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Monsoon sale: Nearly 100 companies are available at a 50% discount in 2018

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Remember seeing this outside of a shopping mall or big branded store? Well something similar is happening on D-Street. As many as 98 companies in the smallcap space and 17 companies in the BSE 500 index have slipped over 50 percent in the first half of 2018.

Most experts are advising investors to use this as an opportunity to build their portfolio for the long term but the pain could well persist in the near term. Just like in a sale not all clothes or products displaced might be a great buy, similarly in the stock market, not all stocks are value buys, caution experts.

Stocks in the BSE Smallcap index that are down over 50 percent include: Gitanjali Gems, Vakrangee, Kwality, IVRCL, Diamond Power Infrastructure, SRS Real Infrastructure, Sunil Hitech Engineers, Omkar Speciality Chemicals, JBF Industries and HCC.

Company Name	6-Month Return in 2018 (%)
Gitanjali Gems Ltd.	-94.71
SRS Real Infrastructure Ltd.	-87.74
Diamond Power Infrastructure Ltd.	-85.85
Vakrangee Ltd.	-85.58
KSK Energy Ventures Ltd.	-84.81
Yamini Investments Ltd.	-83.77
GTL Infrastructure Ltd.	-81.21
Sai Baba Investment	-80.37
Kwality Ltd.	-79.29
IVRCL Ltd.	-78.82
Orient Paper & Industries Ltd.	-78.64
Sunil Hitech Engineers Ltd.	-78.16
Arrow Greentech Ltd.	-77.13
Omkar Speciality Chemicals Ltd.	-76.41
Jaypee Infratech Ltd.	-76.10
Reliance Naval and Engineering Ltd.	-75.23
JBF Industries Ltd.	-75.21
Arcotech Ltd.	-73.70
Hindustan Construction Company	-73.33
Source: AceEquity | Adjusted Value | Index: BSE Smallcap Index	

In the BSE 500 index, stocks which are down over 50 percent include: IFCI, Allcargo Logistics, Punjab National Bank, Adani Power, Reliance Communications, Manpasand Beverages, Housing Development & Infrastructure, PC Jeweller and Jet Airways.

â€œMany mid and smallcaps have corrected making prices attractive but high quality stocks and heavyweights may not have corrected in the same fashion. So, there is a risk that it may happen over the medium term as the phase of consolidation develops. Hence, identification of a set of stocks will be very important for oneâ€™s portfolio to outperform the market in the long-run,â€ Vinod Nair, Head of Research, Geojit Financial Services, said.

Company Name	6-Month Return in 2018 (%)
Vakrangee Ltd.	-85.58
Kwality Ltd.	-79.29
Reliance Naval and Engineering	-75.23
Hindustan Construction	-73.33
PC Jeweller Ltd.	-70.48
HDIL	-68.93
Manpasand Beverages Ltd.	-67.20
Reliance Communications Ltd.	-63.14
Adani Power Ltd.	-60.98
Jet Airways (India) Ltd.	-57.46
Punjab National Bank	-55.28
PTC India Financial Services Ltd.	-55.03
Suzlon Energy Ltd.	-51.61
IL&FS Transportation Networks Ltd.	-51.47
Allcargo Logistics Ltd.	-51.32
IFCI Ltd.	-50.65
Source: AceEquity | Adjusted Value | Index: BSE 500	

Both the Sensex and Nifty are trading in a positive territory, up over 4 percent in 2018 so far. However, the biggest carnage was seen in the BSE Smallcap index, which plunged 17 percent, and BSE Midcap index, which dropped a little over 13 percent in the same period.

Valuations still remain a concern for D-Street but analysts are not giving up on Indian markets just yet. They feel there is still money to be made and that the valuation quotient for most quality stocks have moderated.

Plenty of global and domestic headwinds capped the upside for Indian markets, but expectations of a bounce in earnings growth as well as rebound in economy are crucial factors which should act as aÂ opportunities despite relentless selling by foreign institutional investors (FIIs) amid weakness in the currency.

â€œThe Nifty is currently trading at 12 months forward price-to-earnings ratio of 18.3 times, which can hardly be described as cheap. At this level, valuations are not a constraint in markets moving higher. There is money to be made in Indian markets, especially for investors with a long time horizon. The reasons for being optimistic is a revival in economic growth. The International Monetary Fund forecasts Indiaâ€™s GDP to grow at 7.4 percent during FY19 and 7.8 percent during FY20,â€ Vivek Ranjan Misra, Head-Fundamental Research at Karvy Stock Broking, said.

Misra added that in the last two quarters growth in gross fixed capital formation has recovered in the last two quarters. â€œIt has risen 14.4 percent year-on-year in Q4 FY18. Capacity utilisation is rising. These three factors bode well for a pick-up in corporate earnings as well as a pickup in return on equity,â€ he explained.

What does history suggest?

Vicious corrections within a structural bull market are not something new. Let us take the previous bull cycle of 2004-08. In that period, the smallcap index corrected by over 10 percent at least 3 times. In 2 of them, the smallcap index slumped over 20 percent in 2005 and over 40 percent in 2006. For individual stocks, there was no hiding place. Much of the stocks in the smallcap space corrected by over 50-60 percent in this period.

â€œNot much is different in the current bull cycle which started in late 2013. The savage fall in smallcaps occurred in 2 of the last 3 declines. The one in February 2016 was on fear of hardening interest rates in the US and the second in November 2016 was on account of demonetisation,â€ ArunaGiri N, Founder CEO and Fund Manager, TrustLine Holdings, said.

â€œIn each of these falls, the narrative turned negative on smallcaps, only to return back with a vengeance on a subsequent bounce. It is important to understand that the price action dictates the narrative, not the other way around. Seasoned investors know what to follow and focus on. What is to be followed and focused is the cycles (price action), not the narrative. Most investors do panic and fall into the narrative trap instead of taking actions based on cycles. Few who learn from history make the most of these reoccurring cycles,â€ he explained.