

India unleashes a gigantic economic stimulus of 10% of India's GDP aggregating to Rs. 20 Trillion (about 250 Billion €) and announces many reforms and policy changes

The Prime Minister's announcement

On 12th May 2020, the Honourable Prime Minister of India Mr. Modi, in a nationwide telecast, announced an economic stimulus of 10% of India's GDP aggregating to Rs. 20 Trillion (about 250 Billion €). The Prime Minister stated that thrust of India will be to emerge self-dependent and be the centrepiece in global supply chain.

The Prime Minister announced a movement for Self-Reliant India (“*Atma Nirbhar Bharat*”) on the 5 pillars of: Economy, Infrastructure, Systems, Vibrant Demography and Demand

Following the Prime Minister's address, the Finance Minister announced a series of reforms and policy changes announced, spread across 4 days.

This note is aimed to apprise the international businesses of the key policy changes, announced by the Government of India.

Overview

The measures announced by the Finance Minister were a combination of:

- Direct cash payment to the poor;
- Measures to support the SMEs, with non-collateralised loans and easy repayment;
- Several measures to improve liquidity in the market, for businesses and individuals;
- Policy changes in Agriculture sector;
- Widespread industrial reforms across various sectors, including Mining (Coal and Bauxite), Defence, Space, Aviation, Airports, Energy distribution, etc.;
- Changes in Bankruptcy laws making it more friendly for the affected businesses;
- Monetary policy measures to inject liquidity in the financial sector;
- Rationalisation of Labour Laws, and
- Allocation of massive industrial land for industrial and agriculture infrastructure

It was a tight rope for the Government. Excessive direct public spending could breach the prudence in fiscal controls. So, the Government rightly opted for combined measures of direct spending, injection of liquidity, measures of deferred contingent liability, increasing public investment, privatisation of natural resources and public-private participation (PPP) in infrastructure projects.

Thus, with these stimuli, the government has allowed itself to manoeuvre its fiscal situation within manageable levels, and yet put the economy on a trajectory of sustainable growth. Indeed, the positive impact on economy will not be immediate. In the near term there will be challenges of demand contraction, availability of labour, availability of credit, etc.

We now take a look at the key policy measures announced

SMEs¹

1. Emergency Credit Facility:

- Allocation of Rs. 3 Trillion (37,5 Billion €), of stimuli for SMEs;
- Emergency Credit Line from Banks / Non-Banking Financial Companies (NBFCs) up to 20% of the entire credit line as of 29th Feb 2020;
- Eligible borrowers will be those with:
 - Loans outstanding of up to Rs. 250 Million (about 3,1 Million €); and
 - Turnover of up to Rs.1 Billion (12,5 Million €)
- Emergency Credit Loans will have a 4 year tenor with a moratorium of 1 year for principal repayment;
- Interest to be capped;
- Loan will be without any fresh Guarantee or Collateral;
- **Scheme valid till 31st October 2020**
- The Government of India, will cover the Banks and NBFCs for 100% cover (on repayment of principal and interest)
- The stimuli will cover over 4,5 Million SMEs, **including Indian subsidiaries of foreign Companies that meet the criterion.**

2. Subordinated Debt for Stressed SME

- Rs. 200 Billion (about 2,5 Billion €) to be provided as subordinated Debt to SMEs which are Stressed or Non-Performing Assets (NPAs);
- Promoters of SMEs will be given subordinated Debt by Banks, which they will infuse as Equity in the business units.

3. Equity infusion to SMEs

- Equity infusion of Rs. 500 Billion (6,25 Billion €) on SMEs through a sovereign Fund of Fund structure;

¹ In India SMEs are defined as MSMEs (Micro, Small and Medium Enterprises)

- The Fund of Fund structure will be set up with a corpus of Rs 100 Billion (1,25 Billion €), which will be leveraged to create sub-fund structures so that aggregate pool of capital available is Rs. 500 Billion (6,25 Billion €);
- Operational mechanics of this scheme are yet to be notified.

4. SMEs Redefined

- The SMEs classification has been broadened, in terms of (i) Investment in Plant Machinery, (ii) Annual Turnover, and (iii) Total Investment;
- The revised norms notified are as under:

Existing MSME² Classification			
Criteria: Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment < Rs. 2,5 Million	Investment < Rs. 50 Million	Investment < Rs. 100 Million
Service Enterprises	Investment < Rs. 1 Million	Investment < Rs. 20 Million	Investment < Rs. 50 Million
Revised MSME Classification			
Revised Criteria: Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Service Enterprises	Investment < Rs. 10 Million and Turnover < Rs. 50 Million	Investment < Rs. 100 Million and Turnover < Rs. 500 Million	Investment < Rs. 200 Million and Turnover < Rs. 1000 Million

5. International Listing of SMEs and Start-up

- In the last annual budget the Government had announced that SMEs and Start-ups could be listed in international stock exchanges, without prior listing in India;
- This policy change has now been notified i.e. is operational.

6. Bankruptcy Proceedings

- Bankruptcy proceedings cannot be initiated against an SME for a period of 1 year;

² Indian nomenclature for SMEs

- A default of Rs. 10 Million (0,125 Million €) will be the base level for filing bankruptcy proceedings, versus Rs1 00.000 earlier.

7. Global Tenders

- Tenders of Government and its bodies, up to the value of Rs. 2.000 Million (25 Million €) will be reserved for local companies.

Agricultural Reforms

- Rs 1 Trillion (12,5 Billion €) to be allocated for agriculture sector and strengthening the farm gate infrastructure, such as cold chain, storage centres, yards, harvest facilities, etc;
- Focus on food processing (value addition), mechanisation of farming and cold chains;
- Rs 400 Billion (5 Billion €) crore has been allocated for promotion of herbal cultivation across 800 hectares of land in the corridors of river Ganga for growing of herbal and medical plants
- Rs 150 Billion (1,9 Billion €) for dairy infrastructure;
- Fund of Rs 100 Billion (1,25 Billion €) has been allocated for micro food enterprises. This will benefit 200.000 micro food enterprises, for modernising, branding, etc.
- Direct cash payment to poor farmers; and
- Several other credit and liquidity enhancement policies announced for agri sector.

Reforms in Industrial Sectors

1. Defence

- Foreign ownership, on automatic approval basis under FDI rules, has been increased from 49% to 74%. This is expected to give a push to 'Make in India' program.

2. Mining

a. Coal Mining

- i. Commercial mining of coal by the private sector, ending government monopoly on the sector;
- ii. Revenue sharing mechanism instead of the regime of fixed rupee/tonne;
- iii. 50 blocks will be offered for bidding very soon;

- iv. Also Government will invest Rs 500 Billion (6,25 Billion €) for building evacuation infrastructure.
 - b. Mining of other Minerals
 - i. Mining of minerals through a seamless composite exploration-cum-production regime;
 - ii. 500 blocks of minerals will be auctioned in a composite exploration-cum-mining-cum-production regime;
 - c. Distinction between captive and non-captive mines will be removed
 - i. To allow the transfer of mining leases and sale of surplus unused minerals.
 - d. Impact
 - i. Import reductions;
 - ii. Will reduce energy costs and improve profitability for Steel, Power and Aluminium producing Companies.
3. Power Distribution Companies (Discoms)
- Government owned Power Finance Company and Rural Electrification Corporation (PFC-REC) to infuse one time relief of Rs 900 Billion (11,25 Billion €). Due to non-payments / delays by energy users, the Discoms are facing unprecedented cash flow problems and are unable to pay power generating companies;
 - This will benefit power generation companies and Discoms; and
 - Presently government owned Discoms that supply energy in Union Territories to be privatised.

4. Infrastructure

a. Airports/ Aviation

- i. 6 more airports for auction under a PPP model;
- ii. India to become global hub for Maintenance, Repair and Overhaul (MRO) of aircraft; and
- iii. Rationalisation of air space will bring a benefit of Rs 100 Billion crore a year for the aviation companies.

b. Space

- i. Private sector to be given access to space sector;
- ii. Private sector can have their own satellites and launch space-based services; and
- iii. Private sector will be allowed to use ISRO facilities and other relevant assets of the government to improve their capabilities.

c. Industrial Infrastructure

- i. 3,376 industrial parts/estates/SEZs in 500.000 hectares have been mapped on Industrial Information System (IIS);
- ii. All industrial parks will be ranked in 2020-21;
- iii. **Ready to use industrial parks for companies wanting to relocate from China to India.**

Key Monetary measures

- Reduction of Cash Reserve Ratio (CRR) has resulted in liquidity enhancement of Rs. 1,37 Trillion (17,125 Billion €);
- Rs. 2,87 Trillion (35,9 Billion €) to provide liquidity to Financial Institutions and Mutual Funds by way of Targeted Long-Term Repo Operations (TLTRO);
- Rs. 1 Trillion (12,5 Billion €) for deployment in investment grade corporate bonds, commercial paper, and non-convertible debentures; and
- Moratorium of three months on payment of instalments and payment of Interest on Working Capital Facilities in respect of all Term Loans.

Key Liquidity enhancing measures

- Government and Central Public Sector Undertakings will clear dues to SMEs in 45 days;
- Tax Deduction at Source (TDS) reduced by 25% across for businesses and individuals;
- Government will make Contributions to Employee Provident Fund (EPF), which is 12% contribution by employer and 12% employee contributions for 6 months

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(from March 2020 to August 2020). This will be for companies having up to 100 employees, and for staff salary up to Rs.15,000 per month.

Other reliefs / Policy announcements

- Privatisation of non-strategic Public Sector Undertakings;
- Government to boost private sector investments in social-infrastructure projects;
- Several other reliefs / support announced for the poor:
 - Social housing rentals for migrant labourers;
 - Free food for the urban and rural poor;
 - Cash subsidy and microfinance loans to street vendors;
 - Housing loan interest subsidy

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