

Eyeing Tomorrow's Stars.. Today

ETIG is back with the latest list of India's 100 fastest growing small companies

WHO DOESN'T want to include another Infosys or Praj Industries in his or her portfolio? The prospects are all the more enticing, if you happen to be an 'early bird' investor in a rapidly-growing company. A portfolio with such stocks has a very high probability to outperform even the worst-performing markets. So, how to find out tomorrow's stars before your neighbors and colleagues begin to talk about them.

There are nearly 5,000 companies listed on the BSE out of which around two-thirds are traded on a regular basis. One way to spot gems is to listen to market pundits, the other is to do your own homework. Both are easier said than done. Or else leave it to ETIG to help you spot the little-known gems in the stock market. We are back with the list of India's 100 fastest growing small companies. By small, we mean companies with a m-cap of less than Rs 5,000 crore but greater than Rs 50 crore and net sales of at least Rs 50 crore. To arrive at the final ranking, we have given a 50% weightage to a company's rank on the basis of its return on capital employed (RoCE) and 25% weightage each to its rank on the three-year compounded annual growth in net sales and net profit.

We had brought out a similar list in May '07. It had generated tremendous interest amongst our readers. At that time, we based the ranking on the interim quarterly results of companies. Since most of the companies have declared their audited results for FY07 by now, we decided to update the list.

So, what is a good high-growth company? According to ETIG, a well-managed high growth company must meet three criteria - an average RoCE of 15% or more in the past three years, three years average net sales growth of 20% or more and a net profit growth of not less than 15%. Besides, its three-year average debt-to-equity must be below 1.5. We also filtered out those companies which are thinly traded on the exchanges. Only those companies were considered whose average daily trading volume is more than 500 shares in the past 30 trading sessions. We excluded banks and finance companies including brokerages from our list as companies in this sector work in a different regulatory environment than a typical manufacturing or service sector firm.

The members of the latest list of ETIG100 fastest growing companies hail from various industries including capital goods, IT, construction, textile & garments and metals. The strongest representation is, however, from the capital goods and IT sectors. There are 22 companies from each of these sectors and eight entries from the construction & real estate sector. ICSA (India) tops our ranking followed by Tanla Solution, which was listed early this year. Though IT companies are no longer the darlings of the stock market, four out of the top 10 companies in the latest list belong to this sector. Another three are makers of capital goods.

So, what differentiates these companies from their peers? The common characteristic is the ability to make the most of available opportunities. While quite a number of them are start-ups, others changed their business model to take advantage of emerging opportunities. Among the latter is ICSA (India). It was originally founded as a finance company, but the business model didn't work out and new promoters stepped in. They sensed the emerging opportunities in providing remote telemetry solutions to the power sector. Other such turnaround stories include Allsec Technologies, Praj Industries and Techno Electric & Engineering. Among toppers are a clutch of small but rapidly growing software and IT services and products companies such as Tanla Solutions, Core Projects and Tulip IT Services. These companies have grown by exploiting niches such as telecom, education, government and enterprise networks.

A nationwide boom in infrastructure spending and capital expenditure by corporates has ensured a big representation from the capital goods and the real estate and construction sector. Infrastructure spending has also brightened the prospects for steel makers and there are a total six entries from the sector and two from the mining and minerals space. The largest company in our list is Balrampur Chini Mills, which reported net sales of Rs 1,898 crore during its financial year ending September '06. The smallest company is Compact Disc India, which clocked revenues of Rs 50 crore during year ending March this year. A majority of the companies have net sales of Rs 100-1,000 crore, while a median-sized company had revenues of around Rs 230 crore. As for their market value, a typical company in our list has a market capitalisation of around Rs 470 crore. The most valuable company in our list is Kalptaru Power Transmission, whose average market cap in the last 30 days was Rs 4,275 crore, while the least valuable company is Visu International, which is currently valued at around Rs 55 crore.

So, how does our current list of fastest growing companies compare with the list in May '07? With a fast moving economy like ours, new stars are born every quarter. Why should the list of India's fastest growing small companies be any different? Some of the best companies are common to both the lists, including top ranker ICSA (India). In fact, there are only four companies among the top 10 that are common in both the lists. One of the reasons for this is that last time we had missed many companies, especially the recently listed ones, whose interim results (those which reported to stock exchanges) were not available. Now that their audited results are available, they have made an entry into the list. So, in that sense, the latest list is more representative than the earlier one.

ETIG100 - Fastest Growing Small Companies			
	3-YR CAGR GROWTH (%)		SHARE PRICE
	Net Sales	PAT	(Rs)
ICSA India	280	451	1,600
Tania Solutions	143	167	544
Vyapar Industries	109	218	134
Allsec Technologies*	65	535	140
Core Projects And Technologies	148	141	200
Esab India	28	294	463
Venus Remedies	81	182	462
Praj Industries	79	120	190
Action Construction Equipment	93	330	342
Disa India	71	174	1,492
* The company has reported losses in FY04			
SOURCE: ETINTELLIGENCE.COM			

	3-YR CAGR GROWTH (%)		SHARE PRICE
	Net Sales	PAT	(Rs)
Ahluwalia Contracts	49	167	221
Tulip IT Services	57	160	801
Ratnamani Metals & Tubes	69	151	1,018
Ricoh India	43	158	34
Techno Electric & Engineering Co	76	113	126
KEI Industries	83	256	90
BL Kashyap & Sons	61	115	2,274
Steelcast	50	153	163
Geodesic Information Systems	111	129	188
Tele Data Informatics	162	312	58

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