India Strategy

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Elections 2024 spring a surprise, BJP loses majority, NDA still holds on

The 2024 General Election results came out as a negative surprise – contrary to exit polls and broad expectations the NDA coalition underperformed by a margin with the BJP itself losing its majority status in the Lok Sabha. The Congress led India Alliance gained significantly in the North states with the Congress and the SP denting BJP tally.

Although the counts are still ongoing, but for the incumbent to cross the half way mark and form a government with a single party majority looks seemingly difficult. As the situation remains fluid, we hope things settle down and clarity emerges on the political front at the earliest.

Are we back to coalition government post this election?

Seems more likely than not. The markets and investors have to eventually come to terms with this as the base case now. It will not be an easy re alignment but that's the ground reality with the BJP having lost its majority but still the single largest party by a wide margin. Hence it will be the front runner to form the government in our view. What is worth analyzing now is what the nature of the alliances that may form the government. We draw out three likely scenarios

Scenario 1 - NDA led coalition returning with Modi as the PM

The best case scenario in our view for the markets and investors. India multiples will derate but not as sharply since Modi remains as the PM and with large enough seats to back him. And if he is seen as accommodative to manage the coalition well for the first few months, the confidence on India macros and growth will hold on. Two allies – TDP led by Chandrababu Naidu and JDU led by Nitish Kumar would be the most powerful – they are collectively at 30 odd seats and exit of any one will jeopardise the alliance. TDP as a partner has been constructive in economic reforms in the past and with their win in the state elections, they may prefer to stay with the NDA. What will interesting is if this triggers a Modi reinvention i.e. a style of governance which shifts more towards consensus build up? Or would the Modi factor get curtailed with time? We believe there lies a possibility towards 'controlled' populist measures and risk of valuation derating for sectors like PSU, Defense, Power and PSU Banks to an extent. Defensives would benefit as money flows for the first few months to evaluate the performance.

Scenario 2 - NDA forms the government with Modi not returning as the PM

Seemingly low probability in our view, although a possibility. It is difficult to call out how much leeway a new PM would have, in lieu of Modi still remains visible and commands a strong stature. Markets which favored policy continuation till now, would be plagued with uncertainty. Our sense is populist measures would be adopted by the new government and there lies a possibility of material compression in market valuation along with Modi premium (*Kindly refer our Feb strategy Note - "Reset of Expectation" for our views on Modi Premium*). Positive for sectors like FMCG, IT, Pharma.

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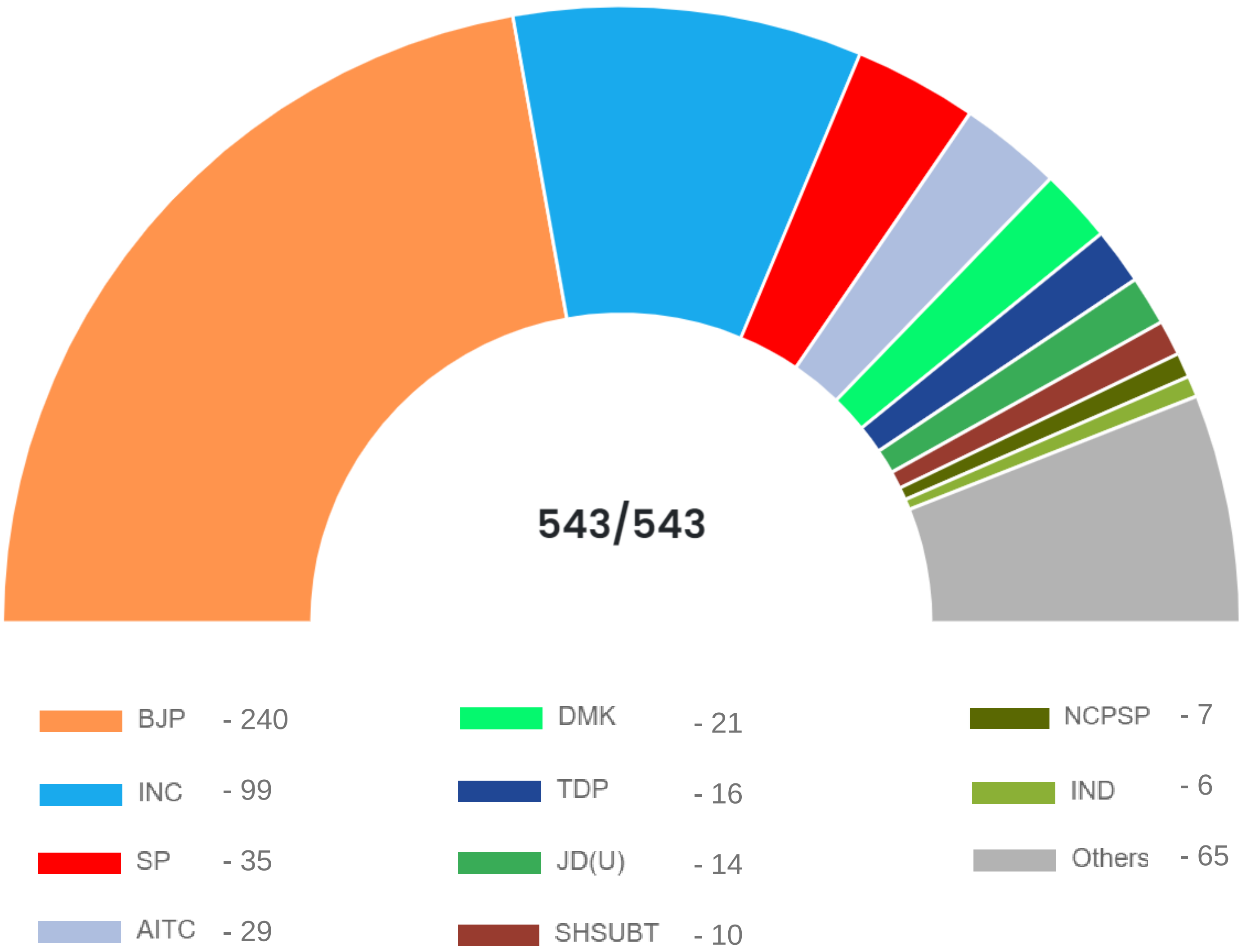
June 04, 2024

Scenario 3 - INDIA BLOC forms the government and INC leader being the PM

Real risk lies both in terms of policy adoption and fragility of coalition with the largest party winning barely 100 odd seats. Doll outs could be high on agenda and fiscal deficit could be out of sync. There lies a severe risk of valuation derating for Indian equities, bond markets may react adversely and lot would take to build the confidence especially among foreign investors. Triggers our bearish view in the near to medium term. We would not rule out deep corrections in the Indian equities – our base case then would be a discount to long period multiples i.e sub 15-16x PE. And this is not yet accounting for the earnings revision to the downside.

Next few days will be evolving as the alliance partners bargain hard and markets will react to the news flow. Hence we refrain from sector and stock specific calls as a lot would depend on top down factors which are largely dictated by government policies.

General Election to Parliamentary Results



Source: eci.gov.in, Note: Trends & Results 4-June-2024 ***as of 3:25 PM***

Dolat RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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