ASSOCHAM NEWS & VIEWS

WEEKLY

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MINISTRY OF COMMERCE & INDUSTRY

Index Numbers of Wholesale Price in India (Base: 2011-12=100) Review for the month of March, 2020

The official Wholesale Price Index for 'All Commodities' (Base: 2011-12=100) for the month of March, 2020 declined by 0.90% to 121.1 (provisional) from 122.2 (provisional) for the previous month.

INFLATION

The annual rate of inflation, based on monthly WPI, stood at 1.00% (provisional) for the month of March, 2020 (over March, 2019) as compared to 2.26% (provisional) for the previous month and 3.10% during the corresponding month of the previous year. Build up inflation rate in the financial year so far was 1.00% compared to a build up rate of 3.10% in the corresponding period of the previous year.

The movement of the index for the various commodity group is summarized below:-

PRIMARY ARTICLES (Weight 22.62%)

The index for this major group declined by 2.5% to 139.5 (provisional) from 143.1 (provisional) for the previous month. The groups and items which showed variations during the month are as follows:-

The index for 'Food Articles' group declined by 2.1% to 151.6 (provisional) from 154.9 (provisional) for the previous month due to lower price of egg (17%), poultry chicken (9%), tea (7%), fish-marine, maize and fruits & vegetables (5% each), jowar (4%), bajra and wheat (3% each), gram, paddy, betel leaves and urad (2% each) and fish-inland, arhar, pork, masur and mutton (1% each). However, the price of beef and buffalo meat (8%), moong and peas/chawali (4% each) and ragi and milk (1% each) moved up.

The index for 'Non-Food Articles' group declined by 4.2% to 126.1 (provisional) from 131.6 (provisional) for the previous month due to lower price of floriculture (30%), safflower (kardi seed) (12%), soyabean and gaur seed (8% each), sunflower (7%), raw rubber (4%), linseed, coir fibre, rape & mustard seed and hides (raw) (2% each) and niger seed, copra (coconut), raw jute and castor seed (1% each). However, the price of cotton seed (6%), groundnut seed (5%), skins (raw) (3%) and industrial wood, raw silk, fodder and gingelly seed (sesamum) (1% each) moved up.

The index for 'Minerals' group rose by 4.2% to 153.8 (provisional) from 147.6 (provisional) for the previous month due to higher price of manganese ore (15%), copper concentrate (7%).
and phosphorite (6%). However, the price of chromite (3%), limestone (2%) and bauxite, zinc concentrate and lead concentrate (1% each) declined.

The index for 'Crude Petroleum & Natural Gas' group declined by 6.6% to 81.3 (provisional) from 87.0 (provisional) for the previous month due to lower price of crude petroleum (9%).

**FUEL & POWER (Weight 13.15%)**

The index for this major group declined by 3.1% to 100.7 (provisional) from 103.9 (provisional) for the previous month. The groups and items which showed variations during the month are as follows:

The index for 'Mineral Oils' group declined by 5.6% to 87.2 (provisional) from 92.4 (provisional) for the previous month due to lower price of ATF (19%), naphtha (13%), HSD and kerosene (5% each), petrol and furnace oil (4% each) and LPG (3%). However, the price of petroleum coke (7%) moved up.

**MANUFACTURED PRODUCTS (Weight 64.23%)**

The index for this major group remained unchanged at its previous month level of 118.7. The groups and items which showed variations during the month are as follows:

The index for 'Manufacture of Food Products' remained unchanged to its previous level of 136.9. The items which decreased where rice bran extract (9%), rice bran oil (3%), cotton seed oil cake (2%) and gur, rapeseed oil, gram powder (Besan), honey, chicken/duck, dressed- fresh/frozen, palm oil, maida, gola& similar cattle feed, sunflower oil, vegetable starch, rice products and cotton seed oil (1% each). However, the price of molasses (6%), coffee powder with chicory (4%), spices (including mixed spices) (3%), groundnut oil, fish frozen/canned/processed and mustard oil cake (2% each) and processed tea, vanaspati, mustard oil, bagasse, sooji (rawa), sugar confectionary, rice non-basmati, corn flake and ice cream (1% each) moved up.

The index for 'Manufacture of Tobacco Products' group rose by 0.4% to 154.8 (provisional) from 154.2 (provisional) for the previous month due to higher price of other tobacco products (1%). However, the price of cigarette (1%) declined.

The index for 'Manufacture of Textiles' group declined by 0.1% to 116.6 (provisional) from 116.7 (provisional) for the previous month due to lower price of manufacture of knitted and crocheted fabrics (1%). However, the price of viscose yarn (2%) moved up.

The index for 'Manufacture of Wearing Apparel' group rose by 0.1% to 138.0 (provisional) from 137.8 (provisional) for the previous month due to higher price of manufacture of wearing apparel (woven), except fur apparel (1%). However, the price of manufacture of knitted and crocheted apparel (1%) declined.
The index for 'Manufacture of Leather and Related Products' group rose by 0.1% to 117.9 (provisional) from 117.8 (provisional) for the previous month due to higher price of harness, saddles & other related items (2%) and chrome tanned leather and waterproof footwear (1% each). However, the price of travel goods, handbags, office bags, etc. and plastic/PVC chappals (1% each) declined.

The index for 'Manufacture of Wood and of Products of Wood and Cork ' group rose by 0.2% to 133.0 (provisional) from 132.7 (provisional) for the previous month due to higher price of wooden box/crate (2%). However, the price of wood cutting, processed/sized (1%) declined.

The index for 'Manufacture of Paper and Paper Products' group rose by 0.3% to 120.3 (provisional) from 120.0 (provisional) for the previous month due to higher price of pulp board (4%), corrugated sheet box (3%), tissue paper (2%) and card board and corrugated paper board (1%). However, the price of laminated plastic sheet (4%) and paper carton/box (2%) declined.

The index for 'Printing and Reproduction of Recorded Media ' group rose by 1.2% to 153.3 (provisional) from 151.5 (provisional) for the previous month due to higher price of printed books (2%) and hologram (3d) and journal/periodical (1% each).

The index for 'Manufacture of Chemicals and Chemical Products' group declined by 0.2% to 115.8 (provisional) from 116.0 (provisional) for the previous month due to lower price of mono ethyl glycol (10%), ammonia gas (9%), sulphuric acid (8%), polystyrene, expandable (4%), organic solvent and catalysts (3% each), superphosphate/phosphatic fertilizer, others, alkyl benzene, other inorganic chemicals, poly propylene (PP) and camphor (2% each) and carbon black, ammonium phosphate, aniline (including PNA, ONA, OCPNA), organic chemicals, shampoo, ethyl acetate, additive and adhesive excluding gum (1% each). However, the price of nitric acid (9%), hydrogen peroxide (6%), oleoresin, agarbatti, menthol and safety matches (match box) (2% each) and phthalic anhydride, toilet soap, viscose staple fibre, ammonium nitrate, caustic soda (sodium hydroxide), gelatine, polyester fibre fabric, varnish (all types), fatty acid, poly vinyl chloride (PVC), liquid air & other gaseous products, foundry chemical, explosive, di ammonium phosphate and mixed fertilizer (1% each) moved up.

The index for 'Manufacture of Pharmaceuticals, Medicinal Chemical and Botanical Products' group rose by 0.2% to 130.6 (provisional) from 130.3 (provisional) for the previous month due to higher price of vials/ampoule, glass, empty or filled (5%), simvastatin (2%) and API & formulations of vitamins, antioxidants, anti-malarial drugs and antibiotics & preparations thereof (1% each). However, the price of antidiabetic drug excluding insulin (i.e. tolbutam) (6%) and anti-retroviral drugs for HIV treatment (2%) declined.

The index for 'Manufacture of Other Non-Metallic Mineral Products' group rose by 0.2% to 116.5 (provisional) from 116.3 (provisional) for the previous month due to higher price of stone, chip (6%), porcelain sanitary ware (3%), slag cement and cement superfine (2% each) and granite, toughened
glass and fibre glass incl. sheet (1% each). However, the price of electric insulating material (2%) and non ceramic tiles, white cement, marble slab, ceramic tiles (vitrified tiles), ordinary sheet glass, railway sleeper, lime and calcium carbonate and clinker (1% each) declined.

The index for 'Manufacture of Basic Metals' group declined by 0.4% to 106.6 (provisional) from 107.0 (provisional) for the previous month due to lower price of stainless steel pencil ingots/billets/slabs (5%), MS pencil ingots and pig iron (2% each) and hot rolled (HR) coils & sheets, including narrow strip and steel forgings - rough (1% each). However, the price of rails (6%), ferrosilicon (4%), stainless steel coils, strips & sheets (3%), aluminium disk and circles (2%) and cast iron, castings, angles, channels, sections, steel (coated/not), brass metal/sheet/coils, stainless steel bars & rods, including flats and ferrochrome (1% each) moved up.

The index for 'Manufacture of Fabricated Metal Products, Except Machinery and Equipment' group rose by 0.1% to 114.7 (provisional) from 114.6 (provisional) for the previous month due to higher price of forged steel rings and cylinders (2% each) and steel drums and barrels and steel container (1% each). However, the price of sanitary fittings of iron & steel (8%), jigs & fixture (5%), bracket (2%) and hand tools and hose pipes in set or otherwise (1% each) declined.

The index for 'Manufacture of Computer, Electronic and Optical Products' group declined by 0.2% to 109.3 (provisional) from 109.5 (provisional) for the previous month due to lower price of electronic printed circuit board (PCB)/micro circuit (4%) and x-ray equipment (2%). However, the price of electro-diagnostic apparatus, used in medical, surgical, dental or veterinary sciences (4%) moved up.

The index for 'Manufacture of Electrical Equipment' group rose by 0.9% to 111.7 (provisional) from 110.7 (provisional) for the previous month due to higher price of transformer (6%), cooling tower (2%) and jelly filled cables and electric welding machine (1% each). However, the price of fibre optic cables (3%), safety fuse (2%) and electric mixers/grinders/food processors, electric filament type lamps, flourescent tube, rubber insulated cables and AC motor (1% each) declined.

The index for 'Manufacture of Machinery and Equipment' group declined by 0.4% to 112.9 (provisional) from 113.4 (provisional) for the previous month due to lower price of air or vacuum pump (4%), air gas compressor including compressor for refrigerator and roller and ball bearings (3% each), manufacture of bearings, gears, gearing and driving elements, pharmaceutical machinery, mining, quarrying & metallurgical machinery/parts and dumper (2% each) and hydraulic equipment (1%). However, the price of gasket kit (7%) and excavator (1%) moved up.

The index for 'Manufacture of Motor Vehicles, Trailers and Semi-Trailers' group rose by 0.5% to 115.4 (provisional) from 114.8 (provisional) for the previous month due to higher price of minibus/bus (4%) and head lamp and cylinder liners (1% each). However, the price of brake pad/brake liner/brake block/brake rubber, others (3%), chassis of different vehicle types (2%) and piston ring/piston and compressor (1%) declined.
The index for 'Manufacture of Furniture' group rose by 2.1% to 130.9 (provisional) from 128.2 (provisional) for the previous month due to higher price of foam and rubber mattress (14%). However, the price of hospital furniture (7%) and wooden furniture (1%) declined.

The index for 'Other Manufacturing' group rose by 0.5% to 117.6 (provisional) from 117.0 (provisional) for the previous month due to higher price of gold & gold ornaments (1%) and cricket bat (1%). However, the price of silver (6%), cricket ball (2%) and sports goods of rubber (incl. balls) (1%) declined.

**WPI FOOD INDEX (Weight 24.38%)**

The rate of inflation based on WPI Food Index consisting of 'Food Articles' from Primary Articles group and ‘Food Product’ from Manufactured Products group decreased from 7.31% in February, 2020 to 5.49% in March, 2020.

**FINAL INDEX FOR THE MONTH OF JANUARY, 2020 (BASE YEAR:2011-12=100)**

For the month of January, 2020 the final Wholesale Price Index for 'All Commodities' (Base: 2011-12=100) stood at 123.4 as compared to 122.9 (provisional) and annual rate of inflation based on final index stood at 3.52% as compared to 3.10% (provisional) respectively as reported on 14.02.2020.
Government amends the extant FDI policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic

The Government of India has reviewed the extant Foreign Direct Investment (FDI) policy for curbing opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic and amended Para 3.1.1 of extant FDI policy as contained in Consolidated FDI Policy, 2017. Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry has issued Press Note No. 3(2020 Series) in this regard. The present position and revised position in the matters will be as under:

**Present Position**

Para 3.1.1: A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, a citizen of Bangladesh or an entity incorporated in Bangladesh can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defence, space, atomic energy and sectors/activities prohibited for foreign investment.

**Revised Position**

Para 3.1.1:

3.1.1(a) A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defence, space, atomic energy and sectors/activities prohibited for foreign investment.

3.1.1(b) In the event of the transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction/purview of the para 3.1.1(a), such subsequent change in beneficial ownership will also require Government approval.

The above decision will take effect from the date of FEMA notification.
Finance Minister Smt. Nirmala Sitharaman attends the Development Committee Meeting of the World Bank-IMF


In her intervention at this session, Smt Nirmala Sitharaman state that given the size of our population, India could have become a major COVID hotspot. The Government has been taking no chances, launched massive efforts to assist the health system respond effectively to the outbreak. Important measures included social distancing, travel restrictions, work from and stay at home in public and private sectors, and direct health interventions centred on scaled up testing, screening and treatment, have helped contain impact of the pandemic.

The Finance Minister shared that the Government has announced support measures worth US $ 23 billion comprising free health insurance to health workers; cash transfers, free food and gas distribution; and social security measures for affected workers. To help firms, especially SME firms, cope with sudden loss of economic opportunity, the Government has provided relief in statutory and regulatory compliance matters related to income tax, GST, customs, financial services and corporate affairs. The Central Bank has also been accommodative. Regulators are taking steps to reduce market volatility. Government is working extensively with stakeholders for providing additional relief in the form of humanitarian aid and to provide economic stimulus in coming days.

Smt Sitharaman also mentioned that as responsible citizens of the global community, we are supplying critical medicines to the needy countries and will continue to do so if the situation demands. She commended the speedy response and efficiency of the World Bank Group in rolling out the Fast Track COVID-19 Response Facility.
CBDT revising return forms to enable taxpayers avail benefits of timeline extension due to Covid-19

In order to enable income taxpayers to avail full benefits of various timeline extensions granted by the Government of India due to Covid-19 pandemic situations, the CBDT is revising the return forms for FY 2019-20 (Assessment Year 2020-21) which shall be notified by the end of this month.

CBDT said that in order to facilitate taxpayer to avail full benefits with various timeline extension up to 30th June 2020 granted by the government, it has initiated necessary changes in the return forms so that taxpayers could take benefits of their transactions carried out during the period from 1st April 2020 to 30th June 2020 in the return forms for FY 2019-20.

CBDT explained that the necessary modifications in the return forms are being made to allow taxpayers to avail the benefits of their investments/transactions made for the Apr-to-Jun 2020 period. Once the revised forms are notified, it will further necessitate the consequential changes in the software and return filing utility. Hence, the return filing utility after incorporating necessary changes shall be made available by 31st May, 2020 to avail benefits for FY 2019-20.

CBDT said that due to outbreak of Covid-19, the Government has extended various time lines under the Income-tax Act, 1961 vide Taxation and Other Laws (Relaxation of certain provisions) Ordinance, 2020. Accordingly, the time for making investment/ payments for claiming deduction under Chapter-VIA-B of IT Act which includes Section 80C (LIC, PPF, NSC etc.), 80D (Mediclaim), 80G (Donations), etc. for FY 2019-20 has also been extended to 30th June 2020. Also, the dates for making investment/construction/purchase for claiming roll over benefit in respect of capital gains under sections 54 to section 54GB has also been extended to 30th June 2020. Therefore return forms are being revised to facilitate reporting of the transactions of the relief period.

It may be noted that generally the income-tax return forms are notified in the first week of April. This year also the e-filing utility for filing of return for Assessment Year 2020-21 was made available as on 1st April, 2020, and the Income-tax Return (ITR) Forms ITR-1 (Sahaj) and ITR-4 (Sugam) for the FY 2019-20 (Assessment Year 2020-21), too, were already notified vide notification dated 3rd January, 2020. However, to ensure that the taxpayer is enabled to avail all benefits of the timeline extension due to Covid-19 pandemic, the Return Forms revision is being carried out.
MINISTRY OF FINANCE

E-mails for facilitating faster refund can not be misconstrued as harassment: CBDT

The Central Board of Direct Taxes (CBDT) responding to some observations being circulated on social media alleging that the Income Tax Department is pursuing recovery proceedings and using arm-twisting methods by adjusting outstanding demands of the start-ups, today stated that these observations are completely unfounded and are total misrepresentation of facts.

The CBDT said that its email seeking clarification from all those who are entitled to get tax refund but also have outstanding tax to pay cannot be misconstrued as harassment. These computer generated emails have been sent to almost 1.72 lakh assessees which includes all classes of taxpayers – from individual to HUF to firms, big or small companies including start-ups and therefore to say that start-ups are being singled out and harassed is total misrepresentation of facts.

The CBDT said that these emails are part of the faceless communication which protects public money by ensuring that refunds are not released without adjusting against outstanding demand, if any. These emails are auto-generated u/s 245 of the I-T Act in refund cases where there is any outstanding demand payable by the assessee. In case the outstanding demand has already been paid by the taxpayer or it has been stayed by the higher tax authorities, the taxpayers are requested through these mails to provide the status update so that while issuing the refund, these amounts are not held back and their refunds are released forthwith.

The CBDT said that such communications are just a request for seeking an update response from the assessee for the proposed adjustment of refund with the outstanding demand and cannot be misconstrued as a notice of recovery or be perceived as so-called arm-twisting by the I-T department because the department is duty bound to protect public money by adjusting the outstanding demand before releasing the refund.

The CBDT further said that in order to provide hassle-free tax environment to the start-ups, a consolidated Circular no. 22/2019 dated 30th August 2019 was issued by the CBDT. Apart from laying down the modalities for assessment of start-ups, it also stipulated that the outstanding income tax demands relating to additions made under Section 56(2)(viib) would not be pursued. Any other income tax demand of such start-ups would also not be pursued unless the demand was confirmed by ITAT. Furthermore, a start-up cell was also constituted to redress grievances of start-ups and address other tax related issues of such concerns.

Explaining the extant procedure pertaining to recovery of outstanding demands in the case of an assessee, the CBDT said that an opportunity is provided by the department to the assessee to either clear the demand or intimate the status of said demand to the I-T Department. Invariably, such communication is made by the department by sending an email to the assessee informing it of the quantum of outstanding demand and providing an opportunity to pay the demand or respond with evidence regarding payment of the same if already made, or update the status of any other action on it.
The CBDT said that the assessee on its part is required to furnish details of the pending demand, whether it has been paid or has been stayed by any appellate/competent authority so that the department could keep the same in abeyance and do not deduct this amount from refund.

Thus, following the existing procedure of recuperation of outstanding demand, similar mails have also been sent to 1.72 lakh assessees including start-ups to intimate to the I-T department, the status of the demand outstanding and whether it has been stayed by the competent authority so that appropriate action can be taken for release of refunds without delay to the start-up. However, not providing such a response to the emails of I-T dept and raising false alarm is contrary to the spirit of the Circular 22/2019 of CBDT and is totally unjustified.

The CBDT further requested the start-ups to respond to its emails at the earliest so that further necessary action can be taken by the I-T Department to release the refunds immediately wherever due, in accordance with the extant procedure.

The CBDT reiterated that pursuant to the 8th April 2020 declaration vide an earlier Press Release of the Government, the CBDT has till date issued nearly 14 lakh refunds involving an amount of over Rs. 9,000 crore to various taxpayers including individuals, HUFs, proprietors, firms, corporate, start-ups, MSMEs in order to help taxpayers in the COVID-19 pandemic situation. Many refunds are pending for the want of response from the taxpayers and will be issued at the earliest possible once the information is updated.
RESERVE BANK OF INDIA

Census on Foreign Liabilities and Assets of Indian Direct Investment Entities, 2018-19 – Data Release

The Reserve Bank released the provisional results of the 2018-19 round of the annual census on foreign liabilities and assets (FLA) of Indian direct investment (DI) entities that have cross-border liabilities and assets arising on account of foreign direct investment (FDI) in India and/or overseas direct investment (ODI). The reporting entities include companies, limited liability partnership (LLP), alternative investment fund (AIF) and partnership firms.

Of the 28,004 entities, which responded in the latest census round, 25,009 had FDI/ODI in their balance sheet in March 2019. Of these, 18,110 entities had reported in the previous census round and 6,899 reported for the first time; 2,622 entities of the previous round did not report in the latest round. At the aggregate level, foreign equity participation in inward DI companies was high as over three-fourths of them were subsidiaries of foreign companies (i.e., single foreign investor holding more than 50 per cent of total equity).

The census yields comprehensive information on (a) market value of foreign liabilities and assets of Indian DI companies arising on account of FDI, ODI and other investments; and (b) other business parameters (activity sector, sales, purchase, export and import). It is important to note that changes in outstanding asset/liabilities would be different from flows recorded in the balance of payments (BoP) statistics during a year, as the former would also include valuation changes due to price, exchange rate movements and other changes.

Main Findings:

- Over 96 per cent of the DI entities were unlisted and they had larger foreign equity share in the total equity capital vis-à-vis listed companies (Tables 1 and Tables 2A).
- FDI equity accounted for nearly 80 per cent share in total paid-up capital of non-financial FDI companies; FDI equity participation of financial FDI companies was lower at around 68 per cent (Table 2B).
- Total FDI in India at market value increased by 13.2 per cent (in rupee terms) during 2018-19 and stood at ₹32,92,902 crore (USD 476.1 billion) at March-end 2019. Total ODI also increased by 13.2 per cent (in rupee terms at market value) to ₹5,92,930 crore (USD 85.7 billion) over the same period (Table 3). The ratio of inward to outward direct investment at market value stood at 5.6 per cent.
- Equity participation covered nearly 94.8 per cent of FDI and 77.5 per cent of ODI. For both ODI and FDI, however, equity growth during 2018-19 was lower than that in debt.
- Other investment liabilities of DI entities increased significantly during 2018-19 due to a surge in trade credit (Table 4).
- The US displaced Mauritius as the largest source of FDI in India (17.8 per cent share at market value), was followed by the UK, Mauritius, Singapore and Japan (Table 5).
- Singapore (17.8 per cent share at market value) was the largest destination of investment by Indian companies, followed by the Netherlands, the US and Mauritius (Table 6).
• The manufacturing sector had a dominant share in FDI equity capital (face value) as well as in total FDI at market value; ‘information and communication services’ and ‘financial and insurance activities’ were other major recipients of FDI (Tables 7 and 8).

• Total sales (including exports) of foreign subsidiaries in India increased by 17.0 per cent during 2018-19, while their total purchase (including imports) grew by 20.1 per cent (Tables 9A and 9B).

• The share of exports to total sales of foreign subsidiaries in India was 31.0 per cent vis-à-vis 38.8 per cent import share in total purchases during 2018-19 (Tables 9C and 9D). Foreign subsidiaries in the information and communication services contributed substantially to exports.

• Total sales (including exports) of overseas subsidiaries of Indian companies increased by 15.5 per cent during 2018-19, while their total purchase (including imports) grew by 16.1 per cent (Table 10A and 10B).

• In the case of overseas subsidiaries of Indian companies, the share of imports in their total purchases (63.4 per cent) during 2018-19 was substantially higher than their exports in total sales (45.0 per cent) (Table 10C and 10D).

• The difference in the purchase-to-sales ratio of overseas subsidiaries of Indian companies (77.8 per cent) vis-à-vis that for foreign subsidiaries in India (65.7 per cent) reflects the divergence in their focus areas, nature of markets and patterns of value addition.

(Yogesh Dayal)
Chief General Manager
RESERVE BANK OF INDIA

COVID19 Regulatory Package - Asset Classification and Provisioning

Please refer to the Governor’s Statement of April 17, 2020 announcing certain additional regulatory measures aimed at alleviating the lingering impact of Covid19 pandemic on the businesses and financial institutions in India, consistent with the globally coordinated action committed by the Basel Committee on Banking Supervision. In this regard, the detailed instructions with regard to asset classification and provisioning are as follows:

(i) Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC)

2. In terms of the circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 (‘Regulatory Package’), the lending institutions were permitted to grant a moratorium of three months on payment of all term loan instalments falling due between March 1, 2020 and May 31, 2020 (‘moratorium period’). As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

3. Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 up to May 31, 2020 to be deferred (‘deferment period’). Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

4. NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per ICAI Advisories for recognition of the impairments.

(ii) Provisioning

5. In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 per cent

(ii) Quarter ending June 30, 2020 – not less than 5 per cent

6. The above provisions may be adjusted against the actual provisioning requirements for slippages from the accounts reckoned for such provisions. The residual provisions at the end of the financial year can be written back or adjusted against the provisions required for all other accounts.
7. The above provisions shall not be reckoned for arriving at net NPAs till they are adjusted against the actual provisioning requirements as under paragraph 6 above. Further, till such adjustments, these provisions shall not be netted from gross advances but shown separately in the balance sheet as appropriate.

8. All other provisions required to be maintained by lending institutions, including the provisions for accounts already classified as NPA as on February 29, 2020 as well as subsequent ageing in these accounts, shall continue to be made in the usual manner.

Other Conditions

9. The exclusions permitted in terms of para 2 and 3 above shall be duly reckoned by the lending institutions in their supervisory reporting as well as reporting to credit information companies (CICs); i.e., the days past due and SMA status, where applicable, as on March 1, 2020 will remain unchanged till May 31, 2020.

10. The lending institutions shall suitably disclose the following in the ‘Notes to Accounts’ while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years 2019-20 and 2020-2021:

(i) Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended, in terms of paragraph 2 and 3;

(ii) Respective amount where asset classification benefits is extended.

(iii) Provisions made during the Q4FY2020 and Q1FY2021 in terms of paragraph 5;

(iv) Provisions adjusted during the respective accounting periods against slippages and the residual provisions in terms of paragraph 6.

Yours faithfully,

(Saurav Sinha)
Chief General Manager-in-Charge