18 April 2020

RBI Liquidity Boost – Part 2

In the wake of COVID – 19 pandemic and in continuation to the 27 March 2020 7th Bi-monthly policy the RBI on Friday 17 April 2020 announced the 2nd set of measures to boost liquidity.

Stated below are some of the key highlights of the policy and its likely impact on the economy.

Key Measures	Implications
➢ The RBI decreased **the Reverse repo rate by 25 bps to 3.75% from 4.00%,** thereby increasing the LAF corridor further from 60 bps to 85 bps.	After increasing the LAF corridor in the March end policy statement, the RBI has further widened it by 25 bps. This move will further **disincentives the banks to park money with the RBI**.
➢ The RBI has decided to provide **refinance facility to NABARD (Rs. 25,000 cr), SIDBI (Rs. 15,000 cr) and NHB (Rs. 10,000 cr)** to address their respective sector needs. Advances under these would be given at the prevailing repo rate**.**	This additional refinance of Rs. 50,000 cr is likely to **reduce the market borrowing pressure from these financial institutions**. NABARD will provide finance to Co-orperative Banks, Micro Finance Institutions and Regional Rural Bank, SIDBI to MSME while NHB to Construction companies.
➢ While in the 27 Mar 2020 policy the RBI through its Rs. 1 Lak cr Targeted Long Term Repo Operation (TLTRO) aimed at providing relief to the corporate bond market, the **TLTRO 2.0 of Rs. 50,000 cr is for the NBFC & MFI sector**. Out of this 50% would be year marked for the small & mid-sized NBFC & the MFI's.	This move is likely to improve the liquidity for the smaller NBFC & MFI, thereby lead to a **correction in the high yield spreads in this sector**.
➢ **Liquidity Coverage Ratio (LCR)** for the scheduled commercial banks was **reduced from 100% to 80%.**	The reduction in the LCR requirement will **boost liquidity** in the banking system and **help in credit growth.**
➢ **NPA Classification by Banks and Financial Institutions will exclude the moratorium period of 90 days .** At the same time these institutions will be required to maintain additional provision of 10% on all such accounts.	By announcing this measure RBI has **increased the resolution time line for stressed assets**.
➢ **Barred all banks to distribute dividend for FY20 till further instructions.**	This move will lead to **additional capital in the banking system** to be able to absorb all the credit cost.
➢ **Ways and means advances (WMA) limit of states increased by 60%** over and above limit as of March 31, 2020.	This would provide greater comfort to the states for undertaking COVID-19 containment and also **states can phase out their borrowing needs & borrow at cheaper rates.**

The RBI's "Liquidity Part 2" policy is aimed to provide liquidity to specific institutions and business areas of the economy. The RBI has also tried to nudge banks to lend money to the required industries and incentivise the credit flow. With Inflation on the downward trajectory after Jan 2020 and the oil prices in favour of India, the RBI also has more room for monetary easing going ahead. All these measures are also beneficial for the short end of the bond markets and will lead to reduction in yields.

Disclaimer

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. TATA Capital Financial Services Limited ('TCFSL') is not soliciting any action based upon it. Nothing in this research report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of the reader.
This research report has been prepared for the general use of the clients of the TCFSL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research report in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. TCFSL will not treat recipients as customers by virtue of their receiving this report. Neither this document nor any copy of it may be taken or transmitted into the United States (to US Persons), Canada or Japan or distributed, directly or indirectly, in the United States or Canada or distributed, or redistributed in Japan to any residents thereof. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. This report is solely for the purpose of providing information about various financial products available in the market. While we make reasonable efforts to ensure the accuracy of information contained within this report, we cannot guarantee such accuracy and do not accept any liability arising out of the use of this report. The information detailed in the report may be provided by third parties (i.e. respective registrar's, transfer agents, Asset Management Companies and/ or other offering entities).

It is confirmed that, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of TCFSL and TCFSL has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.
Neither TCFSL nor its directors, employees, agents, representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.
The report is based upon information obtained from sources believed to be reliable, but TCFSL does not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. It does not have any obligation to correct or update the information or opinions in it. TCFSL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. TCFSL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. This information is subject to change without any prior notice. TCFSL reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, TCFSL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Neither TCFSL nor the director or the employee of TCFSL accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research report and/or further communication in relation to this research report.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.
Investments in securities are subject to market risk; please read the SEBI prescribed Combined Risk Disclosure Document prior to investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Our research should not be considered as an advertisement or advice, professional or otherwise.

18 April 2020

General Disclosure

Wealth Management is a service offering of Tata Capital Financial Services Limited (TCFSL) and is offered at its sole discretion. Terms and conditions apply.

Loans are referred by Tata Capital Wealth Management and may be offered by Tata Capital Financial Services Limited ("TCFSL"), Tata Capital Housing Finance Limited (TCHFL) or other entities. All loans are at the sole discretion of the entities offring the loans. Tata Credit Card is a white label credit card issued, established and operated by SBI Cards and Payments Services Pvt. Ltd. It is marketed and distributed by TCFSL. Terms and Conditions apply. All products other than the foregoing are only marketed by TCFSL and are brought to you by various entities at the sole discretion of those entities and the said entities would be solely responsible for all disputes or claims in regard to them.

TCFSL is also registered with the Securities and Exchange Board of India ("SEBI") as an Investment Adviser bearing Registration no. INA000002215.

TCFSL is also engaged in Mutual Fund Distribution business and is registered with The Association of Mutual Funds in India ("AMFI") bearing ARN No. 84894. Please note that all Mutual Fund Investments are subject to market risks, read all scheme related documents carefully before investing for full understanding and details.

TCFSL bearing License no. CA0076 (valid till 31st Mar 2022), acts as a composite Corporate Agent of various Insurance Companies as permitted under IRDAI (Registration of Corporate Agents) Regulations 2015. TCFSL does not underwrite the risk or act as an insurer. For more details on the risk factors and terms & conditions, please read the sales brochure carefully before concluding the sale.

Registered office: 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.