Tuesday, January 12, 2010

10 STOCKS

FOR A

PROFITABLE 2010

VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

Indraprastha Gas Limited

Industrial Gases & Fuels [CMP Rs 200, TTM P/E: 15.3x]

Kyon ki bhaiya, sabse bada rupaiya.

Vast untapped potential & inelastic nature of demand makes it an attractive play....

- **With firm gas supply agreements in place (with its parent GAIL for over 2.2 mmscmd and RIL's KG-6 gas for 0.308 mmscmd, scalable to 2.1 mmscmd over 5 years), IGL foresees no problem in satisfying the burgeoning demand for gas in the NCR region in the medium term. Also the economic pricing of CNG (~71% cheaper than petrol and ~56% than diesel) & PNG (~20% cheaper than subsidized LPG), pan India development of the gas infrastructure, pricing linkages of natural gas to crude and gradual phasing out of petro-subsidies will ensure that natural gas will eventually become the fuel of choice.**

- **IGL's Rs.1600 crore capex to increase its CNG stations from the current 181 to 231 before the commencement of the Commonwealth Games and establish its distribution network to provide PNG gas to households in the NCR region is to be funded majorly through internal accruals with very low gearing.**

- **Common goals, of the Delhi government and IGL, to set up CNG stations will lead to faster implementation of the CNG network. Fleet additions of 2,500 CNG buses to the public transport and 5,000 radio taxis will boost demand for CNG in the short term besides helping to grow the CNG market. Also the three year marketing and 25 year network exclusivity provides IGL with a first mover advantage which its competitors will find difficulty to replicate.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	713.1	174.5	12.5	16.0	33.4	49.6	3.0
FY09	860.4	172.5	12.3	16.3	27.4	40.4	3.7
H1FY10	507.8	105.1	7.5	15.3*	NA	NA	2.0

*** Calculated on TTM basis**

Mahindra & Mahindra

Automobiles - Tractors [CMP Rs 1150, TTM P/E: 18.3x]

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Kyon ki bhaiya, sabse bada rupaiya.

All round growth coupled with attractive valuations makes the stock a compelling Buy

- **M&M has been a big beneficiary of the Indian government's focus on rural areas. Not only has farm labour become expensive (due to NREGA), also the worker shortages have surfaced. We see this as a key catalyst for increased mechanisation at farms. Tractor demand is now growing at ~23%. Also the recent launch of its new utility vehicle (UV), Xylo, has been very successful, lifting its UV market share from 48% to 58%. It has plans to launch an all-new SUV in Q1FY11. Delivery of tractor growth and success of new commercial vehicle launches by the company are potential key triggers for the stock. It has also entered the commercial vehicle segment from January 2010. It will launch a light commercial vehicle and a full range of medium and heavy commercial vehicles. Having a solid nationwide distribution network is a key advantage.**

- **M&M enjoys a leadership position in utility vehicles, tractors and information technology, with a significant and growing presence in financial services, tourism, infrastructure development, trade and logistics. It has made an entry in the two-wheeler segment and acquired a majority stake in aerospace companies, now the company has emerged as a full-range player with a presence in almost every segment of the automobile industry. It is the best and overall play on the Indian automobile space.**

- **We believe the company's core business will provide reasonable growth. The tractor business is likely to continue its strong growth into H2FY10 while the outlook for the UV business remains strong. It is currently available at a substantial discount to its peers & is valued at a PE of 18.8 as compared to Tata Motors (loss making) & Escorts (P/E of 48.8). Apart from this, there is huge intrinsic value in its subsidiaries. This makes M&M a compelling Buy even at CMP of Rs 1150.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	23774.8	1571.1	77.2	14.9	28.2	17.6	1.7
FY09	26409.2	1405.4	62.6	18.4	17.6	14.5	2.6
H1FY10	8800.4	1103.8	40.4	18.8*	NA	NA	0.9

*** Calculated on TTM basis**

Aurobindo Pharma

Pharmaceutical & Drugs [CMP Rs 916, TTM P/E: 12.7x]

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Prescription for growth…..

- **Dossier licensing and supply arrangement signed with Pfizer (to be a stepping stone for future deals on similar lines) will provide mile stone payments spread over a two year period. These supply arrangements will also lead to increased revenues, higher cash flows and improved margins from better capacity utilizations.**

- **Generic exports to provide strong traction as Aurobindo receives US FDA approvals for 72 products of the total 155 ANDAs filed. The company has cautiously introduced 54 generics in the US market while its US JV Cephazone Pharma launched two products in the cephalosporin injectables space and awaits 4 more approvals. The EU market acquisitions will also help the company ramp up exports mainly in the CNS, CVS, anti HIV, anti fungal and anti infective space.**

- **Commercialization of formulations SEZ facility at Hyderabad in FY2011 to boost demand from supply contracts with MNCs and other export business.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	2426.3	238.1	44.3	20.7	27.1	13.7	1.1
FY09	3077.3	51.3	9.5	96.4	9.8	7.4	2.4
H1FY10	1735.4	269.8	50.2	12.7*	NA	NA	0.0

*** Calculated on TTM basis**

Sterlite Industries Ltd.

Metals- Non Ferrous [CMP Rs 915, TTM P/E: 20.2x]

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Kyon ki bhaiya, sabse bada rupaiya.

Multi commodity and power play exposure makes Sterlite a very attractive play

- **China's State Reserve Bureau's (SRB) re stocking and the country's strong economic growth has led to buoyancy in the prices of Aluminium, Copper, Zinc and Lead, having moved handsomely from last year's lows. We expect the base metals to continue their strong show in CY2010 on the back of continued global stimulus and easy monetary policies.**

- **Sterlite is a diversified conglomerate with operations in the non ferrous space. There exists a strong possibility that Sterlite will get government stake (49%) in BALCO which should be earnings accretive on a consolidated basis. Also BALCO has been allotted the 210 MT Durgapur and Tariamar coal blocks and will more than double its present copper smelting and power generation capacities.**

- **Sterlite's energy business is expected to commence power generation by Q4FY2010 with its 600 MW commercial power plant which is to be followed by three more units of 600 MW each in every subsequent quarter. The business of Sterlite Energy should ramp up to its full potential by FY2012 and is expected to contribute 30-35% to the earnings by FY2012.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	24705.4	4411.1	88.6	10.3	10.8	10.7	0.6
FY09	21144.2	3540.0	70.0	13.1	9.1	9.0	1.0
H1FY10	10707.9	1631.5	27.8	20.2*	NA	NA	0.4

*** Calculated on TTM basis**

Deepak Fertilizers

Fertilizers [CMP Rs 117, TTM P/E: 7.7x]

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Kyon ki bhaiya, sabse bada rupaiya.

Value plus growth opportunity

- **With the proposed 300,000 MT expansion of Technical Ammonium Nitrate (TAN) facility at Taloja, Deepak Fertilizers will be able to produce 477,000 TPA by FY2011. This Rs 655 crore expansion, which is being put up at half the cost of comparable international facilities, is on schedule for completion by November 2011 and will benefit the company with economies of scale.**

- **The recent multi source gas tie ups (up to 0.9 million scm per day) will reduce the erstwhile gas shortages and help in better utilization of capacities for existing and new products.**

- **Having tasted initial success in its trading foray in agri products, the company is investing Rs.60 crore in warehousing and logistics. We expect the turnover from this high margin business to grow to Rs 8 crore in 2010 and Rs 22 crore in FY2011.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	1125.5	109.0	12.4	9.4	15.1	16.7	3.6
FY09	1458.6	137.0	15.5	7.5	19.8	20.6	7.1
H1FY10	597.3	75.0	8.5	7.7*	NA	NA	3.4

*** Calculated on TTM basis**

HDIL

Construction – Real Estate [CMP Rs 366, TTM P/E: 22.7x]

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Kyon ki bhaiya, sabse bada rupaiya.

Play on the Mumbai real estate economy

- **HDIL is virtually a quasi play on the Mumbai real estate market with almost 80% of its land bank located in the island city. Real estate in the city is least affected by the slowdown as the demand is huge and the mortgage rates continue to remain soft and are unlikely to rally sharply, at least for the next couple of quarters.**

- **Post the Rs 1447 crore QIP, the debt equity stands sharply reduced to 0.4x from 1.0x. This should help in interest cost savings of ~ Rs 200 crore besides easing funding constraints for the company.**

- **HDIL is one of India's biggest SRA (Slum Rehabilitation Act) players and the Mumbai Airport Slum Rehabilitation Project is expected to generate 6-7 mn sq. ft. TDR as the Company undertakes more development in the Airport rehab project. The firm TDR price trend should help improve realizations as HDIL undertakes TDR sales.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	2380.4	1409.9	65.8	5.6	64.9	45.1	0.8
FY09	1728.4	677.2	24.6	14.9	17.8	18.2	0.0
H1FY10	649.1	256.1	22.7	16.2*	NA	NA	0.0

*** Calculated on TTM basis**

IndusInd Bank

Bank - Private [CMP Rs 146, TTM P/E: 23x]

VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

RoA expansion and all round improvement in core performance to yield extra ordinary returns

- **The induction of a new management and shift in focus to profitability and balance sheet health has led to significant improvement in the operating parameters since the last year and a half. We expect strong earnings and margin expansions to occur as the bank undertakes expansion of its banking network, improvement in CASA & provisioning and robust growth of fee income.**

- **Correction in asset-liability pricing is expected to ease the pressure on margins as IndusInd focuses on expansion on lending yields in lieu of the low yielding loans against deposits and CASA deposit growth kicks in through the expanding footprint thus reducing the cost of deposits.**

- **Return ratios to improve significantly on the back of a visionary and proactive management and all round improvement in core performance. Expect earnings growth to gallop at a CAGR upwards of 50% on the back of margin expansion and growth in other income and increases in RoA from 0.6% to greater than 1.1% by FY2011. RoE by FY2011 should be upwards of 18%.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	2178.2	75.1	2.4	60.8	6.9	7.7	0.8
FY09	2765.7	148.3	4.2	34.8	11.7	8.3	3.7
H1FY10	1283.9	164.3	4.5	23.0*	NA	NA	0.8

*** Calculated on TTM basis**

Kalpataru Power

Power Generation/Distribution [CMP Rs 1133, TTM P/E: 23.2x]

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Kyon ki bhaiya, sabse bada rupaiya.

A big play on Infrastructure… be it Power (T&D), pipelines, construction, etc

- **Kalpataru Power Transmission Ltd (KPTL) with an impressive order book (on standalone basis) of more than Rs 6,000 crore provides sufficient revenue visibility over the next two years. Off the current order book, transmission accounts for 86%, pipeline 8% while the balance comes from rural electrification. This is only expected to pick up with order flows from PGCIL & SEBs likely to remain strong with only two years left for these utilities to meet their targets before the 11th five year plan comes to an end.**

- **With its presence in power, construction and oil & gas pipeline segments, KPTL is poised to emerge as a major infrastructure player. This diversified business mix enables the company to overcome downturn in any particular segment. With the economic recovery witnessed over the last nine months, we believe this would be a direct play on the economy.**

- **With the acquisition of a strategic stake (53%) in JMC Projects, KPTL has marked its presence in construction & civil space segment. Over the last two years, KPTL has managed to turnaround the company. With its impressive order book of Rs 2,200 crore in this segment, it is all poised to deliver better returns in the foreseeable future.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	2674.9	164.9	67.8	16.7	21.3	24.8	0.7
FY09	3244.3	110.5	48.3	23.5	11.8	15.9	2.3
H1FY10	1039.8	69.0	26.0	23.2*	NA	NA	0.7

*** Calculated on TTM basis**

Crompton Greaves Ltd.

Electric Equipment [CMP Rs 436, TTM P/E: 23.9x]

Kyon ki bhaiya, sabse bada rupaiya.

Global player ever spreading its wings……..

- **Crompton Greaves Limited (CGL), a part of the US $3 billion Avantha Group is one of the leading players in the Power T&D space in India. With massive investments planned across the T&D segment over the 11th & 12th five year plans, CGL's Power Systems segment (which constitutes 70% of its consolidated revenues) would provide fillip to its growth over the next few years.**

- **Its business is diversified into three strategic business domains - Power Systems, Industrial Systems & Consumer Products. Further it has diversified presence not only in India but also across the Globe with facilities in nine countries spread over Europe, Asia & USA. Such a diversified business model (both in terms of products as well as geographic reach) helps to de-risk the company.**

- **CGL has been pursuing both organic as well as inorganic growth to inch closer towards its goal of becoming "a full solutions provider" particularly in the power space. Over the last few years, CGL has made several strategic global acquisitions which besides plugging the technology gap has strengthened its product portfolio and provided key access to key European & American markets. With these acquisitions, the subsidiaries now account for 47% of its consolidated revenues.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	7181.4	406.7	11.2	38.9	39.9	53.5	0.6
FY09	9031.1	559.9	15.4	28.3	37.1	56.3	1.6
H1FY10	4386.6	353.72	9.7	23.9*	NA	NA	0.5

*** Calculated on TTM basis**

GAIL

Gas Transmission / Marketing [CMP Rs 415, TTM P/E: 18.9x]

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Kyon ki bhaiya, sabse bada rupaiya.

Gas Volume Ramp up & Tariff Revision to drive profitability…….

- **RIL's KG-D6 gas production is expected to rise to 80mmscmd by March 2010 and GAIL expects 35mmscmd of incremental KG-D6 gas to flow through its network. GAIL expects its transmission volumes to rise by 1.5x and marketing revenues to triple over the next three years. This is expected to be a major growth driver for GAIL.**

- **GAIL's existing transmission tariff will be revised as per the new regulations by the end of the year. GAIL management has highlighted that it is expecting a 5–10% increase in average tariff post revision. This will straightaway add to its profitability & would be thus EPS accretive.**

- **GAIL plans to triple its petrochemical capacity to 1,200,000 TPA from 410,000 TPA over the next three years. Management is planning to pool the rich gas available from various sources to use more efficiently in its petrochemical plant. Further GAIL has also won the approval for building city gas businesses in six cities. GAIL plans to bid for additional 200 cities for setting up the city gas business in future.**

(Rs in crore)

Year	Revenues	PAT	EPS (Rs)	PE (x)	ROE (%)	ROCE (%)	Divd Yield (%)
FY08	19469.6	2782.9	32.7	12.7	21.3	29.1	2.4
FY09	25235.3	2826.4	22.0	18.9	20.2	28.4	2.9
H1FY10	12265.7	1369.1	10.8	18.9*	NA	NA	1.7

*** Calculated on TTM basis**