

ACUITY **LAW**

ATMANIRBHAR
Bharat Abhiyan
STIMULUS PACKAGE



Following the Prime Minister's announcement on 12 May 2020 of a comprehensive stimulus package, with a call for building a self-reliant India, the Finance Minister has responded with a series of measures *vide* press conferences held from 13 May to 17 May 2020. It was announced that the stimulus package is almost equal to 10% of India GDP i.e. approximately INR 20 trillion (USD 267 billion), including the previously announced measures by the Government post the COVID-19 pandemic.

In this article, we have summarized the key additional measures/ reforms announced, from a business and economy perspective, broadly focussing on liquidity infusion, tax reliefs, policy and corporate reforms.



I: LIQUIDITY INFUSION

Micro, Small and Medium Enterprises (MSMEs)



Banks and non-banking financial companies (NBFCs) will provide collateral-free automatic loans of INR 3 trillion to MSMEs whose turnover does not exceed INR 1 billion and who have an outstanding loan of up to INR 250 million. These MSMEs will be eligible for an emergency credit line of up to 20% of their entire total outstanding credit to banks and NBFCs as on 29 February 2020. This scheme is available up to 31 October 2020 and the loans will have a 4-year tenor with 12 months moratorium on principal repayment. Government will provide 100% credit guarantee for these loans to banks and NBFCs.

Expected beneficiaries – 4.5 million units.

Subordinate debt (through banks) of INR 200 billion to promoters of MSMEs that are NPA or financially stressed. Promoters would infuse such debt as equity in MSMEs. Government will also contribute INR 40 billion to Credit Guarantee Trust Fund for MSMEs (**CGTMSE**) which will provide partial credit guarantee to banks extending loans to such MSMEs.

Expected beneficiaries – 0.2 million MSMEs.

A Fund-of-Funds (**FoF**) with corpus of INR 100 billion will be set up to provide 'equity funding' up to INR 500 billion to MSMEs with growth potential. Will help MSMEs expand in size and encourage them to get listed on stock exchanges.

The stimulus should allow MSMSs resume operations through availability of credits, liquidation of receivables and possibilities of participating in Government procurement tenders. However, the sector has expressed concern on the pace/ willingness of banks/ NBFCs to extend the loans.

Employees' Provident Fund (EPF)



EPF contribution by Government was announced for businesses up to 100 employees and 90% or more of such employees' earning salary less than INR 15,000 per month. This support will be extended for another 3 months i.e. for June, July and August 2020. This additional contribution is to the tune of INR 25 billion. Expected beneficiaries – 367,000 establishments and 7.2 million employees.

EPF contributions for other establishments (except public sector companies) has been reduced to 10% from the existing 12%, to provide additional liquidity (of approximately INR 67.5 billion) for both employers and employees. The reduced rate of 10% is optional and establishments can continue to contribute at the higher rates (as decided by the Union Cabinet on June 1, 2020).

Expected beneficiaries – 650,000 establishments and 43 million employees

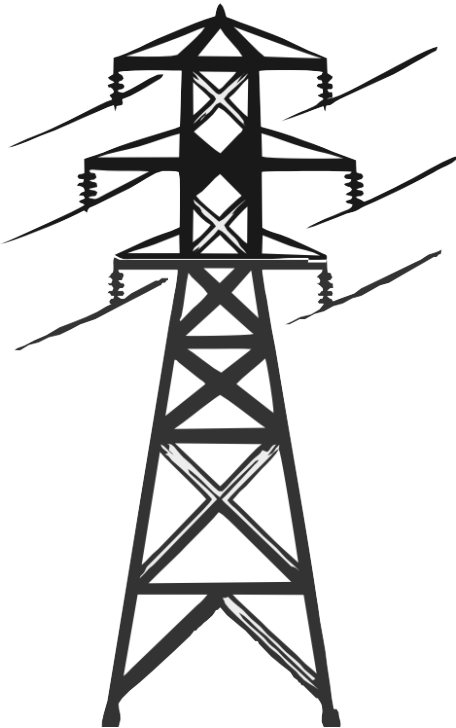
The cut in EPF contribution rate is expected to generate a demand pull through higher liquidity. However, this measure may also result in higher tax outgo (if not planned appropriately) and also slow down accumulations in the retirement corpus.

I: LIQUIDITY INFUSION**NBFCs, Housing Finance Companies (HFCS) & Microfinance Institutions (MFIS)**

A 'Special Liquidity Scheme' will be launched through which banks will be allowed to invest in both primary and secondary market transactions, in investment-grade debt papers issued by NBFCs, HFCs and MFIs. These investments to the extent of INR 300 billion will be 100% guaranteed by the Government.

The existing 'Partial Credit Guarantee Scheme' will be reworked to allow public sector banks to purchase cover papers with ratings of AA and below, including unrated papers from those NBFCs, HFCs and MFIs which have low credit rating. The Government will provide sovereign guarantee (for the first 20% loss). This will result in a total liquidity infusion of INR 450 billion.

These schemes will allow liquidity support to establishments with low credit rating, which in turn will boost lending to MSMEs for liquidity infusion.

Power Distribution Companies (DISCOMs)

Revenues of DISCOMs have tumbled and they are facing severe liquidity crisis with increasing payables to their creditors (power generation companies) and very staggered recovery of receivables from customers.

To address this, INR 900 billion will be infused by Power Finance Corporation and Rural Electrification Corporation as loans to DISCOMs to clear dues to power generation companies (**GENCOS**). These loans will be backed by State Government guarantees and are against receivables in the books of DISCOMs.



II: TAX RELIEFS

TDS/ TCS rates

Tax deduction at source (**TDS**) rates for non-salaried payments to residents and tax collection at source (**TCS**) rates for specified payments have been reduced by 25% with effect from 14 May 2020 until 31 March 2021. This is expected to improve liquidity by INR 500 billion.

Pending Income Tax Refunds

Pending income tax refunds of charitable trusts, non-corporate businesses and professions will be issued immediately.

Corporate Tax Related

- Due date of all income tax returns for FY 2019-20 will be extended to 30 November 2020 and that for tax audit to 31 October 2020
- Due dates for assessments getting barred on 30 September 2020 and 31 March 2021 will be extended to 31 December 2020 and 30 September 2021, respectively.
- 'Vivad se Vishwaas' scheme has been extended until 31 December 2020, without depositing any additional amounts.



III: POLICY AND 'ENCOURAGING SELF-RELIANCE' REFORMS**MSMEs**

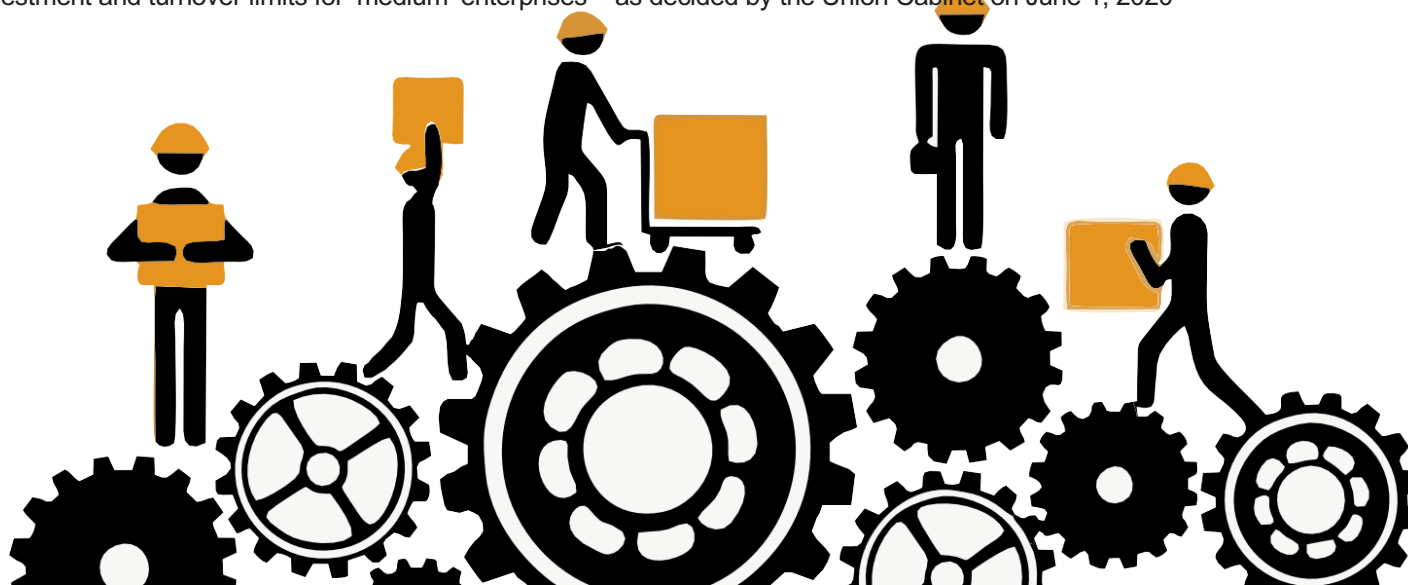
Definition of MSMEs relaxed, by increasing the investment limit to INR 10 million, INR 100 million and INR 500* million for micro, small and medium enterprises, respectively. An additional criterion of turnover has also been introduced (for all entities whether manufacturing or otherwise) to qualify as MSME - INR 50 million, INR 500 million and INR 2.5 billion* for micro, small and medium enterprises, respectively. The distinction between manufacturing and services sector has been removed and the revised investment limits will apply to all entities (manufacturing or otherwise). Thus, more establishments will qualify as MSMEs and will be entitled to participate in this stimulus package. Also, change in the qualifying criteria was a long pending demand, which will allow existing MSMEs to expand/ grow and continue to avail the benefits.

Global tenders will be disallowed in government procurement tenders up to INR 2 billion, to allow Indian MSMEs participate and not face undue competition from global companies. This is considered an important step towards 'Made in India' and 'Self-reliant India'.

Fintech and e-market linkage of MSMEs will be promoted as replacement to trade fairs and exhibitions and all MSME receivables from Government and Central Public Sector enterprises will be released in 45 days. Objective is to assist MSMEs in marketing despite the lockdown and ensure liquidity for continuing operations.

- ***Increase in the number of MSMEs will lead to better competition which is beneficial for a consumer-oriented market.***
- ***Exclusion of global tenders will boost technology growth in India as typically tech-based equipment is not manufactured in India. Expected to rekindle the 'Make in India' initiative that has not taken off as expected.***
- ***Reforms expected to address marketing and liquidity issues of MSMEs.***

•* These are the revised investment and turnover limits for 'medium' enterprises – as decided by the Union Cabinet on June 1, 2020



III: POLICY AND 'ENCOURAGING SELF-RELIANCE' REFORMS**Coal and mining**

Government will allow private sector participation in the coal sector through revenue sharing mechanism and liberalisation of entry norms

There will be immediate bidding of 50 coal blocks with no eligibility condition. This will allow any party to bid for the coal block and sell in the open market as the only condition is making a capped upfront payment of the bid amount.

Partially explored blocks can also be auctioned and production earlier than scheduled will be incentivised.

Coal gasification and liquefaction will be incentivised through rebate in revenue share; liberalisation of the sector by auctioning coal bed methane extraction rights.

Investment of INR 500 billion on infrastructure development.

Concession worth INR 50 billion to non-power consumers by easing credit terms, reduced reserve price and others.

Measures including simplification of mining plan, online loading of the plan amongst others will be adopted to improve ease of doing business in the sector.

Minerals

Government will auction 500 blocks in a composite exploration and mining production regime; Joint auction of bauxite and coal mineral blocks will be allowed.

Stamp duty payable at time of award of mining lease will be rationalised to enhance private investment.

Distinction will be removed between captive and non-captive mines to allow transfer of mining leases. This will provide a level playing field by removing inherent advantages of metal producers who had in-house captive mines. This will also boost downstream value addition in metals.

III: POLICY AND 'ENCOURAGING SELF-RELIANCE' REFORMS

Defence



FDI limit in defence manufacturing under the automatic route will be raised to 74%.

List of defence equipments will be notified for import ban, with year wise timelines; measures will be implemented for time-bound defence procurement process.

Ordinance factory board, which operates ammunition production factories across India, will be corporatized to enhance its operational efficiency; 'corporatized' is not synonym to 'privatized'.

Civil Aviation

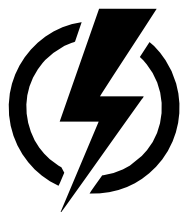


Restriction on utilization of Indian airspace will be eased to allow use of currently restricted airspace by airlines. Availability of additional airspace is projected to result in benefits of INR 10 billion per year through reduction in fuel usage, time and its positive impact on environment.

Public-Private partnership is proposed for additional 12 airports. Also, necessary reforms will be introduced to make India a global hub for MRO services.

The Indian civil aviation sector needs immediate and direct cash infusion to stay afloat and make payment of wages in the short run. Government-backed credit lines or loans, similar to those extended to MSMEs, along with tax reliefs would have helped airlines get back on their feet and endure losses as lockdown is lifted and domestic and international demand recovers. The measures proposed will lead to job creation and better infrastructure, having a positive effect but in the long run.

Power



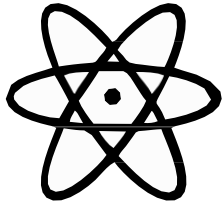
Privatisation of DISCOMs in Union Territories to bring efficiency in the sector. Also, penalizing DISCOMs for load-shedding should ensure certainty of power supply.

Smart prepaid meters to be introduced to improve working capital position of DISCOMs and thereby ensure timely payment to GENCOS.

Cross-subsidies between industrial and consumer tariffs will be progressively reduced. Subsidy, if any, will be paid through direct benefit.

Space

Government is promoting private participation in the sector. Private players will be allowed to use ISRO facilities and other relevant assets to improve their capabilities.

III: POLICY AND 'ENCOURAGING SELF-RELIANCE' REFORMS**Atomic and Nuclear Energy**

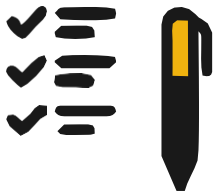
The Government will allow establishment of research reactors for production of medical isotopes, to provide affordable treatment for various diseases.

Public-Private participation for facilities to use technologies for food preservation.

Technology Development cum Incubation Centres will be set up *to foster synergies* in the nuclear sector, between existing research facilities and the start-up ecosystem.

All Public Sector Enterprises

A Public Sector Enterprise (**PSE**) policy is proposed, under which there will be at least one PSE in each strategic sector. All PSEs in non-strategic sectors will be privatised or merged under holding companies.

General – Fast Track Investment Policy

Fast Track Investment Clearance would be facilitated through an empowered group of secretaries. Project Development Cell in each ministry to prepare investible projects and then coordinate with investors and Government. Ranking of different states would be done based on 'investment attractiveness' for fresh investments. Promotion of new champion sectors such as solar photo-voltaic cells, advanced cell battery storage, etc. through incentive schemes.

This initiative is likely to open up new areas for private investment, especially FDI. State-specific (effective) contribution to the overall value chain will foster competitiveness to attract investments which would render more business-friendly regime in respective states, pushing overall national ranking in 'ease of doing' business.

V. OTHER RELIEFS AND EXTENSIONS

Real Estate

State governments can invoke the 'force majeure' clause under Real Estate (Regulation and Development) Act and a maximum 9 months extension will be given to all registered projects.

Relaxation of project deadlines will provide relief to developers while also safeguarding home buyers interest.

Contractors

All central agencies will provide 6 months extensions to their contractors, without an additional cost. Government will release the bank guarantees submitted by contractors, to the extent the contract is completed.

Measure will allow contractors discharge their contractual obligations and additionally provide them with much needed liquidity.



Our HQ co-ordinates:

506, Marathon Icon,
Off Ganpatrao Kadam Marg, Lower Parel (W),
Mumbai – 400 013

 www.acuitylaw.co.in

The information contained in this document is not legal advice or legal opinion. The contents recorded in the said document are for informational purposes only and should not be used for commercial purposes.

Acuity Law disclaims all liability to any person for any loss or damage caused by errors or omissions, whether arising from negligence, accident or any other cause. 2020 Acuity Law. All rights reserved.

