Falling Stock Market

What is the issue?

- India’s multi-year stock market rally is on a declining trend.
- It comes as a signal to take up the long-demanded structural reforms in the economy to boost growth.

What are the recent happenings?

- Investors were receptive of the prospects of structural reforms that could boost India’s economic growth under the second Modi government.
- However, they have been quite disappointed by the 2019 Budget proposals, and there is a notable change in mood among investors since then.
- The Nifty and the Sensex are down roughly by about 5% since the Budget was presented.
- Foreign portfolio investors have pulled out over Rs. 2,500 crore in July, 2019.
- This stands in contrast to June, 2019 picture, when FPIs made a net investment of close to Rs. 10,400 crore.

What were the concerns?

- Among other things, new taxes were imposed on the “super rich” and on companies that buy back their own shares.
- The mandatory minimum public shareholding in listed companies was also raised.
- This was seen as a move to be against the interests of promoters.
- Unsurprisingly, investors have been taken aback by these measures, which are seen as increasing the burden on businesses.

What are the implications?

- The falling stock market could have widespread implications for the economy.
- The resultant dull market performance could lead to further worsening of general economic conditions in the near term.
- There is already a significant downturn in sectors such as automobile with major companies reporting falling sales and earnings.
- Many automobile dealers are closing down showrooms and slashing jobs.
- The overall gross domestic product growth slipped below 6% to hit 5.8% in

the fourth quarter.
- The underlying turmoil in Indian markets becomes evident with the *mid-cap and small-cap* space.
- This has witnessed significant value erosion since the start of 2018.
- The small-cap index has lost almost a third of its value since January 2018 while the mid-cap index has lost about a fifth of its value.

What is the way forward?

- Investors seem disappointed with tax measures seen as burdening businesses.
- Bringing in structural reforms needed to boost economic growth should be a key priority for the government now.
- This is crucial to reviving the much-needed investor confidence in the country.

Source: The Hindu

Quick Facts

Mid cap, Small cap

- The market capitalization of a company refers to the total number of its outstanding shares in the market multiplied by the current price per share.
- Based on their current market capitalization, stocks are classified into large-cap, mid-cap, and small-cap:
    1. Large-cap stocks - above Rs. 20,000 cr; generally considered to be very safe (low risk)
    2. Mid-cap stocks - between Rs. 5,000-20,000 cr
    3. Small-cap stocks - below Rs. 5,000 cr; highly risky investment
- The classification provides the investor with an estimated valuation of the company.

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