

IMPACT OF DEMONETIZATION ON SELECTED BSE INDICES

Dr. Ashvinkumar H. Solanki*
Ms. Hetal Tank**

ABSTRACT

This research paper gives an impact of demonetization on various BSE - Indices. Because in past, many countries have endeavored demonetization, some effectively and some unsuccessfully, yet every one of them were done when their economies were having significant issues like hyper - expansion in Germany in the 1920s. This is the first occasion when that a fit as a fiddle economy has endeavored it and that too to target dark cash. Since this is an in the first place, there are shifted conclusions among financial experts on what the effect will be later on. The prompt effect of expelling such a great amount of cash from dissemination is obviously the effect it can have on a few segments that are driven by the dark cash like land, development and so on., however more so additionally the divisions that are more determined with money, since they are influenced when so much cash is abruptly expelled from course.

KEYWORDS: *Demonetization, BSE-Indices, Digital India, GDP, Indian Economy, Dark Cash.*

Introduction

Demonetization of currency means irregularity of the specific cash from flow and supplanting it with another currency. In the present setting, it is the prohibiting of the 500 and 1000 section cash notes as a lawful delicate. The destinations behind this demonetization strategy are as per the following; in the first place, it is an endeavour to make India defilement free. Second, it is done to check dark cash, third to control heightening value rise, fourth to stop stores stream to unlawful action, fifth to make individuals responsible for each rupee they have and pay salary expense form. At last, it is an endeavour to make a cashless society and make a Digital India. On 8th November, 2016, PM Narendra Modi announced the cancellation of Rs.500 and Rs.1000 currency notes which results in 86% of the circulated money being removed from the economy overnight. This was primarily bone to curb the black money, make all the counterfeit currency worthless and attack terrorism at its root.

Review of Literature

CMA Jai Bansal (2017): The objective of this research work was to analyze the impact of Demonetization on GDP, to analyze the impact of Demonetization on different sectors of economy and to analyze the future impact of Demonetization on Indian Economy. Finally, he found that GDP of Country slightly decreases as compare with the previous year but we cannot say it will be same in future also. This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically.

* Associate Professor, Department of Commerce & Business Administration, Saurashtra University, Rajkot, Gujarat, India.

** Research Scholar, Department of Commerce & Business Administration, Saurashtra University, Rajkot, Gujarat, India.

S. Radhakrishnan, Dr. K. G. Selvan, Dr. S. Senthil Kumar (2017): The objective of this study was to analyze the impact of demonetization on construction sector. They finally conclude that the demonetization has caused a huge shock in the realty sector as it is eminently a cash involved one. Not only in secondary sector, but also in the Primary sector, most of the buyers and sellers prefer to have a major chunk in cash, restricting to only a lesser amount on transparent payments – by way of cheques and DDs. As such, this is the sector where hoarded money finds its place.

Dr. Partap Singh, Virender Singh (2016): The present paper highlighted the probable consequences of demonetization on various economic variables and entities. Finally, they conclude that if the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other-hand if the money finds its way in the economy it could have a meaningful impact. However, experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

Tax Research Team (2016): This paper elucidated the impact of demonetization on the availability of credit, spending, level of activity and government finances.

Anil I Ramdurg & Dr. Basavaraj CS (2016): This article has made an attempt to assess how the tool of Demonetization can be used to eradicate parallel economy.

Objectives of the Study

The objectives of this research work can be summarized as follows:

- To analyze the trend of selected sector-wise indices after demonetization.
- To examine the impact of demonetization on selected sector-wise indices by using T-test.

Research Design

- **Sources of Data:**

The present study is based on the secondary data and the data is collected from the official website of Bombay Stock Exchange www.bseindia.com. For the purpose of this study various articles and research papers are also reviewed.

- **Period of the Study**

The study covers the period from 23rd September to 21st December 2016.

- **Sample of the Study**

Here, for this research work 10 sector-wise indices are selected. They are

- S&P BSE AUTO
- S&P BSE BANKEX
- S&P BSE FMCG
- S&P BSE Healthcare
- S&P BSE IT
- S&P BSE METAL
- S&P BSE Oil & Gas
- S&P BSE POWER
- S&P BSE REALTY
- S&P BSE Telecom

Hypothesis Formulation

H₀: There is no significant difference between the selected sector-wise indices before and after demonetization.

Framework of Analysis

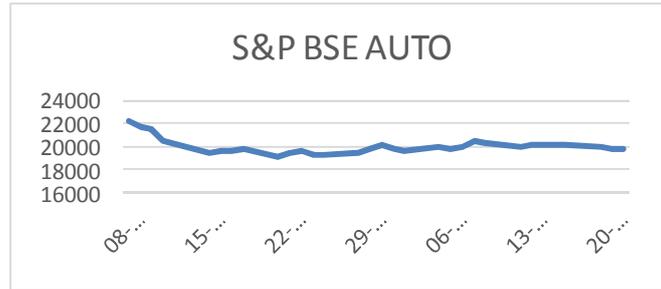
In the first part, the trend analysis is used for analyzing the trend of the selected sector-wise indices after demonetization. A trend analysis is an aspect of technical analysis that tries to predict the future movement of a stock based on past data.

In the next part, T-test: paired two sample for means is used to examine the impact of demonetization on selected sector-wise indices before and after demonetization.

Trend Analysis of Various Indices

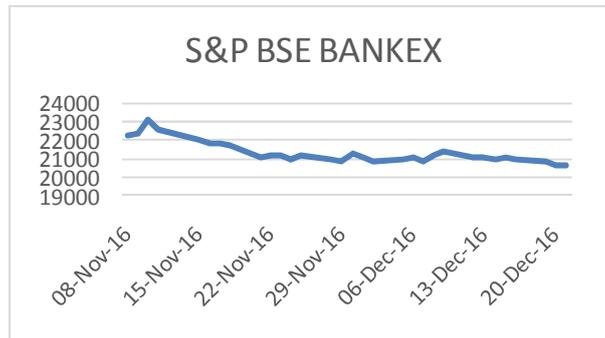
• **S&P BSE AUTO**

The S&P BSE AUTO index comprises constituents of the S&P BSE 500 that are classified as members of the transportation equipment sector as defined by the BSE industry classification system. From the following graph we can see that there is a fall of 750 points on the next day of demonetization. Till 30th November the S&P BSE AUTO was continuously declining. After that it has started raising but it is at a very low rate.



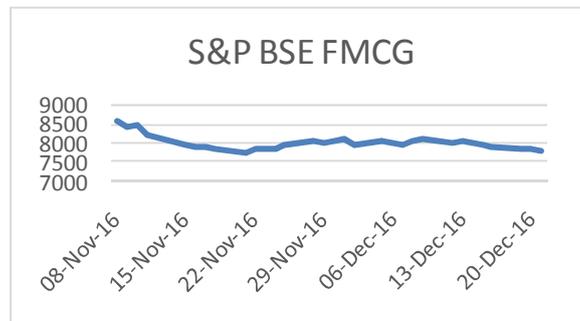
• **S&P BSE BANEX**

The S&P BSE BANEX index comprises constituents of the S&P BSE 500 that are classified as members of the banks sector as defined by the BSE industry classification system. From the following graph we can see that S&P BSE BANEX is raising at a very lower rate for 2-3 days after demonetization. After that it started falling. It declined by 581 points on 10th November.



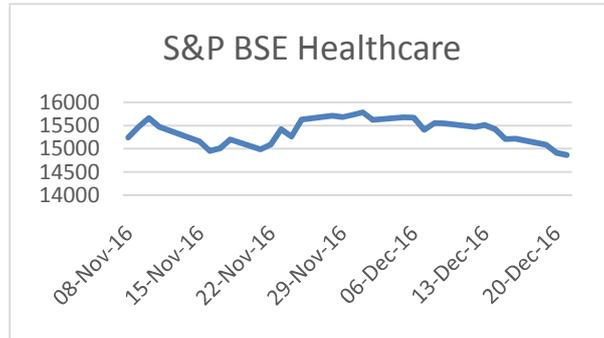
• **S&P BSE FMCG**

The S&P BSE FMCG is designed to provide investors with a benchmark reflecting companies included in the S&P BSE All-Cap that are classified as members of the FMCG sector. S&P BSE FMCG was continuously falling from 8th November to 24th November and it decline nearly 753.88 points during that period. After that there was a very little fluctuations in S&P BSE FMCG.



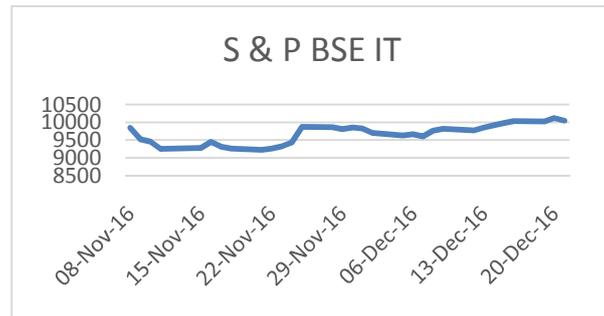
• **S&P BSE Healthcare**

The S&P BSE Healthcare is designed to provide investors with a benchmark reflecting companies included in the S&P BSE All-Cap that are classified as members of the Healthcare sector. The S&P BSE Healthcare index declined by 703 points from 10th November to 16th November. After that it started increasing.



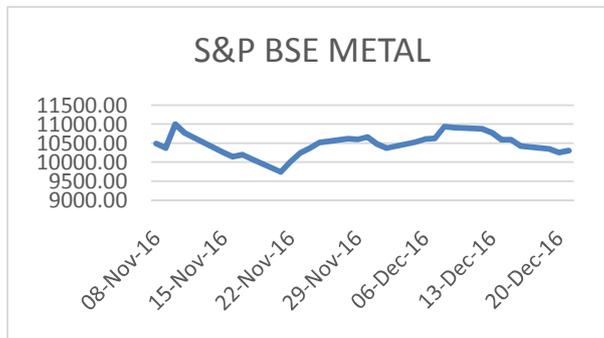
• **S&P BSE IT**

The S&P BSE IT is designed to provide investors with a benchmark reflecting companies included in the S&P BSE All-Cap that are classified as members of the information technology sector. The S&P BSE IT index declined by 566 points in 4 days after demonetization. After that again it reached to 9876.62 points on 25th November and then after there was a very little fluctuations in S&P BSE IT index.



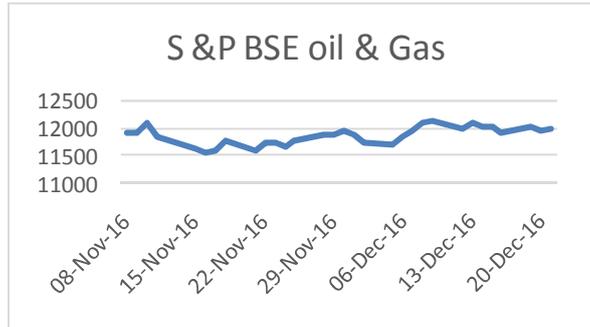
• **S&P BSE METAL**

The S&P BSE METAL index comprises constituents of the S&P BSE 500 that are classified as members of metal, metal products and mining sector as defined by the BSE industry classification. After demonetization S&P BSE METAL Index fall by 1261.01 points till the 21st November. It was the all-time lowest point during November 2016.



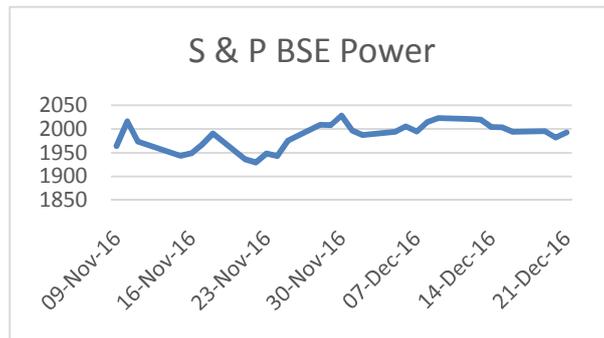
- S&P BSE Oil and Gas**

The S&P BSE Oil and Gas index comprises constituents of the S&P BSE 500 that are classified as members of oil and gas sector as defined by the BSE industry classification. From the following graph, we can see that the S&P BSE oil and Gas index was continuously fluctuating during the study period. It declined to 11545.89 points on 16th November and it was the lowest point during the study period.



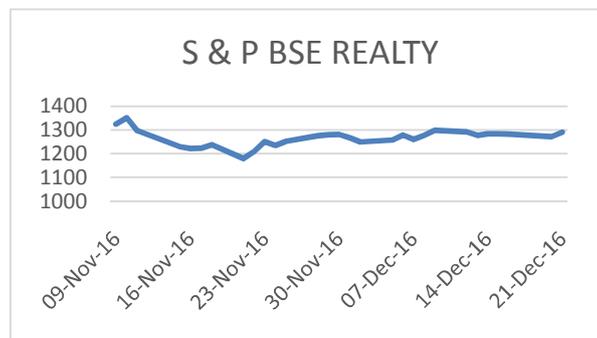
- S&P BSE Power**

The S&P BSE Power index comprises constituents of the S&P BSE 500 that are classified as members of heavy electrical equipment and electric utility sector as defined by the BSE industry classification. From the following graph, we can see that the S&P BSE Power index was fluctuating in both the directions after demonetization. It suggests that the demonetization has not affected a lot to the S&P BSE Power index.



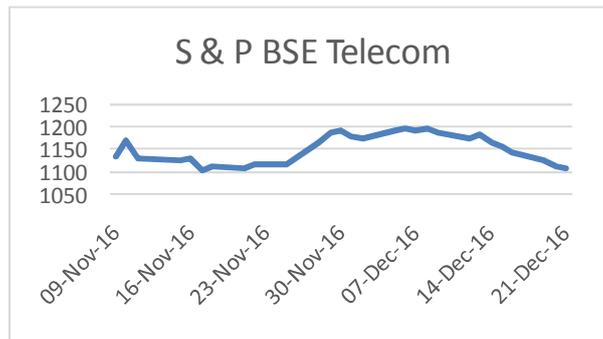
- S&P BSE REALTY**

The S&P BSE Realty index comprises constituents of the S&P BSE 500 that are classified as members of real estate sector as defined by the BSE industry classification. After demonetization, S&PBSE Realty fall by 295 points till 21st November and after it started raising and eventually it became less fluctuating.



- **S&P BSE Telecom**

The S&P BSE Telecom is designed to provide investors with a benchmark reflecting companies included in the S&P BSE All-Cap that are classified as members of the telecom sector. From the following trend-analysis we can see that after demonetization there is a very flat decline in the S&P BSE Telecom index. Within a very few days it reached to the high level again. So it suggests that demonetization has no or little impact on the S&P BSE Telecom index.



The table given below shows the average of 30 days of selected sector-wise indices before and after demonetization.

Average of Selected Sector-wise Indices Before and After 30 days of Demonetization		
Indices	Before	After
S & P BSE AUTO	22330.01	20036.60
S & P BANKEK	22246.37	21318.94
S & P BSE FMCG	8514.61	7988.77
S & P BSE Healthcare	16246.90	15382.75
S & P BSE IT	10137.15	9665.40
S & P BSE METAL	10179.25	10477.03
S & P BSE Oil and Gas	11944.05	11858.97
S & P BSE POWER	2012.48	1987.27
S & P BSE REALTY	1536.94	1266.93
S & P BSE Telecom	1182.18	1153.10

T-test: paired Two Sample Means

Particulars	Before	After
Mean	10632.9928	10113.57527
Variance	61803795.54	53808334.86
Observations	10	10
Pearson Correlation	0.99773916	
Hypothesized Mean Difference	0	
Df	9	
t Stat	2.24028502	
P(T<=t) one-tail	0.025909565	
t Critical one-tail	1.833112933	
P(T<=t) two-tail	0.051819131	
t Critical two-tail	2.262157163	

From the above table, we can see that the P-value is less than 0.5. That's why the null hypothesis is accepted. So, it suggests that there is no significant difference between the selected sector-wise indices before and after demonetization.

Findings and Conclusion

- **S&P BSE AUTO:** Demonetization hits the automobile industry very hard. S&P BSE AUTO decline by 2734 points after demonetization because the monthly automobile sales growth rate in India slipped a 16-year-low in December with total vehicles sales declining by 18.66%. As per SIMA (Society of Indian Automobile Manufacturers), "This is the highest decline across all categories since December 2000.

- **S&P BSE BANKEX:** The banking sector took a hit after the demonetization but recovered on 21st November. However, this is one sector which is expected to benefit in the long term because a lot of black money is deposited in banking system will also help to address the non-performing assets problem that many of the banks are facing due to bad loans.
- **S&P BSE FMCG:** S&P BSE FMCG was continuously falling from 8th November to 24th November and it decline nearly 753.88 points during that period. The FMCG industry has been hit because it is largely dependent on cash. The traditional trade has been hit hard, especially wholesalers and kirana stores where transactions are largely in cash.
- **S&P BSE Healthcare:** The S&P BSE Healthcare index declined by 703 points from 10th November to 16th November. Demonetization has not impacted a lot the Indian pharma market and the demand is also not impacted in a big way. However, luxury hospitals has seen some impact due to spending cuts. That's why the S&P BSE Healthcare fall for a very temporary period.
- **S&P BSE IT:** The IT sector has been largely unaffected by the demonetization as it is export oriented hence relatively better positioned to handle shocks in the Indian economy. Moreover, it is probably also largely a cashless sector and hence also not affected due to the cash being taking out of economy.
- **S&P BSE METAL:** Real estate slowdown has hit steel, and may hit further. Aluminium, copper, zinc also hit since they are raw materials in building industry products. If auto sales are hit badly, metals business will do worse.
- **S&P BSE Oil and Gas:** The demonetization of high denomination currency should only have a marginal impact on the Indian oil & gas sector, the brokerage house says. It sees a marginally adverse medium-term impact on sales of petroleum products. It reiterated its preference for refiners (HPCL, BPCL, and IOC) in the oil sector and Petronet LNG among the gas utilities.
- **S&P BSE POWER:** Demonetization has prompted liquidity crunch in the economy influencing modern creation. This will prompt constriction in power request and may make little misfortunes the influence plants designers and the conveyance organizations because of unutilized limit.
- **S&P BSE REALTY:** The realty sector has been affected by the demonetization exercise, as it has traditionally seen a very high involvement of black money and cash transactions. The resale properties segment has been taken a big hit.
- **S&P BSE Telecom:** There is temporary impact of demonetization on Indian telecom sector. There is no material impact as average transaction size is very small. However, slowdown in smartphone sales has potentially slower adoption of mobile broadband subscriber penetration.

Overall Analysis

The result of T-test says that there is no significant difference between the selected sector wise indices before and after demonetization. It shows that the impact of demonetization on stock market was temporary. Sure, the BSE Sensex is a bit lower now since 8th November, but then there are many other besides demonetization that have affected the markets, which has been Donald Trump's election as president of the US and subsequent rise US bond yields and the strengthening of the dollar. That has led to funds flowing out from emerging markets and India too has been affected.

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