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To,
National Stock Exchange of India Limited
'Exchange Plaza'. C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400 051

August 31st, 2021

Symbol: HITECH

Subject: Hi-Tech Pipes Ltd. coverage report by Sharekhan Limited with a positive Growth View

Dear Sir/ Madam,

Having reference to the captioned subject, we wish to inform that Sharekhan Limited has intiated a viewpoint coverage on Hitech Pipes Limited (HITECH) with a positive view and expect an upside of 28-30% on strong earnings growth led by operational profitability and discounted relative valuations.

The Detailed Report is enclosed herewith.

For Hi-Tech Pipes Limited

Arun Kumar
Company Secretary
M.No.A42916

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. 530**
Upside potential: **28-30%**

↑ Upgrade ↔ Maintain ↓ Downgrade

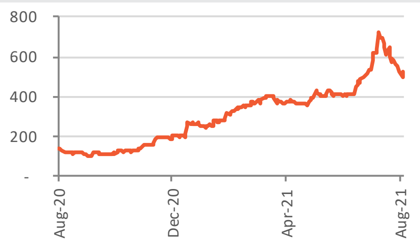
Company details

Market cap:	Rs. 617 cr
52-week high/low:	Rs. 760 / 101
NSE volume: (No of shares)	90559
BSE code:	NA
NSE code:	HITECH
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	0
FII	0
DII	41
Others	59

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-14.1	25.6	60.6	272.6
Relative to Sensex	-19.1	16.3	50.4	227.7

Sharekhan Research, Bloomberg

Viewpoint

Hitech Pipes Ltd

Galvanising Growth

Building Materials	Sharekhan code: HITECH	New Idea

Summary

- We initiate viewpoint coverage on Hitech Pipes Limited (Hitech) with a positive view and expect an upside of 28-30% on strong earnings growth led by operational profitability and discounted relative valuations.
- Hitech has expanded capacity by 3.2x to 5.8 lakh TPA over FY2015-FY2021, keeping leverage in check. It aims to reach 7 lakh TPA and 10 lakh TPA without additional debt.
- Rising share of value-added products, operating leverage, exports, backward & forward integration, customisation and brand strengthening would boost operational profitability.
- Growth to ride on structural drivers such as infrastructure investments over next five years, Jal Jeevan Mission, low per capita steel pipes consumption among others.

The Indian iron & steel pipes and tubes industry (~8-10% of domestic steel consumption) had been clocking a 15% CAGR during the pre-COVID era (FY2017-FY2020) attributable to incremental demand emanating from growth in domestic water infrastructure mainly driven by the government's Jal Jeevan Mission, oil exploration, construction, infrastructure and expansion of gas pipelines. India's structural pipes and tubes production capacity is estimated at 8-10 million tonnes (MT) with an annual consumption of ~4 MT valued at ~Rs. 20,000 crore and slated to clock a 10-15% CAGR in the next three years. Hitech Pipes is among the top five pipe manufacturing companies in India with a capacity of 5.8 lakh TPA that has grown by 3.2x over FY2015-FY2021. The company is expanding its capacity to 7 lakh TPA through debottlenecking & brownfield expansion at a minimal capex of Rs. 25-30 crore per lakh tonne in the near term. In the next 3-4 years, it is targeting to reach a 10 lakh TPA capacity. The commissioning of an 80,000 TPA capacity at Khopoli in Q4FY2021 and an increase in capacity utilisation (60% in FY2022, 65% in FY2023 and 70% in FY2024) would lead to 27% CAGR in revenues over FY2021-FY2024E. The company's products are available across 17 states (North-50%, West-25-30% and South-15-20%) through its wide network of 390 distributors and dealers and over 590 SKUs. The company's manufacturing units and warehouses are located near the key markets, ensuring easy availability of products. The company is slated to increase its market share in Southern and Western regions once its pre-galvanised products scale up, as these markets have higher demand for value-added galvanized pipes. The company is targeting 900 SKUs by FY2022 which would be achieved through its new business vertical viz. roofing business. The company has developed in-house capabilities for cold rolling & galvanizing (commercial production from September 2021) which would enable it to manufacture pre-galvanised products having a higher EBITDA/tonne of ~Rs. 1000. Further, it is venturing into the roofing business (fourth such domestic player) with a 60,000 TPA capacity (at a capex of Rs. 100 crore incurred over trailing three years) from Q3FY2022 which has potential to generate Rs. 6000 EBITDA/ tonne on a sustainable basis. The share of such value added products (realisation/tonne of over Rs. 10,000 and an incremental Rs. 600-700 EBITDA/ tonne) is likely to increase from 22%/16% in Q1FY2022/FY2021 to 30% by FY2023 with eventual target of 40%. Apart from value added products, operational efficiencies, capacity utilisation, exports, backward integration, forward integration, customization, brand strengthening would contribute on increasing its EBITDA/tonne. Consequently, it expects EBITDA/ tonne to rise to Rs. 4000/ tonne in FY2023 from Rs. 3500/ tonne expected in FY2022. We expect Hitech to grow its EBITDA at a 36% CAGR over FY2021-FY2024E. The company's expansion plans are expected to be funded through internal accruals keeping absolute leverage stagnant while working capital cycle is expected to improve as it expects to do channel financing in an year with improvement in its credit ratings.

Our Call

Valuation – Initiate with a positive view & upside potential of 28-30%: We believe Hitech is on a strong growth journey led by structural demand drivers like low per capital domestic steel pipes consumption, infrastructure investments over next five years, government schemes like Jal Jeevan Mission among others. The company's debt-free capacity expansion plans over the medium to long term are expected to capture the huge growth potential for the domestic steel pipe industry. We expect its revenues/operating profit/net profit to grow at a CAGR of 27%/36%/65%, respectively over FY2021-FY2024E led by increasing capacity utilisation, improving operational profitability and contained leverage. At CMP, the stock is currently trading at a P/E of 8x/6x its FY2023E/FY2024E EPS, at a discount to its peers. We expect valuation multiple gap vis-à-vis peers to narrow down as Hitech ramps ups net earnings driven by healthy topline growth and strong operational profitability. Hence, we initiate viewpoint coverage on the stock and expect an upside of 28-30%.

Key Risks

- Downward pressure on steel prices and drop in government and private capex.
- Risk of substitute products cornering higher share of demand pie.

Valuation (Consolidated) Rs cr

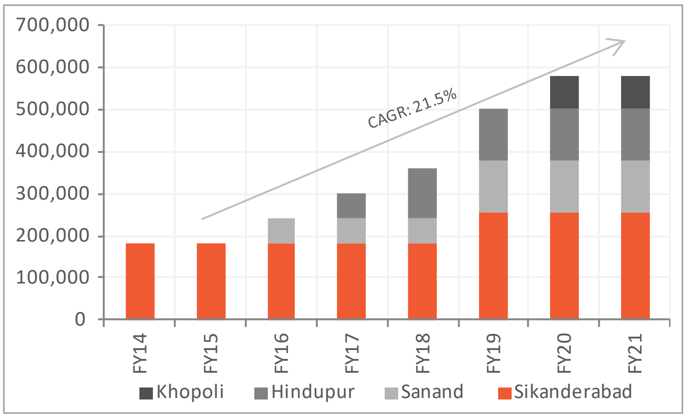
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,341	2,204	2,435	2,753
OPM (%)	5.3	5.4	6.2	6.5
Adjusted PAT	23	58	81	102
% y-o-y growth	*11.8*	*156.0*	*38.7*	*25.7*
Adjusted EPS (Rs.)	20.3	48.5	67.2	84.5
P/E (x)	26.0	10.9	7.9	6.3
P/B (x)	2.9	2.3	1.8	1.4
EV/EBIDTA (x)	12.3	7.8	6.1	5.1
RoNW (%)	12.0	24.2	25.6	25.0
RoCE (%)	13.1	20.6	23.0	24.0

Source: Company; Sharekhan estimates

Consistent built-up in capacities diversifying geographically

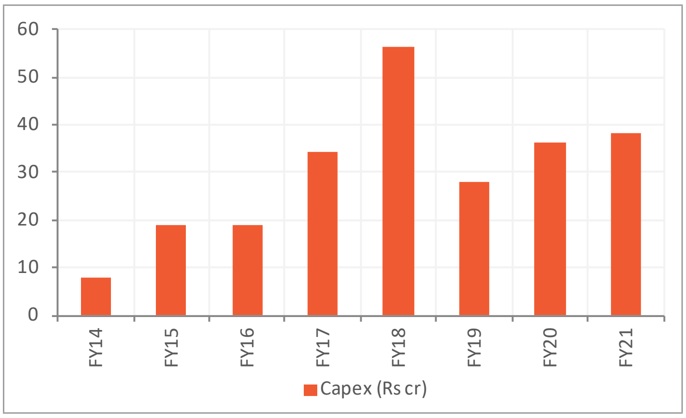
Hitech Pipes started as a manufacturer of ERW pipes in 1988. In the past three decades, it has emerged as one of India's top five pipe manufacturing companies. From two plants at Sikandrabad, UP with a 180,000 TPA capacity in FY2015, it has diversified geographically, increasing capacities through Brownfield and Greenfield expansions, with presence now in four locations viz. Sikandrabad, (255,000 TPA) Sanand, Gujarat (125,000 TPA), Hindupur, Andhra Pradesh (120,000 TPA) and Khopoli, Maharashtra (80,000 TPA) that aggregates to a 580,000 TPA installed capacity as of FY2021. The company has grown its capacity by 3.2x (21.5% CAGR) over FY2015-FY2021 at a capex of Rs. 230 crore (average Rs. 33 crore per annum), keeping leverage in check.

Installed capacity trend



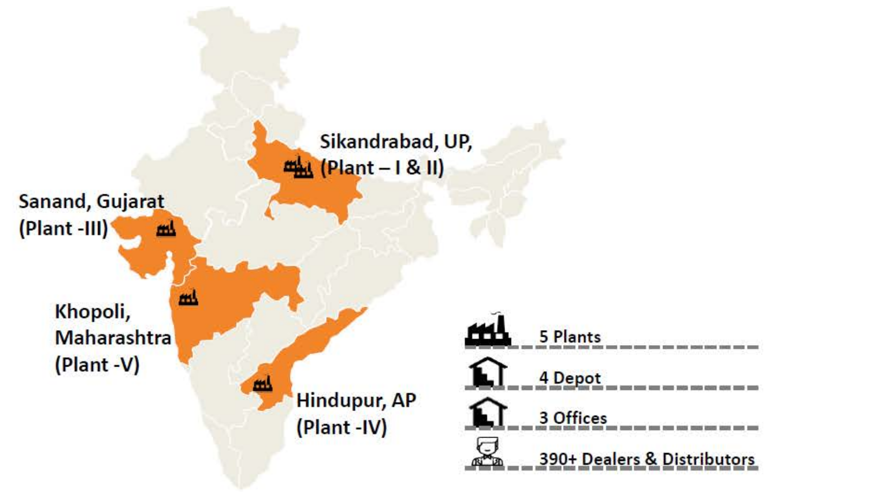
Source: Company, Sharekhan Research

Capital expenditure trend



Source: Company, Sharekhan Research

Strategic locations of plants



– Maps not to scale. All data, information, and maps are provided "as is" without warranty or any representation of accuracy, timeliness or completeness

Plant Location	Capacity (MTPA)	Product Portfolio
Sikandrabad, UP	2,55,000	MS Steel Pipes, Hollow Sections, GI Pipes, Cold Rolled Coils & Strips
Sanand, Gujarat	1,25,000	MS Steel Pipes, Hollow Sections & GP Pipes
Hindupur, AP	1,20,000	MS Steel Pipes, Hollow Sections & GI Pipes
Khopoli, Maharashtra	80,000	MS Steel Pipes & Hollow Sections, CR Pipes, GP pipes
Total	**5,80,000**	**Diversified Range**

Source: Company, Sharekhan Research

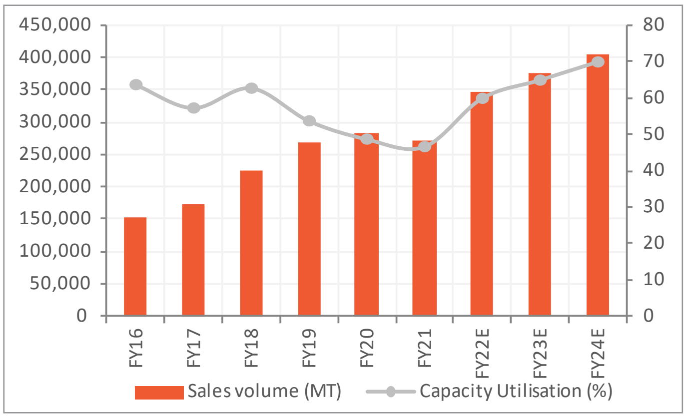
Eyeing 10 lakh TPA capacity in the long run with minimal capex

Hitech's major capacity expansion plans would be completed in FY2022 with addition of two greenfield plants, capacity expansions at existing plants, backward and forward integration for value addition done over the past three years. In the near term, it is expanding its capacity from 5.8 lakh TPA to 7 lakh TPA through de-bottlenecking and brownfield expansion which would be done as its current capacity utilisation reaches 70% (which is the peak capacity utilisation that can be achieved in the industry). Its target over the next three to four years is to reach 10 lakh TPA. The company would only require Rs. 25-30 crore for incrementally adding a 1 lakh TPA capacity going ahead. The minimal capex requirement would be funded through internal accruals without leveraging the balance sheet.

Rising capacity utilisation to aid in 27% CAGR in revenues over FY2021-FY2024E

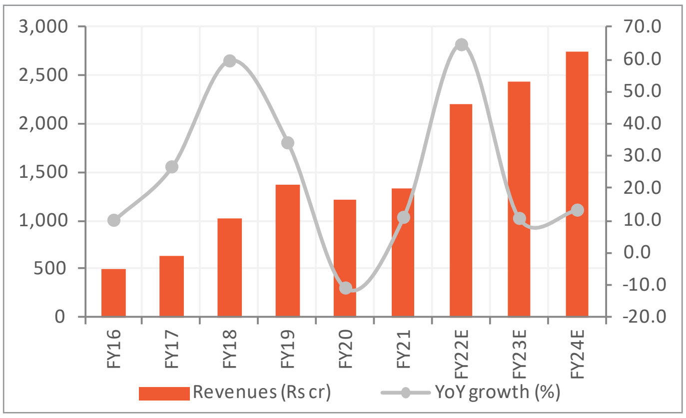
Hitech has been able to ramp-up its capacity utilisation historically (barring FY2020 which was impacted by COVID pandemic) in tandem with incremental capacities being added. The company operated at 42% capacity utilisation in Q1FY2022. It commissioned 80,000MT capacity at Khopoli, Maharashtra during Q4FY2021 which operated at a 50% capacity utilisation in Q1FY2022 and is expected to further improve post monsoon season from September onwards. The company operated at over a 60% capacity utilisation in August 2021 and this rate is expected to sustain in FY2022, after which it is likely to improve to 65% and 70% in FY2023 and FY2024, respectively. A rise in capacity utilisation and higher steel prices would lead to 27% CAGR in net revenues over FY2021-FY2024E.

Sales volume/capacity utilisation trend



Source: Company, Sharekhan Research

Net revenues trend



Source: Company, Sharekhan Research

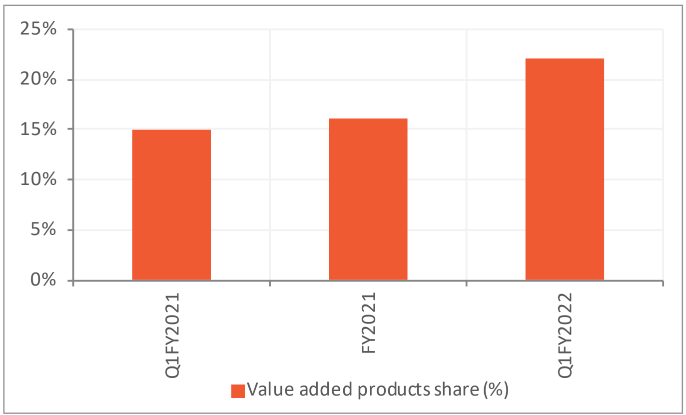
EBITDA/ tonne to tread higher with valued added products & operating leverage

Hitech is focusing on increasing share of value-added products like galvanised pipes, pre-galvanised pipes and metal beam crash guards. The company has developed in-house capabilities for cold rolling and galvanising as the outsourcing cost of galvanizing had increased significantly making the business economics for galvanised products almost unviable. The company would be commencing commercial production of in-house galvanized products from September 2021. The company developed new product line viz. CR sheet (used for fabrication of steel furniture) at Sikandrabad, U.P. Further, the 80,000 TPA capacity at Khopoli, Maharashtra would be manufacturing value-added products like cold-rolled (CR) and galvanized pipes increasing the share of value-added products. Pre-galvanised products generate an incremental EBITDA/ tonne of Rs. 1000.

Hitech is also venturing into the roofing business with a capacity of 60,000 TPA which would commence commercial production from Q3FY2022. The company has incurred a capex of ~Rs. 100 crore over the past three years. It will be the fourth player in the roofing business after Jindal, Tata and Arcelor Mittal. The roofing business is expected to generate sustainable EBITDA/ tonne of Rs. 6000.

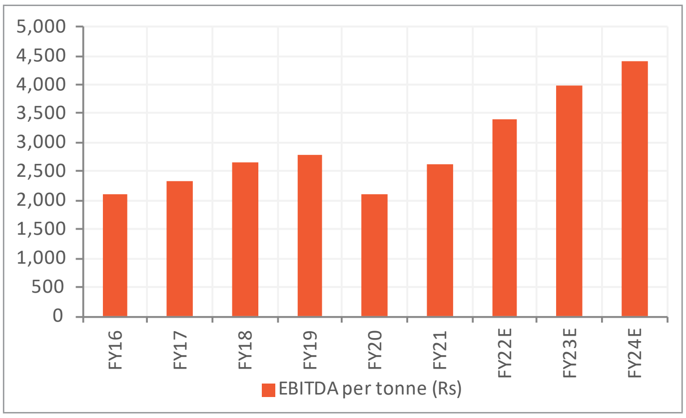
The company targets volume of 1.5 lakh TPA from its pre-galvanised and roofing products in FY2023. Consequently, it expects EBITDA/ tonne to rise to Rs. 4000/ tonne in FY2023 from Rs. 3500/ tonne expected in FY2022. Apart from value-added products, the increase in scale of operations is expected to lower its fixed costs/ tonne in turn increasing EBITDA/ tonne led by operating leverage.

Rising share of value-added products



Source: Company, Sharekhan Research

EBITDA/ tonne trend

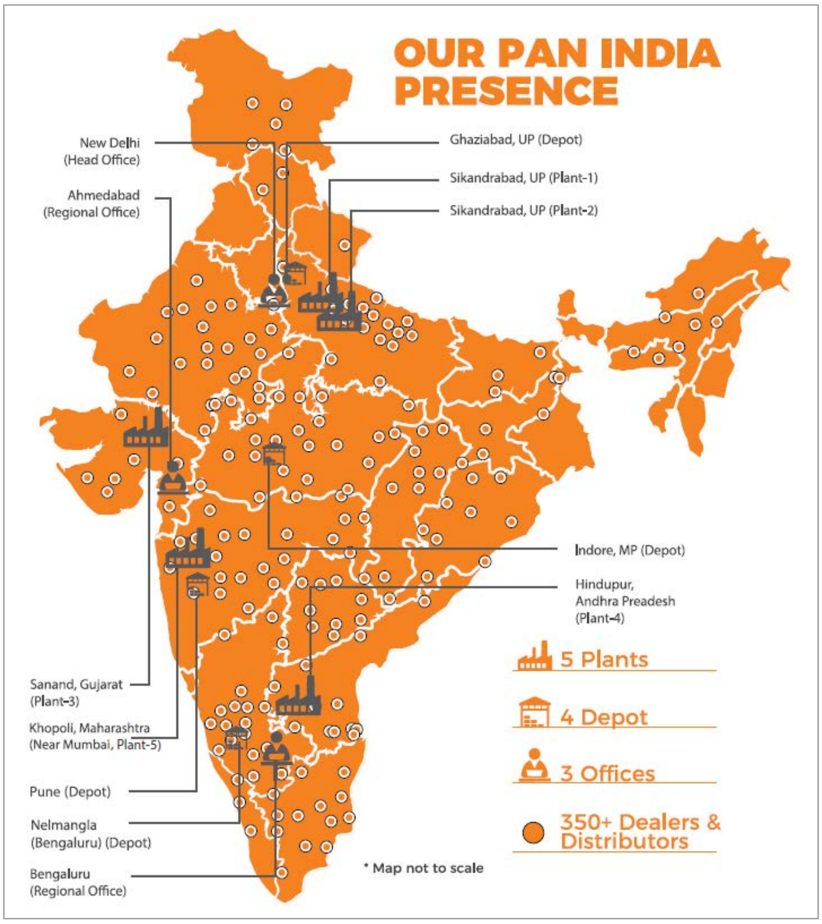


Source: Company, Sharekhan Research

Pan-India presence to be strengthened further

The company's products are available across 17 states through a wide network of 390 distributors and dealers and over 590 SKUs. The company's manufacturing units and warehouses are located near the key markets, ensuring easy availability of products. The company has strong presence in the Northern region, which accounts for 50% followed by the West (25-30%) and South (15-20%). The company is slated to increase its market share in Southern and Western regions once its pre-galvanised products scales up as these markets have higher demand for value added galvanised pipes. The company is targeting 900 SKUs by FY2022 which would be achieved through its roofing business. Besides, the company has tied up with more than 150 OEM partners and over 90 contractors across India. The Company's clientele includes Reliance Industries Limited, L&T, TATA, Adani, Airtel, BHEL, DLF, Powergrid Corporation, AAI among others.

Company's aspirations



Source: Company, Sharekhan Research

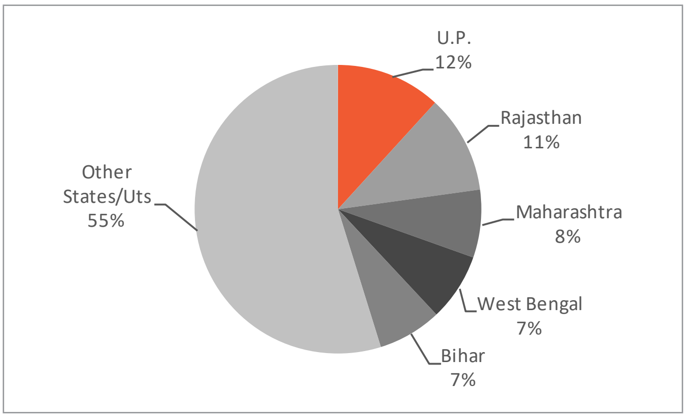
Jal Jeevan Mission – A huge opportunity

The Jal Jeevan Mission is a flagship program of the Government of India which aims to provide a functional household tap connection to every rural household by 2024. Finance Minister in Union Budget 2021-22 announced the launch of Jal Jeevan Mission (urban) with an aim to a) provide tap water connections to 2.86 crore urban households in 4,378 urban local bodies and b) liquid waste management in 500 AMRUT cities. The ambitious mission will be implemented over the next 5 years with an outlay of Rs. 2.87 lakh crore – implying an additional allocation of Rs. 57,400 crore per annum. Implementation of both these schemes will result in an annual budgetary allocation of Rs 1.07 lakh crore.

Finance minister Nirmala Sitharaman announced an outlay of Rs 50,011 crore for this scheme, about 4.5 times the revised budget for 2020-2021. In addition to the Rs. 50,000 crore budgetary allocation for JJM, assured funds worth Rs. 26,940 crore are available under the 15th Finance Commission tied-grants to RLB/ PRIs for water & sanitation, matching the state government's share and externally-aided projects. Thus, in FY22, more than Rs. 1 lakh Crore is planned to be invested in the country on ensuring tap water supply to rural homes. This kind of investment is likely to continue over three years to achieve Har Ghar Jal. Out of Rs. 92,309 crore allocated for FY2022, five states (U.P., Rajasthan, Maharashtra, West Bengal and Bihar) account for a 45% share.

The pipes sector is expected to be a major beneficiary. Pipes will be ~40% of the total investment, followed by EPC 25%, Water Management 25%, Pumps and Valves 10%. Companies engaged in GI, MS, HDPE, PVC, CPVC Pipes are expected to benefit from the same.

State-wise allocation for FY2022

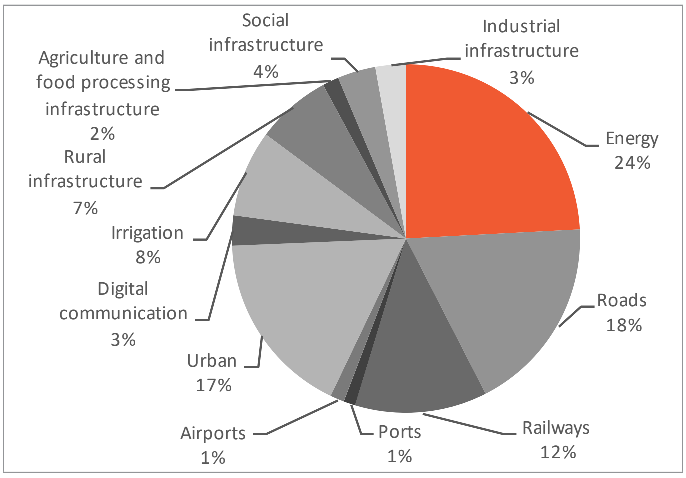


Source: Industry, Sharekhan Research

Huge infrastructure investments during FY2020-FY2025 augur well for Pipe demand

The government envisages Rs. 111 lakh crore of capital expenditure in the infrastructure sector in India during FY2020 to FY2025. Sectors such as Energy (24%), roads (18%), urban (17%) and railways (12%) amount to ~71% of the projected investment. The government's continued thrust on infrastructure investment is expected to boost demand for pipes.

Sector-wise capital expenditure



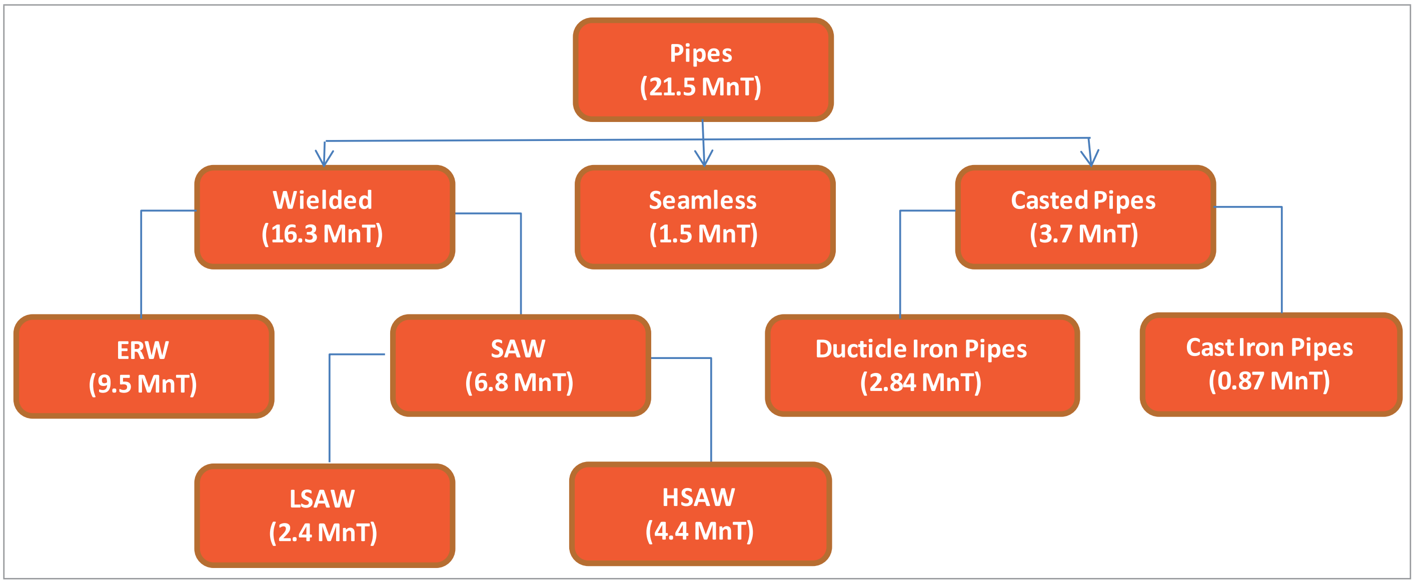
Source: Report of Task Force National Infrastructure Pipeline, Sharekhan Research

Industry Overview

Indian steel pipes and tubes industry

India's steel pipes and tubes production capacity stands at around 21.5 MT, which can be further divided into three categories, i.e., welded, seamless and casted pipes. The production capacity of welded pipes and tubes is at around 16.3 MT, for seamless pipes and tubes it stands at ~1.5 MT, and for casted pipes, at around 3.70 MT. India's structural pipes and tubes production capacity is about 9.5 MT.

Bifurcation of pipes and tubes



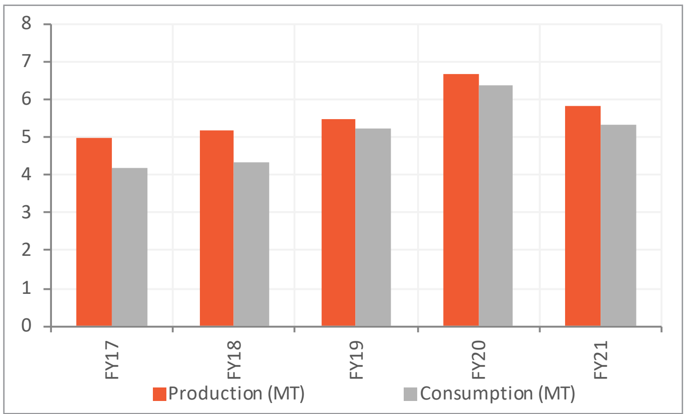
Source: SteelMint, Sharekhan Research

Strong growth over trailing five years (ex-FY2021)

India's iron & steel pipe and tubes industry, valued at nearly Rs. 60,000 crore, accounts for ~8% of the global steel pipe market. The production has grown at a CAGR of 10.4% over FY2017-FY2020 to 6.68 million tonnes in FY2020 attributable to incremental demand emanating from growth in domestic water infrastructure mainly driven by Jal Jeevan Mission, oil exploration, construction, infrastructure, and expansion of gas pipelines such as the National Gas Grid and city-gas distribution. As a result, consumption growth outpaced the production growth and expanded at a CAGR of 15% over FY2017-FY2020.

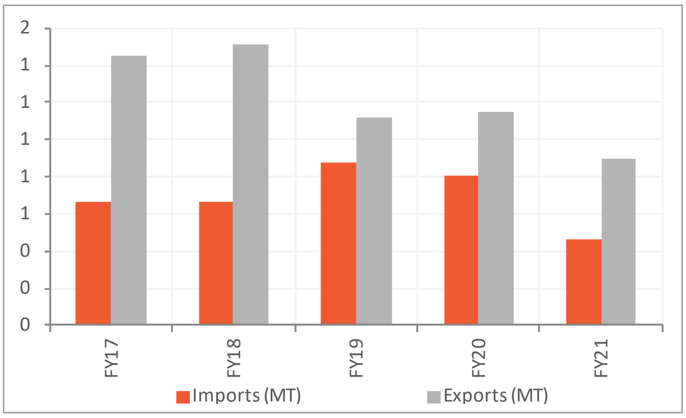
Due to competitive pricing, high quality and geographical advantages, there is a huge demand for Indian manufactured pipes from regions such as Europe, Thailand, Malaysia, the Middle East, and Indonesia. However, as domestic consumption increased rapidly, the volume of exports declined and the gap between

Indian steel pipes – Production/Consumption



Source: CMIE, Sharekhan Research

Indian steel pipes – Imports/Exports



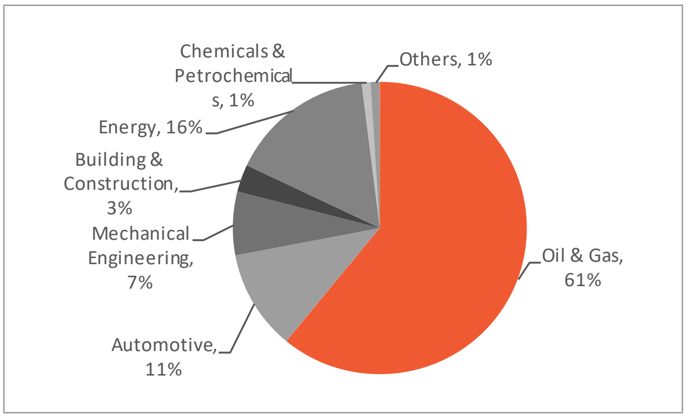
Source: CMIE, Sharekhan Research

exports and imports have narrowed over the years.

Evolution of newer applications for steel pipes industry

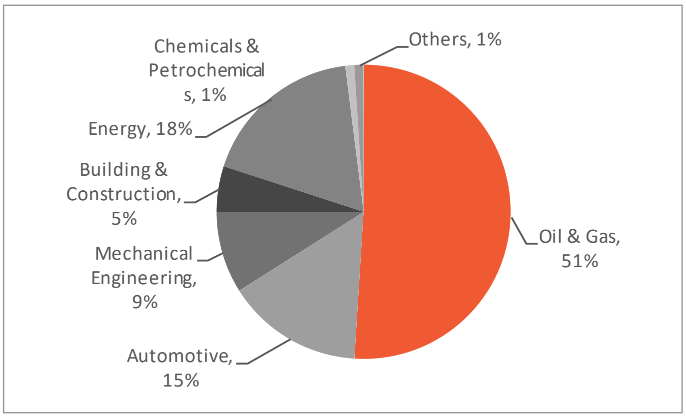
Domestic demand for iron and steel pipes has gone through a paradigm shift with new verticals and novel applications of steel pipes coming up with time. Although the share of demand coming from oil & gas sector may seem reduced, in terms of absolute number, the same has increased significantly. Increasing usage of steel pipes in the automotive sector and India's changing energy mix has led to an increase in demand share of steel pipes on these fronts. Also, increase in usage of steel pipes in railways, furniture, platforms, fencing in malls, and other new applications in the construction industry has also changed the dynamics to some extent.

Indian Steel Pipes – Production/Consumption Mix



Source: BP Statistical Review, Sharekhan Research

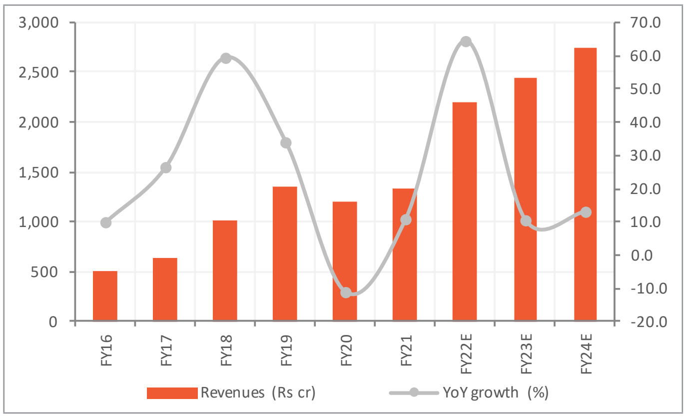
Imports/Exports Mix



Source: BP Statistical Review, Sharekhan Research

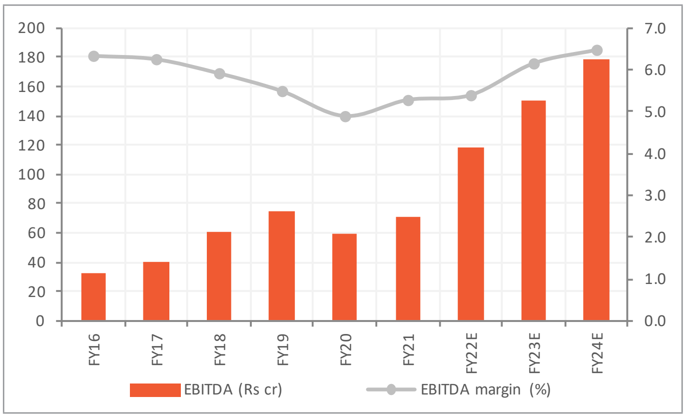
Financials in charts

Revenue Trend



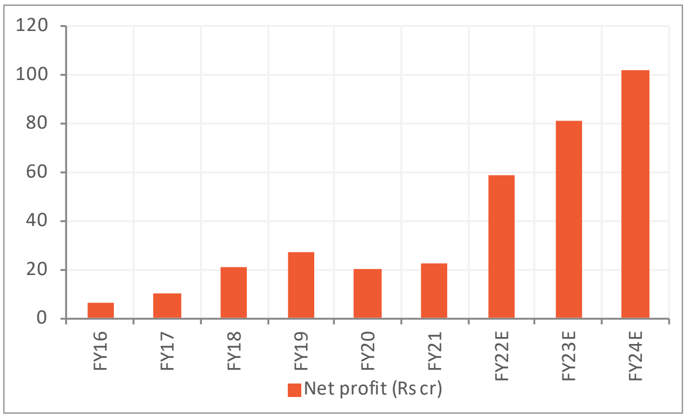
Source: Company, Sharekhan Research

Operating Profit/OPM Trend



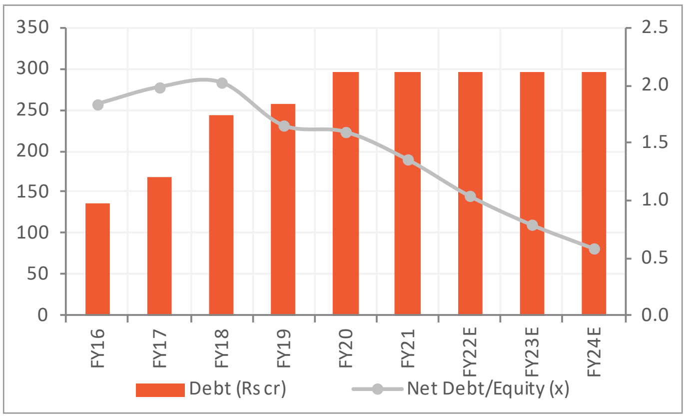
Source: Company, Sharekhan Research

Net Profit Trend



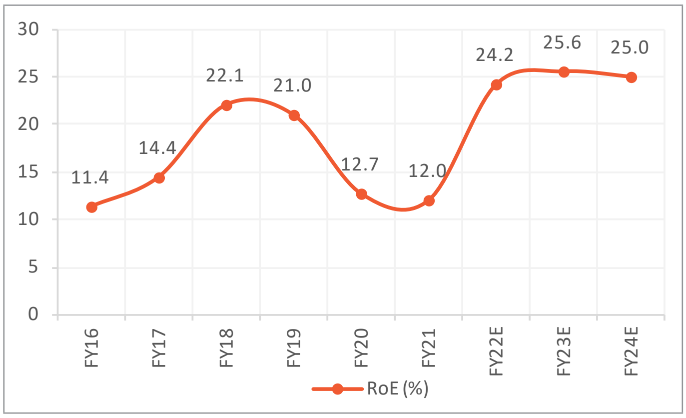
Source: Company, Sharekhan Research

Net Debt Trend



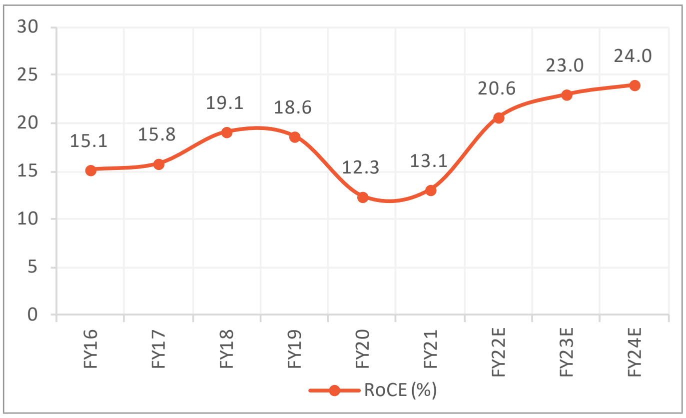
Source: Company, Sharekhan Research

RoE Trend



Source: Company, Sharekhan Research

RoCE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view – Strong recovery in business operations

The building materials industry has been severely affected by COVID-19 led lockdown during Q1FY2021, the peak sales period in any year. Additionally, its high fixed cost structure had affected OPM, dragging down net earnings. However, from June, the sector has been one of the fastest to recover, with the easing of the lockdown domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see strong demand growth compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to show strong growth in FY2022-FY2023.

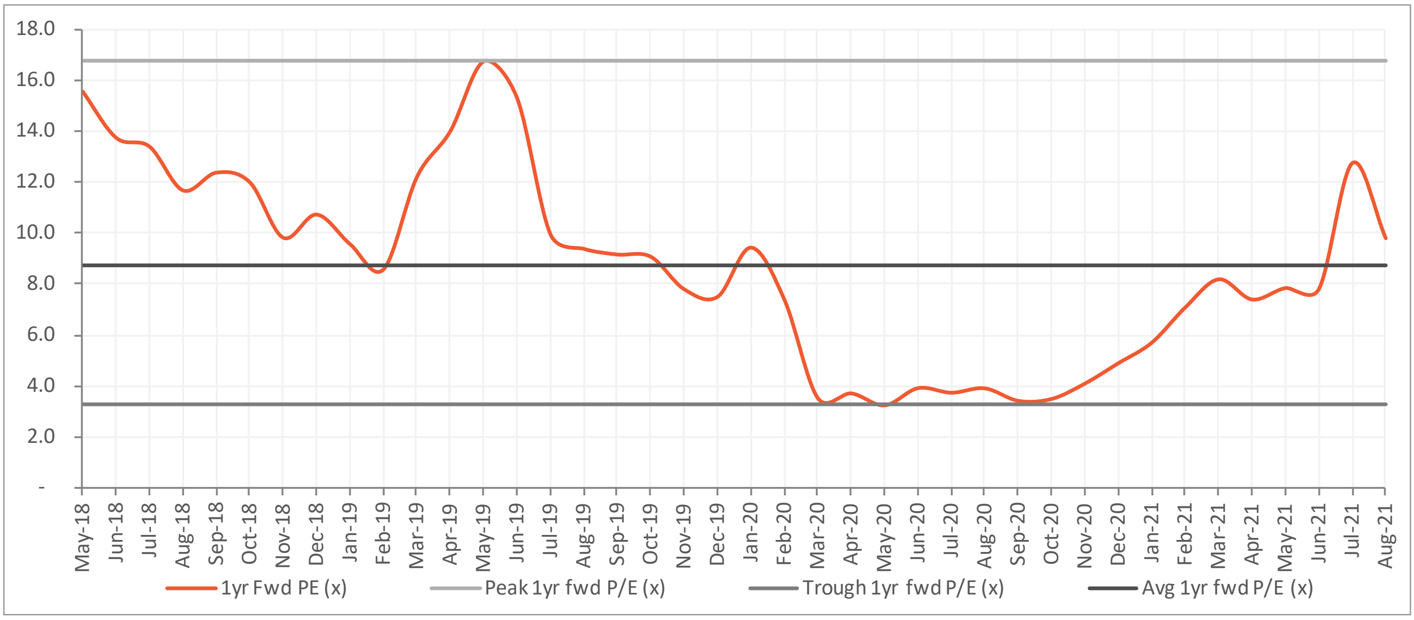
■ Company outlook – Strong earnings growth outlook led by structural growth drivers

The Indian iron & steel pipes and tubes industry (~8-10% of steel consumption) had been clocking a 15% CAGR during the pre-COVID era (FY2017-FY2020) attributable to incremental demand emanating from growth in domestic water infrastructure mainly driven by the government's Jal Jeevan Mission, oil exploration, construction, infrastructure and expansion of gas pipelines. India's structural pipes and tubes production capacity is estimated at 8-10 million tonnes (MT) with an annual consumption of ~4 MT valued at ~Rs. 20,000 crore and slated to clock a 10-15% CAGR in the next three years. Hitech Pipes is among the top five pipe manufacturing companies in India with a capacity of 5.8 lakh TPA that has grown by 3.2x over FY2015-FY2021. The company is expanding its capacity to 7 lakh TPA through debottlenecking & brownfield expansion at a minimal capex of Rs. 25-30 crore per lakh tonne in the near term. In the next 3-4 years, it is targeting to reach a 10 lakh TPA capacity.

■ Valuation – Initiate with a positive view; expect upside of 28-30%

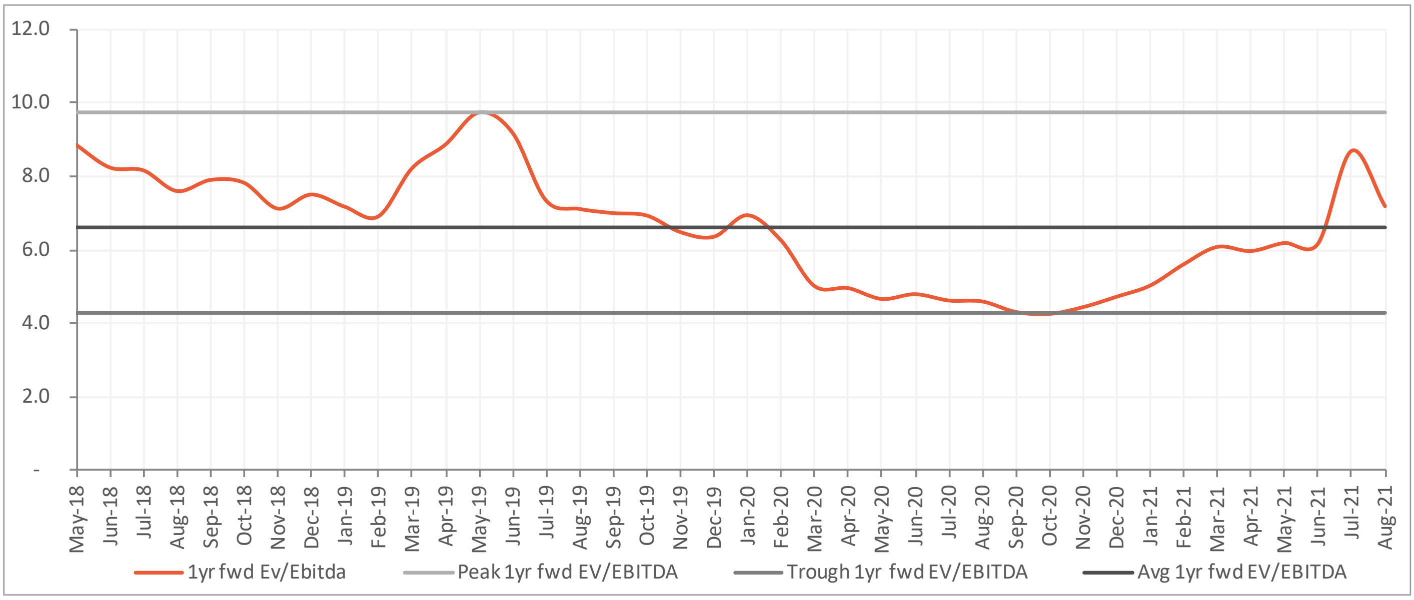
We believe Hitech is on a strong growth journey led by structural demand drivers like low per capital domestic steel pipes consumption, infrastructure investments over next five years, government schemes like Jal Jeevan Mission among others. The company's capacity expansion plans over medium to long term without leveraging balance sheet is expected to capture the huge growth potential for the domestic steel pipe industry. We expect its revenues/operating profit/net profit to grow at a CAGR of 27%/36%/65%, respectively over FY2021-FY2024E led by increasing capacity utilisation, improving operational profitability and contained leverage. At CMP, the stock is currently trading at a P/E of 8x/6x its FY2023E/FY2024E EPS, at a discount to its peers. We expect valuation multiple gap vis-à-vis peers to narrow down as Hitech ramps ups net earnings driven by healthy topline growth and strong operational profitability. Hence, we initiate viewpoint coverage on the stock and expect an upside of 28-30%.

One-year forward P/E (x) band



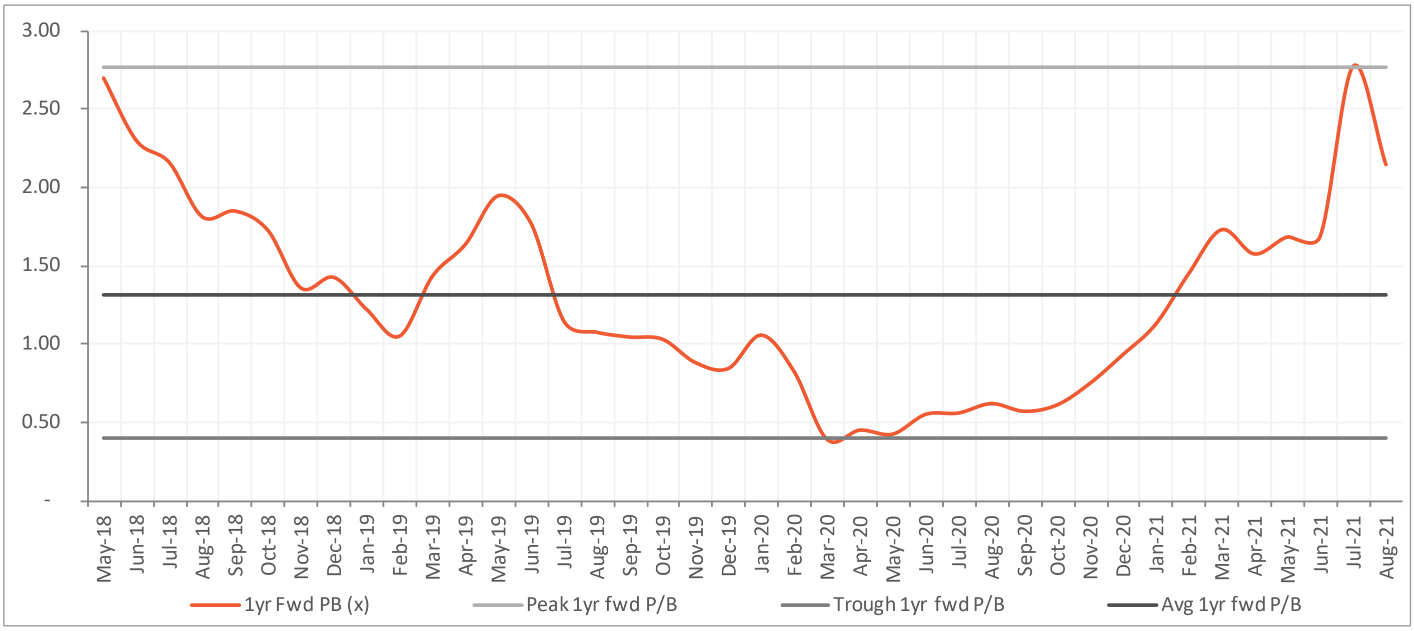
Source: Company, Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Company, Sharekhan Research

One-year forward P/B (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Hitech Pipes	7.9	6.3	6.1	5.1	1.8	1.4	25.6	25.0
APL Apollo Tubes	26.1	20.6	15.1	11.7	6.9	5.4	29.6	29.4
Astral Limited	66.3	51.7	42.8	34.4	13.5	10.7	22.5	23.1
Supreme Industries	24.7	20.8	18.1	15.6	5.8	4.9	23.6	23.7

Source: Sharekhan Research

About company

Hi-tech Pipes is one of the holistic piping solution players with total installed capacity of 5.8 lakh metric tonnes and is positioned among India's top five pipe companies. It manufactures wide range of steel tubes with applications in infrastructure, telecom, defence, power distribution, railways, airports, real estate, automobiles and agriculture, among others. Hitech has a wide network of 390 dealers and 590+ SKUs with presence across 17 Indian states. Moreover, the Company also has tie-up with more than 150 OEM partners and more than 90 contractors across the country. The Company's clienteles includes Reliance Industries Limited, TATA, Adani and Airtel, IPH, Shimla, AAI among others. Superior product quality and competitive pricing makes Hitech a reputed supplier for companies like L&T, NHAI, EIL, BHEL, DMRC, PGCIL, AAI, MMRDA, PWD, MES among others. The company has won various government tenders under the Jal Jeevan Mission and has successfully registered its products under the prestigious High Speed Bullet Train Project from Ahmedabad to Mumbai.

Investment theme

Hitech is on a strong growth journey led by structural demand drivers like low per capital domestic steel pipes consumption, infrastructure investments over next five years, government schemes like Jal Jeevan Mission, etc. The company's capacity expansion plans over the medium to long term without leveraging balance sheet is expected to capture the huge growth potential for the domestic steel pipe industry. Hitech Pipes, is among the top five pipe manufacturing companies in India with a 5.8 lakh TPA capacity that has grown by 3.2x over FY2015-FY2021. The company is expanding its capacity to 7 lakh TPA through debottlenecking & brownfield expansion at minimal capex of Rs. 25-30 crore per lakh tonne in the near term while over next three to four years it is targeting to reach a 10 lakh TPA capacity. The company's capacity expansion plans over medium to long term without leveraging balance sheet is expected to capture the huge growth potential for the domestic steel pipe industry.

Key Risks

- Downward pressure on steel prices and a drop in government and private capex.
- Risk of substitute products cornering higher share of the demand pie.

Additional Data

Key management personnel

Mr. Ajay Kumar Bansal	Chairman & Managing Director
Mr. Anish Bansal	Whole-Time Director
Mr. Arvind Bansal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bansal Ajay Kumar	20.15
2	Bansal Anish	9.76
3	Bansal Parveen	9.52
4	Bansal Vipul	7.67
5	AKS Buildcon Ltd	5.05
6	Bansal Shweta	5.04
7	Hitech Agrovision Ltd	4.72
8	AVR Trends Intl Pvt Ltd	2.20
9	Everest Grow More Finance Pvt Ltd	1.83
10	Lal Amrutlal Chhagan	1.72

Source: Bloomberg

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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