2022

Volume 4

APAS MONTHLY

THIS MONTH

We invite our readers and patrons to visit our wealth of knowledge by tuning into our APAS podcasts – "Demystifying Reforms" and "BFSI insights", where we help demystify the latest reforms and bring market insights of the BFSI sector in India. Hope you will find it insightful. Keep tuning in for more.

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

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

https://ap-as.com/apas-blog/

In this issue, Mr. Puneet Nanda, MD & CEO, ICICI Venture Funds Management, has presented his thoughts on 'Trends in venture capital funds industry and way forward: Shape of things to come'. We thank Mr. Nanda for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Decline of foreign bank presence in the Indian banking industry'.

The economic indicators showed mixed performance. Manufacturing PMI decreased to a 6-month low of 54 in March from 54.9 in February. India's annual infrastructure output in March slowed to 4.3%. India's Index of Industrial Production (IIP) edged up to 1.7% in February. PMI services edged up to a

3-month high of 53.6 in March from 51.8 in February, while composite PMI rose to a 3-month high of 54.3 in March from 53.5 in February. CPI inflation rose to a 16-month high of 6.95% in March from 6.07% in February. WPI inflation rose to 14.55% in March from 13.11% in February.

The Reserve Bank of India (RBI) announced (i) RBI Monetary Policy – May 2022 (ii) Large Exposures Framework for NBFC-UL (iii) Regulatory restrictions on loans and advances for NBFCs (iv) Master Direction on credit card and debit card issuance and conduct.

Insurance Regulatory Development Authority of India (IRDAI) issued a circular on Exposure of insurers to financial and insurance activities.

Cabinet approved revised cost estimate on 'Setting up of India Post Payments Bank'.

Securities and Exchange Board of India (SEBI) issued circulars on (i) Reduction of timelines for listing of units of REIT and InvIT (ii) Risk value of commodities for risk-o-meter (iii) Revision of UPI limits in public issue of equity shares and convertibles.

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

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

Ashvin parekh

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Puneet Nanda
MD & CEO
ICICI Venture Funds Management

APAS COLUMN

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CAPITAL MARKETS

- Reduction of timelines for listing of units of REIT and InvIT
- Risk value of commodities for risk-o-meter
- Revision of UPI limits in public issue of equity shares and convertibles

CAPITAL MARKETS SNAPSHOT

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

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

ECONOMIC DATA SNAPSHOT

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

Trends in Venture Capital Funds industry and way forward: Shape of things to come

Puneet Nanda
MD & CEO
ICICI Venture Funds Management

Macro context

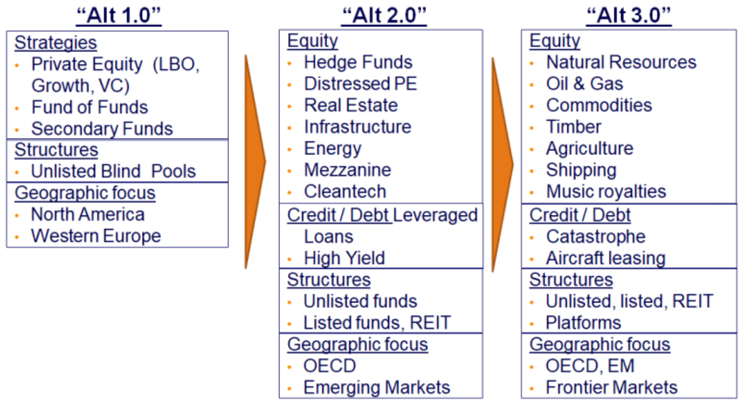
India's journey as an emerging economy can be traced back to the landmark economic liberalization of 1991 aimed at making the economy more market-oriented and expanding the role of private and foreign investment. Since then, India has been one of the fastest growing economies in the world and is poised to become the fifth largest economy by 2025 and third largest by 2030.

Being a long-standing private market investor in India with an experience spanning over three decades across multiple sectors and cycles, ICICI Venture expects that India is expected to demonstrate accelerated growth at an overall macro level due to a strong foundation to support this growth. The elements of the foundation include a large "catch- up" opportunity vis-a-vis other emerging economy on various high frequency parameters, a very favourable demographic and rapid progress made in financial inclusion over the past decade. India is likely to attain third position in world's economic league by 2030 with its nominal GDP rising from USD 2.6 trillion in 2020 to USD 6.3 trillion by 2030 growing at 9.25% CAGR. In PPP terms however, India's GDP growth would be more significant in 2030 rising to USD 19.5 trillion from USD 11.8 trillion in 2020 clocking a faster 5.2% CAGR compared to China's 3.5% CAGR.

Global private markets overview

As per a recent McKinsey report, global private markets AUM touched a new record level of USD 9.8 trillion in the year 2021. Of the current AUM, the PE segments consisting of Growth PE, VC, Buyout funds accounts for USD 6.3 trillion. Slightly more than half of global AUM resides in fund vehicles targeting North American investments. Europe and Asia are roughly equivalent in AUM, comprising 21% and 22% respectively. Asia's AUM was just 60% of Europe's five years ago. Private markets' threefold growth in fundraising over the last decade has been powered by more institutional investors participating and at higher average target allocations. In the sustained low-rate environment of the last decade, institutional investors have steadily increased their allocations to private markets in a bid to achieve greater returns. There is good reason to believe that demand will continue to grow as LPs broadly remain below their respective targets for private markets asset classes. Over the last several years, the combination of rising targets and strong public market performance has increased the dollar gap between actual allocation and target allocation despite record commitments to private equity.

The evolution of the global industry can be considered in three broad stages over the past four to five decades.



By various estimates, global private markets AUM is expected to cross USD 17 trillion by 2025. The PE segment is expected to sustain current growth momentum followed by Private Debt which is expected to emerge as the 2nd largest asset class (ex-Hedge) after PE by 2025.

In line with global trends, the Indian AIF market has witnessed a significant expansion of types of fund offerings across growth PE, buyout, joint control, real estate equity and debt, infrastructure platform plays, stressed and distressed assets, etc. Accordingly, home grown managers such as ICICI Venture have also evolved into multi-strategy AIF managers with diverse offerings for investors and investee companies.

Indian AIF industry overview and outlook

ICICI Venture believes that the market environment for alternative asset investing in India, including private equity styled investments, has matured in a significant manner during the last decade. As per data published by the Indian Private Equity and Venture Capital Association (IVCA) together with EY, the Indian market witnessed all-time record AIF investments of about USD 77 billion in 2021 following USD 47 billion in each of 2020 and 2019, (across 1266 deals in 2021, 921 deals in 2020 and 1037 deals in 2019) thereby crossing the USD 325 billion mark in the 2009-2021 period. It is estimated that PE/VC styled investments accounted for over 65% of aggregate value of capital investments and over 80% of aggregate deal activity. Diverging from past trends, startup investments emerged as the top investment segment in 2021 recording USD 28.8 billion. 2021 saw India emerge as the third largest ecosystem for start-ups, globally. Ecommerce and technology were the top sectors witnessing record investments of USD 15 billion and USD 14.3 billion respectively. Larger deals continue to dominate the deal landscape with deals greater than USD 100 million accounting for 75% of all deals by value in 2021.

The overall exit environment in India has also been strong especially in the preceding four years which accounted for an estimated 75% of the aggregate exit tally of about USD 132 billion in the 2009-2021 period. The AIF industry in India has seen consistent growth in commitments and funds raised. PE/VC exits too had a spectacular year in 2021, culminating in over 280 exits adding up to more than USD 43 billion. Large strategic deals, record levels of secondary trades and IPO activity catapulted exits to 7x the value recorded in 2020 and 60% higher than the previous high of USD 27 billion in 2018. Exits via sale to strategics were the highest at USD 16.9 billion (93 deals) in 2021. The Indian REIT and InvIT markets have emerged as important vibrant segments of the market. In general, LPs acknowledge significant uptick in India fund performance metrics in 2021.

From a regulatory perspective, the Indian securities regulator i.e., Securities and Exchange Board of India (SEBI) announced the Alternative Investment Fund (AIF) Regulations in 2012. Since then, SEBI has sought to continuously improve the regulatory framework with a view to increasing transparency for investors seeking to invest in AIFs and also align Indian AIF regulations to global best practices.

The Indian government has increasingly recognized the AIF industry as a key source for long term sticky capital for the country. With aggregate AIF flows till end of 2021 having crossed USD 325 billion, the AIF industry is seen as an important player in the overall nation building process. Accordingly, various tax reform measures announced by the Indian government during the last decade have led to greater transparency of the taxation framework applicable to AIFs, both from the perspective of Indian and non-Indian investors. In particular, the tax pass through status accorded to Category I and II AIFs through Finance Act 2014 and 2015 was perceived to be a strong vote of confidence by the Government of India in the Indian AIF industry. As part of Budget 2022, Hon. Finance Minister has proposed to set up an expert committee to suggest measures to review the regulatory framework for the venture capital and private equity industry. This is a welcome move as there have been widespread concerns, especially amongst foreign investors, about the risk of retrospective actions in India.

As India's economic recovery gathers steam and becomes broader based, most sectors are expected to return towards their pre-COVID levels. At a macro level, we expect India to continue benefitting from large investors shifting their allocations higher towards emerging markets as they look to deploy record levels of dry powder. The evolving geopolitical dynamics between US / Europe and China is also increasing India's attractiveness as an investment destination. With the better-than-expected Indian economic revival, successful vaccination drives and alignment of global macro factors, we expect India to remain an attractive investment destination for long term global investors.

Fund managers with good track records continue to consolidate LP relationships. LPs are expected to allocate greater capital to existing GP relationships / successor funds. GPs are increasingly targeting shorter timelines between flagship funds; Fund raising timelines have got even more elongated for first time GPs / funds. LP analysis capabilities have become significantly enhanced due to new benchmarking requirements from SEBI thereby increasing availability of fund performance data of GPs.

By various estimates, annual investments into Indian private markets are expected to cross USD 100 billion mark during the next few years. The PE/VC segment is expected to remain predominant. However, other segments of the market such as real estate, infrastructure, credit are also expected to grow from their current levels given the opportunity. Domestic capital pools are expected to play an important role in further development of the market alongside global capital pools.

Decline of foreign bank presence in the Indian banking industry

Global banking behemoth Citibank announced last year that it will exit consumer/retail operations in 13 countries across Asia and Europe, including India, as part of its global strategy. Axis Bank is set to acquire Citigroup's consumer business. Citi, which has been present in India for over a century, is not the first foreign bank to exit or scale down operations. Almost immediately after Citigroup announced its decision, FirstRand Bank, too, followed suit.

Foreign banks enjoyed a sizable market share in Indian banking till the turn of the century and even larger market share in the total profits of the Indian banking system. Things changed during the first decade of the century.

Foreign banks have been seeing a decline in market share in India. Their share of 6.55% of advances in 2005 steadily declined to 4.15% in 2020. Barclays, Deutsche Bank, HSBC, Morgan Stanley, Bank of America-Merrill Lynch, RBS, UBS and Standard Chartered have either stopped or cut down their businesses and operations in India.

The first major factor that contributed to reduction of foreign banking was a paradigm shift in the globalization and international trade. Global financial crisis between 2008 – 2011 added more fuel to that fire. International trade finance which was domain of foreign banks in India changed gradually to bilateral trade amid the insistence of the US, the UK and some of the European jurisdictions to reduce their capital exposure in emerging markets and pull back their resources. The governments in these jurisdictions had to place fresh capital to save large financial institutions. This triggered reduction of foreign banks' presence in India.

The second major factor was a gradual reduction in the differentiation foreign banks enjoyed in regard their risk management practices and tighter controls on lending processes. The Indian banking, led by the regulator, responded to financial crisis far more effectively and contained the risk spreading in the market. The risk management practices which were customised by foreign banks in India, showed major weaknesses.

The third important factor is technology. The Indian banking, particularly private sector banking, absorbed the technology changes and in fact, catapulted themselves to newer technologies and fintech solutions much faster compared to the foreign banks. This is particularly so in the area of payments and settlements in transaction banking. The Indian banks took away the initiative in so many areas, including credit cards, digital payments, and related areas from their foreign bank counterparts.

The fourth factor was the gradual expansion of income generation in India. Economic activities were gradually moving out from metro and tier 1 urban areas to smaller markets. Foreign banks have their branches in larger urban areas and are conspicuous by their absence in the smaller markets. The Indian banking system, along with their funded non-banking finance companies (NBFCs), grew their presence in these smaller markets. The distinct advantage foreign banks enjoyed in building quality retail banking portfolios was gradually taken away from them by the Indian banking companies.

The fifth and the most important factor is that Indian banking is fiercely competitive. Banks need to be very agile and very quick in their decision making. The progressive Indian banks could demonstrate their adaptability to change and be nimble and quick in their decision making and played a significant role in foreign banks gradually withdrawing their presence in India.

However, all is not negative and there are some constructive stories evolving. India recently entered into a bilateral trade agreement with Australia. India and US are drawing up mutual trade arrangements. Apart from the bilateral arrangements, India is also getting into currency relationships. For example, trade with Iran was done in Indian rupees. Now, for Russian fuel, the trade could be done in rubles. We are seeing a completely new shape of international trade. This will have an impact on the banking system. Foreign banks have started working out different sets of new products and services for their customers. It would be interesting to see how many foreign banks continue. There could also be some new foreign banks coming in on account of these geopolitical arrangements.

-APAS

ECONOMY

IIP (Index of Industrial Production) – February

Index of Industrial Production (IIP) or factory output for the month of February 2022 edged up to 1.7%, compared to 1.5% in January 2022 and (-) 3.2% in February 2021.

The General Index for the month of February 2022 stands at 132.1, which is 1.7% higher as compared to February 2021.

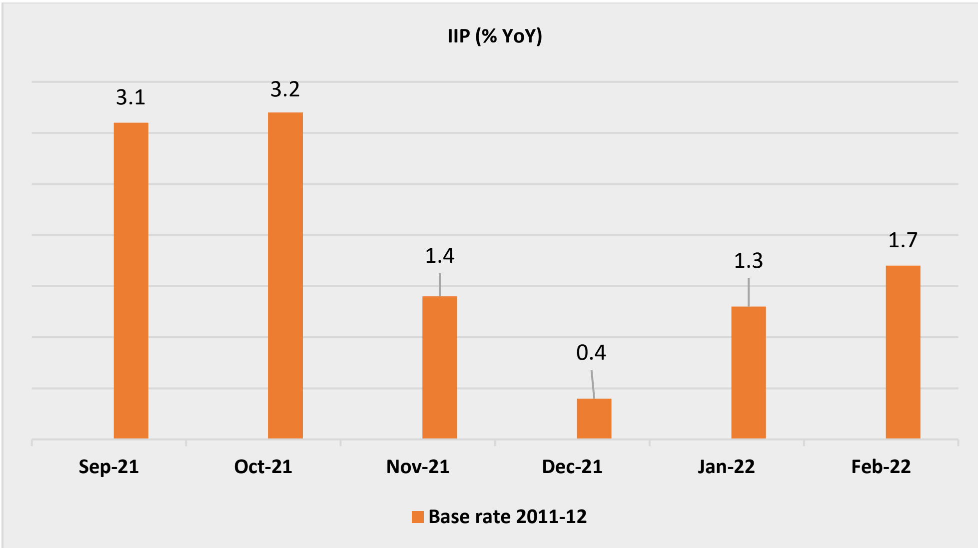
The manufacturing sector, which constitutes 77.63% of the index, grew by 0.8% in February, to 130.8.

Mining sector output grew by 4.5%, to 123.2.

Electricity generation rose by 4.5%, to 160.8.

As per Use-based classification, the indices stand at 130.8 for primary goods, 94.3 for capital goods, 144 for intermediate goods and 153 for infrastructure/construction goods for February.

Further, the indices for consumer durables and consumer non-durables were at 114.7 and 139.5, respectively.



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

CPI (Consumer Price Index) – March

India's consumer price index (CPI) or retail inflation rose to a 16-month high of 6.95% in March 2022, compared to 6.07% in February 2022 and 5.52% in March 2021.

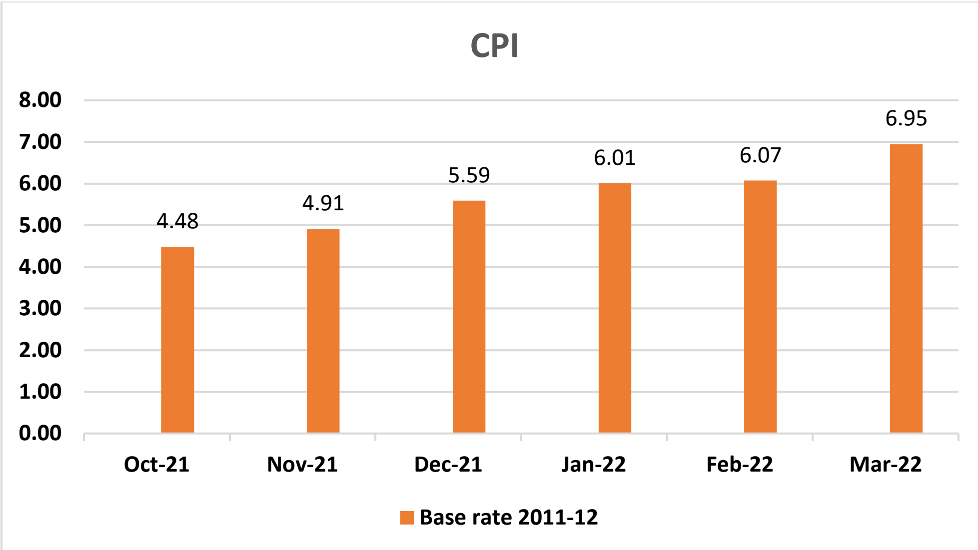
The corresponding provisional inflation rates for rural and urban areas are 7.66% and 6.12% respectively.

The Consumer Food Price Index (CFPI) rose to 7.68% in March from 5.85% in February.

The CPI inflation was the highest since October 2020.

Food inflation accelerated for a 6th straight month to 7.68%, a new high since November 2020, with cost of oils and fats (18.79%), vegetables (11.64%) and meat and fish (9.63%) again recording the biggest rises.

Other upward pressure came from prices of clothing and footwear (9.4%), fuel and light (7.52%), miscellaneous (7.02%), housing (3.38%) and pan and tobacco (2.98%).



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

WPI (Wholesale Price Index) – March

India's wholesale price index (WPI) inflation rose to 14.55% in March 2022, as compared to 13.11% in February 2022 and 7.89% in March 2021.

The rate of inflation based on WPI Food Index increased to 8.71% in March 2022 from 8.47% in February 2022.

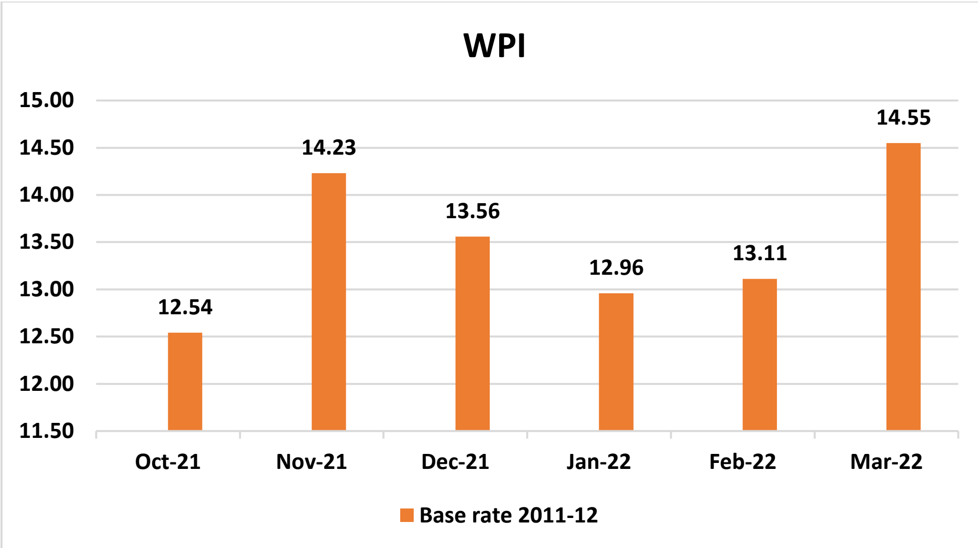
The index for primary articles increased by 2.1% from the previous month.

Prices increased for crude petroleum & natural gas (21.18%), minerals (9.72%) and non-food articles (2.94%). Prices declined for food articles (0.82%).

The index for fuel and power increased by 5.68% from the previous month.

Prices increased for mineral oils (9.19%).

The index for manufactured products increased by 2.31% from the previous month.



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

Manufacturing PMI – March

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in March moderated with companies reporting softer expansions in new orders and production as inflation concerns dampened business confidence.

The Manufacturing PMI decreased to a 6-month low of 54 in March 2022 from 54.9 in February 2022. It remained above the 50 level, that separates expansion from contraction, for the ninth straight month.

This was the slowest growth in factory activity since last September, amid slower expansions in new orders and output as well as a renewed decline in new export orders.

At the same time, buying level rose the least since August 2021, while employment stabilised, following 3 successive months of job shedding.

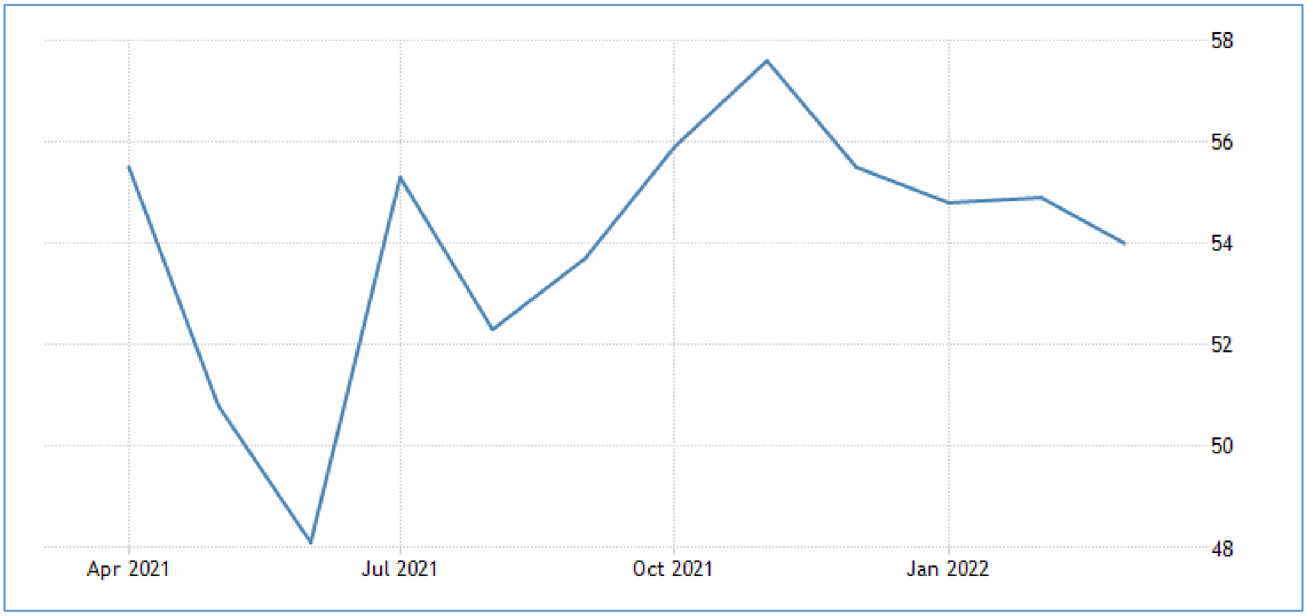
Outstanding business increased marginally as the vast majority signalled no change in backlogs from February's levels.

Vendor performance showed signs of stabilisation, as supplier delivery times lengthened the least in almost a year.

On the price side, input price inflation quickened and outpaced its long run average.

Output prices, meanwhile, rose the most in 5 months, but was moderate and matched its long run average.

Finally, sentiment hit its lowest in 2 years, due to mounting concerns over price pressures.



Source: www.tradingeconomics.com

Services PMI – March

The Indian services sector activity in March continued to recover, as containment measures were lifted, following a substantial slowdown in growth at the start of the year, amid the new wave of Covid-19.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index edged up to a 3-month high of 53.6 in March 2022 from 51.8 in February 2022. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the eighth straight month.

This was the highest reading since last December, due to the relaxation of Covid-19 restrictions.

Output growth accelerated, while new orders expanded solidly, which was above trend and the fastest pace this year so far, boosted by robust domestic demand.

However, new export orders fell the most in 6 months, amid mounting global uncertainty from the war in Ukraine and persistent supply chain issues.

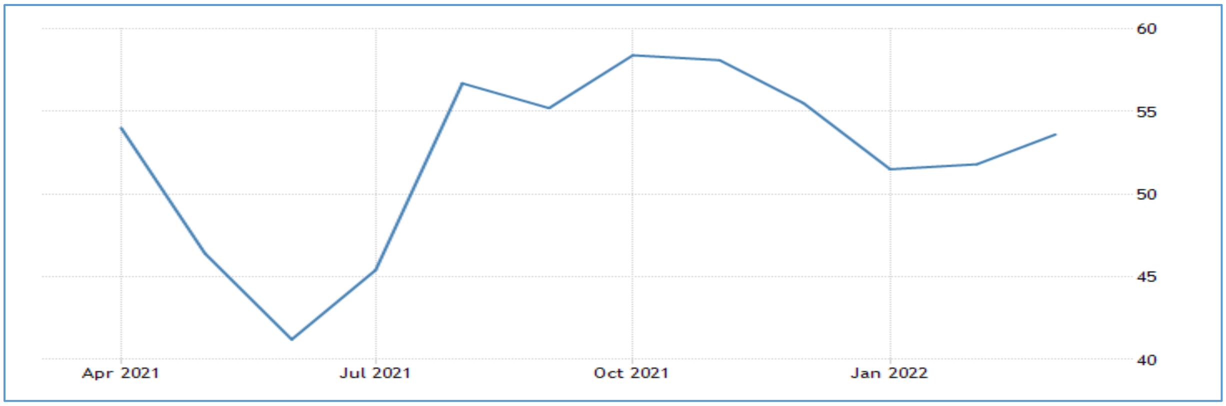
Also, employment declined for the fourth month running, despite the rate of contraction easing.

On the price front, input price inflation accelerated to the highest since March 2011, on a higher chemical, fuel, raw material, retail, transportation and vegetable prices.

Meanwhile, output cost inflation moderated and broadly in line with its long run average.

Looking ahead, business sentiment remained subdued, linked to inflation concerns.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to a 3-month high of 54.3 in March from 53.5 in February, signalling the strongest rate of expansion in 2022 so far.



Source: www.tradingeconomics.com

Core Sector Data – March

Growth of eight infrastructure sectors slowed to 4.3% in March 2022.

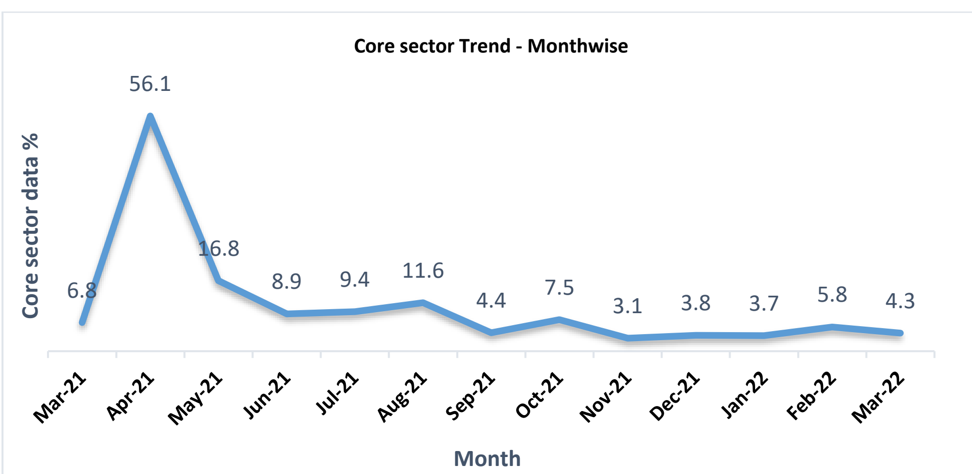
The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 6% in February 2022 and 12.6% in March 2021.

Barring coal and crude oil, all sectors recorded positive growth in March 2022.

The production of natural gas, refinery products, steel, cement, fertilisers and electricity rose by 7.6%, 6.2%, 3.7%, 8.8%, 15.3% and 4.9%, respectively.

The output of coal and crude oil declined by 0.1% and 3.4%, respectively.

Cumulatively, the growth in the eight core sectors during April-March 2021-22 stood at 10.4%, as against a contraction of 6.4% in the same period last financial year.



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

BANKING

RBI Monetary Policy – May 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC), at its meeting on May 4, 2022, decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 40 basis points to 4.40% with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.15% and the marginal standing facility (MSF) rate and the Bank Rate to 4.65%.

- The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

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

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

Assessment

Global Economy

Since the MPC's meeting in April 2022, disruptions, shortages and escalating prices induced by the geopolitical tensions and sanctions have persisted and downside risks have increased. The International Monetary Fund (IMF) has revised down its forecast of global output growth for 2022 by 0.8 percentage point to 3.6%, in a span of less than three months. The World Trade Organization has scaled down projection of world trade growth for 2022 by 1.7 percentage points to 3%.

Domestic Economy

Domestic economic activity stabilised in March-April with the ebbing of the third wave of COVID-19 and the easing of restrictions. Urban demand appears to have maintained expansion, but some weakness persists in rural demand. Investment activity seems to be gaining traction. Merchandise exports recorded double digit expansion for the 14th consecutive month in April. Non-oil non-gold imports also grew robustly on the back of improving domestic demand.

Overall system liquidity remained in large surplus. Bank credit rose (y-o-y) by 11.1% as on April 22, 2022. India's foreign exchange reserves declined by US$ 6.9 billion in 2022-23 (up to April 22) to US$ 600.4 billion.

In March 2022, headline CPI inflation surged to 7% from 6.1% in February, largely reflecting the impact of geopolitical spillovers. Food inflation increased by 154 basis points to 7.5% and core inflation rose by 54 bps to 6.4%. The rapid rise in inflation is occurring in an environment in which inflationary pressures are broadening across the world. The IMF projects inflation to increase by 2.6 percentage points to 5.7% in advanced economies in 2022 and by 2.8 percentage points to 8.7% in emerging market and developing economies.

Outlook

Heightened uncertainty surrounds the inflation trajectory, which is heavily contingent upon the evolving geopolitical situation. Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. International crude oil prices remain high but volatile, posing considerable upside risks to the inflation trajectory through both direct and indirect effects. Core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from prices of essential medicines. Renewed lockdowns and supply chain disruptions due to resurgence of COVID-19 infections in major economies could sustain higher logistics costs for longer. All these factors impart significant upside risks to the inflation trajectory set out in the April statement of the MPC.

As regard the outlook for domestic economic activity, the forecast of a normal southwest monsoon brightens the prospects for kharif production. The recovery in contact-intensive services is expected to be sustained, with the ebbing of the third wave and the growing vaccination coverage. Investment activity should get an uplift from robust government capex, improving capacity utilisation, stronger corporate balance sheets and congenial financial conditions. On the other hand, the worsening external environment, elevated commodity prices and persistent supply bottlenecks pose formidable headwinds, along with volatility spillovers from monetary policy normalisation in advanced economies. On balance, the Indian economy appears capable of weathering the deterioration in geopolitical conditions, but it is prudent to continuously monitor the balance of risks.

Against this background, the MPC is of the view that while economic activity is navigating the vortex of forces confronting the world with resilience on the strength of underlying fundamentals and buffers, the risks to the near-term inflation outlook are rapidly materialising, as reflected in the inflation print for March and the developments thereafter. In this milieu, the MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects. Accordingly, the MPC decided to increase the policy repo rate by 40 basis points to 4.4%. The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Large Exposures Framework for NBFC-UL

The RBI announced a series of changes for non-banking finance companies (NBFCs) placed in the upper layer (UL) to identify large exposures on scale-based regulation (SBR). These norms are aimed at addressing credit risk concentration in NBFCs. The changes have been made to the October 2021 circular on SBR, in terms of which a large exposure framework (LEF) is prescribed for NBFCs in the UL.

The sum of all the exposure values of an NBFC-UL to a single counterparty and to a group of connected counterparties, must not be higher than 20% and 25%, respectively, of its available eligible capital base at all times.

However, an infrastructure finance company (IFC) which is classified as an NBFC-UL, can exceed the aforementioned limits by 5% of its Tier-I capital for exposure to a single counterparty, and by 10% of its Tier-I capital for exposure to a group of connected counterparties.

Further, an NBFC-UL may exceed the exposure limit by 5% of its Tier I capital for exposure to a single counterparty, if the additional exposure is on account of infrastructure 'loan and/ or investment'.

However single counterparty limit shall not exceed 25% in any case for NBFC-UL (other than IFC) and 30% for NBFC-UL (IFC).

An NBFC-UL may exceed the exposure limit by 10% of its Tier-I capital for exposure to a group of connected counterparties, if the additional exposure is on account of infrastructure 'loan and/ or investment'.

RBI has exempted from the LEF an NBFC-UL's investment in the equity capital of an insurance company to the extent specifically permitted in writing by the regulator. This may encourage NBFCs to invest in insurance companies.

Exposures shall be permitted to be offset with credit risk transfer instruments such as cash margin/ caution money/ security deposit against which right to set off is available, held as collateral against the advances, Central government guaranteed claims which attract 0% risk weight for capital computation, among others.

A summary of the LEF limits for NBFC-UL is given below.

		(as % of eligible capital base)
	NBFC-UL (Other than IFC)	**NBFC-UL (IFC)**
Single Counterparty	• 20% • additional 5% with Board approval • additional 5% if exposure towards Infrastructure loan/investment (Single counterparty limit shall not exceed 25% in any case)	• 25% • additional 5% with Board approval
Group of connected Counterparties	• 25% • additional 10% if exposure towards Infrastructure loan/investment	• 35%

The above-mentioned guidelines will come into effect from October 1, 2022.

Loans and advances – regulatory restrictions – NBFCs

In a separate set of guidelines on loans and advances by NBFCs, the RBI has spelt out regulatory restrictions for NBFCs in the middle and upper layer.

Unless sanctioned by the board of directors or committee of directors, NBFCs shall not grant loans and advances aggregating INR 5 crore and above to

i. their directors (including the Chairman/Managing Director) or relatives of directors
ii. any firm in which any of their directors or their relatives is interested as a partner, manager, employee or guarantor
iii. any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.

In the real estate sector, the RBI has said that while appraising loan proposals, NBFCs shall ensure that the borrowers have obtained prior permission from government, local government, or other statutory authorities for the project, wherever required.

To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government or other statutory authorities.

These guidelines shall be effective from October 01, 2022.

Master Direction – Credit card and Debit card – Issuance and Conduct Directions, 2022

The RBI has released a master direction on credit cards and debit cards. These directions shall be effective from July 1, 2022.

The RBI has hinted at the possibility of allowing NBFCs, including non-deposit taking ones, to undertake credit card business.

In the master direction, the RBI said, "NBFCs registered with the Reserve Bank shall not undertake credit card business without prior approval of the Reserve Bank."

This means NBFCs can issue credit cards if they secure RBI's nod.

The prerequisite for this is a minimum net owned fund of INR 100 crore and subject to such terms and conditions as the Reserve Bank may specify in this regard from time to time.

For co-branded cards, RBI has said that the role of the co-branding partner entity shall be limited to marketing and distribution of the cards. Additionally, the co-branding partner shall not have access to information relating to transactions undertaken through the card.

INSURANCE

Exposure of insurers to financial and insurance activities

The IRDAI has issued a circular, permitting insurers to have exposure to financial and insurance activities up to 30% of their investment assets.

The Authority in exercise of its powers conferred under Regulation 14(2) of the IRDAI (Investment) Regulations, 2016, permits all Insurers to have exposure to Financial and Insurance activities (as per section K of NIC classification) up to 30% of Investment assets.

Accordingly, the limit of 25% of Investment Assets mentioned in Note no. 8 to Reg.9 of IRDAI (Investment) Regulations, 2016 stands revised to a limit of 30% of Investment Assets.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves revised cost estimate on 'Setting up of India Post Payments Bank'

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the revision of project outlay for setting up of India Post Payments Bank (IPPB) from INR 1435 crore to INR 2255 crore as equity infusion to meet regulatory requirement. The Cabinet also granted in principle approval for future fund infusion to the tune of INR 500 crore for meeting regulatory requirements and technological upgradation.

The objective of the project is to build the most accessible, affordable and trusted bank for the common man; spearhead the financial inclusion agenda by removing the barriers for the unbanked and reduce the opportunity cost for the under banked populace through assisted doorstep banking. The project supplements Government of India's vision of "less cash" economy and at the same time, promotes both economic growth and financial inclusion.

India Post Payments Bank did a nationwide launch on September 1, 2018 with 650 branches/controlling offices. IPPB has enabled 1.36 lakh Post Offices to provide banking services and has equipped nearly 1.89 lakh Postmen and Gramin Dak Sevaks with smartphone and biometric device to provide doorstep banking services.

Since the launch of IPPB, it has opened more than 5.25 crore accounts with 82 crore aggregate number of financial transactions with INR 1,61,811 crore, which includes 765 lakh number of AePS transactions worth INR 21,343 crore. Out of the 5 crore accounts, 77% of accounts are opened in Rural areas, 48% are women customers with around INR 1000 crore of deposit. Nearly 40 lakh women customers received Direct Benefit Transfer (DBT) into their accounts valued at INR 2500 crore. More than 7.8 lakh accounts have been opened for school students.

In Aspirational Districts, IPPB has opened around 95.71 lakh accounts having 602 lakh aggregate transactions worth INR 19,487 crore. In Left Wing Extremism (LWE) districts, 67.20 lakh accounts have been opened by IPPB having 426 lakh aggregate transactions worth INR 13,460 crore.

Total financial expenditure involved under the proposal stands at INR 820 crore. The decision shall help India Post Payments Bank pursue its objective of furthering financial inclusion across India by leveraging the network of Department of Posts.

CAPITAL MARKETS

Reduction of timelines for listing of units of REIT and InvIT

SEBI issued circulars, namely, Reduction of timelines for listing of units of Real Estate Investment Trust (REIT) and Reduction of timelines for listing of units of Infrastructure Investment Trust (InvIT).

As a part of the continuing endeavour to streamline the process of public issue of units of Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT), it has been decided to reduce the time taken for allotment and listing after the closure of issue to six working days as against the present requirement of within twelve working days.

The SCSBs, stock exchanges, depositories, intermediaries shall co-ordinate to ensure completion of listing (through public issue) and commencement of trading of units of REIT and InvIT, within six working days from the date of closure of issue.

The provisions of this circular shall be applicable to a public issue of units of REIT and InvIT under the SEBI (Real Estate Investment Trusts) and SEBI (Infrastructure Investment Trusts) Regulations, 2014, which opens on or after June 1, 2022. Stock Exchanges and Self Certified Syndicate Banks shall make required changes to implement the same from June 01, 2022.

Risk value of commodities for risk-o-meter

SEBI, vide circular on 'Product Labelling in Mutual Fund schemes – Risk-o-meter', dated October 5, 2020, issued detailed guidelines for evaluation of risk levels of scheme for the purpose of risk-o-meter.

For evaluation of risk value of commodities in which mutual funds are permitted to invest, in terms of para 2(d) of SEBI circular on 'Product Labelling in Mutual Fund schemes – Risk-o-meter', it has been decided that investment in commodities by mutual fund schemes shall be assigned a risk score corresponding to the annualized volatility of the price of the said commodity. The annualized volatility shall be computed quarterly based on past 15 years' prices of benchmark index of the said commodity and risk score for the commodity shall be in terms of the following table:

Annualised volatility	Risk value on risk-o-meter (Risk)
<10%	3 (Moderate)
10-15%	4 (Moderately High)
15-20%	5 (High)
>20%	6 (Very High)

Illustration: If price of gold has annualized volatility of 18% based on price of gold of past 15 years, then Gold and gold related instruments will have risk value of 5 (High) on risk-o-meter.

Accordingly, para 3(viii) of Annexure A to the said circular pertaining to risk value of gold and gold related instruments stands modified as above.

This circular shall come into force with immediate effect.

Revision of UPI limits in public issue of equity shares and convertibles

SEBI vide Circular SEBI/HO/CFD/DIL2/CIR/P/2018/138, dated November 1, 2018, introduced the use of Unified Payment Interface (UPI) as an additional payment mechanism with Application Supported by Blocked Amount (ASBA) for Retail Individual Investors and the same was mandated w.e.f. July 01, 2019, vide SEBI Circular SEBI/HO/CFD/DIL2/CIR/P/2019/76, dated June 28, 2019, for applications by Retail Individual Investors submitted through Intermediaries.

NPCI vide circular reference no. NPCI/UPI/OC No. 127/ 2021-22, dated December 09, 2021, inter alia, has enhanced the per transaction limit in UPI from INR 2 lakh to INR 5 lakh for UPI based Application Supported by Blocked Amount (ASBA) in Initial Public Offers (IPOs).

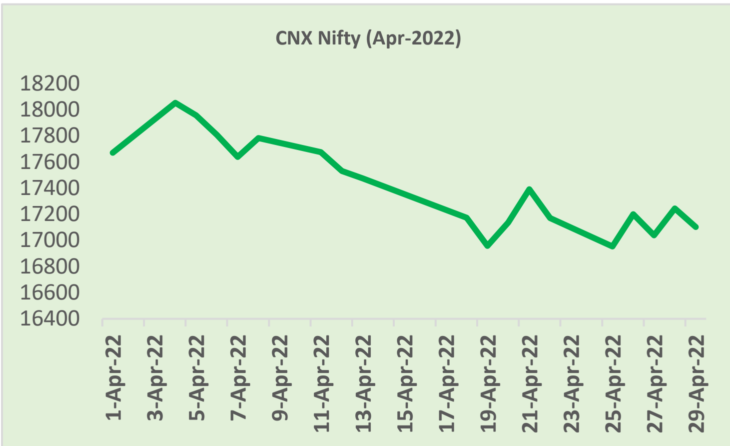
NPCI has reviewed the systemic readiness required at various intermediaries to facilitate the processing of applications with increased UPI limit and confirmed that as on March 30, 2022, more than 80% of SCSBs/ Sponsor Banks/ UPI Apps have conducted the system changes and have complied with the NPCI provisions.

Accordingly, it has been decided that all Individual Investors applying in Public Issues where the application amount is up to INR 5 Lakhs, shall use UPI and shall also provide their UPI ID in the bid-cum-application form submitted with any of the entities mentioned herein below:

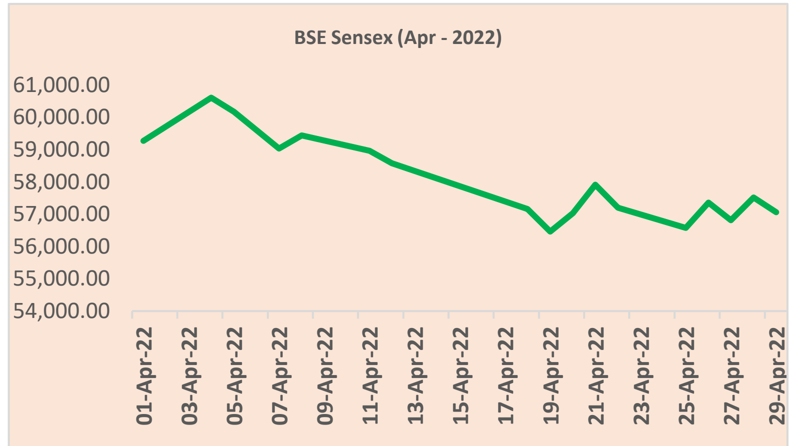
i. a syndicate member
ii. a stockbroker registered with a recognised stock exchange (and whose name is mentioned on the website of the stock exchange as eligible for this activity) (‘broker’)
iii. a depository participant (‘DP’) (whose name is mentioned on the website of the stock exchange as eligible for this activity)
iv. a registrar to an issue and share transfer agent (‘RTA’) (whose name is mentioned on the website of the stock exchange as eligible for this activity)

This circular shall come into force for Public Issues opening on or after May 01, 2022.

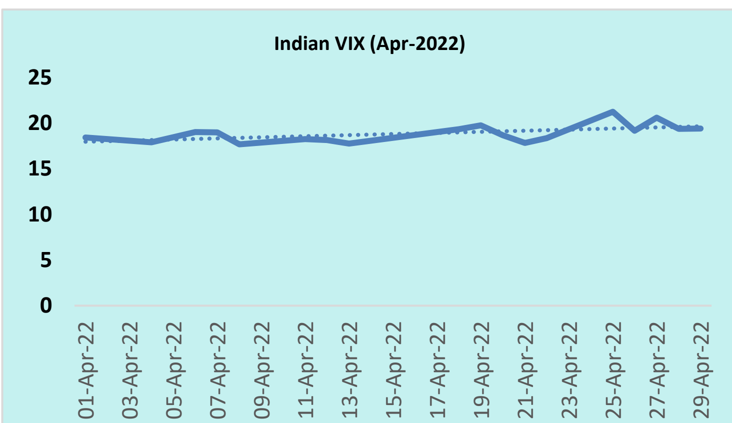
CAPITAL MARKETS SNAPSHOT



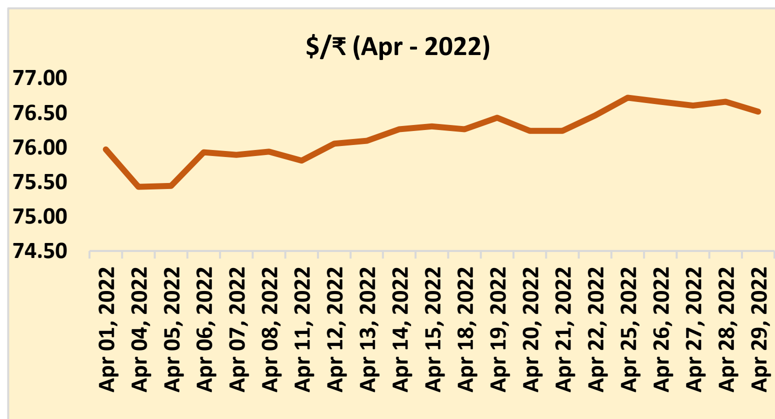
Source: National Stock Exchange



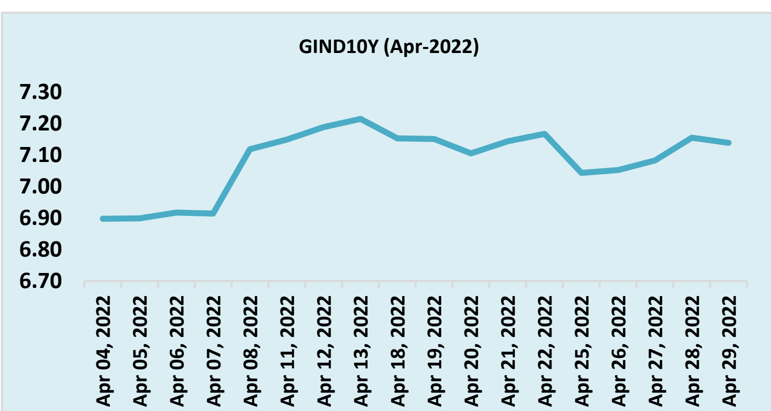
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The new fiscal year started off on a cautious note. The markets are skeptical ahead of the Q4 results and the hawkish notes coming in from the US Federal Reserve. For April 2022, the returns on all the indices were in the negative. The big story of April 2022 was the continued selling by the FPIs. Some respite was expected in FPI selling after they sold over USD 19 billion in Indian equities in the last 6 months of FY22. While FPI flows in April 2022 began on a positive note, it ended with heavy selling. FPIs sold USD 2.24 billion of equities in April 2022 and USD 2.96 billion across equities and debt.

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ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2022*	2023*	Latest	2022*	% of GDP, 2022*	% of GDP, 2022*	(10YGov), Latest
Brazil	1.6 Q4	0.8	1.3	11.3 Mar	10.2	-0.5	-7.1	12
Russia	5.0 Q4	-10.0	2.9	16.7 Mar	16.0	6.7	-6.5	10
India	**5.4 Q4**	**7.2**	**5.5**	**7.0 Mar**	**6.0**	**-1.4**	**-6.4**	**7.38**
China	4.8 Q1	5.0	5.1	1.5 Mar	2.2	2.3	-6.2	2.63^
S Africa	1.7 Q4	2.1	2.4	6.1 Mar	5.8	-1.1	-6.1	9.9
USA	3.6 Q1	3.0	1.9	8.5 Mar	7.2	-3.9	-6.6	2.93
Canada	3.3 Q4	3.8	3.3	6.7 Mar	5.1	1.3	-3.6	2.93
Mexico	1.6 Q1	1.9	2.6	7.5 Mar	7.4	-0.9	-3.5	9.12
Euro Area	5.0 Q1	3.2	2.3	7.5 Apr	5.2	2.4	-4.1	0.97
Germany	3.7 Q1	1.6	2.0	7.4 Apr	6.8	5.9	-2.9	0.97
Britain	6.6 Q4	3.9	1.7	7.0 Mar	6.7	-1.9	-5.3	1.97
Australia	4.2 Q4	3.2	2.5	5.1 Q1	4.3	2.0	-3.0	3.54
Indonesia	5.0 Q4	5.2	4.8	2.6 Mar	4.2	0.3	-4.8	6.99
Malaysia	3.6 Q4	4.0	4.2	2.2 Mar	2.9	3.2	-6.2	4.38
Singapore	3.4 Q1	3.6	3.1	5.4 Mar	4.5	17.5	-0.9	2.63
S Korea	3.1 Q1	2.7	2.5	4.8 Apr	3.2	2.2	-3.0	3.46

Sources: The Economist

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

^ 5-year yield

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

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ABOUT APAS

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

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