



Finance Minister announces Financial Stimulus Package

In view of the spread of the pandemic COVID-19, the Prime Minister announced a massive financial stimulus package of Rupees Twenty lakh crores to revive the Indian economy, which has severely been hit owing to the lockdown. In continuation of this, the Finance Minister made the first, of a series of announcements on 13th May, 2020.

We have set out below certain relieves provided in brief:

1. Micro, small and medium enterprises (“MSMEs”)

- Additional working capital finance of 20% of the outstanding credit as on 29th February 2020, in the form of a Term Loan at a concessional rate of interest will be made available to units with upto Rupees Twenty-Five Crore outstanding and turnover of upto Rupees One Hundred Crore. The amount will be 100% guaranteed by the Government of India providing a total liquidity of Rupees Three Lakh Crores to more than Forty-five lakh MSMEs.
- Rupees Twenty Thousand crore of subordinate debt is provided for stressed MSMEs which are Non-Performing Assets.
- A fund of funds with a corpus of Rupees Ten Thousand crore is being created to provide equity funding to MSMEs who have potential and who are viable. The Fund of Funds shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilise equity of about Rs. Fifty Thousand crores.
- The definition of MSMEs has been changed by revising the permitted investment limit upwards and an additional criteria based on turnover is being brought in. Also, the differentiation between manufacturing and service MSMEs has been removed. Below is the comparison of old and revised limit:

MSMEs applicability	Earlier Limit (Manufacturing)	Earlier Limit (Services)	Revised Limit (Both)	Turnover
Micro	Investment < Rs 25 lakh	Investment < 10 lakh	Investment < 1 crore	5 crore

Small	Investment < 5 crore	Investment < 2 crore	Investment < 10 crore	50 crore
Medium	Investment < 10 crore	Investment < 5 crore	Investment < 20 crore	100 crore

2. Non-Banking Finance Companies (“NBFCs”), Housing Finance Companies (“HFC”) and Micro Finance Institutions (“MFIs”)

- The Government of India (“GOI”) will launch a Crore special liquidity scheme of Rupees Thirty Thousand for investing in investment grade debt. Such investment will be fully guaranteed by the GOI.
- The existing partial credit guarantee scheme is being revamped to cover the borrowings of lower rated NBFCs, HFCs and MFIs. First 20% of loss will be borne by the GOI.

The Finance Ministry has also provided various reliefs to power sectors, contribution for Employees' Provident Fund which has been reduced for business and workers for another three months, also various changes in the direct tax regime to assist all sectors.

The Prime Minister of India has aimed for a self-reliant India and it would be interesting to see how the finance ministry covers all sections of the society, including the middle-class, labourers, farmers and the industry in the said economic package.

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