Govt to release ₹20,000-cr GST dues to states

Second fiscal stimulus likely to be announced soon

ARUP ROYCHOUDHURY & DILASHA SETH
New Delhi, 7 April

The finance ministry is set to release ₹20,000 crore in pending goods and services tax (GST) compensation to states soon, *Business Standard* has learnt. This will not be from the compensation cess, but from the Consolidated Fund of India, and comes days after the Centre disbursed ₹17,287 crore to states as devolution and disaster funds.

CORONAVIRUS PANDEMIC

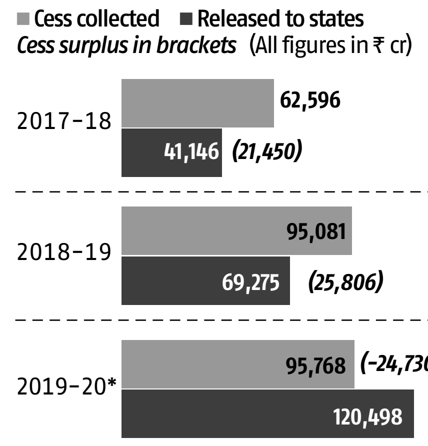
The finance ministry and the Prime Minister's Office are also working on another stimulus package, which is expected to be announced soon. There is no definitive number yet on the quantum of the package, which will again be aimed at the urban and rural poor, micro, small and medium enterprises and the sectors most affected by the coronavirus disease (Covid-19) pandemic and the subsequent 21-day nationwide lockdown.

Officials working on the stimulus package say that a lot of ever-changing factors are still under consideration. These include active cases of Covid-19, hotspots, and the status of the lockdown after April 14.

"The revenue department has been authorised to clear ₹20,000 crore in GST compensation dues to states," said a top government official.

"We can only disburse compensation to states from the compensation cess fund. Since it is not available, approval has been given for releasing it from the Consolidated Fund," said a second official.

HELPING HAND



*Apr-Mar collection and Apr-Oct disbursal Source: Ministry of Finance

Even with the ₹20,000 crore distributed among states, it will still be a fraction of what they have been demanding in financial support and clearance of pending dues. Central government officials say there is a resource crunch, but more will be given. States have also been allowed to borrow 50 per cent of their total 2020-21 limit in April itself.

Maharashtra had sought a special package worth ₹25,000 crore from the central government and asked it to release pending dues worth ₹16,654 crore under various heads by March 31, to fight the economic crisis. Tamil Nadu has sought a special assistance of ₹4,000 crore and a slew of other financial support measures. West Bengal has sought a package of ₹25,000 crore and clearance of dues worth ₹36,000 crore. Additionally, all states have sought relaxation of their borrowing limits.

With only 65 per cent of compensation due for October and November at ₹19,950 released last month, the total disbursal has been ₹1.2 trillion as against full-year collection of just ₹95,000 crore. It is, in fact, ₹3,000 crore short of the revised estimate of ₹98,327 crore.

Compensation cess, to be released on a bi-monthly basis, has been pending for about five months. With compensation of over ₹60,000 crore still pending, some states are even planning to drag the Centre to the Supreme Court.

"Never in the history of India has there been such a callous attitude of the Centre towards the states. There is no option other than the states approaching the Supreme Court," Kerala Finance Minister Thomas Isaac told *Business Standard*.

The central government was of the view that it would only release compensation out of collections through levy of cess on luxury and sin items like automobiles, tobacco, and aerated drinks.

MFIs turn to RBI for 3-month moratorium

RBI seeks data on drawdowns, bank loans, exposure to NCDs and CPs

HAMSINI KARTHIK
Mumbai, 7 April

Non-banking financial companies operating as microfinance institutions (NBFC-MFIs) have sought clarity from the Reserve Bank of India (RBI) on whether they are eligible for the three-month moratorium on loan repayments announced by the central bank on March 27.

"There is still confusion among banks on whether they should extend the moratorium to NBFCs. We have asked the RBI to clarify the position on this matter," said Manoj Nambiar, chairman, Microfinance Institutions Network (MFIN), a self-regulatory organisation of the sector.

Senior MFI executives contend that while they have extended the moratorium to their customers, the same hasn't been extended to them by some of their lenders. Instead, they were directed to meet their short-term liquidity needs through the targeted long-term repo operations (TLTRO) route.

On March 27, the RBI opened up the TLTRO option for NBFCs in addition to allowing well-rated corporates to tap bank funding through market instruments, such as commercial papers (CPs) and non-convertible debentures (NCDs). However, this option is primarily available to top-rated companies, with AAA and above rating. "There are hardly four-five MFIs with even A rating," said a source.

MFIs haven't had access to funds since March 23, and this has been communicated to the RBI. "In the last 10 days, we have not had any disbursals. We haven't received money through collections or bank loans, but we have had to meet our repayment obligations," said Padmaja Reddy, managing director, Spandana Sphoorty Financial.

In response to these representations, the RBI reached out to MFIs last Sunday, asking them to furnish information on their bank-wise loan outstanding, amounts drawn down and unutilised lines of credit, and share of CPs and NCDs issued by banks to MFIs. Sources say these data points have been furnished to the RBI and a clarification is awaited.

FINER DETAILS

NBFC-MFIs account for 35% of microfinance loans

NBFC-MFIs depend on bank loans to meet 50-80% of funding needs; 100% in case of regional MFIs

Collections and disbursals halted since March 23

Large MFIs haven't defaulted on their repayment obligations to banks yet

Because of rating constraints, MFIs cannot tap TLTRO

Confusion over moratorium norms hits smaller MFIs hard

NAMRATA ACHARYA
Kolkata, 7 April

Amid confusion over whether the moratorium on EMIs announced by the Reserve Bank of India (RBI) in the wake of Covid-19 pandemic is applicable to corporate loans, microfinance institutions (MFIs) — especially small and medium ones — are worried if they will be able to meet obligations this month. Already many small MFIs have either started defaulting or are in the verge of it.

During the recent monetary policy meet, the RBI had offered a moratorium of three months to all term loan borrowers. But the RBI statement on the relaxation does not specifically mention loans taken by corporate entities, leading to ambiguity. Meanwhile, microfinance lenders have announced the extension of a full three-month moratorium to all their clients.

Most small and mid-sized MFIs are heavily dependent on non-banking financial companies (NBFCs) for meeting their lending requirements, which, in turn, are dependent on banks for funds.

For example, Aviral Finance, the only MFI based in Chhattisgarh, has already close to ₹15-20 lakh overdue to banks, says Ankush Golechha, founder of Aviral Finance. By the end of this month, the overdue would be about ₹1.67 crore. The MFI has a loan outstanding of about ₹31 crore, and every month it collects about ₹3.5 crore, which is rolled over as fresh lending. However, since March 23, just days before the national lockdown, there has been no collection from end customers.

"It would be a question of life and death for us. We also have to meet all operational expenses, including the salaries of employees. While we have paid salaries for March, paying salaries for April will be a difficult task if a moratorium is not given to us," says Golechha.

MFIs are also unable to curtail operational costs by way of salary cuts or retrenchments, as ground staffers are crucial them for repayment collection. According to Rahul Mittra, co-founder and CEO of Margadarshak Financial Services, a mid-sized NBFC MFI based in Lucknow, the company would be forced to go for fresh market borrowing to pay salaries next month if a moratorium is not extended to MFIs. About 60-65 per cent of the company's borrowing is met by NBFCs. "While several public sector banks are saying they are awaiting board approval for a moratorium, NBFCs are claiming that they are confused if the RBI moratorium is applicable to corporate loans," says Mittra.

"We are under-leveraged but at the same time we have to pay our employees as they are the ones who connect with borrowers," says Gyan Mohan, director and CEO of Adi Chitragupta Finance, a Patna-based MFI, with a loan outstanding of ₹80 crore.

Insurers witness fewer claims in motor segment

SUBRATA PANDA
Mumbai, 7 March

Non-life insurers are seeing a rise in claims in the health segment, but the own damage claims in the motor segment are on the decline because of the 21-day lockdown imposed to check the spread of Covid-19.

During the lockdown, very few vehicles are plying on the road, which means there will be less number of accidents resulting in lesser intimation of claims. Fewer claims are supposed to improve the insurers' loss ratio in the motor segment, but the industry is divided on this.

Loss ratio indicates the underwriting performance of an insurer. If it is above 100 then premium collected is not adequate to pay claims. The industry is operating at a loss ratio of 80 in the motor segment. "We will have a 1-1.5 month period where accidents won't happen, which will bring in a 10 per cent impact on the loss ratio," said Sajja Praveen Chowdary, motor business head, PolicyBazaar.

Fewer claims are supposed to improve the insurers' loss ratio in the motor segment, but the industry is divided on this

Sanjay Saxena, head of retail claims at Bajaj Allianz General Insurance, echoed the statement, saying the losses would come down in the segment given lower incidence of claims.

On the other hand, few insurers feel although claims intimation is currently less, there might be a spurt in claims post the lockdown.

"The real clear picture will emerge only after the lockdown period gets over, as there is a possibility that we can see a backlog in claims. There are chances that policyholders may not be able to file their claims considering workshops are currently not operating," said Subrata Mondal, executive vice-president, IFFCO-Tokio General Insurance.

"Loss ratios are a function of accidents plus repair costs, labour charges, and spare part cost. Most of the manufacturers go for a hike in these things from April. The insurance industry has not increased any rates in the past six months and nor has the third party rates gone up. So, loss ratios may go up as opposed to going down," said the chief executive officer of private insurance company.

"Whether loss ratio in motor segment will come down significantly depends on how long the lockdown stays. In the motor segment, the third-party claims do not come to us immediately. So if the third party claims will go down or not is something we will see in the future," said Sanjay Datta, chief underwriting & claims, ICICI Lombard.

Moreover, the motor insurance segment has been going through a lean phase for the past one year as the economic slowdown resulted in low demand for new vehicles. A similar situation is expected after the lockdown period. Experts say the first two quarters of this fiscal year will see muted demand for the automobile sector and this in turn will bring in increased competition in the motor segment amongst the players.

"Insurance companies will take advantage of this fall in loss ratio and become more competitive in nature resulting in the own damage prices going down over a period of time," said Chowdary.

"As of now it seems there will be less claims. Lesser claims may impact the premium rates as well," said Mondal.

In the motor insurance segment, the motor third-party is mandated by law. The third-party motor premiums are revised annually, however, this year's hike has been put on hold given the ongoing situation.

States can borrow ₹3.2 trn in Apr-Dec

ARUP ROYCHOUDHURY
New Delhi, 7 April

The Centre has allowed states to borrow 50 per cent of their 2020-21 combined borrowing limit in April-December, according to a finance ministry letter to the Reserve Bank of India (RBI).

The letter was put up on the expenditure department's website on Tuesday.

The amount that the states have been given permission to raise through open market borrowings is a little more than ₹3.2 trillion. "It has been decided to accord consent to the state governments to raise open market borrowing on the basis of 50 per cent of the net borrowing ceiling fixed for 2020-21. The consent is applicable for the first nine months of 2020-21," the letter said.

It stated that the RBI will decide with states on the details of the borrowings, and further consent on raising borrowings will be processed on receiving further information from the states. The states can avail of this window at any time between April and December, after discussions with the RBI.

Scheme for phone makers finds no takers

ARNAB DUTTA
New Delhi, 7 April

With production units shut and sales halted owing to the coronavirus (Covid-19) outbreak, the country's leading electronics and handset manufacturers are postponing new investments to boost local manufacturing.

Despite the government recently announcing two ambitious schemes for the sector to attract new investment, none of the companies is planning to avail them any time soon.

For instance, Samsung had announced a long-term plan to invest ₹5,000 crore in its Noida facility that it aimed to make the largest handset production unit in the world. But now, it is yet to take a final call on the plan.

Sources said the firm will only review the new investment scheme after demand peaks beyond the pre-crisis levels.

However, with its volume sales remaining nearly flat in 2019, and it losing market share to Chinese rivals, plans on the new investment have been put in the back burner.

Top smartphone player by volume – Xiaomi India — is not considering investing through the new scheme despite a healthy surge in sales volume in 2019, said sources.

Currently, Xiaomi sources its handsets from six manufacturing units operated by Foxconn in India.

"The lockdown has brought the market to a halt, and it is difficult to predict when sales will normalise. Further, the growth projections for the economy suggest lower demand in the coming months. Thus, it is hard to expect that manufacturers will invest in boosting production capacity in the near future," said Kamal Nandi, president of industry body Consumer Electronics and Appliances Manufacturers Association (CEAMA) and executive vice-president, Godrej Appliances.

Other leading manufacturers like LG, Panasonic, Vivo, Oppo and Realme, are yet to gauge the full impact of the lockdown on their businesses. These companies are not ready to take a call on investing in manufacturing as sales have fallen flat. Most are anticipating a spill over of the ongoing crisis to the July-September quarter.

"It is hard to expect that manufacturers will invest in boosting production capacity in the near future"

KAMAL NANDI
President, CEAMA, & executive VP, Godrej Appliances

"Everything other than life and livelihood is down, below the priority list now"

B THIAGARAJAN
Managing director, Blue Star

B Thiagarajan, managing director (MD), Blue Star, said, safety of the company's staff will be the key focus once production begins. "Everything other than life and livelihood is down, below the priority list now," he said.

The unwillingness of manufacturers in availing an incentive scheme that is long-awaited is unusual. Since expiry of the primary investment incentivising scheme — the Modified Special Incentive Package Scheme (M-SIPS) last year, there were no holistic schemes for manufacturers of electronic items in the country.

The industry has been demanding a concrete plan from the government that will incentivise any investment to boost local manufacturing — in line with its stated objective of 'Make in India'.

After taking industry demand into consideration, the government came up with two schemes. The Scheme for Promotion of manufacturing of Electronic Components and Semiconductors or SPECS is aimed at incentivising any investment above ₹5 crore in manufacturing of electronic components and semiconductors. The production-linked incentive scheme (PLI) has been launched to attract large investments in the mobile handsets segment.

RBI increases overdraft period of states

To provide greater flexibility to state governments to tide over cash flow mismatches, the Reserve Bank of India (RBI) on Tuesday increased the number of days for which a state or a Union Territory (UT) can be in overdraft at a stretch to 21 working days from 14 at present.

The number of days for which a state or UT can be in overdraft in a quarter has been increased to 50 working days from the current stipulation of 36 working days, the RBI said.

The arrangement will remain valid till September 30, the RBI said in a statement. ANUP ROY

Hurdles remain despite lockdown exemption for farming

SANJEEB MUKHERJEE
New Delhi, 7 April

Jagannath, a marginal farmer from Malhargarh town in Mandsaur district of Madhya Pradesh, the epicentre of a farmers' agitation a few years ago, has faced a peculiar problem over the past few weeks since the 21-day nationwide lockdown to check the spread of Covid-19 was imposed.

Heightened police scrutiny of his movements. "Though the government exempted farming and harvesting operations from the lockdown, we have to convince the local constable every time we go out that it is to work in the fields and nothing else," Jagannath says.

Shenu Agarwal, chief executive officer of Escorts Agri-Machinery, one of the largest farm equipment makers in the country, says his firm's employees and dealers, too, face a similar problem.

"Though the central and several major state governments have issued orders exempting farm equipment repair shops and retailers from lockdown, on the ground a lot of challenges remain and getting curfew passes for our dealers from district magistrates or collectors is a big problem," Agarwal said.

He said harvesting of rabi crops was underway in Haryana, Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh, where agriculture machine repair and retail shops are vitally important to enable smooth harvesting operations.

There are around 10,000 farm equipment retailing and manufacturing shops across India in the organised sector, while thousands of others exist in the unorganised space. The Ministry of Home Affairs (MHA) in an order issued last week exempted all sorts of agriculture machinery repair and retail shops from the lockdown.

Amid speculation that the lockdown could be extended, several relaxations given over the past few days need to be clearly conveyed to ground-level authorities to ensure that they are implemented in letter and spirit or else farming operations could get impacted.

Escorts on its part has lined-up a crack team of 10 senior officers who are daily in touch with district officials in various states to see that shops get curfew passes and requisite permission to operate.

"UP has started a very unique system of centralised application for curfew passes and permission to open the shops, while in other states either the dealers themselves or team members assigned have to get in touch with local authorities to see that policemen don't needlessly harass the tractor shop owners," Agarwal said.

Amit Saraogi, managing director of Anmol Feeds, a major animal feed maker, said another problem was the difference in the way various state governments interpreted the rules.

Saraogi says lack of information at the ground level about the exemption for movement of animal feed — fish, cattle and poultry feed — was making it difficult to work.

"Though fish feed has been classified as an essential commodity and exempted from the lockdown, some state governments hadn't notified them separately as a result of which one of our trucks carrying fish feed was stranded at the Assam border a few days back," he said.

Saraogi said sometimes state and district authorities have to be informed separately of the relaxations. "Human beings can remain without food for a day but poultry can't remain without food for more than four hours," he said.

Farmer leaders also say that though movement of big harvesting equipment such as threshers and harvesters have been allowed, they are subjected to numerous checks while crossing from one state to another, which delays their movement.

"If you ask me, in most places, 40 per cent shops selling seeds, fertiliser or even farm equipment have opened while the rest are closed despite exemption," said Gurnam Singh Chaduni, Haryana president of Bhartiya Kisan Union said.

He said if someone needs to get a tractor spare part from the city to mend their broken vehicle they are stopped at 10 places. "How many farmers will like to face this," Chaduni said.

The movement of combine harvesters and threshers hasn't yet started in full swing, which can impact harvesting of wheat in Haryana, which is readying to harvest a big wheat crop, he said.

Union Agriculture Minister Narendra Singh Tomar, meanwhile, on Tuesday held a videoconference with senior officials to ensure that farmers don't face any difficulty in movement of equipment needed for harvesting, transportation of harvested produce and other shops retailing seeds and fertilisers.

Lockdown won't impact farmers: NITI Aayog member

The government has taken several measures to safeguard farmers from any adverse impact of the ongoing lockdown, and the farm sector is expected to report a growth of little more than 3 per cent in the financial year 2019-20, NITI Aayog member Ramesh Chand said on Tuesday.

In an interview with *PTI*, Chand said the government had taken measures so that markets work normally during the lockdown period.

"The government has responded to the situation. No restriction is put on farmers in going to field and undertaking agriculture operations. So, all those states which are following these guidelines, I do not think there will be any adverse impact on the farmers," he said.

The country is under a 21-day lockdown to curb spreading of coronavirus.

On the first day of the countrywide lockdown, Chand said some reports came that farmers had to throw their perishable produce on the road.

"After states issuing order and the district administration allowing movement of machinery transport, etc. I see that after first day, we will not have any adverse impact on agriculture or farmers," the member said. PTI