Sub: Impact of Covid-19 on Industries and support sought from Government of India to overcome the distress in the Manufacturing Sector of AP.

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At the outset, let me take this opportunity to congratulate you sir, for providing dynamic leadership in handling of the COVID 19 pandemic across the country. Your guidance to the states has been in the spirit of consultative federalism which speaks volumes of your support to states in handling the pandemic. In the wake of the global COVID -19 pandemic and its eventual economic impact, the industries in Andhra Pradesh are suffering from severe distress. In addition to piling up of inventory due to trade and export restriction, the absence of the workforce has also hit the industry very hard. While all the markets are shut down, the uncertainty around future demand looms large over the sector.

Manufacturing sector in Andhra Pradesh has contributed Rs 72,523 Cr, i.e. 11.83 % of the State GVA, in 2018-19 (Constant prices). Additionally, the state registered exports of Rs 98,983 Crores in FY 2018-19, out of which Drugs and Pharmaceuticals accounted for Rs 24,537 Crores, Engineering items accounted for Rs 19,554 Crores, Electrical and Electronics Parts accounted for Rs 2,237 Crores and Handlooms and Textiles accounted for Rs 5,765 Crores.

Thus, Andhra Pradesh significantly contributes to the nation's manufacturing output as well as its exports. However, given the current pandemic, the manufacturing sector in the state is in great peril and needs support in order to sustain itself and prosper in the long run. In this context, please find below our request for support for each of the sub-sectors in the manufacturing sector within the state.
1. Micro, Small and Medium Enterprises (MSMEs)

You will appreciate that the MSMEs are the backbone of the industry and service sector in the state generating huge employment for the downtrodden. The impact on MSME is high because MSMEs provide employment to more than 1l million people in the State and contributes around 7-8% to the State's GSDP. In this regard, I would like to inform that about 94% of the MSME units in the state of AP are locked down, while 6% of the units are operating at 25-30% of full capacity. The MSMEs are not able to sustain their businesses owing to liquidity crisis, lack of manpower, movement of products and disruption of business operations etc. Besides this, the MSMEs engaged in hotel industry, tourism sector and logistics have been witnessing a sharp drop in business.

Further, I would like to reiterate that the impact on MSMEs is likely to have a cascading effect across the value chain even after the lockdown is eased owing to global slowdown in demand. The contractual, wage labour will get impacted more leading to lay offs, unrest, lowering of purchasing power. Sectors which are dependent on high imports of raw material such as electronics, consumer durables, pharma etc. are facing bottlenecks and so are the export-oriented units due to a major drop in demand from Europe and US primarily. Considering the potential of the MSMEs sector and its contribution to the country's economy, the Government of India is requested to kindly extend the following support to the sector in the state

I. Wage and related support

a. Create a fund for supporting MSMEs in terms of additional liquidity to meet their wage liabilities during the shutdown.

b. Utilize the ESIC funds under Rajiv Gandhi Shramik Kalyan Yojana, Atal Beemit Vyakti Kalyan Yojana to pay workers for the lockdown period i.e. to consider the lockdown period as national emergency leading to temporary closure of workplace due to natural calamity.

c. Provide a Moratorium for all PF, ESI and Gratuity payments by employer for six months if the employer does not retrench or remove more than 10% of its workforce.

II. Cash Flow and Working Capital

a. EMIs and interest on working capital may be deferred till things normalize.

b. RBI has already allowed a deferment for 3 months, however as a special
dispensation to MSMEs the period could be extended
c. Cap the interest chargeable to 7% for the period 15th March to 31st December.
d. Additional ad-hoc sanction of working capital to the tune of 25% of the current Sanctioned Limit.
e. To declare 12 months moratorium period on all repayments of MSMEs towards Term loans availed from banks, NBFCs and state finance corporations.

III. Fulfilment of Government orders and release of delayed payments

The cases in the MSME facilitation councils across the country shows that the highest amount of delayed payments to MSMEs are pending from Government departments and PSUs only with a huge delay although 45 days’ timeline is prescribed under the Micro and Small Enterprises under Micro, Small and Medium Enterprise Development (MSMED) Act, 2006.

a. All delayed payments of the government to MSMEs should be released immediately. In addition, PSUs and Government department may be instructed to release payment of MSME vendors out of turn against some reasonable discount if required by the said vendor so as to overcome his/her liquidity issues.
b. There will be inevitable delays in making deliveries against government orders due to disruptions. Government departments making purchases should not impose delay penalty.
c. Completion dates of the government projects need to be reconsidered and extended without liquidated damages, till such time the fear of COVID-19 is over.
d. At present any Government vendor (state & central) has to submit Guarantee in the form of Earnest Money Deposit (@2%); Security Deposit (@5%) and Performance Security Deposit (@10%) of the contract values. MSME’s today are waived from submitting EMD but SD and PSD apply. This should be waived off the next 6 months. Alternatively, replace with indemnity bonds or Director’s security.

IV. Energy Charges related

The MSME which are closed due to the pandemic lockdown are facing a huge burden of minimum demand charges of electricity dues which are levied irrespective of the working status of the unit. These may be waived
by Govt of India for these units so that the burden of demand charges on the MSMEs can be properly addressed.

V. Filing of GST

a. Increase the threshold limit of GST Compliance eligibility to Rs.100 lakhs a year turnover from the current Rs.20 lakhs and Rs.40 lakhs both for SME and Service sectors. This will help the traffic at GST portal reduced at the last date as well and enable smooth digital usage for GST implementation.

b. GST payment to be deferred till the business become normal. Interest free GST deferral scheme should be announced for next one year, similar to VAT, IFST facility.

VI. Exports/Imports

To avail PCFC (packing credit in foreign currency) loan against export orders, exporters must provide required documents within a committed period. However, due to lock down, industries are closed, and shipments are held up. So, exporters are not able to handover the documents to the bank within committed period. MSMEs should be allowed extended period for submission of the documents.

2. Textile Manufacturing

As the Textile Sector provides employment to largest workforce, this sector must be supported along with its full value chain. In Andhra Pradesh itself 2,50,000 workforce is directly and indirectly engaged in 120 spinning mills in the state and another 50,000 in ancillary units. As you are aware, in textiles sector, spinning and ginning are already under stress and with the outbreak of Covid-19, the sector including the entire value chain is facing severe crisis. Considering the huge employment potential of the Sector, Government of India is requested kindly to extend the following support for revival of the Sector in the State.

a. Reduction in bank interest rate,

b. Extension of soft loans by banks to the extent of Government. dues

c. Moratorium for repayment of principal and interest amount to the banks for four quarters under the RBI loan restructuring scheme given for MSME be extended to all textile units.

d. Include cotton yarn and fabrics under Rebate of State and Central Taxes and Levies (RoSCTL), Interest Equalisation Scheme (IES) and Merchandise Exports from India Scheme (MEIS) benefits with immediate
effect to prevent job losses for lakhs of people in the spinning sector.
e. The shutdown of China/USA/EU has majorly impacted textile exports as they are huge markets for Indian textile products including the garment and apparel segment which got effected due to closure of shopping malls across the country. The textile units are demanding exemption of all raw materials, dyes and chemicals, intermediaries, spares, accessories, etc., from anti-dumping duty and basic customs duty.
f. For garment exporters, the business losses suffered need to be converted into soft loans and excluded from the existing working capital limit along with Support to units for wages payment.
g. Further, EoU Textile units in SEZ may be permitted to supply upto 50% of their products into Indian Market for 6 months to sustain production and employment.

3. Auto & Auto-Components Manufacturing

Automobile and auto-component manufacturing contribute 9.4% to the country’s GDP. The Automotive sector has already been facing weak demand for the past one year. The shutdown due to the pandemic has exacerbated their problem and will significantly impact the sector. In addition to suppressed demand due to the shutdown of dealerships and lockdown of the country, it is foreseen that spending on new automobiles might also go down, thus impacting a significant portion of the country’s GDP. While the passenger vehicle demand do not see any upward trend, the commercial vehicle sector will also see weak demand due to conservative spending by corporates and small business buyers. Moreover, it is expected that the availability of labour for operation and support functions might be an issue on hand in the days ahead.

Andhra Pradesh has attracted significant investments in the automobile sector in recent times. The state is set to be the emerging automobile hub in the country. In addition to passenger and commercial vehicle manufacturers, the state has also seen over 100 component manufacturers who set up their units within the state. 50% of India’s cylinder liners and clutch plates are produced in our state. A significant workforce also works in the numerous auto-nagars across the state, supporting operations and maintenance of many vehicles.

Considering the potential of the sector and its contribution to the country’s economy, the Government of India is requested to extend the following support to this sector in the state:
a. Provide GST rate cuts for new vehicles.
b. Defer GST payments for the sector to boost liquidity
c. Process claims for MSME exporters such as duty drawback, GST refunds etc
d. Wage subsidy to small industries and Income support for contract workers for 3 months
e. Deferment of tax payments for 3 months
f. Offer low-interest rates to auto components manufacturers in the SME sector through SIDBI with lower requirements for collateral and higher working capital
g. Extend BS-VI deadline by 6 months
h. Port waiting charges to be reimbursed/waived off
i. Moratorium on term loans for import-dependent companies
j. Activate inter-state supply chain
k. Promote online sales of Automobiles wherever possible
l. Create an online model to track automobile supply chain and thus identify blockages.

4. Pharmaceutical Sector

The Pharmaceutical sector within the country is also seeing a huge turmoil. We are seeing that the imported API is becoming very expensive due to huge dependence on China for the APIs. Even though the pharmaceutical industry has been given exemption during the lockdown, only large organizations could manage operations while the small and medium firms are impacted. Non-availability of labour to a full extent has also caused problems at ground level. Shipments and logistics have also been affected. While pharmaceutical manufacturing is exempted from the lockdown, non-availability of labour, lack of clarity over the transport of ingredients and physical distancing has bottlenecked production volumes. While there is a high export demand for certain products over the short term, the firms are not able to fully service these orders.

Andhra Pradesh is home to several renowned pharmaceutical firms. There are more than 192 pharmaceutical firms within the state and more than 82 units are set up in the Visakhapatnam, Nellore, Vizianagaram and Srikakulam districts as clusters. There are more than 40 WHO-GMP Pharmaceutical industries within the state and 22 USFDA approved units. Considering the potential of the sector and its contribution to the country's economy and exports, the Government of India is requested to kindly extend the following support to the sector in the state.
In the short term the following measures are requested:

a. Declare API as a strategic sector as most inputs are imported
b. Clear guidelines on manufacturing and transport of raw material
c. Relax rules on the restriction of export of APIs with sufficient inventory
d. Faster reimbursement of GST and other levies
e. Ensure availability of essential medicines at the customer
f. Promote digital payment mechanisms in view of social distancing
g. Fast-tracking custom clearances for key raw materials / APIs
h. Review import duty structure
i. Ease regulations necessary for scaling up production
j. Priority release of imports from customs

In the Medium term the following measures can be taken up:

a. Approve list of key APIs that India needs to manufacture
b. Government of India incentives can be given for new Pharma Clusters
c. Creation of large API parks with fiscal benefits for existing API and intermediates plants
d. Boosting drug formulations from indigenous API and its intermediates
e. Expedite proposals for bulk Pharma Parks which are proposed by Government of AP and other states.
f. Single window clearance mechanism at Government of India departments
g. Faster reimbursement of GST and other levies
h. Priority clearance at Customs
i. Fast track new investment approvals.
j. Prevent counterfeiting medicines
k. Reduce dependence on China for import of raw materials
l. Supportive regulatory framework and common infrastructure facilitating single-window clearances for API parks
m. Providing incentives for new product development, processes, and technology
n. Incentivize R&D investments through enhanced collaboration between industry and academia

5. Metals & Mining Sector

Metals and Mining sector contributes over 2.4% of GDP of the country. The sector has seen significant growth in recent times with investments going into value-added downstream products.

The sector is de-linked from international prices to some extent. However, as the lockdown in the country extends beyond a quarter, the pressure on this sector will increase and will eventually start hurting the prices for raw materials. The sector has been highly leveraged for some time. It is a labour-intensive industry and mainly operates on a cash and carry basis. Due to lack of trade, cash
flow constraints will happen sooner than later and sales will be impacted due to distress in the auto and construction sector. While India is insulated from global supply chain disruption, domestic freight disruption is happening due to trucks being held up at state borders. The supply disruption here will hit operations of multiple sectors. Additionally, the logistics sector will also get directly impacted as the employment in this sector will get impacted resulting in wage loss.

Andhra Pradesh is home to more than 8 mineral-based industries. The state is also home to several cement manufacturing units supplying not only within the state but to neighbouring states such as Maharashtra, Karnataka, Tamil Nadu, etc. The cement industry in Andhra Pradesh, one of the largest in the country and has around 40 units, with an installed capacity of about 55 million tonnes. The cement sector has been troubled for some time due to the uncertainty in the real estate sector. Unfortunately, as the real estate sector sees a great impact during these testing times, the cement sector will also see a severe impact.

Considering the potential of the sector and its contribution to the country's economy, the Government of India is requested to kindly extend the following support to the sector in the state.

In the short term the following measures are requested:
1. Immediately release funds for projects under the National Infrastructure Pipeline (INR 102 Trillion).
2. Stimulus/revival packages for strategic sectors such as Real Estate
3. Subsume all levies into GST
4. Provide relaxation in statutory and employee-related payments
5. Provide a moratorium for loan repayment
6. Reduce the cost of trade-finance
7. Provide special package to finance working capital loan for re-starting plants.
8. Provide wage subsidies for labor-intensive mining projects

In Medium term the following measures can be taken up
1. Any support for reviving demand in the construction sector would benefit metal and mining companies
2. Rationalize taxation of freight
3. Increase quantum of accelerated depreciation for a revival of capex cycle.
4. Provide legal support/develop insurance products for companies to help them suspend statutory payment during such epidemics.
5. Offer loan guarantees for investment in strategic sectors/projects.
6. Develop insurance products for dealing with such Pandemics.
6. Food Processing Sector

The food processing sector contributes around 11% of agricultural value-added and 9% of manufacturing value-added products in the country. The sector employs 12.8% of the workforce in the organised sector and 13.7% of the workforce in the unorganised sector. The sector has a low dependence on imports and has an elaborate supply chain network throughout the country. However, the export infrastructure for this sector requires support.

The sector is heavily affected by export restrictions to China, the USA etc. In addition to this, the sector is also labour-intensive, and the current lockdown has severely impacted the availability of manpower. Even when the lockdown is lifted, the manpower might be reluctant to come back to work immediately, thus affecting the productivity of the units. Also, the current lockdown coincides with the harvesting season. Given that most food processing units are shut, this presents a great difficulty in forwarding the produce seasonal and meat items for processing and manufacture of value-added products. The sector is also heavily distributed amongst MSMEs and the working capital issue that plagues the sector is going to affect the food processing industry as well. Additionally, as the country lacks enough warehousing and cold storage facilities, there is a heavy risk of losing the raw material.

Andhra Pradesh is India’s largest producer of eggs, fruits (mango, papaya), chilli, lemon. It is ranked 2nd in production of paddy, groundnut and maize, ranked 1st in production of mango, papaya, lemon, Chili, turmeric, ranked 1st in Coastal and freshwater aquaculture. The state tops in marine product exports with over 60% contribution; 250 shrimp hatcheries with 4.25 MT production. More than 20% of state GDP comes from agriculture and related activities. The state has more than 3,000 Food Processing Units, Commodity based Cluster Projects, Mega food parks, Multiple Agriculture Export Zones & Cold Chain related Infrastructure.

Considering the potential of the sector and its contribution to the country's economy, the Government of India is requested to extend the following support to the sector in the state in the immediate future:

a. Increase the availability of working capital through special loans for this sector
b. Defer GST, electricity charges & duties
c. Provide short term collateral-free loans
d. Exports of aqua products to US, EU, and Asia needs to restart quickly
e. Discounted rates at any central government warehouses for perishables
f. Exempt delayed payment of duties
g. Food transport corridors at state borders to minimize any delays in logistics
In the medium-term future, the following measures are requested:

a. Create warehousing and cold storage infrastructure at ports with special quality testing infrastructure
b. Target new markets for exports which can fetch higher prices for Indian exports
c. Build an efficient supply chain from farm to port
d. Interest subvention for a year
e. Lower rate of interest on loans
f. Dedicated corpus to assist MSMEs
g. Export clusters to be built and offered at subsidized rates

7. Export Oriented businesses

India's merchandise exports shrank by more than one-third from a year ago, hit by a fall in global demand and shipments due to the new coronavirus, and outlook for exports is grim in 2020 as global economic activity collapses. Merchandise exports fell 34.6 per cent to $21.41 billion in March from a year earlier, while imports were down 28.7 per cent to $31.16 billion during the same period. Shipments of Indian goods have been hit by the shutdown of factories and cancellation of orders.

Andhra Pradesh exports in the FY 2018-19 have crossed Rs 98,000 Crores. The state majorly exports pharmaceuticals, textiles and processed food and aqua products apart from engineered goods etc. Due to the current lockdown world over, many of the industries in Andhra Pradesh are not able to export. Considering the potential of the sector and its contribution to the country's economy, the Government of India is requested to kindly extend the following support to the sector in the state

a. Interest-free working capital term loan to the exporters to cover the cost of wages, rent, and utilities
b. Waiver from paying into Employees' Provident Fund Organisation (EPFO) and Employees' State Insurance Corporation (ESIC) funds for 3 months, from March to May.
c. Relaxation of statutory deadlines for filing of Bill of Entry and Payment of Custom Duty
d. Facility of Deferred Payment of Import Duty to be continued.
e. No encashment of bank guarantees for next 6 months against Export Obligation Discharge Certificate (EODC) for cases pending at DGFT
f. Waiver of shipping line demurrage and CFS charges

g. Late BL fees should be waived for export containers till the clearance time comes back to normal.

h. Original shipping documents scan copies to be accepted by customs for the next 6 months

i. Identify a few ports and airports from which exports will be handled with priority.

j. Banks need to prioritize LCs for the import of goods required for manufacturing export contracts.

k. Export consignment manufactured and ready for shipment should be allowed to be transported from the Manufacturer's Factory or Warehouse to the Customs facility as Export firms to have reasonable manpower as is required to load the shipment on to the vehicle for a period not exceeding 8 hours

l. Necessary amendment in the GST Rules and in the e-way bill portal to provide an extension of validity of expired e-way Bills for a limited time and waiver in the penalty for the goods with expired e-way bills.

m. Additional duty drawback of at least 2% on all exports made during the period 1st April 2020 to 30th September 2020.

Sir, we look forward to your continued guidance and support for the revival and growth of industries in the State of AP and the country as a whole. We sincerely hope to contribute to the GDP of the country while making the Make in India successful.

With warm regards,

Yours sincerely,

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(Y.S. JAGAN MOHAN REDDY)