

The Rs20trn Economic Package: Tranche 1 on MSMEs/DISCOMs/EPF

Following up from Prime Minister Modi's announcement of an economic package totalling Rs20trn (~10% of GDP) on May 12th, Finance Minister Sitharaman earlier today outlined the efforts made thus far by the Government and the RBI in getting the economy back on rails, and then provided details on the first tranche. The sectors/topics of focus were MSMEs, EPF contribution by employees, and DISCOMs, among others. Overall support to the economy add up to Rs5.9trn, mainly in the form of guarantees, and the fiscal impact this year is expected to be Rs165bn.

Given tight fiscal conditions, much of the government's support has been through its credit line, in the form of guarantees. The lockdown has affected large parts of the economy, specifically the MSME space, which contributes nearly a third of the overall economic output, importantly to the Manufacturing and Services sectors and are important parts of supply chains. The stress these companies face is in meeting debt obligations, raising equity capital, and delay in receivables; all three have been addressed today, to some extent. The Government would fully guarantee new MSME loans of a tenor of four years with a 12-month moratorium to the tune of Rs3trn. For stressed MSMEs, there's a subordinated credit line of Rs200bn, with partial guarantee, and there are plans to set up a Fund-of-Funds (FoF) with an equity infusion of Rs100bn. Lastly, all MSME receivables from the Government and PSUs are to be released within 45 days. Significantly, the definition of MSMEs has been revised to allow future growth by adding business activity (Turnover) to Investment. Further, to protect MSMEs from unfair competition, global tenders for Government procurement would now be allowed above Rs2bn only.

Measures announced today, as detailed below, also followed PM Modi's call to self-reliance. A full picture of the extent of fiscal stimulus shall emerge after the briefings. With the 40-day lockdown extended to 54 days, and impending chances of Lockdown 4.0, albeit with significant relaxation, our base case FY21E growth estimate of 0.8% faces downside risk, with incremental evidence from March IIP and April Manufacturing and Services PMI figures. We continue to expect rates to be trimmed by 50-75bps this fiscal.

- **Liquidity support of Rs3.7trn for MSMEs:** To address funding requirements of MSMEs, the Government has announced a fully guaranteed emergency credit line worth Rs3trn from banks/NBFCs for standard borrowers having an outstanding credit of up to Rs250mn and turnover of up to Rs1bn. The loans would have a tenor of four years with a 12-month moratorium on principal repayment, cap on interest rates, and no requirement of any fresh collateral. The Scheme can be availed until October 31st, 2020 and would benefit nearly 4.5mn units.

For stressed MSMEs, the Government would facilitate provision of Rs200bn subordinate debt by providing partial credit guarantee support to banks through CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises), entailing a spend of Rs40bn for the Government. This would benefit nearly 0.2mn MSMEs. The Government has also announced setting up of a Fund-of-Funds with an initial equity infusion of Rs100bn, which would be leveraged to provide a total liquidity support of Rs500bn. This would not only help MSMEs expand their size and capacity but also encourage them to get listed on the stock exchange. Other measures announced for MSMEs include a) disallowing global tenders in Government procurement tenders up to Rs2bn, b) e-marketplace for MSMEs better marketing, and c) release of Government/CPSE dues to MSMEs within 45 days.

To widen the pool of MSMEs benefiting from these schemes, the Government has revised the MSME definition by raising the investment limit, introducing turnover criteria and doing away with the distinction between manufacturing and services.

- **Extended Provident Fund support of Rs92.5bn:** As part of the Pradhan Mantri Garib Kalyan Package (PMGKP) worth Rs1.7trn announced on March 26th, the Government had decided to bear the entire 24% provident fund contribution of

The Government has provided liquidity support worth Rs 3.7trn to MSMEs largely in the form of complete/partial guarantees on loans and equity infusion through Fund-of Funds.

both employer and employee for the months of March, April and May for people employed in businesses with an employee base of less than 100 and earning a monthly income of up to Rs15,000. This support has been extended by another three months, entailing a cost of Rs25bn for the Government. As an additional liquidity relief worth Rs67.5bn, the Government has also reduced the mandatory EPF contribution of both employer and employee for employees earning more than Rs15,000/month from 12% to 10% for all establishments covered by EPFO, except CPSEs/state PSUs, for the next three months.

- **Liquidity support of Rs750bn for NBFCs/HFCs/MFIs:** The Government has also announced a much-awaited liquidity support for the ailing non-banking sector, including non-banking financial companies (NBFCs), housing finance companies (HFCs) and micro finance institutions (MFIs). This includes a Special Liquidity Scheme worth Rs300bn, under which investment will be made in primary as well as secondary market transactions in investment grade papers of these companies which would be fully guaranteed by the Government.

For lower-rated companies (AA-rated and below including unrated paper), the existing Partial Credit Guarantee Scheme announced in the last Union Budget has been extended to cover primary issuances of bonds/commercial papers of such companies with an increase in the guarantee limit from 10% to 20% of the first loss. This would provide an additional liquidity support of Rs450bn to the NBFC sector.

- **Liquidity support of Rs900bn for DISCOMs:** To address the cash flow issues for power distribution companies (DISCOMs) arising out of a sharp slump in industrial demand that's worsened due to COVID-19-induced lockdown, the power financing companies viz. Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) would infuse liquidity worth Rs900bn into DISCOMs against receivables. Additionally, state governments would provide guarantees on DISCOM loans availed exclusively to pay dues to power generation companies.
- **Liquidity support of Rs500bn through TDS/TCS cut:** The rates of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) for payments pertaining to contract, professional fees, interest, rent, dividend, commission and brokerage has been reduced by 25% of the existing rate for the rest of FY21. This would provide liquidity support of Rs500bn to non-salaried tax-payers.
- **Relief to contractors/real estate developers:** As a significant relief to contractors, the Government has decided to provide an extension of up to six months on Central Government projects without any cost to the contractor and partially release bank guarantees in line with project completion. For real estate developers, RERA timelines on project completion and registration date have been extended by six months for all registered projects expiring on or after March 25th, 2020, with a clause of a further three-month extension at the regulatory authority's discretion.
- **Other direct tax measures:** Other measures on the tax front include a) immediate release of pending refunds to charitable trusts and non-corporate businesses and professions, b) extension of due dates of income-tax return filing for FY20 from July 31st, 2020 to November 30th, 2020 and tax audit from September 30th, 2020 to October 31st, 2020, c) extension of date of assessments getting barred on September 30th, 2020 and March 31st, 2021 by six months, and d) extension of the period of Vivad se Vishwas Scheme for payment without additional amount to December 31st, 2020.

Complete Government guarantee on investment grade papers issued by NBFCs/HFCs/MFIs would provide much-needed liquidity support to these entities and regain confidence in the market.

Liquidity infusion by PFC/REC to the tune of Rs 900bn into DISCOMs would help ease their cash flow problems.

TDS/TCS cut by 25% of the existing rate for the rest of FY21—to release liquidity worth Rs 500bn for non-salaried tax-payers.

Figure 1: Details of measures announced in the first tranche of the Rs20trn economic package

S. no.	Measures	Total stimulus (Rs bn)	Fiscal cost (Rs bn)
1	Emergency Credit Line to standard MSMEs	3,000.0	0.0
2	Subordinate debt for stressed MSMEs	200.0	40.0
3	Fund of Funds for equity infusion into MSMEs	500.0	100.0
4	Disallowing global tenders in Government procurement	2.0	0.0
5	Extended PF contribution	25.0	25.0
6	Reduction in statutory PF contribution	67.5	0.0
7	Special Liquidity Scheme for NBFCs/HFCs/MFIs	300.0	0.0
8	Partial Credit Guarantee Scheme 2.0 for NBFCs	450.0	0.0
9	Liquidity infusion by PFC/REC into DISCOMs	900.0	0.0
10	Relief to contractors	0.0	0.0
11	Extension of RERA timelines for real estate projects	0.0	0.0
12	TDS/TCS reduction	500.0	0.0
13	Immediate release of pending refunds to charitable trusts/non-corporate businesses & professions	0.0	0.0
14	Extension of due date of income-tax return and tax audit	0.0	0.0
15	Extension of date of assessments getting barred	0.0	0.0
16	Extension in payment date for Vivad se Vishwas Scheme	0.0	0.0
	Total	5,944.5	165.0
	% of GDP	3.0%	0.08%

Source: Government, NSE.

Figure 2: Details of earlier fiscal and monetary measures announced since February 2020

Measures	Announcement date	Amount (Rs trn)
Monetary measures		
Long-term repo operations (LTROs)	06-Feb-20	1.25
Targeted long-term repo operations (TLTROs)	27-Mar-20	1.00
100bps cut in Cash Reserve Ratio	27-Mar-20	1.37
Enhanced borrowing under Marginal Standing Facility (MSF)	27-Mar-20	1.37
Targeted long-term repo operations 2.0 (TLTRO 2.0)	17-Apr-20	0.50
Special Liquidity Facility for mutual funds (SLF-MF)	27-Apr-20	0.50
Total monetary measures		5.99
% of GDP		3.0%
Fiscal measures		
PM Kisan Yojana	26-Mar-20	0.16
PM Jan Dhan Yojana	26-Mar-20	0.31
Free gas cylinders	26-Mar-20	0.13
PF contribution	26-Mar-20	0.05
Cash transfers to other sections	26-Mar-20	0.03
MGNREGA wage hike	26-Mar-20	0.06
Food-grain distribution	26-Mar-20	0.40
Pulses distribution	26-Mar-20	0.05
District Mineral Fund	26-Mar-20	0.25
Construction Workers Fund	26-Mar-20	0.31
Total fiscal measures		1.75
% of GDP		0.9%
Total measures announced thus far		7.74
% of GDP		3.9%
Stimulus announced by the PM	12-May-20	20
% of GDP		10%
Balance stimulus		12.26
% of GDP		6.1%

Source: RBI, Government, Media, NSE.

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Purna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163

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