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MSME Credit and Rehabilitation Policy

1. Introduction

Government of India and the Reserve Bank of India are giving thrust for MSME lending. Government of India has enacted Micro, Small and Medium Enterprises Development Act in the year 2006 to have a focused and balanced growth of Micro, Small and Medium Enterprises. Hence, a specialized focus on lending to MSME acquires importance.

Our Bank has entered into MoU with CGTMSE to provide guarantee cover in respect of the credit facility upto Rs.100 lacs to Micro and Small Enterprises [MSEs] without collateral security and / or third party guarantee. Bank has also entered into MoU with NSIC for securing new proposals from MSME sector.

Though Chapter 1 to 12 of Credit Policy 2014 covers, inter alia, MSME lending aspects also, this MSME Lending Policy is now formulated to give focus to MSME lending. Except for the provisions mentioned hereunder, all other credit policy norms are, *mutatis mutandis*, applicable for MSME lending.

2. Definition of Micro, Small and Medium Enterprises

The MSMED Act, 2006 defines the Micro, Small and Medium Enterprises based (i) on the investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of goods and (ii) on the investment in equipment for enterprises engaged in providing or rendering of services.

The guidelines with regard to investment in plant and machinery or equipment as defined in the MSMED Act, 2006 are:

Nature of activity of the enterprise	Manufacturing sector	Service sector
Micro	Not exceeding Rs.25.00 lakhs	Not exceeding Rs.10.00 lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

The investment in plant and machinery is the original cost excluding land and building and other items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722 (E) dated 05.10.2006.

Exclusions in arriving at the original cost of plant and machinery for Manufacturing Enterprises:

As referred in the MSMED Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the Manufacturing Enterprises, namely:

(i) Equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumable stores;

(ii) Installation of plant and machinery;

(iii) Research and development equipment and pollution control equipment;

(iv) Power generation set and extra transformer installed by the enterprise as per 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, bus bars, electrical control panels (not mounded on individual machines), 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;

(vii) Gas producers plants;

(viii) Transportation charges (excluding sales tax or value added tax and excise duty) for indigenous industry from the place of the manufacture to the site of the enterprise;

(ix) Charges paid for technical know-how for erection of plant and machinery;

(x) Such storage tanks which store raw material and finished produces and are not linked with the manufacturing process and

(xi) Fire fighting equipment

However, while calculating the investment in plant and machinery, the original price thereof, irrespective of whether the plant and machinery are new or second -hand, shall be taken in to account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

(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

List of Enterprises engaged in providing or rendering Services under MSME:
The illustrative list of enterprises that are engaged in providing or rendering services are:

- Small road and water transport operators (whose original cost price of the equipment used for the purpose of business does not exceed Rs.200.00 lakhs)
- Small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.200.00 lakhs)
- Professional and Self Employed Persons
- Consultancy Services including Management Services
- Composite Broker Service in Risk and Insurance Management
- Seed Grading Service
- Training-cum-Incubator Centre
- Educational Institutions
- Training Institutes

- Retail Trade
- Trading in Medical Instruments (Brand New)
- Practice of Law (i.e.,) Legal Services
- Advertising Agency and Training Centres

Loans to Service Enterprises including small traders:
Bank loans up to Rs.5 crores per unit to Micro and Small Enterprises and Bank loan upto Rs.10 crores to Medium Enterprises can be considered as Priority Sector loans.

3. Credit Acquisition:

The Bank shall continue to give additional thrust to financing MSME sector. Bank shall follow the strategy of increasing its business in the MSME space by offering excellent service at reasonable rates but with a strong focus on the right selection of borrowers.

Bank has introduced specific loan schemes for MSME sector viz.,

(1) For Manufacturing sector: KVB MSME pack consisting of KVB MSME Cash, KVB MSME Term Loan, KVB MSME Vendor Bill Discounting, KVB MSME Expo, KVB MSME standby Term Loan and KVB MSME Easy Loan.

(2) For service sector and traders: KVB Professional Loan, KVB Varthagamitra, KVB Steel Plus, KVB Textile Plus, KVB Pharma Plus, KVB Timber Plus, KVB Commodity Plus, KVB Construction Plus, KVB Transport Plus, KVB Easy Tradefin loan, KVB Rice Plus, KVB Food & Agro Process Plus

These products with specified parameters are designed for easy understanding by the customers and to serve as marketing platform for the Bank officials. Features / parameter details of the above products / schemes are also available in Bank's website.

4. Concessions to MSMEs

4.1 Concession in ROI for Rating from accredited agencies shall be pegged up to 0.50% depending on the rating scales as under:

SME 1 & SME 2 ratings – 0.50%
SME 3 & SME 4 ratings – 0.25%

4.2 Processing fee for loans upto Rs.5 lakhs is waived.

4.3 Loans to MSME up to Rs.10 lakhs shall be extended without insisting for / taking any collateral security or third party guarantee by covering credit guarantee with CGTMSE or MUDRA SCHEMES, as applicable.

4.4 Bank shall encourage financing viable micro and small enterprises for fund based and non fun based limits up to Rs.100 lakhs without collateral security and / or third party guarantees by covering credit guarantee with CGTMSE or MUDRA SCHEMES, as applicable.

5. Timely & adequate Credit:

5.1. Time Norms:

Time norms for disposal of loan applications

Sl.No	Facility	Time frame
1	i)Sanction of fresh /enhanced Credit limits a)Loans upto Rs.5 lacs b)Loans over Rs.5 lacs to Rs.25 lacs c) Loans over Rs.25 lacs ii)Renewal of existing credit limits iii)Sanction of adhoc credit limits	 Within 2 weeks Within 3 weeks Within 6 weeks Within 2 weeks Within 7 days

The time limit shall be reckoned from the date on which all documents as per check list, clarifications / information required for processing the loan proposals are received by respective sanctioning authorities. To bring down turnaround time (TAT) `**Loans Check List'** to be referred to, by the branches and collect all the basic papers / documents from the borrowers.

5.2. Method of assessment:

Credit requirement of MSME borrowers shall be assessed, as per Credit Policy document, as below.

Term Loans:

The following critical factors shall be looked into in-depth.

(i) Managerial competence of the promoters
(ii) Technical feasibility of the Unit
(iii) Financial viability of the Unit
(iv) Socio – economic importance of the project
(v) Availability of approvals from competent statutory authorities

Working capital funded limits

Bank normally provides working capital finance by way of advance against stocks and receivables. The borrower should have his own stake / contribution in the business by way of margin for working capial requirements. The working capital requirements shall be assessed by adopting following methods, depending on the type of the business activity / categories of borrowers:

Limit amount	**Method of assessment**
For manufacturing & service sector upto Rs.500 lakhs and for traders upto Rs.200 lacs	Turnover method (Nayak Committee)
For traders above Rs.200 lacs to Rs.500 lacs	MPBF 1st Method of lending
For manufacturing & traders above Rs.500 lacs	MPBF 2nd Method of lending
Seasonal industries, Service industries, construction activities, etc.	Cash Budget system

Margin, pricing, repayment period, etc. are fixed as per the product specifications and or Bank's Credit Policy from time to time.

6. Rejection of Applications

Rejection of applications for fresh limits shall be done by the next higher authority. Rejections in respect of proposals falling under the powers of GM / COCC shall be placed to MD & CEO. Branch should communicate the reasons for rejection in writing to the applicant.

7. Disbursement: The Branch shall disburse loans to MSMEs within maximum 2 working days after complying with all sanction terms and creation of charge over the securities.

8. Copy of the documentsexecuted: Branch shall provide copies of all the loan documents executed along with enclosures to the borrowers at the Bank's cost.

9. Exceeding / adhoc :

For operational convenience, the branch heads are empowered to exceed the sanctioned limits to the extent of 20% of sanctioned limit in case of MSME units, for a maximum period of ten days for maximum of 6 times in a year. Irrespective of sanctioning authority, the exceedings may be considered upto 50% of the sanctioned limit for a period of 3 months by various other sanctioning authorities as per the Bank's Credit Policy / internal guidelines from time to time.

Adhoc facility shall be normally considered for a period of 3 months, for meeting genuine short term credit requirements. Adhoc facility may be considered, in selective cases, for longer periods, not exceeding 6 months if there are specific requirements.

10. Standby Credit:

Bank shall offer a pre-approved line of credit namely Standby Credit in addition to the regular working capital limits, depending upon the need of MSME units for capex purposes like capacity expansion, technology up-gradation, etc. This shall be restricted to 25% of sanctioned working capital limits – fund based and non-fund based limits put together. The threshold limit of the loan shall be Rs. 100 lacs (maximum). The sanction shall be valid for one year.

11. Review of working capital:

The broad guidelines as per Credit Policy document, may be adhered to, but in case of emergency and where branch is convinced that changes in the demand pattern of MSME borrowers requires a short review cum renewal, they may do so. Such short review cum renewal may be based an assessment of sales performance of the unit since last review without waiting for audited financial statement. The same shall be revalidated during the subsequent regular renewals based on the provisional / audited financial statements by the concerned sanctioning authorities.

12 Tracking system:

Simple application form as uploaded in our Bank's web site along with documents as per check list shall be obtained from MSME borrowers. All applications received from borrowers shall be acknowledged and affixed with running serial number on the application form as well as in the acknowledgement slip. Acknowledgement also should contain expected time within which the loan application will be disposed. Bank shall implement CPTS (credit proposal tracking system) to enable the applicant to track the status of his / her application online. The status of the proposal shall be tracked at various levels (D.O. / C.O.) till the formal sanctioned is received.

13. Rehabilitation of Sick MSME units

It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself. The branch officials should keep a close watch on the operations in the account and take adequate measures to achieve this objective. The managements of the units financed should be advised about their primary responsibility to inform the bank if they face problems which could lead to sickness and to restore the units to normal health. Bank shall identify the units showing symptoms of sickness by effective monitoring and provide additional finance, if warranted, so as to bring back the units to a healthy track.

13.1. **Handholding stage**

Timely and adequate assistance to MSEs and rehabilitation effort should begin on a proactive basis when early signs of sickness are detected. This stage would be termed as 'handholding stage' as defined below. This will ensure intervention by bank immediately after detecting early symptoms of sickness so that sickness can be arrested at an early stage. An account may be treated to have reached the 'handholding stage' if any of the following events are triggered:

a) There is delay in commencement of commercial production by more than 6 months for reasons beyond the control of the promoters;
b) The company incurs losses for two years or cash loss for one year, beyond the accepted time frame;
c) The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50% of the projected level in terms of value during a year.

The branches should take timely remedial action which includes –

a) an enquiry into the operations of the unit and proper scrutiny of accounts,
b) providing guidance/ counselling services,
c) timely financial assistance as per established need and also
d) helping the unit in sorting out difficulties which are non-financial in nature or requiring assistance from other agencies.

In order to ensure timeliness for banks for taking remedial action / measures in ‘handholding stage’, the handholding support to such units should be undertaken within a maximum period of two months of identification of such units.

13.2.1 Definition of Sick

A MSME may be said to have become Sick, if –
Any of the borrowal account of the enterprise remains NPA for three months or more
OR
There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

This would enable the Bank to take timely action in identification of sick units for their revival. The MSE units which could not be revived after intervention by bank at the ‘handholding stage’ need to be classified as sick subject to complying with any one of the two conditions as laid down above and based on a viability study, the viable / potentially viable units be provided rehabilitation package. The rehabilitation package should be implemented speedily in a time bound manner. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable' / 'viable'. While identifying and implementing the rehabilitation package, bank shall permit ‘holding on operations' for a period of maximum of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such ‘holding on operations'.

13.2.2 Operational guidelines for holding on operations:

a. Holding on operations may be permitted by the respective sanctioning authority. However, in respect of the accounts that fall under the sanctioning powers of the authority at the branch level, the same may be permitted by the next higher authority at DOCC.

b. The period upto which Holding on Operations may be permitted shall depend upon the need and based on merits of individual cases / proposal but shall not exceed six months.

c. On permitting the Holding on Operations, the branches shall ensure that the liability in the account except to the extent of internal debits shall not exceed the level that existed at the time of permitting Holding on Operations.

d. Permitting Holding on Operations may be treated as extension of validity of limits for the period up to which it is permitted.

e. Permitting Holding on Operations is purely a temporary mechanism. In so far as asset classification is concerned, the RBI guidelines in this regard shall be adhered to.

Units becoming sick on account of wilful mismanagement, wilful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be classified as sick units and accordingly should not be eligible for any relief and concessions. In such cases steps should be taken for recovery of bank's dues. The declaration of a borrower as a wilful defaulter should be done strictly in accordance with the extant RBI guidelines.

13.3 Viability

The decision on viability of the unit should be taken at the earliest but not later than 3 months of its becoming sick under any circumstances. DOCC shall take the decision for MDP & DO files and for C.O. files, respective sanctioning authority shall take the decision on viability of the unit.

The following procedure should be adopted before declaring any unit as viable/unviable:

a) A unit should be declared unviable only if the viability status is evidenced by a viability study. However, it may not be feasible to conduct viability study in very small units and will only increase paperwork. As such for micro (manufacturing) enterprises, having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs.2 lakh, the Branch Manager may take a decision on viability and record the same, along with the justification. In all other cases viability study may be conducted with the help of empaneled agencies or other approved agencies with our bank.

b) Branch managers should obtain concurrence from Divisional Head before declaring the unit as unviable. Divisional Head should take such decision only after giving an opportunity to the promoters of the unit to present their case.

c) Decision of the Bankshould be informed to the promoters in writing. The above process should be completed in a time bound manner not later than 3 months.

The bank shall, however, take decision in cases of malfeasance or fraud or wilful mismanagement or dispute between promoters / partners, Directors or diversions of funds / misappropriation of funds by the promoters or directors or top managerial officials, etc. without following the above procedure.

13.4 Reliefs and Concessions for Rehabilitation of Potentially Viable Units

Following reliefs and concessions may be extended:
1) Restructuring of term loans and or working capital limits with maximum moratorium of 2 years
2) Concession in ROI and or charges
3) Sanction of fresh term loans for purchase of machinery, equipment etc. and or additional OCC limit

as detailed below.

A. TERM LOANS

Restructure of existing Term Loan accounts of more than Rs.10 lakhs:
After implementation of restructuring, the debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

I. Moratorium

Moratorium in repayment of principal instalments and interest on term loans for a period of 2 years.

II. Converted term loans

The interest demand of the existing term loan(s) during the period of Moratorium of 2 years shall be funded by way of additional term loan (funded interest term loan).

III. Repayment

Repayment for converted term loan (funded interest term loan and working capital term loan) along with the existing residual term loan after the moratorium period shall be paid in within maximum period of 8 years depending on the projected cash flow.

IV. Fresh facility

Need-based fresh term loan facility shall be provided for the purpose of purchasing machinery / equipment, etc. which will help the Unit to improve the quality of production or reduce cost of production technologicalupgradation, etc. However, DSCR requirement as above should be ensured. Margin required is 25% by way of infusion of additional capital.

V. Rate of Interest & charges

a. Rate of interest on converted term loan (funded interest term loan and or working capital term loan) may be reduced suitably in order to improve the viability.

b. There is no change in rate of interest on existing remaining term loan (after conversion) and
c. Fresh facilities sanctioned, if any, shall be similar to the rate charged to existing Term Loan(s).
d. Upfront charges / processing charges may be waived. No penal interest / default interest shall be charged to the affected borrowers covered under the package for the existing loan

VI. Security

Existing and fresh facilities shall be secured by way of charge on existing securities and assets to be created afresh. Fresh collateral security need not be insisted upon.

B. WORKING CAPITAL

For existing limit of more than Rs.10 lakhs, Branches should collect projected financial statements and the projected sales / cash flow should be considered for sanction of fresh additional facility.

I. Conversion into WCTL

Balance outstanding in excess of Drawing Power may be converted into WCTL.

II. Moratorium

Moratorium period maximum upto 24 months both in respect of repayment of principal and or interest may be permitted for WCTL so converted.

III. Repayment

Repayment for WCTL shall commence after expiry of moratorium period. The repayment period may be extended upto the maximum of 8 years depending upon projected cash flows i.e. DSCR requirement as above should be ensured.

IV. Rate of Interest for WCTL

ROI may be reduced suitably to improve viability.

V. Treatment of regular portion

The regular portion of the limit shall be made available to the borrower as per existing terms and conditions.

VI. Additional facility

As an immediate relief, in addition to regular portion of existing limit, the borrower may be provided need based additional working capital facility upto maximum of 50% of WCTL so converted for period of 6 months by way of WCDL for the purpose of purchasing stock of raw material / finished goods, which will result in improving drawing power .Borrower should infuse additional capital of minimum 25% of additional working capital facility (WCDL). The facility shall have interest rate applicable as per the existing terms. The working capital limit shall be taken up for review/ re-assessment after period of 6 months for ascertaining need based WC requirements.

VII. Security

Existing and fresh facility shall be secured by way of charge on existing securities and assets to be created afresh. Additional collateral security need not be insisted upon.

C. MICRO ENTERPRISES BOTH MANUFACTURING, SERVICE AND TRADERS (LOANS UPTO RS.10.00 LAKHS)

1. For Micro enterprises clean loan up to 50% of existing limit or Rs.1.00 lakh whichever is lower can be provided.
2. For the existing loan the rate of interest shall be reduced suitably to improve viability.

CONDITIONS

1) Borrower must submit Application and detailed rehabilitation proposal.
2) Only those units which are considered to be potentially viable should be taken up for rehabilitation. Restructure / Renegotiation / Re-schedulement of credit limits will be done only when the restructured liabilities can be serviced by the borrower comfortably The reliefs and concessions specified are not to be given in a routine manner and have to be decided by concerned authority based on the commercial judgment and merits of each case.
3) Basic objective of restructuring is to preserve economic value of units, not ever-greening of problem accounts.
4) After implementation of the relief package, the Unit should be in a position to make cash profit within 2 years and should be able to achieve positive net worth within 3 to 5 years.
5) Combination of the following one or broader parameters shall be adopted for assessing the viability of the restructuring proposal.

   - ✓ The debt service coverage ratio should be greater than 1.25 within the 5 years period in which the unit should become viable and on year to year basis the ratio should be above 1. The normal debt service coverage ratio for 10 years repayment period should be around 1.33.

   - ✓ Trends of the company based on historical data and future projections shall be compared. Thus behaviour of past and future EBIDTA shall be studied and compared.

- ✓ Loan life ratio (LLR), as defined below should be 1.4, which would give a cushion of 40% to the amount of loan to be serviced.

$$LLR = \frac{\text{Present value of total available cash flow (ACF) during the loan life period (including interest and principal)}}{\text{Maximum amount of loan}}$$

Bank shall follow all the guidelines of RBI issued from time to time in respect of restructuring of borrowal accounts

6) The viability study should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix.
7) Existing standard or sub standard accounts facing temporary difficulties, NPA / sick MSMEs.
8) The borrower must exclusively bank with us/ we must be a major banking partner.
9) Operations in the account within the limit sanctioned shall be permitted.
10) DOCC shall take the decision for MDP & DO files and for C.O. files, respective sanctioning authority.
11) Branches should not permit Exceedings, Temporary overdrafts, CP, etc without the permission of the higher authority.
12) A pre determined percentage of the credits say 10% to 15% (cut back) can be appropriated and separately set apart for reducing the liabilities in stages in consultation with the borrower. This can be correlated to the profit margin the customer is getting in his transaction.
13) The unit shall be inspected frequently by branch officials to confirm that it is functioning satisfactorily.
14) Branch should complete documentation and obtain clearance from Legal Dept as per the extant guidelines before effecting restructure / release of fresh loans.
15) Branch should comply with all the Bank norms as per extant guidelines.

14. Code of bank's commitment to Micro and Small Enterprises

With a view to promote good and fair banking practices, Bank has already adopted the code of Bank's commitment to MSEs issued by Banking Codes and Standards Board of India. Our dealings with MSEs will be in line with the code of commitment adopted from time to time.

15. Conclusion

The loan policy for MSE sector will operate as part of Credit Policy of the bank and subject to guidelines / instructions of regulatory authorities / RBI / Government of India from time to time.

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