RBI – Addresses the need of the hour

RBI governor, Shaktikanta Das held a press conference on 17th April 2020 (Friday) and spelt out some much-needed initiatives which was the need of the hour. Though, this was a much-needed impetus given the unprecedented situation created by the pandemic worldwide, this by any means is not going to be sufficient given the wounds COVID'19 has given to the economy and few sectors specifically. Here is the summary of the press conference.

- The mission is to do whatever it takes to prevent epidemiological curve from steepening any further.
- India is projected to grow at 1.9%, highest growth rate among the G20 economies. IMF Projects – India expected to post a sharp turnaround and resume its pre-COVID by growing at 7.4% in 2021-22.
- PMI declined into contraction in March 2020, pulled down by a sharp downturn in export business, new domestic orders and employment.
- Net foreign direct investment inflows amounted to US$ 40.6 billion during 2019-20 (April-February), up from US$ 29.9 billion a year ago.
- Net foreign portfolio investment in equities recorded inflow of US$ 0.4 billion during 2020-21 (till April 9) as against the inflow of US$ 0.2 billion a year ago.
- Portfolio debt investment recorded an outflow of US$ 0.7 billion as against net outflow of US$ 0.9 billion a year ago. Foreign exchange reserves continue to be robust at US $ 476.5 billion.

Support to lending business

- A new targeted long-term repo (TLTRO) for INR 50,000 crores has been announced directed at NBFCs, HFCs and MFIs to boost the liquidity.
- All India financial institutions (FIs) NABARD, SIDBI, and NHB will get a cumulative special refinance facility for INR 50,000 crores at the RBI's repo rate.
- For all accounts where moratorium or deferment has been applied, there would be an asset classification standstill (i.e. NPA classification will now not include the 90- day moratorium on loans). But with cautious (RBI) understand the risk build up in banks' balance sheets on delay in recoveries and with the objective of ensuring that banks maintain sufficient buffers, they will have to maintain higher provision of 10 per cent on all such accounts.
- Reduction in reverse repo rate from 4% to 3.75% is likely to further disincentive banks from parking funds in reverse repo. The RBI wants banks to lend to commercial sector.
- Reduction in LCR requirement to 80% (from 100%) and suspension of dividends will boost capital and liquidity in banks.
- DCCO delayed for reasons beyond the control of promoters, can now be extended by one year without asset classification downgrade. This relief is now also allowed for NBFCs giving loan to commercial real estate.

Sectors which are indifferent to COVID'19

- Agriculture and allied activities on the back of all-time highs in the production.
- The robust growth of 21.3% in tractor sales up to February 2020.
- Industrial output accelerated to its highest rate in seven months.

Sectors which are negatively affected on account of COVID'19

- Electricity generation sees sharp fall in daily demand in the range of 25-30 per cent after the lockdown
- Automobile production and sales, and port freight traffic declined sharply in March

Our View

- ❖ Though this was a much-needed support by the RBI, but this by any means is not going to suffice given the disruption in businesses caused by COVID'19.
- ❖ The RBI Governor announced a new set of measures in response to the current growth and financial market stress. These measures are mostly aimed at easing some pressures on the lower rated / smaller participants of the financial markets. This should alleviate financial stress to some extent.
- ❖ From an investment standpoint short bonds (investment grade bonds & CP of NBFC) are likely to see benefits on account of the TLTRO 2.0, it is very positive for NBFCs & MFIs.
- ❖ Relaxation and support given to lending institutions will artificially make their financials look good in the short to medium term but only disciplined lenders will survive and thrive in the long term and create wealth for shareholders.
- ❖ In continuation of the above point, we might see a positive reaction from the market towards weaker lenders because of the attraction towards their well garnished numbers due to RBI measures. But only looking at the surface is not going to be enough before investing in these lenders.