



ATMANIRBHAR BHARAT

Stimulus Decoded for Startups



Siddarth Pai

Founding Partner, 3one4 Capital

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Introduction



"Friends, amidst the Corona crisis, I am announcing today a special economic package with a new resolution. This economic package will serve as an important link in the 'AtmaNirbhar Bharat Abhiyan' (Self Reliant India Campaign)."

- Honourable Prime Minister of India, Shri Narendra Modi
Address to the Nation on 12th May, 2020.

आत्मनिर्भरता - meaning in English




Pronunciation


ātmanirbharatā, aatmanirbharataa

Meanings of आत्मनिर्भरता in English

noun

1.  self-help (f)
2.  self-reliance (f)
3.  self-sufficiency (f)

1.  autarky

The term "ātmanirbharatā" re-entered the popular lexicon after the Honourable Prime Minister, Shri Narendra Modi's speech to the nation on May 12th, 2020 ([link](#)). He announced an INR 20 trillion package titled "Atmanirbhar Bharat" that would concentrate five pillars upon which self-reliant India will stand upon:

- | | |
|-------------------|---------------|
| 1. Economy | 4. Demography |
| 2. Infrastructure | 5. Demand |
| 3. System | |

The package was unveiled by the Honourable Finance Minister, Shri Nirmala Sitharaman through a series of five presentations that can be accessed here:

- Part 1: Businesses including MSMEs ([Link](#))
- Part 2: Poor, including Migrants and Farmers ([Link](#))
- Part 3: Agriculture ([Link](#))
- Part 4: New Horizons of Growth ([Link](#))
- Part 5: Government Reforms and Enablers ([Link](#))

3one4 Capital is happy to help India's startups decode the "Atmanirbhar Bharat" stimulus package. The scope of this note is limited to general areas of business and for measures that would be directly applicable to a majority of the portfolio companies. All founders are encouraged to go through the presentations for additional details. For specific measures for certain industries (agriculture, NBFCs, etc), kindly consult the presentation or reach out to the 3one4 Capital team. We are here to help. If you have any queries, reach us at hello@3one4capital.com

I. MSMEs only; Startups may apply

Startups were not specifically covered in the Atmanirbhar Bharat package. This is particularly curious as startups and new age businesses are slated to contribute USD 1 trillion in India's quest to become a USD 5 trillion economy by 2025.

All the announcements in the package are geared towards MSMEs. But as per the changes made to the definition of the term MSME, there has been a broad alignment to the definition of a "startup", thus opening the gateway for Startups to register as MSMEs.

Existing and Revised Definition of MSMEs			
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.

Procedure for registering as an MSME:

- Log onto the Udyog Aadhar portal – ([Link](#))
- Fill in the details in the form mentioned therein. Details include:
 - Identification details of the business – name, address, etc
 - Activity classification -based on the business model. The site is equipped with a dropdown menu for the same.
 - Details of investments into plant and machinery and number of employees
 - Other details
- Save the certificate that gets generated after all the details have been filled
- Please intimate all your business clients and customers of the same so that they can record the same for their statutory reporting purposes.

Ambiguity as per definition:

- Clarity is awaited on whether the new definition requires investment and turnover or will only satisfying either criterion suffice.
- Clarity on whether exceeding one criterion and not the other will result in termination of coverage as an MSME is awaited.

Differences in the definitions of a Startup and MSME

The primary differences between a Startup and an MSME are given below.

Particulars	Startup	MSME
Revenue threshold	INR 100 crore	INR 100 crore
Investment in plant and machinery	Not applicable	Less than INR 20 crore
Tenure of existence	Less than 10 years	No limit
Corporate structure	Pvt Ltd Company LLP General Partnership	No such restrictions on corporate structure
Original Entity Test	Should not be formed from the split or reconstruction of an existing business	No such restrictions

As per the revised definitions it is evident that Startups are a subset of the universe of MSMEs. Thus, the enterprises who meet the definition of a "Startup" as per "Startup India" will mainly qualify as an MSME and can avail of the registration as the same. Registrations will be required in order to be considered as an MSME.

II. INR 3 lakh crores Collateral free Automatic Loans for Businesses, including MSMEs

Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs

- Businesses/MSMEs have been badly hit due to COVID19 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 eligible
 - Loans to have **4 year tenor** with **moratorium of 12 months** on Principal repayment
 - **Interest** to be capped
 - **100% credit guarantee cover** to Banks and NBFCs on **principal and interest**
 - Scheme can be availed till **31st Oct 2020**
 - **No guarantee fee, no fresh collateral**
- **45 lakh units** can resume business activity and safeguard jobs.



Applicable to:

Businesses who have loans outstanding from Banks or NBFCs as of February 29, 2020

Not applicable to:

- Businesses with credit/loans from non-bank or non-NBFC sources. Venture Debt funding or shareholder loans will not be covered under this.
- Businesses who have taken loans after February 29th, 2020 or who don't have any credit facilities as of February 29th, 2020.

Coverage:

- Applicable on the 20% enhancement to the available credit facilities as of February 29 2020.
- Not applicable on the remaining, existing facility.

Effect:

- Immediate effect to businesses who manage to secure additional enhancement and guarantee from CGTMSE.

Other Matters:

- Guarantee given by the CGTMSE ([Link](#)).
- Details of banks covered by CGTMSE are available on their website.
- Please speak to your bankers on the applicability of this announcement to your existing credit facilities.

III. INR 20,000 crores Subordinate Debt for Stressed MSMEs

Rs 20,000 crores Subordinate Debt for Stressed MSMEs

- Stressed MSMEs need equity support
- GoI will facilitate provision of **Rs. 20,000 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 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.



Applicable to:

- Operational MSMEs that are either declared as NPAs or are stressed

Procedure:

- Not fresh loans, but credit guarantee by CGTMSE.
- Loans will be given by the bankers to the Promoters of the MSMEs, who will then invest it as equity into the business.
- This is a partial guarantee only.
- Discretion of disbursement left up to the individual banks.

Effect:

- Immediate effect to businesses who manage to secure additional enhancement and guarantee from CGTMSE.

IV. INR 50,000 crore Equity infusion for MSMEs through Fund of Funds

Rs 50,000 cr. Equity infusion for MSMEs through Fund of Funds

- 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.



Applicable to:

- Funds investing into MSMEs

Fund of Funds Details:

- Size: INR 10,000 crore
- Maximum percentage of daughter Fund: 20%
- Exit route: MSME listing on the stock exchanges

Details Awaited:

- Launch date and fund manager
- Criteria for Daughter Funds and types of investments said Daughter Funds can make

Effect:

- Medium to long term effect depending on operationalisation of the FoF, selection of Daughter Funds, subsequent drawdowns and investments thereafter

V. Tax Related Matters:

TDS/TCS rates for non-salary payments reduced by 25%:

Rs 50,000 crores liquidity through TDS/TCS rate reduction

- In order to provide more funds at the disposal of the taxpayers, the rates of Tax Deduction at Source (TDS) for non-salaried specified payments made to residents and rates of Tax Collection at Source (TCS) for the specified receipts shall be reduced by 25% of the existing rates.
- Payment for contract, professional fees, interest, rent, dividend, commission, brokerage, etc. shall be eligible for this reduced rate of TDS.
- This reduction shall be applicable for the remaining part of the FY 2020-21 i.e. from tomorrow to 31st March, 2021.
- **This measure will release Liquidity of Rs. 50,000 crore.**



- The new slab of rates for TDS/TCS payments are available at the following link – ([Link](#))
- This applies to TDS payments except those pertaining to salary
- This will be applicable from May 14th, 2020 to March 31st, 2020

Expedited Refunds to non-corporate businesses:

Other Direct Tax Measures

- **All pending refunds to charitable trusts and non-corporate businesses & professions** including proprietorship, partnership, LLP and Co-operatives shall be issued immediately.
- **Due date of all income-tax return** for FY 2019-20 will be extended from 31st July, 2020 & 31st October, 2020 to **30th November, 2020** and **Tax audit** from 30th September, 2020 to **31st October, 2020**.



Covered:

- All businesses not covered under the Company's Act, 2013 (or erstwhile Company's Act, 1956 or any such earlier act) will have their pending income tax refunds expedited
- This will include individuals who file their returns under "Profit and Gains from Business and Profession" will also be covered

Not covered:

- Individuals with income from salaries, house property, capital gains, other sources or some combination of the same
- Private limited companies, public limited companies, producer companies or One Person Companies

Tax Filing dates for FY1920 extended:

Earlier Due Date for Filing Returns	New Due Date for Filing Returns
July 31 st , 2020 or October 31 st , 2020	November 30 th , 2020
Tax audit from September 30 th , 2020	October 31 st , 2020

VI. Listing Related Changes:

Direct Listing abroad to be permitted for public companies:

- Indian public limited companies will be permitted to list in bourses abroad directly without having to first list in India
- Startups, which are traditionally private limited companies, will need to convert to a public limited company prior to listing
- Jurisdictions, norms and criteria are awaited from SEBI and the Ministry of Finance

Private Companies with listed debentures not to be considered as listed companies:

- Norms exist under the Company's Act, 2013 for private companies to list their non-convertible debentures (NCDs) on the public markets
- Doing so would require them to adhere with the norms for listed companies.
- This will no longer be the case as per the proposed changes

Other Company's Act Matters:

- EGMs, AGMs and board meetings to be allowed via video conference
- Launch of the Company's Fresh Start Scheme ([link](#)) for any pending penalties and dues as stated in the scheme

VII. Provident Fund Matters:

- EPF support for firms having less than 100 workers and who have salaries less than INR 15,000 per month extended for an additional three months as per PM Garib Kalyan Package
- Statutory PF contribution from employees and employers not covered under the PM Garib Kalyan Package reduced from 12% to 10%

VIII. Other Matters:

- Government tenders below INR 200 crore will only be applicable to Indian businesses
- MSME dues from Government and CPSEs to be released in 45 days

Conclusion:

The Atmanirbhar Bharat Package is a monumental effort to help Indians and the Indian economy tackle the COVID-19 scourge and lays the groundwork for India to become a \$5 trillion economy by 2025.

"Friends, In our culture, it is said 'सर्वम् आत्म वशं सुखम्' i.e. what is in our control, is happiness. Self-reliance leads to happiness, satisfaction and empowerment. Our responsibility to make the 21st century, the century of India, will be fulfilled by the pledge of self-reliant India. This responsibility will only get energy from the life force of 130 crore citizens. This era of self-reliant India will be a new vow for every Indian as well as a new festival. Now we have to move forward with a new resolve and determination. When ethics are filled with duty, the culmination of diligence, the capital of skills, then who can stop India from becoming self-reliant? We can make India a self-reliant nation. We will make India self-reliant. With this resolve, with this belief, I wish you the very best."

- Honourable Prime Minister of India, Shri Narendra Modi