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Shipping bottlenecks squeeze pharma flows as Hormuz crisis impact deepens

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The fallout from the Strait of Hormuz crisis is entering a more complex phase, with stumbling diplomatic efforts and disruptions to Chinese shipping emerging as factors that could extend pressure on global supply chains. For the pharmaceutical sector, a lag-impact industry, the effects are beginning to surface after more than 45 days of disruption.

The situation is shifting from an energy shock to a broader trade bottleneck. Constraints on safe passage for Chinese vessels have raised concerns over the movement of critical inputs such as active pharmaceutical ingredients (APIs) and key starting materials (KSMs), many of which originate in or transit through China. With vessels delayed in the Persian Gulf and Gulf

of Oman, cargo flows into India have slowed, affecting ports such as Mundra and JNPT.

India's pharmaceutical industry remains dependent on China for bulk drugs, particularly fermentation-based antibiotics, vitamins and intermediates. Inventory buffers of three to six months, built after the pandemic, are providing a temporary cushion.

Brokerage JM Financial said the near-term impact remains contained, with cost inflation of 2-5 per cent from crude-linked inputs, energy and freight. It added that disruptions extending beyond current inventory buffers could affect supplies, particularly for APIs and KSMs linked to affected routes.

Cost pressures are emerging. Analysts estimate energy and power costs have risen 20-30 per cent, increasing prices of petrochemical-linked solvents and intermediates. This is contributing to early stage cost increases for API manufacturers, with potential for further rise if disruptions continue. Global suppliers such as BASF have announced price increases of up to 20 per cent on excipients and selected APIs.

"The biggest impact is crude -- rising petrochemical costs are increasing conversion costs. The supply chain is functioning but with delays, as shipments from Europe shift from the Suez route to the Cape of Good Hope, extending timelines to 40-45 days," said Namit Joshi, chairman of Pharmexcil. He added that exporters are invoking force majeure or war clauses in contracts, while noting India remains relatively insulated due to domestic API capacity and inventory, even as crude volatility affects global producers.

Rerouting is also increasing working capital requirements and adding planning uncertainty.

Exports present another area of impact. JM Financial estimates shipments to the Middle East and North Africa (MENA) region could decline 10-20 per cent due to logistical constraints, longer transit times and higher freight costs, potentially delaying receivables.

An industry executive said about 6 per cent of India's pharmaceutical exports are at immediate risk, as shipments to West Asia -- including the UAE, Saudi Arabia, Oman, Iraq and Iran -- move through the Strait of Hormuz. "A large part of this trade is routed via Dubai, which acts as a redistribution hub. Any tightening of shipping conditions means cargo that would otherwise move seamlessly now faces delays, rerouting and longer transit cycles," the person said.

India's exposure is significant, particularly in Iran, where it supplies about 40 per cent of generic medicine demand.

On the input side, India imported \$4.35 billion worth of APIs, bulk drugs and intermediates in FY25, with roughly three-fourths sourced from China. The executive said that shifting to air cargo is not scalable. "Air freight isn't a viable fallback at scale -- rates increased nearly 400 per cent soon after the disruption as demand for capacity rose," the person said.

Cold-chain logistics are also affected. Mathini Ilancheran, senior delivery lead-research, R&D at Beroe Inc, wrote in Life Science Leader that biologics manufacturing and cold-chain logistics face risks, while clinical trials may see delayed cost increases.

For now, the disruption remains manageable. Large drugmakers such as Sun Pharma and Dr. Reddy's Laboratories are supported by inventory buffers, though mid-sized firms are facing working capital pressures.

Nilaya Varma, co-founder and chief executive officer of Primus Partners, said the geopolitical situation is affecting India's pharma sector across multiple areas. With around 70 per cent of vaccine raw materials and 74 per cent of APIs sourced from China, input costs have increased, in some cases by up to 70 per cent. Rerouting shipments via the Cape of Good Hope is adding up to 15 days, increasing risks for temperature-sensitive drugs.

On the export side, Gulf markets face supply constraints and margin pressure. He added that disruptions in vaccines, generics and essential therapies could affect populations across Africa, Southeast Asia and the Middle East, where India is a key supplier.