Thematic Study
15 December 2010

15TH ANNUAL WEALTH CREATION STUDY (2005-2010)

UU Investing

Creating wealth from the unknown and unknowable

HIGHLIGHTS

- UU situations offer asymmetric payoffs; these can be exploited only by investors with complementary skills and unusual judgement
- Low payback ratio remains the most reliable valuation indicator of fastest wealth creation
- TTS – Ten Trillion Dollar Savings through 2020 – will throw up many UU investing opportunities in Indian financial services

TOP 10 WEALTH CREATORS (2005 - 2010)

	THE BIGGEST		THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (Rs b)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (x)	10-Year Price CAGR (%)
1	Reliance Inds.	2,556	Unitech	95	Hero Honda Motor	10	33.9
2	O N G C	1,092	Areva T&D	85	Sun Pharma	10	33.2
3	NMDC	1,014	Jindal Steel	82	Asian Paints	10	32.3
4	NTPC	1,000	Adani Enterprises	73	H D F C	10	29.1
5	B H E L	980	Sesa Goa	67	HDFC Bank	10	26.7
6	Infosys Technologies	870	Shriram Transport	57	Reliance Inds	10	23.7
7	TCS	838	Exide Inds	56	Infosys	10	19.9
8	State Bank of India	802	Titan Inds	52	Kotak Mahindra Bank	9	58.9
9	Larsen & Toubro	799	Bhushan Steel	52	Hind Zinc	9	56.7
10	Bharti Airtel	792	Hind Copper	51	O N G C	9	32.3

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We thank Mr Dhruv Mehta (Dhruv.Mehta@dhruvmehta.in), Investment Consultant, for his invaluable contribution to this report.

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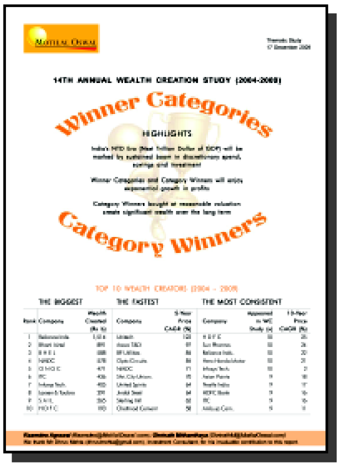
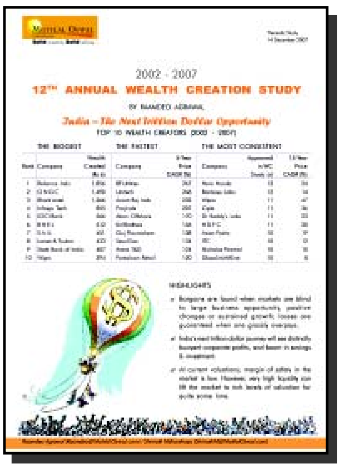
Abbreviations and Terms used in this report

ABBREVIATION / TERM	DESCRIPTION
2005, 2010, etc	Reference to years for India are financial year ending March, unless otherwise stated
Avg	Average
CAGR	Compound Annual Growth Rate; All CAGR calculations are for 2005 to 2010 unless otherwise stated
L to P / P to L	Loss to Profit / Profit to Loss. In such cases, calculation of PAT CAGR is not possible
Price CAGR	In the case of aggregates, Price CAGR refers to Market Cap CAGR
RS B	Indian Rupees in billion
WC	Wealth Creation / Wealth Created
Wealth Created	Increase in Market Capitalization over the last 5 years, duly adjusted for corporate events such as fresh equity issuance, mergers, demergers, share buybacks, etc.





Wealth Creation Study 2005-2010

Objective, Concept and Methodology

Objective

The foundation of Wealth Creation is in buying businesses at a price substantially lower than their "intrinsic value" or "expected value". The lower the market value compared to the intrinsic value, the higher is the margin of safety. Every year for the past 15 years, we endeavor to cull out the characteristics of businesses, which create value for their shareholders.

As Phil Fisher says, "*It seems logical that even before thinking of buying any common stock, the first step is to see how money has been most successfully made in the past.*" Our Wealth Creation studies are attempts to study the past as a guide to the future and gain insights into the various dynamics of stock market investing.

Concept

Wealth Creation is the process by which a company enhances the market value of the capital entrusted to it by its shareholders. It is a basic measure of success for any commercial venture. Wealth Creation is achieved by the rational actions of a company in a sustained manner.

Methodology

For the purpose of our study*, we have identified the top 100 Wealth Creators in the Indian stock market for the period 2005-2010. These companies have the distinction of having added at least Rs1b to their market capitalization over this period of five years, after adjusting for dilution. We have termed the group of Wealth Creators as the '*MOSL - 100*'. The biggest and fastest Wealth Creators have been listed in Appendix I and II on page 39 and 41, respectively. Ranks have been accorded on the basis of Size and Speed of Wealth Creation (speed is price CAGR during the period under study).

On the cover page, we have presented the top 10 companies in terms of Size of Wealth Creation (called THE BIGGEST), the top 10 companies in terms of Speed of Wealth Creation (called THE FASTEST), and the top 10 companies in terms of their frequency of appearance as wealth creators in our Wealth Creation studies (called THE MOST CONSISTENT).

Theme 2011

Our Theme for 2011 is **Investing in the unknown and unknowable**, discussion on which starts from page 18.

** Capitaline database has been used for this study*

Wealth Creation

2005-2010

The 15TH Annual Study

Findings

Wealth Creation

2005-2010

The Biggest Wealth Creators

Reliance is No.1

Reliance Industries has emerged as the biggest wealth creator for the fourth time in a row.

Over FY05-10, Reliance's stock price CAGR at 37% is significantly higher than its PAT CAGR of 16.5%. Valuations have seen a sharp re-rating (P/E of 22x vs 10x in FY05), led by huge expectations from KG-D6.

For the last seven years, the biggest wealth creator in India has emerged from the Oil & Gas sector – ONGC in the first three years and Reliance in the next four.

The current firm trend in crude prices is likely to ensure no major change in the above equation for some more time to come.

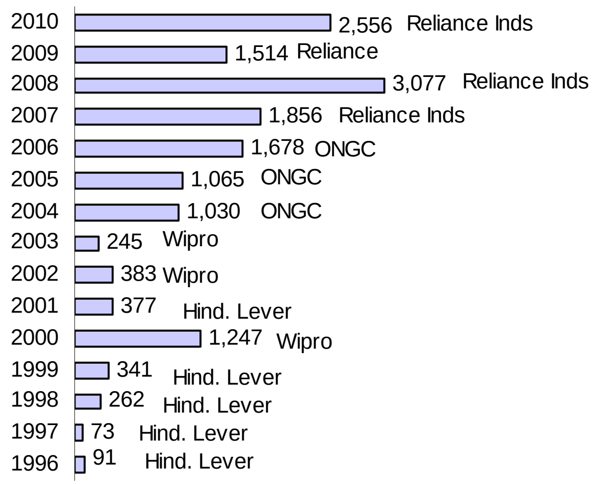
Key Finding

Wealth creation in India is getting dispersed. The share of top 10 wealth creators is on a secular declining trend - from 76% in FY03 to as low as 41% in FY10.

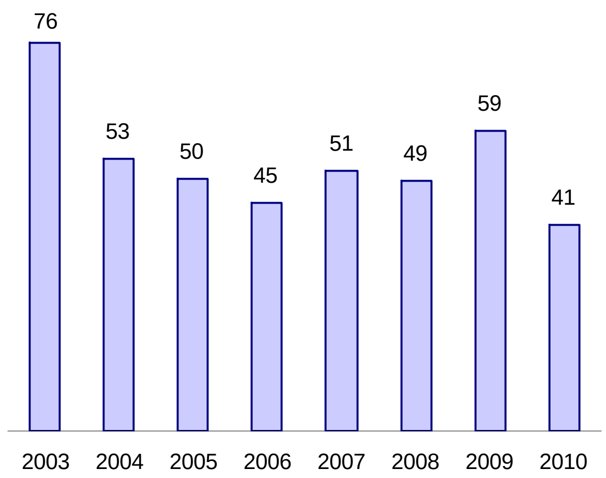
TOP 10 BIGGEST WEALTH CREATORS

RANK	COMPANY	NET WEALTH CREATED		PRICE	PAT	P/E (X)	
		RS B	% SHARE	CAGR (%)	CAGR (%)	FY10	FY05
1	Reliance Inds.	2,556	9.6	37.1	16.5	21.6	10.0
2	O N G C	1,092	4.1	13.3	5.2	14.0	9.7
3	NMDC	1,014	3.8	50.3	35.5	33.8	20.1
4	NTPC	1,000	3.8	19.3	8.5	19.6	12.2
5	B H E L	980	3.7	44.1	35.2	27.1	19.7
6	Infosys	870	3.3	18.4	25.0	25.9	32.0
7	TCS	838	3.2	16.9	25.1	27.2	37.6
8	State Bank of India	802	3.0	27.4	16.3	14.4	8.0
9	Larsen & Toubro	799	3.0	45.6	34.8	22.4	13.1
10	Bharti Airtel	792	3.0	24.7	50.8	12.6	31.7

BIGGEST WEALTH CREATORS AND WEALTH CREATED (RS B): OIL & GAS DOMINATES



SHARE OF TOP 10 WEALTH CREATORS IN TOTAL WEALTH CREATION STEADILY DECLINING (%)



Wealth Creation

2005-2010
The Fastest Wealth Creators

Unitech is No.1

Unitech is the Fastest Wealth Creator during 2005-10, for the third time in a row.

Unitech has featured among the Top 10 fastest wealth creators for the last five years in a row. However, considering the current headwinds in the real estate sector coupled with high valuation, a change in leadership is inevitable going forward.

Five out of the top 10 fastest wealth creators had base market cap of less than Rs10b, and seven had less than Rs15b. The current de-rating of mid-caps in the Indian markets offers excellent opportunities for picking up the fastest wealth creators over the next five years.

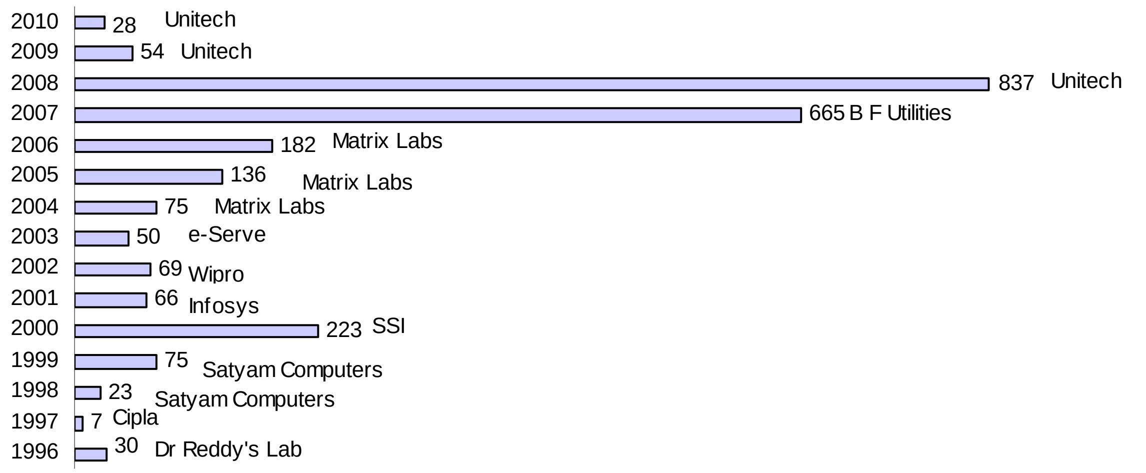
Key Finding

The key trigger for fastest wealth creation is a situation of UU (unknown and unknowable), the theme of this year's study. A stock's journey from UU to KK (known and knowable) is marked by high growth in earnings coupled with sharp valuation re-rating, leading to rapid wealth creation.

TOP 10 FASTEST WEALTH CREATORS

RANK	COMPANY	PRICE APPRE-CIATION (X)	PRICE CAGR (%)	PAT CAGR (%)	MCAP (RS B)		P/E (X)	
					FY10	FY05	FY10	FY05
1	Unitech	28	95	79	179.0	4.2	32.9	14.1
2	Areva T&D	22	85	55	72.9	2.8	37.9	13.2
3	Jindal Steel	20	82	23	653.9	32.3	44.2	6.3
4	Adani Enterprises	16	73	19	248.2	13.5	97.6	12.4
5	Sesa Goa	13	67	36	391.4	28.8	18.5	6.2
6	Shriram Transport	10	57	78	118.2	3.6	13.5	7.3
7	Exide Inds	9	56	47	105.5	10.6	19.6	13.7
8	Titan Inds	8	52	59	81.7	9.8	32.6	39.3
9	Bhushan Steel	8	52	41	71.3	8.4	8.4	5.5
10	Hind Copper	8	51	23	493.5	49.3	319.0	88.1

HISTORY OF FASTEST WEALTH CREATOR (PRICE APPRECIATION - X)



Wealth Creation

2005-2010
Most Consistent Wealth Creators

Hero Honda is Most Consistent

Seven companies have featured among the top 100 wealth creators in each of the last 10 years. Hero Honda is ranked as the most consistent by virtue of its 10-year price CAGR being the highest at 34%.

Consumer-facing non-cyclical businesses tend to be consistent wealth creators due to low volatility in their earnings. For the first time, four non-consumer companies have made it to the top 10 – Reliance, Infosys, Hindustan Zinc and ONGC. The global rise in commodity prices suggests that commodity stocks may increasingly feature in the list of consistent wealth creators.

Key Finding

Consistent wealth creators have a remarkable track record of steady earnings growth. This makes them relatively immune to wide fluctuations in valuation, causing stock prices to consistently appreciate over long periods of time.

TOP 10 CONSISTENT WEALTH CREATORS

RANK	COMPANY	APPEARED IN LAST 10 WC STUDIES (X)	10-YR PRICE CAGR (%)	PAT CAGR (%)	P/E (X) 2010	P/E (X) 2005
1	Hero Honda Motor	10	33.9	22.5	17.4	13.5
2	Sun Pharma	10	33.2	24.1	41.2	28.6
3	Asian Paints	10	32.3	34.8	25.3	21.6
4	H D F C	10	29.1	22.2	27.6	17.5
5	HDFC Bank	10	26.7	34.7	30.0	25.3
6	Reliance Inds	10	23.7	16.5	21.6	10.0
7	Infosys	10	19.9	25.0	25.9	32.0
8	Kotak Mahindra Bank	9	58.9	45.9	46.5	49.5
9	Hind.Zinc	9	56.7	43.9	12.6	11.0
10	O N G C	9	32.3	5.2	14.0	9.7

CONSUMER FACING COMPANIES SCORE HIGH ON CONSISTENT WEALTH CREATION

Consistent Wealth Creators - 2005 to 2010

Consumer Facing

Pharma
- Cipla (3)
- Dr Reddy's Lab (2)
- GSK Pharma (1)
- Piramal Health. (3)
- Ranbaxy Lab (3)
- Sun Pharma (3)

FMCG
- Asian Paints (3)
- ITC (4)
- Nestle India (1)

Others
- Hero Honda (5)
- HDFC (5)
- HDFC Bank (2)
- Kotak Mah. Bk (1)

Non-Consumer Facing

IT
- Infosys (4)
- Wipro (2)
- Satyam (2)

Others
- Reliance Inds (3)
- Ambuja Cement (1)
- Hind.Zinc (1)
- O N G C (1)

Number in brackets indicates times appeared within top 10 in last six years, 2005 to 2010

Wealth Creators (Wealthex)

Comparative Performance v/s BSE Sensex

Superior performance over benchmark

We have compared the performance of Wealthex (top 100 Wealth Creators index) with the BSE Sensex on three parameters - (1) market performance, (2) earnings growth, and (3) valuation.

Market performance: Over the last five years, wealth creating companies have delivered a point-to-point return of 240% (28% CAGR), which is 70% higher than the benchmark return of 170% (22% CAGR).

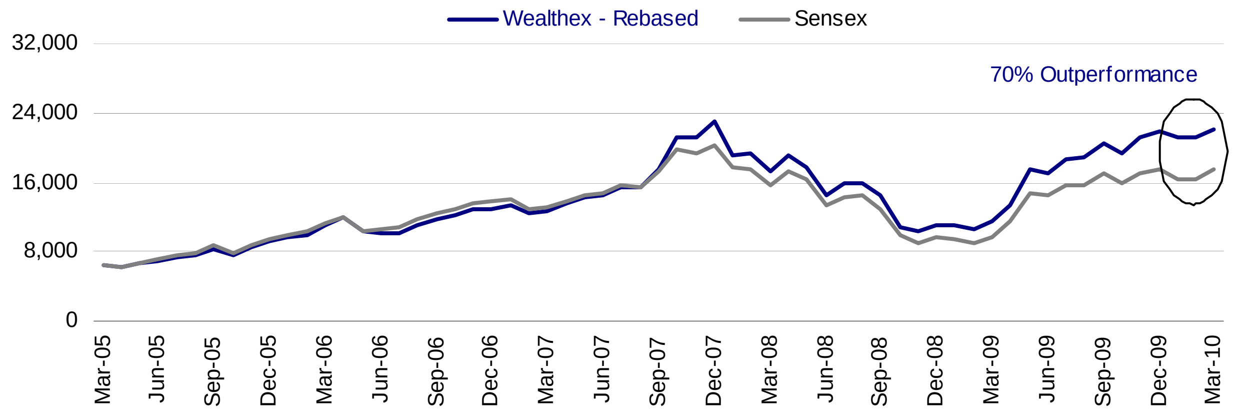
Earnings growth: Over the last five years, wealth creating companies' earnings are up 130% (18% CAGR) compared to benchmark earnings growth of 84% (13% CAGR).

Valuation: Despite superior earnings performance, wealth creating companies' valuations remain lower compared to benchmark.

Key Finding

Long-term wealth creating companies defy the investing maxim of "higher-risk-higher-return". Their stock prices outperform markets without trading at significant valuation premiums.

WEALTH CREATORS' INDEX V/S BSE SENSEX (31.3.05 TO 31.3.10)



SENSEX V/S WEALTH CREATORS: HIGHER EARNINGS GROWTH, LOWER VALUATION

	MAR-05	MAR-06	MAR-07	MAR-08	MAR-09	MAR-10	5-YEAR CAGR (%)
BSE Sensex	6,493	11,280	13,072	15,644	9,709	17,528	22.0
CAGR (%)		*73.7*	*41.9*	*34.1*	*10.6*	*22.0*	
YoY Performance (%)		*73.7*	*15.9*	*19.7*	*(37.9)*	*80.5*	
Wealthex - based to Sensex	**6,493**	**11,035**	**12,568**	**17,154**	**11,470**	**22,054**	**27.7**
CAGR (%)		*70.0*	*39.1*	*38.2*	*15.3*	*27.7*	
YoY Performance (%)		*70.0*	*13.9*	*36.5*	*(33.1)*	*92.3*	
Sensex EPS (Rs)	450	523	718	833	820	829	13.0
YoY Performance (%)		*16.4*	*37.3*	*16.0*	*(1.7)*	*1.2*	
Sensex P/E (x)	*14.4*	*21.6*	*18.2*	*18.8*	*11.8*	*21.1*	
Wealthex EPS (Rs)	**497**	**566**	**774**	**963**	**954**	**1,141**	**18.1**
YoY Performance (%)		*13.8*	*36.8*	*24.4*	*(0.9)*	*19.5*	
Wealthex P/E (x)	*13.1*	*19.5*	*16.2*	*17.8*	*12.0*	*19.3*	

Wealth Creation

Classification By Industry

Metals/Mining - the new leader after six years: For the first time since 2004, Oil & Gas has lost its position as the biggest wealth creating sector. The new leader, Metals/Mining, has steadily increased its share of wealth from 13% in FY05 to 19% in FY10.

Emergence of the service sector: Finance, Engineering and IT and close on the heels of the commodity sectors in the pecking order of wealth creation. Steadily rising share of services in India's GDP will pave the way for these businesses to eventually take the lead in wealth creation as well.

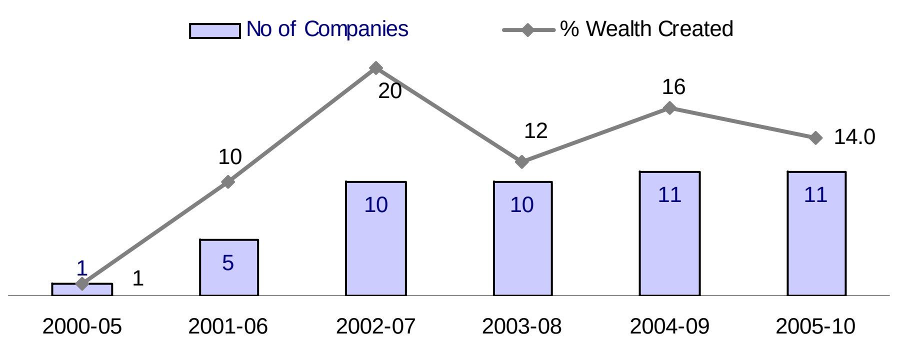
Key Finding

Sustained commodity boom is reflected in FY05-10 wealth creation. In the years ahead, users of commodities will have challenging times unless their franchise is very strong. Service sectors like banking, telecom and IT could bring surprises in terms of wealth creation.

WEALTH CREATORS: CLASSIFICATION BY INDUSTRY (RS B)

INDUSTRY	WEALTH CREATED (RS B)	SHARE OF WEALTH CREATED (%) 2010	SHARE OF WEALTH CREATED (%) 2005	PRICE CAGR (%)	PAT CAGR (%)	P/E (X) 2010	P/E (X) 2005
Metals / Mining (13)	4,949	18.7	12.6	40.4	12.9	21.5	7.2
Oil & Gas (7)	4,412	16.6	36.9	21.0	10.9	15.5	10.0
Banking & Finance (15)	3,879	14.6	15.8	32.7	23.6	16.5	11.6
Engineering (11)	2,722	10.3	7.3	42.9	32.5	25.8	17.7
IT (7)	2,679	10.1	0.2	19.1	27.0	24.5	33.7
FMCG / Retail (14)	1,878	7.1	3.4	26.3	18.1	27.3	19.4
Ultility (4)	1,470	5.5	3.5	20.6	8.3	20.9	12.2
Auto (8)	1,303	4.9	6.8	28.3	20.8	17.8	13.2
Pharma (8)	1,009	3.8	4.8	29.9	27.5	27.3	24.9
Telecom (1)	792	3.0	0.0	25.3	50.8	12.6	31.7
Cement (5)	521	2.0	3.0	22.6	30.5	12.6	17.2
Const./Real Estate (2)	334	1.3	0.0	66.3	56.8	22.1	16.4
Others (5)	574	2.2	5.6	32.5	7.9	28.7	10.3
Total	**26,522**	**100.0**	**100.0**	**27.7**	**18.0**	**19.3**	**13.0**

NEW ECONOMY PERFORMANCE IN THE TOP 100 WEALTH CREATORS



Old economy vs New economy: Telecom has faced the biggest setback, slipping from 5th position last year to 10th this year. Also, only one telecom company (Bharti) features among the top 100 wealth creators compared to four in our last year's study.

Wealth Creators

Classification By Ownership: MNCs v/s Indian

The Indianization of markets

In five of our first six wealth creation studies (1996 to 2001), Hindustan Lever (now Hindustan Unilever) was the biggest wealth creator.

But since then, share of MNCs in stock market wealth creation is steadily declining. The two key reasons are –

1. The rise of Indian entrepreneurship; and
2. MNCs increasingly participating in the India story through non-listed companies (Coca Cola, Pepsi, Hyundai, Toyota, McDonald's, Nokia, Samsung, etc).

And though their share in total wealth creation is down, MNCs continue to deliver wealth to investors – stock price CAGR of 25% on the back of PAT CAGR of 19%, with superior RoEs and premium valuations compared to Indian companies.

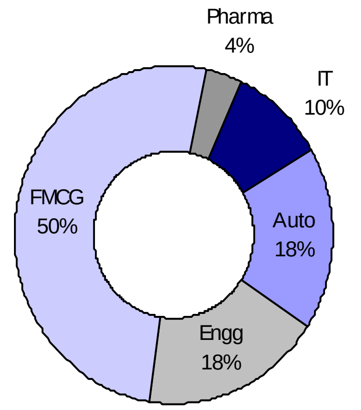
Key Finding

Future for MNCs looks very promising as technology and brand intensive companies will do well as the Indian economy evolves.

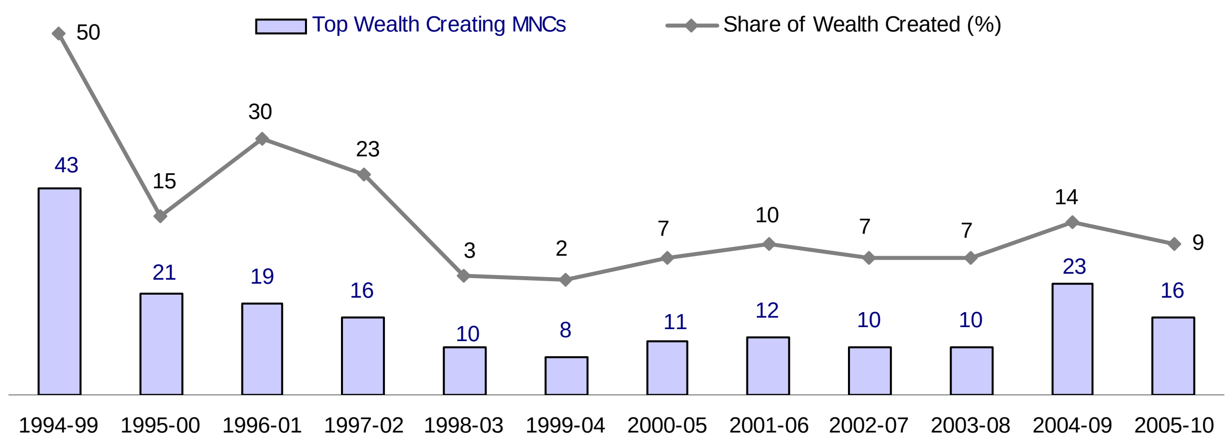
WEALTH CREATORS: MNCs V/S INDIAN COMPANIES

	2005-2010	
	MNC	INDIAN
Number of Wealth Creators	16	84
% Wealth Created	9.4	90.6
Sales CAGR (%)	19.5	18.1
PAT CAGR (%)	19.2	18.0
Price CAGR (%)	25.3	28.0
P/E - 2005 (x)	19.0	12.6
P/E - 2010 (x)	24.4	18.9
RoE - 2005 (%)	28.8	22.2
RoE - 2010 (%)	30.3	17.2

MNC WEALTH CREATION BY SECTOR



MNCs ARE WANING IN WEALTH CREATION BUT RECOVER SOMEWHAT IN 2005-2010



Wealth Creators

Classification By Ownership: PSU v/s Private

PSU underperformance continues

PSU share of wealth creation has increased from 16% in our last study to 22% this year, thanks mainly to ONGC, NMDC and NTPC.

However, in fundamental parameters, PSUs continue to underperform their private counterparts – FY05-10 Sales CAGR of 14% (23% for private) and PAT CAGR of 12% (24% for private).

PSU Price CAGR at 23% is higher than PAT CAGR due to valuation re-rating of NMDC and NTPC. Still, this is lower than the private sector price CAGR of 30%.

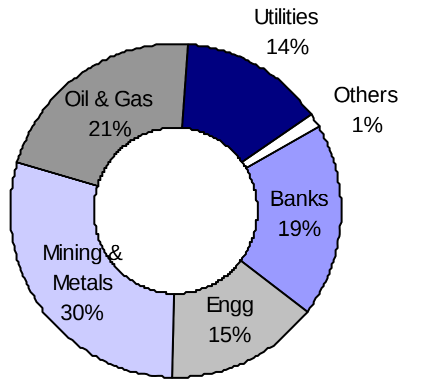
Key Finding

PSU share of India's market capitalization is set to increase due to: (1) listing of mining companies led by Coal India, and (2) recapitalization of PSU banks.

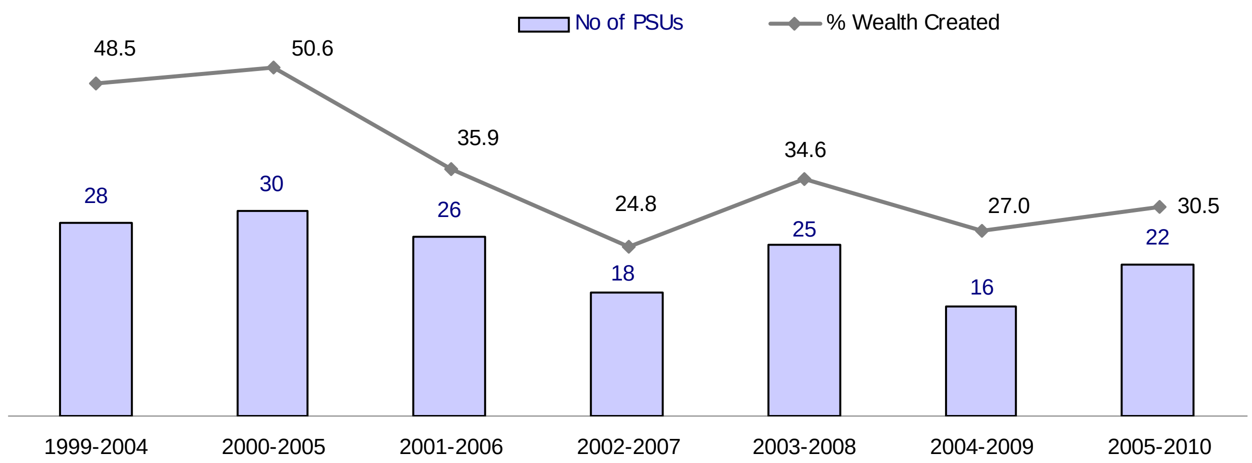
WEALTH CREATORS: PSU V/S PRIVATELY-OWNED

	2005-2010	
	PSU	PRIVATE
Number of Wealth Creators in Top 100	22	78
Share of Wealth Created (%)	30.5	69.5
5-year Sales CAGR (%)	14.3	22.6
5-year PAT CAGR (%)	11.7	23.8
5-year Price CAGR (%)	23.0	30.3
P/E - 2005 (x)	9.5	17.0
P/E - 2010 (x)	15.4	22.0
RoE - 2005 (%)	21.9	23.2
RoE - 2010 (%)	18.0	17.7

PSU WEALTH CREATION BY SECTOR



DEREGULATION DIMINISHES ROLE OF STATE-OWNED COMPANIES IN WEALTH CREATED



Wealth Creators

Classification By Age Group and Market Cap

Getting better with age?

For the first time ever, companies in the age group of 0-10 years have delivered market returns below the group average.

Till last year, this group had companies such as HDFC Bank, ICICI Bank and JSW Steel which have since moved to the 11-20 years bracket. Further, performance of the remaining stars, Bharti and TCS, was slower than in the past.

The fastest wealth creating age group is 31-40 led by Unitech, Sesa Goa and Hindustan Copper, all of which individually feature in the list of top 10 fastest wealth creators.

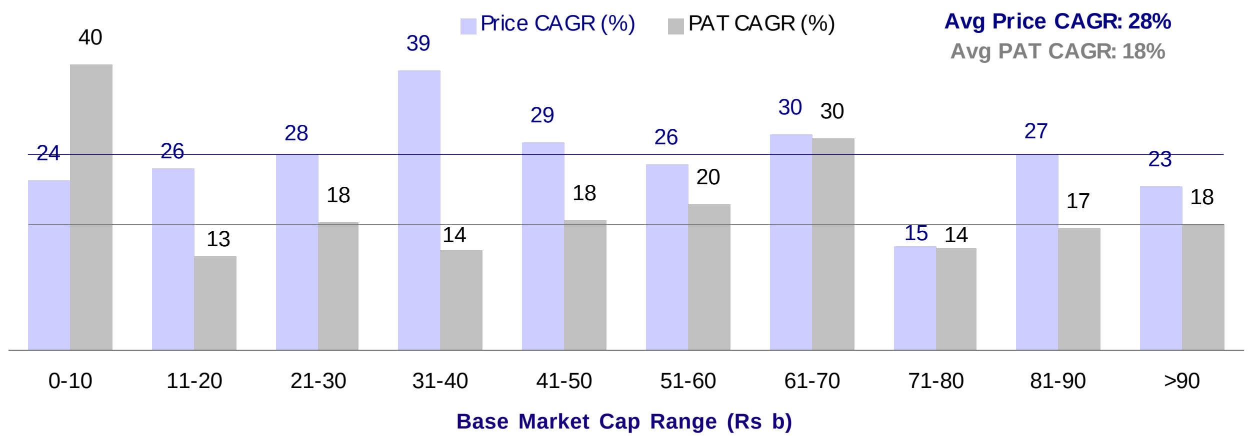
Key Finding

Age may well have no bar on size and speed of wealth creation, but small is still beautiful. Companies with base market cap of less than Rs50b in FY05, handsomely outperformed their larger peers, both in terms of PAT CAGR and Price CAGR.

WEALTH CREATORS: CLASSIFICATION BY AGE-GROUP

NO. OF YEARS	NO. OF COS.	WEALTH CREATED (RS B)	% SHARE OF WC	PAT CAGR (%)	PRICE CAGR (%)
0-10	7	2,155	8.1	40.2	23.9
11-20	22	4,506	17.0	13.3	25.6
21-30	21	5,601	21.1	18.1	27.6
31-40	8	4,855	18.3	14.1	39.3
41-50	12	3,948	14.9	18.4	29.2
51-60	15	2,779	10.5	20.4	26.0
61-70	4	504	1.9	29.7	30.4
71-80	2	352	1.3	14.3	14.7
81-90	3	407	1.5	17.1	27.4
>90	6	1,415	5.3	17.8	23.0
Total	**100**	**26,522**	**100.0**	**18.0**	**27.7**

PRICE CAGR AND PAT CAGR BY BASE MARKET CAP RANGE



Wealth Creators

Classification By Sales and Earnings Growth

The safety of growth

Companies with sales growth over 20% and profit growth over 30% have delivered above-average stock price returns. This much is easily explained. But what is interesting is that high growth companies have delivered high stock performance despite sharp de-rating in their valuations.

Markets tend to overly focus on P/E to determine whether a stock is expensive or not. In the case of hyper growth companies, a superior approach would be consider the absolute PAT and MCap and juxtapose the same with the size of the business opportunity that lies ahead.

Hyper growth stocks will always appear expensive and yet deliver superior returns.

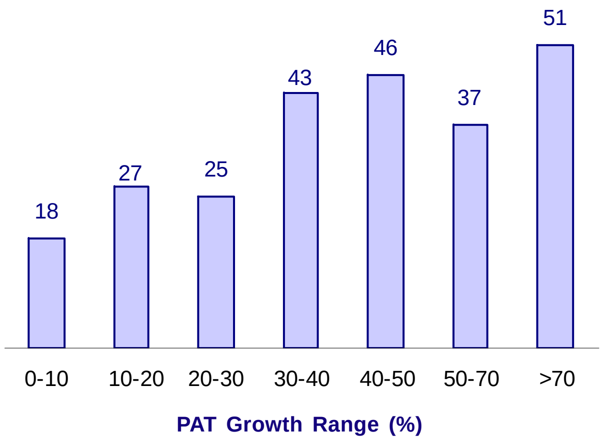
Key Finding

Hyper growth in sales and profit are typically possible in UU situations (unknown & unknowable, see theme section). Markets are unable to price these situations appropriately, resulting in huge wealth creation at a rapid pace.

WEALTH CREATORS: CLASSIFICATION BY SALES GROWTH

SALES GR. RANGE (%)	NO. OF COS.	SHARE OF WC (%)	PRICE CAGR (%)	PAT CAGR (%)	ROE (%)		P/E (X)	
					2010	2005	2010	2005
0-10	9	10.3	18.7	3.4	18.4	31.5	16.1	8.1
10-20	37	25.9	22.3	14.1	17.1	20.5	16.7	11.8
20-30	36	52.1	32.6	26.0	18.2	21.1	22.2	17.2
30-40	8	7.3	35.0	47.4	19.5	20.3	19.2	29.8
40-50	4	1.8	45.9	54.9	16.9	13.9	16.9	22.8
>50	6	2.6	48.0	57.3	12.4	5.6	31.6	42.8
Total	**100**	**100.0**	**27.7**	**18.0**	**17.8**	**22.5**	**19.3**	**13.0**

PRICE CAGR (%) BY 2005-10 PAT GROWTH RANGE



CLASSIFICATION BY PAT GROWTH

PAT GR. RANGE (%)	NO. OF COS	PRICE CAGR (%)	P/E (X)	
			2010	2005
0-10	15	18.4	15.9	8.7
10-20	16	26.8	18.4	11.6
20-30	28	25.3	23.2	22.1
30-40	18	42.8	21.7	16.4
40-50	7	45.7	17.5	17.4
50-70	10	37.4	19.8	33.7
>70	6	50.8	16.6	54.2
Total	**100**	**27.7**	**19.3**	**13.0**

Wealth Creators

Classification By RoE

Indian markets: The growth v/s quality dilemma persists

FY05-10 data suggests that companies with RoE of less than 10% in FY05 delivered significantly superior returns over the next five years. This is counter-intuitive as RoE is supposed to be a key indicator of the quality of company's earnings.

But typically, RoEs are low when the companies are in the investment mode, or are faced with a cyclical downturn. At these times, even P/Es look very high. However, from such a low base, the companies are able to deliver very high earnings growth over the medium term at least.

Going by past returns, Indian markets still seem to reward growth higher than quality.

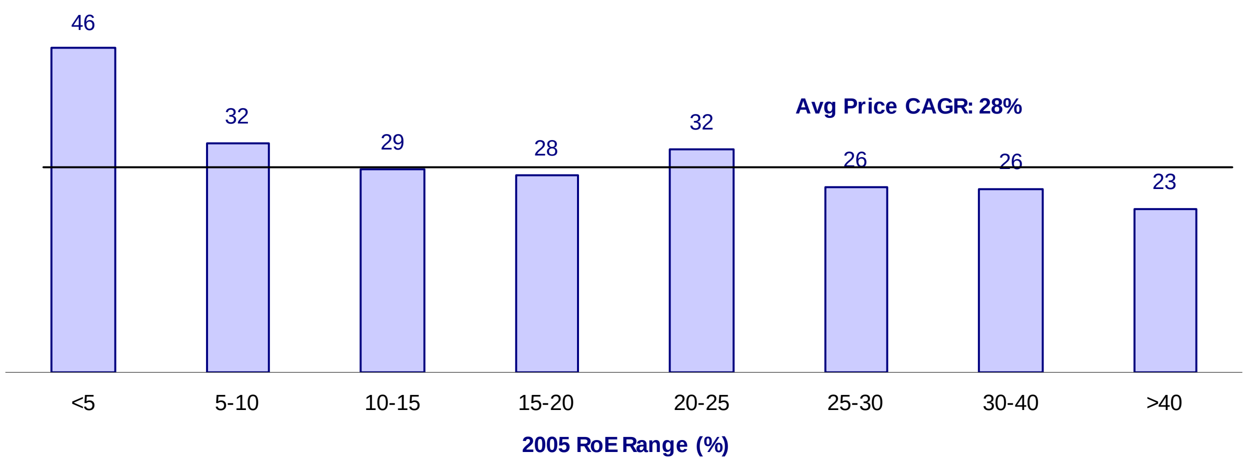
Key Finding

Contrary to popular perception, rather than absolute RoE markets give more importance to change in RoE as it is an indicator of things to come.

WEALTH CREATORS: CLASSIFICATION BY BASE ROE

2005 ROE RANGE (%)	NO. OF COS.	SHARE OF WC (%)	PRICE CAGR (%)	PAT CAGR (%)	ROE (%) 2010	ROE (%) 2005	P/E (X) 2010	P/E (X) 2005
<5	5	5	46	65.1	7.7	2.7	59	110
5-10	7	3	32	34	12	8	20	22
10-15	13	11	29	20	15	13	21	15
15-20	21	18	28	19	15	18	16	11
20-25	13	15	32	18	16	21	19	11
25-30	17	24	26	17	21	28	19	13
30-40	12	12	26	23	23	33	22	19
>40	12	12	23	11	25	57	19	11
Total	**100**	**100**	**28**	**18**	**18**	**23**	**19**	**13**

WEALTH CREATORS: PRICE CAGR BY ROE



Wealth Creators

Classification By Valuation Parameters

Lower valuations are not equal to higher returns: An aberration or a new trend?

In all of our recent wealth creation studies, we maintained that three elements of a sure shot formula for multi-baggers are -

1. PE of less than 10x
2. Price/Book of less than 1x
3. Price/Sales of 1x or less.

For the first time, data for the period FY05-10 defies the above norms.

- Stocks with P/Es in excess of 15x have delivered higher returns than stocks with P/Es less than 10x.
- Likewise, stocks with high P/B have delivered higher than stocks with lower P/B.

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2005)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
P/E (x)			
<5	2	3	30
5-10	19	18	23
10-15	24	30	29
15-20	18	15	33
20-25	13	9	33
>25	24	25	27
Total	**100**	**100**	**28**
Price/Book (x)			
<1.5	10	8	31
1.5-2.0	14	10	20
2-3	22	32	29
3-4	17	17	36
4-5	11	8	29
>5	26	25	24
Total	**100**	**100**	**28**
Price/Sales (x)			
<0.5	6	2	15
0.5-1.0	13	11	37
1.0-1.5	20	24	34
1.5-2.0	16	11	34
2.0-3.0	15	12	20
3.0-5.0	16	18	27
>5.0	14	22	27
Total	**100**	**100**	**28**

Wealth Creators

Classification By Valuation Parameters (contd.)

Payback ratio of less than 1x continues to guarantees high returns

The 4th element of our multi-bagger formula referred to earlier is Payback ratio of less than 1x. (We define payback ratio as current market cap divided by estimated profits of next five years.)

Whereas our other 3 elements have failed the test in this study, payback ratio of 1x continues to remain a reliable indicator of significantly superior returns.

Over FY05-10, stocks with payback ratio greater than 1x have delivered average returns at best.

Key Finding

Stocks with lower P/E and P/B have not necessarily delivered superior returns over FY05-10. Chances are high that this is an aberration.

In this context, it may be relevant to check out the UU investing approach, covered in the theme section of this report.

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2005)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
Payback Ratio (x)			
<0.5	7	4	61
0.5-1	28	35	36
1-1.5	23	22	23
1.5-2	26	22	28
>2	16	16	21
Total	**100**	**100**	**28**

MEDIAN VALUATIONS (X)

	2005		2010	
	SENSEX	WEALTH CREATORS	SENSEX	WEALTH CREATORS
Median P/E	15.3	16.9	21.4	22.0
Median P/B	3.2	3.1	3.5	4.1
Media P/S	2.5	1.9	3.2	3.3

Wealth Destroyers

Wealth destroyed is 2% of wealth created

During FY05-10, total wealth destroyed at Rs650b is about 2% of the total wealth created of Rs26,500b. This reflects the significant recovery of the Indian market over FY09. In our last study covering FY04-09, wealth destroyed was a high 17% of the wealth created.

Decline in profits will always be severely punished by markets even in boom times.

Satyam Computer, Ranbaxy and MTNL were featured in last year's study as well. But some other wealth destroyers of last year – Tata Motors, Tata Steel, etc – have staged a remarkable comeback.

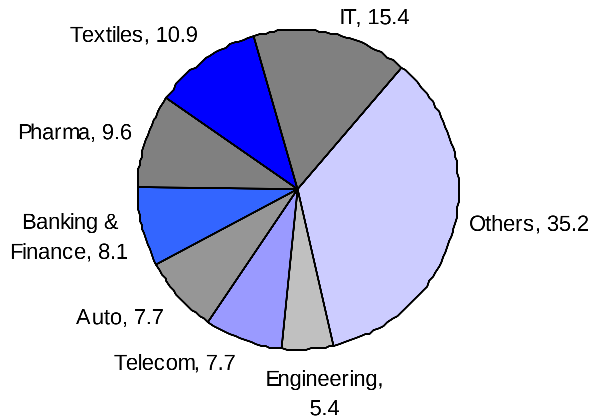
Key Finding

A positive approach towards wealth destroyers is that if the factors which caused wealth destruction are temporary, the bounceback holds potential for significant wealth creation. Turnaround is a key UU situation, and can offer favorable risk-reward ratio (see UU investing in the theme section).

TOP-10 WEALTH DESTROYERS (2005-2010)

COMPANY	WEALTH DESTROYED RS B	WEALTH DESTROYED % SHARE	PRICE CAGR (%)
Jet Airways	63	10	-17
Indiabulls Fin.	38	6	0
Satyam Computer	26	4	-15
M T N L	26	4	-9
Wockhardt	25	4	-18
Ranbaxy Labs.	17	3	-1
HFCL Infotel	17	3	-28
Sundaram Clayton	16	3	-20
Arvind Ltd	14	2	-22
Videocon Inds.	13	2	-1
Total of above	**255**	**39**	
Total Wealth Destroyed	**650**	**100**	

WEALTH DESTRUCTION BY INDUSTRY (%)



Wealth Creation

2005-2010

The 15TH Annual Study

Theme 2011

UU Investing

Creating wealth from the unknown and unknowable

"Learning to invest more wisely in a UU world may be the most promising way to significantly bolster your prosperity."

*- Richard Zeckhauser, Professor of Political Economy, Kennedy School, Harvard University **

1. Introduction

The stock market presents investors with situations of varying levels of uncertainty. In many cases though, such uncertainty goes into a completely different dimension of non-knowledge. Richard Zeckhauser of Harvard University calls this the "world of ignorance" or "unknown and unknowable (UU)". Classical examples are: (1) a new company in a new business (e.g. casino company in India), or (2) a company prospecting for precious metals such as gold.

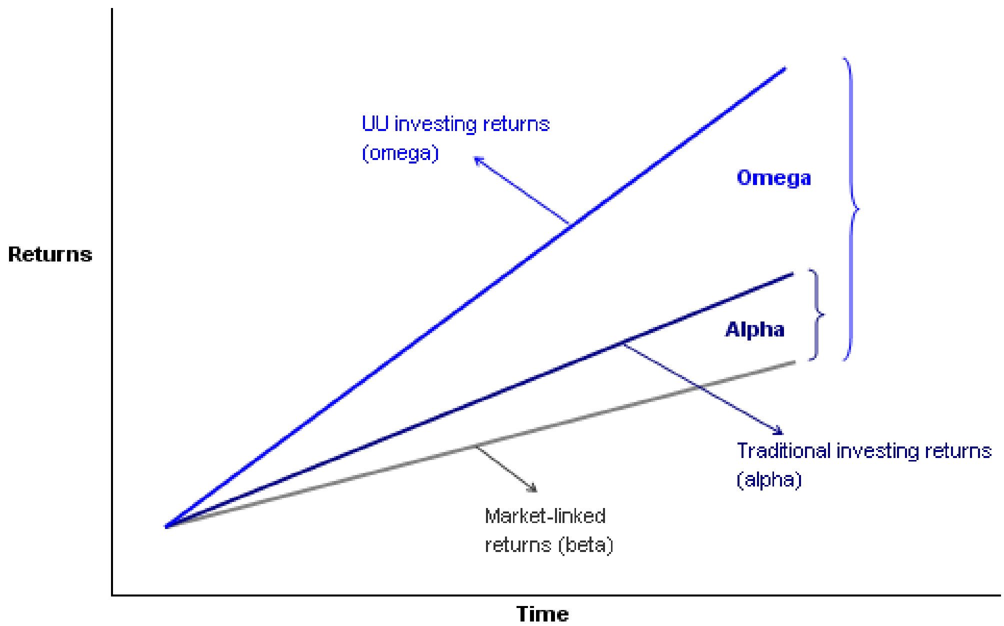
"There are systematic ways to think about unknowable situations ..."

Traditional models of investing and finance do not apply in UU situations. And yet, wise investors can go about systematically thinking through UU opportunities and earn extraordinary returns. Legg Mason Value Fund manager Bill Miller's large subscription to Google IPO and, more recently, Warren Buffett's investment in BYD (a Chinese company making batteries and electric cars) are real-life examples of UU investing. Closer home, Infosys' IPO in 1994 was a textbook UU situation. Of late, Vedanta group's series of acquisitions in India - Balco, Hindustan Zinc, Sesa Goa and now Cairn India - have a strong UU flavor.

In the traditional investing model, portfolio return in excess of benchmark is called "Alpha". As Zeckhauser says, "Unknowable situations have been and will be associated with remarkably powerful investment returns." We call the very high excess return possible from UU situations "Omega".

"... If these ways are followed, they can provide a path to extraordinary expected investment returns."

Beta, Alpha, Omega - Thematic representation



* The core idea in this report is drawn from Richard Zeckhauser's paper, "Investing in the unknown and unknowable". All quotes in this note are from this paper, unless otherwise stated.

1.1 Report structure

We cover the theme in the subsequent pages as follows:

- Backdrop to UU investing - understanding risk, uncertainty and ignorance
- What is UU investing?
- How to go about UU investing?
- Case study: Indian banking stock ideas for 2020.

2. Backdrop to UU investing – understanding risk, uncertainty and ignorance

> **"The real world of investing often ratchets the level of non-knowledge into still another dimension, where even the identity and nature of possible future states are not known. This is the world of ignorance. In it, there is no way that one can sensibly assign probabilities to the unknown states of the world."**

In 1995, American mathematician Ralph Gomory wrote that all knowledge can be classified into three states - (1) Known, (2) Unknown, and (3) Unknowable. Underlying these terms is the concept of **probability distribution** i.e. a complete and exhaustive set of outcomes, together with associated probabilities.

2.1 Known (or Risk): This refers to a situation where the distribution is completely specified. This is equivalent to Frank Knight's (1921) definition of risk - both outcomes and probabilities are specified.

Example: Based on long-term historic data, the distribution of automobile or life insurance claims for an insurance company is more or less known.

2.2 Unknown (or Uncertainty): This refers to a situation where probabilities cannot be assigned to at least part of the event space. This is equivalent to Knight's definition of uncertainty - events are specified but probabilities are not.

Examples: Terrorist attacks, systemic risk in financial systems, stock prices

2.3 Unknowable (or Ignorance): This refers to a situation where even the events defining the space cannot be identified in advance. Only after they occur, do they enter the domain of uncertainty or risk, as the case may be. This is because the events are discontinuous - there is no precedence or even an underlying model with which to explain them. A new model will need to be conceived or conjectured.

Example: Long-term future of a sunrise industry or a start-up company.

The following table captures the implications of these states of knowledge in investing.

Escalating challenges of effective investing

Investment challenge	Knowledge of states of the world	Investment environment	Skills needed	Stock market relevance
Risk (K)	Outcomes known; Probabilities known	Distribution of returns known	Portfolio optimization	Not very relevant as very few outcomes, if any, have known probabilities
Uncertainty (U)	Outcomes known; Probabilities unknown	Distribution of returns conjectured	■ Portfolio optimization ■ Decision theory	Faced by all stock market investors
Ignorance (UU)	Outcomes or states of the world unknown	■ Distribution of returns conjectured, often from deductions about other's behavior ■ Complementary (i.e. special investing) skills often rewarded	■ Portfolio optimization ■ Decision theory ■ Complementary skills (mainly unusual judgment) ■ Strategic inference	Profitably exploited by intelligent investors

3. What is UU investing?

UU investing may be defined as the process of "identifying good investments when the level of uncertainty is well beyond that considered in traditional models of finance".

If UU is a situation where future states of the world are unknown, then UU investing is the art of "selecting assets that will fare well when future states of the world become known."

3.1 Core essence of UU investing

> **It would be surprising not to see significant expected excess returns to investments that have three characteristics:**
> **(1) UU underlying features,**
> **(2) complementary capabilities are required to undertake them, so the investments are not available to the general market, and**
> **(3) it is unlikely that a party on the other side of the transaction is better informed.**

1. **Assessing asymmetric payoff using special skills:** Investors with special investing skills such as strategic thinking, domain knowledge, and unusual judgment can identify stock opportunities with very high payoff asymmetry i.e. significantly high upside for a fixed maximum downside of 100%.
   (Zeckhauser calls such special investing skills "complementary skills". Such skills are also advantageous in situations such as venture capital where entrepreneurs approach only those funds that not only bring in money, but also their connections and business knowhow.)

2. **Identifying unique situations with low competition and attractive price:** Most investors - even speculators and arbitrageurs - tend to avoid UU situations due to: (1) fear of capital loss due to ignorance or ambiguity, and (2) aversion to hindsight criticism, if the investment decision goes wrong. As a result, there is hardly any competition for UU investments, leading to an extremely attractive price.

3. **Portfolio approach to diversify risks:** A reasonably diversified portfolio of such UU investments ensures that even if only a couple of ideas play out as expected, the huge positive payoffs from them will handsomely compensate for losses, if any, on all the remaining ideas.

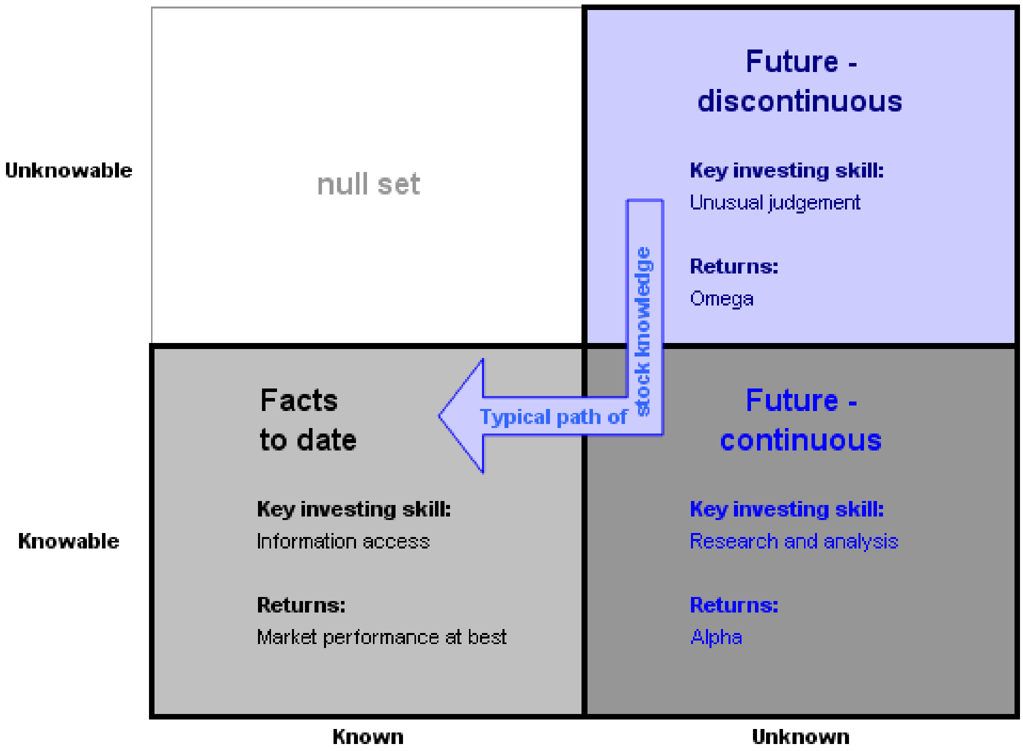
3.2 Where UU is relevant

Empirical evidence suggests that in normal life, most massive gains (or losses) are the outcome of positive (or negative) UU events. For instance, positive UU events could include an unexpected lucrative job, or a low-value real estate holding exploding in value, sharp surge in the value of gold accumulated over time, or even a lottery jackpot.

The classical arenas of UU are insurance and venture capital. However, the UU investing technique can also be effectively deployed for stock market investments. The following matrix provides more clarity on the terms known, knowable, unknown and unknowable in the context of stock market investing.

The KK-UU matrix

Note: The arrow indicates the typical path of stock knowledge in the markets - from the UU zone to the UK zone to the KK zone



Key takeaways from the KK-UU matrix

- All future is uncertain, and hence falls into the realm of the unknown.
- When the future is broadly a continuity of the past, it becomes knowable through methodic research and analysis.
- In equity investing, the market typically rewards successful knowability (i.e. ability to know) with a reasonable excess return over the benchmark i.e. Alpha.
- When the future is discontinuous from the past, it enters the realm of the unknowable. Rational decision-making and behavior in this situation calls for a radically different skill-set culminating in unusual judgment, courage and patience.
- The market handsomely rewards a successful journey from UU (unknown-unknowable) to KK (known-knowable) i.e. Omega.

3.3 Past examples of UU investing

Example #1

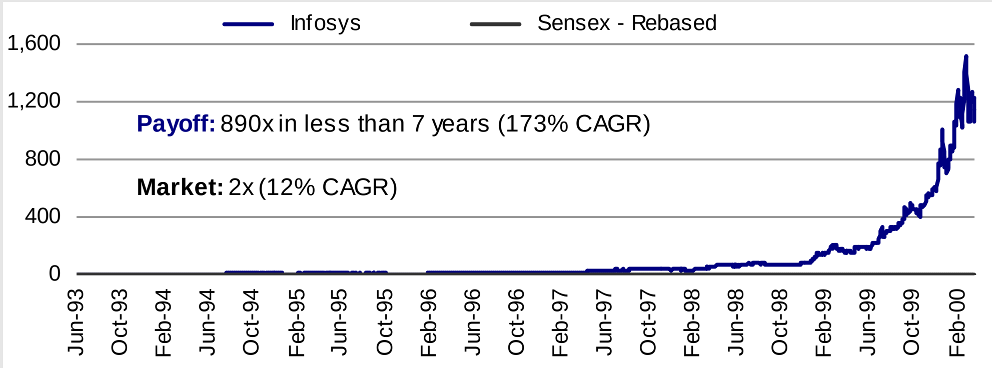
Infosys: at the time of IPO in 1994, which got undersubscribed

UU situation	Special investing skills
■ New company in a new sector ■ The Y2K opportunity ■ India's competitive advantage in intellectual capital businesses ■ Management depth of Infosys	■ Domain knowledge of IT and its potential ■ Knowledge of IT experience in other countries ■ Assessment of Infosys' management competence and character ■ Understanding of labor cost arbitrage

Payoff

Infosys stock appreciated 890x over 7 years post IPO listing

Infosys v/s Sensex



Example #2

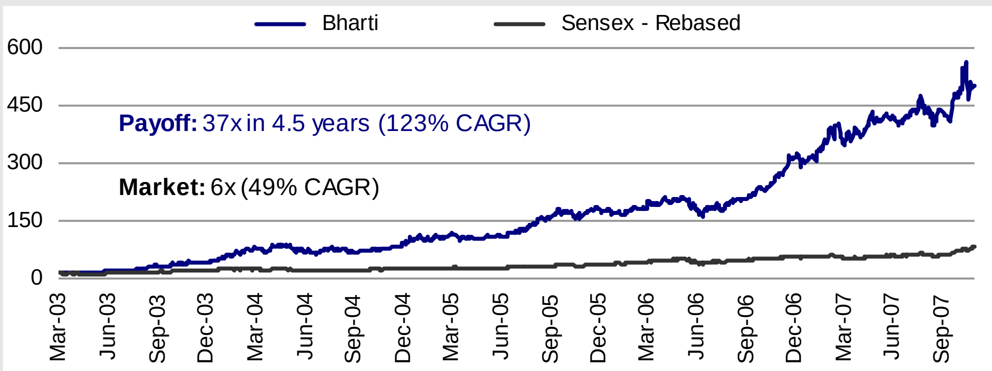
Bharti Airtel: in FY03 when it had a net loss of Rs1.8b

UU situation	Special investing skills
■ The opportunity size of wireless telephony ■ High level of profitability once the break-even level of subscribers is achieved ■ Management execution capability	■ The concept of value migration - from wired telephony to wireless ■ The exponentiality of network businesses, where every member added to a network expands the number of transactions manifold

Payoff

Bharti stock appreciated 37x in 4.5 years from March 2003

Bharti Airtel v/s Sensex



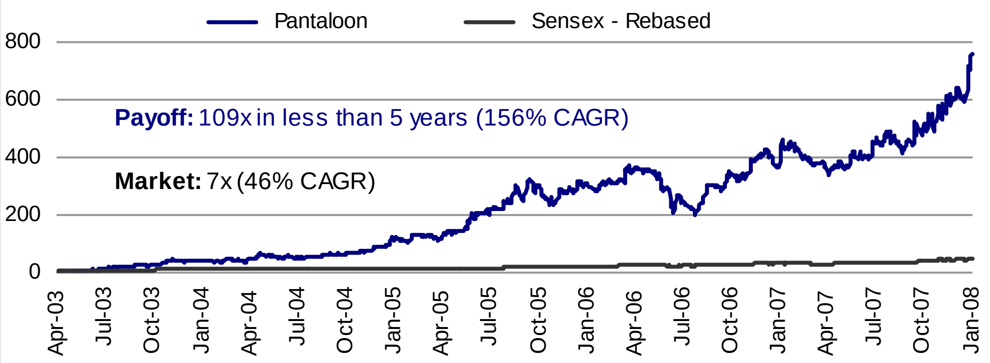
Past examples of UU investing (continued)

Example #3

Pantaloon Retail: early stage investing

UU situation	Special investing skills
■ New company in a new sector ■ The opportunity in Indian organized retail ■ Management execution capability	■ The concept of value migration - from unorganized retail to organized ■ The success story of organized retail elsewhere e.g. Wal-mart

Pantaloon Retail v/s Sensex



Payoff

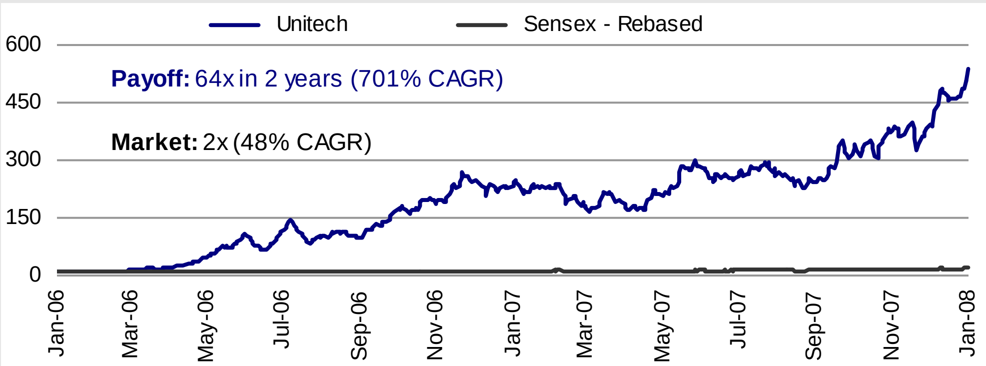
Pantaloon stock appreciated over 109x in less than 5 years from March 2003

Example #4

Unitech: pioneer of organized real estate

UU situation	Special investing skills
■ Real estate boom ■ Unitech's low-cost land bank ■ Management execution capability	■ Experience of real estate boom in other Asian countries ■ Increase in funding sources for home buyers due to focus of banks on mortgages

Unitech v/s Sensex



Payoff

Unitech stock appreciated 64x in 2 years beginning 2006

Past examples of UU investing (continued)

Example #5

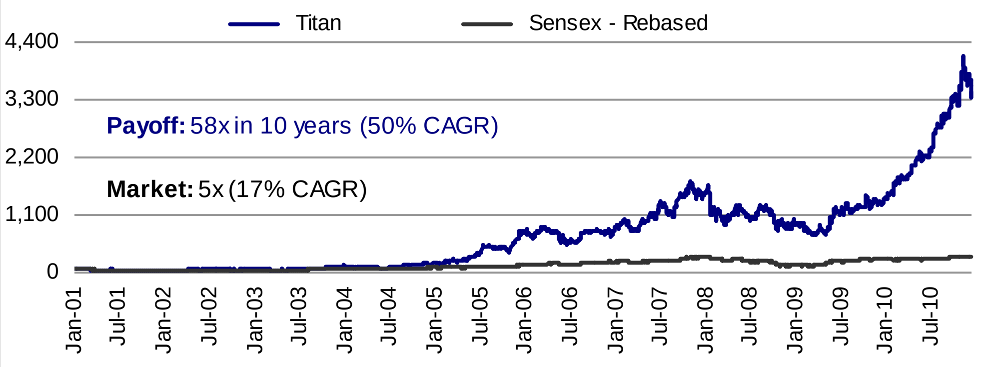
Titan Industries: resurgence from Rs131m PAT in FY02 to Rs2.5b in FY10

UU situation	Special investing skills
■ Explosion in jewelry sales (13x) ■ Divergence of rising profits amidst falling margins (due to higher share of lower margin jewelry business)	■ Exponentiality of discretionary spend (e.g. jewelry) on the back of economic prosperity ■ Value migration from unorganized to organized jewelers, specially the re-assurance of house of Tatas ■ Profitability of near monopoly business (domestic watches)

Payoff

Titan stock up above 58x in the last 10 years

Titan Industries v/s Sensex



Example #6

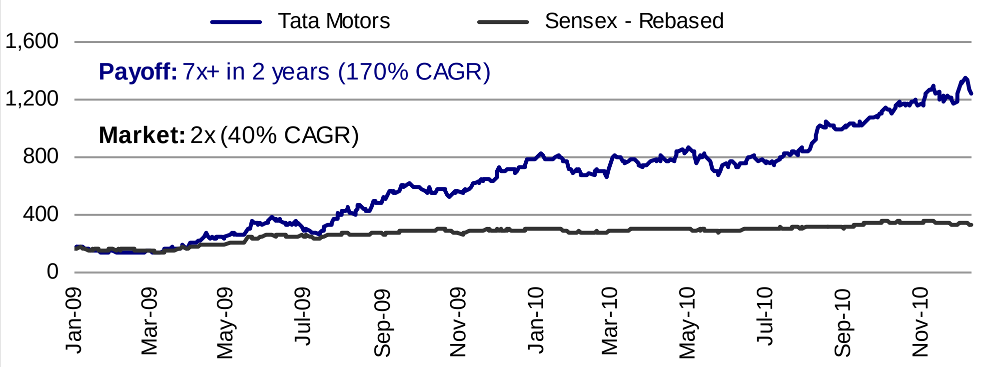
Tata Motors: recent turnaround

UU situation	Special investing skills
■ The turnaround in JLR ■ The revival in Indian CV sector	■ Domain knowledge of the luxury car business ■ JLR's focus on emerging markets like Russia and China ■ Scope for margin improvement following falling commodity prices ■ Knowledge of CV business cycles

Payoff

Tata Motors stock is up over 7x in 2 years beginning early 2009

Tata Motors v/s Sensex



4. How to go about UU investing

> Clear thinking about UU situations, which includes prior diagnosis of their elements, and relevant practice with simulated situations, may vastly improve investment decisions where UU events are involved.

The payoffs in the above examples are highly attractive. But one needs to be very clear that these numbers are only with 20:20 hindsight vision. Achieving such returns before the UU situation plays out as expected requires a very high level of knowledge, skill and discipline. We see three major steps for the first-time UU practitioner:

1. Knowing the success principles of UU investing
2. Looking out for UU situations and events
3. Being aware of the pitfalls.

4.1 UU investing: Success principles

Successful investing in UU situations calls for strict adherence to the success principles (SPs) of UU investing. Each one of these principles is necessary, but no one of them is sufficient. In a sense, these principles also make a check-list of pre-conditions. To have any chance of successful UU investing, all these pre-conditions need to be met.

SP #1: High asymmetric payoff
SP #2: High level of complementary (i.e. special) skills
SP #3: Low competition
SP #4: Portfolio approach
SP #5: Non-aversion to hindsight criticism
SP #6: Long-term outlook and patience.

> The opportunity to get a 10 or 100 multiple on your investment as often as you lose virtually all of it is tremendously attractive.

SP #1: High asymmetric payoff

A key governing principle underlying UU investing is that no matter what the situation, the downside is capped at 100% whereas the upside is unlimited. To quote Richard Zeckhauser, "The opportunity to get a 10 or 100 multiple on your investment as often as you lose virtually all of it is tremendously attractive." As there is risk of capital loss in UU situations, the positive payoff potential needs to be very high. Thus, even if 8 out of 10 UU ideas turn adverse, the payoff on the 2 which do succeed more than makes up for the loss.

The payoff diagram of UU investing is depicted on next page. At first glance, one is likely to conclude that UU investing corresponds to the classical investment maxim of "high-risk-high-return". The key differences, however, are (1) UU features (which wards of competition), and (2) special investing skills, both of which combine to significantly raise the potential payoff (which could be as high as 100x or 10000%) and lower the potential loss (which in all cases is capped at 100%).

> Alas, few of us possess the skills to be a real estate developer, venture capitalist or high tech pioneer. But how about becoming a star of ordinary stock investment? For such efforts an ideal complementary skill is unusual judgment.

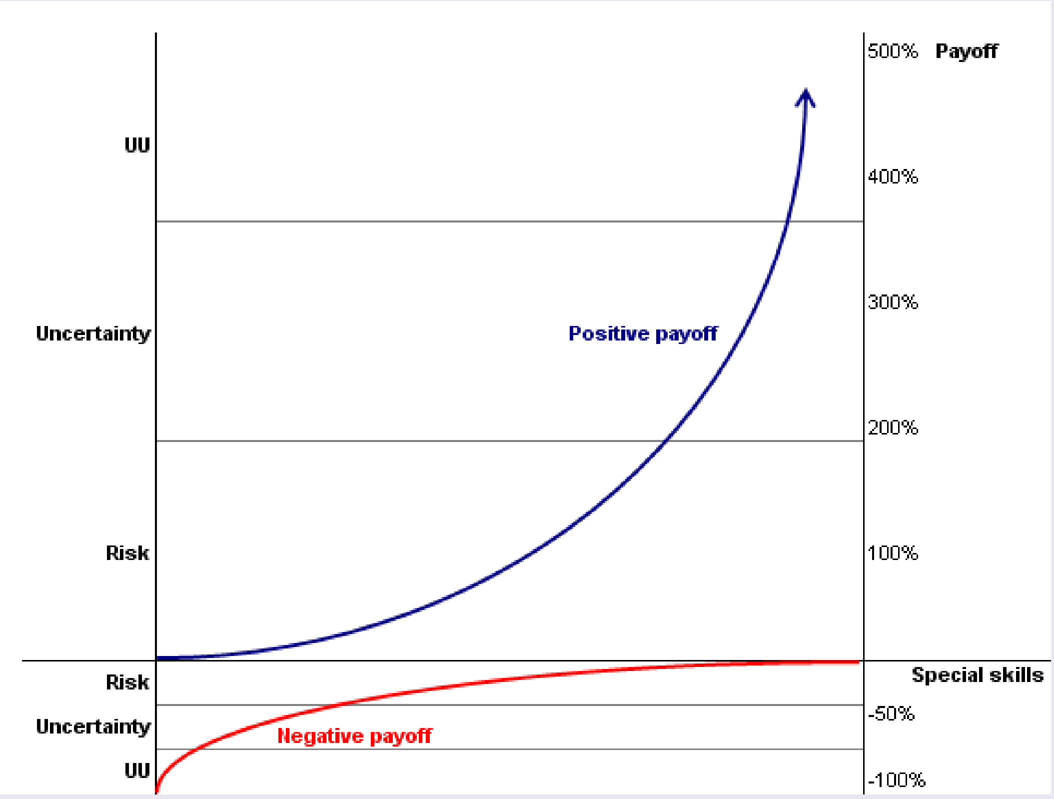
SP #2: High level of complementary (i.e. special) skills

Complementary or special investing skills form the core of UU investing. But for these, committing monies in UU situations is tantamount to sheer speculation. By deploying these special investing skills, the investor is able to determine in any given UU situation, whether there is a favorable chance of a highly asymmetric positive payoff.

Such special investing skills pertain to both decision-making behavior, and vary from investor to investor. However, the more generic ones are:

- Domain knowledge of specific businesses
- Past experience elsewhere (in other companies, in other industries, or in other geographies)

UU investing - the payoff diagram



Key takeaways from the payoff diagram

- Higher the investment challenge (i.e. risk, uncertainty or UU), higher the payoff, whether upside or downside.
- Higher the special skills, higher the upside payoff and lower the downside payoff.
- The upside payoff is unlimited whereas the downside payoff is capped at 100%, creating the payoff asymmetry.

- Management assessment (mainly its ability to encash the upside possibility, when it arises)
- Imagination and unusual judgment
- Conviction and courage to finally commit the investment

These special skills help investors create a positive asymmetry of information for themselves. Thus, they move from quadrant C shown in the matrix below to quadrant D, and earn omega returns from the UU situation.

"In a situation where probabilities may be hard for either side to assess, it may be sufficient to assess your knowledge relative to the party on the other side (perhaps the market)."

Investment matrix amidst asymmetric information

	Easy for Others to Estimate	Hard for Others to Estimate
Easy for You to Estimate	A. Tough markets; no excess returns possible	**D. Benefit from the UU situation using special investing skills**
Hard for You to Estimate	B. Avoid action; possibility of significant loss	C. Potential UU situation

"UUU investments - unknown, unknowable and unique - drive off speculators, which creates the potential for an attractive low price."

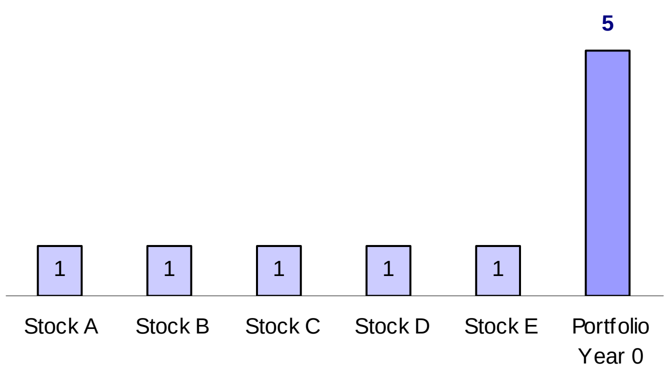
SP #3: Low competition

In UU situations, typically, neither buyers nor sellers have any meaningful clarity on the future prospects or pitfalls of investing in a particular situation. As a result, competition is very low for the investor who brings to the table the relevant special investing skills. In fact, low competition is not only a principle but also a fundamental evidence of the UU nature of a situation.

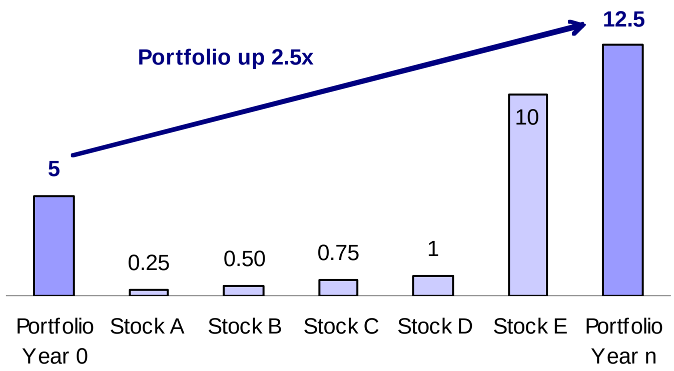
SP #4: Portfolio approach

Portfolio approach is a key principle of risk diversification even in the traditional investing model. It becomes more important in UU investing given high risk of loss associated with in each situation. Asymmetric payoff of each UU investment in the portfolio ensures that even if the success ratio is low, the overall portfolio performance is very healthy (see exhibits below). At the same time, however, the UU portfolio cannot be too diversified, as it is unlikely that the investor can bring the same level of special skills in many cases.

Initial portfolio



Final portfolio healthy despite low success ratio due to asymmetric payoff



Source: MOSL

"If none of your investments looks foolish after the fact, you are staying too far away from the unknowable."

SP #5: Non-aversion to hindsight criticism

Just as special skill is the core decision-making principle, non-aversion to hindsight criticism is the core behavioral principle. Though the UU portfolio may offer healthy returns as a whole, several individual ideas in the portfolio would perform very poorly. This creates room for hindsight criticism of these investment decisions. In Zeckhauser's own words, "If blame aversion is a prime concern, the world of UU is not for you."

Looking at it the other way, aversion to hindsight criticism is what partly helps create UU situations as institutional investors tend to shun away from stocks of lesser known companies fearing hindsight criticism if the stock were to underperform.

SP #6: Long-term outlook and patience

This again is a principle of the traditional investing model, but all the more important in UU investing to allow for the UU situation to journey play out into KK and for the positive upside to pay off.

Unknowable situations are widespread and inevitable

4.2 UU situations and events

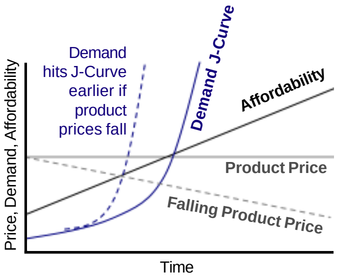
All situations where the future is discontinuous from the past are UU situations. This includes situations where there is no past e.g. a sunrise industry or a start-up venture. Likewise, all events which cause the future to be discontinuous from the past are UU events e.g. a major global acquisition.

From the investing perspective, UU situations and events can be understood in three areas: (1) Business, (2) Management, and (3) Valuation. We discuss the most relevant ones below, with appropriate examples. In the case of some investment opportunities, more than one of UU situations/events could be at play. In general, higher the number of UU situations/events in a particular case, lower the competition, and higher the potential upside payoff.

UU situations and events are multiple and diverse

UU situation / event	Past example(s)
Business-related	
#1 Short history of industry and/or company	■ Industries such as IT, dotcoms, wind energy, telecom, real estate, etc, when they were sunrise ■ Start-up ventures (e.g. private equity investment into Google when it was a fledgling)
#2 Huge size of opportunity coupled with company's own scalability	■ Indian IT and Infosys, Wipro, TCS ■ Wireless telecom and Bharti ■ Organized retail and Pantaloon ■ Gas and Reliance Industries' KG-D6 discovery
#3 Technology intensity of business	■ Proliferation of PCs compared to mainframes ■ Decimation of pagers by cellphones ■ Private sector Indian banks armed with technology (e.g. core banking system, ATMs, etc) ■ Amazon versus traditional booksellers
#4 Change (or scope for change) in government regulation	■ Lowering of trade and tariff barriers to imports, increasing the competition for global tradables ■ Cement decontrol in the '90s ■ Issue of new licenses in wireless telecom
#5 Value migration	■ From wired to wireless in telecom ■ From unorganized to organized in retail ■ From non-brands to brands in FMCG ■ From PSU banks to private banks
#6 Demand J-curve inflexion point	■ Expansion of shampoo market by sachets ■ Exponential rise in wireless subscribers on lower tariffs ■ Boom in affordable housing ■ Rising penetration of branded noodles
#7 Change in competitive landscape	■ Sale of Nihar brand of coconut oil to Marico ■ Issue of new licenses in wireless telecom ■ Several new players in BTG (boiler-turbine-generator) ■ Gradually rising competition in two-wheelers

Demand J-curve inflexion



If the events are unpleasant, it is not clear when to celebrate their end.

UU situation / event	Past example(s)
Business-related (continued)	
#8 Turnaround	■ Crompton Greaves' turnaround in FY02 after two successive years of loss ■ Ranbaxy turning from profit to loss in 2008 ■ JLR turnaround in FY11
#9 Discontinuous corporate action	■ Major M&A activity (Reliance group break-up, Tata-Corus, Tata Motors-JLR, Hindalco-Novelis, Bharti-Zain) ■ Unprecedented capex plan (e.g. Nestle India) ■ Change in business model (e.g. Lupin) ■ Satyam Computers' disclosure of fraud
#10 Discontinuous change in operating metrics	■ Change in C, V, P, M (cost, volume, profit, mix) due to factors not covered above e.g. sharp rise in global commodity prices is a positive UU for commodity suppliers and negative UU for commodity users
Management-related	
#1 Management with no track record	■ Start-ups by first generation entrepreneurs
#2 Change in management	■ Satyam's takeover by Mahindra group ■ Privatization of Hindustan Zinc
#3 Intellect and integrity of management	■ In its heydays, Ambuja Cement traded at a premium to peers due to innovative management ■ Recent sharp decline in stock prices of mgmts allegedly involved in stock price rigging
Valuation-related	Extreme pessimism and optimism in the markets creates UU situations e.g. ■ Infosys valuation at the height of dotcom boom ■ Indian stock valuations at the height of global crisis in early 2009 ■ Tata Motors hitting rock bottom in 2009

4.3 UU investing pitfalls

The two major pitfalls of UU investing are:: (1) Overconfidence leading to loss; and (2) Hindsight criticism.

If you lack Buffett capabilities, you will get chewed up as a bold stock picker.

1. Overconfidence: Behavioral economics suggests people tend to think they know much more about unknowable quantities than they do. This can prove to be a dangerous tendency when coupled with the temptation of high payoffs in UU investing. Zeckhauser puts it aptly, "If you lack Buffett capabilities, you will get chewed up as a bold stock picker."

One might be blamed for a poor outcome if one invests in ignorance when, in fact, it was a good decision that got a bad outcome.

2. Hindsight criticism: We have already mentioned non-aversion to hindsight criticism as a core principle of UU investing. Still, it is important enough to be reiterated as a pitfall that investors need to be aware of. By definition, UU investing involves taking calculated bets in situations where knowledge is scanty. If such investment(s) were to incur significant loss, the investment would be criticized in hindsight as foolish by all but the most sophisticated. Investors who are prone to get affected by such hindsight criticism – technically termed Monday Morning Quarterback risk – need to refrain from the UU investing approach.

5. UU investing case study

Indian banking stock ideas for 2020

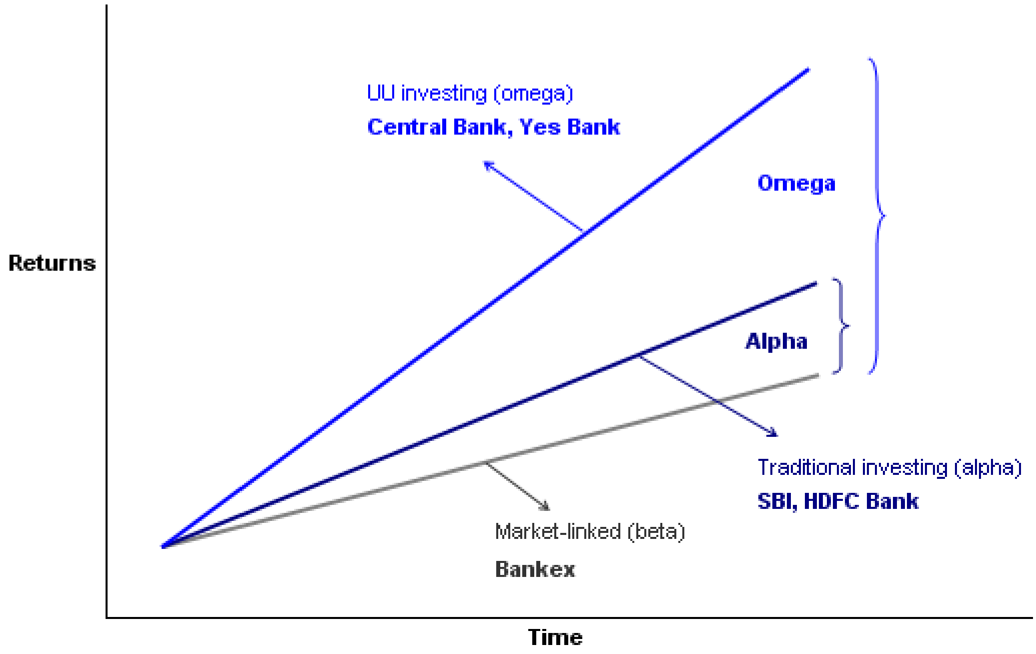
We have applied all of the above understanding to identify banking stock ideas for 2020, both under the traditional and UU models of investing. The major exhibits of the case study are annexed later. The mapping to key UU elements is as under.

UU mapping of the Indian banking sector

UU element	Application in case study
UU situation	■ Which bank(s) will yield the maximum return by 2020
Special skills	■ Clarity on the NTD framework (next trillion dollar of India's GDP)
Size of opportunity	■ TTS by 2020 - Ten Trillion Saving (in dollars, decadal cumulative), 5x the last decade ■ Huge opportunity for financial intermediation
Asymmetric payoff	■ 2020 aggregate banking sector profit will be 6x 2010 ■ Growth will be higher for banks with UU potential ■ High upside with relatively low downside
Portfolio approach	■ The bank stocks will be part of a larger UU portfolio
Hindsight criticism	■ Unavoidable!
Long-term outlook, patience	■ As Buffett is likely to say, "We are OK if the stock market were to remain shut for the next 7-8 years!"

5.1 The final picture …

2020 banking sector Beta, Alpha, Omega - Thematic representation



5.2 Major exhibits

5.2.1 NTD revisited: India's GDP will near US$5 trillion by 2020

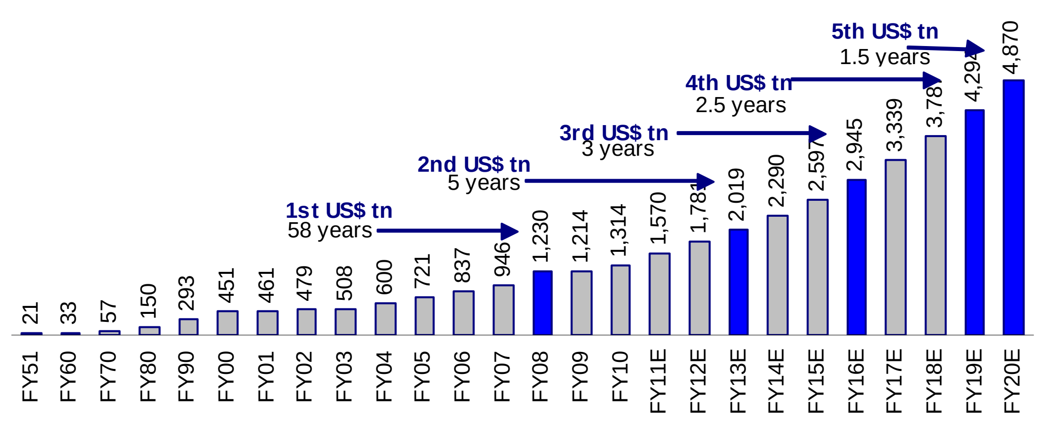
In 2007, we published our first note on the concept of NTD (next trillion dollar of India's GDP). The core NTD thesis is this: It took India about 60 years post independence to clock the first trillion dollar of GDP. With nominal GDP growth of 14-15%, at constant exchange rates, India's next trillion dollar (NTD) will come in just 5-7 years. This linear growth in GDP has exponential growth implications for several businesses.

We juxtapose the NTD idea with the GDP growth experience of China to arrive at India's GDP of almost US$5 trillion by 2020.

Key assumptions in this case study

- **Real GDP growth** 8% p.a.
- **Inflation** 5% p.a.
- **INR/USD** Fixed at 45
- **Saving rate (GDS/GDP)** To grow from 34% currently to 40% by 2020.
- **Credit/deposits to GDP** Up 3% every year (as observed during FY00-10)
- **Sector aggregate profits** 1.3% of deposits in line with past trend

By 2020 India's GDP would triple from the current level almost ~5 times the level of FY08

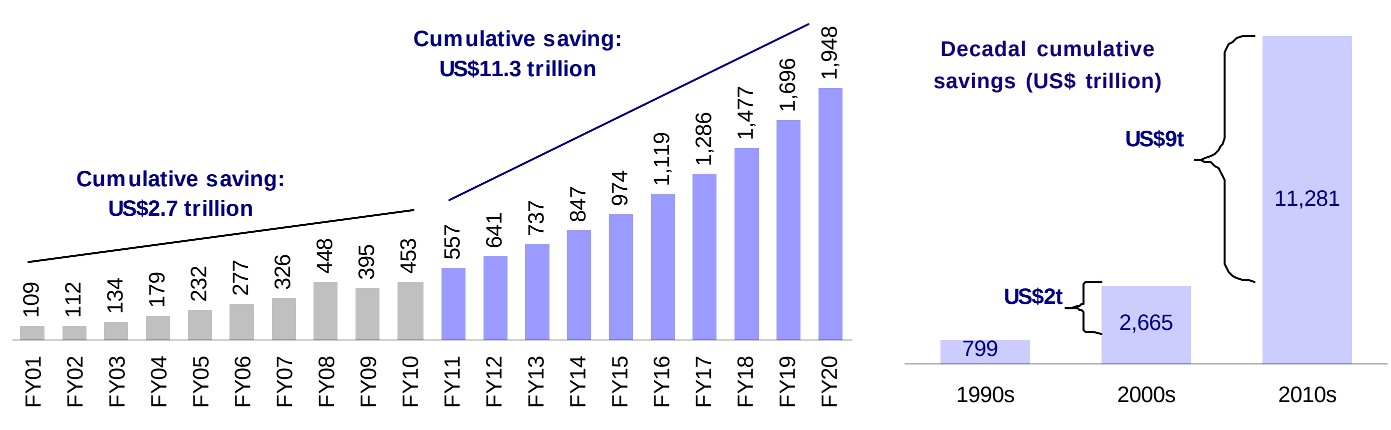


Source: MOSL

5.2.2 TTS: Over ten trillion dollar cumulative saving through 2020

India's current GDS (gross domestic saving) is at 34% of GDP. In line with long-term trend, we expect this to rise steadily to 40% by 2020. This translates to cumulative decadal saving of over US$10 trillion, compared to US$2.7 trillion during the decade to 2010.

TTS - Ten trillion dollar cumulative saving through 2020

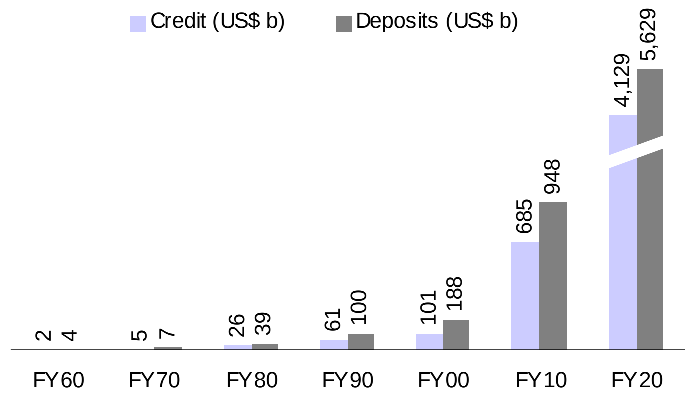


Source: MOSL

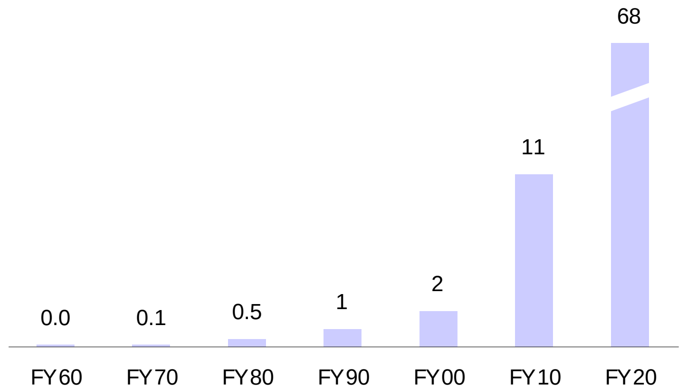
5.2.3 Huge opportunity for banking sector; business 5x, profits 6x the previous decade

The large savings pool presents a huge opportunity for the banking sector. Applying a trended growth rate correlated to GDP, in the decade to 2020, business opportunity will be 5x and profits 6x the previous decade.

2010-20: Business opportunity 5x previous decade ...



... profits 6x previous decade (US$ b)



Source: CMIE/MOSL

5.2.4 Which stocks to bet on?

This would involve an unusual judgement based on several factors including -

- Impact of technology on various banks, especially PSU banks
- Assessment of the bank management, and the vision of the Chairman, specially in case of a new incumbent
- Various data screens (annexed on page 34)

5.2.5 The unusual judgement: Buy one small/medium high-growth bank and one large, unpopular bank

Small/medium high-growth bank - Yes Bank

- Management with established credentials
- Growing at 2x industry growth rate
- Branch scale-up plans to increase CASA and expand NIMs
- Not among the cheapest banks, but absolute market cap low compared to size of opportunity and that of peers

Large, unpopular bank - Central Bank of India

- Among top 10 banks by asset size
- Recently completed 100% CBS; full benefits to accrue in future
- Management focus on margin improvement through focus on high-yielding retail segment
- Not among the cheapest in terms of P/B, but very attractive in terms of MCap/Assets.

Indian Banking: Data Screen (Rs b)

Criteria	The U (usual) suspects		The UU suspects	
Asset size - PSU (5-year avg, Rs b)	**Top tier banks**		**Second tier banks**	
	SBI (Cons)	10,588	IDBI Bank	1,458
	Punjab National Bank	2,101	Union Bank of India	1,344
	Canara Bank	1,927	**Central Bank of India**	**1,245**
	Bank of Baroda	1,882	Syndicate Bank	1,054
	Bank of India	1,866	Indian Overseas Bank	991
Asset size - Private (5-year avg, Rs b)	**Top tier banks**		**Second tier banks**	
	ICICI Bank	3,477	ING Vysya Bank	255
	HDFC Bank	1,499	Indusind Bank	250
	Axis Bank	1,122	Karnataka Bank	201
	J&K Bank	336	**Yes Bank**	**183**
	Federal Bank	322	South Indian Bank	175
Market share (%) - PSU (FY01-10)	**Top gainers**		**Top losers**	
	Allahabad Bank	0.3	Bank of Maharashtra	-0.3
	Corporation Bank	0.3	Dena Bank	-0.4
	Union Bank of India	0.2	**Central Bank of India**	**-0.6**
	Oriental Bank of Commerce	0.2	Canara Bank	-0.7
	Syndicate Bank	0.1	SBI (Cons)	-7.0
Market share (%) - Private (FY01-10)	**Top gainers**		**Top losers**	
	ICICI Bank	4.5	Karnataka Bank	-0.1
	HDFC Bank	2.5	Indusind Bank	-0.1
	Axis Bank	2.2	Development Credit Bank	-0.2
	Yes Bank (did not exist in FY01)	**0.6**	ING Vysya Bank	-0.2
	City Union Bank	0.1	J&K Bank	-0.3
Return on Assets - PSU (5-year avg, %)	**Highest 5**		**Lowest 5**	
	Indian Bank	1.5	Dena Bank	0.8
	Punjab National Bank	1.2	Vijaya Bank	0.7
	Andhra Bank	1.2	Bank of Maharashtra	0.6
	Corporation Bank	1.2	IDBI Bank	0.6
	Indian Overseas Bank	1.2	**Central Bank of India**	**0.5**
Return on Assets - Private (5-year avg, %)	**Highest 5**		**Lowest 5**	
	Karur Vysya Bank	1.6	J&K Bank	1.1
	Yes Bank	**1.6**	South Indian Bank	0.8
	City Union Bank	1.5	ING Vysya Bank	0.5
	HDFC Bank	1.4	Indusind Bank	0.5
	Axis Bank	1.3	Development Credit Bank	(0.8)
Valuation - PSU (FY11 P/B x)	**Cheapest 5**		**Next cheapest 5**	
	United Bank of India	1.0	IDBI Bank	1.2
	Syndicate Bank	1.1	**Central Bank of India**	**1.2**
	Indian Overseas Bank	1.1	Corporation Bank	1.3
	Dena Bank	1.1	Andhra Bank	1.3
	Oriental Bank of Commerce	1.2	Allahabad Bank	1.3
Valuation - Private (FY11 P/B x)	**Cheapest 5**		**Next cheapest 5**	
	Karnataka Bank	1.0	ING Vysya	1.8
	J&K Bank	1.1	City Union Bank	1.8
	Dhanalakshmi Bank	1.3	DCB	1.9
	Federal Bank	1.4	Karur Vysya Bank	2.1
	South Indian Bank	1.6	**Yes Bank**	**2.7**

6. Conclusions

- Metals/Mining sector has dominated this year's Wealth Creation Study.
  (1) The sector has displaced Oil & Gas as the biggest wealth creator.
  (2) 4 out of top 10 fastest wealth creators are from this sector.
  (3) The sector has even made a beginning into the consistent wealth creating category.

- Low payback ratio (Market cap/Next 5 years' profits) remains the most reliable valuation indicator of fastest wealth creation.

- UU situations offer asymmetric payoffs; these can be exploited only by investors with complementary skills, unusual judgement, and no fear of MMQ (Monday Morning Quarterback) risk.

- TTS – Ten Trillion Dollar Savings through 2020 – will throw up many UU investing opportunities in Indian financial services.

- India's high linear economic growth will create exponential business situations – the perfect backdrop for UU investing.

Wealth Creation

2005-2010

The 15TH Annual Study

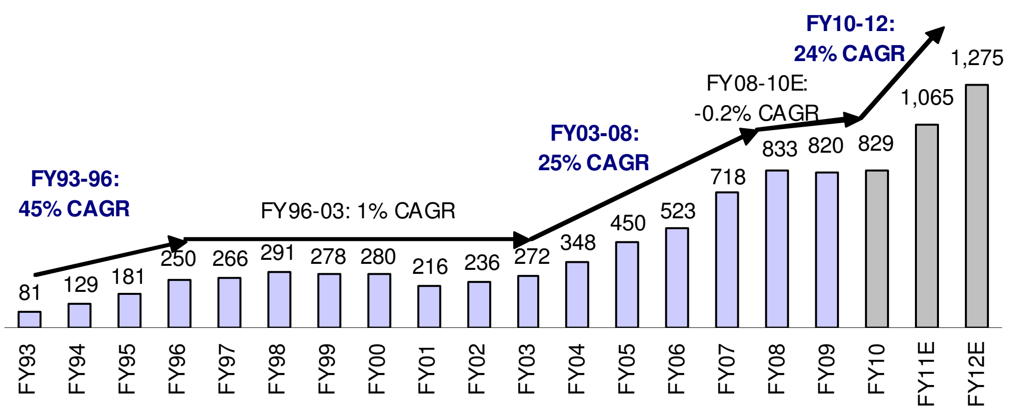
Market Outlook

Market Outlook

Sensex earnings in a new growth cycle ...

After a two-year growth holiday, India's corporate sector is expected to clock earnings CAGR of 24% through FY12.

Sensex EPS (Rs): On a new cycle of growth

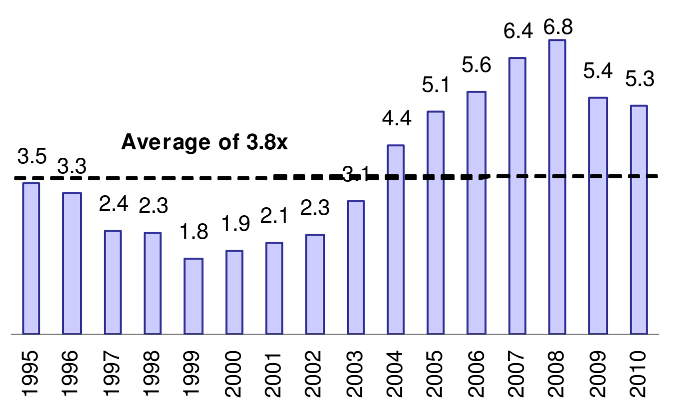


Source: MOSL

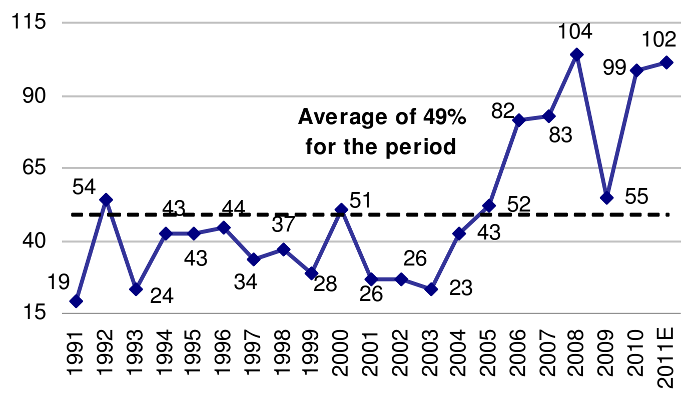
... but face headwinds of rising commodity prices and inflation

Rising global commodity prices led by crude, coupled with persistently high domestic inflation increase the risk of earnings downgrades going forward. Still, earnings growth will be higher than the nominal growth in GDP, implying that corporate profits to GDP would bottom out.

Indian corporate sector profits to GDP (%)



Indian Market Cap to GDP (%)



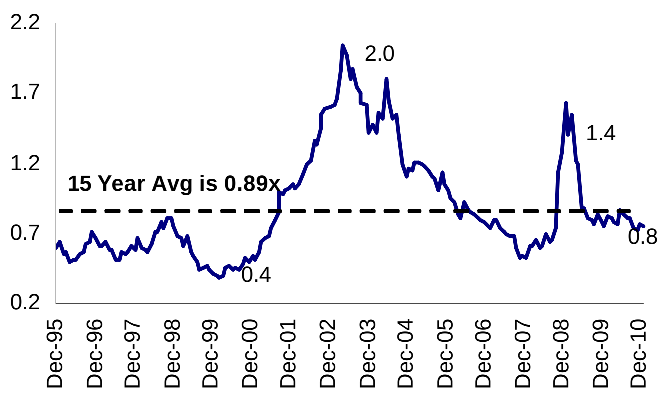
Source: CMIE/MOSL

Liquidity tight; valuations fair

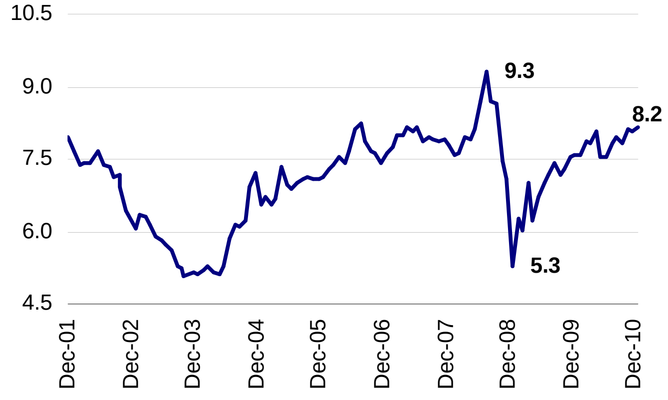
However, market cap/GDP ratio is close to its all-time high. In parallel, domestic liquidity situation is tight and interest rates are trending higher.

Market valuations do not offer any margin of safety; earnings yield to bond yield is below its long-period average (LPA) while Sensex P/E at 16x one-year forward earnings is above its LPA of 14.5x.

Sensex earnings yield v/s bond yield (%)

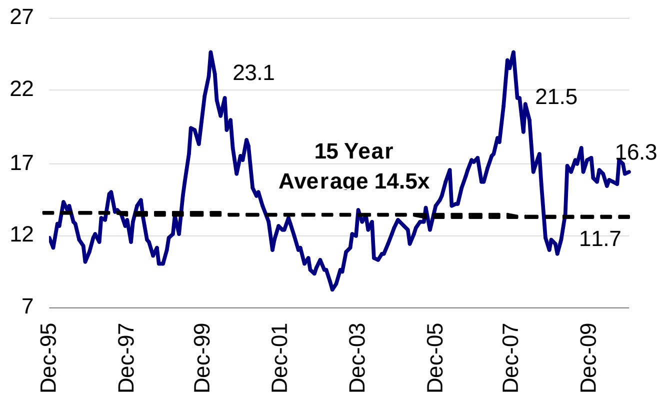


10-year G-Sec yield (%)

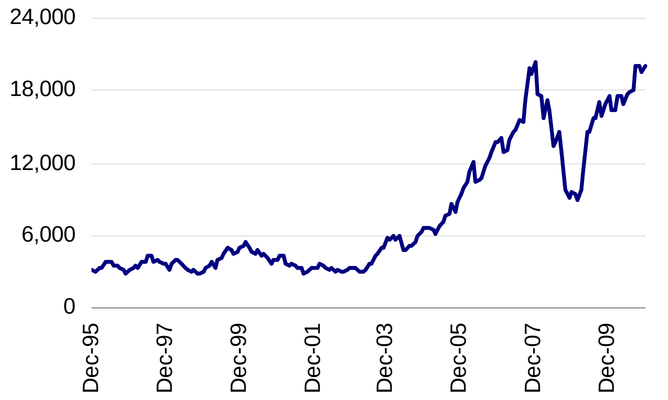


Source: MOSL

1-year forward Sensex P/E (x)



Sensex trend



Source: MOSL

Governance: A whole new concern

Macroeconomic and business headwinds apart, markets have reason to be concerned about the serious and relentless issues of corporate and political governance which India is currently embroiled in. Till the air on these issues is cleared, global investor sentiment for India is unlikely to be highly positive, keeping valuations in check.

Conclusion

All things considered, we expect Indian markets to remain range-bound in 2011. Downside is limited given the bedrock of steady earnings growth, but upside is capped given no valuation triggers.

MOSL 100 – Biggest Wealth Creators

Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK	COMPANY	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
NO.	NAME	RS B	% SHARE	PRICE	PAT	SALES	FY10	FY05	FY10	FY05
1	Reliance Inds.	2,556	9.6	37	16	24	13	20	22	10
2	O N G C	1,092	4.1	13	5	5	19	28	14	10
3	NMDC	1,014	3.8	50	35	23	24	29	34	20
4	NTPC	1,000	3.8	19	8	15	14	14	20	12
5	B H E L	980	3.7	44	35	28	27	16	27	20
6	Infosys Tech.	870	3.3	18	25	25	26	36	26	32
7	TCS	838	3.2	17	25	23	37	55	27	38
8	St Bk of India	802	3.0	27	16	17	14	18	14	8
9	Larsen & Toubro	799	3.0	46	35	23	24	29	22	13
10	Bharti Airtel	792	3.0	25	51	35	26	27	13	32
11	S A I L	780	2.9	32	0	7	20	66	15	4
12	ITC	661	2.5	24	13	19	29	28	25	15
13	Jindal Steel	622	2.3	82	23	27	22	39	44	6
14	HDFC Bank	553	2.1	29	35	39	14	15	30	25
15	H D F C	547	2.1	30	22	28	19	27	28	17
16	Wipro	546	2.1	16	27	26	28	31	21	32
17	ICICI Bank	492	1.9	19	15	22	8	16	26	14
18	Sterlite Inds.	478	1.8	43	51	28	4	3	86	74
19	Hind.Copper	447	1.7	51	23	22	14	-129	319	88
20	Hind.Zinc	437	1.6	48	44	29	22	32	13	11
21	Sesa Goa	354	1.3	67	36	29	29	64	18	6
22	GAIL (India)	341	1.3	24	10	13	19	23	17	9
23	Axis Bank	321	1.2	37	50	43	16	14	19	20
24	Maruti Suzuki	288	1.1	27	24	22	21	19	16	14
25	Hero Honda Motor	278	1.0	29	22	16	64	54	17	14
26	Sun Pharma.Inds.	268	1.0	31	24	16	16	28	41	29
27	Hind. Unilever	239	0.9	13	13	12	85	57	24	24
28	M & M	234	0.9	34	32	23	27	26	15	11
29	Adani Enterp.	232	0.9	73	19	-3	13	16	98	12
30	Tata Power Co.	225	0.8	31	11	13	9	11	35	13
31	Tata Motors	220	0.8	14	13	16	15	30	19	12
32	Hindalco Inds.	209	0.8	10	8	16	7	17	18	9
33	JP Associates	205	0.8	42	52	30	21	17	19	17
34	Tata Steel	204	0.8	12	8	11	14	49	11	6
35	Nestle India	197	0.7	33	21	18	113	79	39	24
36	Kotak Mah. Bank	197	0.7	41	46	51	12	11	46	49
37	Punjab Natl.Bank	196	0.7	21	23	20	24	18	8	9
38	I O C L	195	0.7	6	16	14	20	19	7	10
39	Siemens	191	0.7	34	47	36	36	25	24	37
40	Cipla	180	0.7	27	21	20	18	27	25	19
41	JSW Steel	163	0.6	28	18	23	21	30	11	5
42	Asian Paints	158	0.6	39	35	21	50	30	25	22
43	Grasim Inds	155	0.6	18	19	6	29	20	12	13
44	Bank of Baroda	154	0.6	24	35	21	20	12	8	10
45	Natl. Aluminium	150	0.6	18	-8	4	8	26	32	9
46	Dr Reddy's Labs	149	0.6	28	67	24	14	3	25	86
47	Crompton Greaves	146	0.5	49	40	21	35	29	27	20
48	Oracle Fin.Serv.	141	0.5	31	27	20	16	18	29	22
49	Reliance Capital	135	0.5	33	26	52	5	7	55	22
50	Neyveli Lignite	131	0.5	17	1	7	12	16	19	9

MOSL 100 – Biggest Wealth Creators (contd.)

Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK	COMPANY	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
NO.	NAME	RS B	% SHARE	PRICE	PAT	SALES	FY10	FY05	FY10	FY05
51	Unitech	129	0.5	95	79	30	7	17	33	14
52	A B B	127	0.5	29	18	23	15	22	50	32
53	HCL Technologies	127	0.5	14	26	29	21	12	23	36
54	Essar Oil	122	0.5	32	24	104	1	0	593	355
55	Bharat Electronics	122	0.5	27	10	10	17	28	24	12
56	Zee Entertainment	120	0.5	14	28	15	20	8	21	35
57	Lupin	118	0.4	42	50	26	26	17	22	26
58	Container Corpn	117	0.4	27	13	13	18	25	21	12
59	Bank of India	115	0.4	27	39	24	14	8	10	15
60	Reliance Infra.	113	0.4	14	17	19	8	9	21	19
61	ACC	111	0.4	21	34	15	27	24	11	17
62	Dabur India	106	0.4	34	24	18	58	44	32	21
63	Engineers India	105	0.4	46	31	17	39	13	28	16
64	MphasiS	101	0.4	41	76	69	41	9	16	35
65	UltraTech Cem.	100	0.4	27	229	22	24	0	13	1,548
66	United Spirits	93	0.3	41	70	34	8	9	44	45
67	Union Bank (I)	91	0.3	21	24	22	24	23	7	7
68	Glaxosmit Pharma	91	0.3	20	9	7	29	36	29	19
69	Exide Inds.	88	0.3	56	47	27	25	18	20	14
70	Bosch	88	0.3	19	10	16	17	30	26	17
71	Shriram Trans.	87	0.3	57	78	68	23	25	14	7
72	Ambuja Cem.	87	0.3	17	21	22	19	21	15	15
73	Canara Bank	86	0.3	15	22	20	24	19	6	7
74	Cadila Health.	83	0.3	29	31	12	31	21	22	22
75	Cummins India	80	0.3	36	26	19	28	20	23	16
76	Divi's Lab.	76	0.3	47	39	22	22	23	26	19
77	Titan Inds.	71	0.3	52	59	34	35	18	33	39
78	Shree Cement	68	0.3	47	88	43	37	10	12	41
79	Colgate-Palm.	67	0.3	30	30	15	130	45	22	22
80	Thermax	67	0.3	42	21	27	13	15	57	26
81	Castrol India	62	0.2	30	24	12	77	35	22	18
82	Jain Irrigation	60	0.2	50	53	34	20	14	27	23
83	Financial Tech.	57	0.2	43	103	59	17	7	21	117
84	LIC Housing Fin.	56	0.2	30	36	27	20	12	13	14
85	B P C L	56	0.2	8	10	16	12	15	12	11
86	Areva T&D	55	0.2	85	55	36	22	11	38	13
87	Bhushan Steel	52	0.2	52	41	16	21	21	8	5
88	Marico	52	0.2	35	26	17	41	34	28	19
89	Voltas	51	0.2	51	47	27	35	26	17	15
90	M R P L	50	0.2	10	5	12	20	41	12	9
91	GlaxoSmith C H L	48	0.2	34	26	17	26	14	27	21
92	Pidilite Inds.	47	0.2	41	32	20	31	20	20	14
93	IndusInd Bank	47	0.2	28	11	19	16	25	20	7
94	P & G Hygiene	47	0.2	29	8	6	34	55	36	15
95	Pantaloon Retail	47	0.2	26	36	42	7	18	45	42
96	GE Shipping Co	45	0.2	14	-13	-1	7	37	11	4
97	Ashok Leyland	45	0.2	22	9	12	18	24	18	9
98	Piramal Health	45	0.2	16	21	17	30	34	20	25
99	Godrej Consumer	45	0.2	28	24	18	30	173	32	20
100	Jindal Saw	40	0.2	32	67	45	20	15	8	19

MOSL 100 – Fastest Wealth Creators

Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK	COMPANY	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
NO.	NAME	RS B	% SHARE	PRICE	PAT	SALES	FY10	FY05	FY10	FY05
1	Unitech	129	0.5	95	79	30	7	17	33	14
2	Areva T&D	55	0.2	85	55	36	22	11	38	13
3	Jindal Steel	622	2.3	82	23	27	22	39	44	6
4	Adani Enterp.	232	0.9	73	19	-3	13	16	98	12
5	Sesa Goa	354	1.3	67	36	29	29	64	18	6
6	Shriram Trans.	87	0.3	57	78	68	23	25	14	7
7	Exide Inds.	88	0.3	56	47	27	25	18	20	14
8	Titan Inds.	71	0.3	52	59	34	35	18	33	39
9	Bhushan Steel	52	0.2	52	41	16	21	21	8	5
10	Hind.Copper	447	1.7	51	23	22	14	-129	319	88
11	Voltas	51	0.2	51	47	27	35	26	17	15
12	NMDC	1,014	3.8	50	35	23	24	29	34	20
13	Jain Irrigation	60	0.2	50	53	34	20	14	27	23
14	Crompton Greaves	146	0.5	49	40	21	35	29	27	20
15	Hind.Zinc	437	1.6	48	44	29	22	32	13	11
16	Divi's Lab.	76	0.3	47	39	22	22	23	26	19
17	Shree Cement	68	0.3	47	88	43	37	10	12	41
18	Engineers India	105	0.4	46	31	17	39	13	28	16
19	Larsen & Toubro	799	3.0	46	35	23	24	29	22	13
20	B H E L	980	3.7	44	35	28	27	16	27	20
21	Financial Tech.	57	0.2	43	103	59	17	7	21	117
22	Sterlite Inds.	478	1.8	43	51	28	4	3	86	74
23	Lupin	118	0.4	42	50	26	26	17	22	26
24	Thermax	67	0.3	42	21	27	13	15	57	26
25	JP Associates	205	0.8	42	52	30	21	17	19	17
26	United Spirits	93	0.3	41	70	34	8	9	44	45
27	MphasiS	101	0.4	41	76	69	41	9	16	35
28	Pidilite Inds.	47	0.2	41	32	20	31	20	20	14
29	Kotak Mah. Bank	197	0.7	41	46	51	12	11	46	49
30	Asian Paints	158	0.6	39	35	21	50	30	25	22
31	Reliance Inds.	2,556	9.6	37	16	24	13	20	22	10
32	Axis Bank	321	1.2	37	50	43	16	14	19	20
33	Cummins India	80	0.3	36	26	19	28	20	23	16
34	Marico	52	0.2	35	26	17	41	34	28	19
35	M & M	234	0.9	34	32	23	27	26	15	11
36	Siemens	191	0.7	34	47	36	36	25	24	37
37	GlaxoSmith C H L	48	0.2	34	26	17	26	14	27	21
38	Dabur India	106	0.4	34	24	18	58	44	32	21
39	Reliance Capital	135	0.5	33	26	52	5	7	55	22
40	Nestle India	197	0.7	33	21	18	113	79	39	24
41	S A I L	780	2.9	32	0	7	20	66	15	4
42	Jindal Saw	40	0.2	32	67	45	20	15	8	19
43	Essar Oil	122	0.5	32	24	104	1	0	593	355
44	Oracle Fin.Serv.	141	0.5	31	27	20	16	18	29	22
45	Tata Power Co.	225	0.8	31	11	13	9	11	35	13
46	Sun Pharma.Inds.	268	1.0	31	24	16	16	28	41	29
47	H D F C	547	2.1	30	22	28	19	27	28	17
48	Colgate-Palm.	67	0.3	30	30	15	130	45	22	22
49	LIC Housing Fin.	56	0.2	30	36	27	20	12	13	14
50	Castrol India	62	0.2	30	24	12	77	35	22	18

MOSL 100 – Fastest Wealth Creators (contd.)

Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK	COMPANY	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
NO.	NAME	RS B	% SHARE	PRICE	PAT	SALES	FY10	FY05	FY10	FY05
51	A B B	127	0.5	29	18	23	15	22	50	32
52	Cadila Health.	83	0.3	29	31	12	31	21	22	22
53	HDFC Bank	553	2.1	29	35	39	14	15	30	25
54	Hero Honda Motor	278	1.0	29	22	16	64	54	17	14
55	P & G Hygiene	47	0.2	29	8	6	34	55	36	15
56	Dr Reddy's Labs	149	0.6	28	67	24	14	3	25	86
57	JSW Steel	163	0.6	28	18	23	21	30	11	5
58	Godrej Consumer	45	0.2	28	24	18	30	173	32	20
59	IndusInd Bank	47	0.2	28	11	19	16	25	20	7
60	Maruti Suzuki	288	1.1	27	24	22	21	19	16	14
61	St Bk of India	802	3.0	27	16	17	14	18	14	8
62	Cipla	180	0.7	27	21	20	18	27	25	19
63	Bharat Electronics	122	0.5	27	10	10	17	28	24	12
64	Bank of India	115	0.4	27	39	24	14	8	10	15
65	UltraTech Cem.	100	0.4	27	229	22	24	0	13	1,548
66	Container Corpn	117	0.4	27	13	13	18	25	21	12
67	Pantaloon Retail	47	0.2	26	36	42	7	18	45	42
68	Bharti Airtel	792	3.0	25	51	35	26	27	13	32
69	ITC	661	2.5	24	13	19	29	28	25	15
70	Bank of Baroda	154	0.6	24	35	21	20	12	8	10
71	GAIL (India)	341	1.3	24	10	13	19	23	17	9
72	Ashok Leyland	45	0.2	22	9	12	18	24	18	9
73	ACC	111	0.4	21	34	15	27	24	11	17
74	Union Bank (I)	91	0.3	21	24	22	24	23	7	7
75	Punjab Natl.Bank	196	0.7	21	23	20	24	18	8	9
76	Glaxosmit Pharma	91	0.3	20	9	7	29	36	29	19
77	ICICI Bank	492	1.9	19	15	22	8	16	26	14
78	NTPC	1,000	3.8	19	8	15	14	14	20	12
79	Bosch	88	0.3	19	10	16	17	30	26	17
80	Natl. Aluminium	150	0.6	18	-8	4	8	26	32	9
81	Infosys Tech.	870	3.3	18	25	25	26	36	26	32
82	Grasim Inds	155	0.6	18	19	6	29	20	12	13
83	Ambuja Cem.	87	0.3	17	21	22	19	21	15	15
84	TCS	838	3.2	17	25	23	37	55	27	38
85	Neyveli Lignite	131	0.5	17	1	7	12	16	19	9
86	Wipro	546	2.1	16	27	26	28	31	21	32
87	Piramal Health	45	0.2	16	21	17	30	34	20	25
88	Canara Bank	86	0.3	15	22	20	24	19	6	7
89	Zee Entertainment	120	0.5	14	28	15	20	8	21	35
90	HCL Technologies	127	0.5	14	26	29	21	12	23	36
91	GE Shipping Co	45	0.2	14	-13	-1	7	37	11	4
92	Tata Motors	220	0.8	14	13	16	15	30	19	12
93	Reliance Infra.	113	0.4	14	17	19	8	9	21	19
94	O N G C	1,092	4.1	13	5	5	19	28	14	10
95	Hind. Unilever	239	0.9	13	13	12	85	57	24	24
96	Tata Steel	204	0.8	12	8	11	14	49	11	6
97	Hindalco Inds.	209	0.8	10	8	16	7	17	18	9
98	M R P L	50	0.2	10	5	12	20	41	12	9
99	B P C L	56	0.2	8	10	16	12	15	12	11
100	I O C L	195	0.7	6	16	14	20	19	7	10

MOSL 100 – Wealth Creators (alphabetical)

Appendix III

ALPHABETICALLY ARRANGED

RANK NO.	COMPANY NAME	WEALTH CREATED BIGGEST RANK	WEALTH CREATED RS B	WEALTH CREATED FASTEST RANK	CAGR (%) PRICE	CAGR (%) PAT	CAGR (%) SALES	ROE (%) FY10	ROE (%) FY05	P/E (X) FY10	P/E (X) FY05
1	A B B	52	127	51	29	18	23	15	22	50	32
2	ACC	61	111	73	21	34	15	27	24	11	17
3	Adani Enterp.	29	232	4	73	19	-3	13	16	98	12
4	Ambuja Cem.	72	87	83	17	21	22	19	21	15	15
5	Areva T&D	86	55	2	85	55	36	22	11	38	13
6	Ashok Leyland	97	45	72	22	9	12	18	24	18	9
7	Asian Paints	42	158	30	39	35	21	50	30	25	22
8	Axis Bank	23	321	32	37	50	43	16	14	19	20
9	B H E L	5	980	20	44	35	28	27	16	27	20
10	B P C L	85	56	99	8	10	16	12	15	12	11
11	Bank of Baroda	44	154	70	24	35	21	20	12	8	10
12	Bank of India	59	115	64	27	39	24	14	8	10	15
13	Bharat Electronics	55	122	63	27	10	10	17	28	24	12
14	Bharti Airtel	10	792	68	25	51	35	26	27	13	32
15	Bhushan Steel	87	52	9	52	41	16	21	21	8	5
16	Bosch	70	88	79	19	10	16	17	30	26	17
17	Cadila Health.	74	83	52	29	31	12	31	21	22	22
18	Canara Bank	73	86	88	15	22	20	24	19	6	7
19	Castrol India	81	62	50	30	24	12	77	35	22	18
20	Cipla	40	180	62	27	21	20	18	27	25	19
21	Colgate-Palm.	79	67	48	30	30	15	130	45	22	22
22	Container Corpn	58	117	66	27	13	13	18	25	21	12
23	Crompton Greaves	47	146	14	49	40	21	35	29	27	20
24	Cummins India	75	80	33	36	26	19	28	20	23	16
25	Dabur India	62	106	38	34	24	18	58	44	32	21
26	Divi's Lab.	76	76	16	47	39	22	22	23	26	19
27	Dr Reddy's Labs	46	149	56	28	67	24	14	3	25	86
28	Engineers India	63	105	18	46	31	17	39	13	28	16
29	Essar Oil	54	122	43	32	24	104	1	0	593	355
30	Exide Inds.	69	88	7	56	47	27	25	18	20	14
31	Financial Tech.	83	57	21	43	103	59	17	7	21	117
32	GAIL (India)	22	341	71	24	10	13	19	23	17	9
33	GE Shipping Co	96	45	91	14	-13	-1	7	37	11	4
34	Glaxosmit Pharma	68	91	76	20	9	7	29	36	29	19
35	GlaxoSmith C H L	91	48	37	34	26	17	26	14	27	21
36	Godrej Consumer	99	45	58	28	24	18	30	173	32	20
37	Grasim Inds	43	155	82	18	19	6	29	20	12	13
38	H D F C	15	547	47	30	22	28	19	27	28	17
39	HCL Technologies	53	127	90	14	26	29	21	12	23	36
40	HDFC Bank	14	553	53	29	35	39	14	15	30	25
41	Hero Honda Motor	25	278	54	29	22	16	64	54	17	14
42	Hind. Unilever	27	239	95	13	13	12	85	57	24	24
43	Hind.Copper	19	447	10	51	23	22	14	-129	319	88
44	Hind.Zinc	20	437	15	48	44	29	22	32	13	11
45	Hindalco Inds.	32	209	97	10	8	16	7	17	18	9
46	I O C L	38	195	100	6	16	14	20	19	7	10
47	ICICI Bank	17	492	77	19	15	22	8	16	26	14
48	IndusInd Bank	93	47	59	28	11	19	16	25	20	7
49	Infosys Tech.	6	870	81	18	25	25	26	36	26	32
50	ITC	12	661	69	24	13	19	29	28	25	15

MOSL 100 – Wealth Creators (alphabetical, contd.)

Appendix III

ALPHABETICALLY ARRANGED

RANK NO.	COMPANY NAME	WEALTH CREATED BIGGEST RANK	WEALTH CREATED RS B	WEALTH CREATED FASTEST RANK	CAGR (%) PRICE	CAGR (%) PAT	CAGR (%) SALES	ROE (%) FY10	ROE (%) FY05	P/E (X) FY10	P/E (X) FY05
51	Jain Irrigation	82	60	13	50	53	34	20	14	27	23
52	Jindal Saw	100	40	42	32	67	45	20	15	8	19
53	Jindal Steel	13	622	3	82	23	27	22	39	44	6
54	JP Associates	33	205	25	42	52	30	21	17	19	17
55	JSW Steel	41	163	57	28	18	23	21	30	11	5
56	Kotak Mah. Bank	36	197	29	41	46	51	12	11	46	49
57	Larsen & Toubro	9	799	19	46	35	23	24	29	22	13
58	LIC Housing Fin.	84	56	49	30	36	27	20	12	13	14
59	Lupin	57	118	23	42	50	26	26	17	22	26
60	M & M	28	234	35	34	32	23	27	26	15	11
61	M R P L	90	50	98	10	5	12	20	41	12	9
62	Marico	88	52	34	35	26	17	41	34	28	19
63	Maruti Suzuki	24	288	60	27	24	22	21	19	16	14
64	MphasiS	64	101	27	41	76	69	41	9	16	35
65	Natl. Aluminium	45	150	80	18	-8	4	8	26	32	9
66	Nestle India	35	197	40	33	21	18	113	79	39	24
67	Neyveli Lignite	50	131	85	17	1	7	12	16	19	9
68	NMDC	3	1,014	12	50	35	23	24	29	34	20
69	NTPC	4	1,000	78	19	8	15	14	14	20	12
70	O N G C	2	1,092	94	13	5	5	19	28	14	10
71	Oracle Fin.Serv.	48	141	44	31	27	20	16	18	29	22
72	P & G Hygiene	94	47	55	29	8	6	34	55	36	15
73	Pantaloon Retail	95	47	67	26	36	42	7	18	45	42
74	Pidilite Inds.	92	47	28	41	32	20	31	20	20	14
75	Piramal Health	98	45	87	16	21	17	30	34	20	25
76	Punjab Natl.Bank	37	196	75	21	23	20	24	18	8	9
77	Reliance Capital	49	135	39	33	26	52	5	7	55	22
78	Reliance Inds.	1	2,556	31	37	16	24	13	20	22	10
79	Reliance Infra.	60	113	93	14	17	19	8	9	21	19
80	S A I L	11	780	41	32	0	7	20	66	15	4
81	Sesa Goa	21	354	5	67	36	29	29	64	18	6
82	Shree Cement	78	68	17	47	88	43	37	10	12	41
83	Shriram Trans.	71	87	6	57	78	68	23	25	14	7
84	Siemens	39	191	36	34	47	36	36	25	24	37
85	St Bk of India	8	802	61	27	16	17	14	18	14	8
86	Sterlite Inds.	18	478	22	43	51	28	4	3	86	74
87	Sun Pharma.Inds.	26	268	46	31	24	16	16	28	41	29
88	Tata Motors	31	220	92	14	13	16	15	30	19	12
89	Tata Power Co.	30	225	45	31	11	13	9	11	35	13
90	Tata Steel	34	204	96	12	8	11	14	49	11	6
91	TCS	7	838	84	17	25	23	37	55	27	38
92	Thermax	80	67	24	42	21	27	13	15	57	26
93	Titan Inds.	77	71	8	52	59	34	35	18	33	39
94	UltraTech Cem.	65	100	65	27	229	22	24	0	13	1,548
95	Union Bank (I)	67	91	74	21	24	22	24	23	7	7
96	Unitech	51	129	1	95	79	30	7	17	33	14
97	United Spirits	66	93	26	41	70	34	8	9	44	45
98	Voltas	89	51	11	51	47	27	35	26	17	15
99	Wipro	16	546	86	16	27	26	28	31	21	32
100	Zee Entertainment	56	120	89	14	28	15	20	8	21	35

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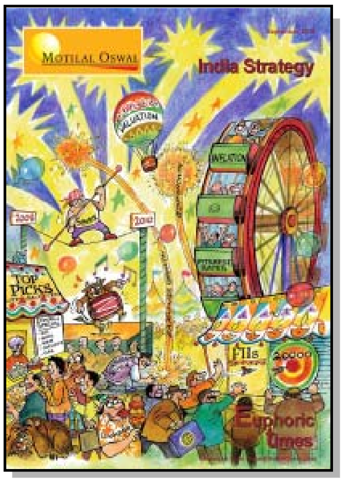
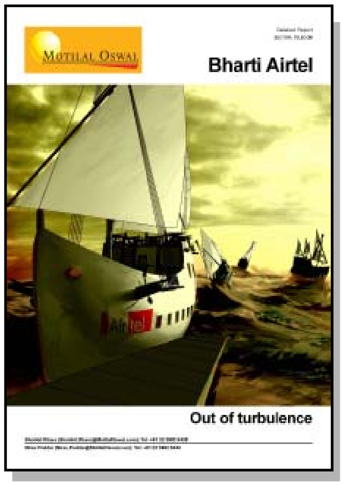
Disclosure of Interest Statement

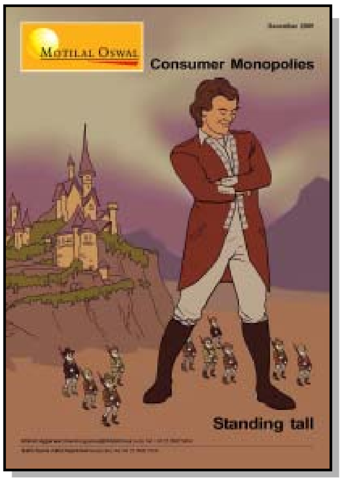
The MOSt group and/or its Directors own shares in the following companies covered in this report: Bharti Airtel, Birla Corporation, Central Bank of India, GSK Pharma, Hero Honda, IOC, Marico, Nestle India, Oriental Bank, Siemens, South Indian Bank, State Bank, Tata Steel

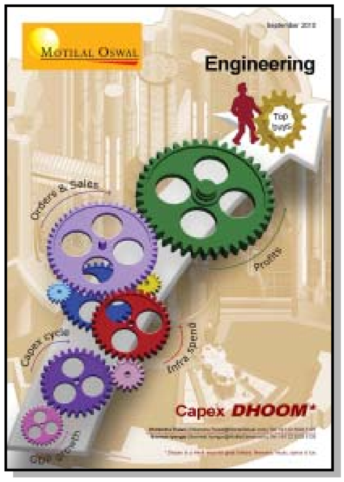
MOSt may have broking relationships with a few of the companies covered in this report.

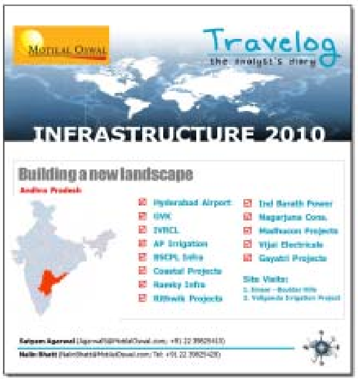
MOSt is engaged in providing investment-banking services in the following companies covered in this report: NIL

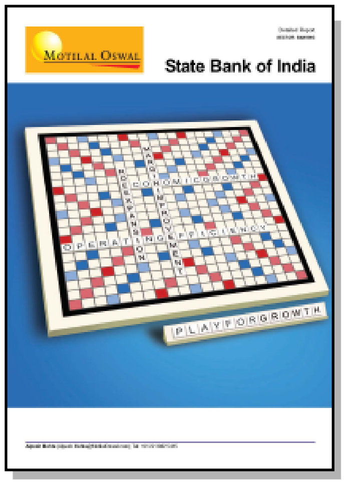












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