CENTRUM

Strategy

Sting of global pandemic defers the path of economic recovery

Coronavirus global pandemic has taken the world by surprise, both in terms of its ferocity of spread and fatality rate. WHO (world health organisation) has advised, "social distancing" as the most potent remedy. Accordingly world over several countries have gone for "lockdown". India has done well by declaring early lockdown for 21 days. At the moment, there is little evidence of community spread. However, the jury is still out on the cost of this lockdown i.e. human life lost to pandemic v/s human suffering due to economic slowdown. Most economists believe world is headed towards recession. For India this comes at most inopportune time, the economy was showing signs of recovery after bold fiscal/monetary measures which the govt. had taken in the past few qtrs. again it stares at a low single digit growth for FY21. RBI on its part has aggressively cut interest rates by 75bps at one go and slew of other measures to help liquidity. Fiscally govt. does not have much space as it stares at reduced tax revenues and possibly no strategic sale of BPCL and Air India in FY21. However, lower oil prices will help. Our study (India Strategy - In search of a turnaround) has shown that for any economic revival strong fiscal measures are essential. Current revival will also depend on the govt's ability and willingness to spend. A part of this has already been spent in the INR 1.75 lakh crores package announced for the vulnerable section of the society. However, a lot more needs to be done for the industry, especially for the SME/MSME sector. We believe it will be long haul for the economy and full revival will only happen in the festival season i.e. Oct-Dec qtr. Accordingly we are revising are our macro outlook and as well as individual sector outlook. We have cut our GDP estimates for FY21 from 5.2% to 3.1%, and believe that too will be back ended. Accordingly, we have revised our portfolio to be predominantly defensive. We have gone overweight on FMCG, telecom, IT and pharma. IT and pharma will also gain from depreciated rupee. We have also gone overweight on metals to take advantage of the global liquidity and believe that it will find its way in some asset classes. Recommend to stick to large caps and largish midcaps as they itself have corrected significantly.

Global economy is likely to enter into recession , could be worse than 2008-09 GFC

As per the report by IMF, the coronavirus pandemic is likely to cause a global recession in 2020 that could be worse than the one triggered by the GFC of 2008-2009, but world economic output growth should recover in 2021, provided countries prioritize containment and strengthen their health systems. Most economists believe that the next 2 qtrs. will be near zero or –ve growth.

Nationwide complete lockdown, likely to shave off at least INR 7-8 trillion

With an intent to contain the colossal spread of nCovid, PM Modi announced the nationwide lockdown for 21 days; we believe this will be extended. Only essential goods and services such as agriculture, mining, utility and some financial services are operational. As far as Q4FY20 is, concerned, we estimate a GDP growth of 3.5% YoY vs earlier estimates of 4.7%. Effect of the slowdown will be most felt on the first 2 qtrs. of FY21. Therefore, we revise our GDP estimates down for FY21, to clock around 3.1%YoY because of complete lockdown, supply chain disruptions and global slowdown spill over.

Policy measures are likely to mitigate the pain partially

The slowdown is likely to be cushioned with aggressive monetary and fiscal measures. While, RBI has already done a tremendous job in front loading rate and CRR cut, we are still awaiting the fiscal measures for the industry. As per our calculations, out of INR 1.75 trillion announced by the government for farmers and labourers, INR 70-75k crore was a part of FY21 budget, which has now been front-loaded. However, amidst the tightening fiscal space, lower oil prices offer a fiscal bonanza that is likely to curtail deficit and thus, offer room for productive spending. We believe GOI will expand the fiscal deficit by at least 100 bps to approx. 5% in FY21 to reinvigorate economic impulses. In addition, we do not rule out the probability of further rate cuts by RBI along with ensuring surplus liquidity via measures such as OMO etc.

Earnings are likely to remain subdued amidst the ongoing clampdown

After assessing the economic growth trajectory for FY21 along with sectoral earnings, consensus of about 22% increase in FY21 for Nifty seems extremely implausible. Concerning our analysts' estimations of 22 companies, that we cover from NIFTY 50 universe, earnings for FY21 are likely to remain in 14%-15% range with significant downside risks attached to these projections. Going by the sectoral earnings for FY21, we have scaled down our estimates meaningfully. The FY21 earnings will be FMCG and BFSI sector, they growing by 13 and 20% respectively. Pharma will gain maximum traction with 21% growth, but given its low weightage in Nifty will have limited impact on the earnings. However, sectors such as Infra, cement, IT, Oil, and gas are likely to report de-growth in their earnings.

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Please see Appendix for analyst certifications and all other important disclosures.
In the interest of timeliness, this document is not edited.

How have we placed our portfolio under such turbulent and volatile times?

We favour defensive portfolio with strong management teams in large caps…

Indian market has plunged below its crucial support levels in a matter of just 2 months amid COVID-19 outbreak. The Nifty has already corrected 37% since January, compared to 35% for Global Emerging Markets and 30% for Asia, but the risk-to-reward ratio has turned attractive now. The plunge in the markets echoes trepidations around India's high population density and relatively weak health infrastructure. Accordingly, Indian govt. has announced a complete nationwide lockdown for 21 days. We believe this will be extended and there will be very gradual withdrawal from this lockdown. We believe that GDP growth for the first two qtrs. will be 1-1.5% and full recovery will happen only in the festival season. We continue to believe that given the uncertain economic outlook and high volatility, it is best to stick to defensive portfolio. We prefer large caps over midcaps and advise to totally avoid small caps.

…..coupled with some commodity play because of abundant global liquidity

Apart from monetary easing and credit easing, global central banks have also resorted to the practise of imparting durable USD liquidity that has emanated because of sharp tightening in financial conditions as the global markets underwent a sharp plunge. This is highly attributable to sharp fall in global commodity prices that have lowered revenues that are denominated in the USD for commodity exporting countries, sharp fall in trade volumes the majority of which are again denominated in the US dollar and a freezing in cross border USD lending. The tightening in USD liquidity trend has been a common development observed during crisis. It was seen during the financial crisis of 2008-09 and even the peak of the European sovereign crisis over 2011-13. An indication of this is witnessed in the broadening in cross currency basis swaps. The Federal Reserve have yet again been proactive in re-opening USD swap lines with 15 central banks that has resulted in some moderation in cross currency basis swaps. Since Fed has taken laudable measures in the form of rate cuts, extension of broader swap lines, we believe dollar is likely to depreciate once the risk off sentiment subsides, thereby paving way for commodity reflation.

On balance we are overweight on Consumer, IT, Pharma, Telecom and Metals

As we expect risk aversion to persist in the near term amidst the ongoing global pandemic, we have placed our portfolio by being overweight on defensive sectors. Amidst the defensive sectors, we are overweight on domestic consumption i.e. FMCG, pharma and telecom. Also given a weak rupee we are going overweight on IT services. Expect metals to gain traction in the medium term on commodity reflation trade as global central banks pump in more money through aggressive monetary stimulus. We have gone underweight on BFSI given challenges to the economy in the next two qtrs. and continue to prefer retail banks over corporate. Thus, under such circumstances, portfolios should be realigned according to the market conditions, which means that quality should be bought under defensive sectors that are likely to perform relatively better under turbulent times.

Our top picks

Fig 1: Large Caps

Stock name	Market Capitalization (Rs. Crores)	CMP	CAGR (FY19-FY21)			EBITDA Margin (%)			P/E			P/B			RoE		
			Rev	EBITDA	PAT	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
ICICI Bank Ltd.	2,21,810	343	(21.6)	20.2	98.7	43.6	42.5	40.5	44.9	21.4	13.0	1.7	1.9	1.7	3.8	9.3	13.9
HDFC AMC	52,078	2,447	8.2	14.9	23.5	66.2	74.5	74.6	72.6	38.8	35.8	22	14.5	12.7	35.0	40.1	38.3
Reliance Industries	7,73,359	1,220	4.8	13.4	17.2	14.8	15.0	17.3	12.4	16.8	14.0	1.3	1.8	1.6	11.6	10.9	11.9
HCL Technologies	1,27,284	469	12.5	13.6	6.3	23.1	23.5	23.5	12.1	11.8	11.1	2.9	2.6	2.2	24.8	23.5	21.7
ITC Ltd	2,27,732	185	6.2	6.5	14.0	38.5	38.7	38.7	27.0	14.9	13.9	5.8	3.5	3.3	22.6	24.7	23.8

Source: Bloomberg, Centrum Research

Fig 2: Midcap

Stock name	Market Capitalization (Rs. Crores)	CMP	CAGR (FY19-FY21)			EBITDA Margin (%)			P/E			P/B			RoE		
			Rev	EBITDA	PAT	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Larsen & Toubro InfoTech	24,354	1,399	8.7	(1.1)	(2.1)	19.9	18.6	16.5	10.7	16.5	14.8	3.3	4.30	3.71	34.6	28.1	28.0
Aurobindo Pharma	26,965	460	13.9	12.8	11.0	20.6	20.5	20.1	16.6	9.9	9.2	2.8	1.7	1.4	18.5	17.7	16.5
Dhanuka Agritech	2,079	437	11.8	14.6	16.0	15.0	15.0	15.7	31.2	15.6	14.4	5.5	2.9	2.5	17.7	18.2	18.0
Mahanagar Gas	8,875	898	5.1	10.2	16.4	32.0	34.4	35.1	18.9	11.6	12.0	4.3	3.2	2.8	24.3	29.7	24.9
City Union Bank	9,548	130	(19.2)	7.7	9.5	41.7	43.6	43.6	15.6	12.4	11.5	2.3	1.7	1.5	15.2	14.7	13.9

Source: Bloomberg, Centrum Research

Fig 3: Portfolio

Stock name	Weightage by NIFTY	Our weights	Market Capitalization (Rs. Crores)	CMP	CAGR (FY19-FY21)			EBITDA Margin (%)			P/E			P/B			RoE		
					Revenue	EBITDA	PAT	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
BFSI	**36.5**	**33.6**																	
HDFC Bank	10.4	10.4	5,07,231	925.05	(15.1)	3.5	11.8	27.7	45.7	41.1	21.2	19.4	17.8	3.1	2.9	2.5	17.0	16.1	16.0
ICICI Bank	5.9	5.9	2,21,810	342.7	(21.6)	20.2	98.7	43.6	42.5	40.5	44.9	21.4	13.0	1.7	1.9	1.7	3.8	9.3	13.9
Kotak Mahindra Bank	4.9	4.9	2,43,438	1,273	(2.6)	19.6	19.8	23.0	35.8	34.7	26.5	26.9	23.8	3.3	3.6	3.2	13.2	14.5	14.2
Axis Bank	2.4	1.5	1,18,537	420.15	(18.9)	18.0	58.7	45.4	43.0	42.0	26.7	16.1	10.1	2.0	1.4	1.2	7.6	7.8	15.3
HDFC	7.9	7.9	2,94,985	1,703	(57.2)	9.2	5.6	9.6	5.5	9.8	17.9	14.9	18.3	2.6	3.1	2.8	15.9	18.5	13.6
ICICI Lombard General Ins	0	2	53,127	1,169	11.5	21.4	22.9	12.2	12.1	14.5	32.7	43.3	33.6	6.5	8.5	7.1	21.3	21.2	22.7
HDFC AMC	0.0	1.0	52,078	2,447	8.2	14.9	23.5	66.2	74.5	74.6	72.6	38.8	35.8	22.0	14.5	12.7	35.0	40.1	38.3
Energy	**14.8**	**14.8**																	
Reliance Industries	10.1	10.1	7,73,359	1,220	4.8	13.4	17.2	14.8	15.0	17.3	12.4	16.8	14.0	1.3	1.8	1.6	11.6	10.9	11.9
NTPC	1.1	1.1	86,182	87	8.7	27.7	4.1	20.9	28.1	28.9	9.2	6.9	6.3	1.3	0.8	0.7	11.8	11.1	11.8
Power Grid Corporation of India	1.1	1.1	86,033	164	6.7	7.6	9.5	86.8	89.1	88.1	10.7	7.9	7.2	1.8	1.3	1.2	17.7	17.6	17.8
GAIL (India)	0.5	1.0	39,576	88	(7.3)	(8.9)	(6.3)	12.7	12.6	12.3	11.0	6.9	6.9	1.6	0.8	0.8	14.9	11.9	11.0
Bharat Petroleum Corporation	0.7	1.5	74,816	345	(2.9)	0.4	1.7	5.1	4.3	5.4	12.2	10.5	8.6	2.7	1.6	1.5	20.7	16.3	18.6
IT	**15.0**	**16.5**																	
Infosys	6.6	7.6	2,70,978	636	9.0	8.4	7.3	25.3	24.6	25.0	14.1	16.3	15.4	3.3	4.3	3.0	23.7	25.8	27.1
Tata Consultancy Services	5.4	5.4	6,62,727	1,766	7.2	6.8	4.9	27.0	26.7	26.8	15.7	20.3	19.3	5.3	7.1	6.5	35.2	35.3	35.8
HCL Technologies	1.3	2.0	1,27,284	469	12.6	13.7	6.5	23.1	23.5	23.5	12.1	11.8	11.1	2.9	2.6	2.2	24.8	23.5	21.8
LTI	0.0	1.5	24,354	1,399	8.7	(1.1)	(2.1)	19.9	18.6	16.5	10.7	16.5	14.8	3.3	4.3	3.7	34.6	28.1	28.0
Consumer goods	**14.5**	**16.0**																	
ITC	4.2	5.0	2,27,732	185	6.8	7.2	14.0	38.5	38.6	38.8	27.0	14.9	13.9	5.8	3.5	3.3	22.6	24.7	24.1
Hindustan Unilever	4.6	5.0	5,13,555	2,372	11.8	20.1	23.3	22.6	24.8	26.1	43.0	70.7	59.0	33.1	42.5	26.1	79.9	88.9	76.8
Asian Paints	2.1	1.5	1,58,397	1,651	11.0	18.7	24.1	18.4	20.4	21.0	51.0	55.5	48.1	11.6	14.5	12.6	24.1	27.9	28.0
Titan Company	1.1	0.5	90,008	1,014	10.8	12.9	14.7	11.1	11.4	11.5	42.2	57.3	48.6	9.8	12.9	11.1	25.2	24.0	23.8
Nestle India	1.6	2.5	1,62,361	16,840	11.4	14.2	16.8	23.2	23.6	24.4	34.7	70.6	61.9	20.9	61.6	50.8	59.2	100.8	99.5
Britannia Industries	0.9	1.5	67,372	2,802	7.9	9.8	17.2	15.8	15.9	16.4	44.2	48.1	42.5	12.1	14.3	11.9	30.3	31.0	29.9
Auto	**4.5**	**3.7**																	
Maruti Suzuki India	1.6	1.0	1,60,907	5,327	(2.9)	(10.8)	(3.4)	13.5	10.4	11.4	31.6	27.1	22.5	5.1	3.2	3.0	17.1	11.8	13.2
Mahindra & Mahindra	0.8	1.0	47,415	381	4.1	(1.5)	(11.3)	16.4	14.8	14.7	14.3	10.2	10.5	1.9	1.3	1.2	13.8	10.3	8.8
Bajaj Auto	0.7	0.7	70,488	2,436	4.2	2.0	1.9	16.8	16.5	16.1	17.7	14.1	13.3	3.8	2.7	2.5	22.6	20.1	19.2
Hero MotoCorp	0.6	1.0	39,766	1,991	(2.9)	(8.7)	(5.3)	15.0	14.3	13.3	21.2	12.4	12.5	5.6	2.8	2.7	27.5	24.6	21.2
Construction	**2.8**	**1.8**																	
Larsen & Toubro	2.8	1.8	1,14,087	813	10.0	10.8	10.1	11.7	11.6	11.9	19.1	11.6	10.6	2.7	1.6	1.5	15.2	14.7	14.5
Metals and mining	**2.5**	**3.5**																	
Tata Steel	0.6	1.5	32,329	285	(1.4)	(14.3)	(39.9)	19.1	12.3	14.5	6.6	10.1	6.9	1.0	0.5	0.5	15.7	4.5	6.2
Hindalco Industries	0.4	1.0	24,158	108	(2.8)	(7.5)	(17.0)	12.0	11.6	10.9	9.4	5.1	6.3	0.9	0.4	0.4	9.8	8.1	6.6
JSW Steel	0.4	1.0	40,198	166	(0.8)	(9.6)	(23.0)	23.0	16.3	19.0	7.7	11.1	8.0	1.7	1.1	1.0	24.3	9.9	11.4
Pharma	**2.7**	**4.5**																	
Sun Pharmaceutical Industries	1.1	1.5	1,09,035	454	11.2	13.7	38.7	22.0	22.2	23.0	49.6	24.5	21.2	3.2	2.4	2.2	6.7	10.0	10.8
Dr. Reddy's Laboratories	1.1	1.5	60,176	3,622	9.6	12.3	14.0	21.6	21.6	22.7	21.1	29.4	24.2	2.8	3.9	3.4	14.1	14.6	14.6
Aurobindo	0.0	1.5	26,965	460	13.9	12.8	11.0	20.6	20.5	20.1	16.6	9.9	9.2	2.8	1.7	1.4	18.5	17.7	16.5
Cement	**2.2**	**1.8**																	
Shree Cement	0.7	0.7	61,104	16,935	3.4	19.2	31.0	21.9	29.5	29.2	62.0	39.4	34.2	6.4	4.8	4.3	10.8	14.0	14.0
UltraTech Cement	1.1	1.1	97,153	3,366	13.9	24.3	36.5	18.5	22.1	22.0	46.9	25.0	21.3	4.0	2.7	2.4	8.9	11.3	11.9
Telecom	**3.1**	**3.8**																	
Bharti Airtel	2.8	3.8	2,66,613	489	12.0	32.8	211.2	32.0	41.1	45.0	418.2	(156.9)	69.2	2.4	3.1	2.8	0.6	(14.8)	3.2
Total		**100**																	

Source: Bloomberg, Centrum Research

Global recession is imminent, could be worse than GFC

Report by IMF

As per the report by IMF, the coronavirus pandemic is likely to cause a global recession in 2020 that could be worse than the one triggered by the global financial crisis of 2008-2009, but world economic output should recover in 2021. The report hailed extraordinary fiscal actions already taken by many countries to boost health systems and protect affected companies and workers, and steps taken by central banks to ease monetary policy but clearly signposted that even more will be needed, especially on the fiscal front. Global economic growth is likely to be severely affected in H1 2020 because of significant disruptions in supply chains, tourism, travel, consumption and investment, stemmed from the outbreak of covid-19.

Globally, policy makers have acted in full throttle

As it was witnessed during 2008-09 crisis, global policymakers have acted aggressively this time round too in full throttle by delivering several monetary and fiscal measures. Given the familiarity of the financial crisis, policymakers have been a lot more pre-emptive to challenge the ongoing trepidations. Policy sustenance has come in the form of credit easing, monetary easing, imparting durable global USD liquidity and fiscal stimulus.

- Global central banks have reduced policy rates drastically and have been aggressive so far. FOMC has taken policy rates back to the zero bound. Other central banks such as the BoE, BoC, RBA and several EM central banks have been also aggressive in cutting rates. Most central banks have either formally resorted to quantitative easing such as the Fed, BoE and RBA or increased size of quantitative easing programs that are already in operation such as the ECB and BoJ.
- Most major governments have provided an unprecedented fiscal stimulus programs. The US Congress has passed a USD 2 tn (9.4% of GDP) COVID-19 relief package that is much higher than the USD 800 bn (5.4% of GDP) fiscal stimulus package that was delivered during the financial crisis period in 2008 by the Obama administration. The Germany government has provided a EUR 750 bn (~20% of GDP) fiscal stimulus program with the majority of support provided to backstop corporate loans. The Japanese government also approved the stimulus package worth 108 trillion yen (USD 990 billion) — equal to 20% of Japan's economic output — to cushion the impact of the epidemic on the world's third-largest economy.

Even as global policymakers have been proactive in front-loading policy stimulus, a global recession in H12020 is unlikely to be averted. The lockdowns and need for social seclusion will in turn entail that both production and consumption will face a knockout in this period, irrespective of the stimulus that has been provided.

Demystifying the course of growth in FY21

Nationwide complete lockdown is likely to shave off at least INR 7-8 trillion

With an intent to contain the colossal spread of nCovid, Prime Minister Narendra Modi announced the nationwide complete lockdown, under which approx. 70% of economic activity, investment, exports and discretionary consumption, all have come to standstill. Only essential goods and services are operational such as agriculture, mining, utility services, some financial and IT services and public services. As far as Q4FY20 is concerned, economic activity is likely to grow by 3.5% YoY (earlier expectations 4.5%), thereby bringing down FY20 print to approx. 4.7% YoY.

- Effect of the slowdown will be felt on Q1FY20, resulting into a possible de-growth of 2% along with limited traction in Q2 and then a possible gradual recovery visible only in Q3FY21. However, if the lockdown is extended, de-growth of more than anticipated in April-June quarter is also highly probable. Furthermore, given that this is a humanitarian crisis, demand restoration would be dependent on the consumer confidence, which would be fragile in the beginning and would take time to build-up.
- Given the assumption that lockdown remains confined within 21 days and nearly 70% of total economic activity comes to halt, then the complete lockdown is likely to shave-off at least INR 7-8 trillion real output. With complete lockdown, ~70% of economic activity such as investment (30% GDP), exports (20% GDP), imports (22% GDP) and consumption of discretionary goods and services have all come to a halt. Only essential goods and services are operational.
- We expect growth to clock around 3.1% YoY because of complete 21-day lockdown, supply chain disruption, global growth spill over and halting of travel and tourism activity. Nevertheless, risks to the outlook remain skewed to the downside on the back of extension of the lockdown and higher than expected slowdown in global growth.

Policy measures are likely to mitigate the pain partially

RBI finally joined the hands of other global central banks by announcing an aggressive monetary expansion in lieu of ongoing pandemic. Finally, following the global suit, RBI went all guns blazing and announced an aggressive policy rate cut of 75 bps, with the clear objective of arresting the impact of coronavirus and lockdown on the economy. Without emphasising much on growth-inflation dynamics, RBI remained very cautious and therefore stated that it is not certain how long the threat will last and how its spread and depth will affect the economy. Therefore, RBI announced an aggressive rate cut accompanied by the other regulatory and liquidity measures. RBI decided to use a novel way to influence interest rates. The repo rate has been brought down to 4.4%, while the reverse repo rate is now 4% with a difference of 40 bps to ensure that banks do not deposit surpluses in the reverse repo auctions, which is averaging INR 3 trillion on a daily basis. Now, they will be forced to invest their surpluses in credit rather than giving it to the RBI. This is probably the first time that the central bank has changed this corridor size to 65 bps from 40 bps.

RBI MPC also returned to a more active management of credit policy by announcing a series of steps intended to improve the flow of funds to a weak economy. However, announcement of LTROs was not new, the only difference this time around has been that the long-term refinance option (LTRO) of INR 1-trillion will have to be invested in corporate bonds, commercial papers (CPs) or debentures, which in a way will be favourable for the markets and thus, is unique. While the LTRO was so far targeted at providing funds for direct lending, this time it is more for direct subscription of paper, which also means it cannot be hoarded or invested in government paper. These securities can be placed in the held-to-maturity portfolio of banks and hence will not attract mark-to-market losses or gains. In times of stress, banks can dip into their mandated pool of government securities or the 'statutory liquidity ratio' to borrow from the RBI's marginal standing facility. Earlier banks could use up to 2% points of their SLR for such borrowings. This has now been increased to 3% points. The cash reserve ratio (CRR) cut provides another 1% of NDTL to banks for lending purposes with a lower minimum daily balance to be maintained and the 100 bps CRR cut will release INR 1.37 lakh crore into the system. These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of INR 3.74 lakh crore to the system. On balance a combination of these measures along with the open-market operations (OMO) and LTRO of the past, and the monetary stimulus provided is highly significant and quite justified amidst the ongoing turbulent times.

Fiscal Response has remained sombre and muted in comparison to other nations: While, RBI has already done a tremendous job in front loading rate cuts and CRR cut, we are still awaiting the fiscal bazooka. However, the government of India has announced slew of relief measures worth INR 1.75 trillion with an intent to provide respite to the economically weaker sections of the society that are bearing the brunt of activity lockdown due to the coronavirus outbreak, we feel it's quite underwhelming. The relief package encompasses a number of direct cash transfers and food security through the public distribution system. It also involves an insurance cover for medical workers in the frontlines of the battle against the Covid-19 pandemic. Given the gravity of the prevalent situation, these relief measures are not adequate to provide the cushion to the ongoing and expected vulnerabilities; the economy is likely to face in the coming weeks.

- The relief package announced by the government amounts to 0.8% of GDP. These measures are necessary, but underwhelming. The actual fiscal outgo may be just 0.3–0.5% of GDP, as several measures may not entail extra spending. This is much lower in comparison with the policy response globally. However, we do recognize the intention of the government has been set in the right direction and thus, an amalgamation of sector specific measures and a significant quantum of funds are likely to be directed and proclaimed soon without holding on to the fiscal austerity under such hard times, as unprecedented times call out for exceptional measures from the government.
- As per our calculations, out of INR 1.75 trillion announced by the government for poor classes, INR 70000-75000 crore was anyways a part of FY21 budget. While increased grains under the Pradhan Mantri Garib Kalyan Ann Yojna (5 kilograms of rice or wheat and 1 kilogram of pulses) would entail fresh expenditure, others like PM Kisan—where farmers receive INR 6,000 annually—would just advance the first instalment to early April. There were also announcements for senior citizen pensioners, widows and self-help groups that would result in fresh expenditure, but other announcements tapped into existing funds for construction workers and the district mineral fund.
- However, amidst the tightening fiscal space, lower oil prices offer a fiscal bonanza that is likely to curtail deficit and thus, offer room for productive spending. Every USD 10/bbl increase/decrease in oil prices impacts fiscal balance by 0.1% and every USD 1/bbl decrease in oil prices helps government in saving USD 1.6 bn annually. Hence if oil prices decrease from USD 65/ bbl to USD 35/bbl, Indian economy can save USD 30/bbl. This could help by almost USD 40-50 bn.
- In FY20, government of India invoked the FRBM escape clause and has revised the fiscal deficit to 3.8% GDP. With such challenging macros, we expect a slippage of at least 0.2%-0.3percentage GDP for FY20 (i.e. at least 4% GDP). In addition, for FY21, under such critical times, we advocate augmenting the fiscal deficit by at least 100 bps to at least 5% GDP in order to reinvigorate economic impulses and arrest the potential slowdown to some extent.

Fig 4: Liquidity measures announced recently

TLTROs (Targeted long-term repo operation)	1. Targeted LTRO (TLTRO) auctions of up to three-year tenor for Rs.1 trillion at a floating rate linked to the repo rate, to be arranged in CPs, investment-grade corporate bonds and NCDs. 2. Banks to attain up to 50% of their incremental holdings from primary market issuances and remaining 50% from secondary market, including from MFs and NBFCs. 3. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25% of total investment permitted to be included in HTM. 4. Exposures under this facility will also not be estimated under the large exposure framework
CRR	1. Reduce CRR of all banks by 100 bps to 3% of net demand and time liabilities (NDTL) for a year. 2. Reduction to release liquidity worth Rs.1.37 tn. 3. Reduce the requirement of minimum daily CRR balance maintenance from 90% to 80% (available up to June 26, 2020).
MSF	1. Raising MSF to 3% of SLR from 2% in view of the exceptionally high volatility in domestic financial markets, which can bring in phases of liquidity stress. This will remain applicable until June 30, 2020. 2. Allow banks to avail an additional Rs1.37 trillion of liquidity under the LAF window in times of stress at the MSF rate.
Policy rate corridor	1. Widening the existing policy rate corridor from 50 bps to 65 bps 2. Under the new corridor, the reverse repo rate under LAF would be 40 bps lower than the policy repo rate. The marginal standing facility rate would continue to be 25 bps above the policy repo rate.

Source: RBI document, Centrum Research

Fig 5: Regulatory measures announced recently

Term Loans	Permitting all lending institutions to allow a moratorium of three months on payment of installments for term loans outstanding as on March 1, 2020 without asset classification downgrade
Working Capital Facilities	Permitting lending institutions to allow deferment of three months on payment of interest with respect to working capital facilities without asset classification downgrade
Working Capital Financing	Permitting lending institutions to recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers In respect of working capital facilities sanctioned in the form of cash credit/overdraft without asset classification downgrade
Net Stable Funding Ratio	
Capital Conservation Buffer	Deferring the implementation of net stable funding ratio by six months Capital Conservation Buffer Deferring the implementation of last tranche of 0.625% of capital conservation buffer by six months
Offshore NDF Rupee Market	Allowing banks, which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in NDF market through their branches in India, their foreign branches or through their IBUs.

Source: RBI document, Centrum Research

Fig 6: Fiscal Arithmetic FY20 TD

INR tn	Actual			%BE	%RE	March FY 19	March FY 20	Expected run rate for March
	April-Feb FY 2019	April-Feb FY 2020	Growth					
Revenue receipts	12.66	13.78	8.85	70.21	74.49	2.87	4.72	64.46
Gross tax revenues	16.92	16.78	-0.83	68.18	77.56	3.88	4.85	25.04
Direct taxes	8.35	8.07	-3.35	60.14	68.57	3.08	3.70	20.18
Corporation tax	4.75	4.19	-11.79	54.70	68.63	1.89	1.92	1.55
Income tax	3.60	3.88	7.78	68.19	69.35	1.13	1.72	51.77
Indirect taxes	8.56	8.70	1.56	77.72	88.17	0.81	1.17	44.07
Customs duty	1.17	1.05	-10.26	67.35	84.00	0.01	0.20	2360.02
Excise duty	1.93	1.97	2.07	65.67	79.43	0.39	0.51	30.86
Goods and Services Tax	5.46	5.68	3.92	85.60	92.73	0.35	0.45	26.64
Transfers to states, Uts, etc.	6.00	5.61	-6.50	69.12	85.20	1.63	0.97	-40.34
Net tax revenues	10.94	11.15	1.92	67.59	74.09	2.23	3.90	74.89
Non-tax revenues	1.72	2.63	52.91	83.97	76.01	0.64	0.83	29.69
Interest receipts	0.11	0.10	-9.09	72.93	90.69	0.01	0.01	-10.31
Dividends and Profits	0.66	1.65	150.00	100.90	82.54	0.47	0.35	-26.42
External Grants	0.00	0.00						
Other Non-Tax Revenue	0.93	0.87	-6.45	65.52	66.15	0.14	0.45	213.84
Receipts of Union Territories	0.02	0.02	0.00	83.76	85.96	0.00	0.00	226.67
Non-debt capital receipts	0.72	0.51	-29.17	42.57	62.20	0.41	0.31	-24.39
Recovery of loans	0.15	0.16	6.67	107.90	96.36	0.03	0.01	-80.21
Disinvestments	0.57	0.35	-38.60	33.33	53.85	0.38	0.30	-20.48
Total receipts	13.37	14.29	6.88	68.62	73.96	3.29	5.03	52.89
Revenue expenditure	19.15	21.61	12.85	88.28	91.96	0.92	1.89	105.43
Interest payments	5.01	5.13	2.40	77.67	82.07	0.82	1.12	37.30
Capital expenditure	2.73	3.05	11.72	89.97	87.64	0.34	0.43	26.47
Total expenditure	21.89	24.65	12.61	88.47	91.33	1.26	2.34	85.71
Primary deficit (PD)	3.50	5.23	49.43	1216.28	368.31	-2.83	-3.81	
Revenue deficit (RD)	6.50	7.83	20.46	161.44	156.60	-1.96	-2.83	
Gross fiscal deficit (GFD)	8.51	10.36	21.74	147.20	135.07	-2.02	-2.69	

Source: CGA, Budget documents

Fig 7: Fiscal Arithmetic for FY21 (estimated)

INR tn	FY 2019	FY 2020 BE	FY 2020 RE	FY 2020 E	Growth	FY 2021 BE	FY 2021 E	Growth
Revenue receipts	15.53	19.63	18.50	16.81	8.24	20.21	18.56	10.41
Gross tax revenues	20.80	24.61	21.63	19.86	-4.53	24.23	22.26	12.08
Direct taxes	11.43	13.42	11.77	10.50	-8.12	13.19	11.19	6.57
Corporation Tax	6.64	7.66	6.11	5.64	-15.01	6.81	6.00	6.38
Income Tax	4.73	5.69	5.60	4.77	0.85	6.38	5.14	7.76
Indirect taxes	9.37	11.19	9.87	9.38	0.06	10.96	11.07	18.02
Customs	1.18	1.56	1.25	1.15	-2.39	1.38	0.99	-13.91
Excise Duties	2.32	3.00	2.48	2.36	1.73	2.67	4.32	83.05
GST	5.82	6.63	6.12	5.85	0.59	6.91	5.76	-1.54
Transfers to states, Uts, etc.	7.63	8.12	6.58	6.06	-20.61	7.87	6.60	8.91
Net tax revenues	13.17	16.50	15.05	13.80	4.78	16.36	15.66	13.48
Non-tax revenues	2.36	3.13	3.46	3.00	27.12	3.85	2.93	-2.33
Non-debt capital receipts	1.13	1.20	0.82	0.67	-40.71	2.25	1.15	71.64
Recovery of loans	0.18	0.15	0.17	0.17	-8.02	0.15	0.15	-9.86
Disinvestments	0.95	1.05	0.65	0.50	-47.22	2.10	1.00	100.00
Total receipts	16.66	20.83	19.32	17.48	4.92	22.46	19.71	12.76
Revenue expenditure	20.07	24.48	23.50	22.71	13.15	26.30	27.63	21.66
Interest payments	5.83	6.60	6.25	6.25	7.29	7.08	7.08	13.29
Subsidy	1.97	3.02	2.27	2.27	15.49	2.28	1.95	-14.19
Fertilizer	0.71	0.80	0.80	0.80	13.30	0.71	0.71	-10.86
Food	1.01	1.84	1.09	1.09	7.26	1.16	1.16	6.33
Petroleum	0.25	0.37	0.39	0.39	55.29	0.41	0.08	-79.26
Capital expenditure	3.07	3.39	3.48	3.48	13.36	4.12	4.12	18.39
Total expenditure	23.15	27.86	26.99	26.19	13.13	30.42	31.75	21.23
Primary deficit (PD)	0.67	0.43	1.42	2.46	267.01	0.88	4.96	101.63
Revenue deficit (RD)	4.54	4.85	5.00	5.90	29.96	6.09	9.07	53.73
Gross fiscal deficit (GFD)	6.49	7.04	7.67	8.71	34.21	7.96	12.04	38.23
Nominal GDP at market prices	190.10	211.01	204.40	203.50	7.05	224.80	217.00	6.63
PD/GDP (%)	0.30	0.20	0.69	1.21		0.39	2.28	
RD/GDP (%)	2.30	2.30	1.71	2.90		1.83	4.18	
GFD/GDP (%)	3.40	3.30	3.75	4.28		3.54	5.55	

Source: CGA, Budget documents

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