UTTAR BIHAR GRAMIN BANK

उत्तर बिहार ग्रामीण बैंक

MSE LOAN POLICY

&

REHABILITATION POLICY FOR MSE

HEAD OFFICE KALAMBAGH CHOWK, MUZAFFARPUR, BIHAR, 842 001

प्रधान कार्यालय, कलमबाग चौक, मुजफ्फरपुर, बिहार, 842 001

MSE LOAN POLICY & REHABILITATION POLICY FOR MSE

PREAMBLE

The Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and play an important role in the equitable economic development of the country. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. MSMEs have been established in almost all-major sectors in the Indian industry.

Objectives

- Bank's positive commitment to its MSE customers to provide easy, speedy and transparent access to banking services in their day to day operations and in times of financial difficulty.
- Positive thrust to MSE sector.
- Hassle free credit to Micro and Small Enterprises.
- Description of MSE sector.
- Proper appraisal and evaluation of advances proposal.
- Achievement of different parameters prescribed by Government of India / RBI.
- Cluster Based approach for financing MSE.
- Increased Coverage under credit guarantee scheme of CGTMSE.
- Complete adherence to BCSBI's Code of Bank's commitment to MSE.
- Generation of large number of youth entrepreneurs.
- To ensure that the socio economic obligations cast on the bank are fully met.
- To ensure compliance of all the directives/guidelines issued by the Government/RBI and all other regulatory requirements on MSE.
- With regard to guidelines issued from time to time by the Authorities, the Bank would follow them in all their aspects. However, if these permit varying interpretations, the Bank will adopt a reasonable interpretation, as determined by the Credit & Monitoring Department without deviating from the spirit behind the guidelines.

MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT, 2006

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services. The Reserve Bank has notified the changes to all scheduled commercial banks. Further, the definition, as per the Act, has been adopted for purposes of bank credit vide RBI circular ref. RPCD.PLNFS. BC.No.63/ 06.02.31/ 2006 07 dated April 4, 2007.

1. Definition of Micro, Small and Medium Enterprises

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 (Annexure I).

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

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

iii. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

These will include small road & water transport operators, small business, retail trade, professional & self employed persons and other service enterprises.

Lending by banks to medium enterprises will not be included for the purpose of reckoning of advances under the priority sector.

Khadi and Village Industries Sector (KVI)

All advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery will be covered under priority sector advances and will be eligible for consideration under the sub target (60 per cent) of the micro enterprises segment within the MSE Sector.

Indirect Finance

(a) Persons involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

(b) Advances to cooperatives of producers in the decentralized sector viz. artisans, village and cottage industries.

(c) Loans granted by banks to Micro Finance Institutions on, or after, April 1, 2011 for lending to micro and small enterprises (manufacturing as well as services) subject to the compliance of guidelines specified in Master Circular RPCD. CO. Plan. BC. 10/04.09.01/ 2011 12 dated July 1, 2011 on 'Lending to Priority Sector'.

(d) In order to ensure that sufficient credit is available to micro enterprises within the MSE sector, banks should ensure that:

a) 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh;

b) 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro enterprises.

2. SCOPE AND COVERAGE

MSE Loan Policy covers all credit facilities to Micro and Small Enterprises (manufacturing and services) and rehabilitation of MSE and forms part of Credit Policy of the Bank.

3. GUIDELINES ON MSE FINANCE

(a) All credit facilities to Micro Small Enterprises will be assessed as per the Bank's Credit Policy and all genuine requirements will be considered by the sanctioning authority and it would be ensured that unit would not suffer for want of adequate credit.

(b) Small (Manufacturing) Enterprises sector.

1. Working Capital requirements of borrowers availing limit up to Rs.2 crore from Banking System by borrowers in village and tiny Sectors is to be assessed as per TURN OVER Method.
2. Working capital requirements of Small (Mfg.) Enterprise units to be assessed as per Turn Over method up to a limit of Rs.5.00 crore. If the credit requirement based on production / processing cycle is higher than the one assessed on the basis of turnover method, the same may be sanctioned.

(c)Trade Sector

Working Capital requirements of Small borrowers in the trade sector availing limits up to Rs.5.00 crore are to be assessed on the basis of turnover method.

(d) Manufacturing Sector.

The large borrowers under the Manufacturing Sector fall under two broad categories viz., Cyclical Industries and Non Cyclical Industries.

(**e) Cyclical Industries:** Borrowers from seasonal industries like sugar and tea are already availing working capital on the basis of the Cash Budget. Their overall requirement is determined by the maximum deficit as per Cash Budget and disbursal of facilities is allowed on the basis of cash flow projections. Other industries like cotton / kapas, fruits and vegetables processing, Soya processing, Rice Milling, Turnkey Projects may also be brought within the system for financing of seasonal industries.

(f) **Non Cyclical Industries:** Borrowers availing limits can be divided into

i. Those availing limits below Rs. 50 Crore and
ii. Those availing limits more than Rs.50 Crore.

The borrowers availing total fund based working capital limits below Rs.50 Crore would be assessed under MPBF and the borrowers availing total fund based limits of Rs.50 Crore and above would be assessed as per Cash Budget method.

4. Term Loan Assessment

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

I. For Financing Specific Asset;
II. For Financing modernization programme;
III. For Financing expansion programme;
IV. For Financing diversification programme;
V. For Financing New Project;
VI. For Financing Rehabilitation Project.

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

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

a. Technical Feasibility;
b.Commercial Viability;
c. Managerial Competence;
d.Economic Feasibility;
e. Financial Feasibility;
f. Cost of Project and Means of Finance;
g.Break-Even Analysis;
h.Debt-Service Coverage Ratio;
i. Pay-back period on discounted cash flow consideration;
j. Internal Rate of Return.

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

(d) **Sanction of term loan and working capital together**: Term loans and working capital facilities to be sanctioned at the same time and pro rata share to be taken in case of Consortium/Multiple Banking.

(e) A **composite loan** limit of Rs.1 crore can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

(f) **Combined Level of stocks and receivables**: CC/OD against stock and receivables to be allowed under one facility.

(g) **Sanctioning Powers for combined limit**: Full lending power for the combined limit up to Rs.300 lac subject to lending power delegated under loan policy.

(h) **Rejection/Curtailment** of credit limit to be approved by next higher authorities.

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

(j) **Margin:** The margin on combined limit up to Rs.300 lac may be at 25% and receivables up to 180 days can be reckoned for book debt financing. For loans under Government sponsored schemes and Bank's special credit schemes, margin will be obtained as stipulated in the scheme.

5. Current Ratio: 1.10

Debt-Equity Ratio: 3:1

Debt Service Coverage Ratio (Average): 1.50

Interest Coverage Ratio: 1.50:1

Asset Coverage Ratio: 1.50:1

Normally Net Worth to Bank Borrowings ratio shall be 1:4.

6. SECURITY NORMS

(a) It is mandatory to extend collateral free loans up to Rs.10.00 lac to the Micro and Small Enterprises (MSE) sector. No third party guarantee is required up to this limit. Such loan will invariably be covered under credit guarantee scheme of CGTMSE.

(b) It is also advised to cover all MSE loans under CGTMSE scheme invariably without any exception; so long the quantum of finance does not exceed the prescribed cap of Rs.1.00 crore. If any finance is to be made outside the coverage of CGTMSE scheme, the branch must appraise its immediate controlling office on merits of such exclusion and obtain its approval for the same.

(c) It is advised to strongly encourage to avail of the Credit Guarantee Scheme cover, as it has been included for making performance in this regard a criterion in the performance appraisal of staff.

(d) Approved Securities: As per Loan Policy

(e) Recommended Margin: As per Loan Policy

7. CLUSTER BASED APPROACH

Clusters are defined as sectoral and geographical concentration of MSE units sharing common opportunities and threat. Bank will give thrust for cluster based finance.

Bank will take following advantages on cluster based financing.

i. Easier in dealing with well defined groups
ii. Easy availability of information for risk assessment and
iii. Easy monitoring of borrowal units.

Bank will extend adequate facilities for diverse needs of the MSE units functioning within the cluster by adopting a 4 C approach namely, Customer focus, Cost control, Cross sell and Contain risk. Help of State as well as Central Government can also be taken for infrastructure etc.

8. COMMON GUIDELINES / INSTRUCTIONS FOR LENDING TO MSE

(a) Disposal of Applications

All loan applications for MSE units up to a credit limit of Rs. 25,000/ should be disposed of within 2 weeks and those upto Rs. 5 lakh within 4 weeks provided, the loan applications are complete in all respects and accompanied by a “check list".

9. Guidelines on rehabilitation of sick MSE units

As per definition, a unit is considered as sick when any of the borrowal accounts of the enterprise remains NPA for 3 months or more or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth. RBI circular No. RPCD.CO.MSME&NFS.BC.40/06.02.31/2012-2013 dt. November 1, 2012 (annexure III) is part and parcel of this policy. The criteria will enable banks to detect sickness at an early stage and facilitate corrective action for revival of the unit. As per the guidelines, the rehabilitation package should be fully implemented within six months from the date the unit is declared as potentially viable. During this six months period of identifying and implementing rehabilitation package Banks/FIs are required to do “holding operation” which will allow the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds.

Following are broad parameters for grant of relief and concessions for revival of potentially viable sick SSI units:

i. Interest on Working Capital: Interest 1.5% below the prevailing fixed lending rate, wherever applicable
ii. Funded Interest Term Loan: Interest Free
iii. Working Capital Term Loan : Interest to be charged 1.5% below the prevailing fixed lending rate , wherever applicable
iv. Term Loan: Concessions in the interest to be given not more than 2 % (not more than 3 % in the case of tiny / decentralised sector units) below the document rate.
v. Contingency Loan Assistance: The concessional rate allowed for Working Capital

10. State Level Inter Institutional Committee

In order to deal with the problems of co ordination for rehabilitation of sick micro and small units, State Level Inter Institutional Committees (SLIICs) have been set up in all the States.

The meetings of these Committees are convened by Regional Offices of RBI and presided over by the Secretary, Industry of the concerned State Government. It provides a useful forum for adequate interfacing between the State Government Officials and State Level Institutions on the one side and the term lending institutions and banks on the other.

It closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special schemes such as Margin Money Scheme of State Government and reviews general problems faced by industries and sickness in MSE sector based on the data furnished by banks.

Among others, the representatives of the local state level MSE associations are invited to the meetings of SLIIC which are held quarterly.

A sub committee of SLIIC looks into the problems of individual sick MSE unit and submits its recommendations to the forum of SLIIC for consideration.

11. Empowered Committee on MSMEs

As part of the announcement made by the Union Finance Minister, Empowered Committees on MSMEs have been constituted under the Chairmanship of the Regional Directors, RBI with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level representatives from the MSME/SSI Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee will meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It will also coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. The committees may decide the need to have similar committees at cluster/district levels.

12. Debt Restructuring Mechanism for MSMEs

(i) As part of announcement made by the Hon'ble Finance Minister for stepping up credit to small and medium enterprises, a debt restructuring mechanism for units in MSME sector has been formulated by Department of Banking Operations & Development of Reserve Bank of India and advised all commercial banks vide circular DBOD. BP. BC. No. 34 / 21.04.132/ 2005 06 dated September 8, 2005. These detailed guidelines have been issued to ensure restructuring of debt of all eligible small and medium enterprises. These guidelines would be applicable to the following entities, which are viable or potentially viable:

a) All non corporate MSMEs irrespective of the level of dues to banks.
b) All corporate MSMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
c) All corporate MSMEs, which have funded and non funded outstanding up to Rs.10 Crore under multiple/ consortium banking arrangement.
d) Accounts involving wilful default, fraud and malfeasance will **not** be eligible for restructuring under these guidelines.
e) Accounts classified by banks as “Loss Assets” will **not** be eligible for restructuring.

For all corporates including MSMEs, which have funded and non funded outstanding of Rs.10 Crore and above, Department of Banking Operations & Development has issued separate guidelines on Corporate Debt Restructuring Mechanism vide circular DBOD.No.BP.BC.45/ 21.04. 132/2005 06 dated November 10, 2005.

Prudential Guidelines on MSME Debt Restructuring by banks have been formulated and advised to all commercial banks by Department of Banking Operations & Development vide circular DBOD.No.BP.BC.No.37 /21.04.132/2008 09 dated August 27, 2008.

(ii) In the light of the recommendations of the Working Group on Rehabilitation of Sick MSEs (Chairman: Dr. K.C. Chakrabarty), all commercial banks were advised vide circular ref. RPCD. SME & NFS.BC.No. 102/06.04.01/ 2008 09 dated May 4, 2009 to:

a) put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises and non discretionary One Time Settlement scheme for recovery of non performing loans for the MSE sector, with the approval of the Board of Directors and
b) Implement recommendations with regard to timely and adequate flow of credit to the MSE sector.

(iii) Banks have been advised to give wide publicity to the One Time settlement scheme implemented by them.

13. Credit Linked Capital Subsidy Scheme Government of India, Ministry of Micro, Small and Medium Enterprises has conveyed their approval for continuation of the Credit Linked Capital Subsidy Scheme (CLSS) for Technology Up gradation of Micro and Small Enterprises from X Plan to XI Plan (2007-12) subject to the following terms and conditions:

(i) Ceiling on the loan under the scheme is Rs. 1 Crore.
(ii) The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above.
(iii) Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

SIDBI and NABARD will continue to be implementing agencies of the scheme.

Procedural Aspects

1. All the eligible PLI (excluding the new nodal banks / agencies) will have to execute a General Agreement (GA) for availing capital subsidy under the scheme, irrespective of the fact whether refinance is availed by them or not.
2. The PLI may have the flexibility to execute the GA with either of the nodal agency or with both the nodal agencies for providing subsidy to the eligible beneficiaries under the scheme. However, in the latter case, while claiming the subsidy from one nodal agency, the PLIs will have to give the undertaking to the nodal agency that they have not claimed subsidy under CLCSS in respect of the beneficiary unit from the other nodal agency (as the case may be).

3. After sanction of the assistance, the eligible PLI will get an agreement executed with the concerned MSE unit on behalf of Government of India (GoI).
4. The eligible PLI would obtain application for assistance under the CLCSS in the prescribed form.
5. The eligible PLI shall furnish subsidy forecast on quarterly basis, through their Head Office (HO), which will act as a nodal office, to the Regional Office (RO)/Branch Office (BO) of the SIDBI or the NABARD (as the case may be) located in the region. The subsidy forecast information for every quarter on or before 1st March for April-June quarter, on or before 1st June for July - September quarter, on or before 1st September for October-December quarter and on or before 1st December for January-March quarter, may be furnished as per prescribed format.
6. The eligible PLI would release the subsidy amount with each instalment of loan in a manner proportionate to the amount of term loan disbursed (on pro- rata basis), subject to the ceiling of the term loan/ subsidy amount as per applicable guidelines of the CLCSS.
7. The eligible PLI shall furnish details of release of subsidy to the beneficiary units, together with the request for replenishing advance money placed with PLI for release of subsidy, on quarterly basis on March 1, June 1, September 1 and December 1. The requests of PLI for replenishment of advance money for subsidy, however, would be entertained by the nodal agencies only on receipt of complete details of subsidy released to the beneficiary units.
8. The eligible PLI shall be responsible for ensuring eligibility for sanction of subsidy to the SSI units in terms of Government of India guidelines under this scheme and also for disbursal and monitoring of the assisted units.

14. BANKING CODES AND STANDARD BOARD OF INDIA (BCSBI)

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

It provides protection to MSE and explains how banks are expected to deal with MSE for their day to day operations and in times of financial difficulty. The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions /directions issued by the RBI from time to time.

(a) Objectives of the BCSBI Code

The Code has been developed to

a. Give a positive thrust to the MSE sector by providing easy access to efficient banking services.
b. Promote good and fair banking practices by setting minimum standards in dealing with MSE.
c. Increase transparency so that a better understanding of what can reasonably expected of the services.
d. Improve understanding of business through effective communication.
e. Encourage market forces, through competition, to achieve higher

operating standards.

f. Promote a fair and cordial relationship between MSE and banks and also ensure timely and quick response to banking needs.

g. Foster confidence in the banking system.

The complete text of the Code is available at our website **(www.ubgb.in)**

15. CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

Our Bank is member of CGTMSE and the Bank will encourage financing viable micro and small enterprises for fund based and non fund based limits upto Rs.50 Lacs to 'eligible borrower' without 'collateral security' or third party guarantee by taking advantage of the Credit Guarantee Scheme of CGTMSE.

16. MONITORING OF MSE CREDIT

Branch Offices: Branch Managers would be responsible for close supervision / control of all borrowal accounts in their branch.

Regional Offices: The Regional Managers would be responsible for overall monitoring of borrowal accounts with limits / outstanding up to and inclusive of their powers as also other accounts sanctioned by HO falling within their Region.

Head office: Head Office is responsible for monitoring borrowal accounts with limits / outstanding in excess of Regional Manager's power.

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

17. IMPORTANT REMARKS

The loan policy for MSE sector will be applicable within the overall loan policy of the Bank and subject to guidelines/instructions of Regulatory Authorities/RBI/NABARD/Sponsor Bank/Government of India. Therefore, the policy will be amended with the approval of the Board whenever revised guidelines are received from the Regulatory Authorities.

Annexure-I

MINISTRY OF SMALL SCALE INDUSTRIES NOTIFICATION
New Delhi, the 5th October, 2006

1. S.O. 1722(E) – In exercise of the powers conferred by sub section (1) of 2006) herein referred to as the said Act, the Central Government specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in Section 7(1)(a) of the said Act, namely:

(i) equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
(ii) installation of plant and machinery;
(iii) research and development equipment and pollution controlled equipment
(iv) power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
(v) bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
(vi) procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or iniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
(vii) gas producers plants;
(viii) transportation charges (excluding sales tax or value added tax and excise duty) for indigenous machinery from the place of the manufacture to the site of the enterprise;
(ix) charges paid for technical know how for erection of plant and machinery;
(x) such storage tanks which store raw material and finished produces and are not linked with the manufacturing process; and
(xi) Firefighting equipment.

2. While calculating the investment in plant and machinery refer to paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second handed, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

(i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
(ii) Shipping charges;
(iii) Customs clearance charges; and
(iv) Sales tax or value added tax.

sd

(F.No.4(1)/2006 MSME Policy)
JAWHAR SIRCAR, Addl. Secy.

Annexure-II

Methodology for assessment of Working Capital Limits

Turnover Method:

Working capital requirements of the borrower under the Turnover method is computed on the basis of Projected Annual Turnover (PAT) / output value i.e. Gross Sales inclusive of excise duty. The total working capital funds requirements of the borrower is estimated at 25 percent of the projected turnover, of which at least four-fifth should be provided by bank and the balance one-fifth should be by way of promoter's contribution. While assessing the requirements of working capital under turnover method the following may be kept in view:

a) The projected annual turnover should be realistic and achievable. The reasonableness of PAT may be satisfied on the basis of annual statements of accounts or any other documents such as returns filed with Sales Tax / Revenue Authorities, orders on hand, industry growth, recent trend in sales etc.

b) The assessment of working capital credit limits should be done both as per projected turnover basis and traditional method. If the credit requirement based on production / processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned. On the other hand if the assessed credit requirement is lower than the one assessed on projected turnover basis, while the credit limit can be sanctioned at 20% of the projected turnover, actual drawals may be allowed on the basis of drawing power to be determined by the bank excluding unpaid stocks. In the case of commodities covered under Selective Credit Control Directives of Reserve Bank of India, the drawing power should be determined as indicated in the RBI directive.

(c) The working capital requirement to be assessed at 25% of the projected turnover is to be shared between the borrower and the bank viz. borrower contributing 5% of the turnover as NWC and bank providing finance at a minimum of 20% of the turnover. The above guidelines were framed assuming an average production / processing cycle of 3 months (i.e. Working capital would be turned over four times in a year). It is possible that certain industries may have a production cycle shorter / longer than 3 months. While in the case of a shorter cycle, the same principles could be applied as it is the intention to make available at least 20% of turnover by way of bank finance, in case the cycle is longer, it is expected that the borrower should bring in proportionately higher stake in relation to his requirement of bank finance. Going by the above principles at least $1/5^{th}$ of the Working Capital requirement should be brought in by way of NWC.

(d) Since the bank finance is only intended to support need-based requirement of a borrower if the available NWC is more than 5% of the turnover, the former should be reckoned for assessing the extent of bank finance.

(e) In arriving at drawing power, unpaid stocks are not to be financed as it would result in double financing. The drawing power should conform to margin stipulations of Reserve Bank of India issued from time to time in the case of Selective Credit Control commodities.

(f) In the case of traders while bank finance could be assessed at 20% of the projected turnover, the actual drawals should be allowed on the basis of drawing power to be determined after ensuring that unpaid stocks are excluded. In the case of Selective Credit Control commodities, the RBI directives should be strictly followed.

(g) The norms for inventory and receivables as prescribed under Tandon Committee as also first or second method of lending would not be applicable.

(h) The level of trade credit should be in tune with past practice. Where projected trade credit is lower than the past level, the same may be accepted provided the justification offered is convincing.

Traditional Method: (Modified MPBF System)

I) **Traders (Stockists)**

a) The credit requirements will be assessed on the basis of past indicators and future projections.
b) The current ratio should be minimum 1.10.
c) Subordinated debt / quasi-capital with usual declaration may be treated as part of capital employed.
d) In Trading account normally there will not be any long terms debts and therefore, TOL: TNW ratio to be considered. TOL:TNW ratio up to 4:1 shall be accepted,

II) **Modified MPBF System:**

The Tandon Committee Norms on holding levels of inventory and receivables have been dispensed with. Holding levels as per the past practice will continue to be basis under the modified system. While the projections should reasonably conform to the past trends, deviations can be accepted subject to satisfactory justification.

Diversion of Funds:

In case of borrowers with a current ratio above 1.40, the bank may permit investments that will facilitate improved profitability, tax savings, growth etc. provided such investments are planned and projected in financial statements furnished to the bank subject to the condition that the current ratio does not fall below 1.10. Where the current ratio falls below 1.10, suitable penalties for diversion of funds should be levied.

Cash Budget Method:

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

(i) The peak level of bank finance required during the course of the year.
(ii) The current level of bank finance required as forecasted by the split budge (on monthly/ quarterly) basis.

Appraisal:

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

(a) Maintenance of Current Ratio—desired level is 1.10
(b) The Debt : Equity Ratio (TOL:TNW) normally not to exceed 2:1
(c) Borrower / Group exposure to be within norms determined by the Bank internally, but within the Reserve of India parameters;
(d) The appraisal will also include assessment of the Company profile and Industry Profile;
(e) There has to be an evaluation of risks at the time of fixing lending limits and if felt expedient, the level of operations and cash budget projections will be pruned down by the bank at the time of discussions before finalizing credit limits.
(f) The disbursal of credit facilities will be by way of Loan and Cash Credit components as per stipulation of Loan Delivery System. Flexibility will be allowed in fixing maturity periods of the loans which can correspond to the quarterly budgets if the borrowers so choose. Once the maturity period is fixed, prepayment of the loan component, if required, shall be subject to RBI guidelines and also payment of a penalty upto 2% of the repaid loan amount for the unexpired period, as may be decided by sanctioning authority at his discretion.
(g) Credit facilities on preferential terms like export credit should be assessed and disbursed in terms of existing procedure. However, the total of such facilities and all other fund based facilities availed should be within the limits under the Cash Budget.