SME POLICY 2012

BANK'S POLICY IN RESPECT OF LENDING TO SME SECTOR

1. PREAMBLE

- In India, SME is the biggest provider of employment next only to Agriculture. The SMEs constitute 95% of total industrial units and constitute 40% of total industrial output.
- Formerly, both Government and RBI credit policy placed emphasis on manufacturing units from the Small Scale Sector. However, in order to make the size of the unit and the technology employed by firms to be globally competitive, the definition of "Small Scale Sector" was revisited. Keeping in view the same and the global practices, it was decided to broaden the concept of SSI Sector by inclusion of services within its ambit as also including the "Medium Enterprises" in a composite sector of "Small & Medium Enterprises".
- Subsequently, MSMED Act was operationalized with effect from 2^{nd} October 2006, which defines an "enterprise" instead of an "industry" to give recognition to service sector and also defines a "medium enterprise" to facilitate technology upgradation and graduation.
- In order to address the issues of SME sector and ensure growth of credit to this sector , Hon'ble Union Finance Minister unveiled package for SME Sector in August, 2005 and RBI, vide its circular No.RPCD.PLNFS.BC.No.31/06.02.31/2005-06 dated 19.08.2005, advised the Banks action points for implementation of package.
- Banks were interalia advised to formulate comprehensive and more liberal policies than the existing policies in respect of loans to SME Sector.
- Accordingly, Bank formulated comprehensive SME Policy for financing SME Sector in November, 2005 which was subsequently reviewed in 2007.
- The current review of Policy is undertaken to update the bank's guidelines on financing SME Sector.

2. OBJECTIVES

The SME Loan Policy is framed with the following objectives:

- To improve flow of credit to SME Sector.

- To formulate norms of lending to SME sector, to ensure availability of adequate and timely credit to the sector.
- To provide guidelines to the branches to dispense credit to SME Sector.
- To devise an organizational structure at all levels for handling SME credit portfolio in a more focused manner.
- To comply with terms of Policy package announced by Hon'ble Union Finance Minister on 10.08.2005 and further guidelines received from Reserve Bank of India from time to time for improving flow of credit to SME Sector.

3. SCOPE OF POLICY

This Policy will form a part of Bank's Domestic Loan Policy and will cover following:

- Composition of SME Sector
- Broad guidelines on lending to SME Sector
- SME Loan Factory Model
- Credit Rating and Pricing Policy
- Identifying Thrust Industries
- Discretionary lending powers
- Training needs
- Reporting and Monitoring System

4. SMALL & MEDIUM ENTERPRISES SECTOR

The SME segment is broadly classified as under:

Particulars	Investment in Plant & Machineries in case of Manufacturing Enterprises	Investment in Equipment in case of Service Sector Enterprises
Micro Enterprises	Upto Rs. 25/- lacs	Upto Rs.10/- lacs
Small Enterprises	Above Rs. 25/- lacs and upto Rs.500/- lacs	Above Rs.10/- lacs and upto Rs.200/- lacs
Medium Enterprises	Above Rs.500/- lacs and upto Rs.1000/- lacs	Above Rs.200/- lacs and up to Rs.500/- lacs

The Micro, Small and Medium Enterprises in Manufacturing and service sector are defined as under in MSMED ACT, 2006.

Manufacturing Sector

Micro Enterprise (Manufacturing) is an enterprise engaged in manufacture/production or preservation of goods and whose investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) does not exceed Rs. 25.00 Lacs irrespective of location of the unit.

Small Enterprise (Manufacturing) is an enterprise engaged in manufacture/production or preservation of goods and whose investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries) is more than Rs. 25.00 lacs but does not exceed Rs. 5.00 crores and

Medium Enterprise (Manufacturing) is an enterprise engaged in manufacture/production or preservation of goods and whose investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.

Service Sector

Enterprises engaged in providing or rendering services whose investments in equipment (original cost excluding land & Building and Furniture, Fittings and other items not directly related to the service rendered or as may be notified under MSMED Act, 2006) are as detailed here under:

Micro Enterprise (Service) is an enterprise where the investment in equipment does not exceed Rs. 10.00 lacs;

Small Enterprise (Service) is an enterprise where the investment in equipment is more than Rs.10.00 lacs but does not exceed Rs. 2.00 crores and

Medium Enterprise (Service) is an enterprise where the investment in equipment is more than Rs. 2.00 crores but does not exceed Rs. 5.00 crores.

Notes:

1) The small and micro (service) enterprises shall include small road and water transport operators, small business, professional & self employed persons and all other service enterprises.
2) Financing to Micro & Small Enterprises will only be treated as part of Priority Sector advance. Bank's lending to Medium Enterprises will not be included for the purpose of reckoning advance under the priority sector.

5. COMPOSITION OF SME SECTOR

The SME Sector includes Micro Enterprises, Small Enterprises, Artisans & Village Industries, Medium Enterprises, Service Sector units & individual sub-sector units.

a. **Micro Enterprises**

Micro Enterprises are those engaged in manufacturing, processing, preservation of goods, mining, quarrying, servicing & repairing of specified type of machinery & equipment, agro service units whose investment in Plant and Machineries does not exceed Rs. 25.00 lacs irrespective of location of the unit in respect of manufacturing units and investment in equipments not exceeding Rs 10.00 lacs in respect of Service Sector units.

b. **Small Enterprises:**

A Small Enterprise industrial undertaking / unit is one which is engaged in the manufacture, processing or preservation of goods or is a servicing and repair workshop undertaking repairs of machinery used for production, mining or quarrying or custom service unit (except water service units), having investment in Plant and Machineries (original cost) above Rs 25.00 lacs but not exceeding Rs. 5.00 crores in respect of manufacturing unit and above Ra 10.00 lacs but not exceeding Rs 2.00 crores in respect of Service Sector unit.

c. **Medium Enterprises**

A Unit which is engaged in the manufacture, processing or preservation of goods or is a servicing and repair workshop undertaking repairs of machinery used for production, mining or quarrying or custom service unit (except water service units), with investment in Plant & Machinery in excess of Rs 5.00 crores and upto Rs.10.00 crores in respect of manufacturing units and investment in equipments in excess of Rs 2.00 crores and upto

Rs 5.00 crores in respect of Service Sector units will be treated as Medium Enterprises **(MEs).**

d. Khadi and Village Industries Sector (KVI)

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in Plant and Machinery.

6. OUR BANK'S APPROACH TO SME SECTOR

- SMEs are growth engines for development of Economy.
- Our bank has therefore for internal purposes given focused attention to finance all Commercial enterprises i.e. enterprises which may be outside the purview of regulatory definition of SME but having turnover upto Rs 150.00 crores and new infrastructure and real estate projects **where the project cost is upto Rs. 50/- crores** by treating them as part of SME segment.

  SME Banking business will thus include the following across the bank:

  - Micro, Small and Medium Enterprises – as per regulatory definition irrespective geographical location, i.e. rural, semi-urban, urban, metro areas.
  - All other entities with their annual sales turnover of Rs. 1/- crore to Rs. 150/- crores and new infrastructure and real estate projects, where the project cost is upto Rs. 50/- crores.
  - SMEs which are Associate/sister concerns of Wholesale Banking customers.
  - Clubs, Trusts, etc.
  - Financing under various Government schemes launched for MSME Sector.
- However, such units, which are outside the purview of regulatory definition will not form part of Priority Sector lending.

7. ESTABLISHMENT OF SME LOAN FACTORIES

Business Model which operates on assembly line principle is adopted by the bank for hassle free and faster dispensing of credit to SME segment. This model titled SME Loan factory has separate Hub for Centralized Processing of SME proposals. As of March, 2012, 46 SME Loan Factories have been operationalized across the country.

8. COMPUTATION OF VALUE OF INVESTMENT IN PLANT AND MACHINERY

Investment under head 'Plant and Machinery' should include **the original price of every productive item** irrespective of whether new or second hand, acquired and proposed to be acquired, whether on lease or hire purchase or on ownership basis by the industrial undertaking, irrespective of the manner in which the cost has been shown in its books.

For computing the value of the investment in Plant and Machinery, cost of the following items should be included:

1. Original cost of Plant and Machinery (price paid by the owner / hirer / lessor).
2. Cost of control panels, starters, Electric Motors, other electrical accessories mounted on individual machines.
3. Cost of only those testing and quality control equipments, which are, used for/in process testing.
4. The investment in establishing of Wind Mills to generate electricity for captive consumption or partly for captive consumption and remaining power to sell to Electricity Boards/others

Cost of following items should be excluded:

I. Equipments such as Tools, Jigs, Dies, Moulds, and Spares for maintenance and cost of Consumable Stores.
II. Installation of P & M
III. Research & Development Equipments and Pollution Control Equipments
IV. Power Generation Set and extra Transformer installed
V. Bank Charges and Service Charges paid to the NSIC or to the State Small Industries Corporation
VI. Fire Fighting Equipments

VII. Cables, Wires for safety measures

VIII. Gas producer Plants

IX. Transportation Charges for indigenous Machineries

X. Technical Know-how Fees

XI. Storage Tanks not linked to manufacturing activities but are used for storing of Raw material and Finished Goods.

In the case of imported machinery following should be included:

I. Import duty.

II. The shipping charges.

III. Custom clearance charges.

IV. Sales tax.

9. TARGETS FOR PRIORITY SECTOR / SME SECTOR LENDING

As regards lending to SME Sector, Banks are advised to fix their own target in order to achieve a minimum 20% YOY growth in credit to SME as per statutory guidelines. There is no sub-target fixed for lending to small enterprises sector. However in order to ensure that credit is available to all segments of the Small Enterprises sector, banks are advised to ensure that 60% of the total advances to small enterprises sector should go to Micro Enterprises as under:

- 40% to Micro (manufacturing) enterprises with investment in plant and machinery upto Rs.5 lacs and Micro(service) enterprises having investment in equipment upto Rs.2 lacs
- 20% to Micro (manufacturing) enterprises with investment in plant and machinery above Rs.5 lacs and upto Rs.25 lacs and Micro(service) enterprises having investment in equipment above Rs.2 lacs and upto Rs.10 lacs.

The Target of 60% of advances to Micro enterprises is to be achieved in stages i.e. 50% by 2010-11 55% by 2011-12 and 60% by 2012-13.

10. COMMON GUIDELINES/INSTRUCTIONS FOR LENDING TO SME SECTOR

- **CODE OF BANK'S COMMITMENT TO MICRO & SMALL ENTERPRISES(MSE CODE)**

Our bank is a member of The Banking Codes and Standards Board of India (BCSBI), who has formulated Code of Bank's Commitment to Micro & Small Enterprises which has been adopted by our Bank. This Code sets minimum standards of banking practices for banks to follow when they are dealing with Micro & Small Enterprises (MSEs) as defined in the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.

The MSE Code broadly covers the following areas:

- Objectives of the Code
- Commitment of banks to the customers
- Information regarding availability of interest rates, tariff schedule etc.
- Privacy and confidentiality
- Lending methods
- Collection of dues
- Features pertaining deposit accounts
- Services offered
- Complaints, grievances and feed back (bank's internal procedures and Banking Ombudsman Scheme)
- Products and services
- Protection to customers

The Code will be reviewed within a period of 3 years. The Code does not replace or supersede regulatory guidelines issued by RBI/bank from time to time.

The focal points which banks are expected to comply with in the area of lending.

- Banks to make available free of cost, simple, standardized and easy to understand application forms for loans to MSEs.

- All loan applications should be acknowledged in writing.

- All loan applications should be disposed off within the stipulated time as under from the date of receipt of application complete in all respects and accompanied by documents as per the check list:

For credit limits upto Rs. 2/- lacs	Within 2 weeks
For credit limits upto Rs. 5/- lacs	Within 4 weeks
For credit limits exceeding Rs. 5/- lacs	Within a reasonable time frame (4 weeks)

- It should be ensured that sanctioned loans are disbursed within 2 working days from the date of compliance of all terms and conditions of sanction/documentation.

- In case of rejection of application, reasons for rejection should be conveyed in writing to the applicant for credit facilities.

- No collateral security should be insisted upon for credit limits upto Rs. 10/- lacs.

- To provide working capital limits to Micro & Small Enterprises (Manufacturing) on the basis of minimum of 20% of projected turnover.

- No processing charges to be recovered if loan upto Rs. 5/- lacs is not sanctioned.

- To follow credit rating system, the parameters of which should be shared with the borrowers.

- To permit prepayment of loans upto Rs.5/- lacs without levying any pre-payment penalty.

- Not to insist on deposits or sale of third party products as “quid pro-quo” for sanctioning credit facilities.

- Have regular contact with the borrowers after sanction of facilities and provide credit counselling services that can be of help to the borrower in dealing with their problems.

- To make a copy of the Code readily available to MSE customers on request free of cost.

The printed copies of MSE code are since supplied to branches and a copy of the Code is also placed on our bank’s website. Branches are required to place a copy of MSE code on the noticeboard.

- **MSME Application Forms for Financial Assistance:**

- **The simple standardized loan application form for borrowers in Micro & Small Enterprises Sector circulated by Indian Banks' Association has been introduced in January,2009 (Refer circular no. BCC:BR:101/13 dt. 3rd January, 2009.)**

  This form is to be used by all the borrowers irrespective of the loan amount.

  With introduction of the above application form, the loan application forms for erstwhile SSI Sector in following 4 categories have been discontinued:

  1. Application form for credit facilities upto Rs. 10/- lacs.
  2. Application form for credit facilities for over Rs. 10/- lacs and upto Rs. 50/- lacs.
  3. Application form for credit facilities of over Rs. 50/- lacs and upto Rs. 2/- crores.
  4. Application form for credit facilities over Rs. 2/- crores.

- Separate format introduced vide circular no. BCC/BR/100/11 dt.1.1.2008 is to be used for credit facilities requested by SME borrowers on ad hoc basis.

- **Receipt of applications and acknowledgment:**

  With a view to facilitate timely sanction of adequate credit facilities, the following guidelines have been issued to the branches:

  - An acknowledgment with the date of receipt for credit application received to be given. A definite date to be intimated to the applicant for discussions, clarifications etc. if considered necessary.
  - The bank's decision regarding credit assistance to be communicated to the applicant within the prescribed period.
  - All those cases, which have been either rejected or where credit limits, have been curtailed in respect of advances to Small Enterprises to be referred to the next higher authority.

- **Register of Credit Applications Received:**

All applications received should be entered in a “Register of Loan Applications Received” for recording therein the complete particulars such as date of sanction, rejection, reasons for rejection etc.

- **Submission of credit proposals to Corporate Office (Beyond the Discretionary Lending Powers of Zonal Authority) :**

Keeping in view business segmentation process implemented by the bank, proposals submission to SME Department at Corporate Office will be as per the guidelines given hereunder :

- All credit proposals falling under SME Sector as per Regulatory definition irrespective of its location, viz. rural, semi-urban, urban or metro areas.

- All credit proposals irrespective of its classification, whether it is SME as per regulatory guidelines or SME as per expanded coverage, with **gross turn over / income upto Rs 150.00 crores** and new infrastructure and real estate projects **where the project cost is upto Rs. 50/- crores .**

- **Time norms for disposal of loan applications:**

In order to provide better customer service and to ensure that applications for loans for all categories of borrowers are dealt with and disposed off expeditiously, the following norms shall be adhered to, provided the loan applications received are complete in all respects and duly accompanied by a check list.

- In respect of loans upto Rs. 2 lacs within a maximum period of **Two weeks** of receipt of loan applications complete in all the respects and duly accompanied by a check list.

- In respect of other cases for loans above Rs. 2/- lacs, within a maximum period of **four weeks** on receipt of duly completed loan applications in all the respects and accompanied by a checklist.

- In respect of credit applications processed at SME loan Factories, it should be disposed off within **14 working days** on receipt of full information if no TEV study is required and within **21 working days** on receipt of full information if TEV study is required.

- **Types of Facilities:**

SME Units may be granted a variety of credit facilities for their different needs which will include the following:

(a) Term Loan / Demand loan / Deferred Payment Guarantee:

For acquisition of capital goods (including second hand), fixed assets, vehicles, plant & machinery, purchase of land, construction of buildings etc.

(b) Working Capital by way of Cash Credit, Overdraft etc for:

1. Purchase of raw material, components, stores, spares and maintenance of stock of these items at minimum level and stock in process and finished goods.
2. Finance against receivables including receipted challans / invoices.
3. Meeting marketing expenses where the units have to incur large-scale expenditure towards marketing of their products.

(c) Bills Purchase / Discounting under L/c or outside L/c.

(d) Export Credit facilities like Packing Credit, FBP / UFBP.

(e) Foreign/Inland Letter of Credit on sight/usance basis for purchase of raw material/capital goods

(f) Bank Guarantees for Performance, Advance Payment, Tender Money Security Deposit, Guarantees for getting orders, for procurement of raw materials, financial guarantees etc.

(g) Stand-by L/C

- **Assessment of Working Capital Limits:**

Presently, the following guidelines are in place for financing Working capital facilities of SME units:

Limits upto Rs. 5.00 crores:

The credit requirements of village industries, Micro Enterprises, Small Enterprises and Medium Enterprises having aggregate fund based working capital limits upto Rs.5.00 crores from the banking system, will be computed on the basis of a minimum of 20 % of their acceptable projected annual turnover for new as well as existing units.

Method of assessment:

- The assessment of working capital credit limits should be done based on acceptable projected turnover basis and **also as per the first method of lending** as per Tandon Committee guidelines as detailed in Corporate Office circular BCC/BR/98/301 dated 28.10.2006.
- If credit requirement based on first method of lending is higher than the one assessed on accepted projected turnover basis, the same may be sanctioned as the guidelines stipulate that the working capital finance should be 20% of the projected accepted turnover or computed on the basis of first method of lending whichever is higher.
- **If the assessed credit requirement is lower than the one assessed on projected turnover basis, the credit limit can be sanctioned at 20% of the acceptable projected turnover.**
- Actual drawal should be allowed on the basis of drawing power available in the account. Moreover, while computing the working capital requirements, it should be kept in view and should be satisfied on various aspects like flow of credit is need based, market condition, projections are in line with the past performance, estimated growth envisaged is realistic, production capacity of the unit, financial parameters, availability of net working capital etc. Further, sales performance should be monitored on regular basis to ensure proper end use of the fund.
- The working capital below the minimum level may be justified under special circumstances where the requirement is lower than the minimum level in the case of supply of inputs is higher than the off take of outputs or material is available on credit for a longer period.

Limits above Rs. 5.00 crores:

For assessment of Working Capital requirements beyond Rs.5.00 crores, the extant guidelines will be followed.

- **Margin**

(a) For Term Loan

- In case of factory land & building, overall margin of 30%
- In case of Plant & Machineries and Equipment margin is proposed at 25%

In exceptional cases, finance may be made available against second hand imported machinery, with a minimum margin of 40% at the discretion of sanctioning authority, keeping in view the extant guidelines for financing against second hand machinery.

(b) For Working Capital

- 25% uniform margin is proposed on stocks and receivables. For export credit margin may be stipulated @ 10 %.
- The next higher authority is authorized to reduce margin maximum by 5% in deserving cases in respect of Land & Building & Plant & Machineries & Equipments/Current Assets.
- If deviation is proposed beyond 5 %, Executive Director / Chairman & Managing Director is authorized for the same.

- **Rate of interest:**

If accounts are falling under SME category as per, regulatory definition, rates as applicable to Micro, Small & Medium Enterprises to be applied.
However, if accounts are falling under SME category based on expanded coverage i.e. they are outside the purview of regulatory definition, interest to be applied as per separate guidelines being issued from time to time.

- **Penal Interest**

Penal Interest @ 1% to 2% to be charged for the period of default in repayment, non-submission of financial statement, non-compliance of terms and conditions etc. as per extant guidelines of Bank.

- **Credit rating:**

(i) Internal Credit Rating System

The internal comprehensive credit rating system under BOBRAM (CRISIL) Model has been approved by the bank and is already in place as advised to all branches. The BOBRAM model is applicable to MSME accounts having exposure of above Rs. 2 Crores.

Board in their meeting dated 02.07.2009 has approved introduction of New Scoring Card type of Model for rating the MSME accounts with exposure of Rs. 25 Lac to Rs. 2 Crore. (Refer Circular No. BCC:BR:101:194 dated 13.07.2009).

As per extant guidelines, periodicity of credit rating in respect of borrowal accounts enjoying credit facilities (Fund Based and Non Fund Based) of Rs.5 crores and above is half yearly and in other accounts on annual basis. Pricing of loan to be decided based on the guidelines issued from time to time.

(ii) External Credit Rating System (NOT ELIGIBLE UNDER BASEL-II NORMS OF CAPITAL ADEQUACY)

Small Enterprises borrowers are rated by few external credit rating agencies. In case of MEs, some of the borrowers are getting their accounts rated by external credit agency like CRISIL etc.

M/s. CRISIL, the pioneer of independent credit rating agencies in India, has entered into an agreement with M/s. National Small Industries Corporation who has recently introduced a credit rating scheme for encouraging units to get them rated by reputed credit rating agencies.

Our Bank has entered into MOU with credit rating agencies viz: M/s CRISIL, Dun & Bradstreet, SMERA to get our SME borrowers rated.

(iii) External Credit Rating System (UNDER BASEL-II NORMS OF CAPITAL ADEQUACY)

External Credit Rating should be carried out in all SME loan accounts with credit limits of above Rs 5 crores by any one of the RBI approved external credit rating agencies. Presently ICRA, CARE, CRISIL and FITCH are the only Reserve Bank of India approved external credit rating agencies in India. The exposure to SME borrower rated by any of these rating agencies will be recognized as rated exposure for the purpose of computation of Risk Weighted Assets under Standardized Approach of credit risk under Basel-II guidelines.

Pricing be continued to be linked to our internal credit rating system. However due weightage will be given for the external credit rating by the external rating agency. Detailed guidelines on credit rating are covered under Loan Policy.

- **Techno-economic viability study:**

  The existing guidelines of bank on TEV study as per Corporate Office circulars issued from time to time will continue to apply.

- **Collateral Free Loans:**
  - Presently, Bank's guidelines for providing collateral free loans are as under:

    a) Collateral free loan upto Rs.10.00 Lacs to Micro & Small Enterprises.

    b) Collateral free loans (including third party guarantee/ security) upto a limit of Rs. 25.00 lacs to units having satisfactory dealings with the branch for last 3 years and having sound and healthy financial position.
  - It is already decided to dispense with collateral security including third party guarantee for loans to Medium Enterprises upto a limit of Rs. 25.00 lacs as in case of loans to Micro & Small Enterprises in manufacturing activities subject to satisfying the following criteria in case of existing borrower as also takeover accounts:
    1. Consistent growth in sales for last 3 years.
    2. Continuous profit for last 3 years.
    3. Credit rating of "A" or equivalent and above and no slippage in credit rating during last 3 years.
    4. The units' assets (fixed as also current) are charged to the bank and promoters / directors personal guarantee are available
    5. Asset coverage ratio of more than 1.5
    6. Other take over norms are complied with.
  - For the existing borrowers enjoying limits upto Rs.25.00 lacs and fulfilling the above criteria, the release of collateral securities obtained if any, at the time of

previous sanction / review, ~~is~~ can also ~~to~~ be released at the specific request of the borrower by PSR noting authority.

Coverage of collateral free loans under Credit Guarantee Fund Trust Scheme for Micro & Small Enterprises(CGTMSE):

- All the collateral free loans upto Rs.100 lacs sanctioned to Micro & Small Enterprises in manufacturing and service sector as defined under MSMED Act,2006, PMEGP scheme are eligible for cover under the Scheme.

- Our bank is sharing the one-time guarantee fees and annual service charges on 50;50 basis for advances upto Rs.50 lacs covered under the scheme. In case of accounts with limits over Rs.50 lacs entire guarantee fee is to be borne by the borrower. In case of accounts financed under erstwhile PMRY scheme for manufacturing activity and covered under CGTMSE scheme, entire annual service fee is borne by Bank.

- In order to promote lending under the scheme as also to ensure that no genuine borrower is denied the loan for want of collateral security, the sanctioning authorities should invariably cover these loans under the scheme. In case the sanctioning authority is not in favour of considering the collateral free loan under CGTMSE scheme, permission from the next higher authority should be obtained.

- **Charter of credit entitlements:**
  - As per action plan for implementing High Level Committee (Kapur Committee) recommendations on credit flow to SSI Sector", a 'Charter on credit entitlements is displayed at Branch premises.
  - In view of extending lending norms to ME sector also, the revised Charter on credit entitlement for SME borrowers be displayed at all Branches.

REVIEW

- Credit facilities sanctioned to borrowers are subjected to annual review as per the prevailing guidelines.

Branches have been authorized to review advance accounts of borrowers in trading activities, Micro & Small Enterprises, borrowers in rural area, borrowers having only term loan accounts, financed under government sponsored programme, borrowers enjoying only guarantee facility, etc, with limits upto Rs. 20/- lacs pending receipt of audited financial statements provided the conduct of the account is satisfactory in terms of various parameters stated below:

a. Satisfactory conduct and turnover in the account
b. Fulfilment of repayment obligations (Interest/ Instalments)
c. Adequacy of securities, drawing power, insurance coverage etc.
d. Rectification of inspection irregularities (other than non submission of financial statements)
e. Compliance of all terms and conditions of previous sanction.
f. Satisfactory trend in production and /or Sales as per projections
g. Documentations and mortgages in the account being complete, valid and enforceable
h. Prompt payment of bills under L/cs, realization of BP/BDs, Guarantee Commission etc.
i. Submission of Income Tax / Sales Tax returns filed with Statutory Authority as per time schedule prescribed, wherever applicable (which will also indicate about the sales and profitability of the operations).

The financial statements should, however, be obtained within 9 months from the close of the financial year and satisfied upon by the sanctioning authority on financial parameters emerging out of the Balance Sheet/ Profit and Loss Account submitted by the borrowers at a later date. If the financial parameters emerging from the submitted Balance Sheet are not found satisfactory, appropriate actions, as may be warranted, should be initiated.

It may please be noted that :

❖ **The review on above lines will not be applicable to:**

- Irregular accounts
- Accounts under restructuring / rephasement or rehabilitation
- Retail loans
- NPA accounts
- Suit filed accounts
- Staff Loans
- Loan against Shares
- Loan granted against scheme under “Future Rent Receivables”.

- **The account should not be reviewed without financial statements for two consecutive years.**

- There will not be any relaxation in respect of obtaining due LAD, carrying out usual inspection of securities, insurance of the assets charged to the bank etc and branch will have to comply with the extant guidelines in this regard.

- A simplified format for review was devised for the purpose which has been circulated vide circular no. BCC/BR/100/11 DT.01.01.2008
- There is no change in respect of PSR noting of the proposals reviewed under the above system.

The above procedure has been adopted to ensure timely review of small sized advance accounts and to reduce the number of unreviewed accounts.

Short Review/Status Note:

The bank has also the practice of Short Review/Status Note, which is done when it is not possible to carry out a comprehensive Regular Review of the account within the stipulated period pending receipt of certain particulars/information or where the account is placed under special monitoring, etc. The detailed procedures in this regard are given in the Loan Policy.

11. FINANCIAL RATIOS FOR CREDIT APPRAISAL

(Not applicable in case of takeover of accounts)

Following ratios can be accepted for granting credit facilities to SME units falling as per regulatory guidelines or SMEs as per expanded coverage.

Sr. No.	Ratio	Norms		
		Micro & Small Enterprises under manufacturing sector and Service Sector **falling under regulatory guidelines**	Medium Enterprises under manufacturing sector and Service Sector **falling under regulatory guidelines**	Units covered under SME Sector as per expanded definition and outside the purview of regulatory definition
1	Current Ratio	**1.17& above**	**1.20 & above**	**1.33 & above.**

2	Debt Equity Ratio (Total Term Liability /Tangible Net Worth)	**3:1**	**3:1**	**3:1**
3	FACR (Net FA/Term Debts)	**Not below 1.25**	**Not below 1.25**	**Not below 1.25**
4	Average DSCR for Term Loan	1.75 with a condition that in any one year it should not be below 1.00 instead of 1.25 as per extant guidelines.	1.75 with a condition that in any one year it should not be below 1.25	1.75 with a condition that in any one year it should not be below 1.25

The above ratios are indicative and deviations can be considered by **the sanctioning authority** / **competent authority** on case-to-case basis, depending on industry specific problems of unit, etc. incorporating justification for the same in the sanction note.

12. GUIDELINES FOR TAKEOVER OF ADVANCE ACCOUNTS:

There are two types of compliances:

1. Non-Financial norms to be complied in case of takeover of SME accounts as per regulatory guidelines or SME as per expanded coverage:

Sr.No.	Norms	Deviation allowed
a.	Profit-making (i.e. net profit before tax) concerns only as per last audited Balance Sheet.	• Zonal Head can permit deviations in respect of accounts with exposure upto Rs 3.00 crores in aggregate. • GM (SME & WM) for the proposals falling upto the powers of DGM (other than Zonal Heads). ED for proposals falling up to GM powers (Zonal Head or Corporate GM) CMD in all other cases.
b.	Accounts be rated as per the new credit rating model (BOBRAM) subject to 'minimum' BOB 6. Accounts, which are not covered under BOBRAM Credit Rating System, may be considered under permitted deviation as per extant guidelines issued from time to time.	
c.	There should not have been any reschedulement / restructuring in the account during last **two** years.	
d.	Satisfactory report from the existing bank/FI and/or satisfactory conduct of account as per latest statement of accounts.	• Deviation can be allowed by the ED / CMD in respect of d, e, & f.
e.	Accounts with existing lenders should be under the category of "Standard Assets".	

f.	All other existing norms, guidelines as applicable to borrowal accounts are to be scrupulously followed.	

2. Financial norms in case of takeover of SME accounts as per regulatory guidelines or SME accounts as per expanded coverage:

Ratio	Norms	Authority who can allow deviation

	1	2	3	Proposed
	Micro & Small Industries under manufacturing sector and service Sector as per regulatory guidelines	Medium Enterprises under manufacturing sector and service Sector as per regulatory guidelines	Units outside the purview of regulatory definition but covered under SME Sector as per expanded definition.	
Current Ratio	Minimum 1.17 & above	Minimum 1.20 & above	Minimum 1.33 & above	• Deviations as under can be allowed by Zonal Head provided exposure does not exceed Rs.3/- crores in aggregate and by Corporate General Manager if the exposure does not exceed Rs.5/- crore in aggregate. (A) up to 1.15 in case of SME accounts as per regulatory definition & (B) Up to 1.25 in case of SME accounts falling outside the purview of regulatory guidelines provided exposure does not exceed Rs. 3.00 crores in aggregate • In all other cases, ED / CMD can permit deviation.

Debt Equity Ratio (TTL / TNW)	Maximum 4:1	Maximum 3:1	Maximum 3:1	• Deviations as under can be allowed by Zonal Head provided exposure does not exceed Rs.3/- crores in aggregate and by Corporate General Manager if the exposure does not exceed Rs.5/- crore in aggregate. (A) up to 4.5:1 in case of accounts of Micro & Small Enterprises as per regulatory definition & (B)Up to 3.5:1 in case of accounts of Medium Enterprises as per regulatory definition and SME accounts falling outside the purview of regulatory definition. In all other cases, ED / CMD can permit deviation.
Total outside liability/ TNW	Maximum 4.5:1	Maximum 4.5:1	Maximum 4.5:1	• Zonal Head can permit deviation upto 5:1 in all cases i.e. Micro, Small & Medium Enterprises as per regulatory definition and SME accounts falling outside the purview of regulatory definition. • In all other cases, ED / CMD can permit deviation.
Average DSCR for Term Loan	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25	• Deviations can be allowed by Zonal Head provided exposure does not exceed Rs.3/- crores in aggregate and by Corporate General Manager if the exposure does not exceed Rs.5/- crore in aggregate. • In all other cases ED / CMD is authorized to allow deviation.

Note:

- **Zonal Heads are authorised to permit deviations in take over norms (financial covenants) in respect of SME accounts falling under the powers of branch, SME Loan Factory and Regional Head if they are satisfied about compliance with take over norms based on the provisional Balance Sheet duly certified by Chartered Accountant, as on the date of making the reference, though the same are not in conformity with the norms as per the last audited Balance Sheet.**

  In case of proposals falling under the powers of Zonal Heads, reference will continue to be made to the Corporate Office.

- Proposals under powers of Chief Manager and above, no prior approval are required from any authority provided takeover norms are complied and decision is taken by the competent authority.
- For authorities below the rank of Chief Manager, prior approval of next higher authority is required for taking over of accounts except in case of retail loans where scheme specific norms are prescribed separately.

13. Discretionary lending powers:

For the present, existing discretionary lending powers delegated to various authorities as contained in bank's various circulars issued from time to time will continue to be in force and operative.

a. THRUST INDUSTRIES

1. Drugs & Pharmaceuticals
2. Auto components, Auto Ancillary units
3. Food and Agro based industries
4. Textile machineries
5. Dyes & intermediates
6. Engineering equipments
7. Chemicals
8. Defence equipments manufacturing Units

14. SME PRODUCTS

The following products are launched for SME sector across the country:

- **Baroda SME Gold Card** providing additional 10% facility over the assessed MPBF for meeting emergent business requirements.
- **Baroda SME Loan Pack** providing single line of credit for meeting SME borrowers' working capital as well as long term requirements within the overall limit approved by the bank as per the eligibility, i.e. 4.5 times of borrower's tangible net worth as per last audited Balance Sheet, or Rs. 5/- crores, whichever is lower.
- **Baroda Overdraft against Land & Building** is a unique product for financing working capital requirements, long term margin requirements of SME borrowers against the security of unencumbered land and building belonging to the unit, or, promoters of the unit, upto a maximum limit of Rs. 5/- crores depending on the location, viz. rural and semi-urban, urban and metro.
- **Baroda Vidyasthali Loan** providing finance to Educational Institutional upto a limit of Rs. 10/- crores on liberalized terms. This scheme is implemented at select branches of the Bank depending on the business potential.
- **Baroda Arogyadham Loan** for providing finance for setting up new Nursing Homes, Hospitals including Pathological Laboratories, renovation of existing Nursing Homes/Hospitals, purchase of medical diagnostic equipments as also office equipments etc. and to meet working capital requirement upto a maximum limit of Rs.12/- crores, depending on the location, on liberalized terms. This scheme is also implemented at select branches of the bank.
- **Scheme for financing existing SME customers/Current Account holders for purchase of new vehicles** upto a limit of Rs. 50/- lacs with 10% margin.

15. BRANCHES TO BE DESIGNATED AS SME BRANCHES

At present 72 branches are designated as Specialized SME branches. These branches are expected to have 60% of their lending to SME sector. Based on ASCROM data, all branches having more than 60% of their lending to SME Sector will be identified and the branches having 60% of their loan portfolio to SME Sector for 2 consecutive quarters will be designated as SME branches. Designated SME branches will focus on SME lending. These branches will be authorised to collect taxes etc.

TRAINING : A cadre of officers in various grades to be built up to post in SME branches / Cells. The services of groomed credit officers can be utilized for this purpose. In case any special Skills are required, identified officers to be provided training at Bank's Training Centres as also external Training Centres, viz. RBI, NIBM, etc. Care will be taken to ensure that trained officers are posted at SME branches & SME Loan Factories only even under job rotation.

16. MONITORING & FOLLOW UP

Branches, Regional Offices, Zonal Offices and Corporate Office are required to adhere to general guidelines as conveyed by way of Book of Instructions, Loan Policy, circulars from time to time for pre-sanction, project appraisal, documentation, disbursement of credit facilities, project implementation monitoring, review, inspections, insurance of securities, post sanction follow up and regular monitoring of credit facilities, etc.

17. REPORTING MECHANISM

ASCROM Cell has introduced fields for the purpose of sectoral classification of SME Sector. Information in quarterly returns as specified by RBI will be submitted to Corporate Office through Regional authorities and quarterly progress report will be submitted to the Board / RBI within stipulated time. SME loan factories to report to corporate office in the prescribed format on monthly basis or at the periodicity as may be advised from time to time.

18. REHABILITATION OF SICK UNITS / DEBT RESTRUCTURING SCHEME FOR SMEs/ SCHEME FOR ONE TIME SETTLEMENT FOR SMEs.

These areas are covered separately under the Recovery Policy approved by Board. The guidelines are conveyed from time to time by various circulars of Corporate Office.

19. POLICY REVIEW

- The Policy document may be generally operative till further review by the Board. However, efforts would be made to update the policy document preferably on annual basis.

- Any regulatory guidelines issued by RBI / Govt etc from time to time will automatically be the part of this policy.

- References / clarifications, if any, on the interpretation of any provision (s) of this policy may be made to Wholesale Banking Department which will clarify its provisions and wherever required, the department may seek necessary approval from ED or CMD in the absence of ED / CPC.

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