

# ECONOMIC SURVEY OF INDIA 2021-22

## KEY HIGHLIGHTS FOR UPSC CSE

### PRELIMS AND MAINS 2022

### PART-3

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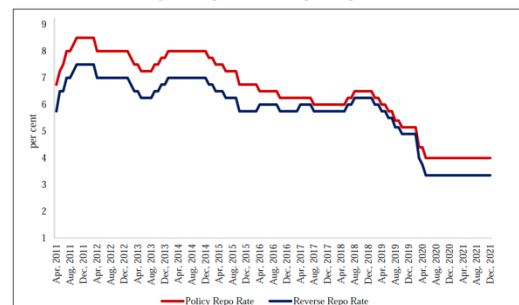
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## 1) MONETARY DEVELOPMENTS

- To fight the economic slowdown (specially the slowdown during COVID-19 pandemic), RBI has had an accommodative monetary policy stance in recent times. Since Feb 2019, the policy repo rate has seen a cut of 250 basis points (115 basis points during Feb-May 2020 only).
- Further, RBI has given guidance that the accommodative policy stance would continue as long as necessary to revive the growth on durable basis while ensuring that inflation remains within the target (CPI inflation of 4% within a band of +/- 2 percent)
- The **current repo rate of 4%** is the lowest in the last decade.

Figure 1: Repo and reverse repo rate (per cent)

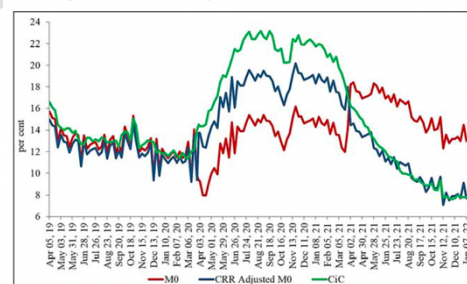


Source: RBI

### Understanding Basic Key words:

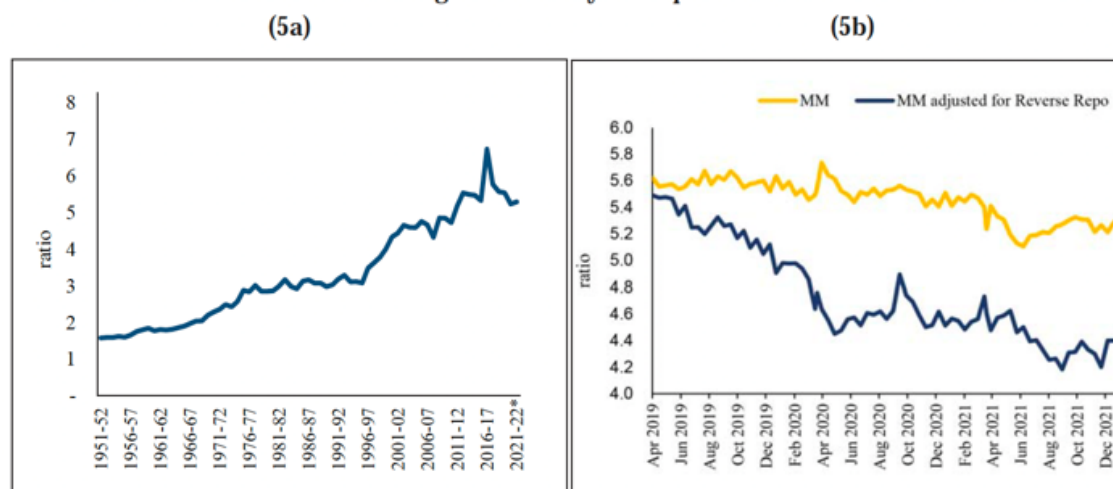
- **M0 (Reserve Money or High-Powered Money):** Currency in Circulation (currency with Bank and Currency with Public) + Banker's deposit to RBI.
  - **M1 (Narrow Money):** Currency with Public + Demand Deposit with Bank
  - **M3 (Broad Money):** M1 + time deposits (fixed deposits with bank)
- Though the overall monetary and credit conditions have remained accommodative in 2021-22 so far, the growth rate of monetary aggregates including Reserve Money (M0) and Broad Money (M3) were lower compared to last year.
    - o **Reserve Money (M0)** recorded a YoY growth of 13% as on 7<sup>th</sup> Jan 2022 as compared to 14.3% a year ago.
    - o However, **M0 adjusted for first round impact of changes in CRR** recorded a lower growth (YoY) of 7.7%, as compared with 18.3% a year ago.
      - Note: CRR was increased to 3.5% (from 3%) in March 2021 and to 4% in May 2021.
  - **Broad Money** YOY growth stood at 9.9% as on 31<sup>st</sup> Dec 2021 as compared to 12.5% a year ago.
  - **Money Multiplier** is measured as ratio of M3 to M0. It has been on decline since 2017-18. However, **money multiplier adjusted for reverse repo** – analytically akin to banks' deposits with the Central bank – turned out to be lower at 4.6% by end-March 2021.
    - o The gap between MM and adjusted MM reflects parking of funds by banks under the reverse repo window of the RBI and to some extent a weak credit creation process.

Figure 2: M0, CRR Adjusted M0 and CIC Growth (YoY)



Source: RBI

Note: CIC: Currency in Circulation, CRR: Cash Reserve Ratio



Source: RBI

Note: Money multiplier adjusted for reverse repo is based on reserve money adjusted for commercial banks' reverse repo deposits with RBI, \*Number for 2021-22 is as of 31<sup>st</sup> December 2021 in Figure 5(a)

## 2) LIQUIDITY CONDITION AND ITS MANAGEMENT

- **Liquidity** has remained in surplus in the system since mid-2019 in sync with the easing of monetary conditions. The liquidity conditions were further eased during 2020-21 during COVID-19 pandemic, and the RBI has since maintained ample surplus liquidity in the banking system to support growth.
- **Measures taken by RBI to provide targeted liquidity support to the system in 2021-22 included:**

### A) SPECIAL REFINANCE FACILITIES OF RS 66,000 CRORE TO ALL INDIA FINANCIAL INSTITUTIONS

- Rs 25,000 NABARD, Rs 10,000 crore to National Housing Bank; and Rs 31,000 crore to SIDBI.
- These are generally charged at the RBI's repo rate

### B) TERM LIQUIDITY FACILITY OF RS 50,000 CRORE TO RAMP UP COVID-19 RELATED HEALTH INFRASTRUCTURE AND SERVICES IN THE COUNTRY

- This is an **on-tap liquidity facility with tenors of upto 3 years** at the repo rate till March 31, 2022.
- Under this initiative, banks can provide fresh lending support to a wide range of entities including vaccine manufacturers; importers/suppliers of vaccine and priority medical devices; labs; oxygen ventilator manufacturers and suppliers etc.
- These landings will also be considered **priority sector lending**.
- Under the scheme banks are expected to create COVID loan book. Banks will be eligible to park surplus liquidity up to the size of the COVID loan book with the RBI under the reverse repo window at a rate which is 25 bps lower than the repo rate.

### C) SPECIAL LONG TERM REPO OPERATIONS (SLTRO) FOR SMALL FINANCE BANKS OF RS 10,000 CRORE

- It is a **3-year SLTRO facility of Rs 10,000 crore**. To support small business units, micro and small industries, and other organized sector entities adversely affected during the second wave of the pandemic.
- Later, it was made on tap and was extended till Dec 31, 2021.

### D) ON-TAP LIQUIDITY WINDOW OF RS 15,000 CRORE FOR CONTACT INTENSIVE SECTORS

- For a term of three years at repo rate till March 31, 2022 for sectors like hotels and restaurants; tourism – travel agents, tour operators, and adventure/heritage facilities; aviation ancillary services and other services like private bus operators, car repair, rent a car service etc.
- Banks are supposed to create a **COVID-loan book** under this initiative. By way of an incentive, such banks will be eligible to park their surplus liquidity up to the size of the COVID loan book created under this scheme with RBI under the reverse repo window at a rate which is 25 bps lower than the repo rate. This initiative will also be available for banks which are deploying their own resources without availing funds from RBI.

#### E) EXTENSION OF ON TAP TARGETED LONG TERM REPO OPERATIONS (ON TAP-TLTRO) TILL 31<sup>ST</sup> DEC 2021

- On Tap TLTRO was unveiled by government in 2020. Under this Rs 1 lakh crore was made available to ensure liquidity in economy. Banks would be able to borrow at repo rates for a period of three years and then would invest in corporate bonds, commercial papers, and non-convertible debentures distributed in 31 specific sectors.
- This was extended to 31<sup>st</sup> Dec 2021

#### F) GOVERNMENT SECURITIES ACQUISITION PLAN (G-SAP)

- To add surplus liquidity
- RBI purchased G-secs (including state development loans) amounting to Rs 1 Lakh crore under GSAP 1.0 and Rs 1.2 Lakh crore under G-SAP 2.0.
- It was done to ensure that government's elevated borrowings for the financial year goes without causing disruption and without increasing the bond yield. It will help reduce the spread between the repo and the 10-year government bond yield.
- **Another significance:** These G-SAP announcements provided a calendar to participants of Open Market Operations (OMO). In fact, even in **2020-21**, RBI had purchased bonds worth Rs 3.13 lakh crore from the secondary markets, but it was done in an ad-hoc manner. A structured purchase program calms investor's nerve.

#### - Gradual Normalization of liquidity operations through VRRR and increasing CRR

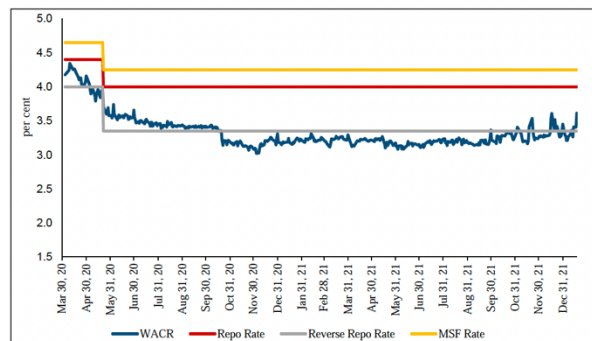
- **Understanding VRRR (Variable Rate Reverse Repo):**
  - o Reverse Repo rate is the interest that RBI pays to banks for funds. **VRRR** is a sub-type of reverse repo since Jan 2021.
  - o **In Reverse Repo** – Overnight deposit, no limit on deposits is there.
  - o **In VRRR – auction** is done to determine the rate of interest. RBI choses those banks which charge the least interest rate (above Reverse repo rate).
    - Here, interest rate if more than reverse repo rate, but less than repo rate.
  - o In **2021-22**, VRRR auctions of varying maturities were conducted apart from the VRRR operations conducted every fortnight.
- **CRR** was gradually raised to pre-pandemic level of 4% by May 2021.

### - Call Money Rate:

- Due to surplus liquidity conditions, call money rate generally traded below the reverse repo rate – the lower bound of the liquidity adjustment facility (LAF) corridor during the year.

### - Interest rates on longer-term money market:

- RBI is becoming the major counterpart for banks, there was a shrinkage of inter-bank trading activity – average daily volume in the call money market declined to Rs 9,077 crore in Dec 2021 from 10,126 crores in March 2021.
- Interest rates** on longer-term money market instruments like 91-day Treasury Bills (T-Bills), 3 month Certificate of Deposits and Commercial Papers (CPs) generally traded above the reverse repo rates.

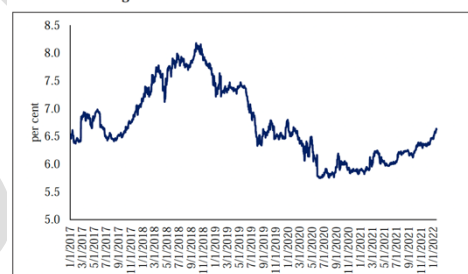


Source: RBI and CCIL

## 3) DEVELOPMENT IN GOVERNMENT SECURITIES (G-SECS)

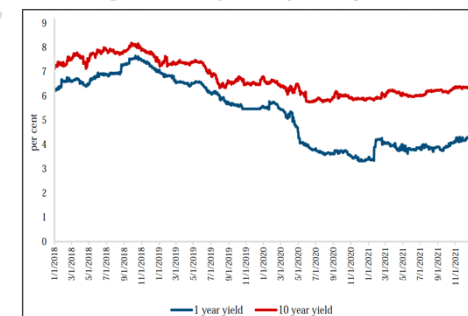
- Note:** Government securities is a collective term for two types of securities: maturities less than 1 year are called T-bills and those more than one year are called bonds.
- The yields** on 10-year G sec which had reached 8.2% in Sep 2018 reduced substantially to 5.75% in June 2020. As of Dec 2021, it has increased to 6.45%.

Figure 8: India 10-Year Generic G-Sec Yield



Source: Bloomberg

Figure 9: Yields on 1-year and 10-year G sec (per cent)



Source: Bloomberg

- The **term spread** (measured as the gap between 10 year and 1-year G sec yield) has widened sharply in 2020 but has narrowed down slightly in 2021-22. However, it is still wider as compared to the pre-pandemic years.

## 4) BANKING SECTOR

### A) SITUATION OF SCHEDULED COMMERCIAL BANKS

- Overall, the banking system appears to have weathered the pandemic shock well even if there is some lagged impact still in the pipeline.
- The **GNPA** (6.9% - Sep 2021) and **NNPA** (2.2% - Sep 2021) of SCBs continued to decline since 2018-19.
- The **Restructured Standard Advances (RSA)** have increased from 0.4% in Sep 2020 to 1.5% in Sep 2021.
- Stressed Advances Ratio (SAR)** of SCBs increased from 7.9% (Sep 2020) to 8.5% (Sep 2021).
  - Reasons:** Various Covid-19 related dispensations/moratoriums provided with respect to asset quality contributed to increase in RSA and as a result increase in SAR.
- Capital Adequacy Ratio (CAR)** has continued to improve since 2015-16. **Capital to Risk Weighted Asset Ratio (CRAR)** of SCBs in Sep 2021 stood at 16.54%. This was on account of improvement in both private and public sector banks.



- PSBs have received capital infusion by the government and have also raised funds from the market.
- Private banks have mostly tapped capital from market.
- **Capital Conservation Buffer (CCB)** has been maintained at 2.5% by both public and private sector banks.

## B) SITUATION OF PUBLIC SECTOR BANKS (PSBs)

- GNPA's decreased to 8.6% (Sep 2021) from 9.4% (Sep 2020).
- SAR increased to 10.1% (Sep 2021) from 10.0% (Sep 2020)

## 5) NATIONAL ASSET RECONSTRUCTION COMPANY LIMITED

- **Need of Bad Bank**
  - » Various available resolution mechanisms – IBC, SARFAESI, DRT etc., still a **large stock of legacy NPAs are yet to be resolved**.
  - » **Existing 28 ARCs in India** -> limited capitalization and low recoveries -> they are able to deal with only smaller loans.
  - » To resolve this issue, Budget 2021-22 announced setting up of Asset Reconstruction Company (ARC) Limited and Asset Management Company (AMC). In line with this vision, two entities viz. **National Asset Reconstruction Company Limited (NARCL)**, and **India Debt Resolution Company Limited (IDRCL)** have been formed
- **Understanding the two layered structure**
  - » The bad bank's structure is two-layered with the **National Asset Reconstruction Company Limited (NARCL) operating as an ARC** and a separate asset management company IDRCL restructuring and turning around bad loans.
  - » NARCL was incorporated on 7th July 2021 and has received a certificate of registration from the RBI to commence the business as an ARC in Oct 2021.
    - The NARCL would be 51% owned by PSBs and the remaining by private sector lenders.
      - **Canara bank** would be the sponsor of the NARCL and would be holding 12% equity in NARCL. Other public sector banks would pick up less than 10% each in the ARC.
    - The NARCL has an authorized capital of Rs 100 crore and the paid-up capital of Rs 74.6 crores.
      - This is going to **rise going forward** as NARCL is expected to have a capital base of Rs 6,000 - 7,000 crore eventually.
    - The **capital structure** of NARCL will have component of both equity and debt.
    - NARCL is expected to acquire stressed assets at net book value by offering 15% of it in upfront cash, and the rest (85%) in the form of security receipts (SRs).
      - The **government** will not have any direct equity contribution to NARCL. But it will guarantee the security receipts issued by NARCL, which will buy the bad loans from banks.
    - **Note:** The company has hired **P.M. Nair** - a stressed assets expert from the State Bank of India (SBI) - as the managing director.
  - » IDRCL was incorporated on 3rd Sep 2021 and will have a min 51% ownership of private sector banks and balance will be held by Public Sector banks.
  - » NARCL and IDRCL's relationship will be defined through a debt management agreement where in NARCL will aggregate and acquire the stressed assets and IDRCL, in turn, will provide stressed assets management and resolution services to NARCL on an exclusive basis. The **term of IDRCL** will be co-terminus with that of NARCL.
- **Resolution Mechanism**

- » NARCL will acquire assets by making an offer to the lead bank and the lead bank with an offer in hand (of NARCL) will run a 'Swiss Challenge' process wherein other interested ARCs / Bidders will be invited to better the anchor offer made by NARCL. Once NARCL is declared as a preferred bidder, NARCL shall initiate asset acquisition process and acquire the assets in the underlying Trusts.
  - The company will pick up those assets that are **100% provided** for by the lenders.
  - After acquiring the assets, IDRCL shall prepare and suggest the proposed restructuring / resolution plan, strategies, etc. for each Underlying Trust Assets. Post the approval of resolution from NARCL, IDRCL shall also assist in implementation of resolution. The assets acquired shall be resolved using existing resolution tools within the RBI framework for ARCs.

## 6) DEPOSIT INSURANCE IN INDIA

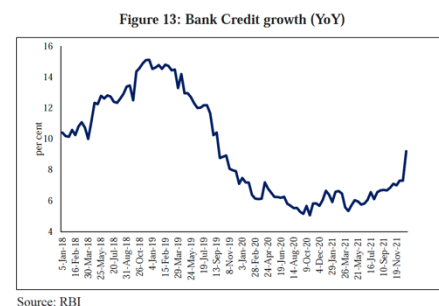
- **Why in news?**
  - » Deposit Insurance Credit Guarantee Corporation (Amendment) Act, 2021 has been passed by the Parliament (2021)
    - The amendment simplifies the accessibility to the insured deposit amount (i.e., upto Rs 5 lakh) to an accountholder in case the RBI imposes moratorium on a bank's operations.
- **Introduction: Deposit Insurance Situation in India**
  - » The deposit insurance provisions in India were introduced through the Deposit Insurance Corporation Act, 1962.
    - This insurance cover is provided by **Deposit Insurance and Credit Guarantee Corporation (DICGC)**, a fully owned **subsidiary of RBI**.
    - Under the act, the Corporation is liable to pay the insured deposit to depositors of an insured bank. Such liability may arise **when an insured bank undergoes:**
      - i. **Liquidation** (sale of assets or closing down of the bank)
      - ii. **Reconstruction or any other arrangement under the scheme**
      - iii. **Merger or acquisition by another bank**
    - **Note:**
      - i. Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence in 1978 with the merger of Deposit Insurance Corporation (DIC) and Credit Guarantee Corporation of India Ltd. (CGCI).
- This insurance cover is available to:
  - » **Commercial banks**, including small financial banks, Payment Banks, and Indian branches of foreign banks
  - » Regional rural banks (RRBs), Local Area Banks (LABs), and Cooperative Banks
  - » **All bank deposits** - savings, fixed, current and recurring - payable in India are covered. However, deposits of central/state/foreign governments, inter-bank deposits, deposits of the state land development banks with the state cooperative banks etc. are not covered.
- **What is not covered?**
  - » Foreign Governments deposits
  - » Central/State Government deposits
  - » Inter-bank deposits
  - » Deposits of the State Land Development Banks with the State co-operative bank
  - » Any amount due on account of and deposit received outside India
  - » Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India
- **Budget 2020-21 increased the deposit insurance to Rs 5 lakh.**



- » This is the first time since 1993 that the deposit insurance cover has been raised. In 1993 the insurance cover was revised from Rs 30,000 to Rs 1,00,000.
- » The **raised cover** will address 98.3% of all deposit accounts by number, and 50.9% of deposits by value.
  - Globally, deposit insurance coverage is only 80 per cent globally and it covers only 20-30 per cent of deposit value
- **Problems that remained even after this increased in insured deposit to 5 Lakh:**
  - » **When various restrictions**, such as moratorium, etc are imposed on a bank by RBI, genuine depositors continued to face serious difficulties and were unable to access their own money even to the extent of the insured value, despite insurance being in place. Therefore, the **Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, 2021** was enacted.
- **Key Features of the 2021 amendment**
  - » **Introduced interim payments:** Interim payment will now be made by DICGC to depositors of those banks for whom any restrictions/ moratorium has been imposed by RBI under the Banking Regulation Act resulting in restrictions on depositors from accessing their own savings.
  - » **Timeline for interim payments:** Clear-cut timeline of maximum of 90 days has been fixed for providing interim payment to depositors.
    - Within the first 45 days, the insured bank must furnish the details of all outstanding deposits to the Corporation.
    - Within 30 days of the receipt of details, the Corporation will verify the authenticity of the claims and
    - Within 15 days of the verification, the Corporation must make the payment to such depositors.
  - » **Repayment by banks to DICGC: Deferment of repayments:** DICGC may defer repayments due to it from an insured bank after insurance pay out, on terms decided by DICGC's Board. It is in spirit with the rationale of interim payments, i.e., to help depositors while also enabling rescue efforts for the bank
  - » **Timely repayment by the bank to DICGC:** To establish the priority of repayment to DICGC (both interest and principal amount), a **provision for penal interest** in case of delay has been put in the act.
  - » **No ceiling on premium:** The earlier act earlier had a ceiling of 15 paise on premium, which has been removed. Now, the ceiling on premium will be notified by DICGC, with the prior approval of RBI.
- **Impact:**
  - » Since the amendment came into force, over 15,00 crore has been paid to over 1.2 lakh depositors against their claims, as of early Jan 2022

## 7) BANK CREDIT GROWTH

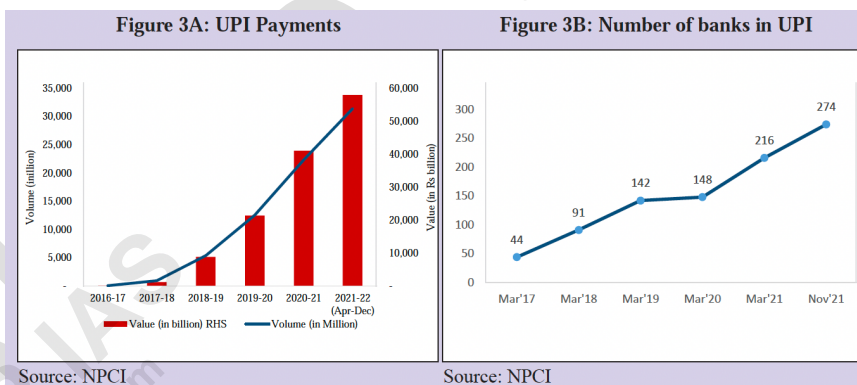
- Bank credit had been declining since 2019. But it has increased since April 2021 and picked up sharply in December 2021.



## 8) DIGITAL PAYMENTS

- Digital payments in India are growing over time.
- **Unified Payments Interface (UPI)** is currently the single largest retail payment system in the country in terms of volume of transactions, indicating its wide acceptance (Figure 3A & 3B).

- » In December 2021, 4.6 billion transactions worth `8.26 lakh crore was carried out by UPI.
  - » One of the initial objectives of UPI was to replace cash for low value transactions.
  - » As per detailed transaction data of NPCI, 50 per cent of transactions through UPI were below `200. On 1st November 2018, 'UPI as a payment option in IPO' was introduced as a new payment channel to the retail investors by SEBI.
  - » The transaction limit for UPI, which was increased by RBI from `1 lakh to `2 lakh in March 2020 was further increased to `5 lakh in December 2021.
  - » RBI and the Monetary Authority of Singapore announced a project to link UPI and PayNow, which is targeted for operationalization by July 2022.
  - » **Bhutan** recently became the first country to adopt UPI standards for its QR code. It is also the second country after Singapore to have BHIM-UPI acceptance at merchant locations
- Another **real-time fund transfer platform available 24x7x365 is Immediate Payment Service (IMPS)**.
    - » On 8th October 21, RBI increased the daily limit of IMPS transactions from `2 lakh to `5 lakh which should further help in boosting digital payments.
  - Another digital payment solution launched in August 2021, **e-RUPI** is a person-specific, and purpose-specific digital voucher where it is not required for the customer to have a bank account and is operable on basic phones, even in areas which lack an internet connection. The first use case of e-RUPI was implemented for COVID-19 vaccination program which saw more than 2.2 lakh beneficiaries being issued the voucher.
  - The **Digital Payments Index of RBI** captures the extent of digitization of payments across the country. The index captures (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%).

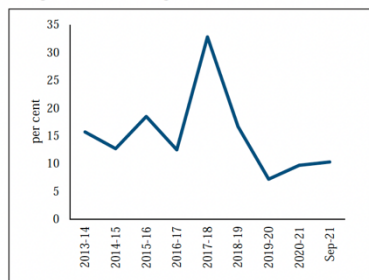


- The Digital Payments Index increased from 100 in March 2018 (base period) to 304.06 in September 2021

## 9) NON-BANKING FINANCIAL COMPANIES (NBFCs) SECTOR

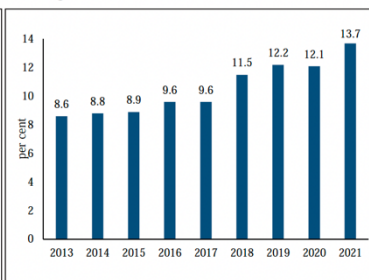
- **Credit growth** continued to remain sluggish in 2021-22 so far. The **total credit of NBFC Sector** increased marginally from 27.53 lakh crore in March 2021 to 28.03 lakh crore in Sep 2021.
- **Credit Intensity** (measured by NBFC credit as a ratio of GDP) has been rising consistently and stood at 13.7 at the end March 2021.

Figure 15: Credit growth (YoY) from NBFCs



Note: Data for September 2021 pertains only to Deposit taking NBFC and non-deposit taking systemically important NBFCs based on offsite returns data

Figure 16: NBFC's Credit to GDP Ratio



Note: Data is at end- March; GDP data used is GDP at current market prices (base:2011-12)

**Who gets Credit from NBFC:** Industry, Retail, Services etc.

**GNPA Ratio of NBFC increased to 6.55% (Sep 2021)** as compared to 6.06% in 2021.

Figure 17: Sectoral distribution of NBFC Credit



Source: Supervisory Returns, RBI.

Note: Number for 2020 and 2021 indicate end- March figures. Numbers for September 2021 are survey calculations from the Report on Trend and Progress of Banking in India 2020-21

**NNPA Ratio** however remained at 2.93% in (Sep 2021), same as was in March 2021.

**CRAR** of NBFC sector stood at 26.64% (as against the regulatory requirements of 15%)

## 10) FACTORING IN INDIA

- Factoring is an important source of liquidity (specially for MSME sector) worldwide. Under this, an entity sells its receivables (dues from a customer) to a third party (a 'factor' like bank or NBFC) for immediate funds.
- Invoice can be sold completely or in parts under the system. This ensures immediate money at competitive interest rates.
- **How is this different from bill discounting?**
  - » In **Bill discounting**, a bank or NBFC gives a certain percentage of the total outstanding value of invoices to seller and in most cases the seller must take on the responsibility for payment of invoices by the buyer to the factor.
  - » But, in case of factoring, the factor takes on the responsibility for the collection of invoices.

### A) FACTORING REGULATION IN INDIA: FACTORING REGULATION ACT 2021.

- To solve the liquidity issues of MSMEs and to lay down the basic legal framework for factoring in India, the Factoring Regulation Act 2011 was enacted.
- Under the act, **four types of businesses** were allowed to engage in factoring business:
  - » Banks
  - » Statutory Corporations (which were exempted from registration under section 5)
  - » NBFCs (which have to obtain registration from RBI) and.
  - » Companies (which have to obtain specific registration from RBI under section 3).
- As per the Act, RBI grants registration to only those NBFCs which do factoring as "principal business", i.e., whose financial assets in the factoring business constitute at least 50% of its total assets and income derived from factoring business is not less than 50% of its gross income.
  - » Under these provisions, **only 7 NBFCs called 'NBFC-Factors' were in factoring business** (due to "principal business" condition) – Canbank Factors, India Factoring and Finance, SBI Global Factors, Siemens Factoring, Bibby Financial Services, IFCI Factors and Pinnacle Capital Solutions.
  - » This **'principal business' restriction on NBFCs in the Act had limited the scope of factoring.**
- In 2019, RBI constituted Expert Committee on MSMEs under the Chairpersonship of Shri U.K. Sinha to suggest long -term measures for economic and financial stability of the MSME Sector.
  - » Its recommendations included liberalization of factoring business by allowing those NBFCs whose principal business was not factoring to carry out factoring business.
- On the basis of this recommendations, **Factoring Regulation (Amendment) Act, 2021** was enacted to bring following changes:

- » Removal of principle business criteria to start Factoring business. This has significantly increased the number of eligible NBFCs that can undertake factoring business.
  - » The **time period for registration of invoice and satisfaction of charge upon it** may be specified by the Government rules to streamline the process. And prevent frauds through dual financing.
  - » At present, **factoring is done either manually or on Trade Receivable Discounting System (TReDS).** Now, the amended Act and new Rules and Regulations allow the concerned TReDS platform to register charge directly with Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) on behalf of the factors using the platform, to make the process operationally efficient, promote the use of TReDS and reduce procedural burden on factors.
  - » **Definitions of “assignment”, “factoring business” and “receivables”** have been amended to bring them in consonance with international definitions.
  - » **Regulation making power was given to RBI for the manner of granting certificate of registration under Section 3, and the manner of filing of particulars of transactions with the Central Registry by TReDS entities on behalf of factors under Section 19. RBI has notified these Regulations in January 2022.**
- **Conclusion:** The amendments have liberalized the restrictive provisions in the Act and at the same time ensure that a strong regulatory / oversight mechanism is in place under RBI. Overall, this change would lead to widening of factoring ecosystem in the country and help MSMEs significantly, by providing added avenues for availing credit facility.

## 11) DEVELOPMENT IN CAPITAL MARKET

### A) TRENDS IN PRIMARY MARKET

- The Year 2021-22 so far has been an **exceptional year for the primary market** with a boom in fundraising through IPOs by many new age companies/tech startups/ unicorns. **Money raised by IPOs in April-Nov 2021 has been greater than what has been raised in any year in last decade by a large margin.**
  - » IPOs of 75 companies were listed, garnering 89,066 crores.

### B) TRENDS IN RETAIL PARTICIPATION IN THE CAPITAL MARKET

- Participation of Individual investors in equity cash segment has increased and the share of individual investors in total turnover of NSE increased from 38.8% in 2019-20 to 44.8 % in April-Oct 2021.
- This increase can be ascribed to the **increase in new investor registrations** witnessed since Feb 2020. In April-Nov 2021, nearly 221 lakh individual Demat accounts were added.

### C) INVESTMENT BY FOREIGN PORTFOLIO INVESTORS (FPIS)

- Net investment of Rs 24,125 crore (April-Nov 2021). This is 82.8% lower than the corresponding period last year.

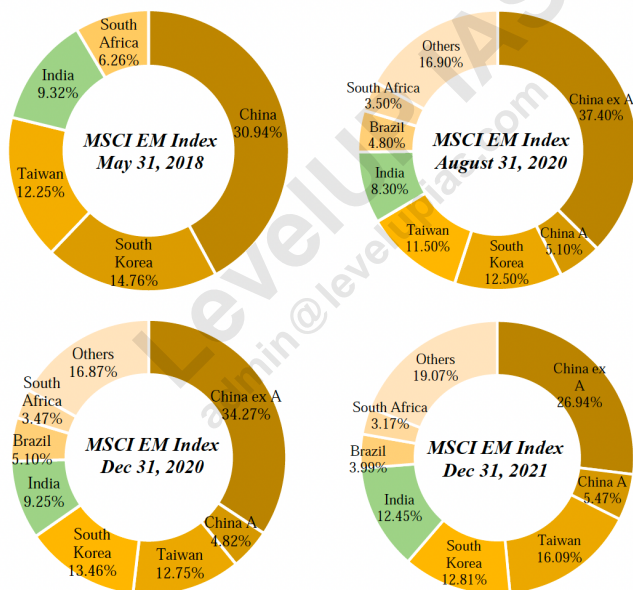
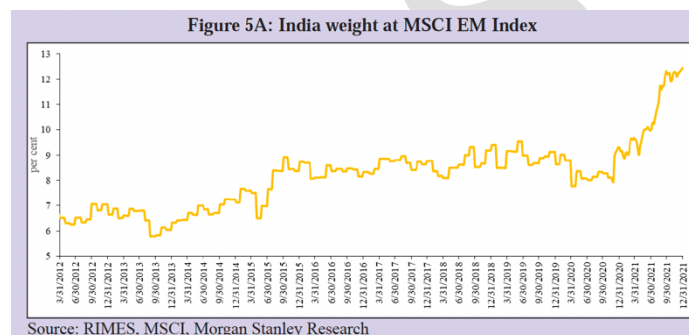
### D) INDIAN BENCHMARK INDICES

- Sensex – increased by 17.7% during April-Dec 2021.
- NIFTY-50 increased by 18.1%.
- **Reasons:**
  - » Good corporate earnings
  - » Sharp rise in COVID-19 vaccinations
  - » Opening up of business establishments

## 12) MSCI EMERGING MARKETS INDEX AND INDIA'S WEIGHT



- A key aspect of Foreign Portfolio Investments (FPI) are **global indices such as MSCI** with over US\$ 16.3 trillion (equity) assets benchmarked against them (as of June 30, 2021).
- One of the most popular MSCI indices is the **MSCI Emerging Market (EM) index** which tracks equity performance capturing large and mid-cap companies across 25 emerging market countries including India.
- MSCI EM was launched in 2001, and today covers 1420 listed entities across emerging market economies.
  - » Companies must **satisfy certain minimum criteria** relating to full market capitalisation, free-float market capitalisation, stock liquidity and foreign inclusion factor, among others to be included in the index.
- Many **global institutional investors use MSCI's EM Index and several such indices** as part of their passive investment strategy allocating capital in line with the benchmark indices.
- **India's weight in the MSCI EM Index plays an important role in attracting FPI investments** in its equity market
- In June 2017, MSCI had announced that beginning June 2018, China A-shares (publicly listed mainland Chinese companies, that trade either on Shanghai stock exchange or Shenzhen stock exchange) would be included in MSCI -EM index in a phased manner. This led to reduction of India's weight.
- In **2020**, Government relaxed the FPI limit for Indian companies to the applicable FDI (which is higher) wef from 1<sup>st</sup> April 2020. As a result, India's foreign ownership limits (FOL) in its global indices increased. Thus, **MSCI India's foreign inclusion factor rose 7% from 0.39 to 0.42.** Accordingly, India's weight in MSCI EM index immediately increased to 9.2% from 9 percent.
- The foreign interest in Indian capital markets has gone up as reflected in the large inflows. As per data available from NSDL, 2020-21 witnessed FPI inflows of over Rs. 2.74 lakh crore into the Indian equity markets.
- **Composition of the MSCI EM Index:** How has India weight changed over time:



Source: RIMES, MSCI, Morgan Stanley Research

### 13) INSURANCE SECTOR

- Potential and Performance of insurance sector are generally measured on the basis of **two parameters:**

- » **Insurance Penetration:** Percentage of insurance premium to GDP
- » **Insurance Density:** Ratio of premium to population.

- India's **insurance penetration** has increased steadily to **4.2% in 2020** (from 2.71% in 2001)

- » **Comparison with global average:**

	India	World Average
<b>Life insurance Penetration</b>	3.2%	3.3%
<b>Non-life insurance penetration</b>	1%	4.1%

- The **Insurance density** in India increased from \$11.5 in 2001 to **\$78 in 2020.**

	India	World Average
<b>Life Insurance Density</b>	\$59	\$360
<b>Non-life Insurance Density</b>	\$19	\$449

## 14) PENSION SECTOR

- The **total number of subscribers** under the National Pension Scheme (NPS) and Atal Pension Yojana (APY) increased from 3.74 crore as on Sep 2020 to 4.63 crore as on Sep 2021 - a **growth of 23.7%**.
- The **Age Profile** of subscribers in the APY Scheme suggests increasing enrolment at younger age.
  - o As on Sep 2021, more than 43% subscribers were in the age bracket of 18 to 25 years as compared to 29% as on March 2016.
- The **Gender Gap** in enrolment under APY has also narrowed down with increased participation of female subscribers. Females now constitute 44% subscribers (Sep 2021) which was 37% in March 2016.
- **Other Updates:**
  - » The limit of aggregate holding of equity shares by a foreign company in Pension Funds has been revised up from 49 per cent to 74 per cent.
  - » The limits for allowing exit from NPS without requirement of annuitisation (complete lump-sum) was revised upward in case of superannuation or death of subscriber from `2 lakh to `5 lakh, as well as in case of premature exit from NPS from `1 lakh to `2.5 lakh across the sector for all NPS subscribers.
  - » The subscribers, joining after age of 60 years, can remain invested/ subscribed to the National Pension System till the age of 75 years which was earlier 70 years.
  - » To enable its employees, build a sufficient pension corpus, **the Central Government has increased the Government co-contribution from 10 per cent to 14 per cent for its employees.** It is extended to Bank employees, State Govt employees and Central Autonomous Bodies (CABs). The Government has also provided the option to Central Government employees to change their pattern of investment along with opting for any other pension fund apart from the present default scheme

### A) ABOUT ATAL PENSION YOJNA (APY)

#### - Details

- » APY is a flagship Social Security Scheme of Gol that was launched on 9th May 2015. It replaced the Swawlamban Scheme under the National Pension System managed by PFRDA.
  - 1) The aim is to **provide old age income security** particularly to the workers in the unorganized sector.
- » APY can be subscribed by **any Indian** in the **age group of 18-40** and having a bank account.
- » It provides **three distinct benefits:**
  - 1) **Minimum guaranteed pension** of Rs 1000 to Rs 5000 on attaining 60 years of age.
  - 2) The pension is guaranteed for lifetime to spouse in case of death of the subscriber.



- 3) In the event of **death of both the subscriber and the spouse**, entire pension corpus is paid to the nominee.
- **Current enrolments:**
  - » APY has achieved total enrolment of 4.63 crore (as of Sep 2021)
  - » It has also covered all states and UTs.
- Ministry: **Department of Financial Services, Ministry Of Finance**



## 15) INSOLVENCY AND BANKRUPTCY CODE (IBC)

- **Insolvency** refers to a situation where individual, entity or a company is unable to meet its financial obligations (i.e., unable to pay off debts).
- **Bankruptcy** is the legal declaration of one's inability to pay off debts. When bankruptcy is filed, two ways of resolving insolvency is available
  - » **Reorganization:** debtor restructure their repayment plans to make them more easily met.
  - » **Liquidation:** Debtor's assets are sold to pay the creditors

### A) PROBLEMS WITH INDIA'S INSOLVENCY AND BANKRUPTCY PROCESS (BEFORE COMING OF IBC, 2016) / NEED OF IBC

- **Delayed Process** (9 years, (1.7 years in OECD))
- **High Cost of Process** (9% of total asset cost, (5% in OECD))
- **Poor Recovery** (25.7% (72% in OECD))
- **Archaic laws**, some more than 100 years old, governed the Insolvency and Bankruptcy procedures
- **Different acts for different entities created confusions**
  - » The **RDDDB act and the SARFAESI** act applied only to Indian Banks and specific NBFCs which deal with housing loans.
    - Foreign banks, other NBFCs, and unsecured creditors and employees had nowhere to go.
    - **RDDDB** (Recovery of debt due to banks And Financial Institutions Act, 1993) and **SARFAESI** (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest

Act, 2002) are aimed at debt recovery at individual scale rather than assessment of enterprise as a whole. Even when proceedings are triggered, directors retain control of the company and its assets. So, depreciation is a possibility.

- » **SICA** (Sick Industrial Companies Act, 1985) applied to only Industrial companies which created a major problem as India is increasingly becoming a services-led economy.
- » **Joint Lenders Forum and Corporate Debt Restructuring** also apply to only regulated banks and NBFCs. They too don't address insolvency in systematic manner.
- **Creditors were relatively powerless** when faced with a default while promoters were, in the words of former RBI governor Raghuram Rajan, able to "insist on their divine right to stay in control".

## B) PROVISIONS OF IBC

- i. **Unified Framework: Applicable to both Individuals and companies**
  - Code will apply to companies, Limited Liability Partnerships, partnerships, individuals, and any other body specified by the central government.
  - **Repealed or amended archaic laws (to combine myriad legislation in one single code)**
    - Repealed two Laws (Presidency Towns Insolvency Act, 1909 and Provincial Insolvency Act, 1920)
    - Amended 11 laws (including Companies Act 2013)
- ii. **Clear Coherent and Speedy Process**
  - Code lays down a clear, coherent, and speedy process for early identification of financial distress and revival of the companies and limited liability entities if the underlying business is found to be viable.
  - **Corporate debtors (LLPs and companies):**
    - **Minimum Default Amount:** To initiate an insolvency process for corporate debtors, the default amount should be atleast 100,000 INR (limit may be increased to Rs. 10,000,000 by the government).
      - Note: the limit has been increased to 1 crore by government recently in light of COVID crisis to protect MSME sector.
    - **Insolvency Resolution initiation** can be done by any of the two types of creditors: Financial and Operational.
    - As soon as the matter is admitted in NCLT, NCLT appoints an Interim Resolution Professional (IRP) who takes over the management of the defaulting debtor.
    - **Committee of Creditors (CoC):** A committee consisting of only financial creditors is formed by the IRP.
    - **Corporate Insolvency Resolution Process (CIRP):**
      - Under this, steps are taken for revival, selling the company to a suitable buyer, etc.
      - Resolution plan has to be approved by CoC (at least 66% of the creditors in CoC).
    - **Time Bound Resolution:** Insolvency resolution - Max (180 + 90 Days) **330 days** (including the liquidation process) (after the Aug 2019 Amendment)
      - **Liquidation** - if the insolvency resolution fails. (Note: through the SC Judgment in the Essar Steel case, the 330-day deadline is not more mandatory).
    - **Came into force** on 1st Dec 2016.
- iii. It offers a paradigm shift from the existing '**Debtor in possession**' to a '**Creditor in control**' regime.
- iv. **Institutional Infrastructure for Insolvency and Bankruptcy Process under IBC**
  1. **Insolvency and Bankruptcy Board of India** -> Insolvency regulator, oversees the functioning of insolvency intermediaries (IPs, IPAs, IUs)
  2. **Insolvency Professionals and Insolvency Professional Agencies** -> private bodies -> specialized in helping sick companies -> license from IBBI required
  3. **Information Utilities**

- Collate all information about debtors to prevent serial defaulters from misusing the system.

#### 4. Adjudication

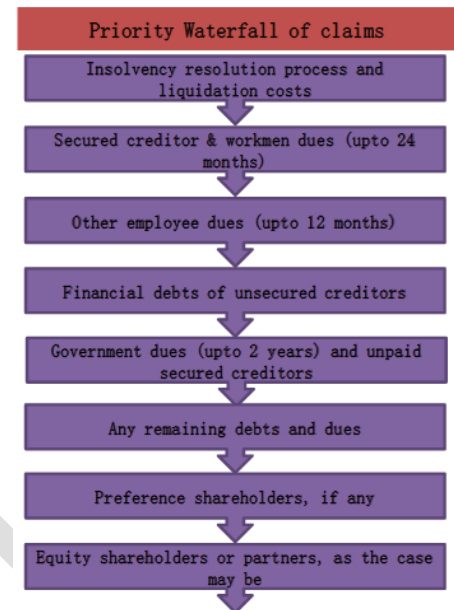
- **The National Company Law Tribunal (NCLT)** will adjudicate insolvency resolution for corporates (i.e. : Companies and limited liability Partnerships).
  - **Appeals - NCLAT and Supreme Court**
- **The Debt Recovery Tribunal (DRT)** will adjudicate insolvency resolution for individuals.
  - **Appeals - DRAT and Supreme Court**

#### Insolvency and Bankruptcy fund

- For establishment and use by Insolvency and Bankruptcy Board of India and also for implementing various provisions of the act.

**Provisions to address cross border insolvency** through bilateral agreements with other countries.

**Protection of worker's interest**



### C) ESI 2021-22 UPDATES

- IBC has created a cohesive and comprehensive insolvency ecosystem. With the enactment of IBC, India has witnessed birth of two professions namely: the insolvency profession and the valuation profession. These professions have professionalized insolvency services.
- The code has opened possibilities of the resolution, including merger, amalgamation, and restructuring of any kind, which often require professional help. This has created market for services of Insolvency Professionals, Registered Valuers, Insolvency Professional Entities and expanded the scope of services of Advocates, Accountants and other professionals.
- Due to COVID-19 pandemic, the Insolvency and Bankruptcy (Amendment) Ordinance, 2020 was promulgated on 5th June 2020, which suspended initiation of the CIRP of a corporate debtor (CD) for any default arising on or after 25th March 2020. This **suspension of code was extended twice for 3 months** each on 24th Sep 2020 and 22nd Dec 2020. This led to the number of cases to decline in 2020-21. This has slightly increased to 1640 as of Sep 2021.
- **Key Impacts of the IBC Code:**
  1. **Rescue of distressed assets:**
    - » As on Sep 2021, the code has rescued 421 CDs through resolution plan and has referred 1419 CDs for liquidation.
    - » In value terms 74% of distressed assets were rescued.
  2. **Time and Cost**
    - » The 421 CIRPs, which have yielded resolution plans by the end of Sep 2021 took on average 428 days for the conclusion process.
    - » The 1419 CIRPs, which ended up in orders for liquidation, took an average 375 days
  3. **Behavioural Change:**
    - » Distressed assets have a life cycle and their value gradually decline with time. The fact that a **CD may change hands** has changed the Behaviour of debtors. **Thousands of debtors are resolving distress in the early stages of distress**, either when the default is imminent, on receipt of a notice for repayment but before filing an application, after filing the application but before its admission and so on.

- » Till Sep 2021, 18629 applications for initiation of CIRPs of CDs having underlying default of more than 5 lakh crores were resolved before their admission.

#### D) IBC AND PRE-PACKAGED INSOLVENCY RESOLUTION PROCESS FOR CORPORATE MSMES

- Multiple ways of stress resolution are always good for economy.
- In April 2021, Gol amended the IBC Code, 2016 to introduce a **Pre-Packaged Insolvency Resolution Process (PPIRP)** for corporate MSME as an alternative insolvency resolution process to ensure quicker outcome.
- It has rigour and discipline of the CIRP. At the same time, it is informal upto a point and formal thereafter.
  - o It blends debtor-in-possession with creditor-in-control.
  - o It is neither a fully private nor a fully public process - it **allows the company, if eligible under section 29A, to submit the base resolution plan which is exposed to challenge for value maximisation.**
  - o It **safeguards the rights of stakeholders as much as in CIRP** and has adequate checks and balances to prevent any potential misuse. This process entails a limited role of the courts and insolvency professionals (IPs).
- The **informality in the beginning** (pre-initiation phase) offers **flexibility** for the CD and its creditors to swiftly explore and negotiate the best way to resolve stress in the business.
- The **Post-initiation stage drives value maximization** and bestows the resolution plan with statutory protection.
  - o The process is required to be completed within a time frame of 120 days from the commencement date.
  - o At the same time, the management of the affairs of the CD shall continue to vest in the Board of Directors/ partners of the CD and the resolution professional conducts the process under the guidance and oversight of the creditors.

#### 16) VOLUNTARY LIQUIDATION OF CORPORATES

- **Liquidation** can be **involuntary** as in the case of insolvency or bankruptcy; or **voluntary** which could be due to personal reasons, subsidiaries being merged etc.
- Though involuntary liquidation process has been simplified by IBC, however the procedure of voluntary exit of business still needs to be simplified significantly, on top of recent progress.
- **Two Main methods of voluntary liquidation:**
  - o **Through Registrar of Companies (RoC)** under section 248 of the Companies Act, 2013 -> It is the more popular one.
  - o **Another method under IBC**

#### A) SECTION 248(2) OF COMPANIES ACT 2013

- Under this method, a company (which has extinguished all its liabilities and doesn't have any pending litigation against it), by a **special resolution or consent of 75% members** in terms of paid-up share capital, may file an application to Registrar of Companies.
- Though this is a faster method of winding up a company, but it was observed that there were huge pendency of cases. For e.g. In June 2021, more than 54% cases were pending for more than a year. After government efforts, the number of pending cases for more than 1 year have come down to 16.3% in Jan 2022, **yet this process could be further simplified.**

#### B) INSOLVENCY AND BANKRUPTCY CODE

- **Section 59 of Insolvency and Bankruptcy Code (IBC), 2016** together with the **IBBI (Voluntary Liquidation Process) Regulations, 2017 (Voluntary Liquidation Regulations)** provide the mechanism for voluntary liquidation of a corporate person.
- Section 59 allows a corporate person who has not defaulted to initiate the process of voluntary liquidation.
- **Key Problems**
  - o **Obtaining NOC** from various government departments (including CBDT, CBIT, EPFO etc.) is challenging. There is no well-defined SOPs in the departments for granting NOC.
  - o **NCLT gives final decision on liquidation**. But, there are no standard guidelines on requirements by NCLT bench. This creates lags in the processes as the company has to contact various departments to take the specified clearances as required by NCLT.
  - o **Hesitancy of banks** in closing the bank account and hesitancy in opening new liquidation bank account by the liquidator.

So, we can conclude that **there is a need to simplify the voluntary liquidation process**. Easy exit is a key component of ease of doing business. Apart from simplifying the issues in the various steps in the processes, there is a need for the creation of a single window for the entire process. A portal that combines all the steps of the liquidation process altogether, starting from application by companies to processing by all departments will prove to be very useful

## 17) CROSS BORDER INSOLVENCY (INTERNATIONAL INSOLVENCY) LAW IN INDIA

- **Intro**
  - » Cross border Insolvency mechanisms deals with financially distressed debtors who have assets or creditors in more than one country. Currently, the Cross Border Insolvency has no clear legal framework in India.
- **Key Cross border insolvency scenarios**
  - » Creditor of an Indian debtor wishing to enforce their rights over the overseas assets of an Indian debtor.
  - » Creditors of a foreign debtor wish to enforce their rights over the assets of foreign debtor in India.
  - » Indian creditors to a foreign debtor, wish to enforce their rights over the assets of that foreign debtor in a foreign Jurisdiction.
- **Why cross border insolvency process is important?**
  - » **Increasing global footprint of corporates**
  - » **Improving Ease of Doing Business :**
  - » **Preventing the misuse of bankruptcy law:** It will further help India in dealing with cases like that of Nirav Modi who has filed for Bankruptcy in USA.
- **Key components of Cross border insolvency:**
  - Which **law** is applicable in case of cross border insolvency
  - Who has the **jurisdiction** to administer the insolvency process.
  - How are judgments asserting control on assets **enforced**.

### A) THE UN COMMISSION ON INTERNATIONAL TRADE LAW (UNCITRAL) MODEL LAW

- » This is a model law issued by UNCITRAL in 1997, to assist countries in regulating cross border insolvency. Over the years it has emerged as the most widely accepted legal framework to deal with cross-border insolvency issues.
- » It is based on the principle of **Modified Universalism** (as opposed to Territorialism and Universalism).
- » The law addresses the core issues of cross border insolvency cases with the help of **four main principles**:

- i. **Access:** It allows foreign professionals and creditors direct access to domestic courts and enables them to participate in and commence domestic insolvency proceedings against a debtor
- ii. **Recognition:** It allows recognition of foreign proceedings and enables courts to determine relief accordingly.
- iii. **Cooperation:** It provides a framework for cooperation between insolvency professionals and court of countries.
- iv. **Coordination:** It allows for coordination in the conduct of concurrent proceedings in different jurisdiction.

» **How many countries have adopted UNCITRAL?**

- As of Jan 2022, **49** states have adopted the UNCITRAL Model Law (including USA, UK and Singapore). Some of them have set a reciprocity pre-condition.

» **Other Facts for Pre**

- i. UNCITRAL, established in 1966, is a subsidiary body of the General Assembly of the UN.
- ii. It is mandated with harmonization and unification of the international trade law, as per the website.

## B) CROSS BORDER INSOLVENCY IN INDIA

- » India has **not yet adopted** UNCITRAL Model Law. (as of Jan 2021)
- » Earlier, Justice V. Balakrishna Eradi Committee in 2000 and N.L. Mitra Committee had recommended the adoption of the model law.
- » **Under the current IBC, 2016**, two sections deal with cross border insolvency.
  - Section 234 of the code empowers government to sign treaties to enable the provisions of the code.
  - Section 235 provides for a 'letter of request' by the liquidator for action on the assets of the company situated in other country. However, a reciprocal arrangement must exist there.
- » India has not yet initiated the bilateral treaty mechanism to deal with cross border insolvency provisions.

## C) THE REPORT OF INSOLVENCY LAW COMMITTEE (ILC) - CHAIRED BY CORPORATE AFFAIRS SECRETARY INJETI SRINIVAS (OCT 2018)

» **Key Findings**

- Section 234 and 235 of the IBC, don't provide a comprehensive framework on cross-border insolvency.

» **Key recommendations**

- **Adoption of the UNCITRAL Model Law** as it provides a comprehensive framework to deal with cross border insolvency issues.
- **Some changes to ensure consistency with IBC**
  - India's adoption of model law should only include corporate debtors and not individuals.
- **Incorporate Reciprocity Provision**
- **Foreign Creditors should be treated on par with domestic creditors.**
  - They will still be able to initiate, participate in and file claims in proceedings in India under IBC regardless of reciprocity.
- Centre should draw up a list of such indicative factors in subordinate legislation which can help while **ascertaining the COMI** (Centre of Main Interests)



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