Economy

SATURDAY, MARCH 28, 2020

EXPERT VIEW

In India, credit flow to the economy already remains severely hampered because of severe liquidity constraints in the bank and non-bank financial sectors.

—Moody's Investor Service

Quick View

JICA, govt sign ₹15,295-crore loan pacts

THE JAPANESE GOVERNMENT'S funding agency, JICA, has signed agreements totalling ₹15,295 crore with the Indian government for three mega rail infrastructure projects. JICA has granted ₹8,553 crore for phase-1 of the Dedicated Freight Corridor; ₹4,262 crore for Mumbai Trans Harbour Link Project (II) and ₹2,480 crore for the Mumbai Metro Line 3.

Mobile numbers for vehicle registration

VEHICLE OWNERS WILL now have to provide their mobile numbers for availing any service related to registration of their vehicles, the govt said.

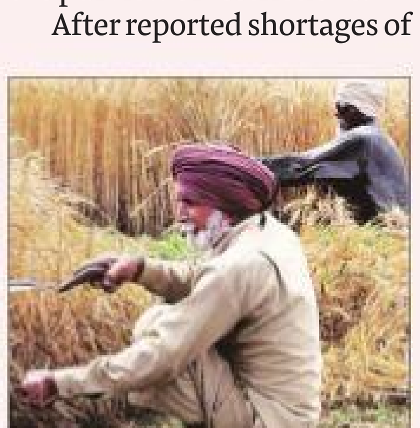
Farm sector, allied activities exempted from lockdown

FE BUREAU
New Delhi, March 27

THE CENTRE HAS notified exemptions for the agriculture sector from the current nationwide lockdown after which farmers and labourers will be able to harvest standing rabi crops and take the produce to mandis and procurement centres for sales. The government has also allowed manufacturers and packaging units of fertilisers, pesticides and seeds to continue their operation as the move will help them meet demand during four-month kharif sowing season starting June.

The notification issued by the home ministry allowed farmers and labours to undertake farm-related activities in the field. It also said that the agencies engaged in procurement of agriculture products, including MSP operations, will be exempted from the restrictions imposed across the country after the outbreak of Covid 19. Mandis are also kept out of the purview of restrictions.

After reported shortages of



fruits and vegetables, the Centre has made operational over 1,500 mandis dealing with the horticulture products as on Friday against 520 such markets were open on Wednesday. While in many states like Haryana and Madhya Pradesh farmers are not coming to sell their produce to the grain mandis resulting in no trading activities.

The decision will help Food Corporation of India (FCI) and state government's agencies to start the wheat procurement from April 1, officials said while maintaining that the response of the farmers will be crucial. In Punjab and Haryana, the procurement picks up after Baisakhi, the festival of harvesting. The government normally procures the entire annual requirement of wheat for the Central Pool in just two months – April and May.

The government has also allowed fertiliser shops to open their outlets during the current lockdown period so as to help farmers buy the key farm input in time. Among other exemptions, allowing the inter-state and intra-state movement of agri-machinery like combined harvestor will help farmers in northern India to start harvesting the wheat crop in time, officials said.

LOWER THAN CHINA

Moody's pegs India 2020 growth at 2.5%

India's growth, however, could rebound to 5.8% in 2021, while China's may accelerate to 6%, Moody's said

FE BUREAU
New Delhi, March 27

MOODY'S ON FRIDAY sharply trimmed its growth projection for India to just 2.5% for 2020 from 5.3% earlier. The latest projection is lower than its forecast of 3.3% for China, the epicentre of the Covid-19.

With this, Moody's joins a clutch of other agencies that have slashed their FY21 forecasts in the range of 2.5-4.2% in the wake of the coronavirus outbreak and the consequent lockdown. India's growth, however, could rebound to 5.8% in 2021, while China's may accelerate to 6%, Moody's said.

The global rating agency has forecast a 0.5% contraction for the global economy in 2020, citing an unprecedented demand compression.

Moody's projection comes on a day when the monetary policy committee of the Reserve Bank of India (RBI) cut the repo rate by as much as 75 basis points, with RBI governor Shaktikanta Das flagging risks to expansion in most sectors. "If Covid-19 is prolonged and supply chain disruptions get accentuated, the global slowdown could deepen, with adverse implications for India," Das said. He added that the implied real GDP growth of 4.7% for the March quarter, based on the estimates of the National Statistics Office in February, is now at risk because of the pandemic. The NSO had pegged the FY20 growth at 5%.

"The slump in international crude prices could, however, provide some relief in the form of terms of trade gains. Downside risks to growth arise from the spread of Covid-19 and prolonged lockdowns. Upside growth impulses are expected to emanate from monetary, fiscal and other policy measures and the early containment of Covid-19," the governor said.

On Thursday, Crisil slashed its FY21 growth forecast for India by as much as 170 basis points to just 3.5%. It expected the impact of social distancing, drop in discretionary spending and a potential plunge in exports to exacerbate the slowdown in the June quarter.

ICRA, too, trimmed its growth projection to 4.2% for FY21 from 4.4%, despite the support from agriculture and government spending.

SBI's group chief economic advisor Soumya Kanti Ghosh has estimated growth to collapse to just 2.6% in FY21, with a clear downward bias. The FY20 growth could also see a downward revision from 5% to 4.5%, with the March quarter expansion being 2.5%, he said in a report. The total cost of the lockdown is at least ₹8.03 lakh crore (in nominal terms), output loss of at least 4%, an income loss of ₹1.77 lakh crore and a loss in capital income of ₹1.69 lakh crore, Ghosh said.

Slashed interest rate needs quick transmission: FM

PRESS TRUST OF INDIA
New Delhi, March 27

The RBI has also announced steps to release primary liquidity of ₹1,37,000 crore in the banking system

FINANCE MINISTER NIRMALA Sitharaman on Friday asked banks for "quick transmission" of slashed interest rate as the Reserve Bank of India (RBI) cut the key lending rate sharply by 75 basis points to boost liquidity in financial system to deal with the COVID-19 pandemic.

In a tweet, the finance minister also welcomed RBI governor Shaktikanta Das' statement that the macro economic fundamentals of the Indian economy are sound, and in fact stronger than what they were in the aftermath of the global financial crisis of 2008-09.

"Appreciate @RBI @DasShaktikanta's reassuring words on financial stability," she said.

The three-month moratorium on payments of term loan instalments (EMI) and interest on working capital give much-desired relief, she added.

"...Slashed interest rate needs quick transmission," the finance minister said in another tweet.

Meanwhile, welcoming the RBI's decision to provide three months moratorium on payment of term loans, commerce and industry minister Piyush Goyal said amid this hour of need, the "move has provided a much needed relief to people and businesses".

Besides other measures to help the economy facing lockdown, the RBI announced steps to release primary liquidity of ₹1,37,000 crore in the banking system and reduced cash reserve ratio (CRR) by 100 basis points with effect from March 28 for one year.

Domestic steel consumption may remain 'very weak' in Q1FY21

FE BUREAU
New Delhi, March 27

IN THE WAKE of Covid-19 epidemic, domestic steel consumption is likely to remain "very weak" during the first quarter of 2020-21, dragging the overall consumption growth for the entire FY21 at just 2-3%, compared with 3.8% in FY20, rating agency Icra said on Friday.

Steel price for the April-June quarter is likely to decline by Rs 1,500 per tonne, Icra said. Domestic hot-rolled coil (HRC) price, which rose to ₹38,000 per tonne in November, is likely to fall by ₹1,500 per tonne given the choking of demand amid the lockdown.

"Margin improvement is unlikely in FY21; consequently, Indian steel industry's debt protection metrics are likely to remain subdued in FY21. The industry's operating margin is expected to weaken from around 21% in FY2019 to around 16.5% in FY2020 and around 16.0% in FY2021," said Icra senior vice-president Jayanta Ray.

With the export market also remaining tepid, and incremental capacity addition of 10 million tonne, industry capacity utilisation rates are seen to be lower, from 81% in FY2020 to about 79% in FY2021, assuming a recovery in demand condition in the second half.

Weak domestic demand, which is likely to lead to inventory pile-up, will exert pressure on steel prices. The key demand drivers for domestic steel demand – construction and infrastructure sectors, besides the automobile and capital goods sectors, continue to witness muted or a negative growth.

As far as exports are concerned, the rapid spread of the outbreak to countries other than China has disrupted the seaborne steel trade.

INTERVIEW: RAJIV KUMAR, NITI Aayog vice-chairman

'Covid-19 packages will take care of both people and corporates'

India has unveiled both fiscal and monetary policy stimulus measures to minimise the negative impact of the coronavirus on economic activities and address the needs of the poor, NITI Aayog vice-chairman **Rajiv Kumar** *told FE's* **Prasanta Sahu** *in an interview. He said the Thursday's economic package was rightly targeted at the most vulnerable segments of the society. Edited excerpts.*

What is your view on the relief package announced by the finance minister on Thursday?

The package announced by the finance minister is rightly targeted, ensuring that the most vulnerable segments of the society do not bear an unbearable burden of the pandemic. This has to the top-most priority of the government. For MSMEs, the finance minister has given the relief by offering to pick up the tab for their EPFO contributions. This will help mitigate wage costs. The hefty ₹50-lakh insurance cover announced for all corona warriors is a worthy recognition of their heroic contribution to the nation's fight against the virus.

Tourism, hotel and other services sector have been badly affected in India. These sectors need urgent help.

The services sector has been badly affected. The government is conscious of this and is seized of the situation. A lot of deliberations are going on so that the package that is being designed could be announced sooner than later. It is premature to talk about sector-specific measures. The package will provide sufficient relief to try and minimize the negative impact both on the people and the corporate.

It is said that the cost of COVID-19 test at ₹4,500 is hindering many people from going for the test?

I think, the government is seized of the matter. It may request Ayushman Bharat to develop a package for the test.

Advanced economies have announced massive measures to tackle coronavirus impact, which the IMF has warned could be worse than the world financial crisis. How do you see India tackle this crisis?

Essentially, the financial crisis of 2008 and 2009 affected only North America and Europe. In India, the growth went down in one quarter before it recovered. That is because our financial centres were not interwoven with the West. The coronavirus has already spread to 176 countries. Every economy is going to have its own repercussions due to domestic lockdowns, contractions of economic activity, impact on trade and demand. So, the impact will be much bigger. If this trend continues... the nearest example that you can think of about is the Spanish Flu of 1918, which took 50 million lives in the world and lasted for one-and-a-half years. It also impacted India as we lost 18 million people or almost 6% of population. That was the start of the Great Depression in some sense.

Today, the situation is very different for two-three reasons – medical services are much better developed, consciousness is very high, every economy has taken major steps to counter the spread and also address the economic impact. We will see a much quicker recovery than in the previous instances.

What is your outlook on Indian economy?

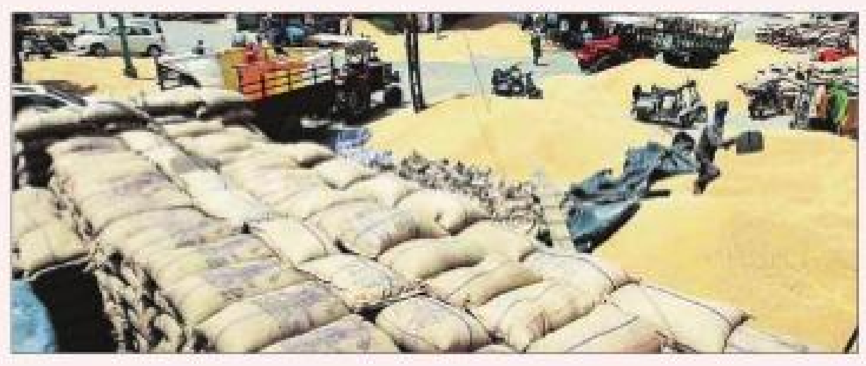
It is a very complex situation. We don't know how long this situation will last. We don't know what the impact will be on the domestic economy, global economy and global demand. It is not wise to make a forecast.

About lockdowns....

The lockdown announced by the Prime Minister is a very important step. Any criticism of this is misplaced. First and foremost, we have to stop the spread within our country, which has much less resources than the advanced economies to fight it. We have seen in some advanced economies that if proper care is not taken, it can become a major issue. Majority of people have lauded PM. This is the best way to minimise the impact of this virus.

States told to allow food processing units to buy directly from farmers

PRABHUDATTA MISHRA
New Delhi, March 27



THE CENTRE HAS advised states to issue ad hoc direct marketing licences to corporates for facilitating their purchase of farmers' produce at village levels, so that crowds at mandis are controlled in sync with the nationwide lockdown. The move will enable food processing firms to buy raw food items from small groups of farmers, bypassing intermediaries.

Simultaneously, the Union agriculture ministry has persuaded mandi boards to operationalise fruits and vegetables trading in all mandis. Out of about 2,000 mandis where fruits and vegetables are traded, at some places along with grains, as many as 1,509 were in operation on Friday, against 220 on Wednesday, an official said.

"Mandis are providing masks and sanitiser at gates to protect farmers and traders. They have also been advised to ensure social distancing inside the premises," the official said. Once fruits and vegetables operations are streamlined, the focus will be on grains as well since harvesting of rabi crops has started in many places.

Haryana has made all 113 fruits and vegetable mandis operational and also allowed 125 registered farmer producers' organisations to (FPOs) to function from mandi premises, said RK Beniwal, chief administrator of the state's agriculture marketing board. He said local authorities have fixed the operational hour for each mandi.

Though grains mandis are not closed in Haryana, there is no activity due to lockdown, as farmers are ready to wait for a few more days, Beniwal said. The state is likely to announce the official procurement of wheat from April 20, delaying it by 20 days from the normal schedule, sources said.

Rajasthan has postponed registration and procurement for an indefinite period since March 23.

Madhya Pradesh may issue a notification on official procurement after the lockdown period is over. The state, the third largest contributor to FCI's wheat procurement for the central pool stocks, is yet to start purchasing even as harvesting has commenced. As many as 73 mandis, all dealing with fruits and vegetables, were in operation as on Friday. "The grain mandis (about 186) are not operational as farmers do not want to come out due to Covid-19," said Sandip Yadav, managing director of the state agricultural marketing board.

In Guntur, the largest market for chilli and other spices, farmers are not bringing their produces to mandis, prompting the state to consider bringing farmers in batches from a particular area so that trading can resume. The Centre has requested the Andhra Pradesh government to issue ad hoc licence to spice manufacturers for directly sourcing raw materials from farmers.

"We have reached out to industry chambers so that sourcing of raw materials for food processors is eased. States are also advised to issue ad hoc purchase licence to bulk buyers so that they can buy the raw material without entering mandis," a senior agriculture ministry official said. The Centre has also reached out to transporters and asked the agriculture marketing department of each state to make sure that trucks carrying fruits and vegetables are not stopped.

While consumers face shortages of food items in some places forcing the state governments to relax movement of essential goods and allow e-commerce companies to home deliver products, farmers are not that lucky. Due to lower arrival in Madhya Pradesh, vegetable prices in mandis have risen, while rates are down in wholesale markets in the National Capital Region due to lower offtake by retailers following closure of restaurants and eateries.

From the Front Page

RBI fires a bazooka

PRANJUL BHANDARI, chief economist, HSBC, wrote that all the measures will not just help immediately, but should also help in the reconstruction process after the Covid shock abates. "All eyes are now on the fiscal deficit and what role the central bank will play in funding it," Bhandari said.

Economists expect further cut in rates over the course of the year.

Indranil Sengupta, chief economist, Bank of America, wrote he expects the RBI to cut the repo by 25 bps each in June and October. "Second, Delhi would likely follow up with a fiscal stimulus — of 1-1.5% of GDP — funded by an RBI OMO," Sengupta observed, adding that RBI could continue to intervene up to $30 billion to stabilise the rupee.

Lenders set to give retail and corporate customers three-month repayment breather

"THE REPAYMENT period will be extended by three months. For instance, if the repayment period for a loan was 120 months and 70 months remain, it will be extended to 73." BoB has roughly ₹5,000 crore worth of retail repayments due in the relevant three-month period.

The board of a lending institution can take a call on how to offer the moratorium - in one clean sweep to all borrowers or by picking and choosing. Siddhartha Mohanty, MD & CEO, LIC Housing Finance, said, "My understanding is that individual borrowers have to apply for the moratorium. If they say they have been impacted, accordingly the office will take a call. Since this is a direction, they will be allowed."

RBI said the moratorium will apply to all term loans, including agricultural loans, retail and crop loans, with installments falling due between March 1, 2020 and May 31, 2020.

The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period, the RBI said. Banks, non-banks, mortgage financiers, small finance banks and co-operative banks have been permitted to offer borrowers -- corporate and retail -- a moratorium on repayments.

An indirect salutary outcome of the three-month moratorium could be a short-term improvement in lenders' asset quality. "Till June, there will not be any fresh slippages. It will have a significant positive impact on asset quality," said a senior executive with a mid-sized public-sector bank, adding, "At this moment, a three-month relaxation on asset classification is sufficient, but as the situation develops the central bank may have to extend it further."

Corporate bonds get a big boost

EARLIER, YIELDS fell across instruments by anywhere between 150-280 basis points while the benchmark yield fell by 8 basis points to close at about two-week low of 6.14%.

Tata Motors hives off its PV business as a separate entity

"THE COMPANY'S board has in-principle approved to subsidiarise company's passenger vehicle (PV) business (including EV) by transferring relevant assets, IPs and employees directly relatable to the PV business for it to be fully functional on a standalone basis through a slump sale," Tata Motors (TML) said in a statement.

However, certain shared services and central functions will be retained at TML to deliver cost efficiencies for the entire group, the company added.

The proposed transfer shall be implemented through a scheme of arrangement, which will be tabled for board approval over the next few weeks, the company said. "We expect the transfer process to be completed in the next one year," it added.

Elaborating on the rationale for separating the passenger vehicle and commercial vehicle businesses, Tata Motors said, the PV business landscape is seeing rapid transformation in the form of tightening emission norms, push towards electrification, enhanced disruptions from autonomous and connected technologies. Additionally, India continues to remain an attractive market for global original equipment manufacturers (OEMs) while the aspiration levels of the Indian consumer continue to rise, requiring stepped up investments in contemporary products in a competitive market, it added. "A move towards subsidiarisation of the PV business is the first step in securing mutually beneficial strategic alliances that provide access to products, architectures, powertrains, new age technologies and capital," the company said.

Centre nets ₹11,500 cr by selling THDC & Neepco to NTPC

SO FAR in FY20, the disinvestment receipts stood at ₹46,500 crore or 71.5% of the FY20 RE. This is the third-year in a row, the Centre is garnering a significant amount of disinvestment revenues from CPSE-to-CPSE deals. It collected ₹16,334 crore form sale of three companies including REC to PFC in FY19 and ₹36,915 crore in FY18 from sale of the government's entire stake in oil retailer HPCL to oil explorer ONGC.

NTPC's purchase of the two state-owned power firms -- THDC and Neepco -- is in line with the government's plan of integrating CPSEs in the same business to create bigger entities, which would be able to raise cheaper funds from market, reducing their dependance on the government for equity.