



THE CORONAVIRUS RECESSION AND THE RESPONSE OF THE CORPORATE SECTOR AND THE CENTRAL BANK







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#### Introduction...

- The spread of the novel coronavirus has now turned into a disruptive financial contagion and demands quick action from India's policymakers and regulatory bodies
- The outbreak presents twin challenges: containing the disease spread even while limiting the economic impact in an already slowing economy
- The current market reaction is in fact closer to the crash of 2008, after Lehman Brothers filed for bankruptcy
- Economists said fiscal measures such as government spending should play a bigger role to counter the economic hits from the coronavirus outbreak
- Analysts from Nomura said "the best immediate response" to the current economic slump triggered by a spread of a new virus is "first and foremost health security policies



# How did outbreak of coronavirus affect different Corporate Sectors:-

- The Covid-19 pandemic had impacted economies around the world like no other event that experts can recollect since the Great Depression.
- Some of the strongest economies around the globe are struggling to cope with the situation in the wake of an unprecedented demand shock and a shutdown of all key economic activities that drive growth.
- India, too, has been hit hard. Many sectors went to position so that they are not even able to pay wages for their employees.
- A lot of sectors have got affected due to this pandemic .But here we will be discussing the sectors that have got affected most.



The first one among these is MSME(Micro, small and Medium Enterprises).

#### **MSME SECTOR:-**

MSMEs are literally the backbone of all Indian sectors and often engaged in manufacturing and export activities- two key drivers of the Indian economy.

Due to lockdown most of the production activities at major firms have stopped. There are several reports that indicate how MSMEs are reeling under crisis and have no money to pay their employees.

Due to lack of trade and shrinking sales, MSMEs are feeling the burden of loans, repayments, GST filings etc.

Many of them are almost on the verge of losing their control over losses and unable to generate revenues as well and fighting for their survival.



#### **TOURISM AND HOSPITALITY SECTOR:-**

Tourism sector was the first to get disrupted by the impact of Covid-19 and will be the last to see resumption of activities.

Several reports indicate that the tourism sector will be worst affected due to virus pandemic.

Due to this outbreak of covid-19 predictions said Indian tourism and hospitality sector to lose more than over 3.8 crore jobs. And this may even increase.

This industry is expected to stay under pressure for at least next few months owing to increased uncertainty.

There are many calls for a minimum wage package for affected workers who have been rendered jobless since lockdown.



#### **Aviation Sector**

The crucial aviation sector that connects nations across the world is witnessing a flurry of layoffs and pay cuts.

The global aviation activity has sunk over 66 per cent in the wake of the Covid-19 crisis.

From a point of complete suspension of travel, recovery is likely to be slow. Demand will be suppressed due to economic dislocation; slow or even negative GDP growth; broken supply chains; low consumer confidence; and concerns about lingering outbreaks of COVID-19.

The sector, like the travel and tourism segment, is also in urgent need of financial help to support employees.



#### **Automobile Sector**

The automobile sector in India has been forced to stop key manufacturing activity and has led to a sharp drop in production and sales.

With most of the plants shut, big automobile manufacturing companies have announced pay cuts and are waiting for a decision on resumption of dealerships.

The automobile sector is interlinked with many other small sectors that manufacture key parts, which are then used for manufacturing vehicle components.

Therefore, many industries is urging the government to at least open a few dealerships to resume businesses. A package for the industry, especially for the ones at the bottom of the manufacturing chain, is necessary.

# How did corporate sectors react to this situation :

#### First let's begin with MSME sector:

Seeking Urgent Relief - With over 100 million people employed — nearly 40 per cent of India's workforce — the urgency of addressing the needs of the MSME sector can hardly be overstated.

Over the last few quarters, several industry bodies have approached the Modi government to raise the issue of the payments — which the government-run companies and departments owe them — being stuck due to procedural delays.

As the first half of the financial year 2019-20 came to a close on September 30, Nirmala Sitharaman had to step in, to make sure payments were released to the vendors of public sector companies. Economic growth was at its lowest for the NDA government.

"Government should not sit on overdue payments," Sitharaman was quoted as saying.

#### Tourism and Hospitality Sector:

The Tourism sector is currently one of the hardest-hit, by the outbreak of the coronavirus disease (COVID-19), with impacts on both travel, supply and demand.

Tourism authorities promote and reassure tourists, that the destination is safe to attract tourists when COVID-19 is controlled.

It is important for tourism enterprises to stay competitive when the market is unstable, and should maintain prices chart throughout the crisis.

Tourism enterprises can take certain measures, to maintain their cash flow in the near future, by suspending unnecessary or least important operational material purchases, by delaying outsourcing payments and by encouraging employees to take annual leaves and unpaid leaves, moreover tourism industry stakeholders can maintain business by other ways like adjusting their market mix and distribution channels.

#### **Aviation Sector:**

Once the flights resume, it is expected that major part of the aviation industry will start with domestic sector; because with international other countries come into play.

Operations will largely depend on rules and regulations with respect to every airport and every city. From operating at 50% capacity, to scaling back, the number of counters that will be allowed to remain open and most importantly, how the demand operates.

How the business resumes will depend on the pricing functions and how the market reacts.

CAPA India estimates that Indian carriers will require a domestic fleet of around 300-325 aircraft from Oct-2020 onwards, and an international fleet of 100-125 aircraft.

#### Automobile Sector:

#### Respond (during the lockdown period):

Actively contribute to fighting the pandemic (support contract workers in the automotive ecosystem; production of sanitizers, masks).

#### Recover (post lockdown):

Plan initiatives to capitalise the potential aversion to shared mobility and public transport.

Prepare for the spike in after-sales (service-on-wheels and service camps for scheduled maintenance).

Re-assess upcoming launches and financing offerings (financing schemes to tackle liquidity crunch).

Adopt hygiene-centric process and design changes (sanitization/fumigation of the vehicle as part of workshop services and test-drive; design no-contact customer journeys).

## **CORPORATE SOCIAL RESPONSIBILITY:**

DEVELOPMENT

•Companies' strategies and values must be in accordance to the stakeholders expectations and needs because their role and influences on companies' activity are decisive for the companies' future development.

•Corporate Social Responsibility is a meaningful way through which companies can pursue sustainable development by having a coherent economical, social and environmental perspective on how the business should be managed.

- Stakeholders tend to exert constant pressure on economic and social programs initiated by business sector, making them more sensitive to their needs and expectations, setting companies' overall strategy values and moving from coincidental C.S.R practices to more complex, consistent and long term approaches.
- C.S.R practices will draw companies' attention on moral and ethnic norms in relation with the economical parameters.
- C.S.R practices oriented to improve people's life bring major benefits to the companies' in terms of reputation and increase in customers' gratitude.
- Companies should share how they are trying to make a positive impact on the world, so that the public can see the pro-social initiatives they are making.

- The concept of CSR is now firmly rooted on the Global Business Agenda.
- •A key challenge businesses face is the need for more reliable indicators of the progress in field of C.S.R, along with the dissemination of CSR strategies.
- •Transparency and dialogue can help to make a business more trustworthy and push up their standards at the same time.
- •This COVID-19 crisis gives an excellent opportunity for businesses large and small to enact a "positive" change to the society.



# C.S.R DURING COVID-19 CRISIS

- Indian companies are playing significant roles in creating awareness of social distancing as an aid to mitigate the spread of this deadly infection covid-19.
- Government of India issued a report on March 23, 2020 that states all expenditures incurred on activities related to covid -19, will be added as permissible avenues for CSR expenditure, thereby inspiring companies to provide social support.
- Many companies are performing CSR activities by promoting social awareness for social distancing. Indian famous dairy brand Amul released a series of messages motivating people to wash hands frequently, greet others using the no-contact namaste method and to work from home to prevent coronavirus from going into

community transmission.





• Some companies changed their respective logo to promote social distancing. One such company is Mc Donald's, it has bifurcated it's logo 'm' into two parts 'n' 'n' as shown: (the two parts emphasize social distancing)



- Apart from the above mentioned companies, certain blue chip companies have also extended their hands to combat covid-19. For example, Infosys Foundation provided Rs. 50 crore to PM CARES Fund. TCS came up with the iON Digital Classroom software to provide online learning facilities to students.
- Other than the activities for the general public, most of the companies have taken precautionary measures for most of their employees to Work from Home and also use masks and wash hands frequently with sanitizers while at office.
- By the CSR activities aimed at general public, companies are ensuring that they are having general outlook among the investors. By taking precautionary measures for their employees, they are increasing their perception among employees in this pandemic time.

# Decisions taken by RBI to counter the coronavirus impact on economy

- CRR The RBI announced that the Cash Reserve Ratio(CRR) would be reduced by 100 bps, or 1%, to 3%. This would be applicable from March 28, and would inject Rs.1,37,000 crore.
- Repo Rate RBI announced that it was cutting the repo rate by 75 bps, or 0.75% to 4.4. The Repo Rate was earlier 5.15.
- Reverse Repo The regulator also announced that it would cut the Reverse Repo rate by 90 bps, or 0.90%. On a daily average, banks had been parking Rs 3 lakh crore with the RBI. The current reverse repo rate was 4%.
- MSF Marginal Standing Facility (MSF) has also been increased to 3% of SLR, available till June 30, 2020. "This measure should provide comfort to the banking system by allowing it to avail an additional `1,37,000 crore of liquidity under the LAF window in times of stress at the reduced" said the RBI.

- LTRO The RBI will also undertake Long Term Repo Operations (LTRO); allowing further liquidity with the banks. The banks however are specified that this liquidity will be deployed in in commercial papers, investment grade corporate bonds and non-convertible debentures.
- Loan Moratorium In a massive relief for the middle class, the RBI Governor also announced that lenders could give a moratorium of 3 months on term loans, outstanding as on 1 March, 2020. This is applicable to All Commercial Banks including Regional, Rural, Small Finance, Co-Op Bank, All India Financial Institutions and NBFCs including Housing Finance and Microfinance.
- Working Capital Interest A Three month interest moratorium shall also be permitted to all lending institutions.

# Measures taken by Government to help Small and Medium Scale Companies during the Pandemic

- >Enable participation of MSMEs in international trade fairs and provide funding support.
- ➤ Provision of collateral free credit for MSMEs.
- >Funding support for strengthening of infrastructure of EDIs.(Electronic Data Interchange).
- ➤ Capital subsidy support on credit for technology upgradation.

- > Funding for organizing awareness programs on Energy Efficiency.
- ➤ National award for outstanding entrepreneurship.
- ➤ Funding support for setting up 'Mini Tool Rooms'.
- ➤ Funding support for implementing 'Lean Manufacturing' projects.
- >Support for setting up of 'Business Incubators'.

## Measures towards poor people:

India announced a Rs 1.7-lakh-crore relief package to take care of poor, worker and those who need immediate help amid a lockdown to combat the coronavirus pandemic.



The Pradhan Mantri Garib Kalyan Scheme, which will cover 80 crore poor people, will include cash transfers and food security.

Finance Minister Nirmala Sitharaman said at a press meet in New Delhi Each one will get free 5 kilogram of rice or wheat every month for the next three months, she said adding a kilogram of preferred pulse per household will also be given every month to these families.



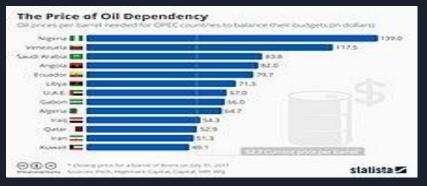
# Here's what Nirmala Sitharaman's relief package includes:

- 1. Payout given to 6.69 crore farmers under PM-KISAN will be front-loaded
- 2. Wages under MGNREGA to be hiked to R\$ 202 from Rs 182, which would mean an additional RS 2,000 to every worker
- 3. Three crore poor senior citizens, widows, disabled to get one-time ex-gratia amount of Rs 9,000 in two instalments.
- 4. 20 crore women Jan Dhan account holders will get an ex-gratia amount of Rs 500 per month for three months.
- 5. Women in 6.3 crore below-poverty-line families covered under Ujjwala scheme will get free cylinders for three months.

- 6. Doubling collateral-free loan amount to Rs 20 lakh for women in self-help groups Seven crore households to benefit through 6s lakh self-help groups.
- 7. Government will pay provident fund contribution for both employer and employee for three months. This would cover those establishments which have up to 100 employees and 90 percent employees earn less than Rs 15,000 per month, benefiting so lakh workers
- 8. Provident fund scheme regulations to be amended to allow non-refundable advance of 75 percent of amount in account or three months of wages, whichever is lower To benefit 43 crore workers
- 9. To direct state government to utilite R\$ 31,000 crore under the Building and other Construction Worker runs to support 3.5 crore construction sector workers.
- 10. The government will provide medical insurance cover of Rs 50 lakh per person to those at front-lines of fighting the virus This would cover doctors, nurse, paramedical staff, sanitation and ancillary workers

### Impact of Covid-19 on Stock Market

- Economic turmoil associated with COVID 19 pandemic has had wide-ranging and severe impacts upon financial markets, including stock, bond and commodity (including crude oil and gold) markets.
- Major events included a described Russia-Saudi Arabia oil price war after failing to reach an OPEC+ agreement that resulted in a collapse of crude oil prices and stock market crash in March 2020.



- On Monday, 24 Februray 2020, the Dow Jones Industrial Average and FTSE 100 dropped more than 3% as the corona virus outbreak spread worsened substantially outside china over the weekend.
- On 27 Februray, due to mounting worries about the coronavirus outbreak, various U.S. stock market indices including the NASDAQ-100, the S&P 500 index, and the Dow jones Industrial Average posted their sharpest falls since 2008, with the Dow falling 1,191 points, its largest one-day drop since 2008 financial crisis.



- After OPEC and Russia failed to agree on oil production cuts on 5 March and Saudi Arabia and Russia both announced increases in oil production on 7 March, oil prices fell by 25 percent.
- On the morning of 9 March, the S&P 500 fell 7% in four minutes after the exchange opened, triggering a circuit breaker for the first time since the financial crisis of 2007-08 and halting trading for 15 minutes.

#### The coronavirus recession Vs 2008 Financial Crisis

- Right now, the impact of the coronavirus is merely causing a short-term earnings recession due to the disrupted supply chains and hampered global demand.
- Balance sheets on the other hand remain healthy and quite liquid. This is very different from the 2008 crisis, where the backbone of US finance, the banks, had toxic balance sheets and couldn't provide proper liquidity.
- These rate cuts will provide a massive upside for companies (that aren't banks) once this coronavirus is controlled allowing companies to borrow money at a discount rate.

#### COVID-19 and stock market crash

- The sentiment in the stock markets across the world is gloomy. This is reflected in the frequent crashes in the share markets in all parts of the world. Financial markets in India are witnessing sharp volatility currently as a result of the fallout in global markets.
- The fall is in line with the global benchmark indices as the domestic market usually tracks the major global indices and the high volatility is likely to continue in the near future.
- Further, with overseas investors (FPIs) flying to the safety of dollar-backed assets from emerging markets has led to a sharp downfall in the Indian Stock Market. S&P BSE Sensex which was 42273 points on 20 January, 2020 is 29894 points on 08 April, 2020.
- The price to Earnings Ratio of Sensex is less than 18 (P/e is 17.81 on 31March, 2020) which is far less than the historical range between 20-24. Markets across large, mid, and small caps have corrected sharply from their peaks. In the FY20 the mid-cap index fell by 26 per cent while the Sensex fell by 22 per cent.

### **Recovery in Current Stock Market**

- Though the financial crisis is inevitable, considering all-out efforts by central banks and fiscal authorities, to soften the blow, deep economic slump might be avoided.
- The problem in the current scenario is that until we know how quickly and thoroughly the public-health challenge will be met, economists cannot predict the endgame of this crisis.
- Trade-in 2020 is expected to fall steeply in every region of the world and basically across all sectors. But global trade could rebound rapidly after that. However, it would depend on how quickly the pandemic is brought under control, and the policy choices which the governments took to support their economies.

### Conclusion:

- Once this pandemic is over with normalcy returning to business and economy, the stock market will start moving in a positive direction, and as witnessed in the past, recovery would be faster than expected.
- It is true about the market that whether it is the correction or growth, both phases make equity or stock market interesting and worth taking exposures. But it is highly advisable that do not jump into the market or do not try to catch the falling knife.

