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ECONOMIC RELIEF PACKAGE AND CREDIT SUPPORT FOR BUSINESSES

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ECONOMIC RELIEF PACKAGE AND CREDIT SUPPORT FOR BUSINESSES

The Indian economy is currently reeling under a huge setback during the ongoing nationwide lockdown necessitated by the spread of COVID-19 pandemic. To uplift the economic gloom, the Government has laid out a road map towards building a self-reliant India (**Aatma Nirbhar Baharat Abhiyan**), with five key pillars identified as Economy, Infrastructure, System, Vibrant Demography and Demand. To stimulate the country towards self-reliance, the government has announced a special economic and comprehensive package of INR 20 Lakh Crores which is equivalent to 10% of Indian's GDP.

As part of the package, the Finance Minister of India unveiled the first tranche of the economic relief package on May 13, 2020 which focused on Micro, Small and Medium Enterprises ("**MSME**"), Non-Banking Financial Companies ("**NBFC**"), Housing Finance Companies ("**HFC**") and Micro Finance Institutions ("**MFI'**), DISCOM's and Real Estate (collectively referred to as "**Key Sectors**").

We discuss herein below some of the economic relief and credit support measures announced for the Key Sectors.

I. Relief measures for MSMEs

a) Amendment to MSME definition:

To provide benefit to large number of MSMEs, definition of MSME has been amended. The investment limit which defined the MSME has been revised upwards to INR 1 crore from INR 25 lakhs earlier for the micro

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manufacturing enterprises. Similarly, the investment limit has been revised to INR 10 crores and INR 20 crores, as opposed to earlier investment limit of INR 5 crores and INR 10 crores for small and medium manufacturing enterprises, respectively.

The revised investment limits are applicable for both manufacturing and service enterprises. The definitions have also been revised to prescribe additional criteria which is based on turnover, i.e., INR 5 crore for the micro level enterprises, INR 50 crore for the small level enterprises and INR 100 crore for the medium level enterprises.

b) <u>Collateral free MSME loans</u>:

In order to ease financial difficulty and restart operations, MSMEs would be entitled to avail collateral free automatic loans worth INR 3 lakh crore from banks and NBFCs upto 20% of entire outstanding credits on February 29, 2020 for a tenure of 4 (four) years with a moratorium period of 12 (twelve) months on the principal amount. This benefit can be availed till October 31, 2020.

This loan would be available to units with upto INR 25 crore outstanding and turnover of upto INR 100 crore whose accounts are standard. The MSME units will not have to provide any guarantee fee or fresh collateral. The Central Government will provide 100% credit guarantee to banks and NBFCs on principal and interest amount.

c) <u>Provision for NPAs or stressed MSMEs</u>:

The provision has also been made by the government for the MSMEs which are Non-Performing Assets (NPAs) or are stressed by providing INR 20,000 crore subordinate debt for such MSMEs. The government will also provide INR 4,000 crore to Credit Guarantee Funds Trust for Micro and Small Enterprises (CGTMSE), which will act as a partial guarantee to banks who will then give benefit to stressed MSMEs. This measure is expected to provide support to approximately 2 lakh MSMEs.

d) <u>Creation of Fund of Funds</u>:

A Fund of Funds with a corpus of INR 10,000 crores is proposed to be set-up to help MSMEs through provision of equity funding for MSMEs with growth potential and viability. This move is aimed to provide a path for potential and viable growth and development of MSMEs and provide them an opportunity to expand their operations and get listed on stock exchange.

e) Disallowance of Global Tenders:

Global tenders in government procurement will be disallowed for upto INR 200 crore or less. This will help the MSMEs to grow, develop and a chance to participate in big projects.

f) Miscellaneous:

To assist MSMEs facing liquidity problems, all MSME receivables from government and central public sector enterprises are proposed to be released within 45 days. Also, fintech is proposed to be used to enhance transaction-based lending data generated by the e-marketplace.

II. Relief measures for NBFC, MFI and HFC

The government has proposed to launch INR 30,000 crore special liquidity scheme under which investment is proposed to be made in both primary and secondary market transactions in investment grade debt paper of NBFCs/MFIs/HFCs. This is aimed at providing liquidity support for NBFCs/MFIs/HFCs and mutual funds and create confidence in the market.

The government also intends to infuse INR 45,000 crore liquidity through partial credit guarantee scheme which would cover borrowings such as primary issuance of Bonds/CPs (liability side of balance sheets) of the entities. The government is also ready to bear first 20% loss if incurred as a guarantor to the public sector banks.

III. Liquidity Support for Business and Workers – Reduction in EPF contribution

In order to provide more in hand salary to employees and to give relief to their respective employers, the government has decreased the rate of payment of statutory provident fund from 12% to 10% for the next three months i.e. June, July & August 2020.

Furthermore, the validity of the Pradhan Mantri Garib Kalyan Package has also been extended for the months of June, July and August 2020. Under this package, for eligible establishments (i.e., establishments with upto 100 employees with at least 90% of the employees getting wages less than INR 15,000/- per month), payment of employer contribution and employee contribution into the provident fund accounts is made by the government.

IV. Relief measures for Contractors and Real Estate

All government agencies, such as railway, highway, central public works department, etc. have been directed to provide extension up to 6 months without any costs to contractors. This includes construction/works and goods and services contracts. Furthermore, government agencies have also been directed to partially release the bank guarantees, in proportion to the completion of contracts, to ease cash flows for the contractors.

The Ministry of Urban Development has been asked to advise states and union territories and their respective regulatory authorities to treat COVID-19 as a force majeure event under the Real Estate (Regulation and Development) Act, 2016 ("**RERA**"). The regulatory authorities will also be advised to suo-moto extend the registration and completion date by 6 months (with subsequent extension of another 3 months at the discretion of the regulatory authority), for all registered projects, the date for which were expiring on or after March 25, 2020.

V. TDS/TCS Deduction to Increase Liquidity

The Tax Deduction at Source rates for all non-salaried specified payment to residents, and Tax Collected at Source rates for specific receipts have been reduced by 25% (twenty-five percent) of the specified rates for the remaining period of financial year 2020-2021 (i.e., from May 14, 2020 till March 31, 2021). This move is targeted to bring in INR 50,000 crores liquidity. Central Board of Direct Taxes, Department of Revenue has subsequently issued a press release specifying the reduced TDS rates for specified payments and reduced TCS rates for specified receipts. The press release is available at https://pib.gov.in/PressReleseDetailm.aspx?PRID=1623745

VI. Direct Tax Measures

As part of reliefs, the due date for filing of income tax return for financial year 2019-2020 is proposed to be extended from July 31, 2020 and October 31, 2020 to November 30, 2020. Further, the date for tax audit is also proposed to be extended from September 30, 2020 to October 31, 2020.

Further, all pending refunds to charitable trusts and non-corporate business and professions including proprietorship, partnership, limited liability partnerships and co-operative houses are proposed to be issued immediately.

VII. **Liquidity Injection for DISCOMs**

Power Finance Corporation and Rural Electrification Corporation will infuse liquidity in the Power Distribution Companies ("**DISCOMS**") to the extent of INR 90,000 crores in two equal instalments. This amount will be used by DISCOMS to pay their dues to transmission and generation companies. The loans are proposed to be given against state guarantees for exclusive purposes of discharging liabilities of DISCOMS to 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.

Analysis:

While the above economic package is indented to bring liquidity for MSMEs and industry in general to kick start dormant operations, there is an absence of any immediate relief for migrant workers (who have become the unintended victims of the lockdown) in the above package. Further, there is an overall disappointment in the industry relating to non-provision of any assistance or support in payment of wages to employees, which is currently a major concern for commercial establishments. Further, the states who are hard hit due to lack of tax revenue and are fighting Covid 19 at district and sub-district levels, were expecting some direct transfer of funds by the Center. Disappointed by the package, many states have already raised claims for a direct outlay and economic package for the states from the Central Government.

For Covid 19 related legal updates, please refer to https://lexcounsel.in/newletters/newsletters-2020/ and Mondaq at https://resources.mondaq.com/mir/articles.aspx and for Covid 19 related articles, please refer to https://lexcounsel.in/articles-2020/.

Feedback