



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Market wrap

April 17, 2020

RBI's stimulus boosts market sentiments; Banking and NBFCs stocks rally..

Indian equities witnessed a strong rally on Friday after the Reserve Bank of India (RBI) Governor Shaktikanta Das announced a slew of measures to support the economy in the wake of Covid-19 outbreak.

The S&P BSE Sensex rallied by 986 points or 3.22 per cent to end at 31,588.72, with Axis Bank (up nearly 13.5 per cent) being the top gainer. ICICI Bank (up 10 per cent), IndusInd Bank (up 9 per cent), and Maruti (up 7 per cent) were next on the list. The Nifty gained 274 points or 3.05 per cent to end at 9,266.75.

Volatility index, India VIX, continued to decline by 7.71 per cent to 42.54 levels.

Nifty Bank witnessed a whopping jump of 1,343 points or around 7 per cent to 20,743 levels, with all the 12 constituents ending in the green. Nifty Auto advanced around 5.5 per cent to 5,688.60 levels.

On the other hand, Nifty FMCG slipped 1 per cent to 29,201 while Nifty Pharma slipped nearly half a per cent to 9,159 levels.

In the broader market, the S&P BSE MidCap index gained over 2 per cent to 11,824 and the S&P BSE SmallCap index ended at 10,801, up around 2.5 per cent.

Key highlights from RBI press meet to fight COVID-19 crisis on April 17, 2020

- 1) The pre-monsoon kharif sowing has been aggressive and IMD has forecast a normal southwest monsoon on April 15. These are early developments and bode well for rural demand.
- 2) Macro landscape has deteriorated in some areas, but the light shines through in others. The macroeconomic financial landscape has deteriorated precipitously in some areas since our last address. India is amongst the handful of countries to have positive GDP growth.
- 3) India is estimated to have the highest growth among G20 countries, as per IMF.
- 4) India is projected to cling on to growth at 1.9 percent and is likely to post a sharp turnaround in FY22 with 7.4 percent growth, as per IMF.
- 5) Forex reserve of India stood at US\$ 476 billion as on 10th April, 2020.
- 6) Banks and financial institutions have risen to the occasion and ensured services are continuing.
- 7) In the current COVID -19 crisis, the Payment infrastructure is running efficiently/seamlessly, there is no downtime on internet banking etc.
- 8) Fresh Currency of 1.4 Lakh crores has been issued to Banks from Mar to April 12 so that no ATM go Dry
- 9) RBI undertook 3 LTROs and one more will be done today of Rs. 25,000 crores
- 10) The RBI Governor said that RBI is monitoring the situation very closely and has been and will continue to make changes as and when required.
- 11) This was the Governor's second press conference after he earlier unleashed a number of reinforcements for the economy on March 27 where he announced a 75 basis point cut in repo rate and announced LTRO 1.0

Key steps taken to come out of COVID-19 crisis

A) To provide adequate liquidity in system

- 1) RBI will undertake TLTRO 2.0, for an Rs. 50,000 crores (to begin with). At least 50 percent of the amount invested must go to mid and small sized non-banking finance companies (NBFCs) and micro-finance institutions (MFIs). The investments must be made within one month of the RBI auction.
- 2) The RBI Governor said that the funds availed by banks under TLTRO 2.0 should be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFC.
- 3) The second round of TLTRO investments may be classified as Held To Maturity (HTM).
- 4) Refinancing of NABARD, SIDBI and NHB to the tune of Rs. 50,000 crores (NABARD – Rs.25,000 crores, SIDBI – Rs. 15,000 crores and balance Rs. 10,000 crores) to enable them to meet sectoral credit needs - additional requirement if any by them may be met by RBI. The advances will be charged at repo rate.
- 5) The RBI cut the reverse repo rate by 25 bps to 3.75 percent from 4 percent with immediate effect under the liquidity adjustment facility (LAF) as Banks were sitting on higher liquidity. The policy repo rate, marginal standing facility rate and bank rate remain unchanged.
- 6) The WMA limit has been increased for states by 60% to plan their market borrowing program better over period of time. This will be available till September 30, 2020.

B) To facilitate bank credit and changes in other regulatory measures to reduce financial stress

- 1) NPA criteria relaxed - Asset classification - 90 day classification will exclude the moratorium period. The bank will have to maintain additional 10% provisions on these standstill accounts over next 2 quarters these provisions can later be adjusted against the provision requirement for slippage requirement.
- 2) Extension of resolution timeline- in case of large accounts under default an additional provision of 20% required if not completed in 210 days, recognition the challenges further 90 days has been added for resolution.
- 3) LCR (liquidity coverage ratio) requirement of scheduled commercial banks was brought down from 100 percent to 80 percent with immediate effect. This shall be restored to 90 percent by October 2020 and 100 percent by April 2021.
- 4) NBFC loans to Commercial Real Estate projects extend 1 year moratorium without change in classification - this will benefit both NBFC and real estate segment. Banks will be allowed to do the reschedule the loans accordingly.
- 5) For NPA Classification Period of 01-03-2020 to 31-05-2020 will be excluded.
- 6) Insolvency Resolution which have not been resolved then on all such loan of NPA-20% Additional Provision has to be created
- 7) Distribution of Dividend - NBFC and Banks cannot announce any further dividend for 31-03-2020 till further order.

RBI Governor Shaktikanta Das said the regulatory measures announced so far are dovetailed into the objective of preserving financial stability in light of the coronavirus pandemic.

In his concluding remarks, the RBI Governor said that **"The RBI will continue to take more measures as needed." "Eventually, we shall cure; and we shall endure"**.

Crude oil

Crude Oil prices rose on Friday with Brent gaining nearly 3 per cent after President Donald Trump laid out guidelines on reviving a US economy rattled by COVID-19 that has forced the economy to come at a grinding halt. Brent was up by 75 cents, or 2.7 per cent, at \$28.57 a barrel by 0058 GMT, while US crude for May delivery, which expires on April 21, was up 1 cent, or 0.1 per cent, at \$19.88 a barrel. The more active June contract was up \$1.1, or 4.3 per cent, at \$26.63.

Indian rupee

The Indian rupee appreciated by 43 paise to 76.44 against the US dollar on Friday owing to Reserve Bank of India's fresh stimulus announcement to fight the COVID-19 crisis. At the interbank foreign exchange the rupee opened at 76.59, and then touched a high of 76.42 against the US dollar, before being quoted at 76.44, registering a rise of 43 paise over its previous close.

Sectors and stocks

Shares of real estate companies rallied up to 20 per cent on intraday basis on the BSE after the Reserve Bank of India (RBI) announced various liquidity measures for banks and non-banking finance companies (NBFCs). In terms of the extant guidelines for banks, the date for commencement for commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters can be extended by an additional one year, over and above the one-year extension permitted in normal course, without treating the same as restructuring. The RBI said that loans given by NBFCs to real estate companies will also get similar benefit as given by scheduled commercial banks. "It has now been decided to extend a similar treatment to loans given by NBFCs to commercial real estate. This will provide relief to NBFCs as well as the real estate sector," RBI Governor Shaktikanta Das said in a statement, April 17, 2020.

The stock of Graphite India was locked in 5 percent upper circuit after the company resumed partial operations at Satpur plant. The company on April 16 told the BSE that it had started partial manufacturing at its graphite electrode plant in Satpur, Nashik, Maharashtra.

Global markets

Asian equities rallied on Friday as President Donald Trump's plans to gradually re-open the US economy offset data that showed China suffered its worst economic contraction on record due to the coronavirus outbreak.

Japan's Nikkei stock index rose 2.55 per cent on Friday, while shares in South Korea gained 3.27 per cent.

Yields on benchmark 10-year US Treasuries rose slightly from a two-week low in Asia, while Treasury futures fell in another tentative sign of investor optimism.

MSCI's broadest index of Asia-Pacific shares outside Japan was up 2.6 per cent after reaching a five-week high. Shares in China rose 1.8 per cent as the weak GDP data reinforced expectations that more stimulus is coming, while equities in Australia were up 2.62 per cent. E-Mini futures for the S&P 500 index traded 3.38 per cent higher, also close to a five-week high.



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