Analect

Research Inputs in Sustainability, Technology, Entrepreneurship and Management

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Analect: Research Inputs in Sustainability, Technology, Entrepreneurship and Management

Vinod Kumar Bishnoi • Karan Pal Narwal
Shveta Singh • Himani Sharma
Mani Shreshtha • Vandana Singh
Vanita Ahlawat

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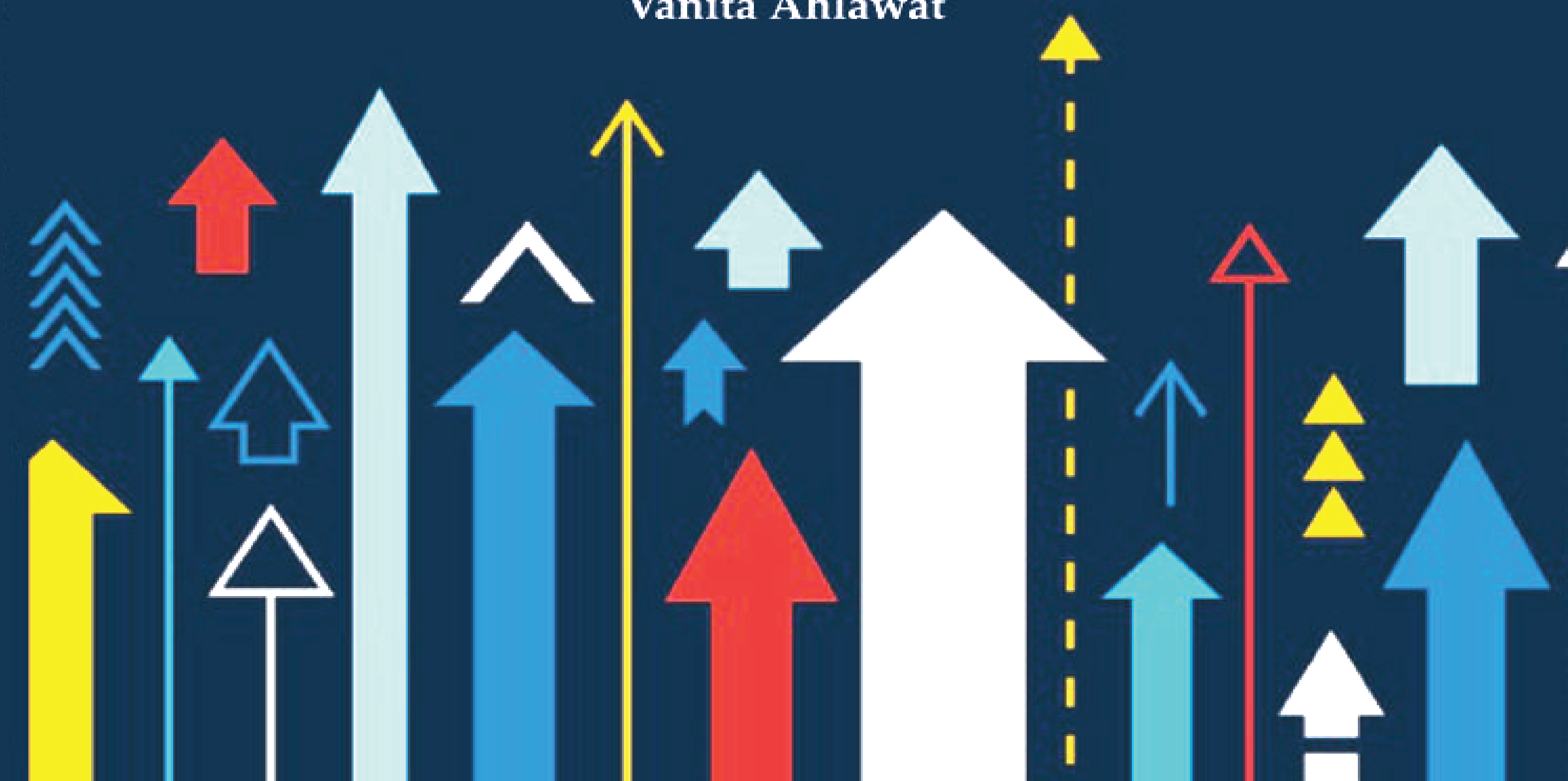

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Foreword

In the realm of sustainability, where the imperative to balance human progress with environmental stewardship has never been more urgent, entrepreneurship emerges as a beacon of hope and innovation. It is within this dynamic intersection of sustainability, technology, and entrepreneurship that this edited book "*Analect: Research Inputs in Sustainability, Technology, Entrepreneurship, and Management*" finds its purpose. In the face of pressing global challenges such as climate change, resource depletion, and social inequality, the role of entrepreneurs in driving transformative change cannot be overstated. Their ability to conceive, develop, and scale innovative solutions holds the key to a more sustainable and equitable future for generations to come. This research inputs from this book is useful for aspiring and seasoned entrepreneurs alike, navigating the intricate landscape of sustainability, technology, entrepreneurship, and management. Drawing upon the latest research and real-world experiences, the authors offer a roadmap for navigating the complexities of sustainability entrepreneurship, technology and management from identifying market opportunities to building resilient business models and fostering stakeholder collaboration. Moreover, it underscores the challenges market researchers confront in the face of uncertainty and adversity.

I also congratulate all the editors from Haryana School of Business for their wonderful effort in compiling selected research inputs on contemporary issues in the form of a book

May this book ignite the spark of creativity, purpose, and determination within each reader, empowering them to become catalysts for positive change in our world.

Prof. Narsi Ram Bishnoi
Vice Chancellor
Guru Jambheshwar University of Science & Technology
Hisar, Haryana, INDIA

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Chapter 4

The Impact of Economic Reforms on Indian Stock Market

Funnisha Garg*

ABSTRACT

This research paper investigates the significant effects of economic reforms, particularly demonetization, on the Indian stock market, with a particular focus on the Fast-Moving Consumer Goods (FMCG) sector. The study delves into the performance dynamics of key indices such as NIFTY FMCG and NIFTY 50 during and post the period of demonetization. Additionally, it conducts a comparative analysis to discern the growth trajectory of the Indian FMCG sector in comparison to both a developed nation, the United States, and a developing nation, the Philippines. The research aims to elucidate the multifaceted role of demonetization in shaping the contours of the Indian economy.

Quantitative methods, including analyzing stock price movements, market indices, and financial performance indicators, are employed to assess the extent and nature ofthe market downturn.

Moreover, this research contributes to the existing literature by offering a comprehensive analysis of the impact of demonetization on the Indian stock market, with a specific emphasis on the FMCG sector. The findings provide valuable insights for investors, policymakers, and scholars seeking a deeper understanding of the complexities associated with economic reforms in emerging markets.

Keywords and Phrases: *Indian Stock Market, Per Capita, National Stock Exchange, Stock Market Index, Statistical Measure, Impact, external factors, Policy makers, substantial, significant.*

INTRODUCTION

The dynamism of the Indian economy has been punctuated by numerous policy interventions aimed at fostering growth, stability, and financial inclusion. One such transformative initiative that left an indelible mark on the economic landscape was demonetization. Instituted on November 8, 2016, demonetization sought to curb black money, eliminate counterfeit currency, and propel the country towards a digitized and transparent financial ecosystem. This research embarks on a comprehensive exploration of the aftermath of demonetization, focusing keenly on its impact on the Indian stock market, particularly within the Fast-Moving Consumer Goods (FMCG) sector. As an integral component of the economy, the FMCG sector's response to this economic reform becomes a crucial lens through which to understandthe broader implications for India's financial markets and economic trajectory.

The FMCG sector, encompassing companies such as Britannia, Dabur India, Emami, Hindustan Unilever (HUL), ITC, and Nestle serves as a microcosm for understanding the nuanced shifts within the Indian stock market during times of economic upheaval.

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By analyzing the performance of these key players before and after the implementation of demonetization and GST, we aim to identify significant trends, correlations, and potential areas of resilience or vulnerability within the sector.

The study unfolds through various lenses, first exploring the immediate and sustained impacts of demonetization on the FMCG sector. We assess whether there was increased volatility in stock prices during and after these policy changes and, if so, to what extent. Additionally, we delve into the differentiated effects among FMCG companies based on their size, product portfolio, and market presence.

Furthermore, The FMCG sector, renowned for its resilience and adaptability, occupies a pivotal position in India's economic landscape. Characterized by products with rapid turnover and relatively low cost, the sector has historically weathered economic fluctuations. However, the disruptive nature of demonetization introduced unprecedented challenges and opportunities that warrant meticulous examination.

As the policy landscape evolved, the government's intent to reshape the contours of the Indian economy became evident. Demonetization was a watershed moment, prompting a reassessment of financial practices, market dynamics, and investor sentiment. Against this backdrop, understanding the nuanced response of the FMCG sector becomes imperative for investors, policymakers, and scholars alike.

Demonetization

Demonetization is a government policy that involves the deliberate and sudden removal of a specific currency denomination from circulation as legal tender. This means that the affected currency notes or coins are no longer recognized as a valid medium of exchange for transactions.

Developed Country

These nations have high levels of industrialization, advanced technology, and a well-established infrastructure. They typically have a high per capita income and a diversified economy.

Developing Country

These nations are in the process of industrialization and experience lower levels of economic development. They may have lower per capita income, less advanced technology, and less infrastructure compared to developed countries.

Volatility

Volatility in stock prices refers to the degree of variation of a trading price series over a certain period of time. "*Volatility is a statistical measure of the dispersion of returns for a given security or market index*".

- High volatility indicates larger price fluctuations over a specific period, suggesting greater uncertainty or risk.
- Low volatility suggests smaller price movements and is often associated with a more stable or predictable market.

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Nifty50

NIFTY50, often simply referred to as Nifty, is the flagship stock market index of the NationalStock Exchange of India (NSE)

Dow Jones U.S. Consumer Goods Index

"The Dow Jones U.S. Consumer Goods Index is a stock market index that measures the performance of companies in the consumer goods sector in the United States". The index is denominated in U.S. dollars (USD).

PSI FMCG Index

The PSI FMCG Index is a stock market index in the Philippines that focuses on the Fast-Moving Consumer Goods (FMCG) sector. The index is denominated in euros (EUR).

Mean

The mean of stock prices refers to the average value of a set of stock prices. The mean is a statistical measure of central tendency that provides an indication of the general or average level of a dataset.

Median

The median of stock prices is a statistical measure that represents the middle value of a dataset when it is arranged in ascending or descending order. In the context of stock prices, the medianis the price at which half of the observed prices are below it and half are above it.

The standard deviation of Stock prices

It can be interpreted in the context of risk and volatility in financial markets. "A higher standard deviation indicates greater volatility, suggesting that stock prices are more spread out from the average". This can be a reflection of increased uncertainty or risk in the market.

LITERATURE REVIEW

R. Deepak & M.R. Shollapur (2015) Impact of Economic Reforms on Stock Market Behaviour

A Short-Term Perspective This Study supports the hypothesis that the Indian stock markets to a larger extent are semi strong efficient. A positive outlook by this indicator would help understand the health of the economy, which in turn, gives a clue to RBI to take appropriate steps initiating in its key indicators such as cash reserve ratio (CRR), Repo rates and Reverse repo rates.

Mahesh Dahal and Juy Das (2023) Testing The Weak- Form Efficiency Of The Indian Stock Market With Special References To The Ideological Composition and Form of The Government

This study attempted to study the Indian stock market's efficiency based on the contrary viewpoints and the governmental changes, i.e., from the coalition government to the majority party government. For this purpose, the time period is divided into two phases: a coalition government and the majority government party. For the analysis, both parametric test and the non-parametric test is employed. From the analysis of the JB test, it is observed that both return series during all the time periods are not normally distributed. However, the return series during the majority party government showed less volatility as compared to the coalition government. Using runs tests, the series exhibits the independent and random price changes except by the return series of the BSE_2010_19. The ADF unit root test supports the same. However, the autocorrelation test and the Q test displayed a different result. The autocorrelation test 117 showed a significant autocorrelation coefficient for all return series at different lags. Moreover, the Q test also seems to have rejected the hypothesis of zero correlation at different lag periods. Overall, it can be concluded that the return series is not efficient, and the change in the government from coalition to majority party government could not make much differences. These results go against government efforts in improving transparency and smoothing the Indian stock market's functioning

D. Sudarsana Murthy (2018) "Stock Market Volatility - A Study of Indian Stock Exchange" Stock

Diversification in the stock market involves spreading investments across various entities to mitigate risk. This strategy entails pooling numerous small investments into a single large portfolio. The stock market is particularly attractive to individual investors as it provides accessto professionally managed, diversified portfolios at relatively low costs.

Pearly Jacob (2017) Economic Reforms And Its Impact On The Indian Stock Market

Economic reforms have had a very positive impact on the Indian stock market. The overall growth was witnessed in GDP from 1.43 in 1991-92 to 9 in 2009-11, thus showing growth in economy after the reforms. After the reforms there has been acceleration in the growth of the capital market, the Sensex has moved from 1027.38 in 1991 to 28,000 in 2016. After the reforms the stock market volatility has stabilized considerably. Volatility that is uncertainty which was considered as the characteristic of Indian stock market has been controlled with the help of number of vigilance reforms undertaken by the SEBI and the in-house surveillance system of the stock exchanges. Therefore the economic reforms in India have a progressive impact on the stock market and the reduced the stock market volatility.

Sharma Rashmi Priyaand Sharma Arabinda (2019) Statistical Analysis of Stock Prices of Selected Companies in Construction Industry

The present analysis delved into the stock prices of construction companies utilizing statistical methods. Through basic statistics, box plots, histogram diagrams, and normal probability plots, insights into the dynamics of stock prices during the observed period were gained. The findings indicate that the distribution of stock prices is not normal, with Gammon emerging as the weakest performer among the three companies examined.

Additionally, a simple moving average was applied to the spread of open-close prices and close prices of the stocks, revealing a general decreasing trend in stock prices. The negative money flow index (MFI) suggests a continuous outflow of money from the capital market. Similarly, the relative strength index (RSI) highlights DLF as the strongest performer, followed by HCC,while Gammon's RSI value indicates a concerning state of its stock.

RSI values serve as a guide for investors in making decisions regarding whether to hold, sell, or buy stocks. It is recommended that investors consider investing in shares that exhibit clear signals of either a buy or sell position, indicating recovery from either overbought or oversold conditions. However, it is important to acknowledge the limitations of this suggestion, given the study's reliance on limited monthly data.

RESEARCH METHODOLOGY STATEMENT OF THE PROBLEM

The problem under consideration is to investigate the impact of demonetization on the performance of FMCG (Fast-Moving Consumer Goods) stocks in India and compare their performance with Indian stock indices, as well as with FMCG stocks in developed and developing countries. The key question is whether the FMCG sector in India exhibited distinctive performance patterns during and after the demonetization period in comparison to broader market indices and similar sectors in other countries.

Research Type

Employ quantitative methods to analyze historical data on macroeconomic indicators and stock market indices.

The research can be categorized as **comparative analysis**. It involves comparing the performance of FMCG stocks in India with different benchmarks (Indian stock indices, developed countries, and developing countries) to understand the relative impact of demonetization on the FMCG sector in India. Additionally, it may involve a combination of historical data analysis, statistical testing, and market trend examination to draw conclusions about the performance of FMCG stocks in the specified contexts.

OBJECTIVE

The primary objective of this research is to assess and compare the performance of FMCG stocks in India in the aftermath of demonetization, with the following specific objectives:

- Examine the returns and volatility of FMCG stocks in India during the demonetization period (2016-2017).
- Compare the performance of FMCG stocks in India with Indian stock indices (e.g., Nifty).
- Compare the performance of FMCG stocks in India with FMCG indices in developed countries.
- Compare the performance of FMCG stocks in India with FMCG indices in developing countries.
- Analyze whether there is a significant difference in the performance of FMCG stocks in India compared to the selected benchmarks.

Hypotheses

1. Null Hypothesis (H0): There is no significant difference in the performance of FMCG stocks in India post-demonetization compared to Indian stock indices.

Alternative Hypothesis (H1): FMCG stocks in India demonstrate a significant difference in performance post-demonetization compared to Indian stock indices.

2. Null Hypothesis (H0): There is no significant difference in the performance of FMCG stocks in India post-demonetization compared to FMCG stocks in developed and developing countries.

Alternative Hypothesis (H1): FMCG stocks in India show a significant difference in performance post-demonetization compared to FMCG stocks in developed and developing countries.

DATA COLLECTION

Gather historical data on macroeconomic indicators, stock market indices, and investor sentiment indicators from reliable sources.

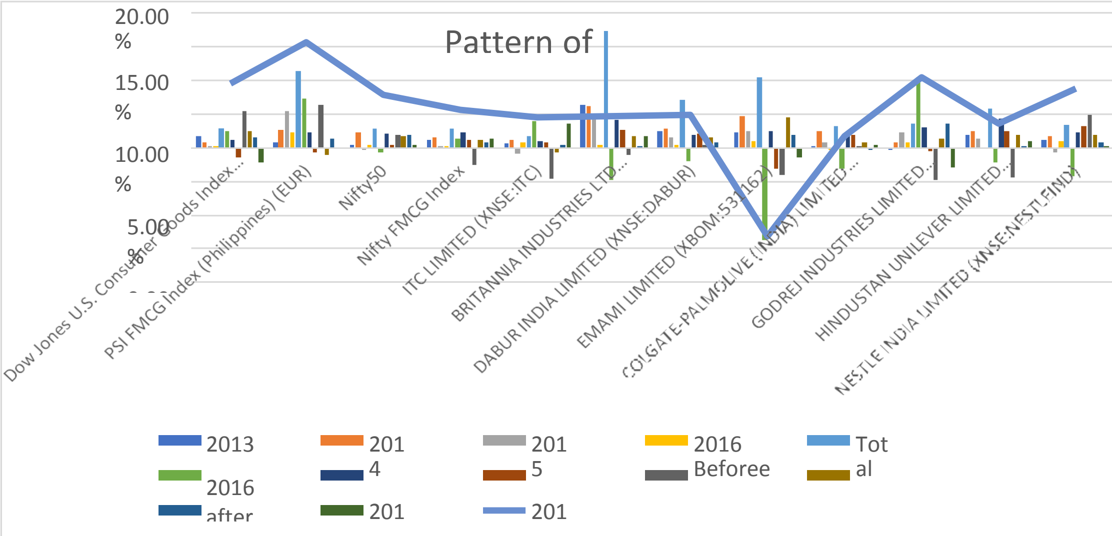
Obtain sector-specific data for the FMCG sector and other relevant industries.

Analysis of returns of FMCG stocks with FMCG indices in developed and developingcountries before or after the demonetization period (2013-2022).

Company Name	Average Returns Before Demonetization (1/1/2013 to 07/11/2016)	Average Returns After Demonetization (08/11/2016 to 31/12/2022)
Dow Jones U.S. Consumer Goods Index (USD)	2.91%	9.5%
PSI FMCG Index (Philippines) (EUR)	11.37%	15.7%
Nifty50	2.93%	7.9%
Nifty FMCG Index	2.93%	5.7%
ITC LIMITED	1.78%	4.5%
BRITANNIA INDUSTRIES LTD	17.40%	4.7%
DABUR INDIA LIMITED	7.14%	4.9%
EMAMI LIMITED	10.40%	-13.1%
COLGATE-PALMOLIVE (INDIA) LIMITED	3.29%	1.7%
GODREJ INDUSTRIES LIMITED	3.57%	10.5%
HINDUSTAN UNILEVER LIMITED	5.75%	3.6%
NESTLE INDIA LIMITED	3.38%	8.9%

Interpretation

- Before demonetization, the returns for most indices and stocks were positive, with notable gains in 2014.
- After demonetization, returns varied, and some stocks and indices experienced negative returns, especially EMAMI LIMITED.
- Volatility increased for some stocks post-demonetization, as seen in the negative returns for EMAMI LIMITED and the relatively lower returns for ITC LIMITED.



Observation

Considering this, it appears that the observations align more with the **Alternative Hypothesis (H1): FMCG stocks in India demonstrate a significant difference in performance post-demonetization compared to Indian stock indices.**

The reason is that the observations highlight specific patterns and changes in returns that may indicate a divergence or unique response of FMCG stocks compared to the broader Indian stock market after the demonetization event.

Limitation

It's important to note that these observations are based on the provided data and don't account for various external factors that may have influenced stock movements during these periods. Additionally, the impact of demonetization might have varied across industries and companies.

Analysis of Volatility of FMCG stocks with FMCG indices in developed and developingcountries before or after the demonetization period (2013-2022).

Company Name	Variance Before Demonetization(1/1/2013 to 07/11/2016)	Variance After Demonetization (08/11/2016 to 31/12/2022)
Dow Jones U.S. Consumer Goods Index (USD)	0.003	0.013
PSI FMCG Index (Philippines) (EUR)	0.011	0.019
Nifty50	0.007	0.016
Nifty FMCG Index	0.007	0.011
ITC LIMITED	0.012	0.024
BRITANNIA INDUSTRIES LTD	0.024	0.024
DABUR INDIA LIMITED	0.011	0.019
EMAMI LIMITED	0.028	0.062
COLGATE-PALMOLIVE (INDIA) LIMITED	0.012	0.021
GODREJ INDUSTRIES LIMITED	0.031	0.054
HINDUSTAN UNILEVER LIMITED	0.017	0.022
NESTLE INDIA LIMITED	0.018	0.016

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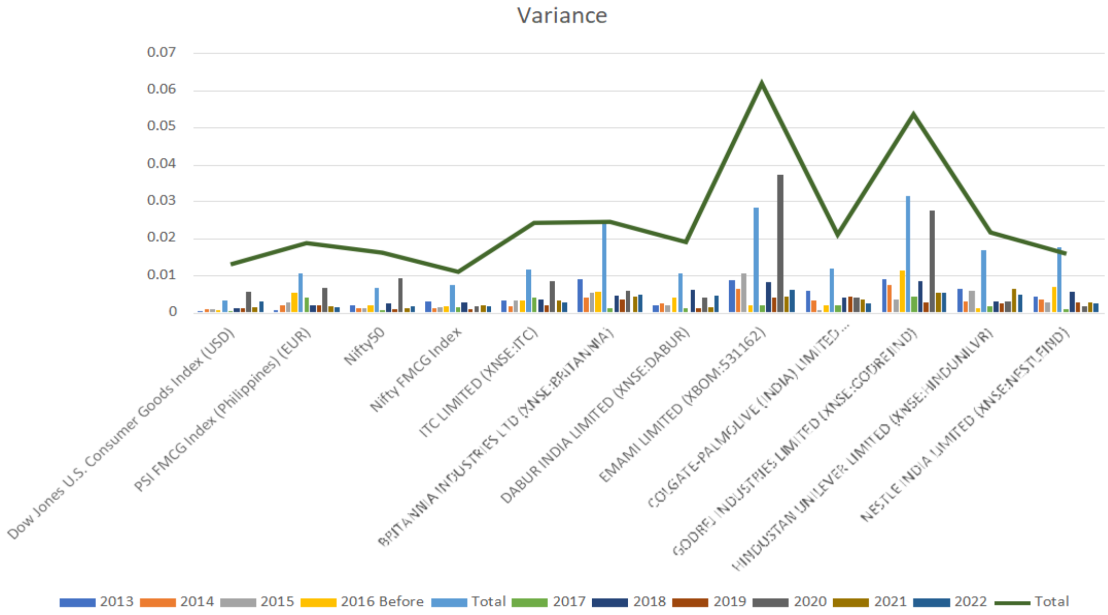
Interpretation

- Returns for most indices and stocks increased after demonetization.
- There is a notable increase in volatility for some stocks after demonetization, as seen in higher return values. EMAMI LIMITED experienced a significant increase in volatility, with a substantial increase in returns post-demonetization. Overall, the post-demonetization period witnessed higher returns but with increased volatility, suggesting a more dynamic market environment.



Analysis of Volatility of FMCG stocks with FMCG indices in developed and developingcountries before or after the demonetization period (2013-2022).

Company Name	Standard Deviation BeforeDemonitization (1/1/2013 to 07/11/2016)	Standard Deviation After Demonitization (08/11/2016 to 31/12/2022)
Dow Jones U.S. Consumer Goods Index (USD)	0.11	0.253
PSI FMCG Index (Philippines) (EUR)	0.195	0.323
Nifty50	0.164	0.282
Nifty FMCG Index	0.17	0.253
ITC LIMITED	0.214	0.374
BRITANNIA INDUSTRIES LTD	0.306	0.376
DABUR INDIA LIMITED	0.205	0.32
EMAMI LIMITED	0.325	0.539
COLGATE-PALMOLIVE (INDIA) LIMITED	0.205	0.352
GODREJ INDUSTRIES LIMITED	0.348	0.519
HINDUSTAN UNILEVER LIMITED	0.248	0.351
NESTLE INDIA LIMITED	0.261	0.303

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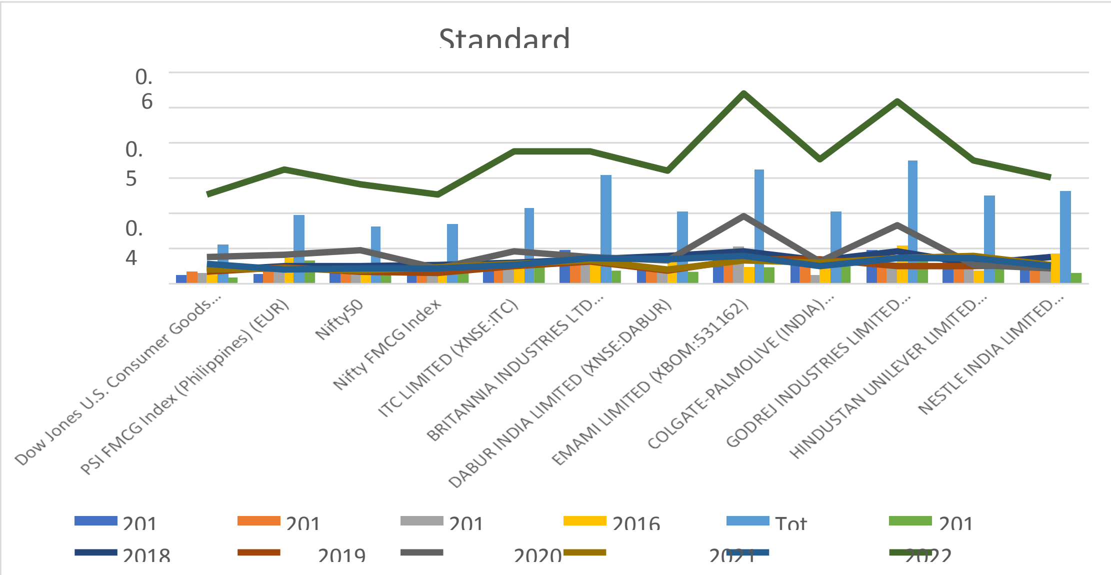
Interpretation

- Returns for most indices and stocks increased after demonetization. There is a notable increase in volatility for some stocks after demonetization, as seen in higher return values.
- EMAMI LIMITED experienced a significant increase in volatility, with a substantial increase in returns post-demonetization. Overall, the post-demonetization period witnessed higher returns but with increased volatility, suggesting a more dynamic market environment.



Analysis of Covariance of FMCG stocks with FMCG indices in developed and developingcountries before or after the demonetization period (2013-2022).

Company Name	Covariance Before Demonitization(1/1/2013 to 07/11/2016)	Covariance After Demonitization(08/11/2016 to 31/12/2022)
Dow Jones U.S. Consumer Goods Index (USD)	0.002	0.004
PSI FMCG Index (Philippines) (EUR)	0.002	0.011
Nifty FMCG Index	0.005	0.009
ITC LIMITED	0.008	0.013
BRITANNIA INDUSTRIES LTD	0.005	0.01
DABUR INDIA LIMITED	0.005	0.008
EMAMI LIMITED	0.005	0.011
COLGATE-PALMOLIVE (INDIA) LIMITED	0.005	0.007
GODREJ INDUSTRIES LIMITED	0.006	0.012
HINDUSTAN UNILEVER LIMITED	0.006	0.011
NESTLE INDIA LIMITED	0.007	0.008

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Interpretation

- FMCG stocks showed positive returns both before and after demonetization. After demonetization, the returns increased for FMCG stocks, Nifty 50, and Dow Jones U.S. Consumer Goods Index. PSI FMCG Index (Philippines) showed a decline in returns after demonetization.
- Recommendations to Policy Makers:

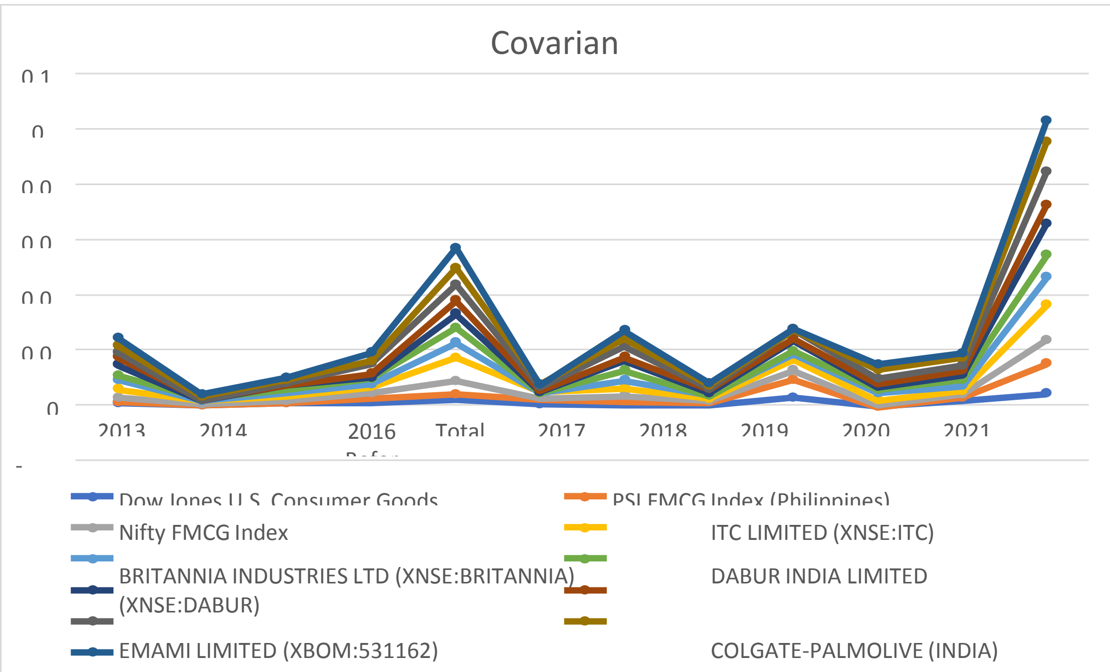
➢ **Continued Focus on FMCG Sector:** The positive performance of FMCG stocks suggests that the sector remained resilient even during economic events like demonetization. Policy makers should continue supporting and promoting policies that foster growth in the FMCG sector.

➢ **Market Diversification**: Given the global impact on stock markets, policy makers may consider strategies to diversify investments, both domestically and internationally, tomitigate risks associated with economic events.

➢ **Monitoring International Markets**: The performance of PSI FMCG Index (Philippines) showed a decline after demonetization. Policy makers should monitor international markets closely, especially those influencing the FMCG sector, to assess potential risks and opportunities.

➢ **Strengthening Economic Policies:** Robust economic policies that support business growth and consumer confidence are essential. Encouraging policies can contribute to the stability and growth of the FMCG sector, even in challenging economic environments.

It's crucial to note that these recommendations are based on historical data, and market dynamics can change. Regular monitoring and adaptive policy-making are essential to address evolving economic conditions.



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Analysis of Correlation of FMCG stocks with FMCG indices in developed and developingcountries before or after the demonetization period (2013-2022).

Company Name	Correlation Before Demonitization (1/1/2013 to 07/11/2016)	Correlation After Demonitization (08/11/2016 to 31/12/2022)
Dow Jones U.S. Consumer Goods Index (USD)	1.78	1.557
PSI FMCG Index (Philippines) (EUR)	0.545	2.415
Nifty FMCG Index	2.641	3.835
ITC LIMITED	3.656	4.603
BRITANNIA INDUSTRIES LTD	1.35	3.281
DABUR INDIA LIMITED	2.491	2.521
EMAMI LIMITED	1.06	2.805
COLGATE-PALMOLIVE (INDIA) LIMITED	1.613	2.871
GODREJ INDUSTRIES LIMITED	1.3	3.009
HINDUSTAN UNILEVER LIMITED	2.404	4.076
NESTLE INDIA LIMITED	2.386	2.993

Interpretation:

- The Performance of Individual FMCG Stocks and Nifty FMCG Index improved after demonetization. ITC LIMITED, HINDUSTAN UNILEVER LIMITED, and BRITANNIA INDUSTRIES LTD showed strong performance both before and after demonetization. The overall FMCG sector, as represented by the Nifty FMCG Index, also exhibited positive returns, indicating resilience and growth.

Recommendations to Policy Makers:

- **Sustained Focus on FMCG Sector:** Given the positive performance of individual FMCG stocks and the Nifty FMCG Index, policy makers may consider sustaining efforts to support the growth of the FMCG sector.
- **Diversification and Resilience:** The diversified performance of different FMCG stocks suggests that the sector as a whole is resilient. Policy makers could encourage diversification within the sector to enhance overall resilience.
- **Market Monitoring:** Continual monitoring of the FMCG sector's performance, especially during economic events, will provide insights into market dynamics and potential areas for policy adjustments.
- **Global Considerations:** As demonstrated by the PSI FMCG Index (Philippines), policy makers should also be aware of global market conditions that may impact the FMCG sector.

These recommendations are based on historical data, and future policies should consider evolving market conditions and economic factors. Regular assessments and adaptability are crucial for effective policy-making.

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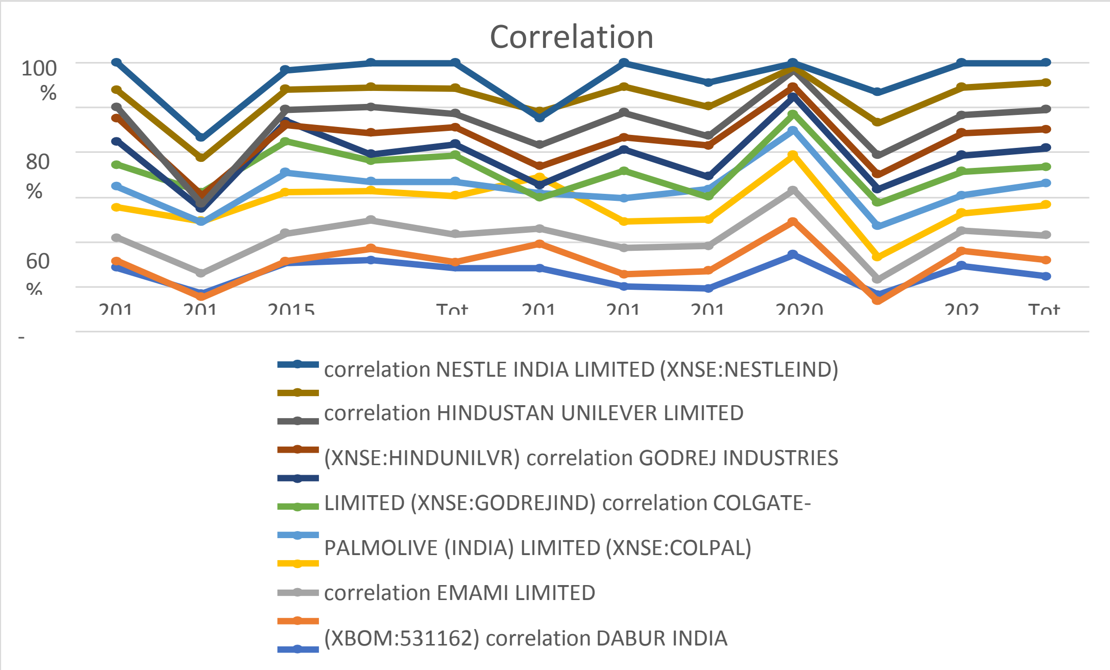

CONCLUSION

- Before demonetization, the market exhibited stability with positive returns, especially in 2014. This period may have provided a sense of predictability for investors. Post-demonetization, the market witnessed an overall recovery, marked by increased returns. However, the accompanying rise in volatility, particularly evident in stocks like EMAMI LIMITED, indicates a more uncertain and dynamic environment. the observations suggest a shift in market dynamics post-demonetization, with increased returns accompanied by higher volatility.
- **For investors and traders**, adapting to this dynamic landscape and conducting thorough analyses tailored to individual stocks and industries becomes essential.
- **Policymakers** should consider the varied impact on companies and industries when formulating economic policies. Policy makers should consider global market conditions, as exemplified by the PSI FMCG Index (Philippines), to anticipate external factors impacting the FMCG sector.
- **All stakeholders** - investors, traders, and policy makers - should prioritize adaptability. The dynamic market environment requires continuous assessments and flexibility in strategies to navigate evolving economic conditions.

Cautionary Note for Decision- Making

The provided observations emphasize the importance of exercising caution in decision-making. External factors and industry-specific influences not captured in the data may have played a significant role in stock movements.

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