

IMPACT OF COVID-19 ON INDIAN STOCK MARKET AND CORPORATE GOVERNANCE POLICY

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Abstract

Many industries have been badly affected due to the covid-19 pandemic. The study shows that in the coming times, the financial condition of the major companies and firms of the country may get worse. This situation is expected to remain for some quarter or half yearly after COVID-19. It has had a positive impact in some industries. On the other hand, since the COVID-19 has arrived, the corporate board faced difficulty in decision making. For example, let's take a question on dividend payment: before COVID-19, the decision would be straightforward to applying the dividend policy from past practices or on shareholders expectations or on the basis of companies earning however post COVID-19, it's complex to take decision as the economy has crashed and it has been difficult to balance multiple factors.

Keywords: Stock Market, Corporate Governance, COVID-19, BSE, NSE

1. Introduction

Corona pandemic has badly affected our country as well as all the countries around the world. Any country in the world, ether its economic condition is good or bad but this pandemic has tortured everyone equally. India, China, Italy, Spain, England and the United States have been the most affected by COVID-19. The United States of America blamed China for the worldwide corona virus that killed millions. Post COVID-19 the government and regulatory bodies of India and other countries have not stayed silent on the changed economic condition and have announced the recovery plans to help the society and businesses to cope with the effects. The Board of directors has taken this crisis as the opportunity to acknowledge the vulnerability of the business and take action accordingly. After COVID-19, our country is in a state of changing into more resilient, sustainable, and get fairer companies. To get this done the board of directors should adopt the holistic approach and change their focus from shareholders to stakeholders. By addressing the board's stakeholders' concerns the company can achieve shareholders too. Corporate governance practices are playing a vital role in helping businesses to emerge from this pandemic.

Figure 1

US	China	Japan	India
Annual GDP (\$ billion)*: 20,544.34	Annual GDP (\$ billion)*: 13,608.15	Annual GDP (\$ billion)*: 4,971.32	Annual GDP (\$ billion)*: 2,718.73
GDP growth in 2019 (%)*: 2.30	GDP growth in 2019 (%)*: 6.00	GDP growth in 2019 (%)*: -0.70	GDP growth in 2019 (%)*: 4.70
Covid cases/Million [^] : 1,855	Covid cases/Million [^] : 57	Covid cases/Million [^] : 60	Covid cases/Million [^] : 8
Covid deaths/Million [^] : 79	Covid deaths/Million [^] : 2	Covid deaths/Million [^] : 1	Covid deaths/Million [^] : 0.30
Total Mcap (\$ BN)**: 29,149.41	Total Mcap (\$ BN)**: 7,199.67	Total Mcap (\$ BN)**: 5,237.09	Total Mcap (\$ BN)**: 1,570.84
Mcap/GDP**: 1.42	Mcap/GDP**: 0.53	Mcap/GDP**: 1.05	Mcap/GDP**: 0.58
Exp GDP Growth (JAN)#: 2.00	Exp GDP Growth (JAN)#: 6.00	Exp GDP Growth (JAN)#: 0.70	Exp GDP Growth (JAN)#: 5.80
Exp GDP Growth (APR)#: -5.90	Exp GDP Growth (APR)#: 1.20	Exp GDP Growth (APR)#: -5.20	Exp GDP Growth (APR)#: 1.90
Benchmark index PE**: 16.39	Benchmark index PE**: 13.13	Benchmark index PE**: 16.91	Benchmark index PE**: 18.78

Source: acetforafrica.org

According to various reports, the global economy has been affected to a great extent by the corona virus and still has potential. According to the International Monetary Fund (IMF), global GDP is said to be the lowest since the Great Depression of 1930, which is 3 percent. The government is taking various measures to reduce and better combat the effects of COVID-19. The government has issued several guidelines under which people should wash their hands frequently, maintain distance from other people, cover sneezing, and control the incoming and outgoing traveler in the country. Special attention is being paid to wearing masks and washing hands frequently. The government has also allowed many types of vaccines, under which it has become mandatory for all people to get two doses of vaccine. Regular physical exercise and yoga have also been suggested as an effective way to control the effects of corona virus.

2. Literature Review

Mehtap.A(2021) studied the COVID-19 lessons learned for business and governance. The paper talks about the responses from the governments and future projections on the governance of the companies. Patra.s,das.J(2021) examined the impact of COVID-19 on the corporate governance on Bajaj finances ltd and Infosys. And found that the pandemic comes with commercial risk which impacted the business operation due to disruption to meeting, administration, dividend and liquidity management and etc. Kucera.W, Simala.J,Noreuil.A(2020)studied about corporate governance key issues for public company directors during the time of COVID-19.Shankar Rishika (2021) this study describe the covid-19 and its impact on Indian stock market as well as world best stock market. In this study researcher has to measure the daily average return of BSE and NSE stock market during the pandemic. The finding suggests that all the sector of Indian economy was performed very poor and negative. These pandemic maximum sectors followed a consistent pattern of negative economic growth. The entire market witnessed decreased returns and increased liquidity, which is explained by reduced volatility in the market.

3. Research Methodology

This paper is based on secondary data in general. This decision was the best time to research the secondary data as people were not allowed to step out of their homes. Secondary data has been collected from various sources containing GDP and other inflation related data during the

lockdown. The period of the study is March 2020 to march 2022. In this paper analyze the relationship between stock market return and COVID-19 cases. The collection of data is done by secondary management libraries, periodicals, newspapers and periodicals. This paper describes in detail the estimated losses/profits of business organizations during the lockdown. The correlation and disruptive statistics used for interpretation of linkage between COVID-19 cases and stock market return. The time period of the data we have taken is the era of COVID-19 which is presented on a quarterly basis. In the study of the paper, the analysis has been done on a quarterly basis only. In this paper analyze the impact of covid-19 on Indian stock market as well as corporate governance polices.

4. Objectives of the study

- Impact of COVID-19 on Indian industries and stock market.
- Relationship between stock market return and number of cases COVID-19.

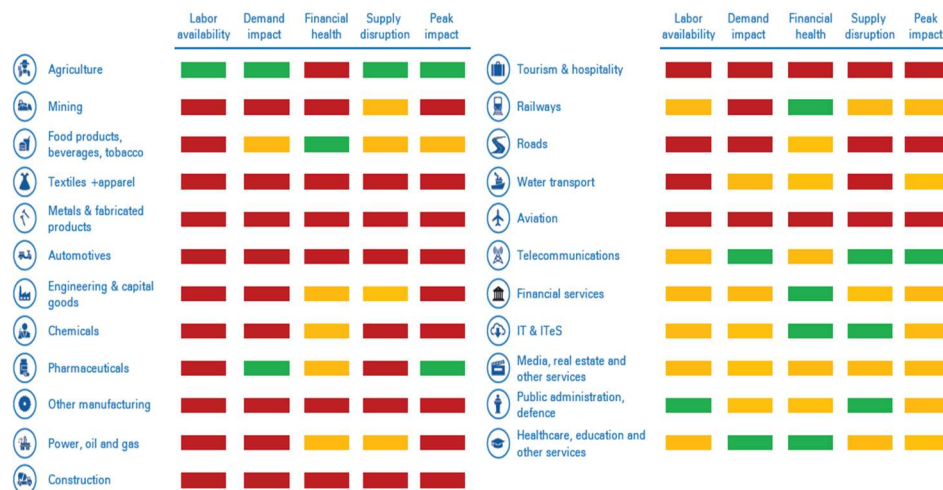
5. Discussion and Analysis

Impact of COVID-19 to Various Industries in India

There are many sectors which are affected by COVID-19 and their revival prospects are not very good in the times to come. Their profitability continues to decline due to COVID 19 and the fixed cost remains intact. Like the media and entertainment industry; Due to the closure of all the multiplexes, even the big companies have to bear heavy losses. To emerge from this pandemic, business organizations have taken loans from commercial banks and other financial institutions. Despite the bad financial condition they have to pay interest on the loan which is a big problem for them.

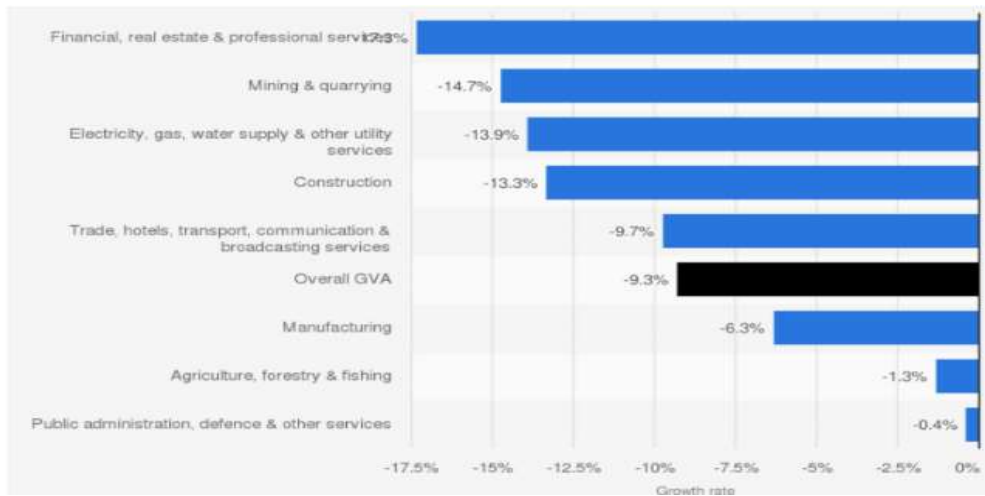
Figure 2

Figure 6: ADL COVID-19 India sector impact framework



Source: Arthur D. Little analysis

Figure 3

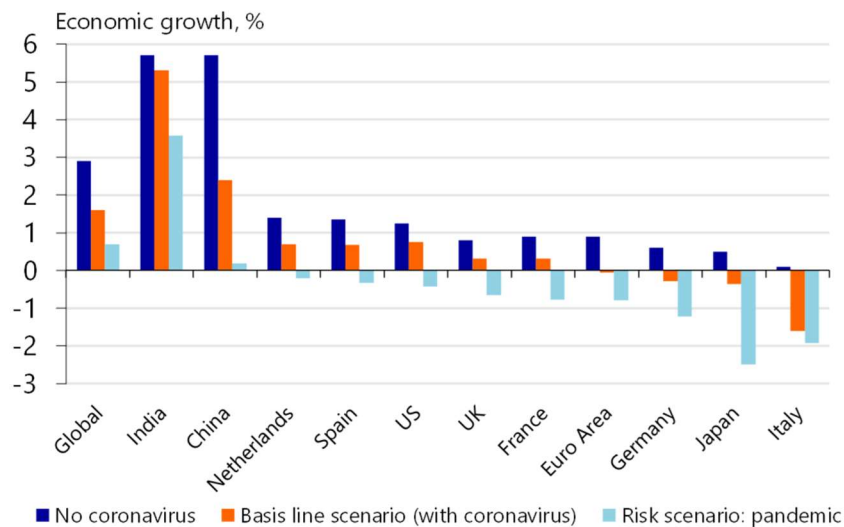


A high debt-to-equity ratio shows that companies are raising more money through debt rather than equity. A high debt-to-equity ratio also indicates about the potential risk associated with the particular organization. However, debt to equity ratio is much higher in manufacturing and financial sector as these types of organizations use more debt for business purpose. The impact of COVID-19 was less on companies that had taken on less debt than organizations that took in more debt.

• **Impact on GDP**

High GDP and low inflation are essential for all economies. When there is low inflation in the country, it enables people to spend more and thus there is every possibility of higher consumption activity. Higher consumption creates demand for other goods and services.

Figure 4



Source: money market.com

COVID-19 has impacted GDP in all the quarters as given in the table but Q4FY21 is the least. Other effects of low GDP have been on job creation, consumption activities and the profitability of the organization. Also, Q3FY21-Q4FY22 looks very promising and the country’s GDP will start growing at a slower pace than is being seen.

Figure 5

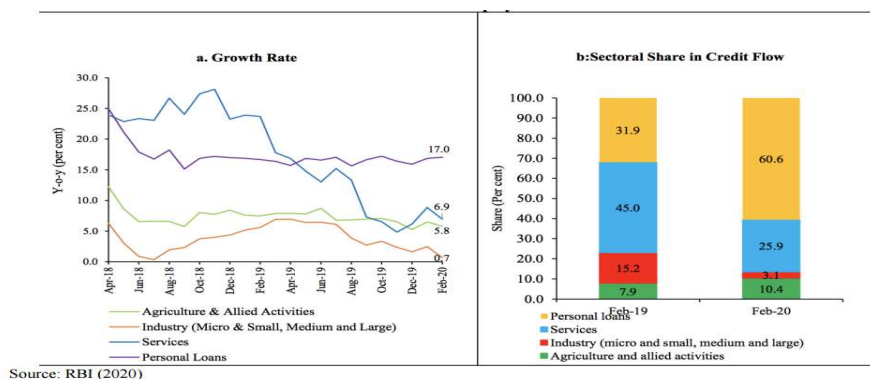
IND money Macro Projections *Source: ICRA		
Particulars	FY2021	Projections for FY2022
GDP Growth (at constant 2011- 12 prices)	-7.30%	9.00%
GVA Growth (at constant 2011 -12 prices)	-6.20%	8.60%
CPI inflation (average)	6.20%	5.50%
Current Account Balance	Surplus of \$24 billion	Deficit of \$40 -45 billion
USD/ INR	74.2 per Dollar	74.5-78.0 in Q4 FY2022
G-sec Yields	6.20%	6.4-6.7% in Q4 FY2022
Repo Rate	Repo rate cut by 40 bps in May 2020	Two hikes in the repo rate of 25 bps each in H1
Monetary Policy Stance	Accommodative	Stance change to neutral in Feb 2022 or April 2022 policy review

Source: India money .com

• Sector Performance

COVID-19 has created many new opportunities for the sector for their better growth. During COVID-19 there are many industries which have grown at a fast pace. During this virus, the hospital and pharmaceutical industry has grown rapidly and there has been a huge increase in the demand for some medicines. India has exported drugs in outbound quantities to other countries. Pharmaceutical companies invest a lot in R&D to create drugs that can combat COVID-19's harmful effects. Masks and hand sanitizers are in high demand both domestically and internationally.

Figure 6



Source: RBI report (2020)

The chemical sector has also seen a high demand for its products due to the increasing demand for disinfectants and medicines during the COVID-19 pandemic. High demand has also been found in both online education and online training, which will increase more rapidly in the coming times.

- **Relationship between COVID-19 and Stock Market Return**

Table reports the summary statistics for stock return, market capitalization, price to book value, daily number of COVID-19 cases and daily number of COVID-19 death over the study period. The result shows that the average return of the stock is 0.071 with a standard deviation of 3.874. Further the value of skewedness and kurtosis are 0.792 and 20.453, respectively. This shows that the return series is not normally distributed. As shown in table, the average number of daily reported COVID-19 cases and death are 26935 and 498 respectively. This reveals that around 1.5% of COVID-19 death to the daily number of cases are reported daily in India.

Table: Summary Statistics

	RET	SIZE	PB	CASES	DEATH
Mean	0.061	101576	2.345	269834	498.042
Median	-0.110	65233	1.123	8756	260
Maximum	100	15718787	130.943	97764	2008
Minimum	-94.710	16.5	0.00	0.000	0.00
Std. dev.	3.865	519451	5.0942	31445	427.988
Skewness	0.782	14.334	9.977	0.786	0.700
Kurtosis	20.538	295.123	159.456	2.077	2.456

- **Correlation Matrix:**

Table presents that the result of the correlation analysis for the return, size, PB, cases, and deaths. As shown in table we observe that the association of stock returns with COVID-19 cases and deaths are 0.024 and 0.044, respectively. We find nearly the same level of association of the cases and deaths with the size and PB. Further, the results show a strong association between the number of cases of COVID-19 and deaths. The COVID-19 pandemic spread fear among investors in global market. Hence volatility in the stock market is increased during this period.

	RET	SIZE	PB	CASES	DEATH
RET	1				
SIZE	0.001	1			
PB	0.010	0.198	1		
CASES	0.024	0.011	0.054	1	

DEATH	0.044	0.009	0.050	0.932	1
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• **Impact on Indian stock market during 2020 to 2022**

COVID-19 has affected all industries in one way or the other whether it is positive or negative. However, the degree of impact is not found equally in all areas. Some sectors are highly vulnerable to COVID-19. These companies will be able to return to their previous level only after a long time. As shown in the graph above, financial and real estate services have been the most affected during COVID-19. figure 7 describe that. During COVID-19, there was a huge decrease in all the stock exchanges in the country and abroad, whose effect is still visible in the market today. Both Nifty and Sensex were facing negative impact during 2019 and 2020. While NSE was giving a return of 6.56 in the month of January in 2020, it started giving negative profit with -3.89 till the end of the year. This fluctuation has been throughout the period of COVID-19, due to which all the investing companies of the country and their investors started withdrawing their money from the market. This fluctuation has been throughout the period of COVID-19, due to which all the investing companies of the country and their investors started withdrawing their money from the market. Talking about today's time, we have dealt with COVID-19 to some extent, due to which the market is coming back at its pace.

Chart 1 BSE Sensex (January – May 2020)

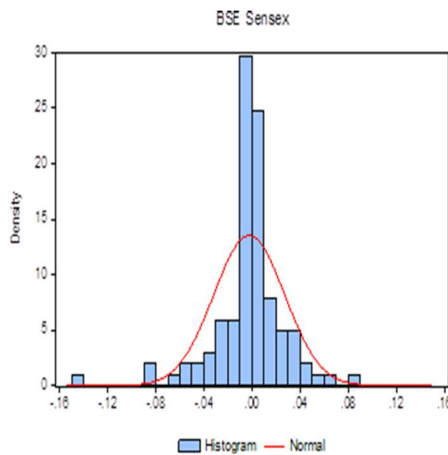


Chart 2 BSE Automobiles (January – May 2020)

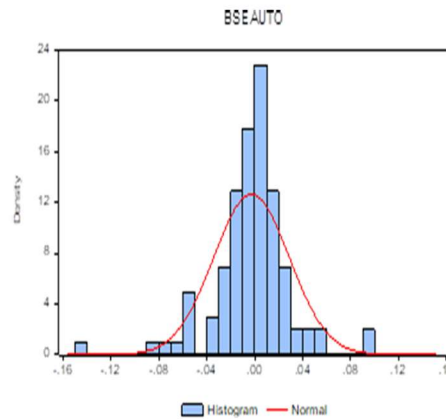


Chart 3 BSE FMCG (January – May 2020)

chart 4 BSE Health Care (January – May 2020)

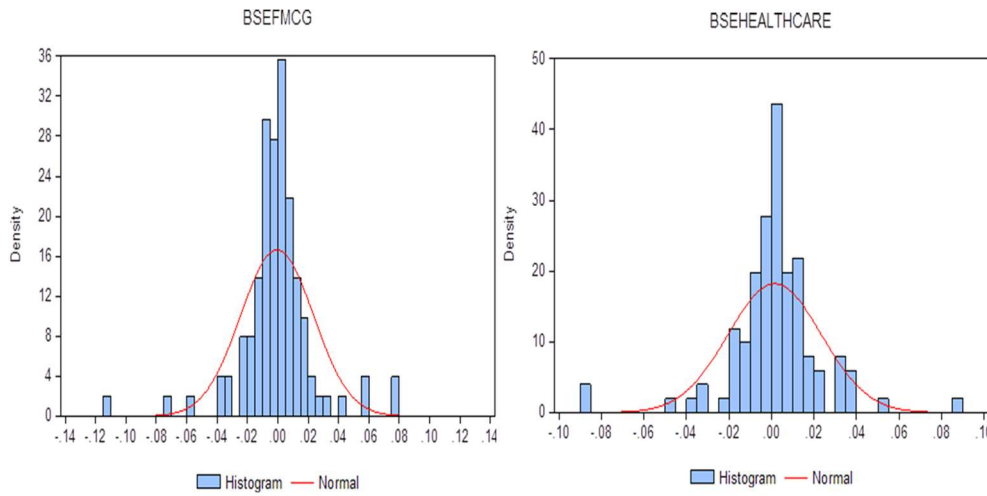


Chart 5 BSE Bankex (May 2020)

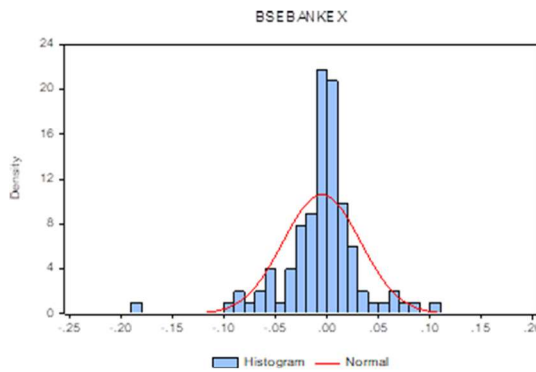


Chart 6 BSE Information Technology (2020)

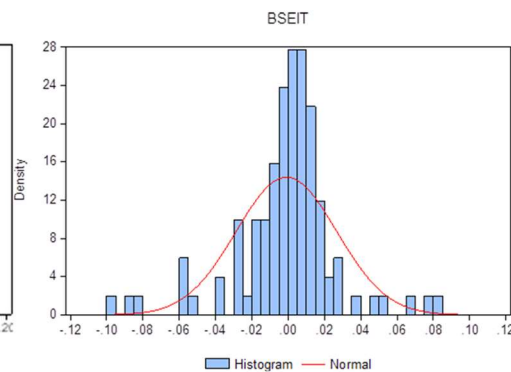
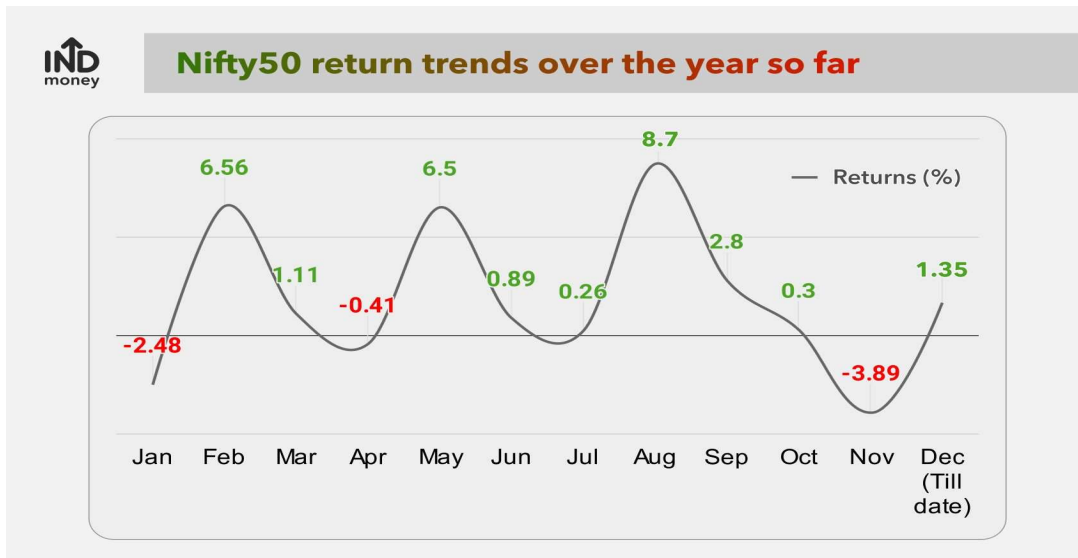


Figure 7



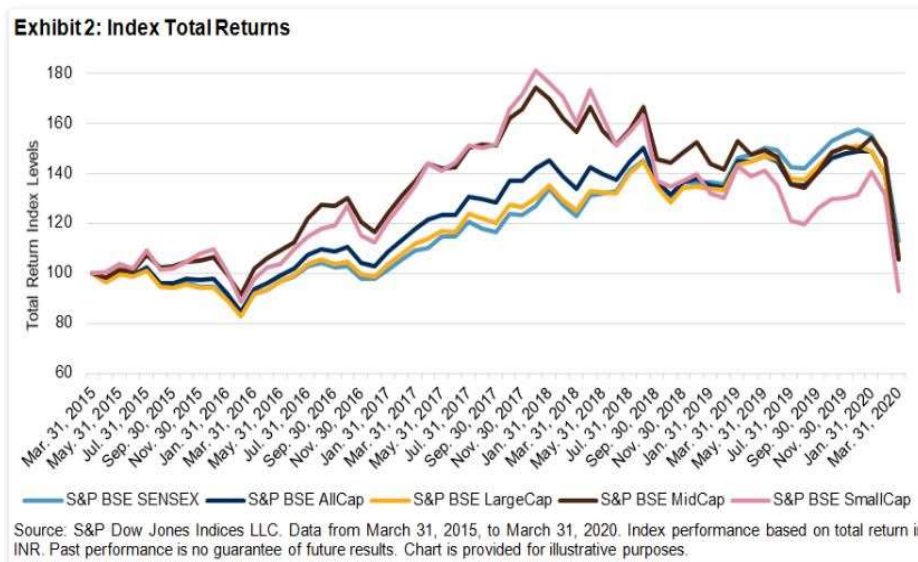
Source: India money. Com

During April-June 2020, the real estate, banking, and financial services sector has grown by -18.3%. The banking, financial services, insurance, and real estate sectors all significantly contribute to the generation of new jobs in the Indian economy. Lakhs of employees have lost their jobs and they have very less employment opportunities in the near future.

Table 3 Stock Market Performance in Terms of Return

Indices	October – December 2019	January – March 2020	August – December 2019	January – May 2020
BSE 500	6.93	-31.29	13.70	-21.90
BSE SENSEX	7.34	-29.61	11.34	-25.50
BSE AUTO	11.74	-42.12	21.49	-21.37
BSE BANKEX	12.26	-40.23	17.24	-40.48
BSE CD	-3.45	-25.01	15.71	-23.78
BSE CG	-9.42	-38.45	-3.77	-24.58
BSE FMCG	-2.34	-13.34	7.57	-6.93
BSE HC	9.67	-11.72	4.69	18.21
BSE IT	0.67	-19.23	0.45	-10.65

Figure 8



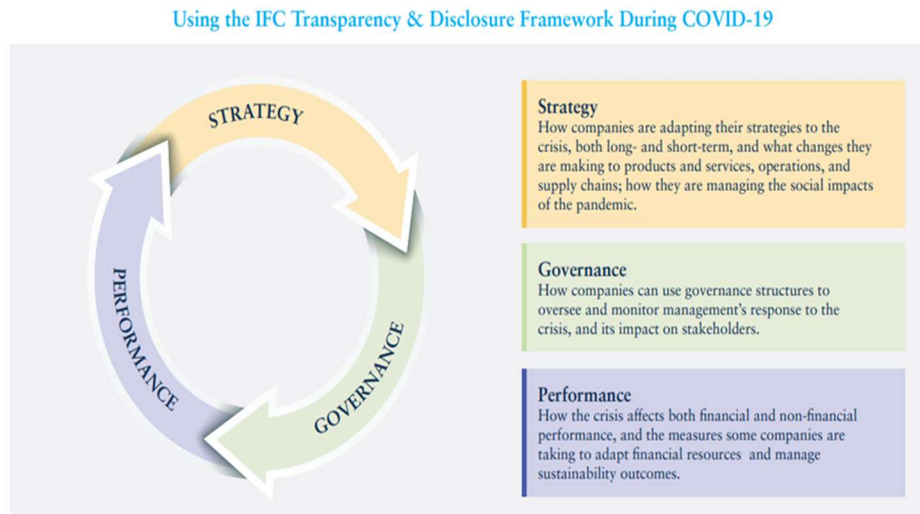
Source: BSE live report

- **Impact of COVID-19 on Corporate Governance Policies**

Corporate governance has been affected by the pandemic in following ways, which are as follows: the board has taken more attention to the stakeholders in structured way, putting more attention to how businesses and society intersect, approach to compensation, focused on decision making deliberately, putting extra efforts to board composition and director's race and ethnicity.

It has become more demanding job for the board after all these drastic changes in the economy. The study majorly attempts to analyze the role of corporate governance in the COVID-19 crisis and considers relevant anti-epidemic measures and policies in the country as well as in the corporate world, adding to the ongoing discussion on corporate governance. The study suggests that while interpreting stock market results during the pandemic, profitable and relevant impact of COVID-19 supportive policies should be taken into account, thereby creating a new energy and expectation in the corporate world.

Figure 9



6. Conclusion

After making a complete analysis of the above reports, it is concluded that The Indian economy has not been affected as badly as other economies have suffered during COVID-19. With the help of the above study, we have tried to examine the impact of COVID-19 on the performance of BSE and NSE. The result of the theoretical study of two stock market of India shows that the stock market especially BSE Sensex during the pandemic period normally becomes unstable during In the case of another stock index, NSE Nifty, it has been found that the COVID-19 period does not have such a significant impact. The study revealed that with negative average returns to the company during the pandemic, the stock market also faces negative losses, while returns in the pre-COVID-19 phase have been shown to be positive. However, it has had a negative impact on some industries such as the financial performance of the companies. On the other hand, some industries are performing well and are expected to do well in the coming times

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