COVID-19 | "ATMANIRBHAR" PACKAGE | 3.0

COVID-19 has spread into more than 200 countries including India with total number of confirmed cases nearing 60 million and the virus having claimed more than 1.3 million lives. Globally, several countries announced total/partial lockdowns from mid-March in order to control the spread of the virus. While few countries have experienced a certain degree of success in arresting the outbreak, several countries continue to deal with increasing number of confirmed cases on a daily basis. India, which is home to 1.4 billion people, reported 443,303 confirmed cases as on November 19, with 131,578 fatalities. While India continues to rank #2 in terms of total number of confirmed cases globally (89,58,483 cases), the recovery and fatality rates have significantly improved and several key pockets in the economy have already indicated a return to normalcy.

In May 2020, the Government of India announced a series of measures to alleviate the impact of the pandemic and provide relief to the vulnerable sections of the society. The INR 20 trillion relief package - a series of front-ended and back-ended financial support programs – titled Atmanirbhar Bharat Abhiyan (Mission Self Reliant India), was announced over a period of five days (May 14-19, 2020), with each day focusing on a different set of target sectors. You can read our daily coverage of the Atmanirbhar package and their impact on our target sectors on earlier pages of this blog here, here, here, here and here, and an interim status monitor tracking promise vs. performance here.

On November 12, 2020, the Government announced the third tranche of its Atmanirbhar Bharat Abhiyan ("Atmanirbhar 3.0"), rolling out additional relief packages targeted at providing liquidity to needy sectors and job creation. Atmanirbhar 3.0 envisages a total outlay of INR 2.7 trillion or 1.4% of the GDP, with its key focus areas including stressed sectors, agriculture, exports, housing, infrastructure, manufacturing, social welfare and labour reforms. In the below note, our investment team does a quick analysis of the package, evaluating potential impact on our target sectors.

ANNOUNCEMENTS IMPACTING THE MSME SECTOR

NO.	POLICY MEASURES	ESTIMATED IMPACT ON THE SECTOR
1)	**EXTENSION OF THE INR 3 LAKH CRORE EMERGENCY CREDIT LINE GUARANTEE SCHEME (ECLGS 1.0)** • Banks and NBFCs to provide an emergency credit line for businesses/MSMEs up to 20% of their entire outstanding credit as on February 29, 2020 • 100% credit guarantee cover to Banks and NBFCs on principal and interest • Eligibility: Scheme is available for accounts with credit outstanding of up to INR 50 crore, annual turnover up to INR 250 crore and less than 60 days past due as of Feb 29, 2020	• ECLGS 1.0 was launched by the Government as part of the Atmanirbhar Scheme 1.0 in May 2020 • ECLGS 1.0 was initially introduced until Nov 2020, and has now been extended until Mar 2021 • The scheme has provided a significant lifeline to businesses in India: of the scheme's total target size of INR 3.00 lakh crore, as of Nov 12, 2020, INR 2.05 crore has been sanctioned to 61 lakh borrowers, out of which INR 1.52 lakh crore had already been disbursed
2)	**INTRODUCTION OF ECLGS 2.0 (SCHEME AVAILABLE UNTIL MAR 2021)** • Fully guaranteed and collateral free scheme providing additional credit of up to 20% of outstanding as of Feb 29, 2020	• ECLGS 2.0 is expected to provide much needed relief to stressed sectors • Tenor of 5 years and 1-year principal moratorium offers strong and sufficient liquidity support

NO.	POLICY MEASURES	ESTIMATED IMPACT ON THE SECTOR
	• Tenor of 5 years including 1 year of moratorium on principal • Scheme was introduced for 26 stressed sectors identified by the Kamath Committee plus the healthcare sector • Eligibility: Scheme is available for accounts with credit outstanding of above INR 50 crore and up to INR 500 crore as on Feb 29, 2020, and less than 30 days past due (i.e., entities classified as 'SMA 0')	• ECLGS 2.0 will assist entities that are facing temporary demand reduction due to Covid-19 • Measures are also expected to benefit the MSME sector which provides goods and services to all eligible entities in different sectors as supply chain stress eases.
3)	**PRODUCTION LINKED INCENTIVES (PLI SCHEME) TO BE INTRODUCED FOR TEN CHAMPION SECTORS** • PLI schemes had already been announced for mobile manufacturing, KSM (Key Starting Materials), APIs (Active Pharmaceutical Ingredients) and manufacturing of medical devices • New sectors covered under PLI scheme have estimated expenditure outlay of INR 1,45,980 crore. • Sectors: Advance Cell Chemistry Battery, Electronic/Technology Products, Automobiles & Auto Components, Drugs & Pharmaceuticals, Telecom & Networking Products, Textile Products, Food Products, High Efficiency Solar PV Modules, White Goods (ACs & LED), Specialty Steel	• Economic activity in the 10 champion sectors will receive a boost which in turn will indirectly assist MSMEs operating in these segments • The Central Government is expected to provide incentives on additional production and allow/enable companies to export products made in India • Auto & Auto components sector to receive the largest allocation at INR 57,042 crore
4)	**GOVERNMENT TO EXTEND INR 3,000 CRORE TO EXIM BANK FOR LINES OF CREDIT** • As on Nov 11, 2020, 811 export contracts aggregating US$ 10.50 billion are being financed under Lines of Credit. • INR 3,000 crore (~US$ 0.5 billion) being proposed to be released to EXIM bank for promotion of project exports through Line of Credit under the IDEAS Scheme.	• The Scheme is expected to be beneficial for export-oriented businesses supplying to developing countries. The Scheme is expected to result in some destressing of working capital in the supply chain which will in turn, indirectly help MSME units who are lower down the value chain.

ANNOUNCEMENTS IMPACTING THE RURAL & MICROFINANCE SECTOR

NO.	POLICY MEASURES	ESTIMATED IMPACT ON THE SECTOR
1)	**ATMANIRBHAR ROZGAR YOJANA** • Under the scheme, establishments registered with EPFO (Employee Provident Fund Organization) will be eligible for a government subsidy, if they add new employees drawing	• Typically, small MFIs (AUM < INR 500 crore) have less than 1,000 employees, while medium to large MFIs (AUM > INR 500 crore) have an employee base of greater than 1,000 employees. • The field staff (who usually comprise 60%-70% of the total staff) are employed at a salary around INR

NO.	POLICY MEASURES	ESTIMATED IMPACT ON THE SECTOR
	monthly wages of less than INR 15,000 compared to reference base of employees as of Sep 2020. • Establishments with up to 50 employees, would have to add a minimum of two new employees; and organizations with more than 50 employees, would have to add at least five employees to avail the benefits. • For establishments employing up to 1,000 employees, the employee's and employer's EPF contribution totalling 24% of wages will be contributed by the Government; and for establishments employing more than 1,000 employees, only employee's EPF contribution (12% of EPF wages) will be contributed by the Government. • The scheme is operational until Jun 30, 2021.	8,000 to INR 12,000 on an average in the microfinance industry. • MFIs see an attrition of ~10-15% every quarter and hence create huge formal employment opportunity in rural and semi-urban areas. • The Atmanirbhar Rozgar Yojana scheme will incentivize MFIs to hire new employees and also save some employee cost. Assuming 5% churn every month, the MFIs will save around 0.8% of employees cost per month for large MFIs and around 1.5% of employee cost per month for smaller MFIs.
2)	**SUBSIDY FOR FERTILIZERS** • The government has decided to provide INR 65,000 crore in order to ensure adequate and timely availability of fertilizers at subsidized rates to farmers in the upcoming crop season. • This is expected to benefit around 14 crore farmers and in turn the overall agriculture sector.	• As microfinance borrowers are usually into agri and agri-allied activity and mostly belong to the small and marginalized category, subsidy on fertilizers will help improving profit margins for the farmers. • By absorbing the upfront expense on agri-inputs, it will immediately result in easing liquidity for the beneficiaries.
3)	**ENHANCED OUTLAYS UNDER PM GARIB KALYAN ROZGAR YOJANA** • In order to boost employment within the rural sector, an additional outlay of INR 10,000 crore will be provided under PM Garib Kalyan Yojana in FY21. • The scheme dovetails various schemes including MGNREGAE, PMGSY, etc.	• Additional government support for rural employment will continue to support the rural economy in line with what was observed during the initial outlay. • Non-agri income dependent MFI households who mainly depends on wage labour have been benefited by the scheme.

ANNOUNCEMENTS IMPACTING THE AFFORDABLE HOUSING SECTOR

POLICY MEASURES	ESTIMATED IMPACT ON THE SECTOR
INR 18,000 CRORE ADDITIONAL OUTLAY FOR PM AWAAS YOJANA (PMAY) - URBAN • INR 18,000 crore will be provided over the Budget Estimates for 2020-21 for Prime Minister Awas Yojana-Urban (PMAY-U) through additional allocation and Extra Budgetary Resources. • This is over and above INR 8,000 crore already provided this year	• The scheme will further increase the supply of housing projects and help the growth prospect for the housing finance companies including the affordable housing financiers who primarily serve the houses constructed for Economically Weaker Section (EWS) And Lower Income Group (LIG).