



Covid-19 and financial distress

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Abstract

Financial distress is a state wherein the organizations are not able to fulfill its obligations for a particular time segment. It's an indicator to the company to take a good enough degree so that you can safeguard it from being bankrupt, in fact there's a threshold distinction among being in state of distress and moving to insolvency. The recent outbreak of pandemic COVID-19 has pushed towards financial distress to many SMEs, Self-assist institutions, entrepreneurs and groups as well. This paper is an attempt to analyse the various measures that can be used as an option to come out from financial distress.

Objectives

- To identify the range of insolvency relief tools that exist in order to mitigate liquidity shortages and avoid unnecessary bankruptcies that may follow from the COVID-19 pandemic.
- To assess the several Insolvency Provisions done by state to safeguard the industries. To identify the segments facing financial distress.

Keywords: financial distress, household finance, corporates, msme, government

Introduction

January 30, 2020 the first instance of COVID-19 in Quite a while was accounted for. What's more, subsequently saw numerous expanding cases in the long stretch of February brought about limitations on development (interstate), shut down of schools and universities, theaters, exercise centers in defiled zones, and so on. Also, these measures had just denoted its effect on a couple of industrial segments. Later when the Government of India declared the Lockdown on March 24th, 2020 caused an exceptional increment in trouble among the business in India particularly the MSME's of both assembling and administration segments, many new enterprises and so on.

The slowdown of the economy came up as an essential driver of trouble in the business part. The stoppage of transportation of products, closedown of market, zero sales and purchase action interfered with the progression of assets.

Coronavirus - 19 has imperiled the human lives as well as included a weight in family unit accounts the board, for example, installment of advance EMI's, supporting family expenses, overseeing kids' education, and so forth was the greatest challenge of the decade, which required prompt consideration.

Numerous little retailers who are essentially skilled workers say tailor, beauty parlor, and so forth had compelled to shut down their shops or their organizations. Coming about inability to take care of their obligations are their liabilities and causing budgetary trouble.

The Covid-19 was mostly found in most parts of the financial distress.

Household

A lot of domestic economic crises have been detected by the COVID-19 pandemic. There could be a reason for this somewhere. The reason for the economic crisis was mostly that a lot of people had lost their jobs, the ban on movement

of goods and people caused the price inflation even in grocery, fresh stores etc which escalated the Financial distress in the household.

Salaried Employee

Loss of jobs caused huge botheration among the employee's. On one hand where employees were battling with hatred, frustration within themselves, on the other hand all savings were emptied, the payment of insurances, rents etc being defaulted was such the situation.

Nonpayment of timely payments i.e., salaries also added adversities to the Financial distress.

Daily wage earners

Large populations of developing countries such as India have a major concentration of daily wage earners. The lockdown impacted this segment very harshly forcing them to migrate from towns to villages again.

Sole proprietors

The debt equity combination plays a key role in financing decisions, the lack of understanding on this concept has contributed to the folding of many firms in the past during the tough times. And so was the impact of lockdown in case of many sole proprietors.

Small and micro Business

Fall in demand and non-availability of raw material due to border sealing and slowdown of supply chain disturbed the cash flow of MSMEs which caused Financial Distress.

Large scale enterprises

The lockdown had put lots of strain on the large scale sector, these sectors being major contributors towards the GDP left with bad shape.

Government

The outbreak of pandemic COVID-19 has brought economic and social crisis within the country. The impact had been witnessed in sectors such as travel and tourism, capital markets, retail segment, etc. The continuous depreciation of rupee, severe cash deficit in MSMEs along with the primary concern such as managing food and shelter to the unorganized labour forces soon after the announcement of lockdown was the most crucial and challenging phase.

Measures Adopted By The Government of India Support Financial Distress

Measure to boost trade and commerce in India

Announcements of Changes in Foreign Trade Policies

The extension of current FTP has brought a greater relief to the import export businesses. Further to it the exemption on IGST and compensation cess on the imports made will benefit the firms to come out from distress.

Grant of Exemption Towards Custom Duty and Health Cess

The exemption provision until September 2020 on ventilators, COVID-19 kits, and also on the material used in relation to COVID has been exempted from custom duty and health cess in order to minimise the cost and reduce the Financial stress from treating the COVID-19 patients. This may prove beneficial in handling the medical emergencies in better condition.

Provision of Relaxation and Extension

The government of India has extended a huge support in order to facilitate the trade and commerce in line with the hardship faced by exporters due to the outbreak of pandemic by providing a relaxation and extension on several compliances and deadlines such as extension of validity on registration cum membership, availed or facilitated all the extensions of Letter Of Approvals (LOAs) and several other complainers through electronic mode in a timely manner.

Supporting the Corporate Affairs

Special Measures under Companies Act and Limited Liability Partnership Act

Any disruption effects the day-to-day operations of corporates, so do the effect of pandemic has slowdown the growth of many faint industries and had also caused the folding of MSMEs and new startups. Thus to reduce the Financial distress the government of India had initiated several measures such as announcement of no additional charges will be levied during the moratorium period required to be filed in MCA-21 which thereby reduce the compliance and financial burdens of the companies and LLPs.

The additional 180 days been offered for the compliance to the new incorporated companies which has to file declaration towards commencement of its business.

There are several other measures been also proposed in order to stabilize the economy by supporting the corporate affairs.

Provision of Special Regulations

The imposition of lockdown and to follow the strict implications of the same with due consideration of public health several clarification and rules been made some such

as

- Mode or manner of issue of notices to the members upon the meeting,
- Provision of e-voting
- Passing of certain items only through ballot.

Providing Stimulus to the BFSI Sector in India

- Relaxation of income tax return filing for FY 2018-19 by extending the time period to 30th September 2020
- Extension in Aadhar to pan linking dates
- Provisions under schemes Vivad se Vishwas, Sabka Vishwas
- Extension in GSTR filing.
- Provision of custom clearance 24x7 until 30th June 2020
- Relaxations for 6 months EMIs
- Debit cardholders where been permitted to withdraw cash for free from any other banks' ATM for 3 months
- Provision of waiver of minimum balance fee
- Reduced bank charges for digital trade transactions for all trade finance consumers

Several Other Measures Been Introduced

The government of India had also introduced several measures in order to support the household and labourers who had witnessed a dramatic disruption due to the pandemic outbreak and these measures had relieved many households.

- Payout been provided to farmers
- Wages been hiked under the MANREGA
- An ex-gratia amount disbursement were been offered to senior citizens, disabled, women's holding Jan Dhan account and widows.
- Three months' free cylinders been offered to the women in below poverty line families covered under Ujwal Yojana
- The PF assistant provided by the government by paying the contribution of both employees and employer for three months to those establishments which had upto 100 employees and 90% of drawing a salary less than 15,000/-
- Allowed non-refundable advance of 75 percent of amount in account or three months of wages, whichever is lower.
- Support plan where been also initiate to support the worker of construction sector.
- Insurance coverage been also announced to support the COVID infected patients, etc.

Conclusion

COVID-19 has created economic problems around the world. There are no two opinions about this. It is true that the world is facing a lot of difficulties facing economic conditions. And the situation is similar for India too, but somewhere the schemes that the government has made, in opinion to Outbreak of pandemic has been able to subside the impact to certain extent. But the problems have not yet been resolved, yet many provisions are still needed. Especially employment, so that household distress can be resolved.

Also MSMEs should be provided with long-term safety with respect to global competitions. And already stressed sector

need to be supported by additional fundings.

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