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India shares plunge as polls show Modi's mandate slipping



Indian Prime Minister Narendra Modi's party is set to win a majority in the country's election for the third time in a row. | BLOOMBERG

REUTERS

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Indian stocks tanked the most in four years on Tuesday, as vote counting suggested Prime Minister Narendra Modi's Bharatiya Janata Party-led alliance is unlikely to win an overwhelming majority as predicted by exit polls.

Modi's bloc looked set to secure a majority in early vote counting in the general election on Tuesday, but the numbers were well short of the landslide predicted in exit polls.

The Nifty index dropped as much as 5.43% to 22,000.60 points while the BSE index fell to a low of 72,337.34 points, down 5.4% on

the day. That was the biggest fall since April 2020 and pulled stocks sharply away from records highs struck a day earlier.

"Markets have dropped as they are now pricing in the change in governance structure," said Umesh Kumar Mehta, chief investment officer at Samco Mutual Fund.

Mehta said if the National Democratic Alliance (NDA) is forced to seek support from smaller parties to form government, it may not be able to function as efficiently as it has over the last 10 years.

"If there is a fractured mandate, we think markets should be more nervous. But so long as the current leadership and the prime minister stays, the drop will not be massive," he added.

The intraday volatility on the share index rose to its highest level in 26 months.

Exit polls over the weekend had projected a big win for Modi's NDA, catapulting markets to all-time highs on Monday as investors were buoyed by expectations of sustained economic growth.

Benchmark indexes have more than tripled in value since Modi became prime minister in May 2014, as of Monday's close.

However, on Tuesday, shares of government-owned banks, infrastructure and capital goods firms that gained sharply on Monday, saw the largest falls.

Monday's rally in markets was fed by optimism over the economic outlook under a fresh Modi-led government.

The rupee dropped to as low as 83.48 against the dollar versus its previous close of 83.1425. The benchmark 10-year bond yield rose as much 12 basis points to 7.06%.

"The only thing that a lower number than 300 for NDA will do is compel a rethink for the main party on policy approach so far and

could mean policies to address K shaped recovery and hence positive for consumption sector," said Garima Kapoor, economist, Elara Capital.

Foreigners, who poured a net \$20.7 billion into Indian equities last year but had pulled back ahead of the election, are widely expected to turn buyers if the Modi alliance secures a decisive mandate.

They bought shares worth a net 68.51 billion rupees (\$824.4 million) on Monday, while domestic institutional investors purchased 19.14 billion rupees in stocks, based on provisional exchange data.

Investors expect the Modi government to continue focusing on turning the country into a manufacturing hub - a project that has courted foreign companies including Apple and Tesla to set up production as they diversify beyond China.

"India is all about infrastructure," said Steve Lawrence, chief investment officer at Balfour Capital, who manages 350 million euros (\$381.61 million) across different funds.

"It's all about infrastructure investments; roads and electricity. With the type of technology that they have, you could see a tremendous amount of growth."

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