

Emergency Credit Line Guarantee Scheme

written by Gaurav Purohit | June 6, 2020



The world economy is grappling with adverse outcomes of the Corona pandemic and the Indian economy is not an exception to it. Indian economy is reeling under huge distress, firstly due to demonetization, then poor implementation of the GST reforms followed by the prolonged economic slowdown and now the blow of COVID-19 which is going to intensify the crisis across all sectors of the economy. Due to their size and limited financial resources, MSMEs will face the brunt of the present crisis the most. The significant contribution of MSMEs to India's GDP makes them the backbone of the Indian economy. But currently, MSMEs are going through a tough time, thus, immediate attention is called for.

Relief to MSMEs via Emergency Credit Line Guarantee Scheme

In response to the adverse impact of COVID-19 on MSMEs and other small businesses, the Government of India has introduced the Emergency Credit Line Guarantee Scheme (Scheme)[1]. Due to poor creditworthiness of the MSMEs and small enterprises, the banks, NBFCs, or Financial Institutions (FI) hesitate to extend loans to MSMEs. By introducing this scheme, the government encourages lenders to extend loans to the MSMEs without any fear of non-recovery.

The support under the scheme is provided not as an ordinary loan but as additional support to MSMEs so that they can restart their businesses which are in distress due to the Corona crisis. Under the Scheme, the Government of India has allocated Rs. 3 lakhs crores in the form of a fully guaranteed emergency credit line to MSMEs.

Features of the Emergency Credit Line Guarantee Scheme

Few features of the Scheme are as follows:

- The Government of India has introduced the Scheme for providing 100% guarantee coverage to Member Lending Institution ("MLI") against the loans granted as additional working capital to eligible borrowers. For banks and financial institutions, the amount is granted in form of additional working capital term loan facility and for NBFCs, the loan is granted in form of additional term loan which would be up to 20% of their total outstanding loans up to Rs. 25 crores as on February 29, 2020. It means that a maximum loan of Rs. 5 crores can be granted to eligible borrowers under the Scheme.
- The Scheme will be managed and operated by National Credit Guarantee Trustee Company Ltd. (NCGTC), which is a wholly-owned trustee company of the

Government of India. To seek a guarantee cover under the said Scheme, the eligible institutions have to register themselves for the scheme with NCGTC as an MLI.

- The Scheme is open till October 31, 2020, or till the amount of Rs 3 lakh crores is sanctioned under the Scheme, whichever is earlier.
- Eligible Member Lending Institution (MLI): To seek guarantee cover under the said Scheme, the eligible institutions have to register themselves for the Scheme with NCGTC as an MLI. As per the guidelines, the following are the eligible MLI:
 1. All scheduled commercial banks
 2. Financial Institutions as defined under Section 45-I (c) (i) of the Reserve Bank of India Act.
 3. All NBFCs which have been in operation for the period of 2 years as on 29th February 2020
 - Eligible Borrowers and Loans covered under the Scheme:
 1. All business enterprises including MSME whose outstanding loan as on 29th February 2020 is less than or equal to Rs. 25 crores and an annual turnover in Financial Year 2019-20 is less than or equal to Rs. 100 crores.
 2. Loan given to business enterprises or MSMEs on or before 29th February 2020 under the Pradhan Mantri Mudra Yojana (PMMY) will also be considered as an eligible borrower under the Scheme.
 3. The benefits of the Scheme are extended to all kinds of entities irrespective of their formation.
 4. The Scheme aims to rescue those borrowers who are on the verge of committing the default due to dearth of funds. Thus, the Special Mention Account-0 and Special Mention Account-1 are also eligible to take loans under the Scheme. However, the business enterprises or MSME borrowers which have been categorized as Non Performing Assets or Special Mention Account-2 as on 29th February 2020 shall not be eligible under the Scheme.
 5. The Scheme covers only existing customers on the books of the MLI. Thus, the loans which have already been issued by the MLIs will be covered under the Scheme and no new loans will be granted under the Scheme.
 6. All eligible borrowers must be GST registered except which do not require GST registration.
 - How to apply for the loan under the Scheme:
 1. The eligible borrower can make loan applications under the Scheme only with the lending institution with whom the loan is outstanding as on 29th, February 2020 and on the date of application.
 2. To avail loan under the Scheme, a new account needs to be opened which will be separate from the original loan account.
 3. If the borrower has existing limits with multiple lenders, then the additional funds under the scheme shall be disbursed by one lender or multiple lenders in terms of the agreement between the borrower and the MLI.
 4. If the borrower wants to avail loan from any lender and the amount is more than the proportional 20% of the outstanding credit which the borrower owes to a particular lender, then the borrower needs to get a No Objection Certificate (NOC) from all other lenders. However, the borrower will not require such NOC if the additional fund availed from a particular lender is limited to the proportional 20% of the outstanding credit that the borrower has with that lender.
 - Interest Rate: Generally, banks charge an interest rate between 10.55% and

16.25%, while NBFCs charge the rate of interest in the range of 10% to 30%. However, under the Scheme, the Banks and FIs can not levy interest more than 9.25% per annum whereas NBFCs can not charge more than 14% per annum on the loan granted under the Scheme. This will reduce the burden of interest on the borrowers.

- The loan provided under the Scheme becomes payable after 4 years from the date of its payout to the borrower. The principal amount has to be paid in 36 installments after completion of the moratorium period of one year. However, it is to be noted that there will be no moratorium for interest amount.
- There is no Guarantee Fee charged from the MLIs by NCGTC for the Credit facilities provided under the Scheme.
- The loan under the Scheme is provided on a pre-approval basis. MLIs will offer the loan under the Scheme to all the eligible borrowers which the borrower may accept or reject. Along with the offer, an 'opt-out' option will be provided to the eligible borrowers, which means that if the borrower does not want to avail the loan, then he may reject the same.
- Security under the Scheme:
 1. This loan facility granted under the Scheme shall rank *paripassu* with original loan to cash flows and security. The cashflow and security shall be shared on *paripassu* basis between the original loan and loan given under the Scheme. The allocation of cash flows on *paripassu* basis means that if payments are made by the borrower without indicating the loan account, the payment made by the borrower should be divided between the original loan and the loan provided under the Scheme on in proportion to the respective amounts falling/fallen due.
 2. Further, the Scheme provides for sharing of the collateral of the original loan on *paripassu* basis with the loan given under the Scheme. It means that no new security needs to be deposited for the loan given under the Scheme. But it will be inappropriate to bring two different kinds of loans under one umbrella because the loan under the Scheme is supported by sovereign guarantee whereas the prime loan has no such guarantee.
- Invocation of Guarantee:

Upon borrower's account being classified as NPA, within 90 days the same shall be informed to the Trustee Company by MLIs. After submission of the claim amount by the MLIs, 75% of the guaranteed amount shall be paid by the Trustee Company within 30 days. The remaining 25% of the guaranteed amount will be paid on the conclusion of recovery proceedings or till the decree gets time barred, whichever is earlier.

Conclusion

The Scheme provides credit availability to MSMEs and small businesses to meet their operational liabilities and revive their businesses which got affected due to two months' countrywide lockdown. It will bring a positive impact on the economy and will mitigate the distress caused by the Corona pandemic.

[1]

https://www.ncgtc.in/sites/default/files/eclgs_-_operational_guidelines.pdf

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