



## Happy Diwali 2009

Dear Investors

As Market bid farewell to Diwali 2008 & welcome Diwali 2009, we analyse the year that had gone by, which has been eventful for Stock markets on many accounts.

What a turnaround we have seen in Sentiments in a years time !

With all looking gloomy at the start of Diwali 2008, we at Sharekhan had come out with a report “ Get well soon “ with few recommendation to buy from long term perspective & Dividend yield stocks. Markets indeed have recovered from those levels delivering a whopping return of more than 100%.

### Stocks for Investment with a time frame of 18 to 36 months

No.	Scrip name	CMP (24-Oct-2008)	CMP (15-Oct-2009)	% change
1	Bharti Airtel	267	325	21.7
2	Glenmark	324	238	-26.5
3	Sun Pharma	1283	1359	5.9
4	Hind. Unilever	225	288	28.0
5	H D F C	1573	2771	76.2
6	HDFC Bank	973	1724	77.2
7	SBI	1156	2330	101.6
8	Larsen & Toubro	779	1691	117.1
9	Madras Cement	65	114	75.4
10	Maruti Suzuki	534	1525	185.6
11	Reliance Inds.	1016	2171	113.7
12	Infosys	1249	2215	77.3

### Dividend Yield Stocks (Sharekhan universe)

No.	Scrip name	CMP (24-Oct-2008)	CMP (15-Oct-2009)	% change
1	Bajaj Auto	462	1554	236.4
2	Bharat Electronics	594	1542	159.6
3	BOB	245	518	111.4
4	HUL	225	288	28.0
5	ICICI bank	310	935	201.6
6	Tata Tea	533	880	65.1
7	Union bank	123	259	110.6
8	Deepak Fertilizer	46	89.6	94.8

As we can see in table above, some of this stocks have done fantastically well.

**We wish all the investors Happy & rewarding Diwali 2009.**

Happy Investing

## Diwali Picks - 2009

In the year gone by, we have seen markets recovering by 102% from the lows made in October 08. There is a general feeling now that markets are trading at the Top end & opportunities are scarce for investors to make money from this levels.

We at sharekhan have tried to identify stocks which we feel still have value & are likely to do well in challenging environment.

Sr no.	Scrip name	CMP (15-Oct-2009)
1	ISMT	56
2	Torrent Pharma	337
3	Opto Circuits	214
4	Crompton Greaves	356
5	Shiv-vani Oil	358
6	Genus Power Infrastructure	199
7	Mahindra Lifespace Developer	354
8	Punjab National Bank	857

# Diwali Picks - 2009

ISMT

CMP: Rs56

- Remarks:**
- ◆ ISMT was promoted in 1977 as Indian Seamless Metal Tubes by BR Taneja to produce specialised seamless tubes in India. The company started production in 1980 with an installed capacity of 15,000TPA by installing and commissioning an assel mill in technical collaboration with Mannesman Demag Meer of Germany. In 1990, the company increased its production capacity to 50,000TPA with the installation of a second assel mill.
  - ◆ ISMT, an integrated seamless tube manufacturer in India, is set to benefit from the overall improvement in demand from its traditional user segments of automobile and mining companies. Moreover, the anti-dumping duty imposed by the USA and European Union on the Chinese seamless tubes will also boost the demand for Indian seamless tubes in the export market.
  - ◆ ISMT is expected to show an improvement of 50-60 basis points in its operating profit margin (OPM) over the next two years. The margin improvement would be driven by: (1) a favourable sales mix (sales of high-margin power and oil country tubular goods [OCTG] seamless tubes to increase to 45% in FY2011 from 38% in FY2009); (2) saving on the power cost; (3) cost reduction from new technology (PQF mills); and (4) economies of scale.
  - ◆ At the CMP of Rs.54 the stock is trading at very attractive valuations of 5.4x its FY2011 expected earnings and EV/EBIDTA of 4.5x.

Torrent Pharma

CMP: Rs337

- Remarks:**
- ◆ Torrent Pharma is a well-known name in the domestic branded formulation market with strong focus on fastgrowing chronic lifestyle segment.
  - ◆ Torrent Pharma has been one of the under-owned stocks in the mid-cap pharma space due to realignment in domestic formulations, impending turnaround in Heumann business and lower margins at operating levels.
  - ◆ However with the domestic market back on track, completion of investment phase in emerging markets and turnaround in Heumann business, we expect Torrent Pharma's earnings to post a CAGR of 14.2% over FY2009- 11E. The cost restructuring initiatives will lead to operational efficiencies in the long term resulting in expansion of operating margins.
  - ◆ We expect Torrent Pharma's emerging market (Brazil, Russia and Europe) business to post a strong CAGR of 20.5% over FY2009-11E. Further, scale-up in the US business would add to its growth. We believe the company has been trading at significant discount (at 10.4x its FY2011E) to its peers and should get higher valuation.
  - ◆ We believe Torrent Pharma is on the right track for good revenue growth and significantly higher earnings growth driven by margin expansion. At the current market price of Rs 325, the stock is discounting its FY2010E earnings by 12.8x and its FY2011E earnings by 10.4x.

## Opto Circuits

CMP: Rs214

- Remarks:**
- ◆ Opto Circuits is a leading manufacturer and supplier of electronic medical equipment with established strength in cardiac stents, sensors and patient-monitoring devices.
  - ◆ Eurocor & Criticare acquisitions have been major turning points in Opto's growth story. Eurocor is a pioneer in the field of invasive cardiology while Criticare has established product & technological leadership in anesthetic gas monitoring, vital signs monitoring, gas & agent analysis. These two acquisitions are expected to be the major catalyst for Opto's future growth.
  - ◆ With a niche business model, high capital efficiency and strong entry barriers, Opto has been a huge wealth creator for investors in terms of its consistent and strong track record of dividends and bonuses.
  - ◆ We expect Opto's revenues and profits are expected to grow at CAGR of 27% and 28% respectively over FY2009-11E.
  - ◆ At the current market price of Rs213, Opto is trading at compelling valuations of 14.9x FY2010E fully diluted earnings and of 11.5x FY2011E earnings.

## Crompton Greaves

CMP: Rs356

- Remarks:**
- ◆ CG (CGL) is one of the largest power T&D equipment manufacturers in India, engaged in designing, manufacturing and marketing high technology electrical products and services related to power generation, transmission, and distribution as well as executing turnkey projects.
  - ◆ CGL has acquired global companies in power equipments segment like Pauwels, Ganz, Microsols expanding its technologies, products profile and geographical reach.
  - ◆ We like CGL's strong balance sheet and its global acquisitions and its expanding product profile (Especially in the high end power equipments) and geographical presence. We feel it's the best play in the power transmission and distribution (T&D) space.
  - ◆ We are expecting goods Q2FY2010 numbers also with revenues expected to grow at 8.5% year on year (yoy) on a consolidated basis with profits jumping by 26.3% to Rs146.7 crore backed by improving margins of its subsidiaries, mainly Pauwels.
  - ◆ Currently trading at 17.1x FY2011 earnings and EV/EBIDTA of 9.6x on FY2011 estimates

## Shiv-vani Oil

CMP: Rs358

- Remarks:**
- ◆ SOGEL is India's largest onshore oil and gas services provider in the private sector. The company has been offering a diverse range of services including seismic, drilling, work over, gas compression services and coal bed methane (CBM) integrated services.
  - ◆ Currently, the company's portfolio of rigs stands at 40, out of which 35 rigs are operational including six rigs for the Rs1,610-crore ONGC contract for the supply of eight rigs.
  - ◆ The company's strong order book of around Rs3,700 crore increases the visibility of its earnings and raises our confidence in the stock. On the new order fronts, the company is in talks with several block owners and is optimistic of winning new orders with the launch of eighth round of the New Exploration Licencing Policy (NELP) bids and the fourth round of the coal bed methane (CBM) bids.
  - ◆ At the current market price, the stock is available at 6.2x its FY2011E earnings and an EV/EBIDTA of 6x.

## Genus Power Infrastructure

CMP: Rs199

- Remarks:**
- ◆ Genus Power Infrastructure primarily deals in manufacturing and distribution of Electronic Energy Meters, Power Distribution Management Projects, Hybrid microcircuits, Inverters, Batteries, Home UPS and Online UPS across India as well as globally.
  - ◆ Genus is all set to reap the benefits of the APDRP initiatives like the 100% metering programme and the replacement of mechanical meters by electronic meters.
  - ◆ Its current order book is robust at Rs1073 crore of which Rs260 crore order comes from meters segment and the balance for projects. The unexecuted orders are equivalent to 1.9x FY2009 revenues.
  - ◆ We expect its top line to grow to Rs. 812 cr by FY2011 at a CAGR of 21% over FY09-11 backed by its healthy order book and bottom-line to grow at a CAGR of 34% backed by debt reduction.
  - ◆ At the CMP of Rs200, the stock trades at a P/E of 7.6x and 4.5x on EV/EBIDTA basis, which is at a discount to its peers.

## Mahindra Lifespace Developer

CMP: Rs354

- Remarks:**
- ◆ Mahindra Lifespace Developers (MLD) is the only private sector player to have an operational SEZ in the country—the Chennai SEZ. Leveraging its rich expertise, the company is planning to develop one more SEZ in Jaipur. Additionally, MLD is also planning to develop Multi product SEZ in Kandla and Biotech SEZ in Thane. We have not considered these projects into our valuation. Any development on these projects could provide upside to our valuation.
  - ◆ We also like MLD due to its strong balance sheet ensuring timely project execution, quality management and MLD's progress on the SEZ business ensuring earning growth.
  - ◆ We have valued MLD at Rs411 per share based on NAV methodology. At the current market price, the stock is trading at 0.7x its NAV, 1.2x FY2011 P/BV & 10.4x FY2011 earning estimates.

## Punjab National Bank

CMP: Rs857

- Remarks:**
- ◆ PNB is the second largest public sector bank in the country in terms of assets, and has large network of 4668 offices and 238 extension counters. The bank has thrust on technology and has all its branches covered under core banking solution (CBS).
  - ◆ PNB has international presence in 8 countries - a branch at Kabul & Hongkong; representative offices at Almaty, Dubai, Shanghai & Oslo; UK subsidiary with 4 branches and a joint venture with Everest Bank Ltd, Nepal.
  - ◆ The bank its focus on financial inclusion and has strong presence in the northern part of the country. As on Q1FY2010, the bank has crossed the business mix of Rs375,000 crore. It has one of the best deposit mixes in the banking space with low-cost deposits constituting around 39% of its total deposits. In Q1FY2010, the advances grew by 38% yoy to Rs157,979 crore, while the deposits grew by 27% yoy to Rs218,960 crore. He asset quality remained comfortable with %NNPA at 0.2% and provision coverage ratio at 89.6%, one of the highest in the industry.
  - ◆ At the current market price of Rs857, the stock trades at 6.9x its FY2011E EPS and 1.5x its FY2011E book value per share. Given the strong return ratios, the current valuations make PNB an attractive investment from a medium to long-term perspective.

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