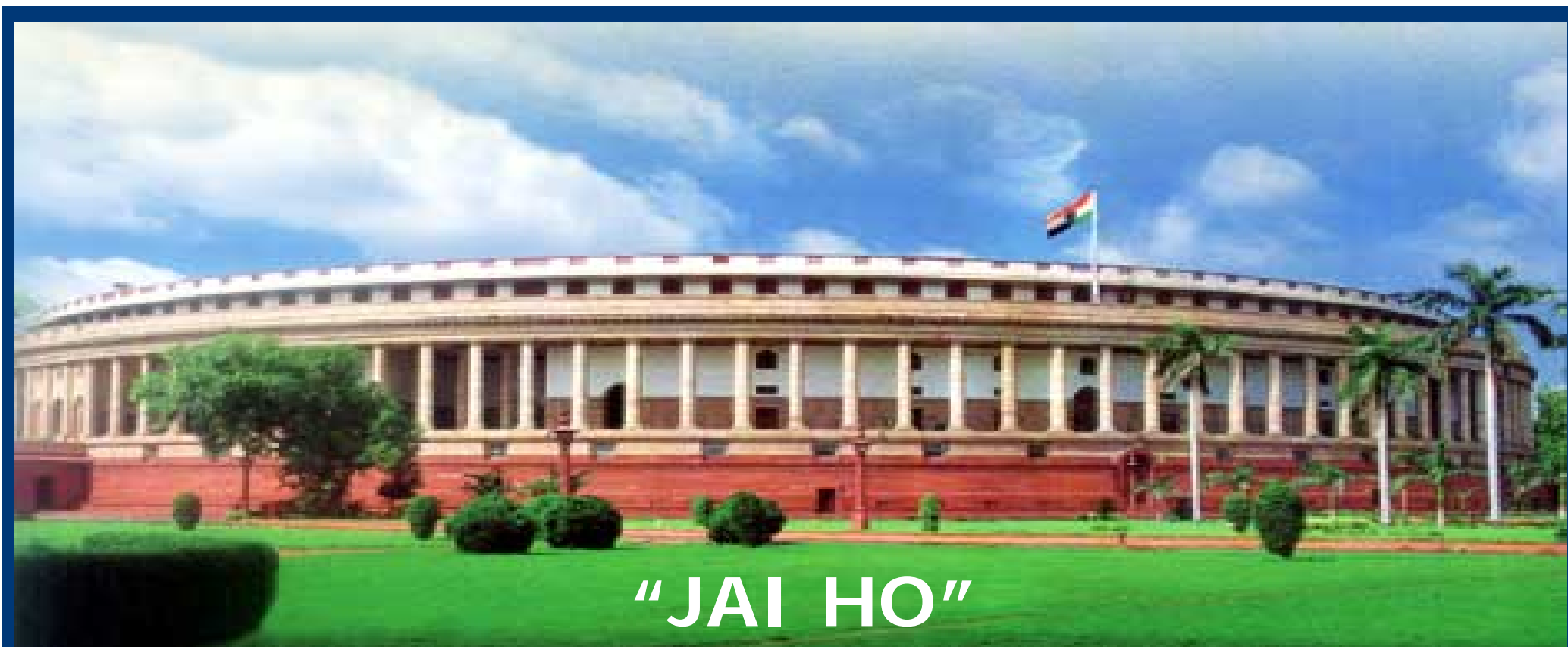


General Election - 2009

Indian Voters: "Coming Of Age"



Executive Summary

It is now apparent that the United Progressive Alliance (UPA) is heading for a second term after a clear victory in the general election. The Indian National Congress will be immersing as a single largest party with +200 seats against 145 seats in GE 2004 i.e. ~75% of required majority (272 seats) against 53% in GE 2004. India's booming economic growth for the past four years, including rising rural incomes, combined with the sincere hard work of Rahul Gandhi, who orchestrated the Congress party's resurgence in northern states, have worked well for the UPA. This is indeed a very pleasant surprise for the market which has been nervous fearing the emergence of a weak coalition. One could not have thought of anything better than this, a stable government with very less interference from its allies and moreover there is no left this time as it is completely left out. It will now help them pick up the pace of reforms since what they were prevented from executing last time, this time they will not be.

The rewarding feature of Indian economy is that there are many low-hanging fruits in terms of competence and growth accelerating reforms. The UPA government has not only recognized these opportunities but also set a road map through a series of committee reports. Efforts at execution should not only trigger quick results in terms of growth but also boost investor confidence and hopes for reforms. To conclude we believe the market may rally in the next couple of trading session and then look forward to global cues, combined with policy action by the government on domestic concerns like fiscal deficit, exports and the global trade talks.

Based on our understanding, in this report we have identified a series of stocks which we believe are the possible out performers and under performers.

Sajid Khalid

Head - Institutional Equities

A Mandate that can be 'Game Changer'

GE 2009 – LS Seat Break-up

Party	Seats*
INC ++	284
BJP ++	166
CPI+CPM+BSP	41
Others	52

Note: Fig as at 7:45pm on 16/5/2009,

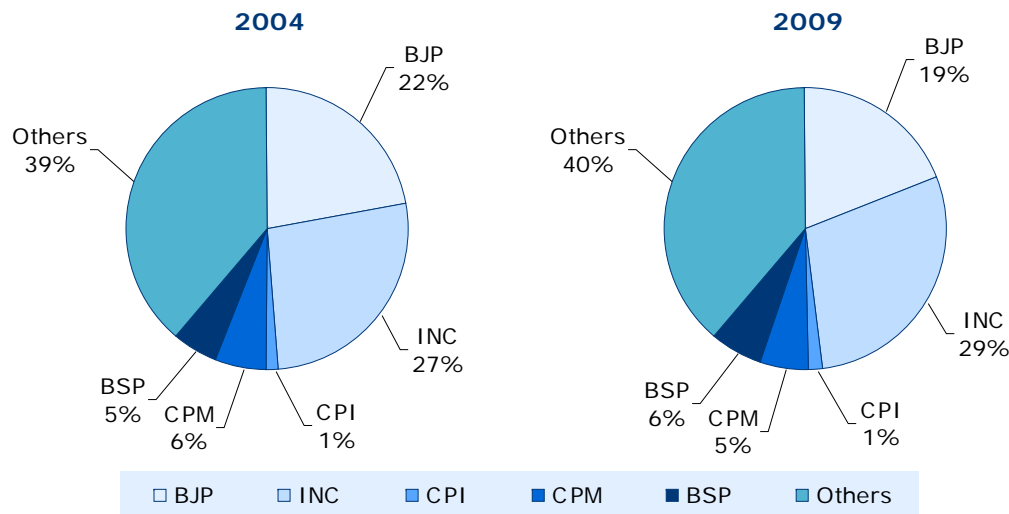
INC ++ incl 29 seats of 4th Front

* Wins + Leads

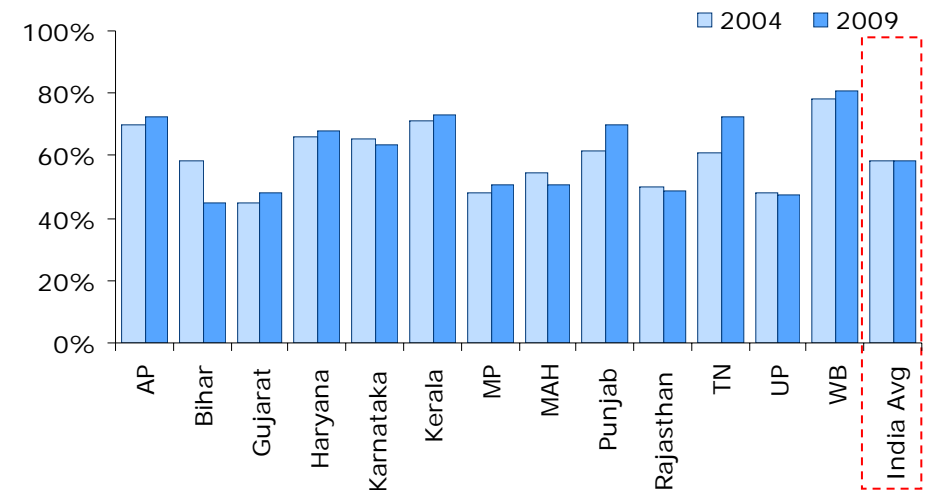
Looking at GE 2009 results we conclude:

- Voters have rewarded performers, irrespective of –ve publicity by rivals.
- At many seats INC could be winning by not-so-high margins, as its vote share seems increasing by <300bps, while it heads for an additional 60 seats.

Vote share



Voter turnout



A unique opportunity to put 'Economic Reforms' on fast track

- The decisive mandate gives a unique opportunity to the UPA to execute decisions without any significant intervention from its allies.
- The Govt. (primarily lead by INC) will probably not have to come across compromising situations, like the one at the time of signing Nuclear deal.
- With INC now holding high bargaining power, large cabinet portfolios will remain within the party, avoiding confrontations during reform execution.
- Inclusion of young leaders into the cabinet will provide fresh lifeline to the overall pace of decision making & execution.
- Finally, we sense that INC will try its best to prove to the nation at large that the opportunity given to them is well deserving and not a fluke.

Capital Markets to cheer the UPA victory

- Most significant positive impact of the General Election 2009 results will be on the foreign investors, as it-
 - Boosts confidence as far as government stability is concerned.
 - Provides consistency in policies.
 - Absence of left interferences in policy matters like dis-investment.
- From the long term perspective, continuity in major developmental programs provide much needed visibility from investment point of view.
- For a young country like India which is firmly on the structural uptrend, it is very heartening to see people voting for pro-stability, pro-growth agendas.
- These factors will help in improving overall confidence and will reduce Indian specific concerns (e.g. political instability, execution concerns).

Sectoral Views; Stocks to Pick / Avoid

Sector	Investment View	Rationale	Stocks to Pick/Avoid
Automobile	Outperform	Apart from improving macro variables, continuation of favourable policies and possible introduction of new stimulus package. Greater focus on rural markets too augur well.	Maruti Suzuki
Cap. Goods / Infrastructure	Outperform	Expect a faster implementation of major infra projects in the power, roads, ports etc without any major bottle neck on policy frame work or execution.	L&T, ABB, JP Asso, Voltas, KEC, India Cements
Financials	Outperform	Banking reform should gather steam as in its previous avatar the UPA was restricted by the Left in decision-making. Expect recapitalization of banks to gather pace, +ve for select banks like Central Bank and Vijaya Bank. Insurance Bill would gain significance, having +ve rub off on banks having insurance investments.	Union Bank, Vijaya Bank, Central Bank Bank of Maharashtra, Dena Bank
IT Services	Underperform	Shift in investor preference away from defensives -ve for the sector. Recent rally in the stocks unlikely to sustain as valuations have now moved out of comfort zone.	TCS, Infosys
Telecom	Outperform	Regulatory environment for the sector is likely to stabilize due to continuation of UPA Govt. Attractive valuations of select stocks to support investment case.	RCOM
Pharmaceuticals	Underperform	Shift in investor preference away from defensives -ve for the sector. The 20-25% premium, which the sector used to command due to uncertain economic environment, is likely to correct.	GSK Pharma, Pfizer, Aventis Pharma

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Thanking You

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