

HOT PICKS FOR 2009...!!!

“If a business does well, the stock eventually follows.” Warren buffet

CAPITALVIA RESEARCH has sorted a list of large cap stocks which have operating profit margin and return on capital employed both above 20.

First let us have a brief idea what these two criteria means

RETURN ON CAPITAL EMPLOYED

ROCE A measure of the returns that a company is realizing from its capital. Calculated as profit before interest and tax divided by the difference between total assets and current liabilities. The resulting ratio represents the efficiency with which capital is being utilized to generate revenue.

Capital Employed is represented as total assets minus current liabilities. In other words, it is the value of the assets that contribute to a company's ability to generate revenue.

ROCE is thus a ratio that indicates the efficiency and profitability of a company's capital investments (stocks, shares and long term liabilities).

- ROCE should always be higher than the cost of borrowing.
- An increase in the company's borrowings will put an additional debt burden on the company and will reduce shareholders' earnings.
- So, as a thumb rule, a ROCE of 20% or more is considered very good.
- If a company has a low ROCE, it means that it is using its resources inefficiently, even if its profit margin is high.

OPERATING PROFIT MARGIN

The operating margin is another measurement of management's efficiency. It compares the quality of a company's operations to its competitors. A business that has a higher operating margin than its industry's average tends to have lower fixed costs and a better gross margin, which gives management more flexibility in determining prices. This pricing flexibility provides an added measure of safety during tough economic times. To calculate the operating margin, divide operating income by the total revenue

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LARGE CAP COMPANIES WITH ROCE AND OPM ABOVE 20

COMPANY NAME	MARKET CAP	OPM	ROCE
ACC Ltd.	9535.99	28.15	32.26
Ambuja Cements Ltd.	11343.22	36.2	35.44
Bharti Airtel Ltd.	134876.91	41.37	23.34
Biocon Ltd.	2350	21.13	29.56
Divi's Laboratories Ltd.	8463.6	41.43	36.82
GlaxoSmithKline Pharmaceuticals Ltd.	9623.11	35.72	39.34
Glen mark Pharmaceuticals Ltd.	7472.08	36.44	25.05
Godrej Consumer Products Ltd.	3036.63	22.27	51.95
Gujarat Gas Company Ltd.	1330.59	21.38	28.25
Hindustan Zinc Ltd.	13998.48	68.36	37.1
Housing Development & Infrastructure Ltd.	4250.85	71.01	20.89
Indraprastha Gas Ltd.	1386.7	43.43	30.26
Info Edge (India) Ltd.	1125.93	37	20.79
Infosys Technologies Ltd.	67414.72	31.72	33.13
ITC Ltd.	68006.18	31.57	25.54
J M Financial Ltd.	1751.25	45.12	82.25
JSW Steel Ltd.	4263.77	29.46	27.98
Monsanto India Ltd.	1035.74	29.51	37.64
NMDC Ltd.	69124.82	76	39.21
Pfizer Ltd.	1468.05	22.36	52.25
Praj Industries Ltd.	1202.36	20.55	43.76
Sesa Goa Ltd.	6652.18	69.92	53.45
Steel Authority of India (SAIL) Ltd.	35067.1	28.19	28.86
Sun TV Network Ltd.	6370.38	72.22	24.95
Tata Consultancy Services Ltd.	49923.81	27.11	40.9
Tech Mahindra Ltd.	3267.61	23.28	24.61
UltraTech Cement Ltd.	4473.4	31.33	22.7

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