

Ambit of ECLGS scheme expanded to include new sectors

May 31, 2021

Overview

The Covid-19 pandemic has affected the lives and livelihood of a broad cross section of the populace. The Government of India and RBI have been announcing various schemes/ measures to mitigate the economic impact of the pandemic. Amongst other measures, a key announcement has been the liquidity support to MSME via Emergency Credit Line Guarantee Scheme (ECLGS). (refer our previous reports here - [Emergency Credit Line Guarantee Scheme \(ECLGS\) - PSU Banks sanction ~14 percent](#), [ECLGS Update - Total Disbursals exceed Rs 1 lakh cr as banks sanction ~Rs 1.5 lakh crores with PSBs continuing to lead sanctions and disbursals](#), [ECLGS Update: Banks sanction ~54%; After a late start, private banks pull ahead in sanctions](#), [ECLGS Update: Banks and NBFCs sanction ~62%; Private Banks continue to lead sanctions](#)).

To mitigate the continuing adverse impact of pandemic, the government has extended the scope of ECLGS scheme from time to time through introduction of ECLGS 2.0, 3.0 and now 4.0. In November 2020, the government had extended the scheme through ECLGS 2.0 for 26 stressed sectors identified by the Kamath Committee and the healthcare sector ([refer report](#)). In March 2021, ECLGS 3.0 was introduced to cover business enterprises in hospitality, travel & tourism, leisure and sporting sectors.

On May 30, 2021, the government has announced the following measures:

- Introduced ECLGS 4.0 for setting up onsite oxygen generation plants for which hospitals, nursing homes, clinics, medical colleges are eligible for 100% guarantee cover of loans up to Rs 2.0 crore (interest capped at 7.5%).
- Additionally, the validity of ECLGS scheme has also been extended by 3 months i.e., till September 30, 2021 from June 30, 2021 or till Rs 3 lakh crore is sanctioned. Disbursements are allowed till December 31, 2021.

How the scope of ECLGS 1.0 scheme has enlarged?

ECLGS 1.0	Earlier	Now
Scheme validity	June 30th, 2021	September 30th, 2021
Additional credit	Additional credit up to 20% of outstanding as on Feb 29, 2020	Additional credit assistance of up to 10% of outstanding as on Feb 29, 2020. (<i>with respect to restructuring as per RBI guidelines</i>)
Repayment	<i>For all borrowers</i>	<i>For borrowers who are eligible for restructuring as per RBI guidelines - May 05, 2021</i>
	Overall tenure of 4 years (comprising repayment of interest only during first year and interest and principal in 3 years thereafter)	Overall tenure of 5 years (comprising repayment of interest only during first 2 years and interest and principal in 3 years thereafter)

Note: please refer annexure for borrowers who are eligible for restructuring as per RBI guidelines May 05, 2021.

How the scope of ECLGS 3.0 scheme has enlarged?

ECLGS 3.0	Earlier	Now
Entities/Sector eligible	Hospitality, Travel & Tourism, Leisure & Sporting sectors	Civil aviation sector also made eligible
Scheme validity	June 30th, 2021	September 30th, 2021
Ceiling	Rs 500 crore of loan outstanding	No limit (assistance to each borrower limited to 40% of total credit outstanding or Rs 200 crore whichever is lower)

Care Rating's view –

Last year the pandemic had created supply related disruptions due to strict nationwide lockdown, however the second wave has created a demand shock for the economy (i.e. less mobility, less discretionary spending, low capacity utilization etc.). The second wave of the pandemic is considered more intense and widespread than the first wave and it has been a setback for India's fledging economic recovery. As a result, economic growth in FY22 is expected to be lower than anticipated earlier ([Second wave fallout: Fiscal deficit for FY22 to widen](#)).

The ECLGS scheme has been again extended its validity to provide additional support to MSMEs and helping in smooth functioning of business activities. The scheme is expected to provide a much-needed relief by helping entities to sustain employment, meet liabilities and liquidity support to the MSME sector. It would need to be seen whether it makes sense to some of the existing borrowers, which may be borrowing at a lower interest rate. Furthermore, these schemes seem to be targeted towards those MSMEs which already have a relationship with banks, however those MSMEs which use their own cashflows rather than any loans from the banking system (but are facing cash flow issues) seem to be out of the ambit of the scheme.

The introduction of ECLGS 4.0 for setting up onsite oxygen generation plants is expected to provide some relief to stressed healthcare sector. The banking system has an exposure of around Rs 13 lakh crores to the MSME sector. This would help in increased credit flow into the system at a comparatively lower cost. The bank credit growth has been mainly supported by disbursements in ECLGS scheme. Till date, sanctions under ECLGS scheme were Rs 2.54 lakh crore, which is around 85% of targeted Rs 3.0 lakh crore. So, banks can lend the balance Rs 46,000 crore to aviation and MSMEs for their activities including setting up onsite oxygen generation plants (under ECLGS 4.0).

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. This will provide the relief to this segment of borrowers and to better plan their cash flows. The lenders may witness lower restructuring as the resolution framework 2.0 and ECLGS scheme both are valid till September 2021.

Annexure

Borrowers who are eligible for restructuring as per RBI guidelines of May 05, 2021 subject to following conditions:

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| a) The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020. |
| b) The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021. |
| c) The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed Rs.25 crore as on March 31, 2021. |
| d) The borrower's account was a 'standard asset' as on March 31, 2021. |
| e) The borrower's account was not restructured in terms of MSME restructuring circulars |
| f) The restructuring of the borrower account is implemented within 90 days from the date of invocation. |
| g) If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented. |
| h) Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10 percent of the residual debt of the borrower. |

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