Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Tata Consultancy Services

Q1 off mark, but deal flow stays strong

IT & ITES	Sharekhan code: TCS	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 3,257**	
Price Target: **Rs. 3,750**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 12,04,818 cr
52-week high/low:	Rs. 3,399 / 2,125
NSE volume: (No of shares)	29.5 lakh
BSE code:	532540
NSE code:	TCS
Free float: (No of shares)	102.9 cr

Shareholding (%)

Promoters	72.2
FII	15.6
DII	8.1
Others	4.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	(1.8)	6.7	46.9
Relative to Sensex	1.2	(7.5)	(2.4)	2.2

Sharekhan Research, Bloomberg

Summary

- Q1FY2022 headline numbers slightly missed estimates; but TCS saw healthy deal TCVs, broad-based growth across core verticals, growth in major markets, client additions across bands and higher cash conversion.
- Management remains confident on reporting sustainable margins in FY2022E, aided by strong revenue growth and operational efficiencies, despite a rise in discretionary expenses. It is well-placed to capture growth and transformation opportunities.
- USD revenue and earnings to clock a 13%/16% CAGR over FY2021-23E; we continue to prefer TCS on account of its full-service business model, best-in class execution, consistent mega-deal wins and higher payouts.
- We maintain a Buy on TCS with an unchanged PT of Rs. 3,750, given a strong revenue growth potential, resilient margin performance and strong competencies across technologies and domains.

TCS disappointed by reporting a slightly weaker-than-expected performance on the revenue, EBIT margin and net profit fronts. This was because of a sharp fall in revenues of the India business as the second wave of COVID-19 hit hard. However, the company impressed with healthy deal TCVs (up 17% y-o-y, but down 12% q-o-q), highest quarterly net employee additions (20,409), broad-based growth across core verticals and markets (4.1% q-o-q on CC), client additions across the band, resilient margins despite wage hikes and an improvement in cash conversion. TCS reported constant currency (CC) revenue growth of 2.4% q-o-q and 16.4% y-o-y, that was marginally below our estimates, led by broad-based growth across verticals such as life sciences and healthcare (up 7.3%/25.4% q-o-q/y-o-y), retail & CPG (up 4.4%/21.7% q-o-q/y-o-y), BFSI (up 3.1%/19.3% q-o-q/y-o-y), manufacturing (up 4.8%/18.3% q-o-q/y-o-y), and the technology and services verticals (up 5%/12.3% q-o-q/y-o-y). However, softer-than-expected revenue performance was attributed to a ~$50 million revenue loss in India amid a resurgence of cases due to the second wave of COVID-19. The management indicated that revenue loss in India business would mostly recover in Q2FY2022E. In US Dollar terms, revenue grew by 2.8%/21.6% q-o-q/y-o-y to $6,154 million, missed our estimates. EBIT margin contracted 133 bps q-o-q to 25.5% (but up 191 bps y-o-y), below our estimates, owing to wage revision (-170 bps q-o-q) and an increase in discretionary expenses, partially offset by currency benefits and operating efficiencies. Though the discretionary expenses are expected to return to pre-COVID level by FY2022-end, but the management remains confident on reporting sustainable the margin performance (EBIT margin was 25.9% in FY2021) in FY2022E on the back of revenue growth and operational efficiencies. TCS remains a strategic partner for clients for accelerating their digital transformation journey including cloud migration, data and legacy modernisation as well. The management highlighted that it focuses on growth and transformation initiatives, sustainability and M&A consulting strategy given huge opportunities in these areas. In growth & transformation initiatives, enterprises have been investing on new business models, enhancing customer experience and transform operations. Strong deal wins of $8.1 billion (similar to average deal wins of last four quarters) indicate its sharper focus on the larger strategic agenda around the growth & transformation theme. Given its end-to-end capabilities, strong contextual knowledge and excellent product and platform offerings, we believe TCS will be at the forefront of accelerating growth and transformation initiatives of clients by leveraging its full-service suite.

Key positives

- Strong 4.1% CC revenue growth across core verticals and markets
- Signed healthy deal TCVs of $8.1 billion (up 17% y-o-y), in line with the average of the previous four quarters
- FCF to EBITDA ratio improved to 77% from 63% in Q3FY2021

Key negatives

- The India business revenue declined 14.1% q-o-q
- Attrition inched up by 140 bps q-o-q to 8.6%

Our Call

Valuation – Maintain Buy with a PT of Rs. 3.750: We tweaked our earnings estimates for FY2022E/FY2023E factoring in a weaker-than-expected show, anticipated recovery in the India business' performance, healthy deal wins and a strong deal pipeline. Strong deal wins create the platform for strong revenue growth in FY2022. The company is well-prepared to manage the war for talent given its timely wage revision and best practices to manage top digital talents. We continue to prefer TCS considering its strong business model, stable management, healthy FCF generation and consistency in returning capital to shareholders. We believe TCS is well-positioned to capture the growth and transformation opportunities given its competencies across technology and verticals, strong contextual knowledge, excellent product and platform portfolio and solid execution capabilities. We expect the company's USD revenue and earnings to clock a 13%/16% CAGR over FY2021-23E. We introduced FY2024E numbers in this report. At CMP, the stock trades at 30x/27x/24x its FY2022E/FY2023E/FY2024E earnings, which is justified given potential strong revenue growth and a strong payout policy. Hence, we maintain a Buy rating on TCS with an unchanged PT of Rs. 3,750.

Key risk

Rupee appreciation and/or adverse cross-currency movements and/or constraint in local talent supply in the US and a stringent visa regime would affect earnings.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,64,177.0	1,91,530.8	2,14,468.0	2,37,296.8
OPM (%)	28.4	28.5	28.3	28.3
Adjusted PAT	33,388.0	39,653.6	44,988.3	50,051.9
% y-o-y growth	*3.2*	*18.8*	*13.5*	*11.3*
Adjusted EPS (Rs.)	89.3	107.1	121.5	135.2
P/E (x)	36.5	30.4	26.8	24.1
P/B (x)	13.7	12.4	10.9	9.7
EV/EBITDA (x)	25.1	21.5	19.2	17.2
RoNW (%)	38.4	42.6	43.4	42.6
RoCE (%)	43.8	48.7	49.5	48.9

Source: Company; Sharekhan estimates

Headline numbers remained tad below expectations: After three successive quarters of strong revenue growth on a sequential basis, Q1FY22 revenues were slightly off the mark for TCS despite continued strong demand for growth & core transformation initiatives across all core segments. Revenues fell owing to a 5% q-o-q decline in regional markets and others vertical. The management indicated that a resurgence of cases due to the second wave of COVID-19 caused a $52 million revenue loss in India. However, deal win TCVs remained strong at $8.1bn, grew 17% y-o-y, but down 12% q-o-q, implying overall strong demand environment. TCS reported a constant currency (CC) revenue growth of 2.4% q-o-q and 16.4% y-o-y, marginally below our estimates, led by broad-based growth across verticals especially BFSI, retail, manufacturing, life sciences and healthcare and technology & services verticals. Revenue in US Dollar terms grew by 2.8%/21.6% q-o-q/y-o-y to $6,154 million. EBIT margin contracted 133 bps q-o-q to 25.5% (up 191 bps y-o-y), softer-than-expected, owing to wage revision (-170 bps q-o-q) and increase in travel expenses, partially offset by currency benefits and operating efficiencies. Net profit stood at Rs. 9,008 crore (down 2.6% q-o-q, but up 28.5% y-o-y) and was below our estimates, owing to lower-than-expected revenue and operating profitability. Cash conversion remained strong with operating cash flow (OCF) to net income at 114% (versus 100% in Q4FY2021).

Best-placed to capture the opportunities from spends on digital transformation: TCS remains a strategic partner given its full service suites for clients wanting to accelerate their digital transformation journey including cloud migration and core modernisation. The management highlighted that it focuses on growth and transformation initiatives as large enterprises have been investing on new business models, enhancing customer and employee experiences and transforming operations. The company also sees huge opportunities in the sustainability area as it has solutions to help clients achieve sustainability goals through reduced emissions. Given its deep contextual knowledge, technology expertise across the spectrum and ability to stitch together multiple services, TCS has started participating actively in the entire M&A consulting strategy and getting involved in the full process. The management stated that its earlier investments in capabilities, relationships and talent would enable it to capture opportunities from growth and transformation initiatives of clients, going ahead. The company's healthy deal wins worth $8.1 billion indicates a strong demand environment and management believes the deal win TCVs momentum would continue given higher spends of digital and healthy deal pipeline. Further, the company has been investing in building capabilities to expand its footprint in the growth and transformation opportunity. Given its end-to-end capabilities, strong contextual knowledge and excellent product and platform offerings, we believe that TCS will be at the forefront of accelerating growth and transformation initiatives of clients by leveraging its full-service suite.

Key result highlights

- **A tad off-mark:** TCS missed our estimates on the revenue, EBIT margin and net profit fronts. The company's CC revenue growth remained at 2.4% in a seasonally strong quarter, owing to a sharp decline in India business (down 14.1% q-o-q on CC). Excluding the India business, the core business of TCS grew by 4.1% sequentially on CC terms. Revenue growth was secular across verticals and markets. The company reported strong growth in US and UK, while it witnessed weakness in India, Europe and APAC. EBIT margins declined 133 bps q-o-q to 25.5% primarily due to salary revisions and increase in discretionary expenses. Deal wins remained solid at $8.1 billion, up 17% y-o-y, but down 12% q-o-q, and in-line with average of ~$8 billion for the last four quarters. During Q1FY2022, TCS reported strong deal wins in retail vertical (up 7%/67% q-o-q/y-o-y), improvement in cash conversion and highest ever quarterly net employee addition.
- **Broad-based growth across core verticals:** All verticals (excluding regional markets and others vertical) reported growth sequentially. Vertical-wise growth was led by life-sciences and healthcare (+7.3% q-o-q CC), technology and services (up 5.0% q-o-q CC), manufacturing (up 4.8% q-o-q CC), retail & CPG (up 4.4% q-o-q CC), BFSI (up 3.1% q-o-q CC), and communication & media (up 1.7% q-o-q CC). Retail & CPG has been delivering strong growth on a sequential basis for last four consecutive quarters despite continued weakness in some of sub-segments. On a y-o-y basis, the life-sciences and healthcare continued to grow in double-digits at 25.4% on CC terms. The manufacturing vertical's CC revenue growth accelerated to 18.3% y-o-y from 1.3% y-o-y in Q4FY2021. Similarly, the retail & CPG vertical's CC revenue growth accelerated to 21.7% y-o-y versus a decline of 0.9% y-o-y in Q4FY2021, led by recovery in travel & hospitality segment in major markets. Verticals such as BFSI (up 19.3% y-o-y), technology & services (up 12.3% y-o-y), communication & media (up 6.9% y-o-y) and regional markets and others (up 7.7% y-o-y) accelerated their growth momentum. The growth in BFSI vertical was led by increasing investments in enhancing customer and employee experiences, product innovation, cloud transformation and optimization of core operations.

- **Growth led by major markets:** Revenue grew on a sequential basis for all markets except India. North America and UK clocked a growth of 4.1%/3.6% q-o-q on CC terms, while Continental Europe and APAC reported a revenue growth of 1.5% q-o-q and 2.4% q-o-q respectively. India business declined 14.1% q-o-q on CC terms due to the impact of the second wave of COVID-19.
- **Outlook on revenue growth and margins:** TCS sees higher traction in growth and transformation services given significant demand for cloud migration, application modernization, data and analytics. Management believes that the revenue growth would bounce back in Q2FY202 given recovery of revenue loss in India business and broad-based demand across core verticals. Management highlighted that discretionary spends, including travel expenses picked-up during Q1FY2022. The discretionary expenses would increase to pre-COVID level by the end of FY2022, but the expenses related to travel would remain lower than pre-COVID levels. Management remains confident on sustaining margin (28.4% in FY2021) performance in FY2022 led by strong revenue growth and operational efficiencies.
- **Commentary on Europe:** The management highlighted that the overall demand environment in Europe continues to remain strong as it sees good traction in transformation deals. TCS sees increasing outsourcing deals and higher adoption of offshoring strategy in this region. Further, the recovery of manufacturing vertical is expected in Europe. The company remains positive on Europe given a strong demand environment.
- **Strong product & platform portfolio:** TCS continued to witness strong traction in its product and platform portfolio. Ignio, a cognitive automation solution platform, acquired 17 (versus 15 in Q4FY21) new logos during the quarter and 8 (versus 7 in Q4FY21) customers' 'go-lives' on the product. TCS BaNCS, its flagship product in the financial domain, had five new wins during the quarter and five 'go-lives' on the product. The management highlighted that 50% of its deal in product segment are SaaS version. TCS launched a new product, Quartz for markets, which helps market infrastructure institutions with next-generation services. During Q1FY2022, TCS was selected by the largest commodity exchange in India to build a new commodity derivatives platform. In the life sciences vertical, its award-winning advanced drug development product had one go-live.
- **Client metrics increased across the bands:** The company had a strong addition of clients in every revenue bucket, both y-o-y and q-o-q. The number of '$100-million' clients increased by 2 each on y-o-y and q-o-q basis, taking total count of such clients to 50. The number of '$50 million' clients increased by four on a q-o-q basis (up 5 on y-o-y basis), taking the total count of such clients to 105. The number of clients under the '$20 million' bucket increased by 13 on q-o-q (up by 11 y-o-y). The number of clients under the '$10 million' bucket added by 18 on q-o-q (up by 23 y-o-y). The number of '$5 million' clients increased by 17/22 on a q-o-q/ y-o-y basis, taking total count of such clients to 586.
- **Strong headcount addition:** The company's staff count stood at 5,09,058, a net addition of 20,409 employees q-o-q (highest ever in a quarter). The company's net employee addition remained strong. Attrition rate remained industry leading at 8.6%, but it increased 140 bps q-o-q. The management expects that attrition rate would inch up in coming quarters owing to strong demand environment.
- **Cash generation remained strong:** The company's operating cash flow increased by 11% to Rs. 10,296 crore, which was 114% to net profit. The company's free cash flow (FCF) stood at Rs. 9,750 crore, up 12.5% y-o-y. Cash conversion remained stood strong with the FCF/EBITDA ratio at 77%. Total cash and investments stood at Rs. 54,360 crore during the quarter. The Board has recommended an interim dividend of Rs. 7 per share (vs Rs. 15 in Q4FY2021).
- **Large deal wins stayed strong:** Strong deal wins continued in Q1FY2022, with TCVs of $8.1 billion. Deal wins TCVs increased by 17.4% y-o-y, but declined 12% y-o-y. Deal wins TCVs remained in-line as compared to the average of ~$8 billion seen in the past four quarters. The book-to-bill ratio during the quarter remained at 1.3x in Q1FY2022 versus 1.5x in Q4FY2021. TCS signed deals worth $4.0 billion in North America, $2.2 billion in the BFSI vertical and $1.5 billion in the retail vertical. The management highlighted that the large deals were distributed among its verticals and markets. The largest deal size remained at $400 million versus $500 million in Q4FY2021.
- **DSO days:** The management highlighted that DSO days declined by 3 days to 65 days on a sequential basis during the quarter.

Results Rs cr

Particulars	Q1FY22	Q1FY21	Q4FY21	y-o-y (%)	q-o-q (%)
Revenue ($ mn)	**6,154.0**	**5,059.0**	**5,989.0**	**21.6**	**2.8**
Revenue in INR (cr)	**45,411.0**	**38,322.0**	**43,705.0**	**18.5**	**3.9**
Direct costs	26,240.0	22,486.0	24,860.0	16.7	5.6
Gross profit	19,171.0	15,836.0	18,845.0	21.1	1.7
SG&A	6,507.0	5,811.0	6,044.0	12.0	7.7
EBITDA	**12,664.0**	**10,025.0**	**12,801.0**	**26.3**	**-1.1**
Depreciation	1,076.0	977.0	1,067.0	10.1	0.8
EBIT	**11,588.0**	**9,048.0**	**11,734.0**	**28.1**	**-1.2**
Other income	575.0	456.0	793.0	26.1	-27.5
PBT	12,163.0	9,504.0	12,527.0	28.0	-2.9
Tax provision	3,132.0	2,455.0	3,245.0	27.6	-3.5
Net profit	**9,031.0**	**7,049.0**	**9,282.0**	**28.1**	**-2.7**
Minority interest	23.0	41.0	36.0	-43.9	-36.1
Adj. Net Profit	**9,008.0**	**7,008.0**	**9,246.0**	**28.5**	**-2.6**
EPS (Rs.)	**24.3**	**18.7**	**25.0**	**30.2**	**-2.6**
Margin (%)				**BPS**	**BPS**
EBITDA	27.9	26.2	29.3	173	-140
EBIT	25.5	23.6	26.8	191	-133
NPM	19.8	18.3	21.2	155	-132

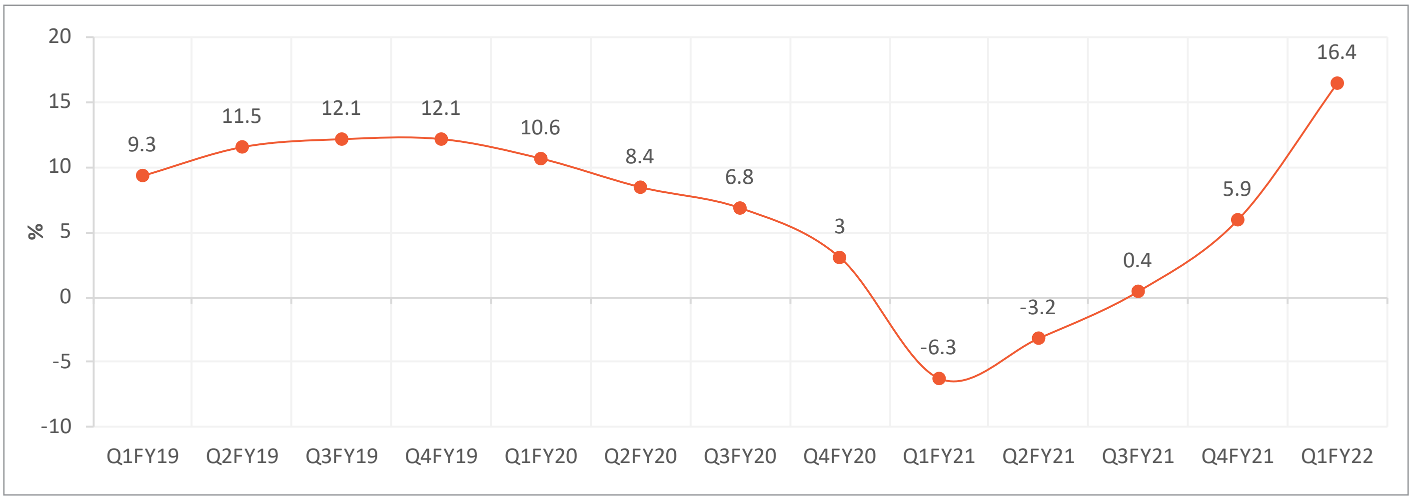
Source: Company; Sharekhan Research

Operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)	
	($ mn)	(%)	q-o-q	y-o-y	q-o-q	y-o-y
Revenue ($ mn)	6,154	100	2.8	21.6	2.4	16.4
Geographic mix						
North America	3,040	49.4	4.4	16.9	4.1	15.8
Latin America	98	1.6	2.8	8.1	4.0	16.1
U.K.	1,003	16.3	4.7	25.5	3.6	16.3
Continental Europe	1,028	16.7	2.1	42.1	1.5	19.7
India	283	4.6	-15.6	-6.7	-14.1	25.3
APAC	572	9.3	1.7	20.4	2.4	9.3
MEA	129	2.1	7.9	21.6	4.2	25.3
Industry verticals						
BFSI	2,000	32.5	3.7	26.3	3.1	19.3
Retail & CPG	911	14.8	4.9	28.6	4.4	21.7
Communication & media	394	6.4	1.2	9.7	1.7	6.9
Manufacturing	603	9.8	4.9	22.9	4.8	18.3
Life Science and healthcare	628	10.2	8.1	29.2	7.3	25.4
Technology & services	529	8.6	5.2	15.0	5.0	12.3
Regional markets and others	1,089	17.7	-4.8	12.1	-5.0	7.7

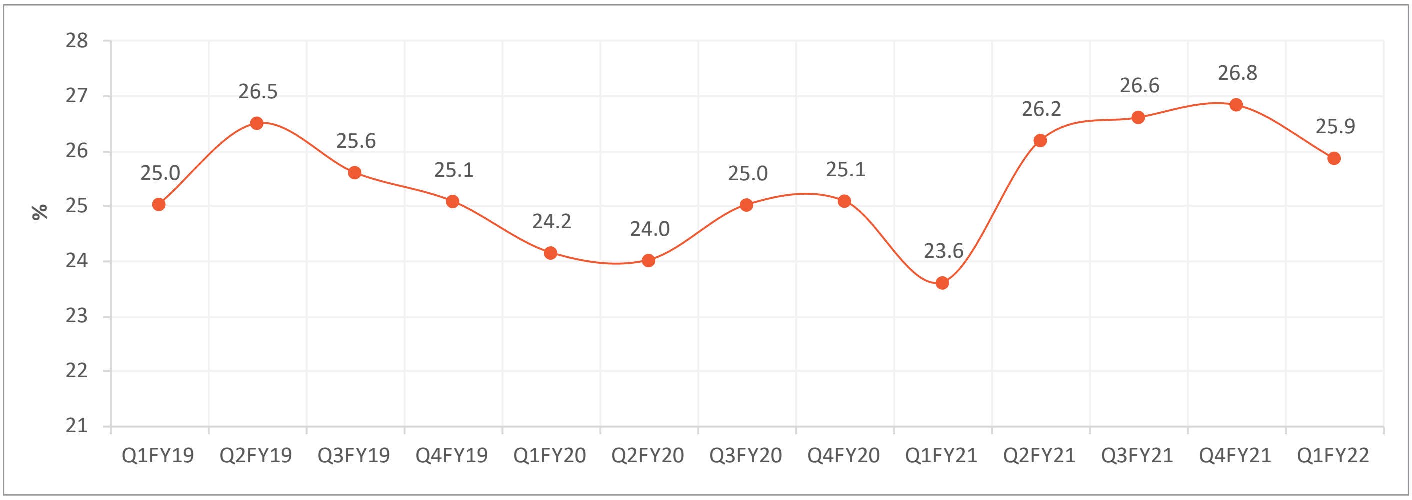
Source: Company; Sharekhan Research

TCS' constant-currency revenue growth (y-o-y) accelerated



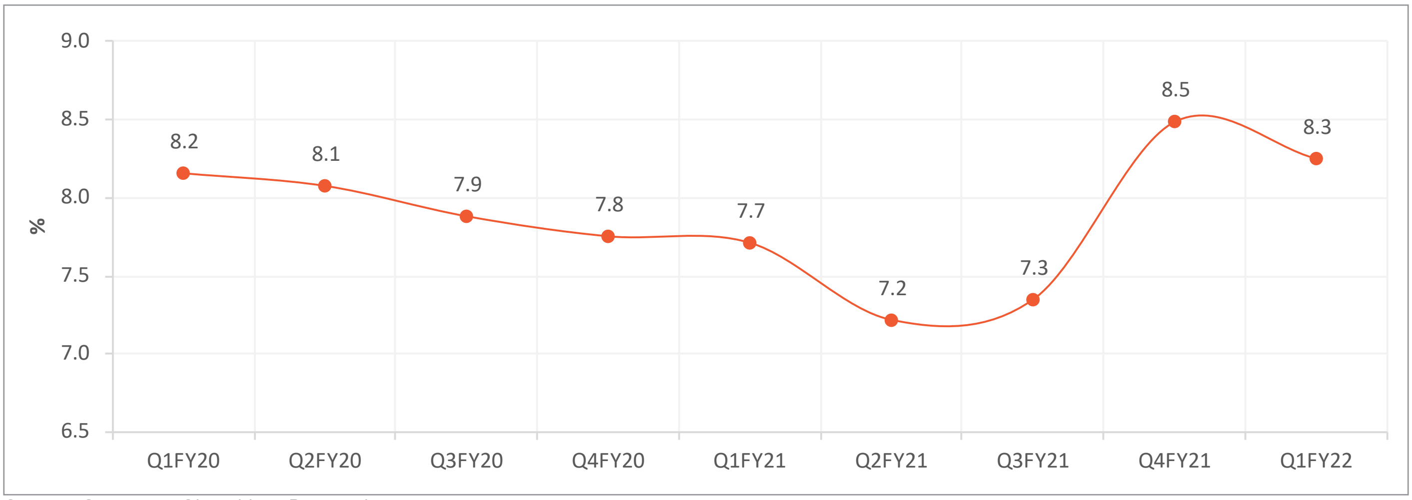
Source: Company; Sharekhan Research

EBIT margin contracted by 133bps qoq owing to wage revision and COVID-19 impact



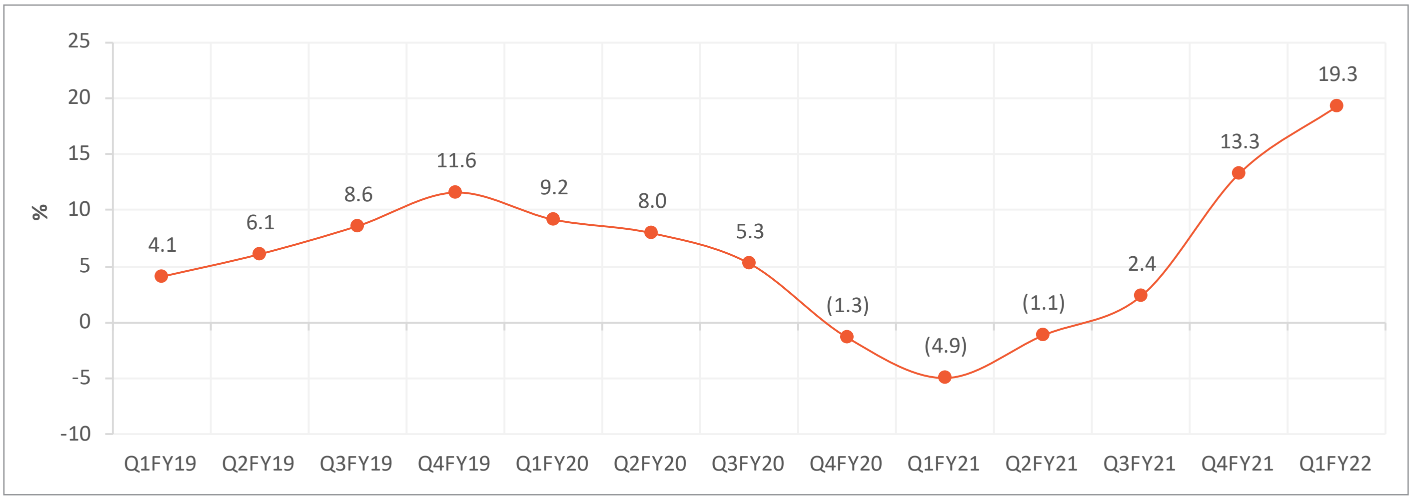
Source: Company; Sharekhan Research

Subcontracting costs as % of revenue moderated



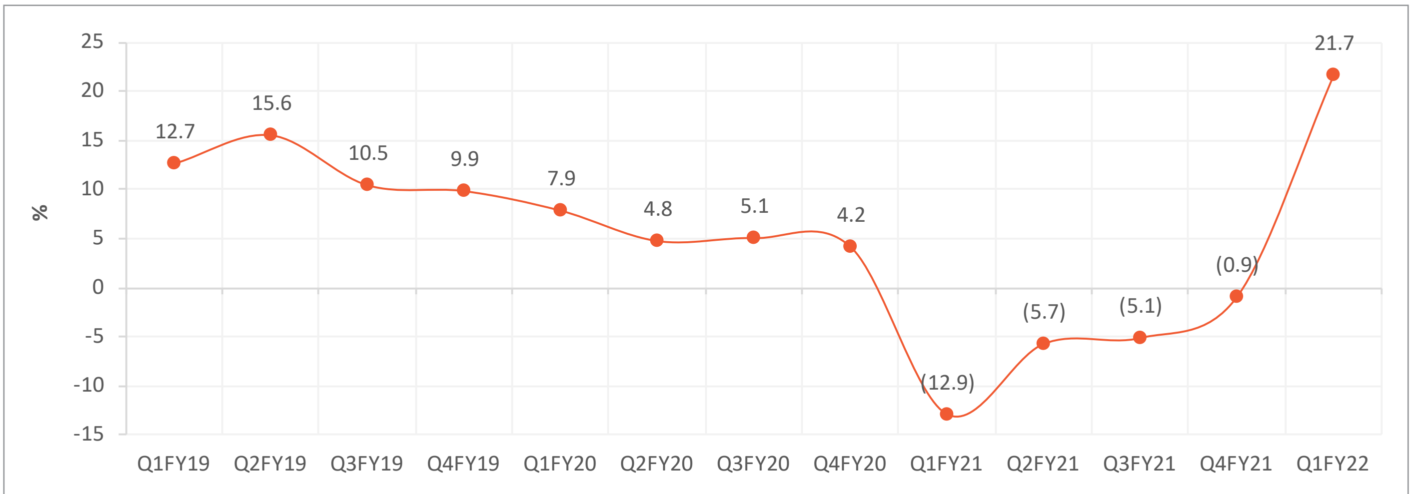
Source: Company; Sharekhan Research

BFSI revenue growth remained strong



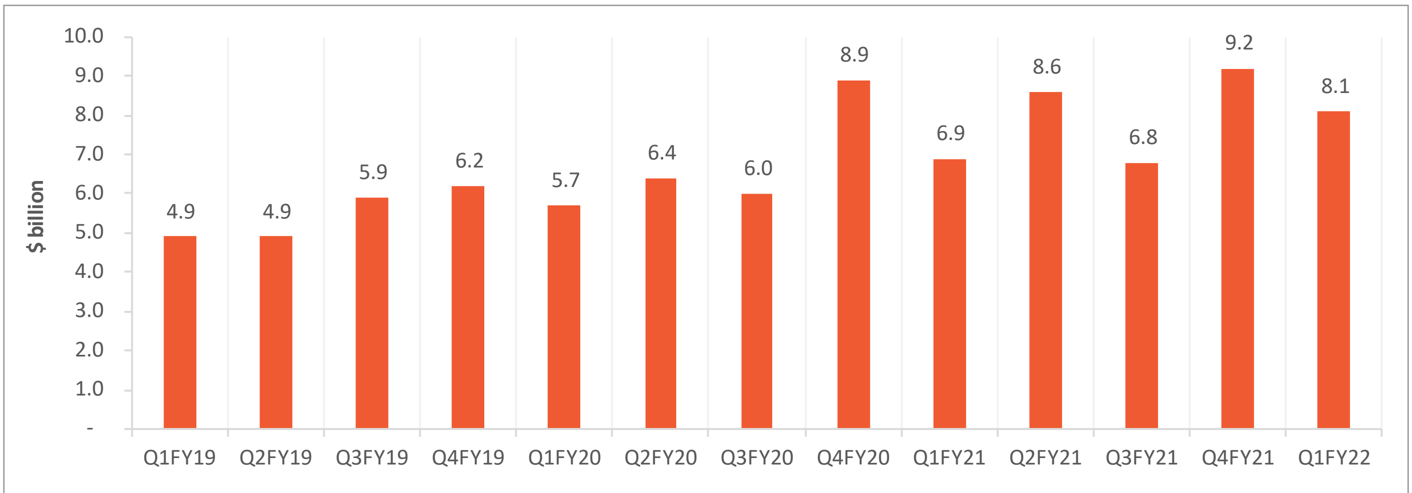
Source: Company; Sharekhan Research

Strong recovery in retail vertical



Source: Company; Sharekhan Research

Healthy deal TCVs, in-line with average deal TCVs of last four quarters



Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Expect acceleration in technology spending going forward

The COVID-19 pandemic is estimated to drag the world output by 3.3% in CY2020, with 4.7% contraction in the advanced economies. As a result, global technology spends are estimated to decline 3.2% to $1.4 trillion in 2020. Within that, IT services spending declined 3.9%, while business process management spends fell by 2.4%. After the initial dislocations led to contractions, the need for business continuity, operational resilience and the switch to digital transactions has led to strong demand for IT services. 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, a potential increase in specialised software, potential investments in transformation projects by clients, and increased online adoption across verticals.

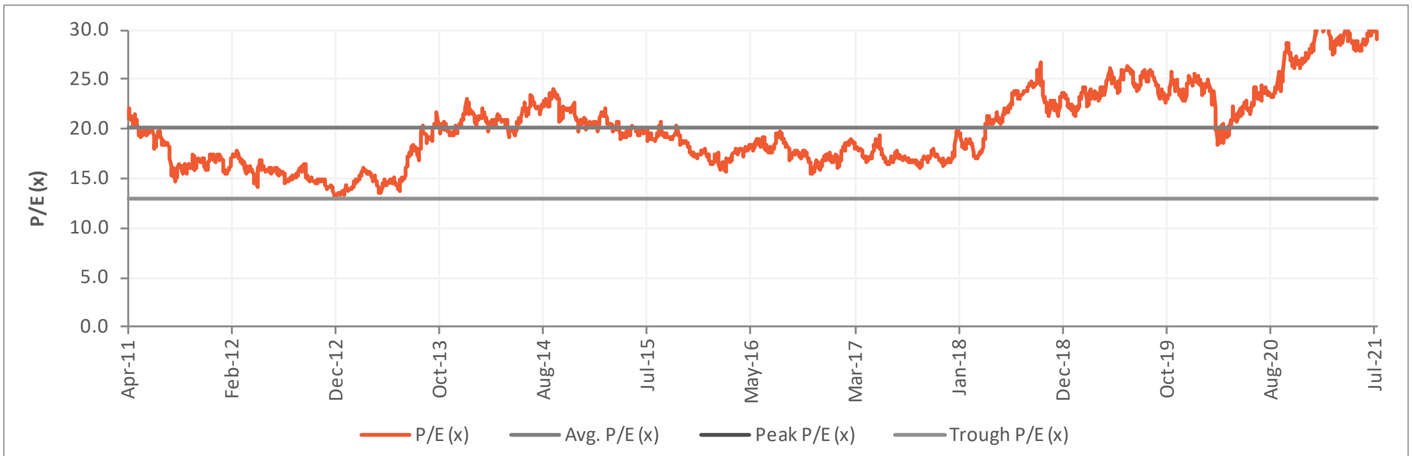
■ Company Outlook – Staying ahead of the race

Being one of the largest IT services companies worldwide and preferred partners of clients, TCS has the ability to capture a substantial portion of spends on digital technology and is well-positioned to capitalise on opportunities as and when clients boost technology spends. Further, the company is well-placed from a competitive perspective, especially in newer technologies. A stable management and the ability to structure large multi-service deals would help TCS recover once the situation normalises. The management intends to keep the payout ratio at 80-100% of free cash generated.

■ Valuation – Maintain Buy with a PT of Rs. 3.750

We tweaked our earnings estimates for FY2022E/FY2023E factoring in a weaker-than-expected show, anticipated recovery in the India business' performance, healthy deal wins and a strong deal pipeline. Strong deal wins create the platform for strong revenue growth in FY2022. The company is well-prepared to manage the war for talent given its timely wage revision and best practices to manage top digital talents. We continue to prefer TCS considering its strong business model, stable management, healthy FCF generation and consistency in returning capital to shareholders. We believe TCS is well-positioned to capture the growth and transformation opportunities given its competencies across technology and verticals, strong contextual knowledge, excellent product and platform portfolio and solid execution capabilities. We expect the company's USD revenue and earnings to clock a 13%/16% CAGR over FY2021-23E. We introduced FY2024E numbers in this report. At CMP, the stock trades at 30x/27x/24x its FY2022E/FY2023E/FY2024E earnings, which is justified given potential strong revenue growth and a strong payout policy. Hence, we maintain a Buy rating on TCS with an unchanged PT of Rs. 3,750.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HCL Tech	976.9	271	2,65,098	19.5	17.3	11.9	10.6	4.0	3.6	21.4	21.8
Infosys	1560.5	426	6,64,971	28.9	25.1	20.2	17.7	4.4	4.1	28.9	31.2
Tech M	1059.8	97	1,02,693	17.2	15.4	11.6	10.1	3.4	3.1	20.8	21.3
TCS	3257.1	370	12,04,818	30.4	26.8	21.5	19.2	12.4	10.9	42.6	43.4

Source: Company, Sharekhan Research

About company

TCS is among the pioneers of IT services outsourcing business in India and is the largest ($22,174 million revenue in FY2021) IT services firm in terms of export revenue. Incorporated in 1968, the company provides a comprehensive range of IT services to industries such as BFS, insurance, manufacturing, telecommunications, retail and transportation. TCS is well positioned to benefit from growing demand for offshore IT services, given its solid execution capabilities, long-standing relationships with clients, and stable management team. The company is a serious contender for winning large deals, as it has better experience compared to peers in implementing large, complex and mission-critical projects. TCS is one of the preferred IT vendors for most Fortune 500/Global 1,000 companies.

Investment theme

TCS is one of the leading IT services companies with a wide-range of capabilities, robust digital competencies, strong platform and stable management. The company is the preferred partner of large corporates and is increasing its participation in large digital implementation. Hence, we believe TCS would continue to gain market share in digital versus its large peers, given its superior execution capabilities on the digital front. We remain positive on the sustainability of its revenue growth momentum in the medium term, given the acceleration in deal wins with increasing TCVs, broad-based service offerings, higher budgets from clients toward digital technologies and improving sales expertise.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) slackening pace in deal closures, and 3) crunch in local talent supply in the U.S. along with stringent visa regime.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Rajesh Gopinathan	Chief Executive Officer
N. Ganapathy Subramaniam	Chief Operating Officer
V Ramakrishnan	Chief Financial Officer
Milind Lakkad	EVP and Global Head

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	3.93
2	Vanguard Group Inc.	1.02
3	JPMorgan Chase & Co.	0.89
4	BlackRock Inc.	0.86
5	Invesco Ltd.	0.81
6	SBI Funds Management Pvt. Ltd.	0.76
7	Axis Asset Management Co. Ltd.	0.56
8	FMR LLC	0.54
9	First State Investments ICVC	0.51
10	ABRDN PLC	0.37

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.

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