Sensex plunges 7.5% in a month to below 80,000; record FII outflows in October

The Sensex closed below the 80,000 mark for the first time in two-and-a-half months and the Nifty 50 lost 218 points to close at 24,180.

Written by Hitesh Vyas
Mumbai | Updated: October 26, 2024 00:34 IST

NewsGuard

5 min read

Among the NSE companies, the ones that fell included IndusInd Bank (19.82 per cent), Mahindra & Mahindra (4.86 per cent), Adani Enterprises (4.14 per cent), Shriram Finance (3.93 per cent) and NTPC (3.7 per cent). (File Photo)

THE DOMESTIC stock market continued its slide for the fifth consecutive day, with the Sensex and Nifty falling nearly 1 per cent each on Friday. With Friday's fall, the decline in benchmark Sensex over the last one month now stands at 7.5 per cent — the highest among all major indices around the world.

The BSE's 30-share Sensex tumbled 662.87 points, or 0.83 per cent, to close below the 80,000 mark at 79,402.29 on Friday for the first time in two-and-a-half months. The broader Nifty 50 declined 218.6 points, or 0.9 per cent, to end at 24,180.8.

The 7.5 per cent decline in the last one month or so comes on the back of 36 per cent gains over the previous 16 months. A sell-off by foreign portfolio investors (FPIs), escalation of conflict in West Asia, weak corporate results for the second quarter of the current financial year and deployment of funds into a series of primary market issues are reasons for the sharp fall, market participants said.

Among the major global market indices, India has emerged as the biggest loser over the last one month. Between September 26 and October 25, major global indices that witnessed a fall include Sensex (7.5 per cent), FTSE (0.25 per cent), Nikkei (2.41 per cent) and Bovespa (2.21). On the other hand, indices that have surged in the last month are Shanghai (9.99 per cent), Hang Seng (3.85 per cent), DAX (1.21 per cent) and Dow Jones (0.55 per cent).

While the Sensex surged 36 per cent between May 30, 2023 and September 26, 2024, it declined by 7.5 per cent between September 26 and October 25.

Some factors that market participants point to for the fall are money flowing from the secondary market to the primary market and the possibility of FPI funds flowing from India to China in the wake of a significant rise in Chinese markets.

"As conditions have changed, market returns should now moderate and there is a dearth of meaningful pockets of undervaluation. The recent sharp up move in Chinese markets after a period of significant underperformance could lead to FPIs diverting flows from India in the near term. Coupled with the large pipeline of stocks, a cautious approach is pragmatic," said Prashant Jain, CIO and fund manager, 3P Investment Managers.

G Chokkalingam, Founder & Head of Research, Equinomics Research Private Ltd, said the sell-off by foreign investors was also due to booking profits after the Sensex and the Nifty touched all-time highs and as the rupee depreciated to an all-time low of 84.07 on October 14.

FII outflows stood at a record Rs 85,790 crore in October so far — the highest in a month in calendar year 2024. Domestic institutional investors pumped in Rs 97,090 crore, but despite such strong support, the indices plummeted in October.

Weak performance of corporates in the second quarter also weighed on investor sentiments.

An initial analysis of corporate results for the second quarter, announced so far, shows that India Inc's growth rates in revenue and profits have taken a hit. The growth rate in net profit of 502 companies declined to 4.1 per cent at Rs 1,34,468 crore in Q2 of 2024-25 as against 37.8 per cent (Rs1,29,167 crore) in the same period of last year, according to data compiled by Bank Baroda Research. Sales growth of these companies stood at 7 per cent at Rs 11,12,434 crore in Q2 of 2024-25 as against 6.8 per cent (Rs 10,39,256 crore) a year ago.

EXPLAINED

Why the plunge in a month

HIGH valuations, geopolitical concerns, fund flow into primary markets and increased FPI allocation to China are key factors behind the sharp fall. India's medium to long term growth prospects, however, remain intact, experts said.

Small and mid-cap stocks crash

Over the last one month, small- and mid-cap stocks have also tanked over 8 per cent on concerns over higher valuation and as retail investors pulled out money from the secondary market to invest in initial public offering (IPO).

"Many individual mid and small stocks have crashed 20-30 per cent because of the valuation problem and shortage of liquidity in the hands of retail investors as a lot of money has gone to the primary market," said Chokkalingam.

Market outlook

Analysts are hopeful of recovery in the market within two months as India's growth story continues to remain robust. "We continue to remain sanguine about the medium to long term prospects of the Indian economy, corporate profits and markets, albeit with significant moderation in return expectations," said Prashant Jain of 3P Investment Managers.

Various valuation approaches show that Nifty 50 is moderately overvalued. However, the overvaluation is not substantial to warrant pessimism about the long-term prospects of Indian equities. "Nevertheless, considerable moderation of return expectations is in order. With the higher growth and lower cost of capital priced in, any margin of safety is clearly missing," he said.

First uploaded on: 25-10-2024 at 12:57 IST

TAGS: BSE Sensex Nifty 50