

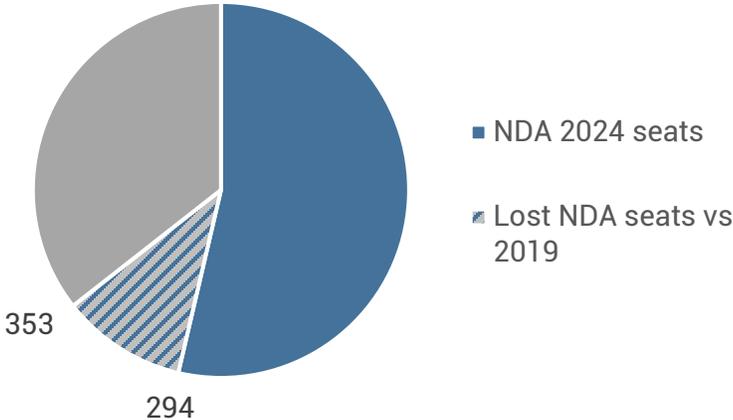
June 2024

India Election Update – Dalton India Research Team



General Election 2024

Contrary to the opinion polls and exit polls ahead of India’s general election, the final verdict on June 4 turned out to be significantly different, with Prime Minister Narendra Modi winning just 240 seats out of 543 seats. While the results gave Prime Minister Modi’s Bharatiya Janata Party (BJP) around 2.5 times the seats of the second largest party, they also denied him a single party majority in parliament. Though this is a clear personal setback for Modi, following his triumphs in 2014 and 2019, he is still likely to be able to form India’s next government, as the BJP with its allies, in a coalition known as the National Democratic Alliance (NDA), won 293 seats (over the required majority of 272).



In our view, this “disappointing” result for the BJP needs to be put into historical context. With the exceptions of Modi’s historic wins in 2014 and 2019, this is the highest single party result since 1984 (the last time India had a single party majority prior to the BJP’s win in 2014). In this context, we believe that political instability should not be a major concern for India, unless Modi does something radical to disturb his partners in the NDA.

Outlook

Indian investors are clearly taking this result as a negative, with the market having its biggest daily fall since 2020 on June 4, wiping out most of the gains for 2024. We take a much more sanguine view of the situation, even potentially viewing this result as a positive for investors versus a huge BJP majority.

From an investment perspective, we believe that the key point is that under the new Indian government, the BJP’s planned policies related to infrastructure improvement and the general business-friendly environment are unlikely to change. The wild card that could provide future upside is that Modi will now likely feel pressure to do something tangible before the next election in 2029, with a focus on job creation for young voters and uplifting the population from bottom of the pyramid. The first major indication of the new government’s plans will come in July during the budget allocations for next financial year.

We continue to believe that our Indian portfolio has a compelling long-term return potential, which, in our opinion, likely would not be materially impacted by the recent election results. Our large allocations to key sectors such as private banks and technology companies already trade at attractive valuations relative to their history, meaning we would view any further sell off in the Indian markets as a buying opportunity.

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