



Elections in India: Modi's Win Could Boost This Stock

Description

The largest democracy in the world concludes its months-long general election process this week. Results of the contentious battle are expected to be published on May 23, with the country's incumbent party expected to retain power.

Prime Minister Narendra Modi's Bharatiya Janata Party (translation: Indian People's Party) decisively won the last election in 2014. Their sweeping majority in the Indian parliament allowed the administration to implement a series of pro-business reforms such as the unification of the state and federal tax system and a redesign of the country's bankruptcy code.

Shortly after the administration took over, Indo-Canadian investor Prem Watsa launched an investment vehicle focused on Indian equities and private companies. Watsa's **Fairfax India Holdings** ([TSX:FIH.U](#)) may be the only pure-play bet on [India's economy](#) for Canadian retail investors.

In recent interviews, Watsa has rated Modi's five-year tenure highly and is optimistic about the country's economy should the administration retain power for another term. He pointed to India's 53-point jump in the World Bank Business Report's "Ease of Doing Business" index as an example of Modi's prowess.

"This is a testament to the unrelenting economic reforms that PM Modi has been implementing since he took office almost five years ago," Watsa told India's *Economic Times* in March.

Watsa's optimism about India's economy and confidence in its government are the underlying reasons for his investment in local Indian companies. Fairfax India has deployed over \$1.6 billion in Indian assets, including sizable stakes in the country's leading stock market owner, a specialty chemical business, an international airport in Bangalore, and one of India's largest mortgage providers.

According to the company's latest financial report, book value per share was US\$13.61 at the end of March 2019. Meanwhile, each share currently trades at just \$13.15 — a discount of 3.4%. This means investors can buy Watsa's carefully curated portfolio of Indian companies for less than they're worth marked-to-market simply by buying FIH stock.

Investors should also note that the company's book value could expand considerably by the end of the week if election results act as a catalyst for India's stock market. Mumbai's benchmark

Nifty 50 index is up 58.75% since the last election. Exit poll results, which showed Modi was in the lead, created another 5.2% boost for the market this week.

A victory for the incumbent Modi administration on Thursday could keep India on this robust growth path for the foreseeable future. Sustained wealth creation in the region will ultimately be reflected on Fairfax's bottom line.

Bottom line

Prem Watsa's carefully curated portfolio of Indian stocks is accessible through publicly listed shares in his Fairfax India Holding company. The stock currently trades below book value, while Indian investors are bracing for the final results of a tumultuous election cycle.

A win for the business-friendly incumbent administration could be the perfect catalyst for India's stock market and, in turn, the Fairfax portfolio. Although it is nearly impossible to predict political outcomes, optimistic investors seeking a growth opportunity may want to take a closer look at Fairfax India before the results are announced on Thursday.

CATEGORY

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Date

2025/07/26

Date Created

2019/05/22

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