



## Impact of Demonetization on Sectoral Indices of NSE

Hemlata Tiwari\* & Dr. Shambhu Nath Singh\*\*

\*Research Scholar & \*\*Assistant Professor,

Institute of Economics & Finance, Bundelkhand University, Jhansi.

\*Email: [hemlata.tiwari04@gmail.com](mailto:hemlata.tiwari04@gmail.com)

### Abstract

*India has highest currency in circulation in comparison to other countries of the world. It is around 12.1 % of our GDP. To change this practice of cash circulation a sudden move has taken by our honorable Prime Minister Mr. Modi on November 8, 2016 regarding demonetization of two highest currency denominations of our country. This initiative brings lot of repercussions in our economy. This move is taken to support cashless economy & to put a check on black currency in our circulation. Due to this step our GDP went down to 7.1% in the last quarter of 2016 comparison to 7.6% in earlier. Demonization removed 86% of our currency out of circulation. This incidence impacted almost all the sectors of our economy. That day biggest fall was observed in Indian equity market in comparison to other Asian market. Sensex went down by 3.8% & Nifty went down by around 1.3%. Apart of this there was a down ward trend observed in almost all the sectoral indices. It means all the sectors got affected by demonetization process. Some sectors have shown much impact in comparison to other like banking, auto, FMCG & realty got affected a lot comparison to other sectors. The experts all over the world predicted that due to this move Indian economy will go in somewhat depression. But now after six month after demonetization Indian share market is doing really well. Though GDP growth rate is somewhat down but share market is moving upward direction. Nifty moved up by around 12 % post demonetization. This shows strong fundamentals of our economy. All the domestic & foreign investors are putting their money in Indian equities. People have trust in strong growth of our economy that why they are putting their money in share market. Though unorganized sectors impacted a lot due to cash crunch but there is no sluggish growth in major sectors of our economy due to this move. It has further supported the vision of cashless society in our nation.*

**Keywords:** Demonetization, Cash less, Sectoral growth, NSE, Liquidity.

### 1. Introduction



A few months back a revolutionary measure has taken by the government of India. On November 8, 2016 two highest currency denominations has withdrawn from circulation. Suddenly old currency notes of Rs. 1000 & Rs. 500 have removed from our system. The government has given a deadline by December 31, 2016 every one has to deposit their old currency note of above mention denomination. After this date citizen has to give some penalty in the form higher income tax rate. There are so many reasons behind this sudden move taken by our honorable Prime Minister Mr. Modi.

- He doesn't want to give any time for preparation to black money holders to hide it further.
- Another major reason is to put a check on parallel economy. India's neighbor countries are supplying lot of fake currency in our country & by this they are supporting terrorism in our country.

This move will help to put a hold up to some extent on the circulation of fake currency in our system. Somehow this will also suppress terrorism related activities in our country.

Due to this radical move India come in news all over the world. Everyone has different views regarding this step of our government. The common people have suffered a lot due to cash crunch & long queue in banks for currency exchange. Still citizen has given their fully support for this decision of our government to curtail black & parallel economy from our system.

Though banking sector got lot of boom due to this move, it impacted almost all the sectors of our economy. Few sectors have got lot of hike, another moved in reverse direction. The National Stock Exchange (NSE) has considered as barometer of Indian stock market. Above 90% transaction in equities & 100% transaction in derivative market is done on this stock exchange.

NSE has lot of indices. These indices are representative of all the major companies of different sectors of our economy. Apart of common indices like nifty, NSE has several Sectoral indices too. Which are representative of particular sector like Nifty auto, energy, FMCG, IT & infra indices. To see the Sectoral growth post demonetization, by study of above stated indices individually we can get a clear picture.

In this study, we have taken data from NSE – Auto, FMCG, Reality, Bank, Energy, Pharma, Media, Metal, IT & Financial services. By the help of above mention indices we studied the impact of demonetization on different sectors of our economy.

## **2. Objectivity**

1. To study the direction of market movement post demonetization.



2. Explore the Sectoral movement of NSE indices.
3. To find out impact of this move in short & long run on different sectors of our economy.

### **3. Data Collection and Research Methodology**

This paper is based on secondary data. The data related to sectoral indices has been collected from NSE website i.e. [www.nse.com](http://www.nse.com). After collection of data, we draw line graph by using MS- Excel. We made this graph for short run & long run, so that we can do comparative analysis of market movement. Apart of this graph we calculated percentage changes for individual sector, this will help to know exact movement of sectoral indices post demonetization.

### **4. Literature Review**

This is a very recent issue still researcher has done lot of study on different perspectives of this macroeconomic event. Here is the glimpse of few research works which has covered all the related dimensions of above stated event.

Sinha Dr. Ambalika & Rai Divya (November11, 2016) has written an article “Aftermath of Demonetization on Rural Population”. This paper has covered consequences of demonetization on rural people & unorganized sector. Authors focus on this segment because this segment uses minimum cashless transactions.

National Institute of Public Finance & Policy on November 14, 2016 by tax research team, no. 182 has written a research paper on the topic “Demonetization : Impact on the Economy”. In this paper they have mention impact of cashless economy on organize & unorganized sector of our economy. They further studied this impact in short, medium & long term. There is a survey made on citizens banking & shopping habits. On the basis of this survey conclusion are drawn regarding benefits of demonetization.

Mehta Shweta, Patel Kruti & Mehta Krupa (December 2016) has written a research paper on “DEMONETISATION: SHIFTING GEARS FROM PHYSICAL CASH TO DIGITAL CASH”. In



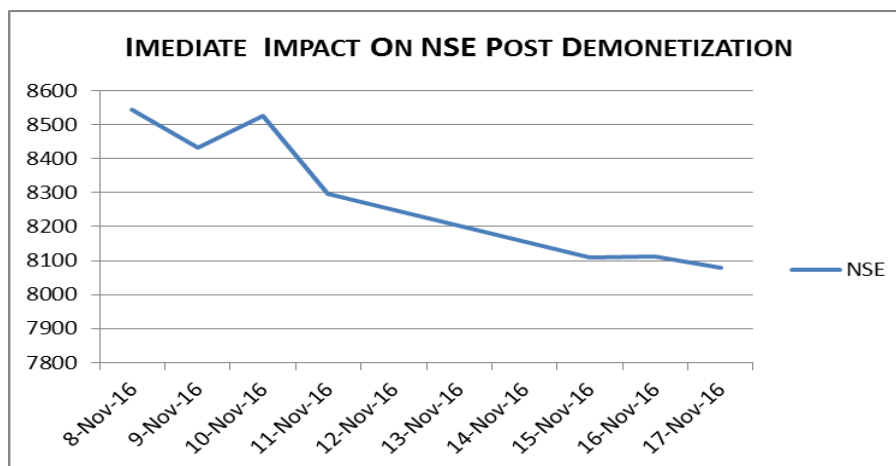
their article authors have try to find out alternatives of physical cash by such as online bank transfer, e- clearing, e- KYC, digital locker and Unified Payment Interface.

Veerakumar K. (2017) has written an article on “A STUDY ON PEOPLE IMPACT ON DEMONETIZATION”. In this author has taken four variables namely gender, age, annual income, occupation & try to find out their association with the impact of demonetization.

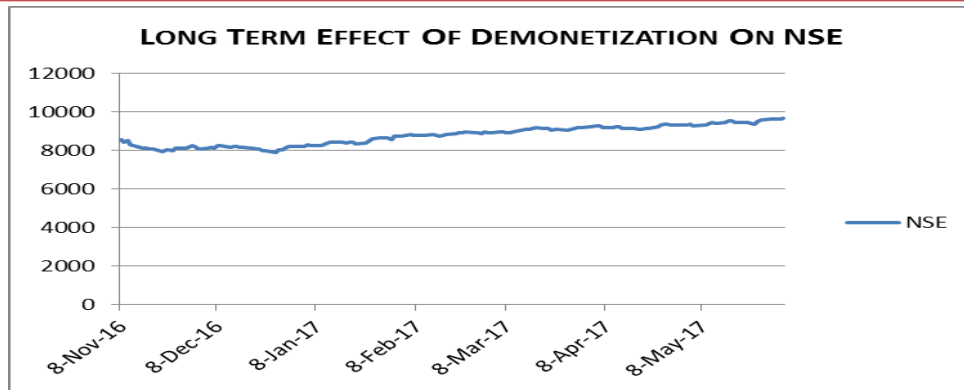
Muthulakshmi E. Kamatchi & Kalaimani Dr. G. has written an article on “Impact of demonetization on Indian economy”. In this article they have given emphasis on government move to eradicate black money from our system. This will put a check on corruption.

### 5. Data Analysis and Interpretation

In this study we have taken data from November 8, 2016 to June 2, 2017 for comparison purpose we divided it in short & long run. By this we can see both short & long run impact of demonetization on Indian stock market. In this for short run we have taken data up to November 17, 2016. By the help of this data we can see the movement of NSE & different sectoral indices in the short & long run.



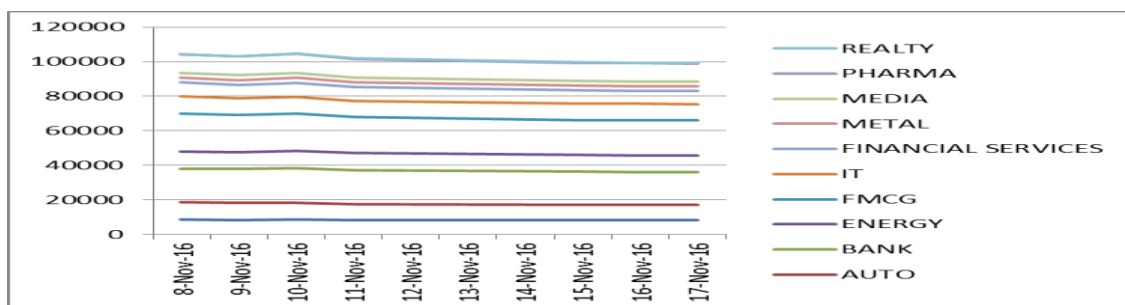
By this graph movement we can observe that NSE Nifty is on 8543.55 levels on November 8, 2016 & it comes up to 8075.95 levels on November 17, 2015. It is the immediate impact as the news of demonetization comes to public.so we can say in short term Indian stock market went down post demonetization.



This graph is drawn to see long term effect of Demonetization. From the level of 8543.55 on November 8, 2016 nifty move on 9653.5 on June 2, 2017. So by this graph we can say that Indian economy is doing really good post demonetization. Though in short term for around two month it went down because whenever such a big changes appear people take time to adjust. Same ways Indian economy has taken time to incorporate changes. Now a day Indian stock market is doing very well as shown in above mention graph.

We will move see the movement of sectoral indices of NSE in short & long run. It will give sector - wise performance of Indian equity market post demonetization. By this study we come to know how is the individual sector is performing. The way sectoral growth got influence by liquidity crunch of our system.

### 6. Sectoral Indices Performance Post Demonetization in Short Period



In the above mention graph we can see the movement of different sectoral indices of NSE . We will analyse there individual movement in detail one by one.



**NSE-AUTO:** This indices was constructed to measure the performance of automobile sector. It covers manufacturing of cars, motorcycles, heavy vehicles, auto ancillaries & tyres etc. This was at 10079.7 on November 8, 2016 & move upto 8915.6 level on November 17, 2016. It shows a down fall in automobile due to cash crunch post demonetization.

**NSE-BANK:** This indices shows the performance of banking sector in capital market. Banking indices was at 19500.8 level on November 8, 2016 & move up to 19087.85 level. This is the major sector of indian economy which comes in picture due to demonetization. Around 410 point (2.1%) downfall in banking sectors shows that due to demonetization banking also got negative impact in short run. It may be due to liquidity crunch, banks are not able to fullfill public demand of cash in starting days of demonetization.

**NSE-ENERGY:** Energy indices was on 9821.7 level on the day of demonetization got announced. This comes to 9678.4 level. It shows this sector also got a short term fall due to removal on high currency denomination in circulation.

**NSE-FMCG:** This indices cover all the fast moving consumer goods. Which is moves fast. It was on 21902.85 level, which moves down to 20154 level. This sectors shows a downfall by around 8%. It may be due to liquidity cruch in short run in our system. So people are not able to buy much immediately.

**NSE-IT:** This indices is the represtative of one of major sector of indain economy. Which are contributing biggest share in our economy. IT indices was at 10008.4 level on November 8, 2016 & moves on 9496.2 marks on November 17, 2016. It shows a downfall of of 5.1% due to demonetization. Though this sector does not related much on liquid currency but some how it got impacted by this phenomenon.



**NSE-FINANCIAL SERVICES:** This indices made to track performance of all the financial services & bank. It moves from the level of 8011.35 to the level of 7642.3. In this sector too there is a downfall post demonetization in short term.

**NSE-METAL:** This indices is made to measure the performance of mining sector. Metal indices was on 2739.2 level on November 8, 2016 & it moves to 2662.95 on November 17, 2016. This sector moves little bit down but it does not show much influence of demonetization on this sector.

**NSE-MEDIA:** The NIFTY Media Index is designed to reflect the behavior and performance of the Media & Entertainment sector including printing and publishing. This indices was on 2860.35 level which moves up to 2641.9 on November 17, 2016. It shows a negative movement of around 7.6%. Media sector also got a downfall due to demonetization.

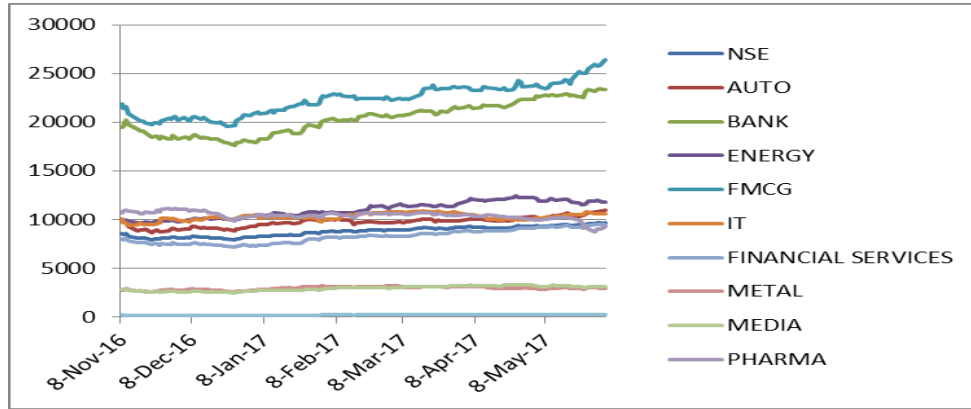
**NSE-Pharma:** Pharmaceuticals sector is one of the key sectors where Indian companies have created a global brand for themselves besides software. Indian companies have taken advantage of the opportunities in the regulated generics market in the western countries and made deep inroads especially in providing low cost equivalents of expensive drugs. Pharma sector move down by 0.65% which is very less so we can say this sector does not get affected by demonetization. This sector represents the essential commodity of life saving drugs. That's why it does not get affected by any currency crunch.

**NSE-REALITY:** This represents our infrastructure sector, which is known for huge currency investment. This sector moves by around a downfall of 19.2%. There is a lot of involvement of black money in this sector so in the stage of liquidity crunch this sector got affected by maximum points.

We can say from the above mentioned sectoral analysis that almost all the sectors went down post demonetization in short term. Some sectors show a little movement while sectors like reality show a large downfall due to demonetization. Due to this Indian GDP also went down post

demonetization. Now we will analyse long term impact of demonetization on our economy. Is it recovered from short term fall or it went further down.

### 7. Long Term Sectoral Indices Movement of NSE Post Demonetization



This is a broader picture to show how the different sectors reacted post demonetization phenomenon. It shows their performance from the day of announcement made by our honorable Prime minister Mr. Modi about demonetization of two highest currency denomination of our economy.

### 8. Percentage Changes in Sectoral Indices of NSE Post Demonetization (Till June 2, 2017)

SECTORAL INDICES	PERCENTAGE CHANGES
Auto	8.56
Bank	19.9
Energy	19.7
FMCG	20.54
IT	6.00
Financial Services	18.75
Metal	6.72





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Media	8.69
Pharma	-13.23
Reality	28.15

All the above stated figures in above table shows that our stock market has done very quick & positive recovery post demonetization. All the sectors are doing really very well though the experts said this phenomenon will affect reality sector a lot but it shows highest growth rate of 28.15%. Which is highly appreciable. Only pharma sector went down which is not affected by demonetization in short term term too. This negative movement is a particular industry phenomenon which is not due to demonetization.

Due to demonetization our GDP went down in the third quarter of 2016 & first quarter of 2017. But the growth rate of our National Stock Exchange is showing that domestic & foreign investors have strong believe in our fundamentals.They are expecting higher growth rate in long term that why they are putting there money in Indian equities.

### **9. Conclusion**

The above studies shows the strong fundamental growth rate of major sectors of Indian economy. The stock indices shows performance of all the major companies of particular sector. Though in India stock market has only 4% representation in our GDP. Still it is considered as a major parameter to measure our growth rate globally.If post demonetization Indian equity is doing well this means it is a positive measure taken by our hounarable Prime Minister.There is some problem arise due to liquidity crunch in unorganize & rural sector of our economy.The Indian citizen has shown their full support to make India as a cashless society.



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