

POLICY FOR LENDING TO MSMEs AND REHABILITATION OF MSMEs

Micro, Small and Medium Enterprises (MSMEs) are considered as the growth engines of Indian economy due to their spread and depth. These enterprises create vast employment opportunities and contribute significantly to our GDP. Their share in the exports is also significant. The scope of lending to Micro, Small and Medium Enterprises is expanding due to various policy measures of banks, RBI and Government of India. A comprehensive and liberal lending policy is required to enable the MSME sector to play its eminent role in the economy without any hurdles. Accordingly, this policy is fine tuned in line with objectives of the Bank to meet the genuine requirement and aspiration of the MSME sector.

The loan policy for MSME sector will be applicable within the overall loan policy of the Bank and subject to guidelines/instructions of Regulatory Authorities/RBI/Government of India. Therefore, the policy will be amended with the approval of the Board whenever revised guidelines are received from the Regulatory Authorities. Policy is updated up to March, 2014 and is subject to annual review.

OBJECTIVES OF THE POLICY:

The prime objective of this policy is to facilitate smooth flow of credit to MSME Sector.

The other objectives of the policy are:

- 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, Small and Medium Enterprises.
- g) To adhere to the BCSBI's Code of Commitment to Micro, Small and Medium Enterprises.

DEFINITION OF MSME ENTERPRISES:

In order to facilitate the promotion and development of Micro, Small and Medium Enterprises, the Government of India enacted THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT 2006 (MSMED ACT 2006) on June 16, 2006. The Act became operational from October 2, 2006. The Act introduces the concept of "Enterprises" as against the "Industries". The Enterprises are now grouped under two major heads namely manufacturing and services. The MSMED Act 2006 defines various categories of enterprises in terms of Investment in Plant, Machinery and Equipments. Various categories of Micro, Small and Medium Enterprises are defined as under:

- A) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below :
 - 1) A micro enterprise is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006 does not exceed ₹25 lakh;
 - 2) A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items

specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than ₹25 lakh but does not exceed ₹5 crore; and

3) A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than ₹5 crore but does not exceed ₹10 crore.

B) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding ₹10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed ₹20 lakh) and professional & self employed persons (whose borrowing limits do not exceed ₹10 lakh of which not more than ₹2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed ₹15 lakh with a sub-ceiling of ₹3 lakh for working capital requirements).

1) A micro enterprise is an enterprise where the investment in equipment does not exceed ₹10 lakh

2) A small enterprise is an enterprise where the investment in equipment is more than ₹10 lakh but does not exceed ₹2 crore; and

3) A medium enterprise is an enterprise where the investment in equipment is more than ₹2 crore but does not exceed ₹5 crore

C) Direct Finance

1) Manufacturing Enterprises

Loans to the Micro and Small 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 and the activities notified by the Government from time to time are eligible for classification under priority sector. Loans to MSEs engaged in manufacturing or production of goods under MSMED Act 2006 are eligible for classification under priority sector as direct finance to MSEs.

a) Loans for food and agro processing

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investment criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

D) Service Enterprises

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

E) Export credit to MSE units (both manufacturing and services) for exporting of goods / services produced by them.

F) KHADI AND VILLAGE INDUSTRIES SECTOR (KVI):

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be considered as advances to Micro Enterprises. Such advances will be eligible for consideration under the Micro enterprises Segment within the priority sector.

Advances granted to units in the KVI sector are the credit facilities made available to individuals, artisans, institutions, co-operative societies etc., for production of khadi products, cottage industries/village industries products.

G) INDIRECT FINANCE TO MSME SECTOR:

- 1) Persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- 2) Advances to producers in the decentralized sector viz. artisans, village and cottage industries.

CATEGORIZATION OF ACTIVITIES UNDER MANUFACTURING OR SERVICES UNDER THE MSMED ACT 2006-

MSME-Manufacturing	MSME-Services
<p><i>Loans given to enterprises engaged in the manufacture or production, processing or preservation of goods in general including the following:</i></p> <ul style="list-style-type: none">• Printing• Printing and publishing as integrated unit.• Medical Equipment and Ayurvedic Product• Manufacture of Bio Fertilizer	<p><i>Loans given to enterprises engaged in providing or rendering of services in general including the following:</i></p> <ul style="list-style-type: none">• Small Road and Water Transport Operators.• Small Business• Professional & Self-employed persons,• And other service enterprises engaged in activities, viz,<ul style="list-style-type: none">o Consultancy Services including management serviceso Training-cum-Incubator centreo Educational Institutionso Training Instituteso Retail Tradeo Practice of law i.e. legal serviceso Trading in medical instruments (brand new)o Advertising Agency ando Training Centres, etc.• Publishing

	<ul style="list-style-type: none"> • Sanitation Services (Hiring of Septic tank cleaner) • Clinical/Pathological Laboratories and Scanning, MRI tests. • Hospitals • Restaurant • Canteens • Hotels • Motel Industry • Development of Software and providing software services • Medical Transcription Service. • Production of T.V. Serial and other T.V. Programmes, • Advertising Agencies • Marketing Consultancies • Industrial Consultancies • Equipment Rental and Leasing • Photo copying Centres • Industrial R &D Labs • Industrial Testing Labs • Desktop Publishing • Setting up of Cyber Cafes • Auto Repairs Services and Garages • Documentary Films on themes like family planning, social forestry, energy conservation, commercial advertising • Laboratories engaged in testing of Raw Materials and Finished Products. • Servicing Industry undertakings engaged in maintenance , repairs, testing or servicing of all types of vehicles and machinery of any description including electronics / electrical equipments/ instruments i.e., measuring / control instruments, television, Tape Recorder, VCR, Radios, transformers, motors, watches, etc. <ul style="list-style-type: none"> • Laundry and Dry Cleaning • X-Ray clinic • Tailoring • Servicing of agriculture farm equipments e.g. tractor, pumps, rig, Boring machines etc. • Weigh Bridge • Photographic Lab • Blue Printing and enlargement of drawing/ Design Facilities • ISD/STD Booths
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	<ul style="list-style-type: none"> • Tele Printers/FAX services • Colour and Black and White studios equipped with processing laboratories • Installation and operation of cable TV Network • Operating EPBAX under franchisee. • Beauty Parlours and Crèches.
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SCOPE AND COVERAGE:

This policy covers credit facilities to Micro, Small and Medium enterprises (both manufacturing and services sector) and all related issues such as assessment of credit, margin norms, security requirements, etc.

GUIDELINES ON MSME FINANCE:

Advances to MSME sector will be assessed like any other advance (except for the specific relaxations and concessions given in this policy) and credit decisions will be taken based on viability, merits and commercial judgment in each case as per general norms of lending. The credit appraisal will be made in a transparent and non-discriminatory manner. All genuine and just requirements of the MSME units will be considered and adequate amount of credit will be sanctioned to ensure that the unit does not suffer for want of funds at a later stage.

Necessary credit support will be extended to MSME units for working capital, modernization, business expansion, and diversification and technological up gradation as may be required from time to time.

Bank will extend following facilities to Micro, Small and Medium Enterprises.

Product	Purpose
Business purpose	
Funded limits	
Cash Credit/Overdraft	Working capital
Bill Discounting (Short Term Finance)	Working capital
Bill Discounting under LC	Short Term Finance – working capital
Export Packing Credit	Export Transaction – working capital
Post Shipment Credit	Working Capital
Credit facilities to Fleet owners	Transport Operator financing – for purchase of vehicles and working capital
Secured Term Loan	business expansion, purchase of fixed assets, establishment and working capital requirement
Non- funded	
Letter of Credit	Foreign and Inland Trade – working capital
Bank Guarantee	Performance and Financial Guarantee
Others	
Mortgage	To meet any sort of Personal or Business needs
Home Loan	For purchase of house / construction of house
Article Loan / Consumer Loan	For purchase of consumer durables, two-wheeler, etc.
Personal Loan	To meet any sort of Personal needs
Gold Loan	To meet any sort of Personal needs

Others	Facilities depending on its specific need
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ASSESSMENT OF CREDIT FOR MSME UNITS

The assessment of working capital requirement of borrowers, according to their perception of the credit needs of borrowers, may be made on the basis of their projected annual turnover or MPBF method or Cash budgeting method or any other method as considered necessary.

However, it shall be ensured that the book-debt finance does not exceed 75% of the limits sanctioned to borrowers for financing inland credit sales (except in case of Consortium lending arrangement). The remaining 25% of the credit sales may be financed through bills to ensure greater use of bills for financing sales. Margin beyond 90 days upto 180 days can be considered for Government book debts and in exceptional cases, where the industrial trend itself indicates realization of Book Debts upto 180 days.

In tune with the liberalized environment, our Bank has adopted the following system for assessment of working capital requirements of the borrower.

Turnover Method

- ❖ In this method, Working Capital limit should not exceed 20% of the projected annual turnover.
- ❖ In this method, the assessment will be based on projected turnover basis or the traditional method.
- ❖ If the credit requirement based on traditional production / processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned, as borrower must be financed up to the extent of minimum 20 per cent of their projected annual turnover.
- ❖ The projected annual turnover would be estimated on the basis of annual statements of accounts or other documents such as returns filed with sales-tax / revenue authorities.
- ❖ Actual draws may be allowed on the basis of drawing power to be determined by UCBs after excluding unpaid stocks.

MPBF Method

- ❖ In this method, Limit / Loan shall be sanctioned based on the first method of lending i.e, financing up to 75% of the working capital gap.
- ❖ As per earlier RBI guidelines following heads are to be excluded from current assets while calculating MPBF. Margin against L/C, B/G, Fixed deposits for payment of sales tax deferral, advances to associate concerns, directors, partners, investment in associates, shares, debentures, debtors above six months and non moving stock.
- ❖ Bills negotiated under L/C's: As working capital requirements for the same are assessed separately, receivables under L/C need not be included in the current assets. Similarly, bank borrowings under bills purchased/ negotiated under L/C's need not be included under current liability. They should be shown as contingent liability as additional information.
- ❖ While calculating MPBF under first method of lending, DA L/C will be considered as working capital limits and the credit enjoyed against DA L/C should be reflected in the creditors while assessing the limit and margins on stocks, debtors and creditors should be considered accordingly.

Cash Budget Method:

The borrower should submit cash budget to the Bank along with actual as well as projected financial statements. The budget in the prescribed format should be prepared for a period of one year and then split into forecasts for shorter periods say monthly or quarterly. The budget will provide the following information:

- ❖ The peak level of bank finance required during the course of the year.
- ❖ The current level of Bank finance required as forecasted by the split budget (on monthly/ quarterly) basis.

The budget must be scrutinized vis-à-vis the financial statements to satisfy that the forecasts are reasonable. Once the forecasts are found acceptable, the credit limit required by the borrower should be determined as the peak level of cash deficit as shown in the budget.

Funds Flow and Cash Flow Analysis (in case of Cash credit limits above 25.00 lakh)

Funds Flow Analysis should be done to examine the change in working capital of the borrowing company between two balance sheet dates.

Also Cash Flow Analysis should be done to determine, whether the company generated enough cash from its own operations to cover all its expenses, including its interest and loan instalment payments. This will also enable detection of any aberration in the cash flows of the unit.

Analysis of funds flow and cash flow of the borrowers will also be monitoring tool for detection of diversion/siphoning of funds by the borrower. Such diversion/siphoning of funds should be construed to occur if any funds borrowed from Banks are utilized for purposes unrelated to the operations of the borrower to the detriment of the financial health of the entity or of the Bank. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgment of the Bank based on objective facts and circumstances of the case. If such diversion/siphoning of funds is detected, the concerned authorities should immediately take steps as per the extant guidelines in force or as may be modified from time to time.

Assessment of working capital requirements for negotiation of Bills under Letter of Credit

Borrowers' requirements for purchase/ negotiation of bills under Letters of Credit may be treated outside the usual assessment by MPBF method. The requirements may be assessed on the basis of volume of sales under LCs and the payment terms of the LCs.

It should be ensured while calculating the Drawing Power on the basis of the Stock Statement submitted by the borrower that the Debtors out of such bills are deducted from the Debtors statement.

Requests for purchase/ negotiations of bills under LCs of Banks may be considered for non-borrowers also subject to RBI guidelines.

Working Capital Demand Loan

Reserve Banks of India had in April, 1995 introduced the loan system of delivery of Bank credit to have rationalization in the system of credit administration in banks, instill efficiency in funds management and bestow cost-benefit to the borrowers. The actual "loan component" is to be determined in consultation with the

borrowers. We may decide on the loan component by offering slightly lower rate to ensure higher utilisation.

Term Loan Assessment

A term Loan is an advance given for a fixed period with provision for repayment according to agreed term. A term loan may be required to finance the following purposes:

- ❖ For Financing Specific Asset;
- ❖ For Financing modernization programme;
- ❖ For Financing expansion programme;
- ❖ For Financing diversification programme;
- ❖ For Financing New Project

Term loans can be classified as under:

- ❖ **Short term loan** – where repayment period does not exceed 1 year;
- ❖ **Medium term loan** – where repayment period is over 1 year and up to 5 years;
- ❖ **Long term loan** - where repayment period exceeds 5 years.

Whatever be the purpose of term loan, it should be always ensured that the activity / asset financed must be capable of generating adequate cash profit so that it is sufficient to repay the term loan instalments.

While assessing a term loan proposal the following may be taken into account:

- ❖ Technical Feasibility;
- ❖ Commercial Viability;
- ❖ Managerial Competence;
- ❖ Economic Feasibility;
- ❖ Financial Feasibility;
- ❖ Cost of Project and Means of Finance;
- ❖ Break-Even Analysis;
- ❖ Debt-Service Coverage Ratio;
- ❖ Pay-back period on discounted cash flow consideration;
- ❖ Internal Rate of Return.

The appraisal of a term loan proposal needs consideration of all or some of the above parameters.

Term loans should be considered as per the Debt Service Coverage Ratio in all cases excluding working capital term loans.

While approving the term loan for big projects, following parameters should be verified / ascertained:

- ❖ Cost of project, value of land and building - whether reasonable considering the location, type of construction. Statements expressing verification, ascertaining these costs- certifying the genuineness of the project cost, should be made.
- ❖ Machinery – whether the proposed set-up is adequate for the activity proposed to be carried out and the projected turnover is possible.
- ❖ Installed capacity- installed capacity of the machinery and the plant should be stated in the note and be ascertained.
- ❖ Reference to the set up of similar units banking with us should be made and commented upon. For this, the processing officer should collect information on the units banking with us and their details as regards sales/ profitability,

breakeven analysis (wherever required), sensitivity analysis (wherever required), etc. should be compared / done.

- ❖ Means of finance- sources of own funds should be clearly stated. Sources should be verified. If the source is cash accruals, whether the cash accruals are possible with reference to earlier year's position and actual sales in current year should be commented upon.
- ❖ Projections should be independently ascertained. The facts submitted by the clients should be verified / ascertained.
- ❖ The executive summary should have projections minimum for the years during which the proposed repayment falls due.
- ❖ The term loan a/c utilisation should indicate number and amount of installment, date of starting the installment, ruling limit etc.
- ❖ Term loans will be considered as per the Debt Service Coverage Ratio in all cases excluding working capital term loans.
- ❖ In case of Term Loan, Bank will also consider the projected income to arrive at the loan eligibility, which will be generated out of the asset financed.

Finance scheme for transport operators (Fleet owners)

A transport operator means a fleet owner owning a minimum of 10 vehicles. 'Vehicle' means & includes trucks, cranes, tankers, trailers, etc., used in transportation of passengers and goods. The Bank grants composite loans to such transport operators for purchase, as well as working capital for running the transport business.

For calculating Maximum Permissible Bank Finance, the following method of calculation is adopted:

In order to finance the Fleet owner, the Bank finds out Cost of Project as well as Margin requirement for Long Term Loans as well as Working Capital. To ascertain Total Margin requirement, the following steps can be adopted:

1. COST OF PROJECT

Cost of Vehicle including insurance & taxes		(A)
Gross Working Capital for three months		
1. Salary/ Wages of driver/ cleaners & other allowance	xxx	
2. Fuel Charges etc.	xxx	
3. Toll / Permit Tax, etc.	<u>xxx</u>	
Total	<u>xxx</u>	(B)
Cost of project	(A+B)

2. MARGIN ON WORKING CAPITAL

Current Assets	(C)
Current Liabilities (excluding Bank Finance)	(D)
Net Working Capital	(C-D)

Margin on working capital

..... 25% of (C-D) = (E)

1.	MARGIN AVAILABLE (OWNER'S CONTRIBUTION)		
	Long Term Sources		
	(Capital+Quasi Capital+Reserves+Secured Loans)	(F)
	Long Term Uses		
	(Fixed Assets+Non-Current Assets+In tangible assets).....		(G)
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	Margin Available in the business	(F-G) = (H)

The owner should contribute 25% of the project cost. This means that he should bring in 25% of (A + B). If (H) is greater than 25% of (A+B), the Bank provides finance to the extent of 100% of the cost of vehicle. If it is less than the above, {(H) – 25% of (A+B)} should be brought in by the owner, as his margin.

It may further be noted that:

- ❖ First three month's expenditure such as, salary/wages of drivers, cleaner's etc., fuel charges, toll permit charges of the vehicle to be purchased will be taken as the working capital requirement of the fleet owner.
- ❖ Even though Income Tax permits a maximum depreciation of 20% on a new vehicle, the Bank, for the purpose of calculation of equity, permits the owner to provide for depreciation up to 40%. The excess provision for depreciation to the extent of 20% so allowed is considered as 'Secret Reserve' to be reckoned as 'Equity'.
- ❖ After taking into consideration of the 'Secret Reserve' as indicated hereinabove, debt equity ratio is calculated. The Bank will consider debt equity ratio to the extent of 5:1.
- ❖ DSCR up to 1 will be considered by the Bank. In case of 'A' rated customers, less than 1 can also be considered if (H) is more than {25% of (A+B)}.
- ❖ The moratorium period of 6 months will be granted. During the moratorium period, the interest will be applied.
- ❖ The above guidelines will be made applicable to the customers who have been graded 'A' & 'B' only. In respect of others, guidelines given under Vehicle Loan will be applied.
- ❖ Current Ratio - Current ratio to the extent of 1 can be accepted, if there is sufficient long term margin in the business.
- ❖ Debt Equity Ratio (D/E Ratio) and Tangible Net worth to Outside Liability (TOL) Ratio – Debt Equity Ratio upto 5:1 can be acceptable and Tangible Net-Worth to Outside Liability upto 8:1 can be acceptable in case of Fleet owners. Ratio beyond this outer limit would amount to deviation which can be accepted only in deserving cases on the basis of pricing methods. It should be noted that such credit should be considered after obtaining of approval of above deviation from Credit Department, Central office.

Comparison of Total margin available in the business with 25% of the Total Cost of the Project:

Total Margin must be greater than 25% of the total cost of the Project.

If the Total Margin is less than 25% of the Total Cost of the Project, the same should be brought in by the proponent before disbursement by way of additional capital or quasi-capital.

Whenever there is deficit in the margin requirement, Certificate from Chartered Accountant for the capital introduction in the business to be obtained and kept on record.

Delegated powers for lending:

As per Annexure

Rejection / Curtailment of credit limit should be approved by next higher authorities.

There should not be case where Term Loan has been sanctioned but sanction of Working Capital facility is awaited.

Ratio Prescription

1. Debt Equity Ratio

Particulars of Industry	Acceptable	Outer limit *
Manufacturing unit (S.S.I. only)	2.5:1	3.5:1
Other manufacturing units	2: 1	2.5:1
Trading units	1.5: 1	2:1
Fleet Owners / Transport Operator	4:1	5:1

* Ratio beyond outer limit would amount to deviation which can be accepted only in deserving cases on the basis of pricing methods. It should be noted that such credit should be considered after obtaining of approval of above deviation from Credit Department, Central office. All decision making levels above AGM – Credit are empowered to approve the deviation on the basis of recommendation of the branch.

2. Current Ratio

It continues to be a minimum of 1.33 in deserving cases and any ratio below 1.33 should be treated as deviation.

As regards proposals having exposures below ` 1.00 crore and depending upon type of activities/products, life cycle of production process, performance under other parameters shall be permissible in deserving cases, but not below 1.17.

However in case of Fleet owners, current ratio to the extent of 1 can be accepted, if there is sufficient long term margin in the business.

In other deserving cases, current ratio below 1.17 upto the extent of 1 can be entertained only on the merits of the case and industry standards subject to prior approval from Managing Director. Branch should forward the deviation with proper justification and recommendation to the Credit department who in return will analyse the same and put up to Managing Director for approval.

3. Debt Service Coverage Ratio (D.S.C R.)

While calculating the cash accruals, the income generated from the business activity should be considered. Capital introduced / unsecured loans raised during the period should not be considered. Normally an annual/average DSCR should be minimum of 1.50:1.

However annual / average DSCR ranging from 1.33 to 1.50 may be considered by the sanctioning authority with proper justification.

DSCR upto 1.25 can be accepted in case of Private car Loans.

If the DSCR is low, a condition restricting appropriation of profit for Dividends / Drawings should be stipulated.

In case of Fleet Owners D.S.C.R. is generally lower in the initial period. It increases over a period of time. The average of DSCR for the period covering the repayment schedule should be considered which would give a fair idea of repayment capacity of the Borrower. DSCR upto 1 would generally be considered. In case of Borrowers with 'A' Rating, even little lesser than that can be considered provided they have Long Term Resources either by way of Equity or Quasi- Capital, or Loans from Directors / Partners / Relatives.

Margin

- ❖ Margin to be maintained against securities should be determined on the basis of the loan product, nature of security, rating of the borrower, amount of long term margin of the borrower in the business.
- ❖ In case of Education loan, no margin is required upto loan of ` 5.00 lakh and where 100% security is offered in the form of term deposits.
- ❖ In case of Bank Guarantees and Letter of Credit, minimum cash margin of 10% in the form of Bank's Term Deposits should be insisted upon. Approval for lowering of margin less than 10% in any category to be obtained from Managing Director. In case of Borrowers with credit rating A or B having long term margin in the business above 25%, separate cash margin may not be insisted.

Security

- ❖ Bank shall insist on prime security for all loans except personal Loan, Clean Overdraft & Clean Term Loan and Education Loan upto ` 5.00 lakh.
- ❖ All the landed securities offered / held should be valued by our approved valuer. The valuers should be asked to give "Fair Market value", "Realisable value" and "Distress Sale value" in their valuation report. Security position should give book value, market value and realisable value. Fair Market Value should be considered for the purpose of security. Such valuation should be done at least after every two years by valuers having expertise in the respective industry and the approved Panel of valuers will be intimated by Credit Department.
- ❖ Valuation of prime security for advance to be considered as under:
- ❖ Stocks – cost or market value whichever is lower.
- ❖ Debtors at invoice value less advance received if any.
- ❖ Plant and machinery/Land and building and other fixed assets as per latest WDV reflected in the balance sheet. In case this value is lesser than the outstanding Term loan balance due to higher rate of depreciation charged by the company, non-payment of installment by borrower, etc. present market value of the asset charged, be indicated by way of foot note in the security column, with reasons for lower value of security. Prime security should be considered at WDV while collateral security can be considered at realisable value.
- ❖ Mortgage: in case of mortgage where additional facilities are sanctioned against the property already mortgaged to us, the charge should be created upto the amount of total limit.
- ❖ Revaluation of security –
 - * If existing valuation of securities is sufficient for proposed limit (including enhancement of limit), fresh valuation need not be insisted upon.
 - * If value of security is rapidly changing, valuation of securities to be done after 2 / 3 years
 - * In other cases valuation of securities to be done after 3 / 4 years.

Collateral Security

Primary focus while accepting a proposal will be on the financial parameters, technical feasibility, management calibre, etc and the last but not the least subsequently after the consideration of above parameters will be on acceptance of the quality and quantity of collateral security.

Percentage of Collateral Security will be insisted depending upon the Credit Rating based on the financial parameters / length of lending relationship.

Credit Rating	Percentage of collateral security for borrowers having lending relationship less than 10 years	Percentage of the Collateral Security for Borrowers having lending relationship of 10 years and above
A	Min. 50 % of facility sanctioned	30% of the limit sanctioned
B	Min. 75 % of facility sanctioned	60% of the limit sanctioned
C	Min. 100 % of facility sanctioned	No reduction in the percentage of collateral security i.e., min. 100 % of facility sanctioned

In case of fleet owners, where prime security is in the form of vehicles, collateral security can be reduced by 50% of the norms specified above. The recommendation in the collateral security should be supported with proper justification. Such request may be approved at Central Office only by sanctioning authorities in the designation of Joint General Manager and above. Any further waiver in collateral security in such cases should be approved by Loan Committee / Board of Director's.

Collateral Security can be relaxed in case of Non-funded facilities in case of following:

- ❖ Borrower maintains substantial float with the Bank.
- ❖ Borrowing Company / Proprietor / Partner / Director having banking relationship for more than 15 years.
- ❖ Takeover of credit facilities exploring new business avenues.

Collateral Security will be insisted upon as indicated in the table below:

Type of Loan		Collateral Security
Working Capital / Cash Credit / Business Loan	Up to ` 5.00 lakh	No Collateral Security
	Above ` 5.00 lakh	As stated in the above table
Personal Loan / Private Car Loan / Housing Loan, Mortgage Loan & Overdraft / Loan for Taxi, auto rickshaw, etc. / Loan against Govt. securities / Against Shares & Debentures in dematted form / Gold Loan		No Collateral Security
Consumer Loan	Up to ` 5.00 lakh	No Collateral Security.
	Above ` 5.00 lakh	Collateral Security in the form of movable / immovable security (as per credit rating)
Commercial Vehicle Loan for Transport Operators other than Fleet owners	Up to ` 20.00 lakh	No Collateral Security
	Above ` 20.00 lakh	Collateral Security as per above table

Education Loan	Loan upto ` 5.00 lakh	No Collateral Security
	Loan above ` 5.00 lakh	Collateral security required as per rating parameters specified in the scheme

* Residual Value of Collateral Security i.e. Property / machineries, equipments etc. (present book value less (-) present limits), which are already taken as security towards the present exposure, may be considered available collateral for the proposed exposure.

Type of Securities

❖ Movable

- * Stock (unpaid stock should be excluded)
- * Book Debts (not exceeding 90 days)
- * Book-debts (extraordinary cases in which book-debts outstanding from more than 90 days to be referred to Board of Directors with proper justification / in case of receivables of Government depts.)
- * Machineries (Where the machineries purchased are second hand and are more than 5 years old valuation of approved valuer certifying that the expected life of security is not less than 5 years in a must)
- * Banks own deposits
- * Life Policies (which can be assigned in Bank's favour)
- * NSCs / KVPs / Government Securities
- * Governments Bonds
- * Gold Ornaments
- * Mutual Funds
- * Vehicle (Where the vehicle offered are second hand then the same should be up accepted up to 4 year old only (as prime security) and upto 7 year old only (as collateral security) subject to expected life & realizable value of security. Valuation report for the second hand vehicle to be obtained from the Bank's approved Valuer/I.D.V. of vehicle. Managing Director is empowered to approve acceptance of vehicle beyond 4 years (prime) / 7 years (collateral) in case of 'A' or 'B' rated customers.
- * Consumer Durables
- * Accepted Bills / Bills raised by constituents on reputed Companies, Government Depts.
- * (Reputed Companies are those who have been continuously showing profit for the last three years, having sizeable Net Worth whose shares are listed on the stock exchange and have no adverse reputation in the market.)

❖ Immoveable Security

- * Land & Building
- * Plant & Machinery of fixed nature.
- * Residential flat, row house, etc.
- * Commercial Premises – Office, Shop, etc.
- * Vacant Land

Valuation of securities

Valuation of securities will be accepted from Bank's approved Valuer on Panel. Security will be accepted as prime or collateral on the basis of sufficient valuation.

In case where the loan amount is small and margin of 75% or more is maintained on the security, mortgage loan upto ` 5.00 lakh, approximate market value ascertained by our Bank officials visiting the site can be accepted as valuation amount.

NEGATIVE LIST OF SECURITIES

All those securities which will not be legally enforceable in case of default by the borrowers are classified as securities under Negative List. List of some such items are as under:

- i. Commodities possession of which is unlawful.
- ii. In case of certain controlled sensitive commodities like rubber, fertilizer and Similar commodities, where the required license is not obtained and
- iii. Securities on which a valid charge cannot be created such as LIC Policies under Married Women's Property Act.

MONITORING OF MSME CREDIT

Branch Manager and Location head would be responsible for close supervision / control of all borrowal accounts. Suitable amended guidelines in the matter to strengthen monitoring will be issued by Central Office from time to time.

Warning signal with regard to irregularities in the accounts will be picked up promptly and probed into. Corrective measures will be initiated without loss of time to avoid the accounts slipping into sub standard category.

REHABILITATION FOR MSMEs

The Bank will provide Rehabilitation to MSME borrowers by undertaking restructuring / rehabilitation in line with the guidelines / instructions contained in RBI Master Circular No. RBI/2013-14/18 UBD.BPD.(PCB) MC No.3 /09.14.000/2013-14 July 1, 2013 on Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs and RBI/2013-14/20 UBD.BPD.(PCB) MC No.5 /13.05.000/2013-14 July 1, 2013 on Master Circular- Management of Advances – UCBs.

BANKING CODES AND STANDARD BOARD OF INDIA (BCSBI)

The Banking Codes and Standard Board of India (BCSBI) have formulated a Code of Bank's Commitment to Micro, Small and Medium Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro, Small and Medium Enterprises (MSMEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006.

It provides protection to MSME and explains how banks are expected to deal with MSME 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 BCSBI CODE

The Code has been developed to a. Give a positive thrust to the MSME sector by providing easy access to efficient banking services.

- b. Promote good and fair banking practices by setting minimum standards in dealing with MSME.
- c. Increase transparency so that a better understanding of what can reasonably 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 MSME and banks and also ensure timely and quick response to banking needs.
- g. Foster confidence in the banking system.