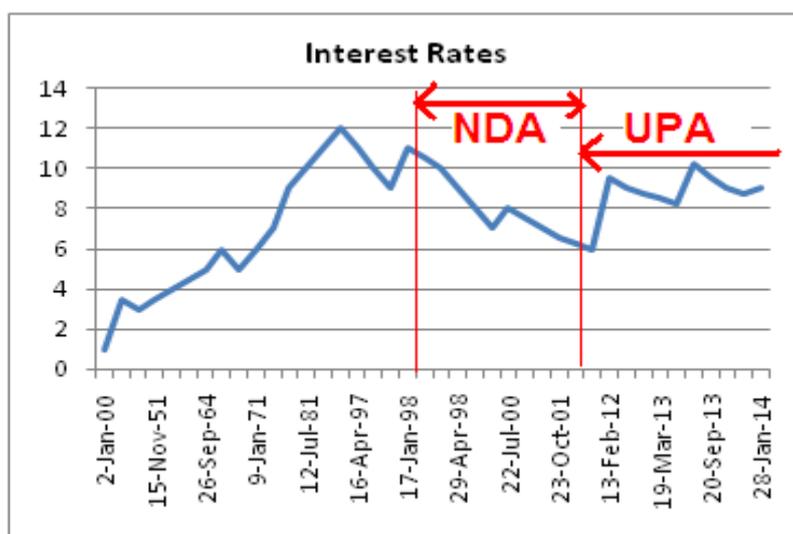


Markets move on expectations, and right now the general feeling is that BJP is expected to come to power in May 2014. We are giving here our views on impact of BJP coming to power on key sectors and industries.

SUMMARY

A decisive BJP government will be bullish for the rupee and Banking & Finance, Infrastructure Sector, Capital Goods, and FMCG, whereas Agricultural & Metal commodities will be bearish. IT, Real Estate, and Power sectors will see only moderate growth. The sectors under stress would include Agriculture, Commodities, Metals, and Real Estate. Bullion will remain bearish and IT could be a mixed bag.

Banking & Finance



We expect that Banks will be forced to be more efficient by mix of government support and raising capital from the open markets. Strong liability candidates like SBI, PNB and BOB could go for raising money from open markets, while we could see some merger activity in case of weak banks. Smaller banks with regional presence with relatively strong balance sheet and capital adequacy ratio can expect budgetary support. Policies would benefit banking and finance sector in long term.

If one looks at interest rates during the NDA regime of 1998-2004, it is seen that rates were constantly falling – indicating inclination of party to control interest rates and boost growth.

USDINR

We believe BJP will be able to manage the fiscal deficit by creating an investment friendly environment that would reduce burden on government and would attract private investments. Disinvestment would also be a favored way of BJP to raise funds. Improved inflows, lower import burden as a result of falling gold and crude oil prices, rising economy, increasing forex reserves, and a surplus BOP are expected to help strengthen INR.

Bullion

We believe gold prices to remain under pressure. Improving global economies have reduced hedge demand for yellow metal. Fed policy change to reduce liquidity is strengthening Dollar and has adversely impacted gold prices. Physical demand from China and India will remain strong at lower levels. Our medium term outlook on gold is bearish.

Agricultural Commodities

Keeping inflation at low level is going to be a top agenda of new government. We expect agricultural commodity prices to cool down in short to medium term (1 - 3 years). Agri commodities prices will be under pressure due to improved domestic as well as global production estimates and rising efficiencies. At home front, we expect that price stabilization mechanics and cross subsidies will be used by BJP to balance farmers' priorities and inflation. The major end users like food processing, rice trading, and FMCG will be gainers.

Metal Commodities

Metal prices are expected to remain low in short to medium term based on weak demand from China and stronger Rupee, though our long term price outlook is upwards. Overcapacity in steel has also been a factor for creating downward pressure on prices. In the next few years, global major producers will have higher capacities that will exceed the demand. Non ferrous metal prices are also expected to remain under pressure. The major end users of metals like automobiles, cables, engineering, and shipbuilders will be gainers while the commodity producers may face squeezing bottom lines on account of falling prices.

Information Technology

Although strengthening Rupee will lower export earnings of Indian IT sector but global IT spending is expected to grow moderately at 3-4% in short term providing some breather. Even if businesses in developed world are not at their prime, the role of IT is becoming more vital for them. The importance of technology to business success has never been greater as IT continues to transition from supporting tool to a strategic driver. We expect a rise in domestic demand due to large government orders for e-governance projects. IT hardware is expected to grow at a slightly lower rate, due partially to more intense margin pressures. The overall effect will be a moderate growth in revenues and earnings of Indian IT companies in short to medium term. We are underweight on IT and recommend reduction in portfolio allocation. There could be huge investments on e-governance leading to a booster for IT companies specializing in government business, in India

Real Estate

Developers are already struggling to sell and with high probability of a new government, we expect real estate prices to be moderately down in medium term and little to moderate growth in bottom line of builders. One positive niche area in realty is affordable housing where we expect to get policy support. Revenues and earnings of builders operating in B and C category zones will be under pressure, whereas A category is expected to remain stable. Another dampener for real estate companies may be rationalization of taxes which will have negative impact on profits. Real estate sector is a major job creator with the largest industry linkages and government may not take policy decisions that strongly hurts this sector, but at the same time it will aim to control the property prices. Therefore our estimate is to see moderate growth in this sector.

Infrastructure and Capital Goods

Infra stocks are expected to perform well in long term and certain niche industries like ports and railways will outperform others. We expect revival of investments coming into massive infrastructure projects like building national highways, laying new railway lines, and modernization of ports. If we look at Gujarat's road length statistics, it has expanded significantly in the last 10 years compared to the growth witnessed in the last 50-60 years. We believe that road construction would be a key thrust area of new government. Lower inflation and falling commodity prices will help in reducing input costs for builders. Overall, we are bullish on infra construction and contracting business whereas infrastructure operators will continue to see stable income. Outlook for infrastructure developers is neutral. Equipment manufacturers, infrastructure leasing and financing companies are expected to see above average growth.

Supported by revival of infra sector, capital goods industry will see a pick-up from its slumber. In medium to long term, we expect capital goods will perform well with leading players showing stable and strong growth.

Power Generation

Falling coal prices and a growing economy will result in a favorable environment for power generating companies. If one looks at Gujarat state's power scenario, one key achievement is that 100% of its villages have electricity connection for 24 hr power through the Jyotigram Yojna. It is a power surplus state and we believe the new government will like to replicate this performance at national level by keeping power sector a key thrust area. Power generation stocks are expected to do well in medium to long term with moderate and stable growth. We are bullish on solar power and all alternate energy developers and equipment manufacturers.

FMCG

Job creation and inflation control is expected to be on top list of new government and it will boost consumption demand. Falling commodity prices coupled with rising economy and robust purchasing power will help FMCG to do well. The performance will also depend upon overall growth of rural demand.

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