Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Elxsi Ltd

Higher utilisation

IT & ITeS	Sharekhan code: TATAELXSI

Reco/View: Buy	↔	CMP: **Rs. 6,981**	Price Target: **Rs. 8,160**	↑

↑ 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 19.56

Updated Oct 08, 2021

Low Risk

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

Source: Morningstar

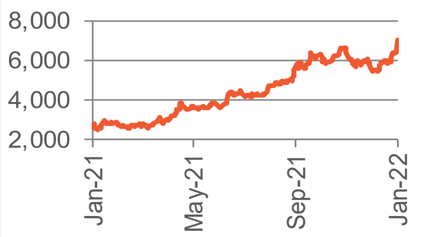
Company details

Market cap:	Rs. 43,473 cr
52-week high/low:	Rs. 7,171 / 2,410
NSE volume: (No of shares)	2.0 lakh
BSE code:	500408
NSE code:	TATAELXSI
Free float: (No of shares)	3.5 cr

Shareholding (%)

Promoters	44
DII	7
FII	13
Others	35

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	28.4	13.0	66.7	161.0
Relative to Sensex	20.8	14.9	51.5	139.3

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Tata Elxsi Limited (TEL) with a revised PT of Rs. 8,160, given its presence in fast-growing verticals, superior margin profile, strong digital engineering capabilities, and robust demand.
- Excellent all-round growth; EBITDA margin significantly beat our estimates; Q3 witnessed strong deal inflows across its verticals, improving utilisation, higher offshoring, healthy fresher intake, and good deal pipeline.
- TEL is well poised to benefit from market opportunities, given excellent digital engineering capability, a quality client base, solid execution, and rising spends across its focused verticals. However, we expect limited room for margin expansion in subsequent quarters.
- We expect USD revenue/earnings to report a 22%/20% CAGR over FY2022-FY2024E. We continue to prefer TEL, given its long-standing client relationships, increased focus on long-term deal contracts, and huge addressable market.

Tata Elxsi Limited (TEL) reported another quarter of outstanding all-round revenue growth of 6.5% q-o-q and 32.7% y-o-y on constant currency (CC) basis, with further margin expansion, strong fresher intake, and robust deal intake across its verticals. Revenue growth was driven by continued robust growth in embedded product design (EPD), up 9.6% q-o-q and 35.4% y-o-y on CC basis in Q3FY2022. USD revenue grew by 5.4% q-o-q and 30.9% y-o-y to $84.8 million, in-line with our estimate of $85 million. EBITDA margin expansion surprised positively, backed by faster growth in its high-margin medical devices vertical, higher offshore, increasing utilisation, quality of revenue mix (including multi-year contracts with focus on better margin deals), operational efficiencies, and delivery excellence. We believe margin headwinds such as supply-side concerns, investments in building capability in emerging areas, lateral hiring, and higher discretionary spends in the area of travel and facility would put pressure on margins in the subsequent quarters. We expect strong growth momentum to continue in the medium term, backed by strong order intake, robust deal pipeline, solid execution, excellent capability across focused verticals, good client mining, a quality client base, and strong demand tailwinds.

Key positives

- EBIT margin improved by 240 bps q-o-q to 31.0%, exceeding our estimates.
- Offshore revenue mix further improved to 75.1%.
- Strategic multi-year large deal wins across verticals, including a software development programme from a new-age electric vehicle (EV) original equipment manufacturer (OEM).

Key negatives

- Industrial design and visualisation (IDV) revenue declined by 15.4% q-o-q on CC basis

Management Commentary

- Growth momentum likely to remain sustainable in the coming quarters, led by robust order book, healthy deal pipeline, and strong demand.
- Added 150 freshers in Q3 and expects to have similar kind of fresher intake in the next few quarters.
- Expect strong growth in the automotive sub-segment going ahead, led by rising spending across electric, autonomous, connected, and digital technologies.
- Management expects the new project in IDV business to resume in Q4FY2022 or Q1FY2023.
- Shifting from project-based deal to long-term deal contract, where tenure remains at 18-24 months.

Revision in estimates – We have revised our earnings estimates upward for FY2022E/FY2023E/FY2024E by 1-5%.

Our Call

Valuation – Strong growth prospects going ahead: The company's continued investments on these emerging technologies have helped it to align itself to fulfill the demand of global enterprises. We believe TEL's revenue growth is likely to remain strong in the medium term, as it focuses on high-growth sectors (media and healthcare) and emerging technology areas (such as connected, autonomous, electric, OTT, digital health, and digital), where the client allocates a higher budget. Further, the company's good client mining strategy, strong order intake, robust deal pipeline, and solid execution would aid its growth momentum. TEL's USD revenue and earnings are likely to post a CAGR of 22% and 20%, respectively, over FY2022-FY2024E. We continue to prefer TEL, given its strong digital engineering capabilities, long-standing client relationships, superior margin profile, increased focus on long-term deal contracts, and presence in the fast-growing ERD space. At the CMP, the stock is trading at 68x/56x its FY2023E/FY2024E earnings. Though TEL's PE multiples has significantly rerated over last one year, it is still trading discount to median forward PE multiple of Chinese tech companies whose long term growth profile in the high 20% EPS growth range. We maintain our Buy rating on TEL with a revised a price target (PT) of Rs. 8,160.

Key Risks

(1) Slowdown in the global economy especially in the automotive industry might affect growth momentum; (2) currency risks; and (3) slower growth in the broadcast sectors.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,826.2	2,457.8	3,136.1	3,811.4
OPM (%)	28.6	30.9	28.4	28.0
Adjusted PAT	368.1	539.1	636.2	770.4
% YoY growth	43.7	46.5	18.0	21.1
Adjusted EPS (Rs.)	59.1	86.7	102.5	124.1
P/E (x)	118.1	80.6	68.3	56.4
P/B (x)	32.2	25.0	19.6	15.4
EV/EBITDA (x)	81.7	55.8	47.0	38.6
RoNW (%)	27.2	31.1	28.7	27.2
RoCE (%)	30.8	36.3	33.3	31.3

Source: Company; Sharekhan estimates

Excellent all-round growth

TEL delivered another quarter of strong revenue growth led entirely by volume, while operating profitability significantly beat our estimates despite supply-side concerns. The company reported CC revenue growth of 6.5% q-o-q and 32.7% y-o-y, strong but broadly in-line with our estimates. Revenue growth was driven by continued robust growth in EPD (up 9.6% q-o-q in CC), while revenue from system integration and support (SIS) and IDV business declined by 2.4% q-o-q and 15.4% q-o-q on CC basis. USD revenue grew by 5.4% q-o-q and 30.9% y-o-y to $84.8 million, in-line with our estimate of $85 million. Top account's revenue has been growing strongly over the past few quarters, up by 15.9% q-o-q in Q3FY2022. EBITDA margin improved by 234 bps q-o-q to 33.2% despite supply-side constraints, exceeding our estimates, led by operating leverage from strong growth, increasing offshore revenue, quality of revenue mix, strong growth in the high-margin medical devices vertical, and operational efficiencies. Net profit of Rs. 150.5 crore (up 20% q-o-q and 43% y-o-y) was 9% ahead of our estimates, aided by strong beat in operating profitability, higher other income, and lower tax provision.

Key result highlights from the earnings call

- **Strong growth outlook for Q4FY2022E and FY2023E as well:** Growth momentum would continue in Q4FY2022 because of a strong order book, robust deal pipeline across markets and verticals, higher digital spending across its verticals, and good client mining. The company's differentiated capabilities in product engineering, design and digital have helped it to strengthen its market position and win wallet share from existing customers. The company has been investing in front-end sales, consultants, and industry experts to drive its organic growth momentum by winning new logos, new accounts, and large deals and retain large accounts by providing value-added services. The company's investments in adjacencies such as rail, commercial vehicles, farm equipment, and off-road vehicle are expected to drive its growth going ahead given strong demand. The company won five large deals (including $20 million deal in media vertical) across its verticals, which provides revenue visibility going ahead. Aggregate net addition employees in the past four quarters remained at 2,217 (23% of Q3FY2021 employee base), which indicates the company's preparedness to address the ramp-up of large deals, manage attrition, and deal pipeline. Further, the company added 150 freshers during Q3FY2022 (and 500 freshers in Q2FY2022) to control attrition and meet the underlying demand. Management indicated that similar kind of fresher intake will continue in the next few quarters. Growth will also be supported by continued strong growth momentum in the top account and JLR business. Hence, we expect strong growth momentum to continue in the medium to long term, given strong order intake, robust deal pipeline, solid execution, excellent capability across verticals, good client mining, and higher spends on digital engineering across its focused verticals.

- **Limited room for margin expansion in subsequent quarters:** Improvement in operating profitability was led by faster growth in the high-margin medical devices vertical, higher offshoring, increasing utilisation, strong revenue growth, quality of revenue mix (including multi-year contracts with focus on better margin deals), operational efficiencies, and delivery excellence. We believe margin headwinds such as supply-side concerns, investments in building capability, lateral hiring in niche areas, and higher discretionary spends in the area of travel and facility would weigh on margins in the subsequent quarters. We believe onsite employees would go up once normalcy returns, which would create margin pressure. However, management remains confident of delivering sustainable margins going ahead, aided by strong revenue growth and operational efficiencies.

- **Strong growth momentum continued in EPD business:** TEL reported broad-based growth across verticals in EPD business and geographies during the quarter. Revenue in rupee terms grew by 6.7% q-o-q and 33.2% y-o-y. The company's growth was driven by strong 9.6% CC growth in the EPD business (the largest contributor to its total revenue, i.e., 88.9% of total revenue). IDV's revenue growth declined by 15.4% q-o-q (but up 12.0% y-o-y on CC basis) for the second consecutive quarter due to closure of projects and delay in ramp up of a new programme for a large ongoing design-led innovation project. SIS's CC revenue declined by 2.4% q-o-q but was up 22.8% y-o-y.

- **Strong revenue growth across verticals in the EPD business segment:** TEL reported strong sequential revenue growth across key verticals under the EPD business. The transportation vertical reported revenue growth of 9.7% q-o-q on CC basis, led by strong demand for electric, autonomous, connected, and digital technologies. The company continues to see strong traction in the automotive market, with large and strategic deals with both OEMs and suppliers. The broadcast and communications verticals continued its revenue growth momentum, with CC revenue growth of 6.3% q-o-q and 30.2% y-o-y. The healthcare and medical devices vertical's revenue growth accelerated to 20.7% q-o-q (up 71.5% on y-o-y).

- **Major markets reported positive growth:** Revenue growth in the US accelerated to 7.2% q-o-q (versus 1.1% q-o-q in Q2FY2022), while Europe reported revenue growth of 3.2% q-o-q (versus 6.2% in Q2FY2022). Growth in Europe was led by the company's higher exposure to automobiles, where management sees strong traction for demand. India reported revenue growth of 7.4% q-o-q versus 25.3% q-o-q growth in Q2FY2022.

- **IDV business segment's growth impacted due to closure of projects:** This business segment has remained volatile in the past few quarters owing to management change, restructuring of sales team, and sharp focus on design kind of projects. IDV segment's revenue has been declining on a sequential basis for the past two consecutive quarters (down 15.4% q-o-q in Q3FY2022) due to shift in programme timelines for a large ongoing design-led innovation project in the US and closure of projects. On a y-o-y basis, IDV business reported revenue growth of 12% on CC basis. Management cited that a new design-led innovation project from a large customer in this vertical will kick-in in Q4FY2022/Q1FY2023, which would drive growth of IDV. As management has been focusing on long-duration deals in this segment, it expects sustainable growth momentum in the IDV business after few quarters.

- **Strong growth momentum to continue in the automotive sub-vertical:** The transportation business posted a third quarter of strong growth, aided by rising spending across electric, autonomous, and connected technologies, and continued momentum with both OEMs and suppliers for design, technology, and digital services across geographies. The company has been witnessing significant growth in its markets with large and strategic deals with both OEM and suppliers. TEL's capabilities are aligned in these new-age technology areas, given its continued investments in the past few years. During the quarter, the company won three large deals in the automotive space – (1) selected by a world-leading systems supplier for the development of an autonomous driving platform for commercial vehicles. TEL will enable software development and integration for a new autonomous system, (2) secured a design digital deal from a leading Japanese OEM for the development of a next-gen HMI for infotainment and in cockpit interface for their range of vehicles, (3) TEL was selected by a North American new-age EV OEM for a strategic software development programme. Further, the company partnered with Green Hills to develop a Driver Monitoring System solution driven by artificial intelligence (AI) and AUTOSAR Adaptive Software defined architecture and secure Integrity OS. Management had indicated that five of the top 10 OEMs and eight of the top 20 suppliers are its customers. Strong deal wins, healthy pipeline, and rising spending on EV by both traditional and new-age OEMs are expected to drive growth of its transportation vertical going ahead.

- **Steady growth in the media and communication vertical:** The broadcast and communication vertical is the largest in terms of revenue of the EPD segment. The vertical's total contribution to overall EPD revenue remained at 43.7%. During the quarter, the media and communication vertical grew by 6.3% q-o-q and 30.2% y-o-y, led by ramp-up of deals, higher mining of top accounts, and increasing platform revenue. There are three sub-segments in this vertical, i.e. (1) operator segment, (2) broadcasters, and (3) devices segment. The top account in this vertical is a large multi-services operator based out of the US, and the company has a relationship of over 12 years with that customer. Within media, the company highlighted that growth would be driven by (1) OTT, led by higher consumption; and (2) broadband and data-led services. During Q3FY2022, the company won a three-year $20 million deal by a leading global MSO to support and manage its network operations across data, mobile, and video service delivery.

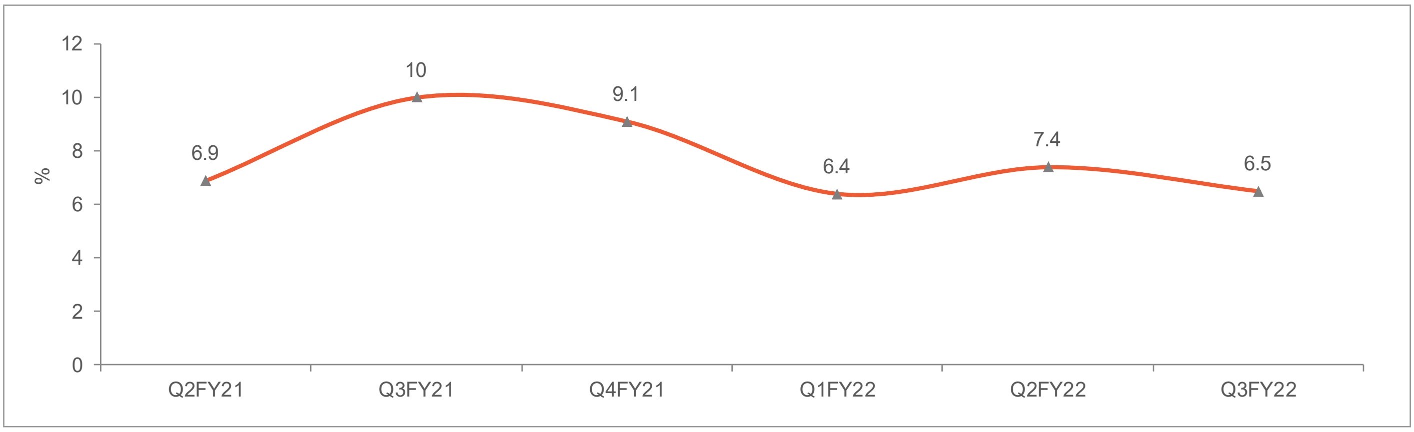
- **Faster growth in its healthcare and medical device business:** Revenue growth in the healthcare and medical device vertical remained strong at 20.7% q-o-q and 71.5% y-o-y, higher growth compared to the rest of the verticals. Management believes the growth trend in this segment would continue in the coming quarters, as the company has been investing on delivery capabilities, sales, and products. Healthcare and medical revenue accounted for 14.9% to its EPD revenue versus 7.7% in Q4FY2020. Management expects the healthcare and medical vertical to contribute 20% to its total revenue over the next two years, which looks possible given strong growth momentum, healthy deal wins, and robust competencies. Within pharma, the company focuses on (1) drug delivery devices; (2) packaging and leveling; and (3) regulatory sub-segments. During Q3FY2022, a US headquartered healthcare technology leader awarded TEL a long-term multi-million deal for its Digital Transformation and Cloud Migration Programme.
- **Increased focus on adjacencies:** The company's de-risking plan has been progressing well, given its strong growth momentum in the medical devices vertical and improving revenue contribution from adjacencies segments in the transportation vertical. Adjacencies such as farm equipment, commercial vehicles, and rail are expected to maintain strong growth momentum in the coming quarters, as management believes the skills are complementary. Adjacencies in the transportation vertical are expected to contribute 20% to total transportation revenue over the next two years. We believe the company is well on track to achieve this, given higher spending on digital engineering in these sub-segments. Over the next two years, management expects contribution of the transportation, broadcast, and medical devices vertical to be 40:40:20.
- **Strong growth across top accounts:** Management indicated that its top account falls under the media and communication vertical. Revenue from the top account grew by 15.9% q-o-q and revenue from the top five accounts accelerated to 9.5% q-o-q. Revenue from the top 10 accounts increased 2.6% q-o-q.
- **Lowest attrition rate among peers and higher offshore mix:** Attrition rate increased to 18.2% in Q3FY2022 versus 13.9% in Q2FY2022. Net addition of employees stood at 414 q-o-q during the quarter, which was 5% of total headcounts of Q2FY2022. Offshore mix improved to 75.1% from 74.7%/67.8% in Q2FY2022/Q3FY2021. Management highlighted that onsite mix would not move to pre-COVID era. Management indicated that the number of onsite employees would go up once travel restrictions are removed, but it would go to the pre-COVID level.
- **Higher utilisation rate:** Utilisation rate during the quarter stood at 83% in Q3FY2022 compared to 80% in Q2FY2022. Improvement in utilisation aided in margin improvement during the quarter.

Result highlights Rs cr

Particulars	Q3FY22	Q3FY21	Q2FY22	y-o-y	q-o-q
Revenue ($ mn)	**84.8**	**64.7**	**80.4**	**30.9**	**5.4**
Net sales	**635.4**	**477.1**	**595.3**	**33.2**	**6.7**
Employee expenses	329.5	262.8	310.9	25.4	6.0
Total purchases	22.3	21.8	30.3	2.1	-26.5
Other expenses	72.8	48.8	70.4	49.1	3.3
EBITDA	**210.8**	**143.6**	**183.6**	**46.8**	**14.8**
Depreciation and amortisation	14.0	11.1	13.5	27.0	4.0
EBIT	**196.8**	**132.6**	**170.1**	**48.5**	**15.7**
Other income	6.5	15.1	2.4	-56.8	167.8
Finance cost	3.0	1.3	1.6	123.2	89.6
PBT	**200.3**	**146.3**	**171.0**	**36.9**	**17.1**
Tax provision	49.8	41.1	45.7	21.3	9.2
Net profit	**150.5**	**105.2**	**125.3**	**43.0**	**20.0**
EPS (Rs.)	24.2	16.9	20.1	43.5	20.4
Margin (%)				**BPS**	**BPS**
EBITDA	33.2	30.1	30.8	308	234
EBIT	31.0	27.8	28.6	319	239
NPM	23.7	22.1	21.1	163	263
Tax rate	24.9	28.1	26.7	-320	-182

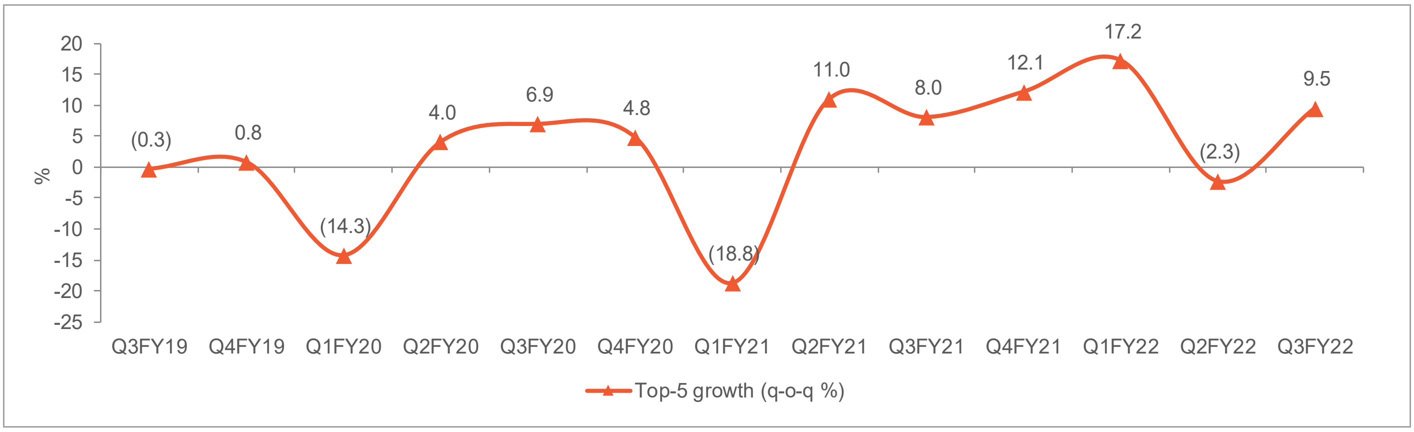
Source: Company; Sharekhan Research

CC revenue growth trend (q-o-q)



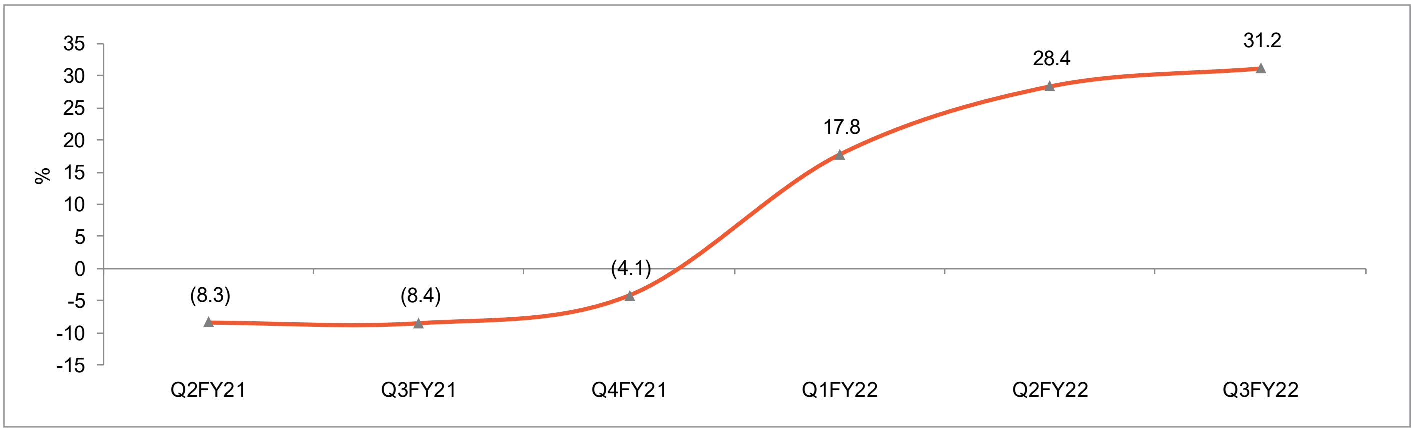
Source: Sharekhan Research

Top accounts growth trend (q-o-q)



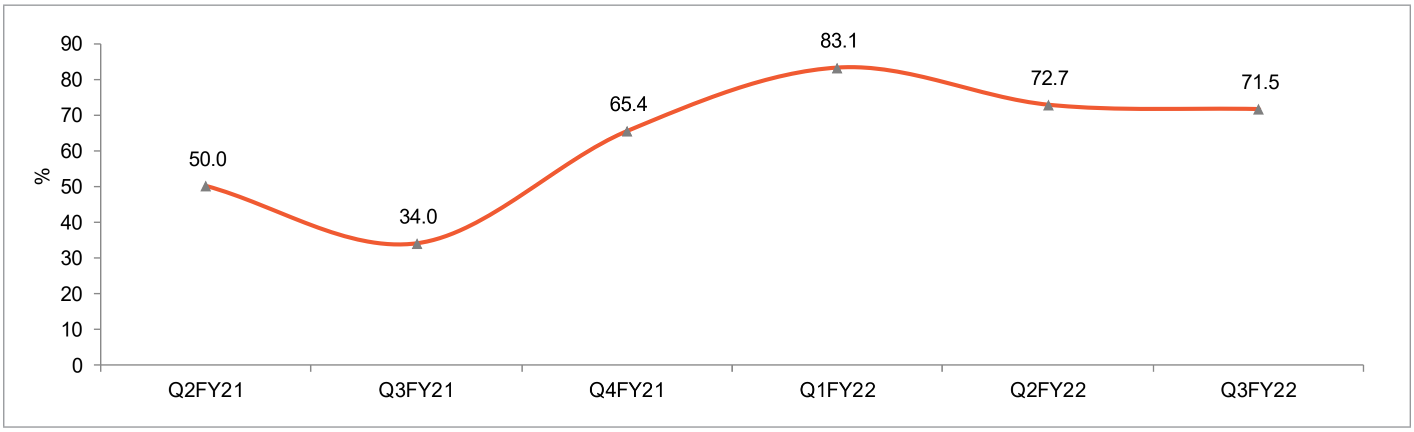
Source: Sharekhan Research

Transportaion revenue growth trend (y-o-y on CC)



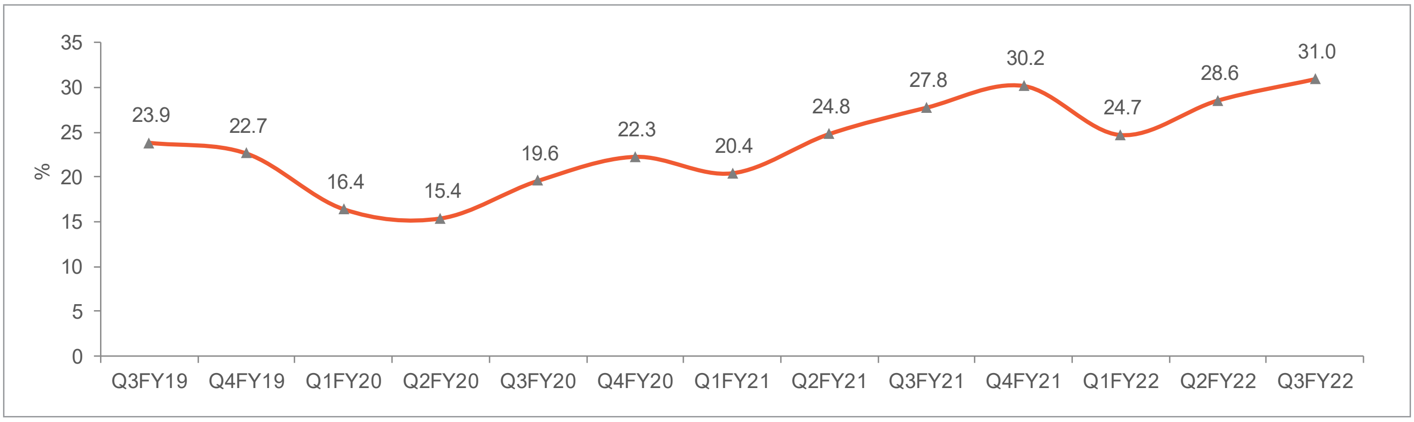
Source: Sharekhan Research

Healthcare & medical devices revenue growth trend (y-o-y on CC)



Source: Sharekhan Research

EBIT margin (%) trend



Source: Sharekhan Research

Outlook and Valuation

■ Sector outlook – Large addressable market provides sustainable growth opportunities

Global ERD spends remained resilient in CY2020 despite the outbreak of COVID-19, though the growth rate moderated to ~3% as manufacturing-led verticals such as aerospace, automobiles, and manufacturing tightened purse-strings (declined by 4.6% in CY2020). Total global ERD spends stood at $1.5 trillion in 2020 and are expected to touch $1.9 trillion by 2023. The global outsourced ERD addressable market stood at $90 billion, of which India outsources $33 billion. Indian ESPs will grow at a faster rate as compared to global peers owing to their ability to leverage robust digital engineering talent chains. According to Zinnov, the digital engineering market is expected to post a 19% CAGR from $545 billion in 2020 to $911 billion by 2023. It is estimated that hi-tech and service-led verticals' spending on ERD would outpace growth of ERD spend of manufacturing-led verticals over FY2020-FY2023E. Digital engineering to ERD spend ratio is likely to reach 47% in 2023 from 36% in 2020.

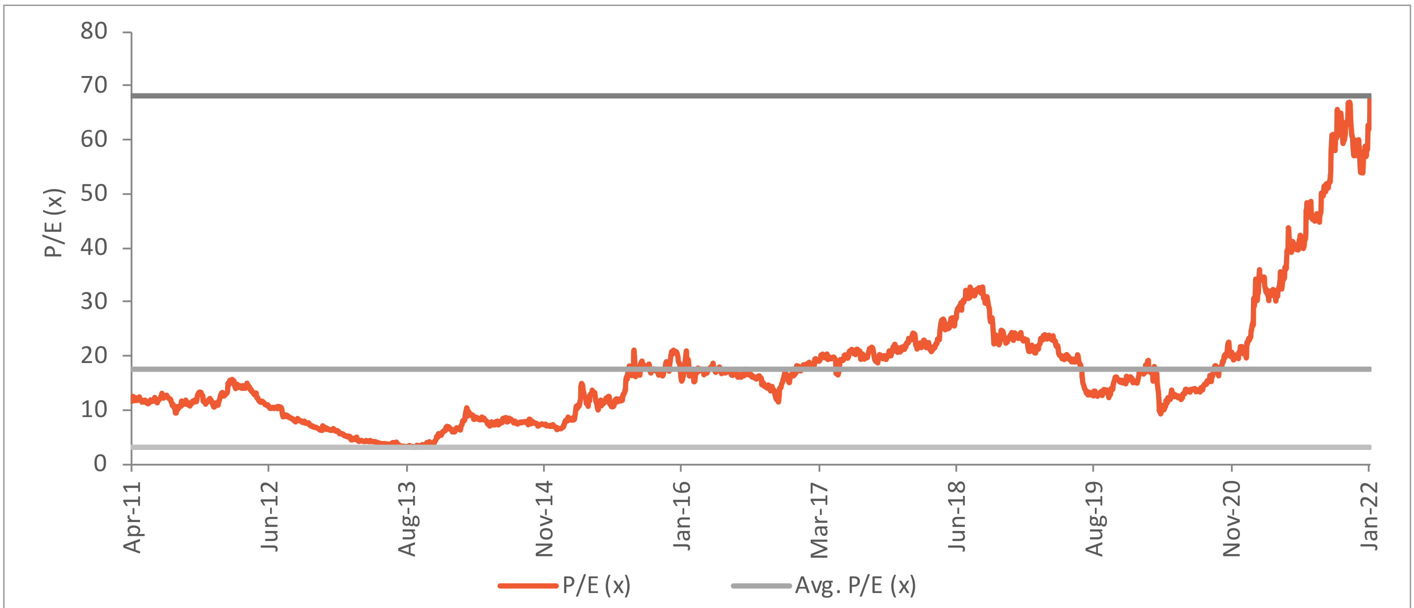
■ Company outlook – Promising outlook

TEL's major verticals have a huge growth opportunity, considering an increase in R&D spends in automotive, consumer electronics, and medical devices. The company has many growth opportunities, given that TEL is a specialist vendor for top OEMs and tier-I suppliers, recent re-allocation of R&D budgets towards electronics and software, a large addressable market, and differentiated product offerings. The company's differentiated capabilities in product engineering, design, and digital have helped it to strengthen its market position and win wallet share from existing customers.

■ Valuation – Bright times ahead

TEL's continued investments on emerging technologies have helped it to align itself to fulfill the demand of global enterprises. We believe TEL's revenue growth is likely to remain strong in the medium term, as it focuses on high-growth sectors (media and healthcare) and emerging technology areas (such as connected, autonomous, electric, OTT, digital health, and digital), where the client allocates a higher budget. Further, the company's good client mining strategy, strong order intake, robust deal pipeline, and solid execution would aid its growth momentum. TEL's USD revenue and earnings are likely to post a CAGR of 22% and 20%, respectively, over FY2022-FY2024E. We continue to prefer TEL, given its strong digital engineering capabilities, long-standing client relationships, superior margin profile, increased focus on long-term deal contracts, and presence in the fast-growing ERD space. At the CMP, the stock is trading at 68x/56x its FY2023E/FY2024E earnings. Though TEL's PE multiples has significantly rerated over last one year, it is still trading discount to median forward PE multiple of Chinese tech companies whose long term growth profile in the high 20% EPS growth range. We maintain our Buy rating on TEL with a revised a PT of Rs. 8,160.

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/EBITDA (x)		P/BV (x)		RoE (%)	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Cyient	986	11	10,877	21.3	18.4	12.9	11.1	3.6	3.3	16.3	17.9
LTTS	5,080	11	53,585	56.3	43.8	36.1	29.9	12.7	10.5	25.0	26.7
Tata Elxsi	6,981	6	43,473	118.1	80.6	81.7	55.8	32.2	25.0	27.2	31.1

Source: Company, Sharekhan estimates

About company

Bengaluru-based TEL is a global design and technology services company. The company was incorporated in 1989 as Tata Elxsi (India) Limited. The company provides product design and engineering services and systems integration and support services in India, the US, Europe, and rest of the world (RoW). The company also provides solutions and services for emerging technologies such as IoT, big data analytics, cloud, mobility, virtual reality, and AI and brings together domain experience across infotainment, autonomous driving, telematics, power train, and body electronics. The company addresses the automotive, broadcast and communications, consumer electronics, and healthcare industries supported by its worldwide network of design studios, development centres, and offices. The company also works with leading OEMs and suppliers in the automotive and transportation industries for R&D, design, and product engineering services from architecture to launch and beyond.

Investment theme

TEL is an integrated engineering services company with a strong expertise in the automotive and broadcast and communication verticals. The complex innovation requirements for OEMs need to be cost-effective, which makes a good case for offshoring to India due to its capabilities along with cost advantage. Change in business mix would help in improving margins and return ratios. TEL has a strong, debt-free balance sheet and a robust cash balance that provide an inorganic growth opportunity, which is crucial in the fast-changing technology landscape. The company has been generating return on equity in excess of 30% during the past three years.

Key Risks

(1) Slowdown in the global economy, especially in the automotive industry might affect growth momentum; (2) currency risks; and (3) slower growth in the broadcast sectors.

Additional Data

Key management personnel

NG Subramanian	Non-Executive Chairperson
Manoj Raghavan	Managing Director cum Chief Executive Officer
Nitin Pai	CMO and Chief Strategy Officer
H.V. Muralidharan	Chief Financial Officer
Girja Vaidyanathan	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management	3.2
2	Tata Investment Corp Limited	2.3
3	Vanguard Group Inc.	2.1
4	BlackRock Inc.	0.9
5	William Blair & Co LLC	0.9
6	Invesco Ltd.	0.6
7	Dimensional Fund Advisors LP	0.4
8	Norges Bank	0.3
9	*Tata Asset Management Limited*	0.2
10	*Teachers Insurance & Annuity Association of America*	0.2

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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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;