

2021

Volume 2

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. Ajay Saraf, Executive Director, ICICI Securities, has presented his thoughts on 'Developments in capital markets: During and post-pandemic and emerging trends (Equity)'. We thank Mr. Saraf for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Recent reforms in BFSI sector'.

The economic indicators showed mixed performance. Manufacturing PMI rose to 57.7 in January from 56.4 in December. India's annual infrastructure output in January rose marginally by 0.1%. India's Index of Industrial Production (IIP) witnessed a growth of 1% in December. PMI services rose to 52.8 in January from 52.3 in December, while composite PMI rose to 55.8 in January from 54.9 in December. CPI inflation declined to a 16-month low of 4.06% in January from 4.59% in December. WPI inflation rose to an 11-month high of 2.03% in January from 1.22% in December.

The Gross Domestic Product (GDP) growth rate for the third quarter (October-December) of 2020-21 grew 0.4%.

The Reserve Bank of India (RBI) released (1) Risk-Based Internal Audit (RBIA) (2) Master Direction on Digital Payment Security Controls (3) Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (4) Investment in NBFCs from FATF non-compliant jurisdictions (5) Loans and advances to directors, their relatives, and firms / concerns in which they are interested, for Urban co-operative banks.

The Insurance Regulatory Development Authority of India (IRDAI) announced Guidelines on Standard Personal Accident Insurance Product and Product Structure for Insurance of Remotely Piloted Aircraft System (RPAS) / Drones.

Finance Minister in Budget announced Policy of Strategic Disinvestment to provide Clear Roadmap for Strategic and Non-Strategic Sectors.

Securities and Exchange Board of India (SEBI) announced Setting up of Limited Purpose Clearing Corporation (LPCC) by Asset Management Companies (AMCs) of Mutual Funds and Pre-Expiry Margin on commodities under Alternate Risk Management Framework.

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

On the cover



GUEST COLUMN

Developments in capital markets: During and post-pandemic and emerging trends (Equity)

*Ajay Saraf
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APAS COLUMN

Recent Reforms in BFSI Sector



ECONOMY

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- [Product Structure for Insurance of Remotely Piloted Aircraft System \(RPAS\) / Drones](#)

INFRASTRUCTURE & OTHER GOVT. INITIATIVES



- [Policy of Strategic Disinvestment announced; Clear Roadmap for Strategic and Non-Strategic Sectors](#)



CAPITAL MARKETS

- Setting up of Limited Purpose Clearing Corporation (LPCC) by Asset Management Companies (AMCs) of Mutual Funds
- Pre-Expiry Margin on commodities under Alternate Risk Management Framework

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	7.1 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



Developments in capital markets: During and post-pandemic and emerging trends (Equity)

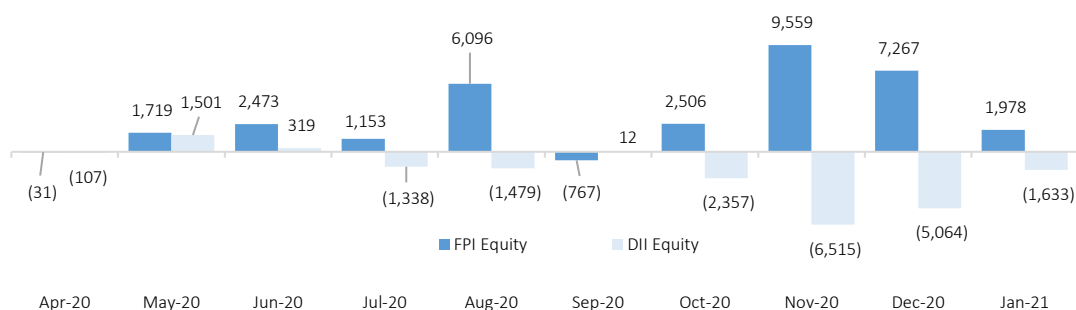
Ajay Saraf
Executive Director
ICICI Securities

Capital Markets Rise: Turning the expectations on its head

It was the March of 2020. A March like never before. The stringent lockdowns as part of government response to sharp increase in Covid-19 infections as well as the uncertainty surrounding the Virus itself resulted in a sharp decline for markets worldwide. But as the lockdowns started to ease, around June 2020, the slump in India markets was expected to be prolonged as the country's economy was getting poised to suffer major setback in decades. In a contrast to this expectation, the subsequent sharp rise in the markets, with the Indices starting an uptick caught everyone by a positive surprise. A confluence of policies and relief measures contributed towards this directional change in the capital markets.

On one side, there was a decline in market sentiment that led to the valuations to be rationalised and on the other side as the fears of pandemic started ease (however minimally). This led to many new investors to consider investing in the markets. The data on increase in Demat accounts between 31 March 2020 to 31 January 2021 bears testament to this. The depositories reported an unprecedented 106.4 million increase in new Demat opening, a 25% rise in just 10 months.

FY YTD | FII +31,953 \$mm | DII -16,661 \$mm



The markets were also buoyed by inflows from both Domestic and Foreign Institutional Investors. FIIs continued to further invest into the markets, with major beneficiaries including Banking & Financial Services, IT, Oil & Gas, Capital Goods and Pharmaceuticals. This is now currently the highest ever FII inflow in any given fiscal year. DIIs were net sellers as mutual funds looked to book profits and also to ease the redemption pressures at the beginning of the pandemic. It could of course be argued, considering the direction of indices, that over time these funds have been reinvested into the market in form of direct equities, with Nifty crossing 15,000 and Sensex 52,000 for the first time.

Regulators and Government: Unblocking the Pipes and Turning on the Tap

The regulators also played a pivotal role in alleviating the market sentiments. Capital Market activities got a significant boost as SEBI reacted nimbly and proactively to the uncertainty faced by the Corporates due to the Pandemic. Similarly, various deadlines were pushed across the segments by Income Tax Department.

A number of measures were rolled out to provide relief and boost capital raising by the Corporates, helping them to plan their fund raise in these uncertain times. These included extension of regulatory approval validity for IPO/Rights Issue, relaxation of eligibility norms for fast track issuances, reduction in minimum subscription threshold for issues to be considered successful, raising funds through QIPs without 6-month time gaps among others. Relaxation to listed entities for their obligations was provided which included extending time period for submission of financials and time gap between board meetings, thus reducing pressure on company officials and auditors alike.

The markets witnessed a flow of excess liquidity which was mainly on account of a coordinated response worldwide by central banks to Covid-19 with over USD 15 trillion infused in the global markets. Closer at home, RBI cut the repo rates by 115 bps and reverse repo rates by 155 bps since lockdown began in March amid other measures including long term repo operations, reduction in CRR, moratorium on interests and payments to pump and disburse liquidity in the system. This was further augmented by Government spending in form of various schemes and outlays.

Capital Markets Activities gaining pace

As the indices started surging up, the fund raising activities also gained impetus. Listed corporates have done QIPs, Rights Issue and FPO to the tune of over INR 1.3 lakh crores during this pandemic which included Reliance Industries raising INR 53,124 crores through Rights Issue (a record breaking largest ever transaction in history of Indian Capital Markets) and Jio Tower InvIT had an issue size of INR 25,000 crores.

The cumulative market capital of BSE listed companies crossed the INR 200 lakh crores. Accordingly, as the markets rose, the corporates sought to gain from same and capital market activities gained traction. Till Jan 21, there have been 62 primary issuances worth INR 1,95,829 Crores and 34 secondary market transactions worth INR 30,470 crores compared to 40 primary issuances worth INR 1,29,871 crores and 27 secondary transactions worth INR 17,632 crores in whole year of FY20.

The available liquidity was further visible in the oversubscriptions that some of the IPOs saw. Mrs Bectors Foods became the most subscribed IPO in history of Indian Markets for issue > INR 200 crores, with an oversubscription of 200x. Multiple other IPOs saw similar enthusiasm from investors across retail, HNI and QIB categories. This also led to numerous deal launches; as a comparison, while only 1 IPO was launched in first 5 months of FY21, 17 IPOs have been launched in next 5 months. This is more than 13 that were launched in whole of FY20.

The Path Ahead

This trend is set to continue, as the conditions continue to become even more favourable. In the past 3-4 months alone, 12 Draft Offer documents (excluding amendments) for IPOs have been filed with SEBI. There is renewed interest from investors and with SEBI providing relaxation across the products, the capital markets buzz should continue unabated.

The fund raising in FY21 till now has been dominated by Banking/Financial Services entities and Pharma companies. This trend should continue considering that Indian credit growth, which has been muted pre Covid 19, is being kick started by the Government in tandem with RBI through easing of monetary policy and schemes such as ECGS. This will thus benefit Banks and NBFCs and Housing Finance Companies looking to shore up capital, both for safety and growth purposes. Interest in Technology Infrastructure, E-Commerce, IT and Financial services should grow as the world adjusts to the new normal of post pandemic life, while India's new moniker as "World's Pharmacy" should attract further attention to the pharmaceuticals sector.

Final Thoughts:

With high efficacy vaccination being now administered to frontline workers and the plans for widespread vaccination programs, there is a renewed sense of hope and optimism. The revised set of GDP forecasts show the impact for India in FY21 will be muted compared to what was feared, with double digit FY22E growth bringing it back to track.

Not only will the markets continue to benefit from liquidity, as RBI keeps its stance accommodative, the recently released Q3 results across most of the industries show green shoots of revival in economy, boosting confidence that fundamentals would soon be catching up to the valuations.

Current decisions by SEBI relaxing Minimum Public Offer Norms (for large market cap companies) and allowing withdrawal of Buyback Offer due to Covid-19 shows a very pragmatic outlook by the policy makers and the

markets are assured that the regulators would continue to support capital markets activity and be responsive to dynamic and changing circumstances going forward.

The Government, through its policy initiatives and Union Budget, has provided a commitment to growth and nimbleness in context of fiscal deficit by taking advantage of low interest regimes. As against Budgeted Estimate of INR 30.4 lakh crores for FY21, the Government presented Revised Estimate of INR 34.5 lakh crores, an increase of approximately INR 4.3 lakh crores, as it sought to combat economic stress at ground level. These coupled with push for Atmanirbhar Bharat and increased capex spending for infrastructure would further promote rise in the economy. Production linked Incentives scheme would help provide fresh impetus to manufacturing industries across sectors and promote their associated ecosystems.

As the Industries and Capital Markets bounce back from the Pandemic, the message is loud and clear: “***Invictus Maneo***” (I remain unconquered).

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



Recent Reforms in BFSI Sector

There has been a plethora of reforms pertaining to the BFSI sector that have been announced in the recent times, by the government through the budget, and by the RBI.

With the world economy experiencing unprecedented contraction in economic growth and loss of human lives as a result of the pandemic, the Finance Minister had a tough task ahead in terms of developing a budget that had to focus on economic growth, while balancing many variables at play. The budget has been well received, looking at the way the stock market responded to the announcements.

Some of the key takeaways from a BFSI standpoint were setting up of a bad bank, rationalisation of market reforms code, increase in insurance FDI, set up of gold exchanges in India and additional recapitalisation of public sector banks to the tune of INR 20,000 crore amongst others.

Focus on enhancing financial inclusion through incentives for digital payments and deposit insurance amendments were additional noteworthy reforms keeping the end consumer in mind.

The constitution of asset reconstruction company/asset management company in the banking sector to transfer bad and stressed loans is a thoughtful reform and would enable reduction in stress caused in banking on account of NPAs and bad loans. The transferred assets would be separately dealt with by such ARC/AMC and could be similar to the process run by a company in the business of ARC, which generally involves acquiring, managing and disposing off bad loans and stressed assets.

To further restore the confidence of retail depositors in the banking industry, an effective implementation framework would be in place, whereby the depositors would be able to withdraw amounts up to INR 5 lakh against their deposits, which now stand insured under the Deposit Linked Incentive Scheme. The success of this initiative can be measured only when the process of deposit withdrawal could be seamless and of high agility, given that depositors during such times face a lot of stress, as they have a home to run and living expenses to be incurred.

Increase in FDI limit to 74% is a welcome change, where control and significant ownership can rest with foreign JV partners with specific safeguards, such as the majority directors to be Indian residents and where 50% of the board to comprise independent directors. There could be certain restrictions in relation to retaining a

portion of distributable profits under general reserves. It would be a wait and watch to experience how many global insurance players could be keen to take the benefit of this reform.

An outlay of INR 20,000 crore has been proposed to further capitalise the PSBs, which would continue to ensure improvement in the financial health of the PSBs and provide easy capital to them during the difficult times they have been going through on the capital adequacy front.

The privatisation of one public sector insurance company is a great step towards demonstrating the open mindedness of the government to focus on its privatisation endeavour and would enable a better platform for this company to effectively compete with private players in the industry.

LIC to come out with an IPO is a major disinvestment decision within the BFSI sector and a very small percentage of such a disinvestment would enable a significant cash inflow for the government and could constitute a major portion of the modest number of INR 1,75,000 crore of disinvestment income budgeted.

The RBI has also played a part in announcing reforms for the financial sector. On 12 June 2020, RBI had constituted internal working group (IWG), headed by Mr. PK Mohanty to audit extant ownership guidelines and corporate structure for private sector banks of India. The IWG, in a progression of recommendations, has suggested the guarded entry of corporate houses into the banking space, conversion of NBFCs into banks and payments banks into SFB, hike in promoters' stake, amongst others. The committee also sought comments on its recommendations from stakeholders and members of the public.

The proposed measures are well designed with a futuristic mindset to expand the banking network that should help the economy reach its growth potential. Looking to the strategic role of banks in harnessing entrepreneurial potentiality, the present size and activity of banks fall short of the needs. The inadequacy has become more glaring in the current crisis, when banks have a critical responsibility to bail out distressed entrepreneurs using innovation, regardless of the risks and with some aggression. Lacking in capital and with bulging NPAs, banks do not have the wherewithal to act effectively and reach out in support of the masses.

The recommendation to allow large NBFCs owned by corporates/private entrepreneurs with asset size of INR 50,000 crore and above to convert into banks is a well thought out move to increase the size of the banking system itself. With at least 10 years as shadow banks, they would have a different approach to credit appraisal, risk-based pricing, monitoring and recovery strategies.

The RBI panel is also open to payments banks with 3 years of operational experience, converting into SFBs. SFBs and payments banks will have to be listed within 6 years from the date of reaching net worth equivalent to entry requirements prescribed for universal banks – INR 10,000 crore – or 10 years from the date of commencement, whichever is earlier. Promoter shareholding is to be raised from 15% to 26%, while non-promoter shareholding voting equity is capped at 15%. It provides a right balance to the stakeholders and makes an entry into banking an attractive proposition. The minimum entry level capital for universal banks is now pegged at INR 1,000 crore and INR 300 crore for SFBs. However, there is no change for payments banks, for which the capital requirement remains at INR 100 crore.

A non-operative financial holding company (NOFHC) structure to separate ownership and management control is expected to take care of the 'conflict of interest' issues. This is in line with the recommendations of the PJ Nayak Committee report reviewing governance of boards of banks in India. The transition of the ownership structure of existing private banks licensed before 2013 is also clearly outlined.

The RBI has also recently released a discussion paper suggesting a tougher regulatory framework for the NBFC sector to prevent recurrence of any systemic risk to the country's financial system. The discussion paper proposes the revised regulatory framework, which is formulated on a scale-based approach. It has proposed a four-layered regulatory structure for NBFCs with progressive increase in intensity of regulation. The NBFCs will be split into 4 layers – base, middle, upper and top. The classification of the NBFCs will be based on a host of parameters, including size, leverage, interconnectedness, substitutability, complexity and nature of activity, among others.

Over the years, the NBFC sector has undergone considerable evolution. Higher risk appetite of NBFCs has contributed to their size, complexity and interconnectedness, making some of the entities systemically significant, posing potential threat to financial stability. While NBFCs are under RBI's regulation since 1964, the central bank introduced a comprehensive regulatory framework for the systemically important NBFCs in 2006, which was further refined in 2014. Accordingly, within the universe of systemically important NBFCs, an additional identifier has been placed at INR 5,000 crore, wherein additional regulations have been made applicable to such large NBFCs.

The base layer will consist of NBFCs currently classified as non-systemically important non-deposit taking NBFCs, besides Type I NBFCs, NOFHC, NBFC-P2P and NBFC-AA (account aggregator).

The current threshold for systemic importance is INR 500 crore. This threshold needs recalibration, taking into account increase in general price levels as well as increase in real GDP since 2014. The paper proposes to raise this threshold to INR 1,000 crore.

The middle layer will consist of all non-deposit taking NBFCs, classified currently as NBFC-ND-SI and all deposit taking NBFCs.

The upper layer would comprise only those NBFCs which are specifically identified as systemically significant, based on a set of parameters.

The top layer is supposed to remain empty. The layer can get populated in case the RBI takes a view that there has been unsustainable increase in the systemic risk spillovers from specific NBFCs in the upper layer. Such NBFCs judged to be extreme in supervisory risk perception would be pushed to the top layer from the upper layer. NBFCs in this layer will be subject to higher capital charge, including capital conservation buffers. There will be enhanced and more intensive supervisory engagement with these NBFCs.

With these enhanced regulations, it would make sense for some large NBFCs to explore the option of converting to banks.

While all the above reforms announced in the Budget and by RBI are positive and steps in the right direction, their impact on the BFSI sector and the economy at large remains to be seen.

-APAS



ECONOMY

IIP (Index of Industrial Production) – December

Index of Industrial Production (IIP) or factory output for the month of December 2020 witnessed a growth of 1%, compared to a contraction of 2.1% in November 2020 and 0.4% in December 2019.

The General Index for the month of December 2020 stands at 135.9, which is 1% higher as compared to December 2019.

The manufacturing sector, which constitutes 77.63% of the index, rose by 1.6% in December, to 137.5.

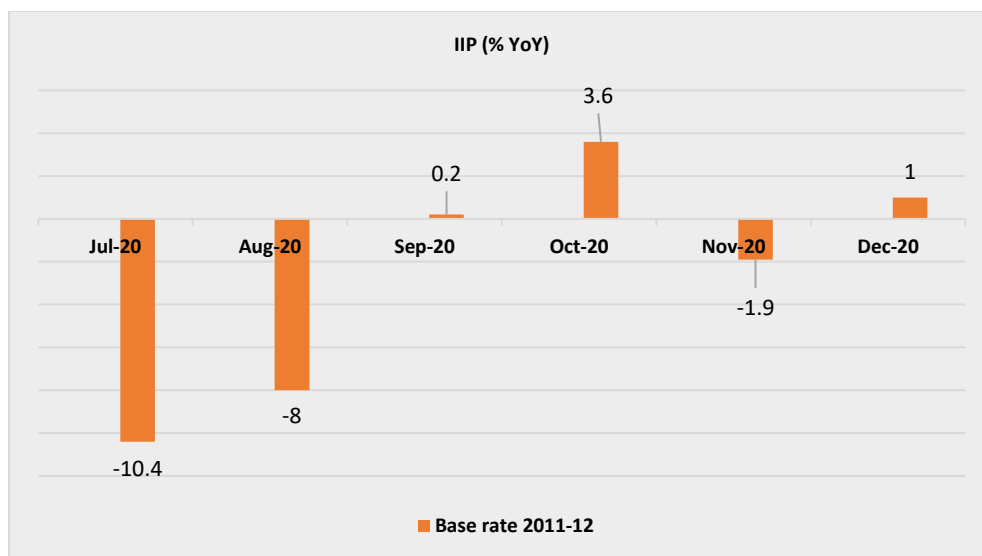
Mining sector output contracted by 4.8%, to 115.1.

Electricity generation rose by 5.1%, to 158.

As per Use-based classification, the indices stand at 129.2 for primary goods, 94.3 for capital goods, 147.5 for intermediate goods and 147.7 for infrastructure/construction goods for December.

Further, the indices for consumer durables and consumer non-durables were at 123 and 161.2, respectively.

The IIP for April-December period has contracted by 13.5%. It had registered a growth of 0.3% during the same period last fiscal.



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

CPI (Consumer Price Index) – January

India's consumer price index (CPI) or retail inflation declined to a 16-month low of 4.06% in January 2021, compared to 4.59% in December 2020 and 7.6% in January 2020.

The corresponding provisional inflation rates for rural and urban areas are 3.23% and 5.06% respectively.

The core CPI inflation was unchanged at 5.33% in January 2021, compared with December 2020.

The Consumer Food Price Index (CFPI) eased to 1.89% in January from 3.41% in December.

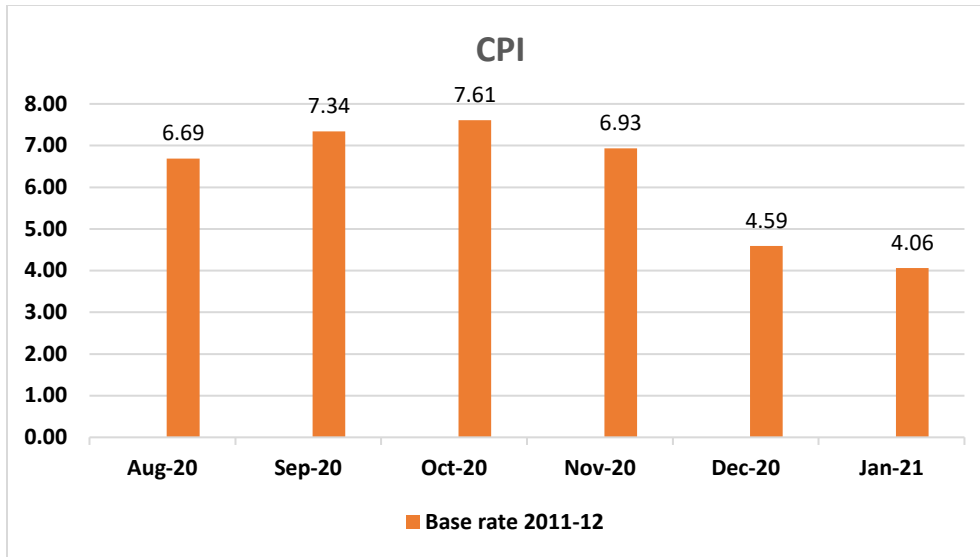
Among the CPI components, inflation for food and beverages eased to 2.67% in January from 3.87% in December.

The easing of the food basket was due to a fall in vegetable prices that slipped 15.84% in January. Apart from vegetables, other key segments were, however, positive. The oils and fats segment saw a rise of 19.71%, while that of pulses and products rose 13.39% and non-alcoholic beverages gained 13.15%. Egg prices climbed 12.85% and the meat and fish segment also witnessed a rise of 12.54%.

The inflation for housing rose to 3.25%, while that for miscellaneous items fell to 6.49% in January.

Within the miscellaneous items, the inflation declined for transport and communication to 9.32%, personal care and effects to 10.61%, household goods and services at 2.8% and education at 2.18%, while it rose for recreation and amusement to 5.53% and health to 6.02% in January 2021.

The inflation for clothing and footwear rose to 3.82%, while that for fuel and light rose to 3.87% in January.



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

WPI (Wholesale Price Index) – January

India's wholesale price index (WPI) inflation rose to an 11-month high of 2.03% in January 2021, as compared to 1.22% in December 2020 and 3.52% in January 2020.

The rate of inflation based on WPI Food Index decreased to -0.26% in January 2021 from 0.92% in December 2020.

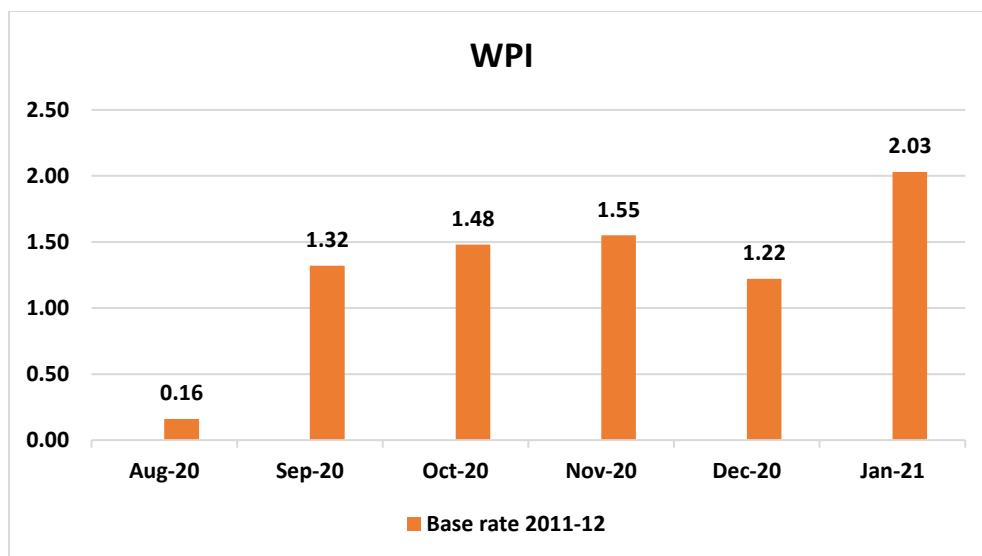
The index for primary articles declined by 1.77% from the previous month.

Prices increased for crude petroleum and natural gas (9.48%) and minerals (2.67%). Prices declined for non-food articles (0.43%) and food articles (2.99%).

The index for fuel and power increased by 5.84% from the previous month.

Prices increased for electricity (11.49%) and mineral oils (5.55%), while prices of coal remained unchanged.

The index for manufactured products increased by 1.54% from the previous month.



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

Manufacturing PMI – January

The Nikkei India Manufacturing Purchasing Managers’ Index (PMI) strengthened in January as companies scaled up production at the quickest pace in 3 months in response to faster expansions in total sales and new export orders.

The Manufacturing PMI rose to a 3-month high of 57.7 in January 2021 from 56.4 in December 2020. It stayed above the 50 level, that separates expansion from contraction, for the sixth straight month.

The Indian Manufacturing PMI remained well inside positive territory in January, signalling a sixth consecutive improvement in business conditions and moving further away from the Covid-related contractions recorded around mid-2020.

Sustained sales growth supported a further upturn in manufacturing sector output in January. The rise in production was the sixth in successive months and the quickest since last October.

Factories continued to ramp up production at an above trend pace and the sustained upturn in new work intakes suggests that there is room for capacity expansion in the near term.

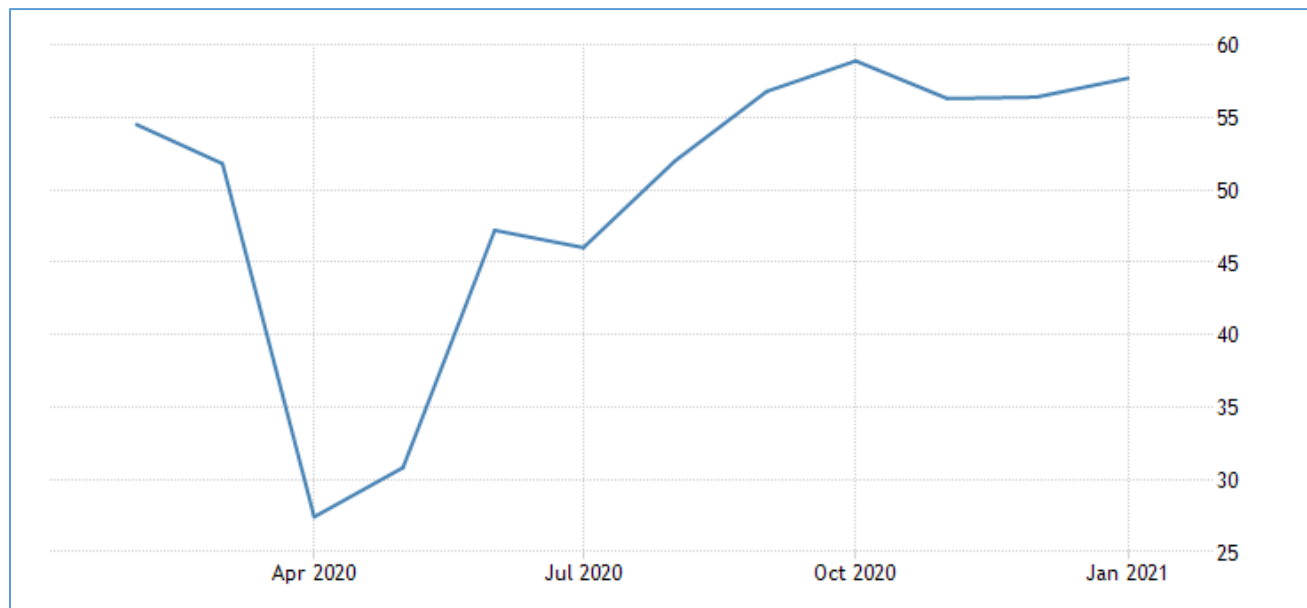
Jobs fell at the start of the year, but did so at the weakest pace in the current 10-month stretch of contraction.

Despite the pickup in demand, manufacturing sector jobs decreased further in January. Companies that refrained from hiring mentioned the observance of government norms to keep workers to a minimum.

On the inflation front, price pressures intensified, driven by capacity constraints in supply chains. An important insight was a pickup in inflationary pressures, as lingering supply side squeeze drove the sharpest increase in purchasing costs for over 2 years. The favourable demand environment was accommodative of price hikes and charges were raised at the fastest pace in over a year.

Meanwhile, business sentiment improved on the back of vaccine rollout, increased marketing budgets and projects in the pipeline.

Companies cheered the rollout of Covid-19 vaccines and became more optimistic towards growth prospects, a position that is supportive of investment and job creation as businesses attempt to rebuild their inventories of finished goods and meet demand needs.



Source: www.tradingeconomics.com

Services PMI – January

The Indian services sector activity remained steady in January, helped by new businesses.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to 52.8 in January 2021 from 52.3 in December 2020. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the fourth straight month.

The reading pointed to the fourth straight month of expansion in the services sector, as both output and new orders continued to grow.

Output expanded due to marketing efforts, the reopening of some establishments and strengthening demand, all of which supported the increase in sales.

The growth of total new orders was helped by ongoing price discounting strategies.

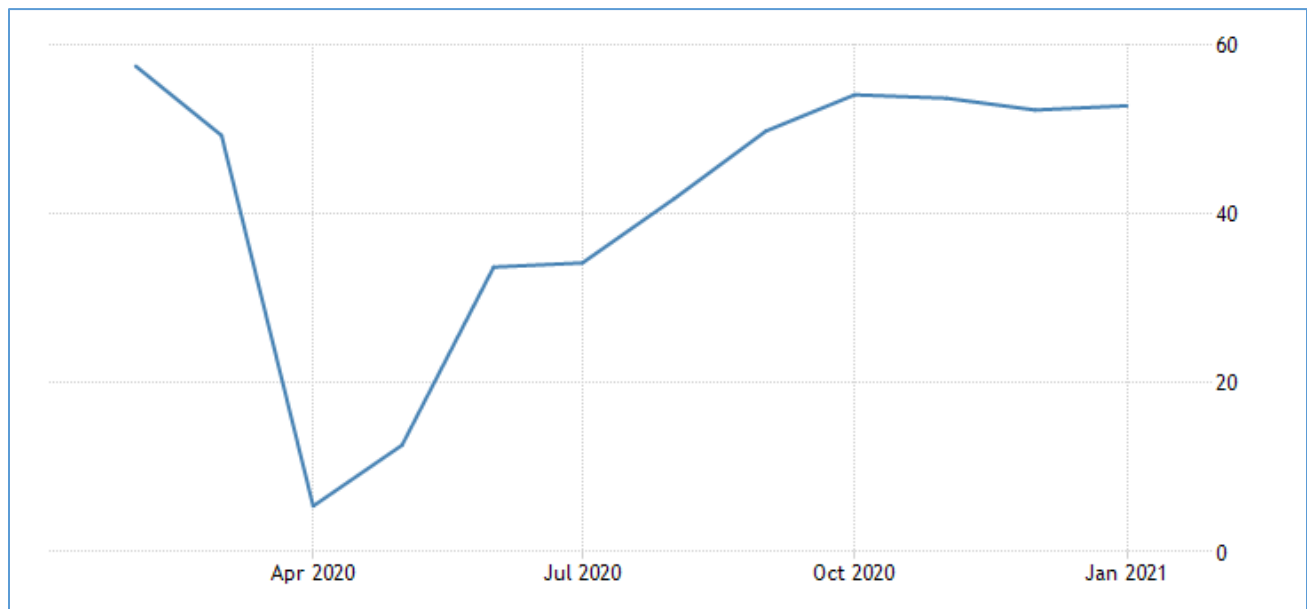
At the same time, employment declined further, while exports contracted sharply.

On the price front, input cost rose for the seventh straight month, due to higher prices of both fuel and materials.

Meanwhile, selling prices continued to decline.

Looking ahead, business sentiment improved to an 11-month high, supported by the launch of the Covid-19 vaccine program.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 55.8 in January from 54.9 in December.



Source: www.tradingeconomics.com

Core Sector Data – January

Growth of eight infrastructure sectors rose marginally by 0.1% in January 2021, indicating a wobbly recovery from the pandemic shock.

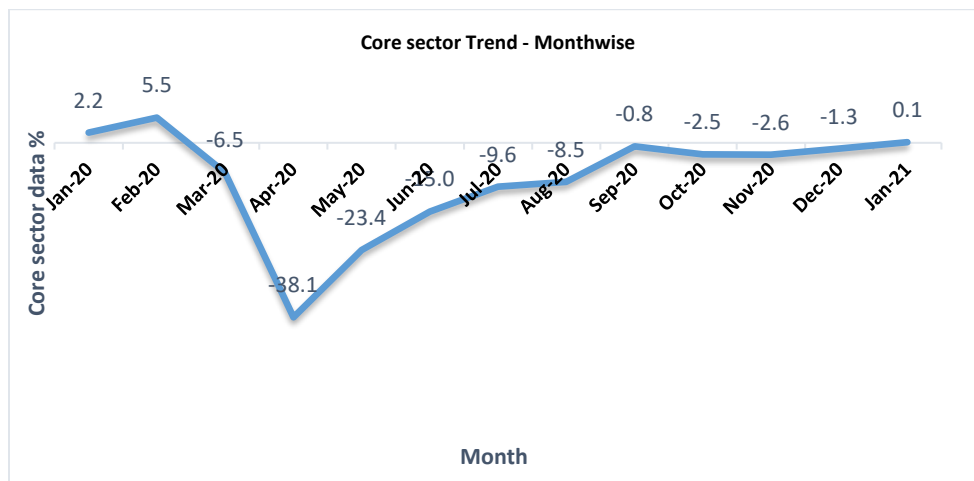
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 0.2% in December 2020 and grown by 2.2% in January 2020.

Barring fertilisers, steel and electricity, all sectors – coal, crude oil, natural gas, refinery products and cement – recorded negative growth in January 2021.

The output of coal, crude oil, natural gas, refinery products and cement declined by 1.8%, 4.6%, 2%, 2.6% and 5.9%, respectively.

However, the output of fertilisers, steel and electricity grew by 2.7%, 2.6% and 5.1%, respectively.

Cumulatively, the growth in the eight core sectors during April-January 2020-21 contracted by 8.8%, as against an expansion of 0.8% in the same period last financial year.



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

GDP – Quarter 3 – FY 2020-21

The country's Gross Domestic Product (GDP) growth rate for the third quarter (October-December) of fiscal year 2020-21 grew by 0.4%.

The GDP growth rate in Q3 FY 2019-20 was 3.3% and in Q2 FY 2020-21 was -7.3%.

GDP at constant prices (2011-12) in Q3 FY 21 is estimated at INR 36.22 lakh crore, as against INR 36.08 lakh crore in Q3 FY 20, showing a growth of 0.4%.

GDP at current prices in FY 21 is estimated at INR 195.86 lakh crore, as against INR 203.51 lakh crore in FY 20, showing a growth rate of -3.8%.

GVA for FY 21 at basic prices is estimated at -6.5%.

The manufacturing sector, which had a contraction of 1.5% in Q2, rose by 1.6%.

Apart from this, the agriculture, forestry and fishing sector grew 3.9%.

Agriculture has been the only sector to register a growth in all the 3 quarters.

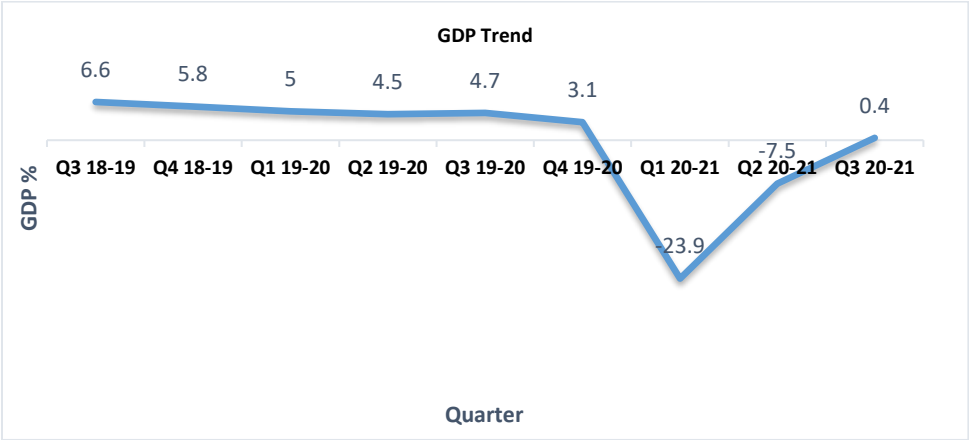
Among the other industries, contraction was seen in trade, hotels, transport, communication and services related to broadcasting at 7.7% in Q3, better from a contraction of 15.3% in Q2.

The construction sector showed a growth of 6.2%, much better from a contraction of 7.2% in Q2.

Critical consumer demand in the economy, measured by private consumption expenditure, continued to contract, falling by 2.3% in Q3.

Government spending also fell in Q3, reducing by a slight 1.1%.

Gross Fixed Capital Formation (GFCF), an indicator for investment demand in the economy, came back to growth with a 2.6% rise, after being negative in the previous 5 quarters.



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



BANKING

Risk-Based Internal Audit (RBIA)

An independent and effective internal audit function in a financial entity provides vital assurance to the Board and its senior management regarding the quality and effectiveness of the entity's internal control, risk management and governance framework. The essential requirements for a robust internal audit function include, inter alia, sufficient authority, proper stature, independence, adequate resources and professional competence.

The range and commonality of risks faced by Supervised Entities (SEs) would warrant effective and harmonized systems and processes for the internal audit function across the SEs based on certain common guiding principles.

RBI has now mandated application of [Risk-based Internal Audit \(RBIA\)](#) for:

- a. All deposit taking NBFCs, irrespective of their size;
- b. All Non-deposit taking NBFCs (including Core Investment Companies) with asset size of ₹5,000 crore and above; and
- c. All UCBs having asset size of ₹500 crore and above

Key inclusions of the circular are as follows:

- i. Objective and scope
- ii. Board of Directors / Audit Committee of Board
- iii. Senior Management
- iv. Internal Audit Function
 - a. Authority, Stature, Independence and Resources
 - b. Competence
 - c. Rotation of Staff
 - d. Tenor for appointment of Head of Internal Audit
 - e. Reporting Line
 - f. Remuneration
 - g. Responsibilities and Other General Expectations

Master Direction on Digital Payment Security Controls

The [Master Direction on Digital payment security controls](#) provides necessary guidelines for the regulated entities to set up a robust governance structure and implement common minimum standards of security controls for digital payment products and services.

Digital Payment Security Controls

Going by the pre-eminent role being played by digital payment systems in India, RBI gives highest importance to the security controls around it. Now it is proposed to issue Reserve Bank of India (Digital Payment Security Controls) Directions 2020, for regulated entities to set up a robust governance structure for such systems and implement common minimum standards of security controls for channels like internet, mobile banking, and card payments, among others. While the guidelines will be technology and platform agnostic, it will create an enhanced and enabling environment for customers to use digital payment products in more safe and secure manner. Necessary guidelines will be issued by RBI separately.

Key inclusions in the master directions include:

- i. Introductions
- ii. Applicability
- iii. General controls
- iv. Governance and management of security risks
- v. Other generic security controls
- vi. Application security life cycle
- vii. Authentication framework
- viii. Fraud risk management
- ix. Customer protection, Awareness and grievance and redressal mechanism
- x. Internet banking security controls
- xi. Mobile payments application security controls
- xii. Card payments security

Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021

RBI issued master directions for [Non-banking financial company – housing finance company](#). The regulations incorporate all the major changes in the regulatory environment for Housing finance companies till date, including revised regulatory framework introduced by the regulator in October 2020. The key elements of these directions include:

- i. Prudential regulations
- ii. Capital
 - a. Asset classification and provisioning
 - b. Regulatory restrictions and limit
 - c. Acceptance of public deposits

- iii. Governance
 - a. Acquisition and transfer of control
 - b. Corporate governance
- iv. Miscellaneous

The major changes introduced by the regulator under the revised framework include:

1. Under the Revised Framework, a HFC has been defined to mean a non-banking financial company engaged in the housing finance business and which fulfils the following conditions:
 - (a) Its financial assets (in the business of providing finance for housing) constitute not less than 60% of its total assets; and
 - (b) Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing financing for individuals.
2. The Revised Framework has allowed a transition time till 31 March 2024 to the existing registered HFCs to fulfil the asset based criteria as set out above in case such HFCs proposed to continue the business as HFCs:

Timeline	Minimum percentage of total assets towards housing finance	Minimum percentage of total assets towards housing finance for individuals
31 March 2022	50%	40%
31 March 2023	55%	45%
31 March 2024	60%	50%

3. The Revised Framework has set forth a clear definition of housing finance. As per the definition, the term 'Housing finance' means financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units which would include (a) loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units, (b) loans to individuals or group of individuals for purchase of old dwelling units, (c) loans to individuals or group of individuals for purchasing old/ new dwelling units by mortgaging existing dwelling units, (d) lending to builders for construction of residential dwelling units, (e) loans to corporates/ government agencies for employee housing, etc.
4. The Revised Framework has increased the minimum NOF requirement for HFCs from earlier INR 100 million to INR 200 million. As per the Revised Framework, every company proposing to commence/carry on the housing finance business as its principal business shall be required to have a NOF of not less than INR 200 million.
Existing HFCs having NOF less than INR 200 million shall be required to achieve NOF of not less than INR 150 Million by 31 March 2022 and NOF of not less than INR 200 Million by 31 March 2023.

Investment in NBFCs from FATF non-compliant jurisdictions

The [Financial Action Task Force \(FATF\)](#) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in its following publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction, whose name does not appear in the two aforementioned lists, shall be referred to as a FATF compliant jurisdiction. Investments in NBFCs from FATF non-compliant jurisdictions shall not be treated at par with that from the compliant jurisdictions.

Investors in existing NBFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

New investors from or through non-compliant FATF jurisdictions, whether in existing NBFCs or in companies seeking Certification of Registration (COR), should not be allowed to directly or indirectly acquire 'significant influence' in the investee, as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from such jurisdictions in aggregate should be less than the threshold of 20 per cent of the voting power (including potential voting power) of the NBFC.

Loans and advances to directors, their relatives, and firms / concerns in which they are interested for Urban co-operative banks

The Banking Regulation Act, 1949 has been amended by the Banking Regulation (Amendment) Act, 2020 notified for the [Primary \(Urban\) Co-operative Banks \(UCBs\)](#). Consequently, section 20 of the Banking regulation Act has become applicable to UCBs. Keeping in view the above, the extant directions on the subject issued to UCBs have been reviewed and the revised directions have been issued by RBI as under.

UCBs shall not make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms / companies / concerns in which the directors or their relatives are interested (collectively called as "director-related loans"). Further, the directors or their relatives or the firms / companies / concerns in which the directors or their relatives are interested shall also not stand as surety/guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs. 'Advances' for the purpose shall include all types of funded / working capital limits such as cash credits, overdrafts, credit cards, etc. The following categories of director-related loans shall, however, be excluded from "loans and advances" for the purpose of these directions:

- Regular employee-related loans to staff directors, if any, on the Boards of UCBs
- Normal loans, as applicable to members, to the directors on the Boards of Salary Earners' UCBs
- Normal employee-related loans to Managing Directors / Chief Executive Officers of UCBs
- Loans to directors or their relatives against Government Securities, Fixed Deposits and Life Insurance Policies standing in their own name.



INSURANCE

Guidelines on Standard Personal Accident Insurance Product

The insurance market is having a wide variety of personal accident insurance products. Each product has unique features and the insuring public may find it a challenge to choose an appropriate product. Therefore, with the objective of having a [standard product](#) with common coverage and policy wordings across the industry, the Authority has decided to mandate all general and health insurers to offer the standard personal accident insurance product.

Key inclusions of these guidelines are as follows:

- Construct of Standard Personal Accident (PA) Product:
- Base covers
- Optional Covers
- Hospitalization Expenses due to Accident
- Education Grant
- Other norms

Product Structure for Insurance of Remotely Piloted Aircraft System (RPAS) / Drones

Currently, only a few general insurers in the Indian Market are offering insurance cover for [RPAS/Drones](#) through existing products under Aviation Insurance. Considering the unique characteristics of Drones that differentiate them from other aircrafts and taking into account the phenomenal growth in the usage of Drones for multiple purposes, there is a need to augment the current insurance availability customized to the requirement of drone owners and operators.

In line with the above objective of making basic insurance covers available by the general insurers for Drones and to facilitate flexibility and innovation in the development of insurance coverage for evolving technology requirements, the following product construct is provided.

a. Section I: Legal Liability to Third-Party.

Indemnify the insured against its legal liability (including Defence Costs) to pay Damages, for third party civil claims arising out of bodily injury or death or property damage, by an accident or a handling error on part of the authorized operator. Currently, TP Liability cover should be offered in line with Aircraft/ Aviation Liability. The change, if any, in Government of India rules/guidelines in respect of TP Liability cover for Drones from time to time may be adhered to.

b. Section II: Physical Damage to Drone Body /Hull

Indemnify the insured in respect of repair/replacement of the insured RPAS. RPAS means an Unmanned Aircraft System including payload, ground handling tools and/or equipment on Hull Agreed Value basis.

c. Section III: Personal Accident cover to Operator.

Indemnify the Insured/ Authorised operator for bodily Injury sustained by the Insured/ Authorised Operator anywhere in India while operating drones and arising out of an Accident.

d. Section IV: Medical expenses cover to operator.

Indemnify the Insured/ Authorised operator for the medical expenses who has been hospitalized because of a Bodily Injury arising out of flight of the covered Drone.

e. Optional Covers to enhance the coverage.

- i. Alternate Hire Charges
- ii. Drone War Liabilities
- iii. Cyber Liability Cover
- iv. Invasion of Privacy Cover
- v. Night Flying Endorsement
- vi. BVLOS (Beyond visual line of sight) Endorsement
- vii. Drone in Transit Endorsement
- viii. Liability for damage to UAS (unmanned aircraft system) that insured does not own
- ix. Personal & Advertising Injury Liability



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Policy of Strategic Disinvestment announced; Clear Roadmap for Strategic and Non-Strategic Sectors

The government aims at making use of disinvestment proceeds to finance various social sector and developmental programs and also to infuse private capital, technology and best management practices in Central Government Public Sector Enterprises. Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, while presenting the Union Budget FY 2021-22 in Parliament announced that government has approved a policy of [strategic disinvestment of public sector](#) enterprises that will provide a clear roadmap for disinvestment in all non-strategic and strategic sectors.

Policy on Strategic Disinvestment

Fulfilling the governments' commitment under the AtmaNirbhar Package of coming up with a policy of strategic disinvestment of public sector enterprises, the Minister highlighted the following as its main features:

1. Existing CPSEs, Public Sector Banks and Public Sector Insurance Companies to be covered under it.
2. Two fold classification of Sectors to be disinvested:
 - a. Strategic Sector: Bare minimum presence of the public sector enterprises and remaining to be privatised or merged or subsidiarized with other CPSEs or closed.

Following 4 sectors to come under it:

1. Atomic energy, Space and Defence
2. Transport and Telecommunications
3. Power, Petroleum, Coal and other minerals
4. Banking, Insurance and financial services



CAPITAL MARKETS

Setting up of Limited Purpose Clearing Corporation (LPCC) by Asset Management Companies (AMCs) of Mutual Funds

With the objective of development of the corporate bond market from the perspective of mutual funds, the Mutual Fund Advisory Committee (MFAC) of SEBI had constituted a Working Group consisting of representatives of various Mutual Funds, Clearing Corporation of India Limited (CCIL) and AMFI for detailed deliberation. The Working Group amongst other suggestions recommended that AMCs of Mutual Funds should set up a [Limited Purpose Clearing Corporation \(LPCC\)](#) for clearing and settling repo transactions in corporate debt securities by contributing an amount of INR 150 Crore. This was recommended as it was felt that mutual funds would be natural beneficiaries of such a clearing corporation. The recommendation of setting up LPCC was also deliberated with various issuers of corporate bonds and in Corporate Bonds and Securitization Advisory Committee (CoBoSAC)

As per the outcomes, it has been decided that AMCs shall contribute INR 150 Cr. towards share capital of LPCC in proportion to the Asset Under Management (AUM) of open ended debt oriented mutual fund schemes (excluding overnight, gilt fund and gilt fund with 10 year constant duration but including conservative hybrid schemes) managed by them.

The contribution shall be based on Average AUM of debt oriented schemes as detailed above for the Financial Year (FY) 2019-20. In this regard, AMFI shall calculate contribution per AMC based on the Average AUM of aforementioned schemes for the FY 2019-20 and inform all AMCs. Accordingly, it will be obligatory on the part of AMC(s) to contribute towards the share capital of LPCC.

The setting up of LPCC and making the aforesaid contribution shall be in compliance with the net worth requirements, other conditions and timelines, if any, as per SECC Regulations and circulars issued thereunder from time to time

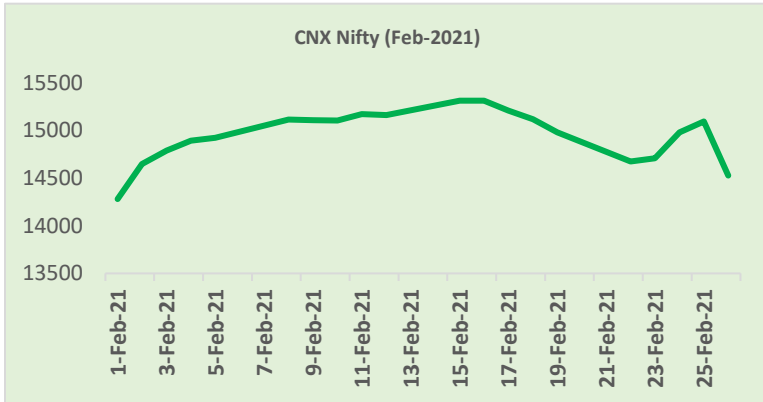
Pre-Expiry Margin on commodities under Alternate Risk Management Framework

In light of an unprecedented event of negative final settlement price in the crude oil futures markets in the recent past, SEBI had issued [Alternate Risk Management Framework \(ARMF\)](#) that would be applicable in case of near zero and / or negative prices for any underlying commodities/futures. As per this, Clearing Corporations had to identify commodities susceptible to the possibility of near zero and negative prices

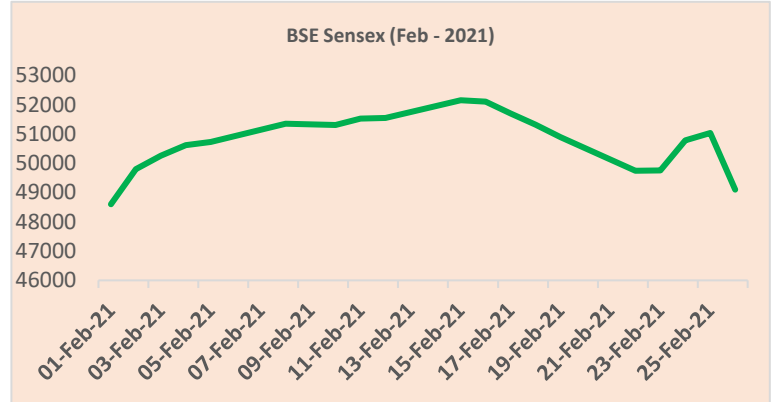
The matter of negative crude oil price event was deliberated upon in the Risk Management Review Committee (RMRC) of SEBI. In this regard, one of the suggestions of RMRC was that Indian Exchanges should consider introducing some mechanism to encourage significant reduction of Open Interest as the contract approaches the expiry date.

In line with the recommendations of the RMRC, SEBI has decided in consultation with Clearing Corporations that pre-expiry margins shall be imposed on cash settled contracts wherein the underlying commodity is deemed susceptible to possibility of near zero and/or negative prices as identified by exchange/CC under ARMF circular. In case of these contracts, pre-expiry margins shall be levied during the last five trading days prior to expiry date, wherein they shall increase by 5% every day

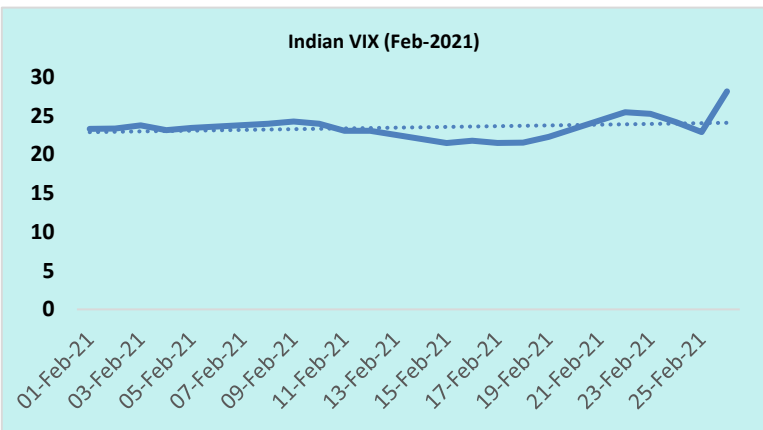
CAPITAL MARKETS SNAPSHOT



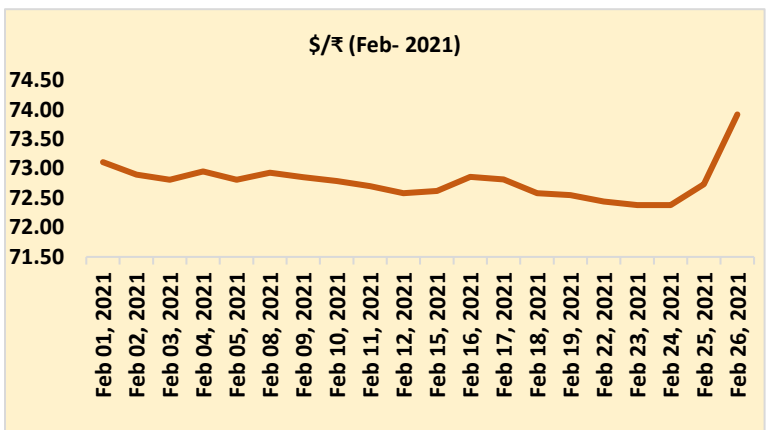
Source: National Stock Exchange



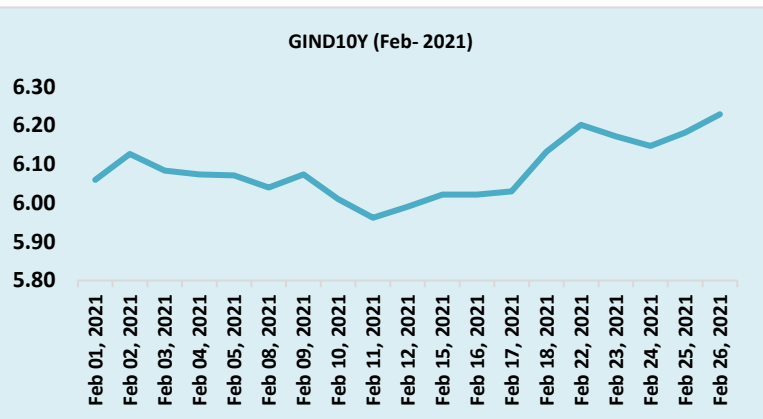
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Finance Minister Nirmala Sitharaman's announcement that the government has lifted the embargo on grant of government business to private banks induced buying by investors. S&P Global Ratings said India would be one of the fastest growing emerging market economies with 10% growth in the next fiscal, and future sovereign rating action would hinge on the extent of fiscal deficit and debt burden. An intermittent rise in US benchmark Treasury yields and crude oil prices added to the pressure on bond prices during the month.

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	-1.1 Q4	-4.4	3.2	4.6 Jan	3.2	-0.7	-15.8	8.30
Russia	-3.4 Q3	-3.1	2.5	5.2 Jan	3.4	2.0	-3.8	6.94
India	-0.4 Q4	-7.0	13.0	4.1 Jan	6.6	1.2	-9.3	6.24
China	6.5 Q4	2.3	8.5	-0.3 Jan	2.5	1.7	-5.8	3.06 [^]
S Africa	-6.0 Q3	-7.1	1.8	3.2 Jan	3.2	1.1	-14.5	9.02
USA	-2.4 Q4	-3.5	4.5	1.4 Jan	1.2	-2.5	-14.9	1.42
Canada	-3.2 Q3	-5.3	4.0	1.0 Jan	0.8	-2.1	-13.5	1.33
Mexico	-4.5 Q3	-8.9	3.5	3.2 Dec	3.4	2.3	-2.8	5.73
Euro Area	-5.0 Q4	-7.1	4.2	0.9 Feb	0.3	2.9	-8.5	0.0
Germany	-3.6 Q4	-5.3	3.7	1.3 Feb	0.4	6.8	-4.8	0.0
Britain	-7.8 Q4	-9.9	4.4	0.7 Jan	1.0	-2.8	-14.3	0.82
Australia	-1.1 Q4	-2.9	2.8	0.9 Q4	0.8	1.6	-7.4	1.68
Indonesia	-2.2 Q4	-2.2	3.3	1.4 Feb	2.0	-1.6	-7.2	6.50
Malaysia	-3.4 Q4	-5.3	4.4	-0.2 Jan	-1.1	4.8	-7.4	3.09
Singapore	-2.4 Q4	-5.8	5.1	0.2 Jan	-0.2	18.2	-13.9	1.40
S Korea	-1.3 Q4	-1.0	3.1	0.6 Jan	0.5	3.8	-5.7	1.97

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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