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Picking The Performers

IT, pharma and PSUs are among the favourites while infrastructure and real estate are best avoided in 2014

Ankit Swaika
Senior vice-president and head, Investment Advisory and Research, Religare Private Wealth

Positive sector: IT
The pace of the Federal Reserve's taper will continue to put pressure on the rupee. This will ensure that dollar-denominated earnings of companies benefit. The offshoring trend will remain intact, with new service lines such as infrastructure management and BPO taking the lead. The top five IT companies in India, which have recorded a 17 per cent compound annual growth rate (CAGR) in revenues over FY09-FY13, will continue to grow this financial year. Pick-up in large deals can drive core margin improvement for companies as utilisation and revenue improve. Given the earnings per share (EPS) estimate of 7-11 per cent for FY15, large cap IT companies will continue to remain good bets for long-term investment.

Negative Sector: Infrastructure
Investment cycles and business confidence continue to remain weak. Investment intentions filed, which can be construed as an indicator of capex, have been reducing since FY11. The power equipment sector is mired in a cyclical downturn; power transmission order flows remain tepid and a recovery in corporate capex appears remote. High policy rates, inflation/yields, depressed demand, elevated credit costs and a weaker currency are likely to affect the sector going forward. Also, highly leveraged balance sheets will continue to act as deterrents to investment cycle revival. There is little scope of recovery in investment intentions in the economy at least till elections and, therefore, the sector is avoidable.

Aviral Gupta
Founder and fund manager, Mynte Advisors Wealth

Positive Sector: IT
In the last quarter, Accenture not only beat its guidance, it increased it for the full year. Similarly, Cognizant raised its full year guidance after a strong Q3. On the domestic front, TCS expects FY15 to be better than FY14. Economic recovery in the US and signs of a nascent recovery in Europe have led to an increase in discretionary spending by the clients, improving earnings prospects for IT companies, and may lead to their re-rating. Deal flow is expected to be strong. For instance, in Europe, $100 billion in legacy deals will be renewed over FY15-17. Stock prices may be at all-time high but there is a gap as far as valuations are concerned. The sector is also immune to the vagaries of parliamentary elections.

Negative Sector: Infrastructure
The policy paralysis has led to the stalling of the investment cycle in infrastructure. The Cabinet Committee on Investment, has cleared more than 300 projects worth Rs 6 lakh crore; but over 200 projects involving over Rs 12 lakh crore are stuck . Even for projects that have been cleared, the clearance is only on paper as the associated ministries have not followed up on it. According to industry associations, as many as 12 thermal

power projects are awaiting approvals from the environment ministry.

Manish Sonthalia
Senior vice-president and head,
Equities-PMS, Motilal Oswal Asset Management

Positive Sectors: IT & Pharma
The rupee's depreciation should augur well for the IT and pharmaceutical sectors. Due to a pick-up in US growth, discretionary IT spends for corporates will increase, driving outsourcing contracts for Indian IT vendors. The sector should see a 13-15 per cent revenue growth in dollar terms. Add to that the normal rupee depreciation of 5-7 per cent and we should see a 20-22 per cent growth in topline for most IT companies over the next year. Give or take 1-2 per cent reinvestment dent on margins, and IT companies' profits should grow
by at least 18-20 per cent.

Negative Sectors: Metals & Commodities
The super cycle in commodities is, by and large, over. A temporary bump-up in product prices can happen due to a pick-up in US GDP growth or European GDP growth and clampdown on excess capacity addition by China due to a slowdown and pollution-related issues, but product prices are expected to remain soft. The outlook on coal specifically is quite weak. This phenomenon will be reflected in weak stock prices of metals and commodities in general over the next few years and not only in 2014.

Mehraboon Irani
General manager, Investments,
Tata Investment Corporation

Positive Sector: PSU Banks
PSU banks are trading at massively discounted valuations to their book values. Even after accounting for a worst-case scenario in terms of non-performing and restructured assets, it appears that the book values of these banks will not be eroded. While there will be a slowdown in their ability to grow, and their profitability may come down with many requiring capital infusion, yet the time is opportune to buy quality PSU bank stocks at significantly discounted prices.

Negative Sector: Cement
With the cement industry reeling under a slowdown, low corporate capex, reduced demand, over-supply and a lack of pricing power, there is no reason to hope that its profitability will sustain. The industry has doubled its capacity to 134 million tonnes per annum (mtpa), with a surplus of around 57 mtpa. With the surplus at around three times demand, there is little hope of pricing power returning in the near future. The sector faces challenging times ahead and the investor might do well to avoid it at this point in time.

Prateek Agrawal
CIO, ASK Investment Managers

Positive sectors: Auto & Pharma
Auto will benefit from pent-up domestic demand, probable regulatory changes in terms of scrapping of older vehicles, and an uptick in exports on account of better global demand. Auto stocks which offer a combination of consumption plays like two-wheelers and cars and capex-oriented plays like commercial vehicles will be worth watching. Pharmaceuticals have a large opportunity to address and should grow consistently in the new year as well. Amongst small caps, we expect the speciality chemicals business to do well. Similarly, the insecticide/pesticide business is also expected to do well.

Negative Sectors: Real Estate & Banking
FY14 will remain stressful unless the real estate sector undertakes a large-scale sale of assets. Banks may have

a better year in terms of profits, but most banks will underperform as a consequence of Basel III norms and non-performing asset stress.

Sandip Sabharwal
Fund manager and market expert

Positive sector: PSU Banks
The best performing sector in 2014 will be one of the most contrarian segments of the market, that is, state-owned banks. Most analysts are bearish on them given their non-performing asset (NPA) concerns. However, the reality is that the NPA problem is built into the valuations of these banks. The larger PSU banks are cheap and will be direct beneficiaries when the economy recovers.

Negative Sector: IT
The worst performing sector over the year could be large cap technology stocks. Although exporters will continue to benefit from an improving global economy, a large part of the profit growth so far has been due to the rupee's depreciation and low wage inflation on account of a subdued economy in India and in the US. The situation in 2014 will be one where the rupee is stable and wage inflation is up. This will squeeze the margins of companies and lead to underperformance on profit-growth targets.

Siddharth Sedani
Vice-president, Portfolio Management Service, Microsec Capital

Positive Sectors: Auto & PSUs
We see auto and auto ancillaries outperforming in the next 12 months. Poor sales numbers in FY14 (till December 2013) for all Original Equipment Manufacturers (OEMs) were on account of a slowing economy. We believe OEM sales numbers will start reviving from H1CY14 which, in turn, will boost ancillary production for domestic consumption and exports. Besides, PSUs seem attractive in CY14 in view of the cash on their books and the removal of bottlenecks to growth.

Negative Sector: FMCG
We expect FMCG to underperform in CY14 due to lower than expected volume growth. As such, expensive valuations do not augur well. The investment cycle looks set to take over the consumption cycle in CY14. Consumption patterns may not witness significant growth, unlike last year.

Vikas Gupta
Fund manager and EVP,
ArthVeda Fund Management

Positive Sector: Mining
ArthVeda research shows that some mining stocks will perform well. The sector saw significant selling early in 2013 owing to concerns around the ban in India, an unfavourable commodity cycle and worries over China slowing down and consuming less. But as the global economy starts to turn around, demand for metals and minerals is expected to go up. The increase in demand should put an upward pressure on metal prices. Therefore, these companies are expected to gain from both the growing volume uptake and increase in price realisation. Further, because of the inherent operating leverage in the business, the bottom line impact on these businesses will be much higher than what one sees on their topline. ArthVeda believes that some of the well-established PSU stocks in the mining sector are especially well placed to reap these benefits.

Negative Sector: Banking
During the 2003-08 boom, many PSU and private sector banks began lending heavily to the infrastructure and real estate segments. Project loan disburse-ments were made under highly optimistic cash flow assumptions. Now, companies are struggling to pay back loans. As per ArthVeda, although some NPAs and defaults have been priced in, not enough has been done. We are beginning to see a cycle of default by infrastructure and realty

companies. Banks need to clean up their balance sheets further and this will erode their book value.

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