



## 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

Updated Aug 08, 2023

13.06

## Low Risk

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

Source: Morningstar

## Company details

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 20,573 cr |
| 52-week high/low:             | Rs. 323 / 184 |
| NSE volume:<br>(No of shares) | 30.0 lakh     |
| BSE code:                     | 535755        |
| NSE code:                     | ABFRL         |
| Free float:<br>(No of shares) | 42.3 cr       |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 55.5 |
| FII       | 14.3 |
| DII       | 17.3 |
| Others    | 13.0 |

## Price chart



## Price performance

| (%)                | 1m   | 3m  | 6m  | 12m   |
|--------------------|------|-----|-----|-------|
| Absolute           | -2.5 | 2.5 | 9.0 | -31.0 |
| Relative to Sensex | -0.1 | 3.1 | 4.4 | -38.0 |

Sharekhan Research, Bloomberg

Aditya Birla Fashion & Retail Ltd  
Weak Q2

## Consumer Discretionary

Sharekhan code: ABFRL

Reco/View: Hold



CMP: Rs. 217

Price Target: Rs. 238



Upgrade



Maintain



Downgrade

## Summary

- Aditya Birla Fashion & Retail (ABFRL) reported muted 5% y-o-y revenue growth with double-digit (12-15%) LTL decline in Lifestyle brands and Pantaloon while ethnic and other businesses posted strong growth.
- EBITDA margin fell by ~300 bps y-o-y with higher losses in Pantaloon business due to inventory liquidation. Reported loss stood at Rs. 200 crore.
- Net debt to stay high at Rs. 2,700-2,800 crore (including GIC infusion of ~Rs. 1,400 crore) at FY2024-end.
- Stock trades at 19x/15x its FY2024E/25E EV/EBITDA. We maintain Hold on the stock with a revised PT of Rs. 238.

ABFRL's Q2FY2024 numbers were weak as sluggish market conditions, shift of festive season to Q3 and fewer wedding dates hit revenue growth, while negative operating leverage due to subdued sales and continued investments in new businesses hit profitability. Consolidated revenue grew by 5% y-o-y to Rs. 3,226.4 crore, mainly driven by 32% and 49% y-o-y growth in the ethnic and other businesses (Madura segment), while Lifestyle business declined by 6% y-o-y (12% LTL retail decline) and Pantaloon's revenue fell by 7% (15% LTL decline). Gross margin fell 171 bps y-o-y to 53.4%, while EBITDA margin was down 288 bps y-o-y to 10%. ABFRL reported a loss of Rs. 199.4 crore against a PAT of Rs. 31 crore in Q2FY2023. The company added 48 stores (net) in Q2FY2024, including 17 Lifestyle brands stores and 5 Pantaloon stores, taking the store count to 4,056 at H1FY2024-end.

## Key positives

- American Eagle grew 37% y-o-y; Super premium brands grew 26% y-o-y, with 11% LTL.
- Reebok revenue grew by 77% y-o-y.
- Ethnic business reported 32% y-o-y growth with Sabyasachi growing by 39% y-o-y (18% LTL) and House of Masaba registering 18% y-o-y revenue growth.
- EBITDA margin of Madura Fashions expanded 183 bps y-o-y to 16.5% led by gross margin improvement.

## Key negatives

- Lifestyle business retail LTL fell by 12%; Pantaloon witnessed 15% decline in LTL.
- Gross/EBITDA margin contracted by 171/288 bps y-o-y to 53.4%/10%, respectively.
- Pantaloon EBITDA margin declined by 600 bps y-o-y to 10% due to challenges in value / masstige fashion segment.

## Management Commentary

- Management indicated that festive demand (Onam, Pujo) stood flattish to positive for some businesses, while wedding related businesses posted good demand momentum in the past 40 days. Mass and value businesses remained stressed.
- Acquisition of TCNS was concluded in September-2023 and the merger of ABFRL & TCNS is expected to be completed in the coming 6-9 months.
- Pantaloon is expected to open 30-35 stores in FY24 (opened 15 in H1) and Madhura's guidance maintained. ABFRL would focus on product innovation and improving brand visibility. Focus on store addition to be considered when demand situation improves.
- Net debt (including TCNS acquisition) stood at Rs. 4,355 crore at H1FY2024-end. Net debt is expected to be at Rs. 2,700-2,800 crore (including GIC infusion of ~Rs. 1,400 crore) at FY2024-end. The management indicated that except TASVA, all other businesses are coming to a phase where investments are done.
- Madhura business reported gross margin improvement aided by softening of raw material prices and better channel mix. Pantaloon's margins were lower as the company undertook inventory liquidation (deep discounting) post inventory built up in the past months.

**Revision in estimates** – We broadly maintain our estimates for FY2024 and FY2025. We will keenly monitor the performance in Q3 as festive season is expected to see some uptick in the performance. We have introduced FY2026 estimates through this note.

## Our Call

**View – Maintain Hold with revised PT of Rs. 238:** ABFRL's Q2FY2024 performance was weak with muted revenue growth and margin contraction. Recovery in the EBITDA margins will take time considering the enhanced competition in core businesses and slower improvement in profitability/break-even in the new businesses. Further, integration of TCNS brands under the distribution chain of ABFRL, scale-up in the ethnic wear business, consistent expansion in margins and GIC's infusion happening as per terms need to be monitored in the next 6-12 months. The stock is currently trading at 19x/15x/13x its FY24E/25E/26E EV/EBITDA. We main Hold rating on the stock with a revised PT of Rs. 238 (rolling it over to September-25 earnings).

## Key Risks

Any sustained slowdown in recovery due to weak demand in the branded apparel space ]in the coming quarters would act as a risk to our estimates in the near term.

## Valuation (Consolidated)

Rs cr

| Particulars        | FY23   | FY24E  | FY25E  | FY26E  |
|--------------------|--------|--------|--------|--------|
| Revenue            | 12,418 | 14,066 | 16,983 | 19,481 |
| EBITDA Margin (%)  | 12.0   | 11.2   | 11.9   | 12.0   |
| Adjusted PAT       | -53    | -262   | -16    | -10    |
| Adjusted EPS (Rs.) | -0.6   | -2.6   | -0.2   | -0.1   |
| P/B (x)            | 6.1    | 4.8    | 4.8    | 4.8    |
| EV/EBITDA (x)      | 19.0   | 19.3   | 15.0   | 12.9   |
| RoNW (%)           | -1.7   | -6.7   | -0.3   | -0.2   |
| RoCE (%)           | 4.1    | 2.0    | 3.9    | 4.0    |

Source: Company; Sharekhan estimates

## Weak Q2 – Revenue growth muted at 5%; EBITDA margin fell by 288 bps y-o-y

ABFRL's consolidated revenue (including ethnic and other businesses) grew by 5% y-o-y to Rs. 3,226.4 crore, lower than our and average street expectation of Rs. 3,375 crore and Rs. 3,312 crore, respectively. Revenue growth was muted due to sluggish market conditions, shift of the festive season to Q3 and fewer wedding dates. Standalone business stood flat y-o-y at Rs. 2,995 crore, with Madura Fashion's (including Lifestyle brand) revenue growing by 3% y-o-y, while Pantaloons' revenue fell by 7%. Ethnic business grew by 32% y-o-y to Rs. 144 crore. Gross margin decreased by 171 bps y-o-y to 53.4%, while EBITDA margin fell by 288 bps y-o-y to 10%. EBITDA margins was slightly better than our and average street expectation of 9.3-9.4%. EBITDA declined by 19% y-o-y to Rs. 323.3 crore. The company reported a loss of Rs. 199.4 crore against a PAT of Rs. 31 crore in Q2FY2023. We and the street had estimated a loss of Rs. 142-150 crore. Net profit was affected by negative operating leverage resulting from subdued sales in a weak demand environment and continued investments in new businesses. In H1FY2024, revenue grew by 8% y-o-y to Rs. 6,423 crore, EBITDA margin fell by ~500 bps y-o-y to 9.6% and the company posted a loss of ~Rs. 362 crore against a profit of Rs. 124 crore in H1FY2023. ABFRL added 48 stores (net) in Q2FY2024, including 17 Lifestyle brand stores and 5 Pantaloons stores, taking the store count to 4,056 at H1FY2024-end.

## Madura Fashion & Lifestyle brands (MFL) - Business grew by 3% y-o-y

MFL business (branded business of ABFRL) grew by 2.9% y-o-y to Rs. 2,045 crore. EBITDA margin of MFL rose to 16.5% from 14.7% in Q2FY2023 aided by gross margin improvement.

- o **Lifestyle business fell by 6% y-o-y:** Revenue declined by 5.6% y-o-y to Rs. 1,586.5 crore due to fewer wedding dates and shift of festive season to Q3. EBITDA grew by 18% y-o-y to Rs. 339 crore with EBITDA margin expanding by 430 bps y-o-y to 21.3% driven by gross margin improvement. During the quarter, brands continued to add new products to their portfolio in line with evolving consumer trends, with Louis Philippe introducing a new sneaker range while Peter England launched cricket inspired 'The Gentlemen's League' range. Brands also deepened focus on enhancing brand visibility through multiple campaigns across channels, especially during the ongoing cricket world cup. Ecommerce declined due to shift of sale events to Q3. Wholesale revenues stood flat y-o-y at Rs. 461 crore, while the retail business declined by 4% y-o-y to Rs. 734 crore, with LTL of -12%.
- o **Other businesses continued good trajectory:** Other businesses posted 49% y-o-y growth to Rs. 458 crore, driven by strong performance across segments. The segment reported a loss of Rs. 1 crore as against a profit of Rs. 6 crore in Q2FY2023. Van Heusen Inner wear & athleisure segment revenue declined 10% y-o-y due to athleisure slowdown, while innerwear category stayed flat. Optimization of retail distribution network led to LTL growth of 6%. E-commerce channel posted 18% y-o-y growth in H1. The brand expanded its reach by adding over 1,600 MBOs in H1, bringing its total presence to ~33,600 trade outlets. In the Youth Fashion segment, American Eagle achieved a 37% y-o-y revenue growth, expanding its availability to 49 exclusive stores and across top department stores, while, Forever 21 remained committed to streamlining its network, emphasising operational efficiency and expansion of the E-com channel. Super premium brands, which include the multi-brand format 'The Collective' and other super-premium brands, delivered a solid performance in Q2, with a y-o-y revenue growth of 26%. Despite overall slowdown, the network posted a 11% retail LTL growth in Q2. Reebok revenue grew by 77% y-o-y, driven by continued distribution expansion. Brand continues to add newer products, increase store throughputs and expand across channels. The brand added net 15 stores to its network in this quarter and is now available across 150+ stores including value stores. Reebok is on track to cross Rs. 400 crore in FY2024 at positive EBITDA margins.

### Madura Fashion and Lifestyle brands

|                       |                |                |            |                | Rs cr      |
|-----------------------|----------------|----------------|------------|----------------|------------|
| Particulars           | Q2FY24         | Q2FY23         | y-o-y (%)  | Q1FY24         | q-o-q (%)  |
| Lifestyle brands (a)  | 1,586.5        | 1,680.0        | -5.6       | 1,594.0        | -0.5       |
| Other businesses (b)  | 458.5          | 307.0          | 49.3       | 418.0          | 9.7        |
| <b>Revenues (a+b)</b> | <b>2,045.0</b> | <b>1,987.0</b> | <b>2.9</b> | <b>2,012.0</b> | <b>1.6</b> |
| EBITDA                | 338.0          | 292.0          | 15.8       | 285.0          | 18.6       |
| EBITDA Margin (%)     | 16.5           | 14.7           | 183        | 14.2           | 236        |

Source: Company, Sharekhan Research

## Pantaloon – Muted revenue declined by 7% y-o-y

Pantaloon recorded sales of Rs. 1,021 crore, registering decline of 6.7% y-o-y due to sluggish discretionary demand, especially in the value/masstige fashion space. Eastern markets experienced a double digit decline due to the shift in Pujo timing, while Rest of India grew by 7% y-o-y, which led to overall LTL of -15%. The private label portfolio continued to excel with its overall share at 64% in Q2. Pantaloon network has now expanded to 439 stores spanning a retail area of 5.9 Mn. sq.ft. EBITDA stood at Rs. 103 crore with EBITDA margin at 10.1% (down by 600 bps) due to ongoing challenges in the value / masstige fashion segment.

### Pantaloon's performance

| Particulars       | Q2FY24  | Q2FY23  | y-o-y (%) | Q1FY24  | q-o-q (%) |
|-------------------|---------|---------|-----------|---------|-----------|
| Revenues          | 1,021.0 | 1,094.0 | -6.7      | 1,030.0 | -0.9      |
| EBITDA            | 103.0   | 176.0   | -41.5     | 138.0   | -25.4     |
| EBITDA Margin (%) | 10.1    | 16.1    | -600      | 13.4    | -331      |

Source: Company, Sharekhan Research

## Ethnic wear business (part of the consolidated business) continued growth momentum

The business grew 32.1% y-o-y to Rs. 144 crore driven by network expansion and brand development initiatives. Sabyasachi grew 39% y-o-y with 18% LTL growth led by strong performance in both jewellery & apparel segments. Men's premium ethnic wear brand TASVA grew by 129% y-o-y and is now available at ~60 stores and continues to enhance store experience and strengthen brand awareness. Shantanu & Nikhil posted best ever Q2 so far with 33% y-o-y growth as its bridge business "S&N" grew to 1.7x of last year. House of Masaba recorded 18% y-o-y revenue growth and the brand exited Q2 with 12 stores.

### Ethnic business performance

| Particulars | Q2FY24 | Q2FY23 | y-o-y (%) | Q1FY24 | q-o-q (%) |
|-------------|--------|--------|-----------|--------|-----------|
| Revenues    | 144.0  | 109.0  | 32.1      | 134.0  | 7.5       |
| EBITDA      | -18.0  | -40.0  | -55.0     | -35.0  | -48.6     |

Source: Company, Sharekhan Research

## TMRW revenue at 7x of last year; added 8th brand to portfolio

Revenue came in at 7x of last year, with the brands continuing to benefit from operational enhancements. TMRW expanded its portfolio by adding its 8th brand, The India Garage Company (TIGC), which specializes in men's casual segment.

### Results (Consolidated)

|                                 |                |                |              |                | Rs cr       |
|---------------------------------|----------------|----------------|--------------|----------------|-------------|
| Particulars                     | Q2FY24         | Q2FY23         | y-o-y (%)    | Q1FY24         | q-o-q (%)   |
| <b>Total revenue</b>            | <b>3,226.4</b> | <b>3,074.6</b> | <b>4.9</b>   | <b>3,196.1</b> | <b>1.0</b>  |
| Cost of goods sold              | 1,503.7        | 1,380.3        | 8.9          | 1,446.0        | 4.0         |
| Employee cost                   | 423.1          | 379.0          | 11.6         | 437.6          | -3.3        |
| Rent Expenses                   | 209.9          | 201.8          | 4.0          | 226.8          | -7.5        |
| Other expenditure               | 766.4          | 716.8          | 6.9          | 793.4          | -3.4        |
| <b>Total expenditure</b>        | <b>2,903.1</b> | <b>2,677.9</b> | <b>8.4</b>   | <b>2,903.7</b> | <b>0.0</b>  |
| <b>EBITDA</b>                   | <b>323.3</b>   | <b>396.7</b>   | <b>-18.5</b> | <b>292.3</b>   | <b>10.6</b> |
| Other income                    | 45.7           | 22.0           | -            | 60.3           | -24.1       |
| Interest & other financial cost | 208.4          | 103.6          | -            | 187.3          | 11.2        |
| Depreciation                    | 388.8          | 290.7          | 33.8         | 367.0          | 5.9         |
| <b>PBT</b>                      | <b>-228.1</b>  | <b>24.5</b>    | <b>-</b>     | <b>-201.7</b>  | <b>13.1</b> |
| Tax                             | -28.2          | -5.6           | -            | -39.7          | -28.9       |
| Adjusted PAT                    | -199.9         | 30.1           | -            | -162.0         | 23.4        |
| Extraordinary items             | 0.5            | 0.7            | -            | 0.4            | -           |
| <b>Reported PAT</b>             | <b>-199.4</b>  | <b>30.8</b>    | <b>-</b>     | <b>-161.6</b>  | <b>23.4</b> |
| <b>EPS (Rs)</b>                 | <b>-2.1</b>    | <b>0.3</b>     | <b>-</b>     | <b>-1.7</b>    | <b>23.4</b> |
|                                 |                |                | <b>bps</b>   |                | <b>bps</b>  |
| GPM (%)                         | 53.4           | 55.1           | -171         | 54.8           | -136        |
| EBITDA margin (%)               | 10.0           | 12.9           | -288         | 9.1            | 87          |
| NPM (%)                         | -6.2           | 1.0            | -717         | -5.1           | -113        |
| Tax rate (%)                    | 12.4           | -23.0          | -            | 19.7           | -731        |

Source: Company, Sharekhan Research

### Results (Standalone)

|                   |         |         |            |         | Rs cr      |
|-------------------|---------|---------|------------|---------|------------|
| Particulars       | Q2FY24  | Q2FY23  | y-o-y (%)  | Q1FY24  | q-o-q (%)  |
| Total revenue     | 2,995.3 | 2,952.8 | 1.4        | 2,987.2 | 0.3        |
| EBITDA            | 381.3   | 443.5   | -14.0      | 364.3   | 4.7        |
| Adjusted PAT      | -74.9   | 80.1    | -          | -48.6   | 54.1       |
| EPS (Rs)          | -0.8    | 0.9     | -          | -0.5    | 54.1       |
|                   |         |         | <b>bps</b> |         | <b>bps</b> |
| GPM (%)           | 51.9    | 54.0    | -202       | 53.3    | -134       |
| EBITDA margin (%) | 12.7    | 15.0    | -229       | 12.2    | 53         |
| NPM (%)           | -2.5    | 2.7     | -521       | -1.6    | -87        |
| Tax rate (%)      | 25.7    | 23.8    | 190        | 25.5    | 22         |

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - 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. In H1FY2024, growth remained muted but we 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 clock 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 - Margin recovery will take time

In H1FY2024, ABFRL's revenue grew by 8% y-o-y, EBITDA margin fell by ~500 bps y-o-y and the company posted loss of ~Rs. 362 crore. The company's performance was hit by weak demand environment, shift of festive season and higher investments on new businesses. Management expects demand to revive in H2FY2024, while margin improvement at the consolidated level will take time due to continued investments. Further, net debt on books is expected to rise to Rs. 2,800 crore to fund future capex, working capital requirement and acquire controlling stake in TCNS clothing. The company remains focused on leveraging its strong brand portfolio, evolving product profile in line with changing consumer preferences, and expanding its reach (especially in smaller towns and cities).

### ■ Valuation - Maintain Hold with a revised PT of Rs. 238

ABFRL's Q2FY2024 performance was weak with muted revenue growth and margin contraction. Recovery in the EBITDA margins will take time considering the enhanced competition in core businesses and slower improvement in profitability/break-even in the new businesses. Further, integration of TCNS brands under the distribution chain of ABFRL, scale-up in the ethnic wear business, consistent expansion in margins and GIC's infusion happening as per terms need to be monitored in the next 6-12 months. The stock is currently trading at 19x/15x/13x its FY24E/25E/26E EV/EBIDTA. We main Hold rating on the stock with a revised PT of Rs. 238 (rolling it over to September-25 earnings).

#### Peer Comparison

| Companies     | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       |
|---------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|               | FY23    | FY24E | FY25E | FY23          | FY24E | FY25E | FY23     | FY24E | FY25E |
| Trent         | -       | 87.8  | 59.3  | 57.8          | 40.3  | 30.7  | 14.5     | 21.7  | 26.2  |
| Shoppers Stop | 59.3    | -     | 38.3  | 12.7          | 12.2  | 9.7   | 9.9      | 8.5   | 13.2  |
| ABFRL         | -       | -     | -     | 19.0          | 19.3  | 15.0  | 4.1      | 2.0   | 3.9   |

Source: Company; Sharekhan Research

## About company

ABFRL is India's largest pure-play fashion and retail entity with a combined retail footprint of 11.2 million square feet, which includes 4,056 stores across ~34,978 multi-brand outlets with 7,153 point of sales in department stores across India. The company has leading brands under its umbrella, such as Louis Philippe, Van Heusen, Allen Solly, Peter England, and Pantaloons. The international brands' portfolio includes – The Collective, Simon Carter, and select brands such as Ralph Lauren, Hackett London, Ted Baker, Fred Perry, Forever 21, American Eagle, Reebok, and Galeries Lafayette. ABFRL's foray into the branded ethnic wear business includes Jaypore, Tasva, and Marigold Lane and strategic partnerships with designers Shantanu & Nikhil, Tarun Tahiliani, House of Masaba, and Sabyasachi. In addition, to cater to the needs of digitally native consumers, ABFRL is also building a portfolio of digital-first brands under its technology-led 'House of D2C Brands' venture, TMRW.

## Investment theme

ABFRL is one of the largest players in the branded apparel and retail space. The company has built an agile supply chain model to deliver continuous fresh fashion throughout the year with its 12-season model, which will aid in reducing working capital in the coming years. The company has entered into strategic partnerships with designers such as Shantanu & Nikhil, Tarun Tahiliani, Sabyasachi, and House of Masaba, to tap the ethnic and wedding segments, which has a large unorganised presence. Going ahead, the company's growth would be driven by capex across brands, marketing expenses incurred on brands, IT and digital enhancement, and strengthening the overall digital play through organic and inorganic routes. The company is confident of achieving its target of Rs. 21,000 crore revenue with EBITDA of over Rs. 2,350 crore by FY2027.

## Key Risks

- Any slowdown in the discretionary demand environment would impact same store sales growth (SSSG), affecting revenue growth.
- Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.

## Additional Data

### Key management personnel

|                      |                                        |
|----------------------|----------------------------------------|
| Kumar Mangalam Birla | Chairman                               |
| Ashish Dikshit       | Managing Director                      |
| Jagdish Bajaj        | Chief Financial Officer                |
| Anil Malik           | Company Secretary & Compliance Officer |

Source: Company

### Top 10 shareholders

| Sr. No. | Holder Name                                | Holding (%) |
|---------|--------------------------------------------|-------------|
| 1       | Flipkart Inv Pvt Ltd                       | 7.71        |
| 2       | Nippon Life India Asset Management Company | 4.74        |
| 3       | ICICI Prudential Life Insurance Co.        | 2.02        |
| 4       | SBI Life Insurance Co Ltd                  | 1.90        |
| 5       | Vanguard Group Inc                         | 1.58        |
| 6       | Tata AMC                                   | 1.42        |
| 7       | Franklin Resources Inc                     | 1.35        |
| 8       | Aditya Birla AMC                           | 1.13        |
| 9       | CALADIUM INVESTMENT PTE LTD                | 1.08        |
| 10      | Griffin Growth Fund                        | 1.03        |

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    |                                                                                                                                                                                                                                                                                                                            |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Positive</b> | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies                                                                                                                                               |
| <b>Neutral</b>  | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies                                                                                                                                                                                                    |
| <b>Negative</b> | 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   |                                                                                                                                                                                                                                                                                                                            |
| <b>Positive</b> | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.                                                                                                                                       |
| <b>Neutral</b>  | 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                                        |
| <b>Negative</b> | 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 |                                                                                                                                                                                                                                                                                                                            |
| <b>Positive</b> | 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.                        |
| <b>Neutral</b>  | Trading at par to historical valuations and having limited scope of expansion in valuation multiples.                                                                                                                                                                                                                      |
| <b>Negative</b> | 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



## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200 / 022-69920600