

Elections 2009

Decisive verdict, best case scenario comes true

Anand Rathi Research Team

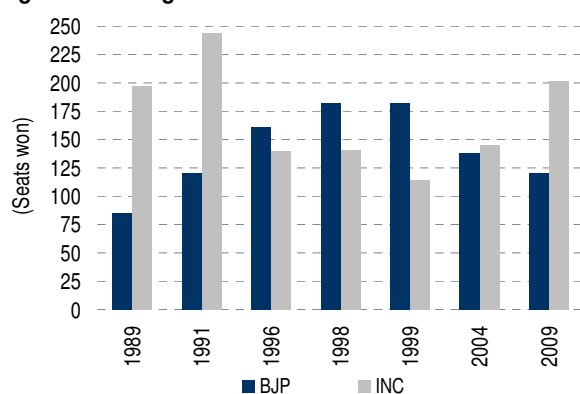
The Indian electorate has shown that it can be as unpredictable as ever, trashing all pre-election opinion polls and even closer-to-home exit polls. Instead of the predicted three-way fractured mandate, it has served up a verdict that calls for continuity and stability, by giving the Congress' United Progressive Alliance (UPA) an almost simple majority.

The sectors likely to benefit: Oil & Gas, Power & Power Equipment, Metals & Mining, and Defence. The loser: Financials

The number of seats won by the Congress is the highest by any single party since 1991 (see Fig 1), reversing the trend of national parties' declining seat-share in Parliament.

Rupee to appreciate. A stable government that would most probably accelerate reforms, especially those relating to divestment, infrastructure development and foreign investment should result in fund flows into India increasing substantially. This should put further pressure on the rupee to appreciate. Our call is for the rupee to appreciate to 45 to the dollar by Mar '10. Given the changes at the Centre post these elections, we think this level could be achieved well before Mar '10.

Fig 1 – The Congress and the BJP – Seats won since 1989



Source: Election Commission of India and Anand Rathi Research

More reform. The unexpectedly decisive verdict should produce a more stable and reform-oriented government. The Congress, on its part, would be able to implement the policies in its election manifesto (see Fig 6). Its main plank is 'equitable' growth, with focus on agriculture, infrastructure, defence and social security. The strong verdict should also embolden it to pursue reforms that had earlier been waylaid by the compulsions of coalition politics.

Fig 2 – Stocks that might be positively impacted by the election results

Sector	Stocks
Oil & Gas	Reliance Ind, HPCL, BPCL, IOC
Power & Power Equipment	BHEL, Arega T&D
Defence	BEL, Astra Microwave
Metals & Mining	Tata Steel, Sail, Sterlite
Infrastructure	IVRCL, JP Associates, Grasim, Shree

Source: Anand Rathi Research

Spoon-fed privatization. Unlike the outgoing government, which had practically given up privatization because of opposition from the Left, the new government is likely to change tack, both by political choice and by economic compulsion (to fund its ambitious expenditure programs). Nevertheless, we do not expect the new government to be overly aggressive given the Congress' current stance on privatization and the state of the stock market. It could be piece-meal. Rather than major divestments in large public sector units (PSUs), expect minority stake sales in both listed and non-listed PSUs and divestment in non-core, loss making or non-viable PSUs.

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