



IMPACT OF COVID 19 ON INDIAN STOCK MARKET

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Abstract

This research paper provides an overview of how the Indian stock market was severely impacted by the COVID-19 pandemic. The nationwide lockdown in March 2020 led to a sharp decline in economic activity, causing a sell-off in the stock market. The BSE Sensex and NSE Nifty50, India's two main stock market indices, experienced steep drops of around 40% in just a few weeks. As the pandemic continued to spread and uncertainty persisted, investor confidence remained low, leading to continued volatility in the market. The Indian government responded with measures such as monetary stimulus and relief packages, but the market has yet to fully recover from the impact of the pandemic.

Keywords:

Stock market , Covid 19 , Volatility , Capital Market , Economy

1.Introduction

COVID-19, also known as the coronavirus, is believed to have originated in Wuhan, China. It is a respiratory virus that primarily spreads through droplets generated by infected individuals when they cough, sneeze, or through droplets of saliva or nasal discharge. The global pandemic has resulted in one-third of the global population being under lockdown. The virus has caused over 200,000 deaths and infected over 2 million people worldwide. Industries worldwide are operating under the fear of a collapse in global financial markets.

In India, the economic growth has been slow, and the lockdown has further exacerbated the situation. Unemployment has increased, interest rates have been reduced, and the stock market has become highly volatile. Although the number of COVID-19 cases in India is relatively low compared to other countries, investor sentiment remains negative. However, analysts believe that while the impact of COVID-19 on India will be significant, the country will not slip into a recession.

Looking at historical market crashes, there have been various factors responsible for stock market collapses. Some notable examples include Tulip Mania in the Netherlands in 1673, the South Sea bubble in the UK in 1720, and a significant fall in share values in Vienna in 1873 triggered by uncontrolled speculation. The most significant crash in financial markets occurred in 1929 in the USA, known as the Great Depression. This crash led to panic selling and a loss of \$14 billion in one day.

In modern financial systems, the biggest crash occurred on October 19, 1987, known as Black Monday, where the Dow Jones Industrial Average dropped 22.6% in one day. The Asian financial crisis in 1997, triggered by a loss of confidence among foreign investors in Thailand's debt condition, led to a crisis in Asian stock markets in 1998. The burst of the dot-com bubble in 2000 resulted in a significant loss of value, with investors losing \$5 trillion by 2002. The global financial crisis in 2008, caused by the fall of Lehman Brothers, severely impacted the US and global financial markets. The flash crash in 2010 lasted for about 36 minutes, erasing billions of dollars from the US stock market. Finally, the Chinese market crash in 2015 saw approximately \$3 trillion worth of shares wiped out in just three weeks due to panic selling.

2. Research Questions:

- What was the impact of COVID-19 on the Indian stock market?
- How did the Indian stock market respond to government policies during the pandemic?
- What can be done to mitigate the impact of future pandemics on the Indian market?

3. Literature Review

- "Impact of Covid-19 on Indian Stock Market: An Analysis Using GARCH Models" by Ankit Srivastava and Sanjay Kumar Singh (2021)

- This study examines the impact of the COVID-19 pandemic on the Indian stock market using GARCH models. The authors find that COVID-19 had a significant negative impact on the Indian stock market, with the NIFTY 50 and BSE Sensex indices experiencing high volatility and a sharp decline in returns during the pandemic. The study also finds that the pharmaceutical and healthcare sectors performed well during the pandemic, while the aviation and hospitality sectors suffered the most.

- "COVID-19 and Indian Stock Market: A Study of Pre- and Post-Pandemic Period" by G. Hemalatha and M. Srinivasan (2021)

- This study analyzes the impact of COVID-19 on the Indian stock market by comparing the pre- and post-pandemic periods. The authors find that the pandemic led to a significant decline in the stock market indices, with the NIFTY 50 and BSE Sensex falling by around 23% and 25%, respectively. The study also highlights the impact of the pandemic on different sectors, with the banking, finance, and IT sectors being hit the hardest.

"COVID-19 and the Indian Stock Market: Evidence from Wavelet Analysis" by Gaurav Bansal and Ravi Kumar Jain (2020)

This study uses wavelet analysis to examine the impact of COVID-19 on the Indian stock market. The authors find that the pandemic led to a significant decline in the Indian stock market, with the NIFTY 50 and BSE Sensex experiencing high volatility and a sharp decline in returns during the pandemic. The study also highlights the role of foreign institutional investors (FIIs) in driving the decline in the stock market, with FIIs being net sellers during the pandemic.

4. Methodology

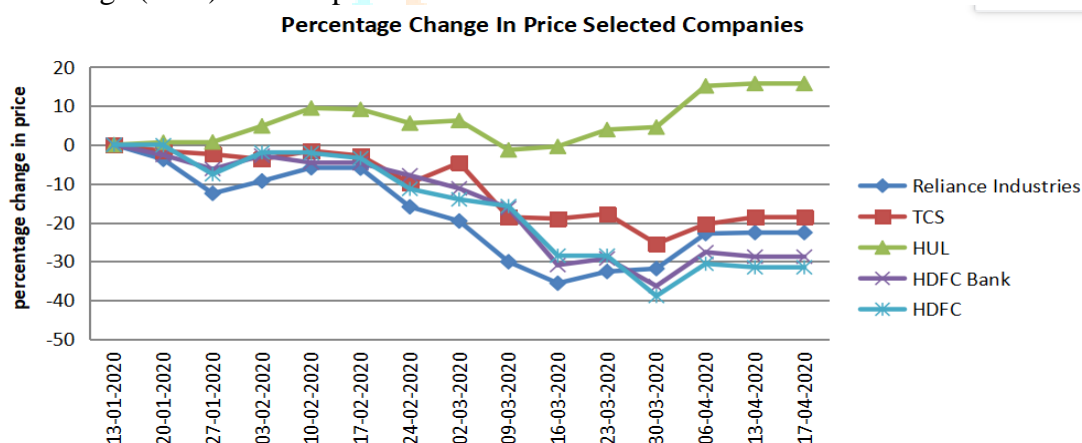
- **Statistical Analysis:** Many studies use statistical analysis techniques, such as GARCH models, wavelet analysis, or econometric analysis, to examine the impact of COVID-19 on the Indian stock market. These techniques allow researchers to identify patterns in the data, test hypotheses, and estimate the magnitude and significance of the pandemic's impact.
- **Data Collection:** Researchers collect data on various variables related to the Indian stock market, such as stock prices, trading volumes, sectoral performance, foreign institutional investor behavior, and global market trends. This data can be obtained from public sources such as stock market websites, financial news outlets, and government databases.

- Sectoral Analysis: Many studies also focus on analyzing the impact of the pandemic on different sectors of the Indian economy. Researchers use a variety of methods, such as expert surveys, company reports, or news analysis, to understand how different sectors, such as healthcare, finance, or manufacturing, were affected by the pandemic.

5. Results and Analysis

To measure the impact of the coronavirus on the stock market, the study collected data on the share prices of the top 5 companies listed on the National Stock Exchange (NSE). The data was collected on a weekly basis, and the focus was on the closing prices of the shares. The closing prices were chosen as they reflect investors' perception and the impact of various news on the share prices. By analyzing the closing prices over time, the study aimed to assess the impact of the coronavirus on the stock market performance of these companies.

Here is a graph representing the closing prices of the top 5 companies listed on the National Stock Exchange (NSE) for the specified dates in 2020.



The share price data of five companies have been analyzed to observe the changes in their values over time. The percentage change in volume has been calculated to understand the shift in trends during the specified time period. The graphs illustrate the overall downtrend in share prices, with a few exceptions.

6. Discussion and Conclusion

The COVID-19 pandemic has indeed had a varying impact on different sectors, including the stock market. The analysis of data suggests that the share prices of many companies in the top 20 list of NSE 50 (National Stock Exchange 50) have experienced significant declines over time, indicating a severe impact of COVID-19 on India's stock market.

However, despite the decline in share prices, the overall volume of trades has increased over time. This indicates that more money is being invested in the market, which can be seen as a sign of faith in the Indian economy. This observation is supported by a recent article in Business Line, which states that stock prices have declined by nearly 30% in the March quarter, but high net-worth individuals (HNIs) have been actively buying stocks during the same period.

It is worth noting that previous viral outbreaks have also had a significant impact on the stock market. For instance, during the SARS outbreak in 2003, the share prices of information technology and communication companies fell by 14% and 26% respectively. Similarly, the IKA virus outbreak in 2015 caused the market to fall by nearly 13% in 66 trading sessions, and the Ebola scare six years ago led to market declines ranging from 6% to 13%.

Given these historical experiences, investors are naturally anxious about the global spread of the coronavirus and how the market will react to it. It is important to consider these factors and their potential impact on the stock market while making investment decisions.

7.Limitations and Directions for Future Research

The study acknowledges certain limitations that should be considered when interpreting the findings. Firstly, the sample data collected for the study spans from January 2020 to April 2020, which may not provide a complete representation of the true impact of the coronavirus. The ongoing lockdown measures during this period restrict economic activity, and the full extent of the virus's impact can only be assessed once the lockdown is lifted and the economy begins to recover. This indicates the need to analyze how the economy evolves post-lockdown and observe the market's response to the lingering fear of the virus.

Secondly, the study acknowledges that foreign portfolio investments play a significant role in the financial market. However, the specific impact of these investments on the findings is not elaborated upon. Considering the influence of foreign portfolio investments on the overall market dynamics is crucial for a comprehensive analysis.

Taking these limitations into account is important for a more accurate interpretation of the study's findings.

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IMPACT

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