Ecowrap

EXIT STRATEGY AND MIMINUM SIZE OF FISCAL PACKAGE IN COVID ERA

Issue No. 02, FY21
Date: 08 April 2020

To stop the spread of coronavirus, Government has rightfully enforced lockdown in the country till 14 April 2020. A very long period of shutdown can, however, lead to other problems including social unrest. Keeping this in mind Prime Minister has recently urged States and Centre to formulate a common exit strategy to ensure staggered re-emergence of population once lockdown ends. We believe a staggered exit could be the best option from the lockdown that ends on 14 April. **Such an exit strategy should encompass a Demographic and Economic Strategy.**

Demographic Strategy: It may be advisable to divide the population into four groups like COVID positive cases, those hospitalized, immunity compromised, and healthy individuals and have well defined strategy for each group because there is no herd immunity in the population for COVID-19. However, for geographical areas that have been identified as hotspots/quarantine/ containment zones, the above classification needs to be customised as required at the local level.

Economic Strategy: The economic exit strategy must account for how erosion in demand be restored in quick time. For this the following measures may be implemented: (i) First preference must be given to agriculture and procurement as 50% of the population is dependent on agriculture and allied activity, (ii) Some relaxation in inland transport namely – road transport, railways may be considered keeping in mind the dependency of rural population on the same, (iii) Trading activity namely retail trade may be allowed for extended time as it is supports over 25 crore households, (iv) Hotel services including home delivery is large employment generator. Social distancing has particularly impacted this sector. A limited duration of opening of these services for low risk group as explained above may be allowed, (v) Limited construction activity in districts with no cases or limited cases may be allowed, and (vi) Digital infrastructure push such as Aarogyasetu app may be promoted as preparation for possible second wave by mass communication and education.

Meanwhile, the COVID-19 could have significant implications for sectors. During second half of FY20 it has been observed that credit ratio deteriorated across sectors. Some of the sectors which were having better credit ratio in H2FY19 have also been hit hard. The good thing is that banks have witnessed good traction in credit (term and working capital requirements) in the last 7-days of the year ending 31 March 2020. It seems companies/corporates are preapring themselves for a surge in demand after the lockdown period. **As per our estimate, the incremental credit offtake would have been Rs 2100 bn in March of which Agri Rs 100 bn, Industry Rs 1200 bn, services Rs 600 bn and personal loans Rs 200 bn. Clearly, the tide seemed to have turned as far as bank credit is concerned in March.**

Overall sectoral risk based on key parameters such as credit ratio, leverage, stress and COVID-19 impact depict sectors such as Automobiles, Hotel, Aviation, Gems & Jewellery, NBFC, Power, Real Estate and Construction and Engineering could be affected severely with combined impact and it is imperative we unveil a comprehensive set of packages for all such sectors, including GST rate rationalization, tax moratorium, payroll support among others. This apart, the states have to handhold in this times of crisis with a potential shortfall in GST revenue looming large.

Apart from Rs 1.75 lakh crore package announced by FM, of which Rs 73,000 crores is only new and rest is from current budget, Government needs to announce a large fiscal package for the affected industries and sectors which are on high and medium risk. Our calculation suggests that credit to GDP ratio of these sectors is around 12%. We believe that to enable these sectors to grow at the same pace as they would have grown in normal times, a fiscal package of at least Rs 3.5 lakh crore is needed. **Our estimates also suggest that given labour and capital income loss of around Rs 3.60 lakh crore, the minimum subsistence fiscal package must be scaled up by Rs 3 lakh crore, over and above the incremental Rs 73,000 crore that was unleashed in the first phase. Such package also should include payroll support for impacted industries and budgetary support for states.**

Interestingly, mapping the COVID-19 affected districts with credit outstanding reveals that 284 districts (40% of 736 districts) amounted for almost 98% of outstanding bank credit. Thus it is imperative to give a push to the banking system post COVID-19 for effectively leveraging and playing the role of financial intermediation, as experience of other countries show. We also need a mechanism to support NBFCs. RBI financial stability report estimated that under the 3 standard deviation (SD) shock to GNPA the CRAR of the NBFC sector will decline from 19.5% (as on Sep 2019) to 15.1%. Given the nature of the pandemic, it remains to be seen whether the shock to this sector is in excess of 3SD and if this is so, NBFCs may face severe erosion of capital. We thus need a mechanism to support NBFCs.

The labour income loss is maximum in hotels, trade, education, petroleum and agriculture. The loss in labour income is because of the unorganized and proprietary form of business organization and nature of self employment in our economy that accounts for around 30% of GDP. Thus a fiscal package is imperative now.

COVID-19 LED CURRENT LOCKDOWN MAY HAVE SIGNIFICANT IMPACT ON MANY SECTORS

- To stop the spread of COVID-19, Government has rightfully enforced lockdown in the country till 14 April 2020. A very long period of shutdown can lead to other problems including social unrest. Keeping this in mind Prime Minister has recently urged States and Centre to formulate a common exit strategy to ensure staggered re-emergence of population once lockdown ends. During this lock-down, non-essential stores, restaurants, public spaces including malls, public transport, manufacturing units everything is closed. On the top of it with work from home been adopted, offices too have been largely closed. It is obvious that commercial real estate is one of the biggest casualties of COVID-19 and recovery won't be quick.
- In India so far the number of cases have been less relative to the US, Europe and China. As of April 08 08:00 IST, 4643 confirmed Covid-19 cases and 149 deaths have been reported in the country. 401 persons have been cured/ discharged after recovery. As per the present available data, an analysis of total confirmed cases show that 76% are male and 24% female. Regarding age distribution, 47% people are below 40 years age group, 34% people are between 40 to 60 years age group, and 19% people are of the age 60 years and above.
- The current lockdown due to the outbreak of COVID-19 and consequent social distancing measures have taken a serious toll on the economy, across sectors. Though the actual affect is uncertain at the point but it will have severe impact on GDP growth with an estimated loss of Rs 8 lakh crores / 4% of GDP if the economy is in lockdown mode till 14 April.

Top COVID-19 States in India

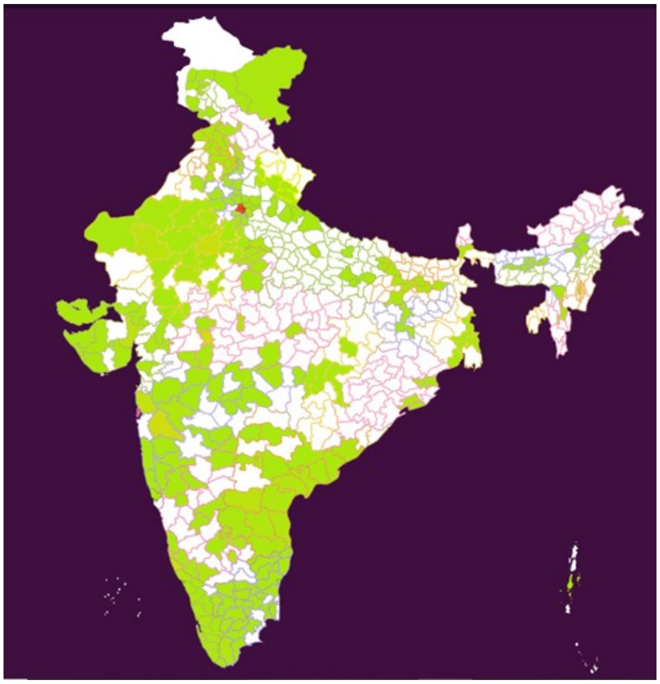
Name of State / UT	Total Confirmed cases (Including 66 foreign Nationals)	Cured/Discharged/ Migrated	Death
Maharashtra	748	56	45
Tamil Nadu	621	8	5
Delhi	523	19	7
Kerala	327	58	2
Telengana	321	34	7
Uttar Pradesh	305	21	3
Rajasthan	288	21	3
Andhra Pradesh	266	1	3
Madhya Pradesh	165	0	9
Karnataka	151	12	4
Gujarat	144	22	12
Jammu and Kashmir	109	4	2
West Bengal	91	13	3
Haryana	90	25	1
Punjab	76	4	6
Remaining States/Uts	196	28	2
Total	**4421**	**326**	**114**

Source: Ministry of Health and Family Welfare; SBI Research

- The district wise spread of the disease given in the map below shows that there are large pockets where no case has been registered/ 60% of the districts shows no spread. Nevertheless developed states, Western India have suffered the most due to COVID-19 than Eastern India.
- Interestingly, mapping the COVID-19 affected districts with credit outstanding reveals that 284 districts (40% of 736 districts) amounted for almost 98% of outstanding bank credit. Thus it is imperative to unclog the banking system post COVID-19.
- The data on demographic of Indian population suggests that since our population is predominantly young in age-group 25-30 years, the overall risk of mortality is low. However large section of the population has high prevalence of other comorbidity factors, namely diabetes and cardiovascular diseases in 30-50 age groups. Furthermore there is also high number of elderly people which are immune compromised.
- India State Level Disease Burden' Report 2017 by Indian Council of Medical Research (ICMR) suggests that for most of the major non-communicable disease groups, the total disease burden includes cardiovascular diseases, diabetes, chronic respiratory diseases, mental health and neurological disorders, cancers, musculoskeletal disorders, and chronic kidney disease. Mortality in COVID-19 is closely linked to these pre-existing conditions.

SECTOR SPECIFIC IMPACT

- Among the sectors, the small and medium industries (upto Rs 100 crore) which constitute 19.3% of the total credit in bank credit are more vulnerable and will be worse affected. We expect immediately that companies will draw more from their sanctioned working capital limits for couple of months but it will be difficult for them if it persists for long.
- For information, as per Jun'19 ASCB data of the total working capital limit, utilization level is around 65%. Assuming another 15% of the limit is drawn by the industries then this amounts to additional drawdown of Rs 5.64 lakh crore which also raises the capital requirement of Banks proportionately.
- The adjacent chart gives the classification of the sectors according to the risk due to COVID-19 mapped into their credit ratio history in FY20 (a red sign indicates that the deterioration in credit ratio in H2FY20 has been significant as compared with H1FY20) and that could be exacerbated by COVID-19 crisis.
- Overall sectoral risk based on credit ratio and COVID-19 impact depicts sectors such as Automobiles, Hotel, Aviation, Gems & Jewellery, NBFC, Power, Real Estate and Construction and Engineering could be affected severely with combined impact.



Number of Districts & Credit Affected due to COVID-19

States	Number of Districts Affected	Credit Affected (Rs Crore)*
Andhra Pradesh	11	349545
Assam	10	35544
Bihar	9	54055
Chhatisgarh	5	67565
Delhi	11	2445470
Goa	2	18803
Gujarat	13	435003
Haryana	12	202459
Himachal Pradesh	2	6174
Jammu & Kashmir	11	39817
Jharkhand	3	23400
Karnataka	17	573209
Kerala	14	326846
Madhya Pradesh	9	146725
Maharashtra	20	2668354
Odisha	5	68505
Punjab	9	130140
Rajasthan	18	233716
Tamil Nadu	27	801370
Telangana	23	418093
Uttar Pradesh	27	280280
Uttrakhand	5	45626
West Bengal	11	335546
Others	10	-
Total	**284**	**9706245**

Source: RBI; SBI Research; * Mar'19

Sectoral Risk based on Key Parameters

Sector	Credit Ratio	Covid Risk
Automobile & Components	0.16	High
Hotel, Restaurant & Leisure	0.16	High
Aviation	0.15	High
Gems & Jewellry	0.07	High
NBFC	0.25	High
Power	0.70	High
Real Estate	0.12	High
Constructions & Engineering	0.15	High
FMCG (consumer staples)	0.16	Medium
Steel	0.25	Medium
Metal & Mining	0.24	Medium
Cement	0.11	Medium
Textile	0.15	Medium
Pharmaceuticals	0.21	Medium
Marine Port & Services	0.00	Medium

Source: SBI Research Note: Red shade indicates significant deterioration in credit quality in H2FY20 over H2FY19

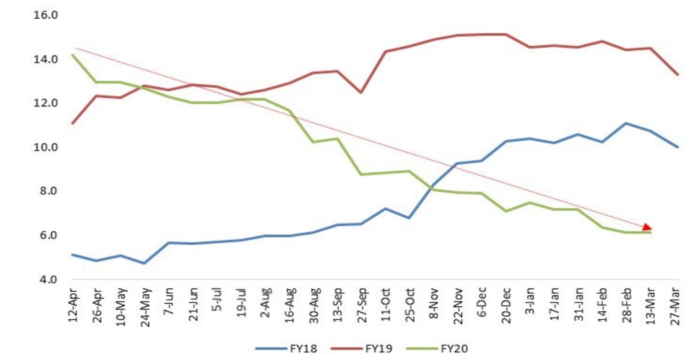
INCREMENTAL CREDIT IMPROVED MUCH IN LAST FORTNIGHT OF MARCH

- In the current financial year so far (up to 13 Feb'20), the ASCBs YoY credit growth had declined to the year low of 6.1%, (vis-à-vis 14.5% in corresponding period previous year). Even on an YTD basis the ASCBs advances improved marginally to 3.8% (Rs 3.68 lakh crore) in FY20, compared to last year YTD growth of 10.8% (Rs 9.3 lakh crore). In the last 2 fortnights, credit increased by Rs 97,910 crore and we believe that banks have extended substantial amount of credit in the last 7-days of the year ended March 2020 that includes both term loan and working capital loan with companies bracing to tide over the COVID crisis.
- There may be however a decline in credit to retail sector with increasing restriction of travel, deferring of home, auto buying etc. However, we expect corporate will require more of working capital loans as well as term loans over the medium-term until the growth environment stabilizes We see sectors such as NBFCs, Metal, Automobile, Power, Infrastructure, Gems and Jewellery, Tyre & Tubes, Petroleum etc. could be seeking more credit from Banks due to enhanced working capital cycle and also medium term uncertainty. While the forbearance on repayment of loans provides some cushion to banks on asset quality and provisioning, a prolonged slump would make it more vulnerable. This is clearly visible, as banks have witnessed good traction in credit in the last 7-days of the year ending 31 March 2020. It seems companies/corporates are preparing themselves for a surge in demand after the lockdown period. **As per our estimate, the incremental credit offtake would have been Rs 2100 bn in March of which Agri is Rs 100 bn, Industry Rs 1200 bn, services Rs 600 bn and personal loans Rs 200 bn. Clearly, the tide seemed to have turned as far as bank credit is concerned in March.**
- However, based on the historical trend, credit growth in the last fortnight of the year is not new. During the years 2009-2020 on an average 35% of the credit disbursed in March has been paid in April.
- The sectoral data for the month of February 2020, which accounts about 90% of the total bank credit deployed by 39 SCBs, indicates that the incremental credit has increased only in personal loans and Agri. & Allied sectors. After 2-month of rise, credit to Industry declined by Rs 247 bn, Credit to MSE has declined by Rs 54 billion, infrastructure declined by Rs 372 billion. However, personal loans increased by Rs 348 billion and services by Rs 19 billion. Within industry, credit growth to 'paper & paper products', 'wood & wood products', 'beverage & tobacco' 'rubber plastic & their products', 'cement & cement products', 'telecom & roads, and 'construction' accelerated. However, credit growth to 'textile', 'food processing', 'chemical & chemical products', 'basic metal & metal products', 'iron & steel' and 'all engineering' decelerated.

CREDIT RATIO HAS DETERIORATED ACROSS SECTORS

- During second half of FY20 it is observed that credit ratio deteriorated across sectors. Some of the sectors which were having better credit ratio in H2FY19 have also been hit hard and deteriorated heavily. **For example, sector such as Steel, Auto, Pharma which were having positive credit ratio of more than one in H2FY19, in H2FY20 credit ratios deteriorated to 0.25, 0.16 and 0.21 respectively. Further, sectors such as Construction, Textile, Automobile, Gems and Jewellery, NBFC, Real Estate deteriorated further to below 0.25.**

ASCB Credit Growth (YoY %) Fortnight Movement



Source: SBI Research

ASCBs Incremental Credit Offtake in March & April (Rs crore)

Year	March	April
2009	107621	-31060
2010	152038	-29509
2011	129066	-16636
2012	202757	7397
2013	170462	-19228
2014	143898	-20054
2015	302574	-151387
2016	280030	-268202
2017	352473	-259075
2018	306392	-107800
2019	251270	-150777
2020	97910*	-

Source: RBI, SBI Research * Till 13 March

Credit Ratio (Upgrade to downgrades) detoriated across sectors

Sector	H2FY19			H2FY20		
	Upgrades	Downgrades	Ratio (U/D)	Upgrades	Downgrades	Ratio (U/D)
FMCG (consumer staples)	234	342	0.68	148	930	0.16
Steel	148	96	1.54	69	276	0.25
Road (highway and rail)	14	56	0.25	13	52	0.25
Constructions & Engineering	158	296	0.53	97	660	0.15
Automobile & Component	71	42	1.69	26	167	0.16
Cement	3	7	0.43	1	9	0.11
Textile	149	247	0.60	89	592	0.15
Hotel, Resturant & Leisure	24	35	0.69	18	116	0.16
Aviation	7	10	0.70	3	20	0.15
Metal & Minning	23	26	0.88	18	75	0.24
Pharmaceuticals	56	53	1.06	26	124	0.21
Gems & Jewellery	31	60	0.52	11	154	0.07
NBFC	34	29	1.2	20	81	0.25
Power	65	48	1.35	73	105	0.70
Marine Port & Services	3	5	0.60	0	6	0.00
Utilitites (gas, water etc)	16	20	0.80	23	38	0.61
Real Estate	78	145	0.54	37	309	0.12
Telecom	4	4	1	2	19	0.11

Source: Crisilquantix; SBI Research; numbers are for all rating agencies

Sector-Wise Credit Flow (Rs bn)

Sectors	YTD (Apr'18-Feb'19)		Monthly Growth (Rs bn)											YTD (Apr'19-Feb'20)		% YoY	
	Rs bn	%	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Rs bn	%	Feb'19	Feb'20
Agri. & Allied	**626**	**6.1**	**-33**	**-1**	**179**	**-168**	**40**	**148**	**69**	**-7**	**51**	**143**	**26**	**447**	**4.0**	**7.5**	**5.8**
Industry	**750**	**2.8**	**-506**	**-212**	**-20**	**-137**	**-331**	**97**	**119**	**-145**	**221**	**232**	**-247**	**-930**	**-3.2**	**5.6**	**0.7**
MSE (Priority)	302	3.0	-12	-37	5	-153	9	82	-32	40	46	387	-54	280	2.6	11.9	6.7
Infrastructure	956	10.7	88	-228	-154	82	-299	-10	160	54	43	74	-181	-372	-3.5	11.9	3.3
Services	**2257**	**11.0**	**-1006**	**-272**	**-32**	**282**	**373**	**117**	**-94**	**105**	**76**	**614**	**19**	**182**	**0.8**	**23.7**	**6.9**
NBFCs	790	15.9	-178	1	116	16	436	332	-2	176	-23	86	-335	625	9.7	47.5	22.3
Personal Loans	**2548**	**13.4**	**21**	**186**	**124**	**217**	**284**	**519**	**339**	**150**	**286**	**640**	**348**	**3113**	**14.0**	**16.7**	**17.0**
Housing (Including Priority)	1603	16.5	85	83	101	128	150	384	155	60	149	268	125	1689	14.6	18.8	17.1
Other Personal Loans	866	17.0	82	85	21	112	104	96	116	74	65	215	135	1105	18.2	22.2	20.6
Gross Bank Credit	**6378**	**8.3**	**-1508**	**-73**	**308**	**140**	**330**	**857**	**529**	**318**	**573**	**1566**	**13**	**3052**	**3.5**	**13.5**	**7.3**

Source: SBI Research

HOWEVER CREDIT PORTFOLIO OF BANKS HAD IMPROVED WITH DECREASING AVERAGE RISK WEIGHTS BUT COVID-19 COULD DERAIL SUCH

- The average rating of the outstanding credit shows that credit portfolio of ASCB has improved with credit belonging to lower ratings (BBB and below) moving down from 10.17 in Sep'18 to 8.53 in Sep'19, thereby leading to reduction in their average risk weights.
- We analysed ACSB sectoral credit (see tables) which reveals some sectors i.e. Metal, Power, Auto, Real Estate, Medical, Educational & Hospitality Services, Textile, Power etc, are having higher risk weights than others. Risk weights when looked in combination with leverage reveal certain sectors such as Textile, Power, Metal, Auto etc. are high risk and high leverage sectors and during COVID they will be more impacted.
- Though auto sector and construction have shown moderate improvement in risk weight, it is still on the higher side and they remain vulnerable going forward. Furthermore, sectors such as textiles, basic metals and construction which were under stress at end-Mar'16 continue to remain under stress at end-Mar'19 as can be seen from the stresses advances ratio. In addition, various other industries including mining and quarrying, engineering, vehicles, gems & jewellery have also come under stress at end-Mar'19. Moreover, the slippage ratio has increased in Sep'19 for textiles, rubber & plastic and construction indicating their further deterioration.
- When we look at the industry-wise GNPA of select banks for Dec'19 quarter, infrastructure, food processing, basic metals and mining, textiles, vehicles and construction are the major stressed sectors. This is in conformity with the stressed advances ratio of the previous quarters. Of these, construction, basic metals including iron and steel, infrastructure sectors will continue to remain under pressure in coming quarters given the current lockdown that the country is facing. However, we believe food processing might perform moderately better in the current circumstances.

NBFC – DIFFICULT TO MANAGE ALM

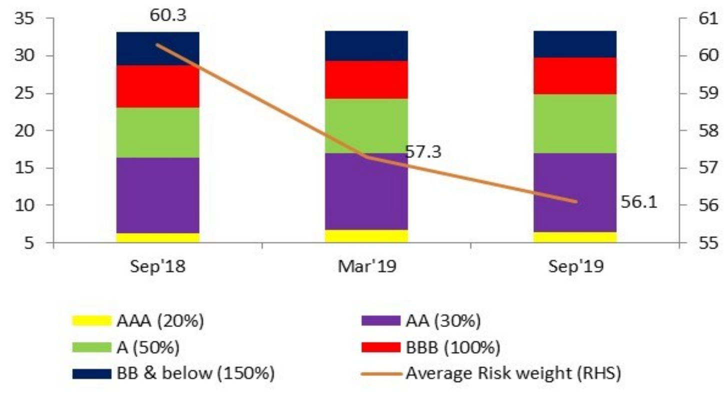
- NBFC can be impacted very hard from this COVID. NBFCs which are depending more on money market or having maturing resources may face short term liquidity mismatches. With three months moratorium on cash flows (repayments), NBFC with less liquidity in hand, may face challenges in honouring their resource maturity and managing ALM. As per the latest number available for Feb'2020, more than Rs 1 lakh crore of papers of NBFCs held by mutual funds are going to mature within six months.
- Though, RBI has opened up long term repo operations of Rs 1 lakh crore to enable Bank/FIs to invest in NBFC papers, Mutual Funds/MF are not bullish on NBFCs papers in view of the sector issue since last year as well as recent crash in the value of liquid funds and redemption pressure in this category. The value of the investment in Commercial paper of NBFCs by Mutual Fund decreased by around 25% from March'19 level to Rs 80171 crore as on Feb'20, which may have been further dented as of March 2020.
- RBI financial stability report estimated that under the 3 standard deviation (SD) shock to GNPA the CRAR of the NBFC sector will decline from 19.5% (as on Sep 2019) to 15.1%. For individual NBFCs the stress test showed that in case of 3 SD shock around 14.2% of the companies will not be able to comply with the minimum regulatory CRAR norms.
- Given the nature of the pandemic, it remains to be seen whether the shock to this sector is in excess of 3SD and if this is so, NBFCs may face severe erosion of capital. We thus need a mechanism to support NBFCs.

Maturity Profile of NBFC papers with AMC - as on Feb'20

Descriptions	Less than 90 days	90 days to 182 days	182 days to 1 year	1 year and above	Total
CP	56170	9462	14539	-	**80171**
Bond	25925	20897	18781	124703	**190306**
Total	**82095**	**30359**	**33320**	**124703**	**270477**
Share (%)	30.4	11.2	12.3	46.1	**100.0**

Source: Market reports; SBI Research

Total outstanding credit (Rs lakh crore)



Source: SBI Research

Sector wise Debt to EBITDA trend	
Sectors	**FY19**
Automotive retail	4.66
Textiles	3.86
Apparel accessories luxury goods	3.85
Independent power producers energy traders	2.77
Steel	2.71
Aluminium	2.52
Industrial machinery	2.24
Construction & engineering	2.13
Auto Parts & equipment	2.10
Pharmaceuticals	1.83
Automotive manufacturers	1.32

Source: SBI Research

Sector-wise average risk weight (%)

Sector	Mar-19	Sep-19
Sectors with Decreasing Average Risk Weight		
NBFC and other financial intermediation	29.9	29.6
Basic metals and others	60.5	54.9
Chemicals, cement and fertilizers	52.8	50.6
Oil and Gas (Extraction, Refining)	30	28
Food processing	92.7	89.3
Real estate	70.5	66.2
Transport	70.2	68.1
Medical/ Educational/ Hospitality Services	94.2	91.7
Auto	66.5	64.4
Manufacturing - Electrical products/ Electronics	55.6	55.1
Machinery and Equipments	81.9	69.6
Retail and wholesale trade	80.9	78.3
Gems and Jewellery	85.8	83.5
Information Technology	37.5	35.0
Sectors with Increasing Average Risk Weight		
Infrastructure/Construction (other than real estate)	65.8	65.9
Energy/ Electricity	66.2	67.4
Communication/ Telecom	27.4	34.2
Texiles and Leather	86.7	87.1
Pharmaceuticals	53	53.7
Rubber, Plastic and their products	72.9	79.8

Source: SBI Research, FSR

COVID-19 : POSSIBILITY OF JOB LOSSES ACOSS SECTORS

- If the crisis continues, many sectors could see huge job losses across different sectors in India. For now, most employers are holding off, with many seeking Government intervention. The most severely impacted sectors could be aviation, travel, hospitality, retail, manufacturing and automotive sectors. In the aviation sector pay cuts and warning bells have already started.
- Most of these losses will be in the informal economy of jobs such as tour operators, drivers, guides, billing, customer service, operations and micro retailers. For formal sector (organised sector), employees with PF and other such benefits would also be impacted. Due to the lockdown in a huge number of districts, lakhs of people are losing their daily wages. The recovery is expected only in July-Dec 2020.
- The Government should push health infrastructure [Rs 25000-30000 crore] at this juncture that has the potential to create sizable employment in many sectors. Relocation of API manufacturing in India must be considered on a war footing. Although the Government has resorted to income transfer to tide over the migrant labour problems, this must be a temporary measure because such income transfer creates no corresponding assets in the economy.

COVID-19 EXIT STRATEGY SHOULD BE STAGGERED POST LOCKDOWN

- **Demographic strategy**: It may be advisable to divide the population into four groups like COVID positive cases, those hospitalized, immunity compromised, and healthy individuals and have well defined strategy for each group because there is no herd immunity in the population for COVID -19. However for geographical areas that have been identified as hotspots/ quarantine/ containment zones, the above classification need to be customised as required at the local level.
- **Economic strategy**: The economic exit strategy must account for how erosion in demand be restored in quick time. For this the following measures may be implemented: (i) First preference must be given to agriculture and procurement as 50% of the population is dependent on agriculture and allied activity, (ii) Some relaxation in inland transport namely – road transport, railways may be considered keeping in mind that dependency of rural population on the same, (iii) Trading activity namely retail trade may be allowed for extended time as it is supports over 25 crore households, (iv) Hotel services including home delivery is large employment generator. Social distancing has particularly impacted this sector. A limited duration of opening of these services for low risk group as explained above may be allowed, (v) Limited construction activity in districts with no cases or limited cases may be allowed, and (vi) Digital infrastructure push such as Aarogyasetu app may be promoted as preparation for possible second wave by mass communication and education.

FISCAL STIMULUS PACKAGE

- Apart from Rs 1.75 lakh crore package announced by FM, of which Rs 73,000 crores is only new and rest is from current budget, Government needs to announce a large fiscal package for the affected industries and sectors which are on high and medium risk. Our calculation suggests that credit to GDP ratio of these sectors is around 12%. We believe that to enable these sectors to grow at the same pace as they would have grown in normal times, a fiscal package of at least Rs 3.5 lakh crore is needed. Our estimates also suggest that given a labour and capital income loss of around Rs 3.60 lakh crore, the minimum subsistence fiscal package must be scaled up by Rs 3 lakh crore, over and above the incremental Rs 73,000 crores that was unleashed in first phase.

Commercial Papers holdings by Mutual Funds (Rs crore)

Period	Outstanding	Change (%)
March' 2019	106130	
Feb'2020	80171	-24.46%

Source: RBI; SBI Research

Job Losses in Covid-19 Crisis

	Industry Size (in tn, Approx)	Total Employee (in mn)	Job Loss (in mn)
Hospitality	390 bn	10	0.5
Tourism	18	30	1.2
Retail	59	46	11
E-commerce	23	6.1	1.5
Restaurants	4.2	7.3	1.5
Aviation	2.22	0.35	-
Ride Hailing (OLA, UBER)	11.84	5	3.5
Online Food Delivery	480 bn	0.5	-
Temp Staffing	444 bn	4.1	-
IT Industry		6	1
Cinema & Entertainment	1.82	8	-

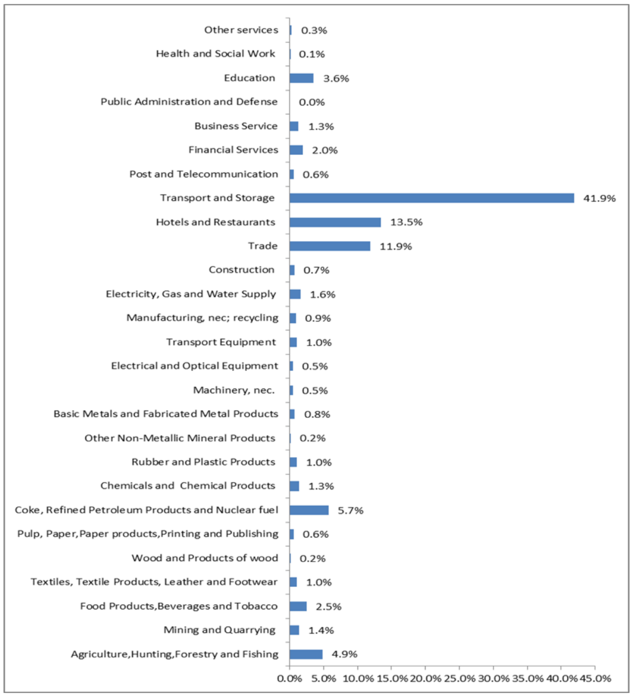
Source: SBI Research

Population group	Strategy
COVID-19 positive cases	100% social distancing including for those in contact with the person
Hospitalised and/or critical	100% social distancing
Immune compromised/pre-existing condition but not infected (*Includes old, patients with heart, diabetes and other diseases*)	High risk group irrespective of age. Social distancing to be promoted using mass communication and education. For older persons full social distancing may continue. Diet and supplement based regime to boost immunity to minimise infection in active population. Use of preventive measures such as masks etc.
Healthy individual but not infected	Low risk group. Moderate social distancing. Diet and supplement based regime to boost immunity. Use of other preventive measures.

LOSS IN OUTPUT OF RS 8 LAKH CRORE

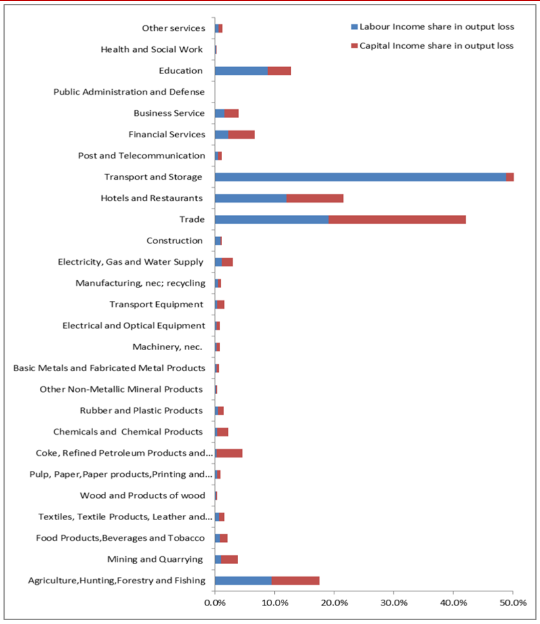
- We estimate the total output loss at Rs 8.04 lakh crore, in which highest loss is in transport sector followed by hotels, trade, education, petroleum and agriculture. These sectors are sectors with maximum forward and backward linkages.
- The income loss, both labour and capital is maximum in hotels, trade, education, petroleum and agriculture. The loss in labour income is because of the unorganized and proprietary form of business organization and nature of self employment in our economy that accounts for around 30% of GDP.

High output loss due to demand inoperability



Source: SBI Research

Labour and Capital Income loss due to demand inoperability



Source: SBI Research

Sectoral Impact			
Sector	Risk	Issues	Universe of Solutions
Hotel	High	The ban on travel to India for a period of one month will have high impact on the sector due to tourist related travel. Additionally, many of the corporates have travel advisories to postpone unnecessary travels. In view of these hotel sector is likely to have high impact on a medium term with reduction in occupancy levels due to reduction in leisure travel as well as business travel.	♦ A moratorium on all working capital principle, interest payments on loans and overdrafts. ♦ Deferment of GST & Advance Tax payments. ♦ Short term interest free or low interest loans for rebuilding business.
Aviation	High	All domestic and international flights are cancelled till 14 April. This will have huge impact on airlines industry.	♦ Rationalization of VAT on ATF. ♦ Immediate rationalization of VAT across States upto 5% as against different VAT rates prevailing at each state. ♦ Rebates on Landing Parking & Housing Charges.
Auto components & Automobiles	High	Certain engine components and electrical components used in automobiles are imported from China. Two-wheeler industry will see greater impact as around 60% of alloy wheels are imported. Manufacturers maintain inventory for a couple of months. However, if the disruption lasts longer, it could further impact an already struggling auto sector as supply disruption of even one component could halt the assembly line.	♦ GST rate cuts and deferment of GST payments ♦ Repayment support scheme ♦ Fast-track the implementation of the scrappage scheme ♦ Extend the BS-VI deadline at least by a quarter
Food processing (Marine Products)	High	Lower demand from China (accounts for 22% of India's exports – which is 30% of sea food market size) will lead to surplus of fisheries in the Indian as well as global seafood market leading to downward pressure on prices impacting domestic farmers negatively	♦ Domestic and export market incentives to be introduced for FY21 to process and liquidate inventories.
Construction	High	Delayed construction owing to disruption in the supply chain network. Estimated job loss of around 30% in the real estate sector. Weakened sales within residential segment and lower footfalls for retail and hospitality segment.	♦ Relaxation for project delays in the residential segment (RERA compliance) for a maximum of six months.
Pharmaceuticals	Medium to High	India imports 69% of its total pharma bulk drugs intermediates from China. Imports of raw materials for key antibiotics, vitamins from China have been impacted. Hence, the Government has restricted exports of key APIs (44% of total exports), which will impact export revenues.	♦ Relax rules on restriction of export of APIs. ♦ Faster reimbursement of GST and other levies.
Textile	Medium to high	(i) India exports 27% of total cotton yarn to China. Decrease in exports, as a consequence of coronavirus impact, is likely to reduce domestic prices of cotton yarn further. Effectively, this will lead to lower margins for cotton yarn players. (ii) In case of Readymade Textiles, India exports 1% of total RMG to China, which will not have major impact. Additionally, with the withdrawal of anti-dumping duty on purified terephthalic acid, the man-made fibre industry is set to benefit from the higher availability of raw material at lower prices, leading to an improvement in operating margins. The lower raw material price volatility and lower crude oil prices are benefiting the industry in form of improved margins and reduced working capital requirements.	♦ Tax compliances deadline needs to be extended. ♦ Tax reliefs need to be provided, thus boosting consumer spending. ♦ A comprehensive financial support package along the lines announced in Germany and the U.S. can be considered. ♦ Provide an adhoc reimbursement/ concession of 10-15% against the recently approved Remission of Duties or Taxes on Export Product scheme.
Metals and Mining	Medium to high	Sector highly leveraged; high labour intensity; dependent on raw materials which are mainly cash-and-carry – cash flow constraints will happen sooner than later; sales will be impacted due to distress in auto and construction sector. Highly labour intensive sector and supply disruption here will hit operations; also logistics sector employment is driven by this sector	♦ Waive GST on bidding amount. ♦ Rationalise taxation of freight. ♦ Immediate release of funds for projects worth Rs 102 trillion under National Infrastructure Pipeline. ♦ Stimulus/revival packages for strategic sectors

Source: SBI Research

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