

Focus of package has been on the agriculture and MSME sector.

Additional stimulus of ₹ 4 lakh cr. to be further announced by Government

Effectiveness of package will depend upon actual credit flow to the economy

Improved credit flow to agriculture bodes well for the rural economy

Focus on agriculture and MSME sector along expected lines

The Finance minister has announced the first two tranches of the second part of the ₹ 20 lakh cr. economic package. The focus of the economic package so far has been on ensuring credit flow to essential sectors like agriculture, MSME and Power in order to ensure that the economy doesn't come to a standstill. Markets however have been disappointed by the package so far given the lack of actual cash spending by the Government which was the need of the hour.

The RBI and the Government have already announced fiscal and monetary package of ₹ 6.9 lakh cr. earlier. The measures announced by the FM over the past two days amounts to ₹ 9.1 lakh cr. thus taking the size of the total package to ₹ 16.0 lakh cr. With more announcements expected to follow over the next few days there is scope of additional stimulus of ₹ 4 lakh cr which does not leave too much ammunition for the Government.

Stimulus package focuses more on credit than actual spending

The stimulus package announced so far relies more on providing credit to the economy and little in the way of cash spending by the Government. 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 and have been on an average parking about ₹ 8 lakh cr. with the RBI daily.

We believe that the agriculture sector is the biggest beneficiary of the package announced so far as the Government would try and ensure adequate credit flow to the rural economy given its importance. 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. The Government has also tried to provide some relief to the real estate sector by extending the credit linked subsidy scheme for middle income families for one year though it is unlikely to have any positive impact in the short term.

Exhibit 1: Measures announced on 13th & 14th of May (₹ cr.)

Collateral free Govt guaranteed loan for MSME	300,000
Subordinate debt for stressed MSME	20,000
equity infusion for MSME through FoF	50,000
EPF support for workers & reduced contribution for business	9,300
partial credit guarantee scheme for NBFCs	45,000
Standing liquidity facility for NBFCs/HFCs/MFIs	30,000
Liquidity support for DISCOM	90,000
TDS/TCS reduction	50,000
Concessional credit to farmers through PM KISAN card	200,000
Additional Funding for farmers through NABARD	30,000
Credit linked subsidy scheme for real estate	70,000
Others measure (CAMPAs, Street vendors etc.)	16,000
Total	910,300

Source: Company, Angel Research

Exhibit 2: Measures announced by Govt & RBI (₹ cr.)

Fiscal Measures announced by RBI so far	
CRR cut (27 th Mar'20)	137,000
MSF increase (27 th Mar'20)	137,000
TLTRO (27 th Mar'20)	100,050
TLTRO - small NBFC (17 th Apr'20)	50,000
Refinance facilities to NABARD SIDBI NHB (17 th Apr'20)	50,000
Standing liquidity facility - MF (26 th Apr'20)	50,000
Total RBI measures so far	524,050
Fiscal package announced by the Government	
Fiscal package by the Government (27 th Mar'20)	170,000
Total package announced on 13 th May'20	594,300
Total package announced on 14 th May'20	316,000
Total	1,604,350

Source: Company, Angel Research

Government may not be able to step up spending due to fiscal constraints**Government unlikely to step up spending which is need of the hour**

While the stimulus of ₹ 20 lakh cr. by the Government may address some of the issues faced by MSMEs, NBFCs and the power sector we believe that the need of the hour was for the Government to increase its spending significantly and put money into the hands of the consumers which would then have been spent and helped kick start the economy. However given fiscal constraints the Government is not in a position to do significantly large cash spending.

Given that the Government lacks fiscal space to provide direct stimulus to the economy in the form of cash spending we believe that trying to extend credit to the agriculture, MSME and power sector is the next best thing that could be done by the Government as it would ensure that the credit is available to the critical part of the economy.

India's Package at 10% of GDP is inadequate and lacks cash spending

While the ₹ 20 lakh cr. stimulus package may seem large at ~10% of GDP, it is still smaller in size as compared to the stimulus packages announced by other countries like the US. The US Government has so far announced fiscal package of ~USD 2.7 trillion (13% of GDP) which includes cash transfers while the US Fed has provided monetary stimulus of ~USD 2.5tn (11.5% of GDP) so far. Both the US Government and the Fed have indicated that they are going to do more.

The Government has also highlighted that it would focus on land and labor and there are expectations that there could be some announcement by the Government on land and labor reforms in the next tranche. While such structural changes will be positive for the economy in the longer run it would still not address the near term issue of supporting demand which has collapsed as the economy has virtually come to a standstill due to the lockdown.

We continue with our strategy of focusing business with better revenue visibility**View and outlook**

The package announced by the Government may not be able to stimulate the economy to the extent required and hence the markets disappointment by the measures announced so far. While proactive measures by the Indian Government to shut the economy early has so far prevented a widespread Covid - 19 epidemic there has been a recent acceleration in new cases which is coinciding with gradual relaxation to the lockdown. Therefore there is a risk that there could be an outbreak in the future which is a cause for worry.

Therefore post the announcements so far we do not see any material change to our investment strategy and 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.

Exhibit 3: List of stock recommendations

	CMP (₹)	TP (₹)	Sales (₹)		OPM (%)		PAT (₹)		ROE (%)		PE (x)		EV/Sales(x)	
			FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
FMCG														
Britannia Ind.	3,118	3,550	13,255	14,863	16.3	16.7	1,622	1,901	30.2	29.6	45.9	39.1	5.6	5.0
Colgate-Palmolive	1,350	1,522	4,827	5,213	27.4	27.9	855	938	40.4	37.7	43.7	39.9	7.7	7.2
Hindustan Unilever	2,006	2,294	40,778	44,855	24.6	24.8	7,024	7,809	64.3	61.7	63	56.7	11.7	10.7
Nestle India	16,248	19,100	13,235	14,558	22.7	23.3	2,091	2,333	34.9	31.3	74.9	67.1	11.4	10.2
P& G Hygiene	10,124	11,782	3,365	3,802	22.2	22.6	549	637	29.0	24.6	59.9	50.9	9.9	8.8
Other Consumer Goods														
Avenue Supermarts	2,323	2,705	27,208	33,238	9.0	9.0	1,470	1,800	17.5	17.7	87.7	71.6	5.6	4.6
Bata India	1,364	1,592	3,359	3,762	27.7	27.7	434	518	17.9	18.1	39.9	33.5	4.7	4.0
Hawkins Cookers	4,347	5,117	768	876	15.1	15.1	82	94	45.0	42.2	28.9	25.1	3.0	2.7
Chemicals/Agro Chemicals														
Aarti Industries	1,022	1,284	4,822	5,886	21.7	22.2	538	711	16.8	19.6	33.8	25.5	3.7	3.0
Dhanuka Agritech	461	520	1,217	1,304	16.0	16.4	150	165	22.6	22.8	14.7	13.3	1.8	1.7
Galaxy Surfactants	1,308	1,610	2,672	2,886	14.0	14.3	221	223	18.3	17.8	20.8	18.7	1.8	1.6
PI Industries	1,532	1,784	3,877	4,992	21.5	22.5	555	770	17.4	20.0	38.1	27.5	5.3	4.1
IT														
Infosys	658	841	90,650	102,857	21.3	20.5	16,200	17,870	28.1	30.5	17.2	15.6	2.8	2.5
L&T Infotech	1,647	1,803	11,352	12,828	18.1	19.0	1,486	1,771	21.6	21.9	19.3	16.2	2.2	1.9
Pharma & Healthcare														
Alkem	2,527	3,300	9,860	11,309	17.5	18.0	1,279	1,419	18.3	17.8	23.8	21.4	2.6	2.3
IPCA Labs.	1,594	1,900	5,360	6,111	22.5	23.0	821	976	18.8	18.6	24.3	20.4	3.9	3.4
Telecom/ Others														
Bharti Airtel	540	629	99,530	111,755	44.4	45.6	4,405	8,171	3.7	7.1	87.8	42.5	3.6	3.0
Reliance Industries	1,435	1,758	373,215	457,539	13.8	13.3	30,272	37,510	6.4	7.8	30	24.3	4.9	4.0

Source: Company, Angel Research

Note: CMP is Closing price as of 14th 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)*