



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 | ■ | ↔ | ■ |
| RQ | ■ | ↔ | ■ |
| RV | ■ | ↔ | ■ |

ESG Disclosure Score **NEW**

| | | | | |
|------------------------|--------------|------------|-------|--------|
| ESG RISK RATING | 27.81 | | | |
| Updated Jun 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. 1,82,128 cr |
| 52-week high/low: | Rs. 1,595/1,124 |
| NSE volume: (No of shares) | 25.0 lakh |
| BSE code: | 500520 |
| NSE code: | M&M |
| Free float: (No of shares) | 100.8 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 18.9 |
| FII | 40.1 |
| DII | 26.9 |
| Others | 14.1 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|------|------|------|
| Absolute | -0.7 | 21.0 | 10.7 | 27.5 |
| Relative to Sensex | -1.1 | 13.3 | 2.9 | 11.9 |

Sharekhan Research, Bloomberg

Mahindra & Mahindra Ltd

Margins on steady upswing

| | | | |
|-----------------------|--------------------------------|-----------------------|----------------------------------|
| Automobiles | Sharekhan code: M&M | | |
| Reco/View: Buy | ↔ | CMP: Rs. 1,465 | Price Target: Rs. 1,665 ↑ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- Mahindra & Mahindra (M&M) clocked a 220-bps q-o-q improvement in EBITDA margin at 14.6% against an estimate of 12.8%.
- Company maintained its disciplined capital allocation approach and considered investment in RBL is of strategic nature for the long term.
- We maintain our Buy rating on M&M with a revised SOTP based PT of Rs 1,665 due to healthy robust order book in PV segment, market leadership in tractor segment, opportunity to grow in farm machinery segment and its road map to play in EV space.
- Stock trades at P/E multiple of 16.2x and EV/EBITDA multiple of 10x its FY25E estimates.

M&M has reported strong operating performance in Q1FY24 led by healthy EBIT margin performance in both farm equipment and automotive segment. While topline was mere 1.6% ahead of estimates EBITDA margins were 180 bps above estimates on account of operating leverage and gross margin expansion. Revenue increased by 8% q-o-q to Rs 24,368 crore (Rs 23,985 crore) on the back of 24% q-o-q increase in revenue from farm equipment segment as revenue from automotive segment remain flat on q-o-q basis. EBITDA increased by 26.8% q-o-q to Rs 3,547 crore (versus exp of Rs. 3,070 crore). EBITDA margin expanded by 220 bps q-o-q to 14.6% (versus of 12.8%) on the back of 60 bps expansion in gross margins and operating leverage benefit. M&M has changed its approach of recognizing extraordinary item (EI) in its P&L as it has decided to absorb the operational part of extraordinary items above EBITDA and hence it supported EBITDA margin expansion in Q1FY24 as in its old approach, the EBITDA margin for Q1FY24 would stand at 13.5%. With this operating performance and 97% q-o-q increase in other income APAT increased by 34.6% q-o-q to Rs 2774 crore (versus expenses of Rs 1,889 crore). Going forward the management has been aiming to maintain its dominant position in growing SUV segment backed by strong order book of 281,000 units and maintained its guidance of mid-single digit growth in tractor industry in FY24. M&M believes that it has invested in RBL Bank with a long-term view and has no intention to enter into banking sector but considering it as an option to support its NBFC business (Mahindra Finance) if required in future, while it continue maintain its strategy to not to invest in non-core areas (barring exceptions). Its EV program is on track and is looking to launch products from INGLO platform from December 2024 onwards. We maintain our Buy rating with revised SOTP based PT of Rs 1,665 (15.5x FY25E core EPS + Rs 356 for listed subsidiaries + Rs 208 for EV business).

Key positives

- EBIT margin expanded by 110 bps to 17.5% in farm equipment (FE) segment. However, the core tractor business reported 70 bps q-o-q improvement in EBIT margin to 18.6%.
- Automotive business has been consistently reporting sequential improvement in EBIT margins. In Q1FY24, automotive EBIT margin expanded by 40 bps q-o-q to 7.5%.
- PV business continue to enjoy healthy order book. Current order book stands at 281,000 units.

Key negatives

- Automotive segment has reported 1.6% q-o-q decline in volumes.
- ASPs in FE business declined by 3.2% q-o-q.

Management Commentary

- The investment in RBL bank is part of long-term strategy and no plan to deviate from its disciplined capital allocation commitment.
- Tractor industry is expected to grow by low -mid single digit rate in FY24.
- Over FY22 to Q1FY24 M&M has generated net cash of Rs 13,842 crore, which was constituted by (1) Rs 4072 crore from auto segment, (2) Rs 4,574 crore by farm segment and (3) Rs 5,196 crore from services segment.

Our Call

Valuation - Maintain Buy with revised PT of Rs. 1665: Q1FY24 operating performance was robust led by strong volume performance in tractor segment, operating leverage benefit and healthy EBIT performance in both FES and automotive segment. Further the management continue to maintain its guidance of low-mid single-digit growth in tractor segment for FY24 and focussing on increasing dispatches in PV segment as its order book stands at 281,000 units. While M7M has acquired 3.5% stake in RBL bank as a part of its long-term strategy related to its financial business (Mahindra Finance), it maintains its commitment for a disciplined capital allocation and maintain its policy of not to invest in non-core areas in normal situations. M&M is consistently focussing on improvement in its operating profitability. Its EV projects are on track. Historically M&M's operating performance has largely depended on the tractor segment; however, we believe the auto segment is expected to drive its operating performance in coming years due to increasing volumes going ahead. We maintain a Buy rating on the stock with revised PT of Rs 1,665 due to healthy robust order book in PV segment, market leadership in tractor segment, opportunity to grow in farm machinery segment and its road map to play in EV space.

Key Risks

Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment. Unsuccessful new launches and volatility in raw material cost trend can also impact our projection adversely. Any deviation from capital allocation strategy would raise concern on its return ratios.

Valuation

| Particulars | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|--------|--------|--------|--------|----------|
| Revenue | 44,630 | 57,787 | 84,960 | 94,180 | 1,06,056 |
| Growth (%) | -0.5 | 29.5 | 47.0 | 10.9 | 12.6 |
| AEBITDA | 6,957 | 7,027 | 10,442 | 13,091 | 15,272 |
| AEBITDA margin (%) | 15.6 | 12.2 | 12.3 | 13.9 | 14.4 |
| APAT (Rs crore) | 2,303 | 5,035 | 7,700 | 9,428 | 11,250 |
| Growth (%) | 49.3 | 118.6 | 52.9 | 22.4 | 19.3 |
| A EPS (Rs.) | 19 | 40 | 62 | 76 | 90 |
| P/E (x) | 79.1 | 36.2 | 23.7 | 19.3 | 16.2 |
| P/B (x) | 5.2 | 4.7 | 4.2 | 3.6 | 3.2 |
| EV/EBITDA (x) | 23.2 | 22.8 | 14.9 | 11.8 | 10.0 |
| ROE (%) | 6.6 | 12.9 | 17.8 | 18.9 | 19.5 |
| ROCE (%) | 5.8 | 11.5 | 16.5 | 17.6 | 18.3 |

Source: Company; Sharekhan estimates

No plan to deviate from disciplined capital allocation strategy

- ◆ While M&M has acquired 3.53% stake in RBL Bank at Rs 417 crore, but it believes that its overall capital allocation principal has not changed given it considers automobiles, Farm, IT, Financials as its key core areas.
- ◆ The incremental investment in RBL after a gap of 2-3 years would be dependent on the business situation and strategic reasons for further investment.
- ◆ Key objective for an investment in RBL bank is to understand the banking operations as it already owns a NBFC – Mahindra Finance.
- ◆ Management considers investment in the banking system would have a synergy benefit with Mahindra finance after 5-7 years.
- ◆ It is not expecting any immediate tangible benefit from investment in RBL bank but assumes that it would help it in expanding its understanding in financial system in long run.
- ◆ Largely, the capital allocation principal is intact, and it is committed to not to use cash generated from farm and auto business to invest in other service areas.
- ◆ It has not planned to enter banking sector immediately.
- ◆ M&M has acquired stake in RBL bank at less than 1x P/B valuation.

Automotive segment: strong order book

- ◆ While M&M continues to face supply chain issues in Q1FY24, it indicates that supply chain issue has been gradually easing out from Q2FY24 onwards. Further it has been on track in achieving the targeted production capacity in SUV space. SUV capacity is expected to reach to 49k units / month by the end of FY24 from 29k units/ month in Fy23.
- ◆ Automotive segment reported flat (+0.2%) growth on q-o-q basis on account of 1.6% q-o-q decline in volumes and 1.9% q-o-q increase in ASPs.
- ◆ EBIT margin rose by 40 bps q-o-q to 7.5%.
- ◆ Auto segment has reported a PAT of Rs 1401 crore in Q1FY24.
- ◆ Operating performance was driven by operating leverage benefit.
- ◆ Revenue market share in SUV segment has improved from 19.6% in Q4FY23 to 20.2% in Q1FY24
- ◆ Order book position stood at 281,000 units compared to 292,000 units in Q4FY23 and cancellation rate is below 8%. Model wise order book is as : XUV300 & XUV400 : 11k, XUV700 : 77k, THAR : 68K, Bolero : 8.4k, Scorpio : 117k.
- ◆ Retail sales in Q1FY24 was 10% below wholesales in SUV segment and dealer inventory stands at 30 days. The dealer's inventory and lower retail sales is due to ongoing conversion cycle at retail end.
- ◆ In PV segment the demand for the products above Rs. 10 lakh is high compared to the product with price tag below Rs. 10 lakh.
- ◆ Over FY22 to Q1FY24, automotive business has generated net cash of Rs 4,072 crore.

Farm equipment (FE) business: maintaining high margin trajectory

- ◆ While tractor industry is showing slow growth due to high base, M&M's market share has expanded from 40.7% in Q4FY23 to 42.9% in Q1FY24.
- ◆ FE segment has reported 24.0% q-o-q increase in revenue on the back of 28.2% q-o-q increase in volumes and 3.2% q-o-q decline in ASPs.
- ◆ EBIT margin expanded by 110 bps to 17.5% in FE segment. However, the core tractor business reported 70 bps q-o-q improvement in EBIT margin to 18.6%. FE business includes relatively low margin farm machinery business also and hence reports EBIT margin lower than that of core tractor's EBIT margins.
- ◆ The entry into light weight tractor segment has helped M&M in gaining market share in tractor segment.

- ◆ Revenue from farm machinery segment stood at Rs 181 crore (+25% y-o-y) and management is looking for a 40% y-o-y growth in farm machinery segment in FY24.
- ◆ FE business has reported 110 bps improvement in EBIT margin.
- ◆ Over FY22- Q1FY24 FE business has generated net cash of Rs 4,574 crore.

EV business is on track

- ◆ The management is selling stake in the EV business not only for funding but for the strategic reasons.
- ◆ Along with funding, the global investors are coming with an experience and relationship which would guide the company in taking its business decision.
- ◆ The company assumes that EVs would have 20-30% penetration in SUV portfolio by 2027.
- ◆ It is targeting to sell 18,000 XUV 400s in FY24 and has been looking to higher monthly run rate from H2FY24 onwards compared to in H1FY24 as it is looking to stabilize the quality of product.
- ◆ EV project has been on track and M&M is expected to launch (1) XUV.e8 by Dec 24, (2) XUV.e9 Apr 2025, (3) BE.05 by Oct 2025(4) BE RALL-E by Oct 2025 and (5) BE.07 by Oct 2026
- ◆ M&M is expected to invest Rs 10,000 crore in EV business (MEAL) by 2027.
- ◆ Temasek will invest Rs 1,200 crore in one or more tranches its EV business for: 1.49% to 2.97% and valued MEAL at Rs 80,580 crore compared to Rs 70,070 crore during earlier investment by BII.

Change in reporting structure of financials

- ◆ Going forward M&M would not report exceptional losses/ gain in its financial reporting.
- ◆ It would break up its revenue structure among individual segment and each segment would be headed by a defined leadership. Who would be responsible for the performance of that segment.
- ◆ The management believes that this would enhance transparency and increase accountability in leadership.

Results (Standalone)

| Particulars | Rs cr | | | | |
|----------------|--------|--------|--------|--------|--------|
| | Q1FY24 | Q1FY23 | YoY % | Q4FY23 | QoQ % |
| Revenue | 24,368 | 19,613 | 24.2 | 22,571 | 8.0 |
| Total Expenses | 20,821 | 17,272 | 20.6 | 19,774 | 5.3 |
| EBITDA | 3,547 | 2,341 | 51.5 | 2,797 | 26.8 |
| Depreciation | 828 | 681 | 21.7 | 839 | (1.2) |
| Interest | 32 | 70 | (53.7) | 70 | (53.7) |
| Other income | 658 | 239 | 175.6 | 334 | 97.0 |
| PBT | 3,345 | 1,829 | 82.8 | 2,223 | 50.5 |
| Tax | 571 | 358 | 59.4 | 162 | 252.1 |
| Reported PAT | 2,774 | 1,430 | 93.9 | 1,549 | 79.1 |
| Adjusted PAT | 2,774 | 1,471 | 88.5 | 2,061 | 34.6 |

Source: Company, Sharekhan Research

Key Ratios

| Particulars | Q1FY24 | Q1FY23 | YoY (bps) | Q4FY23 | QoQ (bps) |
|------------------------|--------|--------|-----------|--------|-----------|
| Gross margin (%) | 25.7 | 23.4 | 230 | 25.0 | 60 |
| EBIDTA margin (%) | 14.6 | 11.9 | 260 | 12.4 | 220 |
| Net profit margin (%) | 9.1 | 6.8 | 230 | 10.0 | (80) |
| Effective tax rate (%) | 7.3 | 19.4 | (1,210) | 16.6 | (930) |

Source: Company, Sharekhan Research

Segmental Results (Standalone)

| | | | | | | Rs cr |
|--|----------|----------|-----------|----------|-----------|-------|
| Volume (Units) | Q1FY24 | Q1FY23 | YoY % | Q4FY23 | QoQ % | |
| Automotive | 1,86,138 | 1,53,462 | 21.3 | 1,89,227 | (1.6) | |
| Farm equipment | 1,15,009 | 1,18,509 | (3.0) | 89,731 | 28.2 | |
| Total volumes | 3,01,147 | 2,71,971 | 10.7 | 2,78,958 | 8.0 | |
| Segmental revenue | Q1FY24 | Q1FY23 | YoY % | Q4FY23 | QoQ % | |
| Automotive | 16,621 | 12,653 | 31.4 | 16,588 | 0.2 | |
| Farm Equipment | 7,456 | 7,087 | 5.2 | 6,012 | 24.0 | |
| Auto Investments | 50 | 53 | (4.7) | 3 | 1,746.5 | |
| Farm Investments | - | - | | 27 | | |
| Investments in Industrial Businesses & Consumer Services | 262 | 35 | 646.5 | 421 | (37.8) | |
| less intersegment/ others | (21) | (15) | 33.9 | (437) | | |
| Total income | 24,368 | 19,813 | 23.0 | 22,614 | 7.8 | |
| Revenue mix % | Q1FY24 | Q1FY23 | YoY (bps) | Q4FY23 | QoQ (bps) | |
| Automotive | 68.2 | 63.9 | 430.0 | 73.4 | (510.0) | |
| Farm Equipment | 30.6 | 35.8 | (520.0) | 26.6 | 400.0 | |
| Auto Investments | 0.2 | 0.3 | (10.0) | 0.0 | 20.0 | |
| Farm Investments | - | - | - | 0.1 | (10.0) | |
| Investments in Industrial Businesses & Consumer Services | 1.1 | 0.2 | 90.0 | 1.9 | (80.0) | |
| less intersegment/ others | (0.1) | (0.1) | - | (1.9) | 180.0 | |
| Total income | 100.0 | 100.0 | - | 100.0 | - | |
| Segmental realisation (Rs/Unit) | Q1FY24 | Q1FY23 | YoY % | Q4FY23 | QoQ % | |
| Automotive | 8,92,940 | 8,24,513 | 8.3 | 8,76,600 | 1.9 | |
| Farm equipment | 6,48,263 | 5,98,034 | 8.4 | 6,69,969 | (3.2) | |
| Segmental EBIT | Q1FY24 | Q1FY23 | YoY% | Q4FY23 | QoQ% | |
| Automotive | 1,252 | 672 | 86.3 | 1,176 | 6.5 | |
| Farm Equipment | 1,303 | 1,125 | 15.8 | 985 | 32.3 | |
| Auto Investments | 456 | 12 | 3,724.2 | (698) | (165.3) | |
| Farm Investments | - | - | | (97) | | |
| Investments in Industrial Businesses & Consumer Services | 278 | 57 | 389.6 | 338 | (17.8) | |
| Total EBIT | 3,289 | 1,865 | 76.3 | 1,704 | 93.0 | |
| Volume mix (%) | Q1FY24 | Q1FY23 | YoY (bps) | Q4FY23 | QoQ (bps) | |
| Automotive | 61.8 | 56.4 | 540 | 67.8 | (600) | |
| Farm equipment | 38.2 | 43.6 | (540) | 32.2 | 600 | |
| Segmental EBIT Margin (%) | Q1FY24 | Q1FY23 | YoY (bps) | Q4FY23 | QoQ (bps) | |
| Automotive | 7.5 | 5.3 | 220 | 7.1 | 40 | |
| Farm equipment | 17.5 | 15.9 | 160 | 16.4 | 110 | |

Source: Company, Sharekhan Research

Change in estimates

| | | | | | | | Rs cr |
|----------------|---------|----------|--------|----------|----------|-------|-------|
| Particulars | Earlier | | New | | % change | | |
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E | |
| Revenue | 93215 | 1,03,874 | 94,180 | 1,06,056 | 1.0% | 2.1% | |
| AEBITDA | 11838 | 13,649 | 13,091 | 15,272 | 10.6% | 11.9% | |
| AEBITDA margin | 12.7% | 13.1% | 13.9% | 14.4% | | | |
| APAT | 8475 | 10,016 | 9,428 | 11,250 | 11.2% | 12.3% | |
| EPS (Rs) | 68 | 81 | 76 | 90 | 11.2% | 12.3% | |

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand likely to pick up in automotive and farm equipment

We expect tractor sales volumes to remain healthy over the next couple of years, aided by healthy rural cash flows. Growth might moderate in the medium term due to high base. We expect the rural economy to recover with healthy rate on back of government's grounded initiatives for agriculture and farming sector, higher grain prices in Mandis than MSPs, and healthy reservoir levels. Further PV segment is expected to register single digit volume growth in FY24 on the back of robust volume performance in FY24. However, we believe that PV cycle is on structural uptick phase. The shift in demand from cars segment to SUVs would help OEMs to generate healthy operating performance. Along with that MHCV cycle would continue to follow the macro uptrend. The revival in bus segment and rise in replacement demand would support the growth in CV segment.

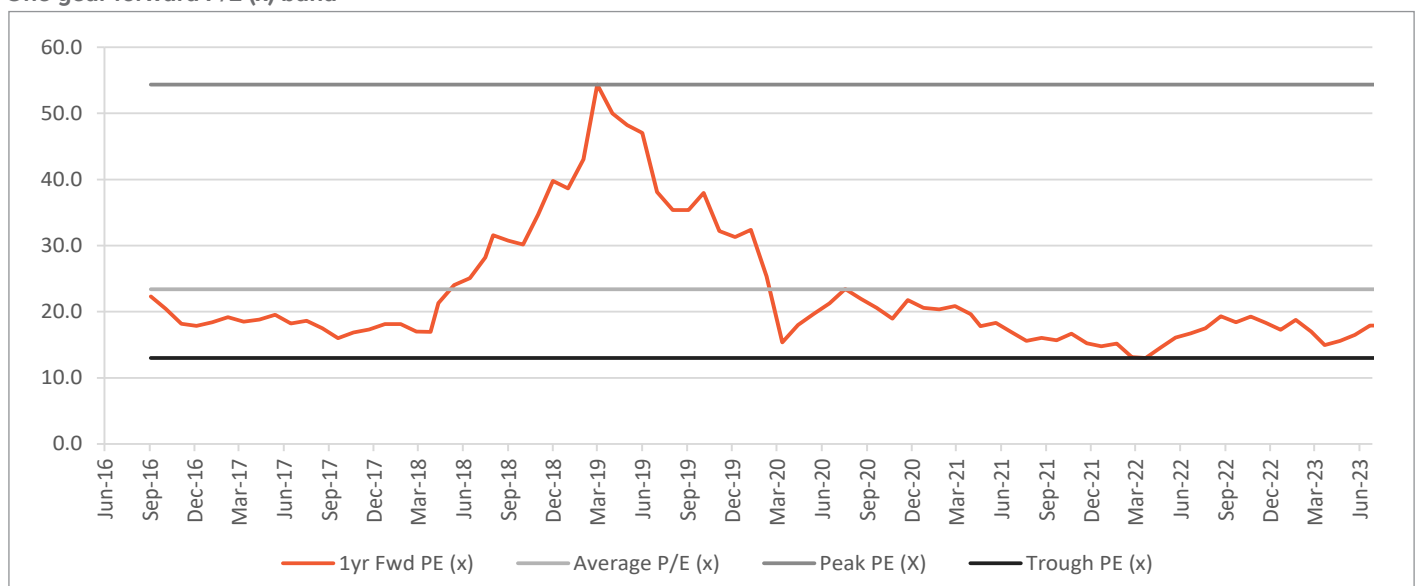
■ Company outlook - healthy traction continue

We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment, and regaining its market share in the highly competitive SUV segment. M&M is on track its growth roadmap in EV segment. The company eyes a 10x growth in its farm equipment business by FY2027E, while strengthening its SUV segment via new launches. M&M is timely addressing the capacity constraints in the PV segment. Given the high exposure towards rural economy, M&M is expected to do well on recovery in rural areas. M&M generates 65% of its volumes from the rural segment. It has been a market leader in the tractor segment. While the growth in tractor industry is expected to moderate due to high base, we believe M&M would grow ahead of the industry due to its market leadership position and deep penetration in the rural market. Besides its core tractor business, the company has been focussing on the expansion in the farm machinery business. Currently M&M is focussing on expansion of the agri business in place of targeting a specific operating performance. The company has laid down a strong roadmap for its automotive segment by investing in technology and launching new products regularly to regain its market share in the segment. M&M's focus continues to drive bookings in key brands – Thar, XUV-300, Scorpio, and Bolero, despite long waiting periods.

■ Valuation - Maintain Buy with revised PT of Rs. 1665

Q1FY24 operating performance was robust led by strong volume performance in tractor segment, operating leverage benefit and healthy EBIT performance in both FES and automotive segment. Further the management continue to maintain its guidance of low-mid single-digit growth in tractor segment for FY24 and focussing on increasing dispatches in PV segment as its order book stands at 281,000 units. While M7M has acquired 3.5% stake in RBL bank as a part of its long-term strategy related to its financial business (Mahindra Finance), it maintains its commitment for a disciplined capital allocation and maintain its policy of not to invest in non-core areas in normal situations. M&M is consistently focussing on improvement in its operating profitability. Its EV projects are on track. Historically M&M's operating performance has largely depended on the tractor segment; however, we believe the auto segment is expected to drive its operating performance in coming years due to increasing volumes going ahead. We maintain a Buy rating on the stock with revised PT of Rs 1,665 due to healthy robust order book in PV segment, market leadership in tractor segment, opportunity to grow in farm machinery segment and its road map to play in EV space.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

M&M is the flagship company of Mahindra Group. M&M's core business houses the automotive and tractor segments. M&M is the only automotive company that is virtually present across all segments. The company is the market leader in LCVs and is a leading UV and 3W player. M&M also manufactures medium and heavy commercial vehicles (MHCV) and is present in the 2W space through its investment in Jawa. Apart from being a strong player in the automotive space, M&M is the market leader in the tractor segment, having a market share of about 40%. Apart from the core business, M&M is also the promoter/holds controlling interest in companies that are engaged in diverse businesses under the Mahindra brand (IT services, NBFC, logistics, hospitality, real estate, and auto ancillary business).

Investment theme

M&M expects the tractor industry's growth to remain buoyant with strong farm sentiments on account of higher rainfall, expected increase in kharif output, and increased government spending. Higher ground water reservoir levels coupled with robust farmer cash flows mean tractor demand would remain decent even at high base. Automotive volumes are also improving. With the success of new launches (Thar with strong bookings) and inventory filling (automotive inventory is lower than normal), automotive demand is expected to improve further. Going ahead, M&M's strategy revolves around tighter capital allocation, exit from loss-making subsidiaries, and focusing on the core UV business and emerging EV businesses. The company has started to take concrete steps to achieve and sustain 18% RoE from all its businesses, which makes a compelling case for re-rating of the stock. This would further substantially reduce losses in overseas subsidiaries and act as a key re-rating trigger for M&M. We maintain our Buy call on the stock.

Key Risks

- ◆ Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment.
- ◆ Unsuccessful or delayed launches may affect the company's growth prospects.

Additional Data

Key management personnel

| | |
|-------------------|--|
| Anand G. Mahindra | Chairman |
| Anish Shah | Managing Director and CEO |
| Rajesh Jejurikar | Executive Director (Auto and Farm Sectors) |
| Manoj Bhat | Group Chief Financial Officer |

Source: Company

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|--|-------------|
| 1 | Prudential MGMT & Services | 11.38% |
| 2 | M&M Benefit Trust | 6.79% |
| 3 | Life Insurance Corp of India | 5.54% |
| 4 | First State Investments ICVC | 4.58% |
| 5 | SBI Funds Management Ltd | 3.82% |
| 6 | M&M EMP STK OP Trust | 3.63% |
| 7 | First Sentier Investors LLC | 3.17% |
| 8 | BlackRock Inc | 3.13% |
| 9 | Vanguard Group Inc | 2.56% |
| 10 | Vanguard Emerging Markets Stock Index Fund | 2.04% |

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 deteriorating 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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