Time and again: Geopolitical events are boon for investors

- The year CY26 has opened on weak note carrying on the woes of CY25 which was marred by global variables like Geopolitical tension and tariff uncertainty on account of which India was one of worst performing stocks markets globally. However, the resolution on the trade deal between India and US in early Feb 26 provided a strong hope that things will turn for the better from economic standpoint and we are headed higher, now we are stuck by another global event i.e. US- Iran conflict. The conflict has once again hit the sentiments which were on the mend but still fragile.

- As a result of the conflict the Indian markets have shed away ~4% points in 2 days along with global equity sell off and more importantly leading to a surge in crude oil prices in excess of 15% uptick. Given Iran controls over Strait of Hormuz (20% of worlds oil travels through this) and this has economic implications on energy importing countries like India. The key questions that will keep things volatile from an economic and global asset perspective is how long the conflict will continue and how high and longer the crude prices will remain elevated. The questions to this answers will only be educated guesses in our point of view.

- <u>We don't know when this conflict ends or how bad it becomes before the dust settles. But at the same time, we have run trough geopolitical events over the last 3 decades and observed similar behaviour of the markets across this events. We have taken into 6 geopolitical events from 1990-2026 and observed that an average event ran thought 4 weeks wherein equity markets faced correction and the average 3-month and 6-month returns that the Sensex delivered post the event stood at 28% and 38% respectively .</u>

- So, we believe geopolitical events like the current one provide stupendous buying opportunities from a 2–3-year perspective. One can deploy, basis risk appetite, on a lumpsum basis or a staggered basis (to counter any incremental volatility in the upcoming days). From a earnings and valuation perspective, we believe India can deliver 10-15% PAT CAGR over FY25-FY28E (lower band takes into account elevated crude prices for a period of time, which at this point is difficult to fathom) whereas the broader markets are trading at 17.5x FY28E EPS. From a positioning perspective, we believe given the uncertainty, one should prefer domestic oriented sectors like Banks, Infra/cap goods/cement, Auto (OEM & Ancs with least export share), Real Estate, Consumption (Discretionary).

- Tax-loss harvesting becomes an effective portfolio management strategy in sharp market movement environment like being currently witnessed. It involves selling securities at a loss to offset capital gains tax liability from profitable investments. By realizing these losses, investors can lower their taxable income. In few cases, individual stocks may witness higher volatility due to this non-fundamental investor activity.

Historically, markets bottom post geopolitical events...

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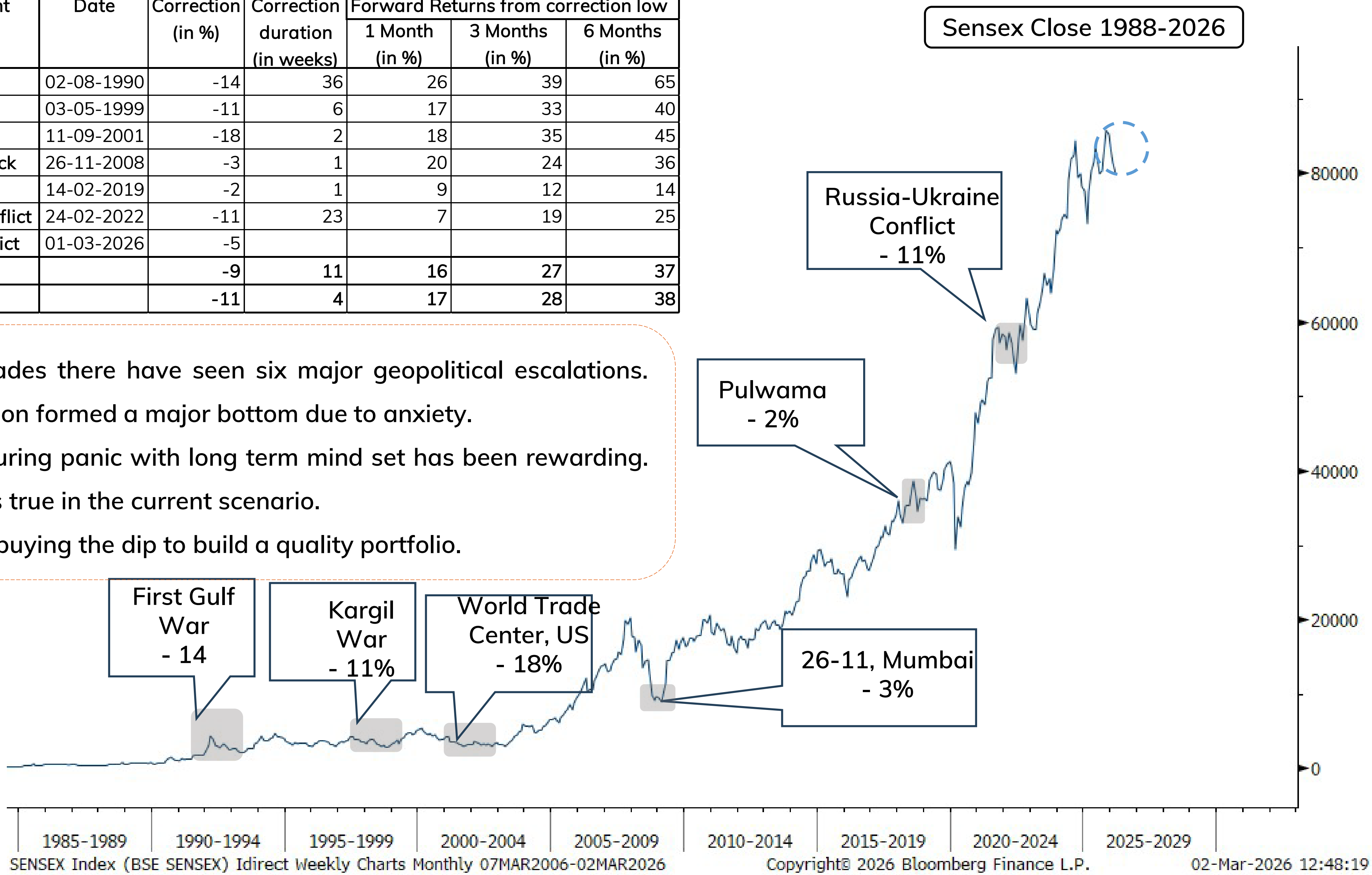
Geopolitical Event	Date	Correction (in %)	Correction duration (in weeks)	Forward Returns from correction low		
				1 Month (in %)	3 Months (in %)	6 Months (in %)
Iraq War	02-08-1990	-14	36	26	39	65
Kargil War	03-05-1999	-11	6	17	33	40
World Trade center	11-09-2001	-18	2	18	35	45
26-11 Mumbai Attack	26-11-2008	-3	1	20	24	36
Pulwama attack	14-02-2019	-2	1	9	12	14
Russia-Ukraine Conflict	24-02-2022	-11	23	7	19	25
Iran-Israel/US Conflict	01-03-2026	-5				
Average		-9	11	16	27	37
Median		-11	4	17	28	38

- Last 4 decades there have seen six major geopolitical escalations. Each occasion formed a major bottom due to anxiety.
- Investing during panic with long term mind set has been rewarding. The same is true in the current scenario.
- We advise buying the dip to build a quality portfolio.



Sectors: Impact of the conflict

Auto space

- Ongoing geopolitical tension in the middle has led to sharp up-move in crude prices (currently quoting at ~US$ 80/barrel, up 20% over the past 1 month). This is sentimentally negative for domestic tyre players as they use crude derivatives (Carbon Black, Synthetic Rubber among others) as their major raw materials. Prolong sustenance of such high crude prices will potentially lead to decline in gross margins for tyre players.
- Geopolitical tensions is also negative for export heavy industries as it can potentially led to higher shipping costs due to disruption of key shipping routes. Key export-heavy businesses are Bajaj auto (exports share of revenues pegged at ~33%) in the Auto OEM space and Bharat forge (exports share at ~54% of standalone revenues), Balkrishna Industries (exports at ~70% of sales) & Sansera engineering (exports at ~26% of sales) in auto ancillary domain. Currency tailwinds (depreciation of Indian rupee) however could potentially mitigate the impact.
- In auto OEM space, our top picks are Maruti Suzuki and M&M. In ancillary space, we like Uno Minda and Lumax Auto Technologies.

Defence

- Sector may see some short-term supply chain risk from Iran-Israel-US conflict, considering that Israel & US being key suppliers of critical systems & components to India. However, the geopolitical conflicts bring back the attention on importance of inventory readiness of defence platforms by any country. With India's focus on growing its defence budget considerably every year and substituting imports with indigenous combat platforms, we believe that this offers significant orders opportunity for domestic defence companies. We believe that few areas like electronic systems, missiles, combat drones, munitions are expected to see substantial jump in demand over the next few years.
- Given the structural tailwinds for the sector, we like BEL, Astramicro wave in the defence space.

Capital Goods space

- The disturbance in the Gulf region will impact few EPC based capital goods companies which have a decent share of order backlog coming from countries like Saudi Arabia, UAE and Kuwait. The fear of incremental escalation and elongation of the same may lead to fears of slower execution or order cancelations which may weight on the stocks. Prominent players having middle east exposure under, our coverage, includes L&T (37% of the order backlog is from Middle east), KEC (45% from Export markets) and Kalpataru (37%). Product based companies who have export exposure to Europe and Middle east might have second order effects in form higher logistics costs and delay in enquiry conversion on account of the conflict. This includes companies like NRB bearings, Aeroflex Industries, Timken India, Thermax.
- In the largecap space, L&T still remains our best bet given the stock reaction in past few days have discounted the tensions around the conflict. In the mid and small cap space, we like players like ELGi equipment, NRB bearings and Aeroflex industries.

Sectors: Impact of the conflict

Building Materials

- US-Iran conflict will have negative impact on Tiles companies largely through higher gas costs which might lead to margin contraction in the near term (and medium term, if there is an extended conflict). In our view, ~5% increase in power and fuel costs can impact EBITDA of Kajaria/Somany by ~5%/~10% for FY27, respectively as pass through of gas prices increase usually lags by a quarter, and is also a function of competitive intensity and volume growth momentum.

Pharma

- Structurally the Indian Pharma Exports remain resilient, however Iran–Israel conflict creates near-term logistics and cost headwinds, particularly across West Asian transit routes. With West Asia and North Africa contributing ~5.7% (US$1.75 billion) of FY25 exports, companies may tweak shipment schedules and inventory to stay on track. Prolonged disruption could pressure margins due to rerouting, delays, and higher freight costs, though the impact is likely temporary and partly shared across the value chain.

Hotels:

- US-Iran war will have an impact on the RevPar growth of hotel industry in Q4FY26. Hotel companies have witnessed some cancellation in room bookings in the month of Mar,26 flight cancellations from Middle East and Europe. We expect RevPar growth might see an impact of 2-3% in Q4FY26. We expect growth to recover in Q1FY27 as large part of Q1 room demand is generated by domestic business and leisure travellers. Further IPL 2026 schedule between Mar-May,26 will keep room demand high for luxury hotels across India. Also cancelled business travel bookings in Mar,26 might get re-booked in Apr-May '26.
- We believe it's a good to enter into the quality hotel stocks such IHCL, ITC Hotels and Chalet Hotels.

Paints:

- Crude link derivatives are one of the key inputs in paints, which constitutes to around 20-25% of the overall input cost of the paint companies. Paint companies stock inventory of around two months of key inputs.
- If crude prices continue to rise from the current level of $82/barrel and remains at high level of close to $100/barrel over the month or so then it will provide significant pressure on the margins of the paint companies (including Asian Paints). During Russia-Ukraine war, brent crude has touched around $112 per barrel resulting the input cost inflation ~8% in H1FY23, which led 410bps sequential dip in the gross margins in Q1/Q2FY23.
- Asian Paints has corrected by 22% from its six months and trading at 44x/38x its FY27E/FY28E earnings limiting downside risk. We believe it's a good time to enter the stock.

Sectors: Impact of the conflict

Oil & Gas

- Indian Oil & Gas sector is expected to witness a significant supply risk due to Iran-Israel-US conflict as it directly threatens the closure of “Strait of Hormuz”, through which ~50% of India's crude imports, 55% of LNG imports and 80–85% of LPG imports transit. Though, India plans to ramp up crude oil purchase from other nations, we believe that the closure of “Strait of Hormuz” (which carries ~20% of global oil flows) pose risk of higher crude oil prices and can impact margins of Indian OMCs considerably.

Chemicals

- For most of the commodity chemical companies the raw material and solvent prices are based on the prices of Naphtha, ethylene, Benzene and propylene among others which are direct crude derivatives. Rising Israel–Iran tensions have increased risks around Gulf shipping routes, particularly the Strait of Hormuz. A prolonged geopolitical issue may lead to higher raw material and freight prices besides trade delays which result in margin compression and limited ability to pass costs through to customers in a demand-weakened environment.

Metals

- In the ferrous space, we don’t foresee any major impact due to ongoing geopolitical tensions as exports share of total steel production is pegged at <6%. There could be minor trade disruptions, however is not expected to have any meaningful impact on domestic players.

- On the non-ferrous front, Middle-east accounts for substantial ~8% of global aluminium production, hence any disruption of metal supplies from Middle-east can potentially led to rise in LME Aluminium prices which is beneficial for primary producers such as Hindalco and Vedanta.

- In metals space, our top picks are Tata Steel and Jindal Stainless Steel

Cement space

- Cement sector is largely domestic-oriented, however, it is not entirely immune as its vulnerability lies in energy costs. Cement manufacturing is highly energy-intensive, relying heavily on petcoke and coal as primary fuels. Ongoing escalation of Iran-Israel-US conflict tends to spike global crude oil prices, which in turn drives up petcoke and diesel prices, affecting the margins of cement manufacturers. The monthly petcoke volume flowing through the Hormuz is around 4–6 lakh tonnes, with India absorbing the majority of this. The country imports almost half of its petcoke requirement, largely depending on imports, which signals the likelihood of higher petcoke prices However, we believe that any major increase in energy & freight costs is likely to be passed on by companies to consumers, considering the favourable demand-supply outlook of Indian cement sector.

- We like Ultratech in the largecap space and Jk Lakshmi/Star cement in the midcap cement space

Top Picks

Company	Stock Code	Market Cap	CMP	Target Price	Potential Upside	P/E(x)		ROCE/ROA(%)		ROE(%)	
		₹ Crore	₹	₹	%	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
L&T	LARTOU	4,40,160	3,860	5,030	30%	32.2	27.8	18.7	19.2	16.3	16.7
Elgi Equipment	ELGEQU	15,793	500	620	24%	31.8	28.1	21.7	21.7	18.1	18.1
City Union bank	CITUNI	19,297	260	320	23%	14.6	13.1	1.7	1.6	14.3	14.0
Nippon Asset Management	RELNIP	53,848	845	1,020	21%	30.1	26.4	50.7	55.2	40.0	43.7
Star Cement	STACEM	8,771	206	300	46%	17.9	15.6	16.0	15.5	13.0	13.0
Chalet Hotels	CHAHOT	16,500	755	1,055	40%	22.8	24.2	16.8	15.0	17.8	14.3
NRB Bearings	NRBBEA	2,502	258	353	37%	15.9	13.2	17.3	18.6	14.6	16.0
Asian Paints	ASIPAI	2,18,470	2,278	3,055	34%	44.1	38.0	17.4	18.8	23.3	24.9
Indo Count	INDCOU	4,958	250	400	60%	14.7	9.5	10.6	14.0	13.4	17.9

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