Govt expands credit lifeline for MSMEs amid second wave of Covid-19

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The government has expanded the Rs 3-trillion Emergency Credit Line Guarantee Scheme (ECLGS) to help businesses hit by the second wave of the Covid-19 pandemic. Dubbed ECLGS 4.0, the scheme has added the civil aviation sector and loan to health institutions for on-site oxygen generation plants.

The Centre has also removed the loan outstanding ceiling of Rs 500 crore of loan outstanding. However, the maximum additional loans they can take under the scheme is limited to 40 per cent of the outstanding loan, or Rs 200 crore, whichever is lower.

Loans given under ECLGS 1.0 will be eligible for additional assistance up to 10 per cent, raising the total guaranteed loan up to 30 per cent of outstanding as on February 29, 2020.

The 100 per cent guarantee cover offered to hospitals, nursing homes, clinics, and medical colleges for setting up oxygen plants will be available for loans up to Rs 2 crore, with the interest rate capped at 7.5 per cent.

Lenders said they have room to lend another Rs 45,000 crore under the scheme. Of the guarantee cover of Rs 3 trillion, about Rs 2.54 trillion has been sanctioned, and disbursements stand at Rs 2.4 trillion, said Sunil Mehta, chief executive, Indian Banks’ Association (IBA).

In a statement, the finance ministry said: “The modifications would enhance the utility and impact of ECLGS by providing additional support to MSMEs (micro, small and medium enterprises), safeguarding livelihoods, and helping in seamless resumption of business activity. These changes will further facilitate flow of institutional credit at reasonable terms.”

BENEFITS ON OFFER

- **Cap of ₹500 cr of loan outstanding removed;** assistance will be max 40% or ₹200 crore, whichever is lower
- **100% guarantee cover on loans up to ₹2 crore** to hospitals, nursing homes/clinics for setting up on-site 02 plants
- **Additional 10% assistance of outstanding as on Feb 29, 2020,** to borrowers who availed previous version of ECLGS
- **Borrowers eligible for RBI restructuring 2.0** can avail of a tenure of 5 years vs 4 years earlier
- **Validity of scheme extended to Sept 30** or till guarantees for ₹3 trn are issued

The validity of the scheme has been extended to September 30 or till guarantees of Rs 3 trillion are issued. Disbursements can be made until December 31. The repayment period for restructured loans has been enhanced by one year to five years for loans under ECLGS 1.0.

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IBA Chairman Rajkiran Rai said: “Many borrowers who used ECLGS 1.0 have also been impacted in the second wave. They need additional funds and more time for repayments. This revision will actually reduce chances of defaults.”

Relief measures under the ECLGS will help borrowers’ liquidity position in light of the incremental stress on debt servicing brought on by the second wave, said Anil Gupta, vice president – financial sector ratings, ICRA. “The government will also not be burdened with additional cost. This will also improve the utilisation of ECLGS funding pool,” said Gupta.

Prakash Agarwal, head – financial institutions at India Rating and Research, said the impact of the current wave has been wider and deeper and is likely to be more on small businesses. So, ECLGS 4.0 is a positive step.

However, Agarwal cautioned that many businesses might still become unviable despite the support. Hence, the stress on lenders’ portfolio will reflect with a lag, he added.

SpiceJet Chairman and Managing Director Ajay Singh said: “The inclusion of the civil aviation sector… is a welcome and timely move by the government that should help the sector that has been the most severely impacted by the Covid-19 pandemic.”

Repayment period

On the extended repayment period, the government said the scheme would help borrowers eligible for restructuring under the Reserve Bank of India’s guidelines and had availed of loans under ECLGS 1.0.

The overall tenure consisted of repayment of interest during the first 12 months, with the remaining repayment of principal and interest being spread over the subsequent 36 months. These borrowers will get a five-year repayment period, involving interest repayment for the first 24 months, and principal and interest in the subsequent 36 months.

ECLGS 2.0 had a loan tenure of five years with a 12-month moratorium on repayment of principal, and ECLGS 3.0 six years, including a moratorium period of 2 years.