Equity fund managers' fancy for IT stocks refuses to die

Allocation to IT shares doubles to 14%; software stocks jump 20-70%

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India's equity fund managers' fancy for information technology (IT) stocks is refusing to die. They have not only nearly doubled their allocation to software companies, but have also squeezed the wide gap between exposure to banking stocks and IT to less than two percentage points.

Improved economic situation in the western markets are proving beneficial for the software exporting companies. On top of it, cheaper rupee against the dollar is adding further benefits to Indian IT giants.

In the backdrop of this, it is not surprising to see fund managers' continuous increasing of exposure to IT companies. For instance, in December 2012, overall exposure of equity assets to IT stocks stood at a little less than 8 per cent. This, after few hiccups during the January-March quarter, kept on rising and as on August 31, allocation of equity assets crossed 14 per cent - one of the highest in several years.

The strategy worked well for investment managers as they have been struggling to make money in a highly volatile and uncertain stock market. Shares of all IT majors - Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies and Tech Mahindra, among others; have gained 20-70 per cent year-to-date (ytd).

HCL Technologies has outperformed its peers with a whopping rise of 70 per cent in its counter on the stock exchanges, while those of Tech Mahindra, Infosys and TCS gained 41 per cent, 30 per cent and 54 per cent, respectively. The BSE IT index is up 38 per cent ytd.

Top fund managers including Prashant Jain, chief investment officer (CIO) of HDFC Mutual Fund, Apoorva Shah, executive vice-president at DSP BlackRock, Navneet Munot, CIO at SBI Mutual Fund, are positive on the IT sector.

Some fund managers believe the IT sector may see a re-rating going forward and catapult shares to a different level altogether. "We are positive on the technology sector. It will do well because the US economy is now more resilient," Apoorva Shah had earlier told *Business Standard*.

On the other hand, banks have continued to invite the wrath of fund managers. For the fourth month in a row, they chose to cut allocations to banking stocks. And these cuts were quite drastic - almost more than 5 per cent between April and August to 15.7 per cent as on August 31.

With sharp cuts in allocations to banks and increase in IT sector, the wide gap between exposures to these two sectors has narrowed down significantly. This can be gauged from the fact that fund managers began this year with nearly three times more allocation to banks than IT. And the situation changed dramatically in a matter of three quarters.