Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# ITC Ltd

## Strong all-round performance

| Consumer Goods | Sharekhan code: ITC | |
|---|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 420 | Price Target: Rs. 485 ↑ |

↑ 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 | Neutral | ↔ | Neutral |
| RQ | Positive | ↔ | Positive |
| RV | Positive | ↔ | Positive |

### ESG Disclosure Score NEW

ESG RISK RATING 28.03

Updated Mar 08, 2023

Medium Risk

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

*Source: Morningstar*

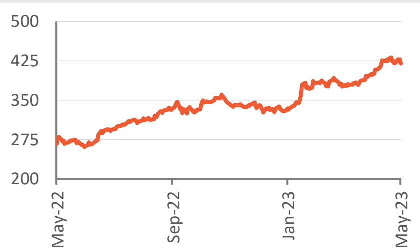
### Company details

| | |
|---|---|
| Market cap: | Rs. 5,21,542 cr |
| 52-week high/low: | Rs. 433 / 253 |
| NSE volume: (No of shares) | 115.5 lakh |
| BSE code: | 500875 |
| NSE code: | ITC |
| Free float: (No of shares) | 1242.8 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | 0.0 |
| FII | 44.2 |
| DII | 42.1 |
| Others | 13.8 |

### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 5.3 | 9.5 | 22.1 | 57.3 |
| Relative to Sensex | 2.5 | 8.8 | 22.6 | 44.0 |

*Sharekhan Research, Bloomberg*


### Summary

- ITC's Q4FY2023 performance was ahead of our expectation, largely on account of better-than-expected OPM at 38% (expanded 423bps y-o-y), while net revenue came in-line with expectation at Rs. 16,398 crore. Adjusted PAT grew by 20.1% y-o-y to Rs. 5,032.9 crore (vs. expected Rs. 4,774.3 crore).
- The highlight of the quarter was strong 19% growth in the non-cigarette FMCG business with consistent improvement in the segment's adjusted EBIDTA margins at ~12% (vs. 9% in Q4FY2022). Cigarette business volume growth stood at 11-12%.
- We expect ITC's earnings to post a 14% CAGR over FY2023-FY2025 with consistent volume growth in the cigarette business, high teens growth in the non-cigarette FMCG business, and strong growth in the hotel business.
- Despite strong run-up in ITC's stock price in recent times, valuations at 24x/21x its FY2024E/FY2025E EPS look attractive in the backdrop consistent earnings growth visibility and good dividend payout (dividend yield of 3.7%). We maintain our Buy rating with a revised PT of Rs. 485.


**ITC's Q4FY2023 performance was ahead of our expectation mainly on account of better-than-expected OPM resulting strong 20% growth in adjusted PAT to Rs. 5,032.9 crore (vs. our expectation of Rs. 4,774.3 crore). Cigarette volume growth came at 11-12%, in-line with our expectation of 11% for the quarter. Overall, ITC's gross revenue grew by 6.6% y-o-y to Rs. 17,506.1 crore (net revenue grew by 5.6% y-o-y to Rs. 16,398 crore). Excluding the high base of the agri business, net revenue grew by 15% in Q4, driven by 19% growth in the non-cigarette FMCG business, 12.6% growth in the cigarette business, and hotel business revenue growing 2.0x. Gross margin and OPM improved by 544 bps and 423 bps, respectively, to 58.6% and 37.9%. For FY2023, ITC's revenue grew by 18% y-o-y to Rs. 70,251.1 crore, OPM improved by 240 bps y-o-y to 34.1%, and PAT grew by 24% y-o-y to Rs. 18,663 crore. Together with interim dividend of Rs. 6 per share, total dividend for FY2023 stands at Rs. 15.5 per share.**

### Key positives

- Non-cigarette FMCG business registered another quarter of resilient performance with revenue rising by 19%; EBIDTA margin stood at 13% in Q4FY2023, improving from 9.2% in Q4FY2022.
- Hotel business revenue grew by 1.7x vs. Q4FY2020; EBIDTA margin stood at 34.8% in Q4FY2023.
- Dividend per share for FY2023 stands at Rs. 15.5 per share (including special dividend of Rs. 2 per share).

### Key negatives

- Paperboard, paper and packaging business registered muted performance with revenue growth of 1.8%.

### Management Commentary

- Market coverage for FMCG products was stepped up to 2.1x of pre-pandemic levels. In rural markets, direct reach enhancement was around 1.2x over the previous year. Sales through the e-commerce channel stood at 4.7x over FY2019-FY2020 levels, taking the channel salience to over 10%.
- ITC has made significant investments in food processing and remains focused on establishing itself as the leading player in the branded packaged foods industry. The company implemented several strategic cost-management initiatives in areas such as supply chain optimisation, smart procurement, and productivity improvement through automation, which helped margins to improve consistently.
- The company is setting up a state-of-the-art personal care and home care products manufacturing unit in Uluberia, West Bengal, in line with its strategy of building in-house manufacturing capabilities for products with unique formulations, enhancing supply chain agility and responsiveness, and reducing distance to market.
- The hotels segment registered stellar performance, reporting robust growth in revenue and profits, buoyed by weddings, leisure, and MICE segments along with progressive pick-up in business travel. Segment revenue doubled over FY2022 and stood at 1.4x of pre-pandemic levels. The segment's EBITDA margin stood at 32.2%, representing an expansion of 930 bps over FY2020.

**Revision in earnings estimates –** We have increased our earnings estimates for FY2024 and FY2025 to factor in higher growth in the cigarette business and non-cigarette FMCG business.

### Our Call

**View – Retain Buy with a revised PT of Rs. 485:** With no significant increase in tax on cigarettes, will help ITC to maintain volume growth momentum in the cigarette business in the coming quarters. Strong growth in the non-cigarette FMCG business and stellar recovery in the hotel business will drive double-digit revenue and PAT growth over the next two years. Despite strong run-up in ITC's stock price in recent times, valuations at 24x/21x its FY2024E/FY2025E EPS look attractive in the backdrop consistent earnings growth visibility and good dividend payout (dividend yield of 3.7%). We maintain our Buy rating with a revised PT of Rs. 485. The company remains one of our preferred picks in the large-cap FMCG space.

### Key Risks

The government's policies to curb tobacco product consumption or a sustained slowdown in consumer demand would act as a key risk to our earnings estimates.

**Valuation (Standalone)** Rs cr

| Particulars | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenues | 59,746 | 70,251 | 78,992 | 88,957 |
| OPM (%) | 31.7 | 34.1 | 35.0 | 35.6 |
| Adjusted PAT | 15,058 | 18,663 | 21,204 | 24,134 |
| Adjusted EPS (Rs.) | 12.3 | 15.2 | 17.4 | 19.8 |
| P/E (x) | 34.0 | 27.5 | 24.2 | 21.2 |
| P/B (x) | 8.4 | 7.7 | 7.2 | 6.5 |
| EV/EBIDTA (x) | 26.0 | 20.5 | 17.7 | 15.5 |
| RoNW (%) | 25.0 | 28.9 | 30.2 | 31.5 |
| RoCE (%) | 27.1 | 32.7 | 35.3 | 37.5 |

*Source: Company; Sharekhan estimates*

**Strong Q4 – Double-digit revenue growth (ex-agri business); OPM expanded strongly**

ITC's net revenue (net of excise) grew by 5.6% y-o-y to Rs. 16,398 crore in Q4FY2023. Revenue growth during the quarter was lower, as the base quarter included wheat exports that were banned during the current year. Gross revenue (ex-wheat exports) is up by 16.1% y-o-y. Cigarette business revenue grew by 14%, with volume growth at 12%, in-line with our expectation of 11%, while the street was expecting 13-14% volume growth. Non-cigarette FMCG business grew by 19.4% y-o-y to Rs. 4,945 crore. Agri business declined by 18% y-o-y on a high base of Q4FY2022. Paper, paperboard, and packaging (PPP) business registered muted 1.8% y-o-y revenue growth. Hotel business grew by 2x y-o-y to Rs. 781.7 crore. Despite inflationary pressures, the company managed to improve gross margin and OPM by 544 bps and 423 bps y-o-y to 58.6% and 37.9%, respectively, aided by favourable mix. Operating profit grew by 18.9% y-o-y to Rs. 6,209.4 crore. In line with operating profit growth, adjusted PAT grew by 20.1% y-o-y to Rs. 5,032.9 crore. Exceptional items include insurance claim towards leaf tobacco stocks, which were destroyed due to the fire at a third party-owned warehouse in an earlier year. Reported PAT stood at Rs. 5,086.9 crore. In FY2023, revenue grew by 17.6% y-o-y to Rs. 70,251 crore, OPM expanded by 239 bps y-o-y to 34.1%, and PAT came in higher by 23.6% y-o-y to Rs. 18,608 crore. The board has recommended a final dividend of Rs. 6.75 and special dividend of Rs. 2.75 per share. Together with the interim dividend of Rs. 6 per share, the total dividend for FY2023 would be Rs. 15.50 per share.

**Cigarette volumes grew by 11-12%; margins remained stable y-o-y**

Gross cigarette sales grew by 14% y-o-y to Rs. 7,355.8 crore (up 1% q-o-q). Gross revenue grew by 13% on a three-year CAGR basis compared with Q4FY2020. Net revenue excluding excise duty grew by 12.6%. Cigarette sales volumes grew by 11-12% in Q4FY2023. The company has maintained strong sales volume growth for the past few quarters. Strong growth was registered across key regions and markets. Cigarette business PBIT grew by 14% y-o-y to Rs. 4,689.1 crore. PBIT margin stood flat at 63.7%. Stable taxes will help the legal cigarette industry to compete with illicit trades. Further, enforcement agencies have taken stringent actions to curb the consumption of illicit cigarettes. The government has marginally increased the tax rate on cigarettes by 2%. The company has undertaken a 3-5% price in some of the brands in its portfolio. We expect volume growth momentum to sustain in the core cigarette business.

**FMCG – Others segment's revenue growth at 19% y-o-y; EBITDA margin up 430 bps y-o-y**

In Q4FY2023, revenue grew by 19.4% y-o-y (at ~1.6x of Q4FY2020) to Rs. 4,945 crore, driven by strong growth in staples, biscuits, snacks, noodles, dairy, beverages, soaps, fragrances, and agarbatti. Education and stationery products business continued to witness strong traction. ITC witnessed rapid growth in emerging channels of e-commerce, quick commerce, modern trade, and institutional channels. ITC acquired 39.4% in Sproutlife Foods Pvt. Ltd. on May 4, 2023. It is a D2C startup catering to health-conscious consumers under the clean label, new-age digital-first brand 'Yoga Bar'. This acquisition will enable ITC to enhance its market presence in the fast-growing, nutrition-led healthy foods space. Q4 segment EBITDA grew by 76% y-o-y to Rs. 659 crore. Margin expanded by 430 bps y-o-y to 13.3%, driven by multi-pronged interventions such as premiumisation, supply chain agility, judicious pricing actions, digital initiatives, strategic cost management, and fiscal incentives. In FY2023, revenue grew by 19.6% y-o-y to Rs. 19,123 crore with the segment's EBITDA growing at a faster pace of 34.9% y-o-y to Rs. 1,954 crore. The segment's EBITDA margins expanded by 115 bps to 10.2% amid severe inflationary pressures.

**Agri-business revenue declined by 18% y-o-y, PBIT up by 26% bps y-o-y**

In Q4FY2023, agri-business revenue declined by 18% y-o-y to Rs. 3,579 crore, impacted by restrictions imposed on wheat and rice exports. Excluding wheat exports in the base quarter, agri-business revenue grew by ~20% y-o-y. ITC leveraged strong customer relationships, robust sourcing network, and agile execution. Capacity utilisation of recently commissioned value-added spices processing facility in Guntur is being scaled up. Q4 segment PBIT is up 25.9% y-o-y to Rs. 307 crore, driven by growth in leaf tobacco exports and value-added agri products. Despite restrictions imposed on wheat and rice exports in FY2023, the agri business delivered a resilient performance with revenue growth at 12.2% y-o-y (up 19.7% ex-wheat exports) to Rs. 18,172 crore and PBIT growing by 28.8% y-o-y, driven by leaf tobacco exports and value-added agri products portfolio.

**Hotel business's revenue grew by 2x y-o-y; EBITDA margin at 34.8%**

The hotel business's revenue grew by 2x y-o-y and 1.7x Q4FY2020 to Rs. 781.7 crore, with strong growth registered across locations. RevPAR was registered well ahead of pre-pandemic levels, driven by retail, leisure, weddings, and MICE segments. The company has a healthy pipeline of properties under Welcomhotel, Mementos, Storii, and Fortune, with phased openings over the next few quarters. The segment's EBITDA margin expanded to 34.8% in Q4FY2023, against 23.1% in Q4FY2020, driven by higher RevPAR, operating leverage, and structural cost interventions. The hotel business witnessed a stellar recovery in FY2023, reporting robust growth in revenue and profit buoyed by weddings, leisure, and MICE segments along with progressive pick-up in business travel. Hotel business revenue grew by 2x y-o-y (1.4x of pre-pandemic levels) to Rs. 2,585 crore. Segment EBITDA margins stood at 32.2%, representing an expansion of 930 bps over FY2020.

**PPP business growth at 1.8% y-o-y; PBIT declined by 1% y-o-y**

The PPP business reported muted revenue growth of 1.8% y-o-y to Rs. 2,221 crore, impacted by planned shutdown of pulp mills for capacity expansion. Softening of pulp prices, muted demand mainly in global markets, and higher base also impacted y-o-y revenue growth. ITC witnessed robust growth in the fine paper segment, driven by strong demand for notebooks and publications. The company also recorded rapid scale-up in the sustainable products portfolio. Strategic interventions (in-house pulp manufacturing, pro-active capacity expansion in value-added products, digital) continue to be leveraged. ITC commissioned a second carton line at Nadiad, Gujarat, with capacity utilisation being ramped up. PPP business's PBIT declined marginally by 1% y-o-y to Rs. 445 crore. The PPP business demonstrated strong performance during the year on account of robust growth across end-user segments, with revenue growth at 18.8% y-o-y to Rs. 9,081 crore, and segment results grew by 34.9% y-o-y.

**Results (Standalone)** Rs cr

| Particulars | Q4FY23 | Q4FY22 | y-o-y (%) | Q3FY23 | q-o-q (%) |
|---|---|---|---|---|---|
| **Gross revenue** | **17,506.1** | **16,426.0** | **6.6** | **17,265.5** | **1.4** |
| Excise duty | 1,108.1 | 895.2 | 23.8 | 1,039.8 | 6.6 |
| **Net revenue** | **16,398.0** | **15,530.9** | **5.6** | **16,225.7** | **1.1** |
| Raw Material Consumed | 6,794.1 | 7,279.9 | -6.7 | 6,671.2 | 1.8 |
| Employee Expenses | 894.0 | 809.5 | 10.4 | 877.0 | 1.9 |
| Other Expenses | 2,500.5 | 2,217.1 | 12.8 | 2,454.3 | 1.9 |
| Total expenditure | 10,188.6 | 10,306.5 | -1.1 | 10,002.5 | 1.9 |
| **Operating Profit** | **6,209.4** | **5,224.4** | **18.9** | **6,223.2** | **-0.2** |
| Other income | 746.3 | 674.1 | 10.7 | 871.7 | -14.4 |
| Interest | 11.8 | 10.5 | 12.8 | 10.2 | 16.2 |
| Depreciation | 421.9 | 445.9 | -5.4 | 407.2 | 3.6 |
| **Profit before tax** | **6,521.9** | **5,442.0** | **19.8** | **6,677.5** | **-2.3** |
| Tax | 1,489.0 | 1,251.1 | 19.0 | 1,646.5 | -9.6 |
| Adjusted PAT | 5,032.9 | 4,191.0 | 20.1 | 5,031.0 | 0.0 |
| Exceptional item | 53.9 | 0.0 | - | 0.0 | - |
| **Reported PAT** | **5,086.9** | **4,191.0** | **21.4** | **5,031.0** | **1.1** |
| EPS (Rs.) | 4.1 | 3.4 | 20.1 | 4.1 | 0.0 |
| | | | **bps** | | **bps** |
| GPM (%) | 58.6 | 53.1 | 544 | 58.9 | -32 |
| OPM (%) | 37.9 | 33.6 | 423 | 38.4 | -49 |
| NPM (%) | 30.7 | 27.0 | 371 | 31.0 | -31 |
| Tax rate (%) | 22.8 | 23.0 | -16 | 24.7 | -183 |

*Source: Company; Sharekhan Research*

**Segment-wise revenue break-up** Rs cr

| Particulars | Q4FY23 | Q4FY22 | y-o-y (%) | Q3FY23 | q-o-q (%) |
|---|---|---|---|---|---|
| FMCG – cigarettes | 7,355.8 | 6,443.4 | 14.2 | 7,288.2 | 0.9 |
| FMCG – others | 4,945.0 | 4,142.0 | 19.4 | 4,841.4 | 2.1 |
| Hotels | 781.7 | 389.6 | 100.6 | 712.4 | 9.7 |
| Agri | 3,578.6 | 4,366.3 | -18.0 | 3,123.8 | 14.6 |
| Paperboard, Paper and Packaging | 2,221.0 | 2,182.8 | 1.8 | 2,305.5 | -3.7 |
| **Total** | **18,882.1** | **17,524.1** | **7.7** | **18,271.3** | **3.3** |
| Less: Inter segment sales | 1,658.1 | 1,297.5 | 27.8 | 1,149.2 | 44.3 |
| **Gross Sales** | **17,224.0** | **16,226.6** | **6.1** | **17,122.2** | **0.6** |

*Source: Company; Sharekhan Research*

**Segment PBIT and PBIT margins**

| Business (Rs cr) | PBIT (Rs crore) | | YoY % | Margins (%) | | Chg in BPS |
|---|---|---|---|---|---|---|
| | Q4FY23 | Q4FY22 | | Q4FY23 | Q4FY22 | |
| FMCG - cigarettes | 4,689.1 | 4,114.3 | 14.0 | 63.7 | 63.9 | -11 |
| FMCG - others | 501.6 | 236.0 | 112.6 | 10.1 | 5.7 | 445 |
| Hotels | 199.6 | -34.2 | - | 25.5 | -8.8 | - |
| Agri | 307.1 | 244.0 | 25.9 | 8.6 | 5.6 | 299 |
| Paperboard, Paper and Packaging | 445.0 | 449.7 | -1.0 | 20.0 | 20.6 | -56 |
| **Total** | **6,142.4** | **5,009.7** | **22.6** | **32.5** | **28.6** | **394** |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### ■ Sector Outlook – Tax rate hike remains a risk for cigarettes; FMCG to perform well

The domestic cigarette industry in the past was affected by a sustained rise in taxes and regulatory regime along with a sharp increase in illegal trade in the past few years, especially at the premium end, which continues to pose significant challenges to the legal cigarette industry. However, in recent times, the government has undertaken stringent actions to curb illicit cigarette sales volume. This along with lower price hikes in the cigarette portfolio will help cigarette companies post better volume growth. On the FMCG front, a normal monsoon, well spread across the country, and government support (especially prior to elections) might help rural demand to gradually pick up. On the margin front, stable raw-material prices post the recent correction in some of the key inputs (including crude oil and vegetable oils) will help margins consistently improve in the coming quarters.

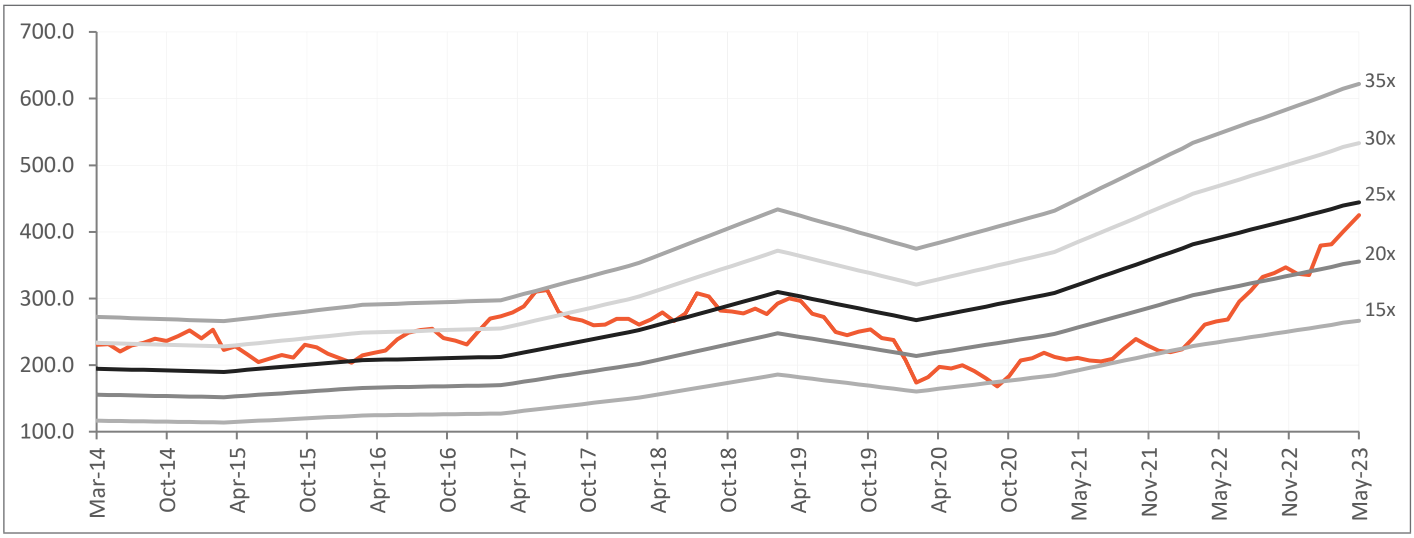
### ■ Company Outlook – Cigarette business sales momentum to sustain; FMCG margins to scale up

Cigarette sales volume is expected to improve further with the government not increasing taxes on cigarettes for the second consecutive year. Market coverage for FMCG products was stepped up to 2.1x pre-pandemic levels. In rural markets, direct reach enhancement was around 1.2x over the previous year, strong traction to new product launches, and an increase in e-commerce salience to about 10% will help the non-cigarette FMCG business's revenue to consistently grow in mid-teens to high teens in the coming years. A good monsoon will lead to recovery in rural demand. PBIT margin of the business will improve, led by efficiencies and scale-up in the contribution of new businesses. FY2024 and FY2025 will continue to be strong years for the hotels business due to higher demand from domestic leisure travel, improvement in MICE and corporate travels, and expected come back in foreign tourist arrivals.

### ■ Valuation – Retain Buy with a revised PT of Rs. 485

With no significant increase in tax on cigarettes, will help ITC to maintain volume growth momentum in the cigarette business in the coming quarters. Strong growth in the non-cigarette FMCG business and stellar recovery in the hotel business will drive double-digit revenue and PAT growth over the next two years. Despite strong run-up in ITC's stock price in recent times, valuations at 24x/21x its FY2024E/FY2025E EPS look attractive in the backdrop consistent earnings growth visibility and good dividend payout (dividend yield of 3.7%). We maintain our Buy rating with a revised PT of Rs. 485. The company remains one of our preferred picks in the large-cap FMCG space.

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

**Peer Comparison**

| Particulars | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Hindustan Unilever | 61.6 | 56.7 | 48.6 | 44.8 | 39.8 | 34.1 | 25.8 | 28.0 | 31.7 |
| ITC | 27.5 | 24.2 | 21.2 | 20.5 | 17.7 | 15.5 | 32.7 | 35.3 | 37.5 |

*Source: Company, Sharekhan estimates*

## About company

ITC is one of the largest diversified players in India present in businesses such as cigarettes, FMCG, hotels, and paper. The company is the market leader in the domestic cigarette and PPP segments. The company is also the second-largest hotel chain by revenue and profitability, with a strong room inventory. The company has a strong distribution reach of more than 2 million, which it is utilising to scale up its consumer goods business and de-risk its business model. ITC's revenue and PAT grew by 3.0x and 3.8x, respectively, over FY2009-FY2020.

## Investment theme

ITC is focusing on de-risking its business model by reducing dependence on its core cigarette business (affected by regulatory and tax hurdles for the past few years) by scaling up the fast-growing consumer goods, PPP, and hotel businesses. The company has quickly rebound from disruption caused by the lockdown and key businesses are operating at normal levels. The company posted resilient performance in FY2023 with double-digit revenue and PAT growth. We expect the momentum to sustain in FY2024. Further, scale-up in the performance of the non-cigarette FMCG business and margin improvement would be triggers for the stock in the medium to long term. Moreover, strong cash flows and cheery dividend payout make it a good bet in the current uncertain environment.

## Key Risks

- Significant rise in taxes on cigarettes or government actions to curb tobacco and tobacco consumption would act as a key risk to the cigarette business.
- Sustained consumption slowdown would affect the growth rate of categories such as consumer goods and hotels in the near term.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Sanjiv Puri | Chairman and Managing Director |
| Supratim Dutta | Chief Financial Officer |
| Nakul Anand | Executive Director |
| Rajendra Kumar Singhi | Executive Vice President & Company Secretary |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | British American Tobacco PLC | 29.12 |
| 2 | Life Insurance Corp of India | 15.26 |
| 3 | Unit Trust of India | 7.84 |
| 4 | SBI Funds Management Ltd. | 3.20 |
| 5 | Capital Group of Cos Inc. | 1.96 |
| 6 | General Insurance Corp of India | 1.74 |
| 7 | New India Assurance Co. Ltd. | 1.47 |
| 8 | GQG Partners LLC | 1.29 |
| 9 | HDFC AMC | 1.17 |
| 10 | Vanguard Group Inc. | 0.96 |

*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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