JMP Advisors

COVID-19: India update on economic stimulus package

Key highlights of economic stimulus announced in the wake of the COVID-19 pandemic

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The Indian Prime Minister ('PM') had addressed the nation on 12 May 2020 when he had announced an economic stimulus package of INR 20 trillion (~USD 270 billion), which is nearly 10% of the country's GDP, to boost growth as the nation approaches the 50th day of the lockdown on account of the COVID-19 outbreak. Following the PM's announcement, the Indian Finance Minister ('FM') held a Press Conference today to spell out specific details of the economic stimulus. The FM reiterated the PM's message of building a Self-reliant India and clarified that this does not mean an inward looking or self centred India, but one which contributes to the global economy.

The FM emphasized on the four aspects highlighted by the PM i.e. land, labour, liquidity and laws, towards which various measures would be announced over the course of this week. Of these four aspects, some measures to inject liquidity have already been announced last month by the Reserve Bank of India ('RBI') which is the Central Bank in India.

The FM kick-started the process today by presenting a string of measures in 7 areas i.e. Micro, Small and Medium Enterprises, Employees' Provident Fund, Non-Banking Finance Companies, Housing Finance Companies and Micro Finance Institutions, Distribution companies in the power sector, Contractors, Real estate and Direct tax. This is the first tranche of announcements focusing largely on liquidity. The other announcements that are expected to follow will focus, presumably, on relief for farmers and poorer sections of society and reforms in land and labour laws.

In the first part of this series of updates on the FM's economic package, we summarize below the key highlights of the economic measures announced by the FM in the abovementioned areas as well as some of the measures announced earlier by the RBI, post our tax and regulatory update of 14 April 2020. Some of the provisions announced will need to be introduced in the relevant laws by way of specific notifications or amendments to the law.

I. Economic stimulus measures announced by the FM

Micro, Small and Medium Enterprises ('MSMEs')

- Collateral-free emergency credit without any guarantee fee will be provided by banks and NBFCs to MSMEs up to 20% of the entire outstanding credit as on 29 February 2020 if they are eligible borrowers. MSMEs having outstanding credit of up to INR 250 million (~ USD 3.3 million) and turnover of INR 1 billion (~USD 13 million) will be considered as eligible borrowers.

  The tenure of the automatic loans will be 4 years with a moratorium of 12 months on principal repayment and the interest will be capped. The Government will provide 100% credit guarantee cover to the banks and NBFCs on principal and interest.

  This scheme can be availed up to 31 October 2020. It is expected that 4.5 million MSME units will benefit from this measure.

- Subordinated debt of INR 200 billion (~USD 2.7 billion) has been announced for functioning MSMEs which are Non-Performing Assets or stressed units. The Government will provide a support of INR 40 billion (~USD 533 million) to Credit Guarantee Funds Trust for Micro and Small Enterprises ('CGTMSE') which will provide partial Credit Guarantee support to banks, which in turn will lend funds to promoters of MSMEs to infuse equity in the MSMEs.

- To encourage MSMEs to get listed on stock exchanges, a Fund of Funds with a corpus of INR 100 billion (~USD 1.3 billion) operating through a mother fund and a few daughter funds will be set up to provide equity funding to MSMEs which have growth potential and viability.

- The distinction between the definition of an MSME for a manufacturing entity and a service entity has been done away with. Further, the definition of MSMEs has been amended to include both investment and turnover criteria to define an MSME. A comparison of the amended definition with the erstwhile definition is given in the table below:

Existing MSME Classification Criteria : Investment in Plant and Machinery or Equipment			
Classification	**Micro**	**Small**	**Medium**
Manufacturing Enterprises	Investment < INR 2.5 million (~USD 0.03 million)	Investment < INR 50 million (~USD 0.67 million)	Investment < INR 100 million (~USD 1.3 million)
Service Enterprises	Investment < INR 1 million (~USD 0.01 million)	Investment < INR 20 million (~USD 0.27 million)	Investment < INR 50 million (~USD 0.67 million)
Revised MSME Classification Composite Criteria : Investment and Annual Turnover			
Manufacturing and Service Enterprises	Investment < INR 10 million (~USD 0.13 million) And Turnover < INR 50 million (~USD 0.67 million)	Investment < INR 100 million (~USD 1.3 million) And Turnover < INR 500 million (~USD 6.67 million)	Investment < INR 200 million (~USD 2.6 million) And Turnover < INR 1000 million (~USD 13.3 million)

- As a step towards creating a Self-reliant India and to support the Make in India campaign, global tenders would not be floated in Government procurement tenders up to INR 2 billion (~USD 26.6 million). This measure will help MSMEs increase their business and reduce competition from foreign companies for Government procurement tenders.

- To address the issue of marketing and liquidity due to the COVID – 19 outbreak, an e-market linkage for MSMEs will be promoted instead of trade fairs and exhibitions.

- Outstanding receivables of the MSMEs which are due from the Government and Central Public Sector Enterprises ('CPSEs') will be paid within 45 days.

Employees' Provident Fund Scheme ('EPF')

- Under the Indian EPF Scheme, which is in the nature of a retirement savings scheme, the employer as well as employee is statutorily required to contribute 12% of salary to EPF on a monthly basis. The Government had announced a month ago that it would bear the employer's contribution as well as employee's contribution to EPF (aggregating to 24% of monthly salary of an eligible employee) for the period March 2020 to May 2020 for certain eligible establishments. It has now been announced that the Government would extend this by 3 months and make the aforesaid contribution up to August 2020. This will provide a relief of INR 25 billion (~ USD 350 million) to around 7.2 million employees.

- The statutory contribution towards Provident Fund has been reduced from 12% to 10% for all establishments covered by the EPF Scheme, except for State Public Sector Units ('PSUs'), Central Public Sector Enterprises ('CPSEs') and those establishments covered in the preceding paragraph, for the period June 2020 to August 2020. This will provide relief to approximately 43 million employees. Consequently, there will be increased liquidity in the hands of employers and better take-home pay for employees, aggregating to INR 67.5 billion (~ USD 900 million). State PSUs and CPSEs will continue to contribute 12% as the employer's contribution.

Non-Banking Finance Companies ('NBFCs'), Housing Finance Companies ('HFCs') and Micro Finance Institutions ('MFIs')

- A special liquidity scheme of INR 300 billion (~ USD 4 billion) has been announced under which investment will be made in both the primary and secondary market in the investment grade debt paper of NBFCs, HFCs and MFIs to inject liquidity. These securities issued by the NBFCs, HFCs and MFIs will be fully guaranteed by the Government.

- To provide liquidity to NBFCs, HFCs and MFIs with low credit ratings to ensure continuity in fresh lending, a relief package of INR 450 billion (~ USD 6 billion) has been announced. Under this package, the scope of existing Partial Credit Guarantee Scheme ('PCGS') has been extended to cover liabilities of NBFCs, HFCs and MFIs such as bonds or commercial papers. The FM announced that papers of rating AA and below (including unrated paper) will be eligible for investment. It was further announced that up to the first 20% of the loss will be borne by the Government.

Distribution companies in the power sector

- Considering that revenues of Power Distribution Companies ('DISCOMs') have plunged because of the COVID-19 pandemic, a relief package of INR 900 billion (~ USD 12 billion) has been announced. Loans will be given by the Power Finance Corporation or Rural Electrification Corporation to DISCOMs against their receivables. The said loans will be given against State guarantees, which are to be used exclusively for the purpose of discharging the payables by DISCOMs to Power Generation Companies.

- It was announced that Central Public Sector Generation Companies would grant a rebate to DISCOMs which should be passed on to the final consumers.

Relief to Contractors

- An extension of up to 6 months is to be provided to contractors by all Central agencies (like Railways, Ministry of Road Transport, and highways etc.) in respect of construction, works and goods and service contracts. Such extension will be without any costs to the contractors and will cover obligations like completion of work, intermediate milestones, and extension of concession period in Public Private Partnership ('PPP') contracts.

- Government agencies will partially release bank guarantees to the extent of partially completed contracts with a view to ease the pressure on cash flow for contractors.

Real estate

- To provide relief to real estate developers who may not be able to meet timelines and may end up breaching the provisions of the Real Estate Regulation and Development Act, 2016 ('RERA'), advisories will be issued by the Ministry of Housing and Urban Affairs to the States.

- These advisories include the following:

  - COVID-19 pandemic to be considered as a *force majeure* event for the purposes of RERA.
  - Power to regulatory authorities to *suo-moto* extend registration and completion dates by 6 months for projects which expire on or after 25 March 2020, without the need to file individual applications. These may be extended for a further period of up to 3 months.
  - Issue of fresh project registration certificates as per revised timelines.
  - Extension of various timelines for statutory compliances under RERA.

Direct tax

- The rates of withholding tax for payments other than salary, made to residents such as payment for professional fees, interest, rent etc. and Tax Collection at Source ('TCS') for certain receipts will be reduced by 25% of the existing rate. The reduced rates will apply where the amounts are paid or credited during the period 14 May 2020 to 31 March 2021. Subsequently, a Press Release has been issued to clarify that the reduced rates will not apply to persons not having a Permanent Account Number (which is a unique tax identification number).

  However, in the absence of any clarification to the contrary, it may be noted that any deficit in the tax liability on account of a reduced tax withholding would have to be discharged by the taxpayer way of advance tax instalments, failing which, interest would be attracted.

- All outstanding refunds in the case of charitable trusts and non-corporate taxpayers engaged in business or profession such as Limited Liability Partnerships (‘LLPs’), partnership firms and co-operative societies would be issued immediately.

- The due dates for filing the return of income by various categories of taxpayers for Financial Year 2019-20 will be extended to 30 November 2020 from the existing due dates of 31 July 2020 and 31 October 2020 (where the provisions of tax audit are applicable). Further, the due date for completion of tax audits which were to be completed by 30 September 2020 will be extended by 1 month to 31 October 2020.

- The due date for completion of audits by the tax authorities (scrutiny proceedings) which would be barred by limitation on 30 September 2020 and 31 March 2021 will be extended to 31 December 2020 and 30 September 2021, respectively.

- The due date for filing applications under the recently introduced tax ‘amnesty’ scheme i.e. Vivad se Vishwas Scheme will be extended to 31 December 2020, without payment of any additional amount.

II. Measures announced earlier by the RBI

➢ Measures to spur liquidity

- Earlier, the RBI had permitted all commercial banks, NBFCs and rural banks to grant a moratorium period of 3 months for all term loans (including agricultural loans). The moratorium period will apply to all payments relating to principal or interest, EMIs and credit card dues falling between 1 March 2020 and 31 May 2020. It was clarified that interest will continue to be charged during the moratorium period. After the announcement of Lockdown 2.0, the RBI announced that this moratorium period will not be included in the 90-day NPA calculation and these loans will not be classified as NPAs by the banks. Also, banks have been asked to maintain a higher provision of additional 10% on all accounts that opt for this moratorium.

- The reverse repo rate has been further reduced from 4.00% to 3.75% to encourage banks to deploy surplus funds as loans or as investments in productive sectors, thereby infusing liquidity into the economy.

- The RBI increased Ways and Means Advances (a temporary loan given to the Government to overcome temporary mismatches in receipts and expenditures) by 60% up to 30 September 2020, as compared to the limit as on 31 March 2020, in order to provide greater comfort to the States in respect of their COVID-19 mitigation efforts.

- All banks have been directed to not make any dividend pay-outs for FY 2019-20 so that the capital can be conserved to support the economy.

- The Liquidity Coverage Ratio (ratio of highly liquid assets to total net cash flows) has been reduced for Scheduled Commercial Banks from 100% to 80% with immediate effect i.e. from 17 April 2020 with a view to improve liquidity. This will be gradually restored in two phases – 90% by 1 October 2020 and 100% by 1 April 2021.

- The RBI launched a second set of targeted long-term repo operation which will allow banks to avail funds aggregating to an initial amount of INR 500 billion (~ USD 7 billion) in order to facilitate the flow of funds to small and mid-sized corporates, including NBFCs and Microfinance institutions. These funds should be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50% going to small and mid-sized NBFCs. This has been done to facilitate funds flow to small and mid-size corporates.

- Special refinance facilities of INR 500 billion (~ USD 7 billion) will be provided to National Housing Bank, Small Industries Development Bank of India and National Bank for Agriculture and Rural Development to enable these institutions to meet sectoral credit needs and to overcome difficulties faced in raising funds from the market.

- The RBI announced an extension of 90 days in the procedures for resolution of stressed assets or those accounts which are likely to become Non-Performing Assets (‘NPAs’).

These are welcome measures intended to kick-start the Indian economy by providing liquidity in these uncertain and challenging times.

Watch this space for our next update on further announcements by the FM relating to the special economic package.

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