

MSME Lending Policy

1.1. MSME is fast growing sector in the Indian Economy. Every Bank has given highest importance to financing MSMEs in their strategical 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 frame work along with key governance & operational issues being faced by the SMEs.

1.2. Objective

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 MSMEs.

1.3. Scope and 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.

1.4. Definition of Micro, Small and Medium Enterprises

(A). 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.

(B). 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 based on their investment in plant and machinery (for manufacturing enterprises) or on equipment (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Enterprises	Manufacturing Sector	Service Sector
Original cost of	Investment in plant & machinery	Investment in equipments
Micro Enterprises	Does not exceed ₹25 lakh	Does not exceed ₹10 lakh
Small Enterprises	More than ₹25 lakh but does not exceed ₹500 lakh	More than ₹10 lakh but does not exceed ₹ 200 lakh
Medium Enterprises	More than ₹500 lakh but does not exceed ₹1000 lakh	More than ₹200 lakh but does not exceed ₹500 lakh

(C). Calculation of Cost of Plant and Machinery: As per notification of Ministry of Small Scale Industries cost of plant and machinery is calculated as under:

(D). While calculating the value of plant and machinery for manufacturing enterprises, the cost of land and building should not be included. While calculating the investment in plant and machinery the original price thereof, irrespective of whether the plant and machinery is new or second hand, shall be taken into account.

(E). List of items which shall to be excluded while computing the investment in Plant & Machinery in case of manufacturing enterprises

- a) Equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumable stores.
- b) Installation of Plant & Machinery
- c) Research and development equipment and Pollution Control Equipment
- d) Power generation set and extra transformer installed by enterprises as per the regulations of the State Electricity Board.
- e) Bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation.
- f) Procurement or installation of cables, wiring, bus bars, electrical control panels, oil circuit breakers or miniature circuit breakers which are necessarily used for providing electrical power to the plant and machinery for safety measures.
- g) Gas producer plants
- h) Transportation charges (excluding 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 and machinery.
- j) Storage tanks which store raw materials and finished products only and are not linked with the manufacturing process.
- k) Firefighting Equipment.

1.5. Classification of MSMEs under Priority Sector

Bank loans to micro, small and medium enterprises both manufacturing and service are eligible to be classified under priority sector as per the following:

1.5.1. Direct Finance

1.5.1.1. Manufacturing Enterprises

The Micro, Small and Medium enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

1.5.1.2. Service Enterprises

Bank loans up to ₹5 crore per unit to Micro and Small Enterprises and ₹10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

1.5.1.3. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent/ 7.5 percent prescribed for Micro Enterprises under priority sector.

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

1.5.2. Indirect Finance

- a) Loans to persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- b) Loans to cooperatives of producers in the decentralized sector viz. artisans village and cottage industries.
- c) Loans sanctioned by banks to MFIs for on-lending to MSE sector as per the conditions specified in RBI circular on Priority Sector Advances.
- d) 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).
- e) Outstanding deposits with SIDBI on account of priority sector shortfall.

1.6. Targets for lending

(A). Bank is expected to enlarge credit to priority sector and ensure that priority sector advances (which include the MSEs sector) constitute 40% of Adjusted Net bank Credit (ANBC) or credit equivalent amount of Off- Balance Sheet Exposure, whichever is higher. Bank is also required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises by March 2017.

(B). Bank loans above ₹5 crore per borrower/ unit to Micro and Small Enterprises and ₹10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, shall **not** be reckoned in computing achievement under the overall Priority Sector targets as above. However, Bank loans above ₹5 crore per borrower/ unit to Micro and Small Enterprises would be taken into

account while assessing the performance of the bank with regard to their achievement of targets prescribed by the Prime Minister's Task Force on MSMEs for lending to MSE sector

(C). In terms of the recommendations of the Prime Minister's Task Force on MSMEs, bank is advised to achieve

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

1.7. Credit Appraisal

1.7.1. 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.

1.7.2. Working Capital Assessment

1.7.2.1. Turnover Method (Nayak Committee Recommendations)

(A). Simplified procedures will be adopted for sanction of working capital limits up to ₹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 ₹5 crores.

(B). For business enterprises whose sales are more than ₹40 lakhs audited financials shall be obtained.

(C). 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.

(D). For MSE units requiring working capital limits above ₹5 crores, WC Limits shall be strictly allowed as per Second Method of Lending based on Credit Monitoring Arrangement (CMA) data.

(E). 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.

(F). A combined working capital limit will be allowed against the stock and receivables without any sub limit for receivables. However, a separate Bills Discounting/Purchase limit can be sanctioned wherever required depending upon the nature of activity. Margins may be different for stocks and receivables on case to case basis.

(G). Credit Risk rating exercise shall be carried out as per Risk Management guidelines.

(H). External Credit Rating: Small Enterprises borrowers are rated by few external credit rating agencies. In case of MEs, some of the borrowers are getting their accounts rated by external credit agency like CRISIL, CARE, FITCH, etc.

1.7.3. Benchmark Financial Ratios

1	Minimum current ratio	1.17
2	Minimum DSCR	1.25
3	Debt Equity Ratio	3:1
4	Maximum TOL /TNW	5
5	Maximum TOL	Should not exceeds 50% of the turnover

1.7.4. Security

(A). No collateral security is insisted for loans up to ₹10 lakh to MSE units. In such cases Bank may obtain the guarantee of CGTMSE as per eligibility. Delegates who sanction the loan shall ensure that the loan proposal under the CGTMSE cover is subjected to rigorous appraisal.

- a) Primary security: Assets created out of bank finance.
- b) Collateral security: Charge on borrowers' property to secure the finance normally with a margin. Waived in case, limit is covered under CGTMSE.
- c) Additional security: Personal guarantee, CGTMSE cover, etc.

(B). 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.

1.7.5. Pricing

- a) 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.

- b) Loan can be on fixed/ floating rate. Floating rate will be linked to the MCLR of the bank.
- c) Increase in the Fees/Charges would be notified through our website/Account statements/email/sms/notice at the branches 30 days prior to the revised charges becoming effective.
- d) The MCLR & 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.

1.8. 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 application. Online system platform is enabled to MSME customers to apply and e-track the status of their application and also branches to trace the leads generated.

1.9. Time limits fixed for disposal of MSME Loan Applications

(A). 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 as mentioned in Para 34.19 (D), provided such applications are complete in all respects.

(B). No processing fee will be charged for loan up to ₹25,000/-. All loan applications for Micro and Small Enterprise would be processed within the time limits (mentioned in Para 34.19 (D)) provided the loan applications are complete in all respects and accompanied by necessary documents as per the check list. Respective Zonal Offices shall review the applications pending beyond the specified period and follow up with the respective branches/credit hubs for disposal of applications.

1.10. Rejection of applications

Rejection of applications for fresh limits/enhancement of existing limits of MSE units should be done with the concurrence of the next higher authority. Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation. 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.

1.11. Disbursement

The bank will disburse loans to MSEs within 2 working days after complying with all sanction terms.

1.12. Post disbursement

1.12.1. Change in interest rates

The bank would intimate the customer regarding interest rate (MCLR) change through any or all of the following modes

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

1.12.2. Servicing of existing accounts

The Bank meticulously pursue the following guidelines in this regard:

- a) 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.
- b) Grant the customer increase in the drawing power within 48 hours of lodgment of stock and book debt statement.
- c) Bank would provide authenticated copies of all loan documents with a copy of enclosures, as quoted in the loan document.
- d) 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.
- e) Effect pledges/deliveries on priority upon receiving customer's request.
- f) 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.

1.12.3. 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.

1.13. Initiatives

- a) Sector specific Product range, Standardization of SME products and SME loan processing like introduction of specific centralized loan processing software, simplified appraisal and documentation process etc. are introduced.
- b) Periodic SME Product Awareness program to educate field level functionaries at the HO/Zonal/Regional level.
- c) Alliance partnership with agencies like NSIC, SIDBI, Credit rating agencies etc. to augment credit flow to SME segment.
- d) To promote cluster financing, more focus is given for opening branches in the States of Punjab, Maharashtra, Tamilnadu, Karnataka and Gujarat.
- e) To promote RTO financing, tie –up with major Automobile Corporate are entered in to.
- f) To facilitate more connections and for the convenience of SME customers, on line registration of loan application is enabled in our Corporate Web site.
- g) 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.

1.13.1. 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 excellent service at reasonable rates but with a strong focus on the right selection of borrowers.

1.14. 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.

1.15. 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 advantage 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.

1.16. Channel Financing

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

1.17. Debt Restructuring Mechanism for MSMEs

1.17.1. 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 co-ordinated restructuring programme.

1.17.2. Restructuring would be allowed to the following entities, which are viable or potentially viable

- a) All non-corporate MSMEs irrespective of the level of dues to banks.
- b) All corporate MSMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
- c) All corporate MSMEs, which have funded and non-funded outstanding up to ₹10 crores under multiple/ consortium banking arrangement.
- d) Accounts involving willfull default, fraud and malfeasance will not be eligible for restructuring under these guidelines.
- e) Accounts classified as “Loss Assets” will not be eligible for restructuring under these guidelines.

1.17.3. 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.

1.17.4. **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:

- a) Modification of the terms and conditions like reschedulement of repayment, reduction of interest (due to reasons other than competitive reasons), security stipulations.
- b) Conversion of part of the principal outstanding into debt or equity instruments.
- c) Conversion of unpaid interest into FITL.
- d) Carving out of WCTL component from working capital facility on account of irregularities in working capital account.
- e) Waivers and concessions etc due to reasons other than competitive reasons.
- f) Change in date of expected commercial production (COD).

1.17.5. **Stages at which restructuring can take place**

Restructuring of advances may take place at any of the following three stages:

- a) Before commencement of commercial production.
- b) After commencement of commercial production/ operation but before the asset has been classified as ‘sub – standard’.
- c) After commencement of commercial production/ operation and the asset has been classified as ‘sub-standard’ or ‘doubtful’.

1.17.6. **Procedure for processing restructuring proposals under MSME Mechanism**

A simplified procedure on following lines shall be followed:

- a) The borrower can submit a request to the branch for restructuring his account at any time subject to fulfilment of conditions mentioned above.
- b) 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.
- c) 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.
- d) 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 RCH committee without seeking concurrence of the next higher authority.

1.17.7. 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.

1.17.8. Viability of the unit and fulfilment of related conditions

The eligible units shall have to comply with the following conditions:

- a) The unit becomes viable in 7 years and the repayment period for the restructured debt, including moratorium, does not exceed 10 years.
- b) Promoter's sacrifice and additional funds brought by them should be minimum of 15% of Bank's sacrifice.
- c) 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.

1.17.9. 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.

1.17.10. 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

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

1.17.11. Delegation

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

1.17.12. 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 time frame 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.

1.18. Framework for revival and rehabilitation of MSME

1.18.1. Identification of process of incipient stress

(A). Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), Bank shall identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given below.

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

(B). On the basis of the above early warning signals, the branch maintaining the account shall consider forwarding the stressed accounts with aggregate loan limits above ₹10 lakh to the Committee as referred in para 34.18.2(c) within five working days for a suitable corrective action plan (CAP). Forwarding the account to the Committee for CAP will be mandatory in cases of accounts reported as SMA-2.

(C). As regards accounts with aggregate loan limits up to ₹10 lakh identified as SMA-2, the account should be mandatorily examined for CAP by the branch itself under the authority of the branch manager. Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee, shall be followed by the branch manager / designated official. However, the cases, where the branch manager / designated official has decided the option of recovery under CAP instead of rectification or restructuring, should be referred to the Committee for their concurrence. The branch manager / designated official should also examine the accounts reported as SMA-0 and SMA-1, if it is deemed necessary.

1.18.2. Identification by the Borrower Enterprise

Any MSME borrower may voluntarily initiate proceedings under this Framework, if the enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, by making an application to the branch

or directly to the Committee, wherever applicable. When such a request is received by the Bank, the account with aggregate loan limits above ₹10 lakh should be referred to the Committee. The Committee should convene its meeting at the earliest but not later than five working days from the receipt of the application, to examine the account for a suitable CAP. The accounts with aggregate loan limit upto ₹10 lakhs may be dealt with by the branch manager for a suitable CAP.

(A). As per RBI guidelines Bank shall constitute a Committee at Regional Office / Zonal Office level, depending upon the number of MSME units financed in the Region / Zone. Considering the functional and geographical divisions in our Bank we shall form committees at Zonal level. These Committees shall be Standing Committees and shall resolve the reported stress of MSME accounts of the branches falling under their jurisdiction.

(B). For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA), the consortium leader, or the bank having the largest exposure to the borrower under MBA, as the case may be, shall refer the case to its Committee, if the account is reported as stressed either by the borrower or any of the lenders under this Framework. This Committee will also coordinate between the different lenders.

(C). The Composition of the Committee shall be as under:

- a) For Network I, Head of Credit Monitoring Department shall be the Chairperson of the Committee. For Network II, the respective Zonal Head will be the Chairperson. In respect of Consortium/Multiple Banking accounts, the person nominated by the Convener Bank shall be the Chairperson.
- b) AGM who is in charge of the Network I branches in CRMD, shall be a member and convener of the Network I Committee. Officer-in-charge of the Micro, Small and Medium Enterprises of the Bank at the Zonal office level, shall be a member and convener of the Committee for Network II. In respect of Network I, the respective Zonal Heads or Officer-in-charge of the Micro, Small and Medium Enterprises of the Bank at the Zonal office level, shall be an alternate member, for the accounts in their Zone. (The Heads of Zonal CMCs shall be invitees in respect of the accounts of their Zones in both Networks)
- c) One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by the Bank. The independent external expert shall be nominated by the Zonal Heads for Network II and by Head of CRMD for Network I.
- d) One representative from the concerned State Government. Endeavour should be made to bring representative from the respective State Government in the Committee. In case State Government does not nominate any member, then the Bank / Convening bank shall proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.
- e) When handling accounts under consortium or Multiple Banking Arrangement, senior representative (of the rank of AGM and above) of the bank / lenders having exposure to the borrower.

(D). Appointment of such member shall be for a period of one year. Bank may consider extension of appointment on satisfactory grounds / at the discretion of the Bank. The Bank shall take steps to fill the vacancies arising from retirement/resignation of external members. The Bank shall suitably define the functions of the Committee and fix the compensation for

the members for attending the meeting. Appointment of such member shall be with the approval of the Credit Monitoring Department. Credit Monitoring Department may put in place suitable arrangements, including dedicated manpower, to ensure smooth functioning of the Committee and adherence to the stipulated timelines.

(E). While decisions of the Committee will be by simple majority, the Chairperson shall have the casting vote, in case of a tie. In case of accounts under consortium / MBA, Bank / lenders should sign an Inter-Creditor Agreement (ICA) on the lines of Joint Lenders' Forum (JLF) Agreement.

(F). All eligible stressed MSMEs shall have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

(G). Provided that where the Committee decides that recovery is to be made as part of the CAP, the manner and method of recovery shall be in accordance with the existing policies approved by the board of directors of the bank which has extended credit facilities to the enterprise, subject to any regulations prescribed by the Reserve Bank of India and extant statutory requirements.

1.18.3. Application to the Committee for a Corrective Action Plan

(A). The Bank on identifying an MSME account as SMA-2 or suitable for consideration under the Framework or on receipt of an application from the stressed enterprise, shall forward the cases having aggregate loan limits above ₹10 lakh to the Committee for immediate convening of meeting and deciding on a CAP. Stressed enterprises having aggregate loan limits above ₹10 lakh can also directly file an application for CAP to the Committee or to the largest lender for onward submission under advice to all its lenders. The Bank may use the application format designed by IBA for the purpose.

(B). Where an application is filed by the bank / lenders and admitted by the Committee, the Committee shall notify the concerned enterprise about such application within five working days and require the enterprise to:

- a) respond to the application or make a representation before the Committee; and
- b) disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any, within fifteen working days of receipt of such notice;

Provided that if the enterprise does not respond within the above period, the Committee may proceed ex-parte.

(C). On receipt of information relating to the liabilities of the enterprise, the Committee may send notice to such statutory creditors as disclosed by the enterprise as it may deem fit, informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within fifteen working days of receipt of such notice. It is mentioned here that these information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders.

(D). Within 30 days of convening its first meeting for a specific enterprise, the Committee shall take a decision on the option to be adopted under the corrective action plan as given in subsequent paragraphs and notify the enterprise about such a decision, within five working days from the date of such decision.

(E). If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee shall conduct the detailed Techno-Economic Viability (TEV) study and finalise the terms of such a restructuring in accordance with the extant prudential norms for restructuring, within 20 working days (for accounts having aggregate exposure up to ₹10 crore) and within 30 working days (for accounts having aggregate exposure above ₹10 crore and up to ₹25 crore) and notify the enterprise about such terms, within five working days.

(F). Upon finalisation of the terms of the corrective action plan, the implementation of that plan shall be completed by the concerned bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures should be initiated at the earliest.

(G). Where an application has been admitted by the Committee in respect of an MSME, the enterprise shall continue to perform contracts essential to its survival but the Committee may impose such restrictions, as it may deem fit, for future revival of the enterprise.

(H). The Committee shall make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan

1.18.4. Corrective Action Plan by the Committee

(A). The Committee shall explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. While Techno-Economic viability of each account is to be decided by the concerned lender/s before considering restructuring as CAPs, for accounts with aggregate exposure of ₹10 crore & above, the Committee should conduct a detailed Techno-Economic Viability study before finalising the CAP.

(B). During the period of operation of CAP, the enterprise shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of CAP.

(C). The options under CAP by the Committee may include (a) Rectification, (b) Restructuring, or (c) Recovery.

1.18.5. Timelines

Detailed time-lines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package. However, they should not wait beyond this period and proceed with CAP.

1.19. 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 vide Circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated 27.08.2015 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.

(A). **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.

(B). **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 regularised not later than three months from the date of sanction.

(C). **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.

(D). **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.

Application for a credit limit or enhancement in existing credit limit up to ₹5 lakh	Within 2 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹5 lakh and upto ₹25 lakh	Within 4 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹25 lakh	Within 4 weeks from the date of receipt

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 ₹5 lakh	Within 10 days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹5 lakh and upto ₹25 lakh	Within 20 days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹25 lakh	Within 20 days from the date of receipt

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

(A). 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.

(B). 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.

1.21. 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. This policy will be in force until a review is made by the Board of Directors for accommodating the emerging requirements.