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Top ten stocks to buy with strong fundamentals and fair valuations for year 2015

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For 2015, we expect that the markets should definitely remain buoyant on the back of a strong potential improvement in fundamentals - in particular, recovering asset utilisations and strengthening EBIT margins - with a secondary boost from a possible re-rating in valuations.

We expect earnings growth to the tune of 25-30 per cent over the next 5 years as the Indian growth story should benefit from a release of pent-up demand. Further, with the Indian rupee expected to continue to depreciate (along with rate cuts looming ahead) - contracts expiring 1 year hence reveal 6 per cent depreciation from current spot - we expect significant outflows from debt investments (as yields should correspondingly lower) and sustained equity inflows driven by the attractive fundamentals story.

Release of pent up demand should primarily aid the metals & mining sector and the auto sector, which also possess excellent sector fundamentals and good valuations. IT services - another fundamentally strong and relatively undervalued sector - should be another strong bet, expected to benefit from the weakening Indian rupee and a strong potential recovery in the US economy (the Fed hinted at baby increments in rates by mid-2015).

While as a house, we do not focus on individual stock specific picks, but rather on identifying low risk pockets of high mispricing, based on our ideology of value investing we present below 10 stocks over the large and mid-cap space in no particular order.

These stocks have solid fundamentals and are fairly undervalued with respect to their intrinsic values:

1) NMDC
2) Coal India
3) Wipro
4) Tata Motors
5) HCL Technologies
6) MOIL
7) Hindustan Zinc
8) Engineers India
9) MphasiS
10) GMDC

Outlook on Gold & crude

Crude over the last year (as of December 12) has declined 43 per cent. Oversupply from the OPEC countries in the face of a modest global demand, an intention of supplier countries to protect their market shares, potential rise of the "substitute" US shale oil and probable testing of its economic viability with the OPEC's "price war" have translated to the plunging oil prices.

Against this back drop, the Russian economy (a major oil exporter) is witnessing a crash with their central bank, in a bid to stem the free falling rouble, hiking interest rates as much as 6.5 ppts overnight.

While we do not have a view on speculative oil prices in the short near term, we expect that the US should be well on path to increasing rates, thereby signaling a prospective recovery, which in turn should augur well for global sentiment.

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Gold has witnessed, over the last 1 month, a 6 per cent appreciation with the (perhaps) temporary flight to quality as crashing oil prices weigh down on equities. However, as per our market outlook report published on Jully 28, we do not see any reason for "flight to safety" in the long run as fundamentals should improve drastically.
Recent surges in gold can also be attributed to the fast depreciating Indian rupee (on the back of the weak rouble and other emerging market currencies) and the removal of the 80:20 rule, which resulted in inbound shipments sky rocketing in November.

While the government would mull over this surge in the light of balancing the trade deficit, we reiterate our stance that gold is more a speculative commodity rather than an asset and for a median net worth individual, its portfolio allocation should not exceed 2-5 per cent.

(The author is Executive Vice President at ArthVeda Fund Management Pvt. Ltd. Views and recommendations expressed in this section are his own and do not represent those of EconomicTimes.com. Please consult your financial advisor before taking any position in the stocks mentioned.)