

2020

Volume 5

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. Prakash Parthasarathy, Managing Partner at Creaegis Principals LLP, former CIO of PremjiInvest and a Director on the Governing Board of National Stock Exchange, has presented his thoughts on 'Creative sources of domestic capital to fund our revival'. We thank Mr. Prakash Parthasarathy for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Economic reforms introduced to uplift economy post COVID-19'.

Amidst the global crisis caused by the pandemic COVID – 19, quite a few changes in the economy are taking place and many more to come in the coming months. This edition and the future editions of our newsletter will try to give you the economic snapshot, changing parameters and a snapshot of the regulations and government measures to fight the pandemic and make positive impact on the economy and various sectors.

The economic indicators showed mixed performance. Manufacturing PMI declined to 27.4 in April from 51.8 in March. India's annual infrastructure output in April contracted by a whopping 38.1%. India's Index of Industrial Production (IIP) witnessed a sharp decline of 16.7% in March. PMI services plummeted to 5.4 in April from 49.3 in March, while composite PMI fell to an all-time low of 7.2 in April from 50.6 in March. The government did not release the April CPI inflation data as the nationwide lockdown prevented officials from collecting price data at various centres. However, the data that could be collected telephonically has been released. The government released truncated data

for April WPI inflation, saying there was limited transaction of products in the market due to the outbreak of Covid-19.

The Gross Domestic Product (GDP) growth rate for the fourth quarter (January-March) of 2019-20 slowed to 3.1%. This pulled down GDP growth of FY 2019-20 to an 11-year low of 4.2%.

The Reserve Bank of India (RBI) Governor announced the Monetary Policy Statement 2020-21. RBI Governor announced regulatory package for relief from COVID-19. RBI announced timelines for Review under the Prudential Framework on Resolution of Stressed Assets. RBI announced Large Exposures Framework – Increase in Exposure to a Group of Connected Counterparties. RBI announced relaxations in ‘Voluntary Retention Route’ (VRR) for Foreign Portfolio Investors (FPIs) investment in debt. RBI announced extension of Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit. RBI announced extension of period of advance on pre-shipment and post-shipment Export Credit. RBI announced extension of time limits for settlement of import payment on import of goods and services.

The Insurance Regulatory and Development Authority of India (IRDAI) released COVID-19 Corner as a single point reference for announcements made on account of COVID-19. IRDAI announced consolidated regulations for certain insurance components. IRDAI announced norms for Foreign investment for insurance intermediaries. IRDAI announced allotment of Filing Reference Number (FRN) for Cross Border Reinsurers.

Finance Minister announced measures for relief and credit support related to businesses. Cabinet approved modifications in the existing "Partial Credit Guarantee Scheme (PCGS)". Cabinet approved Special Liquidity Scheme for NBFCs/HFCs to address their Liquidity Stress.

Securities and Exchange Board of India (SEBI) announced Payment of Fees (Amendment) Regulations, 2020. SEBI announced extension on implementation of Circular on ‘Margin obligations to be given by way of Pledge / Re-pledge in the Depository System’. SEBI announced norms for listing of Mutual Fund schemes that are in the process of winding up. SEBI announced norms on review of Post-Default Curing Period for CRAs.

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.

Ashwin parekh

On the cover



GUEST COLUMN

*Prakash Parthasarathy
Managing Partner at Creaegis Principals LLP
Former CIO of PremjiInvest
Director on the Governing Board of National Stock Exchange*

[*Creative sources of domestic capital to fund our revival*](#)



APAS COLUMN

[*Economic reforms introduced to uplift economy post COVID-19*](#)



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- [*Inflation update – April*](#)
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- [COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets](#)
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- [Cabinet approves Special Liquidity Scheme for NBFCs/HFCs to address their Liquidity Stress](#)



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- [Implementation of Circular on 'Margin obligations to be given by way of Pledge / Re-pledge in the Depository System' – Extension](#)
- [Listing of Mutual Fund schemes that are in the process of winding up](#)
- [Review of Post-Default Curing Period for CRAs](#)

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- [CNX Nifty, BSE Sensex, India VIX, \\$/₹, GIND 10Y](#)

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*			
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

Country	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
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Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
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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](#)



Creative sources of domestic capital to fund our revival

Prakash Parthasarathy

Managing Partner at CreaeGIS Principals LLP

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Director on the Governing Board of National Stock Exchange

As India gradually reopens for business, the financial distress is widespread and will become very visible over the next few months. While large public companies have appeared steady – and tight lipped – about the impact, the small and private company landscape is devastated. From stalled demand, broken supply chains and lack of labor supply, small and mid-sized companies, the crucial spine of our economy operates, are facing a crisis like never seen before. Cascading defaults of payments across the chain, very limited or no access to debt and erosion of reserves and capital have left most companies in need of life support. The shock and awe of Lockdowns 1.0 to 4.0 – unprecedented in the world – may have deferred the virus contagion, but will leave behind a difficult economic landscape. So, what should policymakers do?

The PM and FM have announced a slew of helpful short and long-term measures around availability of credit and have argued for self-reliance in our revival. This is absolutely on point, as we must first have the confidence and belief that we will emerge stronger out of this crisis. This is not sooth-saying, it must guide the crucial element of risk taking in the ecosystem that policy and financial institutions must take. Our demand levels for core sectors should be back – depending on what we do – to previous levels in a year or two. The creativity and capacity of our entrepreneurs to adjust and deliver operations and supply will fix any shortcomings quite soon, assuming demand revives. Operations – transformed for sure – will resume once some working capital is available. However, debt capital will come only when some equity is replenished after the dramatic erosion. Where will this come from – especially to smaller and medium sized enterprises?

Self-reliance is the answer. We must allow and provoke more scale and sources of domestic financing to fund revival for our private companies. Capital markets, which focus on large companies, and foreign money, which will have a bias towards their home markets, are not solutions for smaller companies. Bank money will wait for equity capital first. Therefore, we need more risk equity capital sources and structures for private companies (MSMEs) to bolster balance sheets and ready themselves for scale and bank financing support.

Luckily, we have some tools and sources to make a beginning. Our SEBI regulated AIFs, REITs and InvITs are the best vehicles to support this move. A majority of investments from these vehicles go towards funding equity capital needs in MSMEs. However, AIFs themselves need domestic sources of capital so they can invest. The recent announcements talk of an INR 50,000 cr Fund of Fund, which envisages a majority of the money to come from outside sources. Here are a few ideas, easily implementable, based on the principles of self-reliance, to source these funds:

1. Allow Charitable Trusts and Institutions to invest a portion of their surplus corpus in AIFs, rather than passive instruments like deposits. Ministry of Finance data indicates these institutions may have surplus of around INR 3 lac crore that are invested passively. A meaningful allocation can get another INR 50,000 cr to sectors that build capacity and benefits our nation most. Globally, such institutions are the best investors in emerging companies and have great success. Why not Indian Endowments?
2. Increase allocations from Banks and Insurance companies to invest in AIFs. This will provide a crucial institutional source of financing where they are applying their corpus anyway. Even if 5% of net-worth or corpus is invested over the next five years – INR 60-70,000 crore of equity capital can be available for MSMEs for revival and growth.
3. Moderate capital gains for MSME investment (from 20%+) to levels similar to large public companies (10%). Why the difference and distortion with large companies? MSME companies, their entrepreneurs, workers and their investors, have to work harder to survive with least reliance on financial and policy support from the ecosystem, so why not provide a level field during these tough times?

AIFs are well regulated by a conservative regulator (SEBI), with good managers who know the nuances of supporting entrepreneurs, it's a seasoned source of capital that can guide enterprises and provide the first support needed for revival, scale them for transformation and even capture our rightful place in the global supply chain. They are pooled vehicles with diversification and hence reduce the risk of capital loss that could happen in individual companies. If we can incentivize and route domestic capital from trusts & institutions and the ecosystem, we will have created a permanent foundation to support domestic MSME companies.

Our national goal of a \$5 Trillion economy must not be compromised as it drives the aspirations and livelihood of millions of workers, our confidence to create scale and our goal to participate in global supply chains. We must creatively allow domestic sources of financing into our domestic entrepreneurs and be comfortable that any risk will pay off.

Let's be self-reliant in funding our revival and reap and keep the gains of our revival domestically!

*Views are personal. Neither APAS nor any of its employees endorse any view, products or services mentioned in the article.



Economic reforms introduced to uplift economy post COVID-19

Desperate situations call for desperate measures. Economic situation across the world under the impact of COVID-19 induced lockdown has been no less. The economic impact is being compared to Great Depression 1929. Governments and central banks across the world have been responsive to this situation by ways of introducing economic packages for various sectors and strata of society. Government of India and Reserve Bank of India have also been at the forefront in introducing reforms to uplift the economy. Beginning March 2020, the RBI and Finance Ministry have introduced several relief measures and economic stimulus programs.

To begin with, RBI, on 27th March 2020 announced several relief measures which primarily focussed on liquidity management in the banking sector, regulatory and supervisory measures for banking and financial markets. Subsequently, on 17th April 2020, RBI announced second set of measures which were based on a detailed assessment of economy and forecast of growth and thereby included additional liquidity measures, ways and means advances for states and further regulatory measures for entities including mutual funds.

Along with these announcements by RBI, Ministry of Finance announced INR 1.7 lakh crore relief package under Pradhan Mantri Garib Kalyan Yojana. This included health insurance cover for frontline health workers, providing grains and pulses to the poor, direct benefit transfer and preparation of health system for emergency response.

Beginning 13th May onwards, for a period of 5 days, Finance Minister announced series of measures under “Aatma Nirbhar Bharat Abhiyan (ANBA)” for MSMEs, nation’s poor and migrant labourers, workers, street vendors, farmers, public health, liquidity schemes for Non-banking finance companies / Housing finance companies, etc. This package was in form of capital infusion, credit guarantee schemes for NBFCs/HFCs, subsidies, working capital, funds, liquidity schemes, etc.

The key focus area for Government is reviving growth of MSME sector and NBFCs. Government introduced INR 3 lakh crore emergency working capital fund for businesses including MSMEs, INR 20,000 crore subordinate debt for stressed MSMEs, INR 50,000 crore equity infusion through MSME fund of funds, INR 1500 crore as interest subvention for MUDRA-Shishu loans and INR 10,000 crore for formalization of micro-food enterprises.

The next important area of reforms included food supply, agriculture and allied activities which included free food grain supply for 3 months, additional emergency working capital through NABARD, additional credit through Kisan credit card scheme, Pradhan Mantri Matsya Sampada Yojana for fisheries fund worth INR 20,000 crore, Agri infrastructure fund worth INR 1,00,000 crore, animal husbandry infrastructure fund worth

INR 15,000 crore, herbal cultivation and bee keeping worth INR 4500 crore. The Government introduced reforms special liquidity schemes for NBFCs/HFC/MFIs worth INR 30,000 crore. The Government also introduced Partial credit guarantee scheme 2.0 for NBFCs/MFIs worth INR 45,000 crore. Apart from these, Government infused funds worth INR 90,000 crore in electricity distribution companies.

Across the world, the stimulus packages declared are to the tune of around 1% to 12% of total GDP. Developed countries have announced larger stimulus packages (5-10%) and developing countries have announced smaller packages (2-5%). In almost all countries, stimulus measures have focussed on providing food and relief to the poorest and most vulnerable sections till the time the COVID-19 pandemic lasts. Also, most of the countries have tried to address the difficulties faced by SME segments and support in reviving them. In India, in order to include more companies under its purview, the Government has also revised the definition of MSME and has now included turnover along with investment as a defining criteria for MSME/SME. This has enabled extension of several benefits to the companies which were hitherto not defined under the definition of MSME. The net effect of such measures would reflect in the revival of economy, which is being forecasted in Q3 and Q4 of FY21.

The stimulus package has attempted to address the revival of MSME segment of the industry. However, managing the performance of such businesses amidst slump and thereby managing the NPAs shall be a challenge the Banks will have to address. Such NPA problems shall have a greater proximity to affect borrowers and lenders at the grass root level, especially affecting institutions such as micro-finance institutions and co-operative banks. The regulator may have to actively monitor the area from turning into a systemic issue.

The stimulus package addresses only supply-side issues, while the measures to revive the demand have been grossly overlooked. Several economists and commentators suggest ways to do this would be to directly transfer benefits to bank accounts or reviving high capacity intensive infrastructure projects to regenerate employment.

While the focus has been on reviving MSMEs as job-creating avenues, one sector which went amiss is real estate sector. The Government has barely introduced any measures to revive the possible depression in the retail and commercial real estate in coming time. The sector contracted by 2.2 percent in the Q4 FY21.

The economists and policymakers might as well would want to take cues from previous crisis on inflation and fiscal deficit while implementing the measures. The expected GDP growth rate has already shrunk almost 45% q-o-q. As of now, the regulator expects the economic activity to pick-up in around 3rd quarter and restore its full value by around end of 4th quarter FY21. Easing of financial conditions will subsequently lead to flow of better and stable financing.

The above measures have been introduced by Government and RBI to keep the economy afloat by reviving jobs and increasing production to increase supply. The measures have focussed on all the key impacted segments of the economy including focus mainly on MSME and agriculture. The key aspect of the measures would be their implementation and reaching out to the most-needy ones. The Government, regulators and Banks shall have to work in co-ordination for implementation in the best possible manner and manage both immediate and long-term effects on industry and economy, including NPAs and inflation. The net effect of such reforms would reflect in factors including job revival and restoration of GDP growth levels.

-APAS



ECONOMY

IIP (Index of Industrial Production) – March

Index of Industrial Production (IIP) or factory output for the month of March 2020 witnessed a sharp decline of 16.7%, compared to 4.62% in February 2020 and 2.7% in March 2019.

The General Index for the month of March 2020 stands at 120.1, which is 16.7% lower as compared to that in March 2019.

The steep fall was mainly due to a dismal show by mining, manufacturing and electricity sectors due to a nationwide lockdown due to coronavirus.

The cumulative growth for the period April-March 2019-20 over the corresponding period of last year was 0.7%, down from 3.8% a year earlier.

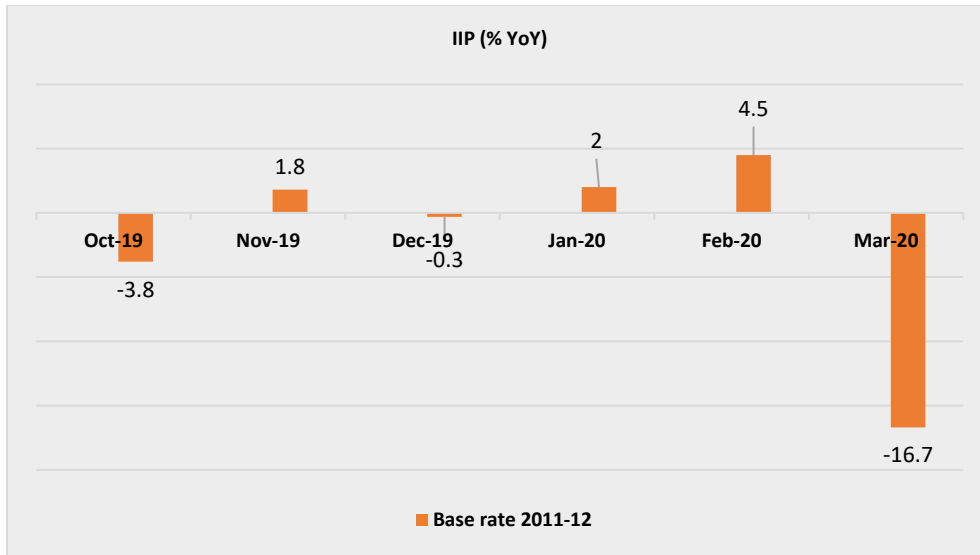
As per Use-based classification, the contraction rates in March 2020 over March 2019 are 3.1% in primary goods, 35.6% in capital goods, 18.5% in intermediate goods and 23.8% in infrastructure/construction goods.

Consumer durables and non-durables have recorded contraction rates of 33.1% and 16.2% respectively.

The manufacturing sector, which constitutes 77.63% of the index, contracted by 20.6% in March, compared to a growth of 3.1% last year.

Electricity generation fell by 6.8% in March, compared to a growth of 2.2% last year.

Mining sector output remained flat in March, compared to a growth of 0.8% last year.



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

CPI (Consumer Price Index) – April

The government did not release the April CPI inflation data as the nationwide lockdown prevented officials from collecting price data at various centres.

However, the data that could be collected telephonically has been released.

Usually, price data is collected from selected 1114 urban markets and 1181 villages through personal visits by field staff of Field Operations Division of National Statistical Office (NSO) on a weekly roster.

The data collected telephonically did show increase in prices of certain important commodities like milk products, fruits and vegetables in April over March.

However, the press release said, “the General CPI and indices at State/UT level are not being released for the month of April 2020.”

In view of the preventive measures and announcement of nationwide lockdown by the government to contain the spread of Covid-19, the collection of data on prices for CPI through personal visits of price collectors was suspended with effect from March 19, 2020.

In April 2020, price data was largely collected by telephonic enquiry from the designated outlets.

This was supplemented by information collected during the personal purchase of field staff for the items being transacted from neighbourhood outlets, keeping in view the travel advisories.

NSO said the price movements for the sub-groups 'meat and fish' and 'prepared meals, snacks, sweets, etc.' under 'food and beverages' group as well as the 'pan, tobacco and intoxicants' group, 'clothing and footwear' group were not compiled.

Meanwhile, the retail inflation for March has been revised marginally lower to 5.84%, compared to 5.91% estimated earlier.

WPI (Wholesale Price Index) – April

The government released truncated data for April WPI inflation, saying there was limited transaction of products in the market due to the outbreak of Covid-19.

As per the data released by the Commerce and Industry Ministry, WPI deflation in primary articles was 0.79% in April, as against an inflation of 3.72% in March.

The fuel and power basket saw a deflation of 10.12% in April, against 1.76% deflation in March.

In view of the limited transactions of products in the wholesale market in April 2020 due to the spread of Covid-19, it has been decided to release the price movement of selected sub-groups/groups of WPI, following the principles of adequacy.

All commodities WPI could not be computed for April 2020 due to non-availability of manufactured products group index.

The price indices of primary articles have been computed based on mandi prices of agricultural items, ex-mine prices of minerals, prices of crude petroleum and natural gas.

Price indices of fuel and power major group have been computed based on the price data reported from Ministry of Petroleum and Natural Gas, selected public sector undertakings (PSUs), Office of the Coal Controller and Central Electricity Authority.

Price indices of these major groups (primary articles and fuel & power) were released for April 2020 with standard procedures. No changes in estimation procedures were done.

With regard to inflation in manufactured products, in view of the preventive measures and announcement of nationwide lockdown by the government to contain spread of Covid-19, the price collection of manufactured products through personal visits of price collectors was suspended with effect from March 19.

The data (ex-factory prices) was collected through electronic means of communications from selected factories and institutional sources. The price movement of these sub-groups/groups of WPI was worked out by taking the prices of only those items for which at least 25% of price quotations were reported from the selected manufacturing units.

Indices were compiled only for 5 manufacturing groups – manufacture of food products, beverages, chemicals and chemical products, pharmaceuticals, medicinal chemical and botanical products, and basic metals.

Prices of manufacture of food products (-0.29%), pharmaceuticals, medicinal chemical and botanical products (-0.15%) and basic metals (-0.84%) provisionally declined, whereas prices of chemicals and chemical products (0.86%) and beverages (0.24%) provisionally increased in April, compared to the previous month.

Food index, consisting of ‘food articles’ from primary articles group and ‘food products’ from manufactured products group have provisionally increased from 146.1 in March 2020 to 146.6 in April 2020.

The rate of inflation based on WPI Food Index decreased from 5.49% in March 2020 to 3.6% in April 2020.

Manufacturing PMI – April

The Nikkei India Manufacturing Purchasing Managers’ Index (PMI) plummeted to a record low in April as the coronavirus lockdown imposed by the government forced factories to shut down and consumers to stay indoors.

The Manufacturing PMI declined to 27.4 in April 2020 from 51.8 in March 2020, reflecting the sharpest deterioration in business conditions across the sector since data collection began over 15 years ago. It fell below the 50 level, that separates expansion from contraction.

The survey tracks new orders, output, jobs, suppliers’ delivery time and stocks of purchases for around 400 manufacturers.

April data pointed to an unprecedented contraction in Indian manufacturing output. The result came amid national lockdown restrictions to help stem the spread of the coronavirus disease, which in turn led to widespread business closures.

Amid widespread business closures, demand conditions were severely hampered in April. New orders fell for the first time in two and a half years and at the sharpest rate in the survey’s history, far outpacing that seen during the global financial crisis.

Record contractions in output, new orders and employment pointed to a severe deterioration in demand conditions.

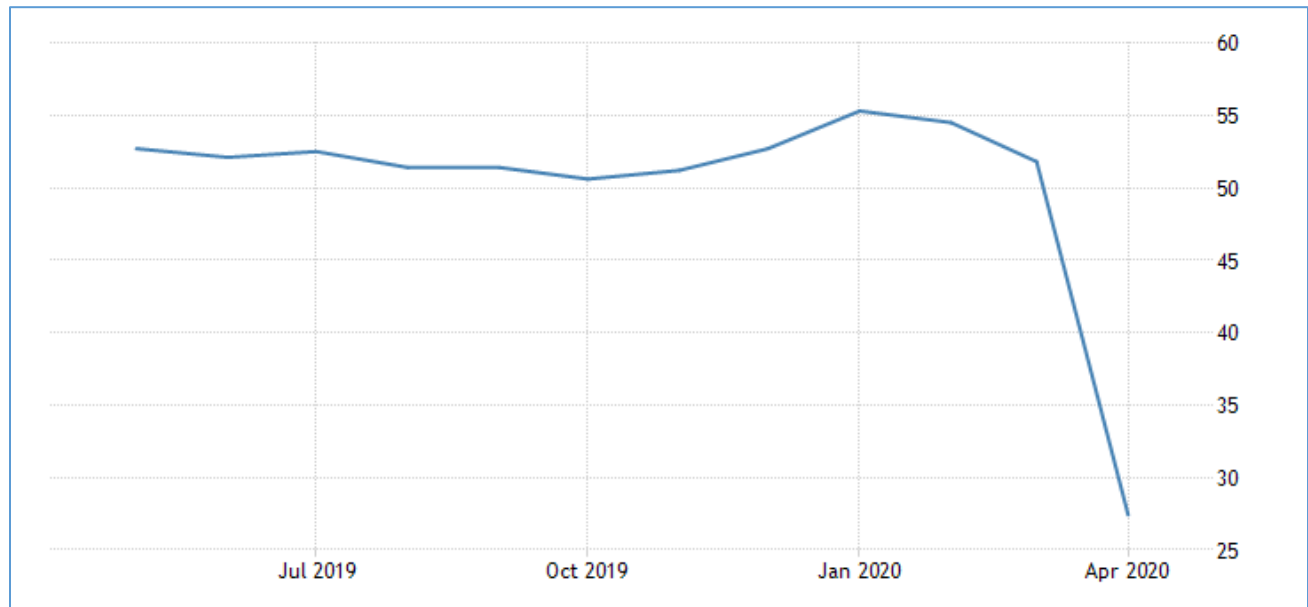
After making it through March relatively unscathed, the Indian manufacturing sector felt the full force of the coronavirus pandemic in April.

Meanwhile, there was evidence of unprecedented supply-side disruption, with input delivery times lengthening to the greatest extent since data collection began in March 2005.

New business orders received little support from international markets in April, as export orders tumbled.

Deteriorating demand conditions saw manufacturers drastically cut their workforce in April. The reduction in employment was the fastest in the survey’s history.

The only silver lining was that the 12-month outlook for production recovered from its March lows and was well above the 50 mark, though markedly lower than the long-term average.



Source: www.tradingeconomics.com

Services PMI – April

The Indian services sector activity suffered a shock collapse in April, with the national lockdown aimed at combating the Covid-19 pandemic exacting a deep economic price.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index plummeted to 5.4 in April 2020 from 49.3 in March 2020. The index remained below the neutral mark of 50, which separates expansion from contraction.

The reading is indicative of the most severe contraction in services output since records began in December 2005.

Activity fell severely as a result of the nationwide lockdown, leading businesses to shut down their operations as demand collapsed.

The extreme slide in the headline index, which fell by over 40 points, shows us that the strict lockdown measures have led to the sector essentially grinding to a complete standstill. Historical comparisons with GDP data suggest that India's economy contracted at an annual rate of 15% in April. It is clear that the economic damage of the Covid-19 pandemic has so far been deep and far-reaching in India. But the hope is that the economy has endured the worst and things will begin to improve as lockdown measures are gradually lifted.

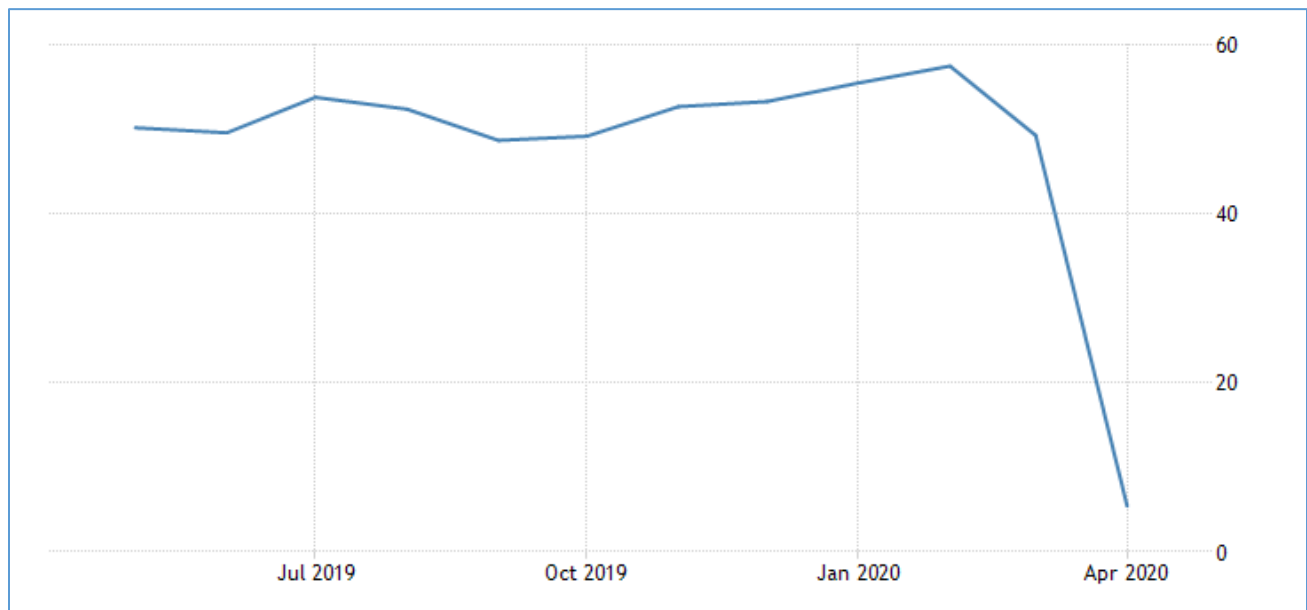
Across the services sector, both local and international demand fell. International sales came to a halt as reflected in the index falling to 0.

A number of clients had cancelled pre-existing orders, leading to a reduction in backlogs of work. The rise in spare capacity was the strongest ever recorded in the survey history.

As a result of lower business requirements, some services companies reduced employment at the start of the second quarter. The rate of job shedding was a survey record.

Looking ahead, latest survey data signalled a further erosion of business confidence in April. Expectations towards future output slumped for a second successive month to their weakest since December 2015. Expectations of a protracted decline in the economy weighed on sentiment.

The seasonally adjusted Nikkei India Composite PMI Output Index fell to an all-time low of 7.2 in April from 50.6 in March and pointed to a crippling economic blow.



Source: www.tradingeconomics.com

Core Sector Data – April

Growth of eight infrastructure sectors contracted by a whopping 38.1% in April 2020, hit by a nationwide lockdown to contain the spread of Covid-19.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had declined by 9% in March 2020 and grown by 5.2% in April 2019.

The combined index of eight core industries stood at 80.9 in April 2020.

In view of the nationwide lockdown during April 2020 due to Covid-19 pandemic, various industries experienced substantial loss of production.

Production of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity contracted by 15.5%, 6.4%, 19.9%, 24.2%, 4.5%, 83.9%, 86% and 22.8%, respectively.



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

GDP – Quarter 4 – FY 2019-20

The country's Gross Domestic Product (GDP) growth rate for the fourth quarter (January-March) of fiscal year 2019-20 slowed to 3.1%, on the back of the coronavirus pandemic superimposed on a prolonged slowdown.

This was the slowest since a 0.2% rise in Q4 FY 09.

This pulled down GDP growth of FY 2019-20 to an 11-year low of 4.2%. This was lower than the government projection of 5% in both first and second advance estimates.

Growth estimates for the previous 3 quarters were all revised down – to 4.1% from 4.7% in Q3, to 4.4% from 5.1% in Q2 and to 5.2% from 5.6% in Q1.

The gross value added (GVA) growth rate for Q4 was at 3%, as compared to 4.5% in the previous quarter. GVA growth for FY 20 was at 3.9%, compared to 6% last year.

Nominal GDP growth fell to 7.2% in FY 20, compared to 11% last year.

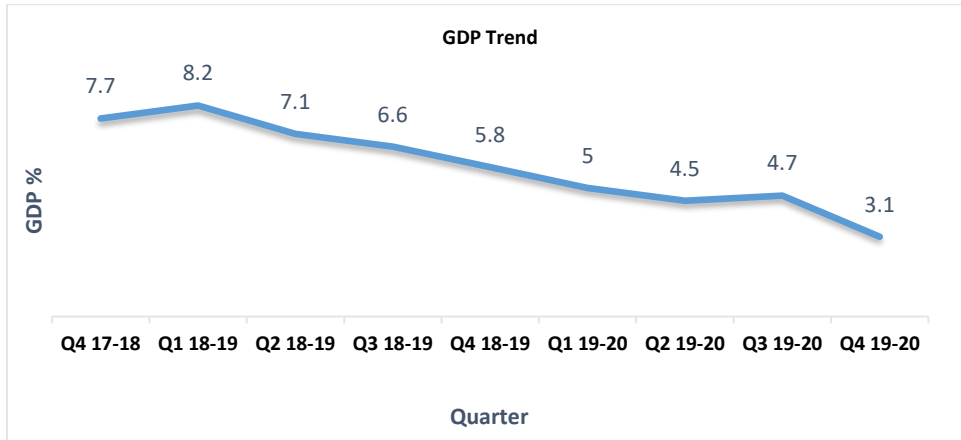
Manufacturing shrank 1.4% in Q4 as factories shut towards the end of March.

Agriculture and public administration grew 5.9% and 10.1%, respectively.

Construction contracted 2.2%, while the financial sector, usually one of the fastest growing, saw only a 2.4% rise.

Gross fixed capital formation (GFCF), an indicator of investment, shrank 6.4% in Q4.

It is government spending, that appears to have kept the economy afloat, with government final consumption expenditure growing by 13.6% in Q4, almost at the same rate of 13.4% in Q3. It rose by 11.8% in FY 20, as against 10.1% in the previous year.



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



BANKING

Monetary Policy Statement 2020-21

On the basis of an assessment of the current and evolving macroeconomic situation, the [Monetary Policy Committee \(MPC\)](#) has decided to:

- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 40 bps to 4.0 per cent from 4.40 per cent with immediate effect;
- Accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.25 per cent from 4.65 per cent; and
- The reverse repo rate under the LAF stands reduced to 3.35 per cent from 3.75 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

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 met in March 2020, global economic activity has remained in standstill under COVID-19 related lockdowns and social distancing. Among the key advanced economies (AEs), economic activity contracted in the US, Euro area, Japan and the UK in Q1:2020. Among emerging market economies (EMEs), the Chinese economy went into a pronounced decline and data on high frequency indicators suggest that activity may have also shrunk in other EMEs such as Brazil and South Africa.

Global financial markets calmed after a turbulent period in March, and volatility ebbed as swift and large fiscal and monetary policy responses helped to soothe sentiment. Equity markets recovered some lost ground, while government bond yields remained range-bound, although somewhat elevated in some EMEs due to country specific factors. Portfolio flows to EMEs revived in April and the rush to safe havens eased. With the US dollar weakening, major EME currencies, which had experienced persistent downward pressure, traded with an appreciating bias. Crude oil prices firmed up modestly as oil producing countries (OPEC plus) agreed to cut production, and prospects for revival in demand improved on expectations of imminent easing of

lockdowns. Gold prices remained elevated on hedging demand. CPI inflation remained subdued across major AEs and EMEs primarily due to a collapse in oil prices and compression in demand amidst lockdowns, while food inflation picked up due to supply disruptions.

Domestic Economy

Domestic economic activity has been impacted severely by the lockdown which has extended over the past two months. High frequency indicators point to a collapse in demand beginning March 2020 across both urban and rural segments. Electricity consumption has plunged, while both investment activity and private consumption suffered precipitous declines, as reflected in the collapse in capital goods production and the large retrenchment in the output of consumer durables and non-durables in March. High frequency indicators of service sector activity such as passenger and commercial vehicle sales, domestic air passenger traffic and foreign tourist arrivals also experienced sizable contractions in March. The only silver lining was provided by agriculture, with the summer sowing of rice, pulses and oilseeds in the country progressing well, with total area sown under the current kharif season up by 43.5 per cent so far, and the rabi harvest promising to be a bumper as reflected in record procurement.

Reflecting the various liquidity management measures, domestic financial conditions have eased appreciably as reflected in the narrowing of liquidity premia in various market segments. Yields on government securities, commercial paper (CP), 91- day treasury bills, certificates of deposit (CDs) and corporate bonds have softened. The weighted average lending rates on fresh rupee loans of commercial banks declined by 43 bps in March 2020 alone. Though credit growth remains muted, scheduled commercial banks' investments in commercial paper, bonds, debentures and shares of corporate bodies in this year so far (up to May 8) increased sharply by INR 66,757 crore as against a decline of INR 8,822 crore during the same period last year. There were net inflows into various schemes of mutual funds in April in contrast to large outflows in March.

Outlook

The inflation outlook is highly uncertain. As supply lines get restored in the coming months with gradual relaxations in the lockdown, the unusual spike in food inflation in April is expected to moderate. The forecast of a normal monsoon also portends well for food inflation. Given the current global demand-supply balance, international crude oil prices are likely to remain low although they may firm up from the recent depressed levels. Soft global prices of metals and other industrial raw materials are likely to keep input costs low for domestic firms. Deficient demand may hold down pressures on core inflation (excluding food and fuel), although persisting supply dislocations impart uncertainty to the near term outlook. However, volatility in financial markets could have a bearing on inflation. These factors, combined with favorable base effects, are expected to take effect and pull down headline inflation below target in Q3 and Q4 of 2020-21.

Recovery in economic activity is expected to begin in Q3 and gain momentum in Q4 as supply lines are gradually restored to normalcy and demand gradually revives. For the year as a whole, there is still heightened uncertainty about the duration of the pandemic and how long social distancing measures are likely to remain in place and consequently, downside risks to domestic growth remain significant. On the other hand, upside impulses could be unleashed if the pandemic is contained, and social distancing measures are phased out faster.

COVID-19 – Regulatory Package

Post relief measures announced by RBI in months of March and April 2020 for economic slowdown induced by COVID-19, RBI further announced [measures](#) in May 2020. The details of measures are as follows:

(i) Rescheduling of Payments – Term Loans and Working Capital Facilities

In light of extension in lockdown, RBI has extended moratorium by another three months for all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) (“lending institutions”) from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

RBI has also allowed deferment of recovery of interest on all working capital facilities, sanctioned in the form of cash credit/overdraft (CC/OD) for another three months, from June 1 2020 to August 31 2020. RBI has permitted lending institutions at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

(ii) Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, RBI has permitted lending institutions as a one-time measure, to,

(i) recalculate the ‘drawing power’ by reducing the margins till August 31, 2020. Margins shall have to be restored by March 2021

(ii) Review the working capital sanctioned limits up to March 31, 2021, based on a reassessment of the working capital cycle.

The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

(iii) Asset Classification

The conversion of accumulated interest into FITL, as given above, and the changes in the credit terms permitted above, shall not have to be treated as concessions granted due to financial difficulty of the borrower, under specific sections of Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 and consequently, will not result in asset classification downgrade.

COVID-19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets

Given the continued challenges to resolution of stressed assets, the [timelines for resolution](#) of stressed assets have been extended by RBI as follows:

For accounts within review period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

For accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

Large Exposures Framework – Increase in Exposure to a Group of Connected Counterparties

The current [allowable exposure](#) to large groups for Banks is capped at 25% of the bank's available eligible capital base at all times.

On account of the COVID-19 pandemic, debt markets and other capital market segments are witnessing heightened uncertainty. As a result, many corporates are finding it difficult to raise funds from the capital market and are predominantly dependent on funding from banks. Therefore, with a view to facilitate greater flow of resources to corporates, RBI has decided, as a one-time measure, to increase a bank's exposure to a group of connected counterparties from 25% to 30% of the eligible capital base of the bank. This will be applicable till June 30, 2021.

'Voluntary Retention Route' (VRR) for Foreign Portfolio Investors (FPIs) investment in debt – relaxations

As per current norms, RBI requires [FPIs to invest](#) 75% of their committed portfolio size (CPS) within 3 months from date of allotment.

In view of the disruptions caused by COVID-19, RBI has decided to allow FPIs that have been allotted investment limits, between January 24, 2020 (the date of reopening of allotment of investment limits) and April 30, 2020, an additional time of three months to invest 75% of their CPS. For FPIs availing the additional time, the retention period for the investments (committed by them at the time of allotment of investment limit) would be reset to commence from the date that the FPI invests 75% of CPS.

Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit – Extension

Government of India has approved the extension of [Interest Equalization Scheme](#) for pre and post shipment Rupee export credit, with same scope and coverage, for one more year i.e. up to March 31, 2021. The extension shall take effect from April 01, 2020 and end on March 31, 2021 covering a period of one year.

Pre-shipment and Post-shipment Export Credit – Extension of Period of Advance

In view of the outbreak of Covid-19 pandemic, the exporters have been facing genuine difficulties such as delay / postponement of orders, delay in realization of bills, etc. In this regard, RBI has permitted the period of realization and repatriation of the export proceeds to India to be increased from nine months to 15 months from the date of export in respect of exports made up to July 31, 2020. In line with this relaxation, RBI has decided to increase the maximum permissible period of [pre-shipment and post-shipment export credit](#) sanctioned by banks from one year to 15 months, for disbursements made up to July 31, 2020.

Import of goods and services – Extension of time limits for Settlement of import payment

As per an earlier issued circular, [remittances against normal imports](#) (i.e. excluding import of gold/diamonds and precious stones/ jewelry) should be completed no later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance etc.

In view of the disruptions due to outbreak of COVID- 19 pandemic, RBI has decided to extend the time period for completion of remittances against such normal imports (except in cases where amounts are withheld towards guarantee of performance etc.) from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020.



INSURANCE

COVID-19 Corner

Insurance Regulatory Development Authority of India (IRDAI) has created a ready reference for all the components of the industry for all the announcements related to COVID-19.

The link segregates announcements for each line of business including health, life, non-life, intermediaries, finance and accounts, general administration and reinsurance.

The link can be referred to as [here](#).

Consolidated regulations

For the benefit of insureds and intermediaries, IRDAI has consolidated certain guiding principles in form of regulations and amendments. IRDAI has placed these collectively at a single spot. The regulations include:

1. [Insurance Regulatory And Development Authority Of India \(Third Party Administrators- Health Services\) Regulations, 2016](#)
2. [Insurance Regulatory And Development Authority Of India \(Registration Of Insurance Marketing Firm\) Regulations, 2015](#)
3. [Insurance Regulatory and Development Authority \(Insurance Advertisements and Disclosure\) Regulations, 2000](#)
4. [Insurance Regulatory and Development Authority of India \(Appointed Actuary\) Regulations, 2017](#)
5. [Insurance Regulatory And Development Authority Of India \(Health Insurance\) Regulations, 2016](#)
6. [Insurance Regulatory and Development Authority of India \(Insurance Web Aggregators\) Regulations, 2017](#)
7. [Insurance Regulatory and Development Authority of India \(Insurance Brokers\) Regulations, 2018](#)

Foreign investment for insurance intermediaries

As per an earlier circular issued by Authority on 17th April 2020, in line with Government announcement, foreign investment in insurance intermediaries shall be allowed up to 100 per cent. Another set of regulations guided insurers on Foreign Exchange Management (Non-debt instruments).

In order to ensure the [compliance](#) with above regulations, the insurance intermediaries shall have to submit to the regulator:

1. A certified copy of resolution passed by the Board of Directors of the insurance intermediary confirming of both the announcements
2. Necessary Government of India's approval on implementation of said regulations wherever required

Allotment of Filing Reference Number (FRN) for Cross Border Reinsurers

IRDAI has allotted [filling reference number \(FRN\)](#) to 2 cross-border reinsurers, who did not fulfill eligibility criteria. They are as follows:

1. Anadolu Anonim Turk Sigorta Sirketi
2. Convex Insurance UK Limited

For cross border insurers not having any presence in India, and doing business in India, the regulator requires to submit information via an online portal, through a designated insurer. Once the cross border insurer files the information on a Cross Border information sheet via the online portal, a filing reference number is generated automatically.

Reinsurance placements by an insurer to the above stated CBR's shall not exceed two percent (2%) of the total reinsurance premium ceded outside India



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Finance Minister announced measures for relief and credit support related to businesses

Due to impact of COVID-19 on economy, Finance Minister made announcements for uplifting the economy in a 5-day series. The major announcements included the following:

- Rs 3 lakh crore Emergency Working Capital Facility for Businesses, including MSMEs
- Rs 20,000 crore Subordinate Debt for Stressed MSMEs
- Rs 50,000 crore equity infusion through MSME Fund of Funds
- New Definition of MSME and other Measures for MSME
- No Global tenders for Government tenders of upto Rs 200 crore
- Extending the Employees Provident Fund Support for business and organised workers for another 3 months for salary months of June, July and August 2020
- EPF Contribution to be reduced for Employers and Employees for 3 months to 10% from 12% for all establishments covered by EPFO for next 3 months
- Rs. 30,000 crore Special Liquidity Scheme for NBFC/HFC/MFIs
- Rs. 45,000 crore Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs
- Rs 90,000 crore Liquidity Injection for DISCOMs
- 3 crore farmers with agricultural loans of Rs. 4.22 lakhs crore availed the benefit of 3 months loan moratorium.
- Rs. 1500 crores Interest Subvention for MUDRA-Shishu Loans
- Rs 5000 cr Special Credit Facility for Street Vendors
- Rs 70,000 crore boost to housing sector and middle income group through extension of CLSS (Credit linked subsidy scheme)
- Rs 30,000 crores Additional Emergency Working Capital Funding for farmers through NABARD
- Rs 1 lakh crore Agri Infrastructure Fund for farm-gate infrastructure for farmers
- Rs 10,000 crores scheme for Formalisation of Micro Food Enterprises (MFE)
- Rs 20,000 crores for Fishermen through Pradhan Mantri Matsya Sampada Yojana (PMMSY)
- Animal Husbandry Infrastructure Development Fund - Rs. 15,000 crore
- Reforms in coal sector

- Reforms in mineral sector
- Reforms in defense sector

Apart from monetary measures, Ministry of Finance also announced measures to improve economy and ease of doing business. Major announcements include:

- In the first phase of decriminalization of Company Law defaults in 2018, 16 compoundable offences were shifted to an in-house adjudication & penalty mechanism
- Integrated Web based Incorporation Form - Simplified Proforma for Incorporating Company Electronically Plus (SPICE +) introduced which extends 10 services of different Ministries and one State Government through a single form.
- Databank of Independent Directors launched
- Withdrawal of more than 14,000 prosecutions under the Companies Act, 2013. Rationalization of Related Party Transaction related provisions
- Timely Action during COVID-19 to reduce compliance burden under various provisions of the Companies Act,2013 as well as enable Companies conduct Board Meetings, EGMs & AGMs, Rights issue by leveraging the strengths of Digital India
- In 221 resolved cases, 44% Recovery has been achieved since inception of IBC, 2016 • Admitted claims amount to Rs. 4.13 Lakh crores
- Realizable amount is Rs. 1.84 Lakh crores
- Under IBC, 13,566 cases involving a total amount of Rs. 5.01 lakh crores (approx.) have been withdrawn before admission under provisions of IBC till 29th Feb 2020. Supporting State Governments & promoting state level reforms

The detailed announcements can be referred to, part-wise in following links:

1. [Part I](#)
2. [Part II](#)
3. [Part III](#)
4. [Part IV](#)
5. [Part V](#)

Cabinet approves modifications in the existing "Partial Credit Guarantee Scheme (PCGS)"

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has approved the Sovereign portfolio guarantee of up to 20% of first loss for purchase of Bonds or Commercial Papers (CPs) with a rating of AA and below (including unrated paper with original/ initial maturity of up to one year) issued by NBFCs/ MFCs/Micro Finance Institutions (MFIs) by Public Sector Banks (PSBs) through an extension of the [Partial Credit Guarantee Scheme \(PCGS\)](#).

The Cabinet also approved modifications in the existing PCGS on purchase of pooled assets, increasing its coverage by—

- Making NBFCs/HFCs reported under SMA-1 category on technical reasons alone during the last one year period prior to 1.8.2018 eligible. Earlier NBFCs/HFCs reported as SMA-1 or SMA-2 during this period were ineligible under the Scheme.
- Relaxing the net profit criteria to the extent that the concerned NBFC/HFC should now have made a profit in at least one of the financial years of FY2017-18, FY 2018-19 and 2019-20. Earlier, the NBFC/HFC should have made a net profit in at least one of the financial years of FY 2017-18 and 2018-19.
- Relaxing the criteria regarding date of origination of assets to include new assets originating up to at least six months prior to the date of initial pool rating. Earlier, only assets originated up to 31.3.2019 were eligible under the Scheme.
- Extending the Scheme from 30.6.2020 to 31.3.2021 for purchase of pooled assets.

The existing PCGS was issued on 11.12.2019 offering sovereign guarantee of up to 10% of first loss to PSBs for purchasing pooled assets worth rated BBB+ or above worth up to Rs. 1,00,000 crore, from financially sound NBFCs/ MFIs. The outbreak of COVID-19 along with lockdown of business activity has now necessitated adoption of additional measures to support NBFCs and HFCs - On the liabilities side by providing a sovereign guarantee to cover purchase of Bonds/CPs issued by NBFCs/HFCs as well as MFIs which also play a critical role in extending credit to small borrowers; and on the assets side by modifying the existing PCGS to widen its coverage,

Implementation schedule:

The window for this one-time partial credit guarantee offered by GoI will remain open till 31st March, 2021 for purchase of pooled assets and for the period as specified under the Scheme for purchase of Bonds/CPs, or till such date by which Rs. 10,000 crore worth of guarantees, including both guarantees toward purchase of pooled assets and Bonds/ CPs, are provided by the Government, whichever is earlier.

Impact:

COVID-19 crisis and consequent lockdown restrictions are likely to have a negative impact on both collections and fresh loan disbursements, besides a deleterious effect on the overall economy. This is anticipated to result not only in asset quality issues for the NBFC/ HFC/ MFI sector, but also low loan growth as well as higher borrowing costs for the sector, with a cascading effect on Micro, Small and Medium Enterprises (MSMEs) which borrow from them. While the RBI moratorium provides some relief on the assets side, it is on the liabilities side that the sector is likely to face increasing challenges. The extension of the existing Scheme will address the liability side concerns. In addition, modifications in the existing PCGS will enable wider coverage of the Scheme on the asset side also. Since NBFCs, HFCs and MFIs play a crucial role in sustaining consumption demand as well as capital formation in small and medium segment, it is essential that they continue to get funding without disruption, and the extended PCGS is expected to systematically enable the same.

Cabinet approves Special Liquidity Scheme for NBFCs/HFCs to address their Liquidity Stress

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has given its approval to the proposal of the Ministry of Finance to launch a new Special Liquidity Scheme for Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) to improve liquidity position of the NBFCs/HFCs.

Financial implication:

The direct financial implication for the Government is Rs. 5 crore, which may be the equity contribution to the Special Purpose Vehicle (SPV). Beyond that, there is no financial implication for the Government until the Guarantee involved is invoked. However, on invocation, the extent of Government liability would be equal to the amount of default subject to the Guarantee ceiling. The ceiling of aggregate guarantee has been set at Rs. 30,000 crore, to be extended by the amount required as per the need.

Details of the Scheme:

The Government has proposed a framework for addressing the liquidity constraints of Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) through a Special Liquidity Scheme. An SPV would be set up to manage a Stressed Asset Fund (SAF) whose special securities would be guaranteed by the Government of India and purchased by the Reserve Bank of India (RBI) only. The proceeds of sale of such securities would be used by the SPV to acquire short-term debt of NBFCs/HFCs. The Scheme will be administered by the Department of Financial Services, which will issue the detailed guidelines.

Implementation schedule:

A large public sector bank would set up an SPV to manage a stressed asset fund which would issue interest bearing special securities guaranteed by the Government of India, to be purchased by RBI only. The SPV would issue securities as per requirement subject to the total amount of securities outstanding not exceeding Rs. 30,000 crore to be extended by the amount required as per the need. The securities issued by the SPV would be purchased by RBI and proceeds thereof would be used by the SPV to acquire the debt of at least investment grade of short duration (residual maturity of up to 3 months) of eligible NBFCs / HFCs.

Impact:

Unlike the Partial Credit Guarantee Scheme which involves multiple bilateral deals between various public sector banks and NBFCs, requires NBFCs to liquidate their current asset portfolio and involves flow of funds from public sector banks, the proposed scheme would be a one-stop arrangement between the SPV and the NBFCs without having to liquidate their current asset portfolio. The scheme would also act as an enabler for the NBFC to get investment grade or better rating for bonds issued. The scheme is likely to be easier to operate and also augment the flow of funds from the non-bank sector.

Benefits:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the PCGS. This facility would supplement the liquidity measures taken so far by the Government and RBI. The Scheme would benefit the real economy by augmenting the lending resources of NBFCs/HFCs/MFIs.

Background:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the Partial Credit Guarantee Scheme (PCGS). There is an urgency to implement the above Budget announcement to strengthen financial stability on account of the emerging situation of Covid-19.



CAPITAL MARKETS

Securities and Exchange Board of India (Payment of Fees) (Amendment) Regulations, 2020

SEBI has made [amendments](#) to following regulations Securities and Exchange Board of India (Stock Brokers) Regulations, 1992, Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 and Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018, as follows:

A. Amendments to Securities and Exchange Board of India (Stock Brokers) Regulations, 1992. In the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992, –

I. In Schedule V, in Part B, the following has been inserted, namely, -

Every stock broker in cash segment, equity derivatives segment, currency derivatives segment, interest rate derivatives segment and commodity derivatives segment (other than agri-commodity derivative) liable to pay fees as a percentage of their turnover as specified at sub-clause 1 shall, for the period June 01, 2020 to March 31, 2021, pay only 50% (fifty percent) of fees as calculated therein, including for off-market transactions undertaken by them.

B. Amendments to Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

In the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018,

I. In schedule III, after the existing table in clause 2(a), the following table shall be inserted for the period from June 01, 2020 to December 31, 2020, namely,

Size of the issue, including intended retention of oversubscription	Amount / Rate of fees	Amount / Rate of fees for filing within one year after expiry of SEBI Observation letter
Less than or equal to ten crore rupees.	A flat charge of fifty thousand rupees (50,000/-).	A flat charge of twenty five thousand rupees (25,000/-).
More than ten crore rupees, but less than or equal to five thousand crore rupees.	0.05 per cent. of the issue size.	0.025 per cent of the issue size.

More than five thousand crore rupees.	Two crore fifty lakh rupees (2,50,00,000/-) plus 0.0125 per cent. of the portion of the issue size in excess of five thousand crore rupees	One crore twenty five lakh rupees (1,25,00,000/-) plus 0.00625 per cent. of the portion of the issue size in excess of five thousand crore rupees
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- II. In schedule III, after the existing table in clause 2(b), the following table shall be inserted for the period from June 01, 2020 to December 31, 2020, namely,-

Size of the issue, including intended retention of oversubscription	Amount / Rate of fees	Amount / Rate of fees for filing within one year after expiry of SEBI Observation letter
Less than or equal to ten crore rupees#	A flat charge of twenty five thousand rupees (25,000/-).	A flat charge of twelve thousand five hundred rupees (12,500/-).
More than ten crore rupees#	0.025 per cent. of the issue size.	0.0125 per cent of the issue size.
<i># to be read as twenty-five crores with effect from April 21, 2020</i>		

- C. Amendments to Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018

In the Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018.

- I. In schedule V, after the existing table, the following table shall be inserted for the period from June 01, 2020 to December 31, 2020, namely,-

Offer size	Fee (Rupees)
Less than or equal to rupees ten crore	2,50,000/-
More than rupees ten crore but less than or equal to rupees one thousand crore	0.25 per cent of the offer size
More than rupees one thousand crore	2,50,00,000/- plus 0.0625 per cent of the portion of offer size in excess of rupees one thousand crore

Implementation of Circular on 'Margin obligations to be given by way of Pledge / Re-pledge in the Depository System' – Extension

In view of situation arising due to lockdown imposed by Government on account of lockdown, SEBI has received several representations from the depositories and clearing corporations on matter of [margin obligations](#) to be given by way of pledge/re-pledge in the depository system. In this regard and keeping in mind the implementation of changes to the systems and software development still under progress, SEBI has extended the implementation date of the earlier issued circular on the same to August 1 2020. Therefore, as per the circular, the trading member (TM) / clearing member (CM) shall be required to close all existing demat accounts tagged as 'Client Margin / Collateral' by August 31 2020.

However, the provision as specified in the aforesaid circular regarding holding of Power of Attorney by TM / CM not to be considered as equivalent to the collection of margin by TM / CM in respect of securities held in the demat account of the client, shall be applicable from June 01, 2020.

Further, regarding confirmation from the client / pledgor through OTP on mobile number / registered e-mail id or other verifiable mechanism, SEBI clarified that such confirmation shall be required only once from the client / pledgor at the time of initial creation of pledge in favour of TM / CM and subsequent repledging by TM / CM shall not require any further confirmation from the client / pledgor.

Listing of Mutual Fund schemes that are in the process of winding up

As per the current circular, every close-ended scheme and units of segregated portfolio shall be [listed](#) on recognized stock exchanges.

As per MF Regulations, there are several steps envisaged with respect to winding up of Mutual Fund schemes before the scheme ceases to exist. During this process, such units can be listed and traded on a recognized stock exchange, which may provide an exit to investors

The units of Mutual Fund schemes which are in the process of winding-up shall be listed on recognized stock exchange, subject to compliance with listing formalities as stipulated by the stock exchange. However, pursuant to listing, trading on stock exchange mechanism will not be mandatory for investors, rather, if they so desire, may avail an optional channel to exit provided to them.

Initially, trading in units of such a listed scheme that is under the process of winding up, shall be in dematerialised form. AMCs shall enable transfer of such units which are held in form of Statement of Account (SoA) / unit certificates.

Detailed operational modalities for trading and settlement of units of MF schemes that are under the process of winding up, shall be finalized by the stock exchanges where units of such schemes are being listed, in consultation with SEBI. The operational modalities shall include the following:

- a. Mechanism for order placement, execution, payment and settlement;
- b. Enabling bulk orders to be placed for trading in units;

c. Issue related to suspension of trading, declaration of date for determining the eligibility of unitholders etc. in respect of payments to be made by the AMC as part of the winding up process;

d. Disclosures to be made by AMCs including disclosure of NAV on daily basis and scheme portfolio periodically etc.

The stock exchange shall develop a mechanism along with RTA for trading and settlement of such units held in the form of SoA/ Unit Certificate. The AMC, its sponsor, employees of AMC and Trustee shall not be permitted to transact (buy or sell) in the units of such schemes that are under the process of being wound up. The compliance of the same shall be monitored both by the Board of AMC and Trustee.

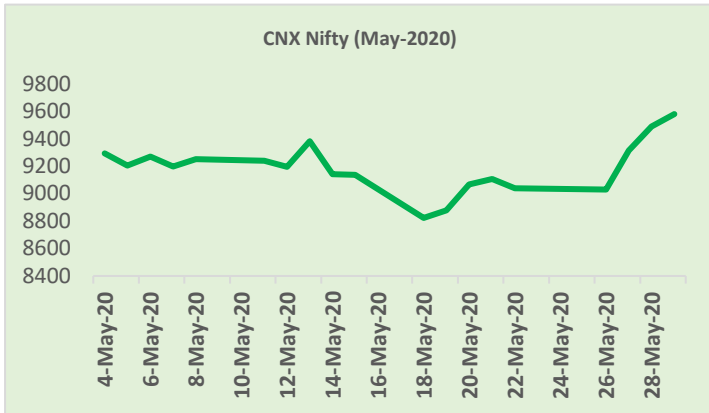
Review of Post-Default Curing Period for CRAs

SEBI has noted that in few cases of defaults that even though the rated entity was able to correct the default within a relatively shorter span of time, the rating could not be upgraded and continued to be under sub-investment grade due to the extant provisions on [post-default curing period](#) of 90 days for the rating to move from default to speculative grade and generally 365 days for default to investment grade. There is a possibility that such cases may increase in the wake of COVID19 pandemic. SEBI felt the need to review current policy on post-default curing period with a view to providing some flexibility to CRAs in taking appropriate view in such cases.

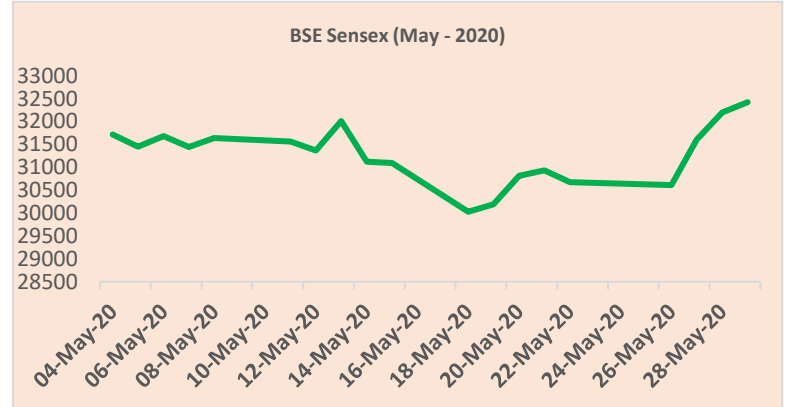
Thereby, SEBI has revised its current provisions. The relevant policy in this regard are as follows:

1. After a default is cured and the payments regularized, a CRA shall generally upgrade the rating from default to non-investment grade after a period of 90 days based on the satisfactory performance by the company during this period. CRAs may deviate from the said period of 90 days on a case to case basis, subject to the CRAs framing a detailed policy in this regard. The said policy shall also be placed on CRA's website. Cases of deviations from stipulated 90 days, if any, shall be placed before the Ratings Sub-Committee of the board of the CRA, on a half yearly basis, along with the rationale for such deviation.
2. The CRA shall frame a policy in respect of upgrade of default rating to investment grade rating and place it on its website.
3. The policies framed as above may include scenarios like technical defaults, change in management, acquisition by another firm, sizeable inflow of long-term funds or benefits arising out of a regulatory action, etc. which fundamentally alter the credit risk profile of the defaulting firm.

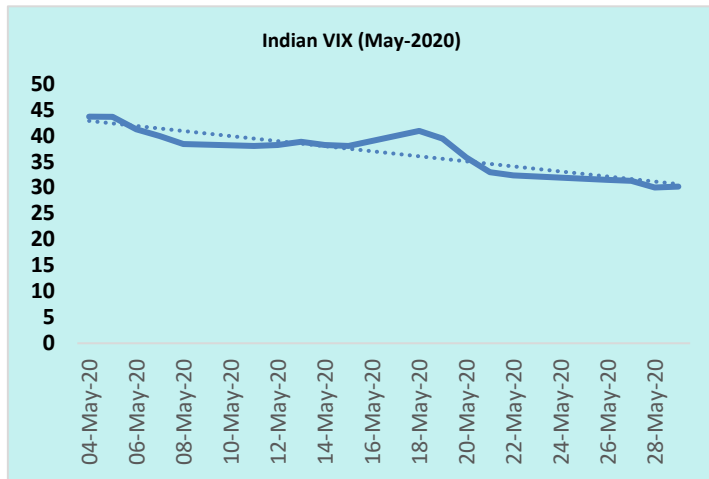
CAPITAL MARKETS SNAPSHOT



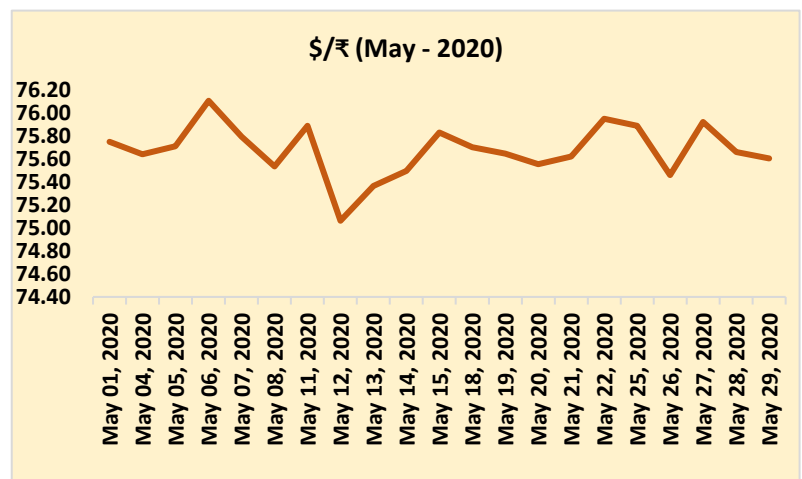
Source: National Stock Exchange



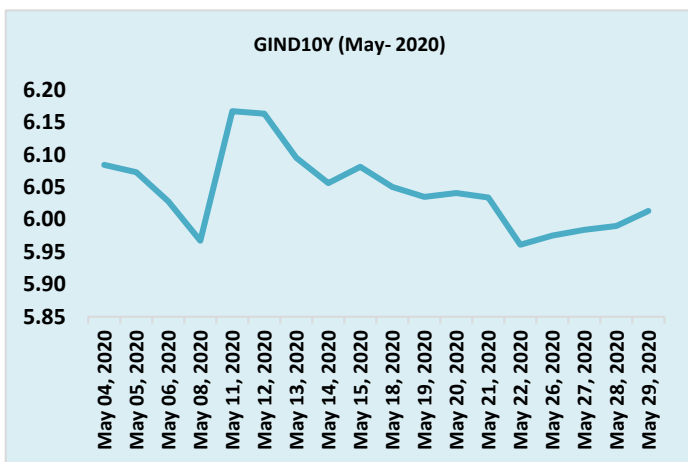
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The government expressed 'cautious optimism' about the country's economic prospects; a finance ministry report said actual GDP growth in this fiscal would be contingent upon the intensity, spread and duration of the pandemic. Disappointment over stimulus measures announced as part of the government's INR 20 lakh crore economic package and escalating tensions between the United States (US) and China also dented sentiments. More losses were seen after the Reserve Bank of India's (RBI) decision to extend the moratorium on term loans by three months pressured banking shares. Yields also rose sporadically in response to the fiscal stimulus package announced by the Centre on May 12.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2020*	2021*	Latest	2020*	% of GDP, 2020*	% of GDP, 2020*	(10YGov), Latest
Brazil	-0.3 Q1	-7.5	4.0	2.4 Apr	2.5	-2.5	-16.3	2.19
Russia	1.6 Q1	-5.2	1.3	3.1 Apr	4.2	1.7	-3.1	5.77
India	3.1 Q1	-5.8	9.4	5.8 Mar	3.4	-0.4	-7.4	5.80
China	-6.8 Q1	1.0	8.0	3.3 Apr	4.0	0.8	-6.0	2.47^
S Africa	-0.5 Q4	-7.0	1.4	4.1 Mar	3.6	-2.6	-12.4	8.76
USA	0.3 Q1	-3.8	2.4	0.3 Apr	0.6	-1.9	-14.0	0.64
Canada	-0.9 Q1	-4.3	3.4	-0.2 Apr	0.7	-3.9	-7.2	0.68
Mexico	-1.6 Q1	-9.2	2.9	2.1 Apr	2.6	-2.7	-4.6	6.11
Euro Area	-3.2 Q1	-8.0	5.6	0.1 May	0.4	1.8	-8.1	0.0
Germany	-2.3 Q1	-6.1	4.7	0.6 May	0.8	4.7	-6.1	0.0
Britain	-1.6 Q1	-8.7	6.7	0.8 Apr	1.0	-2.1	-14.1	0.30
Australia	1.4 Q1	-4.2	2.0	2.2 Q1	1.6	-2.5	-6.8	1.02
Indonesia	3.0 Q1	1.0	5.0	2.2 Mar	1.3	-1.4	-6.5	7.04
Malaysia	0.7 Q1	-5.1	2.1	-2.9 Apr	0.2	3.0	-6.8	3.02
Singapore	-0.7 Q1	-6.0	4.1	-0.7 Apr	0.4	19.3	-7.5	1.04
S Korea	1.4 Q1	-2.1	3.4	-0.3 May	0.5	4.0	-4.7	1.43

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

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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