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# The "MODI" Effect on Stocks

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***Abstract:*** *The benchmark indices had corrected 15% during the 9 month period before the announcement of Narendra Modi as Prime Minister Candidature in September 2013. And thereafter, the bench mark indices, Nifty and Sensex appreciated by almost 40% in 8 months period, from announcement of his candidature and first budget. From budget to 2014 year end, indices appreciated by 15% in 6 months. This empirical study examines Modi effect on stocks as well as across the sectors and whether it is backed by earning. However this empirical study indicates that there was Modi effect on almost all the sectors in the market. This was purely based on sentiments and not supported by earnings. The Modi effect is still in the market, but only on the stocks backed by earnings growth or where there is a clear prospect of reforms by the new government. Those sectors which are affected by policy paralysis are now out of the bull run.*

***Key Words:*** *Modi, Earnings, Quarterly growth.*

## INTRODUCTION

Many political and economic analysts had the opinion that the lack of reforms and wrong policies of previous congress government had negative impact on the earnings of corporate. Narendra Modi, the BJP candidate had proven track record for creating good business climate and reforms in Gujarat. Narendra Modi had been backed by the media and there was a Modi wave in the election and it had positive impact on stock market. There were some confusions regarding announcement of Modi as Prime Minister Candidature, and once he had been selected as the candidate, the first phase Modi effect in Indian stock market started. Except few pockets, there was a huge increase in share prices.

The star performing stocks were the domestic cyclical and Gujarat based companies. There were some pockets stocks related to Modi which were promoted in such a way that, Modi's victory in election will make these stocks as multi baggers.

For this empirical study, we had measured the Modi effect in two year period of time, i.e. from 01/01/13 to 01/01/15. This two year period is divided into three parts.

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**(1) Pre Modi period- (01/01/13 to 30/09/13):** This is the period where there was huge sell of FIIs and high volatility in currency and stock market. The macro situation was worse and the CAD figures, inflation, Forex reserves and foreign loan burden data were catering negative sentiments to Indian stocks. The bench mark indicies corrected by 15%, and rupee depreciated from 54.8/$ to 66/$.

**(2) First phase of Modi period ( 01/10/13 to 30/06/14):** This is the period from selection of Modi as Prime Minister Candidate to presentation of first budget by BJP government. Once Narendra Modi was announced as Prime Minister Candidate, there was shift in investor confidence. It went like a wave across the sectors. During this period the CAD figures were cooled off and currency was also stabilised, which boosted the wave. The bench mark indices increased by 40% during these three quarters, and rupee strengthened from 62.5/dollar to 60/dollar.

**(3) Second Phase of Modi period ( 01/07/14 to 31/12/14):** These are the two quarters after the first budget of Modi government. The Modi effect is now only on those stocks backed by earning/growth or clarity in reforms in the sector. Some reforms on GST, announcement of make in India theme, geo political reasons and fall of crude from 110$ / barrel to 50$/ barrel had created mixed reactions in the period. The bench mark indices increased by 15% during these three quarters, and rupee strengthened from 60/dollar to 63.8/dollar.

## DATA & RESEARCH METHODOLOGY:

This study aims to measure the Modi effect on Indian stocks on a period of eight quarters. We will also test, whether Modi effect was supported by earnings figures. However this empirical study examines

(a) Whether there was Modi effect on stocks?

(b) Whether the Modi effect was uniform across the sector?

(c) Whether the Modi effect was backed by earnings?

The whole data that we used for this paper are secondary in nature. For this study we have selected the top 50 companies on the basis of market capitalization.

The tool that we are using in this paper is compounded quarterly growth rate (CQGR). This formula is ideal for testing the growth rate of shares, EPS and PE ratios on quarterly basis. This study analyses CQGR of share price of top 50 companies in three different periods said above and analyse whether there is abnormal increase/ decrease in CQGR in phase one and two of Modi rule. Then we will analyse whether increase and decrease is supported by increase and decrease of earnings and PE.

## CQGR

$= (((a/b)^{(1/n)}) - 1)x\ 100$ *where,*

a is value of latest quarter under study b is value of first quarter under study

n is number of quarter in between

**Why CQGR?**

The CAGR is superior to average returns because it considers the fact that investment returns compound over time. One limitation is that it assumes a smoothed return over the time period measured. In reality, investments experience significant short-term ups and downs. In order to remove that limitation we are breaking and analysing 2 year period into three phases having a total of 8 quarters.

**Data Analysis**

| *Tool* | *Pre Modi period* | | *1st phase of Modi period* | | *2nd phase of Modi period* | |
|---|---|---|---|---|---|---|
| | *+ CQGR* | *-CQGR* | *Value Increased* | *Value decreased* | *Value Increased* | *Value decreased* |
| CQGR of Market value | 23 | 27 | 38 | 12 | 16 | 34 |

Out of 50 companies under study 27 companies had negative CQGR, one company had zero CQGR and 22 companies had positive CQGR in the pre-Modi period. But in first phase of Modi period, only 4 companies having negative CQGR and remaining 46 recorded positive CQGR. But only 38 companies recorded higher CQGR than the previous period. In second phase of Modi period, 40 companies had positive CQGR. But only 16 companies recorded higher CQGR than the previous phase.

| | | | |
|---|---|---|---|
| CQGR of EPS> CQGR of PE | 21 | CQGR of EPS< CQGR of PE | 29 |

During the period only 21 companies had higher CQGR of EPS than CQGR of PE.

**Table 1**
**Cross Comparison of CQGR of Market Price**

| *Company* | *01/01/13 (a)* | *01/10/13 (b)* | *01/07/2014 (c)* | *01/01/14 (d)* | *Pre- Modi period ((b/a)^(1/3) -1) x 100* | *Modi period phase 1 ((c/b)^(1/3) - 1) x 100* | *Modi period phase-2 ((d/c)^(1/2)- 1) x 100* |
|---|---|---|---|---|---|---|---|
| TCS | 1264 | 1949 | 2391 | 2545 | 15.52 | 7.05 | 3.17 |
| ONGC | 268 | 262 | 423 | 344 | -0.75 | 17.31 | -9.82 |
| ITC | 287 | 343 | 325 | 368 | 6.12 | -1.78 | 6.40 |
| Reliance industries | 841 | 822 | 1008 | 888 | -0.75 | 7.03 | -6.14 |
| SBI | 243 | 164 | 268 | 314 | -12.28 | 17.78 | 8.24 |
| Coal India | 360 | 298 | 385 | 380 | -6.11 | 8.91 | -0.65 |
| Infosys | 1155 | 1508 | 1610 | 1974 | 9.29 | 2.20 | 10.72 |
| HDFC bank | 685 | 612 | 823 | 952 | -3.68 | 10.37 | 7.55 |

*contd. table 1*

| *Company* | *01/01/13 (a)* | *01/10/13 (b)* | *01/07/2014 (c)* | *01/01/14 (d)* | *Pre- Modi period ((b/a)^(1/3) -1) x 100* | *Modi period phase 1 ((c/b)^(1/3) - 1) x 100* | *Modi period phase-2 ((d/c)^(1/2)-1) x 100* |
|---|---|---|---|---|---|---|---|
| ICICI bank | 221 | 176 | 288 | 352 | -7.30 | 17.84 | 10.55 |
| HDFC | 833 | 786 | 984 | 1124 | -1.91 | 7.77 | 6.87 |
| Sun Pharma | 370 | 590 | 679 | 822 | 16.82 | 4.79 | 10.27 |
| Tata motors | 316 | 335 | 451 | 498 | 1.96 | 10.41 | 5.08 |
| HUL | 530 | 572 | 628 | 758 | 2.57 | 3.16 | 9.86 |
| Airtel | 322 | 322 | 336 | 363 | 0 | 1.42 | 3.94 |
| Larsen & Turbo | 1625 | 800 | 1726 | 1502 | -21.03 | 29.21 | -6.71 |
| WIPRO | 397 | 471 | 538 | 552 | 5.86 | 4.53 | 1.29 |
| Axis bank | 273 | 209 | 384 | 503 | -8.51 | 22.47 | 14.45 |
| HCL Tech | 622 | 1071 | 1498 | 1606 | 19.85 | 11.83 | 3.54 |
| Maruti | 1514 | 1380 | 2584 | 3340 | -3.04 | 23.25 | 13.69 |
| Kotak bank | 650 | 685 | 884 | 1258 | 1.76 | 8.87 | 19.29 |
| Mahindra & Mahindra | 941 | 833 | 1194 | 1237 | -3.98 | 12.75 | 1.78 |
| Ultratech Cement | 2022 | 1813 | 2630 | 2662 | -3.57 | 13.2 | 0.6 |
| Asian paints | 442 | 454 | 583 | 749 | 0.89 | 8.69 | 13.34 |
| Sesa sterlite | 199 | 175 | 296 | 219 | -4.19 | 19.14 | -13.98 |
| Bajaj Auto | 2137 | 2017 | 2329 | 2454 | -1.90 | 4.9 | 2.64 |
| BHEL | 232 | 141 | 252 | 268 | -15.29 | 21.35 | 3.12 |
| Adani ports | 138 | 139 | 244 | 319 | 0.24 | 20.63 | 14.34 |
| Lupin | 615 | 852 | 1051 | 1427 | 11.47 | 7.24 | 16.52 |
| Bharati Infratel | 198 | 153 | 261 | 339 | -8.23 | 19.48 | 13.96 |
| Tech Mahindra | 932 | 1325 | 2112 | 2593 | 12.44 | 16.81 | 10.8 |
| Hero Motor corp | 1898 | 1998 | 2641 | 3107 | 1.72 | 9.74 | 8.46 |
| Nestle | 4974 | 5167 | 4944 | 6380 | 1.27 | -1.45 | 13.59 |
| Bosh | 9363 | 8891 | 13447 | 19463 | -1.70 | 14.78 | 20.30 |
| NMDC | 169 | 119 | 183 | 148 | -11.30 | 15.42 | -10.06 |
| Idea cellular | 104 | 174 | 134 | 159 | 18.71 | -8.33 | 8.92 |
| Gail | 357 | 325 | 460 | 444 | -3.08 | 12.27 | -1.75 |
| Dr Reddy's | 1834 | 2408 | 2610 | 3212 | 9.50 | 2.72 | 10.93 |
| Adani Enterprises | 276 | 141 | 458 | 489 | -20.05 | 48.09 | 3.32 |
| Cipla | 418 | 432 | 436 | 629 | 1.10 | 0.30 | 20.11 |
| Bank of Baroda | 883 | 459 | 878 | 1082 | -19.59 | 24.13 | 11.01 |
| BPCL | 357 | 326 | 590 | 654 | -2.98 | 21.86 | 5.28 |
| Cairn India | 321 | 317 | 364 | 239 | -0.41 | 4.71 | -18.96 |
| IndusInd bank | 424 | 383 | 576 | 811 | -3.33 | 14.57 | 18.65 |
| United Spirit | 1953 | 2509 | 2416 | 2820 | 8.70 | -1.25 | 8.03 |
| Eicher Motors | 2925 | 3657 | 8053 | 15239 | 7.72 | 30.1 | 37.56 |
| Power Finance Corporation | 207 | 132 | 305 | 305 | -13.92 | 32.2 | 0 |
| Motherson Sumi | 133 | 153 | 344 | 456 | 4.78 | 31 | 15.13 |
| PNB | 178 | 93 | 199 | 220 | -19.45 | 28.86 | 5.14 |
| Tata Steel | 438 | 276 | 541 | 405 | -14.26 | 25.14 | -13.47 |
| Zee entertainments | 223 | 231 | 300 | 378 | 1.18 | 9.1 | 12.24 |

**Table 2**
**Cross comparison of CQGR of market price, EPS and PE ratio**

| *Company name (a)* | *EPS 01/01/13 (b)* | *EPS 01/01/15 (c)* | *PE ratio 01/01/13 (d)* | *PE ratio 01/01/15 (e)* | *CQGR of EPS((c/b)^(1/8)-1) x 100* | *CQGR of PE ratio((e/d)^(1/8)-1) x 100* |
|---|---|---|---|---|---|---|
| TCS | 67.23 | 99.76 | 18.80 | 25.61 | 5.05 | 3.93 |
| ONGC | 27.09 | 26 | 9.89 | 12.9 | -0.51 | 3.37 |
| ITC | 8.94 | 11.6 | 32.10 | 31.72 | 3.30 | -0.14 |
| Reliance industries | 60.2 | 69.65 | 13.97 | 12.74 | 1.83 | -1.13 |
| SBI | 28.88 | 15.7 | 8.41 | 20 | -7.33 | 11.43 |
| Coal India | 25.45 | 21 | 14.14 | 18.09 | -2.37 | 3.12 |
| Infosys | 81.77 | 101 | 14.12 | 19.54 | 2.67 | 4.14 |
| HDFC bank | 26.4 | 38.3 | 25.9 | 24.8 | 4.77 | -0.54 |
| ICICI bank | 17.1 | 18.2 | 12.9 | 19.3 | 0.76 | 5.19 |
| HDFC | 36.6 | 36.2 | 22.76 | 30.98 | -0.10 | 3.92 |
| Sun Pharma | 27.2 | 29.2 | 13.6 | 28.2 | 0.89 | 9.5 |
| Tata motors | 37.38 | 54 | 8.45 | 9.22 | 4.70 | 1.09 |
| HUL | 17.2 | 18.4 | 30.8 | 41.2 | 0.84 | 3.69 |
| Airtel | 7.3 | 10.2 | 44.11 | 35.58 | 4.27 | -2.65 |
| Larsen & Turbo | 80.8 | 63.5 | 20.11 | 23.65 | -2.96 | 2.04 |
| WIPRO | 26 | 34.3 | 15.27 | 16.09 | 3.52 | 0.66 |
| Axis bank | 29 | 28.45 | 9.4 | 17.7 | -0.24 | 8.2 |
| HCL Tech | 35.2 | 90.8 | 17.7 | 17.7 | 12.6 | 0 |
| Maruti | 62 | 102.8 | 24.4 | 32.5 | 6.52 | 3.64 |
| Kotak bank | 27 | 21 | 24 | 59.9 | -3.11 | 12.1 |
| Mahindra & Mahindra | 66.8 | 58.9 | 14.1 | 21 | -1.56 | 5.12 |
| Ultratech Cement | 101.9 | 81.8 | 19.84 | 32.54 | -2.71 | 6.38 |
| Asian paints | 11.7 | 12.6 | 37.8 | 59.4 | 0.93 | 5.83 |
| Sesa sterlite | 36.2 | 22.3 | 5.5 | 9.8 | -5.86 | 7.5 |
| Bajaj Auto | 105.5 | 103.7 | 20.3 | 23.7 | -0.21 | 1.96 |
| BHEL | 27.6 | 11.7 | 8.4 | 22.9 | -10.2 | 13.4 |
| Adani ports | 5.76 | 9.85 | 23.95 | 32.39 | 6.94 | 3.84 |
| Lupin | 23.7 | 57.5 | 26 | 24.8 | 11.7 | -0.57 |
| Bharati Infratel | 6.3 | 11.8 | 31.7 | 28.7 | 8.3 | -1.2 |
| Tech Mahindra | 97.7 | 106.9 | 9.5 | 24.3 | 1.1 | 12.4 |
| Hero Motor corp | 102.5 | 120.5 | 18.5 | 25.8 | 2 | 4.23 |
| Nestle | 109.8 | 118 | 45.3 | 54 | 0.9 | 2.24 |
| Bosh | 305 | 343.4 | 30.7 | 56.7 | 1.5 | 7.96 |
| NMDC | 6.4 | 17.7 | 10.3 | 8.7 | 0.9 | -2.5 |
| Idea cellular | 2.8 | 6.1 | 36.6 | 25.9 | 10 | -4.2 |
| Gail | 30.7 | 36 | 11.6 | 12.3 | 2 | 0.7 |
| Dr Reddy's | 85.1 | 125 | 21.5 | 25.7 | 4.9 | 2.2 |
| Adani Enterprises | 13.2 | 32.5 | 20.97 | 15 | 11.96 | -4.06 |
| Cipla | 19.07 | 15 | 21.9 | 41.9 | -2.95 | 8.45 |
| Bank of Baroda | 122.7 | 108.5 | 7.2 | 10 | -1.5 | 4.16 |
| BPCL | 179.38 | 64.4 | 2 | 10.16 | -12 | 22.6 |
| Cairn India | 61.7 | 57.3 | 5.2 | 4.2 | -0.92 | -2.73 |
| IndusInd bank | 20.3 | 30.1 | 20.9 | 26.9 | 5.08 | 3.2 |
| United Spirit | 21 | -370 | 93 | -7.6 | -110.94 | -43.88 |
| Eicher Motors | 119.5 | 187.9 | 24.47 | 81.1 | 5.8 | 16.2 |
| Power Finance Corporation | 29.87 | 44 | 6.9 | 6.9 | 4.96 | 0 |
| Motherson Sumi | 9.18 | 9.26 | 14.48 | 49.24 | 0.11 | 16.52 |
| PNB | 15.4 | 19.6 | 11.55 | 11.24 | 3.04 | -0.35 |
| Tata Steel | -2.82 | 30.4 | -155.3 | 13.3 | 54.9 | 55.5 |
| Zee entertainments | 7.2 | 7.2 | 30.9 | 52.5 | 0 | 6.84 |

## RESULT & FINDING OF STUDY

**(1) Pre Modi period- (01/01/13 to 30/09/13):** In the pre Modi period 46% of companies recorded negative growth rate in share price and 54% were having increasing trend in the market. Out of those companies whose share price increased during this period, more than 90% were export oriented themes or MNC consumer stocks. The reason for their positive performance was due to weak rupee. These are the stocks having negative correlation with rupee depreciation. Out of those stocks whose share price was in red were the domestic cyclical having positive correlation with rupee depreciation.

**(2) First phase of Modi period ( 01/10/13 to 30/06/14):** While analysing the stock performance during first phase of Modi period, the Modi effect on stocks was highly visible. In the broad spectrum of stocks 76% of stocks had abnormal increase of price, which is their CQGR during the period was higher than CQGR in pre Modi period. It is observed that out performers in previous period increased at a lower rate due to strengthening of rupee. During these three quarters FII invested around 88924 crore and lead to appreciation of Indian currency, which was supported by the Modi wave. This Modi effect was based on the sentiments of upcoming reforms and revival of the investment cycle. This up move was lead by domestic cyclicals and banks, i.e. the beaten down sector in the pre Modi period.

**(3) Second Phase of Modi period ( 01/07/14 to 31/12/14):** During this period, 80% of stocks were having positive CQGR but only 32% were on Modi effect as they have maintained the momentum by recording higher CQGR. After the budget announcement, there was a reversal of Modi effect in the market. During this period, only 42% of company's shares increased at higher rate. These same companies recorded a higher percent increase of CQGR of EPS than CQGR of PE. This clearly shows that now the key factors have shifted from sentiments to earnings.

## CONCLUSION

After this empirical study, we found that there was Modi effect on the Indian stocks. But the Modi effect was not same across the sectors. The Modi effect was high on domestic themes, domestic cyclical, PSUs and struggled sectors of economy. On the hope of easing of interest rate, reforms and recovery of investment cycle under leader ship of Narendra Modi, there was an abnormal increase in share price and were not supported by the earnings figure. This is evident by high increase of PE and not a proportionate increase of EPS. The Modi effect is still in the market but only on those stocks backed by earnings growth or clear prospects of reforms by the new government.

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