6 Packages Announced for MSMEs under Aatma Nirbhar Bharat

Prepared By

CA Abhay Ajmera
B.com, CA
Email: caabhayajmera@gmail.com

6 Packages Announced for MSMEs under Aatma Nirbhar Bharat

1. <u>Existing and New definition of MSMEs:-</u>

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	**Micro**	**Small**	**Medium**
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.
Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

<u>Micro units</u>
MSMEs will now be called Micro units if they have investments up to Rs 1 crore **and** turnover of less than Rs 5 crore. The definition earlier was on investment criteria of up to Rs 10 lakh for Service MSMEs earlier and Rs 25 lakh for manufacturing.

<u>Small units</u>
For an MSME to be defined as a Small unit if they have investments upto Rs 10 crore **and** turnover of less than Rs 50 crore. The definition earlier was on investment criteria of up to Rs 2 crore for Service MSMEs earlier and Rs 5 crore for manufacturing.

<u>Medium units</u>
Enterprises with investments up to Rs 20 crore with a turnover of less than Rs 100 crore will now be called Medium units. Earlier, the investment limit for Medium units was up to Rs 10 crore for manufacturing and Service enterprises up to Rs 5 crore.

2. <u>Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs :-</u>

Businesses/SMEs have been badly hit due to COVID 19 need additional funding to meet operational liabilities built up, buy raw material and restart business.

Decision:*Emergency Credit Line to Businesses/MSMEs from Banks and NBFCs up to 20% of entire outstanding credit as on 29.2.2020*

- Borrowers with up to Rs. 25 crore outstanding and Rs. 100 crore turnover are eligible.
- Loans to have 4 year tenor with moratorium of 12 months on Principal repayment.

Prepared By: CA Abhay Ajmera
Email ID: caabhayajmera@gmail.com

- Interest to be capped.
- 100% credit guarantee cover to Banks and NBFCs on principal and interest.
- Scheme can be availed till 31 Oct 2020.
- No guarantee fee, no fresh collateral.

45 lakh units can resume business activity and safeguard jobs.

3. <u>Rs 20,000 crores Subordinate Debt for Stressed MSMEs</u>

- As far as the subordinate debt is concerned, MSMEs which are stressed or are non-performing assets will be eligible for this scheme.
- Subordinated debt is an unsecured loan or bond which ranks below other securities or senior loans with respect to the claims on assets or earnings.
- Here, if a borrower defaults, the creditors who own subordinated debt will not be paid out until after senior bondholders are paid the dues in full. These loans usually have higher yield and lower credit rating.
- Stressed MSMEs do have a problem of equity. Hence we want to provide a Rs 20,000 crore subordinate debt for them," said the finance minister.
- Stressed MSMES need equity support
- GoI will facilitate provision of Rs. 20000 Cr as subordinate debt
- Two lakh MSMEs are likely to benefit
- Functioning MSMEs which are NPA or are stressed will be eligible
- Govt will provide a support of Rs. 4,000 Cr. to Credit Guarantee Funds Trust for Micro and Small Enterprises (**CGTMSE**)
- CGTMSE will provide partial Credit Guarantee support to Banks
- Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the Unit.

4. <u>Global tenders to be disallowed upto Rs 200 crores</u>

- Indian MSMEs and other companies have often faced unfair competition from foreign companies.
- Therefore, Global tenders will be disallowed in Government procurement tenders upto Rs 200 crores
- Necessary amendments of General Financial Rules will be effected.
- This will be a step towards Self-Reliant India (**आत्मनिर्भर भारत**) and support Make in India

Prepared By: CA Abhay Ajmera
Email ID: caabhayajmera@gmail.com

- This will also help MSMEs to increase their business.

5. <u>Rs 50,000 cr. Equity infusion for MSMEs through Fund of Funds</u>

- MSMES face severe shortage of Equity.
- Fund of Funds with Corpus of Rs 10,000 crores will be set up.
- Will provide equity funding for MSMEs with growth potential and viability.
- FoF will be operated through a Mother Fund and few daughter funds
- Fund structure will help leverage Rs 50,000 cr of funds at daughter funds level
- Will help to expand MSME size as well as capacity.
- Will encourage MSMEs to get listed on main board of Stock Exchanges.

(The ‘mother fund’--the government’s contribution--would be 20%, and the remaining 80% would be invested by ‘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 50,000 crores,” a government statement said. This means other investors would put in Rs 40,000 crore.
a “FUND OF FUNDS” that works with VENTURE CAPITALISTS” to create funds is known as DAUGHTER FUNDS which provide risk capital to companies developing new technologies in the area of electronics, nano-electronics and IT)

6. <u>Other interventions for MSMEs</u>

- MSMEs currently face problems of marketing and liquidity due to COVID.
- E-market linkage for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.
- Fintech will be used to enhance transaction based lending using the data generated by the e-marketplace.
- Government has been continuously monitoring settlement of dues to MSME vendors from G Government and Central Public Sector Undertakings.
- MSME receivables from Government and Central Public Sector Enterprises to be released in 45 days.

<u>No fresh insolvency proceeding against MSMEs for 1 year:-</u>

- Minimum threshold to initiate insolvency proceedings against MSMEs has been raised from Rs 1 lakh to **Rs 1 crore.**

- The FM has recently suspended Section 7, 9 and 10 of the Insolvency and Bankruptcy Code (IBC) for a period of 6 months. However, the SME sector wanted that IBC as a whole should be suspended for the said six month time period.

- a special insolvency resolution framework for MSMEs under Section 240A of the (IBC) code will be notified soon.

Prepared By: CA Abhay Ajmera
Email ID: caabhayajmera@gmail.com