# The Global Financial Crisis and Performance of the Indian Corporate Sector: A Firm Level Analysis

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## Abstract
**The U.S. financial crisis has made its upshots on both developed and developing economies of the world. However, India did not face a full - blown recession, but only experienced an economic deceleration, which is normally considered as a temporary phenomenon. Analysis of the financial parameters of corporate India revealed intersectoral as well as intrasectoral differences among them in respect of their financial fundamentals during the period of crisis, which could be attributed to many factors. The Banking sector found an opportunity for growth during the period of crisis, the credit of which goes to wise and judicious policies of the central bank of the country. The Automobile and construction sector were hit most adversely by the crisis due to their high capital intensive nature and stringent measures taken by the lending institutions by cutting back of credit to individuals for adding luxuries to their personal lives. Our IT industry is more exposed to the U.S. and European markets; hence, the financial crisis in these advanced economies affected the export earnings of this sector. However, sharp depreciation of the Rupee helped them to compensate in aggregate what they lost due to the crisis in the global market. Domestic market orientation and not being very capital-intensive are among the factors that insulated the FMCG sector from the downturn. The degree of shock exerted by the global financial turmoil on the performance of the Indian corporate sector was also not the same. While some companies under a particular sector were severely hit by the crisis, fundamentally strong companies could unshackle themselves from it.**
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The U.S. financial crisis has had its aftershock on both - the developed and the developing world. This is because the whole world largely depends on the mighty U.S. for their economic activities. The USA constitutes an average 24 percent of the World GDP. Above all, it is the world's largest exporter, importer, and of course investor in the global financial market. So, the crisis that primarily happened in the U.S. economy was immediately transmitted to its integrated economies, which finally hit their industrial as well as financial markets alike. India is also now closely linked to the world economy by trade in goods as well as trade in services, including investments and its economy is more sensitive to changes in international demands, on account of which the crises across the globe are bringing in multifarious impact on various sectors of the Indian economy. What impact the crisis might have had on a sector can easily be traced out from the performance of its corporate firms. In this paper, we made an attempt to investigate the impact of the global financial crisis on selected industrial sectors of the country. An effort is also made to identify whether there are any firm-level differences in receiving the reverberations of the global crisis by a particular sector or in other way, whether the fundamental strength inherent in a firm itself is immune to the crisis.

## The Genesis of the Financial Crisis
The crisis began with the bursting of the United States housing bubble and high default rates on "subprime" and adjustable-rate mortgages (ARM) beginning in approximately 2005- 2006. For a number of years prior to that, declining lending standards (especially reduction of interest rate), an increase in loan incentives such as easy initial terms, and a long-term trend of rising housing prices encouraged borrowers to assume difficult mortgages in the belief they would be able to quickly refinance at more favorable terms. The U.S. Fed fund interest rate (base interest rate of

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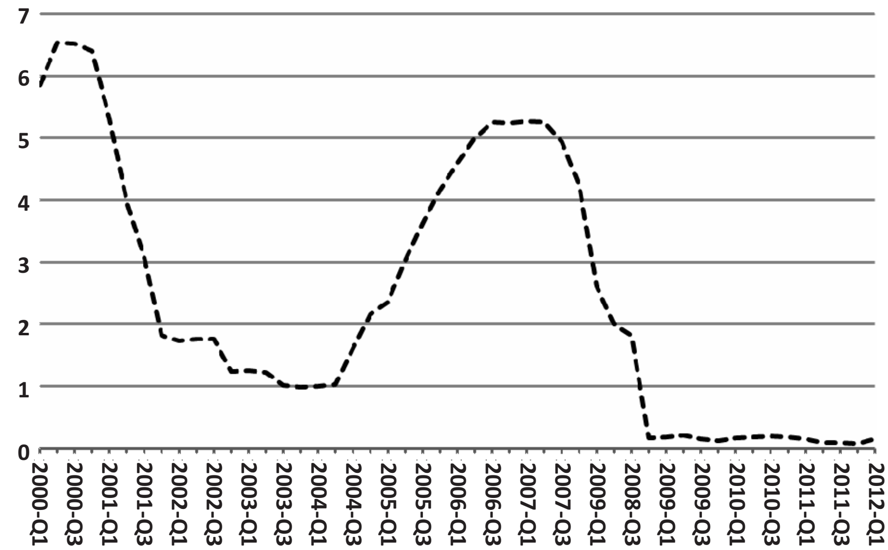
Figure 1: US FED Fund Interest Rate Movement (March 2000-March 2012)




Source: Federal Reserve Statistical release

the U.S. monetary system) has been showing much volatility for the last 10 years (Figure 1). It fell down from the highest point of 6.53 percent in June 2000 to a low of 1 percent by March 2004, which completed its first phase of cyclical change. Again, it started to increase and reached a subsequent high of 5.26 percent in March 2007. Once interest rates began to rise, and housing prices started to drop moderately in 2006 - 2007 in many parts of the U.S., refinancing became more difficult. Defaults and foreclosure activity increased dramatically as easy initial terms expired, home prices failed to go up as anticipated, and ARM interest rates reset higher. Foreclosures accelerated in the United States in late 2006 and triggered a global financial crisis through 2007 and 2008. Then, US central bank intervened to restore equilibrium in the market by slashing interest rates, and as a result, Fed fund rate dropped to an ever time low of 0.12 percent by the end of 2009. The unsteady monetary policy of the country during such a short interval itself forewarned of the miserable days in the near future.

Who can be blamed for the credit crunch of the US financial crisis? Was it due to the unwise and non judicious policies of the U.S. Central bank and other govt. machinery, or due to the imprudent financial practices adopted by U.S. banks and financial institutions in performing their financial functions? The answer is both. When the Federal Reserve and other Govt. machinery of U.S. failed to control the banes of financial capitalism through proper monetary measures, the governance system of its financial market collapsed, which made it more asymmetric in terms of information efficiency. Valuation of assets based on future earnings done by third party agencies for deciding lending standards and very liberal but dodgy formalities followed by the financial institutions for advancing loans to their customers - all these factors lead to bursting of the housing bubble - "the most significant risk of the U.S. economy". Integration of investment banking with commercial banking made the banks and other financial institutions more exposed to stock market imperfections. Loss of value of their investments due to the volatility of the bourses was a double shock for these financial institutions, who had already sustained losses due to the default in payment of loans by their customers.

## Slowdown In Economic Growth

❖ **The Global Scenario :** For a layman, recession is a contraction of business activity. But as per the definition universally accepted by economists, an economy is in recession when its GDP growth becomes negative for two consecutive quarters. The Table 1 summarizes the quarterly GDP growth rate of the selected economies of the world.

U.S. GDP became negative during the last two quarters of 2008 and the first two quarters of 2009. After that, it showed symptoms of recovery, and the year ended with a positive GDP rate of 5.9 percent. Germany and France were also on the same path of economic growth as was the U.S., however, their relative performance during the end of the accounting year 2009 was not something to cheer about. UK has been in recession for the last two years. Japan's

| Table 1: Quarterly GDP Growth Rate of Selected Economies (March 2007 - March 2012) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | USA | Germany | France | U.K. | Japan | China | India |
| 2007-Q1 | 1.2 | 0.3 | 0.7 | 0.8 | 1.8 | 13 | 9.8 |
| 2007-Q2 | 3.2 | 0.3 | 0.4 | 0.6 | -1.6 | 12.6 | 9.2 |
| 2007-Q3 | 3.6 | 0.8 | 0.7 | 0.5 | 0.1 | 11.5 | 9 |
| 2007-Q4 | 2.1 | 0.1 | 0.3 | 0.5 | 1.5 | 11.2 | 9.3 |
| 2008-Q1 | -0.7 | 1.6 | 0.5 | 0.7 | 5.6 | 10.6 | 8.6 |
| 2008-Q2 | 1.5 | -0.6 | -0.4 | -0.1 | -8.1 | 10.1 | 7.8 |
| 2008-Q3 | -2.7 | -0.3 | -0.2 | -0.9 | -4 | 9 | 7.7 |
| 2008-Q4 | -5.4 | -2.4 | -1.5 | -1.8 | -10.2 | 6.8 | 5.8 |
| 2009-Q1 | -6.7 | -3.5 | -1.4 | -2.5 | -4.9 | 6.2 | 5.8 |
| 2009-Q2 | -0.7 | 0.4 | 0.3 | -0.7 | 2.2 | 7.9 | 5.8 |
| 2009-Q3 | 1.7 | 0.2 | 0.2 | -0.2 | -0.5 | 9.1 | 7.9 |
| 2009-Q4 | 3.8 | 0.7 | 0.6 | 0.1 | 1.5 | 10.7 | 7.2 |
| 2010-Q1 | 3.9 | 0.2 | 0.3 | 0.4 | 2.2 | 11.9 | 8.8 |
| 2010-Q2 | 3.8 | 1.1 | 0.6 | 1.1 | 0.1 | 10.3 | 8.4 |
| 2010-Q3 | 2.5 | 0.7 | 0.3 | 0.7 | 0.9 | 9.6 | 8.3 |
| 2010-Q4 | 2.3 | -0.5 | 0.3 | -0.5 | -0.8 | 9.8 | 7.8 |
| 2011-Q1 | 0.4 | 0.2 | 0.9 | 0.2 | -0.2 | 2.2 | 7.7 |
| 2011-Q2 | 1.3 | -0.1 | -0.1 | -0.1 | -0.3 | 2.3 | 6.9 |
| 2011-Q3 | 1.8 | 0.6 | 0.3 | 0.6 | 1.9 | 2.4 | 6.1 |
| 2011-Q4 | 3 | -0.3 | 0.1 | -0.3 | 0 | 1.9 | 6.9 |
| 2012-Q1 | 2.2 | 0.5 | 0.2 | 0.3 | 4.1 | 1.8 | 6.6 |

Source: USA: Bureau of Economic Analysis; Germany: German Federal Statistical Office ; France: INSEE National Statistics Office; U.K: U.K Office for National Statistics; Japan: Economic and Social Research; China: National Bureau of Statistics; India: Central Statistical Organization.

economic growth was in the negative zone for most of the year 2008 and also in the first quarter of 2009, but later, it could somehow manage to consolidate its position. However, the growth rate of the economies of India and China did not plunge into the negative terrain.

❖ **The Indian Response :** After a long spell of growth from 2001, the Indian economy experienced a slump in 2008. It showed a low growth rate of 6.7 percent in 2008-09, but achieved 7 percent or little more growth in the financial year 2009-10 and 2010-11 (Table 1). The economy expanded by an average of 8.5 percent between 2003-04 and 2008-09. All these data reveal that India was not facing a recession, but experiencing an economic deceleration, which is normally considered as a temporary phenomenon. Even though India has not been experiencing a recession at the same scale that the global economy is passing through, our industrial growth is faltering, inflation was at double digit level, the current account deficit has been widening, foreign exchange were depleting and rupee was declining, especially in 2008-09 (Table 2). The most immediate effect of the crisis on India has been the outflow of foreign institutional investment from the equity market. Foreign Institutional investors, forced to retrench assets in order to cover losses in their home countries and seeking havens of safety in an uncertain environment, became major sellers in the Indian market. This action pulled down the SENSEX. It fell from its closing peak of 20,873 on January 8, 2008, to less than 10,000 by December 2008 by bringing an average 50 to 55 percent loss to the investors (see the trend in the movement of SENSEX and FII net investments given in Table 3).

Certain sectors, especially Textiles, Gems, Jewels, Leather products, Information Technology and IT enabled services, etc. are mainly dependant on the U.S. and European markets. Recession generated by the financial crisis in these advanced economies as a group, and the U.S. in particular, adversely affected export of these products, and these sectors in India experienced deceleration at a relatively faster pace. More than 75 percent of our software and IT enabled services exports are directed to the U.S. market. In this uncertain environment, banks and financial institutions concerned about their balance sheets, have been cutting back on credit, especially volume of housing, automobile and retail credit provided to individuals. As per the RBI figures, the rate of growth of auto loans fell from close to 30 percent over the year ended June 30, 2008 to as low as 1.2 percent. Direct housing loans, which had increased by 25 percent during 2006-07, declined to 11 percent growth rate in 2007-08 and 12 percent over the year ended in June 2008. Loans to finance consumer durables purchases fell from around ₹ 6000 crore in June 2007 to a little over ₹ 4000 crore up to June 2008. All these data in aggregate shows that the global financial crisis considerably affected both automobile and real-estate - construction sector of our country.

**Table 2: Performance of the Indian Economy at a Glance**

| Year | Forex reserves (US$ Million) | Exchange rate (Rsvs US$) | Current account deficit (US$ Million) | Index of Industrial production Base: 2004-05=100 | Inflation WPI (12 Month Average) |
|---|---|---|---|---|---|
| 2006-07 | 199179 | 43.59 | 9565 | 122.6 | 6.5 |
| 2007-08 | 309723 | 39.98 | 15737 | 141.7 | 4.8 |
| 2008-09 | 251985 | 50.94 | 27915 | 145.2 | 8.0 |
| 2009-10 | 279057 | 45.13 | 38383 | 152.9 | 3.6 |
| 2010-11 | 304818 | 44.64 | 44281 | 165.5 | 9.4 |

Source: Economic survey 2010-11 and RBI Hand Book of Statistics on Indian Economy 2010-11

**Table 3: SENSEX and FII Net Investments in Equity - A Comparison**

| Period | 2006-07 | | 2007-08 | | 2008-09 | |
|---|---|---|---|---|---|---|
| | SENSEX | FII net investments -Equity(crores) | SENSEX | FII net investments -Equity(crores) | SENSEX | FII net investments - Equity(crores) |
| June | 10609 | 1418.1 | 14651 | 7169.8 | 13462 | -10577.5 |
| September | 12454 | 6231.1 | 17291 | 18948.6 | 12860 | -7936.6 |
| December | 13787 | -3593.6 | 20287 | 4896.6 | 9647 | 1319.1 |
| March | 13072 | 1403.1 | 15644 | 124.5 | 9708 | 269.2 |

Source: Capital markets, CMIE

## Data and Methodology

❖ **Sample and Data Frame :** For the purpose of the study, we have identified six sectors viz. Banking, Information Technology, Real Estate, Automobiles, Pharmaceuticals and Fast Moving Consumer Goods (FMCGs). While the first two sectors (Banking and IT) represent growth industry groups (sectors which have a good potential for growth), the third and fourth (Real Estate and Automobiles) sectors give proxy for cyclical industry groups (performance of which truly reflects the changes in phases of an economic cycle). The last two sectors (Pharmaceuticals and FMCGs) are true approximations for the defensive category (industry, due to its inherent nature, can immune itself to the shocks exerted by the most terrible days of the economy). From each sector, we identified the 10 top companies in terms of sales and earnings, and the needed data were obtained from their annual reports. However, we are reporting the financial performance of only 4 prominent companies from each identified group. The data set covered the period from 2006-07 to 2008-09 for getting proper insight on the performance of the companies during the pre and post crisis period.

❖ **Methodology :** We have mainly used the key financial variables - sales and earnings (profit after tax) for the purpose of the analysis. Profit margin, Solvency position, Return on Net Worth, EPS and Dividend yield were in part also used in this study. Paired t- test was used for testing the significance of difference between the selected financial variables (earnings and sales revenue) at different points of time.

## Results and Discussion

❖ **Performance of the Indian Corporate Sector - An Overall View :** The Tables 4 to 7 analyze the financial performance of the selected corporate firms in India during the study period. From the analysis, we can observe intersectoral as well as intrasectoral differences in financial fundamentals of the corporates during the period of crisis. In absolute terms of EPS, the entire sector except Realty did well, but only the banking companies could maintain parity among them in terms of their growth in earnings. However, almost all companies under study declared dividend at a relatively attractive rate. However, the rate of earnings distributed by companies like Unitech and Maruti were marginal only. When the Realty sector proved to be the most sensitive to market changes motorized by the crisis, the performance of the Pharma sector could not substantiate its name of 'defensive' sector. The Automobile sector had mixed reactions to the market conditions, but the FMCG sector was able to consolidate its position.

❖ **Sector Wise Analysis of Performance of Corporate Firms :** Industry wise explanation of glimpses of facts revealed through the analysis of this study is briefly explained in the following discussion :

**Table 4: Financial Performance of the Selected Companies in 2006-07**

| Industry | Sales growth | Earnings growth | Profit margin(net) | Solvency ratio | ROI | Return on networth | Dividend yield | EPS |
|---|---|---|---|---|---|---|---|---|
| **Banking** | | | | | | | | |
| BOI | 0.31 | 0.24 | 15.89 | 16 | 1.92 | 25.51 | 16.34 | 23.04 |
| SBI | 0.09 | 0.03 | 10.12 | 13.92 | 1.66 | 14.5 | 18.98 | 86.29 |
| UBI | 0.27 | 0.25 | 10.62 | 18 | 1.54 | 17.86 | 24.2 | 16.74 |
| PNB | 0.16 | 0.07 | 12.53 | 13.79 | 1.56 | 15.18 | 30.71 | 48.84 |
| **Reality &Infrastructure** | | | | | | | | |
| Unitech | 2.74 | 13.12 | 10.62 | 18 | 1.54 | 17.86 | 24.2 | 6.35 |
| JP Associates | 0.10 | -0.35 | 11.61 | 2.12 | 12.89 | 16.18 | 21.91 | 18.92 |
| DLF | 0.16 | 0.78 | 28.38 | 10.37 | 8.87 | 62.15 | 98.3 | 2.65 |
| Relinfra | 0.45 | 0.23 | 12.43 | 0 .68 | 3.6 | 9.27 | 17.68 | 35.07 |
| **Automobile** | | | | | | | | |
| Hero Honda | 0.14 | -0.12 | 8.58 | 0 .07 | 45.61 | 34.73 | 6.25 | 42.96 |
| Maruti | 0.21 | 0.31 | 10.29 | 0 .09 | 29.45 | 22.78 | 9.72 | 54.07 |
| M&M | 0.22 | 0.25 | 10.34 | 0 .46 | 22 | 30.33 | 30.39 | 44.88 |
| Tata Motors | 0.33 | 0.25 | 6.94 | 0 .59 | 23.88 | 28 | 35.34 | 49.65 |
| **FMCG** | | | | | | | | |
| Marico | 0.31 | 0.17 | 8.39 | 0 .91 | 53.93 | 62.4 | 39.09 | 1.88 |
| Dabur India | 0.30 | 0.33 | 14.41 | 0 .05 | 72.07 | 65.75 | 55.24 | 2.92 |
| United Spirits | 0.36 | 10.76 | 17.81 | 1.09 | 15.64 | 36.97 | 5.64 | 52.21 |
| Colgate | 0.16 | 0.16 | 11.82 | 0 .02 | 87.9 | 57.09 | 92.47 | 11.78 |
| **Pharmaceuticals** | | | | | | | | |
| Cipla | 0.19 | 0.10 | 14.58 | 0 .22 | 23.6 | 17.89 | 23.41 | 8.59 |
| Pfizer | 0.10 | 0.55 | 14.1 | 0 | 39.07 | 24.79 | 40.23 | 35.43 |
| Sun Pharma | 0.29 | 0.36 | 26.69 | 0.44 | -1.55 | 25.68 | 23.57 | 32.52 |
| Dr. Reddy's Lab. | 0.89 | 3.19 | 29.01 | 0 .08 | 28.22 | 26.9 | 6.25 | 70.09 |
| **Information Technology** | | | | | | | | |
| Infosys | 0.46 | 0.48 | 28.05 | 0 | 37.86 | 33.89 | 19.85 | 66.23 |
| Wipro | 0.34 | 0.41 | 20.34 | 0 .03 | 34.04 | 30.5 | 35.2 | 19.48 |
| TCS | 0.39 | 0.38 | 11.61 | 0 .01 | 53.04 | 46.62 | 34.46 | 38.39 |
| Tech Mahindra | 0.30 | -0.70 | 2.35 | 0 .06 | 77.44 | 7.42 | 46.52 | 26.84 |

Source: Compiled from annual reports of companies

❖ **Banking :** There was a significant growth in both sales and earnings of the banking industry over the study period. Out of the 10 banking companies selected from the group, except for ICICI, all received terrific growth in their sales and earnings. Their solvency position diluted slightly as the public deposited a large volume of funds with banks on the verge of imperfect stock market conditions. EPS improved significantly, and the yield was really good. Return on net worth was also on an upward swing. Credit for this amazing growth goes to the Reserve Bank of India. Wise regulations, judicious policies, and meticulous supervision by RBI made the Indian banks take fewer risks and kept them away from the contagion spreading from the global economic tsunami.

❖ **Information Technology :** The trend that was perceived in the banking sector, the same was repeated in case of the IT industry in its sales and earnings profile. Both earnings and sales of this industry improved considerably, even during the period of crisis. As our IT industry is more exposed to the U.S. and European markets, the crisis affected the

**Table 5: Financial Performance of the Selected Companies in 2007-08**

| Industry | Sales growth | Earnings growth | Profit margin(net) | Solvency ratio | ROI | Return on networth | Dividend yield | EPS |
|---|---|---|---|---|---|---|---|---|
| **Banking** | | | | | | | | |
| BOI | 0.35 | 0.53 | 13.96 | 17 | 1.48 | 22.76 | 12.23 | 38.26 |
| SBI | 0.24 | 0.48 | 11.65 | 10.96 | 1.86 | 13.72 | 22.64 | 106.56 |
| UBI | 0.30 | 0.64 | 13.2 | 18.47 | 1.56 | 24.66 | 17.04 | 27.46 |
| PNB | 0.26 | 0.33 | 12.68 | 15.44 | 1.97 | 19 | 23.4 | 64.98 |
| **Reality &Infrastructure** | | | | | | | | |
| Unitech | 0.02 | 0.05 | 13.2 | 18.47 | 1.56 | 24.66 | 17.04 | 12.12 |
| JP Associates | 0.15 | 0.47 | 14.35 | 1.92 | 9.48 | 15.66 | 21.99 | 5.2 |
| DLF | 3.99 | 5.34 | 42.49 | 0 .74 | 15.62 | 22.84 | 30.99 | 15.1 |
| Relinfra | 0.10 | 0.35 | 15.34 | 0 .45 | 3.48 | 10.57 | 15.93 | 46.04 |
| **Automobile** | | | | | | | | |
| Hero Honda | 0.04 | 0.13 | 9.27 | 0 .04 | 43.86 | 32.41 | 15.52 | 48.47 |
| Maruti | 0.22 | 0.11 | 9.34 | 0 .11 | 27.38 | 20.56 | 9.78 | 59.91 |
| M&M | 0.14 | 0.03 | 9.45 | 0 .60 | 16.74 | 25.51 | 29.1 | 46.15 |
| Tata Motors | 0.08 | 0.06 | 6.96 | 0 .80 | 21.54 | 25.98 | 32.51 | 52.63 |
| **FMCG** | | | | | | | | |
| Marico | 0.15 | 0.23 | 9.06 | 1.09 | 35.68 | 51.17 | 32.54 | 2.35 |
| Dabur India | 0.20 | 0.26 | 15.06 | 0 .03 | 71.48 | 61.58 | 47.86 | 3.67 |
| United Spirits | 0.14 | -0.37 | 9.82 | 0 .58 | 19.28 | 15.48 | 5.66 | 29.62 |
| Colgate | 0.14 | 0.45 | 15 | 0 .03 | 164.65 | 142.84 | 98.24 | 17.04 |
| **Pharmaceuticals** | | | | | | | | |
| Cipla | 0.18 | 0.05 | 16.43 | 0 .15 | 19.73 | 18.72 | 25.92 | 9.02 |
| Pfizer | 0.00 | 2.21 | 43.75 | 0 | 25.21 | 52.48 | 28.32 | 113.58 |
| Sun Pharma | 0.42 | 0.61 | 31.01 | 0.02 | 4.6 | 24.09 | 25.11 | 48.96 |
| Dr. Reddy's Lab. | -0.12 | -0.56 | 13.57 | 0 .10 | 11.04 | 9.87 | 15.52 | 28.26 |
| **Information Technology** | | | | | | | | |
| Infosys | 0.19 | 0.20 | 27.37 | 0 | 36.79 | 33.13 | 49.77 | 78.15 |
| Wipro | 0.28 | 0.08 | 17.19 | 0 .33 | 24.07 | 26.51 | 33.47 | 20.96 |
| TCS | 0.33 | 0.20 | 14.35 | 0 | 45.59 | 41.34 | 35.55 | 46.07 |
| Tech Mahindra | 1.30 | 3.99 | 9.01 | 0 .08 | 63.42 | 26.51 | 23.97 | 5.38 |

Source: Compiled from annual reports of companies

export earnings of our IT companies. But sharp depreciation of the rupee helped them to compensate in aggregate what they lost due to the crisis in the global market. Cost reduction programmes implemented by them, mainly through downsizing of their workforce made better their profitability during the recession period. Thus, from the analysts' perspective, the crisis did not affect the profitability of the IT industry in India. EPS improved, while their financial solvency remained unaffected. However, dividend yield of investments in their stocks declined. Increased amount of ploughing back of profits accumulated their net worth, which in turn reduced their return on net worth.

❖ **Realty and Infrastructure :** The Real Estate sector in India proved to be a major victim of the economic slowdown. Even though the sales in this sector increased marginally, its earnings witnessed a drastic fall throughout the crisis period. Because of the increased interest cost and reluctance on part of the lending institutions to advance property loans, the demand for houses reduced significantly, and property prices across India registered a 15 to 20 percent fall. Real estate companies slashed their property prices as a strategy for sales promotion, and as a way to get away from

**Table 6: Financial Performance of the Selected Companies in 2008-09**

| Industry | Sales growth | Earnings growth | Profit margin(net) | Solvency ratio | ROI | Return on Net Worth | Dividend yield | EPS |
|---|---|---|---|---|---|---|---|---|
| **Banking** | | | | | | | | |
| BOI | 0.34 | 0.18 | 15.89 | 16 | 1.92 | 25.51 | 16.34 | 57.26 |
| SBI | 0.31 | 0.36 | 12.03 | 12.81 | 1.82 | 15.74 | 22.9 | 143.67 |
| UBI | 0.25 | 0.24 | 12.88 | 19.66 | 1.52 | 24.47 | 17.11 | 34.18 |
| PNB | 0.37 | 0.51 | 13.76 | 15.96 | 2.15 | 23.52 | 23.86 | 98.03 |
| **Reality &Infrastructure** | | | | | | | | |
| Unitech | -0.29 | -0.28 | 12.88 | 19.66 | 1.52 | 24.47 | 17.11 | 4.56 |
| JP Associates | 0.45 | 0.47 | 14.55 | 2.04 | 9.23 | 14.5 | 15.9 | 7.58 |
| DLF | -0.49 | -0.40 | 40.36 | 0 .78 | 8.01 | 12.5 | 23.79 | 9.08 |
| Relinfra | 0.52 | 0.05 | 10.73 | 0 .65 | 2.4 | 10.81 | 16.19 | 50.38 |
| **Automobiles** | | | | | | | | |
| Hero Honda | 0.19 | 0.32 | 10.3 | 0 .02 | 45.18 | 33.72 | 21.94 | 64.19 |
| Maruti | 0.15 | -0.30 | 5.72 | 0 .07 | 18.95 | 13.04 | 9.7 | 42.18 |
| M&M | 0.16 | -0.24 | 6.22 | 0 .77 | 11.77 | 16.03 | 37.29 | 30.6 |
| Tata Motors | -0.11 | -0.51 | 3.77 | 1.06 | 6.75 | 8.09 | 34.52 | 19.48 |
| **FMCG** | | | | | | | | |
| Marico | 0.22 | -0.01 | 7.35 | 0 .84 | 39.83 | 38.64 | 32.84 | 2.33 |
| Dabur India | 0.15 | 0.18 | 15.44 | 0 .19 | 50.33 | 51.2 | 47.41 | 4.32 |
| United Spirits | 0.30 | -0.05 | 7.22 | 0 .62 | 12.78 | 9.56 | 8.51 | 31.06 |
| Colgate | 0.15 | 0.25 | 16.21 | 0 .02 | 148.87 | 134.17 | 82.05 | 21.34 |
| **Pharmaceuticals** | | | | | | | | |
| Cipla | 0.25 | 0.11 | 18.41 | 0 .04 | 24.59 | 20.69 | 27.22 | 9.99 |
| Pfizer | 0.00 | -0.12 | 37.59 | 0 | 17.84 | 33.25 | 14.59 | 100.24 |
| Sun Pharma | 0.17 | 0.25 | 31.43 | 0 | 1.56 | 24.56 | 26.33 | 61.09 |
| Dr. Reddy's Lab. | 0.20 | 0.30 | 13.2 | 0 .12 | 12.84 | 10.66 | 21.94 | 33.29 |
| **Information Technology** | | | | | | | | |
| Infosys | 0.29 | 0.25 | 27.52 | 0 | 38.78 | 32.67 | 27.03 | 101.58 |
| Wipro | 0.23 | -0.03 | 14.14 | 0 .40 | 27.14 | 23.76 | 23.05 | 20.3 |
| TCS | 0.24 | 0.04 | 14.55 | 0 | 44.64 | 35.13 | 34.2 | 47.92 |
| Tech Mahindra | 0.31 | 2.03 | 22.54 | 0 | 66.47 | 52.45 | 5.78 | 81.05 |

Source: Compiled from annual reports of companies

| Table 7:Inferential Analysis of Sales and Earning Position of the Companies - Paired t- test | | | | | | |
|---|---|---|---|---|---|---|
| | Revenue changes | | | Earnings changes | | |
| | t value | df | Sig (two tailed) | t value | df | Sig (two tailed) |
| **2007 and 2008** | | | | | | |
| Banking | 3.316 | 9 | 0.009* | 2.88 | 9 | 0.01* |
| Real estate & Infra | 2.211 | 9 | 0.05** | 1.03 | 9 | 0.327 |
| Pharmaceuticals | 1.545 | 9 | 0.157 | -1.81 | 9 | 0.1*** |
| Automobiles | 1.75 | 9 | 0.1*** | -2.1 | 9 | 0.05* |
| Information Technology | 2.83 | 9 | 0.02** | -1.15 | 9 | 0.88 |
| **2008 and 2009** | | | | 1.76 | 9 | 0.1*** |
| Banking | 2.539 | 9 | 0.03** | 2.147 | 9 | 0.05** |
| FMCG | 3.324 | 9 | 0.00* | 3.324 | 9 | 0.00* |
| Real estate & Infra | 0.632 | 9 | 0.543 | 2.08 | 9 | 0.05** |
| Pharmaceuticals | 3.18 | 9 | 0.01* | 1.15 | 9 | 0.27 |
| Automobiles | 0 | 9 | 1.00 | 1.38 | 9 | 0.2 |
| Information Technology | 2.31 | 9 | 0.04** | 1.83 | 9 | 0.09*** |
| **2007 and 2009** | | | | | | |
| Banking | 3.25 | 9 | 0.01* | 2.65 | 9 | 0.026** |
| FMCG | 2.74 | 9 | 0.02** | 2.73 | 9 | 0.02** |
| Real estate & Infra | 2.57 | 9 | 0.03** | 1.47 | 9 | 0.18 |
| Pharmaceuticals | 2.88 | 9 | 0.02** | 1.25 | 9 | 0.24 |
| Automobiles | 0.9 | 9 | 0.391 | 1.47 | 9 | 0.18 |
| Information Technology | 2.59 | 9 | 0.03** | 2.05 | 9 | 0.07*** |

*Significant at 1 percent level,**Significant at 5 percent level,***Significant at 10 percent level

Source: Compiled from annual reports of companies

their liquidity crisis. As a result of this, the profit profile of the companies under this sector was negatively affected. Most of these companies resorted to the practice of using leveraged capital for financing their assets. Such leveraging brought in increased fixed cost obligations for the corporates, by way of interest on capital. This financial charge consumed a significant portion of their trade surplus and for pulling themselves out from such a critical situation emanating from the crisis, some real estate companies like Unitech disposed their assets worth ₹ 8500 crores, and used the proceeds for redemption of their debt. As the real estate sector in India is still overvalued, the monetary measures taken by the Government of India for reviving the sector did not prove to be significantly beneficial in reviving this crisis shattered sector.

❖ **Automobile :** Even though the sales of the automobile companies in India increased slightly, they showed a steep decline in their earnings during the period of crisis. The Government of India announced a 4 percent cut in the excise duty for stimulating certain sectors, including automobiles, and the companies passed this benefit on to their customers through slashed vehicle prices. However, this step did not prove to be quite helpful for the companies, and automobile sales in India remained under pressure. Meanwhile, financial institutions and banks were slowly cutting back on credit provided to customers for the purchase of automobiles. This again made the situation more critical. But if we take the financial performance of leading automobile companies such as Maruti, Bajaj, Hero Honda (now Hero MotoCorp) etc. in isolation, they attained a remarkable growth in their sales and continued with the same trend. Average monthly sales of Maruti for the last few months had been at an all-time record high of more than 100000 units per month, and Hero MotoCorp produced 14000 motor cycles per day. All these data are an indication of the recovery of the auto industry from the crisis. However, the situation of HMV and MMV sectors were pathetic.

❖ **FMCG :** The FMCG sector in India seems to be not much affected by the crisis. Its sales as well as earnings received significant growth during the past three years. The growth of this industry is mainly driven by domestic demand and consumption, which remained unaffected by the global financial turmoil. Moreover, this industry is heavily capital intensive and has a relatively lower fixed cost component in its cost structure (lower operating leverage), which helped the FMCG companies in cushoning their income from fluctuations in their sales volume. Sales and profit position of all the ten companies observed in this study were going up during the crisis period. Companies could consolidate their EPS and were able to keep the dividend pattern constant . Trend of Return on Net Worth indicates that investors of this sector found their investments to give profitable returns.

❖ **Pharmaceutical :** The Pharmaceutical companies in aggregate were able to grow more rapidly and maintain sustainable growth, especially during the financial year ended 2009. Like FMCG firms, most of the pharma companies were able to achieve significant growth in their sales. But the pattern of growth in their earnings was not symmetric. When some companies like Cipla, Lupin Pharmaceuticals, etc. were able to make consistent earnings, the earnings of Biocon, Dr. Reddy's Laboratories, etc. shrunk considerably throughout the period. On account of this, other financials such as EPS, Dividend Yield and Return on Net Worth of these companies also showed a negative trend during this period. These findings pinpoint that the Pharmaceutical industry - normally labeled as 'defensive' to the changes in economic cycles - proved not to be strictly defensive during the days of the present global mayhem.

## Conclusion

It could be perceived from the present paper that the Indian economy has had a dualistic performance. Some sectors of the economy like Banking and FMCGs did well, even in crisis. Perseverance of prudential policies for achieving financial stability in the country, as demanded by the Central bank, prevented banks and other financial institutions in the money market from taking excessive credit risks, which cushioned the Banking sector in India from the ongoing turmoil in financial markets of advanced economies. Domestic market orientation and not being very capital-intensive are among the factors that insulated the FMCGs sector from the downturn. But rising input prices, inflation, and increased commoditization of products are forcing FMCG companies to adopt new strategies to have viable business propositions.

Sectors like Construction and Infrastructure are lagging behind on account of their extreme exposure to domestic as well as the global economic forces. Moreover, the degree of shock exerted by the global financial turmoil on the performance of the Indian corporate sector is not the same. When some companies under a particular sector were severely hit by the crisis, some others could unshackle themselves from it due to their strong fundamentals. Over the last few years, India clocked an unprecedented 9 percent growth, driven largely by domestic consumption and investment, even as the share of net exports has been rising. The increasing trend in dominance of the service sector in making contribution to total GDP of the economy, and the availability of rich human capital in the country helped India to keep up its economic growth. India's growth will continue and even if there is some moderation, it will be a modest moderation. But it will not be a recession and there will only be a slight deceleration. However, India has to balance the concerns of maintaining price stability and sustaining growth. Once the global economy begins to recover, India's turnaround will be sharper and swifter, powered by its strong economic essentials. But the pace of recovery is decided more by the efficient working of regulatory mechanism of its financial system.

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