Stock Update

Annual Report Review

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Housing Development Finance Corporation Ltd

Multiple growth triggers ahead

NBFC	Sharekhan code: HDFC

Reco/View: Buy	↔	CMP: Rs. 2,155	Price Target: Rs. 3,025	↔

↑ 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 19.19

Updated Apr 04, 2022

Low Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 391,666 cr
52-week high/low:	Rs. 3,021/2,027
NSE volume: (No of shares)	45.2 lakh
BSE code:	500010
NSE code:	HDFC
Free float: (No of shares)	181.3 cr

Shareholding (%)

Promoters	-
FII	72.1
DII	16.6
Others	11.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.0	-6.7	-15.0	-14.6
Relative to Sensex	3.6	3.3	-7.0	-13.1

Sharekhan Research, Bloomberg

Summary

- With its theme of 'actionable intelligence' in its annual report, HDFC has been adapting to newer and faster ways of communicating with stakeholders through digital interface, changing with the landscape to remain competitive and be future-ready. Currently, the company receives 91% of home applications through digital channels.
- The management believes that India's housing loan market would double to ~$600 billion in the next five years with estimated mortgage penetration of 13% of GDP which would still be lower as compared to emerging economies.
- It believes that the optimum path to scale up housing finance is to be housed within a banking structure. The resources pool for lending will be significantly larger and at lower costs. The company is waiting for regulatory approval of proposed amalgamation of HDFC with HDFC Bank. It remains confident that the outcome will be judicious and fair at a systemic level.
- HDFC's stock price has corrected by 29% from the highs of Rs. 3,021. We re-iterate our Buy rating with an unchanged SOTP based PT of Rs. 3,025.

HDFC Ltd (HDFC) reported individual disbursement growth of 37% y-o-y in FY22 despite of challenges posed by pandemic with AUM at Rs. 6,539 billion (increased by 15% y-o-y). With demand for individual housing remaining robust, on an AUM basis, the individual loan book of the company grew by 17% y-o-y. For FY2022, NII and PAT increased by 14% y-o-y and 16%, respectively. NIM continued to remain stable at 3.5% in FY2022. The spread on loans was at 2.29% with spread on individual loans and non- individual loans at 1.93% and 3.4% respectively. Cost to income ratio stood at 8.1%, increased by 40 bps y-o-y. Credit costs stood at 33 bps versus 56 bps in FY2021.

- **Healthy loan book growth as average size of individual loans rise:** Demand for housing continued to remain strong for both, the affordable housing and high end segments. Individual disbursements grew by 37% y-o-y in FY22, despite of challenges posed by pandemic with AUM at Rs. 6,539 billion (increased by 15% y-o-y). Individual loan approvals grew by 38% y-o-y and its individual and non-individual loan book grew by 17% y-o-y and 5.6% y-o-y respectively. Average size of individual loans stood at Rs. 33 lakh versus Rs. 29.5 lakh in FY2021. This increase reflects a rise in the proportion of loans in value terms to high income groups compared to the previous year. During the year, on an AUM basis, 88% of the incremental growth in the loan book came from individual loans and 12% from non-individual loans. On the basis of loan disbursements, 78% were salaried customers while 22% were self- employed. During the year, there was a gradual pick-up in growth in the non-individual loan portfolio, particularly for lease rental discounting and construction finance. With respect to disbursement for construction finance, the company continued to remain selective on incremental lending.
- **Asset quality stable with adequate coverage ratio:** The average collection efficiency for individual loans on a cumulative basis stood over 99% in FY2022. Gross NPLs ratio stood at 1.91% in FY2022 versus 1.98% in FY2021 versus 2.32% in Q3FY22. Gross NPLs was at 0.99% and 4.76% for individual portfolio and non-individual loans respectively. Credit costs stood at 33 bps versus 56 bps in FY2021. The provisions carried as a percentage of exposure at default (EAD) stood at 2.38% in FY2022. It has written off Rs. 6,333 crore in FY2022 versus Rs. 1,372 crore in FY2021. Slippages stood at 1.18% with stage 3 assets at stable levels of 2.3% and stage 2 assets improved to 4.4% (versus 6.3% in FY2021). Provision coverage ratio on stage 3 assets was at 52.1% versus 52.1% in FY2022 versus 48.9% in Q3FY22.
- **Strong capital position:** The capital adequacy stood at 22.8% with Tier 1 capital at 22.2% as on March 2022. Its LCR stood at 80% as against mandatory requirement of 50%.

Our Call

Valuation: We maintain a Buy on HDFC with an unchanged SOTP based PT of Rs. 3,025: Currently, housing demand continues to be strong across tier-I, -II & -III cities with a higher number of first-time home buyers and those moving up the property ladder by opting for larger homes or acquiring homes in another location, which bodes well for housing finance companies including HDFC, who is leader in the housing finance market. The company saw an improvement in collection efficiency and there on improved asset quality. With individual disbursements witnessing near historic highs and high yielding non-individual portfolio too seeing revival, we expect strong AUM growth going forward. Its credit costs have already been on a declining trajectory. We believe that the company would emerge as the key beneficiary of the favorable macro factors play. Further, the company is waiting for regulatory approval of proposed amalgamation of HDFC with HDFC Bank. It remains confident that the outcome will be judicious and fair at a systemic level. We believe that with the favourable regulatory developments, the merger with HDFC Bank is likely to be positive and at an opportune time. In the long term, strategies around scaling up of housing loans, PSL certificates and liabilities would be a key to be watched out for. Hence, we maintain a Buy on HDFC with an unchanged SOTP based PT of Rs. 3,025.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost may affect earnings.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
PAT	12,027	13,742	16,829	18,904
EPS (Rs.)	66.7	75.8	92.8	104.3
ABVPS (Rs.)	579	636	705	776
P/E (x)	12.9	11.3	9.3	8.3
P/ABVPS (x)	1.5	1.4	1.2	1.1
ROE (%)	12.3	12	13.3	13.6
ROA (%)	2.2	2.3	2.4	2.4

Source: Company; Sharekhan estimates

SOTP Valuation

Subsidiary/Associate/JV	Per share value
HDFC Bank	821
HDFC Life	299
HDFC ERGO General Insurance	97
HDFC AMC	150
Bandhan Bank	22
HDFC Credila	10
Value of subs (post holdco discount)	1,400
Core Mortgage Business	1,625
Total SOTP Valuation (Rs)	**3,025**

Source: Company, Sharekhan Research

Chairman's Corner- Mr. Deepak S. Parekh

- India's home loan market is estimated at slightly over $300 billion, which represents a mortgage to GDP ratio of just 11%.
- Favourable conditions such as rising income levels, improved affordability and fiscal support augur well for the demand for homes. Real estate in India is on an upcycle. Developers are now financially stronger and more disciplined.
- The management expects India should be able to double its home loans to around $600 billion in the next five years. Despite the doubling of housing loans, India's mortgage penetration would still remain low at an estimated 13% of GDP.
- A moment of truth is that the optimum path to scale up housing finance is to be housed within a banking structure. The pool of resources for lending will be significantly larger and at lower costs. From a regulatory perspective, it is prudent for all large providers of housing finance to operate on a level playing field, with the same rules. Globally too, the scale of mortgage assets is exponentially larger in banks compared to non-banking financial entities.
- At this juncture, the company is awaiting regulatory guidance on the path forward and remains confident that the outcome will be judicious and fair at a systemic level.
- The company continues to use technology to improve user experience and extend its reach. Presently, the digitalisation tools and expertise enables it to provide an in-principle home loan approval within two minutes. Currently, HDFC receives 91% of home loan applications through digital channels.

Other Highlights

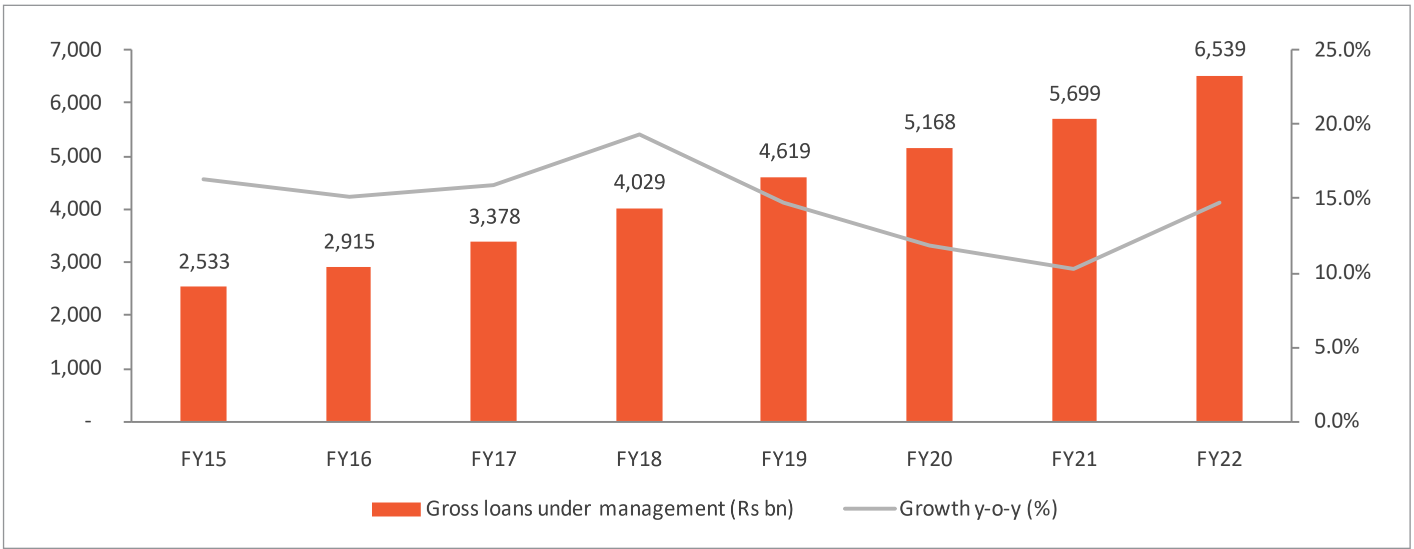
- During the year, individual approvals and disbursements grew by 38% and 37% respectively.
- The average size of individual loans stood at Rs. 33 lakh versus Rs. 29.5 lakh in FY2021. The increase in the average loan size is reflective of an increased proportion of loans in value terms to high income groups compared to the previous yearBased on loans disbursed during the year, 78% were salaried customers, while 22% were self-employed (including professionals). In terms of acquisition modes, of the loans disbursed during the year, 55% were first purchase homes i.e. directly from the builder, 37% were through resale and 8% self-construction.
- Rural housing loans accounted for approximately 8% of outstanding individual loans.

Source: Company Annual Report

Healthy loan book growth with increase in the average loan size of individual loans

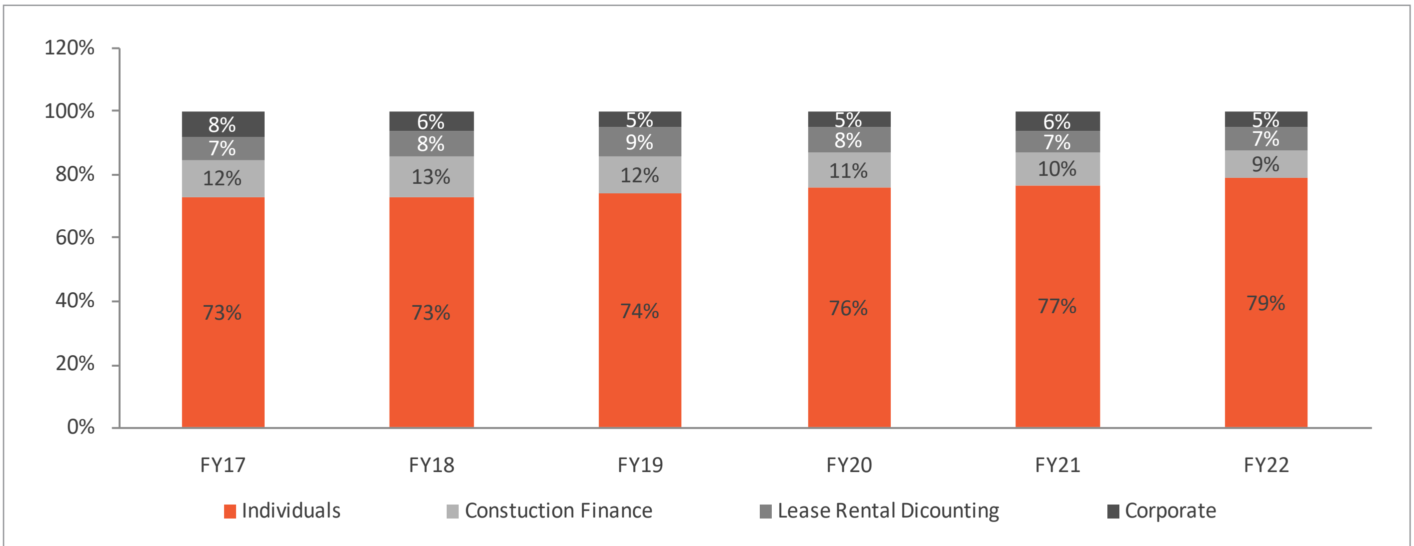
The residential real estate market continued to grow strongly in house sales and new launches. Overall inventory levels have decreased. Factors such as low interest rates, rising income levels, stable property prices, improved affordability and continued support of fiscal incentives for home loans are some of the reasons for strong demand for home loans. In FY2022, individual approvals and disbursements grew by 38 and 37% respectively, despite of the challenges posed by recurring pandemic. The average size of individual loans stood at Rs. 33 lakh versus Rs. 29.5 lakh, thus indicating increased proportion of loans in value terms to high income groups compared to the previous year. Rural housing loans accounted for approximately 8% of outstanding individual loans. With respect to non-individual loans, the company witnessed gradual pick-up in growth particularly for lease rental discounting and construction finance. As at March 31, 2022, cumulatively, HDFC financed 9.3 million housing units.

Loan book growth



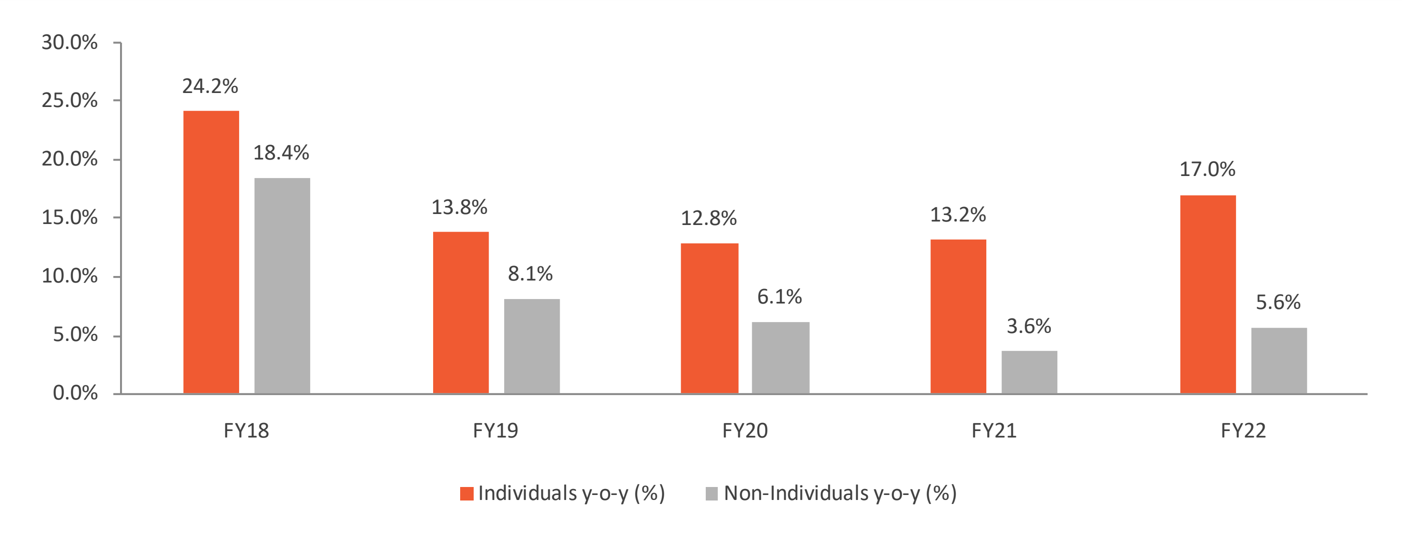
Source: Company, Sharekhan Research

Composition of Loans (%)



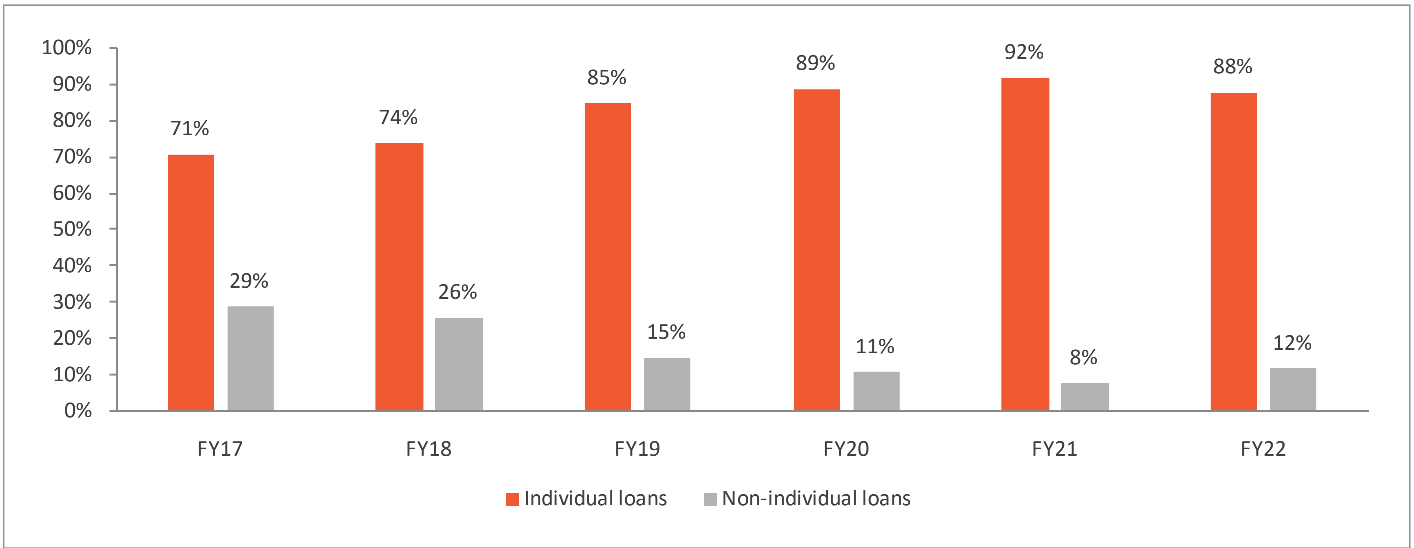
Source: Company, Sharekhan Research

Loan book growth (%) basis segments



Source: Company, Sharekhan Research

Incremental growth in the loan book



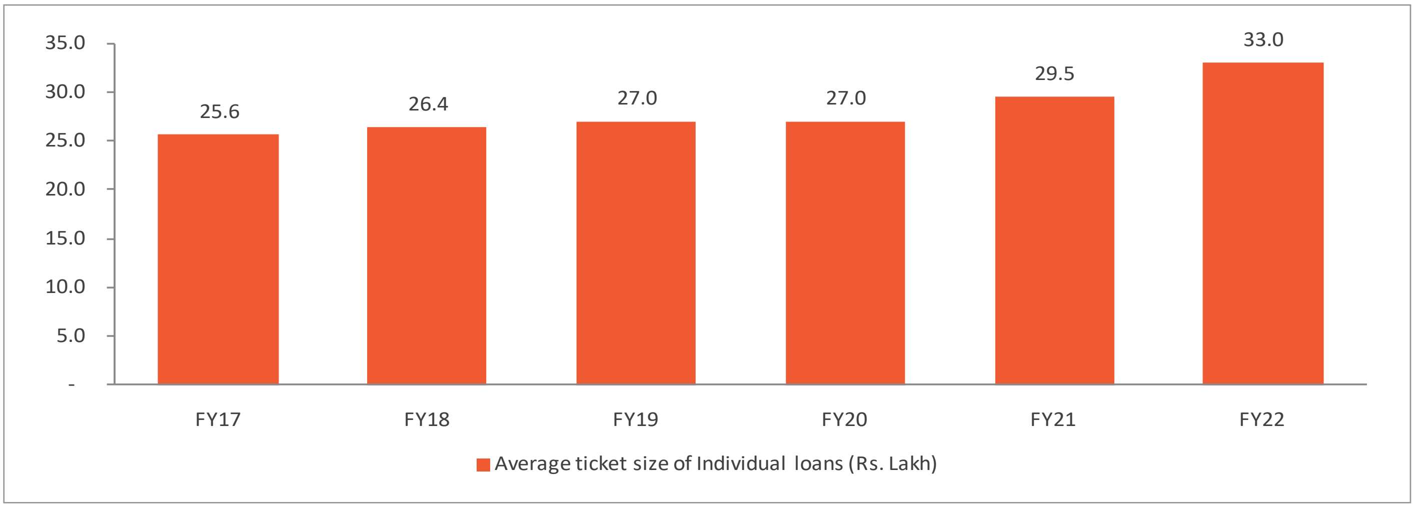
Source: Company, Sharekhan Research

Housing loan approvals basis income slabs

Category	Household income (p.a.)	Home loan approvals - FY19		Home loan approvals - FY20		Home loan approvals - FY21		Home loan approvals - FY22	
		% in value terms	% in number terms	% in value terms	% in number terms	% in value terms	% in number terms	% in value terms	% in number terms
Economically Weaker Section (EWS)	Upto Rs. 3 lakh	2%	7%	2%	6%	2%	6%	13%	29%
Low Income Group (LIG)	Above Rs. 3 lakh to Rs. 6 Lakh	16%	30%	16%	30%	14%	27%		
Middle Income Group (MIG)	Above Rs. 6 Lakh to Rs. 18 Lakh	46%	47%	46%	47%	44%	48%	42%	48%
High Income Group	Above Rs. 18 Lakh	36%	16%	36%	17%	40%	19%	45%	23%

Source: Company, Sharekhan Research

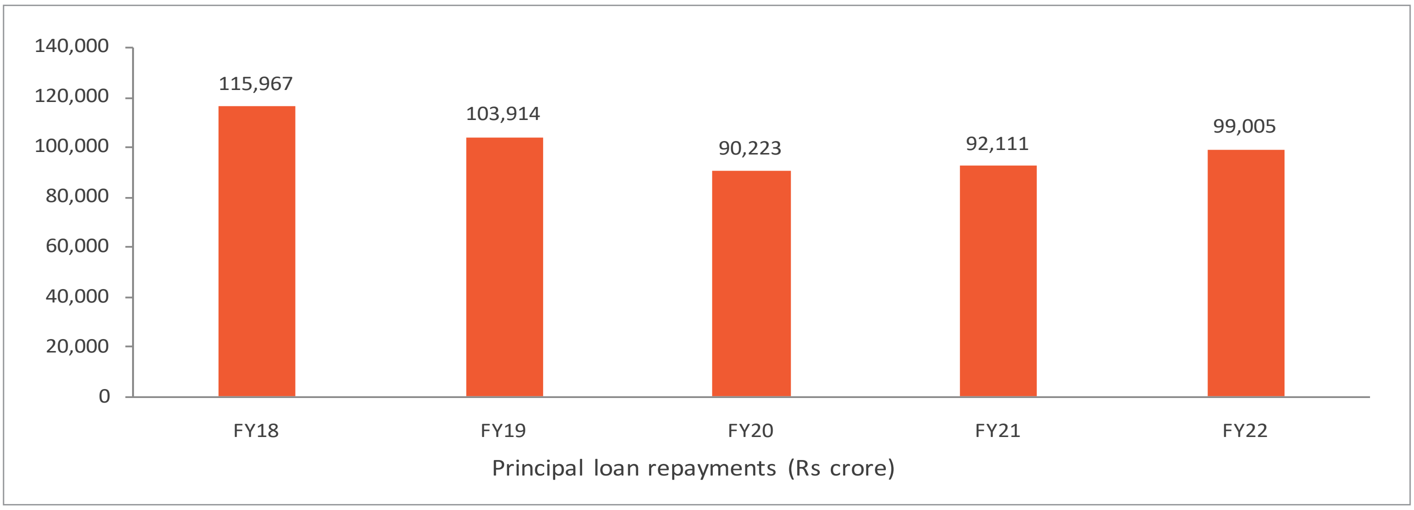
Average ticket size of Individual loans have risen with increase in proportion of higher ticket approvals



Source: Company, Sharekhan Research

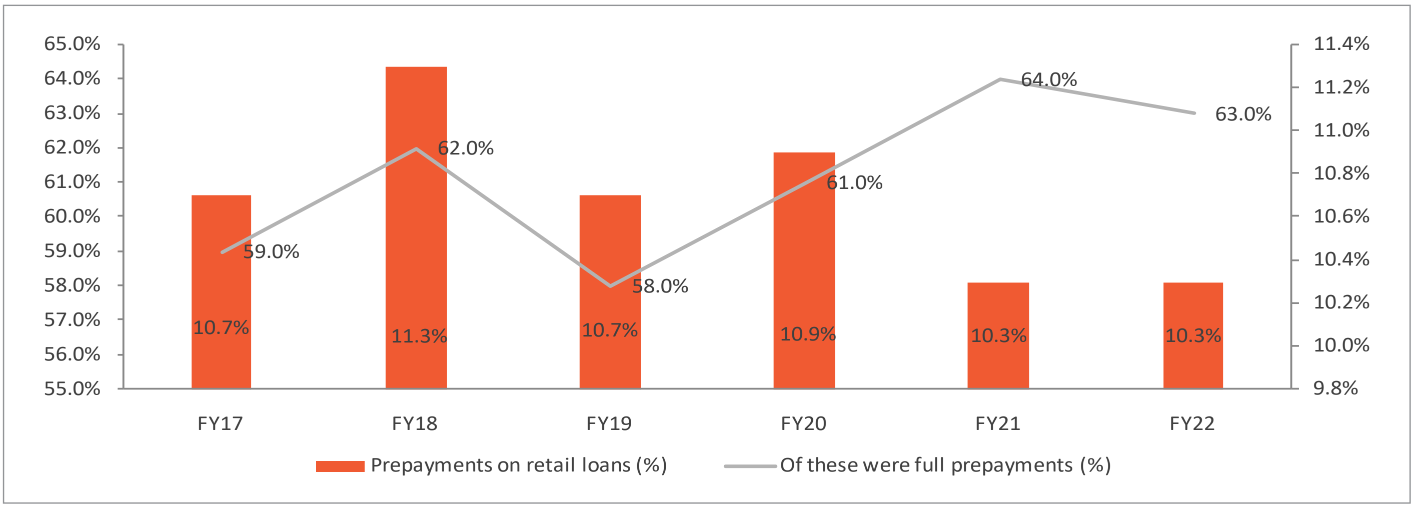
Principal loan repayments were higher as compared to FY2021 and was at Rs. 99,005 crore. Of which pre payments on retail loans stood at 10.3% versus 10.3% in FY2021 versus 10.9% in FY2020, thereby indicating stable prepayments.

Principal loan repayments have remained stable with prepayments on retail loans declining



Source: Company, Sharekhan Research

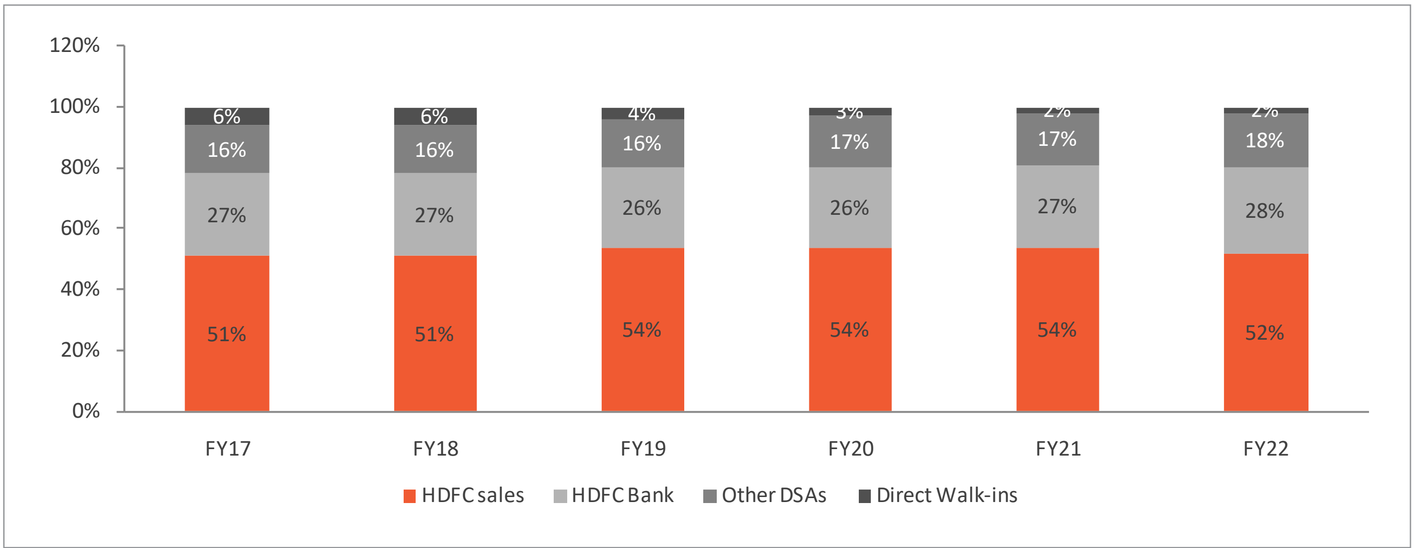
Prepayments on retail loans



Source: Company, Sharekhan Research

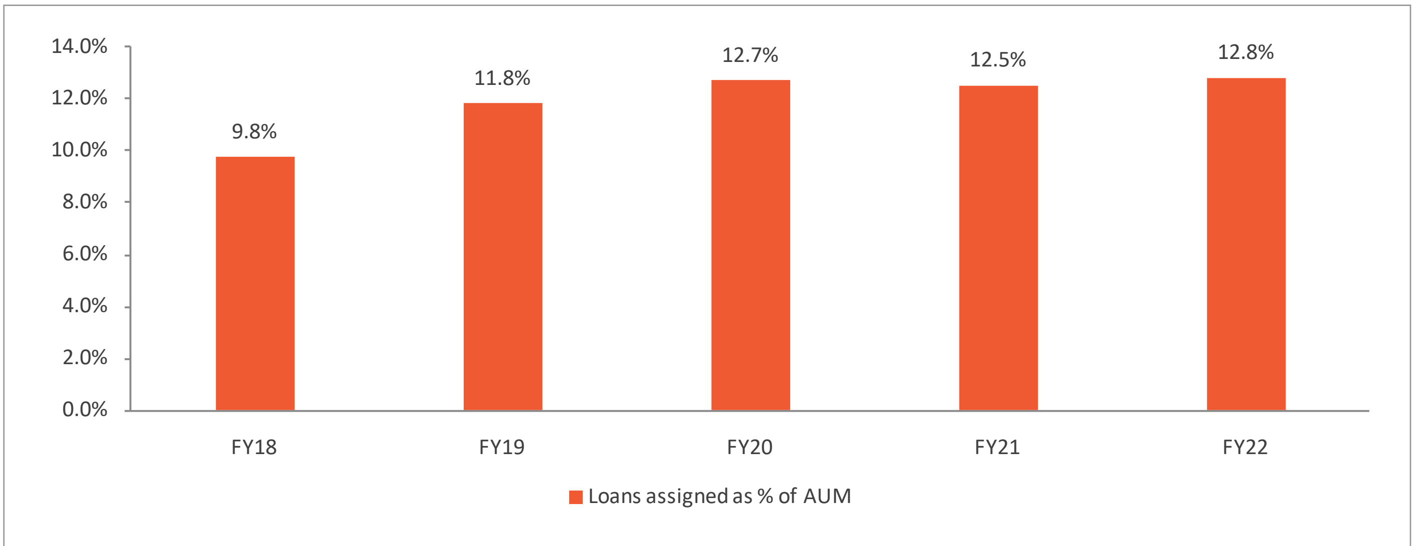
Loan sourcing: HDFC Sales Pvt Ltd, HDFC Bank and third party DSAs sourced 52%, 28% and 18% of home loans disbursed respectively during FY2022. Nearly 82% of individual loans business was sourced directly or through its affiliates.

Loan sourcing is majorly through HDFC and HDFC Bank



Source: Company, Sharekhan Research

Assignment of loans to HDFC Bank



Source: Company, Sharekhan Research

Asset quality: Average collection efficiency for individual loans on a cumulative basis during Q4FY22 was over 99% versus 98.9 in Q3FY22 versus 98.3 in Q2FY22. HDFC continue to report NPLs in accordance to RBI circular of NPA recognition. Gross NPL stood at Rs. 10,741 crore, ~1.91% of the loan book versus 2.32% in Q3FY22. Gross NPLs for individual and non-individual loans stood at 0.99% and 4.76% respectively of the book.

Provisions as a percentage of exposure at default (EAD) stood at 2.38% in FY2022 (Rs. Crore)

EAD	Individual		Non-Individual		Total	
Stage 1	418,848	97.1%	110,959	81.1%	529,807	93.3%
Stage 2	7,381	1.7%	17,871	13.1%	25,252	4.4%
Stage 3	4,940	1.1%	7,928	5.8%	12,868	2.3%
EAD Total	431,169	100%	136,758	100%	567,927	100%

Source: Company, Sharekhan Research

ECL	Individual		Non-Individual		Total	
Stage 1	836	27.6%	539	5.1%	1,375	10.2%
Stage 2	1,110	36.6%	4,030	38.5%	5,140	38.1%
Stage 3	1,084	35.8%	5,907	56.4%	6,991	51.8%
ECL Total	**3,030**	**100%**	**10,476**	**100%**	**13,506**	**100%**

Source: Company, Sharekhan Research

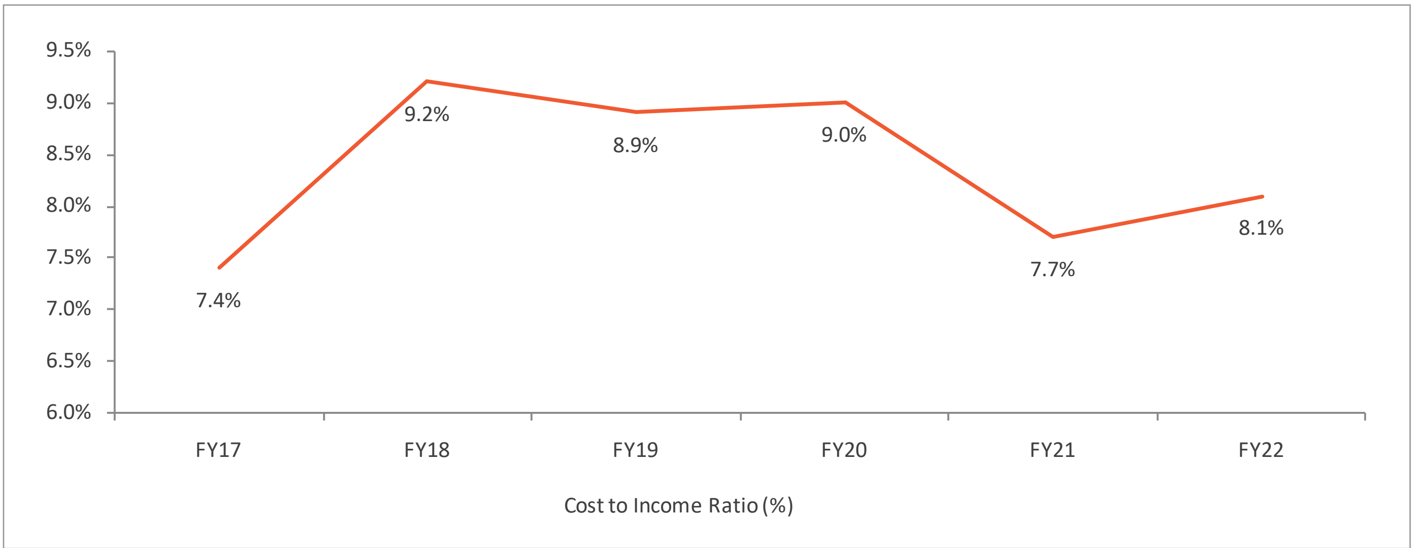
ECL/EAD	Individual	Non-Individual	Total
Stage 1	0.2%	0.5%	0.3%
Stage 2	15.0%	22.6%	20.4%
Stage 3	21.9%	74.5%	54.3%
ECL/EAD	**0.7%**	**7.7%**	**2.4%**

Source: Company, Sharekhan Research

Classification of Assets (%)	FY18	FY19	FY20	FY21	FY22
Stage 1	94.2%	92.2%	92.2%	91.4%	93.3%
Stage 2	4.5%	5.5%	5.5%	6.3%	4.4%
Stage 3	1.3%	2.3%	2.3%	2.3%	2.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

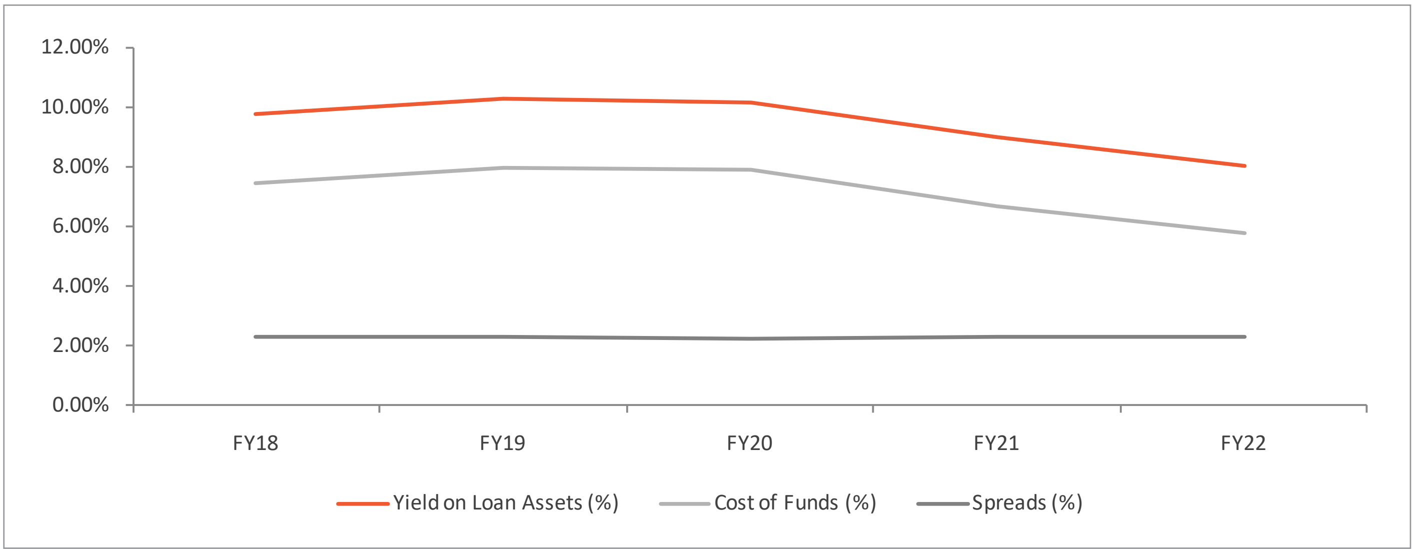
Source: Company, Sharekhan Research

Cost to Income Ratio (%)



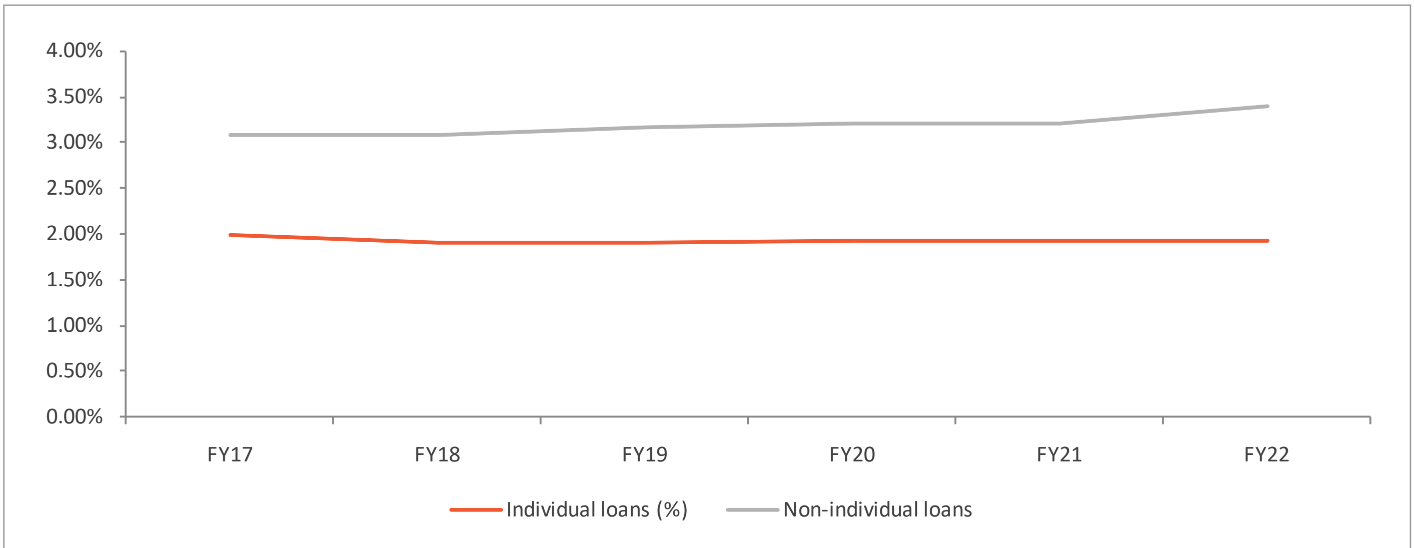
Source: Company, Sharekhan Research

Spreads continue to remain stable



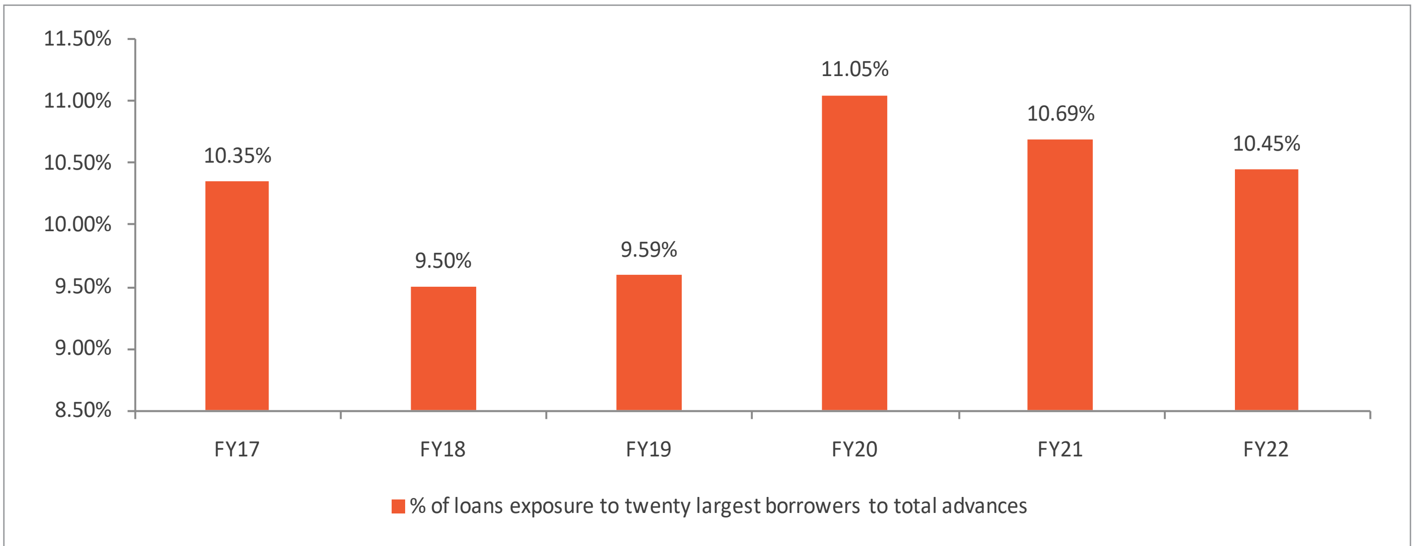
Source: Company, Sharekhan Research

Spreads by segments



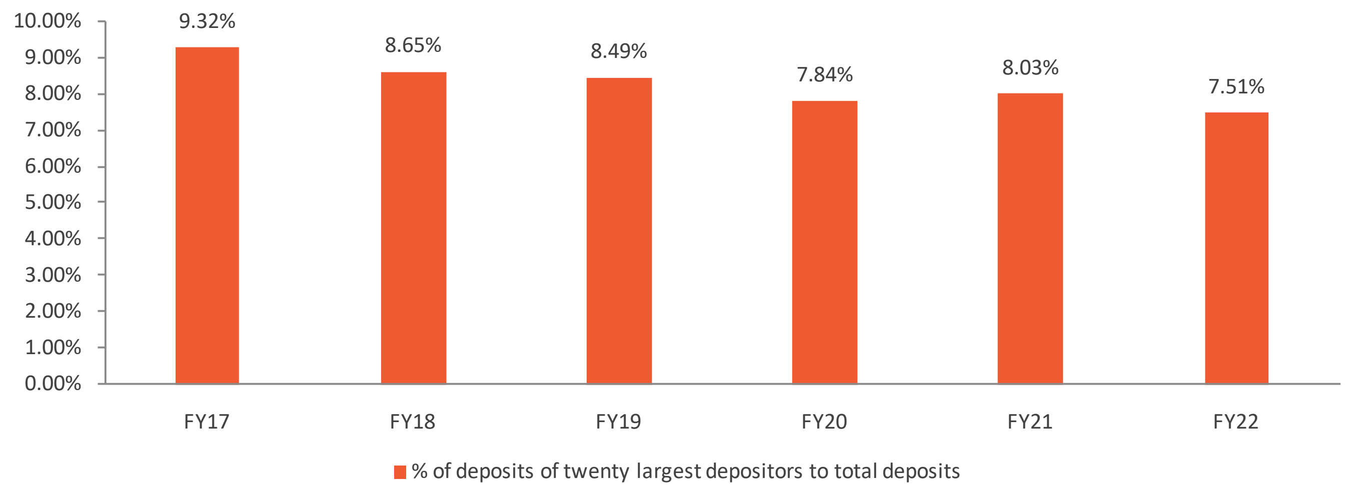
Source: Company, Sharekhan Research

Concentration of exposure



Source: Company, Sharekhan Research

Concentration of Deposits



Source: Company, Sharekhan Research

More than 60% of the term loans to be revised within one year (%)

Terms of borrowings and repayment	0-1 year	> 1-3 years	> 3-5 years	> 5 years	Total
Terms loans from Banks- secured	52%	11%	3%	6%	72%
Terms loans from Banks- secured	0%	0%	0%	0%	0%
National Housing Bank	2%	4%	2%	1%	9%
Term loans from Banks - unsecured	3%	0%	0%	0%	3%
External commercial borrowing	2%	6%	2%	0%	10%
REPO borrowings	6%	0%	0%	0%	6%
Total borrowings	64%	21%	8%	7%	100%

Source: Company, Sharekhan Research

Well matched ALM

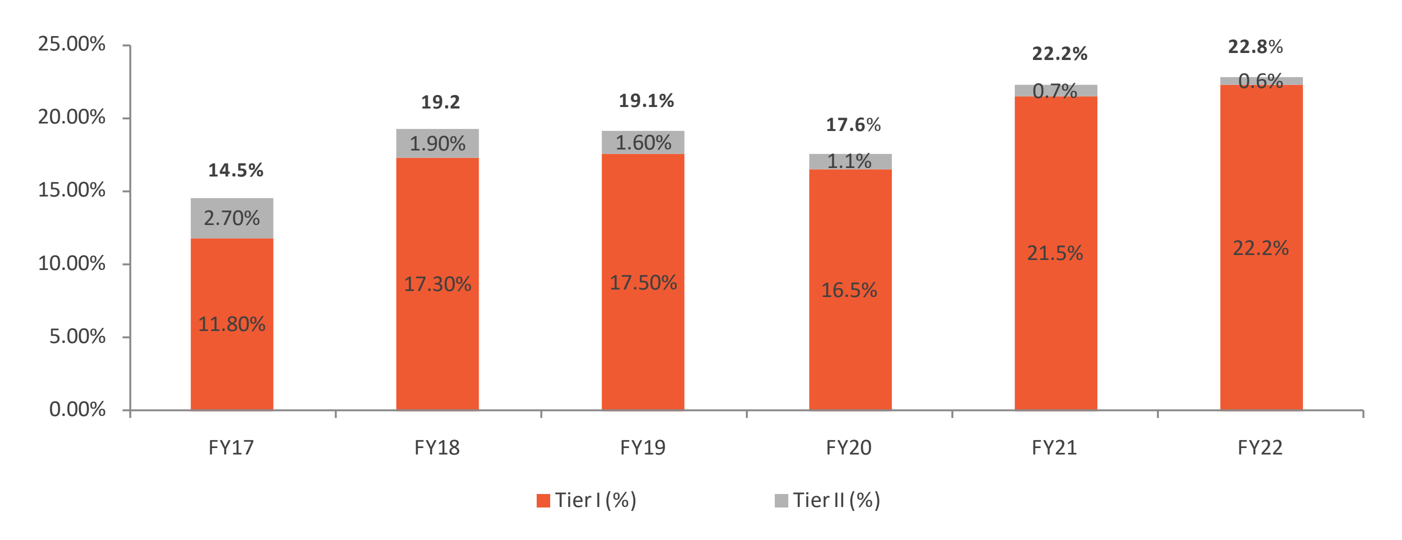
FY2022 (In Rs cr)	1 to 7 days	8 to 14 days	15 to 30/31 days	Over one month to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Liabilities											
Deposits	0	1,813	2,030	4,486	5,622	16,115	18,461	62,386	32,489	17,497	160,900
Borrowings other than market borrowing and foreign currency	8,800	170	900	994	1,997	4,385	9,807	32,838	21,908	44,065	125,866
Market Borrowing			1,921	3,994	3,651	6,847	7,183	49,605	36,362	89,367	198,930
Foreign Currency Liabilities				1,518	41			9,011	3,416		13,986
Total liabilities	**8,800**	**1,983**	**4,851**	**10,992**	**11,311**	**27,347**	**35,452**	**153,840**	**94,175**	**150,929**	**499,681**
Assets											
Advances		3,098	4,181	6,631	6,736	20,588	51,083	149,300	111,664	201,581	554,863
Investments	9,000	4,500	3,504	6,500	10,358	6,619	6,243	601	16,337	4,930	68,592
Total assets	**9,000**	**7,598**	**7,685**	**13,131**	**17,095**	**27,207**	**57,326**	**149,901**	**128,001**	**206,510**	**623,455**

Source: Company, Sharekhan Research

FY2022 (%)	1 to 7 days	8 to 14 days	15 to 30/31 days	Over one month to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years
Liabilities										
Deposits	0%	1%	1%	3%	3%	10%	11%	39%	20%	11%
Borrowings other than market borrowing and foreign currency	7%	0%	1%	1%	2%	3%	8%	26%	17%	35%
Market Borrowing	0%	0%	1%	2%	2%	3%	4%	25%	18%	45%
Foreign Currency Liabilities	0%	0%	0%	11%	0%	0%	0%	64%	24%	0%
Assets										
Advances	0%	1%	1%	1%	1%	4%	9%	27%	20%	36%
Investments	13%	7%	5%	9%	15%	10%	9%	1%	24%	7%

Source: Company, Sharekhan Research

Capital Adequacy (%)



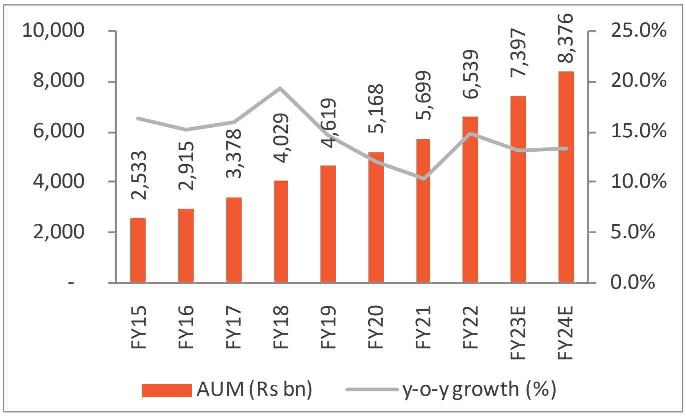
Source: Company, Sharekhan Research

Developments in subsidiary and associate Companies

- In accordance with the RBI's directives issued with regards to reduction of the HDFC's shareholding in HDFC ERGO General Insurance Company Ltd (HDFC ERGO) to 50% or below, HDFC completed the sale of 44,12,000 equity shares of HDFC ERGO to ERGO International AG, the foreign promoter of HDFC ERGO at a price of Rs. 536 per equity share, aggregating to a total consideration of Rs. 236 crore. Post the sale, the shareholding of HDFC in HDFC ERGO stood at 49.98% of its issued and paid-up capital and accordingly, HDFC ERGO ceased to be a subsidiary of HDFC.
- With the receipt of requisite approvals in January 2021, HDFC Life Insurance Company Ltd (HDFC Life) completed the acquisition of 100% shareholding of Exide Life Insurance Company Ltd (Exide Life) from Exide Industries Ltd. Consequently, Exide Life became a wholly-owned subsidiary of HDFC Life.
- HDFC together with its wholly-owned subsidiaries, HDFC Investments Limited and HDFC Holdings Limited holds 21% of the equity share capital of HDFC Bank.
- In April 2022, HDFC entered into binding agreements to sell 10% of the fully diluted paid-up share capital of HDFC Capital to a wholly-owned subsidiary of Abu Dhabi Investment Authority (ADIA) for Rs. 184 crore. ADIA is also the primary investor in the alternative investment funds managed by HDFC Capital.

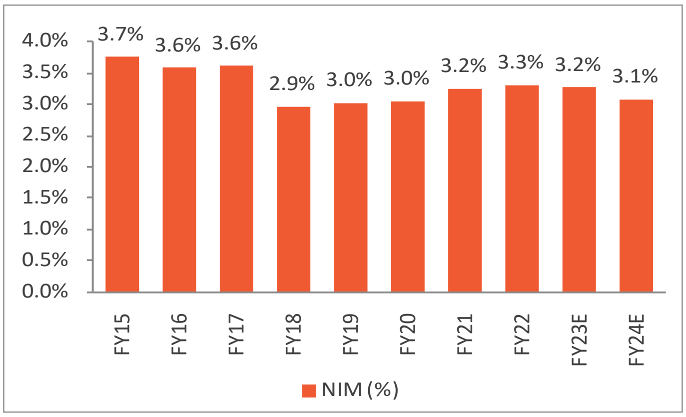
Financials in charts

Healthy AUM growth going forward



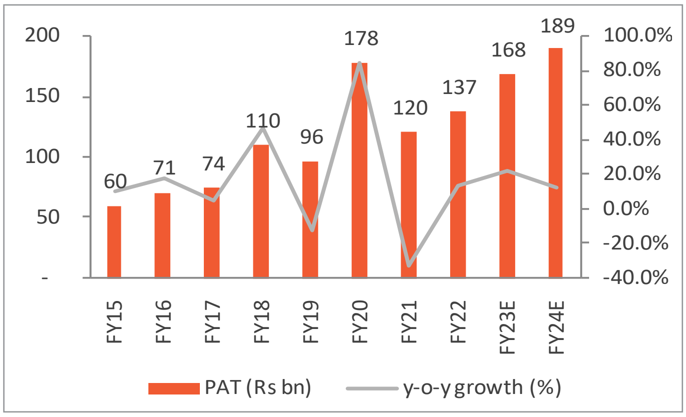
Source: Company, Sharekhan Research

NIM trend



Source: Company, Sharekhan Research

PAT trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Housing demand to grow exponentially amid favourable macros

Long-term structural indicators remain strong for the housing and mortgages segments in India. Interest rates are currently low and several states have given incentives for home buying, which is likely to prop up demand. A correction in borrowing costs, which was steep for high-rated NBFCs, is another positive. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake and LTV outlook for HFCs. India has a young population and government schemes such as CLSS, etc, which will facilitate even the affordable housing segments along with low penetration levels of mortgages in India (at 11% of GDP, as against 18% in China and 56% in the US). We believe economic recovery is also gaining momentum. We believe the outlook is resilient for well-run NBFC sector in general and HFCs in particular.

■ Company outlook - Strong triggers to drive growth, with resilient asset quality

Balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC, which support long-term investments. HDFC is well-capitalised and its book with high-quality granular individual loans make it comfortably placed. Given HDFC's market dominance, we expect the leadership to sustain going forward, even as growth momentum in the housing market is encouraging. HDFC's strong operating metrics, supported by the HDFC banks strong franchise, gives strong triggers for growth ahead.

■ Valuation - We maintain a Buy rating on HDFC with an unchanged SOTP based PT of Rs. 3,025

Currently, housing demand continues to be strong across tier-I, -II & -III cities with a higher number of first-time homebuyers and those moving up the property ladder by opting for larger homes or acquiring homes in another location, which bodes well for housing finance companies including HDFC, which is leader in the housing finance market. The company saw an improvement in collection efficiency and there on improved asset quality. With individual disbursements witnessing near historic highs and high yielding non-individual portfolio too seeing revival, we expect strong AUM growth going forward. Its credit costs have already been on a declining trajectory. We believe that the company would emerge as the key beneficiary of the favorable macro factors play. Further, the company is waiting for regulatory approval of proposed amalgamation of HDFC with HDFC Bank. It remains confident that the outcome will be judicious and fair at a systemic level. We believe that with the favourable regulatory developments, the merger with HDFC Bank is likely to be positive and at an opportune time. In the long term, strategies around scaling up of housing loans, PSL certificates and liabilities would be a key to be watched out for. Hence, we maintain a Buy on HDFC with an unchanged SOTP based PT of Rs. 3,025.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HDFC Ltd	2,155	391,666	9.3	8.3	1.2	1.1	13.3	13.6	2.4	2.4
LIC Housing Finance	307	16,903	4.9	4.2	1.6	1.5	14.9	14.5	1.2	1.2
Can Fin Homes	419	5,596	9.8	8.1	1.7	1.4	15.7	15.4	1.7	1.7

Source: Company; Sharekhan Research

About company

HDFC Limited is a major provider of finance for housing in India. The company (via its subsidiaries and group companies) is also present in banking, life and general insurance, asset management, venture capital, realty, education, deposits, and education loans via its formidable subsidiaries. As pioneers in housing mortgages, it is a brand name that has been characterised by trust, solidity, both financial and managerial, and sound principles. Established in 1977, HDFC has been able to maintain and set high standards in the housing finance sector.

Investment theme

HDFC has a strong portfolio of subsidiaries, which are market leaders in their own respective fields, which add to the value of the parent. By virtue of its strong market position, it has been able to withstand most market headwinds in the recent past. We believe balance sheet strength, consistency, and quality of earnings continue to be the key differentiators for HDFC and will help it tide over challenges. We believe HDFC is an attractive business franchise due to its strong retail book, a quality developer finance book (with sufficient cover), opportunity of quality market share gains (AUM growth), access to reasonably priced funds, and superior underwriting practices.

Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost may affect earnings

Additional Data

Key management personnel

Mr. Deepak S. Parekh	Chairman
Mr. Keki M. Mistry	Vice Chairman & CEO
Ms. Renu S Karnad	Managing Director
Mr V Srinivasa Rangan	Executive Director and CFO
Mr. Mathew Joseph	Chief Risk Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.1
2	Invesco Ltd	4.0
3	SBI Funds Management Pvt Ltd	3.4
4	Vanguard Group Inc/The	3.0
5	BlackRock Inc	2.9
6	Republic of Singapore	2.8
7	JPMorgan Chase & Co	2.7
8	FMR LLC	1.4
9	ICICI Prudential Asset Management	1.4
10	T Rowe Price Group LLC	1.3

Source: Bloomberg; data as on May 02, 2022

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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