

Sensex in a free fall as virus fears grip global markets; brokerages bet on 20 large & midcaps

Similar to global markets, Indian equities, too, have borne the brunt of the coronavirus spread that has imperilled world economy.

The deadly virus has now spread to over 30 countries, with over 100,000 confirmed cases.

The fear that the situation may worsen is making market participants cautious, due to which, equities around the globe have taken a hit.

The S&P BSE Sensex and Nifty50 have plunged more than 10 percent, respectively, from their record highs registered in January and are down over 7 percent since February.

The carnage was not limited to frontliners, but broader markets too fell victim to the deadly outbreak.

At a time when most of the global firms have reduced their global growth forecast, G20 finance ministers and central bank governors last week pledged to take "appropriate" fiscal and monetary measures in responding to the coronavirus outbreak and to protect economic growth against shocks, Reuters reported.

Coronavirus has turned to "worry" from "concern" but at the same time, it has made valuations attractive for long term investors, suggests experts.

"In the present scenario, while the PER valuations of Nifty have corrected to a more reasonable level of 18x which is also the 10-year average, it is still not in the attractive zone. So, the recovery after the correction from the coronavirus impact could also be slow and gradual, in line with the economic recovery," Sonam Udasi, Senior Fund Manager, Tata Mutual Fund told Moneycontrol.

"Even from a global context, ample easy liquidity has supported equity valuations at higher levels over the last 10 years, which is very different from the 2002-03 scenario where valuations were cheap after the correction post the tech bubble," he said.

Anecdotal evidence suggests that equity as an asset class has significantly outperformed other asset classes over medium to long time horizon, but considering the fact that Gold has hit a record high, many investors would be tempted to increase their allocation. Investors should not allocate more than 10 percent of their portfolio to the precious metal.

"From an asset allocation perspective, it always helps to invest in the uncorrelated asset class and hence works as a good hedge/protection in one's portfolio. One could consider holding a 5-10 percent allocation in gold as an asset class from a diversification point of view," Devang Kakkad – Head, Research & Advisory – Equirus Wealth told Moneycontrol.

History suggests that such steep correction is often a buying opportunity in equities. In terms of valuation as well, owing to recent correction, they are in a reasonable zone.

"Ongoing uncertainty and fear reminds one of Sir John Templeton's quote - 'The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell,'" added Kakkad.

"Current challenges are surely concerning but not unsurmountable, such times provide the best investment opportunity. For long term investors, there is certainly a bargain available to invest and create wealth," he said.

Here is a handpicked list of stocks by different brokerages from large and midcap space:

Kotak Securities

TOP INVESTMENT IDEAS

Valuation Summary

Company	CMP (Rs)	Target Price (Rs)	Potential Upside (%)	Mkt Cap (Rs mn)	EPS (RS)		EPS growth (%)		PE/PBV# (x)		RoE (%)	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
HDFC Ltd #, *	2176	2680	23.2	3,813	107	72	88	-33	4.4	4.1	22	13.7
ICICI Bank#, *	497	615	23.7	3,208	18.4	32	287	73	3.1	2.7	10.5	16.4
Bharti Airtel *	524	600	14.5	2,851	-5.5	6	NM	NM	NM	87.3	NM	4.1
Mahanagar Gas *	1005	1300	29.4	100	76.8	84	36.7	9.4	13.1	12.0	29	27
Quess Corp	514	690	34.2	78	18	26.1	3.4	45	28.6	19.7	9.1	11.7
Engineers India	70	123	75.7	45	6.9	8.6	16.9	24.6	10.1	8.1	18.9	21.9

Source: Kotak PCG and KIE* (Kotak Institutional Equities); # HDFC Ltd and ICICI Bank is valued on PBV or Price/BV while rest of the stocks are valued on PE. Source: KIE India Daily dated March 02, 2020 and Stock Reco report of Kotak PCG dated Feb 28, 2020.

Top picks

Company	Current market cap (USD Mn)	Target Price (INR)	Current market price (INR)	P/B (x)		P/E (x)		RoE (%)		Dividend yield (%)
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E
Large caps										
Bharti Airtel	38,512	634	517	3.8	3.3	NA	18	-0	11	1.0
Cipla	4,930	560	448	2.2	1.9	NA	15	12	12	0.7
ICICI Lombard	8,269	1,650	1,310	9.4	7.6	43	34	24	25	0.5
IndusInd Bank	10,101	1,803	1,066	2.0	1.6	NA	7	18	20	1.1
Infosys Technologies	44,142	959	759	5.8	5.4	16	14	28	35	5.4
Larsen & Toubro	22,560	1,950	1,177	2.3	2.1	14	12	15	16	1.5
State Bank of India	34,783	415	285	1.2	1.1	8	7	9	15	1.4
Tata Motors	5,701	245	126	0.7	0.6	6	3	5	11	0.0

Top picks

Company	Current market cap (USD Mn)	Target Price (INR)	Current market price (INR)	P/B (x)		P/E (x)		RoE (%)		Dividend yield (%)
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E
Mid caps/Small caps										
Bharat Forge	2,777	640	437	3.6	3.2	21	15	11	16	1.2
Brigade Enterprises	619	344	222	2.1	2.0	32	20	3	6	0.7
Dhanuka Agritech	291	616	447	3.0	2.7	14	13	20	20	2.3
Gujarat Gas	2,727	370	290	6.5	5.1	18	15	33	32	1.2
Just Dial	432	685	488	3.1	3.0	13	12	25	23	0.0
JK Cement	1,416	2,011	1,342	3.3	2.8	16	14	19	19	0.7
Jindal Steel & Power	2,149	225	154	0.5	0.5	NM	22	-3	-0	0.0
Mindtree	2,227	1,003	991	4.4	3.9	18	17	18	23	2.0
Security and Intelligence Services India Ltd.	1,104	652	551	5.3	4.4	24	20	NA	NA	0.4

Source: Bloomberg, Edelweiss research

Note: Updated as on close of March 04, 2020

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