India national elections 2019

Under the leadership of Prime Minister Narendra Modi, the Bhartiya Janata Party (BJP)-led coalition is on course to win a second five-year term in India's national elections.

While counting is still going on, the leads so far indicate that the BJP-led coalition is likely to win about 340 of the total 542 seats. The BJP alone is likely to cross the halfway mark once again, winning close to 290 seats, which is higher than its count in 2014. This leaves the Congress Party-led opposition with fewer than 100 seats, and the rest is divided between other regional parties.

The Indian equity market initially reacted positively to the development, but domestic indices, the Sensex and Nifty, were trading about 0.7% lower versus the previous day's close at the time of release of this note. Both the indices had risen 4% on Monday, 20 May, when exit polls suggested a victory for the Modi Government.

According to Sandeep Kothari, Portfolio Advisor, Fidelity India Fund:

> "This is a positive development for India. With a clear majority in the upper house of the parliament, the BJP has got a historic chance to take forward the reform agenda it had embarked in the last five years. Some of the tough economic decisions taken, such as sticking to fiscal prudence and inflation control, implementation of uniform Goods and Services Tax (GST) and the new Insolvency and Bankruptcy Code, had an adverse impact on growth in the last couple of years. However, the government has got an unprecedented opportunity to build on the base it has created to revive the economy in its second term. Recent events such as the liquidity crunch in the non-banking financial sector had a short-term impact on consumption. The market expects that the new government will quickly address these issues and take economy back on the growth path. Given the ongoing clean-up in public sector bank balance sheets as well as the reduction in corporate debt levels, I expect private sector capex cycle to revive in the next 12 to15 months. Overall, I expect that this historic mandate for a strong and decisive government will help the government take India's reform process forward and improve the country's growth prospects. The equity market has reacted positively after the exit polls suggested a BJP victory, and given that we have seen flat earnings growth in the last five years, the market is likely to start discounting an earnings revival in the next few months."

How is the Fidelity India Fund positioned?

Overall, the focus remains on stock picking and investing in companies with good quality management, scalable business models and reasonable valuations. The portfolio is positioned to benefit from India's long-term consumption and economic growth potential. The country remains one of the most promising domestic stories in the world, given the low penetration of discretionary and financial products, growing urbanisation and prospects for infrastructure development. The Fund has holdings in high-quality companies in the financials, industrials and consumer sectors that should continue to benefit from these structural trends.

According to Portfolio Manager Amit Goel:

> "The early counting trends shows a comfortable majority to the ruling Narendra Modi government which is in line with the exit polls and current market expectations. I see these results as positive in the medium term as continuity of the current government is important to maintain the pace of fiscal and financial reforms, focus on infrastructure development and better implementation of large-scale public benefit schemes. The areas where the government needs to improve is revival of the manufacturing sector, reform of the public sector banks and job creation. There have been various data points leading to rising unemployment in India and the current slowdown in the consumer, auto and real estate sectors does reflect the pressure on disposable income, and this is something which we need to monitor from here. On markets, I think markets were already expecting a majority for the current government after the exit polls last week and hence I don't expect them to move up sharply in the short term. On the other side, there are short-term negatives in terms of NBFC and real estate stress and consumer spending slowdown, which will put pressure on corporate earnings, and we need to wait for earnings recovery to see meaningful upside in markets from here. I would remain selective on stocks and generally cautious on markets in the short term, but remain constructive on India in the medium to long term, given the growth potential, demographic profile and strong business models run by very competent management teams."

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