

# India Market Strategy

## How important are the Bihar elections?

### Equity Strategy

India

#### Bihar – Another election, more chatter. How important is it really?

State elections in India happen every year – India is comprised of 30 states with different state assembly term cycles. And state elections are usually labelled as "important" or "critical", especially by the media, adding to the buzz and creating concern around the event amongst investors. In general, we believe these are not as significant as the chatter around assembly elections would suggest. Bihar polling starts on 12th Oct and results will be declared on 8th Nov. It is a bit more important than other state elections, but still not critical or defining in terms of potential impact on the Government's policy direction, in our view.

#### Opinion polls show tight race, though market seems to expect a BJP win

Opinion polls for Bihar suggest a tight race between the BJP (ruling party forming Central Government, led by Mr Modi) alliance and the JDU (the incumbent in Bihar) alliance, though projections are mixed, with no clear trend across polls. Our discussions with investors suggest market expectations of a BJP win are building up and this is even being looked at as a big catalyst ahead. We believe the outcome is unlikely to alter the political economy stance of the Modi government. A loss for the BJP seems not to be discounted and might prove to be a negative for sentiment short-term.

#### State elections haven't and won't change policy direction. Affect GST timing

The Government will likely stay committed to its policy/reform agenda – it did not give up on fiscal consolidation or its investment-driven policy for growth revival, despite two consecutive years of weak monsoons and the impending Bihar elections. It has kept MSP (minimum support price) hikes muted and managed to keep food inflation under control with appropriate food-management policies. The Bihar election results will play a key role in the functioning of the Winter Session of Parliament, which will start soon after. If BJP loses Bihar, the opposition may use the momentum to stall the Winter Session. This is relevant for GST reform. The Government possibly has the numbers for passing GST in Parliament, since most parties ex Congress are on board, but the Rajya Sabha (where the BJP is in minority) needs to function. A BJP win in Bihar could ensure the Rajya Sabha's functioning.

#### Growth recovery gradual. Lower interest rates a medium-term positive

We believe policymakers' intent to revive growth via investment, not consumption, is appropriate for a sustainable growth recovery, but it does take longer; we expect FY16 real GDP growth and earnings to disappoint. A positive surprise from lower inflation would drive further policy rate cuts of 25/50bps in FY16/17; lower interest rates should aid a mild growth acceleration in FY17. We maintain a Nifty end-2015 target of 8,200, a positive medium-term view, and OW India in the relative context of EM/APAC.

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**Figure 1: Bihar opinion polls – seat share**

Party Alliance	ABP - Neilson				India Today - Cicero		Lokniti - CSDS (Indian Express)	CNN-IBN-Axis My India		Zee - News		Info Elections - Leadtech				Times Now - C Voter
	Oct-15	Sep-15	Jul-15	Apr-May'15	Oct-15	Sep-15	Oct-15	Oct-15	Oct-15	Oct-15	Sep-15	Oct-15	Aug-15	Jul-15	May-15	Sep-15
BJP+	128	118	112	124	111	125	102	87-103	147	140	168	180	182	154		117
JDU+	112	122	129	114	122	106	92	129-145	64	70	73	59	56	79		112
Others	3	3	2	5	10	12	49	14-Aug	32	33	2	4	5	10		14

Note: BJP+ refers to alliance of BJP, LP, HAM and RLSP; and JDU+ refers to alliance of JDU, RJD and INC; Total seats = 243; Source: Infoelections.com, ABP News, Leadtech, India Today, Times of India, Indian Express, IBN Live, Zee News

**Figure 2: Bihar opinion polls – vote share**

Party Alliance	ABP - Neilson	Lokniti-CSDS (Indian Express)	CNN-IBN-Axis My India	Zee News		Info Elections - Leadtech				Times Now - C Voter
	Sep-15	Oct-15	Oct-15	Oct-15	Sep-15	Oct-15	Aug-15	Jul-15	May-15	Sep-15
BJP+	43%	42%	38%	54%	51%	70%	73%	75%	63%	43%
JD(U)+	39%	38%	46%	40%	43%	29%	24%	23%	32%	42%
Others	18%	20%	16%	6%	7%	1%	3%	2%	5%	15%

Note: BJP+ refers to alliance of BJP, LJP, HAM and RLSP; and JD(U)+ refers to alliance of JD(U), RJD and INC; Source: Infoelections.com, ABP News, Leadtech, India Today, Times of India, Indian Express, IBN Live, Zee News

**Figure 3: Seats and vote share for past elections in Bihar**

	2014 Lok Sabha		2010 assembly		2009 Lok Sabha		2005 assembly		2004 Lok Sabha	
	Seats won	Vote share	Seats won	Vote share	Seats won	Vote share	Seats won	Vote share	Seats won	Vote share
Janata Dal (United) (JD(U))	2	16.0%	115	22.6%	20	24.0%	88	20.5%	6	22.4%
Bharatiya Janata Party (BJP)	22	29.9%	91	16.5%	12	13.9%	55	15.7%	5	14.6%
Rashtriya Janata Dal (RJD)	4	20.5%	22	18.8%	4	19.3%	54	23.5%	22	30.7%
Independent (IND)	0	4.3%	6	13.2%	2	12.1%	10	8.8%	0	6.6%
Indian National Congress (INC)	2	8.6%	4	8.4%	2	10.3%	9	6.1%	3	4.5%
Lok Jan Shakti Party (LJP)	6	6.5%	3	6.7%	0	-	10	11.1%	4	8.2%
Bahujan Samaj Party (BSP)	0	2.2%	0	3.2%	0	-	4	4.2%	0	3.6%
Communist Party of India (CPI)	0	1.2%	1	1.7%	0	-	3	2.1%	0	1.2%
Jharkhand Mukti Morcha (JMM)	0	-	1	0.6%	0	-	-	-	0	-
Samata Party (SAP)	0	-	0	0.1%	0	-	0	0.1%	0	-
Others	4	-	0	8.2%	0	-	10	8.1%	0	-
<b>Total</b>	<b>40</b>		<b>243</b>		<b>40</b>		<b>243</b>		<b>40</b>	

Source: Election Commission of India

**Figure 4: BJP/NDA has a minority in the Rajya Sabha**

Party	Lok Sabha seats	% of total LS seats	Rajya Sabha seats	% of total RS seats
BJP	281	51.7%	48	19.7%
NDA (BJP + allies)	338	62.2%	62	25.4%
Congress	44	8.1%	67	27.5%
<b>Total of House</b>	<b>542</b>		<b>244</b>	

Note: 272/123 seats minimum required for majority in Lok Sabha/Rajya Sabha; Source: Lok Sabha, Rajya Sabha

*We would like to thank Devendra Alhat, an employee of Cognizant, for his assistance in preparing this research report. Cognizant staff provides research support services to UBS.*

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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2015.

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