Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Aditya Birla Fashion & Retail Ltd

Mixed Q2; growth prospects intact

Consumer Discretionary	Sharekhan code: ABFRL
Reco/View: Buy ↔	CMP: **Rs. 329** / Price Target: **Rs. 386** ↑

↑ 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 12.15

Updated Oct 08, 2022

Low Risk

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

Source: Morningstar

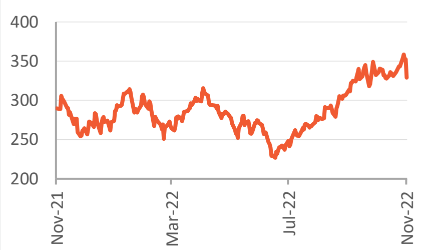
Company details

Market cap:	Rs. 30,876 cr
52-week high/low:	Rs. 359 / 221
NSE volume: (No of shares)	22.9 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	41.2 cr

Shareholding (%)

Promoters	56.1
FII	14.6
DII	19.4
Others	9.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	18.4	21.7	13.5
Relative to Sensex	-6.3	14.0	10.5	12.1

Sharekhan Research, Bloomberg

Summary

- Aditya Birla Fashion & Retail Limited (ABFRL) registered a mixed bag of numbers in Q2FY2023 as a strong 48% y-o-y revenue growth on standalone basis was mitigated by 75 bps y-o-y contraction in EBITDA margin due to normalisation of rental expenses and higher empolyee cost.
- *Lifestyle* brands and *Pantaloons* brands grew by 45% and 64% y-o-y, respectively. Ethnic brands' revenue grew by ~90% y-o-y, while inner-wear & athleisure segment grew by 27% y-o-y.
- ABFRL eyes a 3x revenue growth in the medium term led by aggressive store expansions, category extensions, channel expansion, and enhanced digital capabilities. Profitability would improve led by economies of scale from larger brands and a scale-up in smaller brands.
- Stock currently trades at 18.5x/14.9x its FY2023E/24E EV/EBITDA. We maintain Buy with a revised SOTP-based PT of Rs. 386.

Standalone revenues grew by 48% y-o-y to Rs. 2,593 crore driven by 45% y-o-y growth in Madura Fashion (including lifestyle brands) and 64% y-o-y growth in Pantaloons. Consolidated revenues including ethnic business grew by 50% y-o-y to Rs. 3,075 crore. E-commerce sales grew by 24% y-o-y. Gross margins improved by 138 bps y-o-y, while EBITDA margin decreased by 75 bps y-o-y due to normalisation of rental expenses as compared to Q2FY2022. Adjusted PAT stood at Rs. 80 crore as against Rs. 14.1 crore in Q2FY2022. Consolidated EBIDTA margins decreased by 236 bps due to higher investment behind acquired brands and normalisation of rental expenses, resulting in a PAT of Rs. 29.4 crore. Pantaloons added net 21 stores during the quarter while branded businesses added 85 stores. The company had a net debt of Rs. 243 crore (consolidated) against Rs. 504 crore at FY2022-end. For H1FY2023, revenue grew by 2.1x y-o-y to Rs. 5,727 crore, while PAT was reported at Rs. 204 crore against a loss of Rs. 321 crore in H1FY2022 and EBITDA margin improved to 16% from 5.5% in H1FY2022.

Key positives

- Standalone revenue growth at 47.9% y-o-y; 29% over pre-COVID levels.
- Lifestyle brands (retail) like-to-like growth of 27% y-o-y.
- E-commerce revenue grew by 24% y-o-y.
- Net debt stood lower at Rs. 243 crore against Rs. 504 crore at FY2022-end.

Key negatives

- Standalone/consolidated EBITDA margin declined by 75/236 bps y-o-y due to normalisation of rent expenses.

Management Commentary

- Demand was strong in Q2 driven by EoSS and festive season. The management has indicated that demand outlook remains strong for the next few quarters aided by festive season and due to the come-back of wedding season.
- ABFRL opened 25 *Pantaloons* stores in H1FY2023 and has a target of opening 70-80 *Pantaloons* stores in FY2023. The management has indicated that margin improvement for Pantaloons would be derived from increasing contribution from private labels.
- For the ethnic business, the company's focus would be to scale-up the Tasva brand. The Tasva brand currently has 21 stores at end of Q2 and the company plans to increase its presence to 60-70 stores by FY23-end. ABFRL plans to make deeper investment on marketing the Tasva brand in the coming months and expects a run rate of Rs. 200 crore for Tasva by next year.
- Advertising spends are expected to be higher in the near-term, with the advertisement expenses largely undertaken towards ethnic wear and to some extent on innerwear. The company targets 3-4% of sales on an average towards advertisement expenses.

Revision in earnings estimates – We have reduced estimates for FY2023 and FY2024 to factor in lower-than-expected EBIDTA margins. The management will continue to invest behind scaling up some of the new businesses in the coming years. We have introduced FY2025 estimates through this note.

Our Call

View: Retain Buy with a revised PT of Rs. 386: Q2FY2023 performance was mixed as revenue grew in high double-digit while margins contracted due to higher investments towards brands and normalisation of rent expenses. In the medium term, the company expects growth to be driven by store expansion, category extensions, channel expansion and enhanced digital capabilities. The company is confident of achieving its target of Rs. 21,000 crore revenue with EBITDA of over Rs. 2,350 crore by FY2026. Further, a scale-up in niche businesses will add on to revenues in the long run. This, along with a sustained focus on strengthening its balance sheet, augurs well from a long-term perspective. The stock is trading at 18.5x/14.9x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 386.

Key Risks

Any sustained slowdown in recovery due to localised lockdowns in the coming quarters would act as a risk to our estimates in the near term.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	5,181	7,824	12,039	14,074	16,186
EBITDA Margin (%)	11.5	13.8	15.4	16.0	16.5
Adjusted PAT	-581	-81	413	642	916
Adjusted EPS (Rs.)	-6.3	-0.9	4.4	6.8	9.7
P/E (x)	-	-	75.6	48.6	34.1
P/B (x)	11.2	10.7	9.4	7.9	6.4
EV/EBITDA (x)	57.2	31.8	18.5	14.9	11.9
RoNW (%)	-	-	13.3	17.7	20.8
RoCE (%)	-	3.2	11.7	15.3	19.2

Source: Company; Sharekhan estimates

Mixed Q2 – Revenue growth at 48%; EBITDA Margin down by 75 bps y-o-y

Standalone revenues grew by 47.9% y-o-y (29% over pre-COVID levels) to Rs. 2,952.8 crore aided by strong like-to-like growth and consistent e-commerce performance. Lifestyle brands revenue grew by 45% y-o-y (34% over pre-COVID levels) to Rs. 1,680 crore, while Pantaloons revenue grew by 64% y-o-y (20% over pre-COVID levels) to Rs. 1,094 crore. Sequentially, revenues grew by 6.4% driven by higher sales from end of season Sales (EOSS) in Q2. Consolidated revenues including ethnic business grew by 50% y-o-y (33% over pre-COVID levels) to Rs. 3,074.6 crore. Gross margins improved by 138 bps y-o-y to 54.0%, while EBITDA margin decreased by 75 bps y-o-y to 15.0% due to normalisation of rental expenses as compared to Q2FY2022. EBITDA grew by 40.9% y-o-y to Rs. 443.5 crore, while adjusted PAT stood at Rs. 80 crore as against Rs. 14.1 crore in Q2FY2022. At the consolidated level, EBIDTA margins decreased by 236 bps due to higher investment behind acquired brands and normalisation of rental expenses, resulting in PAT coming in at Rs. 29.4 crore. Pantaloons added net 21 stores during the quarter while branded businesses added net 85 stores. The company had a net debt of Rs. 243 crore (consolidated) against Rs. 504 crore at FY2022-end. For H1FY2023, revenue grew by 2.1x y-o-y to Rs. 5,727 crore, while PAT was reported at Rs. 204 crore against a loss of Rs. 321 crore in H1FY2022 and EBITDA margin improved to 16% from 5.5% in H1FY2022.

Strong growth across all business verticals

- **Madura Fashion & Lifestyle brands (MFL) - Business grew by 36% over pre-COVID level:** MFL business (branded business of ABFRL) grew by 36% over Q2FY2020 (pre-COVID levels) with sale at Rs. 1,987 crore (grew by 43% y-o-y). EBITDA margin of MFL declined to 14.7% from 16.4% in Q2FY2020 and 15.2% in Q2FY2022. EBITDA for the quarter stood at Rs. 292 crore as against Rs. 240 crore in Q2FY2020 and Rs. 212 crore in Q2FY2022.
  - **Lifestyle business grew by 45% y-o-y:** Lifestyle business' revenue grew by 45% y-o-y and 34% over Q2FY2020 to Rs. 1,680 crore aided by market share gains driven by premiumisation and casualization. Retail like-to-like growth stood at 27% y-o-y led by over 150 net store additions in one year. EBITDA for the segment was reported at Rs. 286 crore against Rs. 188 crore in Q2FY2022. EBITDA margin improved to 17% from 16.3% in Q2FY2022. Q2FY2023 e-Commerce business grew by 18% y-o-y and by ~3x of pre-COVID levels. Women's and kid's wear business portfolio achieved the highest-ever quarterly revenue; and the traction is expected to be maintained. The business continued with its focus towards building the growth engine of small-town stores, with a network of ~550 stores across brands. Wholesale revenue came at Rs. 462 crore, registering a y-o-y growth of 79% while the retail business grew by 45% y-o-y to Rs. 734 crore. The growth of Lifestyle brand is expected to be driven by category extensions and channel expansion with higher traction from smaller towns in India, which provide a big growth market opportunity.
  - **Other businesses continue growth momentum:** Other businesses posted 30.6% y-o-y growth to Rs. 307 crore driven by strong performance across segments. The segment reported an EBITDA of Rs. 6 crore in Q2FY2023 against Rs. 24 crore in Q2FY2022. Inner wear & athleisure segment (Van Heusen) grew by 27% y-o-y and by 1.9x over pre-COVID levels aided by network expansion. ABFRL added 31 EBOs to take the total count to 111 and expanded trade network to ~30,400 outlets. The company also forayed into kids inner wear category. Youth Fashion segment consisting of American Eagle and Forever 21, continued to show robust growth of over 50% y-o-y. American Eagle grew by ~70% y-o-y driven by distribution network expansion with two new stores added in Q2FY2023. Forever 21 grew by ~40% y-o-y and the company added two new stores (net addition) to the network. Super premium brands, comprising of the multi-brand format 'The Collective' and other super-premium brands, continued the strong momentum with revenue growing by 35% y-o-y. E-commerce revenue witnessed

100% y-o-y growth. ABFRL completed acquisition of Reebok India operations through signing of local asset transfer agreement w.e.f. October 01, 2022. The company will be focusing on streamlining operations such as designing, product innovation, sourcing, retail expansion & marketing and plans to open 15 stores during H2 FY23. Going ahead, innerwear is expected to pivot aggressively on its own retail mode, super premium brands are expected to scale up the profitable model while youth fashion is expected to accelerate expansion.

Madura Fashion and Lifestyle brands Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (x)	Q1FY23	q-o-q (%)
Lifestyle brands (a)	1,680.0	1,156.0	45.3	1,519.0	10.6
Other businesses (b)	307.0	235.0	30.6	282.0	8.9
Revenues (a+b)	**1,987.0**	**1,391.0**	**42.8**	**1,801.0**	**10.3**
EBITDA	292.0	212.0	37.7	289.0	1.0
EBITDA Margin (%)	14.7	15.2	-55	16.0	-135

Source: Company; Sharekhan Research

Channel-wise revenue Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Wholesale	462.0	258.0	79.1	315.0	46.7
Retail	734.0	506.0	45.1	793.0	-7.4
Others	485.0	392.0	23.7	412.0	17.7
Total	**1,681.0**	**1,156.0**	**45.4**	**1,520.0**	**10.6**

Source: Company; Sharekhan Research

- **Pantaloons – Revenue growth at 64% y-o-y:** Pantaloons recorded sales of Rs. 1,094 crore, registering a growth of 64.5% y-o-y and 20% over Q2FY2020 driven by strong EOSS & Pujo performance. E-commerce grew by 20% y-o-y on the back of robust festive sales on the app and the website. EBITDA margins came in at 16.1% vs 15.9% in Q2FY2020 mainly led by sharp markdown reductions and better value realisations. The company undertook aggressive network expansion with the addition of 21 stores in Q2FY2023. ABFRL plans to aggressively expand Pantaloons retail network (add ~70 stores in FY2023) by running a comprehensive Omnichannel play and strongly grow Pantaloons.com (new website) and the Pantaloons app.

Pantaloons' performance Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Revenues	1,094.0	665.0	64.5	1,027.0	6.5
EBITDA	176.0	125.0	40.8	218.0	-19.3
EBITDA Margin (%)	16.1	18.8	-271	21.2	-514

Source: Company; Sharekhan Research

- **Ethnic wear business (part of the consolidated business) growth trajectory continues –** The business registered strong 88% y-o-y growth with revenue at Rs. 109 crore, aided by both network expansion and category extensions. The segment reported loss of Rs. 40 crore against a profit of Rs. 1 crore in Q2FY2022. *Jaypore* grew by ~80% y-o-y with offline revenue reaching to more than 5x of Q2FY2022. The company continued its store expansion journey with network reaching 13 stores. New categories showed strong traction. *Shantanu* & *Nikhil's* revenue grew to 1.5x of Q2FY2022. The brand added 2 more stores to the network and is now available across 14 stores. The company plans to continue investing in strengthening brand equity and visibility. Sabyasachi revenues grew by 60% y-o-y. The company would focus on building a truly global brand and opened its first international EBOs in New York. Rapid store expansion is planned for the Tasva brand in FY2023. The brand added nine stores to the network during this quarter and plans to end FY2023 with ~70 stores (current store count at 21). *House of Masaba* revenue almost doubled on y-o-y basis. The brand launched its beauty and personal care line under the brand *Lovechild*. ABFRL aims for an ambitious distribution expansion strategy for its portfolio of seven ethnic brands in the coming period.

Key conference call highlights

- **Demand outlook strong:** The management indicated that demand outlook remains strong for the next few quarters aided by festive season and due to the comeback of wedding season. As per the management, premium portfolio has performed better than mass portfolio during the quarter and the company expects this trend to continue going ahead given the low penetration of premium brands in the country coupled with higher inflationary pressure faced by the masses.
- **Store addition and higher private-label contribution to drive Pantaloons business:** ABFRL opened 25 Pantaloons stores in H1FY2023 and has a target of opening 70-80 Pantaloons stores in FY2023. The management has indicated that with addition of new stores, the profitability also improves. Pantaloons private label contribution has not met the target. The management has indicated that margin improvement for Pantaloons would be derived from increasing private label contribution.
- **Ethnic business focus to scale-up of Tasva:** The management has indicated that for the Ethnic business, the company's focus would be to scale-up the Tasva brand. The Tasva brand currently has 21 stores at end of Q2 and the company plans to increase its presence to 60-70 stores by FY23-end. Mostly all stores are currently operated on a company-owned-company-operated (COCO) basis. The management has indicated that at an early stage of brands the company prefers to first perfect the model and then move to franchisee-owned-franchisee-operated (FOFO) model. ABFRL plans to make deeper investment on marketing the Tasva brand in the coming months and expects a run rate of Rs 200 crore for Tasva by next year.
- **Innerwear to gain momentum:** The company expects to cross Rs. 500 crore revenue for innerwear in FY2023 and targets to achieve Rs, 1,000 crore of revenues in next 2-3 years. Investments towards the segment are expected to be higher to support revenue growth.
- **Advertisement expenses to remain elevated in near-term:** the management has guided that advertising spends would continue to grow in the near-term, with the advertisement expenses largely undertaken towards ethnic wear and to some extent on innerwear. Advertising for Lovechild & Reebok will be done after a few quarters once the company understands both the businesses. The company targets 3-4% of sales on an average towards advertisement expenses.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Total revenue	**2,952.8**	**1,996.0**	**47.9**	**2,774.0**	**6.4**
Cost of goods sold	1,359.2	946.3	43.6	1,252.2	8.5
Employee cost	328.4	259.3	26.7	302.1	8.7
Rent Expenses	199.8	51.0	-	206.5	-3.2
Other expenditure	621.8	424.8	46.4	538.1	15.6
Total expenditure	**2,509.3**	**1,681.4**	**49.2**	**2,298.9**	**9.2**
EBITDA	**443.5**	**314.7**	**40.9**	**475.1**	**-6.6**
Other income	21.4	22.2	-3.5	28.7	-25.4
Interest & other financial cost	94.4	86.0	9.7	88.8	6.3
Depreciation	265.4	231.1	14.8	251.8	5.4
PBT	**105.1**	**19.7**	**-**	**163.2**	**-35.6**
Tax	25.0	5.6	-	39.6	-36.9
Reported PAT	**80.1**	**14.1**	**-**	**123.6**	**-35.2**
EPS (Rs)	**0.9**	**0.2**	**-**	**1.3**	**-35.2**
			bps		**bps**
GPM (%)	54.0	52.6	138	54.9	-89
EBITDA margin (%)	15.0	15.8	-75	17.1	-211
NPM (%)	2.7	0.7	201	4.5	-174
Tax rate (%)	23.8	28.6	-481	24.3	-50

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Total revenue	**3,074.6**	**2,054.3**	**49.7**	**2,874.8**	**7.0**
Total expenditure	2,677.9	1,740.8	53.8	2,406.3	11.3
EBITDA	**396.7**	**313.5**	**26.5**	**468.4**	**-15.3**
Other income	22.0	25.2	-12.6	31.1	-29.3
Interest & other financial cost	103.6	87.6	18.3	94.4	9.7
Depreciation	290.7	241.6	20.3	270.3	7.5
Tax	-5.6	3.7	-	41.1	-
Adjusted PAT	**30.1**	**5.9**	**-**	**93.8**	**-67.9**
Share in Profit/ (loss) of JV	-0.7	-0.8	-13.8	0.6	-
Reported PAT	29.4	5.1	-	94.4	-68.8
EPS (Rs)	0.4	0.1	-	1.0	-61.5
			bps		**bps**
GPM (%)	44.9	46.6	-166	44.2	74
EBITDA margin (%)	12.9	15.3	-236	16.3	-339
NPM (%)	1.0	0.3	69	3.3	-228

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Festive season to bring cheers

Branded apparel and retail companies witnessed good momentum in the month of July and August 2022 driven by higher footfalls, higher demand and push in sales through EOSS (end of season sales). Barring 15 days of the Shraadh period, the industry witnessed good traction throughout the quarter. The upcoming festive season will be one of strong season for retail and hotel companies after two years of a lull affected by pandemic-led restrictions. Thus, H2FY2023 revenue growth for branded apparel and retail companies will be led by higher demand during festive & wedding season and higher ticket purchases. Market share gains, higher traction on e-commerce platform, strong retail space expansion strategy and sustained expansion of product portfolio will help them to post consistent growth in the medium term for retail companies. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

■ Company Outlook – Revenue to cross Rs. 10,000 crore in FY2023

ABFRL reported a strong 2.1x y-o-y growth in H1FY2023 as the demand momentum that picked up in H2FY2022 sustained in H1FY23. The momentum is expected to continue in the coming quarters aided by strong wedding season, higher demand for formal wear and pickup in demand for casual and sportswear. The company remains focused on leveraging its strong brand portfolio, evolving its product profile in line with changing consumer preferences, and expanding its reach (especially in smaller towns and cities). It is focusing on strengthening its online platforms to provide comfortable buying option to the customer. Overall, we expect ABFRL's revenue and EBITDA to report CAGR of 27% and 35%, respectively, over FY2022-FY2025.

■ Valuation – Retain Buy with a revised PT of Rs. 386

Q2FY2023 performance was mixed as revenue grew in high double-digit while margins contracted due to higher investments towards brands and normalisation of rent expenses. In the medium- term, the company expects growth to be driven by store expansion, category extensions, channel expansion and enhanced digital capabilities. The company is confident of achieving its target of Rs. 21,000 crore revenue with EBITDA of over Rs. 2,350 crore by FY2026. Further, a scale-up in niche businesses will add on to revenues in the long run. This, along with a sustained focus on strengthening its balance sheet, augurs well from a long-term perspective. The stock is trading at 18.5x/14.9x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 386.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Trent	-	-	68.9	58.7	37.8	28.4	9.6	13.4	18.3
Shoppers Stop	-	-	52.7	24.2	14.7	12.0	2.4	9.8	13.8
ABFRL	-	75.6	48.6	31.8	18.5	14.9	3.2	11.7	15.3

Source: Company, Sharekhan estimates

About company

ABFRL is India's largest pure-play fashion and retail entity with an elegant bouquet of leading fashion brands and retail formats supported by a pan-India distribution network with a combined retail footprint of 9.7 million square feet across more than 750 cities, which includes 3,593 stores across approximately 31,734 multi-brand outlets with 6,491 point of sales in department stores across India. It has leading brands under its umbrella such as *Louis Philippe, Van Heusen, Allen Solly, Peter England, and Pantaloons*. ABFRL holds exclusive online and offline rights to the India network of California-based fast fashion brand *Forever* 21. The international brands portfolio includes – *The Collective, Simon Carter, and select mono brands such as American Eagle, Ralph Lauren, Hackett London, Ted Baker, and Fred Perry*. ABFRL's foray into the branded ethnic wear business includes Jaypore and strategic partnerships with Designers *Shantanu & Nikhil, Tarun Tahiliani, House of Masaba and Sabyasachi*.

Investment theme

ABFRL is one of the largest players in the branded apparel and retail space. The company has built an agile supply chain model to deliver continuous fresh fashion throughout the year with its 12-season model, which will aid in reducing working capital in the coming years. The company has entered into strategic partnerships with Designers like Shantanu & Nikhil, Tarun Tahiliani, Sabyasachi and House of Masaba, to tap the ethnic and wedding segment, which has a large unorganised presence. Going ahead, the company's growth would be driven by capex across brands, marketing expenses incurred on brands, IT and digital enhancement and strengthening the overall digital play through organic & inorganic routes. The company is confident of achieving its target of Rs. 21,000 crore revenue with EBITDA of over Rs. 2,350 crore by FY2026.

Key Risks

- Any slowdown in the discretionary demand environment would impact same store sales growth (SSSG), affecting revenue growth.
- Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.

Additional Data

Key management personnel

Kumar Mangalam Birla	Chairman
Ashish Dikshit	Managing Director
Jagdish Bajaj	Chief Financial Officer
Geetika Anand	Company Secretary

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Flipkart Inv Pvt Ltd	7.71
2	Nippon Life India Asset Management Company	2.30
3	UTI Asset Management Co Ltd	2.20
4	ICICI Prudential Life Insurance Co.	2.00
5	Franklin Resources Inc	1.73
6	SBI Life Insurance Co Ltd	1.35
7	Vanguard Group Inc	1.27
8	Canara Robeco AMC	1.10
9	Axis AMC	1.08
10	Griffin Growth Fund VCC	1.03

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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