

by threats of sovereign default and fiscal austerity programmes is likely to grow at a much modest 1.5 per cent. For somewhat different reasons, that is also the expected growth in Japan.

There is a real possibility that the US market will outperform the emerging country markets for a while at in the first half of 2011. Some capital may flow back to the US. The portfolio inflows in India may not be negative, but they are unlikely to be anywhere near the 2010 level.

Despite these negative factors, the economy is likely to keep growing at the 'default' rate of 8.5 per cent. Markets will continue to move up, though not as fast as many of us want it to.

What should investors do in such a scenario?

"To get superior returns in 2011, investors have to analyse the economic and business conditions, and figure out the favourably-placed stocks and sectors in order to get better returns in the markets," says an investment consultant.

"Investors need to look for companies lead in their businesses, are well-managed and have strong entry barriers. More importantly, their future prospects look good," says a mutual fund manager.

A quality pick, according to a stock broker, would be a company with low leverage, a high dividend and the expectation of keeping it up, free cash flow, and a strong market share also with the ability to keep it.

Corporate India's research team has carried out such an exercise and we are pleased to share the results with you. We have identified 10 scrips each of which has quite a few of the characteristics listed by these experts.

Here we go.

## Tata Steel



**TATA STEEL**

is one of the major beneficiaries of the forthcoming steel boom.

Reflecting this, the sales turnover of the company in the first half of the current year (April to September 2010) has amounted to Rs. 13,668 crore as compared to Rs. 11,307 crore in the corresponding period last year and the profit at net level has zoomed from Rs. 1692.77 crore to Rs. 3645 crore during this period.

What is more, prospects for coming days are all the more encouraging. The 3 – million tonne brownfield capacity expansion is progressing quite well. This Rs. 8700-crore expansion plan is likely to be completed in the third quarter

**AFTER** the setback it suffered last year, the steel industry is once again coming into its own and Tata Steel, which has operations in India, Asia Pacific as well as in Europe (Corus),

## Lalit Dangi

CMD, Libord



## Gradual upward movement likely

Going forward, in 2011, we can expect the markets to keep on moving up gradually. Share prices may rise by 15-18 per cent or even 20 per cent.

There are however, some negative factors.

First, inflation is expected to remain a variable that all equity investors must track carefully. This is important as there are sectors such as consumer staples that have been hit by inflation, more so as they cannot pass on the rising input costs to their customers. If inflationary pressures continue, it will lead to wage inflation.

The other set of risks come from the developed nations. A sovereign default can be a big risk for global markets. The US economy has shown some signs of revival, but many are sceptical of the recovery. Any further stimulus in the US will fuel inflation in commodities. Finally, crude oil prices may also rise further, impacting India as it is one of the largest importers of crude.

Against this backdrop, the BSE Sensex companies should offer a reasonable earnings growth in the range of 15-20 per cent in 2011. This should translate into normal returns for equity investors. The valuations may not come down drastically.

Considering the turbulence and the uncertainty in the Indian and the global stock markets, investors should invest in companies which are fundamentally sound, on every fall in the index. Purchases made during a flat market will definitely give good returns in the long run.

More specifically, the banking and finance companies should continue to do well. That is one sector which I think should lead the markets up in 2011. The commodity companies over the first half of the year should probably do well. The consumer sector should also do well because of a lot of rural income growth happening because of the good monsoons that we saw.

The infrastructure sector has been sort of lagging behind. I don't expect that underperformance to continue. The capital goods sector is another one for whom 2011 could be a good year for.