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13. Impact of Covid 19 on Stock Market in India

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Abstract:

Conditional heteroscedasticity models are used to examine how stock price volatility in India is affected by COVID19. The Indian stock market's reaction to the COVID-19 lockdown is examined in this study. After the COVID-19 lockdown, an investigation has been launched to see if the Indian stock market's response will be the same pre-and post-lockdown. This study examines the influence of COVID-19 on the Indian stock market. The (NIFTY50), India's most important stock market index, and the companies that comprise it were therefore the focus of our investigation. The purpose of this research is to examine the impact of Covid-19 on several financial stability indices, including stock market valuations. After the Lockdown began in 2020, Covid's Lockdown had a major influence in India. While there was an increase in volatility throughout the crisis period for all of the strategy indices, this suggests that the pandemic's effects will persist for some time after it has ended. Consequently, investors will be able to make better investing judgments because of this research.

Keywords: *Stock Market, Indian stock market, Covid 19, Pandemic.*

13.1 Introduction:

The Corona virus is believed to have originated in Wuhan, China (also known as COVID-19). People who are infected can pass the virus on to others by coughing or spitting out their saliva or nasal secretions. More than one-third of the world's population has been quarantined due to a corona virus epidemic. More than 200,000 people have died and more than 2 million have been infected worldwide as a result of this virus. Markets around the world are on edge due to fears of a worldwide financial system crash In recent years, India's economy has progressed at a snail's pace. Unemployment rose, interest rates fell, and the stock market became more volatile as a result of the lockdown. Investors are gloomy despite

India's low corona virus infection incidence compared to other countries. There will be a substantial impact on India, but it is unlikely that a recession will result from Covid-19, according to economists.

The Indian stock market is quick and responsive to changes in the global economy. On January 30th, India received information of the problem; on March 24th, 2020, the government finally agreed to implement measures to stop it. This is an alarming loss of time of about 53 days. It's possible that it reduced the virus's transmission among the general public. In the wake of the government shutdown, how did the stock market fare? In this event study, the stock market shutdown triggered by COVID-19 is defined using the semi-strong variant of the market efficiency theory (Fama, 1970). "Event studies" is the term for these types of investigations (Fama, 1991). When COVID-19 was announced, this study looked at how soon security prices reacted.

Both the Bombay Stock Exchange (BSE) Sensex and the National Stock Exchange (NSE) Nifty are significant stock indices in India. The Sensex index of the Bombay Stock Exchange fell by 13.2 percent on March 23rd, 2020. In 1991, the Harshad Mehta Scam broke and they fell to their lowest single ever (Mandal, 2020). It has also fallen nearly 29% since the beginning of the year. A 'Black-Swan Event', as defined by some economists, is an event that is unexpected and has a significant negative impact on the economy. The government's lockdown strategy has resulted in factories reducing their workforce and manufacturing capacity, which has impacted the supply chain. People cut back on their consumption as a result of the general sense of unease, which creates a supply-side shock.

There was a previous pandemic that affected only the supply chain, according to recent studies. Nonetheless, the pandemic of COVID-19 has impacted both the demand and supply chains. Publicly available information and past stock prices are both considered in the semi-strong Efficient Market Hypothesis. There is a lag time before the price reflects all the available facts in a market with semi-strong market efficiency. There is a wide range of lag times based on the market, individual security, and way of sharing information. Based on stock market data from India, this study attempts to support the semi-strong variant of the EMH. It's (Foster, 2012). The study's authors wanted to see how a market shutdown affected the average abnormal return of different equities.

13.2 Review of Literature:

It has been determined that the COVID-19 virus has had a negative impact on the international trade and financial policies of US enterprises, particularly those with exposure to China, in a study conducted by Ramelli and Wagner (2020). The author came to the conclusion that the health issues intensified the economic crisis through numerous financial channels.

For example, the unintended consequences of economic issues on the spread of infections and how limited resources can be allocated to limit infection spread were all addressed by Adda (2016), who used to quasi-experimental variation to evaluate the importance of the police, who had been ordered by the federal government to reduce interpersonal contact and to shut down public transportation.

Research by Ozili and Arun (2020) on the influence of COVID-19 on the world economy was undertaken during this time period, from January to March of that year. Government policies like fiscal and monetary policy, public health initiatives, and commercial limitations were utilised in this research. Restrictions on internal travel and increased fiscal policy spending influenced the level of economic activity, but the increasing number of verified coronavirus cases had no significant effect.

To find out how the financial crisis affected specific countries' performance, Eleftherios Thalassinos et al. (2015) carried out research. The financial crisis had an impact on capital markets in ten nations, and a variety of metrics, such as turnover, stock market capitalization, and share price indexes, were used to demonstrate this. Eastern European economies were particularly hard hit by the economic crisis, according to their results. Reductions in stock markets, curtailed credit, and a decline in exports impacted even the countries that had a smaller influence.

Ksantinia and Boujelbène (2014) examined the impact of the financial crisis on GDP growth and investment in 25 countries. The use of control variables allowed researchers to monitor trends over a period of time from 1998 to 2009. It was established that the financial crisis had a major effect on GDP growth and investment levels.

An investigation into the weekday effect in times of financial crises by Hourvouliades (2009) was published in 2009. The six regional equity markets examined in this study included Turkey, Bulgaria, Romania, Ukraine, and Cyprus, as well as Greece. There were five emerging markets and one mature market included. According to the conclusions of this study, the weekday effect vanishes completely after two subperiods in more developed economies.

From April 2005 through May 2020, the impact of the day of the week on the Indian stock market will be analysed. COVID-19 and the Indian stock market's recent demise will be explored to see if they have any bearing on the impacts of the day of the week.

13.3 Research Methodology:

Researchers hope to find out if the lockdown period leading up to the event dates has any major beneficial AR and the speed at which knowledge regarding lockdown announcements is incorporated into market safety prices.

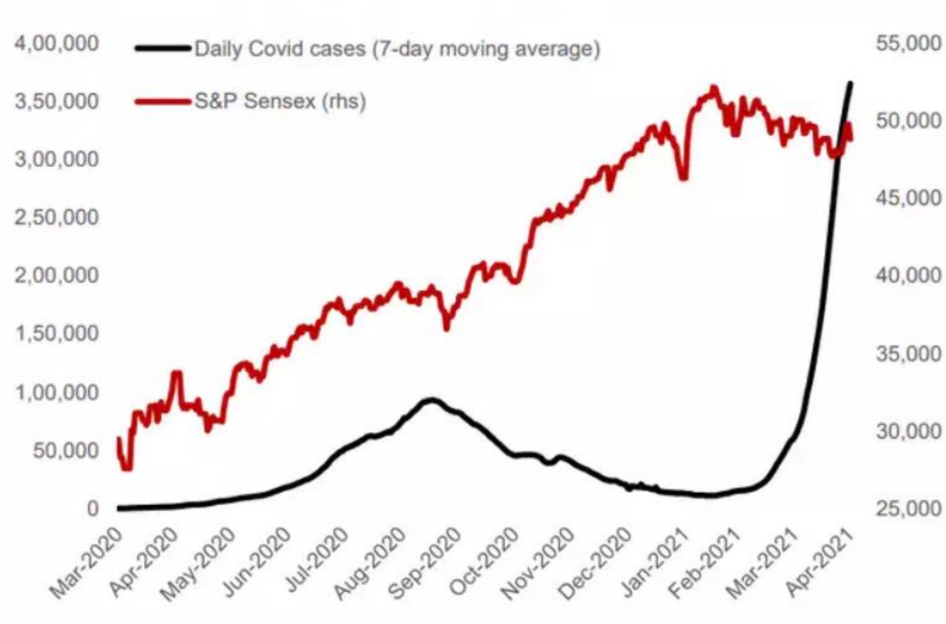
During the lockdown triggered by COVID-19, the Indian stock market experienced major changes, and this study explores how those changes have altered over time. According to the research, the Indian stock market will be affected by the breakout of COVID-19 by the end of March 2020. NIFTY50 was utilized as a yardstick for market activity. The examination focused on the NIFTY50 components of the index.

13.4 Result and Discussion:

In response to the stock market's apathetic response to the destructive Covid-19 waves, the Indian govt. has encouraged local governments to implement more targeted containment methods that are more localised and focused in order to minimise the economic impact.

For the week ending May 23, the Nomura India Business Resumption Index (NIBRI) fell to 60, down from 63 the previous week. It has recovered to levels observed in June of last year after a full rebound in February of the index that analyses high-frequency economic indicators such as mobility, electricity demand and unemployment.

A. Daily Covid Cases Vs Indian Stock Market Performance:



Source: Our World in Data, Bloomberg, As of April 2021

B. Increasing economic growth in India and Covid:

Since much of India's industrial activity has not been shut down, the country's economy is not expected to take as severe an impact as it did in 2008. IMF revised India's production growth prediction for next year from 11.5% to 12.5% when the spike in Covid cases became apparent in early April. Our economic defences have been breached, though, thanks to Covid. In July, the government expects GST receipts to slip below Rs 1 trillion, according to official estimates.

C. Effects on the stock market:

No one can figure out why the market is so resilient to Covid 2.0, participants included. Nifty has risen by nearly 6% in the recent month. Financial services firm Franklin Templeton said that when the government speeds up its vaccination deployment and lifts lockdowns, "this second wave will have a short-term impact on the country's economic recovery," in a report published Tuesday.

Figure 1 depicts NSE stock prices for the time period under consideration. Before Feb 2020 (the pre-COVID-19 period), the prices of both indices show a nearly straight line. After the first case in India is reported and the first lockdown is announced at the end of March 2020, the steep begins to decrease. From April 2020 onwards, there is a positive tendency in the data. Since the government relaxed its lockdown strategy in April, this has happened.

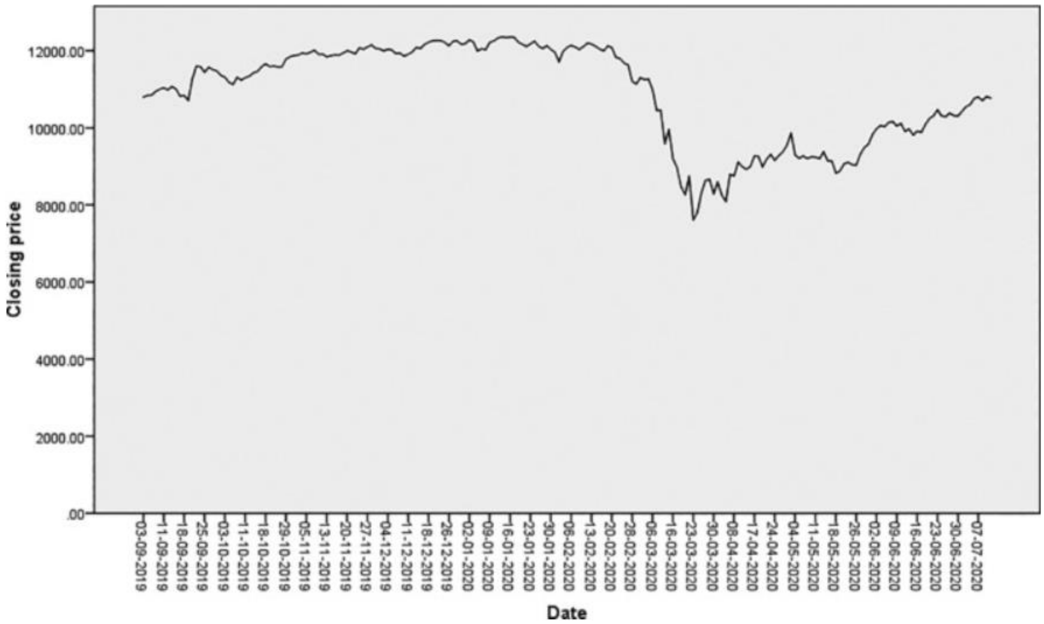


Figure 13.1: The NSE Stock Price Over Time Depicts.

(Source: https://www.ncbi.nlm.nih.gov/)

Corona virus' effect on the stock market was assessed by examining the share prices of the top ten NSE-listed businesses. The data was based on the closing stock prices of each week. At the beginning and end of each week, the opening and closing prices, as well as the high and low values, of a given share are reported. In order to get a sense of how investors view a company's future, we used closing prices.

The index up and down during the pandemic, as shown in Figure 2. According to the data, the pandemic in India began with a 15–17 percent decline. April saw an upward trend as the market recovered from March's lows.

Figure 13.2: NIFTY50 price chart

(source: NSE) https://www.mdpi.com/1911-8074/14/11/558

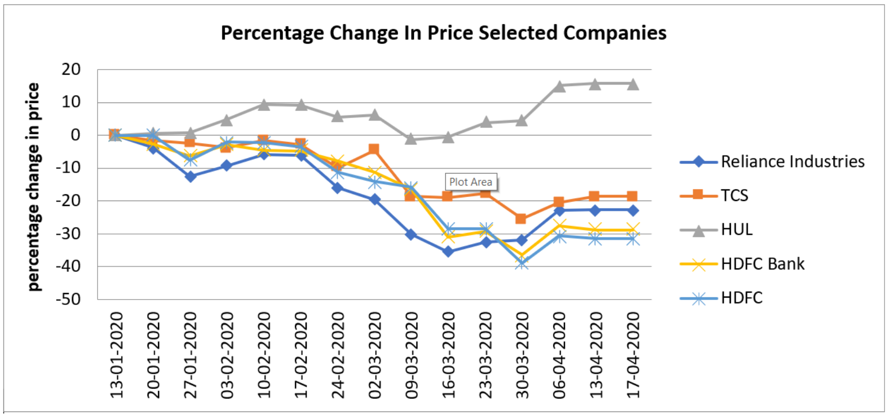


Figure 13.3: Price Selected Companies with Percentage Change [from 1 to 5] in the series (Source: ref no [7])

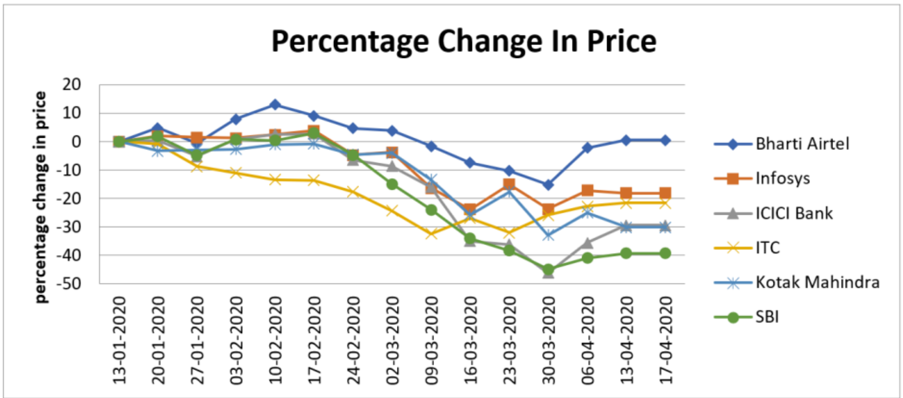


Figure 13.4: The percentage change in price of companies in the range of 6 to 10 in the series (Source: ref no [7])

Table 13.1: Valuations in India pre covid and post covid: while review of various Indices which are used as a benchmark in India:

Indian Sector	Benchmarks Identified	Market cap/ Indices value (pre covid)- 1st jan -2020	Market cap/ Indices value (post covid)- 31st mar-2020	% change	Indices value – 26th Jun-20	% Change (with pre-covid)
Auto	BSE Auto	18,393	10,746	-42%	15,288	-17%
Aviation	Performance Indices	19,966	12,685	-38%	13,450	-32%
Building & Const.	BSE India Infrastructure	178	116	-35%	181	1.7%
Consumer (FMCG)	BSE FMCG	11,462	10,255	-11%	11,144	-3%
Consumer (Discretion)	BSE Consu-mer Discret	3,705	2,566	-31%	3,180	-14%
Financial Services	BSE Finance	7,001	4,300	-39%	4,900	-30%
Information Technology	BSE IT	15,569	12,843	-18%	15,067	-3%
MSME	BSE 250 Small Caps	2,023	1,336	-34%	1,724	-15%
Metal and Mining	BSE Metal	10,404	5,713	-45%	7,386	-29%
Oil and Gas	BSE Oil and gas	14,707	10,021	-32%	12,829	-13%
Power	BSE Power	1,961	1,378	-30%	1,611	-18%
Pharma	NSE Pharma	8,047	7,177	-11%	10,300	28%
Telecom	BSE Telecom	1,113	972	-13%	1,308	17%
Transport & Logistics	Performance Index	15,022	9,363	-38%	12,065	-20%

(Source-NSE India, BSE India, Capital IQ and money control)

During a review of 14 sectors over 3 time periods pre-Covid, post-Covid (immediate), and post-Covid (still in Covid stage and operational with removed lockdowns) three things are important observed being-pharmacy sector is on the upswing with reason being all focus on medicine for Covid, telecom sector is also on the upswing with more business moving to the internet and operations on zoom or Google meet and third sector are three things that are observed. There has been a significant decrease in market value across all sectors in India, with the notable exception of the pharmacy industry. Most affected sectors are encountering a wide range of issues including supply chain disruptions; a fall in consumption levels; lower demand and income levels; high fixed costs; and uncertainty about long-term economic trends. Aviation and logistics, which are affected by demand shocks like autos and real estate, are among the most heavily impacted industries because they are aligned with global markets on both the demand and supply side. They also depend on other industries that are also heavily impacted, like financial services and metals, for demand.

13.5 Conclusion:

The COVID-19 pandemic has had a negative impact on India's global economic participation. In light of India's population being the second-largest in the world, the pandemic poses a significant risk. The COVID-19 has an impact on nearly every stock exchange in the globe. An unprecedented calamity was sparked by a virus that brought the world to its knees. Lockdown and social exclusion are the only options available until a vaccination is discovered to stop the virus from spreading.

Because of COVID-19, the financial market's foundation has crumbled. The government must implement the right policies in order to raise stock prices. If it weren't for the extraordinary policy support, the crisis could have turned out much worse. As a result, measures to increase liquidity are necessary. Reserve Bank of India (RBI), India's central bank, has reduced its key policy rate by an additional 115 basis points after three months. As of March 27, 2020, it had announced a liquidity injection of approximately Rs 8 lakh crore in the financial markets.

13.6 References:

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