

'Institutional investors not tracking whether NDA will cross 400+ seats'

Lok Sabha elections: Stability and continuity of the reform and growth-led agenda of the NDA government is what markets want



Puneet Wadhwa | New Delhi

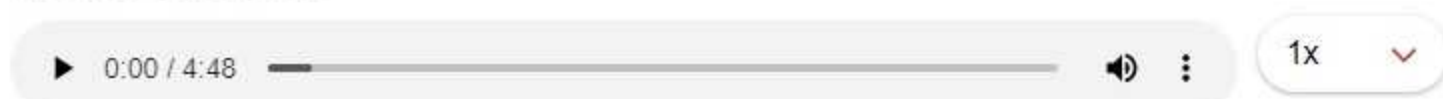
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With barely a few days remaining for the Lok Sabha 2024 election results to be announced, Chirag Negandhi, managing director at JM Financial Limited tells Puneet Wadhwa in an email interview that stability and continuity of the reform and growth-led agenda of the NDA government is what markets want, and any number above 272 seats serves that purpose. Edited excerpts:

Is there a Lok Sabha seat/tally number that the markets will be comfortable with in case the National Democratic Alliance (NDA) stakes to form the next government at the centre?

Markets expect the NDA to form the government with a comfortable majority. Hence, they have been largely stable banking on the hope of policy stability and continuity, despite foreign institutional investor (FII) sell-off since the last few weeks. We expect the NDA to secure a third term in office with a range similar to the one projected by most opinion polls (300-350 seats). The markets would take a victory in this range very positively.

ALSO READ: Lok Sabha 2024 poll result on June 4: Brokerage expectation, market strategy

How are your institutional clients viewing the political developments in India?

Most institutional investors are not constantly tracking whether the NDA will cross 400+ seats. In fact, stability and continuity of the reform and growth-led agenda of the NDA government is what markets want, and any number above 272 seats serves that purpose. The markets are likely to continue trading positively once the election results are on the expected lines.

What's your market strategy?

We expect healthy gains to follow election results on June 4, and any dips should be bought into. Policy continuity will ensure that the government's main focus will remain on infrastructure development and manufacturing, which will benefit sectors in defence and capital goods space. Infrastructure-linked sectors like industrials, capital goods, real estate, etc. will benefit as there will be policy-led continuity on infrastructure development.

Are market valuations comfortable for you at this stage?

Valuation remains at somewhat elevated levels given the huge rally, especially in the mid- and small-cap space. Bottom-up investing in sectors and stocks with a good margin of safety is likely to pay off in an event of any global uncertainty resulting in any economic slowdown in India.

Do you find stock prices ahead of fundamentals in any pocket?

Valuations of defence stocks are at premium to their historic band. However, this is due to better earnings visibility underpinned by long order cycle, government support to 'Make in India' and geo-political uncertainty providing opportunities for exports to Indian companies.

Consumption sector offers a comfortable valuation and expectation of a normal monsoon will be a positive catalyst, as consumer spending can continue to support the earnings growth. Other possible growth drivers are stable urban demand, anticipated recovery in rural demand, rising income and aspirations as well as demographic dividend.

In automobiles, while stocks have run up, we believe valuations are still reasonable if one considers the growth outlook.

What are your expectations from the full budget?

The full-fledged budget would be a continuation of growth-led and inclusive economic policies of the current NDA government. Simplification of regulatory processes, increased investment in infrastructure, steps to attract more FDI and FII flows to support growth of manufacturing in India, in addition to adding more sectors to PLI schemes as hinted in the election manifesto are some of the initiatives expected.

Will 2024 be the year of the metal stocks?

If China stabilises and emerges faster out of the downturn of their real estate cycle and starts focusing on their housing and infra building cycle, metals are likely to do well. The Indian metal sector seems to have entered a purple patch and commodity demand is expected to grow at a healthy rate in the coming years. Earnings growth coupled with low debt and higher ROE warrant higher multiple versus those in the past.