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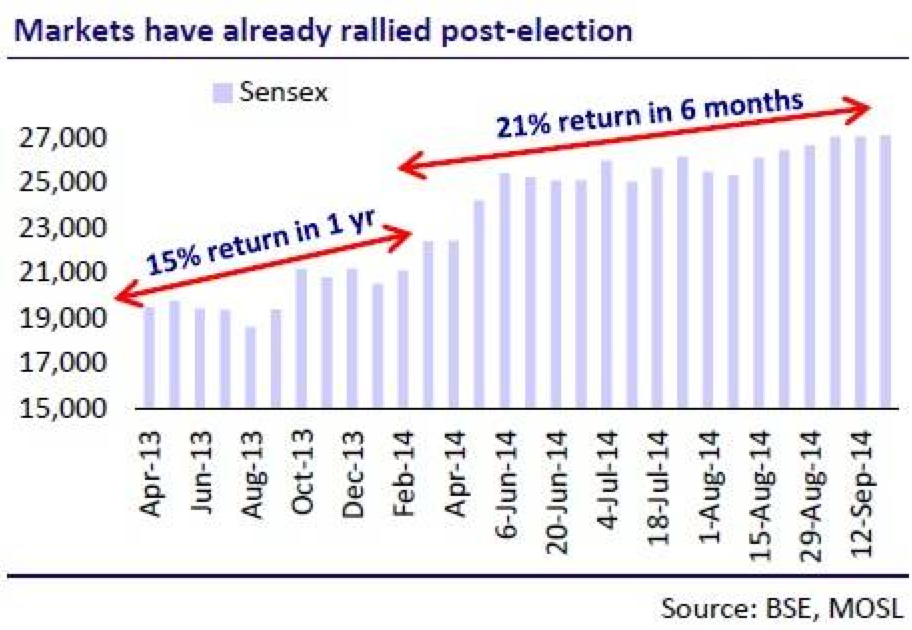
S&P has little impact; analysts keep Sensex target unchanged @ 30K

NEW DELHI: Global rating agency Standard and Poor's might have raised the outlook for India's 'BBB-minus' rating to 'stable' from 'negative', but analysts on the Dalal Street still maintain their year-end target for the Sensex at around 30,000, and 8500-8600 for the Nifty. The market, however, did not wait for the S&P action. The Sensex has already rallied over 26 per cent so far in the year 2014, supported by robust FII flows (over $30 billion YTD).

Image 1



"While the rating action is incrementally positive as the rating has remained investment grade, it is unlikely to have a major impact on the market," Motilal Oswal said in a report.

"Meanwhile, a variety of other factors, including stability of INR and reduced risk premium, improvement in investor sentiments and signs of improvement in economic indicators, are already driving the financial market," added the report.

In the past, rating agencies have been blamed for their failure to take timely rating action and opaque procedure that does not link credit actions to preset quantitative targets. This has been displayed both during the downcycle and the upcycle.

"I would still stick to my year-end Sensex projection of 30,000. There will be a lot of resistance at that point. So the markets will be quite volatile," said Raghu Kumar, Cofounder, RKSV.

"Apart from that, there is a slight risk of investors being wary of pumping money when such a critical point is hit," he added.

Image 2

Analyst Name	Organisation	Sensex Target	Nifty Target	Time Period
Rohit Gadia	CapitalVia Global Research	30000	8600	Year-end
Vikas V Gupta	ArthVeda Fund Management	34000	10000	Mar-15
Raghu Kumar	RKSV	30000	N.A	Year-end

The S&P outlook upgrade means that the country risk premium for India will eventually reduce once the actual upgrades come in and hence the Indian markets will look cheaper due to the lower discount rates.

“It will attract more FDI/FII money going forward as the outlook upgrade will give higher valuations to all Indian assets. But the big fillip will come only after an actual rating upgrade,” said Vikas V Gupta – Executive Vice President at ArthVeda Fund Management Pvt.

“We have not revised our year-end targets for both the Sensex & the Nifty. Our one year target is approximately the same at 34000 by March 2015,” he added. Gupta said that he had already accounted for some favorable factors given the trend towards better fundamentals.

All the three main rating agencies now have India’s sovereign credit rating at one notch above junk grade and with a stable outlook.

Expectations from the newly-elected Modi government remain sky high despite some recent setback in terms of delay in the gas price hike, coal block de-allocation etc.

“Equities, INR and bonds understandably reacted positively to S&P’s revision last week, but this is at best a kneejerk reaction,” CLSA said in a report. The government will come through with some reforms, but a sovereign credit rating upgrade over the next 12-18 months is highly unlikely.

“The combination of a mere cyclical improvement and incremental reforms is unlikely to turn on rating agencies,” added the CLSA report.

However, India will attract more FDI post outlook upgrade as it will boost confidence among investors and positively impact India’s business image. New initiatives like ‘Make in India’ and Modi’s recent visit to Japan and the US can also act as a new boost for investor confidence.

“Rating up gradation from S&P will definitely boost the confidence of retail investors and for the year-end, we expect the target for the Nifty around 8500-8600 and for the Sensex around 29700-30000,” said Rohit Gadia, Founder & CEO, CapitalVia Global Research Ltd.