Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Titan Company Ltd

Margin dip affected Q1; medium-term growth outlook intact

Consumer Discretionary	Sharekhan code: TITAN
Reco/View: Buy ↔	CMP: Rs. 2,978
Price Target: Rs. 3,350 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

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

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 14.90

Updated Jul 08, 2023

Low Risk

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

Source: Morningstar

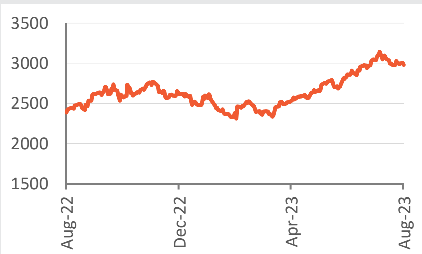
Company details

Market cap:	Rs. 2,64,423 cr
52-week high/low:	Rs. 3,211 / 2,269
NSE volume: (No of shares)	9.6 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.4
DII	10.6
Others	17.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	11.5	27.0	24.9
Relative to Sensex	-2.9	5.0	16.8	11.7

Sharekhan Research, Bloomberg

Summary

- Titan Company's (Titan's) Q1FY2024 performance was affected by higher-than-expected dip in the EBIDTA margin, resulting in a 4% y-o-y decline in PAT, while topline growth came in-line at ~21% y-o-y.
- Demand environment of the jewellery business remained good in July (in-line with June 2023). The company expects good demand in the festive and wedding season in the quarters ahead. Business margins are likely to be at 12-13% (despite the decline in Q1) in FY24.
- Titan targets a 1% market share gain in the domestic jewellery business every year, with a large focus on regional share gains through various initiatives. The company is focusing on the international jewellery business, which is expected to be one of the key drivers in the long run.
- With strong levers in place, revenue and PAT are expected to report 18% and 20% CAGR over FY2023-FY2025E. The stock trades at 71x and 56x its FY2024E and FY2025E EPS, respectively. We maintain our Buy rating with a revised PT of Rs. 3,350.

Titan registered double-digit revenue growth across divisions, while margins missed the mark leading to lower-than-expected PAT. Consolidated revenue (excluding bullion sales) grew by 21% y-o-y to Rs. 11,070 crore, driven by 19.3%, 13.4%, 10.9% and 35.7% y-o-y growth in the jewellery, watches, eyecare, and emerging business divisions, respectively. Among subsidiaries, Caratlane grew by 32.5% y-o-y, while TEAL reported a 31.5% y-o-y revenue decline. Consolidated gross margin and EBITDA margin declined by 326 bps and 321 bps y-o-y to 22.2% and 9.5%, respectively, impacted by an unfavourable mix and higher investments on brand building. Each of the divisions registered a decline in EBIT margins, with jewellery/watches/eyecare EBIT margins lower by 250 bps/166 bps/243 bps y-o-y. EBITDA decreased by 5.9% y-o-y to Rs. 1,125 crore and adjusted PAT declined by 4.3% y-o-y to Rs. 756 crore.

Key positives

- Revenue of the jewellery business grew by 19%, with 14% growth in buyers.
- The wedding segment witnessed 26% y-o-y growth, contributing 20% to the jewellery business.
- Wearables sub-segment in the watches division grew by 81% y-o-y.
- Emerging businesses grew by 35.7% y-o-y, driven by 81% y-o-y growth in Taneira.

Key negatives

- All business verticals saw a dip in EBIT margins – jewellery/watches/eyecare EBIT margins fell by 250 bps/166 bps/243 bps y-o-y.
- TEAL's revenue declined by 31.5% y-o-y, impacted by a ~78% y-o-y decline in the automation solutions (AS) business.

Management Commentary

- The jewellery business got strong traction in April due to high sales around Akshay Tritiya. Demand was soft in May but recovered in June due to higher wedding sales. Titan's gold exchange offer got strong traction (50% of sales in Q1). July was strong, in-line with June. Management expects the festive season and wedding season in H2FY2024 to drive growth.
- Titan is focusing on achieving consistent growth ahead of profitability. The company invested aggressively on exchange offers, price rationalisation programme, and regional brand-building activities to gain market share, which had an impact on margins in Q1FY2024.
- The company has maintained its guidance of 12-13% margin for the jewellery business in FY2024. Revenue of the jewellery business will continue to grow in double digits in the quarters ahead, with the demand environment remaining stable.
- Titan targets to achieve 1% market share every year in the domestic branded jewellery space. Market share is expected to cross 10% from the current 7% in the next 3-4 years.
- One-time provision led to a decline in EBIT margins of the watches business. Management has maintained its year-end guidance of 12-13% margin for the watches and wearables business.

Revision in earnings estimates – We have reduced our earnings estimates for FY2024 by 4% to factor in lower EBIDTA margins than earlier expected, while we have maintained them for FY2025. Management expects PAT growth will be lower than revenue growth in FY2024.

Our Call

View: Retain Buy with a revised PT of Rs. 3,350: Titan is aiming to generate a revenue CAGR of over 20% during FY2022-FY2027 on account of its ambitious growth plan in the medium term. Though this will have some hit on margins initially, it expects consistent growth and improved mix will drive margins in the long run. Strong growth outlook, focus on gaining sustained share gain, and strong balance sheet make it the best play in the discretionary space. The stock is currently trading at 71x and 56x its FY2024E and FY2025E earnings, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 3,350.

Key Risks

Volatile gold prices or a slowdown in key business verticals would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue (excluding bullion sales)	27,417	37,924	46,566	54,910
OPM (%)	11.6	12.0	11.1	12.1
Adjusted PAT	2,238	3,272	3,730	4,704
Adjusted EPS (Rs.)	25.2	36.9	42.0	53.0
P/E (x)	-	80.8	70.9	56.2
P/B (x)	28.4	22.3	17.6	13.8
EV/EBIDTA (x)	79.4	54.9	48.1	38.3
RoNW (%)	26.6	30.9	27.7	27.5
RoCE (%)	30.5	33.7	30.1	31.8

Source: Company; Sharekhan estimates

Mixed Q1 – Double-digit revenue growth across divisions; margins lower y-o-y in all divisions

Titan's consolidated revenue (excluding bullion sales) grew by 21% y-o-y to Rs. 11,070 crore, in line with our expectation of Rs. 11,009 crore and ahead of the average street expectation of Rs. 10,628 crore. Revenue of the jewellery business grew by 19.3% y-o-y to Rs. 9,070 crore (ex-bullion), while revenue of the watches and wearables business grew by 13.4% y-o-y to Rs. 890 crore and eyewear business grew by 10.9% y-o-y to Rs. 203 crore. Titan's subsidiary, CaratLane registered revenue growth of 32.5% y-o-y to Rs. 640 crore, while TEAL's revenue declined by 31.5% y-o-y to Rs. 61 crore. Consolidated gross margin and EBITDA margin declined by 326 bps and 321 bps y-o-y to 22.2% and 9.5%, respectively. EBITDA margin came in lower than our and average street expectation of 12.3-12.5%. All business verticals saw a dip in EBIT margins in Q1. EBIT margins of the watches and eyecare business were down by 166 bps and 243 bps to 11.5% and 17.2%, respectively. EBIT margins of the jewellery business was down by 250 bps y-o-y to 11%, affected by high base of one-time diamond price inventory gains in Q1FY2023, aggressive exchange offers, and price rationalisation programme to gain market share. EBITDA decreased by 5.9% y-o-y to Rs. 1,125 crore and adjusted PAT declined by 4.3% y-o-y to Rs. 756 crore. PAT came lower than our and average street expectation of Rs. 911 crore and Rs. 894 crore, respectively.

Jewellery business revenue growth at 19% y-o-y; margin fell by 250 bps y-o-y

The jewellery division's revenue (excluding bullion sales) grew by 19.3% y-o-y to Rs. 9,070 crore, with domestic operations recording ~20% y-o-y growth to Rs. 8,931 crore. Buyer growth came in at ~14% y-o-y and average spends per buyer increased by ~6% y-o-y. New buyer proportion at ~46% continued to be healthy. The wedding segment grew by ~26% y-o-y and contributed ~20% to the total revenue. Studded product mix remained largely unchanged y-o-y. EBIT margin was down by 250 bps y-o-y to 11.0%, affected by the high base of one-time diamond price inventory gains in Q1FY2023, aggressive exchange offers, brand-building initiatives, and a planned gold rate mark-up rationalisation programme to gain market share. In the domestic market, new store expansion (net) for the quarter consisted of nine Tanishq stores and 8 stores of Mia by Tanishq, taking the jewellery business's domestic store count to 551. In the international market, the company added one Tanishq store in the GCC region (Sharjah), taking the company's international store count to 8.

Watches and wearables grew by 13% y-o-y; EBIT margins fell by 166 bps y-o-y

The watches and wearables division registered 13.4% y-o-y growth to Rs. 890 crore, driven by ~81% y-o-y growth in the wearables sub-segment, while the analogue watches sub-segment grew at ~8% y-o-y. The domestic market registered ~15% y-o-y growth to Rs. 876 crore. The company continued to witness strong traction to the premiumisation strategy, with Titan and international brands reporting ~17% and ~38% y-o-y growth, respectively. Both together continued to improve their market share in the analogue portfolio, contributing ~60% to total sales. In the wearables sub-segment, Fastrack brand grew the fastest, contributing a lion's share in that portfolio. Among key channels, Helios, Large Format Stores (LFS) Channel, and e-commerce registered double-digit growth y-o-y, higher than the division. EBIT margin declined by 166 bps y-o-y to 11.5%. The division added 14 new stores in Titan World, 9 in Helios, and 3 in Fastrack, taking the total watches and wearables store count to 1,031.

Eyecare division growth at 11% y-o-y; EBIT margin down by 243 bps y-o-y

The eyecare division grew by 10.9% to Rs. 203 crore, driven by an ~8% y-o-y increase in the average selling price and ~3% y-o-y volume growth. House brands (~70%+ share in the portfolio) grew marginally lower than the overall division, whereas international brands grew faster at ~17% y-o-y. Among categories, revenues from sunglasses and lenses grew by ~13% y-o-y and frames grew by ~5% y-o-y. Within channels, Titan Eye+ grew in high single digits y-o-y, while the trade channel grew by ~25% y-o-y. EBIT margin of the division declined by 243 bps y-o-y to 17.2%. The division added 5 new stores in Titan Eye+ (net), whereas Fastrack stores expanded their metro presence by adding a store each in Delhi and Chennai, taking the store count for the eye care business to 908 (including one store in Dubai).

Emerging businesses continued to show strong momentum

Emerging businesses comprising fragrances and fashion accessories (F&FA), and Indian dress wear (Taneira) grew by 35.7% y-o-y to Rs. 76 crore, driven by 81% y-o-y growth in Taneira and ~12% y-o-y growth in F&FA. Within F&FA, fragrances grew by ~11% y-o-y and fashion accessories consisted primarily of women's bags under IRTH and Fastrack brands grew by ~14% y-o-y. The segment reported EBIT loss of Rs. 27 crore against loss of Rs. 10 crore in Q1FY2023. IRTH brand expanded its offline presence to reach 51 doors in Shoppers Stop and increased its online presence to include Myntra, Nykaa Fashion, and Tata Cliq in addition to irth.in. Taneira opened 6 new stores in Q1FY2024, of which 3 stores were in new cities of Vijayawada, Agra, and Berhampur and the balance 3 stores in existing cities of Mumbai, Hyderabad, and Lucknow. Taneira's presence now covers 47 stores spread across 25 cities pan-India.

Subsidiaries' performance

- **Titan Engineering & Automation Limited (TEAL):** TEAL reported a 31.5% y-o-y revenue decline to Rs. 61 crore, impacted by a ~78% y-o-y dip in the automation solutions (AS) business to Rs. 10.6 crore, while the manufacturing services (MS) business grew by ~18% y-o-y to Rs. 47 crore. In terms of order bookings, the MS business witnessed robust order booking with the aerospace industry witnessing all-time high order bookings and passenger traffic reaching pre-Covid levels, both domestically and internationally. The AS business also had a good order position of over Rs. 500 crore at Q1FY2024-end, of which a significant portion is planned for execution in FY2024. TEAL posted a loss of Rs. 11 crore in Q1FY2024.
- **CaratLane (72.3% owned):** CaratLane grew by 32.5% y-o-y to Rs. 640 crore, driven by gifting campaigns around FirstSalary and new collections. Revenue from the key category of studded (~75% contribution to sales) grew at ~41% y-o-y. EBIT came in at Rs. 35 crore with a margin of 5.5%. CaratLane added 11 new stores (net) during Q1FY2024, taking the total store count to 233 stores spread across 93 cities pan-India.

Key conference call highlights

- **Demand environment remains stable:** The jewellery business got strong traction in April due to high sales around Akshay Tritiya. Demand was soft in May, but it recovered in June due to higher wedding sales. Titan's gold exchange offer got strong traction (50% of sales in Q1). July was strong, in-line with June. Management expects the festive season and wedding season in H2FY2024 to drive growth.
- **Jewellery margins to be 12-13% in FY2024 despite the drop in Q1:** Focusing on achieving consistent growth ahead of profitability, the company invested aggressively on exchange offers, price rationalisation programme, and regional brand-building activities to gain market share, which impacted margins in Q1FY2024. This along with a high base due to diamond price inventory gain of ~1% resulted in a 160bps decline in the jewellery business margin to 11.5%. However, a better mix, high contribution from studded jewellery (in Q2 and Q4), and strong demand for the premium wedding collection in Q3 will improve margins in the quarters ahead. Thus, the company has maintained its guidance of 12-13% margins for its jewellery business.
- **Targets market share of >10% for the jewellery business in the next 3-4 years:** The company sees a large market share gain opportunity in Rs. 4,50,000 crore branded jewellery market. This will be done through strong aggression in some of the key markets, including the eastern part of India and southern market through regional activities. Further, it has enhanced marketing spends on each brand to improve its visibility in the domestic markets. Titan's market share improved by 1% to 7% in FY2023. It targets to improve market share by 1% every year. Market share is likely to cross 10% over the next 3-4 years.

- **International jewellery business is long-term growth opportunity:** The company currently has 8 international Tanishq stores. It aims to add 5 stores in the U.S. and 13 stores in GCC region, taking the total international store count to 24-25 by the end of FY2024. This will be ahead of its original guidance of having 30 stores presence in international markets by FY2026. A few of the older stores have higher contribution margins compared to jewellery stores in India. This is mainly on account of a higher mix and increased spend per customers. Once the stores attain a certain scale, it will add substantially to the profitability of the company.
- **Watches segment's EBIT margins to be 12-13% in FY2024:** One-time provision led to a decline in the EBIT margins of the watches business. Management has maintained its year-end guidance of 12-13% for the business. Inventory has increased (Rs. 3,000 crore) and is expected to be higher till Q2-end, as inventory build-up is done for the upcoming festive season.
- **Wearable is growing strongly; will incrementally add to profitability:** The wearable market in India is worth Rs. 8,000-10,000 crore. The company's product prices range from Rs. 1,500 to Rs. 5,000 under the Fastrack brand and little high-value products under the Titan brands. However, its products are well-competitive with top international brands due to price differentiation. Moreover, the company is focusing on adding products on different channels to improve traction. Wearable is growing in strong double digits for the company. It is a profitable segment and will add incrementally to the margins of the watches business.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net sales	**10,851.0**	**8,975.0**	**20.9**	**9,215.0**	**17.8**
Other operating revenue	1,046.0	468.0	-	1,145.0	-8.6
Total Revenue	**11,897.0**	**9,443.0**	**26.0**	**10,360.0**	**14.8**
Raw material cost	9,255.0	7,038.0	31.5	7,847.0	17.9
Employee cost	448.0	387.0	15.8	457.0	-2.0
Advertising	274.0	218.0	25.7	251.0	9.2
Other expenses	795.0	604.0	31.6	716.0	11.0
Total operating cost	10,772.0	8,247.0	30.6	9,271.0	16.2
Operating profit	**1,125.0**	**1,196.0**	**-5.9**	**1,089.0**	**3.3**
Other income	114.0	44.0	-	114.0	0.0
Interest and other financial cost	109.0	65.0	67.7	96.0	13.5
Depreciation	128.0	103.0	24.3	119.0	7.6
Profit Before Tax	**1,002.0**	**1,072.0**	**-6.5**	**988.0**	**1.4**
Tax	246.0	282.0	-12.8	252.0	-2.4
Adjusted PAT before MI	**756.0**	**790.0**	**-4.3**	**736.0**	**2.7**
Extraordinary item	-	-	-	40.0	-
Reported PAT	**756.0**	**790.0**	**-4.3**	**696.0**	**8.6**
Adjusted EPS (Rs.)	8.5	8.9	-4.3	8.3	2.7
			bps		**bps**
GPM (%)	22.2	25.5	-326	24.3	-205
EBIDTA margin (%)	9.5	12.7	-321	10.5	-106
NPM (%)	6.4	8.4	-201	7.1	-75
Tax rate (%)	24.6	26.3	-176	25.5	-96

Source: Company; Sharekhan Research

Business-wise revenues — Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Jewellery (excluding bullion sales)	9,070	7,600	19.3	7,576	19.7
Watches	890	785	13.4	871	2.2
Eyecare	203	183	10.9	165	23.0
Others (Emerging businesses)	76	56	35.7	77	-1.3
Corporate (unallocated)	67	25	-	64	4.7
Bullion sales	938	356	-	1,055	-11.1
Standalone	**11,244**	**9,005**	**24.9**	**9,808**	**14.6**
Caratlane	640	483	32.5	580	10.3
TEAL	61	89	-31.5	174	-64.9
Others/Consol. Adjusted	67	-90	-	-88	-
Consolidated	**12,012**	**9,487**	**26.6**	**10,474**	**14.7**

Source: Company; Sharekhan Research

Business wise EBIT — Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Watches	102	103	-1.0	98	4.1
Jewellery	999	1,027	-2.7	997	0.2
Eyecare	35	36	-2.8	2	-
Others (Emerging businesses)	-27	-10	-	-33	-18.2
Corporate (unallocated)	-6	-35	-82.9	-11	-45.5
Standalone	**1,103.0**	**1,121.0**	**-1.6**	**1,053.0**	**4.7**

Source: Company; Sharekhan Research

Business-wise EBIT margins — in %

Particulars	Q1FY24	Q1FY23	bps (y-o-y)	Q4FY23	bps (q-o-q)	Q-o-Q %
Watches	11.5	13.1	-166	11.3	21	4.1
Jewellery	11.0	13.5	-250	13.2	-215	0.2
Eyecare	17.2	19.7	-243	1.2	-	-
Standalone	**9.8**	**12.4**	**-264**	**10.7**	**-92.6**	**-18.2**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Long-term growth prospects intact

Organic same-store sales of retail companies are likely to be muted due to weak consumer sentiments as higher inflationary pressures affected demand, while revenue growth is expected to be largely driven by strong store expansion. We expect growth to be muted in H1FY2024 but expect it to gradually recover prior to the festive season. Branded retail and apparel companies are likely to benefit from steady demand for premium products and better consumer sentiments in urban markets/metros in the quarters ahead. In the medium-long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

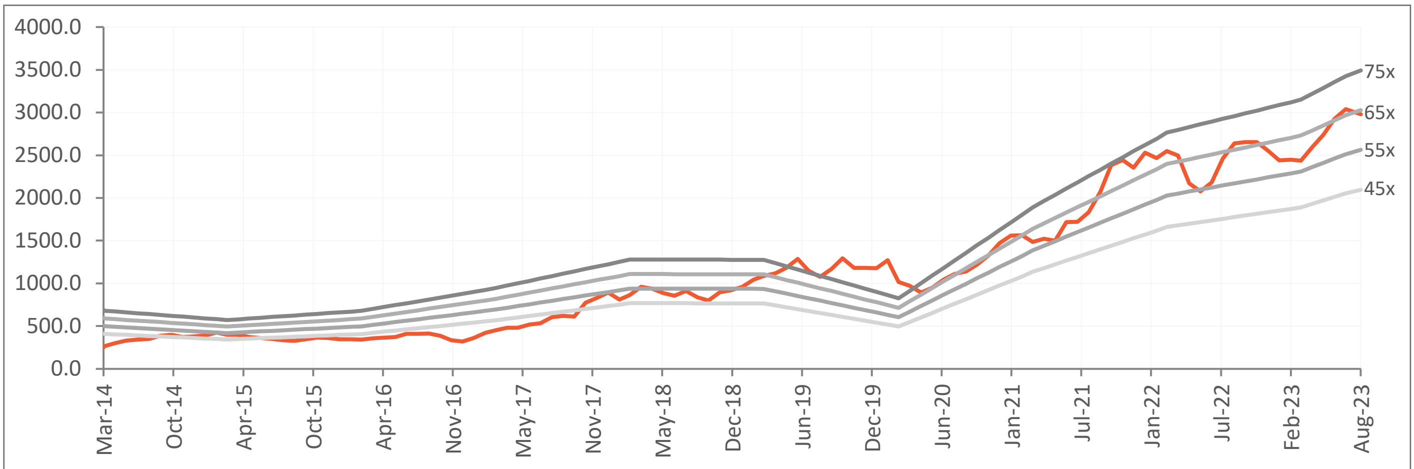
■ Company Outlook – Consistent growth in long run

Titan registered double-digit revenue growth across divisions in Q1FY2024, while margins missed the mark leading to lower-than-expected PAT. Despite near-term headwinds of high inflation, the company is confident of maintaining good growth momentum in the quarters ahead, led by market share gains, network expansion, and a shift to trusted brands. The company aims to achieve consistent double-digit revenue growth over the next five years by strengthening core businesses such as watches, jewellery, and eyecare through efficient capital allocation plans. Further, profitability is expected to consistently improve with consistent growth in the jewellery business and scale-up of new ventures.

■ Valuation – Retain Buy with a revised PT of Rs. 3,350

Titan is aiming to generate a revenue CAGR of over 20% during FY2022-FY2027 on account of its ambitious growth plan in the medium term. Though this will have some hit on margins initially, it expects consistent growth and improved mix will drive margins in the long run. Strong growth outlook, focus on gaining sustained share gain, and strong balance sheet make it the best play in the discretionary space. The stock is currently trading at 71x and 56x its FY2024E and FY2025E earnings, respectively. We maintain our Buy recommendation on the stock with a revised PT of Rs. 3,350.

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
Trent	-	55.5	43.2	39.2	30.9	25.2	14.5	22.8	24.6
Titan Company	80.8	70.9	56.2	54.9	48.1	38.3	33.7	30.1	31.8

Source: Company, Sharekhan estimates

About company

Titan is a joint venture between Tata Group and Tamil Nadu Industrial Development Corporation (TIDCO). The company is a leading organised jeweller in India with its trusted brand, Tanishq. The company started as a watch company under the brand, Titan, and is the fifth largest integrated own brand watch manufacturer in the world. The company's key watch brands are Titan, Fastrack, and Sonata. The company is present in the eye care segment with its brand, Titan Eye Plus, and in other segments such as perfumes. The company recently entered the saree market with its brand, Taneira. Titan has a retail chain of 2,778 stores across 411 towns with a retail area crossing 3.6 million sq. ft. nationally for all its brands.

Investment theme

Titan is one of India's top retailers with a strong presence in discretionary product categories such as jewellery, watches, and eye care. The company is one of the top brands in the watches segment; while in the jewellery space, it is gaining good acceptance because of the shift from non-branded to the branded space and expansion in middle income towns. The company's jewellery business is expected to post a CAGR of >20% over FY2022-FY2027.

Key Risks

- **Rise in gold prices:** Any increase in gold prices would affect profitability of the jewellery segment and earnings growth of the company.
- **Slowdown in discretionary consumption:** Any slowdown in discretionary consumption would act as a key risk to demand of the jewellery and watches division.
- **Increased competition in highly penetrated categories:** Increased competition in the highly penetrated categories such as watches or jewellery would act as a threat to revenue growth.

Additional Data

Key management personnel

S. Krishnan	Chairman
N.N. Tata	Vice Chairman
C.K. Venkataraman	Managing Director
Ashok Kumar Sonthalia	Chief Financial Officer
Dinesh Shetty	General Counsel, Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jhunjhunwala Rekha Rakesh	5.36
2	Life Insurance Corporation of India	1.77
3	SBI Funds Management	1.60
4	Vanguard Group Inc.	1.56
5	Blackrock Inc.	1.42
6	UTI AMC	0.90
7	Sands Capital Management	0.79
8	ICICI Prudential Life Insurance Co	0.65
9	Aditya Birla Sun Life AMC	0.41
10	Axis AMC	0.37

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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