15 Momentum Picks

In this note, we review performance of the 15 stocks recommended by us post the favourable election outcome on the morning of May 18th, 2009. The 15 stocks have delivered an average return (assuming equal weights) of 50% against 26% by BSE 200 (comparable Benchmark) since May 15th. Even after computing from May 18th (more cogent as markets freezed on thin volumes on that day), the average return of recommended stocks stood superior at 23% as compared to 8% delivered by BSE 200.

For continued outperformance in the near-term especially up till the budget, we thought of weeding out stocks where upside seems capped post recent run-up and replacing them with companies where fundamentals and technicals warrant significant upside from here. Jain Irrigation, ICICI Bank, Punj Llyod, Birla Corp and Shree Cement are stocks in which profit booking is recommended. Companies that we advise to add are Everest Kanto, Genus Power, ICSA, Sintex and United Phosphorous. These have been identified on the basis of growth visibility, healthy return ratios, high beta values and valuation comfort.

Stock list, return and recommendation

Company	CMP (Rs)	Return since May 15th (%)	Return since May 18th (%)	Recommended action
Jain Irrigation	640	36.8	21.9	Book profit
Bank of Baroda	433	26.5	5.6	Retain
Corporation Bank	313	28.3	8.5	Retain
ICICI Bank	726	26.4	2.7	Book profit
Simplex Infrastructure	399	88.9	57.4*	Retain
Patel Engineering	368	69.2	49.0	Retain
GVK Power & Infrastructure	46	63.7	28.9	Retain
Punj Lloyd	208	57.7	26.3	Book profit
Voltamp Transformers	727	47.6	32.2	Retain
DLF	413	60.1	28.3	Retain
IBulls Real Estate	247	66.9	25.1	Retain
Reliance Communication	320	37.9	12.0	Retain
Birla Corporation	232	20.3	8.3	Book profit
Shree Cement	1,047	27.8	16.3	Book profit
Nagarjuna Fertilizers	44	83.8	55.0	Retain
Average	**-**	**49.5**	**22.9**	-
BSE 200	**1807**	**25.7**	**8.1**	-
Outperformance to BSE 200	**-**	**23.8**	**14.8**	**-**
ICSA (India)	197	68.5	42.8	Invest
Everest Kanto Cylinders	184	31.4	13.0	Invest
Genus Power	234	86.0	69.2	Invest
Sintex Industries	232	45.1	26.4	Invest
United Phosphorus	164	30.1	13.9	Invest

Source: Bloomberg; India Infoline Research
** Simplex was not traded on May18th, so closing price of May 19th used*

Brief investment rationale on the stocks added

Everest Kanto Cylinders: CMP Rs184

EKC is amongst the largest cylinder manufacturers in the world with a capacity to manufacture about 1.5mn cylinders per annum. With rising demand for CNG cylinders both in domestic and international markets, the company is raising its CNG cylinder manufacturing capacity from 476,000 in FY08 to 896,000 in FY10. Its plants in Dubai and China are well catered to serve global demand centers for CNG cylinders such as China, Iran, Egypt, Pakistan and Bangladesh. Furthermore, domestic demand is also expected to remain strong with GAIL setting up city gas projects in more than 20 cities over the next few years. We expect 25% profit CAGR between FY09-11E. We believe that current valuations (P/E of 8.2x FY11E earnings) do not capture fully EKC's robust earnings growth.

Genus Power Infrastructure: CMP Rs234

Genus Power is a play on significant investments planned in the power sector. The company manufactures electronic meters, power inverters and undertakes turnkey projects. Implementation of the APDRP scheme, under which the government needs to implement 100% tamper proof metering, is expected to result in higher demand for meters over the next couple of years. Genus has an order book position of Rs10.3bn including turnkey projects. It has participated in tenders worth more than Rs16bn, of which, it is the ´L-1´ bidder in orders worth Rs2.3bn. At the current price, the company is trading at attractive P/E valuations of 6.5x FY11E EPS.

ICSA (India): CMP Rs197

ICSA caters to power, oil and gas and water industries by developing products and solutions to arrest losses during transmission. The company has an exceptional revenue and PAT CAGR of 139% and 123% respectively over FY06-09. With enhanced growth outlook over next 2-3 years due to greater focus on implementation of APDRP and expected boom in infrastructure spending, we expect company's revenue to grow by 38% and 30% in FY10E and FY11E respectively. ICSA has a strong order book of Rs19.2bn as on March 2009 at 1.8x FY09 sales. The stock is currently trading at a P/E of 3.7x and 3x based on FY10E and FY11E earnings respectively. The cheap valuations imply significant upside.

Sintex Industries: CMP Rs232

Sintex is a diversified player catering to infrastructure allied segments, plastics and textiles. It is set to become a major player in the global plastics industry given its inorganic growth in composites segment and addition of new products in the pre-fabricated plastics. The building products segment is expected to witness robust growth driven by monolithic construction, which is increasingly gathering acceptance in low-cost housing and slum rehabilitation projects. Its textiles segment is expected to witness stable growth coupled with improvement in margins. However, the customs molding segment might see some pressures owing to slowdown in user industries. Given the increased stress on developing infrastructure in the country by the government, we believe Sintex would be a major beneficiary. The stock is currently trading at a P/E of 8.5x based on FY11 estimates, which we believe is attractive.

United Phosphorous: CMP Rs164

UPL is the fifth largest manufacturer of agrochemical generics in the world and derives only 20% of its revenues from the domestic market. The management expects to clock a 15% yoy growth in volumes in FY10 primarily driven by a pick up in demand from US markets. With sharp correction in raw material prices, upside to operating margin cannot be ruled out. Additionally, if restructuring is completed at Cerexagri (acquired in Nov 2006) then margins could expand further. The company has also been able to manage its working capital well by reducing the cash conversion cycle from 119 days to 91 days in the last couple of quarters. With D/E at 0.5x, balance sheet of UPL has gained further strength. The stock is trading at 11.4x FY11E earnings, which appears inexpensive given expected profit CAGR of >20% over FY09-11.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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