04

CHAPTER

Monetary Management and Financial Intermediation

Monetary policy and liquidity operations since the beginning of the COVID-19 pandemic have geared towards mitigating its adverse impact on economy. Accommodative monetary policy along with other regulatory dispensations, asset classification standstill, temporary moratorium and provision of adequate liquidity were put in place in order to provide a safety net to the system. In 2021-22, some of the measures undertaken by RBI like CRR reduction reached pre-set sunset dates, liquidity has been wound down partly but remains in surplus mode and regulatory measures have been realigned.

After several rate cuts in 2019-20 and 2020-21, the repo rate was maintained at 4 per cent in 2021-22. The liquidity in the system remained in surplus throughout. RBI undertook various measures, including secondary market G-sec acquisition programme, special Long-Term Repo operations, on tap targeted Long-Term Repo Operations, etc. to provide further liquidity in the system. Thereafter, RBI used Variable Rate Reverse Repo, reverse repo auctions to rebalance liquidity conditions.

Reserve money and broad money supply growth in 2021-22 so far was lower than in the previous year. The reserve money growth did not fully translate into commensurate broad money supply growth due to the smaller (adjusted) money multiplier reflecting large deposits by banks with RBI under reverse repo window. Bank credit growth accelerated gradually in 2021-22 up from 5.3 per cent in the beginning of April 2021. The very latest data shows that the bank credit growth stands at 9.2 per cent as on 31st December 2021. At the sectoral level, credit to agriculture sector continued to register robust growth and showed signs of improvement in the industry sector. Services sector credit growth, however, is yet to recover.

Gross Non-Performing advances ratio of Scheduled Commercial Banks (SCBs) continued to decline from 11.2 per cent at end of 2017-18 to 6.9 per cent at end-September 2021. Similarly, Net Non-Performing advances ratio declined from 6 per cent to 2.2 per cent during the same period. Capital to risk-weighted asset ratio of SCBs continued to increase from 13 per cent in 2013-14 to 16.54 per cent at end-September 2021. The Return on Assets and Return on Equity for Public Sector Banks became positive in June 2020 and continued to be positive for the period ending September 2021, after recording negative profitability ratios from March 2016 to March 2020. The economic shock of the pandemic has been weathered well by the commercial banking system so far, even if some lagged impact is still in pipeline.

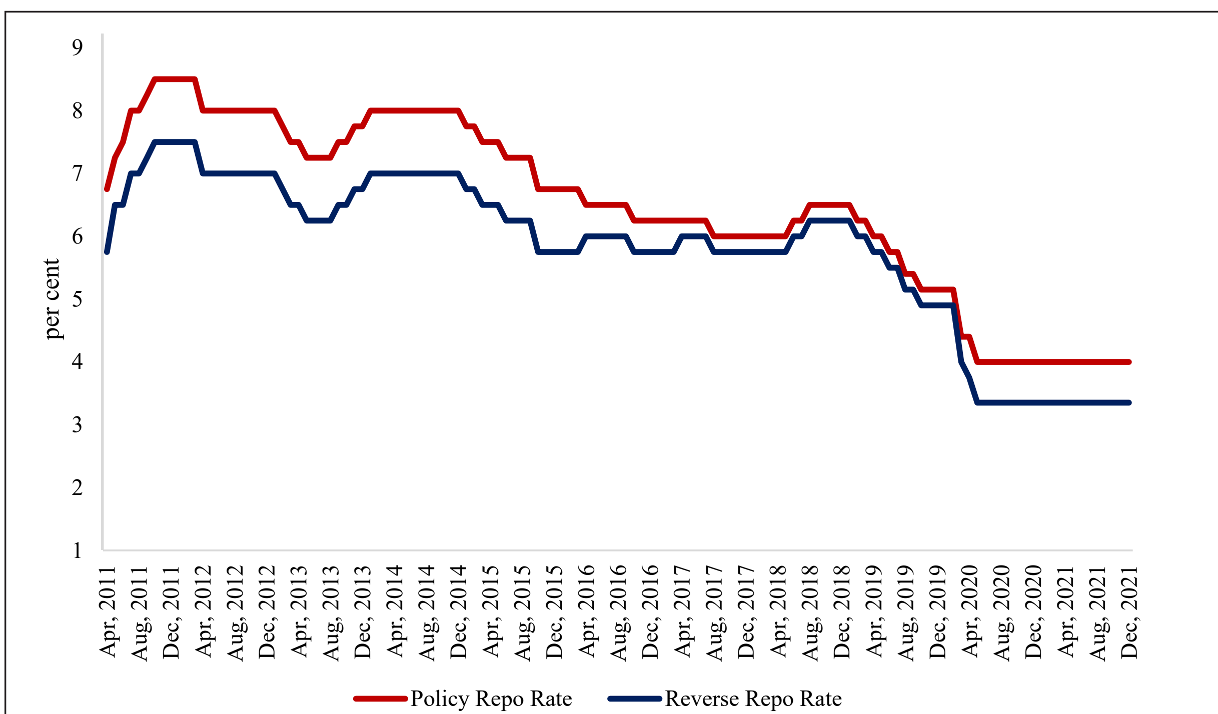
The year 2021-22 so far has been an exceptional year for the capital markets. There was a boom in fundraising through IPOs by many new age companies/tech start-ups/unicorns. In April-November 2021, ₹ 89,066 crore were raised via 75 IPO issues, much higher than in any year in last decade.

The Sensex and Nifty scaled up to touch its peak at 61,766 and 18,477 on October 18, 2021. Among major emerging market economies, Indian markets outperformed the peers in April-December 2021. The process of insolvency which was suspended in view of pandemic, started again in end-March 2021. A pre-packaged insolvency resolution process was provided under IBC as an alternative insolvency resolution process for corporate Micro, Small and Medium Enterprises in April 2021.

MONETARY DEVELOPMENTS

4.1 The Monetary Policy Committee (MPC) maintained status quo on the policy repo rate during April to December 2021 after a substantial cut of 115 basis points (bps) during February-May 2020 and a cumulative 250 basis points cut since February 2019 (Figure 1 and Table 1). The repo rate which currently stands at 4 per cent is lowest in the last decade (Figure 1). Since May 2020, the policy rates have been on hold along with an accommodative monetary policy stance with forward guidance that this stance will continue as long as necessary to revive growth on durable basis while ensuring that inflation remains within the target (Consumer Price Index inflation of 4 per cent within a band of +/- 2 per cent).

Figure 1: Repo and reverse repo rate (per cent)



Source: RBI

Table 1: Revision in Key Rates set by RBI

Effective Date	Repo Rate (per cent)	Reverse Repo Rate (per cent)	Cash Reserve Ratio (per cent of NDTL)	Statutory Liquidity Ratio (per cent of NDTL)	MSF Rate/ Bank Rate (per cent)
06-02-2020	5.15	4.90	4.0	18.25	5.40
27-03-2020	4.40	4.00	4.0	18.25	4.65
28-03-2020	4.40	4.00	3.0	18.25	4.65
17-04-2020	4.40	3.75	3.0	18.00	4.65
22-05-2020	4.00	3.35	3.0	18.00	4.25
27-03-2021	4.00	3.35	3.5	18.00	4.25
22-05-2021	4.00	3.35	4.0	18.00	4.25
06-08-2021	4.00	3.35	4.0	18.00	4.25
08-10-2021	4.00	3.35	4.0	18.00	4.25
08-12-2021	4.00	3.35	4.0	18.00	4.25

Source: RBI
Note: NDTL: Net Demand and Time Liabilities

4.2 In the initial meetings of 2021-22, MPC noted that while the inflation has hovered above the upper tolerance band for some months, it was largely driven by adverse supply shocks which were expected to be transitory. The outlook for aggregate demand was progressively improving but capacity utilisation rates were low. The contact intensive services were lagging behind and the recovery was uneven and required policy support. In the latest MPC meeting in December 2021, the committee pointed out that the outlook was uncertain owing to global spillovers, potential resurgence in COVID-19 infections and divergences in policy actions and stances across the world with inflationary pressures increasing across economies. Accordingly, the MPC decided to continue monitoring the inflationary pressures, keep the policy repo rate unchanged at 4 per cent and persist with the accommodative stance.

4.3 In 2021-22 so far, the overall monetary and credit conditions remained accommodative. However, the growth rates of monetary aggregates- including Reserve money, Broad money were lower as compared to the last year. Reserve money (M0) recorded a year-on-year (YoY) growth of 13 per cent as on 7th January 2022, as compared to 14.3 per cent a year ago. However, M0 adjusted for the first-round impact of changes in the Cash Reserve Ratio (CRR) recorded a lower growth (YoY) of 7.7 per cent, as compared with 18.3 per cent a year ago (Figure 2).

4.4 Expansion in M0 during 2021-22 so far was driven by bankers' deposits with the RBI from the component side, with CRR restoration in phases, effective 27th March 2021 and 22nd May 2021. Currency in Circulation (CIC) grew by 7.8 per cent as on 7th January 2022, lower as compared to the previous year as precautionary demand for cash subsided (Table 2).

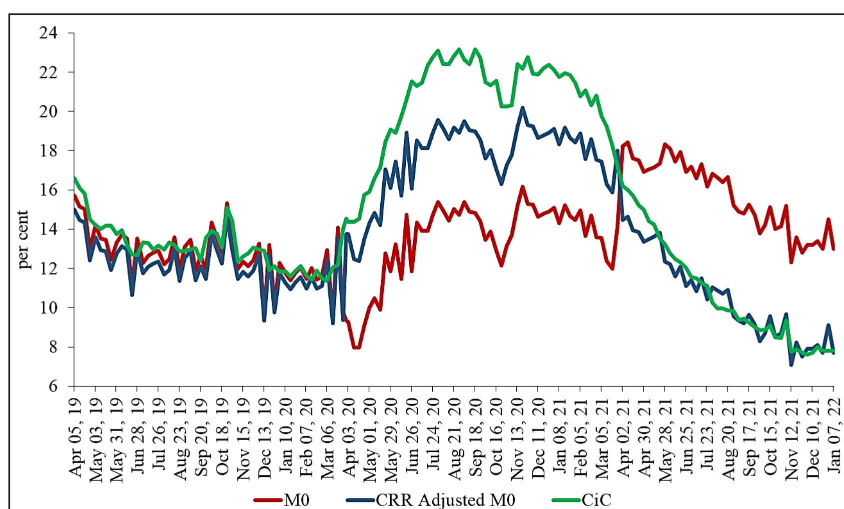
Table 2: Growth (YoY) in Monetary Aggregates (end-March) (per cent)

Item	2015-16	2016-17^	2017-18	2018-19	2019-20	2020-21	2021-22*
Currency in Circulation (CIC)	14.9	-19.7	37.0	16.8	14.5	16.6	7.8#
Cash with Banks	6.6	4.2	-2.1	21.4	15.4	4.5	10.7
Currency with the Public	15.2	-20.8	39.2	16.6	14.5	17.1	7.7
Bankers' Deposits with the RBI	7.8	8.4	3.9	6.4	-9.6	28.5	42.0#
Demand Deposits	11.0	18.4	6.2	9.6	6.8	14.8	26.2
Time Deposits	9.2	10.2	5.8	9.6	8.1	10.9	8.2
Reserve Money (M0)	**13.1**	**-12.9**	**27.3**	**14.5**	**9.4**	**18.8**	**13.0#**
Broad Money (M3)	**10.1**	**6.9**	**9.2**	**10.5**	**8.9**	**12.2**	**9.9**

Source: RBI

Note: ^: March 31, 2017 over April 1, 2016 barring Reserve Money (M0), Currency in Circulation (CIC) and Bankers' Deposits with the RBI (BD), *: As on December 31, 2021, #: As on January 7, 2022.

Figure 2: M0, CRR Adjusted M0 and CiC Growth (YoY)



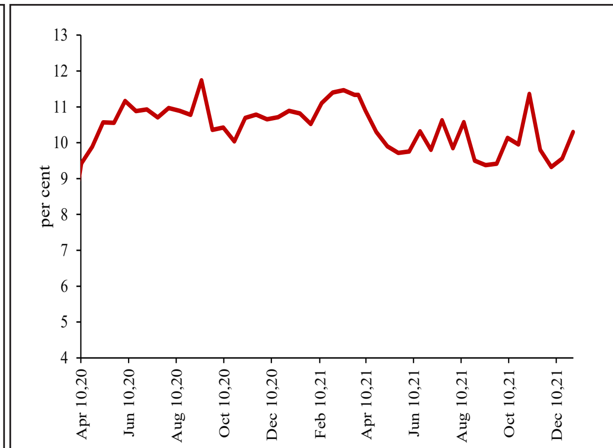
Source: RBI

Note: CIC: Currency in Circulation, CRR: Cash Reserve Ratio

4.5 In 2021-22 so far, the YoY growth of broad money (M3) stood at 9.9 per cent as on 31st December, as compared to 12.5 per cent a year ago (Figure 3). From the component side, aggregate deposits which is the largest component - has contributed most to the expansion of M3 during the year so far (Figure 4). Amongst sources, bank credit to the government was a major contributor to the increase in broad money. Banks' higher investments in liquid and risk-free assets such as SLR securities and G-secs, resulted in higher net bank credit to the government. Bank credit to the commercial sector also supplemented M3 expansion from the sources side. The YoY credit growth for Scheduled Commercial Banks was 9.2 per cent as on 31st December 2021 as compared to 6.6 per cent a year ago, reflecting pick-up in credit.

Figure 3: Broad Money Growth (YoY)

Figure 4: Aggregate Deposits Growth (YoY)

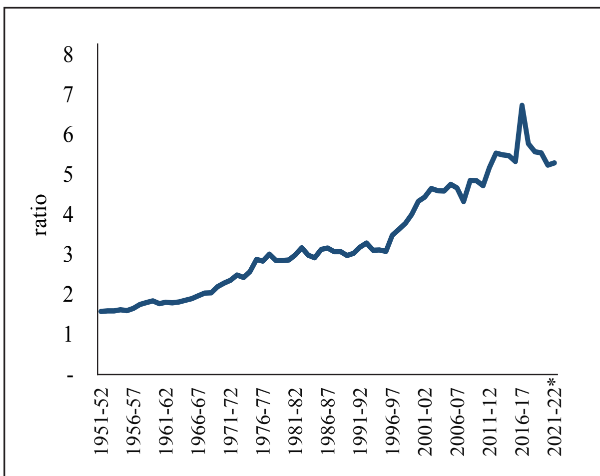


Source: RBI

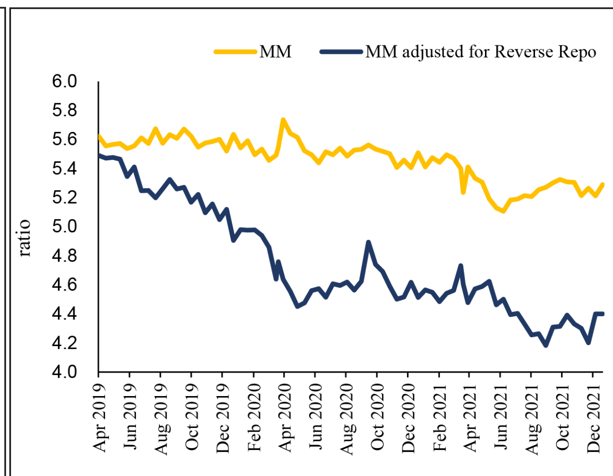
4.6 Money multiplier- measured as a ratio of M3 to M0 has been on the decline since 2017-18 (Figure 5(a)). As on 31st March 2021, money multiplier (MM) stood at 5.2 from 5.6 a year ago. However, money multiplier adjusted for reverse repo - analytically akin to banks' deposits with the central bank - turned out to be lower at 4.6 by end-March 2021. The gap between MM and adjusted MM reflects parking of funds by banks under the reverse repo window of the RBI and to some extent a weak credit creation process. Money multiplier, however, improved slightly to 5.3 as on 31st December 2021, while adjusted MM stands at 4.4 (Figure 5 (b)).

Figure 5: Money Multiplier

(5a)



(5b)



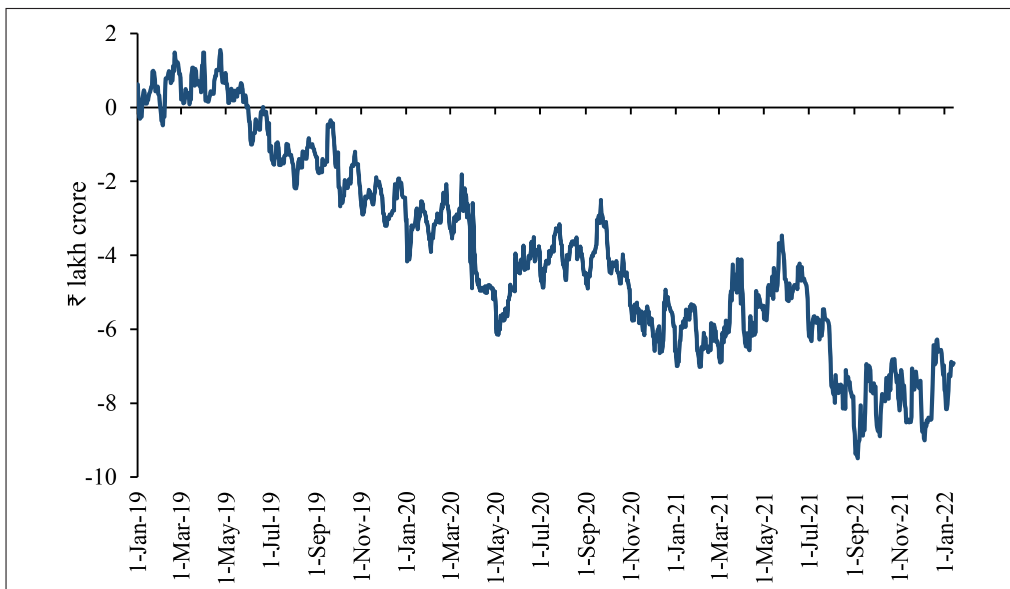
Source: RBI

Note: Money multiplier adjusted for reverse repo is based on reserve money adjusted for commercial banks' reverse repo deposits with RBI, *Number for 2021-22 is as of 31st December 2021 in Figure 5(a)

LIQUIDITY CONDITIONS AND ITS MANAGEMENT

4.7 Liquidity has remained in surplus in the system since mid-2019 in sync with the easing of monetary conditions (Figure 6). The liquidity conditions were further eased during the year 2020-21 after the covid pandemic, and RBI has since then maintained ample surplus liquidity in the banking system to support growth. In 2021-22 so far, the RBI resumed normal liquidity operations in a phased manner and engaged in rebalancing liquidity from passive absorption under fixed rate reverse repo under its Liquidity Adjustment Facility (LAF) to market based reverse repo auctions (like Variable Rate Reverse Repo (VRRR)). At the same time it also ensured adequate liquidity in the system in consonance with the accommodative monetary policy stance to support growth. The liquidity conditions remained in surplus in 2021-22.

Figure 6: Liquidity Conditions



Source: RBI

Note: Negative sign indicates surplus liquidity. Surplus liquidity in the banking system is indicated by the total net LAF absorption. Hence, an increase in total absorbation implies an increase in surplus liquidity.

4.8 The measures taken by RBI to provide targeted liquidity support to the system in 2021-22 included:

a. Special refinance facilities of ₹66,000 crore to all-India financial institutions, comprising ₹25,000 crore to the National Bank for Agriculture and Rural Development (NABARD); ₹10,000 crore to the National Housing Bank (NHB); and ₹31,000 crore to the Small Industries Development Bank of India (SIDBI).

b. Term liquidity facility of ₹50,000 crore to ramp up COVID-related healthcare infrastructure and services in the country;

c. Special Long-Term Repo Operations (SLTRO) for small finance banks of ₹10,000 crore to support small business units, micro and small industries, and other unorganised sector entities adversely affected during the second wave of the pandemic. SLTRO scheme was subsequently made on-tap and was extended till December 31, 2021.

d. On-tap liquidity window of ₹15,000 crore for contact-intensive sectors.

e. Extension of On tap Targeted Long-Term Repo Operations (On tap-TLTRO) till 31st December 2021.

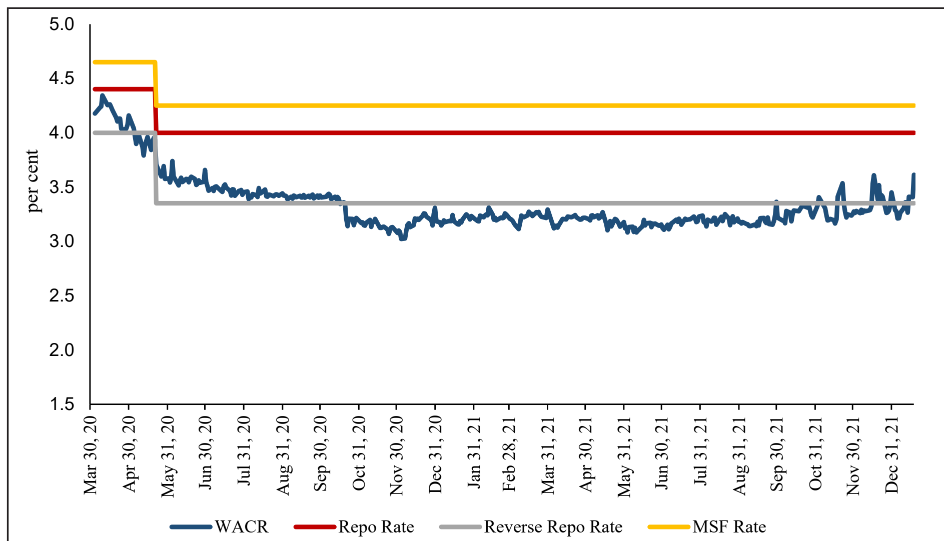
4.9 A secondary market G-sec acquisition programme (G-SAP) - which was announced during the year added to the surplus liquidity during the period. G-SAP involves upfront commitment to purchase a specific quantum of government securities with a view to enabling a stable and orderly evolution of the yield curve. RBI purchased G-secs (including state development loans) amounting to ₹1 lakh crore under G-SAP 1.0 and ₹1.2 lakh crore under G-SAP 2.0.

4.10 The gradual normalisation of liquidity management operations in sync with the revised liquidity management framework was the key feature of liquidity management in 2021-22. The 14-day Variable Rate Reverse Repo (VRRR) auctions were deployed as the main operation under the Liquidity Adjustment Facility (LAF). Further, the cash reserve ratio (CRR) which was reduced by 100 basis points (bps) in March 2020, was gradually raised to its pre-pandemic level of 4 per cent by May 2021. To manage the liquidity conditions, variable rate reverse repo auctions of varying maturities were conducted apart from the VRRR operations conducted every fortnight. The size of 14 day VRRR was gradually enhanced to ₹7.5 lakh crore by end-December 2021. During 2021-22 so far, average daily net absorptions under LAF amounted to ₹6.7 lakh crore.

4.11 During 2021-22 so far, due to the surplus liquidity conditions, call money rate generally traded below the reverse repo rate - the lower bound of the liquidity adjustment facility (LAF) corridor during the year (Figure 7). The weighted average call rate (WACR) - the operating target of monetary policy - traded 13 bps below the floor of the corridor on an average during the year so far. It was only in November 2021, that the WACR drifted back slightly within the corridor.

4.12 With RBI becoming the major counterparty for banks, there was a shrinkage in inter-bank trading activity - average daily volume in the call money market declined to ₹9,077 crore in December 2021 from ₹10,126 crore in March 2021. Interest rates on longer-term money market instruments like 91-day Treasury Bills (T-Bills), 3-month Certificates of Deposit (CDs) and Commercial Papers (CPs) generally traded above the reverse repo rate during the year.

Figure 7: Policy Corridor and WACR

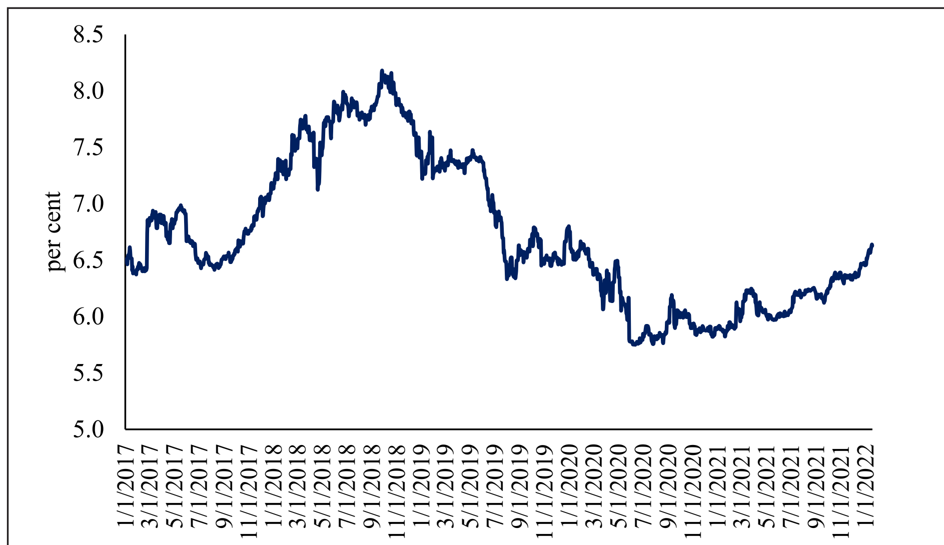


Source: RBI and CCIL

DEVELOPMENTS IN G-SEC MARKET

4.13 The yields on 10-year G sec which had reached 8.2 per cent on 26th September 2018 reduced substantially to reach 5.75 per cent in June 2020. It has since then increased to stand at 6.45 per cent as on 31st December 2021.

Figure 8: India 10-Year Generic G-Sec Yield



Source: Bloomberg

4.14 Trading in the 10-year G-sec started on a positive note in the financial year 2021-22 (Figure 8), supported by the Reserve Bank's G-SAP, continued accommodative stance domestically and dovish monetary policy stance adopted by major economies around the world. In the beginning of first quarter (Q1) of 2021-22, yield on 10-year G-Secs stood at around 6.26 per cent. The 10-year yield reached a low of 5.96 per cent (intra day) in May 2021. The announcement of G-SAP 2.0 amounting to ₹1.2 lakh crore on 4th June 2021 and the US federal open market committee's

decision on 15th June 2021 to continue with the easy monetary policy stance kept the yields near the 6 per cent mark.

4.15 In the beginning of second quarter (Q2) of 2021-22, yields started to rise. The announcement of phased increase in the quantum of VRRR operations on 6th August 2021 and shift in market sentiments to price in possibility of change in interest rate cycle sometime ahead also led to some hardening of yields up to 6.26 per cent. The successively lower consumer price index (CPI) prints, inclusion of the 10-year benchmark paper in the G-SAP auctions and no additional borrowing by government for the second half of 2021-22 helped keep yields in check. The yield on benchmark security stood at 6.22 per cent at the end of second quarter. In the third quarter (Q3) of 2021-22, rise in US treasury yields and rising crude prices led the yields to inch higher to 6.45 per cent at end-December 2021.

4.16 The term spread (measured as the gap between 10 year and 1-year G sec yield) had widened sharply in 2020, but has narrowed down slightly in 2021-22 (Figure 9). However, it is still wider as compared to the pre-pandemic years.

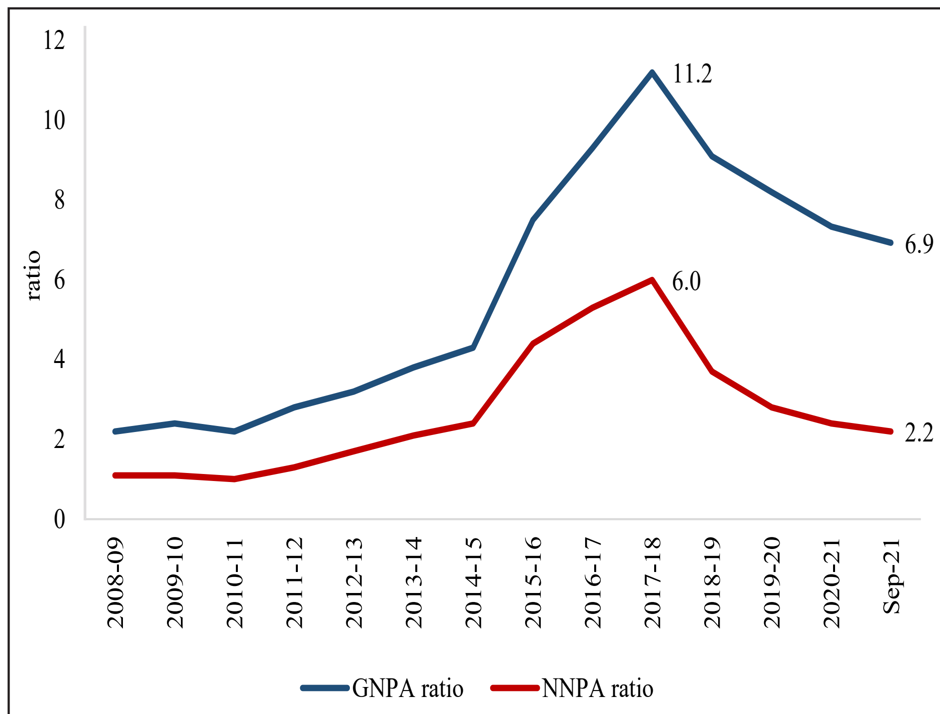
Figure 9: Yields on 1-year and 10-year G sec (per cent)

Source: Bloomberg

BANKING SECTOR

4.17 The Gross Non-Performing advances (GNPA) ratio (i.e. GNPAs as a percentage of Gross Advances) and Net Non-Preforming (NNPA) ratio of Scheduled Commercial Banks (SCBs) continued to decline since 2018-19. GNPA ratio of SCBs decreased from 7.5 per cent at end-September 2020 to 6.9 per cent at end-September 2021. NNPA ratio of SCBs was 2.2 per cent at end-September 2021 (Figure 10).

Figure 10: GNPA and NNPA ratio



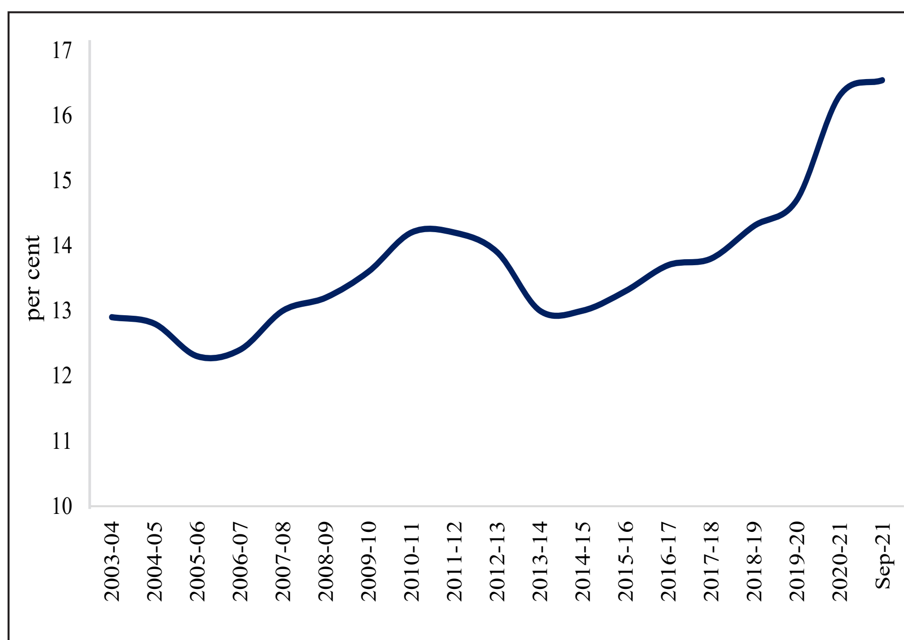
Source: RBI
Note: Number for September 2021 is based on offsite returns data

4.18 Restructured Standard Advances (RSA) ratio of SCBs increased from 0.4 per cent to 1.5 per cent during the same period. Overall, the Stressed Advances ratio of SCBs increased from 7.9 per cent at end-September 2020 to 8.5 per cent at end-September 2021. Various COVID-19 related dispensations/moratoriums provided with respect to asset quality contributed towards increase in restructured assets and as a result, stressed advances ratio for the banking system increased at end-September 2021. Overall, the banking system appears to have weathered the pandemic shock well even if there is some lagged impact still in the pipeline.

4.19 GNPA ratio of Public Sector Banks (PSBs) decreased from 9.4 per cent at end-September 2020 to 8.6 per cent at end-September 2021. The Stressed Advances ratio of PSBs increased marginally from 10.0 per cent to 10.1 per cent during the same period on account of rise in restructured advances.

4.20 The Capital Adequacy Ratio has continued to improve since 2015-16. Capital to Risk-weighted Asset Ratio (CRAR) of SCBs increased from 15.84 per cent at end-September 2020 to 16.54 per cent at end-September 2021 on account of its improvement for both public and private sector banks (Table 3). The improvement in CRAR levels of PSBs was due to capital infusion by the government alongside fund raising from the markets, while private sector banks tapped capital from market sources (Figure 11). Based on the capital position as on September 30, 2021, all Public Sector and Private Sector banks maintained the Capital Conservation Buffer (CCB) well over 2.5 per cent.

Figure 11: Capital Adequacy Ratio (per cent)



Source: RBI
Note: Number for September 2021 is based on offsite returns

4.21 SCBs' annualised return on assets (RoA) improved from 0.6 per cent at end-September 2020 to 0.8 per cent at end-September 2021, while their annualised return on equity (RoE) improved from 7.7 per cent to 9.0 per cent during the same period. The RoA and RoE for PSBs became positive in June 2020 and continued to be positive for the period ending September 2021, after recording negative profitability ratios during March 2016 to March 2020.

Table 3: NPAs, CRAR, RoE and RoA – SCBs, PSBs and Private Sector Banks (per cent)

Period	Scheduled Commercial Banks				Public Sector Banks				Private Sector Banks			
	GNPA Ratio	CRAR	RoE	RoA	GNPA Ratio	CRAR	RoE	RoA	GNPA Ratio	CRAR	RoE	RoA
Mar-19	9.07	14.32	-1.82	-0.15	11.59	12.2	-10.97	-0.66	5.25	16.07	5.49	0.60
Mar-20	8.21	14.78	0.78	0.07	10.25	12.85	-3.92	-0.25	5.45	16.55	3.20	0.35
Sep-20	7.49	15.84	7.68	0.64	9.39	13.51	4.33	0.26	4.93	18.21	10.04	1.10
Mar-21	7.33	16.30	7.64	0.65	9.11	14.04	4.63	0.28	4.94	18.42	10.01	1.14
Sep-21	6.93	16.50	9.04	0.79	8.57	14.4	8.47	0.52	4.73	18.65	10.01	1.17

Source: Offsite Returns, Global Operation, RBI

4.22 The net profit (profit after tax) for PSBs increased from ₹14,688 crore during first half of 2020-21 to ₹31,144 crore during first half of 2021-22. Similarly, the net profit for private sector banks increased from ₹32,762 crore to ₹38,234 crore during the same period. Overall, for SCBs, the net profit increased from ₹59,426 crore at end-September 2020 to ₹78,729 crore at end-September 2021.

Box 1: NATIONAL ASSET RECONSTRUCTION COMPANY LIMITED

Various available resolution mechanisms, including Insolvency and Bankruptcy Code (IBC), SARFAESI Act, Debt Recovery Tribunals, etc. have proved to be useful to certain extent, however a large stock of legacy NPAs are yet to be resolved. In addition to this, while there are 28 ARCs existing in India, due to limited capitalisation and low recoveries from existing portfolio, they are better placed for acquiring only smaller value loans. In order to resolve the legacy NPAs and clean up the banking system, the Union budget 2021-22 announced, "The high level of provisioning by Public Sector Banks of their stressed assets calls for measures to clean up the bank books. An Asset Reconstruction Company (ARC) Limited and Asset Management Company (AMC) would be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realization." In line with this vision, two entities viz. National Asset Reconstruction Company Limited (NARCL), and India Debt Resolution Company Limited (IDRCL) have been formed.

NARCL was incorporated on 7th July 2021 and has received a certificate of registration from the RBI to commence the business of an Asset Reconstruction Company on 4th October 2021. NARCL will majorly be owned by Public Sector Banks. Canara bank is the Sponsor with shareholding of upto 12 per cent. NARCL would be capitalized through a combination of equity and debt from various Banks and will have a finite life of 5 years. It may acquire stressed assets of about ₹2 lakh crore appox in multiple phases within the extant regulations of RBI under 15:85 structure, implying that the consideration for acquisition will be 15 per cent in Cash and 85 per cent in Security Receipts. IDRCL was incorporated on 3rd September 2021 and will have minimum of 51 per cent ownership of Private sector Banks and balance will be held by Public Sector Banks.

NARCL and IDRCL's relationship will be defined through a debt management agreement where in NARCL will aggregate and acquire the stressed assets and IDRCL, in turn, will provide stressed assets management and resolution services to NARCL on an exclusive basis. The term of IDRCL shall be co-terminus with that of NARCL. NARCL will acquire assets by making an offer to the lead bank and the lead bank with an offer in hand (of NARCL) will run a 'Swiss Challenge' process wherein other interested ARCs / Bidders will be invited to better the anchor offer made by NARCL. Once NARCL is declared as a preferred bidder, NARCL shall initiate asset acquisition process and acquire the assets in the underlying Trusts. After acquiring the assets, IDRCL shall prepare and suggest the proposed restructuring / resolution plan, strategies, etc. for each Underlying Trust Assets. Post the approval of resolution from NARCL, IDRCL shall also assist in implementation of resolution. The assets acquired shall be resolved using existing resolution tools within the RBI framework for ARCs.

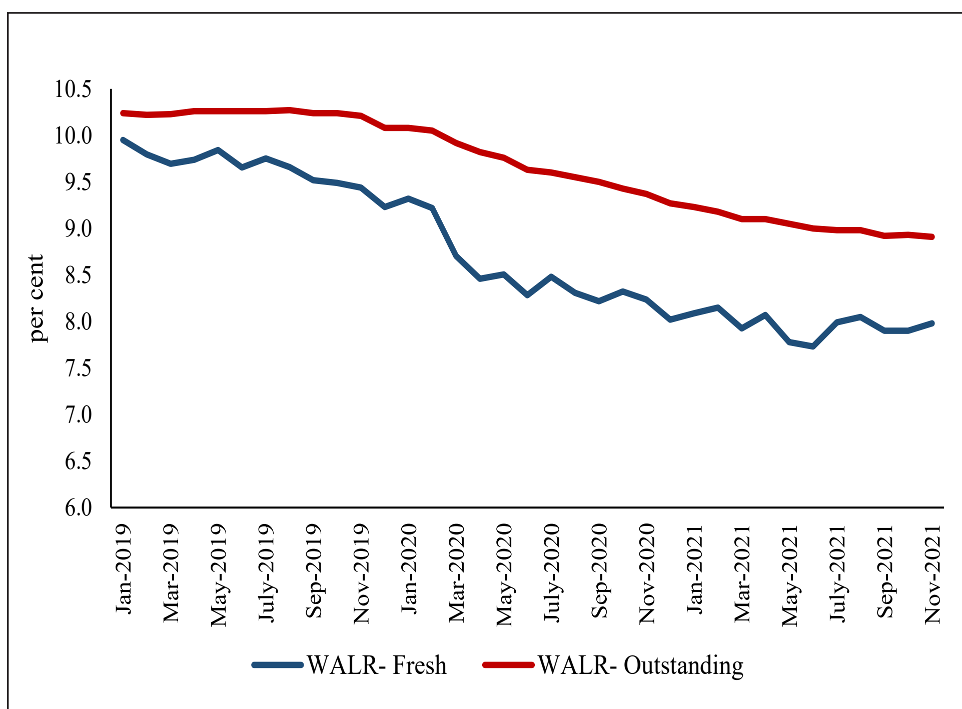
Resolution mechanisms of this nature typically require a backstop from Government as it imparts credibility and provides for contingency buffers. Globally, bad banks have been set up with Government participation in the form of equity along with other regulatory dispensations, for instance, Danaharta Nasional Berhad (Danaharta) in Malaysia or Asset Resolution Ltd (UKAR) in UK. Therefore taking the precedence from international practices, in India, the government has provided a guarantee of up to ₹ 30,600 crore, which will back Security Receipts (SRs) issued by

NARCL. The government guarantee will be valid for 5 years. Guarantee available for these SRs may be invoked on completion of resolution or liquidation as the case may be to cover the shortfall between actual realization and face value of the asset. The guarantee amount will be issued based on actual assets acquired by NARCL. This arrangement will not only safeguard the face value of Security Receipts but it will also take away the need for 100 per cent upfront capitalization of NARCL. The government will charge a guarantee fee on the amount which it guarantees, which will increase annually to incentivize the early and timely resolution.

MONETARY TRANSMISSION – BANK LENDING AND DEPOSIT RATES

4.23 RBI has reduced repo rate by 250 bps since February 2019 (the current easing cycle). The Weighted Average Lending Rate (WALR) on fresh rupee loans declined by 197 basis points and by 133 bps on outstanding loans during the period February 2019 to November 2021 (Figure 12). Large surplus systemic liquidity, forward guidance of continuing with the accommodative stance and the external benchmark system for pricing of loans in select sectors aided monetary transmission.

Figure 12: Weighted Average Lending Rates of SCBs



Source: RBI

4.24 During April-November 2021, the 1-year median Marginal Cost of funds-based Lending Rate (MCLR) declined by 10 bps; Weighted Average Lending Rates (WALR) on outstanding loans moderated by 19 bps, though it increased by 6 bps on fresh loans. The Weighted Average Domestic Term Deposit Rate (WADTDR) on outstanding deposits moderated by 24 bps (Table 4).

Table 4: Transmission from Repo Rate to Deposit and Lending Rates of SCBs
(*Variation in basis points*)

Period	Repo rate	Term Deposit Rates		Lending Rates		
		Median TDR – Fresh deposits	WADTDR – Outstanding deposits	1-Year Median MCLR	WALR – Outstanding rupee loans	WALR – Fresh rupee loans
April 2021- November 2021	0	-1	-24	-10	-19	6
February 2019 - November 2021	-250	-213	-187	-155	-133	-197

Source: RBI
Note: WALR: Weighted Average Lending Rate. WADTDR: Weighted Average Domestic Term Deposit Rate; MCLR: Marginal Cost of Funds based Lending Rate. TDR: Term Deposit Rate.

4.25 The transmission has been slightly higher in public sector banks than private sector banks in the overall current monetary easing cycle, though it was higher for private banks in April-November 2021. The WALR on outstanding rupee loans fell by 135 bps for public sector banks and 123 bps for private banks, while the WALR on fresh rupee loans fell by 210 bps for public sector banks and 177 bps for private sector banks during February 2019- November 2021(Table 5). During April-November 2021, WALR on outstanding rupee loans reduced by 12 bps for public sector banks and 31 bps for private banks, whereas the WALR on fresh loans increased by 8 bps for public sector banks.

Table 5: Transmission across Bank Groups (*Variation in basis points*)

	February 2019 - November 2021			April 2021- November 2021		
	WALR – Outstanding rupee loans	WALR – Fresh rupee loans	WADTDR – Outstanding deposits	WALR – Outstanding rupee loans	WALR – Fresh rupee loans	WADTDR – Outstanding deposits
Public sector banks	-135	-210	-168	-12	8	-21
Private banks	-123	-177	-203	-31	-15	-32
SCBs#	-133	-197	-187	-19	6	-24

Source: RBI
SCBs include public, private and foreign banks

Box 2: DEPOSIT INSURANCE IN INDIA

The Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, passed by the Parliament in 2021, made significant changes in the landscape of deposit insurance in India. The functions of the Deposit Insurance and Credit Guarantee Corporation (DICGC) are governed by the provisions of the DICGC Act, 1961 and the DICGC General Regulations, 1961. Under the Act, the Corporation is liable to pay the insured deposit amount to depositors of an

insured bank. Such liability may arise when an insured bank undergoes: (i) liquidation (sale of all assets on closing down of the bank) (ii) reconstruction or any other arrangement under a scheme, or (iii) merger or acquisition by another bank. Deposit insurance provided by DICGC covers all commercial banks, including Payment Banks, Small Finance Banks, Regional Rural Banks, Foreign Bank branches in India, Local Area Banks and Co-operative Banks in all States and Union Territories. DICGC registers a bank as insured immediately and automatically when a banking license is issued to it. The deposit insurance premium is compulsory for all insured banks and is paid by banks to DICGC and is not recovered from the depositors.

The deposit insurance coverage that began with ₹1500 in 1961 has been raised gradually to ₹1 lakh in 1993 but had been static thereafter till 2020. After the announcement in the Union budget 2020-21, the deposit insurance cover was increased from ₹1 lakh to ₹5 lakh per depositor per bank. With deposit insurance coverage of ₹5 lakh per depositor per bank, the number of fully protected accounts (247.8 crore) at end-March 2021 constituted 98.1 per cent of the total number of accounts (252.6 crore), as against the international benchmark of 80 per cent. In terms of amount, the total insured deposits (₹76.2 lakh crore) as at end-March 2021 constituted 50.9 per cent (up from about 30 per cent under ₹1 lakh cover) of the total assessable deposits (₹149.7 lakh crore) as against the international benchmark of 20-30 per cent. Bank-group wise, the percentage of insured deposits vis-à-vis total deposits is 84 per cent for RRBs, 70 per cent for cooperative banks, 59 per cent for SBI, 55 per cent for PSBs, 40 per cent for private sector banks and 9 per cent for foreign banks. Up to 31st March 2021, a cumulative amount of ₹5,763 crores has been paid towards claims since the inception of deposit insurance (₹296 crore in respect of 27 commercial banks and ₹5,467 crores in respect of 365 co-operative banks).

However, one continuing concern even after the increase in insured amount announced in February 2020 in the Union Budget 2020-21 was that when various restrictions, such as moratorium, etc are imposed on a bank by RBI, genuine depositors continued to face serious difficulties, and were unable to access their own money even to the extent of the insured value, despite deposit insurance being in place. Therefore, the Deposit Insurance And Credit Guarantee Corporation (Amendment) Act, 2021 was enacted. The following are the key features of the Amendment Act:

- *Introduced interim payments:* Interim payment will now be made by DICGC to depositors of those banks for whom any restrictions/ moratorium have been imposed by RBI under the Banking Regulation Act resulting in restrictions on depositors from accessing their own savings.
- *Timeline for interim payments*: Clear-cut timeline of maximum of 90 days has been fixed for providing interim payment to depositors. Within the first 45 days, the insured bank must furnish the details of all outstanding deposits to the Corporation. Within 30 days of the receipt of details, the Corporation will verify the authenticity of the claims and within 15 days of the verification, the Corporation must make the payment to such depositors.
- *Repayment by banks to DICGC*
    - *Deferment of repayments*: DICGC may defer repayments due to it from an insured bank after insurance pay out, on terms decided by DICGC's Board. It is in spirit with the rationale of interim payments, i.e., to help depositors while also enabling rescue efforts for the bank.

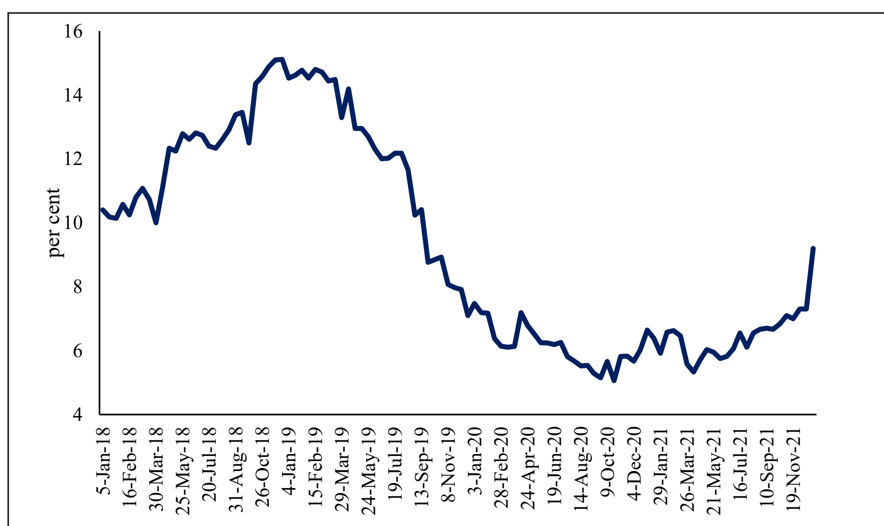
- *Timely repayment by the bank to DICGC*: To establish the priority of repayment to DICGC (both interest and principal amount), a provision for penal interest in case of delay has been put in the act.
- *No ceiling on premium*: The earlier act earlier had a ceiling of 15 paise on premium, which has been removed. Now, the ceiling on premium will be notified by DICGC, with the prior approval of RBI.

Since the Act came into force, over ₹1500 crore has been paid to over 1.2 lakh depositors against their claims, as of early January 2022.

BANK CREDIT GROWTH

4.26 The credit growth had been declining since 2019. The credit growth was 5.3 per cent at beginning of April 2021 and started to increase since then, but was still modest and stood at 7.3 per cent as on 17th December 2021. However, the credit growth has picked up sharply in December to 9.2 per cent as on 31st December 2021. In 2021-22, the risk capital (i.e. money raised from capital markets) has so far been more important than the banks in providing finance to the revival (Figure 13).

Figure 13: Bank Credit growth (YoY)



Source: RBI

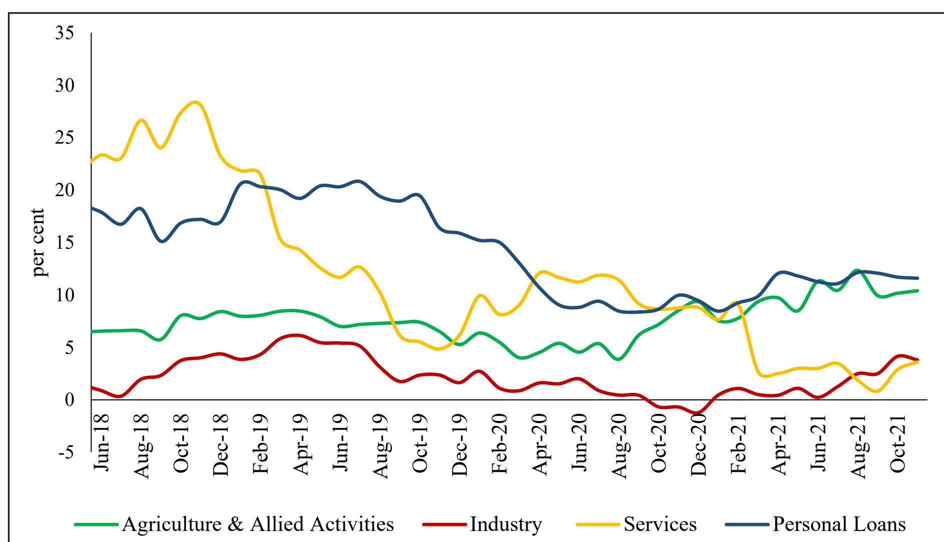
4.27 Non-food bank credit[1] growth that remained muted during much of the pandemic period and stayed at sub-6 per cent through Q1 of 2021-22, has gradually improved and stood at 9.3 per cent as on 31st December 2021, as against 6.6 per cent a year ago. This growth was driven by personal loans and agriculture sector. Deceleration in credit growth in the services sector continued though credit to industry showed signs of improvement.

4.28 Credit to agriculture continued to register robust growth, and was at 10.4 per cent (YoY) in November 2021, as compared with 7 per cent in November 2020. Credit growth to industry which contracted from October to December 2020 entered positive territory in January 2021. It is

[1]Non-food credit growth calculated based on Section - 42 return data, which covers all scheduled commercial banks (SCBs), while sectoral credit growth is based on sector-wise and industry-wise bank credit (SIBC) return, which covers select banks accounting for about 90 per cent of total non -food credit extended by all SCBs.

improving steadily since July 2021 and accelerated to 3.8 per cent in November 2021. Medium industries, particularly, have witnessed high double-digit growth for over a year and credit growth to the segment was at 48.7 per cent in November 2021, as compared with 25.7 per cent in November 2020. Credit growth to micro & small industries accelerated to 12.7 per cent in November 2021 from 0.6 per cent a year ago, reflecting effectiveness of various measures taken by the Government and the RBI to boost credit flow to the micro, small and medium enterprises (MSME) sector. Credit to large industries broadly remained at the same level as of last year.

Figure 14: Growth (YoY) in Sectoral Credit



Source: RBI

4.29 Services sector credit growth, however, is yet to recover. The subdued credit growth in the sector was due to sluggish growth in almost all segments. The growth in bank credit to NBFCs was 5.2 per cent in November 2021. In the current financial year, NBFCs directly raised finance from money and debt markets given the easy financial conditions. The bank credit growth to commercial real estate sector was 0.4 per cent in November 2021.

4.30 Growth in personal loans improved to double digits at 11.6 per cent in November 2021 as compared with 9.2 per cent in the previous year. Housing loans, the largest constituent of personal loans, registered growth of 8 per cent in November 2021. The growth of vehicle loans, the second largest constituent of personal loans improved to 7.7 per cent in November 2021 from 6.9 per cent in November 2020 (Table 6).

Table 6: Growth (YoY) in Bank Credit by Major Sectors (per cent)

Sector	Mar-18	Mar-19	Mar-20	Mar-21	Nov-20	Nov-21
Agriculture & allied activities	3.8	8.5	4.0	9.4	7.0	10.4
Industry	0.7	5.8	0.9	0.5	0.7	3.8
Micro & Small	0.9	0.7	-0.6	2.8	0.6	12.7
Medium	-1.1	-2.0	-0.2	34.1	25.7	48.7
Large	0.8	7.1	1.1	-1.3	-0.4	0
Services	13.8	15.3	9.0	2.7	8.2	3.6

Trade	9.1	6.6	5.3	12.7	15.2	8.7
Commercial Real Estate	0.1	22.4	14.7	1.3	3.5	0.4
Non-Banking Financial Companies (NBFCs)	26.9	48.2	27.3	0.2	4.7	5.2
Personal Loans	17.8	20.0	13.0	9.9	9.2	11.6
Housing (Including Priority Sector Housing)	13.3	21.1	13.3	9.1	8.4	8.0
Vehicle Loans	11.3	23.7	7.2	6.2	6.9	7.7

Source: RBI

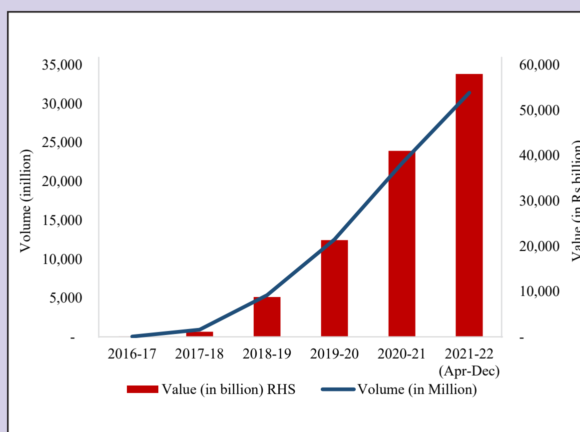
Note: Data is provisional and relates to select banks which cover about 90 per cent of total non-food credit extended by all scheduled commercial banks.

Box 3: DIGITAL PAYMENTS

Financial transactions have been seeing high growth over the last few years with multiple avenues for making digital payments which are growing over time.

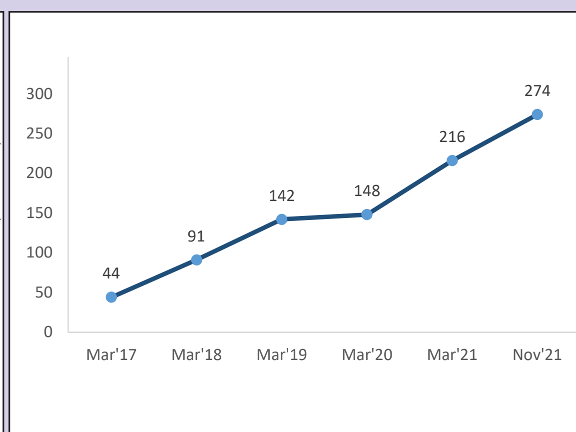
Unified Payments Interface (UPI) is currently the single largest retail payment system in the country in terms of volume of transactions, indicating its wide acceptance (Figure 3A & 3B). In December 2021, 4.6 billion transactions worth ₹8.26 lakh crore were carried out by UPI. One of the initial objectives of UPI was to replace cash for low value transactions. As per detailed transaction data of NPCI, 50 per cent of transactions through UPI were below ₹200. On 1st November 2018, 'UPI as a payment option in IPO' was introduced as a new payment channel to the retail investors by SEBI. In April-November 2021, UPI processed more than 24.26 million One Time Mandate create transaction of value ₹44,381 crore. The transaction limit for such transactions which was increased by RBI from ₹1 lakh to ₹2 lakh in March 2020 was further increased to ₹5 lakh in December 2021. RBI and the Monetary Authority of Singapore announced a project to link UPI and PayNow, which is targeted for operationalization by July 2022. Bhutan recently became the first country to adopt UPI standards for its QR code. It is also the second country after Singapore to have BHIM-UPI acceptance at merchant locations.

Figure 3A: UPI Payments



Source: NPCI

Figure 3B: Number of banks in UPI



Source: NPCI

Another real-time fund transfer platform available 24x7x365 is Immediate Payment Service (IMPS). In April-December 2021, transactions worth ₹29,349 billion have been processed on IMPS. On 8th October 21, RBI increased the daily limit of IMPS transactions from ₹2 lakh to ₹5 lakh which should further help in boosting digital payments.

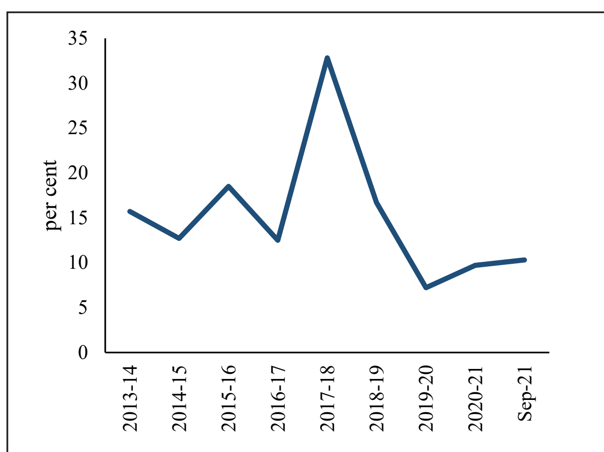
Another digital payment solution launched in August 2021, e-RUPI is a person-specific, and purpose-specific digital voucher where it is not required for the customer to have a bank account and is operable on basic phones, even in areas which lack an internet connection. The first use case of e-RUPI was implemented for COVID-19 vaccination program which saw more than 2.2 lakh beneficiaries being issued the voucher.

The Digital Payments Index of RBI, captures the extent of digitization of payments across the country. The index captures (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%). The Digital Payments Index increased from 100 in March 2018 (base period) to 304.06 in September 2021.

NON-BANKING FINANCIAL COMPANIES (NBFCs) SECTOR

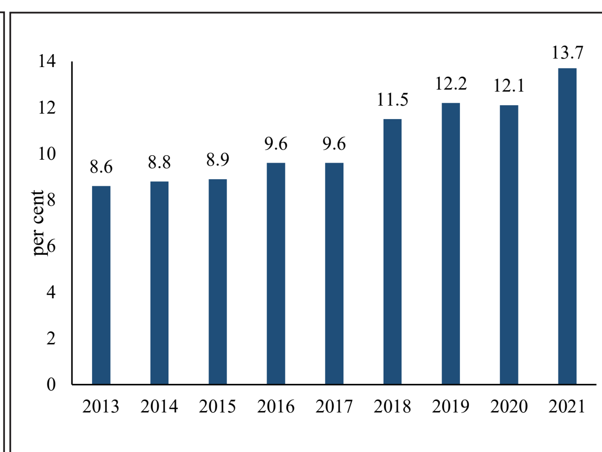
4.31 Credit growth of NBFCs continued to remain sluggish in 2021-22 so far (Figure 15). The total credit of NBFC sector[2] increased marginally from ₹27.53 lakh crore in March 2021 to ₹28.03 lakh crore in September 2021. The credit intensity of NBFCs, measured by NBFC credit as a ratio of GDP has been rising consistently and stood at 13.7 at end March 2021 (Figure 16).

Figure 15: Credit growth (YoY) from NBFCs



Source: RBI
Note: Data for September 2021 pertains only to Deposit taking NBFC and non-deposit taking systemically important NBFCs based on offsite returns data

Figure 16: NBFC's Credit to GDP Ratio



Source: Trends and Progress of Banking in India, RBI
Note: Data is at end- March; GDP data used is GDP at current market prices (base:2011-12

4.32 Industry remained the largest recipient of credit extended by the NBFC sector, followed by retail loans and services (Figure 17). The share of large industry in the total credit to industry by NBFC sector increased from about 82 per cent at end March 2019 to 90 per cent at end September 2021.

[2] The sector represents top 300 NBFCs based on their asset size as of September 2021

Figure 17: Sectoral distribution of NBFC Credit

Source: Supervisory Returns, RBI.
Note: Number for 2020 and 2021 indicate end- March figures. Numbers for September 2021 are survey calculations from the Report on Trend and Progress of Banking in India 2020-21

4.33 Total assets of NBFCs increased from ₹36.37 lakh crore in September 2020 to ₹42.05 lakh crore in September 2021, resulting in YoY growth of 15.61 per cent. Banks' exposure to NBFCs increased (in the form of bank lending and investment in Non-Convertible Debenture (NCDs) and Commercial Paper (CPs)) from ₹8.44 lakh crore in September 2020 to ₹9.16 lakh crore in September 2021, recording YoY growth of 8.5 per cent.

4.34 The external liabilities of NBFCs in the form of secured and unsecured borrowings and public deposits increased by 7.95 per cent (on a YoY basis) in September 2021. While borrowings from other financial institutions marginally increased from ₹58,650 crore in March 2021 to ₹59,525 crore in September 2021 (4.34 per cent YoY growth), market borrowings - NCDs and CPs - increased from ₹10.56 lakh crore in September 2020 to ₹11.41 lakh crore in September 2021 (8.09 per cent YoY growth).

4.35 GNPA ratio of NBFCs was higher at 6.55 per cent at end-September 2021, as compared to 6.06 per cent at end-March 2021. However, their net NPA ratio remained at 2.93 per cent at end-September 2021 same as in March 2021. As against the regulatory requirement of 15 per cent, CRAR for the NBFC sector stood at 26.64 per cent at end-September 2021.

Box 4: FACTORING IN INDIA

Factoring is an important source of liquidity worldwide, especially for MSMEs. Factoring is a transaction where an entity sells its receivables (dues from a customer) to a third party (a 'factor' like a bank or NBFC) for immediate funds. All or part of invoice can be sold to a factor for getting money immediately at competitive interest rate. The factor then collects payments from the buyer of goods and earns a commission in the form of some interest. This is different from bill discounting. In bill discounting, a bank or NBFC gives a certain percentage of the total outstanding value of invoices to seller and in most cases the seller has to take on the responsibility for payment of invoices by the buyer to the factor. However, in case of factoring, the factor takes on the responsibility for the collection of invoices. There are different types of factoring: 'with recourse' factoring where seller has to

pay back the advance obtained from the factor if buyer of goods fails to pay and 'without recourse' factoring where factor bears the risk of default in case of non-payment by buyer of goods.

To solve the liquidity issues of MSMEs and lay down the basic legal framework for factoring in India, the Factoring Regulation Act 2011 was enacted. As per the Factoring Act 2011, four types of entities were allowed to engage in factoring business: Banks, Statutory Corporations (which were exempted from registration under Section 5), NBFCs (which have to obtain registration from RBI) and companies (which have to obtain specific registration from RBI under Section 3). As per the Factoring Act 2011, RBI grants registration to only those NBFCs which do factoring as "principal business", i.e. whose financial assets in the factoring business constitute at least 50 per cent of its total assets and income derived from factoring business is not less than 50 per cent of its gross income. Under these provisions, only 7 NBFCs called 'NBFC-Factors' were in factoring business (due to "principal business" condition) – Canbank Factors, India Factoring and Finance, SBI Global Factors, Siemens Factoring, Bibby Financial Services, IFCI Factors and Pinnacle Capital Solutions. This 'principal business' restriction on NBFCs in the Act had limited the scope of factoring.

Meanwhile, RBI constituted an Expert Committee on MSMEs under the Chairmanship of Shri U.K. Sinha in January 2019 to suggest long–term measures for the economic and financial sustainability of the MSME Sector. Among various other suggestions related to the MSME sector as a whole, the committee recommended that NBFCs other than those whose principal business is factoring should also be permitted to carry out factoring business. Hence, the Factoring Regulation (Amendment) Act, 2021 was enacted with the amendments in line with the recommendations of UK Sinha Committee. The key changes brought about are:

- Removal of principal business criteria has significantly increased the number of eligible NBFCs that can undertake factoring business.
- The time period for registration of invoice and satisfaction of charge upon it may be specified by the Government by rules to streamline the process and prevent frauds through dual financing.
- At present, factoring is done either manually or on Trade Receivable Discounting System (TReDS)[3]. Now, the amended Act and new Rules and Regulations allow the concerned TReDS platform to register charge directly with Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) on behalf of the factors using the platform, so as to make the process operationally efficient, promote the use of TReDS and reduce procedural burden on factors.
- Definitions of "assignment", "factoring business" and "receivables" have been amended to bring them in consonance with international definitions.
- Regulation making power was given to RBI for the manner of granting certificate of registration under Section 3, and the manner of filing of particulars of transactions with the Central Registry by TReDS entities on behalf of factors under Section 19. RBI has notified these Regulations in January 2022.

The amendments have liberalized the restrictive provisions in the Act and at the same time ensure that a strong regulatory / oversight mechanism is in place under RBI. Overall, this change would lead to widening of factoring ecosystem in the country and help MSMEs significantly, by providing added avenues for availing credit facility.

[3]It is an electronic exchange that allows transparent and online selling of receivables by MSMEs. In TReDS, the seller gets multiple financiers to choose from, option of various interest rates, and without any collateral helping the seller to get the best deal in transparent manner. Government has taken measures to promote TReDS by mandating big corporates/CPSEs to register on TReDS.

DEVELOPMENT IN CAPITAL MARKETS

1. PRIMARY MARKET

A. Equity

4.36 In April-November 2021, IPOs of 75 companies have listed, garnering ₹89,066 crore, as compared to 29 companies raising ₹14,733 crore during April- November 2020, indicating stupendous rise of 504.5 per cent in fund mobilization. The money raised by IPOs has been greater than what has been raised in any year in last decade by a large margin. Amount raised through rights issues however declined by 62.6 per cent to ₹22,659 crore in April-November 2021, as compared to ₹60,608 crore during corresponding period of previous year. Though amount raised through Qualified Institutional Placements (QIP) declined by 52.9 per cent, amount raised by way of preferential allotment increased by 67.3 per cent during April-November 2021, as compared to same period previous year. Overall, during April-November 2021, ₹1.81 lakh crore have been raised through equity issues through diverse modes viz., public offerings, rights, QIP and preferential issues (Table 7).

Table 7: Primary Market Resource Mobilisation through Public and Rights Issues (Equity)

Period	Public (IPO+FPO)		Rights		QIPs		Preferential issues		Total	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
2016-17	106	29,210	12	3,274	20	8,464	409	44,235	547	85,183
2017-18	189	78,497	23	21,268	54	71,033	420	59,527	686	2,30,325
2018-19	136	21,720	9	2,001	14	8,678	402	2,10,159	561	2,42,559
2019-20	62	21,382	17	55,667	14	54,389	284	1,74,886	377	3,06,325
2020-21	57	46,060	21	64,059	31	78,738	234	40,940	343	2,29,797
April-Nov 2020	30	29,733	15	60,608	16	56,725	145	25701	206	1,72,768
April-Nov 2021	75	89,066	18	22,659	23	26,704	233	43,004	349	1,81,433

Source: SEBI

4.37 The year 2021-22 so far has been an exceptional year for the primary markets with a boom in fundraising through IPOs by many new age companies/tech start-ups/unicorns. The exuberance associated with the listings manifested in huge oversubscriptions by retail, High Net worth Individuals (HNIs) and institutional investors and stellar listing gains have pushed more and more companies to tap the markets (Table 8). The tremendous response by all categories of investors in IPOs of companies was reflective of not only the confidence in markets, but also that in corporate sector performance and prospects of the economy in the long run.

Table 8: IPO Oversubscription trends

Oversubscription Range (No. of times oversubscribed)	No. of IPOs listed (April-November 2021)
>100	8
≥51 ≤100	11
≥21 ≤ 50	6
≥ 11 ≤ 20	11
≥1 ≤ 10	39
< 1	Nil
Total	**75**

Source: SEBI

B. Debt

4.38 On the debt side, the funds raised through corporate bonds was around ₹3.7 lakh crore in April- November 2021. The amount raised through public issues in debt doubled as 20 public issues raised ₹9,132 crore during April-November 2021, as compared to 10 issues which raised ₹3,871 crore during the corresponding period of previous year. However, number of issues and amount mobilized through private placement declined as ₹3.6 lakh crore was raised through 851 issues during April-November 2021, as compared to ₹4.9 lakh crore mobilized through 1,299 issues during April-November 2020 (Table 9). Overall, debt mobilization slowed, and this contrast with equity market suggest an increased appetite for risk among investors.

Table 9: Resource Mobilization in Corporate Bond Market

Year	Public Issues		Private Placement	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
2016-17	14	29,093	3,377	6,40,716
2017-18	8	5,173	2,706	5,99,147
2018-19	25	36,679	2,358	6,10,318
2019-20	34	14,984	1,787	6,74,703
2020-21	18	10,588	1,995	7,71,840
April-Nov 2020	10	3,871	1,299	4,88,071
April-Nov 2021	20	9,132	851	3,62,458

Source: SEBI

4.39 In addition to equity and debt, corporates are also diversifying into a large number of new instruments such as hybrids & convertibles, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs) etc. (Table 10). Resource mobilization by InvITs was ₹15,506 crore in April-November 2021.

Table 10: Fund Raising by REITs/InvITs

Mode of Fund raising	2019-20		2020-21		Apr 2021-Nov 2021	
	No.	Amount (₹ crore)	No.	Amount (₹ crore)	No.	Amount (₹ crore)
Total funds mobilised by REITs	0	0	3	14,300	0	0
Listed REITs	0	0	3	14,300	0	0
Total funds mobilised by InvITs	4	11,496	2	40,432	6	15,506
Listed InvITs	3	7,744	1	25,215	5	15,125
Unlisted InvITs	1	3,753	1	15,217	1	382

Source: SEBI

Box 5: MSCI Emerging Markets Index and India's weight

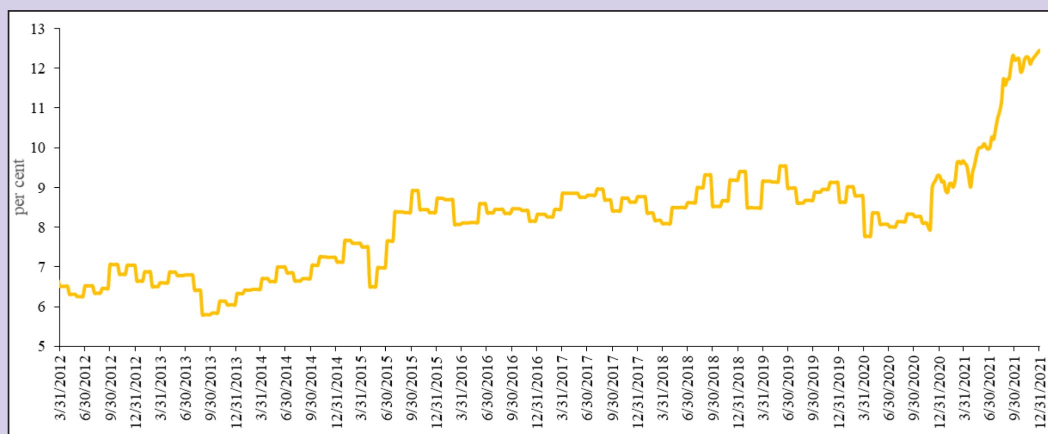
A key aspect of Foreign Portfolio Investments (FPI) are global indices such as MSCI with over US$ 16.3 trillion (equity) assets benchmarked against them (as of June 30, 2021). One of the most popular MSCI indices is the MSCI Emerging Market (EM) index which tracks equity performance capturing large and mid-cap companies across 25 emerging market countries including India. Launched in 2001, the MSCI EM index today covers 1420 listed entities across emerging market economies. Companies must satisfy certain minimum criteria relating to full market capitalisation, free-float market capitalisation, stock liquidity and foreign inclusion factor, among others to be included in the index. Many global institutional investors use MSCI's EM Index and several such indices covering other markets and themes as part of their passive investment strategy allocating capital in line with the benchmark indices. India's weight in the MSCI EM Index plays an important role in attracting FPI investments in its equity market (Figure 5A).

In June 2017, MSCI had announced that beginning June 2018, China A-shares[4] would be included in MSCI -EM index in a phased manner. This meant a gradual reduction in weights of all other countries. Consequently, India's weight in MSCI-EM index reduced from 9.32 per cent in August 2018 to 8.3 per cent in August 2020.

Later on, Government relaxed the FPI limit for Indian companies to the applicable Foreign Direct Investment (FDI) sectoral limit (which is higher) with effect from April 1, 2020. Consequently, India's Foreign Ownership Limits[5] (FOL) in its Global indices increased effective December 1, 2020. Resultantly, MSCI India's Foreign Inclusion Factor[6] (FIF) rose by 7 per cent from 0.39 to 0.42. Accordingly, India's weight in MSCI EM index immediately increased to 9.2 per cent from 8 per cent. Remarkably, the increase in FPI limit to the sectoral cap has acted as a catalyst for increasing weightage of Indian securities in other major equity indices as well such as MSCI APxJ (100 bps), MSCI AC World Index (16bps). As of December 2021, India's weight in the MSCI EM index is 12.45 per cent and 106 listed Indian entities having AUM of US$ 2,379 billion are a part of MSCI EM index(Figure 5B).

The foreign interest in Indian capital markets has gone up as reflected in the large inflows. As per data available from NSDL, 2020-21 witnessed FPI inflows of over Rs. 2.74 lakh crore into the Indian equity markets.

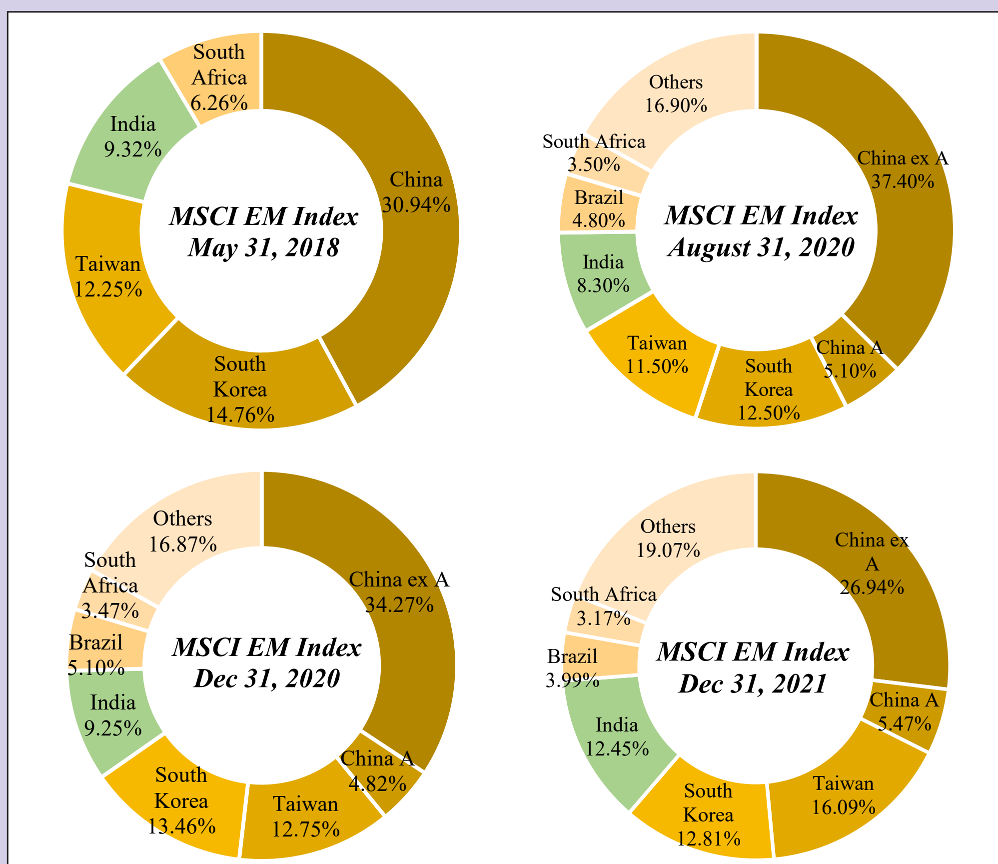
Figure 5A: India weight at MSCI EM Index



Source: RIMES, MSCI, Morgan Stanley Research

[4]A shares represent publicly listed Mainland Chinese companies that trade on either Shanghai stock exchange or Shenzen stock exchange.
[5]The extent to which foreign investors can invest in a listed security of a country. An increase in FPI limits, increases the room available for foreign investment.
[6]Foreign inclusion factor of a security is defined as the proportion of shares outstanding that are deemed to be available for purchase in the public equity markets by international investors.

Figure 5B: Composition of the MSCI EM Index: How has India's weight changed over time



Source: RIMES, MSCI, Morgan Stanley Research

Trends in Retail participation in the Capital Market

4.40 With continuing buoyant trend in Indian stock markets, participation by individual investors[7] in equity cash segment has increased and the share of individual investors in total turnover at NSE increased from 38.8 per cent in 2019-20 to 44.7 per cent in April-October 2021 (Table 11). The substantial increase in share of individual investors in 2020-21 and 2021-22 can partly be ascribed to the increase in new investor registrations witnessed since February 2020. In April-November 2021, nearly 221 lakh individual Demat accounts were added.

Table 11: Share of Individual Investors in equity cash segment turnover (NSE) (in per cent)

Year	Share of individual Investors
2016-17	36.0
2017-18	39.0
2018-19	39.0
2019-20	38.8
2020-21	45.0
April-October 2021	44.7

Source: SEBI

[7] Individual investors includes individual domestic investors,NRIs, sole proprietorship firms and HUFs, Others: Partnership Firms/LLP, Trust / Society, Depository Receipts, Statutory Bodies, OCB, FNs, etc.

2. Mutual Fund Activities

4.41 The net Assets Under Management (AUM) of mutual fund industry rose by 24.4 per cent to ₹37.3 lakh crore at the end of November 2021 from ₹30.0 lakh crore end of November 2020. Net resource mobilization by mutual funds was ₹2.54 lakh crore during April-November 2021, as compared to ₹2.73 lakh crore during April-November 2020 (Table 12).

Table 12: Resource Mobilization through Mutual Funds

Year	AUM (₹ crore)	Gross resource mobilisation (₹ crore)	Gross Redemption (₹ crore)	Net resource mobilisation (₹ crore)	No. of folios
2016-17	17,54,619	1,76,15,549	1,72,72,500	3,43,049	5,53,99,631
2017-18	21,36,036	2,09,98,652	2,07,26,855	2,71,797	7,13,47,301
2018-19	23,79,663	2,43,94,362	2,42,84,661	1,09,701	8,24,56,411
2019-20	22,26,203	1,88,13,458	1,87,26,157	87,301	8,97,46,051
2020-21	31,42,764	86,39,167	84,24,424	2,14,743	9,78,65,529
April-Nov 2020	30,00,904	57,90,831	55,17,814	2,73,017	9,36,79,333
April-Nov 2021	37,33,702	58,64,573	56,10,534	2,54,039	11,69,91,489

Source: SEBI

INVESTMENT BY FOREIGN PORTFOLIO INVESTORS (FPIs)

4.42 During April-November 2021, FPIs made a net investment of ₹24,124 crore in Indian securities, 82.8 per cent lower that what was made in same period previous year. As of November 2021, cumulative net investment by FPIs increased by 9.2 per cent to US$288.4 billion from US$ 264 billion at end November 2020 (Table 13).

Table 13: FPI Investment in Indian securities

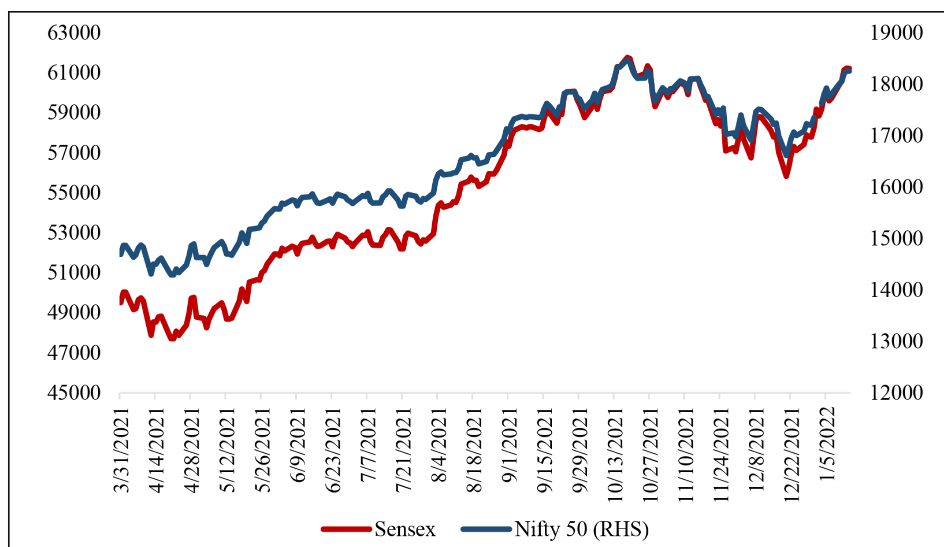
Year/Month	Gross Purchase (₹ crore)	Gross Sales (₹ crore)	Net Investment (₹ crore)	Net Investment (US $ mn.)	Cumulative Net Investment (US $ mn.)
2016-17	15,07,028	14,58,617	48,411	7,600	2,31,180
2017-18	17,28,360	15,83,679	1,44,681	22,466	2,53,645
2018-19	16,40,810	16,79,741	-38,931	-5,499	2,48,147
2019-20	19,05,517	19,33,046	-27,529	-3,042	2,45,105
2020-21	23,20,289	20,53,189	2,67,100	36,180	2,81,293
April-Nov 2020	13,75,673	12,35,286	1,40,387	18,896	2,64,008
April-Nov 2021	16,23,155	15,99,030	24,124	3,371	2,88,364

Source: NSDL

INDIAN BENCHMARK INDICES

4.43 The benchmark stock market indices in India - Sensex and Nifty 50, increased by 17.7 per cent and 18.1 per cent, respectively during April-December 2021. Driven by good corporate earnings, sharp rise in COVID-19 vaccination and opening up of business establishment across the country, Sensex and Nifty scaled up to touch its peak at 61,766 and 18,477 respectively on 18th October 2021 (Figure 18). The Sensex and Nifty benchmark indices fell after that, but started to rise again and stand at 61,223 and 18,256 respectively as on 14th January 2022.

Figure 18: Movement of Indian Benchmark Indices



Source: BSE, NSE

4.44 Among major emerging market economies, Indian markets outperformed its peers during April-December 2021. Among the select developed markets, S&P 500 index and NASDAQ Composite index, recorded strong gains and rose by 20.0 per cent and 18.1 per cent, respectively (Table 14).

Table 14: Performance of major stock market indices in 2021-22 across the World

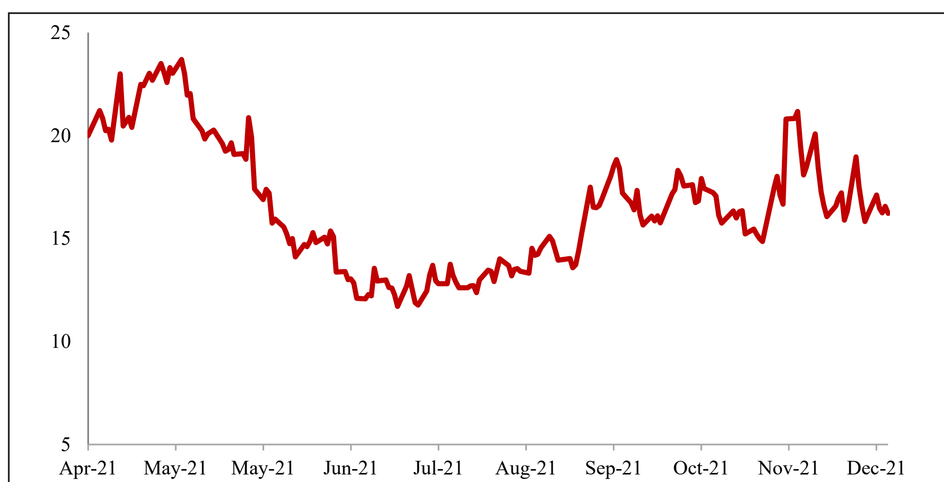
Index	As on 31/03/2021	As on 31/12/2021	% change in Apr-Dec 2020	% change in Apr-Dec 2021
Indian Markets				
Nifty 50	14,691	17,354	62.6	**18.1**
S&P BSE Sensex	49,509	58,254	62.0	**17.7**
Emerging Markets				
Taiwan TAIEX	16,431	18,219	51.8	10.9
FTSE/JSE All Share Index, S. Africa	66,485	73,709	33.5	10.9
MOEX Russia Index	3,542	3,787	31.1	6.9
Shanghai Composite, China	3,442	3,640	26.3	5.7
KOSPI, S. Korea	3,061	2,978	63.8	-2.7
Brazil Ibovespa	1,16,634	1,04,822	63.0	-10.1

Developed Market				
S&P 500, US	3,973	4,766	45.3	20.0
Nasdaq Composite, US	13,247	15,645	67.4	18.1
CAC 40, France	6,067	7,153	26.3	17.9
Dow Jones Industrial Average, US	32,982	36,338	39.6	10.2
FTSE 100, UK	6,714	7,385	13.9	10.0
DAX, Germany	15,008	15,885	38.1	5.8
Straits Times, Singapore	3,165	3,124	14.6	-1.3
Nikkei 225, japan	29,179	28,792	45.1	-1.3
Hang Seng, Hong Kong	28,378	23,398	15.4	-17.6

Source: Refinitiv Datastream

4.45 During April-December 2021, India VIX, which indicates market's expectation of volatility in near term i.e. next 30 calendar days, peaked to 23.7 on 3rd May 2021 and started reducing subsequently. It picked up briefly in November 2021 before reducing again. Overall, VIX decreased 21.4 per cent during April-December 2021.

Figure 19: India VIX



Source: NSE

INSURANCE SECTOR

4.46 Internationally, the potential and performance of the insurance sector are generally assessed on the basis of two parameters, *viz.*, insurance penetration and insurance density. Insurance penetration is measured as the percentage of insurance premium to GDP and insurance density is calculated as the ratio of premium to population (measured in US$ for convenience of international comparison).

4.47 In India, insurance penetration was 2.71 per cent in 2001 and has steadily increased to 4.2 per cent in 2020. As of 2020, the penetration for life insurance in India is 3.2 per cent and non-life insurance penetration is 1 per cent (Table 15 and 16). While India is at par with international average in terms of insurance penetration for life insurance, we lag behind in terms of non-life

insurance. Globally, insurance penetration was 3.3 per cent for the life segment and 4.1 per cent for the non-life segment in 2020.

Table 15: Penetration and Density in Life Insurance in India

Particulars	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Insurance Penetration	3.40	3.17	3.10	2.60	2.72	2.72	2.76	2.74	2.82	3.20
Insurance Density	49.0	42.7	41.0	44.0	43.2	46.5	55.0	55.0	58.0	59.0

Source: SwissRe, Sigma various issues
Note: Insurance Penetration in per cent and Insurance Density in US$

Table 16: Penetration and Density in Non-Life Insurance in India

Particulars	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Insurance Penetration	0.70	0.78	0.80	0.70	0.72	0.77	0.93	0.97	0.94	1.00
Insurance Density	10.0	10.5	11.0	11.0	12.0	13.2	18.0	19.0	20.0	19.0

Source: SwissRe, Sigma various issues
Note: Insurance Penetration in per cent and Insurance Density in US$

4.48 The insurance density in India increased from $11.5 in 2001 to $78 in 2020. In 2020, density for Life insurance in India is $59 and Non-Life insurance is $19, much lower than global standards. Globally, insurance density was $360 for the life segment and $449 for the non-life segment respectively in 2020 (Table 17 and 18).

Table 17: International Comparison of Insurance Penetration (in per cent)

S.No.	Country*	2019			2020		
		Life	Non-Life	Total	Life	Non-Life	Total
	America						
1	USA	2.9	8.5	11.4	3.0	9.0	12.0
2	Canada	3.1	4.6	7.7	3.5	5.2	8.7
3	Brazil	2.3	1.8	4.0	2.3	1.8	4.1
4	Mexico	1.1	1.3	2.4	1.2	1.4	2.6
	Europe-Middle East-Africa						
5	France	6.0	3.2	9.2	5.1	3.5	8.6
6	Germany	2.6	3.7	6.3	2.8	4.0	6.8
7	Italy	6.2	2.2	8.3	6.3	2.3	8.6
8	Netherlands	1.6	7.6	9.2	1.5	8.1	9.6
9	Spain	2.2	2.9	5.1	1.9	3.2	5.2
10	Sweden	5.4	1.8	7.2	5.8	1.8	7.6
11	Switzerland	4.3	4.1	8.4	4.3	4.1	8.4
12	UK	8.0	2.3	10.3	8.8	2.3	11.1

13	Pakistan	0.6	0.3	0.9	0.5	0.3	0.8
14	Russia	0.4	1.0	1.4	0.4	1.0	1.4
15	South Africa	10.7	2.7	13.4	11.2	2.5	13.7
	Asia Pacific						
16	**India#**	**2.8**	**0.9**	**3.8**	**3.2**	**1.0**	**4.2**
17	China	2.3	2.0	4.3	2.4	2.1	4.5
18	Japan#	6.7	2.3	9.0	5.8	2.4	8.1
19	Indonesia	1.4	0.6	2.0	1.4	0.5	1.9
20	Malaysia#	3.4	1.4	4.7	4.0	1.5	5.4
21	Singapore	6.0	1.6	7.6	7.6	1.9	9.5
22	South Korea#	5.8	5.0	10.8	6.4	5.2	11.6
23	Taiwan	16.5	3.5	20.0	14.0	3.4	17.4
24	Thailand	3.3	1.7	5.0	3.4	1.9	5.3
25	Sri Lanka	0.6	0.7	1.3	0.5	0.6	1.2
26	New Zealand	0.9	4.3	5.1	0.8	4.1	4.9
27	Australia	1.5	3.4	5.0	1.1	3.6	4.7
	World	**3.4**	**3.9**	**7.2**	**3.3**	**4.1**	**7.4**

Source: Swiss Re, Sigma Volumes 4/2020 and 3/2021
Note: * Data pertains to the calendar year 2019 & 2020, # Data pertains to financial year 2019-20 & 2020-21, @ Rounding off difference

Table 18: International Comparison of Insurance Density (in US$)

S.No.	Country*	2019			2020		
		Life	Non-Life	Total	Life	Non-Life	Total
	America						
1	USA	1,915	5,580	7,495	1,918	5,754	7,673
2	Canada	1,421	2,128	3,548	1,532	2,243	3,775
3	Brazil	196	155	351	151	120	271
4	Mexico	111	128	239	99	116	214
	Europe-Middle East-Africa						
5	France	2,413	1,306	3,719	1,959	1,359	3,317
6	Germany	1,222	1,712	2,934	1,281	1,827	3,108
7	Italy	2,039	725	2,764	1,972	721	2,692
8	Netherlands	832	3,990	4,822	799	4,223	5,022
9	Spain	654	854	1,508	525	871	1,396
10	Sweden	2,783	946	3,729	2,993	945	3,938
11	Switzerland	3,502	3,332	6,835	3,667	3,557	7,224

12	UK	3,383	978	4,362	3,574	949	4,523
13	Pakistan	8	4	12	6	3	10
14	Russia	43	113	157	41	105	146
15	South Africa	643	160	803	560	124	684
	Asia Pacific						
16	**India#**	**58**	**20**	**78@**	**59**	**19**	**78**
17	China	230	201	430	241	214	455
18	Japan#	2,691	930	3,621	2,329	951	3,280
19	Indonesia	58	24	82	54	21	75
20	Malaysia#	380	156	536	415	153	568
21	Singapore	3,844	1,028	4,872	4,528	1,110	5,638
22	South Korea#	1,822	1,544	3,366	2,050	1,691	3,741
23	Taiwan	4,129	865	4,993	3,861	938	4,800
24	Thailand	256	134	389	244	139	383
25	Sri Lanka	23	29	51	21	24	45
26	New Zealand	354	1,790	2,144	349	1,678	2,027
27	Australia	827	1,875	2,702	568	1,880	2,448
	World	**379**	**439**	**818**	**360**	**449**	**809**

Source: Swiss Re, Sigma Volumes 4/2020 and 4/2021
Note: * Data pertains to the calendar year 2019 & 2020, # Data pertains to financial year 2019-20 & 2020-21, @ Rounding off difference

4.49 During 2020-21, the gross direct premium (within and outside India) of Non-Life insurers was ₹2,02,082 crore, as against ₹1,92,193 crore in 2019-20, registering a growth of 5.2 per cent. Motor and health segments contributed a significant portion of the growth. Life insurance industry recorded a premium income of ₹6,28,731 crore during 2020-21, as against ₹5,72,910 crore in the previous financial year, registering a growth of 9.74 per cent. While renewal premium accounted for 55.7 per cent of the total premium received by the life insurers, new business contributed the remaining 44.3 per cent.

PENSION SECTOR

4.50 The total number of subscribers under New Pension Scheme (NPS) and Atal Pension Yojana (APY) increased from 374.32 lakh as on September 2020 to 463 lakh as on September 2021, recording a growth of 23.7 per cent over the year. The overall contribution under NPS grew by more than 29 per cent during the period September 2020 - September 2021. Maximum growth in contribution was registered under All Citizen model (51.29 per cent) followed by Corporate Sector (42.13 per cent), APY (38.78 per cent), State Government Sector (28.9 per cent), and Central Government Sector (22.04 per cent). The Assets under Management (AUM)

of NPS and APY stand at ₹6.67 lakh crore at end September 2021, as compared to ₹4.95 lakh crore at the end of September 2020, thereby recording an overall growth (YoY) of 34.8 per cent (Table 19).

Table 19: Status of NPS and APY

	No. of Subscribers (in Lakh)		YoY	Contribution (₹ Crore)		YoY	AUM (₹ Crore)		YoY
	Sep-20	Sep-21	%	Sep-20	Sep-21	%	Sep-20	Sep-21	%
NPS									
Central Govt	21.3	22.3	4.5	1,11,293	1,35,820	22.0	1,60,606	2,04,227	27.2
State Govt	49.0	53.9	10.1	1,88,000	2,42,330	28.9	2,50,260	3,35,749	34.2
Corporate	10.5	12.7	21.0	37,788	53,707	42.1	50,730	77,041	51.9
UoS	13.6	18.4	35.3	17,282	26,145	51.3	16,224	27,089	67.0
NPS Lite	43.2	42.9	-0.7	2,776	2,931	5.6	4,068	4,624	13.7
APY									
APY	236.9	312.9	32.1	11,585	16,078	38.8	13,042	18,649	43.0
Total	**374.3**	**463**	**23.7**	**3,68,725**	**4,77,011**	**29.4**	**4,94,930**	**6,67,379**	**34.8**

Source: PFRDA
Note- UoS-All Citizen Model, APY- Atal pension Yojana

4.51 As on 12th October 2021, contribution of ₹16,109 crore was collected in the Atal Pension Yojana (APY) scheme from more than 3.45 crore enrolments. The APY scheme is being distributed through more than 250 active APY service providers including all banks and post offices (Table 20).

Table 20: Number of enrolments (category-wise) under the APY Scheme

Category of Banks	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	12th Oct 2021
Public Sector Banks	3,047,273	6,553,397	10,719,758	1,56,75,442	2,12,52,435	2,43,90,974
Private Banks	497,323	873,901	1,145,289	15,62,997	19,86,467	21,21,377
Small Finance Bank	-	-	9,190	15,760	35,114	56,012
Payment Bank	-	-	48,182	3,44,001	8,18,800	10,93,602
Regional Rural Banks	1,115,257	1,987,176	3,171,152	43,30,190	57,10,770	64,15,150
District Co-op Banks	29,791	33,880	38,863	48,581	54,628	58,775
State Co-op Banks	680	805	1,053	4,620	5,350	5,604

Urban Co-op Banks	3,507	10,936	14,469	17,355	20,095	21,881
DOP	189,998	245,366	270,329	3,02,712	3,32,141	3,44,132
Total	**48,83,829**	**97,05,461**	**1,54,18,285**	**2,23,01,658**	**3,02,15,800**	**3,45,07,507**

Source: PFRDA

4.52 The age profile of the subscribers in the APY scheme suggests increasing enrolments at younger age. As on September 2021, more than 43 per cent subscribers were between 18 and 25 years, as compared to 29 per cent as on March 2016. Further, more people are now opting for a pension amount of ₹1000 per month. As on September 2021, around 78 per cent subscribers have opted for ₹1000 per month pension amount, as compared to 38 per cent subscribers as on March 2016. Further, as on September 2021 the share of subscribers opting for ₹2000/₹3000/₹4000 per month pension is 8 per cent, while 14 per cent opt for ₹5000 per month pension.

4.53 The gender gap in enrolments under APY has narrowed down with increased participation of female subscribers, which has increased from 37 per cent as of March 2016; to 44 per cent as of September 2021. The Table 21 below lists the states which have APY account enrolment of 10 lakhs and more.

Table 21: Number of APY accounts (as on 12th October 2021)

Sr. No.	State Name	Number of APY Accounts (in Lakh)
1	Uttar Pradesh	51.9
2	Bihar	32.7
3	West Bengal	27.6
4	Maharashtra	26.8
5	Tamil Nadu	25.5
6	Andhra Pradesh	20.5
7	Karnataka	20.5
8	Madhya Pradesh	20.2
9	Rajasthan	17.2
10	Gujarat	14.3
11	Orissa	13.1

Source: PFRDA

4.54 The limit of aggregate holding of equity shares by a foreign company in Pension Funds has been revised up from 49 per cent to 74 per cent. The limits for allowing exit from NPS without requirement of annuitisation (complete lump-sum) was revised upward in case of superannuation or death of subscriber from ₹2 lakh to ₹5 lakh, as well as in case of premature exit from NPS from ₹1 lakh to ₹2.5 lakh across the sector for all NPS subscribers. The subscribers, joining after age of 60 years, can remain invested/ subscribed to the National Pension System till the age of 75 years which was earlier 70 years. In order to enable its employees build a sufficient pension corpus, the Central Government has increased the Government co-contribution from 10 per cent

to 14 per cent for its employees. It is extended to Bank employees, State Govt employees and Central Autonomous Bodies (CABs). The Government has also provided the option to Central Government employees to change their pattern of investment along with opting for any other pension fund apart from the present default scheme.

INSOLVENCY AND BANKRUPTCY CODE

4.55 The Insolvency and Bankruptcy Code (IBC) has created a cohesive and comprehensive insolvency ecosystem. With the enactment of IBC, India has witnessed the birth of two professions, namely, the insolvency profession and the valuation profession that have professionalised insolvency services. The Code has opened possibilities of the resolution, including merger, amalgamation and restructuring of any kind, which often requires professional help. This has created markets for services of Insolvency Professionals, Registered Valuers, Insolvency Professional Entities and expanded the scope of services of Advocates, Accountants and other professionals (Table 22).

Table 22: Ecosystem under the Code

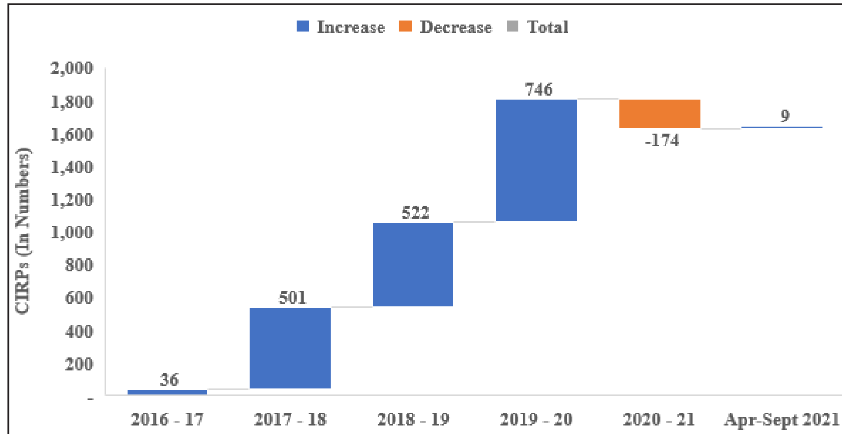
Appellate Authority	Two Benches of National Company Law Appellate Tribunal					
Adjudicating Authority	15 Benches of National Company Law Tribunal					
Regulator	Insolvency and Bankruptcy Board of India					
Service Providers	**As on**					
	Mar2017	**Mar2018**	**Mar2019**	**Mar2020**	**Mar2021**	**Sep2021**
Information Utilities	00	01	01	01	01	01
Insolvency Professional Agencies	03	03	03	03	03	03
Insolvency Professionals	977* + 96	1812	2456	3004	3504	3816
Insolvency Professional Entities	03	75	48	69	83	86
Registered Valuer Organisations	NA	NA	11	12	16	16
Registered Valuers	NA	NA	1186	3030	3967	4366
Registered Valuer Entities	NA	NA	0	20	40	52

Source: IBBI
Note: *These registrations had a validity of six months and expired by 30th June 2017

Outcomes under the Code

4.56 In view of the COVID-19 pandemic, the Insolvency and Bankruptcy (Amendment) Ordinance, 2020 was promulgated on 5th June 2020, which suspended initiation of the CIRP of a corporate debtor (CD) for any default arising on or after 25th March 2020. Further, the suspension of the Code was extended twice for 3 months each on 24th September 2020 and 22nd December 2020, to provide relief to the firms undergoing stress due to the pandemic. The relaxation combined with continued resolutions led the number of cases to decline during 2020-21, which has slightly increased to 1640 as of September 2021 (Figure 20).

Figure 20: Corporate Insolvency Resolution Process (CIRPs) accumulation (as of September 30, 2021)



Source: Compilation from the website of the Nation Company Law Tribunal (NCLT) and filing by IPs.

Note: These CIRPs are in respect of 4,593 Corporate Debtors (CDs), This excludes 1 CD which has moved directly from BIFR to resolution, This Includes Dewan Housing Finance Corporation Limited data, the application filed by RBI was admitted u/s 227 read with Financial Service Providers (FSPs) rules, of the code.

(a) Rescue of distressed assets

4.57 The primary objective of the Code is resolving the Corporate Debtors (CDs) in distress. As on September 2021, the Code has rescued 421 CDs through resolution plans and referred 1419 CDs for liquidation. The CDs rescued had assets valued at ₹1.48 lakh crore, while the CDs referred for liquidation had assets valued at ₹0.52 lakh crore when they were admitted to Corporate Insolvency Resolution Process (CIRP). In value terms, around 74 per cent of distressed assets were rescued. Of the CDs sent for liquidation, three-fourth were either sick or defunct and of the firms rescued, one-third were either sick or defunct. Nearly 65 per cent of the total admitted cases have been closed, either by resolution, withdrawal or liquidation. Out of the 1640 ongoing CIRPs, nearly 75 per cent of the cases has been ongoing for over 270 days (Table 23).

Table 23: Status of CIRPs as of September 30, 2021

Status of CIRPs	No. of CIRPs
Admitted	4708
Closed on Appeal / Review / Settled	701
Closed by Withdrawal under section 12A	527
Closed by Resolution	421
Closed by Liquidation	1419
Ongoing CIRP	1640
> 270 days	1201
> 180 days ≤ 270 days	186
> 90 days ≤ 180 days	120
≤ 90 days	133

Source: IBBI 2021

4.58 The realisable value of the assets available with the 421 CDs rescued when they entered the CIRP, was only ₹1.48 lakh crore, though they owed ₹7.94 lakh crore to creditors. The resolution plans realised ₹2.55 lakh crore, which is more than 172 per cent of the realisable value of these CDs. Though recovery is incidental under the Code, the Financial Creditors (FCs) recovered 32.11 per cent of their claims, which reflects the extent of value erosion by the time the CDs entered CIRP, yet it is the highest among all options available to creditors for recovery (Table 24).

Table 24: Status of distressed assets as of September 30, 2021(Amount in ₹ Crore)

Description	Companies Rescued	Companies Ordered for Liquidation	Total
No. of Companies	421	1419	1840
Aggregate Claims	794168	738631	1532799
Liquidation Value	147886	52036	199922
Assets available % of Aggregate Claims	18.62	7.04	13.04
Resolution Value	254983	NA	254983
Resolution Value as % of Liquidation Value	172.42	NA	NA
Resolution Value as % of Aggregate Claims admitted	32.11	NA	NA
Average time taken	495 days	375 days	435 days
Cost % of Resolution Value	0.54	NA	NA

Source: IBBI 2021

(b) Liquidations

4.59 The 1419 CDs ending up with orders for liquidation had an aggregate claim of ₹7.38 lakh crore. However, they had assets, on the ground, valued only at ₹0.52 lakh crore. Till September 2021, 264 CDs have been completely liquidated which had outstanding claims of ₹45,790 crore, but the assets were valued at ₹2,025 crore. ₹1,983 crore was realised through the liquidation of these companies (Table 25).

Table 25: Status of Liquidation Process as of September 30, 2021

Status of Liquidation	Number
Initiated	**1419***
Final Report submitted#	264
Closed by Dissolution	151
Closed by Going Concern Sale	6
Compromise / Arrangement	7
Ongoing**	**1155**
>Two years	456
> One year ≤ Two years	333

> 270 days ≤ 1 year	80
> 180 days ≤ 270 days	156
> 90 days ≤ 180 days	74
≤ 90 days	56

Source: IBBI 2021
Note: *This excludes 12 cases where liquidation order has been set aside by NCLT / National Company Law Appellate Tribunal (NCLAT) / HC / SC;
This includes cases where an application for early dissolution has been filed with the NCLT;
** This includes 3 cases where CD has been sold as a going concern, however, submission of Final Report is awaited.

(c) Time and cost

4.60 The 421 CIRPs, which have yielded resolution plans by the end of September 2021 took on average 428 days (after excluding the time excluded by the Adjucating Authority) for the conclusion of the process. Out of this, the cost details are available in respect of 388 CIRPs. The cost works out on average to 0.98 per cent of liquidation value and to 0.54 per cent of resolution value.

4.61 The 1419 CIRPs, which ended up in orders for liquidation, took on average 375 days. Further, 264 liquidation processes, which have closed by submission of final reports took on average 427 days for closure.

(d) Behavioural Change

4.62 Distressed assets have a life cycle and their value gradually declines with time. The fact that a CD may change hands has changed the behaviour of debtors. Thousands of debtors are resolving distress in the early stages of distress, either when the default is imminent, on receipt of a notice for repayment but before filing an application, after filing the application but before its admission, and even after admission of the application, and making best effort to avoid consequences of the resolution process. Till September 2021, 18,629 applications for initiation of CIRPs of CDs having underlying default of ₹5,89,516 crores were resolved before their admission. Further, a total of 527 CIRPs have been withdrawn under section 12A of the Code until September 2021. Almost three fourth of these CIRPs had claims of less than ₹10 crores and 701 CIRP cases have been closed on appeal/ review/settled.

IBC and pre-packaged insolvency resolution process for corporate MSMEs

4.63 The provision of multiple competing options for the resolution of stress makes an economy a great place to do business. In line with this thought, the Insolvency and Bankruptcy Code, 2016 was amended through an Ordinance on April 4, 2021, to provide for a Pre-Packaged Insolvency Resolution Process (PPIRP) for corporate Micro, Small and Medium Enterprises as an alternative insolvency resolution process to ensure quicker outcomes.

4.64 PPIRP has the rigour and discipline of the CIRP. It is informal up to a point and formal thereafter. It blends debtor-in-possession with creditor-in-control. It is neither a fully private nor a fully public process - it allows the company, if eligible under section 29A, to submit the base resolution plan which is exposed to challenge for value maximisation. It safeguards the rights of stakeholders as much as in CIRP and has adequate checks and balances to prevent any potential misuse. This process entails a limited role of the courts and insolvency professionals (IPs).

4.65 The informality at the pre-initiation stage offers flexibility for the CD and its creditors to swiftly explore and negotiate the best way to resolve stress in the business, while the post-initiation stage drives value maximisation and bestows the resolution plan with statutory protection. The process is required to be completed within a time frame of 120 days from the commencement date. During the PPIRP, the management of the affairs of the CD shall continue to vest in the Board of Directors / partners of the CD and the resolution professional conducts the process under the guidance and oversight of the creditors.

Box 6: VOLUNTARY LIQUIDATION OF CORPORATES

Liquidation can be involuntary as in the case of insolvency or bankruptcy; or voluntary which could be due to personal reasons, subsidiaries being merged etc. A company may decide to voluntarily close its operation even when it's viable. There has been an overhaul in the process of winding-up due to the insolvency/ bankruptcy with the introduction of the Insolvency and Bankruptcy Code, 2016 (IBC). However, the procedure of voluntary exit of business still needs to be simplified significantly, on top of recent progress.

Currently, there are two main methods of voluntary liquidation, one is through the Registrar of Companies (RoC) under section 248 of the Companies Act, 2013 and other is under the IBC. The former is currently the more popular route by far.

i. Section 248(2) of Companies Act 2013

Under Section 248(2) of the Companies Act, a company may, after extinguishing all its liabilities, by a special resolution or consent of 75 per cent members in terms of paid-up share capital, may file an application in a prescribed manner to the Registrar of Companies (RoC). There must not be any pending litigations against the company. The following is the step-by-step procedure:

Step 1: Company has to convene a board meeting to approve the closure of the bank account, pay off all the pending liabilities, and prepare the latest financial statement of the Company after the closure of the bank account.

Step 2: Company files a STK-2 form with the respective RoC.

Step 3: Director shall furnish a declaration in the e-form stating that the company does not have any dues towards any government department (Centre, State, Statutory or local authorities). This has to be certified by a Charted Accountant, Cost Account or Company Secretary.

Step 4: RoC issues a public notice in a prescribed manner on Ministry of Corporate Affairs (MCA) website; Official Gazette and the largest circulating newspaper, one in English and the other one in vernacular language. A 30 days' notice time is provided for any claims and objections to be raised. If the company applying for winding up is regulated under Special Act (under section 8), approval of the concerned Regulatory body is required, otherwise it is not required[8].

Step 5: After expiry of notice period, RoC may strike off companies name and publish dissolution notice in Official Gazette.

[8]Companies which have been incorporated for carrying on business objects like, NBFC, Asset Management Companies, Insurance etc. have to obtain NOC from their Regulatory authority like RBI, SEBI, IRDA respectively.

This is considered to be a faster winding process; however, it was observed that there were huge pendencies. As of 13th June 2021, out of the 28,536 pending cases, nearly 10 per cent were pending from more than 1000 days and 54 per cent cases (15,310) were pending for more than one year. Thereafter, efforts were made by government to clear the backlog of applications. Consequently, the number of pending cases has come down drastically to 9,768 as on 10th January 2022, out of which only about 16.3 per cent are pending for more than a year. Yet this process can be simplified further.

ii. Insolvency and Bankruptcy Code

Section 59 of Insolvency and Bankruptcy Code (IBC), 2016 together with the IBBI (Voluntary Liquidation Process) Regulations, 2017 (Voluntary Liquidation Regulations) provide the mechanism for voluntary liquidation of a corporate person. Section 59 of IBC states that 'A corporate person who intends to liquidate itself voluntarily and has not committed any default may initiate voluntary liquidation proceedings under this chapter'. As on September 2021, 1042 cases have been filed under this scheme so far and out of them, final reports have been received for 483 cases, and the final order of dissolution has been passed in 257 cases. Out of the ongoing cases, nearly 32 per cent of the cases are pending over 2 years and 19 per cent for between 1 and 2 years (Table 6A).

Table 6A: Status of Voluntary Liquidations as of September 30, 2021

Status	No. of Liquidations
Initiated	1042
Closed by withdrawal	10
Final Report Submitted	483
Closed by Dissolution	257
Ongoing	549
> Two years	177
> One year ≤ Two years	104
> 270 days ≤ 1 year	61
> 180 days ≤ 270 days	107
> 90 days ≤ 180 days	35
≤ 90 days	65

Source: IBBI

The step-by-step procedure of the voluntary liquidation process under IBC is as follows:

Step 1: A board meeting is held approving the voluntary liquidation. Section 59(3)(a) of the Code provides that the majority of the directors of the company shall pass a declaration regarding solvency and the company not being liquidated to defraud any person. This declaration has to be supplemented with 2 things:

(a) Audited financial statements and record of business operations of the company for the previous two years or since its incorporation, whichever is later.

(b) A report of the valuation of assets of the company, if any, prepared by a Registered Valuer.

Step 2: Passing of shareholder's resolution and appointing a liquidator. There shall be a resolution (or special resolution) of the members of the company in a general meeting requiring the company to be liquidated voluntarily and appointing an insolvency professional to act as the liquidator. The creditors representing two-thirds in value of the debt of the company shall approve the said resolution within seven days of such resolution.

Step 3: Liquidator files the resolution to Insolvency and Bankruptcy Board of India (IBBI) and RoC within seven days as per section 59(4) of the Code and regulation 3 (2) of Voluntary Liquidation Regulations. Regulation 14 of Voluntary Liquidation Regulations requires making public announcement (in English and Regional Newspapers) within 5 days calling stakeholders to submit claims within 30 days (Section 38 (1) of the Code).

Step 4: Opening a designated bank account for cash and liquid funds and closure of existing bank account(s) and transfer of funds to a designated bank account.

Step 5: Apply for No Objection Certificate (NOC) in Central Board of Direct Taxes, Central Board of Indirect Taxes and Custom, Employee Provident Fund Organisation and sectoral regulators (These NOCs are not explicitly mentioned in IBC but are implied to be taken).

Step 6: Liquidator gives final remittance to shareholders. Also, the liquidator deposits applicable withholding taxes and then closes the bank account opened for liquidation.

Step 7: Liquidator then submits a final report to shareholders, RoC, IBBI and National Company Law Tribunal (NCLT).

Step 8: Order is passed by NCLT.

Step 9: File copy of the order for dissolution of corporate debtor with RoC vide Form INC 28 and RoC to strike-off the name of Corporate Debtor from RoC.

The first key issue in the process is delays in obtaining No Objection Certificates (NOCs) from departments including Central Board of Direct Taxes, Central Board of Indirect Taxes and Custom, Employee Provident Fund Organisation and other sectoral regulators. The NOCs are implied to be taken although not specifically mentioned in the Code. This leads to confusion regarding the procedure to be followed among the departments, liquidators etc. with regard to the exact procedure to be followed. Another issue in the process is that there are no well-defined Standard Operating Procedures (SoPs) in the departments for granting NOC. As per the current practice, the liquidators write a letter to the head of the departments asking for any claims that the department has on the company and to grant NOC. The department then assesses the application and responds. Since there are no SoPs, the claims raised by the departments come with a lag and are not within the stipulated period. Further, another problem leading to delays in certain cases is that there are no standard guidelines on requirements by NCLT bench, creating lags in the processes as the company has to contact various departments to take the specified clearances as required by NCLT. Another issue is the hesitancy in the banks for closure of existing bank accounts and also for the opening of the new liquidation bank account by the liquidator, which is a mandatory step in the liquidation proceedings.

To sum up, there is a case for simplifying the problems in the Voluntary Liquidation process, to improve ease of exit for business. Apart from simplifying the issues in the various steps in the processes, there is a need for the creation of a single window for the entire process. A portal that combines all the steps of the liquidation process altogether, starting from application by companies to processing by all departments will prove to be very useful.

Cross Border Insolvency

4.66 Cross border insolvency signifies circumstances in which an insolvent debtor has assets and/or creditors in more than one country. Typically, domestic laws prescribe procedures, for identifying and locating the debtors' assets; calling in the assets and converting them into a monetary form; making distributions to creditors in accordance with the appropriate priority etc. for domestic creditors/debtors. However, there are various insolvency cases in which corporations owes assets and liabilities in more than one country.

4.67 At present, Insolvency and Bankruptcy Code, 2016 (IBC) provides for the domestic laws for the handling of an insolvent enterprise. IBC at present has no standard instrument to restructure the firms involving cross border jurisdictions. The problem of not having a cross border framework problem was also expressed by the National Company Law Tribunal (NCLT) in Mumbai in a cross-border insolvency case involving an Indian entity[9]. NCLT stated that while insolvency proceedings against the corporate debtor have already been initiated before a District Court in Netherlands, "*there is no provision and mechanism in the IBC, at this moment, to recognize the judgment of an insolvency court of any Foreign Nation. Thus, even if the judgment of Foreign Court is verified and found to be true, still, sans the relevant provision in the IBC, we cannot take this order on record.*" The absence of standardized cross border insolvency framework creates complexities and raises various issues such as:

- The extent to which an insolvency administrator may obtain access to assets held in a foreign country.
- Priority of payments- Whether local creditors may have access to local assets before funds go to the foreign administration or not.
- Recognition of the claims of local creditors in a foreign administration.
- Recognition and enforcement of local securities, taxation system over local assets where a foreign administrator is appointed etc.

4.68 Presently, while foreign creditors can make claims against a domestic company, the IBC currently does not allow for automatic recognition of any insolvency proceedings in other countries. Cross border insolvency is regulated by Section 234 and 235 of IBC. Section 234 empowers the Central Government to enter into bilateral agreements with other countries to resolve situations about cross-border insolvency. Further, the Adjudicating Authority can issue a letter of request to a court or an authority (under Section 235) competent to deal with a request for evidence or action in connection with insolvency proceedings under the Code in countries with the agreement (under Section 234).

4.69 As can be seen, the current provisions under IBC are ad-hoc in nature and are susceptible to delay. Entering into mutual (reciprocal) agreements require individual long-drawn-out negotiations with each country. This leads to uncertainty of outcomes of claims for creditors, debtors and other stakeholders as well.

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[9]State Bank of India v. Jet Airways (India) Ltd., CP 2205 (IB)/MB/2019, CP 1968(IB)/MB/2019, CP 1938(IB)/MB/2019, Order dated 20 June 2019

4.70 Therefore, there is a need for a standardized framework for Cross-Border insolvency. This issue is not new and in fact, the proposal to frame a robust cross border insolvency framework has already been highlighted in the report of the Insolvency Law Committee (ILC)[10] (October 2018). The Committee had recommended the adoption of the United Nations Commission on International Trade Law (UNCITRAL) with certain modifications to make it suitable to the Indian context. In fact, UNCITRAL on Cross-Border Insolvency, 1997 has emerged as the most widely accepted legal framework to deal with cross-border insolvency issues. It provides a legislative framework that can be adopted by countries with modifications to suit the domestic context of the enacting jurisdiction. It has been adopted by 49 countries until now, such as Singapore, UK, US, South Africa, Korea, etc. This law addresses the core issues of cross border insolvency cases with the help of four main principles:

- *Access*: It allows foreign professionals and creditors direct access to domestic courts and enables them to participate in and commence domestic insolvency proceedings against a debtor.
- *Recognition*: It allows recognition of foreign proceedings and enables courts to determine relief accordingly.
- *Cooperation*: It provides a framework for cooperation between insolvency professionals and courts of countries.
- *Coordination*: It allows for coordination in the conduct of concurrent proceedings in different jurisdictions.

[10]Government had invited suggestions/comments on the ILC report (Draft Z) from stakeholders.