

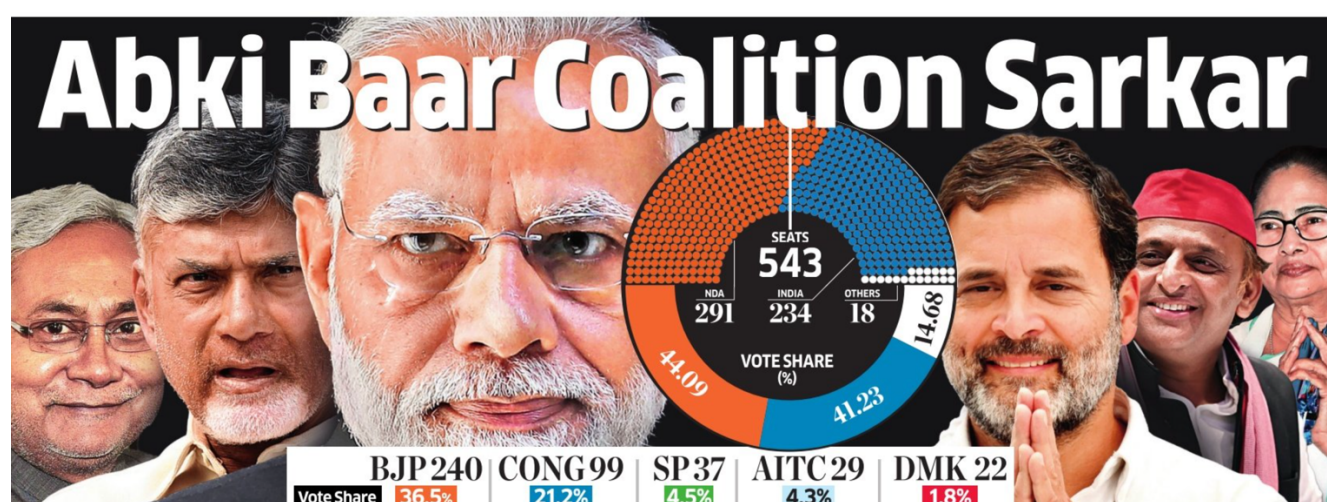
Nepean Capital

India's 2024 General Elections

PM Modi wins a rare third term but faces a stronger Opposition in the Parliament

The results for India's 2024 General Elections to the lower house (Lok Sabha), held once every 5 years, were announced yesterday. The two principal coalitions of parties that were battling to form the next government in India were:

- Prime Minister Modi's BJP (Bhartiya Janata Party) led NDA (National Democratic Alliance)
- Congress Party leader Rahul Gandhi led INDIA Alliance



Exit polls announced on the evening of Saturday, June 1 pointed to a huge win for the NDA within a range of 350-400 seats, out of a total of 543. However, the results were quite different with the NDA just about managing to scrape through with a majority. The INDIA Alliance gained as many as 107 seats from the previous election. The NDA's 291 seats are far short of Modi's aspiration of 400.

Coalition	2019	2024	Change
NDA	353	291	-62
INDIA Alliance	127	234	+107

Yesterday (Tue, June 4), the equity markets (NIFTY50) fell 6% with cash volumes of a record \$35 Bn, of which foreign investors sold \$1.5 Bn. Investors were concerned about the fact that the BJP was unable to secure a simple majority (272) on its own. It won 240 seats (standalone), down 62 from 2019 and 32 shy of the majority mark. In 2019, the BJP won 176 of the 225 seats in the Hindi heartland (otherwise their stronghold). But in this election, they were down to 126 for a loss of 50 seats. Having said that, PM Modi has won a rare third term, a feat achieved only by India's first PM Jawaharlal Nehru.

The NIFTY recovered today (+3.3%) as news that the NDA will indeed form the government calmed the markets. The NIFTY Mid Cap Index also gained, up 4.3%.

Implications for India:

1. The BJP will now have to get buy-ins on major decisions from their coalition partners, most notably the TDP party (from the state of Andhra Pradesh with 16 seats) and the JDU (Bihar with 12 seats). The apprehension is that they will demand key ministries and could potentially curtail the freedom with which PM Modi pushed through structural reforms.
2. Each upcoming state election could end up becoming a referendum. The states of Maharashtra and Jharkhand are slated to go for elections in 2024. Therefore, the government will likely be compelled to stimulate demand and offer concessions to rural India, which will boost consumption of consumer staples. Stocks like Hindustan Unilever, Dabur, Godrej are up 10-15% this week.
3. Will retail flows slowdown ? That is a *billion* dollar question ! We think the answer will become clear over the next few months as investors decide if the coalition government with Modi at the helm will work or not. Over the past three years, the Indian market has remained firm with strong local flows either directly in the markets or via mutual funds. YTD domestic institutional investors have net invested \$26 Bn. Retail investors seem unfazed by valuations or geo-political issues and continue to pour money into the markets, month after month. In April, SIP (systematic investment plans) inflows hit a record Rs.20,371 crores/\$2.45 Bn. On the other hand, at 20x CY25 P/E, FPIs (foreign portfolio investors) find India too expensive, and this year have net sold over \$2 Bn. Unlike last year when India attracted the most FPI inflows (+\$21.4 Bn) in Asia (ex-Japan), this year it's the lowest in the pecking order.
4. We believe that the Government is likely to stick to the path of fiscal consolidation and the fiscal deficit should not exceed the budgeted 5.1% of GDP.
5. Earnings remain on track with the last quarter (ended March 2024) clocking growth of 16%. Consensus estimates put FY25 EPS growth at 15%, one of the highest among the large economies.
6. We believe that once the dust settles, investors will re-focus on fundamentals. The next few major events to watch for will be:
 - Formation of the cabinet, how many key ministries the BJP will have to concede to allies.
 - Post-elections budget (most likely in the first week of July).

Interesting facts about India's elections:

- The General Elections to the 18th Lok Sabha were the world's biggest electoral exercise.
- 969 Mn Indians were eligible to vote (vs. 168 Mn registered voters in the U.S.), and more than the population of all the countries in Europe combined.
- 5.5 Mn electronic voting machines (EVMs) were used at 1.05 Mn polling stations.
- The Election Commission deployed 15 Mn polling staff and security personnel to conduct the election.
- The state of Uttar Pradesh (pop.241 Mn) has the highest number of Lok Sabha seats (80), followed by Maharashtra (pop.112 Mn) that has 48 seats. The Top 10 states account for 70% of the Lok Sabha seats and currently the BJP and its allies rule 6 of them.

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