

Credit Guarantee Scheme for Startups (CGSS)

Frequently Asked Questions

1. What is the CGSS?

Credit Guarantee Scheme for Startups (CGSS) provide guarantee coverage by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, Government of India through National Credit Guarantee Trustee Company Limited (NCGCTC) to its Member Institutions (MIs) on debt facilities extended by them to startups recognized by the DPIIT.

2. What is the objective of CGSS and how would guarantee be issued?

The broad objective of CGSS is to provide guarantee upto a specified limit against credit instruments extended by MIs to finance eligible startups. This Scheme would help provide the much-needed collateral free debt funding to startups.

In this regard, an eligible startup shall approach an MI and seek credit assistance under this guarantee scheme. The MI shall examine the feasibility and viability of the project from various aspects and after ensuring feasibility and viability of the project and compliance with eligibility parameters of the scheme guidelines, sanction need based assistance to the startup as per its guidelines. Simultaneously, the MI shall apply on the portal of NCGTC and seek guarantee cover for the credit extended. Issue of guarantee cover under CGSS shall be automatic based on meeting of eligibility parameters, which has to be ensured by the MI.

3. What type of businesses are eligible for guarantee coverage under CGSS?

Startups recognized by DPIIT are eligible for guarantee coverage upto Rs.10 crore per borrower under the Scheme.

4. What are the eligibility parameters for a borrower under the Scheme?

The borrower should meet the following parameters to be eligible for support under CGSS:

- i) It is a startup recognized by the DPIIT as per gazette notification(s) issued from time to time; and
- ii) It is not in default to any lending/investing institution and not classified as Non-Performing Asset as per guidelines of the Reserve Bank of India (RBI); and
- iii) Its eligibility is certified by the MI for the purpose of guarantee cover;
- iv) It has reached stage of stable revenue stream, as assessed from audited monthly statements over a 12 month period, amenable to debt financing; and
- v) It meets the other eligibility criteria prescribed under the Scheme

5. Which institutions are eligible for registering as Member Institutions under the scheme?

- i) Scheduled Commercial Banks and Financial Institutions who meet eligibility criteria prescribed by the Trust.
- ii) RBI registered Non-Banking Finance Companies (NBFCs) having minimum networth of Rs.100 crore and credit rating of BBB and above as rated by external credit rating agencies accredited by RBI.
- iii) SEBI registered Alternative Investment Funds (AIFs)

6. What is the quantum of assistance eligible for guarantee cover under the Scheme?

The maximum amount of debt (fund based or non-fund based facilities) eligible for guarantee cover under the scheme is **Rs. 10 crore per borrower**, irrespective of the amount of debt facilities extended to the borrower by MI(s). The debt facilities available for guarantee cover would be net of the value of collateral, i.e., if the total debt facilities to a borrower X is Rs.15 crore against which it has provided collateral (valued highest by the MI at Rs. 8 crore), then the guarantee cover under the scheme shall be limited to Rs.7 crore.

7. When does the guarantee fee become payable?

The guarantee fee shall become payable to the Trust within 30 days from the date of generation of Credit Guarantee Demand Advice Note (CGDAN). CGDAN shall be generated upon entry of disbursement details on the portal by the MI. Details of each tranche of disbursement should be entered on the portal within 30 days of date of disbursement.

8. When does the guarantee cover commences under the scheme?

The guarantee cover will commence from the date of payment of guarantee fee/commitment charges. However, the guarantee fee shall be payable from the date of disbursement of each tranche.

9. What is Amount in Default (AID)?

AID means the loan amount outstanding in the loan account(s) of the borrower, inclusive of accrued interest as on the date of the account becoming NPA or the date of lodgment of claim application, whichever is lower, or such other amount as may be specified by the Fund.

10. What is the extent of the guarantee cover under CGSS ?

Credit guarantee cover under this scheme would be either transaction based or umbrella based:

- I) **For transaction-based guarantee cover** (for Banks/FIs/NBFCs)
As per details given below, subject to maximum of Rs.10 crore per borrower:

- a) to the extent of 80% of the amount in default, if the original loan sanction amount is upto Rs.3 crore.
- b) to the extent of 75% of the amount in default, if the original loan sanction amount is above Rs.3 crore and upto Rs 5 crore.
- c) to the extent of 65% of the amount in default, if the original loan sanction amount is above Rs.5 crore.

II) For umbrella-based guarantee cover (for SEBI registered AIFs)

Guarantee cover shall be of actual losses or upto a maximum of 5% of Pooled Investment on which cover is being taken from the fund in Startups, whichever is lower, subject to a maximum of Rs.10 crore per borrower (net of collateral ,if any).

Losses are defined as aggregate of principal investments of written-off assets, along with three months accrued interest from the date of default. In case of partially written off assets, only the principal portion written-off along with three months accrued interest thereon from the date of default will be accounted for the loss assets.

11.How can an eligible institution be registered under CGSS as Member Institution (MI)?

All eligible institutions may register itself under the said scheme by submitting a signed undertaking (format given on website) and Board Resolution. Upon successful registration of the MI, login credentials of the MI shall be created whereafter it can apply for guarantee cover on NCGTC's portal.

12.What is the process to invoke guarantee and within what period of time are the MIs supposed to do so?

Invocation of guarantee means making application for claim in case of defaults. The process involved under Transaction based and Umbrella based have been explained below :

(i) For transaction-based guarantee cover

Guarantee can be invoked only in such cases on which guarantee cover was in force at the time of the account turning NPA. The guarantee fee shall be calculated on pro-rata basis and shall be payable till the account turns NPA or claim is lodged, whichever is lower.

NPA Marking

NPA marking module shall be made available on portal under Claim & Settlement, wherein provision shall be made for NPA marking. **MI needs to mark NPA within 90 days of the account being classified as NPA.**

Interim Claim

The MI shall furnish the details of the account which would include date of NPA, amount in default, status of legal action etc. in the claim lodgment page available on the portal. The MI will be required to upload Management Certificate

certifying certain details about the account. On submission of this claim, an e-mail shall go to the MI that their claim has been lodged and NCGTC would initiate action to approve the claim request and arrange to pay 75% of the amount in default provided all requisite documents are submitted and the claim is found to be in order and complete in all respects. This shall be treated as Interim Claim. In view of the fact that date of default for facilities under non-fund based assistance could be on different dates, multiple interim claims shall be allowed to the MI.

Final Claim

On completion of the recovery Proceedings or till decree gets time barred, whichever is earlier, the MI shall submit its claim for the balance 25% of the amount in default (net of recoveries, if not already remitted as above). Procedure for settlement of this Final Claim shall be the same as that of Interim Claim.

It may be noted that maximum claim payout on a year's portfolio of an MI has been capped at 20% of total portfolio of sanctions (where disbursements exceed 90% of that year on which guarantee has been obtained. Further, claims of an MLI during any year shall be paid upto a maximum of 2.5 times the guarantee fee received during the year along with recoveries if, any.

(ii) For umbrella-based guarantee cover

Guarantee can be invoked in respect of defaulted accounts in a pooled Venture Debt Fund (VDF) only if the cover was available on it till its date of closure and commitment charges/fees, as per scheme, have been paid. The MI would invoke the guarantee after completion of the life cycle of the fund prior to distribution of final proceeds and subject to conditions specified in the scheme. Thereafter, the MI can file for 100% claim on the portal, which shall be settled subject the same being found to be in order and eligible in all respects.

13. When would recovery proceedings be considered as initiated on the part of MI, which is essential prior to lodging of Interim claim?

(i) For transaction-based guarantee cover

Prior to lodging of claim, MIs shall ensure that the loan/ debt facility have been recalled and recovery proceedings have been initiated under due process of law, via IBC, SARFAESI, DRT or through any other Courts or outside as may be considered suitable by the Trustee.

(ii) For umbrella based guarantee cover

Prior to lodging of claim, MIs shall ensure that the venture debt facility have been recalled and recovery proceedings have been initiated under due process of law, via Arbitration, IBC, SARFAESI, DRT or through any other Courts or outside as may be eligible to a VDF and considered suitable by the Trustee.

14. What documents are necessary to be filed along with the claim as a proof of commencement of recovery proceedings?

The MI shall furnish the details of the account viz. date of NPA, amount in default, status of legal action etc. in the claim lodgment page available on the portal. The MI will be required to upload Management Certificate certifying certain details about the account.

Towards this, relevant portion of accounts ledger (not necessarily all pages) indicating loan sanction/disbursed, date of account turning NPA, dues outstanding on the date of NPA and copy of document evidencing commencement of legal action, as indicated in the scheme guidelines and explained through FAQs, would require to be submitted while filing claim.

15. Whether loan accounts covered under CGSS would continue to be eligible under CGSS, if they are rephased / restructured?

Loan account covered under CGSS, even if rephased/restructured as per RBI guidelines, as applicable, would continue to get the guarantee cover under CGSS till the date of lodgment of claim, provided it meets the guidelines of claim process as explained above. In such cases also, the amount of claim eligible shall be the amount in default at the time of NPA or claim date, whichever is lower. However, if no claim is made in these accounts and these accounts turn Standard subsequently and the MI wishes to continue guarantee cover for the balance period, it shall have to pay guarantee fee for the broken period also for continuation of the guarantee cover afresh.

16. Whether existing loans covered under CGSS be eligible for enhancement of credit facilities?

Yes, they can be allowed enhancements. However, guarantee cover shall be restricted to maximum of Rs.10 crore per borrower.

17. How would an MI refund the recovery made from the borrower to NCGTC, post settlement of claim?

As indicated at Sr. No. 14 of Chapter V of the Gazette notification dated October 06, 2022 of CGSS, the MI is expected to deposit the recovery made with NCGTC, which shall appropriate the same against the specific account in which recovery has been made.

The MI shall furnish details of the recoveries made in the account and after adjusting such recoveries towards default amount relating to first charge and the legal costs incurred by them, remit the balance amount to NCGTC within 30 days, failing which MI shall be required to pay the recovered amount along with interest at 2% over and above the prevailing repo rate from the date of recovery to the date of payment.

18. What is the applicable Annual Guarantee Fee (AGF)?

A. For transaction-based guarantee cover

- i) For availing the guarantee cover, the MI shall pay AGF of 2% p.a. of the disbursed / outstanding amount (on sanction amount, in case of working capital facilities), as on the date of application for guarantee cover.
- ii) For Units from the North-East region as well as those of women entrepreneurs, the MI shall pay a standard rate of 1.50% of the disbursed / outstanding amount (on sanction amount, in case of working capital facilities), as on the date of application for guarantee cover.

B. For umbrella based guarantee cover

- i) For availing the guarantee cover, the MI shall pay Annual Commitment Charge (ACC) of 0.15% p.a. of the proposed Pooled Investment in startups upfront to the Trust. The MI shall pay the balance commitment charges from time to time in case the Pooled Investment amount in Startups is higher than what was proposed initially.
- ii) MI shall pay 1% of the Pooled investment in Startups as one-time guarantee fees, at the time of invocation of guarantee claim/admission of claim file. In case no claim is preferred by the MI, it shall pay 0.25% of the Pooled investment in startups as guarantee closure charges within 30 days of the closure of the VDF.

19. What is time frame to apply for credit guarantee/ upload data after sanction/ disbursement of the credit facility?

The time frame for the above is within 30 days from the date of sanction/disbursement or as may be decided by NCGTC from time to time.

20. What is the payment of Credit Guarantee Fee on each disbursement amount?

The AGF shall be calculated on pro-rata basis for the first (from date of first disbursement) and last year (till closure of the account) and in full for the intervening years on the outstanding loan amount at the beginning of the financial year.

21. What is the duration of the Scheme?

The scheme shall come into force from the date of notification by the Department for Promotion of Industry and Internal Trade (DPIIT) and shall be in vogue till further notification by DPIIT.

22. Will CGSS be extended as a separate loan account, or as part of the existing loan account of the borrower?

CGSS shall be extended as a separate loan/facility account of the borrower.

23. To avail CGSS, will it be necessary for existing loans of the borrower covered under existing guarantee schemes such as ECLGS to be closed?

If the existing borrower has availed ECLGS and wants to avail CGSS, ECLGS loan shall need to be closed.

24. Is there any interest rate cap on credit facility covered under CGSS?

No. MIs shall have discretion to charge interest rate as per its own guidelines.

25. What would be the tenor of credit facilities provided under CGSS?

The tenor of credit facilities and other terms & conditions of the facilities shall be as per MI's internal guidelines.

26. Will there be any processing fee be charged by MIs for sanction of credit facility under CGSS?

There is no stipulation under the Scheme. However, MIs can decide on the same as per their internal guidelines.

27. Can MIs ask for any additional collateral for facility under CGSS?

MIs can ask for any additional collateral. However, in respect of credit facilities where a portion of the same has been secured by way of partial collateral security, the remaining part comprising of the unsecured facility will be covered under the guarantee scheme. The guarantee will be limited to the outstanding amount, less the value of collateral security accepted by the MI in terms of its valuation policy guidelines, subject to compliance of other conditions of the scheme.

28. What would be the nature of guarantee under the scheme?

The Credit Guarantee under this Scheme would be unconditional and irrevocable.

29. What will be the security on loan extended under CGSS Scheme?

The MI shall create charge on the assets to be created out of credit facility extended by MI within a reasonable period of time from the date of disbursement, but in any case before the account turning NPA. The MI shall create charge in favor of itself and take all necessary steps to protect the interests of NCGTC.

30. I am a DPIIT recognised startup, how can I avail funds under CGSS?

The Scheme by way of providing guarantee cover, supports eligible Banks, NBFCs and AIFs to lend to DPIIT recognised eligible startups. Eligible startups may approach these institutions for funding requirement, who would evaluate the same in accordance with general lending protocols and scheme and other guidelines.

31. Who can provide answers to any further queries?

Please address your queries/suggestions to startup@ncgtc.in.
