

Loan Policy on extension of credit facilities to Micro and Small Enterprises (MSE) Sector

I. Definitions:

(a) Micro (manufacturing) Enterprises:

Enterprise engaged in the manufacture/production or preservation of goods and whose **investment in plant and machinery** (original cost excluding land and building and other items as specified by the Ministry of MSME) **does not exceed Rs.25.00 lakhs, irrespective of the location of the unit.**

(a) Micro (service) Enterprises:

Enterprise engaged in the providing/rendering of services and whose **investment in equipment** (original cost excluding land and building and furniture, fittings and other not directly related to the service rendered or as may be specified by the Ministry of MSME) **does not exceed Rs. 10.00 lakhs.**

(c) Small (manufacturing) Enterprises:

Enterprise engaged in the manufacture/production or preservation of goods and whose **investment in plant and machinery** (original cost excluding land and building and other items as specified by the Ministry of MSME) **does not exceed Rs.5.00 crores.**

(d) Small (service) Enterprises:

Enterprise engaged in the providing/rendering of services and whose **investment in equipment** (original cost excluding land and building and furniture, fittings and other not directly related to the service rendered or as may be specified by the Ministry of MSME) **does not exceed Rs.2.00 crores.**

(e) Medium (manufacturing) Enterprises:

Enterprise engaged in the manufacture/production or preservation of goods and whose **investment in plant and machinery** (original cost excluding land and building and other items as specified by the Ministry of MSME) **is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.**

(f) Medium (service) Enterprises:

Enterprise engaged in the providing/rendering of services and whose **investment in equipment** (original cost excluding land and building and furniture, fittings and other not directly related to the service rendered or

as may be specified by the Ministry of MSME) **is more than Rs.2.00 crores but does not exceed Rs.5.00 crores.**

The small and micro (service) enterprises shall include small road & water transport operators, small business, professional & self-employed persons and all other service enterprises.

II. Eligible classification under Priority Sector:

Lending to Micro and Small Enterprises (MSE) is eligible for classification under Priority Sector Advances (PSA), whereas lending to Medium Enterprises are not reckoned for classification under PSA. All advances granted to units in the Khadi and Village Industries (KVI) sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be eligible for consideration under the sub-target (60%) of the small enterprises segment within the priority sector.

III. Targets for Priority Sector lending:

Priority Sector Advances (PSAs) should constitute 40% of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

Self-target for growth in advances to MSE sector may be adopted in order to achieve a minimum 20% year-on-year growth in credit to MSEs with the objective to double the flow of credit to the MSE sector within a period of 5 years from 2005-06 to 2009-10. The bank has already fixed a self-set target of 15% of the net bank credit for advances to MSE sector, with the existing mandatory sub-targets.

In order to ensure that credit is available to all segments of the Micro and Small Enterprises sector, it should be ensured that:

- (a) 40% of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant & machinery up to Rs.5.00 lacs and micro (service) enterprises having investment in equipment up to Rs.2.00 lacs.
- (b) 20% of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant & machinery above Rs.5.00 lacs and up to Rs.25.00 lacs and micro (service) enterprises having investment in equipment above Rs.2.00 lacs and up to Rs.10.00 lacs.

Thus, 60% of MSE sector advances should go to the micro enterprises.

Indirect finance will include loans & advances to:

- (i) Persons involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

- (ii) Co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- (iii) Existing investments as on March 31, 2007 made by banks in special bonds issued by NABARD with the objective of financing non-farm sector may be classified as indirect finance to Small Enterprises sector till the date of maturity of such bonds or March 2010, whichever is earlier. Investments in such special bonds made subsequent to March 31, 2007 will, however, not be eligible for such classification.
- (iv) Loans granted by banks to NBFCs for on-lending to small and micro enterprises (manufacturing as well as service).

IV. Scheme of Small Enterprises Financial Centres (SEFCs):

As per the announcement made by the Governor of RBI in the Annual Policy Statement 2005-06, a scheme for strategic alliance between branches of banks and SIDBI located in clusters, name as "Small Enterprises Financial Centres" has been formulated by RBI in consultation with Ministry of SSI (presently, MSME) and Banking Division, Ministry of Finance, Govt. of India, SIDBI, IBA and select banks. The bank will be actively considering being an alliance partner with SIDBI in the matter of SEFCs.

V. Disposal of Applications:

A system of giving acknowledgement for loan applications received from the MSE sector borrowers is put in place at all the branches. As per the mandatory prescriptions, all loan applications for MSE up to a credit limit of Rs.25,000/- would be disposed of within 2 weeks and those up to Rs.5.00 lacs within 4 weeks provided the loan applications are complete in all respects and conform to the 'check list' of requirements.

The Bank has already accepted the guidelines of the Banking Codes and Standard Board of India (BCSBI) in this respect and simplified application format as devised by IBA for MSE sector along with the 'check list' is made available to all the branches for use by all the MSE applicant-borrowers.

Similarly, the Bank will be maintaining a suitable Register at the branches wherein the details of date of receipt, sanction, rejection with reasons thereof is recorded in respect of the credit facilities to MSE borrowers. The register will be made available to all inspecting authorities.

Application for fresh credit facilities/enhancement of existing credit facilities in the case of MSE sector advances will not be rejected without the specific reference to the next higher authority.

Similarly, sanction of credit facilities for amounts less than the amounts applied for will be reported to the next higher authority immediately with full details for review and confirmation.

VI. Cut- off limit for stipulating of Collateral Security:

The Bank complies with the mandatory prescription of not obtaining collateral security for MSE sector borrowers (both manufacturing & services sector) up to Rs.5.00 lacs. The Bank may, on the basis of good track record and financial position of the MSE units, consider waiving of collateral securities for loans up to Rs.25.00 lacs (with the approval of the appropriate authority).

VII. Interest Rate for loans and advances to MSE Sector:

Recognizing the principle of higher the risk the higher the price to be quoted, the Bank follows the policy of viewing the Credit Rating (for smaller credits) or the Transaction Risk Grade (for larger credits) as the primary trigger for pricing decisions. While actually stipulating interest rate to a borrower, the Bank also takes into account the market forces, strategic considerations, portfolio/industry exposure considerations, value of the account and further anticipated business from the customer.

Pricing decisions are normally taken for each borrower or individual credit. However, in respect of standardized loans products or loans under a particular scheme or a group of similar credits, the Bank may prescribe uniform interest rate taking into account the portfolio risks and the pricing parameters mentioned above.

The above lending policy prescriptions, along with the regulatory instructions from time to time, if any, in this regard will be followed while stipulating interest rate for loans and advances to the MSE sector.

VIII. Charging of penal interest & service charges, waiver of insurance, obtention of photographs of borrowers, etc.

No penal interest and service charges will be charged/levied in respect of priority sector loans & advances up to Rs.25,000/-. For loans & advances above the cut-off limit of Rs.25,000/-, the extant instructions for such charging or levying penal interest and service charges will apply.

Insurance against fire is waived for advances to MSE sector up to and inclusive of Rs.25,000/- by way of (i) composite loans to artisans, village and cottage industries (ii) term loans and (c) working capital credit facilities where these are against non-hazardous goods.

Where, however, insurance of vehicle or machinery or other equipments/assets is compulsory under the provisions of any law or where such a requirement is stipulated in the refinance scheme of any refinancing agency or as a part of a Government programme, insurance will not be waived even if the relative credit facility does not exceed the threshold limit for waiver of insurance.

The Bank will arrange for the photographs and also bear the cost for the borrowers falling in the category of weaker sections.

IX. Discretionary Powers to Branch Managers:

Branch Managers are vested with sufficient lending powers to sanction loans & advances under the Scheme of Delegation of Lending Powers to Managers, which includes the lending powers to sanction loans & advances to priority sector & the MSE sector.

Branch Managers are also delegated with the sufficient discretionary powers to grant temporary excess drawings over sanctioned limits to the extent of 20% of the limits sanctioned to MSE sector borrowers, subject to the usual lending discipline.

X. Redressal Mechanism:

Zonal Heads are designated as Nodal Officers to entertain complaints from the MSE sector borrowers and for the redressal thereof. The name and address of the respective Zonal Head (Nodal Officer) is being displayed on the notice board of all the branches for enabling the lodging of the complaints.

XI. Review Mechanism:

Quarterly notes are being placed to the Board for reviewing the progress made in financing of MSE sector and it will ensured that required emphasis will be given at the highest forum for the sector.

XII. Composite Loan:

The Bank may consider sanctioning a composite up to Rs.1.00 crore to enable the MSE entrepreneurs to avail of their working capital and term loan requirements through Single Window.

XIII. Specialized MSE branches:

The Bank will consider setting up of Specialized MSE branches for providing better service to the sector as a whole. These branches will ensure identification of clusters/centers with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip the bank personnel to develop requisite expertise. They will also have some operational flexibility to extend finance/render other services to other sectors/borrowers.

XIV. Penal Provision for delayed payment to MSE sector:

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 SSI units which inter-alia stipulates:

- (a) Agreement between seller and buyer shall not exceed more than 120 days.
- (b) Payment of interest by the buyers at the rate of one and a half times the Prime Lending Rate (PLR) of SBI for any delay beyond the agreed period not exceeding 120 days.
- (c) 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 the seller and the buyer shall not exceed more than 45 days.
- (d) If the buyer fails to make the 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.
- (e) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (d) above.
- (f) 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.

To ensure that there is no delay in payment to the MSE sector borrowers on account of delayed payments and as per the RBI guidelines, the Bank will be fixing sub-limits wherever felt necessary within the overall working capital credit facilities to the large corporate borrowers specifically for meeting the payment obligation in respect of purchases from the MSE sector.

The Bank will actively participate in the meetings of State Level Inter Institutional Committee Meetings which provides useful forum for adequate interfacing between the State Government Officials and State Level Institutions.

The Bank will also co-ordinate with the efforts of the Empowered Committee of MSMEs in removing bottlenecks, if any, to ensure smooth flow of credit to the MSME sector.

XV. Debt Restructuring Mechanism for MSEs:

In line with the guidelines issued by RBI, the Bank has put in place a comprehensive Debt Restructuring Mechanism for MSEs to ensure

restructuring of debt of all eligible small and medium enterprises. Now that the SME sector is reclassified as MSME sector under the MSMED Act, 2006, this mechanism will be made applicable to all the borrowers having funded and non-funded outstanding up to Rs.10.00 crores under multiple/consortium banking arrangement, all non-corporate MSMEs irrespective of the level of dues to the banks, all corporate MSMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.

In line with the regulatory guidelines issued by RBI with regard to prudential guidelines on restructuring of advances by banks, the Bank will work out the restructuring package and implement the same within a maximum period prescribed for such implementation from the date of receipt of the request. This restructuring mechanism will be available to all borrowers engaged in any type of activity. The progress in rehabilitation and restructuring of MSMEs accounts will be reviewed on a quarterly basis and the Board of Directors will be kept informed of the progress made in the matter.

XVI. Cluster Approach:

To cater to the diverse needs of the SME sector, in line with the **Ganguly Committee recommendations**, the bank will be taking suitable steps by extending banking services to recognized MSE clusters by adopting the **4-C approach**, viz. **C**ustomer Focus, **C**ost Control, **C**ross Sell and **C**ontain Risk. This will help the bank in dealing with the well-defined and recognized groups through the availability of appropriate information for risk assessment and monitoring.

XVII. Technology Upgradation Fund Scheme (TUFS):

The Bank will be taking every effort to consider loans to the MSE sector under the TUFS for making available the eligible subsidies under the scheme to the MSE borrowers.

XVIII. Credit support available to MSE Sector:

Bank offers pre-sale and post-sale credit for MSME sector. Pre-sale credit includes facilities for buying raw materials, consumables, etc. such as Cash Credit, LCs, trade guarantees, Drawee Bill discounting limits. Post-sale credit includes Cash Credit against book-debts, bill purchase/discounting facilities, etc. For larger SMEs, the Bank offers corporate loans, FCNR loans in foreign currency, purchase bill/invoice bill discounting facility & other borrower-specific structured loan products. Term Loans and Deferred Payment Guarantees for investment in plant & machinery, equipments and factory buildings.

In respect of MSEs in export sector, the Bank offers pre-shipment credit in Rupees as packing credit limit for purchase of raw material, consumables, etc. Pre-shipment credit is available in Foreign Currencies also. Post-shipment credit in the form of Export Bill discounting limit, Advance against Export Bills, Advance against Incentives, etc. Gold Card Scheme is available for eligible exporters under the segment.

Besides, the Bank offers support to Services Sector by way of finance to wholesalers and retailers. Finance for healthcare facilities, civil contractors, property developers, commission agents, etc. is also extended by the Bank to take care of the growing developing needs of the sector. Credit for construction of godowns, showrooms, vehicles, equipments, machinery, etc. is also extended by the Bank to cater to the financial requirements of the sector. Finance is also extended for IT-enabled service industry.

Bank also offers several standardized loan products which can be availed by SMEs, characterized by simplified procedures and customer friendly features like Lakshmi Business Credit (LBC), SOD (P) and Lakshmi Gold Power (LGP), etc.

XIX. Compliance with the recommendations of various Committees on flow of Credit to MSME Sector:

The bank has taken/will take all possible steps to comply with most of the recommendations of the **Nayak Committee** like:

- (a) giving preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirements of the small scale sector.
- (b) granting working capital credit limits to MSE units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is up to Rs.5.00 crores.
- (c) preparing annual credit budget on the 'bottom-up' basis to ensure that the legitimate requirements of MSE sector are met in full.
- (d) ensuring that there is no delay in sanctioning and disbursement of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities will be made.
- (e) not insisting on compulsory deposit as a 'quid pro-quo' for sanctioning the credit.
- (f) identifying sick MSE units and take urgent action to put them on nursing programmes.
- (g) standardizing loan application forms for MSE borrowers and
- (h) imparting training to staff working at specialized branches to bring about attitudinal change in them.

The other important points mentioned in the High Level Committee on Credit to SSI (**S. L. Kapur Committee**) like delegation of more powers to Branch Managers to grant ad-hoc limits, simplified loan application forms, strengthening of the recovery mechanism, special programme for training branch managers for appraising small projects, simplified and transparent grievance redressal machinery are being implemented systematically.

Similarly, the Bank has taken steps to put in place the various measures announced in the Policy Package for stepping up credit to Micro & Small Enterprises by the Union Finance Minister like acceptance of the revised definition of Micro, Small and Medium Enterprises (MSMEs), fixing of self-targets for financing to MSE sector, etc.

The Bank is also taken certain measures to rationalize the cost of loans to MSE sector, increase the outreach of formal credit to MSE sector and cluster based approach to financing of MSE sector.

The Bank will also consider taking advantage of the Credit Appraisal & Rating Tool (CART), Risk Assessment Model (RAM) developed by SIDBI for reduction of transaction costs at the appropriate time, pending which the internally developed credit rating system will be suitably utilized for arriving at the pricing decisions for MSE sector.

Simultaneously the Bank will endeavour to consider the rating of SSI units carried out through approved credit rating agencies under the Credit Rating Scheme introduced by National Small Industries Corporation (NSIC).

The Bank will also take suitable steps for wider dissemination and easy accessibility of the policy guidelines formulated by the Board as well as instructions/guidelines issued by RBI by displaying them on the website of the Bank as well as the website of SIDBI and also prominently displaying them at the branches.

In line with the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on 16.6.2006 (notified on 2.10.2006), the modified definition of Micro, Small and Medium Enterprises (MSME) engaged in manufacturing or production and providing or rendering of services have been implemented with immediate effect.

The recommendation of **Dr. A. S. Ganguly Committee** (Working Group on Flow of Credit to SSI Sector) and that of **Shri. C. S Murthy Committee** (Internal Group to review guidelines on Credit flow to SME sector) is also being actively considered by the Bank while extending finance to the SME sector.

The Bank is also in the process of complying with the various recommendations of the **Dr. K. C. Chakrabarty Committee** (Working Group on Rehabilitation of Sick SMEs) like review of loan policy governing extension of credit facilities to SMEs, restructuring/rehabilitation policy for revival of potentially viable sick units/enterprises, non-discretionary One Time Settlement scheme for recovery of non-performing loans, etc.

In line with the recommendations of the Committee, the Bank will consider lending up to Rs.2.00 crores on the basis of scoring model without insisting on individual risk rating, central registration of loan applications, simplified loan applications-cum-process notes for micro enterprises, sanctioning of WC limits along with term loans singly or jointly with other banks, introduction of Centralized Credit Processing Cells, Committee Approach for sanction of new loans as well as rehabilitation cases, allowing CC/OD against stock and

receivables under one facility, providing minimum 20% of the turnover to the business enterprises as bank finance, developing appropriate credit appraisal and rating tools for processing of loan/working capital of small and medium enterprises.

The **Code of Bank's Commitment to Micro and Small Enterprises**, formulated by the **Banking Codes and Standard Board of India (BCSBI)**, which sets minimum standards of banking practices for banks to follow when they are dealing with MSEs has been approved by the Board of Directors for implementation in our Bank and the same is made available in the website of our Bank. It provides protection to MSEs and explains how banks are expected to deal with MSE for their day-to-day operations and in times of financial difficulty.

XX. Suggested strategies for increasing MSE advances:

It will be the policy of the Bank to focus on opening more specialized micro, small and medium enterprise branches so as to complete the expansion of specialize branch network in all identified clusters and Industrial Estates in a time bound manner within the next 3-5 years.

The Bank will also use the platform provided by the technical institutions for imparting training to staff for change in their mindset away from the perceived risk in financing MSEs.

The Bank will also consider offering factoring services.

To broad base financing to MSE sector, the Bank will explore the possibilities of identifying the corporate linked SME clusters through our large corporate customers and through other potential customers.

The Bank will be utilizing the Equity Support Schemes of SIDBI, State Governments, etc. to enable the MSE borrowers to meet the margin requirements.

The Bank will actively consider rewarding branches performing exceedingly well in financing of MSEs.

It will be the policy of the Bank to target promising activities and units so as to bring them to our fold by offering competitive rates of interest in deserving cases (within the delegated powers).

The Bank will review the existing advances portfolio and ensure proper classification of accounts under the MSE segment so as to have a robust data base on lending to the sector. Intervention of technology for correct identification and reporting of sick micro, small and medium enterprises will be put in place.

The Bank will be attending/arranging periodical meetings of MSEs/Exporters in association with Industry organizations so as to enable dissemination of information with regard to the facilities available to MSE sector in our Bank.

Proposals emanating from the MSE sector will be processed through a fast track mechanism.

Special schemes will be used as marketing tools for augmenting credit offtake under the segment.

The general lending principles as enunciated in the lending policy of the bank, manual of instructions and manual of documentation will form the basis for lending to MSE sector also, subject to relaxations in deserving cases with the due approval of the competent authorities.

The Bank is considering becoming a member of the Credit Guarantee Fund Trust Scheme for Micro, Small and Medium Enterprises so as to facilitate the MSE borrowers to avail finance without the hassles of providing collateral securities or guarantees.

In a nutshell, the Bank's Loan Policy on extension of credit facilities to Micro and Small Enterprises (MSE) sector as above is formulated to achieve the growth rate under the sector as stipulated by Gol/RBI and achieve commensurate growth in the MSE sector.
