10 Midcap Stocks

	Current	52 Week High	52 Week Low
Sensex	20053	20,267.98	15,330.56
Nifty	6023	6073.5	4538.5

We are suggesting 10 midcap stocks in this Midcap Monitor report which we believe have 35 - 50% upside by Dec.-2011. We have selected the following stocks from the entire gamut of Midcap growth story -

1) Ashok Leyland
2) KEC International
3) Glenmark Pharmaceuticals
4) Educomp Solutions
5) Petronet LNG
6) Sintex Industries
7) Sobha Developers
8) Mahindra & Mahindra Financial Services Ltd
9) Shree Cement
10) Voltas

India's medium-term economic growth story continues to remain healthy on account of a revival in demand - the current year looks particularly good given the better monsoon and its impact on rural demand.
Till September 29 this year, FIIs have invested about Rs 85,340 crore in the Indian markets, which is among the largest inflows in recent years and a lot of foreign money has flowed into the largecap stocks. Therefore, midcaps have underperformed in the recent past. The BSE Midcap index has delivered only 6.14% returns in the last one month vis-a-vis the Sensex's 10.8% returns.
On the back of a revival in the domestic economy and demand, the earnings of midcap companies are expected to grow about 25% over the next two years. Considering that the valuations are at a discount and the earnings are expected to be strong over the next two years, investing in midcaps could be rewarding.

Company	CMP (Rs.)	Mcap (Rs. In cr.)	Equity (Rs. In cr.)	Networth (Rs. In cr.)	FV (Rs.)	EPS (Rs.)	BV (Rs.)	P/E(x)	52 Week High	52 Week Low
Ashok Leyland	72.25	9678	133.03	2335.58	1	4.06	18.48	17.92	78.75	39.25
KEC International	498	2613	51.42	765.5	10	34.54	153.3	14.71	640	450
Glenmark Pharma	298.5	7996	27	1773.41	1	16.04	67.93	18.46	307	210
Educomp Sol.	609.5	5322	19.09	1224.04	2	28.66	131.34	21.28	1017	441.8
Petronet LNG	105.9	8066	750	2234.88	10	5.5	31.28	19.55	119.5	61.55
Sintex Industries	385.65	5320	27.3	1882.12	2	25.94	142.16	15.02	396.7	203.55
Sobha Dev.	381.25	3776	98.06	1708.46	10	13.22	177.72	29.13	401.8	197
MMFSL	642	6199	96.9	1728.56	10	40.5	186.14	15.8	722	218.1
Shree Cement	2113	7221	34.84	1833.24	10	152.55	556.6	13.59	2542.2	1372
Voltas	240	8165	33.09	995.22	1	10.55	32.63	23.4	250.2	140.1

1). Ashok Leyland

Brief Description

Ashok Leyland is the second-largest manufacturer of medium/heavy-duty vehicles in India. The products of the Company include buses, trucks, engines, and defence and special vehicles. The product of the Company also ranges from 7.5 ton to 49 ton in haulage vehicles. It also includes special application vehicles to diesel engines for industrial, marine and genset applications.

Investment Rationale

- As industrial and agriculture sectors post robust growth and the demand for commercial vehicles (CVs) moving in tandem. The company's market share increased to 27% in the June quarter compared to 17% a year ago.
- Commencement of Uttarakhand plant, strong traction in southern market, entry into newer segments and CV financing from Hinduja Leyland Finance are the major key drivers.
- On the back of the price hike in June, the company expects to maintain EBITDA margins in excess of 10%.
- The company is looking at a capex of around Rs. 2,000 crore in the next two years, which includes spends on joint ventures.
- Recently, the company has bagged an order for 2,850 buses from the Institute for Road Transport (IRT), the State Government agency for vehicle procurement in Tamil Nadu. The order includes 150 vehicles conforming to BS IV emission norms for MTC (Metropolitan Transport Corporation, Chennai).

Risks

- Input costs are volatile and linked to global commodity prices for metals, plastics, etc.
- Volatility in interest rates and fuel prices could affect the demand of CVs.
- The new emission norms, effective October, may hurt sales during the quarter.

2). KEC International

Brief Description

KEC International Limited is engaged in the engineering, procurement and construction (EPC) business executing power transmission, distribution, substations, railways and telecom projects and offering designing and engineering, tower testing, satellite and general packet radio service (GPRS) surveys and hotline stringing services. It has global operations across 24 countries.

Investment Rationale

- KEC's order book and order inflows stood at Rs56.5 bn (1.5x FY10 cons. revenues) and Rs10 bn
  respectively in Q1 FY11. The company received several orders in its Railways and Cable segments.
- The company recently acquired SAE Towers, for an enterprise value of $95 million. The capacity utilization of SAE Towers is expected to increase from 60% to 100% in the next three to four years given the strong demand expected in American markets.
- The company expects the cable business to break even on EBITDA level in FY11. The cable business expected to grow at a CAGR of 25% in the next two years on account of increasing in-house requirement for transmission and distribution businesses in the near term. In the medium term, the company is planning to enter into HV (220 KV+) cable EPC business and capture margin at cable EPC level too.

Risks

- Delays in order awarded by PGCIL and acquisition related risk.

3). Glenmark Pharmaceuticals

Brief Description

Glenmark Pharmaceuticals Limited (GPL) is engaged in discovery of new molecules and is focused in the areas of inflammation, including asthma/ chronic obstructive pulmonary disease (COPD), and metabolic disorders. The Company's API division has three products: perindopril, lercanidipine and topiramate. Its formulations business focuses on therapeutic areas, such as dermatology, anti-infectives, respiratory, cardiac, diabetes, gynecology, central nervous system (CNS), and oncology. The US market contributes around 26% to the company’s revenue.

Investment Rationale

- Glenmark has developed a portfolio of low-competition niche generics in the last two years, which will drive growth in the near to medium term with larger stability.
- After restructuring of product portfolio and operations in the Latin American business, the company has achieved 21% (annual) growth in branded formulations (in Brazil) and 10%growth in the oncology business. The geographical expansion in this market, other than Brazil and Argentina, is one of the main contributors to growth.
- As the company has been getting a slew of approvals in the US the volumes likely to improve.
- The company expected to achieve better growth in domestic formulations market on the back of its prominent brands in dermatology, cardiology and respiratory segments.

Risks

- Unexpected pricing pressure in the US market.
- Unfavourable developments on the Sanofi and Merck deal.

4.) Educomp Solutions

Brief Description

The Company operates in four segments: Professional Development, Smart Class, Edureach, and Retail and consulting. The Company works with schools implementing models, creating and delivering content to enhance student learning. The Company's products include Smart class, a teacher-led content delivery system; Roots to Wings, a pre-school learning system, and Mathguru.com, an online learning initiative. The company has developed three dimensional (3D) kindergartens through twelfth grade (K-12) content library with approximately 16,000 modules.

Investment Rationale

- The company is well placed to take advantage of the new opportunities in the education sector which expected to grow at US$45bn in 2015.
- K-12 lays the base for the company's future expansion into the vocational/ higher education space. The company aims to increase K-12 schools to 69 by this year end from the current 43.
- The company has picked up a majority stake in Delhi-based engineering test preparation company Vidya Mandir Classes for about Rs 34 crore.

Risks

- Changes in regulations in K-12 segment.
- Risk of execution slippages as management bandwidth is stretched over multiple business lines.

5). Petronet LNG

Brief Description

Petronet LNG Limited is engaged in the import and regasification of liquefied natural gas (LNG). The Company has an operating terminal located at Dahej, Gujarat. The Company was formed as a joint venture by the Government of India to import LNG and set up LNG terminals in the country. The promoters include GAIL (India) Limited (GAIL), Oil & Natural Gas Corporation Limited (ONGC), Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL).

Investment Rationale

- The company's revenues are sourced from regasification of LNG through long-term contracts and spot deals. It has 10 million tonnes per annum (mtpa) capacity at Dahej, and is building the Kochi terminal.
- The Company has already tied up for nine mtpa long term contracts. It has signed back-to-back contracts with offtakers. Therefore, it does not bear any price or volume risk associated with long-term contracts and has created a natural hedge.
- The company has plans to invest around Rs. 5200 crore till FY14 and expand capacity to 18 mtpa. The next level of triggers will be in the form of earnings visibility from the spot volumes and the regasification margins that bring in the cash.

Risks

- Issue of pricing and pipeline connectivity could hamper growth of the LNG business.
- Reliance Gas Transportation Infrastructure Ltd. (RGTIL) increasing its reach in the southern market.

6). Sintex Industries

Brief Description

Sintex Industries Ltd. (SIL) is one of the leading providers of plastics and niche textile-related products in the country. In the plastics division, the company manufactures storage solutions for water, oil and fuel; prefabricated structures, monolithic structures, custom moulded products and composites. These are high-end plastic products that are used mainly in automobiles, electricals, construction and telecom industries. In the textile division, the company manufactures high-value, yarn-dyed structured fabrics, corduroy and items relating to home textiles.

Investment Rationale

- Sintex had acquired six companies over the past couple of years - two in the US, one in France and three in India and is looking out for more. Its strong thrust for inorganic growth and innovative product offering makes the company more attractive.
- SIL's pre-fabricated building materials and monolithic construction material are in great demand in low-cost housing projects, rural schools and healthcare shelters.
- Recovery in the automobiles sector and the housing sector coupled with further moderation in input costs will be the next trigger.

Risks

- PVC resins, plastic granules and powder are the major raw materials for the plastics division and they make up over 74% of the total production costs. The prices of these materials closely follow the crude oil. Therefore, rise in crude prices could increase the margin pressure.

7.) Sobha Developers

Brief Description

Sobha Developers Limited (SDL) is a real estate company with a focus on residential and commercial
development. SDL's projects are primarily located in Bangalore and Coimbatore. As of March 31, 2010, SDL has developed and constructed 47 residential projects in Bangalore and Coimbatore aggregating 5544 units and covering 12.44 million square feet of super built up area. The Company has completed a total of 13 commercial projects measuring 1.85 million square feet of super built up area.

Investment Rationale

- Demand for residential property is sound and is expected to see an upward trend in the medium term. The company plans to launch about 12 million square feet of residential projects this fiscal year and has implemented selective price increases. Sobha hopes to sell about 3 million in the year to March 2011.
- The company is likely to see an increase in RoNW from 9.6% in FY10 to 17.9% by FY13E as growth would be aided by its entry into new geographies and sustained volumes from the home markets.

Risks

- Low response from the home markets could affect the liquidity position.

8.) Mahindra & Mahindra Financial Services Ltd.

Brief Description

Mahindra & Mahindra Financial Services Limited (MMFSL) is a non-banking finance company and a subsidiary of Mahindra & Mahindra Limited (M&M). The Company provides loans for utility vehicles, tractors, cars, two-wheelers, three wheelers, commercial vehicles as well as construction equipments.

Investment Rationale

- A revival in the auto market has helped MMFSL to push its products vigorously. The company may continue this momentum as the automobile sector continues to grow at a strong pace.
- The company is focusing more on rural markets to expand the business. With rural market growing at 30-35% and with liquidity in the hands of the farmers MMFSL is eyeing a big market to tap.
- Rural incomes, too, are expected to remain high because of the various government schemes in semi-urban and rural areas.
- Net spreads are likely to improve as provisions fall.

Risks

- Any rise in interest rates may lead to higher slippages for the company which may put pressure on the spreads.

9.) Shree Cement

Brief Description

Shree Cement Limited operates in two segments: cement and power. The Company's product brands include Shree Ultra, Bangur and Rockstrong and sells primarily in Northern India.

Investment Rationale

- The present cement capacity of the company stands at 12 mpta and its power plant capacity is 210 MW. The company is setting up new cement and power plants in Karnataka, Chhattisgarh and Rajasthan.
- The North Indian market is witnessing a 10% annual growth in consumption of key building material and the company expects that the market to be strong over the medium term.

Risks

- Margins could be affected if cement prices fall.
- The Company has not witnessed a strong demand of the product.

10.) Voltas

Brief Description

Voltas Limited is a provider of integrated end-to-end solutions in electro-mechanicals and refrigeration. The Company has three segments: electro-mechanical projects and services, engineering products and services, and unitary cooling products for comfort and commercial use.

Investment Rationale

- Electromechanical Projects is the core business and contributes 65% of the annual turnover. Around 70% of the segment turnover comes from Middle East. The company has initiated aggressive steps to undertake more electro-mechanical projects in the industrial and infrastructure segments. The company has formed JV with a local Saudi Arabian company for MEP projects in the country. This is likely to lead to a breakthrough for the company in the Saudi Arabian market.
- Engineering products business segment are on a recovery path following previous year's severe demand downturn and hence are not at their potential growth rates.
- The unitary cooling products (UCP) business, which contributes 42% of total revenues (June quarter) and has being mainly driven by the Split Air Conditioners and commercial coolers. Voltas has been consolidating its market share in the room AC business.

Risks

- Recovery in Middle East market is at its nascent stage.
- Lower than expected volume growth.

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