# Breaking down the rally; facts to know

Last year, at this time, the capital markets barometer, the S&P BSE Sensex was trading at around 18,500 levels. Very few had the foresight to say that a year later the benchmark index could be almost 10,000 points or nearly 50% higher. It touched an all-time high of 27,225.85 on 3 September.

The turn in market sentiment has come with a change of guard at the Centre, which coincided with an improvement in economic data. The current account deficit, which was biting last year, is down to 1.7% of the gross domestic product (GDP); fiscal deficit, too, seems to be improving and experts are talking about levels of 4.2-4.3% for this financial year. And lastly, inflation has come down and is showing signs of easing further. The result of all these factors put together has been a sharp rally in domestic equity markets led by the cyclical segments. On 1 September 2014, the CNX Nifty touched a lifetime high of 8,000, which many experts didn't think would happen before the end of this calendar year.

Let us now put this rally into perspective and dissect some of the details of the journey. Now these facts may or may not help you make your next equity investment decision, but they will surely help you get a deeper understanding of how the market functions.

By Lisa Pallavi Barbora/Mint

## FACT 1: UNEVEN PERFORMANCE

While the benchmark indices have scaled lifetime highs, many individual stocks are still making up for losses suffered in the past 5-6 years. As on 1 September, 23% of the Sensex stocks had scaled their highest, which also means that only seven of the 30 scrips reached new highs. In the Nifty, the proportion is even lower—only 16%, or eight out of 50 stocks, are at lifetime highs. For the S&P BSE 500, only 35 or 7% of the stocks are at lifetime highs. The proportion for the CNX 500 is 6.2% or 31 stocks.

Among the Sensex stocks that are at their highest, two are healthcare stocks, three from the auto sector and one each from the banking and fast moving consumer goods (FMCG) sectors. The break-up of the Nifty stocks is similar, with the addition of software and an oil marketing company.

Of course, there are scrips that are close to their lifetime highs but may not have touched it on the day we looked at the values. Nevertheless, the bigger picture is that while a lot of stocks participated in the rally, not many have reached the top as there were losses to recoup on the way.

### ONLY A FEW STOCKS TOUCHED THEIR PEAK LEVELS

| Sensex | All-time high (in ₹) |
|---|---|
| Cipla | 531.95 |
| Dr Reddy's Laboratories | 2,989.80 |
| Hero MotoCorp | 2,786.50 |
| Hindustan Unilever | 7,46.35 |
| ICICI Bank | 1,603.00 |

**23%** Stocks at lifetime high

| Nifty | All-time high (in ₹) |
|---|---|
| Bharat Petroleum Corp. | 709.00 |
| Cipla | 531.10 |
| Dr Reddy's Laboratories | 2,989.80 |
| Hindustan Unilever | 747.25 |
| ICICI Bank | 1,602.80 |

**16%** Stocks at lifetime high

## FACT 2: MID-CAPS ARE UNPREDICTABLE

What's surprising is that while the CNX Midcap is at a lifetime high, the BSE Mid Cap index is around 500 points away from its highest. If you consider stocks, 3.7% or nine stocks in the BSE Mid Cap index are at lifetime highs compared with four in the CNX Midcap index. The notable difference is that the former has 100 stocks as part of the index while the latter has 238 stocks. Hence, the compositions of the indices differ materially and there is no reason for both to march along at the same pace.

Unlike large-cap stocks, where the behaviour is somewhat predictable thanks to the plethora of information available on these companies and the patronage they receive from investors, in case of mid-caps, individual stock dynamics matter and factors such as liquidity impact price change. Hence, the rally in mid-caps is more stock specific. So, two different mid-cap indices can, indeed, behave differently.

### LOT MORE CATCHING UP TO BE DONE IN MID-CAP SPACE

| BSE Mid Cap | All-time high (in ₹) |
|---|---|
| Blue Dart Express | 4,784.10 |
| eClerx Services | 1,445.00 |
| Gillette India | 2,686.95 |
| Kajaria Ceramics | 679.00 |
| Kansai Nerolac Paints | 1,740.00 |

**3.7%** Stocks at lifetime high

| CNX Midcap | All-time high (in ₹) |
|---|---|
| Arvind | 293.85 |
| Kansai Nerolac Paints | 1,747.45 |
| CMC | 2,179.90 |
| Oracle Financial Services Software | 3,667.95 |

**4%** Stocks at lifetime high

## FACT 3: SECTORS AT THE TOP

It is believed that this rally is largely led by cyclical and rate sensitive sectors. If you consider how some sectoral indices have moved in the past one year, this is mostly true. The S&P BSE Capital Goods index rallied more than 110% in the past one year.

But it's not just cyclical segments that are at their highest levels. Among the BSE sectoral indices, auto, banking, consumer durables and technology indices are also at all-time highs. The composition of high-flying sectors in the NSE is also similar.

Hence, consistency also matters. Consumption and information technology (IT) stocks have been consistent performers over the past five years and that's getting reflected. Rate sensitive and cyclical segments have seen a sharp move recently, but it hasn't been enough (in all cases) to push the indices to all-time highs.

There is a caveat here. Any index value is an aggregation of the underlying basket of stocks. For example, private sector banks have a higher weightage than public sector banks in the BSE Bankex and the Bank Nifty indices. And it's the private sector banks that have rallied sharply; the public sector banks are playing catch up.

### SEGMENTS THAT RALLIED THE MOST AREN'T AT THE TOP

| BSE indices | All-time high (value) |
|---|---|
| S&P BSE Auto | 1,7569.64 |
| S&P BSE Bankex | 1,8376.32 |
| S&P BSE Consumer Durables | 9,385.76 |
| S&P BSE Teck | 5,649.41 |

| NSE indices | All-time high (value) |
|---|---|
| Bank Nifty | 16,060.20 |
| CNX Auto Index | 7,806.95 |
| CNX Consumption Index | 3,172.65 |
| CNX Finance Index | 6,558.40 |
| CNX MNC | 8,318.95 |
| CNX Service Sector Index | 9,760.30 |

### PACE OF RALLY IN THE LAST ONE YEAR

| BSE indices | Change (in %) |
|---|---|
| S&P BSE Capital Goods | 116.27 |
| S&P BSE Bankex | 77.85 |
| S&P BSE Auto | 71.75 |

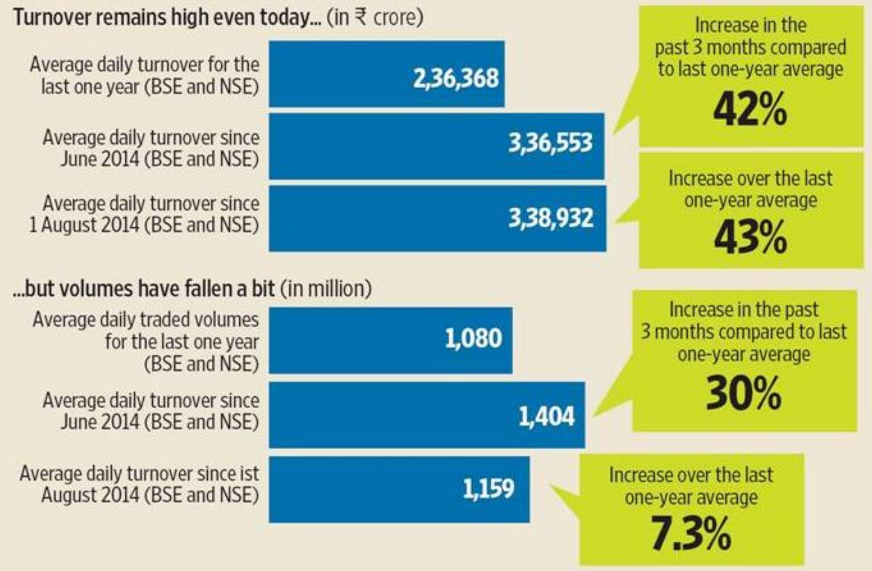
| NSE indices | Change (in %) |
|---|---|
| CNX PSU Bank Index | 79.42 |
| CNX Auto Index | 79.25 |
| Bank Nifty | 76.95 |

## FACT 4: THE VOLUME GAME

Higher market levels have definitely led to more participation by investors, both in the cash and futures and options (F&O) segments. The average daily combined turnover has gone up roughly 40% in just the past three months versus the daily average seen over the past one year. The trading volume average across cash and F&O markets has also increased for the same period by about 30%.

Surprisingly, if you look at the August levels of turnover and volumes, the average daily turnover is still around 40% higher than the average seen over the past one year, but the trading volumes have dropped somewhat and the average for August is just about 7% more than last year's average.

### AVERAGE MARKET TURNOVER AND VOLUMES HAVE JUMPED UP




## FACT 5: GAINERS AND LOSERS

Individual stock movement has been far greater that index movements. The top gainers have surpassed rational expectations, and there are many losers, too, with sharp declines in the broader markets.

This means that your own portfolio performance can vary a lot from the broad market or an index. If you were invested in the right stocks, you could have made handsome gains; if you were invested in fundamentally weak stocks, you would have lost.

### GAINERS AND LOSERS

**BSE 500**

| GAINERS | Change (in %) |
|---|---|
| PMC Fincorp | 768.73 |
| TVS Motor Company | 522.87 |
| Gati | 487.37 |

| LOSERS | Change (in %) |
|---|---|
| Indian Infotech and Software | -94.33 |
| SRK Industries | -90.92 |
| Luminaire Technologies | -89.81 |

**CNX 500**

| GAINERS | Change (in %) |
|---|---|
| Simplex Infrastructures | 600.37 |
| TVS Motor Company | 524.03 |
| Gati | 488.20 |

| LOSERS | Change (in %) |
|---|---|
| Era Infra Engineering | -89.62 |
| Bhushan Steel | -79.10 |
| REI Agro | -65.45 |

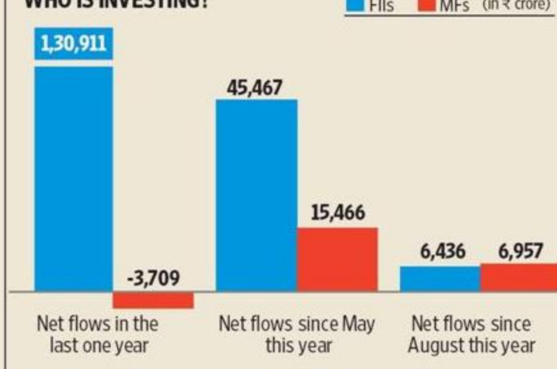
Data from 2 September 2013 till 1 September 2014

## FACT 6: FIIs VS DOMESTIC INVESTORS

The feeling is that the rally has been largely driven by foreign institutional investors (FIIs). But FIIs have been consistent investors in our equity market. In the past one year, FII net inflow has been around ₹1.3 lakh crore; and 35% of this came in the four months since May. Their buying, therefore, is more or less evenly spread through the year. On the other hand, domestic mutual funds were net sellers in the past one-year period to the tune of ₹3,700 crore and turned net buyers (₹15,500 crore) in the past four months. So, the incremental push the markets got was from domestic buying.

Moreover, in August, too, the cumulative net purchases of domestic mutual funds were slightly higher than FIIs'.

### WHO IS INVESTING?




## FACT 7: SPEED OF THE RALLY

In 81 days, the Nifty moved from 7,000 to 8,000, up more than 14% (corresponding Sensex value: 23,871 to 26,867). That's nearly half of the current rally, which more or less began on 1 March this year, taking benchmark indices around 30% higher. This last 1,000-point rally has been the second fastest.

### RECENT RALLY HAS A STEEP CURVE


## FACT 8: LOOKING AT VALUATIONS

Lastly, let's consider valuations at these levels. Both the Nifty and Sensex are close to their 10-year average price-earnings (P-E) multiple, making them fairly valued. The stocks that are the most richly valued today (among large-caps) in terms of earnings are Bharti Airtel Ltd, DLF Ltd, Asian Paints Ltd and Hindustan Unilever Ltd (HUL).

The first two are a surprise, however, the price-to-book value of Bharti Airtel is less than 3 times and DLF is around 1. This is in sharp contrast to HUL, which, is trading at 45 times book value, and Asian Paints, which, is at 15 times.

For the Nifty, public sector banks and commodities feature at the bottom of the P-E and price-to-book charts, showing us that not all stocks are expensive after the sharp rally. Now, more than ever, you need to pick your stocks after much thought.

### HIGHER PRICE-EARNINGS (P-E); WAITING FOR PRICE-TO-BOOK (P/B) TO IMPROVE

As on 4 Sep 2014

| TOP FIVE STOCKS ON P-E | P-E | P/B |
|---|---|---|
| Bharti Airtel | 50.3x | 2.7x |
| DLF | 49.9x | 1.1x |
| Asian Paints | 47.3x | 15.0x |
| Hindustan Unilever | 40.4x | 45.1x |
| Ultratech Cement | 33.7x | 4.3x |

| BOTTOM FIVE STOCKS ON P-E | P-E | P/B |
|---|---|---|
| NTPC | 10.3x | 1.3x |
| Punjab National Bank | 9.3x | 0.9x |
| Tata Motors | 8.8x | 2.5x |
| Bank of Baroda | 7.4x | 1.0x |
| Cairn India | 6.1x | 1.1x |

Earning per share based on last reported consolidated fiscal year end.
Book value per share based on the company's fiscal year end consolidated data.

**END NOTE:** At this stage it does seem like the markets are running ahead of themselves. Does this mean that you need to stop investing for now? That's hard to qualify because we all know how unpredictable the markets can be. If you stop now, then what if you miss the next 1,000-point rally? Or, it could be that you invest now and catch a 1,000-point correction.

As the index touches new highs, Vikas Gupta, executive vice-president, traded markets and investment research, ArthVeda Fund Management Pvt. Ltd, said, "There is some speculative element in the current rally as the on-grounq reality hasn't changed much. If the actuals don't improve as expected, we could see correction in segments that have rallied too fast."

So, be cautious when you pick your stocks. To avoid all the speculation and confusion, you could also simply invest in a suitable systematic investment plan of a mutual fund scheme and make regular investments in equity mutual funds or stocks of your liking.

Graphics by Paras Jain/Mint

Data as on 1 Septmeber 2014

Source: NSE, BSE, ArthVeda Fund Management, Thomson Reuters Datastream