



Sharekhan top picks

In the March 2007 issue, we had recommended the best 12 of our Stock Ideas as Sharekhan Top Picks. As on April 2, 2007, the basket of stocks has gained 3.7% as compared with the decline of 3.3% and 2.6% in the Sensex and the S&P CNX Nifty respectively during the period.

There are three changes in the portfolio. We have replaced Infosys Technologies, NIIT Technologies and Tata Consultancy

Services with three new stocks—Hindustan Lever, Indo Tech Transformers and South East Asia Marine Engineering and Construction (SEAMAC)—in the portfolio. The adjustments are driven by the fact that the tech stocks are likely to underperform the broader markets in the near term due to the continued strengthening of the rupee coupled with the seasonal weakness in the quarterly performance.

Name	CMP* (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY06	FY07E	FY08E	FY06	FY07E	FY08E		
Aditya Birla Nuvo	1,017.5	46.5	34.8	18.9	12.8	15.5	15.5	1,600.0	57.0
Alphageo India	223.6	26.3	16.4	9.1	20.4	27.9	33.1	270.0	21.0
Bharti Airtel	730.6	61.4	32.9	23.5	20.7	28.8	31.4	820.0	12.0
Bharat Electronics	1,456.5	20.0	17.3	15.3	29.7	25.6	22.5	1,715.0	18.0
Bharat Heavy Electricals	2,153.6	31.4	21.8	17.2	23.0	26.2	26.4	2,650.0	23.0
Hindustan Lever#	195.8	32.6	28.0	23.0	56.8	61.0	60.8	280.0	43.0
ICICI Bank	804.5	28.2	21.2	17.7	13.6	14.4	15.5	1,240.0	54.0
Indo Tech Transformer	265.2	25.3	13.7	10.3	23.3	25.8	27.0	335.0	26.0
Mahindra & Mahindra	715.3	25.5	19.6	16.8	22.8	25.3	24.7	1,050	47.0
South East Asia Marine#	174.4	10.1	7.1	4.9	25.0	26.0	27.0	300.0	72.0
Sun Pharmaceutical	1,043.1	33.8	27.3	21.8	42.2	26.9	20.8	1,341.0	29.0
Thermax	370.2	43.7	22.3	16.2	22.3	31.8	31.8	433.0	17.0

* CMP as on April 02, 2007

Calendar year ending company

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY06	FY07E	FY08E	FY06	FY07E	FY08E		
Aditya Birla Nuvo	1,017.5	46.5	34.8	18.9	12.8	15.5	15.5	1,600.0	57.0

- Remarks:**
- ♦ ABN participates in India's four most exciting sectors: garments, insurance, telecom and IT/IT enabled services. It has a perfect strategy: to earn cash from its cash cow businesses, such as carbon black, rayon and fertilisers, and invest in high-growth businesses, such as garments, insurance, telecom and IT/IT enabled services.
 - ♦ At the current market price, the stock trades at a price/earnings ratio of 18.9x FY2008E consolidated earnings and EV/EBIDTA of 9.6x FY2008E.
 - ♦ Given the diverse businesses of ABN, the company is best valued using the sum-of-parts method. Based on the sum-of-parts valuation, we estimate the fair value of ABN to be Rs1,600 per share. Out of the above telecom, insurance and BPO contribute close to Rs1,400.

Alphageo India	223.6	26.3	16.4	9.1	20.4	27.9	33.1	270.0	21.0
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- Remarks:**
- ♦ Alphageo India is engaged in providing all kinds of seismic survey services (ie data acquisition, data processing and data interpretation) to oil exploration companies and has the distinction of being the only domestic company that has capabilities to carry out 3D (three-dimensional) seismic surveys.
 - ♦ It had a pending order book position of Rs110 crore (around 4x its FY2006 revenues) as on December 2006 and has bagged an order of Rs60 crore in Q4 which provide a strong revenue growth visibility for FY2008.
 - ♦ At the current market price the stock trades attractively at 16.4x FY2007 and 9.1x FY2008 earning estimates.

Bharti Airtel	730.6	61.4	32.9	23.5	20.7	28.8	31.4	820.0	12.0
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- Remarks:**
- ♦ Bharti Airtel, the largest wireless telephony service operator, is one of the key beneficiaries of the consumption boom in the country. It has reportedly added subscribers at a healthy CAGR of over 75% in the past three years and is expected to increase its subscriber base at a CAGR of over 35% over the next two years.
 - ♦ The company's focus on introducing innovative services, cost control measures and growing economies of scale is resulting in an improvement in its margins, despite the continued pressure on the average revenue per unit (ARPU). Consequently, the earnings are estimated to grow at CAGR of over 46% over the three-year period FY2006-09.
 - ♦ At the current market price the stock trades attractively at 32.9x FY2007 and 23.5x FY2008 earning estimates.

Bharat Electronics	1,456.5	20.0	17.3	15.3	29.7	25.6	22.5	1,715.0	18.0
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- Remarks:**
- ♦ Given its wide range of products, research & development capabilities and proven track record, Bharat Electronics is well poised to effectively tap the huge opportunity in the defence sector.
 - ♦ It has announced a pending order backlog of Rs9,100 crore as on March end 2007 and would benefit from the over 64% increase in the capital outlay for security and other equipment used by defence forces. Moreover, the recent alliances/tie-ups with leading defence contractors such as Northrop Grumman would further boost the overall growth in the long term.
 - ♦ At the current market price the stock trades attractively at 17.3x FY2007 and 15.3x FY2008 earning estimates.

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY06	FY07E	FY08E	FY06	FY07E	FY08E		
BHEL	2,153.6	31.4	21.8	17.2	23.0	26.2	26.4	2,650.0	23.0

- Remarks:**
- ♦ Bharat Heavy Electricals Ltd (BHEL), a leading supplier of power equipment, will be the prime beneficiary of a four-fold increase in the investments (Rs500,000 crore in the 11th Five-Year Plan as against Rs112,000 crore in the 9th Five-Year Plan) being made in the power sector.
 - ♦ BHEL's current order book of Rs55,000 crore, ie 3x its FY2007 revenue, provides high earnings visibility.
 - ♦ The power ministry has proposed around five ultra mega power projects entailing a capacity addition of 20,000MW (4,000MWx5) with the combined turnkey value of at least Rs80,000 crore.
 - ♦ BHEL's recent technology transfer agreement with Alstom for design and manufacture of large-sized (500MW+) super-critical boilers will enable it to bid for the ultra mega power projects. We expect BHEL to bag a fair share out of this huge Rs80,000-crore potential investment, which in turn will maintain the growth momentum in the company's order book.
 - ♦ The stock trades at a PER of 17.2x its FY2008E earnings. BHEL's valuation looks attractive as compared with that of its peers, such as Siemens, ABB and Larsen and Toubro.

Hindustan Lever	195.8	32.6	28.0	23.0	56.8	61.0	60.8	280.0	43.0
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- Remarks:**
- ♦ HLL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HLL is likely to be a key beneficiary.
 - ♦ The company has regained the pricing power in all the product segments. We believe better pricing power and improved product mix will be the revenue drivers. The turn-around of loss-making businesses, cost-cutting initiatives and increased focus on its food business should help it to improve its profitability.
 - ♦ At the current market price the stock is quoting at 23x its CY2007E earnings per share (EPS) of Rs8.5. We maintain our Buy recommendation on the stock with a price target of Rs280.

ICICI Bank	804.5	28.2	21.2	17.7	13.6	14.4	15.5	1,240.0	54.0
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- Remarks:**
- ♦ ICICI Bank is India's second-largest bank. Its strong positioning in the retail advance segment gives it dual advantages of a healthy growth in both loans and fee income.
 - ♦ The Bank expects to improve margins and moderate business growth. It has no plans to raise fresh equity, which would improve its return on equity going forward. Its international operations are also gaining momentum, the only challenge would be to manage the uptick in non-performing assets.
 - ♦ Various subsidiaries (life insurance, general insurance, ICICI Securities) add Rs400 to the overall valuation.
 - ♦ The stock trades at a PER of 17.7x its FY2008E earnings and 2.6x its FY2008E book value. ICICI Bank's valuation looks attractive as compared with that of its peers, such as HDFC Bank.

Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY06	FY07E	FY08E	FY06	FY07E	FY08E		
Indo Tech Trans	265.2	25.3	13.7	10.3	23.3	25.8	27.0	335.0	26.0

- Remarks:**
- ◆ Indo Tech Transformers is among the leading manufacturers of transformers and is benefiting from the robust demand environment. It is expanding its manufacturing capacity from 2,450MVA to 7,450MVA to cater to the strong demand emerging from the government's stated policy and mission of providing power for all by 2012.
 - ◆ The strong order book of around Rs200 crore (2x FY2006 revenues) and high operating margins in the range of 18-20% (the highest in the industry) make it one of our top picks.
 - ◆ At the current market price, the stock trades attractively at 13.7x FY2007 and 10.3x FY2008 earnings estimates.

Mahindra & Mahindra	715.3	25.5	19.6	16.8	22.8	25.3	24.7	1,050	47.0
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- Remarks:**
- ◆ The government's increasing thrust on agriculture and the easy availability of credit would benefit M&M's tractor sales.
 - ◆ Its product mix would be further enriched with a number of new launches, including a new UV platform, a mid-sized car Logan (in collaboration with Renault) and other products in collaboration with International Trucks. Another multi-purpose vehicle (code named Ingenio) is slated for a launch in FY2008.
 - ◆ A better product mix and higher operating efficiencies have helped improve the margins of the company.
 - ◆ Subsidiaries like Tech Mahindra, Mahindra Gesco, and MMFSL are rendering strong performances.
 - ◆ Currently M&M is quoting at 10.4x FY2008 its consolidated earnings.

South East Asia Marine	174.4	10.1	7.1	4.9	25.0	26.0	27.0	300.0	72.0
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- Remarks:**
- ◆ SEAMAC is among the few Indian companies that own and operate multi-support vessels. It is benefiting from the firm charter day rates due to favourable demand-supply situation.
 - ◆ Going forward, the deployment of its recently acquired vessel would also add to the overall growth in revenues. Consequently, revenues and earnings are estimated to grow at CAGR of 32.9% and 43% respectively over CY2006-08E.
 - ◆ SEAMAC is a debt-free company with strong free cash flows. It is expected to have cash & cash equivalents of around Rs225 crore (or close to Rs68 per share) at the end of CY2008.
 - ◆ The valuations are quite attractive at 7.1x CY2007 and 4.9x CY2008 estimated earnings and relatively lower than some of its peers that trade at 10x FY2009 consensus earnings estimates.

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Name	CMP (Rs)	PER			RoE (%)			Target price	Upside (%)
		FY06	FY07E	FY08E	FY06	FY07E	FY08E		
Sun Pharmaceutical	1,043.1	33.8	27.3	21.8	42.2	26.9	20.8	1,341.0	29.0

Remarks:

- ♦ Sun Pharma maintains the numero uno ranking with neurologists, cardiologists, diabetologists and orthopedics.
- ♦ With 56 abbreviated new drug applications (ANDAs) pending US FDA approval and a filing rate of 30+ ANDAs per year, Sun Pharma has one of the strongest product pipelines for the US market. The company is amongst the top three players in around 15 of the 25 products that it sells in the US market.
- ♦ Sun Pharma is likely to show a CAGR of about 60% in ROW markets in FY2006-08. It has 750 products registered and another 300+ products pending approval in these markets.
- ♦ With a strong cash position of over Rs1,500 crore, Sun Pharma is well placed to unlock value from potential acquisitions. The demerger of its innovative research and development research unit into a separate arm is likely to trigger substantial value unlocking going forward. The company's disclosed innovative R&D pipeline consists of one new chemical entity and two novel drug delivery system products.

Thermax	370.2	43.7	22.3	16.2	22.3	31.8	31.8	433.0	17.0
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Remarks:

- ♦ Thermax, with its diversified product and application range, is riding on a sustainable capital expenditure (capex) boom in the industrial and infrastructure sectors.
- ♦ The capacity expansion and related projects in the core sectors are leading to higher order intake for Thermax. Thermax' current order book of Rs3,024 crore, ie 1.9x its FY2006 revenue, provides high earnings visibility.
- ♦ The robust traction across divisions and a burgeoning order book would drive a 28.9% CAGR in Thermax' consolidated revenues over FY2006-08.
- ♦ The improving operating leverage from cost rationalisation measures and economies of scale will lead to a 260-basis-point margin expansion over FY2006-08.
- ♦ At the current market price of Rs378, the stock trades at a PER of 16.2x its FY2008E earnings. Rs43 per share of cash and cash equivalent on the company's books as on December31, 2006 provides a margin of safety.

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

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