

## All about Emergency Credit Line Guarantee Scheme (ECLGS)

The Emergency Credit Line Guarantee Scheme (ECLGS) and the subordinate debt scheme introduced by the Reserve Bank of India (RBI) was introduced to help the micro, small and medium enterprises (MSMEs) get over the stress caused due to slowdown during COVID Lockdown and open new business opportunities.

The Scheme is named as 'Emergency Credit Line Guarantee Scheme (ECLGS)' and the credit product for which guarantee would be provided under the Scheme shall be named as 'Guaranteed Emergency Credit Line (GECL)'.

Under the ECLGS scheme, banks had sanctioned Rs 2.39 lakh crore out of Rs 3 lakh crore corpus as of January 29, 2021. Launched in June 2020 and operationalized in August, the scheme intended to benefit 2 lakh MSMEs that are NPAs or stressed.

The scheme was launched in May last year to support COVID-hit MSMEs but was later extended till March 31, 2021, with the launch of ECLGS 2.0 that was expanded in scope.

The amended version of the scheme focused on entities in 26 stressed sectors identified by the Kamath Committee including power, construction, iron and steel manufacturing, roads, real estate, textiles, chemicals, consumer durables, non-ferrous metals, pharma manufacturing, logistics, gems and jewellery, cement, auto components, hotels-restaurants-tourism, mining, plastic product manufacturing, automobiles manufacturing, auto dealership, aviation, sugar, port and port services, shipping, building materials, and corporate retail outlets.

Budget 2021 had made a provision of Rs 15,700 crore to the MSME sector – more than double from Rs 7,572 crore in the preceding budget. Finance Minister Nirmala Sitharaman had also proposed a revision of the definition of small companies in the budget by enhancing thresholds for paid-up capital from Rs 50 lakh to Rs 2 crore and turnover from Rs 2 crore to Rs 20 crore.

### Salient Features of the Scheme

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|---|---|---|
| <b>Emergency Credit line</b><br>The amount of Emergency Credit line to be extended to Business Enterprises / MSMEs would be upto 20% of total outstanding as on Feb 29, 2020. | <b>100% Guarantee Coverage</b><br>100% Guarantee Coverage for the additional funds sanctioned under the Emergency Credit Line Scheme. | <b>Eligible Borrower</b><br>Business Enterprises / MSMEs with outstanding loan of upto Rs.50 crore as on February 29, 2020 and turnover of upto Rs.250 crore in FY 2019-20. |
| <b>Interest Rate</b><br>Interest rate charged is capped at 9.25% for banks and 14% for NBFCs.   | <b>Tenure</b><br>Maximum tenure of 4 years from the date of disbursement.   | <b>Moratorium</b><br>Moratorium period on Principal amount is 12 months.  |
| <b>Charges</b><br>No charges / guarantee fees to be charged by MLIs/NCGTC.  |   |   |

Let's have a look at some common FAQs from Ministry of MSME about ECLGS:

### **1. What is Guaranteed Emergency Credit Line (GECL)?**

The GECL is a loan for which 100% guarantee would be provided by National Credit Guarantee Trustee Company (NCGTC) to Member Lending Institutions (MLIs), and which will be extended in the form of additional working capital term loan facility and non-fund based facility in case of Scheduled Commercial Banks (SCBs) and Financial Institutions (FIs), and additional term loan facility in case of Non-Banking Financial Companies (NBFCs), to eligible MSMEs/ Business Enterprises, individual borrowers in case of the original loan having been for own business and interested Pradhan Mantri Mudra Yojana (PMMY) borrowers. Credit under GECL would be up to 20% of the borrower's total outstanding credit up to Rs. 500 crore, excluding off-balance sheet and non-fund based exposures, as on 29th February, 2020, i.e., additional credit shall be up to Rs.100 crore.

GECL in respect of borrowers with credit outstanding above Rs.50 crore and not exceeding Rs.500 crore is restricted to borrowers in the 26 sectors identified by Kamath Committee on Resolution Framework in its report of September 04, 2020 and the Healthcare sector and GECL here can be provided as fund based or non-fund based or a mix of two.

### **2. What is the objective of the Scheme?**

The Scheme is a specific response to the unprecedented situation COVID-19. It seeks to provide much needed relief to the MSME sector by incentivizing MLIs to provide additional credit of up to Rs. 3 lakh crore at low cost, thereby enabling MSMEs to meet their operational liabilities and restart their businesses.

### **3. What is the Emergency Credit Line Guarantee Scheme?**

The Emergency Credit Line Guarantee Scheme provides 100% guarantee coverage by NCGTC to MLIs on GECL of up to Rs. 3 lakh crore to eligible MSMEs. MSMEs for the purpose of this Scheme will include MSMEs/ Business Enterprises which are constituted as Proprietorships, Partnerships, Registered Companies, Trusts and Limited Liability Partnerships (LLPs), interested borrowers under PMMY, and also loans to individuals for business purpose.

### **4. Who are the MLIs under the Scheme?**

All SCBs are eligible as MLIs. NBFCs which have been in operation for at least 2 years as on 29.2.2020, and FIs will also be eligible as MLIs under the Scheme.

### **5. What will be the definition of FIs for the purpose of this Scheme?**

FIs for the purpose of this Scheme will include All India Financial Institutions as defined under subclause (i) of clause (c) of Section 45-I of RBI Act.

## **6. What is the duration of the Scheme?**

The Scheme would be applicable to all loans sanctioned under GECL during the period from May 23, 2020 to March 31, 2021, or till guarantees for an amount of Rs. 3 lakh crore are issued by NCGTC, whichever is earlier.

## **7. What would be the guarantee coverage under the Scheme?**

The entire funding provided under GECL shall be provided with a 100% credit guarantee coverage by NCGTC under the Scheme.

## **8. What will be the eligibility criteria for MSMEs to avail the benefit of the Scheme?**

*The eligibility criteria under the Scheme are as under:*

- \* All MSME borrower accounts with combined outstanding loans across all MLIs of up to Rs. 50 crore and classified as regular, SMA-0 or SMA-1 as on 29.2.2020 in any sector.
- \* All MSME borrower accounts in the 26 sectors identified by the Kamath Committee on Resolution Framework in its report of September 04, 2020 and the Healthcare sector having combined outstanding loans across all MLIs above Rs. 50 crore and not exceeding Rs.500 crore and classified as regular or SMA-0 as on 29.2.2020.
- \* The Scheme is valid only for existing customers on the books of the MLI.
- \* The MSME borrower must be GST registered in all cases where such registration is mandatory. This condition will not apply to MSMEs that are not required to obtain GST registration.
- \* Loans provided to individuals for own business purposes will be covered under the Scheme.

## **9. Will the Scheme also cover borrowers under PMMY?**

Yes, loans under PMMY extended on or before 29.2.2020, and reported on the MUDRA portal shall be covered under the Scheme.

## **10. Will GECL be extended as a separate loan account, or as part of the existing loan account of the borrower?**

A separate loan account shall be opened for the borrower for extending additional credit under GECL. This account will be distinct from the existing loan account(s) of the borrower.

**11. Will loans under ECLGS 1.0 be automatically given without any application or solicitation from the borrower?**

This is a pre-approved loan. An offer will go out from the MLI to the eligible borrowers for a preapproved loan which the borrower may choose to accept. If the MSME accepts the offer, it will be required to complete requisite documentation. Thus, an 'opt-out' option will be provided to eligible borrowers under the Scheme, i.e., if the borrower is not interested in availing the loan, he/she may indicate accordingly.

**12. What would be the procedure followed in case a borrower has loan accounts with multiple lenders?**

- \* In case a borrower has existing limits with multiple lenders, GECL may be availed either through one lender or each of the current lenders in proportion depending upon the agreement between the borrower and the MLI.
- \* In case the borrower wishes to take from any specific 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 such lenders whose share of loan under ECLGS is being proposed to be taken from the specific lender. However, it would be necessary for the specific lender to agree to provide loan under ECLGS on behalf of such 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.

**13. To avail GECL, will it be necessary for existing loans of the borrower to be covered under existing guarantee schemes such as CGFMU or CGTMSE?**

No.

**14. Will the interest rate on GECL be capped?**

Yes, interest rates on GECL shall be capped as under:

- \* For Banks and FIs, one of the RBI prescribed external benchmark linked rates (for MSMEs) and marginal cost based lending rate (for non-MSMEs) +1% subject to a maximum of 9.25% per annum
- \* For NBFCs, the interest rate on GECL shall not exceed 14% per annum

The Scheme may also be operated in combination with applicable interest subvention schemes, as far as feasible.

**15. What would be the tenor of loans provided under GECL?**

The tenor of loans provided under GECL shall be four years from the date of first disbursement in respect of borrowers under ECLGS 1.0.

The tenor of fund-based facility provided under ECLGS 2.0 shall be five years from the date of first disbursement/first utilization under fund based or non-fund based facility. No tenor has been prescribed

for non-fund based facility, but the guarantee cover on the non-fund based facility shall expire on completion of 5 years from the date of first disbursement/first utilization under fund based or non-fund based facility. It may be noted that first tranche of non-fund based facility should be utilized on or before June 30, 2021.

No pre-payment penalty shall, however, be charged by the MLIs in case of early repayment.

#### **16. Is there any moratorium period prescribed under the Scheme?**

Yes, a moratorium period of one year on the principal amount shall be provided for fund based GECL facility. Interest shall, however, be payable during the moratorium period. The principal shall be repaid in 36 instalments after the moratorium period is over in case of loans covered under ECLGS 1.0 and in 48 instalments after the moratorium period in case of loans covered under ECLGS 2.0.

There shall be no moratorium for non-fund based facility.

#### **17. Is any turnaround time prescribed for MLIs under the Scheme for sanction of GECL?**

Indicative turnaround time for loans under the Scheme shall be the same as those prescribed by Department of Financial Services for credit support in the context of COVID-19 pandemic.

#### **18. Eligible Borrowers**

- \* All Business Enterprises /MSME borrower accounts with combined outstanding loans across all MLIs of up to Rs. 25 crore as on 29.2.2020, and annual turnover of up to Rs. 100 crore 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 CV loan taken by an entity shall be covered but CV 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 29.2.2020, 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 29th February, 2020 in order to be eligible under the Scheme. i.e. All borrowers which have not been classified as SMA 2 or NPA by any of the MLIs as on 29th February, 2020 will be eligible for the Scheme
- \* Days Past Due status as on 29.2.2020 to be checked across MLIs from credit bureau.

- \* Business Enterprises / MSME borrower accounts which had NPA or SMA-2 status as on 29.2.2020 shall not be eligible under the Scheme.
- \* 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) | DPD of borrower as on 29 <sup>th</sup> Feb 2020 (Days) | Turnover as per latest available financials (INR Crore) | Eligibility  |
|----------------------|---|--|--|---|--------------|
| 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 |

### 19. 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 crore 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:

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

## 20. What would be the procedure for filing and settlement of claims under ECLGS?

### NPA Marking –

NPA marking module is available on portal under Claim & Settlement, wherein provision is made for NPA marking. MLI needs to mark NPA within 90 days of the account being classified as NPA.

### Interim Claim –

The MLI shall furnish the details of the account which would include date of NPA, amount in default, status of legal action etc. in the claim lodgement page available on the portal. The MLI may also be required to upload Management Certificate certifying certain details about the account. On submission of this claim, an e-mail shall go to the MLI that their claim has been lodged and NCGTC would initiate action to approve the claim request and arrange to pay 75% of the amount in default within 30 days of

the claim date provided all requisite documents are submitted and the claim is found to be in order and complete in all respects.

This shall be treated as Interim Claim. In view of the fact that date of default for facilities under non-fund based assistance could be on different dates, multiple interim claims shall be allowed to the MLI.

The MLI shall also furnish details of the recoveries made in the account and after adjusting such recoveries towards default amount relating to first charge and the legal costs incurred by them, remit the balance amount to NCGTC within 30 days, failing which MLI shall be required to pay the recovered amount along with interest at 2% over and above the prevailing repo rate from the date of recovery to the date of payment.

**Final Claim:**

On completion of the recovery Proceedings or till decree gets time barred, whichever is earlier, the MLI shall submit its claim for the balance 25% of the amount in default (net of recoveries, if not already remitted as above). Procedure for settlement of this Final Claim shall be the same as that of Interim Claim except that in the case of loans to individuals, Management Certificate shall be replaced by Statutory Auditor's certificate.