

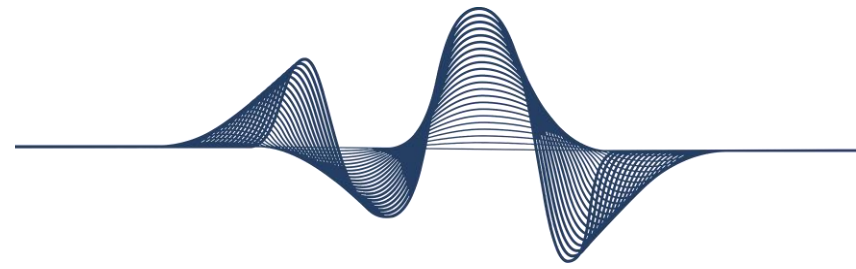


# <Reboot Post COVID-19>

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SEEMANT SHRIVASTAV

17-12-2020



# Agenda

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- Covid-19 Impact- State of Indian economy & Sectors
- Measures by Government
- Atmanirbhar Bharat scheme
- ECLGS and other prominent schemes
- Summation
- Existing schemes for MSME's and Start-ups
- Finance Hacks: Tips & tricks for WC & Cash management
- Q & A

The Sultan's Desire:

*“And this, too shall Pass away”*

# Covid-19 Impact

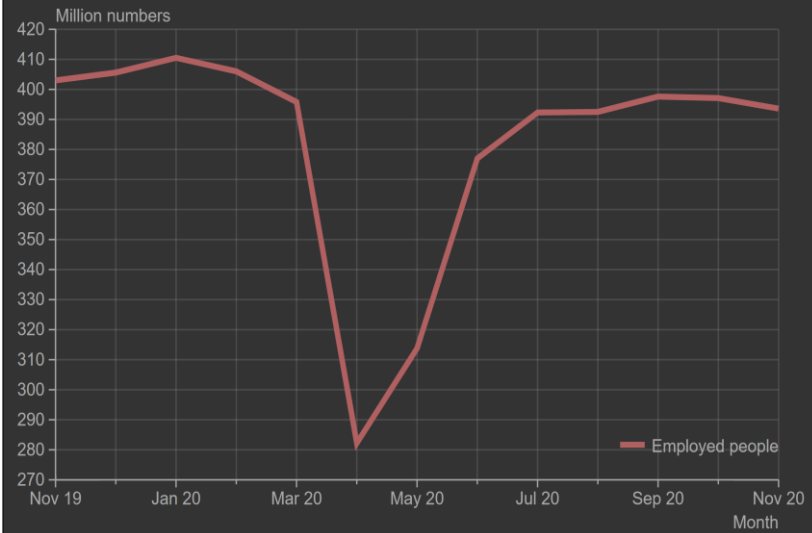
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- Indian economy has seen a hugely disruptive lockdown due to Covid-19 pandemic
- The economy contracted 23.9% in Q1 of FY 20 vis-à-vis same quarter of previous year and further shrank by 7.5% in Q2 of FY 20 over previous year.
- Due to complete lockdown, many people were stranded and migrant workers walked home
- During lockdown estimated 14 crore (140 million) people lost their jobs \*
- In Lockdown, less than 25% of India's \$2.8 trillion economy was estimated to be functional #
- Even the rural economy showed signs of stress as farming activity & logistics were impaired
- Interestingly the stock markets performed exceedingly well with Sensex rising a low of 26 k in Mar 20 to 33k by end of May 20 when lockdown was partially lifted

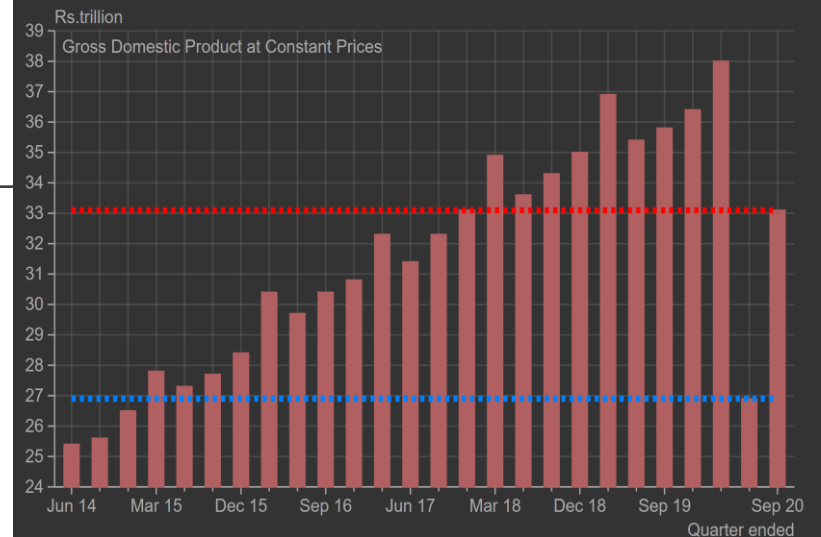
\*source: CMIE | #source: Nomura

# Economy in Charts

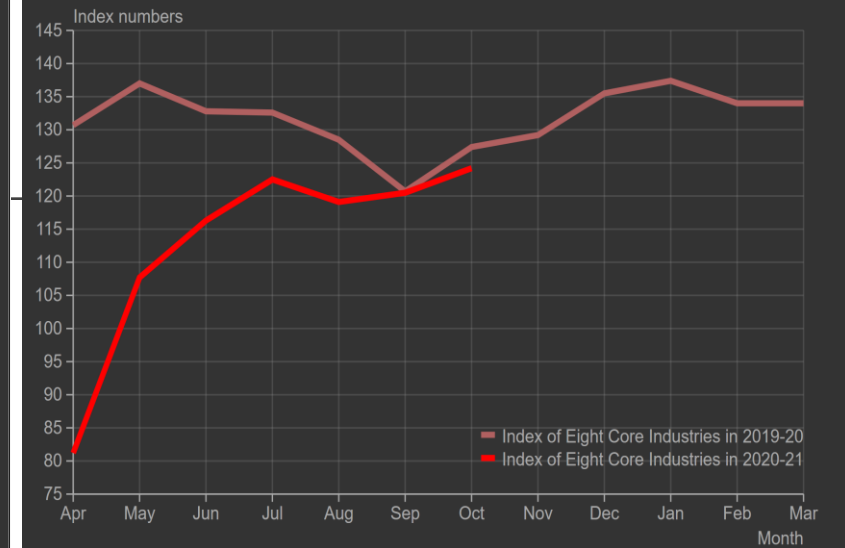
## The recovery prematurely plateaus



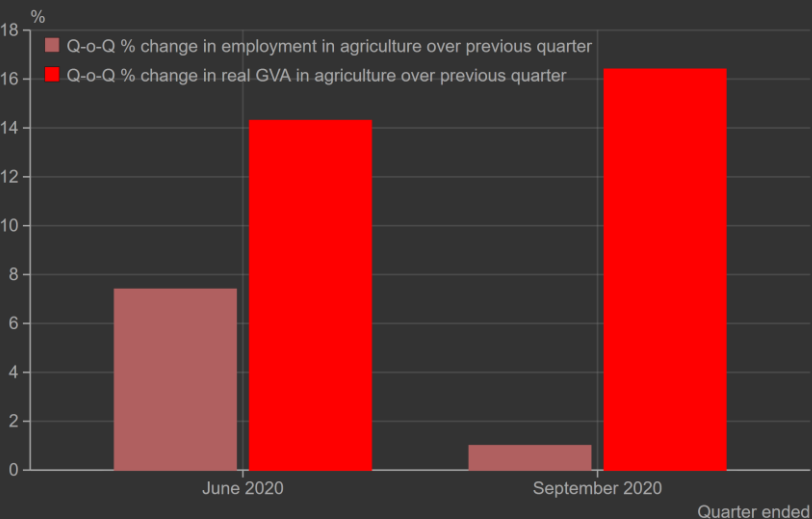
## GDP returns to December 2017 level



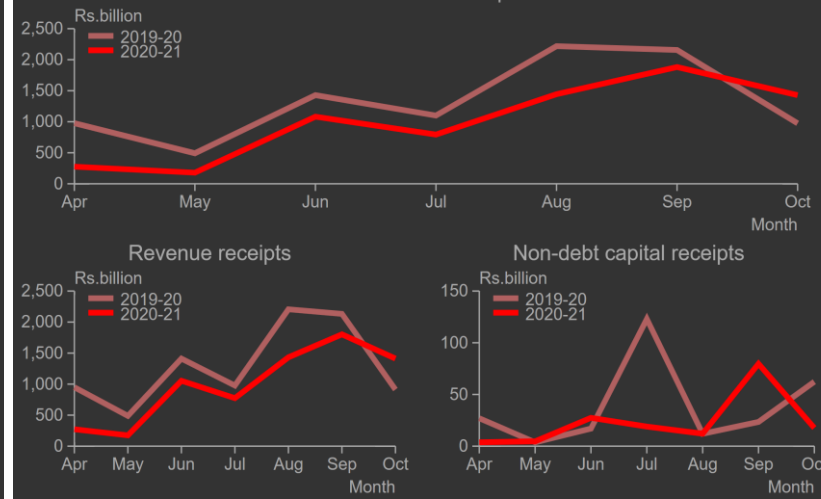
## Core industries rise, but not enough



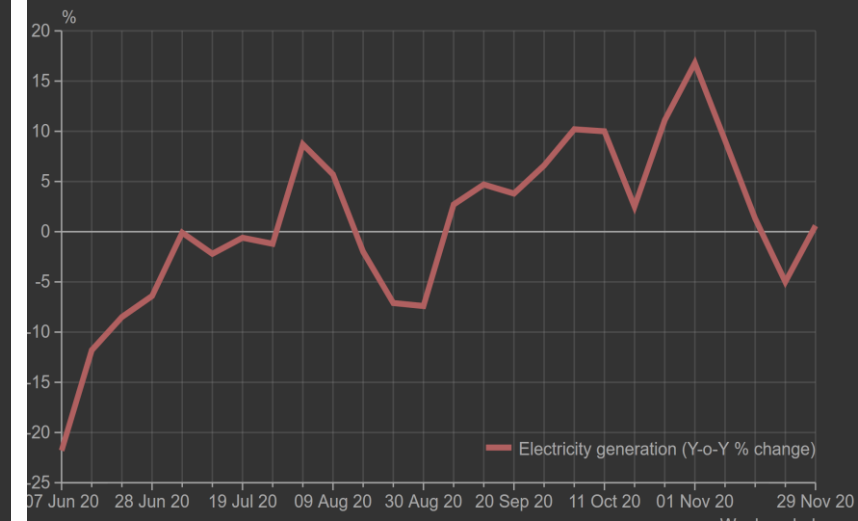
## Disguised unemployment



## Central Government's revenues recover



## Electricity generation growth derails



# Green shoots?

- IIP growth turned positive for the first time since March 2020 but remained low at 0.2% in September 2020.
- In October 2020, PMI manufacturing increased to 58.9, its highest level in over a decade. PMI services at 54.1, crossed threshold of 50 for the first time since February 2020.
- At 7.6% in October 2020, CPI inflation continued to breach the 6% upper tolerance limit of the RBI's inflation target range for the seventh successive month.

Chart 1: IIP growth and PMI

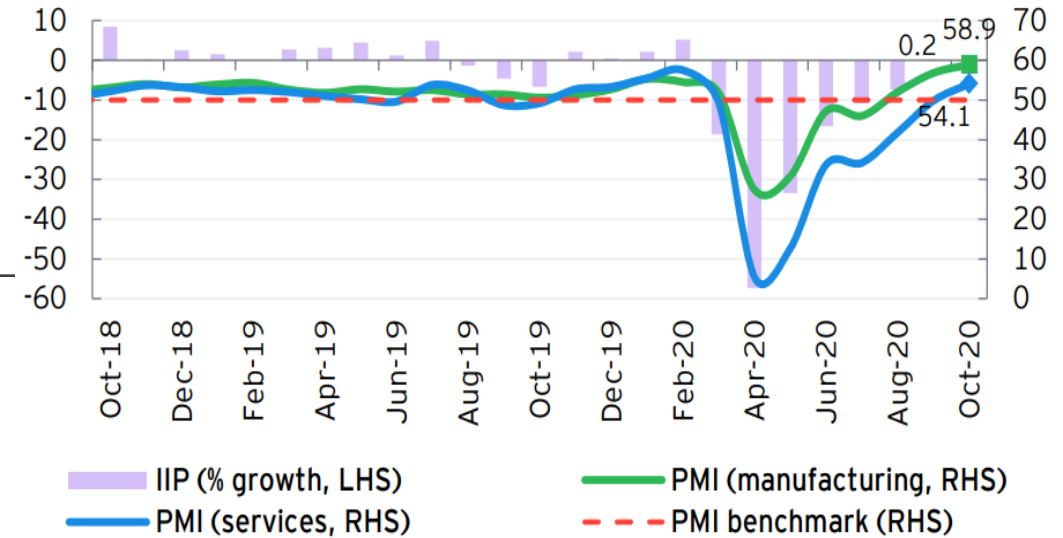
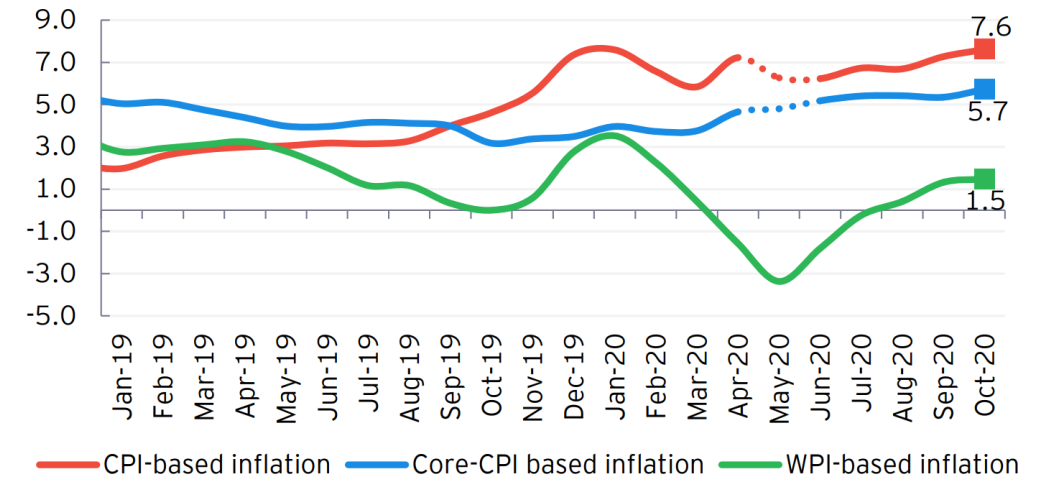


Chart 2: inflation (y-o-y, in %)



\*source: <https://www.mospi.gov.in/> | EY Report

# Sectoral Impact

Sector	Impact	Sector	Impact
Agriculture	↔	IT & BPM	↑
Auto	↓	Media & Entertainment	↑
Aviation	↓	Oil & Gas	↓
BFSI	↓	Pharma	↑
Consumer Durables	↔	Power	↓
E Commerce	↑	Railways	↓
Education	↔	Real Estate	↓
FMCG	↑	Retail	↓
Healthcare	↔	Telecom	↑
Infra	↓	Travel & Tourism	↓

- Sectors with online or digital presence or those in fmcg/ pharma/e-healthcare did reasonably well during lockdown.
- Worst hit sectors were Oil, Aviation, Travel & tourism & Retail sectors which faced mounting financial loss and significant job losses.



# Government Measures

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1. Restrictions and ramped up testing, contact tracing etc to identify & isolate patients.
2. Focus on ramping up productions of Masks , PPE Kits, Sanitisers , Ventilators etc to improve availability and increase Self reliance.
3. Covid-19 centres and hospitals opened on war footing by local & State Governments in consultation with Central Government
4. Provision of relief, rehabilitation and evacuation for stranded people
5. Launch of Arogya Setu App for patient and exposure monitoring
6. Launch of economic stimulus package including the Atmanirbhar Bharat Abhiyan (Self Reliant India Campaign).





# Atmanirbhar Bharat



Announced on 12<sup>th</sup> May 2020 by PM Narendra Modi The Five pillars of Atmanirbhar Bharat scheme focus on:

- Economy
- Infrastructure
- System
- Vibrant Demography and
- Demand

The Five phases of Atmanirbhar Bharat are:

## **Phase-I: Businesses including MSMEs**

Phase-II: Poor, including migrants and farmers

Phase-III: Agriculture

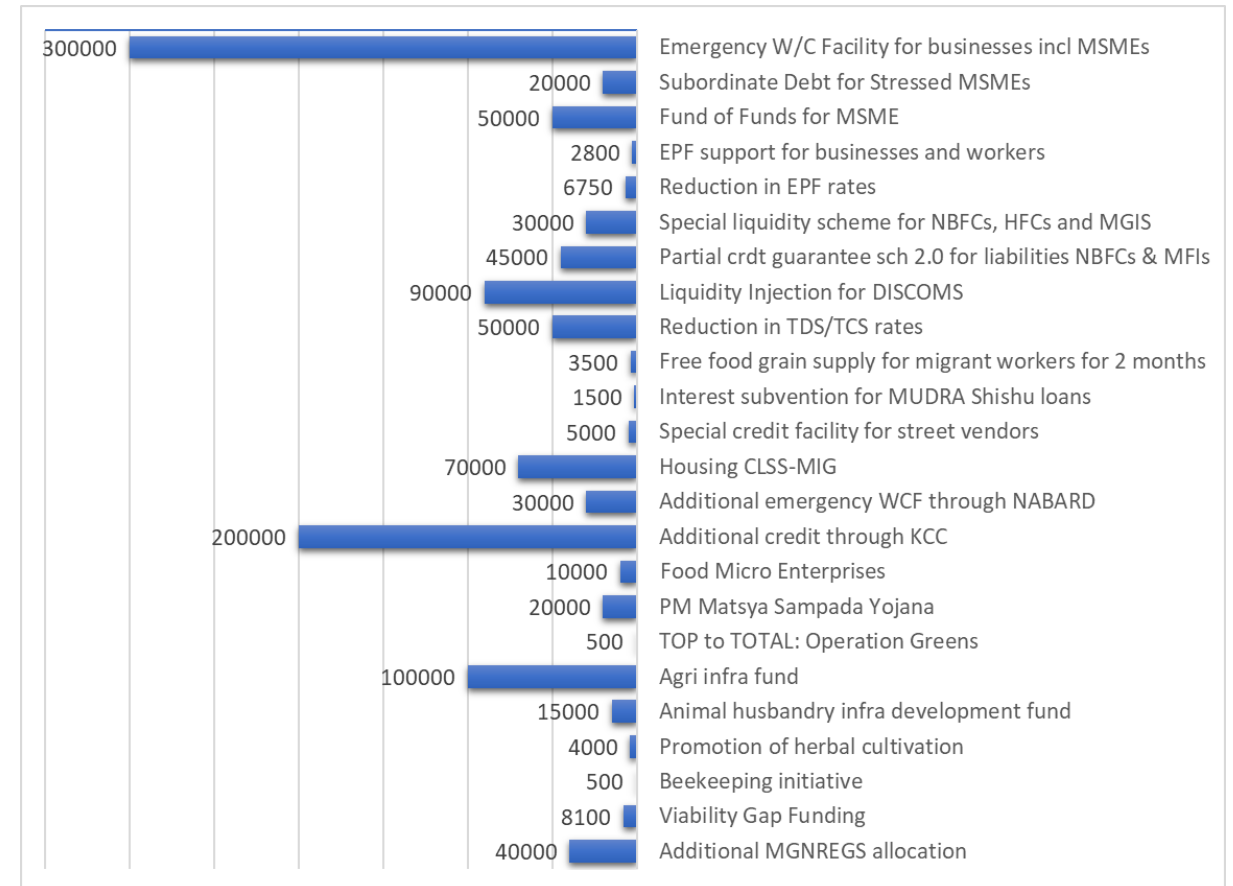
Phase-IV: New Horizons of Growth

Phase-V: Government Reforms and Enablers

# Atmanirbhar Bharat



- The overall economic package was announced as ₹20 lakh crore
- The package included previous government actions (₹ 1.7 lakh cr), including the RBI announcements of ₹ 8 lakh crore liquidity measures.
- The Finance Minister, for five days held press conferences in which the details of the economic package was explained
- The package consisted of a mix of reforms, infrastructure building, support to stressed businesses and a certain amount of direct cash support.



# Measures for Businesses (MSME's)

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- ₹ 3 lakh crores Collateral free Automatic Loans for Business, incl MSME (by 31 Oct 2020)
- ₹ 20,000 crore Subordinate Debt for MSMEs
- ₹ 50,000 cr equity infusion through MSME Fund of Funds
- New definition of MSMEs
- Global tender to be disallowed upto ₹ 200 crores
- Other interventions for MSMEs
- ₹ 2500 crores EPF support for Businesses and Workers for 3 more months
- EPF contribution reduced for Business & Workers for 3 months- ₹ 6750 crores
- ₹ 50,000 cr liquidity through TDS/TCS reductions
- Plus Other measures for Banks, NBFC's, Discoms etc

# New MSME Definition

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.

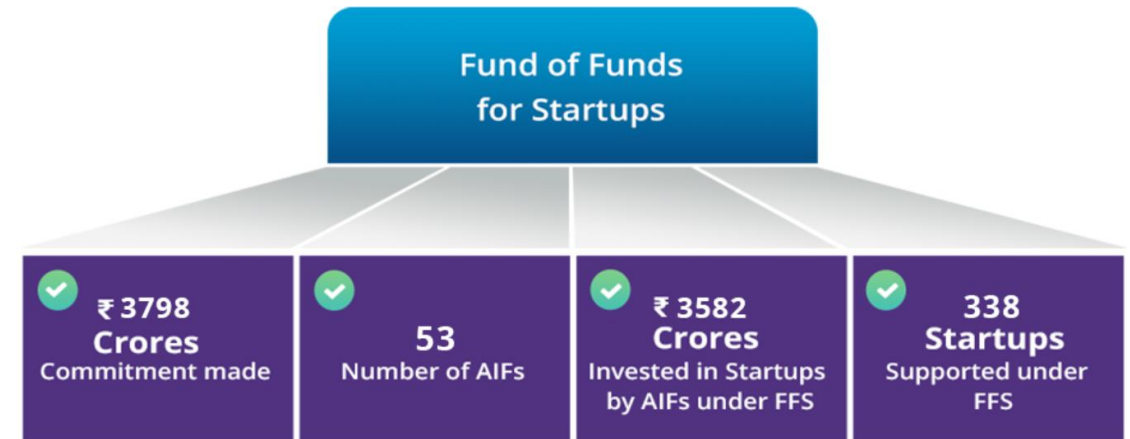
  

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

# MSME Fund of Funds

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- Fund of Funds (FoF) with Corpus of ₹ 10,000 crores set up.
- This 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 ₹ 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



# MSME Fund of Funds

The indicative process is as below for considering applications under FFS.





# ECLGS Scheme

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## ➤ Eligibility

Borrowers with up to ₹ 25 Crore outstanding as on Feb 29, 2020 and up to ₹ 100 Crore annual turnover for FY 2020 are eligible for this scheme. Business Enterprises, MSMEs constituted as Proprietorship, Partnership, registered company, trusts and Limited Liability Partnerships (LLPs) shall also be eligible. Borrower accounts which had NPA or SMA-2 status as on Feb 29, 2020 shall not be eligible under the scheme.

## ➤ Loan sanctioning

20% of the total outstanding credit of borrowers can be sanctioned as a loan under the Guaranteed Emergency Credit Line (GECL), for those who having a loan as on Feb 29, 2020.

## ➤ No processing charges or collateral required

Processing charges, foreclosure and prepayment charges will be waived. No collateral is required for this scheme

# To Sum up

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1. Most of new schemes are old wine in new bottle
2. However there is some benefits on table , including tax & obligation waiver/deferment
3. Every business owner has to use a mix of Government schemes and smart financial management to maximise its gains and stay afloat in crisis.

# Existing Schemes

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# CGTSME Scheme

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As per this scheme, a loan of up to Rs. 200 lakhs can be given to MSMEs. A special preference is given to the women entrepreneurs who are eligible for this scheme. Loans are also provided to borrowers who are located in the North eastern States of India including Sikkim and Jammu and Kashmir.

Extent of cover is up to 80% for –

- 1.** Micro and small enterprise which are operated and owned by women entrepreneurs.
- 2.** All credits or loans given to the North eastern states of India including the state of Sikkim.

In case of default, the trust will settle the claim up to 75% or 80% of the amount not repaid up to the limit cap of Rs. 50 Lakhs. For the amounts above Rs. 50 Lakhs to Rs. 200 Lakhs the guarantee cover is reduced to 50%.

# Start-up India

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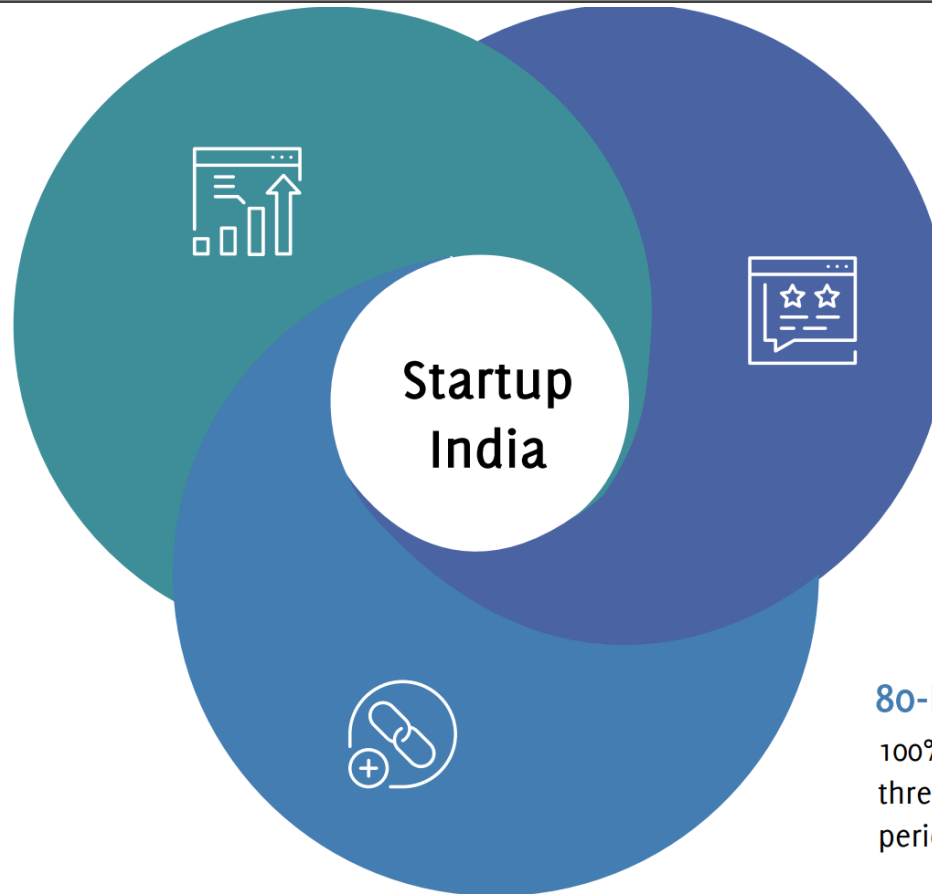
- India is home to over 60,000 Start-ups of which more than 40,000 Start-ups have been recognised by DPIIT (the nodal body for start-up India program)
- 266 Start-ups have received the Income Tax exemption u/s 80 IAC of IT Act
- India is the third largest Start-up country in world (After US & China)
- Start-ups have received almost \$ 60 Bn in funding in last 6 years
- India is having 36 unicorns ( Start-ups with valuation of over \$1 Bn)

# Start-up India Framework

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## Angel Tax Exemption

Consideration received by eligible start-ups for shares issued or proposed to be issued exempt up to an aggregate limit of INR 25 crore



## DPIIT Recognition as Eligible Startup

Recognized as Eligible Startup by DPIIT.

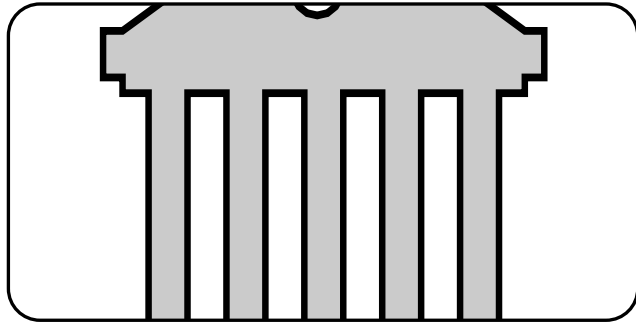
Only DPIIT recognized Startups can avail Tax and Regulatory benefits

## 80-IAC, IMB Exemption

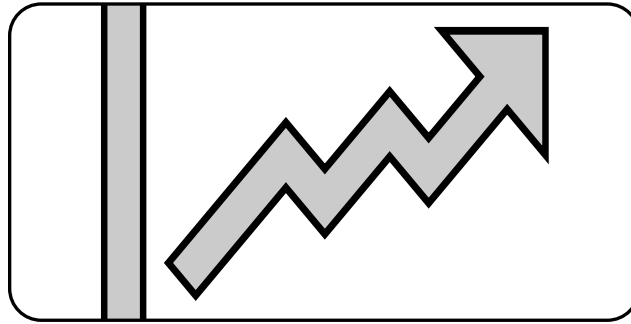
100% Income Tax deduction for any three consecutive years out of a period of Ten Years



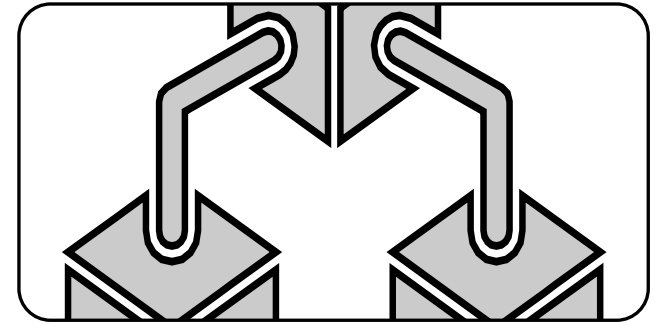
# DPIIT Recognition Criteria



Not older than 10 years  
from the  
date of incorporation /  
registration



Turnover of the start-up  
for any of the financial  
years since incorporation /  
registration not exceeded  
INR 100 crore



Working towards  
innovation or development  
or improvement of  
products/processes/  
services or a scalable  
business model with  
employment generation  
and Wealth creation

# Angel Tax exemption

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- Angel Tax is a term coined for tax levied on consideration received by privately held companies (including startups) towards issue of shares for a value that exceeds the fair value of such shares.
- This tax was levied in 2012 to prevent creation of black money but Start-ups were collateral damage to this.
- Start-ups were provided relief in Budget of 2019 if they fulfilled the following major conditions:
  1. The entity should be a DPIIT recognized Startup
  2. Aggregate amount of paid up share capital and share premium of the Startup after the proposed issue of share, if any, does not exceed ₹ 25 Crore

# Income Tax Exemption

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A recognised Startup may apply for Tax exemption under section 80 IAC of the Income Tax Act. Post getting clearance for Tax exemption, the Startup can avail tax holiday for 3 consecutive financial years out of its first ten years since incorporation.

## **Eligibility Criteria for applying to Income Tax exemption (80IAC):**

- The entity should be a recognized Startup
- Only Private limited or a Limited Liability Partnership is eligible for Tax exemption under Section 80IAC
- The Startup should have been incorporated after 1st April, 2016

# Udyam Registration

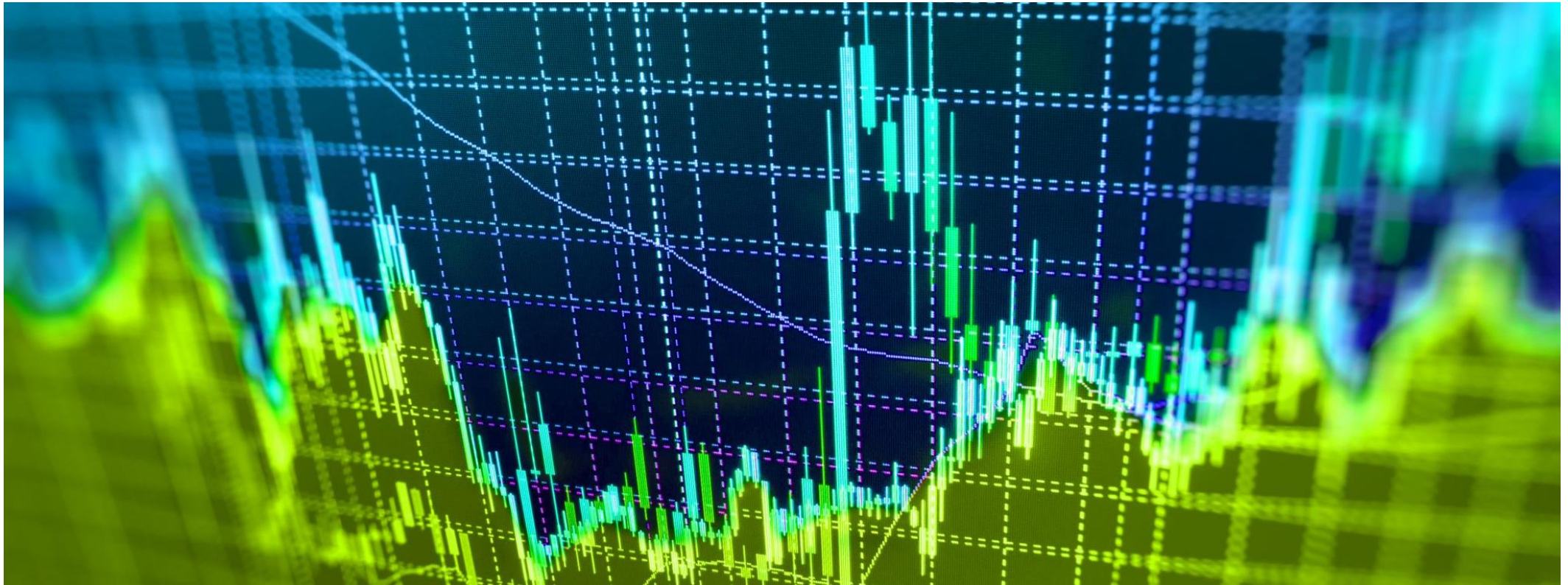
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MSME's (Manufacturing or Services ) can register on Udyam website. The benefits of Udyam are :

1. Loans without collateral
2. Subsidy on Patent Registration & Industrial Promotion
3. Overdraft facility along with Interest Rate Exemption
4. ISO Certification Charges Reimbursement
5. Concession on Electricity
6. Priority in Getting Government Tenders
7. Easy to Get Licenses, Approvals, and Registrations
8. Get exemption under Direct Tax Laws
9. Take Part in International fairs

# FINANCE HACKS- TIPS & TRICKS

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# Problems faced by MSME's & Start-ups

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1. Cash Flow & Funds crunch
2. No Collateral- No Loan
3. Weak Technology in traditional MSME's
4. Delayed payments for the goods or services
5. Lack of awareness about Government policy and regulations
6. Improper Supply chain
7. Price competition/Heavy discounting by E-commerce Platforms
8. Funds mismanagement (esp in well funded Start-ups)



# Pareto's Rule

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Pareto's 80/20 principle states that 80% of the outcome is caused by 20% efforts.

## **Examples:**

50+ different mobile apps on the phone, but 80% of the time you only use the eight on your home screen.

20% of the employees generate 80% of total sales.

20% of customers account for 80% of total profits.

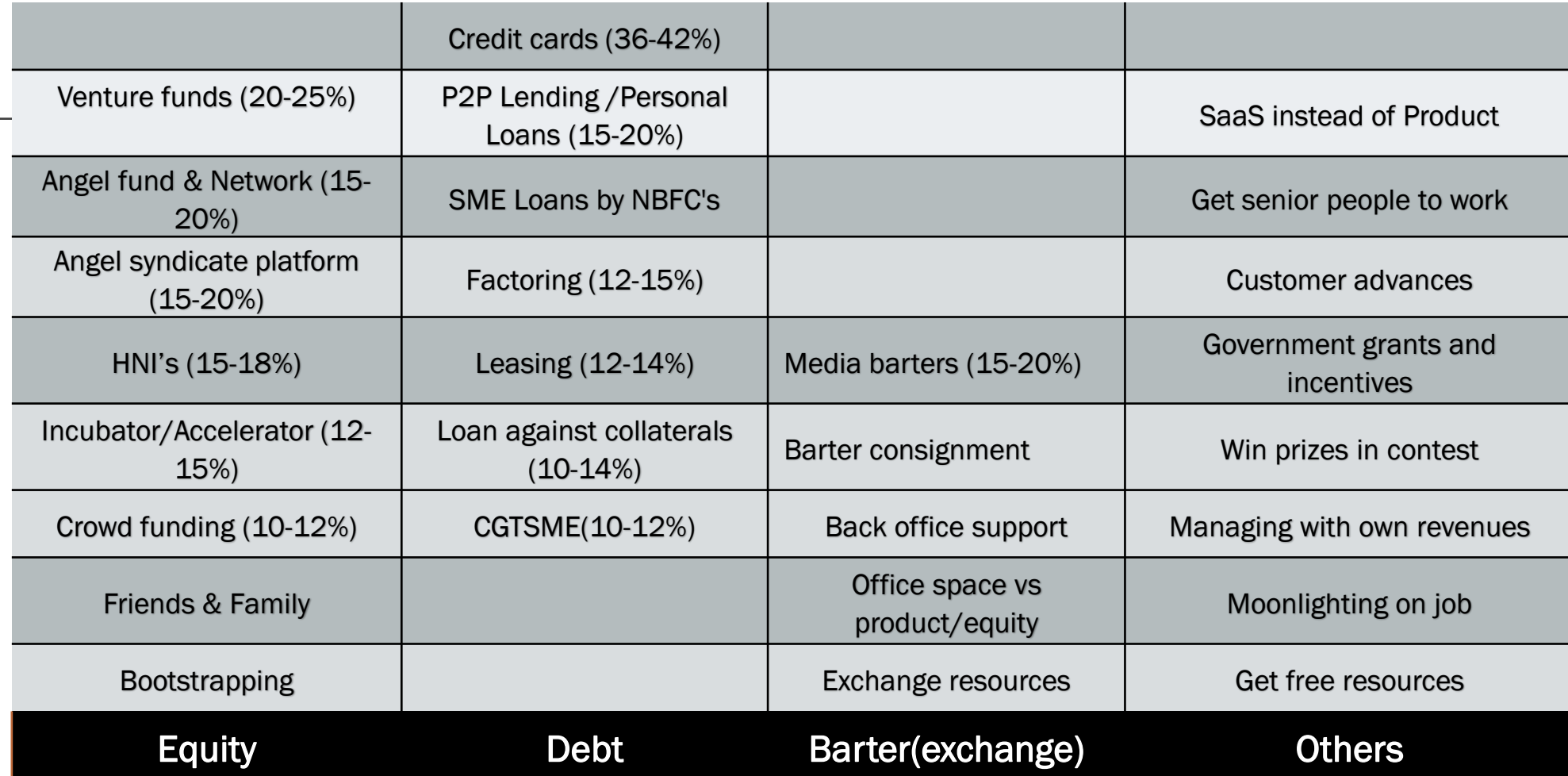
So focus on what is important and gets you maximum Revenue /Profit

# How to apply 80-20 rule?

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1. Limit expenses on those 80% activities that are not generating enough income for you.
2. Look for the most important goals to your company, drop the rest or delegate them.
3. The rule for this is: resist the temptation to clear up small things first.
4. No matter what your situation, it's important to remember that there are only so many minutes in an hour, hours in a day, and days in a week.

# Various Sources of Funds



	Credit cards (36-42%)		
Venture funds (20-25%)	P2P Lending /Personal Loans (15-20%)		SaaS instead of Product
Angel fund & Network (15-20%)	SME Loans by NBFC's		Get senior people to work
Angel syndicate platform (15-20%)	Factoring (12-15%)		Customer advances
HNI's (15-18%)	Leasing (12-14%)	Media barter (15-20%)	Government grants and incentives
Incubator/Accelerator (12-15%)	Loan against collaterals (10-14%)	Barter consignment	Win prizes in contest
Crowd funding (10-12%)	CGTSME(10-12%)	Back office support	Managing with own revenues
Friends & Family		Office space vs product/equity	Moonlighting on job
Bootstrapping		Exchange resources	Get free resources
<b>Equity</b>	<b>Debt</b>	<b>Barter(exchange)</b>	<b>Others</b>

Sources of funds

# TReDS

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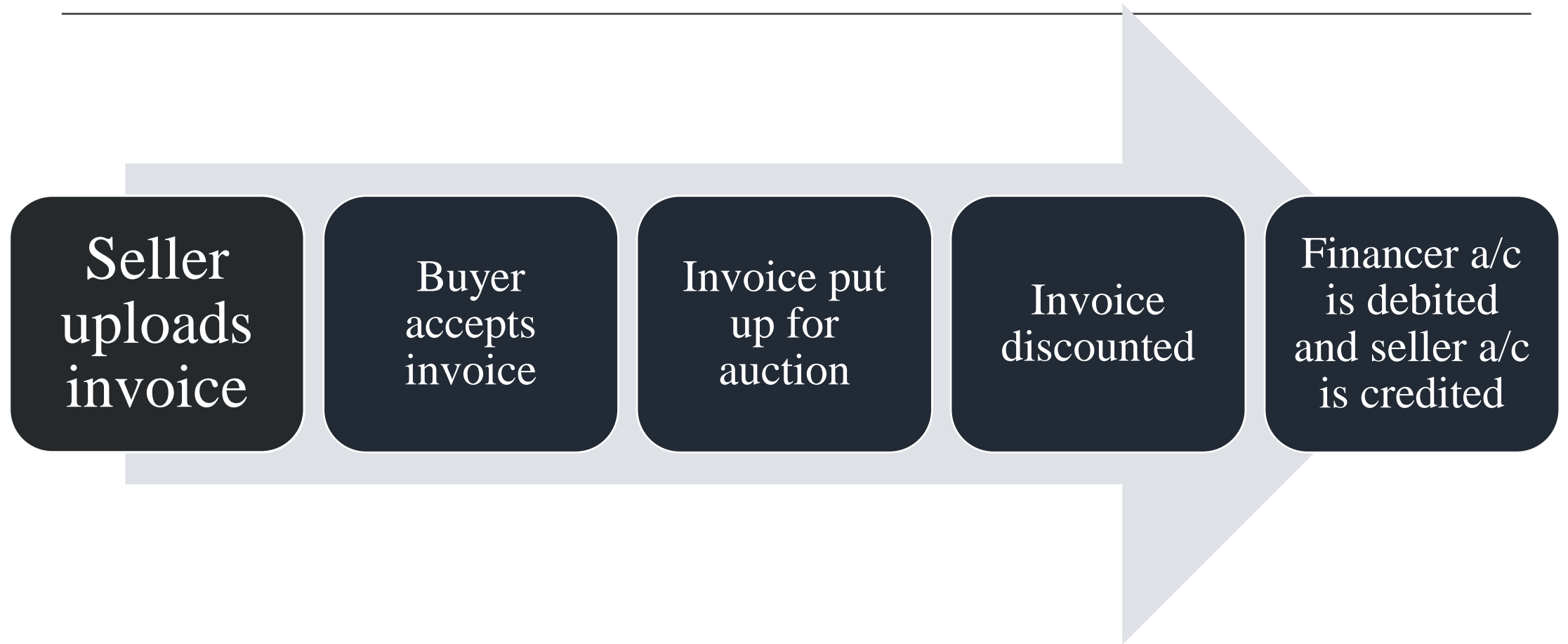
RBI introduced TReDS (Trade Receivables Discounting System) platform to facilitate the discounting of both invoices as well as bills of exchange in 2017.

The RBI granted licenses to three TReDS platforms: M1xchange, RXIL, and Invoicemart.

In just three years, M1xchange and A.TReDS platform 'Invoicemart' have discounted MSME invoices worth a combined Rs 6,000 crore

# TREDS Process

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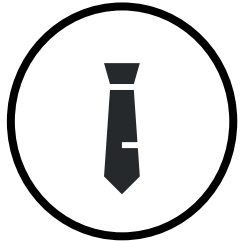
\*Seller bears interest cost

# P2P Platforms

## LENDERS



PEERS



BUSINESS  
PEOPLE



SMALL  
INVESTORS

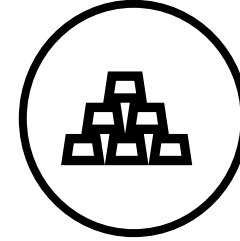


PLATFORM

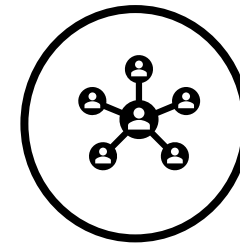
## BORROWERS



INDIVIDUALS



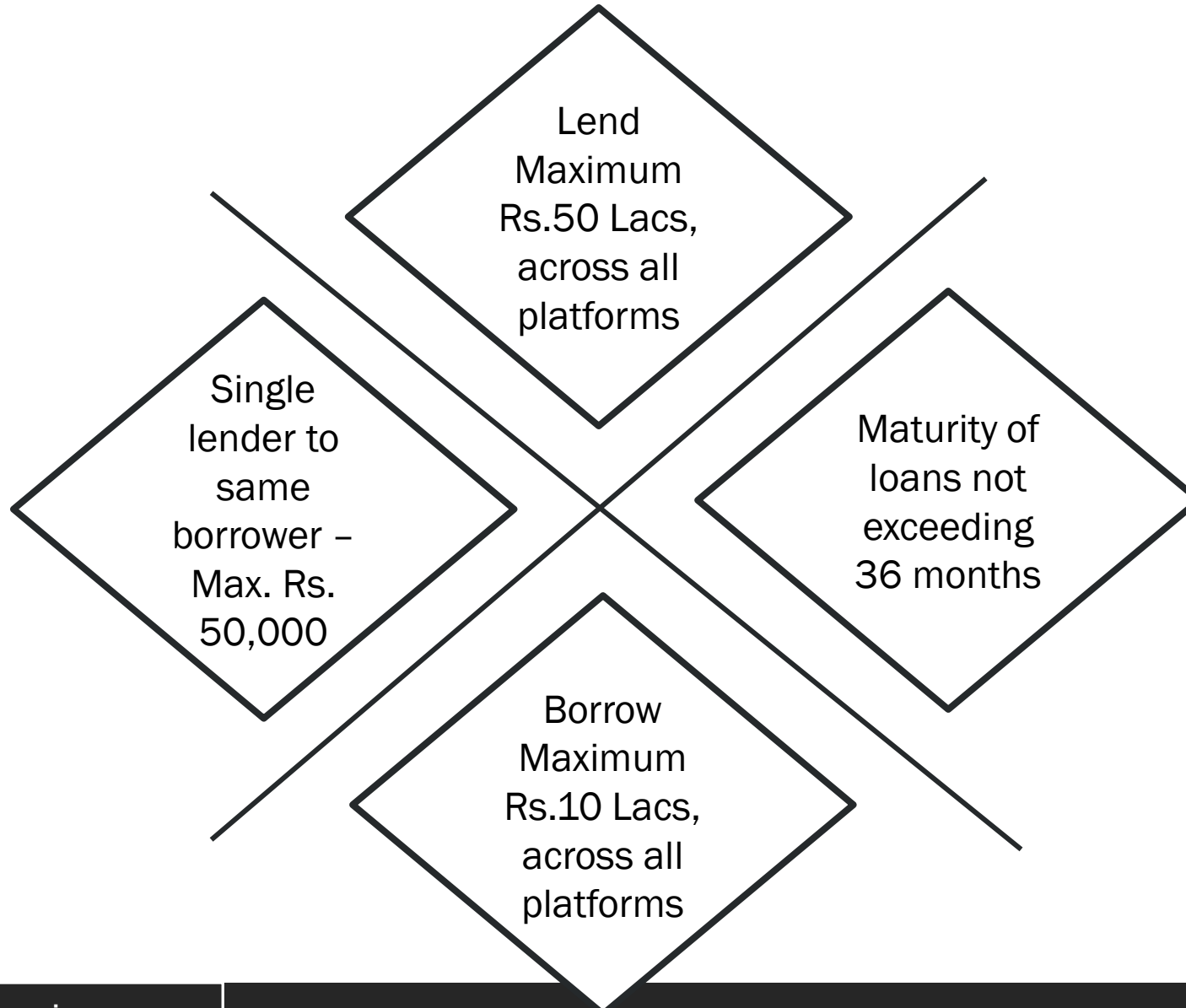
LOAN POOLING



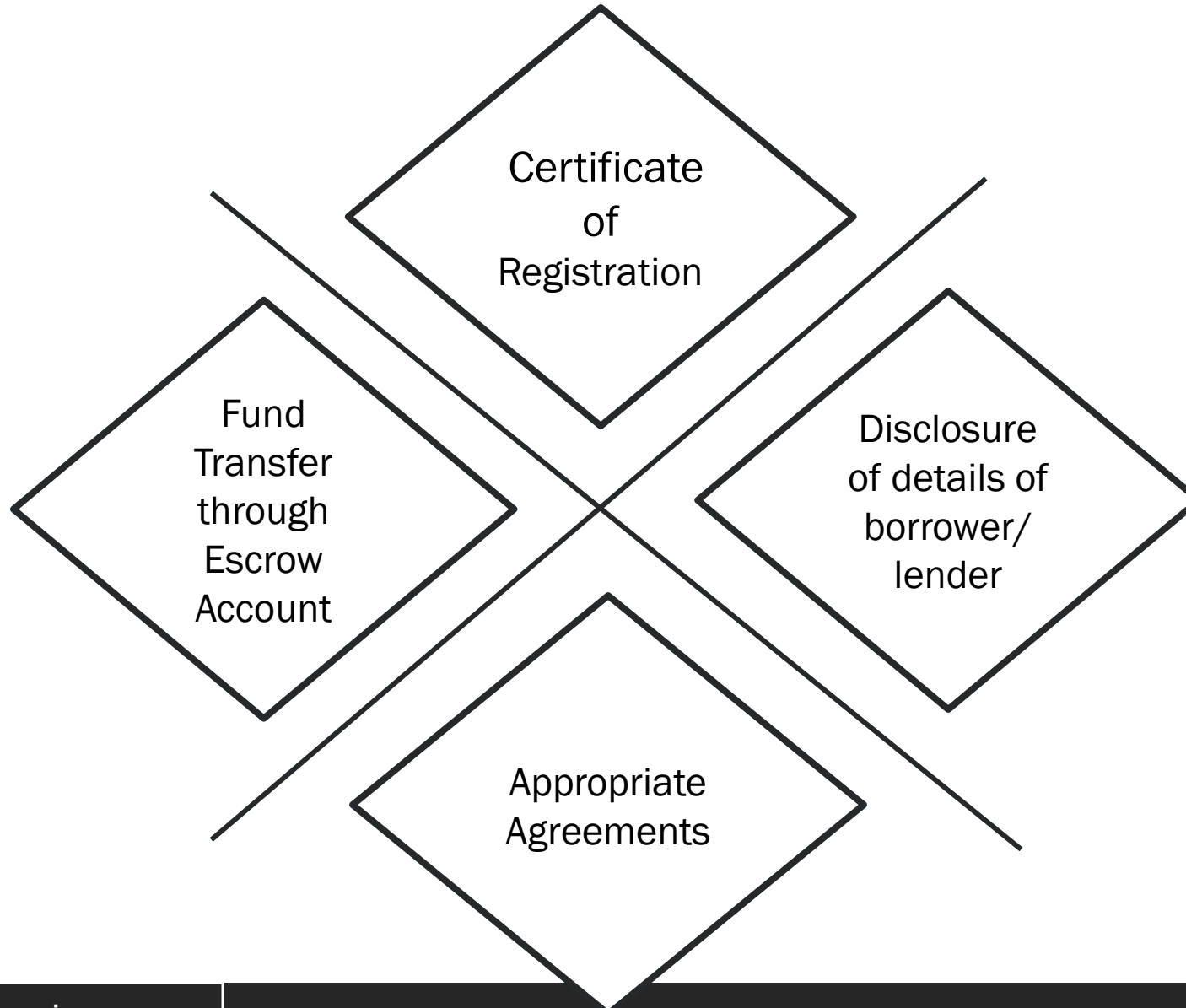
MICRO FINANCE



# RBI Prudential Norms for NBFC-P2P



# Other Master Directions for NBFC-P2P



# Crowd Funding (Equity)

Mentors &  
Advisors

Angel  
investors

Syndicated  
investments

Co-invest in  
every  
transaction



1-2 years of  
existence



Revenue  
Generating



Product Value  
Proposition is  
established



Capital to expand  
customer base

## Major Players

- Lets Venture
- Fundable
- Tracxn Syndicate

# Golden Capital Management Rules

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Never Invest your money without ensuring that assets you acquire can generate a return which is at least equal to the cost of your capital

Invest your money in such a way that the assets will generate an inflow of funds before liabilities demand an outflow

*(\*source: Romancing The Balance Sheet by Anil Lamba)*

# Working Capital Optimisation

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## Debtors

- Execute robust agreements with customers with water tight terms
- Set credit limits for customers
- Track receivables & focus on them using 80/20 rule
- Consider prompt payment discount of ~ 1-2% per month



## Inventories

- Classify inventories on ABC type using 80/20 rule
- Identify slow moving inventories in the 80% value category & focus on its liquidation
- Negotiate discounts and payment terms with suppliers to optimise costs



## Vendors

- Identify critical & noncritical vendors
- Pay critical ones within credit period
- Negotiate early payment discounts with large & critical vendors

# In Conclusion

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Some of the best businesses were started in a recession. To name a few:

Apple, Microsoft, FedEx, General Electric, Hyatt.

Naukri.com, Flipkart in Indian context

**So wear your safety vests and Swim ahead.**

# Thanks ... Questions?

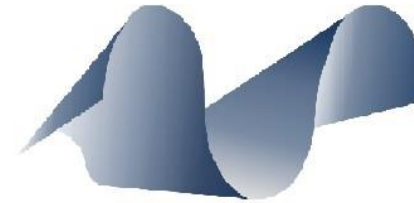
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