Additional relief measures announced by Government to mitigate pandemic

June 29, 2021

Overview

CARE Ratings has been studying the various measures announced by government considering the COVID-19 pandemic. The Government of India and Reserve Bank of India (RBI) have been announcing various schemes/ measures to mitigate the economic impact of the pandemic. As a part of Atmanirbhar Package, a key announcement has been the liquidity support to Micro, Small and Medium Enterprises (MSME) via Emergency Credit Line Guarantee Scheme (ECLGS). To mitigate the continuing adverse impact of pandemic, along with various measures for healthcare spending, free tourist visas, extension of Atmanirbhar Bharat Rozgar Yojana, extending farmer incomes, etc, the government has announced following measures.

- **Limit of ECLGS scheme increased –**
  The scope of ECLGS scheme expanded by additional Rs 1.5 lakh crore to Rs 4.5 lakh crore (earlier Rs 3.0 lakh crore). So far, disbursements under ECLGS scheme were Rs 2.69 lakh crore (around 90% of earlier targeted Rs 3.0 lakh crore). Last month government had extended the scope of ECLGS scheme (Ambit of ECLGS scheme expanded to include new sectors). Sector wise details will be finalised as per evolving needs.

- **Loan guarantee scheme for COVID hit sectors –**
  Announcement of Rs 1.1 lakh crore loan guarantee scheme for COVID hit sectors (including health sector).
  - Rs 50,000 crore targeted towards health sector for scaling up medical infrastructure (especially for non-metros medical infrastructure). Maximum loan amount for this sector is Rs 100 crore (interest rate capped at 7.95%), with a duration of up to 3 years.
  - In addition, Rs 60,000 crore targeted towards other sectors (detailed guidelines yet to be issued) for which interest rate is capped at 8.25%. As a part of this allocation, loans will be provided to the tourism sector with 100% guarantee (limits of up to Rs 10 lakhs for TTS per agency, and Rs 1.0 lakh for licensed tourist guides).

- **Credit guarantee scheme through MFIs –**
  In this scheme guarantee will be provided to banks for loans to new or existing NBFC-MFIs or MFIs for on lending (80% of assistance to be used by MFI for incremental lending, interest at least 2% below maximum rate prescribed by RBI) up to Rs 1.25 lakh to over 25 lakh small borrowers (detailed guidelines yet to be issued). The interest rate for MFIs will be capped at MCLR plus 2% with a maximum loan tenure of 3 years. The Scheme would be valid till March 31, 2022, or till guarantees of Rs 7,500 crore are issued. The scheme would guarantee up to 75% of default amount for up to 3 years through National Credit Guarantee Trustee Company (NCGTC). All borrowers (including defaulters up to 89 days) are eligible under this scheme.

- **Support Exports –**
  - Rs 33,000 crore boost for Project Exports through National Export Insurance Account (NEIA) by providing covers to buyers' credit, given by EXIM Bank.
  - It is proposed to infuse equity in Export Credit Guarantee Corporation (ECGC) over 5 years to boost export insurance cover by Rs. 88,000 crore.

Care Rating's view –

- These supply-side measures alongside earlier announcements by the Government have been undertaken to address the stress due to cash flow disruptions caused by Covid-19 and improve availability of liquidity. A few of these measures have also come in anticipation of the third wave of pandemic. These measures are expected to improve the credit offtake, which has been impacted due to risk aversion in the banking system. The bank credit growth for FY21 was mainly supported by disbursements under ECLGS scheme and personal loans segment. The credit growth for FY22 is likely to remain in low double digit on the back of muted economic activity, which could further delay the anticipated pick-up in credit growth, apart from the likely impact on asset quality.

- The additional Rs 1.5 lakh crore of ECLGS disbursements would further help the bank credit growth. In every announcement with respect of ECLGS scheme, government has consistently expanded the scope of the scheme by introducing new sectors or by extending the deadline of the scheme. The government has expanded the scheme limit by 50% to enable a larger number of companies access credit under the scheme.

- The government has extended the scope of ECLGS scheme to provide additional credit support to MSMEs and helping in smooth functioning of business activities. The banking system has an exposure of around Rs 12.5 lakh crore to the MSME sector (April 2021). This announcement is expected to provide a much-needed relief by helping entities to sustain employment, meet liabilities and liquidity support to the MSME sector. NPAs are expected to be lower in FY22 for MSME segment due to restructuring schemes and extension in ECLGS support. It will show a clear picture once the restructuring schemes are over. As per RBI's resolution framework 2.0, retail borrowers and small businesses will be permitted to recast their loans, without being downgraded to NPA category. The lenders may witness lower restructuring as the resolution framework 2.0 and ECLGS scheme both are valid till September 2021, with disbursement under ECLGS allowed till December 31, 2021.

- The pandemic has impacted the collection efficiencies and delinquencies of MFIs. If the pending guidelines incorporate points on MFIs location, size, rating, maximum loan amount, then this scheme could incentivize lending to smaller MFIs along with rural focused MFIs.

Contact:	Author:			
Sanjay Agarwal	Senior Director	sanjay.agarwal@careratings.com	+91-22-6754 3582	+91-810 800 7676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careratings.com	+91-22-6754 3519	+91-900 495 2514
Pravin Mule	Research Analyst – BFSI Research	pravin.mule@careratings.com	+91-22-6754 3553	+91-981 928 0043
Mradul Mishra	Media Relations	mradul.mishra@careratings.com	+91-22-6754 3573	

Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East) Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect: