Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Tata Elxsi Ltd

Robust Q4; On a long growth runway

IT & ITeS	Sharekhan code: TATAELXSI
Reco/View: Buy ↔	CMP: Rs. 7,904
	Price Target: Rs. 9,000 ↑

↑ 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 Apr 08, 2022

Low Risk

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

Source: Morningstar

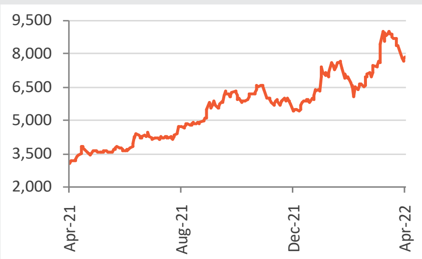
Company details

Market cap:	Rs. 49,225 cr
52-week high/low:	Rs. 9,420/2,997
NSE volume: (No of shares)	4.2 lakh
BSE code:	500408
NSE code:	TATAELXSI
Free float: (No of shares)	3.5 cr

Shareholding (%)

Promoters	44
FII	7
DII	13
Others	36

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.3	6.1	28.0	159.5
Relative to Sensex	5.4	8.7	33.4	139.0

Sharekhan Research, Bloomberg

Summary

- Q4FY22 was yet another quarter of strong revenue growth led by ramp-up of deals, while margins were in line with hopes; quarter saw healthy net hiring, strong deal intake across verticals, expansion into new geographies and good client mining.
- The company entered new geographies such as Middle East, Africa and Latin America, where it saw strong customer addition especially in media segment.
- TEL is well placed to deliver another year of strong growth in FY2023E, given strong order intake, traction for large deal conversation and increasing spends in digital engineering.
- We retain a Buy on Tata Elxsi Limited (TEL) with a revised PT of Rs. 9,000, given its market share gains, superior margin profile, and presence in fast growing ERD market. We expect USD revenue/ earnings to report a 23%/20% CAGR over FY2022-FY2024E.

Tata Elxsi Limited (TEL) another quarter of impressive revenue growth of 7.4% q-o-q on constant currency (CC) terms led by increasing spend on digital engineering technologies across verticals and ramp-up of deals, while EBIT margin remained in-line with our expectations. Q4 witnessed healthy net hiring, strong deal intake across verticals, expansion into new geographies and good client mining. EBITDA margin declined by 73 bps q-o-q to 32.5%, in line with our estimates, owing to wage hike to junior employees (-150 bps), partially offset by operating leverage from strong revenue growth and operational efficiencies. We expect TEL is well placed to deliver another year of strong growth in FY2023E, given strong order intake compared to the beginning of FY2022, excellent digital capability across verticals, entry into new geographies and increasing spends in digital engineering. Though management remains confident in maintaining operating profitability (31% in FY2022) in FY2023E on the back of pricing leverage, a favourable offshore mix, pyramid balancing, increasing annuity revenue contribution and currency tailwinds, we believe its operating profitability would remain under pressure because of wage revisions, investments in building capability and increasing discretionary spends in the area of travel and facility.

Key positives

- Strategic large deal wins in transport & media vertical
- Customer additions were strong in new regions especially in media segment
- Continued robust growth in embedded product design (EPD) segment, up 7.6% q-o-q on CC.

Key negatives

- System integration & support (SIS) revenue declined by 3.8% q-o-q on CC basis.

Management Commentary

- Company plans to add ~2,500 – 3,000 fresher in FY2023E (up 1.3x-1.7x y-o-y), indicate strong underlying demand
- The newly launched platform (TEngage) has garnered brilliant response in the US
- Remains confident in maintaining EBITDA margin (31% in FY2022) in FY2023E despite headwinds
- The revenue contribution from the adjacencies would improve to 20% of total segment's revenue from 5% currently.

Revision in estimates – We have raised our earnings estimates for FY2023E/FY2024E by 3-6% factoring market share gains, entering into new geographies, consistent deal inflows and traction for its offerings across verticals.

Our Call

Valuation – Strong growth prospects: We expect TEL is well placed to deliver another year of strong growth in FY2023E, given strong order intake as compared to the beginning of FY2022, excellent digital capability across verticals, expanding new geographies and increasing spends in digital engineering. TEL's USD revenue and earnings are likely to post a CAGR of 23% and 20%, respectively, over FY2022-FY2024E. At the CMP, stock is trading at 72x/62x its FY2023E/FY2024E earnings, which although expensive, is justified given a long runway for growth. We continue to prefer TEL, given its market share gains, long-standing client relationships, superior margin profile, consistent large deal wins, differentiated capabilities in digital engineering and presence in the fast-growing ERD space. We maintain our Buy rating on TEL with a revised a price target (PT) of Rs. 9,000.

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 (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	2,470.8	3,172.4	3,849.6	4,573.9
OPM (%)	31.0	30.1	29.4	28.9
Adjusted PAT	549.7	679.7	797.6	929.2
% YoY growth	*49.3*	*23.7*	*17.3*	*16.5*
Adjusted EPS (Rs.)	88.3	109.1	128.0	149.2
P/E (x)	89.6	72.4	61.7	53.0
P/B (x)	30.7	23.2	17.8	13.9
EV/EBITDA (x)	63.0	50.0	41.8	35.3
RoNW (%)	34.3	32.0	28.8	26.2
RoCE (%)	38.2	37.9	34.1	30.9

Source: Company; Sharekhan Research

A strong quarter

Tata Elxsi Ltd (TEL) delivered another quarter of strong revenue growth led by increasing spend on digital engineering technologies, while operating profitability remained in line with our expectations. The company reported CC revenue growth of 7.4% q-o-q and 30.9% y-o-y, ahead of our estimates. Revenue growth was driven by continued robust growth in EPD segment (up 7.6% q-o-q in CC) and recovery in Industrial design and visualisation (IDV) business (up 8.7% q-o-q in CC terms versus a 15.4% decline in Q3FY2022). System integration and support (SIS) business revenue declined by 3.8% q-o-q on a CC basis. USD revenue grew by 6.8% q-o-q and 27.1% y-o-y to $90.5 million, above our estimate. Top account's revenue has been growing strongly over the past few quarters, up by 8.2% q-o-q in Q4FY2022. EBITDA margin declined by 73 bps q-o-q to 32.5%, in-line with our estimates, owing to wage hike to junior employees (-150 bps), partially offset by operating leverage from strong revenue growth and operational efficiencies. Net profit of Rs. 160 crore (up 6% q-o-q and 39% y-o-y) was 4% ahead of our estimates aided by beat in revenue and higher other income, partially offset by higher tax provision (27.4% versus 24.6% in Q3FY2022).

Key earnings call highlights

- **Brief round-up of FY2022 performance:** The company's constant currency revenue grew by 34.3% in FY2022, led by strong growth across verticals, market share gains and robust client mining. EBITDA margin increased 240 bps on y-o-y at 31% despite wage revision, high costs to backfill attrition and supply-side challenges, led by strong growth, higher offshoring and cost efficiencies. Net profit grew by 49.3% y-o-y to Rs. 549.7 crore. Free cash flows (FCF) declined by 7% y-oy to Rs. 370 crore. FCF to net profit ratio during FY2022 stood at 48% as compared to 76% in FY2021. The company declared the final dividend of Rs. 42.5 per share versus Rs 48 per share in FY2021.
- **Strong growth outlook for FY2023E:** Company's differentiated capabilities in product engineering and design and digital expertise 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 logos, new accounts and large deals by providing value-added services. The company's investments in adjacencies such as rail, commercial vehicles, farm equipment, off-road vehicle, new media and digital health are expected to drive its growth going ahead given strong demand. The company sees strong traction for its offerings given differentiated capabilities in the EV space, platform-led offerings in media space and innovation for next-generation medical devices and services. Aggregate addition fresher remained at 1,100 in FY2022 and the company plans to add around 2,500 – 3,000 fresher in FY2023E, which indicates the company's preparedness to address the ramp-up of large deals, manage attrition, and deal pipeline. Hence, we expect strong growth momentum to continue in FY2023 and beyond, given strong order intake compared to the beginning of the last year, wining deals in adjacencies, excellent capability across verticals, good client mining, expanding new geographies and higher spends on digital engineering across its focused verticals. Further, the company's market share gains along with increase in addressable market would aid to its growth momentum.
- **Geographical expansion:** The company entered into new geographies such as Middle East, Africa and Latin America. The company witness strong customer addition in all three regions especially in media segment.
- **Higher enquiries due to Russia-Ukraine conflict:** The company does not see any material impact on demand because of geo-political tensions as it has no direct presence in terms of customer and delivery centers in Russia and Ukraine. It doesn't expect any slowdown in IT budget from its European clients. Further, the company gets some enquiries from some large enterprises as they want to de-risk their geographical concentration.
- **Strong traction for its recently launched TEngage platform:** The company launched its TEngage platform in March 2022, which is a digital health platform for omni-channel patient engagement. The platform has garnered brilliant response in the US and it has already multiple customer conversations for this product. Management believes it will take some time to generate substantial revenue for the company. The revenue model of this product would be SaaS-based. The company would target those customers who don't have engineering/financial strength for developing the platform.

- **Wage hikes to senior employees:** The company has provided compensation increase to its junior staffs starting from January 2022, which is 60-70% of its total workforce. This has impacted margin by 150 bps in Q4FY2022. The company will provide wage hike to its senior staffs effective from April 2022.
- **Limited room for margin expansion:** Operating profitability improved by 930 bps over last eight quarters led by faster growth in the high-margin medical devices vertical, higher offshoring, increasing utilisation, quality of revenue mix (including multi-year contracts with focus on high-margin deals), operational efficiencies, and delivery excellence. Though management remains confident in maintaining operating profitability (31% in FY2022) in FY2023E on the back of pricing leverage, favorable offshore mix, pyramid balancing, increasing annuity revenue contribution to total revenue and currency tailwinds, 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. We believe the onsite mix could increase in coming quarters on the back of opening of travel, while the fixed price project mix to remain stable in the medium-term. The company is expanding its presence into SEZs, which would lower its effective tax rate in FY2023.
- **Strong growth momentum continued in EPD business:** TEL reported broad-based growth across verticals in EPD business. The company's growth was driven by strong 7.6% CC growth in the EPD business (the largest contributor to its total revenue, i.e., 89% of total revenue). IDV's revenue growth was 8.7% q-o-q (but declined 10.1% y-o-y on a CC basis) after two successive quarters of decline due to closure of projects and delay in ramp up of a new program for a large ongoing design-led innovation project. SIS's CC revenue declined by 3.8% q-o-q.
- **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 8.3% q-o-q on CC basis, led by ramp of deals in electric, autonomous, connected and digital technologies. The company continues to see strong traction in the automotive market, with large and strategic deals with OEMs and suppliers. The broadcast and communications verticals continued its revenue growth momentum, with CC revenue growth of 7.2% q-o-q and 31.6% y-o-y, led by Design Digital and platform-led deals. The healthcare and medical devices vertical's revenue growth remained at 6.8% q-o-q (up 62.4% on y-o-y), led by digital and connected health.
- **Major markets grew strongly:** Revenue growth in the US was at 4.0% q-o-q (versus 7.2% q-o-q in Q3FY2022), while Europe reported revenue growth of 10.7% q-o-q (versus 3.5% in Q3FY2022). 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 5.5% q-o-q versus 7.4% q-o-q growth in Q3FY2022.
- **IDV business bounced back strongly as expected:** 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 bounced back strongly with a growth of 8.7% q-o-q on CC after soft performance for last two successive quarters 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, the IDV business reported revenue growth declined by 10.1% on CC basis.
- **Large deals to drive the growth momentum of its automotive sub-vertical:** The transportation business posted a fourth quarter of strong growth, aided by rising spending across electric, autonomous, and connected technologies. 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 leading German Tier I supplier for establishing an Offshore development center for autonomous driving and ADAS technologies, (2) multi-year multi-million USD deal for EV system development from a global automotive leader, and (3) selected to establish and set up a virtual reality innovation center by a leading European commercial vehicle manufacturer. The management had indicated that five of the top 10 OEMs and eight of the top 20 suppliers are its customers. The company's differentiated EV, Autonomous, Connected and Digital capabilities is helping to win large deal wins across the developed markets. 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 in FY2023E.

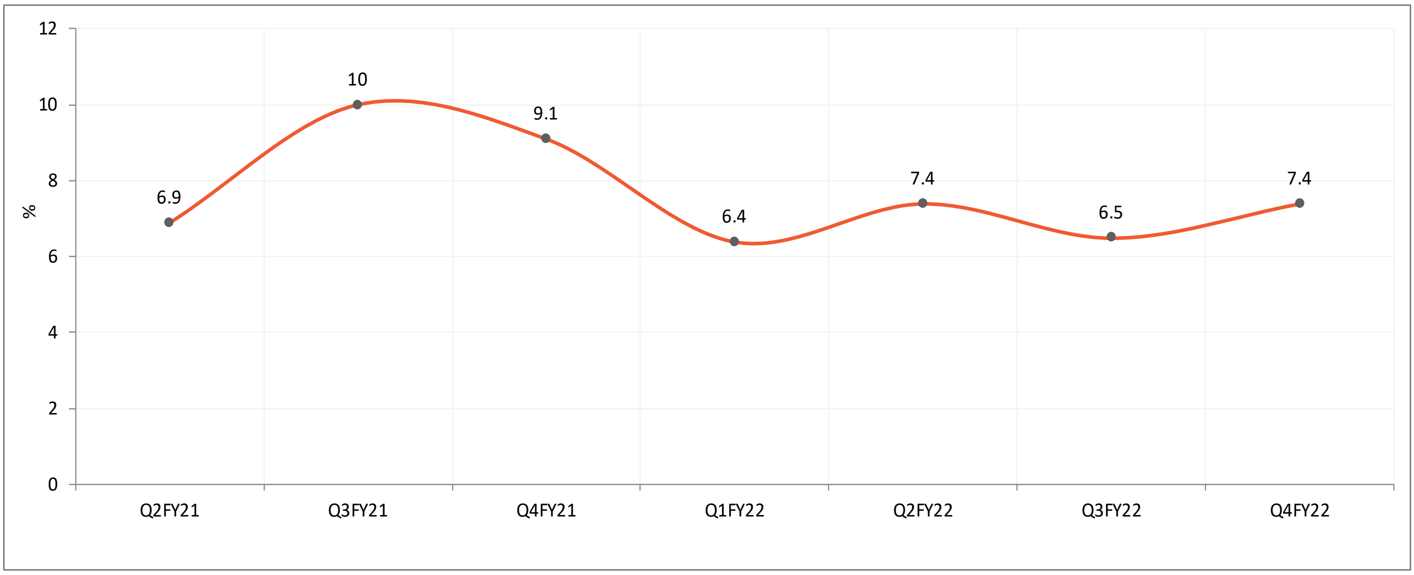
- **Signed a large deal in media & communication vertical:** The broadcast and communication vertical is the largest in terms of revenue of the EPD segment. The vertical's total contribution to overall EPD revenue remained at 43.7%. During the quarter, the media and communication vertical grew by 7.2% q-o-q and 31.6% y-o-y, led by ramp-up of deals, design digital and increasing platform revenue. There are three sub-segments in this vertical, i.e. (1) operator segment, (2) broadcasters, and (3) devices. 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 13 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. The company signed a large five-year deal with a Middle East broadcasting giant in the digital design space.
- **Good traction in healthcare and medical device business; announced a deal:** Revenue growth in the healthcare and medical device vertical remained at 6.8% q-o-q and 62.4% y-o-y, led by higher spend in digital and connected health, regulatory services and innovation for next-generation medical devices and services. Healthcare and medical revenue accounted for 14.9% to its EPD revenue versus 7.7% in Q4FY2020. The management expects the healthcare and medical vertical to contribute 20% of total revenue in the medium term, 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. The company announced a deal with a North American health care provider for providing cloud engineering services.
- **Higher focus on adjacencies:** The company's strategy improving revenue contribution from adjacencies segments across the verticals has been progressing well. Adjacencies such as farm equipment, commercial vehicles, and rail are expected to maintain strong growth momentum in the coming quarters, as the skills are complementary. The revenue contribution from the adjacencies of its transportation, media and communication and healthcare and medical devices vertical is expected to increase to 20% of total revenue of the respective vertical from 5% currently over the next three years. We believe the company is well on track to achieve this target, given higher spending on digital engineering in these adjacencies. Over the next two years, management expects contribution of the transportation, broadcast, and medical devices vertical to be 40:40:20 from current contribution of 42:44:15.
- **Strong growth in existing accounts:** Revenue from the top and top 5 accounts grew by 8.2% q-o-q and 7.6% q-o-q respectively. Revenue from the top 10 accounts accelerated to 5.6% q-o-q in Q4FY2022.
- **Attrition inches up; higher offshore mix likely to stay:** Attrition rate increased to 20.8% in Q4FY2022 versus 18.2% in Q3FY2022. Attrition rate is higher in junior levels of employees where employees are leaving within 6-18 months of their joining.Net addition of employees stood at 343 q-o-q during the quarter, which was 4% of total headcounts of Q3FY2022. The company's net hiring was 2,014 in FY2022, of which the fresher hiring was 1,100. Offshore revenue mix remained at 90% versus 70-75% in pre-COVID times and management highlighted that onsite mix would not move to pre-COVID era given its strong delivery model and cost benefit to customers.
- **Fresher hiring target remains strong:** The company plans to hire 2500-3000 freshers in FY2023E compared to 1,100 fresher in FY2022, indicates strong underlying demand environment and anticipation of strong demand. The company indicated the net hiring would be in the range of 3,000-3,500 in FY2023E.
- **Dividend payout:** The company recommended a final dividend of Rs. 42.50 per share for FY2022 versus Rs. 48 per share for FY2021. Dividend payout (as % of net profit) declined to 48% from 81% in FY2021.

Results Rs cr

Particulars	Q4FY22	Q3FY21	Q2FY22	y-o-y	q-o-q
Revenue ($ mn)	**90.5**	**71.2**	**84.8**	**27.1**	**6.8**
Net sales	**681.7**	**518.4**	**635.4**	**31.5**	**7.3**
Employee expenses	344.8	264.8	329.5	30.2	4.6
Total purchases	33.9	30.9	22.3	9.7	52.0
Other expenses	81.8	54.7	72.8	49.7	12.5
EBITDA	**221.2**	**168.0**	**210.8**	**31.7**	**4.9**
Depreciation and amortisation	15.9	11.3	14.0	40.6	13.1
EBIT	205.4	156.7	196.8	31.1	4.3
Other income	18.1	6.8	6.5	165.1	177.8
Finance cost	3.2	1.9	3.0	68.0	5.9
PBT	**220.3**	**161.6**	**200.3**	**36.3**	**10.0**
Tax provision	60.3	46.5	49.4	29.6	22.1
Net profit	**160.0**	**115.1**	**151.0**	**39.0**	**6.0**
EPS (Rs.)	**25.7**	**18.5**	**24.2**	**38.9**	**6.0**
Margin (%)				**BPS**	**BPS**
EBITDA	32.5	32.4	33.2	5	-73
EBIT	30.1	30.2	31.0	-10	-85
NPM	23.5	22.2	23.8	127	-29
Tax rate	27.4	28.8	24.6	-142	271

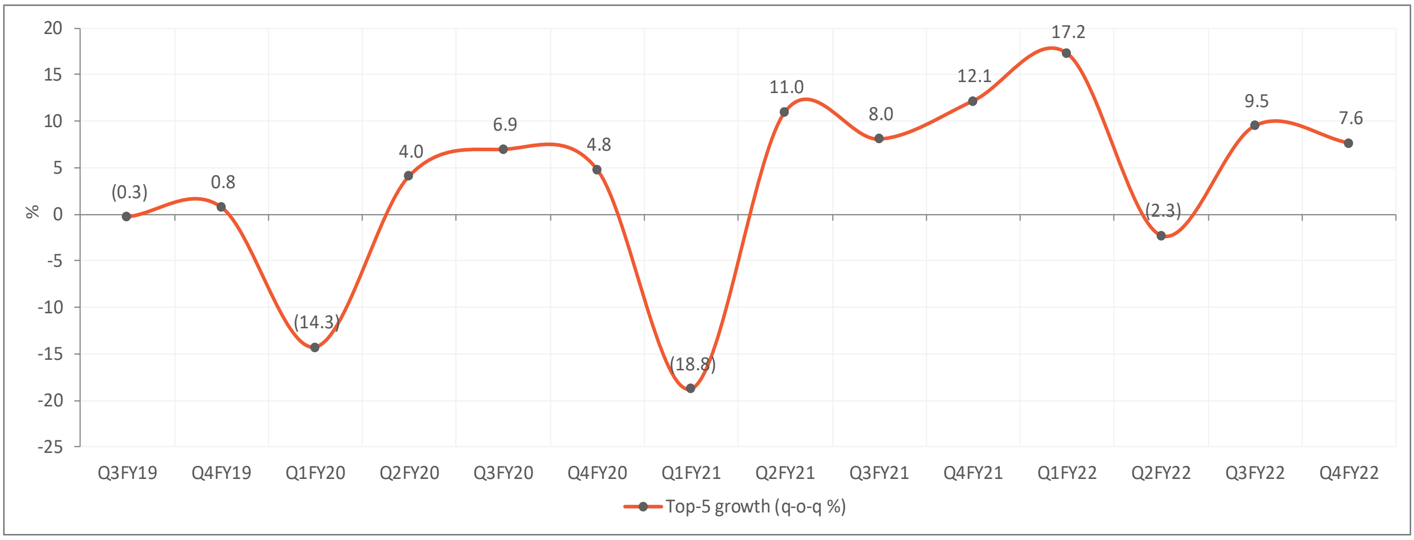
Source: Company, Sharekhan Research

CC revenue growth trend (q-o-q)



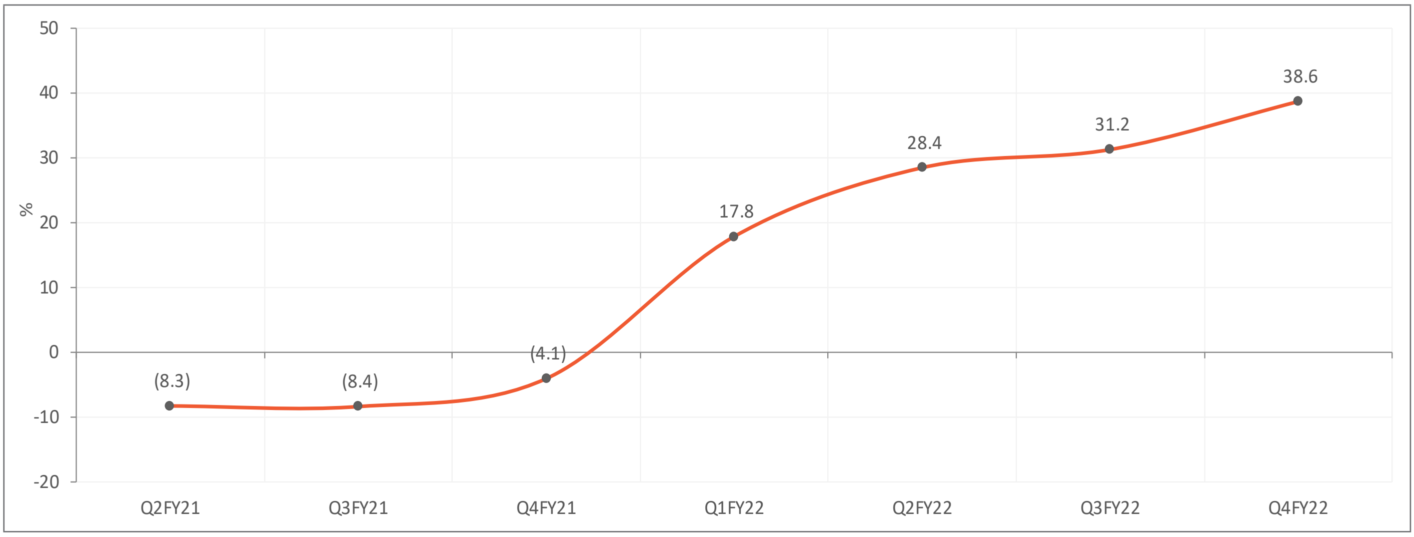
Source: Company, Sharekhan Research

Top accounts growth trend (q-o-q)



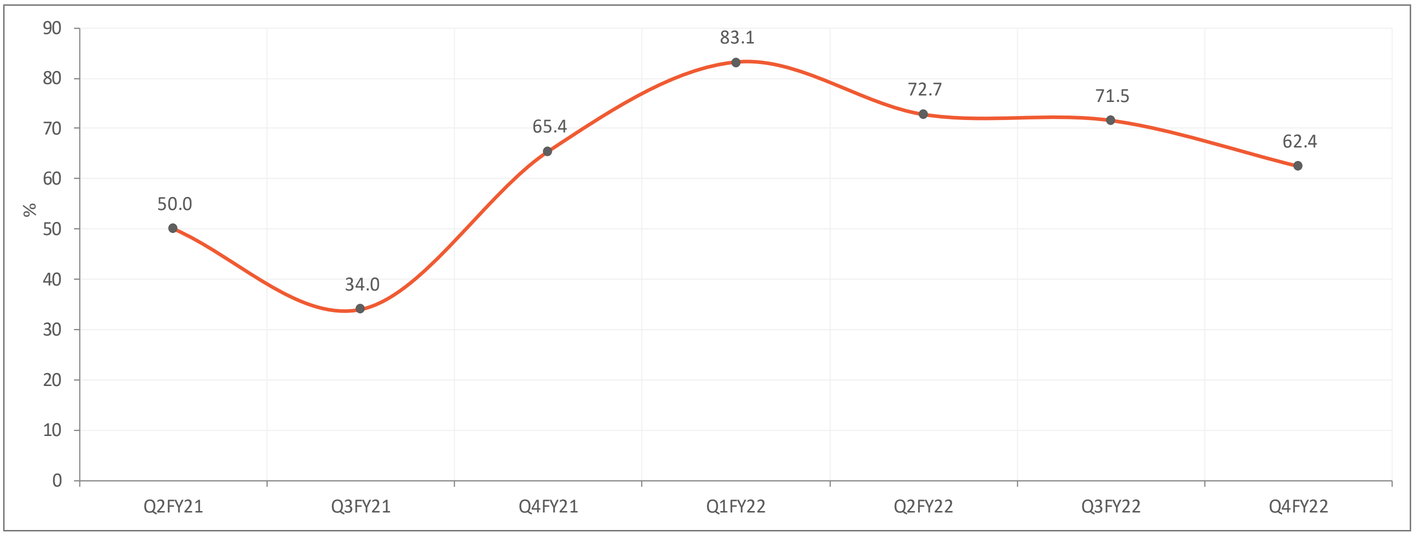
Source: Company, Sharekhan Research

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



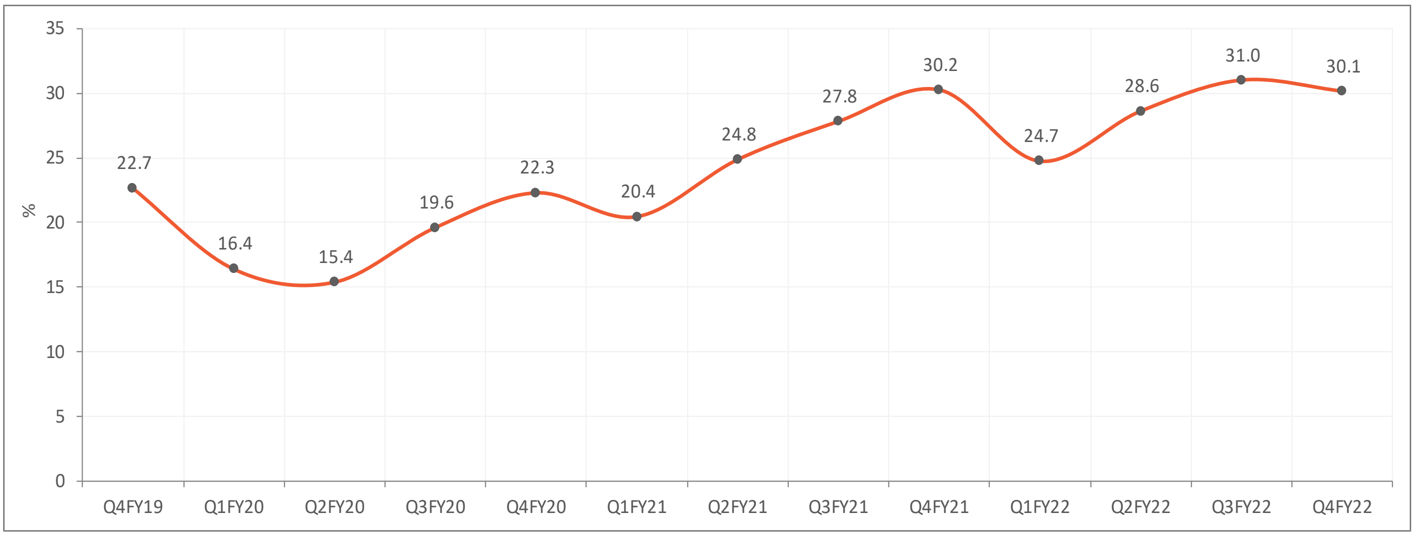
Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

EBIT margin (%) trend



Source: Company, 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 2021 and are expected to touch $1.9 trillion by 2023. The global outsourced ERD addressable market stood at $90 billion, of which India outsources $36 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 – Strong growth momentum to continue:**

We expect TEL is well placed to deliver another year of strong growth in FY2023E, given strong order intake as compared to the beginning of FY2022, excellent digital capability across verticals, expanding new geographies and increasing spends in digital engineering. TEL's USD revenue and earnings are likely to post a CAGR of 23% and 20%, respectively, over FY2022-FY2024E. At the CMP, stock is trading at 72x/62x its FY2023E/FY2024E earnings, which although expensive, is justified given a long runway for growth. We continue to prefer TEL, given its market share gains, long-standing client relationships, superior margin profile, consistent large deal wins, and differentiated capabilities in digital engineering and presence in the fast-growing ERD space. We maintain our Buy rating on TEL with a revised a price target (PT) of Rs. 9,000.

One-year forward P/E (x) band

Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Cyient	831	11	9,169	15.8	13.7	9.0	7.8	2.7	2.4	17.4	18.3
LTTS	4,244	11	44,792	36.6	30.1	24.8	20.7	8.8	7.3	26.7	26.8
Tata Elxsi	7,904	6	49,225	72.4	61.7	50.0	41.8	23.2	17.8	32.0	28.8

Source: Company, Sharekhan Research

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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management	2.31
2	Vanguard Group Inc.	1.87
3	Tata Investment Corp Limited	1.85
4	Wasatch Advisors Inc.	1.17
5	Life Insurance Corp of India	1.04
6	BlackRock Inc.	0.87
7	William Blair & Co LLC	0.44
8	Dimensional Fund Advisors LP	0.64
9	Norges Bank	0.49
10	Invesco Ltd.	0.35

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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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;