

## Financing MSME sector

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 on 16th June 2006 and the same has been notified on 2nd October 2006. According to this, the enterprises engaged in the manufacture or production, processing or preservation of goods; enterprises engaged in providing or rendering of services are classified into three categories as [a] Micro Enterprises, [b] Small Enterprises and [c] Medium Enterprises, depending upon the amount of investment in Plant & Machineries/ in Equipments.

Now, Reserve Bank of India (RBI) vide circular RBI/2020-21/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated 02.07.2020 has informed that GOI, vide Gazette Notification S.O. 2119 (E) dated June 26, 2020, has notified new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020.

### Definitions

Enterprises engaged in the manufacture or production, processing or preservation of goods, providing or rendering of services:

- Micro Enterprise is an enterprise, where investment is less than or equal to Rs. 1.00 Cr and Annual turnover is less than or equal to Rs. 5.00 Cr.
- A Small Enterprise is an enterprise, where investment is less than or equal to Rs. 10.00 Cr and Annual turnover is less than or equal to Rs. 50.00 Cr.
- A Medium Enterprise is an enterprise where the investment where investment is less than or equal to Rs. 50.00 Cr and Annual turnover is less than or equal to Rs. 250.00 Cr.

These will include traders, small road- and water-transport operators, small business, professional and self-employed persons and all other service enterprises.

### Bank's Lending Policy for MSME

- Bank will strive to achieve a 20 percent year-on-year growth in credit to Micro and Small enterprises(MSE).
- In case of Micro Enterprises, the Bank proposes to achieve above 7% of ANBC or Credit Equivalent Amount of Off-Balance Sheet exposure, whichever is higher.
- Bank will strive to achieve 10% annual growth in the number of Micro Enterprise accounts.
- Bank will strive to achieve 60% of total lending to MSE sector as on preceeding March 31st reaches Micro enterprises.
- The genuine credit needs of the MSME sector shall be met with.
- As far as possible, the requirements of MSME client for term loan as well as working capital limits shall be taken care of, so as to avoid inconvenience to such borrowers.

- The working capital assessment to MSME clients will normally be made under Turnover Method up to a limit of ₹5 crore wherein 20% of the projected turnover will be the eligibility for bank finance and 5% of the turnover will be the margin of the borrower. For WC limits above ₹5 crore, assessment will normally be made under Working Capital Gap Method.
- In case of service units where primary securities like stock & book debts are low/negligible/not applicable, the following systems will be followed for Working Capital Assessment:
- On expenditure basis: In all cases where the exposure is up to ₹5 crore, the average of accepted expenditure for 60 to 90 days shall be taken as working capital gap and 75% of this will be considered as permissible Bank Finance.
- Cash Budget System: For limits exceeding ₹5 crore
- While considering term loans up to ₹2 crore to such entities debt equity ratio up to 5:1 may be considered as against the normal debt equity ratio of 3:1 suggested in the case of others. Similarly, the acceptable level of TOL to TNW will be 7:1 in such cases, as against the ratio of 5:1 suggested in other cases.
- As far as possible, drawing be allowed by margin on stock and book debts without insisting for separate sub-limit to debtors.
- As far as possible, the temporary short-term requirements of MSE borrowers will be met expeditiously.
- Bank will not take collateral securities and third party guarantee for loans up to ₹10 lakh to be granted to MSE sector.
- All eligible loans up to 10 lakh per unit to MSE sector shall be covered under the Credit Guarantee scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).
- All eligible loans beyond ₹10 lakh but up to ₹100 lakh per MSE unit will also be covered under CGTMSE as per CGTMSE rules, on case to case basis, irrespective of other facilities sanctioned to/enjoyed by the same MSE unit.
- Waiver of CGTMSE coverage for eligible loans where adequate primary immovable security is created.
- Differential interest rate will be fixed for MSE loan accounts covered under CGTMSE.
- No processing fee for loans upto ₹5 lakh.

#### Bank's presence in identified MSME Clusters

The United Nations Industrial Development Organisation (UNIDO) has identified in total 388 clusters having MSME concentration, across the country. Of these in more than 200 clusters the Bank has its presence/ Branches for delivering credit to MSME sector units. List of the identified clusters having Bank's presence is furnished in [ANNEXURE—I](#)

#### Designated MSME Branches

MSMEs form a major bulk of the business enterprise and they are significant contributors to the country's economy. The Bank has been giving thrust to lending to MSMEs. Keeping in view the potential of the areas, the Bank has designated in total 210 Branches across India, as 'MSME Specialized branches' for giving focused attention on lending to MSME sector. List of Designated MSME Specialized Branches is furnished under [ANNEXURE—II](#)

### Sensitizing the Bank's staff for MSME Lending

Bank's Staff Training College has devised special training curriculum on MSME Financing. Bank's staff members from the different offices/Branches are being drafted for the training programmes on MSME financing. Intricacies of MSME sector, various aspects of financing to this sector are being dealt in such training programmes and the participants are sensitized appropriately to deal with MSME sector advances.

### Loan Application Form with Checklist

Bank's loan application form for MSE sector along with checklist on the requirements to be complied with is furnished under [Application Forms](#) in Bank's portal. In case of Medium Enterprises, the customers may please contact the nearest [Branch](#) of the Bank.

### System of issuing acknowledgement of loan applications

The Bank has already introduced the system of issuing with serially numbered acknowledgement to the loan applicants on receipt of the loan application. Further, tracking of the loan proposals of customers of the Bank (including MSME customers) has already been enabled in Bank's internal network system.

A system for accepting Online Application from MSME borrowers and Online Tracking of loan applications is made available. At the time of submitting the application (Online or Offline), the applicant will receive a reference number. Through this reference number the applicant can track the status of loan applications on a day to day basis.

### Interest rates and service charges on MSME advances

Interest rate structure for MSME advances [Click here](#)

View [Service Charge Details](#)

### Restructuring/rehabilitation policy of the Bank for MSME

#### A. Objectives

The objective of the Debt Restructuring Scheme [DRS] for MSEs is to ensure timely and transparent mechanism for restructuring the debts of entities declared as "viable/potentially viable" and facing problems, for the benefit of all concerned. In particular, the framework will aim at preserving viable MSEs that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme.

#### B. Eligibility Criteria of Cases under MSE-DRS:

The Debt Restructuring guidelines shall be applicable for the following MSE entities, which are declared as "Sick" and viable or potentially viable:

- All corporate and non-corporate MSEs irrespective of the total exposure to the banking sector.
- All corporate MSEs, which have funded and non-funded outstanding up to ₹10 crore under multiple/ consortium banking arrangement

### C. Cases, Which Cannot Be Considered Under MSE-DRS:

- Accounts of Units declared as “Unviable” or classified as “Loss Assets”.
- Accounts of Units involving malfeasance/fraud or where diversion of funds with mala fide intention has been observed.
- In the case of accounts referred to BIFR, the proposal of restructuring shall be approved by BIFR and any condition stipulated by BIFR should be complied with before implementation of the package
- Accounts identified as wilful defaulters will not generally be considered for restructuring.
- Accounts of Units becoming sick on account of willful mismanagement, disputes among partners / promoters etc.

### D. Stages at which proposal under MSME-DRS can be considered:

Any account irrespective of present status of irregularity can be considered for restructuring provided it meets the viability criteria as set under para E below. However, if a NPA account is restructured it shall be upgraded only after completion of satisfactory performance for one year as per prudential norms.

### E. Viability criteria for MSME-DRS :

The following viability criteria are prescribed.

PARTICULARS	VIABILITY NORMS FOR MSME-DRS
Minimum Average DSCR	1.25
Maximum Period within which the unit should become viable	7 years
Maximum Repayment period of the restructured debt	12 years
Minimum Promoters' Contribution (of which at least 50% must come upfront and balance within 6 months)	Micro sector -10% All other sectors - 15%

### F. Procedure :

The borrowers intending to avail the benefits of restructuring under DRS for MSMEs shall approach the branch with the following papers:

- Request for restructuring of debts.
- Copies of the Balance Sheet and Profit and Loss A/c of the borrower for the last three years.
- Unaudited data for the current year.
- For projects under implementation, details of sources and uses of funds since inception.
- Projected profitability statement covering the period of repayment proposed for restructured debt, along with the calculation of DSCR.

- Projected Balance Sheet and Profit and Loss A/c covering the period of repayment proposed for the restructured debt.
- Techno-economic viability study report to be obtained for exposure of ₹10 crore and above.
- Statement showing identification of the sources of margin money.
- Statement showing the annual working capital requirement.

#### **G. Legal Basis :**

While considering restructuring of accounts under MSE sector, exchange letters duly signed by borrower/s, co-obligant/s, surety/ies shall be obtained in the cases where there is only simple change in repayment schedule. If the restructuring involves modification of terms of original loan documents beyond simple change in repayment schedule, then revised documents shall be obtained in addition to exchange letters.

#### **H.Rejection of cases under MSME-DRS :**

If the restructuring is not found viable, such cases will not be considered for restructuring and recovery actions will be initiated in such cases.

#### **One Time Settlement(OTS) of loans of MSME borrowers**

The Bank has introduced One Time Settlement Schemes(OTS) called Recovery By Settlement (RBS) for small borrower accounts which have been classified as Sub-Standard (NPA) as on the financial year ending 31st March, with total outstanding balance up to ₹5 lakh.

In respect of other borrowers, settlements of their accounts are being considered on case to case basis.

#### **Framework For Revival And Rehabilitation Of Micro, Small And Medium Enterprises – Operational Guidelines**

In terms of RBI circular FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated 17th March 2016, Reserve Bank of India has advised all the Banks to operationalize the framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises.

The Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises, duly approved by the Board is furnished here under.

- The provisions made in this framework is applicable to all MSMEs having loan limits up to ₹25 crore, including accounts under consortium or multiple banking arrangements (MBA).
- Identification of incipient stress:
- Identification by Banks or Creditors :- Before a loan account of a Micro, Small and Medium Enterprise 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 Table 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

- On the basis of the above early warning signals, the branch maintaining the account should consider forwarding the stressed accounts with aggregate loan limits of above ₹10 lakh to the Committee 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.
- As regards accounts with aggregate loan limits up to ₹1 lakh identified as SMA-2, the account shall be mandatorily examined for CAP by the branch itself under the authority of the Branch Manager. Loan limits exceeding ₹1 lakh upto ₹10 lakh shall be examined by the respective Regional Office for CAP. Thus, for SMA 2 reported loans under MSME of above ₹1 lakh up to ₹10 lakh, branches shall refer to the respective Regional Office for a Corrective Action Plan.
- Other terms and conditions, such as time limits, procedures to be followed, etc., as applicable to the cases referred to the Committee as referred in para 3.3, shall be followed by the Branch Manager/Regional Office. However, the cases, where the Branch Manager has decided the option of recovery under CAP instead of rectification or restructuring as mentioned in para 5.3 (a) or (b), shall refer to the Committee headed by Regional Head at Regional Office for their concurrence. In similar way, the Branch Manager/Regional Office shall also examine the accounts, reported as SMA-0 and SMA-1 for CAP, if it is deemed necessary, as mentioned above.
- 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 as referred in para 3.3, wherever applicable. When such a request is received by lender, the account with aggregate loan limit of above ₹10 lakh shall be referred to the Committee. In respect of loans upto ₹10 lakh, the instructions mentioned under 2.2 (a) shall be followed. The Committee shall 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.
- Internal Group headed by Regional Head of respective Regional Office shall examine the CAP at Regional level.
- The Committee set up at Head Office is headed by General Manager (Credit Dept). General Manager (Credit Monitoring), Deputy General Managers of RFD, MCFD and CrMD, One MSME Expert and Joint Director, DIC, Mangalore are members.

**Corrective Action Plan by the Committee :**

- The Committee will explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and will 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 and above, the Committee shall conduct a detailed Techno-Economic Viability study before finalising the CAP.
- 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.

The options under CAP by the Committee include:

**(a) Rectification:-**

- Bank Branch will obtain a commitment, specifying actions and timelines, from the borrower to regularise the account so that the account comes out of Special Mention Account status or does not slip into the Non-Performing Asset category and the commitment shall be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders.
- The rectification process will primarily be borrower driven. However, if considered necessary the Committee may also consider providing need based additional finance to the borrower, as part of the rectification process. However, it will be ensured that this need based additional finance is intended only for meeting, in exceptional cases, unavoidable increased working capital requirement. Such additional finance will ordinarily be an ad-hoc facility to be repaid or regularised within a maximum period of six months.
- In all cases of additional finance for working capital, any diversion of funds will render the account as NPA. Further, additional finance for any other purpose, as also any roll-over of existing facilities, or funding not in compliance with the above conditions, will tantamount to restructuring.
- Repeated rectification with funding, within the space of one year, will be treated as a restructuring and no additional finance will be sanctioned under CAP, in cases where the account has been reported as fraud by any lender.
- In respect of stressed MSMEs, where adhoc facility is sanctioned as CAP, no other loan, including TOD, shall be sanctioned during the pendency of adhoc facility or 6 months, whichever is later.

**(b) Restructuring:-**

- Bank will consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a wilful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc.
- Bank will obtain a commitment from the promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets along with a declaration that they would not undertake any transaction that would alienate assets without the permission of the Committee.
- Any deviation from the commitment by the borrowers affecting the security or recoverability of the loan will be treated as a valid factor for initiating recovery process.

- The lenders in the Committee will sign an Inter-Creditor Agreement and also require the borrower to sign the Debtor-Creditor Agreement which would provide the legal basis for any restructuring process. Further, a stand-still clause (as defined in extant guidelines on Restructuring of Advances) will be stipulated in the Debtor-Creditor Agreement to enable a smooth process of restructuring.
- The Inter-Creditor Agreement will also stipulate that both secured and unsecured creditors need to agree to the final resolution. The agreement formats prepared by IBA for this purpose on the lines of formats used by the Corporate Debt Restructuring mechanism for Inter-Creditor Agreement and Debtor-Creditor Agreement will be adopted. Formats yet to be received from IBA.

(c) Recovery:–

- Once the first two options at (a) and (b) above are seen as not feasible, due recovery process will be resorted to
- The Committee will decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimizing the efforts and results.
- The Legal and Recovery Department, will initiate necessary recovery actions as per the Recovery policy of the Bank.
- The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee would be considered as the basis for proceeding with the restructuring of the account, and will be binding on all lenders under the terms of the Inter-Creditor Agreement. If the Committee decides to proceed with recovery, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.
- Bank has taken up studying viability status of sick MSE borrowers for extending rehabilitation measures to the viable sick MSEs. For classification of sick unit, the definition given in Kohli Working Group recommendations is considered. Since financial statements of most of the small borrowal units are not available to assess the erosion in the net worth due to accumulated cash losses, the criteria that the MSE loan accounts which remained as Sub-Standard(NPA) for more than 3 months is taken.

**Corrective Action Plan by the Committee :**

- Annexure A - [Status of loan applications](#)

**Customer meets**

- The Branches of the Bank are conducting Customer Service meetings at regular intervals. The MSME customers also shall be members of the Branch level customer service committees. The Regional Heads are overseeing the customer service levels in the Branches of their Regions.
- Based on the feedback, the Regional Heads are taking appropriate steps to redress customer grievances in their respective Regions.



### Time Frame for Credit Decisions

- Credit applications of MSME's, SC/STs and Weaker Sections:
  - Loan amount up to ₹5 lakh : 2 weeks.
  - Above ₹5 lakh : 4 weeks.

### Grievance Redressal Mechanism of the Bank for MSMEs

Bank has put in place a MSME Grievance Redressal Mechanism for sorting out the problems/issues and grievances of MSME borrowers. At the Regional Offices of the Bank, MSME Grievance Redressal Committees are set up headed by the Chief Manager of the Regional Office. The Committee is attending to the problems faced by the MSME customers of their Region and initiate steps for redressing them. Address of the Regional Offices of the bank are furnished in [ANNEXURE—III](#)