

Business Standard

Markets to carry upward pre-poll bias, say experts

Experts find valuations comforting, with most frontline indices and mid- and small-cap companies trading at historically low valuations

Puneet Wadhwa | New Delhi March 05, 2014 Last Updated at 22:49 IST

As most worries, both on the global and domestic economic fronts, seem to be past or already factored in, Dalal Street is eagerly awaiting the outcome of the general elections. While the results will have a strong bearing on markets in the long run, most experts seem to be confident due to expectations of a majority government at the Centre. This is crucial for economic growth and a revival in India Inc's earnings. It will also help improve investor and corporate sentiment and attract more liquidity from domestic and international investors.

In the run-up to the elections, however, expect markets to be volatile because of political events. While experts find valuations comforting, with most frontline indices and mid- and small-cap companies trading at historically low valuations, they are divided on the sectors investors should consider investing in. While some advocate defensives, given the political uncertainty, others recommend cyclical and interest rate-sensitives, which could do well in case a strong government is formed.



ANDREW HOLLAND, CEO, Ambit Investment Advisors

The markets are likely to remain volatile in the run-up to the elections. However, I think the trend will remain up as long as we have a government at the Centre that does some real work. Besides domestic factors and economic data, the direction of global markets will also have a bearing on how the markets in India pan out. Investors should look at sectors that will benefit from government spending and stick to industrials, utilities, autos and metal sectors, which should

do well.

SANJEEV PRASAD, ED & co-head, Kotak Institutional Equities

The market might see a modest rally ahead of the elections if opinion polls indicate the formation of a stable government. Domestic cyclical sectors such as automobiles, banking and industrials or infrastructure and sectors that could benefit from continuation of economic reforms such as energy and power will be in focus around the elections.



RAMESH DAMANI, Member, BSE

Currently, the market is factoring in a working majority and hoping economic reforms will drive growth. I think this is the right time to be invested. Through the next three months, the markets will rise higher and sectors such as technology and pharma could do well.

DEVEN CHOKSEY, Managing director & CEO, KR Choksey Securities

Ahead of the elections, markets will see a build-up of positions in stocks of companies with dollar-denominated revenue and which have low leverage and high cash in their balance sheets. While selecting stocks, investors should use a bottom-up approach.

I expect the markets to trend higher ahead of elections and the Nifty could trade at 6,200-6,450. This year, returns could be 20 per cent. Stocks of companies in the energy segment, mid-caps and the commodity space, especially metals and cement, could do well.

PRABHAT AWASTHI, Managing director & head of equity research, Nomura Financial Advisor

Since November, we felt CPI inflation was poised to surprise the market positively. A correction in vegetable prices is underway. We remain positive on rate cyclicals. Our December 2014 Sensex target is 24,700. We are bullish on IT services, pharma, banking, oil & gas and asset owners and negative on consumer, capital goods, metals and telcos. We recommend investors be neutral on the market close to the elections.

RICHARD ILEY, chief Asia economist, BNP Paribas

Investors appear to be hoping for a 'game changing' election with the main opposition party the Bharatiya Janata Party (BJP) with Narendra Modi as their Prime Ministerial candidate. Given Mr. Modi's track record as first minister of Gujarat where he helped foster a pro-business environment, attracting substantial FDI inflows and helping the state enjoy consistent close-to-double-digit rates of GDP growth, a Modi-lead administration is seen as having the potential to deliver better, more decisive governance, kick-starting structural reforms, reaccelerating FDI inflows at a national level and, ultimately, reinvigorate India's macro performance over the medium-term.

DIPEN SHAH, head of private client group research, Kotak Securities

Markets will continue to closely watch the developments on the political front. Markets are betting on formation of stable government, which could put the infrastructure and industrial sector back on track. This will provide higher visibility to cyclical / investment-oriented sectors and will also give an upward bias to the current valuations of 14.5-15x consensus FY15 earnings, we believe. Over the medium-to-long term, initiatives to revitalize infrastructure investment, anchor inflationary expectations and control the ballooning subsidies, will be important pre-requisites for the markets to move up sustainably.

We continue to recommend a selective and balanced approach towards sectors. We do like select stocks in sectors like IT, media and private sector banks. However, we also recommend investing in stocks having strong balance sheets and ethical managements in beaten-down 'domestically-oriented' and 'investment-led' sectors. A favorable political outcome will lead to out-performance from these sectors / stocks vis-a-vis the markets.

SANTOSH SINGH, analyst, Espirito Santo Securities

Given the inherent difficulty of predicting elections in India, taking strong portfolio positions based on electoral outcomes has been counterproductive for investors in the past, given the wild swing in the markets post elections. So with uncertainty likely to continue to prevail - both on the domestic political front, as well as taper timing on the global front, our view is portfolios should remain focussed on quality — competitive advantages reflected in ROE spreads over cost of capital, strong cash generation, optimally leveraged balance sheets and low volatility in earnings growth.

Sector-wise, we still like IT Services, Telecoms, Pharma and pockets of Financials and pockets of Consumption, and would be gradually adding Materials exposure. And for investors who want to add beta going into the election, we'd look to midcaps.

GAUTAM CHHAOCHHARIA, head of India research, UBS Securities India

We expect things to get worse before they get better as fiscal will continue to drag growth further, while the street has been more hopeful on growth, especially on scale of positive impact of good monsoons. We expect markets to be directionally positive in 2014, especially in case of a favourable election outcome. We remain overweight on IT, Telecom, Media, Oil & Gas, Private Banks, Power and have an underweight stance on Autos (two-wheelers), Consumer Discretionary, Infrastructure & Capital Goods and Government (PSU) Banks.

MADAN SABNAVIS, chief economist, CARE Ratings

Election process will provide boost for industry as demand picks up for autos, fuel, paper, printing, food items, etc as the campaigning season gets on the way. But for the capex cycle to start, it would be after elections and given the monsoon impact. Realistically, the third quarter, that is, October onwards would be the time to look at it.

Typically auto, consumer goods, textiles should see an increase in demand from the consumer side, while government spending on infra will be manifested in demand for cement, steel, machinery - basic and capital goods. Both can happen simultaneously and the former will provide backward linkages with intermediate and basic goods industries.

KISHOR OSTWAL, CMD, CNI Research

Indian markets have not factored in a fractured mandate. If a Third Front forms the government, then we should see Nifty below 5,000. Though, in my opinion, Third Front is remote possibility as Narendra Modi-led Bharatiya Janata Party (BJP) is set to cross 200 seats. I see Sensex at 24,000 in 2014 and 30,000 by 2017 based on earnings' growth and if there is stable government for next five years. Correspondingly, the Nifty levels are 7,200 and 9,800 in the same period. I agree but investors need to focus on industry specific infra stocks. I would suggest buying oil and gas stocks, private banking, cement and port related stocks.

VINOD NAIR, head of fundamental research, Geojit BNP Paribas Financial Services

Nifty is at a very interesting stage at 6,200 with 50:50 odds on both sides in the very short-term. i.e. the question is before a pre-election rally will the Nifty start building position henceforth or after a brief correction back to 6100. Our medium-term view remains intact, that 5,950 is a strong bottom for the market and the Nifty will face resistance between 6150-6200. Mid-caps will continue to be in action. We foresee Nifty to eventually cross 6,200 and head towards 6,400.

KAUSHIK DANI, head of equity funds, Peerless Mutual Fund

It's nothing unusual for nervousness creeping into the markets around the General Elections. Though the importance of elections usually gets marginalized over a longer time frame, investors tend to be uncommitted during that period. For a diversified and large nation like India, a coalition would be no great surprise. However, the larger issue with fractured mandate is that sometimes policy reforms take a back seat and that does not augur well for the nation.