Fiscal Stimulus – Atmanirbhar Bharat Part I

May 2020

Catalysing factors of production through liquidity support…

The Finance Minister outlined the contours of the first tranche of ₹ 20 lakh crore fiscal stimulus. The announcement (the first of the ***4Ls - Liquidity, Land, Labour and Law***) was made with the objective of boosting liquidity across various parts of the economy. Liquidity, incidentally, is of paramount importance, especially under the current circumstance of lockdown due to Covid-19 where economic activities have come to a grinding halt. More so, it is an important prerequisite for the key factor of production i.e. capital.

The liquidity support measures encompassed the key areas of MSME, NBFC, MFIs, power discoms, EPFs, contractors, real estate, direct tax measures and envisages an overall stimulus of **~₹ 5.94 lakh crore**.

Expectedly, a lion's share i.e. ~₹ 3.7 lakh crore was earmarked for support to the MSMEs (through collateral free debt, subordinate debt and equity support through fund of funds), which were the worst hit segments facing liquidity challenges amid the lockdown. Most importantly, given the sheer role of MSMEs in the economy (contribution of over 30%+ to the GDP), the said support was more a need of the hour.

Interestingly, majority of the announcements are in the nature of credit guarantees, which do not impact the fiscal mathematics in a significant way. However, the multiplier impact of the measures is likely given that it initiates much needed lending to smaller firms by improving the risk appetite of the lenders.

With the first tranche unveiled, we now await the measures on other factors viz. land, labour and law, which, in our view, will hold the key for an economic turnaround.

Key announcements.....

Measures	Feature	Beneficiaries	Quantum (₹ crore)
MSME			
Collateral free loan for MSME up to 20% of existing credit as of February 29, 2020 with 100% credit guarantee on principal and interest. Loan offered to have a tenure of four years with moratorium of 12 months	Borrowers with outstanding loans up to ₹ 25 crore and turnover up to ₹ 100 crore are eligible	PSU and private banks along with NBFCs expected to benefit from sovereign guarantee of 100% provided on incremental credit. Banks with existing high MSME exposures like SBI, BoB, Axis, Kotak, DCB, Federal to benefit	300000
Subordinate debt for stressed MSMEs	CGTMSE to provide partial guarantee in lieu of loans to MSME in stress or classified as NPA. Promoters of MSME be given debt to be infused as equity into business. Government to support with ~₹ 4000 crore to CGTMSE		20000
Set up of Fund of fund to provide equity support to potential MSME	Fund of fund to be set up with corpus of ₹ 10,000 crore in mother fund. With the structure of fund, daughter funds to leverage corpus upto ₹ 50,000 crore		50000
NBFCs			
Launch special liquidity window for NBFC, HFC, MFI	Investment to be made in investment grade NBFC, HFC, MFI guaranteed by GoI	Provide breather to NBFCs facing liquidity issues. RBI directly buying into bonds of NBFC, HFC, MFI rated AA and below or unrated offers direct funding of ₹ 30000 crore and should provide relief to debt market investors holding these bonds	30000
Extension of existing partial credit guarantee scheme	Partial credit schemes to be extended with investment in AA and below rated papers as well as unrated securities. In addition, credit guarantee provided by GoI for first 20% of loss		45000

Source: GoI, ICICI Direct Research

Key announcements…..

Measures	Feature	Beneficiaries	Quantum (₹ crore)
Power/Discoms			
PFC/REC to infuse liquidity of ₹ 90,000 crore to discoms against receivables	Loans to be given against state guarantees for exclusive purpose of discharging liabilities of discoms to gencos	From a balance sheet perspective, the move is beneficial for generation companies like NTPC as it will release receivables. As of March 2020, overdues for NTPC were at ₹ 10500 crore. However, in short-term, reduction in fixed charges (March 24 - May 17, 2020) will impact PAT by ~4-5% in FY21E. From a discom perspective, the move will give much needed breathing space as improvement in liquidity will improve their buying power on the one hand and incur capex to strengthen their infrastructure, on the other	90000
The Power ministry has also decided to waive off fixed charges and interstate transmission charges against power not drawn (from CPSE's) from 24th Mar 2020 to 17th May 2020	Linkage to specific activities/reforms: Digital payments facility by Discoms for consumers, liquidation of outstanding dues of State Governments, Plan to reduce financial and operational losses. Central Public Sector Generation Companies shall give rebate to Discoms which shall be passed on to the final consumers (industries)		
EPC Contractors/ Road Developers			
Extension of up to six months (without costs to contractor) to be provided by all central agencies (like Railways, Ministry of Road Transport & Highways, Central Public Works Department, etc)	Extension of term covers (a) construction/works and goods & services contracts; (b) obligations like completion of work, intermediate milestones, etc, and © extension of concession period in PPP contracts	Road developers including KNR, PNC Infratech, Ashoka Buildcon, etc, would benefit as the IRR at project level will be protected given the extended period. However, moot issue of cash flow mismatch remains in the interim period due to loss of toll revenues and industry demanding some relaxation in loan moratorium	
Government agencies to partially release bank guarantees	Guarantees to be released to the extent contracts are partially completed, to ease cash flows	EPC players such as NCC, KNR, PNC Infratech, etc	
Real Estate			
To extend RERA-imposed completion deadlines on real estate projects scheduled to expire on or after March 25, 2020 by up to six months	To issue advisories to states and UTs to treat the Covid-19 period as an "Act of God" and, thus, allow Force Majeure	These measures will de-stress real estate developers and ensure completion of projects with extended timelines also coming to aid amid labour crisis. These measures were already announced by a few states. However, industry demand of further support in the form of tax relief, increased mode of funding and interest waiver continue to remain	

Source: GoI, ICICI Direct Research

Other announcements…

- Definition of MSME restructured - Investment limit raised and additional criteria of turnover introduced. Differentiation between manufacturing & services removed. As per revised criteria, micro units - investment up to ₹ 1 crore & turnover of ₹ 5 crore, small unit - investment up to ₹ 10 crore and turnover up to ₹ 50 crore and Medium unit - investment up to ₹ 20 crore & turnover up to ₹ 100 crore

- E-market linkage for MSME to be promoted. Receivable from GoI and CPSE to be released within 45 days

- Under Pradhan Mantri Garib Kalyan Package, payment of 12% of employee contribution and 12% of employer contribution to be done by GoI for three months. Liquidity of **₹ 2500 crore** to be provided with this measure

- For other establishment covered by EPFO, reduction in contribution from existing 12% to 10% for three months. Relief of **₹ 6750 crore** to be provided

- TDS/TCS rates reduced by 25% on non-salaried payments effective tomorrow up to March 31, 2021. Will apply to all payments - ₹ 50,000 crore additional liquidity.

- All pending refunds to charitable trusts and non-corporate taxpayers (but including LLP) to be issued immediately.

- Due date for all income tax returns to be November 30, 2020 and tax audit due date to be October 31, 2020

- Assessments getting barred on September 30, 2020 to get barred on December 31, 2020. Cases getting barred on March 31, 2021 to get barred on September 30, 2021

- Vivaad se Vishwaas scheme extended up to December 31, 2020 without any extra payments

Source: GoI, ICICI Direct Research

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Pankaj Pandey Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

A. Disclaimer in retail research report

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit ICICI Direct.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.

Disclaimer

The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.