

## How are we positioning our portfolio for election results ?

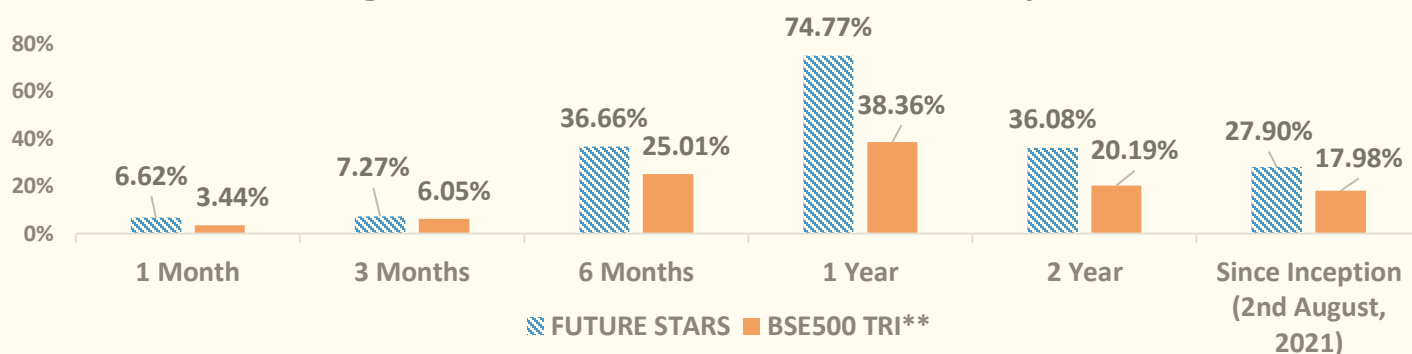
For an emerging market country like India that depends heavily on reforms, transformation, and momentum - governments play an important role in economic growth and hence in stock market performance. Not surprisingly, the once in five year spectacle of general elections that is held in the scorching Indian summer is watched closely by market participants.

As we write this investor letter, we are just 4 days away from the 7<sup>th</sup> (and, the last) phase of voting that is set to take place on 1<sup>st</sup> June, 2024. The results of the general elections should be announced on 4<sup>th</sup> June, 2024. Interestingly, exit polls results will likely be reported after the last leg of polling on the evening of Saturday, 1<sup>st</sup> June, 2024.

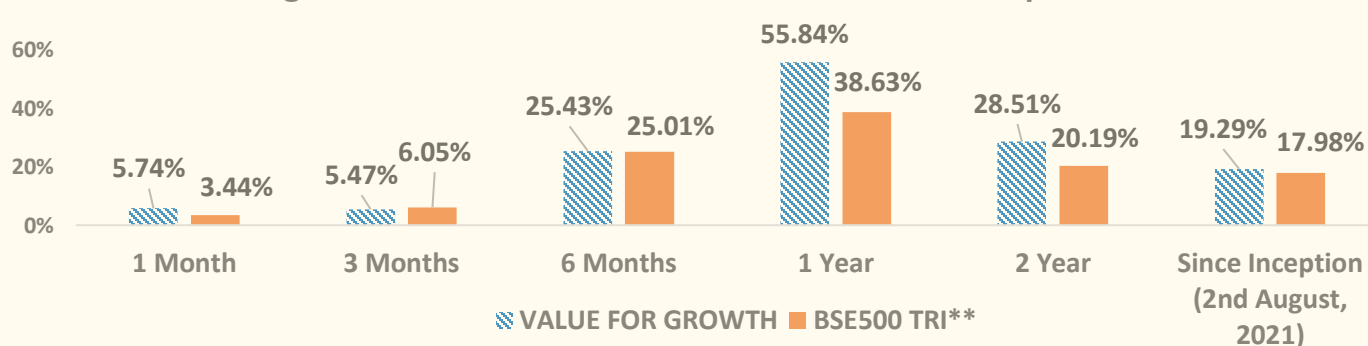
We are practically fully invested and remain fairly constructive on Indian equities from a 2-3 year and longer perspective. Over shorter term, we assign a relatively low probability to volatility post election results but are prepared to ride it out.

## Our portfolio performance as on 30<sup>th</sup> April, 2024

**Magadh Future Stars Portfolio Performance: April'24\***



**Magadh Value for Growth Portfolio Performance: April'24\***



*\*Date is for the period Aug 02, 2021 till April 30, 2024. Performance is as TWRR - Time Weighted Rate of Return. Data for more than one year has been annualized. Past performance is no guarantee of future returns. Performance data provided herein is not verified by SEBI. \*\*TRI - Total Return Index.*

## Below we summarize our thought process regarding this event –

We believe that over long term India's economic growth trajectory may not differ significantly irrespective of the party in power as long as some party with extremely socialistic action plan does not storm into power. For the latter event, we assign a close to nil possibility since both the groups ( NDA as well as INDIA) that have a realistic chance of coming to power are largely centrist in their approach. At the same time, investor sentiments, and hence market valuations, may swing on/after 4<sup>th</sup> June but these should be shortlived. The

possibilities on the 4<sup>th</sup> June can be clubbed into two scenarios ( and a couple of sub-scenarios) as below. These scenarios are also presented in the table on the next page. .

- 1) **Scenario 1 – NDA wins** - Going by a combination of opinion polls conducted before the elections started, and our perception of the developments in last 6 weeks we believe that there is a high probability of the current government being returned to power. In this case India's stock markets will likely go back to their earlier trajectory with most investors bringing back their focus on topics like market valuations, final general budget for FY25, reform process, corporate earnings, macroeconomic trends, and bottom up stock analysis. At the same time with one risk factor put to rest, markets may get some positive bias over medium term.
- 2) **Scenario 2 – NDA loses** - As of now there is an overwhelming expectation in the markets that NDA is coming back for a third term in the government. Most serious psephologists, market observers, and investors seem to be of the view that NDA is likely to come back to power even though the expectation of number of seats won are in a wide range. Hence it is not difficult to conclude that the market may react wildly if NDA fails to form the government. Investors who had witnessed the aftermath of 2004 election results ( Nifty 50 had dipped more than 15% over two days) would know what we mean here. However we believe it is highly likely that the market recovers in a couple of quarters (if not months) due to the reasons listed in the discussion above. Hence for a long term investor – who can take some sharp - even if short lived, dent on his portfolio, even this scenario may not be too difficult to navigate.
- 3) **Scenario 1 A, 1B, and more** – Make no mistake, we shall be glued on to newschannels on 4<sup>th</sup> June morning. A change of guard at the central government is generally taken negatively by stocks markets in short term. At the same time, in our view the fair value of broader markets will not move much with change in number of seats for the NDA. Thus, if NDA comes back to power say, with 375 seats ( or, just with 275 seats) there is no reason for long term investors to be euphoric ( or jittery) even if markets erupt into jubiliations (or a tailspin). Market gyrations, if any, in such a scenario will be fairly short lived. The context is that the next leg of reforms depend less on just the strength in the Lok Sabha ( as long as majority is there which obviously will be the case for a government to be formed) and more on the packaging of the reforms, and the communication of the latter. To take a hypothetical example, we believe that even if the NDA government had say, 375 seats in the Lok Sabha it would still have rolled back the agriculture laws in face of sustained street protests as it did eventually in November, 2021. On the other hand, reforms like GST and IBC were pushed through with just 335 seats for the NDA in the Lok Sabha.

As per our process we do not feel the need to do anything here to tinker with our portfolio. We are practically fully invested. We are prepared to take some short lived dent if the latter were to play out even though that is not what we are building into our base case. Similarly, we do not see any point in waiting for a market correction to deploy cash.

As the legendary investor Peter Lynch quipped once “ Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost in the corrections themselves”.

### Summary Of Our Thought Process

	Which block forms the government	No of seats for NDA	Probability as seen by us	How can market react ( our view)	How do we intend to respond
Scenario 1	NDA	More than 250	75%-80%		No action
Scenario 1 A	NDA	Slightly more than 272		Slightly negative trend over short term , no change in trajectory over long term	No action
Scenario 1 B	NDA	Significantly more than 272		Slightly positive trend over short term , no change in trajectory over long term	No action
Scenario 2	INDIA	Less than 250	20%-25%	Fairly negatively over say, 1- 3 months ; not much over long term	No action

Date : 28/05/2024