

# Great Good Gruesome

## 13TH ANNUAL WEALTH CREATION STUDY (2003 - 2008)

### HIGHLIGHTS

- Understanding of Great, Good and Gruesome companies is critical to investment success.
- Great time to buy Great companies (perpetual bonds) at reasonable prices, as interest rates are likely to remain low for quite some time.
- Gruesome companies are best avoided.
- Market is likely to see a sector churn - dominance of commodities will probably give way to users of commodities.
- Corporate profit boom of last five years is unlikely to continue. However, we have probably seen the market bottom at Sensex levels of 7,700.

### TOP 10 WEALTH CREATORS (2003 - 2008)

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 Industries	3,077	Unitech	284	Infosys	10	25.7
2	ONGC	1,593	Jai Corp	216	Hero Honda	10	16.5
3	Bharti Airtel	1,505	MMTC	187	Ranbaxy Labs	10	8.7
4	NMDC	1,356	Financial Technologies	177	Sun Pharma	9	46.0
5	MMTC	1,084	BF Utilities	173	Reliance Industries	9	40.5
6	BHEL	952	Aban Offshore	160	HDFC	9	40.2
7	Larsen & Toubro	813	NMDC	158	Cipla	9	21.8
8	SAIL	727	Godrej Industries	155	Satyam Computer	9	19.2
9	State Bank of India	701	Sesa Goa	152	Piramal Healthcare	9	16.6
10	ITC	617	REI Agro	150	ITC	9	13.9

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## Abbreviations and Terms used in this report

ABBREVIATION / TERM	DESCRIPTION
2003, 2008, 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 2003 to 2008 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.

## 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 is compared to the intrinsic value, the higher is the margin of safety. In this year’s study, we continue our 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 How to Value a Business.

### 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 2003-2008. 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 2009

Our Theme for 2009 is **The Great, the Good and the Gruesome**, discussion on which starts from page 20.

\* Capitaline database has been used for this study

Wealth Creation

2003-2008

The 13<sup>TH</sup> Annual Study

Findings

## Wealth Creation

2003-2008

### The Biggest Wealth Creators

#### Reliance Industries is No.1

Reliance is the biggest Wealth Creator for the second year in a row. The company has steadily climbed its way up the list of Motilal Oswal Biggest Wealth Creators. It was ranked 4<sup>th</sup> in 2004, 3<sup>rd</sup> in 2005, 2<sup>nd</sup> in 2006 (behind ONGC) and 1<sup>st</sup> in 2007.

#### Wider participation in wealth creation

In 2003-08, top 10 wealth creating companies accounted for 49% of wealth created compared to 76% during 1998-2003. The strong bull run in the market has led to wider participation in the wealth creation process.

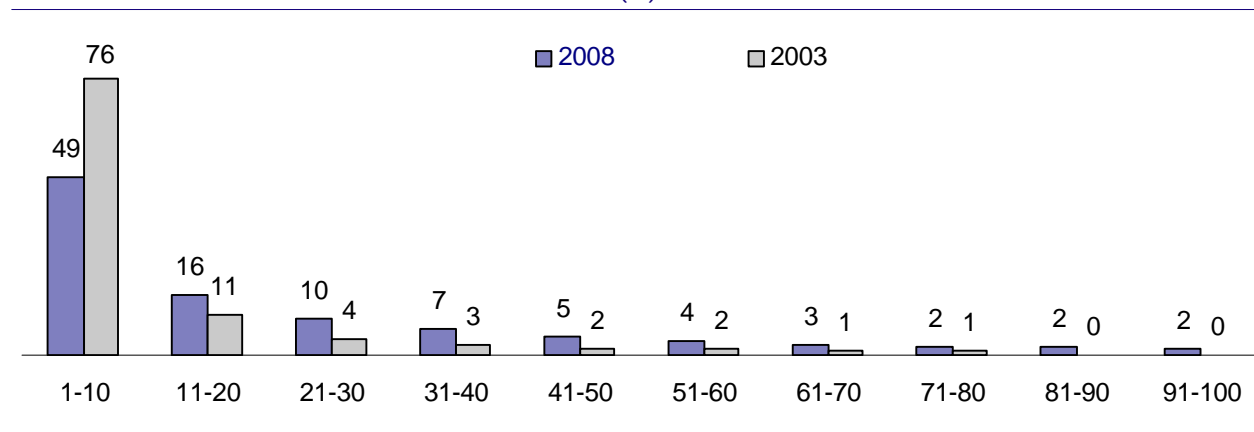
#### Key Finding

Commodities led by Oil & Gas had been the front runners in 2003-08. But change of leadership is almost certain going forward.

TOP 10 BIGGEST WEALTH CREATORS

RANK	COMPANY	NET WEALTH CREATED		PRICE	PAT	P/E (X)	
		RS B	% SHARE	CAGR (%)	CAGR (%)	FY08	FY03
1	Reliance Inds.	3,077	12.1	58.7	36.5	16.9	9.4
2	ONGC	1,593	6.3	32.8	9.7	12.6	4.8
3	Bharti Airtel	1,505	5.9	96.4	L to P	24.5	L to P
4	NMDC	1,356	5.3	158.3	59.8	42.1	3.8
5	MMTC	1,084	4.3	186.8	51.6	543.6	22.4
6	BHEL	952	3.7	79.1	45.1	35.2	12.3
7	Larsen & Toubro	813	3.2	100.9	38.1	40.7	10.6
8	SAIL	727	2.9	83.8	L to P	10.1	L to P
9	State Bank of India	701	2.8	44.4	16.7	15.0	4.6
10	ITC	617	2.4	37.5	17.9	24.9	11.4

DISTRIBUTION OF WEALTH CREATION BY RANK (%)



## Wealth Creation

2003-2008

### The Fastest Wealth Creators

#### Unitech is No.1

Unitech is the Fastest Wealth Creator during 2003-08, with a 5-year stock price CAGR of a whopping 284%. This is the highest ever in our 13 Wealth Creation studies so far.

MMTC and NMDC enjoy the rare privilege of featuring in both the biggest and fastest wealth creators list.

#### Two dominant themes

(1) Real estate / Embedded value (Unitech, B F Utilities, Godrej Industries, Jai Corp, Financial Technologies) and (2) Commodities (MMTC, NMDC, Sesa Goa and REI Agro).

#### Key Finding

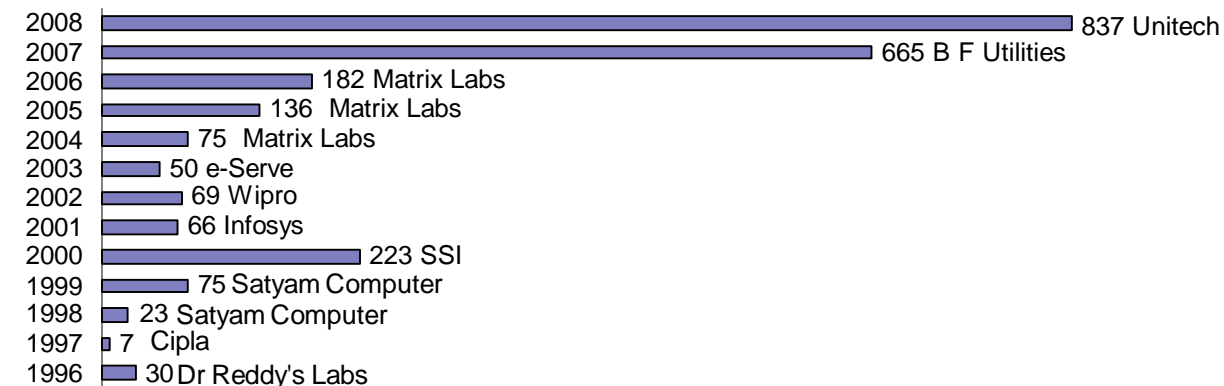
At times, Fad Investing (e.g. Real estate) and Momentum Investing (e.g. Commodities) can make serious money in the stock markets over reasonably long periods.

Nothing is more profitable than investing in an early stage bubble.

#### TOP 10 FASTEST WEALTH CREATORS

RANK	COMPANY	PRICE	PRICE	PAT	MCAP (RS B)	
		APPREN. (X)	CAGR (%)	CAGR (%)	FY08	FY03
1	Unitech	837	284	150	448	0.5
2	Jai Corp	316	216	50	92	0.3
3	MMTC	194	187	52	1090	5.6
4	Financial Tech.	164	177	226	74	0.4
5	BF Utilities	152	173	45	40	0.3
6	Aban Offshore	118	160	77	114	0.9
7	NMDC Ltd	115	158	60	1367	11.9
8	Godrej Indus.	108	155	27	83	0.7
9	Sesa Goa	102	152	160	123	1.2
10	REI Agro	99	150	66	71	0.4

#### 2003-08 PRICE APPRECIATION (X): UNITECH - FASTEST EVER WEALTH CREATOR



## Wealth Creation

2003-2008

### Most Consistent Wealth Creators

#### Infosys is Most Consistent

Infosys, Hero Honda and Ranbaxy have all appeared in all of the last 10 studies. Infosys is ranked as the most consistent by virtue of its higher price CAGR.

Indian IT, which is truly global and stable in character, is a new source of consistent wealth creation.

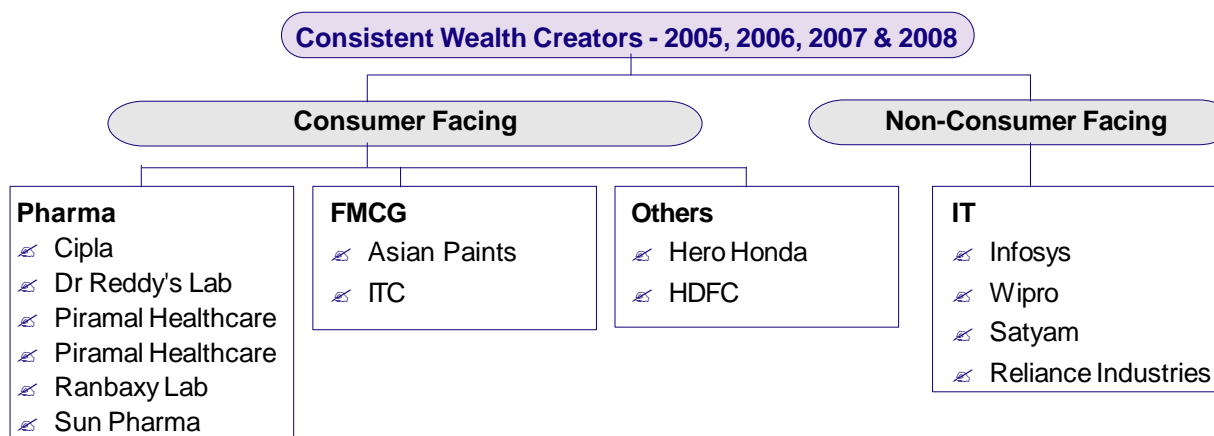
#### Key Finding

FMCG, Pharma and IT companies dominate the list of consistent wealth creators. Thus, non-cyclicality of business is a key driver of consistent wealth creation.

#### TOP 10 CONSISTENT WEALTH CREATORS

RANK	COMPANY	APPEARED IN LAST 10 WC STUDIES (X)	10-YR PRICE CAGR (%)	PAT CAGR (%)	P/E (X)	
					2008	2003
1	Infosys Tech.	10	25.7	36.1	18.3	27.9
2	Hero Honda Motor	10	16.5	10.8	14.2	6.5
3	Ranbaxy Labs.	10	8.7	-0.2	26.5	18.6
4	Sun Pharma.	9	46.0	34.4	25.2	10.9
5	Reliance Inds.	9	40.5	36.5	16.9	9.4
6	HDFC	9	40.2	28.7	27.8	11.7
7	Cipla	9	21.8	23.1	24.4	17.3
8	Satyam Computer	9	19.2	41.0	15.4	18.1
9	Piramal Healthcare	9	16.6	20.6	21.0	6.6
10	ITC	9	13.9	17.9	24.9	11.4

#### CONSUMER COMPANIES SCORE HIGH ON CONSISTENT WEALTH CREATION



## Wealth Creators (Wealthex)

### Comparative Performance v/s BSE Sensex

#### Superior performance on all fronts

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. The Wealthex is superior to the Sensex in all the three.

**Market performance:** The Wealthex significantly beat the Sensex in FY04, FY05 and FY08, and matched it in FY06 and FY07. Over the five-year period FY03-08, the Wealthex outperformed the Sensex by 241%.

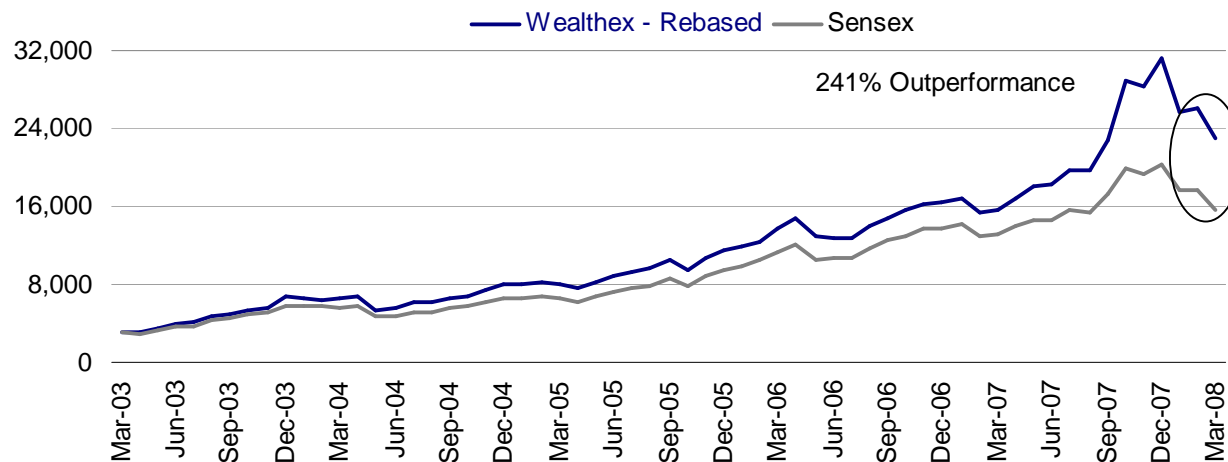
**Earnings growth:** Five-year EPS CAGR for the Wealthex is 26%, compared to 25% for the Sensex.

**Valuation:** In spite of superior earnings performance, the Wealthex traded cheaper than the Sensex in each of the last six years.

#### Key Finding

Wealth creating companies were available in 2003 at superior valuation to Sensex, which led to their outperformance.

WEALTH CREATORS' INDEX V/S BSE SENSEX (31.3.03 TO 31.3.08)



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

	MAR-03	MAR-04	MAR-05	MAR-06	MAR-07	MAR-08	5-YEAR CAGR (%)
BSE Sensex	3,049	5,591	6,493	11,280	13,072	15,644	38.7
YoY Performance (%)		83.4	16.1	73.7	15.9	19.7	
Wealth Creators - based to Sensex	3,049	6,470	8,019	13,724	15,680	22,987	49.8
YoY Performance (%)		112.2	23.9	71.1	14.2	46.6	
Sensex EPS	272	348	450	523	718	833	25.1
YoY Performance (%)		27.9	29.3	16.2	37.4	16.0	
Sensex P/E (x)	11.2	16.1	14.4	21.6	18.2	18.8	
Wealth Creators EPS	386	487	641	719	977	1228	26.1
YoY Performance (%)		26.3	31.6	12.2	35.9	25.7	
Wealth Creators P/E (x)	7.9	13.3	12.5	19.1	16.0	18.7	



## Wealth Creators

### Classification By Industry

#### Size: The commodity factor

Oil & Gas (led by Reliance and ONGC) and Metals/Mining (led by NMDC, MMTC and SAIL) dominate the wealth created, with a combined share of 40%. In 2003, their share was half this figure. In contrast, IT which enjoyed 43% share in 2003, has a share of only 5% in 2008.

#### Speed: The fad factor

Real estate and Retail emerged the fastest wealth creators, as they were the “flavor-of-the-season” sectors for investors in the Indian markets.

#### Metals/Mining, Engineering, Telecom: Best of both worlds

Metals/Mining, Engineering and Telecom enjoyed the best combination of size and speed.

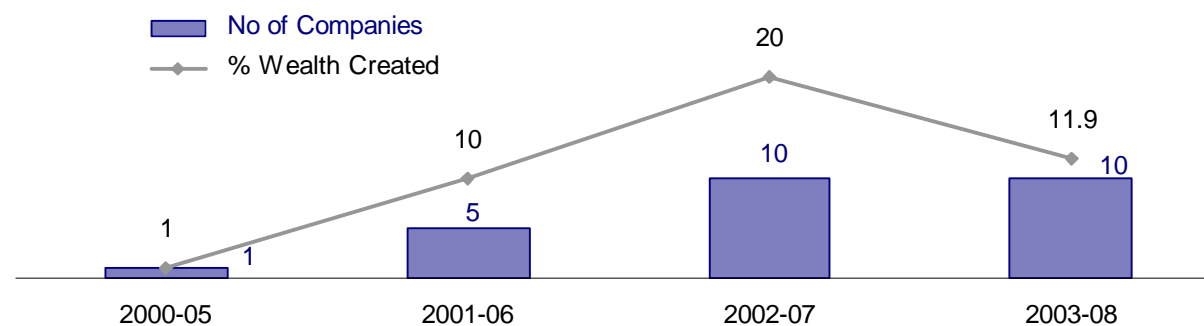
#### Key Finding

Engineering and Telecom are the sectors to watch out for in terms of huge wealth creation at a rapid pace. Oil & Gas and Metals/Mining may lose out as they are hit by the global slowdown, and collapse in commodity prices.

#### WEALTH CREATORS: CLASSIFICATION BY INDUSTRY

INDUSTRY	WEALTH CREATED (RS B)	SHARE OF WEALTH CREATED (%)		PRICE CAGR (%)	PAT CAGR (%)	P/E (X)	
		2008	2003			2008	2003
		Oil & Gas (8)	5,826			22.9	17.0
Metals/Mining (13)	4,416	17.4	2.0	83.3	62.7	16.8	9.2
Banking & Finance (15)	3,282	12.9	12.0	54.1	21.5	16.3	5.0
Engineering (10)	2,603	10.3	2.0	78.3	40.2	34.0	10.2
Telecom (2)	1,636	6.4	0.0	87.8	63.4	25.6	12.8
IT (5)	1,234	4.9	43.0	24.4	35.6	17.7	27.3
FMCG (6)	1,180	4.6	2.0	25.9	12.5	27.6	15.8
Pharma (8)	733	2.9	15.0	35.1	24.2	23.1	15.2
Auto (7)	680	2.7	2.0	45.2	32.7	16.1	10.3
Utility (4)	635	2.5	0.0	52.5	10.7	25.9	5.2
Cement (4)	527	2.1	1.0	50.7	49.6	11.2	10.8
Construction/Real Estate (2)	491	1.9	0.0	253.4	116.5	40.4	3.5
Media (2)	147	0.6	0.0	42.4	28.4	47.1	28.1
Retail (2)	96	0.4	0.0	107.8	73.4	41.2	16.7
Others (12)	1,903	7.5	4.0	91.3	33.5	35.4	5.9
<b>Total</b>	<b>25,390</b>	<b>100.0</b>	<b>100.0</b>	<b>49.8</b>	<b>26.2</b>	<b>18.7</b>	<b>7.9</b>

#### NEW ECONOMY PERFORMANCE IN THE TOP 100 WEALTH CREATORS



## Wealth Creators

### Classification By MNCs v/s Indian Companies

#### MNCs have underperformed Indian companies

During the study period, MNCs sharply underperformed Indian companies both in terms of earnings CAGR and price CAGR. However, Indian markets still believe in the long-term potential of MNCs as indicated by their higher P/Es.

#### MNC dominance on the wane

The last 10 wealth creation studies clearly indicate the waning dominance of MNCs in India. Over the last 10 years, MNCs have lost significant share both in terms of number of companies and amount of wealth created.

Within MNCs, engineering and capital goods companies like ABB, Siemens, Bosch and Cummins are increasing their share of wealth created, relative to consumer goods companies like Hindustan Unilever and Colgate.

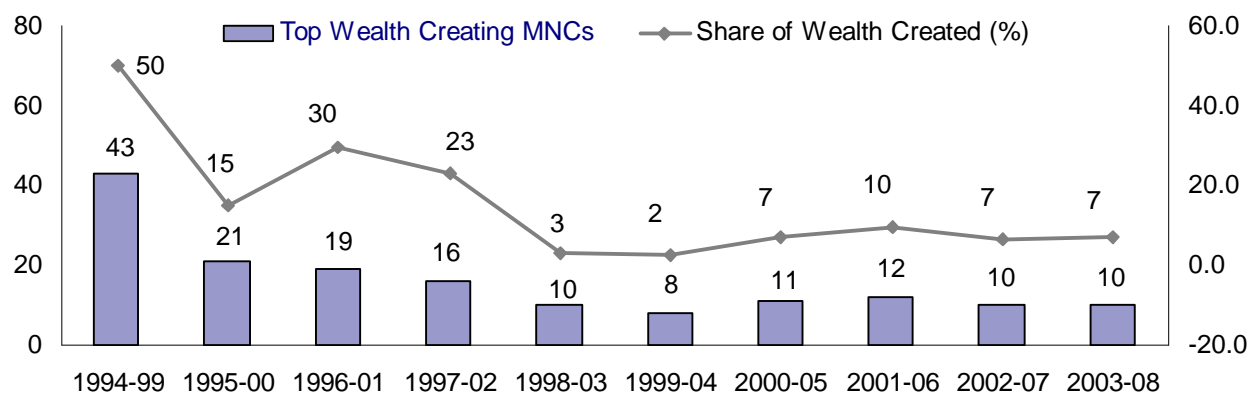
#### Key Finding

New Indian businesses and entrepreneurs have eclipsed old MNC clout in wealth creation. New MNCs like Nokia and Samsung do not seem keen on listing themselves in India.

WEALTH CREATORS: MNCs V/S INDIAN COMPANIES

	2003-2008	
	MNC	INDIAN
Number of Wealth Creators	10	90
% Wealth Created	6.8	93.2
5-year Earnings CAGR (%)	20.1	26.6
5-year Price CAGR (%)	31.4	52.2
P/E (x) at the Beginning of Study Period	15.5	7.3
P/E (x) at the End of Study Period	24.3	18.4

MNCs ARE WANING IN WEALTH CREATION



## Wealth Creators

### Classification By Ownership: State v/s Private

During the study period, PSUs in aggregate underperformed the Indian companies in terms of earnings CAGR. However, led by commodity companies such as ONGC, NMDC, MMTC and SAIL, PSUs matched their private sector counterparts in terms of price CAGR.

Value migration to the private sector has been reversed in 2003-08. However, we believe this is temporary as it is mainly led by commodity price hikes, which have since corrected sharply.

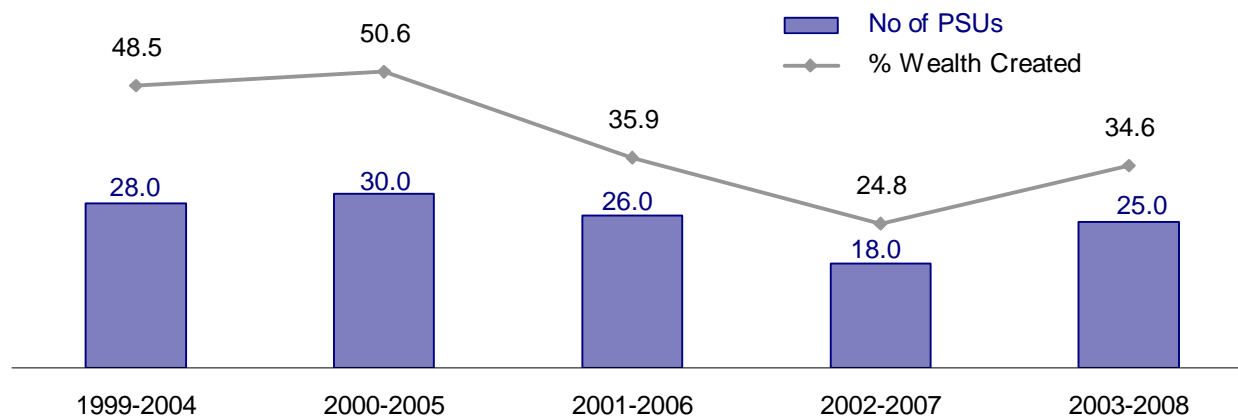
#### Key Finding

PSUs sometimes tend to be the handmaidens of the government (eg. Gujarat state government has mandated that all Gujarat state PSUs set aside 30% of their PBT towards corporate social responsibility). Hence, it is advisable to have a large weight for the private sector in any portfolio. However, select PSUs like SBI, BHEL and ONGC, which are dominant in their respective sectors cannot be ignored.

WEALTH CREATORS: STATE-OWNED V/S PRIVATELY-OWNED

	2003-2008	
	STATE-OWNED	PRIVATE
No. of Wealth Creators in Top 100	25	75
Share of Wealth Created (%)	34.6	65.4
5-year Earnings CAGR (%)	17.0	35.7
5-year Price CAGR (%)	49.9	49.7
P/E (x) at the Beginning of Study Period	4.6	12.6
P/E (x) at the End of Study Period	15.9	20.6

DEREGULATION DIMINISHES ROLE OF STATE-OWNED COMPANIES IN WEALTH CREATED



## Wealth Creators

### Classification By Age Group

#### Old companies for size, young for speed

The older companies tend to contribute higher share of wealth created, while the newer companies have speed in their favor, given their low base.

During 2003-08, companies in the age range of 21-50 have contributed to 52% of the wealth created. Companies less than 10 years old have recorded a price CAGR of almost 150% over five years. The price performance of all other age groups has been closer to the average price CAGR of 50%.

#### Key Finding

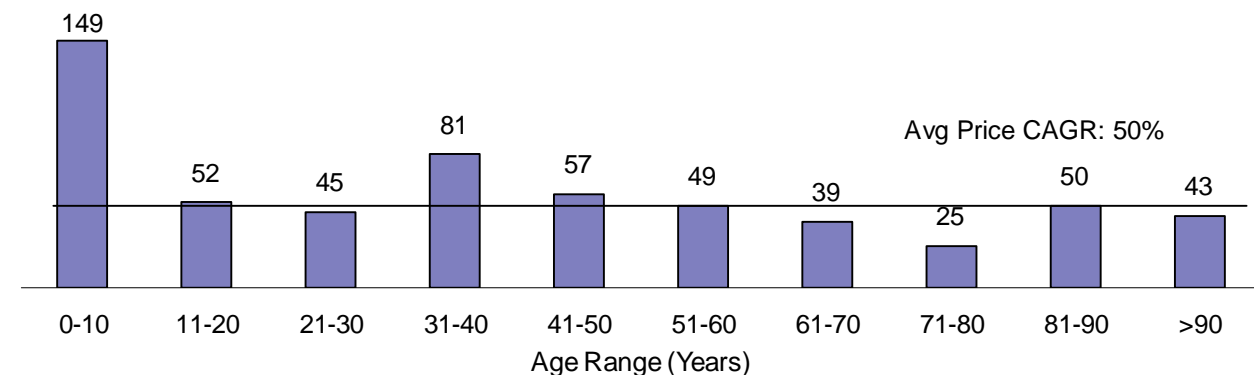
Catch them young. Companies less than 10 years old tend to report much higher PAT growth, given their low base. High earnings growth leads to high P/Es, which explains their outperformance to older peers.

**Example:** The 0-10 year-old high fliers in our study are BF Utilities and United Spirits.

WEALTH CREATORS: CLASSIFICATION BY AGE-GROUP

NO. OF YEARS	NO. OF COS.	WEALTH CREATED (RS B)	% SHARE OF WC	PAT CAGR (%)
0-10	2	150	0.6	85.9
11-20	17	5,449	21.5	23.1
21-30	19	2,982	11.7	26.6
31-40	7	2,384	9.4	76.9
41-50	15	7,936	31.3	27.6
51-60	14	1,945	7.7	17.4
61-70	9	1,915	7.5	37.2
71-80	6	805	3.2	19.6
81-90	3	337	1.3	18.7
>90	8	1,487	5.9	21.0
<b>Total</b>	<b>100</b>	<b>25,390</b>	<b>100.0</b>	<b>26.2</b>

WEALTH CREATORS: PRICE CAGR BY AGE RANGE



## Wealth Creators

### Classification By Size

Data indicates an inverse relationship between MCap and speed of returns i.e. smaller the market cap, larger the returns. Stocks which had less than Rs2b MCap in 2003 have delivered a price CAGR of 165%. On the other hand, large caps offered 33% returns, much lower than the average of 50%.

Rapidly growing and deregulating Indian economy will produce many young and fast-growing enterprises.

#### Key Finding

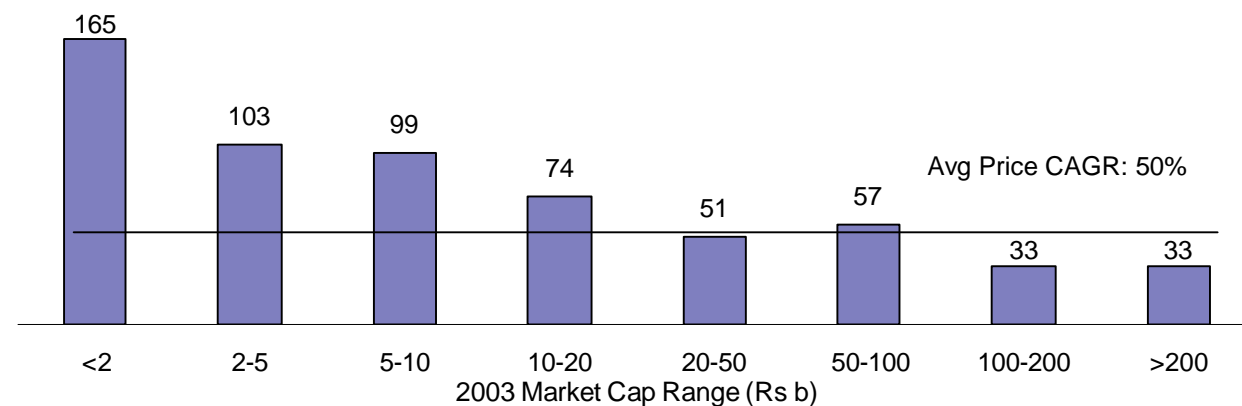
Small- and mid-size companies with a large business opportunity and ambitious, aggressive management can prove to be kickers for superior returns in any portfolio.

**Example:** Some of the sub-Rs2b companies in our 2003-08 study include Unitech, Pantaloon, Aban Offshore, Sesa Goa, Voltas and United Spirits.

#### WEALTH CREATORS: BASE YEAR MARKET CAP

2003 MARKET CAP RANGE (RS B)	NO. OF COMPANIES	WEALTH CREATED (RS B)	SHARE OF WC (%)	MCAP (RS B)	
				2008	2003
<2	17	1,707	7	1,878	15
2-5	13	1,222	5	1,307	38
5-10	14	2,956	12	3,266	106
10-20	14	2,572	10	2,787	177
20-50	24	5,068	20	6,126	793
50-100	9	4,467	18	5,493	574
100-200	4	1,705	7	2,482	595
>200	5	5,694	22	7,335	1,772
<b>Total</b>	<b>100</b>	<b>25,390</b>	<b>100</b>	<b>30,675</b>	<b>4,068</b>

#### WEALTH CREATORS: PRICE CAGR BY MARKET CAP RANGE IN 2003



## Wealth Creators

### Classification By Sales and Earnings Growth

#### Sales growth: Higher the better

This is saying the obvious, but still saying it is important. Typically, one would expect high sales growth to be accompanied by high valuation multiples. However, occasionally, the market throws in bargains e.g. companies whose 2003-08 sales CAGR was in the range of 40-50% were available at a PE of 5x in FY03.

In the adjacent table, 40-50% sales growth companies include cyclical such as Sterlite, Jindal Steel and Hindustan Zinc. The >50% range includes sunrise companies like Bharti Airtel, Financial Technologies, Pantaloon Retail and TV18.

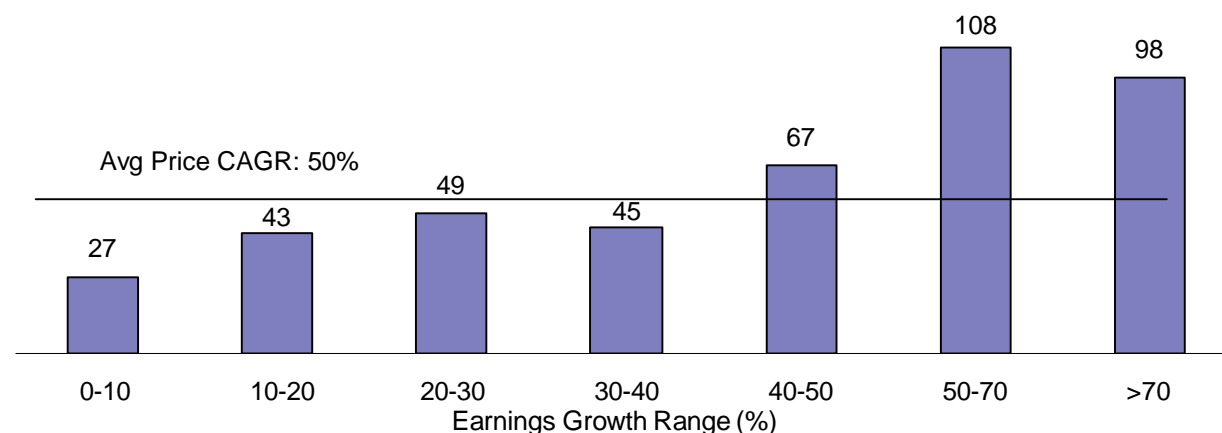
#### Key Finding

Sunrise businesses (such as telecom, retail, media, insurance) should continue to do well in the foreseeable future. At the same time, the growing Indian economy has resulted in a new dawn for many traditional businesses such as engineering, construction and financial services.

WEALTH CREATORS: CLASSIFICATION BY SALES GROWTH

SALES GR. RANGE (%)	NO. OF COS.	SHARE OF WC (%)	PRICE CAGR (%)	PAT CAGR (%)	ROE (%)		P/E (X)	
					2008	2003	2008	2003
0-10	15	9.3	33.2	10.9	15.0	18.0	19.4	7.7
10-20	25	22.6	40.1	17.6	22.5	25.2	12.3	5.1
20-30	26	31.1	57.5	34.8	20.5	15.2	20.6	9.5
30-40	19	22.2	50.9	42.7	23.7	15.2	27.8	21.0
40-50	5	4.7	114.4	66.1	24.0	15.7	17.8	5.0
>50	10	10.1	109.3	L to P	29.1	-1.6	24.2	N.A.
<b>Total</b>	<b>100</b>	<b>100.0</b>	<b>49.8</b>	<b>26.2</b>	<b>21.3</b>	<b>19.4</b>	<b>18.7</b>	<b>7.9</b>

WEALTH CREATORS: PRICE CAGR BY 2003-08 EARNINGS GROWTH RANGE



## Wealth Creators

### Classification By RoE

#### Bargains are found when markets are blind to change

When profitability of companies is good (i.e. high RoE), it is tough to find them cheap. This causes a paradox – companies which already have high RoE do not tend to deliver high stock price returns.

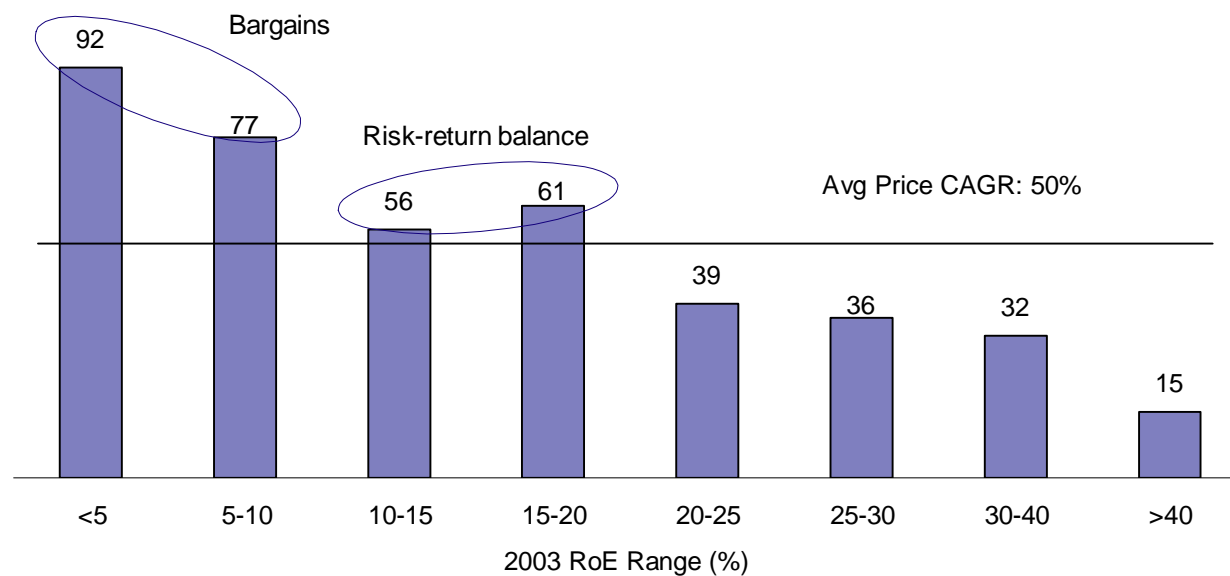
Bargains are available when changing dynamics of a company's business is not known to the market i.e. when current RoEs are low. However, such investments also have attendant risks.

One way of balancing risk and return is to invest in companies with moderate RoEs (10-20%), and potential for growth.

#### Key Finding

Anticipating change in profitability ahead of the crowd is rewarded very well in the markets.

WEALTH CREATORS: PRICE CAGR BY ROE



## Wealth Creators

### Classification By Valuation Parameters

#### Margin of safety in single digit PE

Two-thirds of wealth created, and two-thirds of the top wealth creators had a PE of less than 10x in 2003. This suggests high margin of safety in single digit PE multiples.

#### Price/Book of less than 1x works best!

47 out of the top 100 wealth creators were available in 2003 at Price/Book of less than 1x. Their price CAGR at 67% is significantly higher than the average 50%.

#### Watch out for Price/Sales of 1x or less

66 of the top 100 wealth creators had Price/Sales of 1x or less in 2003.

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2003)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
<b>P/E (x)</b>			
<5	36	41	55
5-10	27	26	57
10-15	18	18	59
15-20	7	5	25
>20	12	11	37
<b>Total</b>	<b>100</b>	<b>100</b>	<b>50</b>
<b>Price/Book (x)</b>			
<1	47	34	67
1-2	32	49	54
>2	21	17	30
<b>Total</b>	<b>100</b>	<b>100</b>	<b>50</b>
<b>Price/Sales (x)</b>			
<0.25	19	15	66
0.25-0.50	19	13	63
0.50-1.00	28	37	62
1-2	14	18	47
>2	20	17	30
<b>Total</b>	<b>100</b>	<b>100</b>	<b>50</b>



## Wealth Creators

### Classification By Valuation Parameters (contd.)

#### Payback of less than 1x guarantees high returns

Payback is the ratio of current market cap divided by expected profits of the next five years.

When companies are in high growth phase, it is difficult to value them using conventional measures. Payback is based on empirical wisdom that markets try and seek visibility of five years.

A high 82 of the top 100 wealth creators presented a payback opportunity of less than 1x in 2003.

#### Key Finding

The median valuations in 2003 clearly spell out the sure shot formulas for multi-baggers –

- ✍ PE of less than 10x
- ✍ Price/Book of less than 1x
- ✍ Price/Sales of 1x or less
- ✍ Payback ratio of 1x or less

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2003)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
<b>Payback Ratio (x)</b>			
<0.25	22	18	116
0.25-0.50	28	19	59
0.50-1.00	32	48	50
1-2	9	10	38
>2	9	6	22
<b>Total</b>	<b>100</b>	<b>100</b>	<b>50</b>

MEDIAN VALUATIONS (X)

	2003		2008	
	SENSEX	WEALTH CREATORS	SENSEX	WEALTH CREATORS
Median P/E	13.1	6.7	20.4	22.1
Median Price/Book	1.9	1.0	4.1	4.6
Median Price/Sales	1.3	0.7	3.6	3.5

## Wealth Destroyers

### Wealth destroyed is 0.2% of wealth created

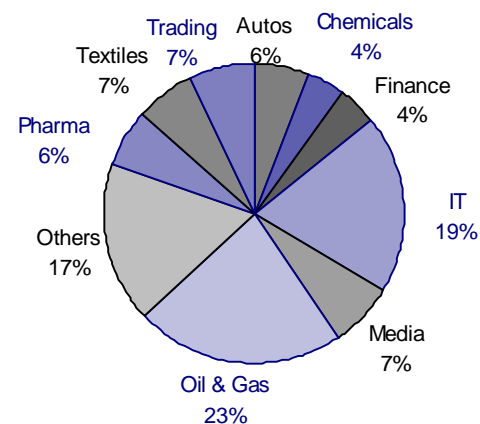
The stock market boom in 2003-08 is so widespread that total wealth destroyed is only Rs59b. This is barely 0.2% of the Rs25,390b wealth created by the top 100 companies alone.

Among the top wealth destroyers, HPCL and TVS Motor are the only prominent names.

TOP-10 WEALTH DESTROYERS (2003-2008)

COMPANY	WEALTH DESTROYED		PRICE CAGR (%)
	RS B	% SHARE	
HPCL	13	22	-3
Vaibhav Gems	4	7	25
Media Matrix	3	5	-33
Pan India Corporation	2	4	17
Rashel Agrotech	2	3	-59
T. Spiritual	2	3	-47
JIK Industries	2	3	-54
Netvision Web	2	3	-43
Ramco Systems	1	2	-19
TVS Motor	1	2	-3
Gufic BioScience	1	2	-16
<b>Total of above</b>	<b>33</b>	<b>56</b>	
<b>Total Wealth Destroyed</b>	<b>59</b>	<b>100</b>	

WEALTH DESTRUCTION BY INDUSTRY



### Key Finding

Oil & Gas and Finance figure among top wealth creating industries as well as top wealth destroying industries. This suggests that wealth creation is more dependent on company-specific – rather than industry-level – factors.

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Wealth Creation

*2003-2008*

The 13<sup>TH</sup> Annual Study

Theme 2009

## The Great, the Good and the Gruesome

### Introduction

Every year, legendary investor Warren Buffett personally writes the Chairman’s annual letter to shareholders of his diversified company, Berkshire Hathaway Inc.

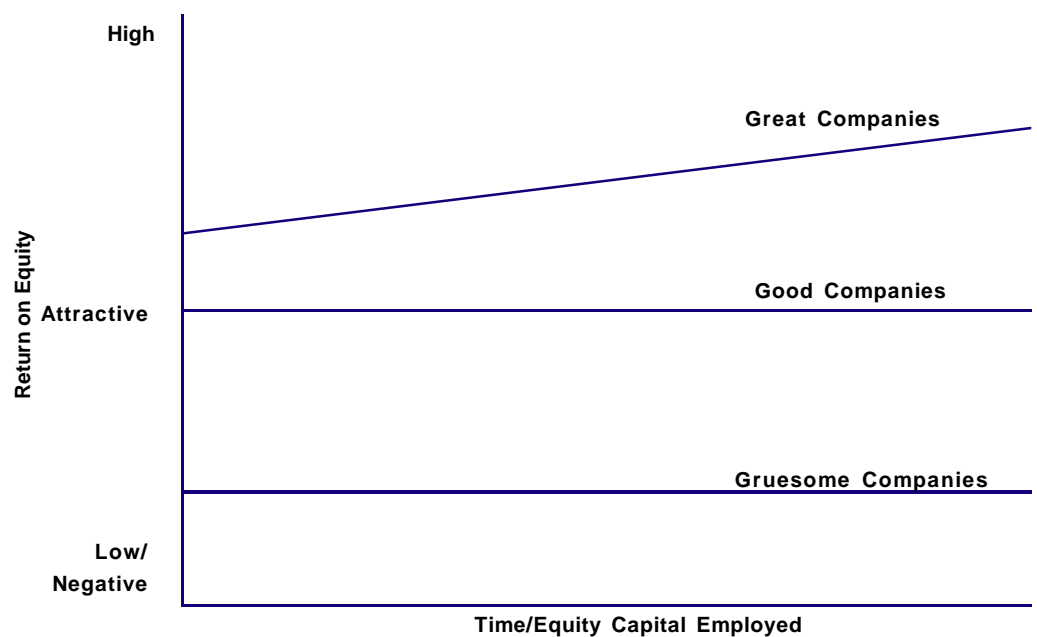
His 2007 letter has a section on “Businesses – The Great, the Good and the Gruesome”, where he discusses what kind of companies Berkshire likes and what it wishes to avoid. We believe this section is a worthwhile “back-to-basics” exercise. We have applied our understanding of the same to the Indian corporate sector.

### Defining Great, Good and Gruesome companies

Buffett equates the Great, the Good and the Gruesome companies to three types of bank savings accounts, where the interest rate is RoE (return on equity). He says, “Think of three types of savings accounts. The Great one pays an extraordinarily high interest rate that will rise as the years pass. The Good one pays an attractive rate of interest that will be earned also on deposits that are added. Finally, the Gruesome account both pays an inadequate interest rate and requires you to keep adding money at those disappointing returns.”

Graphically, the Great, Good and Gruesome companies can be depicted as under.

DEFINING THE GREAT, THE GOOD, THE GRUESOME



Source: MOSL

## Understanding Great, Good, Gruesome companies

### Great companies

Firstly, it must be mentioned that any country will have only a few Great companies. A truly Great company **must** have an “enduring moat” (i.e. long-term competitive advantage) that protects excellent returns on invested capital. This is possible only in either of two cases –

1. It must be either a low-cost producer, or
2. It possesses powerful brand(s).

Great companies tend to grow slower than their Good and Gruesome counterparts. But the key aspect of this growth is that it is achieved by consuming very little additional capital. Over time, given the power of compounding, Great companies become significant cash machines with high and steadily rising RoE, and high dividend payouts. Investors can deploy these payouts to earn returns in other avenues.

To quote Buffett, “Long-term competitive advantage in a stable industry is what we seek in a business. **If that comes with rapid organic growth, great. But even without organic growth, such a business is rewarding.** We will simply take the lush earnings of the business and use them to buy similar businesses elsewhere.”

### Good companies

Good companies grow at healthy rates, but need large increases in capital to sustain growth. Like Great companies, they too enjoy competitive advantage and make healthy profits. However, they need to reinvest a significant proportion of these profits for growth.

Buffett calls this the “put-up-more-to-earn-more” phenomenon, which is true of most companies across countries. Compared to great companies, return ratios will tend to be much lower, as will dividend payouts.

### Gruesome companies

Paradoxically, Gruesome companies tend to enjoy very high growth rates, which turns out to be a trap. These companies require significant capital for such growth, and then earn little or no money.

Buffett says, “Think airlines. Here a durable competitive advantage has proven elusive since the days of the Wright brothers ... The airline industry’s demand for capital ever since that first flight has been insatiable. Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it.”

### Characteristics of Great, Good and Gruesome companies

Return on equity is the financial differentiator of Great, Good and Gruesome companies. However, numbers are lag indicators, and are the outcome of several qualitative characteristics of the businesses. We summarize them below (for a fuller description of the characteristics, see Annexure 1, page 28).

#### IDENTIFYING THE GREAT, THE GOOD AND THE GRUESOME

CRITERIA	GREAT	GOOD	GRUESOME
<b>Nature of Business</b>	⊗ Stable business i.e. no rapid or continuous change	⊗ Subject to moderate change	⊗ Business likely to have rapid changes
<b>Competitive Advantage</b>	⊗ High and rising long-term competitive advantage from brand / lowest-cost production	⊗ Steady competitive advantage	⊗ Low or no competitive advantage
<b>Pricing Power</b>	⊗ High pricing power	⊗ Moderate pricing power	⊗ Pricing power absent
<b>Management</b>	⊗ Low dependence on greatness of management	⊗ Management, key success factor	⊗ High dependence on management
<b>Growth</b>	⊗ Typically moderate growth; high growth rates a rarity	⊗ Moderate-to-high growth rate	⊗ Typically high growth rates
<b>Capital Intensity</b>	⊗ Low capital intensity; high level of intangible assets	⊗ Moderate-to-high capital intensity	⊗ Very high capital intensity
<b>RoE</b>	⊗ Very high and rising RoE	⊗ Stable and attractive RoE	⊗ Low / falling RoE
<b>Dividend Payout</b>	⊗ Typically, high dividend payout	⊗ Reasonable dividend payout	⊗ Low or zero dividend payout
<b>Examples</b>	⊗ Hero Honda, Nestle, GSK Pharma, Infosys	⊗ HDFC Bank, Larsen & Toubro, BHEL, Tata Steel	⊗ Tata Tele, Jet Airways, Arvind

Source: MOSL

The financial profile of a typical Great, Good and Gruesome company is as tabled below.

#### GREAT, GOOD AND GRUESOME: TYPICAL FINANCIAL PROFILE

	NESTLE (GREAT)	HDFC BANK (GOOD)	TATA TELE (MAH) (GRUESOME)
<b>10-year CAGR (%)</b>			
Sales	10.0	44.0	101.0
PAT	19.0	39.0	Loss to Loss
Capital Employed	-3.0	46.0	15.0
<b>RoE (%)</b>			
Latest	102.5	17.7	Net Worth eroded
10-years Ago	36.4	26.4	-10.3
10-year Incremental RoE	230.0	14.0	Not calculable
<b>In last 10 years</b>			
Cumulative PAT (Rs b)	22.3	58.7	-26.7
Total Dividend (Rs b)	18.2	12.0	0.0
Average Payout (%)	81.0	21.0	0.0

Source: MOSL

**Key takeaways:**

- ✘ **Greatness is not dependent on growth.** Nestle has grown much slower than HDFC Bank both in terms of sales and profit. Its cumulative PAT in the last 10 years too is less than 40% of HDFC Bank. However, Nestle's total dividend paid out is 1.5x that of HDFC Bank.
- ✘ **Great companies are invariably asset light.** This means that they enjoy high and rising RoE. In the last 10 years, Nestle's capital employed actually declined 3% annually. Its RoE was 36% 10 years ago, and its latest RoE is over 100%. Incremental RoE is a high 230%.
- ✘ **Great companies are fountains of dividends.** Nestle's average payout ratio is a high 81%.
- ✘ **Good companies are fountains of earnings.** HDFC Bank has delivered high profits at high growth rates.
- ✘ **Gruesome companies are bottomless pits of capital consumption.** Tata Teleservices capital employed has grown at a compounded 15% for the last 10 years. But it has not made profits even in a single year in the last 10 years.

**See's Candy v/s Nestle India: An interesting parallel**

Warren Buffett cites the example of See's Candy (owned by Berkshire Hathaway) as an example of a great business.

**SEE'S CANDY'S GREAT PERFORMANCE (US\$ M)**

	1972	2007	CAGR %
Sales	30.0	383.0	7.5
PBT	5.0	82.0	8.3
<i>PBT Margin (%)</i>	16.7	21.4	
PAT	3.4	54.9	8.3
Capital Employed (CE)	8.0	40.0	4.7
PAT / CE (%)	41.9	137.4	
Incremental PAT / CE (%)		161.2	
Cumulative PBT (35 Years)		1,350	
Incremental Capital Deployed		32.0	
Purchase Price	25.0		
P/E (x)	7.5		
Post-tax Earnings Yield (%)	13.4		
<b>Total return (Earnings Yield + PAT CAGR) *</b>	<b>21.7</b>		

\* Over the long-term, expected return on stocks is equal to dividend yield + growth rates

The key points of the See's case are as follows –

- ✘ Berkshire acquired See's in 1972 for US\$25m.
- ✘ PAT at the time of acquisition was ~US\$3.4m, and the capital employed was US\$8m, i.e. PAT/CE of 42%.
- ✘ In 35 years, candy volumes grew only 2% annually (16m pounds in 1972 to 31m pounds in 2007), sales grew 7.5% and PBT grew 8.3%.
- ✘ In 2007, See's reported a PAT of ~US\$55m, on capital employed of US\$40m. Thus, PAT/CE zoomed to 137%.



- Over the 35 years, See's delivered cumulative pre-tax profit of US\$1.35b. This is 42 times the incremental investment of US\$32m, and 54 times Berkshire's investment value of US\$25m.

### The Nestle parallel

We compare the See's case with the last 15 years data of Nestle India. Like See's, Nestle has deployed very little capital employed relative to incremental earnings. As a result, incremental PAT/CE is very high.

NESTLE INDIA'S RETURN IS THE SAME AS SEE'S CANDY (RS B)

	1993	2007	CAGR %
Sales	5.4	35.0	14.3
PBT	0.5	6.3	19.3
<i>PBT Margin (%)</i>	<i>9.8</i>	<i>17.9</i>	
PAT	0.4	4.1	19.3
Capital Employed (CE)	2.6	4.2	3.4
PAT / CE (%)	13.3	98.3	
Incremental PAT / CE (%)		239.9	
Cumulative PBT (15 Years)		37.6	
Incremental Capital Deployed		1.6	
Purchase Price (Mcap)	16.6		
P/E (x)	47.3		
Post-tax Earnings Yield (%)	2.1		
<b>Total Return (Earnings Yield + PAT CAGR)</b>	<b>21.4</b>		

At 21.4%, Nestle's return is exactly comparable with 21.7% of See's. However, there is one key difference: In Nestle, much of the return is by way of earnings growth, whereas in See's it is by way of earnings yield (ie, higher margin of safety, discussed below).

### Great companies need not be great investments

Great investments are the result of huge margin of safety at the time of purchase.

**Margin of safety:** Given below are key quotes by Benjamin Graham on the concept of margin of safety:

- “The margin of safety is always dependent on the price paid.”
- “It is a favorable difference between price [paid] on the one hand, and indicated or appraised value on the other.”
- “Margin of safety is available for absorbing the effect of miscalculations or worse than average luck.”
- “The function of margin of safety is, in essence, that of rendering unnecessary an accurate estimate of the future.”
- “In the ordinary common stock, bought for investment under normal conditions, the margin of safety lies in an expected earning power considerably above the going rate for bonds.”

Point 5 refers to comparing earnings yield of a stock to the risk-free treasury bond yield. Higher the gap between the two, higher is the margin of safety. Obviously, if margin of safety is high the price is great, if it is moderate then the price is good, and if it is low, then the price is gruesome.

We present below the investment pay-off matrix for the various company-price combinations.

GREAT, GOOD AND GRUESOME: INVESTMENT PAY-OFF MATRIX

Purchase Price	Great (High MoS*)	Return: <b>Speculative</b>  Capital Safety: <b>Moderate</b>	Return: <b>High</b>  Capital Safety: <b>High</b>	Return: <b>Very High</b>  Capital Safety: <b>High</b>
	Good (Fair MoS*)	Return: <b>Low-to-Negative</b>  Capital Safety: <b>Low</b>	Return: <b>Moderate</b>  Capital Safety: <b>Moderate</b>	Return: <b>Moderate-to-High</b>  Capital Safety: <b>High</b>
	Gruesome (Low MoS*)	Return: <b>Negative</b>  Capital Safety: <b>Permanent Loss of Capital</b>	Return: <b>Low-to-Negative</b>  Capital Safety: <b>Risk of Loss of Capital</b>	Return: <b>Low</b>  Capital Safety: <b>High</b>
		Gruesome	Good	Great
		<b>Company</b>		
		<span style="background-color: #cfe2f3; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span> <b>Great Option; but very rare</b>	<span style="background-color: #d9ead3; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span> <b>Best Available Option</b>	<span style="background-color: #f4cccc; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span> <b>Avoid</b>

\* MoS: Margin of Safety

Source: MOSL

**Key takeaways**

**On Great companies:**

- ✘ Great companies do not necessarily mean great investments. If bought at gruesome price, returns will be very low.
- ✘ Great companies at great price are extremely rewarding, but extremely rare as well.
- ✘ Over the long term, Great companies offer high safety of capital.

**On Good companies:**

- ✘ In buying good companies, margin of safety needs to be higher than when buying great companies.

**On Gruesome companies:**

- ✘ Gruesome companies grow rapidly, require significant capital to engender the growth, and then **earn little or no money**. Hence, such companies are best avoided at all price levels, unless there is high possibility of turnarounds, corporate restructuring, etc.

**Best investment strategy:**

- ✘ **Buying good companies at great (bargain) price or buying great companies at good (reasonable) price are the two options for investors at large.**

**Investment examples****Great company at good price: Hero Honda**

- ✘ Long-term competitive advantage: (1) 60% market share of Indian motorcycle market; and (2) strong brand equity including a tie-up with Honda, the world's leading two-wheeler brand.
- ✘ Reasonably large size of opportunity – motorcycle penetration of only 25% of Indian households
- ✘ High level of profitability – working on negative capital employed
- ✘ Sensible price tag – TTM P/E of 14x for an expected earnings CAGR of 15-20%.

**Good company at great price: State Bank of India**

- ✘ India's largest banking franchise with 25% market share
- ✘ High share of low-cost deposits due to large network of branches across India
- ✘ Technology benefits and cost control to significantly expand profits
- ✘ Embedded value of SBI Life, third biggest insurer in India
- ✘ Sensible price tag – stock available at Price/Book of 1x.

**Gruesome company that has turned around: Idea Cellular**

- ✘ Fourth largest GSM player in India with first mover advantage in many telecom circles
- ✘ Mobility is the natural state of communication; India's mobile penetration to increase from 25% to 60% by 2012
- ✘ Fastest growing among major wireless operators due to (1) entry into new circles (Mumbai, Bihar, Tamil Nadu, Orissa, etc) and (2) acquisition of Spice Telecom (Punjab and Karnataka)
- ✘ Well-funded with equity placement to Telekom Malaysia International and stake sale of tower subsidiary to private equity fund, Providence
- ✘ Sensible price tag – stock available at P/E of 17x FY09.

In the final analysis, Century Management's Arnold Van Dan Berg's words are gospel for investors: "There is absolutely no substitute for paying the right price. In the bible, it says that love covers a multitude of sins. Well, in the investing field, price covers a multitude of mistakes. For human beings, there is no substitute for love. For investing, there is no substitute for paying the right price – absolutely none."

*(Outstanding Investors Digest, April 2004).*

## Annexure 1: Characteristics of Great, Good and Gruesome companies

### Great companies

We describe below the typical characteristics of Great businesses.

**Stable business:** Companies with businesses that are prone to rapid and continuous change rarely qualify as Great. “Creative destruction” in unstable businesses could lead to redundancy of capital invested, adversely affecting cash flows and return on capital.

**High and rising long-term competitive advantage:** There are only two sources of an “enduring moat” (Buffettology for long-term competitive advantage) –

1. Low cost production; and
2. Powerful brand.

The enduring moat of Great companies is more likely to widen as the years pass by. For instance, branded products (e.g. Colgate) are habit-forming with customers, and switching costs are high. Such formidable entry barriers allow great companies to:

- ✍ Enjoy pricing power; and
- ✍ Maintain high return on invested capital.

**Low dependence on greatness of management:** Buffett’s own words describe this the best: “If a business *requires* a superstar to produce great results, the business itself cannot be deemed great. A medical partnership led by your area’s premier brain surgeon may enjoy outsized and growing earnings, but that tells little about its future. The partnership’s moat will go when the surgeon goes. You can count, though, on the moat of the Mayo Clinic to endure, even though you can’t name its CEO.”

**Modest growth rates:** Great companies seem to enjoy modest but stable growth. High growth rates are a rarity because their businesses are stable, and have typically reached mature phase.

**Low capital intensity, very high RoE, high dividend payout:** For great companies, all the financial attributes go hand-in-hand. Great companies require very little incremental capital for growth (e.g. most FMCG and pharma companies outsource their production). This leads to very high RoE. Free cash flow is also high which enables huge dividend payouts. For instance, Colgate payout is 100%, Castrol ~95% and Nestle ~90%.

### **Good companies**

We describe below the typical characteristics of Good companies.

**Subject to moderate change:** Unlike Great companies, the businesses of Good companies may be subject to moderate level of changes. For instance, banks have to deal with RBI measures on CRR, repo rates, etc. Likewise, metals sector too is faced with volatility in product prices.

**Steady competitive advantage:** Good companies enjoy steady competitive advantage, which typically arises from economies of scale (eg, State Bank of India in banking, L&T in engineering).

**Management, a key success factor:** Good companies have relatively weaker moats. Hence, efficient execution of all major processes becomes a key success factor. Thus, unlike great companies, good companies will tend to depend on their management's character and competence.

**Moderate-to-high growth rates:** Good companies tend to enjoy growth rates higher than great businesses. However, such growth requires additional capital, whether own or from outside.

**Moderate-to-high capital intensity, healthy RoE, reasonable dividend payout:** Businesses such as banking, steel and engineering need to plough back a sizeable proportion of their earnings for fixed- and/or working capital requirements. As a result, though the businesses are profitable, RoEs tend to be in the 15-25% band and dividend payout 20-30%.

### Gruesome companies

We describe below the typical characteristics of Gruesome companies.

**Business most likely to have rapid changes:** The best example of this is the dotcom boom and bust. Companies raised huge amounts of money to fund business models which were subject to rapid and continuous change.

**Low or no long-term competitive advantage:** Gruesome companies do not have an established track record of long-term competitive advantage. This is mainly because the business is either nascent and dynamic or extremely competitive (eg, the airlines sector has been vitiated by the entry of several no-frill airlines).

**Businesses with rapid growth due to huge size of opportunity:** Paradoxically, gruesome companies enjoy great growth rates. This is because such businesses have a huge size opportunity. For instance, Tata Teleservices sales growth in the last 10 years is a high 101%. Yet it has not yet reported a profit in any single year.

**High dependence on management:** Gruesome companies will be found to be led by one of two kinds of management: (1) extremely passive and laid-back (eg chemicals) or (2) extremely aggressive and ambitious (eg airlines, retailing).

Passive managements will be content with carrying on existing low-profit operations, ploughing back a significant proportion of earnings. On the other hand, if current earnings are inadequate for the growth plans, an aggressive and ambitious management is the only hope of raising external funds for Gruesome companies. This typically leads to further value destruction.

**Very high capital intensity, low RoE/losses, low dividend payout:** The universal example of a gruesome business is airlines. It is very highly capital intensive, leading to losses in the worst case and low RoE in the best case, implying zero-to-low dividend payout.

## **Annexure 2 – A mathematical framework for Great, Good and Gruesome**

Mathematically, RoE is the starting point to differentiate between Great, Good and Gruesome businesses. To assess the core operating RoE, the reported RoE can be adjusted to account for surplus cash, if any, in the balance sheet.

For the purposes of our study, we used Adjusted RoE to shortlist the companies as follows:

### **Common steps:**

1. Universe: Top Wealth Creators (100 companies)
2. Shortlist companies with a 10-year track record (95 companies)
3. Compute Adjusted RoEs for companies whose cash is in excess of debt:
  - (a) Deduct 7% of cash equivalents from PAT to get Adjusted PAT;
  - (b) Deduct excess cash from Net Worth to get Adjusted Net Worth;
  - (c) Compute Adjusted RoE as  $\text{Adjusted PAT} \div \text{Adjusted Net Worth}$ .

### **Classification criteria:**

4. Great companies:
  - (a) 10-year average Adjusted RoE  $> 25\%$ ;
  - (b) Adjusted RoE not less than 15% in any of the last 10 years; and
  - (c) rising trend of RoEs (going by Warren Buffett's definition of great companies).
5. Gruesome companies: 10-year average Adjusted RoE of less than 10%
6. Good companies: Companies which are neither Great nor Gruesome

**Note:** The above methodology serves as a good first screen of companies. Beyond that some element of subjectivity will need to be applied to finally decide whether a company is Great, Good or Gruesome.

## MOSL 100 – Top Wealth Creators classified as Great, Good and Gruesome

(Note: All calculations based on consolidated financials wherever applicable)

### GREAT COMPANIES

COMPANY	10-YR AVG. ADJ. ROE %	ROE (%)		INCREMENTAL ROE	ROCE (%)		INCREMENTAL ROCE	DIVIDEND PAYOUT (%)
		LATEST	10 YRS AGO		LATEST	10 YRS AGO		
Hero Honda Motor	394.0	32.4	40.4	31.5	45.3	46.0	45.2	45.7
Hind. Unilever	158.5	127.0	47.6	Very high	145.8	57.3	Very high*	73.9
GlaxoSmith Pharma	105.0	39.7	26.8	43.6	58.3	37.6	65.2	49.8
NMDC Ltd	101.9	39.2	16.9	41.7	59.7	20.7	64.0	18.8
Nestle India	85.1	98.9	31.2	230.2	149.4	31.6	Very high*	78.6
Infosys Tech.	67.6	33.8	23.5	34.2	38.9	27.6	39.4	31.7
Satyam Computer	53.8	23.3	43.6	22.8	26.0	25.0	26.1	16.6
Wipro	41.5	28.1	27.3	28.1	24.1	21.4	24.3	26.1
Dabur India	37.4	54.1	19.2	79.7	55.6	15.1	192.2	40.9
Container Corpn	36.5	23.2	30.0	22.0	29.0	37.6	27.2	21.6
Sun Pharma.	34.2	29.8	22.2	30.2	30.2	19.0	31.1	16.2
ITC	32.6	25.8	28.8	25.2	37.5	33.5	39.0	34.5
Asian Paints	32.2	41.7	25.2	49.0	50.0	23.6	67.4	45.1

\* Very high because incremental capital employed is actually negative

### GRUESOME COMPANIES

COMPANY	10-YR AVG. ADJ. ROE %	ROE (%)		INCREMENTAL ROE	ROCE (%)		INCREMENTAL ROCE	DIVIDEND PAYOUT (%)
		LATEST	10 YRS AGO		LATEST	10 YRS AGO		
Hind.Copper	-135.9	27.4	-45.5	52.8	32.6	-7.8	78.4	0.0
HMT	-44.0	-11.8	N.M.	-2.0	2.2	11.6	-9.0	0.0
Essar Oil	-0.3	-1.2	1.2	-3.3	-0.3	0.6	-0.8	0.0
Aditya Birla Nuvo	2.6	1.5	7.5	0.5	3.7	11.2	2.7	32.3
Zee Entertainment	6.8	13.4	31.9	12.1	18.8	35.8	17.4	18.9
Pantaloon Retail	6.9	-0.5	11.9	-0.7	4.5	16.6	4.4	19.9
Jai Corp	7.8	5.5	10.8	5.1	5.9	13.2	5.4	2.5
IDBI Bank	8.8	10.6	13.7	24.8	7.0	11.3	2.4	20.2
TV 18 India	8.8	1.1	4.1	1.0	7.7	11.8	7.6	31.4
Reliance Infra	9.4	7.9	13.2	7.0	7.8	14.4	6.6	15.5

### GOOD COMPANIES

COMPANY	10-YR AVG. ADJ. ROE %	ROE (%)		INCREMENTAL ROE	ROCE (%)		INCREMENTAL ROCE	DIVIDEND PAYOUT (%)
		LATEST	10 YRS AGO		LATEST	10 YRS AGO		
Siemens	82.7	37.9	-76.2	42.7	53.9	0.0	68.9	15.5
Bharat Electronics	75.7	25.1	12.2	27.0	35.6	25.1	37.8	20.0
Sesa Goa	75.0	52.4	13.8	55.7	78.4	12.6	88.2	17.8
Financial Tech	69.6	57.9	0.2	58.1	61.5	3.5	61.7	15.1
Hind.Zinc	60.5	37.1	7.8	39.7	50.7	15.5	54.2	6.6
Thermax	46.8	38.3	11.0	61.2	59.9	15.1	101.1	37.2
Unitech	46.1	46.0	10.7	47.1	16.8	12.2	16.9	3.7
Bosch	40.1	23.8	17.0	25.1	30.6	26.0	31.6	10.3
HCL Technologies	39.7	25.2	47.0	24.0	28.3	50.0	27.1	56.9
ABB	36.0	30.5	8.4	39.1	48.0	12.6	62.5	16.4
Glenmark Pharma	35.6	41.6	36.0	41.8	31.2	40.7	31.0	5.7
Tata Steel	32.5	42.4	6.8	48.5	23.6	7.4	25.5	17.0
Voltas	29.3	35.9	8.4	45.9	48.5	16.4	83.6	22.8
Ambuja Cements	28.7	38.0	14.3	44.5	55.1	14.4	79.6	29.7
GE Shipping	27.8	33.7	10.4	42.8	23.6	9.9	29.5	21.0
Jindal Steel	26.7	33.3	17.6	34.5	16.9	18.5	16.8	7.3
BHEL	26.5	26.5	17.7	30.1	41.1	29.7	46.0	21.8
SAIL	25.8	32.6	-22.5	56.3	43.6	1.4	Very high*	23.4
Natl. Aluminium	24.9	18.4	8.8	22.9	28.5	10.4	40.2	27.7
Indian Overseas	24.9	25.5	10.2	27.4	7.3	7.9	7.1	18.1



## GOOD COMPANIES (CONTD.)

COMPANY	10-YR AVG. ADJ. ROE %	ROE (%)		INCREMENTAL ROE	ROCE (%)		INCREMENTAL ROCE	DIVIDEND PAYOUT (%)
		LATEST	10 YRS AGO		LATEST	10 YRS AGO		
Jubilant Organosys	24.7	31.9	18.4	33.4	14.6	14.8	14.6	9.5
Titan Inds.	24.7	33.1	10.8	45.4	34.1	12.9	236.0	23.9
ONGC	24.7	25.5	11.4	31.8	33.4	13.6	44.0	36.0
Cipla	24.1	18.7	25.5	17.8	19.8	32.8	18.1	22.4
Piramal Health	23.9	30.5	14.2	37.0	25.3	19.9	27.0	33.0
Sterlite Inds.	23.9	19.7	12.4	20.2	26.6	11.0	28.0	6.1
Cummins India	23.6	26.3	17.9	30.7	36.8	25.4	42.8	38.4
ACC	23.5	34.3	5.5	43.7	43.0	9.2	81.2	28.0
M & M	22.8	25.5	15.4	28.8	16.8	14.6	17.2	20.7
GAIL	21.9	20.5	25.6	18.3	24.5	21.7	26.1	31.1
Ranbaxy Labs.	21.5	27.8	8.4	47.6	16.3	10.2	18.5	48.3
Grasim Inds	21.4	31.7	6.3	41.9	31.5	9.2	41.8	14.5
IOC	21.0	18.1	18.0	18.2	16.9	17.7	16.7	25.9
Shriram Trans.	20.7	22.0	8.3	22.3	11.5	14.9	11.4	29.0
Bharat Forge	20.6	18.2	9.1	21.2	17.1	10.5	19.1	27.3
Union Bank	20.4	24.7	14.0	27.4	7.2	7.5	7.1	19.0
Larsen & Toubro	20.0	20.4	12.9	24.3	16.8	11.4	19.0	25.8
Shipping Corpn.	19.9	14.5	11.1	16.0	13.6	10.9	16.5	27.7
Areva T&D	19.5	39.5	-6.7	55.7	54.9	-0.4	75.3	22.2
Reliance Inds.	19.4	23.6	18.2	24.3	17.5	12.1	18.5	12.4
Canara Bank	19.4	21.1	9.9	25.1	7.8	7.6	7.8	16.5
Adani Enterprises	19.1	17.5	24.2	16.5	9.8	18.5	9.2	6.2
BPCL	18.3	13.7	23.2	10.8	12.5	24.6	10.3	23.5
Punjab Natl Bank	18.2	19.1	23.8	18.4	6.6	7.9	6.2	13.8
Tata Motors	17.9	25.0	2.6	42.2	19.6	7.4	26.1	31.2
Welspun Guj.Stahl	17.4	23.0	-3.2	25.4	16.1	1.0	17.5	7.2
Bank of India	17.2	22.0	9.2	26.2	6.5	7.1	6.2	16.8
Exide Inds	16.7	20.5	15.6	22.8	36.7	14.9	63.3	27.1
HDFC	16.6	12.8	16.9	12.4	9.8	13.9	9.2	34.5
Crompton Greaves	16.3	31.5	4.2	51.9	32.4	9.6	63.9	22.9
Tata Comm	16.2	0.2	24.4	489.5	3.8	35.3	-50.9	67.3
HDFC Bank	16.0	13.7	24.3	13.4	6.2	9.0	6.1	20.0
Axis Bank	15.9	12.1	15.1	12.0	5.9	9.2	5.8	20.7
Hindalco Inds.	15.8	13.9	17.4	13.0	9.4	20.2	8.5	11.1
St Bk of India	15.6	14.6	9.9	15.6	6.8	7.7	6.6	12.7
Tata Chemicals	14.4	25.8	10.8	38.0	15.3	12.5	17.0	35.8
G M D C	13.8	24.9	19.1	29.0	27.7	32.0	26.3	18.3
Bank of Baroda	13.8	13.6	14.5	13.3	6.1	8.0	5.4	19.8
Neyveli Lignite	13.7	12.2	13.4	11.1	12.1	13.5	11.0	26.3
Godrej Inds	13.5	12.4	-12.9	17.7	14.0	5.6	17.3	32.6
IVRCL Infra.	12.9	11.5	22.3	11.4	11.8	21.5	11.6	9.1
EH	12.9	21.9	13.8	40.1	23.3	12.5	33.8	33.4
MRPL	12.5	33.7	1.1	50.2	32.2	7.5	Very high*	30.4
Indian Hotels	12.1	15.8	13.4	17.3	14.0	16.6	13.5	32.8
Tata Power Co.	11.8	12.7	10.0	13.4	11.4	12.2	11.3	23.0
Reliance Capital	11.5	15.3	8.0	16.8	10.2	8.9	10.5	17.1
Essar Shipping	11.5	9.6	4.8	12.2	8.1	5.4	9.4	0.0
Aban Offshore	11.2	7.4	5.9	7.9	6.3	14.2	6.2	24.8
Kotak Mah. Bank	11.1	11.3	3.7	11.6	9.2	13.3	9.1	6.1
ICICI Bank	10.9	7.6	20.5	7.5	7.4	7.9	7.4	33.6
MMTC	10.8	22.1	2.9	44.6	10.6	4.3	12.3	26.2
Century Textiles	10.6	21.7	-10.9	83.1	17.1	4.8	405.3	20.7

\* Very high because incremental capital employed is actually negative

Wealth Creation

*2003-2008*

The 13<sup>TH</sup> Annual Study

# Market Outlook

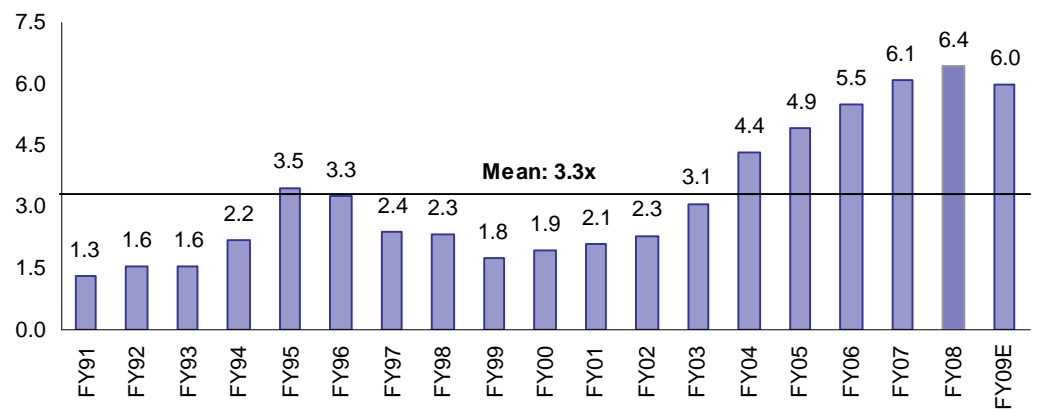
## Market Outlook

### India's corporate profit to GDP is headed lower

In the last five years, India's GDP grew 14% annually. Against this backdrop, corporate profit CAGR was a robust 32%. As a result, corporate profit to GDP moved up from 3.1% in FY03 to a high of 6.4% in FY08. Following the global slowdown, corporate profit to GDP is likely to revert to 4.5-5% over the next three years.

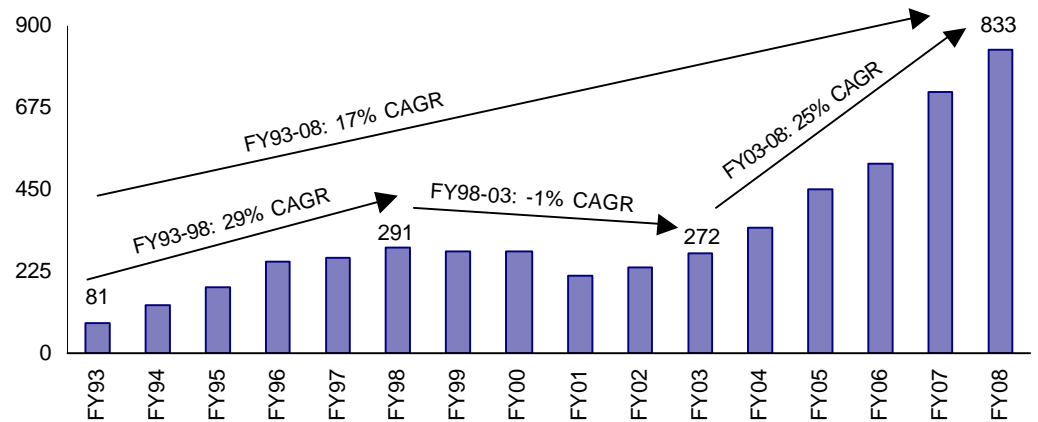
Likewise, FY03-08 Sensex EPS CAGR is 25%, which is much higher than the long-term CAGR of 15-17%. Overall, we are skeptical of profit growth over the medium term.

INDIA'S CORPORATE PROFIT TO GDP (%)



Source: MOSL

FY93 TO FY08 - SENSEX EPS PERFORMANCE (RS)

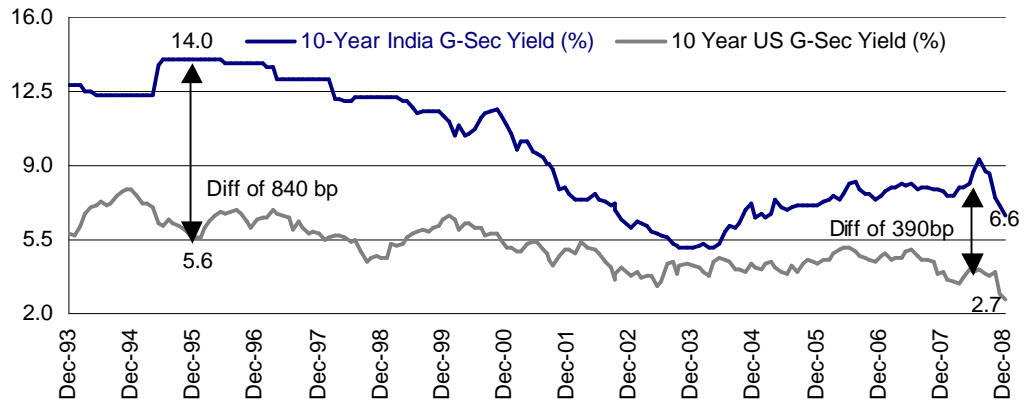


Source: MOSL

**Interest rates are headed down**

Interest rates in India are clearly headed down in line with the global trend (eg, US 10-year treasury yields are at an all-time low of 2.7%).

INTEREST RATES IN INDIA AND ELSEWHERE IN THE WORLD ARE FALLING

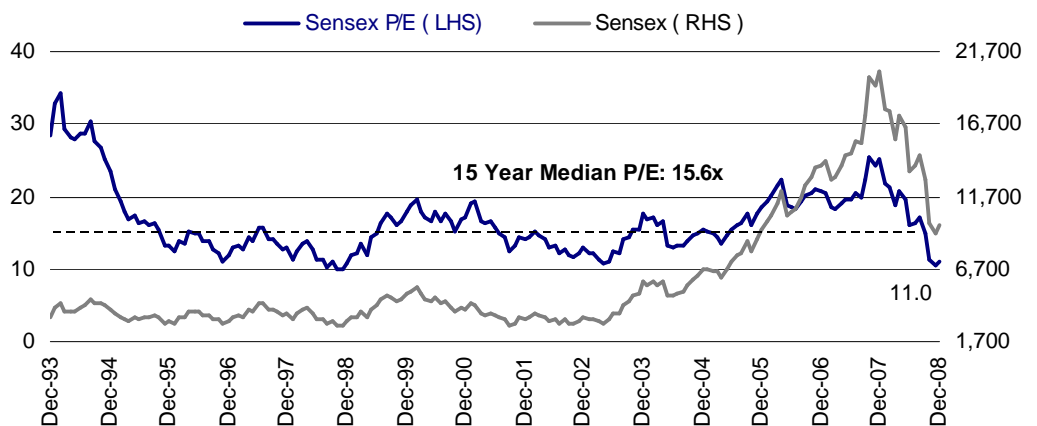


Source: MOSL

**Market is expecting earnings slowdown**

Despite low interest rates, the BSE Sensex is currently trading at a trailing 12-month P/E of 11x, close to its historic lows of March 2003 (the beginning of a five-year rally). Low market P/E clearly suggests that the market currently anticipates a sharp fall in corporate profits across the board.

MARKET P/E (TRAILING 12 MONTHS) IS CLOSE TO ALL-TIME LOWS

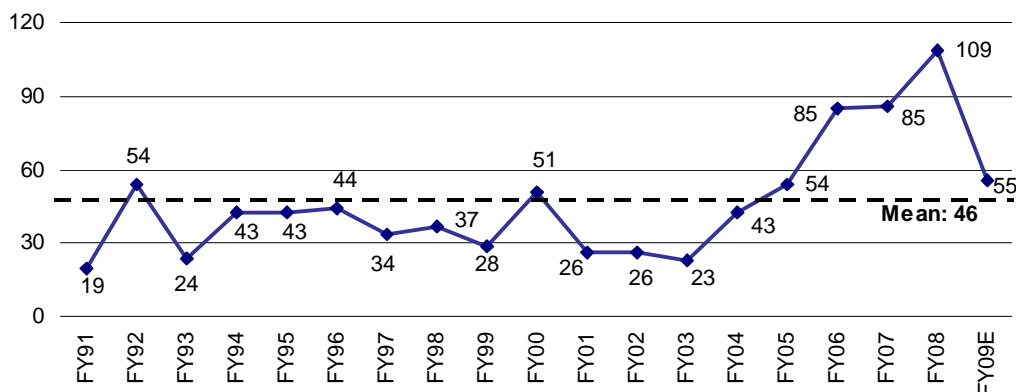


Source: MOSL

**Reasonable margin of safety at current levels**

India's market cap to GDP has corrected sharply from a high of 109% to 55% currently. This is much closer to the long-term mean of 46%.

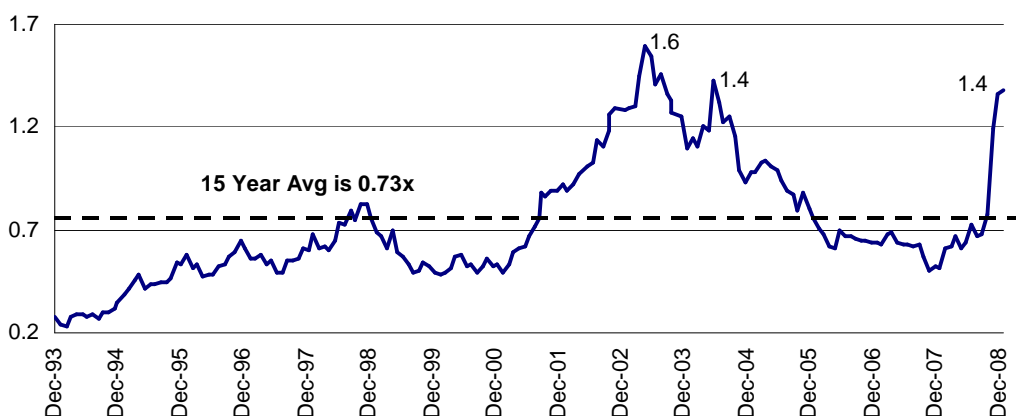
INDIA'S MARKET CAP TO GDP (%) HAS CORRECTED SHARPLY



Source: MOSL

Most importantly, thanks to falling interest rates, earnings yield to bond yield is currently at a comfortable 1.4x, close to its all-time high of 1.6x.

EARNINGS YIELD (TRAILING) TO BOND YIELD (X): COMFORTABLY HIGH



Source: MOSL

Moderate market cap to GDP and high earnings yield to bond yield suggest reasonable margin of safety at current levels.

## Conclusions

- ✍ We have probably seen the market bottom at Sensex levels of 7,700.
- ✍ We expect unprecedented reduction in interest rates.
- ✍ We see distinct possibility of earnings decline over the next two years, contrary to consensus estimates.
- ✍ Earnings to bond yield is currently at 1.4x, which is an attractive zone. This sets the stage for a sharp 30-40% recovery in the markets.
- ✍ Sustenance of this recovery will be dependent on stability in corporate profit and its subsequent revival.

Wealth Creation

*2003-2008*

The 13<sup>TH</sup> Annual Study

# Appendix

## MOSL 100 – Biggest Wealth Creators

## Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK NO.	COMPANY NAME	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
		RS B	% SHARE	PRICE	PAT	SALES	FY08	FY03	FY08	FY03
1	Reliance Inds.	3,077	12.1	58.7	37	24	25	15	17	9
2	ONGC	1,593	6.3	32.8	10	12	24	29	13	5
3	Bharti Airtel	1,505	5.9	96.4	L to P	55	30	-6	25	N.A.
4	NMDC	1,356	5.3	158.3	60	36	39	19	42	4
5	MMTC	1,084	4.3	186.8	52	33	19	4	544	22
6	BHEL	952	3.7	79.1	45	23	27	9	35	12
7	Larsen & Toubro	813	3.2	100.9	38	21	23	12	41	11
8	SAIL	727	2.9	83.8	L to P	19	33	-12	10	N.A.
9	State Bank of India	701	2.8	44.4	17	10	14	18	15	5
10	ITC	617	2.4	37.5	18	19	26	26	25	11
11	HDFC	547	2.2	48.4	29	24	20	23	28	12
12	Infosys Tech.	525	2.1	23.1	36	34	33	33	18	28
13	ICICI Bank	469	1.8	41.9	28	27	9	17	21	7
14	Unitech	448	1.8	284.2	150	64	48	8	43	5
15	Tata Steel	401	1.6	54.5	36	18	21	32	11	5
16	Sterlite Inds.	398	1.6	111.6	42	44	7	13	53	3
17	HDFC Bank	346	1.4	41.4	33	38	14	17	29	17
18	Hind.Copper	342	1.3	53.1	L to P	30	27	36	147	N.A.
19	Indian Oil	339	1.3	23.5	3	18	17	32	8	3
20	Wipro	317	1.2	15.7	30	34	27	24	20	35
21	Jindal Steel	314	1.2	130.2	54	43	33	25	26	3
22	GAIL	296	1.2	41.5	10	10	20	26	14	4
23	Reliance Capital	269	1.1	90.8	58	35	17	8	29	6
24	Natl. Aluminium	245	1.0	44.8	26	14	18	16	18	9
25	ABB	237	0.9	82.8	38	38	31	20	51	13
26	Essar Oil	231	0.9	118.5	P to L	14	-1	2	N.A.	7
27	Tata Power	226	0.9	59.6	10	7	11	11	30	4
28	Hind.Zinc	216	0.9	104.6	99	41	37	12	5	4
29	Sun Pharma.	215	0.8	55.5	34	32	24	34	25	11
30	Axis Bank	213	0.8	81.1	41	37	12	21	26	5
31	Reliance Infra.	213	0.8	42.2	46	10	11	6	27	18
32	Grasim	206	0.8	50.8	43	17	27	12	11	8
33	Satyam Computer	203	0.8	34.9	41	32	23	14	15	18
34	Siemens	196	0.8	85.3	47	43	38	23	35	11
35	Kotak Mah. Bank	187	0.7	81.9	46	70	8	8	74	21
36	Hind. Unilever	181	0.7	9.1	2	7	134	48	26	18
37	Tata Motors	179	0.7	32.0	47	26	26	12	12	17
38	M & M	158	0.6	69.5	50	25	25	9	15	8
39	Neyveli Lignite	157	0.6	35.4	-1	2	12	19	18	4
40	Adani Enterprises	144	0.6	117.6	29	32	23	16	47	3
41	Tata Comm	132	0.5	47.5	-17	-6	5	14	48	3
42	Ambuja Cements	131	0.5	41.6	51	27	38	14	10	11
43	ACC	126	0.5	42.9	69	19	35	10	11	23
44	MRPL	122	0.5	57.2	L to P	32	34	-41	11	N.A.
45	Sesa Goa	122	0.5	152.0	160	55	53	5	8	10
46	Hindalco Inds.	121	0.5	26.8	37	32	17	9	7	8
47	Cipla	121	0.5	30.9	23	23	19	23	24	17
48	HCL Technologies	120	0.5	27.3	20	40	24	14	22	14
49	Glenmark Pharma	117	0.5	115.5	64	35	38	23	31	6
50	Pun. Natl. Bank	114	0.4	37.9	19	14	19	23	8	3

## MOSL 100 – Biggest Wealth Creators (contd.)

## Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK NO.	COMPANY NAME	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
		RS B	% SHARE	PRICE	PAT	SALES	FY08	FY03	FY08	FY03
51	Aban Offshore	111	0.4	159.7	77	22	23	7	72	10
52	United Spirits	111	0.4	113.9	90	26	16	5	47	13
53	Bosch	107	0.4	58.3	35	22	24	19	19	9
54	Zee Entertainment	103	0.4	31.4	26	17	14	2	36	27
55	Bank of India	101	0.4	46.2	19	16	23	25	7	2
56	Hero Honda Motor	100	0.4	29.7	11	15	32	67	14	6
57	Crompton Greaves	100	0.4	106.4	62	21	34	7	32	10
58	Container Corpn.	98	0.4	51.6	23	18	24	25	15	5
59	Aditya Birla Nuvo	98	0.4	80.5	18	23	7	9	55	4
60	Asian Paints	94	0.4	40.4	21	17	40	30	31	15
61	Nestle India	93	0.4	22.9	15	13	99	70	35	26
62	Dabur India	85	0.3	55.8	30	12	60	21	30	12
63	Divi's Lab	79	0.3	95.9	45	33	40	33	23	5
85	GE Shipping	77	0.3	58.0	44	22	33	18	4	3
64	Godrej Industries	76	0.3	155.1	27	2	10	16	76	2
65	Jai Corp	71	0.3	216.1	50	9	5	8	72	2
66	Bharat Electronics	70	0.3	42.5	26	10	26	26	10	6
67	Thermax	69	0.3	85.2	42	44	38	13	26	7
68	Financial Tech.	68	0.3	177.5	226	58	65	12	8	14
69	REI Agro	68	0.3	150.5	66	30	20	23	65	5
70	Century Textiles	65	0.3	76.6	32	10	22	9	24	6
71	Indian Overseas	64	0.3	53.7	24	18	25	32	6	2
72	Indian Hotels	64	0.3	46.2	56	25	19	5	21	20
73	Canara Bank	63	0.2	25.9	9	16	19	25	6	3
74	Bank of Baroda	63	0.2	27.0	13	14	13	18	7	3
75	Essar Shipping	61	0.2	96.1	31	10	10	6	26	2
76	Welspun Guj. Stahl	58	0.2	122.0	196	59	24	1	19	130
77	Areva T&D	58	0.2	132.1	101	34	39	4	34	14
78	Voltas	57	0.2	103.0	52	21	39	16	28	7
79	B P C L	57	0.2	13.1	5	21	14	26	9	5
80	GSK Pharma	56	0.2	29.1	41	8	40	17	16	22
81	Union Bank	55	0.2	41.2	20	17	25	27	5	2
82	Piramal Healthcare	54	0.2	51.9	21	13	30	32	21	7
83	Cummins India	53	0.2	43.8	24	23	25	15	22	11
84	Pantaloon Retail	52	0.2	123.6	62	63	7	6	53	7
86	Exide Inds.	49	0.2	79.9	37	29	25	18	21	5
87	Ranbaxy Labs.	49	0.2	7.0	0	9	24	33	27	19
88	Shriram Transport	47	0.2	89.1	75	72	22	33	17	2
89	EIH	46	0.2	46.0	70	23	20	2	25	53
90	IDBI Bank	45	0.2	40.0	13	7	11	6	9	3
91	Tata Chemicals	45	0.2	35.7	37	22	27	12	7	6
92	Titan Inds.	44	0.2	84.8	89	32	34	5	31	34
93	GMDC	44	0.2	80.9	26	27	25	14	18	3
94	HMT	44	0.2	38.0	L to L	1	-12	-53	N.A.	N.A.
95	TV 18 India	44	0.2	112.8	L to P	58	6	-1	155	N.A.
96	Bharat Forge	43	0.2	41.1	28	29	19	57	22	11
97	IVRCL Infra.	43	0.2	124.7	68	53	13	16	25	2
98	Shipping Corpn.	42	0.2	31.4	24	9	14	12	7	5
99	Jubilant Organosys	41	0.2	76.7	52	23	28	34	12	5
100	BF Utilities	40	0.2	173.1	45	19	6	1	321	14



## MOSL 100 – Fastest Wealth Creators

## Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK NO.	COMPANY NAME	PRICE		CAGR (%)		ROE (%)		P/E (X)	
		APPRN. (X)	PRICE	PAT	SALES	FY08	FY03	FY08	FY03
1	Unitech	837	284	150	64	48	8	43	5
2	Jai Corp	316	216	50	9	5	8	72	2
3	MMTC	194	187	52	33	19	4	544	22
4	Financial Tech.	164	177	226	58	65	12	8	14
5	BF Utilities	152	173	45	19	6	1	321	14
6	Aban Offshore	118	160	77	22	23	7	72	10
7	NMDC	115	158	60	36	39	19	42	4
8	Godrej Industries	108	155	27	2	10	16	76	2
9	Sesa Goa	102	152	160	55	53	5	8	10
10	REI Agro	99	150	66	30	20	23	65	5
11	Areva T&D	67	132	101	34	39	4	34	14
12	Jindal Steel	65	130	54	43	33	25	26	3
13	IVRCL Infra.	57	125	68	53	13	16	25	2
14	Pantaloon Retail	56	124	62	63	7	6	53	7
15	Welspun Guj. Stahl	54	122	196	59	24	1	19	130
16	Essar Oil	50	118	P to L	14	-1	2	N.A.	7
17	Adani Enterprises	49	118	29	32	23	16	47	3
18	Glenmark Pharma	46	115	64	35	38	23	31	6
19	United Spirits	45	114	90	26	16	5	47	13
20	TV 18 India	44	113	L to P	58	6	-1	155	N.A.
21	Sterlite Inds.	42	112	42	44	7	13	53	3
22	Crompton Greaves	37	106	62	21	34	7	32	10
23	Hind.Zinc	36	105	99	41	37	12	5	4
24	Voltas	34	103	52	21	39	16	28	7
25	Larsen & Toubro	33	101	38	21	23	12	41	11
26	Bharti Airtel	29	96	L to P	55	30	-6	25	N.A.
27	Essar Shipping	29	96	31	10	10	6	26	2
28	Divi's Lab	29	96	45	33	40	33	23	5
29	Reliance Capital	25	91	58	35	17	8	29	6
30	Shriram Transport	24	89	75	72	22	33	17	2
31	Siemens	22	85	47	43	38	23	35	11
32	Thermax	22	85	42	44	38	13	26	7
33	Titan Inds.	22	85	89	32	34	5	31	34
34	SAIL	21	84	L to P	19	33	-12	10	N.A.
35	ABB	20	83	38	38	31	20	51	13
36	Kotak Mah. Bank	20	82	46	70	8	8	74	21
37	Axis Bank	19	81	41	37	12	21	26	5
38	GMDC	19	81	26	27	25	14	18	3
39	Aditya Birla Nuvo	19	81	18	23	7	9	55	4
40	Exide Inds.	19	80	37	29	25	18	21	5
41	BHEL	18	79	45	23	27	9	35	12
42	Jubilant Organosys	17	77	52	23	28	34	12	5
43	Century Textiles	17	77	32	10	22	9	24	6
44	M & M	14	69	50	25	25	9	15	8
45	Tata Power	10	60	10	7	11	11	30	4
46	Reliance Inds.	10	59	37	24	25	15	17	9
47	Bosch	10	58	35	22	24	19	19	9
48	GE Shipping	10	58	44	22	33	18	4	3
49	MRPL	10	57	L to P	32	34	-41	11	N.A.
50	Dabur India	9	56	30	12	60	21	30	12

## MOSL 100 – Fastest Wealth Creators (contd.)

## Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK NO.	COMPANY NAME	PRICE	CAGR (%)			ROE (%)		P/E (X)	
		APPRN. (X)	PRICE	PAT	SALES	FY08	FY03	FY08	FY03
51	Sun Pharma.	9	56	34	32	24	34	25	11
52	Tata Steel	9	54	36	18	21	32	11	5
53	Indian Overseas	9	54	24	18	25	32	6	2
54	Hind.Copper	8	53	L to P	30	27	36	147	N.A.
55	Piramal Healthcare	8	52	21	13	30	32	21	7
56	Container Corpn.	8	52	23	18	24	25	15	5
57	Grasim Inds.	8	51	43	17	27	12	11	8
58	HDFC	7	48	29	24	20	23	28	12
59	Tata Comm	7	48	-17	-6	5	14	48	3
60	Bank of India	7	46	19	16	23	25	7	2
61	Indian Hotels	7	46	56	25	19	5	21	20
62	EIH	7	46	70	23	20	2	25	53
63	Natl. Aluminium	6	45	26	14	18	16	18	9
85	State Bank of India	6	44	17	10	14	18	15	5
64	Cummins India	6	44	24	23	25	15	22	11
65	ACC	6	43	69	19	35	10	11	23
66	Bharat Electronics	6	42	26	10	26	26	10	6
67	Reliance Infra.	6	42	46	10	11	6	27	18
68	ICICI Bank	6	42	28	27	9	17	21	7
69	Ambuja Cements	6	42	51	27	38	14	10	11
70	GAIL	6	41	10	10	20	26	14	4
71	HDFC Bank	6	41	33	38	14	17	29	17
72	Union Bank	6	41	20	17	25	27	5	2
73	Bharat Forge	6	41	28	29	19	57	22	11
74	Asian Paints	5	40	21	17	40	30	31	15
75	IDBI Bank	5	40	13	7	11	6	9	3
76	HMT	5	38	L to L	1	-12	-53	N.A.	N.A.
77	Pun. Natl. Bank	5	38	19	14	19	23	8	3
78	ITC	5	38	18	19	26	26	25	11
79	Tata Chemicals	5	36	37	22	27	12	7	6
80	Neyveli Lignite	5	35	-1	2	12	19	18	4
81	Satyam Computer	4	35	41	32	23	14	15	18
82	ONGC	4	33	10	12	24	29	13	5
83	Tata Motors	4	32	47	26	26	12	12	17
84	Shipping Corpn.	4	31	24	9	14	12	7	5
86	Zee Entertainment	4	31	26	17	14	2	36	27
87	Cipla	4	31	23	23	19	23	24	17
88	Hero Honda Motor	4	30	11	15	32	67	14	6
89	GSK Pharma.	4	29	41	8	40	17	16	22
90	HCL Technologies	3	27	20	40	24	14	22	14
91	Bank of Baroda	3	27	13	14	13	18	7	3
92	Hindalco Inds.	3	27	37	32	17	9	7	8
93	Canara Bank	3	26	9	16	19	25	6	3
94	Indian Oil	3	24	3	18	17	32	8	3
95	Infosys Tech.	3	23	36	34	33	33	18	28
96	Nestle India	3	23	15	13	99	70	35	26
97	Wipro	2	16	30	34	27	24	20	35
98	BPCL	2	13	5	21	14	26	9	5
99	Hind. Unilever	2	9	2	7	134	48	26	18
100	Ranbaxy Labs.	1	7	0	9	24	33	27	19

## MOSL 100 – Wealth Creators (alphabetical)

## Appendix III

## ALPHABETICALLY ARRANGED

SR. NO.	COMPANY NAME	BIGGEST		FASTEST		CAGR (%)		ROE (%)		P/E (X)	
		RANK	WC (RS B)	RANK	PRICE	CAGR (%)	PAT	SALES	FY08	FY03	FY08
1	ABB	25	237	35	83	38	38	31	20	51	13
2	Aban Offshore	51	111	6	160	77	22	23	7	72	10
3	ACC	43	126	65	43	69	19	35	10	11	23
4	Adani Enterprises	40	144	17	118	29	32	23	16	47	3
5	Aditya Birla Nuvo	59	98	39	81	18	23	7	9	55	4
6	Ambuja Cements	42	131	69	42	51	27	38	14	10	11
7	Areva T&D	77	58	11	132	101	34	39	4	34	14
8	Asian Paints	60	94	74	40	21	17	40	30	31	15
9	Axis Bank	30	213	37	81	41	37	12	21	26	5
10	BHEL	6	952	41	79	45	23	27	9	35	12
11	BPCL	79	57	98	13	5	21	14	26	9	5
12	Bank of Baroda	74	63	91	27	13	14	13	18	7	3
13	Bank of India	55	101	60	46	19	16	23	25	7	2
14	BF Utilities	100	40	5	173	45	19	6	1	321	14
15	Bharat Electronics	66	70	66	42	26	10	26	26	10	6
16	Bharat Forge	96	43	73	41	28	29	19	57	22	11
17	Bharti Airtel	3	1,505	26	96	L to P	55	30	-6	25	N.A.
18	Bosch	53	107	47	58	35	22	24	19	19	9
19	Canara Bank	73	63	93	26	9	16	19	25	6	3
20	Century Textiles	70	65	43	77	32	10	22	9	24	6
21	Cipla	47	121	87	31	23	23	19	23	24	17
22	Container Corpn.	58	98	56	52	23	18	24	25	15	5
23	Crompton Greaves	57	100	22	106	62	21	34	7	32	10
24	Cummins India	83	53	64	44	24	23	25	15	22	11
25	Dabur India	62	85	50	56	30	12	60	21	30	12
26	Divi's Lab	63	79	28	96	45	33	40	33	23	5
27	EH	89	46	62	46	70	23	20	2	25	53
28	Essar Oil	26	231	16	118	P to L	14	-1	2	N.A.	7
29	Essar Shipping	75	61	27	96	31	10	10	6	26	2
30	Exide Inds.	86	49	40	80	37	29	25	18	21	5
31	Financial Tech.	68	68	4	177	226	58	65	12	8	14
32	GAIL	22	296	70	41	10	10	20	26	14	4
33	GE Shipping	85	77	48	58	44	22	33	18	4	3
34	GlaxoSmithKline Pharma.	80	56	89	29	41	8	40	17	16	22
35	Glenmark Pharma	49	117	18	115	64	35	38	23	31	6
36	GMDC	93	44	38	81	26	27	25	14	18	3
37	Godrej Inds.	64	76	8	155	27	2	10	16	76	2
38	Grasim Inds.	32	206	57	51	43	17	27	12	11	8
39	HDFC	11	547	58	48	29	24	20	23	28	12
40	HCL Technologies	48	120	90	27	20	40	24	14	22	14
41	HDFC Bank	17	346	71	41	33	38	14	17	29	17
42	Hero Honda Motor	56	100	88	30	11	15	32	67	14	6
43	Hind. Unilever	36	181	99	9	2	7	134	48	26	18
44	Hind.Copper	18	342	54	53	L to P	30	27	36	147	N.A.
45	Hind.Zinc	28	216	23	105	99	41	37	12	5	4
46	Hindalco Inds.	46	121	92	27	37	32	17	9	7	8
47	HMT	94	44	76	38	L to L	1	-12	-53	N.A.	N.A.
48	ICICI Bank	13	469	68	42	28	27	9	17	21	7
49	IDBI Bank	90	45	75	40	13	7	11	6	9	3
50	Indian Hotels	72	64	61	46	56	25	19	5	21	20

## MOSL 100 – Wealth Creators (alphabetical, contd.)

## Appendix III

## ALPHABETICALLY ARRANGED

SR. NO.	COMPANY NAME	BIGGEST		FASTEST		CAGR (%)		ROE (%)		P/E (X)		
		RANK	WC (RS B)	RANK	PRICE	CAGR (%)	PAT	SALES	FY07	FY02	FY07	FY02
51	Indian Oil	19	339	94		24	3	18	17	32	8	3
52	Indian Overseas	71	64	53		54	24	18	25	32	6	2
53	Infosys Tech.	12	525	95		23	36	34	33	33	18	28
54	ITC	10	617	78		38	18	19	26	26	25	11
55	IVRCL Infra.	97	43	13		125	68	53	13	16	25	2
56	Jai Corp	65	71	2		216	50	9	5	8	72	2
57	Jindal Steel	21	314	12		130	54	43	33	25	26	3
58	Jubilant Organosys	99	41	42		77	52	23	28	34	12	5
59	Kotak Mah. Bank	35	187	36		82	46	70	8	8	74	21
60	Larsen & Toubro	7	813	25		101	38	21	23	12	41	11
61	M & M	38	158	44		69	50	25	25	9	15	8
62	Mangalore Refineries	44	122	49		57	L to P	32	34	-41	11	N.A.
63	MMTC	5	1,084	3		187	52	33	19	4	544	22
64	Natl. Aluminium	24	245	63		45	26	14	18	16	18	9
65	Nestle India	61	93	96		23	15	13	99	70	35	26
66	Neyveli Lignite	39	157	80		35	-1	2	12	19	18	4
67	NMDC	4	1,356	7		158	60	36	39	19	42	4
68	ONGC	2	1,593	82		33	10	12	24	29	13	5
69	Pantaloon Retail	84	52	14		124	62	63	7	6	53	7
70	Piramal Healthcare	82	54	55		52	21	13	30	32	21	7
71	Pun. Natl. Bank	50	114	77		38	19	14	19	23	8	3
72	Ranbaxy Labs.	87	49	100		7	0	9	24	33	27	19
73	REI Agro	69	68	10		150	66	30	20	23	65	5
74	Reliance Capital	23	269	29		91	58	35	17	8	29	6
75	Reliance Inds.	1	3,077	46		59	37	24	25	15	17	9
76	Reliance Infra.	31	213	67		42	46	10	11	6	27	18
77	SAIL	8	727	34		84	L to P	19	33	-12	10	N.A.
78	Satyam Computer	33	203	81		35	41	32	23	14	15	18
79	Sesa Goa	45	122	9		152	160	55	53	5	8	10
80	Shipping Corpn.	98	42	84		31	24	9	14	12	7	5
81	Shriram Transport	88	47	30		89	75	72	22	33	17	2
82	Siemens	34	196	31		85	47	43	38	23	35	11
83	State Bank of India	9	701	85		44	17	10	14	18	15	5
84	Sterlite Inds.	16	398	21		112	42	44	7	13	53	3
85	Sun Pharma.	29	215	51		56	34	32	24	34	25	11
86	Tata Chemicals	91	45	79		36	37	22	27	12	7	6
87	Tata Comm	41	132	59		48	-17	-6	5	14	48	3
88	Tata Motors	37	179	83		32	47	26	26	12	12	17
89	Tata Power	27	226	45		60	10	7	11	11	30	4
90	Tata Steel	15	401	52		54	36	18	21	32	11	5
91	Thermax	67	69	32		85	42	44	38	13	26	7
92	Titan Inds.	92	44	33		85	89	32	34	5	31	34
93	TV 18 India	95	44	20		113	L to P	58	6	-1	155	N.A.
94	Union Bank	81	55	72		41	20	17	25	27	5	2
95	Unitech	14	448	1		284	150	64	48	8	43	5
96	United Spirits	52	111	19		114	90	26	16	5	47	13
97	Voltas	78	57	24		103	52	21	39	16	28	7
98	Welspun Guj. Stahl	76	58	15		122	196	59	24	1	19	130
99	Wipro	20	317	97		16	30	34	27	24	20	35
100	Zee Entertainment	54	103	86		31	26	17	14	2	36	27

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