

RBI Policy - Proactively Boosting Liquidity

RBI announced a slew of measures more targeted for cash starved NBFCs/MFIs/other lending institutions to give them sufficient liquidity. Also, lending institutions will be allowed similar asset classification benefit like banks i.e. 90 day asset classification will exclude the moratorium period. Also, DCCO extended further by 1 yr for commercial real estate projects granted by NBFCs. However, banks will have to maintain additional 10% provisioning on these standstill accounts over the next 2 quarters, which can be drag on the profitability of the banks. On the whole, measures are positive for NBFCs, banks and lending institutions.

Below are the measures announced by RBI today

TLTRO for NBFCs amounting to Rs500 bn - In order to boost liquidity for cash starved NBFCs and other financial institutions, RBI to conduct targeted long term repo operations (TLTRO 2.0) amounting to Rs500 bn. The funds availed by banks under TLTRO 2.0 should be invested in investment grade bonds, CPs, and NCD of NBFCs, of this, minimum 50% of the total amount should be available for small and mid-sized NBFCs and MFIs. There is possibility of similar liquidity infusion in future as well. This is sizeably positive for small NBFCs/MFIs that would have faced constraints in raising money from the markets

Refinancing facilities for all All India Financial Institutions (AIFIs) - RBI has made available special refinancing window amounting to Rs500 bn to these AIFIs as these are facing difficulties in raising resources from the market. This will comprise Rs250 bn to NABARD for refinancing RRBs, cooperative banks and micro finance institutions (MFIs); Rs150 bn to SIDBI and Rs100 bn to NHB for supporting HFCs.

Reverse repo rate reduced further by 25 bps to 3.75% - In order to encourage banks to lend in productive sectors of the economy, RBI has reduced down further reverse repo rate further by 25 bps from 4% to 3.75% while keeping all other rates like repo rate (4.4%), marginal standing facility rate and bank rate unchanged (4.65% each)

Asset classification benefit for lending institutions - RBI had earlier permitted lending institutions (LIs) to grant a moratorium of three months on payment of current dues falling between March 1 and May 31, 2020. Now, RBI has given further asset classification benefit i.e. 90 day asset classification will exclude the moratorium period. This is also a big positive for lending institutions. On the other hand, the banks will have to maintain additional 10% provisioning on these standstill accounts over the next 2 quarters. While these provisions can be later adjusted against provisioning requirements for actual slippages.

Extension of resolution timeline - Under RBI's framework, in the case of large accounts under default, Scheduled Commercial Banks, AIFIs, NBFC-ND-SIs and NBFC-D are currently required to hold an additional provision of 20% if a resolution plan has not been implemented within 210 days. Recognizing the current challenges, resolution timeline has been extended further by 90 days.

Banks shall not pay dividends from the profits for the period FY20 - SCBs and cooperative banks shall not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020. This restriction shall be reviewed again post Q2FY21 results of the banks.

Reduction of LCR for SCBs - Liquidity Coverage Ratio (LCR) requirement for Scheduled Commercial Banks is being brought down from 100% to 80% with immediate effect. The requirement shall be gradually restored back in two phases – 90% by October 1, 2020 and 100% by April 1, 2021.

DCCO extended further by 1 yr for commercial real estate projects granted by NBFCs - Currently, this benefit was available for banks only which now has been given to NBFCs as well. This will provide relief to NBFCs as well as the real estate sector.

DISCLAIMERS AND DISCLOSURES

LKP Sec.Ltd. (CIN-L67120MH1994PLC080039, www.Lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP 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.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be 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 including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.