

Aftermath demonetization in stock market: A study

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Abstract

After demonetization the economy had affected the different sectors mainly, retail, stock markets, E-commerce, financial inclusion, Gold market etc., In this study the 3 different sectors are taken into consideration, i.e., State Bank of India, Hindustan Uniliver limited, Indian steel. Demonetization has the positive impact of the economy. To control the black money and inflation rate demonetization came into effect. The study describes the signals for the purchase shares, and difference between the opening price and the closing price.

Keywords: demonetization, closing price of shares, signal for purchase, histogram

Introduction

Demonetization is an act of replacing the in-use national currency notes & coins with newer notes and coins. PM Modi announced on the evening of 8th November 2016 that the currency denomination of Rs. 500 and Rs. 1000 will no more be in use and in its place newer notes will be introduced along with a new note of Rs. 2000. This move has been taken to curb the menace of black money and counterfeit currency by declaring old notes invalid and replacing them by newer ones.

This is an act of stripping a currency unit of its status as legal tender. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Demonetization is necessary when there is need of development in particular economy. The main aim of demonetization in India is to increase the cashless transaction.

Time chart of demonetization

- 12th January 1946 The measure did not succeed as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs.134.9 crores were changed. Thus, notes worth only Rs.9.07 crores were probably “demonetized”, not having been presented. Rs. 1000 and Rs.10000 were withdrawn and new notes of 1000, 5000 and 10,000 were introduced in 1954.
- 16th January 1978 The Janata Party coalition government again demonetized banknotes of 10,000, 5000, 1000. The demonetization of high denomination bank noted was a step primarily aimed at controlling illegal transactions.
- In 1980 stainless coins of 25paise, 50 paise, and 1 rupee coins were introduced, after a period. 10 paise coin went out of circulation in the market. Coins are get demonetized from June 30, 2011. Coins are 1paise, 2 paise, 5 paise, 10 paise, 20 paise, 25 paise and government had issued the notification on December 2010. 1000 and 10000 were in circulation between 1938 and 1946. 1000, 5000 and 10,000 notes were reintroduced in 1954 and demonetized in 1978.

- Mahatma Gandhi series notes were introduced in 1996 are being replaced by the MG series 2005 with some additional security features pre.2005 banknotes are exchanged at any bank branch till June 30 2015.

Hence coins have the greater value than the face value. The amount of producing the one coin is are more than the value printed in the coin. The government faces more revenue problems in making a coin

Methodology

- **Data Collection:** Secondary data
- **Tools Used:** Econometric Tools
MACD analysis.

Review of earlier stories

R. Sunita and Dr. Hansa Lysander Manohar (2017) study about the value of Indian rupee against the us dollor. The value of Indian currency are decreased after demonetization. The Indian rupee depreciated by 5.71 percent against us dollar. The efforts are made highlighted and necessary steps taken by the government when the notes are demonetized and causes and effects of demonetization in the particular period.

Geetha Rani (2016) explained about the effects of demonetization in retail outlets. Credit span extension was given by whole seller and also by retailers. Through this study demonetization effect will be positive in Indian economy, adopting the cashless transaction there will be check on black money.

Mrs. Porinita Banrejee and Mr. Vasimraja sayyed (2017) studied about the consumer behavior of purchasing through online. The study is to understand and analysis the consumer frequency on buying the product and the mode of payment after demonetization through online shopping.

Parul Mahajan and Anju Singla (2017) studied the effect of demonetization for ordinary individual, informal sector, rural population, MSMEs, NBFSSs, MFIs and e- wallet. One of bank deposits called binami deposits also come up with the effect of demonetization in India.

NikitaGajjar (2016) study about the black money in India and measures to control the black money, and where the black

money gets generated in different levels. To control the black money demonetization is the best to control the black money in India. Demonetization reflects policy, strategies and procedure that government are pursuing.

Dr. M. Celladurai and Dr. V. Sornaganesh (2016) stated that about 98% of peoples are using cash for purchase of product. The impact of demonetization in different sectors like professionals, FMCG goods, e-commerce industry, non-banking finance companies, small medium enterprise, stock market, etc concluded with the reduction of black money in the economy, and improvement of technologies like ATMs, paytm, etc, for day to activity.

B.M. Saini (2015) stated that ways to control the black money and anti-laundering, most of the developed and developing countries are moving towards to cashless transaction. Mostly 68% is of population are using cash for transaction before demonetization. The major benefits of demonetization is cashless transaction which makes time consuming, safe and secure, up gradation of technology etc.

Objective of the study

- To study the concept of demonetization,
- To analysis the share price,
- To calculate the signal of share with closing price.

Effect of demonetization in different sectors

Banking sector

Taking into consideration that the banking rules itself is losing credibility because of frequent interest in RBI/government policies, AIBOC General Secretary Harvinder Singh said customer dissatisfaction is increasing because of chaos and confusion created in implementation of the scheme.

Retail sector

a) Offline Retail

Given the high propensity of Indians to deal in cash, the immediate aftermath of PM Modi's demonetization announcement has caused considerable inconvenience among retailers and their customers. Organized, large retailers and malls too are facing a drop in sales and decreasing amount of store footfalls, but in the long run can expect normalcy to be restored as customers increasingly adopt to making payments digitally.

b) Online Retail

During the 8th-13th November week, the cash on delivery (CoD) volumes were down by 60% than usual. Flipkart claims that they experienced a dip in sales by 25-30% after the announcement. Generally, the leading e-commerce companies register returns of about 13-15%, but has doubled up ever since demonetization took effect, with most cancellations arising out of cash on delivery.

Steel industry

The steel production will be badly hit due to the withdrawal of cash out of the economy especially since steel depends on various input cycles with short credit terms and those which need immediate settlements. Steel production is likely to be concentrated amid those who can afford to have longer credit cycles, most probably the plants with greater degrees of integration. This will create asymmetries in steel production,

with rise of oligopolies and higher prices through lower volumes of markets. Higher prices will create space for imports and which will then be done through credit with money settled in currency abroad leading to a drain of money form India through the aegis of the Indian steel industry

Analysis

State bank of India

State Bank of India is the one of the largest bank in Indian economy. After demonetization signal of share is increased from the month of January to march. At the mid of March the signal is decreased, because the circulation of money is get normal. The signal of share are reduced. With the help of closing price the signal and histogram are calculated.

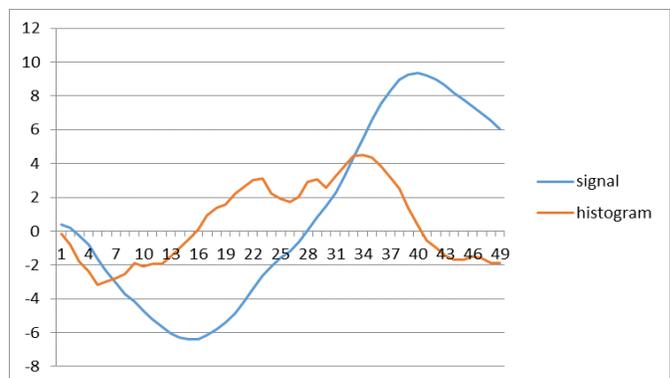


Fig 1

Hindustan Uniliver Limited

Hindustan uniliver limited is one of the most famous retail company. When the notes 500, 1000 are banned the circulation of money decreased. Through this demonetization the retail sector gets more affected. So the share price of the Hindustan uniliver limited was decreased. The signal for purchase of shares, are reduced because the use of the product by the public is reduced. When the amount are get circulated normally, the share price are normal and the closing price is increased form the month of February.

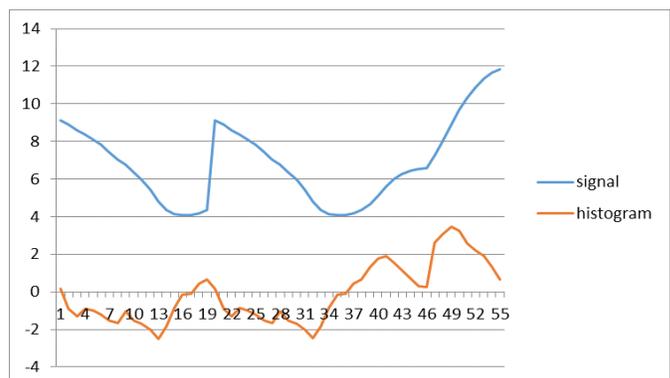


Fig 2

Indian Steel Company

After demonetization in India in November, a slowdown in construction could affect demand. Jefferies notes a third of domestic steel deman comes from the construction industry. Infrastructure is about 20% and Autos is 12%.

Slowdown construction due to demonetization could affect steel demand.

- Construction 35%,
- Infrastructure 20%,
- Autos 12%,
- Pipes 10%,
- Capital Goods 8%,
- Others 15%

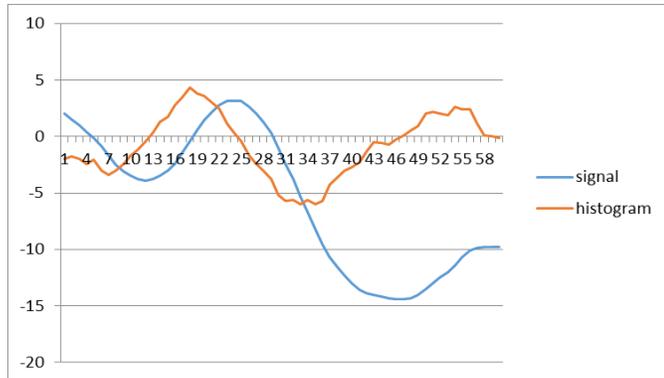


Fig 3

Result and Discussion

Demonetization help to control the black money, but in stock market the value of shares are decreased, because of the insufficient circulation of money in the Indian economy.

The reason the Selection of these state bank of India are after demonetization the large amount are deposited in bank, so the investment activity is more in the banking sector.

Hindustan Uniliver limited is selected because the high retail products are supplier by the company. At the time of demonetization the purchase of product are reduced. The value of the share of the particular company are decreased after a month the development is high in the retail sector.

Indian steel are taken into consideration because the basic raw materials are issued by the steel company. So when the demonetization came into effect the supply of steel are decreased. The signal of shares are increased in the month of December when the old are accepted for certain period. After January the share price is low because the raw materials are stored by the people.

Conclusion

The paper conclude that demonetization impact is high in the month of November and December, when the circulation of money gets normal, the signal for the purchase of shares increased. Demonetization affect more in the retail sectors, when the closing price are reduced and share value is decreased. In banking sector the huge amount of deposits are raised so, the signal for purchase of shares increased in the month of November and December makes normal in the month of January and February.

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