Stock Update
Aegis Logistics Ltd.

07 April, 2022

RETAILRESEARCH

Aegis Logistics Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Oil Marketing&Dist-	Rs. 220.4	Buy in the Rs. 218-222 band & add more on dips to Rs. 187-191 band	Rs. 244	Rs. 272	2 quarters

HDFC Scrip Code	AEGLOG
BSE Code	500003
NSE Code	AEGISCHEM
Bloomberg	AGIS IN
CMP Apr 06, 2022	220.4
Equity Capital (Rs Cr)	35.1
Face Value (Re)	1.0
Equity Share O/S (Cr)	35.1
Market Cap (Rs Cr)	7736.0
Book Value (Rs)	60.2
Avg. 52 Wk Volumes	888186
52 Week High	394.4
52 Week Low	167.5

Share holding Pattern % (Dec, 2021)	
Promoters	58.1
Institutions	16.5
Non Institutions	25.4
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Aegis Logistics Ltd (ALL) is a leading provider of logistics and supply chain services to Indian oil, gas and chemical industry. The company provides services such as sourcing of products, storage, and distribution for oil, gas, and chemicals. ALL has storage tanks to handle liquid cargo with 852,620KL (capacity post expansion) annual capacity. It offers third-party liquid logistics services for handling and storage, provides operations and maintenance (O&M) services, and has a well-diversified customer base which includes OMCs and chemical industries. ALL is well placed to cater to the huge potential of imports through its various terminals facilitated through pipelines or railway gantry. ALL has diversified and strong clientele with established relationships. The company also enters into yearly fixed price contracts with around 50% of its customers. These are take-or-pay contracts whereby the customer fixes the volumes/storage capacity to be made available. This provides revenue visibility in liquids logistics division.

ALL's liquids division continues to report strong performance, driven by near full utilization and we expect the strong trend to continue in the near to medium term. ALL signed a 10+15 year contract for the use of 21,000 KL of petroleum storage at Kochi terminal with Shell. ALL secured international sourcing tenders for LPG from National Oil Co for the calendar year 2022 for 18 VLGC aggregating to ~ 800,000 metric tons amidst stiff international competition and also expects a few more tender bids. Besides, on March 07, 2022, ALL, through its 100% subsidiary, has signed definitive agreements to acquire assets pertaining to liquid tank terminals with capacity of ~500,000 KL at Kandla port from Friends Group for total outlay of ~Rs 265 crore. The transaction will be funded through a combination of internal accruals and debt.

The work for its capacity expansion across its various locations is going on and ALL has a strong advantage of project execution at lower costs in a short duration due to its experience. Capacity addition led by expansion programs will drive volume as well as profitability growth in medium to long term. Apart from this, Japanese trading company Itochu has a 40% stake in Haldia LPG terminal, which highlights investor confidence in the LPG potential of the region.

The oil, gas and chemical logistics business continues to show robust opportunity as India's import and exports of oil products and chemicals keeps growing with the growth of the Indian economy. As the Government of India continues to encourage the use of LPG than other dirtier fuels such as kerosene biomass and coal, the demand for LPG continues to increase and with it, the demand for import terminalling capacity. ALL is engaged in terminalling and handling of liquids and gases and provides an important and stable source of income by way of terminalling fees. ALL continues to focus on executing its strategy of building a national network of port based tank terminals connected by road, rail and pipelines. Furthermore, the retail division continues to expand its geographic footprint and packed product offerings. Thus, the medium and long term outlook for the ALL remains positive.

On 09 Sept, 2020, we had initiated coverage on Aegis Logistics Ltd. and recommend to buy the stock on declines in the 189-193 band & add further on dips to Rs 174-178 band for base case target of Rs 218 and bull case target of Rs 246. Given healthy growth outlook and strong set of numbers in Q4FY22, we have now revised earnings and increased target price for the stock.

Valuation & Recommendation:

ALL's business has two broad categories, Liquid terminal division and Gas terminal division contributed around 35% and 65% respectively in 9MFY22. ALL has 131 LPG stations, added two stations in Q3FY22 and plans to add 30 additional stations in the 14 states where they are present currently over the next two years.

We expect fuel consumption will rise further and expect that the volumes in Haldia will recover soon to the level before BPCL's exit, offset by strong volumes by HPCL at the terminal, which is expected by the next two quarter. Mumbai terminal is operating at full capacity, with all three OMCs bringing good volumes. The Gas business continues to see a rebound, with demand improving in the segment. ALL is a compounding play on the import-led growth in domestic LPG consumption.

Investors could buy the stock in the Rs 218-222 band and add more on dips to Rs. 187-191 band (13.5x FY24E EPS & 7.9x FY24E EV/EBITDA). Base case fair value of the stock is Rs 244 (17.5x FY24E EPS & 10.5x FY24E EV/EBITDA) and the bull case fair value of the stock is Rs 272 (19.5x FY24E EPS & 11.8x FY24E EV/EBITDA) over the next 2 quarters. At the CMP of Rs 220.4 the stock trades at 15.8x FY24E EPS & 9.4x FY24E EV/EBITDA.

Financial Summary (Consolidated)

Particulars (Rs cr)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	1214	1546	-21.4	635	91.1	7,183	3,843	3,657	5,812	6,860
EBITDA	149	118	26.4	137	8.6	277	388	527	665	761
Depreciation	21	18	15.0	19	8.7	69	72	80	87	91
Other Income	8	10	-22.1	9	-12.1	33	37	37	41	41
Interest Cost	4	4	7.1	4	23.4	33	17	17	16	13
Tax	23	28	-18.6	23	0.9	74	86	93	151	175
PAT after Minority Interest	109	78	39.7	101	7.8	100	223	341	423	490
Adjusted PAT	102	71	43.0	94	7.8	100	223	341	423	490
Diluted EPS (Rs)	2.9	2.0	43.0	2.7	7.8	2.8	6.4	9.7	12.1	14.0
RoE-%						6.0	11.5	15.7	17.1	17.4
P/E (x)						77.7	34.6	22.7	18.3	15.8
EV/EBITDA (x)						27.8	20.2	14.5	11.2	9.4

(Source: Company, HDFC sec)

Q3FY22 Result Update

- Aegis Logistics revenue was below expectations and profitability was above expectations in Q2FY22. Consolidated revenue was down by 21.4% YoY to Rs 1214 crore.
- EBITDA grew by 26.4%YoY to Rs 149 crore, supported by lower purchase of stock in trade cost in the quarter. EBITDA margin stood at 12.3% in Q3FY22 vs. 7.6% in Q3FY21. Consolidated net profit grew by 43% YoY to Rs 102 crore. PAT margin stood at 8.4% in Q3FY22 vs. 4.6% in Q3FY21
- Aegis revenue from Gas Terminal Division was down by 23% YoY to Rs 1146 crore and revenue from Liquid Terminal Division increased by 19.7% YoY to Rs 68 crore. Gas Terminal Division and Liquid Terminal Division contributed 94% and 5.6% in Q3FY22, respectively.

Recent Triggers

ALL's expansion plans could bring opportunities to garner more revenue going forward

ALL is engaged in the business of storage of oil products, chemicals, and liquefied gases, sourcing of LPG, and retail distribution of LPG. ALL plans to expand its terminal network across India's coastline to capture growth in liquid and gas logistics. We expect a creditable revenue growth post greenfield expansion of the Kandla Gas Terminal after the company completed Haldia and Manglore Liquid Terminals in H1FY22.

Project Status

Division	Site	Existing Capacity, KL	Expansion	Total capacity	Project Cost, Rs Cr	Financing	Completion Date
Completed							
Liquid Division	Haldia	120190	53310	173500	35	Internal Accruals	H1FY22
Liquid Division	Manglore	25000	50000	75000	35	Internal Accruals	H1FY22
On going Project							
Liquid Division	Kochi	51000	20000	71000	15	Internal Accruals	H2FY22
Gas Division	Kandla	45,000 MT – 2 Fully Refrigerated Tanks of 22,500 MT each			350	Internal Accruals & Debt	FY22
Gas Division	Pipavav Port	18300MT	3800MT	22100MT	75	Internal Accruals	H2FY22

A large part of the capex is towards greenfield terminal at Kandla (Gujarat) with a total project cost of Rs 350 crore, expected to be commissioned soon. The terminal has identified demand and benefits from the connectivity to Jamnagar-Loni LPG pipeline. However, a higher throughput from the terminal would be dependent on the Kandla-Gorakhpur pipeline which could take two-three years for completion.

ALL has secured through auction two new land parcels, 2.5 acres in Haldia and 21 acres in Mangalore port.
Additional Jetty LPG Pipeline is expected to commission soon; increasing the unloading rate at Haldia.

ALL strengthened LPG retailing network

Indian LPG consumption has registered 7.7% CAGR over the last decade, while LPG imports grew ~14% due to lower local capacity. Currently, the share of imported LPG in domestic consumption has increased to 60% from 30% in FY11. During this period, LPG volumes handled by ALL recorded ~21% CAGR on the back of constant capacity expansion at key ports. (Source: Petroleum Planning & Analysis Cell).

ALL is focused to strengthen its LPG retailing network and has expanded across the commercial (Aegis Puregas Magna) and Domestic LPG market (Chhota Cikander) while being engaged in LPG Bottling plants. The company has network of 131 Autogas stations in 10 states and 254 LPG distributors across 100 cities in 14 states.

ALL is aggressively expanding in gas distribution for home consumption, commercial, and industrial use and plans to have a national footprint – with 200 stations in 20 states. ALL is also looking to expand in Tier 1, 2 & 3 urban cities with distributors and POS under Aegis Chota Cikander brand of 2kg, 4kg, 12kg & 19kg products and the company is taking LPG bottling plant to 37 LPG bottling plants including Aegis owned sites and third-party filling plants under contract on a national scale.

Any existing player with a pipeline connectivity has significant advantage over its peers in delivering cheapest LPG to clients. ALL has access to pipelines at Haldia, Mumbai and Kandla terminals.

Recent key developments are,

- Addition of 7 gas stations till December, 2021
- Pipeline of around 60 new dealers
- EBITDA margins have gone up to an average of Rs. 10,000 per MT
- 425 KG Magna Cylinder was launched in East zone.

Also entered East zone for fuel retailing

- Commissioned 3 bottling plants at Udupi, Bangalore and Hyderabad
- ALL plans to commission additional two bottling plants at Wada and Jamnagar in end FY22
- 10 new distributors and have now presence in 14 states
- 60 new applications for distributorship - work in progress

ALL form new JV with Royal Vopak for LPG and chemical storage in India

ALL and Dutch tank storage firm Royal Vopak formed joint venture (JV) with an aim to grow together in the LPG and chemicals storage and handling business. Vopak is the world’s leading independent tank storage company, storing oil, chemicals, gases, biofuels and edible oils. The JV company is to be named Aegis Vopak Terminals Ltd (AVTL) will be 51% owned by Aegis and 49% by Vopak. As part of this deal, ALL will transfer its terminal assets at Mangalore, Kochi, Pipavav, Kandla and Haldia to the asset base of AVTL. Similarly, Vopak will also make its 100% subsidiary, the CRL Terminal which holds terminal assets at Kandla, a wholly owned subsidiary of AVTL. ALL to continue to 100% own and operate both Mumbai liquid and LPG terminals. ALL will continue to own LPG retailing business.Rs.346 crore worth of EBITDA will remain with ALL.

In the Hindustan Aegis LPG—a JV between Aegis and Itochu of Japan, Vopak will acquire 24% stake. Aegis' stake will be 51% and Itochu will continue to hold a 25% stake.

The formation of a new JV is cash positive for ALL. ALL is likely to receive pre-tax cash proceeds of Rs 2,766 crore in a piecemeal manner over the next 3 years. The valuation is based on 23xforecast FY22 EBITDA of the transferred units. 75% of this amount will be received by ALL on closure of the transaction (expected in March/April 2022) and the remaining after three years. Out of the amount received by ALL, Rs.1250 cr will be spent as capex on adding 175,000 kiloliters of liquid storage capacity and 100,000 metric tons of gas storage capacity at Mangalore, Kochi, Pipavav, and Haldia. Out of the consideration received, income tax will have to be paid and ALL will over the next 3-5 years infuse ~Rs.1200 crore to fund the capex in the JV (Rs.2500-4500 crore). To fund the initial consideration, an amount of Rs.975 cr will be raised at the JV level.

The JV has guided for a capex plan of Rs 1,250 crore, which will be executed over the next 18-24 months. Taking a conservative stance on debt, the JV envisages capping its debt gearing at 0.6 times and it also intends to keep gross debt/EBITDA ratio below 3.5 times.

With a total storage capacity of 9.6 lakh cubic metres, Aegis Vopak Terminals Ltd (AVTL) will become one of the largest tank storage companies catering to LPG and chemicals in India. Aegis will bring market leadership, superb execution capabilities and portfolio of profitable assets and Vopak will bring global expertise and standards, new product capabilities and global customers.

The new partnership, Aegis Vopak Terminals Ltd (AVTL), will operate a network of terminals that are currently located in five strategic ports along the east and west coast of India. This joint venture with Vopak will accelerate the growth of Aegis in the terminals business and has the potential to allow ALL to diversify into new areas of gas storage such as LNG and other energy projects including renewables, in partnership with the world's leading independent tank storage company.

Greenfield Expansion of Kandla terminal to improve growth visibility:

This could translate to incremental EBITDA of more than Rs 70–100 crore p.a., LPG throughput volumes in Q3FY22 were down just 3% YoY, as Mumbai and Pipavav terminals mostly made up for the lost volumes at the Haldia terminal. From Q4FY22, we believe throughput volumes even excluding Kandla will revert to growth, as volume loss (due to BPCL shift) at the Haldia terminal reduces. ALL is commissioning the 4MT Kandla LPG terminal in next few months and expects the terminal to clock throughput volume of 0.7–1mt in the first year of operations. In the first year of operations, it could deliver ~30% utilisation.

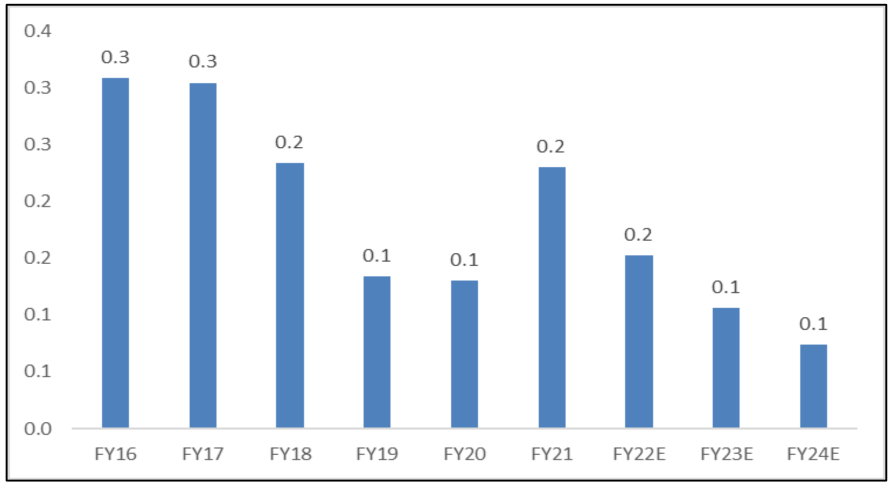
Asset acquisition in liquid terminals to strengthen presence

Aegis Logistics, through its 100% subsidiary, has signed definitive agreements to acquire assets pertaining to liquid tank terminals with capacity of ~500,000 KL at Kandla port from Friends Group for total outlay of ~Rs 265 crores. The transaction will be funded through a combination of internal accruals and debt. This acquisition fits well with strategy of "necklace of terminals" which the Company has been executing since 2010. This transaction will strengthen Company's presence in six major ports across the country which handles ~75% of the total liquids traffic in India (for period Apr-Jan'22). Further, it will augment Aegis's presence in liquid terminal business at Kandla port which handles the highest Liquids and POL traffic in India. The completion of transaction is subject to customary closing conditions and necessary approvals from port authorities and statutory authorities and is expected to close by June 2022.

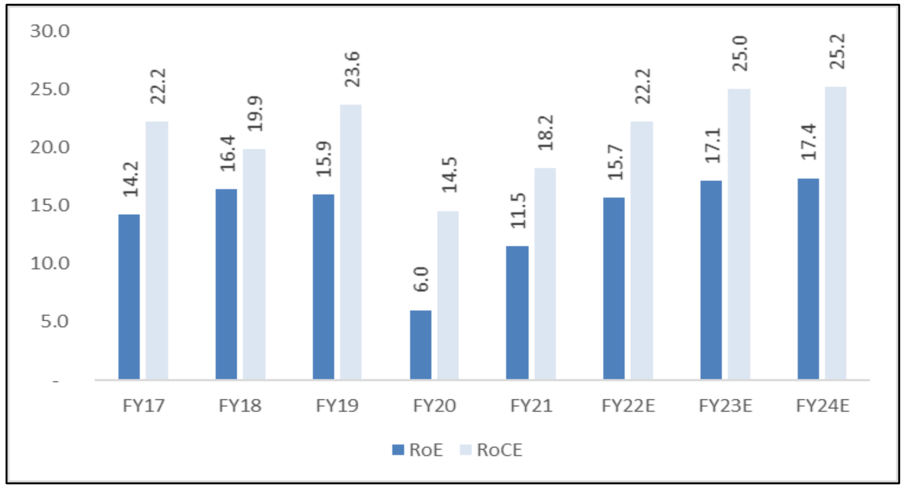
Sound financial profile

- ALL continues to have a strong financial profile with comfortable capital structure and strong debt service coverage indicators. The company has reduced debt and is virtually debt-free despite consistent and aggressive capex over the last few years.
- ALL has a good consistent profit growth over the past, and it reported adjusted net profit growth of 53% to Rs. 341.4 crore in FY21 vs. Rs. 223.4 crore in FY20. The company has been maintaining a healthy dividend payout in 27-33% band and we expect 31% and 30% payout over FY22E to FY24E. Dividend yield stood at 0.9% in FY21.
- The profitability margin is exposed to price volatility in LPG prices to the extent of inventory maintained by the company. Its ROE and ROCE have been excellent over the past and we expect ROCE at 22 -25% and ROE at 15.5 -17.5% over FY22E to FY24E, respectively.

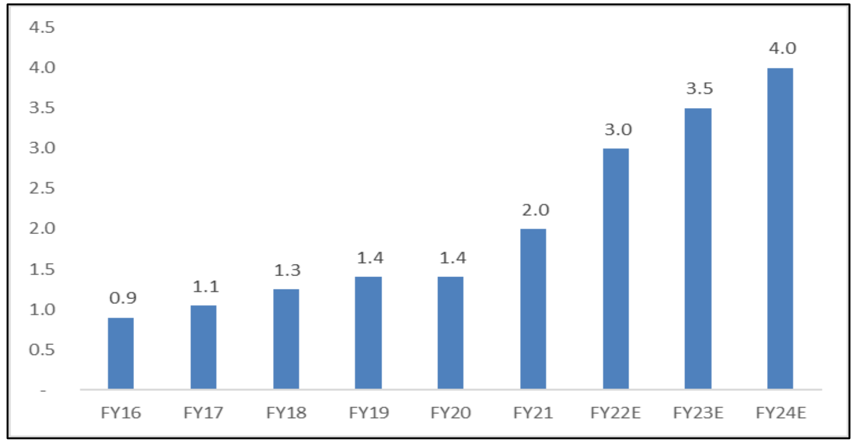
Debt/Equity (x)



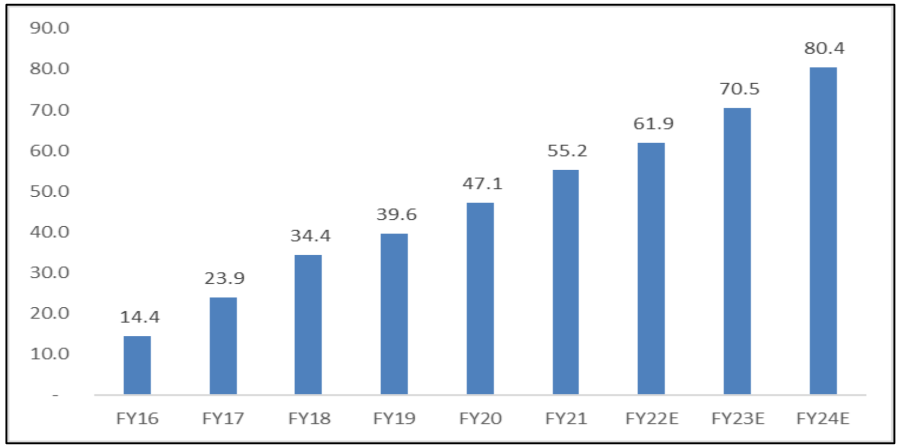
Return Ratio (%)



Dividend Per Share (Rs)



BVPS (Rs)



(Source: Company, HDFC sec)

- ALL reported positive, although lower, cash flow from operations of Rs 441.6 crore in FY21 vs. Rs 146 crore in FY20. ALL's liquidity is also supported by availability of fund-based working capital lines which remain unutilized and has cash and cash equivalent of Rs 336 crore, as on 31st March 2021. We believe the ALL's short-term loans would be rolled over to manage its working capital requirements.
- The quantum of inventory maintained is only for its own use of LPG distribution and retailing which is miniscule compared to the sourcing it does for oil marketing companies. The company maintains low inventory of around 2-3 days and no working capital is required for the sourcing business undertaken on behalf of its customers.

What could go wrong?

- Economic slowdown, volatility in oil and gas prices and regulatory changes in Oil and Gas industry could impact its growth story in the future. The changing macro-economic scenario can have an impact on the growth plans of the company.
- Large volatility in forex rates in a short period of time can cause losses for the company in the sourcing business.
- The liquid traffic has been low in ports like Kochi and Haldia as compared to ports like Mumbai, Kandla. So, the pricing power at ports like Haldia, Cochin has remained weak due to low demand for storage space. But in Ports like Mumbai, Kandla where the volume of POL(Petroleum Oil Lubricants) traffic is relatively high and storage space availability is low, the company has good pricing power.
- Company is engaged in various expansion programs in liquid as well as gas terminal and most of the projects will be completed in FY22E. However, any delay on project execution could impact its future growth.
- Slower than expected growth in LPG penetration could dampen growth rates especially if there is a sharp rise in LPG prices globally making it less competitive against other fuels.

- In the Gas terminal segment, ALL competes with Oil PSUs who are also its customers. In case these companies put up additional capacities, it could impact growth rate of ALL. Also increase in cross-country pipeline infrastructure for natural gas including spread of CGD could dent LPG's consumption growth over the long term.
- Gas logistics business – the one with the highest scope of growth – being moved to the JV will result in lower participation by ALL.

Business Overview:

In the Liquids division, ALL provides handling and storage for Class A, B and C petroleum products as well as various chemicals, POL products, and vegetable oils.

ALL is present the entire supply chain of LPG (a mixture of Propane and Butane). Its three activities under the Gas division include:

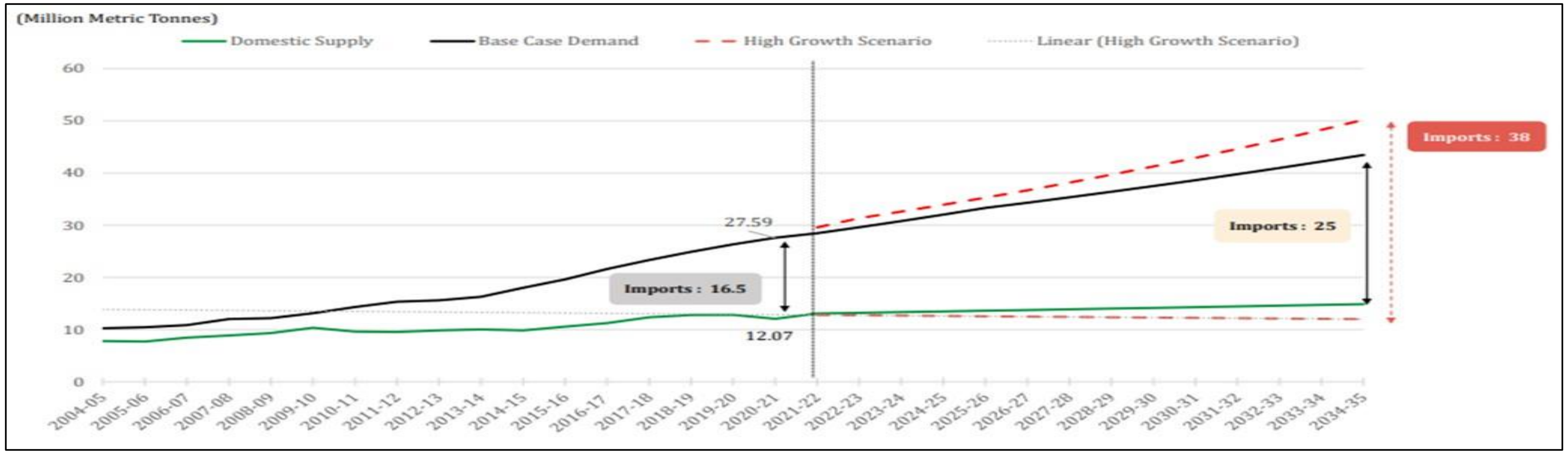
Sourcing: ALL sources LPG into India through its JV with Itochu in Singapore. It has roughly 10-12% market share in the total LPG imported into India. This is a low margin business.

Logistics: Once the LPG reaches Indian ports, ALL provides storage and handling services, for which, it earns storage fees and throughput charges. This sub-segment typically delivers higher margins depending on the terminal and evacuation infrastructure (road, rail, pipeline). This contributes the largest to the EBITDA in absolute terms.

Distribution: Through its distribution network, ALL distributes LPG as Autogas for vehicles, as Cylinders for domestic and commercial use, and in bulk for industrial use. Autogas earns the highest margins while domestic/commercial/industrial distribution earns ALL a decent.

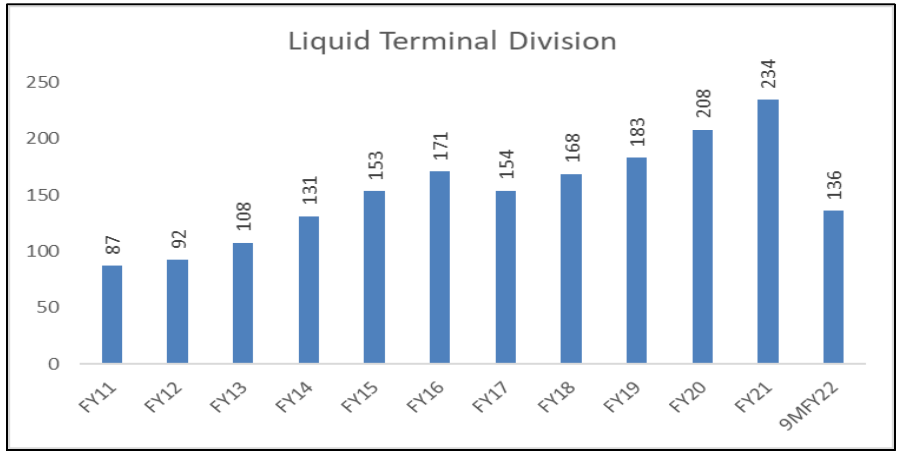
ALL does not provide split of revenues from different segments and the actual margins earned on them.

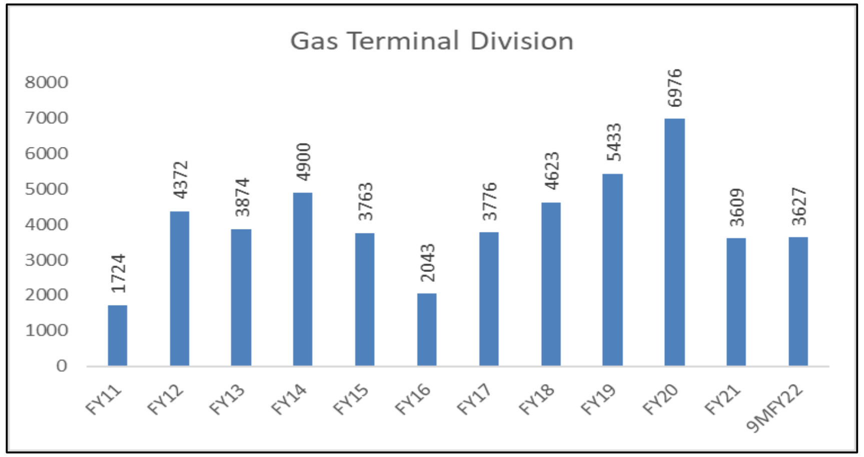
Industry Overview



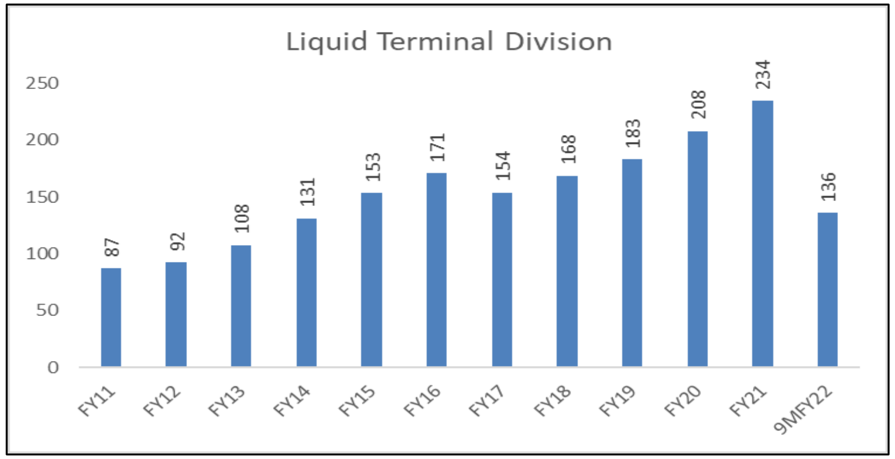
Operating Metrics

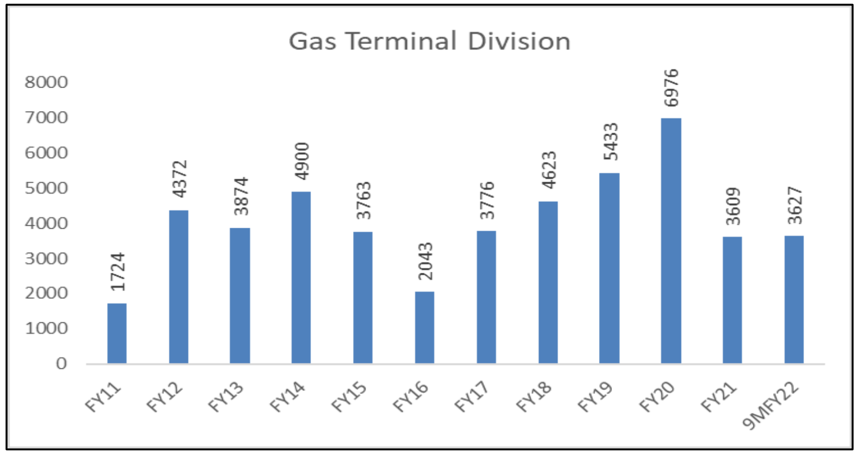
Revenue (Rs, Cr)





EBIT (Rs, Cr)





Financials (Consolidated) **We have not given effect to the transaction of JV with Vopak in the projections below**

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**7183**	**3843**	**3657**	**5812**	**6860**
Growth (%)	27.9	-46.5	-4.9	58.9	18.0
Operating Expenses	6907	3456	3130	5146	6098
EBITDA	**277**	**388**	**527**	**665**	**761**
Growth (%)	**-25.4**	**40.2**	**35.8**	**26.4**	**14.4**
EBITDA Margin (%)	**3.9**	**10.1**	**14.4**	**11.5**	**11.1**
Depreciation	69	72	80	87	91
EBIT	**208**	**316**	**446**	**578**	**671**
Other Income	33	37	37	41	41
Interest expenses	33	17	17	16	13
PBT	**208**	**336**	**466**	**604**	**699**
Tax	74	86	93	151	175
RPAT	**134**	**249**	**373**	**453**	**524**
Minority Interest	34	26	32	29	34
PAT after Minority Interest	**100**	**223**	**341**	**423**	**490**
APAT	**100**	**223**	**341**	**423**	**490**
Growth (%)	-55.0	124.3	52.8	24.0	15.7
EPS	2.8	6.4	9.7	12.1	14.0

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	34	35	35	35	35
Reserves	1621	1901	2137	2438	2787
Shareholders' Funds	**1655**	**1936**	**2173**	**2473**	**2822**
Long Term Debt	49	112	91	71	56
Net Deferred Taxes	31	81	77	73	69
Long Term Provisions & Others	332	373	284	257	234
Minority Interest	**91**	**109**	**141**	**170**	**204**
Total Source of Funds	**2156**	**2612**	**2764**	**3044**	**3385**
APPLICATION OF FUNDS					
Net Block & Goodwill	1919	2198	2075	2065	2039
CWIP	0	0	0	0	0
Other Non-Current Assets	150	318	303	304	319
Total Non Current Assets	**2069**	**2516**	**2378**	**2369**	**2358**
Current Investments	0	0	0	0	0
Inventories	42	52	20	32	38
Trade Receivables	454	94	210	334	395
Cash & Equivalents	271	336	434	568	804
Other Current Assets	85	120	126	132	158
Total Current Assets	**852**	**602**	**790**	**1066**	**1394**
Short-Term Borrowings	167	333	240	190	149
Trade Payables	402	75	70	111	132
Other Current Liab & Provisions	196	98	93	89	86
Total Current Liabilities	**764**	**506**	**404**	**391**	**367**
Net Current Assets	87	96	387	675	1027
Total Application of Funds	**2156**	**2612**	**2764**	**3044**	**3385**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	208	336	466	604	699
Non-operating & EO items	210	74	-37	-41	-41
Interest Expenses	33	17	17	16	13
Depreciation	69	72	80	87	91
Working Capital Change	-304	-7	-80	16	-33
Tax Paid	-69	-50	-93	-151	-175
OPERATING CASH FLOW (a)	**146**	**442**	**354**	**531**	**554**
Capex	-171	-359	-265	-225	-150
Free Cash Flow	-24	83	89	306	404
Investments	3	-96	0	0	0
Non-operating income	16	26	37	37	41
INVESTING CASH FLOW (b)	**-151**	**-428**	**-228**	**-189**	**-109**
Debt Issuance / (Repaid)	-14	133	95	-70	-56
Interest Expenses	-33	-17	-17	-16	-13
FCFE	-72	199	167	220	335
Share Capital Issuance	1	1	0	0	0
Dividend	-79	-56	-105	-123	-140
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	**-126**	**61**	**-27**	**-208**	**-209**
NET CASH FLOW (a+b+c)	**-131**	**74**	**99**	**134**	**236**

Key Ratios

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratio (%)					
EBITDA Margin	3.9	10.1	14.4	11.5	11.1
EBIT Margin	2.9	8.2	12.2	10.0	9.8
APAT Margin	1.4	5.8	9.3	7.3	7.1
RoE	6.0	11.5	15.7	17.1	17.4
RoCE	14.5	18.2	22.2	25.0	25.2
Solvency Ratio (x)					
Net Debt/EBITDA	0.8	1.1	0.6	0.4	0.3
Net D/E	0.1	0.2	0.2	0.1	0.1
Per Share Data (Rs)					
EPS	2.8	6.4	9.7	12.1	14.0
CEPS	5.8	9.1	12.9	15.4	17.5
Dividend	1.4	2.0	3.0	3.5	4.0
BVPS	47.1	55.2	61.9	70.5	80.4
Turnover Ratios (days)					
Debtor days	23.1	8.9	21.0	21.0	21.0
Inventory days	2.1	5.0	2.0	2.0	2.0
Creditors days	20.4	7.1	7.0	7.0	7.0
Valuation (x)					
P/E	77.7	34.6	22.7	18.3	15.8
P/BV	4.7	4.0	3.6	3.1	2.7
EV/EBITDA	27.8	20.2	14.5	11.2	9.4
EV / Revenues	1.1	2.0	2.1	1.3	1.0
Dividend Yield (%)	0.6	0.9	1.4	1.6	1.8
Dividend Payout (%)	49.3	31.4	30.8	29.0	28.7

(Source: Company, HDFC sec)

One Year Price Chart

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 cyclicality 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.

Disclosure:

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