

MOSt VALUE

A monthly newsletter on value investing



MOTILAL OSWAL™

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From the desk of

Raamdeo Agrawal

Dear Friend,

September has been one of the remarkable months when market moved by over 10%. To justify the current levels, one should look at corporate earnings being declared in October. Going by the estimates, the overall earnings growth would be about 14-15% but some of the sectors particularly in capital goods, retailing, telecom, construction, etc. the earnings growth will be very strong.

The spread of the monsoon has been extremely good. The credit flow to the rural as well as the urban economy has been very strong. The wealth effect of the rising asset prices (stocks, real estates, gold, etc.) is building up.

The consumers' confidence across the country is rising steadily but surely. The Companies that are selling consumer products like HLL, Bajaj Auto, Asian Paints, Britannia, Nestle, etc. have all been doing very well. If outsourcing is a great opportunity pertaining to I.T. and other services, the rise of the consumer would be yet another opportunity in the background where economy is likely to keep growing at about 7% in the next 3-4 years. The low interest rate and huge liquidity in the system are also propelling the growth of durables. The advent of credit cards is fuelling the consumer boom. Banks who give consumer lending like ICICI & HDFC Banks and to some extent SBI, will reap rich rewards. All the indications are leading to show that the 2nd half of this year will be extremely strong for all these companies' businesses.

The markets have defied everybody's expectations of a deep correction and propelled into an absolutely new zone. What is required is to find undervalued stocks and just sit with them. The rest will be done by the market participation. I reiterate, the money is made by sitting not by flipping.

Wishing you successful investing!

Sincerely yours,



Raamdeo Agrawal

Streetsmart



WEALTH CREATION THOUGHT

If you find yourself caught in 'market frenzy' go for a walk and cool down

Our Products & Services

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(Equities & Derivatives)**
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* Through Motilal Oswal Commodities Broker Pvt. Ltd.

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Fax : 91 (22) 2281 6161 • Email : info@motilaloswal.com

Model Retail Portfolios

Select the portfolio that best suits your risk profile.

Scrip	MBP*	Wtg.*	%	First Reco.	
				Date	Price
AGGRESSIVE - HIGH RISK, HIGH RETURNS					
Apollo Tyres	274	H	10	Apr-05	280
ONGC	980	H	10	Feb-05	850
TRF	167	M	10	Jul-05	162
IDFC	65	M	10	Aug-05	58
Bharti Tele	311	M	9	Aug-03	48
EIH Associates	108	M	8	Jan-05	33
Rallis	340	H	5	Nov-04	120
Tricom India	176	L	5	Jul-05	170
Dhamapur Sugar	169	L	5	Feb-05	155
Nagarjuna Fertilizers	16	L	5	Dec-04	13
Investment %			77		

Our Aggressive Portfolio works on the principle of 'no pain no gain'. The target returns are high at 30%. Portfolio includes commodity, cyclical and small-cap stocks.

MODERATE - LOW RISK, LOW RETURNS					
EIH Associates	108	H	11	Aug-04	33
SBI	780	H	11	Mar-03	260
Nagarjuna Fertilizers	16	M	8	Dec-04	13
Siemens	2,292	M	8	Aug-04	915
ONGC	980	M	8	Feb-05	850
Bharti Tele	311	L	8	Aug-03	48
Vindhya Telelink	195	M	8	Aug-05	206
Rallis	340	H	6	Nov-04	120
Indian Oil	421	L	5	Dec-03	375
Investment %			73		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

DEFENSIVE - LOW RISK, LOW RETURNS					
United Phos	959	H	12	Jan-05	700
Siemens	2,292	H	12	Aug-04	915
SBI	780	M	10	Nov-02	375
ONGC	980	M	10	Feb-05	850
Hindustan Lever	163	M	9	Dec-04	130
Tata Chemicals	185	M	7	New Entry	185
Union Bk	126	L	5	Dec-04	90
Tisco	389	L	5	Feb-05	420
Indian Oil	421	L	5	Dec-03	375
Glaxo Pharma	875	L	5	Mar-04	800
Amtek Auto	274	M	5	Sep-05	235
Investment %			85		

Our Defensive Portfolio is exposed to very low capital erosion risk and yet, could generate annualized returns of 15%. Recommended for investors with low risk appetite, e.g. retired or aged individuals.

MOVE TO CASH

The markets remained in a continuous upswing for the last month as the Bulls took the Sensex to all time high after some minor dips and a major crash. The crash in mid September was on the back of some tough talking by government to cool off the overheated penny stock universe, tightened margin-funding norms, raids on some brokers. During the month Sensex was up by 10.4 %, our aggressive portfolio saw an appreciation of 7.4%, moderate & defensive portfolios were up by 8.1% & 6.9% respectively.

As we are monitoring portfolio on a daily basis, addition or deletion of stocks are being communicated through morning conference calls or AWACS. Please keep in touch with your relationship manager for any changes. We have booked profit in Birla Corporation, TNPL and Nagarjuna Agrichem and added our new research idea Amtek Auto in our defensive portfolio during the month.

At current levels, we recommend our investors to increase the cash component in the portfolio. The sensex has witnessed a sharp run of almost 1000 points and new triggers on the earnings visibility front will be known from second week of October as Q2FY06 results start to trickle in. Thus it would be a better strategy to look out for opportunities post second quarter results rather than gyrating along with the sensex in volatile times like these. The cash component in all the portfolios stands as follows, 23% for aggressive, 27% for moderate and 15% for defensive portfolios.

Sector	Allocation (%)		
	Agg.	Mod.	Def.
Agrichem	5	6	12
Auto Ancillaries			5
Banking	10	11	15
Engineering	10	8	12
Fertilizers	5	8	7
FMCG			9
Hotels	8	11	
Oil & Gas	10	13	15
Pharmaceuticals			5
Software	5		
Steel			5
Sugar	5		
Telecommunication	9	16	
Tyres	10		
Total	77	73	85

Move 30% To Cash

The age-old proverb "A bird in hand is better than two in the bush" is most relevant in today's market scenario. The markets have been literally on fire as the sensex clocked 10% growth in last month itself. Post a low of 6138 on 29th April 2005, the last major bottom of the market, till 29th Sept (the date on which this report was prepared); gains have been nothing short of startling. From the table it is crystal clear that the Bull Run has been across all the nooks and corners of the Dalal Street. Neither of the sectors has been left behind nor investors of MOST hopefully.

The leaders of the rally are ICICI Bank, Reliance, ITC, Bharti and SBI while the laggards are Ranbaxy, Grasim, Reliance Energy, Wipro and TISCO.

However there are some dangers signs in the below mentioned table itself. The small-cap and penny stocks have been the biggest gainers as the investors have lapped them up in great numbers. The pace of the rally has been the fastest in this class of equity & the correction would be equally fast.

Also as per our July 2005 India strategy report, our 12-month Sensex target of 8281 was achieved in three months time. The rally from 6140 levels in April 2005 to 8700 levels in Sept 2005 has seen virtually no

corrections except the sell off in the fag end of August at 7920 levels where the markets took a breather before moving up again. Post such one-way movement a breather is welcomed.

The Q2 FY06 numbers are now round the corner and as the base is higher, the kind of robust growth seen in earlier quarters will be missing. The impact of higher crude oil prices will also dent the earnings in the coming quarters. Any negative surprises on the earnings visibility, markets will correct sharply as the pace of the rally was sharp in the last month.

At 8600 level current levels, we feel the risk-reward ratio is not favorable for fresh investing. The future direction of the market will now depend on the quarterly results and there will be opportunities in the market to enter into undervalued ideas. Hence we advise to investors to book some profits and have at least 30% cash in their portfolio to invest on dips or in IPO. Given on Page 4 are our top 10 picks both among large cap and mid-cap stocks. Also given are the buying price levels in case of correction.

Amidst the euphoria aren't we being fearful. A part of one of our wealth creation thoughts sums it up - **"Be fearful when others are greedy".**

INDICES CHANGE BETWEEN TWO DATES

Index	% Chg	Points	Index	% Chg	Points
Sensex	40.6	2496.0	Nifty	37.3	709.0
Bse Teck	37.1	578.0	Bse IT	32.3	761.0
Bse PSU	28.4	1133.0	Bse Auto	39.0	1010.0
Bse Bankex	45.5	1594.0	Bse CG	50.0	1645.0
Bse HC	26.7	649.0	Bse FMCG	40.6	451.0
Bse Metal	23.9	1316.0	Bse Oil & Gas	37.9	1110.0
Bse Mid-cap	38.2	1164.0	Bse Small-cap	51.2	1967.0

Top Ten Large Cap & Mid-Cap Stocks

Our 1-year Sensex target of 8281 has been achieved in just one quarter. On the earnings front, while we have lowered our Sensex EPS estimate for FY06 by 2%, our Sensex EPS estimate for FY07 remains unchanged at Rs.637. As we get greater visibility on this count over the next couple of quarters, we would consider reviewing our 1-year Sensex target.

Nevertheless, we believe that there are still plenty of investment opportunities from an 18-month perspective. We present our top-10 picks both among large-cap and mid-cap stocks. Given below are their upside target price and downward price at which one should buy on correction.

TOP 10 LARGE-CAP STOCKS

Name of the Stock	FY07 (E) EPS	Upside Price Target	Buying Price Levels
Reliance Industries	64.9	903	**
Infosys Technologies	118.7	2967	2300
Bharti Tele-ventures	20.2	404	300
State Bank of India	115.8	1200	800
HDFC Ltd	62.0	1250	900
Larsen & Toubro	91.6	1600	1300
Bajaj Auto	107.6	1960	1610
Hero Honda	54.7	824	655
Punjab National Bank	63.1	561	385
Mahindra & Mahindra	26.9	432	325

** Potential downside from earnings downgrade on account of petrochemical margin surprise & new gas discoveries or upward revision of gas reserve estimates could provide upside.

TOP 10 MID-CAP STOCKS

Name of the Stock	FY07 (E) EPS	Upside Price Target	Buying Price Levels
IPCL	36.3	291	181
Tata Tea	61.5	1046	750
Tata Chemicals	18.6	258	167
Syndicate Bank	14.6	130	70
Jindal Steel & Power	240.0	1917	1198
United Phosphorus	191.0	230	198
Crompton Greaves	50.7	760	558
Amtek Auto	20.1	380	270
Raymond Limited	32.4	486	325
Kesoram Industries	14.6	260	129

We recommend investors to accumulate the above 20 large cap / mid cap stocks on every declines for investments.

For latest investment ideas and trading calls please call your **Equity-Advisor OR MOSt Franchisee**. The reports will be available after a week on our web-site <http://www.motilaloswal.com>. Log on to the site with your User ID and Password to access the same.

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