

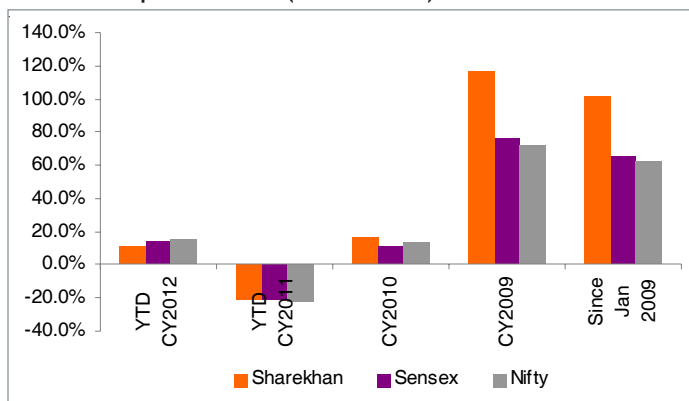


## Sharekhan Top Picks

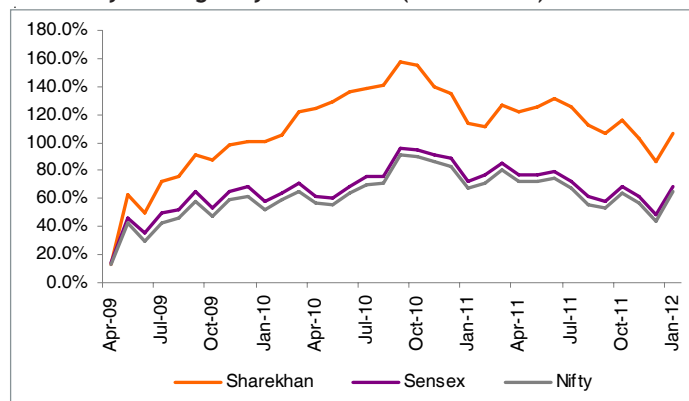
After a rather subdued end of 2011, the market surprised pleasantly with a strong rally in January of the new year. The rebound in many battered-down mid-cap stocks was massive with the CNX Mid-Cap Index appreciating by close to 20% since the beginning of this year. Some of the mid-cap stocks in our Top Picks basket also gave fabulous returns with IL&FS Transportation Networks Ltd (ITNL) appreciating by over 40% and PTC India (despite its disappointing third quarter results) moving up by 26% over the same period. In spite of the massive outperformance by a couple of mid-cap stocks our Top Picks basket appreciated at a relatively lower rate of 10.6% as compared to the 14-15% appreciation in the benchmark indices in the same period. This was because the Top Picks basket has a higher proportion of defensive stocks.

This month, we are making three changes to the basket including two churns within sectors. First, we are replacing ITC with Marico due to the latter's strong Q3FY2012 performance. Besides, ITC usually underperforms prior to the announcement of the Union Budget in anticipation of a hike in excise duty on tobacco products, its core business. Second, we are replacing ITNL by Pratibha Industries. Again the churn is driven by the robust Q3FY2012 results of Pratibha Industries along with its comparatively better valuations. The third change is the replacement of PTC India due to its disappointing results and the continued pressure on its business due to the outstanding dues from the state electricity boards. We are replacing PTC India with Eros International purely because of the latter's valuations and the expectations of good quarterly results from the company.

Absolute outperformance (returns in %)



Constantly beating Nifty and Sensex (returns in %)



Name	CMP* (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
Bank of Baroda	763	7.1	6.6	5.9	23.5	20.4	19.9	825	8
Bharat Electronics	1,430	13.6	12.6	11.4	17.2	14.9	13.8	1,893	32
Divis Laboratories	782	24.1	21.4	17.0	23.9	23.4	25.6	1,015	30
Eros Intl Media	217	16.9	13.0	9.8	25.6	20.9	22.8	298	37
GAIL	391	13.9	12.8	12.4	19.8	18.8	17.1	471	20
Glaxosmithkline Consumer	2,643	37.1	30.8	26.1	33.8	33.1	33.6	3,000	13
Grasim	2,742	11.6	9.8	9.0	14.8	14.7	13.6	--	--
Marico	163	38.8	30.7	22.9	32.7	30.7	31.7	171	5
Pratibha Industries	47	6.5	5.7	4.6	18.8	15.8	16.9	61	31
Sun Pharma	556	31.8	25.3	22.3	19.2	20.0	18.7	575	3
TCS	1,168	26.3	21.2	17.2	33.6	33	32.4	1,294	11

\* CMP as on February 03, 2011

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Name	CMP (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
<b>Bank of Baroda</b>	<b>763</b>	7.1	6.6	5.9	23.5	20.4	19.9	<b>825</b>	<b>8</b>

**Remarks:**

- ♦ Bank of Baroda stands out among the PSU banks as it continues to deliver strong earnings growth with improvement in key operational metrics. The bank's business growth is expected to remain better than industry's (contributed by stronger overseas growth) with relatively stable margins which will lead to a healthy growth in the top line.
- ♦ While the asset quality of most PSU banks has deteriorated significantly over the past two to three quarters, BoB's asset quality has remained healthy due to lower slippages. Although, the asset quality risks have risen due to weak macro environment and policy issues, yet BoB is expected to fare better than the other PSU banks in terms of asset quality, resulting in lower credit cost and higher growth in earnings.
- ♦ The operating metrics of BoB has improved significantly led by strong focus on CASA, margins, fee income etc. The bank is expected to post RoE and RoA of around 20% and 1.1% respectively over the next two years.
- ♦ We believe BoB commands a premium over the other PSU banks due to a steady growth in its core income and a healthy asset quality. Currently, the stock is trading at 1.1x FY2013 book value which is reasonable. We recommend a Hold on the stock with a price target of Rs825.

<b>Bharat Electronics</b>	<b>1,430</b>	13.6	12.6	11.4	17.2	14.9	13.8	<b>1,893</b>	<b>32</b>
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**Remarks:**

- ♦ BEL, a public sector unit, is one of the leading defence companies in India. With the increase in the defence budget and the focus on modernisation of the defence technology, BEL is best placed to take a sizeable pie of the defence spend.
- ♦ The second half of the fiscal is normally the best period for BEL as the major decisions and delivery to clients happen in the third and fourth quarters of the fiscal.
- ♦ The company's order book currently stands at Rs27,000 crore, which is around 5x its FY2011 revenues. This gives us a strong revenue visibility for at least the next two to three years.
- ♦ BEL has entered into joint ventures and technology collaborations to strengthen its position in the defence services space, reap the benefits of the offset clause (which it believes is worth \$300 million in the next five to seven years) and enter into newer areas of operations.
- ♦ The key risk remains its execution: a delay in release of orders could lead to slower execution.
- ♦ At the current market price the stock trades at 11.4x its FY2013E respective earnings. The company has huge cash reserve of Rs5,875 crore, which translates into cash per share of Rs734 and gives the stock further support. We maintain our Buy recommendation on the stock.

Name	CMP (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
<b>Divi's Laboratories</b>	<b>782</b>	24.1	21.4	17.0	23.9	23.4	25.6	<b>1,015</b>	<b>30</b>

**Remarks:**

- ♦ Strong M9FY2012 performance (PAT growth 27%) has re-affirmed our confidence in the growth potential of Divi's Labs.
- ♦ The new DSN SEZ facility at Vishakhapatnam that started production from one of its blocks in June 2011 (the remaining blocks of this facility are likely to get operational over FY2012-13) is likely to bring better economies of scale and tax benefits.
- ♦ A near debt-free balance sheet and strong cash flow are likely to help build a war chest for pursuing strategic investments (biosimilars) and exploit growth opportunities in niche segments like high potency drugs for oncology and steroids for contraceptives.
- ♦ With the order inflow picking up 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. At the current market price the stock trades at a price earning (PE) multiple of 17.0x discounting its FY2013E earnings respectively. We maintain our Buy recommendation.

<b>Eros Intl Media</b>	<b>217</b>	16.9	13.0	9.8	25.6	20.9	22.8	<b>298</b>	<b>37</b>
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**Remarks:**

- ♦ Eros international Media Ltd (EIML) is part of the Eros group, a global player within the Indian media and entertainment sector and has been distributing Hindi films overseas over the last three decades. EIML is in the business of co-production and distribution of Hindi and regional films in India. The company has a de-risked business model which enables the company to recover the bulk of its cost upfront through pre-sales of overseas rights, music rights and broadcasting rights, and in-film advertising even before the success of the film at the box office.
- ♦ EIML has had a consistent track record of distributing successful films at the box office. In the last three years, around four to five of EIML's films have featured in the top ten yearly grossers' list. EIML had three major releases during Q3FY2012, namely "Ra.One", "Rockstar" and "Desi Boyz". The three films had a decent run at the domestic box office with gross collections crossing Rs330 crore. Going forward, the company has at least four major releases in the next six months including "Agent Vinod" and "Housefull 2". The management has hinted at releasing 75 films in FY2013 including regional films.
- ♦ The box-office life of films has reduced to one week of release. Predicting the commercial success of a film is very difficult as the same depends on the taste of the audience. A failure to meet the tastes would lead to financial losses for the company.
- ♦ We continue to view EIML as a pertinent value play on the Indian entertainment sector. With a strong slate of films scheduled over the next two years, coupled with traction in the new media space, EIML has a strong business visibility going forward. We expect EIML's earning to grow at a compounded annual growth rate (CAGR) of 31% over FY2011-13E. At the current market price of Rs217, EIML trades at 9.8x FY2013E earnings.

Name	CMP (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
<b>GAIL</b>	<b>391</b>	13.9	12.8	12.4	19.8	18.8	17.1	<b>471</b>	<b>20</b>

- Remarks:**
- ♦ GAIL (India), a leading gas transmission company, is aggressively expanding its pipeline network and plans to invest above Rs28,000 crore over FY2011-14 in a phased manner to expand its gas pipeline network to over 14,000km and its transmission capacity to around 300mmscmd. This provides strong revenue visibility in its core gas utilities business.
  - ♦ We also see value accretion from doubling of the petrochemical capacity by FY2014, and from the exploration and production (E&P) and city gas distribution (CGD) businesses going forward.
  - ♦ A higher than expected fuel subsidy burden and regulatory risk in its core transmission business are the key risks for the company.
  - ♦ On account of lower domestic gas production, we expect subdued performance of its core gas transmission business in the next one to three years. However, LNG trading business is likely to see an uptick in the same period.
  - ♦ At the current market price, the stock trades at a PE of 12.4x and enterprise value (EV)/EBITDA of 8.7x based on our FY2013 estimates. We have a Buy recommendation on the stock with a price target of Rs471.

<b>GSK Consumer</b>	<b>2,643</b>	37.1	30.8	26.1	33.8	33.1	33.6	<b>3,000</b>	<b>13</b>
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- Remarks:**
- ♦ GlaxoSmithKline Consumer Healthcare (GSK) is a leader in the malted food drink (MFD) market with a market share of 71%. The improvement in penetration, increase in rural reach and judicious new launches would help the company to achieve a sales volume growth in the range of 10-14% in the MFD segment over the long run.
  - ♦ In a bid to de-risk its business model, GSK has aggressively expanded its product portfolio and forayed into new categories such as biscuits, noodles, energy bars, sports drinks, health supplements and oats in recent years.
  - ♦ GSK is debt-free and has been consistently enhancing its cash balance over the years. Its cash balance currently stands at close to Rs1,000 crore and is expected to improve to around Rs1,170 crore in CY2012.
  - ♦ The MFD segment contributes around 94% to the company's top line. Its dependence on a single segment is one of the key risks for the company.
  - ♦ With a double-digit volume growth in the MFD segment and a strong growth in the newly launched products, we expect GSK's top line to grow at a CAGR of 19.2% over CY2010-13. The strong pricing power would help it to maintain the OPM at 16-17% over the same period. Hence, we expect GSK's bottom line to grow at a CAGR of 19.0% over CY2010-13. At the current market price the stock is trading at 26.1x its CY2012E EPS of Rs101.3. We maintain our Buy recommendation on the stock.

Name	CMP (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
Grasim	2,742	11.6	9.8	9.0	14.8	14.7	13.6	--	--

- Remarks:**
- ◆ Grasim Industries is well placed to capture the growing opportunity in its core business of VSF in terms of both volume and healthy realisation. In addition, the performance of its cement business (ie its key subsidiary UltraTech Cement) has shown signs of improvement with an increase in the average cement price.
  - ◆ Due to the improved demand environment, the performance of the VSF and Chemical division has improved. The VSF realisation has sustained at a healthy level and increased by 4-5% to Rs129 per kg in Q3FY2012. On the other hand, the chemical division has witnessed an improvement in its profitability.
  - ◆ The cement capacity of the company at the consolidated level is the highest among the other domestic players at 52.75MTPA. Hence the company will be the key beneficiary of a likely pick-up in the demand through government infrastructure projects in the coming couple of months.
  - ◆ On the other hand, the company is planning to expand its VSF capacity by another 120,000 tonne by FY2013 and its cement capacity by 9.2MTPA by FY2014. We believe the capacity addition will provide volume growth in the longer run.
  - ◆ We believe the company will benefit due to its strong balance sheet as most of its capex will be met through internal accruals.
  - ◆ However, in light of the upcoming capacity and stabilisation of the newly-added capacity, the cement prices are expected to come under pressure. Moreover, cost pressure in terms of coal prices and higher freight cost remains a key concern.
  - ◆ At the current market price the stock trades at PE of 9.0x its FY2013 earnings estimate on a consolidated basis.

Marico	163	38.8	30.7	22.9	32.7	30.7	31.7	171	5
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- Remarks:**
- ◆ Marico is one of the strongest players in the Indian hair care and edible oil markets. Its flagship brand Parachute along with Nihar commands a 54% share in the domestic branded coconut oil market. Its portfolio of value-added hair oil got strong traction in the domestic market helping it to clock around 20% volume growth in the domestic market. The company's good for heart edible oil brand Saffola is also witnessing mid-teen volume growth on account of improving consumer awareness.
  - ◆ Apart from domestic operations, Marico has strong international presence in Bangladesh, Egypt, South Africa, and the recently entered South East Asia. Though the near-term performance has been affected by political instability and high inflationary environment in some of the international markets, we believe the long-term growth potential is intact in these markets.
  - ◆ Kaya is showing signs of improvement with a double-digit same-store collection growth in the past few quarters.
  - ◆ Any significant increase in the prices of the key raw materials (including copra) and a slowdown in the sales volume growth would act as the key risks to our earnings estimates.
  - ◆ We expect the top line to grow at a CAGR of about 25% over FY2011-13 and the bottom line to grow at a CAGR of 30% over the same period (on the back of an expected improvement in the margins due to the softening of raw material prices). At the current market price the stock trades at 30.7x its FY2012E EPS of Rs5.3 and 22.9x its FY2013E EPS of Rs7.1.

Name	CMP (Rs)	PER (x)			RoE (%)			Price target	Upside (%)
		FY11	FY12E	FY13E	FY11	FY12E	FY13E		
<b>Pratibha Industries</b>	<b>47</b>	6.5	5.7	4.6	18.8	15.8	16.9	<b>61</b>	31

- Remarks:**
- ♦ Pratibha Industries (Pratibha) is one of the fastest growing small construction companies with expertise in water, surface transport and civil construction segments. The order book of Rs4,800 crore, which is 3.8x its FY2011 revenues, provides strong revenue visibility. It has gradually moved up the value chain by diversifying into high-margin segments like urban infrastructure, tunneling and oil & gas.
  - ♦ It is looking at exiting its HSAW pipe manufacturing business, which has been a drag for more than a year. The successful exit will help the company to reduce cost and improve margins. Further, the proceeds from the same will help Pratibha to reduce the debt and improve the return ratios.
  - ♦ With the order book standing at 4x its FY2011 revenues, the timely execution of projects remain the key to Pratibha's success. Further, the exit from the HSAW pipe business needs to be watched.
  - ♦ At the current market price, the stock trades at 5.7x and 4.6x its FY2012E and FY2013E earnings. We maintain our Buy recommendation on the stock.

<b>Sun Pharma</b>	<b>556</b>	31.8	25.3	22.3	19.2	20.0	18.7	<b>575</b>	3
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- Remarks:**
- ♦ The combination of Sun Pharma and Taro offers an excellent business model for Sun Pharma, as has been reflected in the Q2FY2012 performance (its revenue grew 38% YoY in Q2FY2012).
  - ♦ Though Taro may not show a similar performance in the next quarter, but we expect a better performance from Sun Pharma going forward mainly driven by the resumption of sales from the US based Cranbury facility, which has been cleared by the USFDA recently. Sun Pharma seeks to acquire the remaining equity in Taro and, if successful, that will not only help achieve better synergy but also boost earnings from the first year itself.
  - ♦ We expect 20% and 19% revenue and PAT CAGR respectively over FY2011-13. With a strong cash balance, Sun Pharma is well positioned to capitalise on the growth opportunities. Its debt-free balance sheet insulates it from the negative impact of volatile currency.
  - ♦ At the current market price, Sun Pharma is trading at 25.3x and 22.3x FY2012 and FY2013 estimated EPS respectively. We maintain our Buy recommendation on the stock with a price target of Rs575, which implies 23x FY2013E EPS.

<b>TCS</b>	<b>1,168</b>	26.3	21.2	17.2	33.6	33	32.4	<b>1,294</b>	11
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- Remarks:**
- ♦ TCS pioneered the IT services outsourcing business from India and is the largest IT service firm in the country. It is a leader in most service offerings and is in the process of further consolidating its leadership position through the organic and inorganic route as well as by winning large deals.
  - ♦ TCS has consistently increased its market share amongst the top 5 Indian outsourcers with market share in terms of revenues increasing from 29.2% in the March 2009 quarter to 30.3% in the September 2011 quarter.
  - ♦ We continue to like TCS amongst the offshore IT vendors on account of its mammoth scale of operations and resilient cost model that allows it to withstand headwinds in the sector. On the other hand, at the current juncture TCS is well placed to garner incremental deals in the sector with the organisational structure in place, unlike Wipro and Infosys that are going through a phase of organisational restructuring.
  - ♦ At the current market price the stock trades at 17.2x its FY2013E earnings. We have a Buy recommendation on the stock with a price target of Rs1,294.

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