

## COVID-19: ITS IMPACT ON INDIAN PHARMACEUTICAL SECTOR AND THEIR MARKET CAPITALIZATION

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### **ABSTRACT**

*The purpose of this study is to examine how COVID-19 outbreak has affected leading pharmaceutical companies share value in India. So, here are some of the leading pharmaceutical companies that have been selected and the selection was purely based on the market capitalization of the companies. The general idea behind this study was the pharmaceutical stocks will move against the general market trend (contrarian effect). The study period was classified into pre-crisis period that is 52 weeks before COVID-19 lock down ,i.e, during the Covid-19 lockdown crisis period and post lock down that is the unlock phase. The data consists of share value of the top selected pharmaceutical companies. This study also signifies that companies like Sun Pharma, Cipla, Alkem Laboratories Ltd with strong brand reputation were seen to be sustaining in the crisis period in spite of the general falling market trend. This paper is strongly an urge for the need of backward integration and improved research and development activities to Indian Pharmaceutical sector for ensuring their sustainable long-run operations.*

### **INTRODUCTION**

Novel Corona virus is a new strain of corona virus. Ever since COVID 19 has struck, markets impend to be under the fear as uncertainty prevails. It has sent markets around the world to be crashing down to levels not witnessed ever before. The stock market has reviewed the sentiments this pandemic unbridled upon investors, foreign and domestic to be similar. Companies have scaled back; layoffs have been multiplied and employee compensations have been affected resulting in insignificant growth in the last couple of months. Certain sectors

such as hospitality, tourism and entertainment have been impacted adversely and stocks of such companies have plunged.

While the world has faced many financial crises in the past and the last one being the global recession of 2008, the current Corona Virus crisis is different from the past fallouts. However, the pandemic has affected the ground of the corporate sector. Payments deferrals, subdued loan growth, rising cases of bad loans and slothful business conditions have damaged the growth and the health of the economic activities. Reduction in the rate of GDP growth, demand-supply chain, cut in flexible expenses has been observed during the lockdown, which has led to the falling in per capita incomes, higher spending in marketing, reduced the cost of travelling and hiring freeze. Companies with pioneering products, increasing supply chain reach, technologically-driven processes and well managed Balance Sheet would revive the escalation force post lockdown

The pandemic has caused global social and economic disruption, including the largest global recession since the Great Depression. This has led to the cancellation or postponement of sporting, religious, political, and cultural events, widespread supply shortages aggravated by panic buying, and decrease in the emissions of pollutants. Universities, colleges and schools have also been shut down on a nationwide basis in 172 countries.

The outbreak of Corona Virus pandemic and the lock down has hit on the industries such as travel, tourism, entertainment, hotels, airline businesses etc which has triggered the financial markets which is clearly visible. Ever since the COVID 19 strike, markets loom under fear as uncertainty prevails. However, pharmaceutical industries play a pivotal role during the period of the outbreak of this pandemic

### **OBJECTIVES OF STUDY**

1. To study the impact of COVID-19 on Indian pharmaceutical industries.
2. To study the growth rate of capital market of Indian pharmaceutical industries during COVID-19.

### **RESEARCH METHODOLOGY**

This paper is a conceptual paper based on descriptive analysis using various secondary data and includes different published sources of data collected from various websites. Various

reports and studies, on capital market of Indian pharma have been referred in the present research. The objective here is to have the very basic idea regarding the impact of COVID-19 pandemic on the Indian Pharmaceutical sector and the capital markets.

### **Covid-19 in CHINA**

The disease had originated from a Wuhan seafood market where wild animals, including marmots, birds, rabbits, bats and snakes, are traded illegally. Corona viruses are known to jump from animals to humans. The Wuhan market was shut down for inspection and cleaning on January 1, but by then it appears that Covid-19 had already started spreading beyond the market itself. On January 21, the World Health Organization declared that the disease was also being transmitted between humans – evidence of which was perceptible after medical staff became infected with the virus.

### **Covid-19 in INDIA**

The COVID-19 pandemic in India as a part of the worldwide pandemic marked its first case of COVID-19 in India in the state of Kerala. The person affected by Corona Virus had a travel history from Wuhan, China and was reported on 30 January, 2020.

On 22 March, the Prime Minister of India Shri Narendra Modi announced for a 14-hour nationwide public curfew. He requested each and every citizen to observe a nation-wide curfew or Janta Curfew on 22 March, 2020 from 7 am to 9 pm. People were urged to not leave the house on that day unless and otherwise it's a case of emergency need. The citizen curfew was a forerunner to the nation-wide lock-down announced on 26 March which was followed by mandatory lockdowns in COVID-19 hotspots and all major cities. Again, on 24 March, the Prime Minister of India ordered for a nationwide lockdown for 21 days, affecting the entire 1.3 billion population of India. On 14 April 2020, the Prime Minister of India extended the lockdown nationwide till 3 May which was followed by two-week extensions starting from 3 and 17 May with substantial relaxations. Since 1st June, 2020, the Government of India has started unlocking the country barring containment zones. The lockdown was justified by the government and other agencies for being defensive to prevent India from entering a higher stage which could make managing very difficult and cause even more losses thereafter.

### **THE IMPACT OF COVID-19 ON INDIAN PHARMA INDUSTRY**

The Indian pharma sector is considered to be the third-largest in the world. It manufactures almost 60 per cent of the vaccines used globally, including important ones, such as those against diphtheria, tetanus, etc, required by the World Health Organisation. Furthermore, the country meets 90 per cent of the global demand for the vaccine against measles. Millions from the world use generic drugs produced by Indian drug manufacturers. More than 250 factories in the country have been approved by the US Food and Drug Administration as well as the UK Medicine and Healthcare Products Regulatory Agency. These manufacture drugs for the markets overseas which include the US and the UK.

Currently, generic drugs are playing a crucial role in the fight against COVID–19. India has been meeting more than 20 per cent of the world and almost 50 per cent of the US’s generic drug requirements. Unfortunately, Indian manufacturers rely extremely on China for key starting materials, and APIs with China catering to nearly 70 per cent of Indian pharmaceutical companies’ requirements. The Indian pharmaceutical sector is considered to be an important factor of the global healthcare infrastructure and is influential in saving millions of lives each year. However, like all other sectors, it too has been affected by COVID–19 that has brought about various changes.

Here are some of the impacts of Covid-19 pandemic upon the Indian pharmaceutical industries discussed below:

**1. INDIA PHARMA’S GLOBAL STANDING:** The Indian pharma industry has been a world leader in generics both globally and in domestic markets contributing significantly to the global demand for generics in terms of volume. Made-in-India drugs supplied to the 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 pull due to its inherent cost advantage, manufacturing intermediates and Active Pharmaceutical Ingredient (APIs) at a cost much lower than those in India which has resulted in a gradual increase in Active Pharmaceutical Ingredient imports from China to India and this in turn has led to killing of domestic manufacturing capacity for certain key Active Pharmaceutical Ingredients and their advanced intermediates.

**2. RISKS FROM INDIA PHARMA’S CHINA LINKAGES:** 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 pharmaceutical players over

a time period have gradually 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 Active Pharmaceutical Ingredients are crucial to mitigate India's growing disease burden.

**3. SUPPLY CHAIN DISRUPTION FOR INDIA PHARMA:** The pharmaceutical companies have faced disruptions due to extended factory closures in China. China, where many other factories have been temporarily shut down due to Corona Virus fears, accounts for a majority of raw ingredients used to manufacture finished drugs. According to the latest data by India's drug regulatory authority, 57 Active Pharmaceutical Ingredients of crucial antibiotics, vitamins, and hormones or steroids could go out of stock in case of a extended lockdown in China. The outburst of COVID-19 has caused possible disruptions to supply or shortages in critical medical products also supply chain disruptions are truly serious issues for our access to drugs.

**4. MAJOR EARNINGS CUTS AHEAD FOR PHARMACEUTICAL FIRMS:** According to Edelweiss Securities, the Novel Corona Virus or COVID-19, 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 challenger to drive the next leg of rally, whenever it comes. In anticipation, pharma stocks have seen a huge run up in the last couple of days. This is just not true for India, but worldwide too Pharma companies have performed well. While in the short term, most companies will bounce back from the last 5 year of underperformance, this time around, the leader will be different.

### **5. COST OF DRUGS AND RAW MATERIALS**

The impact Covid-19 has created in China and the lockdown in India, United States, and other countries, further increases the chances to shoot up in the cost of raw materials and drugs. 13% of the generic and brand manufacturers are based out of China and according to the Food and Drug Administration (FDA), as of 2018, 24% of medicines and 31% of medical ingredients were imported from India.

#### **Example**

The cost of Paracetamol in India has gone up to Indian Rupees 400-450 per kilogram from Rupees 250- 300 per kilogram

The price of vitamins and penicillin have gone up by 40- 50 % in India

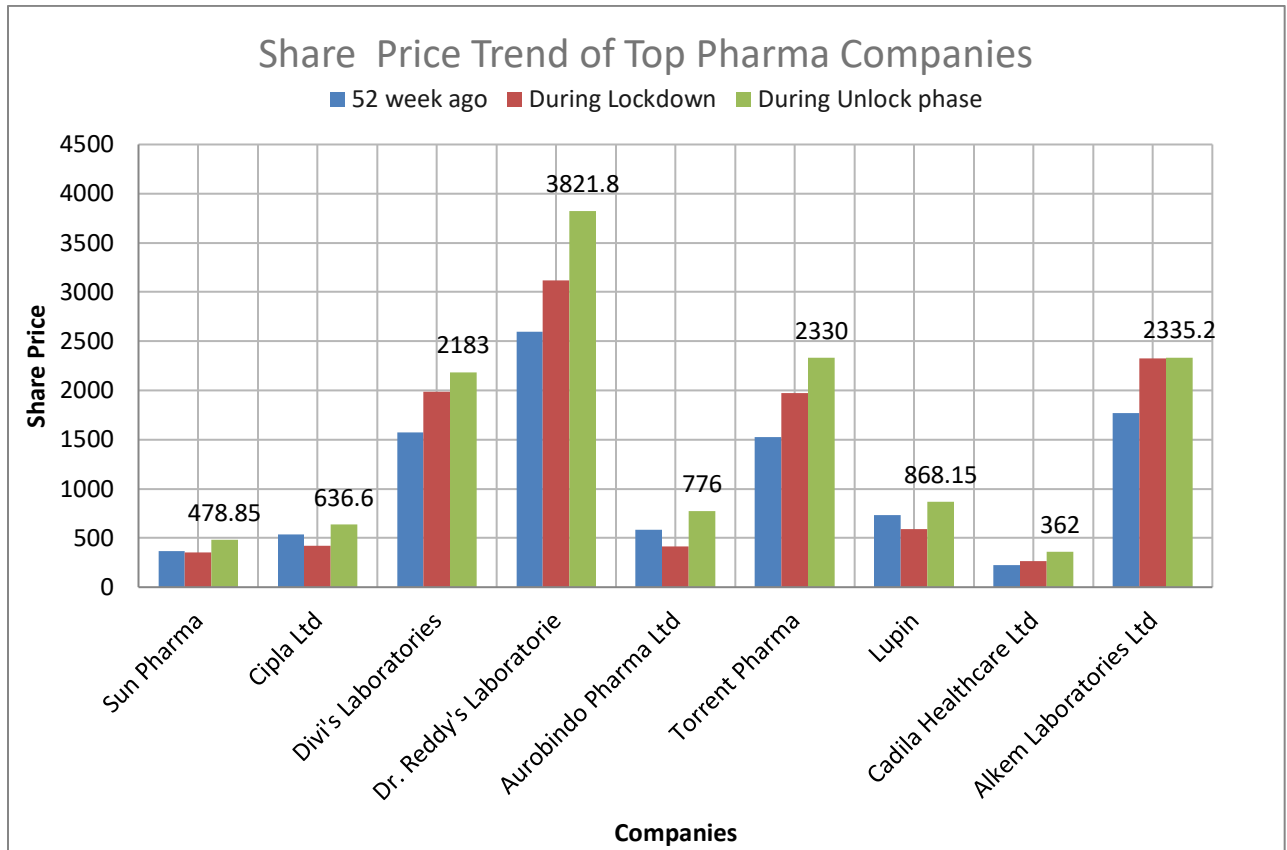
**TO STUDY THE GROWTH RATE OF CAPITAL MARKET OF INDIAN PHARMACEUTICAL INDUSTRIES DURING THE COVID-19**

According to HDFC Securities Indian pharma has been relatively flexible to the Covid-19 disruption, and is on the edge to gain from favourable currency tailwinds and stable outlook for India and US business. It forecasts 11% growth for covered companies over the coming next two years. US pricing environment continues to remain benevolent and the regulatory challenges are well understood. The pharma sector has outperformed by 28% in the Nifty Index. Stocks with high Indian exposure are preferable as it offers greater earnings visibility, supported by reasonable valuations.

Below is the data collected through secondary source to study the growth rate of capital market of Indian pharmaceutical industries about share price trend of the top pharmaceutical companies in three phases which 52 weeks prior to the covid-19 lock down, during the lock down phase and post lock down phase or the unlock phase

**SHARE PRICE TREND OF TOP PHARMACEUTICAL COMPANIES OF INDIA**

<b>COMPANY</b>	<b>52 WEEKS AGO</b>	<b>DURING LOCKDOWN</b>	<b>DURING UNLOCK PHASE</b>
<b>Sun Pharma</b>	366.8	352.3	478.85
<b>Cipla Ltd</b>	538.45	422.85	636.6
<b>Divi's Laboratories</b>	1575.65	1989.05	2183
<b>Dr. Reddy's Laboratories</b>	2595.7	3120.75	3821.8
<b>Aurobindo Pharma Ltd</b>	586.8	413.15	776
<b>Torrent Pharma</b>	1527.95	1971.8	2330
<b>Lupin Ltd</b>	734.1	589.65	868.15
<b>Cadila Healthcare Ltd</b>	224.65	267.25	362
<b>Alkem Laboratories Ltd</b>	1772	2325.85	2335.2



### ANALYSIS AND INTERPRETATION

From the above diagrammatic representation from the data collected through secondary sources of the top pharmaceutical industries, it can be found that the value of shares of these companies kept on increasing, for example Sun Pharma shares which was INR366.80, 52 weeks before Covid -19 lock down came to be INR 352.30 and now during the unlock phase it became INR 478.85, Likewise, Cipla Ltd whose share which was priced at INR538.45 was INR 422.85 during the lock down and became INR 636.6 during unlock phase, Divi's Laboratories whose share price was INR 1575.65 was INR 1989.09 during lock down and became INR 2183 during unlock phase, Dr. Reddy's Laboratories whose share price was INR 2595.7 became INR 3120.75 during lock down phase and became INR 3821.8 in the unlock phase, Aurobindo Pharma Ltd whose share price was INR 1527.95 became INR 1971.8 during lock down phase and became INR 776 in the unlock phase. Torrent Pharma whose share price was INR 586.8 became INR 413.15 during lock down phase and became INR 2330 in the unlock phase, Lupin Ltd whose share price was INR 734.1 became INR 589.65 during lock down phase and became INR 868.15 in the unlock phase. Cadila Healthcare Ltd whose share value was INR 224.65 became INR 267.25 during lock down phase and became INR 362 in the unlock phase,. Finally, Alkem Laboratories Ltd whose share price was INR 1772 became INR 2325.85 during lock down phase and became INR 2335.2 in the unlock phase. From the above diagrammatic representation, it can be interpreted that some of the pharma industries faced a

little downfall in their share value while some experienced growth in share value due to increase in share value, but after the unlock phase almost most of the pharma industries are facing upward shift in share value.

So, hence it can be concluded that Indian pharmaceuticals market is likely to grow in size during FY20-21, despite the COVID-19 related lock-down as there has been monthly revenue improvements during the unlock phase.

## **DISCUSSION**

- The COVID-19 impact on the pharma sector has been less pronounced than observed in the other sectors, as pharmaceuticals fall under the essential service category and sector companies are exempt from the restrictions under the nationwide lock down.
- During April-May 2020, the pharma industry witnessed a month-on-month fall in the sales due to the high base in March 2020 which is inventory stock-up and relatively low incidence of other diseases in the acute segment due to the lower infection rates led by the lock-down.
- During the the initial period of lock-down, frequency of supplies from companies reduced considerably due to lower production and logistics issues.
- Due to Medical representatives' limited ability to meet doctors during the lock-down which resulted in lesser chances of prescription swapping as doctors and hospitals are still focusing on absolute emergencies,
- According to India Ratings and Research, Indian pharmaceuticals market is likely to grow 3%-5% in size during FY20-21, despite the COVID-19 related lock-down and there would be monthly revenue improvements from June 2020.
- The seasonality in the Indian domestic business will support the recovery which implies continuous rise in the number of COVID-19 cases in India which will result in further volume growth in related therapies. Furthermore, for pharma companies' large cash balances and sufficient headroom under debt covenants along with diversified funding sources will diminish any impact of the ongoing lock-down.
- Currently, generic drugs are playing a crucial role in the fight against COVID-19. India has been meeting more than 20 per cent of the world and almost 50 per cent of the US's generic drug requirements.

## **SUGGESTIONS**

- With China losing credibility on account of not disclosing information on the virus or the severity of the outbreak in time and thereby contributing to its development into a pandemic, government leaders and businesses are looking at other alternative low-cost nations to source the supplies. India could directly benefit from this. The country has a stout pharmaceutical sector, with proven expertise in drug manufacturing and treatment. This got further highlighted when the country quickly ramped up production of Hydroxychloroquine, a key drug used in the fight against the virus.
- Although India depends on China to meet its bulk drug requirement, steps are being taken by the Indian government to incentivize the production of Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs) under the ‘Make in India’ program which will help in reducing this dependency. The promotion of bulk drug parks under this initiative would help India in becoming self-sufficient in drug manufacturing, from Key Starting Materials to generic formulations. The COVID–19 pandemic is changing the world order and the power structure, compelling leaders across the globe to revisit their business and growth strategies. With its deep expertise in the manufacture of drugs, highly skilled scientists, and low-cost manufacturing, India definitely stands to gain from such a reformation.

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