

# Stock Update

Mishra Dhatu Nigam Ltd.

Nov 28, 2022





# Mishra Dhatu Nigam Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Aerospace & Defence	Rs. 237	Buy in the Rs. 235-239 band & add more on dips to Rs. 211-215 band	Rs. 262	Rs. 281	2 quarters

HDFC Scrip Code	MISDHA
BSE Code	541195
NSE Code	MIDHANI
Bloomberg	MIDHANI IN
CMP Nov 25, 2022	237
Equity Capital (Rs Cr)	187.3
Face Value (Rs)	10.0
Equity Share O/S (Cr)	18.7
Market Cap (Rs Cr)	4440.9
Book Value (Rs)	66.3
Avg. 52 Wk Volumes	787,734
52 Week High	268.9
52 Week Low	155.7

Share holding Pattern % (Sept, 2022)	
Promoters	74.0
Institutions	16.1
Non Institutions	9.9
Total	100.0



\* Refer at the end for explanation on Risk Ratings

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## Our Take:

Mishra Dhatu Nigam Ltd (MIDHANI) is under the administrative control of the Ministry of Defence's Department of Defence Production. The company manufactures a variety of super alloys, titanium and titanium alloys, special-purpose steels, controlled-expansion alloys, soft magnetic alloys, electrical-resistance alloys, molybdenum products, and other special products made as per customer specifications. The company also offers metallurgical testing, evaluation and consultancy services. Besides, Utkarsha Aluminium Dhatu Nigam Ltd is a 50:50 joint venture promoted by MIDHANI and National Aluminium Company Ltd, to set up a 60,000 tons per annum high-end aluminium alloy production plant in the Nellore district of Andhra Pradesh.

MIDHANI has been consistent in getting orders from defence, space, aeronautics, power and thermal power, electronics, telecommunications, engineering and other sectors. The open order position of MIDHANI as on date is around Rs 1,501 crore, of which defence (including sale to PSUs) is 55%, space is 35% and rest is others. Besides, the company signed an MoU with Indian Airforce for developing and indigenising various metal powders such as titanium alloys, aluminium alloys and special steel for additive manufacturing process for the production of aviation items. The company could shortly receive an order of bulletproof jackets.

The company's wide mill has started production with full capacity with encouraging prospects. The company is seeing export opportunities in nickel based super alloy plates and developing nickel based super alloy plates for desulphurisation units for power plants. The export turnover for FY22 was Rs 87 crore, a 348 percent growth YoY. Besides, armour factory at Rohtak plant has also commissioned and the company expects to report Rs 500 crore revenue from this plant.

On Sept 21, 2022, we had issued an Initiating Coverage report on Mishra Dhatu Nigam Ltd. ([Link](#)) and recommend to buy in the Rs. 218-222 band & add more on dips to Rs. 194 for base case target of Rs 242 and bull case target of Rs 260.5. The stock achieved its both targets before expiry of the period. Given healthy growth outlook and expectation of strong set of numbers in H2FY23, we have now revised earnings and target price.

## Valuation & Recommendation:

MIDHANI has established market position in manufacturing of super alloys with operating efficiency; the company has strong track record in signing and executing deals. Its wide plate mill and Rohtak plant have started production and both wide plate mill and Rohtak plant, could report at Rs 500 crore each in steady state over time. Sizeable revenue growth and steady operating margin of 28-30%, ensures healthy cash accrual and liquidity. It also manages its working capital well despite high inventory.



Its strong financial profile with healthy liquidity, negligible debt and attractive return ratio, on the back of good revenue visibility makes the stock attractive. However, margin pressure due to volatility in raw material prices and foreign exchange (forex) volatility, and large working capital requirement are some concern areas that need to be tracked.

Considering the company's strong financial profile, led by healthy profitability levels and return indicators and a comfortable capital structure, we have a positive view on the stock. **Investors could buy in the Rs 235- 239 band and add more on dips to Rs. 211- 215 band (17x FY24E EPS). Base case fair value of the stock is Rs 262 (21x FY24E EPS) and the bull case fair value of the stock is Rs 281 (22.5x FY24E EPS) over the next 2 quarters. At the CMP of Rs 237 the stock trades at 19x FY24E EPS.**

## Financial Summary (Consolidated)

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	181	188	-3.7	115	57.4	713	813	859	1,029	1,211
EBITDA	59	52	13.1	33	77.7	198	245	262	306	352
Depreciation	13	7	90.2	12	7.9	26	27	33	52	55
Other Income	9	2	290.6	7	26.2	36	20	32	37	39
Interest Cost	6	2	265.7	5	26.4	6	12	22	24	23
Tax	15	12	30.8	6	168.6	42	60	63	68	80
PAT after Minority Interest	34	34	-1.1	18	88.8	160	166	177	199	234
Adjusted PAT	34	34	-1.1	18	88.8	158	166	177	199	234
Diluted EPS (Rs)	1.8	1.8	-1.1	1.0	88.8	8.4	8.9	9.4	10.6	12.5
RoE-%						16.5	15.5	14.8	15.0	15.7
P/E (x)						28.1	26.7	25.1	22.3	19.0
EV/EBITDA(x)						22.6	18.4	17.7	15.1	13.3

(Source: Company, HDFC sec)

## Q2FY23 Result Update

- MIDHANI reported inline numbers led by higher scrap utilization; revenue was down by 3.7% YoY to Rs 181 crore while EBITDA increased by 13% YoY despite cost high power and raw material costs.
- EBITDA margin came in at 32.4% in Q2FY23 vs. 27.6% in Q2FY22
- Order book rose to Rs 1,501 crore and H1FY23 value of production (VoP) rose 41.8% YoY to Rs 480 crore.
- The company launched six new products at Def Expo-22. Also, 8t vacuum induction melt furnace has fully started at Rohtak (in Haryana) for producing armour plates.



## Key Update

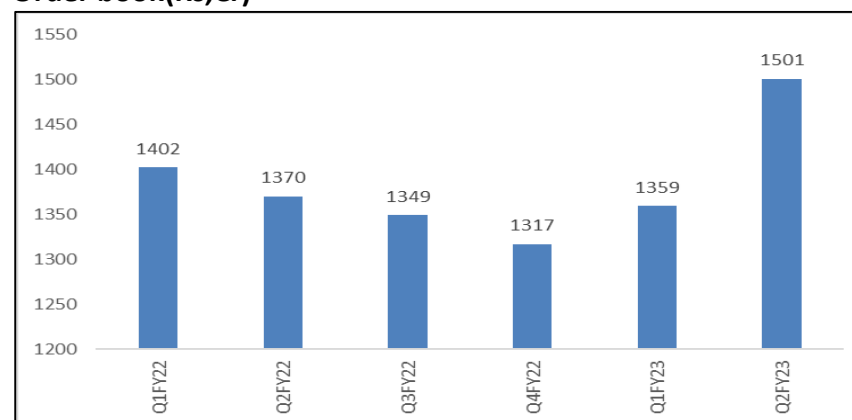
### Established market position and decent order inflows in manufacturing super alloys for strategic sectors

With a track record of more than three decades, MIDHANI has an established position as a leading supplier of wide range of super alloys to sectors such as defence, space, and atomic energy. MIDHANI has a capability to manufacture wide range of advanced products across the value chain, including melting, forging, rolling, wire drawing, investment casting, machining and quality testing. This capability has led to strong long term customer relationships and patronage from its major customers in the defense and space research sector. Over the years, the company has built a strong and mutually beneficial relationship with customers and partnered with many of key customers in the product development process, enabling products to meet their requirement along with ensuring repeat orders.

MIDHANI order book stood at Rs 1501 crore as on Sept 30, 2022 vs. Rs 1360 crore as on June 30, 2022 and Rs 1370 crore as Sept 30, 2021. and order book consists of 35% from Space, 55% from Defence, and 10% from other Energy and export related projects. The company is also working on projects related to axles, wheels for the Indian Railway, LHB orders of Rs 4-5 crore are in process of execution and the company is expecting more orders or works to the tune of Rs 15-20 crore.

MIDHANI has planned to take up few new projects and aims for geographical expansion and to operate from multiple locations. MIDHANI also intends to cater to sectors such as oil and gas, mining, power and railways. The company also signed a MoU with Indian Air Force for developing and indigenizing various metal powders such as titanium alloys, aluminium alloys, and special steel for additive manufacturing process for the production of aviation items. Inquiry related to bulletproof jackets is likely to convert into order inflow in the near term.

### Order book(Rs,Cr)



Defence Production and Export Promotion Policy 2020 (DPEPP 2020) is aimed at making India a leading country in the global defence and aerospace sectors. Midhani is an indirect beneficiary of this policy as the super alloys required in the manufacture in these sectors can be catered to by Midhani.



## **Expansion as well as modernization plans to enter into new business could bring more opportunities going forward**

MIDHANI's upgradation and modernization plan over the last decade contributed towards setting up of additional facilities, increase in production tonnage capacity and product diversity. The company has positioned itself to serve existing and new customers in domestic markets as well as entered into new business areas of strategic and national importance.

MIDHANI has decided for geographical expansion to operate from multiple locations and the company is in process of setting up two new manufacturing units in Nellore and facilities in Rohtak is almost in complete mode. Besides, the company is looking to enter into the new markets of oil and gas, mining, power, railways, chemical and fertilizers.

MIDHANI has set up a facility with a capacity of 60,000 springs per year to manufacture springs indigenously. The company has already received a few development orders from the railway board for the supply of springs for coaches and wagons.

MIDHANI is likely to get orders for Sukhoi engine parts going forward which could be a big trigger over time.

### **Expansion**

- MIDHANI and NALCO Joint Venture, Utkarsha Aluminium Dhatu Nigam Ltd. is setting up Aluminium Alloy Plant. The company proposes to manufacture High end Aluminium Alloy at Nellore, Andhra Pradesh. MIDHANI will contribute Rs. 170 crore as its equity contribution over the next 2-3 years. Key clearances such as pollution control approval, consent to operate, forest clearance have already been taken. The company has appointed a consultant for EPCM. Phase-1 completed. For phase-2, all tender documents are ready.
- The company is expecting good potential from space sector. Almost 300 satellites are awaiting launch. Projects are getting fast tracked in nuclear sector as well as in materials such as lattice tubes.

## **New projects launch and production starting from Rohtak facilities to generate additional revenue going forward**

MIDHANI has launched six new products in the recently concluded Def-Expo 22- Bio implants for orthopedics, dentistry etc, titanium valves and filters (application in nuclear submarine), materials supplied for PSLV and GSLV MK III, nickel alloy and titanium alloy casting (application in space and naval), forging facilities, composite armour panels for helicopter.

Taking into the consideration of increasing demand in global and domestic market for body armour, vehicle armour, and bullet-proof jackets, MIDHANI has set up a plant at Rohtak, Haryana, the construction of phase 1 and phase 2 has been completed. The company has resumed production of 8t vacuum induction melting at Rohtak facility. Armour steel has been developed for vehicle armouring. Of the initial order of 100 vehicles, 15 have been rolled out. The order book visibility for this facility is good and it has started the fiscal with order booking of about Rs 100 crore. Besides, MIDHANI commissioned wide plate mill in FY22 which includes an entire product range including Low alloys Steel, Stainless Steel, Titanium Alloys, Super Alloys, Armour Steel, and wide range of products. Midhani was outsourcing its requirement for plate mill, and, now, with in-house production at full capacity, it would save Rs 60 crore per annum. The company could achieve the revenue target



of Rs 500 crore each from both wide plate mill and Rohtak plant. We expect that the additional revenue from wide plate mill and Rohtak facility from H2FY23.

### **Collaboration with Boeing India for aerospace part to strengthen capabilities for producing critically advanced technology products**

Boeing India collaborated with MIDHANI to develop raw materials for standard aerospace parts and components in India. This would be a key step in building Boeing India supply chain – from raw material sourcing to supplying a finished product and it will further the firm's commitment for bolstering India's growing aerospace and defence ecosystem. The potential collaboration with MIDHANI will strengthen Boeing's supply base and increase material sourcing options from India. Partnering with Boeing on raw materials for the aerospace industry could strengthen its capabilities for producing critically advanced technology products in India.

### **Sound financial profile**

- MIDHANI's financial profile has been robust led by negligible debt, healthy cash generating ability and consistent dividend payment to shareholders over the past. Financial flexibility is strong, supported by robust liquidity.
- MIDHANI's revenues from operations rose from Rs 555 crore in FY15 to Rs 859 crore in FY22 - ~6.5% CAGR over the period. The company reported EBITDA margin at a range of 24-30.5% and PAT margin at a range of 16.5-20.5% over the last six years. Over FY22-24E, we expect MIDHANI's consolidated topline to grow at 18.7% CAGR, although the company has a target to grow @25% over the next few years.
- The company has healthy net worth and low gearing of Rs 1,243 crore and 0.3 times, respectively, as on Sept 30, 2022. Gearing has averaged to below 0.2 times over the past five years on account of low dependence on external borrowing following stable cash accrual and government funding for any major capex. Large customer advances and grants kept the short term debt at ~Rs 265 crore. Long term debt is negligible at Rs 54 crore, as on Sept 30, 2022. Debt protection metrics were healthy, with interest coverage ratios at 9.5x.
- Liquidity is supported by healthy net cash accrual, minimally utilised bank limit, low debt obligation and strong funding support from the government.
- The company has always been generous in declaring dividends, and has a track record of consistent on dividend payout to its shareholders over the periods. The dividend payout is close to ~33%.
- The inventory days has increased from 464 days as on Sept 30, 2022 to 549 days, payable increased from 75 days to 106 days, and the receivable days have decreased to 108 days from 130 days as on March 31, 2022.

### **What could go wrong?**

- Global and national economic slowdown, political, policy and civil uncertainty are key concerns. Besides, the company could see some challenges on supply of raw material disruptions on account of current conflict which is going between Ukraine and Russia which could put a lot of pressure in some of raw materials as well as the sales.
- Competition from private players and imports.



- MIDHANI manufactures & supplies materials / products for high performance applications which need critical raw materials as input. Raw materials like Nickel, Cobalt, Molybdenum are imported and sometimes due to business environment, availability & price is a challenge.
- The company imports all raw materials, such as nickel, cobalt, molybdenum, pure iron and titanium, the prices of which are highly volatile. Hence, profitability remains susceptible to fluctuations in raw material prices and forex rates.
- Working Capital days were high at 519 days as on March 31, 2022, mainly on account of large work-in-progress and finished goods inventory, given the prolonged production cycle. Moderation of inventory remains a key monitorable over the medium term.
- Customer portfolio of MIDHANI comprises more of government / government related organisations. Change in government priorities or any change in the national defence policy, may dilute the company's importance to the government and affect its order inflows.
- A significant portion of more than 70% of MIDHANI's products cater to strategic customers in sectors such as Space, Defence and Energy. Any slowdown in these could have a material adverse effect on business, financial condition, results of operations and future prospects.
- Any sustained rise in fuel and power costs could impact its margins as it is a big cost for Midhani.
- While the sales volumes of Midhani has gradually fallen over time, its realization has inched up reflecting its shift to value add products.

## Company Profile:

Mishra Dhatu Nigam Ltd (MIDHANI) Ltd, established in the year 1973 under Ministry of Defence as GoI enterprise. The company is one of the leading manufacturers of special steels, Super alloys and sole manufacturer of titanium alloys in India. The company manufactures special steels (martensitic steel, ultra-high strength steel, austenitic steel and precipitation hardening steel), three varieties of Super alloys (nickel base, iron base and cobalt base) and titanium alloys. The company provides high value niche products to end user segments, like defence, space, nuclear, power and aeronautics etc. The company has made strategic investment in a joint venture company M/s. Utkarsha Aluminium Dhatu Nigam Limited with NALCO for furtherance of its business in the area of Aluminium based alloys at Nellore, Andhra Pradesh which is moving in positive direction with respect to Government approvals.

Presently, more than seventy percent of MIDHANI's products (value wise) cater to strategic customers viz. Ordnance Factory Board (OFB), Defence Research & Development Organisation (DRDO), Indian Space Research Organisation (ISRO), Hindustan Aeronautics Ltd. (HAL), and Department of Atomic Energy (DAE) etc. In addition, MIDHANI also supplies special alloys and products to commercial sector including Larsen & Toubro, BHEL, Titanium equipment etc.

The primary raw materials used by the company for manufacturing various products are: (a) Nickel metal; (b) Cobalt metal; (c) Various Master Alloys; (d) Pure Iron; (e) Titanium sponge; (f) Chromium metal; (g) Mild Steel scrap/ Stainless Steel scrap; (h) High Carbon/ Low Carbon Ferro Chrome; (i) Aluminium metal; (j) Manganese Metal; and (k) Various Ferro alloys. The company has in-house metallurgical laboratories to cater to the testing required for products. As on 31st March, 2022, company has ~770 employees.



Alloy steels are produced by combining carbon steel with one or several alloying elements, such as manganese, silicon, nickel, titanium, copper, chromium and aluminium. These elements are added according to the desired physical properties such as increase in hardness, corrosion resistance, strength, ductility and the weld ability. The global Alloy Steel market size is projected to reach 1,51,810 US\$ million by 2026 from 1,38,830 US\$ million in 2020

### Key Operating Metrics

Particulars, Rs in Cr	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Sales(tonnage)	4687	4111	4732	5205	6150	4477	3685.2	3390	3556.2	3317
Sales (Value)	558.6	562.7	655.7	761.4	809.7	666.1	710.8	712.9	813.2	859.5
Value of Production(Excl. ED)	532.7	564.2	640.0	678.5	695.6	697.7	814.8	970.1	771.6	988.7
Value Added	360.0	376.2	436.4	478.6	538.2	548.5	522.1	593.5	601.6	668.7
Realisation per ton, Rs	1191790	1368786	1385674	1462918	1316598	1487778	1928905	2102878	2286778	2591167

### Peer Comparison

Company	Mkt Cap, Rs Cr	Sales			EBITDA			PAT			P/E			RoE-%		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
MIDHANI	4441	859	1029	1211	262	306	352	177	199	234	25.1	22.3	19.0	14.8	15.0	15.7
Astra Micro*	2909	735	852	1021	87	123	198	40	67	127	67.1	40.5	21.4	7.1	10.9	18.1
BEL	78392	15368	17503	19577	3341	3833	4297	2399	2530	2825	32.7	31.0	27.7	20.6	19.5	19.7
HAL	82309	24620	26094	28183	5408	6054	6637	5080	4237	4586	16.2	19.4	17.9	29.2	20.4	19.3

\*Bloomberg Consensus Est-

(Source: Company, HDFC sec)



## Financials (Consolidated)

### Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>713</b>	<b>813</b>	<b>859</b>	<b>1029</b>	<b>1211</b>
Growth (%)	0.3	14.1	5.7	19.8	17.6
Operating Expenses	515	568	597	723	859
<b>EBITDA</b>	<b>198</b>	<b>245</b>	<b>262</b>	<b>306</b>	<b>352</b>
<b>Growth (%)</b>	<b>7.6</b>	<b>24.1</b>	<b>7.0</b>	<b>16.8</b>	<b>14.8</b>
<b>EBITDA Margin (%)</b>	<b>27.7</b>	<b>30.2</b>	<b>30.5</b>	<b>29.8</b>	<b>29.1</b>
Depreciation	26	27	33	52	55
Other Income	36	20	32	37	39
<b>EBIT</b>	<b>208</b>	<b>238</b>	<b>261</b>	<b>291</b>	<b>336</b>
Interest expenses	6	12	22	24	23
<b>PBT</b>	<b>202</b>	<b>226</b>	<b>239</b>	<b>267</b>	<b>314</b>
Tax	42	60	63	68	80
<b>RPAT</b>	<b>160</b>	<b>166</b>	<b>177</b>	<b>199</b>	<b>234</b>
Minority Interest	0	0	0	0	0
<b>PAT after Minority Interest</b>	<b>160</b>	<b>166</b>	<b>177</b>	<b>199</b>	<b>234</b>
<b>APAT</b>	<b>158</b>	<b>166</b>	<b>177</b>	<b>199</b>	<b>234</b>
Growth (%)	21.1	5.2	6.1	12.6	17.5
EPS	8.4	8.9	9.4	10.6	12.5

### Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E
<b>SOURCE OF FUNDS</b>					
Share Capital	187	187	187	187	187
Reserves	769	884	1002	1136	1299
<b>Shareholders' Funds</b>	<b>957</b>	<b>1071</b>	<b>1190</b>	<b>1323</b>	<b>1486</b>
Long Term Debt	0	0	28	33	38
Net Deferred Taxes	31	34	35	38	40
Long Term Provisions & Others	711	712	725	711	697
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Source of Funds</b>	<b>1700</b>	<b>1817</b>	<b>1978</b>	<b>2104</b>	<b>2261</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	441	429	938	1010	1061
CWIP	405	549	132	145	160
Other Non-Current Assets	37	30	31	34	38
<b>Total Non Current Assets</b>	<b>882</b>	<b>1008</b>	<b>1101</b>	<b>1189</b>	<b>1259</b>
Current Investments	0	0	0	0	0
Inventories	911	801	1091	1058	1161
Trade Receivables	297	386	306	367	431
Cash & Equivalents	111	94	63	101	51
Other Current Assets	195	170	218	251	263
<b>Total Current Assets</b>	<b>1514</b>	<b>1451</b>	<b>1678</b>	<b>1776</b>	<b>1906</b>
Short-Term Borrowings	133	160	240	255	240
Trade Payables	129	86	176	197	232
Other Current Liab & Provisions	435	397	386	409	433
<b>Total Current Liabilities</b>	<b>697</b>	<b>643</b>	<b>802</b>	<b>861</b>	<b>905</b>
Net Current Assets	817	808	876	915	1001
<b>Total Application of Funds</b>	<b>1700</b>	<b>1817</b>	<b>1978</b>	<b>2104</b>	<b>2261</b>

(Source: Company, HDFC sec)



## Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	199	226	240	267	314
Non-operating & EO items	-13	-4	-15	-37	-39
Interest Expenses	6	12	21	24	23
Depreciation	26	27	33	52	55
Working Capital Change	31	-37	-157	-26	-132
Tax Paid	-45	-48	-70	-68	-80
<b>OPERATING CASH FLOW ( a )</b>	<b>204</b>	<b>176</b>	<b>52</b>	<b>212</b>	<b>140</b>
Capex	-272	-159	-126	-138	-125
Free Cash Flow	-67	17	-74	74	16
Investments	-20	0	0	-2	-2
Non-operating income	96	44	23	37	39
<b>INVESTING CASH FLOW ( b )</b>	<b>-195</b>	<b>-115</b>	<b>-103</b>	<b>-104</b>	<b>-87</b>
Debt Issuance / (Repaid)	27	27	107	20	-10
Interest Expenses	-6	-12	-21	-24	-23
FCFE	-46	31	12	70	-17
Share Capital Issuance	0	0	0	0	0
Dividend	-34	-52	-59	-66	-70
Others	83	40	7	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>70</b>	<b>3</b>	<b>34</b>	<b>-69</b>	<b>-103</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>79</b>	<b>64</b>	<b>-17</b>	<b>39</b>	<b>-50</b>

## Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
<b>Profitability Ratio (%)</b>					
EBITDA Margin	27.7	30.2	30.5	29.8	29.1
EBIT Margin	29.2	29.3	30.4	28.3	27.8
APAT Margin	22.2	20.5	20.6	19.3	19.3
RoE	16.5	15.5	14.8	15.0	15.7
RoCE	21.7	17.1	15.8	15.6	16.3
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	0.7	0.7	1.0	0.9	0.8
Net D/E	0.1	0.1	0.2	0.2	0.2
<b>Per Share Data (Rs)</b>					
EPS	8.4	8.9	9.4	10.6	12.5
CEPS	9.9	10.3	11.2	13.4	15.4
Dividend	2.6	2.8	3.1	3.5	3.8
BVPS	51.1	57.2	63.5	70.6	79.3
<b>Turnover Ratios (days)</b>					
Debtor days	152	173	130	130	130
Inventory days	466	359	464	375	350
Creditors days	66	38	75	70	70
<b>Valuation (x)</b>					
P/E	28.1	26.7	25.1	22.3	19.0
P/BV	4.6	4.1	3.7	3.4	3.0
EV/EBITDA	22.6	18.4	17.7	15.1	13.3
EV / Revenues	6.3	5.5	5.4	4.5	3.9
Dividend Yield (%)	1.1	1.2	1.3	1.5	1.6
Dividend Payout (%)	30.3	31.3	32.9	33.0	30.1



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. These 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.

**Disclosure:**

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