

May 23, 2019

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BJP continues to remain in power.

The thumping victory of NDA led BJP Government!

The Lok Sabha 2019 elections indicates thumping victory for BJP led NDA government where BJP sets history by alone grabbing 301 seats and NDA grabbed 351 seats. The exit poll had already indicated NDA winning around 300 seats for NDA. The fact that BJP alone grabbed near to 300 seats is extremely positive as it will not have to form a collusive government which will help them take further key decisions.

BJP continues to rule for more 5 years.

The magnificent victory of BJP means that it will continue to stay at the helm for more 5 years. It also means that the nation will continue to develop under the leadership of PM Modi. Under the 1st five years of ruling, The BJP government had undertaken historic reform of GST which benefitted the nation in a big manner. GST implementation infuses above 90k Crs every month into the system and we expect this inflows to continue and also reach above 1lakh crore in his second tenure which will help reduce current account deficit. We expect PM Modi to take various constructive measures in his 2nd term which will help the Indian GDP to grow back at 8%.

Equity market outlook.

Market had already discounted BJP win and had witnessed 8% rally in Nifty in a span of 4 months in the pre-election rally and during the outcome of results, Nifty touched life time highs of 12k mark. Though in the short term there are many global tensions like US-Trade wars and Brexit, we believe, Indian economy will face a blessing in disguise situation and will have immense opportunity from the US –China trade wars. The major task of the government will be to solve issues of liquidity and consumption, which when resolved will help markets to surge. As BJP government in his first tenure has laid a strong foundation, we feel in his next tenure, the speed of reforms will be quicker which will help the economy grow faster. Hence, we expect Nifty to touch 13k mark by the end of FY20.

FII's to turn net buyers

The sweeping win of BJP led by NDA once again has uplifted India's spot in the Emerging markets and making India one of the fastest growing nations in the world. Under the presence of new governor there have been 2 rate cuts with a dovish commentary and various measures taken by the RBI to infuse liquidity. The governor had also guided for below 3% inflation in the future which we believe will continue as a result we feel 25 bps rate cut in the current financial year is on the cards. Rate cuts are the need of an hour to infuse liquidity which will help in better corporate earnings as a result will attract FIIs to turn net buyers. During the start of the calendar year 2019, FIIs had done a historic buying of almost Rs.60k Crs and we expect the buying to uplift at-least till Rs. 1lakh Crs. till the end of the calendar year.

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Sectors to benefit out of PM Modi's win

1. Banks

In the interim budget Interim FM Piyush Goyal had hinted for 3% interest subvention if farmers pay their loans on time which will help banks to collect most of the lended amount.

Banks will be the first sector to benefit from the massive win of BJP. In the interim budget Interim FM Piyush Goyal had hinted for 3% interest subvention if farmers pay their loans on time which will help banks to collect most of the lended amount. BJP had also hinted for hike in MSP in all 22 crops which will fetch more income to the rural people and in turn will result in further borrowings from the banks, thereby increasing the loan books of the banks. BJP Government had sowed massive recapitalization of 2lakh crore which reaped good earnings for the PSU banks. We expect PSU banks to further improve their earnings and do aggressive lending like in the UPA regime.

Top Picks – PSU Bank –SBI, Canara Bank, Indian Bank, BOB

Private Banks – HDFC Bank, Kotak Mahindra Bank, Federal Bank, RBL Bank

2. FMCG

People had slowed down on spending on fears of no stable government at the helm.

Consumption driven FMCG sector had undergone a slowdown during Q4FY19 chiefly on account of the general elections. People had slowed down on spending on fears of no stable government at the helm. After the outcome of election results, we will witness consumption spending back on track on account of the stable government for more 5 years. Consumer spending will increase the volume growth of the FMCG companies on a higher base rate. FMCG sector did not participate in the pre-election rally and we now expect the sector to outperform the index returns.

Top Picks – HUL, Britannia, Marico

3. Infrastructure

Mr. Gadkari will retain his infrastructure cabinet and will speeden the pace of work both on land and waterways.

The road infrastructure minister Mr. Nitin Gadkari had worked aggressively in his first tenure and we expect the same momentum to continue in the second tenure of BJP regime. There is huge opportunity in the infrastructure sector as it is a vast sector which will require time to develop. We feel, Mr. Gadkari will retain his infrastructure cabinet and will speeden the pace of work both on land and waterways. As a result we are bullish on road construction companies and ports under the next tenure of BJP.

Top Picks – KNR Construction, Ashoka Buildcon

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Realizations have increased PAN India which will increase the value growth supported by the volume growth.

As the HFC companies are going through the Liquidity crisis, the new governor in collaboration with the government will work towards giving the nation his closest dream of 'Housing for all'

4. Cement

Cement will be the primary sector to perform when infrastructure developments take place. As the pace of development will fasten, demand for cement sector too will fasten which will increase the volume growth of the cement companies. Realizations have also increased PAN India which will increase the value growth supported by the volume growth. Most of the companies are operating at optimum capacity and have increased their capacities through acquisition which will lead to further volume growth.

Top Picks - Ultra Tech, Shree Cement

5. Housing Finance Companies

It is PM Modi's dream to give 'Housing for all' by 2022 when the nation celebrates 75 years of independence. We believe PM Modi will aggressively work towards this dream as he has in his first tenure achieved his dream for the "Power for all by 2019". As the HFC companies are going through the Liquidity crisis, the new governor in collaboration with the government will work towards giving the nation his closest dream of 'Housing for all'. As a result we expect liquidity to increase and the biggest beneficiary would be HDFC Ltd. which has a good market share and good corporate governance.

Top Picks – HDFC Ltd, Can Fin Homes

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