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ECLGS scope expanded; processes formulated for restructuring implementation

Taking into consideration the business disruption caused by surge in covid cases, the government has modified and expanded the scope of ECLGS scheme (for effective utilisation of the overall limit of Rs3trn guarantee cover). Providing an additional 10% facility to existing customers under ECLGS 1.0, increasing tenure (from 4 years to 5 years) and extending principal moratorium from 1 year to 2 years will partially help address the stress anticipated due to covid second wave disruption. This, over and above the earlier announced measures of reassessment of moratorium period and working capital refinancing under restructuring 1.0, is a welcome move. Not only the scope of ECLGS 3.0 scheme was widened by removing the cap (of Rs5bn outstanding), but civil aviation industry is now included to avail of the benefit.

Banks too have formulated a templated approach, outreach action plan and standardised processes for effective implementation of ECLGS schemes and resolution framework 2.0. Not only this, they have designed products for build-up of covid book under RBI guidelines including unsecured personal loans for covid treatment and business loans for healthcare facilities.

It is difficult to quantify the extent of benefit of the announced measures at this juncture, but expansion of ECLGS scope will lead to incremental benefit of 20-25%. Restructuring, though not extensively availed of during the first wave disruption as it was co-existing with moratorium, we believe the quantum of restructuring can be relatively higher under resolution framework 2.0.

► ECLGS scheme benefits extended and scope expanded

- **ECLGS 1.0** – additional assistance up to 10% of outstanding as of 29th Feb'20 (over and above the 20% earlier). Maximum tenure has also been extended to 60 months (from 48) – repayment of interest only is required (principal moratorium) in the first 24 months (12 months earlier).
- **ECLGS 3.0** – Ceiling of Rs5bn of total credit outstanding across all lending institutions has been removed; this is subject to additional maximum benefit to the extent of Rs2bn, or 40%, whichever is lower. Civil aviation is also specifically included as an eligible sector (benefit is up to Rs2bn per borrower).
- **ECLGS 4.0 rolled out** – 100% guarantee cover is to be provided on loans up to Rs20mn to hospitals, nursing homes, clinics, medical colleges, etc. for setting up onsite oxygen generation plants. Interest rates will be capped at 7.5%.

Validity of ECLGS scheme implementation has been extended up to 30th Sep'21, or till guarantee cover of Rs3trn is issued. Disbursements under the scheme are permitted up to 31st Dec'21.

View: Till date, Rs2.44trn of loans have been disbursed by financial institutions under various ECLGS schemes with maximum benefit extended under ECLGS 1.0. Again, of the committed guarantee cover up to Rs3trn by the government, Rs550bn window is still unutilised. Widening the scope of the scheme will help utilise the window. However, there is no extension of the earlier announced initial government guarantee of Rs3trn, though the incremental benefit will be 20-25%.

No amount has been disclosed by the finance ministry as to what can be the likely quantum availing the benefit from extended ECLGS, but banks expect to build a combined ECLGS 3.0 and ECLGS 4.0 portfolio of Rs20bn.

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▶ **Creating covid book under RBI guidelines**

Three undemoted products have been designed by banks to provide fresh lending support and build a covid book under RBI guidelines:

- **Healthcare business loans for setting up oxygen plants:** These loans (up to Rs20mn) will be available to existing hospitals, nursing homes, etc. at 7.5% for maximum tenure of 5 years.
- **Business loans to set up or expand healthcare infrastructure, or to manufacture healthcare products.** The quantum of loans will be up to a maximum of Rs1bn for metro centres, Rs200mn for tier-1 and urban centres, Rs100mn for tier 2-6 cities. It will be provided at a concessional rate for a maximum tenure of 10 years.
- **Unsecured personal loans for covid treatment:** These loans will be available to salaried, non-salaried, pensioners, etc. for covid treatment of self or family members with minimum of Rs25k and maximum of Rs0.5mn at a concessional rate of ~8.5% for maximum tenure of 5 years.

View: This is the need of the hour to ensure financing support to healthcare infrastructure and to families impacted by covid. Incentivising through PSL classification and higher rates on equivalent surplus liquidity are steps in the right direction. Banks will also tend to be more proactive in lending for this purpose.

▶ **Restructuring 2.0 – Implementation framework**

- Banks have formulated a template approach for restructuring of loans to individuals, small businesses, MSMEs up to Rs250mn and scheme contours have been shared on bank websites as well as branches.
- The following process flow has been proposed for its implementation.
- Customers are required to apply on banks' portal; from receipt of application, the resolution process is to be invoked within 30 days (last date of invocation being 30th Sep'21). Resolution plan is to be implemented within 90 days from date of invocation, but not later than 31st Dec'21.

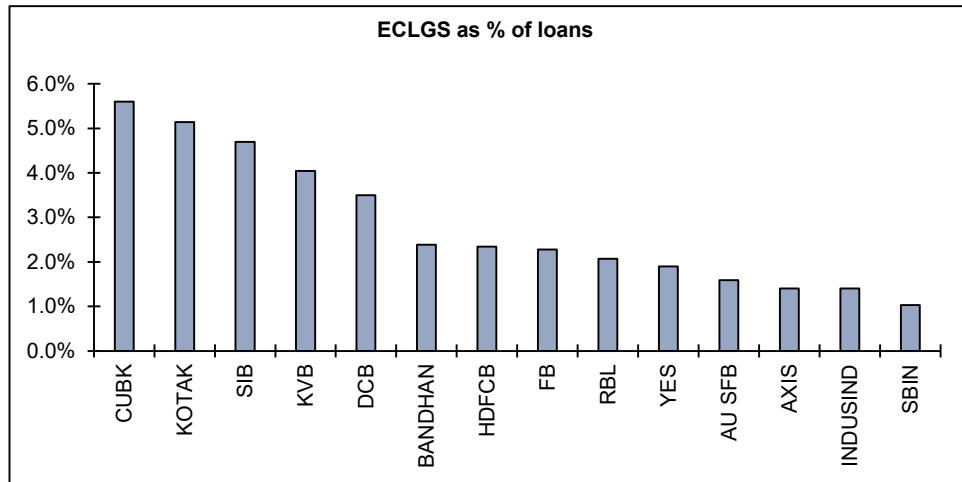
▶ **Outreach Action Plan formulated for restructuring and loans to healthcare facilities**

- Detailed guidelines on restructuring and application formats are available on websites along with product features.
- For standard restructuring up to Rs1mn, offer cum consent letters are available at branches as well as websites.
- Database of eligible customers will be made centrally available to branches.
- Centralised bulk SMS are being sent to all eligible customers.

▶ **Does this suggest moratorium benefit will not be available this time?**

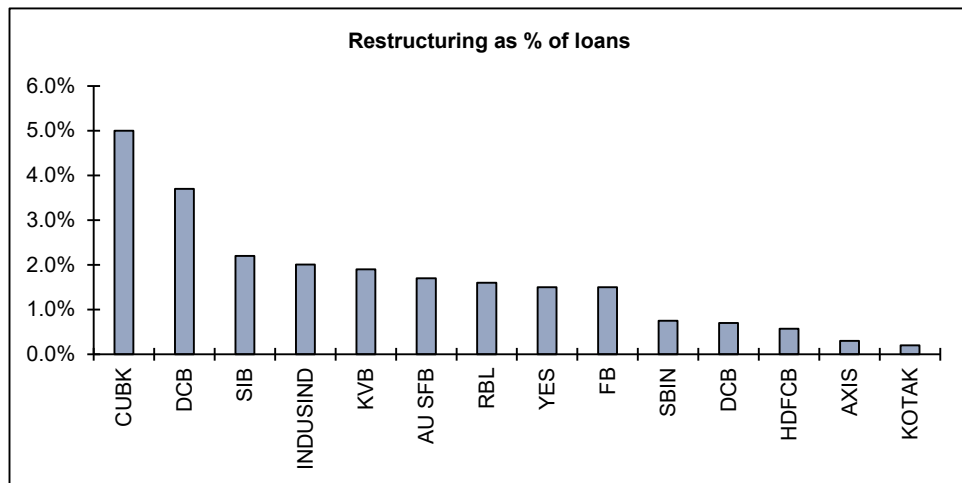
- The measures announced are part of the government, regulator, and bankers' calibrated and targeted strategy for swift-footed and wide-ranging actions to reach out to the vulnerable sections of society and business (small businesses and financial entities at grassroots level).
- This is not the final outcome of measures needed to address the disruption and government/bankers will keep evaluating the situation.
- Depending on severity of covid second wave, additional measures can be taken. However, as of now, there is a belief that 80% of stressed borrowers would be addressed by restructuring.

Chart 1: ECLGS scheme benefit rolled out to the extent of 1-5% of advances



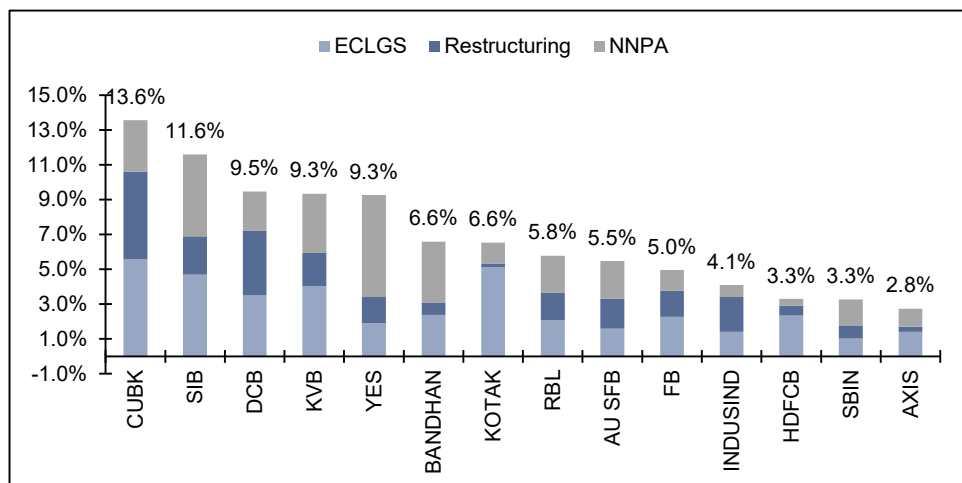
Source: Company, I-Sec research

Chart 2: Restructuring settled much lower than earlier envisaged



Source: Company, I-Sec research

Chart 3: Net NPA, restructuring and ECLGS pool for various banks



Source: Company, I-Sec research

Table 1: ECLGS schemes modified, expanded in scope and new scheme rolled out

Emergency Credit Line Guarantee Scheme (ECLGS) modifications		
	Existing	Revised
ECLGS 1.0	Loan Amount: Maximum upto 20% of loan outstanding as on 29th Feb'20 (max of Rs50mn)	Additional ECLGS assistance of upto 10% of the outstanding as on 29th Feb'20 (borrowers eligible for restructuring)
	Tenure: Maximum of 48 months - <i>repayment of interest only for first 12 months</i> with repayment of principal and interest in next 36 months	Tenure: Maximum of 60 months - <i>repayment of interest only for first 24 months</i> with repayment of principal and interest in next 36 months
ECLGS 2.0	20% of loan outstanding to 26 stressed sectors & healthcare (Kamath Committee)	No Change
ECLGS 3.0	Eligibility - Total credit o/s of maximum of Rs5bn across all lending institutions	Maximum ceiling (Rs5bn) removed, subject to maximum of 40% or Rs2bn, whichever is lower
	Hospitality, Travel & Tourism, Leisure & Sporting sector eligible	Civial Aviation sector also to be eligible
ECLGS 4.0	New Scheme	
	100% guarantee cover to loans upto Rs20mn to hospitals/nursing homes/clinics/medical colleges for setting up on-site oxygen generation plants.	
	Interest rate capped at 7.5%	
Validity of ECLGS extended to 30.09.2021 or till guarantees for an amount of Rs3tn are issued. Disbursement under the scheme permitted up to 31.12.2021. Operating Guidance will be issued by NCGTC		

Source: Ministry of Finance, I-Sec research

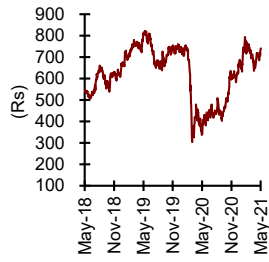
Table 2: Covid book (business and personal loans) being created - ease of access to healthcare

Banks expected to create a Covid loan book under the RBI guidelines 3 undemoted products have been designed to provide fresh lending support			
	Healthcare Business Loan for setting up oxygen plant (under ECLGS)	Business Loan for healthcare facilities	Unsecured Personal Loan for covid treatment
Target group	Existing hospitals/ nursing homes	1) Ecosystem engaged in building/servicing healthcare infrastructure; 2) Hospitals, nursing home, clinics, diagnostic centre, pathology labs	Individuals (salaried, non-salaried as well as pensioners)
Purpose	To set-up oxygen plant along with power backup	1) To set-up/expand healthcare infrastructure, 2) To manufacturers of healthcare products	For covid treatment of self or family members
Quantum of loan	Up to Rs20mn	1) Metro centres - Rs1bn, 2) Tier-I & urban centres - Rs0.2bn, 3) Tier-II to Tier-VI centres - Rs0.1bn	Minimum - Rs25k Maximum - Rs0.5mn
Rate of interest	7.50% p.a.	Concessional rate	Concessional rate
Repayment	Max 5 years	Max 10 years	Max 5 years

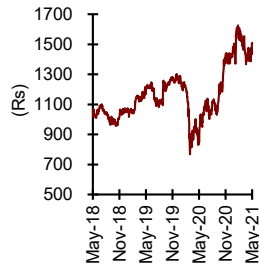
Source: Ministry of Finance, I-Sec research

Price charts

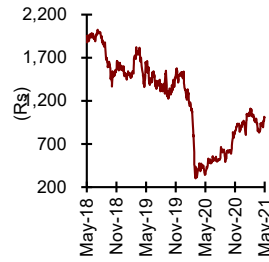
Axis Bank



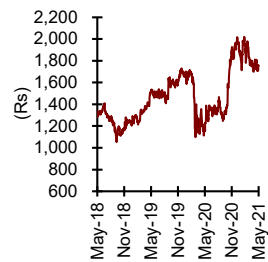
HDFC Bank



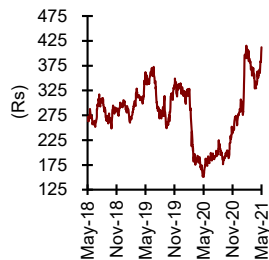
IndusInd Bank



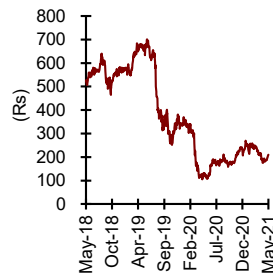
Kotak Mahindra Bank



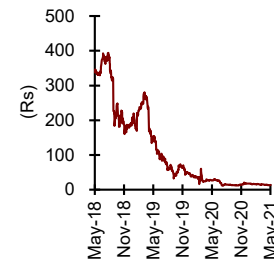
SBI



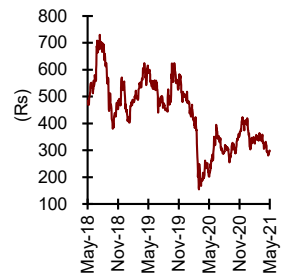
RBL Bank



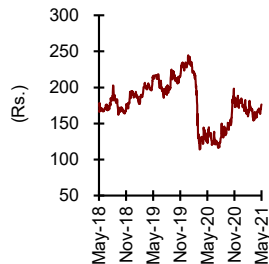
Yes Bank



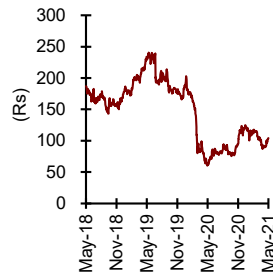
Bandhan Bank



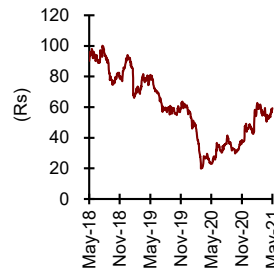
City Union Bank



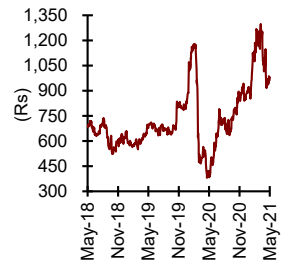
DCB Bank



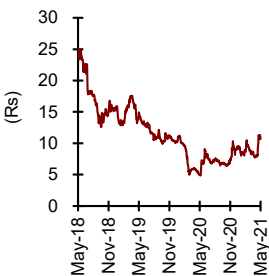
Karur Vysya Bank



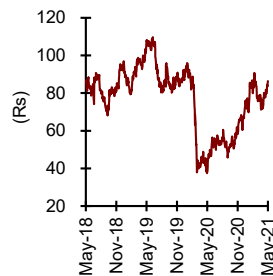
AU Small Finance Bank



South Indian Bank



Federal Bank



Source: Bloomberg

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