IMPACT OF ELECTIONS ON SHAREHOLDER VALUE CREATION IN INDIAN MARKETS

DR. B. RAMESH
PROFESSOR, FORMER DEAN & HEAD, FACULTY OF COMMERCE & MANAGEMENT,
GOA UNIVERSITY, GOA, INDIA
AINSLEY GRANVILLE ANDRE JORGE BERNARD
RESEARCH SCHOLAR, FACULTY OF COMMERCE & MANAGEMENT, GOA UNIVERSITY, GOA, INDIA

ABSTRACT
The stock market plays an important role for economic growth of a country and is a reflection of the status of the affairs of a country at any given point of time. In recent years, the Indian stock market has been impacted by many factors including political factors, economic factors and technological factors to name a few. We are in technological world where news could be spread across the globe within a short span of time thereby enabling investors to swiftly analyse market related news. Political events usually tend to have a great impact on the stock market especially in a country like India where the mass population associates themselves with some or the other political parties. The current research aims at analysing the impact of the Lok Sabha Elections on the Indian Stock Market. The study concludes that over the years elections have created value for the shareholders. With the looming economic situation in the country and elections round the corner; if history repeats itself, the 2019 Lok Sabha elections would definitely create wealth for the Indian Shareholders.

Keywords: *Stock market, Lok Sabha, elections, wealth, shareholders*

I. INTRODUCTION

History has demonstrated that stock markets play a vital role in economic growth of a country. Political events usually have grand impact on the stock market movements. In many cases, the stock market fluctuates because of political announcements such as regulation promulgation, law amendments and national elections. Moreover the 2019 Lok Sabha elections are one of the most important elections in the Indian political history. In a democracy like India where in the mass population is deeply connected with various political parties, the election result day is very important for the equity markets. A decision mandate, irrespective of whose favour it is in provides direction to market. An indecisive or fractured mandate causes the stock market to tumble. It is ultimately the chemistry between various political parties that drives the Indian equity markets.

Markets very often work on speculation, news or anticipation of something positive or negative. Elections tend to reflect what's in store for next five years. Although this might not be true in reality but the very fact that markets move on perception, makes the general elections an evident driver of the Indian stock market. The positive buzz around the government always helps in bringing back the interests of the retail investors and Foreign Institutional Investors. A more economy focused government will always yield wonderful returns for the market in the long run. A lot of companies benefit from the increased allocation towards infrastructure and other sectors like transportation, health amongst others. So basically, the whole chain of economic activity gets a boost. What government does in its budget is also significant for the companies as regards to taxation and the sector wise allocation of the funds. The stock market is basically a sentiment game and once the mood is upbeat and confident, even the bad news is discounted.

II. LITERATURE REVIEW

Kumar Deva B., Sophia Sharon and Jucunda Evelyn Maria (2015) attempted to study the effects of the Lok Sabha Elections on Stock Market Performance. The study mainly focused on effects of the 16th Lok Sabha election on stock market performance in India. Various factors which affect the stock market performance during election period were analysed and significant relationship between Lok Sabha elections and stock market performance has been found to exist. Sentimental analysis about the companies as well as Portfolio optimization for the companies which are listed on BSE SENSEX was conducted for the study period. The research established a significant relationship between Loksabha elections and the stock market performance.

Yi-Hsien Wang, Mei-Yu Lee and Che-Yang Lin (2008) utilised event study and panel data to examine the effects of general election and political change in developed stock markets. The analytical results demonstrate that there is inverse information during the campaign. Furthermore, the results provide evidences that political change was originally intended as an incumbent party impetus to create opportunities for progress. This has caused great political party distress, creating political change with an inverse stock market relationship in developed countries.

James Ndungu Kabiru, Duncan Elly Ochieng and Hellen Wairimu Kinyua (2015) made an attempt to analyse the effect of general elections on stock returns at the Nairobi Securities Exchange. Empirical results have given inconsistent results on whether general election events negatively or positively impact the stock returns. The study found that market reaction to elections is highly negative or positive depending on the volatility of the election environment. Analysis of the cumulative abnormal returns (CAR) found that the 2002 and 2013 general elections were insignificant, while the CAR around the 1997 and 2007 general election events were found to be significant at 5% level of significance. The study recommends that the stock market, investors and other stakeholders should not overlook electioneering events and should implement policies that will cushion the equity market against political risks during general elections to enhance investor confidence.

Forester and Schmitz (1997) studied the effect of US election cycles on international returns and found some interesting observations around international stock returns. The study showed that stock returns from eighteen Organization for Economic Cooperation and Development (OECD) countries between the years of 1957 and 1966 appeared to follow a pattern consistent with the US presidential cycle, thus indicating the effect of the political cycle may affect more than just the US economy.

III. OBJECTIVES

1. To measure the effect of Lok Sabha Elections on performance of the Indian equity markets.
2. To determine the impact of Lok Sabha elections on shareholder value creation in Indian markets.

IV. HYPOTHESIS

H0: Lok Sabha elections do not create value for shareholders in Indian markets.
H1: Lok Sabha elections create value for shareholders in Indian markets.

V. LOK SABHA ELECTIONS IN INDIA

Election Year	Major Challenges in pre-election year	Discussion
1990-91	• Political uncertainty and unstable governments. • India avoided BOP crises by keeping gold as a security. • Gulf War	Most challenging pre-election year in the history of Indian politics characterised by domestic as well as world politics and a worsening economic scenario.
1995-96	• Several government scandals followed by resignation of several cabinet members. • Tense communal environment, Ayodhya Issue, riots, bomb blasts, etc.	Significant challenges faced due to scandals and communal violence. Liberalisation policies undertaken by the government helped opening up the economy.
1997-98	• Deep political uncertainty and crises at the centre. • Rising power of left-parties. • The biggest political party Congress in complete disarray.	Economy was facing challenges due to indecisiveness of previous two governments thereby giving rise to significant political uncertainties.
1998-99	• Deep political uncertainty and crises at the centre. • Short lived government. • Rising power of left-parties. • The biggest political party Congress continues to be in complete disarray.	The economy was not ready to face yet another election happening hardly within a year of the previous election. The Indian manufacturing sector was underperforming and companies were facing the pressure of global competition.
2003-04	• Very stable political scenario in the country. • Both the national parties were facing elections with strong pre-poll alliances.	The shadow of the global crises of the burst of the dot com bubble was just over.
2008-09	• World's biggest financial crises. • Collapse of the US Financial Market had a huge impact on the global economy. • Inflation at a life time high. • UPA had become a dominant force.	The global economy was plagued by the financial crises affecting markets across the world.
2013-14	• Subdued growth with high inflation rate. • Several political agitations stalled the normal functioning of the government. • Government charged of several serious scams.	The election was a fight against corruption, black money and a promise to bring about transparency. Growth of NPAs in Public Sector Bank coupled low profitability was the major issue plaguing the Indian banking sector.

VI. DATA ANALYSIS

1. Pre- election year performance of equity market

Table 1: Pre- election year performance of equity market

YEAR	RETURNS
1991	27%
1996	22%
1998	4%
1999	66%
2004	86%
2009	(28%)
2014	22%

Source: Author's Compilation

Table 1 makes an attempt to analyse the pre-election performance of the Indian equity market. It is clearly visible that the Indian stock market has delivered returns and created wealth for the Indian shareholders across all election years except in the year 2009 thereby indicating that election outcomes have had a positive impact on the Indian Stock Market. The year 2008-09 was a very difficult year for economies across the globe due to recession and its effect has been witnessed in the Indian market.

2. Fundamental Factors during election year

Table 2: Fundamental Factors during election year

YEAR	AVERAGE PRICE/ EARNING RATIO	AVERAGE PRICE/BOOK VALUE	AVERAGE DIVIDEND YIELD
1991	19.5	3	1.4
1996	19	3.4	1.3
1998	14.4	2.8	1.5
1999	14.6	2.6	1.7
2004	16.4	2.9	2.0
2009	15.6	3.3	1.5
2014	17.94	3.01	1.46
Average	16.8	3	1.55

Source: Author's Compilation

Table 2 makes an attempt to analyse certain fundamental factors during the election year viz. Average Price-Earning Ratio, Profit to Book Value and Average Dividend Yield of the Indian Stock Market for the election years in India. A higher average PE Ratio indicates that the investors are presently willing to pay a higher price for the shares because of growth expectations in the future. The average PE Ratio for the election years is 16.8 which is a reflection of the optimism concerning the future prospects of the market. The average P/BV Ratio for the period of study is 3 which is often considered as a ideal P/BV Ratio by value investors. The average dividend yield is 1.55 for the period of study.

VII. CONCLUSION

The Indian equity market has witnessed tremendous growth over the last decade and the investor base has increased manifold. Over the years, inflow of household savings into equity has improved due to the inherent ability of the market to create consistent wealth for the shareholders over a period of time. The stock market is affected by various factors including political, technological and economical factors which exert pressure on the equity market.

In India, one of the world's largest democracy, the Lok Sabha elections tend to result in fluctuation in the market as in is a roadmap of what is in store for the country in the next five years. From the analysis it is amply clear that elections have generated consistent returns and created wealth for shareholders in Indian markets over the years. A healthy PE Ration, P/BV Ratio and Dividend Yield is a clear indication that wealth has been created for shareholders over election periods. With the country being at the brink of elections in the current year 2019, it is to be seen whether history repeats itself by creating value for the shareholders.

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