

INTERIM KNOWLEDGE UPDATE

An In Depth Analysis of The Fiscal Stimulus

13/05/20

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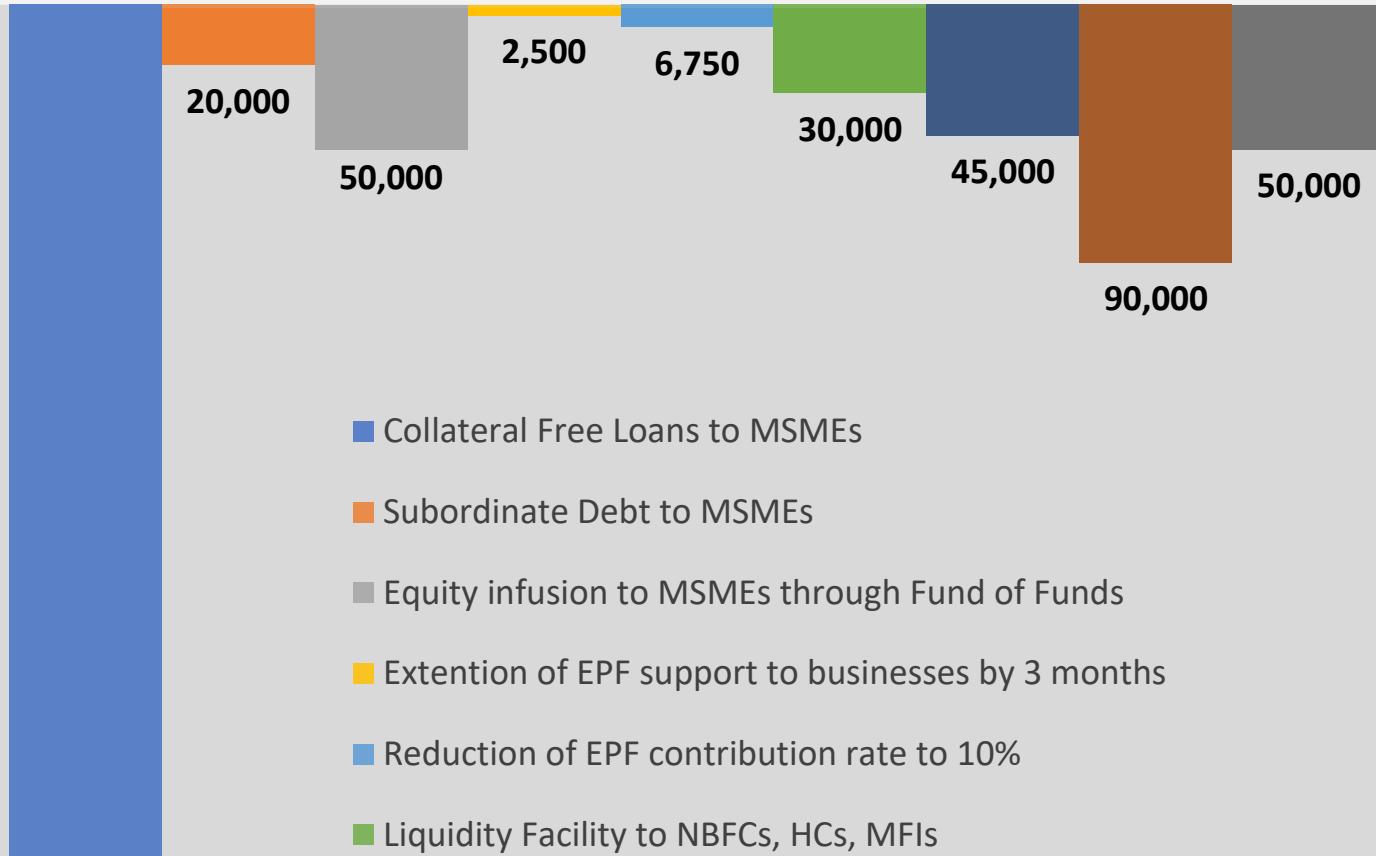
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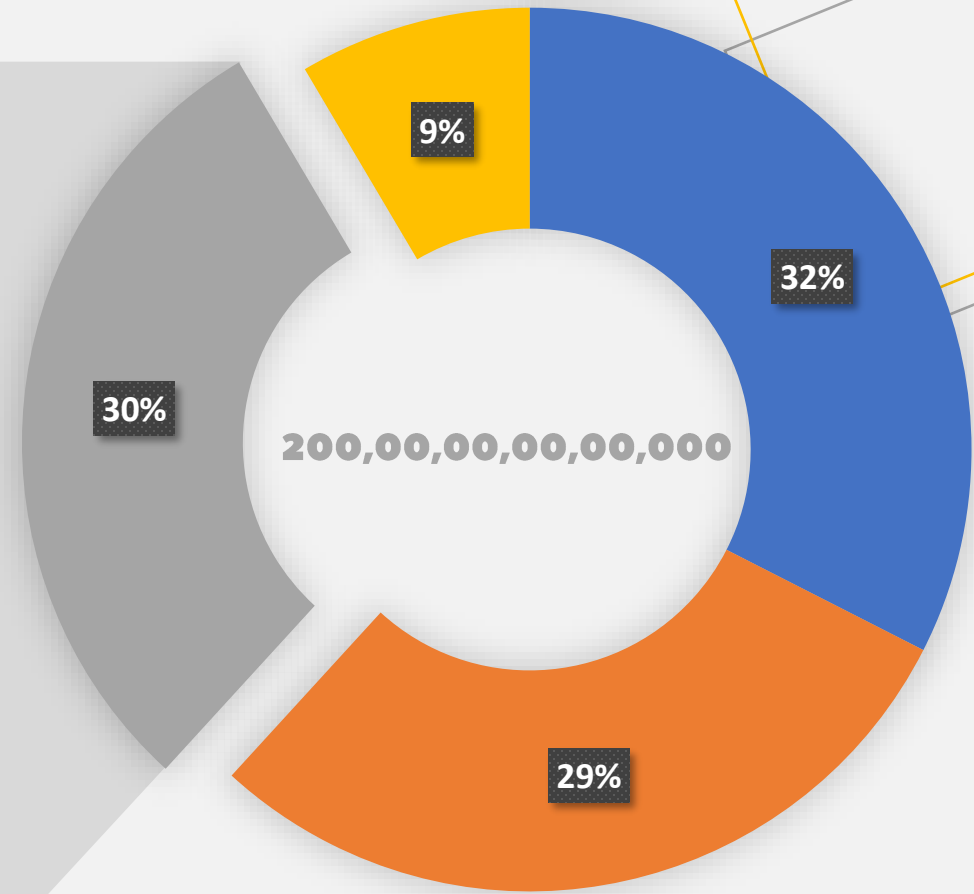
INDIA'S FISCAL STIMULUS 2.0 – 1st Instalment

13/05/20

Figures in ₹ Crores



- Collateral Free Loans to MSMEs
- Subordinate Debt to MSMEs
- Equity infusion to MSMEs through Fund of Funds
- Extension of EPF support to businesses by 3 months
- Reduction of EPF contribution rate to 10%
- Liquidity Facility to NBFCs, HCs, MFIs
- Partial Credit Guarantee Scheme 2.0 to NBFC
- Liquidity Injection for DISCOMS
- Reduction in TDS and TCS rates by 25%



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MSME

- Collateral Free Loans (₹ 3 Lakh Cr.)
 - 4 year tenure;
 - Moratorium of 12 months;
 - 100% credit guarantee;
 - Can be availed by 31st Oct'20.
- Provision of Subordinate Debt (₹ 0.2 Lakh Cr.)
- New definition of MSME:

Category	Investment	Revenue
Micro	<₹1 Cr.	<₹5 Cr.
Small	<₹10 Cr.	<₹50 Cr.
Medium	<₹20 Cr.	<₹100 Cr.

- Fund of funds to facilitate equity infusion in potential MSMEs (₹ 0.5 Lakh Cr.)
- Government will not issue global tenders for procurement of up to ₹ 200 Cr.
- Promotion of E-market linkages (ecommerce platform) to replace trade fairs and exhibitions during Covid-19 and beyond.
- Fintech to facilitate transaction based lending.

Provident Fund

- PF relief provided under the first fiscal stimulus, now extended by another 3 months (upto Aug'20)
 - Government will contribute entire PF contribution of Employer and Employee from Mar'20 to Aug'20;
 - Total number of workers in organisation should be < 100;
 - 90% of workers should have salary < ₹15,000 per month.
- For other companies (other than government companies) – rates of contribution of employer and employee reduced to 10% from 12% resulting in higher take home.

Power Distribution Companies (DISCOMs)

- PFC/REC to infuse ₹90,000 Cr. against receivables;
- Loans to be given against State guarantees for exclusive purpose of discharging liabilities of Discoms to Gencos;
- Central Public Sector Generation Companies shall give rebate to Discoms which shall be passed on to the final consumers;

Cost to Govt.: ₹2,500 Cr. (towards PF contribution). Rest all measures are in the form of liquidity infusion. Through the various guarantee schemes, the govt. has delayed its burden.

INCOME TAX

- TDS & TCS rates reduced by 25% from 14th May'20 up to 31st Mar'20;
- Pending refunds to Charitable Trusts, Proprietorship & Partnership Firms, Cooperative Societies & LLP to be released immediately;
- Due dates of ITR & Tax Audit extended:

Category	Old	New
Individual/Business not required to be audited (ITR)	31 st July'20	31 st Oct'20
Companies & Businesses subject to Audit (ITR)	31 st Oct'20	30 th Nov'20
Tax Audit	30 th Sep'20	31 st Oct'20

- Vivad Se Vishwas Scheme (for settlement of pending disputes) validity extended further to 31st Dec'20.
- Assessment dates extended.

Government Contractors

- Extension of up to **6 months** to be provided by **all** central agencies to all contractors;
- Includes Railways, Ministry of Road Transport & Highways, Central Public Works Dept., etc.
- Covers construction contracts, works contracts and supply of goods & services;
- Also covers extension of concession period in PPP contracts;
- In case of partially completed projects – government will partially release bank guarantee.

Real Estate

- Treat Covid-19 as an 'act of God'. Accordingly, **Force Majeure** clause under contracts can be enforced;
- Suo-moto extension of registration and completion dates by 6 months, without individual applications;
- Timelines for various statutory compliances under RERA extended.

Cost to Govt.: Nil. All measures are in the form of liquidity infusion which prima facie does not entail any additional cost to the govt., other than the time value of money.

30,000 Cr Special Liquidity Scheme

- Primary & secondary market transactions
- Investment grade debt papers
- Fully guaranteed by the GOI

45,000 Cr Partial Credit Guarantee Scheme

- Under this scheme, public sector banks purchase pooled assets from NBFC/MFI/HFC;
- Assets with rating less than AA or which are even unrated can be monetized;
- First 20% of the loss will be borne by the GOI.

MFI
NBFC
HFC

- Rural Women Groups
- Rural Households
- Farmers
- Agricultural Undertakings
- Self Help Groups (SHG)
- NGOs
- Non-Profit Organisations
- Cooperative Societies
- MSMEs
- Home Buyers

Cost to Govt.: Nil.

Our Take: Liquidity scheme for NBFC/MFI/HFC can stir a wave of credit disbursement to shadowed sectors. To spell out the right intention of the policies here, the government wants people and institutions to invest in risky debt instruments, MERELY COVERED BY THE GOVT. So let's not mistake it for the govt subscribing to these papers themselves.

MFI: Micro Finance Institution

NBFC: Non-Banking Financial Company

HFC: Housing Finance Company

ARE THESE MEASURES GOOD ENOUGH?

India	Other Countries
<p>Small Businesses:</p> <ul style="list-style-type: none">• Mere Guarantee of loans doled out by banks & financial institutions.• To help employees, some relief given only relating to PF contributions.• No direct grants;• No retainership incentives provided to deal with rising unemployment rate.	<p>USA: \$669 Billion in forgivable Small Business Administration loans and guarantees to help small businesses. Emphasis laid on retaining employees:</p> <ul style="list-style-type: none">• Loans will be fully forgiven if at least 75% is used for payroll and rest is used for meeting mortgage interest, rent and utilities expenses; <p>UK: £27 billion set aside to support businesses. Direct benefits given to businesses:</p> <ul style="list-style-type: none">• Property Tax Holiday;• Direct grants for small firms and firms in most affected sectors;• 80% of the earnings of self-employed workers and furloughed employees (to a maximum of £2,500 per employee per month) for 3 months will be met by the govt. <p>France:</p> <ul style="list-style-type: none">• Direct financial support for affected microenterprises, liberal professions, and independent workers;• Postponement of rent and utility payments for affected microenterprises and SMEs. <p>China:</p> <ul style="list-style-type: none">• Reduction in rent, waiving of administrative fees, subsidizing R&D costs for SMEs;• Social insurance subsidies, subsidies for training and purchasing teleworking services;• Lowering lending rates. Furthermore, banks are being granted extra funding to spur SME loans.

ARE THESE MEASURES GOOD ENOUGH? (Cont.)

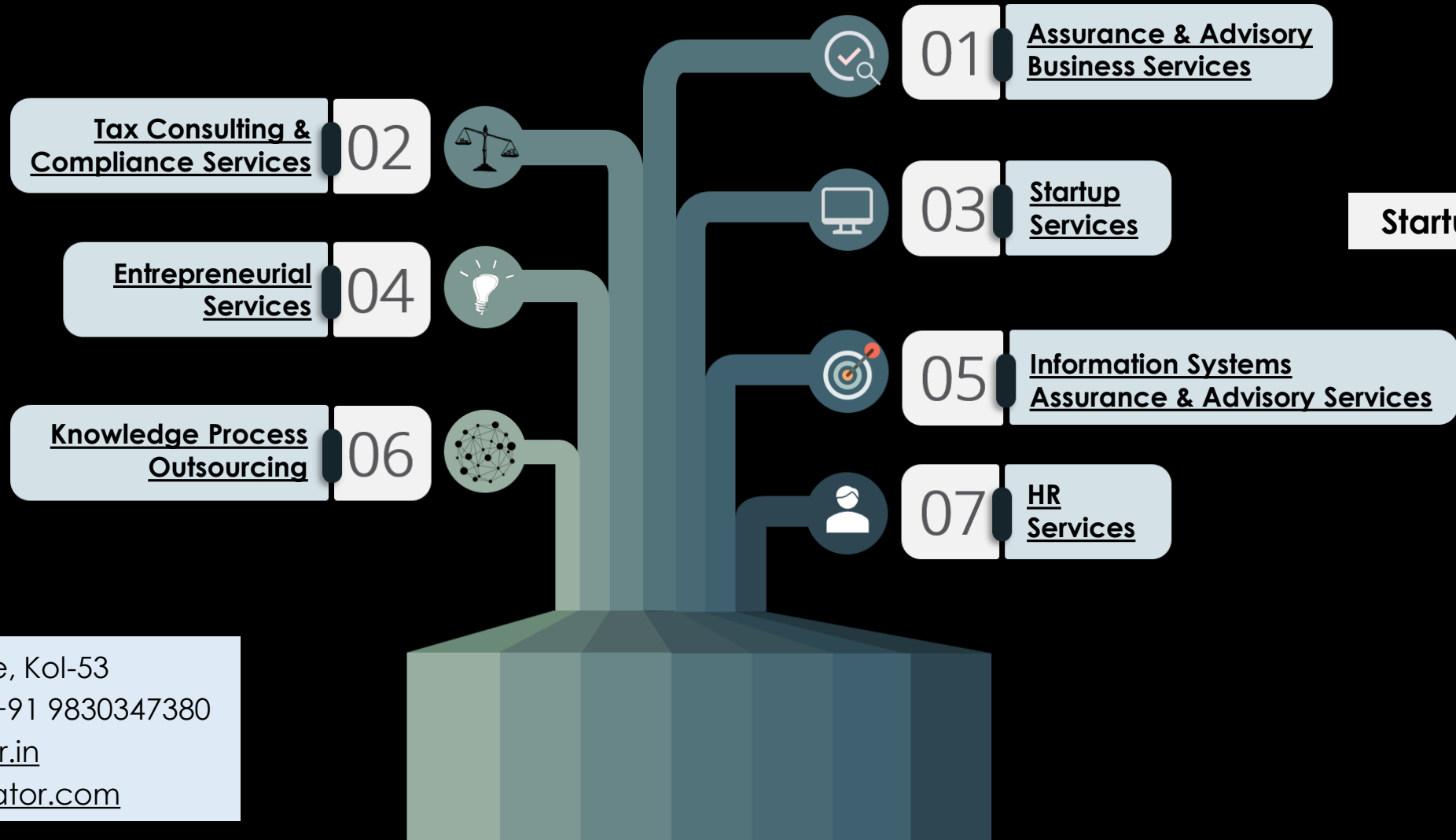
India	Other Countries
<p>Income & Property Tax:</p> <ul style="list-style-type: none"> Reduction in TDS rates; Delay in Tax filing dates; Faster income tax refunds; Deferral of Property Tax; No delay in advance tax payments; No tax rebates provided. 	<p>USA: \$250 billion set aside to provide one-time tax rebates to individuals;</p> <p>UK: Business property taxes for retail, leisure, and tourism sectors waived by 12 months;</p> <p>China: Longer tax loss carry-forward period (from 5 to 8 years) for severely affected companies;</p> <p>France: Direct tax payments delayed for 3 months;</p> <p>Germany: Case-by-case deferral options for businesses that apply by the end of 2020; Advance payments delayed;</p> <p>Iran: 3 month deferral for employee tax payments;</p>
<p>Migrant Workers:</p> <ul style="list-style-type: none"> Highly mismanaged; Issue not addressed yet; No unemployment benefits. 	<p>China: The authorities recognize the difficulties faced by its vast population of migrant workers as unemployment rises. Various measures taken:</p> <ul style="list-style-type: none"> Unemployment benefits and other forms of emergency aid; New package of welfare support.
<p>Unemployment:</p> <ul style="list-style-type: none"> India's unemployment rate rises to 27%; No specific measure taken by the government to incentivize businesses to retain employees; Issue not addressed yet. 	<p>Belgium: Increasing support for those in temporary unemployment and self-employed;</p> <p>China: Accelerated disbursement of unemployment insurance;</p> <p>France: Extension of expiring unemployment benefits until the end of the lockdown;</p> <p>Netherlands: Unemployment benefit compensation available to companies needing to reduce their staff by at least 20%;</p> <p>Spain: Entitlement of unemployment benefit for workers temporarily laid off.</p>

On 12th May, the PM addressed the nation with specific emphasis on the ₹20 Lakh Crore stimulus offered by the Government. Excited as we were, at 4PM, 13th May, almost the entire nation was glued to the television, looking forward to the tons of benefits the government has in store for the poor and the troubled. However, the new stimulus was not able to satisfy the demands of the masses. The disappointment is evident from commentaries of State officials, entrepreneurs, salaried individuals and the poor. In this backdrop, we ask:

- Is it enough to give guarantee on loans when businesses are looking for immediate cash grants? While the entire country is facing its 4th extended lockdown, millions of MSMEs, running on thin margins, are barely able to survive. And if the lauded Make in India program of the government was up to real good, are these measures sufficient to ensure **survival of Indian MSMEs**?
- The CMIE reported a heightened unemployment rate of over 27% amid the Covid-19 crisis. Businesses have little incentive to retain employees as the government has barely extended a hand to meet employee costs. Why can't the government extend the PF contribution benefit to all the employees with earnings up to ₹15,000, without conditions? Why can't the Government roll out **direct unemployment benefits** to the migrant workers?
- Countries across the world have recognized that **tourism, transportation and other related sectors** are the worst hit by the ensuing pandemic. Various relief measures ranging from waiver of taxes, utility bills etc. have come as some relief to the struggling businesses. Will these be looked after in the upcoming instalments of the new stimulus?
- Businesses and individuals alike have vented out their disappointment with the lack of relief offered by the new fiscal stimulus. The government has tried its level best by doling out a range of liquidity measures. But, amidst rising fiscal spending, **the big question** is – will the government treasury be able to sustain if all demands are met?

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