

# MOST VALUE



MOTILAL OSWAL™

**Solid** research. **Solid** advice.

A monthly newsletter on value investing

DECEMBER, 2005

From the desk of

## Equity Strategy and Products Group

Dear Friend,

Sensex hit a new lifetime high of 9005 in November after a 1300 points fall in the previous month. But this was not just an Indian phenomenon. Across the globe almost every major index touched new highs. Paradoxically it was crude which fuelled the fire across the world by falling from a high of \$ 70 to below \$ 60.

It was not just the stock markets which hit their all time highs. It was all cylinders fire across the asset class. First it was real estate, then gold and now equities. The wealth impact of this may now come to play. The United States witnessed this wealth impact in the late 1990s. When portfolios are up by more than 5% a week, weekend spending cannot go down. We are already seeing the impact of this in auto sector volumes, loan disbursements & consumer durable sales. That salary increases in India are highest in the world adds fuel to the fire. Increased wealth and salaries will prove to be just a tip of the iceberg if the Indian agricultural story unfolds as per the UPA government plans.

Till now it has been only the service sector and the industry that have been contributors to the Indian growth story. But when the Indian agriculture participates in the growth, the impact would be on the two thirds of the population. We want this to happen not because it is good for the markets, but because it is good for our masses. And what is good for two thirds of India cannot be bad for the stock markets. We continue to remain bullish on sectors that will benefit from the rural demand. As usual the two wheeler industry tops the list here. Also PSU banks with their rural spread shows great promise with valuations also in their favour.

However one has to read between the lines or the fine print of this bull run. Not all sectors or segments are at a peak. The mid caps are yet to touch the previous peaks and metal company stocks did not match the glitter of its precious metal cousin gold. This divergent behaviour intra market segments holds the lessons for future. Also as the markets rise the margin of safety becomes non existent or at best marginal. Studious & savvy stock selection is now the key as the market will also be as sharp as the rise seen

Happy Investing

## Street smart



### WEALTH CREATION THOUGHT

Market demands conviction,  
as surely as, it victimises  
the unconvinced

#### Our Products & Services

- + Advice-based Broking (Equities & Derivatives)
- + E-Broking
- + Portfolio Management Services
- + Depository Services
- + Commodities Trading\*
- + Mutual Funds

\* Through Motilal Oswal Commodities Broker Pvt. Ltd.

## Model Retail Portfolios

Select the portfolio that best suits your risk profile.

Scrip	MBP*	Wtg.*	%	First Reco.	
				Date	Price
<b>AGGRESSIVE - HIGH RISK, HIGH RETURNS</b>					
TRF	197	M	10	Jul-05	162
IDFC	75	M	10	Aug-05	58
Jaiprakash Associates	331	H	10	Nov-05	322
Apollo Tyres	274	H	10	Apr-05	280
ONGC	1,030	H	10	Feb-05	850
Bharti Tele	373	M	9	Aug-03	48
EIH Associates	142	M	8	Jan-05	33
Welspun gujarat	93	M	5	Oct-05	94
Tricom India	175	L	5	Jul-05	170
Dhampur Sugar	164	L	5	Feb-05	155
Nagarjuna Fertilizers	15	L	5	Dec-04	13
Rallis	385	H	5	Nov-04	120
<b>Investment %</b>			<b>92</b>		

Our Aggressive Portfolio works on the principle of 'no pain no gain'. The target returns are high at 30%+. Portfolio includes commodity, cyclical and small-cap stocks.

<b>MODERATE - LOW RISK, LOW RETURNS</b>					
EIH Associates	142	H	11	Aug-04	33
SBI	911	H	11	Mar-03	260
Nagarjuna Fertilizers	15	M	8	Dec-04	13
Siemens	3,104	M	8	Aug-04	915
ONGC	1,030	M	8	Feb-05	850
Bharti Tele	373	L	8	Aug-03	48
Vindhya Telelink	145	M	8	Aug-05	206
Rallis	145	H	6	Nov-04	120
Indian Oil	503	L	5	Dec-03	375
<b>Investment %</b>			<b>73</b>		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

<b>DEFENSIVE - LOW RISK, LOW RETURNS</b>					
United Phos	212	H	12	Jan-05	140
Siemens	3,104	H	12	Aug-04	915
SBI	911	M	10	Nov-02	375
ONGC	1,030	M	10	Feb-05	850
Hindustan Lever	185	M	9	Dec-04	130
Tata Chemicals	218	M	7	Sep-05	185
Union Bk	117	L	5	Dec-04	90
Tisco	344	L	5	Feb-05	420
Indian Oil	503	L	5	Dec-03	375
Glaxo Pharma	1,155	L	5	Mar-04	800
Amtek Auto	292	M	5	Sep-05	235
<b>Investment %</b>			<b>85</b>		

Our Defensive Portfolio is exposed to very low capital erosion risk and yet, could generate annualized returns of 15%+. Recommended for investors with low risk appetite, e.g. retired or aged individuals.

It looked seemingly impossible at 7656 that the sensex will hit a new high in such a short span. During the month Sensex was up by 11.4%, (26th Oct 2005 to 26th Nov 2005) our aggressive portfolio appreciated by 11.8%, moderate & defensive portfolios were up by 12.1% & 13.2% respectively. Please note our portfolios have achieved this performance by being invested only 87%, 73% & 85%. The balance was in cash.

As we are monitoring these portfolios on a daily basis, addition or deletion of stocks are being communicated through morning conference calls or AWACS. We have booked profits in Gokaldas Exports and added Jaiprakash Associates our new inquire stock idea in our aggressive portfolio during the month.

In our last issue we had recommended investors to adopt stock specific approach and the month belong to the large cap stocks. As mentioned on page one it sitting has help us in NOVEMBER but we will be booking profits in DECEMBER only if we feel that the markets or individual stock have become overheated. So please remain in touch with your relationship manager or franchisee.

Sector	Allocation (%)		
	Agg.	Mod.	Def.
Agrichem	5	6	12
Auto Ancillaries			5
Banking	10	11	15
Construction	10	0	0
Engineering	10	8	12
Fertilizers	5	8	7
FMCG			9
Hotels	8	11	
Oil & Gas	10	13	15
Pharmaceuticals			5
Pipes	5	0	0
Software	5		
Steel			5
Sugar	5		
Telecommunication	9	16	
Tyres	10		
<b>Total</b>	<b>92</b>	<b>73</b>	<b>85</b>

MBP\* :Maximum Buying Price. One should not buy the stock if Price is above MBP.

Wtg.\* :Weightage refers to the size of the position recommended. H - High, M - Medium, L - Low.

# Vindhya Telelinks

Buy: Rs144

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	Cash Profit (Rs m)	EV (Rs m)	Pr/BV (X)
FY04	497	-114.4	-9.7	-78	1910	0.8
FY 05	906	4.2	0.4	42	1710	0.8
FY06 (6 months)	427	6.8	0.6	28	1703	0.8

  

Equity Shares (m)	11.81
52-Week Range	216/61
1/6/12 Rel. Perf (%)	-13/-14/24
Market Cap. (Rs.b)	1.66
Avg. Daily Volume (000')	31

Vindhya Telelinks Limited (VTL), a company belonging to the M. P. Birla group manufactures telecom cables viz. Jelly Filled Telephone Cables (JFTC) and Optical Fibre Cables (OFC). It has a 31.68% stake in Birla Corporation Limited (BCL), and 15.7% in Universal Cables Ltd (UCL).

### Value of Investments has increased significantly

By virtue of its investments, the intrinsic worth per share of VTL is far higher than its market price.

#### Investment in BCL

Particulars	No. of shares (mn)	% holding in BCL
Held directly by VTL	6.38	8.29
Held through 100% subsidiary		
August Agents Ltd.	6.02	7.81
Laneseda Agents Ltd.	5.99	7.78
Insilco Agents Ltd	6.00	18.01
<b>Total number of shares held</b>	<b>24.39</b>	<b>31.68</b>

Total shares outstanding of VTL is 11.85 mn  
No. of shares of BCL per share of VTL comes to 2.06.

### Valuation of UCL

Universal Cables which had been making losses has turned around and has reported profit in FY05 and first half of FY06. At the current market of UCL of about Rs127, 15.67% stake held by VTL is valued at Rs400m. The value comes to Rs34 per share of VTL.

### Cross holding in UCL

VTL holds 15.67% shares of Universal Cables Ltd. (UCL), which in turn holds 29.15% shares of VTL. UCL also holds 296,730 shares of BCL. In case of untangling of cross

holdings, minority shareholders of VTL would be benefited due to reduction in effective equity of VTL.

### Additional shares held through other companies

VTL holds 12 mn shares of Punjab Produce Holdings Limited (PPHL). PPHL holds 3.67 mn shares of BCL, representing 4.76% stake (of BCL). However, the exact shareholding pattern and total equity of PPHL is not known.

Considering the current market price of BCL of Rs.230, the value of BCL shares, per share of VTL comes to Rs.474, excluding the value of shares held through UCL and PPHL. The current market price of VTL is Rs.144, which is at a significant discount to its intrinsic worth.

### Value of underlying asset (share price of BCL) expect to increase further

BCL had been incurring losses earlier but now it has turned around and reported a profit of Rs.796m in FY2004-05 and Rs.414m in the first half of FY06. With cement demand having picked up, we expect BCL to improve its performance going forward. We believe that with significant improvement in earning capability of asset (on account of commissioning of captive power plant and grinding unit) re-rating of BCL is likely to happen from current valuations of \$67EV/Tonne, to \$80-85. This in turn would increase the intrinsic worth of VTL investments in BCL and thereby widen the gap between the intrinsic worth and the current market price.

### Core business suffering from huge overcapacity

Absence of entry barriers and low capex requirements lead to creation of excess capacity for telecom cables in 1999-2000. However, the telecom market in India experienced a major shift from fixed wire basic telephone to cellular telephone services, thereby reducing the demand for JFTC. This led to a significant decline in sales and capacity utilisation in FY03 and FY04.

However, we see the scenario changing and VTL is witnessing good order flow, from the private and the PSU sector. BSNL the main customer of the optical fibre industry had not released an order in FY05, due to finalization of terms which had led to low capacity utilisation. However it has finalized the orders under the tender in the first half of the current year, and the cable is to be delivered in the second half. Thrust on rural telecom has led to the growth in demand for JFTC. VTL currently has about 6 months' order book.

### Concern

Though the stock has deep value, unlocking of the value in BCL could be difficult.

## Investing principles of Warren Buffet

The author James Pardoe is one of today's most knowledgeable followers of Warren Buffet, the legendary investor. His book "How Buffet Does It", is a step-by-step guidebook for investing like Buffet in any market environment. This book presents 24 ideas Buffet has followed from day one. Presented below are these twenty-four ideas:

1. Choose Simplicity over Complexity
2. Make Your Own Decisions
3. Maintain Proper Temperament
4. Be Patient
5. Buy Business, Not Stocks
6. Look for a Company that is a Franchise
7. Buy Low-Tech, Not High-Tech
8. Concentrate Your Stock Investments
9. Practice Inactivity, Not Hyperactivity
10. Don't Look at the Ticker
11. View Market Downturns as Buying Opportunities
12. Don't Swing at Every Pitch
13. Ignore the Macro; Focus on the Micro
14. Take a Close Look at Management
15. Past performance is no guarantee of future success.
16. Practice Independent Thinking
17. Stay within Your Circle of Competence
18. Ignore Stock Market Forecasts
19. Understand "Mr. Market" and the "Margin of Safety"
20. Be Fearful when Others Are Greedy and Greedy When Others Are Fearful
21. Read, Read Some More, and Then Think
22. Use All Your Horsepower
23. Learn form the Costly Mistakes of Others
24. Practice "sound investing" not "brilliant investing" in fads and fashions.

Just to refresh our memory, that one thousand dollars invested in Warren Buffet's Berkshire Hathaway stock in 1965 would be worth roughly \$ 5 million today! It came through his stubborn adherence to the time-honored fundamentals of value.

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