MSE LOAN POLICY

1.1. PREAMBLE

1.1.1.

- ✓ The Micro Small and Medium enterprises (MSMEs) have been accepted as the engine of economic growth and play an important role in the equitable economic development of country.

- ✓ The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises.

- ✓ The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.

- ✓ MSMEs have been established in almost all-major sectors in the Indian industry such as:

  - Food Processing
  - Agricultural Inputs
  - Chemicals & Pharmaceuticals
  - Engineering; Electrical, Electronics
  - Electro-medical equipment
  - Textiles and Garments
  - Leather and leather goods
  - Meat products
  - Bio-engineering
  - Sports goods
  - Plastics products
  - Computer Software, etc.

1.1.2 <u>Industry Scenario</u>

1. In India, the MSMEs play a pivotal role in the overall industrial economy of the country.

2. MSEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; non concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and

marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. It was also coupled with the policy of de-concentration of industrial activities in few geographical centers.

3. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

4. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

1.1.3 Action Initiated by government

1. The report, submitted by Task Force Chairmen T.K.A.Nair, provides a roadmap for the development and promotion of the Micro, Small and Medium Enterprises (MSMEs) and recommends an agenda for immediate action to provide relief and incentives to the MSMEs, especially in the aftermath of the recent economic slowdown, accompanied by institutional changes and detailing of programmes, to be achieved in a time bound manner. An eleven point agenda was highlighted by the representatives including need for a focused procurement policy, prompt payment of MSME dues, additional finances from SIDBI, simplification of labour laws to prevent inspector raj, formulation of a one-time settlement policy to strengthen the MSME industries and remove bottlenecks in their development.

2. To ensure enhanced credit flow to the sector, in terms of the recommendations of the Prime Minister's Task Force on Micro, Small and Medium Enterprises (MSMEs) Chairman: Shri T.K.A.Nair, Principal Secretary, Government of India) constituted by the Government of India, banks were advised

   i. To achieve a 20 per cent year-on-year growth in credit to micro and small enterprises;
   ii. The allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13 and
   iii. Achieve a 10% annual growth in number of micro enterprise accounts.

   The Reserve Bank is closely monitoring the achievement of targets by banks on a quarterly basis.

3. The report also suggests setting up of appropriate legal and regulatory structures to create a conducive environment for entrepreneurship and growth of micro, small and medium enterprises in the country.

4. Following submission of the task force report on Micro, Small and Medium enterprises (MSME) to Prime Minister Manmohan Singh, the MSME Ministry has sought Rs.5,000 crore from the Union Finance Ministry to help it recover from the aftermath of the global economic slowdown that has hit the sector hard.

5. Government has constituted Working group under the chairmanship of Dr. K. C. Chakrabarty and committee has recommended as under:

   - As an incentive for proper restructuring package at the time of rehabilitation, necessary support for business restructuring, modernization, expansion, diversification and technological up gradation as may be felt necessary by the lenders may also be encouraged.
   - Support schemes like Credit Linked Capital Subsidy Scheme in case of units in other (than rural) areas, KVIC Margin Money Scheme (for units in rural areas) may be extended for rehabilitation packages also.
   - The State Governments should introduce a Single Window concept for providing relief and concessions to sick Micro and Small Enterprises (MSEs).
   - Repayment of any additional exposure taken as part of the rehabilitation package should be given priority on the cash flows as well as security as compared to other debt.
   - The interest of at least six months after commercial production can be included as a part of the project cost. Sufficient moratorium say, two years for repayment of the principal should also be given so as to prevent cases of incipient sickness at the commencement of production and help units to establish themselves in the market at the beginning.
   - Raising the limit of Rs 20 lakh to Rs 50 lakh for Lok Adalats, measures to strengthen the DRT/legal machinery, dedicated Bench for SMEs to expedite the process of recovery, Asset Reconstruction Companies especially for Micro Small and Medium Enterprise (MSME) loans are some other suggestions of the Working Group

1.1.4. Extending credit to MSE sector is must for sustainable development of overall economy. Bank’s basis function is to sanction credit which involves risk. It is possible that some of the decisions may result in loss. But managing risk in such a way that we built a healthy credit portfolio with maximum returns.

1.1.5. The policy at the holistic level is an embodiment of the Bank’s approach to sanctioning, managing credit risk and aims at making the systems and control effective.

1.2. Objective

1.2.1. The basic objectives of the MSE Loan Policy are: -

Our Bank has shown growth of MSE credit from Rs.9317 crore as on 31.03.2010 to Rs.12444 crore as on 31.03.2011 representing an increase of 33.56%. The principal objective of this policy is to improve our portfolio of MSE credit to Rs.17000 crore by

31.03.2012 and Rs.49800 crore by 31.03.2016. In addition to above our other objectives are as under.

1. Bank's positive commitment to its MSE customers to provide easy, speedy and transparent access to banking services in their day to day operations and in times of financial difficulty.
2. Positive thrust to MSE sector.
3. Hassle free credit to Micro and Small Enterprises.
4. Description of MSE sector.
5. Proper appraisal and evaluation of advances proposal.
6. Achievement of different parameters prescribed by Government of India / Reserve Bank of India.
7. Cluster Based approach for financing MSE.
8. Increased Coverage under credit guarantee scheme of CGTMSE.
9. Complete adherence to BCSBI's Code of Bank's commitment to Micro and Small Enterprises.
10. Generation of large number of youth entrepreneur.
11. The policy strives to ensure that the socio economic obligations cast on the bank are fully met.
12. The policy document ensures compliance of all the directives/guidelines issued by the Government/RBI and all other regulatory requirements on MSE.
13. With regard to guidelines issued from time to time by the authorities, the Bank would follow them in all their aspects. However, if these permit varying interpretations, the Bank will adopt a reasonable interpretation, as determined by the Credit Risk Management Committee without deviating from the spirit behind the guidelines.

2. MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services. The Reserve Bank as notified the changes to all scheduled commercial banks. Further, the definition, as per the Act, has been adopted for purposes of bank credit vide RBI circular ref. RPCD.PLNFS. BC.No.63/ 06.02.31/ 2006□07 dated April 4, 2007.

1 Definition of Micro, Small and Medium Enterprises

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

i. A **micro enterprise** is an enterprise where investment in plant and machinery **does not exceed Rs. 25 lakh;**
ii. A **small enterprise** is an enterprise where the investment in plant and machinery is **more than Rs. 25 lakh but does not exceed Rs. 5 crore;** and
iii. A **medium enterprise** is an enterprise where the investment in plant and machinery is **more than Rs.5 crore but does not exceed Rs.10 crore.**

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 **(Annexure I).**

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

i. A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh**;
ii. A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore**; and
iii. A **medium enterprise** is an enterprise where the investment in equipment is **more than Rs. 2 crore but does not exceed Rs. 5 crore**.

These will include small road & water transport operators, small business, retail trade, professional & self employed persons and other service enterprises.

Lending by banks to medium enterprises will not be included for the purpose of reckoning of advances under the priority sector.

iv. Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium enterprises, the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI has been escinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

Khadi and Village Industries Sector (KVI)

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be covered under priority sector advances and will be eligible for consideration under the sub-target (60 per cent) of the micro enterprises segment within the MSE Sector.

1.2 Indirect Finance

1.2.1 Persons involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

1.2.2 Advances to cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.

1.2.3 Loans granted by banks to Micro Finance Institutions on, or after, April 1, 2011 for on-lending to micro and small enterprises (manufacturing as well as services) subject to the compliance of guidelines specified in Master Circular RPCD. CO. Plan. BC. 10/04.09.01/ 2011-12 dated July 1, 2011 on 'Lending to Priority Sector'.

2. Certain types of funds deployment eligible as priority sector advances

2.1 Investments
2.1.1 Securitised Assets
Investments made by banks in securitised assets, representing loans to various categories of priority sector, shall be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitisation. This would mean that the bank's investments in the above categories of securitised assets shall be eligible for classification under the respective categories of priority sector only if the securitized advances were eligible to be classified as priority sector advances before their securitisation.

2.1.2 Outright purchases of any loan asset eligible to be categorised under priority sector, shall be eligible for classification under the respective categories of priority sector (direct or indirect), provided the loans purchased are eligible to be categorized under priority sector; the loan assets are purchased (after due diligence and at fair value) from banks and financial institutions, without any recourse to the seller; and the eligible loan assets are not disposed of, other than by way of repayment, within a period of six months from the date of purchase.

2.1.3 Investments by banks in Inter Bank Participation Certificates (IBPCs), on a risk sharing basis, shall be eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorised under the respective categories of priority sector and are held for at least 180 days from the date of investment.

2.2 Scheme of Small Enterprises Financial Centres (SEFCs):

As per announcement made by the Governor in the Annual Policy Statement 2005-06, a scheme for strategic alliance between branches of banks and SIDBI located in clusters, named as "Small Enterprises Financial Centres" has been formulated in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select banks and circulated to all scheduled commercial banks on May 20, 2005 for implementation. SIDBI has so far executed MoU with 15 banks so far (Bank of India, UCO Bank, YES Bank, Bank of Baroda, Oriental Bank of Commerce, Punjab National Bank, Dena Bank, Andhra Bank, Indian Bank, Corporation Bank, IDBI Bank, Indian Overseas Bank, Union Bank of India, State Bank of India and Federal Bank).

3. TARGETS FOR PRIORITY SECTOR LENDING BY DOMESTIC COMMERCIAL BANKS

3.1 Targets for Domestic Commercial Banks

3.1.1 The domestic commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which include the micro and small enterprises (MSE) sector) constitute 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

3.1.2 In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises and a 10 per cent annual growth in the number of micro enterprise accounts.

3.1.3 In order to ensure that sufficient credit is available to micro enterprises within the MSE sector, banks should ensure that:

a) 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh;

b) 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro enterprises.

c) While banks are advised to achieve the 60% target as above, in terms of the recommendations of the Prime Minister's Task Force, the allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13.

[ANBC or credit equivalent of Off-Balance Sheet Exposures (as defined by Department of Banking Operations and Development of Reserve Bank of India from time to time) will be computed with reference to the outstanding as on March 31 of the previous year. For this purpose, outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of ANBC for priority sector lending purposes. For the purpose of priority sector lending, ANBC denotes NBC plus investments made by banks in non-SLR bonds held in HTM category. Investments made by banks in the Recapitalization Bonds floated by Government of India will not be taken into account for the purpose of calculation of ANBC. Existing and fresh investments, by banks in non-SLR bonds held in HTM category will be taken into account for the purpose. Deposits placed by banks with NABARD/SIDBI, as the case may be, in lieu of non-achievement of priority sector lending targets/sub-targets, though shown under Schedule 8 – 'Investments' in the Balance Sheet at item I (vi) – 'Others', will not be treated as investment in non-SLR bonds held under HTM category. For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may use current exposure method. Inter-bank exposures will not be taken into account for the purpose of priority sector lending targets/sub-targets.]

4. CATEGORIZATION OF ACTIVITIES UNDER MANUFACTURING OR SERVICES UNDER THE MSMED ACT 2006-

MSME-Manufacturing	MSME-Services
***Loans given to enterprises engaged in the manufacture or production, processing or preservation of goods in general including the following*:** ➢ Printing ➢ Printing and publishing as integrated unit. ➢ Medical Equipment and Ayurvedic Product ➢ Composite unit of Bacon Processing and Piggy Farm (The activity of Bee Keeping is farming allied activity and therefore, would not be covered in either manufacturing and service activity Piggery farm without bacon processing shall not be classified either as	***Loans given to enterprises engaged in providing or rendering of services in general including the following:*** ➢ Small Road and Water Transport Operators. ➢ Small Business ➢ Professional & Self-employed persons, ➢ And other service enterprises engaged in activities, viz, o Consultancy Services including management services o Composite Broker Services in risk and insurance management o Third Party Administration (TPA) services for medical insurance claims of policy

manufacturing or as service enterprise because this is a farming activity) ➢ Beedi / Cigarette Manufacturing and other tobacco products. ➢ Extraction of Agave sprit from Agave juice (imported medicinal plant) extraction of Agave ➢ Manufacture of Bio Fertilizer ➢ Tobacco Processing.	holders o Seed grading services o Training-cum-Incubator centre o Educational Institutions o Training Institutes o Retail Trade o Practice of law i.e. legal services o Trading in medical instruments (brand new) o Placement and Management Consultancy Services o Advertising Agency and o Training Centers, etc. ➢ Publishing. ➢ Sanitation Services (Hiring of Septic tank cleaner) ➢ Clinical/Pathological Laboratories and Scanning, MRI tests. ➢ Hospitals ➢ Agri-clinic and agri-business. ➢ Restaurant with Bar ➢ Canteens ➢ Hotels ➢ Motel Industry ➢ Consultancy Services including management Services. ➢ Renting of Agriculture Machinery (Harvesting) ➢ Composite Broker Services in Risk and Insurance Management ➢ Third Party Administration (TPA) Services for Medical Insurance Claims. ➢ Seed Grading Services ➢ Training-cum-Incubator Centre ➢ Education Institutions. ➢ Training Institutes ➢ Practice of Law i.e. legal services ➢ Trading in Medical Instruments (branch new) ➢ Placement and management consultancy services ➢ Advertising Agencies and Training Centres
➢ Separation of iron scraps from slag pots. ➢ Generation of electricity though windmill. ➢ Seed processing (for genetic enhancement), (involving collection of germ plasm, cleaning, gravity separation, chemical treatment etc.) ➢ Composite unit of Poultry with Chicken (Meat) Processing { Poultry Farm without chicken (Meat) processing shall not be classified either as manufacturing or as service enterprise because this is a farming activity}	

	➢ Retails Trade (advances granted to private retail traders with credit limit not exceeding Rs.20 lac only) ➢ Development of Software and providing software services ➢ Medical Transcription Service. ➢ Production of T.V.Serial and other T.V.Programmes, ➢ Ripening of Raw Fruits under controlled conditions, ➢ [Subject to norms prescribed by Food Safety and Standards Authority of India, (Ministry of Health and Family Welfare, Government of India)] ➢ Service rating Agency, ➢ (Rating and grading services across sectors based on set methodology and standards) ➢ Advertising Agencies ➢ Marketing Consultancies ➢ Industrial Consultancies ➢ Equipment Rental and Leasing ➢ Typing Centers ➢ Photo copying Centres ➢ Industrial R &D Labs ➢ Industrial Testing Labs ➢ Desktop Publishing ➢ Setting up of Cyber Cafes ➢ Auto Repairs Services and Garages ➢ Documentary Films on themes like family planning, social forestry, energy conservation, commercial advertising. ➢ Laboratories engaged in testing of Raw Materials and Finished Products. ➢ Servicing Industry undertakings engaged in maintenance , repairs, testing or servicing of all types of vehicles and machinery of any description including electronics / electrical equipments/ instruments i.e. measuring / control instruments, television, Tape Recorder, VCR, Radios, transformers, motors, watches etc. ➢ Laundry and Dry Cleaning

	➢ X-Ray clinic ➢ Tailoring ➢ Servicing of agriculture farm equipments e.g. tractor, pumps, rig, boring machines etc. ➢ Weigh Bridge ➢ Photographic Lab ➢ Blue Printing and enlargement of drawing/ Design Facilities ➢ ISD/STD Booths ➢ Tele Printers/FAX services ➢ Sub Contracting Exchanges (SCXs) established by industry associations. ➢ EDP institutes established by voluntary associations/ non government organization. ➢ Color and Black and White studios equipped with processing laboratories ➢ Ropeways in hilly areas. ➢ Installation and operation of cable TV Network ➢ Operating EPBAX under franchisee. ➢ Beauty Parlors and Crèches.

The activity of "Bee-Keeping" is farming allied activity and therefore, would not be covered in either manufacturing or service activity.

Piggery farm without bacon processing shall not be classified either as manufacturing or as service enterprise because this is a farming activity.

5. SCOPE AND COVERAGE

MSE Loan Policy covers all credit facilities to Micro and Small Enterprises (manufacturing and services) and other issues such as assessment of credit, margin norms, security requirements, coverage under Credit Guarantee Scheme etc.,

6. GUIDELINES ON MSE FINANCE

6.1 All credit facilities to Micro Small Enterprises will be assessed as under. All genuine requirements will be considered by the sanctioning authority and it would be ensured that unit should not suffer for want of adequate credit..

6.1.1. Small (Manufacturing) Enterprises sector.

1. Working Capital requirements of borrowers availing limit up to Rs.2 crore from Banking System by borrowers in village and tiny Sectors is to be assessed as per TURN OVER Method.

2. Working capital requirements of Small (Mfg.) Enterprise units to be assessed at 20% of the Projected Annual Turn Over up to a limit of Rs.5.00 crore. If the credit requirement based on production / processing cycle is higher than the one assessed on the basis of turnover method, the same may be sanctioned.

6.1.2. Trade Sector

6.1.2.1. Small Borrowers

Working Capital requirements of Small borrowers in the trade sector availing limits up to Rs.5.00 crore are to be assessed on the basis of turnover method.

6.1.2.2. Large Borrowers

Large Borrowers in Trade sector fall under 2 broad categories:

• **Commission Agents:**

The commission agents merely indent stocks and arrange for distribution without owning the inventory. Hence, while their turnover would be large, the requirement of working capital would be limited to meet the operating expenses. The advance to this category of borrowers is clean in nature. The sanctioning authorities may assess the credit requirements of the individual borrowers based on the financial projections and subject to availability of collaterals to the extent of **100%** of loan amount and Debt- Equity Ratio of about 2:1.

• **General Traders including Stockiest:**

The stockiest procure stocks against payment, for resale. The inventory would be owned by them and their working capital requirements are large. While the past trends of holding levels can be taken as indicators, flexibility in lending norms will be required as the trading activity is subject to fluctuations depending up on the volatility in the market. The credit requirements will be assessed on the basis of past indicators and future projections as at present. The current ratio should normally be 1.10.

The entire exposure should be covered by collaterals to the extent of 50% minimum subject to the borrower maintaining adequate paid stocks to cover the limit. In case of Trading accounts normally there will not be any long term debts and therefore, TOL/TNW ratio to be considered. TOL/TNW ratio up to 4:1 shall be accepted. However, in deserving cases relaxation up to 6:1 may be permitted by Zonal Managers (in the rank of DGM and above).

6.1.3. Manufacturing Sector.

The large borrowers under the Manufacturing Sector fall under two broad categories viz., Cyclical Industries and Non Cyclical Industries.

6.1.3.1. **Cyclical Industries:** Borrowers from seasonal industries like sugar and tea are already availing working capital on the basis of the Cash Budget. Their overall requirement is determined by the maximum deficit as per Cash Budget and disbursal of facilities is allowed on the basis of cash flow projections. Other industries like cotton / kapas, fruits and vegetables processing, Soya processing, Rice Milling, Turnkey Projects may also be brought within the system for financing of seasonal industries.

6.1.3.2. **Non Cyclical Industries:** Borrowers availing limits can be divided into

i. Those availing limits up to Rs. 50 crore and

ii. Those availing limits more than Rs.50 crore. The borrowers availing total fund based working capital limits up to Rs.50 crores would be assessed under MPBF and the borrowers availing total fund based limits of Rs.50 crore and above would be assessed as per Cash Budget method.

6.1.4. Working Capital Finance to Information Technology and software industry:

In the case of borrowers with working capital limits up to Rs.2 crore, assessments may be made at 20% of the projected turnover. In other cases the requirements would be assessed on the basis of monthly cash budget system. Loan delivery system would be applicable in the case of borrowers enjoying working capital limits of Rs.10 crore and above.

6.1.4.1 All necessary support related to credit will be given to the units for its expansion, restructuring, modernization and any technological up gradation etc.

6.2 Bank will extend following facilities to Micro and Small Enterprises.

Product	**Features**
Cash Credit/Overdraft	Working capital
OD	Receivable Finance
Secured Term Loan	to meet the business expansion and establishment and working capital requirement
Bill Discounting (Short Term Finance)	Discounting the bill and providing funds immediately
Export Packing Credit	Export Transaction
Post Shipment Credit	Working Capital
Bill Discounting under LC	Short Term Finance
Letter of Credit	Foreign and Inland Trade
Bank Guarantee	Performance and Financial Guarantee

SRTO	Transport Operator financing
Cent Mortgage	To meet any sort of Personal or Business needs,
Cent Trade	All types of Traders including Retailers / Distributors / Commission Agents / Arthiyas/Dealers of major companies etc.
Cent Doctor	Purchase of equipments, setting up of Clinic, X-ray Lab, Pathological Laboratory, Nursing Home, Poly Clinics etc., clinic-cum-residence, expansion/renovation/modernization of existing premises ETC
Cent Sahyog	to all types of unorganized service and manufacturing sector including small shop owners like those engaged in mobile repairing, TV repairing, small garage, juice shop, bakery owner etc.
Others	Facilities depending on its specific need

6.3. ASSESSMENT OF CREDIT FOR MSE UNITS

In tune with the liberalized environment, our Bank has adopted the following system for assessment of working capital requirements of the borrower.

6.3.1 Turnover Method: This method should be used for assessing fund based working capital requirements enjoyed from the banking system up to Rs.5.00 crore.

6.3.2 Traditional Method: Fund based working capital requirements under this method should be assessed under Method II of Tandon Committee for borrowers enjoying fund based working capital limits of above Rs.5.00 crore but less than Rs.50.00 crore.

6.3.3. Cash Budget Method.

This method would be applicable to borrowers who are

i. Falling under Cyclical Industries like Tea, Sugar etc.
ii. Borrowers availing Fund Based Working Capital limits of Rs.50 crore and above from the banking system.

The methodololy of assessment of working capital limits is enclosed in Annexure-II

6.3.4 Term Loan Assessment
A term Loan is an advance given for a fixed period with provision for repayment according to agreed term. A term loan may be required to finance the following purposes:

I. For Financing Specific Asset;
II. For Financing modernization programme;
III. For Financing expansion programme;
IV. For Financing diversification programme;

V. For Financing New Project;
VI. For Financing Rehabilitation Project.

6.3.5. Term loans can be classified as under:

i. **Short term loan** – where repayment period does not exceed 1 year;
ii. **Medium term loan** – where repayment period is over 1 year and up to 5 years; and
iii. **Long term loan** - where repayment period exceeds 5 years.

6.3.6. Whatever be the purpose of term loan, it is to be always ensured that the activity/asset financed must be capable of generating adequate cash profit so that it is sufficient to repay the term loan installments.

6.3.7. While assessing a term loan proposal the following may be taken into account:

a. Technical Feasibility;
b.Commercial Viability;
c. Managerial Competence;
d.Economic Feasibility;
e. Financial Feasibility;
f. Cost of Project and Means of Finance;
g.Break-Even Analysis;
h.Debt-Service Coverage Ratio;
i. Pay-back period on discounted cash flow consideration;
j. Internal Rate of Return.

The appraisal of a term loan proposal needs consideration of all or some of the above parameters.

Independent **TEV study** should be carried out in respect all the Term Loan Proposals. For proposals up to Rs.5.00 crore TEV report from an outside agency may not be insisted upon. Empanelment of external consultants for the Techno-economic study would be carried out by Credit Policy Department at Central Office as per the procedure approved by the Board.

6.3.8. **Sanction of term loan and working capital together**: Term loans and working capital facilities to be sanctioned at the same time and pro rata share to be taken in case of Consortium/Multiple Banking.

6.3.9. A **composite loan** limit of Rs.1 crore can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

6.3.10. **Combined Level of stocks and receivables**: CC/OD against stock and receivables to be allowed under one facility.

6.3.11. **Sanctioning Powers for combined limit**: Full lending power for the combined limit up to Rs.300 lac subject to lending power delegated under loan policy as per Annexure VIII. However no separate book debt facility is permissible, if combined limit is sanctioned.

6.3.12. **Rejection/Curtailment** of credit limit to be approved by next higher authorities.

6.3.13. There should not be case where Term Loan has been sanctioned but sanction of Working Capital facility is awaited.

6.3.14. **Margin:** The margin on combined limit up to Rs.300 lac may be at 25% and receivables up to 180 days can be reckoned for book debt financing.For loans under Government sponsored schemes and Bank's special credit schemes, margin will be obtained as stipulated in the scheme even if it is different from the levels indicated above. In exceptional cases, margins lesser than indicated above can be relaxed by the next sanctioning authority not below the rank of Dy. General Manager for proposals falling within their delegated lending powers and in other cases by the Executive Director or the Managing Director subject to RBI directives.

6.3.15. Current Ratio: 1.10

Debt-Equity Ratio: 3:1

Debt Service Coverage Ratio (Average): 1.25

Interest Coverage Ratio: 1.50:1

Asset Coverage Ratio: 1.33:1

Normally Net Worth to Bank Borrowings ratio shall be 1:4. However, deviation up to 1:6 can be allowed by next higher authority not below the rank of Zonal Manager in case of Manufacturing & Trading accounts.

6.3.16. **PRICING (W.E.F.01.10.2011):** Structure of interest rates on MSE sector is given hereunder.

A] MICRO & SMALL ENTERPRISES:

FOR WORKING CAPITAL AND TERM LOAN UPTO ONE YEAR

LIMITS	**Rate**		
	Base Rate % (a)	Spread % (b)	Effective Rate % (a+b)=(c)
Up to Rs 10 lacs	10.75	0.50	11.25
Above Rs. 10 lacs and & up to	10.75	1.00	11.75

Rs. 100 lacs			

B] MICRO & SMALL ENTERPRISES: (LIMITS ABOVE Rs 1 CRORE): FOR WORKING CAPITAL AND TERM LOAN UPTO 1 YEAR

RATING CATEGORY OF THE BORROWER	MANUFACTURING & SERVICE		
	Base Rate % (a)	Spread % (b)	Effective Rate % (a+b)=(c)
A++ / CBI-1	10.75	1.50	12.25
A+ / CBI -2	10.75	2.00	12.75
A / CBI -3	10.75	2.50	13.25
B+ / CBI -4	10.75	2.75	13.50
B / CBI -5& 6	10.75	3.00	13.75
C+ / CBI -7	10.75	3.50	14.25
C / CBI -8	10.75	4.00	14.75
D+ / CBI -9	10.75	4.50	15.25

C] FOR TERM LOANS ABOVE 1 YEAR: TENOR PREMIUM :

TENOR OF THE LOAN (INCLUDING MORATORIUM PERIOD)	PREMIUM
>1 Year and up to 3 Years	0.25%
> 3Years	0.50%

6.3.17. **Rating:** As per Reserve Bank of India, in case of advances up to Rs.2 crore to Micro and Small Enterprises (MSE) sector Bank should implement scoring model and information required for the scoring model should be incorporated in the application form itself. Accordingly Bank has formulated two separate scoring models, (MSE-I and MSE-II attached as Annexure III and IV) for all advances up to Rs.2 crore falling under MSE sector.

i. Scoring Model MSE-I is to be utilized for existing units and Scoring Model MSE-II is to be used for new units.
ii. For advances above Rs.2 crore and up to Rs.5 crore scoring model similar to CART of SIDBI is to be utilized
iii. For advances above Rs.5 crore LCRT of our Bank is to be utilized.

The total number of weightage marks obtained by the concerned borrower, the borrower would be rated as under.

Weightage	Category	
	Existing	Revised
Those who are above 90%	A++	CBI - 1
Those who are between 85% to 90%	A+	CBI - 2
Those who are between 80% to 84%	A	CBI - 3
Those who are between 70% to 79%	B+	CBI - 4
Those who are between 60% to 69%	B	CBI - 5 & 6
Those who are between 56% to 59%	C+	CBI - 7
Those who are between 51% to 55%	C	CBI - 8
Those who are between 45% to 50%	D+	CBI - 9
Those who are below 45%	D	CBI - 10

The credit rating as per this system is to be done by the branch on yearly basis and to be confirmed by the competent authority as mentioned below.

Sanctioning Authority	Confirming Authority
Branch Manager up to Scale III	Regional Manager
Chief Manager/Asstt. General Manager	Zonal Manager (DGM/GM)

6.3.18. Rating Agencies: Bank has entered into an **MOU for Performance and Credit Rating Mechanism of National Small Industries Corporation (NSICs)** with following rating agencies.

1. CARE
2. CRISIL
3. FITCH
4. ICRA
5. SMERA

If borrower opts for credit rating with **any of the above agencies**, bank will consider following concessions.

- Concession of 50% in Processing Charges
- Interest Concession of 0.25% for the following rating scale.

PERFORMANCE CAPABILITIES	**FINANCIAL STRENGTH**	**INTEREST CONCESSION**
	HIGH	
HIGHEST	SE 1A	0.25%
HIGH	SE 2A	0.25%

Bank is adopting the ratings assigned by the external rating agencies for the purpose of pricing only and not as a substitute for Bank's internal Credit Rating exercise.

Bank has also approved following agencies (empanelled with NSCIs) for Performance and Credit Rating. (MOU to be signed)

1. ONICRA Credit Rating Agency of India Limited
2. BRICKWORK Ratings.

7. SECURITY NORMS

7.1. It is mandatory to extend collateral free loans up to Rs.10.00 lac to the Micro and Small Enterprises (MSE) sector. No third party guarantee is required up to this limit. Such loan will invariably be covered under credit guarantee scheme of CGTMSE.

7.1.2. It is also advised to cover all MSE loans under CGTMSE scheme invariably without any exception; so long the quantum of finance does not exceed the prescribed cap of Rs.1.00 crore. If any finance is to be made outside the coverage of CGTMSE scheme, the branch must appraise its immediate controlling office on merits of such exclusion and obtain its approval for the same.

7.1.3 It is advised to strongly encourage to avail of the Credit Guarantee Scheme cover, as it has been included for making performance in this regard a criterion in the performance appraisal of staff.

7.1.4 In all other cases security norms as under will be applciabel.

7.1.5. Approved Securities

To treat a particular commodity as security, the requisites shall be that the bank should be in a position to realize its dues by disposing of the security in case of failure on the part of the debtor to repay the debt. Such a security should have easy marketability, storability, stability in price, easy transferability of title, easy handling and valuation of security etc. The realization of the security should be without much lengthy legal formalities.

7.1.5 (a) Post Dated Cheques to be obtained from the borrower towards repayment of Principal & Interest and not to be taken as security. PDCs so obtained to be presented on dues dates, in case of default by the borrower, irrespective of any request by the borrower, others. In case of dishonor of the instrument on presentment, appropriate action under NI Act, to be initiated against the borrower immediately within the stipulated time period.

7.1.6. Recommended Margin:

Approved Securities	**Minimum Margin (%)**
Fixed Deposits held in the name of the borrower	**10**
ii) Fixed deposits in the name of the third party	**25**
iii) Gilt edged securities viz., bonds / stocks issued by Central / State Government / Statutory / quasi-Government Corporation or Body repayment of which isguaranteed by the Central / State Government	**25**

(including Post office)	
iv) National Saving Certificates with accrued value	**20**
v) Surrender value of LIC Policies	**10**
vii) Stocks of tradable commodities / goods having realizable value (RM, SIP, FG)	**25**
viii) Book Debts. - For Book debts Up to 90days - For Book debts beyond 90 days and up to 180 days#	 **25** **35**
ix) Plant and Machinery (New)	**25**
x) Plant and Machinery (Secondhand) 40 **	**40****
xi) Bills of Exchange with Documents / acceptances Nil	**Nil**
xii) Gold Ornaments	**50**
xiii) Vehicles	**25**
xiv) Furniture / Fixtures	**25**
xv) Consumer durables	**25**
xvi) Live Stocks	**25**
xvii) Land and Buildings / Free Hold Plots	**40**
Xviii) Land & building forming part of project	**25**
xix) Commodities falling under Selective Credit Control. from time to time	As directed by RBI
xx) Any other Securities so approved by Central Office	. Margin will be notified by Central Office

Advance against Book Debts beyond 90 days and up to 180 days may be sanctioned by Zonal Manager not below the rank of DGM and DGM of CFBs and receivables must be from Govt. Departments, PSUs and reputed Corporates having minimum existence of 3 years with satisfactory track record.

** 40% Margin of residual value of second hand machinery.

For exporters, lower margin up to 10% may be allowed for export receivables backed by L/C or firm orders placed on companies having satisfactory track record, subject to approval by the authority not below the rank of Dy. General Manager.

7.1.7. The above mentioned minimum margins shall be subject to RBI guidelines wherever applicable and in deserving cases the margin may be relaxed by the next sanctioning authority not below the rank of Dy. General Manager for proposals falling within their delegated lending powers and in other cases by the Executive Director or the Managing Director subject to RBI directives.

7.1.8. The drawing Power is available only on business/trade book debts which are not older than 90 / 180 days as the case may be. The Drawing Power should be arrived at on the basis of monthly book debt statements. At least once in every quarter such statement must be certified by Chartered Accountant.

7.1.8.a For Working Capital limit up to Rs.5.00 crore, a combined limit against inventory and receivables may be allowed with common margin of 25%. However, delegatees having powers to sanction advance against Book Debts only can consider such proposals. Moreover, DP against Book Debt should not be more than 50% of the overall limit. For calculation of DP, guidelines given in the Annexure II of Loan Policy should be followed.

7.1.9. Promoters' Margin on Project Finance Portfolio:

1) For Infrastructure Projects: 40% of the sanctioned Margin should be brought by the Promoters upfront and the remaining 60% of the Margin to be brought in stages along with the disbursement of
bank finance.

2) For other Projects: 50% of the sanctioned Margin should be brought by the Promoters upfront and the remaining 50% of the Margin to be brought in stages along with the disbursement of bank finance.

3) However, for financing under consortium / syndication the Bank will normally follow the decision of the consortium/syndicate as regards bringing in of promoter's margin on project finance and shall fall in line with other lenders.

7.1.10 Bank shall explore the possibility of obtaining collateral securities apart from primary security or in case where no primary security is available.

- Collaterals at least to the extent of 50% of loan amount to be insisted in case where the nature of primary security is of perishable nature, slow moving products, high volatility in prices etc. In case where no primary security is available, minimum collaterals to the extent of 60% of loan amount to be insisted. CMD / ED shall have the powers to consider any deviation in this regard.

- (Collaterals may not be insisted for Short Term Loans up to 1 year sanctioned for augmenting short term mismatches, augmenting working capital margin and for general business purposes. However, such facilities shall be considered at Central Office only).

- ***In the case of Trading Account, consortium/Multiple Banking/syndication Finances, we may accept collateral security to the extent of even less than 50% of the loan amount at par with other banks/FIs., on case to case basis. (such cases shall be considered only at CO level by CMD and/or MC of the Board)***

- ***In case of In case of non-consortium accounts, the minimum collateral coverage should be 50% of the total credit facilities in all cases. However, Zonal Managers may consider proposals within their delegated powers with a Collateral coverage between***

25% to 50%. Such proposals with less than 25% coverage may be considered at Central Office by CMD / ED and MC depending upon the merit of the case. This is subject to the following stipulations that:

a. Rating of the account should be minimum B+ [CBI-4 and above].

b. Key Financial Ratios should not be lower than the benchmark level.

c. Operational dealings with our Bank / with other Banks should be satisfactory.

7.1.11. Negative List of Securities.

7.1.11 1. All those securities which will not be legally enforceable in case of default by the borrowers are classified as securities under Negative List. List of some such items are as under:

i. Commodities possession of which is unlawful.

ii. In case of certain controlled sensitive commodities like rubber, fertilizer and similar commodities, where the required license is not obtained and

iii. Securities on which a valid charge cannot be created such as LIC Policies under Married Women's Property Act.

8. CLUSTER BASED APPROACH

Clusters are defined as sectoral and geographical concentration of MSE units sharing common opportunities and threat. Bank will give thrust for recognized cluster based finance. UNIDO has identified 388 Clusters all over India activity wise.

60 clusters have been identified by the Ministry of Micro, Small and Medium Enterprises, Government of India for focused development of Small Enterprises sector.

Bank will take following advantages on cluster based financing.

i. Easier in dealing with well defined groups
ii. Easy availability of information for risk assessment and
iii. Easy monitoring of borrowal units.

Bank will extend adequate facilities for diverse needs of the MSE units functioning within the cluster by adopting a 4C approach namely, Customer focus, Cost control, Cross sell and Contain risk. Help of State as well as Central Government can also be taken for infrastructure etc.

9. COMMON GUIDELINES / INSTRUCTIONS FOR LENDING TO MSE SECTOR

9.1 Disposal of Applications

All loan applications for MSE units up to a credit limit of Rs. 25,000/ should be disposed of within 2 weeks and those upto Rs. 5 lakh within 4 weeks provided , the loan applications are complete in all respects and accompanied by a " check list".

9.2 Specialised MSE branches

Banks have been advised to open at least one specialised branch in each district. Further, banks have been permitted to categorise their MSME general banking branches having 60% or more of their advances to MSME sector in order to encourage them to open more specialised MSME branches for providing better service to this sector as a whole. As per the policy package announced by the Government of India for stepping up credit to MSME sector, the public sector banks will ensure specialized MSME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. The existing specialised SSI branches have been redesignated as MSME branches. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers.

9.3. Delayed Payment

Under the Amendment Act, 1998 of Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings, penal provisions have been incorporated to take care of delayed payments to MSME units. After the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened as under:

i. In case the buyer to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
ii. In case the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
iii. For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
iv. In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

Further, banks have been advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs.

9.4. Guidelines on rehabilitation of sick SSI (now MSE) units (based on Kohli Working Group recommendations)

As per the definition, a unit is considered as sick when any of the borrowal account of the unit remains substandard for more than 6 months or there is erosion in the net worth due to accumulated cash losses to the extent of 50% of its net worth during the previous accounting year and the unit has been in commercial production for at least two years. The criteria will enable banks to detect sickness at an early stage and facilitate corrective action for revival of the unit. As per the guidelines, the rehabilitation package should be fully implemented within six months from the date the unit is declared as potentially viable/viable. During this six months period of identifying and implementing rehabilitation package banks/FIs are required to do "holding operation" which will allow the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds.

Following are broad parameters for grant of relief and concessions for revival of potentially viable sick SSI units:

i. Interest on Working Capital: Interest 1.5% below the prevailing fixed/prime lending rate, wherever applicable
ii. Funded Interest Term Loan: Interest Free
iii. Working Capital Term Loan : Interest to be charged 1.5% below the prevailing fixed / prime lending rate , wherever applicable
iv. Term Loan: Concessions in the interest to be given not more than 2 % (not more than 3 % in the case of tiny / decentralised sector units) below the document rate.
v. Contingency Loan Assistance: The concessional rate allowed for Working Capital

9.5. State Level Inter Institutional Committee

In order to deal with the problems of co-ordination for rehabilitation of sick micro and small units, State Level Inter-Institutional Committees (SLIICs) have been set up in all the States.

The meetings of these Committees are convened by Regional Offices of RBI and presided over by the Secretary, Industry of the concerned State Government.

It provides a useful forum for adequate interfacing between the State Government Officials and State Level Institutions on the one side and the term lending institutions and banks on the other.

It closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special schemes such as Margin Money Scheme of State Government and reviews general problems faced by industries and sickness in MSE sector based on the data furnished by banks.

Among others, the representatives of the local state level MSE associations are invited to the meetings of SLIIC which are held quarterly.

A sub-committee of SLIIC looks into the problems of individual sick MSE unit and submits its recommendations to the forum of SLIIC for consideration.

9.6. Empowered Committee on MSMEs

As part of the announcement made by the Union Finance Minister, Empowered Committees on MSMEs have been constituted under the Chairmanship of the Regional Directors, RBI with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level representatives from the MSME/SSI Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee will meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It will also coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The committees may decide the need to have similar committees at cluster/district levels.

9.6. Debt Restructuring Mechanism for MSMEs

(i) As part of announcement made by the Hon'ble Finance Minister for stepping up credit to small and medium enterprises, a debt restructuring mechanism for units in MSME sector has been formulated by Department of Banking Operations & Development of Reserve Bank of India and advised all commercial banks vide circular DBOD. BP. BC. No. 34 / 21.04.132/ 2005-06 dated September 8, 2005. These detailed guidelines have been issued to ensure restructuring of debt of all eligible small and medium enterprises. These guidelines would be applicable to the following entities, which are viable or potentially viable:

a) All non-corporate MSMEs irrespective of the level of dues to banks.
b) All corporate MSMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
c) All corporate MSMEs, which have funded and non-funded outstanding up to Rs.10 crore under multiple/ consortium banking arrangement.
d) Accounts involving willful default, fraud and malfeasance will **not** be eligible for restructuring under these guidelines.
e) Accounts classified by banks as “Loss Assets” will **not** be eligible for restructuring.

For all corporate including MSMEs, which have funded and non-funded outstanding of Rs.10 crore and above, Department of Banking Operations & Development has issued separate guidelines on Corporate Debt Restructuring Mechanism vide circular DBOD.No.BP.BC.45/ 21.04. 132/2005-06 dated November 10, 2005.

Prudential Guidelines on MSME Debt Restructuring by banks have been formulated and advised to all commercial banks by Department of Banking Operations & Development vide circular DBOD.No.BP.BC.No.37 /21.04.132/2008-09 dated August 27, 2008.

(ii) In the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K.C. Chakrabarty), all commercial banks were advised vide circular ref. RPCD. SME & NFS.BC.No. 102/06.04.01/ 2008-09 dated May 4, 2009 to:

a) put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises and non- discretionary One Time Settlement scheme for recovery of non-performing loans for the MSE sector, with the approval of the Board of Directors and
b) Implement recommendations with regard to timely and adequate flow of credit to the MSE sector.

(iii) Banks have been advised to give wide publicity to the One Time settlement scheme implemented by them

9.7. Credit Linked Capital Subsidy Scheme Government of India, Ministry of Micro, Small and Medium Enterprises has conveyed their approval for continuation of the Credit Linked Capital Subsidy Scheme (CLSS) for Technology Up gradation of Micro and Small Enterprises from X Plan to XI Plan (2007-12) subject to the following terms and conditions:

i. Ceiling on the loan under the scheme is Rs. 1 crore.

ii. The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above.

iii. Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

SIDBI and NABARD will continue to be implementing agencies of the scheme.

Procedural Aspects

1. All the eligible PLI (excluding the new nodal banks / agencies) will have to execute a General Agreement (GA) for availing capital subsidy under the scheme, irrespective of the fact whether refinance is availed by them or not.

2. The PLI may have the flexibility to execute the GA with either of the nodal agencies or with both the nodal agencies for providing subsidy to the eligible beneficiaries under the scheme. However, in the latter case, while claiming the subsidy from one nodal agency, the PLIs will have to give the undertaking to the nodal agency that they have not claimed subsidy under CLCSS in respect of the beneficiary unit from the other nodal agency (as the case may be).

3. After sanction of the assistance, the eligible PLI will get an agreement executed with the concerned MSE unit on behalf of Government of India (GoI).

4. The eligible PLI would obtain application for assistance under the CLCSS in the prescribed form.

5. The eligible PLI shall furnish subsidy forecast on quarterly basis, through their Head Office (HO), which will act as a nodal office, to the Regional Office (RO)/Branch Office (BO) of the SIDBI or the NABARD (as the case may be) located in the region. The subsidy forecast information for every quarter on or before 1st March for April-June quarter, on or before 1st June for July- 11 September quarter, on or before 1st September for October-December quarter and on or before 1st December for January-March quarter, may be furnished as per prescribed format.

6. The eligible PLI would release the subsidy amount with each installment of loan in a manner proportionate to the amount of term loan disbursed (on pro- rata basis), subject to the ceiling of the term loan/ subsidy amount as per applicable guidelines of the CLCSS.

7. The eligible PLI shall furnish details of release of subsidy to the beneficiary units, together with the request for replenishing advance money placed with PLI for release of subsidy, on quarterly basis on March 1, June 1, September 1 and December 1. The requests of PLI for replenishment of advance money for subsidy, however, would be entertained by the nodal agencies only on receipt of complete details of subsidy released to the beneficiary units.

8. The eligible PLI shall be responsible for ensuring eligibility for sanction of subsidy to the SSI units in terms of Government of India guidelines under this scheme and also for disbursal and monitoring of the assisted units.

10. BANKING CODES AND STANDARD BOARD OF INDIA (BCSBI)

The Banking Codes and Standard Board of India (BCSBI) have formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006.

It provides protection to MSE and explains how banks are expected to deal with MSE for their day to day operations and in times of financial difficulty. The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions /directions issued by the RBI from time to time.

10.1. Objectives of the BCSBI Code

The Code has been developed to

a. Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
b. Promote good and fair banking practices by setting minimum standards in dealing with MSE.
c. Increase transparency so that a better understanding of what can reasonably expected of the services.
d. Improve understanding of business through effective communication.
e. Encourage market forces, through competition, to achieve higher operating standards.
f. Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.
g. Foster confidence in the banking system.

The complete text of the Code is available at the BCSBI's website (**www.bcsbi.org.in**)

11. CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

The Scheme was known as the Credit Guarantee Fund Scheme for Small Industries (CGFSI). It came into force from August 1, 2000. Subsequent to the enactment of MSMED Act-2006 the Trust was renamed as Credit Guarantee Fund Trust for Micro and Small Enterprises.

Bank will encourage financing viable micro and small enterprises for fund based and non fund based limits upto Rs.100 lacs to ‘eligible borrower’ without ‘collateral security’ or third party guarantee by taking advantage of the Credit Guarantee Scheme of CGTMSE.

("Eligible borrower" means new or existing Micro and Small Enterprises to which credit facility has been provided by the lending institution without any collateral security and/or third party guarantees.)

("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.)

Primary security is the asset created out of the credit facility extended to the borrower and /or existing unencumbered assets which are directly associated with the business / project of the borrower for which the credit facility has been extended.

Separate targets will be given to each branch for lending under Credit Guarantee Scheme of CGTMSE to improve our banks coverage under the scheme.

11.1. Guarantee Fee and Annual Service Fee

Credit Facility	Upfront Guarantee Fee		Annual Service Fee
	North East Region (incl. Sikkim)	Others	
Upto Rs.5 lakh	0.75%	1.00%	0.50%
Above Rs.5 lakh to Rs.50 lakh	0.75%	1.50%	0.75%
Above Rs.50 lakh to Rs.100 lakh	1.50%	1.50%	0.75%

11.2. Extent of the guarantee
The Trust shall provide guarantee as under:

Category	**Maximum extent of Guarantee where credit facility is**		
	Upto Rs.5 lakh	Above Rs.5 lakh upto Rs.50 lakh	Above Rs.50 lakh upto Rs.100 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% / Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) **other than credit facility upto Rs.5 lakh to micro enterprises**	80% of the amount in default subject to a maximum of Rs.40 lakh		Rs.40 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.65 lakh

All other category of borrowers	75% / Rs.37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh

All proposals for sanction of guarantee approvals for credit facilities above Rs. 50 lakh and upto Rs.100 lakh will have to be rated internally by the MLI and should be of investment grade. Proposals approved by the MLIs on or after December 8, 2008 will be eligible for the coverage upto Rs.100 lakh.

The guarantee cover will commence from the date of payment of guarantee fee 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.

FAQ on CGTMSE is attached as Annexure V

12. SIMPLIFIED COMMON LOAN APPLICATION:

Initially Indian Bank's Association vide their letter no. SB/MSE/1456 dated 24.10.2008 had forwarded simplified loan application for MSE together with the checklist for appropriate adoption, which was approved by our Bank. In order to comply instruction of IBA, our Bank vide Instruction Circular No. 441 dated 09.01.2009 has circulated simplified loan application along with checklist to all branches / offices for the betterment of customer service to the MSE customer. Subsequently the standardized application was also made available on our Bank's website.

This standardized common loan application form will be used by all borrowers in MSEs sector irrespective of the loan amount. However, for loan beyond Rs.25 lac bank might obtain additional information from the borrower, as deemed necessary, as shown in the checklist enclosed to the loan application form.

Bank will also provide the application forms in local languages for the convenience of local MSE customers.

12.1. Simplified Common Loan Application is attached as Annexure VI

13. ADHOC SANCTION AND TAKE OVER NORMS: Annexure IX

14. OWNERSHIP OF UNITS-TWO OR MORE UNDERTAKINGS UNDER THE SAME OWNERSHIP-STATUS OF UNIT

As the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by the same person / company for the purpose of classification as micro, small and medium enterprises, Government of India, vide office memorandum No.5(10)2007 MSME/POL dated April 15, 2009, have intimated that the provision, as notified in Gazette Notification No. S.O.2 (E) dated 1 January 1993, of clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI (further notified in the principal Notification No. S.O.857 (E) dated December 10, 1997), has been rescinded vide Notification No. S.O.563 (E) dated February 27, 2009.

15. SRTO SCHEME

Bank has formulated Small Road Transport Operator Scheme to assist transport operators, existing as well as new entrants, and to create employment opportunities for the borrowers. Instruction Circular No. 542 dated 17.09.2009 is attached as Annexure VII The facility under the scheme will be covered under Micro and Small Enterprises.

16. MONITORING OF MSE CREDIT

Branch Offices: Branch Managers would be responsible for close supervision / control of all borrowal accounts in their branch.

Regional Offices / Chief Manager's Offices: The Regional Managers / Chief Managers would be responsible for overall monitoring of borrowal accounts with limits / outstanding up to and inclusive of their powers as also other accounts sanctioned by higher authorities falling within their Region / Branch.

Zonal Offices: The Zonal Managers would be responsible for overall monitoring of all borrowal accounts with limits / outstanding above the Regional Manager's / Chief Manager's powers, as also other accounts sanctioned by them or higher authorities falling within their Zones.

Central office: Central Office is responsible for monitoring borrowal accounts with limits / outstanding in excess of Zonal Manager's powers.

Suitable amended guidelines in the matter to strengthen monitoring can be issued by Central Office from time to time.
Warning signal with regard to irregularities in the accounts will be picked up promptly and probed into. Corrective measures will be initiated without loss of time to avoid the accounts slipping into sub standard category.

17. IMPORTANT REMARKS

The loan policy for MSE sector will be applicable within the overall loan policy of the Bank and subject to guidelines/instructions of Regulatory Authorities/RBI/Government of India. Therefore, the policy will be amended with the approval of the Board whenever revised guidelines are received from the Regulatory Authorities. **Policy is updated up to December 2011 and is subject to annual review.**

Annexure I

MINISTRY OF SMALL SCALE INDUSTRIES
NOTIFICATION
New Delhi, the 5th October, 2006

S.O. 1722(E) – In exercise of the powers conferred by sub□section (1) of 2006) herein referred to as the said Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in Section 7(1)(a) of the said Act, namely:

i. equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
ii. installation of plant and machinery;
iii. research and development equipment and pollution controlled equipment
iv. power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
v. bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
vi. procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or iniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
vii. gas producers plants;
viii. transportation charges (excluding sales□tax or value added tax and excise duty) for indigenous machinery from the place of the manufacture to the site of the enterprise;
ix. charges paid for technical know□how for erection of plant and machinery;
x. such storage tanks which store raw material and finished produces and are not linked with the manufacturing process; and
xi. Firefighting equipment.

2. While calculating the investment in plant and machinery refer to paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second handed, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

i. Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
ii. Shipping charges;
iii. Customs clearance charges; and
iv. Sales tax or value added tax.

□□□□ sd □□□□
(F.No.4(1)/2006□MSME□ Policy)
JAWHAR SIRCAR, Addl. Secy.

Annexure-II

Methodology for assessment of Working Capital Limits

Turnover Method:

Working capital requirements of the borrower under the Turnover method is computed on the basis of Projected Annual Turnover (PAT) / output value i.e. Gross Sales inclusive of excise duty. The total working capital funds requirements of the borrower is estimated at 25 percent of the projected turnover, of which at least four-fifth should be provided by bank and the balance one-fifth should be by way of promoter's contribution. While assessing the requirements of working capital under turnover method the following may be kept in view:

a) The projected annual turnover should be realistic and achievable. The reasonableness of PAT may be satisfied on the basis of annual statements of accounts or any other documents such as returns filed with Sales Tax / revenue authorities, orders on hand, industry growth, recent trend in sales etc.

b) The assessment of working capital credit limits should be done both as per projected turnover basis and traditional method. If the credit requirement based on production / processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned. On the other hand if the assessed credit requirement is lower than the one assessed on projected turnover basis, while the credit limit can be sanctioned at 20% of the projected turnover, actual drawals may be allowed on the basis of drawing power to be determined by the bank excluding unpaid stocks. In the case of commodities covered under Selective Credit Control Directives of Reserve Bank of India, the drawing power should be determined as indicated in the RBI directive.

c) The working capital requirement to be assessed at 25% of the projected turnover is to be shared between the borrower and the bank viz. borrower contributing 5% of the turnover as NWC and bank providing finance at a minimum of 20% of the turnover. The above guidelines were framed assuming an average production / processing cycle of 3 months (i.e. Working capital would be turned over four times in a year). It is possible that certain industries may have a production cycle shorter / longer than 3 months. While in the case of a shorter cycle, the same principles could be applied as it is the intention to make available at least 20% of turnover by way of bank finance, in case the cycle is longer, it is expected that the borrower should bring in proportionately higher stake in relation to his requirement of bank finance. Going by the above principles at least $1/5^{th}$ of the Working Capital requirement should be brought in by way of NWC.

d) Since the bank finance is only intended to support need-based requirement of a borrower if the available NWC is more than 5% of the turnover, the former should be reckoned for assessing the extent of bank finance.

e) In arriving at drawing power, unpaid stocks are not to be financed as it would result in double financing. The drawing power should conform to margin stipulations of Reserve Bank of India issued from time to time in the case of Selective Credit Control commodities.

f) In the case of traders while bank finance could be assessed at 20% of the projected turnover, the actual drawals should be allowed on the basis of drawing power to be determined after ensuring that unpaid stocks are excluded. In the case of Selective Credit Control commodities, the RBI directives should be strictly followed.

g) The norms for inventory and receivables as prescribed under Tandon Committee as also first or second method of lending would not be applicable.

h) The level of trade credit should be in tune with past practice. Where projected trade credit is lower than the past level, the same may be accepted provided the justification offered is convincing.

Traditional Method: (Modified MPBF System)

I) **Traders (Stockists)**

a) The credit requirements will be assessed on the basis of past indicators and future projections.
b) The current ratio should be minimum 1.10.
c) Subordinated debt / quasi-capital with usual declaration may be treated as part of capital employed.
d) In Trading account normally there will not be any long terms debts and therefore, TOL: TNW ratio to be considered. TOL:TNW ratio up to 4:1 shall be accepted,
e) However, in deserving cases relaxation up to 6:1 may be permitted by Zonal Managers (in the rank of DGM) and above.

II) **Modified MPBF System:**

The Tandon Committee Norms on holding levels of inventory and receivables have been dispensed with. Holding levels as per the past practice will continue to be basis under the modified system. While the projections should reasonably conform to the past trends, deviations can be accepted subject to satisfactory justification.

Diversion of Funds:

In case of borrowers with a current ratio above 1.40, the bank may permit investments that will facilitate improved profitability, tax savings, growth etc. provided such investments are planned and projected in financial statements furnished to the bank subject to the condition that the current ratio does not fall below 1.10. Where the current ratio falls below 1.10, suitable penalties for diversion of funds should be levied.

Cash Budget Method:

The borrower is required to submit the cash budget to the bank along with actual as well as projected financial statements. The budget in the prescribed format is to be prepared for a period of one year and then split into forecasts for shorter periods say monthly or quarterly. The budget will provide the following information:

i. The peak level of bank finance required during the course of the year.
ii. The current level of bank finance required as forecasted by the split budge (on monthly/ quarterly) basis.

Appraisal:

The budget must be scrutinized vis-à-vis the financial statements to satisfy that the forecasts are reasonable. Once the forecasts are found acceptable, the credit limit required by the borrower is to be determined as the peak level of cash deficit as shown in the budget. The sanctioning of the limit will be subject to the observance of the following:

a. Maintenance of Current Ratio—desired level is 1.10
b. The Debt : Equity Ratio (TOL:TNW) normally not to exceed 2:1
c. Borrower / Group exposure to be within norms determined by the Bank internally, but within the Reserve of India parameters;
d. The appraisal will also include assessment of the Company profile and Industry Profile;
e. There has to be an evaluation of risks at the time of fixing lending limits and if felt expedient, the level of operations and cash budget projections will be pruned down by the bank at the time of discussions before finalizing credit limits.
f. The disbursal of credit facilities will be by way of Loan and Cash Credit components as per stipulation of Loan Delivery System. Flexibility will be allowed in fixing maturity periods of the loans which can correspond to the quarterly budgets if the borrowers so choose. Once the maturity period is fixed, prepayment of the loan component if required shall be subject to RBI guidelines and also payment of a penalty upto 2% of the repaid loan amount for the unexpired period, as may be decided by sanctioning authority at his discretion.
g. Credit facilities on preferential terms like export credit should be assessed and disbursed in terms of existing procedure. However, the total of such facilities and all other fund based facilities availed should be within the limits under the Cash Budget.