

# Sharekhan Special

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Modi 3.0: Betting on political stability, policy continuity

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**Summary:**

- ◆ Most pre-election polls suggest a comfortable victory for the incumbent BJP government, maintaining its single party majority in the Lok Sabha for the third time in a row.
- ◆ The incumbent government's reforms have already started fructifying, as reflected in high GDP growth along with fiscal discipline and efficient capital allocation versus populist measures.
- ◆ In the event of the BJP-led government in power again, we expect a major reforms rush encompassing areas such as Ease of Doing Business, measures to drive higher flows into government bonds, a simplified tax code, widening the GST ambit, etc. We expect domestic cyclical sectors such as infrastructure, industrials, defence, capital goods and automobiles, to continue to be the major beneficiaries.
- ◆ On the flipside, the worst-possible scenario could be the BJP not achieving a single party majority, wherein sentiments could take a beating on political stability and some knee-jerk reaction could be seen.
- ◆ As part of portfolio strategy, we continue to stick to our multi-year investment themes of the 3Cs - **Capex, Capital and Consumption**. For 2024, we maintain our stance of increasing focus on large caps and cutting exposure to small and micro caps; we also advise investors to start accumulating select IT and specialty chemicals stocks.

The general elections are on their last leg with voting already completed in nearly 90% of parliamentary seats across the country. It has been a fiercely fought election with the ruling party facing a united opposition's charge along with the disadvantage of incumbency fatigue. No wonder, the equity market is volatile ahead of the exit polls scheduled on June 1, 2024.

Most pre-election polls suggest a comfortable victory for the incumbent BJP government, maintaining its single party majority in the Lok Sabha for the third time in a row. However, the low overall voter turnout as compared to 2019 is keeping the market mood jittery on possible loss of some seats. At the end of the sixth phase, 2024's voter turnout stands a tad lower at 66.4% versus 67.4% in 2019. However, this is still much higher than the historical average. Thus, we believe that the current market volatility would settle down by June 2, after the exit poll outcome and the focus would shift towards the most likely outcome of the BJP emerging as the single-largest party with a stable government and policy continuity along with new reforms rush.

**Past reforms push has started fructifying...** In the past 10 years, the BJP-led government spearheaded by Prime Minister Narendra Modi has implemented multiple policy reforms, aiming to take the Indian economy to greater heights, whether in brining transparency in the real estate sector with introduction of RERA in 2016, the Insolvency and Bankruptcy Code in 2016, or pushing adoption of the Unified Payments Interface (UPI) – over 62% of digital transactions are through UPI. Further, the boost to domestic manufacturing with PLI schemes for multiple sectors, multi-modal infrastructure connectivity with implementation of the *PM Gati Shakti* program and economic transparency and improving corporate profitability through GST and corporate tax cuts; all these structural reforms across sectors have already started fructifying, as reflected in high GDP growth along with fiscal discipline and efficient capital allocation versus populist measures.

**...Modi 3.0 expect New Reform Rush:** We expect a major structural reform rush in Modi 3.0, though the magnitude of the same would depend on numbers of seats won. In setting a roadmap for *Viksit Bharat 2047*, we anticipate major policy reforms for Ease of Doing Business to attract FDI investments and sovereign rating upgrades, driving higher flows into government bonds given their inclusion in global bond indices and other measures pertaining to judicial reform, Uniform Civil Code, land bill, a simplified tax code and bringing more products into the GST ambit. The reforms would most likely encompass various aspects of development, including economic growth, social progress, environmental sustainability, and good governance.

**Pre and post-election positioning:** Based on the current unanimous possible outcome of a BJP-led government, we expect domestic cyclical sectors such as infrastructure, industrials, defence, capital goods and automobiles, to continue to be the major beneficiaries. In the short term, after the election outcome, for next two weeks, we expect the small & mid-cap space could outperform large caps, with domestic cyclical sectors and PSUs in focus. After that, in the run-up to the Union Budget 2024-25 (to be presented in the first week of July 2024), there might a possibility of profit booking with anxiety around tax overhaul, while lagging sectors such as Pharma, FMCG and IT would outperform.

**What could go wrong?** Though we are not expecting the newly-formed coalition I.N.D.I.A to get a majority and form the government, the worst-possible scenario could be the NDA not achieving a single party majority. In that case, market sentiments could take a beating on uncertainties around political stability and some knee-jerk reaction could be seen.

**Portfolio strategy for next 3-5 years:** We remain highly positive on India's structural growth story and expect equity as an asset class to outperform significantly. As part of portfolio strategy, we continue to stick to our multi-year investment themes based around the 3Cs of **Capex** (Infrastructure, Capital Goods & Real-estate), **Capital** (Banks & Financials), and **Consumption** (Discretionary Spending). For 2024, we maintain our stance of increasing focus on large caps and cutting down exposure to small and micro caps. In terms of a tactical bet for the next two years, we advise investors to start accumulating select IT and specialty chemicals stocks.

**Short-term Picks (Play on post-election rally in case of majority mandate to the NDA again)**

Sector	Preferred Picks
Private Banks	ICICI Bank, IndusInd Bank
Automobiles	M&M, Escorts, Hero MotoCorp
Infrastructure	L&T, PNC Infratech, Adani Ports
Capital Goods	ABB, Siemens, Thermax, Cummins, Kirloskar Engines, BHEL
Defence	HAL, BEL, Mazgaon Dock, Cochin Shipyard, BEML
Cement	UltraTech, JK Lakshmi Cement
PSU Banks	SBI, Bank of Baroda, Bank of India, PNB
Real Estate	DLF, Sunteck Realty, Arvind Smartspaces
Other PSUs	BPCL, HPCL, Coal India, NTPC, PFC

Source: Sharekhan Research

**Structural Picks for next 2-3 years (Play on multi-year economic upcycle in India)**

Sector	Preferred Picks
Automobiles	M&M, TVS Motor, Hero MotoCorp, Bosch, Sundram Fasteners
Banks	ICICI Bank, IndusInd Bank, SBI, Bank of India
Infrastructure	L&T, PNC Infratech
Capital Goods	Thermax, Cummins, Kirloskar Engine, Carborundum Universal, VA Tech Wabag
Defence	HAL, BEL, Bharat Forge
Cement	UltraTech, JK Lakshmi Cement
Real Estate	DLF, Sunteck Realty, Arvind Smartspaces
Discretionary Consumption	Wonderla Holidays, Landmark Cars, ABFRL, Trent, Indian Hotels
Other PSUs	BPCL, HPCL, Coal India, NTPC, PFC

Source: Sharekhan Research

Valuation

Sector	Stock	CMP (Rs.)	EPS			P/E (x)			P/B (x)			ROE (%)			ROCE (%)*		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Autos	M&M	2532	88	102	118	29	25	22	6.1	5.2	4.4	20.9	20.7	20.5	20.4	20.2	20.1
	Escorts	3856	93	114	134	41.2	33.8	28.8	4.6	4.2	3.7	11.3	12.3	12.9	11.3	12.4	13
	Hero Moto	5141	207	234	275	25.1	22.2	18.9	5.8	5.2	4.7	23	23.5	24.8	22.4	23	24.3
	TVS Motors	2255	44	56	73	51.4	40.3	30.9	13.8	10.8	8.4	26.9	26.7	27	15.7	18.7	24
	Bosch	31122	558.7	749.5	877.3	55.6	41.4	35.4	7.6	6.6	5.8	13.7	16	16.3	13.3	15.7	16
	Sundaram Fasteners	1151	24.8	36.2	47	46.7	32.1	24.7	7.1	6.0	5.0	16.2	20.4	22.3	14.2	18	20
Infrastructure	L&T	3634	112.4	130.2	151.9	32.3	27.9	23.9	5.8	5	4.3	17.7	19.2	19.2	10.4	11.9	13.3
	PNC Infra	523	24.6	25.3	31.7	21.3	20.7	16.5	2.7	2.3	2	14.5	12.4	13.3	14.2	12.6	13.5
	Adani Ports	1409	41.3	49.1	58.5	34.1	28.7	24.1	6	5	4.2	18.1	18.5	18.8	11.1	11.9	12.7
Capital Goods	ABB	8197	59	87	99	138.9	94.2	82.8	29.3	22.8	18.2	23.0	27.0	24.0	28.2	27.0	24.6
	Siemens	7011	79	90	107	88.7	77.9	65.5	16.8	14.5	12.5	20.0	20.0	20.0	20.2	21.0	20.4
	Thermax	5281	52.2	65.4	80.9	101.2	80.7	65.3	13.5	11	10.4	14.1	15.6	16.9	12.6	13.5	14.5
	Cummins	3834	56.1	66	77.5	68.3	58.1	49.5	16.8	13.6	11.1	26.4	25.9	25.2	32.0	32.0	31.3
	Kirloskar Engine	1209	25	34.7	44.6	48.4	34.8	27.1	7.1	6.8	5.3	14.6	17.9	20.0	14.0	17.2	19.5
	BHEL	294	1	-2	1	391	NA	361	4.1	4.2	4.1	1.0	NA	1.0	3.5	0.7	3.3
	Carborundum Universal	1595	24.3	29	35.6	65.6	55.0	44.8	9.7	8.5	7.3	15.5	16.4	17.4	18.7	19.7	21.1
	Va Tech Wabag	969	39.5	52.5	65.1	24.5	18.5	14.9	3.3	2.8	2.4	14.5	16.5	17.3	18.5	19.6	20.6
Defense	HAL	5051	96.8	107.5	132.8	52.2	47	38	10.4	9	7.7	23.6	23.7	18.8	24.6	22.9	24.3
	BEL	292	5.5	6.4	7.7	53.1	45.6	37.9	12.9	10.7	8.8	39.6	34.3	27.9	26.4	25.9	25.9
	Bharat Forge	1568	30.7	36.5	42.1	51.1	43	37.3	8.5	7.4	6.5	16.7	17.3	17.3	12.8	13	13.4
	Mazgaon Dock	3358	76	85.2	99.5	44.2	39.4	33.7	9.2	7.6	6.3	28.9	26.6	25.8	18.7	18.8	19
	Cochin Shipyard	1909	27	24	30	70	81	64	10.2	9.5	8.6	15	12	14	9.6	8.6	8.8
	BEML	4454	73.8	97.8	128.7	60.4	45.5	34.6	6.8	5.8	5.2	12	14.2	16.4	11.8	13.9	15.9
Cement	Ultratech	10023	241.7	287.2	366.6	41.5	34.9	27.3	5	4.4	3.9	12.4	13.3	15	11.8	12.7	14.4
	JK Lakshmi cement	800	43.3	42.7	50.5	18.5	18.7	15.8	3	2.7	2.4	17.6	15.3	15.9	14.7	13.3	13.3
Real estate	DLF	819	11	11.9	13.4	74.4	68.8	61.1	5.1	4.8	4.5	7.1	7.3	7.7	7.2	7.2	7.6
	Sunteck Realty	481	7.8	17.1	20.6	61.7	28.1	23.4	2.3	2.1	1.9	4	8.3	9.2	6.7	11.7	12.7
	Arvind Smart	649	9.2	9.1	16.2	70.5	71.3	40.1	5.3	5.1	4.6	8.7	8.1	13.4	11.7	10.8	14.5
Discretionary Consumption	Wonderla	848	27.9	30.7	42.8	30.4	27.6	19.8	4.4	3.8	3.2	15.5	14.8	17.7	19.1	18.6	22.5
	Landmark Cars	682	13.7	23.3	36.2	49.8	29.3	18.8	5.2	4.5	3.7	10.5	15.4	19.7	11.6	14.1	16.7
	ABFRL	299	-7.3	-4.8	-3.0	-	-	-	6.2	7.0	7.5	-	-	-	0.3	1.1	2.1
	Trent	4668	30.1	49.8	69.5	-	93.7	67.2	36.9	26.7	19.2	28.4	33.4	33.6	24.5	36.7	38.7
	Indian Hotels	566	9.3	11.6	14.6	60.8	48.8	38.8	8.0	7.0	6.0	12.8	14.3	15.6	14.8	17.0	19.1
Other PSU	BPCL	633	131.6	46.9	55.6	4.8	13.5	11.4	1.9	1.7	1.6	38	11.8	13	28	10.2	11.2
	HPCL	538	104	43	52	5.2	12.5	10.3	1.9	1.7	1.6	37.3	11.8	12.4	15.8	6.7	7.1
	Coal India	486	61	46	49	8.0	10.6	9.9	3.7	3.2	2.8	53	32	29	64	40	38
	NTPC	365	18.7	19.3	22.1	19.5	18.9	16.5	2.3	2.2	2.1	13.2	12.9	13	6.7	6.7	7.3
Banks &NBFC	ICICI Bank	1,102	57	64	73	15.9	14.3	12.5	2.7	2.3	1.9	18.6	17.2	16.7	2.4	2.2	2.2
	Indusind Bank	1,460	115	134	155	12.7	10.9	9.4	1.8	1.6	1.3	15.2	15.3	15.2	1.8	1.9	1.9
	SBI	823	68	75	85	8.8	8.1	7.1	1.4	1.2	1.0	17.3	16.4	15.8	1.0	1.0	1.0
	BOB	263	34	35	37	7.6	7.5	7.1	1.3	1.1	1.0	16.9	14.9	13.7	1.2	1.1	1.0
	BOI	130	15	19	24	8.7	7.0	5.5	0.9	0.8	0.7	9.9	11.6	13.0	0.7	0.9	1.0
	PNB	128	8	13	15	17.1	10.1	8.3	1.4	1.2	1.1	8.0	12.4	13.2	0.5	0.9	1.0
	PFC	510	44	47	53	11.6	11.0	9.8	2.1	1.9	1.7	19.5	18.2	18.1	3.0	2.8	2.8

CMP as on May 29, 2024

Source: Sharekhan Estimates, Bloomberg; \* ROA for Banks &NBFC

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