Concern raised of informal economy survival

By **Fiinews** - April 20, 2020

Sponsors to monetise their assets

India's informal economy, which helped rescued the economy in 2008, is likely to be the first to collapse in the pandemic as trade overall has come to a grinding halt, according to Nishith Desai Associates.

Also, Infrastructure sector has been most affected as traffic on roads, airports, freight among other activities has come to a grinding halt.

As it is, India's GDP growth is seen at 2% in the current year, down from previous estimates of 5%.

Lack of clarity on government compensation to infra projects and looming interest burden (owing to the high leverage ratios in such projects) is likely to offer such projects at cheap valuations, said the Mumbai-headquartered legal consultancy.

Complete tax exemptions given to InvITs and sovereign funds are likely to drive infrastructure growth, including sovereign participation in infra credit growth.

Liquidity crunch may drive sponsors to monetise their assets (yield generating and under construction) at cheaper valuations. Resistance from domestic lenders may further gravitate infra developers towards a partnership with or sale to, private equity players.

Whilst NPA norms are being relaxed and bailout packages announced, banks and NBFCs are indeed looking at enhanced defaults and a much larger NPA book, Nishith Desai Associates cautioned.

Post Yes Bank crisis, flight of deposits to large state-owned banks may be seen; in fact, state governments are already seen moving their deposits to safer state-owned banks.

Hence, the crippled operating environment for banks may see further contraction on the back of mounting defaults, falling deposits (CASA and otherwise), debt servicing obligations and weak economic indicators, which has already prompted banks and NBFCs to initiate 'business continuity plans'.

Hope of retail investors for EMI waivers may also cause adverse behavioural changes. Hence, investments in banks will be available at cheaper valuations and since most of the large banks and NBFCs are listed, one may see substantial public market trades.

In the Real Estate sector, Blackstone's recent example of giving a complete rent holiday for 3 months in the US sets an example for other tenants to make similar demands, though legally tenants may find it difficult to avoid paying rentals claiming force majeure.

E-commerce is likely to prevail over retail traffic further depressing rentals by about 20%.

Residential real estate sales will probably be the worst hit amidst approval delays, expensive cost of capital and subdued sales.

With close to about 30% urban unemployment rate as of 11 April 2020 (based on CMIE data), all asset classes – office, retail, residential, warehouses, hotels may suffer a contraction proportionate to the contraction in the GDP. *fiinews.com*