Sensex ends 473 points up; will it be a crash or boom on Budget Day?

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NEW DELHI: The nerves before Budget day are clearly on the right side for the bourses with Sensex rallying nearly 500 points on Friday. With Sebi deciding to allow trading on Saturday, the question running on most broker minds is if the markets will pay dirt on the Centre's biggest day.

The Sensex settled the day at 29,220.12, up 473.47 points. The broader 50-share Nifty closed at 8,844.60, up 160.75 points.

"Budget day is highly significant for markets. It has been observed in the past that the volatility on the day of Budget is quite high. Changes announced could impact sectors and companies. On a number of occasions, the Budget day has seen counter moves at the closing of trading," says Anil Rego, CEO & Founder, Right Horizons.

"This volatility is on account of a mix of emotions, sentiments, deviation from expectation and analysis of proposed amendments in the Budget. Thus, it is recommended that in a pre-budget rally, the investor should play cautious and stay away from those sectors/stocks that are expected to be impacted negatively."

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Thursday's rail budget has set the pace. The bourses gave Prabhu's vision a thumbs down, largely because the expectations were too high. It seems markets will approach the Budget with the same notion and a knee-jerk reaction cannot be ruled out.

Being a full budget, the Centre will have to balance judicial allocation of expenditure across core sectors to change the dynamics of the economy towards sustained growth. At the same time it has to manage its fiscal conditions within targeted levels.

"Given high expectations of the markets, we expect that the likelihood of a disappointment. This does not mean that the Budget will be bad, but that the expectations are typically on the lines of a tax break or some similar financial incentive to a sector," says Vikas Gupta, Executive Vice - President & Fund Manager, Arthveda Fund Management Pvt Ltd.

"The FM is more likely to take measures, which will be good in the medium to long-term and not direct "business populist" ones such as tax breaks to sectors," he adds. These will be viewed negatively and the speculative overvaluation built in some of the companies in some sectors, mentioned as priority focus areas by the Centre, will see a negative reaction. Hence, there could be a fall in these.

The market set up is also not looking that attractive. December quarter earnings disappointed. Given the fact that PE multiples are expanding, while EPS is contracting and margins are static, the markets are looking for a reason to sell.

"The valuations have reached a certain level and right now in the short-term, there is dichotomy between the earnings we have seen and the valuations. But if we get a very good Budget and considering the fact that global liquidity is still very benign, you may still have a market that kind of hangs around in this range and consolidate before it can move higher," says Hiren Ved, Director & CIO, Alchemy Capital.

"If the budget is perceived to be not that great by people, then you may be looking at something like a 5-10% correction," he adds.

Markets have already priced in significant reforms and if FM does not live up to this hype, then equity markets could drop 6-8 per cent, Reuters said in a report.

"Analysts and traders told Reuters equity markets could drop 6-8 per cent if the pro-growth measures in the Budget0," added the report.

Investors should deploy 'buy on dips' strategy next week.

"The economy is building up steam, the rupee is firm and optimism seems to be at all-time highs. If the budget disappoints, the government could lose out on a chance to capitalise on this," says Vijay Singhania, Founder-Director, Trade smart online.

"Power, IT, infrastructure and banks are sectors that can expect a favorable policy tone in the budget," he added.

Analysts advise investors not to chase high beta stocks and do a thorough analysis before making a decision. Avoid making ad-hoc investments that are regretted later, says Rego.

Gupta of Arthveda Fund Management said next week would present buying opportunities for rational value investors who go by concrete information, rational analysis and buy below intrinsic value.