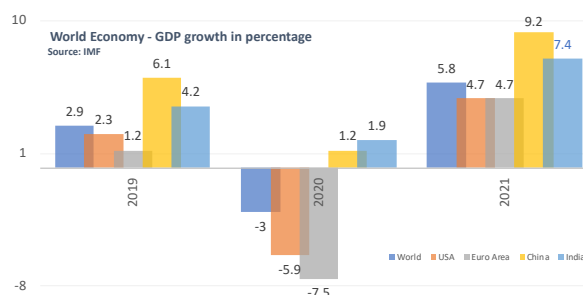


# India's Opportunities Post Pandemic "Covid19"

Manoj K Agarwal,  
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**D**isruption as per Webster dictionary is "the act or process of disrupting something : a break or interruption in the normal course or continuation of some activity, process, etc." While dealing with Disruption in management terms, the decision-makers respond to disruptive events in real time so that the cost incurred by the such disruptive events is reduced to a bare minimum while keeping the company's performance intact or better. Sars-Cov-2 virus which causes Covid19 is now a pandemic which is inflicting huge & rising human costs and has overwhelmed the health facilities even in the rich nations. It has spread now, to more than 160 countries and causing wide spread loss of lives. Many countries have resorted to nation wide long lock-down to stop of the viral spread resulting in huge negative impact on the economic activities. The losses are running into trillion of dollars and worst is that the future outlook seems uncertain. In addition to human lives, the countries are also witnessing change in human livelihood with wide spread loss of jobs/income. Countries did a tremendous work over last several years to alleviate the poverty among their population but last six weeks have brought down years of their hard work going down the drain. Countries (mainly rich) have responded to this pandemic with large fiscal stimulus packages to keep the impact low but poor countries are struggling to provide such fiscal packages. If this needs to be narrated in cause-effect terms then the Countries are chartering into complete "Unkonwn-Unknown" waters. Now let us go back to the definition of Disruption & to check if we need to look for another word for this crisis.

**E**conomy as per International Monetary Fund's (IMF) recent report ie April 2020, is predicting recession ie global economy to go down by -3% in 2020 (+2.9% in 2019) which is much worst than the Global Financial Crisis (GFC) of 2008-09. Please see the chart. The down side is that we are staring at a very challenging year 2020 but the upside is to look forward to year 2021 which is expected to be better. In case of India, we may rise to 7.4% GDP in year 2021 from a dip of 1.9% growth this year. This has lead to a vertical drop in the countries' wealth. Job losses are in free flow. In USA, already 30 million people have filed for job losses with unemployment rates over 12% (from pre-Covid level of 3.5%). In India, as per CMIE latest data, unemployment rate is over 20%. Political & Geo-political risks are on rise. Issues like Rising inequality, Unemployment, corporate Bankruptcies, liquidation & bailouts, Monetary & Fiscal policies etc are on policy makers' mind to deal with.



To sail through the survival during these testing times, most of the countries have announced very large fiscal stimulus from over 10% of GDP, for example, USA announced the fiscal stimulus around 2.7 trillion \$. Euro central bank has extended fiscal stimulus of Euro 750 billion (\$812 billion). The list includes UK (\$500B), Germany (\$600B), China (\$76B) etc. India, in this phase, has announced several measures like various welfare scheme for around 1% of her GDP and Reserve

**India is poised to deal the post Covid19 pandemic more effectively due to stable decisive Government at Center, manageable debt quantum, lower Economy Uncertainty Index and fair food security situation. The governments of those countries where there are no elections scheduled in the near future may respond better to the crisis.**

*The sectors which may find the opportunities may be Health, E-Business, Supply Chain, Oil and Defence.*

Bank of India (RBI) additionally announced financial package over 3.75% of GDP to infuse the liquidity in the financial & business sectors. The further measures are still in working and may come in the coming days or as & when situation demands. *This too shall pass....*

But now comes the harsh reality. Somebody has to pay for this large debt. The numbers are leading to enormous sum. Advanced<sup>1</sup> economies will run an average deficit this year of 11% of GDP and according to IMF, even if the second half of the year sees no more lockdowns. Rich world debt could run to \$66 trn, which might be 122% of the GDP by year's end. India's fiscal deficit has already crossed the stipulated limits (3.5% of GDP) in this unprecedented times to fight the virus and to keep the economy afloat. The situation will be further exacerbated as the govt health care spendings coupled with fiscal stimulus for economy like job losses, financial support etc, will now onwards be enhanced in a bigger way. Renewed demand for Universal Basic Income (UBI) will come back for consideration in the mind of the policy makers.

Handling of such large amount of debt by the Govts in the years to come, would require the various governments to take several measure to get rid of this. Some of the options may be like higher taxation, rolling over of the debt (shifting the problem to future & kind of ever greening leading to vicious cycle), higher inflation (so that the debt valuation comes down over the years and rise of nominal GDP), lower interest rates and reducing welfare economics, cut in public infrastructure projects , expanding economy (so that the debt quantum contracts against the economy over the period of time) etc are few to list. Some of the measures like higher taxation, reducing social welfare economy, higher inflation etc are helpful but lead to a wide spread discontent among the population, for example we have seen the situation with Greece for implementing the austerity measures. However, govt will work on some balancing to make sure the poor strata of the population does not suffer. Defaulting or restructuring the loan again is an option for example, Argentina's continuous several defaults on their bonds leading to an hair cut by the bond holders. However, in this global economy, this option may have a negative country image and really is not an option on the table. Higher inflation although helps to bring down the debt valuation & lead to higher nominal GDP but will hit hard to the public at large. Overall it will be hard for the policy makers to deal with the balancing act in years to come.

Economic Uncertainty Index<sup>2</sup> which measures policy-related economic uncertainty country wise & globally, to construct an index from three types of underlying components. One component quantifies newspaper coverage of policy-related economic uncertainty. A second component

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<sup>1</sup> Economist April 2020

<sup>2</sup> Economic Uncertainty Index by Baker, Bloom & Levis, <https://www.policyuncertainty.com/about.html>

reflects the number of federal tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty. Referring to adjacent

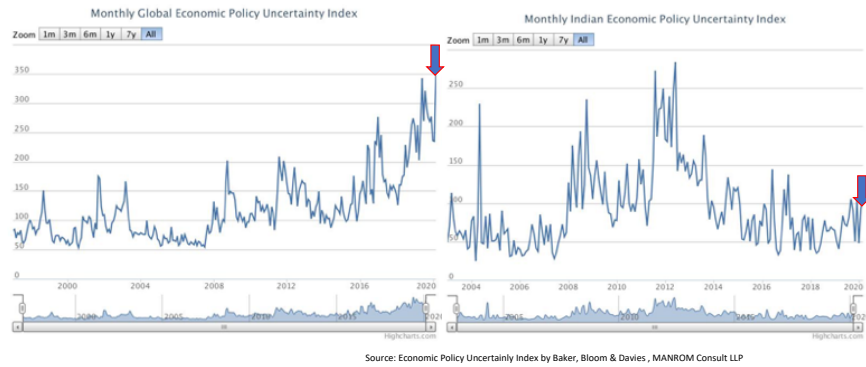
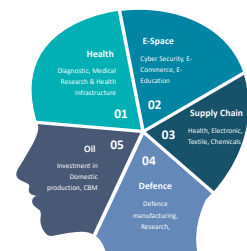


chart for global Economic Uncertainty Index (ECI), it is on rise globally (350) compared to India's ECI at much lower position (100) indicating that India's robustness for Economic Uncertainties. This pegs India at a good pedestal for investment. As per World Bank's Ease of Doing business 2020<sup>3</sup> index, India ranks at 63rd place improving on at very fast pace from its earlier position few years ago. The recent investment of Facebook into Jio platform for \$5.7 billion for 9.9% stake subscribes to the theme. Global uncertainties mainly are mainly driven an year ago with US-China trade tensions, to now with Covid19 blame game. The blame is expanding as other countries joining the pack which is kind of taking globalisation in a reverse gear to nationalisation. This is also quite evident when the countries are having an individual fight with the pandemic rather than united one which is a need of the hour. Role of World Health Organisation (WHO) is intensely debated among the members countries which is causing a wide spread weakening of the institution at this hour.

Another issue for country like India needs consideration, which has a large poor population now even larger, post Covid19 pandemic, is Food security. As per Global Food Safety Index (GFSI)<sup>4</sup>, India ranks as 72 out of 113 countries with Singapore ranking first (best) and Venezuela last (worst). GFSI is arrived by Economist Intelligence Unit by considering four factors ie Affordability, Availability, Quality and Natural Resources & Resilience. India needs to work to improve the index, however in view of over 73 million tonnes of food storage presently and increasing after a recent bumper crop, indicates that this is not a worry.

Time has now come when focus should also be on the Economic activities in addition to the health issues. Despite the imposed crisis due to Corona virus, India is well poised to turn the challenges into her advantages. Some of the suggested sectors which has potential to grow are Health, E- Business, Supply Chain Business, Defence and Oil.

**H**Health sector, post Covid19, will shift to the top most priority sector for the any country including India. We have seen how the rich countries struggled with their health infrastructure in this pandemic. The argument is well taken that they were not geared up for such mammoth level of health emergency. Countries' population will now be more vigilant and will take more interest into the affairs of the health issues from Country level to Company/ Corporation/Office level to Society level to Home level. For example, a company would be required to put in place a defined Health plan & investment for their work force on the likes of say Hazard, Safety & environmental plan. Regular Sanitising & Disinfecting of the places will now be day to day



<sup>3</sup> <https://www.doingbusiness.org/en/data/exploreeconomies/india>

<sup>4</sup> Economist Intelligence Unit 2019 Global Food Security Index December 2019

work. Govt may design for a comprehensive plan inclusive of society as parts on the likes of Hub & Spokes business. While Govt health infrastructures will act a hub (however it needs to expanded many folds) but several spokes will be in working in tandem at different level of society like company/ corporation levels, community levels and even at home level. The huge expansion may be required mainly in the areas like Diagnostic, Medical Research and Health infra-structure. For example, the recent crisis for non-availability of testing kits world-wide would now be planned so that these risks are mitigated. These areas need huge investment & standardisation by the policy makers and need to be percolated to even at the individual level so that the individual on their own may run the first level tests. Govt of India has already taken out a timely in March 2020 notification, allowing Telemedicine by registered medical practitioners to practice under the defined guidelines through online video/chat. The combination of individuals having basic diagnostic kits, along with Telemedicine, may de-stressed the Health infrastructure in a big way. Flagship schemes like Ayushman Bharat may further be expanded to cover more people & more service providers like Telemedicine. Expansion & relocation of the supply chain business ie raw material for Drugs etc will now be on the top of the agenda in the minds of the policy makers for national security reasons as well. Covid19 has brought the urgent need to overhaul & develop the sector offering huge economic investment potential. For example, *on April 21st Adar Poonawalla<sup>5</sup>, boss of the Serum Institute of India, one of the world's largest producers of vaccines, arrived at work full of optimism about a new vaccine for covid-19, created by the Jenner Institute at Oxford University. In normal times the products that Mr Poonawalla manufactures are proven, effective vaccines. They have regulatory approval, and an order has been placed for them. These are not normal times. That morning Mr Poonawalla made a short phone call to his father, Cyrus, who founded the firm in 1966. The pair agreed that the Serum Institute would start mass-manufacturing the vaccine ChAdOx1 nCoV-19 created by Jenner. This is just an example to go a long way.*

India's competitive advantage lies in its large pool of well-trained medical professionals. Ayush ministry is working to provide the alternative medicines like Ayurvedic medicines. India offers cost competitiveness in health compared to its peers in Asia and Western countries. As per the estimates by IBEF Org March 2020 report, the market segment for Health sector was estimated to be over \$350 billion by year 2022. However, this may go further up due to Covid19 impact. The need for a well structured policy keeping Center & states aligned is now a requirement.

**E-Business** is going to further expand into the areas like Cyber security, E- education and E-commerce. Most of us, who had postponed the usage for video conferencing for several years suddenly learnt various technologies & options and got used to it very fast within days. The sectors like consulting, IT etc were least affected due to "work from home" adaption. Post Covid19, this is now going to be a new normal. However, this brings new challenges of cyber security to an individual level now. We have witnessed a rapid rise of the one Video conferencing App recently and then the same loosing the business rapidly due to security concerns. Companies requirements for office spaces may now be revisited as the meetings may turn more into virtual. Hence, cyber security subject which was earlier limited to bigger companies or banks will now come to individual level, hence huge area for growth.

E-education is another area of expansion for present Indian Universities. Online teaching will slowly find a place. Further, with the use the artificial intelligence, a lot can be done in this space. For

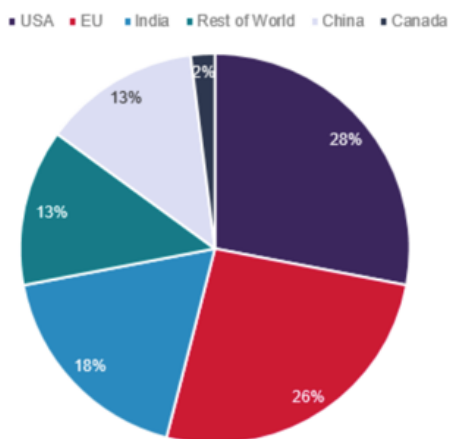
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<sup>5</sup> The Economist April 28 2020

example the lectures can be updated to the latest knowledge with the use of artificial intelligence and machine learning which can read hundreds of journals & magazines to output the latest on a particular topic in matter of few minutes. Universities can be accessed by a large section of students from off line locations without being at campus which in turn may be offering much cost effective education compared to in-campus one. Many of us, during the lock-down, have been ever busy to accumulate and refresh the knowledge. The students are taking the online classes. Some Universities in India are looking into the option of online exams. E- commerce companies like Amazon are growing inspite of many sectors have taken a beat. E-commerce, in India, during the lock-down in India disappointingly could not perform to its full potential but there are lessons to be learnt. Drones option for delivery is not a far off option. Brick & mortar stores in India, are not behind as they are offering the delivery through WhatsApp messages with payment through e-wallets. Local market shops will be jointly collaborating to offer an App specific to neighbourhood communities.

Supply Chain business shifting from China has started in year 2019 due to rising trade tension

**US Pharma Reliant On Foreign Supply Chains**  
Manufacturing Sites Of APIs For US By Country Of Origin, 2019, %

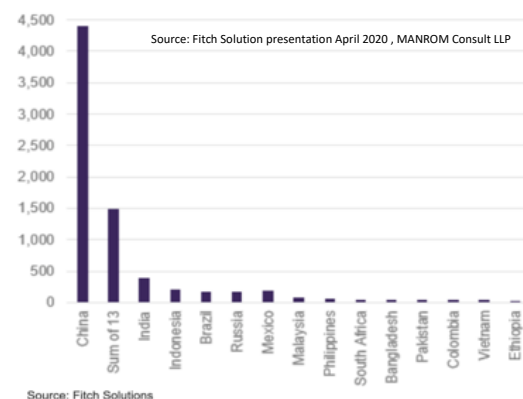


Source: Fitch Solution presentation April 2020 , MANROM Consult LLP

between USA & China. According to Fitch<sup>6</sup>, volumes were contracted by 0.4% in 2019. Countries like Vietnam, Bangladesh, Cambodia, Philippines, Indonesia etc were benefitted with the shift of several industries. According to Fitch webinar April 2020, USA imports 72% Active Pharmaceutical Ingredients (APIs) with EU supplying 26%, India 18% & China 13%. Here, Indian API suppliers have to collaborate with US counter parts to defend their exports. India imports around 70% APIs from China which brings an opportunity for Indian Pharma companies to shift the supply chain to India.

Indian imports from China in year 2018-19, were in the range of \$70 billion and exports were \$ 17 billion. This includes power plant equipments, computers, mobile, Pharma, machine parts etc. In first week of April, Japan announced a stimulus package of USD 2.2 billion for Japanese companies to shift their business from China to other countries. The opportunity for India in this space is huge. However, India needs to tap this by putting concerted efforts to invite such Japanese companies or others to India. According to Fitch, the issue needs a deeper look. As per their data of year 2018, China has 9 times bigger supply chain business compared to India. Referring to the chart adjacent, China has 3 times bigger supply chain business compared to a group of 13 Countries (mainly advanced economy) put together. This shift in supply chain business, may require large investments. The complete shifting may also take 2

**Other Countries Would Face Capacity Constraints**  
Value Of Manufacturing, USDbn In 2018



Source: Fitch Solutions

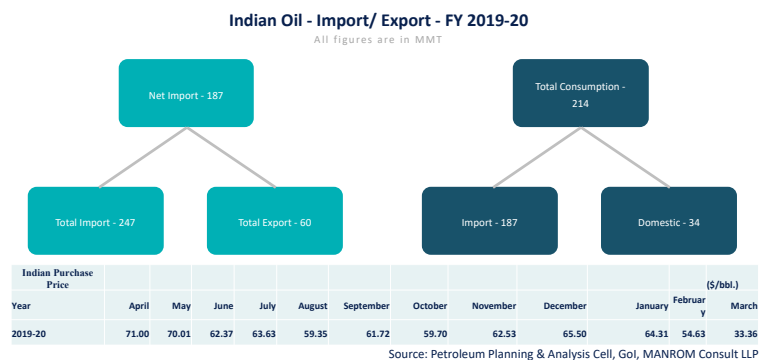
<sup>6</sup> Fitch Solutions Webinar April 2020

to 5 years (?). Additional thoughts have to be given if the shifting leads to higher product cost and even if it is higher does it make sense? However for India, this business opportunity is worth exploring. Policy makers, financial institutions and business houses have to work in tandem with each other to make this happen. This would bring lots of job opportunities into India and overall economic expansion.

The two sectors which could support the above investments as well as in their own sector are Defence and Oil & Gas.

**O**il growth world wide forecast<sup>7</sup> is revised lower to 6.9 mb/d to historic drop of around 6.8 mb/d. As a result, OECD oil demand is revised lower by 3.7 mb/d to decline by 4.0 mb/d, while non-OECD oil demand growth is adjusted lower by 3.2 mb/d to contract by 2.9 mb/d for the year. On the supply side, for 2020, non-OPEC oil supply is forecast to decline by 1.50 mb/d, a downward revision of 3.26 mb/d from the previous projection. The impact of COVID-19, ensuing global economic recession and oil demand shock, will also lead to supply disruptions. Benchmark oil prices plunge, prompted companies to respond by cutting capital expenditure to the lowest in 13 years. The 2020 oil supply growth forecast for the US was revised down by 1.05 mb/d to show a decline of 0.15 mb/d y-o-y. The supply growth for the 10 non-OPEC countries participating in the Declaration of Cooperation has also been adjusted lower. History was created when US WTI quoted as \$(-)37.63 per barrel with settling now at lower of \$ 20 per barrel level. Nobody would have thought this just a month ago. Brent is quoting at \$27 per barrel. Oil tankers are in high seas waiting all over the world raising the storage concerns as demand is vertically dropped.

India's total import in last financial year ie 2019 were at 247 MMT with a basket price purchase ranging from \$71 per bbl in January 2019 to \$ 33 per bbl in Mar 2020. See the summary in adjacent figure. Due to lock-down, the decline in economic activities has led to a vertical drop in demand. The yearly average price works out to be in the range \$



60 per bbl. Post Covid19, as discussed above, this year demand may come down due to lock-down, reduced economic activities, work from home etc. Assuming that the average crude price may hover in the range to \$ 30-35 per bbl (although very hard to predict) with yearly reduced average demand of around 30%, the annual oil import bill may be reduced in the range of \$40 to 50 billion. This reduction may help to use this savings in a) developing new projects for increasing domestic crude oil production and b) supporting other investments into the various other projects like Health care, supply chain shifting, E-business etc. Post Covid19, this is an opportunity which is now only available to the few dominant oil importing countries like India.

**D**efence expenditure globally was \$1917 billion<sup>8</sup> amounting to 2.2% of the global GDP. As per SIPRI report April 2020 (SIPRI is an independent international institute dedicated to research into conflict,

<sup>7</sup> OPEC Monthly Oil Market Report - April 2020

<sup>8</sup> SIPRI report April 2020

armaments, arms control and disarmament), the five biggest spenders were USA, China, India, Russia and Saudi Arabia amount to 62% of global spending and India's spending was around \$70 billion. India's spending as share of its GDP was 2.4% whereas India's share in global GDP is 3.7% thereby suggesting that India's compulsion for defence needs are very high due to its geo-political situation with its neighbours mainly like Pakistan & China.

Post Covid19, world is witnessing a new Geo-political re-alignment. Iran- USA conflict has taken a back seat which was very serious conflict just couple of months ago. Other geo-political conflicts for example Iraq, Libya, Yemen, North Korea etc may also remain in suspension as the countries are busy fighting the Covid19 and the economic need of their countrymen. Country's governments are grappled with so much debt and rising debt, it is expected that the main concentration for any country now will be on issues like, unemployment, rising inequality, public debt management, inflation, GDP growth etc resulting in a pleasant shift from military conflicts.

It is difficult to put a number on this as it is completely dependent of the country's perception on geo-political alignment which is very dynamic in nature. However, the probability for lesser spending is very high. Any saving here can then be planned for a) to develop the projects for domestic defence production and b) to support other development projects for economic growth.

This write-up needs to find an end with one very welcome change because of lock-down among several hardships. The pollution levels are its lowest not seen in last so many years. Blue sky and visibility are its best. Birds are back and chirping. Roads which were full of traffic & honking has taken a break. This month has witnessed average monthly lower temperature compared to the previous years for the same month. Hopefully we can keep this change forever.....

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