COVID-19 STIMULUS

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Lean fiscal stimulus offers little respite

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The Centre's Rs 20tn stimulus package provides impetus to structural reform initiatives that will bear fruit over the long term, but offer little immediate respite. Key measures: (a) liquidity-related – Rs 3.7tn for MSMEs, Rs 3.3tn for farmers/farm-related areas, Rs 0.9tn for discoms, Rs 0.75tn for NBFCs; (b) policy-related – modification of Essential Commodities Act, commercial mining in coal sector, FDI in defence raised to 74%; and (c) fiscal-related – Rs 4tn potential additional borrowings for states, Rs 1.7tn PMGKP spends.

Limited fiscal outgo, focus on structural reforms instead: The fiscal spend from the government's Rs 20tn package works out to ~Rs 2.4tn (including ~Rs 1tn from the earlier announced welfare scheme for the poor, PMGKP). The remainder would be based on the proportion of NPAs on loan guarantees for MSMEs and farmers. The package appears to be geared toward long-lasting structural reforms in economic activities that could spur job creation. Most of these liquidity measures will bear fruit once the economic lockdown is lifted.

Slew of key policy changes: (a) In a move that could spur private investments across the agriculture value chain, the Essential Commodities Act has been revised to deregulate foodstuff such as cereals, edible oils and onions. (b) A series of policy changes in mining could significantly boost investments in the sector – these include a composite regime across upstream to downstream mining and removal of captive and non-captive mine distinctions. (c) FDI in defence has been raised from 49% to 74% coupled with a negative list of imports that would be enhanced based on domestic production capacities.

Few sectoral gains as demand-side stimulus missing: Stimulus packages during a crisis are typically skewed towards demand-side measures. While liquidity infusion is always welcome, the need for a demand stimulus is equally critical. But none of the measures in the Rs 20tn package offer an immediate demand push for any industry. We see limited gains for sectors such as metals and mining (Vedanta, Jindal Steel and Power), defence production/infrastructure (Bharat Electronics, L&T), and agriculture (Monsanto, Advanta). Public sector banks – being the obvious source of preferential lending for the government – and NBFCs may continue to struggle. Policy on consolidation of PSUs in strategic sectors (oil & gas, power, defence, etc.) raises cash utilisation concerns for cash rich PSUs in these sectors (Coal India, ONGC, etc.)

STIMULUS BREAKDOWN

Stimulus	(Rs tn)
RBI	**8.01**
Garib Kalyan	**1.92**
Atmanirbhar	
Tranche 1	5.95
Tranche 2	3.10
Tranche 3	1.50
Tranche 4 & 5	0.48
Total Atmanirbhar	**11.03**
Overall (announced by PM)	**20.67**
Off -which fiscal stimulus	**2.43**

Source: RBI, government data

FIG 1 – STIMULUS BREAKDOWN

Stimulus (Rs tn)	Monetary	Fiscal	% GDP	Impact
Working capital for MSMEs	3.00	-	1.5	Marginally positive for Banks and NBFCs exposed to higher MSME lending portfolios
Subordinate debt for stressed MSMEs	0.20	-	0.1	
Fund of funds for MSME	0.50	-	0.3	
EPF support	-	0.03	0.0	
EPF reduction	-	0.07	0.0	
Special liquidity scheme for NBFCs/HFCs	0.30	-	0.2	Doesn't resolve liquidity issues for all NBFCs as banks would continue to use discretion in lending
Partial credit guarantee scheme for NBFCs	0.45	-	0.2	
Liquidity injection for Discoms	0.90	-	0.5	Positive for PFC, REC, and power generation companies
Reduction in TDS/TCS	0.50	-	0.3	
Total tranche 1	**5.95**		**3.0**	
Free food grain supply	-	0.04	0.0	
Interest subvention for Mudra Shishu loans	-	0.02	0.0	
Special credit facility to street vendors	0.05	-	0.0	
Housing CLSS-MIG	0.70	-	0.4	
Additional emergency working capital through NABARD	0.30	-	0.2	
Additional credit through KCC	2.00	-	1.0	
Total tranche 2	**3.10**		**1.6**	
Food micro enterprises	-	0.10	0.0	
PMMSY	0.20	-	0.1	
Operation Greens	-	0.01	0.0	
Agri Infrastructure Fund	1.00	-	0.5	Marginally Positive for agri- infrastructure companies such as Jain Irrigation
Animal Husbandry Infra Development Fund	0.15	-	0.1	
Herbal cultivation	-	0.04	0.0	
Bee keeping	-	0.01	0.0	
Total tranche 3	**1.50**		**0.8**	
Viability gap funding	-	0.08	0.0	
Additional MGNREGS allocation	-	0.4	0.0	
Total tranche 4 & 5	**0.48**		**0.2**	
Total	**10.25**	**0.73**	**-**	
Total stimulus from Atmanirbhar	**11.03**		**5.5**	
PMGKP	-	1.7	0.0	
RBI	8	-	4.0	
Total stimulus	**18.25**	**2.43**	**-**	
Total as per PM	**20.68**		**10.3**	

Source: MoF

Key features of Rs 20tn stimulus

Liquidity-related measures

Liquidity injection in MSMEs aimed at ensuring speedy economic recovery after lockdown.

MSMEs (Rs 3.7tn)

- Rs 3tn collateral-free automatic loans, with four-year tenor and 12-month moratorium. 100% credit guarantee on principal and interest
- Subordinate debt for stressed MSMEs (which are NPA or stressed) worth Rs 200bn (Rs 40bn contribution by government to CGTMSE – Credit Guarantee Fund Trust for Micro and Small Enterprises)
- Rs 500bn fund of funds to be created for equity infusion into viable units
- In key positive for the sector, definition of MSMEs being changed as follows: limits on investments revised upwards, additional criteria based on turnover introduced, differentiation between manufacturing and service units removed
  - **Micro units:** Investments upto Rs 10mn and/or turnover upto Rs 50mn
  - **Small units:** Investments upto Rs 100mn and/or turnover of Rs 500mn
  - **Medium units:** Investments upto Rs 200mn and/or turnover of Rs 1bn
- Government tenders upto Rs 2bn will no longer be on global tender basis, making MSMEs eligible to participate in government purchases
- Post Covid-19, e-market linkage to be provided for all MSMEs
- Receivables by MSMEs from the government to be cleared in next 45 days

FIG 2 – MSME EXPORTS SHARE

Year	Total exports [Rs bn]	Exports by MSME [Rs bn]	Share of MSME exports (%)
FY13	300,400	127,992	42.6
FY14	314,415	133,313	42.4
FY15	310,352	138,896	44.8
FY16	262,291	130,768	49.9
FY17	275,852	137,068	49.7
FY18	303,376	147,390	48.6

Source: RBI

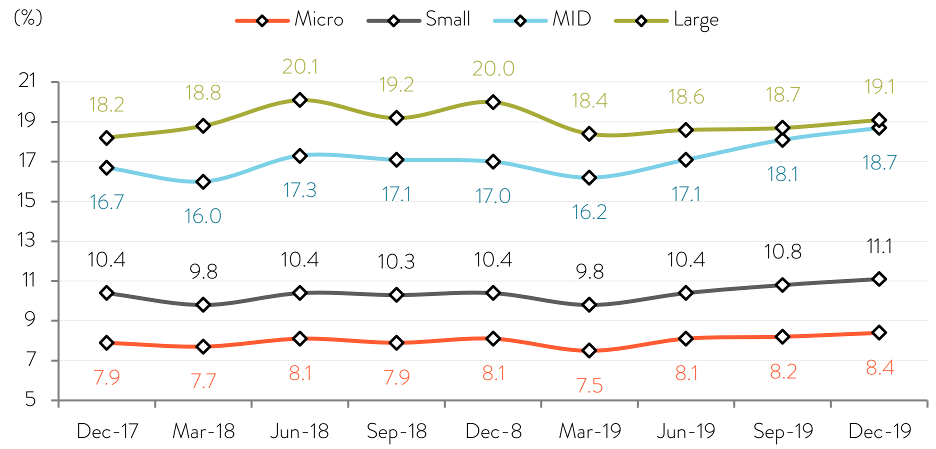
FIG 3 – MSME CREDIT FLOWS

(Rs bn)	Amount outstanding					
Y/E	Public sector banks	Private sector banks	Foreign banks	Scheduled commercial banks	NBFCs	Total
Mar'14	7,584	2,471	344	10,399	86	20,884
Mar'15	8,527	2,815	368	11,710	286	23,707
Mar'16	8,205	3,591	364	12,160	880	25,200
Mar'17	8,289	4,310	365	12,964	1,113	27,041
Mar'18	8,646	4,108	489	13,242	1,441	27,926
Mar'19	9,367	5,717	691	15,776	1,622	33,173

Source: RBI

MSME liquidity would avoid aggravation of NPAs

FIG 4 – MSME NPAs



Source: RBI

Farmers (Rs 2.3tn)

- NABARD to extend additional refinance support of Rs 300bn for crop loan requirements of rural-based banks, taking total to Rs 1.2tn – primarily aimed at small and marginal farmers to meet post-harvest activities for 'Rabi' crops and the current 'Kharif' crop requirement
- Special drive to provide Rs 2tn concessional credit to PM-Kisan beneficiaries through Kisan Credit Cards, covering 25mn farmers, fishermen & animal husbandry farmers
- Job creation for tribals/adivasis, with plans of Rs 60bn to be approved shortly for afforestation and plantation works from existing CAMPA (Compensatory Afforestation Fund Management and Planning Authority) funds

Agriculture (Rs 1tn)

- Financing facility of Rs 1tn to be provided for funding agriculture infrastructure projects at farm gate and aggregation points (primary agricultural cooperative societies, farmers producer organisations, entrepreneurs, start-ups, etc.

NBFC liquidity injection seems not enough, as banks may continue to have discretion in lending

NBFCs (Rs 0.75tn)

- Rs 300bn liquidity scheme through investment-grade debt papers of NBFCs, HFCs and MFIs fully guaranteed by government
- Rs 450bn through scope expansion of partial credit guarantee scheme. Papers rated AA and below including unrated papers brought under the scheme; first 20% loss to be borne by government

Power discoms (Rs 0.9tn)

- One-time emergency liquidity infusion of Rs 900bn to all discoms against all receivables
- Power generation companies would need to give rebates to discoms for passing on benefits to power consumers

Tax measures (Rs 0.5tn)

- Rates for tax deducted and collected at source (TDS and TCS) reduced by 25% on non-salaried payments upto 31 March 2021; will apply to all payments (Rs 500bn additional liquidity)
- Due date for all income tax returns extended to 30 November 2020 and for tax audit to 31 October 2020

Small entrepreneurs & middle-income group

On the ground implementation would be a major challenge, especially for credit to street vendors.

- Interest subvention of 2% for prompt payees of Mudra-Shishu loans for a period of 12 months for loans upto Rs 50,000. Coupled with RBI loan moratorium, this amounts to relief package of Rs 15bn (Rs 1.62tn overall portfolio currently)
- Special credit facility to support ~5mn street vendors with working capital of Rs 10,000 per vendor
- Credit-linked subsidy scheme for housing for middle-income group (Rs 0.6mn-1.8mn) extended upto Mar'21 from Mar'20 earlier. 250,000 beneficiaries to be added

Other measures (Rs 0.5tn)

- Rs 200bn support under PMMSY (Pradhan Mantri Swasthya Suraksha Yojana) for integrated, sustainable, inclusive development of marine and inland fisheries
- Rs 150bn animal husbandry infrastructure development fund to be set up
- Rs 100bn scheme for formalisation of Micro Food Enterprise (MFE).
- National Animal Disease Control Programme for Foot and Mouth Disease (FMD) and Brucellosis launched with total outlay of Rs 133bn – to ensure 100% vaccination of cattle, buffalo, sheep, goat and pig population
- Rs 40bn support for promotion of herbal cultivation covering 1mn hectares – expected to generate Rs 50bn income for farmers
- Rs 5bn infrastructure development scheme related to integrated beekeeping development centres, collection, marketing and storage centres, post-harvest and value addition facilities, etc.

Better opportunities for MFEs to tap the export market

Policy reforms

Agriculture

Perhaps one of the biggest reforms to amend essential commodities act. Can make a massive difference to farm economics over the long-term

State wise implementation would be a political challenge

- Central law to be formulated for barrier-free interstate trade, adequate choices to farmers for selling produce at attractive prices, and framework for e-trading of agriculture produce
- Essential Commodities Act to be amended for better price realisation for farmers by attracting investments and making agriculture sector competitive. Cereals, edible oils, oil seeds, pulses, onions and potato to be deregulated. No stock limit shall apply to processors or value chain participants
- Operation Greens to be extended from Tomatoes, Onion and Potatoes (TOP) to ALL fruits and vegetables (TOTAL), with benefits of:
  - 50% subsidy on transportation from surplus to deficient markets
  - 50% subsidy on storage, including cold storage

Opening up of mining sector a positive for private mining companies, but was announced in Jan'20.

Increase in competition for monopolistic player, Coal India

Coal

Introduction of commercial mining

- Revenue-sharing mechanism (vs. current regime of fixed rupee per tonne) under which any party can bid for a coal block and sell in the open market
- Entry norms liberalised – nearly 50 blocks will be offered for bidding immediately with no eligibility conditions; only upfront payment with a ceiling
- Exploration-cum-production regime for auctioning partially explored blocks; private sector participation permitted in exploration of these blocks
- Incentivises production earlier than scheduled through rebate in revenue share

Diversified opportunities

- Coal gasification/liquidation to be incentivised through rebate in revenue share
- Infrastructure development fund of Rs 0.5tn for evacuation of Coal India's enhanced target of 1bn tonnes of coal production by 2023-24 plus the coal production from private blocks. This includes Rs 180bn worth of investment in mechanised transfer of coal (conveyor belts) from mines to railway sidings

Liberalised regime

- CBM extraction rights to be auctioned
- For ease of doing business, mining plan simplification will be undertaken
- Concession in commercial terms to Coal India consumers – relief worth Rs 50bn offered, reserve price in auctions for non-power consumers reduced, credit terms eased and lifting production period enhanced

Minerals

- Introduction of seamless composite exploration-cum-mining-cum-production regime
- 500 mining blocks to be offered through auction process
- Joint auction of bauxite and coal mineral blocks to enhance aluminium industry's competitiveness
- Distinction between captive and non-captive mines to be withdrawn
- Development of mineral index for different minerals

- Rationalisation of stamp duty payable

Defence

Raising of FDI limit to 74%, coupled with gradual expansion in negative import list of items, can be considered as major reforms.

For 'Make in India' in defence sector and to enhance self-reliance:

- List of weapons/platforms will be notified for banning imports with year-wise timelines
- Imported spares to be indigenised
- Separate budget provisioning for domestic capital procurement
- FDI limit raised from 49% to 74% in defence manufacturing under the automatic route

Time-bound defence procurement processes and faster decision-making via:

- Setting up of a Project Management Unit (PMU) to support contract management
- Realistic setting of General Staff Qualitative Requirements (GSQR) of weapons/platforms
- Overhauling trial and testing procedures

Health

- Public expenditure on health to be increased coupled with investments in grassroot health institutions
- Block-level setup of infectious disease hospitals and public health laboratories to manage future pandemics

IBC-related measures

Minimum hike in threshold will result in decline in stressed customers eligible for insolvency

This maybe a negative impact for banks and NBFCs as they wont be able to put pressure on stressed accounts through IBC route.

- Minimum threshold for insolvency proceedings raised to Rs 10mn (from Rs 0.1mn earlier)
- Suspension of fresh insolvency proceedings upto one year
- Covid-19-related debt to be excluded from definition of default for purpose of triggering insolvency proceedings

Corporates

- Minor technical and procedural defaults decriminalised (shortcomings in CSR reports, board reports, filing defaults, AGM delays)
- Direct listing of securities by Indian public companies allowed in permissible international markets
- Listed NCDs on stock exchanges of private companies to be considered as listed companies

Public sector enterprises

- Private sector to be allowed in all strategic sectors
- At least one public sector enterprise (PSE) will be allowed per sector (upto a maximum of four PSE). Others to be privatised/merged/consolidated
- PSEs in non-strategic sectors would be privatised

Raising borrowing limit offers respite to many large states reeling under lockdown pressure.

State government support

- Borrowing limit for states raised to 5% (from 3%) of gross state domestic product (GSDP), generating extra resources of ~Rs 4.3tn
- Key conditions for limit enhancement:
  - upto 0.5% unconditional
  - 1% in four tranches of 0.25%, linked specifically to reform actions
  - further 0.5% if milestones achieved in at least three of four reform areas

Civil aviation

- Restrictions on utilisation of Indian air space to be eased, ensuring optimal use of airspace and reduction in fuel use and time – expected to yield benefits of ~Rs 10bn per year for aviation sector
- Airports through PPP model:
  - Annual revenue of six airports in first round of bidding estimated at Rs 10bn (against current profit of Rs 5.4bn per year); six more airports identified for second round and bid process to commence immediately
  - Additional investment by private players in 12 airports in first and second rounds expected at ~Rs 130bn
  - Another six airports will be put out for third round of bidding

- Aircraft maintenance, repair and overhaul (MRO)
    - Tax regime for MRO ecosystem rationalised
    - Convergence between defence sector and civil MROs will be established to create economies of scale

Discoms in union territories

- Discoms in union territories will be privatised to drive improved financial and operational performance. Upon success, this model may be replicated across the country

Contractors

- Concessional period for ongoing public works to be extended by 3-6 months for contractors
- Government agencies will part-release bank guarantees for partially completed contracts

Real estate

- Urban Development Ministry to issue advisories for regulators to announce that Covid-19 can be used to invoke Force Majeure on contracts signed
- All registrations and contracts expiring after 25 March 2020 can be extended by six months (under RERA timelines) without specific applications

Space

- Private sector participation will be encouraged in space sector
- Private sector will be allowed to use ISRO facilities and other relevant assets
- Future projects for planetary exploration and outer space travel to be open for private sector
- Liberal geo-spatial data policy to be announced

Atomic energy

- Research reactor to be set up in PPP mode for production of medical isotopes
- Facilities to be established in PPP mode to use irradiation technology for food preservation
- Technology development-cum-incubation centres to be set up

Fiscal measures

MNREGA (Rs 400bn)

- Allocation for rural employment guarantee scheme MNREGA increased by Rs 400bn (over and above Rs 600bn budgeted for FY21) – this could benefit migrant workers who have returned home from cities and would generate ~3bn person work days cumulatively, boosting rural income

Migrant workers

- Migrants stationed in states will be provided 5kg of grain per person per month and 1kg of pulses per family per month. ~80mn migrants will receive this free supply in next two months

Measures taken for migrants such as free food grains, interest subvention and affordable renting scheme are unlikely to provide the stimulus needed

- 1-nation, 1-ration card to be implemented so that migrant workers can access subsidised food across the country regardless of the state to which they originally belonged
- Rental accommodation to be provided for urban poor as part of PM's Awas Yojana by converting government-funded housing in cities into affordable rental housing complexes under PPP mode through concessionaire. Industries and state government agencies being incentivised to develop and operate such complexes on their private land. Detailed guidelines awaited

Social Infrastructure Projects under Viability Gap Funding (Rs 81bn)

This may improve prospects for healthcare related social spending (hospitals, etc.)

- Quantum of viability gap funding (VGF) enhanced upto 30% of total project cost each by Centre and state/statutory bodies
- For other sectors, VGF remains at 20% each from government and state/statutory bodies
- Total outlay of Rs 81bn

FIG 5 – RBI STIMULUS MEASURES FOR BANKS

Policy	RBI's Intent	BOBCAPS View
Rate cuts (repo by 75bps, reverse repo by 115bps)	Disincentivise banks to park funds in reverse repo and instead lend to commercial sector	Implications will be known only when the lockdown is lifted. Banks would be cautious while disbursing loans
Special refinance facilities to NABARD (Rs 250bn), SIDBI (Rs 150bn), NHB (Rs 100bn) (@4.4%)	Support for NBFCs	Positive for the overall system – these institutions play a crucial role in meeting funding requirements of the agriculture and rural sectors, small industries, HFCs, NBFCs and MFIs
Lower **liquidity coverage ratio** requirement (LCR of 80% from 100%)	Liquidity enhancement	As of Q3FY20, LCR ratios for banks under our coverage are >130%; hence we don't see much liquidity benefit arising out of this measure
3-month **moratorium** on payment of instalments for all term loans outstanding as on 1 Mar 2020. 90-day NPA norm excludes moratorium period	Critical liquidity support for borrowers	Prevented sharp surge in NPA due to non-payment of dues, thereby protecting bank NPA levels and profitability. However, the real underlying economic stress will be known only once the moratorium is lifted and banks credit costs should reflect this
CRR reduced by 100bps to 3%. Average daily CRR requirement reduced from 90% to 80%	Expected to release Rs 1.37tn liquidity in the system	NA
SCBs and cooperative banks will not make further **dividend payouts** from FY20 until further notice	Bar on dividend payouts gives the banking system additional capital	This would enable banks to absorb credit cost
Targeted Long-Term Repo Operations (TLTRO 1.0) – auctions of targeted term repos of upto 3-year tenor for a total amount of up to Rs 1tn at floating rate linked to policy repo rate	Liquidity enhancement	TLTRO 1.0 was oversubscribed but went to large corporations and investment-grade bonds only
Marginal standing facility (MSF) limit raised from 2% to 3% till 30 June	NA	NA
Implementation of 100% **net stable funding ratio (NSFR)** deferred by 6 months from 1 Apr to 1 Oct 2020	NA	NA
Implementation of last tranche of additional 0.625% **capital conservation buffer (CCB)** deferred by 6 months from 31 Mar to 30 Sep 2020	Liquidity enhancement	Lower regulatory threshold gives banks a buffer to make incremental provisions, but we believe mostly large banks will create additional contingent provisions while smaller ones will stick to making provisions as mandated by RBI

Source: Industry, BOBCAPS Research

FIG 6 – RBI STIMULUS MEASURES FOR NBFCs

Policy	RBI's Intent	BOBCAPS View
Announced **TLTRO 2.0** of Rs 500 bn. At least 50% of this is required to be invested in bonds, CPs, NCDs of mid & small NBFCs and MFIs ▪ 10% in securities issued by MFIs, ▪ 15% in securities issued by NBFCs with asset size of Rs 500bn and below, and ▪ 25% in securities issued by NBFCs with asset size between Rs 5bn and Rs 50bn	To improve liquidity for the sector, in particular for smaller NBFCs and MFIs, and help correct high credit spreads	NBFCs and MFIs that could benefit: ▪ MFIs – Asirvad MFI, Belstar MFI, Aarohan MFI, Credit Access Grameen ▪ NBFCs with strong parentage or strong repayment record with banks We note that the first tranche of Rs 250bn that came out on 23 April 2020 was undersubscribed (0.5 times)
DCCO (date of commencement of commercial operations) facility extended to loans given by NBFCs to commercial real estate – this was earlier restricted only to banks	To enable NBFCs to find solutions for delayed projects, and enable developers to complete the project, aiding asset quality for NBFCs	Data on whether deferment by DCCO has led to successful revival of real estate projects is awaited, but interactions with banks suggest the trends aren't encouraging

Source: Industry, BOBCAPS Research

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