

Markets give a thumbs up to Modi government

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Indian equities have surged to record highs during the three years of the Narendra Modi government. Since May 26, 2014, the day he was sworn in as Prime Minister, the benchmark Sensex and Nifty indices on the two major exchanges have rallied 23 per cent and 28 per cent, respectively.

The Sensex has crossed the psychological 30,000-mark; the Nifty is around 9,500. Mid-cap and small-cap stocks have outperformed the blue-chips ones. The BSE MidCap and SmallCap indices have gained 73 per cent and 71 per cent, respectively. As a result, total market capitalisation has gone up 47.5 per cent, from ₹85.2 lakh crore to ₹125.7 lakh crore in the period. Last week, India's total market cap crossed \$2 trillion for the first time. "Going by the gains in three years, the market has given a thumbs-up to the Modi regime," said U R Bhat, managing director, Dalton Capital Advisors (India). "Modi has tried to address issues that have been holding the economy back and focus on the big picture."

According to experts, the macroeconomic situation — including the Budget and trade deficits, foreign exchange reserves and inflation — has improved in three years. Steps to decentralise decision-making and delegate financial power to states, and to implement a national goods and services tax are among the key measures undertaken by the Modi government. The move to ban high-value notes to curb undisclosed money was a bold initiative. More clarity in the tax regime for foreign portfolio investors (FPIs) and amendment in tax treaties with Mauritius and Singapore were significant changes in the capital markets space.

"While there have been no big-bang announcements, the government has focused on structural reform, rather than looking at quick fixes," said Ravi Gopalakrishnan, head of equity at Canara Robeco Mutual Fund.

The journey to record highs has not been without bumps. While the benchmark indices surged about 20 per cent in the first 10 months of the government taking charge, stocks gave up gains as domestic earnings failed to show visible improvement.

Global headwinds also put brakes on the rally. A wobble in the Chinese market in mid-2015, followed by a free fall in global crude oil prices in early 2016, hit Indian equities. Britain's vote to exit from

the European Union and Donald Trump's surprise win as US President later that year were other 'black swan' events.

These three years have been characterised by bouts of selling by foreign investors, especially in the last quarter of 2016, when a surge in the dollar, a US Federal Reserve rate hike and uncertainty surrounding the impact of demonetisation prompted investors to dump Indian shares.

The good news is that domestic institutional investors (DIIs), which include mutual funds (MFs) and insurance companies, have stepped up purchases in these three years. This gives a good buffer on foreign flows, which could exit because of global factors. Historically, FPIs have been dominant market price-setters, given their size and trading patterns in India. The past three years are heralding a change as individual investors lap up equities, mainly through the MF route. Systematic investment plans of MFs are seeing net inflow of ₹4,000-5,000 crore a month.

While FPIs bought shares worth ₹1.3 lakh crore, domestic mutual funds shopped for shares worth ₹1.8 lakh crore in this period. Overall, DIIs bought shares worth ₹1.1 lakh crore.

The unprecedented rise in mid-cap and small-cap stocks, however, have raised concerns on valuations. According to Ridham Desai of Morgan Stanley, the Indian markets are attractive relative to US equities but look rich compared with other emerging markets. "The Sensex is still in a buy zone versus local bonds but mid-cap valuations look stretched," he said.

Earnings growth is not expected to substantially improve soon, with a meaningful revival more likely in FY19 than FY18, say experts. The issue of bad loans in the banking sector remains a challenge. In fact, according to a recent Ambit report, banks face large debt haircuts on large loans, where recognition of stress has been delayed over the years.

However, pockets of the economy such as consumer goods, engineering export, automobile components, automobiles and cement have done well in the three years. Infrastructure, information technology and pharmaceuticals have lagged. "Green shoots are visible in certain parts of the economy, with improving order books of companies involved with sectors such as road construction, power distribution and rural housing. Hopefully, a good monsoon will give a fillip to consumption demand as well," says Gopalakrishnan.



A STEADY RISE

Since May 26, 2014, the macroeconomic situation — including trade deficits, foreign exchange reserves and inflation — has improved. *Business Standard* takes a detailed look at the performance of the country's markets in the past three years

TOP GAINERS AND LOSERS ON BSE 500

GAINERS

	May 26, 14	May 19, 17	% chg
Caplin Point Lab	35.40	593.55	1,576.69
Indo Count Ind	14.45	194.45	1,245.67
Avanti Feeds	107.25	1,403.15	1,208.30
Minda Ind	47.15	561.25	1,090.35
8K Miles Software	49.85	585.60	1,074.72

LOSERS

	May 26, 14	May 19, 17	% chg
JP Associates	75.45	12.45	-83.50
Amtek Auto	197.05	36.60	-81.43
Unitech	28.15	5.65	-79.93
Reliance Comm	138.70	30.60	-77.94
Adani Enterprises	489.25	121.55	-75.16

SENSEX JOURNEY FROM 10K TO 30K

	From	Sensex	To	Sensex	Trading days
24-25K	May 16, '14	24,122	Jun 05, '14	25,020	14
25-26K	Jun 05, '14	25,020	Jul 07, '14	26,100	22
26-27K	Jul 07, '14	26,100	Sep 02, '14	27,019	38
27-28K	Sep 02, '14	27,019	Nov 12, '14	28,009	44
28-29K	Nov 12, '14	28,009	Jan 22, '15	29,006	50
29-30k	Jan 22, '15	29,006	Apr 26, '17	30,133	557

DISINVESTMENT



SECTORAL INDEX

Date	May 26, '14	May 19, '17	% chg
Nifty 50	7,359	9,428	28.1
S&P BSE Sensex	24,717	30,465	23.3
S&P BSE MidCap	8,485	14,644	72.6
S&P BSE SmallCap	8,924	15,227	70.6

BEST AND WORST OF THE SENSEX

GAINERS

	May 26, 14	May 19, 17	% chg
Maruti Suzuki	2,340.35	6,787.85	190.04
Asian Paints	524.5	1,122.2	113.96
HDFC Bank	798.3	1,559.95	95.41
HUL	560.7	1,007.55	79.70
HDFC	926.5	1,521.3	64.20

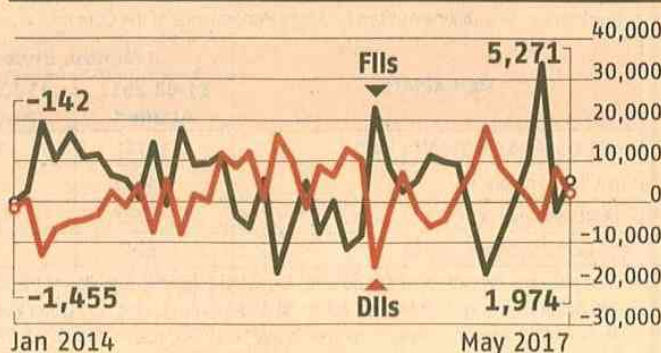
WORST PERFORMERS

Gainers	May 26, 14	May 19, 17	% chg
ONGC	270.15	180	-33.37
Coal India	400.75	277	-30.88
Tata Motors	438.6	442.95	0.99
NTPC	156.35	158.7	1.50
Wipro	504.55	519.3	2.92

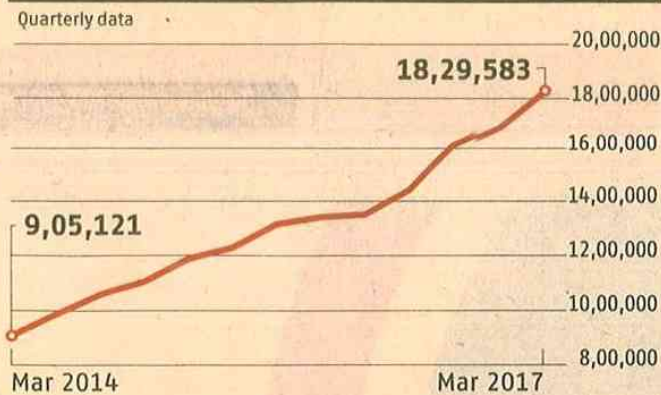
TOTAL MARKET CAP



RISING FIIs & DIIs



MUTUAL FUNDS: ASSETS UNDER MANAGEMENT



Compiled by BS Research Bureau
Sources: Capitaline, Prime Database, exchanges, Department of Investment & Public Asset Management, Bloomberg, Sebi Exchange, Amfi India