Saral Gyan Capital Services
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Stock Portfolio of 12 for New Year – 2012

SARAL GYAN CAPITAL SERVICES
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An Independent Equity Research Firm

We have selected 12 scrips which can benefit our investors in 2012. We tried to apply a simple but effective approach by evaluating each stock on the basis of below mentioned criteria's.

(i) <u>Top Quality management with high integrity:</u>

This is an absolutely non-negotiable condition. If the management is not honest, will they want to share the goodies with you? No, they will look for the first opportunity to siphon off the profits and pull the wool over your eyes.

(ii) <u>The scale of opportunity must be big</u>:

Multi-bagger stocks are created because they are able to scale the opportunity rapidly. **Titan Industries** is a great example. In 2003-04, **Titan**'s market cap was 500 crores. In 2011-12, it is close to 19,500 crores. The fact that India is a booming marketplace of 120 crores consumers means that most products and services have a head start at trying to scale up their activities.

(iii) <u>Low debt; free cash flows</u>:

We learnt from the great crisis of 2011 that companies with high debt on their books simply get slaughtered. While debt per se is not bad (*if the company is able to borrow at a lower rate and deploy it in its business at a higher rate, the operating leverage works in its favour*), excessive debt with high interest and repayment obligations can crunch the stock in times of downturn. So, as a long-term investment philosophy, it is best to steer clear of high-debt companies.

(iv) <u>High ROE – Efficient users of capital</u>:

Some company's management is able to squeeze that little extra of every buck. A ROE of at least 25% is necessary to make into the hallowed list of model portfolio.

(v) <u>No High Capex Requirements – No Serial Diluters of Equity</u>:

We know from (*bitter*) experience the demerits of investing in stocks like **Suzlon** & **GMR** which have an insatiable appetite for more and more capital. To feed their perennial hunger, these companies dilute their equity by making FPOs, GDRs & FCCBs resulting in total destruction of shareholders' wealth. Companies should be lean and mean requiring minimal capital but generating huge returns there from.

(vi) **Reasonable growth expectations**:

"If you get a tax-free return of 18% for your portfolio, you must be very happy". So, stop craving for that overnight multi-bagger. You'll only end up losing your precious capital that way. Instead, look for well established small, mid and blue chips companies that are growing at a reasonable rate of return (15 – 25%). With time and the magic of compounding, you will have your muti-bagger in your portfolio.

(vii) **Valuations**:

Most investors are obsessed about valuations, refusing to buy any stock that is "*expensive*". However, one must remember that "*expensive*" is a relative term. If a stock is compounding at 25% on an annual basis, paying a price of 30 times earnings may be very reasonable. A stock like **Nestle**, for instance, has always been "expensive". However, if an investor had gone ahead and bought the stock, he would have had an incredible multi-bagger on his hands. On the other hand, in trying to buy a "*cheap*" stock, one may get saddled with unsavory companies. After all, there is a reason why such stocks are "*cheap*".

Of course, one should be careful not to buy in euphoric or bubble times when the pricing may be extravagant and not at all reasonable.

(viii) **Concentrated Portfolio**:

We like Warren Buffett approach, a believer in the concept of a concentrated portfolio. If you believe in the prospects of a stock you should be prepared to put a substantial chunk of money in it – or nothing at all. There is no point in buying a bit of this and a bit of that because that dilutes your returns.

Of course, we are no match for Warren Buffett and we do not have his conviction levels. So, we'll stick to 12 stocks to begin with, which means that from 5% to 12% of the wealth will be invested in each stock.

(ix) **Diversification**:

Last but not the least; a proper portfolio must be diversified across sectors. A bit of Finance, a bit of consumption, some autos, a pinch of chemical etc will make a balanced portfolio.

Our selection process has been made with lot of research and data analysis. We first identified the sectors that are likely to do well in next 12 months. Having that done, we further refined our search to select companies from that sector. We have created a portfolio worth Rs. 1 Lakh comprising below 12 stocks so that it can help investors to create a model portfolio with lump sum investment upto 1 Lakh.

We have given the different allocation to each of the scrips keeping in mind the risk versus returns ratio. We have also fine tuned the portfolio with large-cap, mid-cap and small cap scrips so that the investors can invest in a complete mix of stocks to balance their portfolio. Saral Gyan Portfolio of 12 for 2012 includes best of Hidden Gems and Value Picks recommended by our equity analyst's team.

S.NO	TYPE	SECTOR	SCRIP	BSE CODE	CMP (RS) 01-JAN-12	% ALLOCATION	INVESTMENT AMOUNT (RS)	NO. OF SHARES	ROUND OFF QUANTITY
1	LARGE CAP	IT SERVICES	**TATA CONSULTANCY SERVICE**	532540	**1161.25**	12	**12,000**	10.33	**10**
2	LARGE CAP	OIL & GAS	**RELIANCE INDUSTRIES**	500325	**692.9**	11	**11,000**	15.88	**16**
3	LARGE CAP	OIL & GAS	**PETRONET LNG**	532522	**155.8**	11	**11,000**	70.60	**71**
4	MID CAP	CHEMICALS	**TATA CHEMICALS**	500770	**311.35**	10	**10,000**	32.12	**32**
5	MID CAP	BANKS	**YES BANK**	532648	**238.6**	10	**10,000**	41.91	**42**
6	MID CAP	AGRO CHEMICALS	**RALLIS INDIA**	500355	**120**	8	**8,000**	66.67	**67**
7	MID CAP	CONSUMERS	**GODREJ INDUSTRIES**	500164	**170.95**	8	**8,000**	46.80	**47**
8	SMALL CAP	CONSUMERS	**WIM PLAST**	526586	**174.3**	7	**7,000**	40.16	**40**
9	SMALL CAP	CONSUMERS	**CERA SANITARYWARE**	532443	**171**	7	**7,000**	40.94	**41**
10	SMALL CAP	IT SERVICES	**ABM KNOWLEDGEWARE**	531161	**71.7**	6	**6,000**	83.68	**84**
11	SMALL CAP	COMMODITIES	**INDAG RUBBER**	509162	**137.5**	5	**5,000**	36.36	**36**
12	SMALL CAP	COMMODITIES	**PUNEET RESINS**	526492	**35.4**	5	**5,000**	141.24	**141**
TOTAL						**100**	**1,00,000**		**99,767**

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