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A BRIEF ELUCIDATION OF COVID-19 IMPACT ON FINANCIAL PERFORMANCE OF INDUSTRIAL SECTORS IN INDIA

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ABSTRACT:
The current study aims to examine the impact of the pandemic (Covid- 19) on the financial performance of some of the selected Indian sectors. The study targets all Indian firms listed on the Bombay stock exchange, which belong to the selected sectors. Most of the prior research on Covid-19 is theoretical, and only a few have conducted an empirical investigation. At a fundamental level, for certain companies, the current events and conditions may cast a significant doubt on their ability to continue as a going concern, particularly if large debt repayments are due within the next 12 months.
Measures to contain the spread of the pandemic could have significantly affected the business operations of many companies. This coupled with high level of economic uncertainty may trigger the need to perform impairment testing as at 31 March 2020, including for assets that are required to be tested for impairment annually. This would extend to cover assessment of right-of-use assets held by a lessee in a lease contract.
The study is unique as it evaluates the financial performance of Indian firms before and after the Covid-19 pandemic, which has not been studied yet in the Indian context. Further, this study provides valuable insights to regulators and policymakers about the most affected sectors due to the pandemic by analysing Indian sectors.

Keywords: Covid-19; firms' performance; India

1.INTRODUCTIONS

On 31 December 2019, China Health Authority alerted the World Health Organization (WHO) about many cases of pneumonia of unknown etiology in Wuhan City, China (Harapan et al., 2020; Mohan & Nambiar, 2020). On 7 January 2020, the news was virus isolated and named as a temporary 2019 novel coronavirus (2019-nCoV) by the WHO (Lin et al., 2021; Spiteri et al., 2020) and identified from the throat swab sample of a patient with viral pneumonia in Wuhan, China (Harapan et al., 2020; Lin et al., 2021; Sofi et al., 2020). On 11 January 2020, China announced the first death from 2019-nCoV (Lin et al.,

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2021) and on the same day, the WHO declared 2019-nCoV to be a Public Health Emergency of International Concern, highly contagious, caused infections in large scale and proved difficult to contain (Shen et al., 2020).

The outbreak was a significant public health risk since it spread rapidly, resulting in widespread illness that overwhelmed health systems and proved difficult to contain (Wu et al., 2021). On 30 January 2020, the WHO declared the SARS-COV-2 outbreak a Public Health Emergency of International Concern (Harapan et al., 2020). Efficiently halt the spread of the virus and safeguard public health, most countries implemented strict lockdown measures. According to Jahangir et al. (2020) and Liu et al. (2020), two coronaviruses transmitted from animals in the past two decades, namely, severe acute respiratory syndrome SARS-COV and Middle East respiratory syndrome MERS- COV. These viruses caused severe pneumonia and high fatality rates. Thus, Jahangir et al. (2020) suggests that pasts lessons learned in dealing with such diseases in stemming and eradicating infections should come in handy. The outbreak is still ongoing, posing an immense threat to global public health and economies. Thus, this study is motivated to investigate the impact of Covid-19 pandemic and how it affected the performance of Indian firms which has not been investigated yet due to non-availability of data. The authors have extracted the financial data from ProwessIQ database to examine the impact of the imposed lockdown on the performance of Indian companies.

Financial performance is the primary criterion used by investors worldwide, as the world has become smaller in the sense that enterprises may be conducted everywhere (Al-ahdal& Hashim, 2021; Al-Matari et al., 2014; Yahya et al., 2017). The performance management process is how a company runs its actions with the help of its corporate objectives and functional strategies (Bititci et al., 1997). The improvement procedure is required to identify at all the levels to which using organizational resources could impact business performance (Sharma &Gadenne, 2002). Performance measurement offers critical input that enables management to monitor performance, progress, motivation, communication, and issue diagnosis.

For India, the first and second waves occur around five months apart. The first wave peaked in September 2020; daily cases totalling roughly 0.1 million. Daily instances declined until mid- February when they began to climb rapidly. On 15 April 2021, the number of new cases was around 0.2 million, more than quadrupling the previous peak amount. COVID-19 cases and fatalities have seen a dramatic increase in India. On 15 April 2021, the number of new cases was around 0.2 million, more than quadrupling the previous peak amount. COVID-19 has dealt a severe blow to India’s economy in general and macroeconomic impact on every sector (Kar et al., 2021). The economy was already in a precarious state before the

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breakout of covid-19; with the suspension of economic activity and state-wide lockdown, the economy expected to experience a lengthy period of slowing. According to a recent Hindustan Times report, covid 19 affects 70% of the banking sector's debt. It has impacted 19 industries with a combined debt of 15.5 lakh crore that was not stressed prior to the outbreak (Kumar & Kumar, 2021).

There is an immediate need to determine the impact of the pandemic (Covid-19) on the financial performance of some Indian sectors. Due to the data scarcity, the authors were confined to four sectors which are Healthcare, Automotive, Information & Technology sectors. The study aims to get an in-depth insight into measuring the present effect of the COVID-19 pandemic and identifying crucial short- and long-term response options. As such, this study aims to assist manufacturing and service organizations in managing similar disruptions (i.e. COVID-19) by addressing the following research question: What is the impact of pandemic (Covid-19) on the financial performance of some Indian sectors?

In answering this research question, we collated the data for the fourth quarter of 2019 and the first quarter of 2020 for the selected firms. Results revealed a significant difference in total income, net sales, earnings per share, net profit, and diluted earnings per share before and after the pandemic in tourism, hospitality, and consumer sectors. There is a significant difference in total income net sales before and after the pandemic in constructing and healthcare sectors.

The paper contributes to the existing literature in the following ways. Firstly, to the best of researchers' knowledge, this might be the first study that examines the impact of COVID-19 on firms' performance in Indian Context. Secondly, this research is making a comparative study between more likely affected sectors, e.g., Automotive sector and less likely affected sectors, e.g., Healthcare sector. Thirdly, this paper enriches the literature measuring the impact of major public health emergencies on Indian economy. Fourthly, this paper also proposes an empirical method to evaluate the impact of the pandemic on firm performance of Indian Constructing, tourism, hospitality, Information & Technology sectors. Finally, the results presented in the paper have important policy implications as the central governments try to fight the pandemic and to support the economy recover from the downturn. The paper is divided into five parts introduction, literature review, research methodology, findings and discussions, and conclusion.

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2. RESEARCH METHODOLOGY

The study targets all Indian firms listed on the Bombay stock exchange, which belong to the following sectors (Constructing, Automotive, Information & Technology sectors). The study incorporates secondary data, which collate data in the following manner (fourth quarter of 2019, i.e., 01/01/2020–31/03/2020; first quarter of the year 2020, i.e., 01/04/2020–30/06/2020. The timeline is divided as the Fourth quarter of 2019 is considered for the pre-COVID-19 period. India started implementing the lockdown form on 15/03/2020. The first quarter of 2020 is considered for the post-COVID-19 period. The data for the study is extracted for 444 firms from the Prowess database. Many researchers have used this database for extracting financial data for Indian companies (e.g., Al-Ahdal et al., 2018; Al-Homaidi et al., 2018; Almaqtari et al., 2020; Farhan et al., 2019).

3. RESULTS AND ANALYSIS

Automotive sector

The Indian as well as global automotive industry was already in the midst of a deep slowdown in financial year 2019-20 due to subdued economy and weak customer sentiments. COVID-19 situation has exacerbated it even further.

The Passenger Vehicle (PV) sector is most affected after witnessing consistent growth over the last 8-10 years. In the financial year 2019-20, PV sales in India declined by an unprecedented 17.88 per cent[1], thereby, impacting the cash position of component suppliers and putting their business sustainability at risk.

COVID-19 has led to production shutdown in the second half of March 2020 and also contributed to an overall demand uncertainty.

Following are the key financial reporting considerations for companies in the automotive sector amid COVID-19.

Area of impact	**Description**
Impairment of non-financial assets	Triggers of impairment would need to be evaluated due to decline in sales and profitability.
Capitalisation of borrowing costs	Expansion plans may be affected by an extended lockdown which may have an impact on capitalisation of borrowing costs.
Provisions and onerous contracts	Supply chain disruption may result into substantial increase in the cost of goods manufactured.
Inventory valuation	Therefore, evaluate onerous provisions in the fixed price contracts without any escalation clause. Also evaluate warranty and service support extension provision for the vehicles sold.

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Going concern	Careful assessment of fixed overheads is required while undertaking inventory valuation.
	Assess continuity of the going concern based on the factual data, both historical and as on date; the forward-looking information in hand and events that may have occurred subsequent to the financial reporting period date till finalisation of accounts.
Revenue	Due to disruptions caused by COVID-19, many automotive dealers may not be able to meet the targets set for volume discounts. Original Equipment Manufacturers (OEMs) would need to assess any implication of liquidated damages and impact of Force Majeure clauses in the agreements.
Expected Credit Loss (ECL)	Due to the COVID-19 situation, there is a significant increase in the credit risk and liquidity risk. Accordingly, companies might need to reassess their basis of ECL provisioning. Also, challenges lie in incorporating into the measurement of ECL, forward-looking information relating to the economic impact of COVID-19 that is available without undue cost or effort at the reporting date. Also assess whether there is a significant increase in credit risk with respect to receivables from dealers.

Healthcare sector

Healthcare as a sector in India, has evolved over the years and, as it stands today, encompass various elements of health and wellness. Broadly, it comprises of hospitals (specialty-focused or multi-discipline), diagnostic centres (hospital-based centres or diagnostic chains or stand-alone centres) medical practitioners (clinic-based or part of hospitals), medical tourism, health insurance, medical equipment and wellness chains. The Indian healthcare industry can be broadly categorised into two modes of operation - public and private. Though both the modes have been continuously contributing in strengthening the healthcare system, the challenges that Indian healthcare sector faces are optimal utilisation of resources, minimising operational costs, maximisingperformance and efficiency, scaling of business, rapidly evolving technology and globalisation of healthcare delivery quality and standards. Pandemics like COVID-19 puts a reality test on the adequacy and efficiency of our healthcare units.

Following are the key financial reporting considerations for companies in the healthcare sector amid COVID-19.

Area of impact	**Description**
Going concern	The sector (in particular, hospitals) is highly leveraged and capital intensive. It requires at least three to five years of operation by hospitals to depict profits or positive Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). Therefore, evaluation of going concern at an entity-level should be considered separately by evaluating certain factors like decrease in revenue or bed occupancy, immediate short-term loss of revenue or cash collection by the healthcare units.
Leases	Assess lease modification criteria for the leased premises for any change in contractual terms or rent concessions if any provided by the lessor.
Loan	Evaluate if there is any breach of the loan covenants both as at 31 March

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covenants	2020 and subsequent to year-end. Accordingly, assess reclassification of certain categories of loans into current/non-current.
Expected Credit Loss (ECL)	For many of the hospitals in India, substantial provision for doubtful debts (ECL) pertains to the government receivables. Also, receivables could be due from various countries consulate group of foreign patients). Therefore, evaluate the basis of measurement of ECL provisions as they would require application of significant judgement.
Deferred Tax Asset (DTA)	Reassess recoverability of DTA due to changes to future forecasts.
Extension in liability payments	Several companies may re-negotiate the terms of payment with vendors and other healthcare consultants. Therefore, evaluate consequent change in liability provision at year-end (deferral and not waiver of liability). Also evaluate the impact of change in financing and other costs.

Information Technology sector

India is one of the global hubs of Information Technologies Enables Services (IT/ITES). Companies operating in the sector are also likely to be immediately impacted by the measures taken to contain the pandemic - prolonged lock-down and mobility restrictions. To address the challenge, technology companies have deployed resources by providing employees secured workspaces from home to execute their contracts.

IT/ITES companies in India provide a wide range of servicesto companies across almost all industry verticals. It is assessed that customers in the retail, travel, transportation, manufacturing, energy and hospitality sectors are immediately impacted by the global pandemic while others (e.g. banking, insurance, etc.) will be impacted with a lag. Accordingly, Indian IT/ ITES companies would have to assess the consequent impact on their operations from providing services to companies engaged in these sectors.

Following are the key financial reporting considerations for companies in the IT/ITES sector amid COVID-19.

Area of impact	**Description**
Revenue	Assess the impact on the future revenues on account of: a. Customers having financial resource constraints or being adversely impacted from their end-customers b. Prolonged lock-down situation leading to mobility restrictions c. Low discretionary spends due to change in priorities. Revenue contracts may include variable consideration such as rebates, volume discounts and penalties. Revisit the estimate of the amount of variable consideration resulting from penalties relating to breaches of service level agreements, request for additional discounts by impacted customers and termination or deferment of contracts. Assess the impact of any delay and inability to meet contractual commitments that may invoke force-majeure clauses. In certain fixed price contracts, there may be a possibility of constraints or inefficiencies in rendering services which may require revision of estimation of future costs to complete the contract. Assess the impact of increased costs due to likely delays in meeting performance obligations as this could result in onerous contracts to be provided for or revenues might need to be adjusted due to change in percentage of completion.

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Impairment of non-financial assets	Assess the triggers of impairment and revisit key assumptions used in the impairment calculations including the need for appropriate sensitivity analysis.
Expected Credit Loss (ECL)	Due to the COVID-19 situation, there is a significant increase in the credit risk and liquidity risk. Accordingly, companies might need to reassess their basis of ECL provisioning. Also, challenges lie in incorporating into the measurement of ECL, forward-looking information relating to the economic impact of COVID-19 that is available without undue cost or effort at the reporting date.
Hedge accounting	Analyse the extent of forecasted transactions that are hedged but are not highly probable and whether these transactions are still expected to occur. This reassessment should be done basis available information. Also consider the effect of changes, if any, in both counterparty credit risk and own credit risk while assessing hedge effectiveness and measuring hedge ineffectiveness by making use of available internal and external information.
Going concern	Assess continuity of the going concern based on the factual data, both historical and as on date; the forward-looking information in hand and events that may have occurred subsequent to the financial reporting period date till finalisation of accounts.

4. CONCLUSION AND SUGGESTIONS

This work is of three-fold contributions:

(1) It bridges an existing gap in the literature by empirically evaluating the effect of the Covid19 pandemic on the performance of Indian firms (in light of different sectors), which has not yet been investigated as most of the literature on Covid-19 is theoretical.

(2) This study provides valuable insights to regulators and policymakers about the most affected sectors due to the pandemic by analysing Indian sectors.

(3) The study provides helpful directions for academicians and researchers to include in future research.

This study, like other studies, has several limitations that must be considered while reading the findings, which paves the way for future directions. For instance, the study is limited to profitability measures of firms' performance. Therefore, future researchers could take leverage and turnover ratios. Further, due to data availability, this study is limited to firms that belong to the Automotive, healthcare, consumer, and Healthcare sectors. Thus, future research could take another sector like the telecommunication and aviation sector as an example. Finally, because of the nonavailability of data, the study could not get the latest data.

Hence, researchers are encouraged to provide findings on updated data for 2021. Despite these, our findings have an important theoretical and practical implication on the impact of COVID-19′s on Indian firms' performance. The COVID-19 pandemic in India has forced corporate leaders and owners to mobilize quickly and make quick decisions. A decision like reducing industrial output or even temporarily shutting down operations could

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have long-term consequences that were not anticipated. As a result of the government's lockdown policy or order, this would influence firms' financial performance. Furthermore, businesses should always have a scalable and effective emergency plan and be ready for the unexpected. Further, the business must learn many things from this pandemic to tackle such things if they happen in the future.

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