2022

Volume 1

APAS MONTHLY

THIS MONTH

This month we invite our readers and patrons to visit our wealth of knowledge by tuning into our new series of podcasts – "Demystifying Reforms" where we help demystify the latest reforms in the BFSI sector in India. In the first episode of this series, we have Mr. Saurabh Mishra, Joint Secretary, Department of Financial Services, discuss with us, the insurance reform of increase in foreign investment limit from 49% to 74%. Hope you will find it insightful. Keep tuning in for more.

https://podcasts.google.com/feed/aHR0cHM6Ly9hdWRpb2Jvb20uY29tL2NoYW5uZWxzLzUwNzEwMDMucnNz?sa=X&ved=0CAMQ4aUDahcKEwjIpO6SwP71AhUAAAAAHQAAAAAQOQ

Our next episode is on the Digital Rupee and we will be joined by industry experts to understand the implications and challenges.

Also, do visit our APAS blog. It is a place where you will find articles on the latest happenings in the financial sector.

We are also excited to launch refreshed version of our website which is more dynamic and is a one stop shop for all the insights from APAS.

In this issue, Mr. Suveer Kumar Gupta, MD & CEO, Shivalik SFB, has presented his thoughts on 'The journey of transition from a Co-operative to a Small Finance Bank'. We thank Mr. Gupta for his contribution to the APAS Monthly.

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This month, the APAS column presents its views on ‘Impact of COVID third wave on Indian economy’

The economic indicators showed mixed performance. Manufacturing PMI decreased to 55.5 in December from a 10-month high of 57.6 in November. India’s annual infrastructure output in December rose by 3.8%. India's Index of Industrial Production (IIP) slowed to a 9-month low of 1.4% in November. PMI services fell to a 3-month low of 55.5 in December from 58.1 in November, while composite PMI eased to 56.4 in December from 59.2 in November. CPI inflation rose to a 5-month high of 5.59% in December from 4.91% in November. WPI inflation eased to 13.56% in December from 14.23% in November.

The Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, presented the Economic Survey 2021-22 and tabled the Union Budget 2022-23 in Parliament.

The Reserve Bank of India (RBI) announced (i) Monetary policy statement (ii) Framework for Facilitating Small Value Digital Payments in Offline Mode (iii) Regulations under the amended Factoring Regulation Act, 2011.

IRDAI issued IRDAI (Surety Insurance Contracts) Guidelines, 2022.

Cabinet approved infusion of INR 1,500 crore in Indian Renewable Energy Development Agency Limited (IREDA). NITI Aayog, Rocky Mountain Institute (RMI) and RMI India released ‘Banking on Electric Vehicles in India’ report.

Securities and Exchange Board of India (SEBI) announced Change in control of the asset management company involving scheme of arrangement under Companies Act, 2013. SEBI announced Introduction of Special Situation Funds as a sub-category under Category I AIFs.

Our newsletter is focused on tracking the performance of the economy and the regulations and laws governing the Banking and Financial Services companies. We hope that this APAS Monthly is insightful.

We welcome your inputs and thoughts and encourage you to share them with us.

Ashvin parekh

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On the cover

GUEST COLUMN

The journey of transition from a co-operative to a small finance bank

Suveer Kumar Gupta
MD & CEO
Shivalik SFB

APAS COLUMN

Impact of COVID third wave on Indian economy

ECONOMY

- *Index of Industrial Production – November*
- *Inflation update – December*
- *PMI update – December*
- *Core Sector – December*
- *Economic Survey 2021-22*
- *Union Budget 2022-23*

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BANKING

- *Monetary Policy Statement*
- *Framework for Facilitating Small Value Digital Payments in Offline Mode*
- *RBI issues regulations under the amended Factoring Regulation Act, 2011*

INSURANCE

- *IRDAI (Surety Insurance Contracts) Guidelines, 2022*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *Cabinet approves infusion of INR 1,500 crore in Indian Renewable Energy Development Agency Limited (IREDA)*
- *NITI Aayog, Rocky Mountain Institute (RMI) and RMI India release 'Banking on Electric Vehicles in India' report*

CAPITAL MARKETS

- [Change in control of the asset management company involving scheme of arrangement under Companies Act, 2013](#)
- [Introduction of Special Situation Funds as a sub-category under Category I AIFs](#)

CAPITAL MARKETS SNAPSHOT

- CNX Nifty, BSE Sensex, India VIX, $/₹, GIND 10Y

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
Brazil	-2.9Q3	-3.4	0.9	7.0 Nov	8.3	-1.1	-6.4	11.8
Russia	-0.4Q3	-0.5	1.2	5.8 Nov	7.0	2.4	-3.7	8.60
India	**7.3 Q3**	**7.2**	**7.5**	**3.6 Nov**	**4.9**	**-0.9**	**-3.8**	**6.51**
China	6.7 Q3	6.7	6.4	2.3 Nov	2.0	2.5	-3.8	3.10^
S Africa	0.7 Q3	0.4	1.3	6.6 Nov	6.3	-4.0	-3.4	9.00
USA	1.6 Q3	1.6	2.2	1.7 Nov	1.3	-2.6	-3.2	2.56
Canada	1.3 Q3	1.2	1.9	1.5 Oct	1.5	-3.5	-2.5	1.78
Mexico	2.0 Q3	2.1	1.9	3.3 Nov	2.8	-2.8	-3.0	7.31
Euro Area	1.7 Q3	1.6	1.3	0.6 Nov	0.2	3.2	-1.8	0.25
Germany	1.7 Q3	1.8	1.4	0.8 Nov	0.4	8.8	1.0	0.25
Britain	2.3 Q3	2.0	1.1	1.2 Nov	0.6	-5.7	-3.7	1.55
Australia	1.8 Q3	2.9	2.8	1.3 Q3	1.3	-3.5	-2.1	2.86
Indonesia	5.0 Q3	5.0	5.2	3.6 Nov	3.5	-2.1	-2.6	7.93
Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Singapore	1.1 Q3	1.3	2.0	-0.1 Oct	-0.6	21.5	21.5	2.49
S Korea	2.6 Q3	2.7	2.5	1.5 Nov	0.9	7.2	-1.3	2.17

ECONOMIC DATA SNAPSHOT

- Global GDP, CPI, Current account balance, budget balance, Interest rates

The journey of transition from a Co-operative to a Small Finance Bank

Suveer Kumar Gupta
MD & CEO
Shivalik SFB

Incorporated in 1997, Shivalik Mercantile Co-operative Bank Ltd. (SMCB) commenced operations on 5th September 1998 as a district level Urban Cooperative Bank (UCB) with a single branch in Saharanpur, Uttar Pradesh (UP). The Bank grew steadily and acquired a loss-making co-operative bank at Dhar, Madhya Pradesh (MP) in 2010, converting it into a profit-making branch within a year. This successful acquisition helped the Bank become a Multi-State Urban Cooperative Bank, which was a first in the State of UP, and subsequently triggered the acquisition of another co-operative bank in Indore in 2012.

Within a few years, SMCB had emerged as the first and largest multi-state urban co-operative bank in UP associated with approximately 12,000 self-help groups, operating through 31 branches and over 250 banking agents, providing banking services across UP, MP, Delhi, and Uttarakhand.

In 2014, RBI introduced the vision for Small Finance Banks, with the focus on promoting financial inclusion and providing banking services to the underserved and the unserved segments. These included small businesses, small and marginal farmers, micro and small industries, and unorganised entities which make up a big chunk of India's economy. Just like universal commercial banks, SFBs could engage in all banking activities, such as lending, money transfers, investments, and accepting deposits.

By this time, we had envisioned to become a large bank with significant presence in the Indian banking space. The SFB vision touched a chord deep within us as this was a perfect fit with our business ethos, which essentially was to serve the underserved and the unserved segments of society with extensive use of technology. In broader terms we wanted to be a socially responsible and forward-looking bank. It was then that we decided to initiate the journey of transforming the bank into a better version of itself, at par with well-run commercial banks.

The transformation journey involved making strategic investments in our people, processes, and technology, while continuing to operate as a UCB. Investments were also made in building policies and manuals in consultation with one of the Big 4 advisory firms, setting up a strong corporate governance structure and having a differentiated approach towards technology to ensure financial inclusion of the masses. This period was also utilized in sprucing up our technology landscape, which involved moving our core banking on to a cloud hosted infrastructure and setting up other peripheral software to maximize the digital offerings. Digital channels were setup and our full participation in the payments space was ensured. We employed a company secretary early in the journey to ensure the right corporate governance rigour.

Then in 2018, the guidelines on voluntary transition of Co-operative Banks into Small Finance Banks were released. It was a dream come true. We promptly prepared the application as prescribed in the guidelines, along with a detailed project report and submitted it to the regulator in January 2019. Thus, initiating the process of transition. A detailed step wise plan was prepared to guide us in this journey, which was regularly reviewed and updated.

First phase involved a strong due diligence by RBI, more adequately known as 'Fit & Proper' assessment of the bank and of the promoters. Multiple times, during this process RBI came back to us with requests for additional information and clarifications, which were provided on priority. The phase also involved taking various approvals from the Central Registrar of Co-operative Societies, our Board of Directors, and the General Body of the Bank.

Subsequently, after getting a satisfactory status on the RBI assessment, an in-principal approval for transition was issued to the Bank by RBI on 6th January 2020. Thus, began second phase of the process, which meant complying with the terms of the in-principal approval letter and those defined in the transition guidelines. The activities carried out included registering a new Banking Company, obtaining various registrations for the company, proposing the Board of Directors and key management personnel of the new banking company, preparation of slump-sale agreement, preparation of various financial documents, signing of supplementary agreements with all partners of the bank, preparation for operational changes such as new organization structure, new branding, transition of all regulatory approvals to new company and ensuring that customers are provided with uninterrupted services during transition etc. There being no precedence on this process, several discussions were held with legal counsels, chartered accountants, company law and other professionals to establish clear and valid protocols.

The final licence to Shivalik Small Finance Bank was issued by RBI on 1st January 2021. There could not have been a better new year's gift to us. Post issue of final licence, the management team got busy in completing the final leg of the journey, which involved onboarding various stakeholders, infusion of capital into the new banking company, execution of the slump-sale agreement and the operational switch-over plan and surrender of the co-operative banking licence. The operational switchover was an extremely well-planned activity as the bank closed on a Friday evening as a co-operative bank and woke up on Monday as a Small Finance Bank including all changing to branding, logos, customer collateral and our digital banking channels!

The detailed and meticulous planning at our end ensured that customer services remained smooth and uninterrupted while we went live as an SFB on 26th April 2021. This was followed by inclusion of Shivalik Small Finance Bank in the Second Schedule to the Reserve Bank of India Act, 1934 on 15th June 2021. Thus, Shivalik became India's first UCB to transition into a scheduled commercial bank, a Small Finance Bank (SFB).

The early vision of Shivalik combined with the relentless efforts of our co-workers finally led us to the momentous occasion of successfully becoming an SFB and adding yet another milestone in our evolution as a bank that was created to serve the real 'Bharat'. Today we serve 5 lakh unique customers through a number of touch points such as a robust branch and ATM network, internet banking, mobile banking, and doorstep services through micro-ATM devices. We are also live on almost all the significant payment platforms including UPI, IMPS, NEFT/ RTGS and we pride ourselves in providing the best-in-class digital experience to our customers. We are powered by Infosys Finacle Core Banking and Digital Banking Suite on a cloud-based architecture that allows us unmatched agility with cost effectiveness and ability to manage scale while ensuring a seamless and secure digital experience to customers.

Apart from improved customer trust and better brand value, Shivalik's transition into an SFB has opened several growth avenues which are summarised below:

- Ability to raise external capital
- Ability to expand presence and business, pan India
- More operational freedom on branch expansion

- Collaborations with Banking correspondents and Fin-techs
- Ability to obtain deposits from the government and institutions
- Refinancing options for Agri, Housing, and MSME portfolios

Reflecting on the journey of past few years, I find that the task of evolving into an SFB was not easy. We needed to put in place state of the art technology, information security systems, robust corporate governance practises, detailed policies and guidelines, strong compliance team, and a group of highly driven professionals, which were essential to the process of transition and thereafter to make Shivalik a role model. This indeed was a daunting task. However, strategic early investments towards this goal, meticulous planning and the invaluable support received from partners like APAS at the time of creating the application for the licence have gone a long way in making our dream a reality.

Going by the solid growth Shivalik has witnessed over the years backed by some strong and timely moves, combined with the growing potential of 'Bharat', we are confident about the prospects of the bank as well as all our customers spread across the interiors of the country, and will continue to invest in their as well as in our future.

Impact of Covid third wave on Indian economy

The effects of third wave of COVID-19 may have begun in India around 30th of December 2021 with a sudden spike in the number of positive cases in India. The metropolitans have already seen a peak and currently the graph is showing a steady downward trend. But the tier-II and tier-III cities and the villages have reported a smaller number of cases. The cases in India and globally have peaked around the month of January 2022. The hospitalization and severity of patients is far less in third wave as compared to second wave. The experts say the peak of third wave is yet to come though.

Globally, the cases have increased manifold and the fatality and hospitalization is low as compared to second wave. Several factors such as vaccination, government-imposed restrictions, fewer gatherings, people wearing masks and most importantly herd immunity developed by communities play into factor responsible for increase in positivity rate and cases.

On account of limited restrictions imposed by Government, the economy has not suffered as grave consequences as second wave. Further, the immunity and impact of vaccination have saved the need for such restrictions. The state governments and regulators have taken their lessons from the second wave and developed a cautious approach towards policy making and implementation. The regulator has continued to maintain status quo stance on monetary policy citing more accommodative measures for encouraging economic growth, while intending to maintain inflation rates. This is in line with the global measures and International Monetary Fund (IMF) advisory of maintaining a cautious approach to policy normalization emerging markets and developing economies. This comes after the accommodative financial support and fiscal measures granted by government and regulator during the last wave, in the first half of 2021. On the forecasted growth, IMF envisages a growth rate of 9 percent for FY22, a decrease from 9.5% before the third wave commenced. IMF cited impact on account of spread of Omicron as main reason behind the reduction in the forecast. Global growth rate is expected to moderate from 5.9 percent in 2021 to 4.4 percent in 2022, which is half percent down from earlier review on account of forecast markdowns in two largest economies i.e., US and China.

The Nomura India Business Resumption Index (NIBRI) reached an all-time high of 120.2 on 22nd January 2022. The Nomura India Business Resumption Index (NIBRI) compares the activity for a particular week as against for the one before the onset of the pandemic. As per Nomura Global Markets Research, the restrictions could derail the recovery achieved in Q1 in contact-intensive services, but global experience suggests a smaller subsequent impact than previous waves and a swift growth rebound once cases peak.

As per a rating agency, the outlook for freight rates is positive for the second quarter of 2022 as goods movement remains robust due to healthy demand from fast-moving consumer goods (FMCG), ecommerce, metals, mining, textile and automobile sectors.

As per an industry body, the experience gained by dealing with the previous two Covid outbreaks are helping manufacturers better manage supply-chain issues and deal with a curtailed workforce, ground reports show. What also helps is that there are comparatively fewer restrictions on the movement of people and goods compared with the previous waves, allowing retail to keep ticking. A large FMCG company said the company has implemented measures such as ramping up inventory, curtailing non-essential travel, implementing specific zoning and random testing across locations to detect infections before they are symptomatic across its offices and plants. Meanwhile, white-collar workers have seamlessly transited back to working from home.

Despite a not-so-gloomy outlook for coming days, an imminent disruption, as seen from developed countries' experiences lingers around of inflation. Along with accommodative monetary policy, supply chain disruptions, high commodity prices and shipping costs could amplify concerns around inflation as per IMF. Such scenario is already witnessable in US and could follow suit in India. A probable impact to accommodate delays could be structural changes to production, delivery and storage capacity across sectors.

The revenue for banking sector has been mainly impacted by uptick in demand and NPAs resolution. The impact on income of retail borrowers has been less severe as compared to first two waves, thus insulating banks from restructurings and defaults to some extent. However, key factors such as asset quality, uptick in assets and profitability may face headwinds if further lockdowns are imposed.

As per CARE, the outlook for bank credit growth is expected to be in the range of 8.0% to 9.0% for FY22 with a low base effect, economic expansion, rise in government and private capex (specially, capex for road, renewables and production linked incentive (PLI) schemes, extended ECLGS support (sanctions permitted till March 2022 and disbursements till June 2022), and retail credit push in mortgage finance as well as small ticket lending. The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. The retail loan segment is expected to do well as compared to industry and service segments. However, the new coronavirus variant (omicron) could dampen momentum if localized lockdown measures increase any further.

The impact of COVID third wave has not been as devastating as the first two waves reflecting both in terms of restrictions and economic impact due to it. The steady and upward growth of economy, banking and insurance sector positively reflects of pent-up and evolving consumer demand. An important aspect to be pondered upon would be the side-effects of an evolved wave on restrictions on global supply chains and thereby inflation. Developed economies, which are in the advanced stages of the third wave are experiencing the negative effects of inflation on corporate and retail books. In Indian context, the shape of monetary policy and trade supply chains would decide the impact of inflation on savings any further.

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ECONOMY

IIP (Index of Industrial Production) – November

Index of Industrial Production (IIP) or factory output for the month of November 2021 slowed to a 9-month low of 1.4%, compared to 4% in October 2021 and (-) 1.6% in November 2020.

The General Index for the month of November 2021 stands at 133.7, which is 3.2% higher as compared to October 2020.

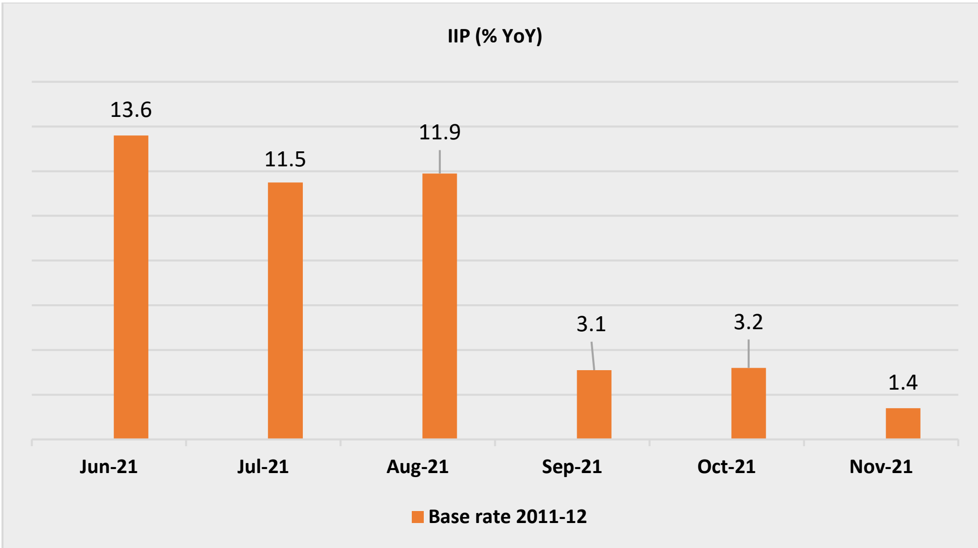
The manufacturing sector, which constitutes 77.63% of the index, went up by 0.9% in November, to 129.6.

Mining sector output grew by 5%, to 111.9.

Electricity generation rose by 2.1%, to 147.9.

As per Use-based classification, the indices stand at 126.5 for primary goods, 81.2 for capital goods, 141.8 for intermediate goods and 142.5 for infrastructure/construction goods for November.

Further, the indices for consumer durables and consumer non-durables were at 106.7 and 150.3, respectively.



Source: APAS BRT, www.mospi.gov.in

CPI (Consumer Price Index) – December

India's consumer price index (CPI) or retail inflation rose to a 5-month high of 5.59% in December 2021, compared to 4.91% in November 2021 and 4.59% in December 2020.

The corresponding provisional inflation rates for rural and urban areas are 5.36% and 5.83% respectively.

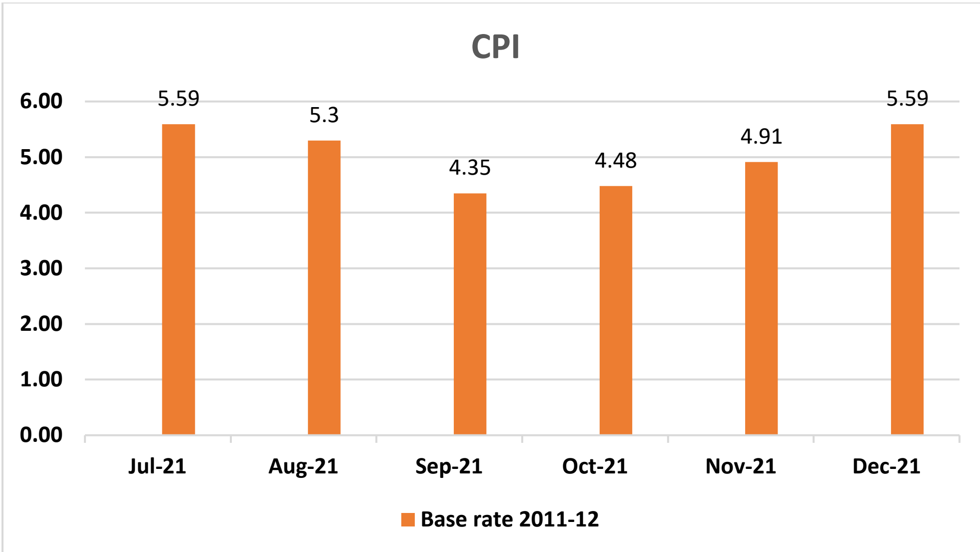
The Consumer Food Price Index (CFPI) rose to 4.05% in December from 1.87% in November.

The core CPI inflation remained unchanged at 6.1% in December 2021.

Among the CPI components, the food and beverages inflation went up to 4.47%.

The spike in the food basket was due to a sharp rise in prices of oils and fats, which climbed 24.32% in December. Apart from this, the meat and fish prices saw a rise of 4.58%, while that of milk and products gained 3.76% and pulses and products rose 2.43%. The vegetables segment slipped by 2.99%. However, fruits grew 3.54%.

Apart from food and beverages, the fuel and light segment rose 10.95%, clothing and footwear gained 8.3% and the housing segment inched up 3.61%.



Source: APAS BRT, www.mospi.gov.in

WPI (Wholesale Price Index) – December

India's wholesale price index (WPI) inflation eased to 13.56% in December 2021, as compared to 14.23% in November 2021. It was 1.95% in December 2020.

The rate of inflation based on WPI Food Index increased to 9.24% in December 2021 from 6.7% in November 2021.

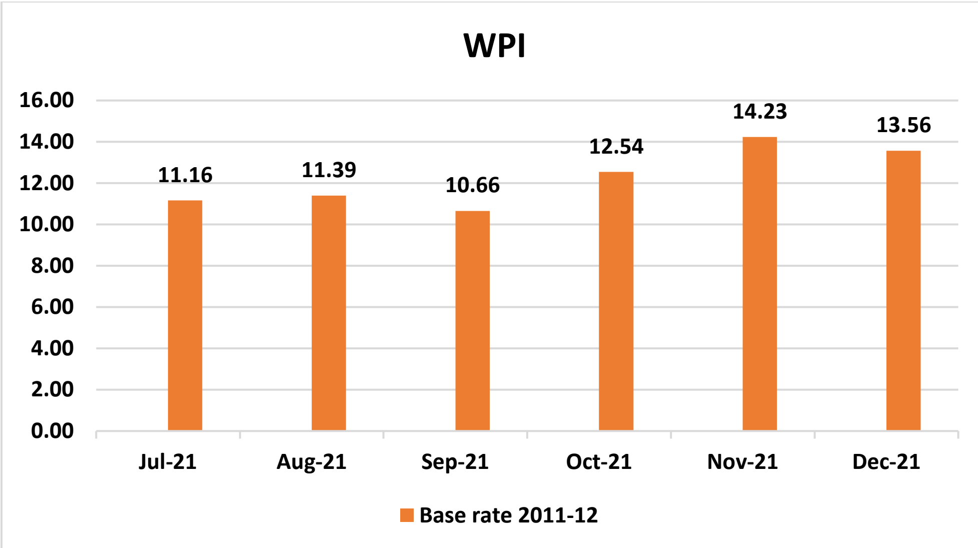
The index for primary articles declined by 0.47% from the previous month.

Prices increased for non-food articles (4.59%). Prices declined for minerals (6.1%), crude petroleum and natural gas (3.19%) and food articles (1.07%).

The index for fuel and power declined by 2.66% from the previous month.

Prices increased for coal (0.38%). Prices declined for mineral oils (4.28%). Prices remained unchanged for electricity.

The index for manufactured products increased by 0.22% from the previous month.



Source: APAS BRT, www.eaindustry.nic.in

Manufacturing PMI – December

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in December moderated, but output remained in growth territory.

The Manufacturing PMI decreased to 55.5 in December 2021 from a 10-month high of 57.6 in November 2021. It remained above the 50 level, that separates expansion from contraction, for the sixth straight month.

The reading pointed to robust operating conditions that were elevated by historical standards.

Growth of new work and production stayed sharp in spite of losing momentum, while employment fell fractionally amid a lack of pressure on capacity.

At the same time, foreign sales rose for the sixth month in a row and buying levels increased substantially on the back of restocking efforts.

As for supply chains, vendor performance worsened the most since August 2020 due to raw material scarcity.

On inflation, input price inflation eased to a 3-month low, but remained sharp and above its long run average.

Output charges rose, but the overall rate of inflation was only slight and the weakest since October 2020.

Finally, confidence improved from November's 17-month low, but remained below its long run average.

Source: www.tradingeconomics.com

Services PMI – December

The Indian services sector activity in December expanded, albeit at a slower pace than in the previous month, as demand rose.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to a 3-month low of 55.5 in December 2021 from 58.1 in November 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the fifth straight month.

This was the weakest reading since September, amid concerns over another wave of Covid-19.

New orders rose for the fifth month running, despite the rate of growth being at a 3-month low.

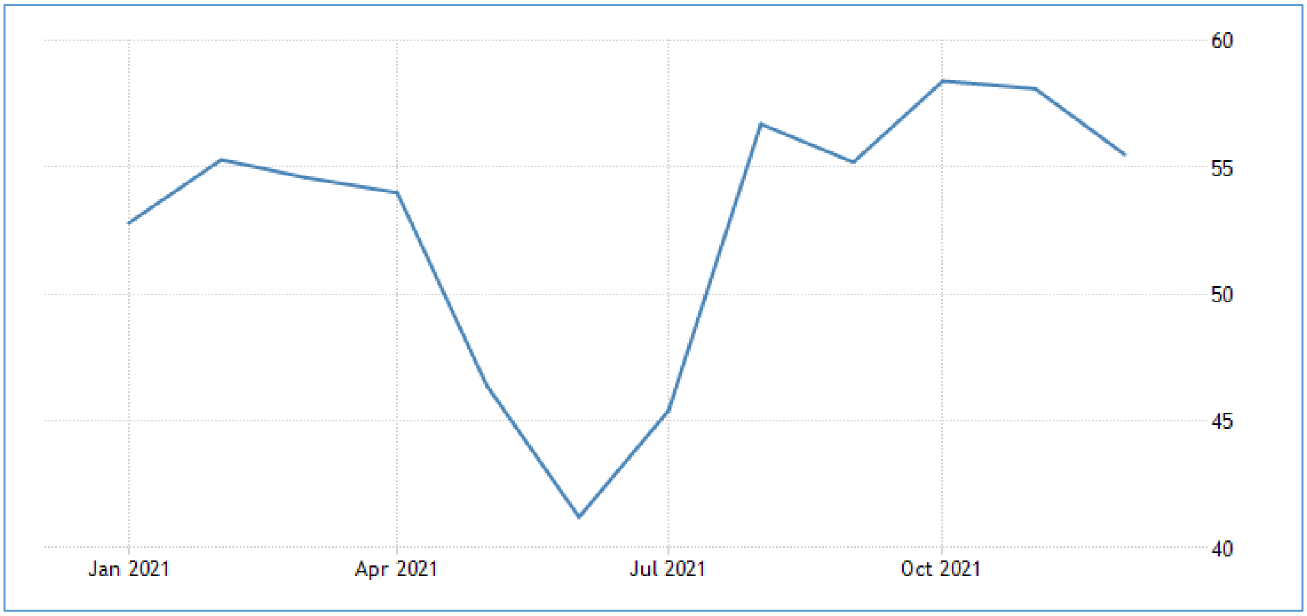
Meanwhile, export sales fell further due to curbs around travelling and employment dropped slightly on the back of the fifth straight month of drop in outstanding business.

On the price front, input price inflation hit a 3-month low, but the figure was sharp and above its long run average.

Meanwhile, output charges inflation moderated to the weakest since September and was below trend.

Looking ahead, sentiment improved to a 4-month high, but remained subdued in the context of historical data, amid inflationary pressures and potential new waves of Covid-19.

The seasonally adjusted Nikkei India Composite PMI Output Index eased to 56.4 in December from 59.2 in November, but remained above its long run average.



Source: www.tradingeconomics.com

Core Sector Data – December

Growth of eight infrastructure sectors rose by 3.8% in December 2021.

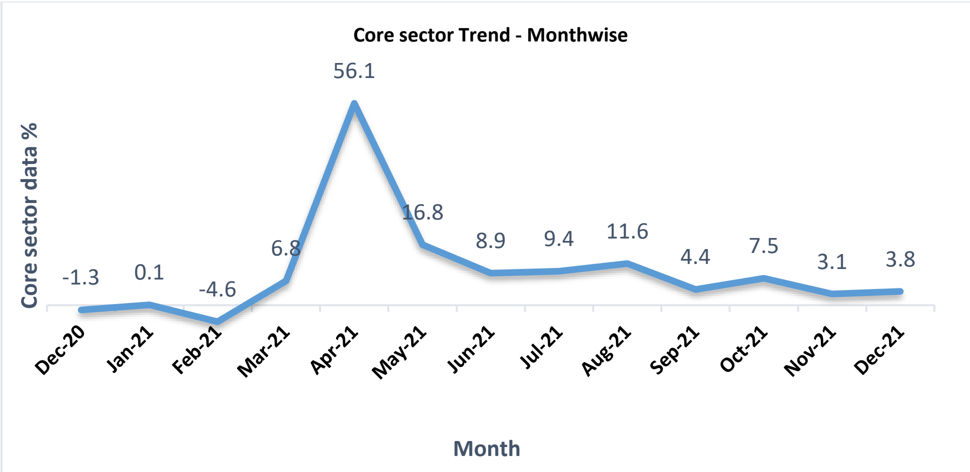
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 3.4% in November 2021 and contracted by 0.4% in December 2020.

Barring crude oil and steel, all sectors recorded positive growth in December 2021.

The production of coal, natural gas, refinery products, fertilisers, cement and electricity rose by 5.2%, 19.5%, 5.9%, 3.5%, 12.9% and 2.5%, respectively.

The output of crude oil and steel declined by 1.8% and 1%, respectively.

Cumulatively, the growth in the eight core sectors during April-December 2021-22 stood at 12.6%, as against a contraction of 9.8% in the same period last financial year.



Source: APAS BRT, www.eaindustry.nic.in

Economic Survey 2021-22

The Union Minister for Finance & Corporate Affairs, Smt. Nirmala Sitharaman, presented the Economic Survey 2021-22 in Parliament. The highlights of the Economic Survey are as follows:

State of the economy:

- Indian economy estimated to grow by 9.2% in real terms in 2021-22 (as per first advanced estimates), subsequent to a contraction of 7.3% in 2020-21
- GDP projected to grow by 8-8.5% in real terms in 2022-23
- The year ahead poised for a pickup in private sector investment with the financial system in good position to provide support for economy's revival
- Projection comparable with World Bank and Asian Development Bank's latest forecasts of real GDP growth of 8.7% and 7.5% respectively for 2022-23
- As per IMF's latest World Economic Outlook projections, India's real GDP projected to grow at 9% in 2021-22 and 2022-23 and at 7.1% in 2023-24, which would make India the fastest growing major economy in the world for all 3 years
- Agriculture and allied sectors expected to grow by 3.9%; industry by 11.8% and services sector by 8.2% in 2021-22
- On demand side, consumption estimated to grow by 7%, Gross Fixed Capital Formation (GFCF) by 15%, exports by 16.5% and imports by 29.4% in 2021-22
- Macroeconomic stability indicators suggest that the Indian Economy is well placed to take on the challenges of 2022-23.
- Combination of high foreign exchange reserves, sustained foreign direct investment, and rising export earnings will provide adequate buffer against possible global liquidity tapering in 2022-23.

- Economic impact of “second wave” was much smaller than that during the full lockdown phase in 2020-21, though health impact was more severe.
- Government of India’s unique response comprised of safety-nets to cushion the impact on vulnerable sections of society and the business sector, significant increase in capital expenditure to spur growth and supply side reforms for a sustained long-term expansion.
- Government’s flexible and multi-layered response is partly based on an “Agile” framework that uses feedback-loops, and the use of 80 High Frequency Indicators (HFIs) in an environment of extreme uncertainty.

Union Budget 2022-23

The Union Budget seeks to complement macro-economic level growth with a focus on micro-economic level all-inclusive welfare. The Union Minister for Finance & Corporate Affairs, Smt. Nirmala Sitharaman, tabled the Union Budget 2022-23 in Parliament.

The key highlights of the Budget are as follows:

PART A

- India’s economic growth estimated at **9.2%** to be the highest among all large economies
- **60 lakh new jobs** to be created under the productivity linked incentive scheme in 14 sectors
- PLI Schemes have the potential to create an **additional production of INR 30 lakh crore**
- Entering Amrit Kaal, the 25 year long lead up to India @100, the budget provides impetus for growth along **four priorities**:
  - **PM Gati Shakti**
  - **Inclusive Development**
  - **Productivity Enhancement & Investment, Sunrise opportunities, Energy Transition, and Climate Action.**
  - **Financing of investments**

Banking

- **100% of 1.5 lakh post offices** to come on the **core banking system**
- Scheduled Commercial Banks to set up **75 Digital Banking Units (DBUs) in 75 districts**

e-Passport

- e-Passports with embedded chip and futuristic technology to be rolled out

Digital Rupee

- Introduction of **Digital Rupee by the Reserve Bank of India starting 2022-23**

Fiscal Management

- Budget Estimates 2021-22: INR 34.83 lakh crore
  - Revised Estimates 2021-22: INR 37.70 lakh crore
  - **Total expenditure in 2022-23 estimated at INR 39.45 lakh crore**
  - **Total receipts other than borrowings in 2022-23 estimated at INR 22.84 lakh crore**
  - Fiscal deficit in current year: 6.9% of GDP (against 6.8% in Budget Estimates)
- **Fiscal deficit in 2022-23 estimated at 6.4% of GDP**

PART B

DIRECT TAXES

To take forward the policy of stable and predictable tax regime:

- Vision to establish a trustworthy tax regime
- To further simplify tax system and reduce litigation

Parity in National Pension Scheme Contribution

- Tax deduction limit increased from **10% to 14%** on employer's contribution to the NPS account of State Government employees
- Brings them at par with central government employees
- Would help in enhancing social security benefits

Scheme for taxation of virtual digital assets

- Specific tax regime for virtual digital assets introduced
- Any income from transfer of any virtual digital asset to be taxed at the rate of **30%**
- No deduction in respect of any expenditure or allowance to be allowed while computing such income except cost of acquisition
- Loss from transfer of virtual digital asset cannot be set off against any other income.

- To capture the transaction details, TDS to be provided on payment made in relation to transfer of virtual digital asset at the rate of 1% of such consideration above a monetary threshold.
- Gift of virtual digital asset also to be taxed in the hands of the recipient.

Health and Education Cess

- Any surcharge or cess on income and profits **not allowable** as business expenditure

INDIRECT TAXES

Remarkable progress in GST

- GST revenues are buoyant despite the pandemic – Taxpayers deserve applause for this growth.

BANKING

Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee (MPC) February 8-10, 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (February 10, 2022) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

Since the MPC's meeting in December 2021, the rapid spread of the highly transmissible Omicron variant and the associated restrictions have dampened global economic activity. The global composite purchasing managers' index (PMI) slipped to an 18-month low of 51.4 in January 2022, with weakness in both services and manufacturing. World merchandise trade continues to grow. There are, however, headwinds emanating from persistent container and labour shortages, and elevated freight rates. In its January 2022 update of the World Economic Outlook, the International Monetary Fund (IMF) revised global output and trade growth projections for 2022 downward to 4.4 per cent and 6.0 per cent from its earlier forecasts of 4.9 per cent and 6.7 per cent, respectively.

After reversing the transient correction that had occurred towards end-November, commodity prices resumed hardening and accentuated inflationary pressures. With several central banks focused on policy normalisation, including ending asset purchases and earlier than expected hikes in policy rates, financial markets have turned volatile. Sovereign bond yields firmed up across maturities and equity markets entered correction territory. Currency markets in emerging market economies (EMEs) have exhibited two-way movements in recent weeks, driven by strong capital outflows from equities with elevated uncertainty on the pace and quantum of US rate hikes. The latter also led to an increasing and volatile movement in US bond yields.

Domestic Economy

The first advance estimates (FAE) of national income released by the National Statistical Office (NSO) on January 7, 2022 placed India's real gross domestic product (GDP) growth at 9.2 per cent for 2021-22, surpassing its pre-pandemic (2019-20) level. All major components of GDP exceeded their 2019-20 levels, barring private consumption. In its January 31 release, the NSO revised real GDP growth for 2020-21 to (-) 6.6 per cent from the provisional estimates of (-) 7.3 per cent.

Available high frequency indicators suggest some weakening of demand in January 2022 reflecting the drag on contact-intensive services from the fast spread of the Omicron variant in the country. Rural demand indicators – two-wheeler and tractor sales – contracted in December-January. Area sown under Rabi up to February 4, 2022 was higher by 1.5 per cent over the previous year. Amongst the urban demand indicators, consumer durables and passenger vehicle sales contracted in November-December on account of supply constraints while domestic air traffic weakened in January under the impact of Omicron. Investment activity displayed a mixed picture – while import of capital goods increased in December, production of capital goods declined on a year-on-year (y-o-y) basis in November. Merchandise exports remained buoyant for the eleventh successive month in January 2022; non-oil non-gold imports also continued to expand on the back of domestic demand.

The MPC noted that inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter, providing room to remain accommodative. Timely and apposite supply side measures from the Government have substantially helped contain inflationary pressures. The potential pick up of input costs is a contingent risk, especially if international crude oil prices remain elevated. The pace of the domestic recovery is catching up with pre-pandemic trends, but private consumption is still lagging. COVID-19 continues to impart some uncertainty to the future outlook. Measures announced in the Union Budget 2022-23 should boost aggregate demand. The global macroeconomic environment is, however, characterised by deceleration in global demand in 2022, with increasing headwinds from financial market volatility induced by monetary policy normalisation in the systemic advanced economies (AEs) and inflationary pressures from persisting supply chain disruptions. Accordingly, the MPC judges that the ongoing domestic recovery is still incomplete and needs continued policy support. It is in this context that the MPC has decided to keep the policy repo rate unchanged at 4 per cent and to continue with an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Framework for Facilitating Small Value Digital Payments in Offline Mode

Reserve Bank had permitted a pilot scheme to encourage technological innovations that enable small value digital transactions in offline mode. It was stated therein that the decision on formalizing such a system would be based on the experience gained.

Pilot testing was undertaken by some entities during the period from September 2020 to July 2021. With encouraging feedback from the pilots, it was announced in the Statement on Developmental and Regulatory policies dated October 08, 2021, that a framework for carrying out small value digital payments in offline mode across the country would be introduced. An offline payment means a transaction which does not require internet or telecom connectivity to take effect.

Accordingly, the framework to enable small value digital payments in offline mode using cards, wallets, mobile devices, etc., has been announced.

The framework allows authorized Payment System Operators (PSOs) and Payment System Participants (PSPs) to accept offline payment made using cards, wallets, and mobile devices among others. The upper limit per transaction has been fixed at INR 200 while the overall limit for offline transactions through a particular channel has been set at INR 2,000 at any point in time. The transactions will be proximity-based, i.e., face-to-face transactions will not require additional factor authentication, as per the framework. While the issuer will have to send transaction alerts to the users, as soon as transaction details are received, there is no compulsion to send alerts for each transaction, but the details could be adequately conveyed.

RBI issues regulations under the amended Factoring Regulation Act, 2011

Government of India has recently amended the Factoring Regulation Act, 2011 (“the Act”) which widens the scope of companies that can undertake factoring business. The Act permits Trade Receivables Discounting System (TReDS) to file the particulars of assignment of receivables transactions with the Central Registry on behalf of the Factors for operational efficiency. Further, the Act empowers the Reserve Bank of India to make regulations prescribing the manner of grant of certificate of registration and for prescribing the manner of filing of assignment of receivables transactions by TReDS on behalf of the Factors.

Reserve Bank has issued the following regulations:

- Registration of Factors (Reserve Bank) Regulations, 2022
- Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022

Under the provisions of the regulations mentioned above, all existing non-deposit taking NBFC-Investment and Credit Companies (NBFC-ICCs) with asset size of INR 1,000 crore & above will be permitted to undertake factoring business subject to satisfaction of certain conditions. This will increase the number of NBFCs eligible to undertake factoring business significantly from 7 to 182. Other NBFC-ICCs can also undertake factoring business by registering as NBFC-Factor.

INSURANCE

IRDAI (Surety Insurance Contracts) Guidelines, 2022

The Insurance Regulatory and Development Authority of India (''the Authority''), having considered it necessary to promote and regulate sustainable and healthy development of Surety Insurance Business, has issued the following guidelines on Surety Insurance business.

Key inclusions in the regulations are as follows:

1. Applicability
2. Essential features of surety insurance business
3. Types and definitions of surety contracts
4. Requirements of underwriting of Surety insurance business
5. Underwriting philosophy and guidelines

Surety is a form of financial credit known as a bond guarantee. The transaction always involves three parties: the obligee, the principal, and the surety. A surety bond protects the obligee (the party to whom the bond is paid to in the event of a default) against losses, up to the limit of the bond, that result from the principal's (the party with the guaranteed obligation) failure to perform its obligation. The surety, for example an insurance company, assumes the obligation if the principal cannot.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves infusion of INR 1,500 crore in Indian Renewable Energy Development Agency Limited (IREDA)

The Cabinet Committee on Economic Affairs, chaired by the Prime Minister, Shri Narendra Modi, approved the equity infusion of Rs.1500 crore in Indian Renewable Energy Development Agency Limited (IREDA).

This equity infusion will help in employment generation of approximately 10200 jobs-year and CO2 equivalent emission reduction of approximately 7.49 Million Tonnes CO2/year.

Additional equity infusion of Rs.1500 crore by Government of India will enable IREDA:

i. To lend Rs.12000 crore approximately to the RE sector, thus facilitate the debt requirement of RE of additional capacity of approximately 3500-4000 MW.
ii. To enhance its networth which will help it in additional RE financing, thus contributing better to the Government of India targets for RE.
iii. To improve the capital-to-risk weighted assets ratio (CRAR) to facilitate its lending and borrowing operations.

IREDA, a mini ratna (Category-1) company under the administrative control of MNRE was set up in 1987 to work as a specialised non-banking finance agency for the Renewable Energy (RE) sector. IREDA with more than 34 years of techno-commercial expertise, plays a catalytic role in the RE project financing which gives confidence to the FIs/banks to lend in the sector.

NITI Aayog, Rocky Mountain Institute (RMI) and RMI India release 'Banking on Electric Vehicles in India' report

NITI Aayog, Rocky Mountain Institute (RMI), and RMI India released a report, titled 'Banking on Electric Vehicles in India', which outlines the importance of priority-sector recognition for retail lending in the electric mobility ecosystem. The report provides considerations and recommendations to inform the inclusion of EVs in the Reserve Bank of India's (RBI's) priority-sector lending (PSL) guidelines.

Banks and non-banking financial companies (NBFCs) in India have the potential to achieve an electric vehicle (EV) financing market size of Rs 40,000 crore (USD 5 billion) by 2025 and Rs 3.7 lakh crore (USD 50 billion) by 2030. However, retail finance for EVs has been slow to pick up.

Priority-sector lending aims to expand financial access and support employment opportunities in India. In order to meet these goals, the report highlights that the RBI may consider various EV segments and use cases based on five parameters: socio-economic potential, livelihood generation potential, scalability, techno-economic viability, and stakeholder acceptability.

The report indicates that electric two-wheelers, three-wheelers, and commercial four-wheelers are early segments to prioritise under PSL. Moving forward, the engagement of other ministries and industry stakeholders will be important to ensuring the guidelines designed can effectively enhance EV investment in India.

To maximise the impact of the inclusion of EVs, the report also recommends a clear sub-target and penalty mechanism for priority sector lending to renewable energy and EVs. Furthermore, it suggests recognition of EVs as an infrastructure sub-sector by the Ministry of Finance and the incorporation of EVs as a separate reporting category under the RBI. Multiprong solutions such as these are needed not only for EV penetration and businesses, but also for the financial sector and India's 2070 net-zero target.

CAPITAL MARKETS

Change in control of the asset management company involving scheme of arrangement under Companies Act, 2013

SEBI requires that no change in the control of the asset management company ("AMC") shall be made unless prior approval of the trustees and SEBI is obtained.

To streamline the process of providing approval to the proposed change in control of an AMC involving scheme of arrangement which needs sanction of National Company Law Tribunal ("NCLT") in terms of the provisions of the Companies Act, 2013, SEBI has decided the following:

i. The application seeking approval for the proposed change in control of the AMC shall be filed with SEBI prior to filing the application with the NCLT;
ii. Upon being satisfied with compliance of the applicable regulatory requirements, an in-principle approval will be granted by SEBI;
iii. The validity of such in-principle approval shall be three months from the date of issuance, within which the relevant application shall be made to NCLT;

This approval will be valid for three months from the date of its issuance and the relevant application to NCLT is required to be made within this time period.

For the final approval from Sebi, certain documents have to be submitted within 15 days from the date of NCLT's order. These include a statement explaining modifications, if any, in the approved scheme vis-à-vis the draft scheme and the reasons for the same and details of compliance with the conditions mentioned in Sebi's in-principle approval, among others.

The move is aimed at streamlining the process of providing approval to the proposed change in control of an AMC involving scheme of arrangement which needs sanction of NCLT in terms of provisions of the Companies Act, 2013.

Introduction of Special Situation Funds as a sub-category under Category I AIFs

SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations"), have been amended to introduce Special Situation Funds (SSF), a sub-category under Category I AIF, which shall invest in 'special situation assets'.

In this context, the following has been specified:

(a) Each scheme of SSF shall have a corpus of at least one hundred crore rupees.

(b) SSF shall accept an investment of value not less than ten crore rupees from an investor. In case of an accredited investor, the SSF shall accept an investment of value not less than five crore rupees. Further, in case of investors who are employees or directors of the SSF or employees or directors of the manager of the SSF, the minimum value of investment shall be twenty-five lakh rupees.

(c) SSF intending to act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016 shall ensure compliance with the eligibility requirement provided thereunder.

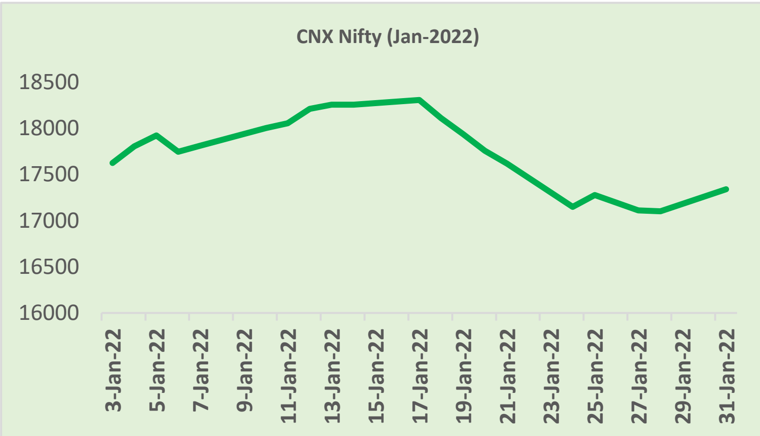
Further, in respect of SSF acquiring loans in line with RBI regulations, SEBI has specified following:

(a) SSF may acquire stressed loan in terms of clause 58 of RBI Master Direction upon inclusion of SSF in the respective Annex of the RBI Master Direction.

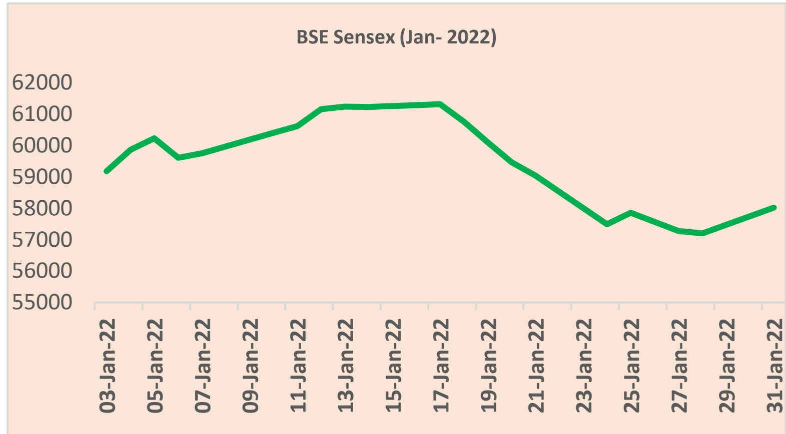
(b) Stressed loan acquired by SSF in terms of clause 58 of the RBI Master Direction shall be subject to a minimum lock-in period of six months. The lock in period shall not be applicable in case of recovery of the stressed loan from the borrower.

(c) SSF acquiring stressed loans in terms of the RBI Master Direction shall comply with the same initial and continuous due diligence requirements for its investors, as those mandated by Reserve Bank of India for investors in Asset Reconstruction Companies.

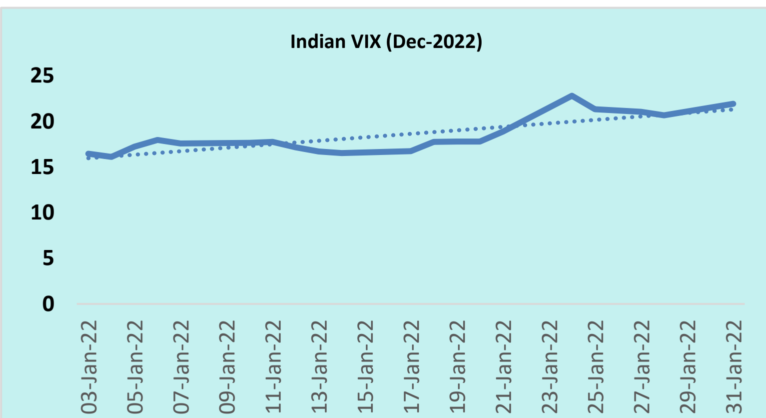
CAPITAL MARKETS SNAPSHOT



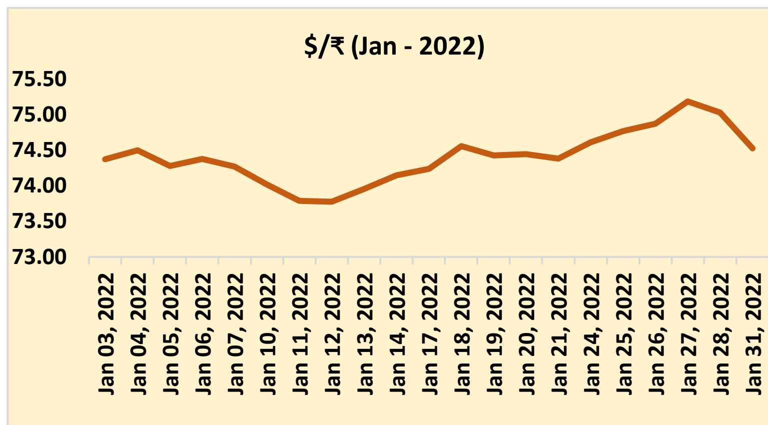
Source: National Stock Exchange



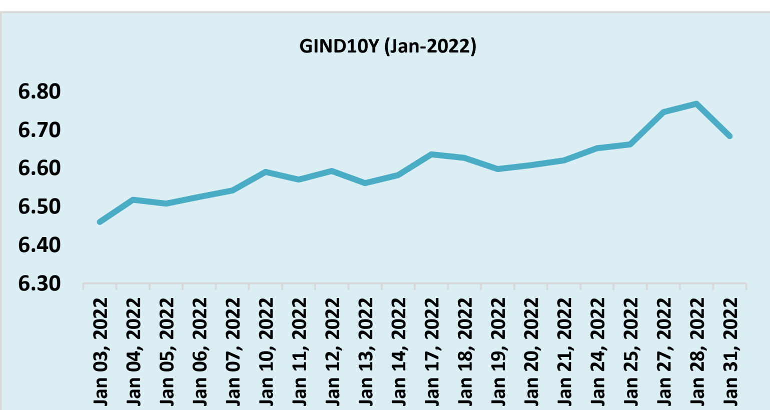
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

In January, geopolitical tensions between Russia and Ukraine and rising inflation dragged down global indices. However, better-than-expected earnings of some major firms offset the losses to some extent in Indian indices. The International Monetary Fund (IMF) trimmed India's growth forecast for fiscal 2022 to 9% from the earlier 9.5% over concerns surrounding the impact of the spread of new Covid-19 variants on business activity and mobility.

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ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2022*	2023*	Latest	2022*	% of GDP, 2022*	% of GDP, 2022*	(10YGov), Latest
Brazil	4.0 Q3	0.3	1.6	10.4Jan	7.6	-0.7	-7.3	11
Russia	4.3 Q3	2.4	2.4	8.7 Jan	5.0	7.1	0.7	9.36
India	**8.4 Q3**	**7.0**	**5.1**	**5.6 Dec**	**4.6**	**-1.6**	**-5.9**	**6.80**
China	4.0 Q4	5.3	4.9	1.5 Dec	2.3	2.3	-4.7	2.43^
S Africa	2.9 Q3	2.1	2.5	5.9 Dec	4.8	-0.7	-6.3	9.24
USA	5.5 Q4	3.4	2.1	7.5 Jan	4.9	-3.5	-7.7	1.94
Canada	4.0 Q3	3.8	3.3	4.8 Dec	3.8	0.0	-7.5	1.85
Mexico	1.0 Q4	1.9	2.6	7.1 Jan	5.1	-0.9	-3.3	7.66
Euro Area	4.6 Q4	3.9	2.7	5.1 Jan	3.0	3.2	-4.0	0.22
Germany	1.4 Q4	3.3	2.9	4.9 Jan	3.5	6.5	-2.7	0.22
Britain	6.8 Q3	4.3	2.0	5.4 Dec	3.7	-2.6	-6.5	1.54
Australia	3.9 Q3	3.3	2.5	3.5 Q4	2.6	1.6	-4.6	2.09
Indonesia	5.0 Q4	5.3	5.0	2.2 Jan	3.5	-0.5	-4.9	6.48
Malaysia	-4.5 Q3	4.5	4.3	3.2 Dec	2.8	3.2	-6.1	3.76
Singapore	5.9 Q4	3.8	3.2	4.0 Dec	2.8	17.3	-1.8	1.89
S Korea	4.0 Q4	2.9	2.5	3.6 Jan	2.3	4.1	-2.9	2.69

Sources: The Economist

**** The Economist poll or Economist Intelligence Unit estimate/forecast;***

^ 5-year yield

Quarter represents a three-month period of a financial year beginning 1st April

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ABOUT APAS

APAS is a management advisory firm specializing in banking, financial services and the insurance space. APAS assists business leaders of some of the leading domestic and global organizations, acting as an extended arm to the management in coping with the ever changing internal and external dynamics. Leveraging deep business insights APAS develops business and operational strategy for its clients. APAS provides transaction advisory services (Buy, sell and merge), and also specializes in governance and board training. APAS facilitates investors and sellers with directional guidelines of pursuing transactions, by utilizing subject knowledge, vast experience and deep market outreach. APAS has capability to identify and analyze key transaction drivers, recognize possible partnerships, and initiate discussions with them for possible growth opportunity. We help major insurance companies, payment institutions, and other financial organizations to identify their growth potential, innovative opportunity and possible benefits of consolidation, and hence comprehend the possible merger or acquisition. Buying or selling a major asset or a business, undertaking a merger, or performing an IPO can be risky and complex especially in this globalization era. Hence, the need of a trusted advisor who can help clients preserve, create and enhance value in transactions.

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