“Aatmanirbhar Bharat Abhiyaan” package – Tranche 1

In the first tranche of the Rs 20 lakh crore special economic package titled Aatmanirbhar Bharat Abhiyaan, created as a response to the Covid-19 crisis, the Finance Minister announced a combination of measures to support small enterprises (MSMEs), NBFCs, housing finance companies, microfinance, power distribution companies, contractors and developers. These measures will certainly provide relief especially to the MSME sector to overcome the crisis.

“The banks and NBFCs would now be eager to take advantage of the announced Rs 3 lakh crore collateral-free automatic loans with a 100% credit guarantee cover to banks and NBFCs and thus, boost liquidity among MSMEs. Additionally, financing subordinated debt of MSMEs worth INR 20,000 crores is expected to benefit around 2 lakh MSME units. Since support is by way of subordinated debt, which can be considered as quasi-equity, MSMEs availing this benefit will not face any immediate threat of repayment. Considering a large number of MSMEs are under stress, the amount allocated by the Finance Minister is, however, not sufficient.

Meanwhile, Rs. 50,000 crores equity support through the Fund of Funds would help MSMEs that have the potential to grow, but face issues such as a shortage of funds. Furthermore, the disallowing of a global tender is a step towards Make in India and Self-Reliant India announced by the Prime Minister in his address to the nation yesterday. Indian companies, especially from the MSME sector, were facing unfair competition from overseas bidders. This announcement would support smaller companies to participate in the tender at the realistic value. One of the major liquidity issues faced by the MSMEs was due to a high level of receivables from government agencies. The step announced for clearing government and CPSE receivables in 45 days would go a long way in MSMEs emerging from liquidity stress.

The government has standardised the manufacturing and service sectors with the same classification. With the revision in the definition, these units need not worry about growing in size as they still would be able to benefit from this announcement.

In short, all the above announcements for the MSME sector are aimed at improving the liquidity of the MSMEs by the government supporting banks and NBFCs to lend to these units and simultaneously extending equity support,” says AP Kamath, Senior Director - Ratings
“The Aatmanirbhar package announced by the Government of India today for non-bank financial institutions (NBFIs), which include NBFCs, HFCs and MFIs, if implemented as envisaged, will be the anti-COVID shot in the arm that the sector urgently required. NBFIs have been reeling with liquidity challenges as loan repayments by borrowers have dipped by almost 40-80% since the beginning of the lockdown in March-end FY20. With banks largely shying away from incrementally lending to this sector and moratorium approvals coming far and few, many NBFCs were on the brink of a liquidity crisis, which could have culminated into them defaulting on their debt servicing obligations.

The aggregate allotment of Rs.75,000 crore of the Aatmanirbhar package to NBFIs comes as a lifesaving liquidity booster shot for NBFIs, especially for those in the lower investment-grade rating category. Currently, close to 40% NBFIs rated by Brickwork Ratings are in the BBB and A rating categories, which will benefit the most from this package. This will not only improve the credit profile of NBFIs but also provide further funding access to their underlying borrowers, most of which are MSMEs.

The details of the schemes are awaited, and we hope the implementation will be quick, and chinks in the previous PCG scheme such as providing a guarantee only for a certain period and not covering the entire tenure, will be addressed this time, to ensure strong interest from banks”, says Vyedianathan Ramaswamy, Director & Head – Financial Sector Ratings.

“Discoms have received a much-needed breather in the form of a Rs 900 billion financial package announced by the Finance Minister, which covers nearly the entire outstanding payables of the Discoms (~ INR 940 billion). However, this also raises the question of various states' ability to support this additional debt as these loans will be provided by PFC/REC to the Discoms against state government guarantees. Unless the financials of the states are strengthened, the problems will continue, just that they will be postponed and transferred from generating companies to financial institutions. Nonetheless, this package will cure the immediate cash crunch being faced by Discoms and would, in turn, improve the liquidity of the generation and transmission companies.

The Finance Minister has also announced an extension of 6 months to contractors for all the GoI agencies without any additional costs to them. All the under-construction infrastructure projects will benefit from this extension. Additionally, the concession periods in the case of PPP contracts will also be extended by 6 months, which will primarily help all toll road operators in recovering from the loss of business during the lockdown period”, says Vipula Sharma, Director – Ratings
“As part of timely and major relief for contractors, all central government agencies will provide an extension of up to six months, without costs to the contractor for obligations such as the completion of work and extension of the concession period in public private partnership contracts. This would avoid multiple legal wrangles for the industry post the lifting of current restrictions as there are multiple consequences of the lockdown, including the reverse migration of labourers, disruption of supply chains, increase in receivables, liquidity squeeze, impairment of asset quality and decline in profitability, credit quality and turnover. Cumulatively, the above circumstances would cause hindrance in meeting the obligations under construction and engineering contracts and loan liabilities.

The announcement of government agencies to partially release bank guarantees will be done to the extent of contracts being partially complete. This will result in freeing-up of margin money, which can now be deployed towards working capital requirements; the waiver would also result in savings on bank guarantee commission charges, which will be a direct addition to the bottom line. This may also help companies seeking enhancement in limits from bankers for participation in new work orders and consequently increase in turnover and profitability. Additionally, lowering TDS/TCS rates by 25% will result in more liquidity in the hands of service contractors. BWR is of the opinion that the measures are expected to be extended for state-government-level contracts, going forward”, says BK Piparaiya, Senior Director - Ratings

“The announcement of the extension of the registration and completion date by six months for all registered real estate projects expiring on or after March 25 without individual applications and with the Ministry of Housing and Urban Affairs advising states/UTs and their regulatory authorities to treat COVID-19 as an event of force majeure under the RERA is certainly positive for the industry. These measures will de-stress real estate developers and ensure the completion of projects so that homebuyers can get the delivery of their booked houses with new timelines, and developers are not penalised on account of project delays. Since the lockdown was imposed, the real estate sector has been impacted by disruptions in operational activities, including the stoppage of construction work at various sites and availability of labour; this will ease out the problems of timely project execution.

However, BWR feels the government may announce more measures on the liquidity front both for buyers and builders. With this sector being a catalyst to economic growth and employment, with a substantial reduction in interest rates already transmitted, thereby reducing EMI and improving eligibility, measures such as reducing the LTV and improving credit to the sector will help increase demand and economic growth”, says BK Piparaiya, Senior Director - Ratings
Contacts:
Rajat Bahl
Chief Ratings Officer
+91 22 67456634
rajat.b@brickworkratings.com

Investors and Media Contact
+9184339 94686
liena.t@brickworkratings.com
ABOUT BRICKWORK RATINGS

Brickwork Ratings is India’s home-grown credit rating agency built with superior analytical prowess from industry’s most experienced credit analysts, bankers and regulators.

Established in 2007, Brickwork Ratings aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. Brickwork Ratings provides investors and lenders timely and in-depth research across the Structured Finance, Public Finance, Financial Guaranty, Financial Institutions, Project Finance and Corporate sectors.

Brickwork Ratings has employed over 350 credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 12,000 ratings across asset classes.

Brickwork Ratings is committed to provide the investment community with the products and services needed to make informed investment decisions. Brickwork Ratings is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised external credit assessment agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India.

Brickwork Ratings is promoted by Canara Bank, India’s leading public sector bank. More on Canara Bank available at www.canarabank.co.in

DISCLAIMER

Copyright © 2019 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, Karnataka 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings’ factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings’ ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

THE INFORMATION IN THIS REPORT IS PROVIDED “AS IS” WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, “BWR Reps”) guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.