



# Bankability Kit for MSE Entrepreneurs



Partners:





Mohammad Mustafa IAS  
Chairman & MD



# foreword

MSEs at bottom of pyramid need mentoring and counselling the most. Jobs, skills, innovation resides in MSE eco-system. If they are nurtured well, entrepreneurship can be truly democratized.

SIDBI has taken illustrative steps for kindling the MSE ecosystem. Few of these include setting up and stepping up support through Digital Mitra Portals ([www.standupmitra.in](http://www.standupmitra.in) & [www.udyamimitra.in](http://www.udyamimitra.in) for credit and non-financial access), infusing growth through SMILE at 8.12% (for loan bracket 25 lakhs and above), rebooting CGTMSE (the collateral free-guarantee institution introducing transformational changes) etc. Also, policy advocacy initiatives such as CRISIDEX (for assessing MSE Sentiment) & MSME Pulse ('The Indian MSME Health Tracker' enlisting the updated trends and progress in MSME financing), partnering with NITI Aayog in their Women Entrepreneurship Cell initiatives and so on are targeted at strengthening the enablers. They say entrepreneurship enlivens when access to affordable, adequate and timely support, both for financial and non-financial services is enabled. Bankability kit is designed to serve MSEs to evolve as bankable entities. We have subdivided different themes into 'Know Enterprising Self', 'Know your Banker' and 'Know Banking'. The idea to graduate support beyond financial literacy of aspirant entrepreneurial India to Bankability literacy emanated during 22nd meeting of Standing Advisory Committee of RBI (on Flow of Institutional credit to MSME sector) held on January 4, 2018. Further, the continued interaction with on-boarders of MITRA portals gave indication that an attempt needs to be made in the direction of sensitization on bankability.

I am pleased to share with you a copy of this kit aimed at young India, unserved/underserved segments and those carrying dreams in their eyes. It's for those millions of young Indians craving for job and have potential to be the job creators. It's an attempt to instill hope and trust amongst aspirants from demand side thereby enabling them to come up to the expectations of bankers from supply side.

We stand committed to realise the dreams of enterprise led national development by contributing to "सबक साथ, सबका विकास".

CMD SIDBI



# *contents*

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1. Introduction
2. Know Your Enterprising Self
  - 2.1. Know MSME Definition
  - 2.2. Financial Products for MSMEs
  - 2.3. Collateral Free Guarantee
  - 2.4. Credit Information Report (CIR):
  - 2.5. How to improve & maintain better credit score?
  - 2.6. How to apply for loan and handholding support
  - 2.7. Know Udyamimitra
  - 2.8. Check list for starting new business
  - 2.9. Model Project Profiles
  - 2.10. How to Communicate
  - 2.11. Dos and Don'ts for Entrepreneur
  - 2.12. Caution/Triggers

2.13. Care - pre-sanction, post sanction,  
implementation and expansion / diversification

2.14. Access to Subsidy

2.15. Availing business services including mentor

3. Know Your Bankers

3.1. Knowing what Bankers look for

3.2. Lending Criteria

3.3. The Credit Process

4. Know Banking

4.1 Documents Required for KYC Compliance

4.2 Know Banking Terms

4.3 Promoters Handy list while approaching Bank/FI



# *acronyms*

1. CCC: Certified Credit Counsellors
2. CIR: Credit Information Report
3. CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises
4. DIC: District Industries Centre
5. HHA: Hand holding Agencies
6. IMPS: Immediate Payment Service
7. KYC: Know your Customer
8. KVIC: Khadi and Village Industry Commission
9. MSE- Micro and Small Enterprises
10. MSME: Micro, Small and Medium Enterprises
11. MSME-DI: MSME Development Institute
12. MUDRA : Micro Units Development and Refinance Agency
13. NCGTC: National Credit Guarantee Trustee Company Ltd
14. NEFT: National Electronic Fund Transfer
15. NSFDC: National Schedule Castes Finance & Development Corporation
16. NSIC: National Small Industries Corporation
17. ROC: Registrar of Companies
18. RTGS: Real Time Gross Settlement
19. SFC: State Finance Corporation
20. SIDBI: Small Industries Development Bank of India
21. TAT: Turn Around Time



A revealing feedback of an emerging entrepreneur stated that “I met almost each and every bank available in our city. 95% bankers rejected my proposal. There was only one branch manager who understood my proposal and stood by my side for what I am today- an entrepreneur. At the end of the day I realized that once you are able to make bankers understand your venture, they will definitely consider support”

# *introduction*

Aspirants of MSEs face problem of access to financial and non-financial services. On the supply side, lenders keep looking for support-worthy (bankable) proposals.

Availability of bank credit without any hassles is a major source of support to the first-generation entrepreneurs to realise their dream of setting up their own Micro & Small Enterprise (MSE).

During regular interactions and feedbacks, aspirants have flagged that it is difficult to convince the bankers to fund them particularly when they are first generation entrepreneurs. Bankers have appraised that aspirants are not able to communicate what, where, how, why or questions regarding their planned ventures. They mention that consultants take lead in discussions whereas promoters/aspirants are unable to infuse confidence.

Bankability Kit for MSEs is an endeavor to bridge the gap between demand and supply and enable both bank and aspirant invest in future of entrepreneurial India. It is aimed to guide entrepreneurs for adopting a Do-it-Yourself (DIY) approach to enhance their acceptability and ultimately emerging bankable.

This bankability kit includes some basic information which a MSE Borrower should know while approaching or communicating with a lender. It tends to apprise what a banker looks for during interaction and what aspects should be taken care of.

# *know your enterprising self*

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Every one of us dreams but few only shape some of the dreams into a venture. Lack of adequate information can kill your idea. There will be so many questions and doubts while trying for the first time or even thinking about setting up a Business Enterprise.



## **Some self-questions which can be posed -**

- Why are you choosing this particular venture? Be clear what you would like to do
- Is it your choice or guided choice or influenced choice? Obtain guidance but shortlist choice by yourself.
- Have you met existing entrepreneurs in chosen field? You should try to meet or visit their enterprise.
- What is your inherent strength and weaknesses? Enlist them to attend to these.



- Your educational background would support the proposed venture? No & Yes
- Do you have any expertise in this venture or are you new to this? It counts
- Do you have any Business Plan? If no, are you thinking of getting one trusted advisor? Right guide or mentor is must.
- Are you financially sound but technically weak? Would partnering with someone experienced and technically qualified be a solution? Think about it.

- Do you need financing assistance from banks or financial institutions? But don't know how to approach them? Find out possibilities.
- Are you struggling in finding a Professional advisor? Do you fear about their trust worthiness or your spent money being worth it? Mentors can speed up shaping your thoughts.
- Do you know different schemes/programmes and your eligibility to get a loan? Do a thorough search or look for one stop platform.
- What is your Financial Position in terms of Networth, Banking History, ITR, Assets if any, Fixed Assets, Liquid Assets etc. Enlist these.
- Know about different aspects of Market such as Product, Cost, price, Demand & Supply, Market Position, and Competition etc. What you make has to sell.
- What kind of infrastructure (soft or hard) /utilities are there such as Land, Power, Road/Rail, Water, Sewage, Waste Disposal etc.
- Are you conscious about risks of enterprise? Mapping these can help you resolve or mitigate.

## Solutions to some of these doubts are just a click away:

- Certified Credit Counsellors (<https://www.udyamimitra.in/home/ccc>)
- Access For Handholding Services Through Portal ([www.udyamimitra.in](http://www.udyamimitra.in))
- National Institute of Entrepreneurship and Small Business Development (NIESBUD) (<http://iie.nic.in/>)
- Indian Institute of Entrepreneurship (web address is <http://iie.nic.in/>)
- MSME Development Institutes (<http://www.dcsmse.gov.in/Contacts.htm#two>)



# *know* **MSME** *definition*

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

## **1. Manufacturing Enterprises**

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

## **2. Service Enterprises**

The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as under

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro	Does not exceed 25 lakh rupees
Small	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium	More than 5 crore rupees but does not exceed 10 crore rupees
Services Sector	
Enterprises	Investment in Equipment
Micro	Does not exceed 10 lakh rupees
Small	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium	More than 2 crore rupees but does not exceed 5 crore rupees

*Under MUDRA and Standup India, Trading Activities are also Covered.*

On February 7, 2018 the Union Cabinet has approved change in the basis of classifying MSMEs from 'Investment in Plant & machinery/equipment' to 'Annual Turnover'. This sets new paradigm as classification shall be growth oriented and aligned to the new tax regime revolving around GST (Goods & Services Tax).

Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

- A micro enterprise will be defined as a unit where the annual turnover does not exceed Rs 5 crore;
- A small enterprise will be defined as a unit where the annual turnover is more than Rs. 5 crore but does not exceed Rs 75 crore;
- A medium enterprise will be defined as a unit where the annual turnover is more than Rs. 75 crore but does not exceed Rs 250 crore.
- Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

This shall get notified once parliament clears the same.

# *financial products for MSMEs*

One needs to be clear about financial products and schemes available including subsidy schemes



Know about the following:

Your enterprise belongs to which industry (Micro/Small/Medium).

Whether it would be covered under manufacturing /services/trading.

What are you looking for: loan for setting up a new enterprise or you are an existing enterprise going for expansion, diversification, modernization, investing in intangibles such as advertisement/publicity etc.

## Type of loans suitable

### **Term Loan:**

For capital investments like acquisition of land, building and plant and machinery.

### **Working Capital:**

To meet the expenses of trade cycle of business and to meet the day to day expenses.

### **Bill Discounting:**

To make available instant cash on large purchases or the credit sales made by discounting purchase/ sales of bill by bank.

To apply online for any enterprise loan up to Rs 10 crore, please visit :  
<https://www.udyamimitra.in/>

Find Lenders at your doorsteps on Udyamimitra.



## **Margin Money/ Promoters contribution:**

The margin is the amount you need to pay from your own funds, while the rest is paid by the bank. If you need, say, a loan of Rs 100,000 and the bank is ready to finance 80 per cent (Rs 80,000) of the loan amount then you will have to make arrangements for the remaining 20 per cent (Rs 20,000). The promoter contribution / Margin Money will be derived from Debt Equity Ratio (DER) which could vary from lender to lender.



You can also know about various subsidy/ margin money schemes operated by Central/ State govt. departments from:

<https://www.udyamimitra.in/SubsidySchemes>

## **Non-fund based**

- Bank Guarantee/Letter of Credit: To facilitate import of goods and services, Letter of Credit (LC as commonly used) are mainly used in international trades such as for purchasing raw material/machinery or capital expenditure which is secured with bank guarantee.
- Letters of credit ensure that a transaction proceeds as planned, while bank guarantees reduce the loss if the transaction doesn't go as planned.

## **Startup and New Enterprise**

All new enterprises are not startups but all startups are new enterprises, Understand this and have clarity. Startups carry innovative models (whether product or services). These are quickly (sometimes exponentially also) scalable (unlike traditional ventures which gradually scale up). They mostly convert pains into gains of value chain it intends to cater. In contrast if someone is setting up a new enterprise by replicating existing/traditional enterprise or ventures having validated business models, they are not startups but can be termed as general green field project. Most of the enterprises are set up as general enterprises.



# *collateral free guarantee*

Do you have collateral to offer? Would you like to go for collateral free guarantee support? Remember nothing comes for free. Know about additional cost, if any, it shall bestow.

## **Few Questions for :**

- Are you aware about primary and collateral security? Primary security are assets created under the project (example land and building, plant and machinery created under the project being setup) where as collateral security is security (example residential property, plot of land, liquid security such as FDs which are beyond project assets proposed to be created) which is made available as cushion to secure the bank loan.
- Basically, a collateral free loan means that you do not have to offer any asset or pledge collateral to borrow. Then loan given to you is unsecured, and the lender doesn't have any asset to fall back upon in case of default. This makes bankers exposure risky.
- Availability of bank credit without the hassles of collaterals / third party guarantees are a major source of credit enhancement support to the first-generation entrepreneurs to realise their dream of setting up their own Micro & Small Enterprise (MSE).
- There are organisations set up Government of India who provide collateral free loans i.e., National Credit Guarantee Trust Company (NCGTC) and Credit Guarantee Fund Trust for Micro and Small enterprises (CGTMSE). They aim at strengthening credit delivery system and facilitate flow of credit to MSE Sector. SIDBI manages both the institution on behalf of GOI.





- National Credit Guarantee Trustee Company Ltd. (NCGTC):
  - NCGTC Provides guarantee for education loan, skill development loan and factor / bill discounting, stand-up India, Mudra loans start-up guarantee programme etc. Know more by visiting website [www.ncgtc.in](http://www.ncgtc.in)
- Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE): It offers collateral fee coverage for units engaged in manufacturing /services for loans up to Rs. 2crore. Know more by visiting website <https://www.cgtmse.in/>



Remember collateral free loan facility comes with a cost in the form of premium to be paid. If you have collateral available, you can save on these which add up to your cost of availing a loan. Some banks also consider sharing the costs involved in obtaining guarantee coverage. Ascertain these.

# *credit information report (CIR):*

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- A Credit Information Report (CIR) plays a key role in the lender's decision when you apply for any loan. Your credit score and CIR is a measure of your credit worthiness. CIR is a report on past repayment performance as reported by various member lenders about an individual to Credit Information Companies (CICs).
- Why obtain CIR: - It contains details of your credit history, as collated by a credit information company or a credit bureau. Whenever you apply for a loan, the lender asks a credit bureau to check if you have paid earlier dues on time. Individuals are assigned a score in CIRs, which helps to check their eligibility for a loan

According to one of the CICs 79% of loans approved are for individuals with a score of more than 750 (the range is 300-900). Having a recent CIR attached to your loan application increases chances of it being picked up for processing quickly.

- Many a times the credit report has errors or mistakes which can lead to rejection of application or loan being sanctioned at higher rates. There can be account related errors (may include late payment being reflected as due even after payments, having a credit card or a loan account treated wrongly i.e., one's name or a loan account already closed but treated as unclosed by the provider), personal information error (includes wrong account/name, incorrect address etc.). These errors can be corrected without paying any fee but only with the concurrence of the lender concerned.

- Do you know that you can also check your credit report for free!! The Reserve Bank of India (RBI) has made it mandatory for all CICs in India to give a free full credit report without any charge, on request, once a calendar year to individuals whose credit history is available.
- At present, there are four such companies in India: CRIF High Mark Credit Information Services Pvt. Ltd ([www.crifhighmark.com](http://www.crifhighmark.com)), Equifax Credit Information Services Pvt. Ltd ([www.equifax.co.in](http://www.equifax.co.in)), Experian credit Information Company of India Pvt. Ltd ([www.experian.in](http://www.experian.in)) and Transunion CIBIL Ltd. ([www.transunioncibil.com](http://www.transunioncibil.com))
- RBI has advised all credit bureaus to display the process of getting a free report on their websites, which has been done. However, the process and the time taken to get this report vary for all of them.

**Why not check  
your CIR  
right now!!!!**

When you apply for loan online on [www.udyamimitra.in](http://www.udyamimitra.in), your credit score and CIR report gets auto attached along with your online loan application for perusal of your preferred lender(s).

# *how to improve & maintain better credit score?*

## DO'S



- ✓ Always remember to clear your dues on time whether credit card or loan (personal, housing or consumer loan).
- ✓ Always take care that, after a credit card dues or loan is settled, next Credit Information reports (CIRs) reflects the same.
- ✓ Always have a balanced mix of secured and unsecured loans.
- ✓ Beware of fluctuations in Income & low balance in the banks at the end of the month.  
-Low balance can lead to lower scores.
- ✓ CIRs may be taken at least six months prior to approaching for a loan or its enhancement such that if any area requires to be attended, the same can be done.
- ✓ Do your spending or repayments (always make payment on or before due date)  
-carefully/timely. It impacts scores.
- ✓ Make payment through RTGS/NEFT/IMPS.
- ✓ Make a provision on working capital account for interest posting.
- ✓ Keep sufficient credit every month to service interest of particular month.
- ✓ Maintain list of cheques issued.
- ✓ Check that scheduled payment got debited.
- ✓ Clear the dues before going on holiday
- ✓ Always provide/share right information with your lender
- ✓ Complete necessary paperwork and understand the origination, sanction and disbursement procedure.
- ✓ Before signing up any loan document, read the fine prints and seek clarifications to avoid being charged any hidden fees, service cost, unfavourable exit clauses (Ex. high premium for exiting) etc.
- ✓ Go through the terms and conditions thoroughly lest they impact loan servicing later.
- ✓ Sometimes opting for loan with longer installment period are suitable than opting for lower installment periods. Adequate Moratorium (during which principal is not to be returned) is important.
- ✓ Do borrow only as per requirement i.e., adequately borrow neither more nor too less. Weigh different options of financing.



# DON'Ts

## PLEASE DON'T:

- × Default on your loan installments. Making late payments negatively affects your score.
- × Approach many banks simultaneously, Do you know each search impacts your scores adversely.
- × Open many new accounts at one go or open new account without knowledge of your banker. This may not be viewed positively by lenders.
- × Apply for loan without proper planning.
- × Issue cheque if clear balance is not there.
- × Overdraw the account.
- × Forget due date of all credit facilities.
- × Ignore financial discipline. Paying even a single penny of penal interest, affects your credit history.
- × Take credit from unknown person
- × Just rely on memory. Do schedule your payment on system
- × Just rely on your employee to clear your dues on time.
- × Hold back your debts or conceal your financial information



# *how to apply for loan and handholding support*

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- Loans can be applied both by visiting branch of any lender or through online portals.
- There is arguably no other way to save time when it comes to looking for loans than going online. Unlike a hard application for traditional loans, applying for online loans is as easy as it can get. All an aspirant has to do is visit an online loan website, where he/she can compare the offers of several other lenders.



- Online lending platforms are advantageous in the sense that they let customers/aspirants compare several loan offers all at once on the internet. This is crucial and makes it easier to compare and get the best interest rates and terms possible. Again, online lending can be a suitable option if aspirants do not qualify for a bank loan and need funds immediately.
- With the innovation in technology and to make credit facility available at your door step, there are many online lending platforms accessible to public in India as such: Lendbox, Faircent, I-Lend, Easy Rupiya, LenDen Club, Rubique etc. Banks are equally offering online access.
- One such online lending platform with credit plus approach (where not only people can apply for loan but also access support for handholding/mentoring/skilling/technical training/counselling etc) is [www.udyamimitra.in](http://www.udyamimitra.in) Portal.



# *know udyamimitra*

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Udyamimitra portal is part of institutional solutions from SIDBI enabling access to credit. It is positioned as a universal enterprise loan portal which endeavours to change the way access to credit is happening.

Udyamimitra (friends of entrepreneurs) shapes the dreams of aspiring individuals by being one stop platform attending to both demand (aspirants looking for becoming entrepreneurs) and supply side (handholding agencies, lenders, stakeholders). Earlier an aspirant had to struggle for trusted access to advisors/mentors. He/she had to travel from pillar to post to access credit. Anywhere any time access (net and mobile enabled) to knowledge repository (300+project profiles, Do's and Dont's , links to appropriate/trusted sources), 17000+ handholding agencies ( rendering guidance/mentoring) , positioning of Certified Credit Counsellors ( CCCs for credible credit counselling > 500 counsellors on board) , pool of 145 lenders (95 Banks and 50 new age lenders like NBFCs, Fintechs, Small Finance Banks , Foreign Banks) on e-market place and so on are empowering the domain.

One can apply online loans upto Rs 10 crore (MUDRA, Standup India and MSME loans) in standardised format (forms in vernaculars also available). Aspirant can do interface with stakeholders as also receive regular alerts and status updation of their request. The handholding agencies can place their ensuing programmes on event calendar for access to all. On the e-market place any bank can lift the case and thus transparent and competitive offers are a matter of delight for aspirants. Lenders are getting access to free business leads, mostly handholded through advisors/HHAs.

The E tools of portal are further facilitating the entrepreneurial journey. Be it Self-assessment tool ( for guiding aspirant about his eligibility for a scheme as also whether he needs training support or not) ,handholding through HAVE ( Handholding in a Virtual Environment where loan application are filled up online by HH agency after aspirant fills what he can) or Auto Estimation of Working Capital or Auto categorisation of responsive handholding agencies or online request & tagging of CIR report or e KYC ( AADHAR, PAN, Voter-ID) or Rule Engine (which tags collateral free eligibility for faster loan processing by the lenders), all are aimed at easing access.

## Credit Access in 4 Easy Steps

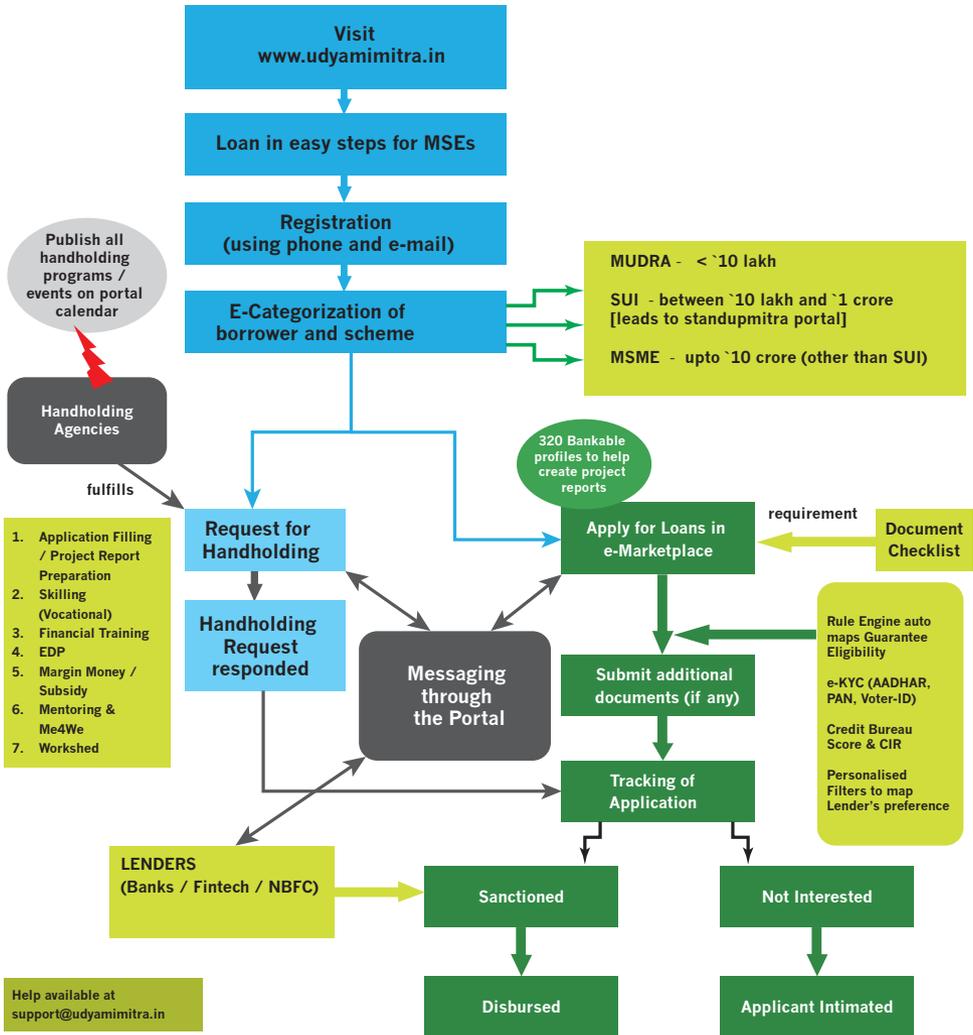


One can apply for Term Loan/ Working Capital Term Loan/ Cash credit for a) setting up an enterprise b) stepping up an enterprise (example expansion, modernization, and diversification). The reduced TAT, small size of average loans indicates that MSEs have started feeling the delight and entrepreneurial dreams are set to be realized at much lower cost. This is resolving the non-financial challenges. These coupled with programmatic approach of easing access through enterprise clinics, support of volunteer women officers (me4WE), champion agencies and so on is continuing.

The portal endeavours to be an institutional solution for MSMEs serving the unserved, underserved and those served, being better served. Udyamimitra is in process of having convergence and synergy with different schemes and programmes on enterprise/entrepreneurship development which shall be beneficial for entire value chain. It is also planned that wholesale capital platform is evolved on the portal wherein different lenders are able to meet their capital needs met towards MSEs financed by them.

Do on board [www.udyamimitra.in](http://www.udyamimitra.in) to experience lenders and handholding agencies approaching you.

## Portal Flow Diagram



# *check list for starting new business*

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When you are starting an enterprise & looking for a loan, you need to screen through your own background and at least have following documents ready:

- Proof of Identity - Aadhar card/ PAN Card/Voter ID Card/Driving License
- Proof of SC/ST/OBC status (as the case may be)
- Individual IT Returns/ Net worth Statement of promoters / guarantors
- Biodata of Promoters/guarantors with details of experience of business
- Latest Passport size photos of Proprietor/ Partners/ Directors
- Proof of Residence - Latest Electricity Bills/ Telephone Bill/Aadhar Card of Partners/ Directors/ Guarantors/Third party security provider.
- UAM – Udyog Aadhar Memorandum
- Business Registration – GST Registration / Vat registration / PAN Card / CIN/Shops and Establishment Certificate
- Memorandum and Article of association, if the entity is a private/public limited company.
- Quotation of Machinery suppliers/other assets
- Bank Statement of latest 6 Months, if the unit is in existence. If not, keep your personal bank statement ready.
- Last 3 years Balance sheet of unit along with income tax return (ITR) and audit report (if the unit is in existence)
- Details of Collateral Security offered.
- Operative current account with a Bank (If existing).
- Project report containing cost of project, means of finance, expenditure incurred and projections along with justifiable details
- Government approvals for power, Pollution, Building plan along with documentary proofs
- Any other Document as required by your Banker



# *model project profiles*

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A Project Report is a document, which gives an account of the project proposal to ascertain the prospects of the proposed plan/activity.

MSMEDIs, NSIC and State Govt. agencies viz. DICs, TCOs can help you in preparing the Project Report. You can also prepare the Project Report yourself by collecting detailed information on various points.

The project report contains detailed information about:

- Land & building required
- Manufacturing Capacity per annum
- Manufacturing Process
- Machinery & equipment along with their prices and specifications
- Requirements of raw materials
- Power & Water required.
- Manpower needs
- Market
- Cost of the project and production.
- Financial analyses & Techno-economic viability of the project.



A project report is prepared with the help of prescribed guidelines available with MSMEDI's, DIC's & financial institutions. Information about prices of machinery & equipment, raw material and other various inputs required for setting up an enterprise need to be collected from the market.

Micro, Small & Medium Enterprises Development Institute's (formerly Small Industries Service Institutes), Design and Development Centers like MSME Technology Development Center's (formerly PPDC's) /Tool Room's, Research and Developmental agencies such as NRDC's and Regional Research Laboratories can help you in selecting the right production process, suitable equipment's etc.

You can go through the sample bankable Profiles/templates on (<https://udyamimitra.in/ProjectProfiles>). These would give you an idea about how to prepare a project report as also understand about estimation of investment in project and its viability.



# *how to communicate*

- Applicant for bank loans way get lost at times. However, this unknown fear can be removed by preparing well in advance. Unless you know yourself about what you want you cannot convince others and more so a banker who will weigh you and your proposal from techno economic feasibility perspective. Few steps:-
- Before visiting a bank and meeting a banker, develop clarity on what you intend to do, what is the manufacturing or processing process, the value chain, the raw material suppliers, the machinery suppliers, the market which is available and intended to be tapped, what difference you bring to already existing market setup,
- Have clarity on what you want/ how much you really need!
- Be honest - communicate your strength and weakness. Bankers appreciate honest aspirants.
- Even if you take a counselor along, take lead during discussions. Guide the talk and do not just get guided.
- Be as open and transparent with your bankers or financial advisers as you can. This will enable them to grasp the full situation and to give you appropriate advice. To withhold important information, such as possible liabilities with other lenders or the fact that you have already pledged your assets, will inevitably cause difficulties at a later stage. Then you will have only wasted time and probably closed the door to future dealings with the banks.
- Do the homework and preparation beforehand. It is like your job interview.
- Do not be casual. If it is important for you then display seriousness and this requires being updated.

- Banker would like to judge your entrepreneurial orientation/traits, viability of chosen activity, associated risks (including your risk appetite) and ability & intent to payback. You have to convince the banker about your passion and desire to excel in your entrepreneurial pursuit.



# *do's and don'ts for entrepreneur*

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## **Do's for Entrepreneur**



- ✓ Know why did you choose the activity or vocation
- ✓ Know the business cycle,
- ✓ Know your market.
- ✓ Know industrial policy of your State/Centre
- ✓ The technology / quality certification
- ✓ Open a Current Account in Bank which is near to your planned / existing business premises. That will help you in saving time and getting faster transaction done.
- ✓ Make the necessary registration which are required for running business, GST Number Registration, Udyog Aadhar Registration etc.
- ✓ Maintain Proper records of financial transaction, Bills, GST Payment, GST Returns, PF Returns, etc.
- ✓ It is important to file returns viz. GST Returns, income tax return, pay advance tax timely as also preparation of Statutory Documents Profit and Loss Account, Balance sheet etc.
- ✓ Payment to Raw Material Supplier be done on due dates, as per credit terms.
- ✓ Payment of Statutory dues, Electricity, Telephone etc. to be made on or before due dates
- ✓ Pay all your Loan Installments, Credit Card Dues etc. on or before due date. This will help in making good credit repayment record with the lenders.
- ✓ Keep all commercial record of business
- ✓ Explore possibilities of delegating micro/small management issues and concentrate on core business.
- ✓ Try to get Purchase order copy even if you are working on Job Work basis for your records
- ✓ Keep Track of Operating Expenditure (related to business operations) and Budget Plan for Capital expenditure (in regard to expenses on land, building, plant and machinery) etc.
- ✓ Submit the stock statement and other financial statements to your banker on time for timely renewal of facility

- ✓ Relationships are key to business. Be positive and maintain good relations irrespective of winning or losing a contract or order.
  - ✓ Have good relations with the Industry Association and same line business which will help you to get familiar with the latest development and trends in market place.
  - ✓ Participate in conferences and seminars concerning the line of activities chosen.
  - ✓ Keep liquid working capital provision to meet expenses beyond 3 months if there is delay in payment from customer.
  - ✓ Explain to lenders and creditors, if you have temporary or perceived long term problem in business.
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## Don'ts for Entrepreneur

- × Avoid cash transaction
- × Don't get into vicious cycle by booking losses.  
You may avoid tax once but your growth prospects will get stalled forever. Paying tax on income is good, rather than showing loss in business to avoid tax
- × Don't try leveraging cheap/pay and use workspaces, unreliable research and experiment facilities etc.
- × Don't delay the salary of the workmen, staff in your company. Salary on time will help you to get good workmen in industry.
- × Do not make wrong commitments for getting work orders which you will not be able to fulfill.
- × Don't disconnect the call of your creditor/banker/lender
- × Don't mix personal and professional relations or business transactions.
- × Don't fall prey to enticing schemes / offers which may later turn problematic.  
Remember there is cost to everything and nothing comes for free.



# *caution/triggers*

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- Avoid making long term investment with short-term funds
- Monitor your bank statement regularly, all debits and credits alike to be watched.
- Track your payment regularly.
- Keep track on your creditors and debtors.
- Go for additional investment in case the present capacity utilization is reaching its maximum level and or sufficient orders (Regular and not one timer) are in hand.
- Maintain strict financial discipline



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# *care - pre-sanction, post sanction, implementation and expansion/diversification*

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- Obtain all statutory approvals like building plan approval, consent from pollution control board (as applicable), obtain power and water connection etc.
- Registration with ROC / mortgage registration, etc.
- Insurance for the assets acquired.
- Registration and necessary provision is to be kept for Employee Provident Fund, Employee State Insurance
- Keep the Banker informed about the development in the projects, business growth and the likely need for additional term loan or working capital. Don't wait till the last moment. If you would give surprise calls to banker you may get similar response.



# *access to subsidy*

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- Subsidies are extended to induce investment and to bridge the gap between resources in hand and intended to be invested. Sometimes these are extended to setup projects in backward regions or sectors which are underserved or its potential needs to be maximised.
- Subsidies can be in form of Capital (that covers a share of upfront capital cost of an asset i.e. invest in fixed/movable asset, as per scheme) or interest to cover interest cost during moratorium period or period prior to commercial production. Generally these are considered as reimbursement to timely interest payments).
- Udyamimitra portal provides useful links through which various subsidy schemes and relevant agencies could be accessed.
- You can also visit to know more about Subsidy schemes by visiting <https://udyamimitra.in/UsefulLinks>
- Other Sources:
  1. KVIC (<http://www.kvic.org.in/>)
  2. NSIC (<http://www.nsic.co.in/>),
  3. NSFDC (<http://www.nsfdc.nic.in/>)
- For state subsidy, visit state website of industries department.



# *availling business services including mentor*

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- In your entire enterprise development cycle commencing from setting up (ideation to giving it shape in form of project) to stepping up (expansion, diversification, technology upgradation, acquisition, even closure and exit) one requires services of experts. Locate these service providers in an around you.
- Look at existing entrepreneurs who are doing well and take regular tips from them.
- Portals like Udyamimitra provide handholding support through a network of agencies engaged in application filling/ report preparation, financial training, skill development, mentoring, entrepreneurship development programmes, work shed and subsidy schemes. Thousands of such active agencies are available on portal. Access [www.udyamimitra.in](http://www.udyamimitra.in) for handholding services
- The Micro and Small Enterprises (MSE) entrepreneurs look for credible credit advisors. They want assurance about advisors being governed in terms of scope of service, service quality, benchmarked fees, and grievance redressal etc. Under RBI guidance, SIDBI is onboarding Certified Credit Counselors on Udyamimitra portal who shall render credit connect services. The basket is under constant upadation. Presence of CCCs will assure lending institutions/bankers on credit proposals and give ease of access to aspirants/entrepreneur as they pass through a due diligence mechanism.
- Access (<https://www.udyamimitra.in/Home/C-CC>) for credit advisory services



# *know your bank*

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## **Knowing what Bankers look for**

### **Preparing yourself**

#### GENERAL CREDENTIALS

- If the lender does not already know you well, it is best to have background information ready.

#### LETTERS OF INTRODUCTION

- If you are not yet known in your business community, you may find it worthwhile to seek the sponsorship of someone respected by other business people who are sufficiently acquainted with you. A short letter, setting out your achievements and testifying to your good character and integrity, is a traditional method of introduction. Its effect will be positive if the referee is a respectable person of business community.

#### YOUR PROFILE

- Like a job application, your resume or curriculum vitae, setting out your educational achievements, professional training, qualifications, employment record and achievements should be ready. It would be good to keep it within a page or two. The profile helps your bank to assess your capacity for conducting trade, producing goods and services for export and managing people.  
Carry certificate or reference from former employers if you feel this is relevant and will help to show up your experience and capacities.

#### BROCHURE OF YOUR BUSINESS

- If you are an existing unit, keep your company brochure ready. This should state your type of business, your products and how long you have been in the business. A list of clients or customers is helpful. If the list is confidential, say so when you give it to your banker. If you are in partnership or have directors in your company, state who they are and draw up a very brief resume on each, particularly if they have a good reputation in the business community.

## BANK AND OTHER REFERENCES

- If the lender you are approaching is not your current banker, provide bank references that will enable the institution to check your credentials, particularly for regularity of payments, past borrowing record and general standing.

## PROOF OF COMPANY OWNERSHIP OR REGISTRATION

- Bankers require registration details. If existing enterprise, you may also be required to provide a list of assets and liabilities, preferably audited. A lender will expect up-to-date financial information on your business. The standard financial reports you should have ready are Balance sheet, Profit and loss account and cash flow statement.

## BALANCE SHEET, PROFIT-AND-LOSS ACCOUNT, AND CASH-FLOW STATEMENT

- These should have been audited by a firm of chartered accountants, or certified by an independent accountant and approved by a resolution of your board of directors. Otherwise, you may have to produce evidence that your accounts are a true and fair reflection of your financial situation. The size of your balance sheet and the amount of equity in your business are significant but by no means determining factors in your banker's decision to grant you credit. Your banker may be far more concerned with the transactions that the facility will finance. If your audited accounts are more than, say, three months old (that is, if the closing date of the accounts goes back three months or more), you should also have with you a recent operating statement and cash-flow statement.

## BUDGET FOR THE CURRENT OR COMING YEAR

- For your projected sales and revenues for the current period or the coming year, as well as operating costs and overheads, you should also have a separate paper showing your planned capital expenditure, if any. Basis or assumptions for your estimates or projections is also required. The figures must not simply be wishful thinking but based on firm and tentative orders to which you may add orders anticipated on basis of the past performance.

## COMMERCIAL INFORMATION DETAILS OF ORDERS BOOKED

- If you are requesting credit to fulfill a large or profitable new contract, have all documents, correspondence, quotations from suppliers, draft contracts with buyers and suppliers, and your own costing and calculations ready for discussion. Do not sign any firm contract with suppliers or customers before you have discussed credit and payment methods with your bank.

## BUSINESS PLAN

- An up-to-date business plan for your enterprise, showing intended capital investments and forecast income and expenditure for the coming three to five years, is an excellent document to produce during discussions with your banker or financial adviser. If you do not have such a plan, you may find it useful to draw one up. It will be of great value to you personally, and will add to your credibility when you discuss your credit request with lenders.

## FEASIBILITY STUDY

- You may wish to start a new project or expand an existing activity, and need capital to finance the additional capital goods required (e.g., machinery, tooling, spares and raw materials). You will need a feasibility study to present to your banker.

## CHECKLIST FOR DISCUSSIONS WITH YOUR BANKER

- Introduce yourself and give references.
- Present your transaction or project in detail.
- Explain your needs and expectations.
- Discuss payment methods with your bank before signing sales or purchase contracts with your buyer or supplier.
- Be ready to provide information, financial statements and details of collateral available.
- Examine the type of facilities available and whether different schemes can be customized or clubbed for adequate/affordable offer.
- Examine possibilities not listed in the bank's brochures.
- Inquire into the costs of services, facilities.
- Do not shop around, but be informed about other institutions, their services, and their charges.
- Be open. Do not hold back information that may help your banker advise you better.
- Build up a reputation as a good payer.
- Always keep interest payments current.
- Give advance warning of difficulties, delays.
- Negotiate for improved terms as your business grows, your borrowing requirements increase and your debt-servicing record enhances your business reputation. Try to get the best deal from the start.

Remember supply tends to match demand provided both sides are well informed.

## GIVING PRIOR NOTICE OR SEEKING APPOINTMENT BEFOREHAND

- Call beforehand for an appointment or, write a letter or a fax setting out briefly who you are and what you do, how much you need, to borrow and why. Although you can conduct your transactions by correspondence, it is usually preferable to meet the person in charge of credit or lending or retail / trade finance. If the institution is far away, this will obviously not be possible, in which case you should be particularly careful about how you introduce yourself and what information you provide.

## BE WELL PREPARED

- Your banker is a busy person and needs to know rapidly the nature of your request: you should come quickly to the point. State who you are, your line of business, how much money you need and for what you need it. Be prepared, to provide your annual report (if you have one) or your financial statements (balance sheet, profit-and-loss account, budget, business plan), as well as a company brochure. State clearly what you intend to do with the funds you want to borrow. If your intention is to finance the purchase of goods or essential for manufacturing products, tell your banker the whole story: from whom you are buying, to whom you are selling, how, you intend to pay and get paid.

## KNOW THE RISKS ASSOCIATED IN A PROJECT

A. MSE perspective - Funding Risk, Technology Risk, Competition Risk, Concentration Risk, Political, Environmental & Social risks ( example pollution centric or green industry) & Geographical Risk

B. Banker's perspective - Implementation Risk (Funding & Construction Risks), Management Risk (Technical competence, cohesion & Experience), Business Risk (Geographical location, Position of entity in the market, Resources availability etc.), Financial Risk (Product margin and profitability) and Industry Risk (Environment - Pollution level, Competition, Govt. Policy support and Operating Cycle).

Remember that clarity on time to be taken for implementation of chosen project /venture is very important. It should have some cushion for which you have to convince the lender. Once date for commercial production is fixed & incorporated in lending offer, the same if later, leads to undue delay or unjustified overruns may lead to your project getting categorized as Non-Performing Asset (NPA) impacting your business prospects.

## SEEK ADVICE

- Experienced bankers can guide you and advise you on risks of various payment methods, on suitable ways to finance transactions and on the security you should provide as a guarantee for your borrowings. Remember to ask about hedging possibilities to cover or reduce risks of currency and price fluctuations. They can also guide on successful or failed projects in nearby area or reasons of enterprise being successful and having failed. This shall help in being prepared from beginning.

## BE CAUTIOUS

- Resist borrowing more than you need, for too long, or at too high an interest rate. Banks sometimes propose the types of credits or payment methods with which they are most familiar, which are most remunerative, or which present the least risk. Ask about costs. Remember there are costs, fees and charges in addition to the interest rate. What about front-end or upfront fees? (These are payments deducted from the loan at disbursement to cover the lenders cost of evaluating your request, assessing the risk or opening the loan account.) What are the back-office fees? On each disbursement, for instance? If the advance is applied by the bank to purchase foreign exchange or to open a documentary credit, how much will it cost?
- Most institutions have standard or reducing rates for their services. Never hesitate to ask for a copy and seek guidance on how these rates will affect your transaction. If there are legal costs (such as lawyer's fees for drafting a loan contract or registering a charge on assets), obtain clarification before committing yourself. You should know the charges pertaining to valuation of assets, monitoring and evaluation and so on.

## AVOID SHOPPING AROUND

- Bankers will not like the idea of your shopping around for the best deal, visiting several institutions and making comparisons. If you say you have found a better deal elsewhere after they have spent hours with you, drawn up documentation and obtained clearance from their loans committee, you have wasted their time. There is, in fact, nothing wrong in trying to get to know the banking sector and wanting the best deal. But you should not give the impression that you are also talking to others after negotiations have reached the stage where the agreement is virtually finalized and awaiting approval. The success of a good borrower-lender relationship is built largely on trust. Trust is developed over time and is the result of positive experience. A banker will often prefer to tryout a prospective customer by offering small, well-secured loans on a very short-term basis to see how it works. As transactions are successfully repeated, the customer's standing rises and his or her credit improves. When you approach an institution for the first time, bear this in mind. The cheapest lender may not, in the long run, prove the best.

# *lending criteria*

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## What do Bankers See?

- Banks and other lenders tend to set their own internal rules. Nevertheless, all financial institutions are bound by general regulations and guidelines established by RBI. There is usually a lending limit per customer. Lenders may not exceed a certain percentage of their credit portfolio towards funding in a particular sector or sub sector. Sometimes their lending criteria or statutory regulations may also come in way for not granting a facility to a borrower.
- The Things which banker will see include:-

### TESTED MODEL

- A tested model or known product/service or successful enterprise gets counted. If your venture involves high level technology, lender will look for validation from a technical institution of repute/standing or test your / your team's experience

### QUICK WIN IS IMPORTANT

- If you are going for an innovation or new enterprise, how do you develop the trust of banker? Example showing a successful venture by site visit or getting a reputed institutional recommendation and getting their existing client introducing you to them.

### GOOD CASH FLOW

- Banker would see that the venture being planned shall have not only profitable operations but also generate sufficient cash to cover all commitments.

### ADEQUATE PROMOTER FUNDS

- Your willingness to invest maximum in a venture whether from your fund or partner funds shows your commitment. If existing, you must not be already over-committed to other lenders, but have a reasonable proportion of your own capital in the business.

## ADEQUATE SECURITY

- Bankers would like to ensure that their funds shall return and thus would look for it being adequately secured. You will not obtain credit from a bank if all your assets are already pledged to other lenders.

## EXPERIENCE

- Most institution like to know that you have a good record of successful business or trading. It is difficult to convince a banker to lend you money if you are complete beginner, or if you are starting a completely new trading activity with untried products and unknown customers or suppliers you have never dealt with before. Look for firm tie-ups or having financial/technical partners roped in.

## GOOD REPUTATION

- Your references and credentials must be acceptable to lenders. They would no doubt find it difficult to convince their Credit/loans committee to approve an advance to a bankrupt company or a known defaulter. Even assuming that your past is without blemish, it is helpful to have the backing of a reputable sponsor. This could be a well-known person in business, your trade association or even your customer or supplier.

## SPECIFIC PURPOSE

- Although some lenders grant overdraft facilities on the basis of the security you offer, most institutions prefer to link their loans to specific transactions. Transactions must be explained in full detail and shown to be profitable and self-liquidating (money borrowed will be repaid from proceed of transactions to be financed).



## KNOW ABOUT CREDIT APPRAISAL

- Credit appraisal starts from the time a prospective borrower walks into the bank or lender branch and culminates in credit delivery and monitoring with the objective of ensuring and maintaining the quality of lending and managing credit risk within acceptable limits.

## DIMENSIONS OF CREDIT APPRAISAL

- Management Appraisal: A lot of attention has to be paid to this area, for this is one of the long-term factors affecting the business of the concern. Bankers look into following: whether promoter and management have enough experience in the line? What is its track record? What are the antecedents? Introduced to us by whom? These are some of the questions that need to be answered before any kind of exposure to the enterprise is taken.

## TECHNICAL APPRAISAL

- What is the status of technology used? Has a prototype been developed of the product? What could be the possible economic life period of the present technology? Is the venture technically feasible?

## COMMERCIAL APPRAISAL

- The business has to be commercially viable for us to proceed further. Is there enough demand in the market? Is it going to cater to local, regional, national or international market? The basis of it. Is the product accepted by the Market? How many substitute products are there? What about entry and exit barriers? Is there scope for further growth?

## FINANCIAL APPRAISAL

- Does the promoter have the capacity to raise finance – both own equity and debt? What are the sources of margin? Will the business generate sufficient funds to service the debt and other stakeholders? Is the capital structure optimal?

## ECONOMIC APPRAISAL

- What is the break-even level? Will the business post positive net present value through its economic life? What is the level of cost/benefit? What is its Internal Rate of Return (IRR)? Will the cost of funding and operations be well below the IRR? Answers to all these questions would fall into place in the jig-saw of credit appraisal.

# *the credit process*

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A credit proposal passes through the lens of six C's viz., Character, Capacity, Capital, Condition, Collateral and Cash flow.

## CHARACTER:

The following areas need to be particularly looked into.

- Antecedents – Introduced by whom – Is it a new or take over account? In which case, what does the status report say? – Background - Educational –professional – Socio-economic – Political – Initiative and Drive.

## CAPACITY:

- Experience in the activity – if new how to establish capacity- ability and intent to pay back loan- track record – planning, budgeting and review handling – Production capacity – capacity utilization – Professional capacity to handle men, material, money and capacity to handle contingencies and crisis.

## CAPITAL:

- Extent of stake in business
- Ability to raise finance – both owned equity and debt
- Ability to inspire and sustain investor confidence
- Ability to absorb losses – expected and unexpected

## CONDITION:

- Condition of economy –growing, stagnant or depressed
- Condition of industry – sunrise, Greenfield or sunset
- Number of competitors
- Substitutes in the market- local-regional-national or even international
- Demand Vs. Supply
- Govt. policies and Regulations
- Status of Technology
- Availability of manpower, material other resources
- Utility services
- Scalability of activity
- Pollution control and effluent treatment



#### COLLATERAL:

- Risk perception and evaluation
- Financial parameters
- Debt/equity ratio
  - Asset Cover
  - Interest Cover
- Debt Service Coverage Ratio (DSCR)
- Availability, suitability and chargeability of security

#### CASH FLOW:

- Pattern of cash generation
- Liquidity risk
- Break-even analysis
- Cost/benefit analysis
- Commercial and economic viability
- Working capital management

When all the six C's are considered thoroughly, credit appraisal becomes comprehensive. Although same appraisal norms cannot be uniformly applied to Micro & Small Enterprises, broadly the appraisal would involve:

- Proper Identification of the Promoter(s) and his/her/their antecedents in accordance with KYC Norms/Guidelines, the promoter(s) experience, educational and social background, technical/professional competence, integrity, initiatives, etc.
- Checking out for Willful Defaulter's List of RBI, Specific Approval List (SAL) of ECGC etc.
- The acceptability of the product manufactured, its popularity/market demand, market competitors.
- Evaluation of State and Central Govt. Policies (enabling Ecosystem) with specific reference to the enterprise in question, Environmental & Social stipulations,
- Availability of necessary infrastructure-roads, power, labour, raw material and markets.
- Techno-economic appraisal of units
- Project Cost, the Promoters own financial contribution, projections for three years, and other important parameters which would include the Break Even Point (BEP), liquidity, solvency, and profitability ratios, etc.

# *documents required for KYC compliance*

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For a Company:

1. Memorandum & Articles of Association
2. Certificate of Incorporation
3. Certificate of commencement of business, if applicable.
4. List of Directors and the Form 32 supporting their director status.
5. Copy of PAN allotment letter in the name of the Company / PAN Card
6. Any business registration document / certificate – Shops and Establishment Registration / GSTIN Certificate
7. Electricity Bill / Telephone Bill in the name of Company
8. Udyog Aadhar Memorandum

For a Proprietorship Concern:

1. Registration certificate (in case of a registered concern)
2. Certificate/license issued by the Municipal authorities under Shops & Establishment Act
3. Sales and income tax returns
4. GSTIN Certificate
5. Complete income tax returns (for 3 Years)
6. Utility bills such as electricity, water and landline telephone bills of the Proprietary Concern.
7. PAN CARD, Voter Id and Aadhaar Card of the Owner / Proprietor.
8. Udyog Aadhar Memorandum

For a Partnership Firm:

1. Registration certificate, if registered
2. Partnership deed
3. Copy of PAN allotment letter in the name of the firm / PAN proof
4. Certificate/license issued by the Municipal authorities under Shops & Establishment Act
5. GSTIN Certificate
6. Complete income tax returns (for 3 Years) of the partners.
7. Utility bills such as electricity, water and landline telephone bills of the Partnership firm.
8. PAN CARD, Voter Id and Aadhaar Card of the Owner / Partners.
9. Udyog Aadhar Memorandum

For Individuals:

1. ID Proof – PAN CARD / PASSPORT
2. Address Proof – Aadhaar Card, Voter ID, Driving License, Electricity Bill and Telephone Bill (Latest), Bank Statement
3. IT return for last 3 years
4. Passport Size Photo
5. Job Card Issued by NREGA duly signed by an officer of the State Government
6. Letter issued by the Unique Identification Authority of India ( Aadhaar ) or any other document as notified by the Central Govt. in consultation with the regulator
7. Udyog Aadhar Memorandum

# *know banking terms*

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Ability to Pay (also known as capacity to pay) - Borrowers ability to service a loan from available disposable income or cash flow

Assets - are things owned by the business enterprise. These can be cash or things that can be converted into cash such as property, vehicles, plant and machinery, equipment and inventory.

Balance sheet - a snapshot of a business as on a particular date. It lists all of assets and liabilities of any entity.

Break-even point (BEP) - the point when income equals its expenses of an entity.

Cash flow - the measure of actual cash flowing in and out of a business over a period. It is different from fund flow which shows the ups and downs of the financial position or changes in working capital of the entity between two financial years. Fund flow is on accrual basis whereas cash flow is on cash basis.

Credit - a lending term used when a customer purchases a good or service with an agreement to pay at a later date.

Creditor - A creditor is also anyone who you owe money to, such as a lender or supplier. It allows one to purchase a good or service with an agreement to pay at a later date.

Credit rating - a ranking applied to a business based on its credit history that represents their ability to repay a debt

Debt - any amount that is owed including bills, loan repayments and income tax. It can be short term (generally 1 year) or long term (=> than 3 years)

DER (Debt Equity Ratio) – It is a financial ratio indicating the relative proportion of owners/shareholders' equity and debt (borrowings) used to finance an entity assets

Debtor - a person or business that owes you money.

Default - a failure to pay a loan or other debt obligation.

Depreciation - the process of expensing an asset over a period of time. An asset is depreciated to spread the cost of the asset over its useful life.

Entrepreneurs Memorandum- Every MSME should voluntarily go for registration by visiting [https://udyogaadhaar.gov.in/UA/UAM\\_Registration.aspx](https://udyogaadhaar.gov.in/UA/UAM_Registration.aspx). It helps in availing government incentives or subsidy, if any

Fixed asset - a physical asset used in the running of a business.

Guarantor- a person who promises to pay a loan in the event the borrower is unable to service the borrowings.

Intent to pay – Assessing aspirants' intent through psychometric testing involving intention, stability, integrity, business acumen & risk taking ability.

Interest rate - a percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed (when the interest rate of a loan remains the same for the term of the loan or an agreed timeframe) or variable (which is reset periodically).

Liability - a financial obligation or amount owed.

Loan - a loan agreement where a business borrows money from a lender and pays it back in instalments (plus interest) within a specified period of time.

Maturity date - when a loan term ends and all outstanding principal and interest payments are due.

Net Profit - (also known as your bottom line) is the total gross profit minus all business expenses.

Net Worth - owner's equity or shareholder's equity is the total assets minus total liabilities.

Principal - the original amount borrowed on a loan or the balance of the original borrowed amount that is still owing (excluding the interest portion of the amount).

Return on investment (ROI) - a calculation that works out how efficient a business is at generating profit from the original equity provided by the owners/shareholders. It gives you the benefit (return) from the money you've invested into the business.

Working capital - the cash available to a business for its day to day expenses.

# *promoters handy list while approaching bank / FI*

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## A. Choosing an Idea

1. Academic background
2. Previous experience
3. Family background
4. Startup initiatives

## B. Product / Services

1. What to produce
2. Why to produce
3. Rationale for production
4. Essential / Need / luxury



## C. Marketing feasibility

1. Available market (local / regional / domestic / exports/ worldwide exports)
2. Future projection
3. Product life cycle

## D. Technical feasibility

1. Available technology in market
2. Uniqueness in technology / customization / indigenous development / imported etc.
3. Technology life span / curve

## E. Financial feasibility

1. Bifurcation of cost (Capital cost / revenue cost)
2. Arrangement of funds for above / sources
  - a. Banks / FIs / organized sector
  - b. Own sources
  - c. Funding from unorganized sector
3. Financial closure of the project

- F. Socio Economic feasibility
  - 1. Social impact of the product
  - 2. Environmental impact of the product
  
- G. Project report for onward submission to Bankers / investors
  - 1. Background of entity ( Profile) and promoters Background
    - a. Area of expertise
    - b. Aim of the project
    - c. Future Plans
    - d. Industry outlook, trend analysis / product life cycle
  
  - 2. Product / Production related / technical
    - a. Product, its application / marketing arrangement / potential
    - b. Backward and forward linkages / assessment of support industry
    - c. Raw material requirement
    - d. Infrastructure facilities, tools deployed, operational premises, machinery, etc.
    - e. Assessment / analysis of production process / requirement of machines
    - f. Space Requirement / Built up Land
  
  - 3. Requirement of service providers
    - a. Finance
    - b. Marketing
    - c. Production process
    - d. Environmental
    - e. Others
  
  - 4. Human resources
    - a. Profiles of key personnel in the organization
    - b. Manpower: Type of people working – organizational chart
      - i. Project Manager
      - ii. Project Leader
      - iii. Supervisors
      - iv. Accounts Manager
      - v. Workers – skilled
      - vi. Workers – un-skilled
    - c. Skill development tie-ups

5. Marketing
  - a. Marketing strategy, Marketing Arrangements, Marketing tie-up, if any
  - b. Orders ( tied up/in pipeline or potential)
  
6. Financials
  - a. Financial arrangements and feasibility of the proposed setup
  - b. Risk and return analysis
  - c. Means of finance / cost of project
  - d. Profitability statements / projected balance sheets Key Ratios / Break Even Point Evaluations
  - e. Key assumption behind the projections – with backups
  - f. Implementation schedule
  - g. Expenses during moratorium period / implementation
  - h. Assessment for working capital
    - i. Own sources
    - ii. Supplier's funds / credit
    - iii. Buyer's advance
    - iv. Organized sector funding including banks / FIs
    - v. Unorganized sector funding
      - i. Emergency/Contingency funds arrangement
      - j. Information about collateral security / guarantee funds for coverage
  
7. Risk assessment for project
  
8. Others
  - a. Government / statutory approvals for production unit / process
  - b. External rating / certification
  - c. Environmental and social aspects

## *Do you know TReDS*

For facilitating the financing of trade receivables of MSMEs from corporate buyers through multiple financiers, Trade Receivables Discounting System (TReDS) have been introduced. TReDS is an institutional mechanism for facilitating the financing of trade receivables of MSMEs through multiple financiers. TReDS offers an electronic platform / Electronic Bill Factoring Exchanges, whereby MSME bills against large companies can be accepted electronically and auctioned thus ensuring prompt realisation of receivables at competitive rates. Receivables Exchange of India Ltd. (RXIL), a joint venture between SIDBI and NSE has been set up to operate a TReDS Platform Many PSUs and Banks have onboarded and discounting of invoices are happening.

## *Disclaimer*

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*‘जो कर रहे हैं प्रयास, उनका हो रहा है विकास’*

Thanks to the following sources:

[www.smallB.sidbi.in](http://www.smallB.sidbi.in)

[www.udyamimitra.in](http://www.udyamimitra.in)

[www.sidbi.in](http://www.sidbi.in)

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For Feedback write to  
Udyamimitra Vertical, SIDBI at  
[udyamimitra@sidbi.in](mailto:udyamimitra@sidbi.in).



“इसमें मुझे कोई संदेह नहीं कि अगर हम लघु उद्योगों को मदद करते हैं तो राष्ट्रीय सम्पदा को समृद्ध करते हैं। मुझे इसमें भी कोई संदेह नहीं है कि सच्चे स्वदेशी इन गृह-उद्योगों को प्रोत्साहित और पुनर्जीवित करते हैं। यह लोगों की रचनात्मकता और साधनसंपन्नता को दर्शाने का एक जरिया भी है। यह देश में सैकड़ों युवाओं को जिन्हें रोजगार की जरूरत है, रोजगार प्रदान कर सकता है। इससे वर्तमान में व्यर्थ होने वाली सभी ऊर्जा को एक नई दिशा दी जा सकती है।”

- महात्मा गांधी



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