

Finance Minister Nirmala Sitharaman Unveils First Set of Measures Under Covid-19 Relief Package



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FOREWORD:

The Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman has unveiled measures in a press conference for businesses, including MSMEs, to recover from the economic impact due to coronavirus (COVID-19). These are part of the Rs 20 lakh crore stimulus announced by PM Narendra Modi in his address for the nation on 12th May, 2020. The Prime Minister described it as “a special economic package that will serve as an important link to the ‘Self-reliant India Campaign (Aatma nirbhar Bharat)’”. He also outlined five pillars of Aatmanirbhar Bharat – Economy, Infrastructure, System, Vibrant Demography and Demand. The relief package amounts to roughly 10% of India’s gross domestic product (GDP).

Smt. Nirmala Sitharaman today announced measures focused on Getting back to work i.e., enabling employees and employers, businesses, especially Micro Small and Medium Enterprises, to get back to production and workers back to gainful employment. Efforts to strengthen Non-Banking Finance Institutions (NBFCs), Housing Finance Companies (HFCs), Micro Finance Sector and Power Sector were also unfolded. Other than this, the tax relief to business, relief from contractual commitments to contractors in public procurement and compliance relief to real estate sector were also covered.

In this note, we have summarised the relief measures announced by the Finance Minister in the first of a series of press briefings.

Regards,

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Summary of Relief Measures:

- ✚ Rs.3 lakh crores Collateral Free Automatic Loans for business including MSMEs
- ✚ Rs. 20,000 crores Subordinate debt for MSMEs
- ✚ Rs. 50,000 crore equity infusion through MSME Fund of Funds
- ✚ New definition of MSMEs
- ✚ Global tender to be disallowed upto Rs.200 crores
- ✚ Other interventions for MSMEs
- ✚ Rs.2500 crores EPF support for businesses and workers for another 3 months for salary months of June, July and August 2020
- ✚ EPF contribution reduced for business and workers for 3 months to 10% from 12% for all establishments covered by EPFO- benefit of Rs.6750 crores
- ✚ Rs. 30,000 crores Liquidity facility for NBFC/HCs/MFIs
- ✚ Rs.45000 crore Partial credit guarantee Scheme 2.0 for NBFC
- ✚ Rs. 90,000 crore liquidity injunction for DISCOMs
- ✚ Relief to contractors
- ✚ Extension of registration and completion date of Real Estate projects under RERA
- ✚ Rs. 50,000 crore liquidity through TDS/TCS reductions
- ✚ Other Direct tax measures

RELIEF MEASURES

Following are the decisions with respect to statutory and regulatory compliance matters related to various sectors:

1. Rs 3 lakh crore Emergency Working Capital Facility for Businesses, including MSMEs

It was mentioned that the businesses/MSMEs have been badly affected due to COVID-19 and they need additional funding to meet operational liabilities built up, buy raw material and restart business. In order to provide relief to the business, additional working capital finance of 20% of the outstanding credit as on 29 February 2020, in the form of a Term Loan at a concessional rate of interest will be provided.

- This will be available to units with upto Rs.25 crore loan outstanding and turnover of up to Rs.100 crores whose accounts are standard.
- The units will not have to provide any guarantee or collateral of their own.
- Interest will be capped
- Loans to have 4 years' tenor with moratorium of 12 months on principal repayment
- The amount will be 100% guaranteed by the Government of India on principal and interest
- Scheme can be availed till 31st October, 2020
- The scheme proposes to provide a total liquidity of Rs. 3 lakh crores to more than 45 lakh MSMEs.

2. Rs 20,000 crore Subordinate Debt for Stressed MSMEs

In order to support stressed MSMEs, Government of India has made a provision for Rs. 20,000 crores subordinate debt for existing functional MSMEs which are NPA or are stressed. Almost 2,00,000 MSMEs are likely to get benefitted out of this scheme. Government will support with Rs.4,000 crores to Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). These CGTMSE will provide partial credit guarantee support to banks. Promoters of the MSME will be given debt by banks which can be infused as equity in the unit. Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to 15% of its existing stake in the unit subject to a maximum of Rs.75 lakhs.

3. Rs 50,000 crores equity infusion through MSME Fund of Funds

It was observed that MSMEs face severe shortage of equity during this COVID time . With a view to provide equity funding support for MSMEs with growth potential and viability, Government of India will set up a Fund of Funds with a corpus of Rs 10,000 crore. The Fund of Funds shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilise equity of about Rs 50,000 crores. The scheme will expand MSME size as well as capacity and it will encourage MSMEs to get listed on main board of Stock Exchanges.

4. New definition of MSME

Government has identified that low threshold in MSME definition have created a fear among MSMEs of graduating out of the benefits and hence killing the urge to grow. Due to this, there has been long pending demand for revision in the definition of MSMEs. The definition of MSME has now revised by raising the Investment limit and an additional criteria of turnover has also introduced. The distinction between manufacturing and service sector will also be eliminated. The new benchmarks for classification of MSMEs are as below:

- Micro Enterprises - investment less than Rs 1 crore and turnover less than Rs 5 crore
- Small Enterprises - Investment less than Rs 10 crore and turnover of less than Rs 50 crore
- Medium Enterprises - Investment less than Rs 20 crore and turnover less than Rs 100 crore

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.
Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

5. No Global tenders for Government tenders of up to Rs 200 crores.

General Financial Rules (GFR) of the Government will be amended to disallow global tender enquiries in procurement of Goods and Services of value of less than Rs 200 crores. This is in view of the fact that Indian MSMEs and other companies have often faced unfair competition from foreign companies. Hence this move will be a step towards Self Reliant India and to support Make in India scheme of the government. This also aims to help MSMEs to increase their business.

6. Other interventions for MSMEs

Due to COVID-19, it is evident that MSMEs currently face problems of marketing and liquidity. To curb this, E-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions. Fintech will be used to enhance transaction based lending using the data generated by the e-market place.

It was also announced that MSME receivables from Government and CPSEs will be released in 45 days. Government has been continuously monitoring settlement of dues to MSME vendors from Government and Central Public Sector Undertakings. This move will support liquidity issues of the MSMEs.

7. Employees Provident Fund Support for business and organised workers

Under Pradhan Mantri Garib Kalyan Package (PMGKP), Government of India contributed 12% of salary each on behalf of both employer and employee to EPF for salary months of March to May, 2020. In view of the financial stress that the businesses may continue to face as they get back to work, the scheme will be extended by another 3 months for salary months of June, July and August 2020. Total benefits accrued from this is about Rs 2500 crores to 3.67 Lakh establishments and for 72.22 lakh employees.

8. EPF Contribution to be reduced for Employers and Employees for 3 months

Considering that businesses need support to ramp up production over the next quarter, government further aims to support the liquidity requirements of business establishments. It is also necessary to provide more take home salary to employees and also to give relief to employers in payment of statutory dues.

- Therefore, statutory PF contribution of both employer and employee reduced to 10% each from existing 12% each for all establishments covered by EPFO for next 3 months.
- This will provide liquidity of about Rs.2250 Crore per month.
- However, Central and State PSUs will continue to contribute 12% as employer contribution.
- This scheme will be applicable for workers who are not eligible for 24% EPF support under PM Garib Kalyan Package and its extension
- This will provide relief to about 6.5 lakh establishments covered under EPFO and about 4.3 crore such employees.

9. Rs 30,000 crores Special Liquidity Scheme for NBFC/HFC/MFIs

Since NBFCs/HFCs/MFIs are finding it difficult to raise money in debt markets, Government will launch Rs. 30,000 crore Special Liquidity Scheme to support these establishments. The scheme will supplement RBI/government measures to augment liquidity. Investment will be made in primary and secondary market transactions in investment grade debt paper of NBFCs, HFCs and MFIs. This will be 100 percent guaranteed by the Government of India. This will provide liquidity support for NBFCs/HFCs/MFIs and mutual funds and create confidence in the market.

10. Rs 45,000 crores Partial credit guarantee Scheme 2.0 for Liabilities of NBFCs/MFIs

Considering that NBFCs/HFCs/MFIs with low credit rating require liquidity to do fresh lending to MSMEs and individuals, existing Partial Credit Guarantee scheme is being revamped and now will be extended to cover the borrowings of lower rated NBFCs, HFCs and other Micro Finance Institutions (MFIs). Government of India will provide 20% first loss sovereign guarantee to Public Sector Banks. This scheme will result in liquidity of Rs. 45,000 crores. AA paper and below including unrated paper eligible for investment (especially relevant for many MFIs).

11. Rs 90,000 crore Liquidity Injection for DISCOMs

Due to COVID-19, revenues of Power Distribution Companies (DISCOMS) have plummeted. There exist unprecedented cash flow problems accentuated by demand deduction. It is estimated that currently DISCOM payables to Power generation and transmission companies is approximately Rs.94000 crores.

In view of this, Power Finance Corporation and Rural Electrification Corporation will infuse liquidity in the DISCOMS to the extent of Rs 90,000 crores in two equal instalments. Loans will be given against state guarantees. This amount will be used by DISCOMS to pay their dues to Transmission and Generation companies. Further, Central Public sector generation companies will give a rebate to DISCOMS on the condition that the same is passed on to the final consumers as a relief towards their fixed charges.

12. Relief to Contractors

All central agencies like Railways, Ministry of Road Transport and Highways and Central Public Works Department (CPWD) will give extension of up to 6 months for completion of contractual obligations (without costs to contractor). Contracts covered are construction/works, goods and service contracts. It also covers obligations like work, intermediate milestones etc. and extension of concession period in PPP contracts. In order to ease cash flows, government agencies to partially release bank guarantees to the extent contracts are partially completed.

13. Relief to Real Estate Projects

The real estate sector was adversely affected due to COVID-19 and there the projects stand the risk of defaulting on RERA timelines. Hence there is a need to extend the timelines with respect to this. Considering this, the below measures were announced:

- State Governments are being advised to invoke the Force Majeure clause under RERA.
- The registration and completion date for all registered projects expiring on or after 25th March, 2020 will be extended up to 6 months without individual applications.
- This may be further extended by another 3 months based on the State's situation.
- Fresh 'Project Registration Certificates' will be issued automatically with revised timelines
- Various statutory compliances under RERA will also be extended concurrently.

These measures are expected to de-stress real estate developers and ensure completion of projects so that homebuyers are also able to get delivery of their booked houses with ne timelines.

14. Rs. 50,000 crore liquidity through TDS/TCS reductions

In order to provide more funds at the disposal of the taxpayers, the TDS rates for all non-salaried payment to residents, and tax collected at source rate will be reduced by 25% of the specified rates Payment for contract (Section 194C), professional fees(194J), interest(194A), rent(194I), dividend (194M), commission, brokerage (194H) etc. shall be eligible for this reduced rate of TDS. This reduction shall be applicable for the remaining period of FY 2020-21 i.e, from tomorrow to 31st March, 2021. This will provide liquidity to the tune of Rs 50,000 Crore.

15. Other Direct Tax Measures

- The pending income tax refunds to charitable trusts and non-corporate businesses and professions including proprietorship, partnership and LLPs and cooperatives shall be issued immediately.
- The due date of all Income Tax Returns for Assessment Year 2020-21 will be extended from 31st July and 31st October, 2020 to 30th November, 2020. Similarly, tax audit due date will be extended to 31st October 2020 from 30th September.
- Date of assessments getting barred on 30th September, 2020 extended to 31st December, 2020 and those getting barred on 31st March, 2021 will be extended to 30th September, 2021.
- The date for making payment without additional amount under the “Vivad Se Vishwas” scheme will be extended to 31 December, 2020.

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