



#### 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. 1,977	
Price Target: Rs. 2,375	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

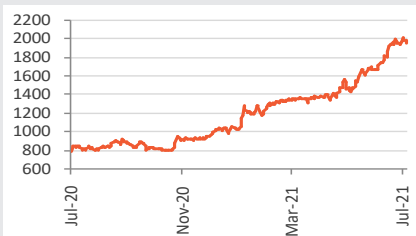
#### Company details

Market cap:	Rs. 29,276 cr
52-week high/low:	Rs. 2,034 / 795
NSE volume: (No of shares)	14.0 lakh
BSE code:	542652
NSE code:	POLYCAB
Free float: (No of shares)	4.7 cr

#### Shareholding (%)

Promoters	68.4
FII	9.3
DII	7.4
Others	14.9

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	13	46	62	135
Relative to Sensex	1	10	7	44

Sharekhan Research, Bloomberg

#### Summary

- FY2021 fetched Polycab India twin benefits - improving businesses and a stronger balance sheet, though H1 was affected by COVID-19.
- Polycab's market share in the C&W segment rose by over 200 bps to 20-22% in FY2021 while FMEG portfolio saw growth & market share gains across the board. Net cash surplus too rose significantly.
- Company's strategy for both B2B and B2C segments eyes a revenue of Rs. 20,000 crore by FY2026 through cementing leadership in C&W segment and fast-growing consumer electrical business.
- We retain a Buy on Polycab with a revised PT of Rs. 2,375, given a strong earnings growth trajectory over FY2021-FY2023.

FY2021 fetched Polycab India twin benefits - improving businesses and a stronger balance sheet, though H1 was affected by COVID-19. Its market share in the domestic organised cables & wires (C&W) industry rose to 20-22% from 18% in FY2020. The C&W segment (81% of FY2021 standalone revenues) declined by 3% y-o-y (wires posted double digit y-o-y growth) owing to the COVID-19 and a high export base (Dangote export order), although this was compensated by a strong performance in H2 and higher realisations. The C&W segment saw EBIT margin rise by 26 bps y-o-y to 12.6% despite a surge in key commodity prices (average LME prices of copper and aluminium rose by 40% y-o-y and 26% y-o-y, respectively, for FY2021), led by pricing actions, improved product mix and cost optimisation. The FMEG business (revenue share increased by 290 bps y-o-y to 11.5%) saw revenues rise by 24% y-o-y rise and gained market share across the board. The segment's EBIT margin improved to 5.5% in FY2021 from 2% in FY2020 led by pricing action, design and cost optimisation, improved sales mix and deft working capital management. Polycab's B2C product portfolio (housing wires & FMEG) increased its contribution from 32.6% in FY2020 to 40.2% in FY2021 on standalone basis. Polycab is steadily reducing dependence on institutional business and moving to a pure distribution model with a 17% y-o-y increase in authorized dealers and distributors count and retail outlet reach increased by about 32% y-o-y. The number of electricians under the company's influencer program grew by ~33% y-o-y to over 180,000. A strong emphasis on research & development is helping company roll out differentiated products across India. On the balance sheet front, strong OCF generation (Rs. 1238 crore versus Rs. 245 crore in FY2020) aided by lower ad spends (Rs. 68 crore versus Rs. 109 crore in FY2020) and tight working capital management (67 days versus 64 days in FY2020) led to strong rise in net cash position (Rs. 906 crore versus Rs. 164 crore in FY2020). Returns ratios remained healthy with RoCE and RoE at 22.3% and 18.6% in FY21 respectively. On the outlook front, Polycab is targeting over Rs. 20,000 crore revenue by FY2026 through strengthening its leadership positioning in B2B and breakout growth in B2C. In the B2B segment, Polycab would eye a 1.5x market growth in core segments, 2x in emerging segments, an over 5% contribution from adjacencies and 10%+ export contribution. In B2C, it would target 1.5x of market growth in retail wires, 2x growth in FMEG, OPM of above 12% and a ~10% contribution from the online segment for specific categories.

#### Our Call

**View: Retain Buy with a revised price target of Rs. 2,375:** Polycab is expected to keep clocking healthy numbers led by strong traction in the housing segment, input cost led price hikes in the C&W segment, rising exports and scaling up the FMEG business with new product launches. The company also has strong growth tailwinds in terms of rising infrastructure investments. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing a sustainable long-term growth. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the cables & wires segment and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at P/E of 31x/26x its FY2022E/FY2023E EPS. With a consistent improvement in balance sheet, market share gains and accelerated growth under Project Leap, we remain constructive in medium to long term growth outlook. Hence, we retain Buy on the stock with a revised PT of Rs. 2,375.

#### Key Risks

Fluctuations in raw-material prices would affect margins sharply

#### Valuation (consolidated)

Particulars	FY20	FY21	FY22E	FY23E
Revenue	8,830	8,927	10,474	12,205
OPM (%)	12.9	13.1	13.2	13.3
Adjusted PAT	766	876	946	1,120
% Y-o-Y growth	53.0	14.4	8.0	18.4
Adjusted EPS (Rs.)	51.4	58.8	63.5	75.1
P/E (x)	38.7	33.8	31.3	26.5
P/B (x)	7.7	6.2	5.3	4.5
EV/EBIDTA (x)	19.4	17.9	14.7	12.7
RoNW (%)	22.9	20.4	18.3	18.5
RoCE (%)	30.5	24.9	24.8	25.1

Source: Company; Sharekhan estimates

**Executive Corner:**

Operationally, all factories, offices and warehouses have been functioning in compliance with local guidelines and follow the global best practices.

Polycab has worked on developing new consumer-centric products, based on deep understanding of the market and launched products across categories.

The company has grown their market reach in the Tier-II and Tier-III cities and continued with branding initiatives during the year to improve brand connect.

Polycab’s core C&W business was supported by an expansion in the distribution network, portfolio augmentation, higher realisation and favourable macro environment in second half and have received multiple product approvals for in-house manufactured high end cables used in sectors such as defence, railways and automobiles.

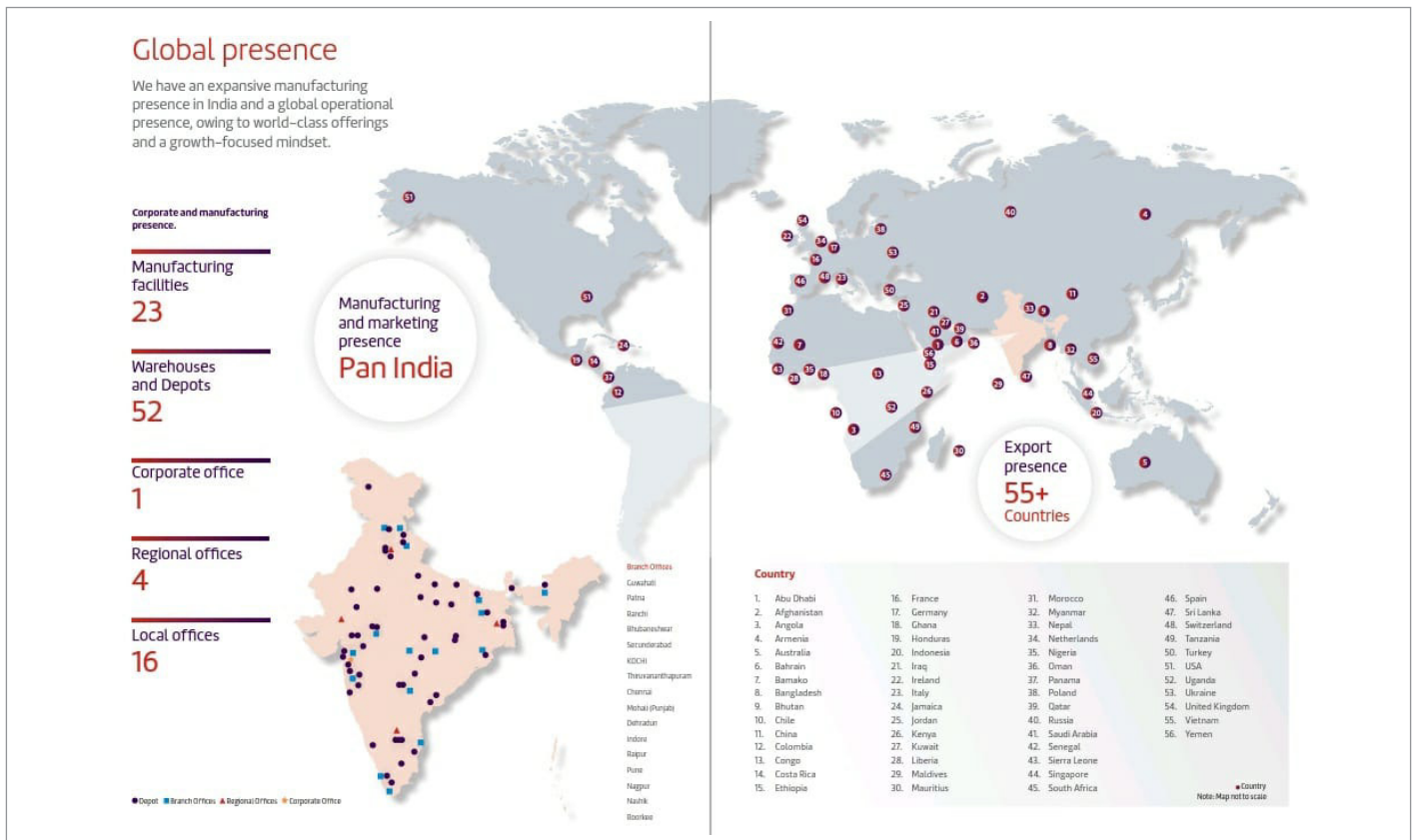
During the year, Polycab flagged off a strategic cost optimisation initiative – Project Udaan to build a lean cost structure, which is sustainable while institutionalising new ways of working. The implementation is underway and benefits are expected accrue over the next two years.

Polycab has also initiated Project Shikhar to strengthen the company’s engagement with key influencers i.e. retailers, electricians & small contractors. This programme seeks to expand retail reach in 300 high potential cities across India, over the next two years.

The company has embarked on a five-year transformational journey to cross Rs. 20,000 crore in sales with significant market share improvement across categories.

Source: Polycab Annual report 2021

**India & Global presence:**



Source: Polycab Annual report 2021

## Key growth drivers:

**Young population to fuel consumption story:** As a country, India grown gradually by harnessing the power of its internal market and improving product quality. The country's young population (~62% in 15-60 year bracket – economic survey 2019-20) will be a key catalyst to realising the explosion in the consumer space. India's growth is directly proportional to the change in the population's age structure which results in rising disposable incomes, in addition to a growing middle class, with nearly 140 million households which sets the stage for India's consumption story. In addition, an increase in the number of working women, better job prospects and nuclearisation of families enhances housing demand and associated needs. In addition, 79% of consumers are changing their purchase preferences based on social responsibility, inclusiveness, or environmental impact. With the country opening up further in the post-COVID period, this demand surge will play a definitive role in consumption patterns.

**Infra spending to drive demand up:** In March 2021, the Parliament passed a bill to set up the National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects. This significant push by the government on infra spending aids electricals industry as growth in infrastructure will in turn drive demand for wires, cables and other electrical products such as lights, switchgears, and so on. Also, Budget 2021 has allocated 34.5% to infrastructure development projects, as compared to last year. Q3 FY2021 saw pickup in investments by 102%, while Q4 witnessed a 40.58% growth in fresh investment in manufacturing investments. With the setting up of smart cities and a rise in foreign and domestic investments, urbanisation in India is progressing at a never-before scale. The UN highlights that India's urban population will nearly double between 2018 and 2050, from 46.1 crore to 87.7 crore.

**Strong policy reforms to bring about significant changes:** In April 2020, the Union Government announced the production-linked incentive (PLI) scheme, aimed at achieving large-scale electronics manufacturing in India. Rs 1.97 lakh crore were earmarked for PLI during Budget 2020-21 for next 5 years, which will boost production by over \$500 billion in the next five years. In key operational markets, the respective state governments have announced several schemes to garner investments and support local manufacturing. While GST has been around for over three years, it has brought several structural changes to the business scenario such as elimination of cascading tax effect, higher registration threshold, simple and online procedure, lesser number of compliances and regulation of unorganised sector. The government has announced several initiatives for exporters such as tax refund scheme, enhanced credit scheme, Nirvik (Niryat Rin Vikas Yojana) scheme for enhanced insurance cover and reduced premium for small exporters to boost export performance.

**Government initiatives:** The Union Government is also laying an emphasis on digital infrastructure initiatives with programmes such as Digital India, BharatNet. BharatNet is the world's largest rural broadband connectivity programme, aimed at connecting all the 2.5 lakh Gram Panchayats (GP) across India. As of June 2021, the length of OFC laid was 5,24,686 km and the number of GPs where optical fibre cables were laid (OFC) stood at 1,72,941.

**Samarth Udyog Bharat 4.0: A key game changer:** Industrial Revolution 4.0 is built upon the grounds of the digital revolution, but with a whole new level of interconnectedness through the use of the Internet of Things (IoT). Machine-to-Machine Communication (M2M), adjacent to the IoT, allows for self-monitoring smart machines that can evaluate and diagnose without human intervention. It is likely to boost demand for green wires, solar and technologically-advanced electric equipment. The Samarth Udyog Bharat 4.0 is an Industry 4.0 initiative of the Government of India under the Ministry of Heavy Industry & Public Enterprises and it includes manufacturers, vendors and customers as the main participants.

**Long-term strategies:**

Growth led by diversification:	Improving profitability	Enhancing brand recall	Working capital optimisation	Industry 4.0
<ul style="list-style-type: none"> <li>•Diversified with new high-end and customised products in wires and cables</li> <li>•New Premium and value added variants in FMEG</li> <li>•IoT-based FMEG offering – Hohm</li> <li>•Geographic diversification of trade network</li> <li>•Project Shikhar - sales acceleration programme implemented</li> </ul>	<ul style="list-style-type: none"> <li>•Enhanced profitability through margin-accretive premium products</li> <li>•Calibrated price interventions undertaken to pass on input cost increase, thus protecting margins</li> <li>•Strategic cost optimisation initiative - Project Udaan to build a leaner and more sustainable cost structure, taking a holistic approach to analyse various dimensions of product life cycle</li> </ul>	<ul style="list-style-type: none"> <li>•BTL marketing activities such as branding and merchandising, sales promotion, direct marketing</li> <li>•Digital medium marketing such as: Social media, Calling ads, Mobile marketing, OTT, Affiliate marketing, SEO, E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>•Helping more distributors with financing to generate additional business volumes</li> <li>•Strategic supply chain management with automated system</li> </ul>	<ul style="list-style-type: none"> <li>•High degree of automation and integration of systems within ERP for a seamless experience</li> </ul>

Source: Polycab Annual report 2021

**Project Leap: Aggressive target shows confidence of the management**

Since 1998, Polycab has recorded a robust 43% compounded annual growth rate in business. Even in the last five years, growth has been relatively healthy at a ~11% CAGR while maintaining market leadership and tackling challenges like the pandemic. Polycab has targeted to reach Rs 20,000 crore in sales by FY26. Polycab has created four core areas - B2B, B2C, capabilities and sustainability. On the B2B side, Polycab plans to reenergize the business and strengthen their leadership position. This will be done by refining the business model to win in large towns, enhance value proposition to explore untapped opportunities, enable demand generation through micro market analytics and have a strong business development arm. For the B2C business, Polycab aims to build a comprehensive portfolio across price points, redefining their brand architecture, adopt a 'digital-first' approach and explore adjacencies.

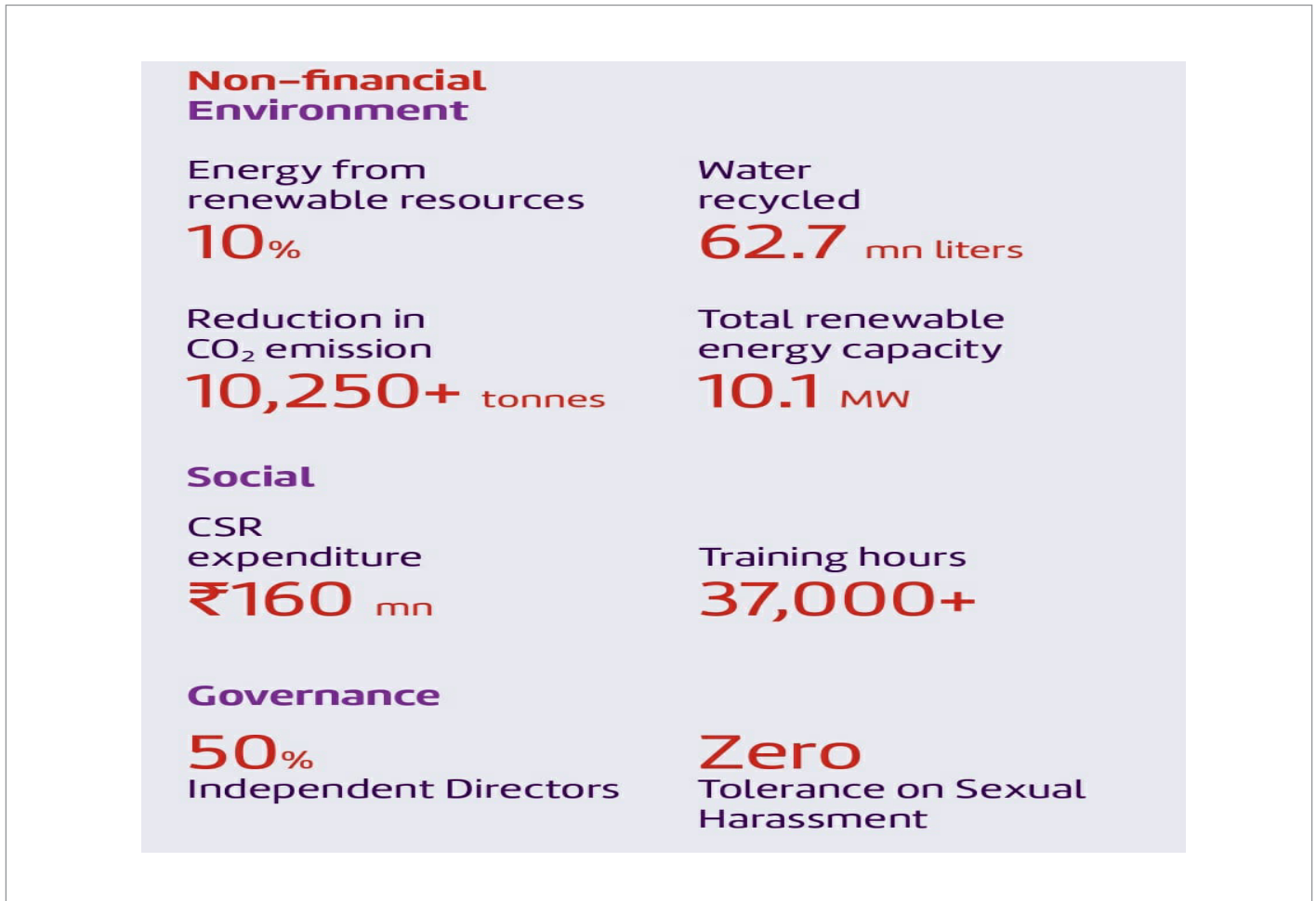


Source: Polycab Annual report 2021

### Project Udaan: Cost Optimisation Project to drive down costs

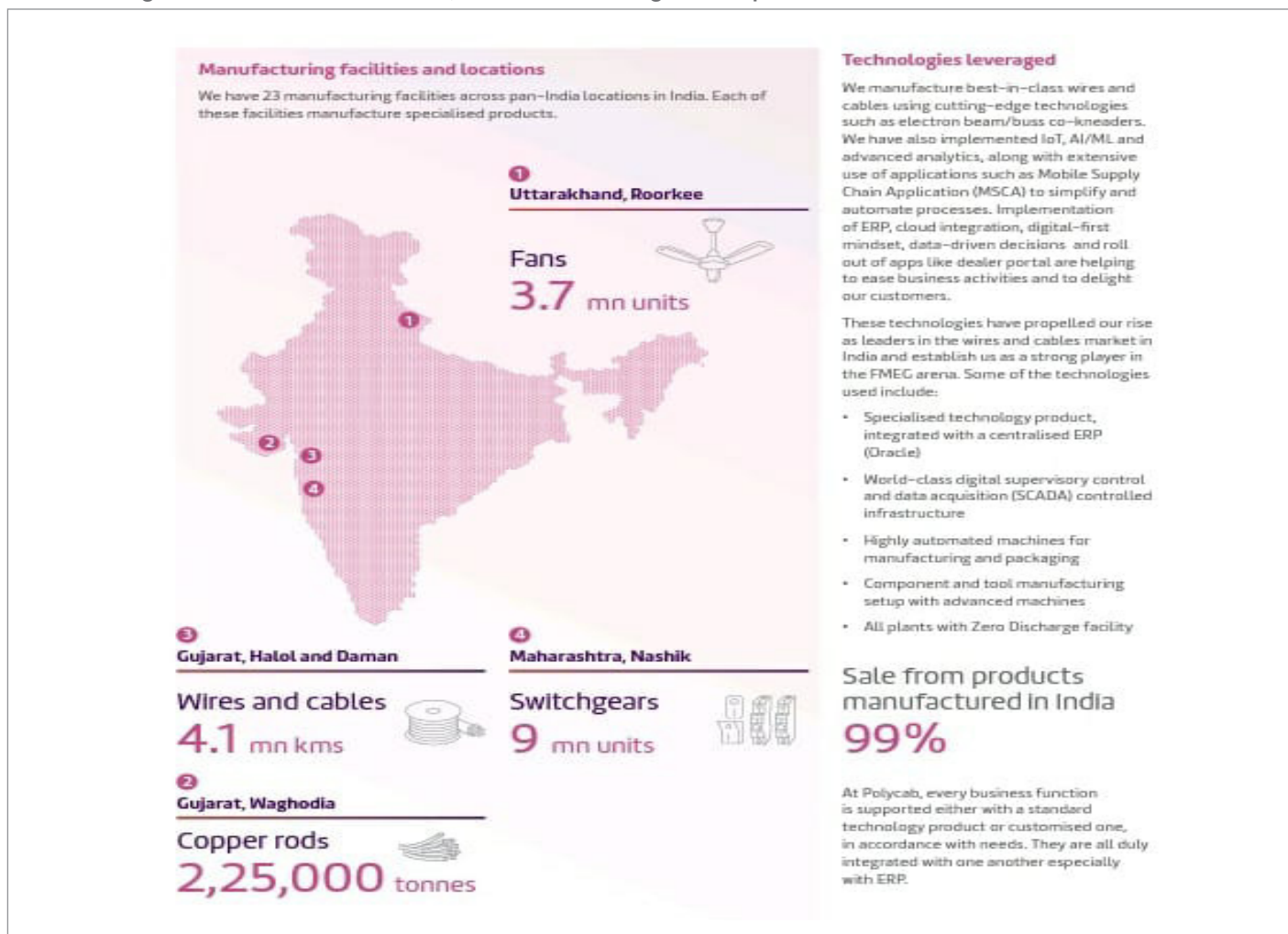
Polycab undertook a strategic cost optimisation initiative titled Project Udaan, in association with the Boston Consulting Group. This project takes a holistic approach analysing various dimensions of product life cycle for e.g. - strategic procurement, manufacturing process, supply chain, design optimisation and value engineering, as well as implementation of digital tools enabling analytics-driven decision making. Overall, Project Udaan will help drive efficiencies and generate cost savings to fuel growth. Successful execution of this project remains a key priority in the near term.

#### Notable achievements on ESG front:



Source: Polycab Annual report 2021

## Manufacturing facilities: IoT based solutions, ERP and cloud integration implemented



Source: Polycab Annual report 2021

## FY2021 – Strong growth in H2FY2021, despite pandemic-induced disruptions

Revenue rose by 1% y-o-y at Rs. 8927 crore with healthy underlying growth across business segments and improving share of B2C business. Operating profit grew by 3% y-o-y with OPM at 13.1% (up 20 bps y-o-y) helped by pricing actions, leverage benefits and cost-saving initiatives.

### C&W segment:

- ◆ In FY2021, the C&W segment's revenue declined by 3% y-o-y to Rs. 7,292 crore. This was largely on account of severe impact of pandemic and high exports base, partly compensated by strong business performance in H2FY2021 and higher realisations.
- ◆ Sequential pickup in infra and industrial project activities from Q2FY2021 onwards along with improving consumer sentiment enabled favourable business environment. The segment accounted for 81% of total sales in FY2021.
- ◆ Sharp surge in input costs was mitigated by calibrated pricing actions, improved product mix and cost optimisation initiatives.

### FMEG Segment:

- ◆ In FY2021, this segment reported a revenue growth of 24% y-o-y to Rs 1,034 crore despite the severe impact of the pandemic in Q1FY2021.

- ◆ Performance was supported by healthy consumer demand, distribution, and strong execution. The segment accounted for 11.5% of total sales in FY2021.

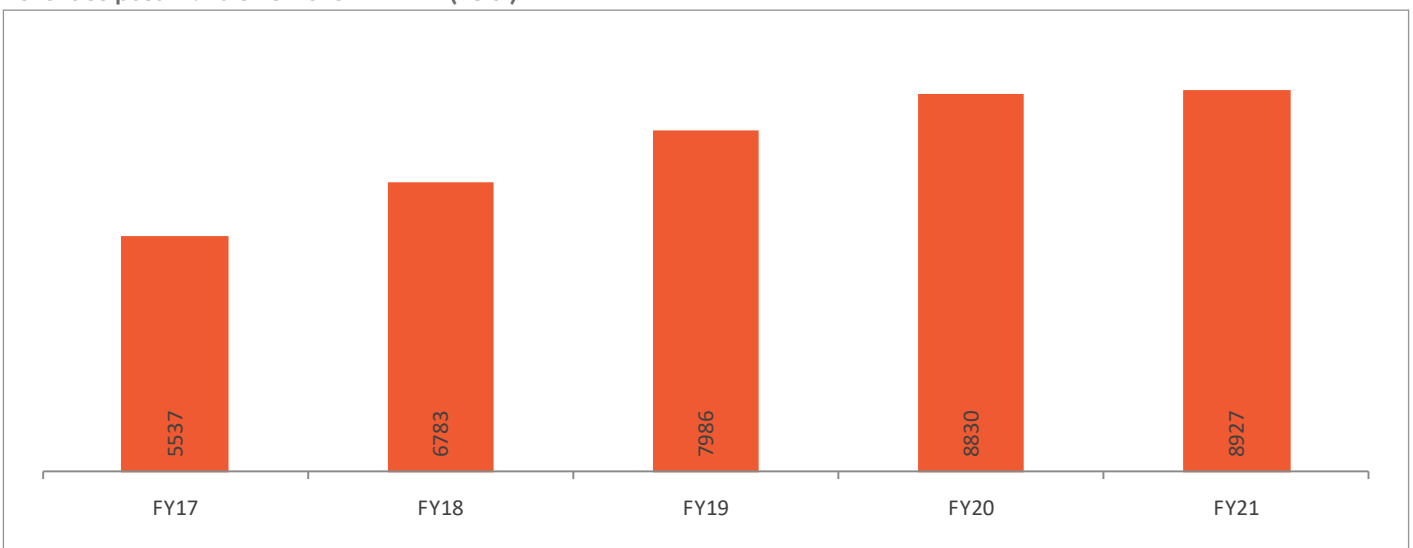
#### Copper:

- ◆ During the year, the Company acquired the balance 50% stake in Ryker Base Private Limited (Ryker) from Trafigura Pte Ltd., Singapore, thereby terminating the existing joint venture.
- ◆ The Copper segment revenue in FY21 stood at Rs. 433 crore and accounted for 4.8% of the total sales in FY2021.

#### Other segments

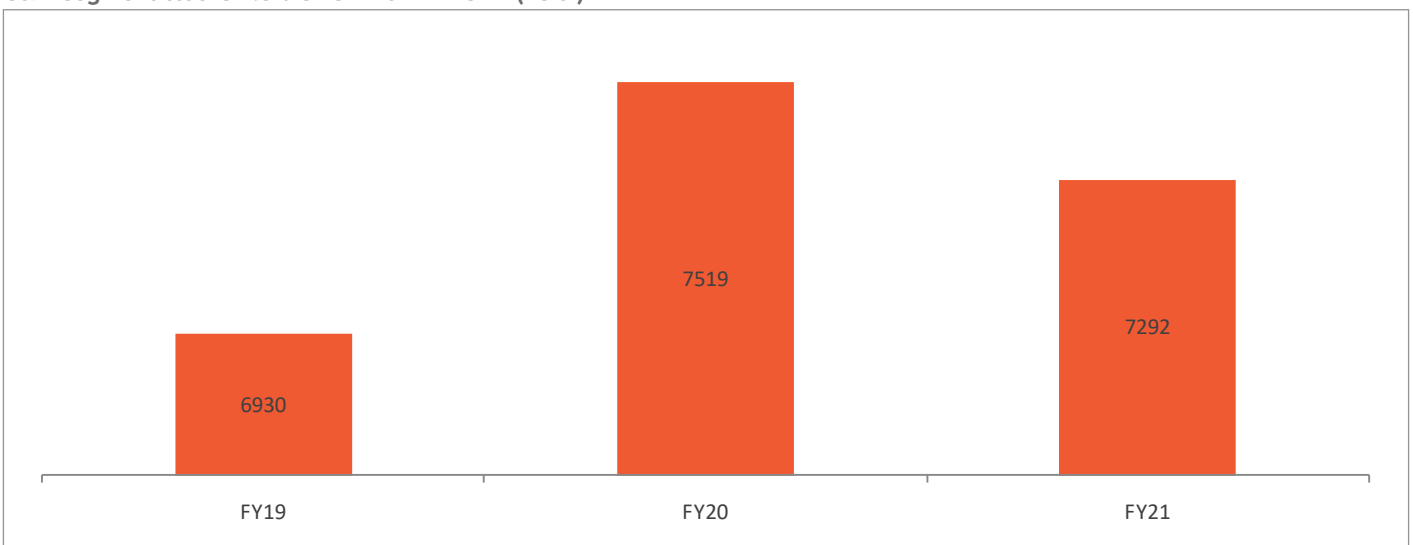
Other segments, which largely represent the EPC business and subsidiaries clocked revenue of Rs. 244 crore, declining by 53% y-o-y due to a higher base and severe impact of the pandemic.

Revenues post 12.7% CAGR over FY17-21 (Rs cr)



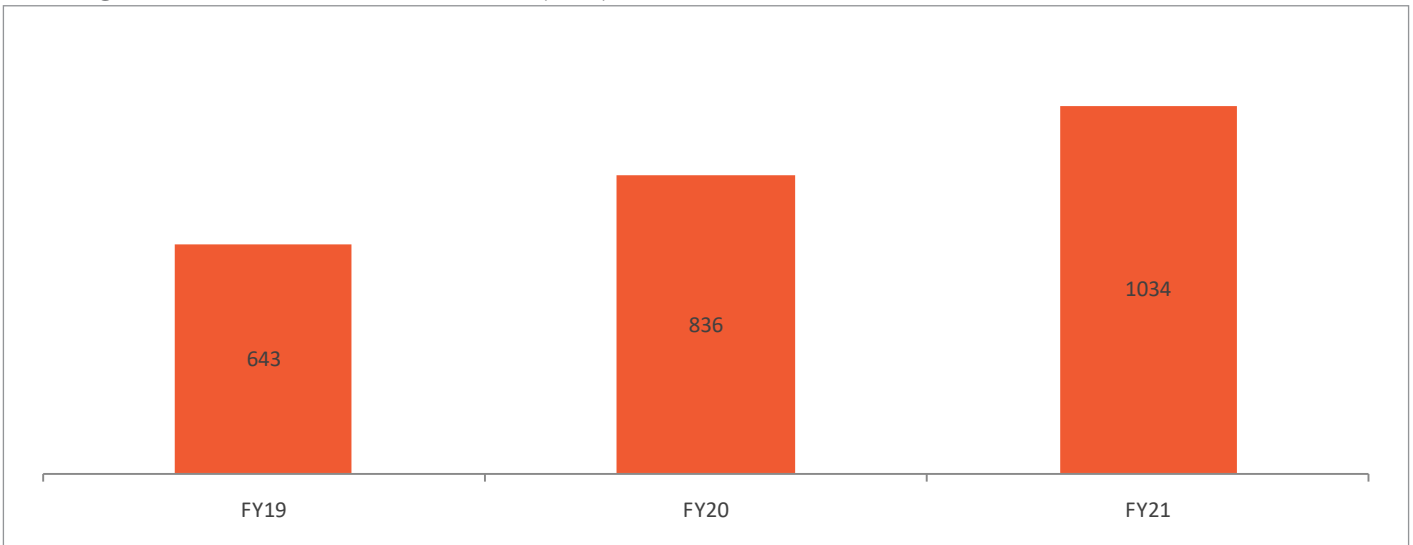
Source: Company, Sharekhan research

C&W segment clocks 2.6% CAGR from FY19-21 (Rs cr)



Source: Company, Sharekhan research

**FMEG segment clocks 26.8% CAGR over FY19-21 (Rs cr)**

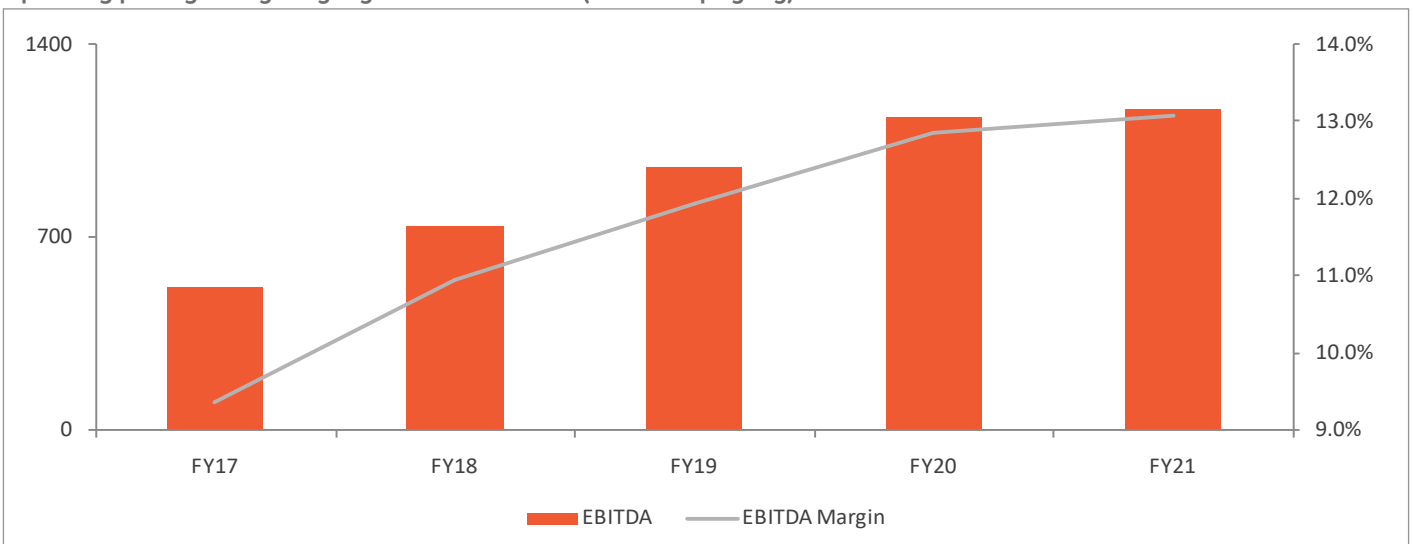


Source: Company, Sharekhan research

**Strong EBITDA growth in Q4FY2021:**

In Q4FY2021, EBITDA grew by 43% y-o-y to 13.9% led by pricing action, leverage benefit, cost saving initiatives offsetting sharp input cost inflation. In FY2021, EBITDA grew 3% y-o-y with a 30 bps y-o-y rise in margin. This was despite adverse operating leverage seen in first quarter and sharp run up in prices of key inputs like copper, aluminium, PVC and steel. These headwinds were partly mitigated by calibrated pricing actions, better portfolio mix, improved productivity, better working capital management and cost-saving initiatives. Directionally, it appears that EBITDA margins will improve because the proportion of B2C business is increasing and that is where the margins are expected to rise.

**Operating profit grew by 3% y-o-y with OPM at 13.1% (over 20 bps y-o-y)**



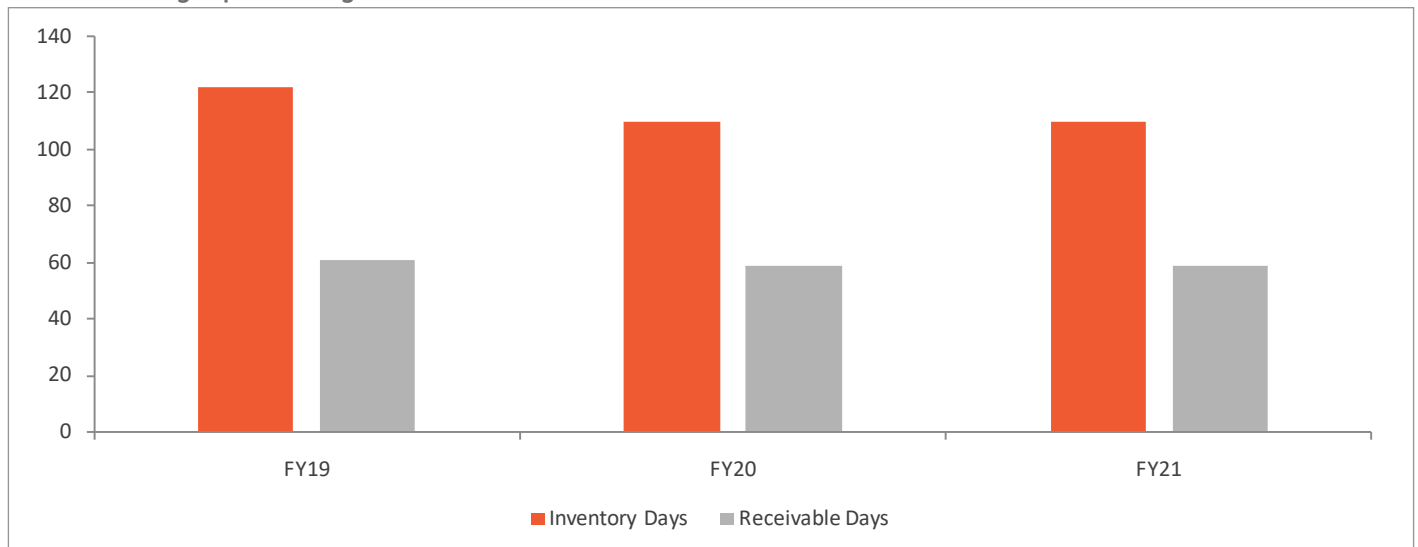
Source: Company, Sharekhan research



### Sound working capital management:

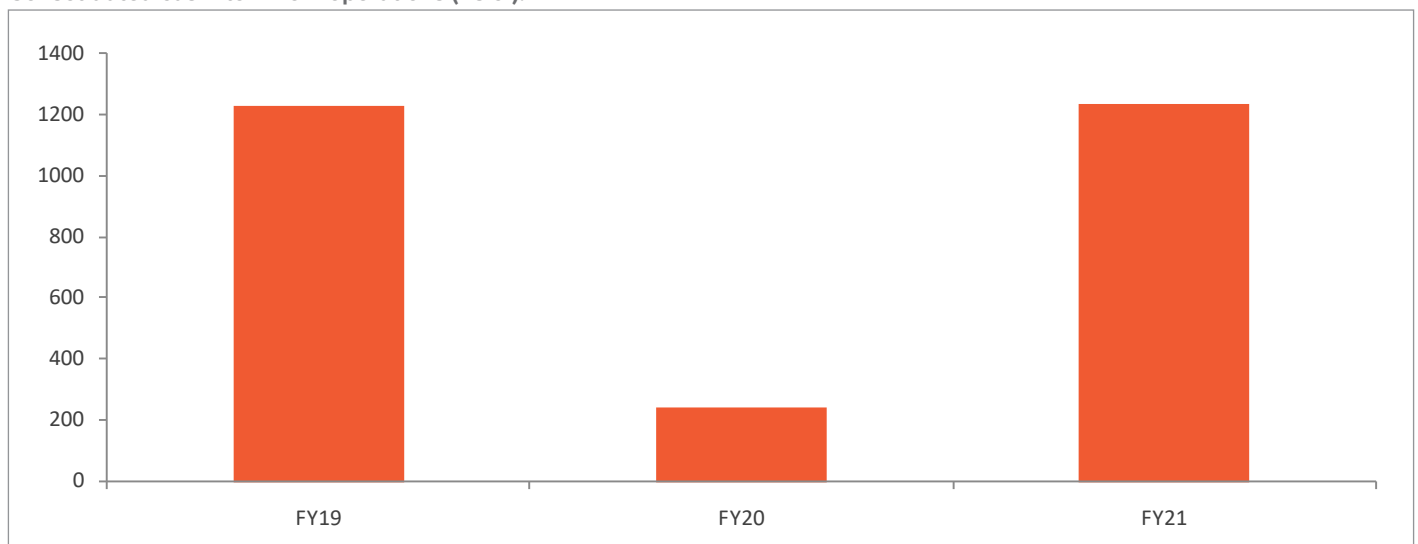
In FY2021, working capital levels were optimised with lower inventory levels and increased channel finance through the enrolment of a large number of distributors and dealers. Working capital was optically stable with robust cashflow at Rs. 900 crore as well as returns ratios staying healthy with ROCE and ROE at 22.3% and 18.6% in FY2021, respectively. During the year, channel financing help reduce receivable days, inventory optimisation helped Polycab with better raw material levels. The company also maintained balanced payable position that resulting in efficient working capital management. Polycab's strategic interventions like pushing premiumisation, improving portfolio mix, calibrated price hikes, cost optimisation through Project Udaan, increase in sales productivity, and better working capital management are helping improve profitability as well as return ratios.

### Efficient working capital management:



Source: Company, Sharekhan research

### Consolidated cash flow from operations (Rs cr):



Source: Company, Sharekhan research

## Sector update:

### Wires & Cables segment:

The domestic C&W market, at about Rs. 45,000-50,000 crore, makes up approximately 40-45% of the Indian electrical industry. Generally, wires consist of a single conductor, while cables involve one or more conductors that are used for the transmission of electricity, data or signals. Applications of wires and cables include Power cables, Building wires, Control and instrumentation cables, Telecom cables, Optical fiber cables and other types of cables such as Flexibles cables and specialty cables.

### FMEG Segment:

Fast-Moving Electrical Goods (FMEG) are consumer electrical goods sold through retail trade outlets and e-Commerce platforms. These include products such as fans, lights, luminaires, switches, switchgears, pumps, conduits, fittings and so on. Over the years, this industry has evolved rapidly with increasing participation of organised players and emphasis on branding. Structural drivers like changes in demography, consumer behaviour, technology and rising disposable incomes have catapulted the growth of the organised FMEG sector in India. Meanwhile, the unorganised market, which makes up 10-50% across categories, has been on a steady decline. During the year, growth in the FMEG sector was relatively weak largely on account of the pandemic. The nationwide lockdown in the first quarter disrupted retail trade significantly. Accordingly, H2FY2021 saw healthy growth across FMEG categories. A sharp surge in input costs along with supply chain constraints led to significant margin pressure. As a result, established players with well-entrenched distribution network gained market share.

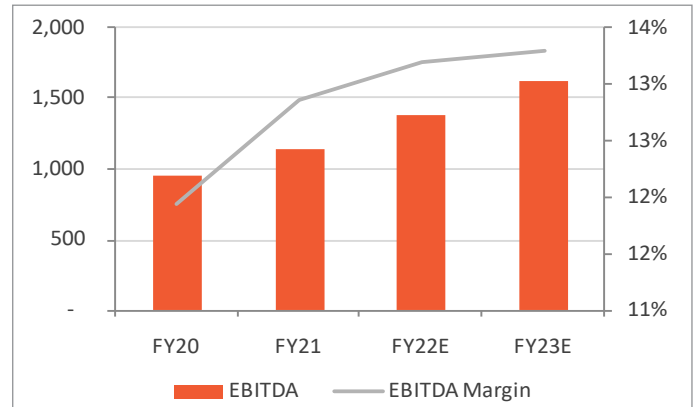
Financials in charts

Revenue (Rs Crs)



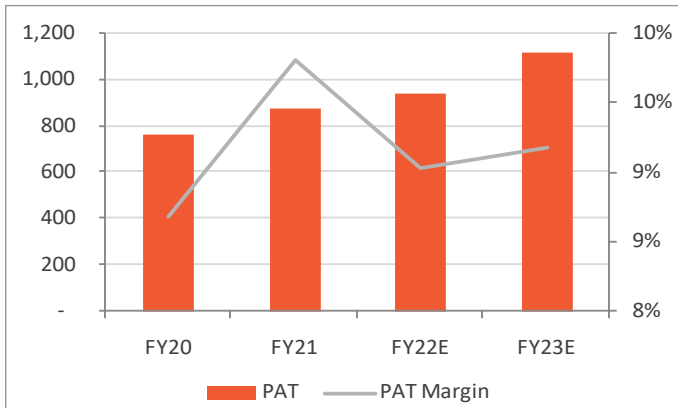
Source: Company, Sharekhan Research

EBITDA & EBITDA Margin



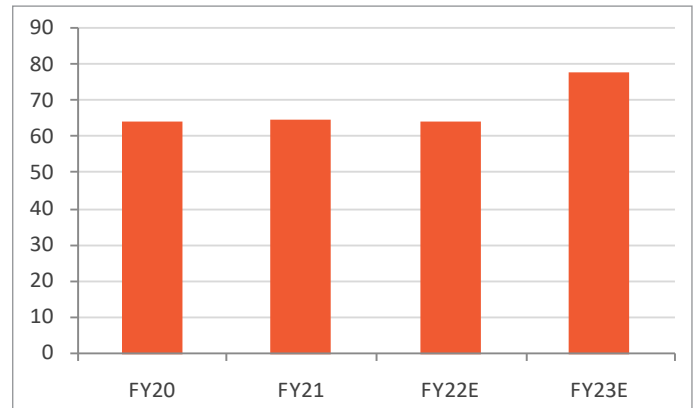
Source: Company, Sharekhan Research

PAT & PAT Margin



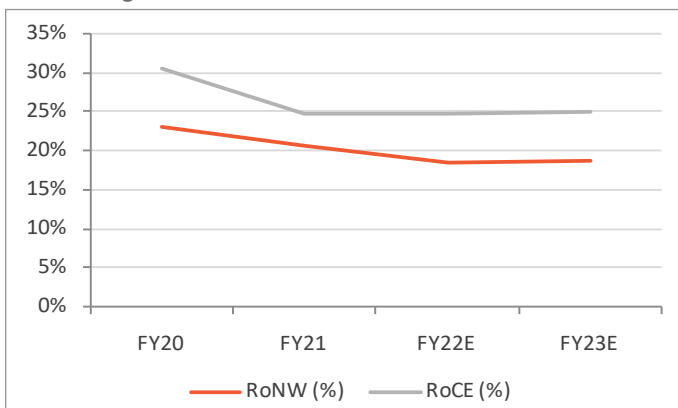
Source: Company, Sharekhan Research

Working capital cycle (No of days)



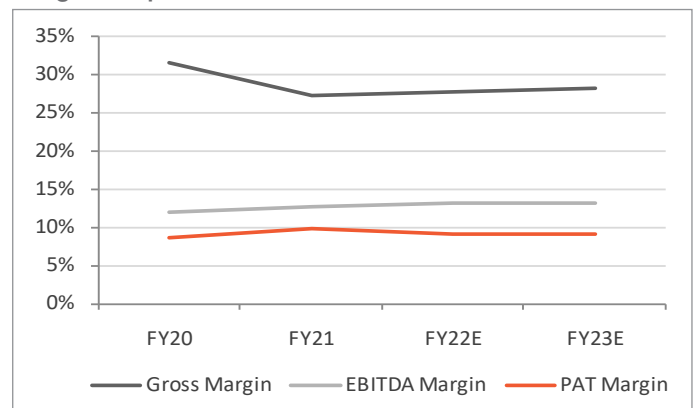
Source: Company, Sharekhan Research

Profitability Ratios



Source: Company, Sharekhan Research

Margin Comparison



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Ample levers offers scope for growth

Domestic demand is improving as states ease lockdowns, infrastructure and construction segments get back in action as labour issues are largely resolved, which provides a positive outlook. The cables & wires (C&W) industry contributes 40-45% to India's electrical equipment industry. In terms of volumes, the Indian cables & wires industry (including exports) has grown from 6.3 million km in FY2014 to 14.5 million km in FY2018, posting a ~23% CAGR over the period. The industry registered an ~11% CAGR in value terms, from Rs. 34,600 crore in FY2014 to Rs. 52,500 crore in FY2018. The C&W industry was expected to register a CAGR of 14.5% from Rs. 52,500 crore in FY2018 to Rs. 1,03,300 crore by FY2023. However, slowdown in infrastructure growth and uncertainty in real estate will lead to moderation in growth for the C&W segment. Gradual resumption of economic activity and infrastructure projects will push recovery to H2FY2021. The government has envisaged an expenditure of Rs. 111 lakh crore on infrastructure during FY2020 to FY2025. Sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected investment. The continued thrust of the government on infrastructure investment is expected to improve demand environment for the W&C industry. The Indian FMEG industry also has many growth opportunities, led by macro drivers such as evolving consumer aspirations, rising awareness and incomes, rural electrification, urbanisation, and digital connectivity. Products such as energy-efficient fans, modular switches, building and home automation, and LED lights are riding an ever-increasing wave of consumer demand. There is also a rising demand for various electrical appliances.

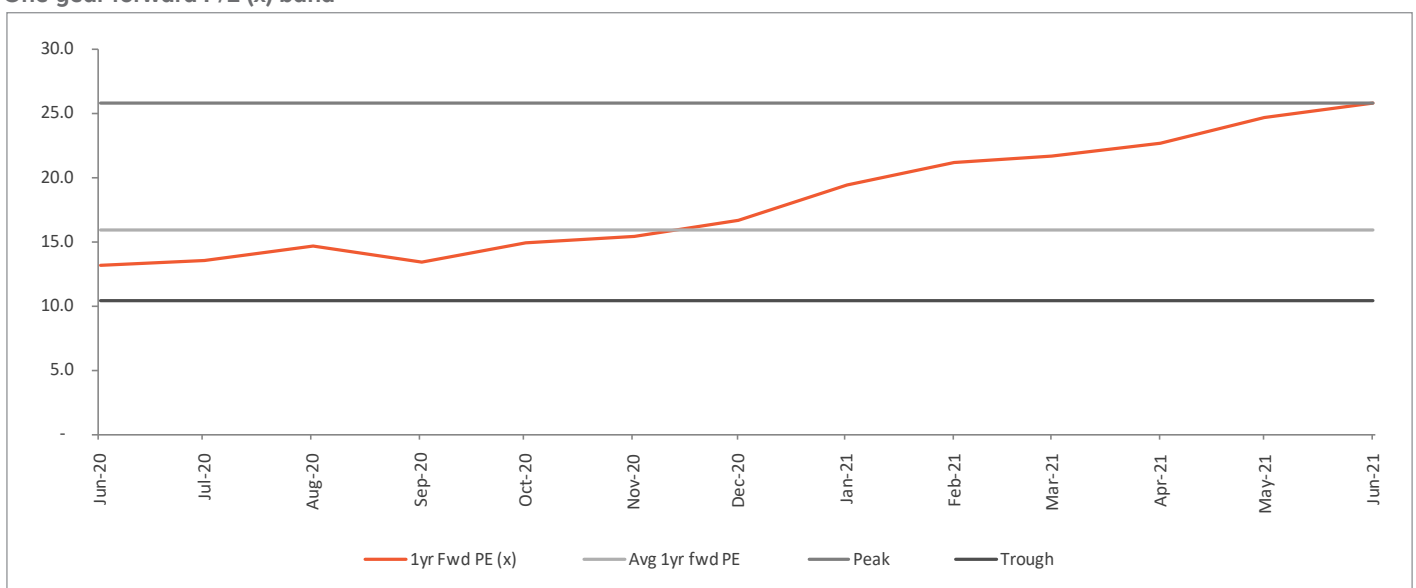
### ■ Company outlook - Growth prospects bright

Overall, the outlook for Polycab remains positive despite near-term challenges, which are transient given growth prospects from various initiatives the company has taken like Project Udaan and Project Leap. Polycab's market share in the organized market has risen to 20-22% from 18% in FY20 that augurs well for growth. The company outlined its new initiative 'Project Leap' through which it intends to achieve Rs. 20,000 crore in revenues by FY26E on superior growth versus the industry in B2C segments (2x in FMEG and 1.5x in retail wires) and stronger position in B2B segments. Polycab remains better-placed considering its consistent focus on balance sheet improvement, healthy free cash flows and potential margin improvement as 'Project Udaan' is yet to fully reap benefits.

### ■ Valuation - Retain Buy with a revised price target of Rs. 2,375:

Polycab is expected to keep clocking healthy numbers led by strong traction in the housing segment, input cost led price hikes in the C&W segment, rising exports and scaling up the FMEG business with new product launches. The company also has strong growth tailwinds in terms of rising infrastructure investments. Polycab's strategy of deepening penetration in semi-urban and rural markets bodes well in providing a sustainable long-term growth. Overall, we believe the company is on a healthy growth trajectory, owing to its leadership position and a strong product portfolio both in the cables & wires segment and FMEG businesses along with strong distribution and in-house manufacturing capabilities. The stock is currently trading at P/E of 31x/26x its FY2022E/FY2023E EPS. With a consistent improvement in balance sheet, market share gains and accelerated growth under Project Leap, we remain constructive in medium to long term growth outlook. Hence, we retain Buy on the stock with a revised PT of Rs. 2,375.

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



Source: Company Data; Sharekhan Research

## About company

Polycab manufactures and sells wires and cables and FMEGs, besides executing a few EPC projects. The company has 25 manufacturing facilities, including two joint ventures with Techno and Trafigura, located across Gujarat, Maharashtra, Uttarakhand, and the union territory of Daman and Diu. Polycab strives to deliver customised and innovative products with speed and quality service.

## Investment theme

Polycab is the market leader in the wires and cables space with an extensive product portfolio and distribution reach coupled with accelerated growth in the FMEG space, which augurs well for growth visibility. The company's market position and success are driven by its robust distribution network, wide range of product offerings, efficient supply chain management, and strong brand image. Polycab's five-year roadmap to achieve to achieve Rs 20000 crore in FY26E with more focus towards brand positioning, operations and business growth along with strong emphasis on governance and sustainability outpacing industry growth provides healthy visibility ahead. Revenue from the wires and cable segment has seen a decent 9% CAGR during FY2017-FY2021 and FMEG grew by 33% CAGR during the same period. Further, increasing market share of organised players, which grew from 61% in FY2014 to 66% in FY2018, is expected to touch 74% in FY2023E, which augurs well for the industry leader.

## Key Risks

- ♦ **Fluctuations in raw-material prices pose a key challenge:** Any sharp increase or decrease in the prices of key raw material (copper and aluminium) will sharply impact margins.
- ♦ **Currency risk:** Polycab faces forex risks as a significant portion of its raw-material purchases, particularly aluminium, copper, and PVC compound, are priced with reference to benchmarks quoted in US Dollar terms. Hence, expenditure is largely influenced by the value of US Dollar.

## Additional Data

### Key management personnel

Inder T. Jaisinghani	Chairman and Managing Director
Ajay T. Jaisinghani	Whole-Time Director
R. Ramakrishnan	Chief Executive Officer
Bharat A. Jaisinghani	Director – FMEG Business (Non-board member)
Manoj Verma	Executive President and Chief Operating Officer (CE)
Gandharv Tongia	Deputy Chief Financial Officer

Source: Company website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jaisinghani Inder	14.41
2	Jaisinghani Girdhari T	14.34
3	Jaisinghani Ajay T	14.29
4	Jaisinghani Ramesh T	14.29
5	IFC	9.48
6	International Finance Corp	9.48
7	Jaisinghani Kunal	3.91
8	Jaisinghani Bharat	3.68
9	Jaisinghani Nikhil	3.68
10	Hariani Anil	3.57

Source: Bloomberg

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

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating 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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