

Strategy

Government package wrap-up

17 May 2020

Key Takeaway

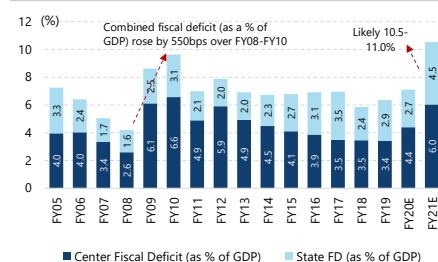
The net fiscal impact of the economic package is estimated at ~1% of GDP. The combined fiscal deficit is estimated at 10.5-11% of GDP for FY21. The key excitement will be how the current crisis enables structural positives, with the focus on ease of doing business, e-Governance, labour & power distribution reforms, and an increased focus on privatisation. With fiscal news now behind us, the market focus should return to earnings and economic indicators.

Structural reforms underway. Several ambitious reform moves have been announced, many of which require active state support. Key reforms announced include:

- **Agri marketing reforms.** Laws will be amended at the central government level (and at state level) to allow farmers to sell their produce anywhere they want, including in other states. Centre will remove agri products from the ambit of the Essential Commodities Act. This will allow stock limits to be applied only during emergencies or removed altogether for food processors.
- **States take the lead in labour reforms.** Several states, including UP, MP, and Gujarat, have recently undertaken significant labour reforms. These include suspension of key labour laws for a period of three years+, including collective bargaining rights, getting government approval for firing, and labour inspector visits at factories. There is heavy political opposition here.
- **Defence, mining, coal also seeing renewed push.** The govt will raise the automatic FDI limit in defence manufacturing to 74% from 49%. There is a push toward domestic manufacturing. In coal/mining, an end to the difference between captive and non-captive mines.
- **Privatisation.** A Public Sector Enterprises policy will identify strategic sectors in which 1-4 PSEs will be allowed to function. All sectors will be open to the private sector. In non-strategic sectors, companies will be privatised.
- **State incentives for reform.** While the centre has allowed 200bps additional borrowing for states in FY21, 150bps of this is linked to progress on key reforms, including electricity distribution reforms, ease of doing business, urban local body reforms, and allowing inter-state use of food subsidies.
- **Power sector distribution changes.** To counter electricity distribution's recurring losses, a power tariff policy is proposed. Reduction in cross-subsidies, shifting customers to smart meters, and introducing a DBT mechanism for power subsidy are proposed. All Union Territories (centre controlled) discoms will be privatised.

Expect 10.5-11% fiscal deficit. The most significant part of the economic package is a Rs3.0trn line for MSME credit, which should help delay NPLs by at least a year, and a Rs0.75Trn support to NBFCs via bond purchases and expansion of credit guarantees. Key fiscal expenditure items are MSME credit, NBFC bonds, additional MNREGS spending (Rs400bn), and rebate in TDS (est. Rs300bn). The former two will affect FY22 (i.e. when losses incur) and TDS rebate will unwind in FY22. We project a central fiscal deficit of 6% and state at 4-5%. We assume tax revs grow 3% for the centre (including petro) and decline 5% for states (ex GST). Central government is expected to compensate states fully for the GST shortfall.

Exhibit 1 - Combined fiscal deficit as % GDP



Source: MOSPI, Jefferies

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^Prior trading day closing price unless otherwise noted.

Exhibit 2 - Summary of government support measures

Announcement date	Focus area	Gross package value (Rs Trn)	Fiscal impact over FY21-22 (Rs Trn)
26th Mar and before	Cash transfers to poor	1.9	1.0
12th May	Small businesses	5.9	0.5
13th May	Farmers and migrant labor	3.1	0.2
14th May	Agriculture	1.5	0.2
15th-16th May	Rural labor	0.5	0.5
Total fiscal announcements		13.0	2.3
As % GDP		6.4	1.1
RBI - 20th Feb-Now	Liquidity measures	8.0	0.0
Total support		21.0	2.3
As % GDP		10.4	1.1

Source: Ministry of Finance, Jefferies

Exhibit 3 - Central government finances

Rs Trn	FY21E	Comment
Emergency COVID spending	(0.9)	Direct money transfers, medical spending etc.
Additional expenditure items announced in last one week	(1.4)	Credit guarantees, migrant and rural labor, agri sector
Tax shortfall for central government	(1.9)	Actual shortfall of Rs5.1Trn but buffered by auto fuel duties and tax dispute resolution scheme
Additional compensation to states due to GST shortfall	(1.0)	Over and above the GST cess transfers budgeted; Centre has guaranteed 14% growth
Telecom revenue shortfall	(0.5)	Shortfall built-in as Rs1.3Trn inflows likely build in 5G auctions and AGR proceeds which are unlikely
Disinvestment revenue shortfall	(0.5)	Unlikely to miss Rs2.1Trn target
Expenditure savings (explicit cuts)	0.3	Govt. pay freeze, elected representative funding cut
Expenditure savings (capex etc.)	0.6	Impact of lock-down on work progress
Savings from fuel subsidies	0.3	Lower spending on cooking fuels; Currently LPG subsidy is zero
Projected central govt fiscal shortfall	(5.0)	~250bps of GDP
Nominal GDP	203	Assume Flat nominal GDP YoY

Source: Ministry of Finance, Jefferies

Exhibit 4 - Central government tax collection estimates

Rs bn	FY20Gov	FY20E	FY21E	% YoY	Comment
Corporate tax	6,105	5,800	5,220	-10	Assume 10% lower corporate earnings
Income tax	5,595	4,500	4,500	-	Assumed same as nominal GDP growth of c.0%
GST	6,123	6,100	5,795	-5	Assume -5% vs. flat nominal GDP growth
Excise duties	2,480	2,500	2,375	-5	Volume linked growth
Customs duties	1,250	1,200	1,150	-4	Builds in ~10% benefit from INR depreciation
Other taxes	81	81	81	-	
Total	21,634	20,181	19,121	-5	Rs5.1Trn / 250bps miss (Rs3.5Trn centre share) against budgeted FY21 estimates, builds in 7% revenue miss in FY20
Additional revenue measures					
Higher auto fuel duties			1,600		This accrues to centre - Rs3/ltr higher till 5th May; Rs13-16/ltr higher from 6th May; ~10% YoY volume decline
Total FY21 tax collections			20,721	3	c.Rs3.5Trn miss on gross (Rs1.9Trn centre miss as fuel duties above not shared with states)

Source: Ministry of Finance, Jefferies

Expect fiscal impact of government package at c.1% of GDP in FY21

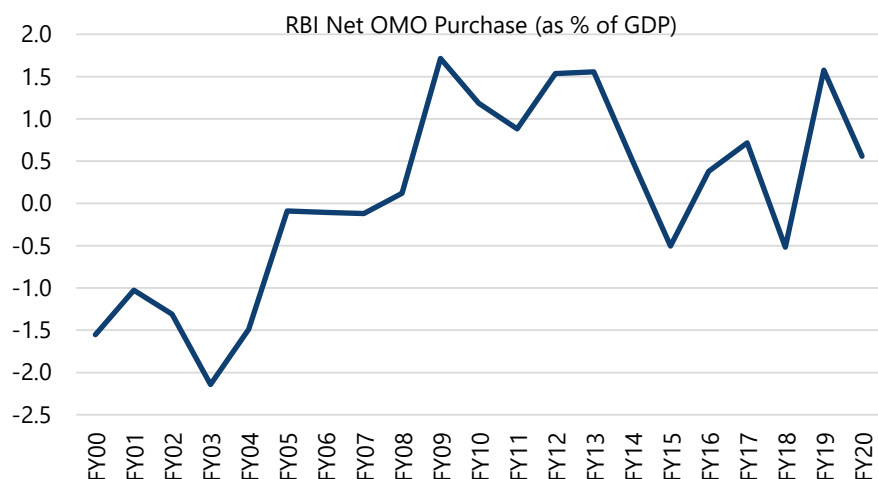
We expect the central fiscal deficit to be ~250bps higher than budgeted, of which borrowing of 200bps has already been notified to the markets

Exhibit 5 - State government finances

Rs Trn	FY21E	Comment
Lower share in centre taxes	(1.7)	State's share hit because of weak centre govt. tax collection
Lower own tax collections (ex GST)	(1.5)	Assume miss in same ratio as centre
Higher auto fuel duties	0.6	Rs3/ltr hike by states on average; Rs0.2bn additional from centre
Projected state govt. tax shortfall	(2.6)	~130bps of GDP

Source: Ministry of Finance, RBI, Jefferies

Exhibit 6 - RBI Net OMO Purchases (as % of GDP)



Source: RBI, MoSPI, Jefferies

RBI has purchased 150bps+ of G-Sec's earlier and same is likely again

Exhibit 7 - Labor reforms recently undertaken by states

State	Key recent labor reforms
MP	11 large sectors given below significant exemptions for next 1,000 days
	Need for govt. permission to 'lay-off' employees done away for new companies
	Existing cos. to see suspension of collective bargaining rights
	Contract worker staffing rules eased substantially
	Shift hour raised to 12 from 8; 72 hrs per month overtime allowed
	No inspection of firms with <50 people; Third party inspection allowed
UP	Shops and establishment can work 6am till midnight
	Most labour laws suspended for next 3 years
	Inspection by labour inspectors, minimum wage rule, dispute resolution in suspension
Gujarat	Easier hiring and firing of workers enabled
	New units to be exempt from most labor laws for 1200 days
Rajasthan	Land allocation to new units in 7 days
	All govt. approvals for new units in 15 days
Assam	Daily working hour limit raised to 12 from 8
	Approval limit for lay-offs raised to 300 workers from 100
	Threshold membership for union raised to 30% from 15%
Assam	Introducing fixed term employment
	Daily working hour limit raised to 12 from 8
	Doubling threshold of applicability of certain labour laws on occupational safety etc

Source: Media reports, Jefferies

Some bold steps taken, but there is political opposition

Exhibit 8 - Details of government package - Tranche I

Segment	Measure	Package value (Rs bn)	Fiscal impact FY21 (Rs bn)	Fiscal impact FY22 (Rs bn)
MSME	Collateral free automatic loan upto Rs3.0Trn; 20% of the outstanding to be given collateral free, 12mth moratorium, 100% credit guarantee on principal and interest. To be given till 31stOct'2020; To benefit 4.5m units; This is for standard loan MSME's. We assume 10% of NPLs here.	3,000	0	300
	Rs200bn subordinate debt provision for stressed/NPA loans of MSME's; 0.2m MSMEs to benefit; Govt will prove Rs40bn as contribution to Credit Guarantee trust, which will provide support to banks; Money to be infused as equity in MSMEs by promoters	200	40	0
	Rs500bn Fund-of-fund to be created to infuse equity in MSME's who are viable; Corpus of Rs100bn (mother-daughter fund framework). This will help MSMEs expand capacity and get listed	500	100	0
	MSME definition : Upto 10x increase in investment limits to classify for MSME related benefits	NA	NA	NA
	Global tenders to be disallowed in govt. procurement for tenders upto Rs2.0bn	NA	NA	NA
	Other steps : Facilitating participation in trade fairs, clearing out pending govt. dues etc.	NA	NA	NA
Pension fund (EPF)	Liquidity relief for all EPF establishment. The extension of support is extended for another 3 months (Mar-Aug); 0.36m establishment benefits from govt. paying dues; Rs25bn support to 7.22m employees additional now.	28	28	0
	PF contribution by pvt. Employers & employees will be reduced to 10% from 12% for next 3 months. Gives liquidity of Rs67.5bn.	68	0	0
NBFC, HFC, MFIs	Rs300bn special liquidity scheme with investment to be made in both primary and secondary market paper above investment grade; Fully guaranteed by Gol paper. We assume 10% of NPLs here.	300	0	30
	Rs450bn liquidity infusion via partial credit guarantee scheme (existing scheme, expanded scope). First 20% loss will be borne by Gol. Even unrated paper will be eligible for this. We assume 10% of NPLs here.	450	0	45
DISCOMs	Rs900bn liquidity infusion to happen in power discoms against receivables. This will be done by PFC and REC. States will have to give guarantees.	900	0	0
Contractors	All Gol entities such as NHAI etc. will give an extension of upto 6 months to all contractors to comply with conditions; It covers milestones, goods & services delivery, concessional periods etc.; Partial relaxation of bank guarantees pro-rata with work done.	NA	NA	NA
Real Estate	Urban development ministry will issue advisory to states so that RERA authorities treat COVID as force majeure and using that can suo motu extend completion dates by 6-9 months if project deadline after 25th Mar20	NA	NA	NA
Taxes	TDS/TCS rates are reduced by 25% for remainder of fiscal for all transactions; Assume less tax collected by govt in FY21, partly offset by advance taxes	500	300	(300)
	All the pending refunds of trusts etc will be given individually	NA	NA	NA
	Due date for returns for FY20 are extended from 31st July to 30th Nov	NA	NA	NA
	Date of assessments getting barred as on 30th Sep'20/31st Mar21 are extended to 31st Dec'20/30th Sep21	NA	NA	NA
	Direct tax resolution 'Vivaad se Vishwaas' scheme is extended till Dec'20	NA	NA	NA
Total		5,946	468	75
As % GDP		2.9	0.2	0.0

Source: Ministry of Finance, Jefferies

Exhibit 9 - Details of government package - Tranche II

Segment	Measure	Package value (Rs bn)	Fiscal impact FY21 (Rs bn)
Migrant labourers	The non-ration card (PDS) holder migrant labourers will be given 5Kg wheat/rice and 1Kg Pulses; There are about 80m migrants who will get this free-supply in next 2 months	35	35
	1-nation, 1-ration card will be implemented. 670m beneficiaries (83% of PDS population) to be covered by August'20; By Mar'21 this should hit 100%	NA	NA
	PM Aawas Yojana - Rental housing for urban poor to be launched soon; Incentivize industrial units etc. to built rental housing complex; Lot of govt. funded housing which is vacant to be made available; Concessionaire agreements will be made; Detailed guidelines will be awaited	NA	NA
Micro-loans	For 'shishu' loans (upto Rs50k, Rs1.62Trn outstanding, 30m+ beneficiaries) under Mudra scheme - an interest subvention support of 2% will be provided for next 12 months	15	15
Street vendors	Special credit facility of Rs50bn to be launched in a month; 5m street vendors to benefit with c.Rs10k working capital	50	-
Housing	The lowest strata of mid-income group (Rs0.6-1.8m income) has a CLSS scheme is extended to Mar'21 from Mar'20; expect another 0.25m families to join this; We assume max. subvention cost of Rs235k/beneficiary	700	59
CAMPA fund	Rs60bn more of CAMPA funds will be allowed to be used for re-forestation efforts	NA	NA
Farmers	Rs300bn emergency working capital fund is being provided through NABARD; Refinancing of Rs900bn is being scaled to Rs1.2Trn and amount to be additionally released for post winter harvest activity support for small farmers; ; Assume ~3% subvention cost	300	9
	Kisaan credit card - 25m new farmers, animal husbandary & fishery workers will be added to the scheme and Rs2.0Trn additional credit will be given to them; Assume ~3% subvention cost	2,000	60
Total		3,100	178
As % GDP		1.6	0.1

Source: Ministry of Finance, Jefferies

Exhibit 10 - Details of government package - Tranche III

Segment	Measure	Package value (Rs bn)	Fiscal impact FY21 (Rs bn)
Agricultural	Rs1.0Trn fund to be created for aggregators, FPOs, farmer societies etc which will be utilized to strengthen farm gate infrastructure such as cold-chain, post harvest storage etc.; Assume centre contributes 10% equity	1,000	100
	Rs100bn fund will be provided to entrepreneurs to create local clusters and should help 0.2m micro-food-enterprises; Assume centre contributes 10% equity	100	10
	Rs110bn money for fisheries and Rs90bn for fishery infra will be provided; ; Assume centre contributes 10% equity	200	20
	Rs150bn animal husbandry infrastructure development fund to be established; Assume centre contributes 10% equity	150	15
	Rs40bn allocation for cultivation of medicinal plants to increase area to 1.0mHa; Assume 50% incremental spend over budgeted	40	20
	Rs5bn support to bee cultivation; Assume 50% incremental spend over budgeted	5	3
Governance reforms	Rs5bn provision in expanding pilot for storing veggies beyond the TOP crops; 50% subsidy in transportation and 50% in cold storage will be given; Assume 50% incremental spend over budgeted	5	3
	Essential commodities act (1955) : To be amended to take out cereals, pulses, oils, oil-seeds, onions and potato from the act. Stock limits will be imposed only in case of emergencies; No stock limits will be applied to processors and value-chain participants subject to processing capability	NA	NA
	Agricultural marketing reforms : A new central law will be made which will allow farmers to sell their produce to whomsoever they want and wherever they want	NA	NA
	Agri pricing reforms : Assured return / pricing framework will be brought	NA	NA
Total		1,500	170
As % GDP		0.8	0.1

Source: Ministry of Finance, Jefferies

Exhibit 11 - Details of government package - Tranche IV

Segment	Measure	Package value (Rs bn)	Fiscal impact FY21 (Rs bn)
Coal	Commercial mining of coal opened to all on revenue sharing basis; 50 mines to be auctioned soon; Rs500bn to be spent for evacuation infra	NA	NA
Minerals	500 blocks to be auctioned and Aluminium and Coal blocks will be simultaneously auctioned	NA	NA
	Difference between captive and non-captive mines to be removed	NA	NA
	Rationalization of stamp duty to be paid at time of auction to be done	NA	NA
Defense production	FDI limit to be raised from 49% to 74%, with security clearance being there	NA	NA
	Notify a list of weapons for ban on import with year wise timelines; Indigenisation of imported spares	NA	NA
Civil aviation	More space will be opened for flying by civil aviation to cut down flying time	NA	NA
	6 more airports will be put up for auctions on PPP basis	NA	NA
	Convergence in defense and civil MRO to be brought in	NA	NA
Power	Electricity tariff policy to be released with DBT for subsidy, cross subsidy reduction etc.	NA	NA
	All power distribution cos in UTs will be privatised	NA	NA
Social infrastructure	Rs81bn to be spent by Govt as Viability Gap Funding (20% cap, raised to 30%) for social infra projects	81	81
Space	Private sectors to be allowed to use govt. i.e. ISRO ports	NA	NA
Atomic	A research reactor to be made in PPP mode for medical isotopes	NA	NA
	Establishing facilities in PPP mode to use irradiation for food preservation	NA	NA
Total		81	81
As % GDP		0.0	0.0

Source: Ministry of Finance, Jefferies

Exhibit 12 - Details of government package - Tranche V

Segment	Measure	Package value (Rs bn)	Fiscal impact FY21 (Rs bn)
Rural employment	Additional Rs400bn allocated to MNREGA so that returning migrants find work; FY21BE was Rs615bn	400	400
Health	Infectious disease hospital at district and path labs at block levels will be established	NA	NA
Education	Technology driven education program is being accelerated	NA	NA
Bankruptcy code	Fresh insolvency will not be initiated for 1 year	NA	NA
	COVID related debt to be excluded from default for insolvency purposes	NA	NA
	Special resolution framework for MSMEs to be adopted; Threshold raised to Rs10m from Rs0.1m for Insolvency proceedings to be started for MSMEs	NA	NA
Companies Act	Decriminalisation of Companies act violation and compounding of offenses allowed	NA	NA
Public sector cos	Public sector enterprise (PSE) policy to be brought in; Pvt. Sector can participate in all sectors but PSEs will be there in strategic sectors where between 1-4 PSEs will remain operational; All other PSEs will be merged or privatised over time	NA	NA
State govt	Borrowing limits raised from 3% of GDP to 5% i.e. By Rs4.3Trn; linked to reforms	NA	NA
	50bps increase (3.5%) will be unconditional; Every additional 25bps will be linked to specific reforms viz. One nation-one ration card; ease of doing business; power discom reforms; Urban local body reforms	NA	NA
	Last 50bps will be released if achievement happens in atleast 3 of 4 reforms above	NA	NA
Total		400	400
As % GDP		0.2	0.2

Source: Ministry of Finance, Jefferies

We would like to thank Amol Bhoir, employee of Evalueserve Inc. for providing research support services.

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