ASIA

Indian Election Result: BJP Win Paves the Way for Infrastructure Boost

May 23, 2019

Sukumar Rajah
Senior Managing Director, Director of Portfolio Management,
Franklin Templeton Emerging Markets Equity

The Bharatiya Janata Party's (BJP's) win in the Indian elections could pave the way for a boost in infrastructure spending, according to Franklin Templeton Emerging Markets Equity's Sukumar Rajah. He explains the implications for investors.

After months on the campaign trail, Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) has emerged victorious from the country's general election to secure his second term as prime minister. Once again, the BJP secured an outright majority in India's parliament.

We expect positive market reaction to be mostly limited, as the BJP victory seemed largely priced in. Although we believe some obstacles remain on the pathway to the economic reforms Modi has promised, we think he'll push for policy continuity with his initiatives.

We expect the BJP to work towards its election promises once the dust settles in New Delhi. Modi's manifesto included a US$1.44 trillion boost to infrastructure, and a US$10.5 billion cash injection into the farming industry. He pledged to double farmers' incomes by 2022, in response to growing anger from farmers over low crop prices, which had a detrimental impact.

He also unveiled plans to continue to simplify the Goods and Services Tax (GST), remove certain products from the list of items subject to the higher tax rate of 28%, and to increase investment in infrastructure, which could introduce new jobs. In our view, policies implemented during his last administration are established enough to withstand any potential short-term challenges. We think this election result could help the economy remain on a path of fiscal stability.

Ignore the Election Noise

We think investors should focus on fundamentals and improving earnings—elements that lead us to be optimistic about India's long-term prospects.

A global slowdown in growth could affect aspects of the Indian economy that are more dependent on exports. That being said, rising domestic consumption has tilted India's economy to be less reliant on the export sector. We think it's likely India will be less vulnerable to adverse global factors.

Fundamentals such as favorable demographics, infrastructure investment, urban consumption growth and increasing income levels all continue to drive Indian growth.

Infrastructure Push to Continue

Many of the policies Modi put in place since he came to power in 2014 have underpinned India's economic growth, and we expect the infrastructure thrust to continue. Many of the initiatives are at the state level, where we've seen resources drive Modi's ambitious infrastructure program, particularly for transport such as roads, railways, waterways and airports.

Modi's infrastructure push to improve water management will also provide a critical step in developing several cities. It involves installing infrastructure that can create hydropower from large dams and provide reliable irrigation for land.

We also see signs that could lead to an increase in corporate investment through rising capacity utilization, which indicates demand in the economy. Higher capacity typically leads to company expansions to meet increasing demand.

An increasing number of foreign companies are either looking to, or have increased, their manufacturing capabilities in India. This is partially as a result of Modi's "Make in India" initiative, but also a way to diversify supply chains away from trade concerns over Chinese-manufactured products. More demand for loans should bolster some banks, particularly as the financial services sector is recovering from a period of bad loans and excessive leverage.

A Supportive Environment for Indian Equities

Over the last few years, we've seen a structural shift in how households view savings and investment. Many have been moving away from reliance on physical assets such as gold and properly alone.

We've seen more inflows into domestic equities as a direct reflection of this shift. We don't expect this to continue at a rapid pace, but think more individuals will continue to embrace assets outside of gold and real estate as we see more education about finance and investing.

In addition, a growing middle-class population has more disposable income, and there is greater access to financial products. We think the financialization of savings could foster a supportive environment for domestic Indian equities.

We continue to see structural opportunities beyond consumption growth and infrastructure upgrades. We've also seen a shake-up in major sectors such as telecommunications after a mass consolidation left smaller companies with no choice but to either merge or exit the industry. The same has also happened with major cement companies, creating just a handful of large players in the market. We think the reach and size of these private players could help with company margins and boost these particular domestic stocks.

Over the last five years, Modi has transformed India's landscape. As Modi enters another term, we'd expect to see a continuation of India's development as one of the world's fastest-growing emerging-market economies.

This commentary reflects the analysis and opinions of the authors as of May 23, 2019, and may differ from the opinions of other portfolio managers, investment teams or platforms at Franklin Templeton. Because market and economic conditions are subject to rapid change, the analysis and opinions provided are valid only as of May 23, 2019, and may change without notice. Statements of fact are from sources considered reliable, but no representation or warranty is made as to their completeness or accuracy.

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice.

Factual statements are taken from sources considered reliable, but have not been independently verified for completeness or accuracy. These opinions may not be relied upon as investment advice or as an offer for any particular security. ***Past performance does not guarantee future results.***

Data from third-party sources may have been used in the preparation of this material and Franklin Templeton Investments ("FT") has not independently verified, validated or audited such data. FT accepts no liability whatsoever for any loss arising from use of this information, and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user. Products, services and information may not be available in all jurisdictions and are offered by FT affiliates and/or their distributors as local laws and regulations permit. Please consult your own professional adviser for further information on availability of products and services in your jurisdiction.

To get insights from Franklin Templeton delivered to your inbox, subscribe to the Investment Adventures in Emerging Markets blog.

For timely investing tidbits, follow us on Twitter @FTI_emerging and on LinkedIn.

What Are the Risks?

All investments involve risks, including the possible loss of principal. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

© 2018. Franklin Templeton Investments. All rights reserved.