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BANKING

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RBI announces fresh measures to cushion lockdown impact

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The RBI today announced the following additional liquidity measures to address near-term concerns amid the Covid-19 pandemic:

Targeted long-term operations (TLTRO) 2.0: RBI will conduct TLTROs amounting to Rs 0.5tn. Liquidity availed by banks under this scheme will have to be deployed in investment-grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50% of the amount availed directed to small and mid-sized NBFCs and MFIs. This move is aimed at ensuring that NBFCs and MFIs have access to funds, but we believe risk aversion by banks, especially private banks, will continue.

Asset classification standstill for accounts availing of moratorium: The central bank has allowed banks to exclude all standard accounts (as on 1 Mar 2020) availing of moratorium from the 90-day NPA norm. But RBI has asked banks to build 10% provisions over Q4FY20 and Q1FY21 on accounts under the standstill. These can later be adjusted against provisioning requirements in case of slippage. We view this as a negative for banks as our checks suggest that a large number of retail borrowers could avail of the moratorium, raising the provisioning burden.

Resolution timeline extended to 300 days: For large accounts under default, an additional 20% provision has to be made if resolution is not completed within 210 days. Given the current volatile environment, the resolution period has been extended by another 90 days. This extension would reduce provisioning needs, offering some respite to corporate lenders.

Distribution of FY20 dividend restricted: Banks are now restricted from distributing dividends out of profits pertaining to FY20 – a decision that will be reviewed based on their financial position as on Q2FY21. This step will aid capital conservation for banks.

Liquidity coverage ratio (LCR) reduced to 80%: In order to ease the liquidity position further, LCR requirement for banks has been reduced to 80% from 100% with immediate effect. This requirement shall be gradually restored to original levels in two phases – 90% by 1 Oct 2020 and 100% by 1 Apr 2021.

Reverse repo rate cut by 25bps: To uplift credit growth and discourage banks from parking funds with the central bank, the fixed reverse repo rate under the liquidity adjustment facility (LAF) has been reduced by 25bps to 3.75%.

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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