

Frequently Asked Questions (FAQs) – Part 1
Distressed Asset Fund - Subordinated Debt for Stressed MSMEs (DAF-SDSM) /
Credit Guarantee Scheme for Subordinate Debt (CGSSD)

1. What is Distressed Asset Fund - Subordinated Debt for Stressed MSMEs? The “**Distressed Asset Fund - Subordinated Debt for Stressed MSMEs**” is a scheme framed by Ministry of MSME under which credit facility would be provided to the Promoters of the stressed MSMEs to all the Member Lending Institutions (MLIs) registered under CGS-I of the Credit Guarantee Scheme for Micro and Small Enterprises

2. What is the Credit Guarantee Scheme for Subordinate Debt (CGSSD)?
Credit Guarantee Scheme for Subordinate Debt (CGSSD) (hereinafter referred to as “Scheme”) being operated by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provides guarantee coverage to Member Lending Institutions (MLIs) for the credit facility extended to the eligible MSMEs under the above mentioned scheme.

3. What is the objective of the Scheme (CGSSD)?
The objective of the scheme is to provide credit facility through lending institutions to the promoters of stressed MSMEs viz. SMA-2 and NPA accounts **who are eligible for restructuring as per RBI guidelines** on the books of the Lending institutions. The promoter would infuse the credit in the MSME as quasi equity or sub-debt.

4. How do we define MSME?
Micro, Small and Medium Enterprises defined under the MSMED Act from time to time.

5. Which are the MSME’s constitution included under the Scheme?
MSME units such as Individuals / Proprietorship, LLP, Partnership, Private Limited Company or registered company are eligible to be covered under the scheme.

6. Who are the eligible Member Lending Institutions (MLIs) under the Scheme?
All the Member Lending Institutions (MLIs) registered under CGS-I of the Credit Guarantee Scheme for Micro and Small Enterprises.

7. What is the maximum sub-debt amount eligible under the Scheme?
Under the Scheme, Promoter(s) of the MSME unit will be given credit facility equal to 50% of his/her stake in the MSME entity (equity plus debt) or Rs 75 lakh whichever is lower as per last audited Balance Sheet.

Illustration 1 : If promoters have invested Rs.100 lakh as equity/debt in a company, then 50% of Rs.100 lakh, i.e. Rs.50 lakh is eligible amount under sub-debt.

Illustration 2 : If promoters have invested Rs.700 lakh as equity/debt in a company, then 50% of Rs.700 lakh is Rs.350 lakh. However, eligible amount under sub-debt would be Rs.75 lakh.

8. Can you please give some scenarios for computation of sub-debt amount eligible under the Scheme?

Computation methodology :

(Rs. Lakh)

Details	Scenerio 1	Scenerio 2	Scenerio 3
Promoter's investment as equity in the MSME unit (A)	100.00	100.00	500.00
Promoter's investment as debt/loan in the MSME unit (B)	25.00	50.00	100.00
Total Stake by the Promoters in the MSME unit (C) = (A) + (B)	125.00	150.00	600.00
50% of Promoter's stake in MSME unit 50% of (C)	62.50	75.00	300.00
Sub-debt eligible limit (50% or Rs.75 lakh, whichever is lower)	62.50	75.00	75.00

However, the Sub-debt eligible limit shall not exceed the original debt of the beneficiary.

9. What is the guarantee coverage for the sub-debt under CGSSD?

The guarantee coverage of the sub-debt shall be 90%.

10. Whether any margin money is required to be brought in by the promoters for availing the sub-debt facility?

Yes. The promoters are required to bring in 10% of the sub-debt amount as collateral.

11. What is the duration of the Scheme?

The Scheme would be applicable to sub-debt sanctioned under CGSSD for a maximum period of 10 years from the guarantee availment date or March 31, 2023 whichever is earlier, or till an amount of Rs 20,000 crore of guarantee amount is approved.

12. What will be the eligibility criteria for MSMEs to avail the benefit of the Scheme? All MSME borrower / entities who are stressed viz. SMA2 and NPA accounts and are **eligible for restructuring (as per RBI guidelines)** and are commercially viable as per the assessment of the lending institutions.

13. Any cut-off date / eligibility is prescribed for MSMEs for availing the benefit under the Scheme?

MSMEs whose accounts have been standard as on 01.01.2016 and have been in regular operations, either as standard accounts, or as NPA accounts during financial year 2018-19 and financial year 2019-20 are eligible under the Scheme. The Scheme is valid for MSME units which are stressed viz. SMA2 and NPA accounts as on 30-04-2020.

14. Whether the MSME account where the legal / recovery proceedings are underway are eligible under the Scheme?

Yes. In cases where recovery proceedings are underway, such as through SARFAESI Sec. 13(2), 13(4), DRT, suit filed, restructuring, MLIs may carry out on the basis of viability of the MSMEs as per RBI's restructuring guidelines.

15. Whether Fraud / Willful default account are eligible under the scheme?

Accounts declared as Fraud/ Willful defaulter will not be considered under the scheme.

16. On what basis restructuring is carried out?

Banks are required to carry out restructuring of MSME accounts as per extant RBI guidelines.

17. What would be the procedure followed in case a borrower has loan accounts with multiple lenders?

In case a borrower has existing limits with more than one lender, the CGSSD can be availed by the borrower through one lender only. A declaration from the borrower regarding its other banking arrangements and that it has not availed funding under the scheme from the other lenders to be obtained by the lending MLI.

18. To avail sub-debt under DAF-SDSM, will it be necessary for existing loans of the borrower to be covered under existing guarantee schemes such as CGFMU or CGTMSE?

No.

19. Will the interest rate on DAF-SDSM be capped?

Yes. The interest rate applicable would be as per extant RBI guidelines.

20. What would be the tenor of loans provided under DAF-SDSM?

The tenor of sub-debt facility provided under DAF-SDSM shall be as per the repayment schedule defined by the lender, subject to a maximum tenor of 10 years.

21. What would be the tenor of loans provided under CGSSD?

Maximum tenor would be from the guarantee avilment date or March 31, 2023, whichever is earlier.

22. Is there any moratorium period prescribed under DAF-SDSM?

Yes. There can be a moratorium of 7 years (maximum) on the payment of principal. Till the 7th year, only interest will be paid. While the interest on the credit facility

provided under the scheme would be required to be serviced regularly (monthly), the principal shall be repaid within a maximum of 3 years after completion of moratorium.

23. Whether prepayment of sub-debt facilities is allowed?

Pre-payment of loan/credit facilities is allowed **at no additional charge** to the borrower.

24. Will any guarantee fee be charged under the Scheme by CGTMSE?

Yes. 1.50% per annum on the guaranteed amount on outstanding basis.

25. Whether service fee or any other fee would be charged in addition to the guarantee fee?

No. There is no service fee or any other charge.

26. What will be the risk weight assigned to the credit extended under the scheme?

CGTMSE guaranteed portion to be assigned zero risk weight, as per extant guidelines.

27. What will be the security on credit facility extended under the Scheme?

The credit extended under the scheme will rank second charge on all the existing assets.

28. Will MLIs be required furnish any undertaking with CGTMSE for the purpose of this Scheme?

Yes, MLIs will be required to submit an Undertaking to CGTMSE for the purpose of this Scheme as per the prescribed format.

29. Are Member Lending Institutions (MLIs) required to notify if the account has turned NPA, in CGTMSE Portal?

Yes, the MLIs are required to mark a particular case as NPA which is classified as NPA as per RBI guidelines in CGTMSE online portal. The NPA marking needs to be done by the MLIs within next quarter from the NPA date, in the online portal.

30. Whether Guarantee Fee is payable for NPA or claim lodged cases?

Yes, Guarantee Fee is payable for NPA cases / claim lodged cases, till the settlement of first claim.

31. What is the process to be carried out before lodgement of claim ?

Before lodgement of claim application with CGTMSE, the MLI needs to initiate legal action post NPA or default.

32. When can the Lending Institution invoke the guarantee?

For MLI to lodge a claim, the guarantee in respect of that credit facility should have been in force at the time of account turning NPA and after completion of lock-in period of 18 months (from the guarantee start date or last disbursement date whichever is later). MLI can invoke the guarantee for first instalment of claim (75%) only after initiation of legal action under various legal forums such as, SARFAESI (u/s 13 (4)), Revenue Recovery Authority (RRA), Civil Court, Debt Recovery Tribunal (DRT) or Lok Adalat.

33. How will the guaranteed amount be paid by CGTMSE to the MLIs on invocation of the guarantee?

After satisfying itself about the procedural aspects met by the lender, regarding lodgement / preferment of claim for guarantee, the Trust settle the claim in two instalments i.e. 75% of the eligible amount (i.e. 90% of amount in default) as First instalment and 25% of the eligible amount (i.e. 90% of amount in default) as Second instalment.

Illustration:

(in Rs.)

Sub-debt given to promoter by the Bank (Guarantee Amount)	75,00,000	50,00,000	10,00,000
Outstanding as the time of NPA (Guaranteed amount minus repayment)	50,00,000	30,00,000	10,00,000
CGTMSE coverage	90%	90%	90%
Eligible Claim Amount (90% of O/s)	45,00,000	27,00,000	9,00,000
1st claim paid by CGTMSE (75%)	33,75,000	20,25,000	6,75,000
2nd claim paid by CGTMSE (25%)	11,25,000	6,75,000	2,25,000

Note: Any recovery made by the lender after settlement of the claim has to be refunded back to CGTMSE as per the existing guidelines.

34. Is the Lending institution required to remit the recovery of amount received from the borrower, after settlement of first instalment of claim?

Yes. MLI needs to remit any recovery received, from the borrower, after the settlement of first instalment, to CGTMSE after deducting the legal expenses only.

35. Can a lending institution go for one-time settlement (OTS) in respect of defaulted cases, which are covered under the Scheme?

Yes. The lending institution is, however, required to keep the Trust informed. In order to avail claim, legal action must be initiated by the MLI even in the event of OTS.

36. Will there be inspection of cases covered under CGSSD Scheme?

Yes. Trust reserves the right to inspect cases covered under CGSSD Scheme at any given time.

37. What are the documents required for inspection?

During the inspection of cases, MLIs will be required provide copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) as maintained by the lending institutions or any such documents as requested by the TRUST.

38. What would be the purpose of the inspection of these cases?

The primary purpose of inspection of these case would be to check whether the Lending Institutions have followed the terms and conditions of the Scheme and that

in case of NPA account where first claim has been settled by the Trust, any recovery received by the MLI has been appropriately passed on to the Trust.

39. Who will issue detailed operational guidelines for CGSSD?

CGTMSE will issue the detailed operational guidelines for the Scheme.

40. I was running a business and my account turned into NPA due to certain reasons. However, my unit is not running now and it is closed. Am I eligible under the scheme?

No. For availing this sub-debt, the unit must be in running condition and operational.

41. Whether NBFCs are allowed under the sub-debt scheme?

No. Presently, all the Member Lending Institutions (MLIs) registered under CGS-I of the Credit Guarantee Scheme for Micro and Small Enterprises are eligible.

42. When will the guarantee cover commence for the eligible credit facility? The guarantee cover will commence from the date on which guarantee fee proceeds are credited to bank account of the Trust.

43. How long the guarantee cover is available for credit facilities extended to a particular borrower?

Guarantee will commence from guarantee start date and shall run through the agreed tenure of the facility subject to payment of guarantee fee on annual basis.

44. What is the process of issue of Guarantees under the scheme?

On sanction of sub-debt, the Banks login into CGTMSE Portal and apply for guarantee coverage. On receipt of application, Guarantee is approved by CGTMSE within 24 hours and on paying the Guarantee fee, the Guarantee becomes live. No documents are sought at the time of application lodgement of guarantee.

45. What is meant by conclusion of recovery proceedings?

The recovery proceedings would be stated as concluded after the decree has been enforced and recovery has been completed by the MLI and outstanding amount has been recovered by the MLI or decree to get time barred if no further recovery possible.

46. Who can provide answers to any further queries?

Please address your queries/suggestions to querysubdebt@cgtmse.in.
