

# Relief Schemes for MSMEs and NBFCs

September 4, 2020

## Emergency Credit Line Guarantee Scheme

The Emergency Credit Line Guarantee Scheme (ECLGS) was unveiled as part of the Rs 20 lakh crore comprehensive package announced by the Finance Ministry, to aid Micro, Small and Medium Enterprises (MSMEs) sector in view of the economic distress caused by the COVID-19 pandemic. This **collateral-free loan** is expected to enable small businesses to pay salaries, rent and to help with restocking expenses.

Heeding to industry demand and in sync with the new definition of medium and small, and micro enterprises (MSMEs), the **finance ministry has increased the annual turnover ceiling of companies that could avail loans under the scheme to ₹250 crore from ₹100 crore at present. The maximum amount of loans that can be availed under the scheme has also been increased to ₹10 crore from ₹5 crore.**

**Individuals can avail themselves of ECLGS if they already had loans for business purposes** and are subject to the condition that they fulfill eligibility criteria. The scheme provides **incentives to banks and non-bank lenders to offer additional funding facility to small borrowers by providing them 100% guarantee (by NCGTC) for any losses suffered by the lenders due to any default.** The larger idea is to support small businesses struggling to meet their operational liabilities due to the imposition of a nationwide lockdown.

A **moratorium period of one year on the principal amount** would be provided and **interest would, however, be payable** during the moratorium period. The **principal shall be repaid in 36 instalments** after the moratorium period is over.

## Partial Credit Guarantee Scheme

The Union finance ministry said that it has **expanded the scope of the partial credit guarantee scheme (PCGS) to provide greater flexibility to state-owned banks in purchasing bonds and commercial papers of non-banking financial companies (NBFCs)**. The Centre had announced the PCGS in July 2019, allowing public sector banks to purchase high-rated pooled assets from financially sound NBFCs and housing finance companies (HFCs).

The idea was to provide **liquidity support to institutions with low credit ratings and ensure continuity of credit support to small businesses**, which were the worst hit during the covid-19 outbreak. Under PCGS 2.0, the **Centre provided 20% first loss sovereign guarantee to public sector banks**, resulting in liquidity infusion of ₹45,000 crore into the system. The scheme **covered papers with ratings of AA and below, including unrated papers**, aimed at providing access to fresh liquidity support to non-bank lenders.

The maximum headroom permissible for purchase of bonds and CPs rated AA/AA- was a fourth of the total portfolio at ₹11,250 crore. The ministry said this will be extended to 50%, as the 25% ceiling for AA/AA- rated bonds and CPs was nearly met, while the **appetite for low-rated papers is inching towards saturation**, considering its lower ticket size.

## Subordinate Debt Scheme

The Ministry of MSME has framed a scheme for the purpose of **providing guarantees in respect of credit facilities extended by eligible and registered scheduled commercial banks to borrowers in MSMEs**. The scheme will be operationalized through a special window created for this purpose under **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**. The scheme is named as 'Distressed Assets Fund – Subordinate Debt for Stressed MSMEs' and the credit product for which

guarantee would be provided under the scheme shall be named as Credit Guarantee Scheme for Subordinate Debt (CGSSD).

Purpose is to **provide guarantee coverage for the CGSSD to provide sub-debt support in respect of restructuring of MSMEs. 90% guarantee coverage would come from scheme/ Trust and remaining 10% from the concerned promoter(s).** The objective of the scheme is to **provide personal loan through banks to the promoters of stressed MSMEs for infusion as equity/ quasi equity** in the business eligible for restructuring, as per RBI guidelines for restructuring of stressed MSME advances.

The guarantee coverage will be provided to the eligible borrower for the credit facilities extended under this scheme. Under this arrangement, **promoter(s) of the MSME unit will be given credit equal to 15% of his/ her stake (equity plus debt) or Rs 75 lakh whichever is lower.** The financial assistance provided as part of the scheme is to be operated as a separate loan account and the **promoter needs to infuse the sub-debt / loan amount as promoter's contribution in the form of equity (including sub-debt or quasi equity) into MSME entity.**