



Good Investments in tough times

The Indian economy in line with global macro economic situation has slowed down. India however will still have a positive growth vs a lot of global markets who will de-grow in the current year. The markets too have corrected very sharply over this period. This has brought down valuations for all companies, some of them justifiably so and some below their fair value. However we expect the markets to start bottoming out soon and in light of that have identified some stocks which we feel will perform well over the next couple years.

We have selected a few stocks at the moment and will identify more stocks over the next few months. Some of these stocks on the basis of growth opportunities and some on the strength of their balance sheet. We feel these stocks have the ability to outperform the broader markets and will generate strong returns over the next few years.

The stocks that we are positive on are (and are simply in alphabetical order and not in order of preference)

- 1) Bharat Electronics Limited.
- 2) Fulford India Limited
- 3) ICSA India Limited
- 4) IDFC Limited.
- 5) Merck Limited
- 6) NTPC Limited
- 7) Torrent Power Limited

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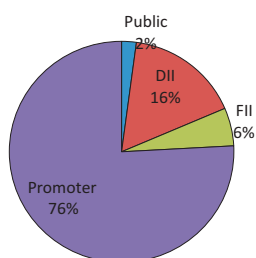




BUY

BSE code	500049
NSE code	BEL
Bloomberg code	BHE IN
Current price	825.2
Target price	
MCap Rs bn	66.0
Mcap US\$ bn	1.3
52 wk H/L	1371 / 545
Face value	10.0

Share holding pattern



Increase in defence spend to drive orders

- BEL is engaged in manufacturing electronic components and gadgets, it was incorporated to cater to the needs of the defence sector of India. The bulk of the sales are still to the Indian defence sector, these represent 83% of the sales of FY08.
- BEL had a turnover of Rs41.03bn and a profit of Rs8.27bn in FY08, a growth of 4% and 15% respectively. This translates to an EPS of Rs 100 per share.
- As of April 1 2008 they have an outstanding order book of Rs95.86bn, giving a 2 year revenue visibility. The Indian government in its last budget announced an increase in defence expenditure by 40%. Being a government owned company (75%). We expect a good number of orders to flow their way.
- They have a strong R&D team and spend 5% of its turnover on R&D. This had delivered results enabling them to maintain their technological edge.
- BEL has a strong balance sheet – it is a debt free company. As per the annual report of FY 2008 they have cash and bank balance of Rs24.54bn, this translates to Rs306 per share.
- During 9Q FY09 the revenue has grown by 3.7% while the profit has been lower by 8%. The lower profit is due to a bad first quarter (down 90%), due to delay in some projects. However they have increased profits on a YoY basis in the following 2 quarters. Assuming the profits de-grow for the FY09E by 8% they would still generate an EPS of Rs92.
- The stock price is currently Rs 840 and is trading at a P/E multiple of 9.1X. If we were to adjust this for the cash of Rs306 held by them the stock is trading at P/E of 6X.

Financial Snapshot

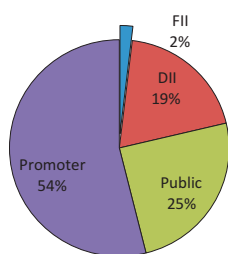
Particulars	Rs mn					
	FY06	% Ch	FY07	% Ch	FY08	% Ch
Net sales	35,023	10.0	38,925	11.1	40,603	4.3
EBIDTA	8,472	31.0	9,408	11.1	10,047	6.8
Net Profit	5,830	25.5	7,182	23.2	8,267	15.1
EPS	72.9	34.4	89.8	23.2	103.3	15.1
BV	253.7	27.4	321.5	26.8	401.6	24.9
P/E	11.5		9.4		8.1	
P/BV	3.3		2.6		2.1	
Net worth	20,293		25,723		32,129	
Debt	88		17		14	
Investments	123		123		120	
Cash & Bank	18,314		20,817		24,535	
Net current assets	13,370		6,451		1,794	



Cash rich with steady earnings

BSE code	506803
NSE code	FULFORD
Bloomberg code	FLFD IN
Current price	355.5
Target price	
MCap Rs mn	1,386.5
Mcap US\$ mn	27.2
52 wk H/L	579 / 271
Face value	10.0

Share holding pattern



- Fulford is a subsidiary of Schering-Plough Corporation, USA, a leading research-based company, engaged primarily in the discovery, development, manufacturing and marketing of pharmaceutical and health care products worldwide.
- Recently the parent company, Schering-plough, was acquired by Merck International, this could lead to an open offer being made for fulford as that would fall under the SEBI purview and could be an upside trigger.
- In 2006 the parent company bought shares on a preferential basis at Rs 575, the current stock price is Rs 350.
- Strong balance sheet – They are a debt free company, taking the cash and investment balance from the CY07 Annual report and adding the profits less dividend from the current year, they have a net cash position of Rs1029mn which works out to Rs260 cash per share.
- The company has earned a profit of Rs200mn in CY08. We expect the them to generate steady earnings from operations going forward
- The stock is currently trading at Rs350, adjusting for the cash balance of Rs 260 we have Rs 90. Assuming steady operations we arrive at an earning of Rs 30 (excluding any income from the cash) in CY09E the stock is trading under 3 times its possible earnings. If we value the earning at 10x and add its cash value we value the stock at Rs 560.

Financial Snapshot

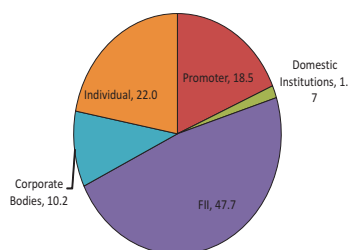
particulars	Rs mn					
	CY06	% Ch	CY07	% Ch	CY08	% Ch
Net sales	1,495.3	1.9	1,683.2	12.6	1,867.7	11.0
EBIDTA	182.6	(24.1)	277.6	52.0	254.0	(8.5)
Profit	127.3	(13.5)	218.1	71.3	197.3	(9.5)
EPS	32.3	(30.7)	55.3	71.2	50.6	(8.4)
BV	230.5	92.6	281.1	21.9	329.2	17.1
P/E	10.7		6.3		6.8	
P/BV	1.5		1.2		1.1	
Net worth	899.0		1,096.2		1,284.0	
Debt	0.5		0.5		0.5	
Investments	190.7		134.8		134.8	
Cash & Bank	518.7		694.8		884.3	
Net current assets	145.3		226.2			



BUY

BSE code	531524
NSE code	ICSA
Bloomberg code	AURFI IN
Current price	73.0
Target price	420.0
MCap Rs mn	3,427.3
Mcap US\$ mn	67.2
52 wk H/L	503 / 48
Face value	2.0

Share holding pattern



Strong order backlog - unique business

- Has 2 business lines, the first is the embedded software solutions business (ESS), which contributes to 60% of revenues. Here they install software in place to detect power losses occur during the distribution network. This is an attempt to bridge the gap to international standards of 10% losses from the current levels of 40% prevalent in India. The second is the EPC division, where they set up substations and distribution network for the power sector this division contributes 40% of revenue.
- ICSA had a revenue of Rs6,707mn in FY08 and profit of Rs1,089mn in FY08 this was a growth of 102% and 86% respectively. This works out to an EPS of Rs 24.8 per share in Fy08.
- The company has a current order backlog of Rs21.0bn, of this 60% is from the ESS division where operating margins are at 30% and the balance 40% from EPC which has operating margins of 10-12%. In addition they have another Rs10.0bn in the order pipeline. These give strong visibility of growth over the next few years.
- The Indian government has released a program called the APDRP. This plan encourages distribution companies to get monetary rewards for reducing power losses to a certain level. As these plans get further implemented we can expect more orders to flow ICSA way.
- ICSA has posted a 80% growth in the topline for the first 9 months of FY09 and a 50% growth in profits. We are expecting them to finish with an EPS of Rs 42 for the current financial year on a non diluted basis (fully diluted at Rs35.3).
- The stock is currently available at Rs 70 and is trading at a P/E of 2, we expect the company to post a growth of over 30% compounded over the next 2 years, with high growth and low valuations we think this stock is a steal and have an initial target price of Rs400 and a 2 year target price of Rs1000

Financial Snapshot

particulars	Rs mn					
	FY07	% Ch	FY08	% Ch	FY09E	% Ch
Net sales	3,324.8	309.8	6,706.9	101.7	11,411.8	70.1
EBIDTA	826.5	310.5	1,804.4	118.3	2,887.1	60.0
Profit	585.2	288.1	1,089.5	86.2	1,818.0	66.9
EPS	17.2	241.4	24.8	44.3	35.3	42.7
BV	32.7	107.6	85.0	159.6	128.7	51.4
P/E	4.1		2.8		2.0	
P/BV	2.1		0.8		0.5	
Net worth	1,116.8		3,741.5		6,623.6	
Debt	1,460.4		2,013.8		2,248.7	
Net current assets	2,324.6		4,642.1		6,502.1	

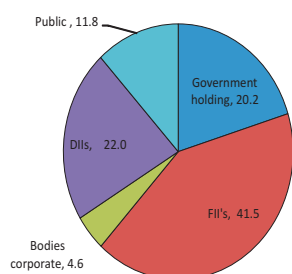


BSE code	532659
NSE code	IDFC
Bloomberg code	IDFC IN
Current price	55.8
Target price	88.0
MCap Rs bn	72.2
Mcap US\$ mn	1.4
52 wk H/L	182 / 44
Face value	10.0

Infrastructure Investments in India to drive growth

- Engaged in financing, through debt and equity, infrastructure development in India. Large exposure to the power and road sectors. We expect the infrastructure sector spend by the government to continue at a robust pace, placing IDFC in a very opportune spot.
- IDFC has loans disbursed to the tune of Rs210bn and an additional Rs230bn loans sanctioned which will lead to an increase in the loan book.
- They are diversifying its business from just loans to a complete financial institute. They have recently acquired the 100% stake of Standard chartered MF and 79.2% stake in SSKI a stock broking and investment banking company. In addition through their subsidiaries have raised 3 private equity funds (raised Rs60bn) and 1 project equity fund (raised Rs37bn).
- In FY08 they made a profit of Rs6.7bnn a growth of 44%, we expect this growth to moderate this year due to the tough financial markets where they have slowed down loan disbursements. We expect growth of 14% for the current year.
- IDFC has a Net NPA of 0%, the management has taken guarantees of projects and even equity against loans, this would ensure the NPA remain relatively low.
- The book value of IDFC as of FY08 was Rs 42.1 we expect IDFC to finish the current FY with a BV of Rs48.
- The stock is available at Rs 54, at this price it is trading at a P/B of 1.12x FY09E. This does not take into consideration the value of their funds and other business units. Taking all into consideration we think the stock looks very attractive and should move to Rs 88 over the next 6 months to a year.

Share holding pattern



Financial Snapshot

particulars	Rs mn					
	FY07	% Ch	FY08	% Ch	FY09E	% Ch
Net Interest Income	4,021.9	47.2	5,663.5	40.8	7,887.3	39.3
Total Income	6,502.9	29.5	10,551.8	62.3	11,974.7	13.5
PBDT	5,930.0	28.5	9,465.8	59.6	10,779.7	13.9
Profit	4,628.7	23.2	6,691.7	44.6	7,611.9	13.8
EPS	4.1	22.8	5.2	25.8	5.9	13.7
BV	25.6	12.9	42.1	225.9	47.6	(79.0)
P/E	13.1		10.4		9.2	
P/BV	2.1		1.3		1.1	
NIM	3.1		3.0		3.3	
CAR	16.2		19.7		20.0	

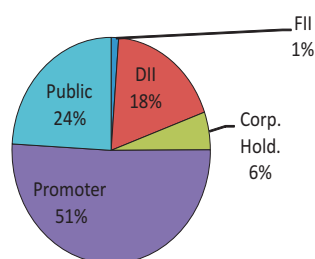


Cash rich - steady income

BSE code	500126
NSE code	MERCK
Bloomberg code	EMER IN
Current price	338.6
Target price	
MCap Rs mn	5,708.0
Mcap US\$ mn	111.9
52 wk H/L	375 / 260
Face value	10.0

- Merck India operates in 2 division, pharmaceuticals and chemicals. The pharma division contributes 80% while the balance 20% is chemicals.
- They reported an topline of Rs Rss3892mn and a profit of Rs630mn in CY08 a growth of 23% and a decline of 8.4% respectively. The profits declined due to the chemical division making a loss in the dec quarter due to sudden fall in prices of chemicals (inventory losses). I believe the chemical division would return to profitability by Q2 CY09E.
- Strong balance sheet – The company is debt free and has a net cash surplus of Rs3508mn as per the annual report of CY07. Adding the profits of the current year less dividends they would have a net cash balance of Rs3844mn. This works out to Rs230 per share cash in its books.
- Merck has been showing steady earnings over the past few years and we expect them to generate the same earnings going forward. EPS of Rs40
- They have announced a dividend of Rs17.5 per share for the CY08, with the stock at 340 this works out to a dividend yield of 5%.
- At Rs340 the stock looks very attractive- with Rs 230 in cash we are purchasing the company for Rs110 with an earning of Rs25 (adjusting income from cash) the stock is trading at a P/E of 4x.

Share holding pattern



Financial Snapshot

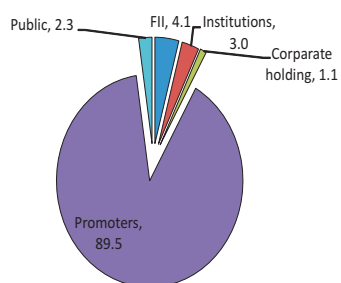
particulars	Rs mn					
	CY06	% Ch	CY07	% Ch	CY08	% Ch
Net sales	3,280.5	(16.7)	3,125.5	(4.7)	3,898.4	24.7
EBIDTA	793.7	(25.4)	664.8	(16.2)	501.5	(24.6)
Profit	798.6	1.7	683.3	(14.4)	630.1	(7.8)
EPS	47.4	1.7	40.5	(14.4)	37.4	(7.8)
BV	223.1	33.7	250.8	12.4	270.7	7.9
P/E	7.3		8.6		9.3	
P/BV	1.6		1.4		1.3	
Net worth	3,930.0		4,229.0			
Debt	0.0		0.0			
Investments	2,480.0		2,339.7			
Cash & Bank	1,060.0		1,169.1			
Net current assets	32.3		363.2			



BUY

BSE code	532555
NSE code	NTPC
Bloomberg code	NATP IN
Current price	176.9
Target price	218.0
MCap Rs bn	1,459.0
Mcap US\$ bn	28.6
52 wk H/L	206/113
Face value	10.0

Share holding pattern



Capacity increases to drive growth

- NTPC is the largest and most efficient power generating company in India with a capacity of 29,394MW. It is planning to increase its capacity to 50GW by the year 2012 and to 75GW in FY17. This multifold increase in power generation will allow increase revenues and profitability over the next few years.
- NTPC has operated at efficiency (Plant load factor) of 92.24% for FY08 and is expected to maintain these levels in the future. The regulator (CERC) recently fixed incentive for operating at higher plant availability factor over 85% for thermal power plants. This is positive news for the company.
- It has strong balance sheet of over Rs300bn as cash and investments; good enough to fund planned big expansions and financial closure for most projects completed even at competitive rates. And new CERC norms fixed RoE at 15.5% vis-à-vis 14% during previous regulated period between FY2004-09 adds more to bottomline.
- NTPC has established six subsidiary and eleven JV companies, through these it will going to manufacture equipment for generating capacities, and create fuel supplies for its plants, besides setting up distribution networks. This backward and forward integration in its related businesses will add value in the years ahead
- Given uncertainties in financial markets and global economy, we believe NTPC is a safe bet given risk free business model due to regulated returns and very long term power purchase agreements (PPA) with SEBs (State Electricity Boards).

Financial Snapshot

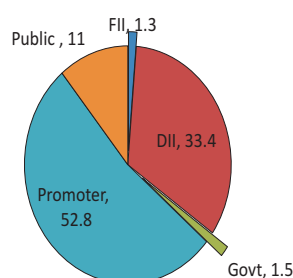
Rs mn

particulars	FY07	% Ch	FY08	% Ch	FY09E	% Ch
Net sales	327,808.0	24.7	372,615.0	13.7	418,113.0	12.2
EBIDTA	100,864.0	34.9	115,457.0	14.5	131,401.4	13.8
Profit	68,647.0	17.9	74,148.0	8.0	80,843.0	9.0
EPS	8.3	16.9	9.0	8.4	9.8	8.9
BV	58.9	8.1	63.8	8.3	71.0	11.2
P/E	21.4		19.8		18.2	
P/BV	3.0		2.8		2.5	
Net worth	485,968.0		526,386.0		585,113.4	
Debt	244,844.0		271,906.0		363,299.0	
Investments	160,943.0		152,672.0		140,000.0	
Cash & Bank	133,146.0		149,332.0		165,164.3	
Net current assets	151,564.0		176,189.0		208,057.6	



BSE code	532779
NSE code	TORNTPOWER
Bloomberg code	TPW IN
Current price	70.9
Target price	
MCap Rs bn	33.7
Mcap US\$ bn	0.7
52 wk H/L	143 / 50
Face value	10

Share holding pattern



Capacity increase to drive profits

- Torrent Power Ltd. (TPL) promoted by Torrent group was incorporated in April 2005 by amalgamating the power companies, Torrent Power AEC Ltd., Torrent Power SEC Ltd. and Torrent Power Generation Ltd. TPL is an integrated power company engaged in the generation and distribution of electricity in the cities of Ahmedabad, Gandhinagar and Surat in the state of Gujarat.
- The generating capacity of the company is 500 MW, comprising 400 MW coal based thermal power plant at Sabarmati and 100 MW dual fuel gas based combined cycle power plant (CCPP) based at Vatva, Ahmedabad.
- TPL is also implementing 1100 MW SUGEN gas based CCPP near Surat in Gujarat at a cost of Rs.3096cr. This mega power project will be set up with a fuel LPG and the project will have 3 power blocks, which all set to commercialize in FY10; this will add around Rs.140Cr bottomline to the firm.
- It is planning to add more generation capacities at Dahej, Pipapav and Morga with each more than 1000MW plus.
- The company also entered into the long term distribution franchisee agreement with Maharashtra State Electricity Distribution Co. Ltd. for distribution to Bhiwandi Circle in December 2006 and reduced distribution losses to the great extent; also bidding for similar franchisees in different cities.
- Presently, it is trading at 14 times to its earnings (TTM) and 1.2 times to its book value of Rs 62. Since the price is undervalued against its peers and offers good opportunities because of regulated cost plus returns.

Financial Snapshot particulars	Annualized		Annualized		Rs mn	
	FY06	% Ch	FY07	% Ch	FY08	% Ch
Net sales	25,488.9		27,761.4	8.9	36,183.2	30.3
EBIDTA	3,762		3,185.8	(15.3)	4,890.0	53.5
Profit	1,220.1		1,435.2	17.6	2,112.4	47.2
EPS	2.6		3.0	15.4	4.5	50.0
BV	55.7		57.3	2.9	61.2	6.8
P/E	26.9		23.3		15.6	
P/BV	1.3		1.2		1.1	
Net worth	26,320.8		27,053.8		28,897.6	
Debt	6,230.9		16,271.2		25,372.5	
Investments	2,077.7		1,253.3		618.8	
Cash & Bank	551.3		412.9		1,858.8	
Net current assets	(1,559.3)		(3,295.3)		(2,072.2)	