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Top 5 sectors which are looking attractive post 2000-point drop in Sensex from highs

The S&P BSE Sensex has fallen 2600 points from its record high of 36,443 recorded earlier in the month of January to 33,819 which was the closing level on 22 February.

By Sanjay Kumar

Global and domestic equity markets have undergone a sharp correction since early February, erasing almost all gains generated in the previous month. The correction has been largely on account of increasing concerns around rising bond yields and inflation.

The S&P BSE Sensex has fallen 2600 points from its record high of 36,443 recorded earlier in the month of January to 33,819 which was the closing level on 22 February.

In-line with the global trend, the domestic equity markets have also fallen significantly, reflecting a partial retracement of the sharp increase in stock prices and multiples over the past 12 months.

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In addition to negative global cues, adverse domestic developments have also contributed to the correction. Equity markets may continue to remain under pressure in the near-term due to lingering domestic and global concerns.

However, we remain positive on equity markets in the medium to long-term on account of expected revival in economic growth, facilitated by bank recapitalisation and GST-led efficiency gains.

Corporate earnings are expected to improve over coming quarters as the impact of GST fades and consumption picks up. This, along with a continued shift in household savings from physical to financial assets, bodes well for equity markets.

The current fall and any further weakness in the near-term provide a window of opportunity to enhance allocation to good quality stocks.

A few sectors that look attractive post the recent correction are as follows:

Information Technology:

The global growth outlook is improving, which in turn bodes well for the IT sector. We expect global IT spend, particularly in the BFSI sector that has led technology adoption, to increase as confidence improves. In India, rapid digitization is likely to continue to fuel spending on mobility, analytics, and Cloud.

The management commentaries have been upbeat, suggesting improving demand outlook. Moreover, the companies have been able to manage margins better through automation and efficiency gains. Lastly, in the wake of still stretched market valuations, IT sector valuations are fairly attractive, thereby providing a good risk-reward opportunity.

Private sector banks:

We remain positive on retail-focussed private sector banks as they have leveraged well on rising consumer affordability. Retail assets of private banks such as auto loans, personal loans, consumer durable loans, credit cards and housing loans have grown at a robust 20-25% rate which is likely to continue given low penetration levels.

Moreover, these banks have strong balance sheets and adequate capitalisation levels, thereby enabling them to participate in the impending capex cycle recovery, the signs of which are nascent at this stage.

Consumer Discretionary and Staples:

The consumer discretionary and staple companies have reported strong volume growth in the last quarter as demand has been gradually picking up.

The sector is expected to deliver steady growth over the next couple of years driven by 1) recovery in volumes led by the steady economic recovery, 2) government's strong focus on rural sector with likely significant hike in MSPs and 3) implementation of 7CPC-related salary and pension increases by various state governments.

Automobiles:

The auto sector has gained significant momentum over last six months. The implementation of 7th Central Pay Commission (7CPC) by the Centre and staggered implementation of pay hikes by states bodes well for four-wheeler and two-wheeler demand.

Moreover, with government's strong focus on rural sector, with potentially significant MSP hikes this year, rural consumption demand is also expected to improve significantly, thereby improving sales of passenger vehicles and tractors.

Further, increasing disposable incomes and rising aspiration levels bode well for passenger vehicle demand, particularly given low penetration of 2% and 12% for four-wheelers and two-wheelers respectively.

Engineering & Infrastructure:

The infrastructure spending by Centre as well as State Governments has remained robust in high priority areas such as affordable housing, roads, railways, water as well as urban infrastructure.

The government has laid out an ambitious plan for road infrastructure development in the country via the Bharatmala scheme, entailing a total spending of Rs 5.3 lakh crores, providing visibility for projects over the next five years. Order inflows of infrastructure companies have picked up, thereby providing revenue visibility.

Within this sector, we like high-quality companies with good corporate governance, strong execution track-record, healthy balance sheets and superior return ratios.

Disclaimer: The author is Chief Investment Officer, PNB MetLife India Insurance. The views and investment tips expressed by investment expert on Moneycontrol.com are his own and not that of the website or its management. Moneycontrol.com advises users to check with certified experts before taking any investment decisions.

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