Headline: A Nifty Journey to 10,000	
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A Nifty Journey to 10,000

Index scales Mount 10K on liquidity but fails to stay put; experts advise caution on high valuations

Our Bureau

Mumbai: The Nifty topped 10,000 for the first time as investors cheered the economy's brightening prospects and the enthusiasm of small investors continued unabated given the 40%-plus returns in 17 months. Reliance Industries, the HDFC twins, ITC and Larsen & Toubro starred in the index's rise to 10,000 with RIL and HDFC Ltd alone contributing 25% of the Nifty's gains this year.

The Nifty has risen consistently since March 2016 and, along with the Sensex, managed to buck two major economy-wide disruptions in the form of demonetisation in November last year and rollout of goods and services tax from July 1.

A bit of nervousness caused by high valuations and the absence of meaningful earnings recovery caused the Nifty to end flat on Tuesday and it failed to hold on to the 10,000 mark. Some market players said investors should be cautious and temper expectations of returns given the high valuations.

But derivatives experts said the odds of the market conclusively breaking through the 10,000 mark this season are high as data show heavy call option buying at that level and frenzied put selling at 9900, amid hopes of a rollover of bullish bets to the August series. Follow-on buying could take the Nifty to 10300, they said.

Complacency Creeping In?

The volatility index is 54% lower than its 20-year average; option premium – the price for hedging – has sunk while chartists believe the market is entering an over-bought zone, reports **Ashutosh R Shyam.** ▸▸ 9

SBI, PNB May be Included in Govt ETF

State-run lenders such as SBI, Punjab National Bank and Bank of Baroda could be included in the new exchange-traded fund being set up by the government, reports **Dheeraj Tiwari.** ▸▸ 19

The Nifty is up 42.61% since March 2016 while the Sensex has gained 40.11%. It took the Nifty four years to move from 6000 to 7000 points, but only three years to rise to 10,000. The Sensex crossed 32,000 for the first time on July 13. On Tuesday, the Sensex ended flat at 32,228.27 after scaling a new high of 32,374.30. The Nifty hit 10011.30 in intra-day trade, an all-time high, but ended flat at 9964.55.

Investors cheered the successful rollout of GST, which is perceived to have been implemented with minimal difficulty. The new tax regime is widely expected to boost profits, productivity and growth as state barriers are dismantled and goods move freely.

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Small-investor enthusiasm for stocks has shown little signs of abating despite the shock of demonetisation. Systematic investment plans (SIPs) of mutual fund schemes are seeing inflows of about ₹60,000 crore a year. This is expected to rise further as returns from other asset classes such as real estate and gold come down. Average SIP flows stand at around ₹4,800 crore a month, compared with ₹2,790 crore a month in March 2016 and ₹2,000 crore in March 2015.

Some experts advise caution in today's market given the high valuations — 19 times FY18 earnings. "Given that valuations have moved up, return expectations should be moderated accordingly," said Navneet Munot, chief investment officer at SBI Mutual Fund.

Liquidity has played a big role in the rally, driving up prices despite weak earnings. Foreign portfolio investors (FPIs) have pumped in roughly ₹95,500 crore in Indian equities since March 2016 while mutual funds have invested about ₹78,900 crore. "Stable macro and liquidity have supported markets so far. But for valuations to sustain, it is important for earnings growth to come," said Munot.

Including Tuesday's provisional figures, domestic institutional investors have pumped in ₹23,900 crore this year while FPIs have bought shares worth ₹57,300 crore (including share purchases via several block deals).

Derivatives analysts see Nifty facing resistance at 10050 in the short term.

"FPIs have added shorts in the system throughout this upmove, with their long-short ratio falling to 62% from 82% at the beginning of the series.