Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Indraprastha Gas Ltd

## Margin concerns overblown; correction an opportunity to Buy

| Oil & Gas | Sharekhan code: IGL |
|---|---|

| Reco/View: Buy | ↔ | CMP: Rs. 499 | Price Target: Rs. 650 | ↔ |
|---|---|---|---|---|

↑ Upgrade ↔ Maintain ↓ Downgrade

| 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 | | ↑ | |

**ESG Disclosure Score** NEW

| ESG RISK RATING | 34.15 |
|---|---|
| Updated Nov 08, 2021 | |

**High Risk**

| NEGL | LOW | MED | HIGH | SEVERE |
|---|---|---|---|---|
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ |

*Source: Morningstar*

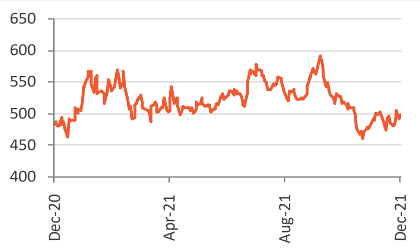
**Company details**

| | |
|---|---|
| Market cap: | Rs. 34,927 cr |
| 52-week high/low: | Rs. 604/452 |
| NSE volume: (No of shares) | 26.6 lakh |
| BSE code: | 532514 |
| NSE code: | IGL |
| Free float: (No of shares) | 38.5 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 45.0 |
| FII | 21.9 |
| DII | 16.1 |
| Others | 17.1 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 2 | -12 | -6 | 2 |
| Relative to Sensex | 7 | -11 | -16 | -24 |

*Sharekhan Research, Bloomberg*


**Summary**

- IGL's stock price has been a laggard in the last six months as expectations of a steep hike in domestic gas prices raised concerns on margins. We believe such concerns are overblown as CNG car running costs would be nearly half that of petrol cars, even if domestic gas prices double; thus we stay confident on sustained high margins of >Rs. 8/scm for IGL.
- Rising CNG vehicle conversion rate (trebled to 14,000-15,000 vehicles per month versus pre-COVID level of 4,000-5,000 vehicles per month) in Delhi and ramp-up at new GAs would drive robust 18% volume CAGR over FY21-24E.
- Strong balance sheet and robust FCF offer scope to add new GAs from XIth CGD bidding round (PNGRB has finalized 65 new GAs for bidding). IGL is also eyeing new growth avenues and plans to have a battery swapping facility at 50 CNG stations initially and further expand to ~200 stations with overall capes of Rs100 crore.
- We maintain a Buy on IGL with an unchanged PT of Rs. 650 given strong volume-led earnings growth outlook, nil debt and high RoE of 21%. Sharp 17% correction in stock from 52-week high level makes valuation attractive at 19.8x FY24E EPS.


**The high share of CNG at ~73% in Indraprastha Gas Limited's (IGL) overall gas sales volumes makes the company well positioned to protect margins at >Rs. 8/scm as it would be able to hike CNG prices given that the running cost of CNG cars would remain at half the running cost for petrol cars, even if domestic gas price double. High double-digit volume growth outlook seems achievable as CNG conversion rate increases in IGL's existing GAs and we see volume ramp-up of 1.5-2 mmscmd from new GAs (Rewari, Karnal, and Gurugram, and development of three new GAs won under the 10th CGD bidding round). We have fined-tuned our FY22-FY24 earnings estimate and expect EBITDA/PAT to clock 24%/21% CAGR over FY21-24E.**

- **Favourable CNG economics versus petrol provides enough room for CNG price hike and sustain high margin:** Domestic gas prices are expected to be further hiked to $5-5.5/mmBtu from April 2022 after a steep 62% increase to $2.9/mmBtu in October 2021. Our analysis shows that even in case of a 100% hike in domestic gas prices, CNG will remain cheaper by 45% than petrol in terms of running costs. Thus, we believe that IGL has enough room to hike CNG prices and pass on any potential steep gas price increase in the coming quarters. IGL has already passed on entire domestic gas price hike to $2.9/mmBtu to the customers and is taking continuous CNG prices (cumulative price hike of Rs/5.6/kg since October 13) to pass on potential price increase from April 2022. Thus, we remain confident of sustained strong margin of >8/scm for IGL over FY22E-24E.
- **Rising conversion to CNG cars and ramp-up volume at new GAs to drive double digit volume growth:** Delhi has been witnessing high conversion to CNG fitted cars with 14,000-15,000 CNG vehicles getting registered per month as compared to only 4000-5000 CNG vehicles per month in pre-COVID period. This coupled with expansion of new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the Xth CGD bidding round) could further accelerate volume growth in the coming years. Thus, we expect IGL's volume to clock 18% CAGR over FY21-24E and reach 8.7 mmscmd by FY24E (versus management's target to achieve gas sales volumes of 10 mmscmd by FY24E).
- **XIth CGD bidding round – potential win of new GAs to sustain future volume growth:** PNGRB has finalised 65 new GAs for bidding under the 11th CGD bidding round (electronic bid submission deadline is December 15, 2021) to further expand the reach of natural gas to 86% India's geographical area and 96% of population from 228 GAs (covering ~53% of India's geographical area and 70% of its population) up to 10th CGD bidding round. IGL is well placed to bid for new GAs given its debt free balance sheet and annual FCF generation of Rs. 800-900 crore.

**Our Call**

**Valuation – Maintain Buy on IGL with an unchanged PT of Rs. 650:** The sharp 17% correction in IGL's stock price from 52-wekk high of Rs604 makes valuation attractive at 19.8x FY24E EPS while volume led earnings growth outlook (we expect a 21% PAT CAGR over FY21-24E) remains intact along with strong RoE/RoCE of 21%/30%. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650.

**Key Risks**

Lower-than-expected gas sales volume in case of third of COVID-19 while steep decline in crude oil price could affect CNG economics versus petrol. Delay in development of new GAs, a sharp rise in LNG prices and adverse regulatory changes (revision in APM gas-pricing formula) could affect outlook and valuations. OMC demand of high dealer commission would remain an overhang on IGL until it is resolved.

**Valuation (Standalone)** Rs cr

| Particulars | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 4,941 | 6,421 | 7,583 | 9,147 |
| OPM (%) | 30.0 | 32.0 | 30.8 | 30.9 |
| Adjusted PAT | 1,006 | 1,396 | 1,595 | 1,764 |
| % YoY growth | -11.5 | 38.8 | 14.3 | 10.6 |
| Adjusted EPS (Rs.) | 14.4 | 19.9 | 22.8 | 25.2 |
| P/E (x) | 34.7 | 25.0 | 21.9 | 19.8 |
| P/B (x) | 5.9 | 5.2 | 4.5 | 3.9 |
| EV/EBITDA (x) | 22.8 | 16.2 | 13.9 | 11.1 |
| RoNW (%) | 18.4 | 22.1 | 21.9 | 21.1 |
| RoCE (%) | 23.1 | 28.0 | 28.0 | 30.2 |

*Source: Company; Sharekhan estimates*

## IGL well placed to sustain elevated margin as favourable economic of CNG versus petrol to sustain

Domestic gas price is expected to be further hiked to $5-5.5/mmBtu from April 2022 after a steep 62% increase to $2.9/mmBtu in October 2021. Our analysis shows that even if domestic gas prices double from current levels, CNG will remain cheaper by 45% than petrol in terms of running cost. Thus, we believe that CGDs (including IGL) has enough room to take price hike and pass on any potential steep gas price increase in the coming quarters. IGL has already passed on the entire gas price hike to $2.9/mmBtu and is taking continuous CNG prices (cumulative price hike of Rs/5.6/kg since October 13) to pass on potential price hikes from April 2022. Thus, we remain confident of sustained strong margins of >Rs. 8/scm for IGL over FY22E-24E.

**CNG economics versus petrol at various domestic gas price levels**

| Particulars | Price as on Oct 31 | Current price | 50% | 60% | 70% | 80% | 90% | 100% |
|---|---|---|---|---|---|---|---|---|
| Domestic gas price ($/mmBtu) | 1.8 | 2.9 | 4.4 | 4.6 | 4.9 | 5.2 | 5.5 | 5.8 |
| Domestic gas price (Rs/scm) | 4.7 | 7.6 | 11.4 | 12.1 | 12.9 | 13.6 | 14.4 | 15.2 |
| Domestic gas price (Rs/kg) | 6.1 | 9.9 | 14.9 | 15.9 | 16.9 | 17.9 | 18.9 | 19.9 |
| IGL CNG price (Rs/kg) | 45.2 | 53.0 | 58.7 | 59.8 | 61.0 | 62.1 | 63.2 | 64.4 |
| Retail petrol price in Delhi (Rs/litre) | 109.3 | 95.4 | 95.4 | 95.4 | 95.4 | 95.4 | 95.4 | 95.4 |
| Mileage for petrol car (kms/litre) | 12.0 | 12.0 | 13.0 | 14.0 | 15.0 | 16.0 | 17.0 | 18.0 |
| Running cost (Rs/km) | 9.1 | 8.0 | 7.3 | 6.8 | 6.4 | 6.0 | 5.6 | 5.3 |
| Mileage for CNG car (kms/kg) | 16.0 | 16.0 | 17.0 | 18.0 | 19.0 | 20.0 | 21.0 | 22.0 |
| Running cost (Rs/km) | 2.8 | 3.3 | 3.5 | 3.3 | 3.2 | 3.1 | 3.0 | 2.9 |
| Saving of CNG car versus petrol car | -69% | -58% | -53% | -51% | -50% | -48% | -46% | -45% |

*Source: Company; Sharekhan Research*

**Recent CNG price hikes by IGL in Delhi** Rs/kg

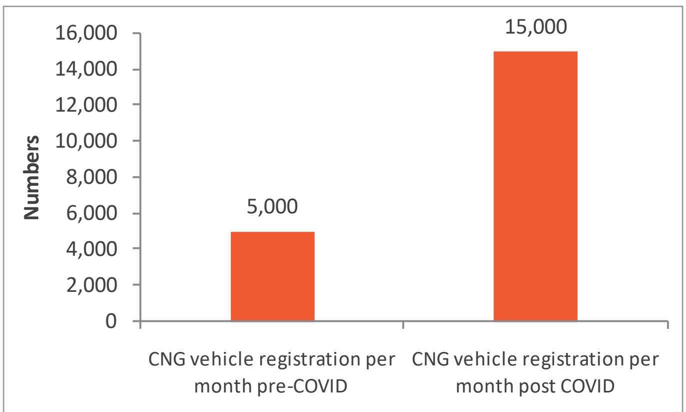
| Particulars | CNG price hike in Delhi | CNG price trend in Delhi |
|---|---|---|
| Jul-21 | 1.0 | 44.3 |
| Aug-21 | 0.9 | 45.2 |
| Oct-21 | 2.3 | 47.5 |
| Oct-21 | 2.3 | 49.8 |
| Nov-21 | 2.3 | 52.0 |
| Dec-21 | 1.0 | 53.0 |

*Source: Company; Media articles; Sharekhan Research*

## High adoption of CNG vehicles, ramp-up of new GAs to drive high double-digit volume growth

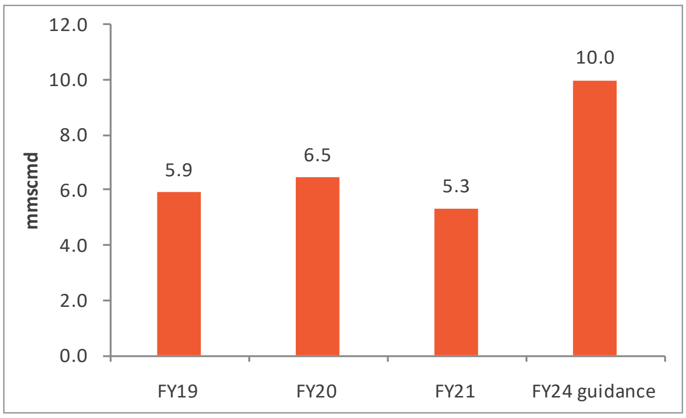
Delhi has been witnessing high conversion to CNG fitted cars with 14,000-15,000 CNG vehicles getting registered per month as compared to only 4000-5000 CNG vehicles per month in the pre-COVID period. This coupled with expansion of new GAs of Rewari, Karnal, and Gurugram, and development of three new GAs (won under the Xth CGD bidding round) could further accelerate volume growth in the coming years. Thus, we expect IGL's volume to clock an 18% CAGR over FY21-24E and reach 8.7mmscmd by FY24E (versus management target to achieve volume of 10 mmscmd by FY24E).

**CNG vehicle registrations treble post COVID**




*Source: Company; Media articles; Sharekhan Research*

**Management aims volume of 10 mmscmd by FY24E**




*Source: Company; Media articles; Sharekhan Research*

## PNGRB has finalized 65 new GAs for bidding under the 11th CGD bidding round

**Geographical Areas (GAs) in 11th CGD Bidding Round**

| Unique ID. | Geographical Area | State | Population | Area |
|---|---|---|---|---|
| 11.01 | Kurnool, Guntur, and Prakasam districts | Andhra Pradesh | 1,23,38,724 | 46,675 |
| 11.02 | Nagaon, Morigaon, Hojai, Karbi Anglong and West Karbi Anglong districts | Assam | 47,37,504 | 15,958 |
| 11.03 | Lakhimpur, Dhemaji, Darrang, Udalgiri, Sonitpur and Biswanath Chariali districts | Assam | 54,12,548 | 14,315 |
| 11.04 | Kokrajhar and Dhubri districts | Assam | 28,36,400 | 11,000 |
| 11.05 | Baksa, Barpeta, Bongaigaon, Chirang and Nalbari districts | Assam | 46,36,302 | 8,807 |
| 11.06 | Darbhanga, Madhubani, Supaul, Sitamarhi and Sheohar districts | Bihar | 1,47,33,660 | 10,848 |
| 11.07 | Gopalganj, Siwan, West Champaran, East Champaran and Deoria districts | Bihar & Uttar Pradesh | 1,80,27,835 | 15,988 |
| 11.08 | Baloda Bazar, Gariyaband and Raipur districts | Chhattisgarh | 40,63,872 | 12,383 |
| 11.09 | Kabirdham, Raj Nandgaon and Kanker districts | Chhattisgarh | 31,08,600 | 19,466 |
| 11.10 | Mungeli, Bemetara, Durg, Balod and Dhamtari districts | Chhattisgarh | 48,45,360 | 15,396 |
| 11.11 | Jashpur, Raigarh, Janjgir-Champa and Mahasamund districts | Chhattisgarh | 49,98,114 | 21,567 |
| 11.12 | Koriya and Surajpur districts | Chhattisgarh | 14,47,960 | 12,040 |
| 11.13 | Balrampur and Surguja districts | Chhattisgarh | 15,70,843 | 10,306 |
| 11.14 | Kondagaon, Bastar and Sukma districts | Chhattisgarh | 16,63,358 | 15,917 |
| 11.15 | Narayanpur, Bijapur and Dantewada | Chhattisgarh | 6,78,529 | 15,971 |
| 11.16 | Mandi, Kullu, Kinnaur and Lahaul & Spiti districts | Himachal Pradesh | 15,53,365 | 29,695 |
| 11.17 | Kangra and Chamba districts | Himachal Pradesh | 20,29,155 | 12,261 |
| 11.18 | Jammu, Udhampur, Reasi, Samba and Kathua districts | UT of Jammu and Kashmir | 33,34,943 | 10,104 |
| 11.19 | Gumla, Latehar, Lohardaga, Simdega, Garhwa and Khunti districts | Jharkhand | 46,68,228 | 21,555 |
| 11.20 | Chikkaballapur district | Karnataka | 12,55,104 | 4,244 |
| 11.21 | Idukki, Kottayam and Pattanamtitta districts | Kerala | 42,80,937 | 9,214 |
| 11.22 | Agar Malwa, Neemuch, Mandsaur and Jhalawar districts | Madhya Pradesh and Rajasthan | 41,48,885 | 18,736 |
| 11.23 | Burhanpur, Khandwa, Khargone and Harda districts | Madhya Pradesh | 45,11,419 | 22,138 |
| 11.24 | Tikamgarh, Niwari, Chattarpur and Panna districts | Madhya Pradesh | 42,24,061 | 20,870 |
| 11.25 | Betul, Chhindwara, Seoni and Balaghat districts | Madhya Pradesh | 67,47,113 | 39,845 |
| 11.26 | Damoh, Jabalpur, Katni, Mandla, Umaria and Dindori districts | Madhya Pradesh | 74,23,737 | 34,813 |
| 11.27 | Hoshangabad, Narsinghpur, Sagar and Vidisha districts | Madhya Pradesh | 61,70,537 | 29,459 |
| 11.28 | Buldana, Nanded and Parbhani districts | Maharashtra | 77,83,636 | 26,403 |
| 11.29 | Beed, Jalgaon and Jalna districts | Maharashtra | 87,74,012 | 30,145 |
| 11.30 | Akola, Hingoli and Washim districts | Maharashtra | 41,88,411 | 15,401 |
| 11.31 | Amravati and Yavatmal districts | Maharashtra | 56,60,793 | 25,792 |
| 11.32 | Chandrapur and Wardha districts | Maharashtra | 35,05,081 | 17,752 |
| 11.33 | Nagpur district | Maharashtra | 46,53,570 | 9,892 |
| 11.34 | Bhandara, Gondiya and Garchiroli districts | Maharashtra | 35,95,783 | 23,733 |
| 11.35 | Alirajpur, Nandurbar and Barwani districts | Maharashtra & Madhya Pradesh | 37,63,175 | 14,564 |
| 11.36 | Koraput, Malkangiri, and Nabarangpur districts | Odisha | 32,13,785 | 19,889 |
| 11.37 | Gajapati, Kandhamal, Boudh and Sonepur districts | Odisha | 23,62,272 | 17,781 |
| 11.38 | Rayagada, Kalahandi, Bolangir and Nuapada districts | Odisha | 48,04,159 | 25,420 |
| 11.39 | Pathankot district | Punjab | 6,76,598 | 931 |
| 11.40 | Tarn Taran district | Punjab | 11,19,627 | 2,414 |
| 11.41 | Fazilka (except area already authorized), Ganganagar and Hanumangarh districts | Punjab & Rajasthan | 10,23,565 | 23,334 |
| 11.42 | Bikaner and Churu districts | Rajasthan | 44,03,484 | 44,074 |
| 11.43 | Jhunjhunu, Sikar and Nagaur districts | Rajasthan | 81,22,121 | 31,378 |
| 11.44 | Dausa, Karauli, Sawai Madhopur and Tonk districts | Rajasthan | 58,49,534 | 20,648 |
| 11.45 | Dharmapuri and Krishnagiri districts | Tamil Nadu | 33,86,652 | 9,626 |
| 11.46 | Tiruvannamalai and Villupuram districts | Tamil Nadu | 59,23,748 | 13,382 |
| 11.47 | Ariyalur and Perambalur districts | Tamil Nadu | 13,20,117 | 3,696 |
| 11.48 | Namakkal and Tiruchirapalli districts | Tamil Nadu | 44,48,891 | 7,929 |
| 11.49 | Pudukottai, Sivaganga and Thanjavur districts | Tamil Nadu | 53,63,336 | 12,288 |
| 11.50 | Madurai, Theni and Virudhnagar districts | Tamil Nadu | 62,26,439 | 10,819 |
| 11.51 | Kanyakumari, Thoothukudi and Tiruneveli Kattabo districts | Tamil Nadu | 66,97,783 | 13,122 |
| 11.52 | Dindigul and Karur districts | Tamil Nadu | 32,24,268 | 8,940 |
| 11.53 | The Nilgiris and Erode districts | Tamil Nadu | 29,87,138 | 8,325 |
| 11.54 | Nizamabad, Adilabad, Nirmal, Mancherial and Kumuram Bheem Asifabad districts | Telangana | 52,92,574 | 24,061 |
| 11.55 | Jogulamba Gadwal, Nagarkurnool, Mahabubnagar, Narayanpet, Wanaparthy and Yadgir districts | Telangana andKarnataka | 47,85,208 | 22,095 |
| 11.56 | South Tripura and Sepahijala districts | Tripura | 9,37,965 | 2,647 |
| 11.57 | Dhalai, North Tripura, Unakoti and Khowai districts | Tripura | 13,60,183 | 5,447 |
| 11.58 | Amroha & Sambhal (except area already authorized) districts | Uttar Pradesh | 36,30,870 | 4,249 |
| 11.59 | Kasganj district | Uttar Pradesh | 14,36,719 | 1,955 |
| 11.60 | Purulia and Bankura districts | West Bengal | 65,26,789 | 13,141 |
| 11.61 | East Mednipore, West Mednipore and Jhargram districts | West Bengal | 1,10,09,332 | 14,081 |
| 11.62 | Alipurduar and Koch Bihar districts | West Bengal | 42,45,104 | 6,144 |
| 11.63 | Banda, Chitrakoot and Mahoba districts | Uttar Pradesh | 36,67,098 | 10,768 |
| 11.64 | Pauri Garhwal, Uttarkashi, Rudraprayag and Tehri Garhwal districts | Uttarakhand | 18,78,573 | 18,971 |
| 11.65 | Pithoragarh, Champawat, Almora, Chamoli and Bageshwar districts | Uttarakhand | 20,17,096 | 22,271 |

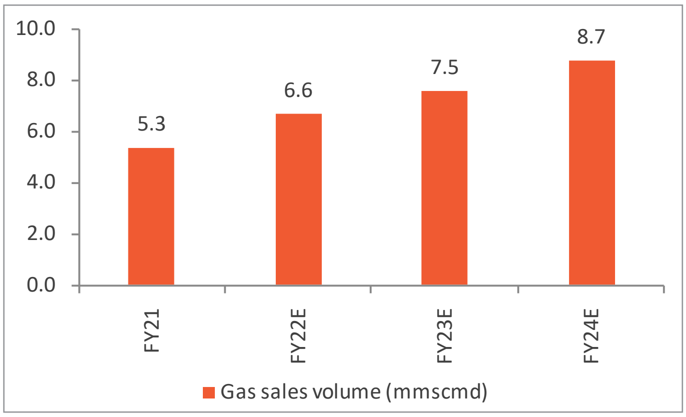
*Source: PNGRB; Note - Area in sq. km.*

## 11th CGD bidding round Schedule


*Source: PNGRB*

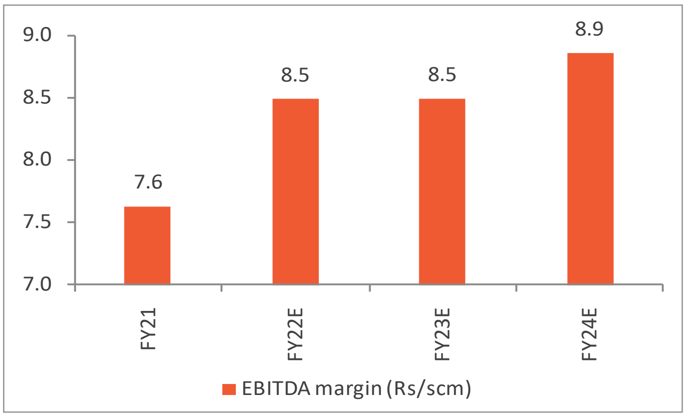
## Financials in charts

### Regulatory push to drive volumes



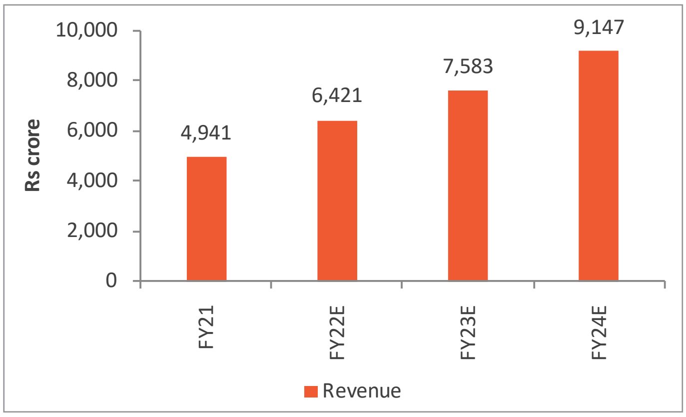

*Source: Company, Sharekhan Research*

### High margins to sustain



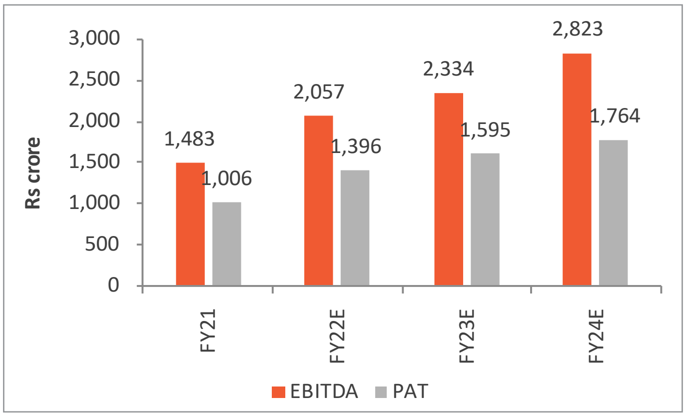

*Source: Company, Sharekhan Research*

### Revenue trend



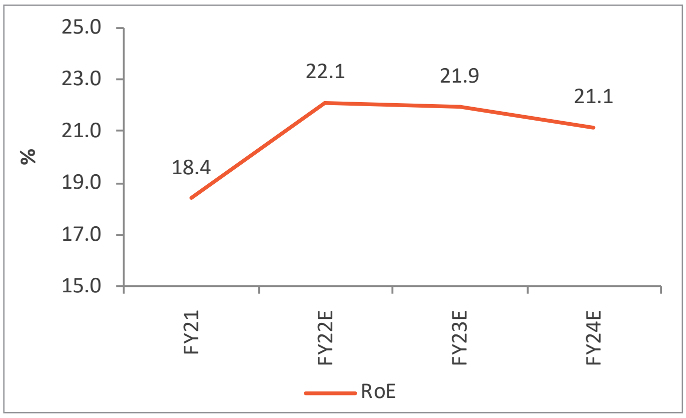

*Source: Company, Sharekhan Research*

### EBITDA/PAT to report 24%/21% CAGR over FY21-FY24E



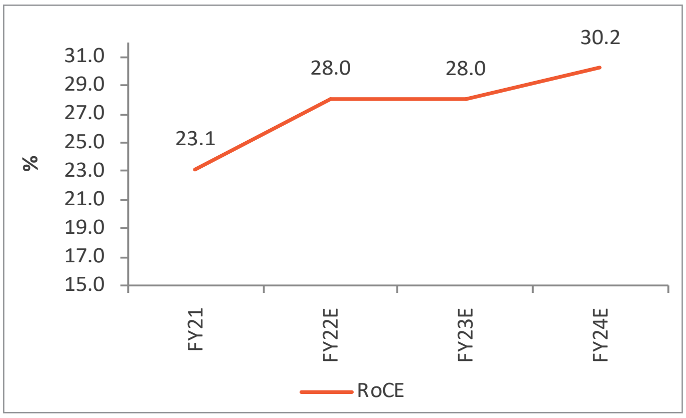

*Source: Company, Sharekhan Research*

### Strong RoE trend




*Source: Company, Sharekhan Research*

### RoCE to stay healthy




*Source: Company, Sharekhan Research*

## Outlook and Valuation

■ **Sector view - Regulatory push and low gas price to drive gas demand in India and benefit CGD players**

Long-term gas demand potential for India is very strong, given regulatory support to curb pollution and low domestic gas prices. Additionally, the government's aim to increase the share of gas in India's overall energy mix to 15% by 2025 (from 6% currently) would substantially improve gas penetration in the country and boost gas consumption. Thus, we expect sustainable high single-digit growth in India gas demand for the next 4-5 years. CGD companies' (with exposure towards CNG) margins are expected to remain strong given weak domestic gas prices.

■ **Company outlook - Long-term volume growth outlook intact**

We believe that IGL is well-placed to benefit from rising gas consumption in India and thus we model 18% volume CAGR over FY2021-FY2024E led by a sustained high growth in existing geographical areas (GAs), expansion into new GAs of Rewari, Karnal and Gurugram and development of three new GAs (won under the Xth CGD bidding round). EBITDA margin is expected to sustain, given IGL's ability to pass on any increase in domestic gas price given favourable economics of CNG versus petrol. Hence, we expect a strong EBITDA/PAT CAGR of 24%/21% over FY2021-FY2024E.

■ **Valuation - Maintain Buy on IGL with an unchanged PT of Rs. 650**

The sharp 17% correction in IGL's stock price from 52-wekk high of Rs604 makes valuation attractive at 19.8x FY24E EPS while volume led earnings growth outlook (we expect a 21% PAT CAGR over FY21-24E) remains intact along with strong RoE/RoCE of 21%/30%. Hence, we maintain a Buy rating on IGL with an unchanged PT of Rs. 650.

**One-year forward P/E (x) band**


*Source: Sharekhan Research*

## About company

IGL is a dominant CGD player in NCR (Delhi, Noida, Greater Noida, and Ghaziabad), with gas sales volume of over 7 mmscmd currently. IGL derives 73% of its volume from CNG, 14% from domestic PNG (including sales to other CDG companies) and remaining from commercial/industrial PNG. The entire gas requirement for CNG and domestic PNG is met through domestic gas supply and the remaining is met through imported re-gasified liquefied natural gas (R-LNG).

## Investment theme

The government's aim to increase the share of gas in India's energy mix to ~15% by 2030 (from 6% currently) and the thrust to reduce air pollution in the NCR region provide a regulatory push for strong growth in CNG and domestic PNG volumes for IGL. Moreover, the development of new GAs of Rewari, Karnal, and Gurugram and recent awarding of three new GAs in the 10th round of CGD bidding would drive volume growth beyond its existing areas of operations. The company's margins are expected to remain strong given favourable economics of CNG versus petrol. Moreover, the recent sharp volume recovery above pre-COVID level re-enforces confidence with respect to volume led double-digit earnings growth outlook.

## Key Risks

- Lower-than-expected gas sales volume in case of delayed recovery due to COVID-19 led slowdown and delay in development of new Gas
- Any change in domestic gas allocation/pricing policy, depreciation of Indian rupee, higher spot LNG price and any adverse regulatory changes could affect margins and valuations.
- OMC demand of high dealer commission would remain an overhang on MGL until resolved

## Additional Data

**Key management personnel**

| | |
|---|---|
| Arun Kumar Singh | Chairman |
| AK Jana | Managing Director |
| Bimal Ram Nagar | Chief Financial Officer |

*Source: Company*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Life Insurance Corp of India | 5.3 |
| 2 | Government of National Capital Territory of Delhi | 5.0 |
| 3 | FMR LLC | 3.2 |
| 4 | Kotak Mahindra Asset Management Co. Ltd | 2.1 |
| 5 | Vanguard Group Inc. | 1.8 |
| 6 | DSP Investment Managers Pvt. Ltd | 1.5 |
| 7 | SBI Life Insurance Co. Ltd | 1.4 |
| 8 | BlackRock Inc. | 1.3 |
| 9 | Schroders PLC | 1.0 |
| 10 | BNP Paribas SA | 0.9 |

*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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