Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View
View: **Positive**
CMP: **Rs. 737**
Upside potential: **28%**

↑ Upgrade ↔ Maintain ↓ Downgrade

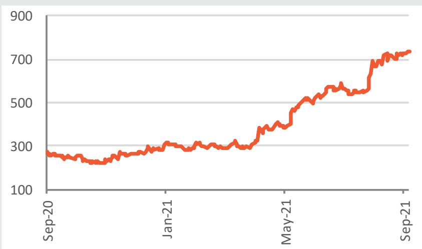
Company details

Market cap:	Rs. 1,391 cr
52-week high/low:	Rs. 777 / 206
NSE volume: (No of shares)	0.6 lakh
BSE code:	532923
NSE code:	RGL
Free float: (No of shares)	0.6 cr

Shareholding (%)

Promoters	70.8
FII	1.6
DII	0.0
Others	27.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	36.0	154.1	176.3
Relative to Sensex	-0.7	24.6	138.6	124.4

Sharekhan Research, Bloomberg

Renaissance Global

On a path of profitable branded transformation

Consumer Discretionary	Sharekhan code: RGL	New idea

Summary

- We initiate viewpoint coverage on Renaissance Global Limited (RGL) with a Positive view and expect an upside of 28% in the next 12 months. Stock is attractively valued at 10.9x/8.6x its FY23/24E EPS.
- RGL aims to transform into a profitable jewellery company by scaling up contribution of high margin licensed brands and direct-to-customer (D2C) channel. OPM to rise to 9-10% by FY2024 from 5-6% earlier.
- Shift in mix towards high margin branded business would boost profitability and gradually reduce working capital requirement; cumulative free cash flows would be Rs. 478 crore over FY22-24.
- Return profile will also improve as RoE and RoCE are expected to rise to 14.2% and 16.1% in FY24. Company expects to turn net cash positive by FY23E.

Renaissance Global (RGL) is aiming to transform itself into a high-margin branded business by growing contribution of licensed brands and increasing sales through D2C model. The company's OPM would rise to 9-10% by FY2024 from 5-6% earlier. Further higher contribution from D2C and retail branded sales would help working capital improve, thereby boosting cash flow generation and substantially improve the return profile. The company expects to turn net cash positive by FY23.

- **Transforming into branded play through strategic initiative:** Launch of new brands and the rising trend of online shopping have led to a large shift towards branded jewellery globally. Sensing this as an opportunity, RGL plans to increase the contribution of its branded business through higher sales of licensed brands and increase sales through the direct-to-customer (D2C) channel. In line with its strategy, it added six licensed brands in FY21 and will add more brands in near future, entered into tie up with the second-largest Chinese retailer – Lao Feng Xiang and the recently-acquired US-based jewellery company Everyday Elegance to scale-up its D2C business.
- **Margin expansion to boost earnings growth:** Business to business (B2B) sales of licensed brands and sales through D2C channel are expected to clock a CAGR of 32% and 67%, respectively over FY2021-24. An increase in contribution of high-margin businesses would help OPM improve to 9-10% in FY2024 from 5-6% earlier. This along with reduction in debt would help earnings to post a CAGR of 51% over FY2021-24.
- **Balance sheet to strengthen; return profile to improve:** Higher sales of licensed brands through retail channel and D2C channel require lesser working capital, which will help company to generate cumulative free cash flows of Rs. 478 crore over FY2021-24. RoE and RoCE will improve to 14.2% and 16.1% respectively in FY2024.

Our Call

Valuation: Initiate viewpoint with Positive view and potential upside of 28%

RGL seeks to grab a large share in the high-margin global branded jewellery space, which provides sustained strong earning visibility and higher cash generation ability in long run. The stock currently trades at an attractive valuation of 10.9x/8.6x its FY2023/24 EPS. Strong earnings growth of 51% CAGR over FY21-24E and a likely improvement in return profile and balance sheet turning net cash positive provides us comfort on RGL's future prospects. We initiate viewpoint coverage on stock with Positive view and potential upside of 28%.

Key Risks

Any increase in competition in the key international markets, non-continuance of contract with a marquee client and significant fluctuation in the currency would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	2,031	1,912	2,182	2,502
OPM (%)	4.9	8.4	8.8	9.4
Adjusted PAT	46	98	127	159
% Y-o-Y growth	*-49.7*	*110.5*	*29.7*	*25.7*
Adjusted EPS (Rs.)	24.9	52.4	67.9	85.3
P/E (x)	29.6	14.1	10.9	8.6
P/B (x)	1.6	1.5	1.3	1.2
EV/EBIDTA (x)	12.2	6.8	5.8	5.1
RoNW (%)	6.0	11.0	12.8	14.2
RoCE (%)	6.1	10.6	13.2	16.1

Source: Company; Sharekhan estimates

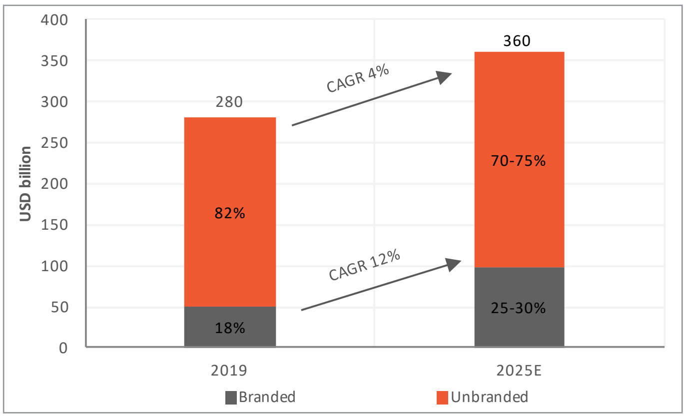
** Revenues are expected to lower in FY2022 yoy as the company has changed the revenue recognition method for Plain gold jewellery business*

The global branded jewellery industry is expected to clock CAGR of 12% over CY2019-25 as compared to a 4% CAGR in overall global jewellery sector. A large shift of consumers to branded products and rising trend of online purchases will be key growth drivers for faster growth in branded jewellery segment. Contribution of online sales is expected to go up to 25-30% in CY2025 from 18% in CY2019.

Global branded jewellery industry to grow 3x ahead of overall jewellery industry

The global jewellery market size was valued at $280 billion in 2018 and is anticipated to grow significantly over the next few years owing to rising disposable incomes, higher sales to through online platform and innovative jewellery designs offered by manufacturers. The global jewellery industry is expected to clock a 3-4% CAGR between 2019 to 2025 growing to a total size of $340-360 billion. Within the jewellery market, certain segments are expected to grow much faster as compared to the overall market. The branded jewellery segment, which currently contributes ~ 18% of the total market, is expected to grow at a higher CAGR of 8-12% to $80-100 billion and represent 25-30% of the market by 2025.

Branded jewellery to shine brighter



Source: Company, Sharekhan Research

In terms of region, Asia is expected to be the fastest growing market, poised to grow at 10-14% CAGR from 2019-2025 to reach USD 42-53 billion from USD 24 billion in 2019 owing to rising income levels.

Asia to lead global growth

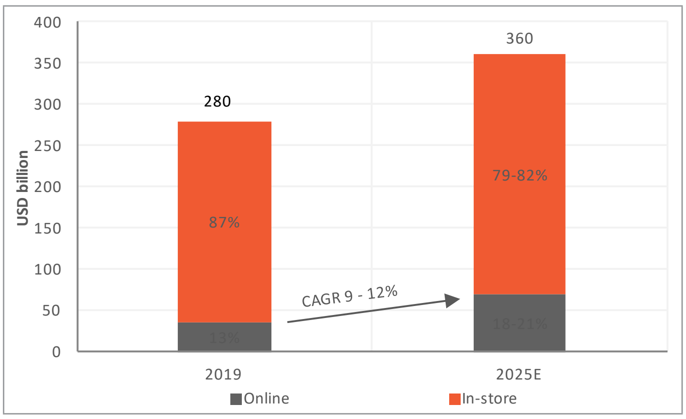
	2019 (USD billion)	2025E (USD billion)	CAGR 2019-25E
Global Jewellery Market	280	340-360	3-4%
Branded Jewellery Market	50	80-100	8-12%
Asia Branded Jewellery Market	**24**	**42-53**	**10-14%**
America Branded Jewellery Market	**13**	**18-22**	**4-7%**
Europe Branded Jewellery Market	11	16-20	5-9%
Other Branded Jewellery Markets	2	4-5	6-10%

Source: Company; Sharekhan Research

Online sales gained strong traction; trend to continue

Online jewellery contribution to sales increased from ~13% in 2019 to ~20% in 2020. Amid COVID-led lockdowns, consumers' preference has shifted to online shopping as against in-store purchases. Another trend that has gained traction is most consumers (~70%) use digital tools to research and choose jewellery before they make in-store purchases. This trend is expected to continue going ahead as well. The global market for online jewellery was estimated to be worth ~$22 billion in 2020 and is expected to grow at a CAGR of ~15.5% during 2020-27 to reach ~$59 billion by 2027.

Online sales to grow faster



Source: Company, Sharekhan Research

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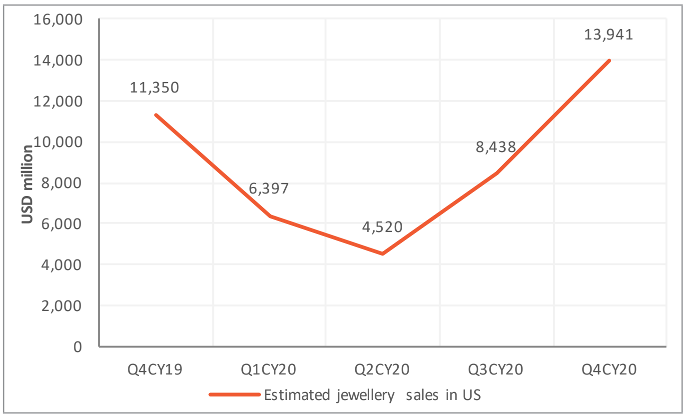
The online business' improving share will also boost the profitability of companies as online business is generally a high-margin business and working capital requirements are low. Thus, the margins and return ratios of companies are expected to improve along with a rise in online sales. Due to low working capital requirements, the working capital allocations will also improve.

COVID-19 impact and industry trend in key global markets

The jewellery industry suffered a ~10-15% decline in revenues due to uncertainty caused by the COVID-19 pandemic that dragged down demand across the globe. Further, the abrupt halt in global travel muted jewellery purchases made by consumers on trips abroad, which accounted for ~30% of pre-pandemic market. That said, many factors such as increasing disposable incomes, innovation in the sector, changing lifestyles, etc will drive growth in the jewellery market in the coming years.

US: The US jewellery market was severely hit by COVID-19 in Q2 last year as the stock market crashed and unemployment rose to 15% leading to 40% drop in jewellery sales. Decline in tourism and drop in luxury and premium product spends affected jewellery sales. However, factors such as significant government support, improvement in employment rate, good pace of vaccinations and pre-holiday marketing push have aided in faster recovery of the sector. Due to COVID-19–led lockdowns and restrictions, consumer spends on travel and entertainment have shifted to luxury products which has further boost the sector.

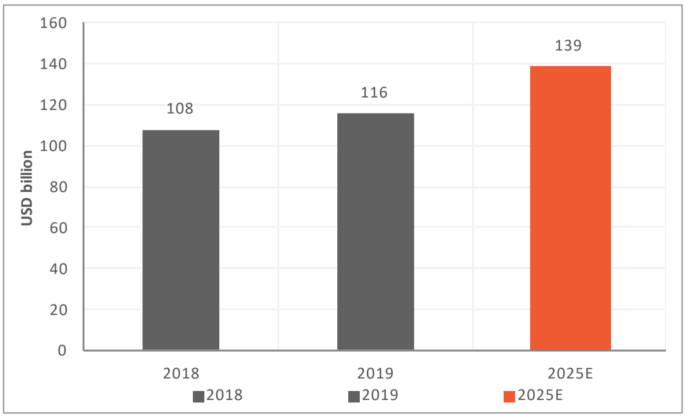
Quarterly jewellery sales trend in US



Source: Company, Sharekhan Research

China: China's jewellery market was impacted during the pandemic due to the lockdowns but recovered quickly as restrictions were eased. Major local chains reported double digit growth in H2CY2020 as consumer spends on travel were diverted towards luxury and premium product spends. Expansion by retailers into lower-tier cities also aided the growth. The Chinese jewellery market is expected to grow at a CAGR of 3% between 2019-2025 to USD 139 billion.

Chinese jewellery market's growth



Source: Company, Sharekhan Research

India: Due to the lockdowns imposed in various parts of the world, exports of gems and jewellery from India were impacted in FY2021. Exports declined by 28% y-o-y in FY2021 to $25 billion but industry reports show that the same have picked up in H2FY2021. In March 2021, jewellery exports from India grew by 78% y-o-y with gross exports reported at $3.4 billion.

RGL is an integrated global jewellery company focused on conceptualising, manufacturing and distribution of customer and licensed brands. The company is focusing on transforming itself into high margin branded business by growing contribution of licensed brands and increasing the sales through D2C model in the medium term. The company's OPM are expected to inch up to 9-10% from 5-6% earlier. Further, higher contribution from D2C channel and retail branded sales would help working capital improve in the long run thereby boosting cash flow generation and substantially improving the return profile.

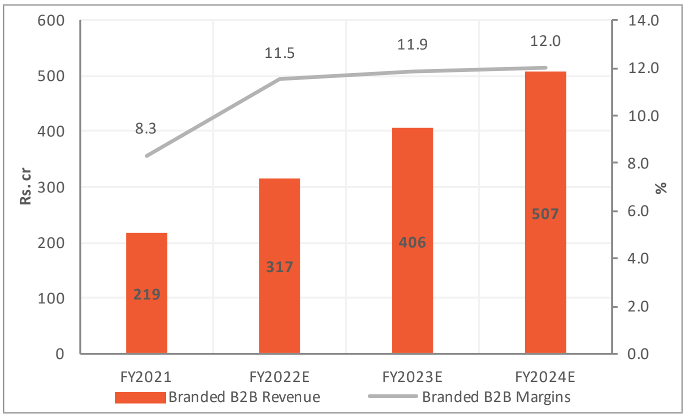
Focus on transforming into high-margin branded business

With a large shift by consumers to branded jewellery, its share is expected to grow significantly in global market in the coming years. Industry reports suggest that the branded jewellery segment is expected to clock a CAGR of 8-12% over CY2019-25 compared with overall industry expected to grow at 3-4% over the same period. RGL's strategy is to scale-up it's revenue contribution from the branded business (that contributed ~22% of overall revenues in Q1FY2022) to improve its profitability, cash flows and return profile in long run. Due to a structural shift in the global jewellery industry towards brands, the company sees it as a great opportunity to expand in key markets. The company plans to scale this division through higher sales of licensed brands through its retail partners and direct-to-consumer (D2C) channel. Branded business has OPM of ~15% with B2B licensed brand business having OPM of 11-12% and D2C business having OPM of 18-20%. This is higher than the core customer brand business margins of ~9%. With an improvement in the penetration of new brands and high sales through D2C platform, RGL aspires the contribution of branded business to go up to 50% from current 20%+ in the long run (expect it to be at 32% of revenues by FY2024). This will help in consistent improvement in the margins and would lead to higher free cash flow generation in the coming years. We expect branded business revenues to grow at CAGR of 42% over FY2021-24.

Revenue contribution of licensed and own brands to soar

RGL's B2B generic jewellery business with global retailers is well established and cash generating. The company holds exclusive licenses of brands such as Enchanted Disney Fine Jewelry – Disney Princesses IP, Disney Treasures Fine Jewelry – A collection of iconic characters of Disney, Star Wars Fine Jewelry, Hallmark – Originally a greeting card brand with high recognition in the US. The company has also launched its own brands: IRASVA – a diamond jewellery brand focused on Indian markets, Made for You – Lab-grown diamond jewellery, Jewelili – diamond jewellery brand focused on the US. RGL is actively pursuing new licensing opportunities to build its portfolio of licensed brands. It is also focusing on improving the store penetration of licensed brands to scale up the branded business in long run. Enchanted Disney Fine Jewelry, which is the company's oldest brand is the more mature brand with a wider distribution to over 2,500 stores. Newer brands such as Disney Treasures and Hallmark have a lower distribution through various retail stores. The company has recently entered Chinese market with the launch of "Enchanted Disney Fine Jewelry" collection in partnership with the second-largest Chinese jewellery retailer Lao Feng Xiang (LFX) for the Chinese market in Q1 FY22. There are meaningful and significant discussions going on with new and existing clients in different markets that will support growth in the brand business in the medium term. We expect the revenues of B2B license brands jewellery segment to grow at CAGR of 32% over FY2021-24 to Rs. 507 crore. The OPM of B2B license brand jewellery segment stood at 8% in FY021 and are expected to improve to 12% with scale-up in the revenues of branded business.

Trend in revenue and margin of licensed brand B2B business



Source: Company, Sharekhan Research

Marquee clients

B2B	Signet Group (Sterling, Kays Jewellers)
	Fred Mayer
	Helzberg Diamonds
	Lao Feng Xiang
Department Store Chains	JC Penny
	Kohls
	Macy's
	Walmart
E-commerce, television retailers	Amazon
	Argos
	Jewelry Television
Retailers (Middle East)	Damas
	Joy Alukkas
	Malabar
	Jawhara

Source: Company; Sharekhan Research

Brands

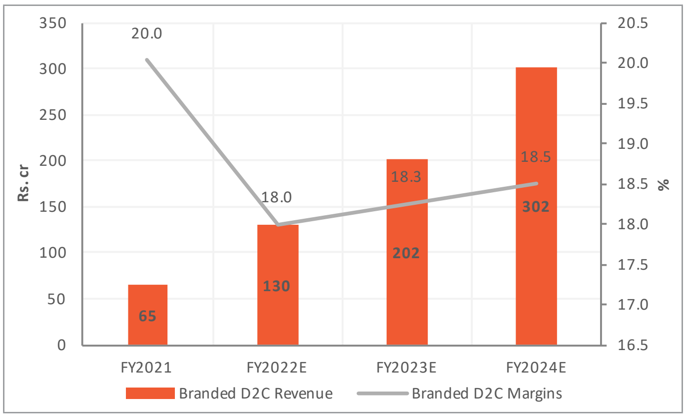
Licensed	Enchanted Disney Fine Jewelry
	Disney Jewels
	Star Wars Fine Jewelry
	Hallmark Diamond Moments
	Halmark Tokens
In-house	Jewelili
	Made for You
	Irasva

Source: Company; Sharekhan Research

D2C channel to be next big earnings driver

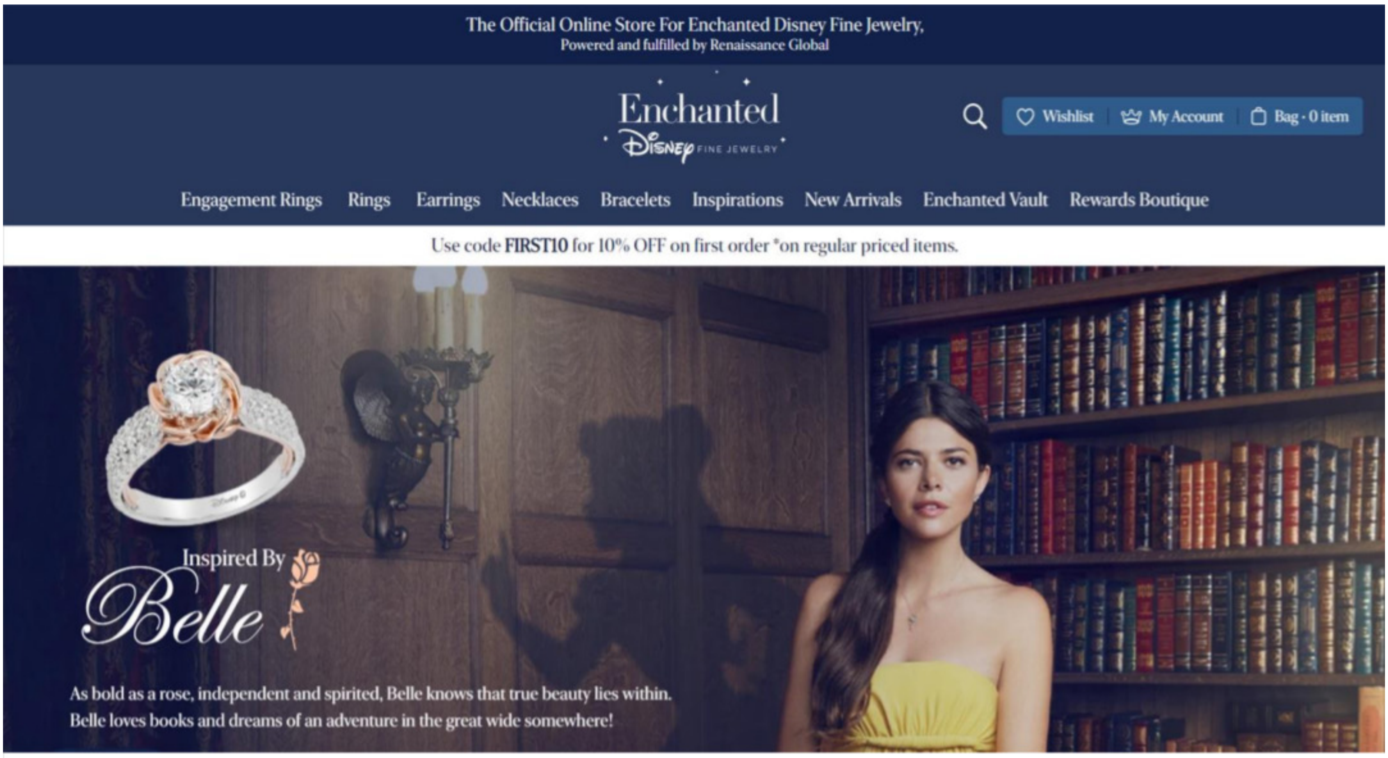
With consumers increasingly preferring to shop online (especially during the COVID-19 times), D2C channel has an excellent potential to grow strongly in the medium term. RGL has been swift to identify the change in consumer behaviour and ventured into the D2C business from February 2020. The company received excellent response on its website launched for Enchanted Disney Fine Jewelry (enchantedfinejewelry.com), which gave it the impetus to launch website for other brands. In FY2021, the company launched websites for brands such as Star Wars, Jewelili, Made For You and began FY2022 with launch of its sixth website for Hallmark Diamonds. The company plans to launch a website for Disney Jewels in FY2022. D2C business is a high gross-margin business with gross margins in the range of 55% to 60% (OPM of ~18%) as the company does not have to pay trade margins for selling products through its own website. For last three quarters, the company has been generating revenues in the range of Rs. 22-27 crore. Considering the growing trend of online purchases, the company is expecting to end FY2022 with revenues of Rs. 125-130 crore versus Rs. 65 crore in FY2021. We expect the D2C business' revenues to double to Rs. 300 crore by FY2024. Sustained scale up in the revenues of D2C business and a consequential improvement in the revenue mix would add on to the overall margins in the medium to long term.

Trend in revenue and margin of branded D2C business



Source: Company, Sharekhan Research

D2C websites of RGL



https://www.enchantedfinejewelry.com/

Source: Company; Sharekhan Research

https://starwarsfinejewelry.com/

Source: Company; Sharekhan Research

Enter the Dragon - Chinese market foray through tie-up with nation's second-largest retailer

RGL launched the "Enchanted Disney Fine Jewelry" Collection in partnership with the second-largest Chinese jewelry retailer Lao Feng Xiang (LFX) for China in Q1FY22. Lao Feng Xiang established in 1848 is Mainland China's oldest jewelry brand. Lao Feng Xiang operates over 3,000 stores worldwide, including stores in almost every province in Mainland China and in Hong Kong, New York City, Sydney and Vancouver. The company got an exclusive arrangement with LFX for three years for distribution of products through its store. Further RGL is also in process of setting up to D2C business in China. The company has planned for dual approach for the Chinese market, which will be key revenue driver for the Chinese market from medium to long term.

Acquisition of *Everyday Elegance* with focus on expanding branded business

RGL wholly owned subsidiary Renaissance Jewelry New York has acquired the business of Everyday Elegance Jewelry (Everyday Elegance) for a total consideration of $0.9 million (valued at 0.75x its CY2020 sales). ~35% of this acquisition cost is towards inventories of *Everyday Elegance*. The company intends to fund the investment through cash on balance sheet. *Everyday Elegance* has a portfolio of over 200 products with a strong presence across various e-Commerce marketplaces, primarily on Amazon.com. In the FY2020, *Everyday Elegance Jewelry's* revenues stood at USD 1.2 million. The company has a healthy, debt-free balance sheet. The business is expected to contribute operating margin in the range of 18% -20%, in line with RGL's current online D2C business. The acquisition is in-sync with RGL's strategy to expand presence in the high-margin global branded jewellery space (will add ~4% to branded B2B business of RGL). This transaction will strengthen RGL's resolve to expand its presence across global e-Commerce marketplaces.

Strong margin expansion to drive 51% CAGR growth in PAT over FY2021-24

With an increase in contribution from license brands (11-12% OPM) and D2C business (18-20% OPM), the consolidated OPM is expected to reach 9-10% by FY2024 from around 5-6% earlier. Also change in the revenue recognition in the plain gold jewellery business would add-on to the profitability in the coming years This would result in the operating profit to grow at CAGR of 33% over FY2021-24. Further the reduction in debt would lead to lowering of interest cost in the coming years, which will help PAT to grow at CAGR of 51% over FY2021-24 to Rs. 159 crore.

Working capital days to reduce with higher mix towards D2C business in long run

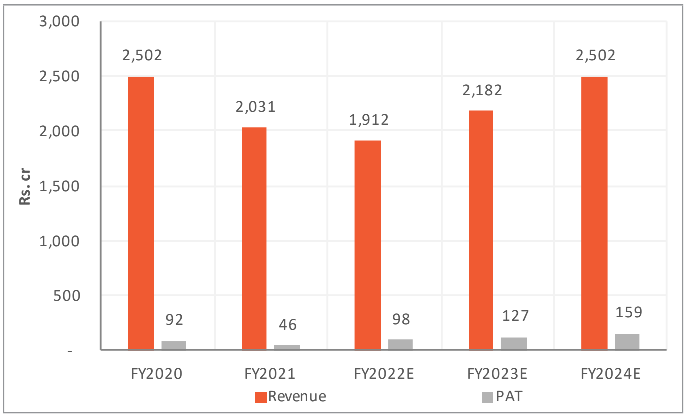
As on March 31, 2021 the total debt on book stood at Rs. 486.5 crore, with large part of debt was towards working capital requirement. Working capital cycle for plain gold jewellery stood lower at 15-20days, D2C working capital requirement is lower with zero receivable days and ~90 days of inventory. Customer brands business has higher working capital cycle of 150-160 days with ~60 days of receivables and 90-120 days of inventory while license brands have a shorter working capital cycle compared to customers' brands. Working capital cycle stood at 153-156 days in FY2019 and FY2020. With scale up in the contribution of D2C business revenues and license brands revenues working capital days will gradually reduce and would stand at around 125-130 days in FY2024. Sustained increase in contribution of D2C business will help the working capital days to further improve in long run. Thus increase in profitability and gradual decline in the working capital days would lead to cumulative free cash flow generation of Rs. 565 crore over FY2021-24.

Higher cash flows, deleverage balance sheet will boost return ratios

With a strong improvement in free cash flows, we expect the company to become net cash positive by FY2023 and cash flows are expected to improve substantially in the subsequent years. Strong earnings growth and reduction in the debt on the balance sheet would return ratios to significantly improve in FY2024 with RoE and RoCE standing at 14.2% and 16.1% as compared with 13.5% and 10.5% in FY2020. Strong cash generation ability and absence of major capex on books would make way for higher returns to shareholders in the form of higher dividend payout/buyback in the coming years. The company is targeting to return of one-third of profits to shareholders in the form of dividends in the coming years.

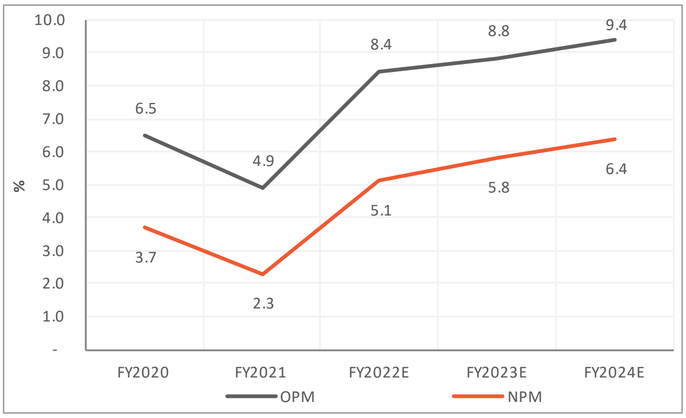
Financials in charts

Trend in revenue and PAT



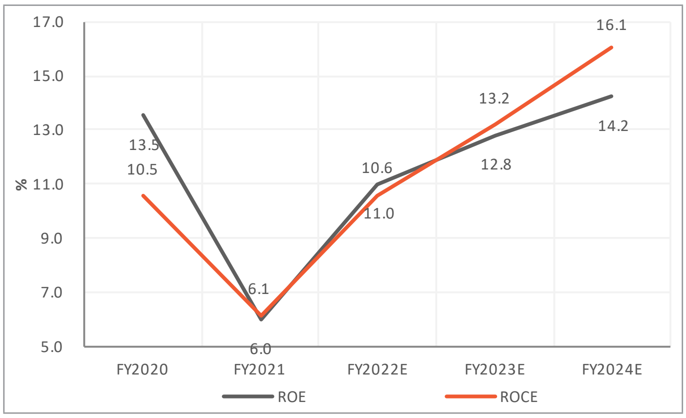
Source: Company, Sharekhan Research

Consistent increase in margins



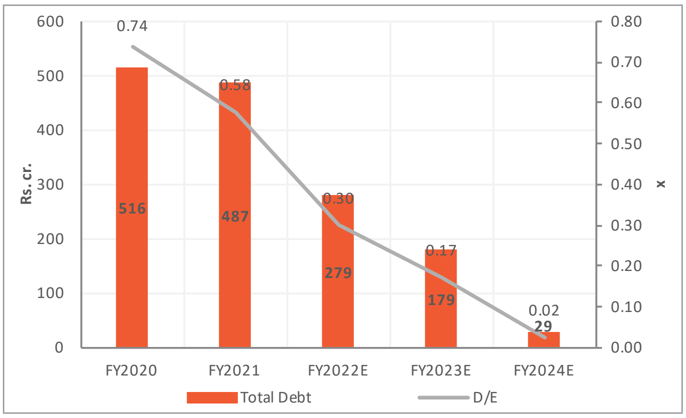
Source: Company, Sharekhan Research

Return ratios to improve



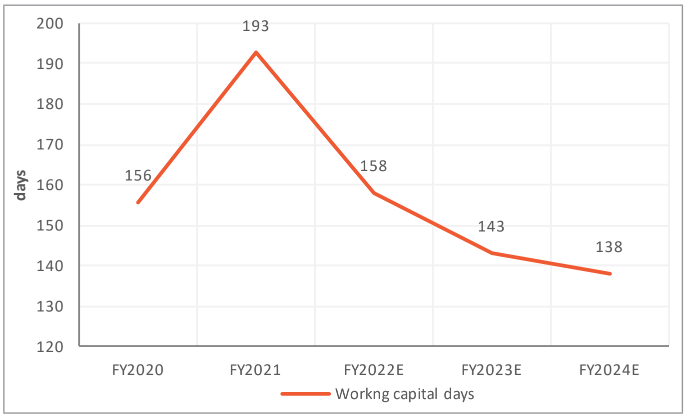
Source: Company, Sharekhan Research

Debt to reduce substantially by FY2024



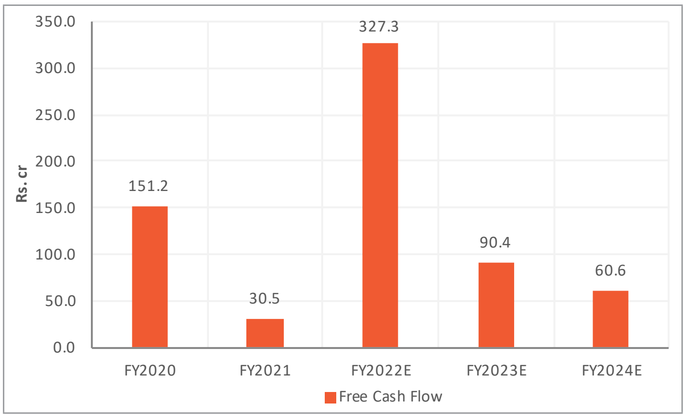
Source: Company, Sharekhan Research

Working capital days to come down from current level



Source: Company, Sharekhan Research

Consistent Free Cash generation



Source: Company, Sharekhan Research

Outlook and Valuation

RGL currently trades at an attractive valuation of 10.9x/8.6x its FY2023/24 EPS. Strong earnings growth of 51% CAGR over FY21-24E and a likely improvement in return profile and balance sheet turning net cash positive provides us comfort on RGL's future prospects.

■ Sector outlook – Branded jewellery to grow faster with online channel gaining strong traction

The global jewellery industry is expected to grow at a 3-4% CAGR between 2019 to 2025 growing to a total size of $340-360 billion. Branded jewellery, which currently contributes ~18% of the total market and is expected to clock a higher CAGR of 8-12% to USD 80-100 billion to represent 25-30% of the market by 2025. A large shift of consumers to branded products and rising trend of consumer buying through online platforms will be key growth drivers for the branded jewellery business to grow faster than overall jewellery industry. The contribution of online sales is expected to go up to 25-30% in CY2025 from 18% in CY2019.

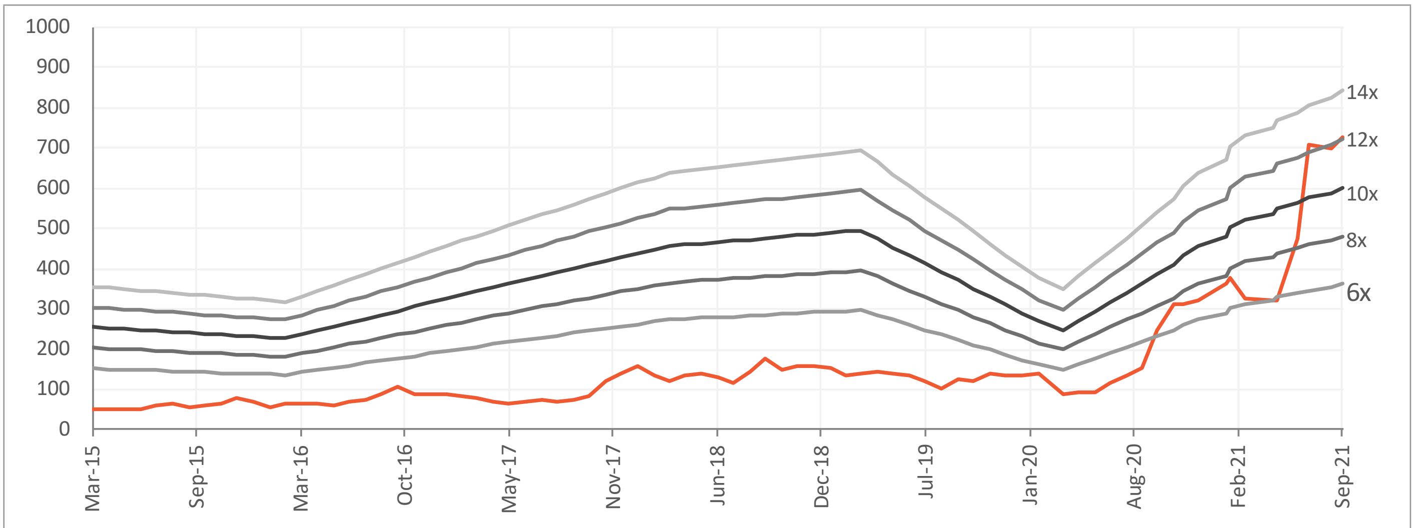
■ Company outlook – On a profitable transformation journey

Covid-19 had severe impact on RGL's operating performance in FY2021 with revenues and PAT down by ~19% and ~50%. Reduction in covid-19 cases, opening of economy and improvement in the overall mobility in the markets such US resulted in strong recovery in the performance in Q4FY2021 and Q1FY2022. With strong recovery in demand in the US market, entry into new markets such as china, and high sales on D2C channel, PAT are expected to grow at CAGR 51% over FY2021-24. The strong earnings growth is attributable to stark improvement in the OPM to close to 9-10% in FY2024 from 5-6% earlier. With change in mix the working capital days are expected to reduce due to lower working capital requirement in the D2C and branded retail business. The company is expected to net cash positive by FY2023.

■ Valuation – Initiate viewpoint with Positive view and potential upside of 28%

RGL seeks to grab a large share in the high-margin global branded jewellery space, which provides sustained strong earning visibility and higher cash generation ability in the long run. The stock currently trades at an attractive valuation of 10.9x/8.6x its FY2023/24 EPS. Strong earnings growth of 51% CAGR over FY21-24E and a likely improvement in return profile and balance sheet turning net cash positive provides us comfort on RGL's future prospects. We initiate viewpoint coverage on stock with Positive view on and potential upside of 28%.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY21	FY23E	FY21	FY22E	FY23E
Titan	-	103.3	72.3	-	63.6	46.5	17.2	27.5	34.0
Renaissance Global	29.6	14.1	10.9	12.2	6.8	5.8	6.1	10.6	13.2

Source: Company, Sharekhan estimates

About company

Renaissance Global (RGL) is a global jewellery company focused on distribution and manufacturing of customer brands and supplier of licensed branded jewellery. RGL currently holds exclusive licenses for Enchanted Disney Fine Jewellery, Disney Treasures Fine Jewellery, Star Wars Fine Jewellery and Hallmark. The company has also launched its own brands Irasva, Made For You and Jewelili. RGL has long-standing relationships with marquee global retailers like Amazon, Argos, Helzberg, Malabar Gold, Signet, Wal-Mart, Zales Corp. etc. The company has diversified operations across key markets in USA, UK & Middle East with its global marketing presence through own subsidiaries and via strategic acquisitions over the years. The company recently entered the Chinese market and has planned to widen its presence through omni-channel approach. In the last financial year, the company launched a direct-to-consumer business for all their licensed brands and own brands. The D2C business has shown strong momentum and the company expects this business to contribute meaningfully to earnings growth in the years to come.

Investment theme

RGL is integrated global jewellery company focused on conceptualising, manufacturing and distribution of customer and licensed brands. The company is focusing on transforming itself into high margin branded business by growing contribution of licensed brands and increasing the sales through D2C model in the medium term. The company's OPM are expected to inch up to 9-10% from 5-6% earlier. Further higher contribution from D2C and retail branded sales would help working capital to improve in the long run. This would result higher cash flow generation and substantial improvement in return profile.

Key Risks

- **Slowdown in discretionary consumption:** Any slowdown in discretionary consumption would act as a key risk to demand for the company's products.
- **Uncertainty related to international markets:** Any changes in government regulations, tax regimes, economic developments in the countries in which the company conducts business would impact the profitability of the company.
- **Increase in competition:** Any increase in competition form large brands in the key markets would be key risk to the revenue growth momentum.

Additional Data

Key management personnel

Hitesh Shah	Managing Director
Niranjan Amratlal Shah	Chairman
Sumit Niranjan Shah	Vice Chairman
Dilip Joshi	Chief Financial Officer
G M Walavalkar	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bg Advisory Services Llp	3.40
2	Parag Sureshchandra Shah	1.62
3	Darshil Atul Shah	1.61
4	Pooja Arora	1.32
5	Reena Arora	1.32
6	Vrsha Arora	0.98
7	JBCG Advisory Services Private Limited	0.94
8	Nikesh Sureshchandra Shah	0.88
9	Adesh Ventures Llp	0.85
10	Shrenik Manharlal Shah	0.83

Source: Annual report (as 31st March,2021)

Understanding the Sharekhan 3R Matrix

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

Source: Sharekhan Research

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