growth, led by volume, while operating profitability remained below expectations owing to a special one-time bonus to all employees. Strong sequential revenue growth was led by strong growth in the healthcare and medical devices vertical within EPD business and IDV business. Both transportation and broadcast verticals reported steady growth during the quarter. The company reported CC revenue growth of 6.4% q-o-q and 37.4% y-o-y, ahead of our estimates. Revenue growth was driven by strong growth in EPD (up 6.3% q-o-q in CC) and IDV (up 11.8% q-o-q in CC) businesses, while system integration and support division's revenue declined by 15.7% q-o-q during the quarter. USD revenue grew by 6.3% q-o-q and 43.3% y-o-y to $75.7 million, above our estimates. Top account's revenue growth accelerated to 11.9% q-o-q during the quarter compared to 7.1% q-o-q revenue growth in Q4FY2021. Revenue in rupee terms grew by 7.7% q-o-q and 39.4% y-o-y to Rs. 558.3 crore. EBITDA margin contracted by 554 bps q-o-q to 26.9%, below our estimates, owing to a special one-time bonus (Rs. 33 crore) to all employees and higher other expenses to revenue, which was partially offset by revenue growth, increasing utilisation, and higher offshore revenue mix. Excluding one-time bonus payment, adjusted EBITDA margin remained at 32.8%, which was better than its Q4FY2021 EBITDA margin of 32.4%. Net profit of Rs. 113.4 crore (down 1.5% q-o-q, but up 64.6% y-o-y) was in-line with our estimates, aided by strong beat in revenue and higher other income (156% q-o-q), partially offset by lower operating profitability.

Best-placed to capture opportunities in the digital engineering space

Management remains confident on delivering strong revenue growth with a stable operating margin in FY2022 due to strong demand tailwinds across its verticals, robust deal wins, healthy deal pipeline, ramp-up of deals won earlier, and its differentiated capabilities. Management highlighted that its continued investments have helped the company align itself to fulfil the demand in newer areas such as connected, autonomous, shared and electric vehicles, and infotainment. The company secured large deals across core industries during Q1FY2022. The company focuses on building adjacencies areas (rail, off-road, and digital health among others) under its existing verticals to de-risk its business from any slowdown on any specific business and add more logos for growth going ahead. During the quarter, the company's top client in the media and communication vertical superseded its earlier top account, which was in the transportation vertical. We believe the company's investments in sales and marketing, delivery, and capabilities would help the company gain market share and drive growth in top accounts by increasing mining activities. Management believes operating profitability in FY2022 would be sustainable, given higher offshoring, better realisation in complex projects, and longer-term projects.

Key result highlights from the earnings call

- **Growth was driven by EPD and IDV businesses:** TEL reported broad-based growth across verticals and geographies during the quarter. The company's CC revenue growth was at 6.4% q-o-q and 29.5% y-o-y, led entirely by volume. Revenue in rupee terms grew by 7.7% q-o-q and 39.4% y-o-y. The company's growth was driven by two business divisions - EPD and IDV. EPD, the largest contributor to its total revenue, grew by 6.3% q-o-q and 29.5% y-o-y on CC terms. IDV's revenue growth remained at 11.8% q-o-q and 128% y-o-y on CC basis SIS's CC revenue declined by 15.7% q-o-q, but was up 13% y-o-y.
- **Strong revenue growth across verticals in the EPD business segment:** TEL reported positive revenue growth across key verticals q-o-q under EPD business. The transportation vertical reported revenue growth of 2.2% q-o-q on CC basis, led by new projects in the automotive sector. The broadcast and communications vertical continued its revenue growth momentum, with CC revenue growth of 6.7% q-o-q. The healthcare and medical devices vertical's revenue growth accelerated by 18.5% q-o-q and 83.1% y-o-y, led by ramp-up of deals won earlier.
- **Major markets reported strong growth:** The company reported strong growth on a sequential basis across all key geographies. Revenue growth in the US accelerated to 15.9% q-o-q (versus 22.5% q-o-q in Q4FY2021), while Europe reported revenue growth of 3.9% q-o-q (versus 3.0% in Q4FY2021). Strong growth in the US was led by the company's higher exposure to growth verticals such as media and communications and healthcare and medical devices in the US. Slower growth in Europe was due to its higher exposure towards the transportation vertical in Europe. India growth moderated to 1.9% q-o-q from 22.6% q-o-q growth in Q4FY2021.
- **IDV business segment's growth continued to outpace the EPD business:** This business segment has remained volatile in the past few quarters owing to management change, restructuring of sales team, and sharp focus on design kind of projects. IDV business continued to outpace EPD business for the third consecutive quarter. However, margin of this business currently remains lower than EPD. Management expects the margin to improve once customer acquisitions are largely completed.
- **Outlook on the automotive sub-vertical:** Management indicated that the automotive industry has been showing sustained recovery for the third consecutive quarter. The outbreak of COVID-19 has worsened

the situation, which has impacted in terms of reduction in the research and development (R&D) budget of customers and stagnation of sales. Management expects spends related to connected, autonomous, shared, and EVs, and infotainment are expected to accelerate going ahead. Management stated that TEL's capabilities are aligned in these new-age technology areas, given its continued investments in the past few years. The company won large and strategic deals with both OEM and suppliers in EV and autonomous technologies. Further, a leading European innovator and system supplier awarded TEL their EV development programme. Management indicated that five of the top 10 original equipment manufacturers (OEMs) and eight of top 20 supplier are its customers. Management expects the automotive sub-vertical to maintain its growth momentum in the coming quarters.

- **Broadcast and communication vertical:** The broadcast and communication vertical is the largest in terms of revenue of the EPD segment. The vertical's total contribution to overall EPD revenue remained at 45.9%. There are three sub-segments in this vertical, i.e. (1) operator segment, (2) broadcasters, and (3) devices segment. The top account in this vertical is a large multi-services operator based out of the US, and the company has a relationship of over 12 years with that customer. Within media, the company highlighted that growth would be driven by (1) OTT, led by higher consumption and (2) broadband and data-led services. During the quarter, TEL licensed its OTT solution, TEPLAY, to an institution for arts and music towards the development and of their OTT platform. Further, a leading US-based broadcaster selected TEL for its global OTT platform development.

- **Commentary on the healthcare and medical device business:** Revenue growth in the healthcare and medical device vertical remained strong at 15.8% q-o-q and 83.1% y-o-y. Management believes the growth trend in this segment would continue in the coming quarters, as the company has been investing on delivery capabilities, sales, and products. Healthcare and medical revenue accounted for 13.8% to its EPD revenue versus 10.1% in Q1FY2021. Management expects the healthcare and medical vertical to contribute 20% to its total revenue over the next 3-5 years. Within pharma, the company focuses on (1) drug delivery devices; (2) packaging and leveling; and (3) regulatory sub-segments. A leading global healthcare provider selected TEL as its strategic digital and development partner for its next-generation digital health platform.

- **Sharper focus on adjacencies:** Management highlighted that its de-risking plan has been progressing well, given its strong growth momentum in the medical devices vertical and improving revenue contribution from adjacencies segments in the transportation vertical. Adjacencies such as rail and off-road vehicles are expected to maintain strong growth momentum in the coming quarters, as management believes the skills are complementary. Management focuses on acquiring premium logos in these adjacencies. Over the next 3-5 years, management expects contribution of the transportation, broadcast, and medical devices vertical to be 40:40:20.

- **Strong growth outlook in the subsequent quarters:** Growth momentum would continue in the coming quarters because of a strong order book and robust deal pipeline across markets and verticals, ramp-up of deals won earlier, strong deal wins, and demand tailwinds across its verticals. The company's differentiated capabilities in product engineering, design, and digital have helped it to strengthen its market position. Management indicated that the size of large multi-year deals has been increasing. The company has been investing in front-end sales, consultants, and industry experts to drive its organic growth momentum by winning new logos, new accounts, and large deals and retain the large accounts by providing value-added services. Top/top-5/top-10 accounts during the quarter grew in double digits on a sequential basis (significantly higher than the company's sequential growth rate), given strong mining activities in these accounts. Management indicated that the deal sizes have been improving and it was able to secure a large deal of $5 million+ during the quarter. The company's investments in adjacencies such as rail, digital health, and off-road vehicle are expected to drive its growth going ahead. Aggregate net addition employees in the past two quarters remained at 1,098 (14% of Q3FY2021 employee base), which indicates the company's preparedness to address the ramp-up of large deals and deal pipeline. Management indicated the strong growth momentum would continue in the medium term, given strong order book, robust deal pipeline, differentiated capabilities, excellent platforms across sectors, and strong demand environment.

- **Margin likely to remain under pressure with the return of normalcy and wage revision:** Excluding the one-time special bonus to all employees, the company's gross margin improved by 150 bps q-o-q during the quarter. Improvement in adjusted operating profit margin (OPM) was led by higher offshoring, increasing utilisation, higher revenue growth, forex gains, and WFH efficiencies. The company rolled-out its wage revision of 7-8% (similar to earlier years) from July 1, 2021. Management sees some supply-side issues, given strong demand environment. Management expects margins can be sustainable in FY2022 due to higher revenue growth and operational efficiencies. The number of onsite employees remained at 10% of its total workforce. We believe this number would go up once the normalcy returns, which would create margin pressure.

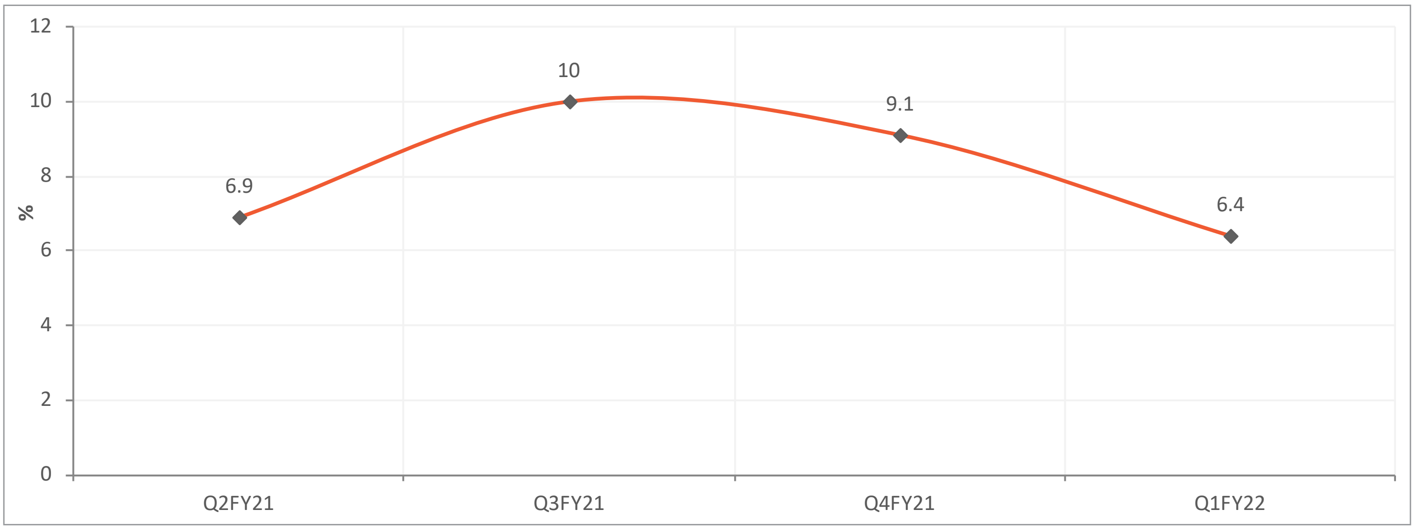
- **Strong growth in top accounts:** Management indicated that its top account falls under the media and communication vertical. Revenue from the top five and top 10 accounts grew by 17.2% q-o-q and 12.3% q-o-q, respectively, given strong account mining.
- **Attrition and higher offshore mix:** Attrition rate increased to 10.2% in Q1FY2022 versus 7.4% in Q4FY2021. Net addition of employees stood at 552 q-o-q during the quarter. Offshore mix improved to 72.6% from 70.4%/63.5% in Q4FY2021/Q1FY2021. Management highlighted that onsite mix would not move to pre-COVID era. Total onsite employees were 10% of total employee base. Management indicated that the number of onsite employees would go up once travel restrictions are removed, but it would go to the pre-COVID level.
- **Utilisation rate** during the quarter stood at 79% in Q1FY2022 compared to 77% in Q4FY2021. Improvement in utilisation aided in margin improvement during the quarter.
- **Platform and licensing** revenue contribution remained below 5% of its total revenue. Management indicated that its platforms enable the company to win new customers and differentiate itself from competitors. The platform's capabilities help TEL to get new logos and strengthening relationships with existing customers.

Results Rs cr

Particulars	Q1FY22	Q1FY21	Q4FY21	Y-o-Y %	Q-o-Q %
Revenue ($ mn)	**75.7**	**52.8**	**71.2**	**43.3**	**6.3**
Net sales	**558.3**	**400.5**	**518.4**	**39.4**	**7.7**
Employee expenses	302.9	251.0	264.8	20.7	14.4
Total purchases	39.7	15.3	30.9	159.3	28.6
Other expenses	65.7	41.5	54.7	58.4	20.2
EBITDA	**150.0**	**92.7**	**168.0**	**61.8**	**-10.7**
Depreciation and amortisation	11.9	10.8	11.3	10.1	5.5
EBIT	**138.1**	**81.9**	**156.7**	**68.6**	**-11.9**
Other income	17.5	13.4	6.8	30.1	156.5
Finance cost	1.6	1.4	1.9	18.6	-13.4
PBT	**153.9**	**93.9**	**161.6**	**63.8**	**-4.8**
Tax provision	40.6	25.1	46.5	61.7	-12.8
Net profit	**113.4**	**68.9**	**115.1**	**64.6**	**-1.5**
EPS (Rs.)	**18.2**	**11.1**	**18.5**	**64.6**	**-1.5**
Margin (%)				**BPS**	**BPS**
EBITDA	26.9	23.1	32.4	372	-554
EBIT	24.7	20.4	30.2	428	-550
NPM	20.3	17.2	22.2	311	-190

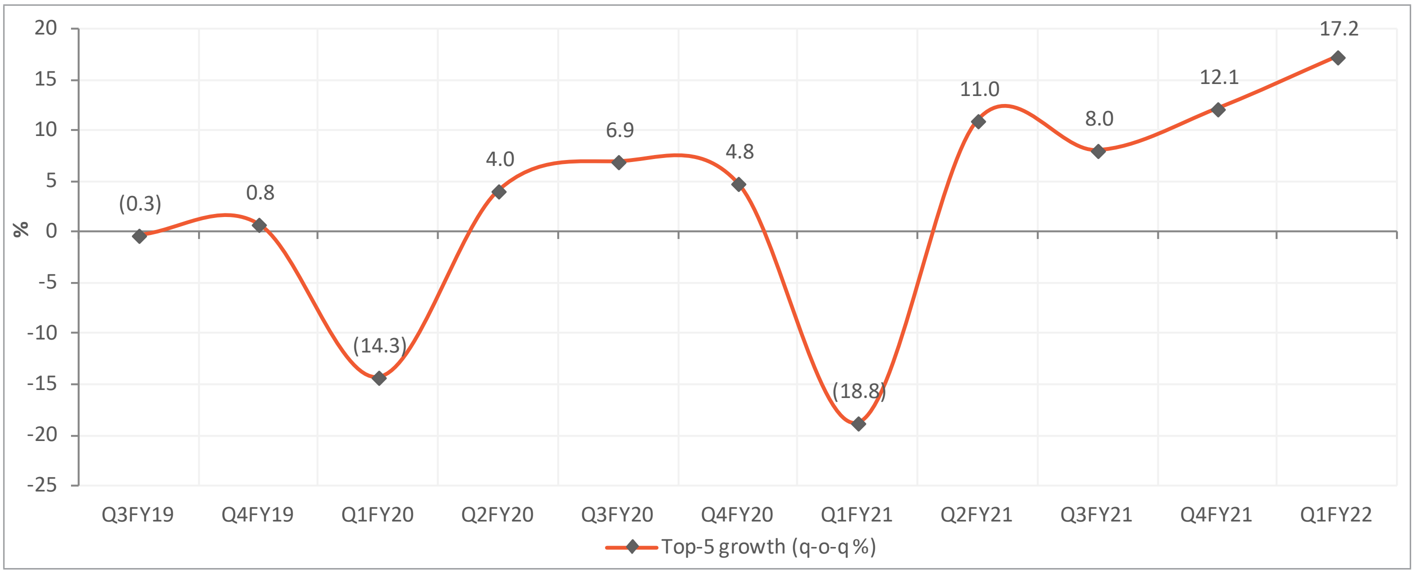
Source: Company; Sharekhan Research

CC revenue growth trend (q-o-q)



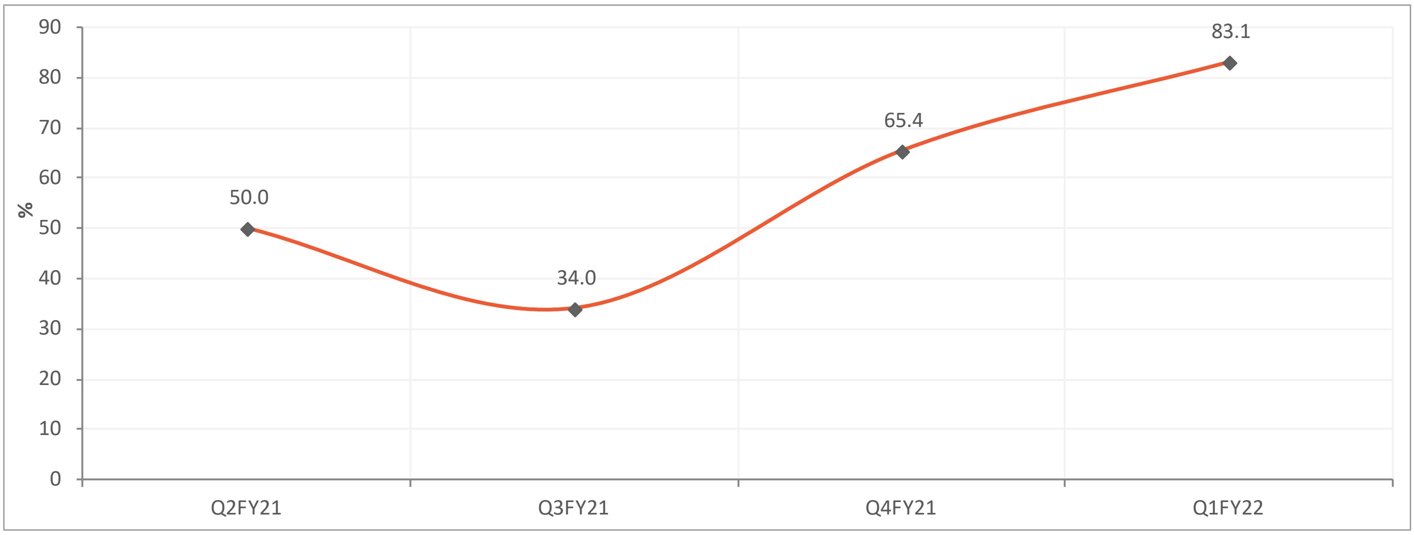
Source: Company; Sharekhan Research

Top accounts growth trend (q-o-q)



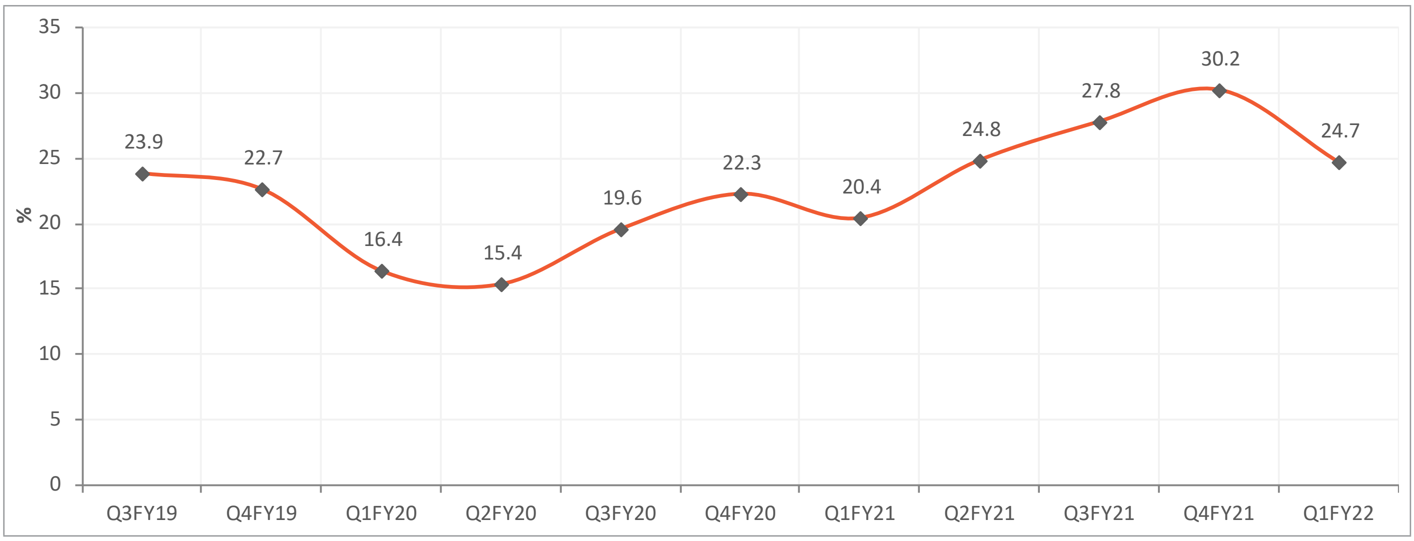
Source: Company; Sharekhan Research

Healthcare and medical devices growth trend (q-o-q)



Source: Company; Sharekhan Research

EBIT margin trend



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Large addressable market provides sustainable growth opportunities

Total global ERD spends are estimated at $1.4 trillion in 2019, of which the global addressable ERD market is at $345 billion, while the share of Indian outsourcing in engineering remained at $29 billion in 2019. The share of ESPs outsourcing to India is estimated at $14 billion in 2019 and is expected to reach $63 billion by 2025. Further, the ERD services space is likely to grow faster among technology spends, led by higher adoption of digital engineering. Digital engineering spends are accelerating across verticals. According to Zinnov, global ER&D is expected to post a CAGR of 11% to $1.9 trillion by 2023 from $1.4 trillion in 2020. Digital engineering to ER&D spend ratio is likely to reach 47% in 2023 from 36% in 2020. Further, digital engineering spend is expected to grow to around $1.1 trillion by 2025 from $404 million in 2019.

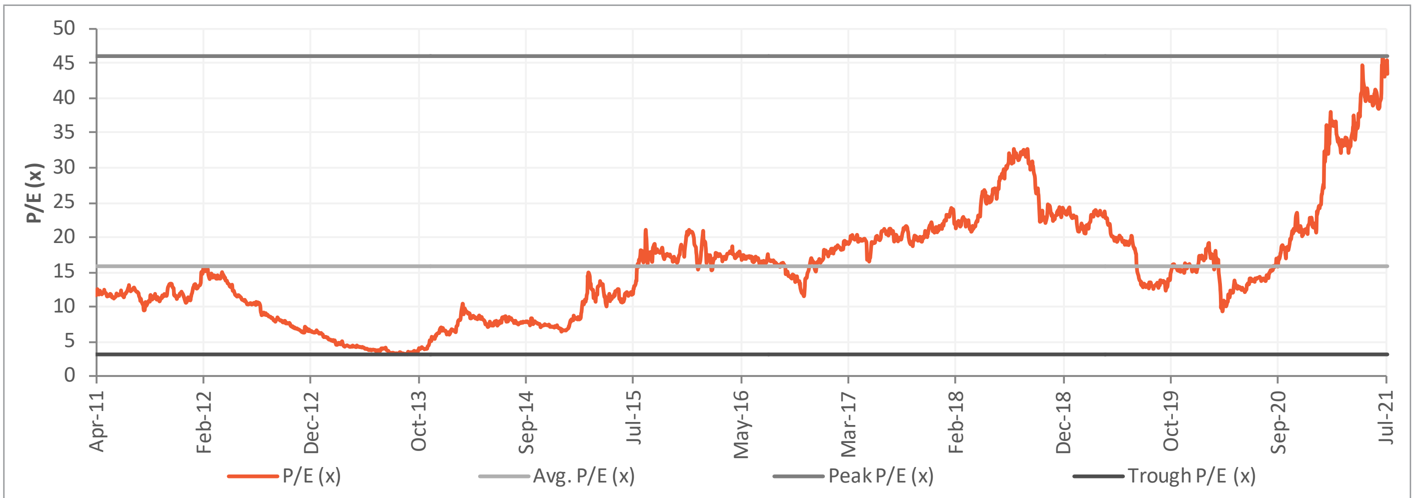
■ Company outlook – Promising outlook

TEL's major verticals have a huge growth opportunity, considering an increase in R&D spends in automotive, consumer electronics, and medical devices. The company has many growth opportunities given that TEL is a specialist vendor for top OEMs and tier-I suppliers, recent re-allocation of R&D budgets towards electronics and software, a large addressable market, and differentiated product offerings. However, we model TEL's USD revenue and earnings to register a CAGR of 24% and 26%, respectively, over FY2021-FY2024E.

■ Valuation – Bright times ahead

We have raised earnings estimates for FY2022E/FY2023E/FY2024E, factoring in strong revenue beat, order bookings across verticals, healthy deal pipeline, strong account mining, and shift of ER&D budget towards digital engineering. Although the management expects a gradual recovery in the automotive segment in 2021, it expects increased hyper-digitisation and technology adoption across industries, including media and communication and healthcare and medical devices vertical. Operating profitability is expected to be impacted post the return of normalisation as discretionary expenses would come back. TEL's USD revenue and earnings are likely to post a CAGR of 24% and 26%, respectively, over FY2021-FY2024E. We continue to prefer TEL, given its differentiated technological capabilities, investments in right capabilities, long-standing client relationships, and increasing deal sizes. At the CMP, the stock is trading at 53x/44x/37x its FY2022E/FY2023E/FY2024E earnings, which though expensive is justified against anticipated 2x revenue growth as compared to industry's average growth rate, superior margin, and solid execution. We maintain our Buy rating on TEL with a revised a price target (PT) of Rs. 5,000, given a strong balance sheet, consistent dividend payout, improving cash generation and its status as a preferred partner for clients.

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 (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Cyient	1,062	11	11,689	25.0	20.9	10.9	9.5	3.1	2.8	15.2	16.4
LTTS	3,399	11	35,710	38.5	31.3	24.8	20.9	8.5	7.1	24.5	25.3
Tata Elxsi	4,303	6	26,795	53.0	43.6	38.6	31.4	15.7	12.4	29.7	28.4

Source: Bloomberg; Sharekhan Research

About company

Bengaluru-based TEL is a global design and technology services company. The company was incorporated in 1989 as Tata Elxsi (India) Limited. The company provides product design and engineering services and systems integration and support services in India, the US, Europe, and Rest of the World. The company also provides solutions and services for emerging technologies such as IoT, big data analytics, cloud, mobility, virtual reality, and artificial intelligence and brings together domain experience across infotainment, autonomous driving, telematics, powertrain, and body electronics. The company addresses the automotive, broadcast and communications, consumer electronics, and healthcare industries supported by its worldwide network of design studios, development centres, and offices. The company also works with leading OEMs and suppliers in the automotive and transportation industries for R&D, design and product engineering services from architecture to launch and beyond.

Investment theme

TEL is an integrated engineering services company with a strong expertise in the automotive and broadcast and communication verticals. The complex innovation requirements for OEMs need to be cost-effective, which makes a good case for offshoring to India due to its capabilities along with cost advantage. Change in business mix would help in improving margins and return ratios. TEL has a strong, debt-free balance sheet, and a robust cash balance that provide an inorganic growth opportunity, which is crucial in the fast-changing technology landscape. The company has been generating return on equity in excess of 30% during the past three years.

Key Risks

(1) Slowdown in the global economy, especially in the automotive industry and ongoing US-China global trade might affect growth momentum; (2) currency risks; and (3) slower growth in the automotive and broadcast sectors.

Additional Data

Key management personnel

NG Subramanian	Non-Executive Chairperson
Manoj Raghavan	Managing Director cum Chief Executive Officer
Nitin Pai	CMO and Chief Strategy Officer
H.V. Muralidharan	Chief Financial Officer
Girja Vaidyanathan	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management	3.56
2	Axis Equity Advantage Fund	3.16
3	Tata Investment Corp Limited	2.31
4	Vanguard Group Inc.	1.85
5	BlackRock Inc.	0.89
6	JPMorgan Chase & Co	0.59
7	Invesco Ltd	0.59
8	William Blair & Co LLC	0.55
9	Dimensional fund advisors LP	0.52
10	Norges Bank	0.43

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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