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ABSTRACT

Micro, Small and Medium Enterprises - Budget Announcement - Launching of the Tamil Nadu Credit Guarantee Scheme (TNCGS) in partnership with Central Government Fund Trust for Micro and Small Enterprise (CGTMSE), and to implement innovative scheme by loan restructuring through TIIC as a pilot phase of the Tamil Nadu Credit Guarantee Scheme (TNCGS)- Orders issued.

MICRO, SMALL AND MEDIUM ENTERPRISES [D(2)] DEPARTMENT

G.O. (Ms.) No.3 Dated: 04.01.2022

திருவள்ளுவர் ஆண்டு 2052
பிலவ வருடம், மார்கழி–20

Read:

1. Announcement made by the Hon'ble Minister (Finance and Human Resources Management) on 02.09.2021 on the floor of the Assembly.
2. From the Industries Commissioner and Director of Industries and Commerce letter Rc. No.27796/PDK2/2021, dated 12.11.2021.

ORDER:

The Hon'ble Minister for Finance and HRM has made the following announcements on 13.08.2021 during the Budget Speech for the year 2021-2022.

i) "This Government recognizing that access to credit from banks and Financial Institutions (FIs) is a critical issue will launch a State Level Credit Guarantee Scheme to enable more MSMEs, particularly micro enterprises to access credit. A digital data driven credit rating system for MSMEs will be established to enable FIs and new age fintech companies to lend more to MSMEs based on their business potential".

ii) "The Government, based on advice received from the Economic Advisory Council to the Hon'ble Chief Minister, will launch an innovative scheme wherein MSMEs and their creditors, will be facilitated to reach agreement on restructuring their liabilities through tripartite forums at the district level. On reaching such agreement such units will be linked to top-up loans by financial institutions with support from Government credit guarantee".

2. Based on the above Announcements, the Industries Commissioner and Director of Industries and Commerce has submitted a proposal for Tamil Nadu Credit Guarantee Scheme (TNCGS), based on discussions with Central Government Fund Trust for Micro and Small Enterprises (CGTMSE), a draft MoU delineating operational aspects for TNCGS and for phased implementation with the pilot scheme.

The salient features of the TNCGS

The salient features of the TNCGS is as follows:

(i) It will be implemented in partnership with CGTMSE, operationally. As in the case of credit guarantee currently extended by CGTMSE, the TNCGS scheme credit guarantee coverage will be direct, explicit, unconditional, irrevocable, incontrovertible, documented and will cover all elements of credit risk associated with the claim being guaranteed.

(ii) The coverage under TNCGS is not automatic. The State aims to guarantee loans to good customers. TNCGS may ask further details from customers and / or mandate application for guarantee cover through TNCGS electronic platform for due diligence. The beneficiaries of TNCGS will be selected carefully by all financial institutions following the prudential norms used for credit rating and appraisal by the institutions. Guidelines, if any, in this regard will be issued by the Industries Commissioner and Director of Industries & Commerce and will be electronically filtered through a platform setup for TNCGS.

(iii) For loans less than Rs. 40 lakh to MSMEs, TNCGS will give a credit guarantee coverage in collaboration with CGTMSE upto 90% of loss in an individual guaranteed account such that the overall default of one Member Lending Institution (MLI) does not exceed 8% of the annual portfolio of MLI with TNCGS, provided the MLI makes good the first loss of 2%.

(iv) Beyond Rs. 40 lakh upto Rs. 2 crore, TNCGS will give a guarantee coverage upto 80% subject to all the conditions stated above.

(v) When implemented in collaboration with CGTMSE, CGTMSE will cover upto 75% of the eligible amount according to their CGS-I scheme for loans up toRs.2 crores and TNCGS will contribute the balance (15%) to take the coverage to 90% of the loan for loans upto Rs.40 lakhs and the balance to take the coverage to 80% of the loan for loans more than Rs.40 lakhs and upto Rs.2 crore.

(vi) When TNCGS is operating alone, then TNCGS will bear the entire guarantee burden. This will apply to cases where MLIs or loanees are not eligible under CGS – I norms. (For eg: TAICO Bank) and also to TIIC where TNCGS will fill in the gap (caused by the upper ceiling prescribed by CGS – I (2 times AGF credited) and the ceiling of 8% of annual portfolio of TIIC with TNCGS).

(vii) In the first phase, in view of the pandemic, there is no Annual Guarantee Fee (AGF) for TNCGS, for full coverage or additional coverage given along with CGTMSE.

(viii) In the pilot phase, TNCGS will cover an innovative scheme through Tamil Nadu Industrial Investment Corporation (TIIC) with the following salient features:

a. Working with PSU banks across the districts of Tamil Nadu.
b. Identification of good customers who are likely to move to SMA2 status as on 31.12.2021 (or such date fixed by TIIC) due to cash flow issues caused by the pandemic. Eligible SMA 0 and SMA 1 customers not eligible for ECLGS, could also be considered.
c. TIIC, after its appraisal will extend loans upto Rs. 40 lakhs to eligible customers after taking second charge of the collateral from banks.

d. These loans will help to kick start the TN economy to a certain extent.
e. Details will be worked out by TIIC in close collaboration with IC&DIC.

(ix) The innovative scheme for the pilot phase will be implemented by Tamil Nadu Industrial Investment Corporation (TIIC) which is a deemed State Financial Corporation operating in Tamil Nadu for the past 72 years.

(x) Timelines:

The pilot phase of TNCGS is expected to be run in 2021-22. The full-fledged TNCGS will be launched in April 2022. This will continue till 31.03.2027 or till the TNCGS portfolio reaches a disbursed value of Rs. 10,000 crores, whichever is earliest, subject to availability of funds in GoTN corpus with CGTMSE. The scheme is extendable on mutual agreement with CGTMSE.

Financial aspects:

(xi) The upfront corpus required to be committed with CGTMSE for the TNCGS is at least Rs. 100 Crores and the same can be spread over two financial years with a minimum of 15 crores to be credited in December 2021 and the rest Rs.85 crores by April 2022.

(xii) In view of the urgency in kick starting the economy, TNCGS will be implemented in collaboration with CGTMSE. The institutional structure for TNCGS will be finalized in due course by the Industries Commissioner & Director of Industries and Commerce with the approval of the competent authority. Till such institutional structure is in place, the corpus of Rs.100 crores may be accounted as advance equity to TNCGS by Tamil Nadu Government.

(xiii) Recurring Cost from the Corpus:

CGTMSE shall operate and administer the scheme on behalf of GoTN, for a fee of 0.75% p.a. of the Corpus or actual annual costs, whichever is higher. From April 2022, 0.75% p.a. of the Corpus as on April 1st of each year shall be enabled to be transferred to CGTMSE by means of an electronic debit facility within 15 days of every new FY. If the actual costs incurred in a year are higher than

0.75% p.a. of the Corpus in any one year, the accounts for the same shall be mutually agreed to by the parties within one month of the next FY and the payment effected within the first quarter of the same FY. If there are certain IT facilities being given to CGTMSE by GoTN eventually for their own scheme the cost (one time / recurring) of the same will be adjusted against the 0.75% per annum due to CGTMSE.

(xiv) This being a year burdened with the pandemic, the AGF or annual guarantee fee for the TNCGS is kept nil. The IC&DIC may be delegated powers to decide on the quantum of AGF on the scheme under information to the Government, giving all reasons for this or any other change in future along with justification for the rate fixed.

(xv) The sustainability of the corpus is hinged on three aspects:

a) The AGF rates when ever levied, which has to be in keeping with industry practices
b) The financial discipline possible from having the information about the land holding of the individual borrowers as ascertained electronically from 'Tamil Nilam' and other such software, of the Revenue Department through Application Programming Interface (APIs). TNCGS may collect land ownership details from Revenue Department as a pre-condition for considering guarantee, in order to bring in this discipline.
c) Other innovative methods of financing: Once the MSME Database and credit rating becomes operational, there could be other innovative methods of maintaining the corpus of the TNCGS, not excluding further Government financing.
d) The IC&DIC may also be delegated powers to work out modalities of the same and the inter-se prioritization of the three, with information to Government.

(xvi) The percentage of the corpus that is to be earmarked for exclusive coverage by TNCGS is required, for operational planning by CGTMSE. The IC&DIC may be delegated the power to decide the same under information to Government whenever there is a change. To begin with, this is kept at 10%.

3. In the light of the above proposal, the Industries Commissioner and Director of Industries and Commerce has sought approval of the Government for the following:-

(i) To implement the Tamil Nadu Credit Guarantee Scheme (TNCGS) as proposed at para 2 above.

(ii) To implement the innovative scheme by loan restructuring through TIIC as per the announcement in Revised Budget Estimate 2021-22. This scheme will be the pilot phase of the TNCGS scheme proposed to be approved as at para 2 above.

(iii) To initially implement both the schemes in partnership with Union Government's Credit Guarantee Trust for Micro and Small Enterprises, using their IT infrastructure and management expertise.

(iv) To approve the MoU to be signed between Government of Tamil Nadu and CGTMSE and to authorize Secretary, MSME Department to enter into the MoU on behalf of Government of Tamil Nadu with CGTMSE.

(v) To sanction a sum of Rs.100 Crore as initial advance corpus for the TNCGS, which will be directly credited to CGTMSE over two financial years in 2021-22 and 2022-23. Rs.100 Crore may be released based on requirement and Rs.15 Crore may be released initially as advance to implement the pilot scheme in December, 2021.

(vi) To delegate to IC&DIC the powers to take decisions on matters mentioned at para 2 (xiv), (xv) above that are necessary to the day-to-day operation of the scheme and for making modifications as necessary for fulfilling the purpose of the scheme.

(vii) To provide in-principle approval for the creation of a State Government entity in the form of a trust /section 8 company/any other appropriate model to take over the scheme from CGTMSE after developing TNCGS' own IT infrastructure and human resources, in due course. Detailed orders in this regard will be obtained separately.

4. The Government after careful examination of the above proposal of the Industries Commissioner and Director of Industries and Commerce have decided to accept it and accordingly issue orders for launching the Tamil Nadu Credit Guarantee Scheme (TNCGS) in partnership with Central Government Fund Trust for Micro and Small Enterprise (CGTMSE), with guidelines at Annexure-A and to implement innovative scheme by loan restructuring through TIIC with salient

features at Annexure-B as a pilot phase of the Tamil Nadu Credit Guarantee Scheme (TNCGS) with the following modalities:-

(i) Both the above schemes shall be initially implemented in partnership with Union Government's Credit Guarantee Trust for Micro and Small Enterprises, using their IT infrastructure and management expertise.

(ii) A MoU will be signed between Government of Tamil Nadu and CGTMSE by the Secretary to Government, MSME Department on behalf of Government of Tamil Nadu with CGTMSE to implement the scheme.

(iii) A corpus of Rs.100 Crore for the TNCGS will be created and funds will be directly credited to CGTMSE over two financial years in 2021-22 and 2022-23 and to implement the pilot scheme, initially Rs.15 Crore will be released as first installment and based on requirement the quantum of release in 2022-23 can be decided next year based on the performance and financial position.

(iv) The following powers are delegated to IC&DIC to take decisions on matters that are necessary to the day-to-day operation of the scheme and for making modifications as necessary for fulfilling the purpose of the scheme.

a. to decide the quantum of the Annual Guarantee Fee (AGF) for TNCGS.
b. to decide on the modalities of three ways of sustaining / growing the corpus of TNCGS.
c. to decide the percentage of the corpus to be earmarked for exclusive TNCGS coverage.
d. to issue guidelines and operate an electronic platform, as needed for the operation of TNCGS and the innovative scheme.
e. to make minor changes in the Guidelines, Salient Features of Innovative scheme and MoU to facilitate finalization of the MoU with CGTMSE and the innovative scheme with TIIC to fulfill the purpose of the scheme.

(v) In-principle approval is also issued for the creation of a State Government entity in the form of a trust / section 8 company/any other appropriate model to take over the scheme from CGTMSE after developing TNCGS' own IT infrastructure and human resources, in due course.

(vi) Since most of the MSME loans guaranteed by the CGTMSE is less than Rs.10 lakh (46% in 2019-2020), the TNCGS shall not be extended by default to loans sanctioned by commercial banks upto Rs.10 lakh except under exceptional circumstances. However regarding loans sanctioned by NBFCs etc., this restriction need not be applied.

(vii) The moratorium period is given as 6 months and loans disbursed to the same customer within 6 months are considered as loan splitting. To ensure the provisions of loan splitting are applied strictly, any loans offered to same customer within 9 months (6 months moratorium + SMA 2) shall be considered as loan splitting and avoided.

5. The Government also sanction and release a sum of Rs.15,00,00,000/- (Rupees Fifteen crore only) as first installment to implement the pilot scheme.

6. The expenditure sanctioned in para 5 above shall be debited into the following New Head of Account opened under D. No.44-02:-

"2852-Industries - 80 General - 102 - Industrial productivity - State's Expenditure - AA - Tamil Nadu Credit Guarantee Schemes (TNCGS) - 309 Grants-in-Aid 03 Grants for Specific Schemes".

(IFHRMS DPC: 2852 80 102 AA 309 03)

7. The expenditure sanctioned of Rs.15,00,00,000/- in para 5 above shall constitute an item of "New Service" and the approval of the Legislature shall be obtained in due course of time by an inclusion in the Supplementary Estimates for the year 2021-2022. Pending approval of the Legislature, the expenditure may be initially met by drawal of an advance from the Contingency Fund. The Industries Commissioner and Director of Industries and Commerce is directed to calculate the actual amount required for the period upto next Supplementary Estimates and apply for sanction of the same as advance from the Contingency Fund to Finance (BG.1) Department directly in Form "A" appended to the Contingency Funds Rules, 1963 along with a copy of this order. Orders for sanction of an advance from the Contingency Fund will be issued from Finance (BG.1) Department. The Industries Commissioner and Director of Industries and Commerce shall also send necessary draft explanatory notes for inclusion of this expenditure in the Supplementary Estimates for the year 2021-2022 to Finance (Industries/BG-I) Department at an appropriate time without fail.

8. The Industries Commissioner and Director of Industries and Commerce is authorized to draw and disburse the funds sanctioned in para 5 above.

9. The Industries Commissioner and Director of Industries and Commerce is the Estimating, Reconciling and Controlling Authority for the above said New Head of Account.

10. The Pay and Accounts Officer / Treasury Officer concerned are directed to open the above New Head of Account in their books.

11. This order issues with the concurrence of Finance Department vide its U.O. No.60632/ Finance (Industries)/ 2021, dated 04.01.2022 and ASL No.1348 (One thousand three hundred and forty eight).

V. ARUN ROY
SECRETARY TO GOVERNMENT

To
The Industries Commissioner and Director of Industries and Commerce, Guindy, Chennai-32.
The Chairman and Managing Director,
Tamil Nadu Industrial Investment Corporation Limited,
No.692, Anna Salai, Nandanam, Chennai-600 035.
The Managing Director,
Small Industries Development Bank of India (SIDBI), Mumbai-400 051.
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE),
1st Floor, Swavalamban Bhawan, Plot No. C-11, G-Block,
Bandra Kurla Complex, Bandra (East), Mumbai - 400 051.
The Accountant General, Chennai-18.
The Pay and Accounts Officer, Chennai-8.

Copy to:
The Chief Minister Office, Chennai-9. (C. No.8395/D2/2021)
The Personal Assistant to Hon'ble Minister (MS&ME), Chennai-9.
The Personal Assistant to Minister (Finance and Human Resources Management), Chennai-9.
The Industries Department, Secretariat, Chennai-9.
The Personal Assistant to Secretary to Government,
MSME Department, Chennai-9.
The Finance (Ind/BG-I/BG-II/WM-I) Department, Chennai-9.
The Micro, Small and Medium Enterprises (B/OP) Department,
Secretariat, Chennai-9.
Stock file / Spare copy.

// FORWARDED BY ORDER //

04/01/2022

SECTION OFFICER

Annexure - A
Government of Tamil Nadu
Tamil Nadu Credit Guarantee Scheme "TNCGS"
Guidelines for operation of TNCGS

I. INTRODUCTION

1. Title and date of commencement

1 **The Scheme shall be known as the Tamil Nadu Government Credit Guarantee Scheme (TNCGS) for MSME manufacturing units, and it is implemented in collaboration with CGTMSE, as appropriate.**

2 **The Scheme is implemented on a pilot mode from December 2021 and on full-scale from April 2022. This can operate in collaboration or without collaboration with CGTMSE CGS- I Scheme.**

2. Definitions

For the purposes of this Scheme –

a. **"Amount in Default"** means the principal and interest amount outstanding in the account(s) of the borrower in respect of term loan and amount of outstanding working capital facilities (including interest), as on the date of the account becoming NPA, or the date of lodgment of claim application whichever is lower or such other date as may be specified by CGTMSE for preferring any claim against the guarantee cover subject to a maximum of amount guaranteed.

b. **"Collateral security"** means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution to a borrower.

c. **"Credit facility"** means any financial assistance by way of term loan and / or fund based, and non-fund based working capital (e.g., Bank Guarantee, Letter of credit etc.) facilities extended by the lending institution to the eligible borrower. For the purpose of calculation of **guarantee fee by CGTMSE**, the "credit facility extended" shall mean the amount of financial assistance committed by the lending institution to the borrower, whether disbursed or not. For the purpose of the calculation of **guarantee fee by CGTMSE**, the credit facility extended shall mean the credit facilities (both fund and non-fund based) covered **under CGS-I of CGTMSE** and for which guarantee fee has been paid, as of March 31, of the relevant year. **This applies even when guarantee fee nil for TNCGS.**

d. **"Eligible borrower"** means new or existing Micro,Small and Medium Manufacturing Enterprises to which credit facility has been provided by the lending institution **with or** without any collateral security and/or third party guarantees, **including** hybrid guarantee below.

1. "Hybrid / Partial Collateral Security" product allowing guarantee cover on credit facilities having collateral security, for the portion of credit facility not covered by collateral security (unsecured portion), has also been introduced by CGTMSE. In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, can be covered under Credit Guarantee Scheme ofCGTMSE.

e. **'Guarantee Cover'** means maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution.

f. **"Lending institution(s)"[LI]** means a commercial bank for the time being included in the second Schedule to the Reserve Bank of India Act, 1934, Regional Rural Banks, NBFCs, New Age Fin-Tech NBFCs, Scheduled Urban Co-operative Banks and Small Finance Banks as may be specified by the Trust from time to time, or any other institution(s) as may be directed by the Govt. of India from time to time. The Trust may, on review of performance, remove any of the lending institution from the list of eligible institution. **For TNCGS, TAICO Bank and TIIC are also lending institutions.**

g. Manufacturing MSME Units means MSME Units engaged in the manufacture or products of goods to any industry specified in the first schedule to the industries (Developed and Regulation) Act 1951. This specifically excludes bill discounting/ receivables funding, trading, and services.

h. **"Material date" means the** date on which the annual guarantee fee on the amount covered in respect of eligible borrower becomes payable by the Member lending institution to the Trust **Under the CGS-I. This applies even when guarantee fee is nil under TNCGS.**

i. **"Non-Performing Assets"** means an asset classified as a non- performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.

j. **"Primary security"** in respect of a credit facility shall mean the assets created out of the credit facility so extended and/or **existing unencumbered assets** which are directly associated with the projector business for which the credit facility has been extended.

k. Property ownership details means land property in the name of the borrower (the sole proprietor each of the partners in case of partnership/ limited liability partnership, each of the trustees in case of trust, each of the Karta and coparceners in case of HUF and each of the promoter directors in case of private public limited companies) and the persons extending collateral security and third-party guarantee.

l. **"Scheme"** means the Credit Guarantee Fund Scheme for Micro and Small

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Enterprises (CGS-I). **Under TNCGS, this is extended to Medium Enterprises also.**

m. **"SIDBI"** means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).

n. **MSME means an enterprises defined and classified as follows:**

1. **A Micro enterprise where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees.**
2. **A Small enterprise where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.**
3. **A Medium enterprise where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees as accepted to be in effect from 01.07.2020 under the MSMED Act, 2006 as per extant amendment modification to the same under the same Act from time to time. For the purpose of TNCGS operating above, the above definition relates to manufacturing units.**

o. **"Tenure of guarantee cover"** means the maximum period of guarantee cover from Guarantee sanction date which shall run through the agreed tenure of the term credit and for a period of 5 years or block of a 5 years from Guarantee start date where working capital facilities alone are extended or loan termination date, whichever is earlier or such period as may be specified by the Trust.

p. **"Trust"** means the Credit Guarantee Fund Trust for Micro and Small Enterprises set up by Government of India and SIDBI with the purpose of guaranteeing credit facility(ies), extended by the lending institution(s) to the eligible borrowers. **It also will mean TNCGS, whenever the institutional arrangement made by Government of Tamil Nadu for TNCGS eventually, whenever it is set up, whenever relevant.**

q. **"Third Party Guarantee"** means any guarantee obtained by a Member Lending Institution in connection with the credit facility extended by it to a borrower except from Sole-Proprietor in case of Sole Proprietary concern, Partners in case of partnership / limited liability partnership, Trustees in case of Trust, Karta & Coparceners in case of HUF and promoter directors in case of private/ public limited companies and owner of the immovable property in case of guarantee under Hybrid / Partial collateral security model.

II. SCOPE AND EXTENT OF THE SCHEME

3. Guarantees by the Trust

(i) Subject to the other provisions of the Scheme, the Trust undertakes, in relation to credit facilities extended to an eligible borrower from time to time by an eligible institution which has entered into the necessary agreement for this purpose with the Trust, to provide a guarantee on account of the said credit facilities.

(ii) The Trust reserves the discretion to accept or reject any proposal referred by the lending institution which otherwise satisfies the norms of the Scheme

4. Credit facilities eligible under the Scheme

The Trust shall cover credit facilities **(Fund and/or Non-Fund based)** extended by Member Lending Institution(s) to a single eligible borrower in the **Micro, Small and Medium Enterprises** sector for credit facility

1. **Not exceeding ₹ 40 lakh for sole coverage by TNCGS only (without collaboration with CGTMSE) with or without collateral security, full or hybrid model and as follows when TNCGS collaborates with CGTMSE.**
2. not exceeding ₹ 50 lakh (Regional Rural Banks/select Financial Institutions);
3. not exceeding ₹200 lakh (Scheduled Commercial Banks, select Financial Institutions, Small Finance Banks (SFBs) and Scheduled Urban Co-operative Banks by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees or such amount as may be decided by the Trust from time to time.

The cap of ₹200 lakh is the maximum guarantee coverage limit per borrower based on the outstanding credit facilities and the borrowers can avail incremental credit facilities (i.e. to the extent of reduction in the outstanding exposure limit) under Credit Guarantee Scheme of CGTMSE, subject to maximum cap of ₹200 lakh. (Refer Circular No. 166/2019-20 dated December 06, 2019, for details).

Provided that the lending institution applies for guarantee cover in respect of credit proposals sanctioned in the quarter April-June, July-September, October-December and January-March prior to expiry of the following quarter viz. July-September, October-December, January- March and April- June respectively.

Provided further that, as on the material date:
(i) Credit facility is standard and regular (not SMA) as per RBI guidelines (refer Circular No. 151/2018-19 dated July 12, 2018) **on the account of the LI**; and
(ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or

(iii) The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

CGTMSE had included the MSE Retail Trade under its ambit for fresh credit facilities eligible for guarantee coverage by MLIs on or after February 28, 2018 for cases upto ₹100 lakh. (Refer Circular No.157/2018-19, 141 / 2017- 18 dated October 31, 2018, and February 28, 2018). **TNCGS will not cover non-manufacturing units, when it operates alone or in collaboration with CGTMSE.**

CGTMSE had also introduced a new "Hybrid Security" product where the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of ₹200 lakh, can be covered under CGS-I. CGTMSE will, however, have notional second charge on the collateral security provided by the borrower for the credit facilities extended. Under the hybrid security product, there is no requirement for MLIs to create security / charge in favour of CGTMSE by way of legal documentation. (Refer Circular No.154, 142A, 142B / 2017-18 dated October 04, 2018, February 28, 2018, and June 11, 2018, respectively). **The notional second charge will also extend to the TNCGS as well and will be in proportion to the outstanding at the time of invoking the second charge.**

Credit facilities can be extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower up to a maximum of ₹200 lakh per borrower is subject to ceiling amount of individual MLI or such amount as may be specified by the Trust.

The information on total exposure of the borrower under CGTMSE and status of the account (NPA/Standard) are made available to the MLIs at a nominal fee per successful search for the information displayed in the search facility. Path: MLI Login>> Reports & MIS>> Search History >> Enter ITPAN number of the chief promoter of the unit. (Refer Circular No.158/2018-19 dated November 13, 2018).

5. Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme, **subject to the MoU signed between GoTN and CGTMSE on TNCGS:**

(i) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.

(ii) Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

Any Credit facility for loans upto ₹10 lakh to Micro Enterprises shall not be eligible to covered under the Scheme if the said credit facility has been covered under MUDRA Guarantee Scheme through NCGTC Ltd. While applying for the guarantee cover for such proposals. (Refer CGTMSE Circular No.117/2016-17 dated November 10, 2016)

(iii) Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.

(iv) Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii) and (iii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.

(v) Any credit facility which has been sanctioned by the lending institution against collateral security and / or third-party guarantee. However, after the introduction of Hybrid Security model MLIs can cover the unsecured part of the credit facility(ies) under CGTMSE upto to the overall exposure of ₹200 lakh.

6. Agreement to be executed by the lending institution

A lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Trust in such form as may be required by the Trust for covering by way of guarantee, under the Scheme all the eligible credit facilities granted by the lending institution, for which provision has been made in the Scheme.

7. Responsibilities of lending institution under the scheme:

1 The lending institution shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.

2 The lending institution shall closely monitor the borrower account **and make such data available to TNCGS at a frequency as required by TNCGS. The LI's have to make available property ownership details, which have been used as collateral, to TNCGS as a per-condition for coverage under the TNCGS. TNCGS shall verify the same before extending guarantee coverage.**

3 The lending institution shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.

4 The lending institution shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims.

5 The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.

6 The lending institution shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit, and the lending institution shall be bound to comply with such directions.

7 The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust. The lending institution shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor. In particular, the lending institution should intimate the Trust while entering into any compromise or

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arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security. The lending institution shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust. Further the lending institution shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust

8. Annual Guarantee Fee (AGF)

Government of Tamil Nadu does not propose to impose any Annual Guarantee Fee to begin with. So this section applies only to the amount guaranteed by CGTMSE.

AGF will be charged on the amount guaranteed by CGTMSE for the first year and on the outstanding amount for the remaining tenure of the credit facilities sanctioned / renewed to MSEs on or after April 01, 2018, as detailed below (Refer Circular No.139/2017-18 dated February 28, 2018):

Modified AGF Structure – Standard Rate (SR)

Credit Facility	Annual Guarantee Fee (AGF) [% p.a.] *	
	Women, Micro Enterprises and Units covered in North East Region	Others
Up to ₹5 Lakhs	1.00% + Risk Premium as per extant guidelines of the Trust	
Above ₹5 Lakhs and up to ₹50 Lakhs	1.35% + Risk Premium as per extant guidelines of the Trust	1.50% + Risk Premium as per extant guidelines of the Trust
Above ₹50 Lakhs and up to ₹200 Lakhs	1.80% + Risk Premium as per extant guidelines of the Trust	
*AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility.		

In case of term loans, AGF for the amount guaranteed by CGTMSE would be calculated on outstanding amount as on 31st December against each guarantee account and for working capital, AGF for the amount guaranteed by CGTMSE would be calculated on maximum (peak) working capital limit availed by the borrower/enterprise during the previous calendar year.

Online module for updating the outstanding amount in respect of eligible guaranteed loan accounts is made available between January 01- January 15 every year. (Refer Circular No.160/2018-19 dated December 31, 2018) **TNCGS could change this online module real time also.**

For cases covered under Hybrid Security Model Guarantee fee will be charged on the amount guaranteed by CGTMSE for the first year and on the proportionate outstanding amount subsequently resulting in lower guarantee fee charged to MSEs.

Additional risk premium of 15% will be charged on the applicable rate to MLIs who exceed the payout threshold limit of 2 times more than thrice in last 5 years. This premium will be applicable for all guarantee accounts irrespective of the sanction date only for the amount guaranteed by CGTMSE.

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8.1 Charging of Annual Service Fee (ASF) / Annual Guarantee Fee (AGF) at differential rates depending upon NPA levels/ Claim Payout ratio of MLIs by CGTMSE alone.

The Trust had earlier adopted non-discretionary approach in levying Annual Service Fee (ASF)/Annual Guarantee Fee (AGF) without reference to the level of NPAs reported by the Member Lending Institutions (MLIs) on the CGTMSE portal vis-à-vis the guarantees issued to them as also without reference to the claims paid to the MLIs vis-à-vis the fees and recoveries received from the MLIs. Considering the very high level of NPAs reported by some of the MLIs as also significantly larger amount of claims settled for some of the MLIs, the Trust had introduced risk based pricing structure for cases sanctioned on or after April 01, 2016. The Trust with it's over 18 years of working in the Credit Guarantee field, has built up adequate data to support the risk bases pricing. Therefore, the Trust had introduced following risk premium structure:

1) Risk premium on NPAs in Guaranteed portfolio		(2) Risk premium on Claim Payout Ratio	
NPA Percentage	**Risk Premium**	**Claim Payout Percentage**	**Risk Premium**
0-5%	SR	0-5%	SR
>5-10%	10% of SR	>5-10%	10% of SR
>10-15%	15% of SR	>10-15%	15% of SR
>15-20%	20% of SR	>15-20%	20% of SR
>20%*	25% of SR	>20%*	25% of SR

***TNCGS will not cover LI's who are in this bracket (NPA Percentage >20% and Claim Payout Percentage >20%) at all. Whenever a LI's NPA Percentage OR Claim Payout Percentage crosses this bracket, TNCGS coverage will be stopped from the next financial year till the LI falls below this bracket.**

The above Risk premium structure would be governed by the following only for the amount guaranteed by CGTMSE, **till TNCGS decides on it's fee structure:**

1. The risk premium, wherever applicable, would be charged with prospective effect i.e. credit facilities sanctioned by MLIs on or after April 01, 2016 and covered under the Credit Guarantee Scheme. The existing loans under credit Guarantee will continue to carry the old rates till their maturities or renewal.

2. The rates under this mechanism will be floating and will undergo changes every year based on the NPA level and payout ratios of the concerned LI.

3. The MLIs having NPA percentage as well as claim payout ratio more than 5%, the risk premium under both the categories shall be applicable to such MLIs.

4. The risk premium structure will also be applicable to renewal cases (i.e. renewals after expiry of guarantee period) in respect of working capital limits.

5. In respect of working capital accounts covered under the Credit Guarantee Scheme where original sanctions are prior to April 01, 2016 and the subsequent enhancements in the limits are on or after April 01, 2016, the earlier fixed rate structure (i.e. pre-revised structure) would continue to apply even for the enhanced portion.

6. The review of risk premium would be an annual exercise and the revised risk premium would be applicable from the first day of each financial year. The subsequent revisions in the risk premium would be applicable to all those guarantees originally approved under differential pricing structure.

7. It is clarified here that while levying the annual guarantee fee for the first time, the fee is collected for the full 365 days from the guarantee start date (i.e. fee payment date) and the second and subsequent year onwards in respect of already issued guarantees, the fee is collected till the end of financial year excepting for the terminal year of guarantee where the fee is collected for the proportionate period. Thus, while the fee applicable for the first year would be for the entire 365 days at applicable rate, the fee at the revised rates in subsequent years, based on revisions in NPA percentage/claim pay-out ratio, would be applicable only for the broken period of the respective year.

8. It is further clarified that the guarantees approved under fixed rate structure i.e. in respect of credit facilities sanctioned by MLIs on or before March 31, 2016 would continue to be governed by the fixed rate structure till the expiry of respective guarantee period or first settlement of claim, whichever is earlier.

9. For working out the percentages of NPAs/claim pay-out ratio with a view to arrive at the risk premium, the data generated as on September 30 of immediately preceding financial year would be relied upon. E.g. for working out the risk premium applicable as effective from April 01, 2016 onwards, the base data for working out the percentage of NPAs/claim pay-out ratio would be as on September 30, 2015 and so on. The MLIs would be advised by January every year about their respective NPA percentage and claim pay-

out ratio as per the CGTMSE records and the risk premium applicable to them effective April 01 of subsequent financial year.

10. As regards calculation of NPA percentages and claim pay-out ratio, it may be mentioned that while NPA percentage would be worked on the basis of cumulative NPAs upto September 30 each year as marked by the MLI in CGTMSE portal (net of upgraded accounts and the accounts where the claims would not hit CGTMSE in respect of the NPAs marked) in terms of amount (i.e. Guaranteed amount of the corresponding NPA account) vis-à-vis the cumulative guarantees issued by the Trust as on September 30 every year as indicated above, the claim pay-out ratio would be worked out on the basis of cumulative claims settled by the Trust and the cumulative receipts (includes Annual Service /Annual Guarantee Fee receipts, recoveries out of OTS and recoveries passed on by MLIs after first settlement of claim) as on September 30 each year. The cumulative claims paid upto 1.05 times of the cumulative receipts will not attract any risk premium as indicated in the table above.

11. The MLIs would be intimated by first week of March each year about their respective NPA percentage and claim payout ratio and the applicable risk premium effective from April 01, of succeeding year.

(Refer to circular no.107/2015-16 dated January 28, 2016 available on www.cgtmse.in for more details).

9. **Payment of AGF (as of now applicable only to amount guaranteed by CGTMSE)**

I. Annual Guarantee fee (first time fee) shall be paid to the Trust by the institution availing of the guarantee within 30 days from the date of first disbursement of credit facility or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is later ***or such date as specified by the Trust.***

I. The Annual Guarantee fee (subsequent to first time fee) at specified rate (as specified above) ***on pro-rata basis for the first and last year and in full for the intervening years*** would be generated by 1nd week of February every year. AGF so demanded would be paid by the MLIs on or before 30th March each year or any other specified date by CGTMSE, of every year.

Provided further that in the event of non-payment of annual service / guarantee fee within the stipulated time or such extended time that may be agreed to by the Trust on such terms, liability of the Trust to guarantee such credit facility would lapse in respect of those credit facility against which the service charges / fee are due and not paid.

Provided further that, the Trust may consider renewal of guarantee cover for such of the credit facility upon such terms and conditions as the Trust may decide.

In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee / annual service fee, such deficiency / shortfall shall be paid by the eligible lending institution to the Trust together with interest on such amount at a rate of four per cent over and above the Bank Rate, or as may be prescribed by the Trust from time to time. Any amount found to have been paid in excess would be refunded by the Trust. In the event of any representation made by the lending institution in this regard, the Trust shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.

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II. The amount equivalent to the annual guarantee fee and / or the service fee payable by the eligible lending institution may be recovered by it, at its discretion from the eligible borrower.

The annual guarantee fee and / or annual service fee once paid by the lending institution to the Trust is non-refundable (refer Circular No. 148/2017–18 dated March 22, 2018). Annual Guarantee fee / Annual Service Fee, shall not be refunded, except under certain circumstances like –

a. Excess remittance,

b. Remittance made more than once against the same credit application,

c. Annual Guarantee fee & or annual service fee not due,

d. Annual Guarantee fee paid in advance but application not approved for guarantee cover under the scheme, etc.

e. In case of pre-closure / request for refund, refund of proportionate annual guarantee fee (GF/AGF/ASF) will be allowed only where closure is marked in CGTMSE system / refund request is within 3 months from the date of receipt of fee by CGTMSE. To claim refund in case of pre-closure, it is mandatory to mark closure of account in the system using menu: Guarantee maintenance >> Request for closure. Any pre-closure marked / refund request received after 3 months from the date of receipt of fee by CGTMSE would not be considered.

10. Payment process

CGTMSE has introduced new online payment process for receiving the annual guarantee fee payment through NEFT/RTGS to enable the Trust to further improve the guarantee coverage process. The detailed process of fee remittance towards guarantee fee and annual fee is given in Circular No. Circular No.125/2017–18 dated April 12, 2017 and Circular No.127/2017–18 dated April 24, 2017, respectively.
Annual Guarantee Fee (AGF) demanded by the Trust is inclusive of applicable GST.

11. Revival of closed accounts (as of now applicable only to amount guaranteed by CGTMSE)

If the guaranteed account gets closed due to non-payment of AGF, the guarantee under the scheme shall not be available and request for revival of accounts/ delayed payment will be considered subject to the following conditions:

(i) Request for revival of account will have to be submitted within next financial year.

(ii) Account should be standard and regular as on date of submission of request for revival and the Trust reserves the right to reject the claim if the account turns NPA within 180 days from the date of revival of account.

(iii) Any fee due by the MLI (current and previous FY) will be demanded along with penal interest (@ 4% over Bank Rate, per annum) and additional risk premium @15% of standard rate or at such rates specified by the Trust from time to time, for the period of delay (Refer Circular No. 139/2017-18 dated February 28, 2018 and Circular No.

152/2017-18 dated July 12, 2018).

III. GUARANTEE

12. Extent of the Guarantee Coverage

The Guarantee Coverage TNCGS is eligible for MSME manufacturing units is as follows:

Category and Guarantee Coverage ceiling Limit of single borrower	**First and total loss borne by unit and MLI of amount in default**	**Maximum possible extent of credit Guarantee Coverage is upto (%) of the single loan level, subject to the ceiling of Amount in default / 90% of Guarantee coverage limit of loan**		
	MLI	**CGTMSE***	**Tamil Nadu State Government (%)**	**Total Guarantee Cover**
In cases where GoTN alone is extending credit Guarantee coverage through TNCGS (without collaboration with CGTMSE)				
Micro, Small and Medium Manufacturing Units upto ₹40 lakh, Irrespective of total loan amount	First loss* of 2% to be recovered by MLI's from Units to trigger guarantee cover payouts + 8% by MLI = Total 10% not covered by government by TNCGS	0%	90% Subject to an amount of ₹ 36 Lakhs	90% Subject to an amount of ₹ 36 Lakhs
In cases where GoTN and CGTMSE are collaborating and extending credit guarantee coverage				
Micro and Small Manufacturing Units Upto 40 lakh	First loss* of 2% to be recovered by MLI's from	75% of amount in default Subject to	15% of amount in default Subject to	90%

	Units to trigger guarantee	maximum of ₹30 lakh	maximum of ₹6 lakh	
Micro and Small Manufacturing Units > ₹40 – ₹200 lakh	cover payout + 8%/18% by MLI = Total 10%/20% not covered by TNCGS	75% of amount in default Subject to maximum of ₹150 lakh	5% Subject to maximum of ₹ 10 lakh	80%

***First loss has to be recovered by Lending Institutions from borrowers within 18 months from the date of loan being disbursed to trigger the credit guarantee coverage by TNCGS. The guarantee cover will be released in the borrower account out of the 90%/80% guarantee coverage in proportion to the repayment recovered by the LI. The repayment recovered by the LI will form the first loss coverage of the LI of 2%.**

All proposals for sanction of guarantee approvals for credit facilities above ₹40 lakh upto ₹200 lakh will have to be rated internally by the MLI and should be of investment grade. There is increase in the coverage of the eligible credit limit per borrower under the CGS from ₹100 lakh to ₹200 lakh extended by Scheduled Commercial Banks and select Financial Institutions to the units in Micro and Small Enterprises (MSEs) for proposals Sanctioned by the MLIs on or after January 01, 2017. The enhancements in existing guarantee cover beyond ₹100 lakh in respect of working capital facilities, where such enhancements are approved on or after January 01, 2017, would also be eligible for the enhanced coverage up to ₹200 lakh provided the proposal meets the guidelines of CGS.

The guarantee cover will commence from the guarantee start date and shall run through the agreed tenure of the term credit in respect of term credit / composite credit. Where working capital alone is extended to the eligible borrower, the guarantee cover shall be for a period of 5 years or a block of 5 years or for such period as may be specified by the trust in this behalf (Refer Circular No. 149/2018-19 dated June 07, 2018).

IV. CLAIMS

13. Invocation of guarantee

1. Norms of claim for LI under TNCGS:

   The claims will be processed at the end of each year. The loss of 2% has to be borne in the following manner by the LI by collection from borrower such that the first loss contribution by the LI will be matched by the proportionate contribution under TNCGS always maintaining the portfolio-level cap of guarantee exposure of each LI in each year till 8%. As an illustration, the claims will be settled in below manner at the loan level:

Levels of NPA % at the portfolio level for the LI as on 31.3 of the year	Determination of cap of exposure by each party as percentage of NPA at an individual loan level			
	MLI First 2%	75% by CGTMSE	15% by GoTN	MLI Last 8%
1%	0.02	0.75	0.15	0.08
2%	0.04	1.5	0.3	0.16
3%	0.06	2.25	0.45	0.24
5%	0.1	3.75	0.75	0.4
6%	0.12	4.5	0.9	0.48
7%	0.14	5.25	1.05	0.56
8%	0.16	6	1.2	0.64
9%	0.18	6.75	1.35	0.72
10%	0.2	7.5	1.5	0.8
11%	0.2	7.5	1.5	1.8
12%	0.2	7.5	1.5	2.8

The Claims will be calculated as per the above grid.

Claims Process:

For CGTMSE portion:

a. For the individual loans, the value to be paid out of the CGTMSE portion will follow the norms of the CGTMSE program.

For TNCGS portion:

b. Claims to be made in real time by the LI's

c. However, payment will be made only after reviewing the crystallised portfolio to ensure adherence to the above grid. This will be done after ensuring that the first loss of 2% of the principal extended is credited back to the loan account.

d. The actual funds transfer will take place after the portfolio NPA is calculated on the subsequent 31st March.

e. The LI's can account for this payment in the respective loan account subject to the overall NPA remaining within the parameters defined in the grid.

f. Should the overall payments calculated, as per individual loans, exceed the indicated percentages in the above grid, the actual payment transferred, will be reduced to equal the maximum allowable payment as per the portfolio grid.

g. The reduction will be calculated on the principle of first payment advice to be cleared and immediate subsequent payment advice to be cleared until the exact amount payable is cleared. This will be at an LI level.

NPA marking (Circular No. 57 / 2009-10 dated Nov 05, 2009)

The Member Lending Institutions (MLIs) are required to inform the date on which the account was classified as SMA0, SMA1, SMA2 and NPA in a particular calendar quarter, by end of subsequent quarter using the following option in the online system.

(Member Login area >> Guarantee Maintenance >> Periodic Information >> NPA Details)

- **TNCGS may make this entry real time also covering each loan details real time from the date of sanction. The TNCGS may have strict elective eligibility filters to quantify a loan under TNCGS coverage. So, there would be no automatic coverage under TNCGS.**
- The lending institution may invoke the guarantee in respect of credit facility within a maximum period of 3 years from the NPA date or lock- in period whichever is later, if the NPA date is on or after 15/03/2018 (Refer Circular No.145/2017-18 dated March 15, 2018).

Settlement of second / final instalment

The settlement of second / final instalment will be considered on conclusion of recovery, irrespective of the sanction date of the credit facility. With regards to conclusion of recovery proceedings, following four scenarios as applicable and certified by the concerned authority of the MLI is considered as conclusion of recovery proceedings provided minimum period of 3 years from the date of settlement of first claim has been lapsed.

i. If legal action is initiated only under SARFAESI Act and whatever assets available were sold off and the amount is remitted to the Trust. Also, the borrower is not traceable and the Networth of the Personal Guarantor is not worth pursuing further legal course.

ii. If amount is recovered through sale of assets under SARFAESI and no other assets are available and legal action is taken under any forum such as RRA, Civil Court, Lok Adalat or DRT where there is no further means to recover the money from the borrower and the Networth of the Personal guarantor is significantly eroded.

iii. If no assets are available and the borrower is absconding, and the Networth of the Personal guarantor is significantly eroded.

iv. If no assets are available and the legal action is withdrawn as the borrower is absconding and it may not be worth pursuing legal action.

As per CGTMSE circular No 62 and 135, for loans sanctioned on or after 01/01/2013, the balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the lending institution or after three years of obtention of decree of recovery, whichever is earlier. However, in cases where the legal action has been initiated under SARFAESI Act or RRA, the MLIs may be allowed to lodge 2nd claim after the lapse of three years from date of action under Section 13(4) of SARFAESI Act and the date of Recovery Certificate issued by the Tehsildar respectively subject to following confirmation from the MLIs:

I. Personal Guarantees have been invoked and no further recovery is possible.

II. No tangible secured assets have been left for disposal and no further recovery is possible.

III. The entire recoveries made in the account have been duly indicated in the 2nd claim application/have been passed on to CGTMSE.

The online process for lodging 2nd / final claim application on CGTMSE portal is detailed in Circular No 175/2020-21 dated December 29, 2020.

IV. In case of the guarantee claims under TNCGS, in place of III, IV and VI above ,

a. the issuance of recall notice under SARFAESI Act 2002, or issuance of fine closure notice under SFC Act

b. Updated property details of borrowers, guarantors and collateral owners as against the property details given.

c. The credit of the first loss of 2% in each loan account is sufficient to trigger the release of state level credit guarantee. The State Credit Guarantee will deposit its share of 5% / 15% / 90% in each account exactly in proportion to the percentage of 2%(recovery against the principal) in that account.

d. The ceiling of TNCGS outflow to each MLI is restricted to 8% of the annual portfolio crystallized with TNCGS.

14. Subrogation of rights and recoveries on account of claims paid

a. The lending institution shall furnish to the Trust, the details of its efforts for recovery, realizations and such other information as may be demanded or required from time to time. The lending institution will hold lien on assets created out of the credit facility extended to the borrower, on its own behalf and on behalf of the Trust. The Trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution.

b. In the event of a borrower owing several distinct and separate debts to the lending institution and making payments towards any one or more of the same, whether the account towards which the payment is made is covered by the guarantee of the Trust or not, such payments shall, for the purpose of this clause, be deemed to have been appropriated by the lending institution to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated.

c. Every amount recovered and due to be paid to the Trust shall be paid without delay, and if any amount due to the Trust remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to the Trust by the lending institution at the rate which is 4% above Bank Rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

V. MISCELLANEOUS

15. Appropriation of amount received from the lending institutions

The amount received from the lending institutions shall be appropriated in the order in which the service fee / annual guarantee fee, penal interest and other charges have fallen due. If the service fee / annual guarantee fee and the penal interest have fallen due on the same date, then the appropriation shall be made first towards service fee / annual guarantee fee and then towards the penal interest and finally towards any other charges payable in respect of the eligible credit facility.

16. Appropriation of amount realized by the lending institution in respect of a credit facility after the guarantee has been invoked.

Where subsequent to the Trust having released a sum to the lending institution towards the amount in default in accordance with the provisions contained in the Section 10 of this scheme, the lending institution recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the lending institution with the Trust, after adjusting towards the legal cost incurred by it for recovery of the amount. The Trust shall appropriate the same first towards the pending annual service fee / annual guarantee fee, penal interest, and other charges due to the Trust, if any, in respect of the credit facility towards which the amount has been recovered by the lending institution, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between the Trust and the lending institution are in the proportion of 50%/75% / 80% / 85% and 50%/ 25% / 20% / 15%, respectively.

17. Trust's liability to be terminated in certain cases

a. If the liabilities of a borrower to the lending institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.

b. If a borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of his activity or his undertaking ceasing to come within the definition of a MSE unit, the liability of the Trust in respect of any credit facilities granted to him by a lending institution under the Scheme shall be limited to the liability of the borrower to the lending institution as on the date on which the borrower becomes so ineligible, subject, however, to the limits on the liability of the Trust fixed under this Scheme. However, notwithstanding the death or retirement of a partner where the borrower is a partnership firm or the death of one of the joint borrowers, if the lending institution is entitled to continue the credit facilities to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the credit facilities have not already become non-performing asset, the guarantee in respect of such credit facilities shall not to be deemed to be terminated as provided in this paragraph.

18. Returns and Inspections

The lending institution shall submit such statements and furnish such information as the Trust may require in connection with any credit facility under this Scheme.

- The lending institution shall also furnish to the Trust all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.

- The Trust shall, insofar as it may be necessary for the purposes of the Scheme, have the right to inspect or call for 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) of the lending institution, and of any borrower from the lending institution. Such inspection may be carried out either through the officers of the Trust or of SIDBI (in case of Institutions other than SIDBI) or any other person appointed by the Trust for the purpose of inspection. Every officer or other employee of the lending institution or the borrower, who is in a position to do so, shall make available to the officers of the Trust or SIDBI or the person appointed for the inspection as the case may be, the books of account and other records and electronic information which are in his possession.

19. Conditions imposed under the Scheme to be binding on the lending institution

(i) Any guarantee given by the Trust shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.

(ii) The lending institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other document or contract, the lending institution shall in relation to the Trust be bound by the conditions imposed under the Scheme.

20. Modifications and exemptions

I. The Trust reserves to itself the right to modify, cancel or replace the scheme so, however, that the rights or obligations arising out of, or accruing under a guarantee issued under the Scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.

II. Notwithstanding anything contained herein, the Trust shall have a right to alter the terms and conditions of the Scheme in regard to an account in respect of which guarantee has not been issued ason the date of such alteration.

III. In the event of the Scheme being cancelled, no claim shall lie against the Trust in respect of facilities covered by the Scheme, unless the provisions contained in Clause (i) and (ii) of Section 10 of the Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

21. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith, the decision of the Trust shall be final.

22. Supplementary and general provisions

In respect of any matter not specifically provided for in this Scheme, the Trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the Scheme.

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Annexure B

SALIENT FEATURES OF THE PROPOSED INNOVATIVE SCHEME UNDER TAMILNADU GOVERNMENT CREDIT GUARANTEE SCHEME

Objective	To resolve the financial stress in MSME ecosystem in Tamil Nadu on account of the COVID 19 pandemic and to kickstart the growth in the economy, the Tamil Nadu Govt. now proposes to support eligible (SMA 2 category (as on 31.12.2021) or on such date as announced by TIIC) MSME manufacturing units in Tamil Nadu in order to avail enhanced credit facilities from Banks and Financial Institutions for their further expansion and growth, provided they are found deserving otherwise on appraisal.
Purpose	To extend a credit line with credit guarantee coverage from TNCGS to those MSMEs in the manufacturing sector who are facing liquidity crisis and financial stress, but are otherwise found deserving on appraisal. This credit can be used for meeting emergent expenses, EB charges, GST / Rent / Labour / Salary expenses / other working capital expenses including regular revenue expenditure.
Eligible borrowers	i) Eligible MSME manufacturing units who cannot avail loans under ECLGC/CGTMSE scheme coverage are eligible to avail assistance under this TN Govt. CGS scheme. ii) Likely to be SMA 2 category as on 31.12.2021 or on such date as announced by TIIC. iii) Diligently performing MSMEs (CIBIL score of Promoters is 600 and above is taken as an indicative but not exclusionary parameter)
Constitution	Proprietary, Partnership & Private Limited Companies are eligible.
Scrutinising tripartite committee in district	Respective GM DIC, BM TIIC & Lead Bank Managers of respective districts supported by the Branch Manager of the Bank concerned.
Sanctioning authority	Branch Sanctioning Committee of TIIC

Quantum of loan/loan limit	20%/ 30% of the total outstanding as on 31.12.2021. (including TL and Working capital loan outstanding) OR 20 % of total fund based facilities sanctioned OR Rs 40 lakhs whichever is lower Minimum loan amount: Rs.10 lakhs Maximum Rs. 40 lakhs.
Promoters contribution	Not applicable
Debt Equity Ratio	Not to be insisted
Repayment period	Maximum of 5 years including principal holiday period of 6 months.
Rate of interest	The rate of interest shall be 12.00% per annum i.e. Interest PLR + 0.05% with reset clause. At the time of disbursement, 10% of loan component shall be deducted and kept in a separate Reserve Fund account. The Reserve Fund shall be adjusted towards the monthly interest demand or last installment of this Term loan. No interest will be payable by TIIC on the RESERVE FUND. In case of default, a penal interest of 2.5% p.a. shall be charged for the defaulted amount. The Interest is payable on monthly rests along with the principal instalments.
Security	90% credit Guarantee Coverage on the financial assistance extended under this credit line under new TN State level credit Guarantee Scheme (TNCGS) and TIIC shall have second charge on the collateral securities mortgaged to the respective financial institutions by the MSMEs.
Fee / Coverage / Selection of Beneficiaries	For Loans Guaranteed entirely by the Government of Tamil Nadu, there will be nil annual credit guarantee fee under this scheme. The collection of the land or property ownership details from all the

	borrowers / persons providing collateral security and third party guarantee concerned may be considered a pre-condition for coverage under TNCGS. This could be collected electronically once TIIC has completed and is satisfied by its appraisal process in selection of beneficiaries.
Validity of sanction	The loan is valid for one month from the date of sanction.
Exposure	Maximum exposure of TIIC is of Rs. 2000 crore.

V. ARUN ROY
SECRETARY TO GOVERNMENT

//TRUE COPY//

04/01/2022

SECTION OFFICER