



## Sharekhan top picks

In the August 2007 issue, we had recommended the best 12 of our Stock Ideas as Sharekhan Top Picks. As on September 3, 2007, the basket of stocks has given an absolute return of 5.4% as compared with a 2.9% appreciation in the Sensex and a 2.7% rise in the S&P CNX Nifty.

This month, we have made just one change in the portfolio. We have replaced ITC with Infosys Technologies. The change is in line with our overweight stance on the front-line tech stocks. After the steep correction in the tech counters (a correction that seems to have been overdone), the quality tech stocks are available at attractive valuations.

Name	CMP* (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY07	FY08E	FY09E	FY07	FY08E	FY09E		
Balaji Telefilms	260.1	21.3	17.3	14.2	28.6	28.6	28.0	303.0	16.5
Bharat Bijlee	2,393.3	24.5	17.7	13.1	48.8	42.9	40.1	2,425.0	1.3
Bharat Heavy Electricals	1,941.0	39.4	30.9	24.8	26.2	25.9	25.7	1,954.0	0.7
Bharti Airtel	871.5	38.7	26.0	20.6	29.1	33.0	32.0	1,100.0	26.2
Grasim	2,935.6	13.7	11.1	12.7	27.5	27.2	27.0	3,250.0	10.7
HCL Technologies**	310.5	16.9	16.8	13.0	21.7	23.1	22.7	395.0	27.2
HDFC Bank	1,176.2	32.9	27.9	21.3	19.3	15.9	15.6	1,355.0	15.2
Hindustan Unilever#	209.2	29.9	24.6	21.8	56.5	57.4	52.0	280.0	33.8
Infosys Technologies	1,862.0	27.8	22.7	18.0	34.3	33.2	32.4	2,440.0	31.1
Jaiprakash Associates	910.9	44.9	29.8	26.0	16.1	15.5	15.3	1,061.0	16.5
Madras Cement	3,661.9	14.3	9.9	8.3	46.3	41.7	34.1	3,700.0	1.0
Maruti Udyog	880.9	16.6	14.0	12.3	24.9	26.1	23.8	921.0	4.6

\* CMP as on September 03, 2007

\*\*June ending company

#December ending company

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY07	FY08E	FY09E	FY07	FY08E	FY09E		
<b>Balaji Telefilms</b>	<b>260.1</b>	21.3	17.3	14.2	28.6	28.6	28.0	<b>303.0</b>	16.5%

**Remarks:**

- ♦ The flurry of entertainment channels to be launched over the next couple of years would result in a huge opportunity for quality and leading content providers such as Balaji Telefilms.
- ♦ Balaji has an established presence in the general entertainment channel category and is among the top content provider for channels like Star, Zee and Sony for past few years. Its shows consistently figure in the top slots on the rating charts.
- ♦ Going forward, the joint venture with Star for launch of at least six regional entertainment channels would create substantial value for the shareholders. Balaji would produce ~530 hours of annual prime time content for each of these channels, thus scaling up its core content business.
- ♦ At current market price the the stock quotes at 14.2x its FY2009 estimated earnings. Our sum-of-parts valuation gives us a target price of Rs303.

<b>Bharat Bijlee</b>	<b>2,393.3</b>	24.5	17.7	13.1	48.8	42.9	40.1	<b>2,425.0</b>	1.3%
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**Remarks:**

- ♦ Bharat Bijlee, a leading transformer manufacturing company, shall benefit from huge investments in the T&D sector.
- ♦ The company has increased its transformer manufacturing capacity from 5000MVA to 8000MVA and considering the robust demand for power generation, transmission and distribution, the company plans to further increase the transformer manufacturing capacity to 11,000MVA.
- ♦ The order inflows for motors, transformers and projects increased by 77% from Rs325.3 crore in FY2006 to Rs574.8 crore in FY2007.
- ♦ The stock trades at a PER of 13.1x its FY2009E and we expect its revenues to grow at a CAGR of 26.8% over FY2007-09E.

<b>BHEL</b>	<b>1,941.0</b>	39.4	30.9	24.8	26.2	25.9	25.7	<b>1,954.0</b>	0.7%
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**Remarks:**

- ♦ Bharat Heavy Electricals Ltd (BHEL), a leading supplier of power equipment, will be the prime beneficiary of a four-fold increase in the investments (Rs500,000 crore in the 11th Five-Year Plan as against Rs112,000 crore in the 9th Five-Year Plan) being made in the power sector.
- ♦ BHEL's current order book of Rs62,400 crore, ie 3.6x its FY2007 revenue, provides high earnings visibility.
- ♦ The power ministry has proposed around five ultra mega power projects entailing a capacity addition of 20,000MW (4,000MWx5) with the combined turnkey value of at least Rs80,000 crore.
- ♦ BHEL's recent technology transfer agreement with Alstom for design and manufacture of large-sized (500MW+) super-critical boilers will enable it to bid for the ultra mega power projects. We expect BHEL to bag a fair share out of this huge Rs80,000-crore potential investment, which in turn will maintain the growth momentum in the company's order book.
- ♦ The stock trades at a PER of 24.8x its FY2009E earnings. BHEL's valuation looks attractive as compared with that of its peers, such as Siemens, ABB and Larsen and Toubro.

<b>Bharti Airtel</b>	<b>871.5</b>	38.7	26.0	20.6	29.1	33.0	32.0	<b>1,100.0</b>	26.2%
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**Remarks:**

- ♦ Bharti Airtel, the largest wireless telephony service operator, is one of the key beneficiaries of the consumption boom in the country. It has reportedly added subscribers at a healthy CAGR of over 75% in the past three years and is expected to increase its subscriber base at a CAGR of over 35% over the next two years.
- ♦ The company's focus on introducing innovative services, cost control measures and growing economies of scale is resulting in an improvement in its margins, despite the continued pressure on the average revenue per unit (ARPU). Consequently, the earnings are estimated to grow at CAGR of over 46% over the three-year period FY2006-09.
- ♦ At the current market price the stock trades attractively at 26.0x FY2008 and 20.6x FY2009 earning estimates.

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY07	FY08E	FY09E	FY07	FY08E	FY09E		
<b>Grasim</b>	<b>2,935.6</b>	13.7	11.1	12.7	27.5	27.2	27.0	<b>3,250.0</b>	10.7%

**Remarks:**

- ♦ Grasim Industries will be augmenting its capacity by 9.5MMT comprising two greenfield units of 4MMT each at Kotputli and Shambhupura, and a brownfield expansion of 1.5MMT. With the tight demand-supply situation expected to persist in FY2009, the incremental volumes will augur well for the company.
- ♦ With the outlook for the VSF business remaining positive, the incremental volumes coupled with a firm pricing scenario will provide stability for the company's business.
- ♦ These two factors coupled with the incremental profits from the UltraTech's business will boost the consolidated earnings of the company.

<b>HCL Technologies**</b>	<b>310.5</b>	16.9	16.8	13.0	21.7	23.1	22.7	<b>395.0</b>	27.2%
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**Remarks:**

- ♦ HCL Technologies is benefiting from its differentiated strategy to focus on uncontested spaces such as infrastructure management and custom application development services, which are relatively under penetrated by offshore vendors.
- ♦ Driven by its differentiated strategy, the company has been able to bag more than a fair share of large-sized outsourcing deals. This has resulted in a strong growth momentum in the past few quarters. The aggressive hedge strategy is an added advantage as the impact of rupee appreciation would be relatively lower and boost treasury gains.
- ♦ At the current market price the stock trades at 16.8x FY2008 and 13x FY2009 estimated earnings.

<b>HDFC Bank</b>	<b>1,176.2</b>	32.9	27.9	21.3	19.3	15.9	15.6	<b>1,355.0</b>	15.2%
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**Remarks:**

- ♦ HDFC Bank is the best private sector bank and has delivered a consistent 31% earnings growth under most market situations.
- ♦ The bank has one of the highest net interest margins of 4% plus supported by a high and stable low-cost deposit base of 50%, which helps the bank keep its costs down under a rising interest rate scenario.
- ♦ The bank's management has an excellent track record and after the recent ADR issue of \$698 million the bank is well capitalised for future growth.
- ♦ With branch approvals in place, increased capital adequacy and strong earnings growth, the bank is all set to scale new highs.
- ♦ At the current market price the stock is quoting at 21.3x FY2009E earnings per share, 8.2x FY2009E pre-provision profits and 3.1x FY2009E book value. We maintain our Buy recommendation on the stock with a price target of Rs1,355.

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY07	FY08E	FY09E	FY07	FY08E	FY09E		
<b>Hindustan Unilever#</b>	<b>209.2</b>	29.9	24.6	21.8	56.5	57.4	52.0	<b>280.0</b>	33.8%

- Remarks:**
- ♦ HUL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HUL is likely to be a key beneficiary.
  - ♦ The company has regained the pricing power in all the product segments. We believe better pricing power and improved product mix will be the revenue drivers. The turn-around of loss-making businesses, cost-cutting initiatives and increased focus on its food business should help it to improve its profitability.
  - ♦ At the current market price the stock is quoting at 24.6x its CY2007E EPS of Rs8.5. We maintain our Buy recommendation on the stock with a price target of Rs280.

<b>Infosys Technologies</b>	<b>1,862.0</b>	27.8	22.7	18.0	34.3	33.2	32.4	<b>2,440.0</b>	31.1%
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- Remarks:**
- ♦ Infosys is best positioned to weather the impact of a possible slowdown in the USA. It is also likely to be the key beneficiary of the expected increase in the offshore outsourcing from the global corporations looking to derive maximum value out of the IT budgets.
  - ♦ Despite the cost pressures and the appreciation of the rupee, the company is expected to limit the decline in margins to around 100 basis points in this fiscal. We estimate the company's consolidated earnings will grow at a CAGR of 24% during the two-year period FY2007-09.
  - ♦ At the current market price the stock trades at 22.7x FY2008 and 18x FY2009 estimated earnings. We maintain our Buy call on the stock.

<b>Jaiprakash Associates</b>	<b>910.9</b>	44.9	29.8	26.0	16.1	15.5	15.3	<b>1,061.0</b>	16.5%
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- Remarks:**
- ♦ Jaiprakash is expanding its capacity by 15MMT over the next three years at the end of which it will emerge as one of the largest cement players in north India with a capacity of 22MMT.
  - ♦ The company is the largest private sector hydropower player and is currently sitting on a huge construction order book of Rs7,200 crore. Taking cognisance of the government's target of achieving 50,000MW in hydropower electricity by 2012, we expect the order book to maintain its current momentum.
  - ♦ The Taj Expressway project coupled with the company's real estate business (Taj Greens) will add value to the company's shareholders.
  - ♦ Thus the company's diversified businesses will provide the much-needed stability to the overall business in the wake of a downturn in the cement cycle.

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		FY07	FY08E	FY09E	FY07	FY08E	FY09E		
<b>Madras Cement</b>	<b>3,661.9</b>	14.3	9.9	8.3	46.3	41.7	34.1	<b>3,700.0</b>	1.0%

**Remarks:**

- ♦ The company is incurring a capital expenditure of Rs1,474 crore to expand its capacity by 4MMT in the next one year. The 2MMT expansion at Jayantipuram (including a 1MMT grinding unit at Kolkata) will be commissioned by the third quarter of FY2008, whereas the remaining 2MMT capacity at Ariyalur including an additional 56MW wind power plant will be commissioned by the second quarter of FY2009.
- ♦ The higher capacities will drive the volume growth of the company going forward whereas the improved pricing scenario will improve its profits. The captive power plants will help lower the power & fuel cost. The company will be able to save income tax in FY2009 to the extent of the accelerated depreciation available on wind power plants, which will positively increase the cash flows of the company. At the current market price of Rs3,328, the stock is trading at a valuation of 8.3x its FY2009 earnings.

<b>Maruti Udyog</b>	<b>880.9</b>	16.6	14.0	12.3	24.9	26.1	23.8	<b>921.0</b>	4.6%
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**Remarks:**

- ♦ Maruti Udyog, the market leader in the passenger car market in India, is set to benefit from the number of new launches made by it in the recent times.
- ♦ Most of its new launches, namely WagonR Duo, Zen Estilo, Diesel Swift and SX4, have been well received by the market and are clocking strong volumes. Also, with the addition of the diesel vehicle and a sedan, the company has expanded its product basket, making it a full-fledged play on the country's booming passenger car market.
- ♦ With the expansion of its Manesar plant, its exports are also set to go on a top gear. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets and the company would be exporting about 100,000 units of the new vehicle to its parent, while another 50,000 units would be supplied to Nissan.
- ♦ At current levels, the stock is trading at 12.3x its FY2009E and is available at an EV/EBIDTA of 7.2x. We maintain our Buy recommendation with a price target of Rs921.

The author doesn't hold any investment in any of the companies mentioned in the article.

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