

India Economics

# The COVID-19 files ✳

## End of COVID-19 stimulus in India?

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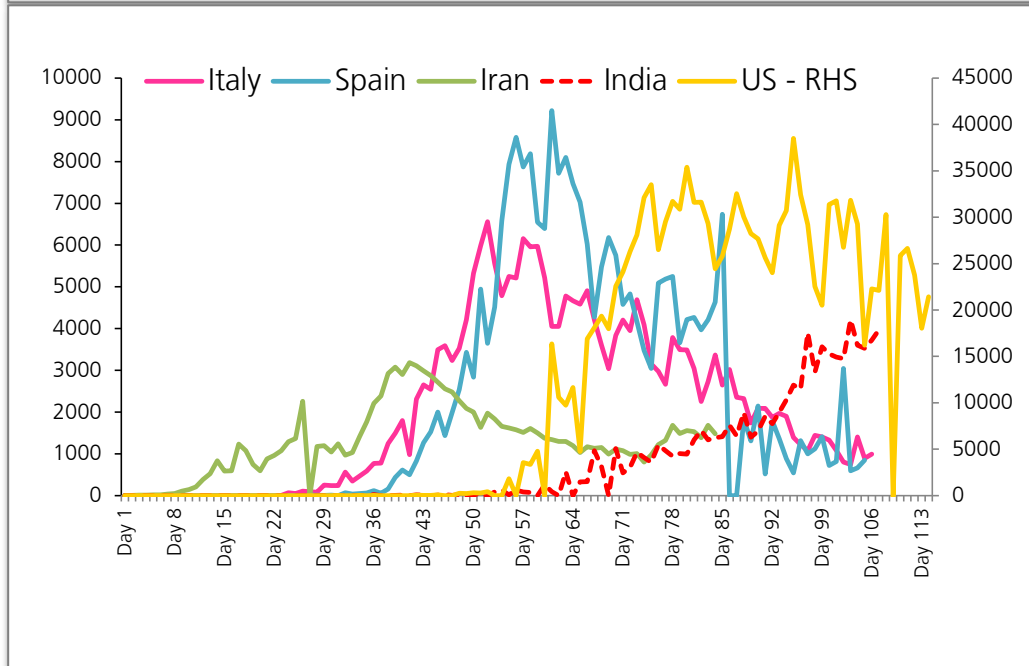
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# India vs. Rest of World Cases in the worst hit nations have peaked

Daily cases trajectory has peaked in China, Spain, Italy and Iran...



Source WHO as on 15May'20 JM Financial, Note, Cases in China peaked in early Feb 2020 (Day 15-Day 25, we have not plotted as it stands as an outlier);

...but growth in India higher than even the US in the last one week

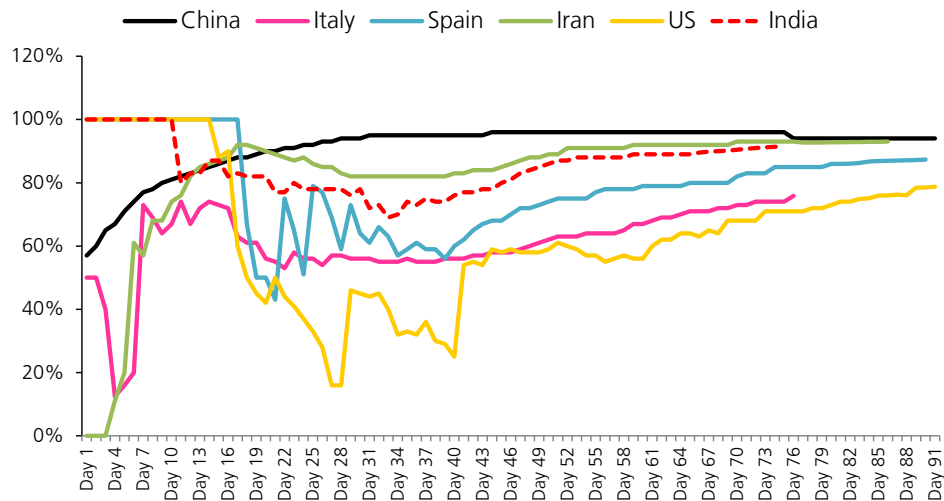
	Until Lockdown	3 days after the lockdown	2 weeks after the lockdown	Since lockdown	Past one week
China*	44%	34%	29%	8%	0.0%
Italy	24%	19%	16%	5%	0.5%
France	16%	19%	15%	6%	0.3%
Spain	22%	30%	21%	7%	0.5%
Iran	47%	14%	8%	4%	1.5%
India	25%	9%	17%	10%	5.5%
US					1.6%

As on 15th May; \* Hubei lockdown

Source: WHO, JM Financial; As on 15May'20

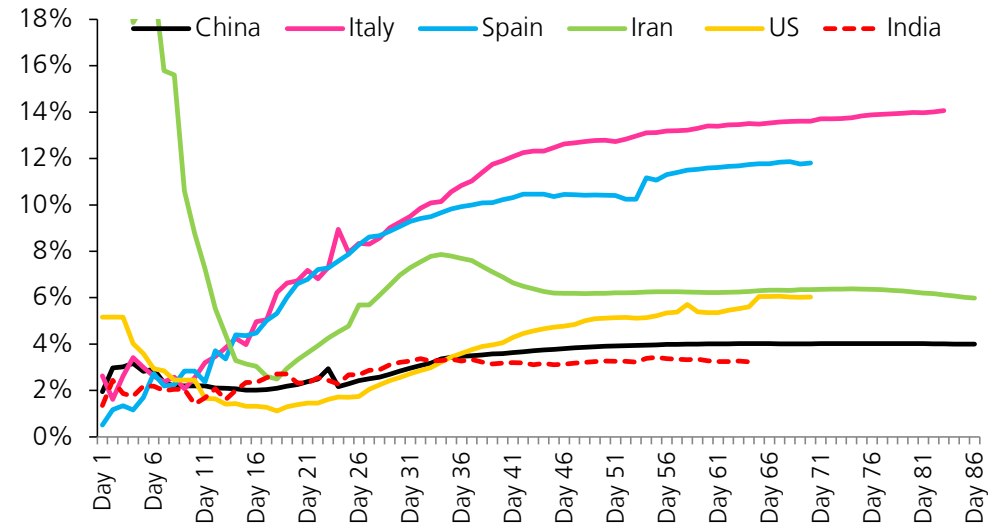
# India vs. Rest of World Yet, India's death/recovery rate better...

**Daily recoveries-to-positives ratio for India better than most peers...**



Source Worldometer, As on 15May'20, JM Financial. Data unavailable for Italy after 6May'20

**...India's deaths-to-positives ratio low and flat**



Source: WHO, JM Financial; As on 15May'20

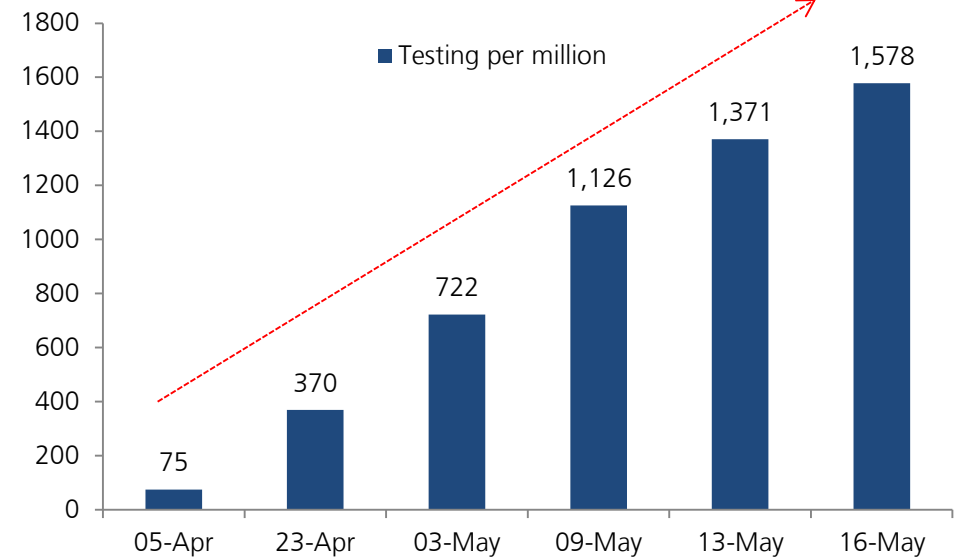
# India vs. Rest of World      Ratios per tests for India also better...

**Positives per test and deaths per test for India lowest amongst key nations....**

	Positives per tests	Deaths per tests	As on
France	16%	3%	03-May
Iran	18%	1%	11-May
Spain	9%	1%	07-May
US	13%	1%	15-May
Italy	8%	1%	14-May
India	4%	0%	16-May

Source Official Health ministry, Bloomberg, JM Financial

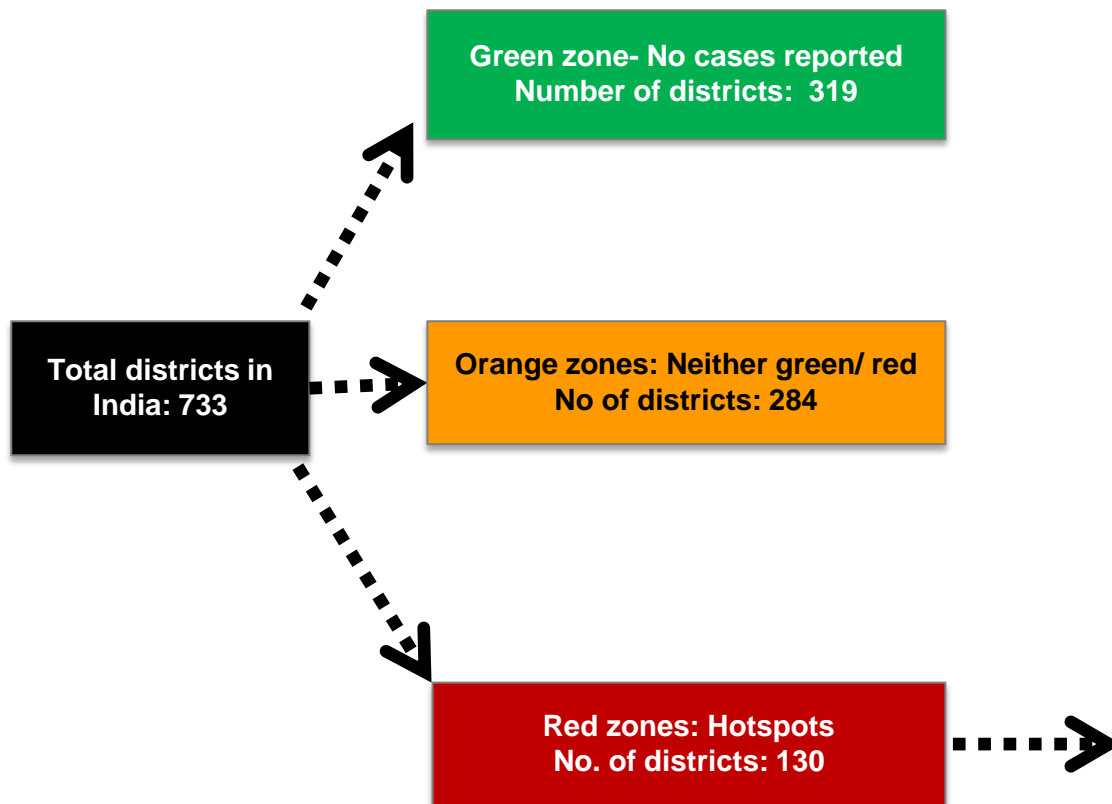
**...India is ramping up its testing**



Source: Ministry of Health and Family Welfare, JM Financial

## India: District wise

Domestically, hotspots account for 76% of cases; 45% of GDP



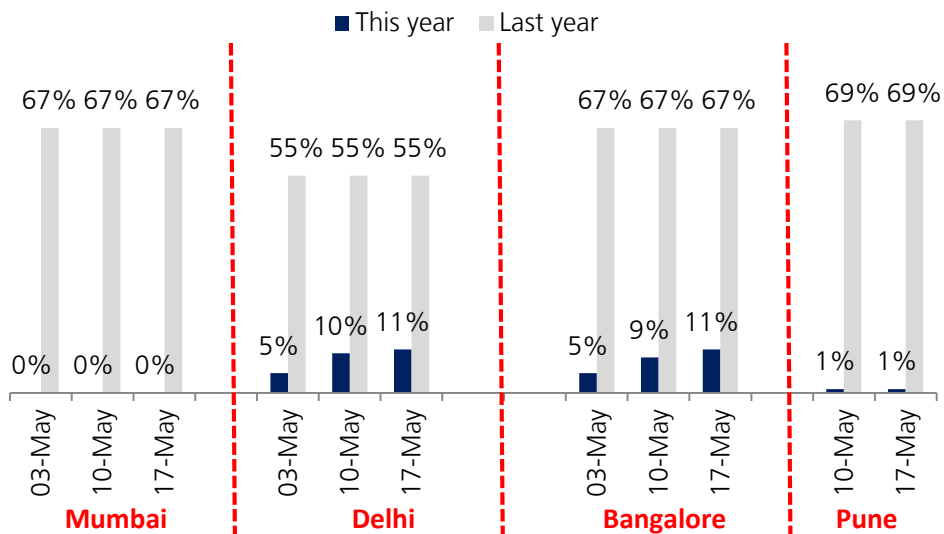
### Top 20 hotspots districts constitute 70% of total cases

District	State	% Total Cases	CAGR since 12-May
Mumbai	Maharashtra	20%	6%
Delhi	Delhi	10%	4%
Ahmedabad	Gujarat	9%	6%
Chennai	Tamil Nadu	7%	6%
Thane	Maharashtra	4%	8%
Pune	Maharashtra	4%	6%
Indore	Madhya Pradesh	3%	4%
Jaipur	Rajasthan	2%	4%
Kolkata	West Bengal	1%	5%
Surat	Gujarat	1%	3%
Jodhpur	Rajasthan	1%	2%
Bhopal	Madhya Pradesh	1%	4%
Hyderabad	Telangana	1%	4%
Aurangabad	Maharashtra	1%	8%
Nashik	Maharashtra	1%	3%
Agra	Uttar Pradesh	1%	0%
Vadodara	Gujarat	1%	3%
Kurnool	Andhra Pradesh	1%	1%
Howrah	West Bengal	1%	4%
Thiruvallur	Tamil Nadu	1%	3%

Source Ministry of Health and Family Welfare; Using hotspot list as on 30Apr'20; Covid19India.org- As on 17-May-2020, JM Financial

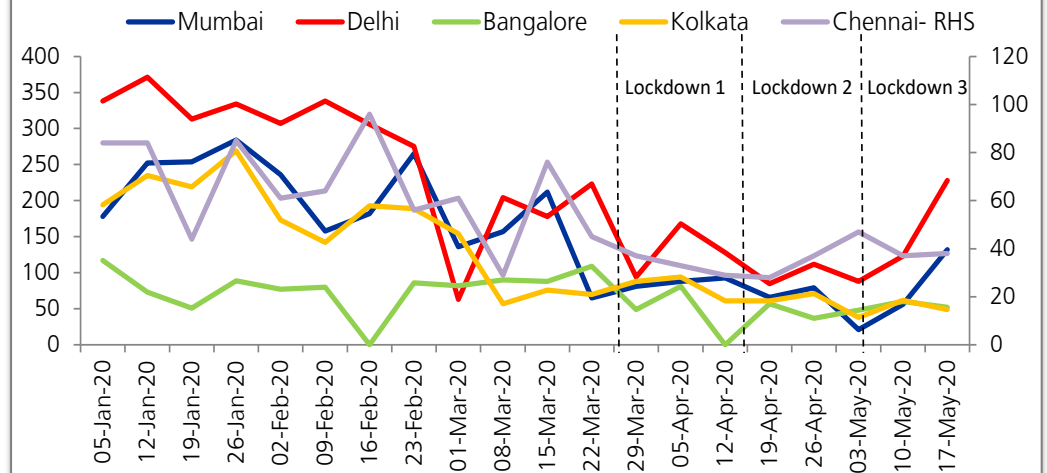
# Some pick-up in economic activity with...

...slight pick-up in congestion levels in Delhi and Bangalore at peak hours vs. last year



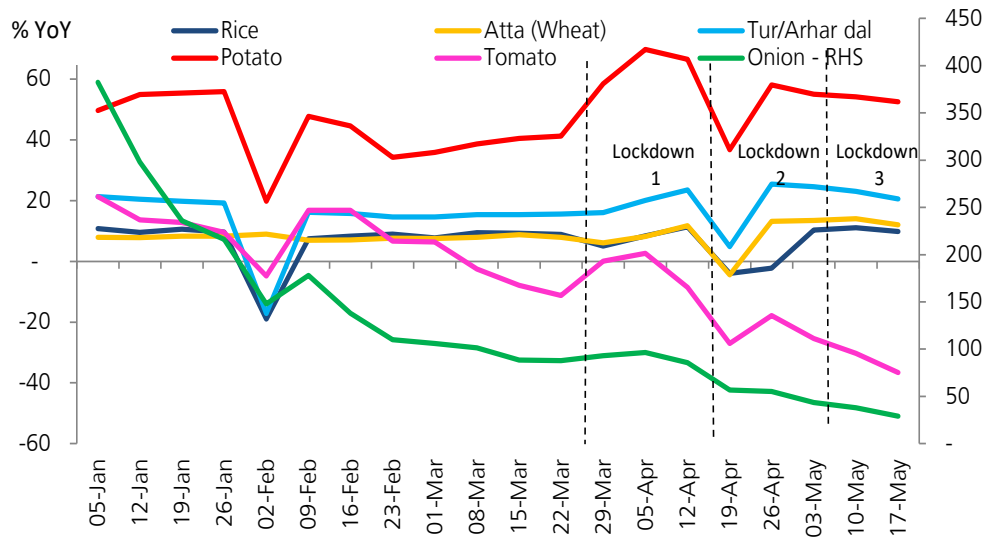
Source TomTom Index,- Taken for peak hours at 7pm; JM Financial

...and uptick in pollution levels since lockdown 3.0



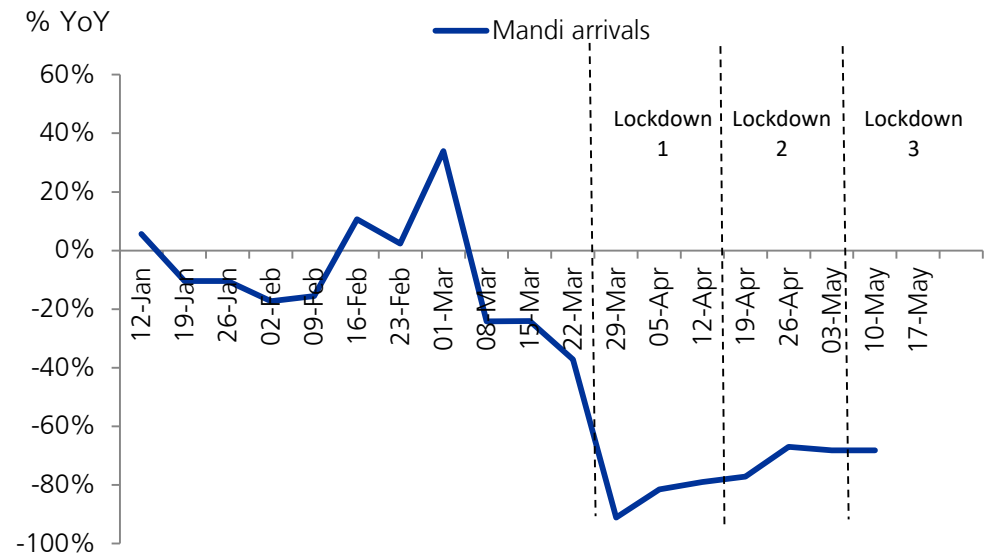
Source: CMIE, JM Financial; \*Pollution index on 500 at 7pm for Mumbai, Delhi, Bangalore, Kolkata and Chennai in these regions- Sion, Mundkar, Alandur Bus depot, Heebal and Fort William respectively

The lockdown has slowed the pace of fall in food prices



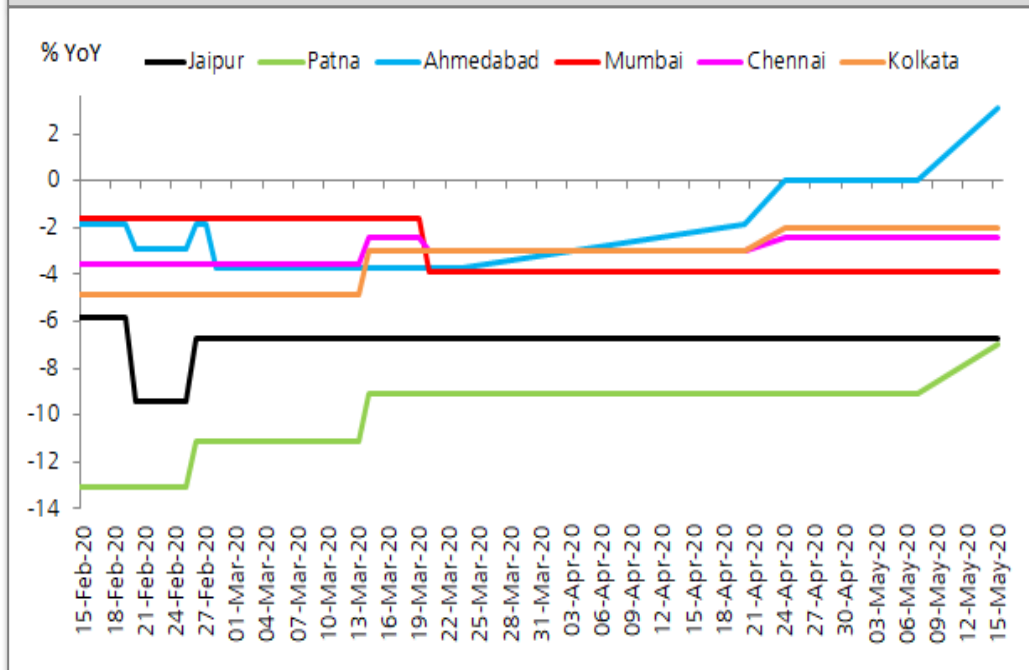
Source CMIE, JM Financial

...and mandi arrivals de-growth slowing



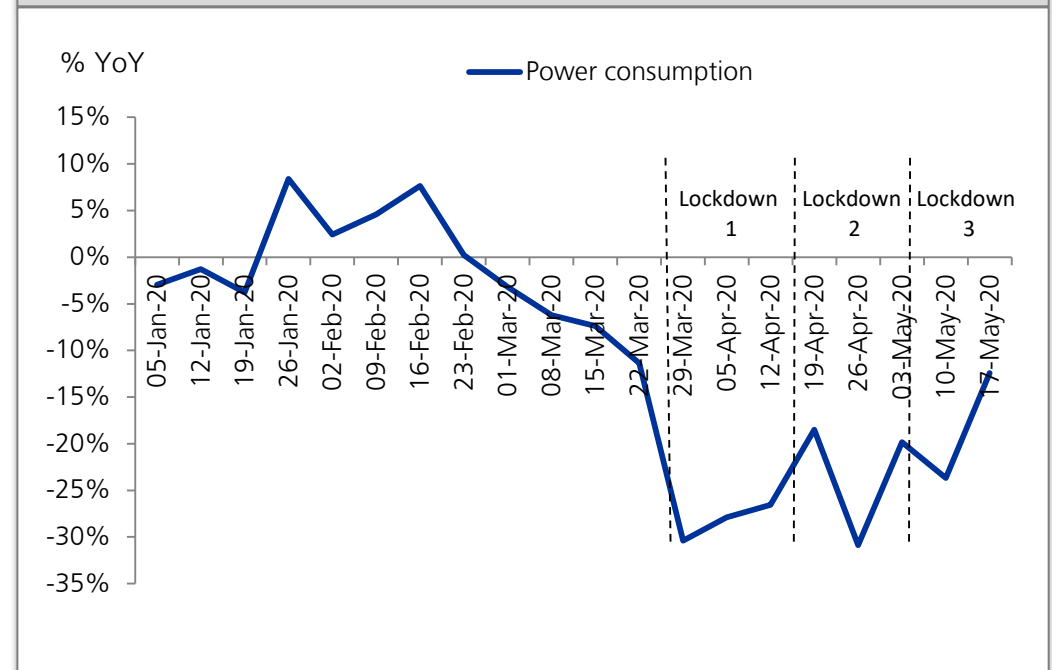
Source: Argmarket, JM Financial

Truck freight rentals seeing lower de-growth since lockdown with some pick-up recently



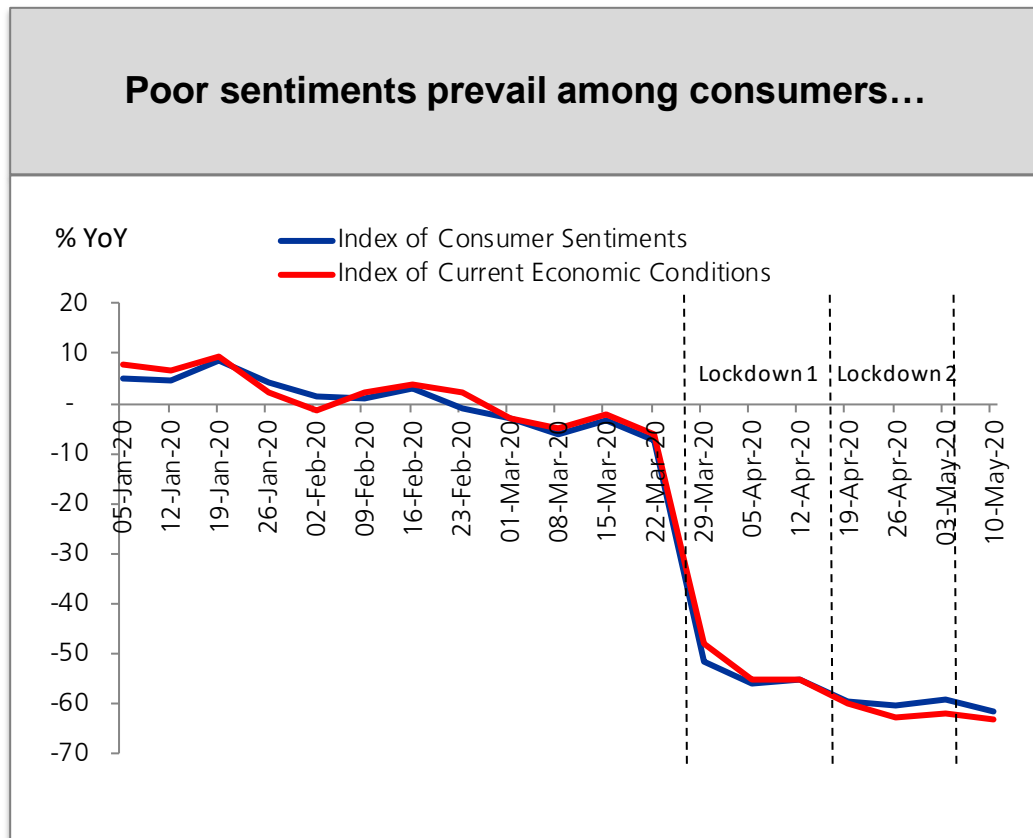
Source CMIE, JM Financial; Routes from Delhi to respective cities

Uptick in power consumption growth, though still in negative territory

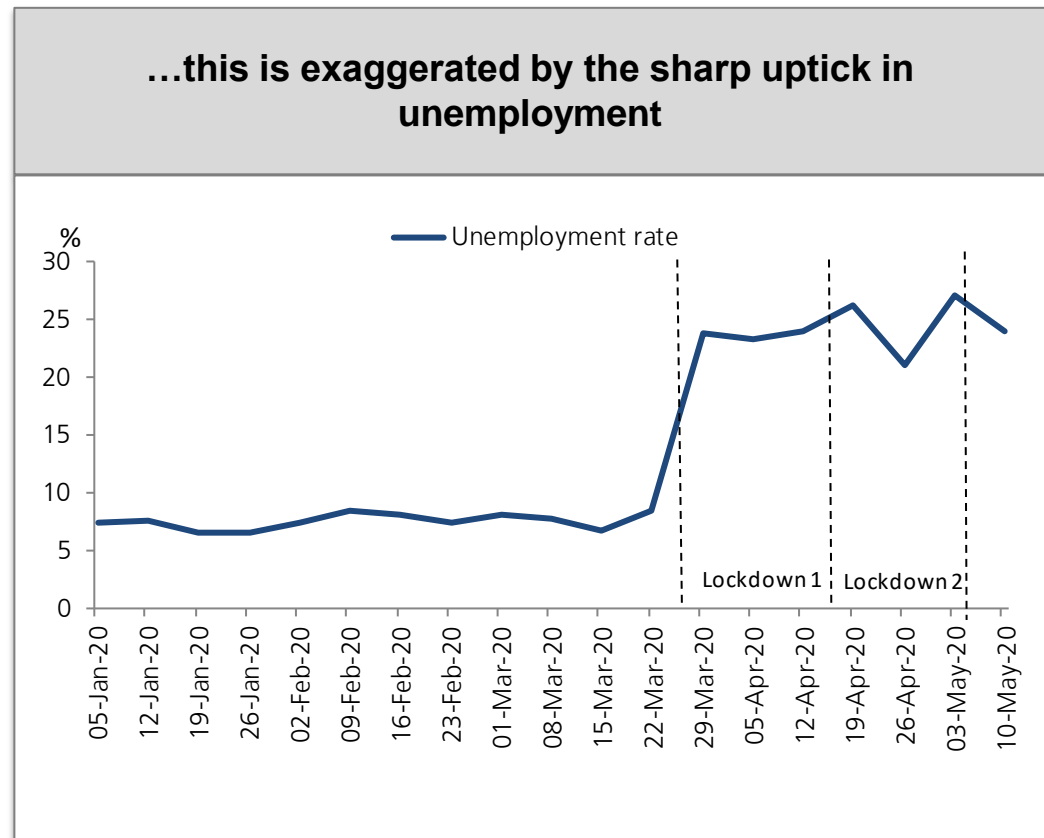


Source Posoco, JM Financial





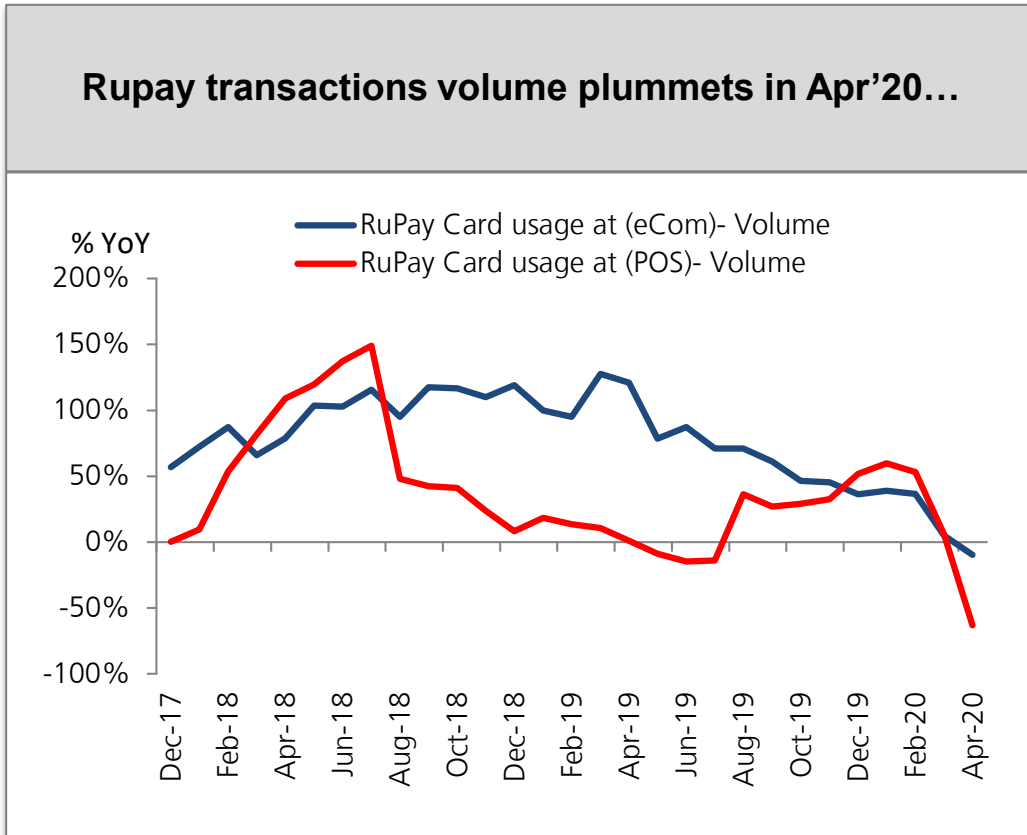
Source CMIE, JM Financial



Source: CMIE, JM Financial

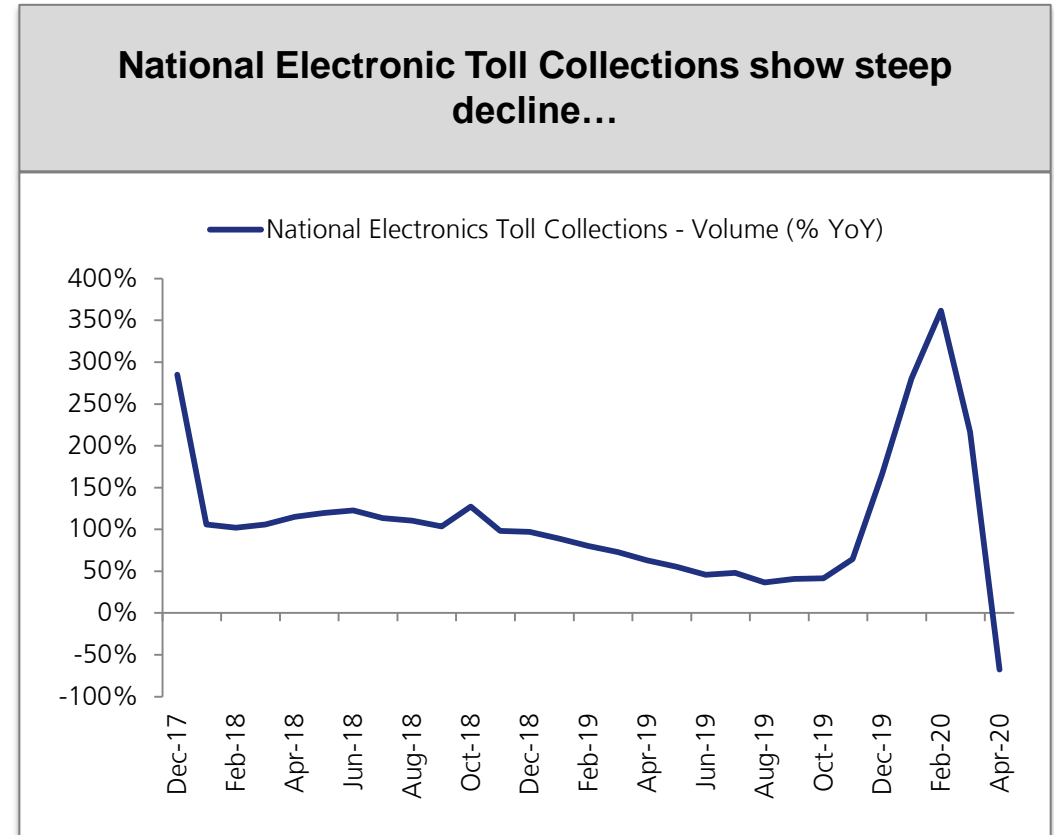
# Volume in digital payments, toll collections fall...

**Rupay transactions volume plummets in Apr'20...**



Source NSCI, JM Financial; Monthly data

**National Electronic Toll Collections show steep decline...**



Source: NSCI, JM Financial; monthly data

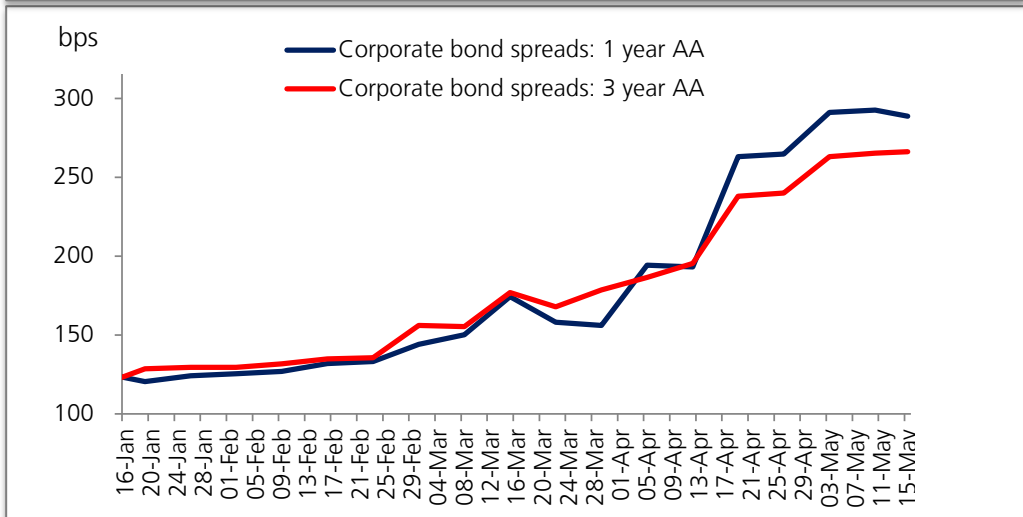
## Auto: Manufacturing commences in select plants

Company	Status	Status change vs. last week
<b>Passenger Vehicles</b>		
Maruti	Production at Manesar restarted (single shift basis) from 12May'20. <u>Gurugram to start next week</u> , Gujarat restart is uncertain due to high covid cases in the region.	
Hyundai	Production has resumed this week (200 vehicles manufactured on 1st day). Company targets to reach 30-40% utilisation.	Production commenced
Tata Motors	Production started at Pantnagar and Sanand plants. Lucknow, Dharwad, Jamshedpur and Pune plants are in final stages of pre-operational preparation and will start shortly.	Production commenced at select plants
M&M	Plants are ready for operations. However, finished goods roll out will be post 15May'20.	
Kia	Plant at Anantapur district has resumed operations on single shift basis. Producing 240 cars per day with 1,000 employees.	Production commenced
Toyota	Started preparatory operations at plant since 05May'20. Planning to resume operations in phased manner.	
<b>Two-wheelers</b>		
Hero	Commenced production in a graded manner at three plants (Gurugram, Dharuhera and Haridwar) from 04May'20. The three plants together have 7mn capacity (at 2 shifts) - currently working with 1 shift with social distancing. Halol plant is in red zone and will take time to resume. Global Parts Center at Neemrana also commenced operation. Centre of Innovation and Technology received approval and will resume functioning soon.	NA
Bajaj	Waluj plant is operational in single shift with 25-30% utilisation catering to export order. The company has received approval for Patnagar plant and deciding on the resumption. Chakan plant is in red zone and awaiting approval.	NA
Eicher	Operations started at Oragadam (0.6mn unit capacity in 2 shifts) from 06May'20 and utilisation remains limited (started with 10% utilisation). Vallam Vadagal (0.6mn unit capacity) to start in phased manner based on experience from Oragadam plant over social distancing.	NA
TVS	Commenced operations across all factories - Hosur, Mysuru and Nalagarh.	
<b>Commercial Vehicles</b>		
Tata Motors	Production started at Pantnagar and Sanand plants. Lucknow, Dharwad, Jamshedpur and Pune plants are in final stages of pre-operational preparation and will start shortly.	Production commenced at select plants
Ashok Leyland	Resumed operation at all facilities across India with 25-30% workforce. Facing challenge due to shortage of contractual labours. Expects 80-90% utilisation by festive and full utilisation by Jan'21.	Production commenced
<b>Tractors</b>		
Escorts	All units in Faridabad (capacity of 1.2 lakh units) have received approval to commence production with 75% of normal workforce. Currently functioning in single shift with c.20-25% workforce due to supply chain concerns. Expects production at 50% by mid-June and 100% by Jul.	
M&M	Plants are ready for operations. However, finished goods roll out will be post 15May'20.	

# India: Indicators

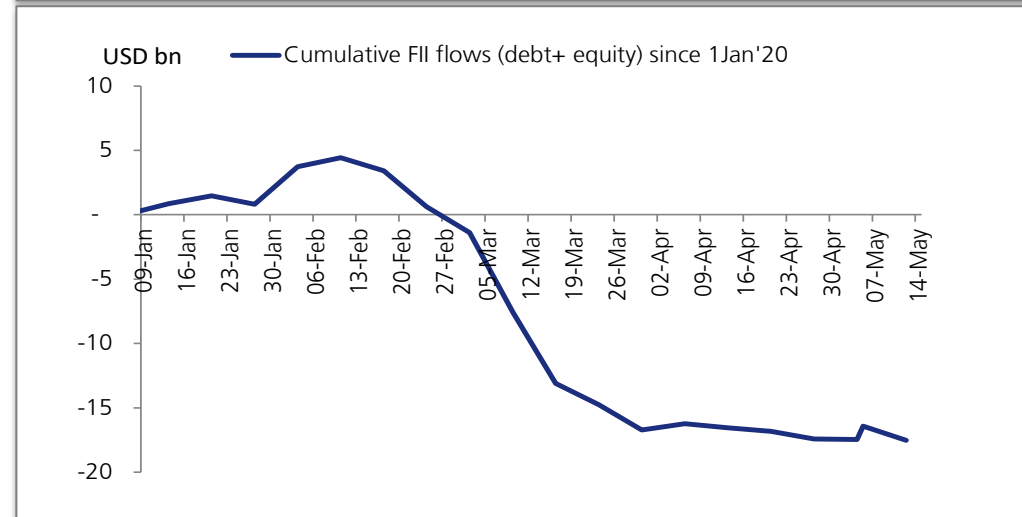
# Other indicators...

**Corporate spreads have inched up...**



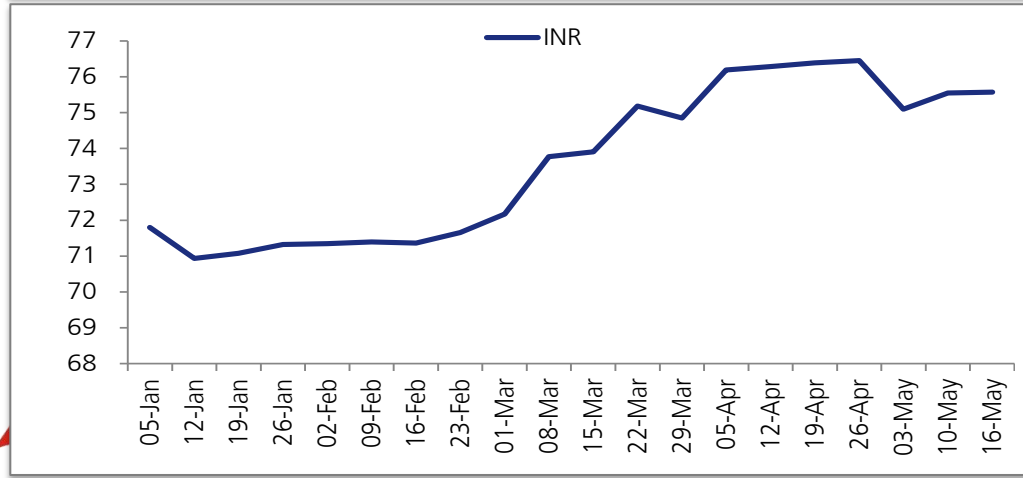
Source: Bloomberg, JM Financial

**...FII outflows continue**

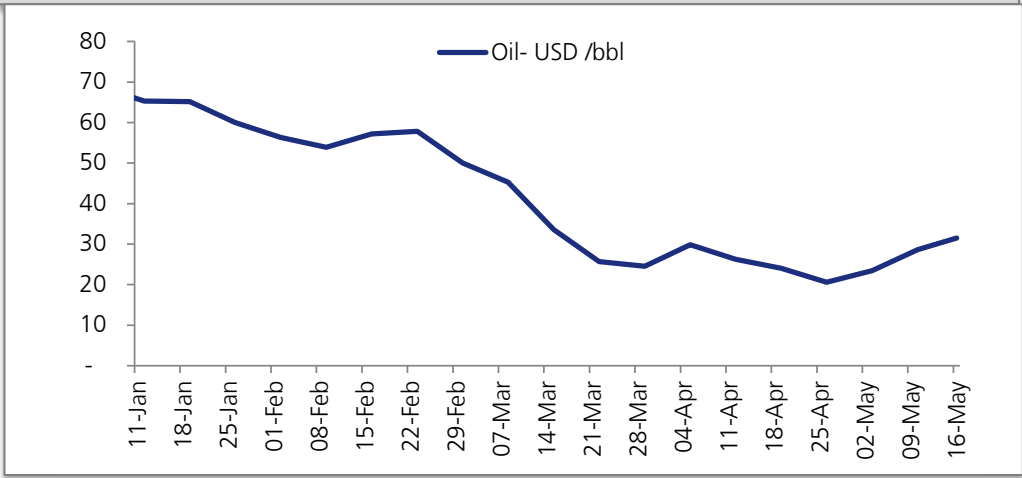


Source: Bloomberg, JM Financial

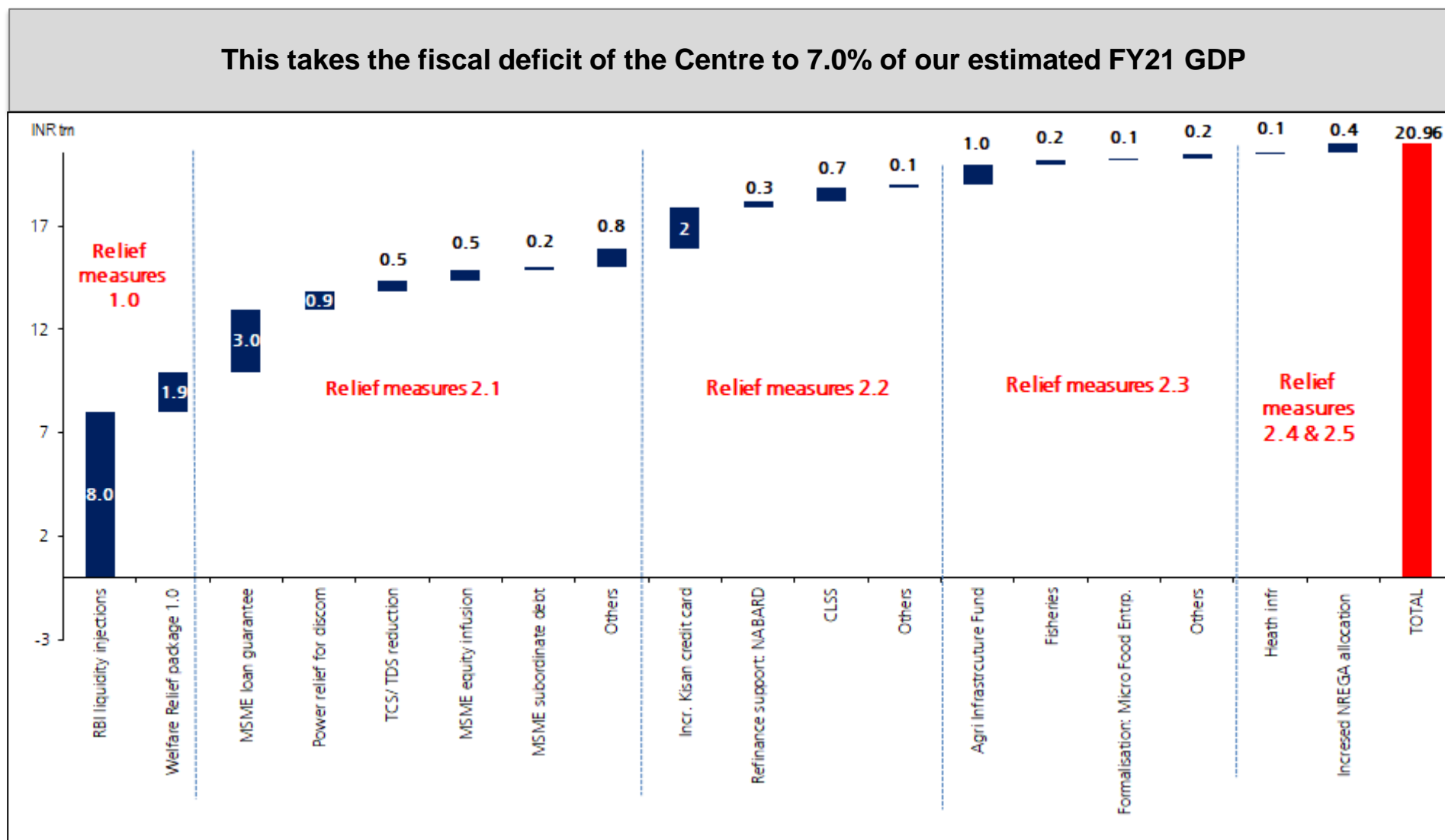
**...the INR marginally below 76 for now**



**...Oil prices bottoming out...**



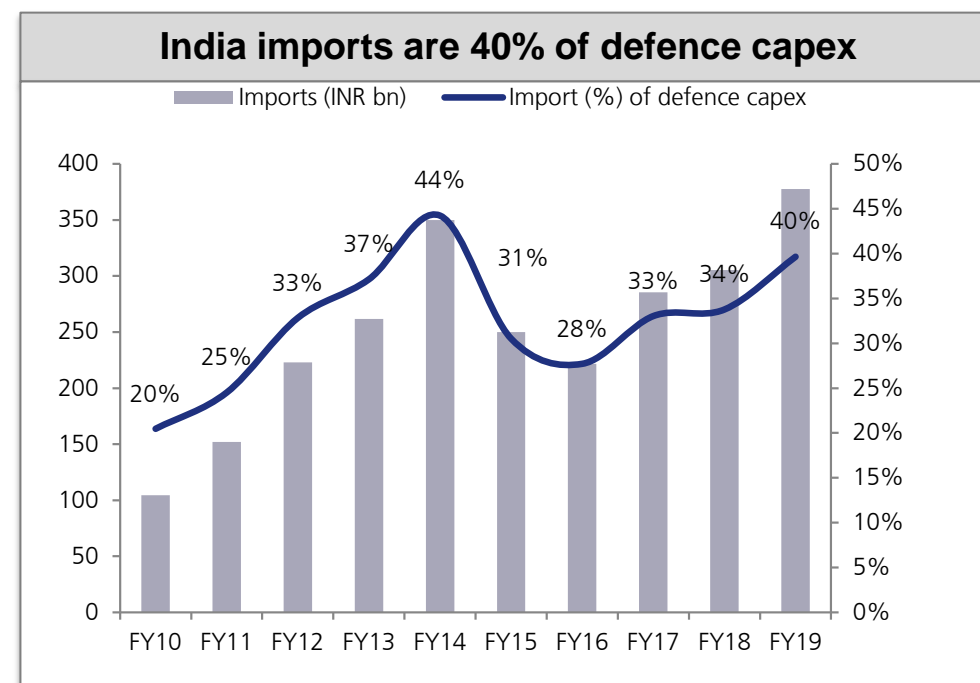
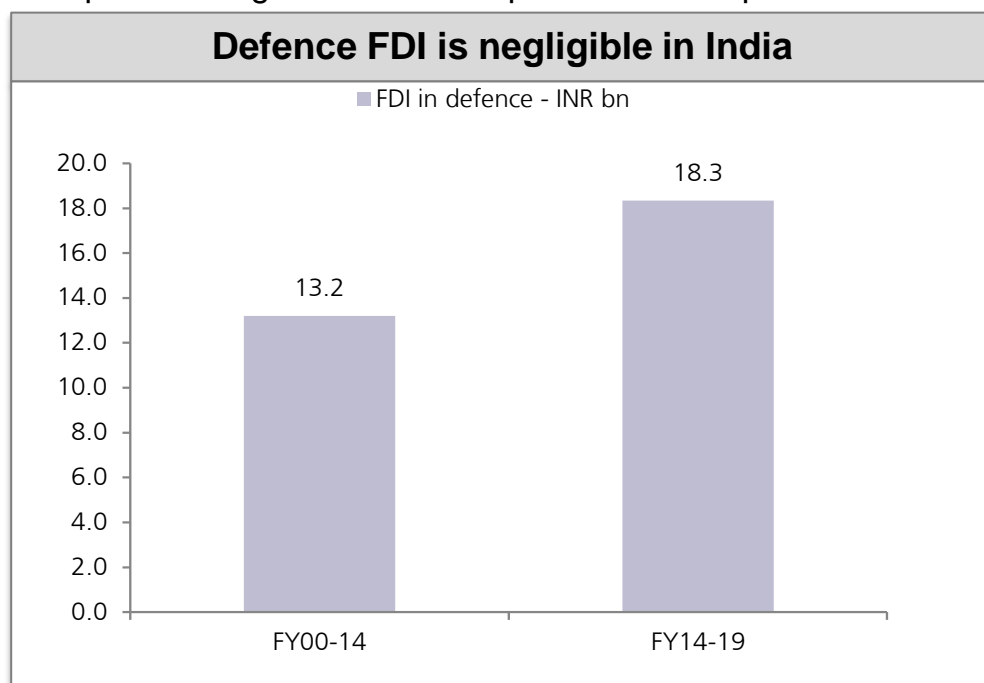
This takes the fiscal deficit of the Centre to 7.0% of our estimated FY21 GDP



## Relief measures 2.4

# Defence: Increase FDI, focus on “Make in India”

- **FDI under automatic route raised from 49% to 74%:**
  - Benefits likely to be far and few as even 100% FDI under approval route failed to bring in material investments in the past
  - Move may potentially benefit private players like L&T, Adani, Mahindra, Tata, Bharat Forge and other smaller players
- **Local units of MNCs will need order assurances** to increase FDI, and MoD needs to restrict production to specific list.
- We don't expect cancellation of current orders as designs, structures would have been finalised
- Decline in imports is likely to be gradual
- Separate budget for domestic procurement a positive

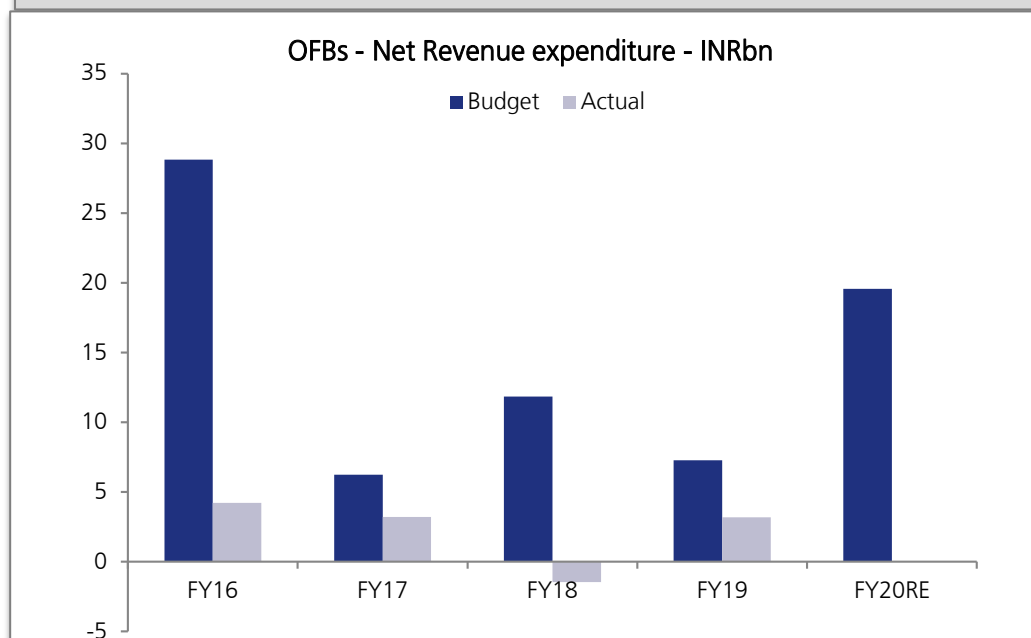


## Relief measures 2.4

# Defence: Increase FDI, focus on “Make in India”

- Ending the deadlock between OFB employees, Gol approved corporatisation (not privatisation) of Ordnance Factory Board
- Likely to improve autonomy (for modernisation capex and entering into JVs), accountability (improve quality drive innovation) and efficiency (reduce overheads/delivery timelines and increase profitability).
- Time-bound defence procurement:** Various measures like setting up of a monitoring unit, modifying GSQRs and overhauling of testing procedures recommended though note that past changes in these areas failed to bring in any material changes to timelines

### OFBs – Actual always below target



### OFB's achievement ratio is high but overall value remains stagnant

INR bn	FY15RE	FY16RE	FY17RE	FY18RE	FY19RE
Target	121	136	154	141	138
Actual	114	131	148	141	128
<b>Achievem</b>	<b>94%</b>	<b>97%</b>	<b>96%</b>	<b>100%</b>	<b>93%</b>

### **Measures: Commercial Coal Mining**

- Higher private sector participation through :
  - Revenue sharing mechanism instead of regime of fixed INR / tonne
  - Any party can bid for a coal block and sell in the open market (vs consumers with end-use earlier)
- 50 blocks to be offered immediately (includes partially explored blocks vs fully explored coal blocks earlier)
- Early production (than scheduled) to be incentivized through rebate in revenue-share

### **JM View/ Impact**

- *Many of these policy changes have already been passed in the Minerals Amendment Bill in Mar'20 ([see media link](#)).*
- *Will help open up the coal sector, given average time (5-10 years) for operationalising new mine, no immediate benefit.*

### **Measures: Coal Gasification & Liquefaction / Infrastructure Investment**

- Coal gasification / liquefaction incentivised through rebate in revenue share (low carbon emissions / higher gas output)
- Coal Infrastructure investment of INR 500bn includes INR180bn investment in conveyor belts (from mines to railway sidings).
- Mining Plan shortened / automatic 40% increase in annual production
- Commercial terms concessions given to CIL's consumers (relief worth INR 50bn offered)
- Reserve price in auctions for non-power consumers reduced, credit terms eased, and lifting period enhanced

### **JM View / Impact**

- *Coal gasification (once successful) can increase gas supply, though past efforts haven't seen much success.*
- *Conveyor belts can be a game changer for key mines (of Coal India) which face law & order issues in trucking coal from mine to railway sidings.*
- *CIL's cash flows and strong cash position makes this capex possible though future dividend could be impacted.*
- *Unclear whether the INR 50bn relief has already been offered by CIL.*
- *Given weak industrial power demand and hence weak coal demand (**April offtake -25% YoY**), **CIL will see impact in 1Q FY21**.*



**Measures:** 12 airports on PPP model to be awarded in 2 tranches of 6 in each / Additional INR 120bn in existing airports

### JM View/ Impact

- This can open up opportunities for airport operators like GVK and GMR
- However we find L&T to be the biggest beneficiary (as an EPC contractor), given its near monopoly in airport development

**Measures:** Power distribution privatisation in Union Territories / New Tariff policy

- Privatization of Distribution in UTs
- New Tariff Policy to be released focusing on
  - DISCOM inefficiencies not to burden consumers / Service standards and associated penalties for DISCOMs
  - Load-shedding to be penalized
  - Progressive reduction in cross subsidies / Time bound grant of open access
  - Generation and transmission project developers to be selected competitively
  - No Regulatory Assets / Timely payment of Gencos
  - DBT for subsidy; Smart prepaid meters

### JM View/ Impact

- Privatisations of Union Territories especially newer areas like J&K - can open up new opportunities for distribution players like **Torrent Power, CESC and Tata Power (see table on next slide)**
- New Tariff policy and its associated measures are deep impact – though a lot **depends on the implementation of these measures** (open access / removal of cross subsidies/ penalties on load shedding etc) and strictness of penalties
- DBT for subsidy and smart pre paid meters have been covered in the draft amendments to Electricity Act 2020 ([link](#)),
- Competitive bidding in generation and transmission has already been implemented
- Removal of regulatory assets will need strict implementation by State Regulators to allow regular tariff hikes

## Power Distribution: (Opportunity in UTs)

State (Mus)	Domestic	Commercial	Industry	Agriculture	Railways / Traction	Others	Total	AT&C
Daman and Diu	6%	3%	91%	0%	0%	1%	100%	6.26%
Dadra and Nagar Haveli	2%	1%	97%	0%	0%	0%	100%	8.53%
Pondicherry	25%	7%	59%	2%	0%	7%	100%	18.11%
Andaman and Nicobar Islands	52%	25%	6%	0%	0%	17%	100%	N/A
Chandigarh	45%	31%	17%	0%	0%	7%	100%	N/A
Delhi (partially privatised)	53%	27%	12%	0%	0%	8%	100%	NA
Lakshadweep	74%	24%	1%	0%	0%	1%	100%	NA
Jammu and Kashmir	41%	13%	19%	4%	0%	22%	100%	47.88% in J&K (NA for Ladakh)

### Aviation

- **Optimum utilisation of air space:** Easing of restrictions on utilisation of air space (currently 60% utilised) will make flying efficient by **(a)** reducing fuel cost **(b)** saving flying time, reducing other variable costs. Gol estimates a benefit of c. INR 10bn from this move
- **More airports through PPP:**
  - Airport Authority of India (AAI) has awarded 3 airports (out of 6 in the 1<sup>st</sup> round of bidding) for operation and maintenance on a PPP basis. AAI to get a down payment of INR 23bn and an annual revenue of INR 10bn from the 6 airports in 1<sup>st</sup> round.
  - Bidding process for further 6 airports (2<sup>nd</sup> round) will commence immediately. Overall, investment in round 1 and 2 is expected to be c. INR 130bn.
- **Creating a MRO hub in India:** Tax regime has been altered to favour setting up a Maintenance Repair Overhaul (MRO) hub in India. This will help bring down the maintenance costs of domestic airlines on a long term basis.

### Metals & mining

- **Removing distinction between captive and non-captive mines:** Removing the distinction between captive and non-captive mines will enable transfer of mining leases. This will allow sale of surplus minerals lying in mines.
- **Enhancing private investments in mining sector:** Gol will introduce seamless composite exploration-cum mining-cum production regime in India. Gol will also offer 500 mining blocks through auction process.
- **Joint auction of minerals to boost Aluminium industry:** Gol will offer joint auction of Bauxite and Coal mineral blocks, key raw materials in producing aluminium. This move will help enhance efficiency of aluminium industry in India and reduce the input costs.

## Relief measures 2.5

# Rural: MGNREGA to provide immediate relief

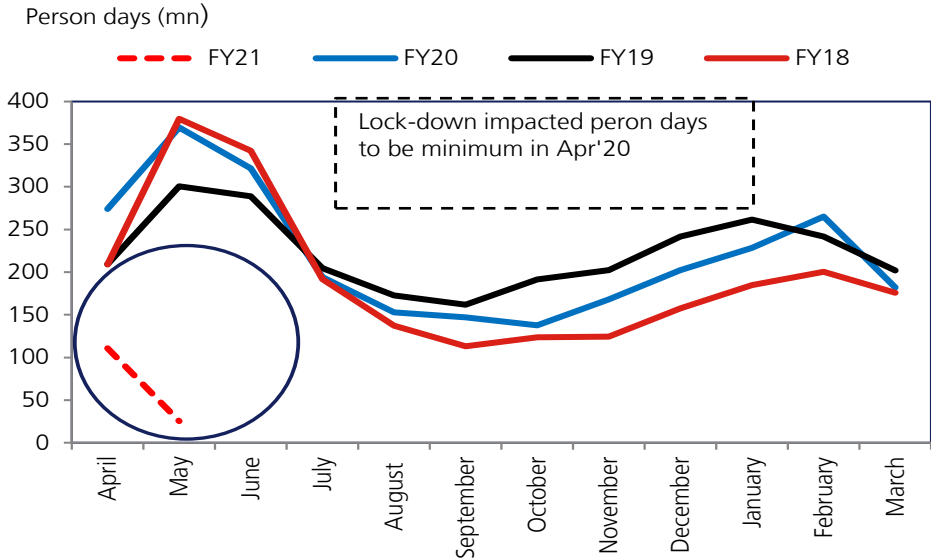
- MGNREGA, a key scheme to provide employment to un-skilled rural labour has seen massive jump in allocation from INR615bn in budget to INR1,015bn in FY21BE.
- The Government had earlier raised the per day wage rate under MGNREGA from INR182/day to INR202/day in Mar'20.
- MGNREGA started on a weak note in FY21, with lock-down impacting billings in Apr'20. However, going ahead, we expect MGNREGA to pick up sharply and aid in employment for the migrant labour.

### MGNREGA – Allocation jumps from INR615bn in budget To INR1tn

	FY16	FY17	FY18	FY19	FY20RE	FY21
Budgetary allocations - INR bn	373	482	552	618	710	1,015
YoY (%)		29.1%	14.4%	12.1%	14.9%	43.0%
Total Yearly person days (mn)	2,351	2,358	2,339	2,678	2,643	3,000+
YoY (%)		0.3%	-0.8%	14.5%	-1.3%	
Average wage rate -INR/day	154	162	169	179	182	202
YoY (%)		4.9%	4.8%	5.7%	1.6%	11.0%
Total House-Holds worked (mn)	48	51	51	53	55	
YoY (%)		6.4%	0.0%	2.9%	3.8%	
Average days per House-hold (no.)	49	46	46	51	48	
YoY (%)		-5.8%	-0.7%	11.2%	-4.9%	

Source: mgnrega, JM Financial

### ...MGNREGA spending had been weak in Apr'20, likely to see a sharp pick-up



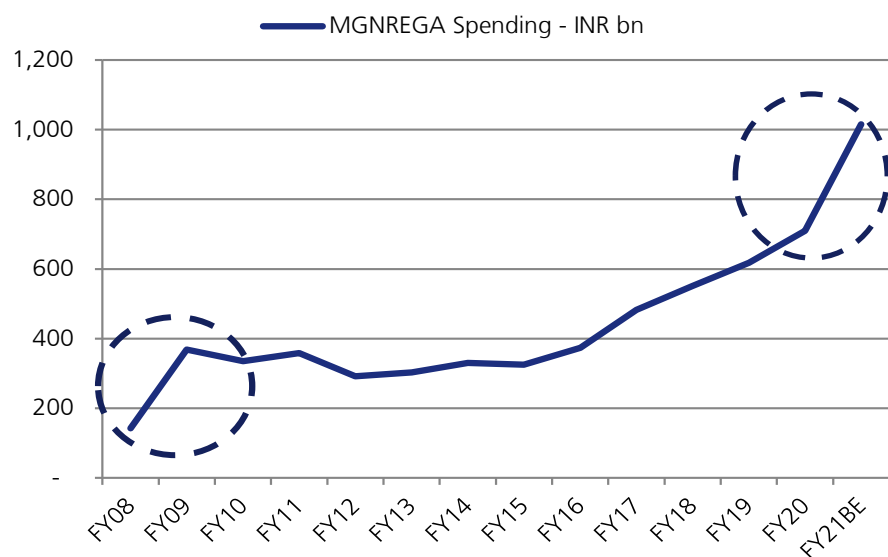
Source: mgnrega, JM Financial

## Relief measures 2.5

# MGNREGA allocation jump: To aid rural focused stocks

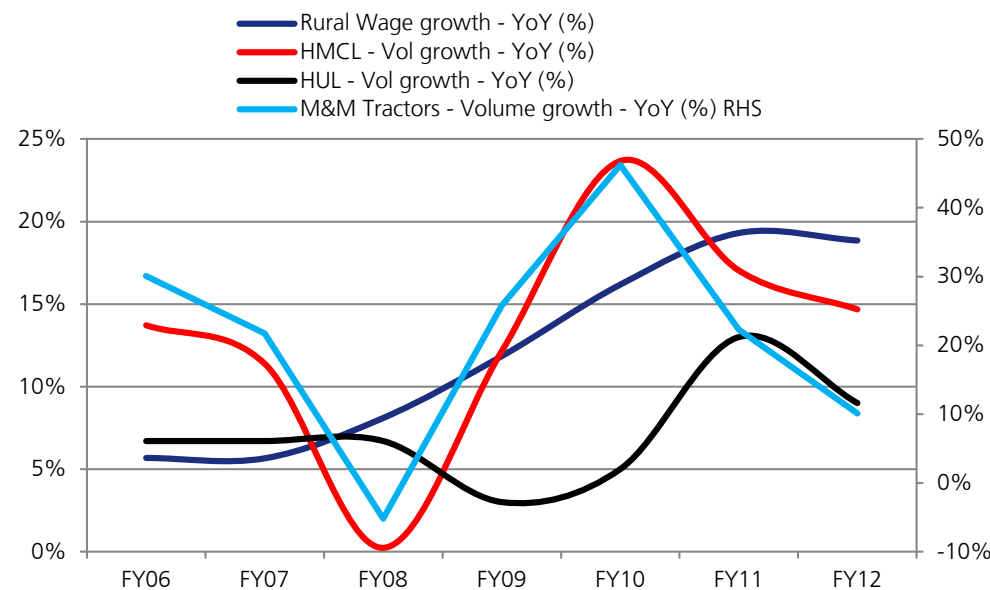
- MGNREGA (started from FY08) saw coverage across the nation from FY09 onwards.
- Cash flow boost provided by MGNREGA in the period FY08-10, reflects in strong volume growth across rural focused companies – HMCL, HUL, M&M. over FY10-12. This was despite a severe drought in FY10 (rainfall 22.5% below Long period averages)..
- The sharp increase in allocation of MGNREGA in FY21 (+43% YoY from FY20RE) should support rural focused players, in our view

### MGNREGA – Allocation jumps from INR615bn in budget to INR1tn+ in FY21



Source: mgnrega, JM Financial

### ...MGNREGA led rural cash flow boost aided volume growth of rural focused players



Source: company, JM Financial

## Relief measures 2.5

# States: Net borrowing limit raised subject to conditions

- States' net borrowing ceiling for FY21 raised from 3% of GDP to 5.0%. This is in line with our estimates for FY21 fiscal deficit
- This will be released in tranches-
  - ✓ Unconditional increase of 0.50%
  - ✓ 1% in 4 tranches of 0.25%, with each tranche linked to clearly specified, measurable and feasible reform actions
  - ✓ Further 0.50% if milestones are achieved in at least three out of four reform areas
- Reform linkage will be in four areas, i) universalisation of 'One Nation One Ration card, ii) Ease of Doing Business, iii) Power distribution and Urban local body revenues

### We estimate the states' fiscal deficit for FY21 at 4.9% of GDP

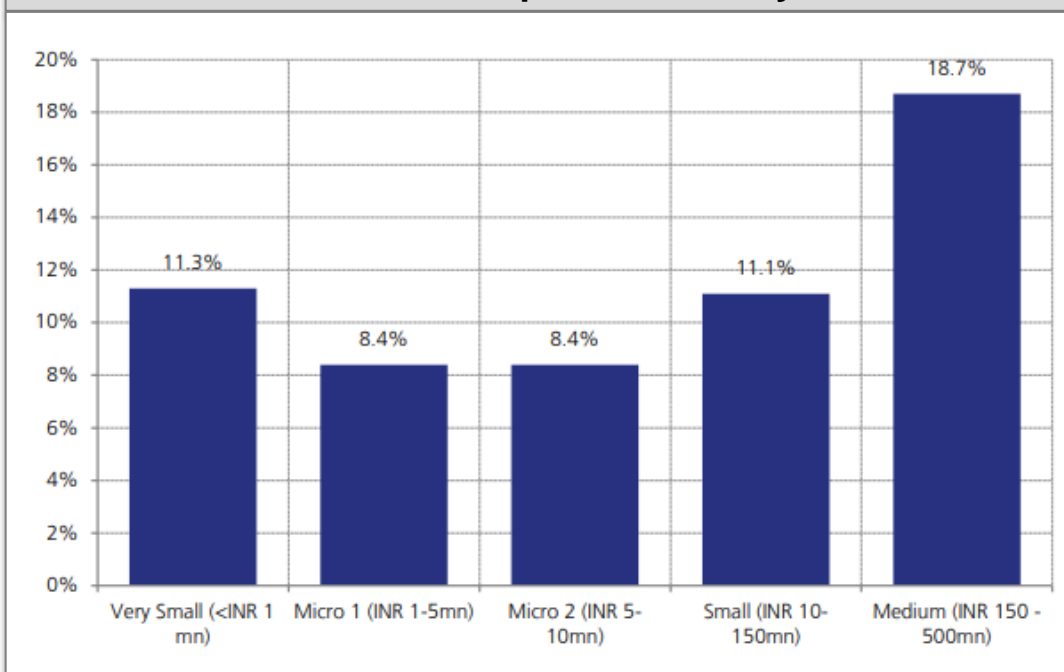
INR bn	FY19	FY20RE	% YoY	FYTD20	% YoY	FY21BE	% YoY	FY21e	%YoY	FY20 e	% YoY
				Jan-20							
Revenue receipts	19,108	21,409	12%	15,225	5%	24,038	12%	19,944	3.3%	19,303	1.0%
Tax revenue	14,516	15,317	6%	11,534	4%	17,373	13%	13,722	-5.4%	14,511	0%
Own Tax	9,650	10,588	10%			11,863	12%	9,290	-5.6%	9,843	2.0%
Share in Centre's taxes	5,062	4,728	-7%			5,510	17%	4,431	-5.1%	4,668	-8%
Grants from Centre	2,694	4,201	56%	2,657	30%	4,453	6%	4,453	27.2%	3,500	30%
Non-tax revenue of states	1,702	1,892	11%	1,034	-4%	2,212	17%	1,769.28	36.9%	1,292	-24%
Non-debt Capital Receipts	379	393	4%	138	-31%	169	-57%	169	-15.6%	200	-47%
<b>Total receipts</b>	<b>19,486</b>	<b>21,802</b>	<b>12%</b>	<b>15,363</b>	<b>5%</b>	<b>24,206</b>	<b>11%</b>	<b>20,113</b>	<b>3.1%</b>	<b>19,503</b>	<b>0%</b>
<b>Total expenditure</b>	<b>23,035</b>	<b>26,321</b>	<b>14%</b>	<b>18,269</b>	<b>10%</b>	<b>28,826</b>	<b>10%</b>	<b>27,773</b>	<b>19%</b>	<b>23,269</b>	<b>1%</b>
<b>Fiscal deficit</b>	<b>3549</b>	<b>4519</b>		<b>2907</b>		<b>4620</b>		<b>7,660</b>		<b>3,766</b>	
Nominal GDP	1,48,758	1,65,546	11.3%	1,65,546	11.3%	1,83,845	11%	1,54,840	-3%	1,60,292	7.8%
<b>Fiscal Deficit/GDP</b>	<b>2.4%</b>	<b>2.7%</b>		<b>1.76%</b>		<b>2.5%</b>	<b>0%</b>	<b>4.9%</b>		<b>2.3%</b>	

## Relief measures 2.5

# IBC: Suspension of fresh initiation of insolvency proceedings

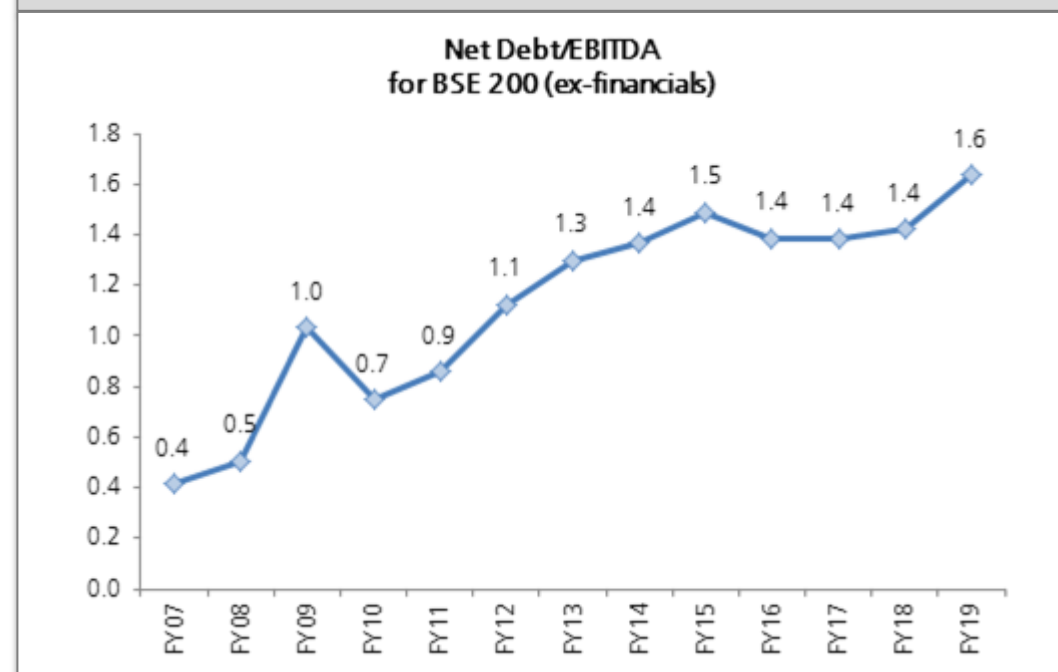
- Minimum threshold to initiate insolvency proceedings raised to INR 10mn (from INR 0.1mn). This largely insulates MSMEs
- Special insolvency resolution framework for MSMEs under Section 240A of the Code to be notified soon.
- Suspension of fresh initiation of solvency proceedings up to 1 year: To bring some relief to highly leveraged companies.

**NPA trends in MSME loans (as of Dec-19) across segments based on credit exposure at entity level**



Source TransUnion CIBIL - SIDBI

**Net debt/ EBITDA on the rise again after moderating post FY15**



Source Capitalline, JM Financial

## Relief measures 2.5

## Other measures...

Sector / Beneficiary	Measures	Amount (INR bn)	Description
<b>Workers</b>	Increase in allocation for MGNREGA	400	Will help generate nearly 3bn person days in total
<b>Health Sector</b>	Health Reforms & Initiatives		Public Expenditure on Health will be increased Investments in grass root health institutions Ramping up Health and Wellness Centres in rural and urban areas
<b>Education Sector</b>	Technology Driven Education with Equity post-COVID		Programmes to be launched - PM eVIDYA (digital/online education), Manodarpan (psycho-social support) New National Curriculum and Pedagogical framework will be launched National Foundational Literacy and Numeracy Mission will be launched by Dec'20
<b>Businesses / MSMEs</b>	Further enhancement of Ease of Doing Business through IBC related measures		Minimum threshold to initiate insolvency proceedings has been raised to INR 1cr Special insolvency resolution framework for MSMEs Suspension of fresh initiation of insolvency proceedings up to one year Exclusion of COVID 19 related debt from the definition of "default"
<b>Businesses</b>	Decriminalisation of Companies Act defaults		Decriminalisation of Companies Act violations involving minor technical and procedural default 7 compoundable offences dropped and 5 to be dealt with under alternative framework
<b>Corporates</b>	Ease of Doing Business for Corporates		Direct listing of securities by Indian public companies in permissible foreign jurisdictions Private companies which list NCDs on stock exchanges not to be regarded as listed companies Including the provisions of Part IXA (Producer Companies) of Companies Act, 1956 in Companies Act, 2013 Power to create additional/ specialized benches for NCLAT Lower penalties for all defaults for Small Companies, One-person Companies, Producer Companies & Start Ups
<b>Public Sector Enterprises</b>	Public Sector Enterprise Policy		List of strategic sectors requiring presence of PSEs in public interest will be notified In strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed In other sectors, PSEs will be privatized (timing to be based on feasibility etc.) Number of enterprises in strategic sectors will ordinarily be only 1 - 4; others will be privatized/ merged/ brought under holding companies



## Refer to our other notes of the COVID-19 series

### The COVID-19 Files (Tracker)

- COVID-19 Tracker 14May2020
- COVID-19 Tracker 8May2020

### **Others**

- Agriculture reforms –sets a good base for long term
- Stimulus 2.1 doesn't hurt the FY21 fiscal
- Lockdown 4.0: Stimulus includes monetary stimulus
- Lockdown 3.0 in India
- Positive development in agriculture amidst gloom everywhere
- Domestic remittances to be impacted by the lockdown
- Lockdown impacts food supply chain
- RBI: Emergency move, well behooved?
- Government comes up with 1<sup>st</sup> set of relief measures
- Lockdown to bring down food inflation
- India enters into full lockdown experiment
- As India enters into a lockdown..
- Feedback from companies on supply chain restoration
- Constraints of health infra vs. economic implications
- COVID-19: Mysterious virus, mixed impact

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