Post Exit Polls Strategy

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Exit polls for the 2024 Lok Sabha elections suggest a favourable outcome and comfortable majority for the BJP-led NDA. This augurs well for the economy and capital markets as it provides stability and continuity in policy making. Although the numbers in the exit polls are largely similar to the expectations, the removal of uncertainty has and could force fence sitters to jump into the markets.

The actual results outcome on June 04 could accentuate this behavior, unless we see the outcome being worse than the exit polls for the NDA. The actual vote share data will throw some more light on the gains/losses by parties in different regions and incite actions to correct losses by the new Govt.

As regional parties' performance is expected to be muted, it could result in enhanced political stability at the centre without the pulls and pressures of coalition-politics that hamper policymaking. This verdict may also have spill-over impact in the next round of State Assembly Elections in Maharashtra and Haryana in the 4th quarter of 2024**.** This may also allow the new Govt to attempt tough legislative agenda such as Uniform Civil Code, One Nation One Poll, Re-introduction of Farm Laws, etc and try to amend land, labour and other agri laws with the cooperation of states once it settles down in a few months.

Fundamentally, India is witnessing a great run as far as macro fundamentals are concerned. All these will keep India as an attractive investment destination for foreigners and locals. We expect FPI flows to return to India in a big way – though spaced out based on valuations.

Stocks with large leverage to the Government's economic program - Infra, Capital Goods, Defence, Rail etc have delivered remarkable returns in the past few quarters. We think the new Govt could focus on investment-led growth, enabled with the recent large transfer of the RBI surplus. We feel that the new Government will also continue its focus on key areas such as affordable healthcare and housing, renewable energy, manufacturing etc. Although a lot of reform measures in these areas have already been taken by the NDA Govt., a renewed thrust and tweaking of measures for better efficacy could be in the offing.

Having said this, welfare measures may be back with a bang and measures to enable equitable distribution of income and wealth may be taken going forward. Also, corporate earnings growth will have to be better and more evenly spread for higher valuations to sustain. FMCG and Private Banks may come back in favour given their attractive relative valuations.
In euphoria we may see valuations of PSU, Capital Goods etc assuming optimistic volume and profitability assumptions and their high valuations may get stretched even further due to large buying. This process may conclude in the next few weeks by a bout of profit taking.

We list below the sectors which one needs to keep on radar for investment post the election outcome at appropriate levels:

Power Generation: In FY24, peak electricity demand increased by over 10% y-o-y to 241 GW. Given that demand has increased for both industries as well as home users where a significant need for air conditioning has contributed to this rise in demand.

Renewable Energy: India is the World's 3rd largest energy consumer, and its energy demand is expected to grow rapidly in the coming years. To meet this demand, India will need to diversify its energy mix and reduce its reliance on fossil fuels. Solar energy is a clean and abundant resource that can help India achieve its energy security goals. Hence India aims to build its presence across all stages of PV manufacturing over the next 2-3 years.

Industrials: The Union budget FY25 earmarked a 7% YoY increase in capex. The government's focus on infra asset creation has been the key theme driving capex. Capital goods companies are benefitting from the pick-up in government and private capex and India's big push to manufacturing. The real estate upcycle is aiding private capex; hospitality recovery augurs well.

Infrastructure: To make India a $5-trillion economy by FY2025 and to continue growing at an escalated trajectory until 2030, it is estimated that the government would need to spend $4.5 trillion on infrastructure. To achieve the goal, the government drew up the National Infrastructure Plan (NIP) through a bottom-up approach, wherein all projects costing over Rs. 100 crore per project under construction, proposed greenfield and brownfield projects, and those at conceptualization stage were captured.

Railways: The capex is gathering momentum. From rolling stocks to the construction of lines, from exports to railway stations, the sector is teeming with opportunities. Should NIP be a barometer for gauging the trend, the average annual expenditure between FY20-25 is estimated at Rs.2.7 trn. Further, the National Rail Plan till 2051, which relies on historical costing, aims to spend Rs.9.4 trn during FY22-26E—as against Rs.6.8 trn during FY27E-31E.

Aerospace & Defence: The government emphasises creating an environment to boost the AatmaNirbhar Bharat programme in the defence sector and create a level-playing field for private players, including MSMEs. Further, the hike in foreign direct investment (FDI) to 74% through the automatic route would boost investments in the sector augurs well.

Manufacturing: Manufacturing can be a significant growth driver from a medium to long-term perspective, providing enormous opportunities owing to the shift in manufacturing bases outside China and the Government's incentives to enhance manufacturing through the Make in India initiative like the PLI scheme, which aims to kick-start the process, with strong industry participation.

Banks: System-level credit offtake grew by ~15% y-o-y in Apr-24, indicating loan growth has been strong and sustaining, given distinct signs of improved macros, revival of private capex, and healthy demand. The gap between advances and deposits growth has started to narrow. We are seeing strong traction in loan growth and overall deposit growth is also picking up.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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