

**We turn defensive on the markets after the adverse results in the general elections, with the BJP missing an absolute majority. Our Nifty target is cut to 22,000 as we anticipate a derating, given the heightened uncertainty. Our model portfolio positioning also turns defensive. We go OW on FMCG/IT/Healthcare at the cost of Industrials. Our stock selection also favors quality stocks with earnings visibility over higher-risk cyclicals. Our initial view on the elections was [published](#) earlier today and the note is reproduced in this document (Page 11), as are the views of our Economist and analysts.**

### Index target cut

We cut our Nifty target, from 24,000 (Dec-24) to 22,000 (Jun-25), implying near-zero returns for the market in 12M. We move from a 20x forward PER to a 19x trailing PER, to reflect the derating and risk-off expected in the markets. We expect earnings to hold up, especially as the Nifty is light on cyclicals, and we are not building in a major change in the trajectory of the economy. We reiterate that a dip below 20,000 (8.6% downside from the 4-Jun-24 close) would be a trigger to enter the market.

We do not see an extended bear market. The economic direction is unlikely to change for the next 2-3 years, though some structural reform is now on the back-burner. This may result in some earnings downgrades in the near-to-mid-term. However, companies will ride out this short cycle given their strong balance sheets and cash flows. The major impact would be a derating, in our view.

We shift our near-term preference to the large- and top-end of the midcap range from SMID. This is because we prefer stocks with strong earnings visibility, reasonable valuations, and low risk. From a 2-3 year perspective, however, we retain our preference for SMIDs as we think the current cycle will continue to be investment over consumption and manufacturing over services.

### Model portfolio changes

Our sectoral preferences also change. Industrials move to UW, on valuations and sentiment, and we downgrade Real Estate too. We upgrade FMCG, IT, and Healthcare to OW, largely on defensive positioning. FMCG is showing signs of a demand pickup and IT valuations give us some comfort. If the new government reacts to the election results with a demand stimulus, it would be an additional positive but not our base case. We retain OW on durables, with a greater focus on OEMs over ancillaries. Our contrarian UW on Financials continues and we will revisit this when valuations enter our UW. We are exiting all PSUs and companies with weak earnings structures. The stock-wise changes are:

- Additions: Hero Motocorp, Maruti Suzuki, Hindustan Unilever, Nestlé (mass consumption theme), Infosys, Shree Cement (defensive, relatively low multiples)
- Increased weight: Reliance (to replace ONGC)
- Trim: TVS Motors (for Hero MotoCorp)
- Exit: Zomato, Delhivery (valuations, weak earnings structure), Ambuja Cement (high valuations), ITC (budget risks), Motherson Sumi Wiring, and ONGC (exiting PSUs)

### Key Events and catalysts

i) We expect the government-formation process to be completed over the next 2-3 days, helmed by Narendra Modi as PM. ii) The accommodation of key allies would be close tracked – the number of ministers inducted as well as the ministries they are given. iii) The identities of senior ministers (Finance, Home, Defense, and External Affairs) would be another key monitorable. iv) The NDA may publish a broad policy document once the cabinet is sworn in which would give us some perspective of the new government's policy imperatives. v) We would then move on to the Union Budget, expected in early Jul-2024.

### Seshadri Sen

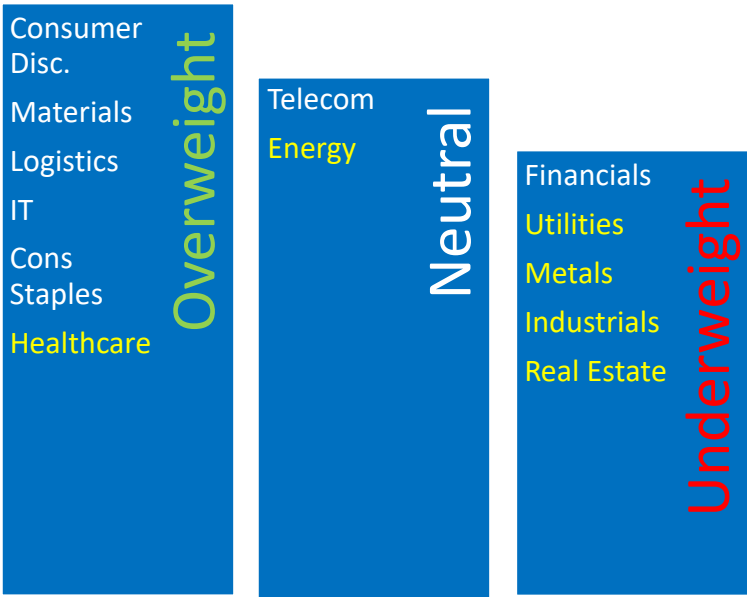
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# Emkay Model Portfolio

Exhibit 1: Overall Sector positioning



Source: Bloomberg, Emkay Research

Exhibit 2: Changes in the Emkay Model Portfolio

Stocks Added	Increased Weightage	Stocks Trimmed	Stocks Removed
Hero MotoCorp	Reliance Industries	TVS Motor	Zomato
Maruti Suzuki India			Ambuja Cement
Hindustan Unilever			ONGC
Nestlé India			Delhivery
Infosys			ITC
Shree Cement			Motherson Sumi Wiring India

Source: Company, Bloomberg, Emkay Research

## Exhibit 3: Revised Emkay Model Portfolio (EMP), post-Elections

Stock/Sector	Old EMP Weights	New EMP weight	Nifty Weight	Adj. NSE500 Weight	Stance
<b>Consumer Discretionary</b>	<b>22.0%</b>	<b>19.0%</b>	<b>8.70%</b>	<b>13.76%</b>	<b>OWT</b>
TVS Motor	7.0%	3.0%			
Tata Motors	5.0%	5.0%			
Motherson Sumi Wiring India	4.0%	-			
Hero MotoCorp	-	6.0%			
Maruti Suzuki	-	5.0%			
Zomato	6.0%	-			
<b>Materials, ex Metals</b>	<b>15.5%</b>	<b>15.5%</b>	<b>3.70%</b>	<b>8.68%</b>	<b>OWT</b>
Ambuja Cement	6.0%	-			
UltraTech Cement	9.5%	9.5%			
Shree Cement	-	6.0%			
<b>Communication Services</b>	<b>6.0%</b>	<b>6.0%</b>	<b>3.00%</b>	<b>3.64%</b>	<b>Neutral</b>
Bharti Airtel	6.0%	6.0%			
<b>Energy</b>	<b>12.0%</b>	<b>10.0%</b>	<b>13.10%</b>	<b>10.13%</b>	<b>Neutral</b>
Reliance Industries	8.5%	10.0%			
ONGC	3.5%	-			
<b>Information Technology</b>	<b>13.5%</b>	<b>18.5%</b>	<b>14.40%</b>	<b>13.43%</b>	<b>OWT</b>
Infosys	-	5.0%			
Cyient	-	-			
TCS	8.5%	8.5%			
Wipro	5.0%	5.0%			
<b>Logistics</b>	<b>7.5%</b>	<b>4.0%</b>	<b>0.00%</b>	<b>0.16%</b>	<b>OWT</b>
Delhivery	3.5%	-			
Interglobe Aviation	4.0%	4.0%			
<b>Consumer Staples</b>	<b>8.5%</b>	<b>12.0%</b>	<b>8.20%</b>	<b>10.88%</b>	<b>OWT</b>
Dabur India	3.5%	3.0%			
ITC	5.0%	-			
Hindustan Unilever	-	6.0%			
Nestlé	-	3.0%			
<b>Financials</b>	<b>15.0%</b>	<b>15.0%</b>	<b>32.80%</b>	<b>39.32%</b>	<b>UWT</b>
ICICI Bank	-	-			
HDFC Bank	-	-			
IndusInd Bank	3.0%	3.0%			
Shriram Finance	4.0%	4.0%			
ICICI Pru Life	3.0%	3.0%			
State Bank of India	-	-			
Axis Bank	5.0%	5.0%			
<b>Uncovered Sectors</b>			<b>16.10%</b>		
Utilities			3.00%		UWT
Healthcare			4.50%		OWT
Metals			2.80%		UWT
Real Estate			0.00%		UWT
Industrials ex Logistics			5.80%		UWT
<b>Total Weights</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	

Source: Company, Bloomberg, Emkay Research

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## Exhibit 4: Emkay Model Portfolio – Valuation Metrics

Model Portfolio														
Stock	Weight in EMP	Reco	TP (Rs/sh)	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
						FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Bharti Airtel	6.00%	ADD	1,400	1,300	7,743	252.7	38.7	27.1	8.7	10.9	12.3	86.0	62.0	48.8
Tata Motors	5.00%	REDUCE	950	904	3,311	N/A	4,313.4	(25.3)	1.6	49.8	24.2	471.9	10.7	14.3
TVS Motor	3.00%	BUY	2,250	2,211	1,051	61.4	39.7	42.8	27.4	30.2	33.9	70.5	50.4	35.3
Hero MotoCorp	6.00%	BUY	6,000	5,311	1,062	17.7	53.1	10.1	17.9	25.7	26.1	36.5	23.8	21.6
Maruti Suzuki India	5.00%	REDUCE	11,200	12,176	3,828	113.7	57.6	7.8	14.1	18.3	16.1	45.7	29.0	26.9
Dabur India	3.00%	BUY	660	578	1,025	(6.0)	9.8	14.8	19.8	20.0	20.9	59.6	54.3	47.3
Hindustan Unilever	6.00%	ADD	2,575	2,496	5,865	11.4	2.7	8.9	19.6	19.7	21.3	60.4	58.8	53.9
Nestlé India	3.00%	REDUCE	2,600	2,428	2,341	3.3	30.0	9.7	107.2	109.2	100.1	96.1	73.9	67.4
Reliance Industries	10.00%	ADD	3,200	2,795	18,908	17.1	3.8	14.0	8.4	9.2	9.6	28.2	27.2	23.8
Shriram Finance	4.00%	ADD	2,850	2,261	850	45.3	14.0	23.4	15.5	15.9	17.3	13.5	11.8	9.6
IndusInd Bank	3.00%	BUY	2,000	1,392	1,083	62.3	60.0	21.1	10.2	14.5	15.4	23.4	14.6	12.1
Axis Bank	5.00%	BUY	1,400	1,131	3,495	69.0	12.3	15.2	12.0	18.0	17.3	15.8	14.0	12.2
ICICI Pru Life	3.00%	BUY	700	543	783	6.8	5.1	18.5	8.4	8.1	8.9	96.2	91.5	77.2
Infosys	5.00%	BUY	1,750	1,394	5,786	10.5	8.8	(1.6)	31.8	31.9	27.7	24.0	22.1	22.4
Wipro	5.00%	ADD	500	438	2,291	(7.2)	2.2	12.1	15.8	14.4	15.9	21.2	20.7	18.5
TCS	8.50%	REDUCE	3,950	3,715	13,441	10.0	10.2	11.5	45.9	49.6	50.2	32.3	29.3	26.3
Shree Cement	6.00%	ADD	29,500	24,883	898	(45.5)	88.5	(0.0)	7.0	12.2	11.1	70.7	37.5	37.5
UltraTech Cement	9.50%	BUY	11,200	9,918	2,863	(10.6)	39.8	12.0	9.7	12.3	12.3	56.5	40.5	36.1
Interglobe Aviation	4.00%	BUY	5,000	4,073	1,572	N/A	N/A	24.9	5.1	N/A	144.3	N/A	19.6	15.7
<b>Wtd average</b>	<b>100.00%</b>					<b>4.6</b>	<b>55.1</b>	<b>8.8</b>	<b>18.6</b>	<b>23.1</b>	<b>27.5</b>	<b>66.0</b>	<b>34.6</b>	<b>30.7</b>

Source: Company, Bloomberg, Emkay Research

## Macro implications of a weaker BJP mandate

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With the 2024 General Election throwing up a negative shock, the power equation and possible political compulsions could lead to policy re-think by the NDA, but we do not think there will be a material change in the broad macro backdrop. Factor market reforms (land, labor, agri, capital) and political reforms could take a back seat. Fiscal consolidation remains on course, although we rule out a sub-5% GFD/GDP, with a mild skew in the spending mix in favor of revex over capex (vs. FY25 interim budget) to fix the unfavorable rural terms-of-trade. With realigning expectations of fiscal spending, the curve steepening theme should work well. The twin deficit will continue to improve, limiting external shocks via financial channels. Volatile FPI flows will keep the RBI active on tactical INR interventions, but the interplay of the Fed's rate-cut repricing and China's FX strategy would stay as the key cyclical and structural FX plays ahead.

### NDA returns but with a weaker mandate; several large states see major swings

India's general elections are on track to throw up a major surprise, with the ruling BJP-led NDA set to return to power, albeit with a much smaller majority, belying exit poll forecasts of a vast improvement over its 2019 tally. The NDA is on course to win 290-300 seats, whereas the BJP on its own is likely to fall well short of a majority (230-250 seats). This makes it quite likely that Narendra Modi will return as PM for a third time; however, he will be at the helm of a coalition government, which will be dependent on the whims of regional allies such as the TDP and JD(U), with policy compromises on the anvil as a result. The likelihood of the opposition I.N.D.I.A. alliance forming a government if some of the BJP's current allies switch sides remains, but is a remote possibility in our opinion. This surprise has come with several large swings across major states, both, in comparison to the 2019 elections as well as the exit polls. (*Exhibits 6 & 7*)

### Changed political realities could change near-term economic priorities

An altered power equation and possible political compulsions could lead to a policy re-think, but we do not expect a material change in the broad macro backdrop. Factor market reforms like those related to land, agriculture, and labor, as well as political reforms like harmonizing elections, will take a back seat. We have been arguing that the net fiscal impulse has been restrictive for growth over the last few years and there is [no merit in the government cutting its FY25 fiscal target by an additional 0.4% of GDP](#) using the RBI fiscal bonanza. Today's result increases the probability of it being spent instead, implying GFD/GDP could stay at ~5.1%, in line with the Interim Budget. However, this will still be a 0.5%pt consolidation from FY24 (5.6%) – implying no threat to the fiscal consolidation path. Early numbers suggest rural seats have fallen for the NDA vs 2019 – partly reflecting the impact of falling rural revex and unfavorable rural terms-of-trade. There may be some skew in the spending mix in favor of revex over capex vs the interim budget (FY25BE revex/total expenditure: 77% vs 88% a decade ago). Privatization and asset monetization are also at risk, which could impinge on the Centre's capex in the short term. We keep close watch on State budget deficits (FY25BE: 3.3% vs FY24P: 2.9%) especially as elections are due in key states of HR, MH, JH, DL, and BR soon.

### No major risk to macro financial stability; maintain FY25E growth at 6.5%

We see the twin deficit improving ahead, which limits further external shocks to India via financial channels in case the global cycle turns averse. We do not see major fiscal derailment ahead, and see [FY25E CAD/GDP widening to only 1.2% \(FY24E: 0.8%\)](#), with the solidly emerging GCC space adding new structural tailwinds. CAD funding has been smooth so far, and FY25 BoP may still be in surplus, assuming no global shocks, even as it halves from FY24. We watch the evolution of FPI/FDI flows closely. [We maintain that GDP growth will moderate to 6.5% in FY25E](#) (FY24: 8.2%) amid cyclical headwinds, whereas the fruits of past reforms continue to aid macro stability and trend growth.

### FX and rates markets trying to find a new balance

Risk assets have understandably reacted negatively, reversing the exit poll gains, with the 10-yr yield rising by ~10bps in a day, whereas the INR fell 0.5% (worst performer in EM Asia). However, it does not change our long-held view that the interplay of the Fed's rate-cut repricing and China's survival strategy could be key cyclical and structural FX plays in FY25/26. India runs a nearly 40% bilateral trade deficit with China, and big CNY moves (policy-or/and market-led) would deeply influence the INR/Asian FX direction. Any massive move in the INR vs Asian EM peers will eventually see RBI's tactical intervention. With realigning expectations of fiscal spending, the curve steepening theme should work well. We maintain the 10-yr yield ranging at 6.95-7.45% in FY25E.

**Exhibit 5: The NDA crosses the majority, but the BJP falls short; the INC nearly doubles its 2019 tally**

Alliance/Party	2024		2019		Change from 2019	
	Seats	Vote share	Seats	Vote share	Seats	Vote share
NDA	293	44.8%	353	45.1%	-60	-0.3%
-BJP	242	36.6%	303	37.3%	-61	-0.7%
I.N.D.I.A/UPA	232	41.5%	90	27.5%	142	14.0%
-INC	99	21.3%	52	19.7%	47	1.6%
Others	18	13.7%	100	27.4%	-82	-13.7%

Source: ECI, Emkay Research; Note: Data as of 7:30PM; Differences in alliance tallies are also due to changes in composition of alliances

**Exhibit 6: The NDA's major losses vs 2019 are in large states like UP, MH, RJ, BH, KA, and WB...**

Major states	Total Lok Sabha seats	2024 General Elections seats			2019 General Elections vote seats			Change from 2019		
		NDA	I.N.D.I.A	Others	NDA	UPA	Others	NDA	I.N.D.I.A	Others
UP	80	35	44	1	64	1	15	(29)	43	(14)
Maharashtra	48	18	29	1	41	5	2	(23)	24	(1)
West Bengal	42	12	30	0	18	2	22	(6)	28	(22)
Bihar	40	30	9	1	39	1	0	(9)	8	1
Tamil Nadu	39	1	37	1	1	38	0	0	(1)	1
Madhya Pradesh	29	29	0	0	28	1	0	1	(1)	0
Karnataka	28	19	9	0	26	2	0	(7)	7	0
Gujarat	26	25	1	0	26	0	0	(1)	1	0
Andhra Pradesh	25	21	0	4	0	0	25	21	0	(21)
Rajasthan	25	15	10	0	25	0	0	(10)	10	0
Odisha	21	19	1	1	8	1	12	11	0	(11)
Kerala	20	2	18	0	0	19	1	2	(1)	(1)
Telangana	17	8	8	1	4	3	10	4	5	(9)
Jharkhand	14	9	5	0	12	2	0	(3)	3	0
Assam	14	11	3	0	9	3	2	2	0	(2)

Source: ECI, Emkay Research; Note: Data as of 7:30PM; Differences in alliance tallies are also due to changes in composition of alliances

**Exhibit 7: ...with vote share data suggesting that the Opposition managed to draw considerable votes away from the NDA**

Major states	Total Lok Sabha seats	2024 General Elections vote share			2019 General Elections vote share			Change from 2019		
		NDA	I.N.D.I.A	Others	NDA	UPA	Others	NDA	I.N.D.I.A	Others
UP	80	43%	43%	14%	51%	6%	43%	-8%	37%	-29%
Maharashtra	48	44%	42%	14%	51%	32%	17%	-7%	10%	-3%
West Bengal	42	38%	58%	5%	40%	12%	48%	-3%	46%	-44%
Bihar	40	45%	37%	18%	56%	27%	17%	-11%	10%	1%
Tamil Nadu	39	31%	43%	26%	31%	53%	16%	0%	-10%	10%
Madhya Pradesh	29	60%	32%	8%	58%	35%	7%	2%	-3%	1%
Karnataka	28	52%	45%	3%	48%	40%	12%	4%	5%	-9%
Gujarat	26	63%	33%	3%	63%	33%	4%	0%	0%	-1%
Andhra Pradesh	25	50%	3%	47%	47%	1%	52%	3%	2%	-5%
Rajasthan	25	50%	40%	9%	52%	35%	13%	-2%	5%	-4%
Odisha	21	46%	12%	42%	38%	15%	47%	8%	-3%	-5%
Kerala	20	16%	73%	11%	16%	48%	36%	0%	25%	-25%
Telangana	17	35%	41%	25%	19%	29%	52%	16%	12%	-27%
Jharkhand	14	48%	39%	14%	56%	32%	12%	-9%	7%	2%
Assam	14	48%	41%	11%	47%	37%	16%	1%	4%	-5%

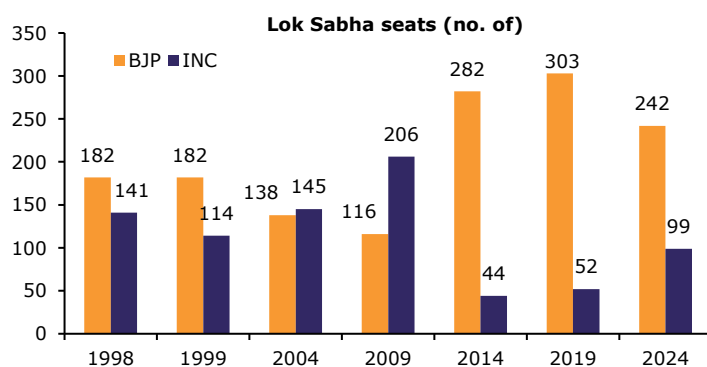
Source: ECI, Emkay Research; Note: Data as of 7:30PM; Differences in alliance tallies are also due to changes in composition of alliances

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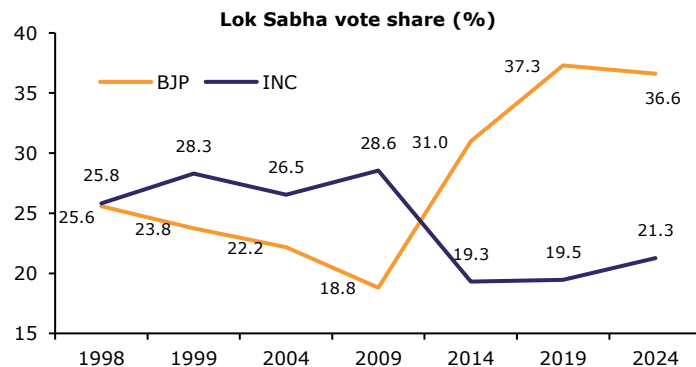
This surprise has come with several large swings across major states, both, in comparison to the 2019 elections as well as the exit polls. The biggest shock came from **Uttar Pradesh (80 Lok Sabha seats)**, where the **BJP's tally has dropped from 62 seats to likely 30-35 seats**, with the Samajwadi Party (part of the I.N.D.I.A. grouping) leading in 35-40 seats. **Maharashtra (48 LS seats) has also seen a significant upheaval**, with the political chaos since 2019 taking a toll on the NDA, which is on track to lose 22 seats from its 2019 tally of 41 seats. Another **big surprise came in West Bengal (42 LS seats)**, where, contrary to the exit polls, the TMC is likely to win 29-30 seats, with the BJP at only 10-12 (vs exit poll predictions of 27-30 seats). Other large moves have come in **Rajasthan (11-seat loss for the NDA)** and **Karnataka (8-seat loss)**. On the other hand, the BJP can find some solace in the significant swing in Odisha (11-seat gain), as well as some inroads being made in southern India. Looking at the vote share, state-wise data also shows that there has been a significant shift away from the NDA in many major states. Though this is also due to changes in alliance constituents, at the national level, the BJP's vote share has fallen only mildly (36.6% vs 37.3% in 2019), with the large swing in seats likely coming from the sharp increase in the INC's vote share (22.0% vs 19.7%) as well as that of some of the other I.N.D.I.A. parties.

**Exhibit 8: The BJP sees a fall in its Lok Sabha tally for the first time since 2009**



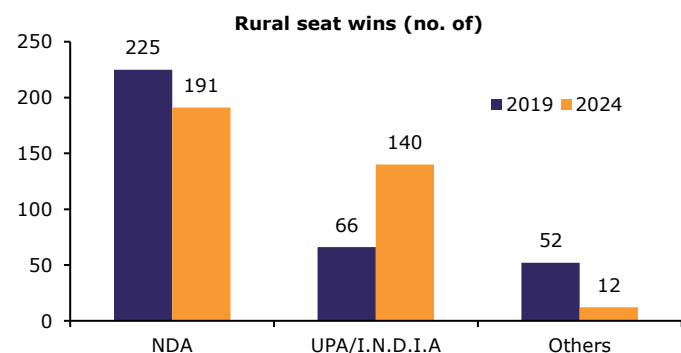
Source: ECI, Emkay Research; Note: Data for 2024 as of 7:30PM

**Exhibit 9: BJP voter share fell a little, whereas INC vote share rose significantly**



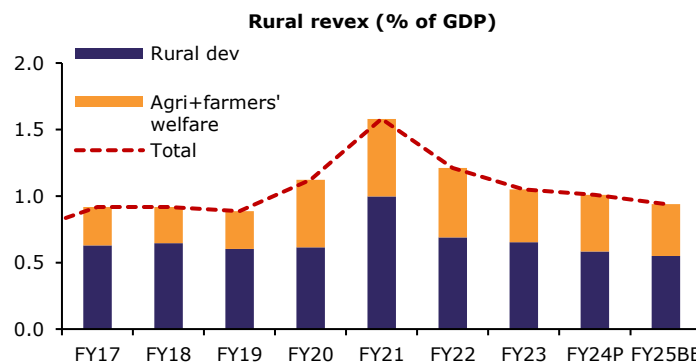
Source: ECI, Emkay Research; Note: Data for 2024 as of 7:30PM

**Exhibit 10: The Opposition performed far better than the NDA in rural seats...**



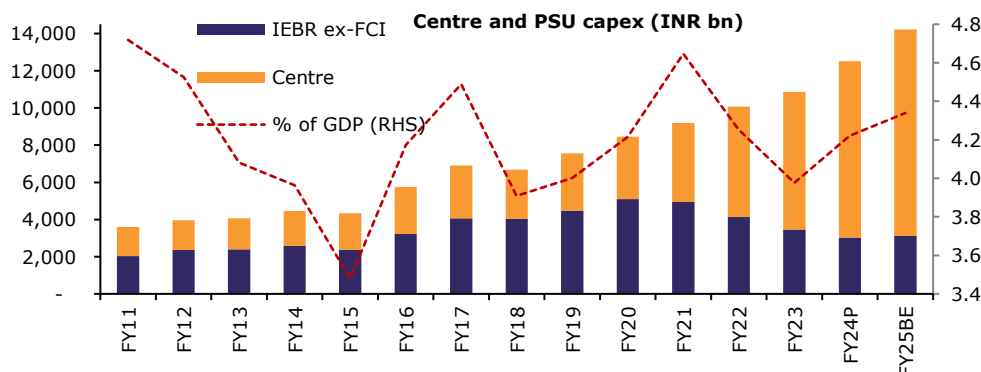
Source: India Today; Note: Data for 2024 as of 1:00PM

**Exhibit 11: ...with falling rural revex spending hurting the NDA**



Source: ECI, Emkay Research; Note: Data for 2024 as of 7:30PM

**Exhibit 12: Focus on capex may moderate in upcoming Budgets**



Source: Union Budget documents, Emkay Research

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## Sector-wise Analyst views post-Elections

### Exhibit 13: Oil & Gas

**HPCL, BPCL and IOCL:** Following the election outcome and key state elections like Maharashtra coming up, the retail oil & gas outlook has relatively weakened and is now subject to movement in oil prices. With oil prices declining to USD77/bbl, despite GRM weakness, current marketing margins have expanded with net positive impact on integrated margins. Our target valuation at ~6x EV/EBITDA is also reasonable and not aggressive; hence fundamentally, we do not see any change in estimates, multiples or TP as of now. We have a BUY on HPCL, BPCL, and IOCL with TP of Rs600, Rs730, and Rs180 per share, respectively, which we maintain given that even at our USD85/bbl Brent assumption, there is an upside after the 4-Jun-24 sharp correction.

**ONGC and Oil India:** We maintain our positive view on B2B oil & gas, as reforms wrt the USD75/bbl assured post windfall tax oil realization and the USD6.5/mmbtu gas realization are unlikely to change. Further, production growth outlook is not dependent on any pending reforms. We have not assumed premium for APM gas from new wells either. Hence, after the major stock correction on 4-Jun-24, there is a sizable stock upside vs our TP of Rs320/sh and Rs800/sh for ONGC and Oil India, respectively. Oil prices falling below USD75/bbl is a risk, but we do not foresee a major downside, with OPEC+ cuts being extended by a year. Valuations at 8-10x PER are also reasonable, compared with other PSUs.

**GAIL and PLNG:** Being B2B players, we do not see any major downside in earnings from the election outcome, and volume outlook would be dependent on macros which is still not stressed. Oil prices crashing and global gas prices rising materially are the key risks, though we believe this is unlikely. GAIL's valuation vs historical levels seem stretched, but post the correction (4-Jun-24), there is upside vs our TP of Rs220/sh. We have a BUY on PLNG with TP of Rs340/share, as valuations are comfortable and volume outlook is healthy amid the expected commissioning of the Dahej expanded capacity.

Source: Company, Emkay Research

### Exhibit 14: Energy

#### Coal India: Election outcome unlikely to derail the story

We retain our positive stance on the stock. Our investment case on Coal India is premised on 1) coal demand staying higher for longer; 2) production volume growth of 8-9% p.a. over the next 3-4 years; and 3) strong free cash generation and positive economic spreads for shareholders.

We do not see the election outcome changing the fundamentals, as we believe power demand would continue which would essentially drive demand for coal. In addition, we expect policy support, especially towards simplifying the project clearance system, to stay in place. Our ground level checks indicate that the company is progressing well on the expansion projects and the MDO model. The stock is trading at 7.4x FY25E earnings compared with its 10Y average of 10x. We see current valuations as an attractive entry point into the stock with an unchanged target of Rs550/share.

Source: Company, Emkay Research

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**Exhibit 15: Banking**

We believe a reduced majority for the incumbent government would dissipate the recent election-related froth in banks, mainly PSBs. In our view, after some more correction, the market will soon shift back to fundamentals, which remain strong for PSBs amid easing G-sec yields, better liquidity/margin position, asset quality recovery, lower opex, and thus healthy RoA delivery. **Our preferred picks remain Indian Bank, BOB, SBI, and Canara Bank.**

As far as private banks are concerned, **we continue to favor ICICI Bank given its strong fundamentals plus management credibility, followed by Axis Bank and IIB in large caps. Our preference in the small-mid cap space: KVB and Federal Bank.**

Amid important state elections over the next 2 years (including Maharashtra, UP, Bihar, and Haryana) and a relatively weaker mandate for the incumbent government in Rural areas, we believe the risk of freebies and the waivers war has somewhat increased, which may hurt mainly MFIs and even PSBs in some pockets.

Source: Company, Emkay Research

**Exhibit 16: Building Materials**

**Ambuja/ACC:** The decline in the ACC/Ambuja stocks was notable (down 15-17%), mirroring the fall seen in other Adani group stocks. Ambuja remains a proxy to play the overall investments in the infra space, but there is a possibility of a slowdown in the capex cycle as the government pivots to revex spending. We remain structurally positive on Ambuja on the back of its growth visibility over the next few years, cost savings initiatives, and strong balance sheet (consolidated C&CE of Rs243bn as of Mar-24). Ambuja (consolidated) stock is trading at FY26E EV/E at 14.3x. (vs ~10-11x in the Holcim era). **We will wait for the dust to settle.**

Source: Company, Emkay Research

**Exhibit 17: Automobile**

**Hero MotoCorp: HMCL's** valuation at ~20x FY26E PER (vs ~26-30x for 2W peers) with a healthy ~4% dividend yield (FY26E) offers reasonable downside protection. Moreover, the underlying recovery in 2Ws is gaining momentum, given that revival is broadening with growth returning to rural markets as well over the past 2 quarters. HMCL's recent product launch in the fast-growing 125cc category—*Xtreme 125R*—has received strong response and has the potential to become a mega-brand. With bulk of the regulatory-led steep cost increases now behind, together with potential for higher focus on the rural economy, also supports HMCL's growth prospects. **We recommend BUY (TP: Rs6,000/share).**

**Ashok Leyland:** While the current macro-economic backdrop could pressurise capex spends in the near term, we believe that after 2 years of a likely weak performance over FY23-25E (caused by 'time correction', as demand growth was absorbed by higher tonnage and improving system capacities/efficiencies in line with the past 2 upcycles), the CV cycle could potentially turn positive from FY26E on. Continued focus on the mid-teen margin ambition via better price realizations and cost actions would help maintain profitability; we highlight that AL's financials are now much better placed compared with the past (net-cash balance sheet, with over 20% return ratios) – and valuations remain attractive vis-à-vis own history (trades at ~11.5x FY26E EV/EBITDA vs LTA of ~16x) as well as other Auto OEMs. **We recommend adding the stock following the 4-Jun-24 sharp correction (TP: Rs250/share).**

Source: Company, Emkay Research

## Hero MotoCorp – Defensive bet with strong growth, re-rating triggers

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We reiterate **BUY** on HMCL as a defensive pick with strong growth and re-rating triggers; HMCL trades at ~20x FY26E PER vs. ~26-30x for other 2Ws (~4% FY26E dividend yield). The 2W recovery continues to broaden, with the rural segment also making a return; we continue to expect 2-3 year growth visibility led by return of first-time buyers, with likely normal monsoons in CY24 acting as a near-term catalyst. Importantly, HMCL's positioning in the fast-growing 125cc motorcycle category has been uplifted by the recently-launched *Xtreme 125R* (over a month of waiting per channel checks despite strong competition; market share has improved to 17% in Apr-24 vs. the recent 9% low). Potential rural focus by the GoI along with better affordability are added positives. Our estimates are unchanged; we retain our SoTP-based TP of Rs6,000/share.

### Hero MotoCorp: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,92,455	3,38,057	3,77,831	4,34,850	4,72,869
EBITDA	33,688	39,862	55,831	63,388	69,811
Adj. PAT	24,730	29,106	44,553	49,074	53,897
Adj. EPS (Rs)	123.8	145.7	223.0	245.6	269.8
EBITDA margin (%)	11.5	11.8	14.8	14.6	14.8
EBITDA growth (%)	(16.2)	18.3	40.1	13.5	10.1
Adj. EPS growth (%)	(16.6)	17.7	47.6	14.3	9.8
RoE (%)	16.0	17.9	25.7	26.1	26.3
RoIC (%)	44.5	49.2	79.2	99.7	102.0
P/E (x)	42.9	36.5	23.8	21.6	19.7
EV/EBITDA (x)	29.0	24.4	19.0	16.7	15.2
P/B (x)	6.7	6.4	5.9	5.4	5.0
FCFF yield (%)	1.5	2.1	4.3	4.5	4.6

Source: Company, Emkay Research

### Favorable risk-reward amid 2W recovery; HMCL – best play on rural comeback

HMCL is attractively valued at ~20x FY26E PER vs. ~26-30x for 2W peers; the company also provides a healthy ~4% dividend yield on FY26E basis. The 2W segment recovery continues apace, post 4 years of struggle (FY19-23); though the ongoing revival had initially started with urban/premium categories, the rural/economy segment has also started recovering post the 2023 festive season. We believe the 2W industry offers healthy scope for a growth upturn over coming 2-3 years, with industry volumes still ~11% below the FY19 peak and the average fleet age remaining at historical highs. Initial weather forecasts for the 2024 monsoon season are also encouraging, potentially further driving rural demand.

### HMCL's positioning improving in 125cc, riding on the recent *Xtreme 125R* launch

Recently-launched *Xtreme 125R* has seen strong customer response, per extensive channel checks – with over a month of waiting despite intense competition in the fast-growing 125cc motorcycle category (forms 27% of domestic motorcycles). HMCL's strong positioning in 125cc (over 40% market share earlier) had declined to ~9% in Dec-23 amid entry of competition like *Pulsar 125* and *Raider*, and softening response to the existing portfolio (*Glamour*); this has now risen to ~17% in Apr-24 post the *Xtreme 125R* launch. Though sustenance of the response needs to be watched, recovery in volumes to even 50% of earlier peaks would translate into continued share gains for HMCL.

### Government's rural focus, improving affordability to aid HMCL

We believe the rural economy could receive greater focus from the government in coming times; this, combined with improved affordability in the entry/economy segment (with bulk of regulatory-led price hikes now behind), would be added positives for HMCL (has ~78% market share in the 100-110cc motorcycle category).

## Flash note: Negative surprise on election results to trigger derating

**India's general elections threw up a negative surprise, with the ruling NDA set to return albeit with a reduced majority, and the BJP well short of majority. We see Narendra Modi returning as PM but in changed circumstances. The broad direction of the economy is unlikely to change, though factor market reform and privatization are off the table. India is likely to now derate due to higher risk perception. Switch from PSUs and Capital Goods to FMCG and buy Indian equities if the Nifty falls below 20,000 (~18x FY25 PER). We will come back with more detailed analysis.**

- **Adverse results:** The ruling NDA is set to return with a thinner majority than in 2019, belying exit poll forecasts of a vastly-improved majority. Current trends indicate that the NDA could end up with ~290-300 seats, comfortably ahead of the 272 majority mark. The bigger surprise is that the BJP, on its own, is set to miss the majority mark by a wide margin, with around 230-240 seats.
- **Modi back, with changed equations:** It is likely that Narendra Modi will return as PM for a third term. However, he will have to contend with changed circumstances. First, the BJP will be dependent on regional allies like Telugu Desam and Janata Dal (United), and make policy adjustments accordingly. Second, there will be greater demand to stimulate consumption in the economy from both, the BJP and allies. There is an outlier possibility that the Opposition could form the government if some of the BJP's existing allies cross over. We think that would be unlikely.
- **Economic trajectory unlikely to change.** The broad pillars of India's economic momentum are unlikely to change. The focus on manufacturing will continue, especially given its importance in job creation. There may be a subtle shift back towards consumption stimulus, but we think it would not be material. State budget deficits may worsen, but we see little risk to the consolidation of the Central fiscal deficit. The capex cycle may also slow down as the government pivots (slightly) to re-expend spending, and corporates may get into a wait-and-watch mode for a few quarters. Finally, we think the unprecedented macro-financial stability will persist, with little risk of a collapse of the twin deficits or bank/corporate balance sheets.
- **Reforms at risk.** Factor market reforms like those related to land, agriculture, and labor are now off the table, in our view. Privatization and asset monetization are also at risk, which could drag government capex in the short term. Some political reforms like harmonizing elections (which need deep constitutional change) are now also unlikely.
- **Market derating.** We expect a market derating in the short term, as the risk on India has gone up. PSUs and Capital goods are the most vulnerable sectors, from which we would stay away for the time being. On the other hand, consumption should come back and we see FMCG and value retailers making a strong return. We are also constructive on Healthcare. We will revisit our model portfolio in a separate note later today.
- **BUY below 18x PER.** The Nifty trades at ~19.5x PER, and we think that the correction isn't deep enough yet. At current levels, we are neutral and would stay invested but not add to positions. If the Nifty does correct another 10% to below 20,000, we see the market being attractively valued at <18x PER and see an entry opportunity back into Indian equities.

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