

Markets make limited gains from interim to full budget

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MUMBAI

P rime Minister Narendra Modi secured a thumping victory for his party in the 2019 general election, but the historic win seems to have excited the stock market far less than it had been a decade ago, when the Manmohan Singh government returned to power.

The benchmark Sensex index rose a mere 9% from interim budget to full budget in 2019, compared with a sharp 51% jump in 2009. Finance minister Nirmala Sitharaman will present the first full budget of the new government on 5 July.

The markets also appear to have made a bigger bet on Modi in 2014, when the index rose 24% from interim budget to Union budget.

Since 1 February when the interim budget was presented, the rupee has gained 3.46%.

B. Gopkumar, executive director and CEO of Reliance Securities, said that multiple micro and macro factors were in play this year, including geopolitical tensions, global trade wars and volatile crude prices, all of which have a “huge impact” on global as well as domestic growth. “Everyone expects the finance

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Slowdown, global tensions make it a daunting task for Sitharaman

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joined BJP in 2008, serving as the party spokesperson during 2010-14. She graduated from Seethalakshmi Ramaswami College in Tiruchirappalli and went on to get her master's degree in economics from Jawaharlal Nehru University in New Delhi. She also worked at PricewaterhouseCoopers in London and briefly at BBC World Services.

Sitharaman's appointment

as finance minister comes as women are breaking the glass ceiling in politics. The newly elected 17th Lok Sabha has 78 women MPs, the highest since independence.

Former prime minister Indira Gandhi was the first woman to become the finance minister of the country, although she held it as an additional charge during 1970-71.

According to PRS Legislative Research, out of the 716 women candidates who con-



Finance minister Nirmala Sitharaman.

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tested the general election, 78 were elected to the Lok Sabha, more than the 62 elected in 2014.

Modi recently said it is the first time that the number of women voters is on a par with that of male voters, compared

to the past elections when men had generally outnumbered women by at least 9 percentage points. "This is Indian democracy's bright spot," he said in the Rajya Sabha.

While the symbolism of her appointment cannot be missed, it also reflects Modi's strong confidence in Sitharaman's capability, according to Manisha Priyam, a New Delhi-based political analyst.

"No one knew her political background and then she got

into the cabinet, first as defence minister, which was a big thing, and now as finance minister. It is certainly symbolic. It must have been some elements of her performance that have seen her entry and elevation not just in the party but also the government. It speaks volumes about her performance and her capacity," said Priyam.

Pretika Khanna contributed to this story.

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minister (FM) to distribute sweet savoury. However, the key challenges ahead of FM that will need immediate action would be to arrest dwindling GDP growth, addressing the agrarian distress and fixing the financial sector woes," he said.

Within the large-cap stocks, analysts find the risk-reward ratio quite unfavourable for many of the so-called growth stocks. "There is downside risk to the high earnings growth expectation due to the weak macroeconomic situation," said Sanjeev Zarbade, vice president for PCG Research at Kotak Securities. He said reports of weakening growth, a delayed monsoon, rebound in crude oil and premium valuations were dampeners for Indian markets last month.

"During the month, there were some cases of defaults by



BSE MidCap and BSE SmallCap indices have risen around 2% each from interim budget till date. MINT

corporates. Rating of a few corporates were downgraded to default rating by major rating agencies. This led to significant risk aversion, especially among the mid- and small-cap stocks," he added.

BSE Midcap and BSE Small-

cap indices have risen around 2% each from the interim budget till date.

In 2014, during the same period, BSE Midcap gained 45% and BSE Smallcap 50%. Similarly in 2009, BSE Midcap and BSE Smallcap surged 68%

and 67%, respectively.

Analysts said markets are wary of further corporate defaults, which could trigger a crisis of confidence among investors and lenders.

According to Morgan Stanley, the impact of the Union

budget on the markets has been on a secular decline. "Nevertheless, market participants still need to negotiate volatility on the day," it said in a report. The foreign brokerage firm lists the factors that will have the most impact on equities. These include the overall reform orientation of the budget, the fiscal deficit level, announcement

on recapitalization of public sector banks or the lack thereof, liberalization of the external sector, moves on direct tax rates, especially on corporates and capital gains, and measures to boost growth through rural consumption, infrastructure and exports.

Stating that fiscal risks are overdone, economists at Bank of America Merrill Lynch

expect the government to retain the interim budget's fiscal deficit target of 3.4% of GDP for FY20 to boost capex at lower capital costs.

Credit Suisse Wealth Management India said in a report: "India's relatively defensive appeal among the emerging market peers and strong mandate for the BJP government in the central elections bode

well for foreign portfolio investors (FPI), who are looking for stability in an uncertain and intense global trade negotiation process between the USA and China. Nevertheless, the valuation is stretched and earnings outlook is weak, which we believe will cap any material upside in Indian equity markets."

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