Impact of Lockdown on the Indian Economy

Disruptions leading to new normal post Covid-19

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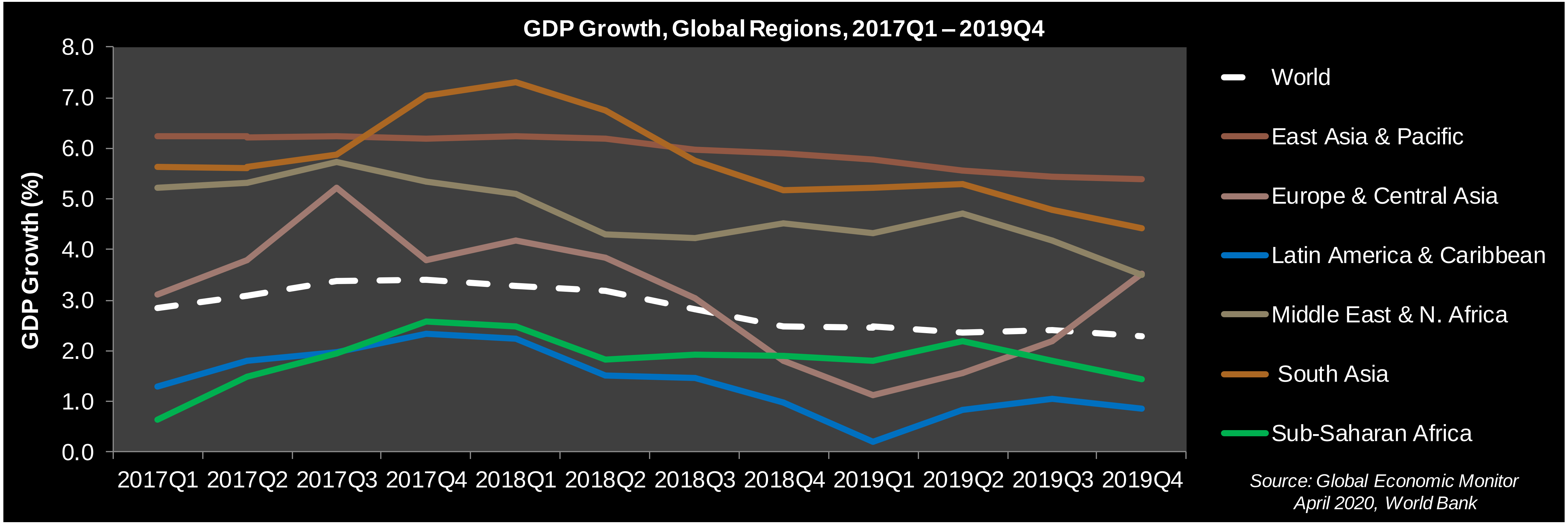
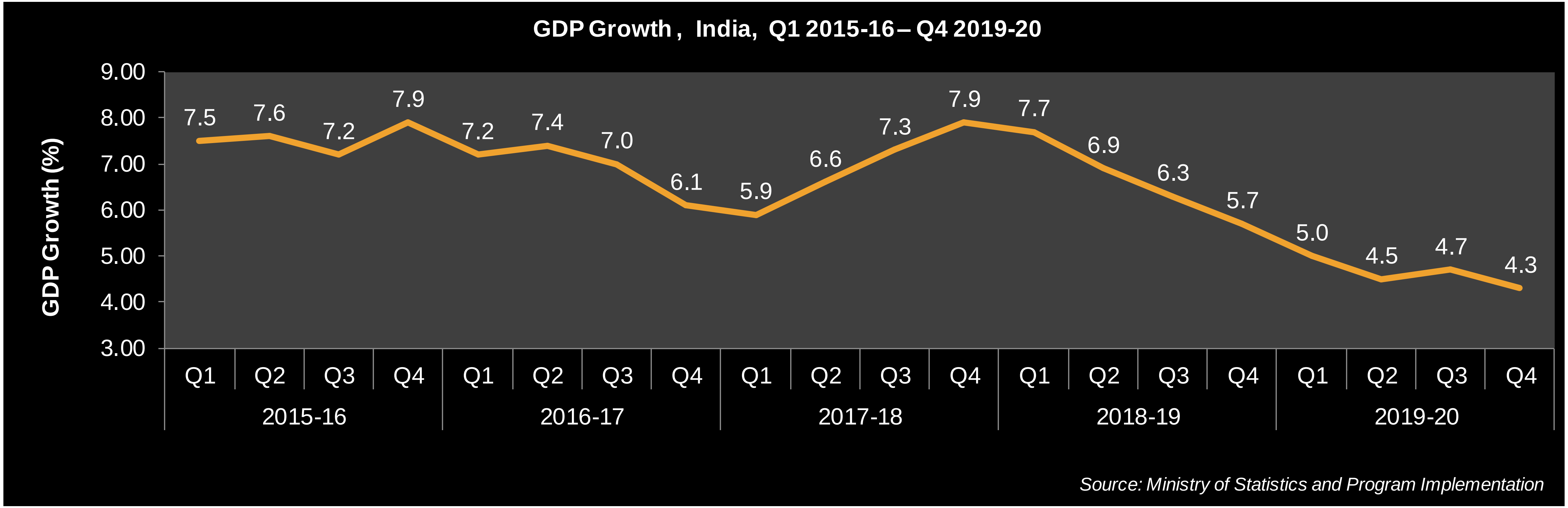
Economic Impact of COVID-19 Outbreak — Global Scenario



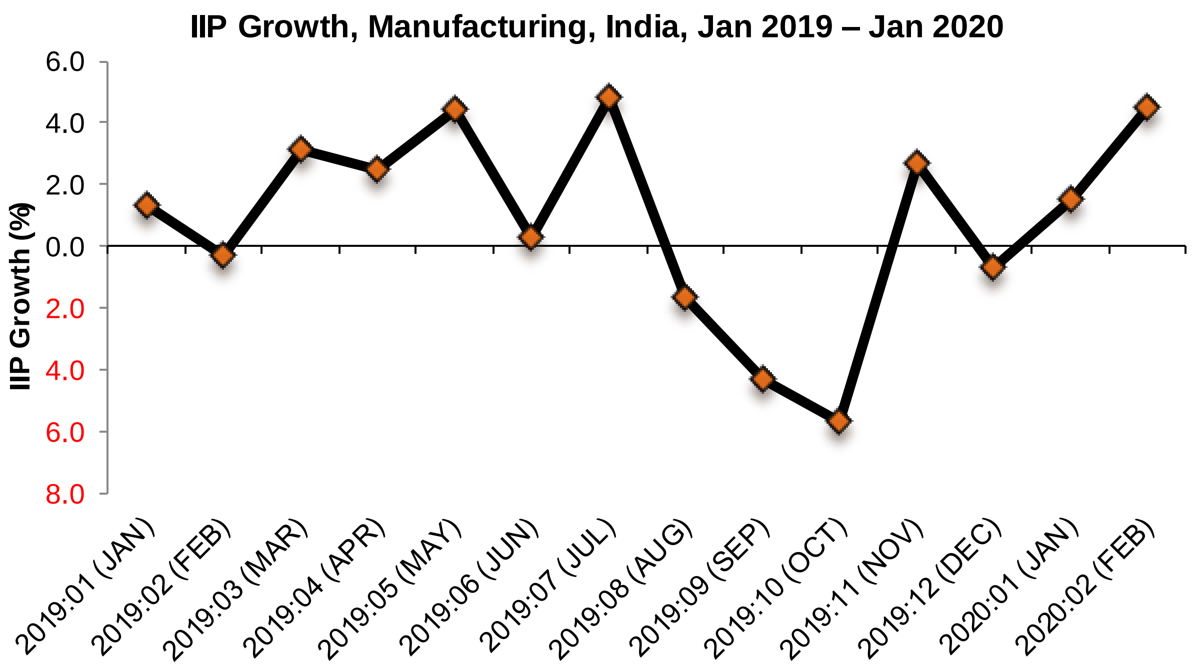
- The Covid -19 pandemic has stuck the world at such a time when the global economy was already facing a downturn.
- This pandemic is the defining global economic and health crises of our time and the greatest global Humanitarian challenge the world has faced since World War II.
- The virus has spread widely, and the number of cases is rising daily as governments work to slow its spread. Along with an unprecedented human toll, COVID-19 has triggered a deep economic crisis. The global economic impact could be broader and deeper than the Great Depression.

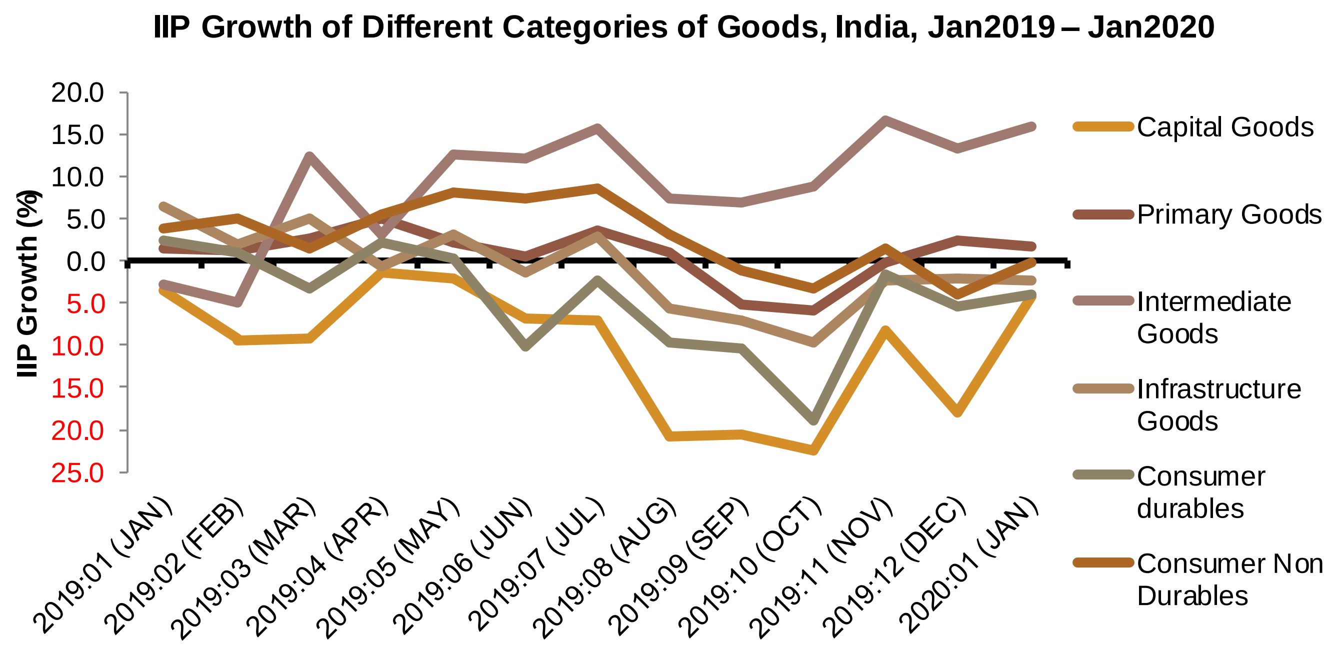
Economic Impact of COVID-19 Outbreak — Indian Scenario



- India's real GDP decelerated to its lowest in over six years in 4Q 2019-2020, and the outbreak of the COVID-19 posed fresh challenges. Steps taken to contain its spread, such as nationwide restrictions due to complete lockdown of states, have brought economic activity to a near standstill and could impact both demand and supply as well as investment.
- While Indian businesses, barring a few sectors, can possibly insulate themselves from the global supply chain disruption caused by the outbreak due to relatively lower reliance on intermediate imports, their exports to COVID-19 infected nations could take a hit. In sum, the three major contributors to GDP -- private consumption, investment and external trade -- will get affected.

India's Industrial Production Performance (IIP)

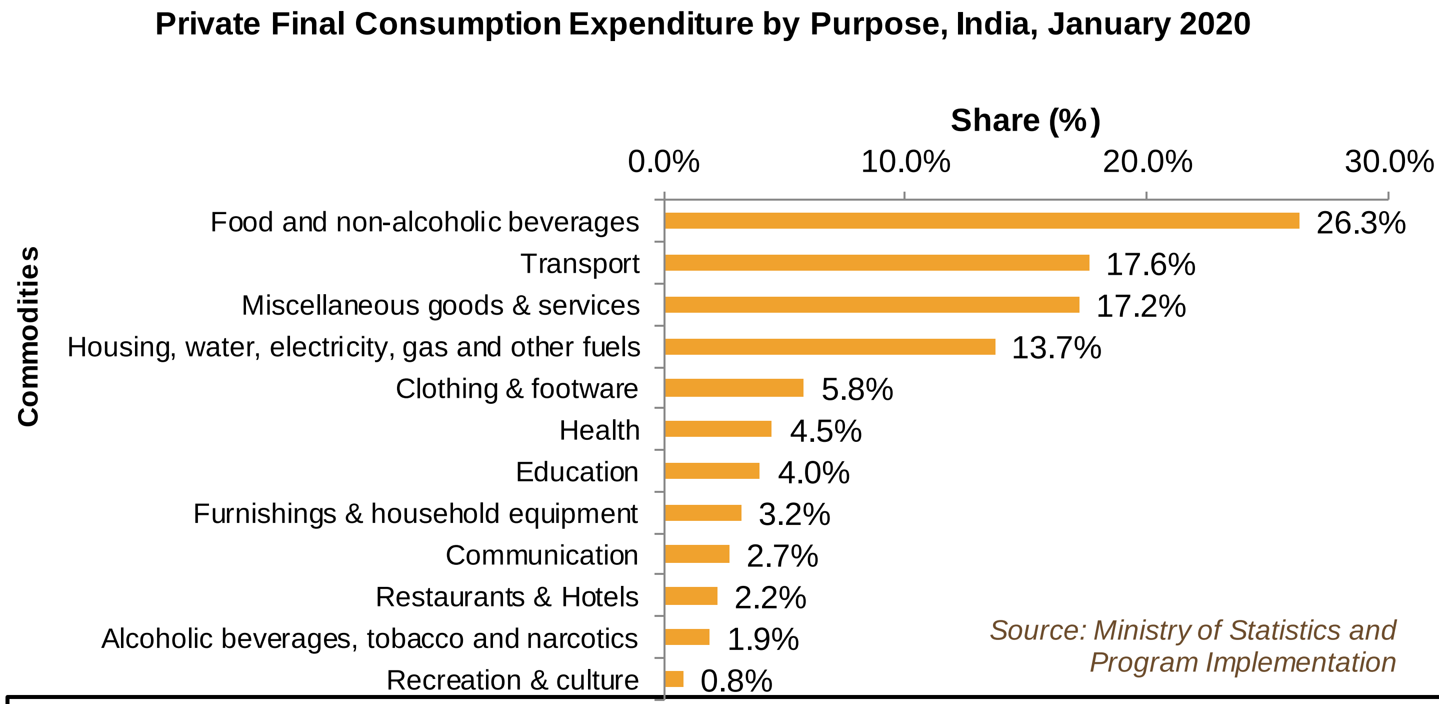




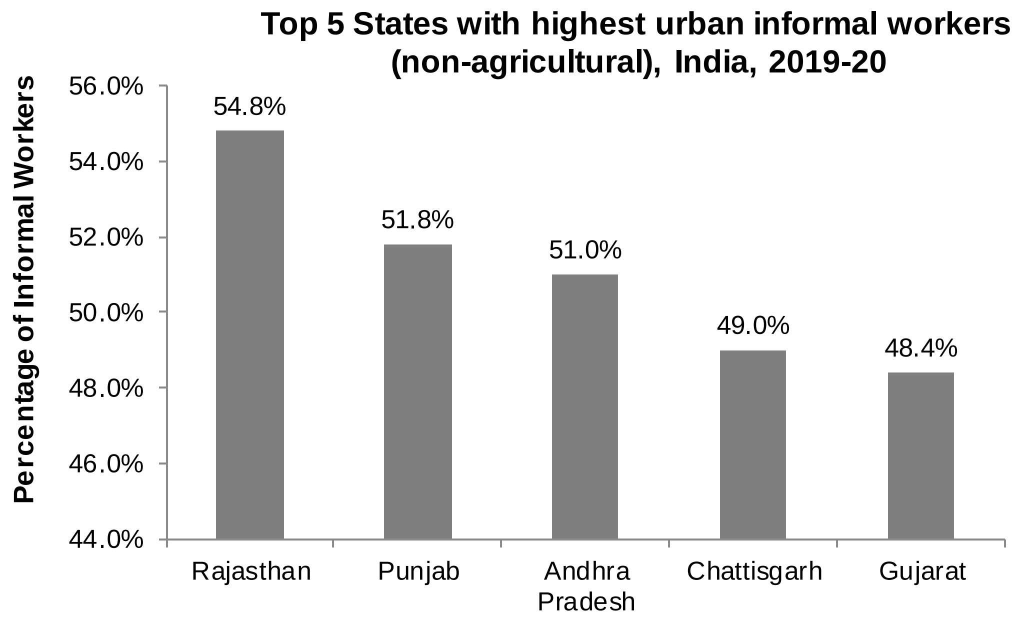
Source: RBI

- India's factory output rose to a seven-month high of 4.5% in February 2020 before the government imposed a nationwide lockdown in March that has crippled normal economic activity.
- The eight infrastructure sectors which contribute over 40% of the Index of Industrial Production (IIP) touched an 11-month high of 5.5% in February 2020. Factory output recorded a broad-based and sharper-than-expected pickup in February, suggesting that some parts of the economy were on the path of a gradual revival.
- However, during February, contraction in capital goods (-9.7%) and consumer durables (-6.4%) further deepened, signaling investment intentions and consumer demand were sluggish even prior to the lockdown.
- It is expected that after the lockdown is lifted, demand for consumer discretionary items will take time to recover given the poor consumer sentiments in the midst of job losses and pay cuts.
- Capital goods demand will also remain weak as businesses will be wary of capex in these uncertain times.

India — Demand Side Impacts



Source: Ministry of Statistics and Program Implementation



Source: Labour Force Survey

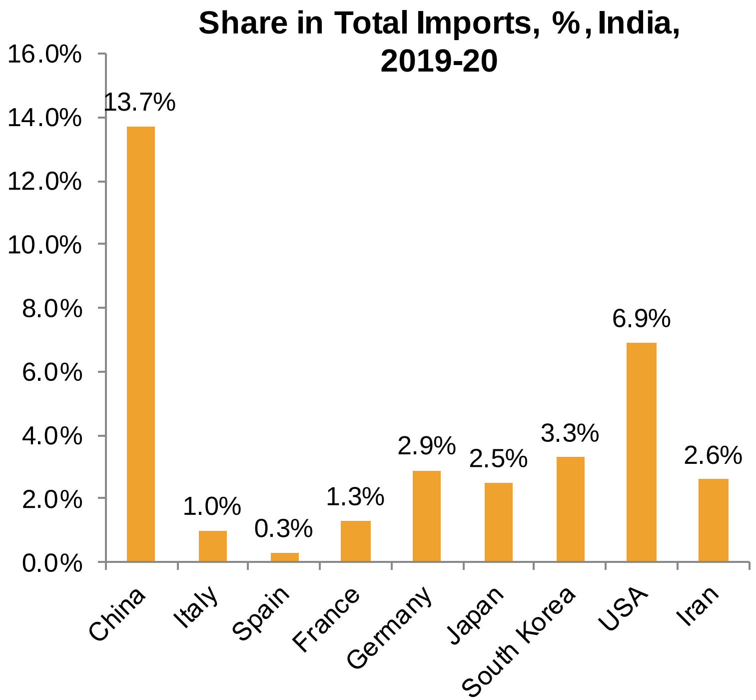
Private consumption

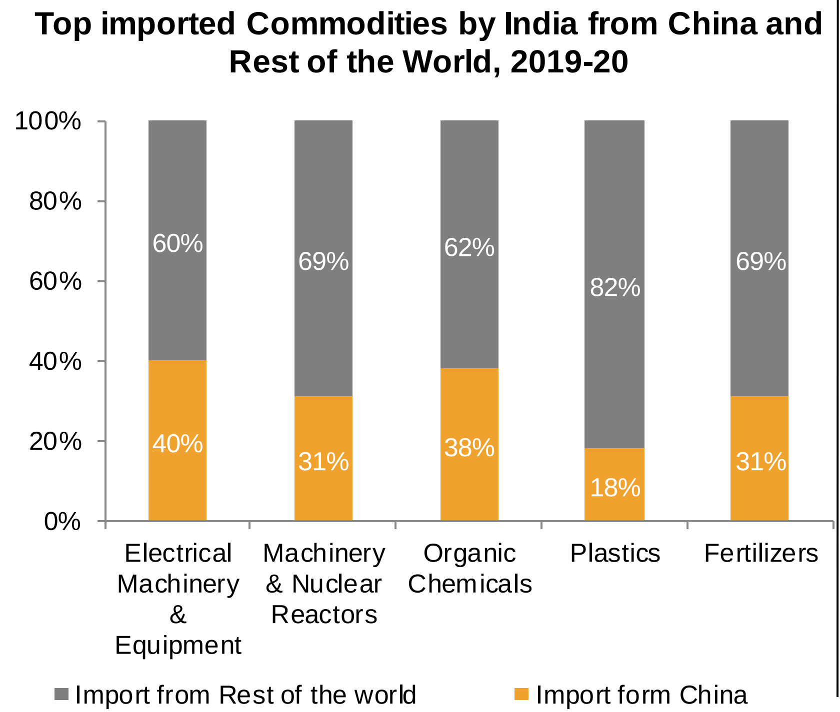
- The lock-down is likely to have a sizeable impact on the economy, most significantly on consumption, which is the biggest component.
  - Abrupt stop of urban activity could lead to a steep fall in consumption of non-essential goods
  - The impact would be even more severe if domestic supply chain disruption caused by the lockdown were to affect the availability of essential commodities

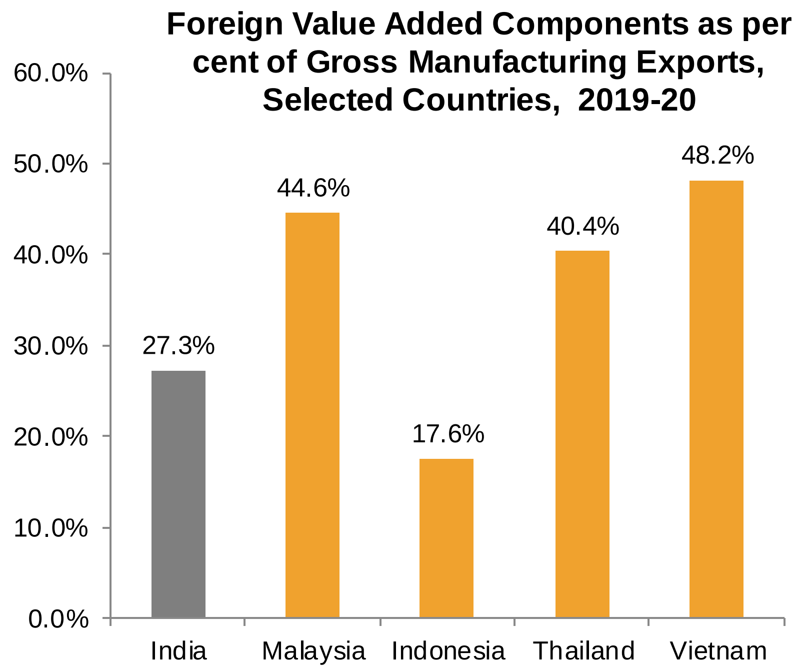
Informal sector

- Around 37 per cent of regular wage/salaried employees in urban India are informal workers (non agriculture), who will face uncertain income following the stalling of urban activity
- INR1.7 trillion stimulus package, focused majorly on cash transfer and food security, was unveiled.
- Incidentally, the migratory labour force is derived from Bihar, UP, Jharkhand,Orissa,MP and Chattisgarh mostly. Their going back to their home states will further create pressure on those states.

India – Supply Side Impacts







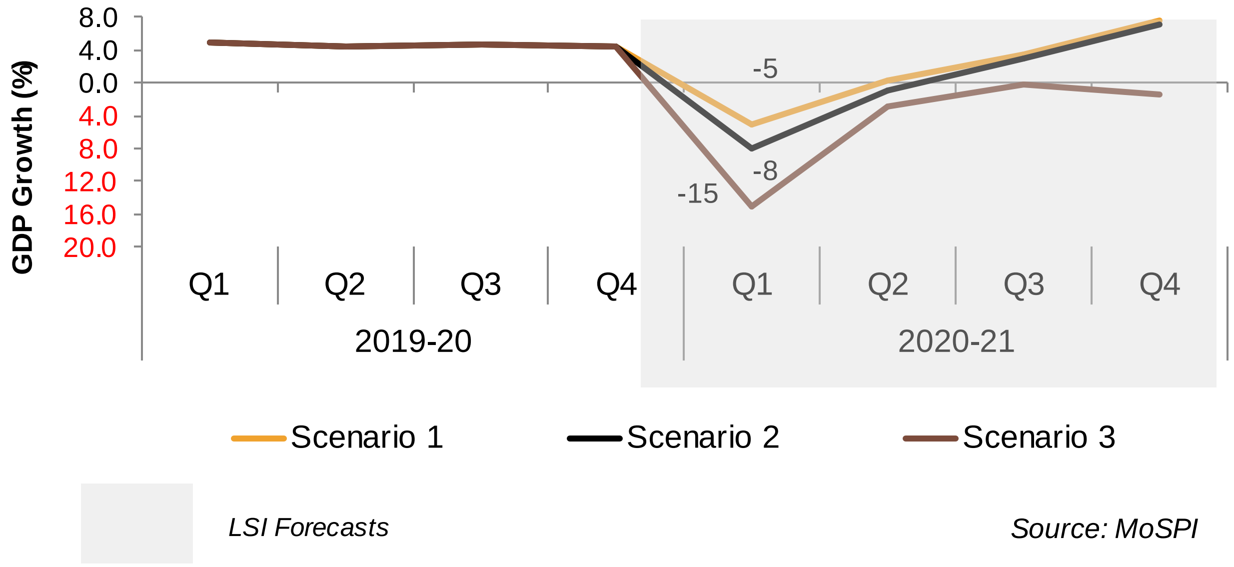
Source: EXIM Data Bank, OECD

- Shutdown of factories abroad and the resultant delay in supply of raw materials could result in a shortage of raw materials from other countries for companies largely depend on imported raw materials.
- Imports of foreign value-added component in India's gross manufacturing exports is much lower than that of its Asian peers like Malaysia, Thailand and Vietnam.
- While a disruption in output in China could impact some Indian industries, the economy could be relatively insulated given its low reliance on intermediate goods from China as well as the common practice in Indian firms of stockpiling inventory.

Headwinds are more likely on account of the demand rather than supply-shocks in countries affected by COVID-19

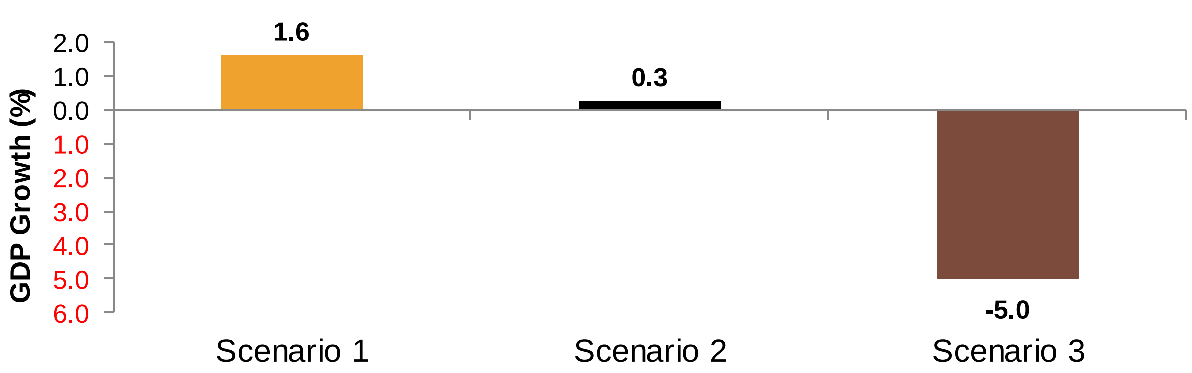
India GDP Estimates Based on Scenario Analysis

Real GDP Growth, India, Q12019 – Q42020



Source: MoSPI

Approximate Real GDP growth, in FY2021 over FY2020, India



Source: LSI Research

- We estimated 3 economic scenarios based on the probable tenure of lockdown in the Indian Economy.
- **Scenario 1: Lockdown till May 3rd** - Even though Scenario 1 would see a quick rebound, the livelihoods of eight million workers, including many who are in the informal workforce, could be affected. With corporate and micro, small, and medium-size enterprise (MSME) failure, non performing loans in the financial system could rise by 3-4% of loans. The economy could contract by about 5% in the first quarter of fiscal year 2021,with GDP growth of 1.6%- 2% in fiscal year 2021
- **Scenario 2: Lockdown extended till mid May followed by a gradual restarting of economic activities.** This could put 32 million livelihoods at risk and swell non performing loans by 7%. The cost of stabilizing and protecting households, companies, and lenders could exceed 10 lakh crore Indian rupees or more than 5% of GDP. The economy could contract by about 8% in the first quarter of fiscal year 2021,with negligible GDP growth of 0.30% in fiscal year 2021.
- **Scenario 3: Scenario 2 with additional 2–3 week lockdowns in Q2 and Q4 2020-21 in case of resurgence of virus.** This could mean an even deeper economic contraction of around 5% for fiscal year 2021. This could occur if the virus flares up a few times over the rest of the year, necessitating more lockdowns, causing even greater reluctance among migrants to resume work, and ensuring a much slower rate of recovery.

How some sectors are affected by the Covid 19 triggered lockdown?

Highly Affected Industries

- Banking and Insurance
- Aviation
- Tourism & Hospitality
- Logistics
- Automobile
- Construction & Real Estate
- Education
- Iron & Steel

Medium to Low Affected Industries

- Agriculture
- FMCG
- Healthcare
- Food Processing
- Telecom
- Energy & Power
- Petrochemicals
- E- Commerce

Current Impact – Aviation, Tourism & Hospitality

Aviation

- As per International Air Transport Association (IATA), 2020 global revenue loss for passenger business is estimated between a range of 11% to 19%.
- In the early phase of Feb'20, the Internal Civil Aviation Organization (ICAO) estimated that the internal passenger capacity of India could dip by 2%. However, in March'20 the projection jumped to 27%.
- Due to the COVID 19 cases the global oil price have crashed . However, the aviation industry has not been able to take advantage.
- Complete suspension of all the flights has muted the growth and may cause a 25% reduction in the revenue of the aviation industry. The upcoming time will be tough for the industry as there will be a significant drop in the travel demand.
- The declining earning of the industry will be causing trimming of the salary of its employees and the process has already started in many Indian airline companies. Might also lead to retrenchment in future.

Tourism & Hospitality

- The ongoing crisis may cause the sector to lose around INR 1.7 lakh crore with a probability of job loss of more than 3 crore people.
- The tourism sector consists of different sizes branded/unbranded hotels, online and offline tour operators, travel agencies etc. who are now going to face this major hit. Hospitality sector which also largely depends on the tourism sector has been massively affected.
- Occupancies in the hotels have drastically reduced and recoveries are not expected soon. The growth of the industry has also become questionable for the coming 12 to 18 months. From March'20, the greater rate of cancellations from corporate and leisure segments started coming in. Food and beverage business will also take a beating due to scare of Covid19, corporate revenue fall and salary cuts

Current Impact – Automobile, Logistics

Automobile

- The outbreak of COVID 19 happened in such a time when the Indian auto sector was looking for a recovery.
- Around 27% of automotive parts are imported from China in India. Many renowned auto part factories are located in the Hubei province of China which was badly impacted by the spread of COVID 19. A complete shutdown of those factories in China in the last few months can definitely cause the delay in the automobile production in India in the near future.
- The vehicle production is going to be contracted by 8.3% in India in 2020. Maruti Suzuki, has also witnessed a fall in the sales of passenger vehicles by 19.23% between March'19 to March'20.
- Currently , due to the ongoing national lockdown, the auto companies like Mahindra & Mahindra, Ford Motor, Toyota Motor have suspended their manufacturing activities. Basically, the demand for high end cars will suffer . The small cars segment is expected to slowly improve and take a large share of the high end as well.
- It is expected the industry is going to incur a loss of INR 11000 crore which is inclusive of loss in demands due to job losses and pay cuts.

Logistics

- Reduced demand for logistics due to reduced production across sectors will put downward pressure on prices across various transportation and logistic sub sectors like warehousing, freight, transportation among others.
- Freight traffic volume spike typically in the months of February and March is expected to be delayed and the slowdown is anticipated to stay till monsoon
- Trucking sector is expected to witness immediate adverse effect in the short term on account of reduced demand due to decrease in production as well as domestic and EXIM trade. Spare parts manufacturers & retailers etc. will also take a hit
- Ports will also experience reduced traffic volume decreasing the overall utilization level and revenue in short and medium term
- Storage facilities which are mainly dependent on EXIM and domestic trade will experience reduced cargo volume thus impacting revenue.

Current Impact – Banking & Insurance

Banking

- Banks profitability will be under pressure due to:
  - Reduced off take of loans under recessionary market conditions
  - Increased delinquencies after the moratorium period
  - Depressed Net Interest Margin in a low interest rate regime
  - Fall in transaction banking due to lower cross border trade
  - Drop in advisory fee income on distribution of mutual funds and other investment products resulting from volatility in markets and lack of demand
- Retail financing industry which was one of the key drivers of credit growth will be impacted for at least two quarters as the demand for housing assets, vehicle loans, consumer goods and working capital financing will get hit due to general slowdown of economic activities; the reason being lack in disposable income surpluses.

Insurance

- Renewals may get delayed due to paucity of money in the hands of policyholders. With policyholders focusing on pure risk covering policies in these trying times, there is more focus on customer retention.
- Fresh savings business and Property and Casualty business issuance is expected to be muted. Endowment products may stand to gain from change in mix by retail investors of allocations between long dated insurance products and investment in capital market.
- Growth in SME group health segment is likely to be muted in the short term given the overall economic scenario.
- High transmission rates of diseases could increase the in patient treatment and pre and post hospitalization claims. Elective surgeries are getting pushed out and there will be lesser claims in the shorter run, but near term should see an increase in the claims and hence loss ratios.
- Amid uncertain future economic activities arising from COVID 19, insurers will seek increasing shelter in government bonds

Current Impact — Construction & Real Estate, Education

Construction & Real Estate

- Lockdown has resulted in construction sites being shut down which will have a significant impact on projects. The shutdown has come at a time of peak construction activity
- The slowdown in construction activity due to the lockdown would significantly weaken the liquidity profile of its rated engineering, procurement and construction (EPC) companies.
- The housing sector will see muted demand with significant reduction in new launches. With recession in US and European economies, the existing demand for commercial real estate will get curtailed or get delayed till H2 of the current year.
- There is high possibility of postponement of Real Estate Investment Trust (RITS) launch which was scheduled in 2020. This would mean further liquidity pressure on real estate developers.

Education

- Schools around the country have been severely impacted facing closures that could last several weeks that too during the crucial period of academic year ending
- Public schools and low-fee private schools will face a larger impact due to heavy reliance on brick and mortar means of teaching.
- Private school that have the means and resources could try to minimize impact on teaching and learning but could struggle with cash flow issues if fee payments are delayed.
- Most of the higher educations institutes are not fully geared to implement online training with constraints around availability of digital content, technology and delivery capabilities.

Current Impact – Iron & Steel

Iron & Steel

- Domestic steel demand is likely to see a sharp dive in the first quarter of the coming fiscal due to stalled factories and production cutbacks across major user industries like auto and construction. With poor demand likely to pull down steel prices and factories running at lower capacities, steelmakers' profitability is also expected to come under pressure.
- Steel industry growth is closely linked to that of country's GDP. With GDP growth rate being revised, domestic steel consumption growth is also expected to come down.
- Steelmakers have scaled down output and are maintaining plant and equipment on standby mode with minimal workforce amidst the lockdown. With the lockdown in place through May 3rd and uncertainty thereafter, steelmakers' volumes and margins are likely to be at risk. The lockdown has also stalled ongoing expansion of projects.
- Steel companies have booked orders till March-end and will start facing the challenge to sell products from April as most of the auto majors and white goods producers have downed shutters. In many state, movement of raw material needed for steel making is being impacted due to nationwide lockdown. Production has gone down as there is no purpose of building up inventory levels.
- Steel demand in India would contract 14-17% this fiscal as per the baseline estimate done by analysts. Extended vulnerability, on the other hand, will increase the demand contraction to 22-25%. Forecasts for the steel industry's margin have been revised to almost half for FY 21 to 16.5% from the previous estimate of 30%. It is pointed out that prices of coking coal, the main raw material for the sector, are inching up and companies will be running at a lower capacity of 79-80% against a capacity utilization rate of 81% in FY 20.
- The impact of a slowdown in global demand on the domestic sector will be limited as steel producers export only 8% of their total production. However, since the metal industry has strong forward linkages to many important sectors such as automotive, construction, infrastructure and manufacturing, a slowdown in business activity in these sectors will inevitably drive down the derived demand for metals.

Current Impact – Agriculture, Food Processing

Agriculture

- The government has exempted many agricultural operations from harvesting to movement of produce to mandis from lockdown rules.
- Several State governments have already allowed free movement of fruits, vegetables, milk etc. Fresh meat, seafood have erratic supply chain as there is no clarity from State government on retail shops.
- Companies that depend on exports for agri-based finished goods sale and imports of raw ingredients will be impacted too.
- Owing to existing inventories impact will be less on fertilizers except for logistics, and port clearances in India.
- Migratory labour movement for harvesting wheat, paddy, pulses etc. should be allowed for the ongoing Rabi season. Insulating the rural food production areas in the coming weeks will hold a great answer the macro impact of Covid 19 on the Indian food security.

Food Processing

- The central government has directed states not to obstruct or call for the closure of food processing units, and maintain uninterrupted supply during the nationwide lockdown period.
- The Department for Promotion of Industry and Internal Trade (DPIIT) has given clear instructions to state authorities to ensure interstate movement of goods related to the food processing industry. In order to prevent panic buying and avoid inconvenience, the DPIIT also advised states to allow all retail/ grocery, cash and carry and wholesale units to remain open.
- Workers, operators and transport vehicles were proposed to be given due permissions to ensure operational viability and maintain uninterrupted supply of food products.
- India's food export market is hit badly, though the exporters are expecting the impact to come around in a lead time of three months. They anticipate a hit of around $1 billion due to disruption in trade because of closed borders and order cancellations.
- India's dairy, meat and cereal exports could also see a slump over the new few months, due to the outbreak.

Current Impact — Healthcare

Healthcare

- The healthcare sector is at the epicenter of this unprecedented global pandemic challenge, and the private sector has risen to the occasion, by offering to the government all the support it needs.
- Unlike other sectors, the sector is facing a twin-burden:
  - (a) Investing additional manpower, equipment, consumables and other resources to ensure 100 per cent preparedness for safety in the hospital(s) and eventual treatment of patients, if needed.
  - (b) Experiencing a sharp drop in out patient footfalls, elective surgeries and international patients.
- The sector's costs are predominantly (around 80 per cent) fixed, it is expected that there will be losses and severe impact on cash flows. However it is also expected the whenever the government announces any fiscal stimulus, the industry will be looked upon favourably.
- The industry is also likely to benefit from increased awareness about healthcare and the more government focus that this pandemic is likely to result in.
- The medical devices industry has also taken a hit. The country imports consumables, disposables and capital equipment including orthopedic implants, gloves, syringes, bandages, computer tomography and magnetic resonance imaging devices from China. Due to the current crisis in China, the medical device manufacturers across India are finding it difficult to source important raw materials and electronic components from Chinese factories.
- While pharmaceuticals manufacturing is exempted from the lockdown, non-availability of labour, lack of clarity over transport over ingredients and physical distancing has bottlenecked production volumes.
- The domestic manufactures should look for alternative sources or start to work on becoming self dependent and eventually the global manufacturing for pharmaceuticals products and medical devices.

Current Impact – FMCG, E-Commerce

FMCG

- The lockdown announcement urged the consumers to over stock on essential products and commodities leading to a uptick in spend by consumers in categories like rice, wheat and lentils. This gave slight fillip to sales for FMCG companies. However, many firms are ramping up their manufacturing and distribution network for the essentials items, they are facing bottlenecks in logistics and transportation along with availability of man power.
- Firm, operating at about 20-25 per cent of production levels of essential items, along with the government on the issue and witnessing improvements with each passing day.
- FMCG will be more resilient than other sectors and should bounce back faster, and within this segment, consumer staples should recover faster than discretionary items.
- Post Covid-19, there is a possibility of a massive shift in consumer behaviour, driven largely by an increased adoption of technology. This will lead to rise in consumers, who had been largely dependent on buying vegetables and meat from unorganized markets, shifting their demand to organized players, where quality and hygiene parameters are adhered to.

E-commerce

- The e-commerce sector is facing the challenges of lockdown in the form of increased pressure on supply chain for deliveries of products. Also these companies will need to equip their employees with the appropriate resources to manage operations remotely with little or no disruption.
- India's leading retailers, e-commerce firms are bracing up for a surge in home deliveries and online sales for next six months since consumers are unlikely to step out of their homes for shopping in fear of catching the Covid-19 virus. This includes fresh hiring of delivery personnel, training existing store staff for e-commerce business and building more warehouses.
- Even retail chains like Big Bazaar, Reliance Fresh and Spencer's Retail have been allowed for doorstep deliveries by the government.
- E-commerce has been deemed an essential service during the extended lockdown as per revised guidelines issued by the Ministry of Home Affairs The government has encouraged e-commerce companies to collaborate with local kirana shops to supply essential items as an 'ideal solution' in the current situation

Current Impact – Telecom

Telecom

- Telecom is one of the most essential services and sectors at the time of global pandemic. It has been the key enabler in helping the governments and businesses in timely communication, tracking and also helping implement work from home.
- The increased broadband usage at home has resulted in pressure on the network and demand in excess of 10%.
- The telcos are requesting OTT platforms to ease network stress by reducing the video quality. Internet and broadband connectivity face tremendous pressure due to reliance on work from home.
- However, the telcos are bracing for sharp drop in subscriber additions. Demands for bandwidth is expected to go up from existing customers.
- Collaboration technologies along with telecom technologies will have an opportunity to create new products and serving offerings. A large focus is the need of the hour on MSME clients who will explore these options to grow business.
- The disrupted global supply chains will impact the handset manufacturers. Leading smart phone manufacturers are closing down their factories in many parts China. In general there is an expectation of a shift in manufacturing destination from China to India.

Current Impact – Energy & Power, Petrochemicals

Energy & Power

- India's fuel consumption slumped by a record 50% in April 2020 as all petroleum products except LPG saw massive demand erosion. Petrol sales were down 64%, while diesel slumped by 61%.Industry officials said this is the biggest ever drop in sales.
- The only fuel that showed growth was LPG as the government dole of free cooking gas cylinders to poor households fired up consumption by 21 per cent during April 1 to 15.
- Petrol and diesel consumption is likely to pick up in the second half of the month as the government has allowed trucks to ply as well as farmers and industries in rural areas to resume operations after April 20.
- Power consumption by industrial, commercial establishments (high tariff paying sectors) and passenger railways, which comprise 40% of pan India electricity demand, has come to a halt.The revenue deficit for the state power distribution companies is estimated to be INR130 billion per month on all India basis.
- The under-construction renewable power projects as well as EPC and manufacturing companies in solar segment are likely to face execution delays because of disruption in supply chain in Indian, labour availability and import dependency on China for sourcing of PV modules. The Ministry of New and Renewable Energy has notified that time extension can be provided for all renewable energy projects, which are impacted by the supply chain disruption due to covid outbreak under the force majeure clause.

Petrochemicals

- Petrochemicals prices are already under pressure given the global overcapacity and slowdown in demand.
- Petrochemical trades in India were disrupted with plants shutting down and ports declaring a force majeure. Supply chains are a major risk, as both its ports and petrochemical plants shut down.
- Polyolefin producers have halted domestic dispatches on request from processors due to manpower shortage following the government's stay-home order, which will inevitably lead to shutdown of factories. Those that manufacture packaging for fertilizers and pharmaceuticals have reached out to suppliers seeking shipments, to which polyolefin producers could not respond immediately amid the lockdown.
- India's chemical and petrochemical industry has claimed that it has multiple cross-linkages and is critical in functioning of many essential goods like food, edible oils, drugs, fertilizers etc. Hence, it has demanded for essential service status during the lockdown.

Impact & Recommendations – MSME Sector

- India's 21-day lockdown, which was supposed to end on April 14, has resulted in losses worth Rs 7-8 lakh crore. With the lockdown extended further, government support seems necessary to sustain small businesses.
- All the MSME's/Self Employed Individuals/Entrepreneurs associated or whose revenues depend either directly or indirectly on the sectors affected by the lockdown have been on the verge of a shutdown situation or already closed.
- Over 60 odd million, are in real danger due to market conditions and lockdown. With over 92% drop in domestic sales compared to the same time last year, and over 100% drop in export sales compared to the same time last year, these sectors are struggling to even maintain its work force.
- Work from Home is not a probable option for most of the MSMEs and are applicable to less than 8% of the core MSME and Services sector. There has seen a drop in over 79% of productivity in manufacturing sector and about 63% productivity in the service industry.
- In its fresh suggestion, CII has asked the government to enhance working capital, extend moratorium on loans along with wage support and immediately release of government dues. Besides, the body has also asked the government to provide, additional funding through MUDRA and other MSME-focused banks.
- Moreover, there will be pressure of loan repayment from NBFCs. Hence RBI needs to cater to this aspect in their next move.
- The health of these MSMEs have a bearing on the entire supply chain, including the large corporate. Therefore, special, immediate and substantive support measures are required to see the MSMEs through this crisis.
- **Our recommendations for MSME sector are:**
  1. Working capital has been eroded, so loan at a concessional/ competitive rate for 2 operating cycle which will be repaid in 3 years after initial moratorium of 6 months to enable this sector to start operation.
  2. Exemption of GST for first 6 months
  3. Subventions of interest by govt for exports.
  4. Reduction of Income Tax for one year.
  5. Deferred payment of employees contribution PF by one year.
  6. Premium on ECGC for export should be reasonably low.

Impact Analysis on Some Large Industries at A Glance

Parameters		Apparel & Textile	Auto	Aviation & Tourism	Building & Construction	Chemicals & Petrochemicals	*Consumer retail & Internet business: Category1	*Consumer retail & Internet business: Category2	Oil & Gas
Supply Side	Price variations (of key raw materials –where applicable)	Medium	Medium	Medium	High	High	Medium	High	High
	Production Slowdown	High	High	Not Applicable	High	High	Low	High	Medium
	Cash Flow Constraint	High	High	High	High	High	Medium	High	High
	Supply chain disruption	Medium	High	Not Applicable	High	Medium	Low	High	Medium
	Imports (if applicable)	High	High	Not Applicable	Unknown	High	High	High	High
	Labour Force	High	High	High	High	Medium	Medium	High	Medium
Demand Side	Lockdown Restrictions	Medium	High	High	High	High	Low	High	High
	Consumer sentiment	Medium	High	High	High	Not Applicable	High	Unknown	Medium
	Exports (if applicable)	High	High	Not Applicable	Unknown	Low	Unknown	Unknown	High

** Category 1 : Indicates impact for essential product categories such as food, grocery, health/ hygiene, e-commerce delivery companies*
Category 2: Indicates impact on non essential product categories such as durables, apparel other discretionary spends

Impact Levels	High	Medium	Low	Unknown	Not Applicable

Impact Analysis on Some Large Industries at A Glance

Parameters		Power	Telecom	MSMEs	Transport & Logistics: Transport Infrastructure	Transport & Logistics: Logistics & Freight Services	Transport & Logistics: Public Transport
Supply Side	Price variation of key raw materials	Medium	High	Medium	Medium	Low	Low
	Production Slowdown	Low	Not Applicable	High	Medium	High	High
	Cash Flow Constraint	High	High	High	Medium	High	High
	Supply chain disruption	Low	Not Applicable	High	Medium	High	Not Applicable
	Imports (if applicable)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	High	Not Applicable
	Labour Force	Low	Medium	High	Low	Low	Low
	Bandwidth Availability	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Network Availability	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Demand Side	Lockdown Restrictions	Low	Medium	High	Medium	High	High
	Consumer sentiment	Medium	Medium	High	Not Applicable	Not Applicable	High
	Exports (if applicable)	Unknown	Not Applicable	High	Not Applicable	High	Not Applicable
	Interconnection usage Charge(IUC)	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Roaming	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Over the top (ott)	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Voice/SMS	Not Applicable	High	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Impact Levels	High	Medium	Low	Unknown	Not Applicable

Reserve Bank of India — 1st Prescriptions Post Lockdown

India's Central Bank intended to mitigate the negative effects of the COVID-19, revive growth and above all preserve financial stability. Hence it has come out with two sets of prescriptions in the Lockdown tenure aiming to give banks more money in cheaper rate, more time to repay the borrowed amount and force banks to lend the money.

- **On 27th March 2020**, the RBI announced the followings :
  - ✓ **Reduced Repo Rate** – reduced by 75 basis points to 4.4% from 5.15%. The effect of reducing the repo rate helps the borrower (SMEs ,home loans etc.) to pay less interest on the loans
  - ✓ **Reduced Reverse Repo Rate** – Reverse repo rate is the rate at which the RBI borrows money from commercial banks. It was reduced from 4.9% to 4.0%. By reducing the reverse repo rate RBI gives more money in the hands of banks to give loans at a cheaper rate to borrowers.
  - ✓ **Cash reserve ratio(CRR) –** The CRR was reduced from 4% to 3%. Reducing 1% in CRR means 1.37 lakh crore more money is available with the banks for lending.
  - ✓ **Marginal Standing Facility -** RBI increases the amount borrowed by banks against govt. bonds from Rs.1.36 lakh crores to 2.8 lakh crores
  - ✓ **Long term Repo rate** – Allowed all banks to borrow money at the rate of 4.4% against corporate bonds
  - ✓ **RBI also declared some relief for borrowers**
    - Moratorium of three months on the payment of current dues falling between March 1 and May 31, 2020.
    - Allowed banks to increase the current limit of loans for the companies.
    - Assured public the safety of money kept in private banks.

Reserve Bank of India – 2nd Prescriptions Post Lockdown

- **On 17th April, 2020,** The RBI has proposed additional measures to maintain adequate liquidity in the face of the pandemic on three main grounds:
  - ✓ To facilitate and incentivize the bank credit flows
  - ✓ To ease the financial stress
  - ✓ To enable normal functioning of markets
- The liquidity adjustment facility (LAF) has been reduced by 25 basis points (bps) from 4% to 3.75% with immediate effect. However, the policy repo rate remains unchanged at 4.40%, and the marginal standing facility rate and the bank rate remain unchanged at 4.65%. LAF is used to help banks adjust the mismatches in liquidity by enabling them to quickly borrow money in case of any emergency.

- It has been decided to provide special refinance for an amount of ₹50,000 crores to the National Bank for Agriculture & Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank to enable them to meet sectoral credit needs.

- An assistance of ₹15000 crores was announced to refinance small firms. Emphasis is given on ensuring adequate funds flow to non-banking financial companies (NBFCs) and microfinance institutions (MFIs).

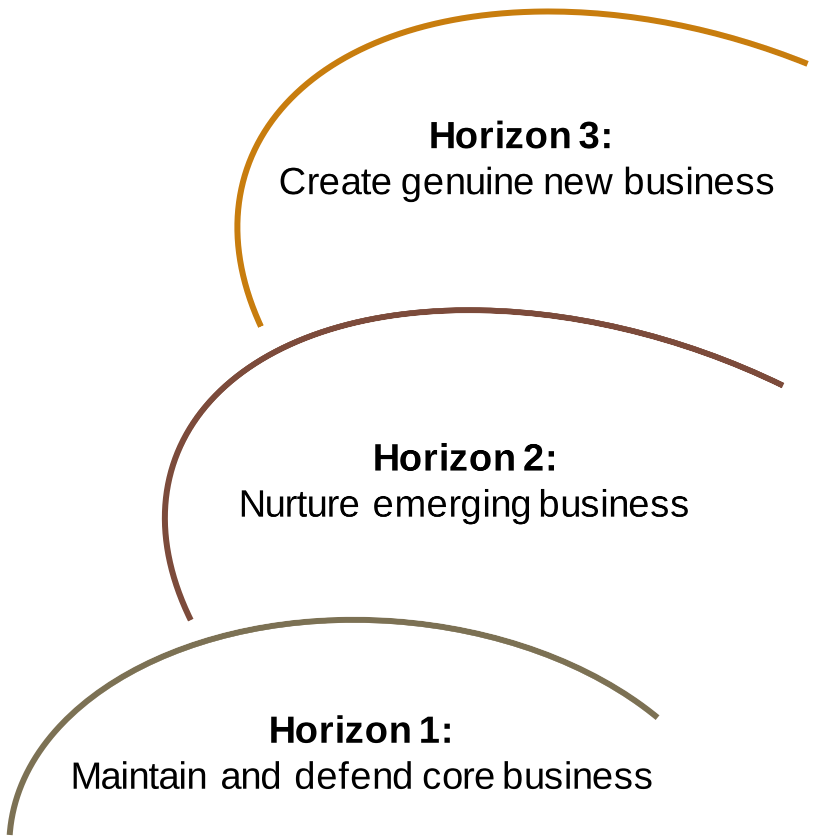
- It is decided that scheduled commercial banks and cooperative banks will not make any dividend payout for the financial year (FY) 2020.

- **Asset Classification:**
  - ✓ It has been decided that in respect of all accounts for which lending institutions decide to grant moratorium (or deferment), and which were standard as on March 1, 2020, the 90-day NPA (non-performing assets) norm will exclude the moratorium period. So, this means that there would be an asset classification standstill for all such accounts from March 1, 2020, to May 31, 2020.
  - ✓ NBFCs have the flexibility under the prescribed accounting standards to consider such relief to their borrowers. Banks were instructed to maintain a higher provision of 10% on all such accounts under standstill, spread over two quarters—March 2020 and June 2020.

- **Liquidity Coverage Ratio**
  - ✓ To ease the liquidity position at the level of individual institutions, the LCR requirement for Scheduled Commercial Banks is being brought down from 100% to 80% with immediate effect. The requirement will be gradually restored in two phases – 90% by October 1, 2020, and 100% by April 1, 2021.

"Three Horizon Framework" to Understand Post COVID-19 Situation

Traditional Three Horizon Framework for Business



Three Horizon Framework Applied to Covid-19 Outbreak

Horizon 3:
- When the reaction to the COVID-19 health crisis has been assimilated into a new normal or ceded the stage to new disruptions.
- On one hand this "new normal" will not be just a return to the "before," as the pandemic response is accelerating several transformative processes that might be hard to reverse – from the expansion of governments' role in the economy to the adoption of remote working protocols.
- However it is also unlikely to be a completely different world from the pre-pandemic era.

Horizon 2:
- This is not full recovery but is not the full crisis anymore.
- In this horizon, the most stringent restrictions are raised but others are kept in place, and supply chains and travel plans are subject to disruption by emerging restrictions on the back of secondary outbreaks.
- This is the horizon where the public health crisis is followed by its economic impact and shaped in part by governments' response.

Horizon 1:
This is an emerging crisis horizon, where society is scrambling to respond to the radically changed situation and taking drastic measures to "flatten the curve" of the pandemic.

VALUE

TIME

*Note: The '**Three Horizons' framework** is a foresight tool that can help us to structure our thinking about the future in ways that spark innovation. It describes three patterns or ways of doing things and how their relative prevalence and interactions evolve over time. This framework was originally developed by MC Kinsey in 2000.*

New Normal for Businesses Post COVID-19

1. The shift towards localization

Disruption brought in supply chain due to the pandemic will lead to localization of supply chains, especially for strategically important sectors.

2. Digital gets a push

Event the most brick and mortar organizations have been forced to work remotely and experiment with digital channels. This will drive investments in enabling digital technologies like cloud, data and cyber security

3. Move towards variable cost models

Business will now explore ways to reduce their fixed costs or convert their fixed costs into variable costs. This will further impact the labour force and how they work.

4. Building sensing and control tower capabilities

Companies have realized the importance of sensing capabilities, building transparency through digital control towers, and the ability to process both structured and unstructured data

5. Supply chain resilience is key

Risks to supply chain are numerous and continuously evolving. Hence ti is imperative that resilience capabilities are developed in order to respond to repercussions of unexpected event.

6. Building agility

This pandemic forced companies to take quick actions in absence of perfect data. Going forward policies need to evolve faster than the market and policymakers will need to be more responsive, inclusive and agile.

- *This crisis is a story of uncertain endings. However, it has introduced new challenges to the business environment which calls for measured, practical and informed approach from business leaders.*
- *COVID-19 will lead to a new normal and hence being aware and preparing for this shift help help businesses to navigate in the post COVID-19 world.*

The Way Forward

- With the outbreak of the pandemic a lot will be transformed in the lives and livelihood of the human race. Those countries which will transform faster will move forward. We expect the developed nations to show the way. Under developed and poorer countries will take a long while.

- Coming to India, even the IMF is hopeful about its progress and has kept the growth story of India in FY 2020 positive with a rebound to 7%-8% growth trajectory in FY2022. We in LSI believe that India will evolve out of the current crisis, flourishing economically, in a new normal scenario. However, we put our growth estimate for India at 5%-6% for the FY 2022 with the assumption of good monsoon and other concomitant of growth.

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