

MARKET WATCH

Nifty, Sensex will struggle to make fresh highs

The S&P BSE Sensex closed the week that ended on 23rd October at 26,851 (up 743 points or 2.84%), while the NSE's CNX Nifty ended at 8,015 (up 235 points or 3.02%). Last week, we had mentioned that Nifty might try to rally. This week, the Indian stock market opened with a gap on the back of positive data from the US and the winning of Bharatiya Janata Party (BJP) in Haryana and Maharashtra assembly polls helped build up the positive sentiments. On Monday, Nifty closed at 7,879 (up 100 points or 1.28%).

On Tuesday as anticipated, the index

closed in the green after making a recovery from the day's low. Nifty closed at 7,928 (up 48 points or 0.61%) making it the third consecutive day of gain.

According to Moody's Investors Service the Indian government's decision to remove price controls on diesel and to raise natural gas prices, signals fiscal discipline and is a "credit positive" step, although the overall impact could be limited.

The government, on Monday, announced that it would auction 74 coal-mining licenses to private companies in the next three to

four months.

The government will allocate government companies

licenses without

an auction. This move is likely to help power, cement and steel sectors.

Market on Wednesday moved higher in line with the positive trend of US indices on Tuesday and positive closing of most of the Asian indices. Nifty closed at 7,996 (up 68 points or 0.86%).

The market was open for a special trading session on Thursday to mark the start of Samvat 2071. Nifty closed at 8,015 (up 19 points or 0.23%).

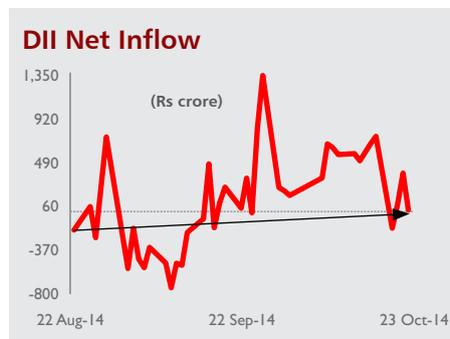
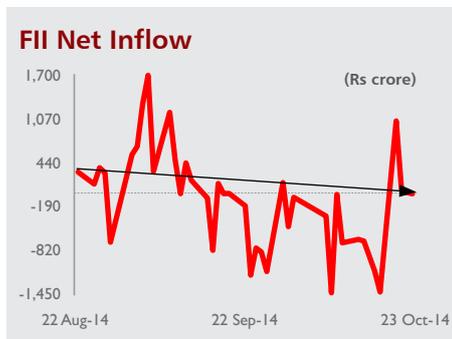
Friday market was closed on account of on account of public holiday.

Stock: FIIs' shareholding in Bajaj Auto reduced to 17.69% at the end of September 2014 quarter from 18.60% as at the end of June 2014, while DIIs increased shareholding to 7.96% from 7.08% for the same period. The stock rose 7%. HDFC Bank's revenue and operating profit for September 2014 quarter rose by 16% and 20% over the September 2013 quarter. The stock rose 1%. Swaraj Engines sales and operating profit for the September 2014 quarter rose by 10% and 8%, respectively, over the September 2013 quarter. The stock rose 1%. The board of directors of AVT Natural has decided on the closure of AVT Natural Pte., Ltd., Singapore, a wholly owned subsidiary, due to changed international market conditions, while on the other hand AVT Tea Services Ltd its wholly owned subsidiary in the United Kingdom, has set up a subsidiary company in the US, under the name AVT Tea Services North America, LLC to cater to the American market. Weak results pulled the stock lower by 14%.

Changes: We are adding Tech Mahindra and HCL Technologies to lion list.

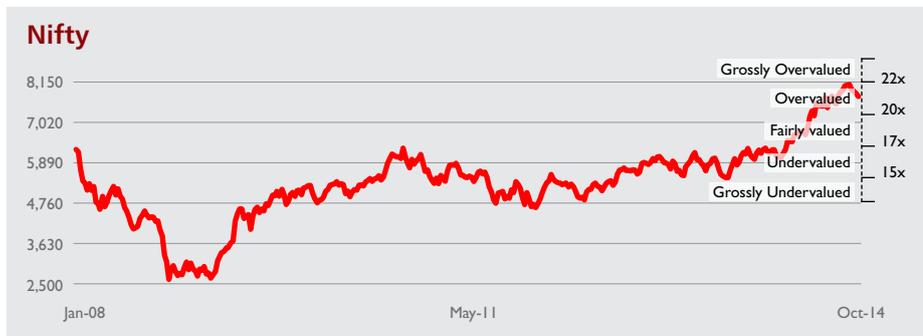
Indices	Change
BSE Sensex	3%
Nifty	3%

Money Flows



The Nifty rose 3% this week. Both FIIs and DIIs were net buyers this week bringing in Rs1,067.64 crore and Rs289.26crore respectively.

Market Valuation



The current four-quarter trailing Nifty EPS as per NSE is Rs387. On this basis, the current Nifty PE works out to 20.70. Unless earnings improve, the market is getting overvalued.

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Company	Business	Comments
Sun Pharmaceutical	Pharma	Has taken full advantage of global opportunity and Indian manufacturing costs to create amazing long-term earnings growth
Gruh Finance	Financial Services	Subsidiary of HDFC, focus on lower semi-urban and rural areas where demand will remain high
Supreme Industries	Plastics	Plastic processing company with a strong brand equity. Highly efficient with capital use
Ajanta Pharma	Pharma	Among the top smaller pharma companies in India. Low profile. High return on equity. Strong financial management
Swaraj Engines	Auto Components	Highly efficient commercial vehicle manufacturer, controlled by Mahindras. Poised to benefit from economic growth
Cummins India	Engineering	Top manufacturer of engines. High return on capital. Poised to benefit from economic growth
Colgate-Palmolive	Consumer Products	Great brand equity, huge demand and high return on capital employed. Long term secular demand
Accelya Kale	Software & IT Services	High return on capital with more reasonable valuation than big players like TCS
HDFC Bank	Banks	The most profitable private sector bank taking advantage of strong demand for banking services
Amara Raja Batteries	Auto Components	Best auto battery manufacturer. Has done very well even during slowdown. Poised for huge growth
AVT Natural Products	Industrial Intermediates	Strong lineage, financially strong group, specialized business of colours and flavours. High return on capital
Kajaria Ceramics	Building Material	Largest manufacturer of ceramic/vitrified tiles. Strong brand. High return on equity. Government focus on toilets
VST Industries	Lifestyle & Leisure	Standalone cigarette manufacturer. High return on capital. We are not happy with the returns so far. Will look at exiting
Alembic Pharma	Pharma	Another among the strong smaller pharma companies in India. Low profile. High return on equity. Strong financial management
Titan Company	Lifestyle & Leisure	Unique business with low competition. High return on capital. Long-term growth assured
Torrent Pharma	Pharma	Another among the strong smaller pharma companies in India. Low profile. High return on equity. Strong financial management
Orient Refractories	Industrial Intermediates	German multinational in refractories. Has done very well during the slowdown. Poised for strong growth
Eclerx Services	Software & IT Services	Top listed outsourcing company. High RoCE. Relatively low valuation
AIA Engineering	Engineering	High chromium castings for cement, mining and thermal power. Poised for high growth
Bajaj Auto	Auto	One of the best combination of mega-cap, low valuation and high RoCE
Tech Mahindra	Software & IT Services	Among the top-tier software companies. A sudden decline offers us an entry into a company which has among the highest RoCE
HCL Technologies	Software & IT Services	A top-tier software company. Currently, our best pick among the mega-cap stocks

Lion

More large-caps
Monday, 27 October 2014
Volume 7, Issue 28



	Financial*		Valuation**		Return#	Entered		Current Price	Performance since entry date
	Av. Sales	Av. OP	MC/Sales	MC/OP	RoE	Date	Price		
Older stocks that can be bought now									
1. Sun Pharmaceutical	667.63	84.31	72.88	1,402.50	4%	13-Apr-12	293	810	176%
2. Gruh Finance	236.33	65.95	7.02	26.61	33%	27-Apr-12	69	199	190%
3. Supreme Industries	944.25	133.99	2.53	23.63	28%	04-May-12	211	606	187%
4. Ajanta Pharma	279.48	86.39	5.60	17.93	46%	04-May-12	181	1,829	910%
5. Swaraj Engines	158.90	23.17	1.81	12.35	33%	18-May-12	411	976	138%
6. Cummins India	1,004.36	175.32	4.63	26.89	25%	28-Mar-13	499	698	40%
7. Colgate-Palmolive	907.14	170.28	6.12	30.25	82%	28-Mar-13	1,246	1,723	38%
8. Accelya Kale	70.83	28.49	4.55	11.71	103%	21-Jun-13	456	792	74%
9. HDFC Bank	12,886.40	3,791.59	3.89	13.33	21%	02-Aug-13	631	897	42%
10. Amara Raja Batteries	896.15	149.41	2.61	15.32	28%	23-Aug-13	249	630	153%
11. AVT Natural Products	69.34	17.25	2.97	17.53	25%	25-Oct-13	20	39	95%
12. Kajaria Ceramics	477.96	59.67	2.34	18.34	26%	25-Oct-13	236	633	168%
13. VST Industries	200.66	57.51	3.12	9.63	51%	08-Nov-13	1,476	1,732	17%
14. Alembic Pharma	488.03	98.29	3.68	17.47	43%	13-Dec-13	192	423	120%
15. Titan Company	2,761.45	261.94	3.04	32.00	29%	20-Dec-13	229	396	73%
16. Torrent Pharma	856.40	274.00	3.97	9.73	37%	20-Dec-13	481	860	79%
17. Orient Refractories	102.36	19.82	2.60	14.14	39%	28-Feb-14	49	94	92%
18. Eclerx Services	180.48	72.89	5.54	16.49	44%	25-Apr-14	1,205	1,383	15%
19. AIA Engineering	448.63	101.40	4.65	25.21	21%	18-Jul-14	726	908	25%
Older stocks to avoid now (does not mean exit; Hold not Sell)									
1. Bajaj Auto	5,290.78	982.06	3.07	23.27	31%	10-May-13	1,859	2,530	36%
New									
1. Tech Mahindra	4,161.51	793.95	3.08	18.47	30%	23-Oct-14	current price	2,360	—
2. HCL Technologies	4,110.35	1,808.03	6.60	15.28	62%	23-Oct-14	current price	1,526	—

* 5 quarter average (Rs crore) ** Based on latest quarter (annualised), MC- Market Cap #Return on Equity (based on net profit of previous 4 quarters)

Operating Profit - Operating Profit - profit generated in the normal course of business (for companies other than bank and NBFCs); arrived at after deducting operating expenses (excluding depreciation and interest) from sales. For Banks and NBFCs, operating profit is arrived at after deducting operating expenses (excluding depreciation) from total income and net revenue respectively.

Valuation - ratio of market capitalisation to sales or operating profit. Low ratio is better.

Market capitalisation - recently traded price multiplied by number of shares outstanding.

RoE is return on equity which is net profit divided by network.

Shortlisted price is the price at which we had added the stock to our stockletter.

Current price is the price as on the last trading date of the week.

Performance is the return between the entered at price and current price.

How to Use the Stockletter

1. These stockletters, as a source of information, are for those who understand the rewards and risks of investing in stocks for the long run and use the list for doing their own research with their own time and resources.
2. Equal distribution of your surplus across all stocks is preferable. For this, you can use the tool - <https://advisor.moneylife.in/lion-sip.html>
3. Changes in the stockletter list will be mentioned in the table as and when they arise.

Happy investing!