

India's General Election

A brief guide on the political landscape, probable outcomes and market implications

1. Foremost political organisations; what do they represent?
 - a. Main parties' social, economic and political philosophy
 - Only one truly "national" party which is Congress. It is left-of-centre social democrats but not as left as UK's Labour Party
 - BJP is the other major player but is focused more on the north and west of India and has little influence outside of that. They are right-of-centre both economically and in social matters
 - b. How do the significant regional parties fit in?
 - There are 28 States in India with more than 70 registered State parties
 - These regional parties have grown both in number and in importance over the last few election cycles by winning considerable seats in local contests and by prioritising their State over the national interest
 - A coalition is the only way for a national party (Congress or BJP) to form a Government
 - Regional parties in the North and Eastern regions of India tend to be left of centre (Communist in the case of West Bengal) and have historically allied with Congress
 - In the South, regional parties emphasise economic growth rather than handouts and it is here where the BJP will have a greater chance in finding coalition partners
2. Composition of the Electorate
 - a. Situation by region
 - 11 out of 28 states provide 420 seats out of 543 in Parliament. The key testing ground is Uttar Pradesh (UP)
 - UP, the most populous state in India, is represented by 80 seats. In the last election BJP won only 10 seats here and is forecast to win at least 50 this time
 - The other state to watch is Tamil Nadu in the South. The charismatic leader Jayalalitha will play kingmaker with her 20 seats and could help the BJP reach the finishing line
 - b. Concentration of caste and religious vote blocks
 - The saying goes in India "you do not caste your vote, you vote your caste" and Mayawati, the Dalit (*untouchable*) leader in UP is a case in point
 - Especially amongst the young this voting preference is arguably losing its traction as jobs and prosperity are becoming a greater priority.
 - Overall the huge disparity in religions and castes make the science of polling a very tricky one

3. How is the outcome shaping up?
 - a. Coalition Government; what does it mean?
 - The latest poll suggests that the BJP led NDA coalition will achieve approximately 260 seats. To achieve the requisite 272 majority will therefore not pose any significant challenges
 - A BJP win with more than 260 will provide stronger mandate for reform, noticeably lacking over the last five years
 - b. Fractured Government; what are the likely groupings and what are the implications?
 - Given the opinion poll strength for the BJP, a fractured Government remains a low probability scenario

4. Economic Agenda; what are the prospects?
 - a. Immediate priorities for the new administration
 - Providing a clear timeline of action to remove the policy logjam
 - Sending a strong positive signal to international investors
 - Restoring the hitherto broken relationship between the Government and the bureaucracy
 - Bringing down the fiscal deficit to help control inflation, through reducing subsidies and implementing tax reform via the Goods and Services Tax (GST) Bill
 - b. FX impact, relationship with the Reserve Bank of India
 - A BJP win will have a positive impact on the Rupee
 - Any positive policy action from the new Government on the supply side, as well as curbing fiscal excesses, would help the RBI bring down interest rates sooner than expected
 - c. How effective can a new administration be?
 - Decision making may be frustrated in the Upper House of Parliament (Rajya Sabha)
 - Tact, compromise and consensus building will be essential to getting through key reforms. A challenge for perhaps a more autocratic Prime Minister in the form of Modi
 - The incoming Government will require the support of the opposition to achieve constructive legislation
 - d. What are the milestones to judge success?
 - Indicators such as the number of joint ventures, credit growth and corporate capex should be watched closely (more so than the stock market)
 - The BJP manifesto has prioritised cutting the fiscal deficit which will be key to reducing the cost of capital

- Big ticket reforms, previously frustrated in opposition to spite Congress, such as FDI in insurance and defence, land acquisition reform, healthcare and the GST

5. Market implications

a. Sectors under the spotlight

- Sectors that would benefit from policy reform; industrials, light engineering, banking, auto-ancillary and agriculture
- If reform is not forthcoming, we foresee continued overweight on pharmaceuticals, IT and consumer focused companies

b. Portfolio re-balancing

- The bottom up investment philosophy does not change - emphasis on strong balance sheets, high cashflow generation and management quality will remain paramount – we will not jump on a post-election rally by investing in low quality cyclicals
- If a new Government can show a tangible improvement in policy implementation, we will look to tilt the portfolios, in a calibrated manner, towards well managed businesses in the sectors mentioned in 5a