

Recessions and Rebounds: An Overview of COVID-19's Impact on 13 Sectors of the Indian Economy

Ishaan Puri

Vasant Valley School, New Delhi, India

1. INTRODUCTION

The Covid-19 pandemic has caused widespread disruption across the world in unimaginable ways. The last 18 months have seen impacts on every aspect of our lives - from businesses to lifestyles and employment patterns.

India, one of the fastest-growing economies in the world, has been hit severely due to the pandemic. The second Covid wave may not have affected the Indian economy as severely as that of 2020, but it is gradually showing impact across most of the major sectors of the country. There has been an unprecedented downfall in revenues and operations with extended lockdowns in almost all states. As per the official data released by the Ministry of Statistics and Program Implementation, the Indian economy contracted by 7.3% in the April-June quarter of this fiscal year. This is the worst decline ever observed since the ministry had started compiling GDP stats quarterly in 1996. (Mangla, 2021)

The pandemic has had a crippling impact on certain sectors bringing revenues to a complete standstill while certain others have seen unprecedented growth due to changes in consumer behaviour. Some industries such as travel and aviation, retail, and hospitality have taken the worst knocks due to lockdowns, travel restrictions and a slump in consumer spending. On the other hand, some sectors have recorded an increase in their revenues and customer base. This paper intends to explore which industries in India have seen the most dramatic transformation due to COVID-19, and how has this influenced the future of their operations in a post-COVID world.

2. COVID IMPACT ON SECTORS OF THE INDIAN ECONOMY

Hospitality & Tourism Sector

The hospitality sector, one of the most significant contributors to India's annual GDP, has been one of those hit hardest by the lockdown restrictions and curfews imposed by the Indian states.

Footfalls across all commercial establishments reduced sharply in view of the Covid-19 health crisis. The hospitality sector has seen similar challenges across the board - including restaurants, hotels, hostels, service apartments, pubs, bars and nightclubs. The economic strain has seen many of these businesses shut shop permanently and a dramatic rise in unemployment in this sector.



Restaurants & Pubs closed due to the pandemic. Source: <https://www.indiatoday.in/business/story/5-sectors-hit-hard-as-covid-19-derails-economic-recovery-1796662-2021-04-30>

The tourism sector contributes nearly 7% to India's annual GDP. Travel restrictions, domestic as well as international, due to the pandemic have crippled the tourism sector.

Aviation and Travel sector

With people scared to step out of their houses, aviation and the larger travel sector have faced a massive struggle during the pandemic. The domestic passenger traffic has decreased by 75% of the pre-covid levels. (ICAO, 2021)

Automobile sector

The automobile sector is expected to remain under pressure in

the near term due to the covid-19 situation in India. In FY20, automobile volumes declined on account of weak economic scenario, price increase due to BSVI transition, inventory correction by OEM's and Covid-19 impact in March 2020. (India Today, 2021)

Real Estate and Construction sector

The real estate and construction sector faced an unprecedented disruption during Covid-19 as a large number of migrant workers have left the urban areas. With the new constructions halted, home sales having taken a hit. This could result in prolonged weakness due to the risk of delay in new launches and the slowdown in sales.

Most of the Indian real estate companies have highly leveraged balance sheets which would mean amplified difficulties due to the downward pricing pressure and rising interest rates. Malls and commercial centres have also seen far fewer footfalls leading to falling rental incomes of these companies. While the demand for food and retail grocery could come back to normalcy, the demand for consumer discretionary items will take time to revive.

BusinessToday.In		
Sector	GVA (₹ in lakh cr)	% to total
○ Agriculture, forest and fishing	27.76	16
○ Industry	37.08	22
○ Mining and quarrying	4.10	3
○ Manufacturing	28.18	16
○ Electricity, gas, water supply and other utilities	4.80	3
○ Services	107.15	62
○ Construction	13.76	8
○ Trade, hotel, transport, communication and services relating to broadcasting	31.51	18
○ Financial, real estate and professional services	36.66	21
○ Public administration, defence and other services	25.22	15
○ TOTAL	171.99	100

* Figures for 2018-19
(Source: Reserve Bank of India, Handbook of statistics on the Indian Economy 2018-19)

COVID's impact on various sectors of the Indian Economy.

Source:

<https://www.businesstoday.in/opinion/columns/story/coronavirus-in-india-covid-19-india-lockdown-economy-cost-gdp-gva-nationwide-shutdown-253282-2020-03-28>

3. MEDIA AND ENTERTAINMENT SECTOR

This is another sector that has faced significant disruptions with the lockdown forcing all forms of outdoor entertainment, including cinemas and events to shut down and content supply chains to dry up. There has also been an overall reduction in advertising expenditure and reduction in corporate marketing budgets across product categories.

As per FICCI report, the Indian Media and Entertainment (M&E) sector reached Rs 1.82 trillion (US\$25.7 billion) in 2019 (a growth of 9% over 2018). Further as per the report, the M&E sector in India is expected to cross Rs 2.4 trillion (US\$34 billion) by 2022, at a CAGR of 10%. However, these projections were pre Covid-19 impact. More recently, a study by CRISIL expects that the Indian M&E industry's revenue will reduce by 16% or Rs 25,000 crore to Rs 1.3 lakh crore in the current financial year. (FICCI, 2020)

There has been a long period of almost zero content creation due to the cancellation of film and television shootings and postponement of critical sporting events. Due to people being homebound, the consumption of media through digital and OTT means has increased significantly. OTT platforms such as Netflix, Amazon Prime and Hotstar are seeing a significant rise in the percentage of viewers.

The media businesses will have to adapt to the new trends post covid which will have profound impact on the way business is conducted and revenue is generated. For example, large concerts have been replaced by live streaming on social media platforms and the type of content and consequent revenue models have undergone changes.

Top emerging sectors in the post- Covid era

COVID-19 has engendered unprecedented disruptions across sectors. From suspending flights and trains to restricting the movement of people and vehicles, it has had a large-scale impact on the Indian economy. However, some sectors are also considering this hour of crisis as an opportunity to innovate their existing business models and create solutions.

For these players, the contagion certainly provides a fertile ground for cutting-edge innovations that will become the norm in a post-COVID-19 world. Here's looking at some of the sectors most likely to benefit from the current situation.

Ed-Tech Sector

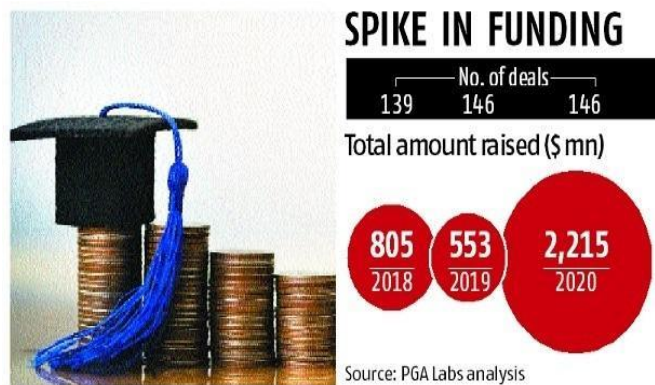
Since the lockdowns were imposed across all educational institutes, the online ed-tech industry has witnessed a huge boom in the considerable number of users moving online. Virtual classes and online learning suddenly became the norm instead of novelty, even as conventional models were reshaped to make learning more personalised, engaging, and interactive.

Even before the COVID-19 outbreak, a study forecasted the Indian online education market to grow to \$18 billion by the year 2022. The pandemic has only served to accelerate this growth by making it essential for educators and learners to adopt more efficient digital processes and tools. “Survive and thrive” is the new mantra for players in the Indian education sector. As the economy normalises, the disruptions and innovations coming to the fore during this phase will become key industry growth drivers in the future.

The social impact of not being able to attend physical classes notwithstanding, online tutoring has created a more fulfilling learning experience due to more innovative and interactive teaching methods such as live classes, on-the-spot doubt clearance and practice papers. Aside from this, demand for skill-based and knowledge-based online courses has also soared among salaried professionals.

The sector has also seen increased investor activity due to the tremendous growth potential and the Indian demographics. Segments such as online tutoring and competitive exam preparation have witnessed an increase in investments global private equity players.

Indian ed-tech startups have seen a total investment of \$2.22 billion in 2020 as compared to \$553 million in 2019, according to Indian Private Equity and Venture Capital Association (IVCA) and PGA Labs data. (IVCA, 2021)



The IVCA report ‘The Great Un-Lockdown: Indian Edtech’ released in September 2021 stated that 92 players received funding in 2020, out of which 61 players received seed funding. Byju’s and Unacademy have raised the most capital, \$2.32 billion and \$354 million, respectively, in 2020, while B2B edtech received a total funding of \$31 million in 2017-2020.

Online Gaming

With people being forced to remain indoors and to maintain social distancing norms, the online gaming industry has seen exponential growth.

The Indian online gaming sector reached US\$1.027 billion in 2020, a growth of ~17.3% from US\$543 million in 2016. With its current trajectory, it is expected to reach US\$2 billion by 2023 in terms of rake fees earned, states the EY- All India Gaming Federation (AIGF) report (2019) ‘Online gaming in India – The GST conundrum.’ There have been several new trends such as the rise of AR and VR with the experience increasingly becoming more immersive.

Agri-tech Sector

More than 50% of India’s population is involved in the agricultural sector. The Covid-19 crisis has paved the way for large-scale digitization in this sector and agri-tech has steadily been gaining traction.

With traditional marketing channels disrupted, farmers and online grocers are now accessing digital mandis to directly connect with wholesale buyers and sell their produce directly from their homes.

Health tech sector

The effects of the pandemic have proved to be so damaging that products like masks and sanitisers are expected to increase manifold and the consumption of “good-for-you” products and wellness items is expected to grow. Fitness accessories, such as fitness monitoring devices and applications, are also in high demand. This change in attitude towards healthy living creates opportunities for partnerships between fitness product manufacturers and healthcare providers.

Additionally, services like online medication distribution and tele medicine, which are already booming due to the lockdown, will continue to flourish in the future, especially in Tier II and Tier-III cities. The influx of cloud-based storage solutions has helped doctors, researchers and healthcare institutes to manage the overwhelming amount of paperwork and documentation in recent times.



COVID-19’s Implications for MedTech Players. Source: <https://www.cyient.com/blog/medical-technology-healthcare/how-will-covid-19-shape-the-future-of-the-healthcare-industry>

According to FCCI- EY's March 2020 study on the impact of COVID-19 on healthcare, there was a 70-80% decline in OPD patients and approximately 70% repression in the revenue because of the fear of contraction COVID-19 from the hospitals. Due to this, many small-scale hospitals and nursing homes in Tier II and Tier III had to shut down, as they were unable to operate with limited funds. (FICCI, 2020)

We might also see more healthcare-oriented investment from private and public sectors as the country enhances its healthcare infrastructure in the wake of the ongoing pandemic. This will have a two-fold impact on the Indian economy. Firstly, essential healthcare services will become more accessible, available and affordable for the mass consumer. Secondly, and just as importantly, the number of employment opportunities will explode.

E-retail Sector

A large section of the Indian population has shifted their grocery shopping towards online shopping platforms for groceries such as Big Basket, Nature's Basket, and Grofers even though a larger section of Indian households still shop for groceries at their neighbourhood shops.

Despite difficulties such as order delays and cancellations, most players in the market are seeing a 25% to 75% increase in their order volumes as a result of the increased demand. In a way, the lockdown is gradually changing the mindsets of consumers and encouraging them to switch to online grocery shopping. This indicates that online grocery will be a sunrise sector in the long term, even after the COVID-19 chapter comes to a close.

Financial & Banking sector

The Covid crisis has presented the BFSI sector with a once-in-a-lifetime opportunity to fundamentally alter how it operates. India has always been a cash-based economy but this appears to be changing, with more and more people becoming comfortable with using e-wallets and UPI payment mechanisms.

The time is perfect for players in the BFSI space to reinvent themselves and test newer business models that are more digitally driven. By leveraging advanced technologies and digitising their existing set of offerings, they can supplant legacy processes with newer, more optimised workflows, and address inefficiencies that have plagued the Indian BFSI space since time immemorial.

The role of regulated financial service providers and non-bank financial companies (NBFCs) has become more critical given the widespread unemployment and migrant crisis in India. Given the increased need for access to cash and funding for this vast majority, unsecured lending platforms

have also seen a proliferation.

Home Food delivery sector

The home food delivery business also came of age as people dined-in instead of out, with restaurants and bars either restricted or closed completely. COVID-19 lockdowns have also positively impacted India's online food delivery industry by the fulfilling the urge to dine out. There are now many players like Zomato and Swiggy in the online food ordering landscape and all major restaurant chains have introduced contactless delivery services.

Growing Cloud Kitchen Investments and Developing Alternate Revenue Streams in the Wake of Pandemic Driving Online Food Delivery Market: Ken Research



Source: <https://www.kenresearch.com/blog/2020/05/market-research-report-of-india-online-food-delivery/>

The online food delivery industry witnessed peak volumes (3.2 – 3.5 mn per month) in Oct 2019. The initial impact of COVID-19 reduced order volumes to 10% of peak levels in April/May 2020, but by August 2020, the GMV of orders had reverted to 75-80% of pre-COVID levels. Overall, the unit economics of the food delivery business has improved over the last 1.5 years, led by lower discounts, reduction in delivery cost, and increase in average order values. Zomato expects that the contribution margin per order will normalize somewhere between Rs. 15-20. (Deloitte, 2021)

IT/ITeS Sector

India's \$180-billion IT sector has a heavy dependence on business from the US and Europe – making its fortunes integrally linked with the performance of these international markets. As top clients from these regions reduce their IT spending in the wake of the COVID-19 outbreak, Indian IT companies should leverage their core value proposition and restructure their existing offerings at competitive price points.

This will help players to survive in the short term – while preparing them to capitalise on the digital opportunity that will come knocking at their doors once the world goes digital. Developing the core IT infrastructure and new-age capabilities, therefore, will become a priority for IT companies as they navigate the current choppy waters with speed, skill, and agility.

4. CONCLUSION

COVID-19 has left an indelible and lasting impact on all aspects of our lives. Everyone and everything has been impacted, including businesses across the globe. For many businesses and industries like tourism, travel, and hospitality, COVID-19 has created substantial challenges. But for others, it has created new opportunities, and innovative ways of doing business that were never before imagined. If these companies can leverage these novel opportunities and turn them into profitable gains, then there will be no looking back.

REFERENCES

- [1] <https://www.statista.com/topics/6304/covid-19-economic-impact-on-india/>
- [2] <https://www.mondaq.com/india/operational-impacts-and-strategy/1086172/impact-of-covid-19-on-the-manufacturing-sector-in-india->
- [3] <https://journals.sagepub.com/doi/full/10.1177/0972063420935541>
- [4] <http://kasez.gov.in/wp-content/uploads/2020/04/ImpactofCovid19.pdf>
- [5] <https://www.assochem.org/userfiles/industry.pdf>
- [6] <https://www.99acres.com/articles/impact-of-coronavirus-outbreak-on-indian-real-estate.html>
- [7] <https://knowledge.wharton.upenn.edu/article/covid-19-lockdown-affecting-indias-households/>
- [8] <https://timesofindia.indiatimes.com/readersblog/mymusiclife/impact-of-covid-19-on-indian-economy-4-35585/>
- [9] <https://www.indiatoday.in/business/story/5-sectors-hit-hard-as-covid-19-derails-economic-recovery-1796662-2021-04-30>
- [10] <https://www.mckinsey.com/featured-insights/india/getting-ahead-of-coronavirus-saving-lives-and-livelihoods-in-india>
- [11] <https://www2.deloitte.com/in/en/pages/about-deloitte/articles/in-about-deloitte-covid-19-insights-collection-by-sectors.html>
- [12] https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/infrastructure/resources/covid+infra+publications
- [13] <https://www.bloombergquint.com/opinion/coronavirus-the-economic-impact-of-covid-19-on-india>
- [14] <https://ficci.in/ficci-in-news-page.asp?nid=20993>