Quality chemical stocks offer value in this crisis that 10 times worse than 2008: Shankar Sharma

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Shailendra Bhatnagar

Shankar Sharma and Devina Mehra are celebrating their 29th wedding anniversary in New Delhi. They are Indian stock market's first couple and what better time than this dislocated global economic scenario to have a wonderful, laid back lunch with them at Delhi's most fabulous restaurant, The Indian Accent.

Morgan Stanley and Goldman Sachs have already predicted the world economy is headed for a recession. Clearly, the global pandemic initiated by the coronavirus outbreak has made bulls a near-extinct specie. And this time, the epicentre of the meltdown is Western Europe with Spain and Italy facing the brunt of this multiplying epidemic.

Meanwhile, US stocks plunged 32 percent from record peaks and the Nifty sawed off 28 percent from its record high of 12,430 points in less than a working month as the virus gnaws deeper into India's weakening economic health.

Mehra and Sharma – both ex-Citi bankers -- are founders of First Global, a securities firm having a presence in at least three continents and decades of cutting edge research backing it. The company offers personalised portfolio management services to the wealthy and manages its own money.

Sharma, 56, has an unerring track record of predicting bear markets and snaring bulls over the past three decades. He holds back nothing.

Devina, Chief Investment Strategist at First Global, on the other hand lets Shankar hog all the limelight but offers very lucid analyses on global and local events. She is an alumni of IIM-Ahmedabad. She majored in math and statistics. Is very well read and fond of Hindi Poetry.

Both are extremely serious foodies as they flip through the voluminous menu with practiced ease.

The setting is historical in more ways than just economics. Indian Accent is geographically placed on Lutyens' Delhi's beautifully tree lined Lodhi Road. On one side is Hazrat Nizamuddin's Dargah and on the other is Humayan's Tomb. Devina and Shankar are sitting in the Glass House surrounded by trees on all sides. The weather in Delhi is exceptional.

"This crisis is 10 times bigger than the 2008 bear market," Sharma said, adding the grim economic reality has made earnings outlook foggy. "There are no models and no predictability. We used to see this in movies and I cannot believe that we have less than 150 infections in India....there just isn't enough testing."

The virus, which originated in China in late 2019, has killed in excess of 7,000 people globally and has now spread to more than 160 countries. In India, the death toll stands at just three but Asia's third largest economy is on tenterhooks as it clamps down on public gatherings to shutting down schools, colleges, cinemas, malls and some government offices.

As always, global central bankers have swung into action to stave off a global economic collapse. Co-ordinated rate cuts and billions of dollars are being injected into the global financial system to provide support to beleaguered companies and crashing stock markets.

Equities, however, are not in listening mode. The Dow Jones Index has hit its first lower (8 percent) circuit twice in the past one week. Indian stocks are worse off as foreign institutional investors pulled out more than Rs 45,000 crore from local equities, mostly frontline Nifty stocks since late February. Lenders such as RBL Bank and IndusInd Bank are facing intense selling pressure owing to their stressed loan books.

"The government has little room to manoeuvre this time and provide a sustained support to corporate India," Devina said. "Unlike 2008, India is not growing at 8-10 percent now and interest rates are already low. There is a global economic dislocation never seen before, not even during the world wars."

The rupee, too, is in a tailspin, down to near record lows versus the dollar. Meanwhile, the Reserve Bank of India swung into action on March 16, adding Rs 100,000 crore via long-term repo swap and said the Indian banking sector was on a strong footing. The markets, however, were expecting a rate cut to soothe strained nerves.

But Sharma said a probable rate cut is "at best a Band-Aid solution. The RBI's tools are blunt instruments and not injections. They take time to work themselves out. We have already seen in the past two years that the RBI's policies have had little impact on economic growth."

India's annual GDP expansion has slowed to sub-4 percent from a peak of 8.1 percent seen in Q4 FY18 as industrialists grapple with excess capacity and banks squeeze credit offtake in a bid to control rising non-performing assets. Demand for everything from cars, two-wheelers, homes and personal loans has fallen off the cliff.

Added to this grim reality is the economic dislocation caused by the rapid spread of the coronavirus. Sharma said local GDP will slow down further, in sync with its counterparts in China and elsewhere. Beijing, as it recovers from a debilitating corona attack, reported a 14.3 bps fall in industrial output for February.

"India's macro was anyways very, very slow for the past two years. The coronavirus problem will take time to go away and Indian GDP growth may be 1-2 percent in the coming quarters," Sharma said.

However, not all is bleak. Sharma said sliced stock prices present an opportunity to load up on quality stocks, especially those that will benefit from China's disturbed economic environment.

"One has to go for the least worse option in equities. There are 10-25 Indian stocks in the chemicals space that will emerge as winners after this crisis settles," Sharma said, adding the booming digital/new age stocks will throw a lot of winners like Amazon as more and more people shop online. Stocks such as Netflix and those related to video conferencing like Zoom Video Communications will prosper as quarantined millions stay and work out of homes, he added.

The other thing to pay critical attention would with asset allocations within portfolios, Devina said. "There can't be a 100 percent weightage to stocks. Balance has to be in the form of gold and fixed income to tide of times like these."

Investors keen to benefit from this sharp slide in stock values could invest up to 25 percent of their cash into select stocks, Sharma added.

(Hemant Ghai, Stocks Editor at CNBC AWAAZ contributed to this story)