20 Stocks to Buy

The year begins on a rather gloomy note with the overhang of the European debt crisis, and closer home, a slowing economy, an earnings downgrade, and a government failing to get going. Though these factors are bound to impact the economy and growth, there are a handful of companies that hold out promise. The **ET Intelligence Group** has shortlisted 10 stocks each from the large cap as well as mid cap categories for 2012. It also tells you why your bets may not be fully misplaced

Band of Big Boys You can Place Your Bets On...

1 ADANI PORT & SPECIAL ECONOMIC ZONE

Current PE	22.59
3Yr Avg PE	37.98
Mcap (₹Cr)	24662
YTD Return (%)	-14.3
TTM Sales (₹Cr)	2099
YoY Chg (%)	42.1
52-Wk High	170
52-Wk Low	115

While the major ports of the country are operating at near capacity, Mundra Port & Special Economic Zone will be able to handle incremental trade, given its large capacity. The proximity of MPSEZ to north western states makes it attractive for handling volumes for these states. MPSEZ continued to outperform all major ports in cargo volume with 27% volume growth in total cargo handled compared to 3% growth in total volumes at the major ports in the first half of this financial year. MPSEZ has acquired 50mtpa bulk-handling capacity from Abbot Point port in Australia. The stock trades at a trailing P/E of 23.3 which is justified, given its growth potential.

2 APOLLO HOSPITAL ENTERPRISES (AHEL)

Current PE	39.9
3Yr Avg PE	31.2
Mcap (₹Cr)	7984
YTD Return (%)	30.7
TTM Sales (₹Cr)	2563
YoY Chg (%)	23.6
52-Wk High	717
52-Wk Low	432

Healthcare is one of the sectors to get least affected from the economic slowdown. AHEL is the best contender in this segment having presence in hospitals, pharmacies and insurance. The company owns a chain of 52 hospitals having a total of 8513 beds. Over the past four fiscals, the company has logged a steady rise in in-patient admissions and average revenue per occupied bed. Its occupancy rates have remained high above 70% with gradual reduction in the patient's average length of stay in its hospitals. It also has a network of 1,257 pharmacies across India and also runs a health BPO and health insurance service.

3 GODREJ CONSUMER PRODUCTS

Current PE	20.08
3Yr Avg PE	27.11
Mcap (₹Cr)	12599
YTD Return (%)	1.2
TTM Sales (₹Cr)	4164
YoY Chg (%)	54.0
52-Wk High	464
52-Wk Low	325

As raw material prices start cooling off, the FMCG sector is likely to witness improvement in margins over the next year. While the possibility of a slowdown in demand is a macro concern for the sector, a company like GCPL with presence in emerging markets in Asia, Latin America and Africa, is among the better placed in the sector. Household and personal care major GCPL, has made numerous EPS-accretive international acquisitions in emerging markets and has an established presence in rural India. Benefiting from its international portfolio in hair care, personal wash and home care segments, the company aims to be an emerging-market FMCG powerhouse.

4 IDEA CELLULAR

Current PE	34.01
3Yr Avg PE	24.84
Mcap (₹Cr)	27214
YTD Return (%)	18.6
TTM Sales (₹Cr)	17275
YoY Chg (%)	25.7
52-Wk High	104
52-Wk Low	56

A pan-India reach, higher concentration of active users, and a strong brand recall augur well for Idea Cellular during the year which is likely to see a full-fledged roll-out of data based 3G services. Though the company's near-term financials will be under pressure due to higher interest costs and losses in new telecom circles, it looks well poised over the long-run to take advantage of data-driven growth in the Indian telecom sector.

Idea is fuelling the growth of smartphones by introducing low-cost handsets. The operator enjoys a higher active user base coupled with a firm trend in user additions. This should help the company reap benefits from new services.

5 LUPIN

Current PE	20.24
3Yr Avg PE	20.80
Mcap (₹Cr)	18784
YTD Return (%)	-12.5
TTM Sales (₹Cr)	6264
YoY Chg (%)	18.9
52-Wk High	495
52-Wk Low	363

Lupin is the fifth largest generics company in the US. It has a growing and promising presence in Japan and emerging markets like South Africa. A pipeline of limited competition drugs and the recent foray into oral contraceptives is likely to be the growth driver for the company's business in the US. Through its recent acquisition of I'rom Pharma in Japan, the company has forayed into the hospital generics segment. Lupin has been among the few outperformers in the Indian domestic market with enhanced market shares across therapies. Average growth of over 20% in sales and profits, strong cashflows from operations and low debt make it a classic defensive stock.

6 POWER GRID

Current PE	16.94
3Yr Avg PE	21.96
Mcap (₹Cr)	46668
YTD Return (%)	2.6
TTM Sales (₹Cr)	8730
YoY Chg (%)	8.5
52-Wk High	112
52-Wk Low	94

It has an extremely low-risk business model. With almost a monopoly in the central power transmission business, the company will benefit from the huge demand for transmission lines from the upcoming capacity addition. It has a strong balance sheet to support its capex plan and a strong execution record. It has a fixed return on equity of 15.5%.

The company has hardly any variable cost post the capex, except maintenance cost. It has an operating margin at a high 90%. All this gives a strong future earnings visibility and hence the stock has outperformed the broader market in the last one year and the outlook continues to remain positive.

7 PNB

Current PE	5.60
3Yr Avg PE	7.57
Mcap (₹Cr)	25750
YTD Return (%)	-33.5
TTM Sales (₹Cr)	31827
YoY Chg (%)	36.0
52-Wk High	1239
52-Wk Low	771

Punjab National Bank is one of the fastest growing public sector banks. Second only to State Bank of India, it has a competitive funding cost structure, a huge network in North India and strong capitalisation levels. It has shown a sharp improvement in asset quality and has invested heavily in technology upgradation giving it an advantage over its peers in the public sector. Despite a relatively high increase in restructured loans, this is helping it to decrease its exposure to the troubled power sector. Given all these factors, the bank is expected to maintain NIMs higher than its peers.

8 SHRIRAM TRANSPORT FINANCE

Current PE	7.70
3Yr Avg PE	12.81
Mcap (₹Cr)	9928
YTD Return (%)	-43.8
TTM Sales (₹Cr)	5569
YoY Chg (%)	14.6
52-Wk High	832
52-Wk Low	437

Shriram Transport Finance is the largest commercial vehicle financer in the country with a network of 488 branches. It has a presence in financing pre-owned trucks where it garners one fourth of the market. Despite the concerns in the lending business, Shriram Transport Finance still lends to small truck owners which are less leveraged as compared with companies. This lessens the chances of borrower defaults compared with other NBFCs. The company's recent performance has been under pressure on account of higher provision for non-performing assets. But this is not expected to persist over the longer-term.

9 SUN TV NETWORK

Current PE	14.44
3Yr Avg PE	24.04
Mcap (₹Cr)	11578
YTD Return (%)	-44.1
TTM Sales (₹Cr)	1964
YoY Chg (%)	18.9
52-Wk High	557
52-Wk Low	215

Sun TV Network would continue its growth momentum in revenues in 2012, thanks to its robust business model. The company's domination in the southern broadcast industry helps it secure over 71% of operating profit margin consistently. Sun TV Network enjoys discretionary powers over its content, giving it a distinct edge over other media companies.

Recently, the company launched high-definition version of its four channels. With these channels the company has 25 channels. These channels would be offered at a price higher than plain vanilla on its DTH services. Company's alleged involvement in the 2G scam may not have an impact on its earnings.

10 TITAN INDUSTRIES

Current PE	30.18
3Yr Avg PE	37.40
Mcap (₹Cr)	15488
YTD Return (%)	-3.1
TTM Sales (₹Cr)	7849
YoY Chg (%)	44.5
52-Wk High	238
52-Wk Low	147

Titan operates in the jewellery segment through its retail brand Tanishq which contributes almost three-fourths to its total net sales. Despite an unfavourable macro environment, it has aggressive expansion plans. And this will not require much capital expenditure as the company mainly operates on an asset-light franchisee model.

Despite degrowth in the jewellery market, the company's volume has increased in the last few quarters. It has a 5% market share in the jewellery market which will continue to grow with the space addition and with a strong brand equity allowing the company to grow at a rapid pace.

...And a Middle Order that Promises to Deliver

1 ALLCARGO

Current PE	7.41
3Yr Avg PE	14.12
Mcap (₹Cr)	1588
YTD Return (%)	-17.4
TTM Sales (₹Cr)	3101
YoY Chg (%)	24.6
52-Wk High	192
52-Wk Low	115

Over the next year, the high-margin container freight stations (CFS) business would be the main driver for AllCargo Global Logistics' (Allcargo) earnings. It is doubling its CFS capacity at JNPT by March 2012.

AllCargo books space for container volumes in shipping firms for its multimodal transport operations (MTO). During a downturn there is usually a tendency to shift to less-than-container-load to reduce cost. This augurs well for the company as Europe is now facing a slowdown. On a trailing 12-month basis, AllCargo's stock is trading at a price-to-earnings (P/E) valuation of 8 which is one of the lowest among its peers.

2 COX & KINGS

Current PE	17.12
3Yr Avg PE	24.08
Mcap (₹Cr)	2305
YTD Return (%)	-35.5
TTM Sales (₹Cr)	560.8
YoY Chg (%)	25.7
52-Wk High	277
52-Wk Low	160

In 2012, Cox & Kings India will begin to reap the benefits of its acquisition of UK's Holidaybreak, which offers travel facilities to local students. The acquisition provides revenues round the year as vacation for students in the UK does not coincide with school breaks in India, thereby supporting the topline. The company can tap into the large base of students in India, Japan, Australia, New Zealand and China for their educational travels to various destinations in Europe. Holidaybreak is present in over 150 destinations where Cox & Kings India operates. It gives an opportunity for both companies to cross-sell services. This should boost sales for Cox & Kings India.

3 CRISIL

Current PE	30.73
3Yr Avg PE	22.11
Mcap (₹Cr)	6182
YTD Return (%)	43.7
TTM Sales (₹Cr)	766
YoY Chg (%)	27.7
52-Wk High	977
52-Wk Low	561

The pioneer in credit ratings in India, CRISIL still controls the largest market share in the country with the largest number of rated entities and products. Global ratings agency Standard and Poor's holds a majority stake in the company. After buying back shares in January 2011, the promoters recently made another offer to buy back shares. This is a reflection of the confidence that they have in the company. The slowdown in the economy and a marked fall in debt-raising by local firms is a concern as revenues are bound to be hit but the stock may continue to do well because its core business of ratings will flourish despite a slowdown.

4 ENGINEERS INDIA

Current PE	11.64
3Yr Avg PE	19.58
Mcap (₹Cr)	6786
YTD Return (%)	-39.6
TTM Sales (₹Cr)	3305
YoY Chg (%)	41.6
52-Wk High	351
52-Wk Low	195

Despite the current slump, the company is better placed than most others in the capital goods sector. EIL has a strong balance sheet — zero debt, cash surplus, improving debtor's turnover ratio and an impressive RoCE. It also has a healthy order backlog giving it revenue visibility for the next two years. However, while this ensures top line growth, operating margins may continue to be under pressure, at least for another year, due to pricing pressures in the turnkey project business. But, EIL's stock has already lost 40% of its value over the past one year. EIL's strong fundamentals and current valuations make it a preferred buy.

5 GUJARAT STATE PETRONET

Current PE	8.03
3Yr Avg PE	15.8
Mcap (₹Cr)	4628
YTD Return (%)	-30.2
TTM Sales (₹Cr)	1099
YoY Chg (%)	6.6
52-Wk High	122
52-Wk Low	76.6

The performance of Gujarat State Petronet was hardly a stand-out one in 2011 due to stagnating gas volumes and uncertainty relating to its tariffs. However, it enjoys a strong cash-generating business model that will earn greater currency once availability of natural gas improves in the country. The strong profit growth in 2011 was mainly owing to the changes in depreciation policy. This apart from the correction in its stock price has reduced its price-to-earnings valuation to 8.3 — the lowest among its peers. In 2012, the company is expected to report some growth in its gas volumes, thereby boosting investor sentiment.

6 HAVELLS INDIA

Current PE	18.72
3Yr Avg PE	15.91
Mcap (₹Cr)	4965
YTD Return (%)	0.4
TTM Sales (₹Cr)	3213
YoY Chg (%)	-3.4
52-Wk High	451
52-Wk Low	290

Havells India has performed quite well in the first half of the current fiscal. This is expected to continue in the coming quarters as well. Its major products — switch gears, cables and wires, lightings and fixtures — are growing at the rate of over 20%, and will likely show decent growth in the coming quarters. Its European subsidiary, Sylvannia which accounts for nearly half of the company's revenues, is profitable now. Sylvania's revenues will remain stable in the coming quarters, but profitability will be on the upswing as more of its manufacturing will be outsourced.

7 KEMROCK INDUSTRIES

Current PE	11.30
3Yr Avg PE	14.60
Mcap (₹Cr)	872
YTD Return (%)	-6.1
TTM Sales (₹Cr)	970
YoY Chg (%)	69.3
52-Wk High	582
52-Wk Low	482

The increasing demand for Kemrock's fibre-reinforced plastics (FRP) and its successful foray into carbon fibre will prove to be the key growth drivers in 2012.

In FY12, it plans to double its current carbon fibre capacity to 800 tonnes. It also acquired 80% in the Italy-based Top Glass, which manufactures composite profiles. It also tied up with the Netherlands-based DSM Composite Resins AG for production of specialty composite resins in India. All these initiatives will support the company's growth going ahead. The company's stock price has been steady during the recent market volatility, which reflects its strength.

8 MAHINDRA HOLIDAYS & RESORTS

Current PE	23.28
3Yr Avg PE	34.51
Mcap (₹Cr)	2612
YTD Return (%)	-27.8
TTM Sales (₹Cr)	537
YoY Chg (%)	21.3
52-Wk High	448
52-Wk Low	266

The company enjoys a wide reach and a growing base of subscribers with 36 retail outlets, 126 franchisees and 19 branch offices. In the past five years, its vacation ownerships have risen more than three times to over one lakh. The company's strategy to explore the unknown but scenic destinations has worked well. Recently, the company added Osian, Navalgarh and Swamimalai (in Rajasthan and Tamil Nadu, respectively) to its portfolio of 49 locations in 14 states. The holiday resort firm has an occupancy level of over 80% which is higher than most budget hotels. This business model will continue to drive its revenues even in 2012.

9 PAGE INDUSTRIES

Current PE	33.17
3Yr Avg PE	27.82
Mcap (₹Cr)	2704
YTD Return (%)	59.0
TTM Sales (₹Cr)	602
YoY Chg (%)	43.9
52-Wk High	2772
52-Wk Low	1242

Page Industries manufactures and sells inner wear under the brand Jockey. In 2011, the company got a licence extension to manufacture and distribute the Jockey brand till 2030. Brand Jockey commands premium pricing among inner wear brands for men. This extension of licence for close to 20 years indicates strong revenue visibility for the company. Page Industries has a market share of 24% in the men's category and 12% in the women's inner wear market. A formidable presence in the premium category, where the average market price for each item is anything between ₹100 and ₹150, will be an advantage for Page Industries.

10 V-GUARD INDS

Current PE	10.82
3Yr Avg PE	13.21
Mcap (₹Cr)	454
YTD Return (%)	-14.5
TTM Sales (₹Cr)	858
YoY Chg (%)	45.8
52-Wk High	241
52-Wk Low	139

The company has a strong presence in the south for its pumps, voltage stabilisers and wires. Now, it is diversifying into water heaters, electric fans and inverters.

It is looking to expand geographically. It is aggressively marketing its products in non-southern markets and has increased its ad spend in the past few quarters, the impact of which will be reflected in the coming quarters. The company has a very strong balance sheet, a wide range of products and a strong hold over its existing market, giving it an edge over its rivals. With the recent correction in its stock price, V-Guard looks attractive as a long-term investment.

Markets data as on December 26, 2011