ASIAMONEY Brokers Poll 2020 (India)

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	49,751	0.0	4.2
Nifty-50	14,708	0.2	5.2
Nifty-M 100	23,053	1.0	10.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,881	0.1	3.3
Nasdaq	13,465	-0.5	4.5
FTSE 100	6,626	0.2	2.6
DAX	13,865	-0.6	1.1
Hang Seng	11,910	0.1	10.9
Nikkei 225	30,156	0.0	9.9
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	64	-1.0	25.2
Gold ($/OZ)	1,806	-0.2	-4.9
Cu (US$/MT)	9,232	1.1	19.1
Almn (US$/MT)	2,133	-1.0	8.1
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	72.5	0.0	-0.8
USD/EUR	1.2	-0.1	-0.5
USD/JPY	105.3	0.2	1.9
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.2	-0.03	0.3
10 Yrs AAA Corp	7.2	-0.05	0.6
Flows (USD b)	**23-Feb**	**MTD**	**CY21**
FIIs	-0.22	3.76	5.95
DIIs	0.03	-2.35	-4.02
Volumes (INRb)	**23-Feb**	**MTD***	**YTD***
Cash	805	867	818
F&O	40,321	41,936	38,704

Note: *Average

Today's top research idea

Britannia: Widening moats strengthen right-to-win; upgrade to Buy

- With the widening of its moats, BRIT has strengthened its right to win and is poised to gain further market share (currently only in the mid-30s despite widening of moats) in the Biscuits category, which contributes ~80% of sales, and in the overall USD40b Packaged Food industry, where it has made a strong foray in recent years.
- BRIT's track record over the last 10 years ending FY20 is extremely strong, with topline and earnings ahead of peers. This is remarkable given that most FMCG peers have struggled to post double-digit CAGR over the last three-to-five years.
- The stock is now attractive at 36.5x FY23E EPS, a discount to its 3/5 year average P/E multiple of 48x/46x and also on a relative basis as compared to its peers.

Research covered

Cos/Sector	Key Highlights
Britannia	Widening moats strengthen right-to-win; upgrade to Buy
Reliance	A leaf from its own book – reiterate huge value unlocking
EcoScope	Government investments fall 14% YoY in 9MFY21

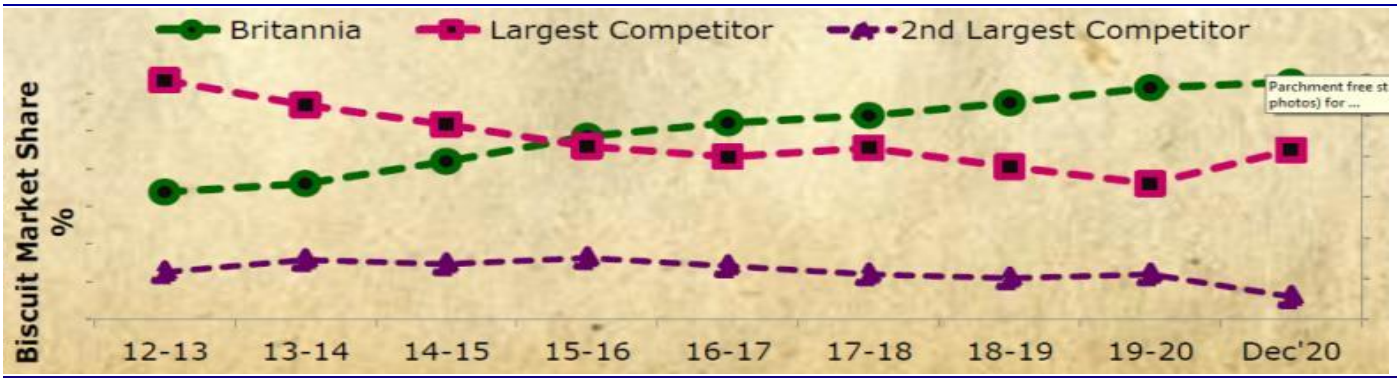
Piping hot news

India set to manufacture containers to boost exports

As India aims to boost its exports, the government is looking at manufacturing containers in a big way while developing a shipping line under the Atmanirbhar Bharat programme. Containers are required to ship goods. At present, India is solely dependent on the public sector Shipping Corporation of India.

Chart of the Day: Britannia (Widening moats strengthen right-to-win; upgrade to Buy)

BRIT consistently gains market share over Parle and ITC



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

India set to manufacture containers to boost exports

As India aims to boost its exports, the government is looking at manufacturing containers in a big way while developing a shipping line under the Atmanirbhar Bharat programme. Containers are required to ship goods. At present, India is solely dependent…

2

Vodafone may announce IPO of its European towers unit as soon as Wednesday

Vodafone Group Plc is planning to announce the giant initial public offering of its European towers unit in the coming days, according to people familiar with the matter. The intention-to-float document for Vantage Towers could be published as soon as Wednesday morning, the people said, asking not to be identified discussing private information. Vantage Towers could be valued at 15 billion euros ($18.2 billion) or more in the IPO, the lower range of analyst estimates, the people said…

3

India inks $304 mn AIIB loan agreement for Assam power transmission projects

India on Tuesday inked a $304 million loan agreement with the Asian Infrastructure Investment Bank (AIIB), for improving the power transmission network in Assam. The Assam intra-state transmission system enhancement project plans to construct 10 transmission substations, upgrading 15 existing substations, laying transmission lines…

4

India's electronic makers gear up for a blockbuster launch season

India's top smartphone and consumer electronics makers said they are gearing the highest number of new product launches this year in four years as supply of components have improved and are almost back to pre-Covid levels. LG, Samsung, Xiaomi, Panasonic, Realme, Vivo and Godrej Appliances are all planning…

5

New coronavirus wave causes 35% dip in sales at Asia's largest gold market

The new wave of coronavirus led to a 35% fall in sales in the past week in Mumbai's Zaveri Bazaar, Asia's largest gold market, from where 65% of all gold trading and dealing in India is estimated to originate, said bullion dealers and jewellers. The daily turnover of Zaveri Bazaar is usually close to Rs 900 crore, they said…

6

Tata Consumer Products to enter Nifty 50 index from 31 March; GAIL will be excluded

Tata Consumer Products will be included in the benchmark Nifty50 index, with effect from 31 March, 2021, the National Stock Exchange (NSE) said. Tata Consumer Products is a multinational consumer goods company and a subsidiary of the Tata Group…

7

India adds 3.2 GW solar capacity in 2020; lowest in 5 years

India added 3,239 megawatt (MW) solar capacity in 2020, down 56 per cent from the previous year, according to a report. The adding of 3,239 MW of solar capacity was the lowest addition in five-years-time, Mercom India Research said in its report on Tuesday…

Britannia

BSE SENSEX	S&P CNX
49,751	14,708

Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	803.8 / 11.1
52-Week Range (INR)	4015 / 2101
1, 6, 12 Rel. Per (%)	-9/-43/-12
12M Avg Val (INR M)	2936

Financials & Valuations (INR b)

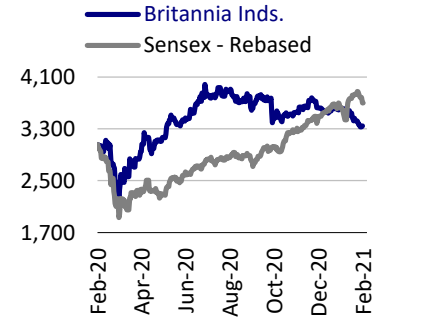
Y/E March	2020	2021E	2022E	2023E
Sales	116.0	131.6	142.1	163.1
Sales Gr. (%)	4.9	13.5	8.0	14.8
EBITDA	18.4	26.0	25.6	29.3
Margin (%)	15.9	19.8	18.0	18.0
PAT	14.1	19.7	19.1	22.0
EPS (INR)	58.6	82.1	79.4	91.5
EPS Gr. (%)	21.8	40.0	-3.3	15.2
BV/Sh.(INR)	183.1	185.4	201.3	219.6
Ratios				
RoE (%)	32.6	44.6	41.1	43.5
RoCE (%)	24.1	29.9	27.6	29.9
Payout (%)	59.7	80.0	80.0	80.0
Valuations				
P/E (x)	56.9	40.6	42.0	36.5
P/BV (x)	18.2	18.0	16.6	15.2
EV/EBITDA (x)	42.7	30.2	30.6	26.6
Div. Yield (%)	1.0	2.0	1.9	2.2

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	50.6	50.6	50.6
DII	10.7	11.5	13.6
FII	17.7	16.0	15.8
Others	21.1	21.9	20.0

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR3,337 TP: INR4,120 (+24%) Upgrade to Buy

Widening moats strengthen right-to-win; upgrade to Buy

Structural opportunity attractive; track record best among peers

- **Widening moats**: The management's efforts in the last few years on a) expanding distribution, especially direct reach which is now at 2.3m outlets (next only to HUVR) while its total reach is now the best for any listed Food company and is nearing Parle among unlisted ones; b) boosting R&D capabilities, after setting up a new R&D center five years ago; c) successful implementation of its low unit packs strategy, leading to consistently strong growth in the hinterland; d) consistent cost rationalization, which is essential in a low gross margin category like Foods; e) continued investments in boosting overall and regional manufacturing capabilities (including the ongoing INR15b on its mega facility in Ranjangaon); and f) its new regional strategy (similar to HUVR's highly successful WIMI strategy) is resulting in consistently widening moats over peers in Biscuits (market leadership has extended for 37 quarters now) and in the broader USD40b Food category where BRIT made an impressive initial foray in FY20.
- **Exciting long-term opportunity**: With the widening of its moats, BRIT has strengthened its right to win and is poised to gain further market share (currently only in the mid-30s despite widening of moats) in the Biscuits category, which contributes ~80% of sales, and in the overall USD40b Packaged Food industry, where it has made a strong foray in recent years.
- **Remarkable track record**: BRIT's track record over the last 10 years ending FY20 is extremely strong, with topline and earnings ahead of peers. This is remarkable given that most FMCG peers have struggled to post double-digit CAGR over the last three-to-five years.

Valuation and view

- **Inexpensive valuations:** The extraordinary strong base in FY21E (40% EPS growth forecasted), led by high in-home consumption and low material and A&P costs, does put some pressure on the next few quarters particularly in 1QFY22 where the base has shown 105.4% EPS growth. However, beyond that it will become less challenging in subsequent quarters. On the other hand, the stock is now attractive at 36.5x FY23E EPS, a discount to its 3/5 year average P/E multiple of 48x/46x and also on a relative basis as compared to its peers.
- **Recent underperformance leads to a favorable risk-reward ratio:** Since our downgrade in Nov'19 on challenging valuations and rising raw material costs (not a concern now), the stock has underperformed peers (4% return v/s double-digit average returns by its peers). While we remain cautious due to challenges to FY22 earnings growth and thus our buy call may be slightly advanced, we believe downside is limited as the narrative is likely to move to FY23 and beyond in the next few months.
- **Upgrade to Buy:** Immense structural opportunity, remarkable track record, RoEs of over 40% superior to most consumer peers, and an attractive risk-reward ratio on FY23E earnings, after its recent underperformance, leads us to upgrade BRIT to a **Buy**. Our TP of INR4,120 (based on 45x FY23E EPS) implies an upside of 24% from its CMP.

Reliance Industries

BSE SENSEX	S&P CNX
49,751	14,708

Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	13319.1/182.3
52-Week Range (INR)	2369 / 867
1, 6, 12 Rel. Per (%)	-3/-32/17
12M Avg Val (INR M)	35365
Free float (%)	50.9

Financials Snapshot (INR b)

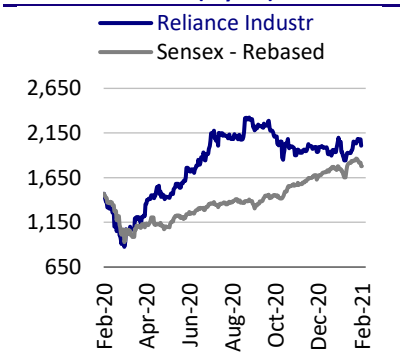
Y/E March	2021E	2022E	2023E
Net Sales	5,039	6,877	7,527
EBITDA	806	1,192	1,378
Net Profit	439	649	786
Adj. EPS (INR)	68.2	100.7	121.9
EPS Gr. (%)	2.5	47.8	21.0
BV/Sh. (INR)	792.1	884.4	996.4
Ratios			
Net D:E	0.1	-0.1	-0.2
RoE (%)	9.1	12.0	13.0
RoCE (%)	10.3	13.7	15.2
Payout (%)	9.8	8.4	8.2
Valuations			
P/E (x)	29.7	20.1	16.6
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	16.7	10.6	8.7
EV/Sales (x)	2.7	1.8	1.6

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	49.1	49.1	48.9
DII	12.7	13.0	13.6
FII	27.3	27.2	26.3
Others	10.9	10.6	11.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR2,024 TP: INR2,325 (+15%) Buy

A leaf from its own book – reiterate huge value unlocking

- **RIL in a recent presentation announced initiation of the formal process of carving out the O2C business into a wholly owned independent subsidiary.**
- **The company has clearly become a case study at many ivy leagues after raising INR2,202b during the COVID-19 pandemic. After selling stakes in both RJio and Retail, it now used a leaf from its own book. The move to merge the Refining and Petchem businesses, coupled with its net cash status, may attract investments in the O2C business as well (a perfect replica of RJio deals).**
- **In our report, Oil-to-chemicals – Gearing up for next orbital change? we highlighted potential upside for the company with the integration of its Oil-to-Chemicals business. In FY20, RIL's EBITDA from Refining stood at USD6.6/bbl v/s USD15.6/bbl in Petrochemical. As per our assumptions, a 10% rise in O2C conversion from ~24% at present, would result in EBITDA improvement of ~USD476m, or 6.8% of standalone FY23E EBITDA.**
- **We remain optimistic on the prospects of huge value unlocking in the O2C segment as well and reiterate Buy.**

Top three snippets from the presentation

- **The management reorganized the Refining and Petrochemical businesses into Oil-to-Chemicals (O2C) to: a) facilitate holistic and agile decision making, b) pursue attractive opportunities for growth with strategic partnerships, and c) drive its downstream business.**
- **Exhibit 1:** Reliance O2C (RIL O2C) will be a wholly-owned subsidiary of Reliance Industries (RIL). All the Refining, Marketing, and Petchem assets will be moved to this subsidiary (along with other trading and manufacturing subsidiaries held aboard).
- **Exhibit 2:** The O2C transfer came into effect from 1 Jan'21, and approvals from SEBI and stock exchanges are in place. The management expects the consent process (from shareholders and creditors) to be completed by 1QFY22, with NCLT approval (from Mumbai and Ahmedabad) expected in 2QFY22.
- **Exhibit 3:** RIL will fund the O2C assets of USD42b (USD40b in long-term assets and USD2b in net working capital) via an interest bearing loan of USD25b. RIL O2C will pay off this loan at a floating rate interest linked to the one-year SBI MCLR rate. Rest will be balanced in equity (USD12b) and non-current liabilities (USD5b). There will be no impact on RIL's consolidated financials and the transfer of assets to the O2C business will be tax neutral. RIL will also receive payouts from the O2C business via dividends in addition to interest and debt repayments.

Segment profile for RIL v/s O2C now

- **The standalone entity will retain the new energy and materials business – a segment which will focus on RIL's vision to become net carbon free by CY35**. The company will envisage building a portfolio of reliable, clean and affordable energy (in Renewables and the Hydrogen space) and develop a portfolio of advanced and specialty materials.

- **The goal for the O2C business will be to maximize conversion of crude to chemicals** by reducing its carbon footprint, creating a recycling economy, and adopt next gen tech to make new monomers and derivatives. The management has time and again highlighted that the company will continue to focus on catering to the growing demand for materials and products in India.

Better integration means higher margin

- **After the reorganization of the Refining and Petchem business in 3QFY21, the management no longer provides key operational parameters such as Refining and Petchem margin. We reiterate our stance that higher integration would result in better margin.**
- Refining margin continues to record a gradual uptick, with SG GRM for Feb'21 (till date) at USD1.9/bbl (up from USD1.4/bbl in Jan'21 and USD1/bbl in 3QFY21). The improvement is primarily due to Gasoil and Gasoline cracks (stands at USD6.5-7.1/bbl on a daily basis v/s USD3.8-4/bbl in Jan'21). This is beneficial for RIL as it already has higher middle distillate yields.
- On the Petchem side, PE/PP/PVC margin continues its robust streak, up 51/35/73% YoY (although flat sequentially) as downstream Petchem demand continues to stay strong.
- The better margins at present would be tested as the impact of the Arctic blast on US refiners fades and as new Petchem capacity in China come onstream.
- **RIL has one of the most complex and integrated units, with ~24% conversion in FY20. While the conversion may not increase in the medium term, we reiterate our belief in its plan to integrate O2C to generate better margin going forward (especially in a subdued refining margin environment, further weighed by huge capacity additions in Petchem).**

RIL SA remains imperative

- At the end of 3QFY21, consolidated Dec'20 debt/cash and equivalents stood at INR2,574b/INR2,205b. Considering balance commitments of INR398b, ceteris paribus, its net cash stood at INR30b.
- **The stake sale in Jio and retail platforms to globally renowned brands has opened up a plethora of opportunities.** As RJio's growth slows, Jio Platforms (its holding company) is keen to replicate the success of Wireless in other business streams. With aggressive plans and product launches in place, Jio Platforms is creating multiple monetization opportunities in the Digital space. For Retail, our premium valuation multiples capture the opportunity for rapid expansion and aggressive rollout of the JioMart platform.
- **RIL recently commissioned gas production from its R-series cluster. KG basin is expected to achieve peak production of ~30mmscmd over the next two years (v/s current production of ~4.5mmscmd). Also, RIL-BP's JV aims to increase the number of outlets to 5,000 from 1,350 now.**
- We believe the recent move of creating an O2C segment will invite various new avenues for RIL in terms of both opportunities and upside. Using the SoTP-based valuation, we value the Refining and Petrochemical segment at 7.5x FY23E EV-to-EBITDA to arrive at a valuation of INR780/share. We ascribe an equity valuation of INR900/share to RJio and INR645/share to Reliance Retail. We reiterate Buy with a target price of INR2,325/share.

Government investments fall 14% YoY in 9MFY21…

…and combined fiscal deficit comes in at 11.7% of GDP over Apr–Dec'20

- **Based on the monthly accounts available for 18 states (together accounting for ~86% of all states), total spending for states[1] grew 3.1% YoY in 3QFY21, and total receipts grew just 1% YoY during the quarter. Consequently, states' fiscal deficit stood at INR1.3t (or 2.4% of GDP[2]) in 3QFY21, the lowest in the past four quarters.**
- **Although states' own receipts grew (9.8% YoY) for the first time in three quarters, transfers from the center declined for the second successive quarter. Due to weak tax collections by the center, devolution to states fell sharply for the fourth consecutive quarter; however, grants grew 16% YoY in 3QFY21. States' own taxes grew at the fastest pace (12.3% YoY) in two years, but states' non-tax receipts contracted once again. Within states' spending, revenue expenditure (revex) grew 3% YoY, while capital outlays – capex excluding loans & advances (L&A) – also posted the first growth (3.3% YoY) in five quarters.**
- **On a 9MFY21 basis, states' total receipts declined 11.7% YoY over Apr–Dec'20. Moreover, while states' total spending grew in 3QFY21, it declined 2% YoY in 9MFY21, primarily led by a 23.3% fall in capital spending. Consequently, the aggregate fiscal deficit of all the states came in at INR4.6t (or ~3.3% of GDP) in 9MFY21 – 1.7x that in 9MFY20. All 18 states ran a fiscal deficit in 9MFY21. However, deficit in Odisha (OD) was less than a fifth of that in the corresponding period a year ago, while it stood at ~4.2x in Maharashtra (MH).**
- **A combined analysis of the central and state governments suggests that while total receipts grew 23% YoY in 3QFY21, these fell 11.3% YoY in 9MFY21. In line with receipts, total spending by the general government (GG) grew 14.3% YoY in 3QFY21, with just 2.8% YoY growth in 9MFY21. Combined revex grew 9.3% YoY in 3QFY21 (and 3.6% YoY in 9MFY21), and combined capex grew 11.3% YoY last quarter (but was down 13.8% YoY in 9MFY21). The combined fiscal deficit, thus, stood at 11.7% of GDP in 9MFY21.**

In this note, we analyze the finances of 18 states up to Dec'20, together accounting for ~86% of all states. These include: Andhra Pradesh (AP), Chhattisgarh (CT), Gujarat (GJ), Haryana (HR), Himachal Pradesh (HP), Jharkhand (JH), Karnataka (KA), Kerala (KL), Madhya Pradesh (MP), Maharashtra (MH), Odisha (OD), Punjab (PB), Rajasthan (RJ), Tamil Nadu (TN), Telangana (TS), Uttar Pradesh (UP), Uttarakhand (UK), and West Bengal (WB).

States' aggregate fiscal deficit eased to INR1.3t (or 2.4% of GDP) in 3QFY21, from INR1.9t (or 4.9% of GDP) in 1QFY21

States[1] spending grew 3.1% YoY and receipts grew just 1% YoY in 3QFY21: Based on the data of the 18 states, total spending for all states grew 3.1% YoY in 3QFY21 (following record decline of 11.1% YoY in 2QFY21). Total receipts, on the other hand, edged up 1% YoY, marking the first growth after three successive contractions *(Exhibit 1)*.

States' fiscal deficit was at INR1.3t (or 2.4% of GDP[2]) in 3QFY21: Consequently, states' aggregate fiscal deficit eased to INR1.3t (or 2.4% of GDP) in 3QFY21 from INR1.9t (or 4.9% of GDP) in 1QFY21 *(Exhibit 2)*. Of the 18 individual states covered in this study, only HP posted a fiscal surplus in 3QFY21.

[1] Estimated using the share of 18 states in all states in the past two years (FY19-FY20). Please see *Exhibit 12-14* in ***Appendix 1*** at the end of the report for state-wise details on the total receipts and spending
[2] Assuming a growth of 1.7% YoY in nominal GDP in 3QFY21

Axis Bank: See a rise in slippages in H2FY20, no need for capital raising; Amitabh Chaudhry, MD & CEO

- Slippages to remain, COVID wave could hit recovery pace. Continue to maintain stand of lower slippages in Q4
- Next year will be all about growing the business
- If economic activity slows down, reduced loan aggregation will come with a lag to banking sector
- Growth on the wholesale side is slower due to company's strategy of improving net interest margins
- Retail loan disbursements were the highest ever in December
- Don't want to grow at the cost of margin of asset quality; no guidance due to volatile conditions
- Hope to get the IRDA approval for Max deal. Looking at inorganic opportunities at the right price
- Quality of new loans is among the best in the industry
- Don't see any need for capital raising right now

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Dilip Buildcon: Diversification has been strategy for last few years; Rohan Suryavanshi

- Have diversified segment-wise and geographically
- Diversification has been key strategy for last few years
- Company also diversifying from short-term to long-term projects
- Coal MDO provides company with annuity income for the next 20-30 years
- Will generate around Rs. 250 crore of annuity income from the coal MDO
- Will get Rs. 2000 crore from selling HAM projects in the next two years

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GNFC: Product prices at record level; will stay favourable for next 2-3 quarters; Pankaj Joshi, MD

- Prices for our products have gone up to record levels
- We have been able to increase prices of TDI by 20% in this month
- Confident that pricing will remain favourable for next 2-3 quarters
- Could not utilise aniline production completely due to cheap imports from China
- Aniline contributes Rs. 400 crore to overall revenues, TDI contributes Rs. 1000 crore
- Aniline production capacity of company is 40,000 tonnes, India's requirement is 1.25 lakh tonnes
- Have small portfolio for the export markets
- Have Rs. 500 crore of capex in the pipeline; company is examining capex of Rs. 1200-1500 crore
- Most of the plants are at 100% capacity utilisation except for aniline
- FY23 should see volume growth of 25-30%
- Will be able to do better than current EBIT margin of 32% in the chemicals business
- Subsidy dues have come down to Rs. 300 crore from Rs. 1000 crore earlier
- Margin should be between 20-25% in Q4

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Heranba Industries: No term loans on books; won't be using IPO proceeds for capex; Sadashiv Shetty, Chairman & ED

- We are into production of agrochemicals and crops
- Pyrethroids are key insecticides used in the crop protection industry
- We forward integrated pyrethroids into branded formulations and technical products
- Rs. 60 crore of IPO proceeds will be used for working capital requirements
- No term loans in the books as of now and the company won't be using IPO proceeds for capital expansion

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STEALTH ATTACKS WILL NOT BE ABLE TO FUND OUR FISCAL DEFICIT

- A severe Siberian winter in 1972 destroyed much of the wheat crop in the Soviet Union. The Soviets were keenly looking at foreign sources to meet their large food deficit. Early that summer, they had signed a large grains-for-peace deal with America, agreeing to buy wheat from the US over multiple years. This was a prized deal for the Richard Nixon administration, much wearied by the Vietnam War and in need of re-election. It was expected to bring some cheer and fetch fat profits for American farmers. The Soviets had been “arm twisted" into an assured purchase of at least $200 million worth of wheat per year over three years, with a cumulative total of no less than $750 million. For this, they were also given access to private grain traders in the US. Unknown to the Americans, the Soviets secretly split up their buying teams, each working on a need-to-know basis. Through tough negotiations at covert meetings with large private traders held in New York, Washington and Chicago hotel rooms, Soviet buyers bought one fourth of 1972-73’s US wheat output in forward deals. They bought a billion dollars worth of grain in just one month. By the time the Americans woke up, it was too late.
- Thanks to this great “grain robbery", it was the US instead that faced a wheat shortage and high food inflation (especially beef as cattle feed ran short). Mark Penn has called the 1972 US-Soviet grain deal the “economic Bay of Pigs" for the Nixon administration. It’s a separate matter that Nixon won the White House by a landslide.
- Faced with a daunting shortage of food, the Soviets had planned a stealth attack on world grain markets and secured adequate supplies to meet their deficit at a very low price. Is it possible for the Indian government, or its banker, the Reserve Bank of India (RBI), to do something similar? Can India also launch a stealth attack and quickly garner enough funds to feed its monstrous fiscal deficit next year? The analogy with the wheat heist may sound far-fetched, but a recent headline gave it plausibility. Business Standard has reported that RBI had “anonymously" scooped ₹26,000 crore of bonds in a single day. It seems that RBI wants to secure a very large quantity very cheaply, reminiscent of the Soviets. Alas, we are not in 1972 anymore, and markets are far more vigilant and omniscient today. They know what’s up and won’t be caught off guard.
- So, stealth options are out, and there is no assurance available on the quantity and price of the country’s deficit funding. There are, however, still some unexplored and unorthodox options. The first is a loan against shares.
- India’s gross borrowing requirement for next fiscal year, including that of state governments, is about ₹23.3 trillion. Of this, the Centre alone will account for ₹12.05 trillion. A “forward deal" a la the Soviets to secure cheap funding, which will meet a big part of this deficit, would be a bilateral loan-against-shares deal between RBI and the Centre. It can bypass the debt market, be priced at a reasonably low rate of 4%, and be in the nature of a five-year repo. The pledged shares would have to be returned or sold in dribbles over the same period. In any case, the Centre is planning large-scale privatization of public sector entities. So, this loan-against-shares would simply advance future sale proceeds for today’s use. (See ‘An out-of-the-box solution for India’s stimulus problem’, Mint,

5 May 2020). Given a euphoric stock market, the estimated value of the government's holdings in public sector companies is close to ₹20 trillion. Slow-dribble sales, or periodic haircuts of the shares pledged, might be easier to implement as a privatization strategy.

- RBI's anonymous buying of government bonds is like wanting to have one's cake and eat it too. But you can't have both adequate funds and low costs to bear on a massive borrowing programme. This has been especially so since 1997, when the government opted to respect market discipline on debt pricing. If there is a shortage of funds, then interest rates must go up. With next year's gross domestic product (GDP) growth anticipated in double digits, demand for non-government credit will be at least 12% of GDP, which is about ₹25 trillion, in addition to credit demand from the government. How can such large demand sustain low prices, i.e. low yields on government securities? Even in America, where government borrowing even at its most bloated is a much smaller fraction of its overall credit demand, yields have spiked quite a bit in recent weeks. Hence, the second option is for RBI to let yields climb to ensure smooth bond auctions, so that it does not need to resort to anonymous raids on the bond market.
- A third option is for RBI to pay member banks interest on cash reserves. The cash reserve ratio will soon be at 4%. Thus, RBI will be locking up nearly ₹6 trillion of banks' money. Why not pay them interest on these funds at, say, 3%? This will give banks an additional income of ₹18,000 crore, which would bolster their capital base. This would be like earmarking a part of RBI's balance sheet for the health of the banking sector, rather than turning it over to the central exchequer as a general dividend.
- The fourth option would be to tap foreign markets. Sell either 'masala' or a dollar-denominated bonds through a proxy for the sovereign, like State Bank of India.

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