

4 pharma and metal stocks to buy in this market: Rahul Shah

Synopsis

“Dr Reddy’s and Sun Pharma looks quite promising in the pharma pack. The recent correction in the market has given a decent room for near-term upside. In the metal pack, Tata Steel looks like a value play from here. Vedanta also could do very well and the valuation looks quite promising.”

Feedback



Rahul Shah, V-P, Equity Advisory, Motilal Oswal Financial

“This year, the next couple of quarters may belong to the commodity stocks. A lot of commodity stocks have done quite well in the last year and a half or so,” says [Rahul Shah](#), VP-Equity Advisory, [Motilal Oswal Financial Services](#).

What within pharma looks interesting to you?

Whenever there is volatility upfront, we have seen [pharma stocks](#) as defensives coming into play. My view is in pharma, play in two-three names – one that comes at the top of the mind is Sun Pharma. In the last three quarters, quarter on quarter, there have been blockbuster numbers and the management is doing the right thing at the right time. So that is one stock which could see a good 20-25% upside from here. Valuation-wise, it looks quite okay. Second one is Dr Reddy’s. The recent correction in the market has given a decent room for a near-term upside. Dr Reddy’s and Sun Pharma looks quite promising in the pharma pack.

What is your take on IT names? Those counters are moving higher. [Nifty IT](#) was one of the top gainers on Tuesday, up around 2-2.5%. TCS, Infosys are gaining 3% to 4%. Do you think defensives are back as far as the buying is concerned or was that just a one day move?

The market people are just getting into more of defensive plays where the visibility looks much more clear. IT as a sector looks like it is going to deliver the same kind of growth and will not impact near term on any of the earnings. Second, the dollar is becoming stronger, the

earnings might take a re-rating for them. Most of the IT companies and outlook looks strong for it. So for these two basic reasons, we have been seeing some buying interest in most of the IT companies in the last few sessions.

The popular belief now is that while over the last decade one has actually seen growth stocks do well, time has now come for value. Where is it that you would value hunt in this market or spot value for that matter?

This year, the next couple of quarters may belong to the commodity stocks. A lot of commodity stocks have done quite well in the last year and a half or so. [Tata Steel](#) looks like a value play from here. There could be a maximum 10% downside and could be a 30% upside kind of a scenario. Then [Vedanta](#) could do very well with another 20% gain and there could be a good dividend yield as well and the valuation looks quite promising.

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After the correction, what lies ahead for IT companies?



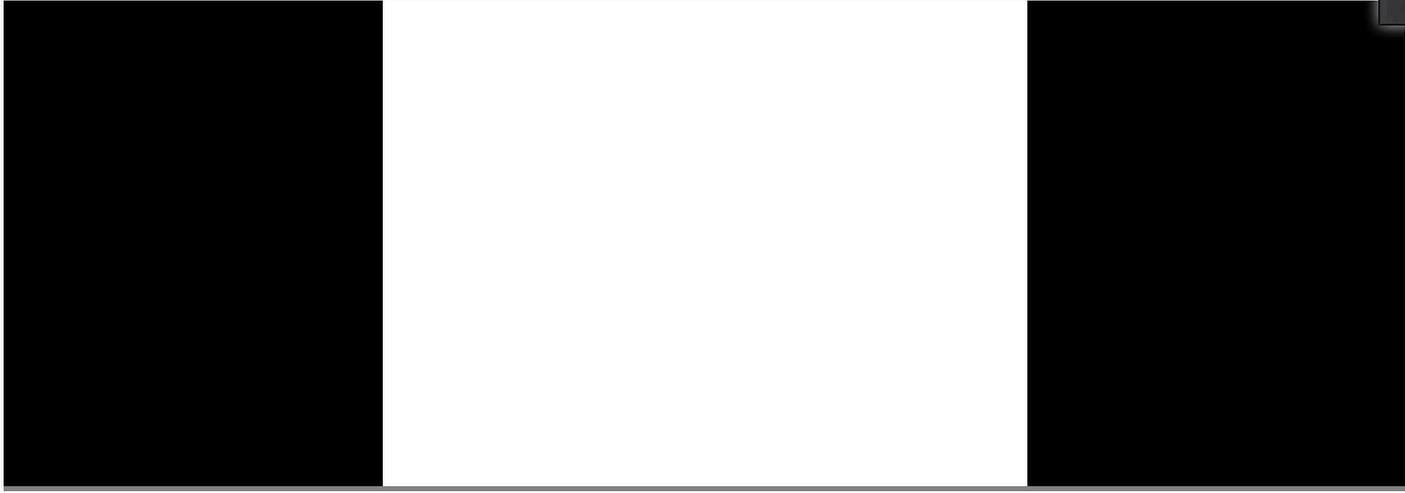
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Third, stocks like Coal India. The stock has not done anything in the last few years. The way the coal prices are going higher, I think the valuation is justified with a good dividend yield perspective as well. So these three, four stocks in commodity as a sector should do well for the next two quarters. Large number of investors are also shifting over there.

What is the outlook when it comes to the FMCG sector? It clearly is faced with margin compression owing to the raw material price inflation. Does this worry you?

Most of the selloff has already happened in the FMCG space. What we saw post that Q3 numbers and with inflation inching up higher, that has impacted the consumer stocks as well. So near term, the outlook looks dull for the FMCG and though the valuations are a little bit stretched, this selloff makes it a little cheaper but I think there will be very few pockets where one should look for it. Marico would be one where the copra prices have fallen.

Feedback



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My sense is that the stock should benefit following the recent correction. The margins will not get impacted. My view is this could make sense in the entire FMCG basket. I would still hold on the rest for a while.



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