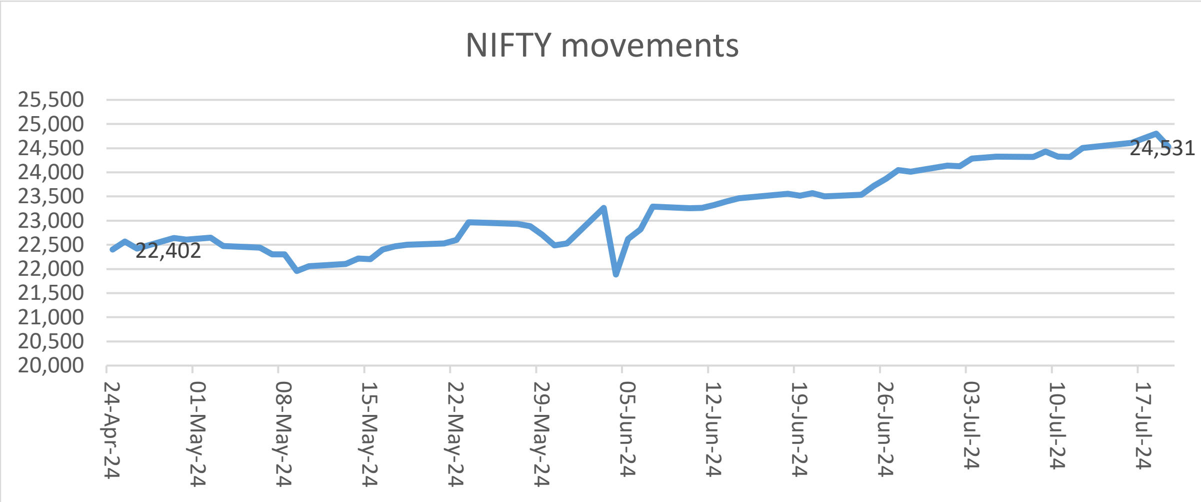
July 22, 2024

The equity rush

Stock markets in India have caught the attention of the investors and regulators for a variety of reasons. The investors are enthused by the fact that the markets are doing well on the back of the India growth story. The regulators are worried that funds are being diverted by potential savers from conventional fixed deposits to the markets (including F & O) by individuals who may not have knowledge on how markets work. In this context it is instructive to see how the equity market has shaped up not just in India but also other countries.

The discussion is in two parts. The first examines the growth seen in NIFTY this year as well as the developments in the IPO market. The second part looks at how stock indices have moved in other countries for benchmarking movements witnessed in NIFTY. This is important because it does appear that markets in a number of countries have been buoyant even though the global environment is not evenly sanguine.

Movements in Nifty



Source: BoB Economic Research

On a point to point basis the NIFTY moved from 22402 to 24531 in the last 3 months. The aggregate return on the NIFTY for this period assuming it is bought and sold on a daily basis is around 10%. On a point to point basis the return was 9.5%. This three- month's return is definitely impressive which could have been a factor driving interest in IPO market too.

The primary market analysis covers 89 IPOs that were listed in the financial year up to July 12th. The listing prices have been compared with the issue prices to gauge the premium the companies enjoyed mainly due to sentiment momentum. Interestingly 80 of the IPOs listed at a premium while only 7 were at a discount. In case of 2 issuances, they listed at the issue price. The table below gives the number of IPOs which listed in the range of premium over issue price.

Frequency distribution of IPOs by listing premium

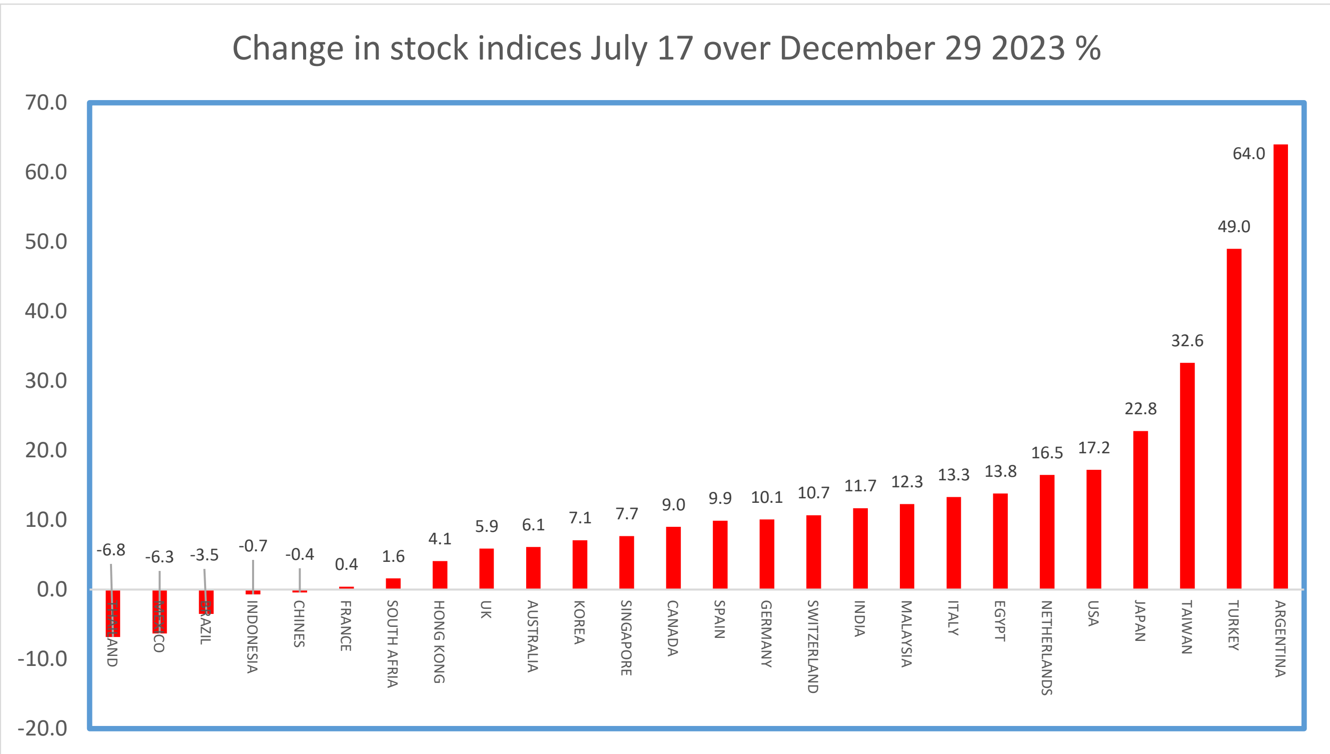
Range of premium	Number of IPOs (companies)
>100%	16
50-100	21
25-50	18
10-25	13
1-10	12
All	80

Source: BoB Economic Research

<u>A theoretical exercise</u> has been carried out where it is assumed that Rs 1 lakh is invested evenly in each of the 89 issues this year. It is next assumed that allotment is full and the number of shares allotted is derived by dividing this amount by the issue price. Next it is assumed that on the day of listing the shares are sold evenly at the listing price. Hence, for a sum of Rs 89 lakhs that would have been invested, the return would have been Rs 56 lakhs. This return of 63% is much higher than the secondary market returns!

How do returns fare in global context?

There is a mixed bag when it comes to global stock indices as the chart below shows.



Source: Economist, BoB Economic Research

Out of the 26 markets selected here, 5 had negative returns. 8 gave returns of close to 9%, while the balance 13 were above 10%. If Argentina and Turkey are excluded being extreme cases, the highest was in Taiwan with 32.6% followed by Japan and USA. India with 11.7% was more moderate in contrast.

To place this in context, the MSCI world developed index gave a return of 13.8% while MSCI-Emerging gave 8.6%.

To quickly look at whether an economic relationship could be established with stock index movements of this cross-section of countries, variables such as GDP growth expectations, inflation and real interest rates were regressed. GDP growth gives a significant relation as an explanatory variable but explains only 15% of the variation in stock indices. Inflation and real interest rates were not significant statistically. Hence sentiment or exuberance would be the more decisive factors here.

(Data support from Shardul Samjiskar)

For further details about this publication, please contact:
Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com