Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Neutral	↑	Positive
RQ	Positive	↔	Positive
RV	Positive	↔	Positive

ESG Disclosure Score NEW

ESG RISK RATING 28.03
Updated Aug 08, 2023

Medium Risk

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

Source: Morningstar

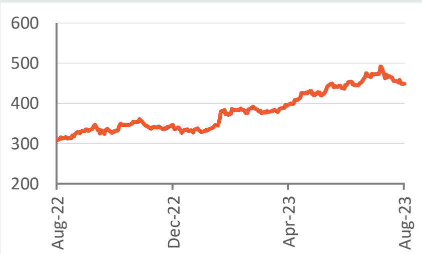
Company details

Market cap:	Rs. 5,58,470 cr
52-week high/low:	Rs. 500 / 304
NSE volume: (No of shares)	110.5 lakh
BSE code:	500875
NSE code:	ITC
Free float: (No of shares)	1,243.9 cr

Shareholding (%)

Promoters	0.0
FII	44.5
DII	41.9
Others	13.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	5.9	20.0	45.5
Relative to Sensex	-4.1	0.3	11.8	35.5

Sharekhan Research, Bloomberg

ITC Ltd

FMCG and Cigarette biz continue to perform well

Consumer Goods		Sharekhan code: ITC		
Reco/View: Buy	↔	CMP: **Rs. 449**	Price Target: **Rs. 496**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- ITC's Q1FY2024 performance beat our expectations, largely led by better-than-expected OPM of 39.5% (up by 682 bps y-o-y and 162 bps q-o-q) resulting in 18% y-o-y growth in PAT (with other income high by 2.3x); net revenues fell by 9% y-o-y due to high base of Agri business.
- The highlight of the quarter was an 8% volume growth in core cigarette business while non-cigarette FMCG business grew by 16% with consistent improvement in EBIDTA margins to 11%.
- Hotels business will be demerged at entitlement ratio of 1:10 (1 share each of demerged entity for 10 shares held in ITC); Demerged entity will be listed in next 15 months.
- Stock trades at 25x/22x its FY2024E and FY2025E earnings. We maintain a Buy rating with a revised SOTP-based PT of Rs. 496.

ITC's Q1FY2024 numbers beat ours as well as the street's expectation mainly as OPM came in higher than estimates. Its gross revenues fell by 7.2% y-o-y to Rs. 16,995.2 crore (net revenues decreased by 8.5%); excluding agri business, gross revenues were up 10.6%. Cigarette business revenues grew by 13% y-o-y to Rs. 7,465.3 crore and non-cigarette FMCG business' revenues grew by 16.1% y-o-y to Rs. 5,166 crore. Agri business revenues fell by 24% y-o-y due to a high export base. A better mix and fall in input prices y-o-y led to 850 bps y-o-y rise in gross margins to 59.5% and 682 bps y-o-y improvement in the OPM to 39.5% (beating our expectation of 35.3%). Operating profit grew by 11% y-o-y to Rs. 6,250.1 crore and PAT grew by 17.6% y-o-y to Rs. 4,903 crore (with other income growing by 2.3x). According to entitlement ratio, shareholder holding 10 shares of ITC will receive 1 share of the demerged hotel business.

Key positives

- The non-cigarette FMCG business registered another quarter of resilient performance with revenue rising by 16%; EBIDTA margins stood at 11% in Q1FY2024, improving from 7.8% in Q1FY2023.
- Cigarette volumes grew by 8%.
- Agri business' EBIT margins improved by 244 bps to 6.2%

Key negatives

- Paperboard, paper and packaging (PPP) business registered a muted performance with revenue decreasing by 6.5%; EBIT margins down by 476 bps to 22.3%.
- Hotel business revenues grew by 8%yoy; lower than our as well as street expectation.

Management Commentary

- 100% of the ultimate economic beneficial interest of Hotels Business will remain with ITC shareholders –60% directly, 40% through ITC.
- According to entitlement ratio, shareholder holding 10 shares of ITC will receive 1 share of the demerged hotel business. Total equity value of ITC's hotel business will be Rs. 208 crore post demerger (125 crore share will be issued to the shareholders).
- Completion of the hotel demerger process and regulatory approvals and listing of new entity will take around 15 months.
- The board also approved the acquisition of shares of two hotel companies. ITC will buy 25% stake in Maharaja Heritage from Russel Credit Ltd., and 45.36% stake in International Travel House Ltd.
- Non-Cigarette FMCG cross first time revenues of Rs. 5000 crore in a quarter; driven by strong performance of staples, biscuits, noodles, beverages, dairy and Agarbatti.

Revision in earnings estimates: We have fined-tunned our earnings estimates for FY2024 and FY2025 to factor in higher than expected operating margins due to lower input prices, efficiencies and a better mix.

Our Call

View – Retain Buy with a revised PT of Rs. 496: ITC's core businesses of cigarette and non-cigarette FMCG continues perform well. Post demerging of asset-heavy Hotel Business, the return profile of ITC will substantially improve in the coming years. The improving margins in the non-cigarette FMCG business will also add to improvement in return ratios and valuation multiples of ITC. Large focus will be on improving on growth prospects of Cigarette, non-cigarette FMCG and PPP businesses through high cash flow generation. We should expect dividend payout to further improve in the coming years. Post recent fall stock is attractively valued at 25x/22x its FY2024E and FY2025E earnings. We maintain a Buy recommendation on the stock with revised SOTP-based PT of Rs. 496.

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	77,111	87,012
OPM (%)	31.7	34.1	36.7	37.2
Adjusted PAT	15,058	18,663	21,712	24,691
Adjusted EPS (Rs.)	12.3	15.2	17.8	20.2
P/E (x)	36.4	29.4	25.2	22.2
P/B (x)	9.0	8.3	7.6	6.8
EV/EBIDTA (x)	27.9	22.0	18.6	16.3
RoNW (%)	25.0	28.9	30.9	31.9
RoCE (%)	27.1	32.7	36.1	38.1

Source: Company; Sharekhan estimates

Revenue declined y-o-y; strong margin expansion led to double-digit PAT growth

ITC's net revenues (net of excise) declined by 8.5% y-o-y to Rs. 15,828 crore in Q1FY2024 impacted by a challenging operating environment and a high base effect in some of the businesses. Revenues lagged our and average street expectation of Rs. 17,729 crore and Rs. 17,419 crore, respectively. Gross revenue (ex-agri business) is up by 10.6% y-o-y. Cigarette business grew by 13% y-o-y to Rs. 7,465.3 crore, with volume growth at 8-9%, in-line with our expectation of an 8-9% growth. Non-cigarette FMCG business grew by 16.1% y-o-y to Rs. 5,166 crore. Agri business declined by 23.7% y-o-y to Rs. 5,705.4 crore on a high base of Q1FY2023. The paper, paperboard, and packaging (PPP) business registered 6.5% y-o-y revenue decline to Rs. 2,120.8 crore, while Hotel business grew by 8.1% y-o-y to Rs. 600.2 crore. Despite inflationary pressures, the company managed to improve gross margin and OPM by 850 bps and 682 bps y-o-y to 59.5% and 39.5%, respectively, aided by favourable mix and operating efficiencies. OPM was reported higher than our and average street expectation of 35-37%. Operating profit grew by 10.7% y-o-y to Rs. 6,250.1 crore. This coupled with higher other income and lower depreciation expenses led to 17.6% y-o-y growth in the adjusted PAT to Rs. 4,903 crore, higher than our and average street expectation of Rs. 4,640 crore and Rs. 4,862 crore, respectively.

Cigarette volumes grew by 8-9%; net revenues grew by 11%

Gross cigarette sales grew by 13% y-o-y to Rs. 7465.3 crore (up 1.5% q-o-q) Net revenue excluding excise duty/ NCCD grew by 10.9%. Cigarette sales volumes grew by ~8% with mix improvement of 1.5% and a price-led growth of 1.5%. 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 11.2% y-o-y. PBIT margin (on net revenues) stood flat at 73.9%. 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 hike in some of the brands in its portfolio. We expect volume growth momentum to sustain in the core cigarette business.

FMCG – Others business revenue growth at 16% y-o-y; EBITDA margin up 325 bps y-o-y

Revenues grew by 16.1% y-o-y (at ~1.7x of Q1FY2020) to Rs. 5,166 crore, driven by strong growth in staples, biscuits, noodles, beverages, dairy, agarbatti and premium soaps. Education and stationery products business continued to see a strong traction. ITC witnessed strong traction in both traditional and emerging channels (viz. modern trade, e-Commerce, Quick Commerce) with 1.2x rise in direct outlets and 1.1x increase in total outlets over pre-pandemic level. EBITDA grew by 64% y-o-y to Rs. 570 crore. Margin expanded by 325 bps y-o-y to 11%, driven by multi-pronged interventions including premiumisation, supply chain optimisation, judicious pricing actions, digital initiatives, strategic cost management and fiscal incentives.

Agri-business revenue declined by 24% y-o-y, PBIT margin higher by 244 bps y-o-y

Revenues fell by 23.7% y-o-y to Rs. 5,705 crore, impacted by restrictions imposed on wheat & rice exports amid inflationary headwinds & food security concerns. Excluding wheat exports in the base quarter, agri-business revenues grew by ~31% y-o-y driven by value-added agri products and leaf tobacco. The recently commissioned state-of-the-art value-added spices processing facility in Guntur continued to scale up. PBIT is up 25.3% y-o-y to Rs. 356 crore, with margins higher by 244 bps y-o-y to 6.2%.

Hotels' revenues grew by 8% y-o-y; EBITDA margin expanded by 140 bps y-o-y

Revenues grew by 8.1% y-o-y and 1.5x Q1FY2020 to Rs. 600.2 crore, as ARRs surged across properties, though occupancy moderated on a high base due to relatively fewer wedding dates during the quarter and pre-planned renovations. Six new hotels were added to the ITC Hotels Group during the quarter. The company has a healthy pipeline of management contracts under Mementos, Welcomhotel, Storii, Fortune and WelcomHeritage brands, with phased openings over the next few quarters. EBITDA margin expanded by 140 bps y-o-y to 33.9% driven by higher RevPAR, curated packages, finest F&B offerings, and strategic cost management initiatives.

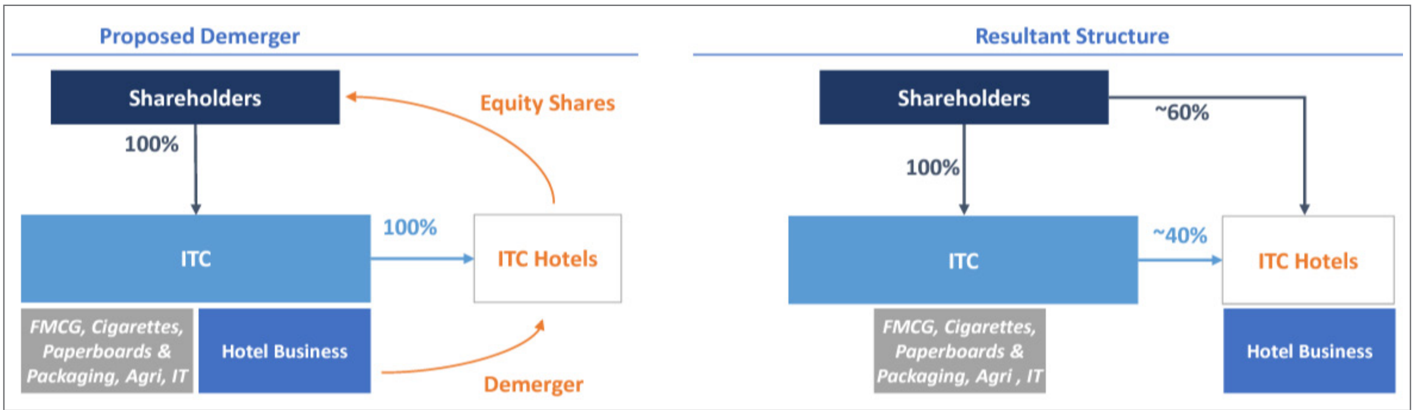
PPP business revenue fell by 6.5% y-o-y; PBIT margin down by 476 bps y-o-y

Revenue declined by 6.5% y-o-y to Rs. 2,120.8 crore, impacted by subdued demand in EU, low priced Chinese supplies in global markets, steep decline in global pulp prices on a high base and relatively muted customer offtake in domestic markets (de-stocking). Décor & Fine paper grades witnessed resilient performance. Sustainable Products portfolio continued to witness strong growth, registering 2.3x increase over Q1FY2022. Sharp escalation in wood and coal costs, exerted pressure on margins, with PBIT margin declining by 476 bps y-o-y to 22.3%.

Hotels business to be demerged

ITC board has given its in-principle approval to the demerger of Hotels Business into a separate entity and list on the bourses. Post the implementation of the Scheme, the shareholders of ITC will directly hold about 60% in the Resulting Company, proportionate to their shareholding in ITC; the balance stake of about 40% in the Resulting Company will be held by ITC. According to the entitlement ratio, shareholder holding 10 shares of ITC will receive 1 share of the demerged hotel business. Total equity value of ITC's hotel business will be Rs. 208 crore post demerger (125 crore share will be issued to the shareholders).

Proposed demerger



Source: Sharekhan Research

Share entitlement ratio

Particulars	Value	
Total number of equity shares of ITC hotel (pre demerger)	83	Cr
Equity stake of ITC in ITC Hotels (post demerger)	40%	
Total no. of equity shares of ITC hotels (post merger)	208	Cr
	100%	
No. of equity shares of ITC Hotels to be issued to ITC's shareholders	125	Cr
Total no. of equity shares of ITC	1246.5	Cr
Number of ITC shares against which 1 share of ITC will be issued	**10**	

Source: Company; Sharekhan Research

Key highlights of recently held virtual meet

- **Demerger can create pure-play hotel entity:** Hotel business has matured over the years and can chartered its own growth plan as a separate entity. The entity will have strong balance sheet with no debt on books and assets of Rs. 6,000 crore on books. This will help the new entity to raise fund in its own capacity to further expand the business. It has strong cash flows which it can utilise to scale-up the business. Further, the demerger will help the new entity in attracting appropriate investors and strategic partners/ collaborations whose investment strategies and risk profiles are aligned more sharply with the hospitality industry. This will enhance shareholders value in the demerged entity.

- **Financial ratios to improve substantially:** ITC business holds 20% of the overall capital employed. It contributes just 3% to the overall profitability. Once the hotels business get demerger into separate entity, RoCE will improve by 18-20%. Overall, the return on invested capital (RoIC) will improve by ~10%.
- **Win-win for ITC and demerged hotel business**
    - **Hotel business shareholders -** It will continue to perceive an asset-light strategy to achieve the next league of growth in the business. Will continue to get institutional support from ITC in the form of brand, governance and access to synergies. Strong debt free balance sheet and cash flows will help business to raise capital if required. Market cap/equity value of the company will improve on the base of operating performance of the business.
    - **ITC shareholders:** Return profile will improve; access to multiple cross synergies for business such as foods, personal care and agri; Structure provides opportunity for existing shareholders to exit from hotel business if it is not part their respective investment strategy.
- **Why ITC will retain a 40% stake:** This ensures continued interest of ITC in the Hotels Business in line with its corporate strategy of multiple drivers of growth. It will help in creating strong foundation for new entity to grow faster in the strong industry environment. It will also provide comfort to the new partner strategic partners entering the business. The company doesn't have any material plans to reduce its stake in the near future. Further the company would like to enter into any kind of arrangement with large investors of ITC to make exit from hotel business. Market dynamics will provide a good exit opportunity for investors.
- **Expansion of hotel business largely through management contract:** Separate entity will continue to expand focusing on asset light strategy. It will add more rooms by entering into more management contracts. The business has good cash flow generation which it can invest to expand organically in the coming years. It will try to work on less capital requirement in the coming years.
- **Other key highlights**
    - Every ITC shareholder will get the shares of the demerged entity.
    - Demerger will be tax neutral for both the shareholders of both the entity. There will not be any indirect tax implication for any of the entities.
    - ITC will receive royalty for usage of brand. Will enter into suitable commercial arrangements for common assets and shared services.
    - Cross synergies will continue for both entities. Terms of the related party transactions and other financial implications will be determined in the coming months.
    - Operating investments (including hotel subsidiaries) will be transferred into the demerged entity. Non-operating investments will continue to stay on the ITC's books.

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Gross revenue	**16,995.5**	**18,320.2**	**-7.2**	**17,506.1**	**-2.9**
Excise duty	1,167.3	1,030.5	13.3	1,108.1	5.3
Net revenue	**15,828.2**	**17,289.7**	**-8.5**	**16,398.0**	**-3.5**
Raw Material Consumed	6,415.5	8,476.8	-24.3	6,794.1	-5.6
Employee Expenses	903.8	862.1	4.8	894.0	1.1
Other Expenses	2,258.8	2,303.2	-1.9	2,500.5	-9.7
Total expenditure	9,578.1	11,642.1	-17.7	10,188.6	-6.0
Operating Profit	**6,250.1**	**5,647.5**	**10.7**	**6,209.4**	**0.7**
Other income	708.7	312.7	-	746.3	-5.0
Interest	10.7	9.1	17.4	11.8	-9.4
Depreciation	402.5	411.5	-2.2	421.9	-4.6
Profit before tax	**6,545.6**	**5,539.6**	**18.2**	**6,521.9**	**0.4**
Tax	1,642.6	1,370.7	19.8	1,489.0	10.3
Adjusted PAT	4,903.0	4,168.9	17.6	5,032.9	-2.6
Exceptional item	0.0	0.0	-	53.9	-
Reported PAT	**4,903.0**	**4,168.9**	**17.6**	**5,086.9**	**-3.6**
EPS (Rs.)	4.0	3.4	17.6	4.1	-2.6
			bps		**bps**
GPM (%)	59.5	51.0	850	58.6	90
OPM (%)	39.5	32.7	682	37.9	162
NPM (%)	31.0	24.1	686	30.7	28
Tax rate (%)	25.1	24.7	35	22.8	226

Source: Company; Sharekhan Research

Segment-wise revenue break-up Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
FMCG - cigarettes	7,465.3	6,609.0	13.0	7,355.8	1.5
FMCG - others	5,166.0	4,451.4	16.1	4,945.0	4.5
Hotels	600.2	555.0	8.1	781.7	-23.2
Agri	5,705.4	7,473.0	-23.7	3,578.6	59.4
Paperboard, Paper and Packaging	2,120.8	2,267.2	-6.5	2,221.0	-4.5
Total	**21,057.6**	**21,355.5**	**-1.4**	**18,882.1**	**11.5**
Less: Inter segment sales	4,214.7	2,776.2	-	1,658.1	-
Gross Sales	**16,842.9**	**18,579.3**	**-9.3**	**17,224.0**	**-2.2**

Source: Company; Sharekhan Research

Segment PBIT and PBIT margins

Business	PBIT (Rs. crore)			PBIT Margins (%)		
	Q1FY24	Q1FY23	y-o-y (%)	Q1FY24	Q1FY23	y-o-y (bps)
FMCG - cigarettes	4,656.1	4,188.9	11.2	62.4	63.4	-101
FMCG - others	430.9	203.9	-	8.3	4.6	376
Hotels	131.2	112.2	17.0	21.9	20.2	165
Agri	356.0	284.0	25.3	6.2	3.8	244
Paperboard, Paper and Packaging	472.5	613.0	-22.9	22.3	27.0	-476
Total	**6,046.6**	**5,402.0**	**11.9**	**28.7**	**25.3**	**342**

Source: Company; Sharekhan Research

Outlook and Valuation

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

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, normal, widespread monsoons and government support (especially prior to elections) might help rural demand to gradually pick up. For margins, 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.

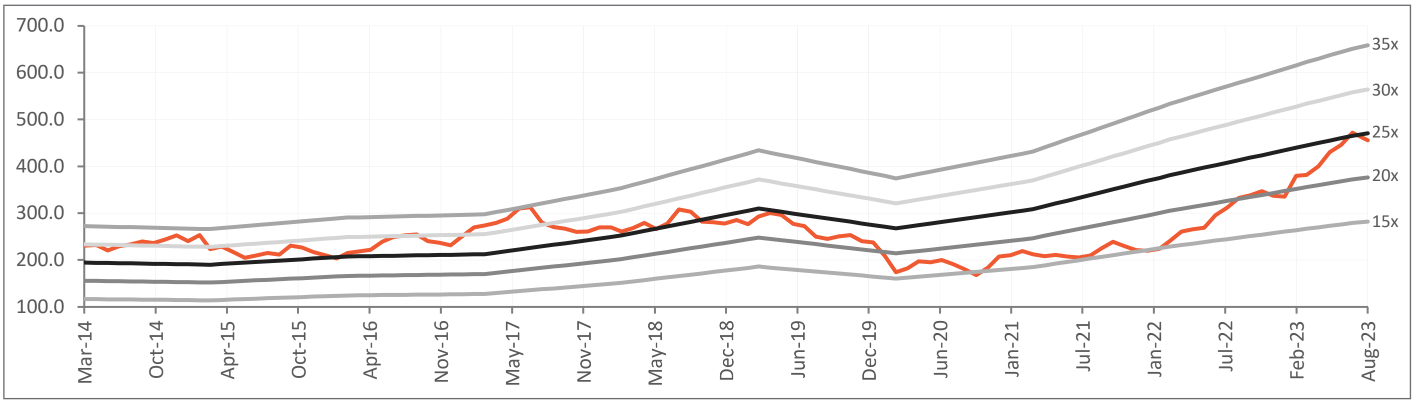
■ Company Outlook – Cigarette sales momentum to sustain; FMCG margins to scale up

ITC started FY2024 on strong note with core cigarette business and non-cigarette FMCG business continues to perform well. 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 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 segment and corporate travels, and expected come back in foreign tourist arrivals.

■ Valuation – Retain Buy with a revised PT of Rs. 496

ITC's core businesses of cigarette and non-cigarette FMCG continues perform well. Post demerging of asset-heavy Hotel Business, the return profile of ITC will substantially improve in the coming years. The improving margins in the non-cigarette FMCG business will also add to improvement in return ratios and valuation multiples of ITC. Large focus will be on improving on growth prospects of Cigarette, non-cigarette FMCG and PPP businesses through high cash flow generation. We should expect dividend payout to further improve in the coming years. Post recent fall stock is attractively valued at 25x/22x its FY2024E and FY2025E earnings. We maintain a Buy recommendation on the stock with revised SOTP-based PT of Rs. 496.

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	59.4	54.2	46.5	43.2	38.4	32.8	25.6	28.2	31.9
ITC	29.4	25.2	22.2	22.0	18.6	16.3	32.7	36.1	38.1

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	29.07
2	Life Insurance Corp of India	15.23
3	Unit Trust of India	7.83
4	SBI Funds Management Ltd	3.12
5	Capital Group of Cos Inc	1.88
6	General Insurance Corp of India	1.74
7	New India Assurance Co Ltd	1.47
8	GQG Partners LLC	1.44
9	HDFC AMC	1.13
10	Oriental Insurance Co Ltd	1.10

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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