POLICY GUIDELINES ON FINANCING TO MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

The MSME code of our Bank's loan policy is reflective of the objectives and spirit of the national policy and the regulatory prescription while dealing with application for loan or any financial assistance by them. It deals with sourcing of MSME borrowers, assessment of their credit need, prompt communication of sanction/rejection, post sanction and post disbursement formalities, recovery, nursing of sick account etc. The Code is hosted on Bank's website.

In order to cater to the MSME sector, the Bank has various business groups like Business Banking Group, Supplier Chain Finance, Business Loan, Advance against Credit Receivable, Micro Finance, Government Sponsored Scheme etc. These groups broadly have presence across the country. These groups, however, cater to other segments as well which is defined in their respective policies.

The definition / broad guidelines of MSME Policy are as under:

Category	DEFINITION / GUIDELINES
Micro Enterprises (Manufacturing)	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (original cost excluding land and building), in the applicant unit, **does not exceed Rs.25Lacs.**
Micro Enterprises (Service)	**i.** Enterprises engaged in the providing/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) in the applicant unit **does not exceed Rs.10 Lacs.**
Small Enterprises (Manufacturing)	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (original cost excluding land and building) in the applicant unit **is above Rs. 25 Lacs to Rs. 5 Crore.**
Small Enterprises (Service)	**i.** Enterprises engaged in the providing/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) **is above Rs.10Lacs to Rs.2Crore.**
Medium Enterprises (Manufacturing)	Enterprises engaged in the manufacture/ production, processing or preservation of goods and whose investment in Plant and Machinery (original cost excluding land and building) is **more than Rs. 5 Crore** but **does not exceed Rs.10 Crore.**
Medium Enterprises (Service)	**i.** Enterprises engaged in the providing/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) is more **than Rs.2 Crore** but **does not exceed Rs.5 Crore**
Calculation of investment for plant	**i.** In calculating the value of plant and machinery for the purpose of calculating investment limit, the original price thereof, irrespective of whether

Category	DEFINITION / GUIDELINES
and machinery (Manufacturing)	the plant and machinery are new or second hand shall be taken into account. **ii.** The List of Plant and Machinery to be excluded or included is enclosed per **Annexure- A.** **iii.** It is further clarified that cost of Pollution Control, research and development, industrial safety devices and such other items as may be specified by notification, shall be excluded
Stipulated Growth Target{Micro ,Small And Medium Enterprises (MSME)}	(i) 20 per cent year-on-year growth in credit to micro and small enterprises, (ii) 10 per cent annual growth in the number of micro enterprise accounts In our Bank, Business Head, BBG will finalize Zone wise targets for financing to this sector based on Bank's business objective/Government of India/RBI Guidelines received from time to time.
Classification of Advances to Micro , Small and Medium Enterprises Sector within Priority Sector	Bank Loans to Micro, Small and Medium enterprises, both Manufacturing and Service are eligible to be classified under Priority Sector advance as per the following: **a) Manufacturing Enterprises:** The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery. **b) Service Enterprises:** Bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006. **c) Khadi and Village Industries Sector (KVI):** All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent / 7.5 percent prescribed for Micro Enterprises under priority sector. **2.4** Bank loans to food and agro processing units will form part of agriculture. **2.5 Other Finance to MSMEs** (i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries. (ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries. (iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in the extant Master Circular on 'Priority Sector Lending - Targets and Classification'. (iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

Category	DEFINITION / GUIDELINES
	(v) Outstanding deposits with SIDBI on account of priority sector shortfall. **2.6** To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned. **2.7** Considering that the MSMED Act, 2006 does not provide for any sub-categorization within the definition of micro enterprises and that the sub-target for lending to micro enterprises has been fixed, the current sub-categorization within the definition of micro enterprises in the existing guidelines is dispensed with. **2.8** 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 rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.
Targets for lending to Micro and Small enterprises (MSE) sector by Banks	**1)** Advances to micro and small enterprises (MSE) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. **2)** Domestic Commercial Banks are required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises in a phased manner i.e. **7 per cent by March 2016 and 7.5 per cent by March 2017.** **3)** Bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, shall **not** be reckoned in computing achievement under the overall Priority Sector targets as above. However, bank loans above Rs.5 crore per borrower / unit to Micro and Small Enterprises would be taken into account while assessing the performance of the banks with regard to their achievement of targets prescribed by the Prime Minister's Task Force on MSMEs for lending to MSE sector.
Service charges	As per Banks' Policy
Common Guidelines / Instructions for Lending to MSME Sector	**1) Processing of applications** **i. Loan Application** The Loan Application format would be as per the Bank's standard application form as applicable to other prospective borrowers of the BBG/ other verticals. **ii. Issue of Acknowledgement of Loan Applications:**

Category	DEFINITION / GUIDELINES
	Bank will issue an acknowledgement for loan applications received from the borrowers towards financing under this sector and maintain the record of the same. **iii. Disposal of Applications:** An approved Bank circular on TAT provides timelines for the cases based on ticket size / exposure involved. **iv. Sanction, Post Sanction and Rejection of Applications:** **a.** The case will be sanctioned by the Competent Authority as defined in the Delegation of Powers (DOP) which is approved by the Bank. However, in in the case of proposals from SC/ST, rejection should be done at a level higher than Sanctioning Authority as per the Scheme of Delegation of Powers. **b.** The reason for rejection will be communicated to the borrower in line with stipulation mentioned in Bank's Lenders Fair Practice Code. **c.** Post Sanction process Credit administration, account processing, loan disbursement and maintenance would be handled by the CAD team / respective Operations team. **2) Security / Collateral:** **Primary Security:** The asset created out of the credit facility extended to the borrower and / or which are directly associated with the business / project of the borrower for which the credit facility has been extended. **Collateral Security:** It is any other security offered for the said credit facility. **Guarantee :** Guarantees of key promoters / shareholders / partners / owner of collateral is taken Adequate Insurance cover has to be taken for such security. The requirement of security / collateral cover will be as per the Bank's respective product programme and shall be in compliance with the RBI's laid down policies. The other guidelines/amendments as per lending policy of the Bank should be closely observed. **3) Composite Loan:** 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.
Types of Loans	The Bank may provide all types of funded and non funded facilities to the

Category	DEFINITION / GUIDELINES
	borrower under this sector viz, Term Loan, Cash Credit, Letter of Credit, Bank guarantee, Channel Finance, etc. Bank will fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSEs.
Margin	The margin will be as per the Lending policy of the Bank. While considering proposals under MSME sector, the book debt upto six months may be treated as current assets, for the purpose of computation of permissible bank finance. **ii.** The margin on the book debts may also be considered at 20% to 25%/40%/50 % on merit of the case. **iii.** In regard to age of the book debts, a certificate preferably from Auditors /Chartered Accountant to be obtained. **iv.** All book debts more than 180 days are to be treated as Non-current asset.
Risk Rating, Pricing & Other Service Charges	**Risk Rating** **i.** The RBI has directed to Banks to take steps to rationalize the cost of loans to MSME sector by adopting a transparent rating system. **ii.** The rating of account may be done under internal **RAM rating system/Scoring Model** given as per respective product programme.
Pricing	The rate of interest to the borrower classified under Micro, Small and Medium Enterprises will be charged as per Bank's policy / RBI Guidelines
Other Service / Inspection Charges	This is defined as per the respective product policy
Eligible Type of borrowers	Sole Proprietorships, Registered Firms, Private and Public Limited Companies (HUF Firms and partnership firms where HUF is a partner to be excluded)
Age of promoter	Min = 25 years Max = 70 years
Banking History	Credit T/O in the bank statement should be commensurate with the sales T/O.
Defaulter checklist	Entity/ Group entities as well as all directors should not be part of RBI / ECGC defaulters list / Adverse credit history report
CIBIL Check/ SMA Check	Borrowers/guarantors names should not be appearing in the consumer/commercial Cibil The account should not be appearing under SMA-2 list.
Working capital-	**Working Capital Loan:**

Category	DEFINITION / GUIDELINES

Assessment, Benchmark ratios, margin	The customer will be allowed working capital facility up to 20% of projected turnover as computed below:
	
	1. Where the turnover is growing in last two years, the projected turnover would be considered as **lower** of following two :
	    a. Projected turnover given by customer.
	    b. 130% of the last year turnover as per audited / provisional financials.
	
	2. In all other cases, the projected turnover would be considered as **lowest** of following :
	    a. Projected turnover given by the customer.
	    b. Estimated Projected turnover (Last Year turnover * CAGR of past two years)
	    c. 130% of the last year turnover as per audited / provisional financials.
	
	If there is decline in the turnover for any two years or in current year, ZCA can take call on such cases
	
	However basis the facts and justification for the case MPBF can be considered and can be assessed as per Nayak Committee recommendation.
	
	A separate additional limit, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by the borrower, may be sanctioned to the borrower. However, such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by the MSEs. Such separate additional limit will be sanctioned after proper justification and assessment of the limits.
	
	The Bank may go for mid-term review if it is convinced that there are changes in the demand pattern of MSE borrowers. Such mid-term reviews may be based on an assessment of sales performance of the MSEs since last review. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements.
	
	The Working capital assessment process for respective products is defined in their policies.
	
	Non fund based facility exposure to be need based on the acceptable projected business volumes.
	
	Aggregate Exposure (Funded and Non-Funded) above Rs.500 lacs will be considered on the basis of regular assessment under CBG – SME model, instead of templated lending.

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<tr><th>Category</th><th>DEFINITION / GUIDELINES</th></tr>
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Broad parameters for eligibility for Working capital finance will be as under
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<tr><th>Particulars</th><th>Minimum Entry Ratios</th></tr>
<tr><td>Gearing</td><td><= 4.00</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Leverage</td><td><= 6.00</td></tr>
<tr><td>Current Ratio</td><td>>=1.00</td></tr>
<tr><td>ICOR</td><td>>=1.25</td></tr>
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Deviation on the above can be considered on cases to case basis.
Margin for working capital facilities:
Stocks & Book debts : Minimum 25%
LC & BG : Minimum 10%
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<tr><td>Term Loans</td><td>
Purpose: Term Loan can be sanctioned for various purposes like purchase of property, plant & machinery, construction of factory/ building, business expansion, working Capital term loan etc.
Business Vintage: 5 years for standalone business and 3 years in case of a group entity (must have overall 5 years business vintage within group companies)
Term loan facility would be assessed based on the estimated cost of capital expenditure to be done by the company. 20% promoter's margin to be maintained on overall cost of capex.
The term loan eligibility will be calculated based on the following formula:
Expected Monthly Income = (Past two year average EBIDTA * Imputed factor)/12
Less: Expected Monthly Interest obligations on Working Capital Facilities (CC/OD/PCFC/WCDL)
Less: Expected Monthly EMI of all existing & new term loans (Other than proposed Loan)
Loan eligible = Balance amount would be the maximum EMI available for the proposed Loan. Hence, eligible loan amount would be discounted present value of the future EMIs during the tenure of the loan at the applicable rate of interest.
Imputed factor= 1.75 times if there is no deviations on Leverage & Gearing. In
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Category	DEFINITION / GUIDELINES
	all other cases, it would be 1.25 times. Note: The loans which have residual tenure of upto 6 months, the same may not be considered for eligibility calculations. **Standby Credit Facility**: At the time of sanction of project loans, 'standby credit facility' can be sanctioned to fund unforeseen project cost overruns, if needed. Such 'standby credit facilities' will be sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. The assessment of the Standby Credit Facility which shall be done at the time of credit assessment of borrowers / project, shall also take into account viability and repayment ability of the borrower. Standby credit facility may also be sanctioned to fund periodic capital expenditure. Sanction of such a facility shall also take into account viability and repayment ability of the borrower. **Loan Tenor:** Purchase of Plant & Machinery - restricted to 5 years Business expansion and Construction of factory/building/purchase of property - restricted to 7 years Working Capital Term Loan - restricted to 3 years. However in deserving exceptional case, tenor can be increased to 5 years. <u>Additional capping on loan tenor</u> ➢ Restricted by the age of the key partner/ director/stakeholder ➢ Restricted by property age on loan maturity (property age should be less than <u>**45 yrs**</u> at the loan application time) ➢ Minimum residual age of property should be 30 yrs, after the loan maturity **Financial Norms:** Gearing, Leverage and Debt/NCA to be analysed In case of additional comfort in the form of escrow arrangement for identified cash flows, exclusive security and other such credit enhancements the eligibility and other parameters could be relaxed. The requirement of security will be as per the Bank's respective product programme and shall be in compliance with the RBI's laid down policies. The other guidelines/amendments as per lending policy of the Bank should be closely observed.
Grievance handling mechanism	The Bank has a process which details the process to deal with customer complaints. The customer can register his complaint at Branch through Complaint Register. He can also call contact centre on the various numbers / toll free numbers available on the Bank's website/ web. In order to expedite the resolution, the customer can escalate the matter to Regional Heads by writing an e-mail to him or by sending a letter through post.

Category	DEFINITION / GUIDELINES
Other Aspects	The other aspects of the Bank's Credit policy/ guidelines under the relevant products/RBI Guidelines/MSE Code of BCSBI will be applicable.
Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises	The objective of this framework is to provide simple and faster mechanism to address the stress in the MSME's accounts. **Eligibility:** The provisions made in this framework shall be applicable to MSMEs having loan limits up to Rs. 25 Crore, including accounts under consortium or multiple banking arrangements (MBA). The rest of the MSMEs can request the bank for rehabilation / restructuring and the same would be processed under applicable restructuring / rehabilitation policy of the bank. **Process to be followed :** 1) Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), bank would classify the stress account in SMA categories as per existing Framework for Revitalising Distressed Assets. 2) If the account with aggregate limits of more than Rs 10 lakh shows signs of early stress identified by way of their classification under SMA – 0/1/2, the account has to be referred to the Committee within 5 working days for a suitable correction plan. Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2. 3) Any MSME borrower enjoying aggregate limits of more than Rs 10 lakh may voluntarily initiate proceedings, under this framework and submit an application to the branch or Committee, if it apprehends failure of its business or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. The Committee should convene its meeting within 5 working days. The application by the enterprise should inter-alia include: Latest audited accounts of the Enterprise including its Net worth; (b) Details of all liabilities of the enterprise, including the liabilities owed to the State or Central Government and unsecured creditors, if any; (c) Nature of stress faced by the Enterprise; and (d) Suggested remedial actions 4) Within 30 days of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan which may include rectification, restructuring or recovery. The enterprise shall be notified within 5 working days from the date of such decision. 5) If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the

Category	DEFINITION / GUIDELINES
	detailed Techno-Economic Viability (TEV) study and finalize the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within 20 working days (for accounts having aggregate exposure up to Rs.10 crore) and within 30 working days (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore) and notify the enterprise about such terms, within 5 working days. Wilful defaulters shall not be eligible for restructuring. 6) Upon finalization of the terms of the corrective action plan (CAP), the implementation of that plan shall be completed by the bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures shall be initiated at the earliest. 7) The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account and will be binding on all lenders. 8) Detailed time-lines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. 9) Additional Finance: If the Committee decides that the enterprise requires financial resources to restructure or revive, additional finance should be matched by contribution by the promoters in appropriate proportion which should not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts. 10) In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of 10 working days from the date of receipt of the decision of the Committee. As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager / such other official (hereinafter referred to as 'designated official') as decided by the bank **<u>Constitution of Committee :</u>** The Composition of the Committee shall be as under: 1. Chief Risk Officer, Chairperson of the Committee;

Category	DEFINITION / GUIDELINES
	2. Business Head of respective business unit or his/ her representative not less than at VP Grade. 3. Head- Credit, Consumer Bank/ CCBG or his/ her representative at not less than VP Grade. 4. Head- FRR or his/ her representative at not less than VP Grade. Apart from this, the following would also be the members of the committee : 1. One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by bank. 2. One representative from the concerned State Government, In case State Government does not nominate any member then a retired executive of another bank of the rank of AGM and above. 3. In the event of consortium / MBA, senior representatives of all banks / lenders having exposure to the borrower. MD is authorized to decide on the remaining members on the advice of CRO as per availability from the government department or retired personals and also based on market research. The appointment of the members, their terms & conditions and the various procedures on functioning of the committee would be finalised and approved by MD.

Annexure – A: Calculation of Value of Plant & Machinery

Enterprises	**Calculation of Value of Plant & Machinery**
Manufacturing Enterprises (Calculation of Value of Plant & Machinery)	"In calculating the value of plant and machinery for the above purpose, the original price thereof, irrespective of whether the plant and machinery are new or second hand shall be taken into account. In calculating the value of plant and machinery, the following shall be excluded 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 miniature 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. **In the case of imported machinery, the following shall be included in calculating the value :-** (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.