CARE Ratings
Professional Risk Opinion

Sectoral Indices Movement during COVID-19 lockdown

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The domestic equity market has been marked by volatility since the announcement of the nationwide lockdown. Spread of the virus throughout the country, weakening of the investor sentiments, policy measures announced by the RBI, relief measures announced by the central and state governments, tracking losses in the global markets and the lower volumes of trades owing to the lower number of dealers/ staff at the trading desks have all been impacting the markets since the increase in COVID-19 cases in India.

The study aims to gauge investor sentiment towards sectors during the imposition of the nationwide lockdown which came into effect 25th March 2020 onwards. Till date there have been 2 extensions (with a third to follow soon) but each extension has come with some relaxations in order to facilitate the reopening of the economy in a phased manner.

In order to judge investor sentiment towards a particular industry, the volatility of the stock indices as well as the averaging of the movements in these sectoral indices vis-à-vis to the benchmark index has been considered.

Note: 25th March to 12th May 2020 marks 30 trading days and in order to make a fair comparison an average of 30 trading days before the imposition of the lockdown has also been considered.

Levels in volatility will help determine if which sectors have witnessed wider swings in price movements. The study uses BETA as the indicator to measure volatility as it shows the movement of a particular sectoral index vis-à-vis to the benchmark index. Methodology/Calculation of BETA is mentioned in the appendix.

The conclusion which one can draw from such an analysis is whether the market reflects in relative terms the expected performance of sectors during these uncertain times. Typically, industries which are doing well due to being considered essential or being provided support should reflect in the stock indices. Volatility will tell us whether these stock indices have been more or less reactive relative to the Sensex.

Table 1: Average percentage change in sectoral indices as compared to the SENSEX (Benchmark Index) Pre and during the nationwide lockdown

	Average % Change	Out/Underperformance
SENSEX	-16.0%	-
Healthcare	6.6%	22.6%
FMCG	-1.9%	14.1%
Energy	-3.5%	12.5%
Telecom	-5.9%	10.1%
Oil and Gas	-10.9%	5.1%
IT	-11.8%	4.2%
Utilities	-12.7%	3.3%
Power	-14.9%	1.1%
Basic Materials	-20.0%	-4.0%
Consumer Discretionary Goods & Services	-20.3%	-4.3%
Auto	-21.2%	-5.2%
Consumer Durables	-21.5%	-5.5%
Capital Goods	-22.8%	-6.8%
Industrials	-23.6%	-7.6%
Metal	-25.3%	-9.3%
Finance	-27.0%	-11.0%
Bankex	-28.1%	-12.1%
Realty	-31.9%	-15.9%

Source: CARE Ratings calculations

Note: The green highlight indicates the increase in average % change of the sectoral index as compared to the average % change in the SENSEX (red indicates the opposite).

Pre Lockdown: 10th February 2020- 24th March 2020 Post Lockdown: 25th March 2020- 12th May 2020

Industries throughout have either experienced liquidity, logistics and labour issues or were/have not been operating during the lockdown period.

Sectors in Green

The Healthcare sector is the only index which has recorded a positive performance while the Indian economy has been under lockdown. The healthcare index which comprises drugs and pharmaceutical companies, diagnostic testing laboratories and hospitals were listed as essential services and have been operational throughout during the lockdown. While juxtaposing the healthcare index with the benchmark index, the healthcare index has outperformed the SENSEX by 22.6%.

On the whole, the performance of the FMCG index has fallen by 1.9% but better by 14.1% as compared to the performance of the SENSEX during the lockdown period. The sector has been relatively better placed as operations have been allowed throughout given the supply of daily household goods have been listed as essentials. Consumers have also been stocking up on daily household items more than the usual amount usually bought in order to avoid stepping out frequently keeping social distancing norms in mind.

The telecom index too has fared well as compared to the performance of its peers with the benchmark index. Increase in usage of personal data as individuals brace themselves for work from home and uninterrupted business operation of the telcos can be ascribed to the performance of telecom index.

The oil and gas sector index comprising exploration and production companies, lubricant manufactures, refineries and gas distribution and companies in the CGD business has fallen by 10.9% but has done better than the benchmark index by 5.1%. One would expect the oil and gas index to fare poorly as oil prices have been trading at record lows which have not been favourable to oil explorers and demand of fuel has fallen sharply given the halt in economic activity and travel. Given the aforementioned reasons the sector index has done better than the benchmark index during the lockdown period as corporate actions regarding a major Indian conglomerate which largely does operate in the oil and gas industry has gotten reflected in the movement of the sectoral index.

The same above reason can be attributed towards the change in the Energy index as well which in addition also comprises of coal and carbon black industries.

The IT index gained traction once the MHA allowed fully functioning of IT companies April 20th 2020 onwards but with only 50% staff and under the strict provisions of social distancing norms.

Power (power distribution and generation) and Utilities (power distribution and generation, gas distribution, electric equipment) have been static as they're functioning without any interruption.

Sectors in Red

The nationwide lockdown has bought about a standstill of building and construction activities coupled with the reverse migration of workers which has also added onto the stalling of on-going projects. Many interstate migrants are not expected to return to work anytime soon even as the government has allowed the resumption of certain construction work during lockdown 2.0 and 3.0 due to the ambiguity of the duration of the lockdown and fear of contracting the virus. The movement in reality index has fallen down sharply and has been the most affected with respect to the above aforementioned reasons.

The auto index which also comprises auto-component players has the strongest correlation with the benchmark index, has fallen by more than the SENSEX. This can be ascribed to the complete shutdown of operations as auto manufacturers remained closed the whole of April and were allowed to resume activities (manufacturing and dealership) May 3rd onwards i.e. after the announcement of the second extension partially in the green and orange zones.

The capital goods index has fallen sharply as companies right now will not be expanding or procuring additional machinery given the fall in cash flows and capital expenditure. Fall in commodity prices due to lack of demand has also been reflected in the metals index. The consumer durables index has fallen sharply given the temporary closure of dealerships and shops during the lockdown period which is impeding with sales of durables in the summer season (which is the peak season for certain commodities like air-conditioners and coolers).

Consumer discretionary goods & services index has fallen on account of the non-operation of retail outlets and shutdown of the services of airlines, restaurants and hotels.

Bankex has fallen sharply as investors remain bearish on the performance of banks even as the RBI has taken a number of steps to ensure normal business functioning of the entire banking sector. These measures are mainly on the lines of policies to encourage banks to lend, infusion of liquidity by the RBI (in the form of LTROS) and easing of regulatory norms. This development is hence significant because as a sector it has been operating but there are concerns on how their assets will perform under the present circumstances.

Table 2: Volatility in Sectoral Indices Pre and during the nationwide Lockdown

	BETA	
	Pre Lockdown*	Post Lockdown till date**
SENSEX	1.00	**1.00**
Healthcare	0.22	**0.89**
Auto	0.44	**0.53**
Oil and Gas	0.35	**0.51**
Energy	0.13	**0.27**
FMCG	0.19	**0.20**
Basic Materials	0.07	**0.08**
Telecom	0.02	**0.05**
Utilities	0.04	**0.04**
Bankex	1.03	**0.59**
IT	0.36	**0.33**
Capital Goods	0.41	**0.27**
Metal	0.29	**0.19**
Consumer Durables	0.59	**0.13**
Finance	0.20	**0.12**
Consumer Discretionary Goods & Services	0.09	**0.08**
Industrials	0.08	**0.06**
Power	0.04	**0.03**
Realty	0.07	**0.01**

Source: CARE Ratings calculations

Note: The green highlight indicates the increase in volatility (red indicates the opposite) of the sectoral index during the lockdown period as compared with its volatility before the imposition of the nationwide lockdown. Yellow indicates no change.

A beta greater than 1.0 suggests that the stock is more volatile than the broader market, and a beta less than 1.0 indicates a stock with lower volatility.

*10th February 2020- 24th March 2020 **25th March 2020- 12th May 2020

According to table 2, before the imposition of the lockdown except the Bankex, almost all the sectoral indices have had a beta less than 1. The Bankex which comprises 8 private and 1 PSU bank had experienced volatility greater than 1 due to RBI's intervention regarding the financial health of a major private-sector bank which caused panic amongst other private sector banks as well. Post the imposition of the nationwide lockdown the volatility of all the sectoral indices has been less than 1 i.e. less than the benchmark index.

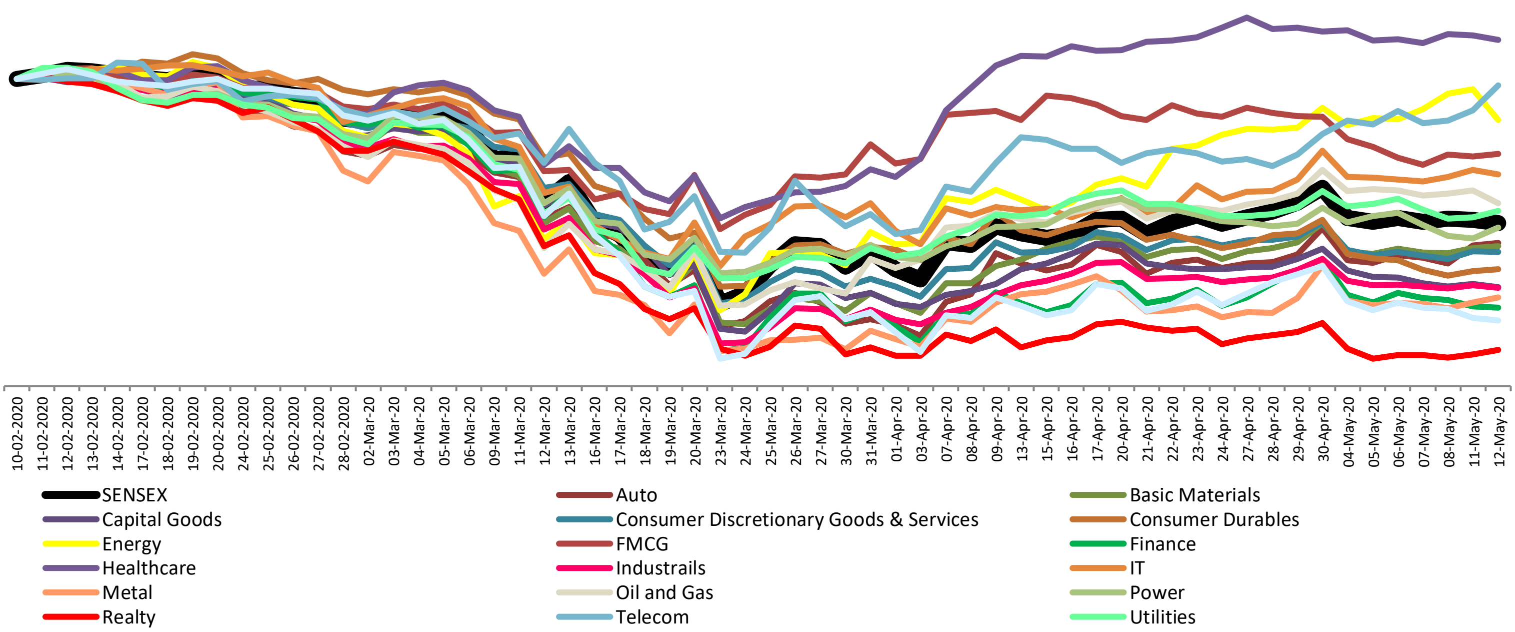
Concluding Remarks

- Healthcare has emerged as the leading sector with positive index performance during the COVID-19 induced lockdown.
- Investor sentiment which has been in line with the macros of the particular industry has been reflected in the index performance of the healthcare (positive), FMCG (positive), IT (positive), telecom (positive), metals (negative), automobiles (Negative), consumer discretionary goods & services(negative),realty (negative) and the capital goods (negative) industry.
- On the other hand even with the timely intervention of the RBI towards the normal functioning of the BFSI segment there has been a fall in banking and finance index.
- The oil and gas and energy index have only increased on account of the corporate actions undertaken by a major conglomerate whilst the macros of the sector have not been favorable as the pandemic spreads in the economy.
- Power, utilities and basic materials and industrial index have much remained static throughout may it be in terms of price movements or volatility.

These index movements will be of interest post the market absorbing the content of the PM's economic package which is in the process of being rolled out.

Appendix

Chart 1: Daily SENSEX juxtaposed with Sectoral Indices movements since the last 60 trading days



Source: CARE Ratings, BSE,

Methodology / Formula of the calculation of Beta

Beta is calculated as:

$$\beta = \frac{Cov\ (X, Y)}{Var\ (X)}$$

where,

Y is the market returns of the sectoral index - DEPENDENT VARIABLE

X is the market returns of the benchmark index - INDEPENDENT VARIABLE

Variance (Var) is the square of standard deviation and Covariance (Cov) is a statistic that measures how two variables co-vary.

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