

# Business Standard

## Economy strong, but market may consolidate in near term

*The Narendra Modi-led government has been in power since 2014 and the country has witnessed decisive policies, political stability and economic growth since then*

A Balasubramanian |



Over the past few decades, India's fundamentals have changed for the better and today's Sensex at 75,000 is a result of all cylinders firing for India.

### **Political stability**

The Narendra Modi-led government has been in power since 2014 and the country has witnessed decisive policies, political stability and economic growth since then.

### **Reforms**

One of the most powerful databases that India has created has been the Aadhaar-based identity. The other has been the introduction of GST as a single tax structure. There have been various social benefit schemes that have elevated rural income by way of direct benefit transfer.

Along with this, India has made significant strides in strengthening the public infrastructure through substantial investment. This has unlocked the potential for small and medium enterprises to create value for themselves and their shareholders.

We have also seen significant leadership changes in the public sector enterprises that have created value for shareholders in the past couple of years.

In fact, the recent growth in market capitalisation has been contributed by the new companies and the government enterprises with their increased efficiency.

It has resulted in a huge increase in the investment value of the President of India along with the wealth created by the private sector conglomerates.

### **Capital investment**

In the past, cost of capital has been on the higher side for India. However, post-Covid, the debt capital market borrowing from banks has become relatively cheaper for SMEs and MSMEs despite elevated global interest rates. It is also a good sign for the companies to reduce their cost of capital so that their ROEs become better and therefore they can create more shareholder value.

Additionally, the RBI has been successful in keeping the interest rates cheaper while containing inflation. Finally, the fiscal consolidation we are witnessing today is an outcome of efforts being put in by the Finance Ministry.

Thanks to our finance minister, the significant increase in tax collection will result in millions of dollars on the table for the government to continue its investment in social infrastructure building and public infrastructure building.

### **Conclusion**

There has been a significant shift in the market capitalisation construct compared to 10 years ago when 80 per cent was contributed by Nifty companies which has currently reduced to 50 per cent. Meanwhile, the contribution from small and midcap has increased to 50 per cent from 20 per cent in the past decade.

There is a direct correlation between market cap to GDP. And if India's GDP grows to \$10 trillion, then the market cap could also reach \$10 trillion.

Keeping in mind the post-Covid rally and the Sensex surpassing 75,000 along with the general tendency of the market to front load good news ahead of time, going forward it may be prudent for investors to prepare for a phase of consolidation or time correction as it is popularly known.

We, at Aditya Birla Sun Life AMC, continue to be bullish on the Indian economy and corporate earnings growth in the long term. The mutual fund industry remains a strong force for investing and our fund house is committed to be a good campus for large public investing.

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