India Strategy

Exit Polls: Doubt over long term sustainable rally

With exit polls indicating a landslide victory for the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA), market and investor reactions need to be segregated into short and medium-term rally.

Immediate term – a short rally

A short market rally is on the cards on the day of the results (June 4), especially if final numbers align closely with those predicted by the exit polls, given that the markets were a tad nervous about the final numbers amid reports of BJP's dwindling prospects in states, such as Karnataka, Bihar, and Maharashtra. Traders and foreign institutional investors (FII), which had trimmed their positions ahead of elections, would look to go long, bolstering markets during this week. FII are largely Neutral to Underweight across sectors barring Financials and Consumer Staples.

Immediate impediment – rich valuation pricing in policy reforms

With likely third term for Prime Minister Narendra Modi-led NDA, domestic and global investors are anticipating an aggressive reforms agenda that can catapult India into the next orbit of growth. India's markets are trading at a premium to all Emerging Market (EM) peers, especially heavyweights, such as China & South Korea, and to its historical past.

Forward earnings do not justify these valuations, especially in sectors that are linked to government policy actions, such as defense, railways, and power. Earnings need to catch up so that after the initial celebration of the election results, markets can potentially see profit-booking. Further upside in repeat names looks unlikely, as fundamentals are not in sync with the stock prices.

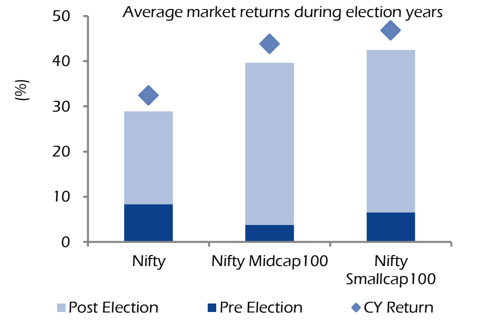
Evolving goalposts; market narrative likely to change post Budget

The first five years of the NDA government during FY14-19 were different from the subsequent five years of FY20-24 in terms of policy focus. FY14-19 were more skewed toward social & rural agenda, and FY20-24, notwithstanding the COVID-19 related disruption, saw significant increase in capital expenditure, primarily in railways, defence and roads. For the next five years, we expect rail freight, maritime, urban housing, urban infrastructure, new energy, efficiency capex in power and GST reforms to be the new emerging growth areas.

Selective plays amidst peak valuation

- We remain positive on Mid & Smallcap spaces due to benefits from government-led capex, but high valuations suggest a selective approach post-elections. Favorable conditions like the RBI's dividend payment and likely reduced borrowing suggest lower market rates, benefiting **Real Estate, Banks**, and **Autos**. Global trends support **metals** and **data centers**, while La Niña should boost rural and agriculture sectors.
- Relative underperformance of banks provides valuation comfort which is corroborated by our "What's in Price" model. With private capex at the cusp of revival, we prefer private over public banks.

Markets see healthy returns post elections



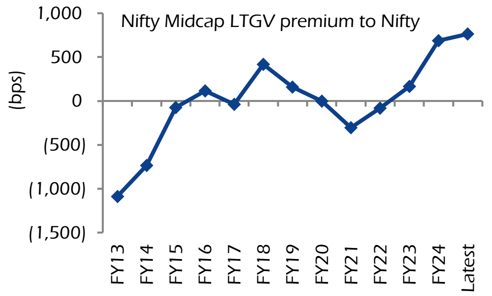
Source: Bloomberg, Elara Securities Research

Exit polls predict a landslide victory for BJP-led NDA

Exit polls	NDA	I.N.D.I.A.
India Today – Axis My India	381	149
ABP - C Voter	368	167
News 18 Mega Exit Poll	363	133
Jan Ki Baat	377	151
Republic Bharat - Matrize	361	126
News Nation	360	161
Times Now - ETG Research	358	152
India News - D Dynamics	371	125
News 24 - Chanakya	388	113
Republic TV - P MARQ	359	154
TV 5 Telugu	358	154
Average	**368**	**144**

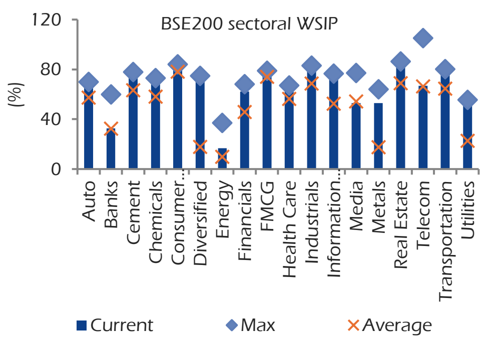
Source: Exit Polls, Elara Securities Research

Midcap LTGV relative to the Nifty trades at an all-time high



Source: Bloomberg, Elara Securities Research

Major sectors with LTGV in the peak range



Source: Bloomberg, Elara Securities Estimate

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Backdrop

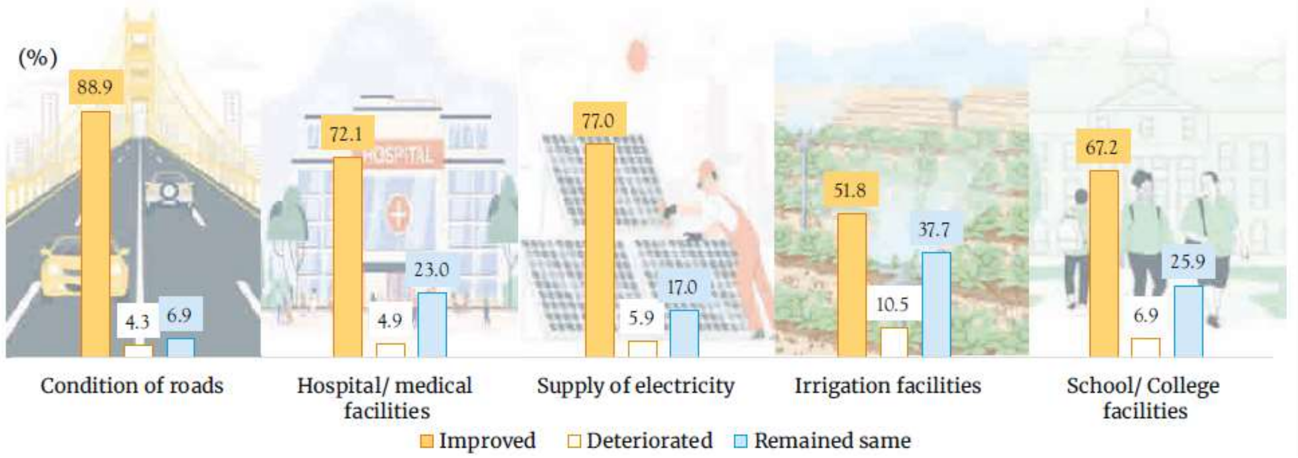
We were always convinced of a comfortable BJP victory

With exit polls projecting a comfortable and emphatic victory for the NDA, the focus will be on what comes next. That NDA would come back to power was never in doubt, but the extent of victory was what market participants continue to assess.

The exit poll numbers align with our expectations of the BJP at 290-310 with the NDA at 330-350. When we hit the ground during November 2023 and February 2024, across 21 states, 96 villages and 103 tier III & IV towns, what we assessed in our report, *Parivartan 2.0*, was the following:

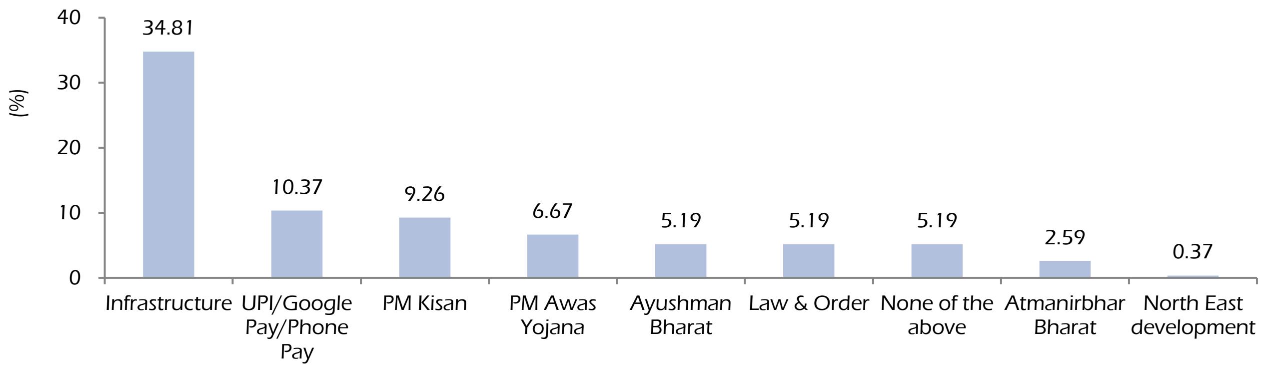
- BJP's successful implementation of key infrastructure projects, especially roads had huge appeal among voters
- The free foodgrains program and its effective implementation resonated among most voters
- Educated unemployment and inflation were key issues on the ground but for every voter who was disgruntled, there was a voter that heaped praises on BJP's development model, especially among the poor
- The fragmented Opposition, lacking a unified front and effective leadership, diminished the challenge to BJP's dominance
- While challenges, such as economic disparities (India's post-COVID, K-shaped recovery) remain, the BJP's focus on national security and India's rising stature globally resonated well with voters

Exhibit 1: Development main agenda: India; overwhelmingly, views amenities to having improved in Modi Raj…



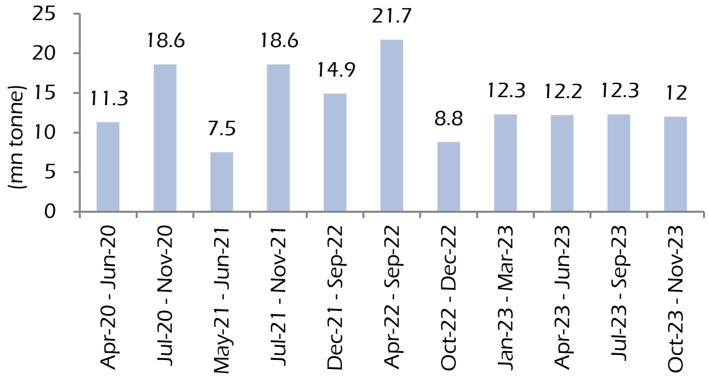
Source: Parivartan 2.0, 2024

Exhibit 2: …but it is infrastructure which is the most satisfactory among amenities



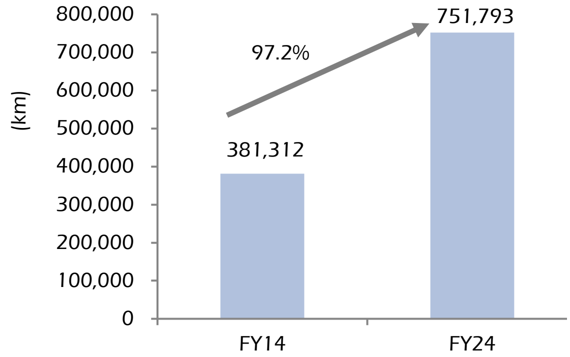
Source: Parivartan 2.0, 2024

Exhibit 3: Foodgrains distributed under the PMGKAY



Source: Parivartan 2.0, 2024

Exhibit 4: PMGSY – roads constructed

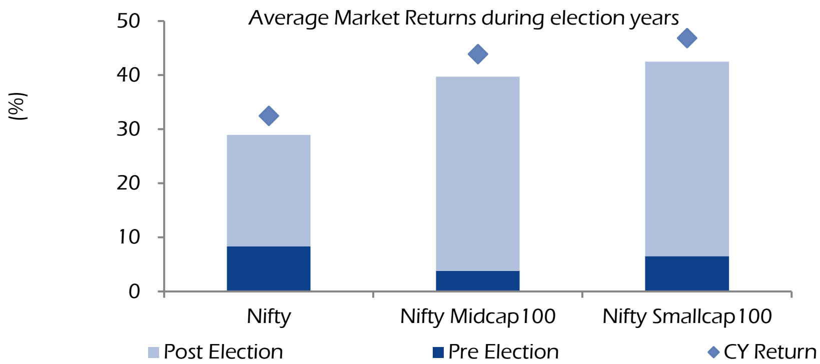


Source: Parivartan 2.0, 2024

Election years are positive for markets

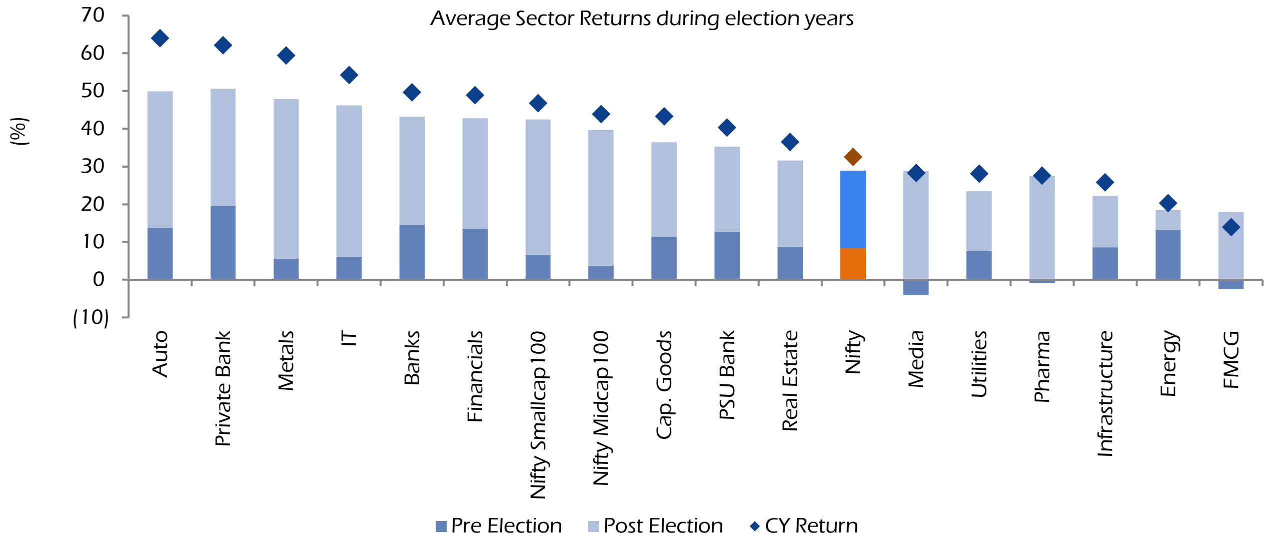
Our empirical evidence shows election years are positive for the equity markets. In each of the past four election years, the Nifty 50 has given a average return of ~32%, with significant contribution coming from post-election returns. Broader markets tend to do even better. Pre-election performance varies, but post-election rallies have historically been broad-based, resulting in positive returns across sectors. With the Nifty yielding ~4% in CY24 to date, there remains huge upside potential for a post-elections rally.

Exhibit 5: Markets see healthy returns post elections…



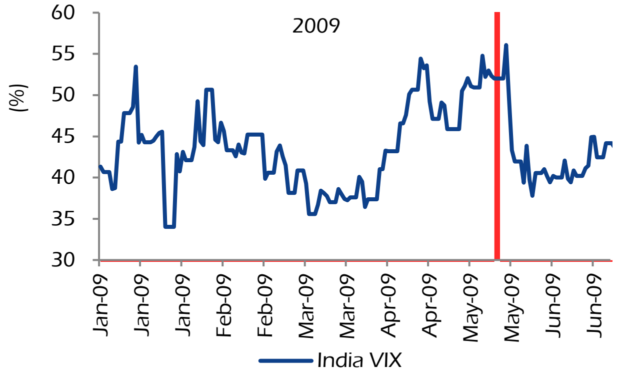
Source: Bloomberg, Elara Securities Research

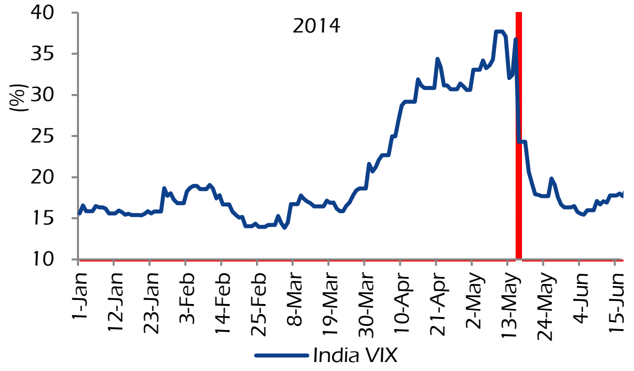
Exhibit 6: ...and with returns being broad-based

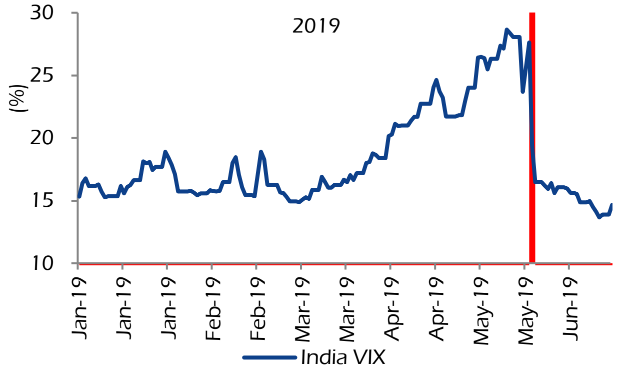


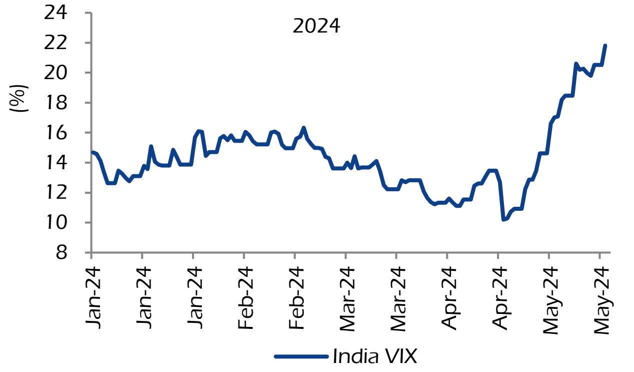
Source: Bloomberg, Elara Securities Research

Exhibit 7: Implied volatility normalizes usually one month post results announcement...









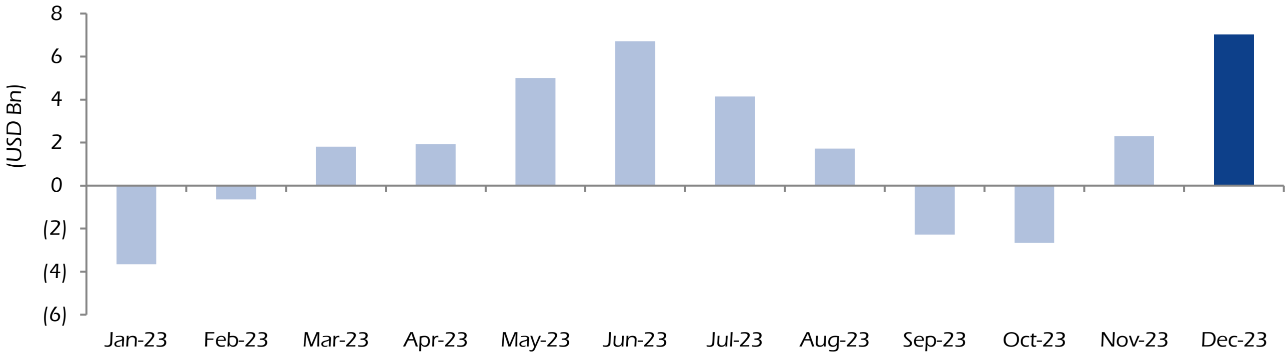
Source: Bloomberg, Elara Securities Research

Pre-elections rally began last year but lost ground amid results uncertainty

Markets were pricing in a thumping majority in the General Elections as evidenced by the market rally in December 2023, when the BJP secured big victories in three out of five State elections: Madhya Pradesh (163 out of 230 seats), Rajasthan (115 out of 119), and Chhattisgarh (54 out of 90 seats). The Nifty gained ~8% in December alone as FII invested USD 7bn into equities. Surveys leading up to the Elections indicated the BJP, along with the NDA, was poised to increase their seats from around 350 in the CY19 elections to just under 400 this year. This upward trend was particularly notable from January 2024, possibly due to a perceived lack of cohesion in the newly formed opposition alliance, the Indian National Developmental Inclusive Alliance (I.N.D.I.A.).

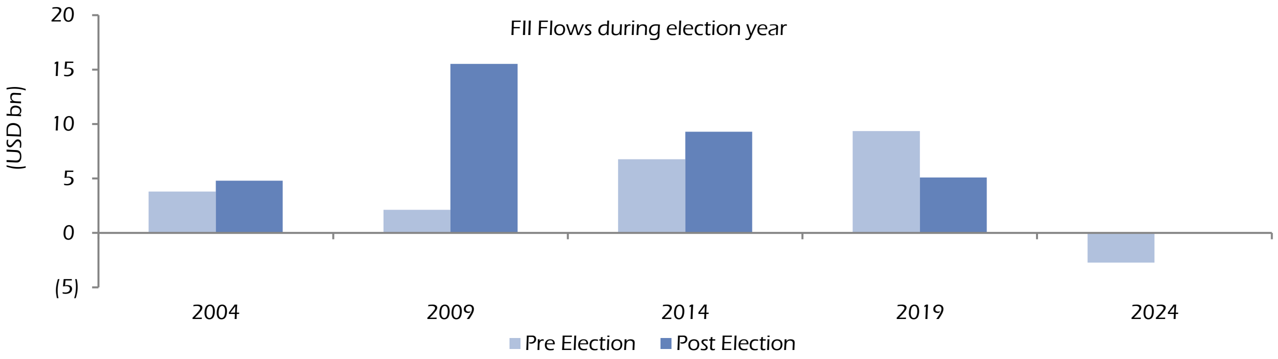
This euphoria, however, lost ground as the election year progressed as lower voter participation and possible loss of some vote share in key states, such as Maharashtra, West Bengal, Karnataka, and Bihar, introduced an element of uncertainty that has reverberated through the financial markets.

Exhibit 8: December saw the highest FII inflows in CY23 on the back of good State elections…



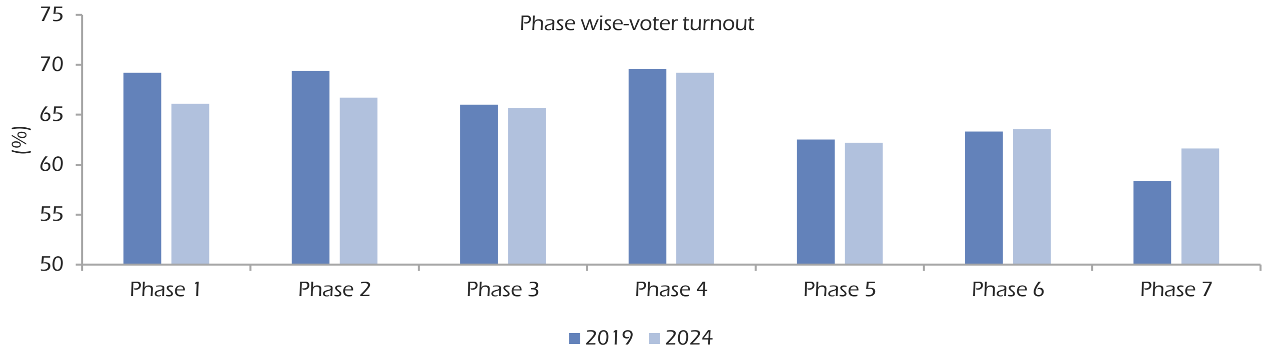
Source: Bloomberg, Elara Securities Research

Exhibit 9: …however, flows fizzled as the election year progressed…



Source: Bloomberg, Elara Securities Research

Exhibit 10: ...on poll jitters due to low voter turnout



Source: ECI, Elara Securities Research

Light FII positioning in large caps entering elections

FII positioning in Indian equities has been trending lower as highlighted in our note, *India Strategy - Rising trend continues in DII ownership*, released on 9 May 2024. One key reason for this drop has been due to underperformance of one of its key overweight bets on India, namely Private Banks. Private banks have been an underperformer in the current rally, gaining only ~11% since beginning CY23 while over the same period PSU banks have seen gains of ~71%. They are Neutral on PSU banks. While comparing sector-positioning against the MSCI India (we have used iShares MSCI India ETF as a proxy for security weights), we find FII to be largely Neutral to Underweight across sectors barring Financials and Consumer Staples.

FII are net sellers of Indian equities worth USD 2.7bn in CY25 YTD vs inflows of USD 21bn in CY24. This can be attributed to the uncertainty around the General Elections and elevated market valuation. Several tailwinds, which support their return to India post elections, include: 1) global interest rate cut cycle would make Indian equities attractive as the risk-reward profile improves, 2) a clear election mandate will provide political stability, 3) India's economic growth prospects compared to other EM will draw FII looking for high-growth opportunities, and 4) a stable INR will reduce currency risk, making investments more appealing.

Exhibit 11: FII positioning light entering elections; Financials and Staples the only overweigth

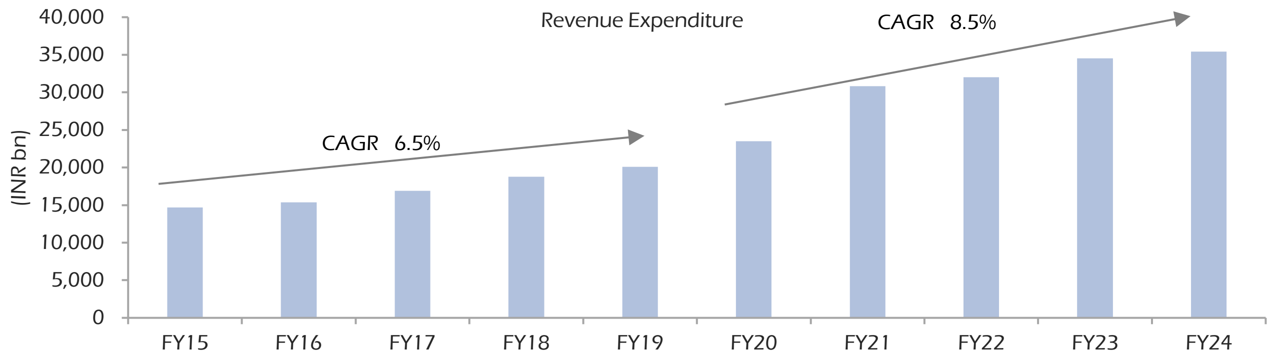
	Weight (%)			
FII Positioning	iShares MSCI India	FII investment in India	Difference	Positioning
Communication	3.2	3.5	31	N
Consumer Discretionary	12.6	10.7	(185)	UW
Consumer Staples	7.9	8.7	79	OW
Energy	11.3	9.8	(154)	UW
Financials	24.7	33.1	840	OW
Health Care	5.4	4.7	(69)	UW
Industrials	9.2	8.0	(115)	UW
Information Technology	11.8	8.8	(303)	UW
Materials	8.2	6.8	(140)	UW
Real Estate	1.2	1.4	19	N
Utilities	4.6	4.6	(3)	N

Source: Blackrock iShares, Company, Elara Securities Research

Next five years will be nothing like FY20-24 as goalposts evolve; market narrative will change post Union Budget

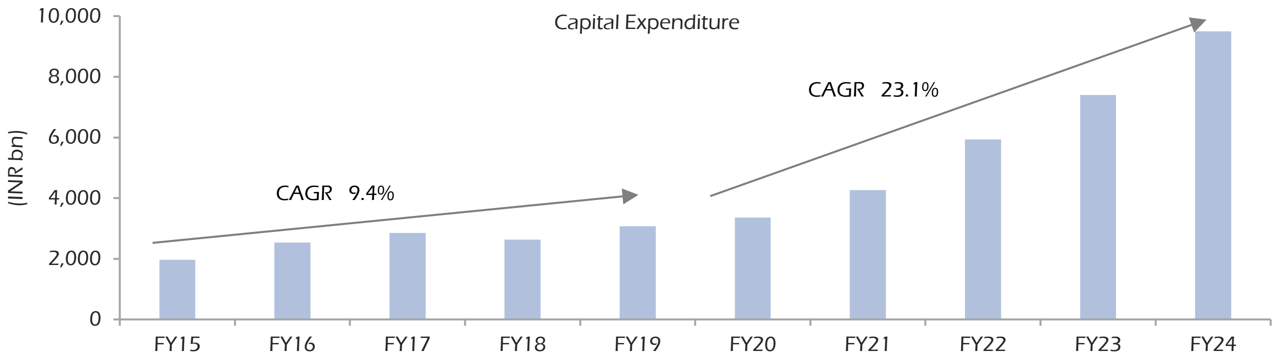
The first five years of the Modi government during FY14-19 were different from the subsequent FY20-24 in terms of policy focus. The first five years were more skewed toward social and rural agenda in terms of building toilets, rural houses, 100% electrification, and liquefied petroleum gas (LPG) penetration among others. FY20-24, notwithstanding the COVID-19 related disruption saw a significant increase in capital expenditure, primarily in railways, defence and roads with spending on agriculture and rural development reducing in focus.

Exhibit 12: Despite COVID, revenue expenditure in Modi 2.0 was restrained vs Modi 1.0



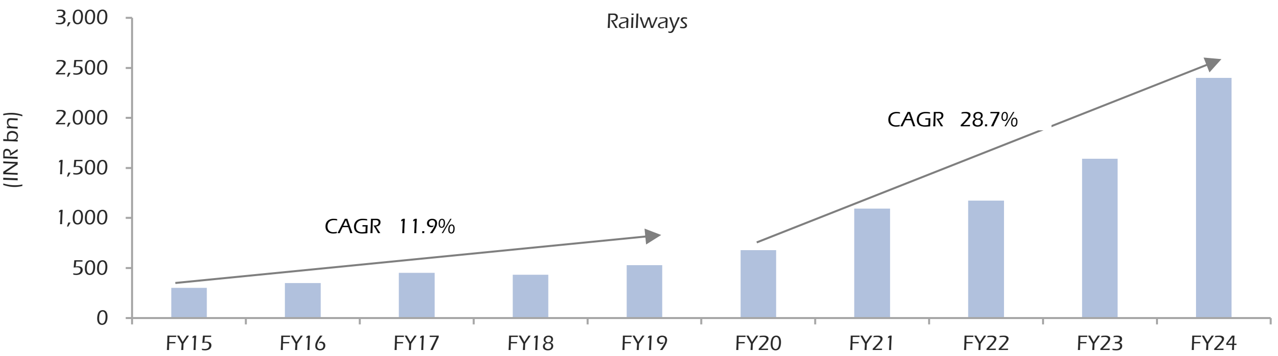
Source: CMIE, Elara Securities Research

Exhibit 13: Capital expenditure remains firm throughout Modi 2.0...



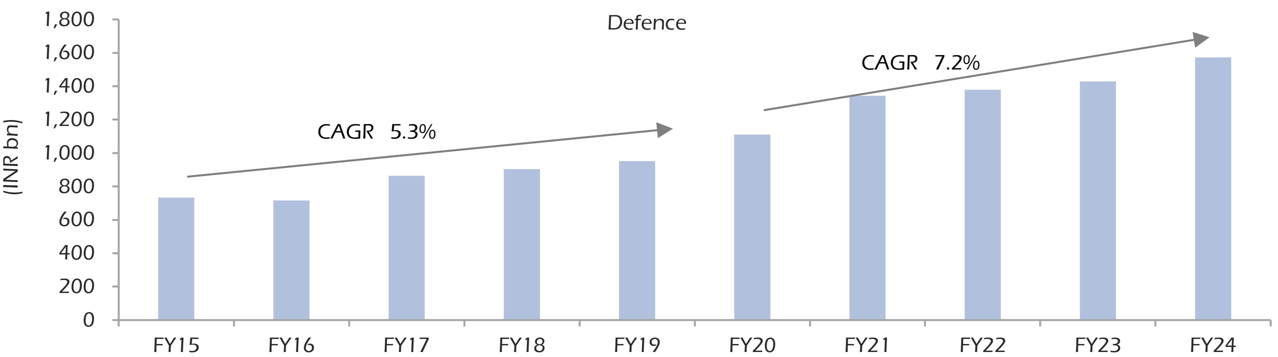
Source: CMIE, Elara Securities Research

Exhibit 14: ...with focus on railways...



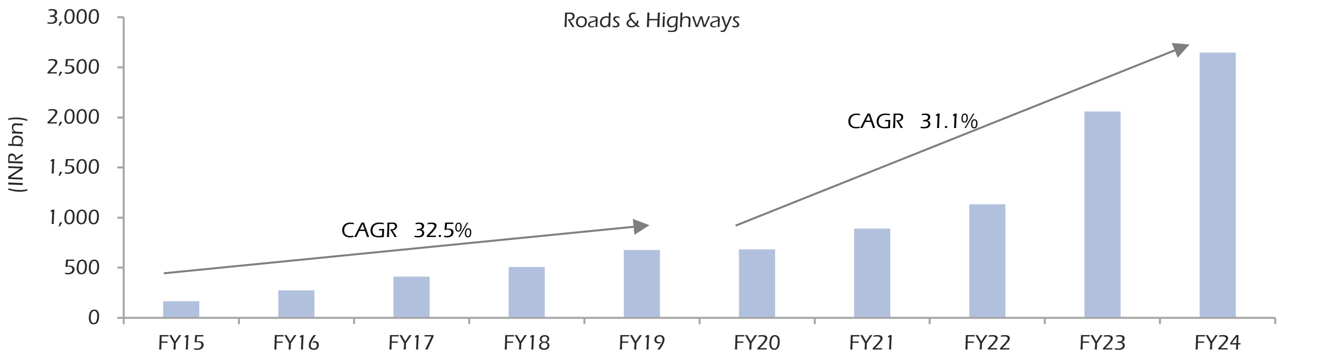
Source: CMIE, Elara Securities Research

Exhibit 15: ...defense...



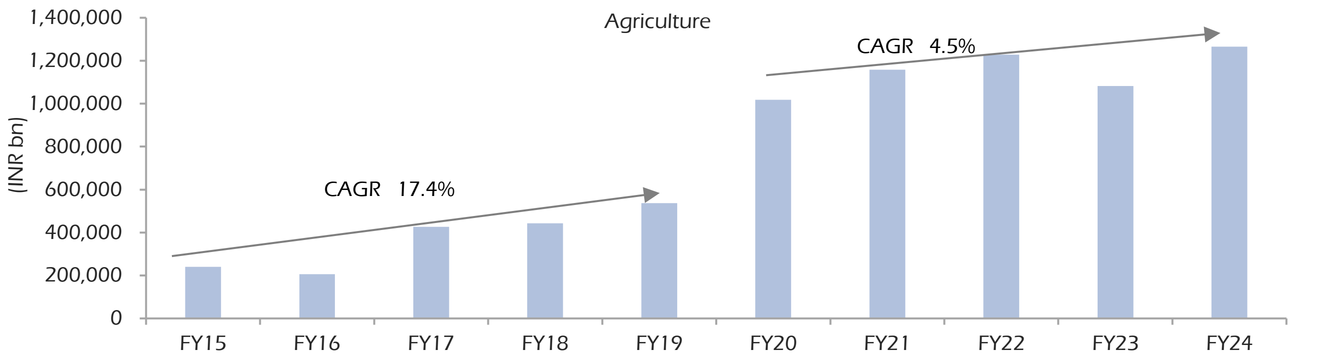
Source: CMIE, Elara Securities Research

Exhibit 16: ...and continued spending on roads & highways



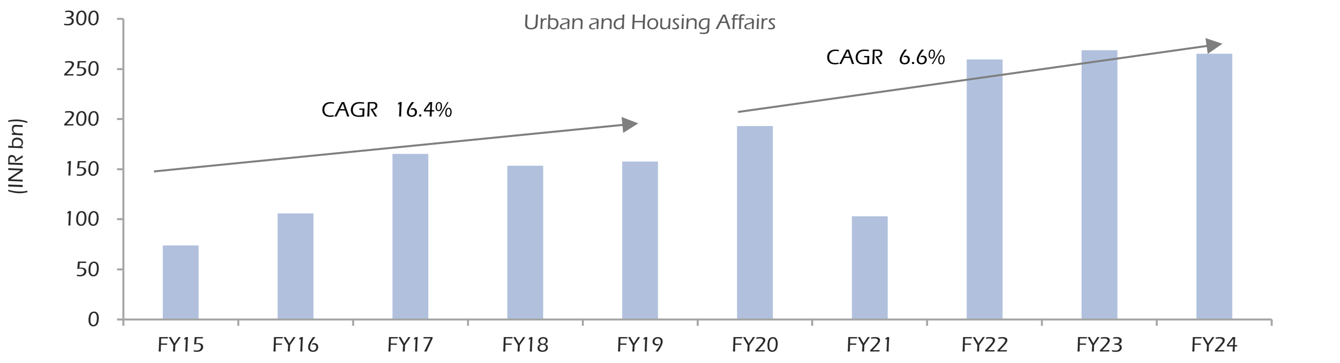
Source: CMIE, Elara Securities Research

Exhibit 17: Agriculture spending saw significant growth moderation...



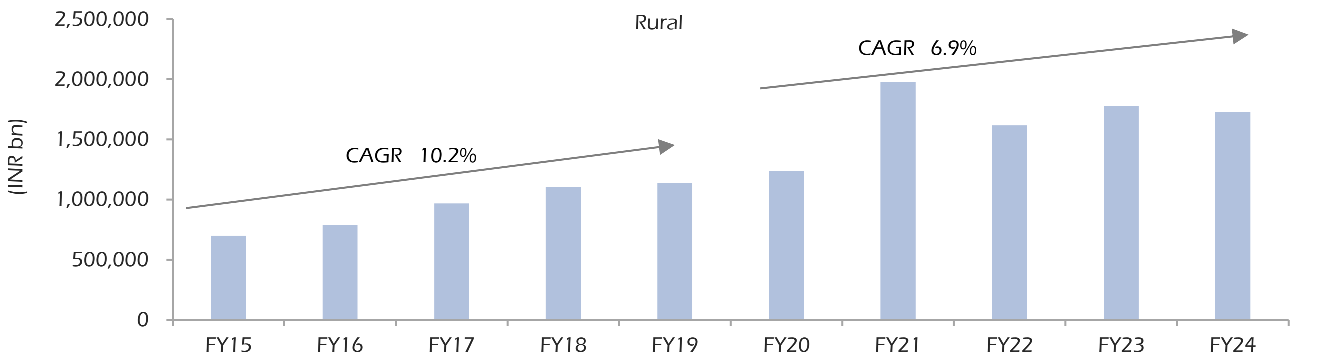
Source: CMIE, Elara Securities Research

Exhibit 18: ...as did urban infra and housing...



Source: CMIE, Elara Securities Research

Exhibit 19: ...and rural development despite COVID-19 related spending



Source: CMIE, Elara Securities Research

The next five years of Modi 3.0 are unlikely to hence be identical to the previous five years. While the government's agenda is likely to be guided by the manifesto, we see scope for new priorities, such as urban housing, urban infrastructure, maritime both commercial and defence, drones both agriculture and defence, efficiency capex in the power sector, new energy, especially with a focus on green hydrogen and solar power, scaling up of nuclear power, tourism, skills development, rail freight and logistics coming into fore.

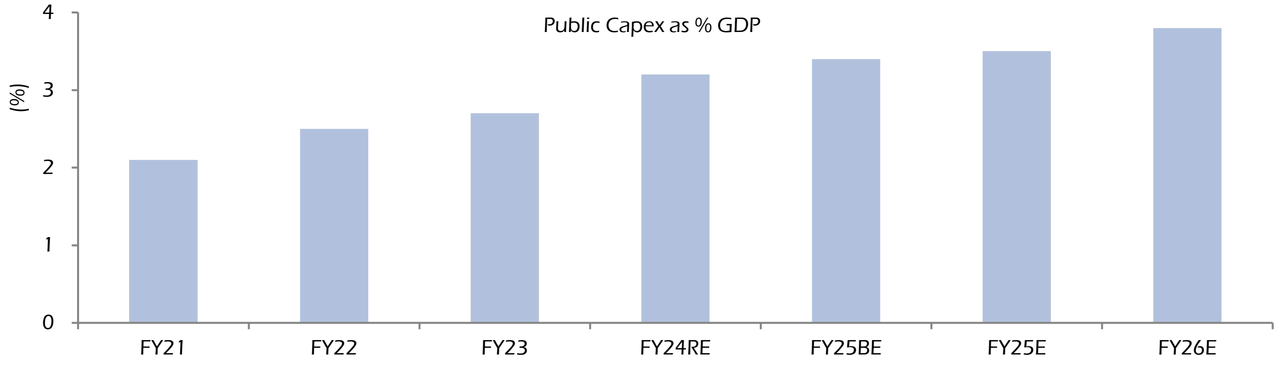
Government spending not to be an aggressive driver of capital formation hereafter; PSU's unabated rally unlikely

Notwithstanding higher revenue owing to higher dividend transfer by the RBI and hence a consequent increase in allocation for capital expenditure in FY25 Final Budget in July 2024, the government's spending ability is likely to be constrained by its mandate for fiscal consolidation (4.5% of GDP by FY26). We factor in higher capital expenditure of 0.1-0.2% of GDP amid higher revenue. The projected capital expenditure for FY26E would see growth of ~ 20% YoY vs 22.2% in FY25E and 16.9% in FY25BE. Hereafter, the ability of the government budget to bolster capital spending is likely to be limited with capex-to-GDP peaking at 3.8% of GDP.

Moot point: How far can PSU rally from here?

In light of the recent rally, PSU banks valuation currently has run-up to 12.2x, which is at a 8% premium to its upper Standard Deviation band and draws parallels to FY17 valuation that preceded three years of negative performance. Furthermore, the PSU Index currently attributes 37% of price to long-term growth expectations, above historical highs of 35% in FY17. The overarching bullish trend for PSU may moderate, but there remain pockets of opportunity that can drive a fresh leg-up to the rally and deliver huge returns.

Exhibit 20: Public capex to GDP likely to peak at 3.8% in FY26E



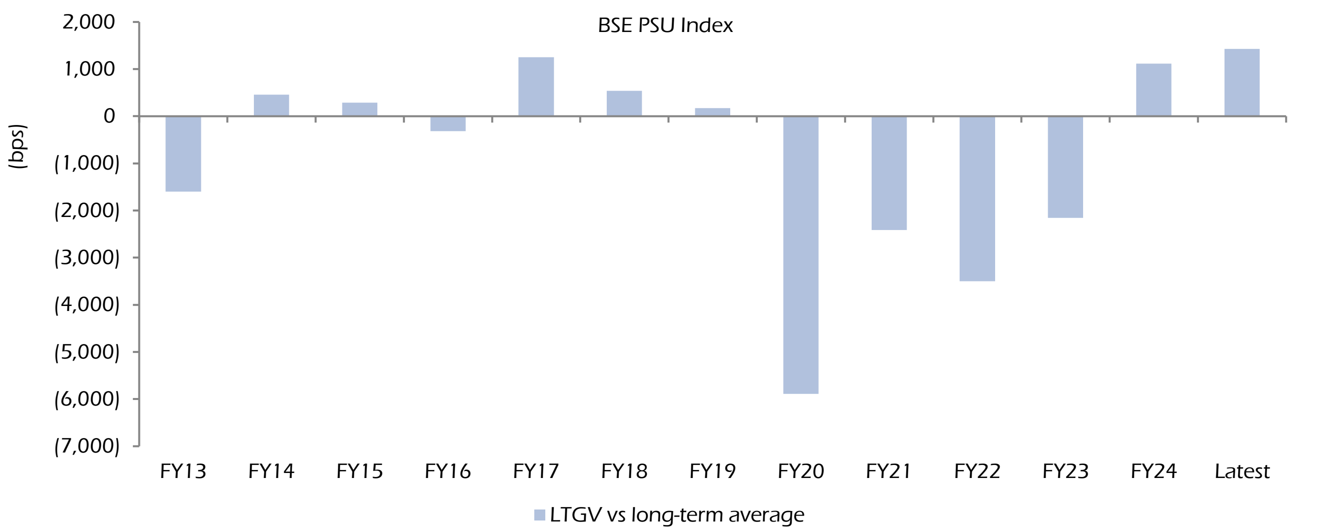
Source: CMIE, Elara Securities Estimate

Exhibit 21: Outlook on government finances

	(INR bn)										YoY (%)				
	FY21(A)	FY22 (A)	FY23 (BE)	FY23RE	FY23	FY24BE	FY24(RE)	FY25(BE)	FY25E	FY26E	FY23	FY24RE	FY25BE	FY25E	FY26E
Total Receipts (ex-borrowing)	16,915	22,093	22,837	24,319	24,554	27,163	27,597	30,803	31,853	35,604	11.1	12.4	11.6	15.4	15.6
Revenue Receipts	16,339	21,699	22,044	23,484	23,832	26,323	26,997	30,013	31,213	34,854	9.8	13.3	11.2	15.6	16.1
Net Tax Revenue	14,262	18,048	19,347	20,867	20,978	23,306	23,239	26,016	26,016	29,138	16.2	10.8	11.9	11.9	12.0
o/w Central GST (Gross)	4,564	5,912	6,600	7,240	7,185	8,116	8,116	9,177	9,177	10,370	21.5	23.0	12.1	13.1	13.0
Non-Tax Revenue	2,076	3,651	2,696	2,618	2,854	3,017	3,758	3,997	5,197	5,717	(21.8)	31.7	6.4	38.3	43.0
Non-Debt Capital Receipts	576	394	793	835	722	840	600	790	640	750	83.2	(16.9)	31.7	6.7	(5.1)
o/w Disinvestments	379	136	650	500	460	510	300	500	350	500	238.5	(34.8)	66.7	16.7	0.0
Total Expenditure	35,098	37,938	39,449	41,872	41,932	45,031	44,905	47,658	48,358	51,859	10.5	7.1	6.1	7.7	8.8
Total Revenue expenditure	30,835	32,009	31,947	34,590	34,531	35,021	35,402	36,547	36,747	38,216	7.9	2.5	3.2	3.8	4.6
o/w interest payments	6,799	8,055	9,407	9,407	9,285	10,800	10,554	11,904	11,904	13,273	15.3	13.7	12.8	12.8	11.5
o/w pensions	2,085	1,990	2,071	2,448	2,416	2,344	2,380	2,396	2,396	2,444	21.4	(1.5)	0.7	0.7	2.0
o/w subsidies	7,582	5,039	3,556	5,621	5,779	4,031	4,405	4,097	4,097	4,200	14.7	(23.8)	(7.0)	(7.0)	2.5
Food	5,413	2,890	2,068	2,872	2,728	1,974	2,123	2,053	2,053	2,217	(5.6)	(22.2)	(3.3)	(3.3)	8.0
Fertilizer	1,279	1,538	1,052	2,252	2,513	1,751	1,889	1,640	1,640	1,722	63.4	(24.8)	(13.2)	(13.2)	5.0
Petroleum	384	34	58	92	68.2	23	122.4	119	119	150	100.5	79.5	(2.6)	(2.8)	25.8
Total Capital expenditure	4,263	5,929	7,502	7,283	7,400	10,010	9,502	11,111	11,611	13,643	24.8	28.4	16.9	22.2	22.8
Capex as % of Nominal GDP	2.1	2.5	2.8	2.7	2.7	3.4	3.2	3.4	3.5	3.8					
Capex as % of Total Expenditure	12.1	15.6	19.0	17.4	17.6	22.2	21.2	23.3	24.0	26.3					
Fiscal Deficit	18,183	15,845	16,612	17,553	17,378	17,868	17,308	16,855	16,505	16,255.0					
Fiscal Deficit : GDP ratio	9.2	6.8	6.1	6.4	6.4	6.0	5.8	5.1	5.0	4.5					
Subsidy to GDP ratio	3.8	2.1	1.3	2.1	2.1	1.4	1.5	1.3	1.3	1.2					

Source: Budget Document, Elara Securities Research

Exhibit 22: PSU basket attributing peak LTGV as per our "What's in Price" framework



Source: Bloomberg, Elara Securities Research

Market Strategy

Until earnings catch up with valuation, global rate cycle, Monsoon and global themes like metals look compelling

India's markets excelled in FY24, with the BSE200 universe achieving 36% earnings growth. However, expecting similar performance in FY25 would be unrealistic. We expect a moderation in earnings growth as the favorable base effect and margin tailwinds dissipate. Although growth will continue to be broad-based, global cyclicals (energy, materials and metals) will lead to earnings growth while that of domestic cyclicals will moderate. Strong earnings momentum continues in Capital Goods and Defense while rich midcap valuation suggests a selective approach post elections. We prefer sectors with attractive valuation and growth prospects, such as Real Estate, Banks, and Autos. Global trends support metals and mining stocks, and *La Niña* is expected to bolster rural and agriculture-oriented sectors. Large private banks are poised to report steady earnings growth and potential valuation re-rating, driven by robust credit demand and stable asset quality.

Rich valuations make us go selective

We have been positive on the Mid & Smallcap space over the past year given that the rally in this space was justified as companies were direct beneficiaries of government-led capex. The NSE Midcap 100 Index has gained 64% since beginning of 2023 vs ~27% gains in the Nifty. This has led to the Index trading at 28.1x 12-month forward P/E, which is at a 71% premium to its long-term average and 30% to its upper Standard Deviation band. Even if one looks at these valuations in relative terms, Midcaps premium to the Nifty currently stands at ~44%, which again is above peak compared to the historical numbers. Due to the huge disconnect between price and fundamentals, the broad-based rally in this space would normalize post elections and the plays would be selective.

We screen for names within the Capital Goods and Utility spaces where current valuations based on 12-month forward P/E and 12-month forward EV/EBITDA are lower than sector median while Consensus expectations of the next two years earnings growth are higher than the sector median.

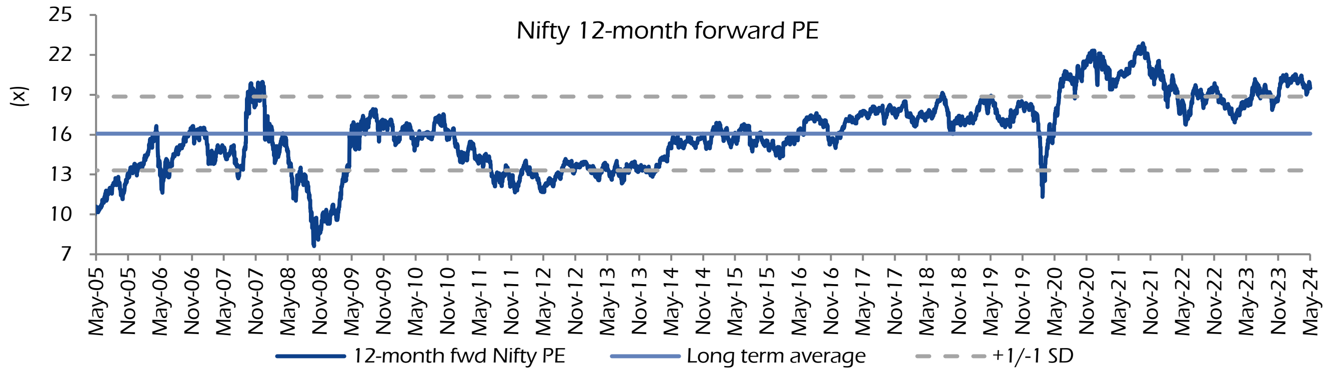
Exhibit 23: Selective play on capital goods and utility names

			Forward P/E (x)		EV/EBITDA (x)		Earnings CAGR (%)	
Bloomberg ticker	Company	GICS Industry	Current	10Y Average	Current	10Y Average	Last 10Y	Next 2Y
ESCORTS IN	Escorts Kubota	Capital Goods	34	14	27	13	19	18
AL IN	Ashok Leyland	Capital Goods	21	21	13	12	57	15
VOLT IN	Voltas	Capital Goods	55	32	42	26	0	101
HAVL IN	Havells India	Capital Goods	69	40	47	28	10	26
POLYCAB IN	Polycab India	Capital Goods	48	27	33	18	35	16
ASTRA IN	Astral	Capital Goods	73	47	45	29	21	31
3M IN	3M India	Capital Goods	56	65	42	47	30	11
ADE IN	Adani Enterprises	Capital Goods	62	29	25	19	4	66
CGPOWER IN	CG Power	Capital Goods	87	29	64	21	19	-1
ABB IN	ABB India	Capital Goods	98	59	78	39	22	28
LT IN	Larsen & Toubro	Capital Goods	30	20	20	16	10	23
SCHFL IN	Schaeffler India	Capital Goods	60	31	40	19	22	15
SIEM IN	Siemens	Capital Goods	86	51	70	35	26	25
BHE IN	Bharat Electronics	Capital Goods	47	17	34	13	15	15
BHEL IN	BHEL	Capital Goods	81	26	50	15	-23	208
HNAL IN	Hindustan Aeronautics	Capital Goods	44	19	30	11	11	8
KKC IN	Cummins India	Capital Goods	54	27	49	26	11	11
AWL IN	Ador Welding	Capital Goods	21	14	13	NA	31	29
ELCN IN	Elecon Engineering	Capital Goods	28	17	22	9	38	21
ELEQ IN	Elgi Equipments	Capital Goods	51	33	34	20	21	20
ENGR IN	Engineers India	Capital Goods	30	13	31	11	-3	20
FNXC IN	Finolex Cables	Capital Goods	33	16	27	12	11	15
KECI IN	KEC International	Capital Goods	24	14	13	8	18	79
KEII IN	KEI Industries	Capital Goods	49	19	33	13	48	25
KOEL IN	Kirloskar Oil Engines	Capital Goods	36	17	23	10	7	30

			Forward P/E (x)		EV/EBITDA (x)		Earnings CAGR (%)	
Bloomberg ticker	Company	GICS Industry	Current	10Y Average	Current	10Y Average	Last 10Y	Next 2Y
MAZDOCKS IN	Mazagon Dock Shipbuilders	Capital Goods	31	14	30	9	NA	6
GRSE IN	Garden Reach Shipbuilders &	Capital Goods	36	10	37	6	12	20
COCHIN IN	Cochin Shipyard	Capital Goods	81	14	67	8	NA	-6
KKPC IN	Kirloskar Pneumatic	Capital Goods	39	22	26	14	13	39
SCHN IN	Schneider Electric Infrastructure	Capital Goods	64	67	NA	34	TA	38
TRIV IN	Triveni Turbine	Capital Goods	50	29	40	21	15	29
TMX IN	Thermax	Capital Goods	80	36	60	25	10	19
BDL IN	Bharat Dynamics	Capital Goods	66	22	NA	16	5	32
DATAPATT IN	Data Patterns India	Capital Goods	67	44	50	31	76	30
MTARTECH IN	MTAR Technologies	Capital Goods	56	36	28	24	NA	70
BEML IN	BEML	Capital Goods	48	24	31	19	47	33
VAMP IN	Voltamp Transformers	Capital Goods	35	16	32	17	28	7
TRIL IN	Transformers & Rectifiers In	Capital Goods	52	28	34	16	24	152
TITAGARH IN	Titagarh Rail System	Capital Goods	47	16	32	10	55	30
TXMRE IN	Texmaco Rail & Engineering	Capital Goods	27	21	17	12	21	93
JWL IN	Jupiter Wagons	Capital Goods	47	31	34	23	TA	39
BHEL IN	Bharat Heavy Electricals	Capital Goods	81	26	50	15	-23	208
KKC IN	Cummins India	Capital Goods	54	27	49	26	11	11
SIEM IN	Siemens	Capital Goods	86	51	70	35	26	25
ABB IN	ABB India	Capital Goods	98	59	78	39	22	28
BHE IN	Bharat Electronics	Capital Goods	47	17	34	13	15	15
HNAL IN	Hindustan Aeronautics	Capital Goods	44	19	30	11	11	8
CGPOWER IN	CG Power	Capital Goods	87	29	64	21	19	-1
Sector Median			**51**	**26**	**34**	**17**	**19**	**25**
GAIL IN	GAIL (India)	Utilities	14	9	10	8	7	10
IGL IN	Indraprastha Gas	Utilities	16	18	11	11	17	7
GUJGA IN	Gujarat Gas	Utilities	26	21	16	13	NA	20
TPWR IN	Tata Power	Utilities	30	15	14	10	TA	11
PWGR IN	Power Grid Corporation	Utilities	18	8	10	8	13	5
NHPC IN	NHPC	Utilities	23	8	20	9	12	21
TPW IN	Torrent Power	Utilities	30	15	NA	7	33	20
JSW IN	JSW Energy	Utilities	36	16	16	8	9	35
ADANIENS IN	Adani Energy	Utilities	55	53	19	17	NA	73
NTPC IN	NTPC	Utilities	16	8	10	9	5	13
VATW IN	VA Tech Wabag	Utilities	20	14	13	8	8	22
Sector Median			**23**	**15**	**14**	**9**	**10**	**20**

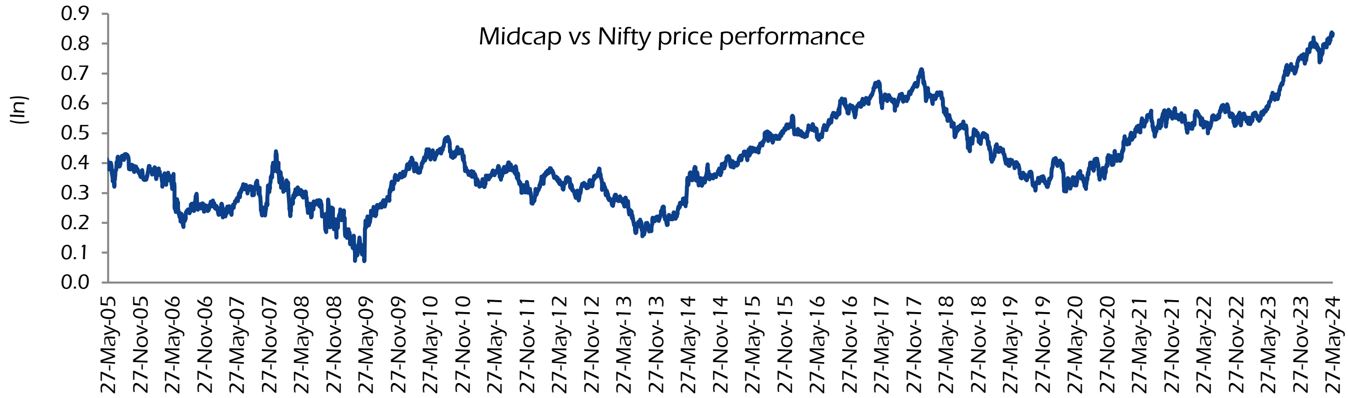
Source: Bloomberg, Elara Securities Research

Exhibit 24: Nifty still trades at a 3% premium to its upper Standard Deviation band



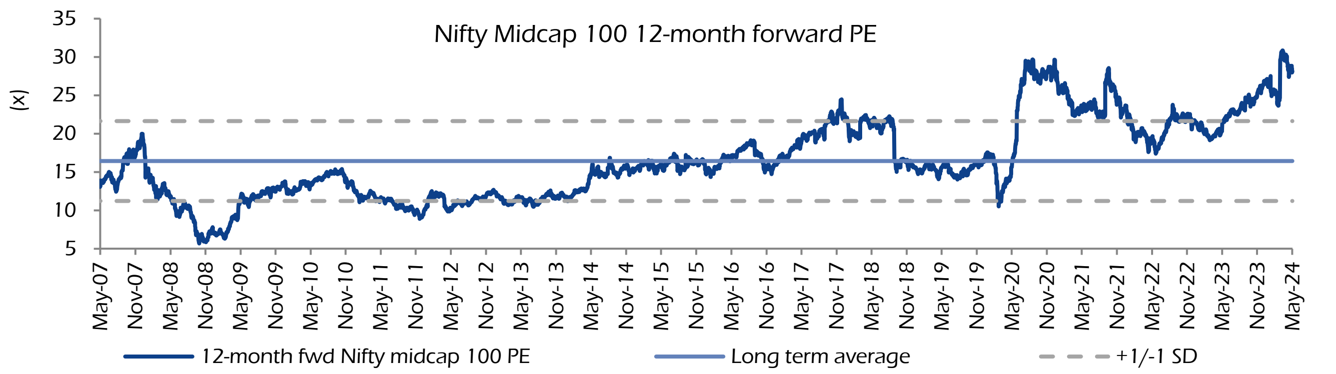
Source: Bloomberg, Elara Securities Research

Exhibit 25: Midcaps have relatively outperformed vs the Nifty since post COVID…



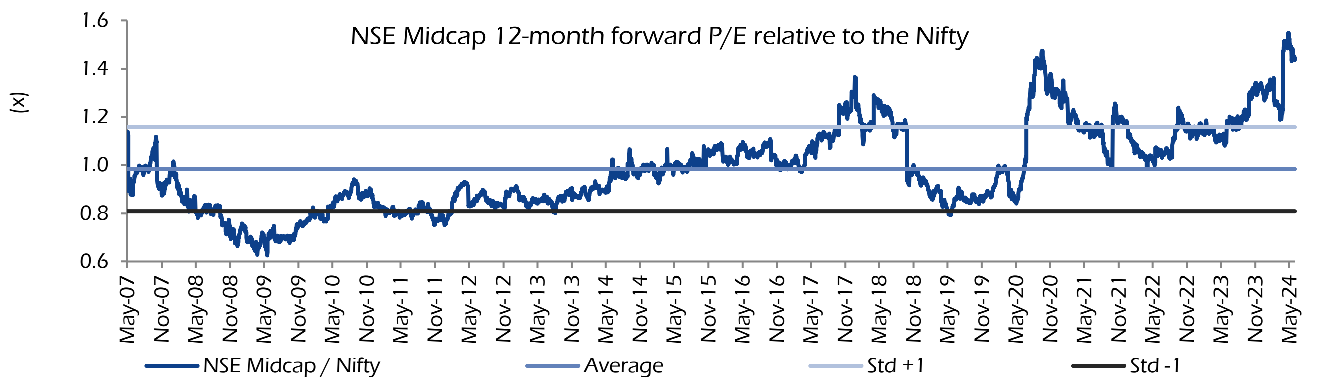
Source: Bloomberg, Elara Securities Research

Exhibit 26: …leading to it trading at historical valuation both in absolute and…



Source: Bloomberg, Elara Securities Research

Exhibit 27: …relative basis



Source: Bloomberg, Elara Securities Research

Softening yields bias to keep domestic cyclicals in favor

The bumper dividend payment by the RBI (surplus 0.4% of GDP), inclusion in the JP Morgan Global Bond Index, likely reduction in borrowing quantum in H2FY25 (amid truncated year owing to the elections) and commencement of the rate cycle by end of the calendar year by the US Fed and by Q4FY25 in India suggests that the bias for market rates is on the downside. The recent outlook upgrade for India by the S&P Global is also bond positive. We see India 10-year at 6.8% by March 2025E. As such, we are positive on Real Estate (Prestige and Godrej Properties), Banks (ICICI Bank and Axis Bank) and Automobiles (Maruti Suzuki, Mahindra & Mahindra, Bajaj Auto, and TVS Motors).

Global themes like metals & data centers delinked to India elections theme

A significant push in China to revive the industrial sector amid a weak property sector, rising investment in new energy, transmission lines and likely downside in the DXY, continued trade restrictions, especially which tightening supplies of aluminium & copper and spending amid elections heavy year globally will continue to drive prices of metals, bolstering metals and mining stocks. Additionally, the AI boom globally and its impact on demand for data centers and their auxiliaries is also likely to remain a continuing theme irrespective of government policies and budget-related spending.

Rural and agriculture-related sectors to see growth amid transition to *La Nina*

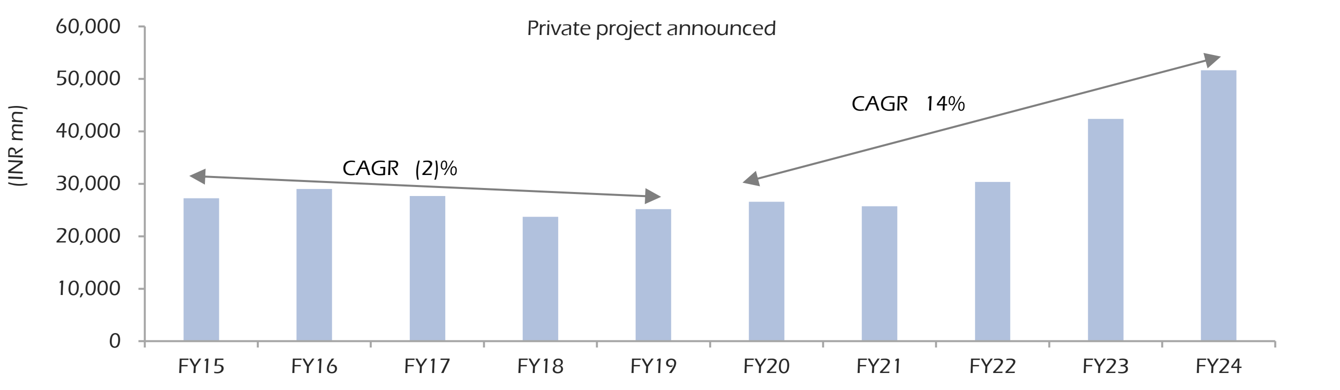
Most climate models indicate a transition to *La Niña* around July-September 2024. *La Niña* may develop during June-August 2024 (a 49% chance) or July-September (a 69% chance). This bodes well for sectors that are rural demand-centric and agriculture-oriented. We prefer Godrej Consumer Products, Marico and Mrs. Bectors within the Consumer Staples space and Dhanuka Agritech, which we deem a proxy play on the agrochemicals demand, among the rural & agri-focused sectors.

As dust settles, focus will move toward sectors and stocks that drive the India growth theme

We find large private banks to be in a structurally better place than PSU; they are set to deliver steady earnings growth led by steady ROA. Further, the probability of upgrade to Consensus earnings estimates for private sector banks is high based on robust credit demand, stable asset quality, and a stable NIM profile. The relative underperformance of the sector against the broader markets and their PSU counterparts gives them valuation comfort. Currently, Bank Nifty is trading at 2x P/B vs long-term average of 1.9x, which is reasonable, in our view, given their growth prospects and profitability metrics. With mid-teen ROE profile, large private banks justify a compelling case for earnings compounding, in our view. This profitability not only supports current valuation but also provides a solid foundation for potential valuation re-rating.

Further impetus for banks would come in the form of revival in private capex, which India is at the cusp of. The new project announcement by the private sector companies have risen by 14% CAGR since COVID-19 vs a decline of 2% during Modi 1.0. We prefer ICICI Bank and Axis Bank as our top picks in this space.

Exhibit 28: Private capex at the cusp of recovery



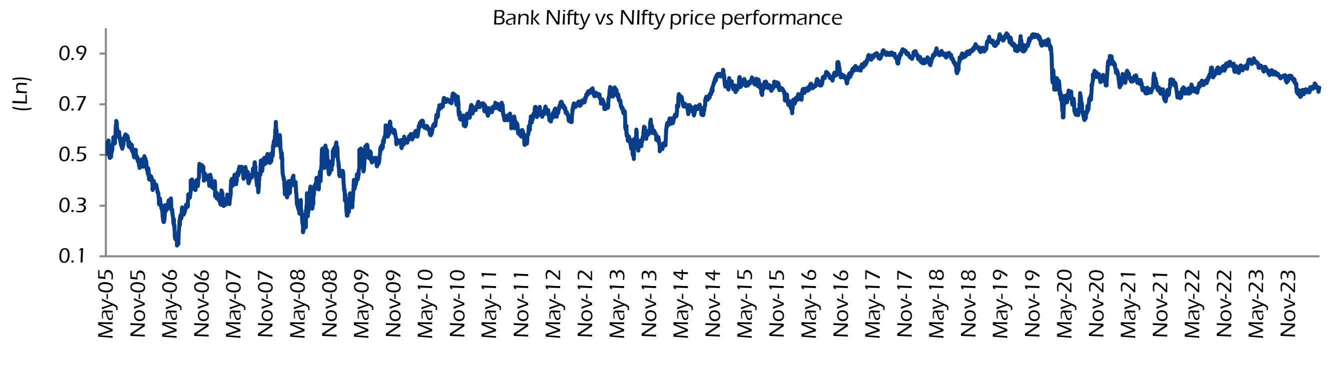
Source: CMIE Capex, Elara Securities Research

Exhibit 29: Previous private capex cycle led to outperformance in private banks vs public sector

% YoY	FY04-08	FY09-13	FY14-18	FY19-20	FY23-24
Private sector new project announcement	55.6	3.8	(3.8)	5.9	30.8
Central Government Capex	16.9	9.3	10.2	13.0	26.6
NIFTY PSU Bank Index	18.5	16.3	2.4	(22.2)	62.5
NIFTY Private Bank*	34.5	31.7	21.4	(7.4)	13.1
NIFTY PSE Index	45.4	(0.2)	8.8	(22.5)	56.7
NIFTY Infrastructure Index	36.3	(8.1)	10.0	(15.0)	32.6

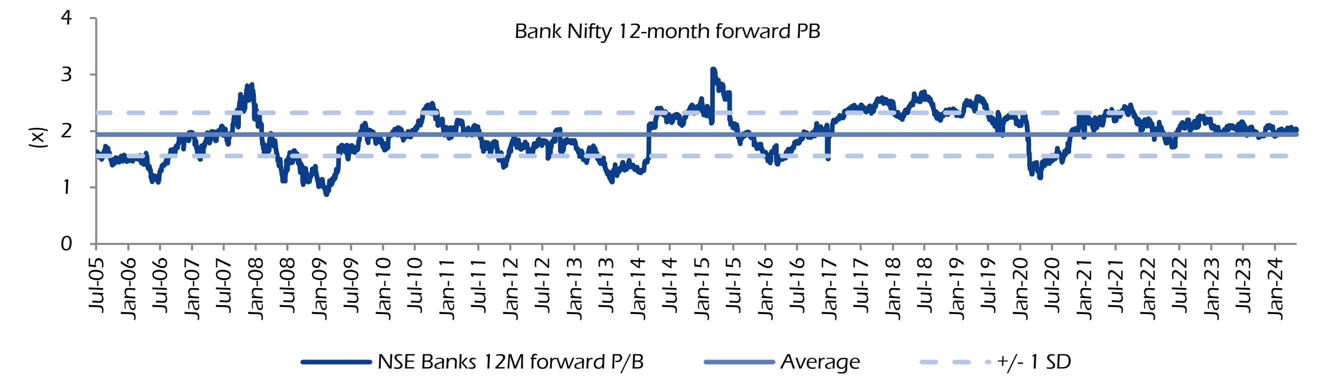
Note: *FY07-08; Source: Bloomberg, Company, Elara Securities Research

Exhibit 30: The sector has underperformed relative to the broader markets…



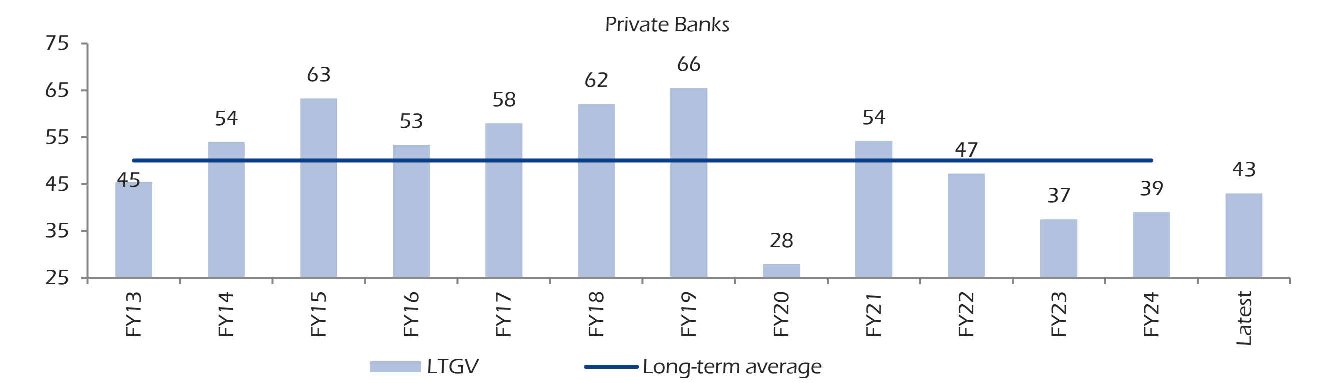
Source: Bloomberg; Elara Securities Research

Exhibit 31: …gives bank valuation comfort on both P/B and …



Source: Bloomberg; Elara Securities Research

Exhibit 32: … our What's in the price framework



Source: Bloomberg; Elara Securities Research

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