The India Fund, Inc.

Year-to-date Commentary

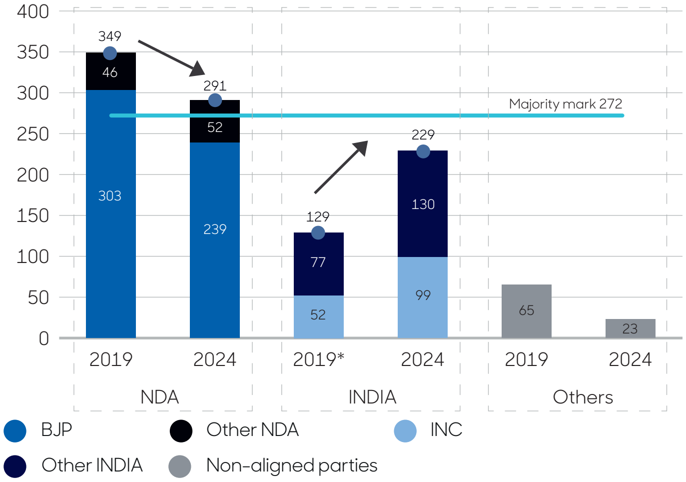
To end June 2024

2024 Indian general election – desk view

What happened

- Prime Minister Narendra and his Bharatiya Janata Party (BJP) failed to secure a single-party majority in the 543-seat lower house of parliament
- The BJP-led National Democratic Alliance has won a narrow majority and will proceed to form a government, barring any unexpected shifts in alliance
- BJP's bargaining power within its alliance is likely to be reduced, with a possibility of ministries reshuffling and some of them being given to the non-BJP leaders
- The focus will now shift towards cabinet formation and the allocation of capital in FY25 budget – such as towards populist measures – will be watched

Seats in Lok Sabha (lower house of parliament): Majority mark of 272 out of 543



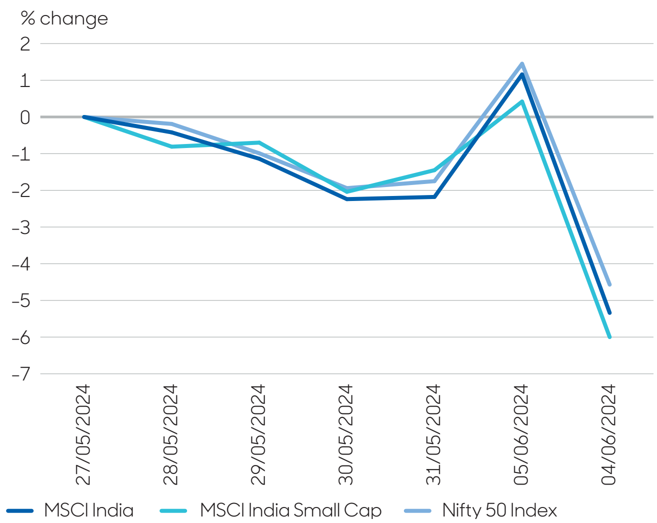
Source: Citi Research, June 2024.

What does this mean for policy agenda?

- BJP's broad agenda around infrastructure, manufacturing, and technology is likely to continue – these would continue to create structural tailwinds for the economy
- New big block reforms are unlikely to come from a coalition government, but the economy will continue to benefit from existing structural reforms that are already in place, such as GST, Real Estate Regulatory Authority, bankruptcy laws etc
- We could see reforms favouring populist agendas take precedence – such as more affordable housing, more LPG connections, among others
- Talks on loan waivers, minority quota could also come back to the forefront while capex measures could see some moderation; job creation and the rural economy could also take the spotlight
- Given the higher RBI dividend paid to central government (Rs. 2.1 trillion in FY24 vs. Rs. 872 billion in FY23) and narrower fiscal deficit (~5.6% of GDP), there is fiscal room available for the government for the current fiscal year FY25

How did markets react?

- Indian equities initially rose after the polls closed over the weekend as two major exit polls predicted a sweeping victory for the BJP; the market sold off across the board on 4 June once it became apparent that the margin of victory was much narrower than anticipated
- Volatility is likely to stay in the coming weeks as the NDA attempts to form a government
- A likely increase in risk perception could affect multiples near term and put pressure on the small-and-mid cap segment that has broadly been on a tear since last year
- Potential increase in foreign participation on the back of easing valuation could keep markets more volatile for longer
- Foreign investors were net sellers in May



Source: Bloomberg, June 2024.

Portfolio impact

- IFN's quality focus and positioning in several defensive sectors such as IT Services, Consumer Staples, and, to some extent, Banking, and Insurance, should provide resilience through the current turbulence.
- **Capex plays:** the funds have benefitted significantly this year from positioning around infrastructure and industrial capex-related themes, which have been key growth engines in the Indian economy. Whilst we expect this to continue, particularly in the power capex area given ongoing power deficits and growth in renewable energy, there may be a recalibration of capex and order flow that is likely to weigh on sentiment towards these stocks in the near term. We will be actively monitoring how the fundamentals track here
- **Real estate and real estate proxies:** the funds have a sizeable exposure to the broader real estate story, where our view on the positive direction of the cycle remains unchanged by the outcome of the election. We do not anticipate a material impact on our holdings a nd would expect policy to continue to be aimed towards more affordable housing
- **Consumption:** we might see a coalition government lean towards more populist measures that had been largely absent in the previous term. Whilst we can debate the merits of this, it could prove to be a tailwind for many of our consumer holdings. Consumer Staples names could see some re-rating, together with other sectors and stocks focused on mass market consumption. Premiumisation as a trend is also expected to continue to do well
- **PSUs (India's version of state-owned enterprises):** these are likely to face challenges, but we are positioned lightly in this segment
- Our conviction in our India holdings remains strong, re-enforced by recent trips and meetings with company management teams; valuation dips could present buying opportunities

Our long-term view on India

- Still the world's fastest-growing major economy, underpinned by a significant transformation in physical and digital infrastructure
- Macro backdrop is resilient: real estate boom, improving consumer sentiment, inflation at manageable levels, robust infrastructure capex cycle, including early signs of a private capex revival
- There is scope for consumption to pick up in India, especially in the rural economy, which is still recovering from Covid – a tailwind for our large cap consumer names
- Inherent strength in the economy can be seen in flow down of nominal GDP growth in earnings growth, supporting rich valuations
- On that note, India's valuation premium has been on the back of inherent strength in the economy, but also on the political stability/continuity which, in the current scheme of things, might have some sentiment impact in the interim
- Benefits from infrastructure capex over the last few years are starting to come through: an extensive road/railway/port network that has massively reduced the cost of doing business in India
- Interest rate cycle appears to have peaked
- Demographic dividends from a large population with growing disposable income while corporate India is in healthy shape with corporate earnings estimated at >20% over the medium term (source: Jefferies, June 2024)

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