

# Value Research Industry Classification

## Overview

Our legacy classification system was based on two-tier: Sector and Industry classification. However, a new multi-level classification system was required with the growing complexity of businesses and globalisation. The old system had become redundant and outdated. It failed to provide a holistic view of the industries, and peer comparisons were not possible.

The four-tier classification system has been developed to fulfil the need for a unified system that inculcates the diverse nature of companies today. The new levels of classification are flexible enough to incorporate global companies and new-age businesses that didn't exist before.

The new classification system comprises 12 sectors, 28 industry groups, 63 industries, and 437 sub-industries.

## Key features of the Value Research industry classification

**Universally accepted:** The four-tier system can capture the various dimensions and growing diversity within sectors.

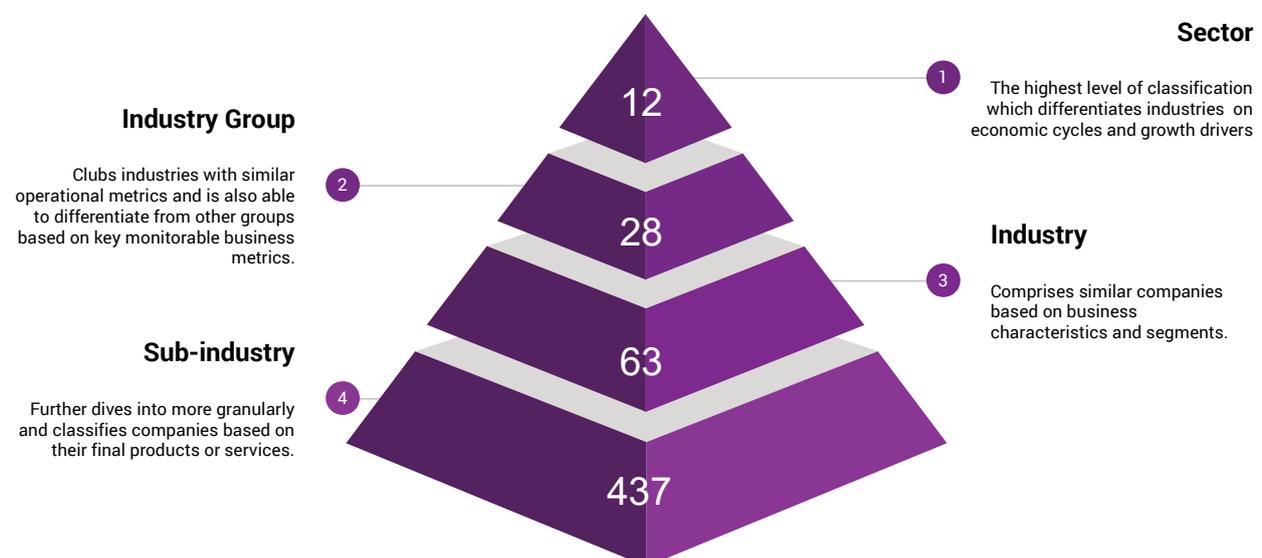
**Captures multiple dimensions:** The tier system can capture both the nature of operations, such as service, manufacturing or trading and the industry it is exposed to.

**Flexible:** The multiple levels of classification make the grouping more flexible, such as two companies offering the same products but to different segments, such as B2B and B2C, are classified differently.

**Efficient peer comparison:** The classification system is robust so that the companies within the same sub-industries are close enough to each other. Moreover, one can move one level up to the industry level to get a broader set of peers.

**Closely monitored and updated:** We monitor any major changes in the business activities and keep the system updated.

## The Value Research industry classification structure



## Sectors

The sectors are the highest level of classification. It groups the companies according to their economic behaviour or nature. The fate of each sector is largely not directly related to other sectors. Sectors have their distinct economic cycles and growth drivers.

For example, Consumer Staples is a non-cyclical consumer sector. Consumer discretionary is a cyclical consumer sector.

### The different sectors are:

- Consumer Staples
- Consumer Discretionary
- Energy & Utilities
- Materials
- Real Estate
- Industrials
- Technology
- Healthcare
- Financial
- Diversified
- Entities
- Unclassified

## Industry Group

Industry groups are the second level of classification. It clubs industries with similar operational metrics and can also differentiate from other groups based on key monitorable business metrics. For example, the industry group - Technology Hardware and Equipments comprises all the manufacturing companies in the Technology sector, and Technology Services comprises service companies. The industry groups have a different yardstick to measure their business performances.

## Industry

The industry is the third tier of classification, which clubs similar companies based on business characteristics and segments. They, sort of, also represent a conglomerate with underlying different sub-industries segments.

## Sub-Industries

The fourth tier, sub-industry, further dives into more granularity and classifies companies based on their final products or services. The sub-industry holistically tries to capture all kinds of products and services offered globally, and companies within the same sub-industries are the closest competitors.

## Methodology of classification

- The industry classification is done at the entity level. It will be the same for an entity that has issued equity shares, debentures, or any other securities.
- The four-tier system classifies a company on its principal business activity. The business activity which generates the majority of revenue for the company is considered the principal activity. However, if the revenue split amongst the various business activities is vague, then the earnings from the segments are considered for specifying the industry or sub-industry.
- A company is classified into that sub-industry whose definition closely describes the business activity of the company.
- If a company operates in multiple segments and products but operates in the same industry, then it is classified as - a diversified version of that industry. For example, a company operating in multiple products, such as bakery, edible oil and frozen foods, then it will be classified as Food Processing - Diversified as a sub-industry.
- Suppose a company's business activities are much more diverse and fragmented across different sectors and industries. In that case, those companies are classified under the Diversified sector and assigned a respective sub-industry.
- An 'Unclassified' sector is created for securities that can not be classified in any other sector, such as mutual funds, ETFs, sovereign gold bonds, etc.
- Publicly available data, such as annual reports, annual and quarterly segment results and the company's website, etc., are used when assigning a sub-industry to a company.
- The new four-tier classification assigns a company to a sub-industry, and then it gets assigned to the corresponding industry, industry group and sector.
- The classification is strictly hierarchical and unique. A company can be assigned to only one sub-industry, which ultimately assigns it to only one industry, one industry group and one sector. The classification hierarchy is as follows:

**For example:** Considering a company whose major revenue is generated from manufacturing shoes, then it is assigned as:

**Sub-Industry:** Footwear

**Industry:** Apparel & Footwear

**Industry Group:** Textiles, Apparel and Accessories

**Sector:** Consumer Discretionary