



**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	■	↔	■

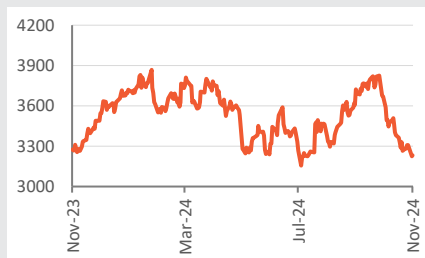
**Company details**

Market cap:	Rs. 2,87,026 cr
52-week high/low:	Rs. 3,885 / 3,059
NSE volume: (No of shares)	14.2 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

**Shareholding (%)**

Promoters	52.9
FII	19.0
DII	11.5
Others	16.6

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-11.9	-4.2	-1.4	-1.3
Relative to Sensex	-9.2	-5.1	-9.0	-24.7

Sharekhan Research, Bloomberg

**Titan Company Ltd**  
**Lower Jewellery biz margins hit Q2**

<b>Consumer Discretionary</b>	<b>Sharekhan code: TITAN</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 3,233</b>	<b>Price Target: Rs. 3,745</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- ♦ Titan Company's (Titan's) Q2FY2025 numbers were affected by lower margins in the jewellery business. Consolidated revenues grew by 16% y-o-y; adjusted PAT stood flat y-o-y.
- ♦ Festive and wedding jewellery demand has been strong in Q2 and is likely to sustain in the quarters ahead. Adjusted margin of jewellery business to be at 11-11.5% in FY2025.
- ♦ Watches to continue good growth momentum, with margins of 13-14%. With improvement in scale of emerging businesses, profitability would improve.
- ♦ Stock trades at 73x/57x/48x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy with a revised PT of Rs. 3,745.

Titan's Q2FY2025 performance was affected by lower margins in the jewellery business mainly due to unfavourable mix (lower share of studded jewellery). Consolidated revenues rose by 16% y-o-y to Rs. 14,534 crore (ex-bullion growth at 25.4%) led by 25.5% y-o-y growth in jewellery business (ex-bullion), 19.1% y-o-y growth in the watches and wearables business and 6.9% and 14% y-o-y growth in the eyecare and emerging businesses, respectively. Titan's subsidiaries, CaratLane and TEAL grew by 27.5% and 56.8% y-o-y, respectively. Titan reported a one-time loss of Rs. 290 crore in Q2 due to the custom duty reduction. Adjusting for the custom duty loss, gross margin and EBITDA margin declined by 67 bps and 76 bps y-o-y to 22.7% and 10.5%, respectively. Adjusted EBIT margin of jewellery business declined by 271 bps y-o-y to 11.4%. EBITDA grew by 8.2% y-o-y to Rs. 1,526 crore. However, adjusted PAT stood flat y-o-y at Rs. 918 crore due to higher interest cost and depreciation. Reported PAT fell by 23.1% y-o-y to Rs. 704 crore. In H1FY2025, consolidated revenue grew by 13.8% y-o-y to Rs. 27,800 crore, EBITDA margins fell by 41 bps y-o-y to 10% and adjusted PAT fell by 2.3% y-o-y to Rs. 1,633 crore.

**Key positives**

- ♦ Jewellery business (ex-bullion) grew by 25.5% y-o-y driven by double-digit buyer and ASP growth.
- ♦ In watches, the analog segment grew by ~26% y-o-y; Titan/Sonata/Fastrack brands grew by 32%, ~20% and ~18% y-o-y respectively.
- ♦ Caratlane's revenues grew by 27.5% y-o-y to Rs. 829 crore, driven by ~41% y-o-y growth in the studded category.

**Key negatives**

- ♦ Studded jewellery's mix in domestic business declined to 30% versus 33% in Q2FY2024.
- ♦ Jewellery business' adjusted EBIT margins declined by 271 bps y-o-y to 11.4%.
- ♦ Wearables' revenues fell by ~13% y-o-y due to decline in ASP.
- ♦ Eyecare business' EBIT margin fell by 295 bps y-o-y due to an increase in advertisement expenses.

**Management Commentary**

- ♦ Jewellery business' margins were impacted in Q2 due to one-time custom duty loss of Rs. 290 crore, lower studded mix due to gold rush and lower demand for large solitaires. H2 margins are expected to be better than H1 aided by good demand and better mix. Management has guided for 11-11.5% normalised consolidated margins for the jewellery business in FY2025. One time impact of custom duty cut for Q3 is estimated at Rs. 275-280 crore.
- ♦ The management indicated that festive demand has been excellent, and wedding demand has picked up and is expected to maintain momentum for next 1-2 quarters. Demand for non-solitaire and smaller size solitaire in studded jewellery is good. Large solitaire stone demand is impacted by price correction.
- ♦ Tanishq added 33 stores till October, with plans to add total 40-50 stores in FY2025. The company targets 250 Mia stores by FY25-end (207 stores at H1FY2025-end). Caratlane added 29 stores till October, with plans to add another 20 stores in FY2025.
- ♦ Analog watches segment is seeing good growth since past few quarters backed by design innovation, premiumisation and better execution, however wearables are seeing correction due to decline in ASP. Management expects strong growth in watches to continue and has guided for 13-14% margins in watches business and expects it to improve on better mix.
- ♦ Emerging businesses are in the investment phase. With improvement in scale, gross margins are improving. Management expects FY2026 to be a blockbuster year for *Taniera*.

**Revision in earnings estimates** – We have reduced our earnings estimates for FY2025E and FY2026E by 8-9% to factor in lower-than-expected EBITDA margins. This is in-line with the company's reduction in the guidance for EBIT margins of the jewellery business. We have introduced FY2027 earnings estimates through this note.

**Our Call**

**View – Retain Buy with a revised PT of Rs. 3,745:** Titan's Q2FY2025 performance was impacted by lower margins in the jewellery business. Double-digit revenue growth momentum is likely to continue in the coming quarters driven by growth across businesses. Strong growth outlook, focus on sustained market share gains, and strong balance sheet make Titan the best play in the discretionary space. Pressure on margins is short term and the management expects an uptick in margins in the medium term. The stock has corrected by ~17% from its high and trading at 73x/57x/48x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy recommendation on the stock with a revised PT of Rs. 3,745.

**Key Risks**

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

**Valuation (Consolidated)**

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue (excluding bullion sales)	37,924	46,751	56,861	67,113	77,734
EBITDA Margin (%)	12.0	10.4	10.1	10.9	11.0
Adjusted PAT	3,272	3,494	3,947	5,050	5,980
Adjusted EPS (Rs.)	36.9	39.3	44.3	56.7	67.2
P/E (x)	87.7	82.3	72.9	57.0	48.1
P/B (x)	24.2	30.6	22.5	16.6	12.8
EV/EBIDTA (x)	59.5	56.1	49.4	39.5	33.5
RoNW (%)	30.9	32.9	35.6	33.5	30.1
RoCE (%)	33.7	28.5	27.6	31.0	32.6

Source: Company; Sharekhan estimates

## Revenue in-line; margins miss expectations

Titan's consolidated revenue grew by 16% y-o-y to Rs. 14,534 crore (consolidated growth ex-bullion at 25.4%), largely in line with our expectations of Rs. 14,509 crore and average street expectation of Rs. 14,515 crore. Jewellery business (ex-bullion) grew by 25.5% y-o-y to Rs. 10,763 crore, watches and wearables business grew by 19.1% y-o-y to Rs. 1,301 crore, while eyecare and emerging businesses grew by 6.9% and 14% y-o-y, respectively. Titan's subsidiary, CaratLane clocked a revenue growth of 27.5% y-o-y to Rs. 829 crore, while TEAL's revenues grew by 56.8% y-o-y to Rs. 196 crore. Bullion sales stood at Rs. 996 crore in Q2FY2025 versus Rs. 1,755 crore in Q2FY2024. Company reported a one-time loss of Rs. 290 crore in Q2 due to the custom duty reduction (included in exceptional items). Adjusting the custom duty loss, consolidated gross margins and EBITDA margin declined by 67 bps and 76 bps y-o-y to 22.7% and 10.5%, respectively. EBITDA margin missed our expectation of 11.7% and average street expectation of 10.8%. EBIT margins of the jewellery and eyecare businesses declined by 271 bps and 295 bps y-o-y to 11.4% (adjusted) and 11.9%, respectively, while EBIT margin of the watches business stood largely stable y-o-y at 14.9%. EBITDA grew by 8.2% y-o-y to Rs. 1,526 crore. However, adjusted PAT stood flat y-o-y at Rs. 918 crore due to higher interest costs (up by ~71% y-o-y) and depreciation (up by ~19% y-o-y). PAT came in lower than our expectation of Rs. 1,066 crore and average street expectation of Rs. 1,008 crore. Reported PAT declined by 23.1% y-o-y to Rs. 704 crore. In H1FY2025, consolidated revenue grew by 13.8% y-o-y to Rs. 27,800 crore (ex-bullion growth at 19.2%), EBITDA margin marginally declined by 41 bps y-o-y to 10% and adjusted PAT fell by 2.3% y-o-y to Rs. 1,633 crore.

## Jewellery business' revenue growth at 26% y-o-y; EBIT margin declines y-o-y

- ◆ Revenue (ex-bullion) grew 25.5% y-o-y to Rs. 10,763 crore with the domestic business growing by 25.2% y-o-y to Rs. 10,568 crore, while the international business (primary) grew by 44.2% y-o-y to Rs. 195 crore.
- ◆ The gold rush triggered by custom duty cuts led to buyer growth of ~12% y-o-y and ASP growth of ~10% y-o-y.
- ◆ Gold segment (including coins) grew ~30% y-o-y, while studded grew ~12% y-o-y (studded mix for domestic business declined to 30% versus 33% in Q2FY2024).
- ◆ Like-to-like (L2L) (secondary) growth for the division came at 15%.
- ◆ Buyer interest in studded segment was quite encouraging resulting in healthy double-digit y-o-y growths. Within sub-categories, solitaire sales (large size) were impacted as consumers preferred a wait-and-watch approach amidst soft international prices.
- ◆ Adjusted EBIT margins declined by 271 bps y-o-y to 11.4%.
- ◆ In India, 11 stores (net) were added in Tanishq, 12 stores in Mia and 1 store in Zoya.

## Watches & wearables business revenue grew 19% y-o-y; EBIT margins largely flat y-o-y

- ◆ Revenues grew by 19.1% y-o-y to Rs. 1,301 crore, with the domestic business growing by 18.7% y-o-y to Rs. 1,276 crore, while the international (primary) business grew by 45.9% y-o-y to Rs. 25 crore.
- ◆ Analog watches segment grew by ~26% y-o-y. Within analog, Titan brand grew 32% y-o-y aided by strong volume growth indicating continued consumer preference for premium brands, while Sonata and Fastrack brands grew by ~20% and ~18% y-o-y respectively.
- ◆ Helios channel grew strongly by ~43% y-o-y (28% L2L retail growth), reinforcing the premiumisation theme.
- ◆ While volumes in Wearables segment grew in double-digits, the average selling prices continued to decline leading to ~13% y-o-y drop in wearables revenue.

- ◆ EBIT margins stayed largely flat y-o-y at 14.9%.
- ◆ 34 new stores (net) were opened in Q2FY2025, taking total EBO presence to 1,171 stores. Of this, 18 stores were added in Titan World, 14 in Helios and 2 in Fastrack.

### **Eyecare business revenue grew by 7% y-o-y; EBIT margin lower y-o-y**

- ◆ Revenues grew by 6.9% y-o-y to Rs. 201 crore driven by double-digit volume growth in frames and lenses, which was partly offset by a decline in sunglasses due to seasonality.
- ◆ Introduction of aggressively priced affordable fashion frames and lenses in Q3FY2024 led to ASP decline, impacting revenue growth despite good volume growth in key categories.
- ◆ EBIT margins fell by 295 bps y-o-y to 11.9% mainly due to double-digit increase in advertisement expenses towards promotional activities.
- ◆ Titan Eye+ opened 3 new stores (net), while 1 Fastrack store was closed in Q2FY2025.

### **Emerging businesses revenues grew by 14% y-o-y**

- ◆ Emerging businesses comprising Indian wear, Fragrances & Fashion Accessories grew by 14% y-o-y to Rs. 106 crore.
- ◆ Taneira's business grew by ~12% y-o-y led by growth from new stores. The brand added 4 new stores in the quarter, expanding its presence to 81 locations across 41 cities
- ◆ Revenue in fragrances segment grew by ~19% y-o-y led by ~26% y-o-y growth in SKINN (27% y-o-y volume growth).
- ◆ In fashion accessories, Fastrack and IRTH bags recorded strong growth in double-digits; the normalized revenue growth (adjusting for the discontinued belts and wallets segment) was at ~76% y-o-y.
- ◆ Emerging businesses together recorded a loss of Rs. 29 crore for Q2FY2025 versus a loss of Rs. 24 crore in Q2FY2024.

### **International business delivered 61% y-o-y growth**

- ◆ Revenues grew by 61.1% y-o-y to Rs. 305 crore.
- ◆ International jewellery business recorded a y-o-y growth of 62% to Rs. 273 crore, other businesses grew by 53.6% y-o-y.
- ◆ The y-o-y growth in jewellery business was largely led by increase in stores across GCC, US (North America) and Singapore regions in the last 12 months and well supported by healthy sales in UAE stores.
- ◆ In Q2FY2025, a second Mia store was opened in Abu Dhabi taking the total Jewellery international footprint to 18 stores comprising of 16 Tanishq stores and 2 Mia stores.
- ◆ Other businesses, comprising largely of watches grew by 49% y-o-y, driven primarily by business growths in both GCC and South-East Asia geographies.
- ◆ In addition to export contributions from Vietnam, Bangladesh etc., the Exclusive Business Outlets (EBOs) in Dubai are also supplementing and adding to segment's international growth.

## Subsidiaries' performance

### ◆ CaratLane:

- ◆ Revenues grew by 27.5% y-o-y to Rs. 829 crore, driven by ~41% y-o-y growth in the studded category (contribution to revenues improved by 7% to ~79%).
- ◆ Activations in July and August 2024 spurred growth in new customer acquisition by ~21% y-o-y and growth in brand searches by ~30% y-o-y.
- ◆ EBIT came at Rs. 58 crore with a margin of 7% (up 289 bps y-o-y).
- ◆ CaratLane added 11 new stores (net) in Q2FY2025 taking the total store count to 286 stores spread across 119 cities pan-India.

### ◆ Titan Engineering and Automation Limited (TEAL):

- ◆ Revenue grew by 56.8% y-o-y to Rs. 196 crore driven by ~89% y-o-y growth in the Automation Solutions (AS) division and ~24% y-o-y growth in the Manufacturing Services (MS) division.
- ◆ The AS business received orders of Rs. 101 crore during Q2FY2025, with current order book position as of September 2024 more than Rs. 475 crore
- ◆ In MS business, the aerospace segment clocked healthy double-digit growth rates. A strong pipeline of annuity business from existing clients provides good Revenue visibility for FY25.
- ◆ EBIT stood at Rs. 25 crore, with a margin of 12.8% (down 306 bps y-o-y).

Results (Consolidated)				Rs cr	
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
<b>Net sales</b>	<b>13,473.0</b>	<b>10,708.0</b>	<b>25.8</b>	<b>12,223.0</b>	<b>10.2</b>
Other operating revenues	1,061.0	1,821.0	-41.7	1,043.0	1.7
<b>Total Revenue</b>	<b>14,534.0</b>	<b>12,529.0</b>	<b>16.0</b>	<b>13,266.0</b>	<b>9.6</b>
Raw material cost	11,232.0	9,599.0	17.0	10,336.0	8.7
Employee cost	519.0	463.0	12.1	523.0	-0.8
Advertising	327.0	268.0	22.0	290.0	12.8
Other expenses	930.0	788.0	18.0	870.0	6.9
Total operating cost	13,008.0	11,118.0	17.0	12,019.0	8.2
<b>EBITDA</b>	<b>1,526.0</b>	<b>1,411.0</b>	<b>8.2</b>	<b>1,247.0</b>	<b>22.4</b>
Other income	122.0	124.0	-1.6	120.0	1.7
Interest & other financial cost	240.0	140.0	71.4	230.0	4.3
Depreciation	171.0	144.0	18.8	164.0	4.3
<b>Profit Before Tax</b>	<b>1,237.0</b>	<b>1,251.0</b>	<b>-1.1</b>	<b>973.0</b>	<b>27.1</b>
Tax	319.4	336.0	-4.9	258.0	23.8
<b>Adjusted PAT before MI</b>	<b>917.6</b>	<b>915.0</b>	<b>0.3</b>	<b>715.0</b>	<b>28.3</b>
Extraordinary item	214.6	0.0	-	0.0	-
Minority Interest (MI)	1.0	1.0	0.0	0.0	-
<b>Reported PAT</b>	<b>704.0</b>	<b>916.0</b>	<b>-23.1</b>	<b>715.0</b>	<b>-1.5</b>
Adjusted EPS (Rs.)	10.3	10.3	0.3	8.1	28.3
			<b>Bps</b>		<b>bps</b>
GPM (%)	22.7	23.4	-67	22.1	63
EBIDTA margin (%)	10.5	11.3	-76	9.4	110
NPM (%)	4.8	7.3	-247	5.4	-55
Tax rate (%)	25.8	26.9	-104	26.5	-70

Source: Company; Sharekhan Research

Business-wise revenue				Rs cr	
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Jewellery (excluding bullion)	10,763	8,575	25.5	9,879	8.9
Watches & wearables	1,301	1,092	19.1	1,021	27.4
Eyecare	201	188	6.9	209	-3.8
Emerging businesses	106	93	14.0	80	32.5
Corporate	87	79	10.1	74	17.6
<b>Standalone (excluding bullion)</b>	<b>12,458</b>	<b>10,027</b>	<b>24.2</b>	<b>11,263</b>	<b>10.6</b>
Caratlane	829	650	27.5	754	9.9
TEAL	196	125	56.8	197	-0.5
Others/Consol. Adj	178	96	85.4	94	89.4
<b>Consolidated (excluding bullion)</b>	<b>13,661</b>	<b>10,898</b>	<b>25.4</b>	<b>12,308</b>	<b>11.0</b>
Bullion & digi-gold sales	996	1,755	-43.2	1,078	-7.6
<b>Consolidated</b>	<b>14,657</b>	<b>12,653</b>	<b>15.8</b>	<b>13,386</b>	<b>9.5</b>

Source: Company; Sharekhan Research

Business-wise EBIT margin				(%)	
Particulars	Q2FY25	Q2FY24	Y-o-Y (bps)	Q1FY25	Q-o-Q (bps)
Watches	14.9	14.7	26	11.3	365
Jewellery	11.4	14.1	-271	11.2	19
Eyecare	11.9	14.9	-295	9.6	237
<b>Standalone</b>	<b>11.4</b>	<b>13.6</b>	<b>-225</b>	<b>10.7</b>	<b>70</b>

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Near-term outlook bleak; long-term growth prospects intact

In the near term, revenue growth for the branded retail and apparel companies is likely to be largely driven by store expansion, steady demand for premium products, and better consumer sentiments in urban markets/metros. In the medium to long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of the product portfolio will help branded apparel and retail companies post consistent growth. Better operating leverage, improved efficiencies, and an improved mix would help branded apparel and retail companies post higher margins in the coming years.

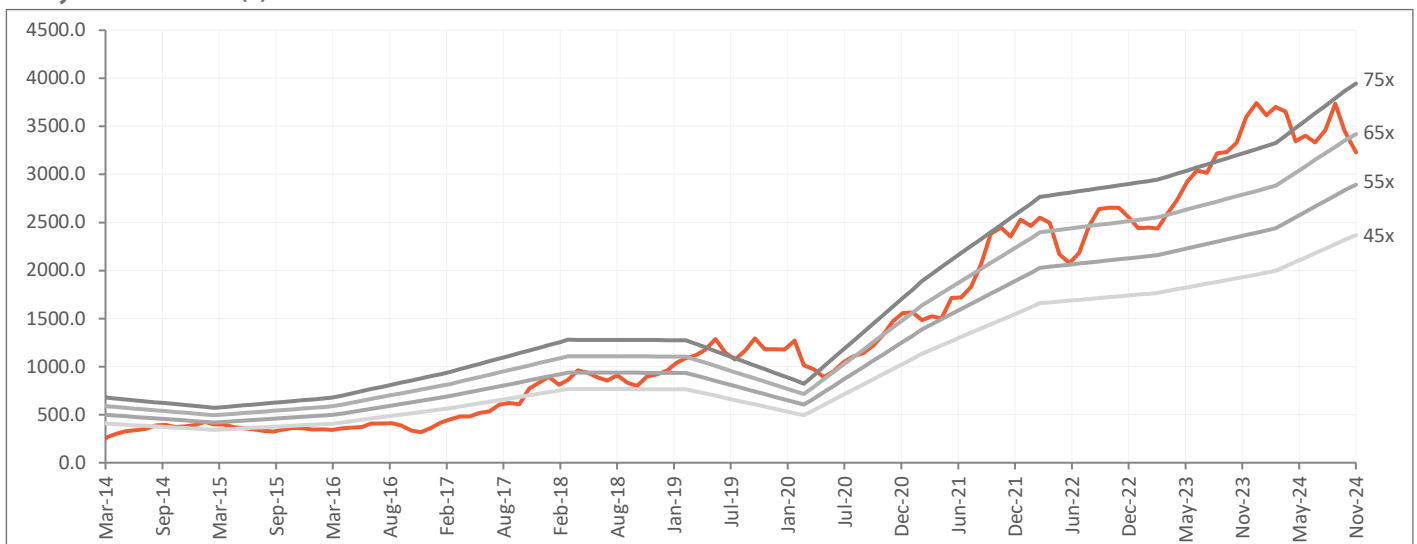
### ■ Company Outlook – Medium-term outlook remains intact

In Q2FY2025, Titan reported a 16% y-o-y consolidated revenue growth, 76 bps y-o-y decline in EBITDA margin and adjusted PAT stood flat y-o-y. Despite near-term margin headwinds, 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. Further, profitability is expected to consistently improve with consistent growth in the jewellery business and scale-up of new ventures. We expect the company's revenue and PAT to register a 19% and 20% CAGR over FY2024-27E, respectively.

### ■ Valuation – Retain Buy with a revised PT of Rs. 3,745

Titan's Q2FY2025 performance was impacted by lower margins in the jewellery business. Double-digit revenue growth momentum is likely to continue in the coming quarters driven by growth across businesses. Strong growth outlook, focus on sustained market share gains, and strong balance sheet make Titan the best play in the discretionary space. Pressure on margins is short term and the management expects an uptick in margins in the medium term. The stock has corrected by ~17% from its high and trading at 73x/57x/48x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy recommendation on the stock with a revised PT of Rs. 3,745.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Trent	-	-	85.9	-	70.5	52.8	24.5	40.0	44.2
Titan Company	82.3	72.9	57.0	56.1	49.4	39.5	28.5	27.6	31.0

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 3,171 stores across 429 towns with a retail area of 4.44 million sq. ft. 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 eyecare. 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 the 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 the demand of the jewellery and watches division.
- ♦ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as watches or jewellery would act as a threat to revenue growth.

## Additional Data

### Key management personnel

Arun Roy	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	5.33
2	Life Insurance Corp of India	2.17
3	Vanguard Group Inc	1.89
4	Blackrock Inc	1.58
5	SBI Funds Management Ltd	1.54
6	Republic of Singapore	1.05
7	Capital Group Cos Inc	0.91
8	UTI AMC	0.88
9	Sands Capital Management	0.65
10	Morgan Stanley	0.63

Source: Bloomberg (Old data)

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

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
<b>Right Valuation</b>	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



# Sharekhan

by BNP PARIBAS

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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 Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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

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