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## COVID 19 – Government Guarantee Emergency Line of Credit to MSME Industries

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## ➤ **Introduction and Objective of MSME Stimulus Package**

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities but also help in industrialization and development of rural & backward areas. MSMEs are complementary to large industries as ancillary units and also accepted as the backbone of economic growth.

However, due to COVID-19 Pandemic and lockdown of Economy business operations across sectors was hugely affected, it is considered that MSMEs is one of most affected sector and they also face challenges to revive their operations back to normal. Keeping in mind the importance of MSME sector and to revive economic growth Finance Minister Smt. Nirmala Sitharaman on 13th May 2020 announced 3 Lakh crores Emergency Credit Line Guarantee Scheme for MSMEs.

Details of the Scheme is explained below.

## ➤ **Emergency Credit Line Guarantee Scheme (ECLCS)**

The Government of India through Ministry of Finance, Department of Financial Service, has introduced the ECLCS for providing 100% guarantee coverage for additional working capital term loan facility up to 20% of their entire existing outstanding credit up to Rs. 25 crores i.e. Rs. 5 Crores, as on 29<sup>th</sup> February 2020, subject to the accounts being less than or equal to 60 days due as on that date. Scheme can be opted by Eligible MSME borrowers, including interested Pradan Mantri Mudra Yojna (PMMY) borrowers, in view of COVID-19 crisis, as a special scheme.

The Fund and the Scheme will be managed and operated by National Credit Guarantee Trustee Company Ltd. (NCGTC), which is wholly-owned trustee company of Government of India.

## ➤ Eligible Members Lending Institutions (MLIs)

All Scheduled Commercial Banks (SCBs), Non-Banking Financial Companies (NBFCs) (which have been in operation for 2 years as on 29<sup>th</sup> February 2020) and Financial Institutions (FIs)

## ➤ MSME Definition

Classification	Micro	Small	Medium
Manufacturing and Service	Investment < Rs. 1 crore And Turnover < Rs. 5 crores	Investment < Rs. 10 crores And Turnover <Rs. 50 crores	Investment < Rs. 50 crores And Turnover <Rs. 250 crores

*Note: - Turnover with respect to exports will not be counted in the limits of turnover for any category of MSME units whether micro, small or medium*

## ➤ Duration

The Scheme would be applicable to all loans sanctioned under Guaranteed Emergency Credit Line (GECL) by NCGTC up to 31<sup>st</sup> October 2020, or till an amount of Rs 3 Lakh crore is sanctioned under the GECL, whichever is earlier.

## ➤ Eligible Borrowers

- All Business Enterprises /MSME borrower accounts with combined outstanding loans across all MLIs of up to Rs. 25 crores as on 29<sup>th</sup> February 2020, and annual turnover of up to Rs. 100 crores for FY 2019-20 are eligible for the Scheme. MLIs are expected to check with credit bureau the overall outstanding of the borrower to assess the eligibility of the borrower.

- Loans provided to Business Enterprises / MSMEs constituted as Proprietorship, Partnership, Registered Company, Trusts and Limited Liability Partnerships (LLPs) shall be eligible under the Scheme. For instance, any existing loan such as Commercial Vehicle loan taken by an entity shall be covered but Commercial Vehicle loan taken by promoter or director in personal capacity shall not be covered.
- For the purpose of this Scheme, Business Enterprises / MSMEs would include loans covered under Pradhan Mantri Mudra Yojana extended on or before 29<sup>th</sup> February 2020, and reported on the MUDRA portal. All eligibility conditions including the condition related to Days past due would also apply to PMMY loans.
- For loans having co-applicant, only those existing loans where entity is the primary co-applicant are covered under the Scheme for additional emergency funding.
- Loans provided in individual capacity are not covered under the Scheme.
- The Scheme is valid for existing customers on the books of the MLIs. Borrower accounts should be less than or equal to 60 days past due as on 29<sup>th</sup> February, 2020 in order to be eligible under the Scheme. i.e. All borrowers which have not been classified as Special Mention Account (SMA 2) or Non-Performing Assets (NPA) by any of the MLIs as on 29<sup>th</sup> February, 2020 will be eligible for the Scheme, days Past Due status as on 29<sup>th</sup> February, 2020 to be checked across MLIs from credit bureau.
- Business Enterprises / MSME borrower must be GST registered in all cases where such registration is mandatory. This condition will not apply to Business Enterprises / MSMEs that are not required to obtain GST registration.
- An 'opt-out' option should be provided to the eligible Business Enterprises / MSME borrowers to enable them to choose whether they wish to opt out of the GECL facility.
- For the purpose of this Scheme it is not necessary that the existing loans of the borrowers should be covered under the existing NCGTC or CGTMSE Scheme.

- Some examples on the eligibility of the borrowers are indicated below

Name of the Borrower	Overall Outstanding of the Borrower Across MLIs (INR Crore)	Overall Outstanding of the Borrower with MLI (INR Crore)	Days Past due of borrower as on 29th Feb 2020 (Days)	Turnover as per latest available financials (INR Crore)	Eligible or Not?
Borrower A	30	15	30	90	Not eligible
Borrower B	30	15	62	90	Not eligible
Borrower C	25	25	59	75	Eligible
Borrower D	15	10	0	80	Eligible
Borrower E	20	10	0	125	Not eligible

### ➤ Loan Amount eligible under the Guarantee Coverage

- The amount of GECL funding to eligible Business Enterprises / MSME borrowers either in the form of additional working capital term loan facility (in case of banks and Financial Institutions), and additional term loan facility (in case of NBFCs) would be up to 20% of their total outstanding loans up to Rs. 25 crores as on 29th February, 2020, subject to the borrower meeting all the eligibility criteria.
- Total Outstanding Amount would comprise of the on-balance sheet exposure such as outstanding amount across WC loans, term loans and WCTL loans. Off balance sheet and non-fund-based exposures will be excluded.
- MLIs are expected to check with credit bureau the overall outstanding of the borrower to assess the overall additional loan amount eligible for sanction under the Scheme.

- MLIs would be required to open a separate account for Credit Facility extended through the Scheme
- Loans extended through current Government schemes such as PMEGP, PMMY etc. would continue to be categorized under that scheme as earlier. WCTL/Term Loans under this Scheme shall be over and above the existing loan.
- In case a borrower has existing limits with multiple lenders, GECL may be availed either through one lender or multiple lenders depending upon the agreement between the borrower and the MLI.
- In case the borrower wishes to take from any lender an amount more than the proportional 20% of the outstanding credit that the borrower has with that particular lender, a No Objection Certificate (NOC) would be required from all other lenders. No NOC will, however, be required if the GECL availed from a particular lender is limited to the proportional 20% of the outstanding credit that the borrower has with that lender.
- MLIs are expected to have simple and enabling criteria to assess the borrower eligibility. Since the loans are being provided to existing borrowers it is expected that the time required for due diligence would be minimal in nature. MLIs should work towards enabling access of this facility to all the eligible borrowers by educating borrowers regarding the Scheme and steps to avail credit under the Scheme.
- Examples to calculate the loan amount covered under the Guarantee coverage:

<b>Name of the Borrower</b>	<b>Overall Outstanding of the Borrower across MLIs (INR Crore)</b>	<b>Overall Outstanding of the Borrower with MLI (INR Crore)</b>	<b>Total Maximum Loan Amount allowed under the scheme (INR Crore)</b>	<b>Total Maximum Loan Amount allowed without NOC for MLI (INR Crore)</b>
	<b>A</b>	<b>B</b>	<b>C= 20% of A</b>	<b>D= 20% of B</b>

Borrower A	20	15	4	3
Borrower B	5	2	1	0.4
Borrower C	25	25	5	5
Borrower D	15	10	3	2

### ➤ Interest Rate of Credit under the Scheme

Interest Rate on GECL shall be capped as under:

- For Banks and FIs, lending rate linked to one of the external benchmark rates prescribed by RBI +1% subject to a maximum of 9.25% per annum.
- For NBFCs, the interest rate on GECL shall not exceed 14% per annum.
- Since the additional pre-approved facility is to be provided to existing customers, no additional processing fee shall be charged by MLIs to borrowers.
- No penal interest due to any non-compliance of the already accepted covenants on the existing credit facilities may be charged on additional loans during the sanction time.

### ➤ Tenure of Credit under the Scheme

- The tenure of loans provided under GECL shall be for four years from the date of disbursement. No pre-payment penalty shall, however, be charged by the MLIs in case of early repayment.
- Moratorium period of one year on the principal amount shall be provided to borrowers for the GECL funding during which interest shall be payable
- The principal shall be repaid in 36 installments after the
- moratorium period is over
- The account may be operated in combination with applicable Interest Subvention Scheme(s) as far as feasible

- No Guarantee Fee shall be charged from the MLIs by NCGTC for the Credit facilities provided under the Scheme.

## ➤ Invocation of guarantee

- The MLIs are required to inform the date on which the account was classified as NPA within 90 days of the account being classified as NPA.
- The Trustee Company shall pay 75 per cent of the guaranteed amount within 30 days of preferring of eligible claim by the lending institution, subject to the claim being otherwise found in order and complete in all respects. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings or till the decree gets time barred, whichever is earlier.
- Post invocation of the guarantee claim, if any recoveries are made in the account, MLIs shall first adjust such recoveries towards the legal costs incurred by them for recovery of the amount and shall thereafter remit to NCGTC the balance recoveries.

## ➤ Conclusion

We at ConsultingEdge believes that with revision of MSME definition many Indian Entrepreneurs will be able to take benefit of stimulus package and revive their business operations and would also help Indian Economy to achieve its goal of “Atmanirbhar Bharat”.

### Get in Touch for Scheme related Information



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