# Consumer-focused companies still the favourites

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Despite stocks such as Hindustan Unilever (HUL), Britannia, Havells and M&M Financial running up steeply after the Union Budget and March quarter results, they remain favourites of fund managers and brokers.

The preference for these has increased after the event of Britain exiting from European Union (EU) or Brexit, as they are resilient to the likely impact of foreign exchange (forex) fluctuation on the rupee in the coming days and are unlikely to be impacted by any adverse situation that might arise in the United Kingdom or EU.The growing negative view on sectors such as information technology (IT) and metals and, to some extent, automobiles given their forex vulnerability, has also increased the popularity of domestic consumption-driven stocks. With this, analysts do not rule out fresh rounds of re-rating for these stocks, as they are increasingly reckoned as 'safe-bets' post the Brexit, which they say, justifies their expensive asking rates. Convincing tailwinds such as monsoons, consumption push from the seventh pay commission and OROP payouts, apart from government spending on infrastructure and from visible signs of improvement in earnings as seen in the March quarter, also add strength to analysts' optimism on consumption-oriented stocks. Ajay Bodke, CEO, Prabhudas Lilladher, feels monsoon will be the highlighting factor for these stocks and expects larger allocations to domestic-focused stocks given that they would be the bigger beneficiaries of above-normal monsoon.

But, with the possibility of markets headed for a few sessions of weak trade, Dipen Shah, head-private client group research, Kotak Securities advises investors to utilise any secular fall in the market as an opportunities to accumulate these stocks. "One must look at them with a medium to long term perspective", he adds.U R Bhat, managing director, Dalton Capital Advisors, reiterates as these stocks have almost 'zero' exposure to exports or imports, they have the potential to stay ahead of the rest in terms of earnings growth and stock performance as well. He advises investors to look at health care stocks with no regulatory issues particularly that of the USFDA. "Slowdown cannot affect the health care stocks whether in India or elsewhere. Now may be a good time to buy quality pharma stocks from long-term perspective", he affirms. Brokerage arms of Deutsche Bank and HSBC also have some pharma names in their list of picks.

But there is a word of caution as well. The recently concluded March 2016 quarter saw companies in the FMCG and consumer discretionary sectors such as HUL, Emami, Marico, Havells and Whirlpool report decent margin expansion (100-150 basis points year-on-year). This may moderate in the coming quarters as input costs are witnessing some up-move in their prices. Likewise, retail inflation hitting a two-year high also raises concerns of a possible pullback in consumer spending. The silver lining, however, is the fact that despite retail inflation rising to 5.76 per cent in May, it is still 50 per cent lower than 2013 levels.