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Mid- and small-cap stocks rebound from 2018 lows

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The mid- and small-cap indices on the BSE have regained some of its lost ground after declining 13 per cent and 14 per cent, respectively, since January 29. The broader S&P BSE Sensex was at its peak level of 36,283 during that time.

Both indices moved up for the fourth straight session this week with a gain of 2.7 per cent and 2.5 per cent, respectively, compared with a 1.4 per cent rise in the Sensex. However, on a year-to-date basis, both the indices underperformed the broader index as they declined 8 per cent. In comparison, the Sensex fell less than 1 per cent.

"The markets can dip further over the next few months, with a bulk of this fall coming from a correction in the mid- and small-cap segments. There are a lot of stocks where there is no valuation comfort, especially in the textiles and steel sectors. The recent banking fraud has also hit the sentiment. The pace of flows, both domestic and foreign, has slowed down a bit. All this will continue to affect the momentum," said G Chokkalingam, founder and managing director of Equinomics Research.

The fall in the mid- and small-cap segments came after a stellar show in 2017. While the indices recorded a gain of 48 per cent and 60 per cent, respectively, in 2017, the Sensex had rallied 28 per cent during this period.

Over half, or 551 stocks, from the mid- and small-cap indices have slipped over 10 per cent so far in 2018, including a bulk of companies from the commodities sectors such as steel, sugar, chemicals, textiles, auto ancillaries, realty and financials (mainly public sector banks).

"The markets had rallied sharply in the last one year, and these two segments had run up even more. Valuations, too, were terribly steep. The silver lining for the markets is an improvement in the macroeconomy, which in turn, will result in a pick-up in corporate earnings. But investors need to be selective," said Vinay Khattar, associate director and head of research at Edelweiss.

Among individual stocks, Gitanjali Gems, Electrosteel Steels, GTL Infrastructure, Bombay Rayon Fashions and Jaypee Infratech have seen their market value erode between 60 per cent and 80 per cent so far in 2018.

Parsvnath Developers, BLS International, Flexituff International, Agarwal Industrial Corporation, Bhushan Steel, Siti Networks and PG Electroplast have slipped 40-50 per cent during this period.

Over the next couple of months, Chokkalingam expects the mid- and small-cap indices to correct around 5 per cent. This, he said, would be due to lack of funds chasing stocks in these segments, high valuation of select counters and regular profit-booking. "Investors will be better off either staying away from these two segments, or investing only where there is earnings visibility and valuation comfort," he said.

On the other hand, Rana B Gupta, managing director, India equities at Manulife Asset Management (Singapore), sees opportunities in areas like organised retail, consumer durables, white goods, domestic pharma, logistics, staffing services and real estate.

UPWARD TREND

BSE price (₹)	Mar 7 2018	Mar 15 2018	% change
Central Bank	66.15	87.10	31.67
Oberoi Realty	479.35	541.95	13.06
Shriram Transport Fin	1,324.80	1,458.05	10.06
Reliance Infrastructure	409.85	449.65	9.71
Divi's Labs	991.05	1,086.10	9.59
Bayer CropScience	3,897.30	4,177.30	7.18
Indian Bank	284.45	304.15	6.93
Ashok Leyland	140.90	150.65	6.92
LIC Housing Finance	490.70	523.40	6.66
GMR Infra	17.35	18.50	6.63
S&P BSE Mid-caps	**15,954.41**	**16,394.99**	**2.76**

Compiled by BS Research Bureau

Source:Exchange