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The True Value of the Post-Covid 19 Growth Trajectory of the Indian Stock Market and is it Sustainable?

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Abstract:-The pandemic has significantly impacted the world's financial markets. This study paper focuses on India, to show how different industries were impacted by the pandemic. It offers understanding into the mindset of various secondary market participants, including traders, investors, and novices. Possible reasons why investors are losing money in this unstable market are discussed. It also addresses the issue of relevant market price justifying the underlying value of a company.

Keywords: *Stock market, Growth, Covid-19, Trading Psychology, Valuation, Economy, NSE, Downfall of Stock Market.*

I. INTRODUCTION

The National Stock Exchange (NSE) in India as well as other international financial markets have been significantly impacted by the COVID-19 epidemic. Due to the disruption of the economy brought on by the lockdown measures, the NSE experienced steep market volatility in the early months of the pandemic. The stock market did, however, gradually rebound, and the NSE index has significantly increased since COVID-19. This study intends to pinpoint the NSE's periods of decline and recovery following COVID-19, examine the psychology of investors, traders, and newcomers, determine whether this growth is sustainable, and examine the stock market participants' ideologies.

We intend to add to the body of knowledge on how a black swan event such as the pandemic affects financial markets and investor behavior through this study. The results of this study will be helpful to traders, investors, policymakers, and financial analysts since this study will shed light on the psychological makeup of stock market players and the viability of the current growth trends in the NSE.

Fig 1 2009-2023 NIFTY 50

- *Statement of Problem:*

The stock market has been known to provide investors with opportunities for generating significant returns on their investments. However, despite the availability of vast amounts of information, research, and analysis tools, investors often experience losses in the stock market. This research paper aims to analyze the factors responsible for the financial losses experienced by investors in the stock market. The objective of this paper is to investigate and understand why investors are losing money in the stock market post COVID-19.

II. RESEARCH METHODOLOGY

- *Scope of Study:*

The main scope of study is to understand the growth trajectory in the Indian stock market post covid-19. The paper aims to identify the downfall and rebound of the stock market. This paper then aims to identify the psychology of participants in the post covid-19 era of the stock market. This paper then aims to understand if this growth is sustainable and the findings of the same. This paper then aims to identify the inflation in value of various companies post the Covid-19 pandemic.

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➢ *Research Objectives:*

- To identify the period of downfall and rise in the NSE post Covid-19.
- To analyze the psychology of Investors, Traders and Newcomers.
- To analyze if this growth is sustainable and the ideology of the participants in the stock market.
- How to safeguard from BlackSwan events such as the pandemic

III. DATA ANALYSIS AND INTERPRETATION

During the dot.com bubble, the NSE NIFTY 50 INDEX fell up to 40% in the fiscal years 2000 and 2001 each. Up until 2003, there was a sideways trend observed; following which, there has been a bullish trend. Up to 2008, annual average pullbacks of 15–25% were observed. The 2008 global economic crisis caused a 64% decline in the value of the Indian market.The market experienced a recovery up until 2011, when the pre-crisis high was attained. Post this trend, the market experienced a correction of 26.7%. The overall growth trend has persisted since the year 2000, with an annual average correction of 12%.[1]

➢ *Downfall of Markets During Covid:*

The rapid spread of Covid-19 around the world, left people in a state of confusion and shock. The Indian stock market was heavily impacted by the spread of this virus and to understand the impact of the spread of the virus we need to look into the various sectors that are a part of the market.

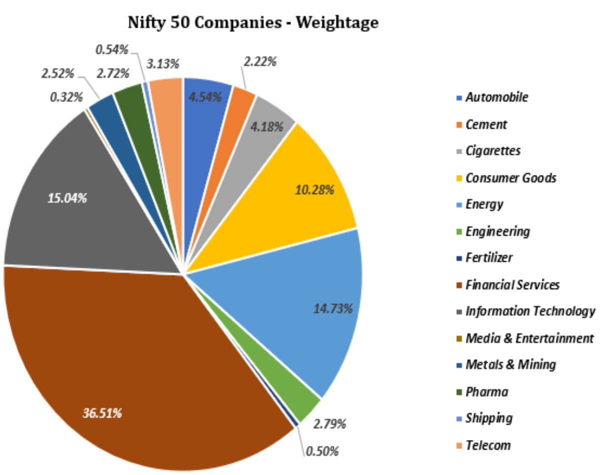

Fig 2 Nifty 50 Sectoral Weightage

The industries that made up 87.32% of the NIFTY 50 index, including automobiles, cement, cigarettes, consumer goods, engineering, fertilizer, IT, metals and mining, and shipping, were the main contributors to the decline.

➢ *Manufacturing Sector:*

We will examine a few stocks from the manufacturing sector in order to comprehend the fall in stock prices. Manufacturing was the industry that was most negatively impacted, with ABB India Ltd., a manufacturer of heavy industrial and engineering equipment, showing a 48.6% decline in just five months, from a high of 1410 on January 15 to a low of 725.6 on May 22. Another significant decline was seen with Ashok Leyland, a global automaker that displayed a sharp fall of 62.2% in the span of three months.

➢ *Pharmaceutical Industry:*

Despite India being one of the most prominent producers of medicine across the globe, there was also a decline in the cost of healthcare services, with Apollo Hospital, a top provider, reporting a drop of 683 points.The health-care sector appeared to have recovered faster than other sectors because it generated hope and investors saw an opportunity that these health-care providers are the only reason we are able to combat the virus and they will have a massive admission of patients resulting in better performance giving rise to higher profits. This was due to investors being in a frenzy and just wanting to remove all possible cash from the stock market as these were unprecedented times.

➢ *Financial Services:*

ICICI Bank Pvt Ltd saw a drop from 550 to 280 between February 20th and March 24th; this significant decline caused a lot of chaos in the Indian Markets because no remedy or solution had been found during the time. The banking and financial sector of the Indian markets is known to have a global impact due to its large market capitalization.

All of these industries share a common trait: they all had their biggest price declines in March 2020. This is because the news of a nationwide lockdown caused many of these enterprises to suspend operations until further notice. Due to the lack of operations, many businesses became sitting ducks because they had bills, salaries, and long-term financial obligations to pay while also being unsure of when the markets would resume operations. No such order was issued to ensure that payments must be made, but many of the loans ended up entering a state of floatation where the interests had to keep compounding and the companies did not have enough funds to pay them.

An additional 21 million jobs were lost between April 2020 and August 2020, according to a survey performed by the All India Manufacturers' Organisation (AIMO) in June 2020, and 35% of micro and small enterprises in India have closed as a result of the pandemic.

Fig 3 Downfall of the Nifty 50

➢ *NIFTY Analysis:*

The "Nifty 50" index consists of the top 50 performing stocks on the NSE. This index allows us to monitor the Indian stock market and the state of the market in general. As shown in Fig. 1, the Nifty 50 lost 4698 points in just 27 trading days, which is unprecedented in the stock market.2. The Indian stock market experienced its largest one-day decline since 2015 on March 18, 2020, leading to the designation of that day as "Black Day." A staggering 687 points were lost. [3]

The market sentiment moved towards the worst due to an increase in uncertainty in the near future. The realization that the stock markets were still open during the lockdown came as a boone and a bane.

IndusInd Bank, RIL, Bajaj Auto, SBI, Axis BANK, ICICI Bank, Mahindra and Mahindra, Maruti, Bajaj Finance, Tata Steel, Larsen & Toubro, and ONGC are among the 12 stocks on the BSE that have lost 50% of their value from the year's beginning as of March 23, 2020.

Similar to this, nine Nifty stocks—Indusind Bank, Tata Motors, Hindalco, Vedanta, Zed Entertainment, Axis Bank, UPL, and ONGC—have seen their prices fall by 50% since the start of the year. According to recent market indicators, numerous businesses have been ceasing operations because of the viral outbreak.

Today, Enkei Wheels India made a statement regarding ceasing operations until March 31, 2020.

Additionally, in recent announcements made on Monday 23rd March '20, businesses like Asian Paints, Minda Industries, Lumax Industries, Siemens, Jtekt, DCM Shriram Industries, Aditya Birla Fashion and Retail, Subros Ltd, Bharat Forge, Pokarna Limited & Pokarna Engineered Stone Limited, Sunil Industries, SL Limited, SML Isuzu, Shree Cement, Whirlpool of India, Lumax Auto Technologies, Machino Plastics, TVS Motor Company. [2]

➢ *The Rebound Effect:*

- *NIFTY:*

Fig 3 shows that the market recovered, rising from a low of 7572 to a high of 18595 in October 2021. On the index as a whole, this is a 145% retracement.

✓ *Manufacturing Sector:*

Due to the lack of physical working conditions during COVID-19 because of the lockdown, the manufacturing sector was severely impacted. The fact that many people weren't getting paid had an adverse effect on India's general economy.The Indian economy was affected in every way by this sudden and unanticipated transformation. India is the major employer of casual laborers in the construction industry. After the lockdown ended and a shift was seen towards the 'new normal', the rebound picked up its pace. This industry has experienced such a severe decline and backtracking because it was directly and totally affected by the lockdown mandate.

As we have already read, the pandemic had a significant impact on the manufacturing industry.ABB India Ltd. experienced a significant upswing, rising from a low of 720 in 2020 to a high of 3445 in September 2022. The enormous increase of 378% in just two years is astounding. Ashok Leyland experienced a 360% retracement.

From a low of 62 in 2020 to a current high of 623 in January 2023, Jindal Steel has increased. The 10x return makes this one of the most profitable equity investments.

✓ *Pharmaceutical Sector:*

The terrible pandemic that claimed millions of lives has increased the need for the pharmaceutical sector. According to a Times of India survey, the Indian pharmaceutical industry's growth momentum has held following the pandemic. The estimated $41 billion Indian pharmaceutical business is expected to double in size by 2030, reaching $65 billion. [4]

India's pharmaceutical exports increased from $15.4 billion in FY15 to $24.6 billion in FY22, and they stood at $18.8 billion from April to December 2022 despite the interruption in the supply chain caused by Covid-19.

In partnership with the ICMR, Bharat Biotech successfully created covaxin, the country of India's first covid 19 vaccine. Companies like Sun Pharma and Aurobindo Pharma became well-known because they made excellent long-term investment opportunities.

In the prior illustration, Apollo hospitals had a retracement of 460% post-pandemic, which is a remarkable recovery.

✓ *Financial Sector:*

A significant component of the Nifty 50 index, ICICI Bank, had a retracement of 254% from a low of 270. In December 2022, the index BANKNIFTY increased by 172% from a low of 16228 to a high of 44120.

Since the banks were still operating, the financial sector was not directly impacted by the pandemic. However, since both the Indian and global economies were severely affected, this had an impact on both the Indian financial sector as well as the index as a whole.

The whole Indian banking system, and scheduled commercial banks in particular, showed resilience in 2019–2020, with improvements in asset quality, capital position, and profitability. This is supported by official statistics released by the Reserve Bank of India (RBI), which show that the ratio of gross non-performing assets to gross advances decreased somewhat from 11.20% in 2017-2018 to 8.20% in 2019-2020. [5]

➢ *Psychology of Investors, Traders and Newcomers:*

- *Investors:*

About 38% of investors who withdrew their money during the fall of the market regretted their action, because the markets had had a significant upward movement after the confusion and rigidity subsided. Investors present in the market prior to the decline had a very divided opinion about the performance of equities. The investors withdrew their money in an effort to cut their losses, which is a strategy employed in the stock market to lessen the amount of loss an investor will sustain. For them, it would take years for the market to recover before it could even reach their purchase price, much less make a profit. However, a third of the investors chose to leave their money in the markets because they believed that this was only a temporary situation and that the markets would eventually recover. These investors took the long view of the market and refrained from following the herd by holding onto their positions despite the risk. [6]

An investor's three main trading goals are safety, income, and capital gains. An investor doesn't really search for short-term financial gains, but rather a long-term view of the market. Their primary goal is to generate a stable and reliable income over time, not to make money rapidly. Covid-19 was unexpected, and it was impossible to estimate how much damage it had caused. [7]

This was a time when a significant number of foreign institutional investors (FII) had pulled their money out of the Indian markets, causing fear and frenzied selling. Young investors were more likely to panic sell during such a period, according to a study conducted by MagnifyMoney, and nearly 70% of investors aged 18 to 25 withdrew their money from the markets. 57% of investors aged 25 to 40 withdrew their capital. [8]

- *Trader:*

A trader is one who constantly buys and sells stock on a daily or weekly basis and plays the market fluctuation in order to either buy low, sell high(Long Position) or sell high and buy low(Short position). The ability of traders to make sensible decisions during periods of extreme market movement is put to the test by a significant market collapse like the Covid 19 pandemic. Although it is true that roughly 70% of traders lost money during this time, novice and novice traders remained optimistic throughout the period, despite their initial hesitation to enter trades during January to April. Once they realized that markets were collapsing and that recovery still had a long way to go, experienced traders who have years of market experience started taking short positions, where they would initially sell the stock and then buy it as the price declines creating profit. [9]

Market illiquidity and a considerable increase in volatility created opportunities for traders to profit, but as the volatility increased, so did the risks. About 56% of traders have said that they have avoided trading and stayed away from the market during the Covid period as it was extremely uncertain and losses were mounting upwards.

- *Newcomers:*

The intense local investment by citizens into the stock markets after May 2020 led to a resurgence in the Indian stock market. As one of the few markets that was still operating at the time, the stock market was a useful addition for the populace. People made the decision to start investing money when the lockdown's regulations were gradually relaxed, which led to businesses restarting. As more money was injected into the markets as a result of this new wave of investors, they were able to recover. Due to the fact that all markets were recovering, these investors experienced an abrupt gain. Over a million new stock traders were introduced by India's Lockdown.

A significant number of people were able to invest some of their free time thanks to work from home, and trading firms like Zerodha and Sharekhan experienced a 20% increase in new account openings.[10]

IV. FINDINGS AND CONCLUSION

➢ *Is this Growth Sustainable?:*

Although India is in a rapid growth phase, the price does not justify the growth. After comparison with global growth economies, the Indian markets have been moving at their own pace. The share price of these companies will eventually coincide with the true value in the long run. The valuation of these companies must coincide with the actual economic growth rate and profitability of the companies for them to be sustainable in the long run. The profitability of a company can be measured by various ratios STCGs as ROI, ROCE, EPS, PE, etc.

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From March 2020 to February 2021, the markets had a significant upward positive movement. As the world markets started to open up, the stock markets were looking quite bullish. The new investors gained confidence as a result, believing that the stock market is a simple way to make rapid money with no risk.

It is important to note that novice investors entered the market without experience, which caused them to choose stocks that just sounded like they had a strong financial backing. However, the stock market is more than just financial information and they work on a multifaceted system, as reported by the National Securities Depository Limited (NSDL).

Fig 4 Sensex Chart - 2017-2020

In the short term, we observe that technical analysis tools such as candlestick pattern analysis, and price volume breakdown are significant elements; but, in the long term, we see that the financial statements of the company, as well as its competitors, were essentially the most important aspects. The new investors were unaware that the markets would become more unpredictable following the period of boom, as once the post-covid money influx stopped, the markets will continue to operate as they did before.

The markets recovered from 7524 points to 15,800 points between March 2020 and March 2021, which explains the abrupt rise in profits.[11]

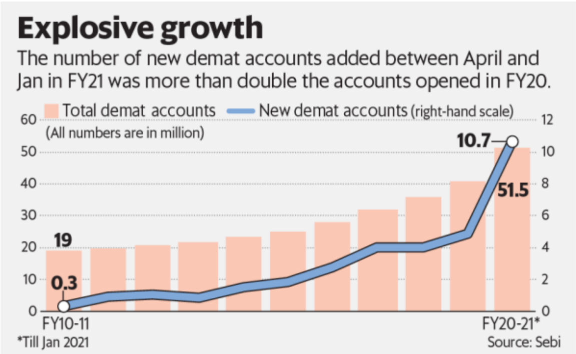

Fig 5 Growth in Demat Accounts

Fig 5 shows us the rapid rise in the total number of demat accounts in India which shows us that a vast number of people have decided to invest their money in the stock markets.

As soon as the markets started to stabilize, new traders lost money and faith in the Indian markets since they lacked the experience to recognise price fluctuations caused by factors other than our global economy.

Instead of taking a negative stance, there is a group of investors who started researching these trends and are now learning how to study them and profit from them.

According to a renowned author and financial blogger JL Collins in his book The Simple Path to Wealth he says "Complex investments exist only to profit those who create and sell them. Not only are they costlier to investor, they are less effective," Collin also says that most people tend to lose money because they think they can:- Time the market, Pick the right individual stocks and pick winning fund managers. The issue with the new investors in India was that they were not as well researched as they should have been entering into the market. [13].

One of the main reasons many investors lost money when investing in equities is ignoring the global markets. The SGX, or Singapore Exchange, has an impact on how our markets open for us in India. The Japanese stock market also contributes to our awareness of global market sentiment. Stock markets operate in synchronicity with one another.

Most investors are driven by emotions such as fear and greed and failure to recognize downside short opportunities due to lack of knowledge or fear of execution. Recognition and execution of these opportunities could drastically increase their probability of being profitable due to the slight shift in the market sentiment to a bear market. Taking hedge positions could aid profitability.

With such a complicated market, it is nearly impossible to precisely predict these changes with limited study, which is one of the main causes of capital loss. The derivatives markets are incredibly volatile, unpredictable, and demand a tremendous amount of research in order to reap the rewards. This was one such angle many investors failed to pick up on and decided to jump into it with limited knowledge and research.

➢ *Inflated Values:*

As we can see from the chart above, the majority of the sectors have experienced a retracement that has resulted in a considerably greater high than the high that the forecast trend without COVID-19 would have produced. This creates a significant issue about a company's value and valuation. The most notable aspect of this subject is the 3 week drop in the share price of Adani Enterprises from 3748 to 1022. Since the publication of the Hindenburg report on January 24, 2023, this represents a 73% decline and a loss of Rs. 7.11 trillion. This

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calls into doubt the reliability and worth of the majority of the businesses that have experienced rapid growth since COVID. These companies' financials cannot support their price. [12]

Another way of measuring a company's true value is by analyzing the liquidity ratios such as all working capital ratios,current ratio and quick ratio

Utilizing different fundamental analysis techniques, such as discounted cash flow, EPS, PE ratio, and sector PE, one may ascertain the true value of a company. The stock market's manipulation, an increase in the flow of large sums of money by FIIs (Foreign Institutional Investors), and major businesses with a sizable AUM (Assets under management) like mutual funds like Life Insurance Company and major market participants could all be contributing factors to the inflated valuations.

Because of operators working in their own interests, promoters with vested interests, and government interference with a small number of enterprises for personal profit maximization without taking into account the larger community, many equities have an exaggerated valuation that does not justify the financials. Few businesses also employ unethical techniques to manipulate their financial accounts in order to look better to investors. To acquire an accurate understanding of a firm's performance, the PE ratio of each individual company should be compared to the global sector PE. The percentage of problematic loans made has been taken into account in the banking industry.

An industry study revealed that although stressed loans to MSMEs are anticipated to remain high, gross non-performing assets (NPAs) of Indian banks are expected to fall to a decadal low of 4% by the end of fiscal 2023–24 from a peak of 11.5–% in March 2018. This decline will be aided by a sharp improvement in the corporate segment.

According to a study performed jointly by industry group Assocham and CRISIL Ratings, NPAs in the corporate segment are expected to decline to 4% by the end of fiscal 2023–24 from a peak of 16% as of March 31, 2018. On the back of the post-pandemic economic recovery and faster loan expansion, banks' gross non-performing assets (NPAs) are predicted to drop by 90 basis points (bps) from year to year to 5% this fiscal and by another 100 bps to a low of 4% by March 31, 2024. Since 2013, when it was 3.40%, this will be the lowest gross NPA level for Indian banks.

In conclusion, the lack of knowledge and inflated stock prices are causing investors to lose money in the stock market post Covid-19.

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