RETREAT OF INDIAN EQUITY MARKET- A Case Study

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Abstract:

The securities market has two inseparable components namely primary market and secondary market, where primary market provides fresh capital and secondary market provides marketability for the shares that are being offered through the primary market route. Apart from this, it indicates how securities market is functioning. This study attempts to enlighten the performance of two important equity stock indices, viz, BSE S&P SENSEX and CNX NIFTY and various factors that influence these two indices.

Key Words: CNX, S&P, Marketability, Inseparable, Enlighten.

Introduction:

A stock market index is a representative of the group of stocks across the sectors of the market. An index is used to provide information about the price movements of the financial or any other products. This article focuses on both the bench mark indices of the nation namely S&P BSE SENSEX and CNX NIFTY. BSE Sensex comprises of 30 stocks, where as NSE index contains 50 stocks. A bench mark index is used for a variety of purposes, like benchmarking, fund's portfolio and index derivatives.

Characteristics of the broad indices:

CNX NIFTY [Indicator of NSE]

Methodology	Free float market capitalization
No of stocks	50
Launch date	01-04-1996
Base value	1000
Base Date	03-11-1995

Sources: NSE

BSE SENSEX [Indicator of BSE]

Methodology	Free float market capitalization
No of stocks	30
Launch date	01-01-1986
Base value	100
Base year	1978-1979

Sources: BSE

Objectives of the study:

To find out the returns of the Sensex and Nifty during the study period.

To indentify the factors that influenced the indices during the select period.

Scope of the study:

The study covers the performance of two bench mark indices of BSE and NSE i.e. S&P BSE Sensex and CNX Nifty during the period of the first Quarter of FY 2015-2016.

Period of the study:

The period of the present study is Q1 of FY 2015 [April-June].

Significance of the study:

This period has been selected, owing to the fact that markets have experienced huge volatility after reaching the life time peak of 30, 024 points on March 04 2015.

Limitations of the study:

The study period is confined to the period from April 2015-30th June 2015 only, and for analysis purpose, data is gathered only from stock exchanges and print media.

Sources of data and Analysis:

The study is conducted based on secondary data. For analysis purpose, I have used basic statistical tools such as Bar Graphs, and Tables.

Data Analysis and Interpretation:

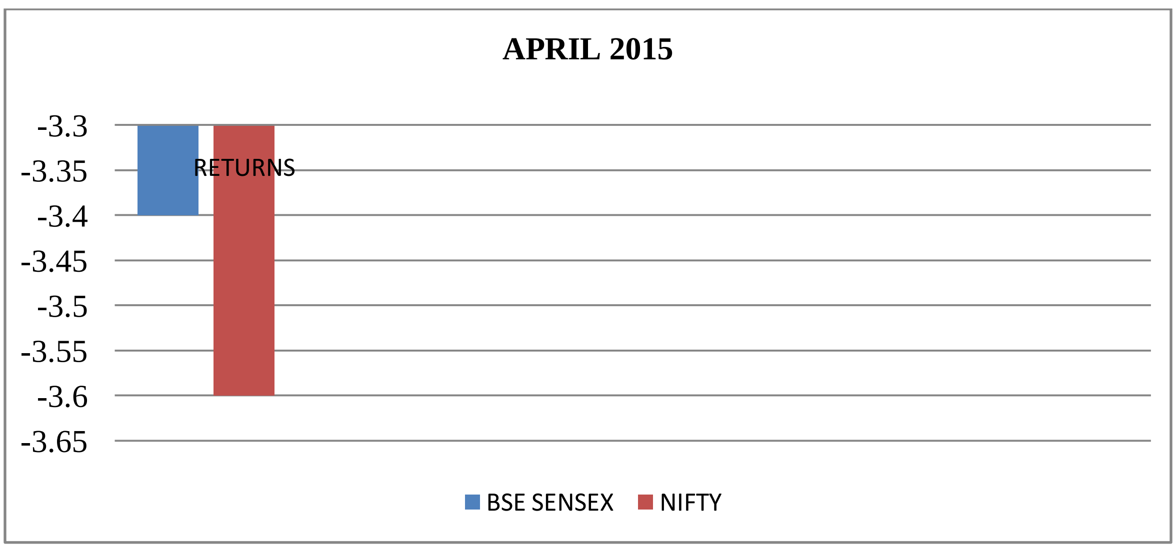
PERFORMANCE OF S&P BSE SENSEX AND CNX NIFTY FOR THE MONTH OF APRIL 2015

Table:-1

INDEX	MARCH 31ST(CLOSE)	APRIL30TH(CLOSE)	CHANGE (IN POINTS)
BSE SENSEX	27957.5	27011.3	-946.2
CNX NIFTY	8491	8181.5	-309.5

Source: - BSE, NSE

Graph: - 1



During the month of April 2015, factors like disappointing corporate results, retrospective tax worries, delay in passage of crucial bills in the central legislature and other macro data, dragged the indices down to lower levels. Owing to this S&P BSE Sensex and CNX Nifty gave negative returns of 3.4 %, 3.6% respectively.

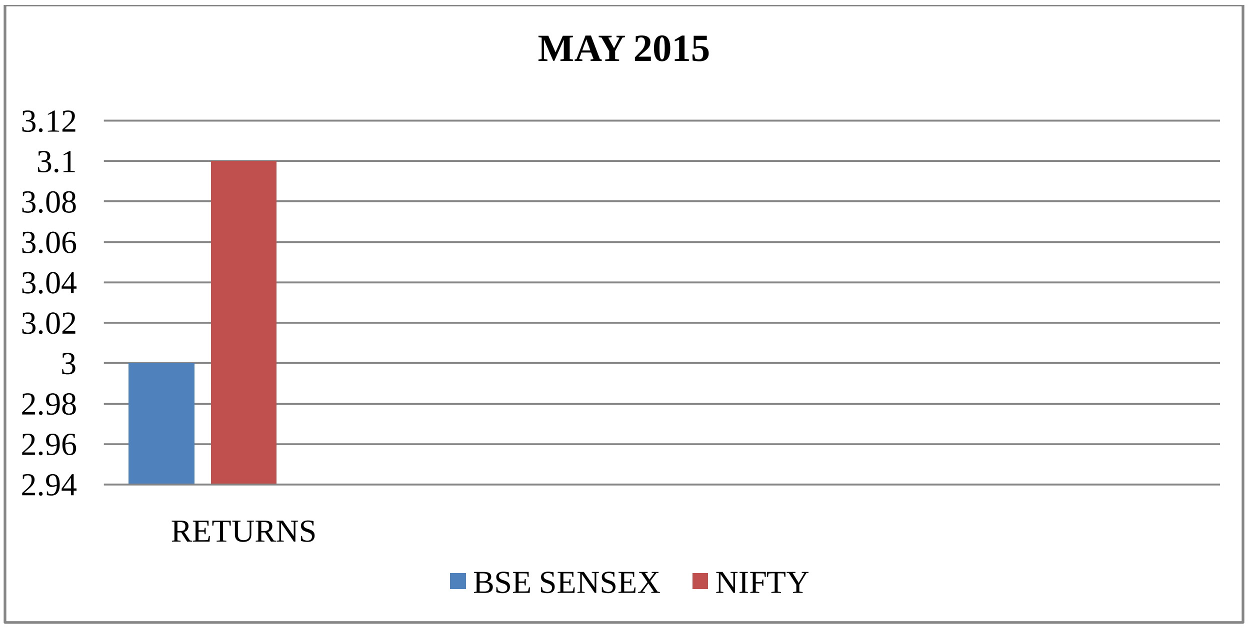
PERFORMANCE OF S&P BSE SENSEX AND CNX NIFTY FOR THE MONTH OF MAY 2015

Table:-2

INDEX	APRIL 30ST(CLOSE)	MAY 29TH(CLOSE)	CHANGE (IN POINTS)
BSE SENSEX	27011.3	27828.4	817.1
CNX NIFTY	8181.5	8433.7	252.2

Source: - BSE, NSE

Graph: - 2



For the month of May 2015, positive factors like assurance by the government on retrospective tax worries, timely on set of monsoons, low retail inflation numbers and rate cut by RBI, influenced the indices to surge forward to give positive returns for S&P BSE Sensex and CNX Nifty of 3.00 %, 3.1 % respectively.

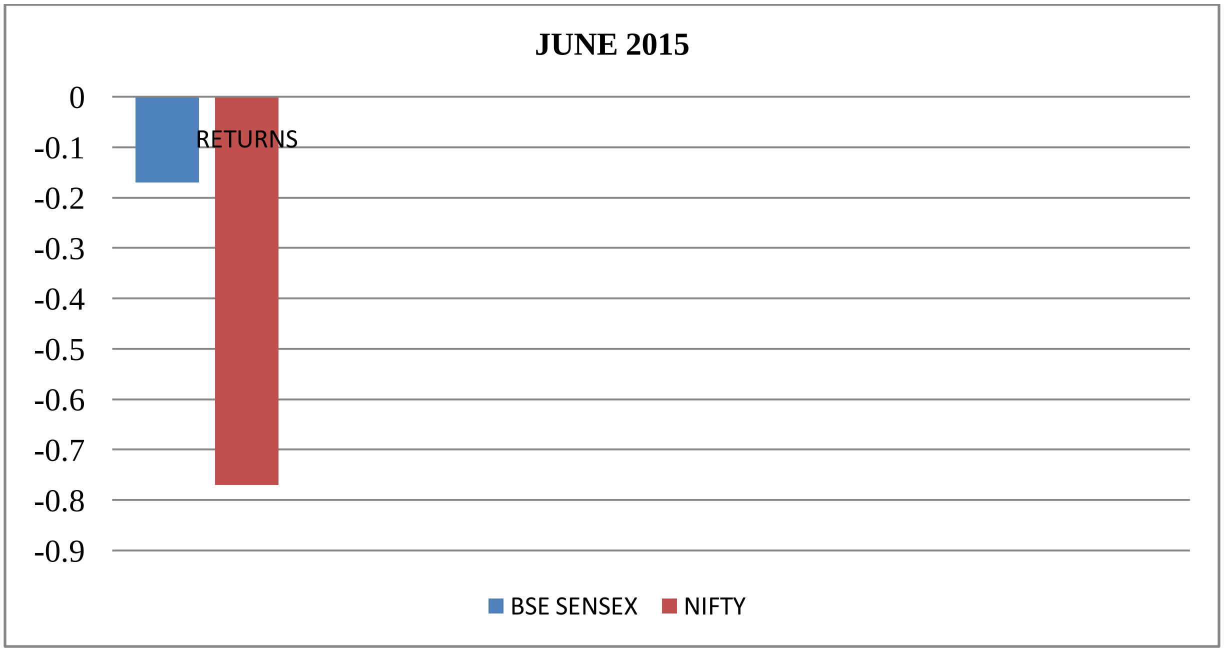
PERFORMANCE OF S&P BSE SENSEX AND CNX NIFTY FOR THE MONTH OF JUNE 2015

Table:-3

INDEX	MAY 29TH(CLOSE)	JUNE 30TH(CLOSE)	CHANGE (IN POINTS)
BSE SENSEX	27828.4	27780.8	-47.6
CNX NIFTY	8433.7	8368.5	-65.15

Source: - BSE, NSE

Graph:- 3



In the month of June 2015 the markets once again went in to the bear grip, due to lowering of GDP numbers, monsoon estimates downgraded by IMD and fears of Greece debt default. This led to the fall in the returns from the indices S&P BSE Sensex and CNX Nifty, to 0.17 % and 0.77 % respectively.

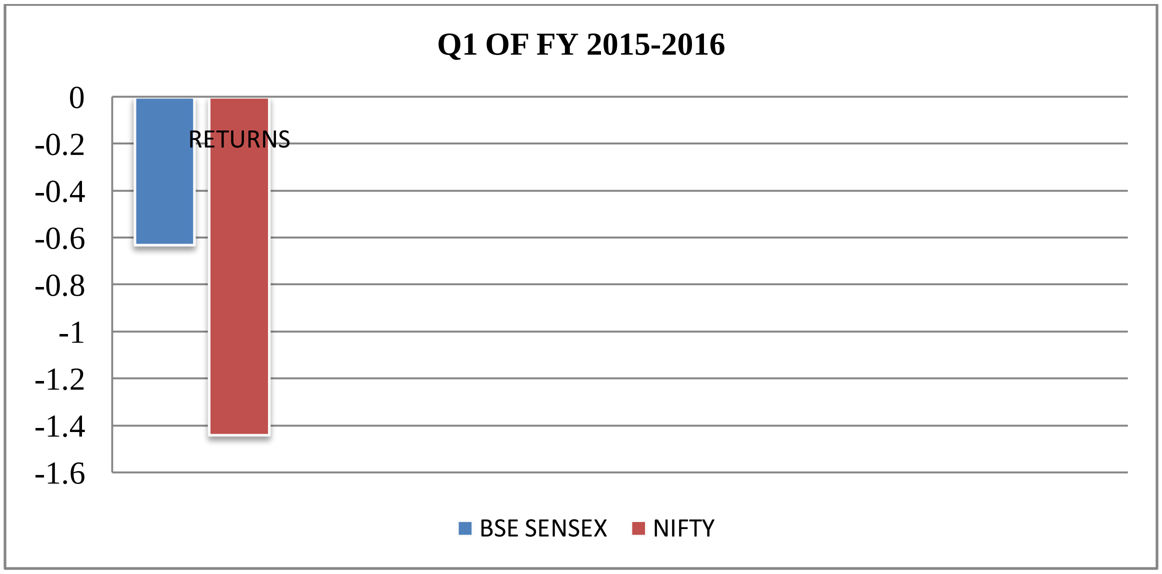
PERFORMANCE OF BSE SENSEX AND CNX NIFTY FOR Q1 OF 2015-2016 FY

Table: - 4

INDEX	MARCH 31ST(CLOSE)	JUNE 30TH(CLOSE)	CHANGE (IN POINTS)
BSE SENSEX	27957.5	27780.8	-176.7
CNX NIFTY	8491	8368.5	-122.5

Source: - BSE, NSE

Graph: - 4



During the first quarter of FY 2015-2016, the bench mark indices was affected by poor corporate earnings, lower monsoon estimates, downward revision of GDP numbers by RBI, possible debt default by Greece to the IMF and other lenders. Combination of all these factors gave negative returns of 0.63 percent from S&P BSE Sensex and 1.44 percent from CNX Nifty.

Factors that influenced stock indices of S&P BSE Sensex and CNX Nifty during the study period.

Bench mark indices had a good beginning on the first day of the new FY 2015-2016, where both the indices, S&P BSE Sensex and CNX Nifty ended in the green. For the remaining days of the first week of April 2015, markets continued the rally ahead of first bi-monthly monetary policy review with a hope of rate cut by RBI. But RBI in its first bi-monthly policy review for the current financial year made no changes in the policy rate and ratios. It had laid down the pitch for better policy transmission. In fact RBI though reluctantly has reduced the repo rate - the rate at which banks borrow short-term funds from the RBI, by 50 basis points since January 2015, which was most eyed by the various market participants - India Inc and Fin ministry. Bench mark indices ignored the RBI, s decision, but investors remained cheer full, since international credit rating agency revised Indian sovereign rating from stable to positive. Besides all these, investors are panic regarding corporate earnings Q4 of FY [2014-2015], retrospective tax worries, delay in passage of key bills like [GST, Land Acquisition] in the legislature and decline in exports and widening the trade deficit are the key concerns on the negative front for the month of April 2015. On the positive front inflation numbers were lowered which gives comfort to the RBI to make further changes in key policy rates.

During the month of May 2015 Indian equity markets witnessed a mixed trend i.e. half of the trading sessions ended up in the green and rest ended down in the red. On the positive side at the macro level central government assured to find a solution to the ongoing controversies over the applicability of MAT on foreign institutional investors [FIIs], wherein the government has referred the issue to a committee headed by Justice [retd] AP Shah and timely monsoons which help farmers to come out from the dry weather caused by El Nino weather pattern this year. Besides all these, low retail inflation number at 4.87 percent in April continued to raise hopes that the central bank would lower the interest rates in the monetary policy review, scheduled on June 02 2015.

On the negative front micro factors dragged down the indices citing the Jan-March quarterly results, the fourth straight quarter of disappointing results. Besides all these at the macro level indices are affected by the various factors- rally in crude prices hit $ 67.66 a barrel touching its highest level in 2015. Another important reason for heavy fall in the month is with drawl of funds by FIIs for investing in IPO's in China, concerns over delay in crucial reforms [GST and land acquisition bill] spooked the market. This apart, the other factors for the fall was profit booking while indices are traded at higher levels, Greece fiscal woes and sentiments of the investors.

For the month of June 2015, during first nine trading sessions of the month, in seven trading sessions indices went under the bear's grip due to various reasons such as lowering of GDP growth forecast of the economy by the RBI. Besides all these on June 02 2015 IMD [Indian metrological department] downgraded its earlier monsoon estimate of April 2015 from 93 % to 88 % long period average, citing concern of weak agricultural output that could further push up the inflation, raised the fears of further rate cuts. Concern of debt clearance by Greece to the IMF raised fears across world markets and disappointment of Jan-March [2014-2015] quarterly results. On the positive front, although the rate cut by the RBI reduced the bench mark repo rate by 25 bps to 7.25 % which was in line with expectations, markets failed to be impressed by the RBI rate cut and US federal reserve kept its bench mark interest rate unchanged at zero percent which helps the market participants to borrow funds at cheaper rate to get higher returns. Markets took an upbeat from June 12 2015-25 June 2015 during closing sessions of the month by taking an advantage of the change in the actual rain fall from normal to excess. The positive impact of rains on inflation and in turn the interest rate cycle gave investors a cause to cheer.

Findings:-

- During the study period, it is observed that Q1 of FY 2015-2016, the April and June months gave negative returns, citing the concerns that disappointment of corporate earnings for the period of Q4 of FY 2014-2015, implementation of key reforms such as [GST, Land Acquisition Bill] in legislature of the country and other macro data like hovering of GDP forecast of the economy by the RBI, panic regarding to another consecutive El-Nino year predicted by IMD on June 02 2015.

- For the month of May 2015 it is observed that both bench mark indices ended with positive returns.

- For the Q1 of 2015-2016 FY bench mark indices S&P BSE SENSEX and CNX NIFTY ended with negative returns.

Recommendation:-

- Investors are advised to take the note of regarding passage of important bills in the country legislature, corporate earnings, other macro data, and Us-Fed action on interest rate hike, key policy reforms progress and regulate their investments accordingly.

Conclusion:-

- During the period of the study, inspite of the lowering of the key policy rate by 75 basis points, improvement in the inflation numbers and initial favorable forecast of monsoon, ultimately the Indian equity markets were under stress, because of a variety of factors like weak corporate Q4 results, inordinate delay in passage of key bills in the parliament, below normal actual rainfall, downsizing of GDP numbers, etc, hampered the sentiments of the investors which was reflected in the indices closing with negative returns.

References:-

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Annexure:-

BSE INDEX VALUES:-

Month	Open	Close
Mar-15	29533.42	27957.49
Apr-15	27954.86	27011.31
May-15	27204.63	27828.44
Jun-15	27770.79	27780.83

Sources: - BSE

NSE INDEX VALUES:-

Month	Open	Close
Mar-15	8527.6	8491
Apr-15	8491	8181.5
May-15	8181.5	8433.7
Jun-15	8433.7	8368.5

Sources: - NSE