

Initiating Coverage

SJVN Ltd

October 31, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Power	Rs 35.75	Buy in the band of Rs 35.5 – 36 and add on dips to Rs 32	Rs 39	Rs 42.75	2-3 quarters

HDFC Scrip Code	SJVLTDQNR
BSE Code	533206
NSE Code	SJVN
Bloomberg	SJVN:IN
CMP Oct 28, 2022	35.75
Equity Capital (Rs cr)	3929.8
Face Value (Rs)	10
Equity Share O/S (cr)	392.98
Market Cap (Rs cr)	14049.0
Book Value (Rs)	33.5
Avg. 52 Wk Volumes	3659239
52 Week High	36.90
52 Week Low	25.45

Share holding Pattern % (Sep 2022)	
Promoters	86.77
Institutions	6.81
Non Institutions	6.42
Total	100.00



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Satluj Jal Vidyut Nigam Limited (SJVN) has grown from a single project single state operation (i.e. 1500 MW Nathpa Jhakri Hydro Power Station in Himachal Pradesh) into a diversified power generation company having commissioned 8 projects aggregating 2091.5 MW of installed capacity and 86 km 400 KV transmission line. Its overall project portfolio (operational, under construction, pre-construction and projects in survey and investigation stage) comprises of 55 projects aggregating 31905 MW spread across 13 states and 3 countries. The management has a vision to have installed capacity of 5000 MW by 2023, 25000 MW by 2030 and 50000 MW by 2040.

SJVN is primarily a hydropower generation company, diversifying into alternate energy sources such as thermal, solar and wind projects as well as into power transmission. A wholly owned subsidiary - SJVN Green Energy Limited (SGEL) was incorporated on March 30, 2022 for expanding the renewable energy portfolio of the group and work on new business ventures such as solar parks, biomass, small hydro, hybrid energy, green hydrogen and battery energy storage systems (BESS).

There is a lot of untapped hydro potential in India with only 46 GW commissioned out of an estimated potential of 145 GW. In view of the Government's initiative to achieve 500 GW of installed electricity capacity from non-fossil sources by 2030, hydropower assumes greater importance to provide stability to the electric grid due to the intermittent availability of solar and wind to produce power. The company plays a key role in achieving the central government's objective of optimally tapping the hydropower potential in the northern region as well as strengthening bilateral relations through cross border hydropower development.

The capacity addition outlook, regulated business model, consistent operational performance and favorable valuations make it an attractive investment idea.

Valuation & Recommendation:

With the expected commissioning of 1320 MW Buxar thermal power plant and 900 MW Arun-3 hydroelectric project (HEP) by FY24E, installed capacity is slated to more than double from the current 2091.5 MW. The full impact of the additional capacity will be visible in FY25, leading to a significant increase in revenue and profitability. Consistent operational performance of the Nathpa Jhakri HEP and Rampur HEP allows the company to earn incentives over and above the revenue from power generation. Government measures to promote hydropower and renewables would lead to higher offtake.



SJVN Ltd has shared an aggressive capacity addition outlook, doubling their target of 12000 MW to 25000 MW by FY2030. The company trades at an attractive dividend yield of 4.8%. Dividend is expected to grow in the coming years as the earnings increase. We expect Revenue/EBITDA/PAT to grow at CAGR of 29.3%/28.0%/24.2% over FY22-24E.

We think the base case fair value of the stock is Rs 39 (10x FY24E EPS and 1.05x FY24E BV) and the bull case fair value is Rs 42.75 (11x FY24E EPS and 1.15x FY24E BV) over the next two-three quarters. Investors can buy the stock in the band of Rs 35.5-36 (9.2x FY24E EPS and 0.96x FY24E BV) and add more on dips to Rs 32 (8.2x FY24E EPS and 0.86x FY24E BV).

Financial Summary

Particulars (Rs cr)	Q1FY23	Q1FY22	YoY-%	Q4FY22	QoQ-%	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	1004.1	662.5	51.6%	323.1	210.8%	2702.8	2485.4	2417.0	3152.0	4041.2
EBITDA	828.1	508.3	62.9%	142.6	480.9%	2030.5	1798.9	1726.4	2237.9	2828.9
Depreciation	100.4	96.5	4.1%	103.2	-2.7%	384.1	393.3	404.3	438.3	638.9
Other Income	68.1	42.4	60.5%	70.8	-3.8%	400.7	737.5	217.8	270.0	295.0
Interest Cost	144.5	26.2	451.3%	82.4	75.3%	268.1	-2.9	161.3	257.8	453.0
Tax	81.9	103.0	-20.5%	24.6	233.2%	404.7	482.1	326.2	454.1	509.1
APAT	609.2	342.1	78.1%	7.5	8033.9%	1566.8	1645.6	989.8	1362.2	1527.3
EPS (Rs)						4.0	4.2	2.5	3.5	3.9
RoE-%						13.0%	12.9%	7.5%	9.9%	10.5%
P/E (x)						8.9	8.5	14.2	10.3	9.2
EV/EBITDA						6.7	8.3	10.4	10.5	10.2

(Source: Company, HDFC sec)

Q1FY23 Result Review:

SJVN reported revenue from operations of Rs. 1,004 cr (up 51.6%/210.8% YoY/QoQ) of which Rs. 288 cr pertains to arrears of Rampur HPS based on the review petition filed with CERC for the period 2014-19. Generation increased by 12% from 2436 MUs in Q1FY22 to 2736 MUs in this quarter. PAF also registered an increase and machines were made available to the extent of 110.11% in NJHPS and 110.2% in RHPS. This also resulted in an increase in capacity incentives and unscheduled interchange (UI) i.e. deviation settlement incentives from Rs. 71.5 cr in Q1FY22 to Rs. 87.59 cr in Q1FY23. PBT also increased by 53% from Rs. 425 cr in quarter one of last year to Rs. 650 cr in Q1FY23. SJVN reported PAT of Rs. 607 cr (up 79% YoY).



Project updates:

Capital expenditure in Q1FY23 was Rs. 1,990 (up 320% YoY) against Rs. 662 cr in Q1FY22. SJVN awarded an EPC contract of 1000 MW solar project in Bikaner to Tata Power Solar Systems Ltd for a total value of Rs. 5,491 cr. The company also awarded the Gurhah and Gujrai solar power projects during the quarter. In Nepal, MOU has been signed for development of 490 MW Arun-4 through JV. SJVN also bagged the 90 MW full floating solar power project in Omkareshwar Reservoir in Madhya Pradesh and PPA was signed for the same.

Key Triggers:

Upcoming capacity to lead to higher earnings

Additional capacity of 3415 MW is expected to be added by FY25E, an increase of ~160% from the existing capacity, providing a huge impetus to revenue. The key projects are the Buxar Thermal Power Plant in Bihar and the Arun-3 HEP in Nepal.

Status of 1320 MW Buxar thermal power plant

SJVN is expecting to commission one unit (660 MW) of the super critical thermal power plant in June 2023 and the second unit in January 2024. Rs. 5,768 Cr has been incurred on the project out of the total anticipated cost of Rs. 10,439 Cr as of July 31, 2022 (55%). Work for power evacuation through 4 transmission lines has commenced after receiving the grant of connectivity for power transmission in March 2022. Power Purchase Agreement (PPA) has been signed with Bihar State Power Holding Company Limited (BSPHCL) for 85% share of power. Fuel supply has also been secured with CCL for supply of the full quantum of 4.976 MTPA of coal requirement of the station at the price notified by Coal India Limited (CIL). The project has faced some law and order problem from the locals; however, now it is on track. Cost of power is expected to be competitive due to proximity of coalmines and hence higher-ranking order in the merit order of state discom leading to full scheduling of power from the plant.

Status of Arun-3 HEP

Arun-3 hydroelectric project is a 900 MW project located on the Arun River in Nepal. The project is a run-of-the-river scheme designed to generate 3924 MUs energy annually. The project is allocated to SJVN on Build Own Operate and Transfer (BOOT) basis, to be operated for 25 years after commissioning. Civil works were impacted because of heavy rains and flash floods in February and March 2022, which impacted the dam concreting, powerhouse and head race tunnel (HRT). 8.7 kms HRT has been excavated out of the total 11.8 kms. Geological issues have slowed down the pace of HRT works. Procurement/fabrication of different components for Hydro mechanical and Electro mechanical works is in advanced stage. Challenges are also being faced on the transmission front. The project is expected to be commissioned by December 2023. MOU has also been signed with PTC India for sale of hydropower from this project to



state utilities, discoms, bulk consumers, etc in India on long-term basis and sell untied capacity to power exchanges on medium/short term basis.

Other hydropower projects

- **Naitwar Mori HEP** (60 MW) run of the river HEP on river Tons in Uttarakhand. The project is expected to be commissioned by December 2022 and the power sold by this project shall qualify as Hydro Purchase Obligation (HPO). MOU has been signed with PTC to sell its power under various opportunities to state utilities, discoms and consumers.
- **Luhri HEP Stage I** (210 MW) on river Satluj in Himachal Pradesh. Foundation stone was laid on December 27, 2021 and financial closure was achieved on February 28, 2022. The project is expected to be commissioned in FY26.
- **Dhulasiddhi HEP** (66 MW) on river Beas in Himachal Pradesh. Foundation stone was laid on December 27, 2021 and financial closure was achieved on April 18, 2022. The project is expected to be commissioned in FY26.
- **Kholongchhu HEP** (600 MW) on river Kholongchhu in Bhutan. SJVN and Druk Green Power Corporation (DGPC) were developing the project in JV mode. However, due to the slow pace of execution and delay in decision-making, the Bhutanese side have recommended closure of JV. The matter is being discussed on a ministerial level between India and Bhutan.

Renewables

4 solar power projects with 1195 MW capacity are under construction.

Name	Capacity	Tariff	Expected Commissioning
Bagodra Solar Power Project	70 MW	Rs. 2.21/unit	December 2022
Gurhah Solar Power Project	75 MW	Rs. 2.98/unit	May 2023
Gujrai Solar Power Project	50 MW	Rs. 2.98/unit	May 2023
Solar Project under CPSU Scheme	1000 MW	Rs. 2.45/unit	May 2024

Additionally, 11 projects with 1878 MW capacity are under Investment approval and Pre-Construction stage and 12 projects of 4538 MW are in Survey and Investigation stage. The Ministry of Power has also identified 5 hydro projects of 5097 MW in Dibang basin of Arunachal Pradesh for allocation to SJVN. Further, 10 Pumped storage projects having estimated capacity of 13950 MW have been identified for allocation by the ministry. With the central and state governments, trying to expedite approvals and management vision of having installed capacity of 25000 MW by 2030, SJVN's growth potential is visible for the next 8 – 10 years.



Policy measures by the government to promote hydropower sector augurs well for the company

The Government has approved a number of measures for promoting hydropower sector. These include:

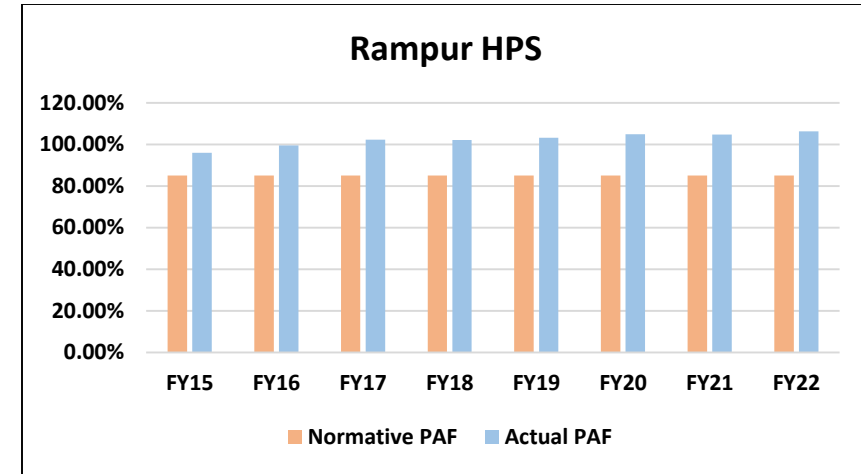
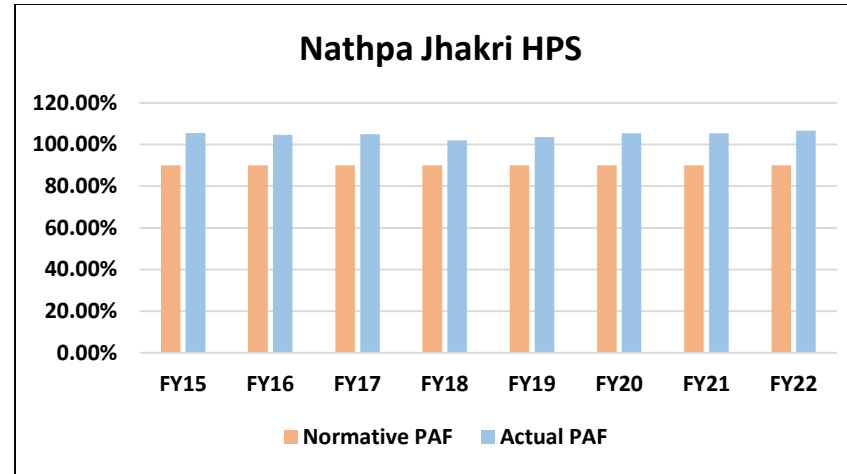
- Declaring large hydro power (LHPs) (>25 MW projects) as renewable energy source
- Mandating Hydro Purchase Obligation (HPO) as a separate entity within Non-solar Renewable Purchase Obligation (RPO) from new projects
- Providing flexibility to developers to back load tariff by increasing project life to 40 years
- Increasing debt repayment period to 18 years
- Tariff rationalization measures for bringing down hydropower tariff
- Budgetary support for Flood Moderation/Storage Hydro Electric Projects (HEPs) and towards cost of enabling infrastructure, i.e. roads/bridges.

Because of these measures, the capital cost as well as the project tariff would be reduced especially in initial years, which would improve project viability & saleability, and thus, promote the hydroelectric projects.

Cost-Plus Return on Equity model to ensure stable returns

The operational hydropower plants have regulated tariff structure that allow recovery of the entire cost, including a fixed return on equity based on approved capital cost, subject to achievement of normative parameters notified by the Central Electricity Regulatory Commission (CERC) for each plant. The company has a decade-long record of operating at more than normative level. For FY22, the PAF for both the hydro plants was 106% (FY21 – 105%), well above the normative levels of 90% for Nathpa Jhakri HPS and 85% for Rampur HPS. The company expects ROE to continue at a rate of 16.5% for storage type hydro projects (norms tightened, receivable days 45 days from 60 days, escalation 4.77% instead of 6.64%).

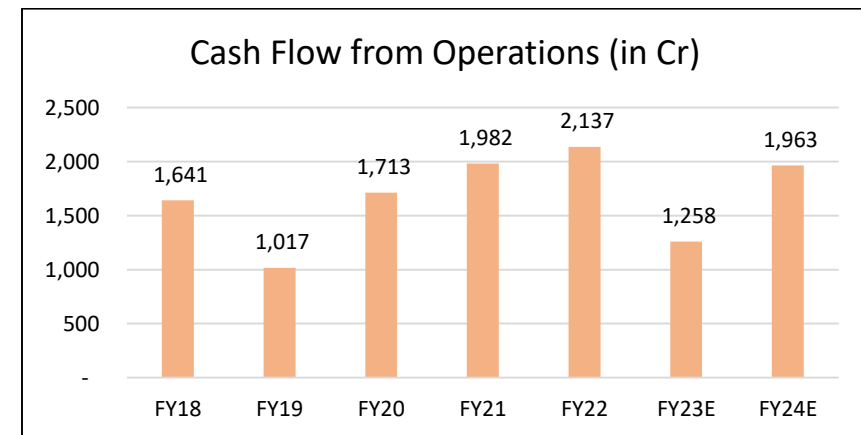
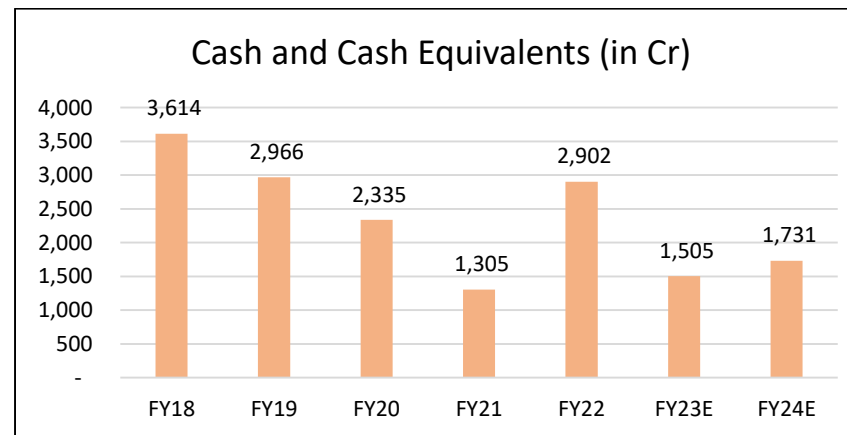
The tariff for Buxar thermal power plant is also based on CERC guidelines, which allow recovery of fixed charges and pass-through of energy charges, along with assured return on equity and incentives. This is a significant source of comfort, as it will offer steady revenues, assured return as well as comfortable debt servicing, subject to operating at normative parameters (minimum plant availability factor of 85%). Fuel cost pass-through will result in full recovery of variable costs, subject to operations within the normative parameters.



(Source: Company, HDFC sec)

Comfortable liquidity position

The company had cash and cash equivalents amounting to Rs. 2902 Cr as on March 31, 2022. Strong cash flow from operations, unutilized bank lines and short-term loans would be sufficient to meet the debt obligations, capex requirements and dividend payouts. The company is also in the process to monetize a part of its cashflows from NJHPS and raise Rs. 2000 Cr to fund the equity portion of the upcoming projects.



(Source: Company, HDFC sec)



Regular receivables (excluding unbilled revenue and bills discounted) as on March 31, 2022, reduced to Rs 574 crore (equivalent to 87 days) compared to Rs 853 crore a year earlier (equivalent to 127 days), due to receipt of the Aatmanirbhar Bharat package and timely collections of current dues. More than 90% of the dues as on March 31, 2022, were from Jammu & Kashmir. The management expects the dues to be liquidated by July 2023 in 12 equal installments of Rs. 53 cr each.

The company's Net Debt/EBITDA increased from 0.5x in FY21 to 2.3x in FY22 and we expect it to remain elevated in FY23-24 as well, until a few of the large projects are commissioned. However, the debt to equity ratio is comfortable at 0.5x in FY22.

Concerns:

- The company has planned a huge capex. Given that there are many projects in the pipeline, the company faces execution risks. Significant time or cost overruns in under-construction projects may affect the cost competitiveness of these projects.
- Disallowance of capital costs by CERC may affect the cash flow available for debt servicing.
- Inability to tie up PPAs by the beneficiary states at the expected tariff or disowning a signed PPA where tariff of the project is high. However, separate HPO obligation notified by the government should help mitigate this risk.
- Geo-political risks due to execution of projects in Nepal and Bhutan. Other issues such as delay in decision making, differences with respect to employment of local population, government involvement, funding issues, etc also affects the progress of these projects.
- Risks of delays in payment due to weak financial health of state discoms. The receivables are expected to reduce over the medium term with the new Electricity (Late Payment Surcharge and Related Matters) Rules, 2022. The counterparty risks are mitigated by the presence of various payment security mechanisms, such as sales backed by letters of credit, tripartite agreements between the central government, the Reserve Bank of India (RBI) and state governments, and incentive schemes for timely payment.
- A majority of hydroelectric projects is located in remote locations and is prone to natural calamities such as landslide, cloud burst, etc. Further, erratic rains and flash floods may delay construction of the projects. Geological surprises posing technical challenges despite extensive survey and investigation may slow down the progress and increase the cost.
- Delay in getting approvals from various government authorities.
- Newer hydro projects are becoming costlier while tariffs of solar and wind have continued to go down, reducing the attractiveness of the hydro projects. However, hydropower may command a little premium due to the grid stability it provides. Economical battery storage solution on a large scale may make hydropower generation unviable.
- NJHPS and RHPS are cascade schemes and operating in tandem. Any difficulties faced in the operation of NJHPS will have direct consequences on power generation of RHPS.
- Government (of India and HP together) stake is at 87%, which needs to be brought down to 75%. Any stake sale is likely to be seen as an overhang in the market.



About the company:

Satluj Jal Vidyut Nigam Limited or popularly known as SJVN Limited is primarily engaged in the business of generation and sale of power. The company is a Mini Ratna, a joint venture of the Government of India (GOI) and the Government of Himachal Pradesh (GOHP). GoI holds a majority equity stake of 59.92% in SJVN while the Government of Himachal Pradesh (GoHP) has a 26.85% stake. The Mini Ratna status gives the company greater operational autonomy and discretion to set up projects up to Rs. 500 cr without the express consent of the government.

It operates the Nathpa Jhakri Hydro Power Station with a capacity of 1500 MW located in Shimla district, Himachal Pradesh, India; and the Rampur Hydro Power Station with a capacity of 412 MW in Kullu District, Himachal Pradesh. RHPS is a tailrace extension of NJHPS, which operates in tandem with generation flow of NJHPS. The units of NJHPS & RHPS were synchronized one by one and the projects were declared under COD on 18.05.2004 & 16.12.2014 respectively. NJHPS and RHPS are designed to generate 6612 MU & 1878.08 MU of Annual Electrical Energy respectively, in a 90% dependable year with 95% machine availability. Besides, the projects are designed to provide peaking power to the Northern Grid.

The Power generated from these projects is being supplied to the various Bulk Power Customer / Beneficiaries / Utilities in Northern Region as per the Power Purchase Agreement (PPA) and allocation order issued by Ministry of Power, GOI. Out of the total energy generated from NJHPS, 12% is supplied free of cost to the home state i.e. Himachal Pradesh. From the remaining 88%, 25% energy is supplied to GoHP at bus-bar rate and the Ministry of Power, Government of India, allocated balance power to different states / UTs of Northern Region. Similarly, out of the total energy generated from Rampur HPS, 13% is supplied free of cost to the home state i.e. Himachal Pradesh. From the remaining 87%, 30% energy is supplied to GoHP at bus-bar rate and the Ministry of Power, Government of India, allocated balance power to different states / UTs of Northern Region.

The company also operates the Khirvire Wind Power Plant with a capacity of 47.6 MW in Nashik District, Maharashtra; the Charnakha Solar Power Plant with a capacity of 5 MW in Patan District, Gujarat; and an 86 km cross border transmission line with a capacity of 400 kV from Muzaffarpur to Sursand.

In addition, it provides consultancy services in the field of hydropower, road/railway tunnels, etc., as well as from concept to commissioning of hydroelectric projects to various organizations.



Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	2702.8	2485.4	2417.0	3152.0	4041.2
Growth (%)	2.2%	-8.0%	-2.8%	30.4%	28.2%
Operating Expenses	672.3	686.5	690.6	914.1	1212.4
EBITDA	2030.5	1798.9	1726.4	2237.9	2828.9
Growth (%)	0.4%	-11.4%	-4.0%	29.6%	26.4%
EBITDA Margin (%)	75.1%	72.4%	71.4%	71.0%	70.0%
Depreciation	384.1	393.3	404.3	438.3	638.9
Other Income	400.7	737.5	217.8	270.0	295.0
EBIT	2047.1	2143.1	1539.9	2069.6	2485.0
Interest expenses	268.1	-2.9	161.3	257.8	453.0
Exceptional Items, RRA, JV Profit	204.6	568.7	-16.1	4.5	4.5
PBT	1971.5	2127.7	1316.0	1816.3	2036.4
Tax	404.7	482.1	326.2	454.1	509.1
RPAT	1566.8	1645.6	989.8	1362.2	1527.3
Growth (%)	14.6%	5.0%	-39.9%	37.6%	12.1%
EPS	4.0	4.2	2.5	3.5	3.9

Balance Sheet

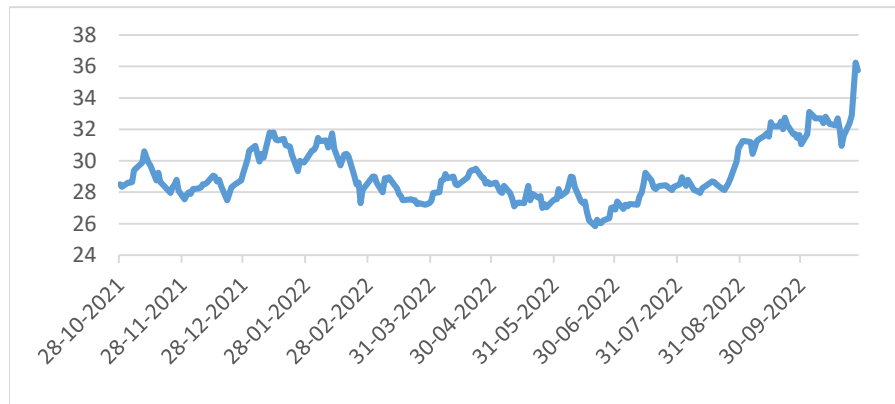
As at March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital – Equity	3929.8	3929.8	3929.8	3929.8	3929.8
Reserves	8121.3	8861.5	9240.5	9895.4	10636.7
Total Shareholders Funds	12051.1	12791.3	13170.3	13825.2	14566.5
Long Term Debt	1972.2	1855.7	6170.2	10266.2	15711.1
Short Term Debt	0.0	299.2	723.6	752.5	782.6
Total Debt	1972.2	2154.9	6893.8	11018.8	16493.8
Non Current Liabilities	944.5	1022.2	1283.1	1344.6	1585.1
TOTAL SOURCES OF FUNDS	14967.8	15968.3	21347.2	26188.6	32645.4
APPLICATION OF FUNDS					
F.A.	10316.2	12305.3	16235.0	21296.6	27957.7
LT Loans & Advances	68.3	79.6	96.8	106.5	117.2
Other Non Current Assets	1967.2	2289.8	2807.4	3232.7	2208.8
Total Non Current Assets	12351.7	14674.7	19139.2	24635.8	30283.7
Inventories	49.5	56.2	62.7	81.5	101.8
Debtors	744.5	521.9	575.0	560.0	530.0
Other Current Assets	474.0	914.6	569.6	1400.9	2074.7
Cash and Cash Equivalents	2335.4	1305.9	2902.0	1504.9	1731.4
Total Current Assets	3603.3	2798.6	4109.3	3547.2	4438.0
Creditors	39.9	45.3	37.2	44.6	35.7
Current Liabilities	947.4	1459.7	1864.1	1950.0	2040.6
Total Current Liabilities	987.3	1505.0	1901.2	1994.6	2076.3
Net Current Assets	2616.1	1293.6	2208.1	1552.7	2361.7
TOTAL APPLICATION OF FUNDS	14967.8	15968.3	21347.2	26188.5	32645.4



Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
EBT	1971.5	2127.7	1316.0	1816.3	2036.4
Depreciation	384.1	393.3	404.3	438.3	638.9
Int & Others	49.3	-115.4	47.8	167.8	353.0
Change in working capital	-224.4	-179.2	744.1	-739.8	-581.1
Tax expenses	-466.9	-243.7	-374.4	-424.4	-484.1
CF from Operating activities (A)	1713.5	1982.7	2137.7	1258.3	1963.1
Net Capex	-1268.7	-2065.7	-4427.8	-5483.9	-7300.0
(Purchase)/Sale of Inv & Others	890.6	748.1	-1785.7	1033.1	1230.1
Div & int rec	283.4	173.0	81.9	90.0	100.0
CF from Investing activities (B)	-94.7	-1144.6	-6131.7	-4360.9	-5969.9
Borrowings/(Repayments)	-112.7	-3.5	4651.9	4125.0	5475.0
Lease paid	-14.2	-5.7	-6.4	-4.3	-2.8
Dividends and Interest paid	-1218.6	-1043.5	-720.1	-965.2	-1239.0
CF from Financing activities (C)	-1345.4	-1052.8	3925.5	3155.5	4233.2
Net Cash Flow (A+B+C)	273.4	-214.7	-68.5	52.9	226.5

One Year Price Chart:



(Source: Company, HDFC sec)

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
PROFITABILITY RATIOS (%)					
EBITDA Margin	75.1%	72.4%	71.4%	71.0%	70.0%
EBIT Margin	75.7%	86.2%	63.7%	65.7%	61.5%
APAT Margin	58.0%	66.2%	41.0%	43.2%	37.8%
RoE	13.0%	12.9%	7.5%	9.9%	10.5%
RoCE	17.5%	19.3%	8.8%	9.4%	9.0%
Solvency Ratio (x)					
Net Debt/EBITDA	-0.2	0.5	2.3	4.3	5.2
Net D/E	0.2	0.2	0.5	0.8	1.1
PER SHARE DATA (Rs)					
EPS	4.0	4.2	2.5	3.5	3.9
CEPS	5.0	5.2	3.5	4.6	5.5
DPS	2.2	2.2	1.7	1.8	2.0
BVPS	30.7	32.5	33.5	35.2	37.1
Turnover Ratios (days)					
Debtor days	100.5	76.6	86.8	64.8	47.9
Inventory days	6.7	8.2	9.5	9.4	9.2
Creditors days	5.4	6.7	5.6	5.2	3.2
VALUATION					
P/E (x)	9.0	8.5	14.2	10.3	9.2
P/BV (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	6.7	8.3	10.4	10.5	10.2
EV/MW (in Cr)	6.5	7.1	8.6	10.2	6.2
Dividend Yield (%)	6.2%	6.2%	4.8%	5.0%	5.6%
Dividend Payout (%)	55.2%	52.5%	67.5%	51.9%	51.5%

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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