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A CONCEPTUAL STUDY ON INDIAN STOCK MARKET'S RESPONSE TO COVID-19 PANDEMIC- A COMPARATIVE STUDY WITH OTHER CRISES

KEY WORDS: Covid-19, Pandemic, New Revolution, Stock Market, Crises.

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ABSTRACT

The 2020 pandemic has shattered all most all the activities around the world, resulting to a great depression in the economy. Pandemic has poisoned all economic activities. The pandemic has affected public health in the country. If we make a keen look, every 10 years, there is some crash or scam happening in the country. However, after every crash if we make an analysis, there is a new revolution in the economy. The Harshad Mehta's scam which is one of the major scams in Indian share market history brought remarkable changes in banking sector, the Covid-19 crises has made India to depend immensely on technology which would otherwise not be possible in a country like India. With the spread of Covid virus across the country, the Government, after seeing the medical expert's opinion, announced nationwide lockdown to prevent the spread of the virus across the country. Life of millions of people was shattered as they could not earn their livelihood. Many youth lost their jobs, there was unemployment problem gearing up across the country. Due to the lockdown, the financial markets also reacted to the pandemic and there was lot of volatility in the share market. The present paper aims to examine the impact of Covid-19 on stock market volatility in India. The paper also considers some of the crashes that have happened in the past and to make a comparative study of various crashes with that of the Covid-19 crash.

Introduction

All most all the countries in the world are affected from [COID-19]. Corona virus was first reported in Wuhan, China. The WHO announced this deadly virus as a pandemic pointing to over 118000 cases around 110 countries and official named the virus as COVID-19 (Time 2020).

India was not behind from being affected from this virus. India accounts for the 2nd largest population in the world. India reported its first case on 30th January 2020 and it didn't take much time for spreading as India is a home of millions of poor people and has lower rank in cleanliness and medical condition comparing to other countries. Keeping this in mind for the betterment of living and public health, this in deed was a major concern of nation. The government of India under Prime Minister Narendra Modi announced a nationwide lockdown for preventing the wide spreading of virus. This pandemic COIVD-19 affected the economies of the world and India was also among those nations. There was a crash in the global market economy and drop in prices of oil which affected economic growth, development and stock market performance. This pandemic somewhere proves the presence of Semi-strong Efficient Market Hypothesis that is the new information instantly reflects on share market. With the continued lockdown in the country the prices of the shares fell considerably.

With the fall in the price of shares, there is considerable increase in opening of demat account. According to (SEBI) Securities and Exchange Board of India, new demat account rose to an all-time high of 10.7 million between April 2020 and January 2021. There is an increase of more than double the new accounts opened in FY20. In January 2021 alone 1.7 million new demat accounts were added, the highest monthly increase. This means that the people understood that this fall down is good for long term investment, though there was lockdown and all the economic activities were nil, some of sector were in trend such as pharmacy, hospitals, e-commerce, telecom etc. and for a shock there were more number of women participating in the share market.

Statement of problem

COVID-19 has shaken the world physical, mentally and economically. There is no economic activity left unaffected due to pandemic. COVID-19 phase 1 and phase 2, has immensely dropped down the GDP of country, has resulted in decline in sales and production in country. It posted adverse effect in supply of money in the economy and the whole economic cycle was paralysed by this. COVID 19 has not only affected business people but has also affected the middle class people who make investment on different avenues particularly in stock market. As Covid 19 has caused a lot of volatility in the stock market, there is an urging need to study the impact of the pandemic on the Indian stock market performance.

Review of Literature

Mrinal Gupta et al. [2020] have opined that COVID-19 is having major consequences on the world economy and have predicted that COVID-19 will lower global gross domestic product growth. They also explained that China has closed major production centre's being a hub for manufacturing sector, resulting in disruption of global market. They conclude that overall reduction in global industrial production caused major fall in the global stock market.

Mohammad Noor Alam et al. [2020] the researchers have tried to investigate the impact of the lockdown period caused by the COVID-19 on the stock markets in India. The researcher has employed a sample of 31 companies listed on Bombay stock exchange [BSE] for this purpose. The result indicated that the market reacted positively with significantly positive average abnormal returns during the present lockdown period, whereas in the pre-lockdown period investors panicked and it was reflected in negative AAR (Average Abnormal Returns).

Scott R. Baker et al. [2021] has tried to analysis the impact COVID-19 and its effect on stock market. They have tried to though light on how the government decision towards COVID-19 has made an impact on Indian share market. They have concluded saying that other flu in history has affected western countries where as this COVID-19 has effected globally, causing a major reason for global crisis.

Qing He et al. [2020] has attempted to explore the direct effect and spill-overs of COVID-19 on stock markets .The paper has employed t-test, non-paramedic Mann-Whitney tests, collected data from stock market of China, Italy, South Korea, France, Spain, Germany, Japan and the United States of America. They have concluded saying that COVID-19 has a negative but its short-term impact on stock market. Secondly, they noticed that the impact on stock market has bidirectional spill-over effect between Asian countries and European and American countries.

Research Gap

The literature reviewed above is showing light on COVID-19 effect on economy and its activities putting global as one unit, some have tried to analysis weather COVID-19 has made an impact positively or negatively keeping other countries. If we look keenly every country has an economy crisis for or other reason and also its positive impact so this need to be addressed as whatever happens one must know to cop up things and carry positive impact forward.

Objectives of the stud

1. To study the major crashes that has happened in the past in the Indian Share Market.
2. To compare the major crashes along with Covid-19 stock market crash.
3. To analysis the influence of crashes.

Research Methodology

The research has been conducted to know the impact of covid-19 on Indian share market. The study is basically descriptive in nature.

Sources of data

Secondary data of stock prices from NSE is taken to examine the impact of COVID-19. The new demat account data is collected from official website of SEBI for making comparison with increasing in COVID cases there were increase in demat account too. Some of the articles, journals, newspapers etc. are being referred for the study.

Major Crashes in Indian Market from 90's

A stock market crash occurs when there is a significant decline in stock prices. While the price of shares reduce to 10% of the original value and there is no specific definition for the fall in price. Market crashes typically happens without warning and it takes a long time for steady rise in prices. A sudden fall in the market makes investors panic and most of the times investor try to quickly sell their position either with losses or with marginal profit. While a crash of the stock market can occur quickly, many of the market's biggest crashes have had effects that were long-lasting and deep. Here is a brief look at some of the market's most notable crashes.

Harshad Mehta's Scam in 1992

In 1992 Indian share market had witness the Harshad Mehta's scam and there was a fall in the stock market for more than 50% over a period of one year. Harshad Mehta was called as the 'Big Bull' in the Indian market. He was buying the shares of specific company and creating a price bubble by increasing its demand and selling them to book profits. This trading resulted to s bear market that lasted for a couple of years. When this crash took place Indian market was opening up for foreign investment and there was lot of boom in the history of market. But the Harshad Mehta scam shattered the Sensex in no time.

The Great financial Crisis in 2008

The financial crisis of 2008 is one of the greatest crashes around the world. The financial crisis of 2008 adversely impacted businesses, economies, and stock markets. On January 21, 2008, the Sensex dropped by around 1408 points, destroying investor's wealth. This day is referred to as the Black Monday. Actually these financial crisis accords in American market as the banks were letting of high financial leverage to its consumer which resulted in increase of transaction in credits. Even though financial crisis took place in America, it affected all over the world as it holds control on the world economy. The attribute for crash in Indian market would be due to loss in confidence in investors, fear that world economy may fall as American market. It is said that by the end of 2008, the Sensex had dropped from around 20,465 points to 9,716 points. The Sensex finally crossed the 20,000-mark again in September 2010.

Devaluation of Chinese Yuan in 2015

From the financial crisis Indian market was able to take a stable step by the end of 2010. On August 24, 2015, Sensex fell by 1624 points. Again due to globalization one countries' economy is influenced by others, a slowdown in the Chinese economy attributed to the Indian market crash in 2015. This crash was due to devaluation of Chinese (Yuan) currency. This was more worsened for the Indian market as there was a poor monsoon season in India and there was very disappointing earnings in this period.

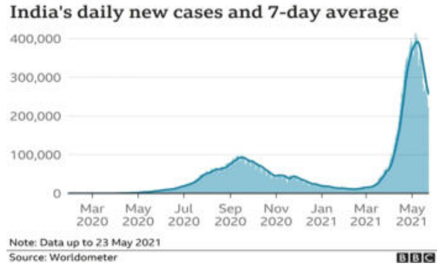
NPAs in Indian banks and Demonetization in 2016

2015-16 was a hard period for stock markets around the world as there was a downfall in the Chinese economy. Indian market had not yet recovered from 2015 crisis; the Sensex continued to fall around 26% in a year. This was in addition to global paralysis of 2015, Indian banks were having a lot of NPAs (Non-Performing Assets). By November 2016, Indian government announced Demonetization again which lead to falling of markets by 6%, this made other Asian markets to fall too.

Covid 19 Pandemic in 2020

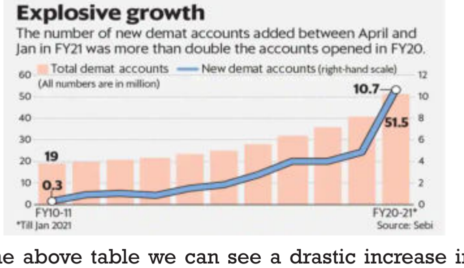
During 2020, the recent outbreak of COVID-19 that resulted in a pandemic and lockdowns around the world led to a huge market crash in global and Indian markets. From the day the World Health Organization (WHO) declared the virus as a pandemic, the Sensex dropped from 42,273 points to 28,288 points within a week. This ended with the Yes Bank crisis. This crash not only affected share market globally but also millions of public health.

Increase of covid-19 cases



The above chart shows an increase in covid-19 cases in India from March 2020- May 2021. From this table it is clear that first wave of covid-19 was in its peak in the month of September. The case curve has sharpened in 2nd wave in the month of May 2021, recording nearly 4,00,000 cases.

Increase in the number of demat account

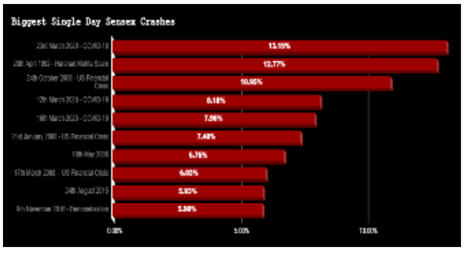


From the above table we can see a drastic increase in the number of demat account opened in financial year 2020-21.

Biggest Crashes in Indian Stock Market

Crash Date and Year	Event	Sensex Points lost in a Single Day	Sensex Point lost in Single Day in %

28th April ,1992	Harshad Mehta's Scam	570	12.77%
18th May ,2006	Harshad Mehta's Scam	826	6.76%
17th March, 2008	US Financial Crisis	951	6.03%
21st January ,2008	US Financial Crisis	1408	7.40%
24th October, 2008	US Financial Crisis	1070	10.95%
24th August ,2015	US Financial Crisis	1624	5.93%
9th November ,2016	Demonetisation	1689	5.90%
12th March, 2020	COVID-19	2929.26	8.18%
16th March, 2020	COVID-19	2713.41	7.96%
23rd March ,2020	COVID-19	3943.72	13.15%



Source: www.tradebrain.in

Stock market crashes are indications of wealth destruction for the Investors. It creates lot of panic and pain in the minds of the Investors. Stock market crash indicates the market indexes falling rapidly and there will be severe drop in a day or few days of trading. The above chart reveals the BSE Sensex points lost in a single day due to stock market crashes. The Covid-19 has caused the highest single day point lost accounting to 13.15% which shows the pandemic has created a panic in the minds of the investors, followed by the Harshad Mehtha Scam in the year 1992 resulting in 12.77% point lost in a single day, the US Financial crises in the year 2008 resulted in 10.95% lost in a single day, The covid -19 impact on 12th march 2020 has caused 8.18% loss in single day and the covid -19 impact on 16th March 2020 resulted in 7.96% loss in a single day. The US Financial crises on 21st January 2008 has resulted in 7.40% point loss in a single day followed by the same US Financial crisis loss that took place in the year 2006, 18th May leading to 6.76% point loss. On 17th March 2008, the US Financial crisis lead to 6.03% point loss .The US Financial Crisis resulted in 5.93% point loss on 24th August, 2015 and Demonetisation of Currency on 9th November 2016 has caused a single day point loss of 5.90%.

Conclusion

The Indian Stock Market crashes are basically due to changes in the ruling party, demonetisation of currency, change in the Government of the country, Crashes that happens in the international scenario etc. However the stock market crashes has rippling effects and it hurts the sentiments of the people badly.

In the history of Indian share market, COVID-19 has recorded highest single day downfall in market. It may be said that every crash has two ends positive and negative, in this particular crash there was more of negative, as the public health was disturbed and it becomes difficult for developing country to get back to normalcy. But, with this downfall there is considerable increase in the number of individual investor getting into market over a period of one year and more of them were women. It means investors were behaving rationally towards bearish market. But contradictive also accelerating some of the new trends in past few years i.e. technology adoption, use of new data, distant learning and telecommuting. It gave a good opportunity to long-term investors. COVID-19 was unexpected to the world. It affected world's economy, with first lockdown in March 2020. Though there were less economic activities in 2nd wave, market seemed to be prepared for it, and resulted in fewer downfalls. Market will take its own time to recover and the bull and bear trends will come back to normalcy after the corrections are over.

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