Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Asian Paints Ltd

Faded Q3; long term growth prospects intact

Consumer Goods	Sharekhan code: ASIANPAINT

Reco/View: Buy	↔	CMP: Rs. 2,868	Price Target: Rs. 3,300	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

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 30.59

Updated Oct 08, 2022

High Risk

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

Source: Morningstar

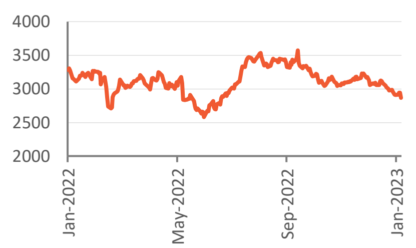
Company details

Market cap:	Rs. 2,75,103 cr
52-week high/low:	Rs. 3,590 / 2,560
NSE volume: (No of shares)	10.4 lakh
BSE code:	500820
NSE code:	ASIANPAINT
Free float: (No of shares)	45.4 cr

Shareholding (%)

Promoters	52.6
FII	19.8
DII	8.8
Others	18.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.6	-7.3	-6.5	-13.3
Relative to Sensex	-6.2	-9.9	-15.0	-15.6

Sharekhan Research, Bloomberg

Summary

- Asian Paints Limited's (APL) Q3 numbers missed estimates with sales volumes remaining flat on extended monsoon, shorter festive season and a high base of Q3FY2022 due to pile-up of inventory prior to significant price hikes.
- Raw material cost deflation of 7% helped gross margins expand by 182 bps to 38.6% in Q3. With input prices expected to remain lower, the margins expansion to sustain in Q4.
- December saw volume growth recovering to double digits. The management expects the momentum to sustain in Q4. It is confident of achieving high single to low double-digit volume growth over the two to three years. (It will also be aided by planned capacity expansion in the coming years).
- Stock has corrected by 20% from highs and is currently trading at 71x/53x/45x its FY2023E/24E/25E EPS. Any further correction provides good investment opportunity from a long-term perspective. We maintain Buy with revised PT of Rs. 3,300.

APL's Q3FY2023 numbers were lacklustre, with revenue growing by 1.3% y-o-y on a high base of 26% growth in Q3FY2022 coupled with flat volume growth due to extended monsoon in October, which affected festive season demand. However, a strong recovery was recorded in December with double digit volume growth across markets. The Home Décor business continued its expansion foray but witnessed slowdown in the bath & kitchen business in Q3FY2023. International business posted 13.4% y-o-y CC growth and performance was mixed across regions. The industrial business delivered strong performance led by double-digit growth in the Auto OE and General Industrial segments. Gross margin improved by 182 bps y-o-y to 38.6% driven by deflation in some of the raw material prices. Consolidated OPM improved by 57 bps y-o-y to 18.7% due to gross margin expansion coupled with better operating efficiencies. Operating profit/adjusted PAT grew by 4.5%/6.9% y-o-y.

Key positives

- Decorative paints' volume growth recovered to double digit in December 2022 after a lull in October 2022.
- Gross margins and OPM expanded by 182 bps and 57 bps to 38.6% and 18.7% respectively.
- Industrial businesses – PPG-AP and AP-PPG – revenues grew by 34% and ~2.0x respectively in Q3 on account of good recovery in the auto sector and industrial coatings segment.
- Recently acquired White Teak (offering decorative and design lights) and Weatherseal (offering uPVC windows and doors) are scaling up well and achieved revenue of Rs.73crore and Rs. 15 crore since consolidation, which is ahead of full year revenues prior to acquisition.

Key negatives

- Kitchen business and bath business decreased by 7% and 11% due slowing demand in the retail channel.
- Sales volumes of domestic decorative paints business was flat in Q3 affected by lower demand in October and November 2022.

Management Commentary

- Extended monsoon hit demand in Q3FY2023, especially in North, Central and West markets. October witnessed lower demand resulting in muted sales volume while it gradually recover in November and improved to double digit in December 2022. In Q3FY2022, the company witnessed inventory pile-up at dealers' level in October and November 2021 in expectation of sharp price hike at the fag-end of the quarter (took price hike of 21% in Nov-Dec 2021). Hence overall volume growth in the decorative paint business stood flat in Q3FY2023.
- Management expects demand conditions to improve going ahead with recent downturn in inflation as well as the strong recovery seen with double digit volume in December 2022. Large part of double-digit growth in December 2022 was driven by improvement in the secondary retail sales. Good monsoon coupled with expected increases in MSP augurs well for Tier 3 & 4 towns. Project business is growing ahead of the retail business due to strong demand from the construction and real estate segment. Management expects volume growth to be at high single digit to low double digit in the coming years.
- Key input prices have corrected from their high and the company would start seeing benefit of it flowing from Q4FY2023. The company is not planning to pass on the benefit of lower input prices to customers immediately and would wait for raw-material price volatility to stabilise in the quarters ahead. Thus, overall, gross margins are expected to recover to 39-40% by Q4.
- APL's paint capacity is expected to expand to 26.7lakh kilo Litres (KL) from current 17lakh KL over the next six to seven years with investment of Rs. 5400 crore, which is in line with is growth aspirations. Current capacity utilisation stands at 70-75% in various facilities. Capacity expansion is likely to happen in strongly growing water base paints, emulsions and premium paint categories.

Revision in estimates – We have revised downwards our earning estimates by 1%/3%/4% for FY2023E/24E/25E to factor in lower-than-earlier expected sales volumes and OPM.

Our Call

View – Maintain Buy with reduced PT of Rs. 3,300: The management is confident of recovery in sales in the quarters ahead with lowering of inflation and expected recovery in rural demand. The company's focus on becoming a complete home décor player and maintaining its dominant position in the core decorative paints business through capacity expansion/backward integration provide visibility of consistent earnings growth in long run. However, any increased competition with higher capacities in the domestic paint industry would act as a risk to profitability in the coming years. APL's stock price has corrected by 20% from its high and is currently trading at 71x/53x/45x its FY2023/FY2024E/25E earnings. Any further correction in stock price will provide good entry opportunity in the quality consumption play from long term perspective. Hence, we maintain our Buy rating on the stock with a reduced price target (PT) of Rs. 3,300.

Key Risks

Sustained high inflationary pressure putting stress on sales volume in Tier 2/4 markets and volatile input prices would act as key risks to our earnings estimates.

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	21,713	29,101	32,805	37,555	42,448
OPM (%)	22.4	16.5	17.4	19.6	20.2
Adjusted PAT	3,207	3,170	3,875	5,198	6,153
% YoY growth	*15.4*	*-1.2*	*22.2*	*34.1*	*18.4*
Adjusted EPS (Rs.)	33.4	33.1	40.4	54.2	64.2
P/E (x)	85.8	86.8	71.0	52.9	44.7
P/B (x)	21.5	19.9	17.7	14.7	12.1
EV/EBIDTA (x)	52.8	52.8	44.9	35.0	29.9
RoNW (%)	28.0	23.8	26.4	30.4	29.7
RoCE (%)	22.4	19.5	21.2	24.7	24.4

Source: Company; Sharekhan estimates

Muted Q3 - Revenue growth at 1.3% y-o-y; OPM improved by 57 bps y-o-y

Consolidated total revenue marginally grew by 1.3% y-o-y and 2.1% q-o-q to Rs. 8,636.7 crore due to flat volume growth in the domestic decorative paints business with a likely decline in volumes in October due to extended rains while volumes grew in double digits in November and December. Three-year volume/value CAGR came in at 16%/17.6%, respectively, in Q3FY2023. Revenue from bath fittings and kitchen business declined by 10.9% y-o-y to Rs. 89.8 crore and 7.1% y-o-y to Rs. 100.68 crore, respectively. The industrial business did well aided by strong growth in Auto OE and general industrial segments. The international business delivered 13.4% y-o-y constant currency (CC) growth (excluding Sri Lanka) with a mixed bag performance across regions. Gross margin improved by 182 bps y-o-y and 284 bps q-o-q to 38.6% driven by deflation in prices of some raw materials. Consolidated OPM improved by 57 bps y-o-y and 414 bps q-o-q to 18.7% due to gross margin expansion coupled with better operating efficiencies. Operating profit grew by 4.5% y-o-y to Rs. 1,611.4 crore. Adjusted PAT grew by 6.9% y-o-y to Rs. 1,102.5 crore.

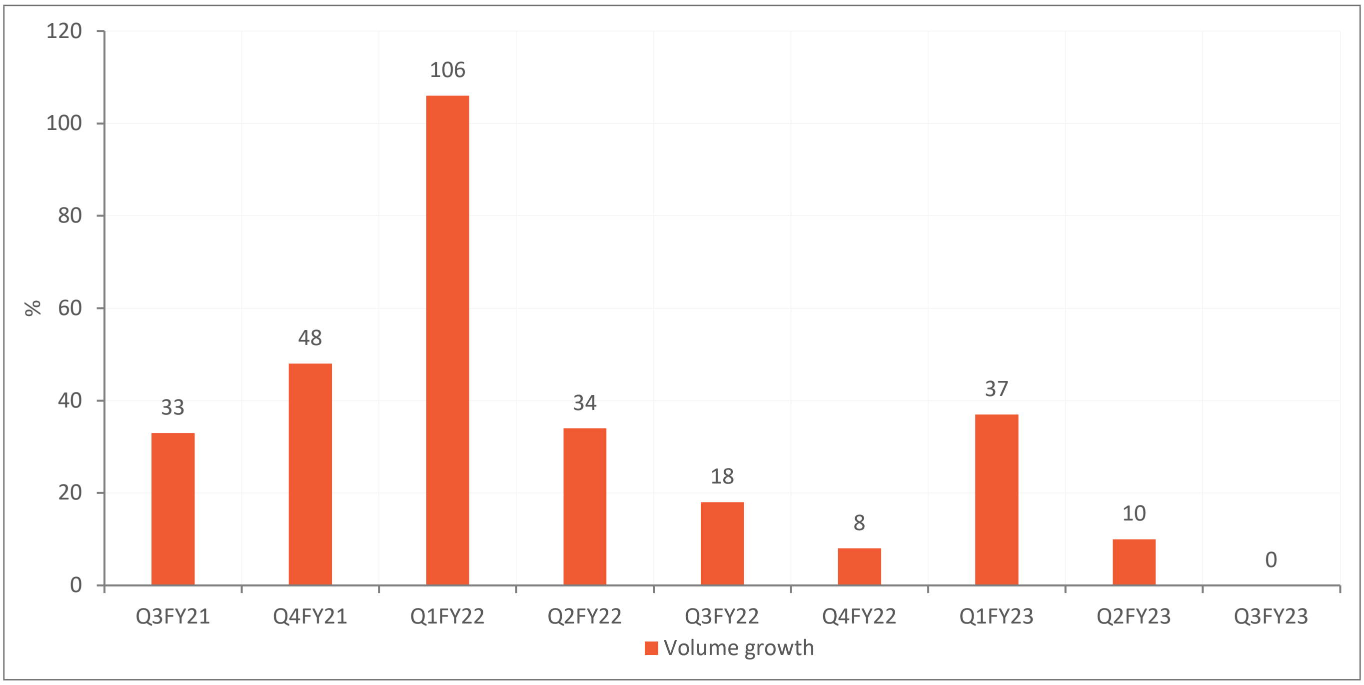
Standalone business registered flat revenue growth; PAT growth at 6% y-o-y

Standalone revenue growth stood flat at Rs. 7,521.8 crore due to high base of Q3FY2022 coupled with flat volume growth. Gross margins expanded by 143 bps y-o-y to 38.9% due to correction in prices of key raw materials, while OPM increased by 27 bps y-o-y to 19.9%. Operating profit grew by 1.8% y-o-y to Rs. 1,494.8 crore and PAT grew by 6.4% y-o-y to Rs. 1,085.9 crore.

Key quarterly highlights

- **Muted volume growth in domestic decorative paints business:** The domestic decorative paints business reported flat volume growth and 1% value growth in Q3FY2023, with three-year volume/value CAGR at 16%/17.6%, respectively. Extended monsoon and shorter Diwali season coupled with a high-volume base of Q3FY2022 impacted overall growth in Q3FY2023, especially in North, Central & West markets. The company witnessed tepid growth across markets in T1/T2 cities as well as T3/T4 towns in October. However, strong recovery was recorded in December with double digit volume growth across markets. Product mix in Q3FY2023 was dominated by economy emulsions and waterproofing range, as the company witnessed some downtrading in the premium range. However, luxury emulsions performed relatively well. In the institutional/project business, the company witnessed growth in the government, factories, housing societies and builder segments. The company added ~10,000 new retail points in 9MFY2023 and continued to enhance its rurban distribution reach.

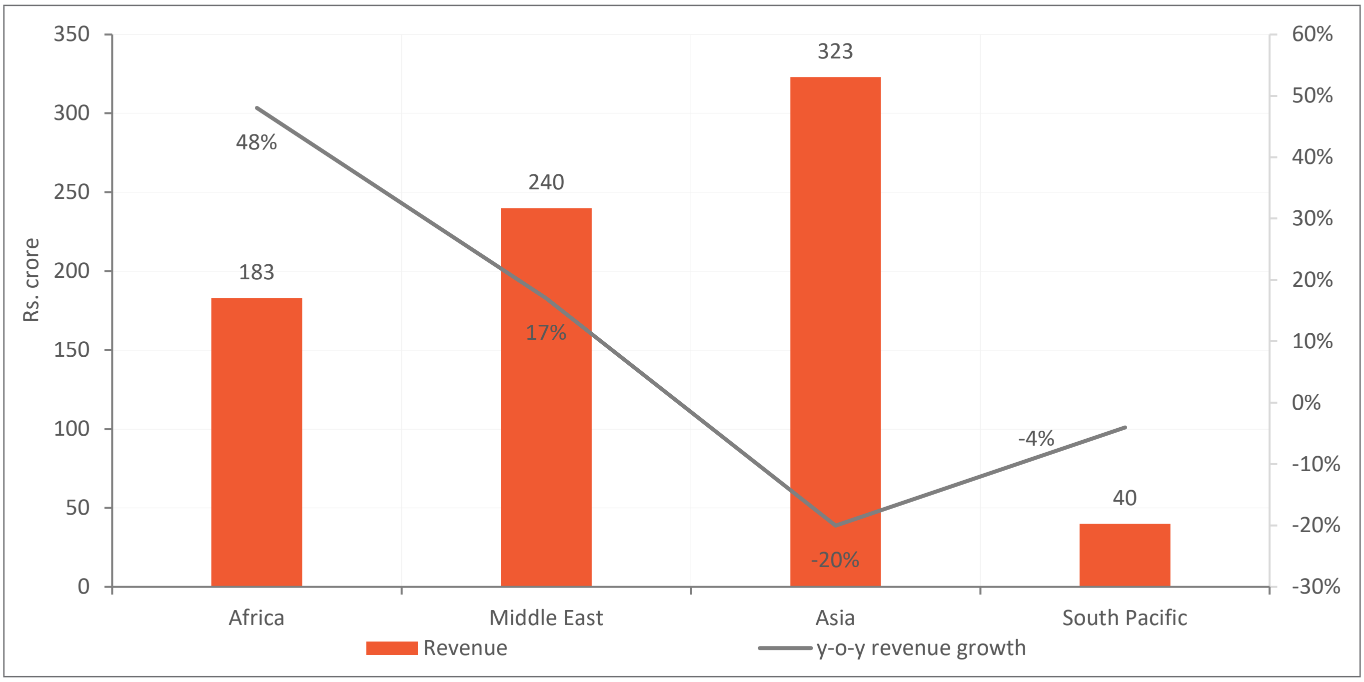
Volume growth trend



Source: Company, Sharekhan Research

- **Weak quarter for home décor business:** The kitchen business's revenue declined by 7% y-o-y to Rs. 100.68 crore and bath business declined by 10.9% y-o-y to Rs. 89.8 crore in Q3FY2023. Weak performance of the kitchen business can be attributed to slower demand in retail channel. The kitchen business reported a loss of Rs. 6 crore in Q3FY2023 vs. breakeven in Q3FY2022 due to subdued sales. In the bath business, projects segment continued to lead growth amid challenging situation in retail segment. Premium range 'Bath Sense' and Sanitaryware are expanding well. The bath business registered a loss of Rs. 1 crore in Q3FY2023 vs. profit of Rs. 1.3 crore in Q3FY2022 due to subdued sales and raw material inflation. Both kitchen and bath businesses are expected to maintain good growth momentum in the coming years with better profitability due to improvement in scale of the business. Whiteteak (lighting) generated revenue of Rs. 28.46 crore in Q3FY2023 and Rs. 72.71 crore in 9MFY2023 against full-year revenue of Rs 58 crore in FY2022. Weatherseal (uPVC windows and doors) generated revenue of Rs. 6.80 crore in Q3FY2023 and Rs. 15.05 crore in 9MFY2023 against full year revenue of Rs 14 crore in FY2022. As stated by the management, both the businesses are benefiting from the integration with the Beautiful Homes Stores network. In terms of Beautiful Homes stores, APL currently has 38 stores (net 2 stores added in Q3) operational across the country. APL's Beautiful Homes Service, which is a personalized interior design to professional execution, is offered in 11 cities across India and is gaining traction.
- **13% y-o-y CC growth in the international business:** International business reported CC revenue growth of 13.4% y-o-y to Rs. 778.9 crore, largely led by price increases. Business conditions remained challenging in Asian markets while improvement was seen in other geographies. Focus on pre-Lux and waterproofing categories continued to play out well. Africa and Middle East grew by 48% and 17% y-o-y to Rs. 183 crore and Rs. 240 crore, respectively, while Asia and South Pacific witnessed a decline of 20% and 4% to Rs. 323 crore and Rs. 40 crore, respectively. The international business's profit before tax stood at Rs. 37 crore in Q3FY2023 versus Rs. 11 crore in Q3FY2022, aided by cost efficiency measures and price increases undertaken to negate raw material inflation.

Performance across regions in Q3FY2023



Source: Company, Sharekhan Research

- **Strong revenue and PBT growth in industrial paints business:** AP-PPG business continued its growth momentum with a revenue growth of 23.9% y-o-y to Rs. 261.63 crore, led by strong growth trajectory across the business segments. PBT for the business came in at Rs. 26 crore, up 112% y-o-y. PPG-AP business continued to deliver strong performance, led by demand recovery in the automotive segment. The business registered a strong y-o-y growth of 24% to Rs. 513 crore in Q3FY2023. PBT was higher by 126% y-o-y at Rs. 91 crore. In both businesses, profitability improved due to higher revenue, price increases undertaken, and improved sales mix.

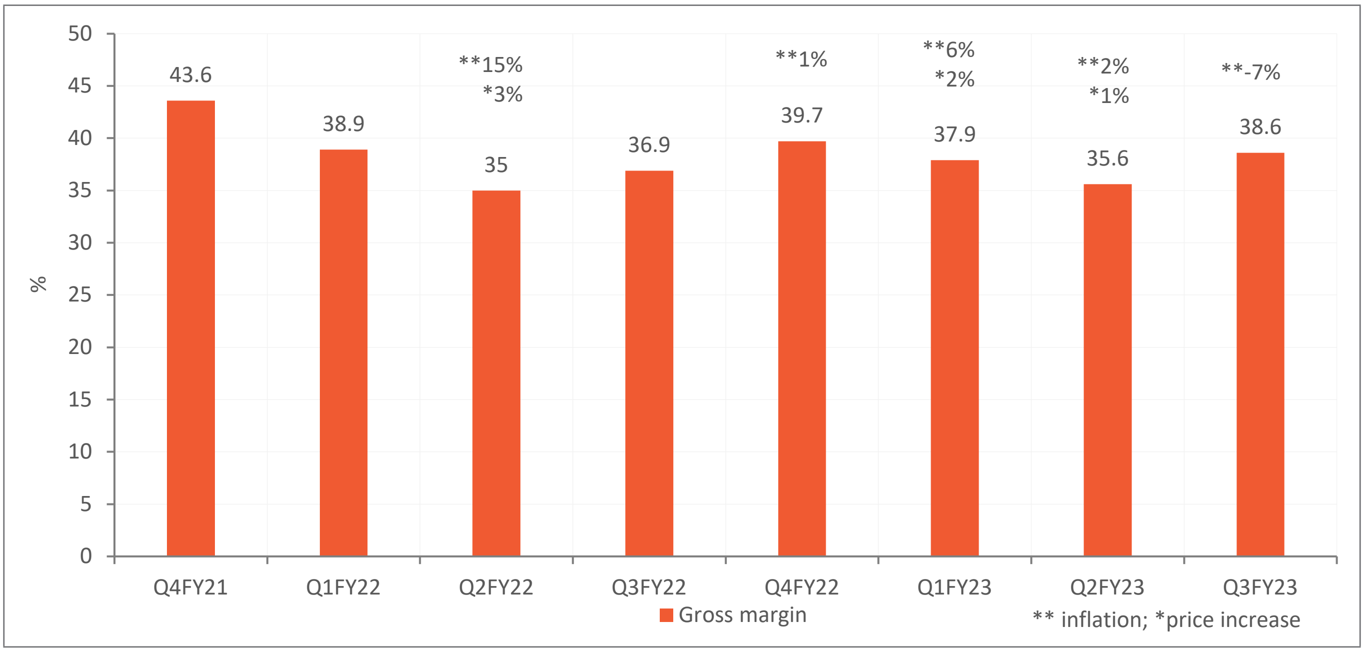
Key conference call highlights

- **Extended monsoon and high base led to lower sales volume in Q3:** Extended monsoon impacted demand in Q3FY2023, especially in North, Central and West markets. Month of October saw decline in sales volume while it gradually recovered in November and improved to double digit in December 2022. In Q3FY2022, the company witnessed inventory pile-up at dealers' level in October 2021 and November 2021 in expectation of sharp price hike at the fag-end of the quarter (took price hike of 21% in Nov-Dec 2021). Hence overall volume growth in the decorative paint business stood flat in Q3FY2023 (Volume growth at three-year CAGR stood at 16%). 9MFY2023 volume growth stood at 13%.

- **Demand environment to improve ahead:** The management expects demand conditions to improve going ahead with recent downturn in inflation as well as the strong recovery seen with double digit volume and value growth in December 2022. A large part of double digit growth in December 2022 was largely driven by improvement in the secondary sales. Good monsoon coupled with an expected increases in MSP augurs well for Tier 3 & 4 towns. Project business is growing ahead of the retail business due to strong demand from the construction and real estate segment. Management expects volume growth to be at high single digit to low double digits in the coming years, which will be lower to last three years CAGR growth of 15-20% achieved in past seven to eight quarters.

- **Gross margins to improve going ahead:** Key input prices have corrected from their highs and the company would start seeing benefit of it flowing from Q4FY2023. The company is not planning to pass on the benefit of lower input prices to customers immediately and would wait for raw-material price volatility to stabilise in the quarters ahead. If raw material prices remain stable, the recovery in the volume growth and improved mix will drive margins. Thus, overall, gross margins are expected to recover to 39-40% by Q4. In the medium term, gross margins would hover at 40-42%.

Trend in gross margins



Source: Company, Sharekhan Research

- **Investment of Rs. 8,750 crore for capacity expansion and backward integration:** The company would be investing around Rs. 3,400 crore to increase capacity by more than 30% over the next three years to 22.7 lakh KL p.a. It has recently announced green field expansion of Rs. 2000 crore to set-up a water based manufacturing unit, which is likely to commence operations three years after the operation of brown-field expansion. Overall the company's paint capacity is expected to expand to 26.7 lakh KL p.a. from existing 17 lakh KL p.a. in next six to seven years. Further, it will be investing around Rs. 2,550 crore (over the next 3-4 years) in backward integration, which will be critical for its raw material supply.

- **No major competition from new entrants:** Paint industry market size stands at ~Rs. 70,000 crore. New entrants in the market are expected to add Rs1000-1500crore revenues over the next 2-3 years. Thus the company is not expecting any major competition from the new entrants in the immediate term. Further capacity addition in the key growing categories (water base paints & luxury paints) will help the company to compete with increasing competition in the space.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Total Revenue	**8,636.7**	**8,527.2**	**1.3**	**8,457.6**	**2.1**
Raw Material Cost	5,305.8	5,393.3	-1.6	5,435.6	-2.4
Employee Cost	503.8	455.7	10.6	512.6	-1.7
Other Expenses	1,215.8	1,135.9	7.0	1,281.6	-5.1
Total Operating Cost	7,025.3	6,984.9	0.6	7,229.9	-2.8
Operating Profit	**1,611.4**	**1,542.3**	**4.5**	**1,227.7**	**31.3**
Other Income	86.6	71.8	20.5	95.5	-9.3
Interest & Other Financial Cost	35.0	27.5	27.5	35.4	-1.1
Depreciation	215.0	207.9	3.4	215.7	-0.3
Profit Before Tax	**1,448.0**	**1,378.8**	**5.0**	**1,072.1**	**35.1**
Tax Expense	381.1	362.4	5.2	290.3	31.3
Adjusted PAT	1,066.9	1,016.3	5.0	781.7	36.5
Share of profit from associates	35.7	15.0	-	22.1	61.4
Adjusted PAT after MI	**1,102.5**	**1,031.3**	**6.9**	**803.8**	**37.2**
Adj. EPS (Rs)	11.5	10.8	6.9	8.4	37.2
			bps		**bps**
GPM (%)	38.6	36.8	182	35.7	284
OPM (%)	18.7	18.1	57	14.5	414
NPM (%)	12.8	12.1	67	9.5	326
Tax rate (%)	26.3	26.3	4	27.1	-76

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Total Revenue	7,521.8	7,491.1	0.4	7,344.3	2.4
Raw Material Cost	4,594.3	4,682.4	-1.9	4,709.2	-2.4
Employee Cost	379.2	337.8	12.2	385.7	-1.7
Other Expenses	1,053.6	1,002.7	5.1	1,134.0	-7.1
Total Operating Cost	6,027.1	6,023.0	0.1	6,228.8	-3.2
Operating Profit	1,494.8	1,468.2	1.8	1,115.6	34.0
Other Income	162.1	104.7	54.7	117.1	38.4
Interest & Other Financial Cost	24.7	21.5	15.1	23.5	5.2
Depreciation	189.1	184.0	2.8	189.0	0.1
Profit Before Tax	1,443.0	1,367.4	5.5	1,020.2	41.4
Tax Expense	357.1	347.2	2.9	256.9	39.0
Adjusted PAT before MI	1,085.9	1,020.3	6.4	763.3	42.3
Adj. EPS (Rs)	11.3	10.6	6.4	8.0	42.3
			bps		**bps**
GPM (%)	38.9	37.5	143	35.9	304
OPM (%)	19.9	19.6	27	15.2	468

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural growth of the paint industry is intact

In Q3FY2023, paint companies witnessed demand slowdown impacted by consumer inflation, extended monsoons, shorter festival season and normalisation of pent-up demand which would lead to lower volume growth during the quarter. Volatile input prices and a slowdown in rural India are near-term headwinds for the paint industry. However, the decorative paints industry is expected to clock a 13% CAGR over FY2019-FY2024, led by a reduction in the repainting cycle to 4-5 years (from 8-10 years earlier), acceptance of better paint products in smaller towns, and upgradation of premium brands in cities and large towns. Better product mix and efficiencies would help paint companies post higher margins in the long run.

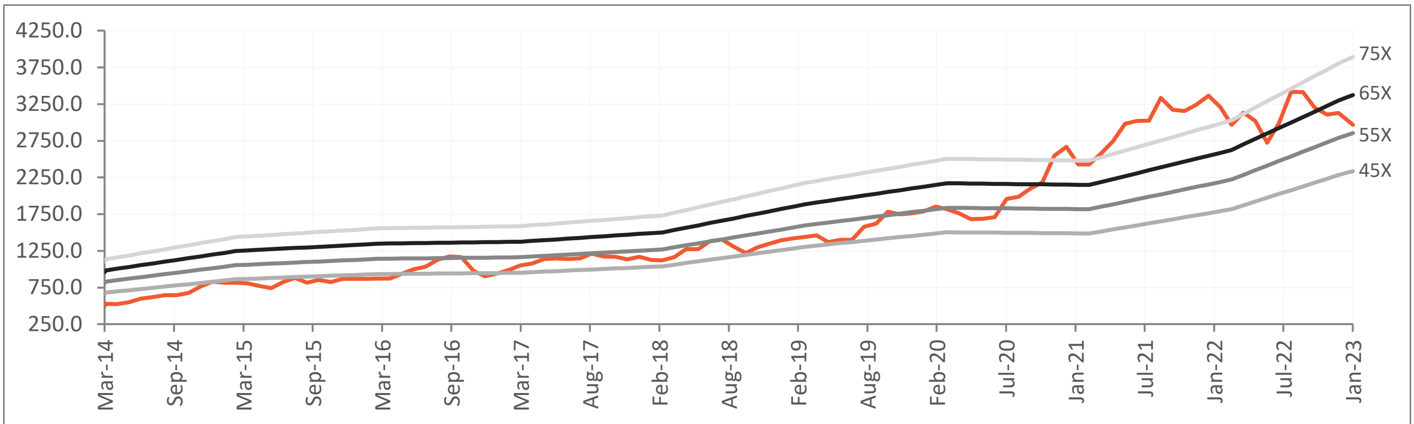
■ Company Outlook – Margin expansion to sustain in quarters ahead; sales volume to improve

APL'sQ3 performance can be considered as an aberration. APL maintained its double-digit volume growth of 15-20% (on a three-year CAGR basis) for the last six quarters. This was on account of sustained high demand in Tier-1 and Tier-2 markets. Waterproofing products, construction chemicals, and the project business will continue to see strong traction from the real estate sector, government projects, and housing society projects in the medium term. With expect recovery in the rural demand, the management confident of achieving high single to low double digit volume growth in the medium term. Raw material deflation aided margin improvement in Q3, which is likely to sustain in Q4. Gross margin is expected to be at 38-40%. The company is banking on planned initiatives (of differentiated formulations and cost efficiencies) along with a better mix to achieve margins of 18-20% in the medium term.

■ Valuation – Maintain Buy with a reduced PT of Rs. 3,300

The management is confident of recovery in sales in the quarters ahead with lowering of inflation and expected recovery in rural demand. The company's focus on becoming a complete home décor player and maintaining its dominant position in the core decorative paints business through capacity expansion/backward integration provide visibility of consistent earnings growth in long run. However, any increased competition with higher capacities in the domestic paint industry would act as a risk to profitability in the coming years. APL's stock price has corrected by 20% from its high and is currently trading at 71x/53x/45x its FY2023/FY2024E/25E earnings. Any further correction in stock price will provide good entry opportunity in the quality consumption play from long term perspective. Hence, we maintain our Buy rating on the stock with a reduced price target (PT) of Rs. 3,300.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Indigo Paints	70.8	38.6	27.8	41.9	25.5	18.0	18.1	29.5	37.3
Asian Paints	86.8	71.0	52.9	52.8	44.9	35.0	19.5	21.2	24.7

Source: Company, Sharekhan estimates

About company

APL is the largest paint company in India with market leadership of over 50 years and stands among the top 10 paint companies in the world. The company has 27 paint manufacturing plants and operates in 15 countries, serving customers in over 60 countries globally. Deco India, including decorative paints, waterproofing, wall coverings, and adhesives, constitutes almost 84% of the company's total revenue, whereas the industrial coatings space, including automotive and non-automotive, constitutes only 2%, through two 50:50 JVs with PPG Industries Inc., USA (AP-PPG). The international business contributes ~12% to the total revenue mainly dominated by Nepal, Sri Lanka, and Bahrain. A small portion is contributed by kitchen and bath fittings through its subsidiary, Sleek International Pvt. Ltd. (Sleek Kitchens) and Ess Ess Bath Fittings. The company has forayed into the home décor space as it transitions its outlook from 'share of surface' to 'share of space'.

Investment theme

The rising middle-income group, fast urbanisation, shift from the unorganised to organised space, and improving penetration in rural markets are some of the key revenue drivers for paint companies in the near to medium term. APL, with a leadership position in the decorative paint business and strong brand portfolio, will continue to deliver good earnings growth in the near term. APL is expected to benefit from its recent capacity expansion, vast distribution network, product innovation, and growth in its premium products.

Key Risks

- **Increased raw-material prices:** Any significant increase in crude prices and other input costs will affect the company's profitability.
- **Slowdown in economic growth:** Any slowdown in economic growth will affect repainting demand, which constitutes almost 70% of the total paint demand.
- **Slowdown in the auto industry:** Any sluggishness in demand in the auto industry or slowdown in infrastructure development will affect the industrial coatings segment.

Additional Data

Key management personnel

Deepak Satwalekar	Chairman
Amit Syngle	Managing Director and CEO
R J Jeyamurugan	CFO and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Teesta Retail Pvt Ltd	4.90
2	Life Insurance Corp of India	2.77
3	Blackrock Inc	1.67
4	Vanguard Group Inc	1.61
5	SBI Funds Management	1.56
6	Capital Group Companies	0.93
7	UTI Asset Management Co Ltd	0.70
8	Axis AMC	0.52
9	JP Morgan and Chase	0.47
10	Sands Capital Management	0.40

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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