KERALA GRAMIN BANK
HEAD OFFICE: MALAPPURAM

CREDIT WING

POLICY GUIDELINES ON LENDING TO MICRO & SMALL ENTERPRISES FY 2023-24

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1. INTRODUCTION

MSME is a fast growing sector in the Indian Economy. Every Bank has given highest importance to financing MSMEs in their strategic growth plan. It has become necessary to bring policy shift and create free market environment from regulations & interventions in economic activity. Growth resulting from globalization and liberalization is visible most profoundly in the MSME segment. The relationship between the banker and the customer has become most crucial and competitive. The technology has entered the scene almost as a natural corollary of liberalization. Liberalized policies provide ample opportunities to Indian Market to compete with developed and developing countries. The clearance of the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 is a turning point for the development of Indian industry, as it addresses and streamlines entire framework along with key governance & operational issues being faced by the MSMEs.

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/circulars/directives to banks in the matters relating to lending to Micro, Small & Medium Enterprises Sector. The Policy guidelines given below include the Bank's Commitment to Customers under Micro & Small Enterprises as defined by RBI from time to time. Government of India, vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises based on investment and turnover. The new criteria have come into effect from July 01, 2020.

2. OBJECTIVES

The MSME loan policy is designed with the following objectives:

a) To describe the MSME sector and its functional coverage.
b) To lay down guidelines for assessment of credit to MSME units.
c) To make available adequate and hassle-free credit facilities to MSME enterprises.
d) To achieve various growth parameters prescribed for MSME sector.
e) To comply with RBI/Government of India guidelines and instructions on MSME financing.

f) To give more thrust to Micro and Small Enterprises.
g) To adopt cluster based financing for MSMEs.
h) To implement various Government sponsored schemes applicable to MSMEs.
i) To adhere to the BCSBI"s Code of Commitment to MSME

The Bank is committed to the Code of Conduct to Customers given by The Banking Codes and Standards Board of India (BCSBI) for Micro & Small Enterprises, revised from time to time. BCSBI has evolved two sets of Codes: **Code of Bank's Commitment to Customers** and the **Code of Bank's Commitment to Micro and Small Enterprises.** The Code has been evolved by the BCSBI in collaboration with the RBI, IBA and the Member Banks. The central objective of the Code is promoting good and fair banking practices, setting minimum standards, increasing transparency, achieving higher operating standards and above all, promoting cordial banker- customer relationship which would foster confidence of common man in the banking system. These Codes have been adopted by the member banks of BCSBI and the Bank is a member of BCSBI from 2012 onwards. The Code of Bank's Commitment to Micro and Small Enterprises (MSE Code) is a mandatory 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 MSMED Act, 2006. It explains norms that banks are expected to follow while dealing with MSEs for day-to-day operations and in times of financial difficulty. The provisions of the Code of Bank's Commitment to Customers is not only a Charter of Rights to MSE Customers, but also their responsibilities vis-a-vis the Bank, such as:

i. Key Commitments like financial products and services, various types of accounts and services, fair and reasonable treatment in dealings, keeping personal and business information as private and confidential, etc.
ii. Information Transparency such as interest rates, tariff schedule, terms and conditions, etc.
iii. Privacy and Confidentiality related to Credit Information Companies (CICs).
iv. Lending including application, assessment, sanction, rejection, pre and post-disbursement, insurance and so on.
v. Collection of Dues.

3. SCOPE & COVERAGE

This policy covers credit facilities to micro and small enterprises (both manufacturing and services sector) and all related issues such as assessment of credit, margin norms, security requirements, coverage under Credit Guarantee Scheme etc. This also covers policy on identification and rehabilitation of sick & potentially viable units in the MSE Sectors.

4. DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. With the enactment of this Act, the paradigm shift that has taken place is the inclusion of the services sector in the definition of MSMEs, apart from extending the scope to medium enterprises. The Act modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

Enterprises are broadly classified into two categories - Manufacturing and those engaged in providing / rendering of services. Both categories of enterprises have been further classified into micro, small and medium enterprises. Government of India, vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria have come into effect from July 1, 2020. The details are as under:

4.1. Classification of enterprises

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

i. a *micro enterprise*, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
ii. a *small enterprise*, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;
iii. a *medium enterprise*, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

- Classification/re-classification of MSMEs is the statutory responsibility of the GoI, Ministry of MSME, as per the provisions of the MSMED Act, 2006.
- All enterprises are required to register online and obtain 'Udyam Registration Certificate'.

4.2. Composite criteria of investment and turnover for classification

i. A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
ii. If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category, but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
iii. All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise.

4.3. Calculation of investment in plant and machinery or equipment

i. The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
ii. In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.The expression "plant and machinery or equipment" of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
iii. The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
iv. The cost of certain items specified in the *Explanation I* to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.
v. The online form for Udyam Registration captures depreciated cost as on 31st March each year of the relevant previous year. Therefore, the value of Plant and Machinery or Equipment for all purposes of the Notification No. S.O. 2119(E) dated June 26, 2020 and for all the enterprises shall mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not cost of acquisition or original price, which was applicable in the context of the earlier classification criteria.

4.4. Calculation of turnover

i. Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
ii. Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
iii. The turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN shall be mandatory.

In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.

5. SECTORS OF FOCUS FOR MSME FINANCING:

The following sectors are identified as thrust areas for MSME lending:

- Wood & Cane Furniture
- Steel & Metal Fabrication
- Cement & Concrete Products
- General Engineering
- Handlooms and handicrafts
- Information Technology Enabled services (ITES)
- Tourism & Catering Services
- Textiles/Garments/Readymade

5.1. Pradhan Mantri Mudra Yojana (PMMY)

We are assisting micro-enterprises under PMMY by providing financial assistance up to Rs.10 lakhs for income generating activities. Depending on the loan quantum, MUDRA loans are categorized into three categories as given below:

i. SHISHU: Loans up to Rs.50000/-.
ii. KISHORE: Loans from Rs.50001/- to Rs.500000/-
iii. TARUN: Loans from Rs.500001/- to Rs.1000000/-

In addition to the above, the overdraft amount of Rs.10000/- sanctioned in PMJDY Savings Bank accounts shall also be classified as MUDRA loans under PMMY.

6. CLASSIFICATION OF MSME SECTOR:

The definition of MSMEs will be as per Government of India (GoI), Gazette Notification S.O. 2119 (E) dated June 26, 2020 read with circular RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 read with FIDD.MSME & NFS.BC. No.4 /06.02.31/2020-2 dated July 2, 2020, August 21, 2020 respectively on 'Credit flow to Micro, Small and Medium Enterprises Sector' and updated from time to time. Further, such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services. All bank loans to MSMEs conforming to the above guidelines qualify for classification under priority sector lending.

6.1. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub- target of 7.5 percent prescribed for Micro Enterprises under priority sector.

6.2. Other Finance to MSMEs

1. Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME.
2. Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries.

3. Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
4. 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).
5. Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
6. Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

7. TARGETS FOR LENDING

Micro Enterprises: A target of 7.5 percent of ANBC or CEOBE, whichever is higher. The computation of target will be based on the ANBC (Adjusted Net Bank Credit) or Credit Equivalent Amount of Off-Balance Sheet Exposures (CEOBE), whichever is higher, as at the corresponding date of the preceding year. In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve:

- ✓ 20% year-on-year growth in credit to micro and small enterprises,
- ✓ 10% annual growth in the number of micro enterprise accounts and
- ✓ 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

8. CREDIT APPRAISAL

8.1 Appraisal Process

a) Customers are selected on the basis of initial screening – experience, expertise, and based on thorough KYC compliance.
b) The loan appraisal consists of evaluating customer profile, business viability, the acceptability of the product manufactured or services rendered, its popularity/market demand, market competitors past credit history of the borrower, checking out for Willful Defaulters' List of RBI, Specific Approval List (SAL) of ECGC etc. and the end use of the fund.
c) The borrower is visited by the officers of the bank at residence /office / factory premise. The officer understands the management, business requirement, future potential of the business and exact credit requirement of the borrower.
d) Evaluation of State and Central Govt. Policies (enabling environment) with specific reference to the Enterprise in question, Environmental stipulations, Availability of necessary infrastructure-roads, power, labour, raw material and markets.
e) Project Cost, the Proponent's own financial contribution, projections for three years, detailed ratio/balance sheet analysis including parameters like BEP, liquidity, solvency, and profitability ratios etc. will be carried out to grade the financial health of the borrower entity.

f) Facility will be sanctioned to each customer on the basis of eligibility and specific requirement of their business. Borrower will be rated as per our internal credit rating on the basis of strength of past and projected financials of the borrower, availability of collateral coverage and prospects of the business. Limit will be sanctioned and pricing (ROI) will be fixed accordingly.
g) Credit Information Reports from CIBIL and CRIF High Mark or any other Agency approved by Board, are used in the pre-sanction process for making a better informed credit decision.

8.2 Working Capital Assessment

Turnover Method (Nayak Committee Recommendations)

- Simplified procedures will be adopted for sanction of working capital limits up to Rs.5 crores as per Nayak Committee recommendation. Turnover Method i.e. 20% of the projected and accepted annual turnover will be extended as working capital limit to MSE units requiring aggregate fund based working capital limits up to Rs.5 crores.
- A reasonable growth in sales by amount ranging between 15% & 25% over the actual sales of last financial year may be normally accepted. However, sales growth of more than 25% can be accepted provided the entrepreneur provides sufficient justification for such increase in sales.
- For MSE units requiring working capital limits above Rs.5 crores, WC Limits shall be strictly allowed as per Second Method of Lending based on Credit Monitoring Arrangement (CMA) data.
- Cash Budget System: For Seasonal industries such as sugar, tea, etc; Software industry; Sick units; Construction/Contractors/Developers, cash budget method shall be used for assessment of working capital requirements. Separate Peak and Non- Peak level credit limits shall be given consideration while working on the credit appraisal where the borrower's activities are of seasonal nature.
- A combined working capital limit will be allowed against the stock and receivables without any sub limit for receivables.
- Credit Risk rating exercise shall be carried out as per Risk Management guidelines.
- Audited financial statements are to be obtained in MSME credit proposals as mentioned below:
  - ✓ Audited Financial Statements are to be compulsorily obtained in the case of Corporate Borrowers for all credit limits irrespective of the amount involved.
  - ✓ In the case of non-corporate borrowers with credit limits of over Rs.25 lakhs, submission of Audited Financial Statements is compulsory.
  - ✓ Submission of Audited Financial Statements is also compulsory in respect of borrowers having turnover of Rs.100 lakhs or more, even if aggregate of facilities sanctioned to them is Rs.25 lakhs or less.
  - ✓ For persons carrying on Profession, if the gross receipts/income is more than Rs.25 lakhs, submission of Audited Financial Statements is compulsory.
  - ✓ Audited Financial Statements shall obtained within 7 months from the date of closure of the Financial Year (i.e. by 31st October of the corresponding year).

- As per the Income Tax Rules, following forms are to be filed before due date in connection with Auditing of Accounts the Firm/Unit.

Tax Payer	Audit Form	Statement Form	Due date for audit	Due date for submission of report
A Person / Corporate carrying on business or profession who is compulsorily required to get audited	Form 3CA	Form 3CD	September 30 of the assessment year	September 30 of the assessment year
A Person other than those listed above	Form 3CB	Form 3CD	September 30 of the assessment year	September 30 of the assessment year

- While processing loans and advances, the below mentioned modalities to be followed with respect to Goods and Services Tax (GST):
  - ✓ Sales turnover limit for registration of GST for sale of goods and for sale of services is Rs.20lakh.
  - ✓ Registered persons with annual turnover exceeding Rs.1.5 crore must file GSTR-1 and GSTR-3B monthly, and annual return in form GSTR-9. If their turnover exceeds Rs. 2 crore they have to get the books audited and obtain audit report in form GSTR-9C.
  - ✓ Registered persons with annual turnover up to Rs.1.5 crore may opt to file GSTR-1 quarterly, but must file GSTR-3B monthly and annual return in form GSTR-9.
  - ✓ In case, a registered person opts for the composition scheme, they have to file CMP-08 return quarterly and annual return in GSTR-9A.

8.3 Benchmark Financial Ratios

1	Minimum Current Ratio	1.25*
2	Minimum Average DSCR	1.50
3	Minimum Debt equity Ratio (DER)	3:1
4	Minimum TOL/TNW	5:1

*If, at the time of renewal of WC Limit, the CR goes below 1.25, it should be ensured that the ratio is showing positive trend projecting CR of above benchmark.

9. SECURITY

a. **Primary security:** Hypothecation of assets created out of bank finance.

b. **Collateral security:** Charge on borrowers' property with value at least 150% of sanctioned amount, to secure the finance. Waived in case, the limit is covered under CGTMSE/CGFMU. There is also an option of Hybrid Security, wherein the portion of credit facility not covered by collateral security can be covered under CGTMSE.

c. **Additional security:** Personal guarantee, CGTMSE/CGFMU cover, etc.
d. The facilities offered by banks would be secured by primary security and collateral security, wherever applicable. The evaluation and acceptability would be as per the credit policy decided by the Bank from time to time. All assets given as security should be insured to the fullest.

No collateral security is insisted for loans up to Rs.10 lakh to MSE units. In such cases Bank may obtain the guarantee of CGTMSE/CGFMU as per eligibility. Further, all MSME loans (falling into the category of manufacturing and services) up to Rs.50 lakhs, shall invariably be covered under CGTMSE. Authorities who sanction the loan shall ensure that the loan proposal under the CGTMSE/CGFMU cover is subjected to rigorous appraisal.

In respect of other MSE units, collateral security/ third party guarantee may be stipulated as may be deemed necessary to safeguard the Bank's interest.

10. PRICING

- Interest rate and other charges would be as per the sanction terms as detailed in the loan agreement and copy of the same is also given to the borrower at the time of executing the agreement.
- Interest rate is of fixed nature.
- Increase in the Fees/Charges would be notified through our website/Account Statements/Email/SMS/Notice at the branches.
- The interest rates for specific sectors, would be available on the website for reference and would be updated as and when there is change in the rate.
- Application process Application forms are provided free of cost, along with a checklist. Information pertaining to fees/prepayment charges and rates would be provided to the customers at the time of sanction.

11. TIME LIMITS FIXED FOR DISPOSAL OF MSME LOAN APPLICATIONS

11.1 RBI has advised banks to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers. Loan applications from units under MSME sector will be disposed- off within a reasonable time, provided such applications are complete in all respects and accompanied by necessary documents as per the check list. Fair practices code to lenders shall be followed for disposal of applications under MSE. Respective Regional Offices shall review the applications pending beyond the specified period and follow up with the respective branches/credit hubs for disposal of applications.

11.2 Rejection of applications:

11.2.1 Applications for credit facilities from SC/ST customers/applications for loans under Government Sponsored Schemes shall not be rejected at the Branch level and such applications shall be referred to the next higher Authority/ Committee for their decision/confirmation.

11.2.2 MSE proposals once rejected by a higher authority/Committee shall be placed before such higher authority/Committee even through the subsequent proposals say, for lesser amount, falls within the powers of a lower authority.

11.3 A register should be maintained at branch wherein the date of receipt, sanction/disbursement/rejection with reasons thereof etc., should be recorded. The register should be made available to all inspecting Officer/Visiting Executives.

11.4 Disbursement: The bank will disburse loans to MSEs within a reasonable time after complying with all sanction terms.

11.5 Post-disbursement

Change in interest rates: The bank would intimate the customer regarding interest rate change through any of the following modes

- Written letter
- Notice at the branch
- Notification on Website
- SMS

11.6 Servicing of existing accounts: The Bank meticulously pursue the following guidelines in this regard:

i. Release all securities immediately on repayment of loan and in any case not later than one week subject to any legitimate right or lien for any other claim we may have against the customer.
ii. Grant the customer increase in the drawing power (within the sanctioned limit) within 48 hours of lodgment of stock and book debt statement.
iii. Bank would provide authenticated copies of all loan documents with a copy of enclosures, as quoted in the loan document.
iv. All working capital accounts will be given regular bank statement on request. Customers can also request for Interest statements, wherever applicable, preferably within a period of 2 months.
v. Convey our consent or otherwise within two weeks of receipt of a request for transfer of the borrower account, either from the customer or from the bank / financial institution that proposes to take over the account.

11.7 Monitoring and Due Diligence. All businesses entities having credit facility with the bank would be subject to regular monitoring as per the policy. These include, visits to Administrative Offices and Manufacturing Units, Regular stock statements assessments and Stock Audits, Monitoring of account conduct parameters like over drawings, Cheque bounces, Interest Servicing and EMI servicing etc.

12. Initiatives

i. Sector specific Product range and Standardization of SME products are introduced.
ii. Periodic SME Product Awareness program to educate field level functionaries at the HO/Regional level.
iii. Refinance partnership with Refinancing agencies like MUDRA, NABARD, NSFDC, NSKFDC, NSTFDC etc. to augment credit flow to SME segment.
iv. To promote RTO financing, tie –up with major Automobile Corporates are entered in to.
v. Conduct of SME meets in liaison with Chambers of Trade and Industry and other Industrial Associations for imparting awareness to SME clients about economy, sector, products and services offered etc.
vi. Under these initiatives, the bank will continue to give additional thrust to financing SME sector as MSME is identified as a sector crucial to the growth and development of Indian economy. Bank shall follow the strategy of increasing its business in the SME space by offering proximate service at reasonable rates but with a strong focus on the right selection of borrowers.
vii. Delayed Payments. Considerable delay in settlement of dues/payment of bills by the large-scale buyers to the micro & small manufacturing units adversely affected the recycling of funds and business operation of micro & small manufacturing units. Though the Government has enacted the Delayed Payments Act, many of the micro & small manufacturing units are reluctant to pursue cases against major buyers. The Act since amended in 1998 has made it compulsory that the payment of micro & small manufacturing suppliers should be made within 45 days. RBI has advised banks about sub-allotting overall limits to the large borrowers specifically for meeting the payment obligations in respect of purchases from micro & small manufacturing. It is expected that these measures will improve the situation of delayed payments. The Bank may consider such steps on a case-to-case basis to prevent SME units from starving for Working Capital.

12.1. Parameterized Products

A. Bank shall continue to deliver various parameterized products with added thrust to our MSME portfolio, so that MSMEs are granted easy finance based on certain predefined parameters. Bank shall constantly continue to standardize MSME products and loan processing.
B. Cluster based approach: Clusters are defined as sectoral and geographical concentration of MSME units sharing common opportunities and threats. Thrust will be given to cluster based finance wherever recognized clusters are existing. Following benefits of cluster based approach to lending will be taken advantages of:

a) Dealing with well-defined groups
b) Availability of appropriate information for risk assessment and
c) Easy monitoring of borrowal units.

C. Diverse needs of the MSE units functioning within the cluster will be considered and adequate finance will be extended to such units.

12.2 Channel Financing: Bank shall continue to adopt the policy of expanding SME advances by forming tie-ups with high net worth/ reputed corporates.

12.3 Debt Restructuring Mechanism for MSMEs

a) The objective of the scheme is to ensure timely & transparent mechanism for restructuring the debts of viable entities facing problems. The policy aims at preserving the viable units that are affected by certain internal & external factors and minimize the losses to the creditors and other stake holders through an orderly and coordinated restructuring programme.

b) Restructuring would be allowed to the following entities, which are viable or potentially viable
   - ✓ All non-corporate MSMEs irrespective of the level of dues to banks.
   - ✓ All corporate MSMEs which are enjoying banking facilities from a single Bank, irrespective of the level of dues to the Bank.
   - ✓ All corporate MSMEs, which have funded and non-funded outstanding up to Rs.10 crores under multiple/consortium banking arrangement.
   - ✓ Accounts involving willful default, fraud and malfeasance will not be eligible for restructuring under these guidelines.
   - ✓ Accounts classified as "Loss Assets" will not be eligible for restructuring under these guidelines.

c) In respect of BIFR cases, completion of all formalities in seeking approval from BIFR before implementing the package shall be ensured. No account will be taken up for rehabilitation/ restructuring unless the financial viability is established and there is a reasonable certainty of revival of the unit and repayment from the borrower, as per terms of the rehabilitation/ restructuring. The units/activities not considered viable shall not be restructured and bank will accelerate recovery measures in respect of such accounts, which may include One Time Settlement (OTS) of such accounts.

d) Key components of Restructuring

A restructured account is one where the Bank, for economic or legal reasons relating to borrower's financial difficulty, grants to the borrower concessions that the Bank would otherwise not consider. Restructuring of a borrowal account, therefore, involves any one or more of the following:

- ✓ Modification of the terms and conditions like rescheduling of repayment, reduction of interest (due to reasons other than competitive reasons), security stipulations.
- ✓ Conversion of part of the principal outstanding into debt or equity instruments.
- ✓ Conversion of unpaid interest into TL.
- ✓ Carving out of WCTL component from working capital facility on account of irregularities in working capital account.

- ✓ Waivers and concessions etc. due to reasons other than competitive reasons.
- ✓ Change in date of expected commercial production.

e) Stages at which restructuring can take place. Restructuring of advances may take place at any of the following three stages:

- ✓ Before commencement of commercial production.
- ✓ After commencement of commercial production/operation but before the asset has been classified as "sub-standard"
- ✓ After commencement of commercial production/operation and the asset has been classified as "sub-standard" or "doubtful"

f) Procedure for processing restructuring proposals under MSME Mechanism. A simplified procedure on following lines shall be followed:

- ✓ The borrower can submit a request to the branch for restructuring his account at any time subject to fulfilment of conditions mentioned above.
- ✓ In case of eligible MSMEs, which are under consortium / multiple banking arrangements, the borrower will submit his request to the consortium leader. However, the restructuring package will be worked out with the consent of the bank having the second largest share.
- ✓ All requests received from the borrowers will be scrutinized by respective branches to ensure that the requests are prima facie in order, on the basis of examination of projected financial statements for the proposed repayment period, and are eligible for consideration as per the prescribed criteria.
- ✓ Restructuring proposals shall not be entertained for the only possible reason of avoiding the possibility of slippage of such accounts. Any proposal for seeking restructuring shall be entertained only after ascertaining the reasons of potential or existing irregularity in the account and forming an opinion in the matter. However, no restructuring proposal shall be rejected by any authority without seeking concurrence of the next higher authority.

g) Procedures for determining financial viability of the unit Determining financial viability and ascertaining certainty of repayment shall be the main scrutiny area of a restructuring proposal. Conclusion on financial viability shall be drawn on the basis of examination of the unit's past performance and projected financials, including cash flow statements, for the proposed repayment period and after ascertaining that the projected financials are realistic and achievable and that the outstanding debt can be serviced during the proposed repayment period.

h) Viability of the unit and fulfilment of related conditions. The eligible units shall have to comply with the following conditions:

- ✓ The unit becomes viable in 7 years and the repayment period for the restructured debt, including moratorium, does not exceed 10 years.
- ✓ Promoter's sacrifice and additional funds brought by them should be minimum of 15% of Bank's sacrifice.
- ✓ Personal guarantee, in case of advances to companies, is offered by the promoter/s except under the circumstances of unit having been affected by external factors pertaining to the economy and industry.

i) Techno Economic Viability (TEV) study. In case, TEV study is found necessary for ascertaining the viability of the unit with a fair degree of accuracy, TEV report shall be submitted by the borrower.

j) Determining financial viability of small loans. In case of proposals involving restructuring of small loans to Micro Enterprises (Manufacturing), Micro Enterprises (Services) including advances to Small Road & Transport Operators , Small Business and Professional & Self Employed persons, which on account of small scale of business operations are neither obliged to maintain nor are maintaining audited financial statements, restructuring may be considered in absence of audited and detailed projected financial statements subject to fulfillment of following conditions.

- It is established that restructuring is necessitated by factors which are beyond the control of the borrower.
- It is established that there is certainty of repayment.
- It is established that past performance of the borrower has remained satisfactory.

k) Delegation: The authority to implement Debt Restructuring Mechanism for MSMEs shall be as per credit delegation rules.

l) Time period for working out and implementing the package. The restructuring packages under MSMEs mechanism and others shall be worked out, sanctioned, wherever found feasible, and implemented within a maximum time period of 90 days from the date of receipt of requests. In case of CDR proposals, the timeframe as prescribed by CDREG shall be followed. All the accounts eligible for restructuring shall be handled strictly as per prudential norms issued by RBI from time to time.

m) Framework for revival and rehabilitation of MSME: Stressed assets which are eligible for restructuring will be identified and suitable corrective action taken by appropriate authority.

12.4 **Streamlining flow of credit to MSEs** for facilitating timely and adequate credit flow during their 'Life Cycle'. Micro and small units are more prone to facing financial difficulties during their Life Cycle than large enterprises / corporates when the business conditions turn adverse. Absence of timely support at such a juncture could lead to the unit turning sick and many a time irreversibly. As such, role of banks in providing continuous support to viable MSEs during such phases of transient financial difficulties assumes significance. RBI has advised banks to ensure that the lending policies for MSEs are streamlined and made flexible in order to empower the officials concerned to take quick decisions on credit delivery to MSEs. In this connection, bank may consider the following guidelines.

i. **Standby Credit Facility** – Bank may, at the time of sanction of project loans, consider sanction a "standby credit facility" to fund unforeseen project cost overruns, if needed. Such "standby credit facilities" are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of credit assessment of borrowers / project, such cost overruns are also taken into account while determining viability and repayment ability of the borrower.

Bank shall, as part of their lending policy to MSEs, consider a similar approach of providing a "standby credit facility", while funding capital expenditure, to fund unforeseen increases in capital expenditure. Further, at the discretion of bank, such "standby credit facility" may also be sanctioned to fund periodic capital expenditure. The objective of such "standby credit facility" would be, among others, to extend credit speedily so that the capital asset creation is not delayed and commercial production can commence at the earliest.

ii. **Working Capital Limits** – In terms of extant RBI guidelines, banks are allowed to determine working capital requirements according to their assessment of the borrowers and their credit needs. Banks are required to have a transparent policy and guidelines for credit dispensation, with the approval of their Board, in respect of each broad category of economic activity. In this connection, Bank shall also fix 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 them. Such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by MSEs. Bank may also sanction ad-hoc limits subject to the extant prudential norms, to be regularized not later than three months from the date of sanction.

iii. **Review of Regular Working Capital Limits** – At present, bank reviews working capital limits at least once in a year based on audited financial statements. However, audited financial statements of MSE units would ordinarily be available with a time lag, post-closing of the financial year. In such cases and where bank is convinced that changes in the demand pattern of MSE borrowers require a mid-term review, we may do so. Such mid-term reviews shall be based on an assessment of sales performance of the MSEs since last review without waiting for audited financial statements. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements.

iv. **Timelines for Credit Decisions** – Timely credit is critical to the growth of a healthy MSE sector. Towards this Reserve Bank has issued several guidelines. Direction of RBI to make suitable disclosures on the timelines for conveying credit decisions through their websites, notice-boards, product literature, etc. shall be complied with. Bank may comply with the following timelines for disposing of (regular, additional / ad-hoc credit facilities and restructuring of accounts, if considered viable) for MSE borrowers in line with the loan policy of the Bank.

Loan applications from units under MSME sector will be disposed-off within a reasonable time as mentioned below, provided such applications are complete in all respects.

Loans up to Rs.5 lakhs	Two weeks from the date of furnishing all documents/information
Loans beyond Rs.5 lakhs and up to Rs.25 lakhs	Four weeks from the date of furnishing all documents/information
Loans above Rs.25 lakhs	Eight weeks from the date of furnishing all documents/information

Application for additional / ad-hoc credit facilities and restructuring of accounts, if considered viable from units under MSME sector will be disposed-off within a reasonable time as mentioned below, provided such applications are complete in all respects.

Application for a credit limit or enhancement in existing credit limit up to Rs.5 lakh	Within 10 days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above Rs.5 lakh and up to Rs.25 lakh	Within 20 days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above Rs.25 lakh	Within 20 days from the date of receipt

12.5 Code of Bank's commitment to Micro and Small Enterprises.

- ✓ With a view to promote good and fair banking practices; Bank has already adopted the code of Bank's commitment to MSEs issued by Banking Codes and Standard Boards of India. Our dealings with MSEs will be in line with the code of Commitment adopted from time to time.
- ✓ Bank will encourage financing viable micro and small enterprises for fund based and non-fund based limits without collateral security and/or third party guarantee by taking advantage of the Credit Guarantee Scheme of CGTMSE/CGFMU.

13 PROCESSING CHARGES

No processing charges for loans up to Rs.5 lakhs. In case of short term loans above Rs.5 lakhs, the applicable charges is Rs.500/- per lakh or part thereof, subject to a maximum of Rs.20000/-. In case of term loans above Rs.5 lakhs, the applicable charges is 1% of the loan amount, subject to a maximum of Rs.25000/-.

14 CONCLUSION

The loan policy for MSE sector will operate as part of loan policy of the Bank and subject to guidelines/instructions of Regulatory Authorities/RBI/Government of India (GOI). Therefore, the policy will be amended with the approval of the Board whenever revised guidelines are received from the Regulatory Authorities/RBI/GOI.

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