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IMPACT OF COVID-19 ON THE INDIAN ECONOMY

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ABSTRACT

COVID-19 is an unfolding event bringing uncertainty in every aspect of the society. The safety of the people is the utmost priority. So is continuity of business and providing consistent and transparent financial reporting to stakeholders. As the coronavirus pandemic continues to wreak havoc across the globe disrupting lives and economies, various industries are grappling with the challenges posed by this unforeseen health menace. The global outbreak of coronavirus has adversely impacted business models, supply chain networks, and jeopardized business continuity operations. The UN Conference on Trade and Development states that the coronavirus can cost the global economy close to US$ 2 trillion. The potential impact of this crisis on the Indian economy is yet to be ascertained as the economic activity continues to slide. Both the corporate sector and manufacturing units will suffer due to the pandemic because their working capital gets chocked due to the standstill of work across sectors. With the burden of the working capital, they would also have to pay salaries to their employees. Doing so would strengthen the employee's loyalty, and the Government also suggests the companies not to cut their salary. Except for a few industries, everything will suffer.

KEYWORDS: indian economy, pandemic impact, sector analysis, bank liquidity

JEL CLASSIFICATION: E50, D00, E00

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1. INTRODUCTION

Banks are not as uncovered as the corporate sector during the initial stage of the pandemic; the strain on lenders could ultimately be profound. Banks face a second-order hit compared to the corporate and household sectors. Banks in the country are likely to witness a spike in their non-performing assets ratio by about two percent, and very recently, RBI has announced repayment moratorium for three months for its outstanding loans. As a result, all Indian Banks' NPAs will increase immediately, but in the long run, it may not be a problem.

Demand Side Impact

The travel industry, Hospitality, and Aviation are among the most exceedingly awful influenced divisions that are confronting the greatest brunt of the current emergency. Closing of cinema theatres and declining footfall in shopping complexes have affected the retail sector by impacting the consumption of both essential and discretionary items. Consumption is also getting impacted due to job losses and a decline in income levels of people, particularly the daily wage earners due to slowing activity in several sectors, including retail, construction, entertainment, etc. With widespread fear and panic now increasing among people, the overall confidence level of consumers has dropped significantly, leading to the postponement of their purchasing decisions. Travel restrictions have severely impacted the transport sector. Hotels are seeing large scale cancellations not only from leisure travelers but even business travelers as conferences, seminars, and workshops are getting canceled on a large scale.

Supply Side Impact

On the supply side, the shutdown of factories and the resulting delay in the supply of goods from China has affected many Indian manufacturing sectors, which source their intermediate and final product requirements from China. Few sectors like automobiles, pharmaceuticals, electronics, chemical products, etc. are facing an imminent raw material and component shortage. This is hampering business sentiment and affecting investment and production schedules of companies. Besides having a negative impact on imports of important raw materials, the slowdown in manufacturing activity in China and other markets of Asia, Europe, and the US is impacting India's exports to these countries as well.

Some sectors got benefited through the crisis. These sectors are utilities, Pharma, diagnostics, consumer goods, and durables, agrochemical and fertilizers

2. SECTORIAL ANALYSIS

IMPACT ON BANKS

Digitalization of the Banking sector in India due to COVID-19

Banking services in India are classified under the essential services list. Banking and financial institutions were under immense pressure to ensure business-as-usual amidst the lockdown and health crisis.

Banking operations such as cash deposits, withdrawals, clearing of cheques, and other traditional teller services had to be executed by maintaining a safe distance of at least a meter.

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Social media was abuzz with a bank employee's effort to handle cheques with tongs and sanitize them with a steam iron.

The immediate learnings from the current COVID-19 situation will add the much-needed rigor towards digitizing and optimizing the bank's backend operations. This will eliminate the dependency on manual entries, person-led reviews, i.e., paper and employee intervention within banks.

When the COVID-19 situation is past us, it is expected that the Indian Banks will shift gears to move away from traditional forms of banking. The traditional banks will stand the opportunity to leapfrog adopting cutting edge banking technologies and blaze the digital transformation trail. Currently, 27 of the Indian public sector (PSU) banks are on a path of consolidation to 10 large banks. It is an opportune time for the PSU's to explore better technology integration and customer adoption.

Other Indian banks (both public and private), which are already online with some core banking functions, will focus on a complete transition by the digitization of all their functions, processes, and systems. They also wanted to start the new technologies of Fintechs.

The COVID-19 situation will not only accelerate the adoption of technology but will renew focus on the following four key areas of banking:

Embracing neo technologies: In the aftermath of the pandemic and economic uncertainties, emerging technologies will play a key role in speeding up transactions and reducing costs for banks. The Indian banking sector has already realized the role of technology in achieving the reach and scale.

The authors foresee higher rates of adoption of microservice architecture by dropping vertically integrated stacks, APIs, containerization, cloud computing, AI, and blockchain. These technologies will play critical roles in the digital transformation of Banks and Financial Institutions and re-imagine digital delivery of services.

Channels of digitization: As per the 2017 global index report by the World Bank, India is home to the world's second-largest unbanked population at 190 million adults without access to a bank account. With increased penetration of mobile and Internet, the primary focus would accelerate technology-enabled digital financial inclusion.

The business focus would also be to create a gradual shift in customer preference from visiting bank branches to using digital channels. Banks will enable its customers to interact over multiple automated and digital channels to offer the optimal channel mix. Banks will consider important factors such as demographics, access to the internet, last-mile connectivity, customer banking behavior patterns, etc. to enable effective adoption by the Indian banking consumers.

Security, privacy, and customer trust – According to RBI, for the financial year 2017-18, India's banking sector witnessed a spike in cyber frauds and pegged the losses at $ 13.7 million. With the increased use of cashless and digital economy, it will be imperative for banks to implement secure frameworks and systems. Some of the obvious cyber risks include financial frauds, money laundering, data loss, identity thefts, and privacy breaches.

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Banks need to take stringent steps to identify both internal and external system vulnerabilities. They should be technically strengthened by rigorous KYC, strong customer authentication (SCA), financial grade APIs, firewalls, smart networks, etc., for secure and seamless transactions. Robust banking solutions and cybersecurity initiatives help safeguard against malicious attacks.

Policy and compliance – The focus should be on increased digital payment infrastructure, especially in rural India, to create a financial ecosystem for the unbanked and underbanked population of our country.

From a security and privacy standpoint, India is already on its path to introduce the Personal Data Protection bill (PDP) on the lines of GDPR in the EU. This bill protects the personal information of consumers, including sensitive financial information. It would be in the best interest to implement stringent penalties on erring entities found in violation of the bill.

India's banking revolution can be further catalyzed by the introduction of the open banking directive on the lines of the UK and the EU.

The COVID-19 impact on the global and Indian financial systems will be phenomenal and multifold. It is important to take the long view and prioritize accordingly. For Indian banks, particularly, resilience, driven by digital agility, is a way to achieve relevance and success on the other side of COVID-19.

3. COVID-19 IMPACT ON FINANCIAL STATEMENTS

COVID-19 has already had a significant impact on the global financial markets, including India, and it may have accounting and reporting implications for many entities. As Coronavirus continues to spread, and more information comes to light, the BFSI sector, with March 31, 2020, year-ends, needs to consider this impact on their business and in their financial statement reporting. COVID-19 may impact the BFSI sector in a significant way, particularly in their financial reporting for entities that follow Indian GAAP as well as the entities that follow Ind AS.

The RBI has given certain waivers to the borrowers, which include moratorium to pay principal and interest with relaxation on their classification as a non-performing asset or a restructured asset. This has been implemented to help borrowers' tide over temporary financial difficulties. However, banks will have to identify and monitor borrowers who are facing temporary and long-term financial difficulties. Such borrowers will be provisioned accordingly. Due to the pandemic, it might become too cumbersome or difficult for banks to determine the extent and adequacy of collaterals available with them and the subsequent provisioning. There may be additional disclosures required in the financial statements and the computation of capital adequacy for COVID-19. Banks would, therefore, be required to maintain robust risk management functions and track their borrowers individually to determine and segregate the permanent impact from the temporary impact and make appropriate provisions. We have mentioned below some of the key areas that merit consideration:

ISBN: 978-81-946245-3-0

4. LIQUIDITY PROBLEM OF BANKS

Given the situation of the lockdown in the country, the defaults may have increased substantially, as many companies would have lost revenue for a long time. An increase in defaults is likely to cause issues in liquidity and capital adequacy. However, the RBI has come up with specific measures to provide liquidity to all the lending institutions. This include

Auctions of targeted long-term repos operations of up to three years tenor of appropriate sizes at a floating rate linked to the policy repo rate to be deployed in investment-grade corporate bonds, commercial papers and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020 (50 percent from primary market issuance and 50 percent from the secondary market including from mutual funds and non-banking finance companies).

Reduction of Cash Reserve Ratio (CRR) of all banks by 100 basis points to 3 percent of the net demand and time liabilities with effect from the reporting fortnight beginning March 28, 2020. This dispensation is available for one year ending on March 26, 2021, and will release liquidity symmetrically benefitting banks.

The requirement of minimum daily CRR balance maintenance has been reduced from 90% to 80%, effective from the first day of the reporting fortnight beginning March 28, 2020. This one-time dispensation is available up to June 26, 2020.

Under the Marginal Standing Facility (MSF), RBI has permitted banks to borrow overnight at their discretion by dipping up to 2 percent into the Statutory Liquidity Ratio. This limit has been increased to 3% with immediate effect. This measure will be applicable up to June 30, 2020.

The central bank has widened the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 basis points (bps) lower than the policy repo rate. The MSF rate would continue to be 25 bps above the policy repo rate. Further, consequent upon the widening of the LAF corridor, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0%. The widening of the corridor between the reference rates is expected to ease short-term volatility and bring stability to money markets.

The policy repo rate has also been reduced under the LAF from 5.15% to 4.40% (i.e., by 75 basis points) with immediate effect. Accordingly, the MSF rate and the bank rate to stand reduced from 5.40% to 4.65%. The above advantages would be offset by the moratorium being allowed to the borrowers. On an overall basis, there would be liquidity in the banking system. However, this may impact the banks in the following ways:

The reduced minimum daily Cash Reserve Ratio (CRR) maintenance to 80% would allow banks to use excess money in certain days. However, aggregate CRR will have to be maintained on an overall basis. Accordingly, the banks are required to have adequate processes in place to ensure that excess funds are used only for short-term purposes to maintain the overall CRR.

The banks may need to set up sufficient processes to ensure that these funds from the targeted long-term repos are deployed only in the allowed investments. The management of the bank will have to ensure that the bank manages the duration of the investments based on the

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borrowings under the long-term repos to avoid any asset-liability mismatches. Banks need to analyze its impact on the Net Demand and Time Liabilities (NDTL) computations as well as the capital requirements. Though not specifically mentioned, these amounts would need to be disclosed separately. In addition to the above, the Banks would be required to analyze the credit risk appropriately as Income Recognition, and Asset Classification (IRAC) norms would apply to the investments.

Given the unpredictability of the potential impact of the outbreak of COVID-19, there may be material uncertainties that cast significant doubt on the entity's ability to operate under the going-concern basis. If the entity prepares the financial statements under the going-concern assumption, it will be required to disclose these material uncertainties in the financial statements to clarify that the assumption is subject to such material uncertainty. The degree of the consideration required, the conclusion reached, and the required level of disclosure will depend on the facts and circumstances in each case. This is because not all entities will be affected in the same manner and to the same extent. Significant judgment and continual updates to the assessments until the date of issuance of the financial statements may be required, given the evolving nature of the outbreak and the uncertainties involved. Further, the BFSI sector in India will need to ensure that effective processes are in place to identify and disclose material events such as bankruptcies of the borrowers or the impact on lending portfolio due to liquidity or business issues in particular sectors such as real-estate, Small and Micro Enterprises (SME), etc. after the reporting period

5. HEDGING STRATEGIES

Business transactions may be postponed or canceled, or they may occur in significantly lower volumes than initially forecasted due to COVID-19 lockdown. If an entity has designated a transaction such as the expected issuance of debt, as a hedged forecasted transaction in a cash flow hedge, the entity will need to consider whether the transaction is still a highly probable forecasted transaction. This includes whether the volume or amounts involved will be lower than how they were forecasted or whether there is uncertainty on the duration of the forecasted transaction. Currently, increased volatility and decline in prices across many asset classes have impacted the trading books of banks, and consequently, the capital allocated to address such market and counterparty credit risks. Firms will need to consider how quickly they can adjust their hedging strategies across forex, commodities, equities, or fixed income as the COVID-19 situation evolves. The offshore Indian Rupee (INR) derivative market such as the Non-Deliverable Forward (NDF) market has been growing rapidly in recent times. At present, Indian banks are not permitted to participate in this market. However, RBI, in consultation with the Government, has permitted banks in India that operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from June 1, 2020. This decision allows banks to participate through their branches in India, their foreign branches, or through their IBUs. This was a long-standing demand of the industry and had the potential to help in removing segmentation between offshore and onshore markets for banks with an international presence at this juncture and allow better price discovery and forex risk management.

ISBN: 978-81-946245-3-0

6. ADVERSE IMPACT ON SPECIFIC LOAN COVENANT RATIOS BEING TRIGGERED

Given the current crisis and its impact on capital markets and businesses across, banks and NBFCs will face clients who are potentially experiencing stressed financial conditions, including deterioration of their credit ratings and credit quality. In certain cases, there is a likeliness of borrowers to breach certain covenants linked to ratios like the current ratio, profitability ratios, return on equity (ROE), debt coverage ratios, etc. In some cases, the breach of the covenant could lead to the classification of a loan as a non-performing asset.

7. IMPACT ON NBFCS

Due to the significant change in the market conditions, firms may have to revisit their business model assessment for their existing financial instruments. In case the sale of loans or investments is due to an increase in credit risk, then it would be consistent with the business model objective hold to collect as the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows and the sale is triggered due to significant deterioration in the market condition or counterpart specific credit risks problem. However, the entity may have to assess the business model of such financial assets/ instruments which it plans to sell.

There might be large-scale business disruptions that can potentially give rise to liquidity issues for certain entities. This might also have consequential impacts on the credit quality along the supply chain.

The deterioration in the credit quality of loan portfolios due to the outbreak will have a significant impact on the expected credit loss (ECL) measurement. To compute ECL, companies need to keep the following specific factors in mind:

1. A case by case ECL impact would need to be done industry-wise given the varying degree of COVID-19 impact across various industries that constitute the borrower population.
2. Entities should carefully assess the extent to which the high degree of uncertainty and any sudden changes in the short-term economic outlook is expected to affect the life of their financial instruments. It is important to remember IND AS 109/IFRS 9 has always been based on a set of principles that, by nature, are not mechanistic and offer a certain degree of flexibility. Greater emphasis may be attributed to a long-term stable outlook, as evidenced by past experiences, and to the relief measures granted by regulatory authorities.
3. Macro-economic factors will be a key input in computing ECL since the RBI, and the Finance Ministry has introduced several measures in this regard.
4. Thirty-days norm may not be enough for a stage's classification. There may be a need for firms to consider qualitative criteria. If the payment terms are extended, considering the current economic circumstances, the terms and conditions of the extension will have to be assessed to determine their impacts on the ECL estimate along with any other accounting impacts. For Example, if the payment terms of a receivable are extended from 90 days to 180 days, this would likely not be considered a substantial modification of the receivable. However, such extension is expected to result in an increase in the probability of default (PD), which would, in turn, affect the measurement of ECL.

5. Valuation of collateral in determining the loss given default (LGD) needs to be considered considering the impact of the outbreak on the values of collaterals and guarantees (e.g., shares or bonds prices, real-estate values and the credit standing of a guarantor(s)). Besides these factors, entities will also be required to assess and apply significant judgments. They will have to update their macroeconomic scenarios and consider the use of top-down management overlays to calibrate the ECL risks that are not yet fully captured by their business models. Given the level of uncertainty and the sensitivity of judgments and estimates, disclosures of the key assumptions used, and judgments made in estimating ECL, as well as the impact of any relief measures, is going to be critical.

8. FAIR VALUE COMPUTATION MAY UNDERGO A CHANGE

Indian Accounting Standard113 Fair Value Measurement specifies the measurement date exit price estimate based on assumptions (including those about risks) that market participants would make under current market conditions. The first quarter of 2020 has seen increasing market volatility. On the basis that these are still quoted prices in an active market or are still observable, the increase in volatility should not change the way fair value is measured at the measurement date. In Level 3 where unobservable inputs are significant to the measurement as a whole, incorporating such an increase in volatility into valuation models may pose challenges to reporting entities. When making critical assessments and judgments for measuring fair value, the entity should consider what conditions, and corresponding assumptions were known to market participants. While volatility in the financial markets may suggest that the prices are aberrations and do not reflect the fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly. The concept of an orderly transaction is intended to distinguish a fair value measurement from the price in a distressed sale or forced liquidation. The intent is to convey the present value of the asset or liability at the measurement date, not its potential value at a future date.

9. MARK TO MARKET LOSSES DEPLETING CAPITAL

Given the sizeable portion of NBFCs' loan or investment portfolio may be classified at fair value through other comprehensive income (FVOCI), the MTM losses could potentially wipe out a significant amount of capital resulting in potential breach of capital adequacy norms and may further require capitalization to continue its trading operations.

10. IMPACT ON INSURERS

Insurers are getting impacted in terms of their assets and liability reflected in the balance sheet. This, as a result, threatens their business continuity as well as future growth. The pandemic is an acid test for financial institutions and, more so, insurers as stress that they have tested and scrutinized in their financial risk analysis, operational risk analysis, and business continuity planning. As an impact, insurers can expect to be flooded with general inquiries and claims across multiple different lines, whether that be for health, life, or non-life cover. The following are the specific areas that are likely to be affected in the Indian insurance sector:

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11. MORTALITY CLAIMS

Life and health insurers, while evaluating the impact of COVID-19 on their claims, may consider alternative scenarios that would have led to the spread of the pandemic. This may vary from short-term outbreaks (viz., one to two months) to the medium-term epidemic (viz., up to six months) and longer-term pandemic (viz., effects lasting for around 12 months). Health insurers also need to factor in the capacity of the Indian healthcare system and the effectiveness of actions taken by the Government.

12. LOSS OF PROFIT CLAUSE

Quite a few companies may eye claims under the loss of profit clause in their insurance contracts. This typically covers losses due to factory shutdowns when unforeseen circumstances such as fire or accidents occur. Many companies had taken insurance policies to cover loss arising due to certain unforeseen circumstances, but it is uncertain whether they will be covered for Coronavirus under such policies.

13. FINANCIAL AND CASH FLOW IMPACT

All insurers, including reinsurers in India, will need to evaluate the pandemic's impact on their financial statement and cash flows. This includes:

1. On the asset side, how will ratings and the expected loss in the debt portfolio be affected? What is the likely range of monetary policy responses from RBI, and how will these affect short-term yields? Will, evolving market conditions (e.g., possible contraction of bond issuance and trading volumes) make it feasible to execute an effective reinvestment strategy? How will duration matching/asset and liability management (ALM) objectives be met amidst market uncertainty?
2. On the liability side, what will be the impact of the stretched healthcare system on mortality, which includes deaths due to COVID-19 and otherwise? How will the health, economic, and social impacts of the pandemic affect lapse rates? Broadly, all insurers need to analyze financial and operational risks and their impact on the cost of capital under different economic scenarios, viz., deflationary conditions, economic downturn, or stagflation. Accordingly, these insurers need to define the triggers for remedial management actions under each of these scenarios.

14. IMPACT ON TOURISM & HOSPITALITY

The Federation of Associations in Indian Tourism & Hospitality (FAITH) projected that over 95 percent MSMEs of 53,000 travel agents, 115,000 tour operators, 15,000 adventure, 911,000 tourist transporters, 53,000 hospitality and five lakh restaurants are facing the heat due to lack of cash flows, said the federation. This industry employs an estimated 3.8 crore jobs. Also, the federation representing entities in the tourism, travel, and hospitality industry, has appealed for an immediate relief package from the Government to stay afloat and avoid job losses.

The Indian tourism industry, in 2018-19, handled the business of over 10.5 million foreign tourists, more than five million visiting NRIs, 1.8 billion domestic tourist visits, and over 26 million outbound travelers.

FAITH also reported that the industry is facing its biggest economic challenge with the larger and combined effect of 9/11 and the slowdown of 2009 and estimated bigger effect than the Economic Depression and World War II.

FAITH has further sought a complete deferment for 12 months of all statutory dues payable by the tourism, travel, and hospitality industry at the central, state, and municipal government level without attracting any penal interest.

These would include GST, Advance Tax payments, PF, ESI, customs duties, excise fees, fixed power & water charges and any fees for licenses and renewal at the state level, as part of the relief package.

It has also appealed for an extension of the moratorium period requested by the RBI to 12 months as against three months without any accrued and accumulated interest during this period.

Real estate players from the organized hotel sector have taken loans to fund expansion or renovation. As of January 2020, their total debt outstanding stood at Rs 45,000 crore. Further, in the coming months, fixed costs for the hotels would be anywhere between Rs 12,000 to Rs15,000 crore, as per estimates.

FAITH also added that the Government needs to stimulate domestic tourism by giving a 200 percent weighted reduction of expenses to Indian corporates for undertaking their meeting, conferences, and exhibitions in India. LTA like income tax exemption of up to Rs 1.5 lakh to Indians for undertaking their holidays within the country, these exemptions to be availed against invoices issued by GST registered Indian Tourism service providers.

Hotel room occupancies all over India slumped 67 percent by March 21 (three days before the three-week nation-wide lockdown was announced). They were 12 percent down on March 7, according to research firm STR.

Revenues fell even sharper. By March 21, revenues were 73 percent down, as against 20 percent recorded on March 7 as earnings from food and beverage and events took a hit. Occupancies in April have dipped to between 5-15 percent, according to EIH, the operator of Oberoi and Trident hotels.

However, this time around nearly 90 percent of bookings of hotels and flights for the peak time has been canceled. Cruise bookings for destinations such as Thailand, Singapore, and Malaysia have also been canceled by travelers in huge numbers.

According to the Indian Association of Tour Operators (IATO) estimation, the hotel, aviation, and travel sector together may incur a loss of about Rs 8,500 crore due to travel restrictions imposed on foreign tourists by India for a month. This is also expected to have a negative impact on jobs in the industry.

15. IMPACT ON AVIATION

According to the Indian Brand Equity Foundation (IBEF), the civil aviation industry in India has emerged as one of the fastest-growing industries in the country during the last three years. India is presently considered the third largest domestic civil aviation market in the world. India

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has enhanced the third-largest domestic aviation market in the world and is expected to overtake the UK to become the third-largest air passenger market by 2024.

According to the Credit rating agency CRISIL estimation, the Indian aviation sector, including airlines and airports, will be witnessing revenue losses of ₹24,000–25,000 crore, as air travel remains suspended due to the national lockdown.

CRISIL also reported that the airlines would be the worst-hit, contributing to more than 70% of the losses, or about ₹17,000 crore, followed by airport operators with ₹5,000-5,500 crore, and airport retailers, including retail, food and beverages and duty-free, with ₹1,700-1,800 crore in which this would reverse the trend growth of roughly 11% per annum, which the industry has seen in the past ten years, making it one of the most affected sectors of the economy.

CRISIL also expects that these losses will rise if travel restrictions last longer in hubs such as Mumbai, Delhi, Chennai, and Kolkata and it will take nearly two years for the industry to return to pre-pandemic levels.

As per the International Air Transport Association (IATA) report, the COVID-19 crisis is expected to impact over 29 lakh jobs (2,932,900 to be precise) in India's aviation sector.

A 47 percent decline in the passenger traffic has been noticed in India amid the pandemic crisis. The impact on airlines' revenue would be US$ 11.221 billion, indicating a fall in passenger revenue compared to 2019.

The IATA report shows that airlines in the Asia Pacific region will see the largest revenue drop of US$ 113 billion and a 50 percent fall in passenger demand in 2020 compared to last year.

16. IMPACT ON E-COMMERCE

Intending to prevent community spread of COVID-19, the Government has issued an advisory for social distancing and isolation by asking corporates to allow work from home to their employees. Moreover, several State Governments have imposed city lockdown as a preventive measure. Given the likelihood of such lockdowns being extended to several regions across the country, there could be unintended consequences on the e-Commerce industry as some of their operations get disrupted. This could affect the e-commerce business, especially at a time when there is a surge in demand for home delivery of goods under present circumstances. While there is a need to ensure the safety of all citizens, it is suggested that unintended consequences of any lockdown on the e-commerce industry be looked into.

According to Global Data, a London-based data analytics firm, the coronavirus pandemic will accelerate the growth of India's e-commerce market, pushing it to ₹7 trillion by 2023 in which the growth of Indian e-commerce market has been revised up, considering the positive push due to coronavirus (COVID-19) outbreak.

The e-commerce market in India is set to grow at a compound annual growth rate (CAGR) of 19.6% between 2019 and 2023 as consumers are increasingly shifting to online spending to avoid exposure to disease vectors such as cash and point of sale (POS) terminals, e-commerce payments are set to record a steep increase of 25.9% in 2020.

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While the current lockdown in the country has led to the overall decline in consumer spending, this is being partially offset by a rise in online spending, as wary consumers stay at home and utilize online channels to purchase products. Online payment solutions from the likes of Paytm, Amazon Pay, and Paypal could potentially benefit from the current situation.

India, in lockdown since March 25, has seen easing of restrictions in each successive phase. As a result, e-commerce companies can now deliver non-essentials products barring the so-called Red Zones.

The COVID-19 outbreak will have greater implications on Indian consumers' buying behavior, pushing them to embrace e-commerce. The market is anticipated to continue its growth exceeding the previous forecast levels to reach $98.4 billion in the next four years. Indian Brand Equity Foundation (IBEF) reported that driven by a rise in smartphone penetration, the launch of 4G networks and increase in consumer wealth, the Indian e-commerce market is estimated to grow to $200 billion by 2026 from $38.5 billion in 2017, in which the growth is primarily being led by Flipkart and Amazon India.

In 2019, smartphone shipments in India rose 8% year-on-year to 152.5 million units, making it the fastest-growing market among the top 20 in the world.

Of late, the competition in the digital payments space--the most critical element of e-commerce market--and the race among retailers to tie-up with neighborhood stores have also intensified.

17. IMPACT ON AUTOMOBILES

China accounts for 27% of India's automotive part imports, and major global auto part makers such as Robert Bosch GmbH, Valeo AS, and ZF Friedrichshafen AG have factories located in the Hubei province. Owing to factory closure by companies, they reported delays in the production and delivery of vehicles like Bharat Stage Four (BS-IV) compliant models. These models can now be produced and sold until the end of March this year.

Moreover, the situation has become more precarious after the decision of the Chinese Government to limit all shipments by sea until further notice. Since air shipments are not suitable for Auto Components and forging industries, the Indian OEMs are finding it difficult to plan production beyond the available inventory.

Indian passenger vehicle industry declined 18 percent to 27.75 lakh units sold till the March ended fiscal from the 33.77 lakh units sold until FY'19. The industry declined amid slowing demand though retail sales were open and dealerships sold for most of the fiscal, except for the last 10-days of March 2020.

Most industry pundits are predicting that sales would plummet by another 15-20 percent at least going by the current expected trends and if the festive period turns out to be euphoric on an expected market revival. However, even if that happens, the decline is preemptive on a weaker economy and slowing the demand cycle.

Along with it, the extreme caution expected from the financiers like HDFC Bank, ICICI Bank, or the public sector banks led by the State Bank India that might disburse money with more discretion. Amid a weakening economy, the term loan defaults are likely to rise too. While some automakers with captive finance companies like Daimler Finance, Volkswagen Financial

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Services, Mahindra Finance, or Tata Capital might tide over the crisis with some dedicated help to their respective brands, but it's only a miracle that can keep the industry on a positive side.

According to recent reports of FITCH solutions, vehicle production in India is likely to contract by 8.3 percent in 2020, following an estimated 13.2 percent decline in 2019.

According to CRISIL reports, the domestic industry has inventories for up to 30-60 days, which could help tide over the crisis for the short-term, any shortage of critical components such as printed circuit boards could impair the ability of manufacturers to produce vehicles.

18. IMPACT ON PHARMACEUTICALS

The Indian pharma industry has been a world leader in generics both globally and domestic markets contributing significantly to the global demand for generics in terms of volume. Made-in-India drugs supplied to developed economies such as the US, EU, and Japan are known for their safety and quality.

In recent years, India has seen increasing competition from China, which it has been able to leverage due to its inherent cost advantage, manufacturing intermediates and APIs at a cost much lower than those in India which has resulted in a gradual increase in API imports from China to India and this, in turn, has led to the killing of domestic manufacturing capacity for certain key APIs and their advanced intermediates.

India's large import dependence on China (nearly 70% by value) has become a significant threat to India's healthcare manufacturing and global supply chain. While Indian pharma players over a time period have steadily migrated up the value chain to focus on value-added formulations with higher margins, but this over-dependence on China has increased the threat to the nation's health security as some of these critical APIs are crucial to mitigate India's growing disease burden.

Edelweiss Securities says the novel coronavirus or COVID-19, a pandemic has caused severe supply-side disruptions in various sectors, earnings will be cut by 10-15%. Pharma as a sector has emerged as a strong contender to drive the next leg of the rally, whenever it comes. In anticipation, pharma stocks have seen an immense run-up in the last ten days. This is not just true for India, but globally too pharma companies have performed well. While in the short term, most companies will bounce back from the last 5 years of underperformance, this time around, the leader will be different.

19. INDIA'S GROWTH PROJECTIONS REVISED DOWN

Given the challenges that the businesses and people are facing currently, the Indian economy is most likely to experience lower growth during the last quarter of the current fiscal. In case the spread of the coronavirus continues, growth may remain subdued in the first quarter of FY 20-21 as well. Most multilateral agencies and credit rating agencies have therefore revised their 2020 and 2021 growth projections for India, keeping in view the negative impact of coronavirus-induced travel restrictions, supply chain disruptions, subdued consumption, and investment levels on the growth of both global and the Indian economy.

Asian Development Bank (ADB): The COVID- 19 outbreak could cost the Indian economy between $387 million and $29.9 billion in personal consumption losses. The projections have been made by ADB under four different scenarios: best-case, moderate-case, worse-case, and a hypothetical worst case. Under the best-case scenario, if the outbreak is contained and the precautionary measures are put on halt after two months from late January, the impact on India will be limited to about US$ US$ 387 million worth of decline in retail sales. Similarly, in a moderate case, the losses will be about US$ 640 million while in a worst-case scenario when the precautionary measures continue for six months, personal consumption expenditure in India can decline by US$ 1.2 billion.

Organization for Economic Co-operation and Development (OECD): As against the forecast made in November 2019, OECD has revised down India's growth forecast by 110 basis points to 5.1% for 2020-21 and by 80 bps to 5.6% for 2021-22. OECD has also warned that global growth in 2020 could come down by 50 bps as compared to what was projected in November last year.

Fitch: Fitch projects that India's gross domestic product (GDP) growth will slip to 0.8 percent for the year April 2020 to March 2021 (FY21) as compared to an estimated 4.9 percent growth in the previous fiscal. Growth is, however, expected to rebound to 6.7 percent in 2021-22.

Moody's: Moody's Investors Service reported India's growth forecast for the calendar year 2020 to 0.2 percent, from 2.5 percent projected in March.

S&P Global Ratings: S&P has projected India's economic growth forecast to 3.5% for the coming fiscal from a previous downgrade to 5.2%.

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