

POLICY ON MICRO & SMALL ENTERPRISES (MSE)

1. Preamble:

Micro & Small Enterprises (MSE) sector constitute the growth engine of the economy with significant contribution to GDP, exports, and employment opportunities. Besides providing depth to industrial base of the economy, the MSEs also lead to entrepreneurial development and diversification of the industrial sector. With the Services sector dominating the MSE, and MNCs outsourcing their various requirements to Indian service providers, the scope for MSE finance has increased even further. As per the Priority Sector guidelines issued by RBI, Micro, Small and Medium Enterprises will qualify for inclusion under priority sector.

Government of India have taken various policy initiatives to promote MSE sector through infrastructure development, skillset development/entrepreneurship development, technology up-gradation etc. They have taken many steps and launched many schemes to provide credit to MSEs. MSEs require credit or funding to establish the business or for the expansion of the business. There is an immediate need for the banks generally to focus on credit and finance requirements of MSEs. The MSMED Act 2006, which came into effect from 02/10/2006, aims to remove several bottlenecks faced by the MSE sector, particularly the tiny segment of the small enterprises.

The role of Banks, in general, has become very important in the above context. The MSE sector's demands can be addressed through initiatives such as: - Setting up of MSE cells, Quick decision with least Turnaround Time through specially constituted MSE Cells & Better service.

2. Classification of MSMEs based on their investment in PLANT & MACHINERY and TURNOVER.

Enterprise	Investment in Plant & Machinery or equipment	Turnover
Micro Enterprise	Does not exceed Rs 1 Cr	Does not exceed Rs 5 Cr
Small Enterprise	Does not exceed Rs 10 Cr	Does not exceed Rs 50 Cr
Medium Enterprise	Does not exceed Rs 50 Cr	Does not exceed Rs 250 Cr

All the above enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. For PSL purposes banks shall be guided by the classification recorded in the Udyam Registration certificate (URC).

Retail and Wholesale trade are included as MSMEs for the limited purpose of priority sector lending and are allowed to be registered on Udyam Registration Portal

The certificate issued on Udyam assist portal (UAP) to Informal Micro Enterprises (IMEs) shall be treated at par with Udyam Registration Certificate for the purpose of availing Priority Sector Lending benefits. IMEs with an Udyam Assist Certificate shall be treated as micro enterprises for the purpose of PSL classification.

3. Bank's Commitment to MSE:

The Bank is committed to the following:

- To provide checklists along with applications to MSE clients (the check list for MSE is attached as annexure).
- To issue acknowledgements upon submission of application forms.
- To comply with the stipulated time norms for disposal of applications.
- To adopt Turnover Method prescribed by Nayak Committee for all Working Capital advances up to Rs.5 Crores.
- To display MSE policy guidelines in Bank's website.

While dealing with MSE segment borrowers Banks prioritise the following, in particular:

- Provision of timely and adequate credit to the MSEs,
- Encouraging Technology Upgradation, for better quality and competitiveness of their product(s), and
- Financing of Clusters with adequate and concessional Bank finance on liberal terms in several pockets for specified activities concentrated in these pockets, which would result in reducing transaction cost and greater economies of scale.

The Bank's credit-related exposures (both Fund-Based and Non-Fund Based) and the policy guidelines relating to Credit Risk Management, Credit Delivery, Credit Monitoring and Recovery are to be treated as uniformly applicable to the MSE Policy, as well, to the extent these have not been modified under the Bank's MSE Policy. In case of modifications, the modified provisions of the MSE Policy would prevail over the other Policy Guidelines of the Bank. With changes in any of these other policy guidelines, at appropriate levels, the MSE Policy would also automatically stand amended.

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

Our bank is providing continuous support to viable MSEs. The facilities provided by our Bank to MSEs are as follows:

Product	Features
Cash Credit	Working capital
OD	Receivable finance
Term Loan	Establishment of business/Business expansion
Bill Discounting	Discounting bill and providing funds immediately
Export Packing credit	Export transaction
Post Shipment credit	Working capital
Bill discounting under LC	Short term finance
Letter of credit	Foreign and inland trade
Bank Guarantee	Performance/Financial Guarantee

Mortgage loan	To meet business needs
Others	Facilities depending upon specific needs

- i) Working Capital Limits – We provide Working Capital Credit dispensation for meeting temporary rise in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them. We provide ad-hoc limits subject to the extant prudential norms, which to be regularized not later than three months from the date of sanction.
- ii) Standby Credit facility: - Standby credit facility/seasonal limit is also provided to MSE customers to fund unforeseen increases in the capital expenditure/working capital requirements. Required standby credit limit will be assessed at the time of sanction itself, to fund unforeseen cost overruns/seasonal demands etc.
- iii) Timelines for Credit Decisions – The time frame stipulated for disposal of loan applications for SME Loans and all other loans up to Rs 2 Cr is 10 days and up to 5 Cr is 15 days.

5. Working Capital Assessment:

For working capital limits up to Rs.5 Crores, Turnover Method would be applicable for financing working capital needs of the MSEs @ 20% of the projected turnover based on the assumption of a three month operating cycle. Second method may be resorted in specific cases with longer operating cycle. Branches has to obtain and asses latest audited financials of the constituent in all cases of WC limits above Rs.10 lakhs

6. Credit Appraisal:

Broadly the appraisal would involve:

- Proper identification of the borrowers in accordance with KYC Norms / Guidelines, the borrowers' experience, educational and social background, technical/professional competence, integrity, initiatives, etc...
- Checking out for Wilful Defaulters' List of RBI, CIBIL report, Specific Approval List (SAL) of ECGC etc.
- The acceptability of the product manufactured, its popularity/market demand, market competitors.
- 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.
- Techno-economic Appraisal of units, rating /scoring etc...

7. Credit Tenure:

- The working capital facility generally have a tenure of 12 months.

- The Bank's Term Loan exposure to MSE sector would generally have a 5-7-year maturity.

8. Credit Acquisition and Take-over.

Apart from direct /primary credit acquisition, we also consider take-over of advance accounts from other Banks/FIs. Minimum financial parameters and conditions as prescribed in Banks takeover policy should be complied with.

9. Collateral Security and Margin Norms:

No need for collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector. In all other cases the collateral coverage is fixed by the sanctioning authority based on the Risk rating and merits of the proposal complying with the extend guidelines on collateral coverage of the Bank.

10. Cluster Approach.

A Cluster shall mean a cluster identified by the Ministry of Micro, Small and Medium Enterprises, Government of India or the respective state /UT Governments. SLBC/UTLBC Convenor banks shall display the list of these clusters on their portals and update them semi-annually as at end-March and end- September. The Updated list of clusters identified by Ministry of MSME may be accessed from Ministry's official website. The cluster based approach for financing MSEs is expected to result in less transaction costs and risk mitigation. It also contributes for improvement in infrastructure.

11. Debt Restructuring, Revival and Rehabilitation of Sick Units

Guidelines for debt restructuring mechanism for MSMEs are detailed in the Policy on Restructuring and Resolution of Stressed Assets and Policy on Revival and Rehabilitation of MSME Accounts. As a part of recovery policy we have laid down norms for [One Time Settlement \(OTS\)](#) and delegated discretionary powers to various functionaries. Hence, any request for OTS will be guided by the Loan Recovery Policy of the Bank.

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. In order to make it compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and Provisioning pertaining to Advances' issued to banks by RBI, Ministry of MSME had carried out certain changes in the captioned framework in consultation with the Government of India. The guidelines on the captioned Framework along with operating instructions were issued as Revival and Rehabilitation of Micro, Small and Medium Enterprises policy. The revival and rehabilitation of MSME units having loan limits up to Rs. 25 crore would be undertaken under this Framework.

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

Timelines have been fixed for taking various decisions under the Framework

Annexure:

Check-list for MSE Applicants:

- Duly filled in prescribed Loan Application form
- UDYAM registration certificate.
- In the case of registered manufacturing enterprises, copy of registration certificate given by DIC.
- Audited balance Sheets with Trading and profit & Loss Account for the last three years (in case of existing units)
- 24 months GST returns / GST validation report (in case of existing units).
- Income Tax and Assessment orders for the last three years for the unit as well as proprietor / partners / promoters / directors (in case of existing units)
- Memorandum and Articles of association, Certificate for Commencement of Business for limited companies; Registered Partnership Deed for Partnerships
- Copies of necessary permission for setting up the unit / undertake manufacturing activity obtained from competent authority.
- Detailed project report – in case of new projects
- Details of the Plant and Machinery to be purchased and quotations from the suppliers in case of Term Loan
- Detailed plan & estimate for factory building / office approved by the Local Body.
- Clearance from Pollution Control Board, Corporation / Municipality / Panchayat as per industry specific requirements.
- Details / copies of documents of collateral security offered wherever applicable
- Sources of adequate power and water supply with details of alternate sources of power
- Power allocation certificate from the State Electricity Board wherever required.
- Lease agreement of factory premises, if rented building
- Copy of account for last one year, if account is being maintained with other bank and approaching us for fresh / takeover of facilities
- Latest sanction order for various limits from Banks / FIs.
- Auditor's certificate showing the nature and source of own funds, other than capital, like unsecured loans, etc. whether interest bearing or not, repayment terms, whether of long term quasi equity nature, for existing as well as funds to be raised.
- Auditor's certificate to the effect whether revaluation of assets, if any, had been done at any stage with details.

- Particulars regarding eligibility/availment of incentives like investment subsidy, power subsidy, IT holiday, EPCG, TUF loan or special schemes, etc.
- Particulars regarding product / process quality certifications like BIS, ISO, GMP & EOU / Export house status etc..
- Tie-up / ancillary / franchise arrangement for the procurement of knowhow / raw material / sale of finished goods / services etc.