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# INDIA ANNOUNCES FISCAL STIMULUS PLAN

 THOMASLOYD

## Details of the programme

In a significant boost for ThomasLloyd's current and future investment strategy in India, Prime Minister Narendra Modi announced on May 12<sup>th</sup> 2020 a substantial fiscal stimulus programme to help the Indian economy withstand and recover from the impact of the COVID-19 virus. The total cost of the package is ₹20 lakh crore, which is 20 trillion rupees or around USD 265 billion. This substantial fiscal boost amounts to around 10% of Indian GDP and compares to the 13% of GDP to which the United States has committed to its own recovery and resilience package.

The rebuilding of the Indian economy is to be based on five-pillars: A quantum leap in the Economy rather than incremental change; Infrastructure; Technology-driven systems; Demography and Demand. The fiscal stimulus package is an important link in the Prime Minister's 'Self-Reliant India Campaign'.

Measures already announced by the Government and Reserve Bank of India (RBI) since early March comprise USD102.6bn of the USD265bn package, so around USD163bn is effectively 'new' money. Full details are yet to be released, though Finance Minister Nirmala Sitharaman has already announced a series of significant policy initiatives, some of which have specific relevance for the financing and development of the Renewable Energy sector.

Around USD40bn of government-guaranteed credit will be available to small and medium-sized enterprises (SMSE's). Another USD10bn is for a special liquidity scheme to purchase investment-grade debt of non-bank financial companies (NBFC's), whilst ₹90,000 crore (around USD12bn) is to be made available as a one-time emergency injection of liquidity against the receivable payments of the power distribution companies (DISCOM's).

## What it means for the Renewable Energy Sector

The one-time liquidity injection of ₹90,000 crore into DISCOM's will breathe a fresh life into the Indian power sector. The infusion will be used to pay the central public sector power generation companies, transmission companies, independent power producers and renewable energy generators with the condition that the money is solely used for clearing the liabilities that are due. With this liquidity, the DISCOMS will be able to repay most of the ₹94,000 crore outstanding payments that are owed to power generators, restarting the virtuous cycle of liquidity, higher investments and rapid growth for the power sector.

At the end of March 2020, DISCOMs owed renewable energy generators ₹6,837 crore (approximately USD 911 million) in outstanding payments, according to data from the Ministry of Power's (MoP) payment ratification and analysis portal (PRAAPTI).

## Immediate market impact of fiscal stimulus

The Indian stock market responded very positively to Prime Minister Modi's prime time evening speech, delivered after local markets had closed on Tuesday May 12<sup>th</sup>. The following morning, the SENSEX index opened 1,470 points higher (+4.7%) with the 'NIFTY 50' index up 4.2% at 9,584. Gains for these main indices were pared back by the close of business but the equity market was resilient in the face of sharply lower US stock prices. When details of the support package for DISCOM's was subsequently announced, both Power Finance Corporation and Rural Electrification Corporation enjoyed double-digit percentage gains and closed sharply higher whilst other energy stocks rose more than 5% on the day.

Index or equity daily closing price					
	Apr 30 <sup>th</sup>	May 11 <sup>th</sup>	May 12 <sup>th</sup>	May 13 <sup>th</sup>	May 14 <sup>th</sup>
<b>SENSEX</b>	33717,0	31561,0	31371,0	32008,0	31122,0
1 day percentage change			-0,6%	2,0%	-2,8%
<b>NIFTY 50</b>	9859,0	9239,0	9196,0	9383,0	9142,0
1 day percentage change			-0,5%	2,0%	-2,6%
<b>Power Finance Corporation</b>	95,40	84,05	82,70	89,65	85,80
1 day percentage change			-1,6%	8,4%	-4,3%
<b>Rural Electrification Corporation</b>	95,55	89,15	89,45	100,6	99,85
1 day percentage change			0,3%	12,5%	-0,7%

## Outlook for the economy and ThomasLloyd strategy

Prime Minister Modi has said, "This package will give a new impetus to the development journey of the country in 2020 and a new direction to the Self-Reliant India Campaign". Certainly, ₹20 lakh crore (USD265bn) is a substantial sum of money to boost overall economic activity and the ₹90,000 crore to support the DISCOM's is a very welcome kick-start for the Indian power sector. As electricity demand increases with the return to work post-lockdown, investors in power and renewable energy will look at India with renewed enthusiasm. At ThomasLloyd, we are proud of our India investment strategy and excited about the future opportunities.