

To all eligible Non-Banking Finance Companies

Circular No. 123/2016-17

Dear Sir / Madam,

Credit Guarantee Scheme for Non-Banking Finance Companies (NBFCs)

Kind Attention: SME/Priority Sector Department

In continuation of the announcement made by the Hon'ble Prime Minister while addressing the nation on December 31, 2016, we are glad to introduce a scheme for extending guarantee coverage to eligible Non-Banking Finance Companies (NBFCs) in respect of collateral free and/or third party guarantee free credit facilities extended by them to eligible Micro and Small Enterprises (MSEs). The features of the scheme may be seen in the **Annexure**.

It may be noted that credit facilities extended to MSEs, as defined under MSMED Act, 2006 (except for credit facilities extended to Retail Traders, educational institutions and agricultural activities) would be eligible for coverage under the proposed scheme. Obtention of Udyog Aadhar Number is mandatory for any prospective borrower to be eligible for coverage under the proposed guarantee scheme.

Eligible NBFCs are requested to approach CGTMSE for completing the formalities with regard to registration as Member Lending Institution of CGTMSE and onetime execution of specified documents with the Trust. The terms and conditions of the existing Credit Guarantee Scheme of CGTMSE (available on website www.cgtmse.in) along with its subsequent modifications would be applicable for the proposed scheme excepting for the Key Features indicated in the **Annexure**. We are sure that the eligible NBFCs would take full advantage of the scheme and, thereby, help Micro and Small Enterprises in further widening their canvas.

Yours faithfully,

Encl. : As above

(S.S.Bakshee)
General Manager

Annexure

Key Features of the proposal

1. **Eligibility** – NBFCs : NBFCs meeting the eligibility criteria given below
 - a. Systemically Important NBFCs registered with RBI and meeting specified prudential norms
 - b. Should be in profit for last three years. Credit rating for long term bank credit not lower than BBB
 - c. Lending to Micro and Small Enterprises (MSEs):
 - i. Experience of minimum 5 years to establish their lending and recovery track record (could be relaxed to 3 years)

- ii. Should have minimum Rs. 100 crore MSE loan portfolio
 - iii. NPA level less than 5% for MSE portfolio as per the latest audited results.
 - iv. Average recovery ratio for the MSE portfolio for the last three years should be over 90%. May be relaxed in deserving cases.
2. **Coverage of loans** : Loans **above Rs.10 lakh and up to Rs. 200 lakh** sanctioned after signing of agreement with CGTMSE to new as well as existing MSEs in manufacturing as well as service sector carrying out activities as currently permitted for coverage by CGTMSE.
3. **Form of Guarantee**: It will be a portfolio guarantee as against transaction guarantee for the present operated by CGTMSE. In addition -
- a. A typical portfolio will have a 3-4 year life, till which the guarantee liability will be alive.
 - b. The portfolio will be built through quarterly submission of eligible accounts and will get frozen as a portfolio block for the particular FY at end of financial year.
 - c. The claims will be settled as under:
 - i. First claim after minimum of 12 months of end of the portfolio year
 - ii. Half-yearly Claim payouts based on audited accounts of NBFCs and specific recovery data as may be specified
 - iii. Annual payouts will be based on Annual accounts and include adjustment on account of any inaccuracy in half-yearly settlement
 - iv. NBFC will have to share recoveries made after claim settlement on pro rata basis

Process

1. Eligible NBFCs to approach CGTMSE for completing the formalities as a Member Lending Institution, signing of agreement and submission of information.
2. Annual guarantee limits will be sanctioned thereafter based on assessment of various factors as included in the Annexure and information obtained from the NBFC.
3. The Board of Trustees may demarcate a separate exposure limit (within the existing overall corpus of CGTMSE) for guaranteeing eligible credit facilities to NBFC – MLIs of CGTMSE.
4. The performance of NBFC exposure shall be reviewed by the Trustees of CGTMSE periodically. Based on such review, the process and criteria under this facility may be reviewed by the Board from time to time

Terms

- a. Guarantee fee for each NBFC will be determined based on the 'Average Expected Loss' [Exposure at default; Probability of Default; Loss Given Default] of the NBFC based on previous loan recovery data for the asset class being covered. The same will remain unchanged for a given portfolio and will be re-assessed at the time of annual sanction of limit.
- b. Pay-out caps would be fixed depending upon the 'Average Expected Loss' data and will be worked out as portfolio guarantee of the loss (upto x times of average expected loss based on the data of each NBFC depending upon repayment and other account data, overall target coverage under the programme/other considerations like corpus availability, etc.). Such cap would be specified by CGTMSE at the time of approval of annual limit. After assessing loss data and other parameters.
- c. No-claim bonus features may be worked out as a part of the fee package based on experience of portfolio.
- d. The guarantee cover will be limited to a maximum extent of 50% of 'Amount in Default' for individual accounts covered in the portfolio (or such other percentage as may be specified by CGTMSE from

time to time) settled on a pro-rata basis. However, claims will not exceed the amount worked out as per overall cap as described above.

- e. Effective interest rate inclusive of cost of guarantee cover not to exceed 18% p.a. for all MSE loans or as may be specified by CGTMSE Board from time to time
- f. For the purpose of claims, loss for the portfolio will be determined for such loans which have turned NPA as per RBI norms and subject to MLI initiating legal action against such loans.
- g. The payment of guarantee claim by CGTMSE to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower with applicable interest. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of loan owed to it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by CGTMSE.

Other Conditions

- 1. No collateral security or third party guarantee shall be stipulated.
- 2. NBFC will be responsible for due diligence of the credit proposal and its further follow up and recovery of all loan amounts.
- 3. Entry of the units under MSME databank of Government of India will be necessary for coverage under CGTMSE.
- 4. Sale of guaranteed assets (full or partial), will be permitted to another registered MLI of CGTMSE. In such case, the guarantee cover will have to be transferred to the buyer MLI which will undertake to agree to the terms and conditions as laid down. This will help to expand the market for MSE loans. However, such deals should be done with prior consent of CGTMSE.