

# Stock Update Birlasoft Ltd.

October 09, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 512.70	Buy in the Rs. 505-520 band & add more on dips to Rs. 446-456 band	Rs. 560	Rs. 597	2-3 quarters

HDFC Scrip Code	BIRSOF
BSE Code	532400
NSE Code	BSOFT
Bloomberg	BSOFT IN
CMP Oct 06, 2023	512.7
Equity Capital (Rs Cr)	55.01
Face Value (Rs)	2.0
Equity Share O/S (Cr)	27.5
Market Cap (Rs Cr)	14,107.4
Book Value (Rs)	89.9
Avg. 52 Wk Volumes	415712
52 Week High	535.0
52 Week Low	250.35

Share holding Pattern % (June, 2023)	
Promoters	41.0
Institutions	35.8
Non Institutions	23.2
Total	100.0



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:

Birlasoft Ltd is a leading midcap IT company, providing IT services and products. The company is engaged in providing enterprise and digital technologies and focusing on four verticals—Manufacturing, E&U (Energy & Utilities), BFSI and Healthcare—with services spanning from ERP to data & analytics. The IT services business of KPIT Technologies merged with Birlasoft and the engineering business was demerged in Jan 2019. The company has focused on strengthening its leadership, rationalising the tail accounts, and increasing cross-sell & deal tenure of existing engagements.

Birlasoft signed deals worth \$146 mn in Q1FY24, indicating a strong pipeline for future engagements, out of which new deal wins' TCV stood at US\$ 80 mn, down 29% YoY and down 30% QoQ as deal closures were pushed from Q1 to Q2. Renewal deal wins stood at US\$ 66 mn, down 10% YoY and down 62% QoQ. The company has focused on adding service lines to its top 40 focused accounts, which contribute to ~75% of the revenue. The company expects to report US\$ 200 mn of signings every quarter going forward.

The company has strong traction in virtual engagement, cloud adoption, and digital transformation work. The company's focus on deepening relationship with existing large accounts and partners, vertical sales structure, leveraging of core and peripheral services, ramp-up of deal wins, and defined incentives of cross selling/ up-selling could drive revenue growth. Besides, change in management, organisation restructuring, hiring of new vertical leaders could lead to recovery in growth momentum going forward. The new CEO is focused on select verticals and Geo for which the company has hired vertical & Geo focused leaders. We expect that the company could report revenue growth at 7% and 13% for FY24E and 25E, respectively.

### Valuation & Recommendation:

Birlasoft is a CK Birla Group company, with long track record in providing IT services, diversified service portfolio, strong relationship with clients and alliances. The company's growth prospects in digital and cloud infrastructure services, sharpened focus to build key business verticals through a micro-vertical strategy and a focused effort to scale up contribution from top-tier clients, provides revenue visibility for Birlasoft in the medium term. Q1FY24 saw a dip in new TCVs as some deals got rolled over to Q2. Birlasoft plans to give salary hikes starting September 1st, which may have a negative impact on margins in the short term.

**We believe the base case fair value of the stock is Rs 560 (23x FY25E EPS) and the bull case fair value of the stock is Rs 597 (24.5x FY25E EPS) over the next two to three quarters. Investors can buy in Rs 505-520 band and add further on dips in the Rs 446-456 band (18.5x FY25E EPS). At the LTP of Rs 512.7, the stock is trading at 21.1x FY25E EPS.**



## Financial Summary (Consolidated)

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	1263	1154	9.4	1226	3.0	3,556	4,130	4,795	5,258	6,030
EBITDA	193	170	13.7	167	15.7	529	640	520	813	965
Depreciation	21	20	8.8	21	2.0	80	77	82	87	96
Other Income	14	15	-9.2	-2	-708.8	19	66	23	34	47
Interest Cost	4	3	30.0	4	6.5	13	13	19	17	17
Tax	44	42	5.7	28	59.8	134	153	111	185	229
APAT	138	121	13.9	112	22.6	321	464	450	559	670
Diluted EPS (Rs)	5.0	4.4	13.9	4.1	22.6	11.7	16.8	16.3	20.3	24.3
RoE-%						15.8	19.5	17.9	21.1	21.6
P/E (x)						44.0	30.4	31.4	25.2	21.1
EV/EBITDA (x)						24.5	20.1	25.0	15.6	12.7

(Source: Company, HDFC sec)

### Q1FY24 Result Update

- Birlasoft numbers were above expectations amid challenging environment, however revenue and earnings during the quarter reflected the receipt of US\$ 2 mn for disengagement of Birlasoft Solutions Inc and Invacare.
- Revenue was up by 3% QoQ and 9.4% YoY to Rs 1262.8 crore in Q1FY24. Revenue grew by 3.1% QoQ and 3.4% YoY to US\$ 153.6 mn, and in constant currency terms revenue was up by 2.7% QoQ.
- EBITDA grew 15.7% QoQ and 13.7% YoY to Rs 193 crore and EBIT grew by 17.6% QoQ and 14.4% YoY to Rs 171.7 crore and EBIT margin stood at Rs 13.6% in Q1FY24 vs. 11.9% in Q4FY23 and 13% in Q1FY23.
- The company reported net profit growth of 22.6% QoQ and 13.9% YoY to Rs 137.5 crore in Q1FY24 and net profit margin was at 10.9% in the quarter vs. 9.1% in Q4FY23 and 10.5% in Q1FY23.
- Birlasoft's headcount increased to 12,235, and the company plans to continue hiring in the coming quarters. The company also recorded 18.8% attrition rate in the quarter on TTM basis.

### Key Updates

#### Robust order book brings strong earning visibility

Birlasoft signed deals worth \$146 mn in Q1FY24, indicating a strong pipeline for future engagements, out of which new deal wins' TCW stood at US\$ 80 mn, down 29% YoY and down 30% QoQ as deal closures were pushed from Q1 to Q2. Renewal deal wins stood at US\$ 66 mn, 10% down YoY and 62% down QoQ. Birlasoft has higher deal velocity than stronger peers Persistent, LTIMindtree and Zensar—1.7x total book-to-bill as compared to peers ranging from 1x to 1.6x.



Furthermore, with effective client-mining, the company's revenue contribution from Top-5/top-10/Top-20 customers grew to 33.3%/49.6%/63.9% in Q1FY24 from 30.5%/44.4%/60.4% in Q1FY22. Going forward, the company's deal wins are expected to remain healthy with dedicated strategies from the company to drive growth in medium term. The current headwinds in the form of macro uncertainty, higher inflation, supply chain disruptions, are expected to impact the growth going forward for the IT industry as a whole including Birlasoft. The company has focused on adding service lines to its top 40 focused accounts, which contribute to ~75% of the revenue. The company expects to report US\$ 200 mn of signings every quarter going forward.

### **Birlasoft's BFSI segment could perform sub-par growth going forward but greater push expected soon**

Birlasoft has the lowest share of its revenue from the BFSI vertical as compared to its peers; BFSI contributed to 20.7% to the revenue in Q1FY24, as compared to peers that range from 30% to 60% of revenue. The lower mix has also mitigated the impact of a sub-par performance in its BFSI vertical as compared to peers historically. Growth for peers has ranged from 10 to 30% CAGR over the past three years as compared to Birlasoft which is lagging at ~10% revenue CAGR.

Birlasoft has healthy deal pipeline excluding any exposure to the mortgage segment. The company's BFSI portfolio constitutes (1) lending, (2) cards & payments, and (3) cybersecurity and GRC services; and the company doesn't have exposure to regional banks in the US. We expect that the leadership change could push the BFSI vertical's exposure and also de-risk the vertical from large client concentration; this has started reflecting in deal flow.

Birlasoft has embarked on a cultural and organizational transformation program with the leadership change and appointment of new P&L heads across verticals. Recently, the company has hired ~25 leaders externally and promoted ~25 leaders internally and >90% of the revamp is complete.

### **Strategic alliance with various partners and ties up with Microsoft to establish Generative AI CoE to widen its service offerings**

Birlasoft has entered into strategic alliances with various business partners to widen the gamut of its service offerings. The company's key alliances include Microsoft, Oracle, JD Edwards, SAP, Infor, AWS, Google, Salesforce, etc. Birlasoft is a Microsoft Gold Certified partner with competencies in multiple technology areas, including, Microsoft Dynamics Partner for Enterprise Solution Implementation, Microsoft Azure Cloud among others. The company continues to grow its relationships and partnerships with various platform providers, which aids in winning long-term transformational deals.

Birlasoft is a Platinum partner of Oracle with 20 specialisations and five advanced specialisation services. Oracle Platinum is the highest tiering in the Oracle partner network. Oracle Platinum partners get priority access to Oracle's internal development teams and executives and Birlasoft's Oracle practice stood at US\$ 150mn annual rate including the cloud component. Its Oracle expertise is higher than some larger peers such as HCL Tech and KPMG. Within its Oracle portfolio, 90% is ERP and the remaining 10% is HCM. (ERP: enterprise resource planning, HCM: Human Capital Management)



Birlasoft has established a Generative AI Centre of Excellence (CoE), in collaboration with Microsoft to accelerate value creation and foster innovation in the adoption of Generative AI, to deliver cutting-edge enterprise solutions across industries. The Generative AI CoE brings together the combined strengths of Birlasoft's deep industry expertise and Microsoft Azure OpenAI Service. It will serve as a hub for Birlasoft and Microsoft experts to facilitate research, training, and collaboration. The continual advancements in Generative AI are opening up endless possibilities for various industries. Birlasoft will focus on key use cases across different verticals.

- For Manufacturing sector, Birlasoft will use Azure OpenAI Service capabilities for product design, process optimization, quality and defect detection, as well as predictive maintenance and digital twins.
- In the Life Sciences and Pharmaceutical domain, Birlasoft will utilize generative AI solutions for drug discovery, design, and data augmentation.
- For Energy and Utilities sector, the company aims to enhance field service engagements leveraging Generative AI.
- In the Banking, Financial Services, and Insurance domain, focus areas for Generative AI include automated claims handling, summarizing financial reporting, and improving search capabilities.

Birlasoft's long-standing relationship with Microsoft has enabled enterprises to accelerate their digital transformation journey. Through this collaboration, Birlasoft will train 500 consultants on generative AI technologies, principles, and best practices. Additionally, they will work together on building over 50 use cases, focusing on value creation across the various verticals and sub-verticals served by Birlasoft. With the Generative AI CoE, the company will deliver innovative solutions that empower organizations to make informed decisions and stay ahead in a highly competitive landscape.

### **Margins are expected to rise going forward**

Birlasoft EBITDA margin expanded by 170bps QoQ to 15.3%, on lower gross margins as well as lower SG&A expenses, while EBIT margin was up by 160 bps QoQ to 13.6% in Q1FY24. Net profit margin stood at 10.9% vs. 9.1% in Q4FY23. Birlasoft's other expenses and subcontracting cost are comparatively higher than its peers, which provides large scope for optimization and improvements in margins. Attrition has moderated to 18.8% in Q1FY24 from 22.1% in Q4FY23. We expect that attrition could come off in near term due to salary hikes. Birlasoft plans to give salary hikes starting Sept 01, which may have a negative impact on margins in the short term.

Margin improvement could reflect in H2FY24, on account of lower supply side challenges and moderated attrition, improving business mix as BFSI could outpace other verticals, recovery in Life Science margin, and optimization in other expenses, S&GA and subcontracting cost going forward. The company is optimistic and expecting to report EBITDA margin at 16%. We expect EBITDA margin at 15.5% and 16% for FY24E and FY25E, respectively.

### **Strong fundamentals led by healthy debt protection metrics and liquidity**

- Birlasoft financial profile remains healthy marked by stable earnings, sizeable network, and strong liquidity with large cash reserves, healthy capital structure and coverage metrics. The company reported 16.1% YoY consolidated revenue growth to Rs 4795 crore in FY23.





- The company has achieved substantial and sustained growth in revenue and profit, revenue CAGR of 13.4% and 26% of PAT CAGR over the past three years. We expect that the company could report revenue and PAT CAGR of 12% and 22% over the FY23 to FY25E, respectively.
- Birlasoft maintained strong cash and liquidity positions. Cash and equivalents stood at Rs 1312 crore as on June 30, 2023 vs. Rs 1117 crore (net of borrowings), as on March 31, 2023. DSO days stood at 69 days vs. 75 days in FY23. Birlasoft's strong liquidity position is supported by strong cash levels, positive cash flow from operations and a moderate capex requirement.
- Birlasoft enjoys healthy capital structure and zero debt status which will continue to remain so due to no major debt-funded expansion plans over the medium term.
- Birlasoft has always been generous in declaring dividends over the last 16 years. The company recommended Rs 3.5 per share as a dividend to the shareholders for FY23. We expect dividend Rs 5.5/6.5 per share to shareholders in FY24E/FY25E, respectively.
- Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future, we expect RoE at 21-21.5% in FY24E and FY25E, respectively.

### What could go wrong?

- Indian rupee appreciation against the USD/Euro, pricing pressure, retention of the skilled headcounts, strict immigration norms or new local regulations and rise in visa costs are key concerns.
- Birlasoft has presence in a highly competitive industry which faces pricing pressure, deal re-negotiations, deferrals, retention of talent, etc., and which are expected to have a direct bearing on the company's revenue growth and profitability.
- Birlasoft revenue from the US contributed 84% and Europe 10% in Q1FY24. This exposes the company to the risk of economic slowdown and client's cautious approach on IT spending in these regions, as well as regulatory changes such as restriction on H1B visas. Any geopolitical risk or economic uncertainty could impact its business.
- The company has client concentration risk, top-5/top-10 clients/top-20 contributed 33.3%/49.6%/63.9% in Q1FY24, any cancellation of deal from such clients could impact its revenue. However, the company's established relationships with its top customers to mitigate this risk to an extent.
- Manufacturing, BFSI and Healthcare segments contributed more than 85% to the revenue in Q1FY24. Continue fall in spending for these segment could impact its revenue generation further going forward,
- Birlasoft faces intense competition from tier-1 IT players and well-established tier-2 players, which limits its pricing/bargaining power with customers. Additionally, the trading nature of its low-margin distribution business can drag its profits.
- Any change in the contract terms from large clients like non-renewal of contracts or higher discounts due to aggressive competition intensity can impact the sustainability and scalability from such clients.
- Birlasoft had signed a \$240 million multi-year deal with Invacare in October 2019 to provide IT services to the manufacturer of wheelchairs, bariatric equipment, disability scooters and respiratory products. The deal was expected to be spread over a period of



10 years. However, Invacare has filed for bankruptcy protection in Feb 2023. As per the settlement agreement, Birlasoft would receive US\$2 mn for disengagement services ending on May 31. The settlement is significant, as Invacare’s bankruptcy pushed Birlasoft into loss in the December quarter. The IT services firm had created a provision of Rs 151 crore against any outstanding receivables and contract assets. Further, any adverse development from client end could hit revenue generation and could increase receivable going forward.

- Higher than expected debt funded capex or acquisition leading to deterioration in profitability and could impact cash generation.

### Operating Metrics

#### Revenue-mix (%)

##### Performance by Geography

%	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Americas	78.3	79	80.7	82.2	82.9	82.2	84.9	84.1	83.7	85.3	84
Europe	13	12.5	11.8	10.5	10.7	11.2	9.2	9.6	10.3	9	10.1
RoW	8.7	8.5	7.5	7.3	6.4	6.6	5.9	6.3	6	5.7	6

##### Delivery Mix (% of revenue)

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
- Onsite	55.3	53.9	51.4	50.8	50.5	50.1	51.1	48	48.9	48.6	49
- Offshore	44.7	46.1	48.6	49.2	49.5	49.9	48.9	52	51.1	51.4	51

##### Revenue by Contract (% of revenue)

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
- T&M	42.3	39.5	41.6	43	41.8	39.3	40.8	40.2	39.2	38.3	38.5
- Fixed Price	57.7	60.5	58.4	57	58.2	60.7	59.2	59.8	60.8	61.7	61.5

### Peer Comparison

Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			RoE-%			P/E-x		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
<b>Birlasoft</b>	14107	4795	5258	6030	438	726	869	450	559	670	17.9	21.1	21.6	31.4	25.2	21.1
<b>Zensar Tech</b>	12010	4848	5043	5615	369	715	806	328	586	651	11.3	17.9	18	37.1	20.6	18.6
<b>Cyient</b>	18627	6016	7091	8203	767	1045	1256	565	752	904	17.2	20.6	22.2	32.9	24.7	20.6



## Financials (Consolidated)

### Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>3556</b>	<b>4130</b>	<b>4795</b>	<b>5258</b>	<b>6030</b>
<b>Growth (%)</b>	<b>8.0</b>	<b>16.2</b>	<b>16.1</b>	<b>9.7</b>	<b>14.7</b>
Operating Expenses	3026	3490	4274	4445	5065
<b>EBITDA</b>	<b>529</b>	<b>640</b>	<b>520</b>	<b>813</b>	<b>965</b>
<b>Growth (%)</b>	<b>35.0</b>	<b>21.0</b>	<b>-18.7</b>	<b>56.2</b>	<b>18.8</b>
<b>EBITDA Margin (%)</b>	<b>14.9</b>	<b>15.5</b>	<b>10.9</b>	<b>15.5</b>	<b>16.0</b>
Depreciation	80	77	82	87	96
<b>EBIT</b>	<b>449</b>	<b>564</b>	<b>438</b>	<b>726</b>	<b>869</b>
Other Income	19	66	23	34	47
Interest expenses	13	13	19	17	17
<b>PBT</b>	<b>455</b>	<b>617</b>	<b>442</b>	<b>743</b>	<b>899</b>
Tax	134	153	111	185	229
<b>RPAT</b>	<b>321</b>	<b>464</b>	<b>332</b>	<b>559</b>	<b>670</b>
<b>APAT</b>	<b>321</b>	<b>464</b>	<b>450</b>	<b>559</b>	<b>670</b>
<b>Growth (%)</b>	<b>43.1</b>	<b>44.5</b>	<b>-3.0</b>	<b>24.3</b>	<b>19.8</b>
<b>EPS</b>	<b>11.7</b>	<b>16.8</b>	<b>16.3</b>	<b>20.3</b>	<b>24.3</b>

### Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E
<b>SOURCE OF FUNDS</b>					
Share Capital	55	56	55	55	55
Reserves	2124	2527	2393	2801	3292
<b>Shareholders' Funds</b>	<b>2180</b>	<b>2583</b>	<b>2448</b>	<b>2856</b>	<b>3347</b>
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	-88	-92	-117	-117	-117
Long Term Provisions & Others	180	140	115	115	115
<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>2272</b>	<b>2631</b>	<b>2446</b>	<b>2854</b>	<b>3345</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	698	726	736	723	717
CWIP	7	2	6	6	6
Other Non-Current Assets	75	73	84	84	84
<b>Total Non Current Assets</b>	<b>780</b>	<b>801</b>	<b>826</b>	<b>813</b>	<b>807</b>
Inventories	0	0	0	0	0
Trade Receivables	632	849	907	1024	1207
Cash & Equivalents	1119	1226	1117	1459	1836
Other Current Assets	375	416	220	229	245
<b>Total Current Assets</b>	<b>2126</b>	<b>2491</b>	<b>2244</b>	<b>2712</b>	<b>3288</b>
Short-Term Borrowings	0	0	0	0	0
Trade Payables	132	210	231	254	291
Other Current Liab & Provisions	503	450	393	418	460
<b>Total Current Liabilities</b>	<b>634</b>	<b>660</b>	<b>624</b>	<b>671</b>	<b>750</b>
Net Current Assets	1492	1831	1620	2041	2538
<b>Total Application of Funds</b>	<b>2272</b>	<b>2631</b>	<b>2446</b>	<b>2854</b>	<b>3345</b>

(Source: Company, HDFC sec)





## Cash Flow Statement

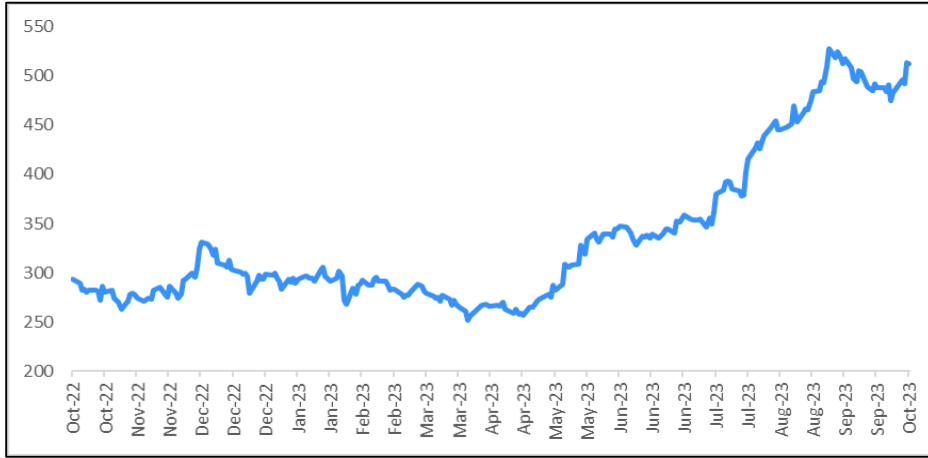
(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	455	617	442	743	899
Non-operating & EO items	-8	9	229	-26	-35
Interest Expenses	13	13	19	17	17
Depreciation	80	77	82	87	96
Working Capital Change	84	-256	-80	-78	-120
Tax Paid	-67	-178	-131	-185	-229
<b>OPERATING CASH FLOW ( a )</b>	<b>558</b>	<b>281</b>	<b>561</b>	<b>559</b>	<b>629</b>
Capex	-25	-64	-58	-73	-90
Free Cash Flow	533	217	503	485	538
Investments	0	0	0	0	0
Non-operating income	-420	-243	309	26	35
<b>INVESTING CASH FLOW ( b )</b>	<b>-444</b>	<b>-307</b>	<b>252</b>	<b>-48</b>	<b>-55</b>
Debt Issuance / (Repaid)	-39	-41	-40	0	0
Interest Expenses	-2	-3	-9	-17	-17
FCFE	491	173	453	468	521
Share Capital Issuance	0	8	13	0	0
Dividend&Buyback	-55	-111	-599	-151	-179
<b>FINANCING CASH FLOW ( c )</b>	<b>-97</b>	<b>-147</b>	<b>-636</b>	<b>-168</b>	<b>-196</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>17</b>	<b>-173</b>	<b>176</b>	<b>343</b>	<b>377</b>

## Key Ratios

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability Ratio (%)</b>					
EBITDA Margin	14.9	15.5	10.9	15.5	16.0
EBIT Margin	12.6	13.6	9.1	13.8	14.4
APAT Margin	9.0	11.2	9.4	10.6	11.1
RoE	15.8	19.5	17.9	21.1	21.6
RoCE	15.6	19.3	18.3	21.6	22.0
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	-2.1	-1.9	-2.1	-1.8	-1.9
Net D/E	-0.5	-0.5	-0.5	-0.5	-0.5
<b>PER SHARE DATA (Rs)</b>					
EPS	11.7	16.8	16.3	20.3	24.3
CEPS	14.5	19.4	19.5	23.5	27.8
BV	78.8	92.8	89.9	103.8	121.6
Dividend	3.5	4.5	3.5	5.5	6.5
<b>Turnover Ratios (days)</b>					
Debtor days	65	75	69	71	73
Inventory days	0	0	0	0	0
Creditors days	14	19	18	18	18
<b>VALUATION (x)</b>					
P/E	44.0	30.4	31.4	25.2	21.1
P/BV	6.5	5.5	5.7	4.9	4.2
EV/EBITDA	24.5	20.1	25.0	15.6	12.7
EV / Revenues	3.7	3.1	2.7	2.4	2.0
Dividend Yield (%)	0.7	0.9	0.7	1.1	1.3
Dividend Payout (%)	30.0	26.7	21.4	27.1	26.7



## 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 cyclical 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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