SBI Research

The ECLGS that saved 13.5 lakh MSME units, 1.5 crore jobs & 14% of Outstanding MSME loans turning into NPA

06-January-2022

Executive Summary: How ECLGS scheme saved MSME sector and could be the future template for future lending to MSME units by restructuring the existing Credit Guarantee Scheme / CGTMSE ………….(1/2)

Section I: ECLGS

- In May 2020, Government launched the ECLGS scheme for MSME sector to provide relief to the sector amidst the COVID-19 pandemic
- We estimate almost 13.5 lakh MSMEs accounts were saved due to ECLG scheme (including restructured): Almost 93.7% of such accounts are in Micro and Small category
- In absolute terms, MSME loan accounts worth Rs 1.8 lakh crore were saved from slipping into NPA during the period. This is equivalent to 14% of the outstanding MSME credit being saved from becoming NPA
- As per our analysis, if these units had turned nonperforming, then 1.5 crore workers would have become unemployed. In effect, the ECLG scheme saved the livelihood for 6.0 crore families (assuming four family members per worker including herself)
- Trading Sector (including small kirana shops) has benefitted the most followed by Food Processing, Textiles and Commercial Real Estate
- Amongst the States, Gujarat has been the biggest beneficiary, followed by Maharashtra, Tamil Nadu and Uttar Pradesh

Section II: REORIENTING EXISTING CGTMSE SCHEME BY REPLICATING BEST PRACTICES FROM ECLGS

- The current guaranteed loan product CGTMSE needs to be restructured for a credit boost to MSME sector
- Interestingly, CGTMSE portfolio have a 55%-plus recovery rate, low portfolio delinquency, low capital requirement but still an unpopular product. Conversely, the non CGTMSE portfolio / collateralised has a 25% recovery rate, high portfolio delinquency implying much higher loan loss provisions with high capital requirement but still a popular portfolio
- This could be done by enhancing the scope and role of current CGTMSE portfolio by setting up an institution that will exclusively administer the CGTMSE along the lines of US Small Business Administration
- Given that more than 90% of the units are in Micro sector, CGTMSE coverage may be made mandatory for all enterprises up to Rs 2 crores

Section II: REORIENTING CGTMSE PORTFOLIO BY REPLICATING BEST PRACTICES FROM ECLGS

- Despite being in existence for two decades, coverage of CGTMSE for eligible loans remains abysmally low at sub-10% mostly due to the complexities inherent in the product structure. This may be due to **various issues** like higher premium outflows for guarantee obtention and continuance by borrowers, preference by customers to take recourse to asset backed loans (to mitigate the high cost of guarantee), knowledge gap among operating functionaries of FIs and limited awareness among entrepreneurs who often battle all pervasive information asymmetry while remaining late embracers of enabling technologies, etc
- This could be done by enhancing the scope and role of current CGTMSE portfolio by setting up an institution that will exclusively administer the CGTMSE along the lines of US Small Business Administration
- Simultaneously, structural reforms in CGTMSE scheme**,** with digital platforms eliminating the manual interventions completely and providing an end-to-end dynamic solution, like onboarding claim lodgement and recovery journeys on a real time basis to adhere to best practices
- CGTMSE needs to develop a suitable model for covering purely cash flow-based lending as it is likely to act as a substitute for collateral-based lending up to Rs 2 crores. With increased thrust on cash flow-based lending, the credit limits will be assessed with respect to cash flows and not Balance Sheets any more
- Rough approximations suggest that the revised CGTMSE scheme if properly designed could support incremental SME lending up to 2% of GDP that could turbo charge at least additional 12 lakh SME units supporting at least 1.2 crore additional employment for the lending largesse as capital gets freed up from banking system

In the aftermath of pandemic, the perception was an avalanche of bad loans in banking system- Upto Rs 20 lakh crores as per some estimates…Reality is very different with roughly ~7%-8% of such wild perception turning into restructuring

Raghuram Rajan warns against 'unprecedented' rise in NPA levels in 6 months

What makes MSMEs, most vulnerable to Covid-19 disruptions?

MORATORIUM PERIOD ENDS, NPAs SURGE

OUTSTANDING* NPA*

THE NEW INDI[redacted]EXPR[redacted]

Government boosters have failed to lift sick MSMEs amid lockdown: Associations

MUMBAI: Nearly 13% of loans to micro, small and medium enterprises (MSMEs) were under stress even as the 12.6% of the loans to this segment were classified as non-performing assets as on December 2019 according to TransUnion CIBIL which maintains track records of all borrowers.

VIVEK KAUL

5 JANUARY, 2021

The Rs 20 Lakh Crore Bad Loans Problem of Indian Banks Hasn't Gone Away

…..Even RBI’s GNPA projections are much higher than actuals…

- According to RBI’s Financial Stability Report (Dec’21), macro stress tests for credit risk indicate that the GNPA ratio of ASCBs may increase from 6.9% in September 2021 to 8.1% by September 2022 under the baseline scenario and the ratio may escalate to 9.5% under a very severely stressed scenario

- Since the publication of first FSR (Mar’10) RBI is doing stress testing using various scenarios and providing estimates of GNPAs. During FY15 to FY17 (Sep numbers), RBI’s projections were lower than the actual, in the years FY18 and FY21, actual numbers are much lower than the projections. For Sep-21, the RBI’s projection is almost 660 bps higher than its projection

- The lower than actual numbers thus indicate the continued resilience of the banking system

GNPA: RBI Projection vs. Actual (%)

Sep-end	RBI Projection of GNPA in Dec FSR*	Actual GNPA	Difference (Actual-Projection) in BPS
Sep-22	8.1	-	-
Sep-21	13.5	6.9	-660
Sep-20	9.9	7.5	-240
Sep-19	10.2	9.3	-90
Sep-18	11.1	10.8	-30
Sep-17	9.1	10.2	110
Sep-16	5.4	9.1	370
Sep-15	4.5	5.1	60

Source: RBI FSR: SBI Research; Baseline scenario

…….RBI and Banks must be commended for bringing in borrower financial discipline...

- …..This financial discipline in borrowing community was systematically brought in much before pandemic
- Borrowers were assiduously explained that the importance of timely payment of interest and instalment is necessary and any breach in that will affect their rating and pricing will be increased
- Units with high leverage were also advised to reduce their debt level in time bound manner
- The improvement in borrower collection efficiency during pandemic is a classic example of borrower financial discipline
- This was also helped by behavioral changes by corporates during pandemic
    - Companies have deliberately reduced the loanable funds in the balance sheet
    - Sectors have reported de-growth in key parameters, reduced cost wherever possible to stay afloat

Section I

ECLG Scheme

…Against such backdrop…Government introduced ECLG scheme for MSME sector in May'20 to shield the MSME sector from pandemic introduced disruption

- Government launched the ECLGS scheme for MSME sector to provide relief to the sector amidst the COVID-19 pandemic in May 2020 and since then the Government has extended the scheme to cover various industries (till now four extended versions of ECLG scheme have come out)
- Of the extended limit of Rs 4.5 lakh crore, 64.4% or Rs 2.9 lakh crore has already been sanctioned by 21 Nov'21

An Overview of Government's ECLG Scheme	
ECLGS 1.0	• In May 2020, 100% guarantee was provided for 20% extra credit to MSMEs and Business Enterprises with outstanding up to Rs.50 crore • In August 2020, this was extended to Mudra borrowers and Individual loans for business purposes
ECLGS 2.0	• In November 2020, the scheme was extended through ECLGS 2.0 for 26 sectors identified by the Kamath Committee and for Health Care sector up to 31.03.2021, for entities with outstanding credit of above Rs.50 crore and not exceeding Rs.500 crore as on 29.02.2020, which were less than or equal to 60 days past due as on 29.02.2020
ECLGS 3.0	• In March 2021, the scheme was extended through ECLGS 3.0 to cover business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting & Civil Aviation sectors. ECLGS 3.0 would involve extension of credit of upto 40% of total credit outstanding across all lending institutions as on 29.02.2020 to enterprises in these sectors subject to maximum of Rs 200 crore per enterprise. The tenor of loans granted under ECLGS 3.0 shall be 6 years including moratorium period of 2 years
ECLGS 4.0	• In May 2021, some other modifications have been made in the Scheme, which inter-alia include, increase in moratorium period up to 1 year for loans under ECLGS 1.0, for those lenders where restructuring is admissible as per RBI norms, additional 10% credit to ECLGS 1.0 borrowers availing RBI's one-time restructuring facility, inclusion of Civil Aviation sector within ECLGS 3.0 and removal of the cap of Rs.500 crore of loan outstanding for ECLGS 3.0 subject to the maximum guarantee be capped at Rs.200 crore in each case and 100% guarantee under ECLGS up to a limit of Rs.2 crore for setting up new oxygen plants has been permitted

The first milestone of ECLGS scheme……..

- We analysed the Special Mention Account (SMA) data for the banking system based on trends in SBI portfolio to quantify the benefits derived from ECLGS in terms of asset quality

- SMA is an account exhibiting signs of incipient stress resulting in the borrower defaulting in timely servicing of their debt obligations, though the account has not yet been classified as NPA as per the extant RBI guidelines. Early recognition of such accounts enables banks to initiate timely remedial actions to prevent their potential slippages into NPAs

- Amidst COVID-19 pandemic, moratorium was announced by the RBI till 31st May'20 which was further extended by another 3 months till 31st Aug'20. Comparing the SMA status of the accounts that availed the ECLGS scheme between Sep'20 (customary quarter end dispensation for classifying an account as NPA) and Nov'21 to estimate the accounts that did not slip into NPA purely because of the ECLGS scheme

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment overdue for not more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

Timeline of RBI announcements of moratorium

27-03-2020
- RBI announced moratorium of three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020

23-05-2020
- RBI extended the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020

31-08-2020
- Moratorium ended

30-09-2020
- Benchmark for our study

…..Methodology of estimating how many MSME accounts were saved from becoming NPAs through timely intervention of ECLGS

- We applied a simple yet appropriate methodology in which we considered all such accounts whose status improved or remained in the same category in Nov'21 as compared to Sep'20

- For instance, the accounts which were SMA-0 in Sep'20 and have become standard or remained as SMA-0 in Nov'21 are considered

- Similarly, for accounts which were SMA-2 in Sep'20 and have become standard, or SMA-0, or SMA-1 or remained SMA-2 were taken for the analysis

- We juxtaposed SBI & ASCB results by using market shares, trends and benchmarking

- Further, we also separately estimated the restructured accounts that was eligible for ECLG scheme

Methodology for estimating MSME accounts that were saved from becoming NPA

		A/C Status as of Nov-21			
		Standard	SMA-0	SMA-1	SMA-2
A/C Status as of Sep-20	Standard	✔	✕	✕	✕
	SMA-0	✔	✔	✕	✕
	SMA-1	✔	✔	✔	✕
	SMA-2	✔	✔	✔	✔

✔ : Saved from becoming NPA

… At least 13.5 lakh accounts were saved ~ 14% of outstanding MSME loan

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- Our results are startling going by the positive ramifications on multiple pivots, encouraging exploring feasibility of similar structure to provide holistic support to MSME sector in anchoring the economy

- As per our research, **at least 13.5 lakh MSMEs accounts were saved due to ECLG scheme (including the 2 lakh restructured accounts eligible for ECLG credit)**

- In absolute terms, **MSME loan accounts worth Rs 1.8 lakh crore (including Rs 12,000 crore of restructured**) **have improved during the period**. This means that **around 14% of the outstanding MSME credit (including 2% of restructured) has been saved from slipping into NPA** because of the ECLG scheme

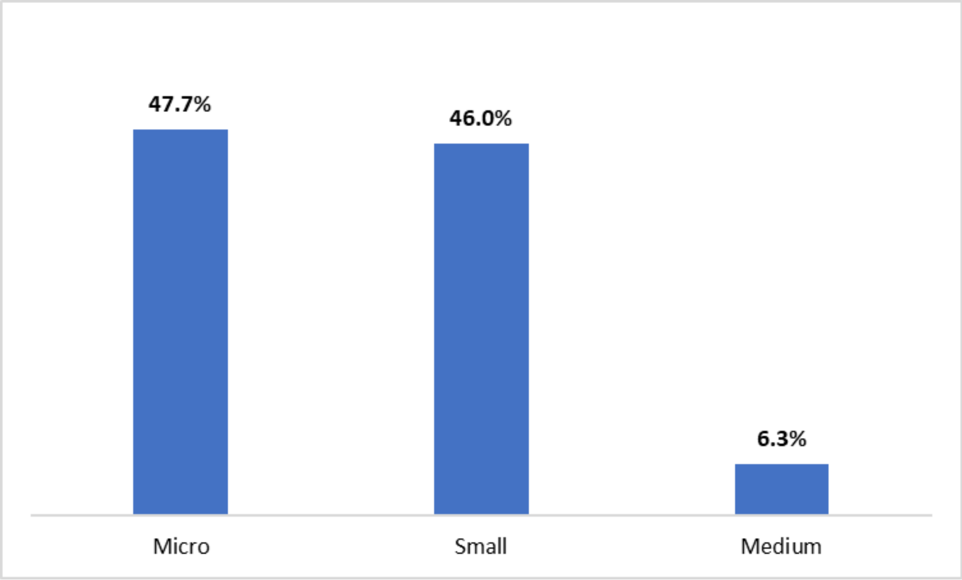
Impact of ECLGS			
		Current Status (Nov'21) better or equal to the Sep-20 status	
		Number of MSMEs Accounts (in lakh)	Outstanding Amount (Rs crore)
Status as of Sep-20	Standard	11.0	169000
	SMA-0	1.0	7700
	SMA-1	1.1	4300
	SMA-2	0.4	1100
Total		**13.5**	**182100**
Memo:			
***Of which*, first restructured & then provided ECLG**		**2.0**	**12,000**

……Impact on Employment~1.5 crore jobs saved~livelihood of 6 crore families

- Of 13.5 lakh MSMEs accounts that are saved due to ECLG scheme, **almost 93.7% are in Micro and Small category**

- 48% belong to the Micro category and nearly same 46% are the Small borrowers. The rest 6% belong to the Medium category

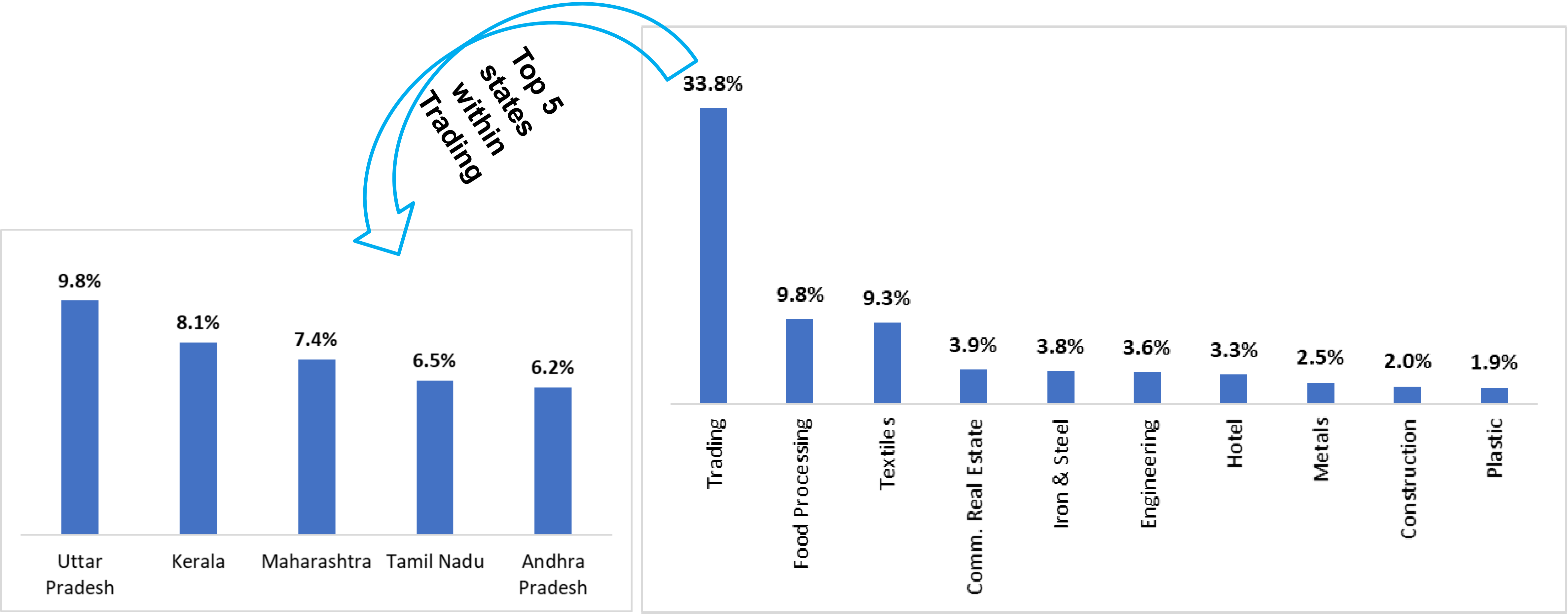
- As per our analysis, if such units slipped into NPA, then **1.5 crore workers would have become unemployed**. Thus, the ECLG scheme has saved the livelihood for 6.0 crore families (assuming four family members per worker including herself)



MSME Category wise Employment Saved	
Micro	1.0 crore
Small	45 lakh
Medium	5 lakh
Total	1.5 crore

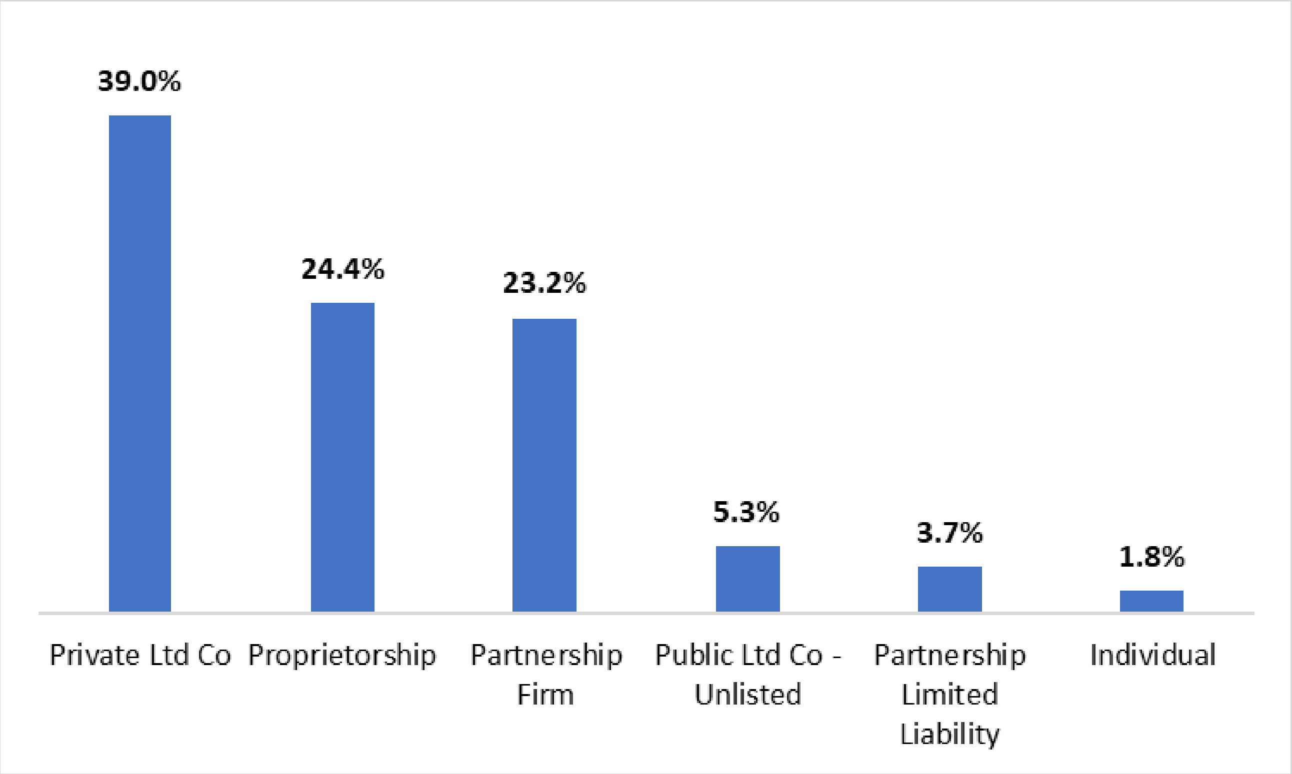
… Trading / Kirana Shops among others benefitted most from ECLGS

- The analysis shows that **trading sector has benefitted the most** followed by food processing, textiles and commercial real estate
- Top ten sectors accounted for ~75% of the outstanding amount saved for becoming NPAs
- Within trading, top five states (industrial as well as MSME intensive states) accounted for ~40% of total trading



…. Private Ltd companies benefitted the most

- **Private Ltd companies have benefitted the most** followed by proprietorship firms
- Gujarat, Maharashtra and Tamil Nadu are the top 3 states where Private Ltd companies and Partnership firms are the most benefitted

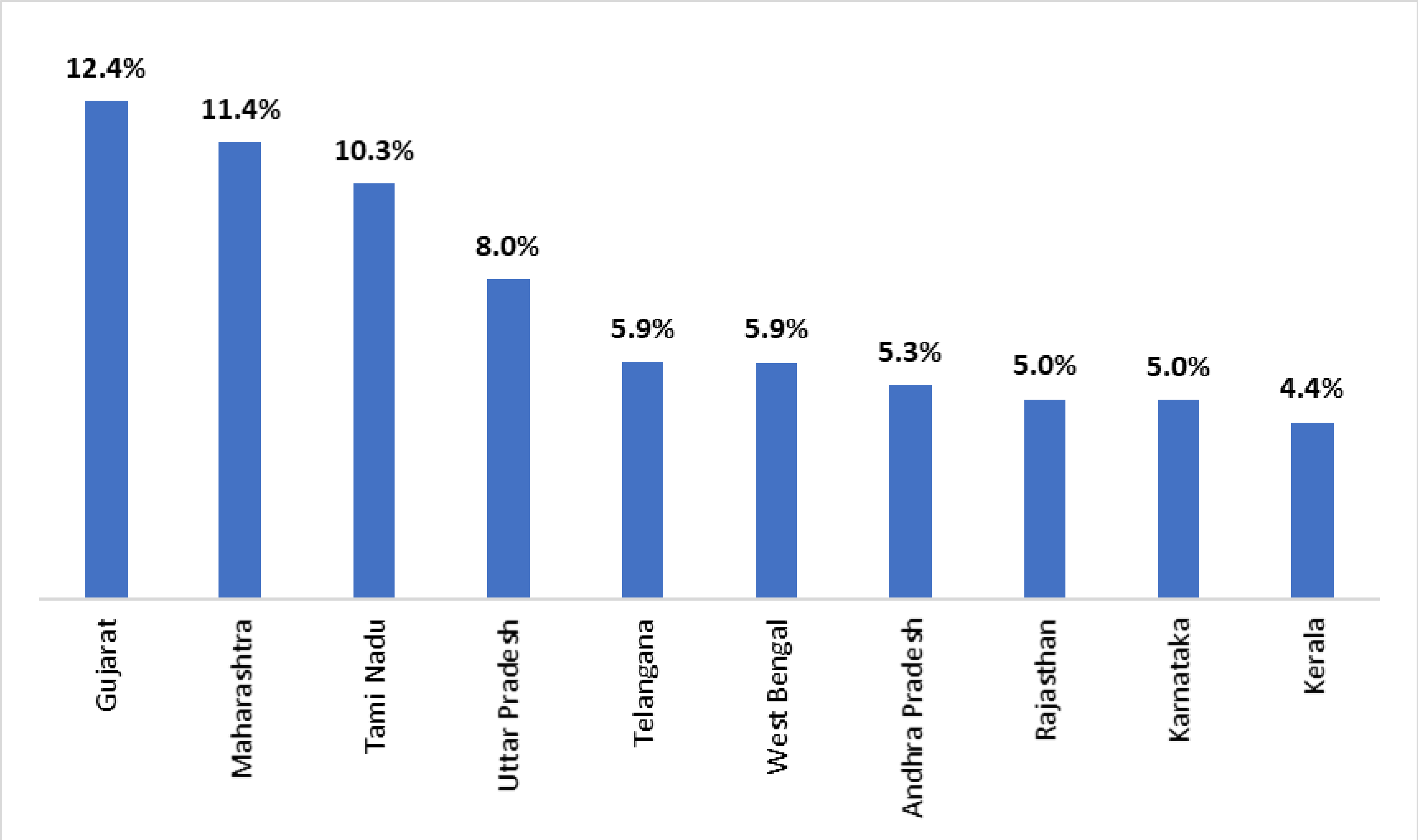


Top 5 states within differing Company Structures	
Private Ltd Co	
Gujarat	15.0%
Maharashtra	10.2%
Uttar Pradesh	9.3%
Tamil Nadu	8.2%
Telangana	5.8%
Proprietorship	
Andhra Pradesh	8.4%
Tamil Nadu	8.2%
Kerala	7.8%
Maharashtra	7.7%
Uttar Pradesh	7.3%
Partnership Firm	
Gujarat	14.2%
Tamil Nadu	11.3%
Maharashtra	8.9%
Andhra Pradesh	8.4%
Uttar Pradesh	7.2%

Gujarat & Maharashtra are the biggest beneficiaries of the ECLG scheme

- Amongst the States, **Gujarat has been the biggest beneficiary**, followed by Maharashtra, Tamil Nadu and Uttar Pradesh

- Top ten states accounted for ~75% of the outstanding amount that did not slip into NPAs

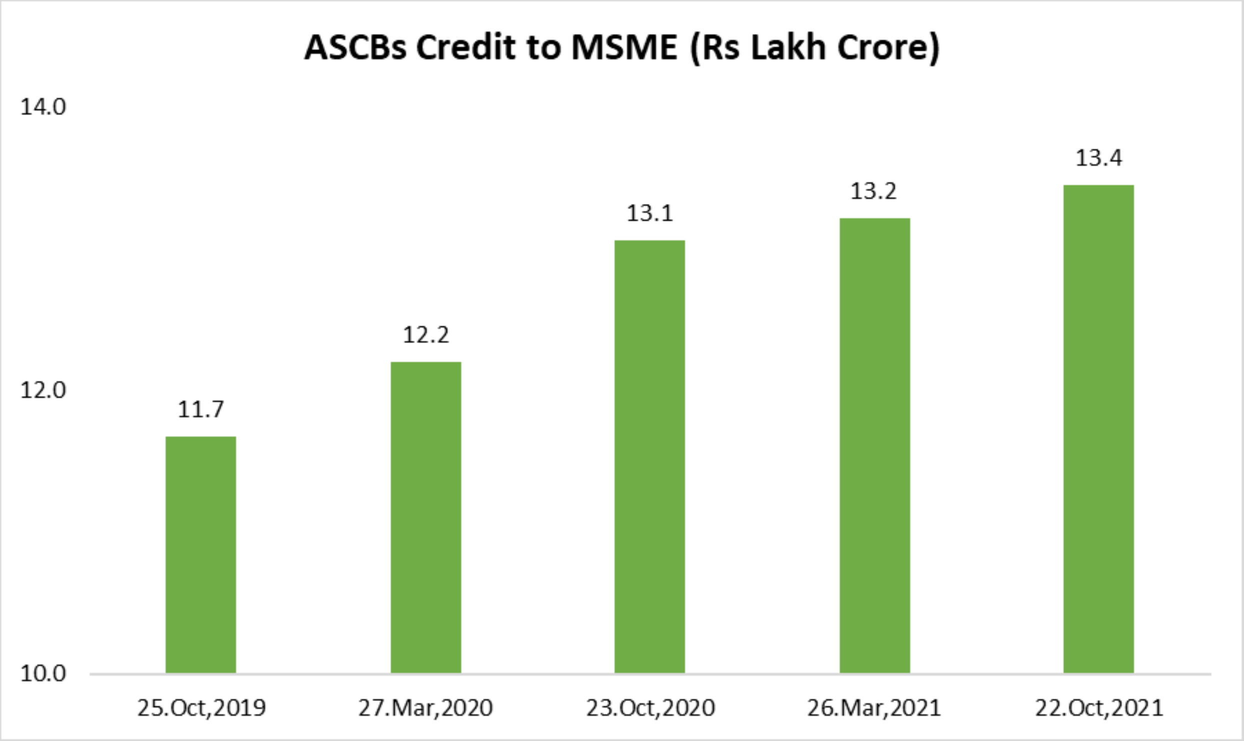


Visible Credit Growth in MSME Portfolio of ASCBs post ECLGS

- In FY 2021, the country disbursed loans worth Rs 9.5 lakh crore to MSME sector, which is significantly higher than preceding years of Rs 6.8 lakh crore in FY 2020. This sharp jump in MSME lending in 2021 has been supported by Atmanirbhar Bharat scheme of ECLGS which provided 100% credit guarantee to lenders

- The Micro & Small enterprises loans of banks share around 80% of the total MSME loan portfolios

Growth in Bank Credit to MSME Sector - March 2021 (YoY)		
	PSBs	Pvt Banks
Exposures < 25 Crores	8.08	8.04
Aggregate MSME Exposures	0.89	9.23
Source: RBI FSR		



Source: RBI's Sectoral Credit, October 2021

The ECLGS had a significant impact on credit flow to Micro segment within MSME

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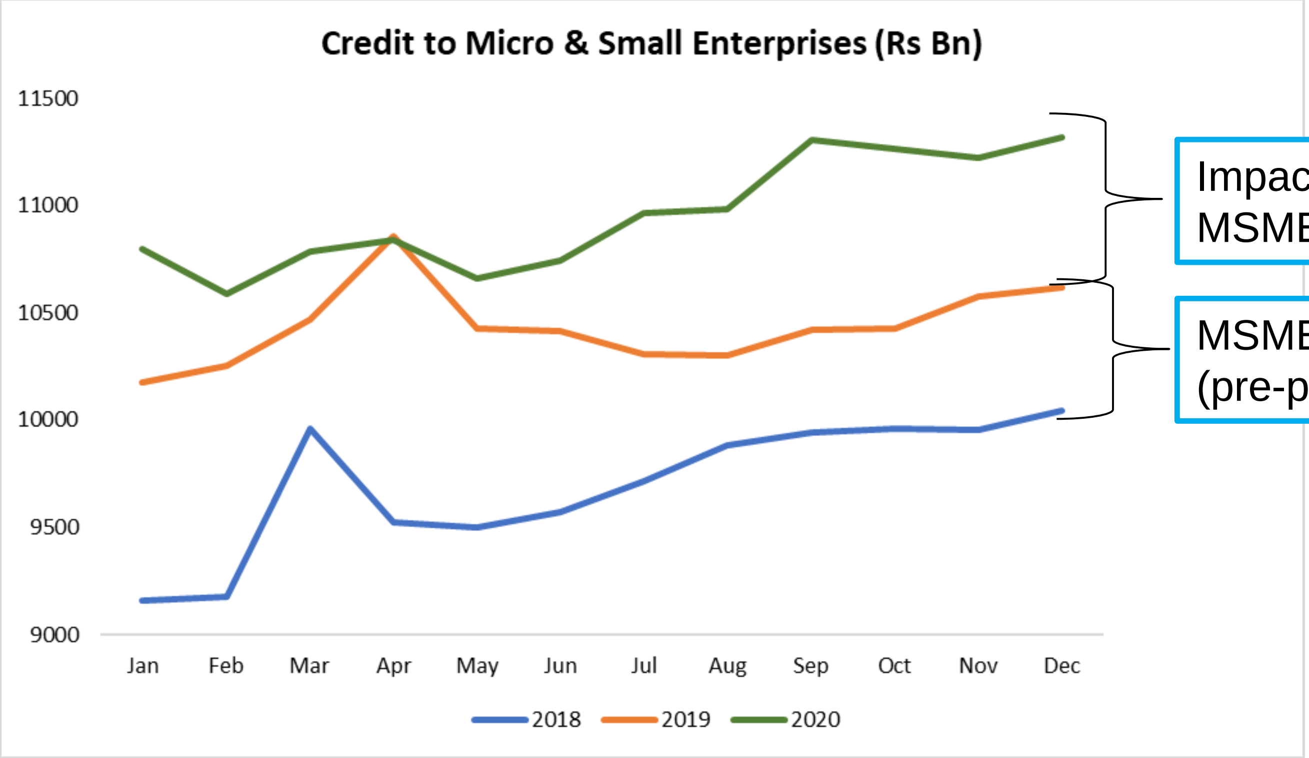
- In 2020, MSMEs received higher credit than compared to 2019 primarily due to ECLG scheme
- Incremental credit in 2020 (over 2019) was much higher than the credit provided in pre-pandemic times (2019 over 2018)
- We recommend that the existing CGTMSE scheme for extending loans to SME sector be relooked into totality and be reoriented by adopting the best practices from the current ECLG scheme



Impact of ECLGS in the form of higher MSME credit is clearly visible in 2020

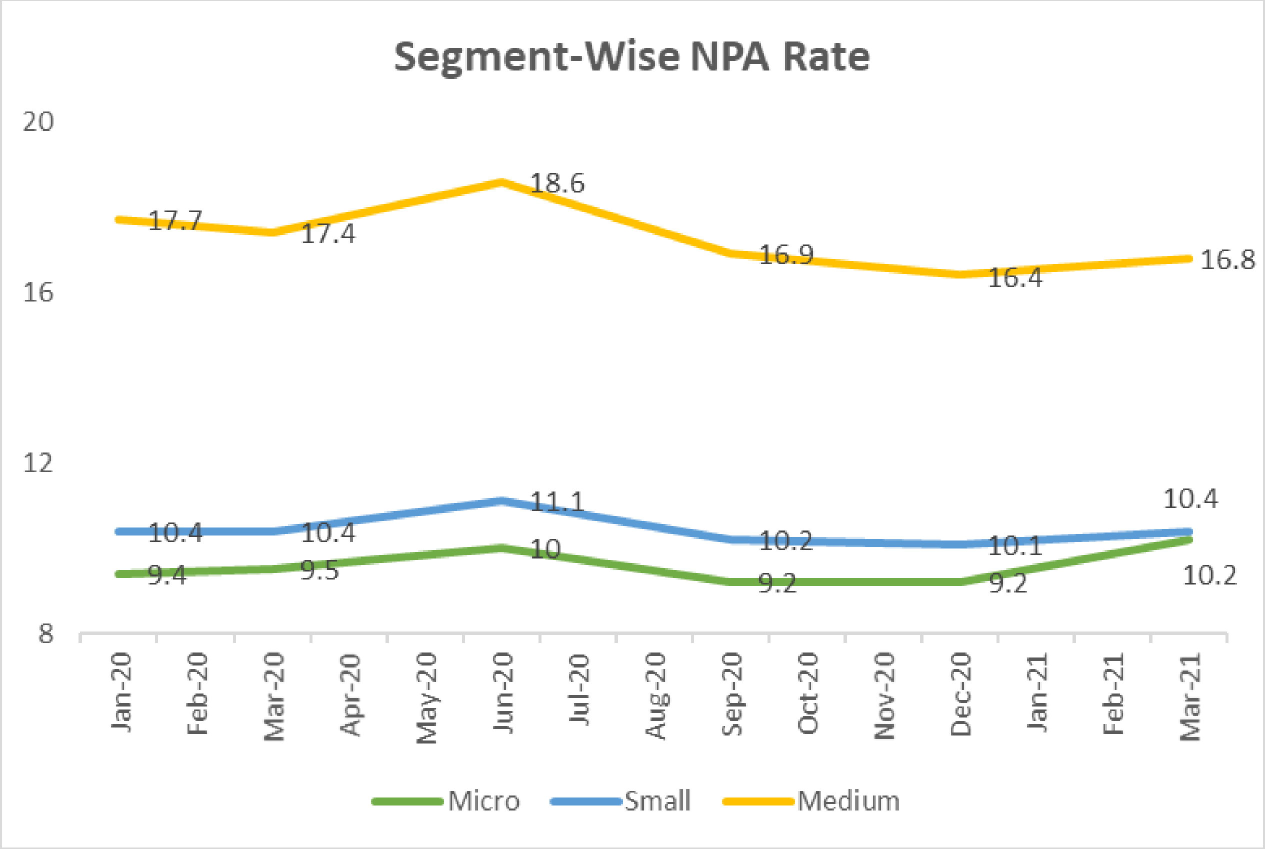
MSME credit during normal times (pre-pandemic)

Section II

CGTMSE Scheme

Stress in MSME controlled post ECLGS

- With the strong inflow of credit in the MSME sector and various support measures from government and regulator, the NPA rates for MSMEs were controlled at 12.5% for March 21 compared to 12.6% for March’20
- Within the MSME subsegment the NPA rates are higher for subsegments with larger ticket sizes
- Reduction in NPA rates across subsegments is driven by high credit growth since ECLGS



Source: CIBIL

CGTMSE & ECLGS comparison shows the complexities of the former that need simplification and overhaul for perking up credit flow to MSME

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- Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I Scheme) came into force from August 1, 2000 and had covered eligible credit facilities extended by the lending institutions to eligible borrowers effective from June 1, 2000
- CGTMSE scheme has an annual guarantee fee and risk-based premium which are absent for ECLGS cover
- Though both CGTMSE & ECLGS are Guarantee Schemes by Government, but the major difference is : ECLGS is 100% guarantee given by the Government, while it varies from 50% - 85% depending on the category and loan amount for CGTMSE
- ECLGS was extended as a top-up loan, while CGTMSE covers the primary loan ranging between Rs 10 lakh to Rs 2 crore

Difference in CGTMSE & ECLGS		
Features	**CGTMSE**	**ECLGS**
Guarantee Coverage (% of loan)	50% - 85%	100%
Annual Fees on outstanding amount	1%-2.0% + risk premium of 0-25% + GST	Nil
Eligible Borrower	All micro and small enterprises (except SHG, those giving loans to education institutions)	Rs 50 crore (Fund based outstanding as on 29, Feb 20)
Guarantee cover	Upto Rs 1 crore (retail trade) upto 2 crore (others)	20% of outstanding as on 29, Feb'20
Interest rate	Card Rate (no separate rates recommended)	9.25% for banks and 14% for NBFC
Tenure	Term Loan upto 10 years	4 -6 years
Nodal Institute	CGTMSE	NCGTC

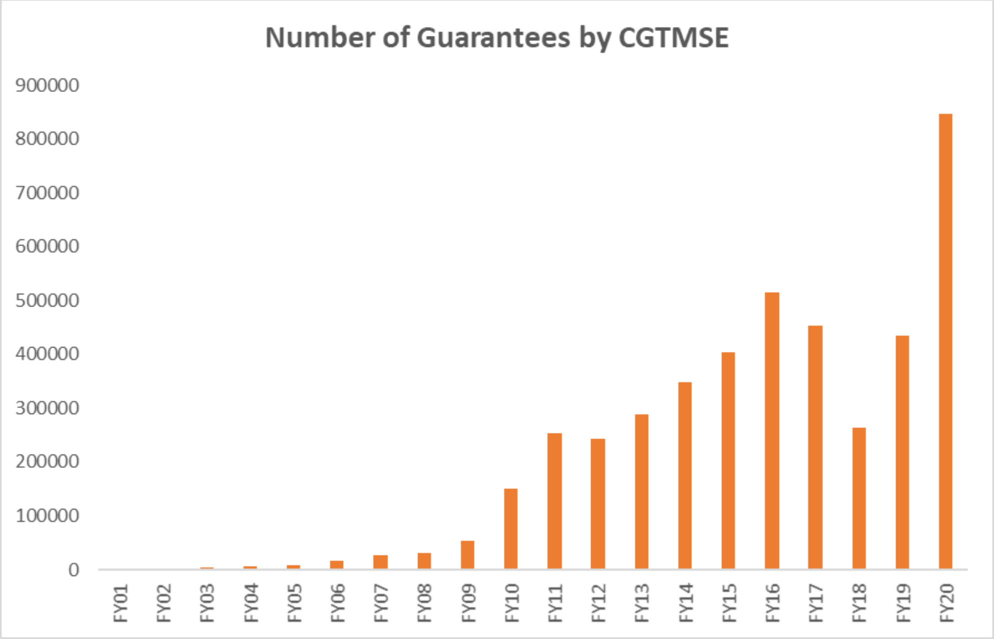
Loan Guarantee Schemes by Government for extending credit to MSME sector needs complete overhaul

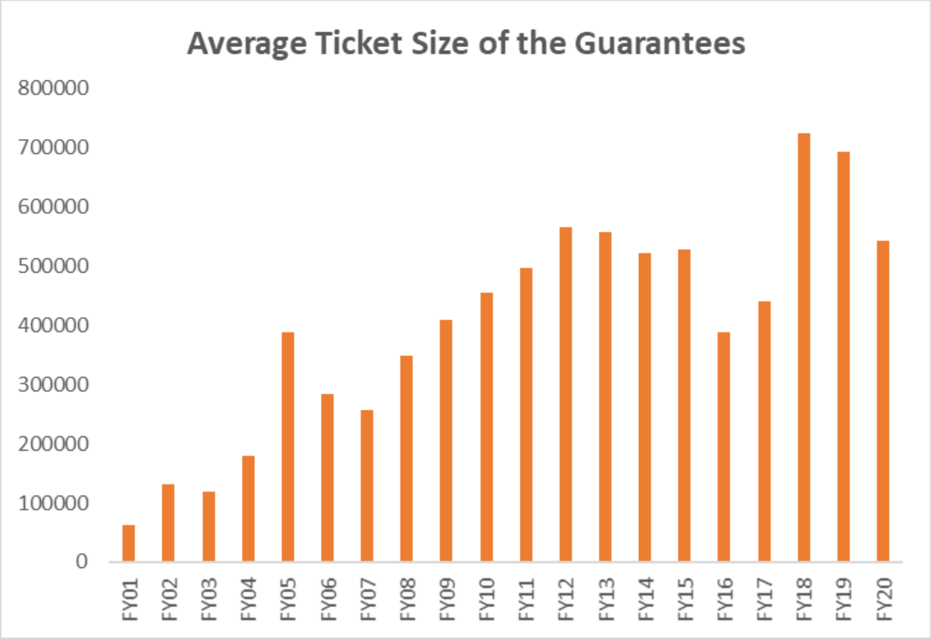
- Multitude of Credit Guarantee Schemes currently are in vogue result in somewhat avoidable complexities directly concern MSMEs. For example, both CGTMSE and NCGTC offer the credit guarantee product, though the guaranteed structure and features are different
- Under the CGTMSE scheme, around 10% of the SME loans are covered at present, which are collateral free. Rest of the ~90% loans are collateral backed. **This may be due to large number of issues like higher premium outflows, opportunity cost vis-à-vis deploying existing collateral, completely non digital nature of CGTMSE, comfort of operating functionaries in granting asset backed loans of bigger ticket size etc**
- As per the latest available data, the year-wise guarantee cover provided by CGTMSE increased from Rs 19,066 crore in FY18 to Rs 45,851 crore in FY20. However, if we take the cumulative figures, the ticket size of guaranteed loan by CGTMSE is abysmally small at Rs 5.14 lakh

CGTMSE scheme only covers up to 10% of ASCB portfolio because of inherent complexities

- The MSME portfolio of ASCBs shows only 10% of loan amount is under CGTMSE and the rest 90% is under collateral. Though, banks insist customers to take Guarantee but very few customers opts for the same, as the premium is around 2% of the loans amount, which impacts small borrowers where the margin of business is very negligible

- Interestingly, in the recent period the average ticket size of the guaranteed loans are increasing as small loans are being covered by CGFMU (MUDRA)





Source: CGTMSE

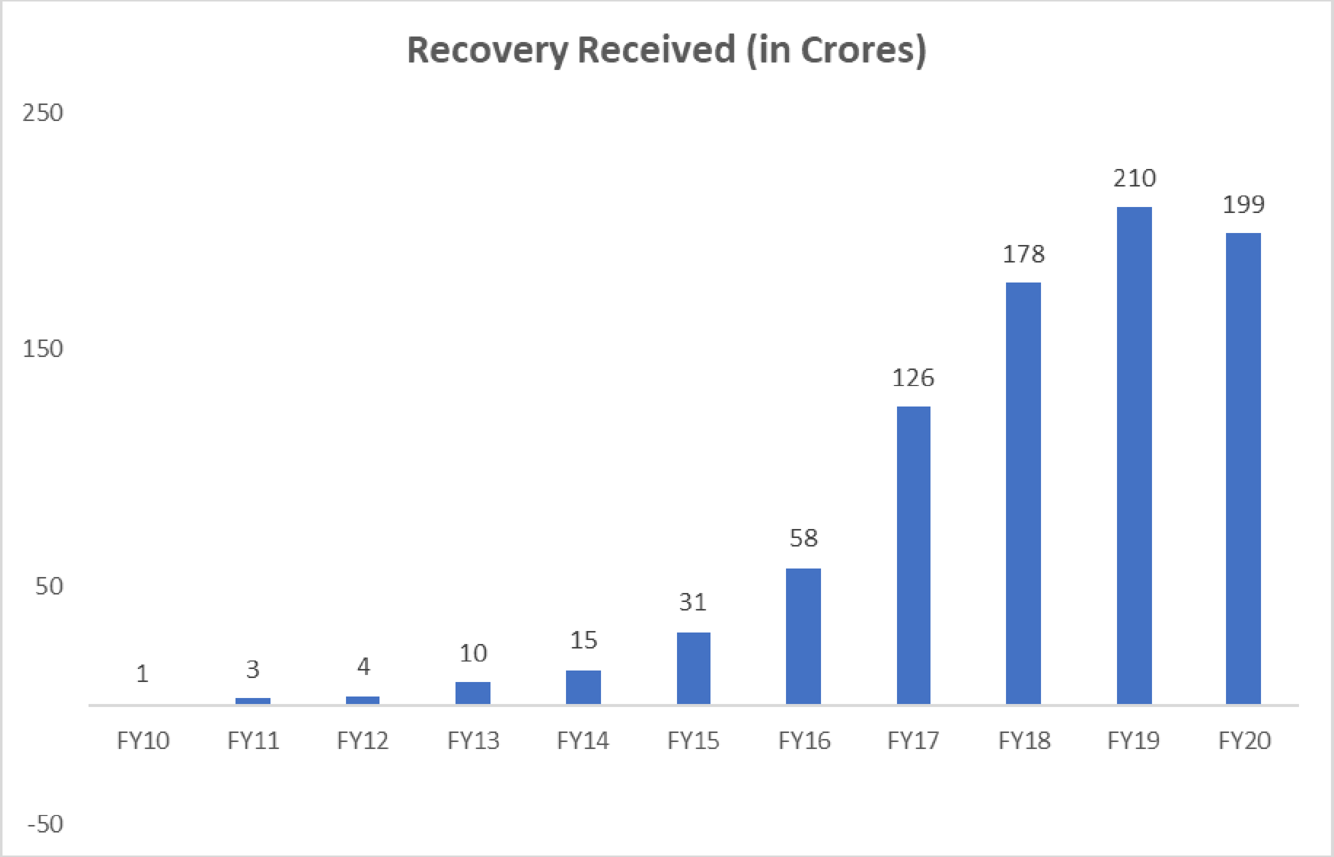
SME LOANS: JUXTAPOSING EXPOSURE AGAINST RISK MITIGATING VARIABLES

CGTMSE COVERED LOANS		COLLATERAL BACKED LOANS (CGTMSE ELIGIBLE)	
Risk Weighted Assets & Capital: Capital required would be *Less* for guarantee covered loans as it would take into account only the unhedged portion of exposure	**LOW** A loan limit of Rs 100 with 75% coverage will require capital only for uninsured portion of 25% (75% of 25% effectively @11.50%) i.e. total capital requirement would be Rs.2.16	**Risk Weighted Assets & Capital:** Capital required for collateral backed loans would be High as in most cases, the collaterals obtained by FIs are non-cash type / fixed assets	**HIGH** A loan limit of Rs 100 with seemingly adequate usual collateral would attract capital at 75% of limit sanctioned i.e. (11.50% for Rs 75) i.e. Rs 8.63
Default Probability (in relative terms, based on analysis of industry-wise portfolio, wherein credit guarantee backed loans have slightly higher delinquency ratio)	**HIGH** **6-7%**	**Default Probability:** in relative terms, based on analysis of industry-wise portfolio, wherein collateral backed loans have slightly lower delinquency ratio)	**LOW** **3-4%**
Loss Given Default (75% of guaranteed amount is paid upon claim lodgement, with balance amount being paid in around 3 years post completion of required legal proceedings)	**LOW** A loan limit of Rs 100 with 75% guarantee coverage, upon turning delinquent, would receive Rs.56.25 as upfront payment from CGTMSE *immediately* post lodgement of claim by FI, with remaining payment of Rs 18.75 coming after following due legal procedures for recovery. Amount recovered over and above will be shared by FI and CGTMSE proportionately.	**Loss Given Default** Recovery, often partial, can take many years due to multiple legal issues involved and complexities embedded in system as also inept adoption by operating functionaries to align with evolving changes	**HIGH** A loan limit of Rs 100, even with supposedly adequate collateral coverage may not yield much cushion to the lending institution once the connection turns delinquent in view of complex, multi-layered legal proceedings that often linger for years, inadequate know-hows and follow-up by lender's staff members and defects/decay in securities furnished, with average historical recovery hovering close to 25-30% for FIs.

- CGTMSE portfolio have a 55% initial recovery rate, low portfolio delinquency, low capital requirement but remain still an unpopular product. Conversely, the non CGTMSE portfolio has a 25% recovery rate, high portfolio delinquency, high capital requirement but still a popular portfolio. We need to change the rules of the game to perk up credit flow to MSME

SME LOANS: BETTER RECOVERIES FROM MLIs DO INDICATE IMPROVED FOLLOW-UP ON PART OF FIs

- CGTMSE receives part of recoveries from Member Lending Institutions (MLIs) for amount recovered in suit filed accounts against the initial pay-out for the sum insured and paid to MLI @75% of insured amount) post claim lodgement by them. Improving recovery figures in recent years do augment possibility of better co-ordination with CGTMSE by MLIs and efforts on part of FIs towards ensuring recovery from accounts under litigation (through SARFAESI / suit filed mechanism) which, inter-alia, strengthen our suggestions towards reducing the Annual Guarantee fee and Risk Premium substantially for enhanced adoption by borrowing community



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Technology SME's convergence with enabling technology remains muted at best as the cost associated with acquiring such technology as well as limited management acumen plays a spoilsport in calibrated, in-time acquisitions, creating a digital divide vis-à-vis the larger players (inter as well as intra). Ensuring a digital platform, with participation from start-ups, enabling easy access to evolving, sector-specific technology can ensure a level playing field towards better and timely access.	**Equity** While access to formal credit by SMEs has off late has witnessed ease and traction, largely due to relentless pursuit by policy makers to enhance overall 'Ease of Doing Business' through creating tech enabled platforms, access to credit score and transaction history and heightened awareness among the intended class, as also the ability of Financial Institutions to evolve and forge tie-ups with other market players, access to equity needs to be augmented through innovative tailor-made products and participation from various market forces.
Governance Apart from highly dynamic nature of operations as well as ownership pattern for SMEs with majority of businesses being family owned, challenges faced by SMEs transform vividly as they seek economies of scale and as they experience changes in their organizational, management, and ownership structures with evolving business environment. Adopting size-specific prudent governance practices through regulatory nudge could harness their potential.	**Information Asymmetry** With a plethora of schemes available across tiers, the availability of 'right' information remains illusive to majority of enterprises as the myriad, often opaque structures of schemes remain hard to crack. Creating robust digital platforms, with end-to-end digitization at multiple 'points of touch' from onboarding to different parts of journeys in SME lifecycle and evolvement of CGTMSE as an umbrella organisation providing all-inclusive services and platforms to SMEs can help the sector in achieving its true potential.

SME LOANS: SBA (US) HAS A EXTABLISHED TRACK RECORD SUPPORTING 30 MILLION PLUS OWNERS

The U.S. Small Business Administration (USSBA) ensures that America's 30 million plus small business owners, who are the engine of job creation and economic growth in the country, have the requisite tools and resources they need **to start and expand** their operations and **create good jobs** that support an ever growing economy and strong middle class. The SBA has a proven track record of successfully assisting America's small businesses by **increasing and improving** their ***access to capital, federal contracting opportunities, entrepreneurial development, and disaster assistance***. The Agency also boosts America's **long-term competitiveness** by improving the entrepreneurial ecosystem to ensure small business owners and entrepreneurs are well positioned to take advantage of **new opportunities and new markets**

<u>Strategies adopted by SBA (US)</u>

- Increasing capital provided to small businesses and emerging markets when conventional credit is not available.
- Supplementing investment capital to small businesses that have inadequate supply. The Small Business Investment Company (SBIC) program
- Strengthening and expanding the network of lenders offering SBA products
- Expanding knowledge of SBA loans through its network of resource partners and field offices
- Enhancing oversight and risk management of lenders and SBICs and improve recovery of taxpayer assets
- Facilitating capacity building

- Enhancing the scope and role of CGTMSE along similar lines, wherein it metamorphose into an umbrella organisation ensuring a robust ecosystem for growth and development of SMEs by connecting the dots across multiple pivots like access to capital, ease of securing adequate lending through aggregation of network of lenders, pass-through of multiple sovereign guarantee schemes' benefits, end-to-end solutions from procurement to marketing / realisation and adoption of best risk management practices while aligning with global supply chain management competitively can ensure our 6 crore plus SMEs emerge as the lifeline of a resurgent Atmanirbhar Bharat

Reasons for the low penetration of CGTMSE Business

- Reluctance on part of prospective Borrowers for payment of CGTMSE Guarantee Fees for the coverage of loans under CGTMSE as the premium is seemingly on the higher side (with risk premium and GST component)

- Charging risk premium, over and above the guarantee fee, based on individual Bank’s NPA portfolio appears to be another deterrent and could prohibit borrowers from approaching banks having relatively higher delinquency in portfolio at a given time period

- Consequently, borrowers’ insistence on providing available collateral security instead of covering the loans under CGTMSE to reduce the cost through eliminating annual guarantee fee payment (capitalising the opportunity cost)

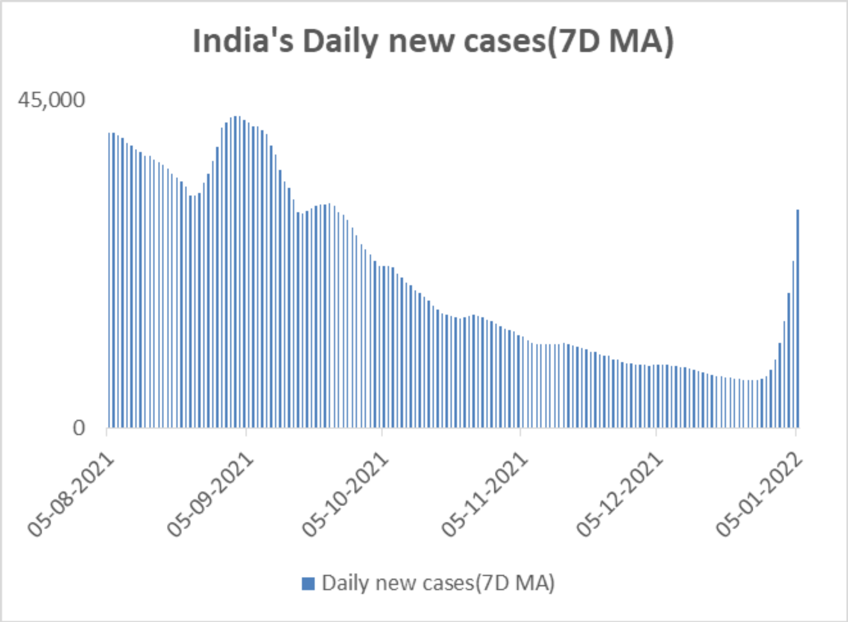
- Multiple manual interventions in the entire journey

CGTMSE: The Way Forward (Some Recommendations)

- Reduction or phase-out of the Annual Guarantee / Service fees to 0.50% of the Loan amount across all the slabs and making CGTMSE coverage mandatory of for all SME loans up to Rs 2 crore
- Abolishing the tiered Risk Premium being charged to individual Banks based on specific portfolio delinquency levels
- The maximum loan amount for coverage under CGTMSE may be increased from Rs 2 crore to Rs 5 crore for all activities under manufacturing, services and retail trade and be made uniform
- In the event of phaseout of the guaranteed fee, the claim settlement may be specified at a certain percentage of the CGTMSE portfolio. Further, need to reduce the lock-in period from the current stipulation of 18 months, to instill confidence at sanctioning levels.
- Complete end-to-end digital platform to ensure real time sanction, disbursement and claim for the guaranteed portfolio
- CGTMSE should develop a suitable model for covering loans based on cash flows and not based on Balance Sheet ratios

Covid Cases Status

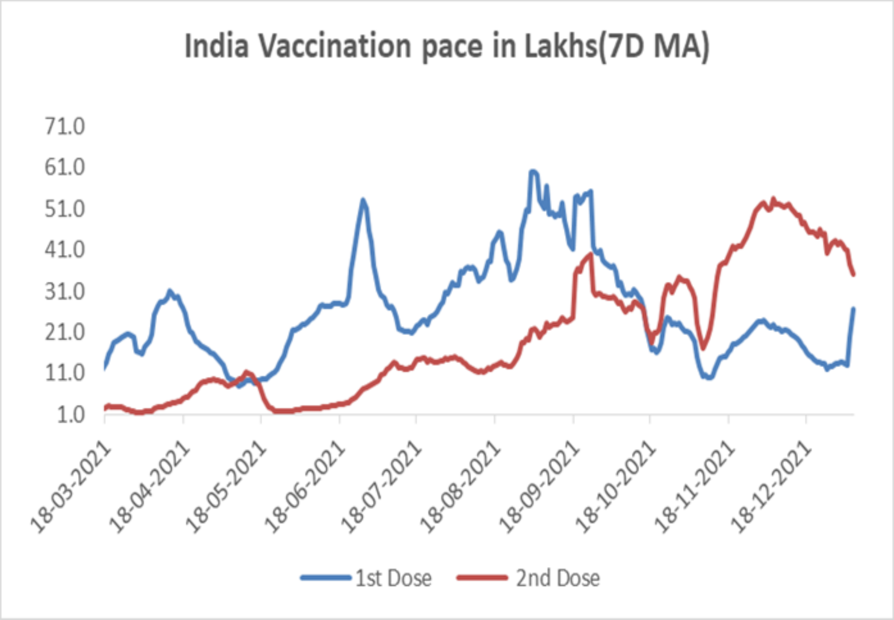
- India’s daily new cases started rising from 6,358 as on 27 Dec’21 to 58,097 as on 4 Jan’22. Average daily growth rate in new cases for the last 7 days is 30.85%
- % share of new cases is highest in Maharashtra, followed by West Bengal and Kerala



7 Days Average % Share in New Cases- Top 10 States	
Maharashtra	32.9
West Bengal	14.7
Kerala	11.2
NCT of Delhi	8.9
Tamil Nadu	5.1
Karnataka	3.9
Gujarat	3.5
Jharkhand	3.5
Haryana	1.9
Telangana	1.4

Vaccination Status

- The new variant is more transmissible, however, the studies so far show that the current Omicron variant is less severe than the Delta variant. Thus, we don't expect a very large impact of the Omicron variant. According to an independent study third wave will have much smaller amplitude than second wave
- Meanwhile, the immunization is progressing at a faster pace, moving towards universal coverage. Thus, economy will escape through this wave largely unhurt
- India has fully vaccinated 60% of its eligible population (15+) and nearly 84% of the eligible population have received at least one dose
- In the last one month, speed of 2nd dose vaccination accelerated. Currently, 7-day MA is ~62 lakhs (1st dose -27 lakhs and Second dose - 35 lakhs)
- Share of rural in total vaccination is more than 70% for the last 3 months



% Share in Rural Vaccination						
Major States	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**
ANDHRA PRADESH	70	73	76	76	79	79
BIHAR	63	81	87	86	90	91
GUJARAT	57	68	62	62	71	63
KARNATAKA	51	61	63	67	71	68
KERALA	76	79	81	80	84	83
MADHYA PRADESH	66	74	73	73	76	76
MAHARASHTRA	47	51	57	57	59	61
ODISHA	70	73	77	82	86	88
PUNJAB	48	58	63	66	65	52
RAJASTHAN	71	73	76	79	78	80
TAMIL NADU	58	59	65	68	74	71
UTTAR PRADESH	68	76	78	81	84	84
WEST BENGAL	49	55	64	82	79	79
INDIA	**61**	**67**	**69**	**73**	**76**	**75**

thank you

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