

Govt's Credit Plan Needs To Be Expanded

While units worth ₹250 crore turnover are now MSMEs, yet credit line is not available for units exceeding ₹100 crore turnover

By Vishav

The government, while funding ₹3 lakh crore under Emergency Credit Line Guarantee Scheme (ECLGS), said it was a specific response to the unprecedented lockdown, which severely impacted manufacturing and other activities in the MSME sector. Under the scheme, borrowers with up to ₹25 crore of outstanding credit can avail an additional credit of 20 per cent of the loan outstanding from banks, NBFCs, and other financial institutions. The government would stand guarantee for this additional credit for loans taken till October 31.

As on June 20, banks from public and private sectors had already sanctioned loans worth ₹79,000 crore, of which over ₹35,000 crore had already been disbursed. Banks like SBI, HDFC Bank, Bank of Baroda, PNB and Canara Bank were among the top lenders.

Finance Ministry official spokesperson claims the scheme has so far helped 19 lakh MSMEs and other businesses restart their operations.

According to Sameer Mittal, Chairman of International Trade Council in India, and Managing Partner at Sameer Mittal and Associates, one needs to understand that the scheme is valid only for existing customers of a bank, NBFC or FI, but does not cover new borrowers. Also, the government in June changed the definition of MSME wherein the units with a turnover of ₹250 crore get covered, revised upwards from ₹100 crore as announced in May. And yet the credit line is available for the borrowers having turnover up to ₹100 crore.

"So though the entities with a turnover of ₹250 crore might get classified as MSME, yet the credit line would not be available if the turnover exceeds 100 crore. Further the loan amount that can be disbursed is capped



at 20 per cent of the loan outstanding on February 29, 2020. So there are instances when the entity did not have any outstanding loan as on February 29, but is in need of funds now. Now it will not be eligible. Therefore the government needs to bridge this gap," Mittal explains.

He adds the scheme had received a "very slow response" from the private bankers and NBFCs, who in spite of the sovereign guarantee are very slow in the implementation of the scheme. The banks are still risk averse and fear the future risk of NPA in their balance sheet, he says.

Rajesh Sharma, Managing Director, Capri Global Capital (which has a large portfolio of micro and small business borrowers), however, claims the fiscal boost for MSME sector had come at an opportune time when MSMEs were facing severe liquidity pressure.

"Most of our MSME borrowers are covered under the ECLGS to help them tide over the economic distress due to pandemic. We have pre-approved customers, who are eligible for the ₹3 lakh crore guarantee scheme and are reaching out to these customers in a strategic way," he says.

Sharma adds that since the scheme does not cover the loans provided in individual capacity for business purposes, which is typically preferred borrowing mode by the large segment of micro and small business owners, this exclusion needs to be addressed on priority as such borrowers are missing out on the benefits. □

vishav@outlookindia.com