STUDY OF RELIANCE INDUSTRIES PERFORMANCE DURING A CRISIS

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***ABSTRACT*:** The Indian economy is one of the fastest growing economies of the world. With increase in the globalization, the country also faces a lot of crisis. Even though the causes for such crisis are different the tremors faced during the period are felt in different sectors of the economy. The present paper seeks to analyze the impact and causes of the crisis faced by India during the years 2008-2018, 2008 being the global economic crisis, 2013 the financial crisis and the present slowdown on a company.

***KEY WORD* : Crisis, Reliance industries, Causes and Impacts**

I. INTRODUCTION

Crisis is a form of the normal business cycle. The crisis may be a traumatic or stressful change in, political, social, economic, military affairs and large-scale environmental event. In a financial crisis, asset prices see a steep decline in value, businesses and consumers are unable to pay their debts and financial institutions experience liquidity shortages. A financial crisis is often associated with a panic or a bank run where investors sell off assets or withdraw money from savings accounts because they fear that the value of those assets will drop if they remain in a financial institution.

Economic crisis in India are increasing with the increase in globalization. After economic reforms of 1991, Indian economy grew rapidly. As a result investment, export and import, foreign exchange reserve and the level of employment increased. In 2008 the global economic crisis affected the India economy, even though the country did not go into a crisis it restricted the fast run of development. The present paper attempts to understand how the crisis of 2008, 2013 and 2016-18 has affected the reliance industries performance.

II. SCOPE OF THE STUDY

The study is subject to identify the causes of the financial crisis faced by India in the years 2008-2013 and 2016-2018. It also focuses on the impact of the financial crisis on Reliance Industries performance.

OBJECTIVES OF THE STUDY

- To identify the causes for effect of the crisis in the years 2008-2013 and 2016-2018
- To identify how reliance industries is affected due to the crisis.

RESEARCH METHODOLOGY

The analysis was made by using secondary data obtained from the journals and websites for the period from 2008-2013 and 2016-2018.

III. REVIEW OF LITERATURE

Suraj walia (2012) – "Impact Of Global Economic Crisis On Indian Economy: An Analysis" The paper seeks to analyze The Impact of global economic on Indian economy. Indian economy is facing a challenge due to global melt down. Consequently, economic activities are bound to slow down. The global economic crisis has its origin in the United States housing sector back in 2001-02, but gradually extended over a period of time and brought the entire world under its grip. The government had to acknowledge the fact that economic crisis will have some impact on the Indian economy.

A. Prasad and C. Panduranga Reddy (2009) – "Global Financial Crisis and Its Impact on India." The paper is about The global financial crisis and its impact in India. on the reasons of the crisis include boom in the housing market, speculation, high-risk mortgage loans and lending practices, securitization practices, inaccurate credit ratings and poor regulation of the financial institutions. The financial crisis has not only affected United States of America, but also European Union, U.K and Asia. The Indian Economy has felt the impact of the crisis to some extent. Though it is difficult to quantify the impact of the crisis on India, it is felt that certain sectors of the economy would be affected by the spillover effects of the financial crisis.

Amit Kumar Giri and Babita Sinha (2014) – "India's economy amidst the global economic crisis" This study deals with the Impact of global financial crisis in India. The Indian economy in recent years is performing with low rate of capital formation, decline in manufacturing and moderation in services sector growth. The continuing political instability and the inward looking policies of the government in recent years has added to the decline of India's output and consequently affected its scope of employment generation and poverty reduction.

IV. ANALYSIS AND INTERPRETATION

Crisis of some kind or the other occur sporadically every decade and in various locations around the world. Each financial crisis is unique, yet each bears some resemblance to others. In general, crisis have been generated by factors such as overheating of markets, excessive leveraging of debt, credit booms, miscalculations of risk, rapid outflows of capital from a country, unsustainable macroeconomic policies, off-balance sheet operations by banks, inexperience with new financial instruments, and deregulation without sufficient market monitoring and oversight.

In India the crisis of 2008, 2013 and the present slowdown in the economy have various causes and different impacts in the economy. The following data has been collected to analyze the causes and impacts of the crisis on the Indian economy.

CAUSES OF MAJOR FINANCIAL CRISIS IN INDIA

2008 – GLOBAL ECONOMIC CRISIS

The financial crisis of 2007–2008, also known as the global financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s.

Many causes for the financial crisis have been suggested, with varying weight assigned by experts.

• The US Senate's Levin–Coburn Report concluded that the crisis was the result of "high risk, complex financial products; undisclosed conflicts of interest; the failure of regulators.

• The Financial Crisis Inquiry Commission concluded that the financial crisis was avoidable and was caused by:

1 .Failures in financial regulation and supervision

2. Failures of corporate governance and risk

3. Excessive borrowing, risky investments, and lack of transparency by financial institutions

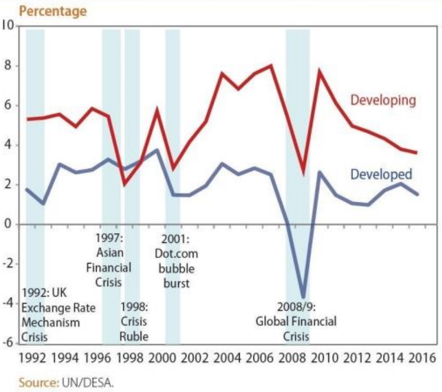
4. Ill preparation and inconsistent action by government

5. Systemic breakdown in accountability and ethics

6. Collapsing mortgage-lending standards and the mortgage securitization pipeline

7. Deregulation of over-the-counter derivatives, and the failures of credit rating agencies to correctly price risk.

Figure 1: World GDP growth, 1998-2015



Source: UN/DESA.

2013- CURRENCY CRISIS

The genesis of the fractured state of the Indian economy during 2013 resides in the fallout of the last financial crisis, which began with the collapse of US investment bank Lehman Brothers on September 15, 2008. And the subsequent domestic policy drift added to that.

Few causes for the financial crisis during the period has been suggested,

- High fiscal deficits:

The country's fiscal deficit during the 2013-14 was 4.5% of the gross domestic product, but considering the economic condition it was likely to be much higher on account of higher subsidies and was narrower than 4.9 percent the previous year.

- High inflation:

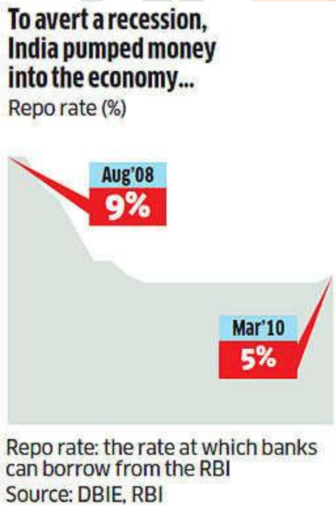
Inflation in India remained around 9-10% for almost two years. In 2007-08, despite high inflation and high interest rates capital inflows were abundant because markets believed inflation was temporary. As India recovered from the Global Financial Crisis, the same was assumed by the investors. However, as inflation remained persistent and became a more structural issue investors reversed their expectations on Indian economy.

- Lack of reforms:

There have been very few meaningful reforms in the last few years in Indian economy. The government tried to reverse this perception for which it announced FDI in retail but had to hold back amidst huge furor from both opposition and allies. This had further made investors negative over the Indian economy. As FII inflows were difficult given the uncertain global conditions, the focus has to be on FDI.

- Continued Global uncertainty:

With the global economy continuing to remain in a highly uncertain zone, pressure on most currencies against the US Dollar increased.

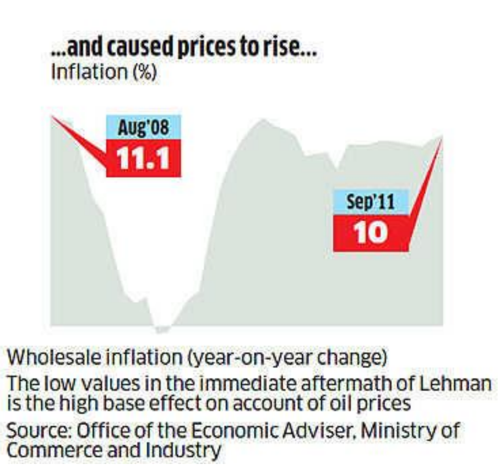


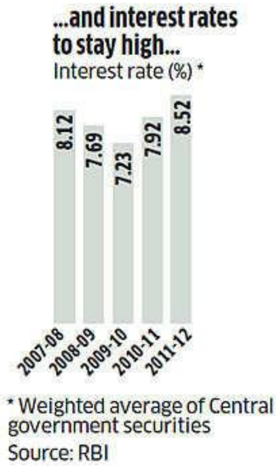
...and cut duties, which wrecked government finances...

Figures in ₹ Cr

	Fiscal deficit	Govt borrowings
2007-08	126,912	130,600
2008-09	336,992	246,975
2009-10	418,482	394,371
2010-11	373,592	326,399
2011-12	515,990	484,111
2012-13	520,925	507,476

Source: DBIE, RBI

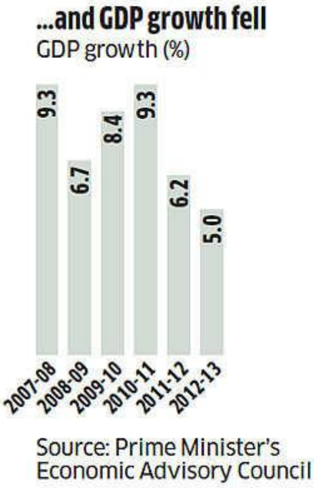




People saved less and companies invested less...

	Savings (%) *	Capital formation (%) **
2007-08	36.8	38.1
2008-09	32.0	34.3
2009-10	33.7	36.5
2010-11	34.0	36.8
2011-12	30.8	35.0

* Gross domestic savings as a % of GDP
** Gross domestic capital formation as a % of GDP
Source: Central Statistics Office



Secondary Source: The Economic Times

THE PRESENT SLOWDOWN IN THE INDIAN ECONOMY (2016-18)

Growth in gross domestic product (GDP) was plummeted by 3.5 percentage points, from 9.2% in January-March 2016 to 5.7% in April-June 2017. The Reserve Bank of India slashed its GDP growth forecast for 2017-18 from 7.3% to 6.8%.

The present slowdown in the economy is due to various factors such as

• Collapse in Private Consumption, Investment and The Effect of Demonetization:

Private consumption was hit due to Demonetization as consumers preferred to hoard cash or keep it in the bank instead of spending on consumer goods. Moreover, demand also collapsed in the rural areas as the entire rural economy ran on cash, and Demonetization led to the loss of jobs as well as incomes. Demonetization has also led to small and medium (SMEs) to withhold investment since they operate on a cash basis.

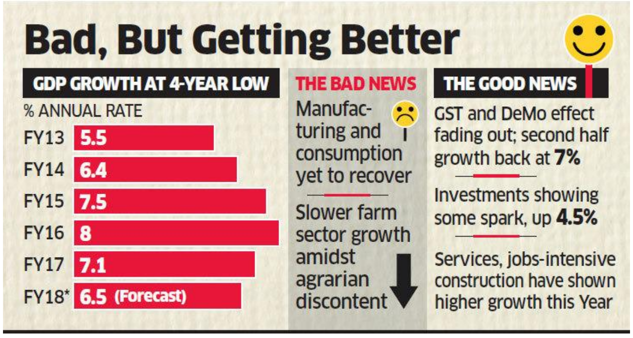
• No demand - No Investment: Vicious Circle operates

Since it is capital formation, or investment, that drives growth in the economy, investment is an immediate source of demand as firms that invest buy goods and services to do so. It also expands the economy’s capacity to produce.

When there is no demand, supply has to be stopped due to piling up of stocks and production units go idle, leading to cut in labour force. It further reduces the income leading to less demand and further reduction in supply and stopping of production. Since, investment involves committing funds for a long period under uncertainty, the stepping-up of public investment when private firms are unwilling to invest more is required. Increased public investment, increases demand and quicken growth and also encourages private investors, as the market for their goods expands.

• Global Slowdown

India is a net commodity exporter which led to a slump in the volumes of exports. Apart from that, the global slowdown has also been accompanied by a retreat of globalization which has resulted in Foreign Direct Investment being only in the areas of speculative finance and distressed assets purchases rather than, into investments that help the Real Economy.



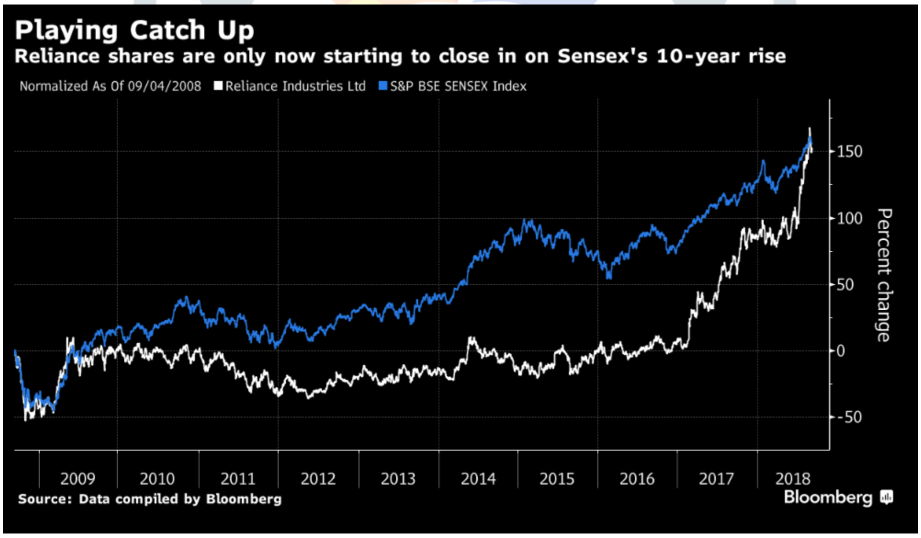
Secondary Source: The Economic Times

IMPACT OF THE FINANCIAL CRISIS ON RELIANCE INDUSTRIES

- FALLING STOCKS

Reliance industries saw a sharp fall in their shares in 2008, the year of the financial crisis, when its share price fell to one-third between January and December. Although, since then, RIL's share price has clawed back to its pre-crisis all-time high levels in just over eight years at a decent CAGR (compounded annual growth rate) of over 12%.

During this nine-year period, Reliance Industries has given 10 dividends aggregating to Rs.99.5 on the share of Rs.10 face value. However, other than the really early shareholders, it might not be of much significance to most others, for whom the share purchase price was considerably higher.



Secondary Source: Bloomberg

- SLUMPING DIVIDENDS

A dividend is a distribution of a portion of a company's earnings to holders of its stock. When a company makes money, it has the option to share that profit with its stockholders or retain that money as earnings, which it is then free to reinvest. If a company opts to pay dividends to its shareholders, they can be issued as cash payments, shares of stock, or other types of property. The following table shows the dividends of reliance industries.

Year	Month	Dividend (%)
2018	Apr	60
2017	Apr	110

2016	Mar	105
2015	Apr	100
2014	Apr	95
2013	Apr	90
2012	Apr	85
2011	Apr	80
2010	Apr	70
2009	Oct	130
2008	Apr	130
2007	Apr	110

A company with a stellar track record of dividend payments may be forced by market conditions to temporarily reduce its payout or eliminate it altogether. Reliance industries during the period of crisis have performed well but the dividend has slumped during 2010-14.

- EMPLOYEE LAY OFFS

Reliance decided a massive layoffs or job cuts in all the group companies, around 5000 employees were asked to resign or forceful job termination. The majority of the layoffs happened in the Retail segment. Some of the companies involved in the exercise are Reliance Retail, Reliance Logistics, Reliance Info Systems and Reliance Corporate Park. Due to the global economic slowdown, majority of their middle level customers, typically the IT guys and others have seen the heat of job cuts and salary cuts.

- WEALTH DESTROYER

Reliance Industries, the biggest wealth creator for five consecutive years from 2007 to 2011, emerged as the largest wealth destroyer between the years 2008-13.
Wealth destroyed: Rs.1,12,800 crore (Rs.1,128 billion)

(i) Share of wealth destroyed: 7% (ii) Price (CAGR %): -7

- RUPEE DEPRECIATION

Reliance Industries Ltd (RIL) will receive benefits from an upward revision in natural gas prices from 2014, but the company is likely to have started seeing windfall gains from sharp depreciation of the rupee. The Mukesh Ambani-led company earns 60 per cent of its overall revenue from exports, so any fall in the rupee value translates into higher realization in rupee terms.

However, two factors may reduce the net benefit to Reliance Industries from the rupee's moves. One, with most of its borrowings denominated in foreign currency, Reliance may have to shell out higher interest as well as principal repayments with depreciation in the Rupee.
And two, the company does lock into specific exchange rates for its export revenues by way of hedging contracts. Based on what levels the company is locked into, its actual realizations may be lower than that estimated above.

Secondary source: Bloomberg

CONCLUSION

The impact of Economic crisis of 2008 was witnessed during 2013 in India; the government took effective measures to maintain its stability. In spite of the initiatives by the government there were both negative and positive impacts on various sectors in the economy. Reliance industries, was also affected by the crisis but the company was able to deliver decently, even though there were certain downfalls. During the period of 2016-18 Reliance industries has performed positively despite the slowdown, being an export oriented company. Therefore the impact of the crisis in India has not a made huge impact on Reliance industries.

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