



Sensex: 20350

Nifty: 6110

## Happy Diwali 2010

Dear Investors

After a whopping performance in year 2008, year 2009 has seen sensex consolidating its gains with appreciation of 18.4%. This was on the back of huge FII flows( Inflow of approx 17 USD Bln) while at the same time domestic institutions and retail investors have been sitting on the side lines with a cautious view on the market.

During this phase of consolidation, we also had some stocks performing well with sector rotation providing ample opportunity for Investors to make money.

Our Mahurat trading picks released during 2009, did reasonably well & have delivered 31.9% return VS Sensex returns of 18.4% during this phase.

### Performance of Diwali picks 2009 (last year)

Diwali	2009	2010	Return (%)
ISMT	55	53	-3.64
Torrent Pharma	331	547	65.26
Opto Circuits	210	295	40.48
Crompton Greaves	267	322	20.60
Shivvani oil	357	430	20.45
Genus Power	20	24	22.22
Mahindra life Space	351	473	34.95
PNB	835	1295	55.09
<b>Total avg return</b>			<b>31.93</b>

## Mahurat Picks for Diwali 2010

With Sensex approaching all time highs & overall market valuations no longer cheap, We believe, that key to generating returns in next year will largely be a function of good stock selection.

We have identified few value picks from our basket of ideas that one could look to invest in Muhurat trading, which we feel still have value & are likely to do well even from current levels, one should have a minimum of one year investment perspective on these stocks.

### Mahurat Picks for Diwali 2010

No	Stocks	CMP*	Price target	% Upside
1	Aditya Birla Nuvo	846	925	9.34
2	Bharat Heavy Electricals Ltd (BHEL)	2466	2861	16.02
3	IL& FS transport	320	452	41.25
4	JB Chemicals	128	156	21.88
5	Indian Hotels	100	111	11.00
6	Punjab National Bank	1310	1505	14.89

Closing prices as of November 01, 2010.

Happy Investing !!!

## Aditya Birla Nuvo

CMP: Rs846

- Remarks :**
- ◆ Aditya Birla Nuvo Ltd (erstwhile Indian Rayon and Industries Ltd) is a diversified conglomerate within Aditya Birla Group. The company was entered into the industry in the year of 1956. It is a foremost player in most of its business segments, including viscose filament yarn (VFY), carbon black, branded garments, fertilisers, textiles and insulators. Over the past years, Aditya Birla Nuvo, through its subsidiaries and joint ventures, has also made successful forays into life insurance, telecom, business process outsourcing (BPO), IT services, asset management and other financial services, striking a balance between value businesses and high growth businesses. The all the divisions of the company are ISO 9000 / 14001 certified.
  - ◆ Aditya Birla is all set to increase its promoter holding in the company by the way of converting the preferential warrants into equity shares. Post the conversion the promoter holding in the company would increase from current 46% to 51%.
  - ◆ Further the company is keen on entering the banking space through its financial arm- Aditya Birla Financial services and thus has applied for new banking license for the same. We believe these developments and the promoters increasing focus on the financial services arm augurs positive for the company.
  - ◆ We believe the value businesses of the company (insulators, textiles, fertilisers, carbon black and rayon) have started witnessing increased efficiency as reflected in sharp improvement in their operating margins, while the growth businesses (retail, BPO, life insurance and financial services) are showing improved revenue visibility and gaining strong market share.
  - ◆ Given the diverse businesses ABN is into, the company is best valued using the sum-of-the-parts (SOTP) method. The company's value businesses have shown marked improvement over the last 12 months where as on the growth businesses—telecom, insurance, asset management etc.
  - ◆ **Valuation:** At the current market price of Rs.846, the stock is trading at a price/earnings (PE) of 26.4X FY2012E stand-alone earnings and an enterprise value (EV)/EBIDTA of 12.4x FY2012E.

## Bharat Heavy Electricals Ltd

CMP: Rs2466

- Remarks :**
- ◆ BHEL is a premier power generation equipment manufacturer and a leading EPC company. It has emerged as the prime beneficiary of the four-fold increase in the investments in the power sector in India.
  - ◆ BHEL currently has orders worth Rs148,000 crore on hand, which provides revenue coverage for the next three to four years. We believe the order inflow momentum would continue to remain strong for the company.
  - ◆ However, the key challenge for BHEL would be the timely execution of projects.
  - ◆ The company is confident of bagging orders for at least five boilers and four turbines as far as the bulk tendering by National Thermal Power Corporation (NTPC) is concerned. The order finalisation for the same is expected in January 2011.
  - ◆ The company has already expanded its capacity to 15GW in FY2011. Also, the project to expand the capacity to 20GW by FY2012 is being executed on a fast track. In our view, the stabilisation of the new capacity coupled with the de-bottlenecking of the supply chain would aid order execution and sustain robust growth in BHEL's revenues in the coming years. We estimate the profits to grow at a compounded annual growth rate (CAGR) of 21% over FY2009-11E.
  - ◆ **Valuation:** At the CMP of Rs.2466, the stock is trading at 22.6x and 19.1x its FY2011E and FY2012E earnings. The near-term positive trigger in the stock is the order inflow in the power equipment business.

## IL&amp;FS transportation (ITNL)

CMP: Rs320

- Remarks :**
- ◆ ITNL is India's largest player in the BOT road segment with a pan-India presence and a diverse project portfolio. The fair mix of annuity, toll projects, and state and NHAI projects along with the geographical diversification across 12 states reduces the risk to a large extent and provides comfort. Further, a strong pedigree along with the outsourcing of civil construction activity helps ITNL to scale up its portfolio faster. Thus, it is well equipped to capitalise on the huge and growing opportunity in the road infrastructure sector.
  - ◆ ITNL has 11 projects in the construction/ development stage of these six have commenced construction while the balance five projects are expected to achieve financial closure in the next few months.
  - ◆ ITNL is well equipped to capitalise on the huge and growing opportunity in the road infrastructure sector due to its established track record in operating BOT road projects, its execution capabilities and the strong support from IL&FS.
  - ◆ **Valuation:** At the CMP Rs.320 the stock trades at a P/E of 10.4x its FY2012E earnings per share of Rs29.65

## Indian Hotels (IHCL)

CMP: Rs100

- Remarks :**
- ◆ The company and its subordinates are communally known as Taj Hotels Resorts and Palaces, is one of Asia's prime and most excellent hotel company in hospitality sector.
  - ◆ IHCL covers 52 Destinations, 12 Countries, 5 Continents, 77 Hotels, 7 Authentic Palaces, 12 Resorts & SPAs, 3 Personal Jets and Luxury Yachts out of this the company have 17 international hotels in the Maldives, Mauritius, Malaysia, United Kingdom, United States of America, Bhutan, Sri Lanka, Africa, the Middle East and Australia
  - ◆ Key monitorables in the coming quarters
    - Timely commencement of new properties under IHCL.
    - Recovery in occupancies and increase in ARR in the key cities.
    - Performance of key international properties.
  - ◆ The first half of a fiscal is normally a lean period for the hotel industry in India. With increased foreign tourist arrivals (in the upcoming season) and an improvement in domestic business traveling, we expect the occupancies in the key cities to be in the range of 80-85% (the company is expecting the same to be 80-90%) in the second half of FY2011. This along with the increase in the ARR and the improvement in the food & beverages income and other operational income would lead to a much better performance in the second half of FY2011.
  - ◆ The improving business fundamentals of the international properties and the company's thrust on improving its balance sheet (by reducing its debt on books) provides visibility of its future earnings.
  - ◆ **Valuation:** At the CMP of Rs 100, the stock trades at 19x its FY2012E (consolidated) EPS of Rs5.1 and Rs0.96 crore enterprise value/room of FY2012E.

## JB Chemicals &amp; Pharmaceuticals Ltd

CMP: Rs128

- Remarks :**
- ◆ JB Chemicals & Pharmaceuticals Ltd (JBCPL), a well-known name in the formulation and OTC markets of India, is set to show a steady growth in its domestic and international businesses on the back a deeper penetration of the existing markets, entry into newer markets and launch of new products.
  - ◆ Consequently, we expect its core business to grow at a compounded annual growth rate (CAGR) of 14.5% over FY2010-12, driven by a CAGR of 17.5% in its domestic formulation business and a 12.8% CAGR in its international operations.
  - ◆ With investments in capacity expansion and aggressive marketing and promoting activities in newer markets, we expect JB Chem to reflect overall growth as well as growth of specific focus brands.
  - ◆ Given the strong free cash flow of close to Rs100 crore annually, a low debt-equity ratio of 0.2x and a limited capital expenditure (capex), the company is well placed to pursue inorganic opportunities. Considering the double-digit growth in its revenues and the earnings from its core business, its strong free cash flows and healthy return ratios (18-20%),
  - ◆ **Valuation:** At CMP 128, the company is trading at an attractive valuation of 7.7x FY2012 earnings of Rs16.5

## Punjab National Bank

CMP: Rs1,310

- Remarks :**
- ◆ PNB is the 2nd largest PSU Bank which is well placed to take advantage of the next leg of credit expansion given its outstanding pan India presence, higher than average advances growth and improving margins.
  - ◆ Core business to grow above industry average: PNB is confident of outpacing industry credit growth and expects to grow its advances by 23% in FY11E as against 20.6%YoY growth witnessed in FY10. The credit growth for Q2 FY 2011 was at 27.6 %, however the same is expected to tame down to 23 % which will still be higher than industry growth rate of 19-20 %.
  - ◆ Margins to remain stable: With increase in Deposit Rates expected in 2nd half of FY 2011, due to lower deposit mobilization for the banks, NIM of PNB is expected to stabilize at 3.75 %, lower than that of Q2 FY 2011 of 4.03% but still higher than most of the other PSU banks. With CASA of the bank growing at rapid pace, it will easily be able to stabilize its NIM at 3.75 %.
  - ◆ Higher provision coverage to cushion earnings: Asset Quality of PNB is also strong with Gross NPA at 1.91 % and Net NPA at 0.69 %. Bank is of the opinion that the asset quality is under control and Gross NPA and Net NPA will not go above 2 % and 1 % respectively. Provision Coverage Ratio of the bank is 77 % including technical write offs and 64.6 % excl. technical write offs. Huge amount of recoveries are expected from the slippages that have been recorded. We have factored in slippages at -2 % for FY 2011 E and expect Gross and Net NPA to be stable.
  - ◆ **Valuation:** In line with the increased provisioning in the quarter, according to our estimates, bank will have an EPS of Rs140 for FY 2011E and Rs181 for FY 2012E. At the CMP of Rs1,313 bank trades at 1.7x its FY 2012E book value. We maintain our Buy recommendation and price target of Rs1,505 on the stock.

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