

Nifty at 100000 & Sensex at 400000 by 2030: the answer lies in assumptions

NEW DELHI: The Indian market has rallied over 30 per cent so far in the year 2014, but the rally is just getting started, say experts who have come out with target in excess of 1,00,000 for the Nifty and 4,00,000 for the Sensex in the next 15 years or by 2030.

Big Bull Rakesh Jhunjhunwala sees the Nifty touching 1,25,000 by 2030, considering the fact that company or corporate earnings are expected to grow by 16 per cent annually. The target is almost 13 times the index's close of 8,564.40 on Thursday.

Jhunjhunwala told a news channel that the Nifty has grown 10 times in the last 15 years and can jump 10-12 times in the next decade.

So, based on the assumption of strong economic growth, bounce back in corporate earnings to double digits and revival in investment cycle, the Nifty and the Sensex can reach these levels which look more like a tall task.

When asked about the targets are they working with for the next 15 years, most of analysts agreed that the bull run is here to say, but said there are caveats and assumptions which needs to get fulfilled first before we can achieve these targets.

If we look deeper into the data, the Nifty has moved from the levels of 943 recorded on 29th April 2003, to 8600 levels as of today (4th December 2014), at an yearly compounded growth rate of above 20 per cent.

"So, if we apply the same growth rate, 125000 is possible by 2030 on the Nifty & 4,00,000 on the Sensex with support from strong economy growth, stable government at the Center, as well as infrastructure & technology development," says Kiran Kumar Kavikondala, Director & CEO, WealthRays Securities.

"Equities are expected to perform well over the next decade in India along with corporate earnings expected to grow above 15 per cent and EPS of Indian bourses set to move higher, pushing the valuations to these levels," he adds.

By 2018, Kavikondala estimates the Nifty to cross 15000; by 2020, 35000; by 2025, 60,000 and by 2030, he expects the Nifty to cross 1 lakh, keeping in view the strong economy growth.

Most global brokerage firms have expressed their confidence in the India's story with Narendra Modi at the helm of things. This is reflected in their overweight stance on the India markets, which have outperformed global markets in the year. The Indian markets are still trading below previous valuation peaks of 25x, which also supports the optimism.

The Indian stock market created history last week on Friday, when the total investor wealth hit a record high of Rs 100 trillion in trade on the BSE, which also puts it in the ten largest exchanges of the world in terms of total market capitalisation of listed firms.

India's market capitalisation has risen 41 per cent so far this year, highest among all countries on the back of Rs 93,000-crore investment by foreign institutional investors.

Markets are currently buoyant and there is still plenty of room for a sustained bull-run on the back of improving macro-economic fundamentals supported by pro-growth policies by the Modi government.

India can grow with 16 per cent CAGR for the next 20 years. Experts believe that such a growth momentum can be achieved as the Indian economy is under the transition phase.

"We agree with Mr. Rakesh Jhunjhunwala's analysis on the markets," says Omkar Tanksale, Fundamental Analyst at GEPL Capital. "It is possible to achieve 16% growth for the next 20 years," he says.

However, "there will be some ups and downs in the growth momentum and we believe that the growth momentum may not be smooth and linear," he adds.

Tanksale is of the view that if we can manage to sustain with the current growth levels for the next 20 years, we can easily achieve the Nifty levels at 85,000 with a CAGR of 12 per cent which seems much more realistic and achievable.

What are these assumptions?

Before we start discussing about assumption, investors should keep in mind a famous saying that "predictions are difficult to make, especially about the future."

However, for most things in life we have to plan for the future and estimate many things about it. Analysts are banking on the fact that FIIs will continue to pour money as the economy improves, retail investors will be back to the equity markets and corporate earnings will likely to grow by about 16 per cent annually.

"One should keep in mind that this is an estimate and cannot be viewed in isolation. There are a lot of implicit assumptions on which it is based. However, if some of those assumptions don't turn out as expected in the future, then of course the estimate might be off-track," says Vikas V Gupta - Executive Vice President at ArthVeda Fund Management Pvt. Ltd.

"In our opinion if the Nifty is at about 125000, then the Sensex would be at about 400000 or so. Keep in mind that it is pricing in a real GDP growth rate of about 10-11 per cent CAGR and an inflation of about 7 per cent CAGR," he adds.

"Also keep in mind that we have not achieved these figures so far in India for a sustained period, but China, Japan and Korea have achieved for decades," cautions Gupta.