THE ECONOMIC TIMES ON SUNDAY

The bulls may have charged up on Dalal Street to cheer UPA's win in the confidence vote in Parliament, but Bangalore serial blasts on Friday gave an opportunity for the bears to bounce back, casting a shadow on which way the market will move in the coming weeks. With inflation numbers showing no signs of cracking soon, **SundayET** asked heads of research of different brokerage houses to pick five value stocks in the large-cap, mid-cap, and small-cap space, which you can bet on right now. Here's a shortlist

Take Your PICK

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LARGE-CAP STOCKS

Divis Laboratories (CMP: Rs 1,393): An established player in the generic active pharma ingredient (API) space and leader among Indian contract research and manufacturing services (CRAMS) players, the company has attained market leadership in several key products. It has 20 of the top 25 innovator companies as its client in CRAMS segment. It recently commissioned a nutraceutical facility for the $1 billion global market, which has high entry barrier in the form of complex chemistry skills.

Sun Pharma (CMP: Rs 1,414): With strong earnings visibility and industry-leading earnings before interest, taxation, depreciation and amortisation (EBITDA) margins, Sun Pharmaceuticals has one of the best business models among the peers. The company's business in the US is also maturing, with windfall gains expected from 180 days exclusivities apart from a healthy product pipeline.

Aban Offshore (CMP: Rs 2,695): The largest offshore rig operator in India, the company is ideally placed to capitalise on exploration and production (E&P) boom. It renewed contracts with ONGC at a sizeable premium, boosting its top-line visibility. It will deliver four jack-up drilling rigs in FY09 and is set to expand its fleet to 21 vessels. The addition of drill ships will reduce dependence on jack-up rig operations and attract premium rates due to low availability.

Tata Steel (CMP: Rs 618): It is the world's sixth largest steel company. In India, it has just raised its crude-steel capacity from 5 million tonnes per annum (tpa) to 6.8 million tpa, of which 60% is rolled into flat products and the rest sold as long products. It also sells ferro alloys, tubes, bearings and some mineral products. TSL India's raw material security and operating efficiencies put it among the lowest-cost producers globally. Its focus on high-value products and branding helps it earn high EBITDA margins of 40%. It should benefit from the likely rise in domestic prices in August this year.

Reliance Industries (CMP: Rs 2,147): The company has interests in E&P, refining, petrochemicals, textiles, telecom, electricity, financial services and infrastructure. Its petrochemicals business is vertically integrated with an output of around 11 million tons. It also operates India's largest and most complex refinery with a capacity of 33 million tons. It is expected to start RPL and KG Basin production from Q3 FY09, which is expected to drive growth for the company. Also, it plans to invest $7.5 billion on semiconductor and polysilicon facilities at Jamnagar. Looking at higher crude prices and strong gross refining margin (GRM), this company has strong future prospects.

AMITABH CHAKRABORTY, president (equity), Religare Securities

MID-CAP STOCKS

GSK Consumer (CMP: Rs 620): The company has a leadership position in the malted beverages space, strong set of core brands (Horlicks & Boost) and rich parentage (new launches from global portfolio). These are expected to help GSK sustain robust growth. Moreover, surplus cash and investments of Rs 400 crore coupled with attractive valuations make it one of the best value plays in the consumer domain.

PVR (CMP: Rs 174): The company's superior management bandwidth, integrated business model and strong set of properties (in terms of location) make it the most preferred play in the movie exhibition space. Moreover, its entry into new allied businesses such as food courts and bowling alleys coupled with recent dilution in its movie production business is likely to lead to re-rating of the stock.

Bartronics India (CMP: Rs 179): The company operates in the automatic identification and data capture (AIDC) solutions segment and is set to leverage the strong growth expected in the retail sector. It is the only smart cards manufacturer in India and this segment is expected to surge on strong demand from the telecom, banking and government sectors. In the wake of strong growth prospects of the company, the stock offers great value.

Jain Irrigation (CMP: Rs 464): The company is a proxy play on the increasing government focus on agriculture and micro irrigation and the booming infrastructure in the country. It would also benefit from the acquisitions it made over the last couple of years, which will be in addition to the company's organic growth initiatives. Thus, the long-term prospects of the company are robust.

Piramal Healthcare (CMP: Rs 310): The company is an early entrant into the CRAMS space. Over the last couple of years, it has consolidated its presence in the segment, which now contributes 50% of its overall revenues. Considering its robust pipeline, the company is expected to post robust growth in the years to come.

HITESH AGRAWAL, head of research, Angel Broking

SMALL-CAP STOCKS

IPCA Laboratories (CMP: Rs 540): The company's focus on branded formulations business and emerging economies is expected to be its key growth driver. New products launches in domestic and UK markets coupled with supplies to new emerging economies and US markets should lead to a compounded annual growth rate (CAGR) of 17% in revenues and 22% in profits over next two years. It is expected to clock an earning per share (EPS) of Rs 69.7 and Rs 82.6 for FY09 and FY10, respectively. Currently, the stock is trading at 7.5x FY09 and 6.2x FY10 earning estimates.

Numeric Power Systems (CMP: Rs 601): The company, a leading manufacturer of uninterrupted power supply (UPS) systems and power conditioners in India, commands 60% share in IT and 82% share of the ATMs. The strong demand for company's products (India has peak power deficit of 16.6%), increased focus on high margin equipment servicing and significant international presence make NPSL a fast-growing multinational in the power management solutions. The stock is attractively valued at 6.5x FY09 EPS of Rs 94.2.

Indian Overseas Bank (CMP: Rs 91): The company is a leading South India-based bank with a strong balance sheet. IOB has a healthy current and savings account (CASA) ratio of 33.5% and strong return ratios, with a return on assets (RoA) and return on earnings (RoE) of 1.3% and 28%, respectively. The net profit for FY09E and FY10E is expected to be Rs 12.42 billion and Rs 13.91 billion, respectively, resulting in an EPS of Rs 22.8 and Rs 25.5 for FY09E and FY10E, respectively.

LIC Housing Finance (CMP: Rs 306): The company is expected to continue to benefit from the growing demand for housing. A lower mortgage/GDP ratio of 6% offers huge potential. The company expects 22% year-on-year (yoy) business growth to Rs 268 billion and 20% yoy growth in net profit to Rs 4.61 billion for FY09. Improving asset quality and strong return ratios augur well for LICHF.

Bharat Electronics (Rs 1,154): The company is the premier defence contractor for the government. Over the years, the company has developed several competencies in the area of defence electronics. It is expected to benefit from the defence offset clause that the government mandates for import of defence equipment above Rs 3 billion. The order backlog is comfortable at Rs 94.5 billion and equivalent to over two years of FY08 revenues. The modernisation of the Indian defence sector is expected to throw significant opportunities for BEL.

DIPEN SHAH, vice-president – private client group (PCG) research, Kotak Securities

* CMP denotes current market price

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