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A rising tide

Govt should revive disinvestment

The stock market indices have hit record highs in the past few days and it's been a broad movement. The small-cap and mid-cap indices hit new highs first, and the Sensex and Nifty followed. The Sensex on Monday closed above 65,000 for the first time. The benchmark Nifty has gained 21.8 per cent in the past 12 months and the mid-caps and small-caps have moved up 34.5 per cent and 30 per cent, respectively. The surge in the past three months has been largely driven by foreign portfolio investors (FPIs), who have bought over ₹1.14 trillion of equity in 2023-24. But there has also been strong buying from retail investors, both directly as well as via mutual funds, and domestic institutions have also been net positive.

A glance at sector indices also indicates that the movement has been broad. Most sectors have seen double-digit returns in the past one year with even underperformers like the Nifty IT index and oil & gas up by 5.3 per cent and 3.5 per cent, respectively. Sectors like fast-moving consumer goods (FMCG), banks, realty, and metals have all returned over 30 per cent and the automobile index 29 per cent. But the biggest winner is the public sector bank index, which is up 67.9 per cent. The markets have been buoyed by apparent optimism about a growth revival — although profit growth has slowed from the extraordinary levels of the past two years, revenue growth has jumped. Credit growth indicates that businesses and consumers are borrowing again. This is reinforced by the fact that FMCG revenues have grown in Q4 FY23, and so have two-wheeler sales. The management guidance from most major corporations is also optimistic.

Further, after a series of policy rate hikes starting May 2022, the Reserve Bank of India (RBI) has hit pause. The inflation trend has eased with the consumer price index-based inflation print reading 4.25 per cent in May 2023, which is closer to the RBI's target of 4 per cent. A key contributor to falling inflation is the stabilisation of crude oil, natural gas, and coal, which eases pressure on the energy-hungry and energy-deficient Indian economy. Although the indices are at record highs, valuations are still moderate. The Nifty is trading at a price-to-earnings (PE) ratio of 22.4. It was trading above the PE of 40 in early 2021 and the five-year average valuations are around PE 26.5, which is substantially higher than the current valuations. Similarly, the mid-caps and small-caps are also trading at lower valuations than they had hit earlier. The implication is that the markets could sustain higher prices and valuations.

As the old saying in the markets goes, a rising tide floats all boats and under the circumstances, a revival in activity across the primary markets is very likely, given the bullishness across secondary markets. This could be an opportune moment for the government to consider reviving disinvestment plans, which have apparently been on the back burner for a while. If investors are willing to buy Indian stocks, the government should take advantage of the market conditions and push disinvestment. Although the government is in a comfortable fiscal position, additional revenue can be used to push capital expenditure.