

Post-budget sectoral report by Brickwork Ratings

Post-budget sectoral report by experts of Brickwork Ratings (Banking, MSME, NBFC, Treasury & Bond market)

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Banking:
Hemant Sagare, Senior Manager – Ratings, Brickwork Ratings, said

"In continuation to the GOI's plans of PSB consolidation, it has announced the privatisation of two PSBs and a general insurance company for FY 2021-22. The privatisation will further encourage competitive environment in the banking industry. It will also reduce the GOI's burden of continued funding support to such PSBs.

- PSBs' recapitalisation to the tune of Rs.20,000 crore is expected to strengthen the capital levels of the banks required for boosting credit growth. The funding support is also likely to address any incremental deterioration in the banks' asset quality.
- The GOI proposes to streamline the provisions of the DICGC Act, 1961, enabling the depositors of banks under stress some ease of access to their deposits in a time-bound manner. This step will instil investor trust in the banking industry.
- The formation of asset reconstruction company and asset management company proposed by the GOI to clean up the public sector bank's balance sheets by taking over the existing stressed debt, will reduce/reverse the provisioning cost and enhance their profitability and bring their focus back to lending. We will await the details of formation of the ARC and transfer of assets to the ARC to assess its efficacy.
- The formation of DFIs and their increase in lending exposure to the infrastructure sector over the period of next three years as proposed, will allow banks to reduce their exposure to the infrastructure sector and enhance credit to other industries.
- The increase in the FDI limit in the insurance sector from 49% to 74% will attract higher foreign capital, aiding in increasing insurance penetration in India. This is also expected to provide impetus to the insurance industry to scale up and build more digital and infrastructure capabilities."

Anil Patwardhan, Senior Director, Brickwork Ratings said, "The Union Budget 2021 announcement on Privatisation of Public Sector Banks (PSBs) is the major game changer in the Banking segment. Apart from IDBI Bank, two other PSBs and a General Insurance company are proposed to be privatised.

The Government of India (GOI)'s proposal to recapitalise Public sector Banks (PSBs) to the tune of Rs.20,000 Crs will enable the PSBs to access and raise funds from the capital market and strengthen its capitalisation levels. Formation of Asset Reconstruction Company (ARC) and Asset Management Company (AMC) will address the large stressed portfolio of PSBs, reduce their provisioning burden and improve profitability. The proposed amendment in the provisions of Deposit Insurance cover will reduce the depositors stress in making available their deposits in a defined time bound manner.

The Formation of Development Financial Institutions (DFI) is proposed with a capitalisation of Rs.20,000 Crs. The lending portfolio of such DFI's to the Infrastructure sector is expected to increase to at least Rs.5 lakh crores over a span of next three years. This will enable the PSBs to reduce its exposure to infrastructure projects and enhance its credit to other industries."

MSMEs

Nagaraj K, Associate Director, Brickwork Ratings said,

- "According to the Economic Survey, there are 6 crore MSMEs employing 11 crore people, contributing 30% to the GDP. Given their average size and idiosyncratic business conditions, including the fact that in most cases the business owner guarantees the debt with his personal assets, it was not practical to keep them in the same kind of debt resolution framework as bigger corporates. The alternate debt resolution framework announced in the budget will hopefully simplify and expedite the process while minimising the loss in the enterprise value to the firm and job losses.
- The rationalisation of the duty structure of various items in line with the government's Make in India and Atmanirbhar Bharat objectives will help import substitution and increase exports with a consequent increase in jobs from the sector.

The central government had already initiated a number of steps for the MSME sector in the Atma Nirbhar Bharat Scheme in 2020. The budget announcements made today seem to be a continuation in the same direction.

The steps like alternate methods of debt resolution for MSMEs, more than doubling the sectoral allocation to Rs. 15,700 Crs., rationalization of duty structure on some items like iron & steel products, copper, garments, leather and handicraft items, finished synthetic gemstones, etc. are expected to streamline the debt resolution process, encourage domestic manufacturing and incentivise the exports. The impact of imposition of Agriculture Infrastructure and Development Cess (AIDC) on some of the items produced by the MSMEs has been mostly neutralized by changes made in custom and excise duty structures to protect the demand for the products."

NBFCs

Anil Patwardhan, Senior Director & Sree Harsha, Manager - Ratings, Brickwork Ratings said,

- "The announcement of Rs 20,000 crore towards the recapitalisation of PSBs and to set-up a bad bank to clean up the balance sheet will help banks to focus on lending, and BWR expects that this will ease up the funding and liquidity issues faced by NBFCs.
- The strengthening of the NCLT framework and proposed reduction of the minimum loan size to be eligible for debt recovery under the SARFAESI Act, 2002, will enable NBFCs to accelerate the resolution process and debt recovery for MSMEs wherein they have a sizable exposure.
- Extending taxation benefits by one more year to both affordable housing buyers and developers is expected to benefit the housing finance companies and NBFCs lending to the real estate sector.
- High borrowing by the GoI will lead to increased interest rates, and hence, the cost of borrowing of NBFCs will go up.

The reduction in minimum loan size from Rs 50 lakhs to Rs 20 lakhs eligible for debt recovery under SARFAESI Act, 2002 for NBFCs with minimum asset size of Rs 100 Crs will enable speedy debt recovery especially in the current environment where they are facing stress on asset quality due to the impact of COVID 19 pandemic. Extending taxation benefits by one more year to both affordable housing buyers and developers is expected to benefit the housing finance companies and the NBFCs lending to the real estate sector."

Treasury & Bond

Bal Krishna Piparaiya, Senior Director & Sachin Sankar, Ratings Analyst, Brickwork Ratings said,

- "The fiscal deficit for FY 2021-22 is expected to put upward pressure on bond yields. The creation of a permanent institutional framework that would purchase investment-grade debt securities is expected to improve liquidity in the corporate bond market and soften yields.
- The government proposal to create an ARC and AMC to consolidate and take over the stressed debts from public sector banks is expected to improve the capital adequacy of the banks and thereby reduce the liability of the government to infuse capital to keep the adequacy ratio within regulatory limits, besides keeping steady demand for Gilts and contain yields. Bond yields may marginally rise by around 5% in the medium term, as expected by BWR earlier.

The bond yields are expected not to rise steeply on account of various bond market development related budgetary announcements such as large scale monetization of the Government sector assets, disinvestments of Rs 1.75 lac crs, privatization of two PSBs and buoyancy in tax revenues as against higher fiscal deficit at 6.8% % of GDP, additional borrowings of Rs 80000 crs during this fiscal, and gross borrowings of 12 lac crores in the FY 21-22. The announcement of new institutions for purchasing bonds(market maker), Infrastructure Development finance institution and increase in FPI limits, are positive to the bond market development and will increase market turnover and rationalize market yields and spreads. The announcement of ARC (bad banks), relaxation in SARFAESI Act will give leg rooms to the banks to have higher lending resources and liquidity which in turn will avoid crowding out effect of the Government borrowing and restrict rise in bond yields."