

# EQUITY OUTLOOK

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## Coalition politics, status quo likely on reforms

The much-awaited event is behind, with the National Democratic Alliance (NDA), of which BJP is the leading member has formed the government – 3rd time in a row. However, contrary to consensus expectation of a thumping majority, the ruling NDA has returned to power with a reduced majority. The BJP on standalone basis won 240 seats and fell short of the 272-majority mark required. However, along with its allies, the tally stood at 292 – implying a return of coalition government politics in India after 10 years of single party majority. Indian equity markets fell sharply on the result day. Market's immediate negative reaction to the result outcome stemmed from concerns on the construct of the new government and whether that would influence the economic policies and priorities of the new government.

### Our few thoughts:

1. NDA's lower number of seats seems more of a function of state specific political factors rather than national level economic policies. There is no clear sign of pan-India anti-incumbency, especially on the economic front – validated by clean sweep in some states and lower win rate in some states.
2. Whether the direction of economic policies needs to change? It may not, but we will know for sure only after the budget in July.
3. BJP is unlikely to face any significant hurdles in policy matters given that it is the largest member of the alliance. In the process, managing the alliance partners with a consultative and consensus approach would be key to maintain stability for the new government in the making.
4. Stable government and continuity of economic policies – basically status quo can help maintain and improve investment sentiment and create a strong platform for further acceleration.
5. On the positive side, the risk of any aggressive measures like change in capital gain taxes may also not happen.
6. On macro front – fiscal consolidation is expected to stay on course. While the overall focus on infrastructure and capex could continue, some fiscal room may need to be made to accommodate certain populist measures – keeping an eye on the upcoming state election during the year. This would mean a boost to the consumption led growth in addition to a purely infra driven acceleration witnessed in the last couple of years.

### Our market view:

We expect volatility in markets and a likely increase in risk perception on India, which can possibly have an impact on valuation multiples, at least in the near term given that Indian valuations are at premium to its own historic average. The key catalysts for market will be the first 100 days agenda/major policy announcements, and most importantly FY24-25 full year budget in July. There have been minimal personnel changes in PM Modi's new cabinet, which suggests likely continuity of economic and fiscal policies in the new government's policy direction. We do not expect any risk to macro set-up, which continues to remain robust. Policies and structural economic reforms undertaken in the past has laid a strong foundation and will act as an enabler to achieve 6-7% GDP growth over the medium term. Private capex is expected to pick up – as corporates gain more confidence on political stability, continuity of economic reforms in due course and improvement in demand trend. Corporate earnings growth is expected to mirror the robust economic growth outlook. We remain constructive on markets and believe that India's long-term attractiveness remains intact. We would recommend investors to use any drawdown to initiate/increase exposure from medium to long term perspective.

Source: Election Commission of India

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## Our Recommendations

Market Cap Specific	Hybrid Solutions	Thematic & Sectoral Solutions	Diversified across Market Cap
Aditya Birla Sun Life Frontline Equity Fund	Aditya Birla Sun Life Balanced Advantage Fund	Aditya Birla Sun Life India GenNext Fund	Aditya Birla Sun Life Multi-Cap Fund
Aditya Birla Sun Life Mid Cap Fund	Aditya Birla Sun Life Multi Asset Allocation Fund	Aditya Birla Sun Life Digital India Fund	Aditya Birla Sun Life Flexi Cap Fund
Aditya Birla Sun Life Small Cap Fund			

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.

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