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Sensex to touch 25,000 in S. 2067

Samvat Year 2066 has given one of the best returns to the investors at large, especially in the last six months due to the massive inflows of foreign funds into stock market. The confidence level of domestic funds and financial institutions, foreign funds and investors in general has increased manyfold during the Samvat Year 2066. The government has created a friendly environment in the financial sector which has given a boost in the stock market. FII inflows, main drivers of the current rally, have already touched a record $25 billion in the current calendar year so far. They are likely to remain robust in the coming months as foreign capital in search of higher returns will find its way into the emerging markets including India.

The Indian market has performed better than most of emerging markets in the world. I believe that the current surge in the stock valuation is supported by fundamentals which can be judged from the quarterly results being published by the corporates. Barring one or two, almost all companies are giving good guidance notes for the next year. The market is definitely poised for a wonderful rise in the next year, though there may be temporary jerks now and then. In fact, we expect a minor correction around November / December due to profit booking or some negative data on the economy.

The Sensex has been stuck in a trading range. In the short term, we expect the markets to break out of the range of 19000 - 20000 and touch 25000 by the end of Samvat Year 2067 on back of strong growth at home and positive global environment. The Indian economy is likely to grow by 8.5 per cent in the current fiscal. The fresh quantitative expansion (QE2) planned by the US will lead to greater inflows of foreign capital into India. Once GDP starts accelerating, analysts will start upgrading earnings forecast. The EPS of the Sensex scrips is expected to be around 1200 and with a price/ earning ratio of 22, the market may go beyond 24000 to 25000 by next Diwali.

The market is going to be very good for good companies in pharmaceuticals, banking, auto and hospitality industries. ■

the April-June quarter should dispel any doubts about the durability of the economic recovery. Besides, the fact that GDP growth is being driven by industry, that grew 10.6 per cent till August, should augur well for revenue mobilisation and the fiscal health of the government. On agricultural front, a good monsoon and kharif crop will provide support to the growth number. As the cliché goes, if the current growth momentum is maintained, then the 8.5 per cent target for the year looks attainable.

Thus, the overall picture of the economy on the eve of the new year gives a cause for optimism though there are challenges to contend with. If the positive trends continue, the Sensex is likely to scale new heights in Samvat Year 2067.

Retail investors, however, would do well to keep two caveats in mind before they decide to plunge into the market with their hard-earned money.

First, there are some indications that the market is now fully priced, if not over-priced. The current valuation of the Sensex, at 23.87 times earnings, is already close to its peak valuation of early 2008. It is much higher than a P/E multiple of 14.63 enjoyed by the Dow Jones Industrial Average and is also slightly optimistic given the slowdown in corporate earnings over the preceding quarter and the likely impact of a further tightening of policy rates in the coming quarters. Indian stock market has outperformed its global counterparts in recent weeks. Mid-cap and small-cap counters are turning hyperactive, indicating that clever operators and market manipulators are playing their familiar games to make a fast buck.

Secondly, even in a buoyant market, not all stocks have the same upside potential. It is important to identify sectors, industries and companies which are more likely to outperform the index rather than blindly follow tips, often circulated by interested brokers with the sole intention of manipulating prices of select scrips.

Here are some of the sectors which showed a sturdy recovery in the just-ending year and hold out a promise of decent growth in the coming year.

Automobiles

Perhaps the most remarkable turnaround in the economy has been achieved by the automobile sector. There were 50 new launches this year which shows the robustness of the recovery. The days when car dealers offered all sorts of incentives to push sales seem a distant memory. Eight years ago, India was ranked 15th in the world in terms of industry volumes; it has since moved up to the seventh