

## 14TH ANNUAL WEALTH CREATION STUDY (2004-2009)

# Winner Categories

### HIGHLIGHTS

India's NTD Era (Next Trillion Dollar of GDP) will be marked by sustained boom in discretionary spend, savings and investment

Winner Categories and Category Winners will enjoy exponential growth in profits

Category Winners bought at reasonable valuation create significant wealth over the long term

# Category Winners

### TOP 10 WEALTH CREATORS (2004 - 2009)

THE BIGGEST			THE FASTEST		THE MOST CONSISTENT		
Rank	Company	Wealth Created (Rs b)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (x)	10-Year Price CAGR (%)
1	Reliance Inds.	1,514	Unitech	122	H D F C	10	25
2	Bharti Airtel	891	Areva T&D	97	Sun Pharma.	10	24
3	B H E L	588	BF Utilities	84	Reliance Inds.	10	22
4	NMDC	578	Opto Circuits	84	Hero Honda Motor	10	21
5	O N G C	471	NMDC	71	Infosys Tech.	10	2
6	ITC	436	Shri.City Union.	70	Asian Paints	9	18
7	Infosys Tech.	405	United Spirits	64	Nestle India	9	17
8	Larsen & Toubro	291	Jindal Steel	64	HDFC Bank	9	16
9	S A I L	265	Sterling Intl	62	ITC	9	16
10	H D F C	193	Chettinad Cement	58	Ambuja Cem.	9	11

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### Abbreviations and Terms used in this report

ABBREVIATION / TERM	DESCRIPTION
2004, 2009, etc	Reference to years for India are financial year ending March, unless otherwise stated
Avg	Average
CAGR	Compound Annual Growth Rate; All CAGR calculations are for 2004 to 2009 unless otherwise stated
L to P / P to L	Loss to Profit / Profit to Loss. In such cases, calculation of PAT CAGR is not possible
Price CAGR	In the case of aggregates, Price CAGR refers to Market Cap CAGR
RS B	Indian Rupees in billion
WC	Wealth Creation / Wealth Created
Wealth Created	Increase in Market Capitalization over the last 5 years, duly adjusted for corporate events such as fresh equity issuance, mergers, demergers, share buybacks, etc.

## Wealth Creation Study 2004-2009

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### Objective, Concept and Methodology

#### Objective

The foundation of Wealth Creation is in buying businesses at a price substantially lower than their “intrinsic value” or “expected 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 in the Indian stock market for the period 2004-2009. 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 ‘MOSL - 100’. The biggest and fastest Wealth Creators have been listed in Appendix I and II on page 41 and 43, respectively. Ranks have been accorded on the basis of Size and Speed of Wealth Creation (speed is price CAGR during the period under study).

On the cover page, we have presented the top 10 companies in terms of Size of Wealth Creation (called THE BIGGEST), the top 10 companies in terms of Speed of Wealth Creation (called THE FASTEST), and the top 10 companies in terms of their frequency of appearance as wealth creators in our Wealth Creation studies (called THE MOST CONSISTENT).

#### Theme 2010

Our Theme for 2010 is **Winner Categories + Category Winners**, discussion on which starts from page 20.

\* Capitaline database has been used for this study

Wealth Creation

2004-2009

The 14<sup>TH</sup> Annual Study

Findings

## Wealth Creation

2004-2009

### The Biggest Wealth Creators

#### Reliance Industries is No.1

Reliance Industries has emerged as the biggest wealth creator for the third time in a row.

Although the absolute wealth created is lower than the previous two years, its share in total wealth created has increased - 11.4% in FY07, 12% in FY08 and 15.6% in FY09.

For the last six years, the biggest wealth creator in India has emerged from Oil & Gas - the first three years led by ONGC and next three by Reliance.

Six companies have featured in the top 10 wealth creators for three consecutive years - Reliance, Bharti, ONGC, BHEL, L&T and SAIL.

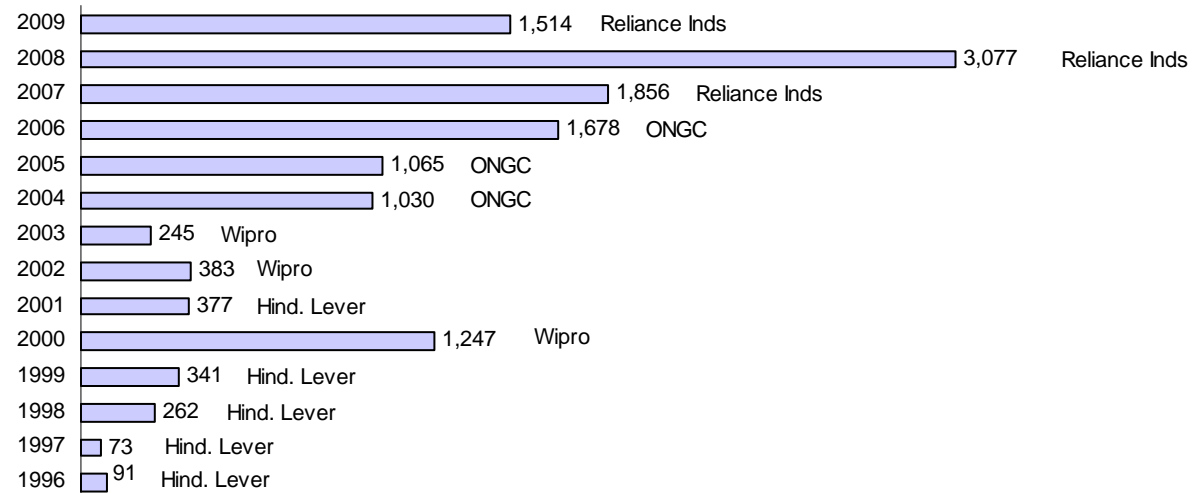
#### Key Finding

Reliance has commenced gas production in KG-D6 basin, and continues to aggressively pursue its other E&P activity. In FY10, it has also merged Reliance Petroleum with itself. Further, its closest competitor in wealth creation - Bharti - is facing sector headwinds. Thus, Reliance is likely to sustain its top position for the next couple of years at least.

#### TOP 10 BIGGEST WEALTH CREATORS

RANK	COMPANY	NET WEALTH CREATED		PRICE CAGR (%)	PAT CAGR (%)	P/E (X)	
		RS B	% SHARE			FY09	FY04
1	Reliance Inds.	1,514	15.6	28.3	24.3	15.7	14.6
2	Bharti Airtel	891	9.2	32.3	68.9	14.8	49.0
3	B H E L	588	6.1	37.8	36.7	23.5	22.5
4	NMDC	578	6.0	70.6	58.8	14.2	9.9
5	O N G C	471	4.9	6.8	13.2	10.3	13.8
6	ITC	436	4.5	21.6	15.4	21.4	16.2
7	Infosys Tech.	405	4.2	16.5	36.2	13.0	26.5
8	Larsen & Toubro	291	3.0	36.2	45.6	11.3	13.4
9	S A I L	265	2.7	24.5	19.7	6.5	5.3
10	H D F C	193	2.0	17.0	21.8	17.6	18.6

#### BIGGEST WEALTH CREATORS AND WEALTH CREATED (RS B): OIL & GAS DOMINATES



## Wealth Creation

2004-2009

### The Fastest Wealth Creators

#### Unitech is No.1

Unitech is the Fastest Wealth Creator during 2004-09, for the second time in a row.

Its 5-year stock price CAGR is a staggering 122%, albeit significantly lower than the last year figure of 284%.

Unitech has featured among the Top 10 fastest wealth creators for the last four years in a row, B F Utilities for the last three years and NMDC for the last two years.

This year, NMDC has the unique distinction of featuring in both the biggest and the fastest wealth creators list.

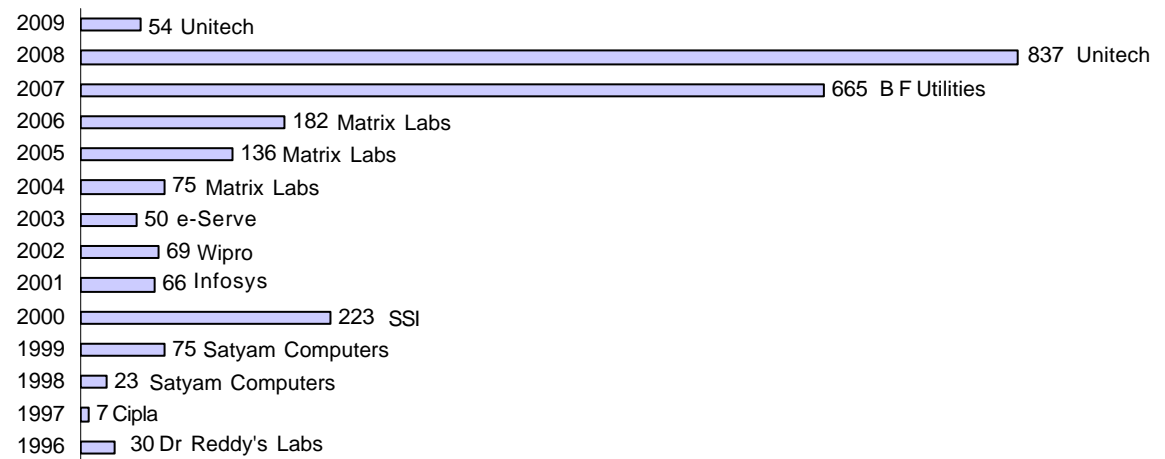
#### Key Finding

In nine of the top 10 fastest wealth creators, at least two of the following three conditions hold true: (1) Base market cap less than Rs4b, (2) Base P/E in single digit, and (3) PAT growth of over 35%. In six cases, all the three hold true.

#### TOP 10 FASTEST WEALTH CREATORS

RANK	COMPANY	PRICE	PRICE	PAT	MCAP (RS B)		P/E (X)	
		APPREN. (X)	CAGR (%)	CAGR (%)	FY09	FY04	FY09	FY04
1	Unitech	54	122	121	56.7	1.1	7.7	7.6
2	Areva T&D	29	97	68	48.6	1.4	21.5	8.1
3	BF Utilities	21	84	L to P	12.1	0.6	260.5	-
4	Opto Circuits	21	84	61	16.3	0.7	11.6	5.1
5	NMDC	14	71	59	621.3	43.0	14.2	9.9
6	Shri.City Union.	14	70	45	14.9	0.6	12.7	3.4
7	United Spirits	12	64	69	65.1	2.8	21.9	13.2
8	Jindal Steel	12	64	38	185.9	15.8	12.1	5.2
9	Sterling Intl	11	62	-32	36.0	3.2	-	17.4
10	Chettinad Cement	10	58	P to L	13.5	1.4	-	9.9

#### HISTORY OF FASTEST WEALTH CREATOR (PRICE APPRECIATION - X)



## Wealth Creation

2004-2009

### Most Consistent Wealth Creators

#### HDFC is Most Consistent

Five companies - HDFC, Sun Pharma, Reliance Inds, Hero Honda and Infosys - have featured among the top 100 wealth creators in each of the last 10 years. HDFC is ranked as the most consistent by virtue of its 10-year price CAGR being the highest.

This year, eight of the top 10 most consistent wealth creators are consumer-facing businesses with strong franchise. Our past studies have also clearly established the dominance of consumer-facing companies in consistent wealth creation.

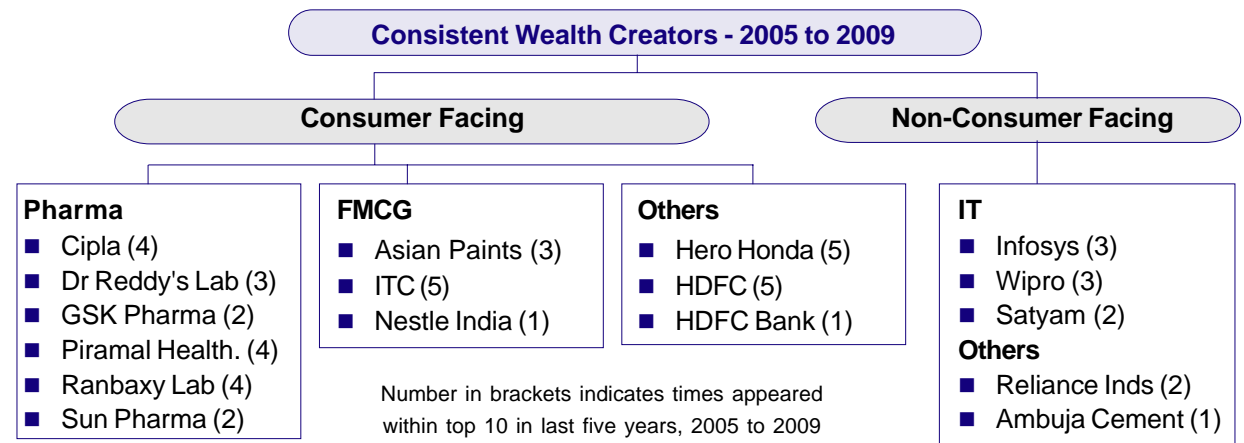
#### Key Finding

Businesses like FMCG, Pharma and Banking are non-cyclical and have a high degree of customer captivity. With consumerism in India poised to rise, these businesses should continue to create wealth consistently.

#### TOP 10 CONSISTENT WEALTH CREATORS

RANK	COMPANY	APPEARED IN LAST 10 WC STUDIES (X)	10-YR PRICE CAGR (%)	PAT CAGR (%)	P/E (X)	
					2009	2004
1	H D F C	10	24.9	21.8	17.6	18.6
2	Sun Pharma.	10	24.0	39.4	18.2	25.1
3	Reliance Inds.	10	21.9	24.3	15.7	14.6
4	Hero Honda Motor	10	20.9	12.0	16.7	13.4
5	Infosys Tech.	10	2.0	36.2	13.0	26.5
6	Asian Paints	9	18.0	19.7	20.8	19.7
7	Nestle India	9	17.2	15.2	28.1	23.2
8	HDFC Bank	9	15.9	34.5	18.3	21.1
9	ITC	9	15.9	15.4	21.4	16.2
10	Ambuja Cem.	9	10.8	33.0	7.7	14.6

#### CONSUMER FACING COMPANIES SCORE HIGH ON CONSISTENT WEALTH CREATION



## Wealth Creators (Wealthex)

### Comparative Performance v/s BSE Sensex

#### Superior performance over benchmark

We have compared the performance of Wealthex (top 100 Wealth Creators index) with the BSE Sensex on three parameters - (1) market performance, (2) earnings growth, and (3) valuation.

**Market performance:** The Wealthex beat the Sensex in each of five years, FY04 through FY09. Over the entire period, the Wealthex outperformed the Sensex by 83%.

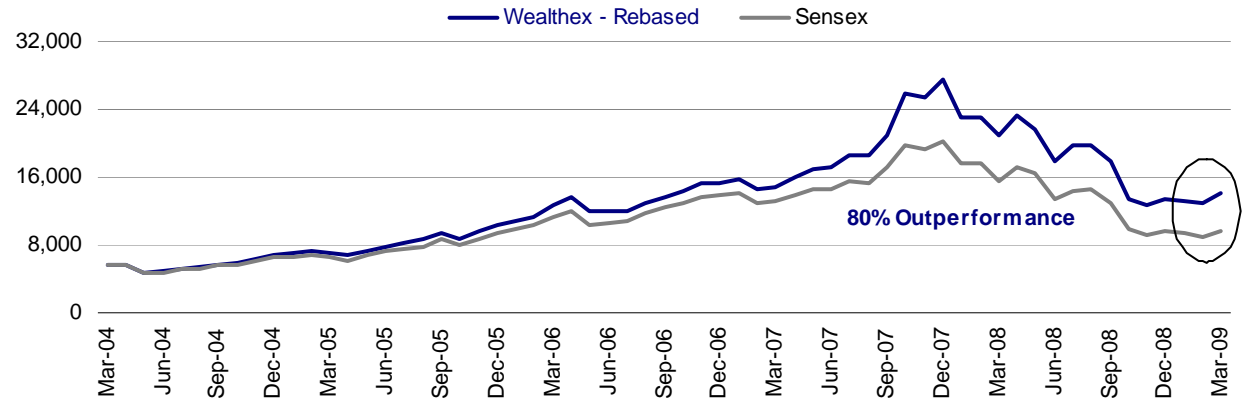
**Earnings growth:** In three of five years, Wealthex earnings growth was significantly better than the Sensex, and in two years, it was almost in line. Over the five-year period, Wealthex earnings CAGR was 24.2% compared to 18.8% for the Sensex.

**Valuation:** The Wealthex average P/E was 16.3x, lower than 16.8x for the Sensex.

#### Key Finding

Wealth creating companies tend to initially trade at a discount to market valuation. With superior earnings growth over time, they get re-rated and end up at a premium to market valuation, leading to outperformance.

WEALTH CREATORS' INDEX V/S BSE SENSEX (31.3.04 TO 31.3.09)



SENSEX V/S WEALTH CREATORS: HIGHER EARNINGS GROWTH, LOWER VALUATION

	MAR-04	MAR-05	MAR-06	MAR-07	MAR-08	MAR-09	5-YEAR CAGR (%)
BSE Sensex	5,591	6,493	11,280	13,072	15,644	9,709	11.7
CAGR (%)		16.1	42.0	32.7	29.3	11.7	
YoY Performance (%)		16.1	73.7	15.9	19.7	(37.9)	
Wealthex - based to Sensex	5,591	7,050	12,600	14,759	20,877	14,206	20.5
CAGR (%)		26.1	50.1	38.2	39.0	20.5	
YoY Performance (%)		26.1	78.7	17.1	41.4	(32.0)	
Sensex EPS (Rs)	348	450	523	718	833	825	18.8
YoY Performance (%)		29.1	16.4	37.3	16.0	(1.0)	
Sensex P/E (x)	16.0	14.4	21.6	18.2	18.8	11.8	
Wealthex EPS (Rs)	381	533	616	840	1085	1126	24.2
YoY Performance (%)		39.7	15.6	36.4	29.2	3.7	
Wealthex P/E (x)	14.7	13.2	20.5	17.6	19.2	12.6	



## Wealth Creators

### Classification By Industry

**Value migration:** Oil & Gas continues to be the largest wealth creating sector. However, over the last five years, its share has fallen from 43% of wealth created to 22%, clearly indicating value migration to sectors such as Telecom and FMCG.

Telecom's rising share of wealth created can be attributed to superior PAT CAGR of 62% over the last 5 years. On the other hand, FMCG PAT CAGR is a muted 14%; however, the sector has seen a valuation re-rating, more so given the flight to safety phenomenon during the market downturn in FY09.

**Old v/s New Economy:** Wealth creation in New Economy businesses - IT, Telecom, Media and Retail - has not been able to sustain momentum due to slowdown in IT following global economic crisis. However, the longer term trend is clearly up.

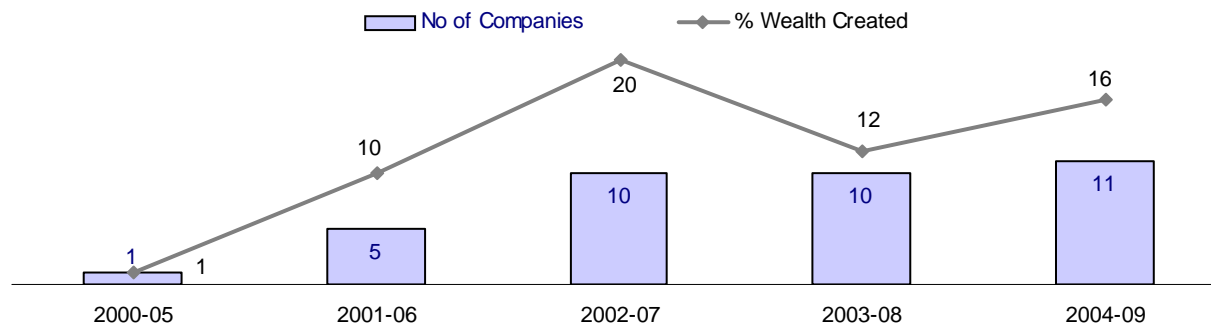
#### Key Finding

Banking has lost some share of wealth created due to the economic slowdown in FY09 and 1HFY10. However, the outlook is improving from 2HFY10. As a secular business with reasonable valuation, Indian banking holds potential for huge wealth creation.

WEALTH CREATORS: CLASSIFICATION BY INDUSTRY

INDUSTRY	WEALTH CREATED (RS B)	SHARE OF WEALTH CREATED (%)		PRICE CAGR (%)	PAT CAGR (%)	P/E (X)	
		2009	2004			2009	2004
		(RS B)					
Oil & Gas (4)	2,126	22.1	43.3	15.5	16.9	12.8	13.6
Metals (10)	1,458	15.1	6.5	35.5	32.9	10.1	9.2
Engineering (13)	1,167	12.1	5.0	32.5	36.8	15.0	17.6
FMCG (16)	1,044	10.8	0.7	18.4	14.3	21.0	17.6
Telecom (4)	1,012	10.5	0.0	30.3	61.5	16.5	48.4
Banking & Finance (12)	889	9.2	15.3	22.4	24.7	8.7	9.6
IT (5)	492	5.1	7.4	12.4	33.2	12.6	29.6
Pharma (9)	427	4.4	5.6	22.5	29.2	17.3	22.6
Auto (8)	357	3.7	6.0	14.5	16.7	16.8	18.5
Others (7)	198	2.1	3.6	21.4	27.9	7.9	10.3
Cement (6)	186	1.9	2.2	15.1	29.0	8.3	14.6
Utility (3)	143	1.5	4.0	14.0	0.9	18.4	10.0
Construction / Real Estate (1)	56	0.6	0.0	121.6	120.9	7.7	7.6
Media (1)	53	0.5	0.4	-3.6	21.9	14.9	48.0
Retail (1)	29	0.3	0.0	50.2	70.0	21.8	40.5
<b>Total</b>	<b>9,637</b>	<b>100.0</b>	<b>100.0</b>	<b>20.5</b>	<b>24.3</b>	<b>12.6</b>	<b>14.7</b>

NEW ECONOMY PERFORMANCE IN THE TOP 100 WEALTH CREATORS



## Wealth Creators

### Classification By MNCs v/s Indian Companies

#### Will the foreign hand rise again?

In each of our first four Wealth Creation studies, Hindustan Lever (now renamed as Hindustan Unilever) was the biggest wealth creator, signifying the era of the MNCs.

However, for the past several years, MNCs have lost significant share both in terms of number of companies and amount of wealth created.

FY04-09 marks a semblance of the MNC resurgence, with number of top wealth creating companies more than doubling from 10 to 23 and share of wealth created increasing from 7% to 14%.

A major factor for this resurgence is FMCG, led by ITC, Hindustan Unilever and Nestle.

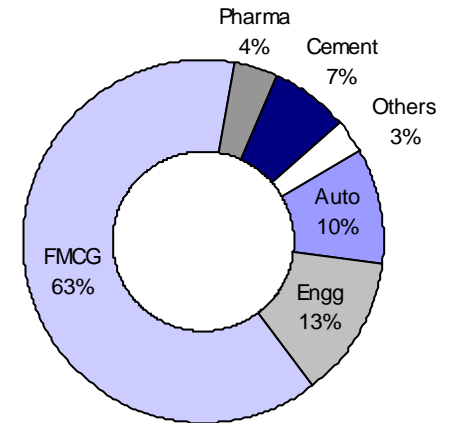
#### Key Finding

PAT CAGR of MNCs is typically lower than that of Indian companies. However, they still enjoy premium valuations. The main reasons are higher RoE and healthy dividend payout.

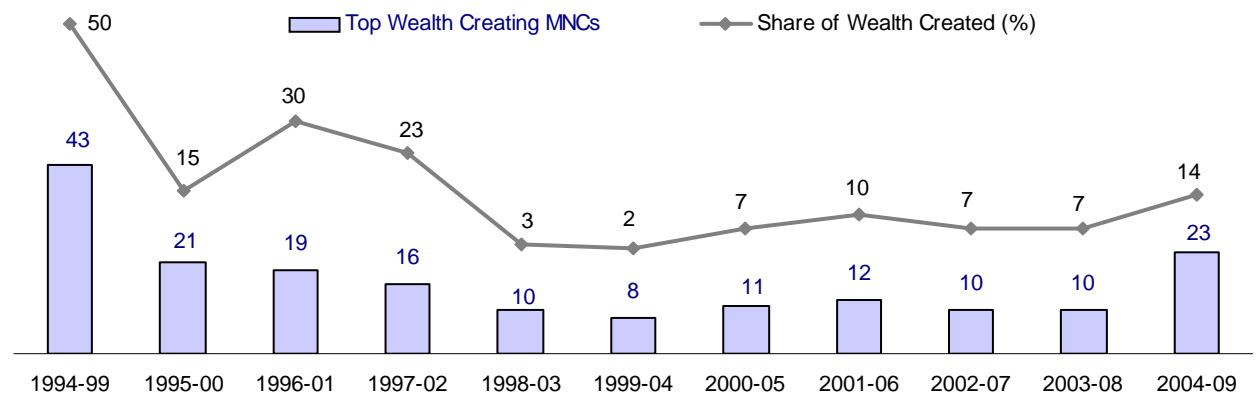
WEALTH CREATORS: MNCs V/S INDIAN COMPANIES

	2004-2009	
	MNC	INDIAN
Number of Wealth Creators	23	77
% Wealth Created	13.8	86.2
Sales CAGR (%)	19.5	22.0
PAT CAGR (%)	19.3	25.1
Price CAGR (%)	16.3	21.3
P/E - 2004 (x)	18.8	14.1
P/E - 2009 (x)	16.6	12.1
RoE - 2004 (%)	28.0	20.2
RoE - 2009 (%)	28.2	19.4

MNC WEALTH CREATION BY SECTOR



MNCs ARE WANING IN WEALTH CREATION BUT RECOVER SOMEWHAT IN 2004-2009



## Wealth Creators

### Classification By Ownership: State v/s Private

#### PSUs underperform private companies

2004-2009, PSUs (public sector undertakings) underperformed their private counterparts on all fronts - sales growth was lower, PAT growth was lower, RoE declined and price CAGR was also significantly lower.

Number of PSUs among top wealth creators is the lowest in the last six years. In fact, two large PSUs - Indian Oil and HPCL - feature among the top 10 wealth destroyers during 2004-09.

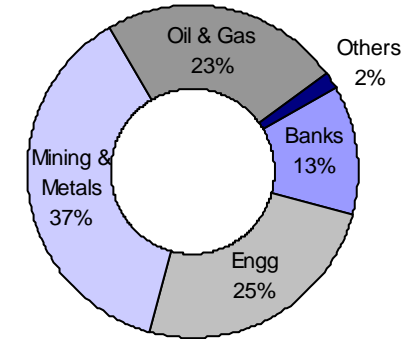
Of the wealth created by the PSUs, 60% came through commodity businesses - Mining & Metals (37%) and Oil & Gas (23%).

#### Key Finding

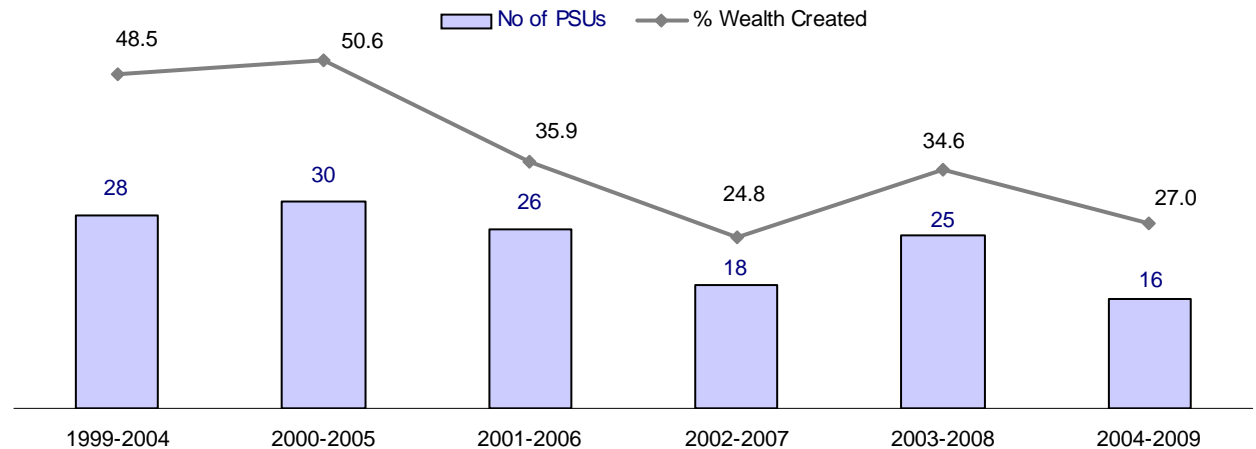
Assessment of the 16 PSU wealth creators indicates two key criteria for PSU stocks: (1) those with high regulatory entry barriers - SBI, Punjab National Bank (few new banking licenses), Bharat Electronics (near monopoly with defence sector), NMDC (mining licenses) and (2) advantage of legacy - GAIL (huge pipeline network), and Concor (strong relationships with Indian Railways for container movement).

WEALTH CREATORS: STATE-OWNED V/S PRIVATELY-OWNED PSU WEALTH CREATION BY SECTOR

	2004-2009	
	STATE-OWNED	PRIVATE
Number of Wealth Creators in Top 100	16	84
Share of Wealth Created (%)	27.0	73.0
Sales CAGR (%)	16.9	24.5
PAT CAGR (%)	18.2	29.4
Price CAGR (%)	16.2	22.8
P/E - 2004 (x)	10.9	18.6
P/E - 2009 (x)	10.0	14.3
RoE - 2004 (%)	22.0	20.1
RoE - 2009 (%)	20.1	20.1



DEREGULATION DIMINISHES ROLE OF STATE-OWNED COMPANIES IN WEALTH CREATED



## Wealth Creators

### Classification By Age Group and Market Cap

#### Young for speed, old for size

It has been consistently observed through our Wealth Creation studies, that young companies (10 years since incorporation or less) generate the fastest wealth, as they record the highest earnings growth on a low base.

During 2004-09, the 5 companies in the 0-10 years bracket generated 84% PAT CAGR and 34% price CAGR, significantly higher than the average of 24% and 21%, respectively.

Older companies gain in size, but their stock prices tend to appreciate much more slowly.

#### Small is beautiful

74 of the top 100 wealth creating companies had a base market cap of less than Rs50b in 2004. These companies grew significantly ahead of average, both in terms of earnings and stock price.

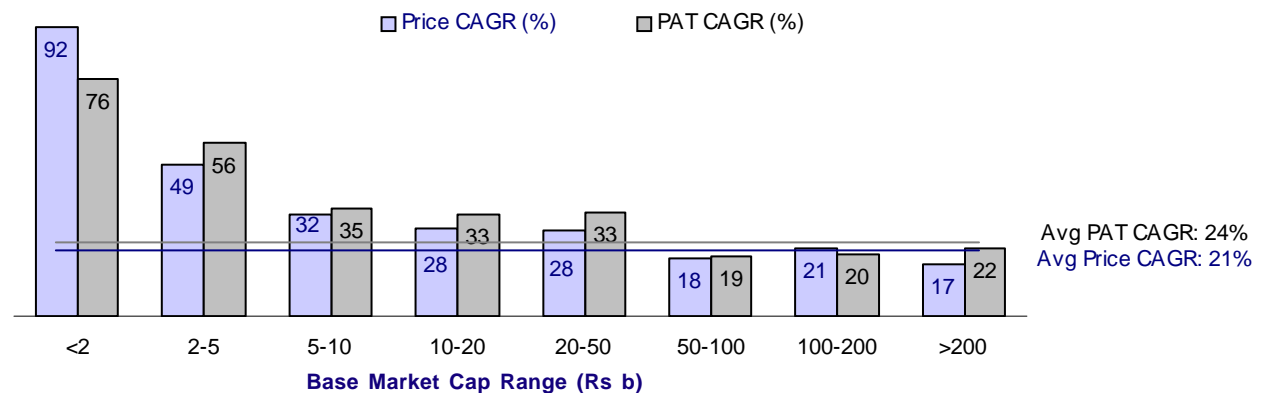
#### Key Finding

Identifying high-growth companies at an early stage is one of the keys to successful investing.

WEALTH CREATORS: CLASSIFICATION BY AGE-GROUP

NO. OF YEARS	NO. OF COS.	WEALTH CREATED (RS B)	% SHARE OF WC	PAT CAGR (%)	PRICE CAGR (%)
0-10	7	1,005	10.4	83.5	33.7
11-20	24	1,646	17.1	17.4	14.7
21-30	19	1,303	13.5	30.7	19.5
31-40	10	2,746	28.5	27.7	28.4
41-50	14	1,115	11.6	22.4	24.6
51-60	13	667	6.9	27.0	14.5
61-70	4	237	2.5	31.3	22.4
71-80	2	229	2.4	9.6	10.0
81-90	3	147	1.5	15.8	19.3
>90	4	542	5.6	20.4	20.2
<b>Total</b>	<b>100</b>	<b>9,637</b>	<b>100.0</b>	<b>24.3</b>	<b>20.5</b>

PRICE CAGR AND PAT CAGR BY BASE MARKET CAP RANGE



## Wealth Creators

### Classification By Sales and Earnings Growth

#### Growth offers margin of safety

Clearly, high sales/earnings growth and stock price growth are positively correlated. Typically, high growth is accompanied by somewhat premium market valuations. However, this should not be a deterrent to buying these stocks.

As can be seen from the adjacent tables, companies with sales/earnings growth of over 30% have all seen their P/E de-rated in 2009 over 2004. Still, due to the sheer high growth, their stocks have delivered Price CAGR significantly higher than average.

Thus, high growth is a major source of margin of safety.

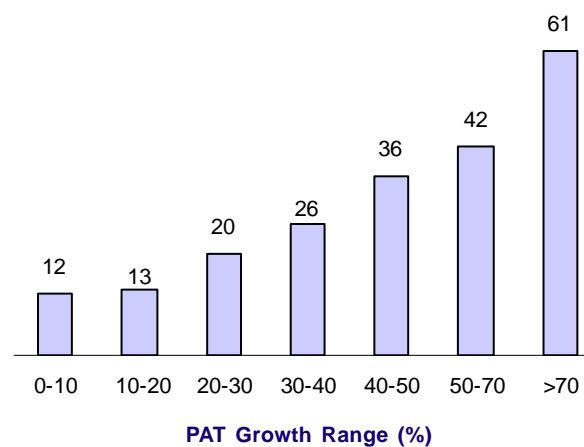
#### Key Finding

During 2004-09, the fastest growing sectors were mainly cyclicals - metals, engineering and real estate. One interesting non-cyclical exception was financial services. Going forward too, select financial services stocks should continue their run of high growth, and generate wealth at rapid pace.

#### WEALTH CREATORS: CLASSIFICATION BY SALES GROWTH

SALES GR. RANGE (%)	NO. OF COS.	SHARE OF WC (%)	PRICE CAGR (%)	PAT CAGR (%)	ROE (%)		P/E (X)	
					2009	2004	2009	2004
0-10	9	2.8	16.0	10.8	15.0	13.7	15.7	12.4
10-20	35	29.0	12.7	15.9	20.3	23.4	11.2	12.9
20-30	26	35.0	26.7	28.2	17.6	17.8	13.8	14.6
30-40	16	16.5	25.2	40.2	24.7	25.4	14.3	25.2
40-50	9	14.6	34.0	51.9	23.6	19.1	13.8	25.8
>50	5	2.1	43.3	65.8	21.7	13.5	7.9	16.4
<b>Total</b>	<b>100</b>	<b>100.0</b>	<b>20.5</b>	<b>24.3</b>	<b>20.1</b>	<b>21.0</b>	<b>12.6</b>	<b>14.7</b>

#### PRICE CAGR BY 2004-09 PAT GROWTH RANGE



#### CLASSIFICATION BY PAT GROWTH

PAT GR. RANGE (%)	NO. OF COS	SHARE OF WC (%)	P/E (X)	
			2009	2004
0-10	12	6.1	18.9	14.1
10-20	24	22.2	10.8	12.4
20-30	18	25.1	13.4	15.6
30-40	17	18.7	14.8	21.3
40-50	12	8.5	10.7	14.9
50-70	9	17.1	14.8	30.8
>70	8	2.3	5.4	11.6
<b>Total</b>	<b>100</b>	<b>100.0</b>	<b>12.6</b>	<b>14.7</b>

## Wealth Creators

### Classification By RoE

#### Indian markets prefer growth over quality

In Indian markets, Price CAGR has a direct correlation between PAT CAGR but a rather inverse correlation with RoE. Consistently, low base year RoE companies have performed better on the markets than their high RoE counterparts by delivering superior PAT growth.

Thus, during 2004-09, companies with 2004 RoE in the range of 5-15% have delivered PAT CAGR of 36-46%, translating into the highest Price CAGR of 29-33%.

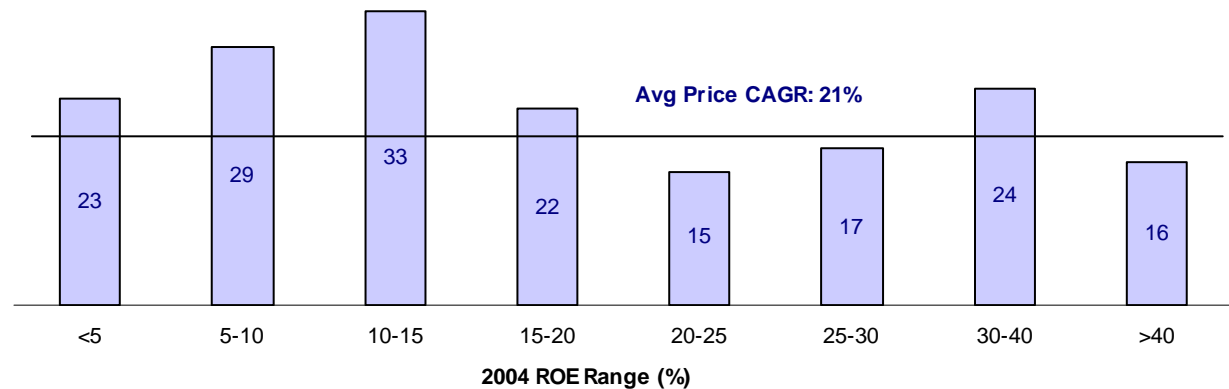
#### Key Finding

Bargains are found when markets are blind to change. Anticipating change in profitability ahead of the crowd continues to be rewarded in the markets.

WEALTH CREATORS: CLASSIFICATION BY BASE ROE

2004 ROE RANGE (%)	NO. OF COS.	SHARE OF WC (%)	PRICE CAGR (%)	PAT CAGR (%)	ROE (%)		P/E (X)	
					2009	2004	2009	2004
<5	5	1	23	L to L	-2.4	-37.5	-	-
5-10	13	5	29	36	15	7	15	20
10-15	11	19	33	46	21	12	16	27
15-20	17	26	22	23	15	17	13	13
20-25	15	16	15	20	22	22	11	13
25-30	18	16	17	21	22	26	12	14
30-40	14	9	24	37	33	36	11	17
>40	7	8	16	15	31	60	13	12
<b>Total</b>	<b>100</b>	<b>100</b>	<b>21</b>	<b>24</b>	<b>20</b>	<b>21</b>	<b>13</b>	<b>15</b>

WEALTH CREATORS: PRICE CAGR BY ROE



## Wealth Creators

### Classification By Valuation Parameters

#### Single-digit PE stocks more likely to outperform

Stocks trading at P/E of less than 5x in 2004 offered a return of 30% compounded for the next five years. This is the highest compared to any other P/E band, indicating that stocks bought at single-digit P/Es are more likely to outperform.

#### Watch out for Price/Book of less than 1x ...

Stocks trading at P/B of less than 1x in 2004 offered a return of 36% compounded for the next five years. All other Price/Book bands just about managed average returns.

#### ... and Price/Sales of up to 1x

Stocks trading at Price/Sales of up to 1x in 2004 offered a return of 31-58% compounded for the next five years.

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2004)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
<b>P/E (x)</b>			
<5	9	3	30
5-10	22	18	25
10-15	21	32	18
15-20	19	14	18
20-25	13	13	28
>25	16	20	20
<b>Total</b>	<b>100</b>	<b>100</b>	<b>21</b>
<b>Price/Book (x)</b>			
<1	8	3	36
1-2	21	9	21
2-3	26	47	21
3-4	14	6	18
4-5	6	8	21
>5	25	26	19
<b>Total</b>	<b>100</b>	<b>100</b>	<b>21</b>
<b>Price/Sales (x)</b>			
<0.50	13	3	58
0.50-1.00	12	9	31
1.00-1.50	17	24	24
1.50-2.00	13	14	20
2.00-3.00	18	14	29
3.00-5.00	12	16	12
>5.00	15	21	21
<b>Total</b>	<b>100</b>	<b>100</b>	<b>21</b>

## Wealth Creators

### Classification By Valuation Parameters (contd.)

#### Payback ratio of less than 1x guarantees high returns

We define Payback ratio as Market Cap divided by profits of the next five years.

When companies are in high growth phase, it is difficult to value them using conventional measures. Payback ratio is based on empirical wisdom that markets try and seek visibility of five years. Clearly, lower the payback ratio the better.

In hindsight, we find that stocks of companies which offered a payback ratio of less than 1x in 2004, offered significantly high returns.

#### Key Finding

A sure shot formula for multi-baggers is -

- P/E of less than 10x
- Price/Book of less than 1x
- Price/Sales of 1x or less
- Payback ratio of 1x or less.

However, as 2004 median valuations for wealth creators indicate, such stocks are not easily found.

WEALTH CREATORS: CLASSIFICATION BY VALUATION PARAMETERS (MARCH 2004)

	NO. OF COS	% WEALTH CREATED	PRICE CAGR %
<b>Payback Ratio (x)</b>			
<0.25	9	3	74
0.25-0.50	13	15	39
0.50-1.00	19	11	25
1-1.5	18	41	19
1.5-2	25	22	21
>2	16	9	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>21</b>

MEDIAN VALUATIONS (X)

	2004		2009	
	SENSEX	WEALTH CREATORS	SENSEX	WEALTH CREATORS
Median P/E	16.4	14.6	12.2	14.2
Median P/B	3.1	2.8	2.2	2.7
Media P/S	2.3	1.8	2.0	1.9



## Wealth Destroyers

### Wealth destroyed is 17% of wealth created

During 2004-09, Indian stock markets delivered compounded return of 12%. Still, there was significant wealth destruction of Rs1,782b (17% of wealth created).

Most of the wealth destruction was due to company-specific developments - US FDA ban on two units of Ranbaxy, JLR acquisition by Tata Motors, accounting scam at Satyam Computer and Corus acquisition by Tata Steel.

HPCL has featured in the list of top wealth destroyers for the third successive year.

### Key Finding

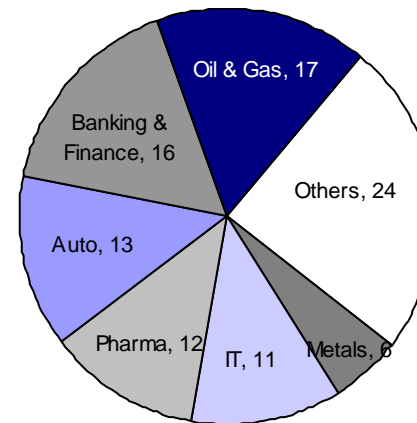
During the bull run of 2003-08, wealth destroyed was only 0.2% of the wealth created. In other words, when the markets are buoyant, most stocks participate regardless of quality.

It is only during market downturns (as in FY09) that the true, sustainable wealth creators are separated from the also-rans.

TOP-10 WEALTH DESTROYERS (2004-2009)

COMPANY	WEALTH DESTROYED		PRICE CAGR (%)
	RS B	% SHARE	
Ranbaxy Labs.	137	8	-19
I O C L	129	8	-5
Tata Motors	125	7	-17
ICICI Bank	125	7	-21
H P C L	81	5	-12
Satyam Computer	72	4	-24
Oriental Bank	45	3	-18
Tata Steel	44	3	-2
Reliance Infra.	40	2	-8
MTNL	37	2	-12
<b>Total of Above</b>	<b>835</b>	<b>49</b>	
<b>Total Wealth Destroyed</b>	<b>1,704</b>	<b>100</b>	

WEALTH DESTRUCTION BY INDUSTRY



## Wealth Creators *and* Entry Barriers

In the next section of this report, we discuss businesses and companies with Entry Barriers.

Our study shows that companies with Entry Barriers enjoy exponential growth in profits. When bought at reasonable valuation, they create significant wealth over the long term.

In fact, the list of top Wealth Creators between 2004 and 2009 already proves this point. Of the top 100 Wealth Creators, 66 had strong Entry Barriers. Even more interestingly, they accounted for a disproportionate 86% share of the wealth created.

We are convinced this phenomenon will persist in the years to come.

WEALTH CREATION BY COMPANIES WITH ENTRY BARRIERS

COMPANY	NO OF COMPANIES	WEALTH CREATED RS B	% OF TOTAL
Companies with Entry Barriers	66	8,314	86
Others	34	1,323	14
<b>Total</b>	<b>100</b>	<b>9,637</b>	<b>100</b>

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Wealth Creation

*2004-2009*

The 14<sup>TH</sup> Annual Study

Theme 2010

## Winner Categories + Category Winners

### Formula for sustained wealth creation in India's NTD Era

#### Report Outline

The outline of the investment theme covered in this report is as follows -

1. Winner Categories = India's NTD opportunity + Scalability
2. Category Winners = Winner Categories + Entry Barriers + Great management
3. Winning investments = Category Winners + Reasonable valuation

The following pages develop each of the above ideas.

### 1. Recap of India's NTD Era

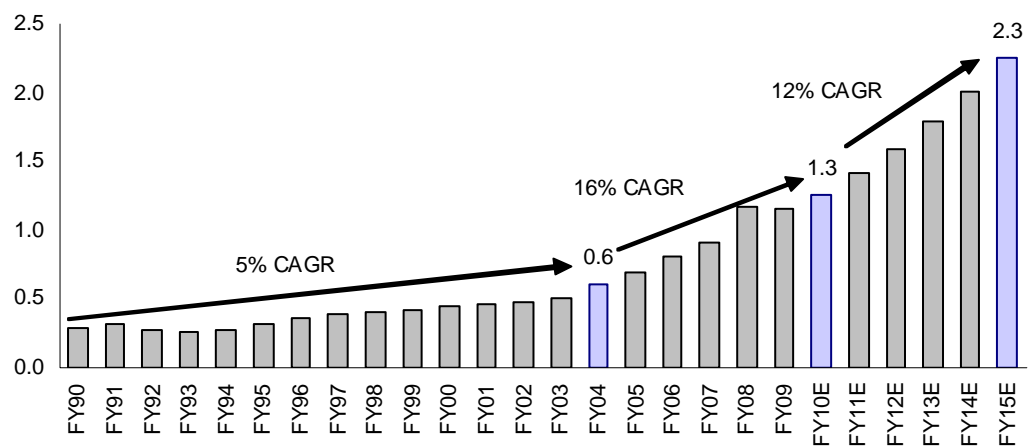
#### 1.1 Introduction

*After taking 60 years to get to its first US\$1 trillion GDP in FY08 ...*

In 2007, we first wrote about India's NTD i.e. Next Trillion Dollars (of GDP). It took India over 60 years since independence to create its first US\$1 trillion of GDP in FY08. However, growing nominally @ 12-15% per annum and at current US\$/INR rates, India will add the next trillion dollar of GDP in 5-6 years. This journey is currently on.

India's FY10E nominal GDP is estimated at US\$1.3 trillion. Assuming 12.4% annual growth (7% real and 5% inflation), India's GDP in FY15 works out to US\$2.3 trillion i.e. addition of US\$1 trillion in the next 5 years.

INDIA SHOULD ADD US\$1 TRILLION GDP OVER THE NEXT FIVE YEARS (GDP IN US\$ TRILLION)



*... India is on its way to add its NTD (Next Trillion Dollar) in the next 5 years*

Source: CMIE/MOSL

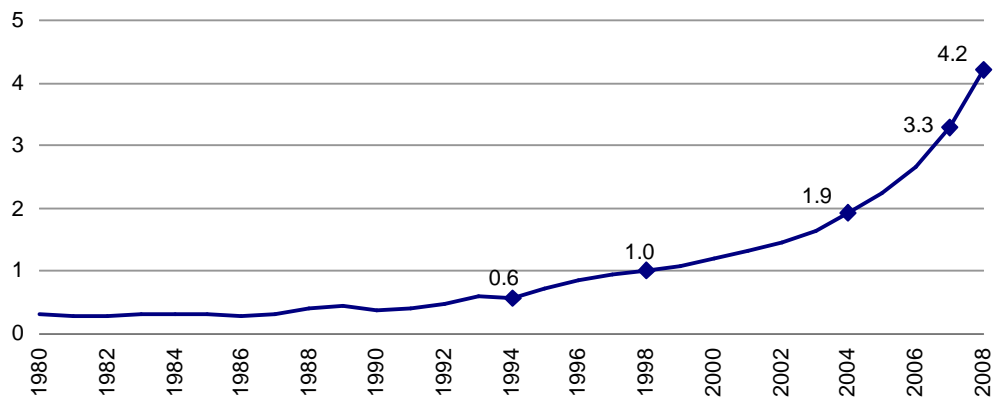
#### 1.2 The Chinese experience

*India's NTD journey is similar to that of China between 1998 and 2005*

China achieved its first trillion dollar GDP in 1998. It took about six years to add the second trillion in 2005. However, the third trillion took just 3 years, and all of the fourth came in just one year, 2008, when China's GDP hit US\$4 trillion. India is hopefully on its way to mimicking the Chinese experience. Whether we will do it somewhat slower or faster is just a matter of time.

*Indian GDP may well mimic China with a lag of about 10 years*

CHINA (GDP IN US\$ TRILLION)



Source: World Bank/MOSL

### Minimizing the risk of forecasting

It is said, "Prediction is very difficult, especially if it's about the future." Knowing this, we have largely relied on hindsight to get a sense of how the NTD Era may play out. Thus, we believe, India's journey from US\$1 trillion to US\$2 trillion GDP will broadly be an extension of its journey from US\$0.5 trillion to US\$1 trillion GDP.

Further, even US\$2 trillion is not a destination, but a milestone in India's ongoing journey towards US\$4 trillion GDP in the subsequent 5-7 years, and so on. Thus, forecasting error of a year or two on either side is unlikely to have a major long-term impact.

We see a huge consumption and savings/investment boom in India's NTD Era, which will throw up several Winning Categories. (For the purposes of this report, Winner Categories are those which are expected to grow annually @ 18%+ i.e. at least 1.5x faster than our nominal GDP growth rate assumption of ~12%.

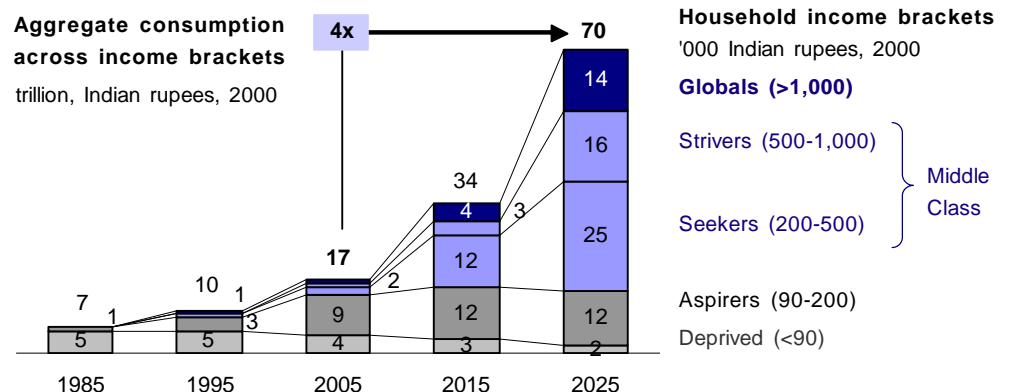
### 1.3 Consumption boom in the NTD Era

*India will see a sustained boom in consumption*

In this section, we draw heavily upon McKinsey Global Institute's brilliant report titled *The Bird of Gold: The Rise of India's Consumer Market*<sup>1</sup> (dated May 2007). The report captures how growth in GDP will shift India's demographics, which in turn, will alter the economy's consumption landscape. The key conclusions of the report are -

#### 1.3.1 India's aggregate consumption to quadruple during 2005-25

*By 2025, India is poised to become the world's fifth largest consuming country from current position of twelfth*



Source: McKinsey Global Institute

1 - The report can be downloaded from [www.mckinsey.com/mgi](http://www.mckinsey.com/mgi)

YEAR	INFLATOR / (DEFLATOR) - X
2005	1.3
2015	2.1
2025	3.4

CONVERTING CONSTANT RUPEES TO CURRENT VALUE

One small challenge in McKinsey Global Institute's report is that all rupee values are expressed in constant 2000 rupee terms. The numbers may sometimes be better understood if re-stated in current value terms.

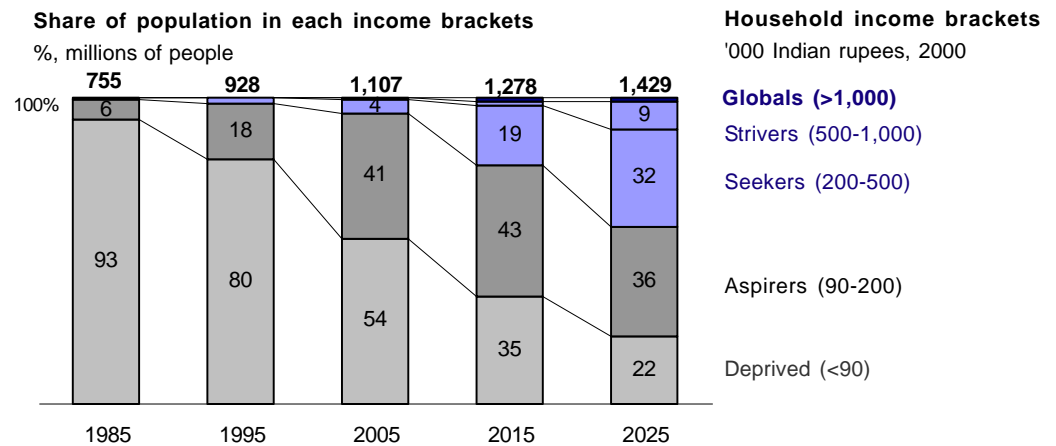
This can be done by bringing in the inflation factor. Assuming inflation at about 5%, the 2005 numbers needs to be multiplied by an inflation factor of 1.3x, 2015 numbers by 2.1x and 2025 numbers by 3.4x.

Thus, for instance, projected 2025 aggregate consumption at then market value works out to Rs237 trillion, compared to Rs26 trillion in FY08, a CAGR of ~14%.

### 1.3.2 Poverty will fall sharply

Deprived class will fall from 93% in 1985 and 54% in 2005 to 22% by 2025. (Deprived class is defined as households with income less than Rs90,000 pa, in constant 2000 rupees).

POVERTY WILL DECLINE FROM 93% IN 1985 TO 22% BY 2025



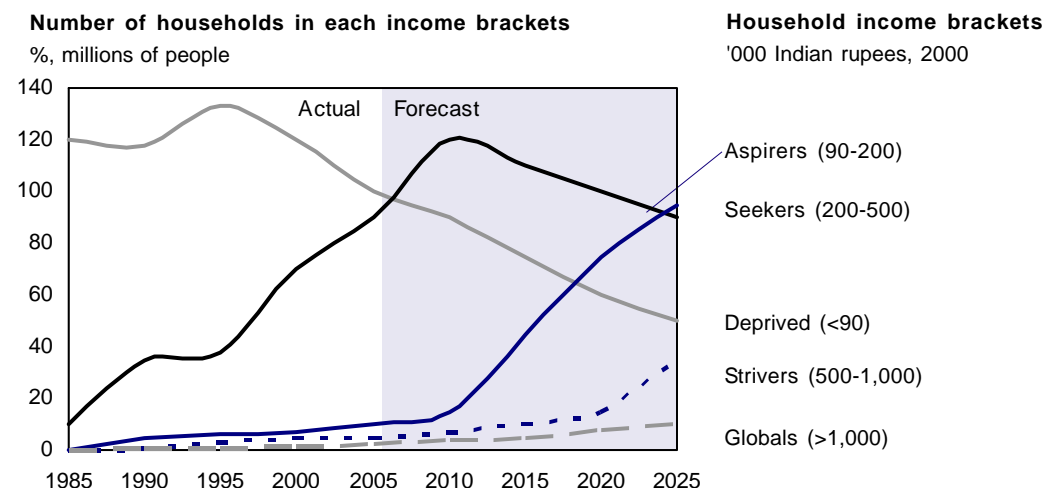
Poverty will continue to fall sharply ...

Source: McKinsey Global Institute

### 1.3.3 Middle class will swell 12x from 50m in 2005 to 583m by 2025

1985 to 2005 saw a wave of 400m Aspirers (i.e. people moving out of poverty); 2005 to 2025 will see a tsunami of over 400m Seekers (i.e. lower middle class) and 120m Strivers (i.e. upper middle class), further fuelling the consumption boom.

FIRST ASPIRERS AND THEN SEEKERS WILL BECOME THE LARGEST INCOME BRACKETS

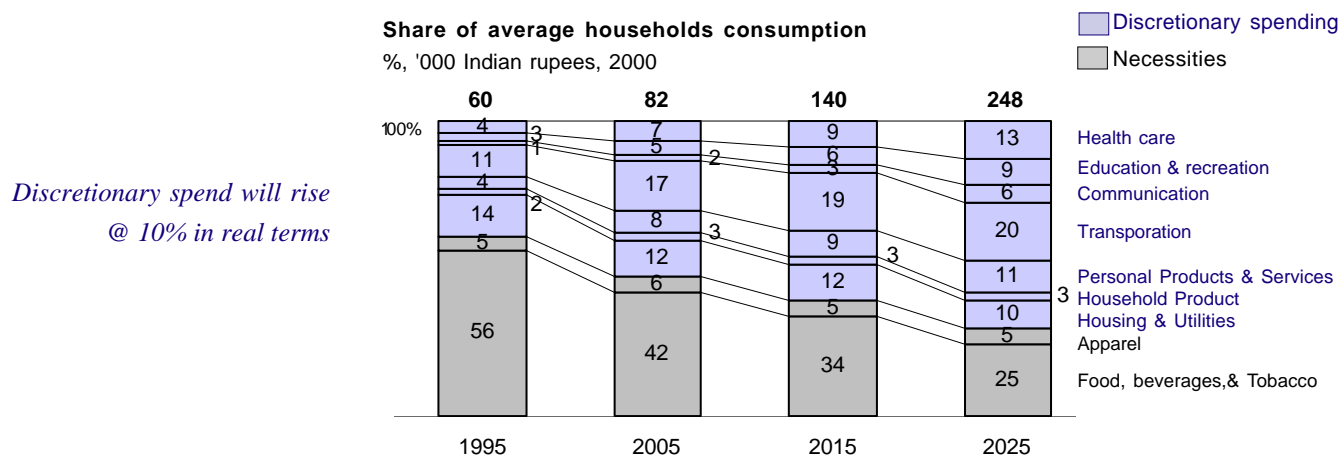


... and India's middle class will swell

Source: McKinsey Global Institute

### 1.3.4 Discretionary spend will increase from 52% in 2005 to 70% in 2025

SPENDING PATTERNS WILL EVOLVE MARKEDLY OVER THE NEXT 20 YEARS



### 1.3.5 Several categories will grow exponentially

There will be a significant rise in consumption pie for Alcoholic beverages, Transport vehicles, Healthcare services, Education & recreation and Communication.

CATEGORY GROWTH TRENDS (RS BILLION, CONSTANT 2000 PRICES)

CATEGORY	2005	% SHARE	2015	% SHARE	CAGR (%)
<b>Food, beverages, tobacco</b>	<b>7,147</b>	<b>21.7</b>	<b>11,547</b>	<b>17.9</b>	<b>4.9</b>
Food	6,565	20.0	10,366	16.1	4.7
Non-alcoholic beverages	346	1.1	750	1.2	8.0
Alcoholic beverages	115	0.3	291	0.5	9.7
Tobacco	121	0.4	139	0.2	1.4
<b>Transportation</b>	<b>2,788</b>	<b>8.5</b>	<b>6,395</b>	<b>9.9</b>	<b>8.7</b>
Fuel	1,008	3.1	3,024	4.7	11.6
Services	1,633	5.0	2,968	4.6	6.2
Two-wheelers	99	0.3	250	0.4	9.7
Cars, UVs *	49	0.1	153	0.2	12.1
<b>Housing, Utilities, etc</b>	<b>2,019</b>	<b>6.1</b>	<b>4,032</b>	<b>6.3</b>	<b>7.2</b>
<b>Personal Products &amp; Services</b>	<b>1,273</b>	<b>3.9</b>	<b>3,044</b>	<b>4.7</b>	<b>9.1</b>
Personal and household services	987	3.0	2,301	3.6	8.8
Personal non-durables	256	0.8	673	1.0	10.1
Jewelry	30	0.1	70	0.1	8.8
<b>Healthcare</b>	<b>1,148</b>	<b>3.5</b>	<b>3,076</b>	<b>4.8</b>	<b>10.4</b>
Medical services / equipment	364	1.1	1,835	2.8	17.6
Pharmaceuticals	784	2.4	1,241	1.9	4.7
<b>Apparel and footwear</b>	<b>931</b>	<b>2.8</b>	<b>1,847</b>	<b>2.9</b>	<b>7.1</b>
<b>Education and recreation</b>	<b>1,198</b>	<b>3.6</b>	<b>3,195</b>	<b>5.0</b>	<b>10.3</b>
Education	1,148	3.5	3,076	4.8	10.4
Recreation	50	0.2	119	0.2	9.1
<b>Household products</b>	<b>484</b>	<b>1.5</b>	<b>959</b>	<b>1.5</b>	<b>7.1</b>
<b>Communication</b>	<b>344</b>	<b>1.0</b>	<b>1,090</b>	<b>1.7</b>	<b>12.2</b>
<b>Total</b>	<b>32,892</b>	<b>100.0</b>	<b>64,456</b>	<b>100.0</b>	<b>7.0</b>

\* Excludes vehicles registered with companies

Source: McKinsey Global Institute

### 1.3.6 Implications for the NTD Era

- Sustained consumption boom led by the middle class
- Several potential Winner Categories - Processed foods, Alcoholic beverages, 2-wheelers & cars, Auto finance, Airlines, White goods, Entertainment media, Telecom, Education and Healthcare.

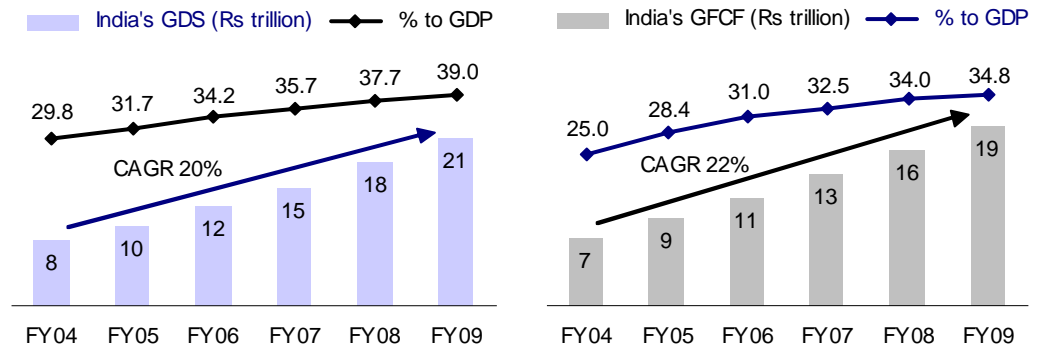


### 1.4 Savings/Investment boom in the NTD Era

In the last 6 years to FY09, India's Gross Domestic Savings is up from 30% of GDP to 39%, clocking a CAGR of 20%. Gross Fixed Capital Formation has grown even stronger - from 25% of GDP to 35% of GDP, a CAGR of 22%.

INDIA'S SAVINGS AND GROSS FIXED CAPITAL FORMATION GROWING MUCH FASTER THAN GDP

*Along with consumption, the boom in savings and investment will sustain*



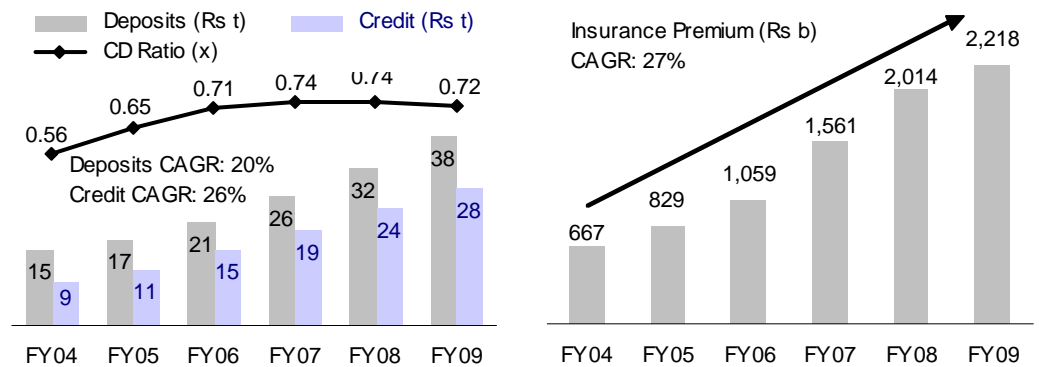
Source: CMIE/MOSL

#### 1.4.1 Savings boom - huge opportunity for financial intermediation

In 7-8 years' time, India's GDP may touch US\$2.5 trillion. At then 40% of GDP, India's savings would almost equal current GDP. High growth in savings implies a huge opportunity for financial intermediation services such as banks, insurance and stockbroking. This is reflected in a corresponding surge in deposits, credit and life insurance premiums.

SURGE IN FINANCIAL SERVICES - BANKING AND INSURANCE

*Savings boom spells opportunity for financial intermediation ...*



Source: RBI/MOSL

#### 1.4.2 Rising capital formation - Engineering/Construction boom to sustain

*... and investment boom implies huge demand for turnkey services, real estate, construction inputs and capital goods*

The economy's capital formation can be broadly broken down into: (1) 55% Construction (residential/non-residential buildings and infrastructure such as roads, bridges, etc); and (2) 45% Machinery and equipment.

Rising capital formation is also corroborated by the Government's huge thrust on infrastructure with Eleventh Plan (FY08-12) spend expected to be 2.3x that of Tenth Plan. This implies massive opportunity for:

1. Turnkey engineering/construction services;
2. Real estate, specially housing;
3. Construction inputs - cement, steel, paints electricals, etc; and
4. Capital goods companies, specially those supplying to the power sector.

## INDIA'S THRUST ON INFRASTRUCTURE SPEND

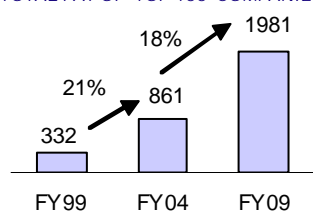
SECTOR	TENTH PLAN (FY02-07)		ELEVENTH PLAN (FY08-12)		GROWTH (X)
	(RS B)	(% SHARE)	(RS B)	(% SHARE)	
Electricity	2,982	33.6	6,165	30.4	2.1
Roads & Bridges	1,449	16.3	3,118	15.4	2.2
Telecom	1,234	13.9	2,670	13.2	2.2
Railways	1,197	13.5	2,580	12.7	2.2
Irrigation	1,115	12.6	2,231	11.0	2.0
Water supply, Sanitation	648	7.3	1,991	9.8	3.1
Ports	41	0.5	739	3.6	18.1
Airports	68	0.8	347	1.7	5.1
Storage	48	0.5	224	1.1	4.6
Gas	87	1.0	205	1.0	2.4
<b>Total</b>	<b>8,868</b>	<b>100.0</b>	<b>20,272</b>	<b>100.0</b>	<b>2.3</b>

Source: Planning Commission/MOSL

### 1.4.3 Implications for the NTD Era

- Sustained savings-led investment boom
- Several potential Winner Categories - Banks, Brokerages, Insurance, Housing Finance, Credit Rating, Engineering - Turnkey, Construction, Real estate, Cement, Steel, Paints, Power utilities, Power generation equipment, Power transmission equipment, Infrastructure asset-owners and Gas distribution.

### TOTAL PAT OF TOP 100 COMPANIES



Source: MOSL

### 1.5 Corporate profitability boom in the NTD Era

In the NTD Era, boom in consumption, savings and investments will lead to a boom in corporate profits. Again, going by past data, the profit of listed, top 100 profit-making companies in India registered a CAGR of 21% during FY99-FY04 and by a further 18% during FY04-09. In both the periods, the growth rate was 1.5x that of nominal GDP growth. There is no reason to believe why this profit growth multiple cannot be sustained over the next five years.

## 2. Winner Categories in the NTD Era

*Winner Categories are those which will grow 1.5x faster than GDP growth*

### Winner Categories = India's NTD opportunity + Scalability

The process of arriving at the final list of Winner Categories in the NTD era led us to several insights -

- Value migrates from basic spend to discretionary spend categories
- Winner categories emerge when demand hits the J-curve
- Categories which can become large in relation to the economy emerge winners
- Consolidated categories will benefit more than fragmented ones.

### 2.1 Basic spend v/s Discretionary spend categories

*Discretionary spend categories will outperform basic spend categories*

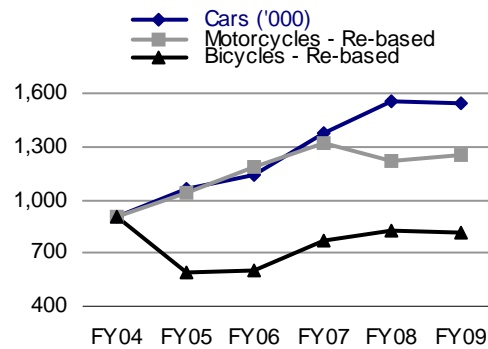
Basic spend on needs such as food and clothing do not increase in the same proportion as increase in incomes and prosperity, In contrast, discretionary spends tend to show exponential growth. Thus, over time, value migrates from basic spend categories to discretionary spend categories.

**Example 1: Bicycles v/s Two-wheelers v/s Cars**

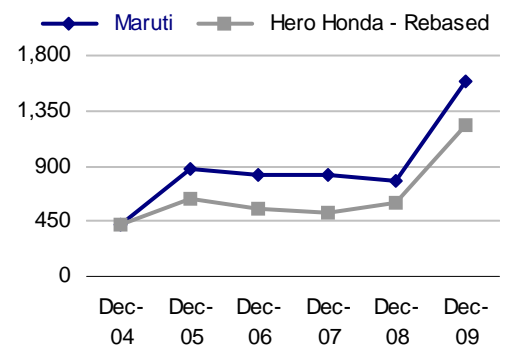
As regards the need for personal transport, bicycles and two-wheelers represent the basic spend, whereas cars are the discretionary spend. Given rising prosperity in India, value has started to migrate to cars in terms of higher growth rates than the other two categories.

BICYCLES V/S TWO-WHEELERS V/S CARS

*Cars should grow faster than 2-wheelers ...*



MARUTI V/S HERO HONDA: SHARE PRICE MOVEMENT



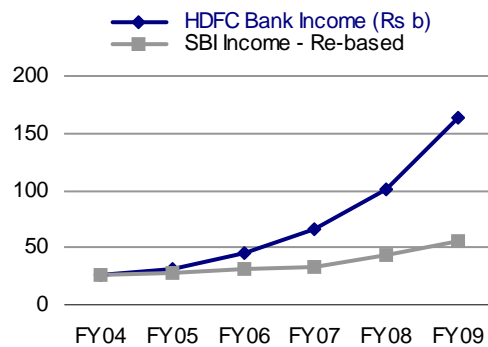
Source: Industry/MOSL

**Example 2: Public sector banks v/s Private sector banks**

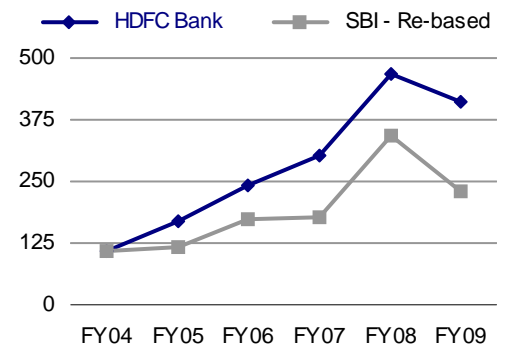
For quite some time, public sector banks stood for basic banking services. Then, private banks entered the arena with several "discretionary" (i.e. value added) elements such as ATMs and phone banking. Hence, value continues to migrate to private sector banks, both in terms of revenue/profits and market capitalization.

HDFC BANK'S INCOME GROWS FASTER THAN SBI ...

*... and private banks faster than public sector banks*



... AS DOES MARKET CAP (RS B)



Source: Company/MOSL

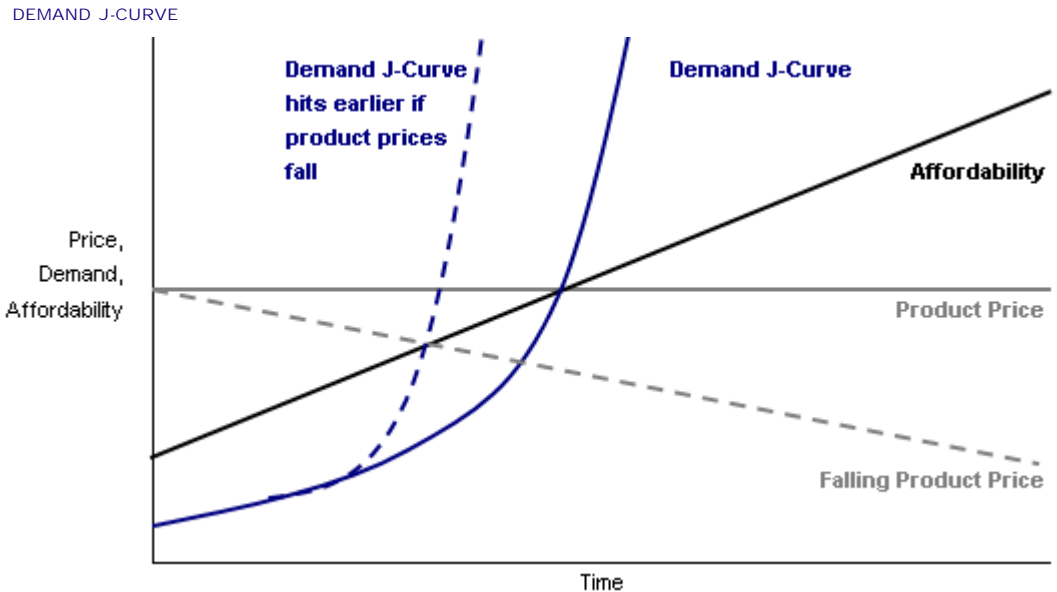
**2.2 J-curve demand - the key to Winner Categories**

*Categories which witness demand J-curves will emerge as Winner Categories*

Demand for a category hits the J-curve when product price matches with affordability for a large section of customers (see diagram on next page).

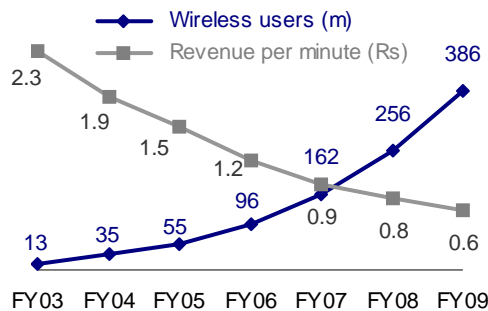
J-curves can occur when incomes rise or product prices fall or both happen simultaneously. Increasingly, as categories attain scale, benefits get passed on to customers by way of lower prices, leading to demand J-curves. The NTD Era will see several categories hitting demand J-curves and emerging as Winner Categories.

*Demand J-curve occurs when product price matches affordability for a large section of customers*



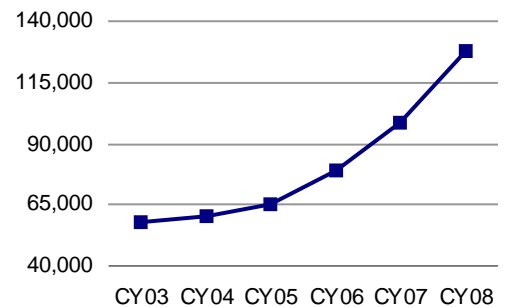
FALLING PRODUCT PRICE ACCELERATES J-CURVE IN WIRELESS TELECOM

*Wireless Telecom and Maggi Noodles are classic cases of J-curve demand*



MAGGI NOODLES HITS J-CURVE

NESTLE'S PREPARED DISHES SALES (TONNES)



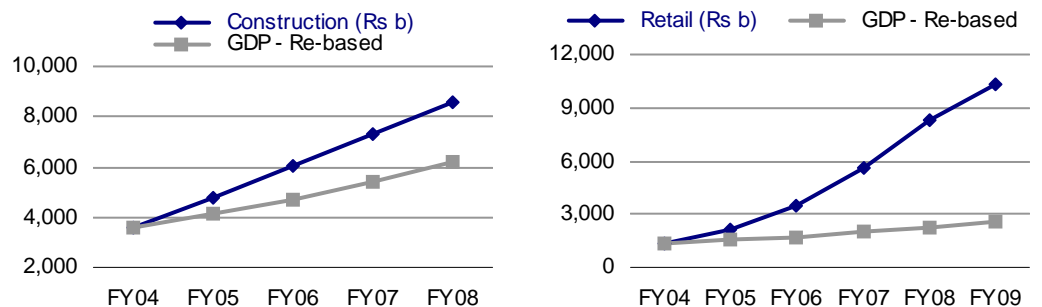
Source: Industry/Company/MOSL

### 2.3 Categories with scalability and size are potential winners

Categories which have the capability to become large in relation to the economy are potential winners. For instance, Construction activity accounts for a sizable 18% of Indian economy and continues to grow rapidly. Likewise, in India, barely 5% of total retailing is organized, In contrast, in the US, a single retailing company, Wal-mart, has sales of about US\$400b, ~3% of US GDP.

*Categories like Organized Retail which are small today have significant room for scaling up*

CONSTRUCTION AND RETAIL GROWTH HAVE OUTPERFORMED GDP



Note: Construction data is from National Accounts data; Retail is aggregate sales of leading listed players

*Categories combining high growth with consolidation are Winner Categories*

### 2.4 Consolidated categories will benefit more than fragmented ones

If a category is highly fragmented, then even if it scales up, the benefits get diluted as they are shared by a large number of players (eg Real estate). In contrast, in categories which enjoy scale and are consolidated in nature, all incremental growth is shared by few incumbent players. For instance, Oil marketing in India is a Rs5.7 trillion (US\$125b) category, largely shared by just three players. Likewise, for quite some time, BHEL was a monopoly in the power equipment category.

We have plotted major categories in the matrix of growth and consolidation. **High-growth categories combined with consolidation tend to be Winner Categories.**

CATEGORY CONSOLIDATION AND GROWTH MATRIX

<b>Category Growth</b>	High	Education Gems & Jewelry IT - Hardware IT - Software Healthcare Services Household Appliances Real Estate	Auto - Cars Finance - Banks, Public sector Finance - Banks, Private sector Finance - Brokerages Media - Entertainment	Alcoholic Beverages Auto - Tractors Auto - 2-wheelers Aviation Cap. Goods - Power Engg/Constn - Turnkey Finance - Housing Finance - Insurance	Finance - Credit Rating FMCG - Proc. Food Infrastructure Oil & Gas - Gas Distbn. Telecom	
	Medium	Cement Hotels Pharmaceuticals	Utilities - Power Generation	Auto - CVs Auto Ancillaries FMCG - Personal Care Metals - Non-ferrous/Mining Metals - Steel, Primary Oil & Gas - Refining Paints	Tyres	
	Low	Chemicals Fertilizers Sugar Tea Textiles	Shipping	FMCG - Cigarettes		
		Low	Medium	<b>Category Consolidation</b>		High

Highlighted quadrants are the Winner Categories

Source: MOSL

### 2.5 Final list of Winner Categories

From among the several potential Winner Categories emerging from India's imminent consumption and investment boom, we arrive at the final list of Winner Categories after considering the following -

- The category should have grown @ 18%+ (1.5x expected GDP growth of 12%) in the five years to FY09. Where there is volatile pricing impact (e.g. Cement, Oil marketing), volume growth should be over 10.5% (1.5x expected real GDP growth of 7%).
- To play the domestic NTD Era, we avoid categories vulnerable to global shocks.

- We avoid categories which are too fragmented and/or do not offer listed plays.
- We avoid categories where returns are capped by regulation.

Our final list contains 21 Winner Categories.

#### WINNER CATEGORIES IN INDIA'S NTD ERA

1. Alcoholic beverages	12. Finance - Housing
2. Auto - 2-wheelers	13. FMCG - Personal Care
3. Auto - Cars & UVs	14. FMCG - Processed Food
4. Auto - Tractors	15. Gas distribution
5. Capital Goods - Power equipment	16. Infrastructure
6. Construction	17. Insurance
7. Engineering - Turnkey	18. Media - Entertainment
8. Finance - Banks, Private sector	19. Real Estate
9. Finance - Banks, Public sector	20. Retailing
10. Finance - Brokerages	21. Telecom
11. Finance - Credit rating	

*All our Winner Categories enjoy high growth with high-to-medium consolidation in terms of number of players*

### 3. Category Winners in the NTD Era

*Category Winners are companies from Winner Categories which enjoy (1) Entry Barriers and (2) Great management*

#### Category Winners = Winner Categories + Entry Barriers + Great Management

Having identified Winner Categories, the next step is to pick Category Winners. **Category Winners are companies best placed to exploit the exponential business opportunity in the Winner Categories for a very long time.**

Apart from emerging from a Winner Category, the other key success factors for Category Winners are: (1) Entry Barriers and (2) Great management.

#### 3.1 What are Entry Barriers?

*Entry Barrier is another term for competitive advantage*

**Entry Barrier is a simple synonym for sustainable competitive advantage.** There are two tests to confirm whether a company enjoys an Entry Barrier: (1) Market share stability, and (2) High return on capital.

"The existence of barriers to entry means that incumbent firms are able to do what potential rivals cannot. Being able to do what rivals cannot is the definition of competitive advantage. Thus, barriers to entry and incumbent competitive advantage are simply two ways of describing the same thing."

- Bruce Greenwald and Judd Kahn in their book **Competition Demystified**

In its strictest sense, an Entry Barrier is one which prevents new competitors from entering an incumbent company's market place. This is possible in only few cases e.g.

- If a company enjoys patent protection for its product; and
- If there are government regulations preventing new entrants into a category, e.g. via licensing requirements.

In a broader sense, a company may be said to enjoy an Entry Barrier if it is **difficult** for a new firm to enter the category - or for existing rivals to expand - and cause a **major, permanent** erosion of the company's market share. The key words here are "difficult" and "major, permanent".

### Example 1: Horlicks v/s Milo in malted beverage

*Horlicks has proved its Entry Barrier in malted beverage ...*

We believe GlaxoSmithkline Consumer's *Horlicks* enjoys a strong Entry Barrier in the malted beverages category. Still, that did not prevent Nestle from entering the category with *Milo* and arithmetically lowering *Horlicks'* market share. However, over time, *Horlicks'* Entry Barrier asserted itself, and Nestle had to completely withdraw *Milo* from the market. Thus, there was no major, permanent erosion of *Horlicks'* share.

### Example 2: Indian wireless telecom

*... but will incumbent wireless players make it?*

Several new players have entered - or are ready to enter - the Indian wireless telecom category: Tata DOCOMO, UniNor, Etisalat, Shyam-Sistema, etc. Obviously, as soon as they enter, the market shares of all incumbent players will be lowered. However, that is not reason enough to conclude that the incumbents do not enjoy Entry Barriers.

The losses being incurred by new entrants are already suggesting that entry into the category is **difficult**. Over time, the *Horlicks-Milo* episode could play out here as well, and incumbents would have suffered no **major, permanent** erosion of their market shares and profitability

## 3.2 Analysis of Entry Barriers

*3 kinds of Entry Barriers -  
(1) Demand-side,  
(2) Supply-side and  
(3) Economies of Scale*

Bruce Greenwald and Judd Kahn in their book *Competition Demystified* talk of three kinds of Entry Barriers - (1) Demand side, (2) Supply side, and (3) Economies of scale.

**Demand-side Entry Barriers:** Some companies have access to market demand that their competitors cannot match. This may arise from one or more of the following factors:

1. Customer captivity due to a strongly differentiated product/brand, force of habit or high switching costs, including the difficulty of searching for substitutes; and
2. Strong distribution network.

Demand-side Entry Barriers such as trusted brands are intangible and typically result in firms enjoying very high return on capital.

TOP 10 BRAND COMPANIES BY LONG-TERM ADJUSTED RETURN ON CAPITAL

COMPANY	LAST REPORTED ANNUAL (RS M)			ADJUSTED ROCE (%)	
	SALES	ADJ. PAT	PAT MARGIN (%)	LATEST	10-YR AVG
Hero Honda Motor	123,152	11,806	9.6	50	80
Nestle India	43,277	5,360	12.4	171	71
Godrej Consumer	10,871	1,615	14.9	34	70
Colgate Palmolive	16,983	2,860	16.8	179	67
Hindustan Unilever	201,924	24,800	12.3	105	67
Castrol India	22,624	2,633	11.6	91	58
GlaxoSmithKline Pharma	16,653	4,483	26.9	57	52
Abbott India	6,953	605	8.7	45	48
Astrazeneca Pharma	3,548	740	20.9	72	47
P & G Hygiene	7,742	1,804	23.3	54	44

Note: Adjusted RoCE is arrived by deducting Cash & Cash Equivalents (CCE) from Capital Employed. Correspondingly, we have lowered EBIT by imputed income of 8% of CCE.

**Supply-side Entry Barriers:** These mainly arise from the company being the lowest cost provider of goods/services in the category due to one or more of the following:

1. Patent protection for products and/or production processes; and
2. Privileged access to critical inputs (eg captive ore mines).

Low-cost Entry Barriers typically involve huge capital outlays, leading to lower return on capital than firms with demand-side Entry Barriers.

**Economies of scale:** If an incumbent company has huge scale of operations, it leads to low unit fixed costs which competitors find difficult to match.

*Category Winners tend to enjoy all 3 kinds of Entry Barriers in varying degrees*

**Our analysis suggests that most Category Winners enjoy varying degrees of all the three kinds of Entry Barriers.**

### 3.3 Great Management

*Category Winners also have great managements which defend or raise the Entry Barrier*

Apart from Entry Barriers, Category Winner companies need to have a great management. What constitutes a great management is highly subjective and a full topic of discussion in itself. For the purposes of this report, a great management is one which -

- Successfully defends - or even increases - the company's Entry Barrier; and
- Manages all other tactical and operational matters to grow at least in line with the Winner Category, if not faster.

### 3.3 Winning investments = Category Winners + Reasonable valuation

*Category Winners bought at reasonable valuation ...*

More often than not, Category Winners are companies which are already acknowledged as such by the stock market. Hence, in the market's best understanding, it values these companies at valuations which prima facie do not seem attractive. Still, Category Winners bought at reasonable (not necessarily cheap) valuations lead to great investments.

*... outperform significantly over the long term*

The combination of a Winning Category and Entry Barriers leads to a sustained superior financial performance of Category Winners. This, in most cases, is extremely difficult to accurately value in advance. Thus, **so long as investors don't buy into bubble valuations, the initial handicap of slightly premium valuations gets neutralized over 2-3 years, resulting in significant outperformance of Category Winners over a 3-5 year timeframe.**

"We are partial to putting out large amounts of money where we won't have to make another decision. If you buy something because it's undervalued, then you have to think about selling it when it approaches your calculation of its intrinsic value. That's hard. But, if you can buy a few great companies, then you can sit on your ass. That's a good thing."

- Charlie Munger, co-owner of Berkshire Hathaway, in his book

**Poor Charlie's Almanack**

We believe most Category Winners are stocks where investors won't have to make a second decision (of selling). At first glance, they don't seem to be undervalued. But, over time, their greatness plays out and the investments begin to pay off.

Occasionally, the market does confer "setback valuations" to Category Winners. This must be considered has a great opportunity to place large bets for handsome returns.



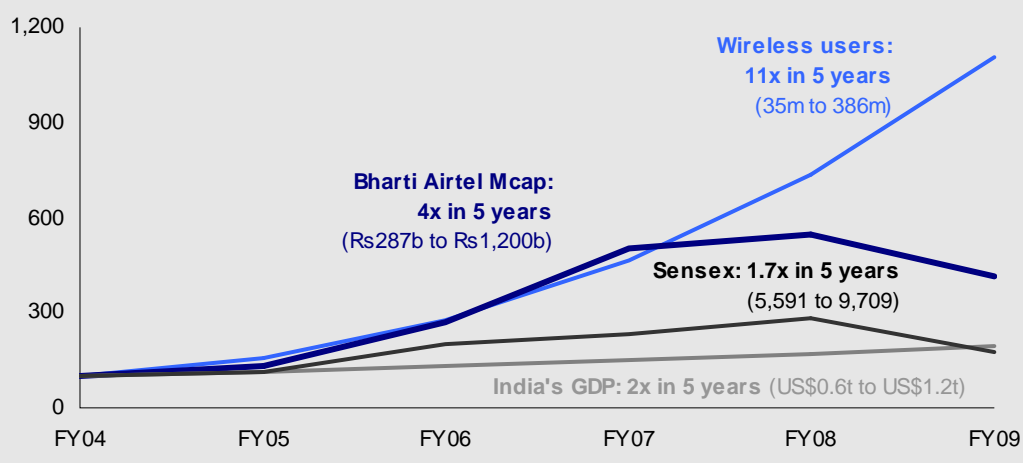
**Example: Indian Wireless (Winner Category) + Bharti (Category Winner)**

A classic example of Winner Category + Category Winner is that of Indian Wireless and Bharti Airtel.

**Winner Category** - During FY0-4-09, wireless user base expanded 11x, significantly faster than India's GDP which expanded 2x over the period.

**Category Winner** - Bharti's sales grew 7.5x during FY04-09 and its market cap grew 4x over the period, compared to 1.7x for the Indian stock market.

WINNER CATEGORY (WIRELESS TELECOM) + CATEGORY WINNER (BHARTI)

**4. Model portfolio for India's NTD era**

We have applied our understanding of Entry Barriers to the NTD Era Winner Categories to create a portfolio of 15 Category Winners using the "Winning Investments Evaluation Matrix", as shown on page 34.

MODEL PORTFOLIO FOR INDIA'S NTD ERA

WINNER CATEGORY	CATEGORY WINNER	REMARK ON ENTRY BARRIER
Auto - 2-wheelers	<b>Hero Honda Motor</b>	Market leader
Auto - Cars & UVs	<b>Maruti Suzuki</b>	Appropriate product mix; widest distribution and service network
Auto - Cars & UVs / Tractors	<b>Mahindra &amp; Mahindra</b>	Market leader in UVs and tractors; excellent track record of innovations
Capital Goods - Power equipment	<b>B H E L</b>	A near monopoly in thermal power plants
Engineering - Turnkey	<b>Larsen &amp; Toubro</b>	The preferred engineering/construction company for complex projects
Finance - Banks, Private sector	<b>HDFC Bank</b>	High brand equity; most consistent performance track record
Finance - Banks, Public sector	<b>State Bank of India</b>	Largest bank with highest reach; offers play on insurance as well
Finance - Credit Rating	<b>CRISIL</b>	No.1 in India; group of global No.1, Standard & Poor
Finance - Housing	<b>H D F C</b>	Long-standing market leader with lowest processing costs
FMCG - Personal Care	<b>Dabur India</b>	Strong positioning in the Ayurveda / herbal products platform
FMCG - Processed Food	<b>Nestle India</b>	Near monopoly in instant noodles and infant nutrition
Infrastructure	<b>Mundra Port</b>	One of the largest ports on the Gujarat coast
Media - Entertainment	<b>Sun TV</b>	Dominant market share in South India
Retailing	<b>Pantaloon Retail</b>	Market leader by far; significant early mover advantage
Telecom	<b>Bharti Airtel</b>	Highest market share, lowest cost, well-recognized brand

As we believe India's NTD Era will at least be an extension - if not a vastly superior version - of the past 5-6 years, we back-tested the performance of the above portfolio.

Expectedly, the portfolio would have significantly outperformed the market over various time periods.

MODEL NTD PORTFOLIO BACKTESTED

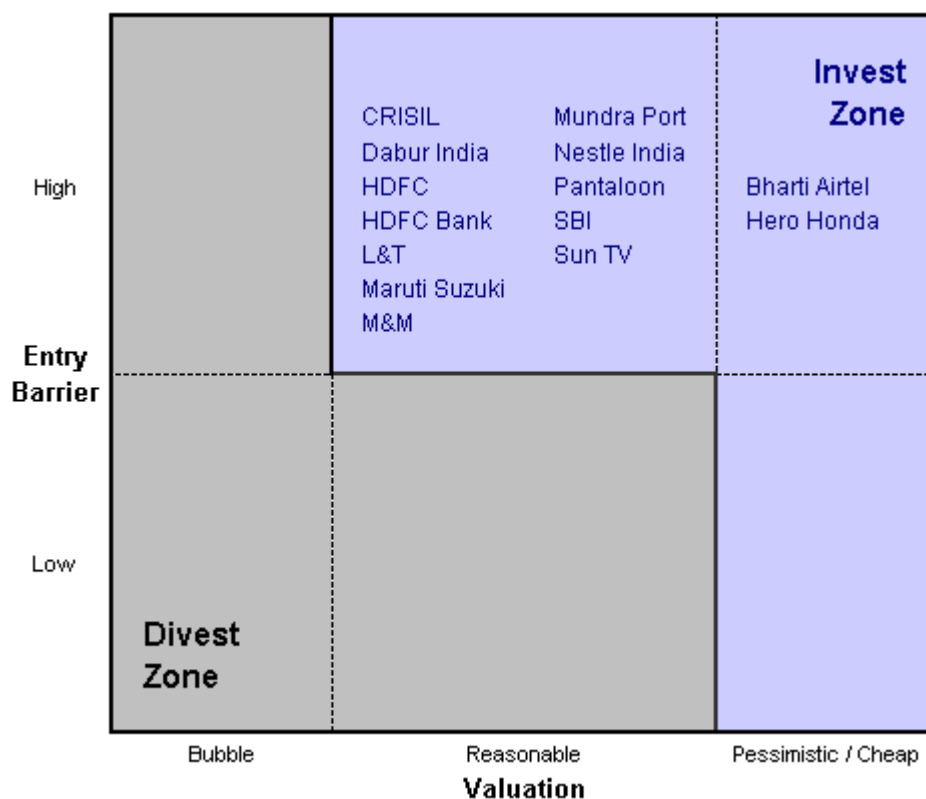
COMPANY	PRICE (RS) (10-DEC-09)	POINT-TO-POINT RETURN IF PURCHASED IN (%)				
		MAR-09	MAR-08	MAR-07	MAR-06	MAR-04
B H E L	2,292	52	11	103	104	658
Bharti Airtel	342	9	-17	-10	66	343
CRISIL	4,323	60	38	62	150	765
Dabur India	165	68	51	74	100	531
H D F C	2,721	93	14	79	104	323
HDFC Bank	1,786	85	35	88	131	372
Hero Honda Motor	1,675	56	143	144	89	241
Larsen & Toubro	1,687	151	12	108	177	1,075
Maruti Suzuki	1,591	105	92	94	82	220
Mahindra & Mahindra	1,040	171	50	33	66	348
Nestle India	2,617	68	75	180	126	314
Pantaloon Retail	355	119	-9	-2	0	676
State Bank of India	2,296	115	44	145	151	302
<b>BSE Sensex</b>	<b>17,189</b>	<b>77</b>	<b>10</b>	<b>31</b>	<b>52</b>	<b>207</b>
<b>No. of outperformers</b>		<b>7</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>13</b>
<i>% of total</i>		<i>54</i>	<i>85</i>	<i>85</i>	<i>92</i>	<i>100</i>
<b>Average Return</b>		<b>89</b>	<b>41</b>	<b>85</b>	<b>104</b>	<b>474</b>
<b>Outperformance</b>		<b>12</b>	<b>31</b>	<b>53</b>	<b>51</b>	<b>267</b>

*Our model NTD portfolio of 15 Category Winners would have outperformed if purchased anytime in the last 5 years*

**Note:** Mundra Port and Sun TV not included due to short listing history

Currently, there is no bubble valuation in the Indian markets or in any of these stocks. Hence, we expect this "**Winner Categories + Category Winners**" portfolio to significantly outperform the markets during India's NTD Era.

WINNING INVESTMENTS EVALUATION MATRIX



*Bharti and Hero Honda are rare cases of Category Winners available at pessimistic valuations*

Category Winners in Invest Zone are winning investments

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Wealth Creation

*2004-2009*

The 14<sup>TH</sup> Annual Study

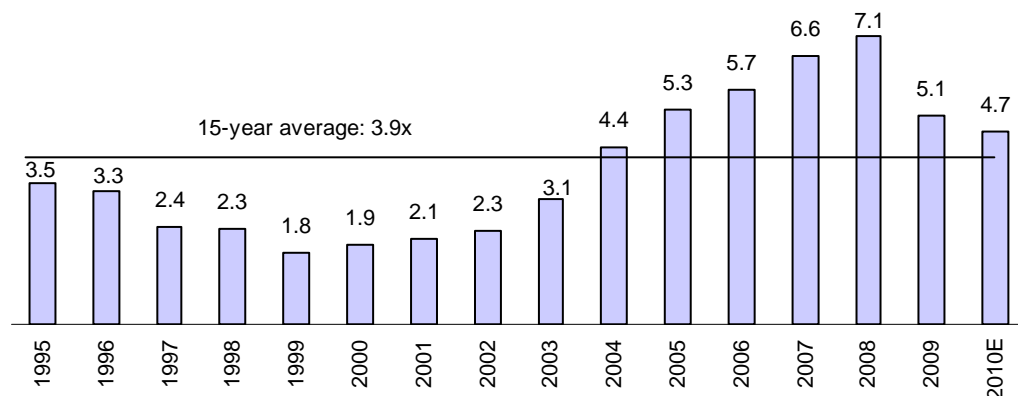
# Market Outlook

## Market Outlook

### India's corporate profit to GDP is set to bottom out

After a high of 7.1% in FY08, India's corporate profit to GDP has corrected to 4.7% in FY10E. We believe corporate profit to GDP has bottomed out and should hit new highs in the next 4-5 years on the back of sustained economic performance.

INDIA'S CORPORATE PROFITS TO GDP (%)

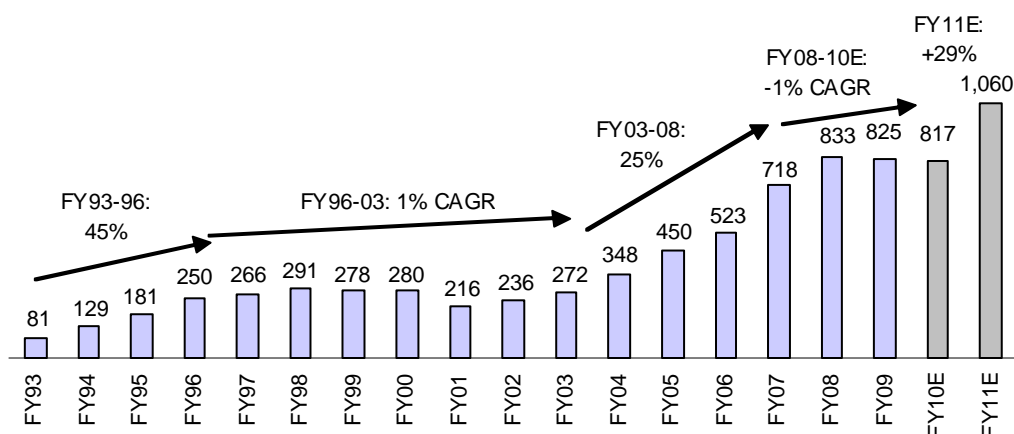


Source: CMIE/MOSL

### Sensex EPS: Expect 15-20% growth beyond FY11

After a two year earnings growth holiday in FY09 and FY10, we expect Sensex EPS to clock 29% growth in FY11E. However, beyond that, it should revert back to its long-term average growth rate of 15-20%.

FY93 TO FY11E - SENSEX EPS PERFORMANCE (RS)

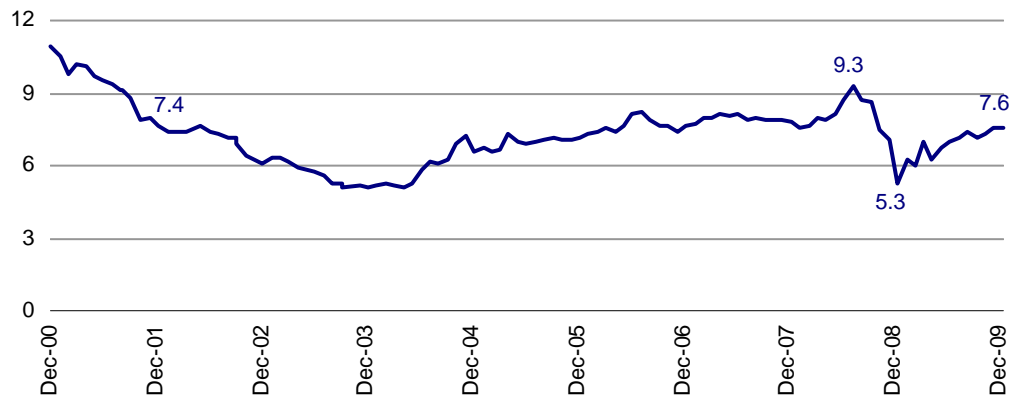


Source: MOSL

### Interest rates will remain stable or tend to move higher

The government's economic stimulus packages and high fiscal deficit have already created inflationary conditions. So, interest rates can at best be expected remain stable. If food inflation persists at current high levels, the RBI may even consider hiking interest rates in a calibrated manner without hurting growth.

INTEREST RATES IN INDIA WILL REMAIN STABLE OR TEND TO MOVE HIGHER (10-YEAR G-SEC YIELD TREND)



Source: MOSL

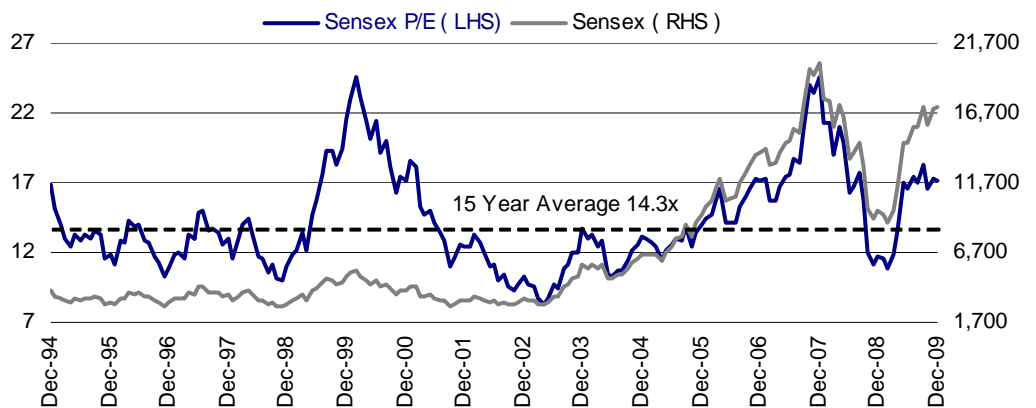
**Significant P/E re-rating not expected from current levels**

Sensex P/E has expanded significantly since the market bottom in December 2008 on expectation of buoyant earnings growth in FY11 and beyond.

However, we expect P/E to remain at current levels due to a significant increase in supply of paper from government as well as private corporate sector.

In fact, cash-rich, high return on capital companies which will not need to raise fresh capital to fund their growth are likely to enjoy higher P/E multiples going forward.

SENSEX P/E ALMOST 20% HIGHER THAN LONG-TERM AVERAGE

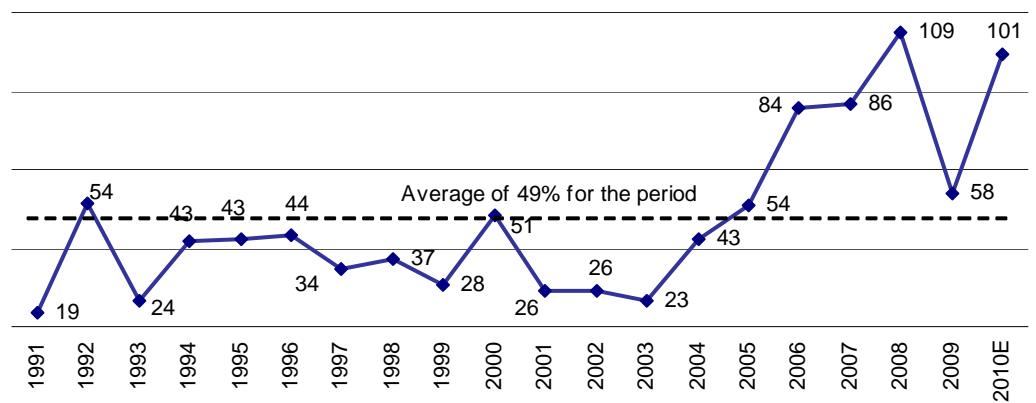


Source: MOSL

**No margin of safety at current levels**

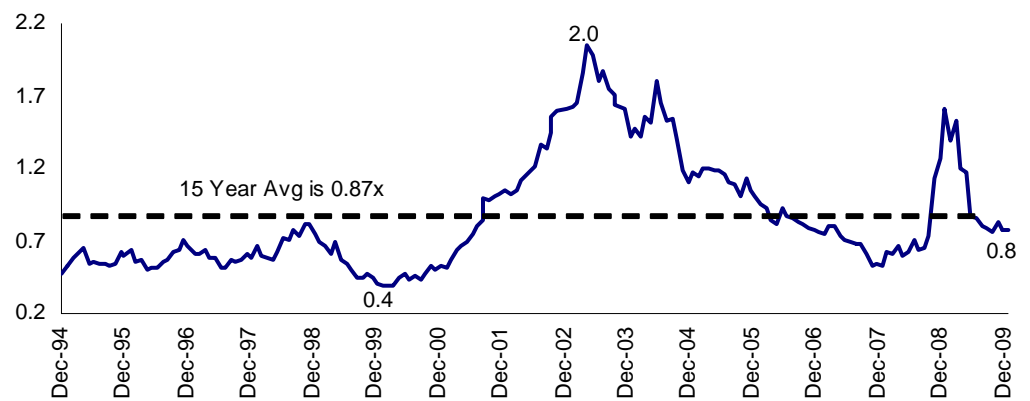
India's market cap to GDP is already close to its all-time high of 109% of GDP. Earnings yield to bond yield is also below its 15-year average of 0.9x, suggesting no margin of safety at current levels.

INDIA'S MARKET CAP TO GDP (%) CLOSE TO ITS ALL-TIME HIGH OF 109%



Source: MOSL

EARNINGS YIELD TO BOND YIELD BELOW LONG-TERM AVERAGE OFFERS NO MARGIN OF SAFETY



Source: CMIE/MOSL

### Conclusions

- Despite expected Sensex EPS growth of 25%+ in FY11, markets are unlikely to cross earlier peak of 21,000 in next 12 months.
- Inflation concerns, strong pipeline of issuances and current rich valuation will cap significant market upmove, despite fairly healthy earnings outlook.

Wealth Creation

*2004-2009*

The 14<sup>TH</sup> Annual Study

# Appendix



## MOSL 100 – Biggest Wealth Creators

## Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK NO.	COMPANY NAME	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
		RS B	% SHARE	PRICE	PAT	SALES	FY09	FY04	FY09	FY04
1	Reliance Inds.	1,514	15.7	28	24	22	13	16	16	15
2	Bharti Airtel	891	9.2	32	69	49	28	14	15	49
3	B H E L	588	6.1	38	37	27	24	12	23	22
4	NMDC	578	6.0	71	59	39	38	21	14	10
5	O N G C	471	4.9	7	13	15	20	21	10	14
6	ITC	436	4.5	22	15	18	24	25	21	16
7	Infosys Tech.	405	4.2	16	36	34	33	38	13	26
8	Larsen & Toubro	291	3.0	36	46	29	28	19	11	3
9	S A I L	265	2.7	24	20	16	22	50	6	5
10	H D F C	193	2.0	17	22	29	17	25	18	19
11	Hind. Unilever	188	2.0	9	7	15	121	83	21	19
12	State Bank of India	186	1.9	13	20	16	16	18	7	9
13	HDFC Bank	173	1.8	21	35	45	15	19	18	21
14	Jindal Steel	170	1.8	64	38	44	29	36	12	5
15	Sun Pharma.	155	1.6	28	39	33	25	29	18	25
16	Hind.Zinc	146	1.5	35	46	25	19	27	7	11
17	GAIL (India)	130	1.3	11	8	15	19	25	11	10
18	Hero Honda Motor	116	1.2	17	12	16	34	64	17	13
19	Sterlite Inds.	115	1.2	27	44	32	9	14	20	19
20	Cipla	93	1.0	19	20	22	18	24	22	23
21	Tata Comm	90	0.9	20	6	3	8	7	29	15
22	Nestle India	90	0.9	20	15	15	113	79	28	23
23	Tata Power	83	0.9	15	12	11	11	10	18	14
24	Maruti Suzuki	80	0.8	9	18	18	13	15	18	26
25	Bank of India	73	0.8	30	24	23	26	26	4	3
26	Hind. Copper	70	0.7	21	Loss	22	-	12	-	-
27	Sesa Goa	70	0.7	53	81	51	43	31	4	10
28	Dabur India	63	0.7	30	30	17	51	38	23	22
29	ACC	60	0.6	18	43	17	25	15	9	23
30	Axis Bank	57	0.6	23	46	47	18	24	8	12
31	A B B	57	0.6	22	35	36	26	21	17	27
32	Unitech	56	0.6	122	121	37	26	9	8	8
33	Siemens	56	0.6	22	34	42	29	28	15	23
34	Adani Enterprises	55	0.6	46	21	10	20	20	20	7
35	Bosch	55	0.6	18	22	19	20	26	15	18
36	Kotak Mah. Bank	53	0.5	28	29	60	7	13	35	31
37	Zee Entertainment	53	0.5	-5	22	19	13	6	15	48
38	Neyveli Lignite	48	0.5	9	-6	3	9	17	17	8
39	Container Corpn	47	0.5	15	17	14	21	26	12	13
40	Colgate-Palmolive	47	0.5	29	22	13	134	44	22	16
41	Grasim Inds	47	0.5	8	16	16	17	22	9	13
42	Asian Paints	46	0.5	21	20	20	33	28	21	20
43	Union Bank (I)	45	0.5	23	19	21	24	27	4	3
44	Divi's Lab.	43	0.4	27	42	31	34	32	15	25
45	Reliance Capital	43	0.4	22	56	55	14	8	9	16
46	GSK Pharma	41	0.4	12	27	9	37	26	16	26
47	Crompton Greaves	37	0.4	41	41	22	32	22	11	11
48	M & M	37	0.4	11	20	21	17	20	12	15
49	Ambuja Cements	36	0.4	13	33	26	25	17	8	15
50	GE Shipping	33	0.3	8	24	16	28	31	2	5

## MOSL 100 – Biggest Wealth Creators (contd.)

## Appendix I

RANKED ACCORDING TO THE BIGGEST WEALTH CREATORS

RANK NO.	COMPANY NAME	WEALTH CREATED		CAGR (%)			ROE (%)		P/E (X)	
		RS B	% SHARE	PRICE	PAT	SALES	FY09	FY04	FY09	FY04
51	Sterling Intl	33	0.3	62	-32	-18	1	6	11,993	151
52	Areva T&D	32	0.3	97	68	37	31	10	21	8
53	Bharat Electronics	31	0.3	12	19	11	20	25	9	13
54	Lupin	30	0.3	16	33	20	30	22	14	26
55	Titan Inds.	29	0.3	50	70	34	29	9	22	40
56	Marico	29	0.3	36	20	18	39	32	26	13
57	Glenmark Pharma.	29	0.3	34	39	20	18	19	18	20
58	United Spirits	24	0.2	64	69	31	10	8	22	13
59	Wipro	22	0.2	2	27	33	24	26	12	35
60	Exide Inds.	22	0.2	27	31	29	23	22	12	13
61	Godrej Consumer	21	0.2	27	20	17	30	153	21	14
62	Punjab Natl.Bank	21	0.2	4	23	20	24	24	4	8
63	Financial Tech.	21	0.2	53	96	68	21	23	8	24
64	GTL	21	0.2	24	3	25	9	6	25	7
65	EH	20	0.2	19	43	15	14	4	20	51
66	Shree Cement	20	0.2	38	113	41	48	5	4	38
67	GSK Consumer	19	0.2	23	20	14	25	16	16	15
68	Natl. Aluminium	19	0.2	3	12	10	13	20	11	16
69	Britannia Inds	19	0.2	18	9	17	22	28	19	13
70	Sterling Biotech	17	0.2	15	37	32	13	14	16	23
71	Cummins India	17	0.2	14	32	29	31	17	8	18
72	Shriram Transport	17	0.2	49	75	71	26	40	6	3
73	Jain Irrigation	16	0.2	39	44	39	13	11	21	18
74	Castrol India	16	0.2	11	14	13	55	39	15	18
75	CRISIL	16	0.2	40	50	40	40	19	14	18
76	Motherson Sumi	16	0.2	25	7	23	17	35	34	16
77	Opto Circuits	15	0.2	84	61	47	35	32	12	5
78	HMT	15	0.2	13	Loss	3	-	-	-	-
79	Bhushan Steel	14	0.1	46	36	26	21	15	4	3
80	Pidilite Inds.	14	0.1	23	19	22	20	20	15	12
81	United Breweries	13	0.1	56	86	30	7	8	34	62
82	Tata Tea	13	0.1	12	12	12	9	10	23	20
83	Thermax	13	0.1	19	40	40	30	16	8	16
84	Chettinad Cement	12	0.1	58	P to L	28	-	11	-	10
85	Century Textiles	12	0.1	18	25	12	16	10	9	12
86	Oracle Fin.Serv.	12	0.1	5	32	26	20	18	9	24
87	Guj Gas Company	12	0.1	24	20	20	23	30	11	9
88	BF Utilities	11	0.1	84	L to P	15	2	-	261	-
89	Voltas	11	0.1	32	45	26	35	21	6	10
90	Blue Star	11	0.1	40	41	30	49	25	8	8
91	Engineers India	11	0.1	10	34	4	25	10	8	23
92	Alstom Projects	11	0.1	20	12	31	34	28	14	10
93	P & G Hygiene	11	0.1	13	14	6	41	37	14	14
94	Tata Tele. Mah.	11	0.1	7	Loss	27	43	-	-	-
95	Piramal Health	11	0.1	7	8	11	23	48	15	15
96	ICI (India)	11	0.1	19	22	3	30	21	6	7
97	Shriram City Union	11	0.1	70	45	46	17	32	13	3
98	Astrazeneca Pharma	10	0.1	30	25	15	64	25	19	16
99	Madras Aluminium	10	0.1	36	4	10	12	30	27	7
100	EID Parry	10	0.1	29	74	6	72	13	2	8

## MOSL 100 – Fastest Wealth Creators

## Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK NO.	COMPANY NAME	PRICE	CAGR (%)			ROE (%)		P/E (X)	
		APPRN. (X)	PRICE	PAT	SALES	FY09	FY04	FY09	FY04
1	Unitech	54	122	121	37	26	9	8	8
2	Areva T&D	29	97	68	37	31	10	21	8
3	BF Utilities	21	84	L to P	15	2	-	261	-
4	Opto Circuits	21	84	61	47	35	32	12	5
5	NMDC	14	71	59	39	38	21	14	10
6	Shriram City Union	14	70	45	46	17	32	13	3
7	United Spirits	12	64	69	31	10	8	22	13
8	Jindal Steel	12	64	38	44	29	36	12	5
9	Sterling Intl	11	62	-32	-18	1	6	11,993	151
10	Chettinad Cement	10	58	P to L	28	-	11	-	10
11	United Breweries	9	56	86	30	7	8	34	62
12	Sesa Goa	8	53	81	51	43	31	4	10
13	Financial Tech.	8	53	96	68	21	23	8	24
14	Titan Inds.	7	50	70	34	29	9	22	40
15	Shriram Transport	7	49	75	71	26	40	6	3
16	Adani Enterprises	7	46	21	10	20	20	20	7
17	Bhushan Steel	7	46	36	26	21	15	4	3
18	Crompton Greaves	6	41	41	22	32	22	11	11
19	Blue Star	5	40	41	30	49	25	8	8
20	CRISIL	5	40	50	40	40	19	14	18
21	Jain Irrigation	5	39	44	39	13	11	21	18
22	Shree Cement	5	38	113	41	48	5	4	38
23	B H E L	5	38	37	27	24	12	23	22
24	Madras Aluminium	5	36	4	10	12	30	27	7
25	Larsen & Toubro	5	36	46	29	28	19	11	3
26	Marico	5	36	20	18	39	32	26	13
27	Hind.Zinc	4	35	46	25	19	27	7	11
28	Glenmark Pharma.	4	34	39	20	18	19	18	20
29	Bharti Airtel	4	32	69	49	28	14	15	49
30	Voltas	4	32	45	26	35	21	6	10
31	Dabur India	4	30	30	17	51	38	23	22
32	Bank of India	4	30	24	23	26	26	4	3
33	Astrazeneca Pharma	4	30	25	15	64	25	19	16
34	Colgate-Palmolive	4	29	22	13	134	44	22	16
35	EID Parry	4	29	74	6	72	13	2	8
36	Kotak Mah. Bank	4	28	29	60	7	13	35	31
37	Reliance Inds.	3	28	24	22	13	16	16	15
38	Sun Pharma.	3	28	39	33	25	29	18	25
39	Exide Inds.	3	27	31	29	23	22	12	13
40	Sterlite Inds.	3	27	44	32	9	14	20	19
41	Divi's Lab.	3	27	42	31	34	32	15	25
42	Godrej Consumer	3	27	20	17	30	153	21	14
43	Motherson Sumi	3	25	7	23	17	35	34	16
44	S A I L	3	24	20	16	22	50	6	5
45	GTL	3	24	3	25	9	6	25	7
46	Guj Gas Company	3	24	20	20	23	30	11	9
47	Pidilite Inds.	3	23	19	22	20	20	15	12
48	GSK Consumer	3	23	20	14	25	16	16	15
49	Axis Bank	3	23	46	47	18	24	8	12
50	Union Bank (I)	3	23	19	21	24	27	4	3

## MOSL 100 – Fastest Wealth Creators (contd.)

## Appendix II

RANKED ACCORDING TO THE FASTEST WEALTH CREATORS

RANK NO.	COMPANY NAME	PRICE	CAGR (%)			ROE (%)		P/E (X)	
		APPRN. (X)	PRICE	PAT	SALES	FY09	FY04	FY09	FY04
51	Siemens	3	22	34	42	29	28	15	23
52	Reliance Capital	3	22	56	55	14	8	9	16
53	A B B	3	22	35	36	26	21	17	27
54	ITC	3	22	15	18	24	25	21	16
55	Asian Paints	3	21	20	20	33	28	21	20
56	Hind. Copper	3	21	Loss	22	-	12	-	-
57	HDFC Bank	3	21	35	45	15	19	18	21
58	Tata Comm	3	20	6	3	8	7	29	15
59	Alstom Projects	2	20	12	31	34	28	14	10
60	Nestle India	2	20	15	15	113	79	28	23
61	Thermax	2	19	40	40	30	16	8	16
62	ICI (India)	2	19	22	3	30	21	6	7
63	EH	2	19	43	15	14	4	20	51
64	Cipla	2	19	20	22	18	24	22	23
65	Century Textiles	2	18	25	12	16	10	9	12
66	Bosch	2	18	22	19	20	26	15	18
67	ACC	2	18	43	17	25	15	9	23
68	Britannia Inds	2	18	9	17	22	28	19	13
69	H D F C	2	17	22	29	17	25	18	19
70	Hero Honda Motor	2	17	12	16	34	64	17	13
71	Infosys Tech.	2	16	36	34	33	38	13	26
72	Lupin	2	16	33	20	30	22	14	26
73	Tata Power	2	15	12	11	11	10	18	14
74	Container Corpn	2	15	17	14	21	26	12	13
75	Sterling Biotech	2	15	37	32	13	14	16	23
76	Cummins India	2	14	32	29	31	17	8	18
77	State Bank of India	2	13	20	16	16	18	7	9
78	HMT	2	13	Loss	3	-	-	-	-
79	P & G Hygiene	2	13	14	6	41	37	14	14
80	Ambuja Cements	2	13	33	26	25	17	8	15
81	GSK Pharma	2	12	27	9	37	26	16	26
82	Bharat Electronics	2	12	19	11	20	25	9	13
83	Tata Tea	2	12	12	12	9	10	23	20
84	GAIL (India)	2	11	8	15	19	25	11	10
85	Castrol India	2	11	14	13	55	39	15	18
86	M & M	2	11	20	21	17	20	12	15
87	Engineers India	2	10	34	4	25	10	8	23
88	Maruti Suzuki	2	9	18	18	13	15	18	26
89	Hind. Unilever	2	9	7	15	121	83	21	19
90	Neyveli Lignite	2	9	-6	3	9	17	17	8
91	GE Shipping	1	8	24	16	28	31	2	5
92	Grasim Inds	1	8	16	16	17	22	9	13
93	Piramal Health	1	7	8	11	23	48	15	15
94	Tata Tele. Mah.	1	7	Loss	27	43	-	-	-
95	O N G C	1	7	13	15	20	21	10	14
96	Oracle Fin. Serv.	1	5	32	26	20	18	9	24
97	Punjab Natl. Bank	1	4	23	20	24	24	4	8
98	Natl. Aluminium	1	3	12	10	13	20	11	16
99	Wipro	1	2	27	33	24	26	12	35
100	Zee Entertainment	1	-5	22	19	13	6	15	48

## MOSL 100 – Wealth Creators (alphabetical)

## Appendix III

## ALPHABETICALLY ARRANGED

SR. NO.	COMPANY NAME	BIGGEST		FASTEST		CAGR (%)		ROE (%)		P/E (X)	
		RANK	WC (RS B)	RANK	PRICE CAGR (%)	PAT	SALES	FY09	FY04	FY09	FY04
1	ABB	31	57	53	22	35	36	26	21	17	27
2	ACC	29	60	67	18	43	17	25	15	9	23
3	Adani Enterprises	34	55	16	46	21	10	20	20	20	7
4	Alstom Projects	92	11	59	20	12	31	34	28	14	10
5	Ambuja Cements	49	36	80	13	33	26	25	17	8	15
6	Areva T&D	52	32	2	97	68	37	31	10	21	8
7	Asian Paints	42	46	55	21	20	20	33	28	21	20
8	Astrazeneca Pharma	98	10	33	30	25	15	64	25	19	16
9	Axis Bank	30	57	49	23	46	47	18	24	8	12
10	B H E L	3	588	23	38	37	27	24	12	23	22
11	Bank of India	25	73	32	30	24	23	26	26	4	3
12	BF Utilities	88	11	3	84	L to P	15	2	-	261	-
13	Bharat Electronics	53	31	83	12	19	11	20	25	9	13
14	Bharti Airtel	2	891	29	32	69	49	28	14	15	49
15	Bhushan Steel	79	14	17	46	36	26	21	15	4	3
16	Blue Star	90	11	19	40	41	30	49	25	8	8
17	Bosch	35	55	66	18	22	19	20	26	15	18
18	Britannia Inds	69	19	68	18	9	17	22	28	19	13
19	Castrol India	74	16	86	11	14	13	55	39	15	18
20	Century Textiles	85	12	65	18	25	12	16	10	9	12
21	Chettinad Cement	84	12	10	58	P to L	28	-	11	-	10
22	Cipla	20	93	64	19	20	22	18	24	22	23
23	Colgate-Palmolive	40	47	34	29	22	13	134	44	22	16
24	Container Corpn	39	47	74	15	17	14	21	26	12	13
25	CRISIL	75	16	20	40	50	40	40	19	14	18
26	Crompton Greaves	47	37	18	41	41	22	32	22	11	11
27	Cummins India	71	17	76	14	32	29	31	17	8	18
28	Dabur India	28	63	31	30	30	17	51	38	23	22
29	Divi's Lab.	44	43	41	27	42	31	34	32	15	25
30	EID Parry	100	10	35	29	74	6	72	13	2	8
31	EH	65	20	63	19	43	15	14	4	20	51
32	Engineers India	91	11	88	10	34	4	25	10	8	23
33	Exide Inds.	60	22	39	27	31	29	23	22	12	13
34	Financial Tech.	63	21	13	53	96	68	21	23	8	24
35	GAIL (India)	17	130	85	11	8	15	19	25	11	10
36	GE Shipping	50	33	92	8	24	16	28	31	2	5
37	GSK Consumer	67	19	48	23	20	14	25	16	16	15
38	GSK Pharma	46	41	81	12	27	9	37	26	16	26
39	Glenmark Pharma.	57	29	28	34	39	20	18	19	18	20
40	Godrej Consumer	61	21	42	27	20	17	30	153	21	14
41	Grasim Inds	41	47	93	8	16	16	17	22	9	13
42	GTL	64	21	45	24	3	25	9	6	25	7
43	Guj Gas Company	87	12	46	24	20	20	23	30	11	9
44	H D F C	10	193	69	17	22	29	17	25	18	19
45	HDFC Bank	13	173	57	21	35	45	15	19	18	21
46	Hero Honda Motor	18	116	70	17	12	16	34	64	17	13
47	Hind. Copper	26	70	56	21	Loss	22	-	12	-	-
48	Hind. Unilever	11	188	90	9	7	15	121	83	21	19
49	Hind.Zinc	16	146	27	35	46	25	19	27	7	11
50	HMT	78	15	78	13	Loss	3	-	-	-	-

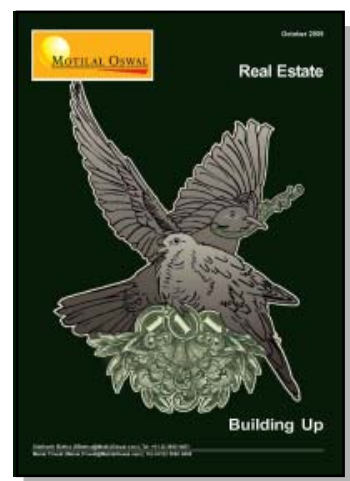
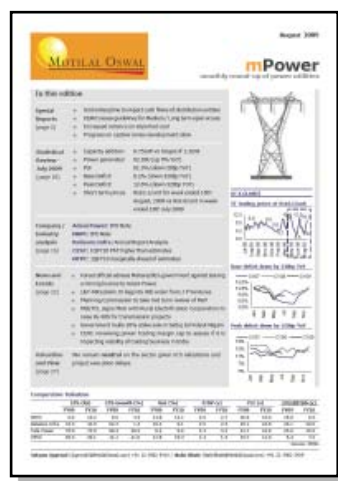
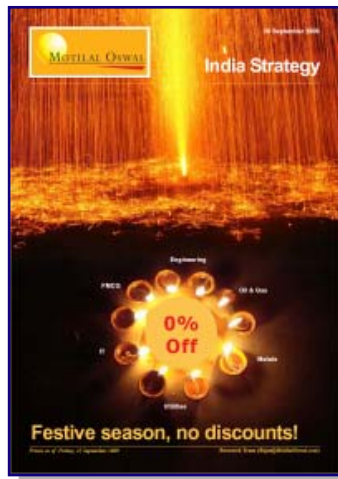
## MOSL 100 – Wealth Creators (alphabetical, contd.)

## Appendix III

## ALPHABETICALLY ARRANGED

SR. NO.	COMPANY NAME	BIGGEST		FASTEST		CAGR (%)		ROE (%)		P/E (X)		
		RANK	WC (RS B)	RANK	PRICE	CAGR (%)	PAT	SALES	FY09	FY04	FY09	FY04
51	ICI (India)	96	11	62		19	22	3	30	21	6	7
52	Infosys Tech.	7	405	71		16	36	34	33	38	13	26
53	ITC	6	436	54		22	15	18	24	25	21	16
54	Jain Irrigation	73	16	21		39	44	39	13	11	21	18
55	Jindal Steel	14	170	8		64	38	44	29	36	12	5
56	Kotak Mah. Bank	36	53	36		28	29	60	7	13	35	31
57	Larsen & Toubro	8	348	25		36	46	29	28	19	11	3
58	Lupin	54	30	72		16	33	20	30	22	14	26
59	M & M	48	37	87		11	20	21	17	20	12	15
60	Madras Aluminium	99	10	24		36	4	10	12	30	27	7
61	Marico	56	29	26		36	20	18	39	32	26	13
62	Maruti Suzuki	24	80	89		9	18	18	13	15	18	26
63	Motherson Sumi	76	16	43		25	7	23	17	35	34	16
64	Natl. Aluminium	68	19	99		3	12	10	13	20	11	16
65	Nestle India	22	90	60		20	15	15	113	79	28	23
66	Neyveli Lignite	38	48	91		9	-6	3	9	17	17	8
67	NMDC	4	578	5		71	59	39	38	21	14	10
68	O N G C	5	471	96		7	13	15	20	21	10	14
69	Opto Circuits	77	15	4		84	61	47	35	32	12	5
70	Oracle Fin. Serv.	86	12	97		5	32	26	20	18	9	24
71	P & G Hygiene	93	11	79		13	14	6	41	37	14	14
72	Pidilite Inds.	80	14	47		23	19	22	20	20	15	12
73	Piramal Health	95	11	94		7	8	11	23	48	15	15
74	Punjab Natl. Bank	62	21	98		4	23	20	24	24	4	8
75	Reliance Capital	45	43	52		22	56	55	14	8	9	16
76	Reliance Inds.	1	1,514	37		28	24	22	13	16	16	15
77	S A I L	9	265	44		24	20	16	22	50	6	5
78	Sesa Goa	27	70	12		53	81	51	43	31	4	10
79	Shree Cement	66	20	22		38	113	41	48	5	4	38
80	Shriram City Union	97	11	6		70	45	46	17	32	13	3
81	Shriram Transport	72	17	15		49	75	71	26	40	6	3
82	Siemens	33	56	51		22	34	42	29	28	15	23
83	State Bank of India	12	186	77		13	20	16	16	18	7	9
84	Sterling Biotech	70	17	75		15	37	32	13	14	16	23
85	Sterling Intl	51	33	9		62	-32	-18	1	6	-	151
86	Sterlite Inds.	19	115	40		27	44	32	9	14	20	19
87	Sun Pharma.	15	155	38		28	39	33	25	29	18	25
88	Tata Comm	21	90	58		20	6	3	8	7	29	15
89	Tata Power	23	83	73		15	12	11	11	10	18	14
90	Tata Tea	82	13	84		12	12	12	9	10	23	20
91	Tata Tele. Mah.	94	11	95		7	Loss	27	43	-	-	-
92	Thermax	83	13	61		19	40	40	30	16	8	16
93	Titan Inds.	55	29	14		50	70	34	29	9	22	40
94	Union Bank (I)	43	45	50		23	19	21	24	27	4	3
95	Unitech	32	56	1		122	121	37	26	9	8	8
96	United Breweries	81	13	11		56	86	30	7	8	34	62
97	United Spirits	58	24	7		64	69	31	10	8	22	13
98	Voltas	89	11	30		32	45	26	35	21	6	10
99	Wipro	59	22	100		2	27	33	24	26	12	35
100	Zee Entertainment	37	53	82		12	22	19	13	6	15	48





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