

MSME POLICY

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1. Policy Overview

For a country to grow, the Government actively promotes business enterprises. Amongst the business enterprises, the Micro, Small and Medium Enterprises (MSME) deserve special attention. Though MSMEs are small investment enterprises, but their contribution to the Indian economy is very significant.

The MSMEs are the powerful engine of economic growth for the country being the second largest employment generation sector in India. The MSME sector has emerged as highly vibrant and dynamic sector with its agility and dynamism. The sector has shown admirable innovativeness and adaptability to firm competition in the domestic and international arena. They not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of country.

MSMEs are very important to the Bank as the formalization of the sector will be the key growth-driver for the Bank and they also offer a huge opportunity of cross selling of Retail Asset products, Salary accounts, Insurance etc to the promoters and the employees thus, leading to additional business for the Bank.

Government of India enacted MSMED act 2006 with an aim to enable MSME entrepreneurs for increasing their worth and efficiency so that they may sustain the competition, enlarge their scope of activity and enlist them among the top performers for their contribution towards economic growth, employment generation, balanced regional development, poverty reduction thus contributing to inclusive growth in the country and turn into established Corporates.

1.1 Importance of MSME:

Micro, Small and Medium Enterprises (MSMEs) are amongst the strongest drivers of economic development, innovation and employment. The MSME sector also contributes in a significant way to the growth of the Indian economy with a vast network of about 63.38 million enterprises. The sector contributes about 45% to manufacturing output, more than 40% of exports, over 28% of the GDP while creating employment for about 111 million people, which in terms of volume stands next to agricultural sector. The MSME sector in India is exceedingly heterogeneous in terms of size of the enterprises and variety of products and services, and levels of technology employed. However, the sector has the potential to grow at a faster pace. To provide impetus to the manufacturing sector, the recent National Manufacturing Policy envisaged raising the share of manufacturing sector in GDP from 16% at present to 25% by the end of 2022.

(Source: U K Sinha Expert Committee Report on MSME)

MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio **economic** development of the country. **SMEs** not only play crucial **role** in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. Despite some infrastructural deficiencies and challenges like flow of institutional credit and inadequate market linkages, this sector has registered remarkable success with regard to increase in number, quantum of investment, scale of production and overall contribution to national GDP. The study makes an attempt to focus on the huge growth potential and opportunities available in India for development of MSME sector, to identify important issues and challenges and offer suggestions to address the same.

Micro, Small and Medium Enterprises in India offer a heterogeneous and varied nature of fabric in terms of the size and structure of the units, variety of products and services, scale of production and application of technology. These enterprises are quite complementary to the large scale industries as ancillary units. They contribute to the socio-economic development of the country quite significantly.

The Government of India has introduced several major policy initiatives for support and promotion of micro, small & medium enterprises in the country. These include; establishment of Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of MSME sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) was in 2000 to offer credit facilities to eligible borrowers and the Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self-employment ventures / projects / micro enterprises. MSMEs have greater opportunities to grow as ancillary industries to unleash higher industrial growth. MSMEs being less capital intensive and more employment-friendly have easier access to raw materials, subsidies and other incentives under cluster programs. The country has huge growth potential to create and enhance the capacity of enterprises both in the manufacturing and service sector by using the available resources. There are huge opportunities for the MSMEs to grow as ancillary industries to unleash greater industrial growth. Development of the sector is therefore extremely important as it holds the key to inclusive growth and plays a pivotal role in holistic development of the country.

Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

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

Definition of Micro, Small and Medium Enterprises

In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) is classified in two categories:

a) Manufacturing Enterprises - The enterprises engaged in the manufacturing 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. Employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

b) Service Enterprises-The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Loans granted to Retail & Wholesale Traders would be eligible for classification under Micro and Small Enterprises Sector provided they satisfy the definition of Micro & Small (Service) Enterprises in respect of investment in Equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under :-

Classification	Manufacturing Enterprise	Service Enterprise
	Investment in plant and machinery (original cost excluding land and building and such items specified by the Ministry of Small Scale Industries)	Investment in equipment (original cost excluding land and building and furniture, fittings and such items specified by the Ministry of Small Scale Industries)
Micro Enterprise	Up to Rs.25 lakh	Up to Rs.10 lakh
Small Enterprise	Above Rs. 25 lakh & up to Rs. 5 crore	Above Rs.10 lakh & up to Rs. 2 crore
Medium Enterprise	Above Rs. 5 crore & up to Rs.10 crore	Above Rs. 2 lakh & up to Rs. 5 crore

In terms of Ministry of MSME, Gol, Office Memorandum (OM) F. No. 12(4)/2017-SME dated March 8, 2017, it is clarified that for ascertaining the investment in plant and machinery for classification of an enterprise as Micro, Small and Medium, the following documents could be relied upon -

- (i) A copy of the invoice of the purchase of plant and machinery; or
- (ii) Gross block for investment in plant and machinery as shown in the audited accounts; or
- (iii) A certificate issued by a Chartered Accountant regarding purchase price of plant and machinery.

For the purpose of classification of an enterprise as Micro, Small or Medium, the purchase value of plant and machinery is to be reckoned and not the book value (purchase value **minus** depreciation). The effective date for the above provision would be from the date MSMED Act, 2006 came into force and not prospectively.

In terms of Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017 on 'Lending to Micro, Small & Medium Enterprises (MSME) Sector' together with para 2 of notification No. S.O. 1722(E) dated October 5, 2006 issued by Ministry of MSME, GoI, New Delhi, while calculating the investment in plant and machinery, the original price thereof, shall be taken into account, irrespective of whether the plant and machinery are new or second hand. However, cost of the following plant & machinery/equipment etc. would be excluded for computation of investment value.

- a. Installation cost of plant & machinery.
- b. Research & development and pollution control equipment;
- c. Power generation set and extra transformer installed by the enterprise as per the Regulations of the State Electricity Board.
- d. Bank charges and Service Charges paid to the National Small Industries Corporation or the State Small Industries Corporation.
- e. Procurement or Installation of cables, wiring bars and electrical control panels (not mounted on individual machines).
- f. 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.
- g. Gas producing plants.
- h. Transportation charges (other than sales tax or value-added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise).
- i. Charges paid for technical know-how for erection of plant machinery.
- j. Such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process. Fire-fighting equipment.
- k. Such other items as may be specified, by notification from time to time.

In case of Service Enterprises, the original cost to exclude furniture, fittings and other items not directly related to the services rendered. Cost of Land and Building should be excluded while computing the investments in P&M Equipment for both Manufacturing & Service Industries.

In case of imported machinery/equipment, the following duty/charges/costs shall be included in calculating their value:

- a. Import Duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port).
- b. Shipping Charges; Customs Clearance charges.
- c. Sales Tax or Value-added Tax/GST.

Registration as MSME: UDYOG AADHAR MEMORANDUM

Ministry of Micro, Small and Medium Enterprises (MSME), Government of India has notified the Udyog Aadhaar Memorandum (UAM) under the MSMED Act, 2006 vide gazette notification [SO No. 2576(E)] dated 18-09-2015 in order to promote ease of doing business for MSMEs.

A one-page simple registration form for online filing of UAM has been introduced which replaces the filing of Entrepreneur's Memorandum Part I & II. The filing of UAM can be done on <http://udyogaadhaar.gov.in>.

Though, Udyog Aadhaar Memorandum contains word "Aadhaar" in its name, it is not mandatory to obtain Aadhaar. Further, applicants who do not have Aadhaar can file for such registration off-line, while those who have Aadhaar Number can file their application on-line. EM-I and EM-II issued prior to 18th September 2015 would continue to be valid. However EM-I and EM-II should not be insisted upon in respect of enterprises registered after 18th September 2015, as production of UAM by the entrepreneurs would suffice.

In the above backdrop, Bank branches and the field functionaries are hereby advised to proactively encourage their MSME customers, to get their Udyog Aadhaar registration in a expeditious manner and accept UAM dated on or after 18th September 2015 as valid registration of MSME.

Classification

In terms of RBI Circular No. RBI/2017-18/135 FIDD.CO.Plan.BC.18/04.09.01/2017-18 dated 01.03.2018 on 'Priority Sector Lending - Targets and Classification', Bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector without any credit cap.

Factoring Transactions

- i) Factoring transactions on 'with recourse' basis by banks which carry out the business of factoring departmentally, wherever the 'assignor' is a Micro, Small or Medium Enterprise, subject to the corresponding limits for investment in plant and machinery/ equipment and other extant guidelines for priority sector classification. Such outstanding factoring portfolios may be classified by banks under MSME category on the reporting dates.
- ii) In terms of paragraph 9 of the Department of Banking Regulation Circular DBR.No. FSD.BC.32/24.01.007/2015-16 dated July 30, 2015 on 'Provision of Factoring Services by Banks- Review', inter-alia, the borrower's bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the 'factors' must intimate the limits sanctioned to the borrower and details of debts factored to the banks concerned, taking responsibility to avoid double financing.
- iii) Factoring transactions taking place through the Trade Receivables Discounting System (TReDS) are eligible for classification under MSME and priority sector upon operationalization of the platform.

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.

Bank loans to food and agro processing units shall form part of agriculture.

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.
- 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).
- V. In terms of revised guidelines issued by Department of Financial Services, Ministry of Finance, dated September 24, 2018, Overdraft limit to Pradhan Mantri Jan Dhan Yojana (PMJDY) loan amount has been raised to Rs.10,000/- and age limit of 18-60 years has also been revised to 18-65 years. Further, there will not be any conditions attached for overdraft up to Rs. 2,000/-. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.
- VI. Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.
- VII. On-lending by registered NBFCs (other than MFIs) to Micro & Small Enterprises as per conditions specified.

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.

Two or more undertaking under the same ownership - Status of the unit

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.

Institutional Framework for MSMEs:

As the MSME Sector is an unorganized sector after the enactment of MSMED Act 2006, there has been number of institutionalised efforts, initiated to take care of the needs and problems faced by them with regulations for the stakeholders. Some of them where the Bank has a role to play are discussed below:-

Banking Codes and Standard Board of India (BCSBI)

BCSBI has revised the Code of Bank's commitment of Micro and Small Enterprises and the revised code of BCSBI "August 2015" has to be uploaded in Bank's website and intranet. The Code sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty.

The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions /directions issued by the RBI from time to time.

Objectives of the Code:

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

Some of the important commitments under BCSBI are as under:

- a. Making available, free of cost, a copy of the Code to all MSE customers and a standardized Loan Application Form with a check list indicating all that is required to be submitted with the application.
- b. Setting categorical time frames for disposal of credit application, disbursement of loan sanctioned, effecting pledges/deliveries, increasing drawing power, assessing viability and working out a rehabilitation package, etc.
- c. Providing information about interest rates, fees and charges upfront so that the MSE can make a meaningful comparison with those of other banks and take an informed decision.
- d. Placing the Bank's policy relating to MSEs in public domain and endeavouring to provide facilities to a Single Window Mechanism and Credit counselling services.

Processing Fee and Upfront Fee for MSE borrower : The processing fee (including upfront fee and processing fee for review of term loan) is not to be charged in case of fresh /enhancement /renewal /ad hoc/short review for credit limits (including Fund Based and Non Fund based) upto Rs. 5 Lacs to MSE borrowers. However, processing fee for credit limits above Rs 5 lacs (including upfront fee and processing fee for review of term loan etc.) shall be as per Bank's schedule of service charges.

Delayed Payment:

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

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

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

Financial literacy and consultancy to the Micro and Small Enterprises Sector:

Keeping in view the high extent of financial exclusion in the MSME sector, their heavy dependence on the non-institutional sources for the funding needs at a very high cost and lack of dignity/clarity; it is imperative that the excluded units are brought within the fold of the formal banking sector. The role of the Financial Literacy Centres (FLCs) and Bank Branches to handhold the MSE Units.

Empowered Committee on MSMEs:

As part of the announcement made by the Union Finance Minister, at the Regional Offices of Reserve Bank of India, Empowered Committees on MSMEs have been constituted under the Chairmanship of the Regional Directors with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level representatives from the MSME/SSI Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee meets periodically and reviews the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units.

U.K.Sinha Expert Committee Recommendation on MSME

As per the U.K.Sinha Expert Committee recommendation presently, banks assess working capital and term loan requirement of MSME units based on various methods viz. Cash Budget Method, Nayak Committee of minimum 20% of Turnover Method, Traditional or Operating Cycle Method. Out of these methods assessment based on projected turnover based method prescribed by Nayak Committee is generally used by banks. The movement from Balance Sheet or turnover based Working capital financing to cash flow based or supply chains/cluster based financing needs to be

accelerated to reduce TAT. This is within the remit of individual banks and requires no regulatory intervention.

Financial Support to MSMEs in ZED Certification Scheme:

- In accordance with the objective of supporting the ongoing effort of 'Make in India' campaign and pursuant to the Hon'ble Prime Minister's call for 'Zero Defect Zero Effect', the Ministry of Micro, Small and Medium Enterprises (MSME), Govt. of India, launched the 'Financial Support to MSMEs in Zero Defect Zero Effect (ZED)' Certification Scheme on 11th July 2016.
- The Scheme aims to enhance global competitiveness of MSMEs by providing them financial support in assessment, rating and handholding of their manufacturing processes on quality, environment & other important business aspects. Quality Council of India (QCI), an autonomous body setup by Ministry of Commerce & Industry, Govt. of India has been appointed as the National Monitoring and Implementing Unit (NMIU) for facilitating, implementation, co-ordination and monitoring of the Scheme.
- ZED Maturity Assessment Model consists of 50 parameters for projecting a holistic picture of MSMEs (covering various aspects like Production, Quality, Design, Safety, Environmental, Energy, Natural Resource, Human Resource, Intellectual Property, and Performance). Each parameter has 5 levels and the rating is on a weighted average of marks obtained in each parameter. The Rating is valid for 4 years and the surveillance audit is carried out by QCI. Based on the assessment, the MSME will be ranked as **Bronze, Silver, Gold, Diamond** and **Platinum** enterprises.
- As the ZED rated MSME units reflect better performance in terms of manufacturing processes and financial discipline, following concessions may be allowed:

ZED Rating achieved by the Unit	Eligible Concession
Gold	50% Concession in Processing Charges and 10 bps (0.10%) interest concession
Diamond & Platinum	50% Concession in Processing Charges and 25 bps (0.25%) interest concession

However, after allowing above concessions, the interest rate should not go below the benchmark lending rate.

SLBC Sub-Committee on MSME:

State Level Bankers' Committee have a separate sub-committee on MSME for addressing various issues concerning the state MSMEs including marketing assistance, timely/adequate credit availability, payment facilitation etc which consists of Leading bankers in the state, representatives from other stakeholders like State Govt. agencies, Export promotion council, Handcraft/Handloom Ministry, KVIC, KVIB, MSME Associations etc as per the SLBC direction.

Specialized MSME Branches

RBI has advised to open at least one specialized branch in each district. Further, banks have been permitted to categories their general banking branches having 60% or more of their advances to MSME sector as specialized MSME branches in order to encourage them to open more specialized MSME branches for providing better service to this sector as a whole.

As such, Branches are advised to achieve above parameter so that more and more branches can be classified under specialized MSME branch. Detail of the identified MSME Specialized Branches will be issued separately.

Structured Mechanism for monitoring the credit growth to the MSE sector

To make system of monitoring, at all stages and levels, more effective & to step up credit flow to the sector, RBI has advised to implement the following recommendations:

- Strengthen the existing systems of monitoring credit growth to the sector and put in place a system driven comprehensive performance management information system (MIS) at every supervisory level which should be critically evaluated on a regular basis;
- Put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks. (detailed circular/guideline will be issued separately)

Cluster Approach

All SLBC Convenor banks are advised to incorporate in their Annual Credit Plans, the credit requirement in the clusters identified by the Ministry of Micro, Small and Medium Enterprises, Government of India. They are also encouraged to extend banking services in such clusters / agglomerations which have come up and identified subsequently by SLBC / DCC members.

(i) As per Ganguly Committee recommendations (September 4, 2004), banks are advised that a full-service approach to cater to the diverse needs of the SSI sector (now MSE sector) may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk. A cluster based approach in lending may be more beneficial:

- (a) in dealing with well-defined and recognized groups;
- (b) for making available of appropriate information for risk assessment and
- (c) for monitoring by the lending institutions.

Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and/or other cluster specific data.

(ii) All SLBC Convener banks were advised vide letter RPCD.PLNFS.No.10416/06.02.31/2006-07 dated May 8, 2007 to review their institutional arrangements for delivering credit to the MSME sector.

Targets for MSME Lending:

Advances to Micro, Small and Medium Enterprises (MSME) 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, as per the extant guidelines on priority sector lending.

Further, in terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve:

- (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 and
- (iii) 60% of total lending to MSE sector as on preceding March 31st to Micro enterprises.

As per RBI stipulation the target fixed for the Micro Sector in MSE is as below:

Category	Sub- Targets
Micro Enterprises	7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

MSME Financing: Apart from the above statutory targets Bank will adopt various strategies to achieve the Business targets to contribute to the growth in the Bank's Advance portfolio. To this end Bank may enter into co-origination arrangement with top rated non-deposit taking systemically important Non-Banking Finance Companies (NBFCs), sign MoUs with reputed Bodies under the aegis of the Ministry of MSME, strengthen/develop various new Products/scheme for catering to various important sectors including Dealer financing scheme (DFS) etc. Bank currently has various schemes to cater the requirements of the different sectors.

Common Guidelines / Instructions for Lending to MSME Sector:

Loan Application Form:

Bank's approved Application Form and documents as per the checklist is to be obtained from all MSME borrowers irrespective of limit requested. However, additional information, required for processing the proposal, may be obtained as annexure. Wherever scheme specific application form is prescribed the same should be obtained.

Photograph of the Borrower:

For the purpose of identification of borrowers, branches themselves should make arrangements for the photographs. Cost of photographs of borrowers falling in the category of Weaker Sections should be borne by the bank.

Issue of Acknowledgement of Loan Applications:

All Branch/Cluster Offices are advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt. (Separate guideline has been issued in this regard).

Disposal of Loan Application:

The time frame for disposal of loan applications of MSE borrowers in line with BCSBI-Code of Bank's Commitment to Micro and Small Enterprises (MSE) is as under. (time limit start from the date of submission of complete information/data by the applicant)

Limit	Time limit not exceeding
Up to 5 lakh	2 Weeks
Over Rs. 5 lakh and up to Rs. 25 lakh	3 Weeks
Above Rs. 25 lakh	6 Weeks

Register of Receipt/Sanction/Rejection of Applications:

- ✓ A register should be maintained at branch wherein the date of receipt, sanction/rejection/disbursement with reasons thereof etc., should be recorded for all the Applications received by the Branches for their consideration as and when received.
- ✓ Rejection of application for fresh limit/enhancement of existing limits should not be done without the approval of next higher authority.
- ✓ Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.
- ✓ The reason for rejection should be communicated in writing to the borrower within the period stipulated for disposal in line with stipulation mentioned in the Fair Practice Lenders Code.

Type of Loan / Facility: The Bank provide all types of fund based and non-fund based facilities to the borrower under this sector viz. Term Loan, Cash Credit, Overdraft facility, Bill financing, Letter of Credit, Packing credit, Bank guarantee, etc.

Composite Loan: A composite loan with maximum limit up to Rs.1.00 Cr. should be considered by bank to enable the Micro and Small Enterprises {both for manufacturing and service sector} to avail of their working capital and Term loan requirement through Single Window.

Margin Requirement: Requirement of margin shall be guided by loan policy/RMD policy of the Bank, except for scheme specific products of MSME, which are to be followed while disposal/processing of loan applications.

Security:

- i) Branches are mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector. It is also advised to extend collateral free loans up to Rs.10 lakh to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC. Branch/Cluster Offices are advised to avail of the Credit Guarantee Scheme cover.
- ii) Where the loan amount is above Rs. 10 lakh to Rs.50 lakh, wherever collateral security is available, **Incumbents in all the scales are empowered** to sanction the loans, as per extant guidelines. However, if any eligible loan is proposed to be covered under CGTMSE, prior concurrence be obtained from **CIRCLE HEAD**.
- iii) Where the loan amount is above Rs. 50 lakh, in highly deserving cases, **ZM** shall have the discretion to examine each proposed case on merits, to cover it in CGTMSE. In case the CGTMSE Coverage is not obtained, the extant guidelines for obtaining collateral security and/or third party guarantee, shall apply.
- iv) In case of MSME borrowers, which are above Rs.10.00 lakh and are not secured under Credit Guarantee Fund Trust for Micro and Small Enterprise (CGTMSE) cover/Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL)/ any other guarantee coverage schemes/ where credit guarantee cover is not available, Bank should obtain the collaterals as per the Bank's guidelines on collateral security policy/ Specific product Scheme guidelines.
- v) CGTMSE has introduced a new "Hybrid Security" product allowing guarantee cover for the portion of credit facility not covered by collateral security. In the partial collateral security model, the Bank is allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of Rs. 200 lakh, can be covered under Credit Guarantee Scheme of CGTMSE. CGTMSE will, however, have pari-pasu charge on the primary security as well as on the collateral security provided by the borrower for the credit facility. In such partial collateral model, the collateral coverage for the uncovered credit facility shall be obtained.

Other Parameters:

- While considering proposals under MSME sector, the book debt up to six months may be treated as current assets, for the purpose of computation of permissible bank finance and drawing power calculation.
- In regard to age of the book debts, banks credit policy is to be referred.
- All book debts more than 180 days are to be treated as Non-current asset.
- Applicable rate of interest to be guided by CREDIT policy of the Bank issued from time to time.
- Loan review mechanisms are to be followed as per CREDIT policy of the Bank issued from time to time.
- Pre and Post sanction inspection, its frequency and charges etc. are to be guided at par with CREDIT policy of the Bank issued from time to time.

- Monitoring of the Loans including submission of QIS/MCR etc. is to be guided by CREDIT policy of the Bank issued from time to time.
- All the applicable charges including review/renew for MSME loans above Rs.5.00 lakhs are to be guided by Bank's Policy on Service Charges.
- Requirement of External rating Report/TEV report/Due Diligence report /Charges on Penal Interest and other charges are to be guided by Bank's guideline issued from time to time of the respective department.
- Collateral requirement except the scheme specific loans are to be guided by Bank's CREDIT policy in this respect.
- Periodicity for submission of Stock Statement, calculation of Drawing Power (DP) and requirement of its Authentication/Verification by CA if any is to be guided by CREDIT policy of the Bank.
- Applicable Penal Charges for MSME loans is to be guided by CREDIT policy of the Bank.
- Criteria on eligibility of accounts under Stock Audit are to be guided by CREDIT policy of the Bank.
- As per Companies Act, close relative covers : Father, mother (including step mother), son (including step son), son's wife, daughter (including step daughter), son's son, son's son's wife, son's daughter, son's daughter's husband, daughter's husband, daughter's son, daughter's son's wife, daughter's daughter, daughter's daughter's husband, brother (including step brother), brother's wife, sister (including step sister), wife/husband and sister's husband.
- Any other Regulatory guideline for financing MSME loans is also applicable as per guidelines issued by respective department.

Appraisal-cum-Processing Format:

For appraisal cum processing of MSME loans, Bank's approved format by the CREDIT/Credit department on the basis of IBA guideline is to be followed.

Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle':

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', guidelines were issued to banks vide circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 on the captioned subject. RBI has advised to review and tune their existing lending policies to the MSE sector by incorporating therein the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances:

- I. To extend standby credit facility in case of term loans
- II. Additional working capital to meet with emergent needs of MSE units
- III. Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.

IV. Timelines for Credit Decisions

Standby Credit Facility- Streamlining Flow of Credit to Micro And Small Enterprises (MSEs) and for Facilitating Timely and Adequate Credit Flow During Their “Life Cycle” (RBI Circular Reference no. NFS.BC.No.60/06.02.21/2015-16 dated 27th August, 2015). Micro and Small units are more prone to facing financial difficulties during their Life Cycle than large enterprise/corporate when the business conditions turn adverse. Absence of timely support at such juncture could lead to the unit turning sick and many a time irreversibly. As such role of bank in providing continuous support to viable MSEs during such phase of transient financial difficulties assumes significance. In this connection Bank has designed special scheme namely “**Standby Line of Credit for MSMEs**”, which has been circulated separately.

Government Initiative to promote MSMEs

A. PMEGP Loans:-Khadi and Village Industries Commission (KVIC), an implementing agency of PMEGP has introduced a new online portal from 01.07.2016 for the processing of PMEGP applications, i.e. from filling applications to margin money sanction. Margin Money subsidy funds will be disbursed directly to financing bank branches by the single nodal bank i.e. Corporation Bank. Detailed guidelines of the scheme has been issued separately.

B. MUDRA Loans: Pradhan Mantri Mudra Yojana was launched on 08th April 2015 to “fund the unfunded” by bringing such enterprises to the formal financial system and extending affordable credit up to Rs.10 lakh. Earlier, MUDRA loans were specially branded loans under MSE category with a maximum limit upto Rs.10.00 lac. However, the Department of Financial Services, Ministry of Finance, Government of India has broaden the scope and coverage of Mudra Loan decided to cover activities allied to Agriculture and Services under Pradhan Mantri Mudra Yojana (PMMY) from the FY 2016-17 and onward. Loans under PMMY are classified as under:

Scheme	Loan Limit
Shishu	For loans upto Rs 50,000/-
Kishore	For above Rs 50,000/- and upto Rs 5 lakh
Tarun	For Loans above Rs 5 lakh and upto Rs 10 lakh

A detailed scheme guideline of Mudra Loans has been circulated separately.

C. Stand Up India Scheme:-

Stand Up India Scheme has been launched on 5th April, 2016 by Hon’ble Prime Minister. The objective of the Stand-Up India scheme is to facilitate bank loans above Rs. 10.00 lakh and upto Rs.100.00 lakh to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield (New) enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the

shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur. Loans sanctioned under the scheme may be secured by collateral or covered under Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL) as decided by the banks.

A detailed scheme guideline of Stand Up India Loans has been circulated separately.

Credit Appraisal and Due-Diligence

Processing of Applications

- (i) Loan applications should be processed upon exercising proper due diligence and identification of the borrower.
- (ii) CIR Reports of the MSME Entrepreneurs (Both personal and commercial) should be extracted. Each item in the Report is to be critically analysed and after full satisfaction, loan proposal is to be sanctioned.
- (iii) Though, it is the primary responsibility of the borrowers to find out the genuineness of the supplier of machinery etc. (for which we are funding), whether they are the authorized dealers/supplier of the manufacturer, whether adequate service facilities are available in the near vicinity, Branches are also required to verify the veracity of the invoices, on the basis of which the disbursement orders are issued. The branches have to satisfy themselves by making discreet inquiries about the suppliers, in whose name the disbursement is to be released, by telephone calls, on-line verification, visits etc. The disbursement is to be preferably released in the bank account of the supplier whose details are also to be verified from the respective banks.
- (iv) At the time of disbursement of the limits, the Borrowers are to be properly guided about the mode of repayment, mode of maintaining the account (more specifically for cash credit account), timely submission of stock statements, renewal of insurance of the assets, deposition of CGTMSE Annual Service fee in applicable cases, realization of any other charges, submission of audited accounts and any other terms and condition as given in the offer letter etc. These also have to be clearly spelt in the sanction letter along with all other normal conditions. This is required as mostly the MSME entrepreneurs are not acquainted with the banking practices.
- (v) To adhere to the above instruction meticulously all possible measures at all stages of credit delivery i.e. Pre-sanction inspection. Appraisal, Post disbursement monitoring to avoid chances of misuses by unscrupulous borrowers so that the end use of fund is ensured at all stages by inspection of assets created immediately after disbursement and later on a regular monthly basis.
- (vi) Proper identification of the Enterprises, verification of applicant(s) and his/her/their antecedents in accordance with KYC Norms/Guidelines, their experience in the proposed line of activity, educational and social background, technical/ professional competence, integrity, initiatives, etc.
- (vii) Checking out for Willful Defaulters' List of RBI, Specific Approval List (SAL) of ECGC, CIR reports individuals as well as commercial etc.
- (viii) The acceptability of the product manufactured, its market demand/supply position, market competition, marketing arrangement, etc.

- (ix) 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, labor, raw material and markets.
- (x) Techno-economic Appraisal / Requirement of TEV report for loan proposals of above prescribed limit which is to be guided by CREDIT policy of the Bank.
- (xi) Project Cost, the Proponent's own financial contribution, projections for corresponding period of project, and other important parameters which would include the BEP, liquidity, solvency, and profitability ratios, etc.

Working Capital Assessment

To sustain the business payment cycle every unit needs a working capital based on the period within which it is expected to recover its dues from the buyer. This is a very critical area of lending which is based on the existing cash flow, if any, and/ or the projected cash flow. This analysis is to be made discreetly as per the three methods discussed below:

i) Turnover method – For loan upto Rs.5.00 Cr.

A. Turnover Method where the borrower that made more than or equal to 75% transactions Digitally such as cheques, DD, Pos.

The Working Capital requirement shall be assessed based on 37.50% of annual turnover based upon realistic projection. Bank shall fix the limit to the extent of 30%, keeping the prescribed margin of 7.50%. If the margin available is higher, WC limit shall be reduced accordingly.

B. Turnover Method where the borrower that made transactions non digital i.e. less than 75% transactions through digital mode.

The Working Capital requirement shall be assessed based on 31.50% of realistic projected annual turnover. Bank shall fix the limit to the extent of 25%, keeping the prescribed margin of 6.25%. If the margin available is higher, WC limit shall be reduced accordingly.

Standard Operating Procedure (SOP) for digital transaction:

- Digital Transactions: All sales transactions reflected in bank books other than cash and paper based instruments like cheques, DD, Pos etc should be considered.
- Assessment of limit on digital portion of projected turnover should be based on past and current trends.
- In case, the actual digital transaction is below 85% of the accepted digital sales then credit limit assessed at 30% should be restored to 25%.

Note: All the fresh accounts i.e. first time borrower is to be treated at par with non digital i.e. less than 75% transactions through digital mode.

ii) MPBF (Maximum Permissible Bank Finance) method –

In case of fund based working capital limit above Rs.5.00 crore, the MPBF(2nd method) of assessment of working requirement will continue with minimum projected margin of 25 % total buildup of current asset, which translate to the desirable level of current ratio of 1.33:1

iii) Cash Budget method –

As per this method if working capital requirement is more than Rs. 5 Cr., assessments should be carried out under cash budget method especially where the borrower is engaged as contractor or revenue is recognized on progressive billing basis, etc. Under this method, the peak level cash deficit will be the level of total working capital finance to be extended to the borrower. The peak level cash deficit will be ascertained from the projected Cash Budget statement submitted by the borrower. The cash budget statement would comprise of projected receipts and payments for the next 12 months on account of business operations including advance payment, mobilization advance, non-business operations, cash flow from capital accounts and other sundry items. Cash budget system should be followed for certain industry like tea, sugar mill, cold storage, Brick Field and information technology sector.

Term Loan

- I. Term loan may be for normal capital expenditure, acquisition of fixed assets, expansion of existing operational facilities etc.
- II. Maximum duration of loans including of moratorium period should be upto 10 years, based on cash flow. Relaxation may be allowed in the line of lending policy and as per Scheme specific products of MSMEs.
- III. Moratorium period should be considered depending on requirement of the project / proposal.
- IV. The technical feasibility and economic, financial, commercial viability, Managerial competence, environment viability and bank-ability of the proposal with reference to risk should be assessed.
- V. Disbursement of term loan should be made , upon compliance of all pre-disbursement formalities, phase wise as per draw-down schedule maintaining stipulated margin, preferably directly to the supplier, as per as practicable. Proper end-use of disbursed fund is to be ensured.
- VI. Repayment schedule should be fixed taking into account the sustenance requirements, surplus generating capacity, breakeven point, life of the asset, etc., and not in an “ ad hoc” manner.
- VII. Other parameters and benchmark financial ratios like, TOL/TNW, Debt equity Ratio, Current Ratio, DSCR, etc. should be in line with the Bank’s lending policy.

Non Fund Limits

The non-fund limits are sanctioned as per need-based requirements of the borrower. The proposals for non-fund facilities should be dealt with same diligence as in case of funded limits.

Due Diligence

One peculiarity associated with MSME sector is that a major chunk of them are single owner run or family run businesses. It could take the shape of proprietorship or partnership, but generally unregistered. Proper due diligence in borrower selection assumes paramount importance.

The due diligence exercise should inter alia cover the following aspects

- KYC formalities (identification & address verification through generally accepted documents).
- Checking of CIR Reports (to be done annually at the time of review).
- Verification RBI / ECGC defaulters' list / SAL.
- Search in records of Registrar of Companies (RoC).
- Verification of PAN.
- Educational qualifications, experience, skills.
- Employment / business details.
- Scrutiny of existing Bank Accounts / borrowing if any
- Family background, social reputation, standing/duration in the business.
- Market reports.
- Interview of the borrower and compliance of KYC norms.
- Financial Statements/Data submitted by the borrower.
- Integrity of the borrower.
- Track record with special emphasis on servicing/repayment/ restructuring history.
- Report from existing bankers.
- Scrutiny of RBI Willful / Defaulters' (Non-Suit Rs.1 Crore & above) List/ CIR/SAL List/RBI's Caution List/List of NPA Borrowers of the Bank.
- Behavior of Payment history of electricity bill and telephone bill to be checked.

Benchmark parameters for New Proposals including (Takeover cases with or without enhancement), existing proposals (renewal / enhancement / reduction):

Facilities to be sanctioned to the units are to be financially assessed based on their past/current years' performance (in case of existing units), future projections etc. The parameters are various benchmark financial ratios like TOL/TNW, Debt equity Ratio, Current Ratio, DSCR, etc. The benchmark parameters shall be applicable for New Proposals including (Takeover cases with or without enhancement), existing proposals (renewal / enhancement / reduction). Approved benchmark ratios are guided by IRMD circular on the Benchmark ratios issued from time to time.

Credit Rating Model

Internal Risk Rating

- The assigned Credit rating of all priority sector advances having credit limit up to Rs.50 lakh for MSME account shall be rated as per respective rating model adopted by the Bank.
- MSME loan of limit above Rs.50 lakh are to be rated as per rating manuals issued by IRMD.

External Credit Rating:

Rating from an external accredited agency is required for all borrowers availing loan limit of above the prescribed limit as decided by IRMD policy of the Bank. Appropriate risk weight is assigned on the basis of credit rating assigned by the rating agencies. All the related conditions/stipulation in this regards is to be guided by respective policy of the Bank.

Credit Guarantee Schemes

Bank participates in the credit guarantee schemes of various agencies like Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE) for all eligible Micro and Small Enterprises, National Credit Guarantee Trustee Company Ltd (NCGTC) for Accounts under Mudra Scheme and Stand Up India.

Detailed guidelines of CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) and NCGTC Scheme for Mudra & Stand Up India Scheme is to be issued separately.

Tie-Up for MSME Financing

MoU / Tie-Up Arrangement:

- At corporate level, bank will enter into MoU / tie-up arrangement with corporate and other agencies of repute, having established brand and preferably PAN India presence to formulate specific schemes for credit delivery to MSME sector. Chairman and Managing Director / MD & CEO and in his absence the Executive Director in charge of MSME Department may be authorized to approve such tie-up arrangements. General Manager in charge of MSME or any other officer not below the level of Assistant General Manager, authorized by Chairman and Managing Director / MD & CEO, may execute the Tie up agreement duly vetted by the legal department of the Bank.
- To this end Bank is entering into tie-up with many reputed Agencies to supplement the business sourcing efforts of the field functionaries to ensure flow of sufficient number of proposals to the branches in Micro, Small and Medium Sector under various categories. However, due diligence, KYC compliance and completion of all formalities/verifications. Asset Creation / Monitoring process at all stages of these proposals, as per our Policy cannot be compromised at any stage till continuance of the facilities.
- All the existing tie up with any of the amalgamating Bank shall continue with exiting terms and condition till its review/expiry of the tenure.

New Business Initiatives:-

TReDS (Trade Receivables Discounting System)

In India, MSMEs are a thrust segment attending to national objectives of providing employment to local population, enterprise development and inclusive growth with equity. While MSMEs are resilient and adaptive to challenges, their problem to convert trade receivables timely into liquid funds restricts their growth potential. In order to step up efforts to address this issue in a more efficient way, RBI has taken steps to establish Trade Receivables Discounting System (TReDS) platform for financing trade receivables of MSMEs.

TReDS Platform (Trade Receivables Discounting System) is an institutional mechanism set up for financing of trade receivables of MSMEs from corporate and other buyers including Government Departments and Public Sector Undertakings (PSUs) through multiple financiers. RBI issued the guidelines on 02 July 2014 under Sec 10(2) read with Sec 18 of Payment and Settlement Systems Act 2007 (Act 51 of 2007).

In the first phase, TReDS would facilitate the discounting of factoring units by the financiers (Primary Market). In the second phase, TReDS would enable further discounting / re-discounting of the discounted factoring units by the financiers (Secondary Market), thus resulting in assignment in favour of other financiers. Hence, as an interim approach, this policy on TReDS will cover the different aspects on the discounting of factoring units by the financiers only.

Bank’s Objective:

Bank finds a new business opportunity which is arising out of fast expansion of Fintech products by participating in TReDS exchange. It is expected that Bank will be benefitted from System driven, transparent and paperless process in TReDS along with reduced administrative cost.

- ✓ Participation in TReDS will help Bank in managing liquidity prudently by lending and augmenting interest income.
- ✓ Loans by factoring through approved exchange will be classified as PRIORITY SECTOR loan thus facilitating increase of PRIORITY SECTOR loan portfolio of the Bank.
- ✓ Compliance to statutory directives.

Eligible Participants/ Stake holders in TReDS exchange:

MSME Sellers	<ul style="list-style-type: none"> ✓ Should be an MSME enterprise as per the eligibility criteria under the definition of MSMED Act, 2006. ✓ Should be in existing business for a minimum period as decided by business rules of individual exchanges in line with RBI directives at the time of submission of application for registration on the TReDS platform.
Buyers	<ul style="list-style-type: none"> ✓ Corporate and other buyers including Government Departments and Public Sector Undertaking and such other entities as may be permitted by the Reserve Bank of India

	<p>("RBI") from time to time to participate on the TReDS platform as Buyers.</p> <p>✓ Should be in existing business for a minimum period as decided by business rules of individual exchanges in line with RBI directives at the time of submission of application for registration on the TReDS platform.</p>
Financiers	<p>✓ Banks, Non-banking Financial Company – Factors and such other institutions as may be permitted by RBI from time to time to participate on the TReDS platform as Financiers.</p>

➤ **TReDS exchanges:**

Three entities are approved by Reserve Bank of India presently for setting up TReDS platform which are as under:

- **Receivable Exchange of India Limited (RXIL)**
- **A.Treds**
- **M1Xchange (Mynd Solutions Pvt. Ltd.)**

PSB loans in 59minutes:

Govt. of India launched a transformative initiative in MSME credit space by launching portal www.psbloansin59minutes.com. This web portal is enabled for in principle approval for MSME loans having value minimum of Rs.1.00 Lacs and maximum upto Rs. 5.00 Crore within 59 minutes. The Portal sets a new benchmark in loan processing and reduces the turnaround time. Subsequent to this in-principle approval, the loan is required to be sanctioned & disbursed in 7-8 working days.

The contactless module process is a straight through process, which involves making use of machine based analytics (ITR, Bank statement, GST, Aadhaar based KYC, credit model etc.) to help lenders take informed decision within 59 minutes, thus reducing the turnaround time for in-principle sanction. The borrower can procure in principle sanction (after providing consent to share requisite information) which is then to be followed by visits / due diligence and physical verification of credentials. The process from in principle sanction stage to disbursement of loan is taken care by respective banks.

The platform presents an attractive opportunity for public sector banks to adapt the solutions for their requirements and improve their processes. With adoption of contactless lending platform, the time between an application, sanction and disbursement would be reduced significantly. Accordingly, all Banks have been on boarded on the platform and on-boarding of MSME customers is required for according in-principle approval. Customers can also onboard through Market place URL i.e. <https://www.psbloansin59minutes.com> through which Customer has to opt for bank of their choice.

A circular containing detailed guidelines/schemes of psbloansin59minutes.com along with the process flow for on-boarding the customers is to be circulated separately.

Co-origination Arrangement of loans between Bank and NBFC:

Existing Co-origination arrangement & any subsequent tie up with NBFC by all three Banks will continue in the merged entity on the same terms of Service Level Agreement (SLA). While UBI & OBC has tied-up with SREI Equipment Finance Ltd., PNB has tied-up with Edelweiss. The detailed operational guidelines are to be circulated separately.

Framework for Revival and Rehabilitation of MSMEs (FRR for MSMEs)

The Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. After carrying out certain changes in the captioned Framework in consultation with the Government of India, Ministry of MSME so as to make it compatible with the existing regulatory guidelines on 'Income Recognition which was circulated by RBI vide its circular no. RBI/2015-16/338 FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated 17.03.2016, advising the banks to operationalise the Framework, after getting approved from their Board.

The salient features of the Framework are as under:

- Before a loan account of an MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework.
- Any MSME borrower may also voluntarily initiate proceedings under this Framework
- Committee approach to be adopted for deciding corrective action plan
- Time lines have been fixed for taking various decisions under the Framework

Detailed Circular in this regard to be circulated separately by the MSME Department.

MSME Restructuring:

1. With reference to the RBI circulars DBR.No.BP.BC.100/21.04.048/2017-18 dated February 07, 2018 and DBR.No.BP.BC.108/21.04.048/2017-18 dated June 6, 2018. In this regard, with a view to facilitate meaningful restructuring of MSME accounts {MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006} that have become stressed, it has been decided to permit a one-

time restructuring of existing loans to MSMEs classified as 'standard' without a downgrade in the asset classification, subject to the following conditions:

- i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower **does not exceed Rs. 250 million as on January 1, 2019**.
 - ii. The borrower's account is in default but is a 'standard asset' as on January 1, 2019 and continues to be classified as a 'standard asset' till the date of implementation of the restructuring.
 - iii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration.
 - iv. The restructuring of the borrower account is implemented **on or before March 31, 2020**. A restructuring would be treated as implemented if the following conditions are met:
 - a. all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
 - b. the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.
 - v. A provision of 5% in addition to the provisions already held shall be made in respect of accounts restructured under these instructions. Banks will, however, have the option of reversing such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period as defined at paragraph 5 below.
 - vi. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
 - vii. All other instructions applicable to restructuring of loans to MSME borrowers shall continue to be applicable.
2. Banks and NBFCs desirous of adopting this scheme shall put in place a Board approved policy on restructuring of MSME advances under these instructions within a month from the date of this circular. The policy shall, inter alia, include framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts.
 3. It is clarified that accounts classified as NPA can be restructured; however, the extant asset classification norms governing restructuring of NPAs will continue to apply.
 4. As a general rule, barring the above one-time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per extant IRAC norms. Such an account may be considered for up gradation to

'standard' only if it demonstrates satisfactory performance during the specified period.

5. 'Specified Period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit/overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

Reserve Bank of India (RBI) has permitted one-time restructuring of existing standard loans under SMA 0, 1 & 2 categories under various segments of Micro, Small and Medium Enterprises (MSME) sector up to Rs. 25 Cr. (MSME as defined in the MSMED Act 2006) without downgrade of the asset classification.

Monitoring & Reporting to Top Management:

The progress of credit flow to MSME sector, expansion of MSME Branches, as also the units under nursing would continue to be submitted to the Board on a quarterly basis to ensure that the required emphasis at the highest forum of the Bank is given to the MSME sector.

Government Subsidy:

- **Technology Up-gradation Fund Scheme (TUFS), Amended Technology Up gradation Fund Scheme (ATUFS) and Scheme for Technology and Quality Upgradation (TEQUP) :**

Detailed Operational procedures are to be circulated by TUF Cell, Head Office.

- **The CLCSS (Credit Linked Capital Subsidy Scheme)**

Government of India, Ministry of Micro, Small and Medium Enterprises had launched Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of Micro and Small Enterprises subject to the following terms and conditions:

- ✓ Subsidy would be 15% of the term loan/ credit amount or cost of P&M whichever lower maximum up to Rs.15.00 lac. The ceiling limit of loan to be considered for granting the subsidy under the Credit Linked Capital Subsidy (CLCS) is Rs.100.00 lakh.
- ✓ The SC/ST owned enterprises will be eligible for additional subsidy of 10% above 15% i.e. 25%. In such cases guidelines of Special Credit Linked Capital Subsidy Scheme (SCLCSS).

Detailed Operational procedures are to be circulated by CLCSS cell, MSME Department, Head Office.

Interest Subvention Scheme for MSMEs 2018:

Reserve Bank of India vide its notification No. RBI/2018-19/125 FIDD. CO.MSME.BC. No.14/ 06.02.031/2018-19 dated 21.02.2019 has come up with the detailed guidelines on Interest Subvention Scheme for MSMEs 2018. The salient features of the Scheme is given hereunder:

i. Eligibility Criteria:

- a. MSME Enterprises (Both Manufacturing and Services)
- b. Possessing Valid GSTN number & Udyog Aadhaar Number [UAN]

As per revised guidelines mandatory clause of GSTN & UAN has been dispensed with. As per recent guidelines issued by Ministry of MSME, GoI vide their letter no. E.15(15)/2018-I dated 13.12.2019 has amended guidelines as under:

“Requirement of UAN may be dispensed with for units eligible for GST. Units not required to obtain GST may either submit Income Tax Permanent Account No. (PAN) or their loan account must be categorized as MSME by the concerned Bank.”

ii. Eligible Loan

- a. Incremental term loan or fresh term loan or incremental or fresh working capital extended during FY 2018-19 from 2nd November, 2018 and during FY 2019- 20 would be eligible for coverage.
- b. In order to ensure maximum coverage and outreach, all eligible working capital or term loan would be eligible for coverage to the extent of Rs. 100 lakh only during the period of the Scheme.
- c. Wherever both the facilities working capital and term loan are extended to a MSME by an eligible institution, interest subvention would be made available for a maximum financial assistance of 100 lakh.

iii. Account not eligible

- a. MSME exporters availing interest subvention for pre-shipment or post-shipment credit under Department of Commerce will not be eligible for assistance under the Scheme.
- b. MSMEs already availing interest subvention under any of the Schemes of the State / Central Govt. will not be eligible under the Scheme.
- c. The loan accounts on the date of filing claim should not have been declared as NPA as per extant guidelines in force. No interest subvention shall be admissible for any period during which the account remains NPA.

iv. Interest Subvention

- a. The interest relief will be calculated at two percentage points per annum (2% p.a.), on outstanding balance from time to time from the date of disbursal / drawal or the date of notification of this scheme, whichever is later, on the incremental or fresh amount of working capital sanctioned or incremental or new term loan disbursed by eligible institutions.
- b. The interest rates charged to MSMEs shall conform to Code of Ethics and Fair Practices Code as published by the Bank (as per extant RBI guidelines) and linked to the respective internal / external rating of the MSME as per applicable interest rate guidelines of the Bank.

v. Eligible Period: FY 2018-19 from 02.11.2018 and FY 2019-20

vi. Claim Submission

- a. All claims have to be duly certified by the Statutory Auditors of the Bank. The certificate shall include statement on verification of individual accounts with regard to amount, incremental / fresh lending, interest charged and amount claimed.
- b. The Half Yearly claims as per the specified format shall be submitted to SIDBI, Mumbai. Claim submission for Bank as a whole with SIDBI shall be done by MSME-HO after compiling data from all the Circle Offices.
- c. Disbursement against each claim to individual Bank shall only be after released of funds from MoMSME.

Note: Detailed guideline in this respect shall be circulated separately.

Review of the Accounts

Credit facilities sanctioned to borrowers are subjected to annual review as per the prevailing guidelines. While reviewing the loan accounts following statements including financials statements of the unit are to be taken and analysed:-

- Satisfactory repayment history (in case of term loan), Credit Summation/Business Turn over/Interest servicing (cash credit), No invocation history (Non fund based Facilities)
- Satisfactory periodic inspection of the unit/Business establishment vis-à-vis what has been envisaged while appraising/sanctioning the loan.
- Adequacy of securities, drawing power, insurance coverage etc.
- Rectification of inspection irregularities (other than non-submission of financial statements)
- Compliance of all terms and conditions of previous sanction.
- Satisfactory trend in production and /or Sales as per projections
- Documentations and mortgages in the account being complete, valid and enforceable
- Prompt payment of bills under LCs, realization of BP/BDs, Guarantee Commission etc.
- Submission of Income Tax / GST returns filed with Statutory Authority as per time schedule prescribed, wherever applicable (which will also indicate about the sales and profitability of the operations).

The Audited financial statements should, however, be obtained within 6 months from the date of Balance Sheet and satisfied upon by the sanctioning authority on financial parameters emerging out of the Balance Sheet/ Profit and Loss Account submitted by the borrowers at a later date. If the financial parameters emerging from the submitted Balance Sheet are not found satisfactory, appropriate actions, as may be warranted, should be initiated.

Status of existing Accounts under different scheme of amalgamating Bank:

All the existing accounts under different schemes with all the amalgamating Banks shall continue with existing terms and conditions as per sanctioned terms of the respective Banks till its liquidation/closure. However while review of the accounts

efforts should be made by the sanctioned authority to fit the loans proposals with the new products of the Bank.

Note: Any regulatory guidelines issued by RBI/Govt. etc from time to time will automatically be the part of this policy.

- **Any addition /deletion/modification in products/policies of the MSME/other departments related to MSME shall be part of the MSME policies. In case of any contradiction, Bank's credit policy will be having supremacy.**

Clauses / Details of the Policy as applicable to the Division;

- *Add the existing Policy Document here;*
- *Take care of mentioning the sub heads in the CONTENTS page also*

A. List of references including related policies / forms, RBI circulars, etc.

- FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017 (Updated as on April 25, 2018) on 'Lending to Micro, Small & Medium Enterprises (MSME) Sector'
- RPCD.PLNFS. BC.No.63/ 06.02.31/ 2006-07 dated April 4, 2007.
- FIDD.CO.Plan.1/04.09.01/2016-17 dated July 07, 2016 (Updated as on December 05, 2019) on 'Priority Sector Lending - Targets and Classification'
- Important Link for Generation of MSME Leads:

https://www.udyamimitra.in	Udyamimitra Portal
https://www.standupmitra.in	Stand Up India
https://www.psbloansin59minutes.com/	Psbloansin59minutes
https://www.kviconline.gov.in/pmegpeportal/pmegphome/index.jsp	PMEGP Portal