

Morgan Stanley India Company
Private Limited+

Ridham Desai

Ridham.Desai@morganstanley.com
+91 22 6118 2222

Sheela Rathi

Sheela.Rathi@morganstanley.com
+91 22 6118 2224

Utkarsh Khandelwal

Utkarsh.Khandelwal@morganstanley.com
+91 22 6118 2226

Amruta Pabalkar

Amruta.Pabalkar@morganstanley.com
+91 22 6118 2225

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Uttar Pradesh State Elections: Too Close to Call

We hosted Dorab Sopariwala, India's leading psephologist, on a call with investors: The topics were the ongoing state elections, the likely results, and their implications for national politics. Here is a synopsis of the discussion.

UP elections – by the far the most crucial: Of the five states going to poll, Uttar Pradesh is the most important one given its sheer size. However, the results may be too close to call. No doubt the turnout has increased but seasonally adjusted (given the shift in timing to the winter months), the increase is about 5%. That said, it is hard to tell who has come to vote and hence which party may benefit. Tight fights seem to be of the order given how small vote swings seem to be affecting seat count.

A complex election and difficult result to predict:

- The Bahujan Samajwadi Party (BSP) suffers from incumbency, but Chief Minister Mayawati has tried to overcome it by aggressively churning her candidates. She has also seemingly delivered by doubling the state's domestic product in nominal terms over the past five years (real growth of around 7%, which is not necessarily a strong relative performance). Still, there could be voter fatigue due to corruption allegations.
- The Samajwadi Party (SP) has a fresh tailwind with Akhilesh Yadav and does not have the headwind of being an incumbent as it did in 2007. If the results are close, Ajit Singh's party (currently a Congress ally) could play a prominent role in government formation.
- Both the Congress and the BJP suffer from lack of local leadership and grassroots presence in the state. The reason UP elections get complicated is that it is a four-way fight, unlike most other states which are straight fights and hence easier to predict.

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Hung assembly not ruled out: It is quite possible that UP goes to President's rule if neither of the two regional parties manage to swing a majority (in excess of 203 seats) or a significant seat count (in excess of 150 seats). Both the Congress and BJP have announced that they will not support another party to form a government.

Possibility of mid-term polls: That said, such an outcome is unlikely to affect the stability of the central government. In all probability, neither the SP nor the BSP is likely to oppose the Congress at the center of key issues, since neither may want to go into national polls too quickly. Indeed, a mid-term poll is more likely if the Congress does exceptionally well in the UP polls (wins more than 100 seats – a somewhat unlikely event). Even so, given the cost of fighting elections and the uncertainty of winning, the probability of mid-term polls remains low.

Implications for the central government: If the Congress does register a strong performance – i.e, it wins more than 60-70 seats – it may be emboldened to pursue some controversial reforms. The UP elections also carry importance because they could influence the Congress' position in the Rajya Sabha (the Upper House of Parliament goes to polls in April) and presidential election in June.

Our conclusion: The market is likely to consolidate or even correct in the coming days as it prepares for some big events including the state election results, the budget and the next RBI policy. We remain focused on stock-picking as a strategy.

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Analyst Industry Views

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The Americas

1585 Broadway
New York, NY 10036-8293

United States

Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD

United Kingdom

Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008

Japan

Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon

Hong Kong

Tel: +852 2848 5200