Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Trent Ltd

Strong performance in FY2024; multiple growth strategies in place

Consumer Discretionary	Sharekhan code: TRENT

Reco/View: Buy	↔	CMP: **Rs. 5,027**	Price Target: **Rs. 5,838**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

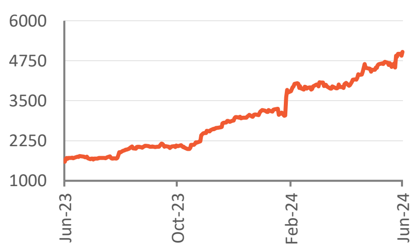
Company details

Market cap:	Rs. 1,78,705 cr
52-week high/low:	Rs. 5,090 / 1,591
NSE volume: (No of shares)	8.7 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	27.6
DII	13.9
Others	21.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.6	25.4	74.3	215.1
Relative to Sensex	7.3	21.4	64.2	193.0

Sharekhan Research, Bloomberg

Summary

- We retain Buy rating on Trent with a revised PT of Rs. 5,838. Consistent industry outperformer and strong growth levers makes it a strong play in lifestyle fashion space. Stock trades at 58x/44x its FY2025E/26E EV/EBITDA, respectively.
- Trent registered consistent strong performance for the past four years (FY2020-24) with revenues and PAT clocking CAGRs of 39% and 62%, respectively, backed by strong store expansions and consistent double-digit SSSG.
- Same-store-sales grew by over 10% in FY2024; sales per sq. ft and volumes for all fashion and lifestyle concepts grew by 23% and 74%, respectively.
- Working capital days reduced by 10 days to 28 days in FY2024; OCF to EBIDTA improved to 70%; RoE and RoCE improved to 28.4% and 24.5% respectively.

Trent posted yet another year of strong performance in FY2024, led by consistent double-digit same-store-sales growth and scale-up in performance of new vectors (including Zudio). Revenues/PAT posted CAGRs of 39%/62% over FY2020-24. EBIDTA margins (post Ind-AS 116) improved by 160 bps y-o-y to 16.2%, back to FY2022 EBIDTA margins of 16.2%. In FY2024, fashion and lifestyle concept portfolios' like-for-like growth was over 10%, sales per sq. ft and volumes grew by 23% and 74% y-o-y to Rs. 15,776 and 2,770 lakhs, respectively in FY2024. Under the strong store expansion strategy, the company has 232 Westside stores in 91 cities and 545 Zudio stores in 164 cities across India. Despite strong capex on new stores, balance sheet remained strong on back of strong working capital management resulting in higher cash flows. Return profile continued to improve with RoE and RoCE standing at 28.4% and 24.5%, respectively.

- **Fashion and beauty business maintained strong performance:** Trent's fashion and lifestyle concepts - Westside, Zudio, Utsa, Samoh and Misbu together have delivered better performance across key parameters such as sales per sq. ft, volumes sold and operating EBITDA margin. In FY2024, fashion and lifestyle concept portfolios' like-for-like growth was over 10%. Sales per sq. ft and volumes for all fashion and lifestyle concepts grew by 23% and 74% y-o-y to Rs. 15,776 and 2,770 lakhs, respectively in FY2024. In the beauty category, volumes rose by 1.9x-3.0x y-o-y across categories, gaining strong traction amongst customers.
- **Balance sheet remains healthy with improved return profile:** Working capital days declined to 28 days in FY2024 from 38 days in FY2023 largely due to a decrease in inventory days by 26 days to 58 days. With strong improvement in cash from operations, OCF/EBIDTA ratio improved to 70% in FY2024 from 59% in FY2023. At FY2024-end, cash & cash equivalents (including current investments) stood at Rs. 906 crore with a significant proportion of the current investments in debt mutual funds. RoE improved to 28.4% in FY2024 as against 19.1% in FY2023 while RoCE improved to 24.5% in FY2024 versus 14.5% in FY2023.
- **Strategies to drive consistent performance:** Trent maintained its focus on store addition in FY2024 and added 224 stores (net) across formats including 193 Zudio stores, 18 Westside stores, five Utsa stores and three stores each of Star Zara and Misbu. Further, it focuses on growing the brands by having differentiated products, sharp pricing strategy, improving lifestyle experience and widening the reach across brands. It plans to scale up its supply chain to support growing business, with focus on delivering freshness consistently. The company aims at actively monitoring existing stores and refreshing the portfolio through multiple initiatives including absorption/refurbishment of brand diluting stores. With strategies in place, we expect Trent's revenues and PAT to grow at CAGR of 34% and 50% over FY2024-26E.

Our Call

View - Retain Buy with a revised PT of Rs. 5,838: Trent has been posting consistent strong performance in the retail universe by delivering double-digit same-store-sales growth in a weak discretionary environment. Innovation in product portfolio, 100% contribution from own brands, aggressive store expansions, scaling up of the Star business and leveraging on digital presence will be key growth drivers in the medium term. Stock is currently trading at 58x/44x its FY2025E/FY2026E EV/EBITDA. With long-term growth prospects intact and a strong balance sheet among retailers, we maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 5,838.

Key Risks

Slowdown in consumer demand will act as a key risk to our earnings estimates in the near term.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	7,715	11,927	16,393	21,543
EBITDA Margin (%)	14.5	16.2	16.6	17.0
Adjusted PAT	555	1,070	1,652	2,394
% YoY growth	-	93.0	54.4	44.9
Adjusted diluted EPS (Rs.)	15.6	30.1	46.5	67.3
P/E (x)	-	-	-	74.6
P/B (x)	58.0	40.2	29.6	21.4
EV/EBITDA (x)	-	78.5	57.8	44.2
RoNW (%)	19.1	28.4	31.5	33.3
RoCE (%)	14.5	24.5	35.1	39.4

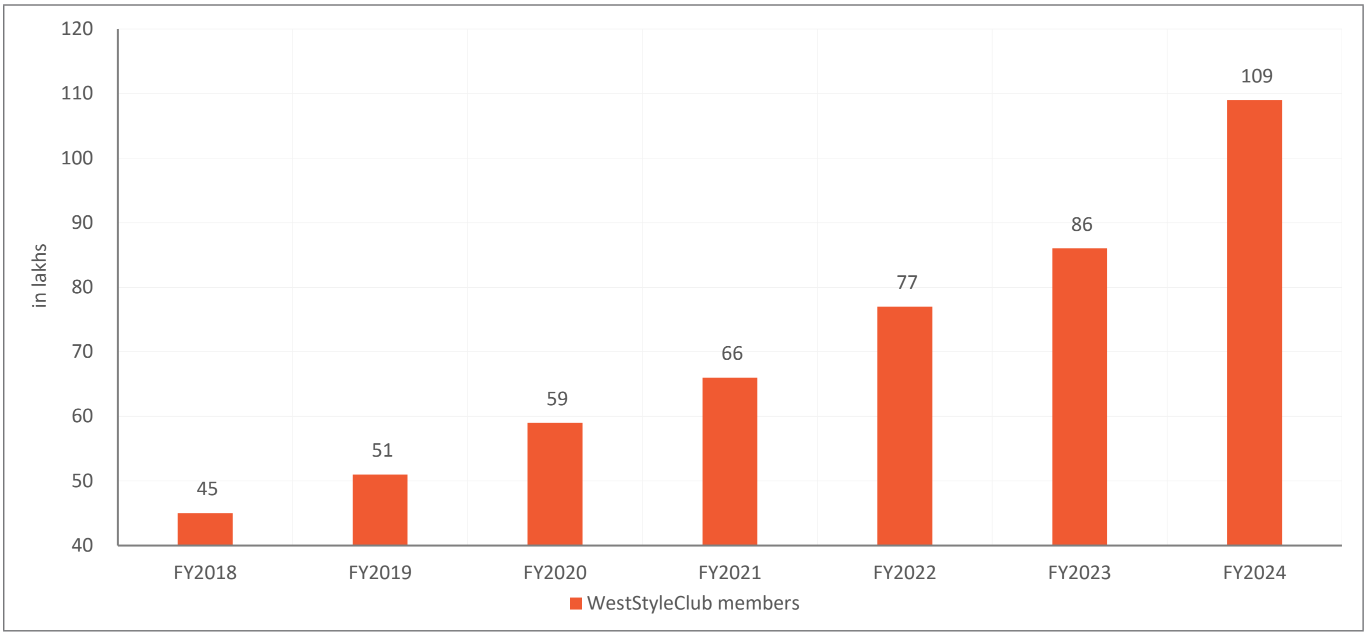
Source: Company; Sharekhan estimates

Multiple initiatives driving Westside performance

Westside is one of Trent's leading lifestyle concepts and contributes significantly to its revenues. As of March 2024, Westside had 232 stores across 91 cities with additional online reach across India exclusively through Westside.com, Tata CliQ and Tata Neu. During FY2024, Westside focused on key initiatives including:

- **Emphasis on freshness and on-trend fashion coupled with efficiency of supply chain:** Trent's teams continually work to understand customers' unique fashion tastes and offer products in a fast and agile manner. The company's product quality and sustainability teams, partner with independent inspection and verification firms to evaluate suppliers' compliance with applicable laws and the company's code of ethics. As over 80% of merchandise is sourced from within India, the supply chain stays agile and transparent.
- **Deepening customer-connect and community building:** During FY2024, Westside carried out curated events across its target audiences and strengthened its community engagement. Some of the events arranged during the year include - member exclusive and in-store Wesness events to treat the top loyal members, music events in collaboration with NCPA for the modern customers and music tours and college fests with Gen Z artists for the contemporary customers.
- **Scaling and leveraging the annual subscription-based customer engagement programme – WestStyleClub:** WestStyleClub welcomed over 28.4 lakh subscribers to the club in FY2024. taking the total member count to 109 lakh at FY2024-end.

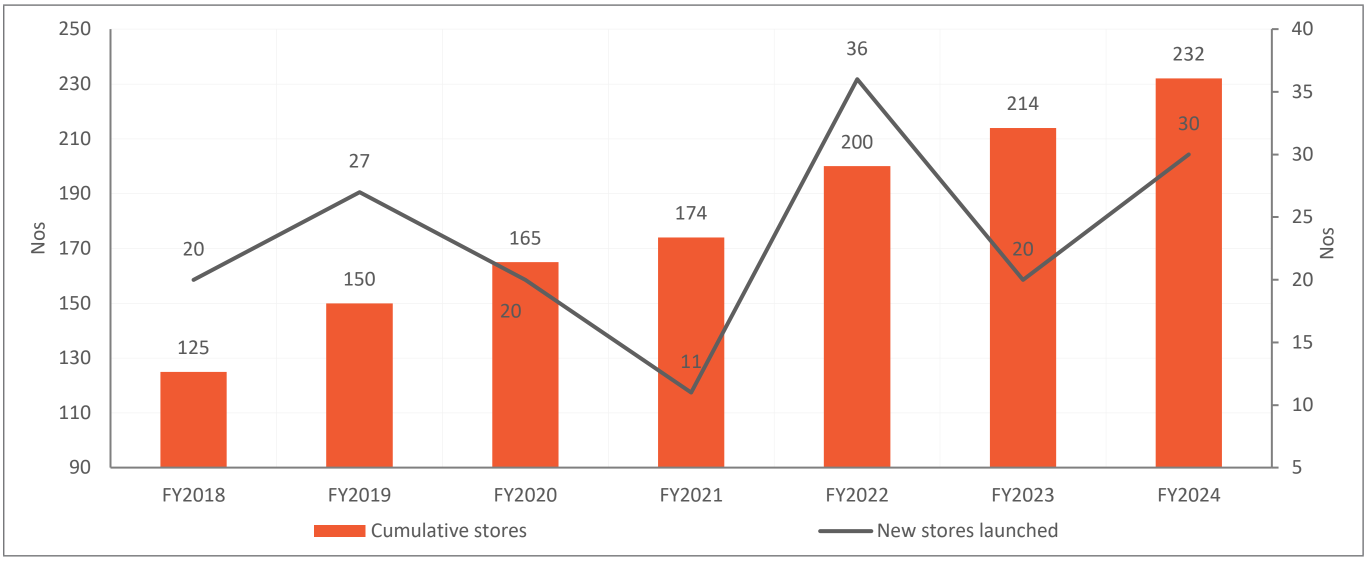
Increasing membership of WestStyleClub programme



Source: Company; Sharekhan Research

- **Accelerating reach and focus on high-quality store footprint with prominent street presence:** In FY2024, Westside added 30 new stores and consolidated 12 stores. While store expansion is a key growth lever for Westside, maintaining quality and physical aesthetics of stores and ensuring consistent customer experience is given equal importance at Westside. Going ahead, the company plans to grow a portfolio of prominent Westside stores that have significant street presence in marquee locations with a minimum footprint of ~20,000 sq ft, with the total investment in a new Westside store leased and operated at Rs. 8-9 crore across capex, deposits and inventory.

Westside's presence growing over the years



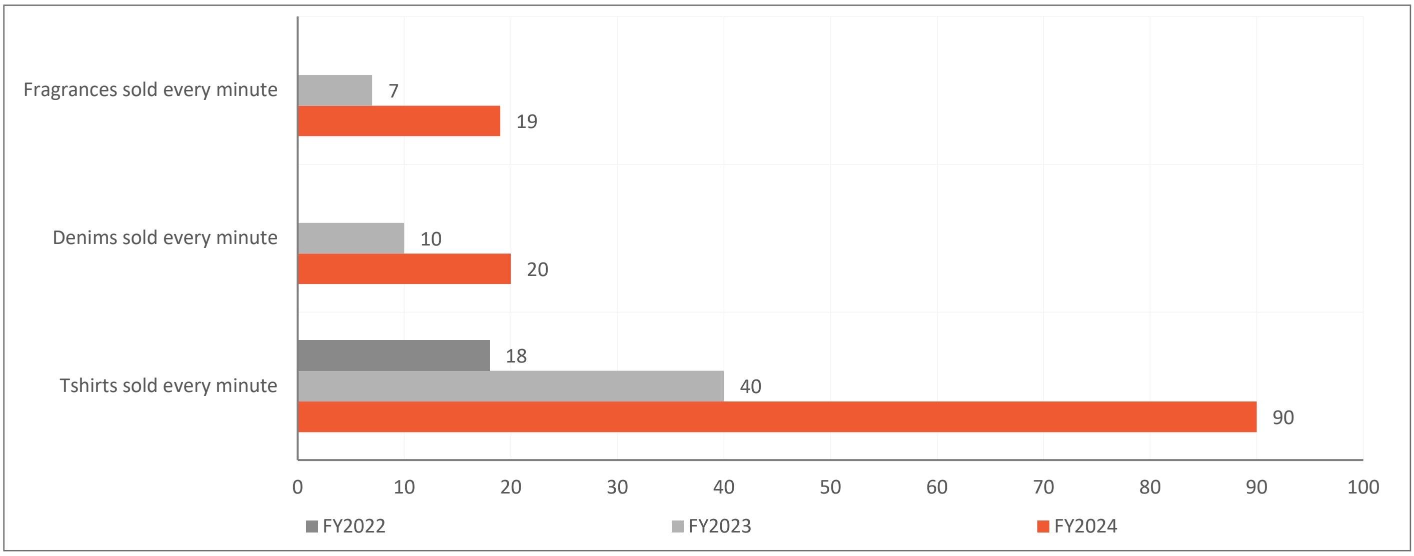
Source: Company; Sharekhan Research

- **Seamless proposition across store and digital channels; doubling down on the online channel:** The online channel contributed to ~5% of Westside revenues in FY2024. Westside has adopted an omnichannel model seamlessly sourced from its integrated pool of inventory across select stores and distribution centres.
- **Leveraging social media to grow reach and actively appeal to a younger audience:** Through social media engagements and events, Westside collaborated with leading fashion bloggers, vloggers, influencers and organised popular fashion & youth events to reinforce its brand messages to a wider audience.

Zudio's growing presence

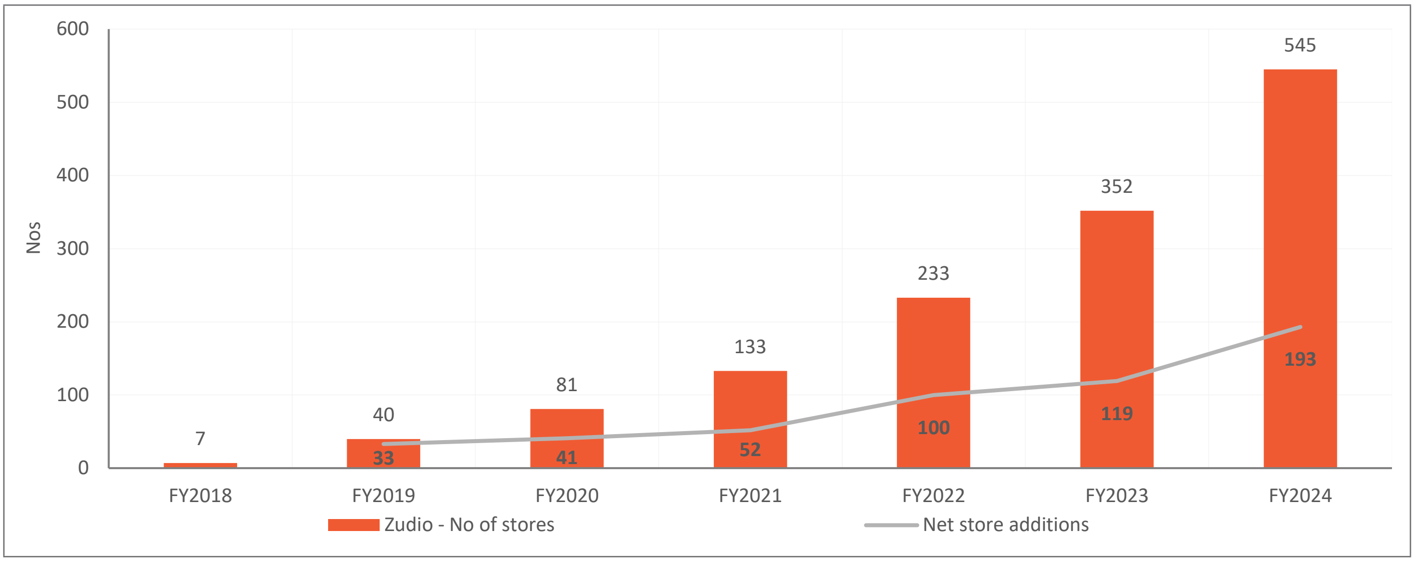
Zudio offers function and fashion at irresistible prices for women, men and children. The exclusive offerings are curated in-house and made available at very sharp price points. For Zudio, the company's emphasis is on minimising lead times and landing fresh collections in stores as quickly as possible. Merchandise is almost entirely sourced from within India as a matter of choice, affording access, speed and flexibility. During the year, Zudio added 203 new stores to its portfolio and consolidated 10 stores, taking the count to 545 stores across 164 cities, including stores co-located with Star at FY2024-end. With a store footprint of ~10,000 sq. ft and capital requirement for a new Zudio store at Rs. 3-4 crore (including capex, deposits and inventory), the concept affords expansion across numerous micro-markets.

Zudio historical trends



Source: Company; Sharekhan Research

Zudio – Store count rising y-o-y

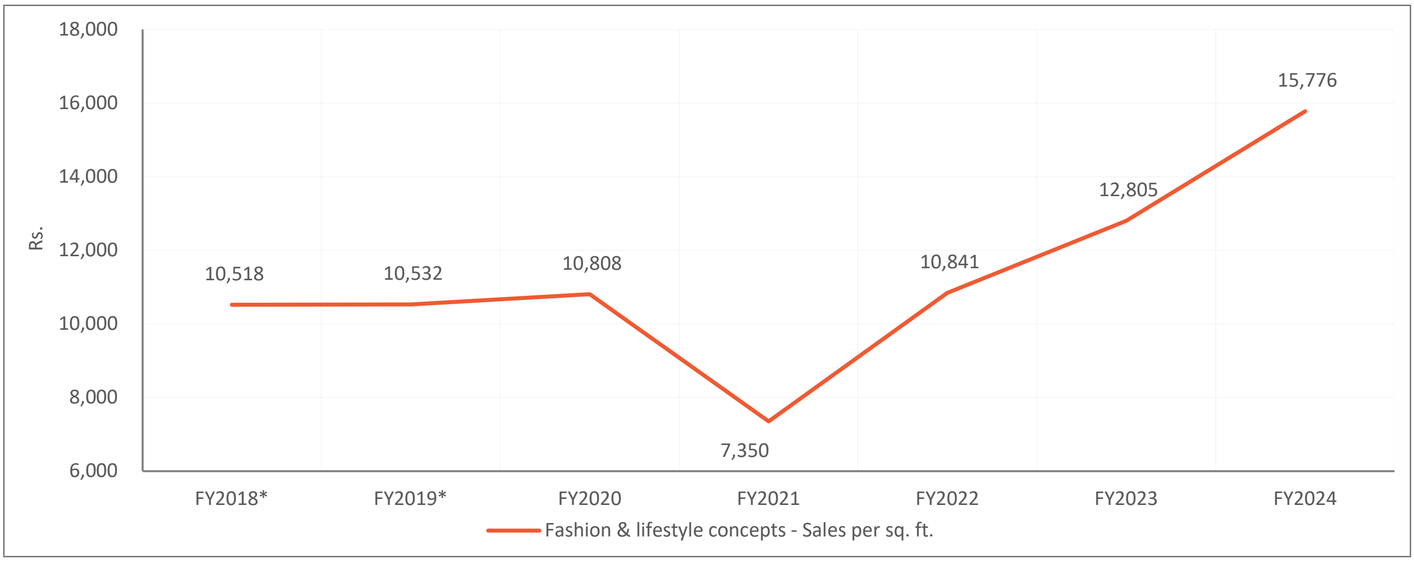


Source: Company; Sharekhan Research

Improved performance across lifestyle concepts and beauty

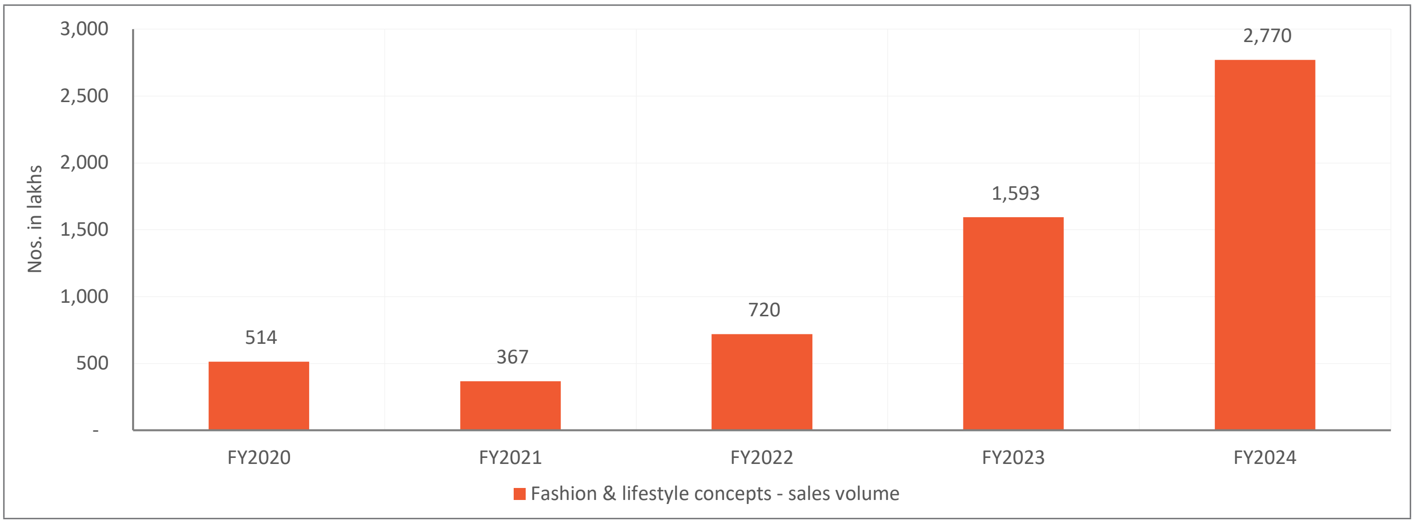
Over the years, Trent's fashion and lifestyle concepts - Westside, Zudio, Utsa, Samoh and Misbu together have delivered improving performance across key parameters such as sales per sq. ft, volumes sold and operating EBITDA margin. In FY2024, fashion and lifestyle concepts' portfolio like-for-like growth was over 10%. Sales per sq. ft and volumes for all fashion and lifestyle concepts grew by 23% and 74% y-o-y to Rs. 15,776 and 2,770 lakhs, respectively in FY2024. During the year, gross margins were stable y-o-y at 44.4%, while EBITDA margin improved by 300 bps y-o-y to 11.7%. The portfolio witnessed higher shrinkage in FY2024, which can be attributed to significant volume growth during the year. In the beauty category, volumes rose by 1.9x-3.0x y-o-y across categories, signifying good acceptance by customers.

Rising sales per sq. ft.



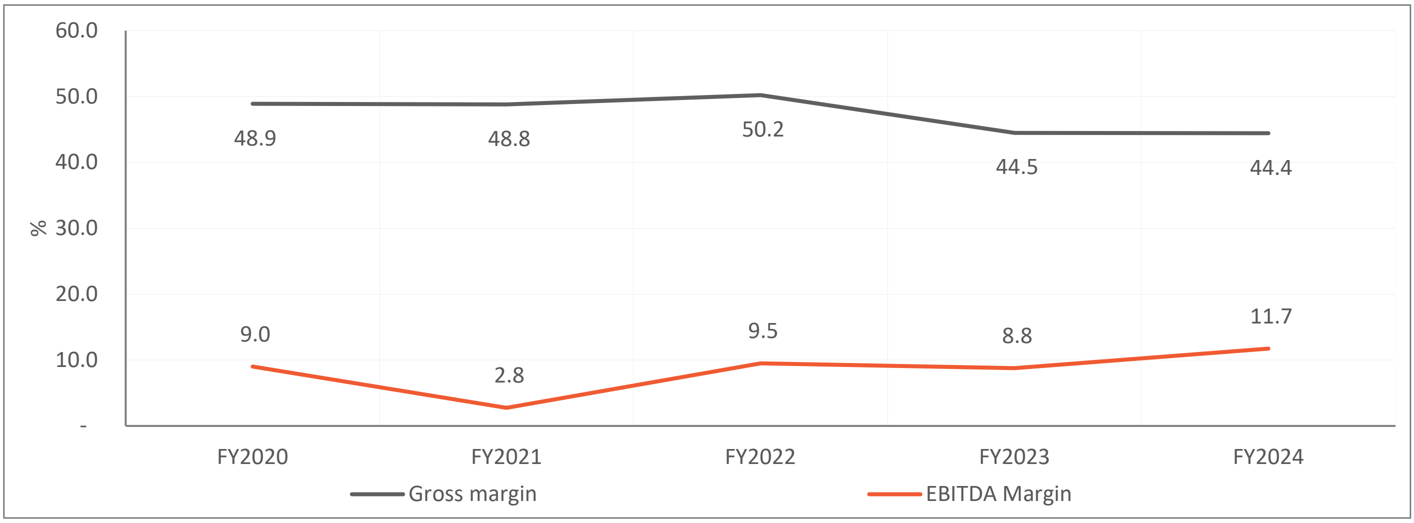
Source: Company; Sharekhan Research

Significant increase in volume over the years



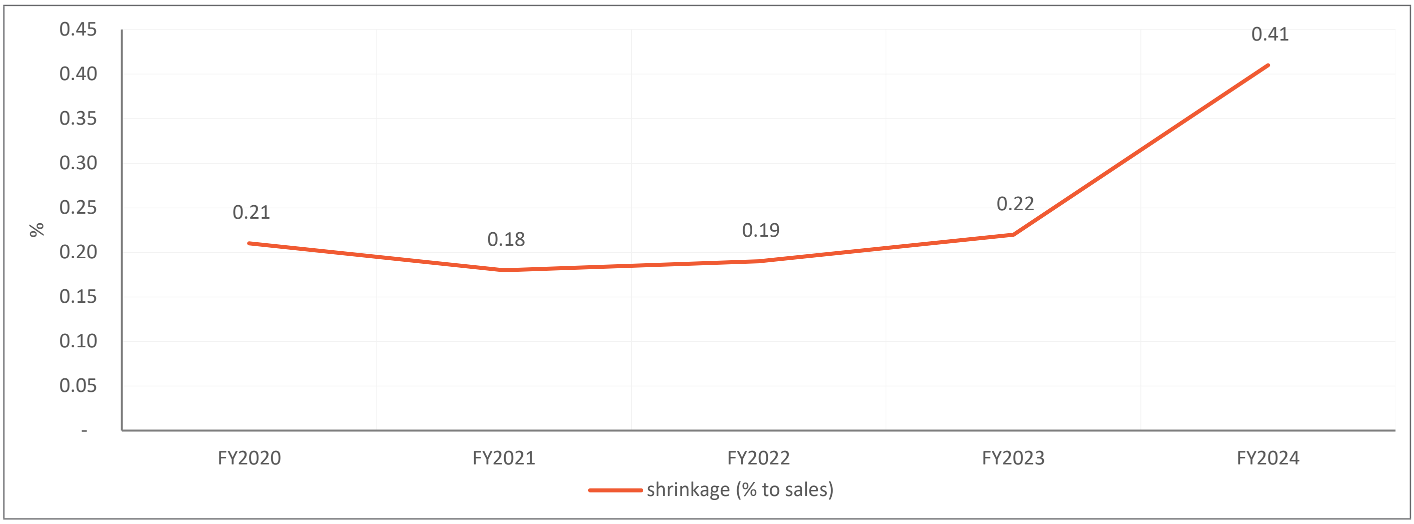
Source: Company; Sharekhan Research

Historical margin trend



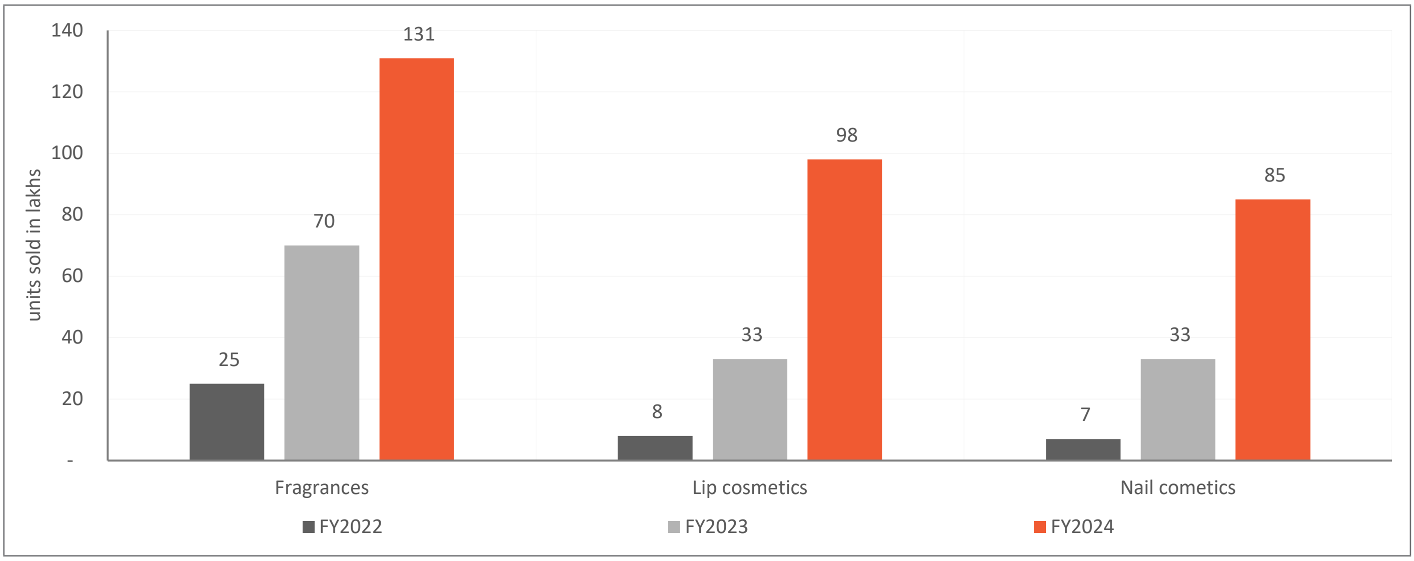
Source: Company; Sharekhan Research

Sudden rise in shrinkage due to significant volume growth



Source: Company; Sharekhan Research

Sharp increase in volumes across beauty categories

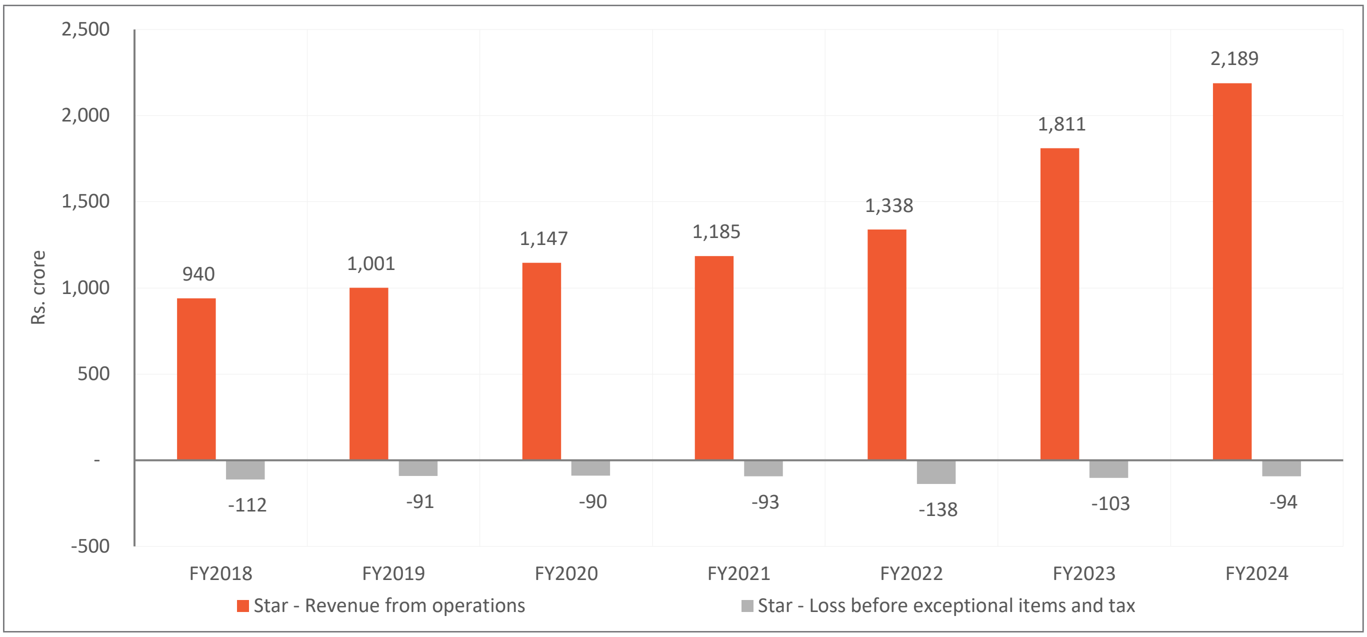


Source: Company; Sharekhan Research

Good LFL growth in Star

- Trent continues to pursue a clustered approach for the Star business, with stores primarily in Maharashtra, Karnataka and Telangana with an aim of creating local scale and being closer to customers.
- Star's current portfolio consists of 66 stores across Trent Hypermarket Private Limited (THPL) and Fiora Hypermarket Ltd. (FHL), a subsidiary of the company, with presence in 10 cities.
- THPL reported revenue from operations of Rs. 2,189 crore in FY2024, registering a y-o-y growth of 21% on the back of multiple initiatives pursued. In FY2024, THPL's loss before exceptional items and tax came in at Rs. 94 crore as compared to Rs. 103 crore in FY2023.
- The Star business registered strong consumer traction metrics in FY2024 driven by growing footfalls. In FY2024, the number of invoices and revenues both grew 27% y-o-y on a like-for-like (LFL) basis.

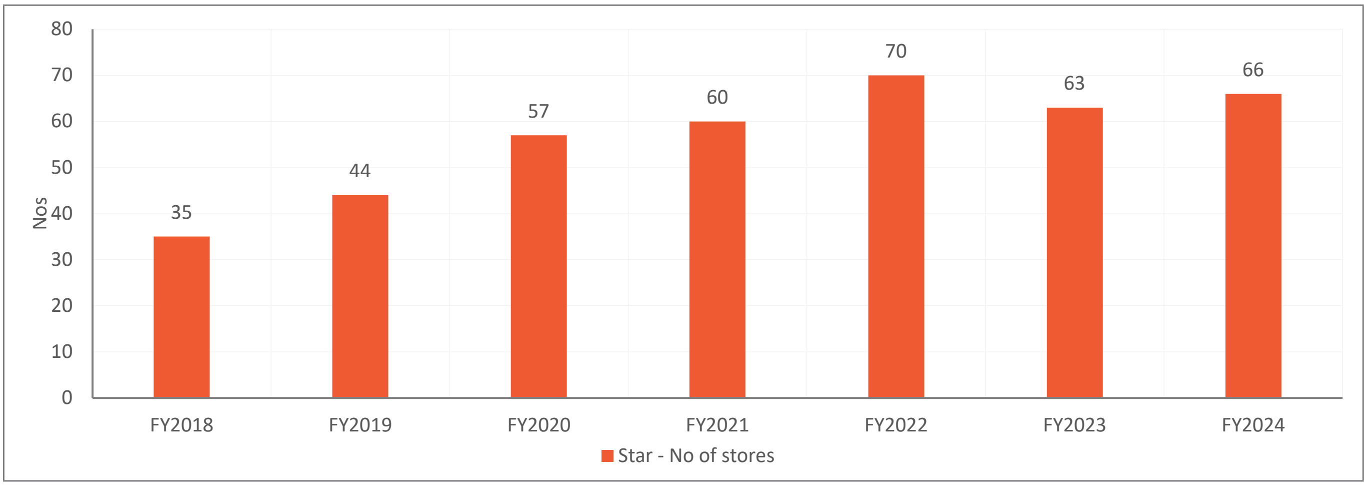
Star – revenue and loss trend



Source: Company; Sharekhan Research

- During the year, the Star business strengthened focus on its fresh business by improving sourcing, store and supply chain infrastructure.
- Exclusive retail brands in FMCG comprised 14.8% share amongst FMCG categories at FY2024 (versus 10.3% in FY2022).
- During FY2024, Star launched 'SMARTLE', its own brand in the general merchandise category.

Star – store count

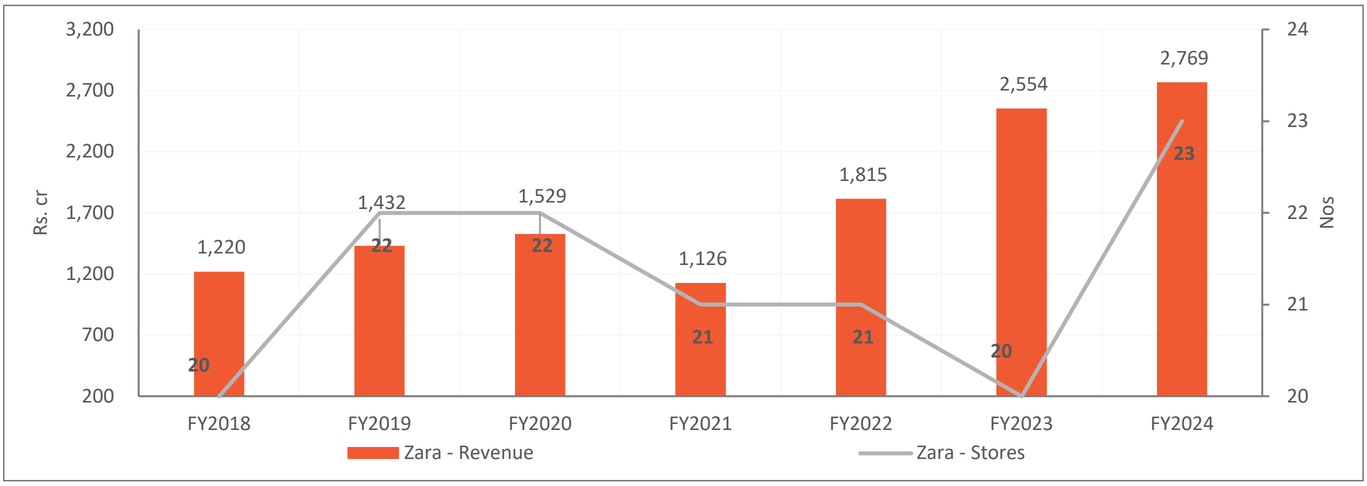


Source: Company; Sharekhan Research

Zara and Massimo Dutti

- Trent has two separate associations with Spain's Inditex group with a shareholding of 51% (Inditex): 49% (Trent) - one entity to operate Zara stores and the other for Massimo Dutti stores in India.
- These essentially facilitate distribution of Zara & Massimo Dutti products in India through their respective stores. The entity for Zara currently operates 23 stores across 12 cities, while the entity for Massimo Dutti operates 3 stores across 2 cities. The incremental store openings for Zara continues to be calibrated with focus on presence only in very high-quality retail spaces.
- In FY2024, the Zara entity posted revenue of Rs. 2,769 crore registering a growth of 8.4% y-o-y, while PBT declined by 8.1% y-o-y to Rs. 327 crore. The entity for Massimo Dutti reported 13% y-o-y revenue growth to Rs. 101 crore, with PBT rising by 46.2% y-o-y to Rs. 12 crore.

Trend in Zara revenue and stores



Source: Company; Sharekhan Research

Other key subsidiaries and alliances performance

- **Booker India Limited (BIL) – 51% subsidiary:** BIL operates four cash and carry stores under the Booker Wholesale banner. BIL has been consolidating and realigning the store portfolio, refraining from deeply discounted/negative gross margin trade (on the back of certain wholesale online platforms) and pivoting towards an own branded range in multiple categories. In FY2024, BIL registered consolidated revenues of Rs. 478 crore and loss before exceptional items and tax of Rs. 48 crore.
- **Fiora Business Support Services Limited (FBSSL):** FBSSL, which is a wholly owned subsidiary of the company, reported revenue of Rs. 167 crore and profit of Rs. 6 crore in FY2024.
- **Fiora Hypermarket Limited (FHL):** FHL, a wholly-owned subsidiary of BIL, primarily operates a few of the STAR stores. In FY2024, FHL reported revenue of Rs. 192 crore and a loss before exceptional items and tax of Rs. 4 crore. FHL envisages a phased expansion of Star stores in select regions.
- **Fiora Online Limited (FOL):** FOL, a subsidiary of BIL, operates the Starquik online platform. In FY2024, it reported revenue of Rs. 134 crore and loss before exceptional items and tax of Rs. 11 crore.

Added 22 stores (net) across formats

Trent maintained its focus on store addition in FY2024 and added 224 stores (net) across formats in FY2024 including 193 Zudio stores, 18 Westside stores, five Utsa stores and three stores each of Star Zara and Misbu. At FY2024-end, Trent's network includes 908 stores spread across over 170 cities.

Trent - Presence in India across brands

Retail concepts	FY20 Stores	FY21 Stores	FY22 Stores	FY23 Stores	FY24 Stores	FY20 Cities	FY21 Cities	FY22 Cities	FY23 Cities	FY24 Cities
Westside	165	174	200	214	232	87	90	89	90	91
Zudio	80	133	233	352	545	44	57	89	119	164
Zara	22	21	21	20	23	12	11	11	11	12
Utsa	2	4	6	17	22	2	4	5	11	12
Massimo Dutti	3	3	3	3	3	2	2	2	2	2
Star	57	60	70	63	66	7	7	9	10	10
Xcite/Misbu	4	6	6	7	10	3	4	4	5	6
Others	6	9	15	8	7	3	3	6	NA	NA
Total	**339**	**410**	**554**	**684**	**908**	**90+**	**100+**	**120+**	**140+**	**170+**
Net store addition		**71**	**144**	**130**	**224**					

Source: Company; Sharekhan Research; NA – Not available

Standalone financial performance

Trent continued its strong growth momentum of FY2023 and delivered robust double-digit revenue and PAT growth in FY2024. Key performance highlights -

- Standalone revenue from operations grew by 55% y-o-y to Rs. 11,927 crore aided by aggressive store addition across brands.
- Gross margins stood flat y-o-y at 45.2%. EBITDA margin improved by 165 bps y-o-y to 16.2% mainly driven by operating leverage. EBITDA grew by 72.2% y-o-y to Rs. 1,927 crore.

- Interest expense fell by 13.4% y-o-y to Rs. 309 crore, while depreciation charges rose by 25.8% y-o-y to Rs. 583 crore.
- Adjusted PAT grew by 93% y-o-y to Rs. 1,070 crore aided by strong operating performance.
- Exceptional items include an exceptional gain of Rs. 543 crore (Rs. 365 crore net of tax) related to gains realised due to reassessment of recognition of the right of the used assets and corresponding lease liability.
- Considering the exceptional items, reported PAT came in at Rs. 1,435 crore versus Rs. 555 crore in FY2023.
- Revenue and EBITDA registered a four-year CAGR of 39.2% and 36.3% during FY2020 to FY2024 despite disruptions caused by the pandemic in FY2021.
- The board declared a dividend of Rs. 3.2 per share in FY2023, which is higher than dividend per share (DPS) of Rs. 2.2 in FY2023.

Balance sheet key highlights

- Working capital days declined to 28 days in FY2024 from 38 days in FY2023 largely due to a decrease in inventory days by 26 days to 58 days.
- As working capital management improved, cash from operations increased to Rs. 1,348 crore in FY2024 from Rs. 663 crore in FY2022.
- OCF to EBIDTA ratio improved to 70% in FY2024 from 59% in FY2023.
- Capex for FY2024 was higher at Rs. 382 crore, compared to capex of Rs. 215 crore in FY2023.
- Total asset turnover rose to 1.6x in FY2024 versus 0.9x in FY2023.
- Long-term debt (including lease liabilities) reduced by Rs. 2,781 crore in FY2024 to Rs. 1338 crore.
- Long-term debt to EBITDA reduced to 0.7x in FY2024 against 3.7x in FY2023.
- At FY2024-end, the company had cash & cash equivalents (including current investments) of Rs. 906 crore with a significant proportion of the current investments in highly liquid debt mutual funds.
- Free cash flow (FCF) in FY2024 stood at ~Rs. 1,000 crore.
- With DPS of Rs. 3.2, dividend amount for FY2024 is Rs. 114 crore against Rs. 78 crore for FY2023 (DPS of Rs. 2.2).
- RoE improved to 28.4% in FY2024 as against 19.1% in FY2023, while RoCE improved to 24.5% in FY2024 versus 14.5% in FY2023.

Key strategic priorities going ahead

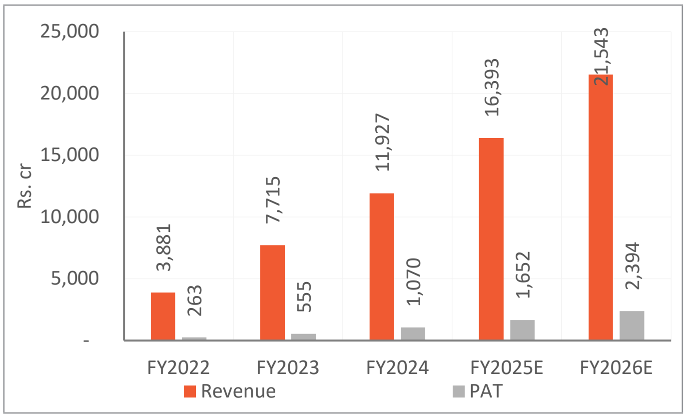
Trent intends to continue to scale up its presence across formats and geographies with focus on:

- **Brands and product proposition**
  - Continue to grow exclusive brands driven by differentiated products, sharp pricing, lifestyle experience and wide reach.
  - Expand the current footprint of 10 million sq. ft. across the country with unique brands such as Westside, Zudio, Star, Utsa and Misbu to address multiple customer segments and value positioning.
  - Adopt a sharply differentiated approach in customer facing aspects of brands and yet stay significantly integrated with respect to the back-end.

- **Supply chain**
  - Scale up supply chain to support growing business, with focus on delivering freshness consistently.
  - Continue to emphasise on strong inventory related disciplines, sustained delivery of retail availability levels and freshness of offer and effective controls across concepts.
- **Customer experience**
  - Actively monitor existing stores and refresh the portfolio through multiple initiatives including absorption/refurbishment of brand diluting stores.
  - Adopt seamless integration of the store and online propositions.
- **Direct-to-customer**
  - Expand concepts across attractive micro-markets with enhanced digital reach.
  - Deliver highly differentiated and brand enhancing store portfolio with benchmark standards.
  - Accelerate pursuit of a sustainable online business model and digital connect including by leveraging the company's association with Tata Neu.
- **Viable model**
  - Concentrate resources on substantially growing concepts, especially Westside, Zudio, Samoh, Utsa and Star.
  - Emphasize on sustainable store level profitability and investment in select market opportunities.

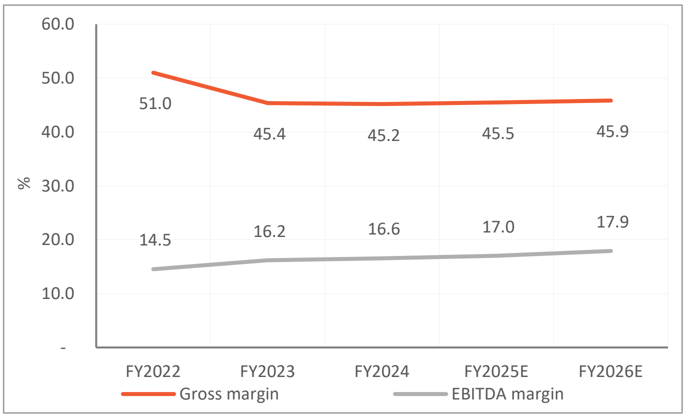
Financials in charts

Steady growth in revenue and PAT



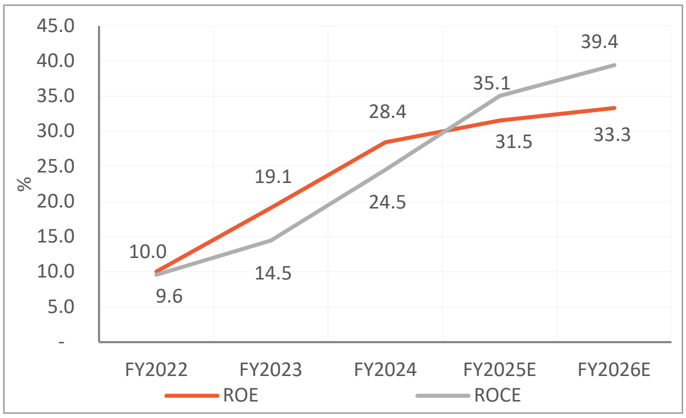
Source: Company, Sharekhan Research

Margins to improve from current (FY2024) level



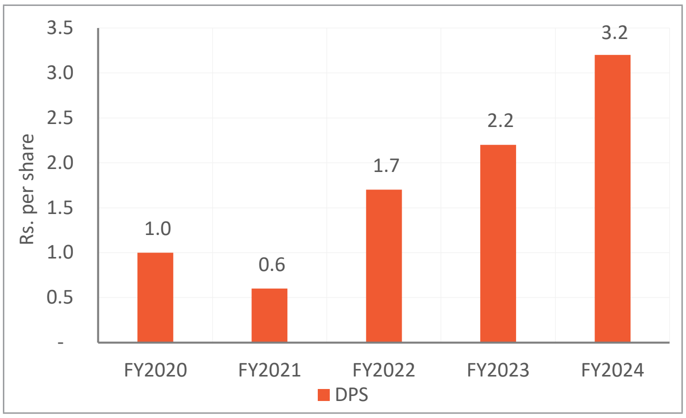
Source: Company, Sharekhan Research

Sharp increase expected in return ratios



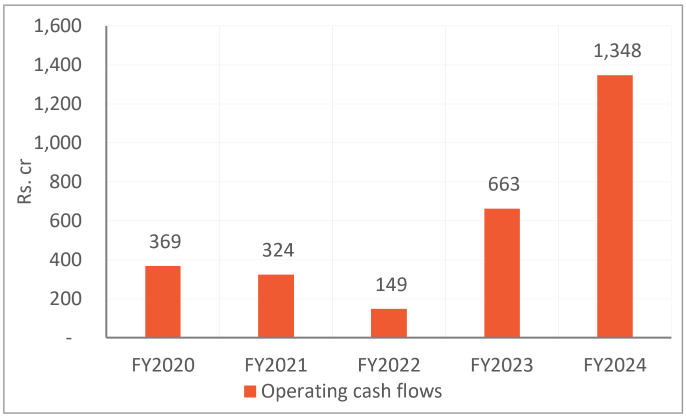
Source: Company, Sharekhan Research

Dividend payout history



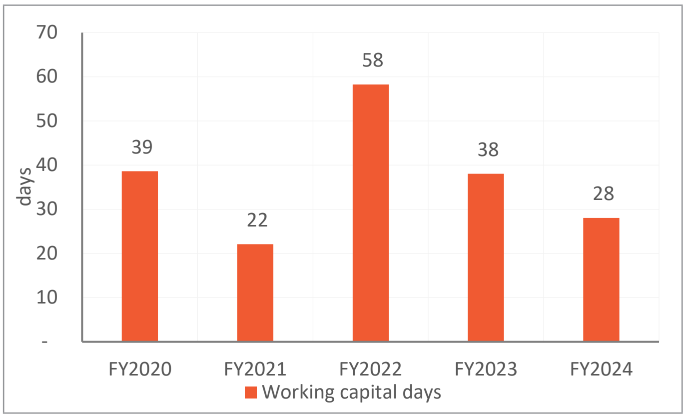
Source: Company, Sharekhan Research

Trend in operating cash flows



Source: Company, Sharekhan Research

Trend in working capital days



Source: Company, Sharekhan Research

Outlook and Valuation

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

Demand was muted in Q4FY24, with a gradual recovery expected from FY2025. In the near term, revenue growth for the branded retail & 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 product portfolio will help branded apparel and retail companies post consistent growth. Better operating leverage, improved efficiencies and improved mix would help branded apparel & retail companies to post higher margins in the coming years.

■ Company Outlook – Multiple levers in place to drive long-term growth

Trent continued its momentum of strong double-digit revenue and PAT growth in FY2024 with revenue growing by 55% y-o-y and PAT almost doubling y-o-y. Company's strong execution capabilities aided it to achieve a robust 3.8x revenue growth and 6.9x PAT growth in FY2024 over FY2020. Trent is seeing strong pick-up in new initiatives/ categories through increased contribution from online sales and emerging categories. An accelerated store expansion programme, increased contribution from the online channel, and a pick-up in foods business will augur well in the near term. We expect the company's revenue and PAT to clock 34% and 50% CAGR over FY2024-26E.

■ Valuation – Maintain Buy with a revised PT of Rs. 5,838

Trent has been posting consistent strong performance in the retail universe by delivering double-digit same-store-sales growth in a weak discretionary environment. Innovation in product portfolio, 100% contribution from own brands, aggressive store expansions, scaling up of the Star business and leveraging on digital presence will be key growth drivers in the medium term. Stock trades at 58x/44x its FY2025E/FY2026E EV/EBITDA. With long-term growth prospects intact and a strong balance sheet among retail companies, we maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 5,838.

Peer Comparison

Particulars	EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Aditya Birla Fashion	29.5	22.0	17.2	0.3	1.1	2.1
Trent	78.5	57.8	44.2	24.5	35.1	39.4

Source: Company, Sharekhan estimates

About company

Trent is part of the Tata Group and operates a portfolio of retail concepts. Its primary customer propositions include Westside, one of India's leading chains of fashion retail stores, Zudio, a one stop destination for great fashion at great value and Trent Hypermarket, which operates in the competitive food, grocery and daily needs segment under the Star banner. Westside stores have a footprint of ~20,000 sq. ft. across 91 cities. Zudio, the value fashion format destination, operates with stores having a footprint of ~10,000 sq. ft. Trent's supermarket concept – Star, offers a curated assortment of products including FMCG, staples and a comprehensive fresh offering. In addition, Trent has two separate associations of 49% each with the Inditex Group of Spain to operate Zara and Massimo Dutti stores in India through Inditex Trent Retail India Private Limited.

Investment theme

Trent is the only branded retail player with close to 100% share of private brands with a pan-India presence. Trent offers a strong set of brands catering to all categories of consumers, which has helped the company report the highest average revenue per square foot compared with other branded players. Trent has maintained its SSSG momentum over the years as well as its profitability is seen increasing on a y-o-y basis. Aggressive store expansion, better store fundamentals, higher contribution from private brands, omni-channel network, and innovative product offerings in the premium and value fashion space would be key growth drivers for the company going ahead.

Key Risks

- Any slowdown in the discretionary demand environment would impact SSSG, affecting revenue growth.
- Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.
- Any significant increase in key raw-material prices, such as cotton, would affect the company's profitability.

Additional Data

Key management personnel

Noel Tata	Chairman
Palaniswamy Venkatesalu	Executive Director and Chief Executive Officer
Neeraj Basur	Chief Financial Officer
Krupa Anandpara	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dodona Holdings Ltd	4.53
2	Wasatch Advisors	3.00
3	SBI Life Insurance Co Ltd	2.44
4	Amansa Holdings Pvt Ltd	2.13
5	Blackrock Inc	2.12
6	Vanguard Group Inc	2.06
7	Derive Trading Pvt Ltd	1.35
8	Axis Asset Management Co.Ltd	1.29
9	UTI AMC	0.98
10	Nippon Life India Asset Management Company	0.84

Source: Bloomberg (Old data)

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

Sharekhan

by BNP PARIBAS

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