



## Politics: Exit polls indicate near majority for NDA

### Modi victory on 16<sup>th</sup> to sustain market buoyancy

- Most exit polls are showing a clear victory for the BJP-led NDA.
- We expect the NDA to follow an aggressive development focus.
- Thus, shift focus to industrial/infrastructure vs defensive earlier.

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### Exit polls pointing to 'best-case election scenario'...

The Nifty is heading for our best-case scenario of 7,748 based on a one-year forward PER of 15x FY15. Under the base-case scenario, our Nifty target was 6,786. Contrary to our view of 200 seats for BJP and 220 for NDA, most exit polls are indicating between 250-280 seats for the NDA. Even after adjusting for margin of error, this is likely to result in a clear victory for the BJP-led NDA requiring negligible outside support.

Results on 16 May could differ from exit polls but only slightly. If NDA falls short by 20-25 seats, it will receive support from the BJD, AIADMK. A hung parliament or a third scenario is now out of contention based on the exit polls as regional parties have been marginalized in this election.

We now shift focus to industrial/infrastructure sector vs defensive earlier. We prefer automobile, cement, banks, property, metal and mining and contractors based on the 'best-case' election outcome, which will revive the economic growth back to 6%+.

We expect the BJP-led NDA is likely to follow an aggressive development focus. We expect the new government to be announced around the 20<sup>th</sup> May. It is likely to give a priority to: 1) arrest decline in industrial production and industrial investment; 2) provide clarity on policy relating to foreign investment limits in insurance, retail, defense etc; and 3) bring down inflation. We believe the NDA can take up large road, rail and power-related infrastructure projects only after it brings down the inflation and interest rates in the economy. Moreover, it will need 6-12 months to remove the bureaucratic hurdles and engage with states on various projects that are stuck due to approvals.

### ...risk appetite should improve as a result

The NIFTY is up 12% YTD and going by the political newsflow, we believe it is headed higher in the next few days. Even if there is some profit taking after the results on 16 May, we believe the downside on the Nifty is protected at 7,000. We believe the fundamental improvement in earnings will take another 9-12 months, and clear signs on policies will be evident in July when the new government presents its budget. It is still early to chalk out a top-down investment theme and we believe investors will continue to maintain large exposure to blue chips with a strong balance sheet, rising free cashflow and good corporate governance. In addition, we expect the risk appetite to improve with investors increasingly looking for names in banks, infrastructure, power, metals and mining sectors. We maintain our positive view on select software, consumer and media stocks despite a chance of short-term under performance.

Our top picks in the auto sector are Maruti Suzuki and Tata Motors, in cement we like ACC and Ambuja Cement, Sesa Sterlite in the mining and metal sector, LIC Housing Finance in the financial sector, JPA and Powergrid in the infrastructure segment and DLF in the property sector.

### EXIT polls indicate BJP victory in North, West India in a big way

#### Exit-polls , 2014 Lok Sabha on 12 May

Agency	BJP-NDA	INC-UPA	Others
Times Now ORG	257	135	151
CNN IBN Lokniti	276	97	170
Headlines Today Cicero	272	115	156
ABP News AC Nielsen	281	97	165
News 24 Chanakya	340	70	133
India Today C Voter	289	101	153

All the exit polls have unanimously given the BJP led NDA a seat tally which is near majority of 272 seats which will enable them to form gov't and Modi to become India's 14<sup>th</sup> PM.

If the exit polls are to be believed, then BJP has won election on the basis of sharply increased seats in the states of Bihar, UP, Maharashtra, Gujarat, Rajasthan and MP. Surprisingly, it also made inroads into states like Orissa and Tamilnadu.

#### Downside risk to exit polls remains but will not cause an upset

The exit polls were off mark in 2004 and 2009 elections and were not able to accurately predict the outcome. Even this time, most exit polls cautioned that the margin of error in their vote share computation could be plus or minus 3%. We believe, in the worst case even if the exit polls were to reduce BJP led NDA's seats by 20-30, it will still be the largest formation to stake claim for gov't at the centre.

Some of the other negative observations include BJP's very high vote to seat ratio of over 6x. As per the exit polls, NDA will have about 40% vote share with over 250 seats. BJP is winning close to 90 seats in UP and Bihar as per the exit polls which most of its rivals and critics have rejected. If any crack appears in BJP's tally on 16 May, it is likely to be from UP and Bihar.

In the event of NDA falling short by 30-40 seats, we believe, it will get outside support from the BJD of Orissa and AIADMK of Tamilnadu. Only in the eventuality of less than 220 seats that the BJP will have to worry as then some other formation may try to stake claim to form gov't. However, that probability appears remote.

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