Research

Long-term salve

But Aatmanirbhar Bharat is a step in the right direction

Impact note

Aiming for the right corners, but not a consumption trigger

The finance minister has announced measures worth Rs 11 lakh crore in five tranches over the past few days to contain the economic fallout of the Covid-19 pandemic. Add to this the earlier announced measures worth Rs 9.9 lakh crore (RBI liquidity support and others), and the financial support works out to Rs 20.9 lakh crore.

Given the fiscal constraints, the government has undertaken measures that can magnify the impact of every rupee of stimulus. Hence the liberal use of guarantees and tiered funding structures.

This reflected in the actual committed fiscal outgo of Rs 1 lakh crore, translating to a meagre 9% of the Rs 11 lakh crore of measures outlined over the five tranches. The bulk of this direct support would be through the Pradhan Mantri Garib Kisan Yojana.

The government has also ploughed in some earlier discussed structural reforms, especially in tranches 4 and 5, to help drive India's medium-term growth story. The announcements pertain especially to sectors such as mining, aviation, urban infrastructure, power, and agriculture.

Further, the government has increased the borrowing limit for state governments from 3% of their gross domestic product (GDP) to 5% of GDP. However, of this additional 2 percentage points, 1.5 percentage point is conditional upon states achieving certain targets.

For addressing near-term issues, apart from direct benefit transfers and additional spending through MNREGA, the government has mobilised credit to micro, small and medium enterprises (MSMEs), agriculture, and the affordable housing sector. The 100% guarantee on Rs 3 lakh crore loans to MSMEs with one year moratorium, for instance, will help these units, which are typically strapped for working capital. It will also spur credit growth for both banks and non-banks this fiscal and contain delinquencies in the segment, which would have increased otherwise.

Also, relaxation of insolvency norms should help companies in the near term as they will be protected from liquidation arising out of Covid-19 environment.

The key monitorable now would be how states enable the implementation of various schemes and measures and work in close partnership with the Centre.

To conclude, while most steps from government are steps in the right direction, it is unlikely to stimulate demand/ consumption given that the package is more focussed on supply-side reforms. Also, no clear announcements were made for highly vulnerable sectors such as airlines, tourism and hotels, barring the additional lending for MSMEs in the space, or to improve the sentiment of the workforce, both organised and unorganised. Further, while the government has not added much to its current year fiscal outgo – and thereby deficit –it will weigh on public debt next fiscal unless the economy revives.

Sector-wise impact of Aatmanirbhar Bharat

Sector	Govt spend	Key schemes	Impact assessment
₹ **NBFC**	Nil (guarantee will be paid)	• Rs 45,000 crore partial credit guarantee (PCG 2.0) scheme for non-banking financial companies (NBFCs) • Rs 30,000 crore special liquidity scheme for NBFCs, housing finance companies (HFCs) and microfinance institutions (MFIs) with full guarantee by the government	**Rs 75,000 crore liquidity boost for NBFCs** • Under PCG 2.0, the scope has been widened to cover bonds and commercial papers in addition to the securitised pools PCG 1.0 covered. Further, the guarantee of first loss has been increased to 20% from 10% earlier. In addition, the government has deemed borrowers with low credit ratings and unrated borrowers as eligible for borrowing. While further eligibility conditions under this scheme are likely to come in, PCG 2.0 will provide liquidity relief to the small and mid-size non-banks that were facing liquidity issues • The Rs 30,000 crore special liquidity scheme will cover both primary issuances and secondary market transactions. Banks' participation under the targeted long term repo operation (TLTRO) 2.0 scheme, which was focused on NBFCs, remained limited because of higher credit risk perception on mid- and small-size non-banks. Now, the 100% government guarantee will address this concern. • NBFCs' capital market borrowings that are due for redemption between April 20 and August 20 total up to nearly Rs 1.3 lakh crore. If we consider the funding support of Rs 50,000 crore through TLTRO 2.0, of which the first tranche of Rs 25,000 crore was announced by the RBI (bids were received for Rs 12,800 crore), and the Rs 75,000 crore available through the incentive package announced (Rs 30,000 crore through special liquidity support with 100% government guarantee and Rs 45,000 crore with partial government guarantee), it should be more or less enough to support the repayments due in the next five months. • In the current scenario, smaller NBFCs and lower-rated NBFCs are finding it difficult to raise funds. In this context, we have looked at the repayments due by lower-rated NBFCs. Of the total amount (Rs 1,27,500 crore) due for repayment, around Rs 44,000 crore is due from NBFCs with instrument

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			rating of ‘AA’, while Rs 9,000 crore is due from NBFCs with instrument rating of ‘A’ and below. The government and the RBI are trying to address this issue through support of 50% funds reserved for smaller NBFCs under TLTRO 2.0 and new incentive package to help the NBFCs fight the current liquidity constraints. However, looking at past experience where the first tranche under TLTRO 2.0 was not fully subscribed, progress under the new package needs to be monitored. • The resolution process under IBC saw good traction until December 2019, with around 43% of claims realised. However, with the Covid-19 pandemic, we expected the resolution process to slow down this fiscal. Moreover, with the recent announcement by the government that no fresh insolvency proceedings can be initiated for a year, we expect the resolution process to slow down further and extend beyond this fiscal.
MSME	Rs 18,300 crore	• Definition changed – investment limit revised and turnover introduced as an additional criterion • Rs 3 lakh crore collateral-free MSME loans • Rs 20,000 crore subordinate debt for stressed MSMEs • Rs 50,000 crore equity infusion for MSMEs through funds of funds • Disallowing global tenders of value up to Rs 200 crore for government procurement	**MSMEs’ short-term liquidity crunch addressed, but risk looms beyond fiscal 2021** • Lending to MSME by banks and NBFCs is estimated at Rs 18-19 lakh crore in fiscal 2020. Factoring Rs 3.5 lakh crore facility via Aatmanirbhar Bharat scheme, potential MSME credit would increase 18-19%. However, actual utilisation / disbursement will be contingent on MSME classification in the definition, and other factors that will have to be monitored closely. • The Rs 3 lakh crore complete credit guarantee scheme provides immediate additional 20% support to all existing accounts subject to some criteria being met. This would clearly provide much-needed liquidity to MSMEs that are known to face severe working capital crunch during downturns. CRISIL’s analysis of 13,000 companies over a 5-year period indicates the working capital cycle of MSMEs can stretch by 15-20% during downturns compared with normal years

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		• Rs 2,500 crore additional support or Phase 2 of Employees' Provident Fund (EPF) support for business and workers for additional three months. This is an extension of earlier schemes for an additional three months until through August 2020 • Rs 1,500 crore interest subvention for Mudra Sishu loans (2% interest subvention for 12 months) • Rs 5,000 crore special facility announced for small vendors; modus operandi and more details on this scheme awaited	• The announcement of Rs 20,000 crore subordinate debt for stressed MSMEs includes Rs 4,000 crore government support to the Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE). The infusion to be done by the government to CGTMSE is the highest in the last two decades. In fact, the infusion represents ~60% of cumulative corpus in CGTMSE since its inception in fiscal 2001. More clarity on this scheme in terms of interest rates, etc, is awaited. Asset quality risk arising from the schemes is a key monitorable. For instance, the Pradhan Mantri Mudra Yojana, which had an outstanding loan book of Rs 2.6 lakh crore as of fiscal 2019 and constituted 14-15% of MSME lending in India, has seen a rise in GNPA in recent years. • Using the new MSME definition, we analysed 12,000 companies (excluding traders) in CRISIL's proprietary Quantix database. Their rated debt accounts for ~12% of MSME debt outstanding in India. Term loans constitute 53% of the total MSME debt, where a three-month interest moratorium has been provided. For working capital loan, there is an interest deferral for three months, and deferred interest needs to be paid from the fourth month. Considering the three-month interest moratorium/ deferral on existing loans and 12-month moratorium on fresh loans, the interest burden for fiscal 2021 would reduce by 15-20% vis-à-vis fiscal 2020. Factoring moratorium benefit, interest coverage ratio is estimated at 0.3 to 0.4 in fiscal 2021, but will still be worse than 0.6 in fiscal 2020 owing to severe impact on demand.
Power - discoms	Nil	• Rs 90,000 crore liquidity infusion for discoms via PFC/REC against receivables • Rebate for payment to be received by gencos to be passed on to industrial customers	**Power discoms get much-needed shot in the arm; benefit to end-consumers remains a grey area for now** • The package will improve liquidity of distribution utilities in the short term, helping them clear a significant proportion of overdues. As of March 2020, distribution utilities owed Rs 76,500 crore to power generators. The three-month moratorium is

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			expected to increase this amount by another Rs 45,000-50,000 crore. The move will provide interim relief to power generators, which are facing stretched receivables due to delayed payments from discoms • The Rs 90,000 crore relief provided to discoms by PFC/REC, backed by state government guarantees, is expected to be against receivables of the distribution utilities. The fall in revenue generation in fiscal 2021 arising from drop in demand for power may reduce the receivables over the medium term as demand recovers gradually after fiscal 2021. This may lead to increasing reliance on debt by discoms to fill in the gap in revenues, although the exact terms are yet to be clarified • The percentage of rebate by central power generating companies (NTPC, NLC, NHPC) has not been announced. The rebate needs to be significant to make a dent in the high tariffs of Rs 6-7 per unit as paid by industrial consumers. Conversely, a high rebate amount may dent their profitability if not provided by the government directly
Real estate	Rs 6,700 crore	• Extension of registration and completion of real estate projects under Real Estate Regulatory Authority (RERA) for all projects in or after March 2020 for six months and can be extended for three more months if needed. • Timeline for availing the Credit Linked Subsidy Scheme (CLSS) under the Pradhan Mantri Awas Yojana Urban (PMAY-U) extended by a year till March 31, 2021 for those with an annual income between	**Real estate developers and contractors get delivery relief, demand risk continues** • The announcement will address developers' concerns regarding stalled construction due to the lockdown and unavailability of labour post it. This will help developers extend project completion date by 6-9 months without any delay penalty • The package will benefit over 50,000 projects registered with RERA across states and union territories. Of these, almost 50% are from Maharashtra. Further, the top-10 cities have 1.2 billion square feet under-construction projects, which will benefit from this move • However, from a cash-flow perspective, this may not provide much respite for projects as delay in construction will also lead to delay in schedules of construction-linked payments from existing sales.

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		Rs 6-18 Lakh (MIG-I & MIG-II).	Also, in the current market, where completed projects are preferred, participation of end-users will be deferred if completion timelines are stretched • In terms of funding, the sector has struggled over the past 12-18 months. In fact, over March-December 2019, total lending (NBFCs and banks) to developers declined from Rs 4.6 lakh crore to Rs 4.1 lakh crore. Stress is likely to mount as around half of the loan book under moratorium is expected to come out of moratorium by March 2021. • Since the inception of the scheme in 2016, 8.32 lakh beneficiaries have taken subsidy under CLSS (total subsidy of Rs 20,983 crore). Of these beneficiaries, almost 70% are EWS or LIG households. • Our assessment indicates that more than 75% of under-construction supply in Top-10 cities is below Rs 1 crore (typically targeted at MIG households). While the demand intervention is a step in the right direction, likely stress on employment and income levels will delay housing demand by at least 6-9 months. Hence, this extension will have limited impact on demand recovery in the short term.
 **Construction**	Rs 8,100 crore	• Six-month extension without cost escalations for milestone completion without penalty to government contractors	• Stuck projects will benefit and players can avoid penalties arising due to delays, especially in roads • More than 75% of the National Highways Authority of India's hybrid annuity model projects awarded between fiscals 2016 and 2019 are under construction. Around 40% of these projects are at advanced stages of construction (either delayed or SCOD by end 2020), putting at risk ~Rs 35,000 crore in investments and Rs 14,000 crore in debt. • Along with this 40%, the remaining 60% projects will also get extensions in achieving project milestones and concession period of contracts. Partial release of performance security will provide some relief in working capital management for developers.

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Agriculture finance	Nil	• Rs 1 lakh crore agriculture infrastructure financing fund for development of farm gate infrastructure for farmers • 25 lakh new Kisan Credit Cards distributed with loan disbursement of Rs 25,000 crore • Rs 1.87 lakh crore disbursed through PM KISAN scheme • Rs 29,500 crore refinancing assistance provided through NABARD	• While two-thirds of agriculture credit in India comprises short-term cyclical loans for field operations, focus on term loans has been limited in the past. Effective utilisation of Rs 1 lakh crore for financing infrastructure development could lead to an on-year increase of 19% in term loans. While the effects of this measure will not be immediate, however if executed well, it will build much needed infrastructure at the farm gate. • Credit disbursement through Kisan Credit Cards (KCC) accounts for 65% of the overall short-term agriculture credit. While disbursement of new KCCs are expected to increase loan disbursement by 4%, timely repayment of these loans remains a key monitorable. NPA levels from KCC loans have been 5-6% higher compared with term loans in the past. • The government disbursed only ~60% of PM KISAN allocations in fiscal 2020 due to lack of registration of beneficiaries in few states like Bihar, Tamil Nadu, West Bengal and Chhattisgarh. Although the first installment for fiscal 2021 has been disbursed in April-May, benefitting a similar number of farm families, identification and registration of the remaining beneficiaries is important for efficient fund disbursement across states. • The refinancing support provided through NABARD only accounts for 2% of the overall agriculture credit. Therefore, it will have limited impact on the overall increase in liquidity in the market
Agriculture procurement and sales	Rs 4,000 crore	• Amendment in Essential Commodities Act for deregulation of sales of agriculture produce, including field crops, onion and potato • Working capital limit of Rs 6,700 crore sanctioned for	• Amendment of the Essential Commodities Act was long due and bodes well for the sector structurally, though it will not be able to provide a quick relief to farmers and will also need compliance from states for implementation. Deregulated field crops, onion and potato, removal of stocking limits and inter-state movement of agriculture produce are expected to reduce the existing price volatility in food commodities. However, it is important that the

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		procurement of foodgrains to state government entities • Rs 3,500 crore allocated for the distribution of 5 kg rice/wheat and 1kg pulses to 8 crore non-card holder migrants • Rs 500 crore allocated under Operations Green for facilitation of sales of horticulture produce through 50% subsidy on storage and transport	government set up an effective execution framework for this to facilitate the transactions at both buyer's and seller's (farmer) ends. • The government had increased the target for wheat procurement in the current rabi season to 40 million tonne (MT) in March compared with 36 MT procured last year. Allocation of Rs 6,700 crore will facilitate the additional procurement of 4 MT on-year at Rs 1,925/quintal (minimum support price) • In extension of the announcement in March for distribution of 12 MT of rice or wheat and 0.5 MT of pulses to 80 crore ration card holders through May, an additional 0.8 MT of rice or wheat and 0.15 MT pulses would be distributed over the next 2 months to 8 crore non-card holders. This will involve a procurement cost of~Rs 1,700 crore. Therefore, the allocated fund of ~Rs 3,500 crore will be sufficient for procurement and effective distribution • Operation Green, which provides subsidy for storage and transportation was launched in fiscal 2019, however only 40% of funds were utilized. Hence execution of the scheme remains an aspect to monitor for support to the horticulture crops.
Agri allied	Rs 72,500 crore	• Additional allocation of Rs 40,000 crore for MGNREGA • Rs 20,000 crore for fishermen over the next five years under Pradhan Mantri Matasya Sampada Yojana • Rs 13,343 crore for eradication of foot and mouth disease in Indian livestock population • Rs 15,000 crore for Animal Husbandry	• ~50% of the disbursements under MGNREGA are on rural wages, which have a 3% share in overall agriculture income. However, a 42% increase in the allocation over the actual expenditure of FY20 will increase the share to ~4% and provide much needed earning opportunity to workforce that has migrated back to the hinterland. • The central government has made various allocations for allied agriculture industries. However, majority of the reforms are structural in nature and will show results over time, provided effective implementation takes place. Also, sectors such as fisheries, medicinal plants and apiculture collectively account for less than 5% share in the overall agriculture GDP

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		Infrastructure Development Fund (AHIDF) • Rs 4,000 crore for enhanced cultivation of herbal and medicinal plants • Rs 500 crore for Indian Apiculture industry • Rs 10,000 crore for formulation of micro food enterprises	• The government has increased the annual allocation for fisheries development by five times over the last budgetary announcement of Rs 825 crore for FY21. Fish exports would need to grow at a CAGR 18% to reach the targeted 20 MT and Rs 1 lakh crore value over the next 5 years. Therefore, execution of the scheme remains an aspect to monitor, in order to achieve this level of export growth. • Eradication of foot and mouth disease in animals could lead to an increase in per day per animal milk productivity, which would lead to sharp increase in milk production. This would need to be supported through higher value addition as well as exports to support milk procurement prices. • Exports, which currently account for 1% of total dairy industry, could increase to 3-4% with the effective utilisation of AHIDF to setup export-oriented units of curd, butter, ghee, cheese, ice-cream and milk powder. The area under medicinal plants is less than 1% of the total horticulture acreage in the country. Effective utilisation of Rs 4,000 crore would increase the acreage to 4% by FY23. India exports over 25% of the medicinal plants produced, increase in acreage and production would further boost exports and support higher cash in hand of the farmers. • The central government had allocated Rs 1,000 crore under the PM Sampada Yojana for development of food processing sector in Union Budget 2020-21. As MSMEs constitute 65% of the food processing industry, additional allocation of Rs 10,000 crore for infrastructure setup is expected to significantly increase the investment in the industry benefitting both MSMEs and farmers to realise better price for their produce.
Aviation	Nil	• Efficient air space management • Rationalisation of taxes for MRO sector	• Effect of efficient air space management will be visible, once restricted air space is demarcated and air traffic returns to pre-Covid levels.

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		• Build more airports on PPP	• Rationalisation of taxes on MRO was even announced in Union Budget 2020-21, but it is unlikely to benefit in the near term as airlines have existing contracts with overseas players and heavy maintenance checks are likely to be deferred due to lower aircraft utilisation. • Plans to bid more operational airports via PPP would see muted bidding responses due to declining air travel demand and lower non-aero revenue affecting returns for operators
Mining	Nil	• Expected to offer 500 mineral blocks, including 50 coal • Promoting commercial coal mining (ordinance to remove captive end use restriction passed in January 2020), govt. to expedite policy formulation and auction process. • Government to allow composite exploration/ auction of coal bed methane reserves for extraction. • Rebate offered on revenue sharing quantum to incentivise early operationalisation/ higher produce. • Provision of Rs 50,000 crores for evacuation infrastructure.	• While the industry currently enjoys close to 75% captive bauxite, auction of new bauxite mines will lead to fall in bauxite imports as well as purchase of merchant bauxite in medium term. Further, with all three players are ramping up their refining capacities, incremental bauxite will be required which can be met through these new bauxite auctions leading to higher cost competitiveness in medium term. • Power costs accounts for close to 40% of the total costs for the aluminium industry. While all the players enjoys high proportion of captive and linkage coal, supply shortage of linkage coal often leads to players restoring to imports which leads to a surge in power and fuel costs. In fact rise in power and fuel costs led by supply disruptions along with fall in realisations led to steep fall in margins (EBIT) for the aluminium industry to ~3% in fiscal 20 from 10.2% in fiscal19. • Policy for commercial sale of coal will improve sector attractiveness. It is aimed to reduce dependency on Coal India Ltd (CIL) for coal supply and to attract private capital to the sector. • Commercial mining may potentially substitute 50-100 MTPA of imported coal demand, where India imports roughly 200 MTPA on an average. Usage of imported coal will be restricted due to its requirement for - imported coal based power plants; blending

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			needs in industrial usage to control quality; and use in steel industry where currently domestic coking coal production is insufficient. • Participation for coal block auctions will be dependent on key characteristics of the mines on offer. These pertain to size/ capacity of mine, type of reserves, location, expected quality of coal, environmental approvals etc. Several of these have been a restraining factor in previous attempts to auction coal blocks. • Methane gas cover on coal reserves have been an impediment to safely mining coal blocks. Joint lease for such coal mines will enable mining and gas exploration entities to tie-up for extraction. This is aimed to expedite coal production from such mines and improve supply of methane (a natural gas substitute) for end-use industries such as fertilizers, LPG usage etc. • Rebate is currently related to early operationalization of mine and higher production (as compared to expectations). This will incentivise players to operationalize mines quickly and improve production efficiency. • Low / untimely availability of rakes for transport of coal has limited coal supply in the past. Additional support from government towards such infrastructure will lead to faster supply, as well as lower cost to users where transport was not feasible.

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