

Delhi Assembly Elections: Does it matter to markets?



Jyotivardhan Jaipuria >> +91 22 6632 8658
Research Analyst
DSP Merrill Lynch (India)
jyoti.jaipuria@baml.com

Anand Kumar >> +91 22 6632 8683
Research Analyst
DSP Merrill Lynch (India)
anand.k.kumar@baml.com

Opinion polls suggest a tough fight in Delhi Assembly election

The National Capital Territory (NCT) of Delhi is scheduled to undergo assembly elections on 7th February (Results to be announced on 10th Feb). The opinion polls for the upcoming assembly elections suggest a close fight between BJP and AAP with slight edge to the AAP. Over the last one week, 6 opinion polls by media have been published, some of the key points are as follows:

- AAP seems to be the front runner with 4 of the 6 surveys giving it a higher number of seats. The range of seats for AAP is between 28 and 46 seats.
- BJP on the other hand has emerged as a front-runner in 2 of the 6 opinion polls. The range of seats for BJP is between 19 and 37 seats.
- Congress is expected to be a distant 3rd in these polls and win between 2 and 7 seats.

This could be a slight negative for BJP

Politically, Delhi has very little weight accounting for only seven seats out of 543 Lok Sabha seats. However by virtue of being the national capital it generates a disproportionate amount of news-flow. In the past assembly elections held in Dec'2013, Bhartiya Janta Party (BJP)- the ruling party at the center, though the largest single party was just short of majority at 32 seats (of 70 seats). Aam Admi Party (AAP) had formed the government with the support of the Congress party which lasted for 49 days. In the subsequent general elections, BJP won all the 7 Lok Sabha seats. An adverse showing in the Delhi polls would indicate a slowing of the momentum from the May Lok Sabha elections and the subsequent assembly polls.

Table 1: Previous election results in Delhi

	2013 Assembly Elections	2014 General Elections
BJP+	32	7
AAP	28	0
Congress	8	0
Others	2	0
Total	70	7

Source: ECI, BofA Merrill Lynch Global Research

Table 2: Schedule of elections in Delhi

	Date
Date of Polls	7th Feb
Date of Counting	10th Feb

Source: ECI, BofA Merrill Lynch Global Research

What would a BJP loss mean for markets?

1. While an outcome in the Delhi assembly elections doesn't impact the central government led by Mr. Modi, we think the market would be concerned whether the election result is a local issue (as state elections generally are) or whether it indicates some loss of popularity for the ruling BJP.
2. We do not think it will change the course of the reform agenda in India.
3. We think the market is likely to see a correction of around 5% over next 2 months on account of supply of paper, rich valuations and weak earnings. A loss in Delhi polls for the BJP could further provide an excuse for the correction. We think these corrections are tactical and reiterate our year-end Sensex target of 33,000.

“Buy the dips”; prefer rate sensitive domestic cyclicals

Our sector strategy is still overweight rate sensitives, operating leverage plays (we overweight autos, banks, cement and oil as a reform play). We also overweight pharma to leverage a tactical consolidation in the market.

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Model Portfolio

Table 3: Model Portfolio

	Symbol	Rating	Price (INR)	MSCI Wt	BofAML Wt.	Points O/W
Consumer Discretionary				8.3%	10.3%	2.0
: Maruti	MUDGF	C-1-7	3608		6.7%	++
: Bajaj Auto	XBJBF	C-1-7	2261		3.6%	+
Financials				18.4%	20.3%	1.9
: ICICI Bank	ICIJF	C-1-7	347		9.0%	++
: SBI	SBINF	C-1-7	300		7.0%	++
: HDFC Bank	XHDFB	C-1-7	1064		4.3%	+
Healthcare				9.4%	10.9%	1.5
: Lupin	LPMCF	C-1-7	1546		7.9%	++
: Cipla	XCLAF	C-1-7	677		3.0%	+
Cement				1.6%	3.1%	1.5
: Ultratech	XDJNF	C-1-7	3108		3.1%	+
Energy				9.7%	10.7%	1.0
: BPCL	XBPCF	C-1-7	727		7.0%	++
: HPCL	XHTPF	C-1-8	600		3.7%	+
Industrials				5.8%	6.8%	1.0
: L&T	XYUYF	C-1-7	1723		6.8%	+
Software				22.6%	22.6%	-
: Infosys	INFYF	C-1-7	2121		11.0%	+
: TCS	TACSF	C-1-7	2558		8.5%	+
: HCL Tech	XHCLF	C-1-7	1900		3.1%	+
Telecom				2.6%	1.3%	(1.3)
: Bharti Infratel	XYYAF	B-1-7	376		1.3%	+
Consumers				13.1%	11.1%	(2.0)
: Titan	XNXAF	C-1-7	432		4.9%	+
: ITC	ITCTF	C-1-7	366		6.2%	+
Metals				5.2%	2.9%	(2.3)
: Hindalco	HNDFB	C-1-7	146		2.9%	+
Utilities				3.0%	0.0%	(3.0)

Source: BofA Merrill Lynch Global Research

Note: ++ denotes OW by more than 5%; + denotes OW between 0.5% to 5%; MW denotes OW between +0.5% to -0.5%; - denotes OW between -0.5% to 5%; and -- denotes OW of less than -5%

Model Portfolio Methodology

The BofAML India Model Portfolio is a sector weighted portfolio benchmarked against the MSCI index that is constructed to reflect the general themes promoted by the BofAML India Strategy team at the time. We consider for inclusion in the portfolio only stocks that i) are rated by BofAML, whether they are part of the MSCI or not, and ii) where the company has a market capitalization [on Bombay Stock Exchange / National Stock Exchange] of no less than US\$1 billion (or its equivalent in Indian Rupees). The portfolio is an actively managed portfolio with the objective of out-performing its benchmark and hence will continue to search for stocks that can generate the best alpha amongst the BofAML coverage universe.

The portfolio may contain from 15 to 25 stocks though it will typically comprise around 20 stocks at any given time. It is our intention to publish the contents of the portfolio at least once a quarter. We may publish more frequently if we determine that material developments warrant an immediate change in the contents of the portfolio. We also look to rebalance the portfolio quarterly to reflect changes in the MSCI weight for either stock price movements or changes to weights by MSCI. We may, adjust our portfolio weights to reflect these changes.

The portfolio will be constructed with the objective to outperform the MSCI index over the 12 months following publication, though no measure of the performance of the portfolio will be published.

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Address – Mafatlal Centre, 8th Floor, Nariman Point, Mumbai, India. 400021

Tel : +91 22 6632 8000

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	44	51.16%	Buy	34	77.27%
Neutral	20	23.26%	Neutral	15	75.00%
Sell	22	25.58%	Sell	17	77.27%

Investment Rating Distribution: Banks Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	98	47.57%	Buy	86	87.76%
Neutral	51	24.76%	Neutral	46	90.20%
Sell	57	27.67%	Sell	48	84.21%

Investment Rating Distribution: Building Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	43	50.00%	Buy	22	51.16%
Neutral	21	24.42%	Neutral	9	42.86%
Sell	22	25.58%	Sell	16	72.73%

Investment Rating Distribution: Energy Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	132	52.80%	Buy	111	84.09%
Neutral	60	24.00%	Neutral	45	75.00%
Sell	58	23.20%	Sell	46	79.31%

Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	12	46.15%	Buy	10	83.33%
Neutral	6	23.08%	Neutral	4	66.67%
Sell	8	30.77%	Sell	3	37.50%

Investment Rating Distribution: Health Care Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	133	54.73%	Buy	102	76.69%
Neutral	53	21.81%	Neutral	41	77.36%
Sell	57	23.46%	Sell	28	49.12%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	28	43.08%	Buy	21	75.00%
Neutral	18	27.69%	Neutral	15	83.33%
Sell	19	29.23%	Sell	13	68.42%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	70	45.45%	Buy	40	57.14%
Neutral	36	23.38%	Neutral	22	61.11%
Sell	48	31.17%	Sell	27	56.25%

Investment Rating Distribution: Retailing Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	100	54.35%	Buy	60	60.00%
Neutral	35	19.02%	Neutral	20	57.14%
Sell	49	26.63%	Sell	17	34.69%

Investment Rating Distribution: Technology Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	129	58.11%	Buy	97	75.19%
Neutral	45	20.27%	Neutral	31	68.89%
Sell	48	21.62%	Sell	32	66.67%

Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	66	50.00%	Buy	57	86.36%
Neutral	29	21.97%	Neutral	22	75.86%
Sell	37	28.03%	Sell	24	64.86%

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Investment Rating Distribution: Global Group (as of 31 Dec 2014)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1724	51.69%	Buy	1271	73.72%
Neutral	791	23.72%	Neutral	587	74.21%
Sell	820	24.59%	Sell	520	63.41%

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