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		↔	
RQ		↓	
RV		↓	

ESG Disclosure Score NEW

ESG RISK RATING 36.80

Updated Dec 16, 2022

High Risk

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

Source: Morningstar

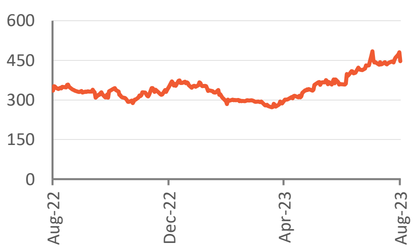
Company details

Market cap:	Rs. 4,028 cr
52-week high/low:	Rs. 489 / 268
NSE volume: (No of shares)	23.6 lakh
BSE code:	532531
NSE code:	STAR
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	29.3
FII	16.7
DII	20.0
Others	34.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	32.9	50.6	33.0
Relative to Sensex	1.9	25.7	40.9	19.9

Sharekhan Research, Bloomberg

Strides Pharma Sciences Ltd

Mixed bag Q1; margins on upswing

Pharmaceuticals		Sharekhan code: STAR		
Reco/View: Hold	↓	CMP: **Rs. 446**	Price Target: **Rs. 491**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Strides Pharmasciences Ltd. posted mixed results for Q1FY24. The reported sales growth was weak with a decline of 1.1% y-o-y (-5.7% q-o-q) to Rs. 930 crore versus our estimate of Rs. 1,097.8 crore. Reported sales growth lagged behind estimates due to a weak show in the emerging markets segment. At the same time, the company continued to make reported net losses (due to lower sales, higher finance costs and losses at associates including at Stelis Biopharma of Rs. 107.1 crore in Q1FY24 due to inventory write-downs from unsold Sputnik vaccines).
- It has announced a combined CDMO division's formation under Stelis Biopharma with $400 million of revenues likely to be accretive from FY27 onwards, with an incremental capex of $30 million likely to be incurred over short-medium term.
- While we believe the company has a strong focus on margin expansion through calibrated product launches and market expansion in emerging markets, we also believe that higher debt and finance costs may remain a concern in the short to medium term, given the higher debt levels the company has.
- While we upgrade the estimates in line with higher operating margins in Q1, we downgrade the rating to Hold from Buy as the stock trades at ~17.2x/~11.4x its FY2024E/FY2025E revised earnings vs peers, indicating fair valuation levels for Strides with all catalysts priced in.

Q1FY24 revenues declined ~1.1% y-o-y (-5.7% qoq) to Rs. 930 crore. It is 15.3% below our estimate of Rs. 1,097.8 crore. This was driven by regulated markets growing at 25% y-o-y with the US growing at 32% y-o-y and other regulated markets growing at 15% y-o-y. We had anticipated 20% y-o-y growth for each. Emerging markets performance was slower; however, the management expects it to gain pace in the rest of FY24. Growth in regulated markets was driven by disciplined product launches and sustained market share in existing products. Operating Profits, however, increased at a strong pace of ~221.3% y-o-y (+7.1% q-o-q) to Rs. 166.6 crore. This was due to OPM margins improving by a strong 1240 bps y-o-y and 214 bps qoq to ~17.9%, which was ~141 bps above our estimate of 16.5% margins. This is indicative of likely strong growth in cash flows from operations. Adjusted PAT before exceptional items and net loss from associate companies stood at Rs. 29.5 Crores vs. adjusted net loss of Rs. 22.1 crore in Q1FY23 and adjusted net profit of Rs. 34.15 crore in Q4FY23 while reported net loss was at a lower levels of Rs. 9.36 crore in Q1FY24 vs. a net loss of Rs. 135.3 crore in Q1FY23 and Rs. 13.8 crore in Q4FY23. This was far below our estimate of reported net profits of Rs. 38.8 crore for Q1FY24.

Key positives

- EBITDA margins have reached a historical peak of 17.9%, over the last year, in Q1FY24.
- Cash balance stood at Rs. 406 as of Q1FY24 vs. Rs. 312 crore as of Q4FY23.

Key negatives

- Finance costs rose 40.1% y-o-y to Rs. 76.4 crores in Q1FY24
- Other income fell by 36.2% y-o-y to Rs. 8.6 crores in Q1FY24.
- Continued reported net losses due to losses from associates including net loss of Rs. 107.1 crore at Stelis Biopharma in Q1FY24.
- Debt rose to Rs. 268.6 crore as of Q1FY24 vs. Rs. 266 crore in Q4FY23 due to higher working capital loans.

Management Commentary

- US revenues can continue to be around $240-250 million a year.
- Revenue CAGR is at 15% and EBITDA CAGR has to be greater than that as achieved in the last 4 quarters and will be the focus for the next year until FY25 to generate free cash and bring down the debt to EBITDA of the group to under 2x.
- Employee and other operating costs are expected to settle around Rs. 400 crore a quarter. It does not intend to sell products which does not meet its gross margins threshold criterion.
- Stelis has commercial contracts worth $400 million to start supplying from FY27 onwards and Stelis is expected to turn EBITDA positive from H2FY24 onwards and the CDMO business can make anywhere between 28-30% kind of EBITDA margins and once the Biologics business (complex injectables and devices) starts commercial supplies from FY27 it can become a major contributor to profitability in the long term.

Revision in estimates – As the company has seen a strong margin expansions in Q1FY24 we revise upwards the adjusted earnings by 25.7% for FY24 and by 9.2% for FY25E.

Our Call

Valuation – Downgrade to Hold with a revised PT of Rs. 491: The company has posted a mixed Q1FY24 with strong margins expansion due to improved gross margins and cost control measures led by calibrated and disciplined product launches the company carries out to safeguard profitability and costs management program it embarked on, a year ago, respectively. We believe that while incorporating its Q1FY24 based margin expansions in the forecast can enhance its adjusted earnings by 25.7% in FY24E and by 9.2% in FY25E, its increasing debt and finance costs, while it has plans to form a CDMO division under Stelis with a likely incremental capex of $30 million over short – medium term, may continue to impact its debt reduction targets. We downgrade the stock to Hold from Buy with a revised PT of Rs. 491. The stock trades at ~17.2x/~11.4x its FY2024E/FY2025E adjusted earnings vs peers that are trading at ~16.7x/`14.8x its FY24E/FY25E EPS, indicating fair valuation levels for the stock with all the catalysts already priced in.

Key Risks

Any change in the regulatory landscape and adverse forex movements can affect earnings prospects.

Valuation (Consolidated) Rs cr

Particulars	FY2022	FY2023	FY2024E	FY2025E
Total Sales	3070.3	3688.4	4260.6	4905.9
EBIDTA	-10.3	430.2	784.5	940.7
OPM (%)	-0.3	11.7	18.4	19.2
Adj PAT*	-95.8	81.1	243.7	369.4
EPS (Rs)	-10.4	8.6	25.9	39.3
PER (x)	-43.1	51.7	17.2	11.4
EV/Ebidta (x)	-626.7	15.9	8.4	7.1
ROCE (%)	-2.0	5.2	13.1	15.7
RONW (%)	-19.5	-9.2	5.0	9.9

*Source: Company; Sharekhan estimates; * Excluding exceptional items and Losses from JVs*

Strong Q1: Driven by strong growth in Regulated Markets:

Regulated markets grew strongly led by product launches and sustained product market shares: The company posted 32.3% y-o-y (-7.8% q-o-q) rise in the US sales to Rs. 469.9 crore ($57 million, 50.5% of revenue) while other regulated markets (ORMs) such as UK and Nordic and partnership business in Europe, Australia, and Canada, experiencing a 15.4% y-o-y (-14.4% q-o-q) rise in revenue to Rs. 287.3 crore. ($35 million, 30.9% of revenues). Growth in the US market was driven by 2 new products' launch and sustained market share in its products portfolio. H1 is typically a seasonally leaner period and hence the growth was subdued q-o-q. Out of the 60 commercial products in US Strides is ranked among top 3 in 34 products, which contributes ~ 75% of the total US revenue. The company expects to focus on fast tracking launching of ~ 15 new products annually from its basket of approved 260+ ANDAs and 280+ ANDAs being filed with the USFDA. The company expects to launch the products in a calibrated or discretionary manner, which we believe is to maintain profitability.

ORMs' performance was in line with the historical trend and is expected to scale up in H2FY24. Strong pipeline of order book for the European B2B partnerships under SynergICE is expected to drive growth for ORMs. Further, expansion of products portfolio, entry into newer markets, and new customer acquisition will drive sustainable growth in the future. Also, scaling up of its partnership business with strategic alliances and enhancing front-end presence through new channel additions and portfolio expansion will drive growth.

Emerging markets put up weak show on reorganization efforts and high base effect

Emerging markets witnessed a 25.5% y-o-y (+20.5% q-o-q) decline in revenue to Rs. 174.8 crore. This was due to a 23.7% y-o-y (-11.7% q-o-q) decline in growth markets business (brands Africa, South Africa, and newer geographies such as LATAM, MENA, CIS, and APAC) to Rs. 77.8 crore. (8.4% of revenue) and a 26.8% y-o-y (+70.2% q-o-q) fall in Institutional business or access business to Rs. 97 crore. (10.4% of revenue). In Q1FY24, the company restructured the growth market segment by discontinuing operationally non profitable products and investing in newer markets. At the same time, high base effect in institutional business led to fall in revenue y-o-y; however, having bagged a renewed Anti-Retroviral supply contract fueled growth q-o-q, for the segment. The company expects growth segment to grow higher on the back of its increased market share with a focus on the efficiency and effectiveness of the field force and expansion of product offerings to newer geographies through augmenting its products portfolio. The company indicates that the order book for Intuitional tender business is strong for Q2FY24. The company continues to focus on reducing COGS and enhancing its competitiveness.

Q1FY2024 conference call highlights

- **Overall Guidance:** US revenues can continue to be around $240-250 million a year in terms of revenues. US market is generally witnessing one of the highest drug shortages in terms of number of products being in the shortage list. The company does not see any immediate upside to the pricing for its products as a result, as most of drug shortages are related to injectables. In the orals solid dosages (OSD) there is a lot more discipline in supply situation and hence the company does not foresee any immediate one-time opportunity coming it way as it is involved in niche and acute therapy products only. The company is not seeing any supply shortages in the products it is into. It has not also been witnessing any pricing erosion in its portfolio as commented over the last 3 quarters and continue to believe in it because of the nature of its products portfolio where there are not too many competitors and volumes are smaller. General pricing erosion environment has improved though in the US. The company has been focused on margin expansion.
- **Guidance:** Revenue CAGR is at 15% and EBITDA CAGR has to be greater than that as achieved in the last 4 quarters and will be the focus for the next year until FY25 to generate free cash and bring down the debt to EBITDA of the group to under 2x. Once the company achieves this, it can accelerate on its expansion as it has 150 + ANDAs which are not commercialized yet in the US, which can be launched in

a price disciplined and calibrated manner. This coupled with its cost optimization measures carried out should help it grow profitably and generate free cash. It plans to expand in growth and emerging markets as well. The reduction in employee costs and other expenses were major factors to have driven its cost optimisation initiatives as last year it was doing cost optimization initiatives in Chestnut plant in the US and has started out playing out from this quarter. Freight costs have also improved. The employee and other operating costs are expected to settle around Rs. 400 crore a quarter. It does not intend to sell products, which does not meet its gross margins threshold criterion.

- **Stelis CDMO combined business-related guidance:** Stelis has commercial contracts worth $400 million to start supplying from FY27 onwards and Stelis is expected to turn EBITDA positive from H2FY24 onwards and the CDMO business can make anywhere between 28-30% kind of EBITDA margins and once the Biologics business (complex injectables and devices) starts commercial supplies from FY27 it can become a major contributor to profitability in the long term. Company will not be doing anything in APIs or vanilla OSDs. Over the next 2-3 years, once the combined CDMO business (biologics and others) comes together, it will be a $150+ million of revenues of which $50-60 million will be related to Strides CDMO revenue in year 1 and reach $400 million of revenues by FY27. Commercial Sales Agreements (CSAs) worth over $100 million a year are in place to deliver from FY27 onwards. Incremental capex in the CDMO business is funded by partners. The company does not foresee a need for a significant capex in the near term. It has only 8,000 KL of Drug Substance (DS) capacity and as it has sold Unit-3 to Syngene it may have to add microbial and DS capacity worth $30 million to get that $400 million of revenues from FY27 onwards. The company has 15 clients and secured $25 million of contracts in Q1FY24. Such contracts can be executed within 12 months but not later than 24 months.

- **Updates for Q1FY24:** Strides bounced back strongly with the three consecutive quarters of EBITDAs crossing Rs. 150 crore. in each of those quarters, coming from post covid re-set, which is complete. On a continuing business, basis, revenues increased at 11.1% y-o-y to Rs. 932 crore. in Q1FY24. However, the reported numbers do not include any divestment-related adjustments. The company has increased its gross margins significantly and also increased its EBITDA 3.5x from Rs. 48 crore in Q1FY23 to Rs. 168 crore. in Q1FY24. The losses at Stelis Biopharma (associate company) may continue until H1FY24 by when it becomes EBITDA positive. The company reported Rs. 30 crore of adjusted PAT for the first time after many quarters. Overall, Strides Pharma has its revenue and operating profits split between H1:H2 of a FY around 45-55% and hence they are on track to reach its guidance for FY24. The company has been focusing on cost controls and the same has started flowing through and enabled its operating costs to reduce significantly leading to improved margins. The company expects EBITDA margins of around 18% will inch up towards historical levels of 20% in the next couple of quarters and its continued free cash generation will ensure that it will further improve its debt position.

- **Debt reduction guidance:** The company had guided for a Rs. 500 crore of debt reduction at a group level as the company announced sale of its Unit-3 vaccine / multi modal facility of Stelis Biopharma to Syngene International in July 23 for a consideration of Rs. 702 crore, which the company hopes to close by the end of Q3FY24 and with those proceeds, the company hopes to reach the guidance of Rs. 500 crore of debt reduction in FY24, which can significantly influence the overall performance of the company. Rs. 150 crore of consideration will be towards covering the operational losses until it turns EBITDA positive from H2FY24.

- **US business:** The US business has grown significantly and considering the company has a large seasonal portfolio of acute products which is more realised in H2 of a fiscal, the company was able to clock in strong growth of 32% y-o-y in the US in Q1FY24. The company continues to have product leadership in several products in the US and do not foresee any margin pressure on its portfolio of products. The company believes that the overall business in the US has stabilized, and the general sentiments are positive for the US market, which is playing out in the margin expansion.

- **ORMs:** Segment revenues grew 15% y-o-y in Q1FY24 and continues to be a significant focus market for it.
- **Access and growth markets:** The access market or institutional market is lumpy in nature which is based on the tenders it wins. Strides continues to stay invested in its growth markets in Africa and other emerging markets. The company hopes to achieve $60 million of revenue for the growth markets in FY24.
- **Stelis Biopharma:** The company is a significant Associate company for Strides Pharma and the company has de-risked this business. The company has got USFDA approvals a couple of quarters beforehand for its sites and since then have been adding number of customers to the CDMO business. The company closed order supply contracts worth $25 million in Q1FY24 for CDMO services, which is far higher than its last three years of CDMO order book. The commercial supplies have started from Q4FY23, and the client of the company has received the first approval for the product developed and produced at its site and one more customer has got 3 product approvals and these products approvals and manufacturing coming to Stelis will influence the sales growth for its CDMO business. The company will be manufacturing complex devices and injectables. The company has just commissioned a drug substance (DS) plant and has bagged the large DS award from one of the top 10 pharma companies. It is a significant contract for developing its CDMO business as it will help it partner with pharma companies for a key biological product going off patent towards the end of the decade.
- **Stelis' debt reduction:** After the transaction with Syngene International related to Stelis' facility 3, the debt at Stelis has reduced from Rs. 1,400 in FY23 to Rs. 740 crore as of Q1FY24 and is expected to reduce down to sub Rs. 300 crore. and reduce the guarantees issued by the parent associated with that debt.
- **Combining businesses:** The company is committed to make Strides a significant player and hence intends to propose to combine Strides Pharma's all CDMO business under Stelis Biopharma to turn into a multi-specialty CDMO business in biologics and complex injectables and other complex drug delivery systems. This will be one of the divisions of Strides Pharmasciences with Strides having control in it. The company has appointed one of the big 4 consultancy firms for valuation of the business and a leading global banker to share the opinion. All these will be in place in the next 12 weeks. The company expects to have a separate CDMO business of $150 million in year 1 and a significantly profitable business from the beginning and it should unlock value for all stakeholders. This is subject to shareholders and other approvals. The CDMO business that the company intends to build will be differentiated and will not have APIs and OSD formats and pure play pharma CDMO to create significant value for Strides shareholders.
- **Agreement to sell unit 3 to Syngene International in Stelis Biopharma:** The company entered into a binding agreement with Syngene International to divest its multi modal manufacturing (vaccines) facility at Bommasandra Industrial area, Bangalore India Unit-3 facility for a gross value of Rs. 702 crore. in cash. Stelis will have drug substance (DS) and integrated drug substance (IDS) programs at its drugs product flagship facility, Unit 2, at Bangalore. Stelis will also have the unit 1 facility for process and analytical development for small scale and late-stage development studies. Unit-2 is approved by the USFDA, EUGMP, TGA and Australia, amongst several other regulators. The transaction with Syngene International is likely to go through in Q3FY24.

Q1FY24 results Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Total Income	930.0	940.7	-1.1%	986.4	-5.7
Expenditure	763.4	888.9	-14.1%	830.8	-8.1
Operating profit	166.6	51.9	221.3	155.6	7.1
Other income	8.6	13.5	-36.2	27.1	-68.1
Interest	76.4	54.5	40.1	80.5	-5.1
Depreciation	59.6	60.4	NM	60.9	-2.2
PBT	39.2	-49.6	NM	41.2	-4.9
Tax	9.7	-27.5	NM	7.1	36.6
Adjusted PAT	29.5	-22.1	NM	34.15	-0.1
Exceptional items	-6.0	-56.8	NM	-7.3	NM
Profits from associates	-32.9	-56.4	NM	-40.6	NM
Reported PAT	-9.4	-135.3	NM	-13.8	NM
Margins			**BPS**		**BPS**
Gross Margins (%)	58.6	49.9	873.9	59.4	-76.9
EBIDTA margin (%)	17.9	5.5	1240.1	15.8	214.3
Adjusted Net profit margin (%)	3.2	-2.3	552.7	3.5	-28.4
Tax Rate (%)	24.7	55.4	NM	17.2	748.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector View – Regulatory concerns and pricing erosion prove a hurdle over the short-medium term.**

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers in the long term. However, ongoing USFDA plant inspections and a few companies being issued Form-483 with observations point at apparent regulatory concerns. We believe in the near term, based on the headwinds that may drag the performance, especially in the API and CDMO space and for large pharma players seeing USFDA OAI or a WL status on their facilities, we have a Neutral view of the sector.

■ **Company Outlook – Green shoots of revival visible**

Strides is well-positioned to benefit from opportunities in the global pharmaceutical market. The company derives a higher share of revenues from regulated markets, especially the US. Healthy growth in the base business in the US and a strong product launch pipeline are expected to fuel the segment's growth. Strides has a strong product pipeline, which is approved but yet to be commercialised and offers sizeable market opportunities. Moreover, the recent acquisition of the product portfolio from Endo Pharmaceuticals, including commercialised products, would also add to the company's product basket as well as diversify its portfolio across therapies and dosage forms. Growth prospects in other regulated markets are also likely to be better, led by product launches, increased market share, and portfolio optimisation/maximisation. The emerging markets segment is expected to gain traction, backed by likely revival in the institutional business and growth in the African business. Further, the management expects challenges in the US business in the form of price erosion, and elevated inventory levels to normalise soon and has guided for $220-240 million of revenues by FYFY23, translating into strong growth momentum. As markets open up, the performance of other regulated markets is also expected to improve going ahead. Further, Stelis Biopharma, the CDMO arm of the company, is progressing well and has added six new customers in the first year of operations.

■ **Valuation – Downgrade to Hold with a changed PT of Rs. 491**

The company has posted a mixed Q1FY24 with strong margins expansion due to improved gross margins and cost control measures led by calibrated and disciplined product launches the company carries out to safeguard profitability and costs management program it embarked on, a year ago, respectively. We believe that while incorporating its Q1FY24 based margin expansions in the forecast can enhance its adjusted earnings by 25.7% in FY24E and by 9.2% in FY25E, its increasing debt and finance costs, while it has plans to form a CDMO division under Stelis with a likely incremental capex of $30 million over short – medium term, may continue to impact its debt reduction targets. We downgrade the stock to Hold from Buy with a revised PT of Rs. 491. The stock trades at ~17.2x/`11.4x its FY2024E/FY2025E adjusted earnings vs peers that are trading at ~16.7x/`14.8x its FY24E/FY25E EPS, indicating fair valuation levels for the stock with all the catalysts already priced in.

Peer Valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Caplin Point	913	80.7	6,929	18.6	16.7	14.8	12.7	10.8	9.1	22.4	20.2	19.0
Strides Pharma Science	446	9.0	4,027	51.7	17.2	11.4	15.9	8.4	7.1	-9.2	5.0	9.9

Source: Company, Sharekhan estimates

About company

Strides is a global pharmaceutical company operating in two business verticals, viz – regulated markets and emerging markets. Regulated markets include the US and other regulated markets. The balance is constituted by emerging market verticals, which include Africa and institutional business. With respect to segments, Strides operates in the pharma generics, branded generics, and institutional businesses. The pharma generics business largely comprises the regulated markets business and is led by IP-driven product licensing and marketing and distribution partnerships across the globe. Strides is among the leading players worldwide in soft gel capsules. The branded generic segment comprises the Africa business. Africa poses a significant opportunity for pharmaceutical companies all over the world. While it is a very complex market to do business, it demonstrates an industry-leading growth trajectory, driven by increasing urbanisation and rapid expansion of primary healthcare facilities. In addition to the Africa business, the emerging markets vertical includes the institutional business. Under this, Strides manufactures drugs in the anti-retroviral, anti-malarial, anti-tuberculosis, Hepatitis, and other infectious disease drug segments. Customers for this business segment include institutionally funded aid projects and global procurement agencies.

Investment theme

The company derives a higher share of revenue from regulated markets, especially the US. Strides has a strong product pipeline, which is approved but yet to be commercialised and offers sizeable market opportunities. Moreover, the recent acquisition of the portfolio from Endo Pharmaceuticals, including commercialised products, would also add to the product basket as well as diversify the portfolio across therapies and dosage forms. Growth prospects in other regulated markets are also likely to be better, led by product launches, increased market share, and portfolio optimisation. However, with the steep price erosion in US markets, overall gross margins were under pressure during FY2022. As markets opened up, the performance of regulated markets improved, profitability is expected to reach historical peak levels over short-medium term.

Key Risks

Any change in the regulatory landscape and adverse forex movements can affect earnings prospects.

Additional Data

Key management personnel

Arun Kumar	Chairman, MD and Founder
Badree Komundur	Executive Director and Group CFO
Ms. Manjula Ramamurthy	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Pronomz Ventures LLP	18.90
2	Aditya Birla Sun Life AMC	5.66
3	Quant Money Managers Ltd.	5.27
4	Route One Offshore Master Fund LP	4.74
5	Life Insurance Corp of India	4.22
6	Route One Fund ILP	2.64
7	SBI Funds Management	2.24
8	Vanguard Group Inc.	2.20
9	Dimensional Fund Advisors LP	1.35
10	BNP Paribas	1.33

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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