Only 2 Months Left to Bet on India's Growth at Bargain Prices

Description

The Indian economy is in a dark space at the moment. After years of relentless growth and capital appreciation, India's macroeconomic story is starting to crack under the pressure of bad debts, lack of governance, and political upheaval. The ongoing dispute with Pakistan isn't helping much either. Matters could reach a boiling point in two months, when the public goes to the polls.

With 850 million eligible voters in 2019, India's elections are by far the largest democratic exercise in the world. The last election in 2014 saw the voter turnout ratio hit an all-time high – 66.7%, and this year could be no different.

If you track the price action of the **iShares India Index ETF** (TSX:XID) over the past 10 years, you'll notice that election results are a key catalyst. The index is up 70% since the 2014 election, when prime minister Narendra Modi's pro-business, pro-reform Bharatiya Janata Party (BJP) won a landslide victory and took majority control of the parliament.

However, most experts don't seem confident of a similar result this year. The incumbent BJP's economic reforms have had mixed results, while the fragmented opposition parties have come together for the first time to present a united front in the upcoming race.

At the start of 2019, the chances of a hung parliament were rising steadily just as India's economy was slowing and the stock market was plunging. The benchmark **Nifty 50** index is down 8.5% from its 52-week high, some small cap companies have lost up to 90% of their market value over the same period, and growth estimates for financial year 2019 were revised down to 7%, the slowest in five years.

Meanwhile, the benchmark index trades at a price-to-earnings (PE) ratio of 26.5. For comparison, the U.S. **S&P 500 Index** trades at 21.5 with less than half the gross domestic product (GDP) growth rate. In other words, Indian equities seem underpriced.

Meanwhile, the government's recent stance on the conflict with Pakistan has reignited nationalist fervor and improved BJP's chances. If Modi's government can be re-elected with a similar mandate as they had in 2014, investor sentiment could be turned around relatively quickly.

The government's structural reforms have already made bankruptcy proceedings more streamlined, boosted transparency and improved the country's Ease-of-Doing-Business ranking from 100 to 77 in just the past year. More structural reforms and fiscally responsible policies could help India take over the mantle of global growth engine from China over the next few decades.

With the election just two months away, investors don't have much time left to pour money into this relatively obvious growth story.

Bottom line

India's general election, the largest in the world, has always been a key catalyst for the country's capital markets, and this year's election is as unpredictable as ever. Meanwhile, the potential conflict with Pakistan and slowing GDP growth has pushed stock prices to record lows.

If the incumbent pro-business government is re-elected in May, investor sentiment and growth prospects could be flipped overnight. I believe that investors who are optimistic about India's long-term potential won't find a better time to invest than the next two months.

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