

Government Economic Package – Steps in the right Direction

Government announced slew of measures to address the slowdown in the economy and to restore the confidence of the business fraternity. The measures announced by the Government are largely non-fiscal and hence, will not immediately boost the demand. However, the steps taken by the Government would certainly improve the market sentiments and help in containing the collateral damage to Indian equities from the global headwinds (US-China trade disputes escalated on Friday with major global equity indices closing with deep cuts).

Markets are likely to open with gap-up but Nifty may face stiff resistance at 11000 levels based on options data. If, we are able to break-out from those levels then Nifty may touch 11100-11200 during the week. On the downside Nifty has a support at 10800 levels and if it breaches that then it is likely to find support at 10600-10550 levels.

These sectors are likely to remain in highlight during today's trading session –

PSU Banks

Government will infuse Rs. 70,000 towards bank recapitalization. The provision was made in the Union Budget for the said amount but the funds will be released upfront. Certainly it will improve the capital adequacy of the banks but to suggest that it will provide additional funds to the tune of Rs. 5 Lac Crore for lending, would not be a right conclusion. Substantial part of these funds will be required to meet the incremental provisioning requirement during FY20 and therefore, can't be used for increasing the risk weighted assets. Still it's a positive development for the PSU banks and moreover, the announcement to restrict the discretionary powers of CVC will help in dispelling the fear to some extent, among the bank officers involved in lending process.

However, on the flip side, NIMs of the PSU Banks may be adversely impacted as they are being pushed for faster transmission of rate cuts to the borrowers.

Impact – likely to be positive

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Auto Sector

While Government announced number of steps for the auto sector but two wheeler manufacturers may be disappointed with no cut in GST rates. The provision for additional depreciation of 15% will largely benefit commercial vehicle manufacturers and to some extent the passenger vehicle manufacturers. The latter will also be mildly benefitted from lifting of the ban by the Government on the purchase of new vehicles by its Departments.

Impact – CV and passenger vehicle manufacturing companies are likely to react positively but not sure about two wheeler companies as prices have already run up in anticipation of sops from the Government

NBFC

The recapitalization of PSU banks will increase the exposure limit for NBFCs as these limits are correlated with the capital funds of the banks. Besides Government also announced several steps to provide enhanced liquidity support to NBFCs/ HFCs

Impact – Top rated NBFCs/ HFCs with retail/ MSME focus are likely to react positively

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