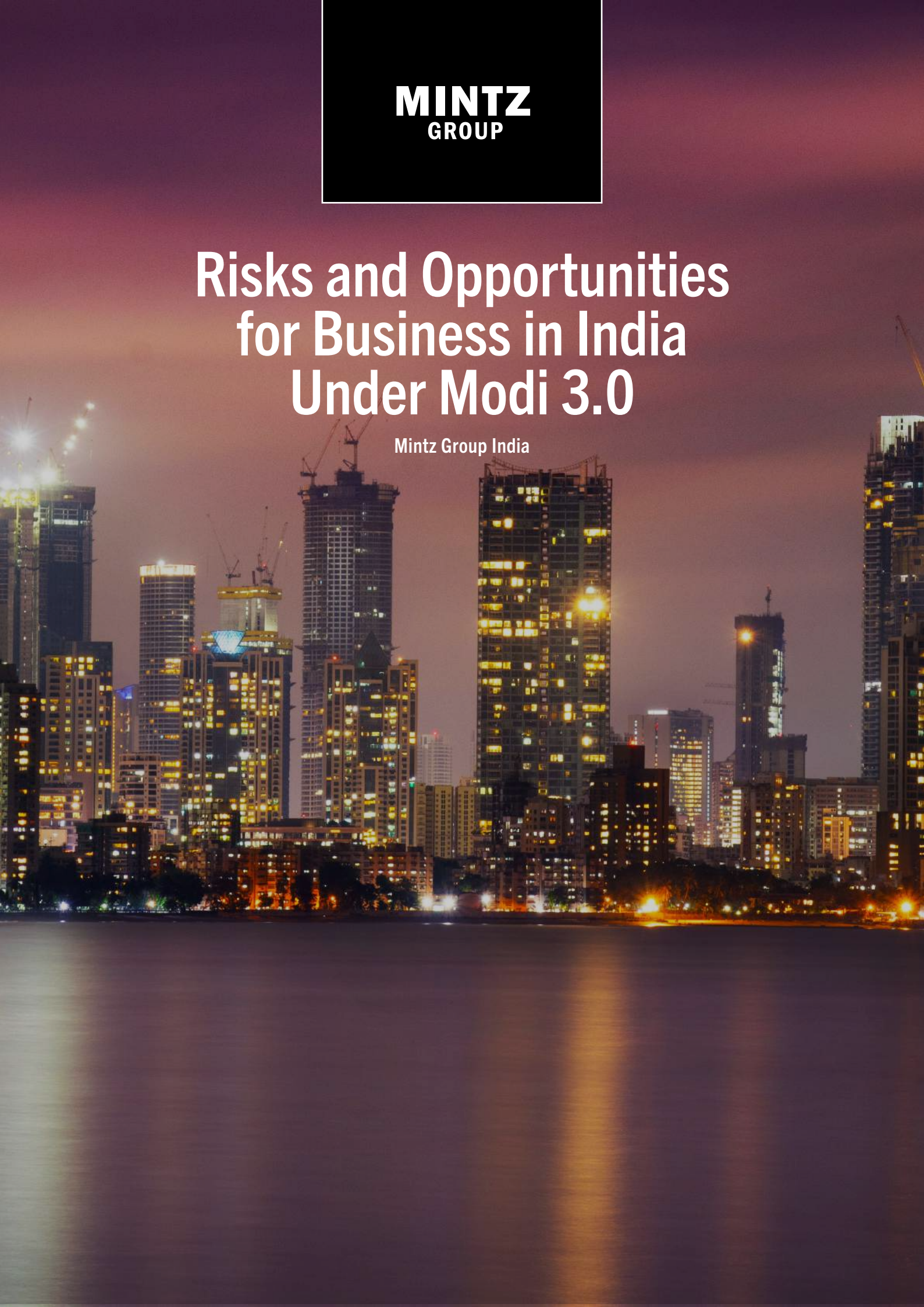


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Risks and Opportunities for Business in India Under Modi 3.0

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India has concluded its 2024 election which took place over 9 weeks and saw over 900 million voters eligible to vote 543 parliamentary candidates to its lower house of parliament, the Lok Sabha. Since 2014, the Bhartiya Janata Party (BJP) led by Prime Minister Narendra Modi, enjoyed a majority in the Lok Sabha, which allowed the federal government to implement policy directives and reforms that would have otherwise entail significant political manoeuvring. This included policies such as the Goods and Services Tax, privatisation of major public sector undertakings such as the national carrier, Air India, significant reforms in the banking sector and digitization of the economy and key aspects of governance.

Indian stock market indices, the Sensex and Nifty shot up by 3.3 percent and 3.4 percent, respectively, on June 3rd, when exit polls predicted a triumphant majority for Prime Minister Modi's BJP. The following day however stocks suffered their biggest drop since the early onslaught of Covid in 2020, as more solemn numbers poured in, with the BJP falling short of a simple majority and warranting an alliance to form a government.

The volatility in the stock market demonstrated concern among investors as the new Modi administration prepares to deal with a carefully crafted coalition government of smaller parties and heftier allies like the Janata Dal United (JDU) and the Telugu Desam Party (TDP). Whilst India is likely to grow and attract investment and strong governance and policy continuity is the way forward, certain things stand out.

- Modi's third term in office with a singular majority for the BJP alone would have been bolder on reform, especially focused on privatization and a possible

re-introduction of a watered-down version of the controversial farm laws, which would have loosened the state's grip over agricultural produce and allowed private players in the tightly controlled agriculture market. Coalition politics makes this more difficult, with key BJP allies less keen on systematic overhauls across the board, particularly in agriculture, which is most likely to impact their core voters.

- Similarly, issues such as land and labour reforms, which would have eased the path for private investments (particularly in manufacturing) are likely to face road blocks as some of its regional allies, like the JDU, would hesitate to be on board with radical reforms in these sectors. These two sectors also require support from states, who pushed back on any major reforms in the previous two tenures of the Modi government.
- Sectors such as infrastructure, manufacturing and renewable energy, which were key areas of focus during Modi's first and second terms will continue to receive significant attention from the government. Infrastructure and connectivity, through better roads, waterways, railways and airports has been a key policy agenda for Prime Minister Modi, and is unlikely to change despite challenges posed by a coalition government. Renewable energy, which was among Modi key focus in the run up to this election, will also remain a key policy item. In his post-election speech, prime minister Modi referred to renewable energy several times signalling the focus it is likely to garner.
- We anticipate that the focus on the technology sector and digital infrastructure will continue. Digital public infrastructure was among the key achievements of the previous Modi government, and is unlikely to change in the new government. However, digital governance laws and regulations which were in the pipeline in the earlier government are likely to be tweaked and altered to accommodate sentiments of alliance partners. Technology-related manufacturing, upskilling and services are likely to remain the government's key focus.

- Lastly, growth and investments are likely to proliferate in the home states of key alliance partners. In recent years, several BJP ruled states and alliance states such as Gujarat and Maharashtra received significant investments from multinational automobile and technology companies. With the emergence of a coalition with a presence across the country, investments are also likely to be directed to states such as Odisha, Karnataka and Andhra Pradesh which have remained investor friendly all along, but lacked significant support from the central government.

More importantly, India is a union of states, with a large chunk of decision-making authority and policy formulation on key issues still firmly vested in the hands of state governments. A coalition government that would require deliberation and reconciliation could also encourage greater engagement between the federal government and states, to find common ground on key policy issues and laws. India will continue to remain a favourable investment destination, notwithstanding the challenges pose by coalition politics, something that is difficult globally, and not just in India.

To conclude, a coalition government does not mean policy paralysis. Prime Minister Modi has set a template and standard for strong governance over the past decade, which is unlikely to change despite political challenges posed by a coalition government. This was reflected in the allocation of cabinet berths, which conveyed continuity and stability. Defying expectations that allies would be given key portfolios, major allies have been allocated portfolios related to agriculture, rural development and animal husbandry, with the exception of TDP. A young MP from the TDP is allotted the civil-aviation ministry, which is crucial to Modi's infrastructure and connectivity push.



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