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Covid-19 and Business Failure: A systematic approach in Indian perspective

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Abstract:

This article examines the impact of Covid-19 pandemic on business failure in selected sectors in India. The covid-19 outbreak ruins almost every economy all over the world. Businesses all over the world are functioning in terror of an impending collapse of the global financial system as nearly 162 countries gradually fall into lockdown. Market circumstances are very unstable as a result of this predicament and the year's slow economic growth, particularly in developing nations like India. All three of the main drivers of GDP—private consumption, investment, and foreign trade—are facing difficulties. But also there are some sectors which benefited from this pandemic for e.g. pharmaceuticals, information technology, and hospitality.

Key Words: Business failure, Covid-19, economic growth, Sectors, Global crisis.

Introduction:

Global economies have experienced extraordinary disruptions as a result of the COVID-19 pandemic. AS earlier the world economy would see its worst recession since the Great Depression in the 1930s, the financial and emotional consequences for governments, organizations, and citizens will last for a very long time after the essential isolation rules are reduced. Businesses must suffer this recession so they can benefit in the upcoming recovery, but the period and severity of the current economic crisis are still uncertain.

On Prior to the 21st century, preventing business failure dominated the issues that faced multinational corporations. (Amankwah -Amoah & Syllias, 2020). Financial distress is crucial for all stakeholders and individuals also. Financial distress is the situation when a company or any individual fails to pay its financial obligations i.e. when a business is unable to pay its debts when they become due, it is said to be insolvent. A business should regularly examine its credit rating. Credit management companies should periodically check to make sure that all of the businesses they service have credit ratings that are within an acceptable range. This will act as a safeguard against business bankruptcy. An economic event of significant importance is the failure of a company. As a result, corporate finance has given a lot of focus to the prediction of company financial distress. Different models have been developed by academic researchers and practitioners to predict financial distress using either accounting or stock market data.

Businesses are finding it much harder to grow after the pandemic than they would pre Covid. Business dynamics are constantly evolving. For businesses of all sizes, the supply chain has emerged as one of the most essential strategic challenges. For instance, the 2021 forced halt of the car production lines will result in a severe shortage of semiconductor chips which will be made worse because of the pandemic. In a VUCA environment, strategy execution has faced a dimension change. Unusual thinking of managing end-to-end business remotely through online interactions, for which organizations were not prepared, was one of the most challenging aspects of plan implementation. Other factors include bad leadership, confusing communication, increasing leakage and losses, an ineffective culture, and a lack of professional networking.

Literature Review:

Many researchers try to predict financial distress in past it all starts from beaver (1966), which used individual financial ratio analyses to evaluate a company's financial position. Beaver's univariate analysis was quickly followed by Altman's multivariate analysis in 1968 using the statistical technique multi discriminant analysis (MDA). Ohlson (1980) criticized MDA for requiring normally distributed data and hence proposed a Logistic Regression model for predicting a company's financial health. Therefore, all subsequent models are a continuation of the groundbreaking research of Beaver, Altman, and Ohlson (Manzaneque, Merino, & Priego, 2016).

The other study defines four types of business processes which is based on the maturity of the company and its management structure; type 1 were bankruptcy of unsuccessful startup companies, type 2 were failure process of an ambitious growth company, type 3 were failure process of a dazzled growth company, and the last type were failure process of an apathetic established company. A thorough analysis of the direct and indirect effects of the nonfinancial and financial causes was provided for each procedure. The typology provided in this study was formed from a case study analysis of 12 Belgian companies of various ages and industry sizes.

Early Studies of business failure frequently looked at wide range of environmental variables as the main reasons why businesses failed, such as technology advancements, the recession, general environmental instability, new government taxation, and deregulation (Silverman, Nickerson, & Freeman, 1997). However, as we've seen, this literature concentrates on recurring outside issues that any organization functioning in a specific environment may eventually have to manage with (Micelotta, Lounsbury, & Greenwood, 2017).

The sudden and unexpected "environmental shock" caused along by COVID-19 has exponentially reduced firms' financial resources, increased insolvencies, and damaged the financial position of many large and small businesses, forcing many of them to look to the government for assistance in the form of subsidies, tax relief, and other financial and non-financial assistance (Cook & Barrett, 2020).

Objective of the study:

To analyses the Impact of Covid-19 pandemic on business failure in selected sectors in India.

Research Methodology

The study presented in this paper is supported by secondary information that was collected from newspaper articles, books, journals, research papers, research models and websites.

Sectors of the study:

The COVID-19 pandemic, which resulted in a significant drop in consumption and consumer confidence, is regarded by the Organization for Economic Co-operation and Development (2020) as one of the largest concurrent public health and economic crises in recent times. The COVID-19 pandemic has been viewed as a major exogenous shock that has transformed the environment for competition for both small and large businesses

(Wenzel et al., 2020). It has frequently caused a reduction in demand and disruptions in the supply of several products. Governments all across the world have imposed border restrictions, implemented social segregation measures, and issued directives and guidelines to small and large businesses in response to the situation.

First, inadequate management and poor corporate governance could lead to financial distress. Despite the abundance of studies on distress, few of them have been taken in context for rising Asian markets. Corporate governance is also a necessity due to the current trend of public listing SMEs on SME-specific markets. Second, a sizable body of research supports the idea that a company's financial performance in the present and the past determines how distressed it is. The reasoning is undoubtedly valid when the macroeconomic environment is stable, but its truthfulness is unproven under dire circumstances like COVID-19. Third, current SMEs seem to have a low price-cost margin in a competitive context. COVID-19 has altered the operating environment for SMEs as well as other global industries.

Inflation and Affected Industry:

India receives a significant amount of raw materials from China. The supply chain has been harmed by factory closures, which has caused a sharp increase in the price of raw materials. Other goods that have seen rising prices include gold, masks, hand sanitizers, smartphones, pharmaceuticals, consumer durables, etc. The automotive industry and the aviation industry have been struck the worst. The aviation and travel industries have come to a standstill because there have been no takeoffs or landings of airplanes anywhere in the world.

Cash Flow Issues:

Due to this outbreak, more than 50% of Indian companies are facing operational problems, and nearly 80% have already had cash flow problems. According to the Federation of Indian Chambers of Commerce and Industry, COVID-19 has an effect on 53% of enterprises. Cash flow issues brought on by the slow economic growth would eventually affect taxes, interest, and repayment obligations.

Impact on Pharmaceuticals Industry

Three percent ($1.5 billion) of bulk medicines and drug intermediates made up India's imports from China. According to the Trade Promotion Council of India, China accounts for over 85% of the nation's total imports of active pharmaceutical ingredients (API). Many of the nation's pharmaceutical manufacturing industries depend on these active medicinal components. Manufacturing activities in India have been damaged by reliance on China. However, the need for life-saving medications and protective gear has increased. The government has placed restrictions on the export of specific pharmaceutical products and medicines and regularly inspects the total stockpile. Medication will be the top consumer demand as COVID-19 spreads quickly over India, and because there aren't nearly enough APIs to make medicines, the market is seeing increasing costs for the ensuing traders.

The geo-economic and geo-political paradigm change brought about by COVID-19 in India has encouraged pharmaceutical companies to focus less on producing drugs and more on developing new methods for producing drugs, equipment, and vaccines. It is possible to align business models with the recently modified pharmaceutical rules and regulations by restructuring them according to the needs of each company. Prior to COVID-19, the Indian pharmaceutical and drug sector ranked third globally in terms of production by volume in 2019 and fifteenth in terms of value. As a result of the COVID-19 pandemic, the regulatory environment has undergone significant reforms that have benefited the Indian pharmaceutical industry. The pandemic caused significant interruptions to the pharmaceutical supply chain that increased costs, although the Indian government established regulatory limits to reduce these disruptions of essential drug supplies.

Impact on stock market

The global economy has collapsed, and nations hit by the corona virus are suffering lethargic growth and development. A succession of failures, most notably the oil war and currency fluctuations, followed by a series of major setbacks brought on by the covid-19 throughout the last three months caused by the pandemic that affected India's banking sector. Banks have been on hold, reaching their peak of pessimism as a result of these scenarios since April 2020. The corona virus pandemic's effects on the economy have a significant and negative impact on the financial markets. Since the start of this pandemic, share markets including the Sensex and Nifty have deteriorated sharply. In a month, the Sensex has dropped by about 8000 points. Investors in the stock market have lost almost Rs. 33 lakh crore as of March 12th, 2020. This could signal the start of a recession that the Indian market would prefer to avoid. The stock market is infected with a virus, therefore investors are encouraged to invest safely. Pharmaceuticals**,** healthcare, and Fast Moving Consumer Goods (FMCG) are the few sectors that can profit from novel corona virus during the current market crisis.

Impact on Manufacturing Industry:

India imports over 55% of its electronics from China. Due to the corona virus epidemic and ensuing lockdown, these imports have already decreased by 40%. India is thinking about encouraging domestic production as a countermeasure to lessen its reliance on a single market. Furthermore, China is India's third-largest export partner for raw resources like organic chemicals, mineral fuels, cotton, etc., therefore a trade deficit for India is likely to result from a lockdown on the two nations.

Impact on Tourism:

India has a massive cultural and historical tourism industry that draws both domestic and foreign tourists all year long. It is hardly surprising that international tourists make up a significant portion of India's confirmed COVID-19 cases. However, the entire tourism value chain, which includes hotels, restaurants, attractions, agents, and operators, is projected to suffer losses worth thousands of crores as a result of the suspension of visas and the permanent closure of tourist attractions. According to the World Travel and Tourism Council (WTTC), the crisis would cost the travel and tourism industry at least USD 22 billion, cause it to contract by up to 25% in 2020, and result in the loss of 50 million jobs. According to experts, the tourism sector is expected to suffer significantly and may even become permanently crippled for the foreseeable future.

Impact on Aviation

Airlines are reportedly operating under strain as a result of the Indian government's indefinite suspension of tourist visas. For varying lengths of time, close to 600 international flights to and from India were cancelled. There have been about 90 cancelled domestic flights, which has caused airline prices to decrease significantly, even on well-traveled local routes. Private airport operators have asked the government for approval to add a small passenger facilitation fee to ticket prices in order to offset the increased operational expenses.

Impact on FMCG

The results of the Relative Strength Index (RSI) demonstrate clearly that the market has undergone considerable shift after COVID19. The boost in demand for some products has caused the RSI to slightly rise. According to all of the study, COVID 19 had a negative impact on India's FMCG industry. As a result, over the study period, the FMCG industry had considerable changes and repercussions, as shown by the data above. One of the most dynamic industries, FMCG must deal with adaptable plans to handle future abrupt adjustments. Due to consumer hoarding and panic buying following the lockdown announcement, demand for vital FMCG products increased sharply. The demand for grocery items, milk, and hygiene products has increased, but the manufacturing capacity has been constrained by supply chain issues.

Impact on SMSEs sector:

First, inadequate management and poor corporate governance could lead to financial distress. Despite the abundance of studies on distress, few of them have been taken in context for rising Asian markets. Corporate governance is also a necessity due to the current trend of public listing SMEs on SME-specific markets. Second, a sizable body of research supports the idea that a company's financial performance in the present and the past determines how distressed it is. The reasoning is undoubtedly valid when the macroeconomic environment is stable, but its truthfulness is unproven under dire circumstances like COVID-19. Third, current SMEs seem to have a low price-cost margin in a competitive context. COVID-19 has altered the operating environment for SMEs as well as other global industries.

Conclusion:

To a large extent, many sectors have been forced to “compete on sanitation” in marking their premises and settings to minimize potential for viral transmission. Early studies of business failure often explored general environmental factors such as technological changes, recession, general environmental volatility, new government taxes, and deregulation as primary causes of business failure.

In contrast, the pandemic has helped businesses learn a plethora of lessons. The new business model has generated new ideas for using e-commerce to carry out strategy. It's interesting to note that businesses are now willing to adapt the way they conduct business globally. It has become crucial to comprehend Blue Ocean and transient methods in order to restore competitive advantage. Work-from-home (WFH) is now widely available as a permanent alternative for employees at many organizations. Aviation, hotels, restaurants, retail, shipping, ports, and port services are the industries with the highest risk exposure due to COVID-19. Automobiles, building supplies, and residential real estate are among the industries with a medium impact, whereas FMCG, education, dairy products, fertilizers, and healthcare are among those with a low impact.

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