Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Tech Mahindra Ltd

## Growth in the fast lane

| IT & ITeS | Sharekhan code: TECHM |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 1,785 \| Price Target: Rs. 2,060 ↑ |

↑ 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 13.12

Updated Oct 08, 2021

Low Risk

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

Source: Morningstar

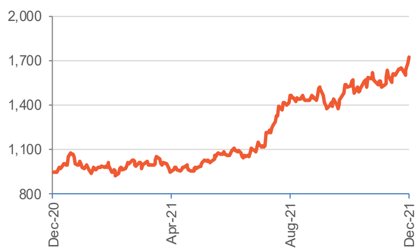
### Company details

| | |
|---|---|
| Market cap: | Rs. 1,73212 cr |
| 52-week high/low: | Rs. 1,791 / 915 |
| NSE volume: (No of shares) | 32.9 lakh |
| BSE code: | 532755 |
| NSE code: | TECHM |
| Free float: (No of shares) | 62.3 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | 35.7 |
| FII | 36.4 |
| DII | 17.5 |
| Others | 10.4 |

### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 17.4 | 21.9 | 63.9 | 88.6 |
| Relative to Sensex | 16.8 | 26.3 | 55.4 | 66.3 |

*Sharekhan Research, Bloomberg*


**Summary**

- Tech Mahindra (TechM) is expected to report 4% q-o-q revenue growth in constant currency (CC) in Q3FY2022. EBIT margin to remain stable on a sequential basis.
- TechM is well-placed to capture incremental share in 5G, given strong domain knowledge, robust client relationship, and excellent partner ecosystem.
- We expect TechM's total deal TCVs to be around $650 million in Q3FY2022, higher than its average quarterly run-rate of $400 million- $500 million, but lower compared to $750 million deal TCVs in Q2FY2022.
- We maintain Buy on TechM with a revised PT of Rs. 2,060, given improving execution, a strong revenue growth potential, margin stability, healthy deal TCVs, and a good capital allocation.


**Tech Mahindra (TechM) is expected to report healthy revenue growth with stable margin in Q3FY2022 because of strong growth in the telecom vertical, led by pick-up in 5G activities, strong demand across key verticals in the enterprise segment, recovery in engineering services, and continued growth in its BPS business. TechM has been strengthening its service offerings and strategic bets towards building service stacks for 5G, AI, and cloud transformation strategies for consumers and enterprises. We believe the company's 5G playbook is ready to capture opportunities from 5G. Hence, we expect strong revenue growth in its telecom segment over the next 3-4 years.**

- **Expect healthy growth in Q3, led by telecom:** Unlike in the past, TechM's service portfolio has been improving over the past few quarters across both telecom and enterprises segments rather than impacted by any one of these segments historically. Further, growth in the BPS business has been strong as well. We believe the company would continue to report healthy growth in Q3FY2022 because of strong growth in the CME segment, continued growth in the enterprise segment, and recovery in the engineering business. We expect revenue growth of 4% q-o-q on constant currency (CC) basis in Q3FY2022, which would be aided by 0.8% contribution from acquisitions. Further, cross-currency headwinds of 60 bps would result in USD revenue growth of 3.4% q-o-q to $1,522 million.
- **Large deal TCVs likely to remain strong:** The company has been signing large deal total contract values (TCVs) above its average quarterly deal wins of $400 million-500 million for the past three quarters. The large deal TCVs (> $5 million) would remain higher than its average quarterly run-rate in the coming quarters, led by strong demand and higher focus on winning large deals with a dedicated sales team. We expect the company's total deal TCVs to be around $650 million in Q3FY2022, but it would be lower compared to $750 million deal TCVs in Q2FY2022.
- **Margins likely to remain stable; Tailwinds to improve further:** Increasing recruitment expenses, higher attrition, rising subcontractor expenses, unsustainable utilisation levels, and investments in building capability would weigh on margins in the medium term. We estimate TechM's EBIT margin to decline marginally on a q-o-q basis to 15.1% in Q3FY2022 owing supply-side challenges and higher subcontractor expenses. Further, management believes margins could improve in FY2023 because of yield management, portfolio synergies, higher offshoring, higher freshers intake, change in business mix, and next-gen delivery.

**Our Call**

**Valuation – Improving execution:** TechM is well poised to capture incremental share in 5G, given strong domain knowledge, client relationship across telecom and equipment OEMs, early investments in products, people, and capabilities, and a robust partner ecosystem. Further, the company's investments in building capabilities in enterprise segments through organic and inorganic routes would help it in gaining market share in BFSI, hi-tech, and healthcare verticals of the enterprise segment. We forecast TechM's revenue and net profit to post CAGR of 12% and 14% CAGR, respectively, over FY2022-FY2024E. The stock price of TechM has rallied around 17% over the past one month, given improvement in growth visibility. At the CMP, the stock is trading at a valuation of 24x/21x its FY2023E/FY2024E earnings estimates. We continue to prefer TechM, given improving execution, industry-leading growth in the BPS business, healthy deal TCVs, scope for margin improvement, good capital allocation, and 5G opportunities. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 2,060.

**Key Risks**

Any hostile development with respect to the current visa regime would affect employee expenses as lower proportion of local resources are deployed onsite. Further, a delay in pick-up of 5G-related spends would affect revenue estimates.

**Valuation (Consolidated)** Rs cr

| Particulars | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 37,855.1 | 44,400.3 | 50,947.6 | 57,635.6 |
| OPM (%) | 18.1 | 18.4 | 18.3 | 18.4 |
| Adjusted PAT | 4,478.8 | 5,641.6 | 6,457.3 | 7,374.6 |
| *% YoY growth* | *5.4* | *26.0* | *14.5* | *14.2* |
| Adjusted EPS (Rs.) | 51.2 | 64.5 | 73.9 | 84.4 |
| P/E (x) | 34.8 | 27.7 | 24.2 | 21.2 |
| P/B (x) | 6.2 | 5.7 | 5.2 | 4.8 |
| EV/EBITDA (x) | 23.5 | 19.5 | 16.8 | 14.4 |
| RoNW (%) | 19.0 | 21.7 | 22.7 | 23.7 |
| RoCE (%) | 20.5 | 24.1 | 25.3 | 26.7 |

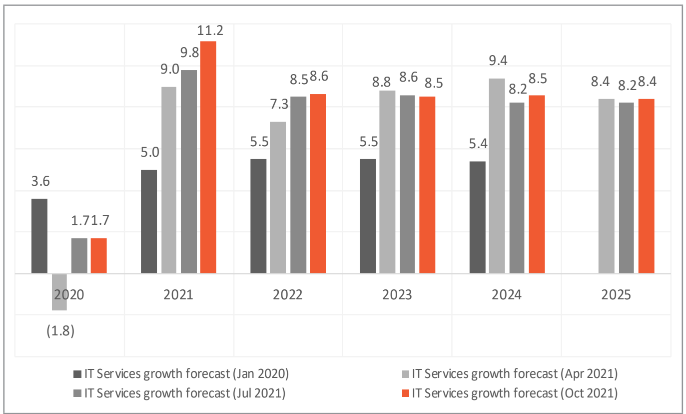
*Source: Company; Sharekhan estimates*

## Strong demand environment likely to sustain

Post the pandemic, enterprises have increased their spending on technologies, primarily in the areas of digital transformation and cloud-based services as these technologies will strengthen business resilience and agility, improve cost efficiencies, and position them to catch up with cloud-native competitors. We believe a strong demand environment would sustain for the next 3-4 years, led by (1) emergence of new operating models of enterprises, (2) large opportunities from cloud, (3) rise in IT outsourcing, and (4) new spend areas (including ESG and Cybersecurity).

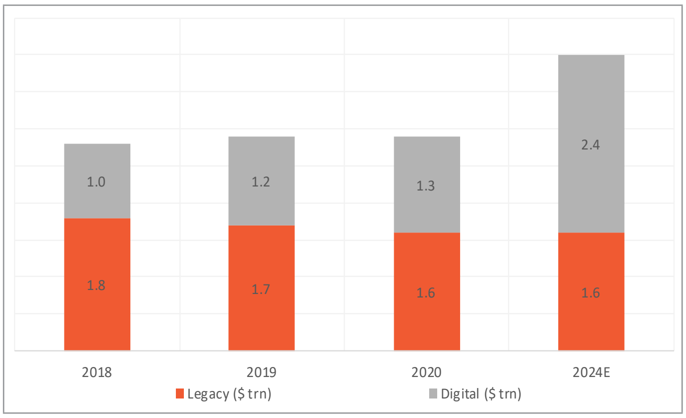
Gartner expects worldwide IT spend to rise by 9.5% y-o-y to $4.2 trillion in 2021. Of this, IT services spend would grow by 11.2% in FY2021, given strong pent-up demand. Further, IT services spending is likely to remain strong at an 8.5% CAGR over FY2021-FY2025, which will be significantly higher than the average growth of 4.4% during 2016-2020. Growth in spending on IT services is expected to be driven by a strong 16% CAGR in spends on digital technologies over FY2020-FY2024E. As enterprises have started riding on a multi-year technology up-grade cycle, we believe Indian IT services companies are well-placed to derive maximum benefit, given their strong global service delivery experience, competitive cost structure, infrastructure, strong execution, talent availability, and innovation.

**Expected growth in IT services spending**




*Source: Company, Sharekhan Research*

**Spend on digital to post 16% CAGR over 2020-2024**



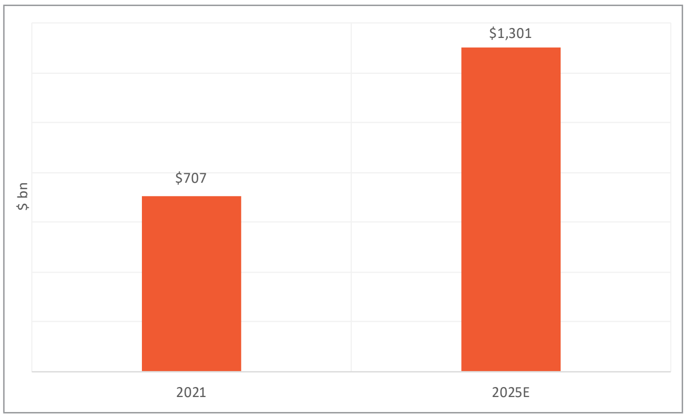

*Source: Company, Sharekhan Research*

## Cloud spends likely to grow at a faster pace

Cloud adoption is estimated to be a $300 billion–$350 billion opportunity for IT services companies. We believe cloud transformation is in the first phase of a multi-year technology transformation phase. It is estimated that 20-30% of workloads have moved to cloud, and this can increase to 70-80% in the next 3-5 years.

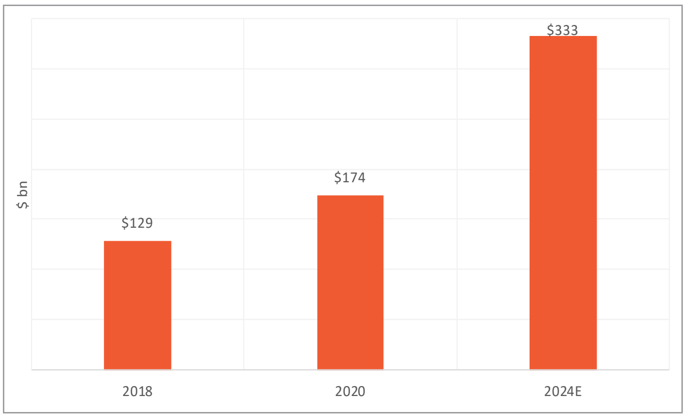
Enterprises are currently migrating their workloads to cloud through Horizon-1 initiatives, although, in certain cases, some enterprises have started moving beyond initial Horizon-1 cloud value proposition to Horizon-2 (Cloud-native application development) and Horizon-3 (integrating with cloud ecosystem) value propositions. In the subsequent phases, enterprises would increase IT services spends substantially to participate in cloud-based ecosystems (including AI, data, and analytics spend) to unlock new innovations in the form of Horizon-2 and Horizon-3 transformation initiatives. Cloud migration and adjacent spends relating to cloud-based ecosystems will aid growth performance of Indian IT services firms.

**Cloud spending ($ bn) to post a 17% CAGR**



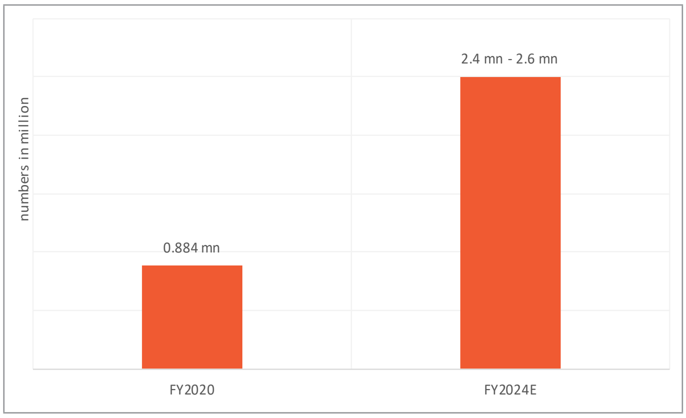

*Source: Company, Sharekhan Research*

**Data analytics to post an 18% CAGR over 2020-2024E**



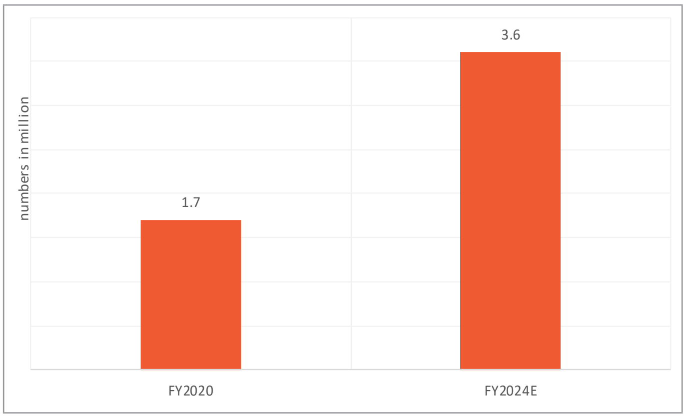

*Source: Company, Sharekhan Research*

**Digital talents to grow at 28-32% CAGR**



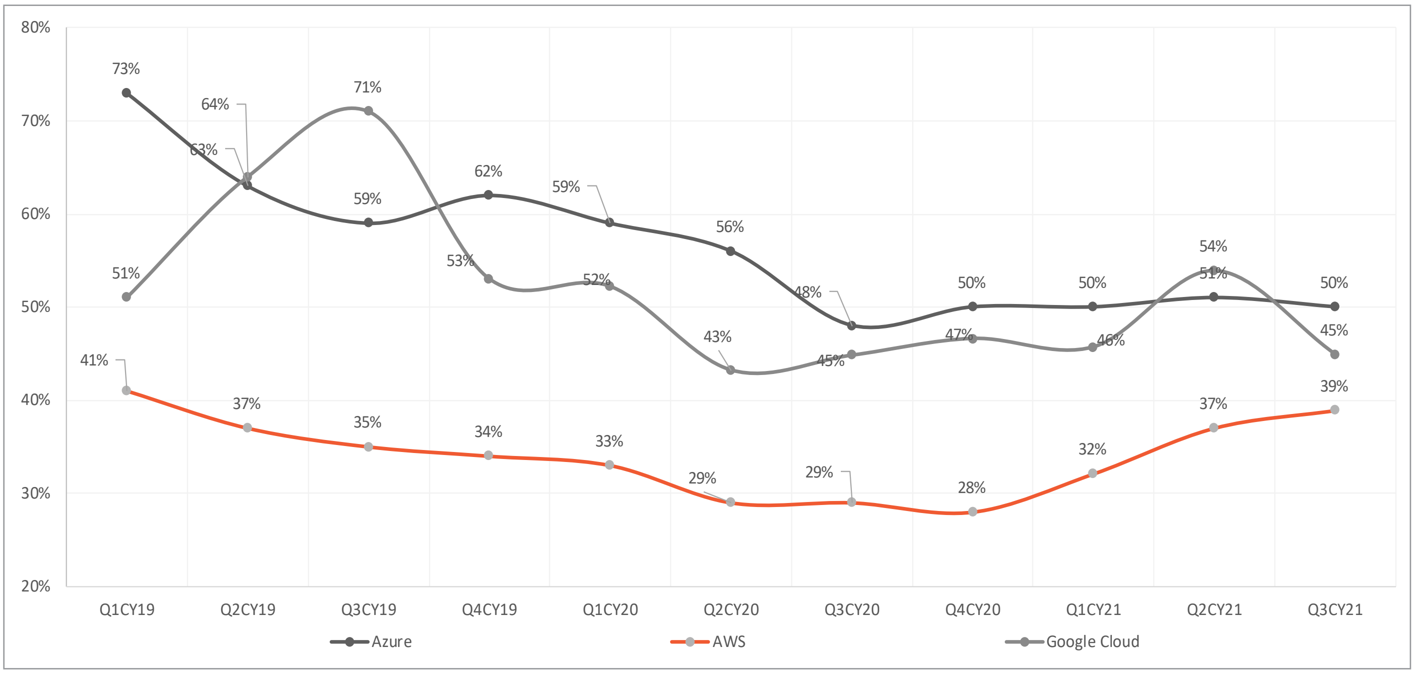

*Source: Company, Sharekhan Research*

**Futureskills talent pool (mn) to grow at 18-22% CAGR**




*Source: Company, Sharekhan Research*

**Pandemic has accelerated the need for faster Cloud adoption**




*Source: Sharekhan Research*

TechM's management indicated digital business accounts for more than 50% of its total revenue (27% in Q1FY2019), which is expected to continue its growth momentum given accelerated digitalisation of the marketplace, customer interaction, and cloud migration. The company has invested both organically and inorganically to build up capabilities around cloud and experience as it sees pick-up in demand for shifting of infrastructure to cloud. The company's cloud revenue has increased 2x to $600 million over the past two years. As AI is set to become one of the largest workload categories in cloud, the company has been investing to strengthen its competencies, which span 40+ industry solutions and 50+ technologies. Further, the company develops a strong partner ecosystem with hyperscalers and downstream players to drive its cloud business at a rapid pace. We believe TechM is well positioned to benefit from cloud migration opportunities by leveraging its proprietary platforms.

**Higher innovation in networks, 5G rollouts, and 5G upgrades to create huge opportunities**

With features such as faster speeds, increased bandwidth, and negligible latency, communications service providers (CSPs) are investing in 5G as a key force multiplier for transformation to become Digital Service Providers. Further, 5G is instrumental in enabling new services that can transform industries with its low-latency links such as remote control of critical infrastructure, self-driving vehicles, and medical procedures. Hence, 5G's lower latency, faster transmission speeds, and increased network capacity pave the way for largescale enterprise transformation.

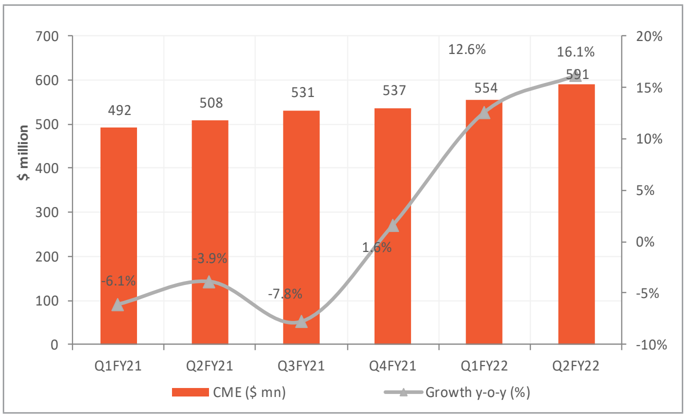
The pandemic has increased the need for digital solutions, e.g. telehealth, teleworking, fixed wireless access, and many other functionalities supported by 5G networks. However, 5G network rollouts are still in the nascent stages (except China and Korea), especially in developing countries. 5G is on track to become the dominant mobile access technology and it is estimated that 5G would account for around 50% of all mobile subscriptions worldwide by 2027.

**Well-placed to participate in network modernisation and 5G areas**

TechM has been strengthening its service offerings and strategic bets by building service stacks for 5G, AI, and cloud transformation strategies for consumers and enterprises. The company's investments in NetOps.ai (a platform for 5G Cloud Orchestration), Digital OSS/BSS, Fully Virtualised Transport Network, 5G-enabled smart mining services are enabling multiple CSPs and enterprises to create new revenue streams. TechM has won a few large cloud transformation deals from telecom players in the past 12-15 months.

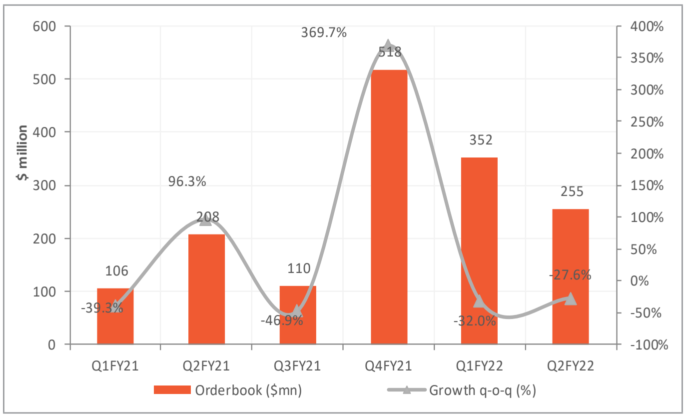
5G contribution in the CME segment has started scaling up as spends around 5G area are picking up across developed regions and are expected to accelerate in the next few years. The company has achieved $500 million 5G revenue run-rate in Q2FY2022 against $100 million annual run-rate in the previous year. Currently, 5G accounts for 20% and 50% of CME business and network services business, respectively. TechM is participating in radio frequency planning, design, engineering, network services, and cloud transformation opportunity. The company's 5G playbook is ready to capture opportunities from 5G for CSPs, 5G for enterprise, and 5G for ecosystem. We believe TechM is well poised to capture incremental share in 5G, given strong domain knowledge, client relationship across telecom and equipment OEMs, early investments in products, people, and capabilities, and a robust partner ecosystem.

**Expect strong growth in CME segment going ahead**




*Source: Company, Sharekhan Research*

**Orderbook trend in the CME segment**




*Source: Company, Sharekhan Research*

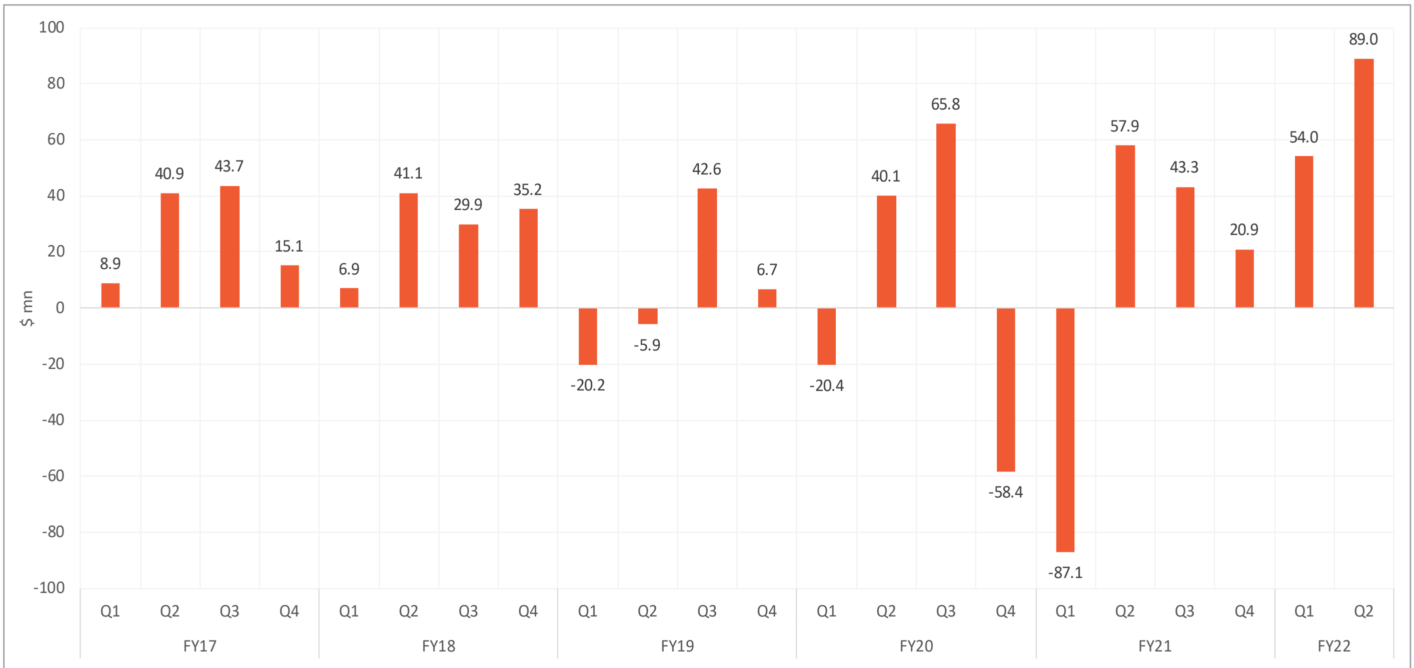
**Large deal TCVs likely to remain higher than its average run-rate in Q3, but lower than Q2**

The company has been signing large deal TCVs above its average quarterly deal wins of $400 million-500 million for the past three quarters. Management indicated that the large deal TCVs (> $5 million) would remain higher than its average quarterly run-rate in Q3FY2022, led by strong demand across geographies/services/industries offerings and strong focus on its large deals with a dedicated sales team. Given gradual pick-up in 5G spends, the company focuses on both transformational deals and servicing deals. We expect the company's total deal TCVs to be around $650 million, but it would be lower compared to $750 million deal TCVs in Q2FY2022.

**Expect healthy growth in Q3, led by strong growth in the telecom segment**

TechM has been reporting strong revenue growth for the past couple quarters because of broad-based growth across the telecom and enterprise segments. The company's 7.2% q-o-q revenue growth in Q2FY2022 was impressive, led by both telecom (7.7%) and enterprise (7%) verticals. Growth across verticals in the enterprise segments and growth in BPS was strong as well. We believe the company would continue to report healthy growth in Q3FY2022 because of strong growth in the CME segment (led by pick-up of 5G activity among telecom companies), continued growth across verticals especially in BFSI, healthcare and hi-tech, recovery in the manufacturing vertical (aided by higher demand for engineering services), and continued growth in experience business. We expect revenue growth of 4% q-o-q on CC basis in Q3FY2022, which would be aided by 0.8% contribution from acquisitions. Further, cross-currency headwinds of 60 bps would result in USD revenue growth of 3.4% q-o-q to $1,522 million.

**Incremental revenues in US$ mn**




*Source: Company; Sharekhan Research*

**Margins likely to remain stable; Tailwinds to improve further**

EBIT margin remained flat on a q-o-q basis at 15.2% in Q2FY2022 despite lower utilisation, higher attrition, supply-side pressure, and rising sub-contractor expenses, led by strong revenue growth, higher offshoring, and operational efficiencies. The company's subcontractor expenses to total revenue increased to 15.3% from 14.8% in Q1FY2022, owing to restrictions on travel and visa and strong demand in niche areas. The elevated rate of sub-contractor expenses is expected to continue over the next couple of quarters. Further, the company's attrition rate increased 400 bps q-o-q and 770 bps y-o-y to 21.2% on LTM basis. Increasing recruitment expenses, higher attrition, rising subcontractor expenses, unsustainable utilisation levels, and investments in building capability would weigh on margins in the medium term. TechM's management believes that levers such as replacement of subcontractors with freshers, portfolio synergies, delivery transformation, leverage of nearshore, automation, yield management, and operational efficiencies would offset these margin headwinds. Further, the company's management aims to lower onsite mix and improve fresher mix going ahead, which would also aid margins. We estimate TechM's EBIT margin to decline marginally on a q-o-q basis to 15.1% in Q3FY2022 owing supply-side challenges and higher subcontractor expenses, partially offset by operating leverage and currency tailwinds.

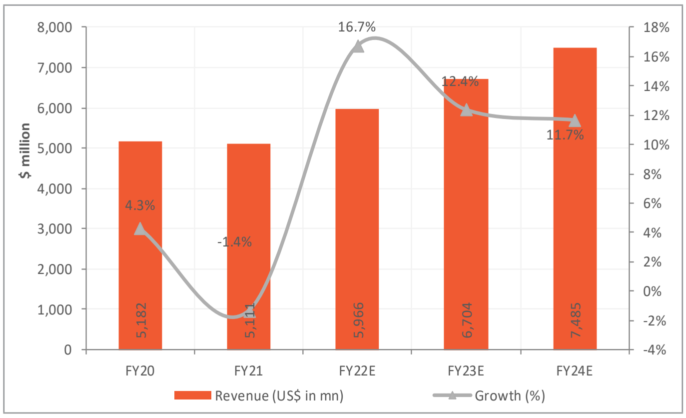
**Q3FY2022 results estimates** — Rs cr

| Particulars | Q3FY22E | Q3FY21 | Y-o-Y % | Q2FY22 | Q-o-Q % |
|---|---|---|---|---|---|
| Revenues In USD (mn) | 1,522.0 | 1,308.7 | 16.3 | 1,472.6 | 3.4 |
| Revenues In INR | 11,415.3 | 9,647.1 | 18.3 | 10,881.3 | 4.9 |
| EBITDA | 2,088.7 | 1,895.4 | 10.2 | 1,995.2 | 4.7 |
| EBIT | 1,729.2 | 1,537.1 | 12.5 | 1,652.3 | 4.7 |
| Adjusted Net profit | 1,436.8 | 1,309.8 | 9.7 | 1,338.8 | 7.3 |
| EPS (Rs) | 16.4 | 14.9 | 10.6 | 15.1 | 8.6 |
| | | | **bps** | | **bps** |
| EBITDA Margin (%) | 18.3 | 19.6 | (135) | 18.3 | (4) |
| EBIT Margin (%) | 15.1 | 15.9 | (79) | 15.2 | (4) |
| NPM (%) | 12.6 | 13.6 | (99.0) | 12.3 | 28 |

*Source: Company; Sharekhan Research*

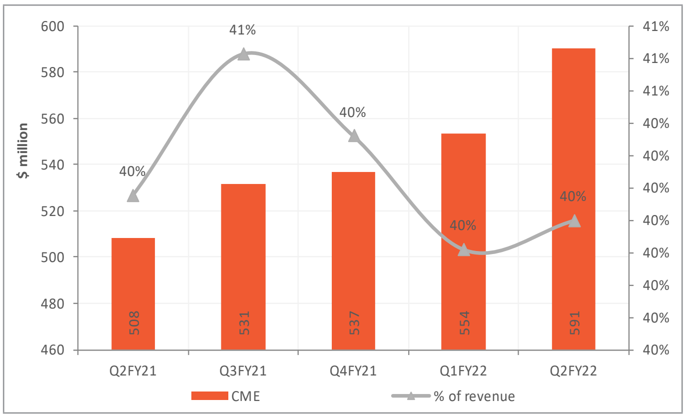
## Financials in charts

### Revenue ($ million) and growth (%)



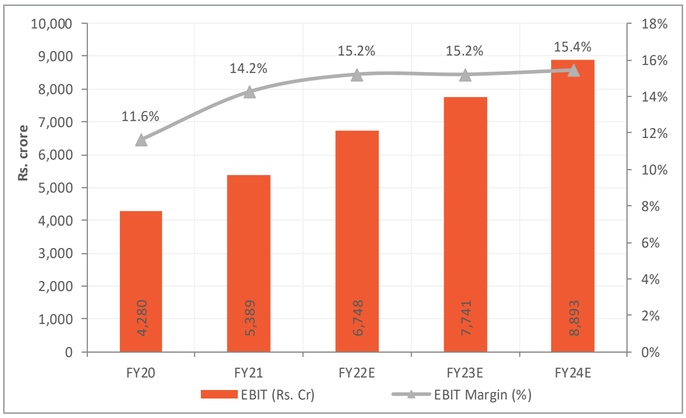

Source: Company, Sharekhan Research

### CME ($ million) and % of total revenue



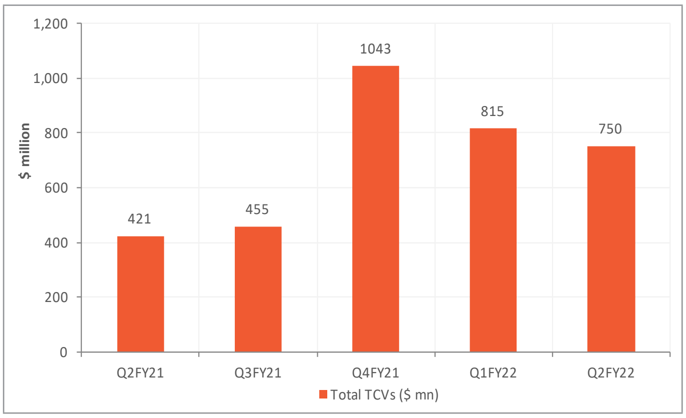

Source: Company, Sharekhan Research

### EBIT (Rs. cr) and EBIT margin (%)



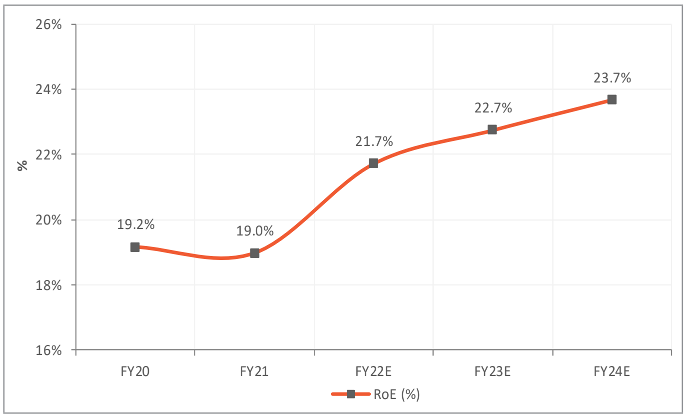

Source: Company, Sharekhan Research

### Order book ($ million)



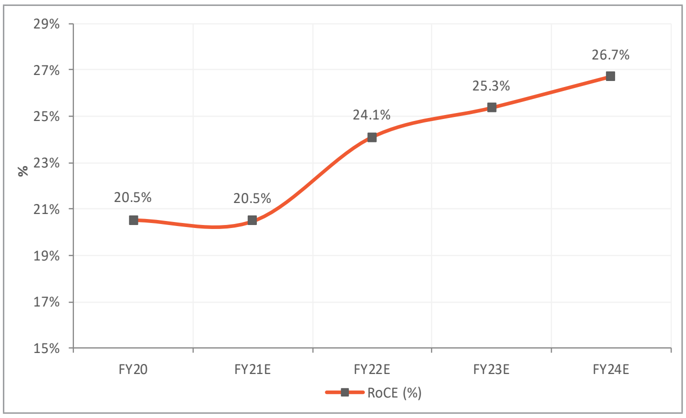

Source: Company, Sharekhan Research

### RoE trend (%)




Source: Company, Sharekhan Research

### RoCE trend (%)




Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view – Expect acceleration in technology spending going forward

Industry analysts such as Gartner estimate that IT services spending would grow by 7-9% over CY2021-CY2024E as compared to the average of 3.6% achieved in CY2010-CY2020. 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. Further, the increasing need for rapid access to data and automation will enhance focus on network equipment and communications, speeding up 5G network deployments and adoption of 5G equipment.

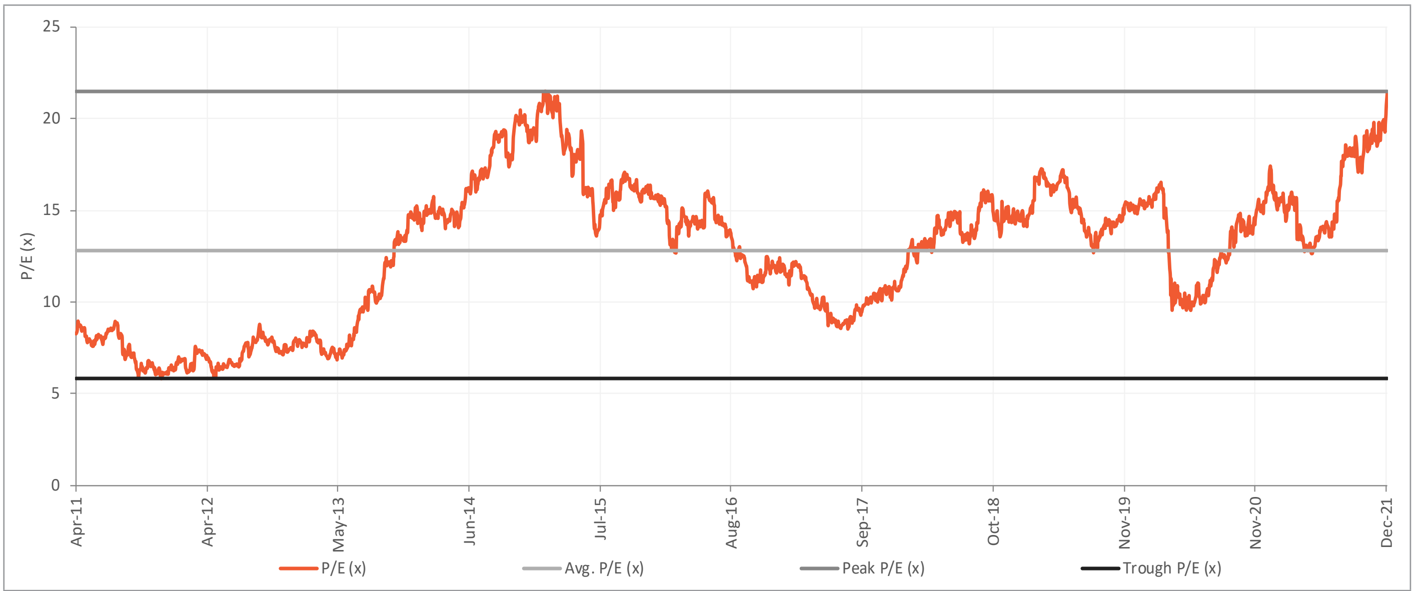
### ■ Company outlook – Well placed to capture 5G opportunity

TechM is well placed to capture 5G-related spending from TSPs and OEMs, given its early investments in network capabilities through LCC, investments in IPs, platforms, and investments/partnerships (Intel, Rakuten, and AltioStar, among others) to develop an ecosystem. We remain positive on the company, considering strong demand in the telecom vertical, strategic focus on digital acquisitions, improving large deal win rate, and a continuous focus on diversifying the business. Improvement in execution led by efficient capital allocation is expected to augur well for the company.

### ■ Valuation – Improving execution

TechM is well poised to capture incremental share in 5G, given strong domain knowledge, client relationship across telecom and equipment OEMs, early investments in products, people, and capabilities, and a robust partner ecosystem. Further, the company's investments in building capabilities in enterprise segments through organic and inorganic routes would help it in gaining market share in BFSI, hi-tech, and healthcare verticals of the enterprise segment. We forecast TechM's revenue and net profit to post CAGR of 12% and 14% CAGR, respectively, over FY2022-FY2024E. The stock price of TechM has rallied around 17% over the past one month, given improvement in growth visibility. At the CMP, the stock is trading at a valuation of 24x/21x its FY2023E/FY2024E earnings estimates. We continue to prefer TechM, given improving execution, industry-leading growth in the BPS business, healthy deal TCVs, scope for margin improvement, good capital allocation, and 5G opportunities. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 2,060.

**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 (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| HCL Tech | 1,267 | 271 | 3,43,740 | 25.2 | 22.2 | 16.7 | 15.0 | 5.4 | 5.1 | 21.5 | 23.1 |
| Infosys | 1,866 | 421 | 7,84,873 | 35.9 | 30.7 | 24.4 | 21.1 | 5.3 | 5.0 | 27.2 | 29.7 |
| Wipro | 700 | 548 | 3,83,416 | 31.4 | 27.7 | 21.1 | 18.3 | 6.7 | 6.0 | 19.2 | 20.6 |
| Tech M | 1,785 | 97 | 1,73,212 | 27.7 | 24.2 | 19.5 | 16.8 | 5.7 | 5.2 | 21.7 | 22.7 |

*Source: Company, Sharekhan estimates*

## About company

Incorporated in 1986, TechM was formed with a joint venture between Mahindra & Mahindra and British Telecom Plc, under the name of Mahindra British Telecom. The company has been providing end-to-end services to telecom OEMs and service providers. Over the years, the company has acquired Comviva Technologies, LCC, and Hutchison Global Services to fill gaps in its service offerings in the telecom space. Notably, post the acquisition of Satyam, TechM entered the enterprise solutions space and became the fifth largest Indian IT player. The company has now diversified its exposure to other verticals such as BFSI and manufacturing. TechM offers a bouquet of services including IT outsourcing services, consulting, next-generation solutions, application outsourcing, network services, infrastructure management services, integrated engineering solutions, business process outsourcing, platform solutions, and mobile value-added services.

## Investment theme

TechM is one of the leading players in providing end-to-end services and solutions to telecom OEMs and major global service providers in the communication space (contributes more than 40% to its total revenue). Historically, this has helped the company whenever there is any uptick in technology spends, led by adoption of new technology. As the pace of spending from the roll-out of 5G network is likely to accelerate across the globe, TechM is well positioned to capitalise on the 5G opportunity across networks and IT services, given its investments in network capabilities, IPs, platforms, and partnerships. This has enabled the company to compete with large peers by striving for large deals in the enterprise segment.

## Key Risks

1) Any hostile development against the current visa regime would affect employee expenses as lower proportion of local resources are deployed onsite. 2) Rupee appreciation or/and adverse cross-currency movements might affect earnings. 3) Delay/loss of accounts in the enterprise segment. 4) Delay in pick-up of 5G-related spends.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Mr. Anand Mahindra | Chairman |
| CP Gurnani | Managing Director and Chief Executive Officer |
| Milind Kulkarni | Chief Financial Officer |
| Jagdish Mitra | Chief Strategy Officer and Head Of Growth |
| Manish Vyas | President, Communications, Media &Entertainment Business |
| Vivek Agarwal | President – BFSI, HLS and Corporate Development |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | TML BENEFIT TRUST | 9.71 |
| 2 | Life Insurance Corp. of India | 4.31 |
| 3 | First State Investments ICVC | 3.71 |
| 4 | BlackRock Inc | 2.87 |
| 5 | SBI Funds Management Pvt. Ltd. | 2.78 |
| 6 | The Vanguard Group Inc. | 2.27 |
| 7 | ICICI Prudential Asset Management | 2.07 |
| 8 | Norges Bank | 1.74 |
| 9 | Government Pension Fund | 1.48 |
| 10 | Schroders PLC | 1.06 |

*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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