OVERVIEW

Into a bull orbit

2013 augurs well for the Indian stock markets

If one observes the behavior of the stock market over the last month, it appears that the market has come out of the woods. Stocks in India have given an astounding performance with the index increasing by nearly a thousand points. "The market had already experienced trough in the Sensex and now seems to have even absorbed all the negative factors which could have possibly affected the market adversely," says Lalit Dangi, chairman, Libord group of companies.

The government has played a major role in this upbeat mood of marketmen. It has started the growth engine and some reforms are in the offing. It seems determined now to implement as many reforms as possible before it goes for poll in the year 2014. For instance, in the last few days we have seen the entry of FDI in retail, replacement of the 55- year old Companies Act, FDI in aviation, amendment of the banking act, transfer of subsidy to direct account holders, clearance of large number of proposals by FIPB, et al. Even if a few of the reforms announced materialise, it will still be a positive sign for the stock market as it will signify that the policy paralysis syndrome is ending. India's growth story is gaining back some creditability, which is evident from the inflow into the Indian market to the tune of $22 billion.

SANJAY BORADE

Dangi: gaining back credibility

FIIs are finding the Indian stock markets better compared to the current economic and political scenario worldwide. "The market is going to bode well at the end of 2012 since a lot of interest has been evinced by not only FIIs but also some retail investors who apparently seem to believe that the gain in real estate, fixed income instruments or even gold may have reached saturation points and probably an investment in equity will give better returns than other investment alternatives. The other reason for interest in equities now is that earnings growth has set the stage to rise from 8-10 per cent in FY12-13 to about 14-15 per cent in FY13-14, creating a strong foundation for higher investment cult at the year end," reasons Dangi.

Disinvestment blues

Another very important development that needs to be mentioned about the last month is the way big ticket IPOs like Bharti Infratel, P.C. Jewelers, etc, were subscribed; and IPOs or offers for sale worth more than ₹20,000 crore are in the pipeline – showing that the stock market is on a much stronger footing. Retail investors have started taking interest not only in blue chip companies but are also looking at midcap companies. Moreover, after the successful disinvestment of NMDC, the government has further plans for disinvestments, which will fill the gap in the fiscal deficit to some extent.

The only worry for the investor is the depreciation in the Indian currency, because of which most of the gains of foreign investors gets wiped out. However, India is still undoubtedly one of the fastest growing economies in the world and a unique feature of our economy is its very strong demographics. Hence there is obviously great potential for growth.

Lastly, a very important factor that augurs for a bull market in 2013 is that Indian companies are exhibiting consistent growth in earnings this year. The annual EPS growth since 2001 is around 14 per cent for India which is basically a good EPS and the India market could be trading at around 15-15.5 times in 2013. The RBI too has treaded carefully while announcing its policy and has tried to tame inflation to the extent possible by it. These factors will help foster the market to new heights in 2013. Above all, the government would like to keep the economic barometer at a comfortable zone so that they can site this example in its election manifesto for 2014.

♦ LANCELOT JOSEPH

Sensex

Net FII investments- Equity