

**UCO Bank
MSME Policy 2020-21
(Updated as on 02/05/20)**

Guidelines

1) PREAMBLE

Micro, Small and Medium Enterprise (MSME) sector has emerged as an important sector of the Indian economy, contributing significantly to employment generation, innovation, exports and inclusive growth of the economy. The MSMED Act, 2006, was enacted to provide enabling policy environment for promotion and development of the sector by way of defining MSMEs, putting in place a framework for developing and enhancing competitiveness of the MSME enterprises and ensuring flow of credit to the sector. However, in the changed circumstances, it is imperative that the thrust should be focused more on market facilitation and promoting ease of doing business for MSMEs.

(Ref: Report by Expert Committee on MSME, June 2019)

The Government has taken several measures to strengthen MSMEs.

Important Announcements for MSMEs in Union Budget 2020-21

- Budget has earmarked an all-time high allocation of Rs.7,572.20 Crore for the Ministry of Micro, Small and Medium Enterprises
- Prime Minister Employment Generation Programme to get an all-time high allocation of Rs.2,500 Crore
- Currently, businesses having turnover of more than Rs.1 Crore are required to get their books of accounts audited. In order to reduce compliance burden on small retailers, traders, shopkeepers who comprise the MSME sector, it is proposed to raise the turnover threshold for audit from the existing Rs.1 Crore to Rs.5 Crore. However, this increased limit shall apply only to those businesses which carry out less than 5% of their business transactions in cash
- An app-based invoice financing loans product will be launched to obviate the problem of delayed payments and consequential cash flow mismatches for the MSMEs
- Proposed to introduce a scheme to provide subordinate debt for MSME entrepreneurs
- Restructuring of MSMEs to be extended till 31/03/21 which RBI has permitted till 31/12/20 for accounts which were in default as on 01/01/20

MSMEs have found it difficult to make the most of technology. Trade Receivables electronic Discounting System (TReDS) has been initiated to serve as a web based platform for facilitating finance to MSMEs through multiple financiers at a competitive rate. Bank has tied-up with all three TReDS platforms i.e. RXIL, A.TReDS and Invoicemart. This move is expected to bring in more credit and make TReDS more usable and credible.

The Government has also started various flagship programmes which are mainly aimed at boosting MSMEs. Initiatives like Stand-Up India, to encourage participation of SC/ST and Women entrepreneurs and Make in India to promote indigenous industries were taken by the government.

The Government of India has been making concerted efforts for promotion and development of MSME sector which enabled MSE sector to grow at a higher pace than the overall industrial sector. To facilitate the development of this sector as also enhance their competitiveness, Government has enacted Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which is in force from 2nd October, 2006 and is a turning point for the development of Indian Industry, as it addresses and streamlines entire frame work along with key governance & operational issues being faced by SMEs. One of the major policy initiatives of the Government has been inclusion of MSME sector under priority sector lending. It has been done so because credit is one of the critical inputs for the sustained growth of MSME sector.

MSME sector has been receiving direct assistance from the commercial banks mostly for meeting working capital requirements.

| Enterprises | Manufacturing | Services |
|---------------|--|--|
| | Enterprises engaged in Manufacturing or production, processing or preservation of goods where: | Enterprises engaged in providing or rendering of services where |
| Micro | Investment in plant & machinery does not exceed Rs.25 Lacs | Investment in equipment does not exceed Rs.10 Lacs |
| Small | Investment in plant & machinery is more than Rs.25 Lacs but does not exceed Rs. 500 Lacs | Investment in equipment is more than Rs.10 Lacs but does not exceed Rs.200 Lacs |
| Medium | Investment in plant & machinery is more than Rs.500 Lacs but does not exceed Rs. 1000 Lacs | Investment in equipment is more than Rs.200 Lacs but does not exceed Rs.500 Lacs |

In terms of MSMED Act, 2006, MSME segment is broadly classified as under:

Note:

- Investment in plant and machinery is the original cost excluding land & building and the items specified by Ministry of MSME vide its notification no. S.O.1722 (E) dated **05/10/06**
- Investment in equipment is the original cost excluding land & building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006
- 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 & Machinery/equipments to be considered as advances extended to Micro Enterprises sector

(Ref: RBI Circular No. RBI/FIDD/2017-2018/56 dated 24/07/17 updated as on 25/04/18)

2) OBJECTIVES

MSME Policy 2020 is framed with following objectives:

- To describe MSME sector and its functional coverage
- To lay down guidelines for assessment of credit to MSME units
- To make available adequate and hassle-free credit facilities to MSME enterprises
- To achieve various growth parameters prescribed for MSME sector
- To comply with RBI/Government of India guidelines and instructions on MSME financing
- To give more thrust to Micro, Small and Medium Enterprises
- **To list out different products available for MSME**
- To adhere to the Code of Bank's Commitment to Micro and Small Enterprises, 2015

3) SCOPE OF POLICY

This Policy will form a part of Bank's Loan Policy Document **2019**, and amendments made thereof from time to time and will cover the following:

- Broad guidelines on lending to MSME Sector
- Identifying thrust Industries
- Composition of MSME Sector
- Pricing Policy
- Credit Rating
- Discretionary lending powers

4) DEFINITIONS**4.1 Micro (Manufacturing) Enterprises**

Enterprise engaged in manufacture/production or preservation of goods and whose investment in plant and machinery (original cost excluding land & building vide RBI Circular no. RBI/2015-16/74 dated 01.07.2015 (Point No. 1.1.1) does not exceed Rs. 25 Lacs, irrespective of the location of the unit

4.2 Small (Manufacturing) Enterprises

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 vide its notification No. S.O. 1722 (E) dated October 5, 2006) does not exceed Rs. 500 Lacs

4.3 Micro (Service) Enterprises

Enterprise engaged in providing/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 MSMED Act, 2006) does not exceed Rs.10 Lacs

4.4 Small (Service) Enterprises

Enterprise engaged in providing/rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other not directly related to the service rendered or as may be under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 does not exceed Rs. 200 Lacs

4.5 Medium (Manufacturing) Enterprises

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.500 Lacs but does not exceed Rs.1000 Lacs

4.6 Medium (Service) Enterprises:

Enterprise where the investment in equipment is more than Rs.200 Lacs but does not exceed Rs.500 Lacs

(Ref: RBI Circular No. RBI/2009-10/164 dated 18/09/09)

5) COMPOSITION OF MSE SECTOR

The MSME Sector includes Micro Enterprises, Small Enterprises, Medium Enterprises, Artisans & Village Industries, Service Sector units & Individual sub-sector units

[Ref: RBI Circular No. RBI/FIDD/2017-2018/56 dated 24.07.2017 updated as on 25.04.2018 Chapter-II (Point No.2.1)]

A. Manufacturing Enterprises i.e. subject to the definition in MSMED Act, 2006, manufacturing enterprises would mean enterprises engaged in the manufacture or

production of goods as specified below:

- i. A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs.25 Lacs;
- ii. A small enterprise is an enterprise where the investment in plant and machinery is more than Rs.25 Lacs but does not exceed Rs. 500 Lacs; and
- iii. A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.500 Lacs but does not exceed Rs. 1000 Lacs

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.SO. 1722(E) dated October 5, 2006

B. Service Enterprises i.e. 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) as specified below:

- i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 Lacs
- ii. A small enterprise is an enterprise where the investment in equipment is more than Rs.10 Lacs but does not exceed Rs. 200 Lacs; and
- iii. A medium enterprise is an enterprise where the investment in equipment is more than Rs.200 Lacs but does not exceed Rs.500 Lacs

In terms of Ministry of MSME, GoI, Office Memorandum (OM) F. No. 12(4)/2017-SME dated March 8, 2017, it is clarified that for ascertaining the investment in plant and machinery for classification of an enterprise as Micro, Small and Medium, the following documents could be relied upon:

- i. A copy of the invoice of the purchase of plant and machinery; or
- ii. Gross block for investment in plant and machinery as shown in the audited accounts; or
- iii. A certificate issued by a Chartered Accountant regarding purchase price of plant and machinery.

The above provision shall also be applicable to the enterprises engaged in rendering services.

C. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.50% prescribed for Micro Enterprises under Priority Sector.

D. Further, the Government of India, vide communication No. **5(6)/2/2009-MSME POL** dated **June 12, 2009**, has indicated the categorisation of activities under services under the Micro Small and Medium Enterprises Development (MSMED) Act, 2006 wherein loans granted by Banks in respect of following activities under Micro and Small (Service) Enterprises within the priority sector, provided such enterprises satisfy the definition of Micro and Small (Service) Enterprises in respect of 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) (i.e. not exceeding Rs.10 Lacs and Rs. 200 Lacs respectively).

- a) Consultancy Services including Management Services;
- b) Composite Broker Services in Risk & Insurance Management;
- c) Third Party Administration (TPA) Services for Medical Insurance Claims of Policy Holders;
- d) Seed Grading Services;
- e) Training-cum-Incubator Centre;
- f) Educational Institutions;
- g) Training Institutes;
- h) Retail Trade;
- i) Practice of Law, i.e. legal services;
- j) Trading in medical instruments (brand new);
- k) Placement & Management Consultancy Services; and
- l) Advertising agency and Training centres

E. TReDS (Trades Receivables electronic Discounting System)

- TReDS facilitates financing of invoices/bills of MSMEs drawn on Corporate buyers by way of discounting by financiers
- Receivables Exchange of India (RXIL), a joint-venture between National Stock Exchange and SIDBI, Invoicemart, a joint-venture between Axis Bank and Mjunction Services & Mynd Solution that runs M1xchange are the **3 TReDS platforms** that presently exist
- The Bank has tied-up with RXIL and is trading at RXIL platform with effect from February 2019
- Considering future business prospect under TReDS, Bank has tied-up with two more TReDS platforms i.e. M1xchange and Invoicemart on 14/11/19

F. Other Finance to MSMEs

- i. Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- ii. Loans to Co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- iii. Loans sanctioned by Banks to MFIs for on-lending to MSE sector as per the conditions specified in paragraph 19 of the above Master Directions.

- iv. Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence & catering to the non-farm entrepreneurial credit needs of individuals).
- v. In terms of revised guidelines issued by Department of Financial Services, Ministry of Finance dated September 24, 2018, Overdraft limit to Pradhan Mantri Jan Dhan Yojana (PMJDY) account holder enhanced to Rs. 10,000 age limit revised to 18-65 years from 18-60 years and there will not be any conditions attached for overdraft up to Rs. 2000. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.
- vi. Outstanding deposits with SIDBI and MUDRA Ltd. on account of Priority Sector shortfall.

[Ref: RBI Circular No. FIDD/2016-17/33 dated 07/07/2016 {updated as on 04/12/2018}]

G. To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the Priority Sector lending status up to three years after they grow out of the MSME category concerned.

6) TARGETS FOR MSME SECTOR

Advances to Micro, Small and Medium Enterprises (MSME) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40% of Adjusted Net Bank Credit (ANBC) or Credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, as per the extant guidelines on priority sector lending.

Domestic Commercial Banks and Foreign Banks with 20 branches and above are required to achieve a sub-target of 7.50% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises.

However, in terms of the recommendations of the Prime Minister's Task Force on MSEs, Banks are advised to achieve:

- i. 20% year-on-year growth in credit to micro and small enterprises;
 - ii. 10% annual growth in the number of micro enterprise accounts; and
 - iii. 60% of total lending to MSE sector as on preceding March 31st to Micro Enterprises.
- [Ref: RBI Circular No. RBI/FIDD/2017-2018/56 dated 24.07.2017 updated as on 25.04.2018 Chapter – III (Point No. 3.1 to 3.3)]

7) COMMON GUIDELINES/INSTRUCTIONS FOR LENDING TO MSME SECTOR

7.1 Processing of Applications

I. Loan Application

- Common Application for MSME Loan up to Rs. 200 Lacs*/As per Manual of

Instructions/MSME Scheme guidelines

- For loan above Rs.200 Lacs: As per Manual of Instructions/MSME Scheme guidelines

(*Ref : CHO/MSME/03/2017-18 dated 04/05/17)

II. Issue of Acknowledgement of Loan Applications

Each branch will issue an acknowledgement for loan applications received from the borrowers towards financing under this sector and maintain the record of the same.

III. Disposal of Applications (Timelines for Credit Decisions)

Bank is pursuing BCSBI guidelines regarding timelines for credit decisions. The timelines prescribed by BCSBI are as follows:

- All applications for a credit limit or enhancement in existing credit limit up to Rs.5 Lacs within two weeks;
- For credit limit above Rs.5 Lacs and up to Rs.25 Lacs within 3 weeks; and
- For credit limit above Rs.25 Lacs within 6 weeks from the date of receipt, provided the application is complete in all respects and is accompanied by all documents as per check list.

IV. Register of Receipt/Sanction/Rejection of Applications

- A register should be maintained at branch wherein the date of receipt, sanction/disbursement, rejection with reasons, should be recorded. The register should be made available to facilitate verification by the Bank's officials including Zonal Manager during visit to Branch.
- Branch Manager may reject application (except in respect of SC/ST & Psbloans. In case of proposals from SC/ST & Psbloans, rejection should be done at one step higher than Branch Manager.
- The reason for rejection will be communicated to the borrower in line with stipulation mentioned in the Fair Practice Lenders Code
- For walk-in Loan applicants a new Menu "CPTS" has been developed in Finacle for entering all type of loan applications, including MSME loan applications, submitted by existing/prospective customers at branch level
- Under CPTS Menu in Finacle minimum information of the walk-in Loan applicant is captured and a Unique Application ID is generated, which will be provided to the applicant. The loan application status will be downloaded from Finacle and uploaded to our website on the next day. This will enable the loan applicants, who have submitted their loan applications at branches, to track their loan applications status on our website

V) Common Appraisal Memorandum for MSMEs

- Loans above Rs 10 Lacs to Rs.100 Lacs
- Loans above Rs.100 Lacs to Rs.500 Lacs

(Ref: CHO/MSME/10/2019-20 dated 20/11/19)

7.2 Types of Loans

MSME 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 (excluding second hand), fixed assets, vehicles, Plant & machinery, purchase of land and construction of building thereof **purchase of Shop/Office for own Business** etc. There is no provision in the Policy for allowing term loan against purchase of second hand machinery

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

- Purchase of raw material, components, stores and maintenance of stock of these items at minimum level and stock in process and finished goods.
- Finance against receivables including receipted challans/ invoices.
- 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) Letter of Credit on sign/usance basis for purchase of raw material/capital goods.

f) Bank Guarantee for performance, advance payment, Tender Money, Security Deposit, Guarantees for getting orders, for procurement of raw materials etc.

7.3 Margin

Term Loan: 25% (minimum)

Working Capital:

MSME Borrowers: 6% of the projected annual sales

MSME Borrowers transacting digitally: 7.50% of the projected annual sales

(Ref: Loan Policy Document 2019 and amendments thereof from time to time)

7.4 Rules Relating to Takeover of Accounts

- While taking over of borrowal accounts from other bank/ financial institution, entire liabilities in respect of both fund based and non-fund based facilities enjoyed by the concerned borrower should be taken over
- Credit information should be obtained from the transferor bank
- Standard accounts with internal credit rating of UCO 4 and above under priority sector will be eligible for takeover from other banks/financial institutions
- If the account under takeover is eligible for External Rating, the same should be minimum BBB or equivalent
- Business of the borrower/borrowing company or firm should have run at least for two years
- Statement of Account at least for the last one year should be obtained directly from the existing banker and the account should depict satisfactory conduct
- The account to be taken over should not have been re-phased/rescheduled/restructured in the preceding 2 years
- All accounts proposed under MSME to be taken over from other banks/financial institutions are to be cleared by the New Business Committee at appropriate levels
- Any deviation/relaxation in the norms in case of priority sector advances may be allowed as per internal guidelines
- In case of accounts where credit rating is not required as per credit rating policy of the bank, acceptability of the proposals will be based on the scoring under score card model

[Ref: Loan Policy Document 2019 (Point 5.8 D, Page No.50-51) and amendments thereof from time to time]

7.5 The category-wise maximum extent of cover under CGTMSE is as under

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.

However, w.e.f. 01.04.2018, CGTMSE has introduced a new “**Hybrid Security**” product allowing guarantee cover for the portion of credit facility not covered by collateral security. In the partial collateral security model, the Bank has been allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of Rs.200 Lacs, can be covered under Credit Guarantee Scheme of CGTMSE. **CGTMSE will, however, have pari-passu charge** on the primary security as well as on the collateral security provided by the borrower for the credit facility.

In partial modification of the above guidelines, CGTMSE vide its Circular No. 154/2018-19 dated 4th October, 2018 has decided that CGTMSE will have a **notional second charge**

on the collateral securities instead of pari-passu charge.

(Ref: CHO/MSME/19/2017-18 dated 15-03-2018 and HO/MSME/19/2018-19 dated 23.10.2018)

Maximum extent of cover under CGTMSE is as under:

| Category | Maximum extent of Guarantee whose credit facility is | | |
|---|--|---|--|
| | Upto Rs.5 Lacs | Above Rs. 5 Lacs up to Rs.50 Lacs | Above Rs.50 Lacs up to Rs.200 Lacs |
| Micro Enterprises | 85% of amount in default subject to maximum of Rs. 4.25 Lacs | 75% of the amount in default subject to a maximum of Rs. 37.50 Lacs | 75% of amount in default subject to a maximum of Rs.150 Lacs |
| Women Entrepreneurs/ Units located in North Eastern Region (incl. Sikkim) (other than credit facility up to Rs. 5 Lacs to micro enterprises) | 80% of the amount in default subject to a maximum of Rs. 40 Lacs | | 75% of amount in default subject to a maximum of Rs.150 Lacs |
| MSE Retail Trade (up to Rs.100 Lacs*) | 50% of the amount in default subject to a maximum of Rs.50 Lacs | | |
| All other eligible category of borrowers | 75% of amount in default subject to a maximum of Rs.150 Lacs | | |

(Ref: CGTMSE Master Circular no. 1/2018-19 dated 21/08/18)

- The **current investment grade** rating: All MSME units applying for credit facilities above Rs. 50 Lacs under CGTMSE should have an internal rating of UCO 5 or above
- For guarantee coverage under Credit Guarantee Fund for Micro Units (CGFMU), be guided by GOI Notification SI93 dated 18th April, 2016 or any amendments thereof from time to time
- For guarantee coverage under Credit Guarantee Fund for Stand Up India (CGSSI), be guided by GOI Notification S.O.1499 (E) dated 25th April, 2016 or any amendments thereof from time to time

(*Ref: CGTMSE Circular no.157/2018-19 dated 31/10/18)

7.6 Collateral Free Loans

- Banks are mandated not to accept collateral security in case of loans up to **Rs.10 Lacs** extended to units in the MSE sector
- Banks are also advised to extend collateral-free loans up to **Rs.10 Lacs** to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC
- Banks may, on the basis of good track record and financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to **Rs.25 Lacs** (with the approval of the appropriate authority)
- Banks are advised to strongly encourage their branch level functionaries to avail of the Credit Guarantee Scheme cover, including making performance in this regard a criterion in the evaluation of their field staff

[Ref: RBI Circular No. RBI/FIDD/2017-2018/56 dated 24.07.2017 updated as on 25.04.2018 Chapter-IV (Point No. 4.2)]

7.7 Composite Loans

A Composite Loan limit of **Rs.100 Lacs** can be sanctioned by Banks to enable the MSE entrepreneurs to avail of their working capital and Term Loan requirement through single window system.

[Ref: RBI Circular No. RBI/FIDD/2017-2018/56 dated 24.07.2017 updated as on 25.04.2018 Chapter – IV (Point No. 4.3)]

7.8 Credit Rating

Considering the feedback received from Field Level functionaries, it has been decided that financing loan up to **Rs. 100 Lacs** shall not be subject to internal credit rating.

- a)** For aggregate exposure above **Rs. 100 Lacs**, the rate of Interest is decided as per credit Rating. The credit rating module of our Bank for MSMEs will be as per Loan Policy document of our Bank.
- b)** Rating from outside rating Agencies

Our Bank has entered into MOU with SMERA, Fitch Ratings India (P) Ltd., CARE, CRISIL, Brickwork Ratings, Informerics and ICRA Limited for getting the SME borrowers rated by them.

The National Small Industries Corporation (NSIC) has been appointed as Nodal

Agency which provides subsidy to the units obtaining credit rating from any of the empanelled agencies to the Micro and Small Enterprises (manufacturing sector, i.e. earlier SSI units)

The Credit rating awarded by Rating Agencies under NSIC Subsidy Scheme is conclusive for borrower as well as lender.

c) Takeover of Accounts: As per Point 7.4

7.9 Pricing

Risk of default in the MSME sector is spread amongst a wide base of borrowers and therefore the pricing.

a) Would not be linked to credit rating up to certain limit, presently up to Rs. 100 Lacs.

b) Would be linked to credit rating of the constituent for credit limit above Rs.100 Lacs.

Also keeping in view RBI directives from time to time.

7.10 Penal Interest

Upto Rs. 25000 – NIL

Limit above Rs. 25000 – Penal interest @ 2% to be charged for the period of default in repayment, non-submission of financial statements, non-compliance of terms and conditions etc. as per extant guidelines of the Bank

The aggregate penal/additional interest should not exceed 2 per cent over and above the rate of interest applicable/charged to the borrowers

[Ref: Bank's Loan Policy Document 2019, Chapter 6, Point 6.9, Page No.60 and amendment thereof from time to time]

8) Processing Charges for MSME

| Amount of Advance | Processing Charges* for advances other than Term Loan & DPG | Processing Charges* for Term Loan & DPG |
|--------------------------------|---|---|
| Fresh Sanctions | | |
| Up to Rs. 25000 | Nil | Nil |
| Above Rs. 25000 to Rs. 5 Lacs | Nil | Nil |
| Above Rs. 5 Lacs | Rs. 350 per Lacs (Minimum Rs.350) | 1% of sanctioned limit |
| Renewal/Review of limit | | |
| Up to Rs. 25000 | Nil | Nil |

| | | |
|-----------------|---------------------------------------|--|
| Above Rs. 25000 | Rs. 350 per Lacs (Minimum Rs. 350) | Rs. 120 per Lacs (Minimum Rs.250 and Maximum Rs.55000) |
|-----------------|---------------------------------------|--|

* The above charges are excluding GST.

*All other charges like Documentation, Inspection, Commitment Charges, etc. to be levied as per Bank's extant guidelines

(Ref. Circular no. CHO/MSME/04/2018-19 dated 15.05.18 and CHO/MSME/01/2019-20 dated 17.04.19)

However, under **Pradhan Mantri Mudra Yojana (PMMY)**, launched on April 08, 2015 to 'fund the unfunded', Bank extend credit to non-farm enterprises engaged in manufacturing, trading and service activities whose credit needs are up to Rs. 10 Lacs, following concessions in processing charges are allowed:

Processing charges for MUDRA Loan under PMMY

| Amount of Advance | Processing Charges |
|---|--------------------|
| Shishu Up to Rs. 50,000 | Nil |
| Kishore Above Rs. 50,000 up to Rs. 5 Lacs | Nil |
| Tarun Above Rs. 5 Lacs up to Rs. 10 Lacs | Rs. 357 per Lac |

*All other charges like Documentation, Inspection, Commitment charges, etc. to be levied as per Bank's extant guidelines

(Ref. Circular no. CHO/MSME/04/2018-19 dated 15.05.18 and CHO/MSME/01/2019-20 dated 17.04.19)

9) Methodology for calculation of Bank Finance

9.1 Term Loan

| SN | Particulars |
|-----|--|
| I | In case of term loan, Debt Equity Ratio (DER) should not normally be above 3:1. |
| II | However, in case of capital intensive industries, the same may be considered 5:1 |
| III | In case of Term Loan, minimum Average DSCR of 1.50: 1 will be considered as reasonable requirement for any new connection. |
| IV | Relaxation may however be considered on merit of the case by competent authority as per prevalent Loan Policy Document. |
| V | Moratorium period depending on requirement of the project/proposal will be considered. |

Above Rs. 5 Crore (Both Cash credit and Term Loan) for Textile, Engineering, Services,

Retail Trade, Professionals and Manufacturing:

| Industry | Current Ratio | Interest Coverage Ratio | DSCR | Security Coverage Ratio | TOL/TNW |
|---------------|------------------|-------------------------|---------------|-------------------------|---------------|
| Textile | 1.10:1 to 2:1 | 1.10:1 to 4:1 | 1.30:1 to 2:1 | 1.05:1 to 2:1 | 1.50:1 to 5:1 |
| Engineering | 1.10:1 to 2.50:1 | 1.15:1 to 4:1 | 1.25:1 to 3:1 | 1.20:1 to 2.50 | 1.50:1 to 4:1 |
| Services | | 1.20:1 to 2:1 | 1.20:1 to 2:1 | 1.05:1 to 2:1 | 1.50:1 to 5:1 |
| Retail Trade | | | | | 1.50:1 to 4:1 |
| Professional | | | | | 1.50:1 to 4:1 |
| Manufacturing | 1.10:1 to 2:1 | 1.10:1 to 5:1 | 1.20:1 to 5:1 | | |

(Ref: CHO/RM/42/2019-20 dated 12/02/20)

9.2 APPRAISAL OF TERM LOAN PROPOSALS

A. Term Loan

- Is loan repayable in instalments along with interest
- Is provided for a specific purpose/project, where investment is fixed in nature
- Is repayable in not less than 12 months
- Is granted for both industrial & non-industrial purposes
- Is normally extended for acquisition of land & building, machinery and purchase of vehicles, equipment and also in the form of risk capital assistance etc

B. Documents to be obtained:

Along with application, project report and projected balance sheets for the entire repayment period are to be obtained in case of new units/projects.

- No financial statements need to be insisted upon from non-corporate priority sector advances of aggregate limits up to Rs. 25000 provided the borrower is not otherwise bound by any statute/regulation
- In all other cases, financial statements are to be insisted upon

C. Following are the provisions regarding audit of financial statements submitted:

- Audited financial statements need not be insisted in case of finance to non-corporate borrowers (both existing and new), except in the case of such entities where submission of Audited Financial Statements is mandatory as per statute, for sanction/renewal/enhancement of aggregate credit limits up to Rs.20 Lacs (FB/NFB including Tls & DPGs). However in such cases, unaudited financial statements are to be obtained
- Where the audit of account is mandatory by virtue of existing statute/law in force, in such cases audited financial statements are to be obtained irrespective of the

amount of aggregate credit facilities

- In case of corporate borrowers, audit of the accounts is mandatory and therefore audited financial statements should be insisted irrespective of nature/quantum of credit facilities
- Financial statements are to be obtained for the preceding 3 years in case of existing units
- Financial statements submitted should not be more than 6 months old at the time of submission of proposal for fresh limits as otherwise provisional financial statements of the latest date are to be obtained
- Projected cash flow & funds flow statements to be insisted covering the period of repayment. For loans up to Rs. 5 Lacs, the same need not be insisted upon, provided the sanctioning authority is satisfied

D. Others

- Proof of Identity of Company, Proprietor, Partner, Director or Guarantor.
- Copy of PAN Card (for generating CIBIL/CRIF) for Proprietor, Partners, Directors, Firms, Guarantors, Companies, etc
- Proof of Residence of Proprietor, Partner or Director
- Proof of Business Address
- Udyog Aadhar Number
- GST Registration Certificate
- Profile of the Unit
- Rent agreement (If business premises is on rent)
- Project Report incorporating complete report on project right from stage of establishing to stage of marketing products. A copy of the project report to be obtained and studied
- Credit Monitoring Arrangement (CMA) data in the prescribed format where aggregate fund based working capital limit sought is Rs. 100 Lacs and above
- Copies of all required Licenses/Permits/Pollution control certificates in respect of establishing the unit, import of machinery etc. should be obtained
- Particulars of the assets standing in the name of the borrower/guarantor are to be obtained wherever applicable with clear details of the assets
- Latest GST returns of the unit to be obtained
- Income tax and wealth tax assessment orders of the unit and returns filed by the proprietor/partners/directors and/or guarantors are to be obtained
- For small borrowers under priority sector up to a limit of Rs. 25000 submission of Income Tax, Wealth Tax etc. need not be insisted upon
- No due certificate from PF Commissioner to be obtained wherever required
- Details of other statutory dues like Family Pension, Employees' State Insurance etc; if any have to be called for.
- Power sanction letter/Feasibility certificate from Electricity Board etc to be obtained wherever required

E. Broad parameters for considering Term Loan Proposal

- While taking up the large projects, the project shall conform to broad financial indicators as defined in the Loan Policy Document.

F. Transport operators

- In case of loans for acquiring and operating Heavy Commercial vehicles/Light Commercial Vehicles, an independent appraisal shall be carried out and repayment capacity will be established with reference to satisfactory DSCR and Financial viability from the net revenues

Assessment of Working Capital Limits

In regard to assessment of working capital needs, Reserve Bank of India in April 1997 had withdrawn the prescription based on the concept of Maximum Permissible Bank Finance. Banks are now free to evolve, with the approval of their Board, methods for assessing the working capital requirements of borrowers, within the prudential guidelines and exposure norms prescribed. Banks, however, have to take into account Reserve Bank's instructions relating to directed credit (such as priority sector, export, etc.) quantitative limits on lending (such as against shares) and prohibition of/restriction on credit (such as bridge finance) while formulating their lending policies.

With the above liberalization, all the instructions relating to MPBF issued by RBI from time to time stand withdrawn. The operational instructions of RBI which are no longer mandatory but will continue to be followed by the Bank for ensuring credit discipline (with certain modifications) have been incorporated.

Method of assessment

As per Bank's Loan Policy Document 2019 and amendment thereof from time to time:

1. Projected Turnover Method (Limits up to Rs.500 Lacs)

Category of borrower: Industrial and trade segments

- For working capital limits below Rs.200 Lacs from the banking system, turnover method for all industrial and other borrowers {excluding village/tiny and other MSE units (new as well as existing)} would be adopted
- The turnover method will also be applicable for assessment of credit requirements of all MSE units (new as well as existing) whose fund based working capital limits are up to Rs.500 Lacs from the banking system and will be computed

on the basis of a minimum of **25%** of their acceptable projected annual turnover for new as well as existing units

- MSME Borrowers transacting digitally - The working capital limits sanctioned to MSME units that transact digitally with their customers shall be assessed at minimum **30%** of projected annual sales.

2. Permissible Bank Finance (PBF) Method (Limits above Rs. 500 Lacs)

Category of Borrower: Borrowers in trade/industry category whose working capital requirements is Rs.200 Lacs and above (Rs. 500 Lacs and above for MSE units)

The extant guidelines as per Loan Policy Document 2019 or amendment thereof from time to time will be followed.

3. Maximum Permissible Bank Finance Method (MPBF)

- The Bank will strictly follow the second method of lending for financing Leasing and Hire Purchase Companies and the existing policy guidelines framed by the Bank.

4. Cash Budget Method

- Assessment of working capital/ad-hoc requirement for the category of borrowers engaged in seasonal industries like Sugar, Tea, Software, Real Estate, Construction contracts etc be made on Cash Budget Method
- The system of assessment is to arrive at cash deficits at various intervals viz Monthly/quarterly/half yearly and to fix up suitable limits to cover the maximum deficit
- In case of tea and sugar industry because of historical background it has not been possible for the borrowers in this sector to maintain current ratio of 1.33:1. Nevertheless the advances are adequately secured by equitable mortgage of tea estate and therefore the current ratio may be accepted at minimum level of 1:1

(Reference: Loan Policy Document 2019 (Point 7.2.1, Page No.72-74) and amendments thereof from time to time)

9.3 The technical feasibility, the economic, financial, commercial viability, Managerial competence, environment viability and bank-ability of the proposal with reference to risk will be assessed.

9.4 Other benchmark financial ratios like Current Ratios, Tenure etc. will be in line with the Bank's Loan Policy.

10) Financing under cluster based approach

- I. The cluster based approach should be a thrust area
- II. The cluster financing approach reduces cost of transition to the entrepreneurs
- III. Zonal Office/branches will give due importance for financing of MSME sector through the identified Specialised Credit Delivery branches and Branches situated near to the clusters

11) Identifying Thrust Industries

Loans given to enterprises engaged in providing or rendering of services in general including the following:

1. Small Road and Water Transport Operators
2. Small Business
3. Professional & Self-employed persons and other service enterprises engaged in activities, viz
 - Consultancy Services including management services
 - Composite Broking Services in risk and insurance management
 - Third Party Administration (TPA) services for medical insurance claims of policy holders
 - Seed grading services
 - Training-cum-Incubator centre
 - Educational Institutions
 - Training Institutes
 - Retail Trade
 - Practice of Law i.e. legal services
 - Trading in medical instruments (brand new)
 - Advertising Agency and Training Centers, etc.
4. Sanitation Services (Hiring of Septic tank cleaner)
5. Clinical/Pathological Laboratories
6. Agri-clinic and agri-business.
7. Restaurant with Bar
8. Canteens
9. Hotels
10. Motel Industry
11. Photo copying Centres
12. Auto Repairs Services and Garages
13. Laundry and Dry cleaning
14. Tailoring

15. EDP institutes established by voluntary association/non-government organisation
16. Beauty Parlours and Creches
17. Renting of Agriculture Machinery (Harvesting), etc

12) Discretionary Authority

Bank's Loan Policy Document 2019 or as mentioned in individual MSME schemes: In case, the delegated power mentioned in individual scheme is more than the delegated power mentioned in Loan Policy Document **2019**, the delegated power will be governed by Loan Policy Document **2019** or as amended thereof from time to time

13) Repayment Schedule

Repayment schedule should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc and not in an "ad hoc" manner. The maximum door to door tenor should not exceed **108 months** excluding the moratorium period and should be justified based on cash flow and DSCR.

However, repayment tenure to be decided keeping in view the availability of guarantee coverage under CGTMSE/CGFMU/CGSSI on case to case basis.

In respect of composite loan the repayment schedule may be fixed for term loan component only as per availability of guarantee coverage under CGTMSE/CGFMU/CGSSI scheme

Moratorium period of 6 months to 1 year may be allowed taking into consideration the nature of the project and also commencement of commercial production.

14) Mode of Disbursement of Loan

The disbursement of the loan amount for Plant & Machinery, Equipment and other fixed assets will be made in favour of the supplier through Demand Draft/ Pay Order/NEFT/RTGS/SWIFT.

Branches will continue to ensure the end use verification on monthly/quarterly basis.

15) Monitoring

Policy directives for monitoring of accounts covering documentation, supervision and control over accounts, special watch/potential NPAs etc., are as per Credit Monitoring Policy 2018 of the Bank and any amendment thereof from time to time.

Wherever the lending to MSME sector is eligible to be covered under CGTMSE, it will be the responsibility of the respective branch head and the concerned officials at Zonal Office to ensure that the respective accounts are duly covered under CGTMSE and the Guarantee Fee and the Annual Service Fee is paid to CGTMSE in time.

The concerned department at Zonal Office should update information in CGTMSE portal on the basis of the NPA status available in system (Finacle) and there is no need to rely upon only on Branch for their letter on NPA status of account. The process of NPA

marking and claim lodgement in CGTMSE covered accounts must be done in time bound manner.

(Ref: HO/MSME/337/2019-20 dated 27/12/19)

The Retail Banking & MSME Department, Head Office will ensure proper implementation of this Policy in the Bank.

16) Problems of MSME units

Micro and small units are more prone to facing financial difficulties during their Life Cycle than large enterprises/corporate when the business conditions turn adverse. Absence of timely support at such a juncture could lead to the unit turning sick and many a time irreversibly. As such, role of banks in providing continuous support to viable MSMEs during such phases of transient financial difficulties assumes significance.

In view of the above RBI vide their letter No. RBI/2015-16/160 FIDD.MSE & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 has advised the Banks adopting an appropriate system of timely and adequate credit delivery to borrowers in the MSME segment within the broad prudential regulations of Reserve Bank of India by extending financial help to the viable/**stressed MSE borrowers** by way of adequate ad-hoc and standby limits which support the MSME units during adverse business conditions as also when their credit requirements go up.

RBI has further advised vide direction no. RBI/2019-20/160, DOR.No.BP.BC.34/21.04.048/2019-20 dated Feb 11, 2020 for restructuring of stressed accounts under MSME sector, without a downgrade in the asset classification as one-time measure up to 31/12/2020

(Ref: HO/ADV/35/2019-20 dated 12/02/20)

17.1) Standby Line of Credit for Working Capital

| SL | Parameter | Details |
|----|--------------|---|
| 1 | Product Type | Demand Loan |
| 2 | Purpose | To meet the temporary liquidity mismatch arising out of delayed realisation of receivables, receipts of GST Inputs Tax Credits (including for Exports) and other business requirements |
| 3 | Eligibility | <ul style="list-style-type: none"> • Existing MSME borrowers having Cash Credit limit up to Rs.500 Lacs • All MSME borrowers are eligible irrespective of Internal Rating • Existing Limit should be Standard/SMA-0/SMA-1 • For SLC purpose, DP on receivables permitted up to 360 days |
| 4 | Loan Amount | <ul style="list-style-type: none"> • 25% of the existing Working Capital limit (FBWC + NFBWC) with |

| | | |
|----|----------------------------------|---|
| | | <p>Maximum facility up to Rs.125 Lacs</p> <ul style="list-style-type: none"> • Prior permission to be taken from ZLCC for considering receivables beyond 90 days and up to 360 days |
| 5 | Disbursal and Repayment | <ul style="list-style-type: none"> • The borrower can avail the sanctioned amount in one go or in tranches • The entire loan under the scheme has to be repaid within the maximum period of 12 months from the date of disbursal or validity of sanction whichever is earlier • No prepayment charges |
| 6 | Margin | <ul style="list-style-type: none"> • For the proposed SLC for MSME margin will be NIL • While arriving at DP for regular limit, it is to be ensured that the DP has not been provided on the GST portion for extending DP for other facilities – Working Capital limits and ensure that there is no double financing |
| 7 | Interest Rate | <ul style="list-style-type: none"> • 0.50% above the sanctioned Cash Credit rate. ROI on existing Cash Credit limit should remain the same • Penal Interest as applicable |
| 8 | Security | Hypothecation of stocks and receivables. Extension of charge on the Primary Security/Collateral security |
| 9 | Processing/ Documentation Charge | Nil |
| 10 | Sanctioning Authority | Respective sanctioning authority as per their delegated lending power |
| 11 | Deviation | Deviation other than pricing and margin is vested with ZLCC |
| 12 | Due Diligence | Double financing to be avoided |

(Ref: CHO/MSME/14/2019-20 dated 06/01/20)

17.2) Review of Regular Working Capital Limits

At present, review/renewal of working capital limits is done at least once in a year based on audited financial statements. However, audited financial statements of MSME units would ordinarily be available with a time lag, post-closing of the financial year. In such cases and where bank is convinced that changes in the demand pattern of MSME borrowers require a mid-term review, Bank may undertake such mid-term reviews based on an assessment of sales performance of the MSMEs since last review without waiting for audited financial statements. However, such mid-term reviews shall be revalidated during the subsequent regular review based on audited financial statements

18) Review of the Scheme

In case any modifications/changes are warranted in this Policy, Managing Director & CEO and in his absence Executive Director will be the competent authority to approve the same after getting vetted by the Credit Risk Management Committee (CRMC) before its circulation among Bank Branches/Offices.

19) MSME Products

| SN | Product Name |
|----|--|
| 1 | Laghu Udyami Credit Card |
| 2 | UCO Udyog Bandhu |
| 3 | Swarozgar Credit Card Scheme |
| 4 | UCO Doctor |
| 5 | UCO Trader Scheme |
| 6 | UCO Roop Sangam |
| 7 | Artisan Credit Card |
| 8 | UCO General Credit Card Scheme |
| 9 | Prime Minister Employee Generation Programme (PMEGP) |
| 10 | PM Credit Scheme for Powerloom Weavers |
| 11 | UCO E- Rickshaw |
| 12 | UCO Bunker Rin Yojana |
| 13 | UCO CA Loan |
| 14 | Scheme for Providing Finance to the Rice Shellers |
| 15 | UCO Commercial Vehicle Scheme |
| 16 | UCO Vyapaar Samridhi Scheme |
| 17 | Standby Line of Credit |

20) Debt Service Coverage Ratio (DSCR)

PAT+ Depreciation+ Interest on Term Loan

Instalment on Term Loan+ Interest on Term Loan

Depreciation to be added back to PAT in order to calculate DSCR. The same will be applicable for all MSME Schemes

21) Co-origination of Loans

Bank has tied-up with Srei to offer Co-origination of loans for purchase of construction and mining, farm and medical equipments under a co-lending arrangement. iQuippo, a

Kanoria Foundation initiative, will facilitate sourcing of loans under this programme

22) Repo Rate

Bank has implemented Repo linked lending rate in case of MSE loans w.e.f. 01/10/19

In case of medium enterprises, Repo linked lending rate implemented w.e.f. 01/04/20

23) Interest Subvention to MSMEs

Bank has extended **Interest Subvention Scheme for Incremental credit to MSMEs, 2018** to all eligible MSMEs w.e.f. 02/11/18

The Bank will further extend interest subvention to all eligible MSMEs as per guidelines of RBI/GOI issued from time to time

Above all, in future the MSME Policy of the Bank will be guided by any changes that may take place as per latest guidelines of RBI/GOI/BCSBI or any other Government Agencies and extant guidelines of the Bank prevailing at that time.