



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

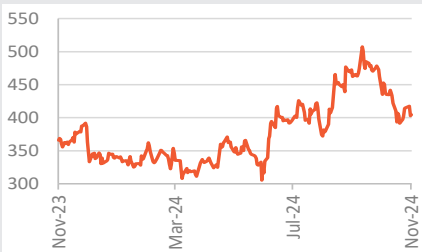
Company details

Market cap:	Rs. 8,857 cr
52-week high/low:	Rs. 518 / 266
NSE volume: (No of shares)	11.5 lakh
BSE code:	532356
NSE code:	TRIVENI
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	61.0
FII	6.6
DII	10.0
Others	22.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.0	8.7	16.2	10.6
Relative to Sensex	-5.1	7.6	8.6	-11.8

Sharekhan Research, Bloomberg

Triveni Engineering & Industries Ltd

Lower margins hit Q2

Miscellaneous

Sharekhan code: TRIVENI

Reco/View: Buy



CMP: Rs. 405

Price Target: Rs. 470



Upgrade



Maintain



Downgrade

Summary

- Triveni Engineering and Industries Ltd's (TEIL's) Q2FY2025 performance was affected by a decline in profitability of sugar and alcohol divisions, resulting in a 93% y-o-y decline in EBITDA; it registered loss of Rs. 22.4 crore.
- With favourable weather and a lot of back-end work on variety of sugar, the sugar production for sugar year 2024-25 would be much better. Favourable government policy (including likely allowing of sugar exports) will boost sugar business performance.
- The company has maintained its guidance of 21 crore litre of ethanol production with a variance of +5% to -5% for FY2025.
- Stock trades at 22x/18x/16x its FY25E/26E/27E EPS, respectively. We maintain a Buy with a revised PT of Rs. 470.

Triveni Engineering & Industries' (TEIL's) Q2FY2025 numbers are not strictly comparable on y-o-y basis due to integration of Sir Shadi Lal Enterprises Limited (SSLEL) during the quarter. TEIL's Q2FY2025 registered weak performance in a seasonally tepid quarter impacted by lower margins in the alcohol business, losses of newly acquired subsidiary - SSLEL and expensing of fixed costs during the off-season for sugar business. Consolidated net revenues grew by 5.8% y-o-y to Rs. 1,491 crore led by 19.8% y-o-y growth in the distillery net revenue to Rs. 412 crore. Sugar business revenues decreased by 5.1% y-o-y to Rs. 959 crore. LFL growth (excluding SSLEL), stood at 4.2%. EBITDA margin declined by 416 bps y-o-y to 0.3%, much lower than our expectation of 4.8%. Profitability has been pulled down by sugar and distillery businesses whereas engineering businesses contributed higher profitability. EBITDA declined by 92.6% y-o-y to Rs. 4.6 crore. The company reported a loss of Rs. 22 crore against a profit of Rs. 29 crore in Q2FY2024. We had expected PAT of Rs. 18 crore. For H1FY2025, the net revenues grew by 7.1% y-o-y to Rs. 2,792 crore, EBITDA margins decreased by 395 bps y-o-y to 3.3% and PAT is down by 91.1% y-o-y to Rs. 8.6 crore.

Key positives

- Net revenues of distillery business grew by 19.8% y-o-y driven by 9% y-o-y increase in sales volume and 9.3% y-o-y increase in the average realisation.
- Power transmission business' revenues and EBITDA grew 30.1% and 33.4% y-o-y, respectively.
- The power transmission business and water business has closing order book of Rs. 345 crore and Rs. 1,726 crore, respectively.

Key negatives

- Sugar business' EBIT fell by 59.8% y-o-y; distillery business registered EBIT loss of Rs. 5.8 crore.
- Water business' revenues and PBIT decreased by 35.6% and 51.3% y-o-y respectively due to delay in execution of certain projects.

Management Commentary

- India's opening balance in sugar year (SY) 2024-25 is expected at 8.3 million tonnes. Gross sugar production for SS 2024-25 is expected at 34 million tonnes. After diverting 4 million tonnes for ethanol production and domestic consumption of 29.4 million tonnes, TEIL expects to end SY 2024-25 with estimated closing stock of 9 million tonnes (excluding exports). The company believes there is ample scope for government allowing exports of sugar in the current season to improve profitability of sugar business.
- Company is focusing on varietal substitution, improving crop health and enhancing yield and recovery through active farmer engagement for overall improvement of crush levels for SS2024-25. Dependence on Co0238 variety has been reduced to 50% from 75% last year and is expected to further reduce in the coming years.
- Sugar season has begun on a positive note due to favourable weather conditions. The company expects crop and yields to be better versus last year. More clarity on the same will be given post the Q3 results.
- Management expects the mix of the ethanol production from sugar and grain to change from 50:50 last year to 60:40. With an expected improvement in the availability of maize and rice crop due to the better rainfall, the cost of procurement is expected to be lower compared to last year which will help profitability of the distillery business to improve next year.
- Company has maintained its guidance of 21 crore litre of ethanol production in FY2025 with a likely variance of +5% to -5%.
- Outstanding order book for the water business as on September 2024 stands at Rs. 1,726 crore, which includes Rs. 980 crore towards O&M contracts for a longer period of time. The business has reported robust order booking during Q2FY2025 aggregating to Rs. 449 crore including two new EPC projects for Uttar Pradesh Jal Nigam (UPJN) at Prayagraj and Rajasthan Urban Drinking Water Sewerage & Infrastructure Corporation Limited (RUDSICO) in Jaipur.
- The outstanding order book for power transmission business has reach high of Rs. 345 crore in September 2024, which includes long duration orders of Rs. 106 crore.

Revision in estimates – We have reduced our earnings estimates by ~8% each for FY2025E and FY2026E to factor in dull performance in H1FY2025. We have introduced FY2027 estimates through this note.

Our Call

View - Maintain Buy with a revised PT of Rs. 470: A better recovery in ethanol production, improved sugar yields and higher sugar realisation will aid TEIL's sugar business to deliver good performance in the coming years. Further, power transmission business is expected to maintain strong growth momentum with consistent improvement in the profitability in coming years. TEIL has maintained its thrust on its key businesses through sustained investment in operating efficiency and capacity expansion. The stock trades at 22x/18x/16x its FY25E/26E/27E EPS, respectively. We maintain a Buy with a revised price target of Rs. 470.

Key Risks

Sharp fall in sugar production, substantial increase SAP rate or delay in commissioning of distillery capacity would act as a key risk to our earnings estimates.

Valuation (Consolidated)

Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	5,617	5,220	5,336	6,024	6,652
EBITDA margin (%)	11.0	12.0	11.6	12.2	12.5
Adjusted PAT	420	395	387	479	554
Adjusted EPS (Rs.)	4.0	18.1	18.1	22.3	25.8
P/E (x)	20.3	22.4	22.3	18.1	15.7
EV/EBIDTA (x)	15.9	16.3	15.2	12.6	11.0
RoNW (%)	19.1	14.2	12.9	14.2	14.4
RoCE (%)	16.1	14.2	12.9	14.8	15.8

Source: Company; Sharekhan estimates

Weak Q2 due to lower profitability

TEIL's Q2FY2025 numbers are not strictly comparable to previous periods due to integration of Sir Shadi Lal Enterprises Limited (SSLEL) during the quarter.

TEIL's net revenues grew by 5.8% y-o-y to Rs. 1,491 crore led by 19.8% y-o-y growth in the distillery net revenue to Rs. 412 crore, 1.1% y-o-y growth in the engineering businesses to Rs. 142 crore and 5.1% y-o-y decline in the sugar business revenue to Rs. 959 crore. LFL growth (excluding SSLEL) stood at 4.2%. Revenues came in ahead of our expectation of Rs. 1,300 crore. EBITDA margin declined by 416 bps y-o-y to 0.3%, much lower than our estimates of 4.8%. The profitability has been pulled down by sugar and distillery businesses whereas engineering businesses contributed higher profitability. Sugar business reported a loss of Rs. 35 crore versus a loss of Rs. 22 crore in Q2FY2024 mainly due to lower contribution margins and higher charge of off-season expenses. Distillery business posted a loss of Rs. 6 crore as against a profit of Rs. 51 crore in Q2FY2024 due to shortage of molasses-based feedstock, increased transfer price of B-heavy molasses and high cost of procurement of maize. Engineering businesses reported EBIT growth of 17.6% y-o-y to Rs. 41.7 crore. EBITDA declined by 92.6% y-o-y to Rs. 4.6 crore. The company reported a loss of Rs. 22 crore against a profit of Rs. 29 crore in Q2FY2024. We had expected PAT of Rs. 18 crore. In H1FY2025, net revenue grew by 7.1% y-o-y to Rs. 2,792 crore, EBITDA margin declined by 395 bps y-o-y to 3.3% and PAT fell by 91.1% y-o-y to Rs. 8.6 crore.

Sugar business: Multiple factors hit profitability

- Revenues declined by 5.1% y-o-y to Rs. 959 crore with 1.4% y-o-y decline in volume, while realisation grew by 2.8% y-o-y. In H1FY2024, revenues grew by 2.9% y-o-y to Rs. 1,959 crore.
- The sugar business posted EBIT loss of Rs. 35 crore versus loss of Rs. 22 crore in Q2FY2024 mainly due to 1) lower contribution margins, 2) higher charge of off-season expenses amounting to Rs. 28.9 crore owing to early closure of the Sugar Season 2023-24 and 3) loss of Rs. 7.7 crore (PBIT) pertaining to the subsidiary SSLEL. In H1FY2025, PBIT margins fell by 138 bps y-o-y to 0.1%.
- The sugar inventory as on September 30, 2024 was 20.63 lakh quintals valued at Rs. 35/kg
- Co-generation operations (including incidental co-generation) achieved external sales of Rs. 6.52 crore during H1FY2025 as against Rs. 12.65 crore in H1FY2024, a y-o-y decline of 48%.
- Crushing for SS 2024-25 has commenced at four sugar units.
- Outlook** - Overall sugarcane crop position seems healthier due to favourable climatic factors as well as due to rigorous sugarcane development activities undertaken by TEIL. Further, focused crop management and continued investments towards debottlenecking, enhancing the crush rate and efficiency improvements will help to improve the overall crush in SS 2024-25. Globally, sugar production is projected to be in the range of 38-39 million tonnes, down from 42.5 million tonnes last year, which may push the global sugar balance sheet to a deficit.

Sugar business' performance

Particulars	Q2FY25	Q2FY24	y-o-y %	H1FY25	H1FY24	y-o-y %
Sugar dispatches (tonnes)						
Domestic	2,41,049	2,44,503	-1.4	4,68,235	4,32,025	8.4
Exports	0	0	-	0	14,531	-100.0
Total	2,41,049	2,44,503	-1.4	4,68,235	4,46,556	4.9
Average Blended Realization (Rs./kg)	38.6	37.6	2.8	38.8	37.4	3.7
Revenue (Rs. crore)	959.3	1,011.0	-5.1	1,958.8	1,903.3	2.9
PBIT (Rs. crore)	-35.4	-22.2	-	1.1	27.4	-96.0
PBIT margins (%)	-3.7	-2.2	-150	0.1	1.4	-138

Source: Company, Sharekhan Research

Distillery business: Double-digit revenue growth; sharp decline in profitability

- Net revenues grew by 19.8% y-o-y to Rs. 412 crore. Ethanol sales volumes grew by 9% y-o-y driven by new capacities commissioned during the year. Average realisation grew by 9.3% y-o-y to Rs. 64.1/litre. In H1FY2025, net revenues grew by 9.6% y-o-y to Rs. 71 crore.
- Distillery business posted EBIT loss of Rs. 6 crore against profit of Rs. 51 crore in Q2FY2024 due to 1) shortage of molasses-based feedstock resulting from the government's policy decision restricting diversion of sugar to BHM and sugarcane juice, which led to closure of distilleries for some period during Q2, b) increased transfer price of B-heavy molasses, c) high cost of procurement of maize, thereby reducing the margins of maize operations. In the previous periods, substantial part of grain operations comprised high margin FCI – rice operations and 4) loss of Rs. 3 crore (PBIT) pertaining to its subsidiary SSLEL. In H1FY2025, PBIT margins sharply declined to 1.9% from 15.9% in H1FY2024.
- Ethanol constituted 93% and 92% of alcohol sales during Q2FY2025 and H1FY2025, as compared to 94% and 93% in Q2FY2024 and H1FY2024, respectively.
- Outlook** - Revised ethanol prices are awaited particularly for sugarcane juice and maize to improve the viability of such feedstocks. For ESY 2024-25 which commenced on November 1 2024, OMCs invited bids for 916 crore litres and allotted 837 crore litres for the 1st cycle.

Distillery business' performance

Particulars	Q2FY25	Q2FY24	y-o-y %	H1FY25	H1FY24	y-o-y %
Operational details						
Production (KL)	39,238	40,520	-3.2	93,859	90,966	3.2
Sales (KL)	56,181	51,545	9.0	96,807	94,002	3.0
Avg. Realisation (Rs./ltr)	64.1	58.6	9.3	62.6	57.9	8.2
IMIL Sales (Lakh Cases)	12.8	10.0	27.5	24.5	21.3	15.0
Financial details						
Revenue Net of Excise Duty (Rs. crore)	412.1	344.1	19.8	701.1	639.5	9.6
PBIT (Rs. crore)	-5.8	50.5	-	13.5	101.5	-86.7
PBIT margins (%)	-1.4	14.7	-	1.9	15.9	-

Source: Company, Sharekhan Research

Engineering business: Muted revenue growth; profitability improves

- Combined revenues of the engineering businesses grew by 1.1% y-o-y to Rs. 142 crore due to a 35.6% y-o-y decline in revenue of the water business, while revenues of the power transmission business grew by 30.1% y-o-y. In H1FY2025, revenue declined by 4.4% y-o-y to Rs. 248 crore.
- Combined PBIT of businesses grew by 17.6% y-o-y to Rs. 41.7 crore; combined margins improved by 411 bps y-o-y to 29.4%. Combined PBIT rose by 16.1% y-o-y to Rs. 66 crore in H1FY2025.
- Outstanding order book for combined engineering businesses stands at Rs. 2,071 crore.

Power transmission business – Good Q2

- Revenues grew by 30.1% y-o-y to Rs 102 crore and EBIT margins improved by 92 bps y-o-y to 37.7%.
- Defence business received order of Rs. 33.8 crore for propulsion shafting from Mazagon Dock Shipbuilders Ltd.
- Order booking grew 57.8% y-o-y to Rs. 141 crore and included orders in both in gears and defence businesses.
- TEIL saw good demand for its products including high technology compressor gearboxes, high power small hydro turbine applications, high power API gearboxes, integrally geared compressor gears etc. The aftermarket segment is also generating strong interest from compressor, gas turbine, test rig industries.
- Overall, the business is witnessing strong growth in exports driven by increased engagement with customers and receiving qualification orders across product lines.

- ◆ Outstanding order book stood at Rs. 345 crore as on September 30, 2024 including long duration orders of Rs. 106 crore.
- ◆ **Outlook** - In addition to the overall economic growth providing growth potential, market share gains and venturing into new product applications are likely to be the major drivers for growth. International markets offer high potential for aftermarket business. Setting up of dedicated multi-modal facility for defence products will also help the business gain confidence of key customers and expand its service offerings.

Water business – Weak Q2

- ◆ Water business' numbers include the performance of the wholly-owned SPV executing Mathura Project awarded by the National Mission of Clean Ganga (NMCG) under the Namami Gange Programme and Pali ZLD Pvt Ltd.
- ◆ Revenues fell by 35.6% y-o-y to Rs. 40 crore due to a delay in execution of certain projects and delay in receipt of new projects and PBIT margins declined by 260 bps to 8.1%
- ◆ The business reported robust order booking during Q2FY2025 aggregating to Rs. 449 crore including two new EPC projects for Uttar Pradesh Jal Nigam (UPJN) at Prayagraj and Rajasthan Urban Drinking Water Sewerage & Infrastructure Corporation Limited (RUDSICO) in Jaipur.
- ◆ The bid evaluation for a project in Europe is still continuing at client's end prior to issue of Letter of Award (LOA).
- ◆ The outstanding order book as on September 30, 2024 stood at Rs. 1,726 crore, which includes Rs. 980 crore towards O&M contracts for a longer period of time.
- ◆ **Outlook** - The business anticipates a surge in business opportunities and new funding is expected to flow from both Central and State Governments, now post elections including in key focus states. TEIL is also evaluating various international opportunities and intends to participate in several tenders in water and wastewater treatment projects.

Engineering business's performance

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	H1FY25	H1FY24	Y-o-Y (%)
Revenue (Rs. crore)						
Power Transmission	102.1	78.5	30.1	156.9	132.6	18.4
Water	40.0	62.1	-35.6	91.1	126.9	-28.2
Total	142.2	140.6	1.1	248.0	259.4	-4.4
EBIT margin (%)						
Power Transmission	37.7	36.8	92	36.1	35.7	49
Water	8.1	10.7	-260	10.3	7.6	266
Order booking (Rs. crore)						
Power Transmission	141.2	89.5	57.8	214.3	154.9	38.4
Water	448.7	7.5	-	461.4	18.9	-
Closing Order book (Rs. crore)						
Power Transmission	344.9	281.5	22.5	344.9	281.5	22.5
Water	1,726.0	1,291.1	33.7	1,726.0	1,291.1	33.7

Source: Company, Sharekhan Research

Other key highlights

- ◆ **Announced capex for IMIL business:** The Board has approved capex of ~Rs. 20 crore for enhancement of production capacity of Indian Made Indian Liquor (IMIL) business from existing 5 lac cases per month to 8 lakh cases per month (adding capacity of 3 lac cases) over the next six months. The decision is in line with the company's aim to improve its market share in the IMIL segment and will be financed through internal accruals.
- ◆ **Debt higher y-o-y:** On a consolidated basis, the net debt after considering surplus funds held is at Rs. 419 crore as on September 30, 2024 as compared to Rs. 101 crore as on September 30, 2023, including Rs. 70.23 crore pertaining to the subsidiary SSLEL. Overall average cost of funds (standalone) is at 6.7% during Q2FY25 versus 5.8% in Q2FY2024.

Results (Consolidated)

					Rs cr
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Gross Revenues	1,748.3	1,617.4	8.1	1,534.0	14.0
Less: Excise duty	257.4	208.5	23.4	233.4	10.3
Net Revenues	1,491.0	1,408.8	5.8	1,300.7	14.6
Raw materials	1,218.6	1,116.6	9.1	999.2	22.0
Employee costs	97.0	82.5	17.6	96.0	1.0
Other expenditure	170.7	146.9	16.2	119.2	43.3
Total expenditure	1,486.3	1,345.9	10.4	1,214.4	22.4
EBITDA	4.6	62.9	-92.6	86.2	-94.6
Other income	13.7	12.4	10.8	10.8	26.5
Interest expenses	16.4	10.2	60.7	26.4	-38.0
Depreciation	32.1	25.8	24.8	28.9	11.2
Profit Before Tax	-30.2	39.3	-	41.8	-
Tax	-7.8	10.1	-	10.8	-
Adjusted PAT	-22.4	29.3	-	31.0	-
Share of profit from associates	-0.1	-0.2	-	0.0	-
Reported PAT	-22.4	29.1	-	31.0	-
EPS (Rs.)	-1.0	1.3	-	1.4	-
			bps		bps
GPM (%)	18.3	20.7	-248	23.2	-491
EBITDA Margin (%)	0.3	4.5	-416	6.6	-632
NPM (%)	-1.5	2.1	-358	2.4	-388
Tax rate (%)	26.0	25.6	41	25.8	16

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Eyeing better prospects for SY 2024-25

With an estimated opening balance as on October 1, 2024 of ~8.3 million tonnes for the sugar season (SS) 2024-25, domestic sales of ~29.4 million tonnes, the closing stock is expected ~8.9 million tonnes. This is after considering diversion of ~4 million tonnes of sugar equivalent into ethanol. Hence, industry expects the government to allow exports at an appropriate time to capitalize on high international sugar prices. The industry also keenly awaits revision to Minimum Selling Price (MSP) of sugar which is vital for the sustainability of the industry.

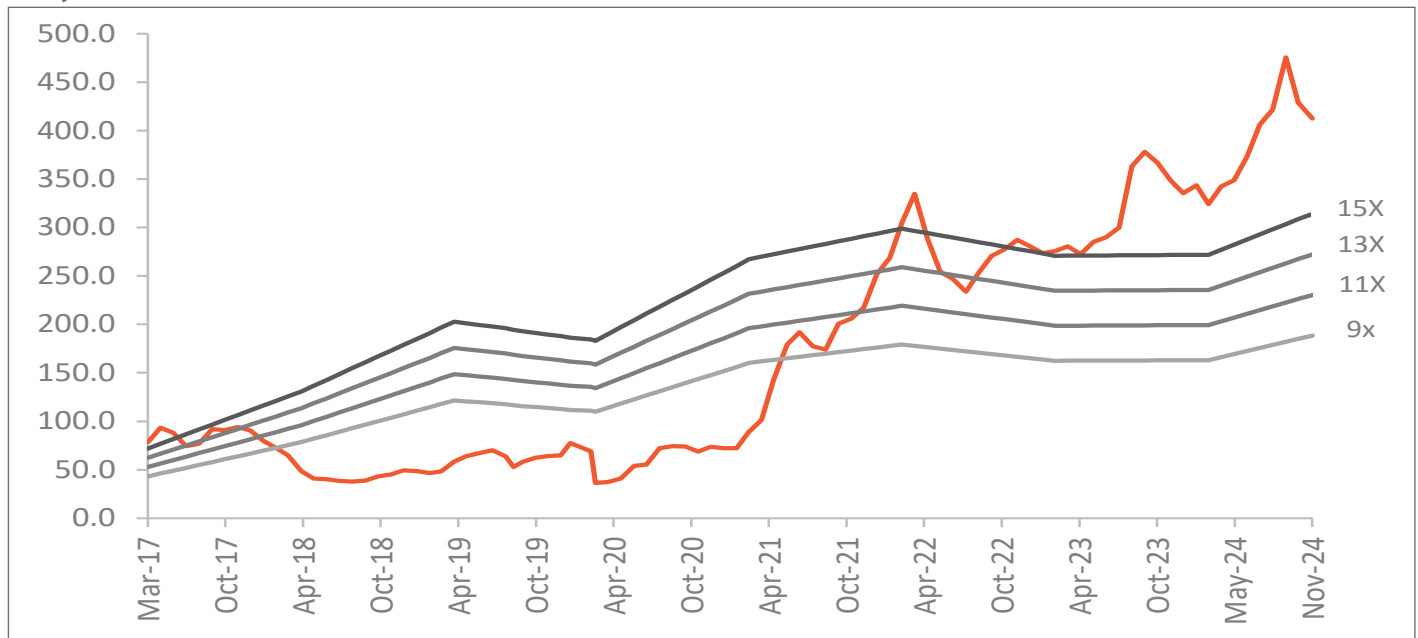
■ Company Outlook – Distillery under pressure; sugar and power transmission to drive good growth

The management expects sugarcane availability and crushing to be higher in the coming season. Realisations are expected to stay high y-o-y due to a decreased global demand-supply gap. With favourable weather and a lot of back-end work on variety of sugar, the sugar production for sugar year 2024-25 would be much better. Favourable government policy (including likely allowing of sugar exports) will boost sugar business performance. The company has maintained its guidance of 21 crore litre of ethanol production with a variance of +5% to -5% for FY2025. The engineering business has a strong order book of Rs. 2,071 crore.

■ Valuation – Maintain Buy with a revised PT of Rs. 470

A better recovery in ethanol production, improved sugar yields and higher sugar realisation will aid TEIL's sugar business to deliver good performance in the coming years. Further, power transmission business is expected to maintain strong growth momentum with consistent improvement in the profitability in coming years. TEIL has maintained its thrust on its key businesses through sustained investment in operating efficiency and capacity expansion. The stock trades at 22x/18x/16x its FY25E/26E/27E EPS, respectively. We maintain a Buy with a revised price target of Rs. 470.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Balrampur Chini	28.7	24.9	19.8	17.9	15.8	13.6	12.6	13.2	14.3
Triveni Engineering	22.4	22.3	18.1	16.3	15.2	12.6	14.2	12.9	14.8

Source: Company, Sharekhan estimates

About the company

TEIL is the largest integrated sugar manufacturer in India and the market leader in its engineering businesses comprising high-speed gears, gearboxes, and water and wastewater treatment solutions. TEIL currently has seven sugar mills in operation at Khatauli, Deoband, Sabitgarh (in western UP), Chandanpur, Rani Nangal, and Milak Narayanpur (Central UP) and Ramkola (Eastern UP). While the company's gears and defence products manufacturing facility is located at Mysuru, the water and wastewater treatment business is located at Noida. The company currently operates six co-generation power plants located across five sugar units and two molasses-based distilleries in UP, located at Muzaffarnagar and Sabitgarh. The company has a multi-feed distillery at Milak Narayanpur. TEIL manufactures IMIL at its Muzaffarnagar distillery.

Investment theme

TEIL will be one of the key beneficiaries of improving fundamentals of the sugar industry in India with the government focusing on reducing the cyclicity in the industry to achieve stable realisation and better profitability in the coming years. Expansion in distillery capacity will drive strong growth for the distillery business, which will add to overall profitability. Further, increased MSPs and higher international sugar prices will keep sugar realisation stable despite higher sugar production. This will help EBITDA margin to improve from 12% in FY2024 to 12.5% in FY2027. Higher profitability along with stable working capital management will help cash flows to improve in the coming years. Thus, the balance sheet is expected to strengthen further in the coming years.

Key Risks

- ♦ Any significant increase in global sugar production would impact export realisation.
- ♦ Any change in sugar export or ethanol blending policies would affect business fundamentals.

Additional Data

Key management personnel

Dhruv M Sawhney	Chairman-Managing Director
Tarun Sawhney	Executive Director - Managing Director
Suresh Taneja	Group CFO
Geeta Bhalla	Group General Manager & Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP Investment Managers Pvt Ltd	4.32
2	Goel Anil Kumar	3.49
3	Nippon Life India Asset Management Ltd	1.31
4	Devabhaktuni Manohar	1.06
5	Mahindra Manulife Investment Management Ltd	1.01
6	Goel Seema	1.01
7	Dimensional Fund Advisors LP	0.89
8	IDFC Mutual Fund	0.46
9	Bank of India Investment Managers Pvt Ltd	0.39
10	Principal Financial Group Inc	0.24

Source: Bloomberg (old data)

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Understanding the Sharekhan 3R Matrix

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

Source: Sharekhan Research

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