NBFC support: Finance Ministry issues norms for Partial Credit Guarantee Scheme 2.0

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Comes out with FAQs to clear the air on implementation

The Finance Ministry has come out with detailed operational guidelines and frequently asked questions (FAQs) for the extended Partial Credit Guarantee Scheme (PCGS), popularly referred to as PCGS 2.0.

While the December 2019 edition of PCGS supported transfer of assets from NBFC/HFCs to PSBs, the PCGS 2.0 is all about providing temporary liquidity support.

The government has now capped the guarantees at an overall level of ₹10,000 crore, including guarantees for purchase of pooled assets and guarantees for bonds/ CPs. The government guarantee on purchase of bonds/ CPs will be co-terminus with the tenure of the instrument, the Finance Ministry said.

Lending a hand to NBFCs/ HFCs/MFIs

- Overall guarantee ceiling pegged at ₹10,000 crore
- Tenor on bonds to range from 9 to 18 months
- Cap introduced on the quantum of bonds that could be issued by a single NBFC/HFC/MFI
- Bonds purchased by banks can’t be traded; they need to hold them to maturity
- Scheme portfolio to be built in three months
- Interest rate on bonds to be negotiated bilaterally between issuer and the bank

Also, all bonds/CPs that can be purchased by PSBs under PCGS 2.0 would have to be of primary issuance. Pooled debt instruments are not covered under PCGS 2.0.

The objective of PCGS 2.0 — announced by Finance Minister Nirmala Sitharaman as part of first tranche of Atmanirbhar package — is to address temporary liquidity/ cash flow mismatches of otherwise solvent NBFCs/ HFCs/ MFIs without having to resort to distress sale of their assets for meeting their commitments, and to enable availability of additional liquidity to them for on-lending. The scheme does so by supporting PSBs to buy bonds/ commercial paper issued by such NBFCs/ HFCs/ MFIs.

Benefits for sector

Commenting on the Finance Ministry's move, Hemant Kanoria, Chairman, Srei Infrastructure Finance Ltd, said the liquidity support measures announced by the Finance Minister for the NBFC sector will have medium to long-term benefits and will alleviate the liquidity conundrum to a certain extent.

However, certain steps are needed simultaneously to provide support to the sector. The Reserve Bank of India should consider allowing one-time restructuring of loans based on the cash flow. Furthermore, the loan accounts should be classified as 'standard' so that no provisioning is needed for the same. This will help stem the tide of NPLs and prevent businesses from tipping over into default."If the one time restructuring is not allowed to the banks, there will be large non performing loans," Kanoria said.

PCGS 2.0 is an extension of the existing partial credit guarantee scheme — launched in December 2019 — to provide portfolio guarantee for the first loss of up to 20 per cent for purchase by PSBs or Commercial Papers with a rating of AA and below (including unrated paper with initial maturity of up to one year) issued by NBFCs/ HFCs/ MFIs.

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COMMENTS