

Cabinet approves modifications in the existing "Partial Credit Guarantee Scheme (PCGS)"

Portfolio Guarantee for purchase by PSBs of Bonds or Commercial Papers (CPs) with a rating of AA and below

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The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has approved the Sovereign portfolio guarantee of up to 20% of first loss for purchase of Bonds or Commercial Papers (CPs) with a rating of AA and below (including unrated paper with original/ initial maturity of up to one year) issued by NBFCs/ MFCs/Micro Finance Institutions (MFIs) by Public Sector Banks (PSBs) through an extension of the Partial Credit Guarantee Scheme (PCGS).

The Cabinet also approved modifications in the existing PCGS on purchase of pooled assets, increasing its coverage by—

- Making NBFCs/HFCs reported under SMA-1 category on technical reasons alone during the last one year period prior to 1.8.2018 eligible. Earlier NBFCs/HFCs reported as SMA-1 or SMA-2 during this period were ineligible under the Scheme.
- Relaxing the net profit criteria to the extent that the concerned NBFC/HFC should now have made a profit in at least one of the financial years of FY2017-18, FY 2018-19 and 2019-20. Earlier, the NBFC/HFC should have made a net profit in at least one of the financial years of FY 2017-18 and 2018-19.
- Relaxing the criteria regarding date of origination of assets to include new assets originating up to at least six months prior to the date of initial pool rating. Earlier, only assets originated up to 31.3.2019 were eligible under the Scheme.
- Extending the Scheme from 30.6.2020 to 31.3.2021 for purchase of pooled assets.

The existing PCGS was issued on 11.12.2019 offering sovereign guarantee of up to 10% of first loss to PSBs for purchasing pooled assets worth rated BBB+ or above worth up to Rs. 1,00,000 crore, from financially sound NBFCs/ MFCs. The outbreak of COVID-19 along with lockdown of business activity has now necessitated adoption of additional measures to support NBFCs and HFCs - On the liabilities side by providing a sovereign guarantee to cover purchase of Bonds/CPs issued by NBFCs/HFCs as well as MFIs which also play a critical role in extending credit to small borrowers; and on the assets side by modifying the existing PCGS to widen its coverage,

Implementation schedule:

The window for this one-time partial credit guarantee offered by Gol will remain open till 31st March, 2021

for purchase of pooled assets and for the period as specified under the Scheme for purchase of Bonds/CPs, or till such date by which Rs. 10,000 crore worth of guarantees, including both guarantees toward purchase of pooled assets and Bonds/ CPs, are provided by the Government, whichever is earlier.

Impact:

COVID-19 crisis and consequent lockdown restrictions are likely to have a negative impact on both collections and fresh loan disbursements, besides a deleterious effect on the overall economy. This is anticipated to result not only in asset quality issues for the NBFC/ HFC/ MFI sector, but also low loan growth as well as higher borrowing costs for the sector, with a cascading effect on Micro, Small and Medium Enterprises (MSMEs) which borrow from them. While the RBI moratorium provides some relief on the assets side, it is on the liabilities side that the sector is likely to face increasing challenges. The extension of the existing Scheme will address the liability side concerns. In addition, modifications in the existing PCGS will enable wider coverage of the Scheme on the asset side also. Since NBFCs, HFCs and MFIs play a crucial role in sustaining consumption demand as well as capital formation in small and medium segment, it is essential that they continue to get funding without disruption, and the extended PCGS is expected to systematically enable the same.

VRRK/SH

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