

COVID-19 STIMULUS

13 May 2020

First instalment of mega stimulus – spotlight on MSMEs

As part of its Rs 20tn stimulus package, the Centre today unveiled ~Rs 6tn in liquidity-related support, primarily targeting MSMEs and NBFCs. By raising the total stimulus to >10% of GDP and focusing on MSMEs – the primary engines of job creation, the government is targeting a V-shaped economic recovery once the lockdown is lifted. Key measures include Rs 3tn in collateral-free loans for MSMEs, a 12-month moratorium and a 100% credit guarantee to banks/NBFCs. MSMEs in troubled sectors such as auto ancillaries and consumer durables would benefit.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Centre biting the mega stimulus bullet: The Indian government has joined the league of large global economies that have announced stimulus packages exceeding 10% of GDP. The Prime Minister's intent for the Rs 20tn package is clear – to target a V-shaped economic recovery as the nationwide lockdown is lifted. In addition, with the world looking to reduce dependence on China, reforms will be introduced centering around land, labour, liquidity and law, to ensure a thrust upon local manufacturing.

STIMULUS BREAKDOWN

Stimulus	(Rs tn)
Overall (announced by PM)	20.0
RBI	5.74
Garib Kalyan	1.7
Balance	12.56
Atmanirbhar tranche 1	
MSMEs	3.7
NBFCs	0.75
Discom	0.9
TDS/TCS	0.5
PFs	0.09
Total	6.62

Source: RBI, government data

Liquidity support for MSMEs: The Finance Minister today followed up on the PM's announcement, unveiling details for the first tranche of stimulus amounting to ~Rs 6tn – mostly liquidity-related and targeted at MSMEs. Key features include Rs 3tn in collateral-free automatic loans for the sector, coupled with a 12-month moratorium and 100% credit guarantee cover to banks and NBFCs (principal and interest). These are expected to benefit ~4.5mn MSME units. Additionally, the government will provide Rs 200bn in subordinate debt for stressed MSMEs (~0.2mn units) in the form of direct debt by banks to promoters for direct equity infusion.

Additional measures for NBFCs, discoms and contractors: The FM also announced: (a) a Rs 300bn special liquidity scheme and a Rs 450bn partial credit guarantee scheme for NBFCs, (b) Rs 900bn liquidity injection for power distribution companies (discoms) to fund their ~Rs 940bn in payables to power generation companies (loans to PFC/REC would be given against state guarantees), (c) a six-month extension to all contractors for construction activities for central agencies, (d) a six-month extension in RERA timelines for real estate projects, and (e) tax-related incentives such as a Rs 500bn cut in TDS/TCS, and extension in income tax filing timelines.



Key features of Rs 6tn package

MSMEs

- Rs 3tn collateral-free automatic loans, with four-year tenor and 12-month moratorium. 100% credit guarantee on principal and interest
- Subordinate debt for stressed MSMEs (which are NPA or stressed) worth Rs 200bn (Rs 40bn contribution by government to CGTMSE – Credit Guarantee Fund Trust for Micro and Small Enterprises)
- Rs 500bn fund of funds to be created for equity infusion into viable units
- In key positive for the sector, definition of MSMEs being changed as follows: limits on investments revised upwards, additional criteria based on turnover introduced, differentiation between manufacturing and service units removed
 - **Micro units:** Investments upto Rs 10mn and/or turnover upto Rs 50mn
 - **Small units:** Investments upto Rs 100mn and/or turnover of Rs 500mn
 - **Medium units:** Investments upto Rs 200mn and/or turnover of Rs 1bn
- Government tenders upto Rs 2bn will no longer be on global tender basis, making MSMEs eligible to participate in government purchases
- Post Covid, e-market linkage to be provided for all MSMEs
- Receivables by MSMEs from the government to be cleared in next 45 days

EPF

- Liquidity relief for all EPF establishments with less than 100 employees where 90% draw less than Rs 15,000/month. 12% of employer contribution and 12% employee contribution to be borne by the government for March, April and May. Three months of extra support to be provided by government contributing a total of 24% for June, July and August – cumulative benefit of Rs 25bn
- For other establishments, employers need to contribute 10% (vs. 12% earlier) to EPF. Not applicable to government and PSU enterprises – cumulative liquidity benefit of Rs 67.5bn

NBFCs

- Rs 300bn liquidity scheme through investment-grade debt papers of NBFCs, HFCs and MFIs fully guaranteed by government
- Rs 450bn through partial credit guarantee scheme scope expansion. Papers rated AA and below including unrated papers brought under the scheme; first 20% loss to be borne by government

Power discoms

- One-time emergency liquidity infusion of Rs 900bn to all discoms against all receivables. Power generation companies would need to give rebates to discoms for passing on benefits to power consumers

Contractors

- Concessional period for ongoing public works to be extended by 3-6 months for contractors. Government agencies will part release bank guarantees for partially completed contracts

Real estate

- Urban Development Ministry to issue advisories for regulators to announce that Covid-19 can be used to invoke Force Majeure on contracts signed. All registrations and contracts expiring after 25 March 2020 can be extended by six months (under RERA timelines), without specific applications

Tax measures

- Rates for tax deducted and collected at source (TDS and TCS) reduced by 25% on non-salaried payments effective tomorrow upto 31 March 2021. Will apply to all payments (Rs 500bn additional liquidity)
- All pending refunds to charitable trusts and non-corporate taxpayers (but including LLP or limited liability partnerships) will be issued immediately
- Due date for all income tax returns to be 30 November 2020 and for tax audit 31 October 2020
- Assessments getting barred on 30 September 2020 will be barred on 31 December 2020. Cases getting barred on 31 March 2021 will be barred on 30 September 2021
- 'Vivaad se Vishwaas' scheme extended upto 31 December 2020 without any extra payments

FIG 1 – GLOBAL INTEREST RATE CUTS

Country	Rate	Central Bank Rate (Today) (%)	CPI YoY (%)	Real Central Bank Rate (%)	Last move	Last move date
US	Fed funds	0.13	1.50	(1.4)	↓	Mar-20
UK	Bank rate	0.10	1.50	(1.4)	↓	Mar-20
New Zealand	Cash rate	0.25	2.50	(2.3)	↓	Mar-20
Australia	Cash rate	0.25	2.20	(2.0)	↓	Mar-20
Canada	Overnight	0.25	0.90	(0.7)	↓	Mar-20
Thailand	Policy rate	0.75	(3.00)	3.7	↓	Mar-20
Norway	Deposit Rate	0.00	0.70	(0.7)	↓	May-20
Taiwan	Discount rate	1.13	(1.00)	2.1	↓	Mar-20
Hong Kong	Base rate	0.86	2.30	(1.4)	↓	Mar-20
Czech Republic	Repo rate	0.25	3.40	(3.2)	↓	May-20
Malaysia	Policy rate	2.00	(0.20)	2.2	↓	May-20
Philippines	Key policy rate	2.75	2.20	0.6	↓	Apr-20
China	Loan prime rate	3.85	4.30	(0.5)	↓	Apr-20
Brazil	Target Rate	3.00	3.30	(0.3)	↓	May-20
Indonesia	Repo rate	4.50	2.70	1.8	↓	Mar-20
India	Repo rate	4.40	5.90	(1.5)	↓	Mar-19
Russia	Key policy rate	5.50	3.10	2.4	↓	Apr-20
South Africa	Repo rate	4.25	4.10	0.2	↓	Apr-20
Mexico	Overnight rate	6.00	2.20	3.9	↓	Apr-20
Turkey	Repo rate	8.75	10.90	(2.2)	↓	Apr-20

Source: Company, BOBCAPS Research

FIG 2 – STIMULUS ANNOUNCED BY CENTRAL BANKS GLOBALLY

Country	Stimulus Announced (US\$ bn)	2019 GDP (US\$ bn)	% of GDP
Thailand	64.8	520	12.5
Hong Kong	34.7	365	9.5
China	539.6	14,200	3.8
Singapore	41.7	348	12.0
South Korea	37.2	1,690	2.2
Malaysia	61.8	370	16.7
Taiwan	34.7	605	5.7
Indonesia	12.0	1,126	1.1
Australia	303.6	1,450	20.9
Japan	1,078.2	5,110	21.1
Italy	115.7	2,030	5.7
Germany	198.0	4,040	4.9
UK	145.5	2,910	5.0
United States	2,756.0	21,200	13.0
Canada	82.0	2,343	3.5

Source: Industry, BOBCAPS Research

FIG 3 – LOCKDOWN EXIT STRATEGIES

Country	Particulars
China	<ul style="list-style-type: none"> ▪ All economics activities including in Wuhan have started with no exceptions to any sector. ▪ Sealing off cities in a province that borders with North Korea amid a growing cluster of cases. ▪ The only inter-province movement allowed was for logistics purpose. In some other provinces, trucks could move only within their own province and had to offload to other trucks in case of inter-province movement. The severest restriction was in the case of Wuhan where a truck driver taking supplies into the city had to undergo 14 days of quarantine on return.
Italy	<p>Since April 14th</p> <ul style="list-style-type: none"> ▪ Very limited easing was brought in such as allowing some small shops (bookstores, dry cleaners and stationers) to reopen. The businesses chosen were deemed to be low risk as they rarely attract crowds. <p>Since May 4th</p> <ul style="list-style-type: none"> ▪ Its been allowed to visit family members provided they live in the same region but its banned to move between different regions. Bars and restaurants will reopen for takeaway service <p>Since May 18th</p> <ul style="list-style-type: none"> ▪ Sports teams to be able to hold group training ▪ More retail shops to open that weren't open under the earliest easing measures. <p>Since June 1st</p> <ul style="list-style-type: none"> ▪ Hairdressers, beauty salons, bars and restaurants are expected to reopen for dine-in service
France	<ul style="list-style-type: none"> ▪ Residents are no longer required to provide travel certificates for travelling within a radius of upto 100km from home. However, in red zone areas including Paris longer trips still require a certificate and employers authorisation to travel during the rush hour. ▪ Other restrictions in red zones include keeping parks, gardens and secondary schools shut. In the green zone, cafes and restaurants may open from early June. ▪ Quarantine and isolation will be possible for all travellers into France once a new law is passed. However, these would not apply to EU countries and Britain for now.
Spain	<p>To gradually lift restrictions by the end of June.</p> <ul style="list-style-type: none"> ▪ Began Phase 0 on May 4th which involved opening up takeaway facilities in restaurants and hair salons. ▪ Under Phase I, gyms opened up by appointments to ensure social distancing norms are followed. ▪ In Phase II, cinemas are allowed to open with a cap on their capacity. ▪ Under Phase III, which begins June 8th could see all companies resume services with protocols such PPE suits for all employees.
Canada	<p>The Government has released new guidelines for gradual easing of restrictions across the country</p> <ul style="list-style-type: none"> ▪ Ontario, Quebec, Alberta, Manitoba and Saskatchewan are among those set to take another step out of lockdown by allowing the resumption of some economic and social activities that have been halted for than a month due to the pandemic ▪ Manitoba is poised to go the farthest by allowing museums, libraries and retail businesses — including restaurant patios — to re-open, albeit at half capacity. Manitoba, Saskatchewan and Alberta are also letting non-essential medical activities, such as dentistry and physiotherapy, resume. ▪ Ontario and Quebec aren't going as far. Ontario is allowing a small number of mostly seasonal businesses to re-open while Quebec is easing the lockdown on most retail stores outside the Montreal area, which has been hit hard by COVID-19 over the past month and a half
United Kingdom	<p>The UK government on May 11th set out more details to its exit strategy. After immense confusion about the intricacies of the plan, Johnson said the public will use “good, solid, British common sense” when it comes to applying new rules. The document however only covers measures for England. The plan divides the exit into phases and the measures for each phase will be announced in successive steps with several weeks in between to allow for monitoring. In phase III, the UK government expects effective treatment or vaccines to be rolled out.</p>

Country	Particulars
India	<p>The first partial resumption took place on April 20 when several industrial, agricultural activities were allowed.</p> <p>On May 4, several other activities were allowed. The country was mapped into three zones – Red, Orange, Green based on the number of cases. But in all these, the Centre gave out a to-do list.</p> <p>After May 17, the aim would be to narrow down the containment zones and do away with broader restrictions. While the states with mostly green zones are likely to exit the lockdown on May 17, restrictions will continue only in hotspot areas.</p>
USA	<p>Still evaluating lockdown exit strategies, as COVID-19 cases continue to surge</p>
Australia	<p>Australia has planned a three-step process for lifting lockdown completely by July'20:</p> <ul style="list-style-type: none"> ▪ Stage 1: Restaurants and cafes currently limited to takeaway services will be allowed to reopen, but with a maximum of 10 patrons at a time ▪ Stage 2: Gyms, cinemas and galleries allowed to reopen, although businesses will only be able to have 20 customers at a time. States that have closed their borders would also start to allow some interstate travel ▪ Stage 3: Gatherings of up to 100 people would be permitted, nightclubs would be reopened and employees would be allowed to return to their offices. All interstate travel will be allowed, along with some limited international travel, including flights between Australia and New Zealand
Russia	<p>Putin announced an end to Russia's six week national lockdown starting May 12th emphasising construction and industry sectors to resume work with compulsion of wearing gloves and masks. The service sector continues to remain under strict lockdown. He advised regional governors to draft their own post May 11th exit strategies.</p> <p>Moscow which is the epicentre of the outbreak has extended lockdown till at least May 31st (except for construction and industry sectors).</p>
Belgium	<p>4 key dates to the exit strategy</p> <ul style="list-style-type: none"> ▪ 4th May - public transport will resume normal activities with compulsion of wearing a mask or scarf ▪ 11th May – allow all stores to open at the same time with discrimination based on size or sector. Close contact shops, like hairdressers, will not be opened yet. ▪ 18th May – Schools to resume classes with no more than 10 children to be allowed in each classroom. ▪ 8th June – cafes and restaurants to resume.
Denmark	<p>Didn't have the need to extend its lockdown 1.0 beyond the already specified date, i.e. 13th April. Immediately laid out its exit plan as follows:</p> <ul style="list-style-type: none"> ▪ 14th April – day care centres and primary school resumed work with children arriving and leaving school at different times. ▪ April 20th – Hairdressers, optometrists, podiatrists and chiropractors reopened. ▪ 11th May – shopping centres reopened ▪ 18th May – cafes, restaurants, zoos and libraries reopened. Secondary school and exam students will also return. ▪ 8th June – Phase III begins which includes museums, cinemas and colleges to reopen. ▪ Early August – gyms, swimming pools and night clubs to resume. <p>However, borders to remain shut.</p>
Ireland	<p>5-stage roadmap to reopen the country starts on May 18th. Outdoor workers (construction workers and gardeners) will be allowed to resume activities from May 18th. With some other activities resuming in phases over the next one month. The final phase (Phase V) to begin on Aug 10th with all workers across sectors to return to the workplace. Only schools will not have a phased return until September.</p>
New Zealand	<p>After nearly five weeks at the maximum Level Four restrictions - with only essential services operating - the country moved to Level Three late on 27th April. Under Level Three, people are still being urged to stay at home when they are not at work, school or getting food and other essentials. Strict social distancing remains in force, and police will be on the look out for large groups of people.</p>
Germany	<p>Moving to reopen borders with neighbours France and Austria as soon as possible</p>

Source: Industry, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 30 April 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 17 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.