



Sensex: 16785

Nifty: 5049

## Happy Diwali 2011

Dear investors,

We feel that though there are many challenges and concerns being faced by the market, its important not to lose sight of the good investment opportunities that exists in quality stocks for the next 12-18 months.

We present the best investment ideas across sectors (with technical levels to help you decide the right entry and exit).

**Wish you all a very Happy & Safe Diwali.**

### Mahurat Picks for Diwali 2011

No	Stock	Sector	Price (Rs.)
1	Coal India **	Mining	328.85
2	Divi's Lab	Pharma	724.60
3	Escorts **	Auto	79.30
4	MindTree **	IT	381.25
5	Sintex	Diversified	116.85
6	State Bank of India	Banking	1,948.60
7	Tata Chem	Diversified	308.90
8	Tata Motor - DVR **	Auto	97.05
9	Tata Steel **	Metal	432.15
10	V-Guard	Electric equipment	212.35

\*\* Not under active Sharekhan research coverage

Closing prices as of October 21, 2011)

Happy Investing !!!

## Fundamental arguments

### Coal India

- Remarks :**
- ◆ Coal India is the largest coal company in the world (primarily produces thermal coal). The government owns 90% of the company and the company sells its entire output (415 million tonne [mt] in FY2010) in the domestic market.
  - ◆ Coal India is confident of achieving the full-year targets by ramping up production and sales in H2FY2012. In FY2011, the production/sales in the second half accounted for 57-53% of the full-year production/sales. The management is confident of achieving 447-454mt of the full-year production/sales target.
  - ◆ The recent crisis in the power sector will ensure more coordination among the power, coal and railway ministries and lead to an increase in rake availability for Coal India. The mining ban at Karnataka has also led to an increase in rakes. Coal India has said the rake availability has increased to 180 rakes a day. This will help in increasing the dispatches and avoiding supply disruptions.

### Divi's Laboratories

- Remarks :**
- ◆ Divi's Laboratories (Divi's) is a leading player in contract research and manufacturing services (CRAMS), which contributes nearly 50% of its revenue. The remaining portion of its revenues comes from the export of generic active pharmaceutical ingredients (APIs) and caretenoids. We expect Divi's to be a key beneficiary of the increased pharmaceutical outsourcing from India, given its strong relationships with global innovator pharmaceutical companies.
  - ◆ Its India-centric business model develops and produces all APIs/intermediates with a substantial cost advantage. Divi's enjoys an EBITDA margin of >40%, possibly the highest amongst its peers globally.
  - ◆ A near debt-free balance sheet and strong cash flow (free cash flow likely to reach Rs306 crore by FY2013) are likely to help build a war chest for pursuing strategic investments (in the space of biosimilars).
  - ◆ It has undertaken large capital expenditure (capex) of Rs2 billion to set up a new special economic zone (SEZ), implying positive prospects for the outsourcing business (generally Divi's does not undertake capex without adequate revenue visibility from customers).
  - ◆ With the order inflow picking up from H2FY2011 and its new plant getting operational, Divi's has a strong revenue growth visibility and the operating leverage in the business will boost its margins. Consequently, we estimate the company's revenue and earnings would grow at a compounded annual growth rate (CAGR) of 23% and 21% respectively over FY2011-13.

### Escorts

- Remarks :**
- ◆ Escorts is one of the pioneer manufacturers and exporters of agri machineries. It is also the third largest tractor manufacturer in India with a market share of ~12%.
  - ◆ Over the years, Escorts has exited its non-core businesses which was one of the reasons for the stagnant growth phase in the company vis-à-vis its competitors.
  - ◆ The company is now planning to do a capex of Rs100-120 crore over the next two years to increase its tractor assembly capacity by approximately 11%.
  - ◆ After the recent correction in the stock price, it offers a good entry point for investors. So Escorts looks a good bet for a turnaround.

## MindTree

- Remarks :**
- ♦ MindTree is a mid-tier information technology (IT) services company with FY2011 revenues at \$331 million (up 22% YoY).
  - ♦ For the last two quarters the company has surprised the Street on both earnings and revenue fronts. The renewed focus on the core business would drive an uptick in the financial performance.
  - ♦ MindTree has moved from being a horizontal sales-driven organisation to a vertically organised company and is currently focusing on fewer verticals/spaces unlike in the past.
  - ♦ MindTree has seen a sharp de-rating in valuation multiples, which, we believe, will get reversed over the medium/long term as the company gets its act together in the core IT services business.

## Sintex

- Remarks :**
- ♦ Sintex is a diversified company having presence in construction, plastics and textiles. Sintex' main areas of operation are prefab and monolithic construction, custom mouldings, storage products and textiles. It derives almost 89% of its revenues from plastics and 11% from textiles.
  - ♦ The management has maintained its FY2012 revenue as well as earnings guidance (a growth of 25%) on account of a strong and visible order inflow and execution in the building products segment.
  - ♦ The underlying demand in the monolithic construction business remains strong, with the total order book of Rs3,000 crore (3.2x its FY2011 revenues) to be executed over the next 20-22 months.

## State Bank of India

- Remarks :**
- ♦ State Bank of India, established in 1882, is the largest state-owned bank, having a pan-India presence with a network of over 12,000 branches and over 13,000 ATMs (+18000 group) and balance sheet size of Rs10 trillion. The bank, along with its seven associate banks (promoted by itself), enjoys a market share of about 23-24% of the total banking sector.
  - ♦ It is the key beneficiary of the pick-up in the overall demand for credit and structural improvement in asset quality.
  - ♦ Its earnings growth in FY2011-12 will be led by stronger loan volumes and margin expansion. Our FY2011 earnings growth estimate stands at 24%.
  - ♦ State Bank of India's additional pension liability could rise to Rs90 billion but the bank may amortise over five years. However, earnings even after factoring in the additional pension hit could still grow at 32-33% growth in FY2012-13.

## Tata Chemicals

- Remarks :**
- ◆ Tata Chemicals is a diversified Tata group company with presence in fertilisers, chemicals and consumer products. Tata Chemicals also owns a 50.06% stake in Rallis India, a leading Indian pesticide company.
  - ◆ The company is the second largest soda ash producer in the world (after Solvay) and owns 8% of global soda ash capacity; more importantly, 48% of its soda ash capacity is low-cost natural soda ash-based. Tata Chemicals owns 23% of global natural soda ash capacity.
  - ◆ The company is also one of the leaders in the India agriculture input space: it contributes 6% of India's urea production and has 12% market share in the fast-growing, high-margin pesticide business (through Rallis India).
  - ◆ Tata Chemicals has multiple growth levers, specifically: (1) growth in high-margin businesses such as customised fertilisers and Swachh water purifier; (2) continued growth in salt; (3) urea volume and realisation growth on debottlenecked urea capacity; and (4) potential volume growth at the low-cost Lake Magadi soda ash business.

## Tata Motors DVR

- Remarks :**
- ◆ Tata Motors is a market leader in medium and heavy commercial vehicle (MHCV) and light commercial vehicle (LCV; Ace) segments; it is the leader in the largest growth segment in the automobile industry. It is also a leading player in the diesel passenger car segment in the domestic market.
  - ◆ Tata Motors has significantly reduced its debt from 4x to under 1.6x in the last two years at the consolidated level. Its balance sheet has been derisked over the last few years.
  - ◆ Jaguar & Land Rover (JLR) account for 80% of its consolidated profitability and would be the key growth driver going ahead. There has been a significant jump in JLR volumes in Q2FY2012 due to uptick from China and new introduction of new products such as Evoque.
  - ◆ We prefer playing the Tata Motors story through Tata Motors DVR as it is currently trading at over 45% discount against the long-term average discount of 35% to Tata Motors.
  - ◆ Tata Motors DVR also gets higher dividend over common shares of Tata Motors which makes the Tata Motors DVR dividend yield attractive (Rs4.4 per share).

## Tata Steel

- Remarks :**
- ◆ Tata Steel is a leading steel producer with global foot print.
  - ◆ Although steel demand growth has declined in India due to the slowdown in the automobile, and infrastructure and construction projects, Tata Steel has benefited from the reduced output due to iron ore supply shortage in Karnataka and increased the premium and sales volume. Further, the company has derisked itself from a slowdown in projects by strengthening its retail presence through 2,800-strong dealer network.
  - ◆ The brownfield expansion of 2.9mtpa at Jamshedpur would increase the share of profitability from the Indian operations.
  - ◆ After the recent correction, the current market capitalisation of Tata Steel is failing to capture the true value of Tata Steel's European assets (formerly Corus plc), which, we believe, the market will gradually factor in over the medium to long term as the European crisis gets resolved.

## V-Guard Industries

- Remarks :**
- ◆ V-Guard Industries was started in 1977 as a small-scale industry (SSI) unit to manufacture and market voltage stabilisers under the brand name V-Guard. Over the years, the company has emerged as the leading player in the stabiliser market with ~15% market share. The company has a diversified client base and an extensive marketing & distribution network.
  - ◆ It has witnessed a CAGR of 27.3% in its revenues over FY2005-10 and is expected to grow at a much faster rate of 37.6% CAGR over the next four years. The growth will be driven by a multifold rise in the sales from regions other than south India, an exponential growth in newer products like power cables and UPS systems and the domestic consumption boom.
  - ◆ The company has recently also entered non-South India and is particularly focusing on the tier-II and III cities where there is a lot of pent-up demand for its products .We expect the company to post a CAGR of 38% in its earnings over FY2011-13.

## Muhurat Picks - Technical View

Stock	Support 2	Support 1	Resistance 1	Resistance 2
Coal India	275	289	410	430
Divis Lab	670	689	760	805
Escorts	58	62	95	148
Mindtree	320	330	421	457
SBI	1550	1650	2200	2500
Sintex	102	106	134	162
Tata chem	286	295	344	367
Tata Motors DVR	70	80	125	156
Tata Steel	389	415	474	503
V Guard	170	190	New high	

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