

Policy on lending to MSME

1. Preamble

Micro, Small & Medium Enterprises (MSMEs) are the cornerstone of the Indian economy contributing significantly to the Gross Domestic Product (GDP) and to the exports of the country. Their growth promotes entrepreneurial development, innovation and diversification within the industrial sector, thereby strengthening the industrial base of the economy. This expansion has facilitated the production of a diverse range of products and services catering to both domestic and international markets.

MSMEs play a crucial role in generating significant employment opportunities at a lower cost of capital compared to large industries, making their impact on the economy highly substantial despite their small-scale investments. Besides, these enterprises also contribute to the industrialization of the rural and backward areas of the country. This in turn helps reduce regional imbalances and ensures a more equitable distribution of national income and wealth. For Banks, MSMEs constitute a critical segment as their formalization drives growth and unlocks significant opportunities for funding to the sector.

Therefore, to support growth within the MSME space, the Government of India (GoI) enacted the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006, which was notified on October 2, 2006. With the enactment of the 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. This Act addresses various issues affecting MSMEs and aims to enhance their competitiveness. This led to the inclusion of credit to MSMEs under the Priority Sector Lending (PSL) criteria as per Reserve Bank of India (RBI) guidelines.

The RBI mandates that every bank must have an MSME policy duly approved by the Board of Directors (BoD). Consequently, the bank has developed a dedicated MSME Policy document that standardizes the bank's approach towards lending to MSMEs and also act as a comprehensive reference document for all matters related to MSMEs.

Please refer to the Loan Policy updated as on August 2023, consolidating the instructions/guidelines issued regarding Lending to MSMEs by the GoI, MoMSME and RBI upto August 2023 under the heading titled '**MSME Policy**'. Attached is the revised MSME Policy titled '**Policy on Lending to MSME**' updated upto March 2025.

2. Objective

The objectives of the policy on lending to MSME are to:

- (i) Clearly define the scope and functional coverage of MSME
- (ii) Raise awareness among the branch-level and department-level functionaries about the sector's needs and relevant guidelines
- (iii) To outline detailed protocols for assessing creditworthiness and issuing loans to MSME units
- (iv) To make available adequate and hassle-free credit facilities to MSME enterprises

- (v) To outline the procedures adopted for the assessment of Government Sponsored Schemes applicable to MSMEs
- (vi) To adhere to the RBI/ GoI guidelines on lending to MSMEs.
- (vii) Pro-actively detect sick and viable units, so as to nurse them back to health through appropriate restructuring.

3. Scope

- (i) This policy extends to all credit-related exposures, including both fund-based and non-fund-based facilities, provided to all existing and new MSME customers of the bank
- (ii) It encompasses all credit-related matters such as, but not limited to, methods of credit assessment, margin norms, and security aspects etc.,
- (iii) It also includes the policy on identifying and rehabilitating sick and potentially viable MSME units
- (iv) The MSME Policy should be read in alignment with the Loan Policy. The other credit-related areas have not been covered in this MSME Policy in view of avoiding duplication as these aspects have been elaborately dealt with in the Loan Policy such as Financial Benchmark Ratios, Margin Requirements, Credit Tenor, Holiday Period and Exposure Norms

4. MSME: Definition, Classification and Process

4.1. Definition of MSME

In accordance with the provisions of the MSMED Act, 2006, MSMEs are defined as ***"Enterprises that are engaged in the manufacturing or production of goods OR those enterprises engaged in the providing or rendering of services"***.

4.2. Classification of MSME

The classification of MSME shall be in accordance with the extant regulations / instructions of RBI / Govt. of India issued from time to time.

The Ministry of MSME vide **Office Memorandum (OM) No. 5/2(2)/2021-E/P & G/Policy dated July 2, 2021**, read with RBI circular **RBI/ 2021-22/ 67 FIDD.MSME & NFS.BC.No.13/ 06.02.31/ 2021-22** has included '***Retail and Wholesale Trade as MSMEs for the limited purpose of Priority Sector Lending***' and are allowed to be registered on Udyam Registration Portal.

The certificate issued on Udyam Assist Portal (UAP) to Informal Micro Enterprises (IMEs) shall be treated on par with Udyam Registration Certificate. Such IMEs shall be treated as Micro Enterprises for the purpose of Priority Sector Lending classification.

4.3. Process for establishment of MSME

- (i) Any Individual/ Enterprise who intends to establish as an MSME enterprise is **mandatorily required** to file online for an e-certificate named '**Udyam**

Registration Certificate (URC) through the Udyam Registration Portal, based on a self-declaration with no mandatory requirement to upload documents, papers, certificates or proof.

- (ii) Upon registration, an enterprise will be assigned a permanent identity number to be known as '**Udyam Registration Number (URN)**'.
- (iii) The unique URN, as indicated in the URC, serves as the sole identifier for classifying a borrower as an MSME Borrower.

4.4. Additional Criteria about the registration process

- (i) There are no fees involved for the Udyam Registration Process. The bank's branch-level and department-level functionaries are advised to encourage borrowers for the registration process if the MSME criteria is fulfilled/satisfied.
- (ii) For a Proprietorship Concern, Partnership Firm or a Hindu Undivided Family (HUF), the Aadhar Number of the Proprietor, Managing Partner or Karta respectively is mandatory and the sole document required for the registration process.
- (iii) For a Company, Limited Liability Partnership (LLP), Cooperative Society, Society or a Trust, the organization or its authorized signatory shall provide its GSTIN and PAN along with its Aadhaar number.
- (iv) Having Permanent Account Number (PAN) and Goods and Services Identification Number (GSTIN) (As per applicability of CGST Act 2017 and as notified by the Ministry of MSME vide S.O. 1055(E) dated 05th March 2021) is required for Udyam Registration with effect from 01.04.2021 based on the constitution type as indicated above.
- (v) PAN & GSTIN linked details on investment and turnover of enterprises will be taken automatically from Government databases. Udyam's online system is fully integrated with the Income Tax and GSTIN systems.
- (vi) In case an individual/ enterprise is duly registered with Udyam and PAN, any deficiency of information for previous years when it did not have PAN shall be filled up on a self-declaration basis.
- (vii) Whoever intentionally misrepresents or attempts to suppress the self-declared facts and figures appearing in the Udyam Registration or updation process shall be liable to such a penalty as specified under section 27 of the Act.
- (viii) No individual/ enterprise shall file more than one Udyam Registration, provided that any number of activities including manufacturing or service, or both may be specified and added in one Udyam Registration.
- (ix) Individuals/ Enterprises with EM-II (Entrepreneurs Memorandum) or UAM (Udyog Aadhar Memorandum), or any registration under the ministry of MSME, must re-register with Udyam Registration portal starting from July 1, 2020. All enterprises registered until June 30, 2020, will remain valid until December 31, 2021 only.
- (x) The classification and re-classification of MSMEs are the statutory responsibilities of the GoI and Ministry of MSME as per the provisions of the MSMED Act, 2006.

4.5. Guidelines for the classification of an MSME

4.5.1. Composite criteria for investment and turnover for classification

- (i) A composite criteria of investment and turnover shall apply to the classification of an enterprise as micro, small or medium.

- (ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category, but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- (iii) All units with GSTIN listed against the same PAN shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values shall be considered for deciding the category as micro, small or medium enterprise.

4.5.2. Calculation of investment in plant and machinery or equipment

- (i) 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 MSME the following documents could be relied upon:
 - (a) A copy of the invoice of the purchase of plant and machinery; or
 - (b) Gross block for investment in plant and machinery as shown in the audited accounts; or
 - (c) A certificate issued by a Chartered Accountant regarding purchase price of plant and machinery.
- (ii) The online form for Udyam Registration captures depreciated cost as on 31st March of each year of the relevant previous year. Therefore, the value of plant and machinery or equipment for all enterprises shall mean the Written-Down Value (WDV) at the end of the financial year as defined in the IT Act and not cost of acquisition or original price.
- (iii) However, the cost of the following plant and machinery or equipment etc. would be excluded for computation of investment value.
 - (a) Installation cost of plant & machinery.
 - (b) Research & development and pollution control equipment.
 - (c) Power generation set and extra transformer installed by the enterprise as per the Regulations of the State Electricity Board.
 - (d) Bank charges and Service Charges paid to the National Small Industries Corporation or the State Small Industries Corporation.
 - (e) Procurement or Installation of cables, wiring bars and electrical control panels (not mounted on individual machines).
 - (f) Oil circuit breakers or miniature circuit breakers which are necessary to be used for providing electrical power to the plant and machinery or for safety measures.
 - (g) Gas producing plants.
 - (h) Transportation charges (other than sales tax or value-added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise).
 - (i) Charges paid for technical know-how for the erection of Plant and Machinery.
 - (j) Such storage tanks store raw materials and finished products and are not linked with the manufacturing process.
 - (k) Fire-fighting equipment.
 - (l) Such other items as may be specified, by notification from time to time.
- (iv) In the case of Service Enterprises, the original cost to exclude furniture, fittings and other items not directly related to the services rendered.

- (v) The cost of land and building should be excluded while computing the investments in plant and machinery or equipment for both Manufacturing & Service Industries.
- (vi) In the case of imported machinery/equipment, the following duty/charges/costs shall be included in calculating their value:
 - (a) Import Duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port).
 - (b) Shipping Charges; Customs Clearance charges.
 - (c) Sales Tax or Value-added Tax/GST.
- (vii) The expression 'plant and machinery or equipment' of the enterprise shall have the same meaning as assigned to the plant and machinery in the IT Rules 1962 framed under the IT Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings). The calculation of investment in plant and machinery or equipment shall be linked to the ITR of the previous year filed under the IT Act, 1961.
- (viii) In the case of a new enterprise, where no prior ITR is available, the investment shall be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st of March of the financial year in which it files its first ITR.
- (ix) The purchase (invoice) value of a plant and machinery or equipment, whether purchased firsthand or second hand, shall be considered excluding GST on a self-disclosure basis, if the enterprise is a new one without any ITR.
- (x) During registration by MSMEs in Udyam Registration Portal, data of Investment in Plant & Machinery and Turnover either gets auto filled/ fetched from the IT Department and GSTN (for those enterprises that have filed both), else, it is filed on a self-declaration basis (by those enterprises who are yet to file the IT & GST returns). The data which gets auto filled/ fetched from the IT Department and GSTN is the data which had been finalized by the above respective departments after rectification, wherever necessary, for the relevant financial year.

4.5.3. Calculation of Turnover

- i) Exports of goods or services or both shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
- ii) Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
- iii) The turnover related figures of such enterprises which do not have PAN will be considered on self-declaration basis for a period up to 31st March 2021 and thereafter, PAN and GSTIN shall be mandatory.

4.6. Guidelines for Re-classification of an MSME

- (i) In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration.
- (ii) In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the

financial year following the year in which such change took place. Other aspects relating to registration of enterprises, grievance redressal etc. are mentioned in the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

5. Priority Sector Lending (PSL) Classification

All the Bank's loans to existing and new MSME borrowers:

- (i) Involved in manufacturing, providing, or rendering services, as defined by investment in plant and machinery or equipment, and turnover under the MSMED Act, 2006; and
- (ii) Possessing an URC shall be eligible for categorization under the priority sector lending criteria without any credit cap.
- (iii) The BSR Code is the primary identifier for classifying MSME advances under the PSL category, following the validation of the URC and applicable NIC Code.
- (iv) The MSMED Act of 2006 states that if a person or company owns multiple businesses, those businesses cannot combine their investments to be classified as Micro, Small, or Medium Enterprises (MSMEs). Before this law, there was a rule that allowed businesses under the same owner to combine their investments for classification purposes, but that rule was officially canceled in 2009.
- (v) In cases where a single borrower is involved in multiple business activities, the classification of each business entity as an MSME will be determined according to the MSME classification criteria, which includes the mandatory possession of an URC. Furthermore, the classification under the Priority Sector Lending (PSL) will follow the eligibility criteria specific to each business entity, as outlined in the RBI's PSL Master Directions.
- (vi) Furthermore, credit facilities extended to individuals under retail lending, as part of a loan application for stakeholders, are not to be classified as MSME advances. However, eligibility for PSL classification may still be considered, based on the PSL Master Directions, in accordance with the relevant criteria.

6. Deployment Flow

- (i) For the purposes of classification of deployment flow in the case of MSME borrowers, the activity as identified against the borrower's NIC code in the URC shall be considered.
- (ii) The NIC Code is to be mapped to their respective BSR Codes which will be utilized for the purpose of classification of advances under priority sector lending.
- (iii) Bank loans to food and agro-processing units and real estate sectors shall form part of agriculture and commercial real estate respectively. However, these loans shall be eligible for priority sector lending criteria classification subject to compliance with RBIs Master Circular on Priority Sector Lending Guidelines.
- (iv) The Active/ Inactive status of the URC business is verified before classifying an advance under MSME and considering it for treatment under PSL.

7. Credit Thrust

Increased thrust shall be given for lending to Micro, Small & Medium Enterprises, particularly village and micro industries and other small-scale units. The bank shall keep a minimum exposure of 50% of net credit to MSMEs on the whole. Branches situated in urban & metropolitan centres will be advised to give more focus on Medium Enterprises.

8. Target/sub-target for lending to MSME

- (i) Our Bank's lending to the MSME sector shall be reckoned for computing performance under the overall priority sector target of 40% of Adjusted Net Bank Credit (ANBC) or Credit equivalent amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher.
- (ii) The Bank will aim to achieve lending to Micro Enterprises not less than 7.5% of ANBC or CEOBE whichever is higher. 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 under sub target of 7.50% prescribed for Micro Enterprises under priority sector.
- (iii) Further, in terms of the recommendations of the Prime Minister's Task Force on MSMEs, the Bank shall aim to achieve the following in respect of lending to MSEs:
 - (a) 20% year-on-year growth in credit to micro and small enterprises,
 - (b) 10% annual growth in the number of micro enterprise accounts and
 - (c) 60% of total lending to the MSE sector as on corresponding quarter of the previous year to Micro enterprises.

In addition to the statutory targets, the bank will establish and pursue various objectives in alignment with its annual credit plan to achieve overall business goals, thereby contributing to the growth of its Advances portfolio. Consequently, all efforts to comply with the directives should be executed in letter and spirit.

9. Structured Mechanism for Directing Credit

9.1 Thrust to MSME

Branches with scope for lending to MSMEs are encouraged to lend actively to MSMEs.

9.2 Digital Lending Platform

In alignment with the RBI's guidelines and recognizing the vital role of MSMEs in fostering comprehensive economic growth and enhancing the nation's GDP, the bank has initiated the development of a "**Digital Lending Platform (DLP)**" as of November 11, 2023. This platform is meticulously designed to streamline and enhance the credit allocation process, establishing a structured mechanism for effectively directing financial resources to the MSME sector. The DLP will serve as the exclusive primary channel for efficient credit delivery, ensuring a seamless experience for all stakeholders and facilitating timely decision-making throughout the entire customer lifecycle.

9.3 Digital Lending Journey

The DLP employs a sophisticated, multi-layered and scenario-based decision-making approach, as outlined below:

- (i) **Loan Application Submission:** Stakeholders can log loan proposals directly in the centralized DLP through a PAN Mandated Journey, streamlining application submission and management.

- (ii) **Credit Assessment:** The platform evaluates the borrower's creditworthiness by reviewing primarily four key documents: GST records, financial statements, bank statements, and income tax returns (ITR), as applicable. Based on these documents and the other specific credit assessment criteria, the system determines the borrower's loan eligibility and recommended credit limit.
- (iii) **Credit Risk Profiling:** To further assess the borrower's risk profile, other than Retail asset customer, the platform employs a risk rating methodology, resulting in a credit score referred to as the "**Chariot Rating.**" This score plays a crucial role in determining the borrower's risk profile. Besides, applicable rating models of ICRA or any other rating model as adopted from time to time shall also be used for internal risk rating of the borrowers.
- (iv) **Compliance with Credit Policy:** In addition to credit evaluation, the platform ensures adherence to the bank's credit policy norms by checking for deviations and gating parameters. Any policy variations are flagged for further review or outright rejection.

9.4 Types of Facilities

The bank is committed to meeting the financing needs of both existing and new customers across a wide spectrum of funding requests, encompassing both funded and non-funded financial facilities. The following outlines the product classifications available for access through our DLP:

- (a) **Funded Facilities:** Funded facilities refer to financial arrangements where a lender provides actual funds to a borrower. These facilities involve the immediate disbursement of money and create a financial obligation for the borrower to repay the principal amount along with any interest. Funded facilities are typically used for specific purposes, such as capital expenditures, working capital needs, or investment in projects. The types of facilities available for funding under this category include Cash Credit, Overdraft, Working Capital Term Loans, Demand Loans, Term Loans and Bill Discounting.
- (b) **Non-Funded Facilities:** Non-funded facilities are financial arrangements that do not involve the immediate provision of funds to the borrower. Instead, these facilities provide guarantees, support, or commitments from a lender, allowing the borrower to access credit or fulfil contractual obligations without the actual disbursement of cash. Non-funded facilities often serve to mitigate risk, facilitate transactions, or enhance the borrower's creditworthiness. The types of facilities available for funding under this category include Letter of Credit and Bank Guarantees.
- (c) **Government Schemes:**
 - The bank is committed to supporting all Central and State government initiatives/schemes like PMMY, UYEGP, PMEGP, PMFME, PMSVANIDHI, PMVISHWAKARMA, NEEDS, Stand Up India, Start Up India, SCLCSS and other schemes formulated by Government as applicable from time to time. Besides the bank encourages lending under the Credit Guarantee Fund Scheme for Micro and Small

Enterprises-both collateral free and with partial collateral (Hybrid), formulated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

- The bank will endeavour to support the sector in accordance with the guidelines of the Ministry of MSME (MoMSME), providing services to borrowers across India. The eligibility criteria and guidelines for the approval or rejection of credit proposals under these initiatives will adhere strictly to the established scheme parameters. Detailed guidelines for each government scheme will be provided, including specific provisions where the bank has been granted autonomy for decision-making. This ensures clarity in the application process for borrowers. Furthermore, the bank has implemented the interest subvention scheme aimed at promoting incremental credit to eligible MSMEs. This interest subvention will be available in accordance with the regulations set forth by the RBI and the GOI, which are updated periodically to reflect current economic conditions and policy objectives.

(d) Co-lending:

Policy is annexed separately (Annexure – P to Loan Policy).

9.5 Takeover of asset-based accounts

Apart from credit acquisition, the bank shall consider takeover of asset-based accounts from other banks or financial institutions (FIs) if found eligible based on the Internal Advances Circular titled "Take-Over of Credit Limits from Other Bank/s Financial Institutions – System & Procedures dated 20.11.2014" read with the conditions pertaining to the Documentation Manual of the Bank.

9.6 Composite Loan Criteria

- (a) As specified in the RBI Master Direction titled "Lending to MSME Sector" (RBI/FIDD/2017-2018/56, Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18, as updated periodically), banks are authorized to sanction a composite loan limit of ₹1.00 crore for Micro and Small Enterprises (MSEs). This provision is designed to enable MSE entrepreneurs to meet their working capital and term loan requirements through a streamlined process known as the "Single Window."
- (b) In this context, the term "Single Window" refers to a simplified application process that allows borrowers to submit a single application for multiple funding needs, rather than separate applications for each loan type or limit. This approach facilitates faster access to credit and reduces the associated paperwork, ultimately enhancing the efficiency of the borrowing process.
- (c) While the ₹1.00 crore limit serves as a guideline for composite loans, the bank maintains the discretion to extend higher amounts based on the banks extant credit policy guidelines, the creditworthiness of the borrower, and the specific funding needs of the enterprise.

9.7 Alternative Financing for MSMEs

In accordance with RBI guidelines, the alternative financing options that fall under the MSME sector include credit for:

- (i) Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output 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 provided to MFIs for on-lending to MSME sector as per the conditions specified in the extant RBI Master Direction on 'Priority Sector Lending - Targets and Classification'.
- (iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- (v) Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, 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.
- (vii) Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME.
- (viii) Investments in Securitized Assets, transfer of pool of loan assets through direct assignments / outright purchases and investments in Inter Bank Participation Certificates (IBPCs) on risk sharing basis shall be eligible for classification under respective categories of priority sector provided the underlying assets are eligible to be categorized under the respective categories of priority sector as per RBI guidelines.
- (ix) The outstanding Priority Sector Lending Certificates (PSLC) bought by the bank will be eligible for classification under respective categories of priority sector provided the assets are originated by banks and are eligible to be classified as priority sector advances and fulfill the Reserve Bank of India guidelines on priority sector lending certificates.
- (x) To increase liquidity support for the MSME sector, factoring transactions taking place through TReDS (Trade Receivables Discounting System) shall be eligible for classification under priority sector.

10. Credit Assessment

With the changing environment and in order to strike a balance between innovation and lending practices the assessment of credit facilities processed through the DLP has been semi-automated upto a certain exposure based on pre-codified set of rules and conditions and based on the availability and applicability of documents to facilitate faster decision-making. Based on which the eligible amount for borrower requests will be calculated as follows:

- (i) Limits Requests with Overall CUB Exposure falling equal to and below Rs.7.50 Crores = Turnover Method as per recommendations of Nayak Committee
- (ii) Term Loans Requests with Overall CUB Exposure falling equal to and below Rs.7.50 Crores = Internal Projected Operational Cash Flow Based Method of Assessment.

Exceptions to the rule of system-based credit decisioning are outlined as follows:

- (i) All Government Scheme Credit Facilities
- (ii) All Non-Fund Based Credit Facilities
- (iii) All Credit Facilities with Overall Exposures falling above Rs.7.50 Crores
- (iv) All Credit Facilities where the assessment method requires a different method of assessment from Nayak Committee's Turnover Method of Assessment. Methods of Assessment falling under this category would be but not limited to Tandon Committees Ist & IInd Method, Cash Budget Method, Project Funding Method, surrogate methods like banking based assessment, GST based assessment etc. for such cases eligibility calculation will be based on manual processing of proposals.

The rationale behind the credit decisioning for all fund and non-fund-based credit facilities will be based on but not limited to the below criteria:

- (i) Sales Turnover
- (ii) Credit Summation in the Bank Account
- (iii) Completed, Current and Proposed Work Orders
- (iv) Installed Capacity vis-à-vis the projections
- (v) Operating cycle for the nature of business
- (vi) Creditworthiness and Repayment Capacity of the borrower and stakeholders involved
- (vii) Existing Credit Repayment History of the borrower and stakeholders
- (viii) Availability of Margin for the project and requested credit facilities
- (ix) Managerial competence of the promoters, Technical feasibility of the unit, Financial viability of the unit, Project Viability , Socio-Economic importance of the project, Availability of approvals from competent statutory authorities

The limit/ loan eligibility arrived at for the borrower either through the system or through manual processing will be a comprehensive decision based on the parameters mentioned above as applicable.

10.1 Classification of Securities

- (a) **Primary Security:** This refers to the assets or property directly financed by the bank's loan, providing the bank with a direct claim on the asset. This can be sold or liquidated to recover the loan amount in the event of a default.
- (b) **Collateral Security:** This includes additional assets or guarantees that the borrower pledges to support the primary loan, serving as an extra layer of protection and reducing the bank's risk, thus increasing the likelihood of loan recovery.
- (c) **Others:** These include, but are not limited to, any personal guarantees and CGTMSE covers obtained by the bank.

10.1.1 Regulatory Guidelines on Acceptance of Securities

As per extant RBI guidelines, MSE borrowers with limits/ loans up to Rs.10 lakhs must be sanctioned credit facilities without any collateral security. For Medium Enterprise Borrowers collateral security may be obtained irrespective of the loan amount. For customers with a good track record, this waiver of collateral security may be considered for limits up to Rs.25 lakhs. However, the issue of collateral security is addressed on a case-specific basis by the bank. In such cases, the bank may obtain the guarantee of CGTMSE as per the eligibility criteria and norms of the CGTMSE Scheme.

10.2. Time norms for disposal of MSE

The time norms applicable for the disposal of MSME loan applications in alignment with RBI's Master Direction on Lending to MSME Sector, BCSBI Code of Commitment to MSME and the bank's internal loan policy are as mentioned below:

Product Type	Proposed Exposures	Time Norms
Fresh/ Enhancement/ Adhoc/ Renewal of Working Capital and Term Loans as applicable	Upto Rs.25.00 Lakhs	14 Days
	Above Rs.25.00	6 Weeks

The time norms have been updated in the bank's website as well for informational purposes as per RBI Instruction.

10.3. Rejection of applications

Rejection of applications is normally done by the next higher authority. However, the ultimate power to reject any credit proposal lies with the MD & CEO of the Bank.

11. Pricing

In the current environment of fluctuating interest rates and increasing competition, adopting a dynamic pricing strategy has become crucial for banks seeking to enhance their portfolios with quality assets. Interest rates in the MSME sector are determined using a risk-based pricing methodology aimed at improving market penetration, broadening the client base, and providing field-level personnel with a competitive edge in securing new business.

Interest rates and associated charges will be consistent with the terms specified in the loan agreement, a copy of which will be provided to the borrower at the time of execution through a document mandated by the RBI known as the Key Fact Statement (KFS). Loans to MSMEs may be offered at either fixed or floating rates, with floating rates linked to the external benchmark adopted by the bank. For reference, the external benchmark, MCLR, and sector-specific interest rates will be available on the bank's website.

12. Service Charges

Applicable service charges for MSE customers will be levied as approved by board from time to time and updated on the bank's website periodically. Medium Enterprises will incur service charges regardless of the loan amount.

12.1 Pre-closure Charges

No pre-closure charges shall be levied for all floating rate loans to MSEs.

13. Support during Life Cycle

In order to provide timely financial support to MSEs facing financial difficulties during their

Life Cycle, the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers, especially during the need of funds in unforeseen circumstances shall be considered:

- (i) To extend standby credit facility in case of term loans.
- (ii) Additional working capital to meet with emergency needs of MSE units.
- (iii) Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSEs, every year based on the actual sales of the previous year.
- (iv) Branches/ Departments to explore fixing of sub-limits within the overall working capital limits sanctioned to large borrowers specifically for meeting the payment obligations arising out of purchased from MSMEs.

14. Credit Proposal Tracking System (CPTS)

In adherence to the RBIs guidelines to put in place a system of 'central registration' for loan applications, the bank has standardized and incorporated a common loan application form free of cost along with a checklist in the banks website for the purpose of submission of loan applications by customers and through the branch/ department level functionaries enabling the login of the loan application through the digital lending platform. This system ensures the following compliance norms as mandated by RBI:

- (a) All MSME applications received by the branch physically with required documents are captured by the digital lending platform acting as a centralized registration for all MSME loan applications.
- (b) The DLP automatically generates an acknowledgement of the application, having a unique application serial number.
- (c) On submission of the set of documents as per check list, the disposal time of the application is advised to the applicant, with banks right to demand additional documents/ information as deemed necessary. However, adherence to time norms prescribed by RBI and BCSBI is to be followed.
- (d) Upon completion of the credit appraisal process, the decision regarding sanction or rejection is communicated to the borrower via SMS and Email. Additionally, the customer is provided with the option of tracking the status of their application through the branch/ department level functionaries of the bank at various levels of credit delivery.

15. Financial Literacy and Consultancy Support

In accordance with the RBIs Master Direction on Lending to MSMEs, the imperative need for financial literacy and consultancy support to the MSME borrowers have been construed upon as vital for holistic growth of the borrower's business and the bank. To address this need, the bank has initiated and conducted various specialised training programmes to the stakeholders of the DLP involved in the process of lending to MSME in order to enable adequate guidance to the borrowers requesting credit facilities under the MSME category. This support helps MSMEs move away from high-cost, informal funding sources and into the formal financial system, enhancing their growth and stability and provide renewed thrust to MSME lending.

16. Debt Restructuring Mechanism

Policy is annexed separately (Annexure – E to Loan Policy).

17. Policy on Revival and Rehabilitation

Policy is annexed separately (Annexure – F to Loan Policy).

18. Banks Code of Commitment to MSEs

The Banking Codes and Standards Board of India (BCSBI) has established the Code of Bank's Commitment to MSEs to set minimum standards of banking practices for MSEs as defined by the MSMED Act, 2006. This Code aims to protect MSEs and ensure transparency, fairness, and timely processing of loan applications, while also fostering better communication and understanding between banks and MSEs. It promotes easy access to efficient banking services, encourages fair banking practices, and supports MSEs through mechanisms like the CGTMSE for collateral-free financing. While the Code is voluntary, banks are expected to comply with RBI regulations. The Code's objectives include boosting the MSE sector, enhancing market competition, fostering a positive relationship between MSEs and banks, and instilling confidence in the banking system. Additionally, the delayed payments rule addressed in the MSMED Act, 2006 has also been incorporated in the Code which addresses delayed payments to MSMEs, making buyers liable for a compounded fine if they fail to pay with 45 days of accepting goods or service at three times the RBI's Bank Rate compounded monthly. The BCSBI's Code of Commitment to MSEs was last revised in August 2015 and has been made publicly accessible via the bank's website and internal intranet. Furthermore, the bank is committed to ensuring that their lending practices to MSEs comply with both the guidelines outlined in the Code and the directives issued by the RBI.

19. Relaxation of Norms

The MD/ CEO of the bank is granted the authority to offer relaxation from any of the provisions outlined in the MSME policy, provided such relaxation remains within the limits and guidelines established by the MSMED Act, 2006, the MoMSME, the RBI, and any other relevant regulatory authorities.

20. Conclusion

The MSME policy will be revisited as and when deemed necessary with any changes requiring approval from the MD/CEO, following vetting by the Risk Management Committee. This policy will align with the latest guidelines from the RBI, GOI, and other regulatory authorities, and such changes will be implemented with Board approval. It will be revised at least once in three years or earlier, if deemed necessary to adapt to economic shifts and the bank's credit strategy for MSME customers. All regulatory directives will be automatically incorporated, and any modifications to MSME-related policies will be part of the overall MSME framework, with the bank's credit policy taking precedence in case of discrepancies. For transparency, the policy will be accessible on the bank's website.

The MSME policy should be read in conjunction with the guidelines set forth under the MSMED Act, 2006, the bank's internal policies, scheme guidelines published by the MoMSME, GoI notifications, and RBI Master Directions and Notifications related to MSME lending and general

credit lending. This comprehensive approach ensures holistic credit decision-making by the stakeholders of the DLP.