Election results update

India Strategy | Update

June 05, 2024

Political stability is key; Time for re-balancing

Key Points

- Our base case continues to be a stable government which should provide relief to markets. However, support for the BJP from coalition partners will be imperative. Given the tenuous nature of coalition politics, we would adopt a cautious stance with a preference towards Large Cap Defensives given the heightened volatility.
- The incoming verdict suggests that some re-balancing of expenditure towards the 'bottom of the pyramid' and support for employment, income and consumption beyond the formal sector may be inevitable.
- As we had highlighted in our Appraisal of Manifestos, irrespective of the composition of the majority or political party, we do not expect change in the broad direction of economic policy and consequently expect the infrastructure and manufacturing push to sustain, albeit with some re-balancing towards consumption themes.
- The verdict suggest that aggressive fiscal consolidation may take a backseat and the fiscal deficit may be maintained at ~5.1% of GDP in FY25 even after accounting for the higher RBI dividend. However, we do not expect any significant deterioration in macro fundamentals.

Democracy wins: The BJP by itself has secured 240 seats, far from the 272-seat majority mark required to form the government. However, with the support of Chandra Babu Naidu led TDP and Nitish Kumar led JD(U) and Shiv Sena (SHS), the National Democratic Alliance (NDA) is likely to form the government (Exhibit 1). While the BJP has largely retained vote share, the Congress has gained vote share, although it remains far below the peak of 2009 (Exhibit 3). While the verdict has disappointed markets, it is also testament to the fact that democratic principles still continue to drive India.

Political stability is key for markets: We believe that political stability and policy continuity is key for markets. Our base case continues to be a stable government which should also provide relief to markets. However, support for the BJP from coalition partners will be imperative. While FPIs turned buyers on Monday after the exit polls and were sellers on Tuesday, overall FPI positioning in Indian equities remains at the lowest level since 2012, at ~16% of market cap (Exhibit 4). Therefore, the risk of sustained FPI selling remains relatively contained. However, it will be key to monitor the sustenance of domestic flows, particularly into Mutual Fund SIPs in the months ahead. We expect the broad theme of financialisation of savings to sustain.

Macros to remain largely stable but it's time for some rebalancing: The incoming verdict suggests that some re-balancing of expenditure towards the 'bottom of the pyramid' and support for employment, income and consumption beyond the formal sector may be inevitable. Hence, aggressive fiscal consolidation may take a backseat and the fiscal deficit may be maintained at ~5.1% of GDP in FY25 even after accounting for the higher RBI dividend. Nevertheless, we do not expect significant deterioration in macro fundamentals. Our analysis of macro-fundamentals over the past two decades suggests that except for the period under UPA-2 (excessive fiscal stimulus coupled with high global commodity prices and a global taper tantrum), India's macro fundamentals have largely been stable (Exhibit 7). However, that period of macroeconomic instability also coincided with a period of equity market underperformance. NDA-II (FY20-FY24) period has seen the best for equity market performance, with Midcaps outperforming by a large margin. Given the tenuous nature of coalition politics, we would remain cautious at least in the near term, with a bias towards Defensive Large Caps focussed on the consumption theme along with Financials.

Key Macro Forecasts

Particulars	FY23	FY24	FY25F
GDP (% YoY)	7.0	8.2	6.6
GVA (% YoY)	6.7	7.2	6.5
Agriculture (% YoY)	4.7	1.4	3.8
Industry ex. construction (% YoY)	-0.6	9.3	6.3
Services inc. construction (% YoY)	9.9	7.9	7.3
CPI (average)	6.7	5.4	4.8
WPI (average)	10.0	-0.7	2.5
Interest rates-Repo (Fiscal year end)	6.50	6.50	6.0
Fiscal deficit (% of GDP)	6.4	5.6	5.1
Current account balance (% of GDP)	-2.0	-0.7	-1.3
INR/USD (Average)	80.3	82.8	84.6
10 year yields (average)	7.35	7.16	7.0
Crude oil price (US$ /bbl average)	95.0	82.1	80.0

Source: CSO, CEIC, Nirmal Bang Institutional Equities

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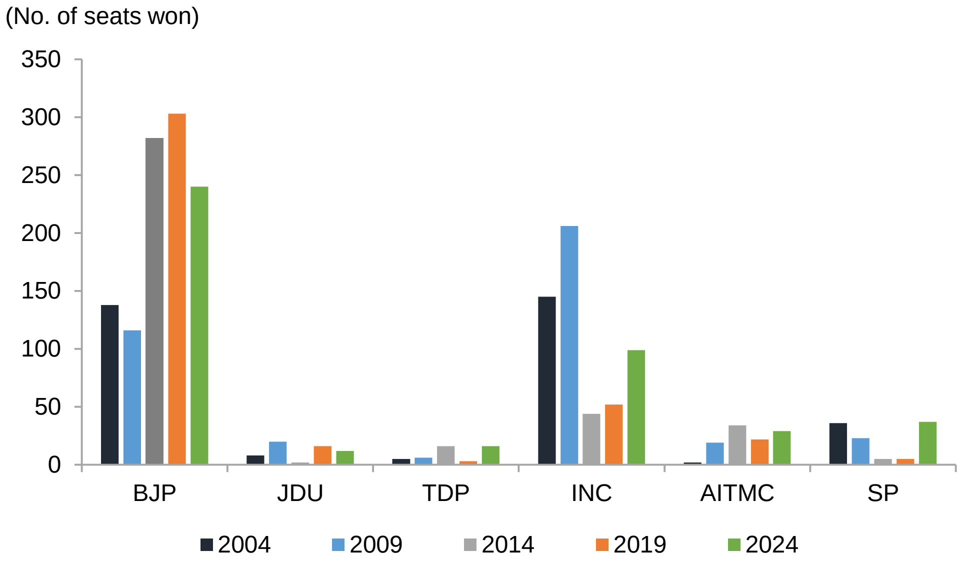
Exhibit 1: Coalition politics back in fray as BJP falls short of majority

	State / Union Territory	BJP	JDU	TDP	Others	NDA	AITMC	INC	CPI (M)	SP	Others	I.N.D.I.A	Others
1	Andhra Pradesh	3	-	16	2	21	-	-	-	-	-	0	4
2	Arunachal Pradesh	2	-	-	-	2	-	-	-	-	-	0	0
3	Assam	9	-	-	2	11	-	3	-	-	-	3	0
4	Bihar	12	12		6	30	-	3	2	-	4	9	1
5	Chhattisgarh	10	-	-	-	10	-	1	-	-	-	1	0
6	Delhi	7	-	-	-	7	-	-	-	-	-	0	0
7	Goa	1	-	-	-	1	-	1	-	-	-	1	0
8	Gujarat	25	-	-	-	25	-	1	-	-	-	1	0
9	Haryana	5	-	-	-	5	-	5	-	-	-	5	0
10	Himachal Pradesh	4	-	-	-	4	-	-	-	-	-	0	0
11	Jammu and Kashmir	2	-	-	-	2	-	-	-	-	2	2	1
12	Jharkhand	8	-	-	1	9	-	2	-	-	3	5	0
13	Karnataka	17	-	-	2	19	-	9	-	-	-	9	0
14	Kerala	1	-	-	-	1	-	14	1	-	4	19	0
15	Madhya Pradesh	29	-	-	-	29	-	-	-	-	-	0	0
16	Maharashtra	9	-	-	9	18	-	13	-	-	16	29	1
17	Manipur	-	-	-	-	0	-	2	-	-	-	2	0
18	Meghalaya	-	-	-	-	0	-	1	-	-	-	1	1
19	Mizoram	-	-	-	-	0	-	-	-	-	-	0	1
20	Nagaland	-	-	-	-	0	-	1	-	-	-	1	0
21	Odisha	20	-	-	-	20	-	1	-	-	-	1	0
22	Puducherry	-	-	-	-	0	-	1	-	-	-	1	0
23	Punjab	-	-	-	-	0	-	7	-	-	3	10	3
24	Rajasthan	14	-	-	-	14	-	8	1	-	2	11	0
25	Sikkim	-	-	-	1	1	-	-	-	-	-	0	0
26	Tamil Nadu	-	-	-	-	0	-	9	2	-	28	39	0
27	Telangana	8	-	-	-	8	-	8	-	-	-	8	1
28	Tripura	2	-	-	-	2	-	-	-	-	-	0	0
29	Uttar Pradesh	33	-	-	2	35	-	6	-	37	-	43	2
30	Uttarakhand	5	-	-	-	5	-	-	-	-	-	0	0
31	West Bengal	12	-	-	-	12	29	1	-	-	-	30	0
32	Lakshadweep	-	-	-	-	0	-	1	-	-	-	1	0
33	Dadra and Nagar haveli, Daman and Diu	1	-	-	-	1	-	-	-	-	-	0	1
34	Andaman and nicobar	1	-	-	-	1	-	-	-	-	-	0	0
35	Ladakh	-	-	-	-	0	-	-	-	-	-	0	1
36	Chandigarh	-	-	-	-	0	-	1	-	-	-	1	0
	Total	240	12	16	25	293	29	99	6	37	62	233	17

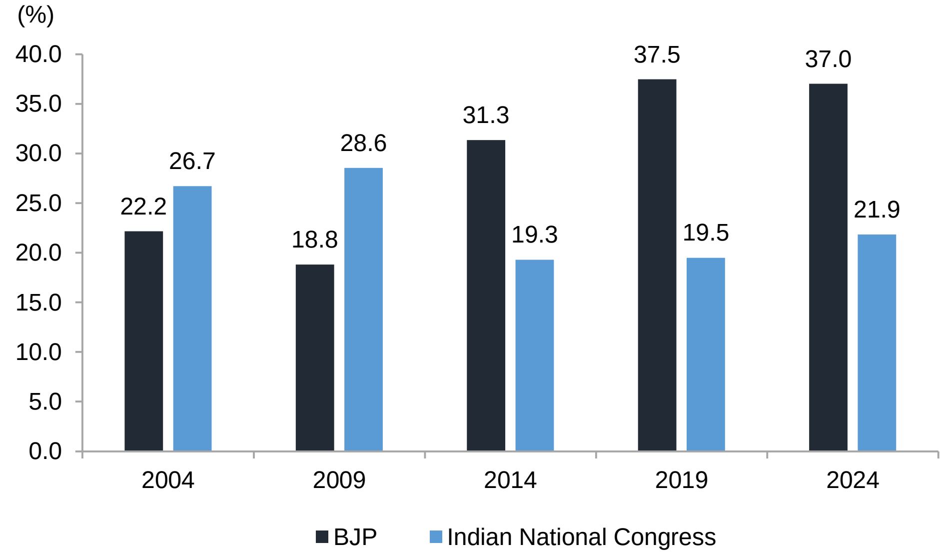
Source: ECI, Nirmal Bang Institutional Equities Research

Exhibit 2: BJP has lost seats…



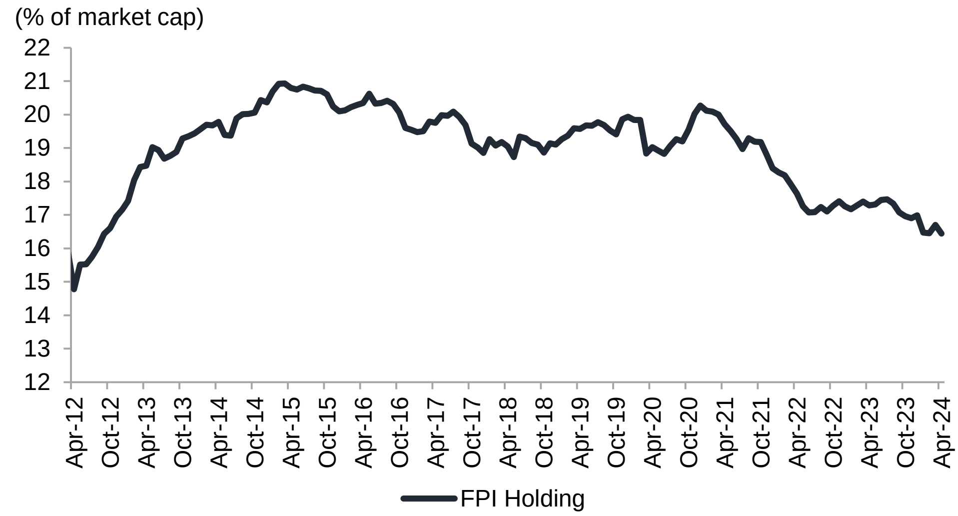
Source: ECI, Nirmal Bang Institutional Equities Research

Exhibit 3: … but largely maintained vote share



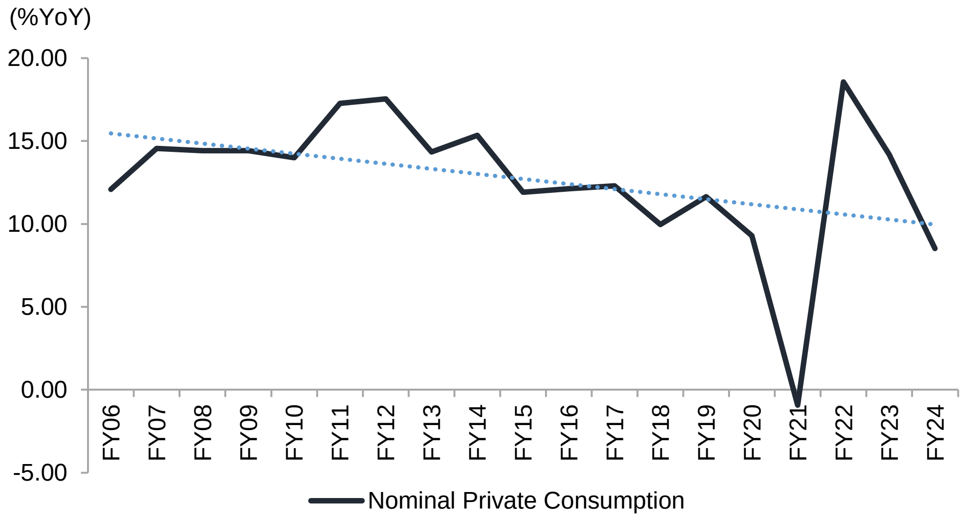
Source: ECI, Wikipedia, Nirmal Bang Institutional Equities Research

Exhibit 4: FPI holding of Indian equities at the lowest level since 2012



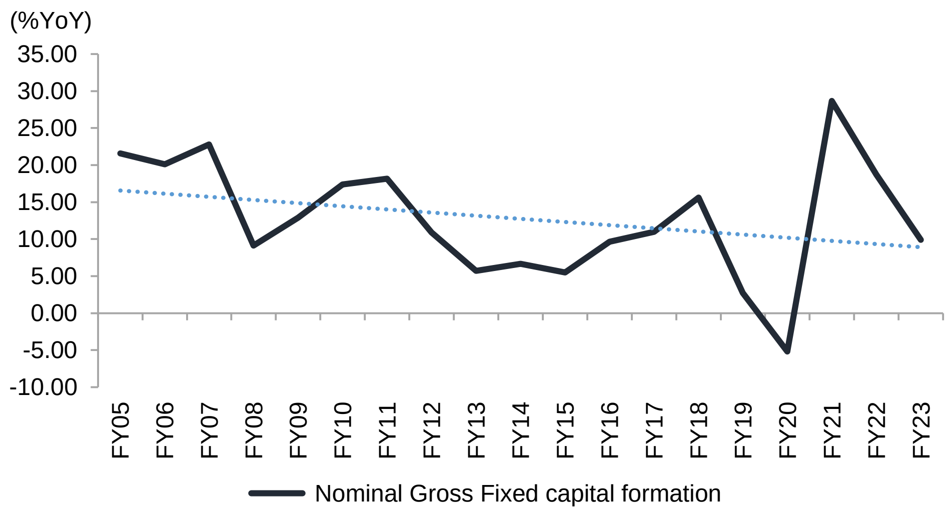
Source: NSDL, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 5: Private consumption below long term trend and needs re-balancing



Source: MOSPI, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 6: GFCF in line with long term trend



Source: MOSPI, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 7: No major risk to macro fundamentals at least for now

Government	GDP (%YoY)	CPI (%YoY)	Fiscal deficit (% of GDP)	Current account balance (% of GDP)	10-year yields	INR (Annual avg % change)	Nifty 50 (5yr CAGR)	Nifty midcap (5yr CAGR)
UPA 1	6.9	6.0	3.9	-1.2	7.3	-3.7	9.7%	3.5%
UPA 2	6.7	10.2	5.3	-3.3	8.1	-3.8	4.9%	1.3%
NDA 1	7.4	4.5	3.7	-1.4	7.6	-3.0	7.3%	7.5%
NDA 2	4.5	5.7	6.6	-0.8	6.8	-3.9	13.7%	22.3%

Source: MOSPI, CEIC, Bloomberg, Nirmal Bang Institutional Equities Research

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SELL < -5%

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