

## MSME & CGTMSE

### Bank's Policy on Financing to Micro, Small and Medium Enterprises (MSME)

#### DEFINITION:

The Micro Small and Medium Enterprises have been defined under MSME Development Act, 2006. For classification of manufacturing enterprises the criterion is original cost of investment in plant and machinery and in case of Service Enterprises the criterion is original cost of investment in equipments used by the enterprises. The Micro, Small and Medium Enterprises are defined as under:

Enterprise Engaged in	Micro Enterprise	Small Enterprise	Medium Enterprise
<b>MANUFACTURING ENTERPRISES</b> Criterion- Original cost of Investment in Plant & Machinery	Up to Rs.25 Lacs	Above Rs.25 Lac but below Rs.5 Crore	Above Rs. 5 Crore but below Rs.10 Crore
<b>SERVICE ENTERPRISES</b> Criterion- Original Cost of Investment in Equipments	Up to Rs.10 Lacs	Above Rs.10 Lac but below Rs.2 Crore	Above Rs. 2 Crore but below Rs.5 Crore

**CLASSIFICATION:** All loans to Micro, Small and Medium Enterprises under Manufacturing Enterprises will be classified under Priority Sector irrespective of limit sanctioned. The Loans to Micro and Small Enterprises under Service Sector up to Rs.5 Crore and Loans to Medium Enterprises under Service Sector up to Rs.10 Crore will be classified under Priority Sector Credit.

**RBI Target:** Minimum share of Micro Enterprises should be 7.50% of ANBC or CEOBE whichever is higher. This is to be achieved in phased manner i.e. 7.00% by 31.03.2016 and 7.50% by 31.03.2017.

#### SECURITY NORMS:

1. *Loans Up to Rs. 10 Lac:* No collateral or third party guarantee for loans up to Rs.10 Lac (for both manufacturing and service sector) irrespective of coverage under CGTMSE.
2. *Loans above Rs.10 Lac and Up to Rs.25 Lac:* The branch may sanction loan up to Rs.25 Lac without collateral / third party guarantee to borrowers having good track record with coverage under CGTMSE.
3. *Loans above Rs.25 Lac and up to Rs.100 Lac:* The loans above Rs.25 Lac and up to Rs.100 Lac may also be sanctioned without collateral security/third party guarantee after obtaining prior approval from the Zonal Office with CGTMSE coverage.
4. *Loans above Rs.100 Lac :* as per bank's guidelines

**Common Loan Application:** The simplified Common Loan Application is to be used for loan up to Rs.100 lac. The check list of documents to be submitted is also enclosed with this Common Loan Application.

**Disposal of Loan Application:** Loans up to Rs. 5 Lac are to be disposed of within 2 Weeks, Loans above Rs. 5 Lac and up to Rs.25 Lac within 4 weeks and Loans above Rs.25 lacs within 8 weeks.

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**Govt. Guidelines :** In terms of the recommendations of the Prime Minister's Task Force on MSMEs(Chairman Sh. TKA Nair) the Banks were advised to achieve a 20% year-on-year growth in credit and 10% growth in number of Loans to Micro Enterprises to ensure enhanced credit flow to this sector

### METHODOLOGY FOR ASSESSMENT OF WORKING CAPITAL LIMITS TO MSMEs:

METHODS	Manufacturing Sector	Service Sector
Turnover	Up to Rs.5.00 Cr	Up to Rs.2.00 Cr
MPBF (Second method)	Above Rs.5.00 Cr and below Rs.10.00Cr.	Above Rs.2.00 Cr and below Rs.10.00Cr.
Modified MPBF (Where Minimum 100% Collateral Security and Minimum Margin is 15%)	Above Rs.5.00 Cr to Rs.25.00Cr.	Above Rs.2.00 Cr to Rs.25.00 Cr.
Cash Budget Method	Rs.10.00 Cr. and Above	Rs.10.00 Cr. and Above

<b>Margin and Current Ratios</b>	<b>Margin</b>	<b>Current ratio</b>
Loans Up to Rs.25, 000	- Nil.	1.00
Above Rs.25, 000:		
Working Capital Loans (under Turnover Method)	20%	1.25
MPBF Method	25%	1.33
Modified MPBF Method	15%	1.17
Term Loans	25%	-
BG,	25%	-
LC	25%	-

(For Detail INSTRUCTION CIRCULAR No.13551/ MSME/ 2014-15/06 DATE: 11.02.2015)

## CREDIT GUARANTEE TRUST FOR MICRO & SMALL ENTERPRISES (CGTMSE)

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The CGTMSE provides guarantee cover for the credit facilities provided by member lending institutions (MLIs) to Micro and Small Enterprises (both manufacturing and service sectors) through its Credit Guarantee Scheme (CGS). Retail Credit Facilities and Loans to Medium Enterprises (both manufacturing and service sectors) are not covered under the scheme. The purpose of the scheme is to provide hassle free credit to Micro and Small Enterprises which are unable to provide collateral security/third party guarantee to the Bank by providing guarantee cover in these accounts to the Member Lending Institutions (Banks).

**ELIGIBILITY FOR COVERAGE UNDER THE SCHEME:** The scheme provides guarantee coverage of credit facilities up to Rs.100 lac if following conditions are fulfilled.

- a) Credit facility should be sanctioned without collateral security/ third party guarantee.
- b) At the time of covering the account, the borrower's account should not be under default.
- c) Borrower should avail credit from a Single Bank/Financial Institution (Single window approach).
- d) Lending should be in accordance with RBI guidelines on Priority sector Credit.
- e) Facilities which are covered under any other scheme like ECGC/DICGC will not be covered.
- f) The lock-in period for lodgment of claim will be 18 months after date of start of guarantee cover or date of final disbursement of term loan (if applicable), whichever is later.

**EXTENT OF GUARANTEE COVER:** The limit for the guarantee cover as percentage of principal outstanding on date of NPA or on date of filing the claim, whichever is lower.

Sl	Category of Loan Beneficiary & Size of Loan	Percentage	Amount	Maximum
1	Women Entrepreneurs and Enterprises in North Eastern State			
	Loan up to Rs.5 Lac ... ..	85%	4.25 Lac	
	Loan up to Rs. 50 Lacs... ..	80%	40.00 Lac	
	Loan above Rs.50 Lacs & up to Rs.100 Lacs	50%	25.00 Lac	50.00 Lac
2	Micro Enterprises			
	Loan up to Rs.5 Lac ... ..	85%	4.25 Lac	
	Loan up to Rs. 50 Lacs... ..	80%	40.00 Lac	
	Loan above Rs.50 Lacs & up to Rs.100 Lacs	50%	25.00 Lac	50.00 Lac
3	Other Enterprises			
	Loan up to Rs.5 Lac ... ..	85%	4.25 Lac	
	Loan up to Rs. 50 Lacs... ..	80%	40.00 Lac	
	Loan above Rs.50 Lacs & up to Rs.100 Lacs	50%	25.00 Lac	50.00 Lac

**Rate of Guarantee Fee:** The guarantee fee is payable annually. The amount payable annually is composite amount, bifurcation of Upfront Fee and Annual Fee done away with. The Rates for payment of Guarantee Fee are given below:

Credit Limit	Women Entrepreneurs and Enterprises in North Eastern State	Others
Up to Rs.5.00Lac	0.75% p.a.	1.00% p.a.

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Above Rs.5.00 Lac & Up to Rs.100.00 lac	0.85% p.a.	1.00% p.a.
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Payable within 30 days of approval of guarantee application by CGTMSE or from the date of first disbursement of term loan (if applicable), whichever is later. Annual Fee is to be paid within 31<sup>st</sup> May, every year. The premium in Fee, over Standard Rate mentioned above, on the basis of higher NPA level and Claim Payout ratios also payable. In case of ACC holder loans up to Rs.2 Lakh, the Guarantee Fees will be borne by the Development Commissioner, Handicrafts. If the guarantee cover is obtained in the mid of the year, proportionate annual charges will be paid for that year. If payment is not made within stipulated period, guarantee cover lapses.

**Procedure for covering an account under CGTMSE Scheme:**

- a. Sanction the loan without collateral and third party guarantee.
- b. Written request from the borrower to cover his loan account under CGTMSE guarantee to be obtained.
- c. An affidavit from the borrower that he/ she shall not create any charge on the primary security held in the account covered by the guarantee for the benefit of any other account.
- d. The authority from the borrower regarding deduction of upfront fee and annual charges from his account to be obtained.
- e. Submit the information required by CGTMSE in the prescribed form along with your recommendation to your Zonal Office.
- f. The Zonal Office will online submit the application to CGTMSE.
- g. CGTMSE takes a time of 24 hours to process the application. At the time of submitting the application, it generates a reference number, which is to be used for obtaining the Demand Advice Number (DAN), generated by CGTMSE after processing the application.
- h. The branch will send the amount as per DAN to its Zonal Office.
- i. The Zonal Office will then complete the process as per procedure.
- j. All the details will be kept in the document file and noted down in a register.

**Period of Guarantee Cover:** The guarantee cover will commence from the date of payment of guarantee fee and shall run through as under:

Term Loan & Composite Loans: Tenure of such loan.

Working Capital Loans: 5 years or additional block of five years, if guarantee cover got revived

**Invocation of Guarantee (Lodgement of Claim):** Following conditions must be fulfilled before lodgement of claim to the Trust.

- a) The Guarantee cover should be in force, i.e. up to date premium paid by the Bank (MLI)
- b) The lock-in period of 18 months from the date of last disbursement or date of payment of first guarantee fee, whichever is later must have been completed.
- c) The account has been classified as NPA as per RBI guidelines.
- d) Subsidy, if any, should have been adjusted before lodgement of claim.
- e) Recovery Suit filed or permission for waiver of legal permitted by the competent authority.

**Time Limit for lodgement of Claim:** If the account has become NPA within lock-in period, two years from the date of completion of lock-in period (18 months) and if the account has become NPA after lock-in period then two years from the date of NPA.

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**Quantum of Claim Amount:** The claim amount is paid in two parts. In first part the 75% of guaranteed amount is paid within 30 days from lodgement of claim, if claim is in order. The balance amount of 25% is paid on conclusion of recovery proceedings or three years from date of decree whichever is earlier. Delay in settlement of claim beyond above limit make the Trust liable to pay interest at BR.

**Sharing of Recovery:** Any amount recovered after settlement of the claim will be shared with the Trust in the same ratio in which claim was settled.