Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Aditya Birla Fashion & Retail

Disappointing Q4; long-term growth prospects intact

Consumer Discretionary	Sharekhan code: ABFRL

Reco/View: Buy	↔	CMP: **Rs. 190**	Price Target: **Rs. 225**	↓

↑ 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 12.33

Updated Mar 08, 2023

Low Risk

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

Source: Morningstar

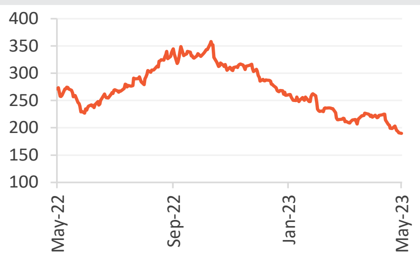
Company details

Market cap:	Rs. 18,027 cr
52-week high/low:	Rs. 359/188
NSE volume: (No of shares)	25.4 lakh
BSE code:	535755
NSE code:	ABFRL
Free float: (No of shares)	42.2 cr

Shareholding (%)

Promoters	55.5
FII	14.9
DII	18.9
Others	10.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.5	-23.0	-39.0	-30.0
Relative to Sensex	-17.4	-25.1	-40.3	-44.1

Sharekhan Research, Bloomberg

Summary

- ABFRL's Q4FY2023 consolidated results lagged ours as well as the street's expectation as margins plunged by 964 bps y-o-y due to sluggish sales in Q4 and higher media investments. Adjusted loss stood at Rs. 197 crore versus reported PAT of Rs. 30.8 crore in Q4FY2022.
- Weak demand hit growth in Lifestyle brands and Pantaloons. Both businesses are expected to post good recovery prior to the festive season.
- New businesses have crossed revenues of Rs. 2,000 crore in FY2023. New businesses including ethnic (largely Tasva) and TMRW are in investment mode and will take around two years to post better profitability.
- Stock has corrected by 39% in past six months and is currently trading at 15.4x/10.8x its FY2024E/25E EV/EBITDA. In view of long-term growth prospects, we maintain Buy with a revised PT of Rs. 225.

Aditya Birla Fashion & Retail Limited's (ABFRL's) consolidated results (including ethnic business) lagged ours as well as the street's expectations due to a sharp decline in EBIDTA margins affected by negative operating leverage, a 1.5x increase in marketing spends and higher investment in TMRW brand. The company posted a loss of Rs. 197 crore in Q4FY23 versus a PAT of Rs. 30.8 crore in Q4FY22. Consolidated EBIDTA margins came at 6.7% in Q4FY23 vs. 16.3% in Q4FY22. Consolidated revenue growth of 26% y-o-y was on the back of a low base in Q4FY2022 affected by Omicron resulting in 24% growth in the lifestyle brands business and 17% growth in the Pantaloons business while ethnic business registered revenues of Rs. 174 crore. In FY2023, ABFRL's consolidated revenue grew by 52.6% y-o-y to Rs. 12,417.9 crore, EBIDTA margins came at 12%, down by 149 bps y-o-y and adjusted loss stood at Rs. 60 crore vs. loss of Rs. 121 crore in FY22. Net debt stood at Rs. 1,422 crore.

Key positives

- New business ventures (Active athleisure innerwear, youth western wear, super premium brands, Reebok and ethnic portfolio) now contribute ~Rs. 2,000 crore to topline.
- Ethnic business reported 72%/84% y-o-y growth in Q4FY2023/FY2023 to Rs. 174/574 crore, respectively.

Key negatives

- EBITDA margins declined by 964/149 bps y-o-y to 6.7%/12% in Q4FY2023/FY2023, respectively.
- Net debt increased to Rs. 1,422 crore due to increase in inventory levels.

Key management commentary

- Weak consumer sentiments had an impact on the performance of all key businesses (including Lifestyle brands and Pantaloons) resulting in the sluggish growth during the quarter. Management expects the recovery to happen prior to the start of the festive season.
- Due to the weak demand, the sales of Lifestyle brands and Pantaloons brands was lower than the company's internal expectations, which resulted in higher inventories on the books as at FY2023-end. The company expects inventory to reduce in the coming months and the working capital to gradually improve in the quarters ahead.
- EBIDTA margins are expected to remain under pressure in the near term due to expected sluggish sales and sustained high investments in the ethnic and TMRW business. For the core business (Lifestyle and Pantaloons), margins are expected to be at 17-19%, post the recovery in the business.
- TMRW – digital first brands, registered exit revenues of Rs. 220 crore. The company had initially planned investments of ~Rs. 500 crore in the business. It has already invested Rs. 350 crore and ~Rs. 150 crore will be invested in FY2024.
- Amid a slowdown in the discretionary environment, the management has decided to go slow with the store additions in the coming quarters. It will increase the store addition pace once the recovery is witnessed in the discretionary environment.

Revision in earnings estimates - We have reduced estimates for FY2024 and FY2025 to factor in lower-than-expected core EBIDTA margin and sluggish growth in the core businesses for next two years. Further, the new businesses will take time to become profitable as large spends are done on media and other investments.

Our Call

View - Retain Buy with a revised PT of Rs. 225: ABFRL's performance in H2FY2023 was affected by sluggish sales growth affected by weak demand in the branded apparel space. Management is confident of seeing good recovery prior to start of festive season and expects strong recovery in the performance in H2FY2024. Further, with a strong portfolio of brands, the company is well-poised to cross revenues of Rs. 21,000 crore by FY2027. Integration of TCNS brands under the distribution chain of ABFRL, fast scale-up in the ethnic wear business, consistent expansion in margins and GIC's infusion happening as per terms to complete the acquisition on time need to be monitored in the next 6-12 months. The stock price has corrected by 39% in last six months and is currently trading at valuation of 15x/11x its FY24E/25E EV/EBITDA. In view of long-term growth prospects, we maintain our Buy rating on the stock with revised PT of Rs. 225.

Key Risks

Any sustained slowdown in recovery due to weak demand environment in the branded apparel space]in the coming quarters would act as a risk to our estimates in the near term.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	8,136	12,418	14,656	17,900
EBITDA Margin (%)	13.5	12.0	12.2	14.1
Adjusted PAT	-121	-53	-56	335
Adjusted EPS (Rs.)	-1.2	-0.6	-0.6	3.4
P/E (x)	-	-	-	56.7
P/B (x)	6.4	5.4	4.0	3.8
EV/EBITDA (x)	19.8	17.3	15.4	10.8
RoNW (%)	-	-	-	6.9
RoCE (%)	3.1	4.1	3.5	7.1

Source: Company; Sharekhan estimates

Sharp decline in margins led to below par performance in Q4

Consolidated revenue (including ethnic business) grew by 26.1% y-o-y to Rs. 2,897.7 crore, ahead of our expectations of Rs. 2,762 crore. Sequentially, revenue declined by 20%. Madhura Fashion's (including Lifestyle brand) revenues grew by 31% y-o-y to Rs. 2,465.7 crore, while Pantaloons revenue grew by 9% y-o-y to Rs. 1,158.7 crore. Gross margins remained flat y-o-y at 55.8%, while EBITDA margin declined sharply by 964 bps y-o-y to 6.7% owing to normalisation of rent, higher operating expenses and investments towards ethnic and D2C businesses. EBITDA margin significantly lagged our expectations of 11%. EBITDA declined by 48% y-o-y to Rs. 192.8 crore. Despite double-digit revenue growth, the company posted a loss of Rs. 197 crore in Q4FY2023, due to a sharp decline in margins. In FY2023, ABFRL's consolidated revenues grew by 52.6% y-o-y to Rs. 12,417.9 crore, EBIDTA margin came at 12.0%, down by 149 bps y-o-y and adjusted loss stood at Rs. 60 crore vs. loss of Rs. 121 crore in FY22. Net debt stood at Rs. 1,422 crore.

All businesses delivered double digit growth on low base; demand environment remains subdued

- **Madura Fashion & Lifestyle brands (MFL) - Business grew by 24% y-o-y:** MFL business (branded business of ABFRL) grew by 24% y-o-y in Q4FY2023 with sales at Rs. 1,927 crore. EBITDA margin of MFL declined to 8.9% from 12.1% in Q4FY2022 impacted by negative operating leverage due to sluggish sales. For FY2023, revenues grew by 48% y-o-y with sales at Rs. 7,959 crore, while EBITDA margins improved to 15.6% from 14% in FY2022.

    - **Lifestyle business grew by 14% y-o-y:** Lifestyle business's revenue grew by 14%/46% y-o-y to reach Rs. 1,535/6,608 crore in Q4FY2023/FY2023, respectively, on account of 16% retail like-to-like (LTL) growth. EBITDA stood at Rs. 225 crore in Q4FY2023 (Rs. 1,095 crore in FY2023) against Rs. 312 crore in Q4FY2022 (Rs. 788 crore in FY2022). Brands have continued to expand their loyal customer base by providing high-end quality merchandise across categories and through impactful marketing campaigns. Brands added net 49 stores to its network in Q4FY2023 (128 stores added in FY23) and achieved solid growth in its small-town network, expanding to 600 stores with profitable operations. Women's business is gaining strong traction and registered ~70% y-o-y growth in FY2023. E-commerce business contributed 12% of overall revenue for FY23 and registered a 30% y-o-y growth. Wholesale revenue declined by 21% y-o-y to Rs. 331 crore in Q4FY23 due to changes in accounting policies, while the retail business grew by 31% y-o-y to Rs. 809 crore.

    - **Other businesses continued good trajectory:** Other businesses posted an 81%/57% y-o-y growth in Q4FY2023/FY2023 to Rs. 392/1,352 crore, respectively, driven by strong performance across segments. The segment reported a loss of Rs. 30 crore in Q4FY2023 (loss of Rs. 27 crore in FY2023) against loss of Rs. 4 crore in Q4FY2022 (profit of Rs. 16 crore in FY2022). Inner wear & athleisure segment posted ~10% y-o-y revenue growth in Q4 despite the continued slowdown in the outerwear segment. During the quarter, the brand bolstered its reach and impact by adding 900+ MBOs to exit with ~32,000 trade outlets. Business unveiled its fresh new retail identity for a superior shopping experience. Youth Fashion segment consisting of American Eagle and Forever 21 delivered strong performance driven by strategic expansion in newer markets and on the back of brand building initiatives. American Eagle in Q4 delivered 86% y-o-y revenue growth and retail LTL growth of 19%. Super premium brands, comprising of the multi-brand format 'The Collective' and other super-premium brands, delivered a solid performance in Q4 registering 45% y-o-y revenue growth and strong retail LTL growth of 31%. With a steady increase in online performance and implementation of targeted marketing campaigns, thecollective.in is on track to become the premier luxury E-commerce destination in India. Brand Reebok has commenced its distribution expansion by opening new stores, relaunching reebok.in, and initiating department stores and marketplace partnerships. The brand also partnered with new ambassadors to enhance its salience and awareness.

Madura Fashion and Lifestyle brands Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (x)
Lifestyle brands (a)	1,535.0	1,342.0	14.4
Other businesses (b)	392.0	217.0	80.6
Revenues (a+b)	**1,927.0**	**1,559.0**	**23.6**
EBITDA	195.0	308.0	-36.7
EBITDA Margin (%)	10.1	19.8	-964

Source: Company; Sharekhan Research

- **Pantaloons – Revenue growth at 18% y-o-y:** Pantaloons recorded sales of Rs. 798/4,069 crore, registering growth of 18%/55% y-o-y, in Q4FY2023/FY2023, respectively. LTL growth in Q4FY2023 came in at 13%, despite the sudden slowdown in discretionary demand, particularly in the value & masstige segment. Even with market challenges, the business remains on track for its long-term growth prospects, as it added net 25 stores during Q4FY2023 (54 in FY2023) to exit FY23 with 431 stores. EBITDA was reported at Rs. 71 crore in Q4FY2023 (Rs. 635 crore in FY2023) versus Rs. 82 crore in Q3FY2022 (Rs. 368 crore in FY2022).

Pantaloons' performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (x)
Revenues	798.0	675.0	18.2
EBITDA	71.0	82.0	-13.4
EBITDA Margin (%)	8.9	12.1	-325

Source: Company; Sharekhan Research

- **Ethnic wear business (part of the consolidated business) continued growth momentum –** The business grew 72% y-o-y in Q4FY2023 to Rs. 174 crore and by 84% y-o-y in FY2023 to Rs. 574 crore, through strategic market development, leveraging new store openings and impactful marketing initiatives. Sabyasachi grew 42% y-o-y in Q4 (50% y-o-y in FY2023) as the brand continued to be the preferred brand among HNIs and celebrities. Jaypore's FY23 revenue grew by 90% y-o-y led by rapid network expansion and E-commerce growth. The brand added 8 stores (net) to the network during FY2023 and is now available at 18 exclusive brand outlets (EBOs). Men's premium ethnic wear brand TASVA continued its aggressive expansion to exit FY23 with 51 stores. Shantanu & Nikhil (S&N) posted its highest-ever quarterly revenue with 40% y-o-y growth in Q4FY2023 (grew by 53% y-o-y in FY2023). The brand added 5 stores to the network during FY2023 and is now available at 15 stores. SNCC by S&N, a sport-inspired lifestyle brand, continued to garner recognition.

Ethnic business performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (x)
Revenues	174.0	101.0	72.3
EBITDA	3.0	5.0	-40.0
EBITDA Margin (%)	1.7	5.0	-323

Source: Company; Sharekhan Research

Key conference call highlights

- **Demand to revive in H2FY24:** ABFRL witnessed gradual softening of demand after October (post festive season), with value segment being impacted severely. Growth in the tier 1/2/3 cities was largely hit, while metros remained resilient. Overall, the company is seeing softness in the market and expects to start seeing buoyancy prior to festive season.

- **Store addition continued across brands:** The company added more than 450 brand stores, 54 (net) Pantaloons stores and close to 1.6 mn sq ft of area to its network in FY2023, taking the total to 3,546 brand stores, 431 Pantaloons stores and 10.8 million sq. ft of area. Management indicated that out of the total stores, ~55-60% stores are located in Metros and Tier 1 cities. For Pantaloons, the company opened 63 stores in FY2023 (40 stores in Metro & tier 1 cities, 23 in tier 2/3 cities) and has guided for opening 40-50 stores (net) in FY2024.

- **Debt to remain high:** ABFRL closed FY2023 with net debt of Rs. 1,422 crore primarily on account of continued investments in new growth ventures and due to lower sales growth leading to higher inventory. Management has indicated that debt is likely to be higher in FY2024 as well due to continued investments towards the ethnic and D2C businesses.
- **Ethnic business to focus on Tasva:** Losses in the ethnic business are largely due to higher investment in building the Tasva brand. Management indicated that investment towards Tasva are expected to remain higher for next 12-18 months, while the company will make smaller investments towards the other brands. The company will largely continue with COCO model for Tasva for next one year before it is established and then consider the FOFO model for expansion.
- **Investments in TMRW to continue:** The company acquired seven brands under TMRW in FY2023 and ended the year with Rs. 220 crore exit revenue in FY2023. ABFRL invested Rs. 350 crore in TMRW in FY2023 and expects to invest another ~Rs. 150 crore in FY2024. Apart from integrating the acquired brands, TMRW continues to engage in business model advancements and drive value creation for these brands.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Total revenue	**2,879.7**	**2,282.8**	**26.1**	**3,588.8**	**-19.8**
Cost of goods sold	1,273.8	1,010.9	26.0	1,628.4	-21.8
Employee cost	414.0	306.8	34.9	423.0	-2.1
Rent Expenses	214.7	140.3	53.0	271.6	-21.0
Other expenditure	784.4	451.7	73.6	830.2	-5.5
Total expenditure	**2,686.9**	**1,909.8**	**40.7**	**3,153.2**	**-14.8**
EBITDA	**192.8**	**373.0**	**-48.3**	**435.6**	**-55.7**
Other income	36.4	26.7	36.2	26.9	35.2
Interest & other financial cost	142.2	89.5	59.0	132.1	7.6
Depreciation	348.5	266.8	30.6	317.5	9.7
PBT	**-261.5**	**43.5**	**-**	**12.9**	**-**
Tax	-64.6	12.7	-	6.2	-
Adjusted PAT	-196.9	30.8	-	6.7	-
Extraordinary items	-2.4	1.1	-	-4.5	-
Reported PAT	**-199.3**	**31.9**	**-**	**2.1**	**-**
EPS (Rs)	**-2.1**	**0.3**	**-**	**0.1**	**-**
			bps		**bps**
GPM (%)	55.8	55.7	5	54.6	114
EBITDA margin (%)	6.7	16.3	-964	12.1	-544
NPM (%)	-6.8	1.3	-818	0.2	-702
Tax rate (%)	24.7	29.3	-456	48.3	-

Source: Company, Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Total revenue	**2,651.3**	**2,181.4**	**21.5**	**3,358.9**	**-21.1**
Cost of goods sold	1,231.4	990.5	24.3	1,566.6	-21.4
Employee cost	343.3	267.3	28.4	364.2	-5.7
Rent Expenses	210.3	138.2	52.1	268.6	-21.7
Other expenditure	641.0	414.1	54.8	708.5	-9.5
Total expenditure	**2,426.0**	**1,810.1**	**34.0**	**2,907.9**	**-16.6**
EBITDA	**225.3**	**371.3**	**-39.3**	**451.0**	**-50.0**
Other income	33.0	24.9	32.5	27.1	21.9
Interest & other financial cost	123.9	84.9	45.9	117.6	5.4
Depreciation	309.8	250.5	23.7	287.5	7.7
PBT	**-175.4**	**60.8**	**-**	**72.9**	**-**
Tax	-46.9	11.1	-	16.0	-
Reported PAT	**-128.5**	**49.7**	**-**	**56.9**	**-**
EPS (Rs)	**-1.4**	**0.5**	**-**	**0.6**	**-**
			bps		**bps**
GPM (%)	53.6	54.6	-104	53.4	20
EBITDA margin (%)	8.5	17.0	-852	13.4	-493
NPM (%)	-4.8	2.3	-712	1.7	-654
Tax rate (%)	26.7	18.3	848	22.0	477

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Long-term growth prospects intact

Branded retail and apparel companies posted strong performance in FY2023 led by low base of FY2022 impacted by COVID-led disruption. We expect growth to be muted in H1FY2024 but expect it to recover prior to festive season. Branded retail and apparel companies are likely to benefit from steady demand for premium products and better consumer sentiments in urban markets/metros in the quarters ahead. In the medium to long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

Company outlook - Growth drivers in place for long term

ABFRL delivered a mixed bag of numbers in FY2023, registering 53% y-o-y revenue growth (consolidated business) largely aided by store additions, while EBITDA margin declined by 149 bps y-o-y to 12% impacted by higher investments towards ethnic brands and D2C business. Management expects demand to revive in H2FY2024 prior to the festive season, while margin improvement at the consolidated level will take time due to continued investments. 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). The company is focusing on strengthening its online platforms to provide comfortable buying options to customers. Overall, we expect ABFRL's revenue and EBITDA to report CAGR of 20% and 30%, respectively, over FY2023-FY2025E.

Valuation - Retain Buy with a revised PT of Rs. 225

ABFRL's performance in H2FY2023 was affected by sluggish sales growth affected by weak demand in the branded apparel space. Management is confident of seeing good recovery prior to start of festive season and expects strong recovery in the performance in H2FY2024. Further, with a strong portfolio of brands, the company is well-poised to cross revenues of Rs. 21,000 crore by FY2027. Integration of TCNS brands under the distribution chain of ABFRL, fast scale-up in the ethnic wear business, consistent expansion in margins and GIC's infusion happening as per terms to complete the acquisition on time need to be monitored in the next 6-12 months. The stock price has corrected by 39% in last six months and is currently trading at valuation of 15x/11x its FY24E/25E EV/EBIDTA. In view of long-term growth prospects, we maintain our Buy rating on the stock with revised PT of Rs. 225.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Trent	96.1	66.8	48.3	34.8	27.6	22.5	14.5	18.4	21.4
Shoppers Stop	66.2	55.6	25.0	13.8	11.7	8.7	9.9	10.9	18.0
ABFRL	-	-	56.7	17.3	15.4	10.8	4.1	3.5	7.1

Source: Company; Sharekhan Research

About company

ABFRL is India's largest pure-play fashion and retail entity with a combined retail footprint of 10.8 million square feet, which includes 3,977 stores across approximately 33,535 multi-brand outlets with 6,723 point of sales in department stores across India. The company has leading brands under its umbrella, such as Louis Philippe, Van Heusen, Allen Solly, Peter England, and Pantaloons. The international brands' portfolio includes – The Collective, Simon Carter, and select brands such as Ralph Lauren, Hackett London, Ted Baker, Fred Perry, Forever 21, American Eagle, Reebok, and Galeries Lafayette. ABFRL's foray into the branded ethnic wear business includes Jaypore, Tasva, and Marigold Lane and strategic partnerships with designers Shantanu & Nikhil, Tarun Tahiliani, House of Masaba, and Sabyasachi. In addition, to cater to the needs of digitally native consumers, ABFRL is also building a portfolio of digital-first brands under its technology-led 'House of D2C Brands' venture, TMRW.

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 such as Shantanu & Nikhil, Tarun Tahiliani, Sabyasachi, and House of Masaba, to tap the ethnic and wedding segments, 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 and 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 FY2027.

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
Anil Malik	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	2.26
3	UTI Asset Management Co Ltd	2.07
4	ICICI Prudential Life Insurance Co.	2.04
5	Franklin Resources Inc	1.96
6	Vanguard Group Inc	1.52
7	Tata AMC	1.42
8	SBI Life Insurance Co Ltd	1.25
9	Axis AMC	1.12
10	PGIM India AMC	0.94

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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by BNP PARIBAS

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