ICICI direct Research

April 17, 2020

RBI measures providing lifeline to NBFCs, HFCs, MFIs

RBI today announced measures to address concerns related to NBFCs and HFCs. A slew of measures to address liquidity and asset quality – NPA recognition and provisions were unleashed:

- Given the moratorium announced by RBI, NBFCs were staring at liquidity issues in near term. To address this, RBI announced targeted long term repo (TLTRO) of ₹ 50,000 crore, with 50% allocation to be invested in small and mid-sized NBFC, HFCs. Further, all-India financial institutions have been equipped with special refinance facility of ₹ 50,000 crore (₹ 25,000 crore to Nabard, ₹ 10,000 crore to NHB and ₹ 15,000 crore to Sidbi) to cater to sectoral demand. Advances under this facility will be charged at RBI's policy repo rate to provide refinance at reasonable cost
- Delay in date of commencement for commercial operations (DCCO) related to commercial real estate was allowed to be extended by a year by banks. However, now similar treatment has been extended to NBFCs, which acts as a breather for HFCs, especially players with substantial exposure to CRE. For NBFCs, board based allowable relaxations under Ind-AS remains a positive
- To induce banks to pedal on higher disbursement, RBI has also lowered reverse repo by ~25 bps to 3.75% as LAF window was receiving over ₹ 4 lakh crore (net). This is likely to restart lending by banks to slightly riskier portfolios and shun extreme risk averse behaviour
- Most important - asset classification of standard assets utilising moratorium to remain standstill and be excluded from 90 days norms (March 1, 2020 to May 31, 2020). All accounts as on February 29 to include SMA 1 & 2. Hence, this provides substantial relief to banks on NPA recognition and is seen benefiting borrowers, especially MSMEs
- Banks have to maintain additional 10% provision on such standstill accounts over the next two quarters (5% in Q4FY20, 5% in Q1FY21E), remains a near term overhang. However, such provisions can be adjusted against provision requirement for slippage requirement ahead
- Other highlights include prohibition for scheduled commercial banks to pay dividend for FY20. The same is to be reviewed in Q2FY21. For banks, liquidity coverage ratio (LCR) has been lowered from 100% to 80%. It will be ramped up in a phased manner at 90% by October 1, 2020 and 100% by FY22E
- NBFCs are expected to benefit from Ministry of Home Affairs allowing opening of offices and branches with limited capacity from April 20, 2020. This is positive for NBFCs as business operations can kick start and collections effort can be revived. MFIs (Bandhan, NBFCs in consumer, auto, rural areas like Bajaj Finance, M&M Finance, STFC, etc to benefit

Sector Update

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

ICICI Securities – Retail Equity Research

- Post demonetisation (FY17), which led to a sharp reduction in business activity and IL&FS default (September 2019) that resulted in a risk-averse lending environment, current shutdown led by Covid-19 poses severe liquidity and asset quality risk not seen in past in financial services. Measures undertaken by RBI, addresses most of the concerns faced by banks and NBFCs both on liquidity as well as business activities. Therefore, these measures remain positive, especially for NBFCs, HFCs, MFI. Players like JM Financial, Piramal Enterprise and Edelweiss with substantial exposure to real estate developers. Direct MFIs and MFI exposed Bandhan Bank and IndusInd Bank are expected to see some relief. Auto financiers, STFC, Mahindra Finance, Chola, etc, are expected to also benefit. Banks are beneficiaries of 90 day DPD freeze during moratorium while 10% provisions would impact P&L. Pace of recovery and repayments post lifting of moratorium remains would be watched

Exhibit 1: Measures taken by RBI

Measures announced by RBI	Impact	Stocks impacted/ benefitted
RBI would undertake TLTRO worth ₹ 50000 crore of which 50% of funds will be invested in mid sized & small NBFCs and MFIs. RBI has held that the investment has to be made within a month of availment and would be classified as HTM	This move remains beneficial for NBFCs, addressing liquidity pressure faced by lenders amid shutdown and asset liability mismatch led by moratorium	NBFCs including MMFS, Chola Finance, Shriram Transport Finance, AB Capital; MFI like Spandana Spoorty, Arman Financial, and smaller HFCs
Total ₹ 50000 crore of special finance facility would be provided to Nabard (₹25000 crore) , Sidbi (₹15000 crore) and NHB (₹10000 crore)	This will entail liqudiity to NBFCs at reasonable cost of funds as the refinance is availed at repo rate	NBFCs including MMFS, Chola Finance, Shriram Transport Finance, AB Capital; MFI like Spandana Spoorty, Arman Financial and smaller HFCs
RBI has reduced LCR requirement from 100% to 80%. This reduction would be implemented in a phased manner wherein LCR would be restorted to 90% by October 1, 2020 and 100% by April 1, 2021	Reduction in LCR will provide near term breather to banks to focus on lending activities	Private banks including IndusInd Bank, RBL Bank, Axis Bank, Kotak Bank and PSU banks like SBI and BoB
Moratorium period would not come under 90 day rule for NPA classification. However, RBI has also added that banks will also have to keep additional 10% provisioning on standtill accounts in two quarters i.e 5% in Q4FY20 and 5% in Q1FY21	With this move, accounts classified as SMA 1 and SMA 2 as of February 29, 2020, will remain standstill for 90 days i.e till May 31, 2020 from the point of view of asset classification. Though this provides breather on asset quality, additional provision of 10% is seen to impact earnings. Banks offering moratorium to substantial accounts, particularly PSU banks, is seen witnessing elevated provision in near term. Regional private banks, with substantial exposure to MSME segment, are also anticipated to witness higher case of deferment and thereby additional provision	PSU banks including SBI and regional private banks with substantial exposure including Federal Bank, DCB Bank and City Union Bank to witness higher deferral and thus elevated provision in near term
Delay in date of commencement for commercial operations (DCCO) related to commercial real estate was allowed to be extended by a year by banks. However, now similar treatment has been extended to NBFCs, which acts as a breather for HFCs, especially players with substantial exposure to CRE	Emergence of Covid-19 and related shutdown impacted commercial estate segment and thereby put NBFCs with substantial exposure staring at asset quality risk. However, this move places NBFCs along with banks, providing them respite from asset quality shock in near term	JM Financial, Piramal Enterprise, PNB HF, LIC HF
RBI has clarified that SCBs & NBFCs would have make additional 20% provisioning in case large accounts remain default for more than 210 days	Provides additional time for large exposure under resolution, which provides near term breather for banks, though additional provision of 20% to keep credit cost elevated and impact earnings	PSU banks including SBI, BoB, PNB etc and private banks like Axis Bank, IndusInd Bank, RBL Bank

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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, Kajal Gandhi, CA, Vishal Narnolia, MBA and Yash Batra, MBA, 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.

Terms & conditions and other disclosures:

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 icicidirect.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. 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.