Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Devyani International Ltd

Muted Q4; same-store-sales to recover by H2FY24

Consumer Discretionary	Sharekhan code: DEVYANI

Reco/View: Buy	↔	CMP: **Rs. 174**	Price Target: **Rs. 215**	↔

↑ 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 Updated Mar 08, 2023				30.72
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 20,972 cr
52-week high/low:	Rs. 215/134
NSE volume: (No of shares)	20.6 lakh
BSE code:	543330
NSE code:	DEVYANI
Free float: (No of shares)	44.8 cr

Shareholding (%)

Promoters*	62.8
FII	12.9
DII	9.7
Others	14.6

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	12.9	-5.1	8.5
Relative to Sensex	6.3	12.6	-4.5	-4.8

Sharekhan Research, Bloomberg

Summary

- Devyani International Ltd (DIL) posted second consecutive quarter of weak SSSG with KFC's and Pizza Hut's SSSG standing at 1.9% and negative 3.2%, respectively. With inflation cooling, SSSG is expected to materially improve by H2FY24. Medium-term SSSG guidance of 5-6% for KFC & 7-8% for Pizza Hut remains intact.
- Higher input cost inflation and muted SSSG led to EBITDA margin contracting by 421 bps y-o-y to 20%. With inflation in key input materials declining, the management expects gross margin of KFC to get back to 69% while improvement in Pizza Hut's margins will take some time.
- DIL added 305 net stores in FY2023. The management has maintained guidance of adding ~300 stores in FY2024 including 100+ KFC stores, ~100 Pizza Hut stores and 60-70 Costa stores.
- Stock trades at of 23.3x/17.5x its FY2024E/FY2025E EV/EBITDA. In view of its strong business model and long-term growth prospects, we maintain a Buy with an unchanged PT of Rs. 215.

Devyani International Ltd's (DIL's) Q4FY2023 performance was affected by yet another quarter of weak same-store-sales growth (SSSG) affected by weak consumer sentiments. KFC's SSSG stood at low 1.9% while Pizza Hut's SSSG stood at -3.2% during the quarter. Revenue growth of 27.8% y-o-y to Rs. 755 crore was largely on account of higher store addition of around 66 stores in Q4 (and 305 stores in FY23). Higher input cost inflation, muted SSSG and higher store addition led to EBITDA margins contracting by 421 bps y-o-y to 20% (better than our expectation of 19%). PAT fell by 23% y-o-y to Rs. 60 crore due to higher depreciation and interest expenses. But same was ahead of our as well as the street's expectation due to higher other income. The management has maintained guidance of opening 300 stores in FY2024. Maintained medium term SSSG guidance of 5-6% for KFC and 7-8% for Pizza Hut.

Key positives

- DIL achieved milestones of 500+ KFC stores, 500+ Pizza Hut stores and 100+ Costa stores in FY2023.
- Costa/international business revenue grew by 2.4x/15% y-o-y, respectively in Q4FY2023.

Key negatives

- Gross/EBITDA margins decreased by 167 bps/421 bps y-o-y.
- KFC's SSSG came in at 1.9%; Pizza Hut's SSSG declined by 3.2%.
- KFC's Average Daily Sales (ADS) came in at Rs. 1,06,000 (down 6% y-o-y), while PH's ADS stood at Rs. 39,000 (down 5% y-o-y).
- Contribution from KFC stood at 17.5% (vs 21.8% in Q4FY22) and for Pizza Hut stood at 9.2% (vs 17.5% in Q4FY22).

Key management commentary

- The company is witnessing initial signs of inflation stabilizing and expects rebound in consumer spending in H2FY2024. Sequentially, sentiments improved in Q1FY24 against Q4FY23 and the company expects revival in demand in the coming quarters.
- The management believes that prices of certain key raw and packing materials including chicken, oil, wheat flour and paper have started to correct. However, milk & cheese prices are still a concern but are expected to stabilise in the next six months.
- As per the management, raw chicken prices have started to fall but the full benefit of the same will be witnessed in the coming quarters. Management expects gross margin of KFC to revert to peak level of 69% in the next few quarters. The new range of Chicken Roll and Meal is gaining strong traction.
- Management believes that long-term drivers for the Pizza Hut brand include value layer, menu refresh (added 10 new pizzas to the portfolio) and gamification of ordering.
- Management has maintained its medium-term outlook for SSSG with KFC's SSSG expected to be 5-6%, while Pizza Hut is expected to report SSSG of 7-8%.
- Management has maintained it target of opening 300 stores in FY2024, which includes over 100 KFC stores, around 100 Pizza Hut stores, 60-70 Costa stores and remaining stores of other brands.

Revision in earnings estimates - We have lowered our earnings estimates for FY2024 to factor in little lower SSSG and lower margins while we have broadly maintained it for FY2025.

Our Call

View – Retain Buy with an unchanged PT of Rs. 215: DIL's Q4 performance was weak as SSSG continued to be impacted by weak consumer sentiments, while double-digit revenue growth was largely driven by store additions. However, with inflation cooling off, management expects rebound in consumer spending in H2FY2024. Further, margins are expected to improve in the coming quarters as input prices declined. An aggressive store expansion plan, strong brands under kitty coupled with an experienced parental background will help DIL's revenue and EBIDTA to post CAGR of 28% and 34%, respectively, over FY2023-FY2025E. The stock trades at 23.3x and 17.5x its FY2024E and FY2025E EV/EBITDA, respectively. Given the strong business model and long-term growth prospects, we maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 215.

Key Risks

Any slowdown in demand, stiffer competition due to entry of new brands or slowdown in expansion in key markets are some of the key risks to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	2,084	2,998	3,869	4,930
EBITDA margin (%)	22.8	21.9	22.6	23.3
Adjusted PAT	172	283	331	510
% Y-o-Y growth	-	64.1	17.1	54.1
Adjusted EPS (Rs.)	1.5	2.4	2.9	4.4
P/E (x)	-	71.0	60.7	39.4
P/B (x)	30.5	21.6	16.1	13.9
EV/EBIDTA (x)	44.3	32.2	23.3	17.5
RoNW (%)	43.1	34.1	29.1	36.3
RoCE (%)	15.4	17.6	21.8	27.4

Source: Company; Sharekhan estimates

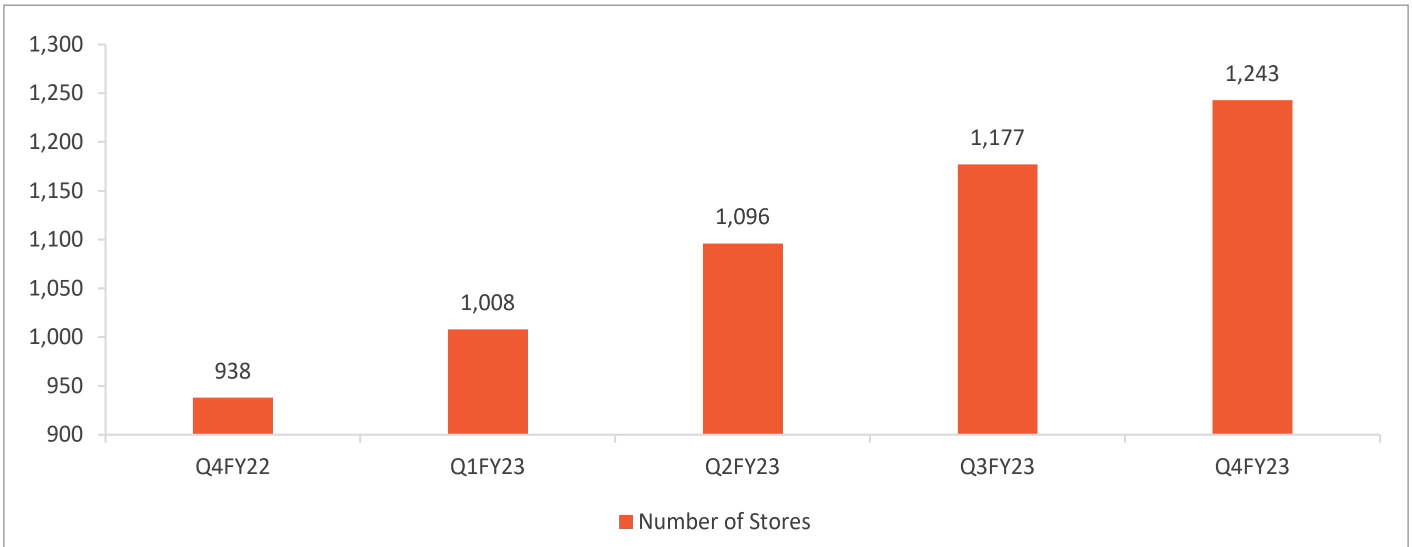
Muted Q4 – Same-store-sales remained weak, margins declined due to input cost inflation

Revenues grew by 27.8% y-o-y to Rs. 755 crore aided by higher store additions, while same store sales remain weak. KFC and Pizza Hut grew by 25.9% and 15.9 % y-o-y, respectively, due to store additions, while KFC's SSSG stood at 1.9% and Pizza Hut's SSSG declined by 3.2%. KFC's ADS came in at Rs. 1,06,000 (down 6% y-o-y), while Pizza Hut's ADS stood at Rs. 39,000 (down 5% y-o-y). Revenue is marginally lower than our and average street expectations of Rs. 768-773 crore. Gross margins decreased by 167 bps y-o-y to 69.6% impacted by higher input cost inflation. This along with higher employee costs (Q4 included one-time bonus expense) and other expenses (due to higher spending on local promotion) led to a 421 bps y-o-y decline in EBITDA margin to 20%, against our expectation of 19% and average street expectation of 20.1%. Contribution from KFC stood at 17.5% (vs 21.8% in Q4FY22) and for Pizza Hut stood at 9.2% (vs 17.5% in Q4FY22). EBITDA grew by 5.6% y-o-y to Rs. 151.3 crore. PAT declined by 21.2% y-o-y to Rs. 60 crore due to higher interest and depreciation expenses. PAT beat our expectation of Rs. 38 crore and average street expectation of Rs. 44 crore. For FY2023, revenues grew by 43.8% y-o-y to Rs. 2,997.7 crore (led by 33% increase in store footprint) and PAT increased by 69.2% y-o-y to Rs. 262.5 crore. However, sustained input cost inflation led to 99 bps y-o-y decline in the EBITDA margins to 21.9%. The company opened 66 stores (net) in Q4 (305 in FY2023) taking total count to 1,243 stores at FY2023-end.

Store addition momentum continued

DIL opened a net 66 stores in Q4FY2023 including 29 KFC stores, 23 Pizza Hut stores, 9 Costa stores, 3 stores for other brands and two stores in the international market. In FY2023, DIL opened 305 stores (net) including 126 KFC stores, 93 Pizza Hut stores, 57 Costa stores, 16 stores for other brands and 13 stores in the international market. Total store count increased from 938 stores at FY2022-end to 1,243 stores at FY2023-end. DIL achieved milestones of 500+ stores of KFC (543 stores globally), 500+ stores of Pizza Hut (510 stores globally) and 100+ stores of Costa (112 stores in India) in FY2023. The company had 1,165 stores of core brands (KFC, Pizza Hut, and Costa) as of March 31, 2023 as compared to 872 stores as of March 31, 2022. The mix of non-metro stores of core brands improved to 53% in FY2023 from 51% in FY2022.

Store expansion trend

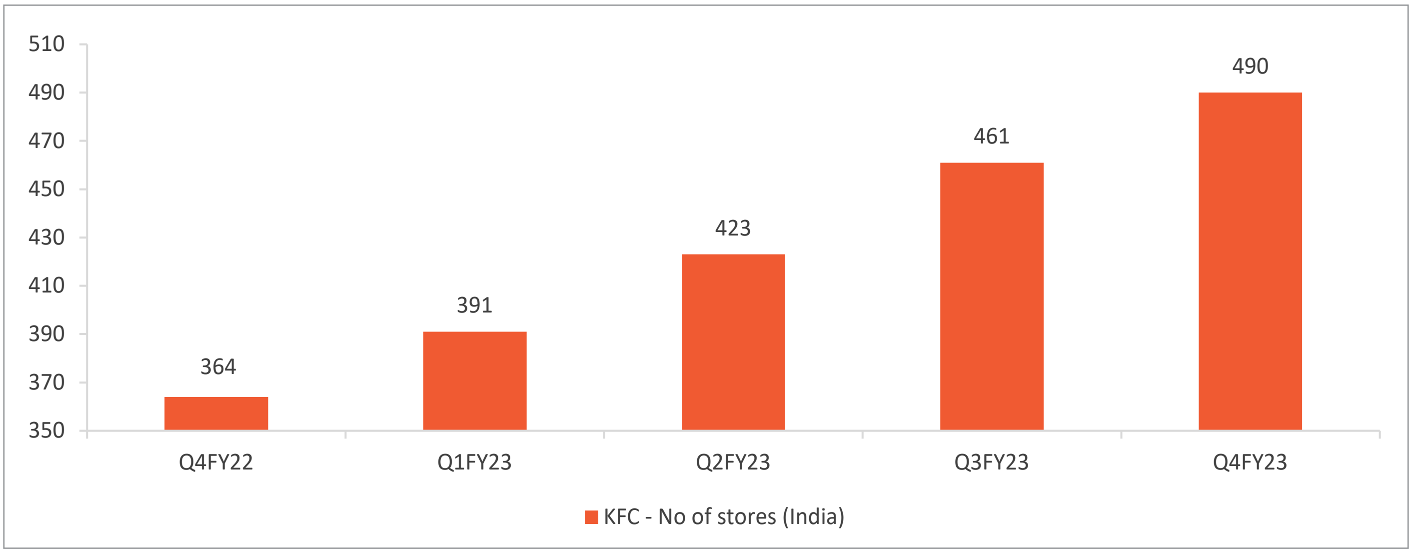


Source: Company, Sharekhan Research

KFC – Store addition-led growth as ADS and SSSG remained weak

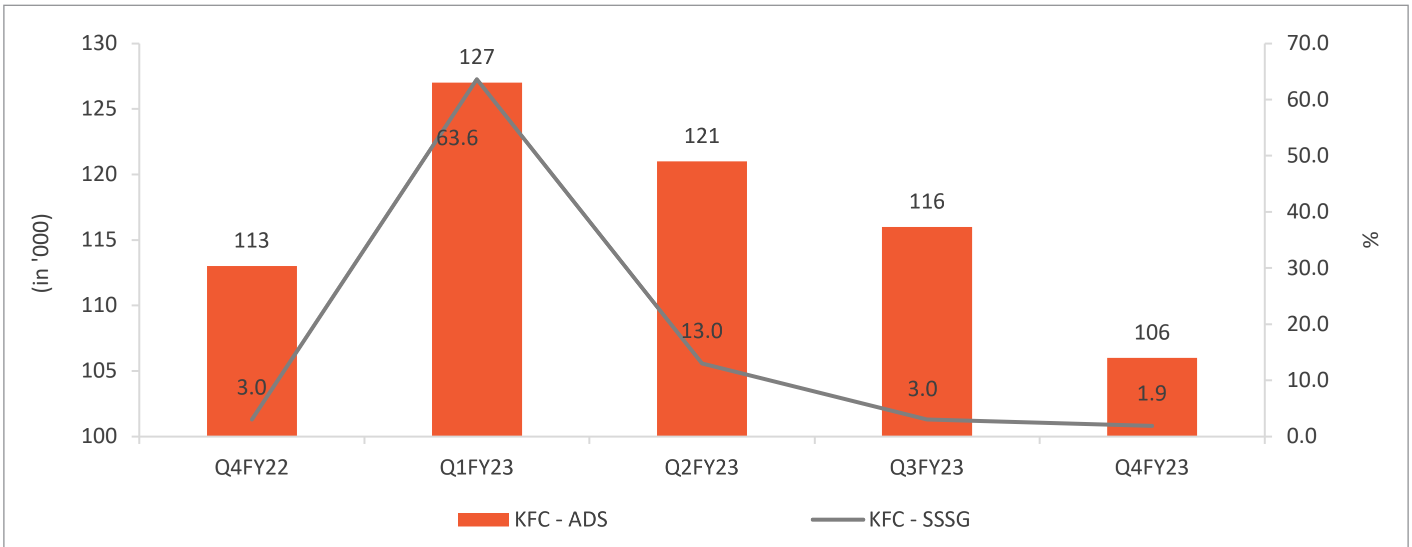
Revenue grew by 25.9% and 45.3% y-o-y to Rs. 443.9 crore and Rs. 1,771.4 crore in Q4FY2023 and FY2023, respectively, majorly aided by new store additions. The company had 490 KFC stores (in India) at FY2023-end as compared to 364 stores at FY2022-end, resulting in net addition of 126 stores in one year (29 net new stores were added in Q4FY2023). ADS for came in lower at Rs. 1.06 lakh in Q4FY2023 compared to Rs. 1.13 lakh in Q4FY2022 (lower vs. Rs. 1.16 lakh in Q3). SSSG came in at 1.9% in Q4FY2023, impacted by demand slowdown. For FY2023, ADS was reported at Rs. 1.17 lakh (vs Rs. 1.13 lakh in FY2022) and SSSG came in at 16%. Gross margin of KFC business decreased by 70 bps y-o-y to 68.6%, while brand contribution declined by 430 bps y-o-y to 17.5% in Q4FY2023. For FY2023, gross margin fell by 100 bps y-o-y to 68.3%, while brand contribution declined by 110 bps y-o-y to 20.2%. Dine-in contribution increased to 64% in FY2023 versus 56% in FY2022.

Trend in KFC India stores



Source: Company, Sharekhan Research

Trend in KFC ADS and SSSG

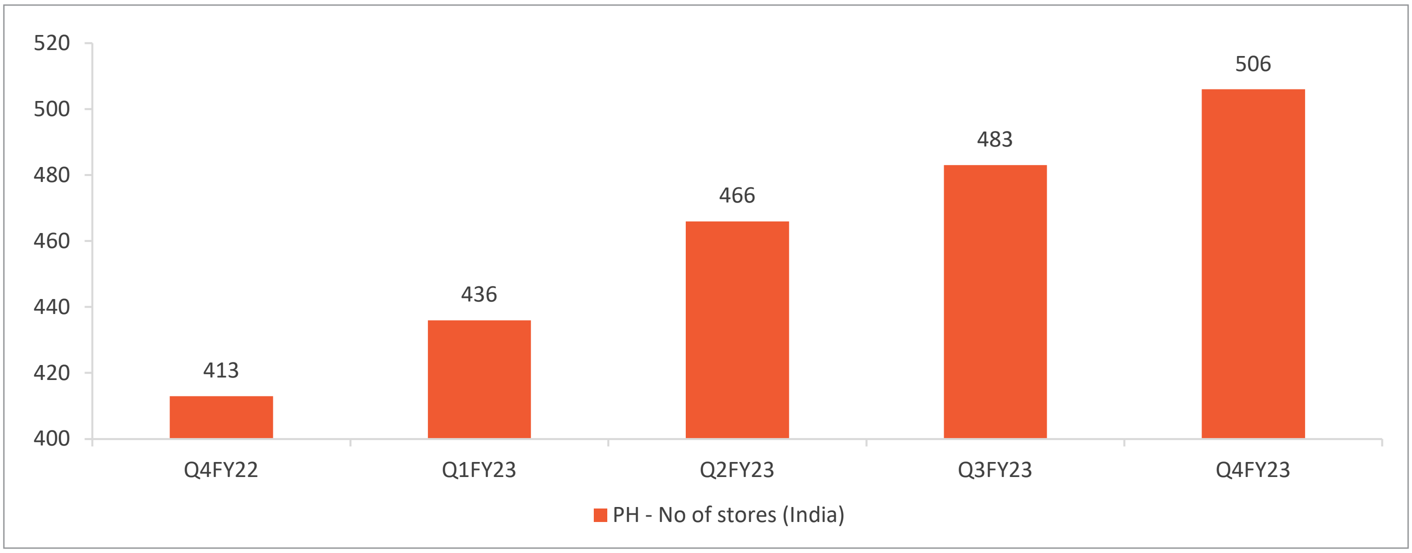


Source: Company, Sharekhan Research

Pizza Hut – Growth driven by store additions; ADS and SSSG remained weak

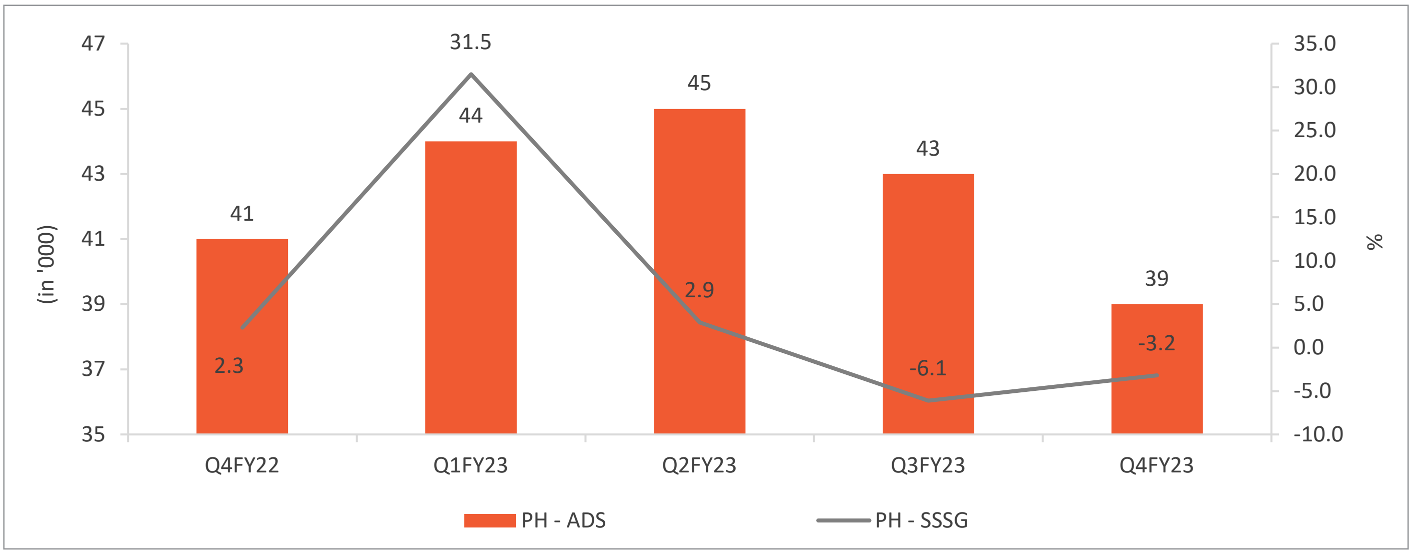
Revenue grew by 15.9% and 31.6% y-o-y to Rs. 169.7 crore and Rs. 700 crore in Q4FY2023 and FY2023, respectively, majorly driven by new store additions. The company had 506 Pizza Hut stores (in India) at FY2023-end as compared to 413 stores at FY2022-end, resulting in net addition of 93 stores in one year (23 net new stores were added in Q4FY2023). ADS declined by 5% y-o-y to Rs. 0.39 lakh, while the company witnessed a 3.2% y-o-y decline in SSSG in Q4FY2023, hit by a demand slowdown. For FY2023, ADS was reported at Rs. 0.42 lakh (vs Rs. 0.43 lakh in FY2022) and SSSG came in at 4.4%. Gross margins of Pizza Hut business declined by 220 bps y-o-y to 73.3%, while the brand's contribution fell by 830 bps y-o-y to 9.2% in Q4FY2023. For FY2023, gross margin fell by 120 bps y-o-y to 74.4%, while brand contribution declined by 180 bps y-o-y to 14.5%. Dine-in contribution increased to 44% in FY2023 versus 37% in FY2022.

Trend in Pizza Hut India stores



Source: Company, Sharekhan Research

Trend in Pizza Hut ADS and SSSG

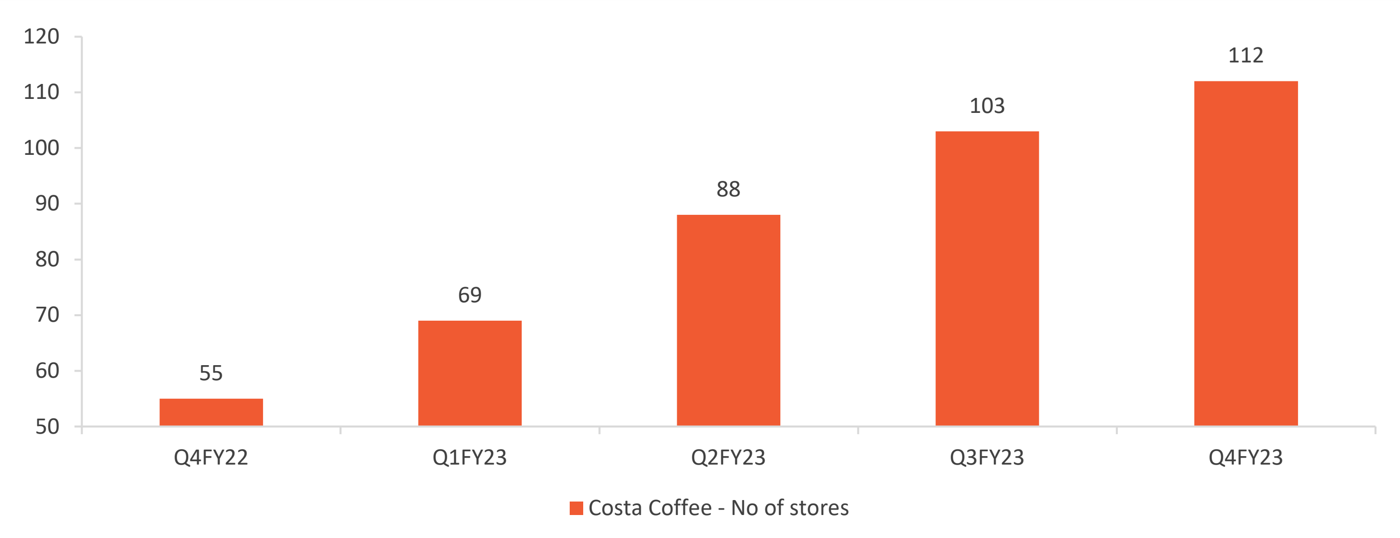


Source: Company, Sharekhan Research

Costa gaining momentum

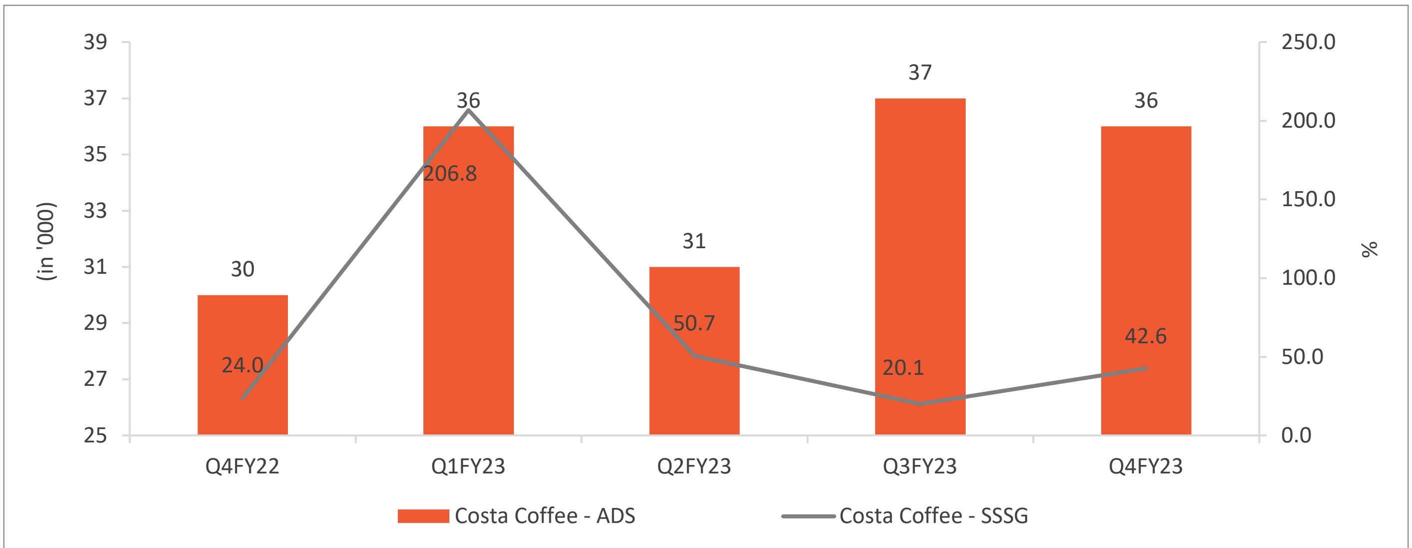
Revenues grew by 2.4x and 2.5x y-o-y to Rs. 33.1 crore and Rs. 101.8 crore in Q4FY2022 and FY2023, respectively. The company added net 57 stores (net) in one year, taking the total store count to 112 stores at FY2023-end (9 net new stores were added in Q4FY2023). ADS for the quarter grew by 20% y-o-y to Rs. 0.36 lakh in Q4FY2023, up from Rs. 0.30 lakh in Q4FY2022. SSSG came in at 42.6% in Q4FY2023 versus 24% in Q4FY2022. Gross margin of Costa business declined by 350 bps y-o-y to 78.1% in Q4FY2023, while brand contribution plunged from 30.2% in Q4FY2022 to 20.2% in Q4FY2023.

Trend in Costa stores



Source: Company, Sharekhan Research

Trend in Costa ADS and SSSG



Source: Company, Sharekhan Research

International business continued double-digit growth momentum driven by store additions

International business revenue grew by 15.1% y-o-y to Rs. 55.5 crore, aided by new store additions. The company added 13 stores (net) in FY2023 (2 added in Q4), taking the total store count to 59 stores (37 stores in Nigeria and 22 stores in Nepal) at FY2023-end. ADS for the international business reduced to Rs. 1.10 lakh in Q4FY2023 from Rs. 1.21 lakh in Q4FY2022. For FY2023, ADS came in at Rs. 1.27 lakh, lower than Rs. 1.32 lakh in FY2022.

Key highlights of the conference call

- **Demand recovery expected in H2FY24; long-term outlook positive:** As per the management, high inflation impacted consumer sentiments in H2FY2023. However, with the consumer inflation cooling off, the company is witnessing initial signs of inflation stabilizing and expects rebound in consumer spending in H2FY2024. On a sequential basis, sentiment has improved in Q2 against Q1 and the company expects revival in demand in the coming quarters. The company is confident about the long-term outlook aided by the positive outlook for the overall QSR sector.

- **Input prices beginning to correct:** As per the management, prices of certain key raw and packing materials including chicken, oil, wheat flour and paper have started to correct. However, milk and cheese prices are still a concern but are expected to stabilise in the next six months.
- **KFC margins to improve ahead:** Management indicated that decline in gross margin was due to higher inventory of high-priced raw chicken and other raw materials, while brand contribution was impacted by decline in gross margin coupled with deleverage and higher operating cost. As per the management, raw chicken prices have started to fall but the full benefit of the same will be witnessed in the coming quarters. The company undertook a slight price increase of 3-3.5% in April in the KFC brand. Management expects gross margin to revert to peak level of 69% in the next few quarters. According to the management, premium products and the newly launched KFC Roll and KFC Lunch (introduced in April 2023) have been well received among the customers.
- **Long term drivers in place to drive growth in Pizza Hut:** As per the management, increasing cheese prices and unfavourable product mix impacted gross margin for the Pizza Hut brand. Brand contribution was also impacted due to higher employee cost, price increase not taken, new store additions and unfavourable mix (from higher contribution of value range). Management guided that Fun flavour pizza range has gained good momentum. Management believes that long-term drivers for the brand include value layer, menu refresh (premium pizza range) and gamification of ordering.
- **KFC SSSG expected at 5-6% and for Pizza Hut at 7-8% in the medium term:** Management has maintained its medium term outlook for SSSG with KFC's SSSG expected to be 5-6%, while Pizza Hut is expected to report SSSG of 7-8%. Manwgement has indicated that the company has started to see recovery in the demand as expects the momentum to continue.
- **Store addition target maintained at ~300 stores in FY2024:** Management has maintained it target of opening 300 stores in FY2024, which includes over 100 KFC stores, around 100 Pizza Hut stores, 60-70 Costa stores and remaining stores of other brands.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Net revenue	**755.0**	**590.7**	**27.8**	**790.6**	**-4.5**
Material cost	229.6	169.8	35.2	242.4	-5.3
Employee cost	94.5	62.3	51.7	86.0	10.0
Other expenditure	279.5	215.3	29.8	288.3	-3.0
Total expenditure	**603.7**	**447.5**	**34.9**	**616.7**	**-2.1**
Operating profit	**151.3**	**143.3**	**5.6**	**173.9**	**-13.0**
Other income	11.0	2.4	-	8.1	36.9
Interest expenses	42.0	32.2	30.7	37.8	11.2
Depreciation	79.1	68.4	15.6	70.6	12.0
Profit Before Tax	41.2	45.1	-8.7	73.5	-43.9
Tax	-18.6	-32.8	-43.1	-4.0	-
Adjusted PAT	**59.9**	**77.9**	**-23.1**	**77.5**	**-22.8**
Extra-ordinary gain / loss	0.0	-2.0	-	-6.5	-
Reported PAT	**59.9**	**75.9**	**-21.2**	**71.0**	**-15.7**
Adjusted EPS (Rs.)	0.5	0.6	-23.2	0.6	-22.8
			bps		**bps**
GPM (%)	69.6	71.3	-167	69.3	25
OPM (%)	20.0	24.3	-421	22.0	-196
NPM (%)	7.9	13.2	-526	9.8	-187
Tax rate (%)	-45.2	-72.6	-	-5.4	738

Source: Company, Sharekhan Research

Brand-wise revenue performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
KFC	443.9	352.6	25.9	459.5	-3.4
Pizza Hut	169.7	146.4	15.9	183.6	-7.6
Costa	33.1	13.7	141.6	29.1	13.7
Others	52.777	29.8	76.8	56.2	-6.1
DIL India revenue	**699.5**	**542.5**	**28.9**	**728.4**	**-4.0**
International	55.5	48.2	15.1	62.2	-10.8
DIL Consolidated revenue	**755.0**	**590.7**	**27.8**	**790.6**	**-4.5**

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Long-term growth prospects of the QSR industry are intact

After COVID-led disruptions caused a lull for two years, the QSR industry registered a robust growth of 58% in FY2023 over FY2020 driven by higher store addition, increased footfalls for dine-out and a large shift to branded products. However, momentum slowed in last two quarters as higher inflationary pressures affected the sales volumes in stores resulting in moderate same-store-sales growth. The industry expects same-store-sales to recover in next two to three quarters once the inflationary pressure recedes. Further, companies have opted for strong store expansions in every market to improve brand penetration in the coming years. QSR's long-term growth prospects are intact and QSRs are poised to beat the food-services industry on higher demand for out-of-home consumption, market share gains from unorganised players, increased online delivery and food technology, menu innovation driving new demand, and incremental demand on account of offers and discounts. With robust growth drivers, QSRs are likely to grow strongly, outpacing other sub-segments in the food service industry in the coming years.

Company outlook - Strategies in place to drive revenue and earnings growth

For FY2023, DIL's revenue grew by 44% y-o-y in FY2023, driven by 33% increase in the store footprint (added 305 net new stores) and PAT grew by 69% y-o-y, while input cost inflation led to 99 bps y-o-y contraction in the EBITDA margin. The company has multiple strategies in place, including aggressive store openings, focusing on the flagship stores with higher ADS for Pizza Hut, improving the penetration of KFC, and developing the Costa brand, which will aid in strong revenue growth in the medium to long term. Increased contribution from (relatively high margin) KFC brand, improving store fundamentals of Pizza Hut brand, and fast scale-up in Costa will help in consistent improvement in gross margins in the coming years. This along with cross-brand synergies and improved profitability per unit will help EBIDTA margins to improve to 23% in FY2025E from 20% in FY2021.

Valuation - Retain Buy with an unchanged PT of Rs. 215

DIL's Q4 performance was weak as SSSG continued to be impacted by weak consumer sentiments, while double-digit revenue growth was largely driven by store additions. However, with inflation cooling off, management expects rebound in consumer spending in H2FY2024. Further, margins are expected to improve in the coming quarters as input prices declined. An aggressive store expansion plan, strong brands under kitty coupled with an experienced parental background will help DIL's revenue and EBIDTA to post CAGR of 28% and 34%, respectively, over FY2023-FY2025E. The stock trades at 23.3x and 17.5x its FY2024E and FY2025E EV/EBIDTA, respectively. Given the strong business model and long-term growth prospects, we maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 215.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Jubilant Foodworks	78.6	59.0	41.5	29.0	23.6	18.9	17.0	19.3	23.1
Restaurant Brands Asia	-	-	-	42.7	18.2	13.6	-	0.4	5.4
Devyani International	71.0	60.7	39.4	32.2	23.3	17.5	17.6	21.8	27.4

Source: Company; Sharekhan Research

About company

DIL is the largest franchisee of Yum Brands in India and is among the largest operators of chain QSR in India, on a non-exclusive basis, and operates 1,243 stores across more than 240 cities in India, Nigeria, and Nepal, as of March 31, 2023. DIL's business is broadly classified into three verticals that includes stores of KFC, Pizza Hut, and Costa operated in India – Core Brands Business; stores outside India primarily comprising KFC and Pizza Hut stores operated in Nepal and Nigeria – International Business; and certain other operations in the food and beverage (F&B) industry, including stores of the company's own brands such as Vaango and Food Street – Other Business.

Investment theme

DIL is a multi-dimensional QSR player with a strong portfolio of global brands (including KFC, Pizza Hut, and Costa). The company's strong association with Yum Brands will help it create more opportunities in India's growing QSR market. DIL plans to add 250-300 outlets p.a. (as against 60-70 stores added p.a. in the earlier years) with a cluster-based approach in India. A strong recovery in out-of-home consumption, rising traction for branded products, strong store expansion plans, boosting value proposition through an innovated menu, widening delivery reach, and various cost-saving initiatives will help DIL's revenue and EBITDA to post a CAGR of 28% and 34%, respectively, over FY2023-FY2025E. The company is likely to generate a cumulative FCF of ~Rs. 700 crore over FY2023-FY2025E.

Key Risks

- **Slowdown in demand:** Any slowdown in the demand environment would impact revenue growth.
- **Increased raw-material costs:** A significant increase in key raw-material prices would impact profitability.
- **Increased competition:** Increased competition in the QSR category would act as a threat to revenue growth.

Additional Data

Key management personnel

Ravi Kant Jaipuria	Chairman
Virag Joshi	CEO
Manish Dawar	Chief Financial Officer
Varun Kumar Prabhakar	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Yum Restaurants India Pvt Ltd	4.41
2	Tamasek Holdings Pte Ltd	2.94
3	Nippon Life India AMC	1.97
4	Sabre Investment Consultan	1.39
5	Franklin Resources Inc	1.29
6	Vanguard Group Inc	1.24
7	ICICI Prudential Life Insurance	1.14
8	Aditya Birla Sun Life AMC	0.88
9	FIL Ltd	0.61
10	Nomura Holdings Inc	0.57

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

Sharekhan

by BNP PARIBAS

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