



## 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 | ✓   | ↔ | ✓   |

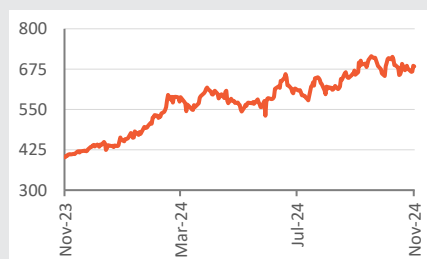
## Company details

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 97,306 cr |
| 52-week high/low:             | Rs. 721 / 400 |
| NSE volume:<br>(No of shares) | 36.6 lakh     |
| BSE code:                     | 500850        |
| NSE code:                     | INDHOTEL      |
| Free float:<br>(No of shares) | 88.1 cr       |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 38.1 |
| FII       | 28.2 |
| DII       | 18.8 |
| Others    | 14.9 |

## Price chart



## Price performance

| (%)                | 1m  | 3m   | 6m   | 12m  |
|--------------------|-----|------|------|------|
| Absolute           | 4.7 | 10.2 | 20.8 | 70.3 |
| Relative to Sensex | 6.5 | 10.1 | 12.6 | 47.8 |

Sharekhan Research, Bloomberg

## Indian Hotels Company Ltd

## Strong Q2; H2 looks buoyant

## Consumer Discretionary

Sharekhan code: INDHOTEL

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 684

Price Target: Rs. 805



Downgrade

## Summary

- Indian Hotels Company Ltd's (IHCL's) Q2FY2025 performance on like-for-like (LFL) basis was strong despite a lean season with hotel business revenues growing by 16% y-o-y and EBITDA growing by 30% y-o-y. Consolidated (including Taj SATS) revenues/EBIDTA grew by 27%/41% y-o-y, respectively.
- Despite a high base, revenues (excluding Taj SATS) will grow by over 10% in H2; October 2024 revenues grew by 16.5% y-o-y. Robust wedding season and FTAs will drive growth in November-December 2024.
- Gross cash stood at Rs. 2,460 crore in H1FY2025; Cash flow conversion improved to 67% in H1FY2025 versus 56% in H1FY2024. IHCL focuses on prudent capital allocation strategy to drive growth.
- We maintain a Buy rating with a revised PT of Rs. 805. Stock currently trades at 31x/26x/21x its FY25E/26E/27E EV/EBIDTA, respectively.

**IHCL's Q2FY2025 performance is strictly not comparable with previous periods due to consolidation of Taj SATS for the period of two months.**

IHCL's Q2FY2025 numbers were strong despite lean business period with room demand staying ahead of room supply. On a comparable basis, the hotel business revenues grew by 16% y-o-y to Rs. 1,722 crore and operating EBITDA grew by 30% y-o-y to Rs. 462 crore (EBIDTA margins expanded by 310 bps y-o-y to 27.8%). This was led by a 16% y-o-y growth in room revenues and food & beverages (F&B) revenues. Same-store-RevPar for each brand has grown in double-digits. Revenues from management fees stood at Rs. 100 crore. Strong expansion in EBITDA margins is attributable to high yields from the F&B business and cost saving initiatives (including power and store & supplies). On a consolidated basis (including Taj SATS), revenues grew by 27% y-o-y to Rs. 1,826 crore, EBITDA margins improved by 270 bps y-o-y to 27.5% and adjusted PAT grew by 2.0x y-o-y to Rs. 327 crore. TajSATs' revenue contribution stood at Rs. 168 crore with EBITDA of Rs. 41 crore (operating EBITDA margin of 23.6%) and PBT at Rs. 35 crore.

## Key positives

- IHCL's domestic RevPar for all brands grew in double-digit in the range of 10-12%.
- New businesses' revenues grew by 47% y-o-y, Ginger grew by 56%.
- Hotel business' operating EBITDA margins improved by 310 bps y-o-y.
- The Pierre in New York has seen strong improvement in the performance in Q2.

## Key negatives

- IHCL's Goa properties saw a 1% y-o-y dip in RevPar in Q2.

## Management Commentary

- Hospitality sector upcycle continued in Q2 with room demand growing by 7% ahead of room supply, which grew by just 2%. The hotels business excluding G-20 summit business in the base quarter would have grown by 19% in Q2FY25.
- Upcoming wedding season (4.8 million weddings estimated in India with 30% higher wedding nights) and increase in FTAs (to reach pre-covid level by FY2025-end) will drive strong room demand in H2. Company has witnessed 16.5% growth in October 2024 and expects November-December 2024 to be strong, with drivers in place.
- Management eyes revenue growth of over 10% in H2FY2025 (excluding Taj SATS). It has maintained its guidance of double-digit revenue growth on like-for-like basis despite weak Q1FY2025. Consolidation of Taj SATS will lead to strong double-digit growth in H2.
- New businesses (including Ginger, Q-min and Amma) are expected to grow by over 30%+. Ginger at Mumbai airport registered revenues of Rs. 44 crore and EBITDA margins of 55% with occupancy of over 85% and ARR of over Rs. 6,500 in Q2. The hotel is expected to post strong performance in H2.
- On the international front, US - New York performance was strong and is expected to maintain the momentum in H2, ST Francisco was challenging, London registered flat performance like last year, Cape Town continues to grow while Maldives and Sri Lanka remained soft.
- IHCL has entered into a contract with Claridges Hotels Pvt. Ltd to license the brands for India & Nepal. Starting April 1, 2025 IHCL will manage 'The Claridges' New Delhi as part of this arrangement.
- IHCL is expected to do a lot of progress on Sea Rock hotels, Mumbai in 100 days.
- Gross cash as on H1FY2025 stood at Rs. 2,460 crore (improved by Rs. 138 crore in six months). Cash flow conversion in H1FY2025 stood at 67% versus 56% in H1FY2024.
- The company did capital expenditure of Rs. 344 crore in H1 and expects to do another Rs. 350-450 crore of capex in H2. It has maintained its guidance of capex to be ~4-5% of revenues in the medium to long run.

**Revision in earnings estimates** - We have increased our earnings estimates for FY2025 and FY2026 to factor in the consolidation of Taj SATS. We have introduced FY2027 earnings estimates through this note.

## Our Call

**VView - Retain Buy with a revised PT of Rs. 805:** In line with management guidance, IHCL registered strong recovery in Q2 with hotel business revenues growing in double digits on back of room demand staying ahead of room supply. With multiple drivers in place, the management is confident of maintaining momentum in H2. Further, it has confidence of seeing good growth in the medium term on back of favourable demand environment while new businesses are expected to grow in upwards of 25-30%. EBITDA margins will consistently improve in the coming years. The stock trades at 31x/26x/21x its FY2025E/26E/27E EV/EBIDTA, respectively. We maintain a Buy on the stock with a revised price target of Rs. 805.

## Key Risks

Any slowdown in corporate travel or a slower recovery in inbound and the outbound tourism industry would act as a key risk to our earnings estimates.

## Valuation (Consolidated)

| Particulars        | FY23  | FY24  | FY25E | FY26E | FY27E  |
|--------------------|-------|-------|-------|-------|--------|
| Revenue            | 5,810 | 6,769 | 7,919 | 9,266 | 10,517 |
| EBITDA margin (%)  | 31.1  | 31.9  | 33.4  | 34.6  | 35.6   |
| Adjusted PAT       | 968   | 1,202 | 1,591 | 2,035 | 2,472  |
| Adjusted EPS (Rs.) | 7.4   | 9.3   | 11.9  | 15.1  | 18.3   |
| P/E (x)            | 92.6  | 73.2  | 57.6  | 45.2  | 37.4   |
| P/B (x)            | 11.2  | 9.6   | 8.4   | 7.1   | 6.1    |
| EV/EBIDTA (x)      | 48.0  | 38.5  | 31.2  | 25.7  | 21.4   |
| RoNW (%)           | 11.9  | 12.8  | 14.6  | 16.1  | 16.6   |
| RoCE (%)           | 13.0  | 14.8  | 17.1  | 19.4  | 20.7   |

Source: Company; Sharekhan estimates

## Strong Q2

**IHCL's Q2FY2025 performance is strictly not comparable with previous periods due to consolidation of Taj SATS for the period of two months.**

On a like-for-like basis, the hotel business revenues grew by 16% y-o-y to Rs. 1,722 crore and operating EBIDTA grew by 30% y-o-y to Rs. 462 crore (EBIDTA margins expanded by 310 bps y-o-y to 27.8%). On consolidated basis, revenues grew by 27.4% y-o-y to Rs. 1,826 crore (grew by 16% y-o-y to Rs. 1,722 crore excluding TajSATS). Consolidated room revenue grew by 16% y-o-y to Rs. 866 crore, F&B revenue grew by 16% y-o-y to Rs. 561 crore and management fees grew by 15% y-o-y to Rs. 100 crore. New Businesses' (Ginger, Qmin and amā Stays & Trails) revenues grew by 47% y-o-y to Rs. 143 crore. Consolidated EBIDTA margins rose 270 bps y-o-y to 27.5%, driven by operating efficiencies and cost saving measures. EBIDTA grew by 41.3% y-o-y to Rs. 501 crore. This coupled with lower interest costs led to a 105% y-o-y growth in the adjusted PAT to Rs. 327 crore. Exceptional items includes one-time exceptional gain of Rs. 307 crore on account of TajSATS consolidation. Reported PAT grew by 2.3x y-o-y to Rs. 583 crore. In H1FY2025, consolidated revenues grew by 16.4% y-o-y to Rs. 3,376 crore, EBITDA margin rose by 178 bps y-o-y to 28.2% and adjusted PAT grew by 51.6% y-o-y to Rs. 562 crore.

## Multiple drivers of strong performance in Q2 and coming quarters

- ♦ **Hospitality sector in an upcycle:** Room demand to grow at a 9-11% CAGR till FY2027 driven by 1) strong domestic demand from rising corporate and leisure travel, 2) favourable demographics such as rising disposable income, and 3) recovery and growth in foreign arrivals. However, room supply is expected to be lower at 6-7% creating a demand supply gap. In Q2FY2025, demand growth (increase in room nights sold) came in at 7% y-o-y versus supply growth (increase in room nights available) of 2% y-o-y. Management indicated that revenues grew by 16.5% y-o-y in October 2024. Further, strong wedding season and foreign tourist arrivals will drive growth in November-December 2024.
- ♦ **Outpacing industry:** Domestic same-store hotels delivered a 12% y-o-y RevPAR growth (RevPAR for all IHCL consol. Domestic hotels) with a premium of 66% versus competition across the enterprise. Further, IHCL's occupancy (Like for Like Enterprise Domestic Hotels) was higher at 71% versus industry occupancy of 61%.
- ♦ **Double-digit RevPAR growth across brands:** IHCL reported double-digit RevPAR growth across all brands. RevPAR of the Taj brand grew by 13% y-o-y to Rs. 12,000 per night, Seleqtions and Vivanta grew by 11% each to Rs. 6,500 and Rs. 5,700 per night, while Ginger registered 10% y-o-y RevPar growth to Rs. 2,500 per night.
- ♦ **Strong growth in international portfolio:** In Q2FY2025, the international portfolio reported an occupancy of 75% (up 600 bps y-o-y), resulting in a RevPAR growth of 10%. UOH Inc. – USA registered revenue growth of 25.4% y-o-y to Rs. 178 crore, with EBITDA losses reducing to Rs. 10 crore versus Rs. 27 crore in Q2FY2024. St. James Court – UK registered revenue growth of 5.6% y-o-y to Rs. 151 crore and 30 bps rise in EBITDA margin to 33.2%.
- ♦ **Capital-light growth continued:** Management fee income grew by 15% y-o-y to Rs. 100 crore driven by 11% y-o-y net unit growth in managed hotel rooms and 58% y-o-y net unit growth in Ama managed bungalows.
- ♦ **Record year of portfolio growth:** IHCL signed 23 hotels and opened 6 hotels in Q2FY2025. With 42 hotels signed and 14 hotels opened during April-October, IHCL is on track for yet another record year of portfolio growth. Its current portfolio consists of 350 hotels with 232 operational and 118 in pipeline (as on October 31, 2024). Management has indicated opening total 25 hotels in FY2025, 30 in FY2026, and higher in future years.
- ♦ **New businesses on growth path:** New Businesses vertical comprising of Ginger, Qmin and amā Stays & Trails reported an enterprise revenue of Rs. 173 crores, registering a y-o-y growth of 42% and consolidated revenue of Rs. 143 crore, with a y-o-y growth of 47%. Enterprise revenue of Ginger exceeded Rs. 150 crore with EBITDAR margin at 42% and a portfolio of 100 hotels with 70 in operations. Qmin has grown to 52 outlets and amā Stays & Trails has reached a portfolio of 227 bungalows with 116 in operations.

- ♦ **TajSATS consolidation completed:** In line with the company's strategy of simplifying the holding structure, TajSATS was fully consolidated in IHCL during Q2FY2025. During the two months of consolidation (August-September), TajSATS contributed revenue of Rs. 168 crore and EBITDA of Rs. 41 crore to IHCL, with operating EBITDA margin at 23.6%.
- ♦ **Brandscape expansion continues:** IHCL relaunched Gateway in a new avatar with an aim to capture growth opportunities Tier II and III cities and emerging central business districts in metros. It eyes portfolio of 100 Gateway hotels by 2030 from the current portfolio of 22 hotels. IHCL has entered into a contract with Claridges Hotels Private Limited (CHPL) to license the brands 'THE CLARIDGES' & 'CLARIDGES COLLECTION' for India & Nepal. 'THE CLARIDGES' has a strong luxury positioning with marquee presence in New Delhi. Starting 1st April 2025, IHCL will manage 'THE CLARIDGES' New Delhi as part of this arrangement. This gives IHCL an opportunity to grow in luxury space with a differentiated offering, distinct from 'TAJ'. Further, IHCL has entered into definitive agreements to acquire majority shareholding in Tree of Life brand holding company, expanding its brandscape with a boutique leisure offering.
- ♦ **Strong growth in loyalty led revenue:** In H1FY2025, total loyalty-led revenue grew by 19% y-o-y to Rs. 2,024 crore, with loyalty contribution to enterprise revenue at 42%.
- ♦ **Strong balance sheet with healthy cash reserves:** In H1FY2025, gross cash generation stood at Rs. 2,460 crore, with cash flow conversion improving to 67% versus 56% in H1FY2024. IHCL focuses on prudent capital allocation strategy to drive growth in the coming years.

### Confident of delivering double-digit growth in FY2025

IHCL expects to post double-digit y-o-y revenue growth in FY2025 driven by –

- ♦ Strong demand momentum driven by upcoming wedding season, foreign tourist arrivals and increase in MICE segment.
- ♦ Sustained growth in new and reimagined businesses
- ♦ Non-LFL growth
- ♦ Healthy same store performance
- ♦ Expected growth in F&B revenue

## Results (Consolidated)

|                                    |                |                |              |                | Rs cr       |
|------------------------------------|----------------|----------------|--------------|----------------|-------------|
| Particulars                        | Q2FY25         | Q2FY24         | Y-o-Y (%)    | Q1FY25         | Q-o-Q (%)   |
| <b>Net Sales</b>                   | <b>1,826.1</b> | <b>1,433.2</b> | <b>27.4</b>  | <b>1,550.2</b> | <b>17.8</b> |
| Foods & Beverage consumed          | 174.0          | 112.4          | 54.9         | 114.3          | 52.2        |
| Employee cost                      | 522.5          | 440.5          | 18.6         | 460.5          | 13.5        |
| Other operating & general expenses | 628.3          | 525.5          | 19.6         | 525.9          | 19.5        |
| <b>Total expenditure</b>           | <b>1,324.9</b> | <b>1,078.4</b> | <b>22.9</b>  | <b>1,100.6</b> | <b>20.4</b> |
| <b>EBITDA</b>                      | <b>501.3</b>   | <b>354.8</b>   | <b>41.3</b>  | <b>449.6</b>   | <b>11.5</b> |
| Other income                       | 64.1           | 47.7           | 34.5         | 46.0           | 39.2        |
| Interest cost                      | 52.2           | 59.1           | -11.5        | 49.9           | 4.8         |
| Depreciation                       | 124.9          | 111.2          | 12.3         | 117.3          | 6.5         |
| <b>PBT</b>                         | <b>388.2</b>   | <b>232.2</b>   | <b>67.2</b>  | <b>328.5</b>   | <b>18.2</b> |
| Tax                                | 60.9           | 72.3           | -15.8        | 94.3           | -35.4       |
| <b>Adjusted PAT</b>                | <b>327.3</b>   | <b>159.9</b>   | <b>104.7</b> | <b>234.2</b>   | <b>39.8</b> |
| Share of profit from associates    | 9.5            | 19.1           | -50.2        | 26.0           | -63.4       |
| Adjusted PAT after MI              | 336.8          | 179.0          | 88.2         | 260.2          | 29.5        |
| Extraordinary item                 | 245.9          | 0.0            | -            | 0.0            | -           |
| <b>Reported PAT</b>                | <b>582.7</b>   | <b>179.0</b>   | <b>-</b>     | <b>260.2</b>   | <b>-</b>    |
| EPS (Rs.)                          | 2.3            | 1.1            | 104.7        | 1.6            | 39.8        |
|                                    |                |                | <b>bps</b>   |                | <b>bps</b>  |
| GPM (%)                            | 90.5           | 92.2           | -169         | 92.6           | -216        |
| EBITDA margin (%)                  | 27.5           | 24.8           | 270          | 29.0           | -155        |
| NPM (%)                            | 17.9           | 11.2           | 677          | 15.1           | 282         |
| Tax rate (%)                       | 15.7           | 31.1           | -            | 28.7           | -           |

Source: Company; Sharekhan Research

## Revenue performance of key legal entities

| Particulars          | Q2FY25 | Q2FY24 | Y-o-Y (%) | Q1FY25 | Q-o-Q (%) |
|----------------------|--------|--------|-----------|--------|-----------|
| UOH Inc. USA         | 178    | 142    | 25.4      | 204    | -12.7     |
| St. James Court - UK | 151    | 143    | 5.6       | 136    | 11.0      |
| PIEM Hotels Ltd      | 135    | 119    | 13.4      | 126    | 7.1       |
| Roots Corporation    | 110    | 84     | 31.0      | 100    | 10.0      |
| Benaras Hotels       | 26     | 27     | -3.7      | 24     | 8.3       |
| Taj Sats             | 254    | 213    | 19.2      | 241    | 5.4       |
| Oriental Hotels      | 104    | 93     | 11.8      | 83     | 25.3      |

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Hotel industry to benefit from demand supply gap

Barring Q1FY2025, which was a one-off quarter, hotels have been witnessing strong momentum for the past few quarters. Higher demand from domestic leisure travellers, recovery in foreign tourist arrivals (FTAs) and a revival in corporate travels will keep room demand high for hotel companies (also help in achieving higher room rentals) in the short to medium term. Recent industry data shows that demand is expected to continue to grow in double digits (~12%). However, the supply is expected to grow by ~9% over the next 4-5 years. This augurs well for the industry because hotel performance in India is highly sensitive to supply and demand dynamics. Margins of hotel companies are likely to expand, aided by better operating leverage coupled with various cost-saving initiatives undertaken by companies.

### ■ Company Outlook – Strong growth over FY2024-27

With room demand expected to exceed supply, domestic performance would be strong in the coming years. This along with a likely recovery in international properties and higher contribution from new ventures, will aid revenues and PAT clock a CAGR of 16% and 27% over FY2024-27E. Cost-saving initiatives undertaken in FY2021 will help operating profit improve in coming years. We expect IHCL's EBITDA margins to be over 35% in FY2025. Asset-light model will help in high free cash generation. Return ratios are expected to improve with RoE/RoCE expected to increase to ~17%/21% in FY2027 from 13%/16% in FY2024.

### ■ Valuation – Retain Buy with a revised PT of Rs. 805

In line with management guidance, IHCL registered strong recovery in Q2 with hotel business revenues growing in double digits on back of room demand staying ahead of room supply. With multiple drivers in place, the management is confident of maintaining momentum in H2. Further, it has confidence of seeing good growth in the medium term on back of favourable demand environment while new businesses are expected to grow in upwards of 25-30%. EBITDA margins will consistently improve in the coming years. The stock trades at 31x/26x/21x its FY2025E/26E/27E EV/EBITDA, respectively. We maintain a Buy on the stock with a revised price target of Rs. 805.

#### Peer Comparison

| Particulars           | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       |
|-----------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|                       | FY24    | FY25E | FY26E | FY24          | FY25E | FY26E | FY24     | FY25E | FY26E |
| Lemon tree Hotels     | 51.7    | 39.4  | 29.7  | 18.2          | 14.7  | 12.7  | 11.1     | 12.8  | 14.5  |
| Chalet Hotels         | 76.1    | 52.1  | 38.4  | 30.1          | 23.3  | 19.1  | 10.5     | 13.1  | 15.2  |
| Indian Hotels Company | 73.2    | 57.6  | 45.2  | 38.5          | 31.2  | 25.7  | 14.8     | 17.1  | 19.4  |

Source: Company, Sharekhan estimates

## About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. These include Taj, the iconic brand for the most discerning travellers; SeleQtions, a named collection of hotels; Vivanta, sophisticated upscale hotels; and Ginger, which is revolutionising the lean luxe segment. Incorporated by the founder of the Tata Group, Jamsetji Tata, the Company opened its first hotel - The Taj Mahal Palace, in Bombay in 1903. IHCL currently has a portfolio of 350 hotels including 118 under development globally across 4 continents, 13 countries and in over 130 locations.

## Investment theme

The hotel industry's business fundamentals have recently improved with room demand outpacing room supply. Strong domestic travel coupled with recovery in foreign travel would help IHCL in posting better performance in the medium term. A strong focus on building an asset-light model, market share gains in key markets and scale-up in the new businesses will help IHCL to deliver strong growth in the coming years with strong growth in profitability. Further, the company is focusing on strengthening its balance sheet by a sustained reduction in debt, which augurs well from a long-term perspective.

## Key Risks

- Any drop in room demand due to the emergence of any black swan event/sustained high inflationary environment or a significant increase in room supply in the coming years would be a key risk to our earnings estimates.
- Any delay in the launch of new hotels/rooms will impact profitability.
- Any disruption in the performance of international properties will affect the consolidated performance of IHCL in the coming years.

## Additional Data

### Key management personnel

|                   |  |
|-------------------|--|
| N. Chandrasekaran | Chairman   |
| Ankur Dalwani     | Executive Vice President & Chief Financial Officer                       |
| Puneet Chhatwal   | Executive Director, Chief Executive Officer & Managing Director          |
| Beejal Desai      | Executive Vice President - Corporate Affairs & Company Secretary (Group) |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                                | Holding (%) |
|---------|--|-------------|
| 1       | HDFC Asset Management Co.                  | 3.74        |
| 2       | BlackRock Inc                              | 2.62        |
| 3       | Nippon Life India Asset Management Company | 2.45        |
| 4       | Vanguard Group Inc                         | 2.36        |
| 5       | Axis AMC                                   | 2.31        |
| 6       | Jhunjhunwala Rekha Rakesh                  | 2.10        |
| 7       | Franklin Resources Inc                     | 1.40        |
| 8       | HDFC Life Insurance Co Ltd                 | 1.31        |
| 9       | Canara Robeco AMC                          | 1.29        |
| 10      | Republic of Singapore                      | 1.17        |

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

| 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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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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