Stocks in cement, logistics & FMCG space could give good returns

Telecom, IT & pharma sectors continue to be under stress

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Mumbai, May 12

If you have been watching from the sidelines the stock market hitting new highs and wondering if there is any point in investing, there are plenty of options for you, if you have an investment horizon of more than a year.

Data provided by Capitaline, as on May 11 show that the rally in Nifty, Nifty Midcap, Nifty Smallcap and Nifty 500 indices has been led by only some stocks. The ratio of underperforming versus outperforming stocks is close to 50:50. This means that there are as many stocks that are yet to participate in the rally as that have.

Here, underperformance means returns generated by companies being lower than the comparable respective index. In the last one year, gains of the four indices stand at about 19 per cent, 40 per cent, 46 per cent and 26 per cent, respectively.

Capitaline data show that shares of information technology, pharmaceutical and telecom companies across the four indices have provided negative returns. Besides, corporate loan burdened banks, select power generation companies and players more reliant on rural economy (which was cash-strapped due to demonetisation) have also underperformed.

Wealth creation under threat

G Chokkalingam, Founder, Equinomics Research and Advisory, "I continue to be very negative on telecom sector as margin pressure persists due to Reliance Jio. Wealth creation story of the large IT companies is over. While smaller IT companies offer value and there will be consolidation, one has to be cautious. There are very few pharmaceutical companies which are not under observations by the US FDA. While small pharmaceutical companies offer value, there are governance and balance sheet risks."

The consensus view is that IT (anti-immigration risk), pharma (regulatory hurdles, competition among generics players due to new US administration's avowed plan to reduce the cost of medicines) and telecom (pricing pressure) sectors will continue to be in pain.

Power sector may fail

Hence, players from these sectors are not worth even as contrarian bets for a while. The same can be said about the corporate-focused banks as the NPA issue are not over yet. The power generation sector looks less attractive than other segments in the infrastructure basket such as railways, roads and defence, among others.

Companies dependent on the rural economy for business offer a lot of better value and are the safest bets at the current juncture as the worst impact of demonetisation is now behind and on better outlook on monsoon than previously forecast. Stocks such as HUL, M&M, Bajaj Auto and Hero Honda from the large-cap space, which have underperformed and gained 2-16 per cent in the last one year, will benefit.

GST to the rescue

Among the mid- and small-cap companies (including Nifty 500), stocks such as Rallis India, Symphony, Cholamandalam Finance, Colgate-Palmolive, Repco Home Finance, M&M Financial Services, Emami, Dabur India, and Bajaj Corp can also be looked at for playing out the rural recovery story. Returns of the companies range between negative 3 per cent to positive 25 per cent.

Besides the rural recovery theme, investors can also look at companies which have not priced in benefits of the upcoming Goods and Services Tax (GST) regime. These are mostly logistics companies (Allcargo Logistics, VRL logistics, Container Corporation, and Gati) and organised players in otherwise fragmented industries (Page Industries and Amara Raja Batteries). While VRL and Amara Raja have lost 17 per cent and 6 per cent value respectively, in the last one year, the rest have gained up to 22 per cent. As the deadline for GST approaches, these stocks will see rising demand.

Some infrastructure companies like IRB Infrastructure and Developers and Cummins India — up about 20 per cent each — also look good.

While IRB is basking in the success of its investment trust IPO, sentiment has already turned positive towards the latter (major underperformer since June 2016) due to expectations of a pick up in the economy.

"If one considers a secular bull market story of India, then correction in cement, non-banking finance companies and select media companies can be seen as buying opportunities," Jimeet Modi, CEO, SAMCO Securities.

Select media companies such as Dish TV (up 1 per cent) also offer value on increasing importance of rural audience. Zee Entertainment Enterprises has consistently significantly outperformed benchmark indices in the last five years. Hence, it remains top picks of market participants at all times.

"TV audience measurement body BARC's recent data release indicates that the rural skew of TV homes has increased to 54 per cent in 2017 from 50 per cent in 2015.

"Rural-focused direct-to-home operators such as Dish TV (over 70 per cent of subscribers are rural/ semi-urban) are likely to reap benefits," pointed out Ambit in a report.