<u>Annexure: I</u>

MSME POLICY

1.Preamble

1.1 MSME sectors are growth drivers of our economy. MSMEs have shown continued dynamism in terms of their contribution to national economy. MSME sector accounts for significant share in employment, number of enterprises, manufacturing output and exports. Over the years, the sector has emerged platform for growth and development of entrepreneurship and bedrock of innovations, resulting in diversified development and import substitution. Entrepreneurial efforts and individual creativity have made it possible to develop new variants of the same base products with additional features that are unique and more users friendly. These achievements became possible because of the ambitions and visionary zeal of MSME entrepreneurs.

1.2 Holistic development of the MSME sector has been a priority of Government of India due to its significant contribution towards economic growth, employment generation, balanced regional development, overall poverty reduction and emergence as an important vehicle for attaining inclusive growth in the country.

1.3 In India, MSMEs contribute nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports.

1.4 The contribution of the sector in the economy is currently constrained due to several challenges affecting growth of the sector. Some of the major ones are mentioned below:

a) Policy and institutional interventions

b) Accelerating growth and enabling formalization

c) Addressing infrastructural bottlenecks

d) Facilitating capacity building

e) Facilitating access to credit and risk capital

f) Technological interventions for improving underwriting standards and delivery

g) Enabling market linkage and tie up with public procurement platforms.

1.5 Combinations of Digital public Infrastructure, Progressive regulation and new market forces have the potential to energize the MSME lending sector. Emergence of a digital lending value chain will provide fast turnaround and easy accessibility for MSME borrowers and use new data and credit scoring algorithms to provide new types of risk adjusted lending products. This infrastructure can operate at a scale, break access barriers and provide MSMEs with the ability to access finance and scale to reach their potential.

1.6 Government of India enacted MSMED act 2006 with an aim to enable MSME entrepreneurs for increasing their worth and efficiency so that they may sustain the competition, enlarge their scope of activity and enlist them among the top performers. Further to broaden the scope of MSMEs, Government of India modified/amended the MSME act, based on the recommendations of the advisory committee in July 2020 changed the classifications of MSMEs.

1.7 Scope of the Policy:

a) The Policy would deal with all MSME credit related matters such as fund based limits, Non fund based limits and other forms of credit dispensation of MSME credit.

b) Since most of the credit related areas has been covered in the credit policy, those aspects have not been covered in the MSME policy to avoid duplication, barring some important aspects. Hence the MSME policy should be read along with the Credit Policy.

c) This Policy has been made in compliance with all RBI & extant regulatory guidelines issued till date.

d) The guidelines enumerated under this policy are applicable for all domestic branches.

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

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on 16th June, 2006 which was notified on 2nd October, 2006. The Act was enacted to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto.

Government of India vide a Gazette notification dated 01 July, 2020 amended the MSMED act 2006 and notified certain criteria for classifying the enterprises as micro, small and medium enterprises and specifies the forms and procedures for filing Udyam Registration memorandum.

Accordingly the Definition / Classification of MSME stands modified and is elaborated in the succeeding para.

2.1<u>Definition of Micro, Small and Medium Enterprises:</u>

An enterprise shall be classified as Micro, Small and Medium enterprise on the basis of the following criteria, namely: -

A. Micro Enterprises: An enterprise will be classified as micro, where the investment in Plant & Machineries or equipment does not exceed Rs One Crore and turnover does not exceed Five Crore.

B. Small Enterprises: An enterprise will be classified as Small, where the investment in Plant & Machineries or equipment does not exceed Rs Ten Crore and turnover does not exceed Rs Fifty Crore.

C. Medium Enterprises: An enterprise will be classified as Medium, where the investment in Plant & Machineries or equipment does not exceed Rs fifty crore and turnover does not exceed Rs two hundred and fifty crore.

D. Further such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the first schedule to the Industries (Development & Regulation) act,1951 or engaged in providing or rendering of any service or services.

<u>2.2 Composite Criteria of Investment & Turnover for Classification</u>:

i) A Composite Criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.

ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.

iii) All units with Goods & Services Tax Identification Number (GSTIN) listed against same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category of micro, small or medium.

<u>2.3. Calculation of Investment in Plant & Machinery or Equipment</u>:

i) The Calculation of investment in plant & machinery or equipment will be linked to the Income tax return (ITR) of the previous years filed under the Income tax act, 1961.Written Down Value (WDV) as at the end of each financial year as defined in the Income Tax act and not the actual acquisition cost will or original price will be the value of Investment in plant & machineries.

ii) In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after 31st March of the financial year in which it files its first ITR.

iii) The expression "Plant & Machineries" or " Equipment" of the enterprise shall have the same meaning as assigned to the Plant & Machinery in the income tax rules, 1962 framed under the income tax act 1961, and shall include all tangible assets (other than land and building, furniture & fittings).

iv)The purchase (Invoice) value of plant & machinery or equipment, whether purchased first hand or second hand shall be taken into account excluding Goods & Services (GST), on self-disclosure basis, if the enterprise is a new one without ITR.

2.4 Exclusions from list of plant & machineries / equipment:

However, cost of the following plant & machinery / equipment etc. would be excluded for computation of investment value.

i. equipment such as tools, jigs, dies, moulds, and spare parts for maintenance and the cost of consumable stores;
ii. installation cost of plant &machinery;
iii. research & development and pollution control equipment;
iv. power generation set and extra transformer installed by the enterprise as per the Regulations of the State Electricity Board;
v. Bank charges and Service Charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
vi. Procurement or Installation of cables, wiring bars, electrical control panels (not mounted on individual machines)
vii. Oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
viii. Gas producing plants;
ix. Transportation charges (**other than** sales tax or value-added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise);
x. Charges paid for technical know-how for erection of plant machinery;
xi. Such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process;
xii. Fire-fighting equipment; and
xiii. Such other items as may be specified, by notification from time to time.

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

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

i. Import Duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
ii. Shipping Charges;
iii. Customs Clearance charges; and
iv. Sales Tax or Value-added Tax.

2.5 Calculation of Turnover:

i) Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium for the purpose of classification.

ii) Information as regards to turnover and exports turnover for an enterprise shall be linked to the Income Tax act or the central goods and services act (CGST act) and the GSTIN.

iii) The turnover related figures of such enterprise which do not have PAN will be considered on self – declaration basis for a period up to 31st March 2021 and thereafter PAN and GSTIN shall be mandatory.

3.Priority Sector Classification :

All Bank Loans to Micro, Small and Medium enterprises (MSMEs), both Manufacturing and Service unit (s) are eligible to be classified under Priority Sector advance as per new classification of MSME, enumerated under para 2.1 above.

3.1 Factoring Transactions:

i) With Recourse factoring transactions by Banks which carry out the business of factoring departmentally wherever the assignor if a Micro, Small or Medium Enterprises would be eligible for classification under MSME category on the reporting dates.

ii) The borrower's bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing / counting. Further the factors must intimate the limits sanctioned to the borrower and details of debts factored to the banks concerned taking responsibility to avoid double financing.

iii) Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

3.4 Export Credit:

i) All Export Credit under MSME sector are allowed to be classified as Priority Sector Lending.

ii) Export Credit includes Pre Shipment and Post Shipment export credit (excluding off balance sheet item).

3.5 Khadi and Village Industries Sector (KVI)

All loans sanctioned to units in the KVI sector, irrespective of their size of operations, location will be eligible for classification under the sub-target of 7.5% prescribed for micro enterprises within the Micro and Small enterprises segment under priority sector.

If the loans under General Credit Card (GCC) are sanctioned to Micro and Small Enterprises, such loans should be classified under respective categories of Micro and Small Enterprises.

3.6 Other Finance to MSMEs :

i) Loans up to Rs 50 Crore to Start Ups as per definition of Ministry of Commerce and Industry, Government of India that confirm to the definition of MSME.

ii) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of produce of artisans, village and cottage industries.

iii) Loans to cooperatives of producers in the decentralized sector viz. artisans village and cottage industries.

iv) Loans sanctioned to NBFC – MFIs and other MFIs (Societies, trusts etc) which are members of RBI recognized SRO for the sector for on lending to MSME sector.

v) Loans to registered NBFCs (other than MFIs) for on lending to Micro & Small enterprises.

vi) Overdraft to Pradhan Mantri Jan Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services (DFS), Ministry of Finance from time to time will qualify as achievement of the target for lending to Micro Enterprises.

vii) Outstanding deposit with SIDBI and MUDRA Ltd on account of priority sector shortfall.

3.7 To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units shall continue to enjoy the priority sector lending status up to three years after the units grow out of the MSME category concerned.

4. Targets / sub targets for lending to Micro, Small and Medium enterprises (MSME) sector by Domestic Commercial Banks:

Micro Enterprises:

A target of 7.5 percent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher has been prescribed for Micro Enterprises.

Advances to Micro, Small & Medium Enterprises (MSME) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent of ANBC or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher as per extant guidelines on priority sector lending.

In terms of the recommendations of the Prime Minister’s Task Force on MSMEs, banks have to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises and a 10 per cent Y-O-Y growth in the number of Micro enterprise accounts.

60 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.

The target for lending to Micro Enterprises within the MSE sector (i.e. 60% of total lending to MSE sector should go to Micro enterprises) will be computed with reference to the outstanding credit to MSE sector as on preceding March 31st.

5.Common Guidelines / Instructions for Lending to MSME Sector;

5.1Issue of Acknowledgement of Loan Applications to MSME borrowers

Branches have to mandatorily acknowledge all loan applications from MSME borrowers, submitted manually or online, and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt.

We have also put in place a system of Central Registration of loan applications and a system of e tracking of MSE loan applications. The detailed guidelines on the matter have been circulated through HOBC 112/54 dated 11/07/2018.

5.2 Time Norms for Disposal of Applications:

The processing of the loan application and decision to be conveyed within the prescribed time limit as give below; (**time limit start from the date of submission of complete information/data by the applicant**) :

Limits	Time Limit Not Exceeding
Up to and including Rs.25,000/-	4 Business Days.
Over Rs.25,000/- and up to Rs.10 Lakhs	8 Business Days.
Over Rs.10 Lakhs up to Rs.5 Crores	12 Business Days.
Over Rs.5 Crores	20 Business Days.

In case of rejection of loan request, approval shall be obtained from the next higher authority, **not below the rank of Zonal Manager**.

5.3 Collateral:

Reserve Bank of India has mandated not to accept collateral security in case of loans up to Rs 10 lakhs extended to units in the MSE sector. Reserve Bank of India has further advised that Banks may on the basis of good track record and the financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to Rs 25 lakhs (with the approval of the ZLCC) However, the issue of collateral security would be addressed on a case-specific basis.

5.4 Composite Loan:

A Composite loan limit can be sanctioned by branches to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through single window.

5.6 Udyam Registration:

i) All enterprises who wishes themselves to be classified as MSME are required to file Udyam Registration on Udyam Registration portal.

ii) Aadhaar Number is mandatory for filing Udyam Registration. Adhaar number shall be of the proprietor in the case of proprietorship firm, managing partner in case of partnership firm and of karta in the case of Hindu Undivided family (HUF).

iii) In case of company or a limited liability company partnership or a cooperative society or a society or trust, the organization or its authorized signatory shall provide its GSTIN and PAN.

iv) All existing enterprise are required to register again on the Udyam Registration portal, even though they previously were in possession Udyog Adhaar Number.

v) It will be mandatory for the branches to obtain Udyam Registration Certificate from the borrowers, while considering any new loan, wef 01.09.2020. (In case URC is not available, they should be prompted to obtain the same before disbursement through the portal)

vi) In case of existing borrower the Udyam Registration Certificate is to be obtained from all borrower within 31/03/2021 and should be kept on record.

vii) Accounts will be classified as Micro, Small & Medium on the basis of Udyam Registration Certificate.

vii) An enterprise registered with any other organization under the ministry of Micro, Small and Medium enterprises shall register itself under Udyam Registration.

5.7 Financial Support to MSMEs in ZED certification scheme:

The ZED Certification scheme of Ministry of MSME is aimed at enhancing the global competitiveness of Indian MSMEs on quality and environment aspects in their systems and processes. It is a continual improvement & rating scheme involving Handholding and Certification of MSMEs with financial support from Government of India. Ministry of MSME has nominated QCI (Quality Council of India) as the National Monitoring and Implementing Unit (NMIU) of this scheme.

In our application forms and proposal format ZED certification are duly captured and all the branches have been advised to encourage borrowers for obtaining ZED certification.

For full information on ZED certification, branches may visit https://www.zed.org.in/ .

6.Delayed Payments By Companies to Micro/Small Enterprise units:

Under Delayed Payment Act, April 1993 (Amended in 1998), interest on delayed payment by Corporate to Small Scale units and Ancillary Industrial Undertakings, penal provisions have been incorporated to take care of delayed payments to MSME units. After the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale units and Ancillary Industrial Undertakings, have been strengthened as under:

(i) Whenever any supplier, supplies any goods or renders service to any buyer, the buyer shall make payments in the following manner:

a) On or before the date agreed upon between him (buyer) and the supplier in writing or

b) Where there is no agreement in this behalf, before the appointed day.

However in no case the period agreed upon between the supplier and the buyer in writing shall exceed 45 days from the day of acceptance or day of deemed acceptance.

(ii) Where any buyer fails to make payment of the amount to the supplier, as mentioned under (i) above, the buyer is liable to pay compound interest with monthly rests to the supplier on that amount from the appointed day at three times of the Bank Rate notified by Reserve Bank of India.

(iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.

(iv) In case of any dispute with regard to any amount due, any party to a dispute may make a reference to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

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

Branches should take note of the above provisions of the MSMED Act, 2006 while verifying the receivables shown by the SME Borrower in their Book Debts Statement as well as annual balance sheet by cross-checking if these receivables appear in the respective buyers' audited balance sheet(s). For the same reason, if any Corporate or other buyers (of any SME suppliers' products) happen to be our Bank's borrowers, branches should verify whether the dues to the supplier (SMEs) are reflected in their audited balance sheet(s).

7. Institutional framework

7.1 MSME Vertical at Head Office:

An exclusive vertical/department is in place at Head Office to have focused attention for growth of MSME business. It also formulates policies and products for pertaining to MSME sector and overlooks implementation of various government sponsored schemes.

The Vertical is headed by General Manager – MSME, and the broad roles and responsibility of the vertical is detailed below:

i) Business development

- Formulating Policies & Strategies for MSME business growth
- Budget exercise – allocation & monitoring
- Develop new SME products/processes/services/pricing/clientele, etc. Also closely monitor competitor activities in new products, technology, etc.
- Launch campaigns, marketing & publicity initiatives for MSME growth.
- ROI and Service Charges related matters.
- Administration of Government Sponsored Schemes, viz. MUDRA / PMEGP / Stand up India/Start up India.
- CGTMSE */CLCSS/CGFMU/CGSSI* & all related work.
- Securitization (Pool Buy out).
- Co origination of Loans
- OEMS, Tie ups / channel financing, Cluster schemes.
- TUF scheme subsidy for textile industry (Central/State) / CLES
- Arranging forums / meetings of different MSME organizations/ Govt. agencies & ministry/KVIC/IBA/RBI, etc.

ii) Performance monitoring and review

- Monthly Top Executive Committee (TEC) review & monthly review meetings with NBGs, & Zonal Managers
- Overall monitoring /Performance dialogues with SMECC heads.
- Conduct occasional inspections of branches, SME city centres, zones etc.
- Conduct customer survey campaigns.
- Manage regulatory reporting and meeting of regulatory targets for lending to SME customers

- Compilation /MIS.
- Replying to RBI/Branches/NBG queries, parliamentary questions & clarifications. RTI reply, Fraud matters/PSRs
- Administration matters, Complaint/grievance red ressal
- Compliance Related matters pertaining to RBI/SIDBI etc

7.2 Specialized SME Branches

As per RBI guidelines, Public Sector Banks are advised to open at least one specialized branch in each district. Further banks have been permitted to categories their general branches having 60% or more of their advances to MSME sector as specialized MSME branches in order to encourage them to open more specialized MSME branches for providing better service to this sector as a whole .As per the policy package announced by Government of India for stepping up credit to MSME sector, the public sector Banks would ensure specialized MSME branches in identified clusters/centers with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend /render other services to other sector/borrowers.

Bank has identified 207 SME focused branches to augment the MSME business across the length and breadth of the country. The detailed guidelines for these branches have been circulated vide HOBC no 112/90 dated 17.09.2018. These SME focused branches in identified centers with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.

7.3 MSME Cells at Zonal Offices

Specialized MSME Credit Cells called SME hubs are set up at Zonal Offices in all key centers having good potential for MSME advances. The responsibility of these cells would include:

- Responsible for driving credit growth in MSME sector in the Zone;
- Processing of all proposals where the limits are beyond the Branch Manager's delegated authority and which are not mapped to any SMECC. Branches would forward all related papers with their recommendation for processing to MSME Cell. Branches however would continue to be responsible for verifying borrower's credentials and activity and would adhere to existing procedures/processes if proposal falls within the Branch Manager's Delegated Authority;
- Proposals processed by the Zonal Cell would be dealt directly at the Zonal Office, without any intervening authority;
- Turnaround time would thereby be reduced, ensuring that stipulated time schedules are strictly maintained by both - Branches and MSME Cell;
- The critical parameter for measuring the Cell's performance would be the reduced Turnaround time and MSME business growth with the introduction of the **centralized processing** at the MSME Cell.

- **MSME Cell at Zonal Office should complete the viability study of sick units which is beyond branch delegation and if viable, should recommend for nursing. Branch to put appropriate code for such accounts in finacle system.**

7.4 SME City Centers

In order to provide assistance to National Banking Branches in acquiring new customers, deepening relationship with existing SME customers and to expeditiously process new applications specialized processing Centers have been established named as "SME City Centre". At present 58 SME City Centers are present across all the nook and corner of the country.

Now we propose to modify the organizational and operational structure of all SMECCs to ramp up the efficiency of SMECCs and to improve the credit flow to the MSME Sector.

Operating Guidelines has been circulated via HOBC 113/01 dated 01/04/2019.

a) **Category A**: All SMECCs located in metropolitan centres and Tier I cities. The List of same is as under

Sr No	Name of SMECCs	Sr No	Name of SMECCs
1.	Mumbai South Zone	7.	Chennai
2.	Mumbai North Zone	8.	Kolkata
3.	Navi Mumbai Zone	9.	Indore
4.	Pune	10.	Bangalore
5.	New Delhi	11.	Hyderabad (Telangana)
6.	Ahmedabad	12.	Chandigarh

b)**Category B**:All other SMECC across different centres, viz:

Sr No	Name of SMECCs	Sr No	Name of SMECCs
1.	Nagpur	10.	Andhra Pradesh (Vishakhapatnam)
2.	Nasik	11.	Madurai
3.	Ludhiana	12.	Vadodara
4.	Jaipur	13.	Bhopal
5.	Kanpur	14.	Surat
6.	Bhubaneshwar	15.	Ranchi
7.	Guwahati	16.	Raipur
8.	Coimbatore	17.	Jamshedpur
9.	Dhanbad		

c**) Category C** (**New SMECCs**):

Sr No	Name of SMECCs	Sr No	Name of SMECCs
1.	Amritsar	15.	Bardhaman
2.	Jodhpur	16.	Khandwa
3.	Dehradun	17.	Gandhinagar
4.	Agra	18.	Rajkot
5.	Ghaziabad	19.	Goa
6.	Lucknow	20.	Raigad
7.	Varanasi	21.	Vidarbha
8.	Patna	22.	Sholapur
9.	Muzaffarpur	23.	Kolhapur
10.	Bhagalpur	24.	Ratnagiri
11.	Howrah	25.	Hubbli Dharwad
12.	Siliguri	26.	Kerala
13.	Keonjhar	27.	Hazaribagh
14.	Ujjain	28.	Bokaro
		29.	Vijayawada

7.5 Specialized MSE Service Cell

In terms of directive from the Ministry of Finance, Government of India, our Bank has established 45 MSE service Cells in lead districts where we are the lead Bank, for catering to the clusters located in the districts. In all 45 specialized MSE service cells are opened covering five States (Madhya Pradesh, Jharkhand, Orissa, Uttar Pradesh & Maharashtra) having 135 clusters. The broad functioning of MSE service cells are enumerated below;

i. To primarily focus on the clusters located in their area and understand their financial requirements.
ii. To give priority to applications pertaining to units in Micro Sector.
iii. To identify suitable cluster and formulate cluster specific lending schemes;
iv. To convene periodic meetings involving concerned LDMs to address issues related with the clusters' development.
v. To maintain proper record of applications received / sanctioned / rejected.

7.6 State Level Inter Institutional Committee (SLIIC) :

In order to deal with the problems of coordination for rehabilitation of sick micro and small units, state level inter institutional committees were set up in the states. However the matter of continuation or otherwise, of the SLIIC forum has been left to the individual states/union territory.

7.7 Empowered Committees on MSMEs:

Empowered committees on MSMEs have been constituted under the chairmanship of the Regional Directors of RBI with the representatives of SLBC Convenor, Senior level officers from two Banks having predominant share in MSME financing in the state, representatives of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level

representatives from the MSME Associations in the State and a senior level officer from SFC/SIDC as members.

7.8 Door Step Product advice and loan facilitation support to MSME borrowers:

In terms of Ease guidelines, Bank has to create a separate team for providing Door step product advice and loan facilitation support to MSME borrowers. In view of this we propose that a separate dedicated sales team be deployed at all SMECCs and in location other than SMECCs separate manpower station at one of the nodal branches/SME focused branches may be stationed for providing doorstep product advice and loan facilitation. The internal team will directly report to Zonal Office for all administrative purpose and to SMECC for all functional matters.

8. Cluster-Based Lending Approach

Cluster based approach for financing MSME units is expected to result in less transaction costs, and risk mitigation, besides providing an appropriate scale for improvement in infrastructure. We have issued Standard Operational guidelines for Cluster based finance through HOBC No 112/75 dated 27.08.2018.

9. Credit Linked Capital Subsidy Scheme (CLCSS)

The objective of Credit Linked Capital Subsidy Scheme (CLCSS) is to facilitate technology up-gradation in Micro and Small enterprises (MSEs) by providing capital subsidy of 15 percent (limited to maximum of Rs. 15.00 lakhs) on institutional finance availed by them for induction of well-established and improved technology in the specified 51 sub-sectors or products approved under the scheme. Maximum limit of eligible loan for calculation of subsidy under the Scheme is Rs. 100.00 lakhs.

The scheme aims at facilitating technology up gradation by providing 15% up front capital subsidy to MSEs including tiny, khadi, village and coir industrial units. Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

At present the scheme is under revision as informed by Ministry of MSME. Detailed guidelines has been issued through HOBC 113/171 dated 23.12.2019. Further guidelines on A – Tufs are also circulated through HOBC 110/207 dated 03.02.2017.

10. Credit Appraisal

Proper identification of the Enterprises, verification of applicant(s) and his/her/their antecedents in accordance with KYC Norms/Guidelines, their experience in the proposed line of activity, educational and social background, technical/ professional competence, integrity, initiatives, etc.

- Checking out for Willful Defaulters' List of RBI, Specific Approval List (SAL) of ECGC, CIBIL reports, Central Fraud Registry (CFR) individuals as well as commercial etc.

- The acceptability of the product manufactured, its market demand/supply position, market competition, marketing arrangement, etc.
- Evaluation of State and Central Govt. Policies (enabling environment) with specific reference to the Enterprise in question, Environmental stipulations, availability of necessary infrastructure-roads, power, labour, raw material and markets.
- Techno-economic Appraisal of units **to be carried out as per guidelines circulated by our TAD department from time to time. At present the latest guidelines have been circulated through 110/161 dated 28/11/2016.**
- Project Cost, the Proponent's own financial contribution, projections for following three years, and other important parameters which would include the BEP, liquidity, solvency, and profitability ratios, etc.

11.1Credit Information Report:

Our Bank has membership and service agreement with Credit Information Bureau of India Ltd (CIBIL), Credit Analysis & Research Limited (CARE), FITCH India Ltd, ICRA Limited, and Brickworks Ratings India Pvt Ltd. SME Rating Agency of India (SMERA). CIR should be generated initially to have an informed judgment of the applicant. Applications with adverse Credit Information Report showing over dues and substandard assets should not be considered for finance.

However in Credit Information report there may be some small credit card / loan amounts showing as written off or outstanding. In such cases sanctioning authority should verify the details and take a judicious decision based on satisfactory reply from the proponent.

11.2 CIBIL MSME RANK (CMR):

CIBIL MSME Rank (CMR) is a credit default predictor model for commercial /business entities .It provides insights in the credit behavior of the entities and predicts the probability of default over a one year horizon, thereby, helping the sanctioning authority to make well informed credit decisions.

It is applicable to all commercial /business entities with aggregate commercial borrowings between INR 0.10 crore to 10 crore.It measures and predicts the risk of the borrowings on a scale of 1 to 10, CMR 1 having the least probability of default and CMR 10 having the most probability of default.

CMR is to be used only for the purpose of screening the applicants and in no way it can be used as a substitute for credit rating exercise of the Bank.

Detailed guidelines on CMR has been circulated vide HOBC no 112/381 dated 31.12.2018.

Now CIBIL has extended the scope of CIBIL MSME Rank (CMR) from Rs 10 Cr up to Rs 50 Cr.

Now CIBIL MSME Rank (CMR) will be applicable for loans up to Rs 50 Crore and the same operational guidelines will be followed as enumerated under CMR Policy for all loans up to Rs 50 Cr.

11.3 Presently we are obtaining commercial bureau from CIBIL and we now propose to enter into agreement with the other three Credit Information Bureaus viz Experian, Equifax and CRIF for obtaining commercial bureau report. Detailed Operational guidelines will be issued from time to time after execution of MOU with these agencies.

12. Credit Tenure

The Term Loan exposure to MSME sector would generally be for a term of 7-10 year maturity, while working capital will be on demand.

13.1 Working Capital Assessment

Turnover method - for working capital limits requirement up to Rs.5 Crores, turnover method would be applicable as per **Nayak Committee Recommendations.**

a) For Medium Enterprises: Under this method, working capital is assessed at 25% of the **projected turnover** based on the assumption of a three month operating cycle**. 20% of the turnover is provided by way of bank finance and balance 5% or 1/5th of the working capital required should be brought in by the borrower by way of net working capital contribution.** It is abundantly clarified that this 20% is the minimum WC limit to be **sanctioned** even if the proponent's operating cycle is shorter than 3 months. Branches should, however, ensure to restrict the drawings in such cases **to actual drawing power** arrived at based on the amount of inventory/receivables declared by the borrower vide his monthly statements**.**

b) For Micro & Small Enterprises:

The Working Capital limits is to be assessed for Micro & Small enterprises in the following two ways (For limits up to Rs 5 crores) :

1. Units with digital portion turnover of 25% & above in previous year

The projected turnover is further to be divided into two components- Digital and Non Digital. Working capital assessment is to be carried out as under:

i. For Non Digital portion :

Working capital limits – Minimum 25% of the projected turnover (accepted).

ii.For Digital portion :

Working capital limits - 30% of the projected turnover (accepted).

The percentage of digital transaction in projected turnover (accepted) to be taken as actual percentage of digital portion in the previous year.

Digital Transactions: All Sales transactions reflected in the bank books other than cash and paper based instruments (such as cheques, DDs, POs etc) may be considered.

2. All other MSEs, except those mentioned above:

Working capital limits - Minimum 25% of the projected turnover (accepted).

Borrower's contribution by way of net working capital continues to be at 20% (1/5th) of the working capital requirement.

In all the cases, branches should ensure to restrict the drawings to actual drawing power arrived at, based on the amount of inventory/receivables declared by the borrower vide his monthly statements.

Detailed guidelines for assessment of working capital for MSE sector under Turnover method have been circulated through HOBC 111/45 dated 27.06.2017.

MPBF (Maximum Permissible Bank Finance) method – is conventional method of assessing working capital for units with **longer** operating cycle and / or for units requiring working capital in excess of Rs. 5 Crores. The assessment is based on the buildup of Current Assets and Current Liabilities. 25% of Current Assets should be brought in by the borrower/promoter by way of net working capital contribution. As a measure of incentives for exports, stipulation of providing margin on export receivables has been waived. As such the minimum margin required will be 25% of total Current Assets excluding export receivables.

Cash Budget method – Where working capital requirement is more than Rs.5 crore assessments should be carried out under cash budget method especially where the borrower is engaged as contractor or revenue is recognized on progressive billing basis, etc. Under this method, the peak level cash deficit will be the level of total working capital finance to be extended to the borrower. The peak level cash deficit will be ascertained from the projected Cash Budget statement submitted by the borrower. The cash budget statement would comprise of projected receipts and payments for the next 12 months on account of business operations including advance payment, mobilization advance, non-business operations, cash flow from capital accounts and other sundry items.

Branches should obtain and scrutinize latest audited financials of the constituent in all cases of WC limits request of Rs.10 lakhs and above. In case provisional balance sheets are submitted by the constituent, adverse variation between the provisional and audited financials should not exceed 5%. In the event of deviation beyond 5%, branches should have a discussion with the constituent to find out the reason for such variation and report to the sanctioning authority.

The next year's sales projections made by the borrower, however, would have to be corroborated by the trend in sales over previous 2 years, last year actual sales through verification of the following indicative parameters (besides the financial data submitted by the borrower):

- Sales Ledger/Sales Turnover.
- Credit Summation in the account.
- Sales Memos or Invoices/Delivery Challans.
- Sales Tax Paid/Turnover Tax/Excise Register/GST, as applicable,
- Electricity Bills –wherever applicable.
- Orders on hand/expected orders.
- Installed capacity vis-à-vis the projections.
- Overall market trend etc.

Such projections should be within reasonable limits say 25% over previous year's sales and/or in line with past YOY growth pattern. However, in exceptional cases deviations may be considered by accepting higher sales projections if supported by firmed up orders, additional capacity available, introduction of new product line, etc.

13.2 Cash Flow based MSME lending:

As per the EASE guidelines Bank has to move away from traditional balance sheet based assessment to Cash flow based assessment based on the Cash flows derived from Bank Statement/ GST returns etc. We have been evolving cash flow based lending through Bank statement analysis with help of various fintech companies as a part of automation for MSME lending. The same will be implemented in phased manner as per stages of automation.

Now it has been approved that there is no requirement of submission of CMA data for all loans upto Rs 50 lakhs (under MSME), wherein the borrowers are GST compliant and must have filed GST for last one year. In such cases unit should have been established for at minimum one year before and should have transactions in their bank accounts for at least last six months.

In other cases the present system in vogue as per credit policy will be followed.

13.3 Credit Delivery CC/WCDL:

In case of borrowal accounts with fund based working capital credit limits of Rs 10 crore and above from the banking system, the total disbursement for WCDL & Cash Credit should generally be 80% and 20% of the sanctioned limit respectively. RBI has given freedom to fix the proportion of CC and WCDL. Hence though a ratio of 80:20 is desirable, ZLCC/Head of LCBs, onwards may permit flexibility in this regard.

For the purpose of renewal/rollover of WCDL component, review of the total working capital requirement of the borrower will be based on QIS, Half Year Operating Statements, half yearly balance sheet, Annual Balance sheet and operations of the borrower with the Bank, whichever is immediately available.

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

To meet the timely and flexible and adequate credit flow to Micro and small units, we may consider the following measures as per RBI guidelines,

14.1 Sanction of Standby Credit Facility-

At the time of sanction of project loans, sanctioning authority on merit, may 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. Such standby credit not to exceed 15% of the total project cost. Further, at the discretion of sanctioning authority, 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 speedy credit so that the capital assets creation is not delayed and commercial production can commence at the earliest.

14.2 Mid-term review of the regular working capital limits, where branches are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs every year based on the actual sales of the previous year.

14.3 Sanction of separate additional limit with regular working capital limit:

At the time of Initial Sanction or at the time of Review, sanctioning authority may sanction separate additional limit @ 10% of the working capital limit as standby working capital, which may be utilized by the borrower once during the period of review for maximum 90 days, for meeting certain urgent requirements /emergent needs of the borrower.

15. Review of Regular Working Capital Limits:-

At present banks review 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 sanctioning authority to do the mid-term reviews and working capital limit may be assessed based on the 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.

16.1 Financial Ratios:

Bank's extant delegation of powers circulated vide **HOBC 109 / 69 dated 01.07.2015** specifies financial ratios prescribed as per Credit Policy of the Bank and maximum relaxation permitted for key financial indicators permitted by the Board. The prescribed ratios are to be strictly adhered to while processing credit proposals pertaining to MSME units. We reproduce hereunder the extant provisions for the ready reference of the branches:

I	II	III
Financial Parameters #	**Financial Ratios prescribed as per credit policy**	**Maximum Relaxation (permited by Board)**
Debt Equity Ratio / Debt Quasi Equity Ratio (TOL/TNW)	4 (Maximum)	5 (Maximum)
Current Ratio	1 (Minimum)	(a) 0.7 for Sugar & Seasonal industries and other sectors whose assessment is done through Cash budget method. viz; Educational Institutions, Construction contractors, Hotels, Hospitals etc. @ (b) 0.8 for all others.
Debt Service Coverage Ratio (DSCR)*	1.25 (Minimum Average)	1.10 (Minimum Average)

*** Applicable only in respect of Project / Term Loan.**

 # Delegatee while considering the proposals should ensure the borrower's capacity to service interest and installment.

@ Educational institutions be exempted from Current Ratio norms. Further, Current Ratio not to be reckoned for Working Capital facilities in case of Hotels and Hospitals.

Benchmark on historical basis for above parameters is as under:

Sr.No.	Financial Parameters	Benchmark Financial Ratios
1.	Debt Equity Ratio/ Debt Quasi Equity Ratio (TOL/TNW)	3 (Maximum)
2.	Current Ratio (CR)	1.33 (Minimum)
3.	Debt Service Coverage Ratio (DSCR)	1.50 (Minimum Average)

16.2 <u>Authority for approval of Deviation in financial ratios</u>

Authority for approval of deviation in financial ratios as given in delegation of powers (HOBC 109 / 134 dated 14.09.2015) is applicable for accounts under MSME segment also. Zones/Branches are to be guided according to the provisions contained therein.

17. Credit Acquisition

Apart from direct/primary credit acquisition, we may also consider **take-over of advance accounts** from other Banks/FIs. Detailed guidelines have been circulated by our C&IC department vide **HOBC 114/53 dated 18/05/2020** which also inter alia include special takeover norms for Micro & small enterprises up to Rs 10 crores under Case III.

For all other MSME accounts, the takeover norms pertaining to Case I, II & IV will apply.

The Broad details of takeover norms as applicable to Micro & Small enterprises up to Rs 10 Cr is detailed below:

TAKEOVER PARAMETERS:

Sr No	Criterion for Takeover
1	Account should be standard with existing bank (mandatory)
2	Profit (Cash accruals) making during the previous financial year (mandatory) (provided there are no accumulated losses). (Units which are in first year of activity, the same is not applicable)
3*	Ideally Sales should show an increasing trend, however cases wherein sales show a decreasing trend, the decrease should not be more than 10% and the same should be properly justified. Decrease in Sale should not be in more than one year, out of the previous three financial year. (Sector should not be under negative list)
4	DER/DQER:- 4 (maximum)
5	CR: - 1.10 (minimum) For calculation of Current Ratio, term loan installments due within next 12 months will be excluded). Further in case of takeover of accounts in any specific sector wherein Current Ratio is not applicable such as Hotels, Hospitals etc, Current Ratio will not be applicable).
6	ISCR : 1.25 (Minimum) .
7	DSCR:- 1.25 (Minimum Average)
8	ACR: a) ACR should be minimum 1.50, in cases wherein collateral security are available. b) ACR should be minimum 1.30, in cases wherein CGTMSE coverage under Hybrid model is available. No accounts are permitted for takeover, if it is proposed to be covered under

	CGTMSE only.
9	CCR: a) CCR should not be less than existing CCR in the Bank from where the takeover is proposed. Sanctioning authority may allow change in collateral securities, however it should be ensured that CCR is not diluted. b) In case of CGTMSE, Hybrid Model only will be allowed.
9	Credit Rating : Entry Level norms in case of both internal and external rating is to be complied with. No accounts below entry level will be considered for takeover.

In case of Takeover + Additional the CCR as stipulated above is applicable for the portion of Takeover only.

18.1 <u>Securitization Transaction (Direct Assignment Transactions)</u>

In terms of RBI guidelines, investment by Banks in securitized assets representing loans to various categories of priority sector including loans to Micro & Small Enterprises, except ‘other’ category, are eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets provided -

(a) The securitized assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitization and fulfill the RBI guidelines on securitization.

(b) The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the Base Rate of the investing bank plus 8% p.a except MFI sector after complying the terms & conditions enumerated in HOBC 114/124 dated 09/09/2020 .

Securitization involves pooling of homogeneous assets and the subsequent sale of the cash flows from these asset pools to investors. Securitization is defined as “the process whereby loans, receivables and other financial assets are pooled together, with their cash flows or economic values redirected to support payments on related securities “Purchases / investment in securitized assets are one of the important avenues for achieving growth targets and also meeting priority sector requirements. This process allows Banks to purchase a pool of loan asset. Bank can rely on the expertise of NBFCs and other banks who originate loans based on strong underwriting standard. These originating banks / NBFCs while holding a certain portion of assets transferred under minimum retention requirement (MRR) also render services for recovery and servicing of these assets.

Investment in securitized assets can be either through the Assignment route or through Pass through Certificate (PTC). In the former case, the originator effectively transfers all risks / rewards and right / obligations pertaining to the asset and shall not hold any beneficial interest in the asset after its sale except those specifically permitted under these guidelines.

In Pass through Certificate (PTC), receivables are in the books of the originator (original lender to beneficiary) are "pooled" and transferred to a special purpose vehicle (SPV) or trust formed for the specific purpose of funding the assets. Once the assets are transferred to the issuer, there is no recourse to the originator. Then SPV issues "Pass through Certificates" which are in the nature of participation certificates that enable the investors to take a direct exposure on the performance of the securitized assets. Before issuing PTCs to the investors, SPV also get it rated from one or more rating agencies. SPV pays the originator for the assets with the proceeds from the sale of securities. The purchasing bank holds them as investment in their portfolio. These certificates can be traded in the market.

18.2 Securitization through PCG model: Government of India has introduced Partial Credit Enhancement for transactions involving "Transfer of Assets through Direct Assignment", wherein Government will provide Partial Credit guarantee cover for all such transactions. Detailed guidelines have been circulated through HOBC 113/134 dated 30.09.2019 and HOBC 113/176 dated 23/12/2019.

19. <u>Credit Rating Model</u>

Government/RBI have advised that Banks may initiate necessary steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of the enterprise. As per extant guidelines, the following credit rating models are to be used.

a) Hybrid Large Corporate (HLC) Model (Fund/Non-Fund based limits of Rs.30 Crores and above and / or turnover of Rs.150.00 crores and above);

b) Hybrid Mid Segment (MS) Model (Fund/Non – Fund based limits of Rs.5 Crores and above but below Rs.30 Crores and / or turnover of Rs.50 crores & above but not exceeding above Rs.150.00 crores) ;

c) SBS Model (Fund/Non-Fund based limits of Rs.10 Lakhs and above but below Rs.1 crore and / or turnover below Rs 50.00 lakh and above but below Rs 5 crore

d) SME model (Fund/Non—Fund based limit of Rs 1 cr and above but below Rs 5 crore and/or turnover Rs 5 crore and above but below Rs 50 crore – **HOBC No 109/118 dated 24.08.2015)**

e) Project Finance / Infrastructure Model (RG Model)

f) NBFC Model

g) Stock Broker Model

19.2 Entry Level for Credit Rating model:

i) Our Bank has set entry level grades for taking exposures based on the credit rating of the borrower under various models are given below:

Rating Model	Entry Level
SBS Model	SBS 5
MS Model	MS 5
HLC Model	HLC 5
Project Finance / Infra Model	RG 7
Commercial Real Estate Model	RG 6
NBFC Model	NBFC 4
Stock Broker	SB 5
Overseas Model	OVS 5

ii) Currently the whole world is reeling under the impact of COVID 19 and the whole global economy has been wedged due to Pandemic. The Indian economy is no exception and MSMEs in particular have been badly hit and their business has came to an halt during the initial period of COVID 19 (during lock down).

This pause in business is more prominent among MSMEs in metro cities and large centers and those in the retail and manufacturing verticals. It is estimated that it will take approximately 09 months to 12 months to normalize the business. This time period is with reference to the stringent lockdown and subsequent unlock period.

iii) The worst impact will be on the financials of the MSME units as the sales are expected to take a beating with squeezing of margins, thus impacting EBDITA and added increase in turnover period of Inventories and Receivables.

iv) As such while undertaking Credit Rating under SBS/SME/MS/HLC models the financial risk score will come down which will have direct bearing on the final scoring of the unit/account.

v) In view of the above it has been approved that credit rating of SBS/SME/MS/HLC 6 for MSME loans should be considered within Entry Level till March 2022, so that the MSME borrowers are adjudicated factoring the effects of COVID. Further both categories of rating 5 or 6 are within the same bracket of BBB when mapped to external rating. (SBS/SME/MS/HLC 5 is mapped to BBB+ and SBS/SME/MS/HLC 6 mapped to BBB).

19.3 Entry level norms based on Risk categories:

Based on the EASE guidelines and as per Internal Credit Rating done by the Bank, credit exposure has been classified in four broad heads, listed as under:

a)Low Risk
b)Medium Risk
c)High Risk

d)No Go Category

Mapping of various Credit Rating models with the above categories has been detailed under HOBC 113/169 dated 16.12.2019, issued by our Risk Management Department.

Now since we are treating SBS/SME/MS/HLC 6 as entry level norms for MSME loans till March 2020, in view of the advent of COVID pandemic (as discussed under para 19.2 above), therefore SBS/SME/MS/HLC 6 will be as mapped as Medium Risk for all practical purposes and Delegation purposes. (Till 31.03.2022 for MSME loans).

20. External Rating

20.1 External Unit Rating

To encourage Small & Medium Enterprises from getting their units rated by an accredited external rating Agencies, empanelled by the National Small Industries Corporation (NSIC) viz. ONICRA, ICRA, CARE, FITCH India rating, CRISIL, SMERA & Brickwork, concessions in the applicable rate of interest to the extent of 0.50% in respect of units obtaining the Highest & 2nd Highest ratings and to the extent of 0.25% in respect of units showing the 3rd Highest rating is offered by the Bank.

20.2 External Credit Rating:

External Credit Rating of all the eligible MSME borrowers is to be obtained in accordance with HOBC 112/48 dated 06/07/2018, HOBC 112/103 dated 11.10.2018 & HOBC 114/80 dated 14.07.2020 issued by our Risk Management Department, or any other superseding circular issued on the subject matter.

Various External Rating Agencies have been approved by Reserve Bank of India for obtention of External Credit Rating are as under:

CRISIL, ICRA, CARE, India Ratings, ACUITE (Erstwhile SMERA), Brickworks and Infomerics .

Appropriate risk weight is assigned on the basis of credit rating assigned by the rating agencies. In accordance with BASEL II accord risk weight is assigned to the loan account based on their external credit rating for meeting capital adequacy requirement. In order to comply with the requirements of BASEL bank has made it mandatory. In the event of non-compliance by the borrower there is provision for charging penal rate of interest as provided in circular letter **2013-14 / 116 dated 13.08.2013, issued** by our C&IC department. Such ratings should be kept validated/ reviewed on its expiry.

20.3 Credit Assessment & Risk Weights:

Credit Rating	Long Term Ratings / Short term Ratings					
	AAA / A1+	AA / A1	A / A2	BBB / A3	BB,B,C,D / A4, D	Unrated
Risk Weight	20%	30%	50%	100%	150%	100%

21.Pricing

Risk of Default in the MSME sector is spread amongst a wider base of borrowers. The pricing is linked to the Credit Rating of the constituent in accordance with RBI directives. We have adopted pricing for MSME borrowers, linked to External Benchmark Lending Ratio (EBLR).Our Bank has adopted Repo based lending rate (RBLR) and all MSME loans are now linked to RBLR. Detailed guidelines on RBLR has been issued via HOBC 113/167 dated 13/12/2019.

22.Exposure Norms:

i) Bank's extant exposure norms would be applicable. Accordingly, the Bank's exposure should not exceed:

- 15% of Bank's Capital Funds to Individual Borrowers including PSUs. (20% in case of exposures to Infrastructure Lending).
- 40% of Bank's Capital Funds to Group Borrowers (50% in case the additional exposure of 10% is on account of Infrastructure projects, i.e. Power, Telecommunications, Roads Ports etc.)

ii) Industry wise Exposure: As a part of the best risk management practices and in order to have loan book well spread across various sectors/portfolios, industry specific exposure ceiling has been fixed. The detailed guidelines has been issued as per HOBC 113/78 dated 10/07/2019 and HOBC 113/156 dated 08/11/2019.

23. Margin Norms:

Margin norms to be followed as specified in credit policy of our Bank. Branch / Zone should adhere to the same for lending under MSME segment.

Normally for fund based facility it should be between 15% and 50% and for Non fund based facility minimum should be 20%. However, sanctioning authority may consider lower margin including 'NIL' margin in select cases after bringing out justifications/mitigations/ nature of underlying transaction / other security for the same in the proposal. Nil margins may also be considered for self-liquidating facilities like Bill Discounting under LCs, discounting of bill co-accepted by another Bank etc.

24.1 Collateral Security & CGTMSE

Credit facilities sanctioned to Micro & Small units defined as per MSMED act 2006, on the basis of investment in Plant & Machineries/ Equipment and falling under manufacturing & services sector including retail trade can be covered under CGTMSE.

Maximum Quantum of loan to a single borrower, in his lifetime, eligible for guarantee coverage should not exceed Rs 200 lakhs and in case of Retail trade it should not exceed Rs 100 lakhs.

Branches should note that a borrower can be given benefit of coverage in his/her lifetime under CGTMSE, aggregating from all lenders up to maximum amount of Rs 200 lakhs including previous guaranteed limits (even if closed) and the present guaranteed limit.

Further CGTMSE has now decided that the maximum guarantee coverage limit of Rs 200 lakhs per borrower will be based on the outstanding credit facilities.

For the purpose of calculating the exposure limit on outstanding basis, the following is to be considered:

i) In respect of fully disbursed term loans, the outstanding as on the date of consideration of fresh coverage is to be considered.

ii) In respect of partially disbursed Term Loans, the entire sanction amount should be considered. In case if the Bank proposes to cancel the undrawn portion of the sanctioned facility, Banks to update the same on CGTMSE portal.

iii) In respect of Working Capital limits the total sanctioned amount of working capital limit (irrespective of the utilization) should be considered.

iv) Further the One time Cap of Rs 200 lakhs is removed and the borrowers can avail incremental credit facilities (i.e. to the extent of reduction in the outstanding exposure limit) under credit guarantee scheme of CGTMSE, subject to the maximum cap of Rs 200 lakh.

24.2 CGTMSE has also introduced a new Hybrid security product allowing guarantee cover for the portion of credit facility not covered by collateral security. In the Partial security model the MLIs will be allowed to obtain collateral security for a part of credit facility whereas the remaining part of the credit facility up to a maximum of Rs 200 lakhs can be covered under credit guarantee scheme. Under this model CGTMSE will have notional second charge on the collateral securities. Detailed guidelines of CGTMSE has already been circulated through **HOBC 112/30 dated 07.06.2018**.

24.3 Any accounts with limit upto and inclusive of Rs 200 lakh/Rs 100 lakh (in case of Retail trade) and eligible for CGTMSE cover can necessarily be covered under CGTMSE.

24.4CGTMSE has now decided to remove the tenure Cap of 10 Years for Coverage of Working Capital facilities under Credit facilities under Credit Guarantee scheme. However a review would be undertaken after each block of five years by CGTMSE before renewal of the guarantee coverage for next five years. This review would be carried out based on certain parameters depending upon the amount of working capital limit and the Bank (Branches) are required to feed in the requisite data / information in the working capital renewal module for the purpose of review of the accounts before guarantee renewal approval by CGTMSE.

24.5 Extent of Guarantee Coverage available to Bank with effect from 01.04.2018 is detailed below:

<table>
<tr><th rowspan="2">Category</th><th colspan="3">Maximum Extent of Guarantee where Credit facility is</th></tr>
<tr><th>Upto Rs.5 Lakh</th><th>Above Rs.5 Lakh upto Rs.50 Lakh</th><th>Above Rs.50 Lakh upto Rs.200 Lakh</th></tr>
<tr><td>Micro Enterprises</td><td>85% of the amount in default subject to a maximum of Rs.4.25 Lakh.</td><td>75% of the amount in default subject to a maximum of Rs.37.50 Lakh</td><td rowspan="3">75% of amount in default subject to a maximum of Rs 150 Lakhs.</td></tr>
<tr><td>Women Entrepreneurs/units located in North East region(including Sikkim) (other than credit facility upto Rs.5 Lakh to micro enterprises)</td><td colspan="2">80% of the amount in default subject to a maximum of Rs.40 Lakh.</td></tr>
<tr><td>All other Category of Borrowers</td><td colspan="2">75% of the amount in default subject to a maximum of Rs.37.50 Lakh</td></tr>
</table>

Currently, credit limits (Outstanding) up to Rs.200 lakh per borrower in the Micro & Small Enterprises sector is covered under Credit Guarantee Scheme of CGTMSE. Credit Guarantee Trust w.e.f 01.01.2013 has simplified the rate structure for all new accounts by merging both Guarantee Fee and Annual Service Fee into one. However, accounts covered under CGTMSE prior to 01.01.2013 would continue to be governed by earlier provisions. The present rate structure of **one-time Guarantee (Joining) fee** and **Annual Service fee** is as under:

<table>
<tr><th>Existing Guidelines

(For accounts sanctioned before 01.01.2013)</th><th>Existing Guidelines

(For accounts sanctioned on or after 01.01.2013 till 31.03.2018)*</th></tr>
<tr><td>Guarantee fee (GF) – One time guarantee fee of the sanctioned credit facility paid up front.

Rate of GF is as under:

<table><tr><th>Credit</th><th>One Time Guarantee</th></tr></table></td><td>Composite all-in Guarantee Fee – payable on sanctioned credit facility upfront.

Rates of AGF is as under :

<table><tr><th>Credit</th><th>Annual Guarantee Fee</th></tr></table></td></tr>
</table>

Facility	Fee (GF) [in % p.a.]	
	Units in North East Region (incl. Sikkim)	Others
Up to Rs.5 lakhs	0.75	1.00
Above Rs.5 lakhs and up to Rs.50 lakhs	0.75	1.50
Above Rs.50 lakhs and up to Rs.100 lakhs	1.50	1.50

Annual Service Fee (ASF) – Payable on the sanctioned limit as on 31st March every year.

Credit Facility	ASF in % p.a.
Up to Rs.5 lakhs	0.50
Above Rs.5 lakhs and up to Rs.100 lakhs	0.75

Facility	(AGF) [% p.a.]	
	Women, Micro Enterprises and units in North East Region (incl. Sikkim)	Others
Up to Rs.5 lakhs	0.75	1.00
Above Rs.5 lakhs and up to Rs.100 lakhs	0.85	1.00

Composite guarantee fee at rate mentioned above payable per year up front.

(* from 01/04/2016 onwards Risk Premium will be added over the standard rates of annual guarantee fee)

From 01.04.2018 the AGF would now be charged on the outstanding loan amount instead of guaranteed amount for credit facilities sanctioned/renewed on or after 01.04.2018 as detailed below:

Credit Facility	ANNUAL GUARANTEE FEE (AGF) (% p.a.)	
	Women, Micro Enterprises and units covered in North East Region	Others
Up to Rs.5 Lakh	1.00+Risk Premium as per extant guidelines of the trust	

Above Rs.5 Lakh and upto Rs.50 Lakh	1.35 + Risk Premium as per extant guidelines of the trust	1.50 + Risk Premium as per extant guidelines of the trust
Above Rs.50 Lakh and upto Rs.200 Lakh	1.80 + Risk Premium as per extant guidelines of the trust.	
For Loan covered under Retail Trade: 2% + Risk Premium (As detailed under Para 9).		
AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of credit facility.		
Additional risk premium of 15 % will be charged on the applicable rate to the Bank who exceeds the payout threshold limit of 2 times more than thrice in last 5 years. This premium will be applicable for all guarantee accounts irrespective of the sanction date.		

Credit Guarantee Fund Trust for Micro and Small Enterprises vide their Circular No. 88/2015-16 dated 17th April 2015 proposed charging of Annual Service Fee (ASF) / Annual Guarantee Fee (AGF) at differential rates depending upon NPA levels of Member Lending Institutions (MLIs).

The Trust presently adopts non-discretionary approach in levying Annual Service Fee (ASF) / Annual Guarantee Fee (AGF) without reference to the level of NPAs reported by the Member Lending Institutions (MLIs) on the CGTMSE portal vis-à-vis the guarantees issued.

Considering the high level of NPAs reported by some of the MLIs vis-à-vis the guarantees issued to them, it has now been decided by the Trust to charge differential rates of ASF/AGF, depending upon the NPA levels reported by the MLIs.

The revised rate structure is as follows:

Risk Premium on NPAs in Guaranteed Portfolio		Risk Premium on Claim Payout Ration	
NPA %	Risk Premium	Claim Pay Out %	Risk Premium
0-5%	SR	0-5%	SR
>5-10%	10% of SR	>5-10%	10% of SR
>10-15%	15% of SR	>10-15%	15% of SR
>15-20%	20% of SR	>15-20%	20% of SR
>20%	25% of SR	>20%	25% of SR

In order to promote lending under CGTMSE our Bank has decided to absorb partial Guarantee Fee as mentioned below. The changes effected in sharing pattern with effect from 01.01.2013 will be as under:

Credit Facility	**Proposed sharing Pattern**

Limits up to Rs. 50 lakhs.	Bank to bear 100% of First years Annual Guarantee Fee (AGF) for all categories of borrowers in Micro & Small segment in general. The borrowers to bear the AGF from 2nd year on wards.
Limit above Rs.50 lakhs to Rs 100 lakhs	50% of Annual Guarantee Fee (AGF) for First year. The borrowers to bear the AGF from 2nd year onwards.
Limit above Rs 100 lakhs to Rs 200 lakhs	100% of AGF for entire tenure and entire loan amount will be borne by borrower.
PMEGP Borrowers	100% of AGF for entire tenure
Borrowers of category of • SC/ST, • Women beneficiaries • Minority • Units in NE area including Sikkim • Units in J&K	100% of AGF for entire tenure for credit limit up to Rs 100 lakhs only will be borne by the Bank. For Credit Limit above Rs 100 lakhs the AGF will be borne by the borrower for entire loan amount.

All other borrowers except special category of accounts as mentioned above will bear Annual Guarantee Fee (AGF) from 2nd year onwards.

24.6 New Norms for financing under CGTMSE

i) Sanctioning authority may consider proposals with CCR 60% & above for all accounts which are otherwise eligible under CGTMSE, without obtaining CGTMSE coverage.

ii) Proposals under Hybrid Security Product (irrespective of level of CCR) may be considered by sanctioning authority.

iii) For Proposals proposed to be covered only under CGTMSE, sanctioning authorities need to take clearance from respective Zonal Manager. After obtaining clearance the proposal will be sanctioned by respective delegated authority.

For the first two cases as mentioned above, no separate approval is required for waiver of CGTMSE coverage.

25.1Tie-Up For SME Financing

MOU for a strategic alliance with various Original Equipment Manufacturers (OEMs) has been entered into for giving boost to financing in MSE sector more particularly to SRTOs.

Presently, our Bank has entered into tie up arrangement with various OEMs manufacturing Commercial Vehicles and Earth Moving Equipment and signed MOUs for being the preferred financier of their brands. The List of such OEMs are issued through various HOBCs and the last being HOBC 111/56 dated 12.07.2017.

25.2Bank has introduced revamped SRTO scheme for financing vehicles/equipment manufactured by OEMs with whom it has entered into tie up arrangement and has signed MOUs. The details of the scheme were circulated vide HOBC vide 105/64 dated 04.07.2011. This special scheme is also extended to all OEMs for all new tie ups with different OEMs in future. However, loan request for financing commercial vehicles falling outside the tie up arrangement is also to be considered by the branches under our regular SRTO scheme after taking into account the changes advised from time to time.

25.3 EDLCC has been authorized for approving any modifications / Changes in the special schemes formulated for tie ups with OEMs, and General Manager (MSME) is to be authorized to approve tie up arrangement with any of the reputed OEMs.

25.4 Deputy General Manager/Assistant General Manager (SME)/General Manager (NBG) are authorized to enter into (signing of) fresh/renewal of MOU with OEMs.

Any new tie up arrangement may be informed to all the branches through circulars.

26. Structured Mechanism for monitoring the credit growth to the MSE sector

In view of the concerns emerging from the deceleration in credit growth to the MSE sector, an Indian Banks' Association (IBA)-led Sub-Committee (Chairman: Shri K.R. Kamath) was set up to suggest a structured mechanism to be put in place by banks to monitor the entire gamut of credit related issues pertaining to the sector. Based on the recommendations of the Committee, banks have been advised to:

• strengthen their existing systems of monitoring credit growth to the sector and put in place a system-driven comprehensive performance management information system (MIS) at every supervisory level (branch, region, zone, head office) which should be critically evaluated on a regular basis;

• put in place a system of e-tracking of MSE loan applications and monitor the loan application disposal process in banks, giving branch-wise, region-wise, zone-wise and State-wise positions. The position in this regard is to be displayed by banks on their websites.

Central Registration of Loan Application (Credit Proposal Tracking System-CPTS) – To facilitate the customers to submit MSME loan application online, our HO-IT has developed a package and broad guidelines of the same has been circulated to all concerned & HOBC 112/54 dated 11/07/2018.

The key functionalities of the module has been detailed as under:

a) URL: http://172.1.57.83/site pages/MSME register.aspx
b) USER ID: boicorp \branch MMS user ID.
c) Password: Branch MMS Password
d) For adding new application details in the module, branches should select: **Add new Item.**
e) Branches should enter all the relevant data pertaining to the applicant and then shall advise the generated application ID to the applicant.
f) For editing the existing record, branches should click on **Edit Item .**Thereafter branches may select the name of the concerned borrower for whom any editing is required.
g) Under **Edit item** branches can also update the status of the proposal processing and keep on changing the status as per the processing stages of the loan applications.
h) Every stage of loan application i.e. from the entry of application details from branch till the disposal of the application (pending/sanctioned/rejected) is to be updated from time to time by the parent branch, which has received the application from the borrower.
i) MIS of total applications shall be made available to both Zonal Office and Head office for proper monitoring and control.

3. The applicant can check the status of application by visiting undermentioned link:

https://www.bankofindia.co.in/english/Track-SME-loan-status.aspx

After logging, on the page the applicant needs to put in his application ID and the status of his application will be displayed.

4. The MIS thus generated will also be displayed on the Bank's website on quarterly basis, as per RBI directions.

27. Loan Schemes and Products under MSME:

Various schemes and products are designed by the Bank from time to time in order to meet market expectations, customized to facilitate easy assessment and sector specific credit dispensation. Some of the popular schemes are described briefly below;

27.1 **Star MSME GST Plus**:

Under the scheme working capital finance may be provided to all MSMEs engaged in trading and manufacturing activity and who are GST registered/compliant. The minimum loan amount is Rs 10 lakhs and maximum loan amount is Rs 500 lakhs. The detailed guidelines have been issued via HOBC 111/155 dated 29/12/2017.

27.2 **Star Start Up Scheme**:

Scheme for financing Start Ups as recognized by the government and engaged in innovation, development, deployment or commercialization of new product, process, services driven by technology or intellectual property. The guidelines for financing Start Ups has been dealt in HOBC 111/28 dated 25/05/2017.

27.3 **MUDRA Franchise /Aggregator /Dealer Scheme**:

A Standard Operating Procedure has been enumerated for financing dealers/aggregators/franchises of various corporates under MUDRA. The details of the scheme has been issued through HOBC 112/74 dated 27/08/2018.

27.4 **Cluster Based Finance Scheme**:

A Standard Operating Procedure has been enumerated for financing various units identified under Cluster and the detailed guidelines has been issued via HOBC 112/75 dated 27.08.2018 .A list of Clusters identified by UNIDO has also been listed in the said circular.

27.5**Trade Receivables Discounting System (TReDS):**

TReDS platform enables discounting of invoices/bills of exchange of MSME sellers against large corporates, including Government departments and public sector undertakings, through an auction mechanism to ensure prompt realization of trade receivables at competitive market rates. Bank of India has already on boarded the TReDS Platform. Bank has already on boarded all the three TreDS platform viz RXIL, Invoicemart and M1 Exchange. Our Bharat Diamond Bourse Branch under Mumbai North Zone is authorized to undertake TReDS transaction on behalf of the Bank. The detailed guidelines on TReDS have been issued through HOBC 111/170 dated 09.01.2018.

27.6 **Star MSME E Rickshaw Finance Scheme**:

In order to provide assistance to transport operators under micro category and thereby creating an employment opportunity, Star MSME e rickshaw finance scheme was approved by Board and launched on Pan India basis.The detailed guidelines of the scheme was issued and circulated via HOBC 112/077 dated 27.08.2018 .

27.7 **Star Doctor Plus Scheme:**

The scheme is launched for qualified Medical practitioners. The credit facility is extended for any *bona fide* purpose relating to the medical profession like setting up a new /clinic/ Nursing home / pathological lab or for expanding / modernizing the same, purchase of equipment, purchase of vehicle. Need based loan would be considered for business premises / equipment without any cap. The details of Star Doctor Plus scheme has been dealt with HOBC 110/150 dated 09.11.2016.

27.8 **BOI Star Vyapar Scheme:**

The Scheme entails working capital finance to service sector, viz Traders. The Minimum Loan amount as envisaged under the scheme is Rs 10 lakhs and the maximum loan amount is Rs 10 Crore. The guidelines for Star Vyapar scheme is detailed under HOBC 109/217 dated 03.03.2016.

27.9**Star Laghu Udyami Samekit Loan:**

Under the scheme a composite loan in the form of demand loan and/ or term loan are provided to all Micro & Small Entrepreneur at margin of 15 % with prescribed ceilings for the quantum of Bank finance varying as per location of the unit. The maximum quantum of loan given in Metro, Urban, semi urban and rural areas is Rs 100 lacs, Rs 50 lacs, Rs 10 lacs and Rs 5 lacs respectively. The detailed guidelines have been issued through HOBC 104/63 dated 23.08.2010 .

27.10 **Star MSE Demand / Term Loan:**

Under the scheme demand loan and term loan can be considered separately for purchase of plant / machinery / equipments and other movable assets at 15% margin with prescribed ceilings depending upon the location of the unit, maximum being Rs.100 lacs in Metro areas and Rs 5 lacs in rural areas. The scheme guidelines have been issued through 104/63 dated 23.08.2010 .

27.11**Star Priyadarshini Yojna :**

The scheme is specially designed for women entrepreneurs for purchase of equipment, machinery, vehicle, furniture and fixture etc as well as for their working capital requirements. Under this scheme concession up to maximum of 1% p.a. is extended to the women entrepreneurs in applicable rate of interest. There is no upper ceiling for the loan amount.

27.12**Star SME Liquid Plus**

The product is customized for the entrepreneurs who are engaged in business for period of at least 3 years and whose audited financials are in place. They can avail term loan for purchase of machineries, equipment and for preliminary expenses for R& D activity, marketing and advertising expenses. Minimum and maximum advance facilities available under the scheme are Rs.10 lacs and Rs.500 lacs respectively. The Scheme guidelines have been issued 104/129 dated 13.01.2011.

27.13**Star SME Contractor Credit Line**

It is designed to meet working capital requirements of established contractors, engaged in business for past 3 years, having audited financial in place. Finance can be availed in form of cash credit, bank guarantee, Letter of Credit etc with maximum credit limit of Rs.500 lacs. The scheme guidelines have been issued through 104/129 dated 13.01.2011 .

27.14**Star SME Education Plus**

Approved educational institutions i e Universities, Colleges and Schools with 3 years audited financials and record of profit making for at least continuous 2 years can avail Term loan for construction / Renovation / Repair of building and for purchase of computers, equipments, furniture etc. The minimum and maximum loan which can be granted under the scheme is Rs 10 lacs and Rs.500 lacs respectively. The details of the scheme has been dealt through HOBC 104/129 dated 13.01.2011 .

27.15**Star SME Auto Express**

Under the scheme term loan is extended to individuals, proprietor/partnership firms, limited companies, Trusts and Societies for purchase of new Transport Vehicles to be used for delivering the products, services. Educational Institutions too can avail finance under the scheme for plying of students. The details of the scheme has been dealt with HOBC 104/129 dated 13.01.2011.

27.16 **Star Channel Finance**

Through our ‘Star Channel Finance’ product we finance vendors/suppliers and dealers to/of Corporate, through invoice bill discounting scheme. Under the scheme the facility is extended with minimal or nil margins at very competitive rate of interest. Suppliers have choice to avail channel finance over and above their existing working capital facility, if any, with other banks. Product is offered on fully automated platform where technology savvy dealers/suppliers may get the proceeds on real time basis. The detailed guidelines of Star Channel Finance scheme have been circulated through HOBC 112/125 dated 25/10/2018.

28.1 Pradhan Mantri Mudra Yojana (PMMY)

Micro Units Development and Refinance Agency Ltd (MUDRA) was launched by the Hon'ble Prime Minister on 8th April 2015 as a new financial entity, **for developing and refinancing** last mile financial intermediaries like Banks ,NBFCs, MFIs ,etc who are in the business of lending to smallest of the micro enterprises in manufacturing, trading and service sector. It has been ascertained that 5.77 crore such units exist in the country and a great majority of them are outside the formal banking fold and are unable to sustain or grow due to lack of finance or relying on informal channels , which are very expensive or unreliable. To fund the unfunded by bringing such enterprises to the formal financial system and extending affordable credit to them, Pradhan Mantri MUDRA Yojana (PMMY) was launched on the same day i.e 8th April 2015.

PMMY or Pradhan Mantri Mudra Yojana consists of loans to non-farm enterprises in manufacturing, trading and services whose credit needs are below Rs 10.00 lakh. All advances granted on or after 8th April 2015 under the above segment have been classified as MUDRA loans under PMMY. The loans under the scheme have further been segmented as under:

SHISHU: Loans up to Rs 50,000 including overdraft up to Rs 5,000 sanctioned under Pradhan Mantri Jan Dhan Yojana.(PMJDY)

KISHORE: Loans above Rs 50,000 up to Rs 5.00 lakh.

TARUN: Loans above Rs 5.00 lakh up to Rs 10.00 lakh.

All the loans as described above can be covered under refinance and/or credit enhancement products of MUDRA

Collateral Security: As per RBI guidelines Banks are mandated not to accept collateral security in the case of loan up to Rs 10 lakh extended to units in the MSE Sector. In line of that we should not insist collateral security from eligible proponent under MUDRA loan.

**Margin : ** Nil for loan under SHISHU and 15% for others

28.2 Addition of various activities under the ambit of PMMY:

a) Pursuant to introduction of PMMY,DFS has advised that activities allied to agriculture, e.g. pisciculture, beekeeping,poultry,livestock,rearing,grading,sorting,aggregation agro industries, diary, fishery, agriclinics and agribusiness centres,food & agro processing etc (excluding crop loans,land improvement such as canals, irrigation, wells) and services supporting these which promote livelihood or are income generating shall be eligible under PMMY wef 01.04.2016.Accordingly all loans sanctioned under the above activities will be considered as loans under PMMY with effect from 01.04.2016.

b) Further Department of financial services (DFS) vide their letter ref no 29/2/2016 – IF -2 dated 13.03.2018 advised that loans sanctioned for purchase of tractors and power tillers may also be included as eligible loans under Pradhan Mantri Mudra Yojana (PMMY) from FY 2017-18 onwards, irrespective of the project cost, subject to the loan amount being restricted to Rs 10 lakh as per the extant guidelines on categorization of loans under PMMY.

c) The above two categories of activities have been included under PMMY and extant advisories to all concerned is in place vide HOBC No 110/89 dated 09.08.2016 and vide IOM ref no HO: SME:MR:2017-18:855 dated 16.03.2018

29. Stand Up India Scheme:

The objective of the Stand-Up India scheme is to facilitate bank loans between Rs.10 lakh and Rs.1 crore to SC/ST or women borrower for setting up a **Greenfield project**. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

SALIENT FEATURES OF THE SCHEME:

i. Composite loan (inclusive of term loan and working capital) between Rs.10 lakh and upto Rs.100 lakh.
ii. Besides primary security, the loan may be secured by the guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSSIL).
iii. The loan is repayable in 84 months with a maximum moratorium period of 18 months.
iv. The Scheme envisages 25% margin money which can be provided in convergence with eligible Central / State schemes.

The detailed guidelines on Stand up India Scheme has been circulated via HOBC 110/51 dated 27.05.2016.

30. Onlinepsbloans:

Contactless Platform (onlinepsbloans) is an online digital loan management platform for MSME borrowers which entails In - Principle sanction of loan without physical contact within 59 minutes.

The loans are undertaken without physically contacting the borrower till sanction or disbursement stage. The solution uses algorithms and techniques to read complex balance sheet, IT returns and bank statements in a very short span of time (within 25 to 30 min).The module captures the basic details of the applicant from documents which are available, through smart analytics.

Our Bank has on boarded the platform and loan to our proponents /borrowers can be sanctioned till the in principle stage through the platform. Various products has been created on the platform which includes:

i) Working Capital / Term Loan (New & Renewal) under MUDRA.

ii) Working Capital /Term Loan (New & Renewal) from Rs 10 lakhs to Rs 100 lakhs

iii) Working Capital / Term Loan (New & Renewal) above Rs 100 lakhs to Rs 500 lakhs.

The Detailed guidelines on Contactless Loans has been circulated via HOBC 112/104 dated 20.10.2018,112/124 dated 25.10.2018, 112/163 dated 15.02.2019, 113/103 dated 21.08.2019,

31. National Urban Livelihoods Mission (NULM):

The Existing Swarna Jayanti Shahari Rozgar Yojana (SJSRY) has been restructured as National Urban Livelihoods Mission (NULM).The Self Employment Programme (SEP) component of NULM will focus on providing financial assistance through a provision of interest subsidy on loans to support establishment of individual & group enterprises and self help groups (SHGs) of urban poor. The detailed guidelines of the scheme have been circulated vide HOBC 113/60 dated 25.06.2019 .

32.1Prime Minister's Employment Generation Programme (PMEGP):

The Ministry of Micro, Small and Medium enterprises,Govt of India has launched a credit linked subsidy programme called Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 viz Prime Ministers Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of Micro enterprises in rural as well as urban areas.PMEGP is a central sector scheme being administered by the Ministry of MSME.

The Scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the Scheme is routed by KVIC through the identified Banks for eventual distribution to the beneficiaries / entrepreneurs in their Bank accounts. The detailed guidelines of the scheme has been issued vide HOBC 102/139 dated 10.11.2008.

32.2 Second Financial Assistance under PMEGP for expansion of the existing successful PMEGP/MUDRA Units:

Government has approved continuation of PMEGP beyond 12th five year plan for a period of 3 years from 2017-18 to 2019-20 with a financial outlay of Rs 5500 crores. Further Government has also made provision for sanctioning 2nd loan with subsidy for upgrading the existing units, which are performing well in terms of turnover, profit making and loan repayment.

We have adopted and implemented the scheme of second financial assistance under PMEGP for expansion of the existing successful PMEGP/MUDRA Units as circulated by Ministry of MSME, Government of India. Detailed guidelines has been issued HOBC 113/08 dated 03/04/2019.

33. Other Guarantee Schemes:

a) Credit Guarantee fund for Micro units (CGFMU): The scheme covers all micro loans up to the specified limit (currently Rs 10 lakhs) extended by member lending institution (MLI) to an eligible borrower, provided that the lending institution applies for guarantee cover in respect of such loans so sanctioned within such time period and as per procedures prescribed by the fund for the purpose. The detailed scheme guidelines have been enumerated under HOBC 111/19 dated 05.05.2017 and HOBC 114/127 dated 11/09/2020.

b) Credit Guarantee scheme fund for Stand Up India Scheme (CGSSI): The broad objective of the fund would be to guarantee credit facilities of over Rs 10 lakhs & up to Rs 100 lakhs sanctioned by Banks and other financial institutions under the Stand Up India scheme. The scheme will come into force from the date notified by the government of India i.e. 25.04.2016. The detailed scheme guidelines have been circulated vide HOBC 111/38 dated 15.06.2017.

c) Credit Enhancement Guarantee Scheme for Scheduled Caste Entrepreneurs: To promote entrepreneurship among scheduled caste entrepreneurs, the scheme was launched for providing credit enhancement guarantee to banks for extending financial assistance to entrepreneurs belonging to scheduled caste. The details of the scheme has been circulated through HOBC 109/181 dated 23.12.2015.

34.1 Application & Proposal forms

A new application format for MSME loans upto Rs 200 lakhs was devised and circulated through HOBC 112/27 dated 01/06/2018.

Further MSE I (Application Form) to be obtained from all MSME borrowers requiring loan amount Rs 200 lakhs and above. However, additional information, required for processing the proposal, may be obtained as annexures. Wherever scheme specific application form is prescribed the same should be obtained.

The New revised format of all MSME proposals has been circulated via HOBC 112/88 dated 17/09/2018, inter alia comprising of three different proposal formats as under:

MSME – 1 - Advance to Small Road Transport Operator

MSME – 2 Up to limits of Rs.25 lakhs

MSME- 3 Limits above Rs. 25 lakhs up to Rs.200 lakhs

Loan request for more than Rs.200 lakhs should be processed in executive summary format – used for large borrowal accounts in the format circulated by C&IC department.

Online Application Form: Bank has also devised online application form and the same is available on the website of the Bank.

34.2 Proposal Processing through CAPS:

We have developed proposal formats up to Rs 2 Cr in CAPS and it is desirable that branches should process all applications through CAPS (for loans up to Rs 2 Cr). Further we are implementing automation of MSME loans and the same will be implemented in a phased manner. Once the whole automation is complete it is proposed that all MSME loans up to Rs 50 Cr be processed and sanctioned through CAPS.

35.1 Due Diligence

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

The due diligence exercise should inter alia cover the following aspects

i. KYC formalities (identification & address verification)
ii. Checking of CIBIL/CMR Reports (to be done annually at the time of review)
iii. Verification RBI / ECGC defaulters' list / SAL
iv. Search in records of ROC
v. Verification of PAN
vi. Educational qualifications, experience , skills
vii. Employment / business details
viii. Scrutiny of existing Bank Accounts / borrowing if any
ix. Family background, social reputation , standing / duration in the business
x. Market reports.

36. Framework for Revival and Rehabilitation of MSMEs:

The Ministry of Micro, Small and Medium enterprises, Government of India vide their gazette notification dated May 29,2015 had notified a Framework for Revival and Rehabilitation of Micro, Small and Medium enterprises to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs .

The Revival and Rehabilitation of MSME units having loan limits up to Rs 25 crores would be undertaken under this framework. The revised framework supersedes earlier guidelines on Rehabilitation of Sick, Micro and Small enterprises except those relating to reliefs and concessions for Rehabilitation of potentially viable units and one time settlement.

The salient features of the framework are as under:

i) Before a loan account of an MSME turns into a Non performing asset (NPA),Banks or creditors should identify incipient stress in the account by creating three sub categories under the special mention accounts (SMA) category as given in the framework.

ii) Any MSME borrower may also voluntarily initiate proceedings under this framework.

iii) Committee approach to be adopted for deciding corrective action plan.

iv) Time Lines have been fixed for taking various decisions under the framework.

The detailed guidelines on Framework for Revival and Rehabilitation of MSMEs has been circulated through HOBC 110/69 dated 11.07.2016.

37. One Time Special Restructuring of MSME accounts:

Reserve Bank of India has permitted one-time restructuring of existing loans to MSMEs classified as Standard without a downgrade in the asset classification, with a view to facilitate meaningful restructuring of MSME accounts .The detailed guidelines has been issued via HOBC 113/228 dated 04.03.2020 .

Further Reserve Bank of India via their notification DOR.No.BP.BC/4/21.04.048/2020-21 dated 06.08.2020 has extended the scope of scheme of One-time Restructuring of MSME units, in view of the fall out of COVID 19 pandemic.

The Broad criterion for MSME borrowers eligible under the framework is enumerated as below:

a) The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed Rs.25.00 crore as on March 1, 2020.

b)The borrower's account was a "standard asset" as on March 1, 2020.

c)The restructuring of the borrower account is implemented by March 31, 2021.

d)The borrowing entity shall be GST-registered on the date of implementation of the restructuring. However, this condition will not be applicable to MSMEs that are exempted from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 01, 2020.

e)Asset Classification of borrowers classified as standard may be retained as such whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as Standard Asset as on the date of implementation of the restructuring plan. The asset Classification benefit will be available only if the restructuring is done as per provisions laid down herein.

f) As hitherto, for accounts restructured under these guidelines, banks shall maintain additional provision of 5% over and above provision already held by them.

The detailed guidelines on the viability parameters and process flow for restructuring has been dealt in HOBC 114/96 dated 10/08/2020.

38.1 <u>Interest Subvention Scheme for MSMEs</u>:

Reserve Bank of India vide their circular ref no FIDD.CO.MSME.BC.No 14/06.02.031/2018 – 19 dated 21.02.2019 has issued operational guidelines for implementation of the interest subvention scheme for MSMEs.

The eligibility criterion for MSMEs to be covered under the scheme are as follows:

a) All MSMEs having valid Udyog Aadhar Number (UAN) and GST Registration number are eligible under the scheme.

b) Incremental term loan or fresh term loan or incremental or fresh working capital extended during the current FY viz from 02/11/2018 and next FY 2019-20 would be eligible under the coverage.

c) All eligible working capital and term loan would be eligible for coverage to the extent of Rs 100 lakhs only during the period of the scheme.

d) Wherever for a single MSME both the facilities are extended viz incremental working capital and term loan by an eligible institution, interest subvention would be made available only for a maximum financial assistance of Rs 100 lakhs.

e) All MSME exporters availing interest subvention for pre shipment or post shipment credit under department of commerce will not be eligible for assistance under interest subvention scheme for incremental credit to MSMEs.

f) The interest relief will be calculated at two percentage points per annum (2%), on outstanding balance from time to time from the date of disbursal/drawal or the date of notification of the scheme whichever is later on the incremental or fresh amount of working capital sanctioned or incremental or new term loan disbursed by eligible institutions.

Detailed guidelines on interest subvention has been circulated via HOBC no 112/167 dated 28.02.2019.

38.2 Interest Subvention for Shishu Mudra Loans:

Government of India introduced Interest Subvention Scheme for MUDRA – Shishu Loans, wherein MUDRA Shishu loans would be given an interest subvention of 2% for a period of 12 months.

The salient features of Interest subvention for Shishu Mudra Loans are as under:

- 2% Interest Subvention will be payable to all outstanding Shishu Loan accounts under PMMY that are not NPA as on 31.03.2020 .
- The Interest Subvention will be calculated at 2% p.a. on the outstanding balance sheet from time to time for 12 months or till maturity of loan.
- The scheme is operational for 12 months -

a) For accounts moratorium under COVID 19 regulatory package from September 1, 2020 till August 31,2021.

b) For other Borrowers from June 01,2020 till May 31,2021.

39. COVID Related Products:

Due to the recent ongoing COVID 19 Pandemic various measures has been taken by the Bank for supporting the MSME borrowers at this time of crisis. Further certain initiatives were also undertaken by the Government of India through their COVID related flagship programs. A list of all such products formulated and implemented by the Bank are listed below:

i) COVID Emergency Support Scheme 2020 (CESS 2020) : HOBC 114/20 dated 21/04/2020 and HOBC 114/58 dated 15.06.2020.

ii) Star Liberalized Working Capital (SLWCL) scheme for MSMEs: HOBC 114/24 dated 22.04.2020

iii) Star Emergency Credit Line (Star GECL): HOBC 114/45 dated 26/05/2020, 114/59 dated 22/06/2020, 114/76 dated 07.07.2020 etc

iv) Star Hawker Atmanirbhar Loan (SHAL) under PM Street Vendor’s Atmanirbhar Nidhi (PMSVANIDHI) scheme: HOBC 114/81 dated 08/07/2020

v) Star Subordinate Debt for Stressed MSME & Credit Guarantee Scheme for Subordinate Debt: HOBC 114/95 dated 05.08.2020.

40. Co origination of Loans:

Reserve Bank of India vide their notification dated RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated 21.09.2018 has issued guidelines on Co origination of loans by Banks and NBFCs for lending to priority sector.

It is envisaged that the benefit of low cost funds from Banks and lower cost of operations of NBFC would be passed on to the borrower through adoption of the blended rate/weighted average rate.

Reserve Bank of India has advised that all Commercial Banks (excluding RRBs and SFBs) may engage with NBFC – ND – SIs to co – originate loans for the creation of priority sector assets.

As per guidelines Banks can claim priority sector status in respect of its share of credit while engaging in the Co – origination arrangement. However the priority sector assets on the bank's book should at all times be without recourse to the NBFC.

We have devised Standard Operating procedure for entering into agreement with NBFCs and for implementation of Co Origination.

We have entered into Co Origination agreement with Paisa lo digital for originating Micro Loans.

41. Micro and Small Enterprises Sector – The imperative of Financial Literacy and consultancy support

Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative for banks that maximum number of units is brought within the fold of the formal banking sector. The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenge for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. Moreover, MSE enterprises are further handicapped in this regard by absence of scale and size. To effectively and decisively address these handicaps, RBI vide their circular RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012 has advised that the banks could either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage. Bank has already set up 51 Financial Literacy Centers across the country named as "ABHAY" as per guidelines of RBI.

42. 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 and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty. Bank's Policy document on "Code of Bank's commitment to Micro & Small Enterprises" was approved by the Board on 09.11.2015 and is placed on our Bank's portal.

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.

42.1 Objectives of the BCSBI Code

The Code has been developed to

(a) Give a positive thrust to the MSE sector by providing easy access to efficient banking services.

(b) Promote good and fair banking practices by setting minimum standards in dealing with MSE.

(c) Increase transparency 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 MSE and banks and also ensure timely and quick response to banking needs.

(g) Foster confidence in the banking system.

The complete text of the Code is available at the BCSBI's website (www.bcsbi.org.in). The same is also available on our Bank's website.

42.2 Salient Feature of the revised Code that enhance services offered to the MSE Sector.

Banks are committed to -

1. Display their policies on 'Lending to the Micro and Small Enterprises' and 'Rehabilitation of Micro and Small Enterprises' on their websites as also make them available at branches.
2. Explain the features of subsidy schemes and any requirement needed to be fulfilled where a loan is eligible to be covered under any such scheme in force.
3. Advise the MSE borrower about the functioning of the Central Registry and the fact of availability of their records for search by any lender or any other person desirous of dealing with the property
4. Give the MSE customer the Most Important Terms and Conditions (MITC) governing the loan / credit facility approved by them and which may be availed by the MSE.
5. Dispose of the loan application of the MSE for a credit limit or enhancement in existing credit limit within the stipulated time frame reckoned from the date of receipt of application , provided the application is complete in all respects and is accompanied by documents as per 'check list' provided.
6. Not insist on collateral for credit limits up to Rs.10 lakh or up to limits specified by Reserve Bank of India, from time to time.
7. Endeavour to send the MSE borrower a communication through letter / mail or SMS about the status of his / her account before it becomes an NPA.

8. Give the MSE borrower notice, sufficiently in advance, if the bank decides to recall / accelerate payment or performance under the agreement or seek additional securities.
9. Explain to the MSE customer the implications of One Time Settlement (OTS) on its credit history maintained by the Credit Information Companies (CICs).
10. Give a copy of the terms and conditions of the loan sanctioned / loan agreement to the guarantor(s) of the credit facility availed by the MSE borrower.
11. Send a copy of the annual statement of account of the MSE borrower's term loans / demand loans to the guarantor(s) of the loan.
12. Endeavour to conduct programs to enhance knowledge on financial management of prospective borrowers.
13. Endeavour to organize meetings of MSE borrowers at periodic intervals as a regular channel for exchange of ideas and suggestions.

43. Display of MSME Policy

For wider dissemination and easy accessibility, the reviewed MSME policy guidelines would be displayed on the Bank's website and will be circulated across the branches through NBGs / ZOs.

Annexure II

List of activity covered under service sector:

1. Advertising Agencies.
2. Marketing Consultancy.
3. Industrial Consultancy.
4. Equipment Rental & Leasing.
5. Typing Centers.
6. Xeroxing.
7. Industrial Photography.
8. Industrial R & D Labs.
9. Industrial Testing Labs.
10. Auto Repair, Services and Garages.
11. Documentary Films on Themes like Family Planning, Social Forestry, Energy Conservation, and Commercial Advertising.
12. Laboratories engaged in testing of Raw Materials and Finished Goods.
13. "Servicing Industry" Undertakings engaged in maintenance, repair, testing or servicing of all types of vehicles and machinery of any description including Electronic/Electrical Equipment /Instruments i.e. measuring/control instruments, televisions, tape recorders, VCRs, Radios, Transformers, Motors, Watches, etc Press
14. Laundry & Dry Cleaning.
15. X-Ray Clinic.
16. Tailoring.
17. Servicing of Agriculture Farm Equipment e.g.. Tractor Pump Rig Boring Machines etc.
18. Weigh Bridge.
19. Photographic Labs.

20. Blue Printing and Enlargement of Drawing/Designs, Facilities.

21. ISD/STD Booths.

22. Teleprinter /Fax Services.

23. Creation of Data Bases suitable for Foreign/Indian Markets. Software Development.

24. Data Conversion, Data Mining, Digitization, Data Entry, Data Processing, Data

    Warehousing.

25. Digitisation of spoken material (e.g. legal and medical transcription)

26. Computerised Call Centers.

27. Geographic Information Systems Mapping/services.

28. Web-Designing/Web Content Development Services.

29. Computer Aided Design/CAD/CAM Services.

30. E-Mail, Data, Internet, Fax Service Provider.

31. ISP Services (Communication channels like V-Sat, Optical Fiber NOT included).

32. Computerised Desk Top Publishing.

33. Web Service Providers, including web hosting and website management.

34. USDN Service Providers.

35. Computer Systems AMC Service Providers.

36. Multi Media Development Units (including e.g. animation and special effects, video and photo digitization)

37. IT Solution Providers/Implementers (such as and including server/data banks,

    Application Service Providers, Internet/Web-based e-Commerce service providers, Smart Card customization service provider, systems integration service providers).

38. Cyber Café/Cyber Kiosks/Cyber Parlors and Video Conferencing Centers / Parlours.

39. Back Office Operations relating to Computerized Data.

40. Other Services provided with the intensive use of computers (such as and including telemedicine services, remote access cyber services, remote diagnostic and repair services)

41. Multi-Channel Dish Cable TV with Dish Antenna.

42. Video Shooting.

43. Hot Mix Plant (irrespective of mobile or immovable).

44. Research and Development.

Subsequently advised vide HOBC 103/114 & 103 / 116 dated 26.09.2009.

a)Consultancy Services including Management services.
b)Composite Broker Services in Risk and Insurance Management.
c)Third party Administration (TPA) services for medical insurance claims of policy holders.
d)Training-cum-incubator services.
e)Educational institutions.
f)Training institutes.
g)Retail Trade
h)Practice of law i.e. legal services.
i)Trading in medical instruments (brand new)
j)Placement and Management Consultancy Services; and
k)Advertising Agency and Training Centres.
l)Publishing
m)Sanitation Services (Hiring of Septic Tank Cleaner)
n)Clinical / Pathological Laboratories and scanning , MRI test
o)Hospitals
p)Restaurant with bar
q)Canteens
r)Hotels / Motel

Activities considered as Manufacturing

1. Printing

2.”Printing and publishing” as integrated unit

3. Medical equipment and Ayurvedic Product

4. Tobacco Processing

5. Beedi / Cigarette manufacturing and other tobacco products

The list is illustrative only and not exhaustive