MOTILAL OSWAL
Solid research. Solid advice.

Thematic Study
19 January 2005

9TH ANNUAL WEALTH CREATION STUDY

BY RAAMDEO AGRAWAL

TOP 10 WEALTH CREATORS (1999 - 2004)

THE FASTEST

RANK	COMPANY	ADJUSTED MKT. CAP. CAGR (%)	APPRE-CIATION (X)
1	Matrix Laboratories	137.4	75.5
2	Sterling Biotech	114.0	44.9
3	Amtek Auto	111.7	42.5
4	Lupin	95.7	28.7
5	Jammu and Kashmir Bank	76.5	17.1
6	Bharat Electronics	76.2	17.0
7	Jubilant Organosys	75.8	16.8
8	Jindal Iron & Steel Company	66.8	12.9
9	Asahi India Glass	66.7	12.9
10	Motherson Sumi Systems	63.1	11.6

THE BIGGEST

RANK	COMPANY	WEALTH CREATED (RS B)	APPRE-CIATION (X)
1	ONGC	1,029.7	7.1
2	Reliance Industries	516.0	4.1
3	Indian Oil Corporation	466.2	5.1
4	Infosys Technologies	230.9	3.4
5	State Bank of India	206.5	2.8
6	ICICI Bank	165.2	10.8
7	HDFC	132.4	5.7
8	Tata Motors	129.3	2.9
9	HPCL	129.1	4.0
10	GAIL (India)	128.0	3.5

HIGHLIGHTS

- We had not expected commodity companies to create much wealth, but they account for more than 60% of the total wealth created in the current study
- Commodity companies make money only when there is a sustained demand-supply gap
- Commodity prices rise sharply when there is squeeze, but profits of commodity companies and their share prices rise exponentially
- Stock prices are determined by '**marginal opinion**' **and not by** '**majority opinion**'
- Purchase price discipline, that is, huge margin of safety at the time of purchase, is paramount because it covers a multitude of errors committed while investing

9th MOSt WEALTH CREATION AWARDS 1999-2004

Author's E-Mail: Raamdeo@MotilalOswal.com

Contents

Objective, Concept & Methodology

Objective

The foundation of Wealth Creation is in 'buying businesses at a price substantially lower than their intrinsic value'. The lower the market value is compared to the intrinsic value, the higher is the margin of safety. In this year's study, we continue our endeavor to cull out the characteristics of businesses, which create value for their shareholders.

As Phil Fisher says, "*It seems logical that even before thinking of buying any common stock, the first step is to see how money has been most successfully made in the past.*" Our Wealth Creation studies are attempts to study the past as a guide to the future and gain insights into 'How to Value a Business'.

Concept

Wealth Creation is the process by which a company enhances the market value of the capital entrusted to it by its shareholders. It is a basic measure of success for any commercial venture. Wealth Creation is achieved by the rational actions of a company in a sustained manner.

Methodology

For the purpose of our study*, we have identified the top-100 Wealth Creators for the period 1999-2004 in the Indian stock market. These companies have the distinction of having added at least Rs1b to their market capitalization over this period of five years, after adjusting for dilution. We have termed the group of Wealth Creators as the '*MOSt-Inquire 100*'. The Wealth Creators have been listed in Appendix I and II on page 34 and 36, respectively. Ranks have been accorded on the basis of Speed of Wealth Creation, that is, the compounded growth in Wealth Created during the period under study.

On the cover page, we have presented the top-10 ranking companies in terms of Speed of Wealth Creation (called THE FASTEST) and the top-10 ranking companies in terms of Size of Wealth Creation (called THE BIGGEST).

This is the first Wealth Creation study where a commodity business has topped the list of biggest Wealth Creators. In fact, the top-3 biggest Wealth Creators are all in commodity businesses. Hence, we decided to dedicate the 9th Wealth Creation Study to the analysis of the Wealth Creation process in commodities. Our Theme Piece for 2005, Back to Basics — the Era of Commodities, starts from page 22.

** Capitaline and Trends databases have been used for this study*

Wealth Creation

1999-2004

The 9TH Annual Study

Findings

Wealth Creators

Comparative Performance v/s BSE Sensex

The Wealth Creator Group outperformed the BSE-Sensex by 22%

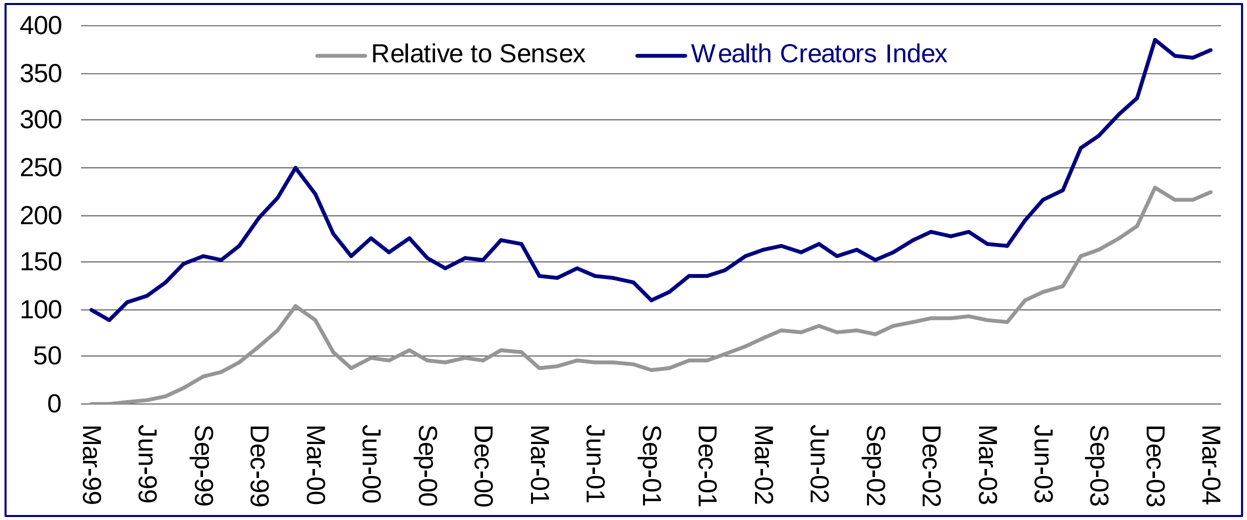
The Index of Wealth Creators fell only in one year out of the last five years – this also happened to be the only year when it underperformed the Sensex

The Sensex created history by falling for three consecutive years:
2000-01 (-27.9%)
2001-02 (-3.7%)
2002-03 (-12.1%)

Its 83% rise in 2003-04 is a reflection of the chronic undervaluation that the market went through

The dominant prevailing sentiment in the minds of domestic investors now is the fear of the next downturn and not the greed of a continued upturn

WEALTH CREATORS' INDEX V/S BSE SENSEX (31.3.99 TO 31.3.04)



GROWTH: SENSEX V/S WEALTH CREATORS

	MAR-99	MAR-00	MAR-01	MAR-02	MAR-03	MAR-04
BSE Sensex	3,740	5,001	3,604	3,469	3,049	5,591
YoY Performance (%)	-	*34.0*	*-28.0*	*-4.0*	*-12.0*	*83.0*
Wealth Creators Index	100	223	135	164	170	375
YoY Performance (%)	-	*123.0*	*-40.0*	*22.0*	*4.0*	*121.0*
Sensex P/E	27.0	29.0	16.0	13.0	11.0	15.0
Wealth Creators P/E	11.0	19.0	10.0	11.0	7.0	13.0
5-Year CAGR (%) Sensex						*8.0*
5-Year Earnings CAGR (%) Sensex						*22.0*
5-Year CAGR (%) Wealth Creators						*30.0*
5-Year Earnings CAGR (%) Wealth Creators						*27.0*

Wealth Creators

Classification By
Nature of Business

Oil & Gas and Banks have emerged as the dominant Wealth Creators

Eight businesses have created at least 5% of total Wealth Created, signifying broad basing of the stock market boom

IT companies, which contributed at least 30% of total Wealth Created in the last five studies, have seen their contribution fall to just 7%

Probably the time has come for Cement, FMCG, Textiles and Fertilizers to assert their presence in a much more conspicuous fashion

WEALTH CREATORS: CLASSIFICATION BY INDUSTRY (RS B)

INDUSTRY	NET WEALTH CREATED	SPEED CAGR (%) 1999-04	NO. OF COS.	CONTR. TO WEALTH CREATED (%)	ROCE 1999 (%)	ROCE 2004 (%)	CAGR (%) 1999-04 NP	CAGR (%) 1999-04 SALES
Oil & Gas	1,995	41.4	9	34.0	16.6	27.7	22.7	18.1
Banks	896	37.1	19	15.3	12.8	18.6	23.1	10.5
Petrochem	548	40.2	3	9.3	11.0	14.7	25.7	34.9
IT	435	19.2	6	7.4	22.6	28.3	55.8	38.6
Metals	382	34.2	8	6.5	5.5	23.9	NA	12.2
Auto	354	22.2	11	6.0	13.8	29.4	23.5	15.6
Pharma	325	25.4	10	5.6	17.4	27.0	35.9	27.3
Engineering	294	22.6	10	5.0	16.9	22.1	11.5	7.4
Utility	235	45.3	3	4.0	13.5	14.1	15.0	17.8
Cement	130	29.3	3	2.2	10.4	17.9	28.8	8.5
Shipping	51	38.4	2	0.9	10.5	12.2	17.8	1.6
FMCG	40	3.1	2	0.7	32.2	36.7	20.0	9.8
Textiles	33	21.8	4	0.6	7.3	13.8	NA	2.3
Fertilizers	29	23.0	2	0.5	12.9	15.9	6.2	7.2
Media	23	24.6	1	0.4	35.8	9.6	13.5	18.9
Others	93	44.3	7	1.6	13.5	19.1	35.7	24.4
Total	**5,862**	**30.2**	**100**	**100.0**	**13.0**	**23.0**	**26.6**	**16.4**

Wealth Creators

Classification By Management: MNC v/s Indian

The markets believe that the sun seems to have set on the performance of MNCs

In the early 90s, MNCs used to contribute almost 40% of total Wealth Created

Perhaps Hindustan Lever's performance was overwhelming, then

MNCs have contributed just 2.3% of total Wealth Created in the current study

This signals either that one should pile on to these companies or that they have lost their relevance in the overall context

We believe that the former is more likely

WEALTH CREATORS: MNCs V/S INDIAN COMPANIES

	NO. OF COMPANIES			% WEALTH CREATED	
WEALTH CREATION STUDY	MNCs	TOTAL	MNCs % OF TOTAL	MNCs	OTHERS
1999-04	8	100	8.0	2.3	97.7
1998-03	10	83	12.0	3.1	96.9
1997-02	16	85	18.8	22.8	77.2
1996-01	19	71	26.8	29.7	70.3
1995-00	21	100	21.0	14.8	85.2
1994-99	43	100	43.0	50.2	49.8
1993-98	50	100	50.0	47.3	52.7
1992-97	19	45	42.2	38.4	61.6
1991-96	38	100	38.0	35.7	64.3

Wealth Creators

Classification By
Market Cap: Speed v/s Size

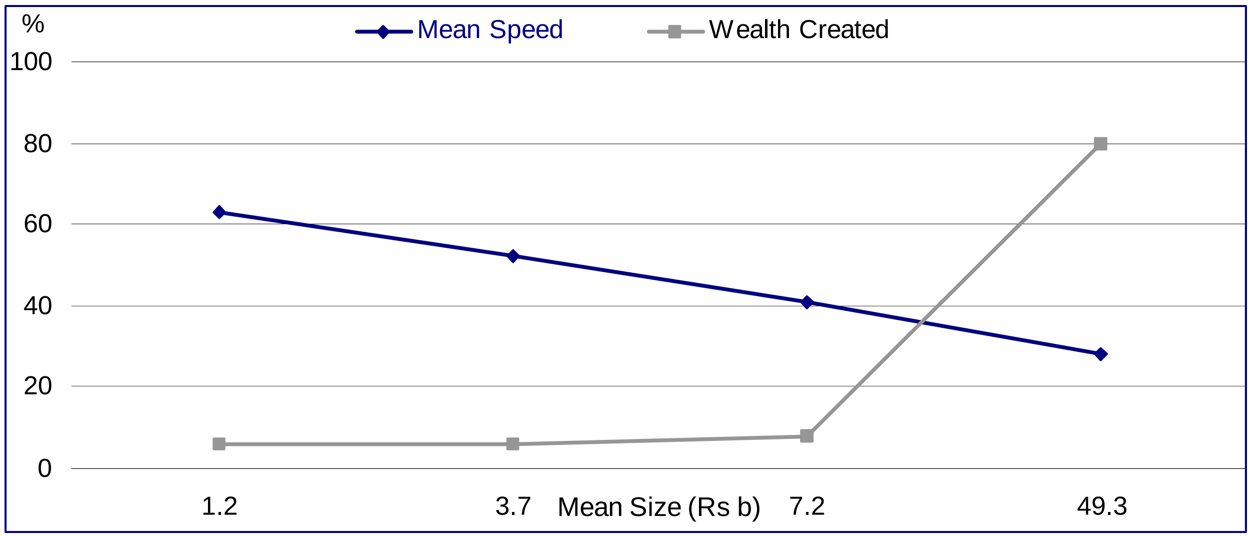
Size of a company in terms of market capitalization has an inverse correlation with the speed of Wealth Creation

Institutional imperative is to back more steady larger companies, where speed is sacrificed for the size of Wealth Created

If you are looking for speedy Wealth Creation, you should pick companies with market cap of less than Rs10b

WEALTH CREATORS: CLASSIFICATION BY MARKET CAPITALIZATION (RS B)

MARKET CAPITALIZATION	MEAN SIZE	NO. OF COS.	MEAN SPEED (%)	WEALTH CREATED (%)
>= 10	49.3	41	28	80
5 < 10	7.2	14	41	8
2.5 < 5	3.7	14	52	6
< 2.5	1.2	31	63	6
All Companies	**22.1**	**100**	**30**	**100**



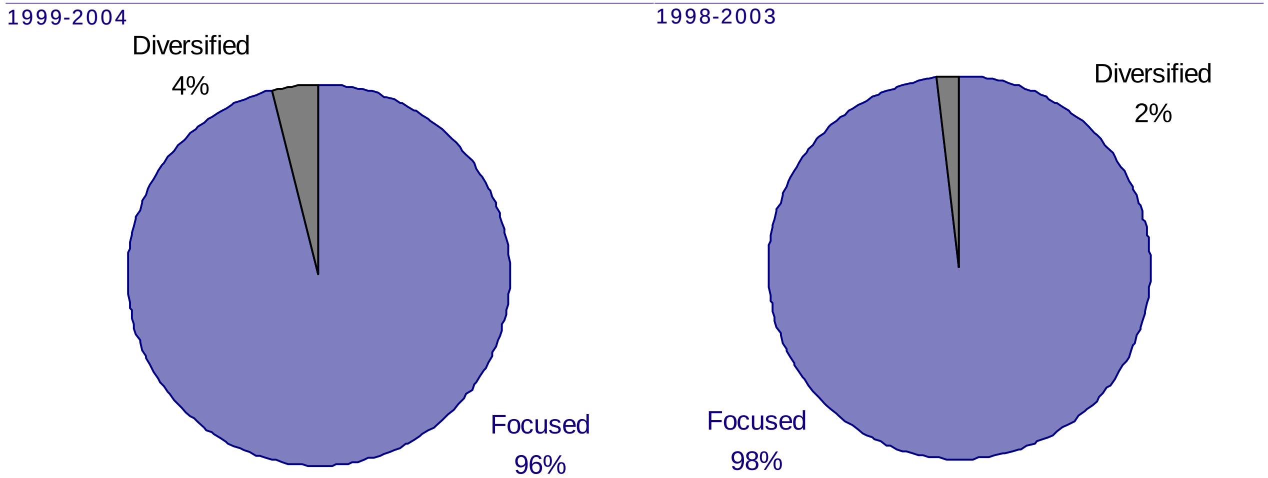
Wealth Creators

Classification By Business Activity

The participation of diversified companies in Wealth Creation remains limited

We expect this to be the case in the future, as well

WEALTH CREATORS: CLASSIFICATION BY BUSINESS ACTIVITY



WEALTH CREATION STUDY	FOCUSED (%)	DIVERSIFIED (%)
1999-04	96	4
1998-03	98	2
1997-02	96	4
1996-01	100	0
1995-00	95	5
1994-99	96	4
1993-98	93	7
1992-97	98	2

Wealth Creators

Classification By Product Attribute

Technology has taken a backseat in terms of the number of companies participating in the Wealth Creation process

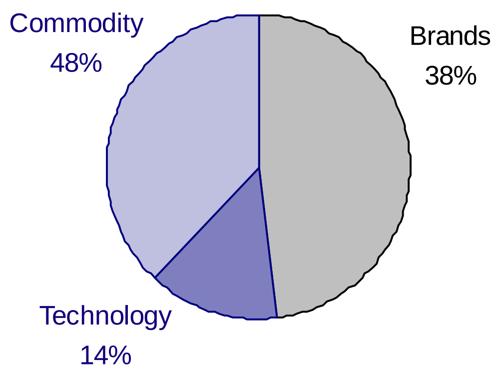
Brands/franchises have been able to maintain their share at around 40%

Dominance of commodities among the Wealth Creating companies has further strengthened in this study

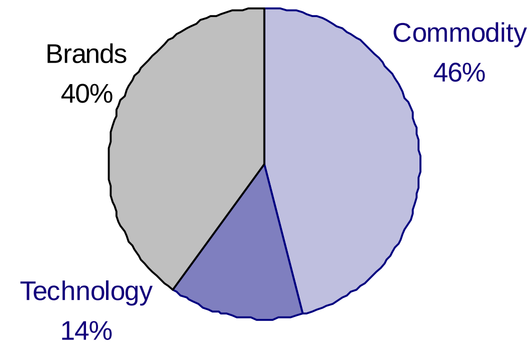
The current low-single-digit P/E reflects the lack of faith in the continuity of the commodity upturn – will consensus be wrong again?

WEALTH CREATORS: CLASSIFICATION BY PRODUCT ATTRIBUTE

1999-2004



1998-2003



WEALTH CREATION STUDY	BRANDS (%)	COMMODITY (%)	TECHNOLOGY (%)
1999-04	38	48	14
1998-03	40	46	14
1997-02	49	26	24
1996-01	57	22	21
1995-00	47	17	36
1994-99	27	14	59
1993-98	26	24	50
1992-97	43	4	53
1991-96	27	20	53

1999-04	WEALTH CREATED (RS B)	WEALTH CREATED (%)
Brands	1,551	26.5
Commodity	3,717	63.4
Technology	593	10.1
Total	**5,862**	**100.0**

Wealth Creators

Classification By
Capital Allocation

Tata Motors stands out as the biggest value creator for every Rupee retained/deployed by the company

Its market capitalization has increased despite a reduction in capital employed

ONGC's increase in productivity of capital has been rewarded in 2003-04

IOC yet lags full appreciation of its improvement in productivity of capital

In the short run, the market is a voting machine, but in the long run, it is a weighing machine

This is proved by the fact that 66% of the Wealth Creators have actually increased their return on capital employed

We believe that this trend would be more accentuated going forward

WEALTH CREATORS: CLASSIFICATION BY CAPITAL ALLOCATION (RS B)

		ROCE (%)		MARKET CAP.			△ M.CAP/
	△CE	1999	2004	MAR-99	MAR-04	△ M.CAP	△ CE
Tata Motors	-24	7	31	43	173	130	-6
Infosys Technologies	27	28	45	97	329	232	9
ONGC	196	14	26	169	1198	1030	5
HPCL	30	22	32	43	172	129	4
GAIL (India)	35	22	31	52	180	128	4
Indian Oil Corporation	129	18	29	113	580	466	4
ICICI Bank	77	21	20	5	182	178	2
State Bank of India	98	10	18	112	319	206	2
Reliance Industries	326	12	15	122	751	630	2
HDFC	203	17	25	27	159	132	1

WEALTH CREATION STUDY	2004 ROCE > 1999 ROCE NO. OF COMPANIES	% WEALTH CREATED
1999-2004	66/100	75
1998-2003	58/83	77
1997-2002	55/85	84
1996-2001	41/71	91
1995-2000	50/100	65
1994-1999	65/100	56

Wealth Creators

Classification By
Sales & Earnings Growth

Two-third of the wealth has been created by companies with sales growth of <20%

Growth in market cap has been the same for companies with sales growth of above 20% as well as below 20%

The stock market tends to value high growth stocks richly

High earnings growth need not be associated with high sales growth

High earnings growth companies have been the fastest and biggest Wealth Creators

Companies, whose earnings grew by over 25%, have created almost 2/3rd of the Wealth

WEALTH CREATORS: CLASSIFICATION BY SALES GROWTH

SALES GROWTH	NO. OF COMPANIES	WEALTH CREATED (%)	CAGR IN MCAP (%)	EARNINGS GROWTH (%)
0-10	32	18.1	19.3	28.2
10-20	32	48.0	37.6	23.4
20-30	17	9.6	19.9	22.7
30-40	8	13.7	41.8	28.9
>40	11	10.6	38.4	67.9
Total	**100**	**100.0**	**30.2**	**26.6**

WEALTH CREATORS: CLASSIFICATION BY EARNINGS GROWTH

EARNINGS GROWTH	NO. OF COMPANIES	WEALTH CREATED (%)	CAGR IN MCAP (%)	SALES GROWTH (%)
0-10	16	9.5	21.3	6.4
10-20	14	10.9	31.4	17.9
20-30	26	47.5	32.9	17.4
30-40	9	4.4	40.8	8.6
>40	35	27.6	29.0	20.4
Total	**100**	**100.0**	**30.2**	**16.4**

Wealth Creators

Classification By Age Group

While there has been a revival of the old economy, the technology sector has posted subdued performance

As a result, companies older than 25 years have made a major comeback

Still, the 11-20 age group is the most dominating amongst the Wealth Creators

New businesses born out of innovations, globalization and deregulation will keep the average age group much lower

WEALTH CREATORS: CLASSIFICATION BY AGE-GROUP (RS B)

NO. OF YEARS	NO. OF COS.	WEALTH CREATED	% WEALTH CREATED
0-10	6	1,326	22.6
11-20	26	918	15.7
21-30	14	617	10.5
31-40	13	1,347	23.0
41-50	11	487	8.3
51-60	15	648	11.1
61-70	7	209	3.6
71-80	2	68	1.2
81-90	1	21	0.4
>90	5	221	3.8
Total	**100**	**5,862**	**100**

Wealth Creators

Classification By Ownership: State v/s Private

State-owned companies have achieved 28 entries in the 100-Wealth Creator Group

ONGC and other Oil & Gas companies have been the main contributors

Despite being very large and handicapped by government controls, state-owned companies have delivered 25% earnings growth

Private companies have achieved 29% earnings growth

The market seems to be still skeptical about the sustainability of the state-owned companies' earnings

Therefore, they have still not been fully rewarded in terms of valuation

WEALTH CREATORS: STATE OWNED V/S PRIVATELY OWNED

	1999-2004	
	STATE-OWNED	PRIVATE
Number of Wealth Creators	28	72
5-Year Earnings CAGR (%)	25	29
P/E (x) at the Beginning of Study Period	6.2	18.4
P/E (x) at the End of Study Period	9.7	16.6
% Wealth Created	48.5	51.5
5-Year Market Cap CAGR (%)	37	26

Wealth Creators

Classification By
New v/s Old Economy

Despite superior earnings growth by new economy companies, their market cap growth has been pulled down by the handicap of high purchase price

Despite having earnings growth of 26%, old economy has Created Wealth at over 30%, because the modest growth was purchased at reasonable valuations

"Purchase price decides the rate of return"

WEALTH CREATORS: NEW ECONOMY V/S OLD ECONOMY

	1999-2004	
	OLD	NEW
Number of Wealth Creators	93	7
5-Year Earnings CAGR (%)	25.8	51.8
P/E (x) at the Beginning of Study Period	9.5	85.3
P/E (x) at the End of Study Period	12.0	25.8
% Wealth Created	92.2	7.8
5-year Market Cap CAGR (%)	31.9	19.5

	1998-2003	
	OLD	NEW
Number of Wealth Creators	71	12
5-Year Earnings CAGR (%)	25	64
P/E (x) at the Beginning of Study Period	13	35
P/E (x) at the End of Study Period	7	25

Wealth Creators

Classification By Valuation Parameters

If you want a doubler, buy at:
Price to Book < 1x
Price to Earnings < 10x
Price to Sales < 0.5

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS

	NO. OF COS	% WEALTH CREATED	CAGR IN MCAP %
Price to Book			
<1	50.0	48.8	41.2
1-2	23.0	32.6	33.5
>2	27.0	18.6	17.2
Total	**100.0**	**100.0**	**30.2**
P/E			
<5	28.0	17.2	36.1
5-10	35.0	51.4	43.9
>10	37.0	31.4	19.4
Total	**100.0**	**100.0**	**30.2**
P/Sales			
< 0.5	43.0	27.7	40.6
0.5-1.0	24.0	21.4	28.3
>1	33.0	51.0	27.6
Total	**100.0**	**100.0**	**30.2**

	1999		2004	
	SENSEX	WEALTH CREATORS	SENSEX	WEALTH CREATORS
Median P/Book Value	1.78	0.92	3.34	2.65
Median P/Sales	1.97	0.67	2.50	1.58
Median P/E	13.53	7.25	18.65	13.54

"There is absolutely no substitute for paying right price. In the bible, it says that love covers a multitude of sins. Well, in the investing field, price covers a multitude of mistakes. For human beings, there is no substitute for love. For investing there is no substitute for paying right price - absolutely none."
(Van Dan Berg, OID, April 2004)

Wealth Creation

1999-2004

The 9TH Annual Study

Market Outlook

To form our opinion on the markets, we have looked at the following parameters:

1. ***Corporate earnings***
2. ***Interest rates***
3. ***Valuations***

Market Outlook

Expect sustainable earnings growth of 14%

The ratio of corporate earnings to GDP is about 4%, which we believe is easily sustainable for the next two years

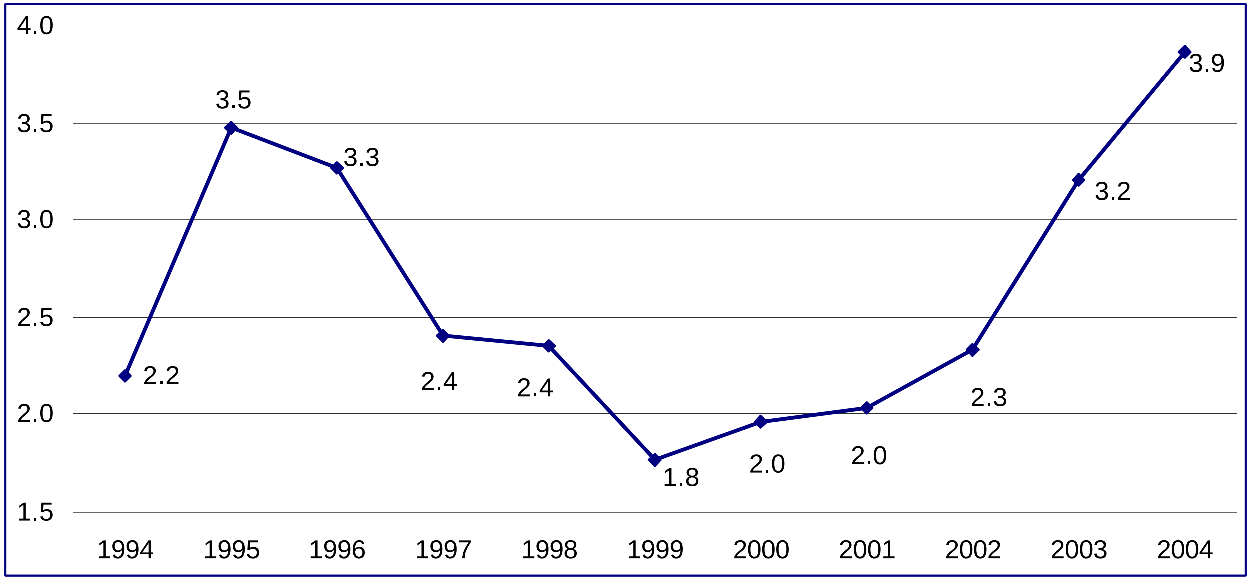
In the US, the ratio of corporate earnings to GDP is about 8%

India's GDP has been growing at 12.44% (from Rs7.8t in 1993-94 to Rs25.2t in 2003-04) in nominal terms; we expect this growth to sustain

Therefore, profits of Sensex companies growing by a percentage or two higher, going forward, would not be out of place

This forms the basis of our assumption of a sustainable corporate earnings growth of 14%, going forward

INDIA: CORPORATE PROFIT TO GDP (%)



Market Outlook

Interest rate differential, stronger currency to attract overseas funds

Global investment pool of over US\$60t; a mere US\$0.5t invested in India

Expect interest rates in India to hover in a 6-9% range for a long time to come

The Rupee is likely to remain relatively stronger than the US Dollar

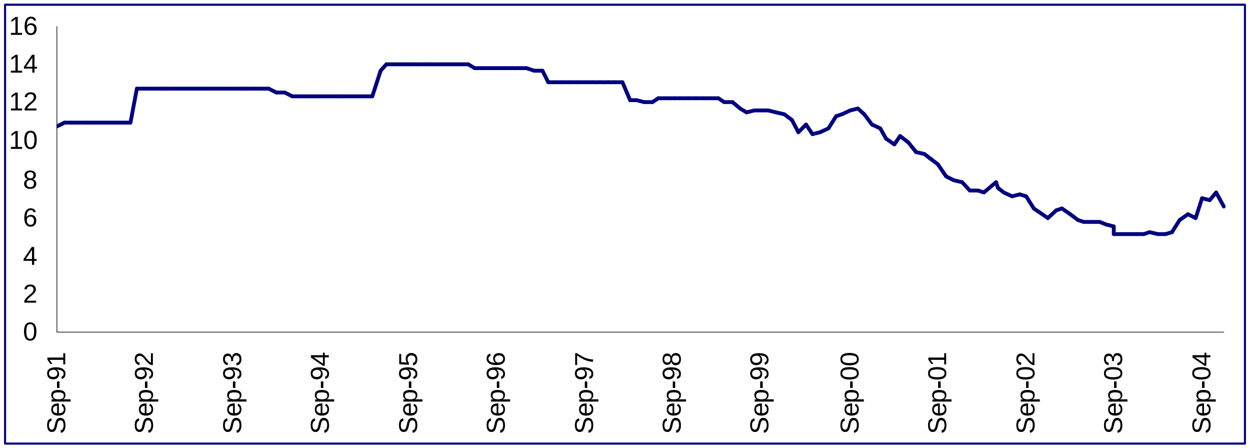
As a result, overseas funds would be attracted to Indian markets

INDIA: AN ATTRACTIVE INVESTMENT DESTINATION

	GLOBAL MARKETS (TAKING US AS PROXY)	INDIAN MARKETS
Debt	US\$30t	US\$220b
Equity	US\$30t	US\$300b
Yield on 2-Year Government Paper (%)	3.11	6.21
Currency	Weaker	Stronger

A massive value integration process between the developed world's US\$60t+ investment pool and the Indian capital market is underway. As Indian markets become fully integrated with the rest of the world, we may see an interest rate range of 6-9% for a long time to come. The difference in interest rate between the US and India, and the relatively stronger Rupee will keep pulling funds towards India, despite the difference in credit rating till risk-adjusted arbitrage opportunity is killed.

INDIA: 10-YEAR G-SEC YIELD (%)

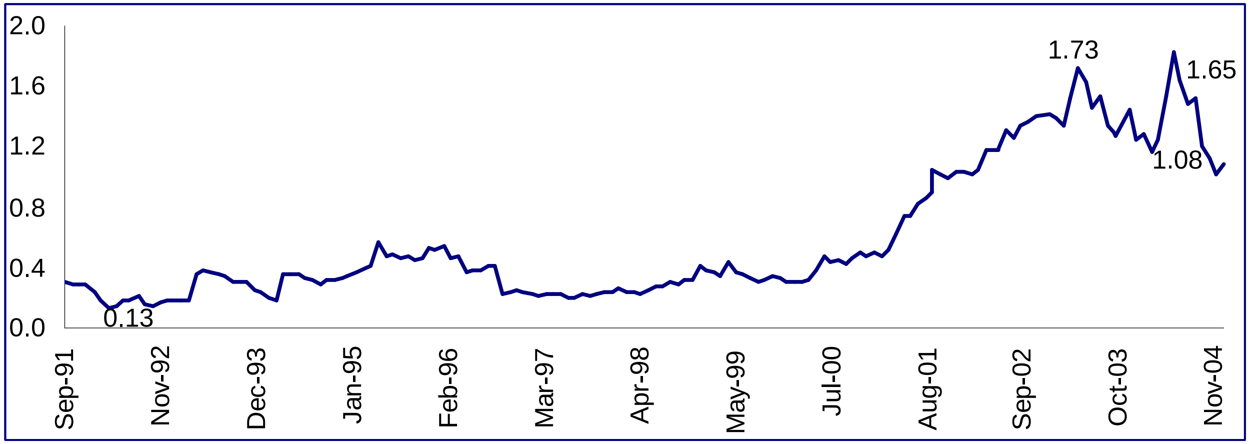


Market Outlook

Despite the run-up, Indian equities are still reasonably valued

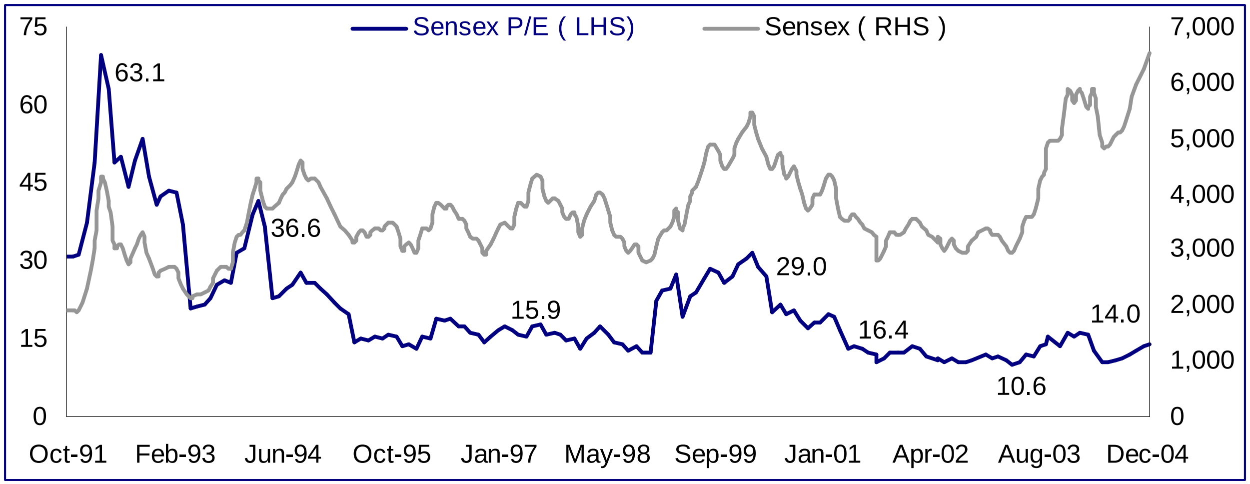
At an earnings yield/bond yield of around 1x, equities are still reasonably valued

EARNINGS YIELD/G-SEC YIELD



Although the Sensex has doubled in the last two years, the Sensex P/E is well below its 10-year mean

SENSEX VS P/E



Market Outlook

Implied 5-year Sensex return from current levels is 15%

At the current level of 6,174 (Friday, 14 January 2005), the implied return on the Sensex (including dividends) over the next five years is 15%

PV OF SENSEX TREATING IT AS A DISGUISED BOND

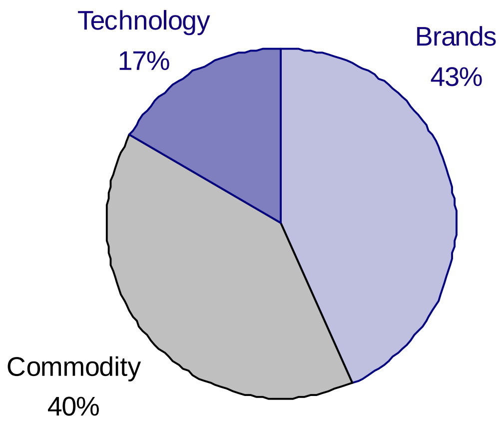
DISCOUNT RATE / IMPLIED RETURN	NO. OF YEARS 1	2	3	5	10
7.0%	6,558	7,067	7,609	8,801	12,536
8.0%	6,498	6,937	7,402	8,409	11,460
9.0%	6,438	6,811	7,202	8,038	10,486
10.0%	6,380	6,689	7,010	7,686	9,605
13.5%	6,183	6,285	6,388	6,594	7,119
15.0%	6,102	6,123	6,144	**6,185**	6,284

ASSUMPTIONS

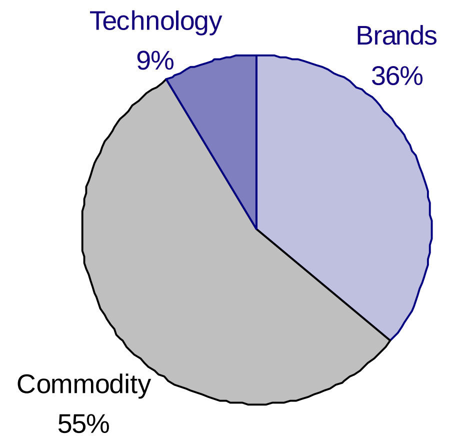
FY05 BV	2,027
Target P/BV (x)	3.2
RoE (%)	20
Earnings Growth (%)	14
Payout (%)	20

Note: PV of Sensex = PV of dividends for 'n' years + PV of the terminal value of the Sensex after 'n' years

SENSEX NUMBER OF COMPANIES (%)



SENSEX PAT COMPOSITION (%)



Wealth Creation

1999-2004

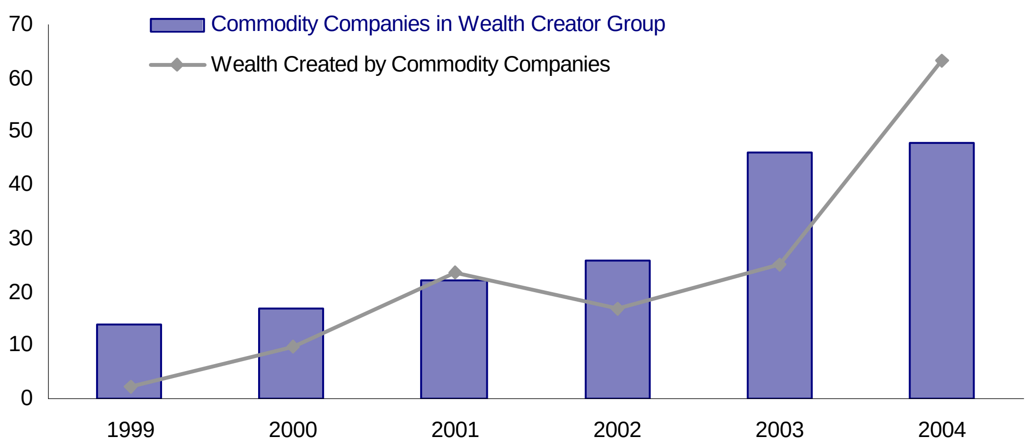
The 9TH Annual Study

Theme 2005

Back to Basics – the Era of Commodities

In our six studies on Wealth Creation starting from the one published in 2000, we observe that the dominance of commodity companies has been consistently increasing. These companies constitute 48% of the group of Wealth Creators in our current study and account for 60% of the total wealth created by the group. In our study published in 2000, commodity companies constituted merely 14% of the group of Wealth Creators and accounted for just 2.4% of the total wealth created.

EXHIBIT 1: INCREASING DOMINANCE OF COMMODITY COMPANIES (%)



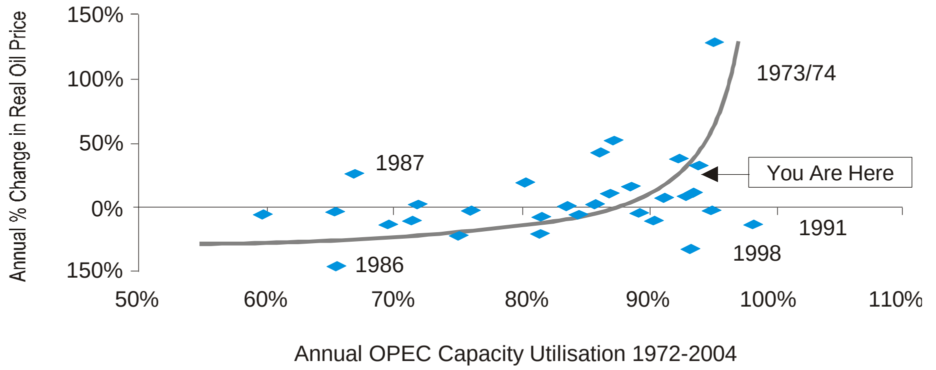
Source: Inquire

What drives the economic engine of commodity businesses?

Commodity businesses are unique in character. They are very large and homogeneous across the world. The factors that have a bearing on the profit making process of these businesses are aptly captured in the following exhibit. It appeared as part of an article on oil prices in The Financial Times dated 10 May 2004.

As capacity utilization approaches 100%, prices begin to rise rapidly

EXHIBIT 2: THE COMMODITY 'PRICE CURVE'



Source: EA/OPEC

Exhibit 2 explains the crux of commodity business economics. As demand for a commodity rises, producers produce and supply more to satisfy the incremental demand. However, as capacity utilization approaches 100%, incremental supply fails to keep pace with the rising demand. As a result of the squeeze in supply, prices of the commodity rise rapidly.

As demand, and consequently, capacity utilization increases, the profitability of commodity companies is favorably impacted – first, because of the resultant economies of scale and then, because of a gradual hardening of prices. As capacity utilization approaches 100%, there is a rapid rise in prices, resulting in an exponential increase in the profits of commodity companies.

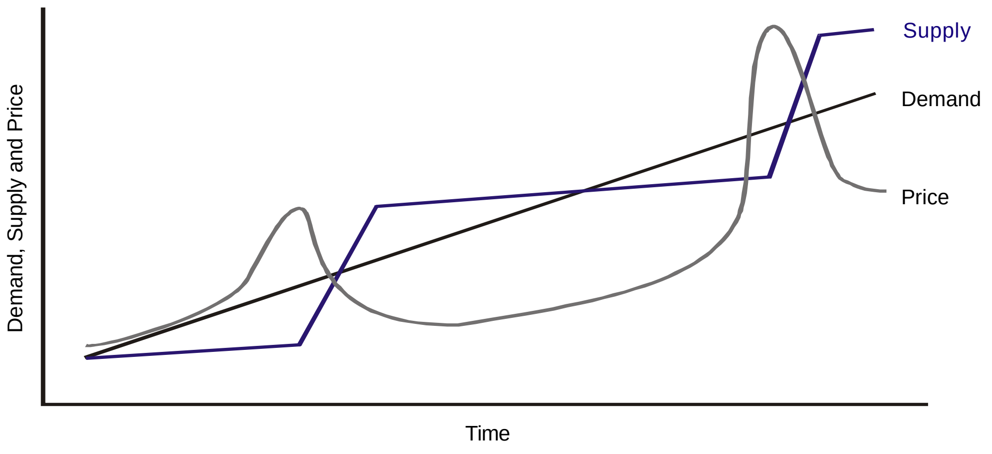
Phases of the commodity cycle

Commodity businesses follow a distinct business cycle

Generally, the demand for commodities increases along with the increase in GDP at a steady pace. But supply increases are lumpy and not gradually paced as demand. When the price of a commodity, and thus, the profitability of the business are high, huge capital is attracted to the business. This leads to the total industry capacity increasing much above the aggregate demand. The resulting excess supply leads to a very rapid and sharp plunge in prices. When this situation arises, capacity creation comes to a total standstill. But demand keeps increasing steadily and again a stage is reached where increasing demand starts creating a squeeze and the prices of the commodity begin rising.

Price oscillations are the result of scarcity/ abundance of supply

EXHIBIT 3: COMMODITY PRICE OSCILLATION



Source: Inquire

They face prolonged periods of low profitability or losses…

Phase I – the gloom: This phase is characterized by low capacity utilization, low prices and low profits (or losses). As demand rises, producers increase capacity utilization and supply more to satisfy the additional demand. Consumers enjoy higher bargaining power than producers and prices remain depressed.

…which give way to periods of painfully slow improvement in fortunes…

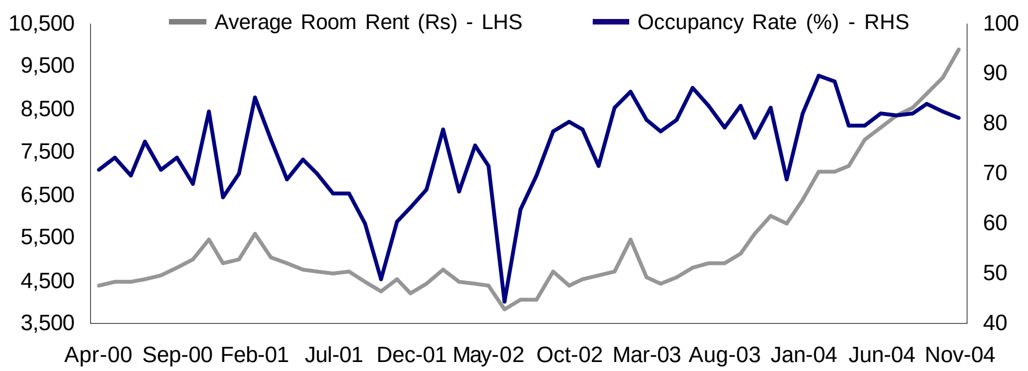
Phase II – the recovery: This phase is characterized by moderate capacity utilization, gradual increase in prices and steadily rising profits. As demand rises, producers continue to increase capacity utilization and supply more to satisfy the additional demand. Producers benefit from both economies of scale and higher realizations, but consumers continue to enjoy higher bargaining power.

…and then to periods of galloping rises in profits

Phase III (a) – the squeeze: This phase is characterized by high capacity utilization, rapid increase in prices and exponential rise in profits. Producers continue to increase capacity utilization and supply more, but supply is unable to keep pace with the rising demand. As a result, there is a squeeze and prices begin rising rapidly. Bargaining power shifts from consumers to producers, who see their profits rising exponentially as a result of rapidly rising realizations and stable costs.

EXHIBIT 4: PRICE MOVEMENT NEAR FULL CAPACITY UTILIZATION

Bangalore hotel room rates



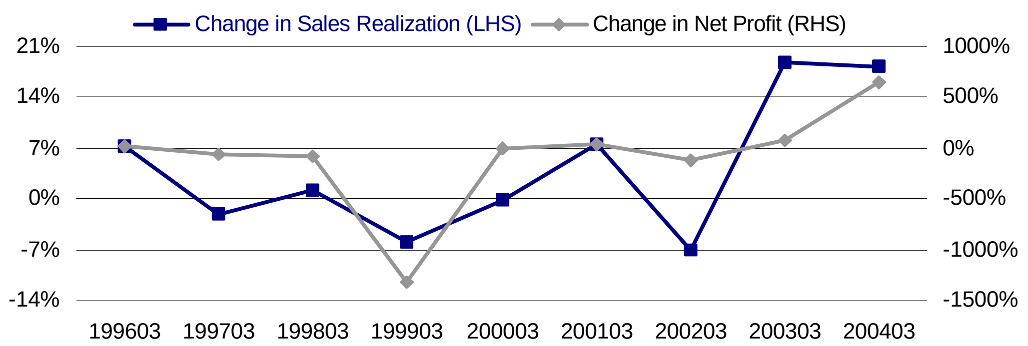
Source: Inquire

Exhibit 4 depicts the sharp rise in average hotel room rent in Bangalore with occupancy rate nearing 80%. In Bangalore, hotel rooms are in short supply and it takes about four years to build a new hotel. Demand is growing at a rapid pace. The effect is visible in hotel room rates, which have doubled in the last one-year and are still rising.

EXHIBIT 5: CHANGE IN COMMODITY REALIZATIONS AND RESULTING CHANGE IN PROFITS

A change in realizations results in a disproportionately large change in profits

SAIL: Sales realization & net profit



Source: Inquire

Exhibit 5 depicts the change in realizations per ton of steel and the corresponding change in Steel Authority of India's net profit. Though a decrease in interest cost is one of the factors favorably impacting the company's net profit, the exhibit nevertheless illustrates how a change in realizations results in a disproportionately large change in profits.

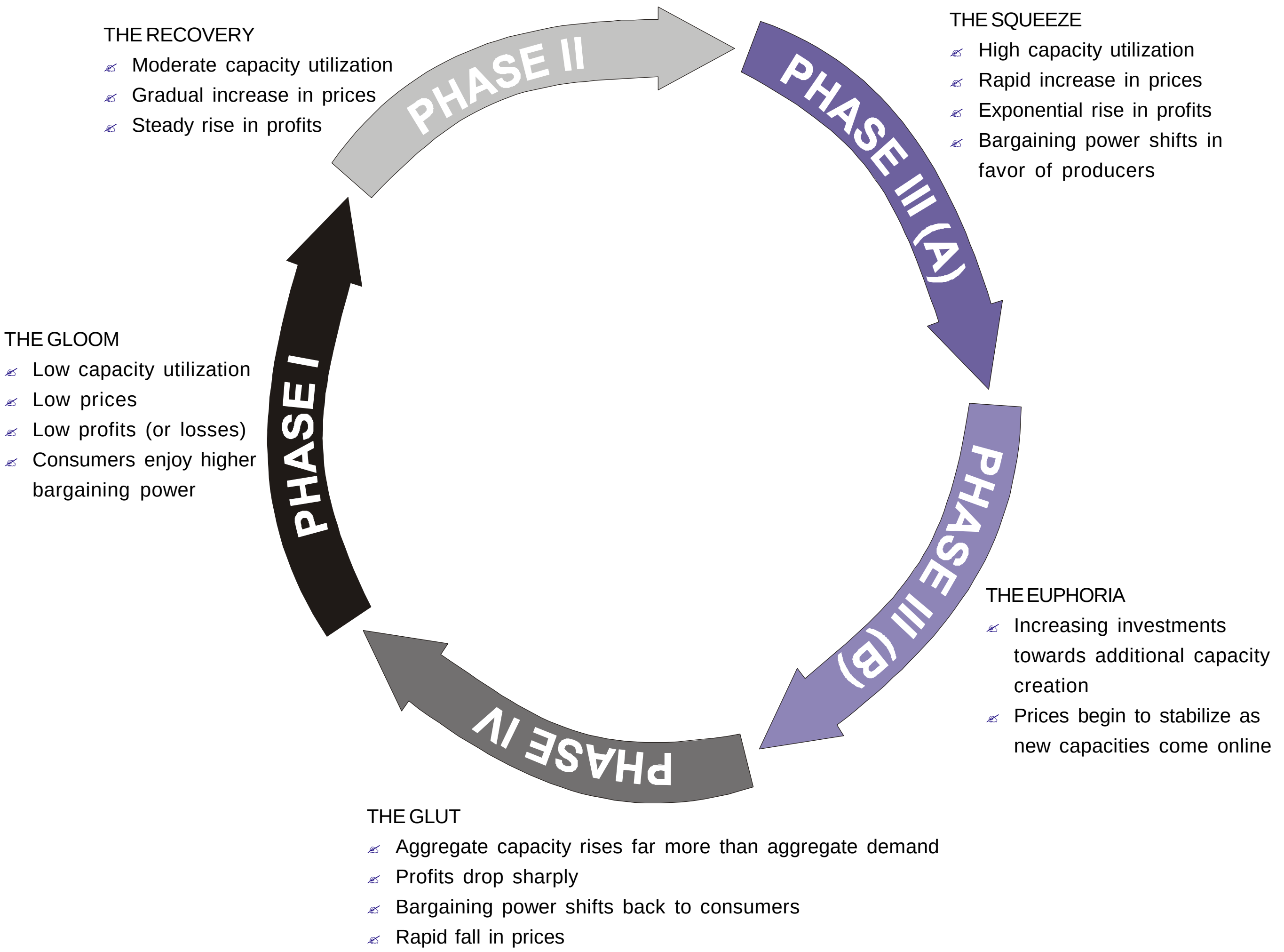
The abnormally high profits attract disproportionately large capital flows into these businesses…

Phase III (b) – the euphoria: This phase is characterized by a surge in investments towards creation of additional capacity. Usually, the high profits that are visible in phase III (a) attract disproportionately large amounts of capital. As new capacities become operational, the additional supply is absorbed and prices begin to stabilize.

…and the resulting over-capacity once again leads to a glut

Phase IV – the glut: This phase is characterized by aggregate capacity rising far higher than aggregate demand and rapid fall in prices. Capacity utilization falls drastically, resulting in much higher per unit cost. Bargaining power shifts back to consumers. As a result of the higher costs and falling realizations, producers see their profits dropping sharply.

EXHIBIT 6: THE COMMODITY CYCLE



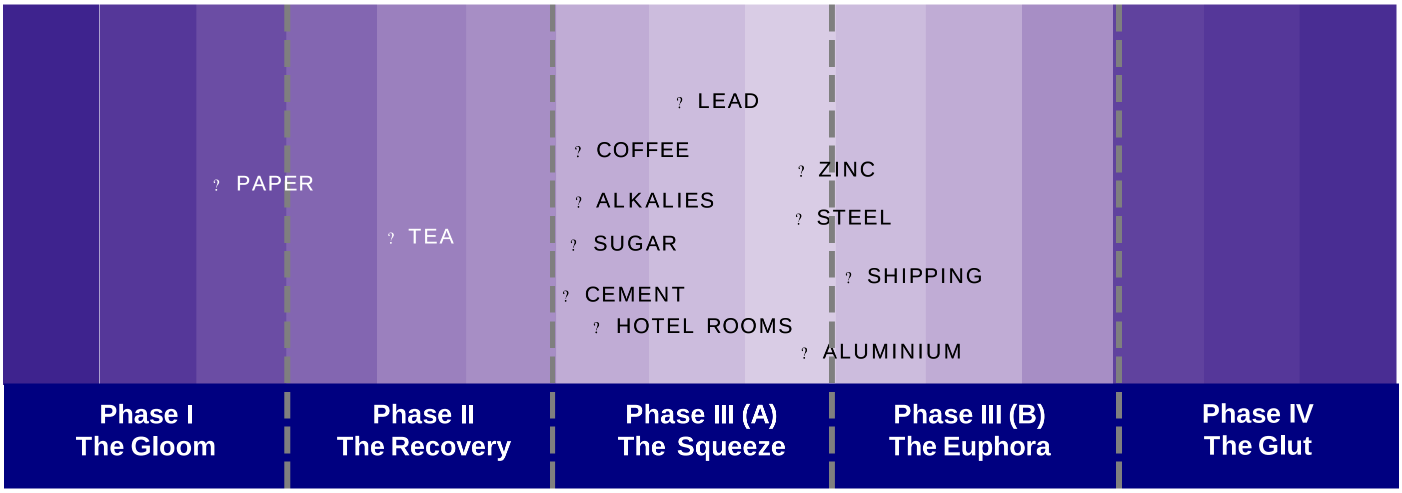
Source: Inquire

What phase are we in?

We are currently in a phase where commodity companies are seeing exponential increases in profits

Somewhere between phase III (a) and III (b). Capacity utilizations of most commodity companies are at historic highs. As is evident in their financial results for the last few quarters, their sales have been growing at high rates and their profits at even higher rates. Commodity prices – oil, metals, construction material, chemicals – are touching multi-year highs and demand shows no signs of abating. Some commodity companies have already begun brownfield expansion to raise capacity and a few have even announced mega-greeenfield expansions.

EXHIBIT 7: RELATIVE PHASES IN THE CYCLE OF VARIOUS COMMODITIES



Source: Inquire

How long before we enter the glut?

Is a glut imminent? Not yet, believes Jim Rogers

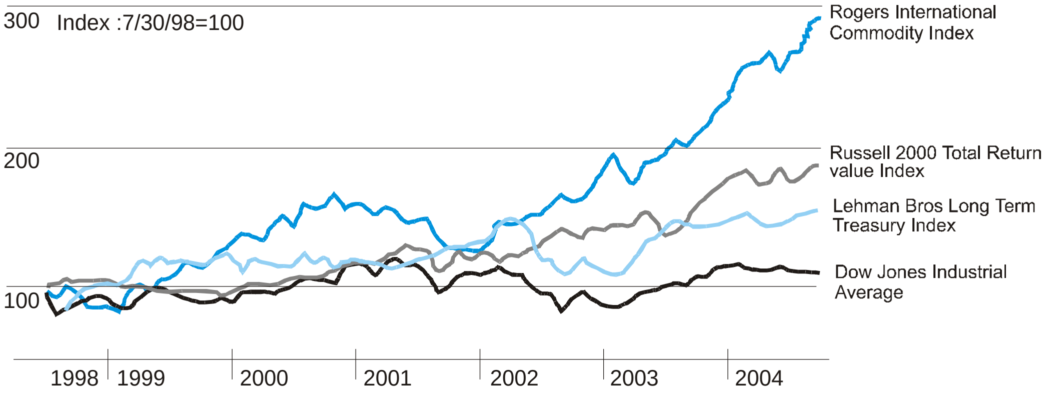
This depends on the longevity of the squeeze. The squeeze can be softened either by an increase in supply or a decrease in demand. The time taken to create new supply depends on various issues specific to the respective businesses. For instance, in steel, mine leasing and equipment ordering could take 3-4 years. In shipping, shipyards can deliver new ships in two years, augmenting supply rapidly. In hotels, supply of new rooms could take 3-5 years. Till new supply emerges or demand decreases, the prices of commodities continue to rise rapidly. Demand for industrial commodities is, however, seen to be price inelastic for a considerable period of time even at much higher prices.

He predicts that commodity prices would continue rising for a decade

Jim Rogers, who has a credible track record in predicting commodity price movements, says, **"For the next decade the value of basic materials will go sky high"**. In the late 1990s, he found that raw-material prices, adjusted for inflation, were approaching lows not seen since the great depression, and saw value in them. The index of raw materials that Rogers created in 1998 is already up 194% over the past 75 months.

EXHIBIT 8: MOVEMENT OF JIM ROGERS' COMMODITY INDEX V/S OTHER ASSET CLASSES

Commodities have outpaced other assest classes over the past six years



Source: Inquire

✍ The role of elasticity of demand and supply

Such long phases of prosperity are aided by demand inelasticity of commodities even at much higher prices…

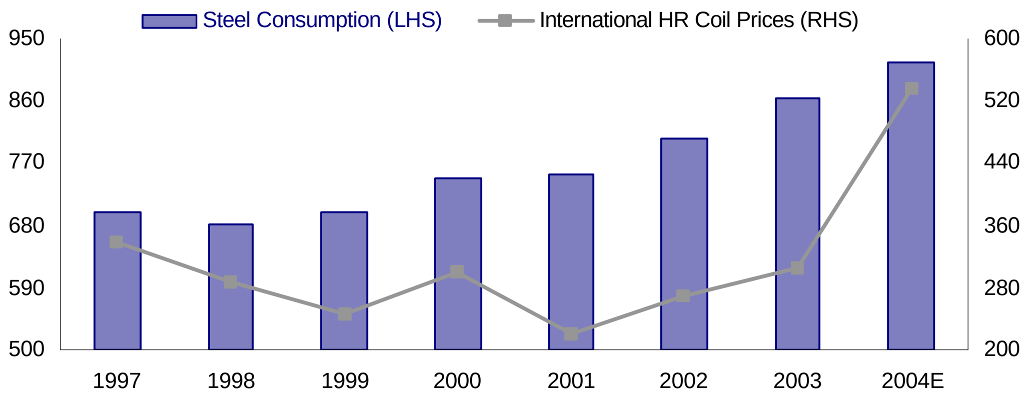
Industrial commodities have two unique characteristics:

1) Demand for commodities is derived demand of larger economic activities. As they account for a small proportion of the value of the end product, the impact of the rise in the price of industrial commodities is much lower on the price of the end product.
2) The commodities may not have very close substitutes.

These two factors make **demand inelastic** for a limited period of time, **even at much higher prices**. Commodity prices are altered by change in quantity supplied, causing the **movement of price along an unshifting demand curve**. Supply, if it has not kept pace with demand, is also difficult to build in a short while. This gives rise to a prolonged tight squeeze.

An example of the situation can be seen from the global steel industry. The prices of HR coils had decreased from US$339/ton in 1997 to US$220/ ton in 2001, with no major new capacities being set up due to depressed prices. But, with increase in demand since 2001, the prices started rising. As no new capacities were under construction, the squeeze tightened and the price shot up to US$537/ ton in 2004. This shows the disproportionate increase in prices during a squeeze.

EXHIBIT 9: DISPROPORTIONATE RISE IN HR PRICES RELATIVE TO DEMAND



Source: Inquire

Price and consumption of industrial commodities is not a function of the cost of production during the period of squeeze. This allows producers to make huge profits.

✍ Extent of exponentiality

…and in periods of scarcity, commodity prices scale astronomical highs

The extent of price rise during a squeeze is dependent on how inelastic demand is and how urgently the commodity/service is required. It also depends on the price of substitutes, if any. Affordability is another issue. For example, sugar price at Rs20/kg is almost 50% higher than the price six months ago, but it is not hurting yet.

✍ No squeeze is permanent

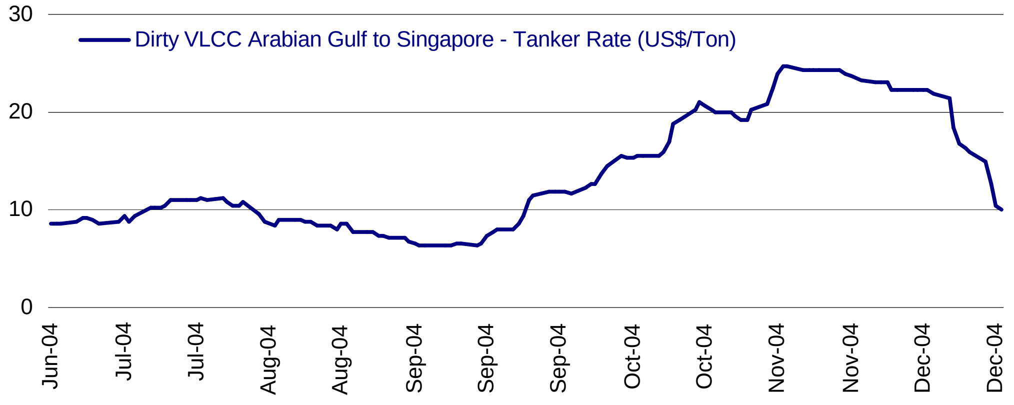
Typically, all commodities are investment/asset intensive. If adequate investments have not been made in these industries for long periods of time, there is likelihood of supply growing at a limited pace during the period of fresh capacity creation. It would mean that the ratio of supply growth to demand growth would remain less than 1. This leads to a sustained squeeze and further price rises lead to a situation where profitability becomes so high that disproportionate investments are attracted in either creating new capacities or creating cheaper substitutes. This alters the ratio of supply growth to demand growth to well above 1, which ends the squeeze.

✍ Prices plummet at the end of a squeeze

In the same vein, however, once scarcity abates, prices fall just as steeply

At the end of a squeeze, commodity prices plummet just as quickly as they had risen during the squeeze. The recent crash in tanker rates is an apt example. Just before the onset of the winter, there is large-scale transportation of oil to the cold, western countries. The increase in demand for tankers in the pre-monsoon months led to the tripling of freight rates in two months. However, once demand weakened, the freight rates plummeted just as sharply.

EXHIBIT 10: LOWER DEMAND DRIVES DOWN PRICES



Source: Inquire

We can see from the above chart showing freight rates for VLCCs, how the freight rates more than tripled in two months and then fell sharply, as the demand weakened.

Stock market strategy

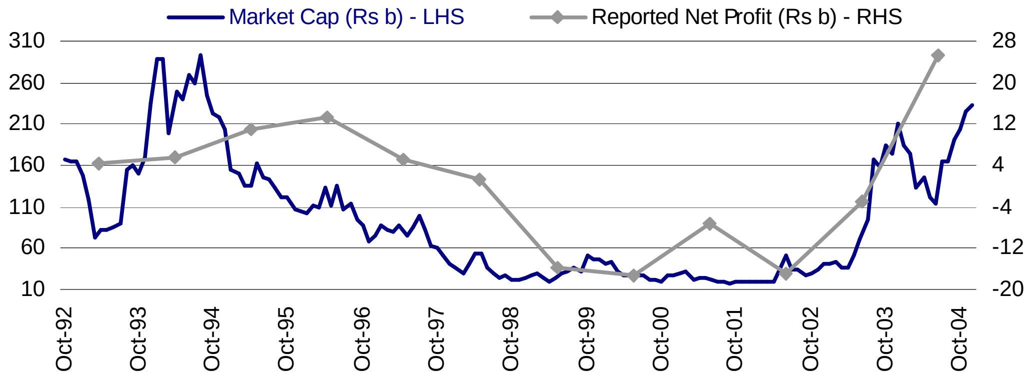
Early identification of commodity market trends is the key to making large gains in commodity stocks

As we have discussed above, during the squeeze phase, prices of commodities rise rapidly, driving an exponential growth in profits of commodity companies. Their market cap movements trace the exponential earnings growth. Thus, if one is able to identify the trend early, one can make phenomenal gains by investing in commodity stocks.

Exponential rise in profits leads to exponential rise in stock prices

EXHIBIT 11: MARKET CAP MOVEMENTS TRACE EARNINGS GROWTH

SAIL: Market capitalization and net profit



SAIL: NET PROFIT AND MARKET CAP (RS B)

	MAR-96	MAR-02	MAR-04
PAT	13.2	-17.1	25.1
Market Cap	109.6	20.2	133.4

Source: Inquire

Exhibit 11 shows Steel Authority of India's net profit and market capitalization for the last 12 years. Observe how rapidly market cap fell in response to declining net profit during the period 1995-2002. Also see how the exponential rise in net profit from 2002 onwards has been rewarded by an exponential rise in market cap.

✍ Valuation of exponential profits

Conventional P/E-based valuation of commodity stocks could be misleading

Valuation of exponential profits is a challenging task. If one can spot the trend well ahead of time, the job is much simpler, but as the boom sets in as it is today, the job becomes difficult. The conventional P/E-based valuation is fraught with problems. It will definitely err in reflecting the total free cash flows during the period of exponential growth in profits.

A more accurate way to value the business would be to add the total profits during the period of exponential earnings growth and the residual value of business. This is typically reflected in private buyer transactions of the businesses. For instance, in the hotel business, the estimate of next three years' profits and the eventual selling price of the hotel property would give a good understanding of what the value should be.

✍ Understanding the price of a stock as it is

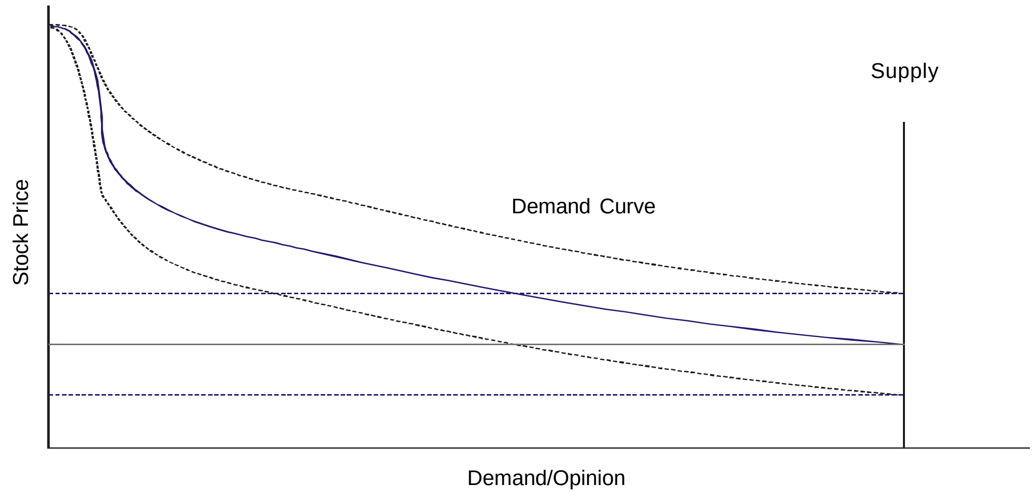
Marginal opinion, and not majority opinion determines stock prices

John Burr Williams says that the market price of a stock can only be an expression of opinion, not a statement of fact. According to him, "Today's opinion will make today's price, tomorrow's opinion tomorrow's price; and seldom if ever will any price be exactly right, as proved by the event." While all types of people might trade in the stock, no one group by itself can set the price. He further goes on to say, "Nor will it matter what the majority, however overwhelming, may think; for the last owner and he alone, will set the price. **Thus, marginal opinion will determine market price**."

There are always some would-be buyers of a stock that are excluded from ownership because to them the prevailing price seems too high. The bid and ask quotations reflect the opinions of the most optimistic non-owner and the least optimistic owner. Would-be buyers stand with cash in hand, waiting for some present owner to change his opinion on the stock (become bearish) and sell to them at the price they are willing to pay. If this happens, then the stock price falls to the level desired by the most optimistic would-be buyer. On the other hand, if the would-be buyers were to change their own opinions (become bullish), then the stock price would rise to the level desired by the least optimistic present owner. Thus, it is the last owner alone who sets the market price of a stock.

Since stock price is function of marginal opinion, a curve can be constructed of cumulative opinions on the stock.

EXHIBIT 12: DEMAND CURVE FOR A STOCK BASED ON OPINION



Source: Inquire

Therefore, stocks, especially commodity stocks can be extremely volatile

We know that stock prices are altered by a change in business outlook. What really happens is that this results in a shift in the demand curve for the stock. Supply, however, remains static. In commodity companies, since profit growth can be exponential, demand for the stock also moves up exponentially when the business outlook for such companies improves. Therefore, the stock price rises exponentially. At the same time, when the outlook for the business is bad, nobody wants to own the stock. The stock price falls to exceptionally low levels.

✍ When is it time to sell?

It might be a good strategy to "sell too soon", else it might be too late

History tells us that no squeeze is permanent. The exponential earnings growth is built on the thin foundation of external factors like demand and supply. The demolition of the squeeze, and hence, profits happen at a rapid pace. Stock prices are a function of marginal opinion, and hence, the change in market prices is practically instantaneous. So, the only way one can make money is, as Jim Rogers says – **he sells too soon**. Ten years from now, Jim Rogers thinks that he will be saying to people, "Please sell oil", but they will be looking at him like he were a damned fool and say, "But everybody knows the price of oil is going to go to US$1,000 and the price of gold is going to go to US$10,000. Everybody knows".

Wealth Creation

1999-2004

The 9TH Annual Study

Appendix

'MOSt-Inquire 100' ~ Wealth Creators

Appendix I

ALPHABETICALLY ARRANGED

SR.	COMPANY	ROE (%)		MARKET CAP (RS B)			△ MCAP/	WEALTH CREATED	
NO.	NAME	1999	2004	1999	2004	△ CE	△ CE	RS B	%
1	ABB	8.4	21.1	19.4	33.7	1.3	11.0	14.3	0.2
2	Amtek Auto	16.0	24.9	0.1	6.1	2.5	2.4	5.4	0.1
3	Apollo Tyres	10.1	12.4	1.7	9.5	3.9	2.0	6.5	0.1
4	Asahi India Glass	11.1	55.6	0.7	10.0	3.0	3.1	9.3	0.2
5	Ashok Leyland	1.9	18.9	5.1	30.2	-5.2	-4.9	26.7	0.5
6	Asian Paints (India)	25.2	27.8	10.2	29.1	0.8	23.5	19.0	0.3
7	Associated Cement Companies	5.5	14.8	19.7	45.2	3.1	8.3	22.1	0.4
8	Aurobindo Pharma	43.3	16.8	4.9	19.1	11.5	1.2	12.3	0.2
9	Bajaj Auto	20.0	19.8	73.5	92.3	16.5	1.1	20.7	0.4
10	Ballarpur Industries	2.5	8.3	1.3	10.8	8.2	1.2	7.4	0.1
11	Bank of Baroda	14.5	18.8	13.5	71.8	22.3	2.6	58.3	1.0
12	Bank of India	9.2	26.3	12.8	28.8	16.4	1.0	17.5	0.3
13	Bharat Electronics	12.2	25.3	2.3	39.8	7.0	5.4	37.5	0.6
14	Bharat Forge	9.1	56.5	3.0	27.6	-3.0	-8.3	26.8	0.5
15	Bharat Heavy Electricals	17.7	12.4	58.1	148.0	25.8	3.5	89.8	1.5
16	Bharat Petroleum Corporation	23.2	29.0	29.7	143.6	38.5	3.0	113.9	1.9
17	Bongaigaon Refinery	5.7	54.9	2.2	15.5	-0.4	-37.6	13.3	0.2
18	Century Textiles & Industries	-10.9	9.8	2.8	8.9	-6.5	-0.9	8.2	0.1
19	Chennai Petroleum Corporation	19.3	24.8	4.7	21.7	19.8	0.9	16.9	0.3
20	Cipla	25.5	24.5	28.0	70.2	9.8	4.3	42.6	0.7
21	Container Corporation Of India	30.0	25.9	11.4	46.5	8.3	4.2	35.1	0.6
22	Corporation Bank	19.7	18.2	9.4	40.2	17.9	1.7	26.2	0.4
23	Crompton Greaves	4.2	21.8	1.9	8.1	-5.8	-1.1	7.6	0.1
24	Dr Reddys Laboratories	13.5	13.8	22.8	74.5	16.1	3.2	45.4	0.8
25	Dredging Corporation of India	14.5	21.5	2.9	14.3	4.3	2.6	11.3	0.2
26	DSP Merrill Lynch	13.1	29.2	4.4	10.4	4.2	1.4	6.0	0.1
27	Engineers India	21.5	10.5	8.5	18.0	2.4	3.9	9.5	0.2
28	e-Serve International	4.2	46.3	1.6	7.5	0.8	7.1	5.9	0.1
29	FDC	24.6	33.1	3.4	10.8	1.3	5.9	7.5	0.1
30	Federal Bank	0.8	21.0	0.8	8.2	3.3	2.3	7.5	0.1
31	GAIL (India)	25.6	25.1	52.2	180.2	34.6	3.7	128.0	2.2
32	Grasim Industries	6.3	21.6	11.4	98.0	6.5	13.3	86.4	1.5
33	Great Eastern Shipping Co.	10.4	31.2	6.2	24.2	8.1	2.2	20.2	0.3
34	Gujarat Ambuja Cements	14.3	16.7	22.1	49.1	14.4	1.9	21.4	0.4
35	HDFC Bank	24.3	18.9	13.8	107.8	23.5	4.0	83.3	1.4
36	Hero Honda Motors	40.4	64.0	35.0	97.9	9.3	6.8	63.0	1.1
37	Hindalco Industries	17.4	12.2	34.7	112.6	54.8	1.4	73.2	1.2
38	Hinduja TMT	2.2	16.8	0.4	8.3	3.1	2.6	7.7	0.1
39	Hindustan Petroleum Corporation	17.9	24.6	43.1	172.2	30.1	4.3	129.1	2.2
40	Hindustan Zinc	7.8	26.8	3.8	42.9	10.4	3.8	39.1	0.7
41	HDFC	16.9	25.1	27.2	158.8	202.8	0.6	132.4	2.3
42	ICICI Bank	20.5	20.4	4.5	182.4	77.0	2.3	165.2	2.8
43	IDBI	13.7	5.8	20.0	37.9	-34.7	-0.5	22.9	0.4
44	Indian Oil Corporation	18.0	30.4	113.5	579.6	128.9	3.6	466.2	8.0
45	Indian Petrochemicals Corporation	1.0	12.0	27.7	45.5	-32.4	-0.6	17.9	0.3
46	Indian Rayon & Industries	7.5	10.4	5.5	11.3	-3.9	-1.5	6.5	0.1
47	Indo Rama Synthetics (India)	-49.4	32.8	1.2	9.4	-4.4	-1.9	10.7	0.2
48	Infosys Technologies	23.5	38.2	96.7	329.1	26.8	8.7	230.9	3.9
49	ING Vysya Bank	7.2	9.4	1.8	10.8	2.0	4.4	8.1	0.1
50	Ipca Laboratories	15.1	29.2	1.7	8.2	1.0	6.6	6.5	0.1

'*MOSt-Inquire 100*' ~ Wealth Creators

Appendix I

ALPHABETICALLY ARRANGED

SR.	COMPANY	ROE (%)		MARKET CAP (RS B)			△ MCAP/	WEALTH CREATED	
NO.	NAME	1999	2004	1999	2004	△ CE	△ CE	RS B	%
51	ITC	28.8	25.1	236.3	257.9	30.5	0.7	21.4	0.4
52	Jammu and Kashmir Bank	19.9	25.5	1.4	24.0	11.7	1.9	22.6	0.4
53	Jindal Iron & Steel Company	2.0	29.8	0.6	8.0	-2.7	-2.7	7.4	0.1
54	Jubilant Organosys	18.4	38.6	0.8	17.2	2.4	6.8	16.4	0.3
55	Kirloskar Oil Engines	5.4	17.0	0.6	5.4	-1.0	-4.7	5.7	0.1
56	Kochi Refineries	28.8	30.7	8.9	28.7	7.8	2.5	19.8	0.3
57	Kotak Mahindra Bank	3.7	13.0	0.7	24.1	-3.4	-6.9	22.1	0.4
58	Larsen & Toubro	12.9	18.0	58.2	142.7	-27.3	-3.1	88.0	1.5
59	LIC Housing Finance	20.8	17.4	2.9	13.7	61.4	0.2	10.8	0.2
60	Lupin	18.3	21.2	0.8	26.1	6.6	3.8	24.8	0.4
61	Mahindra & Mahindra	15.4	19.8	23.6	53.9	-4.6	-6.6	32.7	0.6
62	Mangalore Refinery	1.1	31.2	8.2	96.2	3.2	27.4	78.4	1.3
63	Matrix Laboratories	2.6	75.8	0.1	17.4	2.0	8.7	17.0	0.3
64	Micro Inks	36.4	14.6	1.7	12.8	7.2	1.5	8.3	0.1
65	Monsanto India	32.3	21.1	2.8	11.1	2.9	2.9	6.9	0.1
66	Moser Baer (India)	25.2	16.6	2.0	34.1	32.2	1.0	22.9	0.4
67	Motherson Sumi Systems	17.9	35.4	0.7	7.7	1.2	6.0	7.1	0.1
68	Motor Industries Company	17.0	25.7	13.7	43.1	5.2	5.7	29.5	0.5
69	Neyveli Lignite Corporation	13.4	16.7	18.1	92.0	29.7	2.5	75.1	1.3
70	Nicholas Piramal India	14.2	48.1	11.6	28.3	3.0	5.5	17.8	0.3
71	Oil & Natural Gas Corpn	11.4	21.4	168.7	1,198.4	195.5	5.3	1,029.7	17.6
72	Oriental Bank of Commerce	18.7	25.6	6.0	58.0	14.5	3.6	51.9	0.9
73	Ranbaxy Laboratories	8.4	34.3	77.1	174.8	5.3	18.5	98.4	1.7
74	Rashtriya Chemicals & Fertilizers	8.1	13.5	3.8	24.2	-2.3	-8.8	20.4	0.3
75	Raymond	11.0	12.6	5.6	11.0	-1.7	-3.2	7.3	0.1
76	Reliance Capital	8.0	7.6	4.4	16.9	1.1	11.8	12.3	0.2
77	Reliance Energy	13.2	8.4	20.0	134.4	32.7	3.5	98.7	1.7
78	Reliance Industries	18.2	16.3	121.8	751.3	326.3	1.9	513.5	8.8
79	Satyam Computer Services	43.6	21.5	42.2	92.8	21.7	2.3	42.6	0.7
80	Saw Pipes	11.3	23.1	0.9	8.2	0.1	66.3	7.3	0.1
81	Sesa Goa	13.8	31.3	2.4	9.4	0.1	106.7	7.0	0.1
82	Shipping Corporation of India	11.1	11.9	5.6	35.9	-1.7	-17.9	30.3	0.5
83	Siemens	-76.2	28.4	7.6	32.5	1.9	12.8	24.1	0.4
84	State Bank of Bikaner and Jaipur	21.9	26.3	1.2	8.5	7.3	1.0	7.4	0.1
85	State Bank of India	9.9	18.2	112.3	318.8	98.3	2.1	206.5	3.5
86	State Bank Of Travancore	11.4	26.4	1.1	7.8	5.4	1.2	6.6	0.1
87	Steel Authority of India	-22.5	49.9	24.4	133.4	-142.8	-0.8	109.1	1.9
88	Sterling Biotech	14.2	14.2	0.2	12.6	4.7	2.6	11.6	0.2
89	Sterlite Industries (India)	12.4	13.9	8.4	36.6	12.3	2.3	27.7	0.5
90	Sun Pharmaceuticals Industries	22.2	31.5	7.6	60.3	7.6	7.0	53.3	0.9
91	Sundaram Clayton	12.5	22.3	2.4	8.5	1.0	6.4	6.1	0.1
92	Tata Chemicals	10.8	11.0	13.0	23.0	-4.8	-2.1	8.3	0.1
93	Tata Iron & Steel Co.	6.8	38.7	38.2	141.7	-12.1	-8.5	111.0	1.9
94	Tata Motors	2.6	22.6	43.3	173.3	-23.6	-5.5	129.2	2.2
95	Tata Power Company	10.0	10.4	8.3	74.7	38.8	1.7	60.8	1.0
96	Thermax	11.0	15.8	3.4	8.9	-0.2	-26.4	5.9	0.1
97	United Phosphorus	8.0	12.5	3.1	13.4	6.5	1.6	13.9	0.2
98	UTI Bank	15.1	24.5	1.8	34.0	9.3	3.5	28.4	0.5
99	Wipro	27.3	26.1	184.4	316.4	29.2	4.5	125.3	2.1
100	Zee Telefilms	31.9	5.6	18.4	55.4	20.7	1.8	23.2	0.4

'*MOSt-Inquire 100*' ~ Wealth Creators

Appendix II

RANKED ACCORDING TO SPEED OF WEALTH CREATION

RANK	COMPANY	P/E (X)		PAYBACK	WEALTH CREATED		MCAP
NO.	NAME	1999	2004	RATIO (X)	RS B	%	CAGR (%)
1	Matrix Laboratories	14.6	23.2	0.0	17.0	0.29	137.4
2	Sterling Biotech	1.1	27.5	0.1	11.6	0.20	114.0
3	Amtek Auto	1.4	14.4	0.1	5.4	0.09	111.7
4	Lupin	6.1	27.4	0.2	24.8	0.42	95.7
5	Jammu and Kashmir Bank	1.6	5.9	0.1	22.6	0.39	76.5
6	Bharat Electronics	4.4	12.6	0.2	37.5	0.64	76.2
7	Jubilant Organosys	3.3	21.5	0.4	16.4	0.28	75.8
8	Jindal Iron & Steel Company	5.6	6.6	0.3	7.4	0.13	66.8
9	Asahi India Glass	29.3	13.9	0.5	9.3	0.16	66.7
10	Motherson Sumi Systems	7.7	15.8	0.5	7.1	0.12	63.1
11	Hindustan Zinc	5.0	10.6	0.4	39.1	0.67	62.4
12	ICICI Bank	7.1	11.1	0.1	165.2	2.82	60.9
13	Federal Bank	31.1	6.1	0.2	7.5	0.13	60.0
14	UTI Bank	5.9	12.2	0.2	28.4	0.49	60.0
15	Hinduja TMT	13.3	11.0	0.2	7.7	0.13	57.6
16	Oriental Bank of Commerce	2.6	8.4	0.3	51.9	0.89	57.2
17	Saw Pipes	3.3	10.8	0.4	7.3	0.12	54.8
18	Indo Rama Synthetics (India)	-0.8	5.5	0.7	10.7	0.18	54.8
19	Kirloskar Oil Engines	4.1	7.6	0.2	5.7	0.10	52.0
20	Sun Pharmaceuticals Industries	12.8	21.5	0.8	53.3	0.91	51.4
21	Kotak Mahindra Bank	5.5	30.6	0.2	22.1	0.38	49.3
22	State Bank of Bikaner and Jaipur	1.3	2.8	0.1	7.4	0.13	48.7
23	Bongaigaon Refinery	6.3	5.1	0.7	13.3	0.23	48.3
24	Oil & Natural Gas Corpn	6.1	13.8	0.5	1,029.7	17.57	48.0
25	Bharat Forge	8.1	22.1	0.9	26.8	0.46	47.8
26	Sterlite Industries (India)	5.2	18.6	0.8	27.7	0.47	47.3
27	State Bank Of Travancore	2.6	3.2	0.2	6.6	0.11	47.1
28	Grasim Industries	7.0	12.6	0.5	86.4	1.47	46.6
29	Shipping Corporation of India	2.8	13.1	0.3	30.3	0.52	45.1
30	Rashtriya Chemicals & Fertilizers	3.6	14.4	1.1	20.4	0.35	44.8
31	Moser Baer (India)	9.6	10.5	0.2	22.9	0.39	44.5
32	Ashok Leyland	24.8	15.6	0.8	26.7	0.46	42.9
33	Great Eastern Shipping Company	4.9	5.2	0.5	20.2	0.34	42.4
34	HDFC	8.1	18.6	0.8	132.4	2.26	41.4
35	Steel Authority of India	-1.5	5.3	-0.7	109.1	1.86	40.5
36	HDFC Bank	16.8	21.1	0.9	83.3	1.42	40.5
37	Neyveli Lignite Corporation	3.2	8.0	0.4	75.1	1.28	40.3
38	Bank of Baroda	3.2	7.4	0.4	58.3	1.00	39.8
39	Mangalore Refinery	58.2	20.9	-0.9	78.4	1.34	39.6
40	Reliance Energy	7.4	36.6	1.2	98.7	1.68	39.5
41	Tata Power Company	5.0	14.2	0.3	60.8	1.04	39.4
42	Indian Oil Corporation	5.1	8.3	0.5	466.2	7.95	38.6
43	Dredging Corporation of India	7.1	8.4	0.4	11.3	0.19	37.2
44	Bharat Petroleum Corporation	4.2	8.5	0.5	113.9	1.94	37.1
45	Apollo Tyres	5.5	13.5	0.5	6.5	0.11	37.0
46	LIC Housing Finance	2.8	8.2	0.3	10.8	0.18	36.8
47	Ipca Laboratories	8.1	13.3	0.7	6.5	0.11	36.5
48	Chennai Petroleum Corporation	2.3	5.4	0.4	16.9	0.29	35.6
49	ING Vysya Bank	6.0	18.2	0.6	8.1	0.14	35.2
50	Crompton Greaves	8.1	11.4	-2.0	7.6	0.13	33.8

'*MOSt-Inquire 100*' ~ Wealth Creators

Appendix II

RANKED ACCORDING TO SPEED OF WEALTH CREATION

RANK	COMPANY	P/E (X)		PAYBACK	WEALTH CREATED		MCAP
NO.	NAME	1999	2004	RATIO (X)	RS B	%	CAGR (%)
51	Micro Inks	7.4	17.5	0.7	8.3	0.14	33.8
52	Reliance Industries	7.1	14.6	0.6	513.5	8.76	32.8
53	Container Corporation Of India	8.1	13.1	0.8	35.1	0.60	32.4
54	e-Serve International	252.1	16.8	1.7	5.9	0.10	32.3
55	Hindustan Petroleum Corporation	4.8	9.0	0.6	129.1	2.20	31.9
56	Sesa Goa	7.4	9.5	1.3	7.0	0.12	31.6
57	Reliance Capital	4.8	16.0	0.7	12.3	0.21	31.1
58	Siemens	21.7	23.3	1.4	24.1	0.41	30.9
59	United Phosphorus	9.0	11.6	1.2	13.9	0.24	30.7
60	Motor Industries Company	19.6	18.4	1.9	29.5	0.50	30.2
61	Tata Iron & Steel Co.	13.5	8.1	0.9	111.0	1.89	29.9
62	Sundaram Clayton	15.1	18.5	1.5	6.1	0.10	29.0
63	Corporation Bank	4.9	8.0	0.5	26.2	0.45	28.9
64	GAIL (India)	4.9	9.6	0.7	128.0	2.18	28.1
65	Infosys Technologies	71.5	26.5	2.4	230.9	3.94	27.6
66	FDC	16.8	16.3	1.6	7.5	0.13	26.8
67	Kochi Refineries	2.6	5.2	0.5	19.8	0.34	26.3
68	Century Textiles & Industries	-3.1	11.6	1.8	8.2	0.14	26.0
69	Industrial Development Bank Of India	1.6	9.4	0.5	22.9	0.39	25.6
70	Bank of India	6.4	2.9	0.4	17.5	0.30	24.1
71	Aurobindo Pharma	9.8	15.1	1.0	12.3	0.21	23.8
72	Asian Paints (India)	13.2	19.7	1.5	19.0	0.32	23.6
73	Tata Motors	44.4	21.4	6.0	129.2	2.20	23.5
74	State Bank of India	10.9	8.7	0.8	206.5	3.52	23.2
75	Hero Honda Motors	28.8	13.4	1.5	63.0	1.07	22.9
76	Hindalco Industries	6.1	13.4	0.9	73.2	1.25	21.2
77	Thermax	8.9	16.4	1.8	5.9	0.10	20.6
78	Bharat Heavy Electricals	10.7	22.5	1.9	89.8	1.53	20.5
79	Cipla	24.3	22.9	2.3	42.6	0.73	20.2
80	Larsen & Toubro	12.4	26.8	2.4	88.0	1.50	19.7
81	Raymond	6.5	8.4	0.7	7.3	0.12	19.1
82	Indian Rayon & Industries	5.2	8.6	2.6	6.5	0.11	18.3
83	Ballarpur Industries	8.0	11.0	0.3	7.4	0.13	18.1
84	Ranbaxy Laboratories	65.9	22.0	3.6	98.4	1.68	17.8
85	Dr Reddys Laboratories	44.1	26.3	1.6	45.4	0.77	17.7
86	Engineers India	7.2	21.7	1.6	9.5	0.16	16.1
87	DSP Merrill Lynch	20.4	10.5	1.1	6.0	0.10	15.9
88	Mahindra & Mahindra	10.3	15.5	1.9	32.7	0.56	15.3
89	Associated Cement Companies	34.6	22.6	4.1	22.1	0.38	15.1
90	Gujarat Ambuja Cements	14.7	14.6	1.5	21.4	0.37	14.5
91	Monsanto India	25.6	16.0	1.4	6.9	0.12	13.0
92	Satyam Computer Services	58.0	16.7	2.1	42.6	0.73	12.6
93	Nicholas Piramal India	26.3	15.0	2.3	17.8	0.30	12.3
94	Tata Chemicals	7.1	10.4	1.3	8.3	0.14	12.1
95	ABB	51.5	27.2	4.7	14.3	0.24	11.2
96	Wipro	164.4	34.6	5.1	125.3	2.14	11.1
97	Indian Petrochemicals Corporation	94.2	16.6	2.6	17.9	0.31	10.5
98	Bajaj Auto	13.6	12.6	2.3	20.7	0.35	8.2
99	Zee Telefilms	30.1	48.1	3.1	23.2	0.40	6.3
100	ITC	37.9	16.2	3.6	21.4	0.36	1.6

Note: Payback Ratio = (Market Capitalization of 1999) / (Sum of Profits for the five years 2000-2004). CE = Capital Employed

N O T E S

N O T E S

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 56575200 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com