

## Financing to Micro Small & Medium Enterprises (MSEs)

### 1. Preamble/ Introduction:

The Micro Small and Medium Enterprise sector plays a paramount role in India's economy. They are major sources of entrepreneurial skills, innovations and employment. The Bank has assigned high importance to financing MSEs through products such as Loan Against Property, Wholesale business, Working Capital finance in its strategic growth plan. RBL Bank has initiated a focused approach to ensure flow of credit to the MSE sector. The Bank follows the broad guidelines issued under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

### 2. Objective:

- The product policies aims at improving flow of credit to MSEs sector through focused delivery models.
- The product policies aims to formulate competitive and affordable norms for lending to small businesses and to ensure availability of adequate and timely credit to the sector.
- The document addresses the credit needs of existing Small Business Loan clients and an efficient model for speedier and prompt credit decision.
- The policy ensures compliance with RBI guidelines received from time to time.

### 3. Definition:

An enterprise shall be classified as a micro or small enterprise on the basis of the following criteria:

- i. A micro enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore;
- ii. A small enterprise is an enterprise where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crore.

All enterprises are required to register online on Udyam Registration Portal and obtain 'Udyam Registration Certificate.

Further, such MSE's should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services or Trading activities. All bank loans to MSE's conforming to the above guidelines qualify for classification under priority sector lending.

### Bank's Structure to serve the MSE Sector in India

The Bank provides finance to the MSE sector in India through specific and dedicated branches / clusters as well as from all the branches across the country. The Bank has a strong professional team placed at these clusters to evaluate the borrowers' needs and provide customized solutions.

#### **4. Products and services:**

The Bank has created different products exclusively for the MSE sector. These are template products, which follow a simple scorecard model for rating, simple appraisal process, decentralized sanctioning powers, quick Turnaround Time (TAT) and offers wide range of facilities that include working capital, term loans & non fund based facilities. The Bank also provides traditional credit facilities like Cash credit/overdraft, Loan against Deposits/property, Bill discounting, Non fund based credit facilities, Export credit etc. to MSE borrowers through a few other templated products, as well as non-templated products.

#### **5. Processing of applications:**

The application form for credit facilities can be downloaded from our Bank's website and is also available free of cost with our branches.

- i. Each branch will issue an acknowledgement for loan application received from the prospective borrower.
- ii. A centralized register is maintained in the branches and online where details such as date of receipt of application, sanction/rejected with reasons etc. is maintained.
- iii. The applicant can find out the status of his application from the branch where he has tendered his application.
- iv. Loan application is available on Bank's website. This helps the customer to apply for the loan by taking the filled in application form to the nearest RBL Bank branch.

#### **6. Credit selection strategy:**

With a view to having a consistent and transparent credit selection process, the following main criteria are followed by the Bank:

- i. Acceptable internal/external rating.
- ii. Healthy financial performance of the entity.
- iii. Experience of the promoters.
- iv. Sustainable business model.
- v. Professionalism in management.
- vi. Satisfactory track record, integrity, corporate governance etc.

## **i. Loan Origination System & Lead tracker:**

The Bank monitors movement of each loan applications centrally through Loan Origination System and lead tracker. This captures the details of the leads generated; loans sanctioned or rejected, reasons for rejections in case of rejection of application, TAT for approval/rejection etc'

## **ii. Approval & Sanction:**

The appraisal process involves obtaining KYC of the applicant, evaluating the profile of the prospect based on business viability, past credit history, future potential, cash flows, unit visit, end use etc. The appraisals of these loans are done based on simple templates and personal discussion with the promoters. The process of loan sanction is decentralized for smaller loan amounts and centralized for larger amounts for faster processing.

## **iii. Interest Rate structure:**

The interest rate charged to a customer is decided based on a) Merit of the profile b) Availability of Security/ Guarantee cover (wherever applicable) c) Loan amount d) Availability of documented proof of income.

## **iv. Collection of required document:**

The Bank firmly believes that many of the target customers don't possess formal financial statements or documented proof of income. Therefore, the Bank doesn't ask for any documented proof of income like ITRs/Balance sheets for providing loans up to Rs.10 lakhs. While appraising these loans, enough caution is taken on verification of Kachcha bills, Sales register, cross verification with the suppliers. Banking transactions if available are also taken in to consideration for doing the cash-flow analysis.

## **v. Security:**

Both Unsecured and secured loans are offered for the small business customers. The credit facilities would be secured by primary and collateral security wherever applicable and as per the product policy of the Bank from time to time.

## **vi. Disbursement:**

The Bank disburses all sanctioned loans to MSEs within 2 working days after compliance with all the terms and conditions of sanction. Dedicated credit operations team at the central locations/Hubs ensure prompt disbursement of the facilities.

## **vii. Monitoring:**

Monitoring of the account would be as per the product policy of the Bank from time to time. These include periodical visits, stock verifications, audits etc. The Bank's Internal Audit Department conduct periodical audits for monitoring the portfolio.

## **viii. Implementation of Restructuring:**

Restructuring will be done strictly on merits and as per RBI guidelines. Bank has a Board approved policy on restructuring of accounts, including loans to MSEs. The units identified are monitored closely by Relationship Managers dealing with these accounts in order to understand reasons for the stress and to understand the feasibility of additional funding to the customer. The RBI guidelines on Rehabilitation

of Sick Micro & Small Enterprises have been communicated to all our officers in order to reiterate the need to identify potentially sick accounts at an early stage in order to take corrective action.

## **ix. Collection Policy:**

The Bank believes in fair practices with regard to collection of dues & repossession of security by fostering borrower confidence & long term relationship. Our policy ensures that there is no coercive practice followed while collecting the dues.

## **x. Management of NPAs:**

The following strategy shall be followed for NPA containment:

- i. Identify potential NPAs at the beginning of the Year / HY / Quarter on basis of feedback from the branches through account monitoring and regular follow ups.
- ii. Watch on the strengths and weaknesses of the relationships on a continuous basis.
- iii. If business is not generating enough surpluses to repay dues, the borrower is pursued to sell personal assets / borrower assets to bring down exposure.
- iv. Persuasion for regularisation of accounts is communicated verbally / through notices with guarantors also.
- v. When the accounts are classified into NPA, legal action is initiated speedily for early settlement on their accounts after exhausting the option of rehabilitation.

## **xi. Grievance handling mechanism:**

The Bank has a defined process in place to deal with customer complaints at various levels. Discussions are held with customers and formal replies are given in such cases. In addition, an escalation matrix up to the level of Principal Nodal Officer is available to refer any queries/ complaints to the appropriate officers. The Bank also has an online grievance recording system whereby any MSE borrower availing facilities can lodge his complaint on the Bank's website. Contact details of the concerned officials (postal address, telephone number and e-mail) are given and any complaint received is dealt with at the earliest. The bank also has a dedicated call-centre to handle the queries and redirect the borrower to the respective units for grievance redressal.

## **xii. Training of staff:**

Bank imparts training to credit analysts on a regular basis to upgrade their appraisal skills. The cluster sales managers are also imparted soft skills. Relationship officers handling MSE clients are also sensitized on the various schemes/products offered to MSEs. A calendar of training is drawn at the beginning of each year for the employees of different branches to attend the said programme.

## **Conclusion:**

The Bank adapts the MSE Credit policy (which is reviewed periodically) to ensure orderly growth of the MSE business. Branches and other officers involved in the process of offering MSE Loans are advised to adhere to the instructions and guidelines strictly for offering MSE loans.