

# RBI Annual Accounts

Refer to important disclosures at the end of this report

## Higher dividend but lower economic capital

- Modest expansion of 7% in the RBI's balance sheet and a fall in economic capital to 21.7% were driven by a sharp drop in Currency and Gold Revaluation Fund.
- Despite lower income, a higher surplus transfer of Rs991.2bn was largely due to higher gains from FX trading operations (from weighted average cost perspective) and lower risk provisions.
- This buffers the fiscal somewhat, which will soon come under pressure amid fears of delayed divestment, higher-than-budgeted doles and possible fading of the positive upside surprises of indirect tax. We see the 10-year bond yield to be in the range of 5.95-6.25% in H1FY22.
- RBI's economic capital is now close to a low of 21.7%. Generating higher surplus to aid government finances ahead will come with macro conundrums of managing yields and INR.

### RBI balance sheet expands ~7% in FY21 after a robust increase in FY20

Due to a change in the accounting year to April-March from June-July earlier, FY21 accounting period was only of nine months. This partly explains a much slower increase of 6.99% in FY21 (lowest in last four years) vs. a robust 30% expansion last year. The asset side depicted foreign and domestic investments grew 11.5% and 14%, respectively. Loans and advances specifically to SCBs (amount outstanding against repo) shrank 68% after having seen a sharp increase last year – primarily due to repayments of LTROs and TLTROs. Domestic assets constitute 28.2% of total assets, while the foreign currency assets and gold constitute 71.8% of the remaining assets. The liability side showed “other liabilities and provisions” fell 9%, major portion (62%) of which consists of Currency and Gold Revaluation Fund (CGRA), which fell 12%.

### RBI's income boost largely led by FX operations

Due to the shorter period, the total income for FY21 fell 11%. Interest income fell 37% yoy to Rs690.57bn. There was a 22% fall in net income from domestic sources, mainly on account of reduction in Gsec holdings and higher interest outgo as the banking system was largely in the reverse repo mode. The fall in income was much modest at 2%, with lower interest from FCA. The 59% surge in other income was mainly on account of gains of Rs506.29bn on FX transactions, which rose 69%. We noted last week that even though the RBI was a net FX buyer in FY21, the gross dollar sale was close to USD85.2bn for the Jul'20-Mar'21 period (vs. barely USD20bn in the same period last year) of which USD61.8bn was done in Q4Y21, leading to high realized profits on the FX sale transactions from the weighted average cost perspective. But expenditure contracted sharply due to a significant reduction in the provision toward Contingency Fund (CF) and employee cost, leading to a higher available surplus to the government.

### Higher surplus could help do the much need fiscal buffering

Higher surplus transfer of Rs 991.2 bn (budgeted Rs535 bn by RBI and nationalized banks) for FY22 is definitely a relief for the Gol on revenue front whose finances would soon come under pressure amid:

- 1) Fears of delayed execution of ambitious divestment target of Rs1.75tn
- 2) Higher possible doles payouts than budgeted on food, fertilizer subsidy and NREGA
- 3) Possible fading of the positive upside surprises of fiscal tax buffers on account of modestly budgeted indirect taxes.

The Gsec market, however, now looks ahead to the evolution of fiscal and inflation and the RBI's invisible-to-visible hand to maintain the 10-year benchmark anchored at ~6%. We see the 10-year to be in the range of 5.95-6.25% in H1FY22.

### Can FX-led higher dividend generation be a new-norm?

While the RBI's FX operations may have eased some pressure on government finances, which have been constrained, this has also led to the RBI's economic capital (realized equity + unrealized valuation gains) as % of assets dropping to 21.7% (near lower bound of recommended 20.5%-24.5%) vs. the high of 26.7% seen last year, largely led by unrealized lower MTM valuation and helped by a modest increase in the balance sheet. Generating higher dividends with the same strategy would imply that the RBI would face the trilemma of tactically managing balance sheet expansion, Gsec yield and INR management. That they will have to constrain higher growth of its balance sheet to avoid transferring a large part of its profits implies either lesser OMO purchases or FX purchases. This, however, would imply 1) either higher yields, or (2) possible INR appreciation amid net BoP surplus – both of which could be counterintuitive and lead to losses in valuation account and could pressure the already lower economic capital.

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty \(page 5\)](#)

### Key highlights:

- Higher dividend of Rs 991bn to the government; a gross FX sale of USD66bn in Q4FY21
- FX transaction gains soar 69%, while lower provisions and employee cost reduce expenditure side.
- Economic capital stands at 21.7% of the balance sheet from 26.6% in FY20.
- We see the benchmark 10-yr in range of 5.95-6.25% in H1FY22.
- Generating excess profit annually would be a difficult task ahead.

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**Exhibit 1: RBI balance sheet grows by 7% in FY21**

Issue Department (ID)								
Liabilities	2018-19	2019-20	2020-21	Assets	2018-19	2019-20	2020-21	
Notes Issued	21,688	26,356	28,269	Gold Coin and Bullion	792	1,131	1,041	
				Rupee Coin	8	8	7	
				Investments-Foreign-ID	20,888	25,216	27,220	
				Investments-Domestic-ID	0	0	0	
				Domestic Bills of Exchange and Others	0	0	0	
<b>Total Liabilities (ID)</b>	<b>21,688</b>	<b>26,356</b>	<b>28,269</b>	<b>Total Assets (ID)</b>	<b>21,688</b>	<b>26,356</b>	<b>28,269</b>	
Banking Department (BD)								
Liabilities				Assets				
Capital	0.05	0.05	0.05	Notes, Rupee Coin, Small Coin	0.09	0.13	0.12	
Reserve Fund	65	65	65	Gold Coin and Bullion	883	1,429	1,436	
Other Reserves	2	2	2	Investments-Foreign-BD	6,965	10,234	12,299	
Deposits	7,649	11,759	14,915	Investments-Domestic-BD	9,899	11,720	13,332	
Other Liabilities and Provisions	11,625	15,166	13,825	Bills Purchased and Discounted		0	0	
				Loans and Advances	932	3,222	1,351	
				Investment in Subsidiaries	20	20	20	
				Other Assets	643	367	370	
<b>Total Liabilities (BD)</b>	<b>19,341</b>	<b>26,992</b>	<b>28,808</b>	<b>Total Assets (BD)</b>	<b>19,341</b>	<b>26,992</b>	<b>28,808</b>	
<b>Total Liabilities (ID+BD)</b>	<b>41,029</b>	<b>53,348</b>	<b>57,077</b>	<b>Total Assets (ID+BD)</b>	<b>41,029</b>	<b>53,348</b>	<b>57,077</b>	

Source: RBI, Emkay Research

**Exhibit 2: Contingency fund sees limited increase, albeit overall risk buffer remains 5.5% of assets**

Other Liabilities and Provisions (Rs. Bn)			
	2018-19	2019-20	2020-21
Contingency Fund (CF)	1,963	2,640	2,845
Asset Development Fund (ADF)	229	229	229
Currency and Gold Revaluation Account (CGRA)	6,645	9,771	8,589
Investment Revaluation Account-Foreign Securities (IRA-FS)	157	538	89
Investment Revaluation Account-Rupee Securities (IRA-RS)	495	934	567
Foreign Exchange Forward Contracts Valuation Account (FCVA)	13	0	0
Provision for Forward Contracts Valuation Account (PFCVA)	0	59	61
Provision for payables	23	26	32
Gratuity and Superannuation Fund	206	256	285
Surplus Transferable to the Government of India	1,760	571	991
Bills Payable	0	0	0
Miscellaneous	134	140	137
<b>Total</b>	<b>11,625</b>	<b>15,166</b>	<b>13,825</b>

Source: RBI, Emkay Research

**Exhibit 3: Income down by 11%, while expenditure sees cuts in provisions and employee cost**

Rs. Bn	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Income</b>						
Interest	749	661	739	1,068	1,093	691
Other Income	59	-42	44	862	403	642
<b>Total</b>	<b>809</b>	<b>618</b>	<b>783</b>	<b>1,930</b>	<b>1,497</b>	<b>1,333</b>
YoY %	2	-24	27	147	-22	-11
<b>Expenditure</b>						
Printing of Notes	34	80	49	48	44	40
Expenditure on Remittance of Currency	1	1	1	1	1	1
Agency Charges	48	41	39	39	39	33
Employee Cost	45	46	38	69	89	48
Interest	0	0	0	0	0	0
Postage and Telecommunication charges	1	1	1	1	1	1
Printing and Stationery	0	0	0	0	0	0
Miscellaneous Expenses	6	7	8	8	11	8
Depreciation	2	1	1	2	2	2
Provisions	10	132	142	1	736	207
<b>Total</b>	<b>150</b>	<b>312</b>	<b>283</b>	<b>170</b>	<b>925</b>	<b>341</b>
<b>Available Balance</b>	<b>659</b>	<b>307</b>	<b>500</b>	<b>1,760</b>	<b>571</b>	<b>991</b>
<i>Less:</i>						
a) Contribution to Long Term Operations of National industrial and housing credit	0.02	0.02	0.02	0.02	0.02	0.02
b) Transferable to NABARD:	0.02	0.02	0.02	0.02	0.02	0.02
c) Others:						
Amount transferred to the Central Government during the year		0	100	280	0	0
<b>Surplus payable to the Central Government</b>	<b>659</b>	<b>307</b>	<b>400</b>	<b>1,480</b>	<b>571</b>	<b>991</b>

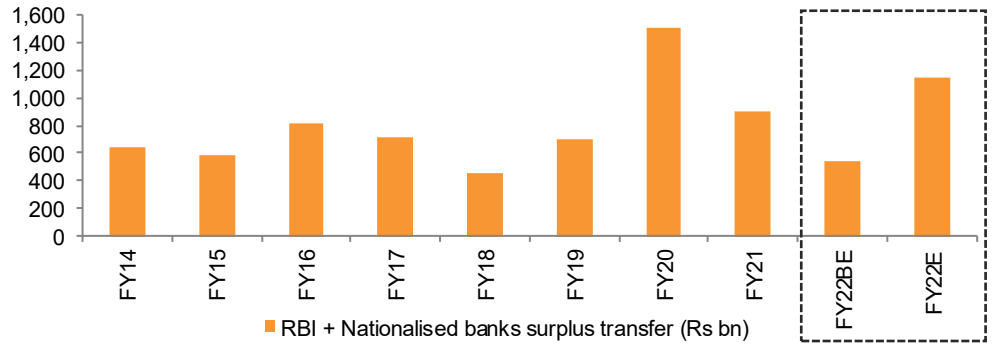
Source: RBI, Emkay Research

**Exhibit 4: FX trading income leads the gain in other income**

Other Income (Rs. Bn)	2018-19	2019-20	2020-21
<b>a) Domestic Sources</b>			
Exchange	0	0	0
Discount	0	7	10
Commission	23	24	21
Rent Realised	0	0	0
Profit/Loss on sale and redemption of Rupee Securities	0	13	52
Depreciation on Rupee Securities inter portfolio transfer	0	0	0
Amortisation of premium/discount of Rupee Securities	21	17	8
Profit/Loss on sale of Bank's property	0	0	0
Provision no longer required and Misc Income	526	2	-1
<b>Sub total (i)</b>	<b>571</b>	<b>63</b>	<b>90</b>
<b>b) Foreign Sources</b>			
Amortisation of premium/discount of Foreign Securities	-15	-27	-67
Profit/Loss on sale and redemption of Foreign Securities	17	67	113
Exchange gain/loss from Foreign Exchange transactions	290	300	506
Misc Income	0	0	0
<b>Sub total (ii)</b>	<b>291</b>	<b>340</b>	<b>552</b>
<b>Total Other Income (i+ii)</b>	<b>862</b>	<b>403</b>	<b>642</b>

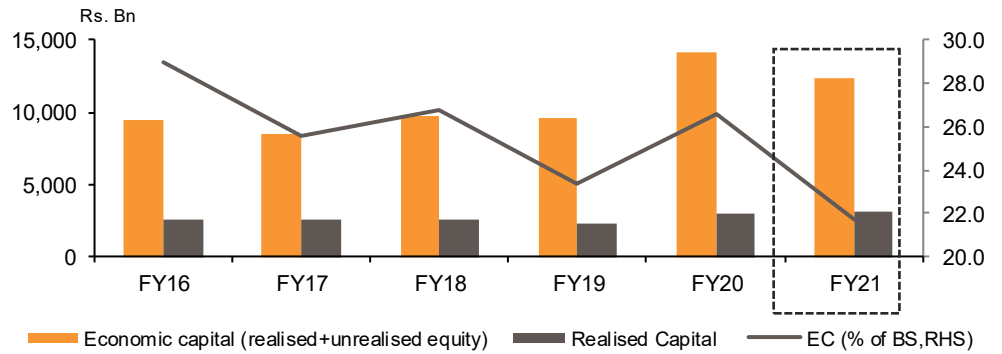
Source: RBI, Emkay Research

**Exhibit 5: The surplus profit transfer to the GOI is second highest after FY20**



Source: Budget, CEIC, Emkay Research

**Exhibit 6: Economic capital has fallen to 21.7% of assets**



Source: RBI, Emkay Research estimates

## Emkay Alpha Portfolio – Nifty

### EAP-Nifty (25 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
<b>Agri Input &amp; Chemicals</b>	0.68	0.00	-100%	-68
UPL	0.68	0.00	-100%	-68
<b>Auto &amp; Auto Ancillaries</b>	5.41	8.22	52%	281
Bajaj Auto	0.82	1.33	62%	51
Eicher Motors	0.55	1.58	185%	103
Hero Motocorp	0.58	0.00	-100%	-58
Mahindra & Mahindra	1.19	0.00	-100%	-119
Maruti Suzuki India	1.41	2.43	72%	102
Tata Motors	0.85	2.88	237%	203
<b>BFSI-Banks</b>	26.43	31.43	19%	500
Axis Bank	2.79	4.72	69%	193
Bandhan Bank	0.00	0.84	NA	84
HDFC Bank	9.72	9.64	-1%	-8
ICICI Bank	6.82	6.76	-1%	-5
Indusind Bank	0.85	3.88	356%	303
Kotak Mahindra Bank	3.86	0.99	-74%	-286
State Bank of India	2.40	4.60	92%	220
<b>BFSI-Insurance</b>	1.40	1.91	37%	51
HDFC Life	0.82	0.35	-58%	-48
SBI Life	0.57	1.56	172%	99
<b>BFSI-NBFCs</b>	10.39	7.83	-25%	-255
Bajaj Finserv	1.09	0.00	-100%	-109
Bajaj Finance	2.31	0.00	-100%	-231
Cholamandalam Investment	0.00	0.90	NA	90
HDFC	6.99	6.93	-1%	-6
<b>Cement &amp; Building Materials</b>	2.51	4.89	95%	239
Ambuja Cements	0.00	0.99	NA	99
Grasim Industries	0.81	0.80	-1%	-1
Shree Cements	0.55	1.46	168%	92
Ultratech Cement	1.15	1.64	43%	49
<b>Consumer Goods &amp; Retail</b>	11.09	5.76	-48%	-533
Asian Paints	2.00	1.98	-1%	-2
Britannia Industries	0.61	0.00	-100%	-61
Hindustan Unilever	3.18	0.00	-100%	-318
ITC	2.78	1.77	-36%	-101
Nestle India	0.95	0.00	-100%	-95
Titan Company	1.00	0.99	-1%	-1
Tata Consumer	0.58	0.00	-100%	-58
United Breweries	0.00	1.02	NA	102
<b>Engineering &amp; Capital Goods</b>	2.69	2.67	-1%	-2
Larsen & Toubro	2.69	2.67	-1%	-2
<b>Information Technology</b>	16.44	15.34	-7%	-110
HCL Tech	1.55	2.53	63%	98
Infosys	7.82	7.76	-1%	-6
TCS	4.94	1.95	-61%	-299
Tech Mahindra	0.94	1.93	104%	98
Wipro	1.18	1.17	-1%	-1
<b>Metals &amp; Mining</b>	3.57	4.78	34%	121
Coal India	0.46	0.46	-1%	0
Hindalco	0.84	1.58	88%	74
JSW Steel	1.00	0.99	-1%	-1
Tata Steel	1.27	1.76	38%	49
<b>Oil &amp; Gas</b>	11.34	7.07	-38%	-427
BPCL	0.67	1.72	158%	105
GAIL	0.00	0.00	NA	0
Indian Oil	0.43	1.01	135%	58
ONGC	0.62	1.11	78%	49
Reliance Industries	9.62	3.23	-66%	-639
<b>Pharmaceuticals</b>	3.63	5.59	54%	196
Cadila Healthcare	0.00	1.04	NA	104
Cipla	0.73	1.21	67%	48
Divi's Lab	0.79	0.00	-100%	-79
Dr. Reddy's Lab	0.97	1.69	74%	72
Sun Pharma	1.15	1.65	43%	50
<b>Ports &amp; Logistics</b>	0.84	0.00	-100%	-84
Adani Ports	0.84	0.00	-100%	-84
<b>Power</b>	1.67	2.14	28%	47
NTPC	0.80	0.79	-1%	-1
Power Grid Corporation	0.87	1.35	55%	48
<b>Telecommunications</b>	1.92	2.37	23%	45
Bharti Airtel	1.92	2.37	23%	45
<b>Cash</b>		<b>0.00</b>		
<b>Nifty</b>	<b>100.0</b>	<b>100.0</b>		

Source: Emkay Research; Note: \*We have internally capped single stock exposure to 10% in our EAP

**Sector portfolio NAV**

	Base					Latest
	1-Apr-19	29-May-20	25-Nov-20	24-Feb-21	26-Apr-21	26-May-21
EAP - Nifty	100.0	82.2	103.1	124.3	119.7	127.9
Nifty50	100.0	82.1	110.2	128.4	124.1	131.1

\*Performance measurement base date 1<sup>st</sup> April 2019

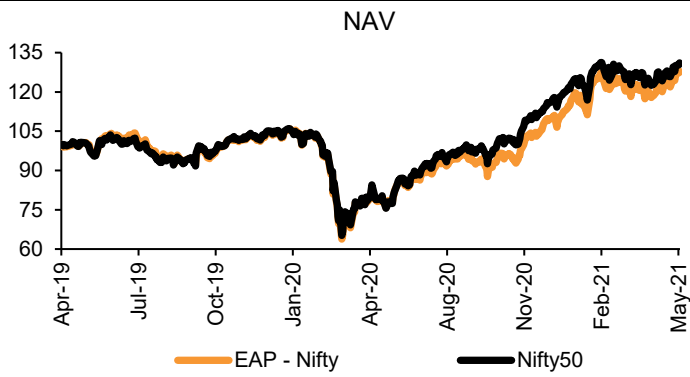
Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - Nifty	6.8%	2.9%	24.1%	55.5%
Nifty50	5.6%	2.1%	19.0%	<b>59.7%</b>

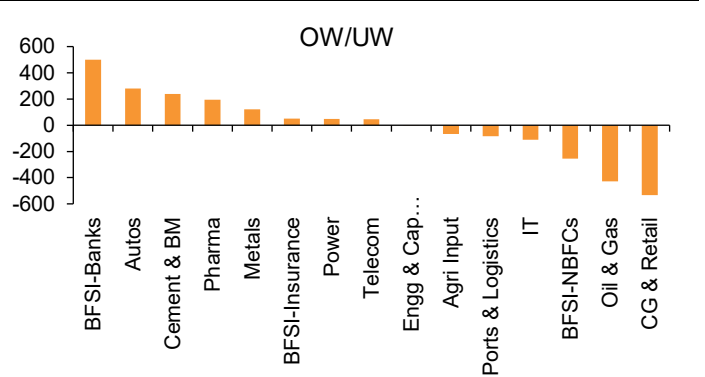
Source: Emkay Research

**NAV chart**



Source: Emkay Research

**Sector OW/UWs**



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
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Completed Date: 28 May 2021 04:28:19 (SGT)

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