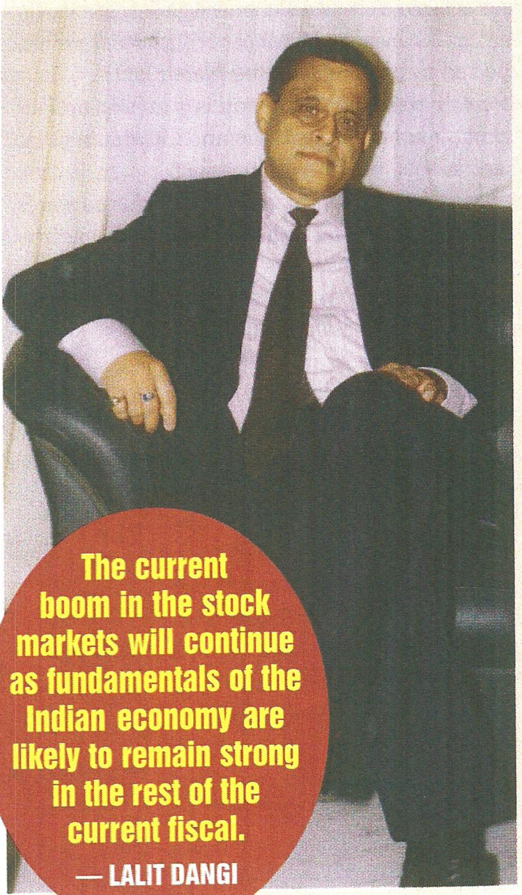
STOCK MARKET BOOM

Will it continue?



The current boom in the stock markets will continue as fundamentals of the Indian economy are likely to remain strong in the rest of the current fiscal.

— LALIT DANGI

Will the current boom in the Stock markets continue? Why? In my opinion, yes, the current boom in the stock markets will continue. The reason is that the fundamentals of the Indian economy remain strong. The Reserve Bank has revised the GDP growth target from 8 per cent to 8.5 per cent for the current fiscal in its July 27 Monetary Policy Review, saying that the domestic drivers of growth are "robust". There has been an overall improvement in the business sentiment.

In the industrial sector, manufacturing output has been rising consistently for the last 16 months as suggested by the HSBC Market purchasing Managers' Index (PIM) which rose from 57.3 in June to 57.6 in July for India. In particular, there has been a phenomenal growth in sales of the automobile industry indicating that consumers are reposing their faith in the strength of the economy to sustain current levels of income and employment. Moreover, capital expenditure of Indian companies is expected to increase in the second half of the current financial year, suggesting confidence of the Indian industry in the stability of product markets to absorb increased production. Even in agricultural sector, RBI has revised the growth forecast upwards, though marginally, from 4.0 per cent to 4.1 per cent for the current year. There are reports that the monsoons have been normal or nearly normal for most of the regions, arousing hopes of some fall in prices of farm products. As regards the corporate sector, many companies have reported good performance in the quarterly results as represented by higher sales or bottom line figures.

In nutshell, fundamentals of the Indian economy are strong and there seems to be reason to think that the current boom in the Indian stock markets is not going to continue. The economy is placed comfortably. Moreover, the Indian stock markets have demonstrated an ability to withstand jerks and shocks caused by the global developments. Experience of the last one year suggests that despite short term volatility in stock prices, the market has developed a measure of resilience and depth to bounce back from the lows and realize true valuations based on the fundamentals.

The Sensex is headed towards its best levels in the times to come. The flow of foreign funds has already crossed the $10 billion mark in the current calendar year and there is more to expect from this source. The rupee is also expected to strengthen in the months to come, which will restrict the import bill for food and oil which contribute a lot to WPI Index movements. Exports are likely to remain unaffected by the rupee's appreciation in view of the possible appreciation of the Chinese yuan.

The only worry is inflation which the government may find hard to bring below double digit levels. The recent increase in the RBI repo and reverse repo rate was well absorbed by the stock market as it had been anticipated. But if inflation persists and RBI keeps jacking up key interest rates, then this may lead to cost push inflation and hit demand. So the key lies in the ability of the government to keep inflationary forces under check. Better management of food stock will be crucial in this regard.

Given the present business and economic outlook, I expect that it will not be a surprise to see the Sexsex cross the level of 20,000 and approach the magic level of 25,000 in the current fiscal.

(Lalit Dangi is the chairman & managing director, Libord Group of Companies)