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Editor's Desk

As an institution which believes in academic pursuits which have practical implications, B.I.T Durg has always been a forerunner in academic endeavors setting benchmarks in education and industry.

This Newsletter aims at empowering professionals everywhere to lead more productive work lives by disseminating knowledge processed

Chief Patron
Shri I.P Mishra
Patron
Dr. Arun Arora
Advisor
Faculties of COE - VITTAM
Editor
Saurabh Tomar

Department Of Management
Bhilai Institute of Technology, Bhilai House Durg Chhattisgarh 491001
Tel +91-788-2359424

Pandemic and Cope Up

February 19, 2020, marked the stock market peak before the outbreak of the COVID-19 pandemic triggered a free fall in share prices. In the year since, the world has changed, transforming our lives, our economies, and the fortunes of our businesses—an unfolding journey that is reflected in the ups and downs of share prices.

The fundamental trends have accelerated, propelling some companies forward at record speed while for others headwinds have turned into hurricanes. By pooling investors' beliefs about the future, capital markets are powerful indicators of what could lie ahead. And this view puts the new realities we face into stark relief.

For equity investors, the drama of the past year has played out in four distinct acts, reflecting marked shifts in expectations about the pandemic's duration and its impact on consumers and businesses . To illustrate this 5,000 of the world's biggest companies in respective sectors and were examined for the average shareholder returns over the course of the year. We have placed one special set of companies, which we have dubbed the "Mega 25" (more on these later), in a "sector" of their own because their exceptional market performance would skew their industry results. Act 1, spanning roughly the first month of the crisis, saw historically large and rapid declines across all sectors. Recall that early in the pandemic, all news was bad, uncertainty was extraordinary, and the downside seemed unlimited. The tide started to turn after mid-March as governments began responding with record stimulus packages, and by early June some sectors, such as pharmaceuticals and biotechnology, fully regained their market losses. But the recovery was far from even, and many industries—notably aerospace, air and travel, banking, insurance, and oil and gas—remained down significantly from their prepandemic peaks. Through the middle of the year, this dispersion grew, with the high-performing sectors gaining strongly and widening their lead on the lagging industries. Seven months after markets had bottomed out, almost half the sectors had fully bounced back—although banking remained 19 percent below the pre-COVID-19 high, indicating concerns about the health of the wider economy. Finally, in Act 4, from late October to today, news of imminent vaccines led to the anticipation of recovery, with the worst hit industries partially regaining their market losses while those that thrived through the pandemic continued to advance strongly. While the average returns rose in each successive act, the spread between the best- and worst-performing sectors also grew, from 27 percentage points in mid-March to 80 percentage points today—the widest in recent history. This wild roller-coaster ride reflects the vast confusion and radical shifts sparked by an unprecedented crisis. Yet the past year in the capital markets also tells a story of resilience and hope, offering the promise of new growth and vigor on the other side of the long, dark COVID-19 tunnel. In our analysis of the market gyrations, three key themes emerge: a new group of exceptional outperformers is changing the rules of the game; the pandemic has served as an accelerator of existing trends; and companies primed to ride those trends are extending their leads on their peers. The 'Mega 25' surge ahead Over the past year, 25 companies have recorded market-capitalization gains that put them in a category of their own.

In all we can say that Global Companies are fast gearing up to come out from the situation arises due to Pandemics.

Miss Divya Jain

15 Feb 2019

Global and Domestic Economy Assessment

Domestic Economy

- On the domestic front, economic activity had started to recover from the lows of April-May following the uneven re-opening of some parts of the country in June; however, surges of fresh infections have forced re-clamping of lockdowns in several cities and states. Consequently, several high frequency indicators have leveled off.
- The agricultural sector has emerged as a bright spot. Its prospects have strengthened on the back of good spatial and temporal progress of the south- west monsoon. The cumulative monsoon rainfall was 1 per cent below the long-period average (LPA) up to August 5, 2020. Spurred by the expanding precipitation, the total area sown under kharif crops on July 31 was 5.9 per cent higher than the normal area measured by the average over the period 2014-15 to 2018-19. As on July 30, 2020, the live storage in major reservoirs was 41 per cent of the full reservoir level (FRL), which bodes well for the rabi season. These developments have had a salutary effect on rural demand as reflected in fertilizer production and sales of tractors, motorcycles and fast-moving consumer goods.

- The pace of contraction of industrial production, measured by the index of industrial production (IIP), moderated to (-) 34.7 per cent in May from (-) 57.6 per cent a month ago, with the easing of lockdowns in different parts of the country. All manufacturing sub-sectors, except pharmaceuticals, remained in negative territory. The output of core industries in June contracted for the fourth successive month though with a considerable moderation. The Reserve Bank’s business assessment index (BAI) for Q1:2020-21 hit its lowest mark in the survey’s history. The manufacturing PMI remained in contraction, shrinking further to 46.0 in July from 47.2 in the preceding month.High frequency indicators of services sector activity for May-June indicate signs of a modest resumption of economic activity, especially in rural areas, although at levels lower than a year ago. Notably, the decline in passenger vehicle sales moderated to (-) 49.6 per cent in June from (-) 85.3 per cent in May, indicative of tentative urban demand, and faster recovery of sales in rural areas. On the other hand, domestic air passenger traffic and cargo traffic continued to post sharp contraction. Construction activity remained tepid – cement production fell and finished steel consumption moderated sharply in June. Imports of capital goods – a key indicator of investment activity – declined further in June. The services PMI continued in contractionary zone in July to 34.2, although the downturn eased relative to the May and June readings.

- The National Statistical Office (NSO) released data on headline CPI for the month of June 2020 on July 13, 2020, along with imputed back prints of the index for April and May 2020. This resulted in a sharp upward revision of food inflation for the month of April and May. During Q1:2020-21 food inflation moderated from 10.5 per cent in April to 7.3 per cent in June 2020. Meanwhile, fuel inflation edged up as international kerosene and LPG prices firmed up. Inflation excluding food and fuel was at 5.4 per cent in June, reflecting a spike in prices across most sub-groups. Inflation in transport and communication, personal care and effects, pan-tobacco and education registered significant increases in June. Headline CPI inflation, which was at 5.8 per cent in March 2020 was placed at 6.1 per cent in the provisional estimates for June 2020.

- For the second successive round, households' three months ahead expectations remained above their one year ahead expectations, indicating their anticipation of lower inflation over the longer horizon. Producers' sentiments on input prices remained muted as their salary outgoes fell. Their selling prices contracted in Q1 in the April-June round of the Reserve Bank's industrial outlook survey. The contraction in output prices is also corroborated by firms participating in the manufacturing PMI survey.
- Domestic financial conditions have eased substantially and systemic liquidity remains in large surplus, due to the conventional and unconventional measures by the Reserve Bank since February 2020. Cumulatively, these measures assured liquidity of the order of ₹9.57 lakh crore or 4.7 per cent of GDP. Reflecting these developments, reserve money (RM) increased by 15.4 per cent on a year-on-year basis (as on July 31, 2020), driven by a surge in currency demand (23.1 per cent). Growth in money supply (M3), however, was contained at 12.4 per cent as on July 17, 2020. Average daily net absorptions under the liquidity adjustment facility (LAF) moderated from ₹5.3 lakh crore in May 2020 to ₹4.1 lakh crore in June as government spending slowed. In July, average daily net absorptions under the LAF moderated further to ₹4.0 lakh crore, as government spending remained subdued. During 2020-21 (up to July 31), ₹1,24,154 crore was injected through open market operation (OMO) purchases. In order to distribute liquidity more evenly across the term structure and improve transmission, the Reserve Bank conducted 'operation twist' auctions involving the simultaneous sale and purchase of government securities for ₹10,000 crore on July 2, 2020. Furthermore, the utilization of refinance provided by the Reserve Bank to the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) increased to ₹34,566 crore on July 31, 2020 from ₹22,334 crore during the May policy.
- The transmission to bank lending rates has improved further, with the weighted average lending rate (WALR) on fresh rupee loans declining by 91 bps during March-June 2020. The spreads of 3-year AAA rated corporate bonds over G-Secs of similar maturity declined from 276 bps on March 26, 2020 to 50 bps by end-July 2020. Even for the lowest investment grade bonds (BBB-), spreads have come down by 125 bps by end-July 2020. Lower borrowing costs have led to record primary issuance of corporate bonds of ₹2.1 lakh crore in the first quarter of 2020-21.
- India's merchandise exports contracted for the fourth successive month in June 2020, although the pace of fall moderated on improving shipments of agriculture and pharmaceutical products. Imports fell sharply in June in a broad-based manner, reflecting weak domestic demand and low international crude oil prices. The merchandise trade balance recorded a surplus in June (US$ 0.8 billion), after a gap of over 18 years. The current account balance turned into a marginal surplus of 0.1 per cent of GDP in Q4 of 2019-20 as against a deficit of 0.7 per cent a year ago. On the financing side, net foreign direct investment moderated to US$ 4.4 billion in April-May 2020 from US$ 7.2 billion a year ago. In 2020-21 (till July 31), net foreign

portfolio investment (FPI) in equities at US$ 5.3 billion was higher than US$ 1.2 billion a year ago. In the debt segment, however, there were outflows of US$ 4.4 billion during the same period as against inflows of US$ 2.0 billion a year ago. Net investment under the voluntary retention route increased by US$ 0.9 billion during the same period. India's foreign exchange reserves have increased by US$ 56.8 billion in 2020-21 so far (up to July 31) to US$ 534.6 billion – equivalent to 13.4 months of imports.

- **Mr Mitul Kela**

Economy Outlook as per Reserve Bank of India During COVID -19

- Supply chain disruptions on account of COVID-19 persist, with implications for both food and non-food prices. A more favorable food inflation outlook may emerge as the bumper rabi harvest eases prices of cereals, especially if open market sales and public distribution off take are expanded on the back of significantly higher procurement. The relatively moderate increases in minimum support prices (MSP) for the kharif crops and monsoon are also supportive of benign inflation prospects. Nonetheless, upside risks to food prices remain. The abatement of price pressure in key vegetables is delayed and remains contingent upon normalization of supplies. Protein based food items could also emerge as a pressure point, given the tight demand-supply balance in the case of pulses. The inflation outlook of non-food categories is, however, fraught with uncertainty. Higher domestic taxes on petroleum products have resulted in elevated domestic pump prices and will impart broad-based cost-push pressures going forward. Volatility in financial markets and rising asset prices also pose upside risks to the outlook. Taking into consideration all these factors, headline inflation may remain elevated in Q2:2020-21, but may moderate in H2:2020-21 aided by large favorable base effects.

- Turning to the growth outlook, the recovery in the rural economy is expected to be robust, buoyed by the progress in kharif sowing. Manufacturing firms responding to the Reserve Bank's industrial outlook survey expect domestic demand to recover gradually from Q2 and to sustain through Q1:2021- 22. On the other hand, consumer confidence turned more pessimistic in July relative to the preceding round of the Reserve Bank's survey. External demand is expected to remain anaemic under the weight of the global recession and contraction in global trade. Taking into consideration the above factors, real GDP growth in Q2-Q4 is expected to evolve along the lines noted in the May resolution. For the year 2020-21, as a whole, real GDP growth is expected to be negative. An early containment of the COVID-19 pandemic may impart an upside to the outlook. A more protracted spread of the pandemic, deviations from the forecast of a normal monsoon and global financial market volatility are the key downside risks.

- The June release of headline inflation after a gap of two months and imputed prints of the CPI for April- May have added uncertainty to the inflation outlook. The NSO has adopted best practices in producing these imputations for the purpose of business continuity in the face of challenges to data collection due to the nation-wide lockdown. The NSO has, however, not provided inflation rates for April and May. For the purpose of monetary formulation and conduct, therefore, the MPC is of the view that CPI prints for April and May can be regarded as a break in the CPI series.

- The MPC noted that the economy is experiencing unprecedented stress in an austere global environment. Extreme uncertainty characterizes the outlook, which is heavily contingent upon the intensity, spread and duration of the pandemic – particularly the heightened risks associated with a second wave of infections – and the discovery of the vaccine. In these conditions, supporting the recovery of the economy assumes primacy in the conduct of monetary policy. In pursuit of this objective, the stance of monetary policy remains accommodative as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy. While space for further monetary policy action in support of this stance is available, it is important to use it judiciously and opportunistically to maximize the beneficial effects for underlying economic activity.

- At the same time, the MPC is conscious that its primary mandate is to achieve the medium-term target for CPI inflation of 4 per cent within a band of +/- 2 per cent. It also recognizes that the headline CPI prints of April-May, 2020 require more clarity. At the current juncture, the inflation objective itself is further obscured by (a) the spike in food prices because of floods in eastern India and ongoing lockdown related disruptions; and (b) cost-push pressures in the form of high taxes on petroleum products, hikes in telecom charges, rising raw material costs reflected in upward revisions in steel prices and rise in gold prices on safe haven demand. Given the uncertainty surrounding the inflation outlook and taking into consideration the extremely weak state of the economy in the midst of an unprecedented shock from the ongoing pandemic, it is prudent to pause and remain watchful of incoming data as to how the outlook unravels.

Meanwhile, the cumulative reduction of 250 basis points since February 2019 is working its way through the economy, lowering interest rates in money, bond and credit markets, and narrowing down spreads. Financing conditions have eased considerably, enabling financial flows via financial markets, especially at a time when banks remain highly risk averse. Accordingly, the MPC decides to stay on hold with regard to the policy rate and remain watchful for a durable reduction in inflation to use the available space to support the revival of the economy. All members of the MPC – Dr. Chetan Ghate, Dr. Pami Dua, Dr. Ravindra H. Dholakia, Dr. Mridul K. Saggar, Dr. Michael Debabrata Patra and Shri Shaktikanta Das – unanimously voted for keeping the policy repo rate unchanged and continue with the accommodative stance as long as necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Mr.Sidharth Gupta