

FM - Press Conference – I: Intent Towards Self Reliance

on 13th May 2020, our Finance Ministry made a slew of economic measures, in the first in a series of such anticipated announcements, providing details of a portion of the monetary and fiscal support worth a total of ₹20 lakh crore announced by the Prime Minister the previous day. The announcements focused mainly on MSMEs and the NBFC sector and their liquidity issues. The announcements are a move in the right direction, but more direct support is required for solutions to issues faced by large number of MSMEs and to effectively enthruse them work towards the stated goal of self – reliant India.

A. MSMEs: Shore up Liquidity and encourage growth

Standard MSMEs	Stressed MSMEs	Potential & Viable
Emergency Collateral free automatic credit line of up to ₹3 lakh crore from banks and NBFCs (up to 20% of outstanding credit – Principal + interest)	Subordinate Debt of ₹20,000 crore for stressed MSMEs	Fund of Fund (FoF): Initial corpus of ₹10,000 crores to be levered up to ₹50,000 crores for equity infusion in MSMEs
To benefit MSMEs having: <ul style="list-style-type: none"> Outstanding loans up to ₹25 crore Turnover of up to ₹100 crore 	₹4,000 crore to be contributed by GOI to CGTMSE	FoF to operate through a Mother Fund and Daughter Funds
<ul style="list-style-type: none"> Tenor – 4 years 12 months Moratorium 	--	Expected to expand MSME size and capacity
Available till 31.10.2020	--	--
<ul style="list-style-type: none"> 100% credit guarantee cover to be provided by GOI No fresh collateral, no guarantee fee 45 lakhs MSMEs to benefit 	<ul style="list-style-type: none"> All MSMEs which are NPAs or stressed can avail this facility Around 2 lakhs MSMEs expected to benefit 	May encourage MSMEs to get listed in recognized Stock Exchange

➤ Widening the scope of MSME

- ✓ **Wider Definition:** Definition of MSME widened to encourage growth
- ✓ **No distinction b/w manufacturing and services:** Difference b/w manufacturing & service MSME removed from definition and criteria has been revised as follows:

REVISED LIMITS AND CRITERIA FOR MANUFACTURING & SERVICES MSMEs UNIFIED

CAT/ CRITERIA	INVESTMENT	TURNOVER
MICRO	Up to ₹1 crore	Up to ₹5 crore
SMALL	Up to ₹10 crore	Up to ₹50 crore
MEDIUM	Up to ₹20 crore	Up to ₹100 crore

- ✓ **Low threshold:** More companies expected to fall under the ambit of MSME and many existing companies will continue to remain as an MSME without losing out on the benefits they receive
- **Global tenders to be disallowed up to ₹200 crores** in Government procurement in a step towards Self – Reliant India and encourage participation of MSMEs
- **All receivables of MSMEs to be cleared by CPSEs and Government** which are due within next **45 days**.
- **E-market linkage** being encouraged as replacement of physical trade fares and exhibitions.

B. NBFCs, HFCs and MFIs: ₹30,000 crores Special Liquidity Scheme

Special Liquidity Scheme (SLS)	Partial Credit Guarantee Scheme (PCGS)
Govt. to launch a special ₹30,000 crore SLS	GOI to infuse ₹45,000 crore liquidity through PCGS
Investment to be made in primary & secondary market transactions in “investment” grade debt papers of NBFCs, MFIs and HFCs	<ul style="list-style-type: none"> Existing PCGS scheme extended to cover borrowings such as primary issuance of Bonds/ CPs (liability side of balance sheets) of such entities First 20% loss to be borne by the Guarantor i.e. GOI
These securities to be fully guaranteed by GOI	Unrated papers, AA Papers also eligible for investments (esp. relevant for many MFIs)
Provide liquidity support to struggling NBFCs, MFIs, and HFCs	Provide liquidity support to NBFCs, MFIs, and HFCs making fresh lending to MSMEs and individuals

C. EPFOs: ₹9,250 crores liquidity support

For establishments with employees less than 100 and 90% of them drawing less than ₹15,000/m	Other establishments
Liability of 12% by employer and 12% by employee borne by GOI	Statutory requirement of 12% reduced to 10% for both employer and employee
<ul style="list-style-type: none"> Provided for month of March, April and May; extended for another 3 months i.e. June, July and August 	<ul style="list-style-type: none"> For CPSEs and PSUs employers – contribution to be continued at 12% Government employees can contribute at reduced rate of 10%
₹2,500 crores already provided for 72.22 lakhs employees by GOI	₹6,750 crore liquidity support expected to be provided to around 4.3 lakhs employees

FM - Press Conference – I: Intent Towards Self Reliance

D. ₹90,000 crores Emergency Liquidity injection to DISCOMS

- ✓ PFCs and REC will infuse ₹90,000 crore to all Discoms against their receivables
- ✓ State backed guarantees for loans to Discoms for exclusive purpose of discharging their liabilities to Gencos
- ✓ Central Public Sector Generation Companies to provide rebate to DISCOMS which pass on the benefit to final customers

E. CONTRACTORS

- ✓ All central Agencies to provide 6 months extension to contractors without additional cost to complete their contract conditions. The relief to cover:
 - Construction/ Works and Goods & Services Contract
 - Obligations like completion of work, intermediate milestones etc. and extension of concession period in PPP contracts
- ✓ For partially completed contracts, the Government agencies will release bank guarantees to the extent of work completed to ease cash flows

F. REAL ESTATE: RERA compliance relaxation to de-stress real estate developers

- ✓ Urban Development Ministry shall issue advisory to States & UTs and their Regulatory Authorities:
 - For suo – moto extension of registration & completion date by 6 months for projects expiring on or after 25th March 2020 without need for individual applications
 - To treat outbreak of COVID – 19 as “*Force Majeure*” under RERA
 - Issue fresh Project certificates automatically with revised timelines
 - Extend the period for another 3 months if deemed necessary
 - Extend timelines for various statutory compliances under RERA simultaneously

E. DIRECT TAX RELIEFS

- ✓ Existing TDS and TCS rates reduced by 25% w.e.f. 14.05.2020 till 31.03.2021. Government expects to release liquidity of ₹50,000 crore through this
- ✓ All pending refunds to charitable trusts/ Non – corporates Business & Profession including Sole proprietorships/ partnerships/ LLPs and co-operatives/ MSMEs shall be issued immediately
- ✓ **Extension of Due Dates/ Timelines:**

Particulars	Existing Due Date/ Timeline	Extended Due Date/ Timeline
ITR FY 2019 – 20	31.7.2020 and 31.10.2020	30.11.2020
Tax Audits	30.09.2020	31.10.2020
Vivaad se Vishwaas Scheme	--	31.12.2020
Date of Assessment being barred	30.09.2020	31.12.2020
	31.03.2021	30.09.2021

Our View

By widening the definition of **MSMEs** and removing the difference in classification for manufacturing and services, many more companies are expected to fall under the ambit of benefits that MSMEs avail. By providing indirect liquidity reliefs to MSMEs, and NBFCs, who in turn may be lending onwards to MSMEs, the government has re-enforced its focus on the MSME sector.

However, MSMEs needed immediate “ventilator” support to tide over mounting losses in the form of direct benefits. Most MSMEs are struggling to pay salaries and other immediate expenses. Any form of indirect benefits in the next 3 – 6 months while welcome, may not be enough for most MSMEs to survive, save those which are financially soluble. In today’s press announcement, none such direct benefits were forthcoming.

Providing a liquidity window for **NBFCs / HFCs** through SLS and PCGS to banks is expected to help struggling NBFCs and HFCs raise money and remain in business of on-lending. It is a move in the right direction now, but the larger ramifications of potential future non-performance needs to be factored in.

Extension of deadlines in **real – estate** is a welcome relief to developers who were staring at statutory (RERA) default. Unfinished projects have been given a temporary lease of life.

While some of the **direct tax benefits** are laudable (viz., Tax refunds) others viz., TDS and TCS rate reduction, is a temporary measure and is in our view just a deferment of tax payments and that too for non – salaried employees and while it may bring some immediate liquidity in the hands of the targeted segment, it is not a long-term benefit unless tax slabs are reworked.

Today’s announcements were a well-intentioned move toward helping our MSMEs and liquidity starved NBFCs, but the effectiveness of these policies towards reviving our MSMEs is subject to time test. The Finance Ministry could have provided more clarity on its pronouncements and the intended self reliance that these measures are likely to bring in.

We believe that the government may have to evaluate further measures to shore up business confidence and implement Make – in – India effectively.

CONTACT US

Delhi NCR

1116, 11th Floor, WTT, C-1, Sector 16,
DND Flyway, Noida – 201301
T: +91 120 614 300
Fax: +91 120 6143033

Mumbai

1st Floor, Unit No. 108, Inspire, BKC,
Bandra Kurla Complex, Bandra East,
Mumbai City, Maharashtra, 400051
T: +91 22 68648100
Fax: +91 22 68648132

Bengaluru

BHIVE WORKSPACE- 7th Floor,
Mahalakshmi Chambers, 29, MG Road,
Yellappa Garden, Yellappa Chetty
Layout, Ashok Nagar, Bengaluru,
Karnataka 560001

Email / Website

info@acquisory.com
www.acquisory.com