

New measures aggregating to ₹ 11 lakh cr. is below market expectations

Proposed structural reforms on agriculture & power sector are long term positives

Additional borrowing limits for states to mitigate shortfall in revenues

Size of economic stimulus announced is below market expectations

The Finance minister has announced an economic stimulus package of ₹ 11 lakh cr. between the 13th and the 17th of Mar'20. Including various measures announced by the RBI & government earlier total size of the economic package works out to INR 21 lakh cr. Markets have however been disappointed by the package given that it relies more on providing credit to the markets and the lack of actual cash spending and far reaching reforms by the Government.

Other than the lack of cash spending the markets have also been disappointed by the size of the new measures announced as it is also includes liquidity measures of ₹ 2.8 lakh cr. announced by the RBI prior to the 27th of Mar'20 which was not in line with market expectations.

Increased borrowing limits for states linked to structural reforms

However there are some key proposals in the form of structural reforms in Agriculture and power sector which would be very positive for the economy in the long run. The Government has said that it will amend the essential commodities act and also undertake long standing demand for agriculture market reforms wherein Agriculture food stuffs including cereals, edible oil, oilseeds, pulses, onions and potato will be deregulated.

The Government has also accepted state governments demand for increase in their borrowing limit to 5% of Gross State Domestic Product (GDSP) from 3% of GDSP for FY2020-21 in order to make up shortfall in revenues due to economic slowdown. However only 0.5% increase in borrowing limit will be unconditional and the balance of the additional borrowing limits will be linked to specific reforms in the areas of universalisation of 'One Nation One Ration card', Ease of Doing Business, Power distribution and Urban local body revenues.

Exhibit 1: List of announcement in stimulus 2.0 (₹ cr.)

Collateral free Govt guaranteed loan for business\MSME	300,000
Concessional credit to farmers through PM KISAN card	200,000
Fund for strengthening farm gate infra	100,000
Liquidity support for DISCOM	90,000
Credit linked subsidy scheme for real estate	70,000
Equity infusion for MSME through FoF	50,000
TDS/TCS reduction	50,000
Partial credit guarantee scheme for NBFCs	45,000
Additional MGNREGA allocation	40,000
Standing liquidity facility for NBFCs/HFCs/MFIs	30,000
Additional Funding for farmers through NABARD	30,000
Subordinate debt for stressed MSME	20,000
PM Mastya sampada yojna	20,000
Animal husbandry infra development fund	15,000
Other Measures	42,650
Total	1,102,650

Source: Company, Angel Research

Exhibit 2: Total stimulus so far (₹ cr.)

Fiscal Measures announced by RBI so far		
Measures announced by RBI Prior to 27th Mar'20	277,553	
CRR cut (27th Mar'20)	137,000	
MSF increase (27th Mar'20)	137,000	
TLTRO (27th Mar'20)	100,050	
TLTRO - small NBFC (17th Apr'20)	50,000	
Refinance facilities to NABARD SIDBI NHB (17th Apr'20)	50,000	
Standing liquidity facility - MF (26th Apr'20)	50,000	
Total RBI measures so far	801,603	
Fiscal package announced by the Government		
Fiscal package by the Government (27th Mar'20)	192,800	
Total package announced on 13th May'20	594,550	
Total package announced on 14th May'20	310,000	
Total package announced on 15th May'20	150,000	
Total package announced on 16th & 17th May'20	48,100	
Total	2,097,053	

Source: Company, Angel Research

New measures announced by Government at ~5.5% of GDP is inadequate

Economic package unlike to stimulate demand immediately

While the stimulus of ₹ 21 lakh cr. by the Government at 10% of GDP may seem large it is still smaller in size as compared to the stimulus packages announced by other countries like the US which has announced monetary and fiscal stimulus of ~25% of GDP so far with more expected to follow. Our stimulus also relies more on providing credit to the economy and little in the way of cash spending by the Government. The package also includes earlier measures announced by the RBI & government and therefore the quantum of new measures are much lower at ₹ 11 lakh cr. (~5.5% of GDP).

Given that the Government lacks fiscal space to provide direct stimulus to the economy in the form of cash spending we believe that they are trying to do the next best thing by ensuring adequate credit flow to essential sectors like agriculture, MSME and Power in order to ensure that the economy doesn't come to a standstill. Effectiveness of the measures announced so far will depend on the actual flow of credit to the economy given that banks have been so far risk averse in lending.

Linking borrowing limit to reforms may force states to implement structural reforms

Increase in state Government borrowing limits too have been tied up to market reforms on agriculture and power sector which should force the state Governments to do structural reforms which have been long pending. We believe that this will force state Governments to implement tough structural reforms which will benefit the economy in the medium to long term.

Easing of restrictions would lead to increased economic activities

Easing of lockdown is positive though concerns still remain

The Government has also announced an extension of lockdown till the 31st of May 2020 though with greater relaxation. The Government has either fully or partially lifted some of the restrictions subject to state approvals. Some of the key changes are listed below:

- Allowing intra state movement of people using passenger vehicles and buses as decided by the states. Interstate movement of people will also be allowed based on mutual consent of the states/UT involved.
- All non essential shops are allowed to open except for those within malls and containment zones.
- Delivery of non essential items by e-commerce platforms while restaurants will be allowed to operate kitchens for home delivery only.

However significant portion of economy still remains shut and recovery to be gradual at best

There have been other minor relaxations allowed by the Government though significant portion of the economy including educational institutions, domestic & international air travel, malls, hotels and metro rail services will remain closed. Therefore we expect a very gradual rebound in economic activities from here on as more businesses resume operations in a phased manner.

Spread of virus from urban to rural areas is the biggest risk

However there has been a mass movement of migrant workers from urban to rural areas over the past week as they returned to their hometown. While rural areas have largely remain unaffected from the virus there is a possibility that there could be a surge in new cases after a few weeks if there is a spread of the virus from urban to rural areas. If that were to happen then the recovery will get derailed as Governments could be forced to roll back some of the relaxations.

View and outlook

Agriculture sector is the biggest beneficiary of Govt. package.

We believe that the agriculture sector is the biggest beneficiary of the package announced so far as significant portion of the measures announced were directed at the sector. Change in definition of MSME would make more companies eligible for taking loans which along with credit guarantees provided by the Government may spur lending to some extent. However the package announced by the Government has fallen well short of market expectations given lack of any major announcement on cash spending.

We continue with our strategy of focusing on business with better revenue visibility

Therefore post the announcements we continue to prefer businesses which are either engaged in essential activities or could benefit from increased digitization. We maintain our preference for sectors like agrochemicals, chemicals, FMCG, pharma, telecom and IT which have better revenue visibility. We also maintain our strategy of avoiding sectors which are vulnerable to the slowdown like aviation, automobiles, hospitality, banks & NBFCs given extension of lockdown.

Exhibit 3: List of stock recommendations

	CMP ₹)	Target Price ₹)	Sales ₹)	OPM (%)		PAT ₹)		ROE %)	P/E (x)	EV/Sales s(x)			
				FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
FMCG													
Britannia Ind.	3,110	3,550	13,255	14,863	16.3	16.7	1,622	1,901	30.2	29.6	46.6	39.7	5.6
Colgate-Palmolive	1,380	1,522	4,827	5,213	27.4	27.9	855	938	40.4	37.7	42.9	39.1	7.6
Hindustan Unilever	2,006	2,294	40,778	44,855	24.6	24.8	7,024	7,809	64.3	61.7	62.7	55.9	11.5
Nestle India	16,240	19,100	13,235	14,558	22.7	23.3	2,091	2,333	34.9	31.3	74.9	67.1	11.4
P&G Hygiene	10,077	11,782	3,365	3,802	22.2	22.6	549	637	29.0	24.6	59.6	50.7	9.8
Other Consumer Goods													
Avenue Supermarts	2,306	2,705	27,208	33,238	9.0	9.0	1,470	1,800	17.5	17.7	87.3	71.4	5.6
Bata India	1,282	1,592	3,359	3,762	27.7	27.7	434	518	17.9	18.1	37.9	31.8	5.2
Hawkins Cookers	4,262	5,117	768	876	15.1	15.1	82	94	45.0	42.2	27.6	24.1	2.9
Chemicals/Agro Chemicals													
Aarti Industries	1,001	1,284	4,822	5,886	21.7	22.2	538	711	16.8	19.6	33.9	25.6	3.7
Dhanuka Agritech	492	589	1,217	1,304	16.0	16.4	150	165	22.6	22.8	15.5	14.0	1.9
Galaxy Surfacants	1,283	1,610	2,672	2,886	14.0	14.3	221	223	18.3	17.8	20.4	18.3	1.8
PI Industries	1,459	1,784	3,877	4,992	21.5	22.5	555	770	17.4	20.0	36.3	26.2	5.1
IT													
Infosys	664	841	90,650	102,857	21.3	20.5	16,200	17,870	28.1	30.5	17.4	15.8	2.8
L&T Infotech	1,645	1,832	11,352	12,828	18.1	19.0	1,486	1,771	21.6	21.9	19.3	16.2	2.2
Pharma & Healthcare													
Alkem	2,338	3,300	9,860	11,309	17.5	18.0	1,279	1,419	18.3	17.8	22.1	21.0	2.5
IPCA Labs.	1,596	1,900	5,360	6,111	22.5	23.0	821	976	18.8	18.6	24.3	20.4	3.9
Telecom/ Others													
Bharti Airtel	538	629	99,530	111,755	44.4	45.6	4,405	8,171	3.7	7.1	90.0	43.6	3.7
Reliance Industries	1,441	1,758	373,215	457,539	13.8	13.3	30,272	37,510	6.4	7.8	30.2	24.4	4.9

Source: Company, Angel Research

Note: CMP is Closing price as of 18th May, 2020

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Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)