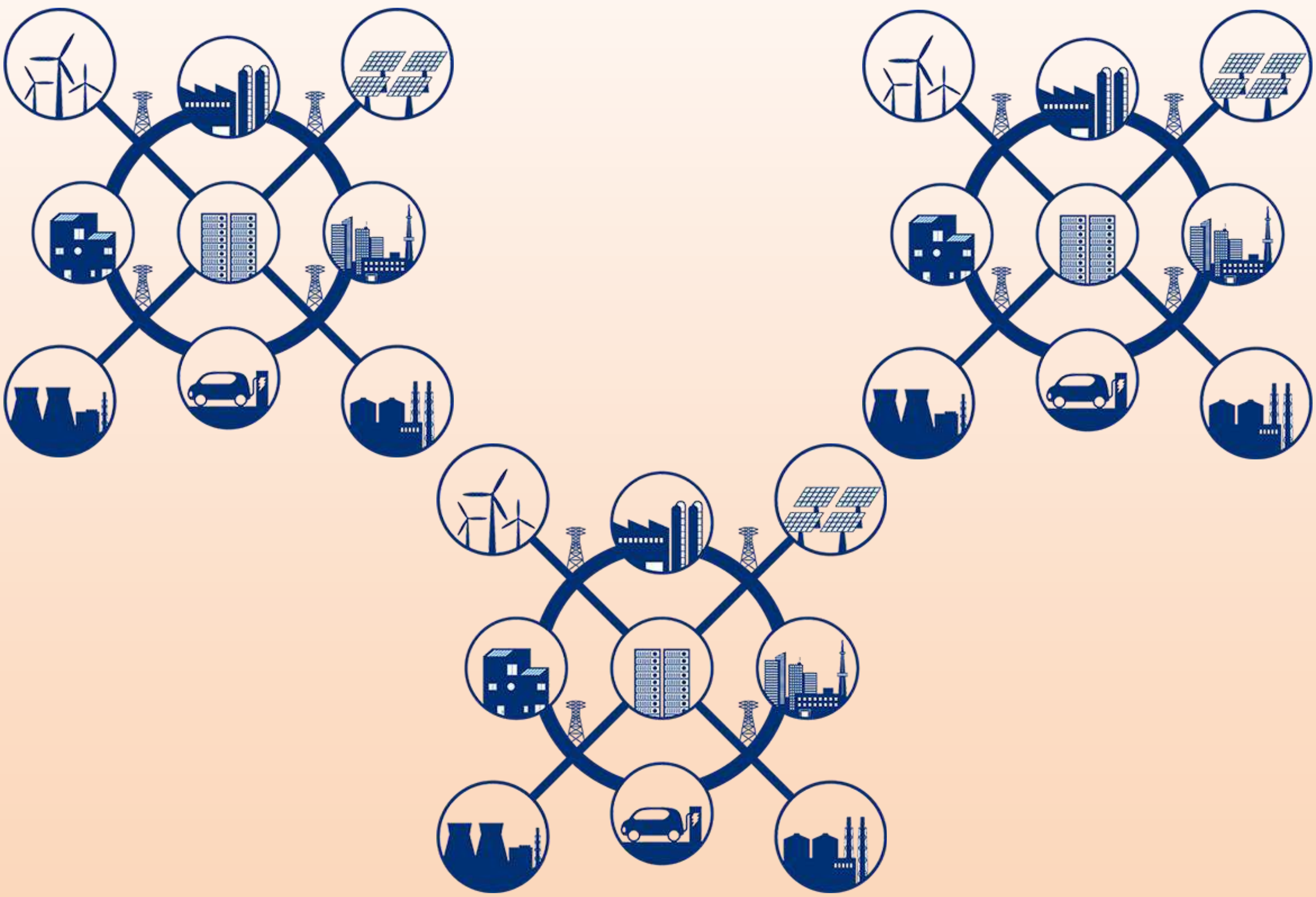
e-Book

Basics of Credit



Indian Bank Management Academy for Growth & Excellence

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Unit: 1

BASICS OFLENDING

Objective:

To make the learner understand and appreciate the basics of lending

Introduction:

Banks are formal financial institutions meant for accepting the public money as deposits for the purpose of lending and / or investments. The lending is the backbone of a banking activity and an important activity for bringing profits to a bank.

Traditionally Banks give loans for various economic activities like Agriculture, Industry, Trade, Export etc. Banks also give loans for personal purposes like Housing, Education, consumption etc. Banks earn profit by way of interest charged on loans. Banks earn non-interest income from borrowers like, commission, processing charges etc. The profit earned by banks is by way of difference in interest earned on loans and interest paid on deposits. This is called the spread for Banks. The profitability and health of a Bank depends on the spread and the profit earned. More the spread and profit more healthy a bank becomes. By providing loans to sectors like Agriculture, Industry etc Banks are financing the drivers of economy and help in growth of GDP (Gross Domestic Product) of the country which is a vital parameter of development measurement of any country.

<u>Classification of Lending:</u>

The lending of a bank can be categorized on different ways depending on the features

Priority Sector and Non Priority Sector (Sector Classification)

When loans are provided for developmental activities it is called priority sector. These are the sectors which the Govt. of India prioritizes as immediate need for the development of the society. (Eg.) Agriculture, Micro Small and Medium Enterprises (MSME), Education, Housing, small income generation activities called Micro Credit and various government sponsored schemes. Reserve Bank of India (RBI) from time to time fixes various targets under Priority Sector Segment for Banks, and the rules and regulations are stipulated by Government/RBI. Loans which do not form part of priority sector are classified as non priority loans. (Eg.) Consumption loans, Large industrial and trading activities, purchase of consumable durables, Loan against Government Securities or shares and purchase of vehicles for personal use etc.

Term Loan and Working Capital (Purpose Classification)

When a loan is sanctioned for the purpose of acquiring fixed assets like land & building, plant & machinery, furniture and fixtures etc. it is called a term loan. When a loan is given for meeting the day to day requirements of industry/trade like raw material, labor charges, electricity and transportation charges etc. such loans are called working capital loans. These are usually demand loans.

Demand Loans and Term Loans (Period Classification)

When a loan is payable on demand by the bank without installment facilities such loans are called demand loans. Eg. Loan on Deposits (LOD), Crop loans, Cash Credit, Temporary Overdraft (TOD), Overdraft (OD), Bills/Cheque purchase, and other short term loans. For such loans generally no installment payment is allowed and repayment is to be done within one year and in some cases in lump sum. Term loans are to be repaid over a period in installments. A medium Term Loan is to be repaid generally in 3-5 years and long term loans are paid in longer installments than this. There is freedom to repay in monthly, quarterly, half yearly or annual installments depending on the income generated out of the asset created. When the repayment is fixed adding together installment and interest monthly such system is called Equated Monthly Installments (EMI). Generally Home Loans, Vehicle Loans, Consumer Loans and Salary Loans are repaid in this manner.

Secured Loans and Unsecured Loans (Security Classification)

Usually Banks insist on securities for any loan. This can be either primary security or collateral security. The primary security is the asset created/purchased out of the loan. (Eg.) Car in case of a Car Loan, House Property in case of Housing Loan, Stock in case of a Trading Loan etc. Collateral security is additional security other than the assets created out of the loan. This is taken when the primary security is weak and the confidence level on the borrower is low, especially in larger advances, Examples are house property for a trade advance, Third party guarantee for a Educational Loan or additional Government Securities for a Vehicle Loan.

Production Purpose and Consumption Purpose (Purpose Classification)

When a loan is given for a productive activity that generates income for the borrower such loan is called productive purpose loan. Agriculture Loan, Trade Loan, Loan given to a doctor for putting up a clinic etc. come under this category. When a loan is given for purchase of consumable durables or other purpose where no income generation activity is carried out of the loan, such loans are called consumption purpose loans. Such loans are also important to the economy as it will enhance the standard of living of the people

Fund Based and Non Fund based (deployment of bank's funds)

Loan facilities which involve deployment of bank funds like working capital, home loan, bills purchased etc. are called fund based limits. Sometimes Banks extend facilities to borrowers which do not involve funds, which are called non fund based limits. (Eg.) Bank Guarantee and Letter of Credit (LC).

Corporate Credit and Retail Credit (Segment Classification)

When loans are given to large corporate entities like Limited Companies, for carrying out Business, Trade, Export etc. such loans are called Corporate Credit. Usually such loans will be large in quantum. The loans suffer the concentration risk. Personal segment loans like Housing, Vehicle, Education and loans given for small traders and MSME sector belong to the Retail Segment Credit. Risk is spread and the profit margin is high in such loans. But the operational cost will be comparatively bigger for such loans than corporate loans.

Features of Loan

Generally Loans and advances have the following eight features:

Target Group	Banks offer different types of loans taking into consideration various target groups. All loans are not specified to all people. A pension loan is targeted on pensioners, and agricultural loans are targeted on agriculturalists. Some examples of target groups are given below Agricultural loan — Agriculturists MSME and Trade loans — Industrialists and Traders Educational Loans — Students Corporate Loans — Business community Packing Credit — Exporters Pension Loan — Pensioners Home Loans, Vehicle Loan, Salary Loan, Credit Card, Consumer Loan — Salaried Class
Purpose of the Loan	All loans are given for some specific purpose, either for acquiring fixed assets, working capital needs, consumption purpose etc. Banks cannot finance for purposes which are not allowed by Reserve Bank of India
Quantum of Finance	The quantum of finance is calculated on the requirement of the borrower and his repayment capacity. Eg. For housing loan, loan will be considered based on monthly NTHP criteria (as applicable). For an MSME or business, this is fixed as 20% of the future sales or 75% of the working capital gap (difference between current assets and current liabilities). Generally there will be an upper limit that a person can borrow. Eg. For a borrower under the “My own Shop” scheme, this is fixed as Rs 10 Crores
Margin	The Bank never sanctions the full value of the asset to be purchased by the borrower. He/she is required to bring a specific amount say 15-25% of the cost which is called the “borrower’s contribution”. This is called the margin. This imposes a financial discipline and stake for the borrower. There are certain loans for which margin is not stipulated like salary loan, pension loan, agriculture loan up to Rs 1.60 lac, Differential Rate of Interest) (DRI) Scheme for poor people
Security	a. For all loans, Banks insist on security. This can be primary or collateral in nature. b. Usually a security should have the following features - Liquidity (convertible into cash easily) - Marketability (no legal or other constraints for selling) - Salable value (no deterioration in value) However, there are certain types of advances for which primary security is not taken (Eg.) Loans of very small in nature like consumption loan, salary loan, pension loan, educational loan up to Rs 4 lacs etc.
Rate of Interest	Bank is having Base Rate, BPLR (Old Loans), MCLR, and Repo Linked Rates.

(ROI)	Fresh Retail, MSME and renewal sanctions of MSME working capital loans are linked to repo rate. Rural Banking Products are linked to MCLR. The rate of interest is fixed by the bank depending on the nature of advance, risk factors, availability of security etc. The ROI will be low for Agricultural Loans, Export Finance, Loans given to people below poverty line etc. Generally non priority loans will carry a higher rate of interest.
Repayment Period	The loans may be repaid in installments or in lump sum depending on whether it is demand loan or term loan. The repayment is fixed depending on the income generated and the available surplus after meeting personal needs. Usually a moratorium period is allowed for certain types of loans which is called the “Holiday Period”. During this period only interest is to be repaid. The repayment period also is fixed on the economic life period of the asset for which the loan is sanctioned. In case of crop loans, “cushion period” is given for marketing of the harvested produce, which succeeds the harvesting of the crop.
Charges for the loan	Banks may charge processing fee, advocate fee, Engineer's valuation fee, prepayment fee etc. on loans. Depending on case to case basis concession/waiver may be allowed on such charges

Different types of fund based loan facilities offered by Bank:

Loan on Deposits: Customers of the bank invest their money in various deposit schemes. The customers have the right to pre-close the deposit before maturity in case of need for money and the banks charge a penalty on the same. The customer can opt for raising a loan on the deposit. Usually 90% of the current value of the deposit is given as loan. On maturity, the loan will be adjusted and the balance will be paid to the customer. Banks charge 1% extra interest than the deposit on the loan raised. Special care is to be taken while sanctioning loan against the deposits of the minor children. No loan is given against deposits of the deceased.

Loan on Gold Jewels: This forms a major loan portfolio for the Bank in rural and semi- urban areas. Customers raise loan against security of jewels for various purposes ranging from agriculture to consumption purpose. The ROI applicable is as per the purpose. A margin of 30%, 20% (Agri Jewel Loan),15%(Bumper Agri jewel Loan) is kept on the market value of jewels. Generally Banks have a standard per gram rate for sanctioning the loan which is reviewed from time to time depending on the market condition. Caution is to be exercised to ensure that loan is not sanctioned against spurious jewels and stolen jewels.

Temporary overdraft: In case of exigency and emergency, banks allow Temporary Over draft (TOD) on the current account of the customers. This is given for a very short period say one week and carries higher interest rate. This is given on select cases only. This facility is now allowed to Below Poverty Line (BPL) category of people under the financial inclusion plan also.

Over Draft: Banks allow overdraft facility against the security of bank deposits, shares, government securities, property, books debts etc. for meeting the working capital requirements of industry and trade. The period of overdraft is for one year, which is to be renewed every year after review of the account and confirming satisfactory conduct of the same. Usually a margin ranging from 25% to 50% is stipulated depending upon the purpose and nature of security.

Open Cash Credit: For meeting the working capital requirement needs, banks allow Open Cash Credit (OCC) against the security of stocks. Usually margin of 25-30% is insisted on the value of the stocks. Taking into consideration the value and currency of the stocks, drawing limit is sanctioned. The borrower can operate the account within the sanctioned limit, with credit and debit operations, unlike in term loan where only one-time debit is allowed and the customer has to repay the same in installments. This is a most popular type of finance for trade and industry. While renewing the limit yearly, the financial statements are obtained from the borrower, and assessment is made on the financial statement strength.

Term Loan: Banks allow medium and long term loans for acquiring the fixed assets for trade and industry, various agricultural activities for agriculturalists, purchase of house property and consumable durables for salaried class, consumption purpose for salaried class and pensioners. These loans are repayable on installments varying from 3 years to 20 years. Interest is charged on the balance outstanding after the installments are remitted. This method of charging interest is called diminishing balance method. The borrower is benefitted by this unlike flat rate system where the interest is calculated on the limit sanctioned instead of balance outstanding. The fixed assets / house property/implements purchased out of the loan forms the security of the loan. Usually a margin ranging from 15-25% of the value of assets is insisted upon from the borrower.

The loan amount will be less than the asset of the value. The term Loan to Value (LTV) is used to denote the strength of the security. It is calculated as amount of loan/Value of assets. Usually this is restricted to 75% maximum (margin 25% minimum). Lower the LTV, higher is the security for the loan.

Bills or Cheques purchased/discounted

This facility is extended to borrowers as a post sales finance. Traders and manufacturers make sales in credit terms and very low cash terms. They allow normally a period of 15 days to 45 days to their clients for repaying the sales proceeds. Till such time their money is blocked in the business by way of book debts or trade debtors. Banks help the borrowers by extending bills purchase or bills discounted and cheque purchase facility. When a demand bill is purchased it is called bills purchased and when a usance bill (having a fixed repayment tenor at a later date) is purchased it is called bills discounted. Banks earn interest and commission on such transactions and such loans are liquidated automatically on due date

Different types of non fund based loan facilities offered by Bank:

Guarantee: Many of the Bank's customers undertake performance or supply contract. The beneficiary of such facilities from Bank's clients may not have full confidence on the customer and insist on a Bank Guarantee. The Bank is asked to give a guarantee that in case of default by the client, bank will pay the amount to the beneficiary. In such cases the bank's funds are not involved currently but may fall back on the bank in future. These are termed contingent liability. Banks earn commission by extending such facilities.

Letter of Credit (LC)

ThesupplierofgoodstoBank'sclientsmaybeallowingthesameoncreditterms.Whenthe supplier does not have full confidence on the client, he may insist on opening a LC in his favor. On such occasion, the bank gives an undertaking to the beneficiary that on the terms of the supply in case the client fails to pay, the bank will be making good the payment. All international trade transactions are executed on LC terms only. Banks earn commission on LCs opened on behalf of their clients.

Basics of Lending

- **Borrower appraisal**
  - **5 C s**
    - Character
    - Capacity
    - Capital
    - Collateral
    - Conditions
  - **3 P s**
    - Person
    - Process
    - Product
  - **3 M s**
    - Men
    - Method
    - Market
- **Project / Activity appraisal**
  - Managerial
  - Technical
  - Financial
  - Commercial
- **Security appraisal**
  - **Security Types**
    - Personal
    - Tangible
    - Primary
    - Collateral
  - **Characteristics**
    - Marketability
    - Title
    - Value
    - Transferability
    - Yield

Steps in Lending

1. Take specified application form

2. Appraisal:

a. Pre-sanction survey by

Personal discussion / Market report / Visit to office / factory / field

b. Verify evidence of track record

c. Verification of Assets & Liabilities report

d. Preparation of Credit report

e. Analysis of Project Cost

Promoter / Bank Loan / Other sources

3. Sanctioning of loans

Check Your Progress:

1. Spread means

   a. difference between interest earned on loans by a bank and the interest paid on deposits
   b. interest earned on loans + other noninterest income less interest paid on deposits + other administration and selling expenses
   c. noninterest income less noninterest expenses
   d. only non interest income

2. What is the usual repayment period of Medium Term Loan?

   a. on demand b. 1-2 years c. 3 – 5 years d. 7 -10years

3. What is a collateral security?

   a. asset created out of loan
   b. additional security other than the assets created out of loan
   c. it is the primary security
   d. there is no such security as collateral security

4. What is a non fund based facility

   a. loan given for consumption purposes
   b. loan given for capital market exposure
   c. a bank extending facilities which do not involve funds
   d. loan given for export sector

5. What is the meaning of corporate credit?

   a. loans given for purchase of house, car etc
   b. loans given for agricultural sector
   c. loans given for share trading firms
   d. loans given to large corporate entities like limited companies

6. What is margin for a bank loan?

   a. the amount of loan given by the bank is margin
   b. the money contributed by the borrower in a project is known as margin
   c. the amount of installment to be repaid every year is known as margin
   d. all working capital loans are called margin

7. The following s a non fund based facility

   a. Home Loan
   b. Festival advance
   c. letter of credit
   d. working capital loan (OCC)

8. What is surrender value of LIC policy?

   a. the amount of premium paid by the policyholder
   b. the total value of the policy shown in the policy document
   c. the amount of loan applied for by the borrower against the policy
   d. the amount that will be repaid by LIC if the policy is surrendered to LIC at that point of time

9. What is LTV Ratio?

   a. Loan to value
   b. Least amount of value
   c. Largest amount of value
   d. Linked to value

10. Salaried class people are not eligible for the following loan.

    a. Home Loan b. Vehicle Loan c. Salary Loan d. Pension Loan

1	2	3	4	5	6	7	8	9	10
a	c	b	c	d	b	c	d	a	d

Unit: 2

SELECTION AND APPRAISAL OF THEBORROWER

Objective: To make the reader understand the need for proper selection and appraisal of the borrower.

Contents : Know Your Customer, Purpose and Repayment, Product and Promoter, Product analysis, Appraisal of the promoter, Management appraisal, Other Points, A & L Statement, Credit Report

Introduction:

Deposits and Advances are two sides of the Banking coin. Banks have to pay back on demand the (both demand and term) deposits with interest to the depositors. Necessarily banks have to lend to the right person at right time for the right product and the right amount. To build a good portfolio, Lending should be in line with industrial benchmarking, with effective credit management. Credit Management consists of nine important stages.

Selection of borrower, Credit Appraisal, Credit Assessment, Loan sanction, Documentation including insurance, Loan Disbursal and Asset creation, Credit follow up, Credit Monitoring, Repayment/Recycling/Recovery.

Selection of Borrower and Credit Appraisal are discussed in this chapter. These two stages are to be cleared at one stretch.

Credit Marketing and Selection of customer: Banks can do the right selection of customer only by going to the field. This does not mean that the banks can ignore walk in business also.

KYC – Know Your Customer

Details about the customer to be obtained. (i.e.,) Who, Where and What

1	Who are you?	Photo ID (Issued by employer, Aadhaar, Voter ID, Passport, Existing Bank Pass Book with photograph)
2	Where are you from?	Address Proof (Ration Card, Pass Port, Land line telephone bill, Driving License, LPG Bill)
3	What are you?	Assessing the status of the customer

Purpose and Repayment

a. The purpose of the loan
b. Source of repayment
c. Tenor of the Loan

The purpose should be co-related with the loan segment. Credit Portfolio consists of six important segments

1. Large corporate
2. Mid corporate
3. Micro Small Medium Enterprises
4. Agriculture
5. Trade
6. Retail Segment

Segment 1 to 4: Manufacturing and Producing some products and services

Segment 5: Procuring the products and services and selling to

Segment 6: Retail segment

Segment 1 to 5: Customers avail the credit, to improve their capacity to produce and procure more and sell in the market (Term Loan and Working Capital and Non Fund Based Credit Limits) – Will be generating additional income and profit out of bank finance. Bank can rely on the customer's present and future income generation to get back their money as interest and installment in time.

Segment 6: Retail segments – Catering to the needs of the individuals – Loans can be used for asset creation like House, Vehicle, House hold articles, Jewels, Electrical and Electronic appliances and simply for expenditure purpose also – Will not improve the customer's income generation capacity. Banker has to rely on the customer's present earning capacity.

Product &Promoter

Credit Appraisal consists of two important things viz. PRODUCT AND PROMOTER and the matrix is given below:

PRODUCT	PROMOTER	Appraisal
Good (Eg. Computer software)	Good (Eg. Infosys)	Go ahead
Not so good(Bicycle)	Good (Hero cycles)	Can be considered
Good BPO call centre ,Agriculture activities in a fertile area with good infrastructure	Not so good A retired banker venturing in this field	Can be avoided
Not so good Textiles Industry	Not so good Movie producer with a very good track record but no exposure in venturing industry	Should be avoided

Product analysis:

Product to be analyzed by considering the following points.

- ✓ Promoter : Expertise and Experience
- ✓ Process flow: Technology used, Availability of other infrastructure like skilled and semi-skilled labor, water, transport facilities, proximity to the raw materials, power etc.
- ✓ Production : Capacity matching the market demand, storage (Fixed Assets, Technology, Other infrastructures like labor, power, proximity to raw materials, Government Policy-Financial and Technical Viability)
- ✓ Sales : Demand, Orders on hand
- ✓ Price : In line with market conditions, Profit and profitability
- ✓ Market : Business cycle, Competition, Pilot study, entry of substitutes
- ✓ Viability : Financial, Technical, Commercial and Economic

Financial feasibility	Whether the project can be completed in time adhering to the stipulated and standard financial covenants?
Technical feasibility	Availability of technology and men and machineries
Commercial viability	Whether products will sell on its own or with some marketing efforts
Economic viability	Whether activity is allowed under law of land? Employment generation- Eco friendly and Government clearance Not coming under speculation or selective credit control IRR (Internal Rate of Return) – Whether enough profit is made less inflationary impact to repay the Bank's dues

Appraisal of the promoter:

The following points to be analyzed while appraising the promoter.

1. Character - Give top most priority to this aspect to avoid frauds and willful defaults
2. Capacity - Experience and Expertise
3. Capital - Margin brought–owner's contribution to the project

CIBIL, Equifax, Experian or CIC Report is to be verified to ascertain the loans availed by the customer from financial institutions.

Management appraisal:

Management Appraisal –Even though the product and promoter are good and still the promoter is not good in entrepreneurship and not supported by a good team of management, the project might fail. Hence, the skill in managing the project should be considered before financing.

Other Points:

2.10.1 Securities: Wherever possible and necessary bank's interest should be safeguarded by taking collateral securities and guarantees.

2.10. 2Loan application: Application in the right format is to be taken along with other support documents and calling for unnecessary data should be avoided.

Type of customers:

1. Individual
2. Sole Proprietor
3. Partnership
4. Private Limited Company
5. Public Limited Company
6. Trust

Partnership : In addition to the KYC verification of the partners individually, original registered partnership deed should be verified

Companies: KYC norms are to be applied to all Directors individually. In addition to Memorandum and Articles, the latest audited balance sheet filed with ROC is to be obtained. This is to ascertain who are all the sitting Board Directors.

Trust: In addition to the KYC verification of the trustees individually, original registered trust deed should be verified.

Chartered Accountants: Certifying the books of our customers – The genuineness of the audit firms is to be verified.

Assets and Liabilities Statement:

The most important supporting document to application is Asset and Liabilities statement. The following are to be looked into:

- ✓ Correct data to be furnished in the relevant column by the applicant.
- ✓ Guide the customer to fill up the particulars
- ✓ For educated customers, just inform what needs to be filled in the A & L form
- ✓ Intheassetsandliabilitiesform,Customer'snamewithfulladdresstobefurnished
- ✓ Under LANDS – Agriculture land with full particulars – if ancestral, what is the customer's share, full description with survey number
- ✓ Under BUILDINGS – Housing plot and house properties with full descriptions – survey number, Door No. and full address
- ✓ Under LIQUID ASSETS – Most of the customers will be having assets to be furnished – Cash, jewels, household articles, PF for employed persons, Investment in business for

Business people, investment in bonds, deposits, mutual funds, LIC policies (only paid up value to be filled up and if it is paid for more than five years, surrender value can be ascertained)

- ✓ Under Liabilities – Customer should furnish his entire liabilities payable to banks, financial institutions, private bankers, employer, and private loans – extract complete information
- ✓ Second page of the format also to be filled up with full information

Credit Report:

Credit Report is to be prepared by the branch, after obtaining A & L Statement. Enquiry has to be made and the Banker should satisfy himself. If required, the proof may be verified. Assets should be neither under-valued nor over-valued. Credit report should reflect a realistic picture of customer's financial position.

Summary

In credit management, the stage of Selection of Borrower and appraisal is the most vital one and if it is done properly as explained above, the banker can definitely avoid 50% of the future probable Non Performing Asset.

Check Your Progress:

1. A person already having account with your branch for three years and operations in the account are satisfactory and now applying for a business loan. Will you do KYC afresh?
   (a) Yes (b)No

2. Bank rely on the customer's present earning capacity only in respect of the following segment of loan
   (a) Retail (b) MSME (c) Trade (d)Agriculture

3. Whether we have to do credit appraisal for sanctioning loan against deposit?
   (a) Yes (b)No

4. Whether KYC of the partners and partnership deed to be verified?
   (a) Yes (b)No

5. Banks can find the loans availed by the customer through
   (a) Engineer report (b) Advocate Report (c) CIBIL Report (d) VAO Report

6. Credit Report is prepared based on
   (a) KYC (b) A & L (c) Deed (d) Advocate Report

1	2	3	4	5	6
b	a	b	a	c	b

Unit: 3

READING A BALANCE SHEET & PROJECTIONS

Objective:

To make the learner understand the balance sheet and reading the projections before making a judgment about the organization that seeks a loan from a bank.

Contents:

Balance sheet, contents of the balance sheet, Assets, Liabilities, Profit, Loss

What is business?

Converting cash into non-cash items and again converting into better cash and the purpose of a business is to make profit.

What is balance sheet?

Equating sources and application of money in the business.

A balance sheet is drawn (1) to assess whether the business has earned profit or incurred loss and (2) to know how the business is financed and where it is invested. In the lender's perspective, the Banker wants to know whether his finance will come back to him from the business in due course of time with interest.

Banker should be very careful in reading a balance sheet because it is more like number game. In addition to this analyzing the human aspect is important before taking a credit decision. A Banker should thoroughly analyze the following:

- **Product**– Production Capacity, other infrastructures, technical know-how, Financial viability.
- **Promoter** - Experience /Expertise.
- **Market** - Segment (Buyers & Orders on hand)/ Competitors /Substitute.
- **Process** - Latest / necessary technology applied.
- **Marketing** - How the product / brand is received by Market.
- **Price** - Profit /Profitability.

Banker should go through the following aspects in the Balance sheet first.

1. Size of the balance sheet and whether it is growing
2. Financial structure - % wise investment.

Components of the Balance sheet:

There are seven components in a balance sheet. In the **Liabilities side,** (a) Total Net worth (b) Term Liabilities and (c) Current Liabilities. In the **Assets side,** (a) Fixed assets (b) Non-current assets (c) Intangible assets and (d) Current assets

Liabilities:

Total net worth:

i) Capital (Equity) & Free Reserves (provided out of profit earned), General, Profit & Loss, Premium, Capital, Capital Redemption, Reserve, Revaluation Reserve (which is a book entry only)

ii) Unsecured loans (Letter of pegging from the lenders to be taken)

iii) Preference shares (With an unexpired period of 12 years or more). Preference share cannot be floated on perpetual basis and can be floated only for a maximum period of 20years.

Term Liability:

i) Unsecured loans (without letter of pegging)
ii) Preference shares (with < 12 years maturity).
iii) Debentures.
iv) Deposits.
v) Deferred tax & disputed tax
vi) Deferred Payment Guarantee
vii) Term Loans from Financial Institutions.

Current Liability:
i) Trade Creditors.
ii) Annual Maturing Term Loan Installments
iii) Commercial paper.
iv) Anything payable during the year in the form of staff benefits, tax, Dividend, Statutory dues, Insurance, expenditure provided.

Differentiating a Term Liability from Current Liability:

Current Liability is payable within 12 months and Term Liability is payable after 12 months so that Term Liability is taken as a long term source.

Points to be noted in Liabilities:

1) Revaluation Reserve is a book entry only not provided out of profit and to be deducted to arrive at TNW.

2) Certain banks take unsecured loans & preference shares as debt only.

3) Deferred tax liability & asset come in Balance sheet according to the accounting pattern of the business.

- Deferred tax liability: Expenditure is debited but not paid and provided as Term liability.
- Deferred tax asset: Tax Expenditure is paid but shown as asset.

4) Disputed tax liability arises due to the certification of company auditors. Otherwise it will be a contingent liability only.

5) The most important factor of current liability is Trade Creditors who are supplying Raw Material, Work In Progress & Services. Corporate having a healthy Trade Creditors portfolio shows that it has established well in the market. Nowadays Corporate is interested in going for trade credit in the form of ECB available at a cheaper price. Still Corporate has to approach the Bank for arranging the fund and Bank can earn income in the form issuing letter of undertaking/comfort, & Loan Syndication also.

Assets:

Fixed Assets: The fixed assets include (i) Land & Building, (ii) Plant & Machinery, (iii) Furniture & Fixtures, (iv) Vehicles, (v) Capital work in progress (vi) Railway siding.

Non-Current Assets: The non-current assets include, (i) Long term investments. (Property, Bonds, Shares Government Securities, Mutual Fund (held to maturity), (ii) Investment in subsidiaries and (iii) Security Deposits.

Intangible Assets: The Intangible assets include, (i)Goodwill, (ii)Brands, (iii)Trademarks, (iv)Computer software, (v)Copy rights, (vi)Patents, (vii)License, (viii)Franchise, (ix) Preliminary expenses and (x) P & L debit balance.

Current Assets:

i) Cash – Raw material – Manufacturing expenses – work in progress – Finished goods – sales – Debtors – cash (operating cycle).
ii) Short term Loans &advances
iii) Prepaid expenses.
iv) Short term investment in deposits & tradable securities.

Points to be noted in assets:

1) Capital work in progress is “Plant being developed”.

2) Railway siding is a one-time huge investment.

3) Investment in subsidiaries – Banker should call for subsidiaries balance sheet also and if they don’t perform well, treat it as intangible asset and to be deducted for TNW arrival.

4) Intangible assets of corporate are to be treated as real fixed assets according to the value of

the assets.

5) P&Ldebitbalance&Preliminaryexpensesnowcan'tbeshownasassetsandtobenetted from net worth.

6) To safeguard their interest and enforce their right legally, Corporate is going for creating Intangible Assets. Spending on creating trade mark, patent, copyright, royalty etc. is not expenditure and an investment only. If they are assigned in Bank's favor, Banks can take possession under SARFAESI and sell it on default.

The Current asset is cash or near cash while the long term asset (NCA) is realizable on long term basis only.

To sum-up:

- Total net worth and term liabilities are **long term source.**
- Fixed assets, Non-current assets Intangible Assets are **long-term Application.**
- Current liability is **short term source.**
- Current asset is **short term application.**

<u>In a Project</u>

a. The **Term liability** is financing the fixed assets, Non-Current Asset, & Intangible Asset. Margin is financed by Total Net Worth.
b. The **Current liability** is financing current asset.
c. **Margin is** financed by Total Net worth & Term Liability, which is called **Net Working Capital** and hence in a project**,** Total Net Worth is the margin for the entire project.
d. **Current Asset Minus Current Liability = Net Working Capital**
e. The supporting document for a balance sheet is **Operating Statement** which is a combination of manufacturing, trading, Profit and Loss, Profit and Loss adjustment accounts.

Contents of Balance Sheet:

Balance Sheet and Profit and Loss Accounts are the basic financial statements of a Business Enterprise. Financial statements can provide valuable insights into a firm's performance. Balance Sheet reflects financial position of a firm as on a particular date say 31-03-2021. The Profit and Loss Account shows the results of business activities or operations during a certain period of time, usually a year say from 1/4/2020 to 31/3/2021.

Liabilities are amounts payable by a firm to others. It can be long term or short term depending whether they are payable within one year or more than a year. These are called sources of funds as they bring funds into the firm.

Assets are those that that the firm owns or receivables from others. It can be short term or long term depending on their receivable nature as less than one year or more than one year. These are also called uses of funds as funds are deployed to acquire them.

A typical Balance sheet of a firm/company will appear as below:

Liabilities (Sources of Funds)	**Assets (Uses of Funds)**
Capital (Long Term) • Share Capital (Equity share capita/Preference share capital) • Reserves(General/Specific) • Accumulated Profit	**Fixed Assets (Long Term)** • Land &Building • Plant &Machinery • Furniture, Fixtures &Vehicles
	Intangible Assets (Long Term) • Preliminary/preoperative expenditure • Accumulated losses if any
Term Liability (Long Term) • Term Loans from Banks/Financial Institutions • Debentures issued to Public • Fixed Deposit from Public • Loans from sister concerns/friends/ relatives	**Non-Current assets (Long Term)** • Investments maturing in a period of more than one year • Any assets that cannot be classified as neither fixed assets or short term assets
Short Term/Current Liabilities (Short Term) • Short Term Bank Borrowings (OCC, OD, Bills purchased etc) • Bills payable/creditors (trade transactions) • Outstanding liabilities (expenditure due but not paid) • Loans from sister concerns/ friends/ relatives payable within one year • Provisions made for expenses • Any liability payable within oneyear	**Current assets (Short Term)** • Cash • Bank Balance • Inventory/stock • Receivables/debtors (arising from trade transactions) • Prepaid expenditure (expenditure not due but already paid) • All receivables within one year

If the total of current assets is more than total of current liabilities, the firm is able to meet its short term liabilities out of short term assets (current assets). Then the firm is having good liquidity. The difference between the Current Assets and Current Liabilities (including short term bank borrowings) is called Net Working Capital and it will be positive for a firm having liquidity (liquid surplus). All long term assets (Fixed Assets, Non-current Assets, and Intangible Assets) are funded by long term liabilities (Capital, Term Liability etc.). The difference between long term liabilities and long term assets is also called Net Working Capital. If a company diverts its short term sources (liabilities) for long term uses (like purchasing fixed assets from short term bank loans), the liquidity of the firm will be adversely affected and this is called “Diversion of Funds”

Contents of a Profit and Loss Accounts

Income (Revenue)	Expenditure
• **Sales Revenue** • **Other Nonoperating Income**	**Manufacturing Expenditure** • Cost of Raw Material • Labour Charges • Power Charges • Transportation Charges **Selling and Administrative Expenditure** • Office Expenditure • Other administrative expenditure **Excise Duty, Taxes, Dividends** **Retained Profit**

If all the expenditures are met out of the revenue earned, and there is a surplus, then the firm enjoys profit. This is carried over as retained earnings to the capital in balance sheet.

The flow:

Gross Sales minus Cost of sale (Cost of Production) = **Gross Profit**

Gross Profit - Administrative & selling expenses = **Operating Profit**

Operating Profit - Interest (payable to the entire financial system) = **Profit after interest**
Profit after interest **+** Non Operating Income - Non Expenditure **= Adjusted operating profit after interest**

Adjusted Operating profit after interest - Tax = **Profit after tax**

Profit after tax - Dividend & Dividend tax = **Retained profit** (carried over to Total Net Worth and added to General Reserve)

Banker will finance only the corporate with operating profit. It will be still better where corporate retains its sizable net profit after dividend payout. Some exceptions are also noticed, where the project is functioning only with huge non - operating income like earning carbon credits.

Please note that selling cost is entirely different from cost of sales.

Funds flow statement:

This is an important tool for analyzing the Balance Sheet. Two consecutive years balance sheet of a firm are to be compared to verify as to how the funds flow has taken place. The following things are to be looked into while analyzing the funds flow statement.

a. **Long term sources** (Profit generated and retained , Equity floated and Term Liability mobilized)

b. **Short term sources** mobilized in the form of Current Liabilities

c. Applied in **Long term assets**.

d. Applied in **Current assets.**

e. Banker is satisfied if NWC invested during the year is **positive.**

f. Current liability is to be serviced only by the current asset

The purpose is whether the firm is not facing any liquidity crunch & has not indulged in any diversion of funds and **NWC** is comfortable to meet the current obligations.

Diversion of funds: Using the funds for which it is not meant for. (eg) Using Bank Overdraft to buy Fixed Assets, repay the Long Term Liabilities and withdrawing its own stake.

Some important Accounting Ratios:

Ratio Analysis is an important tool for measuring the financial position of a firm. The Ratios are a comparison of the numerator with the denominator. The term ratio refers to the numerical or quantitative relationship between two figures. Ratios can be calculated for different periods of a firm, for comparison between firms or comparison between the firm and industry.

Accounting Ratios can be categorized into the following areas:

1. Liquidity Ratios
2. Solvency Ratios
3. Leverage Ratios
4. Profitability Ratios and
5. Activity Ratios

Liquidity Ratios:

These are used to assess the short term liquidity position of a firm to measure whether the firm is able to repay its short term commitments or finance the short term assets from its available short term sources. This is one of the most important ratios used when financing working capital. Higher the ratio, better the liquidity position of the Company.

Current Ratio:

Current Ratio = Current Assets/Current Liabilities.

- Current Assets = Cash, Bank Balance, Inventory (Stock), Debtors (Receivables), Prepaid expenditure
- Current Liabilities = Short term bank borrowing, Trade creditors, outstanding expenditure etc.

This ratio is used to measure the liquidity of a firm. If the current ratio is 2:1, it is that for every rupee of short term liabilities there are at least Rs.2 of short term (current assets) assets to pay off the same. Current Ratio should be at least **1.33:1**.i.e. at least 25% margin is required on Current Assets over Current Liabilities. If the ratio is higher the liquidity is better

Quick Ratio:

Quick Ratio or Acid test Ratio = {Current Assets – Inventory (stock)}/Current Liabilities

This is a fine tuning of the Current Ratio. Since Inventory is subtracted from total current assets, this ratio will be less than current ratio. If both Current Ratio and Quick ratio are almost the same the inventory holding is nil or negligible. There is no standard value for this ratio, and this is to be read along with current ratio to know whether how much inventory is occupying the current assets

Solvency Ratios:

Solvency Ratios are used for calculating the liquidity for a longer period of time, to measures the ability of the firm to repay the interest and principal to the banker over a longer period of time.

<u>Interest Coverage Ratio:</u>
{Earnings before interest, Depreciation and Tax} / Interest

From the cash accruals, the firm should be able to bear the interest burden of the loan. Higher the ratio, greater is the interest repayment capacity. The standard value as per our loan policy is **1.5** times of the burden.

<u>Debt Service Coverage Ratio:</u>

{Net Profit after Tax + Depreciation + interest on Term Loan} / {Interest on Term Loan + Installment on Term Loan}

From the cash accruals, the firm should be able to pay the loan installment and interest. As per the loan policy the minimum average DSCR for the entire period should be **1.50:1**and it should not slip below **1.25:1**at any point of time Higher the ratio better the term loan repayment capacity. This ratio is calculated for the entire repayment period of term loan.

Leverage Ratios:

Leverage Ratio is calculated to measure the efficiency of the firm to meet the long term liabilities from long term source of capital.

Debt Equity Ratio (DER):

Debt Equity Ratio = Long Term Debt/Tangible Net Worth.

Tangible Net Worth = {Capital + Reserves and Surplus – Intangible Assets}. Normally in any balance sheet the components of Intangible Assets will be preliminary expenditure and accumulated losses. This is an indication of the amount of long term debt in comparison to its equity. Higher the ratio, lower the capacity to repay the long term debts. The standard level is **2:1.** A Firm can borrow long term loan maximum twice the size of the capital

Total Indebtedness Ratio:

Total outside Liabilities / Tangible Net Worth i.e.: TOL/TNW

This ratio measures the capacity of the firm to repay all outside debts (short term + long term) from total equity. This ratio will be more than the Debt Equity Ratio as the numerator contains both short term and long term debt unlike in Debt Equity Ratio where the numerator contains only long term debt. The standard ratio is **3:1**

Fixed Assets Coverage Ratio (FACR):

FACR = Net Fixed Assets /Long Term Debts or Term Loan

This ratio is an indication of the availability of margin for the loan availed for acquiring fixed assets. If the ratio is more than one, it indicates that there is ample margin coverage for the term loan over the fixed assets. The standard ratio is **1.20:1**

Profitability Ratios:

1. **Gross Profit Margin = {Gross Profit X 100}/Net Sales**
2. **Net Profit Margin= {Net Profit X 100}/Net Sales**
3. **Return on Investment. = Profit Before Tax and Interest/Investment**

Net sales = Gross Sales – Excise duty
Investment = Total Assets – Intangible assets or Total capital employed.

These ratios show the income earning capacity of the firm with respect to sales. These are useful to determine the overall operational efficiency of the firm. Higher the ratio better income earning capacity. If a firm reduces the operating and other expenditure, profit will increase which is an indicator of the efficiency.

Activity Ratios:

Activity Ratios (Turnover ratios) are used to evaluate the efficiency of the firm in rotating various assets to reach the level of sales.

Inventory (Stock) Turnover Ratio = Sales / Average Inventory

High ratio indicates better efficiency of utilizing the inventory to meet a certain level of sales. It is an indication of how many times the stocks are rotated to reach the stipulated level of sales

Debtors Velocity = {Receivables X (12 or 52 or 365 in months, weeks or days)} / Average Monthly Credit Sales

If the debtors velocity of a firm is 90 (calculated in days), it means the firm is allowing 90 days to its clients to pay of the trade dues. Higher the value, lesser is the efficiency of the firm in realizing the sales receivables or less demand for the product (as more time is given for credit sales).

Creditors Velocity=

(Sundry Creditors X 12 or 52 or 365 in months, weeks or days) / Average Monthly Credit

Purchases

If the creditors velocity of a firm (calculated in days is 90, it means the firm is enjoying 90 days credit for the purchases made. It can be also the firm is not able to pay off the creditors in a lesser period. Higher the ratio, more credit period enjoyed by the firm (also inefficiency of the firm to repay trade creditors)

NB: As per our loan policy Bench Mark Values are given for the following ratios: Current Ratio; Debt Equity Ratio; TOL / TNW (Total Indebtedness Ratio); Debt Service Coverage Ratio; Interest Coverage Ratio; Fixed Assets Coverage Ratio.

Usage of ratios in financing different credit facilities

Type of Facility	Ratios to be used
Working Capital	• Current Ratio • Quick Ratio • Inventory Turnover Ratio • Debtors Velocity • Creditors Velocity • Interest Coverage Ratio • Total Indebtedness Ratio(TOL/TNW) • Gross Profit Ratio • Net Profit Ratio
Term Loan	• Debt Equity Ratio • Total Indebtedness Ratio • Debt Service Coverage Ratio • Fixed Assets Coverage Ratio • Interest Coverage Ratio • Gross Profit Ratio • Net Profit Ratio

Check Your Progress:

In a corporate balance sheet

Net worth (TNW)	: Rs.30.00crores
Term Liability	: Rs.75.00crores
Current Liability	: Rs.15.00crores
Current Asset	: Rs.20.00crores
Sales	: Rs. 120.00crores

1. What is its TOL/TNW

a.2. b.3 c. 4 d. 1

2. Debt Equity ratio

a.1.50 b.2.50 c.0.50 d.2

3. Current Ratio

a. 1.50 b.2.00 c. 1.33 d. 1.25

4. Which one of the following asset is an Intangible Asset?

a. Prepaid expenses b. Preliminary expenses c. Advance paid d. Pre-paid taxes

5. Depreciating your office manager's car is

a. Manufacturing expenses
b. Administrative expenses
c. Sundries expenses
d. NIL

6. Current asset is less than Current Liability

a. Current ratio is less than one
b. Current ratio is more than one
c. Current ratio is equal to one
d. Current ratio is negative

7. Net Working Capital can be improved by

a. improving and retaining profit
b. improving current liability
c. improving fixed asset
d. improving trade creditors

8. Retained profit of a firm is kept as fixed deposit with the bank. Funds flow is

(a)Positive (b) Negative

9. Availing term loan from bank for purchasing machineries. Funds flow is

(a)Positive (b) Negative

10. Availing bank open cash credit against stock from the bank and using for purchasing land and building. Funds flow is

(a)Positive (b) Negative

11. Fixed Asset Turnover ratio can be correlated with the break even point of the firm–

(a)True (b) False

12. Interest payable on term loan availed for erecting a plant is

(a) Fixed Cost (b) Variable Cost

13. Salary paid to a confirmed employee is

(a) Fixed Cost (b) Variable Cost

14. Raw material purchased is

(a) Fixed Cost (b) Variable Cost

15. Working Capital Gap is

a. Current Asset minus Current Liabilities
b. Current Asset minus Bank short term lending
c. Current Asset minus Current Liabilities other than bank short term lending
d. Fixed assets minus current liabilities

16. Debt Equity Ratio

a. Liquidity ratio
b. Financial Leverage ratio
c. Solvency ratio
d. Turnover ratio

Answers:

1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
b	**b**	**c**	**b**	**b**	**a**	**a**	**a**	**a**
10	**11**	**12**	**13**	**14**	**15**	**16**		
b	**a**	**a**	**a**	**b**	**c**	**b**		

Unit: 4

WORKING CAPITAL ASSESSMENT

Objectives:

- To introduce various methods of assessment of Working Capital.
- To build in confidence amongst the Officers to lend for Working Capital.

Contents:

Working Capital, Stocks, Debtors, Operating Cycle, Turnover Method, MPBF

Introduction:

The term working capital refers to the Current Asset holding of an enterprise. It is also known as the money required for the day to day functioning of a business. This is also sometimes called the Gross Working Capital. For a manufacturing enterprise, the average levels of holding of raw material, goods in process, finished goods, receivables, cash and other current assets together constitute the working capital.

The quantum of working capital requirements may depend on various factors. Unit specific internal factors like operating efficiency, technology employed and the level of quality control may impact the size of working capital requirements. All the major factors of production has a very great impact on the working capital requirement of a company. External factors like Demand and Supply, nature of activity, availability of production inputs like Raw Material, Labour, Power and Fuel and availability of Credit also affect the requirement of working capital in a business.

The major components of working capital are always Stock and Debtors. All other items like, Cash and Bank Balances, Prepaid Expenses are usually negligible.

Hence the requirement of a business for Working Capital usually constitutes two items: (1) Stock and (2) Debtors.

Stocks:

Work in Progress:

When a business has to stock more raw materials and for converting from raw material to finished goods, (work in process) takes more time and more funds will be locked up in work in process and the business requires more working capital.

Finished Goods:

Goods are produced and finished goods are packed and kept in the godown before moving to the market for sales. Then also business requires more working capital. If more time is taken for moving goods from godown to market, money is blocked in finished goods in godown and eventually the business requires more Working Capital.

Debtors:

When finished goods are moving out of business on credit, it constitutes Debtors. When debtors are not paying in time, i.e. the amount locked up in debtors are becoming more, business requires more money for working capital.

Thus the requirement of working capital can be:

1. Money required for raw material.
2. Money required for work in process
3. Money required for finished goods and
4. Money required for debtors.

This is known as the Operating Cycle concept of Working Capital.

Operating Cycle: Balance Sheet defines the Operating Cycle as "the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12months"

Thus, every rupee invested in Current Assets at the beginning of the cycle comes back to the promoter with the profit element added, after a lapse of a specific period of time. This length of time is popularly known as the Operating Cycle or the Working Capital Cycle.

How to measure the Operating Cycle?

The operating cycle raises a fundamental issue – how to measure this time. The operating cycle is generally measured in terms of days of average inventory held for every major category of working capital components. The major activities are purchase of raw material, processing, finished Goods, and sundry debtors. In this operating cycle, the raw material holding time, processing time, finished goods holding time and receivables realizing time play vital role in determining the working capital.

There are three methods of assessment of working capital. They are,

1. Turnover Method

2. MPBF(Maximum Permissible Bank Finance) Method (Tandon Committee Second Method of Lending)

3. Cash Budget System

Turnover Method:

Turnover method is applicable to: Up to Rs. 500 lakhs

According to the Turnover method, it is presumed that: the Working Capital requirement of the unit is 25% of the Projected Turnover and out of the 25%, 20% Bank Loan and 5% Margin, which is also known as Net Working Capital. Projected gross sales will be taken for the calculation. When we presume that the total requirement of working capital of such units is 25% of the projected turnover, we also presume that the operating cycle of such units is 3 months. In Turnover method, it is also presumed that there are no Current Liabilities. Under turnover method, the operating cycle is very important. In some business, sometimes the operating cycle may be more or less. Bankers / Lenders have to see the operating cycle of the unit / business to arrive at the actual requirement of working capital.

Example: Suppose one Petrol Bunk owner approaches the Bank for a working capital limit of Rs.200 lakhs and with the projected sales turnover as Rs.1000 lakhs. Previous year he has achieved a sales figure of Rs.900 lakhs and certainly for him Rs.1000 lakhs sales are achievable. For each of the operating cycle (approximately 7-10 days), it is assumed that he requires Rs. 25 lakhs as working capital. Bank is also agreeable towards his projections. The applicant also informs the banker that there are no current liabilities.

Assessment of working capital requirements

Projected Sales	Rs.1000 Lakhs
Operating cycle	7-10 days
Number of operating cycle in a year	40(approximately)
Amount required for one operating cycle	Rs.25 Lakhs
Margin	Rs.5 lakhs
Bank Loan	Rs.20 lakhs

If we sanction 200 lakhs to him, that much money is not actually required by him for his business and certainly he will divert the excess amount of Rs.180 lakhs to either real estate business or share market and for other speculative activities.

Maximum Permissible Bank Finance method - MPBF Method (Tandon Committee Second Method of Lending):

In order to rectify the anomalies in the calculation of Maximum Permissible Bank Finance, the RBI constituted a Committee under the Chairmanship of Shri PL Tandon in 1974. The Committee recommended three different methods of lending and RBI has approved the Second Method of Lending recommended by Tandon Committee and subsequently the same was recommended by Chore Committee.

This method of lending is known as Maximum Permissible Bank Finance method (**MPBF** Method).

This method of lending can be summarized as follows:

MPBF = (Current Assets Less Other Current Liabilities) Less 25% of Current Assets

= Working Capital Gap – Net Working Capital

According to the MPBF II Method of lending, the eligible working capital has to be calculated as per the projected Balance Sheet. The Projected Gross Current Assets in line with the past actuals or with variation, as justified, will be taken. From the projected Total Current Assets, whatever Current Liabilities projected (Other than Bank Borrowing) will be reduced. This Total Current Assets minus Current Liabilities is known as Working Capital Gap. From the Working Capital Gap, 25% Net Working Capital or Margin is to be reduced. This is the Maximum Permissible Bank Finance. If the customer is agreeable to produce his margin more than the 25% of Total Current Assets, the same can be accepted and reduce the Bank exposure as such. If sufficient net working capital is not available, bank should reduce its exposure. Non Fund Based facilities will be sanctioned within the MPBF.

Assessment of working capital requirements under MPBF

(Rs in lakhs)

Current Assets	A	100
Less: Current Liabilities	B	20
Working Capital Gap	C	80
25 % of Current Assets as Margin	D	25
Actual Net working capital projected	E	30
Working capital Gap -25% margin(C-D)	F	55
Working capital Gap-NWC Projected (C-E)	G	50
MPBF (F or G whichever is less)		50

1. Export Receivables are to be excluded from Current Assets for computation of margin, the reason being that as a measure of export promotion, corporates need not maintain any margin for export receivables.

2. Non Fund Based facility, if any, should also be sanctioned within the MPBF and under no circumstances, non fund based facilities should be given above MPBF.

3. Margin on LC / Guarantee relating to working capital can be considered as Current Assets.

4. Current Ratio: Minimum 1.33:1. If annual maturing time liabilities are included, then the Current Ratio should be minimum1.17:1

5. For seasonal industries like Tea &Sugar industries, Cash Budgeting Method can be applied and Current Ration can be1:1

Modified MPBF Method:

Applicable for working capital limits for Manufacturing Sector beyond Rs.5.00 Cr up to Rs.25.00 Crore (Funded and non-funded)

Modified MPBF method will be applicable, where working capital facilities are secured by 100% collateral (Collaterals should be in the form of Liquid assets and Land and Buildings.) besides primary security. Under this method, margin on total current assets can be reduced to 15% and as such the minimum current ratio can be accepted up to 1.17

Summary:

In an industry, the working capital is required to operate the day to day functioning. The major components of working capital are stock (inventory) and debtors. When an activity is undertaken, working capital is required for raw material, work in process, finished goods and sundry debtors over a period of time which is known as operating cycle. There are three methods of assessing working capital viz., Turnover method, MPBF method and Cash Budget method. While the Cash Budget method is used for seasonal industries, the other two methods are used for other industries and trade.

Check Your Progress:

1. Working capital gap means
   (a) Total Assets minus Total Liabilities.
   (b) Fixed Assets minus Long Term Liabilities
   (c) Fixed Assets minus NetWorth
   (d) Current Assets minus Current Liabilities including Bank borrowing

2. The minimum current ratio required under MPBF II method of lending is
   (a) 1.17 :1
   (b) 1.33: 1
   (c) 1:1
   (d) 2:1

3. Under turnover method, the total current assets are considered as
   (a) 25% of the projected turnover
   (b) 50% of the projected turnover
   (c) 20% of the projected turnover
   (d) 15% of the projected turnover

4. Turnover method is applicable to
   (a) Up to 100lakhs
   (b) Up to 200lakhs
   (c) Up to 300lakhs
   (d) Up to 500lakhs

5. MPBF means
   (a) Minimum Permissible Bank Finance
   (b) Mostly Permissible Bank Finance
   (c) Mainly Permissible Bank Finance
   (d) Maximum Permissible Bank Finance

6. Whether Export receivables are to be excluded while calculating MPBF?

   (a) Yes (b) No

7. Non Fund Based facilities are to be a part of the MPBF

   (a) True (b) False

8. One of these companies, Current Ratio can be1:1

   (a) Iron and Steel Manufacturing
   (b) Tea Industry
   (c) Pharma Industry
   (d) Heavy Machinery industry

9. Major component of current assets are

   (a) Cash and Bank balances
   (b) Prepaid Expenses
   (c) Preliminary Expenses
   (d) Sundry Debtors

10. Under MPBF Method, NWC should be............% of the total current assets.

    (a) 5% (b) 10% (c) 15% (d) 25%

11. Projected sales are 100 crores. Projected trade creditors are 2.00 crores. Under Turnover method how much can be sanctioned as working capital advance?

    a. Rs.20crores b. Rs. 25crores c. Rs.23crores d. Rs. 18crores

12. In question Number 8, what is the accepted level of current asset under turnover method?

    a. Rs.20crores b. Rs.25crores c. Rs.23crores d. Rs. 18crores

13. In question number 8, if the accepted level of current asset is Rs. 30.00 crores, under MPBF second method of lending, how much can be sanctioned for working capital? Trade creditors is Rs.3.00 Crores

    a. 22.50crores b.19.50 crores c.20.00crores d. 16.50crores

Answers:

1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
d	**b**	**a**	**d**	**d**	**a**	**a**	**b**	**d**	**d**
11	**12**	**13**							
d	**b**	**b**							

Unit: 5

TERM LOAN APPRAISAL

Objective

To make the learner understand the term aspects of loan appraisal

Contents

Selection of borrower and appraisal of the term loan

Introduction

The Term loan is sanctioned for acquiring fixed assets. The term loan repayment is usually sanctioned for more than 3 years. The process of term loan appraisal comprises Management Appraisal, Technical Appraisal, Commercial Appraisal, Financial Appraisal and Economic Appraisal

MANAGERIAL APPRAISAL

This is the information about the promoter/borrower. Following points are to enquired and ascertained in managerial appraisal.

1. Does the management have enough experience in the line?
2. What is its track record?
3. Is he qualified for the project?
4. What are the antecedents?
5. Who has introduced him, whether KYC norms are complied with?
6. Do they possess managerial qualities like leadership, team work etc. for running the business?
7. What is his financial background and interest and stake in the business?
8. What is his level of endurance and capacity in dealing with untoward incidents?
9. Does he possess enough environment knowledge?

TECHNICAL APPRAISAL

Technical appraisal can be defined as gathering information about the process involved in carrying on the business. The following points are to be looked into

1. Location of the project and environment, and size and capacity of the plant?
2. What is the status of technology used?
3. What could be the possible economic life period of the present technology?
4. What is quality of labour force?
5. What is the technical support available?
6. Has he complied with various statutory obligations?
7. Is it ensured that all inputs like raw material, labour, and power are available?
8. In case of breakdown, what are the alternate options available?

COMMERCIAL APPRAISAL

This is the analysis about the product/service he is going to market. Complete information on the following points should be collected.

1. What is his product? Essentials – Comforts -- Luxury
2. What is the market? Present &Future
3. What is the level of sustainability of the product?
4. What is the target plan and is he able to achieve the same?
5. What are the competitive products and scope for diversification in case of necessity?
6. Is there enough demand in the market?
7. Is there scope for further growth?

FINANCIAL APPRAISAL

This analysis explains about the financial viability of the unit. Various accounting ratios are used for this purpose. This also analyzes about borrower's capacity to raise finance- both owner's capital and debt. The questions to be answered are:

1. Is the capital structure optimal? (normally borrower is asked to bring in a margin of 25% of the project cost)
2. What are the sources of margin? What is the level of subsidy available from various supporting organizations?
3. Will the business generate sufficient funds to service the debt?

Thorough scrutiny of the financial data submitted by the borrower is to be carried out. Detailed analysis of the financial health would be made and the following ratios computed:

Current Ratio: This is an indicator of short-term liquidity (The capacity of the firm to meet the short term liability out of short term assets.) It is calculated as current assets / current liabilities. Higher the ratio, higher is the liquidity of the company. The acceptable level is minimum 1.33:1. There may be cases where the inventory level or the debtors level may be high, which shows a high level of current ratio, which may not be a good indicator. The same can be tested by applying other ratios and ascertained that the current ratio is healthy

Debt Equity Ratio (DER): This is an indication of the ability of the firm to meet the long term liability (Leverage) from capital. It is calculated as Total Term Liability/Equity. The accepted level is 2:1. That is, the borrower can go for term liability 2 times of equity. Lower the ratio, better is the leverage position.

Total Outside Liabilities / Equity Ratio (TOL/TNW): Total outside liability/Tangible Net Worth (Tangible Net Worth is calculated as: Net worth – Intangible assets. Total outside liability is calculated including term liability and current liability). The acceptable level of this ratio is maximum 3:1. It can be seen that TOL/TNW will generally be more than the Debt Equity Ratio, as current liabilities are also included in TOL/TNW

Fixed Assets Coverage Ratio: Net Fixed Assets /Long Term Debts or Term Loan

This ratio is an indication of the availability of margin for the loan availed for acquiring fixed assets. If the ratio is more than one, it indicates that there is ample margin coverage for the term loan over the fixed assets. The standard ratio is **1.20:1**

Debt Service Coverage Ratio (DSCR):

{Net Profit after Tax + Depreciation + interest on Term Loan} / {Interest on Term Loan + Installment on Term Loan}

From the cash accruals, the firm should be able to pay the loan installment and interest. As per the loan policy the minimum average DSCR for the entire period should be **1.50:1** and it should not slip below **1.25:1** at any point of time Higher the ratio better the term loan repayment capacity. This ratio is calculated for the entire repayment period of term loan.

Break Even Analysis

It is the stage at which total revenue generated equals total costs incurred. The total cost comprises Fixed Cost (like building rent, salary to office staff etc.) and Variable Cost (like cost of Raw Material, Labor etc). At Break Even Point (BEP),

Total Revenue (TR) = Total Cost (TC) = Fixed Cost + Variable Cost.

Lower the BEP quicker the firm can generate surplus income and repay the loan faster. The loan is viable if BEP is low.

Payback period method

The cash flows (Net Profit + Depreciation + Other non-cash write-offs) are compared with the investment cost of the project to determine the pay-back period.

Pay Back Period = Total Investment/Cash Flow per annum

If Payback period is low, project is more viable. It should be lesser than the life of the asset / project

Net Present Value Method (NPV)

The present value of all future income generation for the entire period of the project is calculated using the formula: Present Value = Future sum/(1+i)η

If total of present value exceeds (as a summation of all future income generation converted into present value for the life period of the asset) the investment, the project is viable

Internal Rate of Return

It is that rate at which the sum of the discounted cash inflows is equal to the investment outlay. Lower the IRR more viable is the project.

Fixing the repayment period for a term loan:

The repayment is fixed on the following consideration.

a. It should be within the period stipulated in our loan policy
b. It should be less than the life period of the assets created out of the loan
c. The DSCR (Debt Service Coverage ratio) is calculated for the entire repayment period of the loan. It should be average 1.5 and should not slip below 1.25:1 at any point.

STEPS IN CREDITAPPRAISAL:

1. Submission of the application form with all supportive documents like Assets & Liabilities form, KYC compliance documents, invoice for the machinery/ vehicle, income proof etc.
2. Interviewing the borrower.
3. Collection and verification of documents/financial statements according to type of credit facilities required as per Bank's norms.
4. Inspection: Pre-sanction Inspection is done by Bank's Officials
5. Preparation of credit proposal: The credit proposal contains the complete information about the borrower's background, appraisal of financial & managerial data, technical and economic viability of the activity and future prospects. Financial analysis is done to ascertain the requirement of financial assistance/ to arrive maximum permissible finance as per Bank's norms. This Financial analysis is done according to Bank's norms for different kind of facilities, adhering to various benchmark ratios. A SWOT analysis (Strength, Weakness, Opportunity and Threat) is also to be made.
6. Sanction of credit proposal: The sanctioning authority goes through the credit proposal and it is his responsibility to ascertain the facts of the proposal. Any change/modification of the terms and conditions are to be taken up with the sanctioning authority for amendment. A sanction letter is given to the borrower. The sanction letter contains the type and size of

facility and margin stipulated with all terms and conditions including rate of interest and charges, Insurance of the proposed security and periodicity of inspections etc. which is duly acknowledged by the borrower.

7. Disbursement of the loan
8. After disbursement post sanction inspections are carried out by the Bank's official from time to time (as stipulated per terms of sanction) to ascertain the utilization of funds, for safeguard of the advance and Bank's interest in the security.

Check your progress:

1 Margin stipulated on the project cost is usually

a.15-25% b. 5% c. 50% d. Maximum 50%

2 Term loan is given for

a. purchase of raw materials
b. Acquiring fixed assets
c. payment of wages
d. servicing other liability

3 Loan to value is 75%. What is the margin stipulated

a.100% b. 75% c.0% d.25%

4 If Net Present Value calculated for the project period is positive

a. It is viable
b. It is unviable
c. It may be viable or unviable
d. Cannot be determined

5 DSCR should not fall below minimum of

a. 2.25 b. 1.25 c. 1.50 d. No such stipulation

6 Breakeven Point is the point where profit is

a. Equal to 0 b less than 1 c more than 1 d. less than or equal to1

7 Internal Rate of return estimates
a. technicality of the project
b. viability of the project
c. repayment period
d. interest rate

8 Repayment period of the term loan is fixed based on

a. Economic life of the assets
b. Value of margin brought by the borrower
c. Value of Security for the loan
d. Value of sales made

9 Current Ratio measures

a. average term liquidity
b. long Term Liquidity
c. short Term liquidity
d. future liquidity

10 Owners stake in the term loan is called

a. Loss b. Equity c. Profit d. Margin

Answers:

1	2	3	4	5	6	7	8	9	10
a	b	d	a	b	a	b	a	c	d

Unit: 6

PROJECTFINANCE

Objective:

To make the reader understand the concept of project financing and the methods and tools adopted in financing

Contents:

The concept and components, different methods of assessment and tools used in the process

Introduction:

Any economic activity can be considered as a project. Putting up a manufacturing unit, starting a computer learning centre, purchase of lorry or other vehicles for using as public transport etc. can all be considered as a project. Banks will be required to finance these activities, and the assessment of various parameters for financing the activity is called project appraisal or evaluation

Funds Requirement:

Funds are required for carrying on the activities. Financial institutions provide this in the following ways either through short term or long term

- Underwriting of shares (capital participation by financial institutions in the long term)
- Direct Term loan/Deferred Payment Guarantee in the long term
- Capital subsidy provided by governments either as front end or backend
- Short term Bank finance by way of OCC/OD/Bills Discounting

Four aspects of Project appraisal:

Managerial Appraisal: This is the information about the promoter. Following points are enquired and ascertained in managerial Appraisal

- The past experience of the borrower in conducting a business
- His acumen in carrying out the business
- His financial background – whether he is having sufficient capital and margin and from which source he is able to bring the same
- His managerial qualities like leadership, team work, negotiation skills, endurance, marketing skills, problem solving ability, meeting untoward incidents etc.
- What is his interest and stake in the business – is he seriously interested in the business or for availing concessions given by the government – is he putting his full energy

- His knowledge about the business, competitors, other products etc.
- Information about the proposed sales plan and is he able to achieve the same
- What is the succession plan for the business, and road map for meeting the business targets like sales, profit etc.

Market Appraisal: This is the analysis about the product/service he is going to produce and market, Full information about the following points should be collected

- Who are the target customers for his products
- His knowledge about his competitors Product
- The nature of his product Essentials – Comforts – Luxury (the market exits depending on this nature)
- The sustainability of the product for future times (Some products will be rejected by the market soon eg. fashion mobile phones)
- The nature of selling process whether in credit terms or cash terms
- In case of necessity what is the scope for diversification of products
- Is it an ancillary or final product (both have got its own merits and draw backs. Ancillary products are having a steady market but dependability on limited outlets will be high. Final products market is to be established but sustainability will be more)
- What is the size & prospective growth of market for the product
- Demand supply position of product – how the market forces affect the product's present status and future prospects
- The demand for the product depends on the pricing policy adopted for the product
- Marketing strategy – how the different channels of marketing is to be used – terms of payment and concessions allowed

Technical Appraisal: This is gathering information about the process involved in carrying on the business

- Location of the unit and its environment
- Size and capacity of the plant that will be used for the process and the process used (there should be optimum utilization of capacity; nether under nor over)
- Type of technology used
- Alternative methods in an eventuality of breakdown
- Technical support available for after sales service
- The quality of labor force and suitable administration personal
- Various statutory compliance like factory laws, company laws, labour laws, environment and pollution laws, waste disposal etc.
- Availability of all inputs like raw material, power, water, technical support etc
- Scope for scaling up of activities (when going for expansion whether the present situation gives room for the same)
- Government Policies
- Buyer/Seller country risk

Financial Appraisal

- Reasonableness of Project Cost – whether contingencies are provided for costs overrun in case of delay (this is highly relevant in an inflationary trend)
- How the margin is going to be raised – his assets, and the quantum of outside borrowing (too much outside borrowing will have adverse impact on the repayment)
- Realistic estimate of earnings and operation costs to arrive at the profit generation
- What is the acceptable Break Even Point level (if the breakeven point is low income generation will be faster)
- Estimation of DSCR for the project period at the accepted level
- Other relevant ratios like Debt Equity Ratio, TOL/TNW, Fixed Assets Coverage Ratio, Asset Turnover Ratio, Net Profit Ratio, Current Ratio etc (dealt in detail below)
- Reasonableness in probable escalation of input costs
- Future level of sales are projected in a realistic way

Essentials of a project report

Usually project report is submitted by the borrower. It should contain the following essentials for proper appraisal by the Bank

1. General Information: Name, qualification, experience of the promoter and a small industry analysis
2. Rationale: Objectives, justification
3. Project description: What, Where, How
4. Input Factors: raw material, labor, power, fuel, water, communication & transport facilities, machinery & equipment, capacity & technology, Quality control
5. Market potential: Demand & supply, market strategy
6. Capital Expenditure & sources of finance, capital cost
7. Assessment of working capital requirement
8. Other financial aspects

Estimation of project cost:

- Land & Building (land cost, legal charges, leveling roads, fencing, factory building, ancillary units, administrative building, godown, canteen, quarters, tanks, garages, architect fee etc.)
- Plant & Machinery (importing cost, duty, freight, clearing, stores and spares, transportation, sales tax, installation, engineering consultant fee: technicians, training etc in a realistic approach)
- Fixed Assets & Vehicles (furniture, fixtures with spares and installation cost)
- Preliminary and Pre-operative expenses (brokerage, commission, share issue cost, mortgage expenditure, technical Know-how fee, engineering & consultancy fees, training and advertisement cost etc)
- Margin on Working Capital Limits (5% of sales in projected turnover method for working capital limits up to Rs 5 crores, and 25% of total current assets in second method of lending for limits of Rs 5 crores and above)
- Provision for contingencies

The first three components are backed by tangible fixed assets whereas the last three components are intangible in nature. It is desirable to insist for additional security if the intangible components are substantially higher whereas primary security may be insufficient to cover the loan. A margin of 15-25% is insisted on the project cost which is to be brought in by the promoter, depending on the promoter and business. If capital subsidy is provided by other agencies or amount is already invested by the borrower on various assets, the same may be taken margin.

Banks finance term loan for covering the project cost and working capital for meeting day to day expenditure (running cost)

Project Evaluation:

A project is evaluated on the capacity to repay the loan sanctioned. The following methods are adopted for the evaluation

Payback period method

The cash flows (Net Profit + Depreciation + Other non-cash write-offs) are compared with the outlay on the project to determine the pay-back period.
Pay Back Period = Total Investment/Cash Flow per annum
If Payback period is low, project is more viable. It should be lesser that the life of the asset/project

Net Terminal Surplus

Future Value = Principal x (1+i)η

- Each year returns are calculated for the future period as above
- Future value of investment is also calculated
- Net terminal surplus is calculated as accumulated returns for the entire period of project life - future value of investment. If it is positive then project is viable

Net Present Value Method (NPV)

The present value of all future income generation for the entire period of the project is calculated using the formula
Present Value = Future sum/(1+i)η

- Present value of all future sums calculated
- If total of present value exceeds investment, the project is viable

Internal Rate of Return

It is that rate at which the sum of the discounted cash inflows is equal to the investment outlay. Lower the IRR more viable the project

Fixing the repayment period for a term loan:

The repayment is fixed on the following consideration

- It should be within the period stipulated in our loan policy
- It should be less than the life period of the assets created out of the loan

- The DSCR (Debt Service Coverage ratio) is calculated for the entire repayment period of the loan. It should not slip below 1.25:1 at any point of time. Also the average DSCR should be minimum 1.5:1. (Average DSCR is calculated as the summation of values of the components of the ratio for the entire repayment period)

DSCR = (Net Profit + Depreciation + Interest on TL)/ (Installment + Interest on TL)
The numerator of the ratio is the cash accruals and the denominator is the commitment of loan payments

The other relevant ratios to be calculated for determining the viability of the term loan is asunder

Debt Equity Ratio (DER) = Total term liability/Equity. The acceptable level is maximum 2:1. That is for every one rupee of equity, term liability that can be availed maximum is two rupees. Lower the ratio better the leverage for repayment of the loan

TOL/TNW = Total outside liability/Tangible Net Worth (TNW = net worth – Intangible assets). The acceptable level for the loan is maximum 3:1. It can be seen that TOL/TNW will generally be more than the DER, as current liabilities are also included in TOL/TNW

Interest Coverage Ratio (ICR) = Profit before interest/Total interest burden (total interest burden is the sum of interest on term loan and working capital). The accepted level should be minimum of 1.5times.

Fixed Assets Coverage ratio (FACR) = value of FA procured out of the loan/term loan availed. Accepted level is minimum of 1.20times

Financing Working Capital:

Working capital is sanctioned for meeting day to day expenditure. It is repaid out of sales revenue. A need-based assessment of working capital shall be made based on the **reasonable projected level** of activity. The following methods are used for assessing the working capital.

a) Turnover method – Up to Limit Rs.5 Crore
b) Maximum Permissible Bank Finance (MPBF) 2nd method – Limit >Rs5 Crore
c) Cash Budget System

The following points are to be taken care of while considering a WC proposal.

Sales: Since proposals up to Rs 5 crores are sanctioned under projected turnover method at 20% of sales, growth of sales both in value and quantum is to be evaluated. The projection made is to be reasonable

Net Profit: The net profit generation projected is to be on a reasonable basis. The health of any business is gauged by the efficiency in income generation

Margin: In all cases of projected turnover method borrower should bring in margin of 5% of the projected sales and the limit is sanctioned as 20% of projected sales. If more margin is brought in by the borrower, Limit may be sanctioned at the reduced level from the stipulated 20% of projected sales

Important Ratios for Assessment of Working Capital:

Current Ratio = Current Assets/Current Liabilities. The acceptable level is minimum 1.33:1. Higher the ratio, higher is the liquidity

Inventory Turnover Ratio = Sales/average inventory. Though no standardization is specified, a level of more that 5 is good. Higher the ratio, more is the efficiency of the firm in managing the inventory

Debtors Velocity=Debtors*365/Sales. Usually debtors of less than 180 is considered good. If the ratio is between 90 and 180, the receivables management can be considered good.

6.8 4 Factors influencing Working capital:

- Production policy
- Nature of business
- Manufacturing process
- Credit policy
- Turnover rapidity
- Seasonal fluctuations
- Supply and demand
- Nature of production
- Size of operation cycle, technology
- Market conditions

Check your progress:

1. Managerial appraisal pertains to

a. Product
b. Process
c. Person
d. Price

2. Which is not included in Project Cost?

a. Cost of Machinery
b. Preliminary Expenditure.
c. Working Capital
d. Vehicle

3. What is the margin stipulated if the loan to value is 80%?

a. 20%
b. 80%
c. 0%
d. It cannot be determined

4. If Net Present Value calculated for the project period is more than the project cost,

a. It is viable
b. It is unviable
c. It may be viable or unviable
d. Cannot be determined

5. Out of the following which is the accepted average DSCR

a. 2.25
b. 1.25
c. 1.50
d. No such stipulation

6. If the current ratio is high

a. Inventory is high
b. Debtors is high
c. Creditors is low
d. All are correct

7. If Fixed Assets Coverage Ratio falls below 1, what is the inference?

a. Security value is good
b. Security is eroded
c. Under-financing
d. Capital is eroded

8. If both Debt Equity Ratio and TOL/TNW are equal what is the outcome

a. No Term liability
b. No outside liability
c. No income generation
d. No current liability

9. Projected turnover method of Working Capital finance is used for limits of

a. Up to Rs.1crore
b. Up to Rs.5crores
c. Up to Rs.10crores
d. No stipulation

10. Margin stipulated on the project cost is usually

a. 15-25%
b. 5%
c. Minimum 50%
d. Maximum 10%

Answers

1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
c	**c**	**a**	**a**	**c**	**d**	**b**	**d**	**b**	**a**

Unit: 7

IMPORTANT STRUCTURED LOAN PRODUCTS – PERSONAL

7.0 Objective: To provide an insight on the frequently used personal structured loan products and credit cards. Structured loan products have advantage over other products in the sense they are tailor made products with set application forms, simple appraisal techniques, scoring models and easy processing and monitoring.

Small tip: - It is easy to remember any product, if you just know PQRSTMAI (Purpose, Quantum, Repayment , Security, Targeted beneficiary , Margin, Age limit, Insurance)

For all borrowers, CIBIL/CIC reports is to be checked before sanction, KYC to be updated and scoring to be done.

Contents: Pension Loan, Jewel Loan, Home Loan, Vehicle Loan, Education loan and Credit cards

PENSIONLOAN:

Purpose	Medical, Education, Family function etc.
Target	Pensioners – Central, State, Family pensioners, Re-employed pensioners, IB retirees maintaining Savings Bank account with our Bank
Quantum	Regular Pensioners: 15 times monthly pension with no maximum cap. Maximum Entry Age: 75 years Maximum Exit Age: 78 years Family Pensioners: 12 times monthly pension subject to maximum 2 lakhs. Maximum Entry Age: 70 years Maximum Exit Age: 73 years
Repayment	Maximum repayment period up to 10 years or maximum exit age of 78 years for Regular pensioner and maximum exit age of 73 years for family pensioner whichever is earlier

JEWEL LOAN(NON-PRIORITY):

Purpose	To meet short term requirements
Eligibility	All individuals
Amount	Nett weight of jewel /ornament & at rate per gram fixed from time to time or 70% of market value of jewels, whichever is less
Security	Pledge of jewels / ornaments
Repayment	Maximum 1 year

HOMELOAN:

Purpose	Purchase / construction of a new flat, purchase of house site and construction thereon, Purchase of existing house / flat, Extension of existing house, Repairs and renovation, Takeover of home loans from other Banks, reimbursement of cost incurred for purchase/construction of house/flat
Target	Individuals – Salaried class, Businessmen, Professional & self-employed
Age limit	18 – 70 years
Quantum & Eligibility requirements	Loan will be considered only based on NTHP criteria ➢ If Gross Annual Income of the Applicants (Individually of jointly) is up to Rs.15.00 lakhs, Net Take home annual income (after the proposed Loan EMI) should not be less than 40 % of the Gross Annual Income. ➢ If Gross Annual Income of the Applicants (Individually or Jointly) is above Rs.15.00 lakhs, NTHP should be minimum Rs.50000 per month. No other NTHP criteria should be insisted upon.
Repayment	30 years, including holiday period
Security	Equitable Mortgage of Property purchased / constructed out of loan proceeds, to be duly registered, apart from personal liability of borrower
Margin	10% - up to Rs.30 lakhs; 20% - Above 30 to 75 lakhs ; 25% - Above 75 lakhs, Repairs and Renovations - 30%
Other requirements	• Legal opinion from 2 advocates for advance of Rs.100 lakhs &above • Engineer valuation from 2 panel engineers for advances of Rs.100 lakhs & above; lower of the two values is to be taken into account

Checklist:

1. Completed Application Form with 3 passport size photograph.
2. Assets and liabilities statement in the Bank's format from applicant(s),Co-applicant(s)and guarantor(s)
3. Proof of Identity such as PAN Card / Voter's ID/Passport/ Driving License.
4. Proof of residence such as Recent Telephone Bill / Electricity Bill / Property Tax Receipt/ Passport / Voter's ID
5. Proof of business address in respect of businessmen /industrialists.
6. Proof of Employment.
7. Salary Certificate generally for the last 6months.
8. Statement of Bank account of the applicant(s) for a reasonable period, say 6 months for verifying salary credit/other income/nature of transaction etc.
9. Proof of other income like rent, interest on investment, if any.
10. Balance Sheet for the past three financial years in the case of Professionals, Businessmen & Self employed.
11. A brief note on the nature of business/service, year of establishment, constitution, securities charged in respect of other loans availed from our Bank/other Branches/Banks/Finance companies/ Other sources.
12. Form16/Income Tax / Wealth Tax (if applicable) Returns for the past 3years
13. Agreement of Sale / Sale Deed.
14. Approved Building Plan, Estimate for construction

15. Title Deed Documents for 13 years/30 years as the case maybe.
16. Certified copy of the title deeds and parent document tracking back to at least last 13 years from the title document are obtained from the Sub-Registrar's office (can be obtained through panel Advocate)
17. Proof of title in the Revenue Records.
18. Property Tax receipts wherever applicable
19. Up-to-date EC, Legal Opinion from Advocate & Valuation of property from Engineer will be arranged by Bank at applicant's cost.

RECENTCHANGES:

1. Stamp Duty / Registration Charges and other documentation charges are permitted to be added to the cost of house / dwelling unit – where the cost of house / dwelling unit does not otherwise exceed Rs.10.00 lakhs.

2. GST component is applicable while purchase of flat/house from the Developer/Builder i.e., fresh sale upon construction/under construction. This GST component can be included in the Project Cost and the eligible loan can be considered subject to availability of repayment capacity and LTV

3. **One time premium payment for Group Mortgage Insurance to be financed asa separate clean loan,** as detailed below:

Purpose	To meet one time insurance premium for Group Mortgage Insurance
Type	Non priority Term Loan - Group Mortgage Redemption Assurance Premium
Eligible applicant	Home Loan borrowers who opt for covering their loan under any of the Group Mortgage Redemption Assurance scheme being offered by the Bank
Maximum loan amount	Premium payable by the Home Loan applicant
Margin	Nil
Repayment	60 EMI without holiday period
Security	Documentation as per manual; Collateral security –House property
Other terms	EMI to be taken into account for assessing repayment capacity for Home Loan and Term loan

IB HOMEIMPROVE:

Purpose	For purchase of household furniture, kitchen racks, TV Sets, Fridge, Computers, Air Conditioners, Kitchen Chimneys, Modern Gadgets for kitchen / Modular Kitchen etc
Eligible applicant	Prospective home loan borrowers who are salaried class customers / professionals / business people.
Maximum loan amount	36 times of gross monthly income subject to a maximum of Rs. 300 lakhs with spouse income added
Margin	15%
Repayment	Maximum 120 months
Security	Extension of EM of property mortgaged for Home Loan.

IB HOME LOAN PLUS:

Target	Existing HL borrowers with good track record; regular repayment of minimum 12 EMI; NRI, Staff members (including retired staff)
Quantum	Minimum – Rs.1 lakh; Maximum – Rs.60 lakhs
Income	As applicable to Home Loan to Residents & NRI
Other requirements	To be revalued before considering the proposal Residual life of building / flat – minimum 10 years more than repayment period
Margin	LTV Ratio of 90%, 80% or 75% depending upon the Home Loan Slab to be maintained for Home Loan outstanding and 30% margin on the residual value of the House Property (i.e on RSV) to be maintained for this top up loan.
Repayment	Maximum 10 Years
Documents to be submitted	Requisition letter Up to date EC & tax paid receipt Valuation report from Panel Engineer Letter of authority for recovery of EMI Insurance for the value of building and other documents as per documentation chart
Other conditions	Number of Home Loan Plus accounts against the Home loan property at any point of time shall be restricted to two. Second top-up loan can be extended only after a gap of one year from the date of availment of the first top-up loan subject to LTV

LOAN FOR PURCHASE OF HOUSESITE:

PRODUCT	**LOAN FOR PURCHASE OF HOUSE SITE / PLOT BY RESIDENTS / NRIs**
Eligibility	As applicable to Home loan to Residents / NRIs
Purpose	Purchase of house site on ownership basis (not on lease basis) layout of which is duly approved by competent authority viz., Layout should be approved by CMDA / DTCP or by the respective Statutory Authority empowered for the purpose as per local rules.
Quantum	36 times of gross monthly income. Or 3 times of Annual net income Maximum 100/200/600/1200 (Rs. In lakhs) – R/SU/U/M respectively
Margin	25% of cost of plot
Repayment	180 EMI ; No holiday period Construction of house has to commence within 2 years from the date of availing the loan / from the date of handing over possession by the Government Housing Development Agency, otherwise Interest Rate applicable for Ind Mortgage Loan will be charged
Security	EM of House site to be purchased and the EM is to be registered.

IB REVERSEMORTGAGE:

Eligibility	Senior citizens above 60 yrs, including retired staff; Self acquired residential property
Purpose	Medical, emergency expenditure, repayment of existing loan, meeting any other genuine deed
Quantum	❖ The amount of loan will depend on realizable value of the residential property as assessed by the Bank. The realizable value of the property is calculated at 10% less than the Market Value assessed by Bank's Panel Engineer. ❖ Maximum loan amount: Rs.75 lakhs. ❖ Regular monthly payments as annuity. ❖ While monthly annuity will be normally offered under the Scheme, in the event of need meeting medical expenses of the Reverse Mortgage Loan Applicant/s and it is on selective basis, as a special case and other genuine causes, lump sum upto Rs.15.00 lakhs will be considered.. Revaluation of property to be done once in 3 years and interest rate will be reset once in 5 years. Periodic monthly payments will be

	based on such revaluation and the Loan to Asset Value shall be based on such revaluation. Borrowers consent for this will be obtained upfront.
Margin	61% of Realizable value
Period	Maximum 15 years, with a provision to roll over, in case of need, after revaluation 1. The loan amount need not be repaid during the lifetime of the borrower/spouse. The borrower/spouse can continue to stay in their home during their lifetime 2. The loan shall become due and payable a) at the end of the stipulated repayment period or when the last surviving borrower dies, whichever is earlier, b) sells the home or permanently moves out of the home ("Permanent move" means neither the borrower nor any other co-borrower has lived in the house for one continuous year) 3. Settlement of loan along with accumulated interest to be met by the proceeds received out of sale of residential property 4. The borrower/his/her/their legal heirs will have option to settle the loan along with accumulated interest, without sale of property. (If required, nomination of legal heirs can be insisted upfront).

IBRENTENCASH:

Purpose	Any purpose including repairs, renovation of buildings, marriage, education, household festivals, Medical or any bankable purpose other than speculative / prohibited purposes		
Target	Owners of Freehold Property / Leasehold Property** (Commercial / Residential - Individual / Joint owners / Trust / Societies / Corporate / Firms or any other entity) who have let out / who propose to let out their buildings to top notch Corporates / Public sector undertakings / State / Central Government offices. ** Conditions apply		
Quantum	Minimum: Rs.1.00 lakh, Maximum: Rs. 500.00 lakhs. <u>No. of times of Rent:</u> MAX: 120 Months – for Category "A" Lessees 84 Months – for Category "B" Lessees		
Margin	**Category of lessee**	**Margin on NPV - of Rent Receivable**	**Margin on RSV of the property**

	a) Category "A" : PSBs / Central or State PSUs / MNCs (rated by FITCH or S&P with rating of "BBB" and above) & Top Notch Corporates (with external rating of "BBB" and above)	10%	30%
	b) Category "B" : All other cases	20%	40%
Repayment period	Maximum of 120 Months or residual Lease period (certain period) whichever is lower - Category "A" Lessees Maximum of 84 Months or residual Lease period (certain period) whichever is lower – Category "B" Lessees		
Security	i) Assignment of Rent Receivables ii) EM of freehold property / leasehold property and registration of EM wherever applicable. iii) CERSAI registration		

INDMORTGAGE

Purpose	Any purpose including repairs, renovation of buildings, marriage, education, household festivals / functions, Medical or any bankable purpose other than speculative
Eligibility	**Salaried Class:** ✓ Permanent Employees of Central / State Govt. / Quasi Govt. Bodies / Public ✓ Limited Companies / reputed Private Limited Companies with clear record of paying timely salaries. ✓ Applicant should have minimum completed service of 3 years. ✓ Should have / should open duly introduced account with us. ✓ Employees of Indian Bank and other Banks (PSU / Private / Foreign / Co-op) are also eligible. **Others:** ✓ Self employed / Professionals / Traders / Businessmen, Sole Proprietary concern, Firms and Limited companies are eligible based on their income level and cash flow. ✓ NRI customers are also included subject to the condition that the end use is for bankable purpose, as permitted by RBI. ✓ Loan to HUF – Not permitted.
Age	Salaried : Minimum Entry Age – 18 years; Exit age – 60 years or age of retirement P & SE / Other Individuals / Sole-proprietor: Minimum Entry Age – 18 years; Exit age – 70 years
Quantum	A. For Salaried class ✓ Minimum Rs.5.00 lakh. ✓ Maximum: Rs.200.00 lakhs: if the property is situated in Tier I /Tier II Centres ✓ Maximum: Rs.100.00 lakhs: if the property is situated in all other centres other than Tier I / II Eligible Loan Amount: ✓ Repayment period:< / = 60 months ----> Max: 36 times of Latest Gross Monthly Salary*

	✓ Repayment period: > 60 Months ----> Max: 48 times of Latest Gross Monthly Salary* <u>B. For Pensioners</u> ✓ Minimum Rs.5.00 lakh. ✓ Maximum: Rs.100.00 lakhs: if the property is situated in Tier I /Tier II Centres ✓ Maximum: Rs.50.00 lakhs: if the property is situated in all other centres other than Tier I / II <u>Eligible Loan Amount:</u> Repayment period:< / = 60 months ---> Max: 3 times of Annual income Repayment period: > 60 Months ---> Max: 3 times of Annual income <u>C. For Professional & Self- Employed / Sole-Proprietorship Concern / Other Individuals</u> ✓ Minimum Rs.5.00 lakh. ✓ Maximum: Rs.500.00 lakhs: if the property is situated in Tier I /Tier II Centres ✓ Maximum: Rs.100.00 lakhs: if the property is situated in all other centres other than Tier I / II <u>Eligible Loan Amount:</u> Repayment period:< / = 60 months ---> Max: 3 times of Annual cash profit (PAT + Depreciation) * Repayment period: > 60 Months ---> Max: 4 times of Annual cash profit (PAT + Depreciation) * <u>D. For Business Class</u> ✓ Minimum Rs.5.00 lakh. ✓ Maximum: Rs.1000.00 lakhs: if the property is situated in Tier I /Tier II Centres ✓ Maximum: Rs.200.00 lakhs: if the property is situated in all other centres other than Tier I / II <u>Eligible Loan Amount:</u> Repayment period:< / = 60 months ---> Max: 3 times of Annual cash profit (PAT + Depreciation) * Repayment period: > 60 Months ---> Max: 4 times of Annual cash profit (PAT + Depreciation) *
Margin	✓ 40% of the Realisable Sale Value of the immovable property offered as security – if property is situated in Tier-I & II cities. ✓ 50% in case of properties situated in other places. ✓ Margin relaxation up to 5% may be permitted by ZLCC in both the cases.
Repayment period	Not exceeding 120 months can be extended up to 180 months by ZLCC
Security	EM of property offered as security apart from personal liability of borrower

EDUCATIONAL LOAN:

Sanctioning authority: Zonal Level Credit Committee (ZLCC)

	EDUCATION LOAN (Revised IBA)	**IB EDUCATIONAL LOAN PRIME (IBA SCHEME)**
Eligibility	Should have secured admission to a higher education course in recognized institutions in India or Abroad through Entrance Test/ Merit Based Selection process after completion of HSC (10 plus 2 or equivalent).	Any course offered by the premier Colleges/ Institutions Students joining the targeted premier institutions (including wards of staff, with existing terms and conditions)
Margin	Upto Rs.4 lakhs – Nil; Above Rs.4 lakhs – In India-5%; Abroad-15%	Nil
Loan amount	Need based limit. No ceiling Collateral free loan up to 7.5 lakhs	Need based limit. No Ceiling Collateral free loan List 'A' – Rs.30 lakh (Rs.40.00 lakh for ISB only) List 'B' - Rs.7.50 lakh List 'C' - Rs.7.50 lakh
Repayment	Moratorium period: Course period plus Holiday Period of one year (maximum), in all cases Repayment: Up to 180 EMIs, commencing immediately after the moratorium period	Moratorium period: Course period plus Holiday Period of one year (maximum), in all cases Repayment: Up to 180 EMIs, commencing immediately after the moratorium period
Security	Upto Rs.4 lakhs – Parent / guardian – Joint borrower Rs.4 – 7.5 lakhs – As above + III party guarantee Above Rs.7.5 lakhs – As above + tangible collateral security – Residual value not less than loan amount For the loans upto Rs.7.50 lakh Credit Guarantee Fund Scheme for Educational Loans (CGFSEL) is mandatory.	Collateral Security has to be obtained for accounts, beyond the above mentioned limit. Either of the Parents or spouse or guardian has to stand as co-applicant. For institutions under List 'A', 'B' and "C", all the accounts up to limit of Rs.7.50 lakh, are to be mandatorily covered under Credit Guarantee Fund Scheme for Educational Loans (CGFSEL).

IBA SKILL LOAN SCHEME:

Target	Individuals who intend to take up skill development courses as per the Skilling Loan Eligibility Criteria.

Eligibility	Any individual who has secured admission in a course run by Industrial Training Institutes (ITIs), Polytechnics or in a school recognized by central or State education Boards or in a college affiliated to recognized university, training partners affiliated to National Skill Development Corporation (NSDC)/ Sector Skill Councils, State Skill Mission, State Skill Corporation, preferably leading to a certificate / diploma / degree issued by such organization as per National Skill Qualification Framework (NSQF) is eligible for a Skilling Loan.
Courses	Courses run by above mentioned Training Institutes aligned to National Skill Qualification Framework (NSQF) may be covered under IB Skill Loan. There is no minimum course duration.
Minimum age	No specific restriction
Quantum	Loans will be in the range of Rs. 5,000/- to max. Rs. 150,000/-.
Expenses covered	Tuition / course fee: Banks shall pay such tuition / course fee directly to the Training Institute. Any other reasonable expenditure
Margin	10%
Repayment	Loans upto Rs.50,000 - Upto 3 years Loans between Rs.50,000 to Rs.1 lakh Upto 5 years Loans above Rs.1 lakh Upto 7 years
Security	Nil

IB VEHICLELOAN:

Target	Salaried class, Professionals, Businessmen, Self-employed persons, our Staffs, NRIs*, pensioners, employees of other banks with NOC from employer concerned. *For NRIs (individuals only), loan for purchase of 4-wheeler (to be used by his / her family in India) may be permitted subject to the following conditions: i. Minimum monthly income should be equivalent to INR:.40000/- ii. Guarantee of resident family member to be obtained (Spouse, Father, Mother, Son or Daughter) iii. Minimum residual contract should be 3 year <u>Type of Vehicle</u> — <u>Minimum Service / Experience</u> 4-Wheeler — 2 years 2-Wheeler — 1 year (salaried class/pensioner) 2 years (for all other categories)
Purpose	Purchase of new 2 wheeler and purchase of new / used 4 wheeler (Age not more than 3 years) ZLCC may permit sanction of loan for purchase of Used Four-Wheeler aged over 3 years and up to 5 years depending upon the Valuation of the vehicle.
Quantum	Maximum loan ceiling – 2 Wheeler – Rs.5 lakhs ; 4 Wheeler – Rs.200 lakhs

Eligibility & Income Criteria	Salaried class – 48 times of Gross monthly income. Minimum Gross monthly income of Rs.25000/- and above for 4 wheeler Pensioners – 36 times of Gross monthly income. Drawing monthly pension of Rs.20,000/- and above for 4 wheeler, Rs.10,000/- and above for 2 wheeler Professional & Self Employed / Businessmen - Maximum of 3 times of average Net annual income for the last two years as per latest ITR. For individuals, including Professional and Self-employed, where the individual's monthly income is reckoned for arriving at the quantum of Vehicle Loans – NTHP (after deducting proposed EMI) should be ensured at 40% of Gross Monthly Income. In case of Business Class (Non-Individuals) like Partnership Firms, Limited Companies etc. – DSCR of 1.5 to 2.00 – as per extant Credit Policy guidelines in force shall be maintained
Security	• Up to Rs.25 lakhs - Hypothecation of vehicle purchased; Tangible security / guarantee, if considered necessary • Above Rs.25 lakhs - Hypothecation of vehicle purchased + 100% collateral security (exceedingRs.25 lakhs) + Third party guarantee, is desirable
Repayment	2 Wheeler – Maximum – 60 months 4 Wheeler – New – Salaried class – 84 months; Used – Repayment period should be fixed based on the age of vehicle subject to a maximum period of 60 months as below: Age of Vehicle — Repayment Period Up to 2 years — 60 months Above 2 yrs up to 3 yrs — 48 months Above 3 yrs up to 4 years — 36 months Above 4 yrs up to 5 years — 24 months
Requisites for financing old 4 wheelers	1. No valuation certificate is required if the car is sold by any original automobile Manufacturer like Maruti True Value, etc. 2. Ownership to be ascertained 3. Financing on the basis of duplicate Registration book not permitted 4. For used vehicle (4-wheeler), the loan amount will be restricted to 80% of the Agreed Purchase Price or 60% of the valuation of the vehicle or insured Declared value (IDV) as per the latest Insurance Policy whichever is lower.
Margin	2 Wheeler & New 4 Wheeler – 15%
Documents to be submitted	EMPLOYMENT DETAILS: 1. Proof of employment for minimum 2 years' experience for 4-wheeler loans and one-year experience for 2-wheeler loans. 2. Where service in the current employment is less the above stipulation - proof of the previous employment experience. 3. If employed in a private concern, company profile of the employer to ascertain the Standing /status of the company 4. For all the salaried class applicants - a copy of the confirmation letter. 5. For NRI – latest employment contract indicating residual contract

	period of not less than 3 years. 6. Assets and liabilities Statement in the Bank's format from applicant(s), co-applicant(s) and guarantor(s). 7. Proof of business address in respect of businessmen / industrialists <u>FINANCIAL PAPERS:</u> 8. Salary slips/Salary certificate for 6 months for Applicant / Guarantor 9. Form 16 or ITR for immediately preceding 2 years with income computation sheet. Proof of other income like rent, interest on investment, if any. (ZLCC can relax up to 2 years) 10. Salaried Class / Pensioners - Statement of Bank accounts for 6 months for verifying salary/pension credit/other income etc. 11. In case of Self-employed / Professionals / Businessmen, ITR & Balance Sheet for immediately preceding 2 years <u>OTHER PAPERS</u> 12. Quotation for the vehicle to be purchased from reputed / authorized dealers. 13. Driving license is mandatory for two wheelers, and optional for four wheelers. 14. In case of old Vehicles, valuation to be done by Automobile Association of India / Reputed Automobile Engineer / Valuer acceptable to the Bank/latest Insurance Policy. 15. In case of NRI undertaking letter as to the usage of vehicle in India.
Takeover vehicle loan from other bank	**Sanction by ZLCC:** 1. Age of vehicle – Not more than 2years 2. Single ownership 3. No insurance claim availed 4. Borrower account with other Bank should be standard

IB CLEAN LOAN TO SALARIED CLASS SCHEME (IBCLS):

Purpose	Marriage / Education & medical expenses / celebrations / household expenses/ to celebrate family functions
Target	Permanent Employees with minimum service / experience of three years with Govt./Quasi – Govt./Boards / Endowments / MNCs / reputed companies / Corporates/ Industrial Establishments etc. with Take Home pay of 40%
Quantum	Maximum of Twenty times of monthly GROSS salary
Security	Salary of the employee is credited in our Bank and Check-off/ Undertaking is available.
Margin	Nil
Repayment	Maximum up to 84 months subject to closure of the loan 3 months prior to superannuation
OD facility	This is permitted on a case to case basis and in such cases 1% additional interest shall be charged.

LOAN AGAINST NSC / KVP / LIC / RBI BONDS:

Purpose	For any bankable purposes other than speculative
Target	All properly introduced customers (Including all Staff Members, VRS/ Retired staff, Corporate / reputed partnership firms), whose capacity to service the loan and interest are appraised. This facility may be sanctioned either as Term Loan or OD against said securities under this SLP
Quantum	<u>Term Loan:</u> Minimum Rs.10000/- subject to prescribed margins with no upper ceiling. <u>OD Facility:</u> Minimum limit Rs.200000/- subject to prescribed margins throughout the tenor of the loan with no upper ceiling
Margin	<u>Individuals</u> - 25% of the accrued value/surrender value of the securities <u>Other than Individuals</u> - 50% of the accrued value/surrender value of the securities
Repayment	Not exceeding 5 years OR till the date of maturity of the instrument, whichever is earlier - in the case of NSC/KVP/Relief bonds 6 years OR till the date of maturity of the Policy, whichever is earlier in the case of Advance against LICs
Security	Creation of appropriate Charges on the Securities, in the name of Applicant / Borrowers: ✓ Lien on NSC/KVP - Post Office Lien marking charges to be recovered ✓ LIC: Assignment of LIC Policy in Bank's favour. ✓ Relief Bonds: Transfer of bonds in Bank's favour Loan Against Money back Policy is not permitted under this scheme.

CREDITCARDS:

Bank issues General Purpose Credit Cards in association with M/s Visa International as its Primary Member. Following variants of Visa cards & Rupay Cards are offered in the Personal Card segment

VISA	RUPAY
Global Gold Card Global Platinum Card Domestic Bharat Card Secure Card	Classic Card Platinum Card Select Card Secure Card

Various Credit Card products and daily usage limits:

S.No.	Card Product	ATM Cash Limit	POS / E-Com Purchase Limit	Aggregate Limit
1	Bharat/ Classic Card	8000	12000	20000
2	Gold Card	25000	75000	100000
3	Platinum/ Select Card	50000	150000	200000
4	Business Card	50000	300000	350000

Eligibility Criteria, Features & Card Limits

Eligibility Criteria

The features and eligibility criteria for various card types are as follows:

Visa- Global Gold, Platinum Cards, Rupay-Select, Platinum & Classic

- ✓ Indian Nationals of Age between 18 to 80 years with Minimum Gross Income of Rs.12,500/- per month (applicable prospectively).
- ✓ PAN Card is mandatory
- ✓ Mobile Number and email id are desirable. But, one of these is mandatory.
- ✓ Add-on cards up to a maximum of 4 to spouse / children / brothers / sisters / parents. KYC Documents (address proof and identity proof) are mandatory

The eligibility criteria for credit cards limits are given below:

Customer	Condition	Limit
Existing Deposit Customer	Average monthly balance of Rs.50000 & above	Min Rs.50000 Max – Equals to monthly average balance of 1 year
Existing salaried customer	Employed with Central Govt/State Govt/PSU/ MNC/Govt aided institutions and maintaining salary account with us	Min-Rs.50000 Max-Three times of monthly salary
Existing standard home loan customer	Loan limit of Rs.20.00 Lakh and above and servicing installment regularly	Min Rs.100000 Max – 5% of home loan limit, maximum Rs.300000
New Home Loan customer	Loan limit of Rs.25.00 Lakh and above	Min Rs.100000 Max – 5% of home loan limit, maximum Rs.300000
Existing deposit customer	Annual transaction through Debit card is more than Rs.50000 for non-cash transaction	Min Rs.50000 Max – Equals to monthly average transaction of 1 year
Existing business loan customer enjoying working credit facility	Loan limit of Rs.25.00 Lakh and above and account is regular	Min Rs.100000 Max – 10% of avg. monthly turnover (past 1year)
Existing Current Account customer	Monthly turnover of Rs.10.00 Lakh and above	Min Rs.100000 Max – 10% of avg. monthly turnover (past 1year)

Existing Business Correspondent	Having monthly remuneration of Rs.10000 and above (based on last six months average)	Min Rs.25000 Maximum- Three times of average monthly remuneration

Bharat Cards

- Only to Indian Bank customers having satisfactorily conducted accounts and with KYC Compliance
- Indian Nationals of Age between 25 to 60 years with Minimum Gross Income of Rs.5000/- per month (applicable prospectively).
- No add-on cards.
- Voter ID/AADHAR No is mandatory.
- Landline, Mobile Number and email id are desirable. But, One of these is mandatory.
- In case, the card usage amount exceeds Rs.1.00 lakh in a financial year, PAN Card details are to be furnished by Card holder.
- Form 60 of Income Tax Rules 1962 to be obtained, in case Pan Card is not available

Business Cards

- Corporate & SMEs Loan Accounts – (Limited Companies, Partnerships, Sole Proprietary Concerns, Trusts & Association) having aggregate secured limits of Rs. 25.00 lakhs & above
- Reputed corporate current accounts with satisfactory track record of operations and financials in the past two years on a case to case basis only by the Zonal Manager or with Zonal Manager's recommendation for limits beyond the sanctioning powers of Zonal Manager.
- Up to a maximum of 5 cards to the individual executives / employees nominated by the company and within the overall limit to the Company: the card, apart from the name of the individual, will also carry the name of the Business Entity.

Secure Cards

- Customers of Indian Bank having Term Deposit Accounts of Rs.25,000/- & above.
- Consent letter for marking lien on the deposit amount up to the limit sought is mandatory.
- PAN Card is mandatory.
- Mobile Number and email id are desirable. But, One of these is mandatory
- Add-on cards up to a maximum of 4 to spouse / children / brothers / sisters / parents. KYC Documents (address proof and identity proof) are mandatory.

Non-Customers

- Satisfactorily conducted SB/Current account with any scheduled Bank in India.
- Mobile number, email ID, PAN number and AADHAR card mandatory
- CIBIL score of 700 and above
- Age from 20 years to 70 years
- Income Rs.3 lakhs and above p.a. as per latest 2 years IT returns with income proof.

The features and credit limits of credit card range are given below:

S. No	Product Name	Card Type	limit range	Other Terms / Features
1.	Bharat Card (VISA Classic)	Domestic	Rs.10000 to Rs.19,999	EMI Facility – NO Cash Limit – 25% Minimum amount payablemonthly–10 % Reward points – NA
	Rupay Classic	Domestic	Rs.10000 to Rs.25000	EMI Facility - Yes Cash Limit – 25% Minimum amount payable monthly–5% Reward Points – NA
2.	Business Card VISA (Gold/ Platinum) & Rupay (Platinum/ Select)	Global	As requested by the customer	EMI Facility – NO Cash Limit – 40 % Minimum amount payable monthly–5 % Reward points –1 point valued at Re.1 for every Rs.200 spent – to be credited on 500 points accruing. Insurance cover for Rupay cards as offered by NPCI

3.	Visa-Gold Card / Classic Card	Global	Rs.20000 to Rs.99999	EMI Facility – YES Cash Limit – 40 % Minimum amount payable monthly– 5 % Reward points –1 point valued at Re.1 for every Rs.200 spent – to be credited on 500 points accruing.
4.	Visa Platinum Card	Global	Rs. 100000 and above	EMI Facility – YES Cash Limit – 40 % Minimum amount payable monthly– 5 % Reward points – 1 point valued at Re.1 for every Rs.200 spent – to be credited on 500 points accruing. Insurance cover for Rupay cards as offered by NPCI
	Rupay Platinum Card	Global	Rs.250001 to Rs.1,99,000	
	Rupay Select Card	Global	Rs.2.00 lakhs & above	
5.	Secure Card (Card to be issued against lien on the total amount in Term Deposit offered as security)	Global	Minimum of Rs. 25000 or 100% of the Deposit amount or lesser limit requested by the customer. Accrual of Interest on term deposit will not be considered for enhancement of Credit Card Limit.	Term Deposit Period – Minimum One Year EMI Facility – YES Cash Limit – 40% Minimum amount payable monthly- 5% Reward points – 1 point valued at Re.1 for every Rs.200 spent – to be credited on 500 points accruing. For Rupay credit cards as offered by NPCI

Accident Insurance Cover and other Insurance Benefits to Card Members

	Insurance cover		**Visa Gold, Platinum, Business, Secure cards**	**Visa Classic**	**Bharat & Rupay Classic**
A	Death (100%) due to Air Accident		Rs.5.00 lakhs	Rs.2.00 lakhs	Rs.1.00 lakh
B	Death (100%) due to any other accident		Rs.2.00 lakhs	Rs.1.00 lakh	Rs.0.50 lakh
C	Hospitalization Cover due to accident	Age upto 65 years	Rs.1.00 lakh	Rs.0.50 lakh	Rs.0.50 lakh
		Age 66 to 80 years	Rs.0.50 lakh	Rs.0.25 lakh	Not Applicable
D	Baggage Cover		Rs.10,000	Rs.5,000	Not Applicable
E	Credit shield on death		Rs.25,000	Rs.10,000	Rs.10,000
F	Purchase protection cover		Rs.25,000	Rs.10,000	Rs.10,000
G	Death (100%) due to any other accident to First Add On Card member		Rs.1.00 lakh	Rs.0.50 lakh	Not Applicable

Schedule of Service Charges

S. No	**Nature of services**	**Classic, Gold, Platinum, Select, Business, Secure cards**	**Bharat & Rupay Classic**
1	Joining Fee	Free for Primary Card	Free for Primary Card

2	Annual Membership (AMC Charges) **(From 2nd year onwards) +**	**Classic, Gold, Platinum, Select : Rs.250** **Business :** Rs.500 **Secure cards :** NIL Waiver of AMC is permitted in the following case: 1. If the transaction usage in the previous year exceeds Rs.50,000 p.a in Select/ Platinum/Gold/Classic 2. If the transaction usage in the previous year exceeds Rs.2,00,000 p.a in Business card	NIL
3	Cash Advance charges	2.25% p.m.	1.99% p.m.
4	Cash Advance Fee	Rs.50	Rs.25
5	Late Fee	Rs.250	Rs.50
6	Over Limit Fee	Rs.50	Rs.25
7	Limit Enhancement Fee	Rs.100	Rs.25
8	Cheque return Charges/Invalid Cheque Fee	Rs.250	Rs.50
9	Card Re-issue Fee	Rs.250 (Rs.100 for classic card)	Rs.100
10	Pin Mailer Re- issue Fee	Rs.50	Rs.25
11	Foreign Currency Transaction Fee	Conversion Mark up 3%	N A
12	Surcharge	Petrol: 2.5% , Railway Ticket 1.8% of transaction amount	
13	Statement Retrieval Fee	Rs.100 per statement	Rs. 50 per statement.
14	Charge Slip Retrieval Fee	Rs.125 per Slip	Rs. 75 per Slip

15	Balance Enquiry through ATM	Rs. 35 (in India) and Rs.50 (in abroad)	Rs.35 in India
16	Cash withdrawal at Bank's ATM's Cash withdrawal at Other than Bank's ATM's in India Cash withdrawal at any ATM at Abroad	Nil Rs.100 Rs.250	Nil Rs.75 NA

All charges are exclusive of GST.

Check Your Progress:

1. What is the quantum of maximum Pension loan that can be given to family pensioners?
   a. Rs.60000 b.Rs.2 lakh c. Rs.1.5 lakhs d. Rs.3lakhs
2. IB Home Improve is given for:
   a. Repairs b. Modification c. Purchase of furniture & interiors d. Extension
3. Quantum of loan under IB Home improve is_______times gross monthly income
   a. 30 times b.20 times c.36 times d. 10 times
4. Loan to value for IB Home loan up to Rs.30 lakhs is
   a. 80% b.90% c.10% d.20%
5. Margin under IB Reverse Mortgage
   a. 39% b. 50% c. 30% d. 61%
6. Margin for Plot loan to NRIs is
   a. 40% b.50% c.33% d. 25%
7. Maximum loan that can be given under IB Vehicle loan for 2 wheeler, subject to per borrower ceiling and credit powers is
   a. Rs.75000 b.Rs.50000 c.Rs.5 lakhs d. Rs.1 lakh
8. Maximum loan that can be given under IB Vehicle loan for 4 wheeler, subject to per borrower ceiling and credit powers is
   a. Rs.15 lakhs b. Rs.50 lakhs c. Rs.100 lakhs d. Rs.200 lakhs
9. Maximum limit that can be given under IB Home Loan Plus is
   a. Rs.5lakhs b.Rs.60 lakhs c.Rs.25lakhs d. Rs.20 lakhs
10. Pre-release audit limit for Structured loan products in general
    a. Rs.50 lakhs b.Rs.25 lakhs c. Rs. 10 lakhs d. No limit
11. Loan amount for purchase of house site in metro is 36 times gross with a maximum of
    a. Rs.50 lakhs b.Rs.1crore c.Rs.2 crores d. Rs.12 crores
12. Maximum loan amount under IBA Skill Loan Scheme
    a. Rs.20000 b.Rs.150000 c.Rs.75000 d. Rs.7.5lakhs
13. Age limit for issuance of IB Bharat card is
    a. 18 – 80 yrs b. 25 –60yrs c. 18 –60yrs d. 25 – 80yrs

14. Insurance cover on death due to air accident on IB Bharat card is

a. Rs.1 lakh b.Rs.2 lakhs c.Rs.3lakhs d. Rs.5 lakhs

15. The reward point is Rs.1forevery_______spent on the card

a. Rs.100/- b.Rs.200/- c.Rs.500/- d.Rs.300/-

Answers:

1	2	3	4	5	6	7	8	9	10
b	c	c	b	d	d	c	d	b	a
11	12	13	14	15					
d	b	b	a	b					

Unit: 8

TRADE FINANCE

Objective:

To make the reader understand the various types of credit facilities available for Traders

Content coverage:

Trade Finance, Eligible amount, Trade Well Scheme, Working capital assessment method, other terms and conditions.

Trade finance:

It is the process of financing for trading activities both wholesale and retail (domestic and international). It is basically to improve their stock and book debts, in the form of working capital and non fund based limits & Term Loan for acquiring fixed assets for trade activity. Trade finance in our Bank was introduced in 2000-2001 and over a period it was modified to suit the market completion. The latest modification was done in 2020, under the Tradewell scheme.

IB TRADEWELL

Particulars	Guidelines
1. Target Group	All Trading Units classified under MSME as per the definition of MSMED Act.
2. Eligibility	The Traders should have minimum one year experience with good standing in the market. Finance can be extended to new units subject to the availability of minimum 75% collateral security in the form of immovable property / liquid security.
3. Purpose	Working Capital needs. Term Loan for acquisition of fixed asset, modernization of business place/office.
4. Types of Facility	Fund Based: OCC / EPC / Term Loan / Secured OD / IBN / FBN / FBP Non-Fund Based: LC / BG
5. Loan Amount	Minimum Loan Amount: Above Rs.10.00 Lakhs Maximum Loan Amount: Term Loan : Rs.5.00 Crores Others : No Ceiling Fund Based WC : ➢ Up to Rs.2.00 Crores – Secured OD / OCC / PC ➢ Above Rs.2.00 Crores – OCC / PC 50% of the TL financed may be allowed for acquiring / construction of premises, godowns on ownership basis required for running the business while the remaining 50% may be sanctioned for other Fixed

Particulars	Guidelines
	Assets relevant to the business.
6. Margin	Secured OD : Up to Rs.0.50 Crores – 33% on Immovable property. Our Bank Deposits / NSC – 10% Above Rs.0.50 Crores & up to Rs.2.00 Crores – 40% on Immovable property Our Bank Deposits / NSC – 25% Government Securities – 20% If agricultural land situated at places other than rural areas is offered as Primary Security (To be considered by ZLCC) – Margin at 50% Realizable Sale Value OCC :15% on Stocks and Book Debts All others as per MSME Policy.
6 Type of Assessment	Working Capital (FB & NFB): As per MSME Policy While assessing eligible working capital limit under turnover method, adequate care should be given in case of accounts wherein the period of working capital cycle is less like Petrol Bunk etc. Term Loan – Total Cost Less Margin Bank Guarantee / LC – Need based after covering the margin. ZLCC may consider taking agricultural land situated at places other than rural area as collateral security or primary security subject to verification of local laws as to permissibility of taking such property as security, including extension of Security. In case of new units, reasonable projected sales and profitability should be considered depending on the merchandise under trade, market potential, experience vis-à-vis financial capacity of the borrower etc.
7 Security	Primary Security: Secured OD : EM of properties Other Tangible Security i.e. Our Bank Deposits / NSC etc. OCC : Hypothecation of Stocks and Book Debts up to 90 days TL - machine / Bldg - Hypothecation / EM of assets created out of the term loan. LC / BG / IBN / FBN – As per extant guidelines. For NFB: Portion uncovered with cash margin shall be covered with realizable sale value of EM property / liquid securities. Collateral Security: Secured OD : Hypothecation of stocks & book debts equal to the limit sanctioned. Others : Immovable property (Primary + Collateral) and / or liquid security value should be atleast 50% of the limit sanctioned.

<table>
<tr><th>Particulars</th><th>Guidelines</th></tr>
<tr><td></td><td>Minimum 50% coverage of Bank exposure (FB + NFB) by way of realizable sale value of immovable properties (Primary + Collateral), can be considered by Sanctioning Authority, subject to the additional rate of interest.

Personal guarantee of Proprietor / Partners / Directors for all the cases.
Taking leased properties as Primary / Collateral security :
While the branches may strive for freehold properties, in selected metropolitan centres like Mumbai, Delhi, Chennai, Kolkata and centres where Local Development Authorities / Housing Development Corporations of State Government let out properties on long term lease, ZLCC may exercise discretion to approve leasehold (instead of freehold) properties as primary/collateral under the Trade Well Scheme.
Precautions as to proper assessment of value of leasehold rights should be taken.</td></tr>
<tr><td>8 Repayment terms (TL)</td><td>Maximum 84 months (excluding holiday period of 6 months) with compliance of DSCR as per MSME Policy / Credit Policy.

ZLCC may consider up to 120 months (including holiday period of 6 months) with DSCR Compliance as per MSME Policy / Credit Policy.</td></tr>
<tr><td>9 Rate of Interest / Commission for Non-Fund Based limit</td><td>ROI will be based on the extent of immovable / liquid security coverage as detailed as under:-

<table>
<tr><th>Availability of Security in the form of Immovable Properties</th><th>Rate of Interest</th></tr>
<tr><td>Security:
100% or more</td><td>Card rate (As per guidelines from time to time)</td></tr>
<tr><td>75% to Less than 100%</td><td>Card Rate + 0.50%</td></tr>
<tr><td>50% to Less than 75%</td><td>Card Rate + 1.00%</td></tr>
</table>

For NFB Limits : Card rate</td></tr>
<tr><td>10 Others</td><td>✓ Benchmark Norms as per MSME Policy to be complied.
✓ All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower.
✓ Waiver of burglary insurance can be permitted by ZLCC after satisfying that alternatives are sufficient to overcome the same.
✓ Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy.
✓ Wherever Stock is considered as Primary Security – Submission of stock statements on quarterly basis is mandatory for all the accounts irrespective of limit. Stock inspection to be conducted once in a quarter and recorded.
✓ Wherever Stock is considered as collateral security – Borrower may submit stock and book debt statement once in a year for limits upto Rs.0.50 Crores. For limits more than Rs.0.50 Crores, stock statement is to be submitted on a quarterly basis.</td></tr>
</table>

Particulars	Guidelines
	✓ For non-submission of stock statements beyond 21 days from the specified date, an additional interest at 1% on the entire outstanding should be levied till submission of stock statement. ✓ Stock inspection to be conducted once in a quarter and recorded.

Check Your Progress:

1. Under Tradewell Scheme which facilities can be allowed
   a. OCC
   b. Guarantee
   c. Term Loan
   d. All can be sanctioned

2. What is the maximum limit for IB Tradewell Term Loan?
   a. 1Cr
   b. 2Cr
   c. 5Cr
   d. 10 Cr

3. For WC limit of Secured OD up to 0.50 Cr what is the margin stipulated on immovable property
   a. 5%
   b. 25%
   c. 10%
   d. 33%

4. What is maximum repayment for Term Loan under Tradewell?
   a. 36 months
   b. 84 months
   c. 120 months
   d. 240 months

5. What is the maximum limit under IB Tradewell Secured OD?
   a. 1Cr
   b. 2Cr
   c. 5Cr
   d. 10 Cr

Answers

1	2	3	4	5
d	c	d	b	b

Unit: 9

RURAL LENDING

Objective:

To make the reader understand the agricultural activities done by the bank.

Content coverage:

Kisan Credit Card Scheme, Financing SHG (revised guidelines), Govt. Sponsored Scheme, Jewel Loan for agriculture

Introduction:

Agriculture being the backbone of the Indian Economy, Our Bank, is contributing significantly in accelerating the pace of rural development by providing finance to farmers by way of following agriculture products.

A. Kisan Credit Card (KCC) - to provide adequate and timely support to farmers for their production needs e.g. purchase of quality inputs, investment requirements like purchase of agriculture implements, farming expenses towards farm maintenance, unforeseen family expenses (consumption) and maintenance of non-farm activities.

B. Purchase of agricultural implements including indigenous improved ones being utilised for field operations including harvesting/sorting/grading, for not only to farmers, but also for land-less labourers.

C. Purchase of heavy agricultural machinery like tractors, power-tillers, etc. either by farmers having larger holdings with irrigation facilities or group of farmers with irrigation facilities.

D. Purchase of second hand tractors to provide opportunity to those interested farmers in dry land farming or having a small land holding who cannot afford to purchase new tractors.

E. Production credit for raising various crops from the point of preparatory tillage till harvesting, for land owners or permanent tenants or lease holders or sharecroppers.

F. Farm produce marketing loan / Financing against warehouse receipt against pledge of receipt of warehouse/ cold storages to the farmers.

G. Development of irrigation facilities, covering sinking of wells/bore wells, lifting of water by installation of pump sets, transporting of water through field channels, water saving system like drip irrigation/sprinkler irrigation etc.

H. Loans to farmers for purchase for Renewable Energy Equipments for Agriculture & Allied Activities viz Financing Solar energy based pumpset Loans, Solar Water Heaters ,Solar Home lighting Scheme or installation of generation sets is also covered.

I. Extending working capital needs to dealers of dealers/ distributors/traders of agricultural inputs like seeds, fertilizers etc. live stock inputs like cattle feed, medicine etc. and supply of agriculture machinery/ irrigation system.

J. Setting up of Agri-clinic and Agribusiness centre by agriculture graduates.

K. Construction farm building/structures like cattle shed, tractor shed, thrashing yards, fencing etc. by individual farmer or firms engaged in agricultural activity and is of long term nature.

L. Construction/Expansion/modernization/Renovation of Rural Godown /Cold storage.

M. Development of horticulture including purchase of estates, production, processing and marketing of various fruits, vegetables, plantation and flowers, which cover from nursery to the point of market, by individual farmers, firms, organisation like co-operative societies etc. and which covers both long term and short term requirement.

N. Development of land like bunding, terracing, levelling etc. and reclamation of saline, alkaline, ravine soils by farmer or organisation like co-operative societies etc.

O. Development of allied activities to agriculture like dairy, poultry , fisheries, sericulture, mushrooms, apiculture etc. by production , processing and marketing by farmer, land less labourers, firms, organizations, like co-operative societies etc .finance by way of long term nature and short term nature is being extended.

Though the bank has spread its wings in a wider area of priority sector lending let us confine ourselves to the major area our operations viz KCC, SHG, Govt. sponsored schemes, Jewel loan

KISAN CREDIT CARD (KCC) SCHEME:

During November 2011, the Department of Financial Services, Ministry of Finance, Government of India constituted a Working Group under the Chairmanship of Shri T.M.Bhasin, CMD, Indian Bank, comprising members from Reserve Bank of India, NABARD and National Payments Corporation of India (NPCI) to review the existing KCC scheme and suggest changes to make it a Smart Card cum Debit Card.

The recommendations of the Working Group have been accepted by the Government of India. Our Bank has adopted the revised KCC scheme and the guidelines for implementation by our branches.

The salient features of the guidelines include the following

Purpose:

a. To meet the short term credit requirements for cultivation of crops
b. Post-harvest expenses
c. Produce marketing loan
d. Consumption requirements of farmer households
e. Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fisheries etc
f. Investment credit requirements for agriculture and allied activity like pumpsets, sprayers, dairy animals etc

Note*: The aggregate of components* ***a. to e****. above will form the short term credit limit portion and the aggregate of components under* ***f*** *will form the long term credit limit portion*

Eligibility:

a. All Farmers – Individuals / Joint borrowers who are owner cultivator
b. Tenant Farmers, Oral Lessees & Share Croppers
c. Self Help Groups or Joint Liability Groups of Farmers including tenant farmers, share croppers etc

Fixation of credit limit / Loan amount:

The credit limit under the **Kisan Credit Card** may be fixed as under**:**

All farmers other than marginal farmers:

a. For farmers raising single crop in a year

Short term limit:

Scale of finance for the crop (as decided by District Level Technical Committee) x Extent of area cultivated + 10% of limit towards post-harvest / household / consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance, PAIS and asset insurance.

Term loans for investments towards land development, minor Irrigation, purchase for farm equipments and activities allied to agriculture:

The quantum of credit for term and working capital limit for agricultural and allied activities etc., is to be arrived at based on the unit cost of the asset/s proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, repayment capacity vis-a-vis total loan burden devolving on the farmer, including existing loan obligations.

The quantum of credit for term loan limit for agricultural and allied activities etc., is to be arrived based on the cost of the asset proposed to be acquired by the farmer (As per NABARD guidelines).

The Kisan Credit Card limit is to be arrived as under:

First year limit for crop cultivation purpose arrived at as above plus 10% of the limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year) and estimated Term loan component for the tenure of Kisan Credit Card i.e. five years.

b. For farmers raising more than one crop in a year, the limit is to be fixed as above depending upon the crops cultivated as per proposed **cropping pattern** for the first year and an additional 10% of the Limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year). It is assumed that the farmer adopts the same cropping pattern for the remaining four years also. In case, the cropping pattern adopted by the farmer is changed in the subsequent year, the limit may be reworked. The long term loan limit based on the proposed investments during the five year period is to be arrived at as described above.

Maximum Permissible Limit: Short term loan limit arrived for the 5th year plus the estimated Long Term loan requirement for five years will be the **Maximum Permissible Limit (MPL)** and treated as the **Kisan Credit Card Limit.**

Fixation of Sub-limits:

For other than Marginal farmers:

(i) Short term loans and term loans are governed by different interest rates. At present, short term crop loans are covered under Interest Subvention Scheme/ Prompt Repayment Incentive scheme. Further, repayment schedule and norms are different for Short term loans and Term loans. Hence, in order to have operational and accounting convenience, the card limit is to be bifurcated into separate sub limits for short term cash credit limit cum savings account and term loans.

(ii) Drawing limit for short term cash credit should be fixed based on the cropping pattern. The amounts for crop production, repairs and maintenance of farm assets and consumption may be allowed to be drawn as per the convenience of the farmer. In case the revision of scale of finance for any year by the district level committee exceeds the notional hike of 10% contemplated while fixing the five year limit, a revised drawable limit may be fixed and the farmer be advised about the same. In case such revisions require the card limit itself to be enhanced (4th or 5th year), the same may be done and the farmer be so advised. For term loans, installments may be allowed to be withdrawn based on the nature of investment and repayment schedule drawn as per the economic life of the proposed investments. It is to be ensured that at any point of time the total liability should be within the drawing limit of the concerned year.

For Marginal Farmers:

A flexible limit of Rs.10,000 to Rs.50,000 be provided (as **Flexi KCC**) based on the land holding and crops grown including post harvest warehouse storage related credit needs and other farm expenses, consumption needs etc. plus small term loan investments like purchase of farm equipments, establishing mini dairy/backyard poultry as per assessment of Branch Manager without relating it to the value of land. The **composite KCC** limit is to be fixed for a period of five years on this basis.

Cultivation in leased land Oral Lease:

- ✓ Maximum upto Rs.50, 000/- (Land up to 2.5 acres only will be considered).

Registered Lease agreement/ Guarantee from land Owner is available:

- ✓ Without collateral security up to Rs.1.60 Lakhs.
- ✓ With collateral security – No maximum ceiling

Disbursement:

The short term component of the KCC limit is in the nature of revolving cash credit facility. There is no restriction in number of debits and credits. The drawing limit for the current season/year could be allowed to be drawn using any of the following delivery channels.

a. Operations through branch
b. Operations using Cheque facility
c. Withdrawal through Debit cards/ Rupay Kisan cards
d. Operations through Business Correspondents and 'banking outlet/ part- time banking outlet'
e. Operations through PoS available in Sugar Mills/ Contract farming companies etc., especially for tie-up advances
f. Operations through Point of Sale (PoS) available with input dealers
g. Mobile based transfer transactions at agricultural input dealers and mandies.

The long term loan for investment purposes may be drawn as per installment fixed.

As the CC limit and the term loan limit are two distinct components of the aggregate card limit bearing different rates of interest and repayment periods, two separate electronic cards may be issued for all new/ renewed KCC limits.

Validity:

i. The Kisan Credit Card is valid for 5 years subject to an annual review.

ii. The review may result in continuation of the facility, enhancement of the limit or cancellation of the limit / withdrawal of the facility, depending upon increase in cropping area / pattern and performance of the borrower.

iii. When extension and/or re-scheduling of the period of repayment on account of natural calamities affecting the farmer is granted, the period for reckoning the status of operations as satisfactory or otherwise would get extended together with the extended amount of limit. When the proposed extension is beyond one crop season, the aggregate of debits for which extension is granted is to be transferred to a separate term loan account with stipulation for repayment in installments.

iv. Borrowers are required to route their farm proceeds or other credits into the KCC account.

Rate of Interest (ROI):

- ✓ ROI linked to MCLR. *Up to Rs.3.00 lakhs - 7% (Wherever Interest Subvention is available)

  *If Government supported interest subvention is provided for any component of the limit, the rate of interest is to be fixed accordingly. (Presently interest rate for short term crop loans/KCC sanctioned to farmers up to Rs 3.00 lakh is 7% as per extant interest subvention scheme of Government of India). The long term loan limit under KCC is linked to base rate.

- ✓ For loans above Rs.3.00 lakh, card rate linked to MCLR rate is to be applied.
- ✓ Long term loan limit under KCC is linked to MCLR

Margin:

For crop loans:

- ✓ Margin is NIL, since in-built while fixing the Scales of Finance

For term loan component

- ✓ For limits up to Rs160000/-: NIL
- ✓ For limits above Rs160000/- : 15% to 25%.

Security:

Security will be applicable as per RBI guidelines prescribed from time to time. Security requirements are as under:

- Hypothecation of crops up to card limits of Rs 1.60 lakh as per RBI extant guidelines.
- With tie-up for recovery: Hypothecation of Crops up to card limit of Rs.3.00 lakh without insisting on collateral security.
- Collateral security by way of mortgage of immovable property is to be obtained for loan limits above Rs.1.60 lakh in case of non tie-up and above Rs.3.00 lakh in case of tie-up advances.

Repayment:

- For Cash Credit component, the repayment period may be fixed by branches as per the anticipated harvesting and marketing period for the crops for which a loan has been granted.
- The term loan component will be repayable depending on the type of activity /Investment as per the existing guidelines applicable for investment credit.

Other features:

a. Interest Subvention/Incentive for prompt repayment is applicable as advised by Government of India.

b. Branches are advised to capture Aadhaar data of Individual Farmers at CIF level through e-kyc for extension of DBT benefits under Interest Subvention Scheme/ Coverage of loanee farmers under the PMFBY.

c. The Pradhan Mantri Fasal Bima Yojana / Weather Based Crop Insurance Scheme has been made voluntary for the farmers from Kharif 2020 season onwards. Under the revamped format, the existing loanee farmers will have a provision to opt-out of the scheme by submitting a simple declaration to the serving branch anytime during the year but at least seven days prior to the cutoff date for enrolment for the respective season. Bank Branches to maintain proper records of farmer declaration.

d. Our Bank has entered into a Memorandum of Understanding (MoU) on 14.03.2020 for taking up Master Policy on implementation of Personal Accident Insurance Scheme (PAIS) pan India with United India Insurance Company Ltd to cover all the existing and prospective KCC account holders with a premium amount of Rs.3 (net) per KCC holder. The Premium for PAIS coverage is borne by the Bank. The maximum coverage under the scheme due to accidental death is Rs.50000/-.

e. One time documentation at the time of first availment and thereafter simple declaration (about crops raised / proposed) by farmer from the second year onwards.

f. No processing fee should be charged up to a card limit of Rs 3.00lakh.

g. Farmers to be provided with KCC Short Term sub-limit cum SB account so as to allow credit balance in KCC cum SB accounts to fetch interest at savings bank rate.

Check Your Progress:

1. What is the validity period for KCC?
   a) 1 year b) 2 years c) 5 Years d) Running account
2. What percentage of the KCC limit is eligible for repairs and maintenance expenses of farm assets?
   a) 10% b) 15% c) 20% d) 25%
3. Under revised KCC, crop insurance is
   a) Voluntary b) mandatory c) must for other famers d) must for notified crops
4. The credit balance in KCC cum SB account will fetch interest at the applicable savings bank rate.
   a) True b) False
5. The Government of India subvention of interest for prompt payment shall be available on the new KCC scheme
   a) True b)False

Answers: 1 (c) 2. (c) 3. (a) 4. (a) 5. (a)

<u>KCC Allied - Animal Husbandry and Fisheries Scheme</u>

Sl.No	Particulars	Guidelines
1.	Target Group & Eligibility	☑ Dairy - Farmers, and Dairy farmers either individual or joint borrower, Joint Liability Groups or Self Help Groups including tenant farmer having owned/rented/leased sheds. ☑ Poultry and small ruminant - Farmers, poultry farmers either individual or joint borrower, Joint Liability Groups or Self Help Groups including tenant farmer of sheep/goats/pigs/poultry/ birds /rabbit and having owned/rented/leased sheds. ☑ Inland Fisheries and Aquaculture - Fishers, Fish Farmers (individual & groups/ partners/ share croppers / tenant farmers), Self Help Groups, Joint Liability Groups and women groups ☑ Marine Fisheries - Fishers, Fish Farmers (individual & groups/ partners/ share croppers / tenant farmers), Self Help Groups, Joint Liability Groups and women groups. who own or lease registered fishing vessel/boat, possess necessary fishing license/permission for fishing in

		estuary and sea, fish farming/mariculture activities in estuaries and open sea and any other State specific fisheries and allied activities
2.	Purpose	• To meet the short term credit requirement of rearing of animals, Birds, etc (Feeding, veterinary aid, labour, water and electricity supply) • To meet the short term credit requirement of rearing of Fish, Shrimp, other aquatic organisms, capture of fish. etc (seed, feed, organic and inorganic fertilizers, lime/other soil conditioners, harvesting and marketing charges, fuel/electricity charges, labour, lease rent (if leased water area) etc. For Capture fisheries, working capital may include the cost of fuel, ice, labour charges, mooring/ landing charges etc.)
3.	Types of facilities available	Cash Credit
4.	Quantum of finance / Assessment	**Working Capital** The quantum of credit for working capital limit is to be arrived based on scale of finance fixed by the District Level Technical Committee (DLTC).
5.	Margin Norms	**For crop loans**, ▪ Margin is NIL, since in-built while fixing the Scales of Finance
6.	Repayment Period	The Loan will be in the nature of Revolving Cash Credit limit. Repayment fixed as per cash flow/ income generation pattern of the activity undertaken by the borrower. The entire cash generated to be routed through Cash Credit account only. Loan should be reviewed and renewed annually.
7.	Rate of Interest	1. Up to Rs 2.00 lakhs: 7% (Wherever Interest Subvention is available) 2. Above Rs 3.00 lakhs: MCLR linked KCC & KCC Allied put together should not exceed Rs.3.00 lakhs
8.	Security Norms	Security will be applicable as per RBI guidelines prescribed from time to time Up to Rs.1.60 Lakh: NIL (Hypothecation of crops only), No collateral. For limits above Rs.1.60Lakhs : Hypothecation of crops + Pledge of Jewels or Deposit receipts / LIC/ NSC assignments/ or Collateral security by way of MOD / Charge creation

FINANCING SELF HELP GROUPS(SHGs)

SHG is an informal group and registration under any Societies Act, State cooperative Act or a partnership firm is not mandatory. The group size should be preferably between 10 and 20 members to enable effective individual participation in the group's deliberation and to avoid legal complications. However in hilly tracts/regions and predominantly tribal dominated areas where communities are dispersed and in case of physically challenged persons smaller groups of less than 10 with a minimum of 4 members, may also form into SHGs. The group may be formed by women, men, transgenders or it may also be a mixed group. A person should not be a member of more than one group. Specific operational area for the branches i.e. a maximum operational jurisdiction of **25 kms** from the branch is stipulated.

Sl.	Particulars	Guidelines
1.	**Target Group & Eligibility**	Self Help Group – A group comprising of 10 -20 members. Members may be all women, men or mixed. SHGs which • Are in active existence at least for six months from the date of formation / opening of SB account. • Should be practicing Panchasutras ie Regular Meetings; Regular savings; Regular inter loaning; Timely repayment and up to date book of accounts. • Qualify as per the grading of SHGs
2.	**Purpose**	First dose may be for Consumption, subsequent doses/ linkages more 75% of loan to be utilised for economic activity.
3.	**Types of facilities available**	CC or Term loan
4.	**Quantum of finance / Assessment**	First dose: 6 times of the existing corpus or minimum of Rs.100000/- whichever is higher. Second dose: 8 times of the corpus at the time of review / enhancement or minimum of Rs 2.00 lakh, whichever is higher. Third dose: Minimum of Rs. 3.00 lakh, based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit history. Fourth dose onwards: Minimum of Rs. 5 lakhs, based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit history subject to a maximum of Rs 35.00 lakh. In respect of SHGs without any sponsoring Agency/SHGs of downgraded NGOs (‘B’ rated NGOs) the maximum loan amount is Rs.10.00 lakhs. Credit linkage to these SHGs should be referred to ZO for sanction by ZLCC/ZLSCC/KPK.
5.	**Margin Norms**	As per RBI guidelines No collateral and no margin will be charged up to ₹ 10.00 lakhs limit to the SHGs.
6.	**Repayment Period**	Minimum 12 months and maximum 72 months depending on the activity for which the loan is sanctioned. In case of CCL, a minimum loan of Rs 5 lakhs to each eligible SHGs for a period of 5 years with a yearly drawing power (DP) is sanctioned. The drawing power may be enhanced annually based on the repayment performance of the SHG.
9.	**Rate of Interest**	➢ For NRLM 250 Category I district – 7% for loans up to Rs 3.00 lakh ➢ For loans above Rs 3.00 lakh - Interest fixed by Bank ➢ Other than NRLM – Irrespective of the limit ROI - Interest fixed by Bank
10.	**Interest compounding / cap. frequency**	SHG Agri - Half yearly SHG Allied and Non Agri – Monthly
11.	**Security Norms**	Nil up to Rs 10. 00 Lakhs For loans to SHGs above ₹10 Lakh and up to ₹20 Lakh – To be covered under Credit Guarantee Fund for Micro Units (CGFMU)

Sl.	Particulars	Guidelines
12.	**Review/Renewal**	The CC/Term loan account should be reviewed once in six months and renewed once a year by the sanctioning authority with or without enhancement of limit in respect of CC accounts.
13.	**Audit of SHG books of accounts**	✓ Audit of Books need not be insisted for Loans under NRLM / NULM. ✓ In other cases, before extending second dose the SHG are subject to audit. ✓ For SHG loans above Rs 10.00 lakh audit report from external auditors is mandatory.

Check Your Progress:

1. Branch can finance SHG up to a distance of_________Kms from the branch.

   a) 25 b) 10 c) 15 d) No restriction

2. From the second dose onwards atleast _______% of the loan should be used for income generating activities.

   a) 50 b) 60 c) 70 d) 75

Answers: 1 (a) 2.(d)

GOVERNMENT SPONSOREDSCHEMES:

✓ **DRI scheme**

Banks can provide individual loans up to Rs 15,000/- at a concessional rate of interest of 4% to the weaker sections of the community for engaging in productive and gainful activities. The weaker section in priority sector comprises the following:

- Scheduled Cases / Scheduled Tribes and others engaged on a very modest scale in Agriculture and / or allied agricultural activities.
- People physically engaged on a modest scale in the fields of cottage and rural industries and vocations,
- Physically handicapped persons pursuing gainful occupation.

Eligibility

- Family income not exceeding Rs.18,000/- p.a. in rural areas and Rs.24,000/- p.a. in urban / semi urban areas.
- Land holding does not exceed 1 acre irrigated or 2.5 acres in case of Non - irrigated land.
- SCs/STs are eligible for loan irrespective of their land holding, provided they satisfy other eligibility criteria.
- The beneficiary should not have another source of finance while DRI loan exists

Quantum of Finance

- Maximum of Rs.15,000/- by way of terms loan and / or working capital.
- The maximum limit for housing loans under the scheme is Rs.20,000/-
- In the case of physically handicapped persons, a sum of Rs.5,000/- for purchase of aids, appliances and equipments may be granted, apart from the loan amount of Rs.15,000

Atleast 2/3 of DRI advances should go to Rural and Semi urban areas and not less than 40% of total loan given under DRI should go to SC/STs.

Prime Minister's Employment Generation Program(PMEGP):

Ministry of MSME, Govt. of India has launched a scheme during 2008 viz."**Prime Minister's Employment Generation Program (PMEGP)"** to empower the first generation entrepreneurs to set up Micro Enterprises across the country by merging the KVIC's "Rural Employment Generation Program (REGP)" scheme with "Prime Minister Rozgar Yojana (PMRY)"scheme.

Objectives:

(i) To generate employment opportunities in rural as well as urban areas of the Country through setting up of new Self-employment ventures/projects/Micro Enterprises.

(ii) To bring together widely dispersed traditional Artisans/ rural and urban unemployed youth and give them Self-employment opportunities to the extent possible, at their place.

(iii) To provide continuous and sustainable employment to a large segment of traditional and prospective Artisans and Rural and Urban unemployed youth in the country, so as to help arrest migration of Rural youth to Urban areas.

(iv) To increase the wage earning capacity of Artisans and contribute to increase in the growth rate of Rural and Urban employment.

Salientfeatures:

- A Credit linked Central sector scheme
- Setting up of Micro Enterprises across the country
- Higher rate of Government subsidy for marginalized sections of society for promoting inclusive growth
- Below poverty line (BPL) families are also eligible for assistance under the scheme
- Backward & Forward Linkages support for awareness, Project formulation, Entrepreneurship Development Program (EDP) training of two to three weeks duration, marketing support, electronic tracking of applications of beneficiaries etc. are envisaged.
- Khadi & Village Industries Commission (KVIC), a Statutory body under the Ministry of MSME, is the single Nodal Agency for implementation of the scheme.
- The scheme is implemented by KVIC/ State Khadi and Village Industries Board (KVIBs) in Rural area as defined under KVIC Act and by District Industries Centers (DICs) in Urban and other Rural areas.
- Special focus with higher rate of subsidy for Rural areas under the scheme. At least 60% outlay will be earmarked for setting up of projects in Rural areas.
- Involvement of Public Sector Banks for expeditious and regular credit flow
- Covering under CGTMSE to help the Entrepreneurs for collateral security free loans

Subsidylevels:

Categories of beneficiaries under PMEGP	Own contribution (% Cost of project)	Rate of Subsidy (% of Cost of project)	
Area		**Urban**	**Rural**
General Category	10%	15%	25%
Special Category (including SC /ST/ OBC/ Minorities/Women, Ex-Servicemen, Physically Handicapped, NER, Hill and Border areas)	5%	25%	35%

1. The maximum cost of the project/unit admissible under manufacturing sector is Rs. 25lakhs.
2. The maximum cost of the project/unit admissible under Business/Service sector is Rs.10lakhs.
3. The balance amount of the total project cost will be provided by Banks as Term loan

Check Your Progress:

1.The maximum loan eligible for an individual under DRI scheme is

a) Rs. 6500 b) Rs. 15000 c) Rs. 10000 d) Rs.5000

2. What is the maximum loan limit under PMEGP for a manufacturing unit?

a) Rs. 20 lakhs b) Rs. 25 lakhs c) Rs. 15 lakhs d) Rs. 10lakhs

3. The eligible bank finance for a special category beneficiary under PMEGPis_____

a) 95% b) 75% c) 80% d)90%

Answers: **1 (b) 2. (b) 3. (a)**

Jewel Loan

Jewels are the traditional and inherited form of savings especially among the people in India. Being one of the most liquid and precious asset, it serves as a dependable and acceptable form of security being offered by people to raise loans for meeting their immediate financial requirements.The precious metal other than being used for industrial, commercial and investment purposes can also be used to get a loan at the time of a financial emergency. In fact, the gold loan is one of the easiest and fastest ways to access funds when it matters the most.

Tailor-made schemes have been formulated by our Bank to meet the requirements of various types of customers against pledge of jewellery, in the form of **Ornament** and **Article**. **Ornament** means an object, in a finished form meant for personal adornment or for the adornment of any idol or deity or any other object of religious worship, made or manufactured from gold whether or not set with stone or gems (real or artificial), or pearls (real, culture or imitation) or with all or any of them and includes parts of pendant or broken pieces of ornament. **Article** means anything, (other than ornament in a finished form), made or manufactured from or containing gold and includes any gold coin and broken pieces of an article but does not include **primary gold** (any unfinished or semi-finished form and includes ingots, bar blocks, slabs, billets, shots, pellets, rods, sheets, foils and wires).

All gold coins (per customer max. 50gms.) of 24 carat fineness with 99.999% purity sold by our Bank and other banks (not other agencies) can be accepted as collateral.

Even if a customer has a **low credit score** but ample amounts of idle gold in his/her locker, the gold loan can be a monetary solution. With the growing popularity of gold loan every year, it is important to know not only what gold loan is but also gold loan interest rates, and other related details.

Though the assets pledged as security are easily realizable in nature, adequate precautions as stipulated in the manual / various circulars/ guidelines issued by Corporate Office from time to time, need to be strictly adhered to by the implementing branches to avoid any possible loss to the Bank.

Important Guidelines on Jewel Loan

- ✓ Customers should be properly informed that appraiser is not a regular staff member
- ✓ Empanel not less than two appraisers and use the services of both the panel appraisers
- ✓ The appraisers on the panel are to be utilized for the purpose of appraising the jewels
- ✓ Appraiser should make the appraisal within the bank's premises
- ✓ Seating arrangement of Jewel loan officer should be in such a way to have proper supervision /overseeing of the Jewel appraiser
- ✓ Applicant for the loan should approach the Branch Manager/officer-in-charge
- ✓ F-120 must be filled in by the borrower only
- ✓ Manager also should satisfy himself about the genuineness, purity and weight of the ornaments and not depend entirely on the appraiser
- ✓ Upon appraisal of jewels, the same should be taken under custody immediately by the Manager/Officer-in-charge
- ✓ Jewel loan Identification cards should be prepared in triplicate.
- ✓ Blank Jewel loan Identification cards should be kept under the custody of an officer
- ✓ Jewel loan control register should be signed by both the custodians of the jewel safe.
- ✓ Physical verification of packets once a month and verification of contents once in 3 months should be done by the custodians of the jewels.
- ✓ After disbursement of jewel loan amount, the customer should be advised to withdraw money from his account
- ✓ At the time of redemption of jewels, the borrower should produce the jewel loan identification card for verification. Part redemption of jewels pledged cannot be allowed.

Depending upon the purpose Jewel Loan is classified in the following categories:

i. Agriculture (Priority Sector)

ii. Non-Agriculture (Priority Sector)

iii. Non-Priority Sector

Agri Gold Jewel Loan		
Sl.	**Particulars**	**Guidelines**
1.	Target Group & Eligibility	All Farmers involved in Agricultural operations
2.	Purpose	Jewel Loans under Agriculture can be sanctioned as Short-Term Loans or Kisan Credit Card or Term Loans for various sectors / purposes. **1. Working Capital** for (i) Crop Cultivation (ii) Repairs to Farm Assets (iii) Allied activities like Dairy, Fisheries, and Poultries etc. (iv) Agro Processing (v) Repayment of debt taken from Non-Institutional Lenders **2. Term loan** – for investment credit under agriculture allied activities.
3.	Types of facilities available	Term Loan/Demand Loan
5.	Quantum of finance / Assessment	85 % (Agri Bumper JL), 80% (Other JL) of Market value of Gold Jewels pledged (or) Scale of finance / unit cost for approved by DLTC / NABARD whichever is less.
6.	Margin Norms	**15% for Agri Bumper Jewel Loan product** **20% for Others**
7.	Repayment Period (Maximum term)	Bumper Agri JL-FIXD - **6 months** JLAG PRIORITY– **12 months** AGRI JL - TERM LN MCLR 1Y – **35 months**
8.	Processing & other charges	Up to Rs 25000: NIL Above Rs 25000: Rs. 100 per lakh or part thereof All other charges: As per circular on service charges related to Agri advances issued from time to time.
11.	Documentation	Copy of land Records &Chitta/Adangal (Khasra/Khatouni) or any other documentary proof for doing Agriculture operations.

Check Your Progress:

1) Jewels should be delivered to the customer directly by the
   (a) Manager/Officer-in-charge (b) Appraiser (c)Cashier (d) Any branch staff
2) Jewel loan identification card should be prepared in _________
   (a)single (b)duplicate (c)triplicate (d)quadruplicate
3) The form used for sanctioning Jewel loan is __________
   (a)F-112 (b) F-120 (c)F-29 (d)F-163
4) Physical verification of jewel packets to be done oncein_______months
   (a) One (b)two (c)three (d)Four
5) Whether part redemption of jewels can be allowed?
   (a) Yes (b)No

Answers: 1 (a) 2.(c) 3. (b) 4. (a) 5(b)

Unit: 10

MICRO, SMALL, MEDIUM ENTERPRISES (MSME) FINANCING

Objective:

To help the reader understand the concept of Micro, Small, Medium Enterprises (MSME), various components, products and methods of financing under the segment

Contents:

Concepts, Components of MSME, Methods of financing, Government guidelines, Concepts and coverage of CGTMSE and our Bank's products under the segment and problems faced by the sector

Introduction:

Micro Small and Medium Enterprises (MSMEs) play a critical role in creating momentum to the growth of the Indian economy. It contributes to over 28 per cent of the overall GDP, 45 per cent of the manufacturing output and 48 per cent of the total exports. It has a vast network of about 63 million enterprises and provides employment to over 111 million people.

Classification of enterprises as MSME from 1.07.2020 as per new definition
The new criteria came into effect from July 1, 2020.

Type of Enterprise	Investment in Plant & Machinery or Equipment (Should not exceed)	Turn over (Should not exceed)
MICRO	Rs. 1 crore	Rs. 5 crore
SMALL	Rs. 10 crore	Rs. 50 crore
MEDIUM	Rs. 50 crore	Rs. 250 crore

Government initiatives for MSME segment

- MSMED Act came into force from 02.10.2006 and latest modification was in 2020
- Govt. of India has made mandatory for all the MSMEs to get it registered in "Udyam Registration Portal", with effect from 1st July 2020
- Banks are insisted to finance collateral free loans up to 10 lacs limit mandatorily.
- The definition of the MSME sector is as per investment in Plant & Machinery/Equipment and annual turnover
- Govt has included Retail and Wholesale trades as MSME
- Loans up to ₹50 crore to Start-ups are considered under Priority Sector

CREDIT GUARANTEE FUND FOR MICRO UNITS (CGFMU)

- Covers Mudra loans, OD under PMJDY, SHG above 10 lakhs and up to 20 lakhs extended by Member Lending Institutions (Bank/MFI/NBFC) to an eligible borrower without any collateral security and / or third party guarantees.
- Coverage is on portfolio basis
- The fund is being managed and operated by National Credit Guarantee Trustee Company Ltd. (NCGTC) which is a wholly-owned trustee company of Government of India.
- Member Lending Institution shall pay a risk based guarantee fee charged at the standard Basic Rate(SBR) of 1% p.a of sanctioned amount on micro loans
- The lending institution may invoke the guarantee in respect of the 'amount in default' out o the crystallized portfolio of micro loans/SHG loans subject to the condition of first loss guarantee, after 1 year from the date of crystallization of the portfolio and thereafter, at the end of every financial year.
- Extent of guarantee cover:
  - I. First Loss Portfolio Guarantee i.e. up to 5% of the crystalized portfolio shall be borne by the Bank
  - II. Extent of Guarantee portion (Balance portion) will be to a maximum of 50% of amount in default.

CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

- Loans up to 200 lacs covered with collateral and guarantee free
- Credit facilities extended to MSE Retail Trade up to 100 lacs.
- "Hybrid Security" Product: Collateral security can be obtained for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of ₹ 200 lakhs, can be covered under the Scheme. CGTMSE will have a notional second charge on the collateral security provided by the borrower.
- Individual accounts are covered
- Credit facilities above ₹. 50 lakhs & up to ₹. 200 lakhs have to be internally rated and should be of investment grade (i.e., combined rating of BBB and above)
- Lock in period 18months from either the date of last disbursement of the loan to the borrower or the date of payment of the guarantee fee in respect of credit facility to the borrower, whichever is later, has elapsed.
- Guarantee may be invoked within a maximum period of 3 years from the date of NPA or expiry of lock in period whichever is later for NPAs classified on or after 15.03.2018

Guarantee Cover available under CGTMSE

Category	Maximum Extent of Guarantee where Credit Facility is		
Sanctioned Limit	**Up to Rs 5 lacs**	**Above Rs 5 lacs to 50 lacs**	**Above Rs 50 lacs to 200 lacs**
Micro Enterprises	85% of the amount in default subject to a maximum of Rs. 4.25 lakhs	75% of the amount in default subject to a maximum of Rs. 37.50 lakhs	75% of amount in default subject to a maximum of Rs.150 Lakhs
Women entrepreneurs / Units located in North Eastern Region (including Sikkim)		80% of the amount in default subject to a maximum of Rs. 40 lakh	
All other eligible category of borrowers	75% of the amount in default subject to a maximum of ₹. 150 lakh		
MSE Retail Trade up to ₹. 100 lakh	50% of the amount in default subject to a maximum of ₹. 50 lakh		

Credit & support services of our Bank to MSMEs

- Working capital assistance against Hypothecation / Pledge of Stocks &Book-debts.
- Bill financing facilities like purchase and discount of Documentary Demand and Usance Bills covering dispatch of manufactured goods towards post sale assistance
- Export credit assistance by way of PC/FBN/FBP etc
- Term loan assistance for acquisition of fixed assets, Plant and Machinery and construction of factory building etc.
- Deferred Payment Credit for repayment of installment on acquisition of fixed assets
- Establishment of inland and foreign letter of credit for procuring raw materials /capital goods Issuance of Guarantees – Money Guarantee (or) Performance Guarantees in lieu of earnest money deposit, security deposit etc.

MSME is keenly focused by our bank for economic acceleration, employment generation and poverty alleviation contributing to industrial production, trade and services, exports employment creation and creation of entrepreneurial base. Our bank has also adopted Focused **Approach for MSME lending.**

Our bank has designed various structured products to cater the specific requirement of MSMEs depending on activity

Sl. No.	MSME Retail Products
1	PMMY Loans (Mudra – Manufacturing / Service / Trade) & Mudra – Agri Allied activities
2	IB TVS Mudra King
3	IB Micro
4	IND SME Secure
5	IB Contractors
6	IB Doctor Plus
7	IB Tradewell
8	IND SME Mortgage
9	IND MSME Vehicle
10	IB My Own Shop
11	IB Pure Jaldhara
12	IND-SME Ease
13	IND-SME e-Vaahan
14	InDhan Vaahana
15	IND Surya Shakti
16	IB Standby WC Facility for MSMEs
17	Jewel Loan to Traders & Jewel Loan – Priority (Non-Agri)

Methodology for Calculation of Bank Finance

A) **Working Capital**

Sl. No	*Type*	*Method*
1	Limit up to Rs.5Cr (Manufacturing sector)	✓ Turnover Method. ✓ Under specific circumstances Turnover method or MPBF 2nd method of lending whichever is higher is permitted. Reason for adopting the methodology should be substantiated in the credit proposal.
2	Limit more than Rs.5Cr	✓ MPBF 2nd method of lending. ✓ Modified MPBF: Applicable beyond 5cr up to Rs.25Cr (FB+NFB) secured by 100% collateral
3	Educational Institutions, Hospitals, Infrastructure projects, Construction Contractors, Software Seasonal industries	✓ Cash Budget System

4	Traders	✓ Financed will be assessed based on Turnovers Method. ✓ Withdrawals should be allowed on the basis of DP after ensuring that unpaid stocks are excluded. ✓ For traders where no of WC cycles are very high (Petrol Pumps) realistic assessments of WC has to be made.

B) Term Loan:

- ✓ The technical feasibility and economic/ financial/ commercial viability, managerial competence, environment concerns and bank-ability of the proposal with reference to risk and legal aspect will be independently evaluated and analyzed.
- ✓ In case of Fresh Term Loans for projects having exposure more than Rs.10.00 Cr the bank should ask for submission of TEV (Techno Economic Viability) Report.

C) Standby Credit Facility:

While considering sanction of Fresh Term Loans for project loans / funding capital expenditure, additional 10% of the total cost of fixed assets may be considered as Standby Limit to take care of cost overrun, subject to viability and repayment ability of the borrower and working out project Debt Equity Ratio, Debt Service Coverage Ratio, Fixed Asset Coverage Ratio etc.

25% of the working capital limit in form of term loan to be sanctioned as "Stand-by credit facility" to fund periodic capital expenditure required within one year subject to request from the party with justification for the need for capital expenditure.

A separate additional limit of working capital may be fixed, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them.

PMMY – (PRADHAN MANTRI MUDRA YOJANA) – MUDRA LOANS
MANUFACTURING / SERVICES / TRADERS

Particulars	Guidelines
1. Target Group	All Micro Manufacturing / Service / Trading Units as per extant definition of Government of India
2. Eligibility	Individual / Proprietary / Partnership / Limited Liability Partnership (LLP) / Private Limited Companies
3. Purpose	Working Capital Requirements, Purchase of Fixed Assets, etc.
4. Types of Facility	MUDRA loans (MSME loan upto Rs.10.00 lakhs under the sub categories such as Shishu, Kishore and Tarun) both as working capital and term loans. For Working Capital:

<table>
<tr><th>Particulars</th><th>Guidelines</th></tr>
<tr><td></td><td>1. 20% of the eligible working capital limit will be allowed to be operated through MUDRA card i.e MUDRA card limit will be 20% of the eligible working capital limit, for which a special Rupay Debit Card is introduced by our Bank.
2. 80% of the eligible limit should be given in the form of OCC.</td></tr>
<tr><td>5. Loan Amount</td><td>Maximum Exposure Rs.10.00 Lakhs under 3 categories.

Shishu : Covering loans upto 50,000/-
Kishore : Covering loans above 50,000/- and upto 5 lakhs
Tarun : Covering loans above 5 lakhs to 10 lakhs.</td></tr>
<tr><td>6. Margin (Promoter's contribution)</td><td>Shishu Loans -- Nil Margin
Kishore -- 10%
Tarun -- 15%</td></tr>
<tr><td>7. Security</td><td><u>Primary Securities:</u>

➢ Assets Created out of the loan.
➢ CGTMSE / CGFMU cover to be taken – Mandatory

No collateral security or third party guarantee should be taken under this product.</td></tr>
<tr><td>8. Others</td><td>8.1 GST Registration Number for applicant is mandatory, if not exempted as per GOI guidelines.
8.2 CGTMSE / CGFMU Coverage is mandatory. Annual premium to be paid within the stipulated time. All guidelines of CGTMSE / CGFMU scheme to be followed meticulously.
8.3 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower.
8.4 In case of accounts with annual turnover more than a 1.00 crores, audited financial statements to be submitted.
8.5 Units should be inspected atleast once in a quarter and condition of the working of the unit should be recorded.
8.6 End use of funds should be ensured by the Branch Manager and documentary proof for the same to be kept along with the documents. Stock statement for the first month after disbursement should be obtained and kept along with documents as a proof of end use of working capital component and stamped receipt in respect of term loan component.
8.7 Proper care should be taken at pre sanction and post sanction stages. Branch Manager should ensure existence of the unit and pre Sanction Inspection report should be part of the documents.</td></tr>
<tr><td>9. Documents</td><td><table>
<tr><td>Constitution based</td><td>Documents to be obtained</td></tr>
<tr><td>Working Capital</td><td>D1,D101,D105,F52,F101,F104,F105,F106, F163</td></tr>
<tr><td>Term Loan</td><td>D7,D36,D101,F20</td></tr>
<tr><td>For Agriculture related</td><td>Apart from the above D68,D68A to be obtained</td></tr>
<tr><td>Other Common Documents</td><td>F172,F189,F190,F201</td></tr>
</table></td></tr>
</table>

Particulars	**Guidelines**	
	Constitution based	Proprietorship - F82 Partnership firm – D2,D5 F83,F83A in case of reconstitution of partnership Pvt. Ltd. Company – F45

PMMY – (PRADHAN MANTRI MUDRA YOJANA) – MUDRA LOANS
ALLIED ACTIVITIES

Particulars	Guidelines
1. Target Group	All Activities allied to Agriculture e.g. pisciculture, bee keeping, poultry, livestock rearing, grading, sorting, aggregation agro industries, dairy, fishery, agriclinics and agribusiness centers, food and agro processing etc (excluding crop loans, land improvement such as canal, irrigation, wells) shall be eligible for coverage under Pradhan Mantri Mudra Yojana (PMMY) in 2016-17– Priority Sector - as per extant definition.
2. Eligibility	Individual / Proprietary / Partnership / Limited Liability Partnership (LLP) / Private Limited Companies
3. Purpose	Working Capital Requirements, Purchase of Fixed Assets, etc.
4. Types of Facility	MUDRA loans (MSME loan upto Rs.10.00 lakhs under the sub categories such as Shishu, Kishore and Tarun) both as working capital and term loans. For Working Capital: 1. 20% of the eligible working capital limit will be allowed to be operated through MUDRA card i.e MUDRA card limit will be 20% of the eligible working capital limit, for which a special Rupay Debit Card is introduced by our Bank. 2. 80% of the eligible limit should be given in the form of OCC.
5. Loan Amount	Maximum Exposure Rs.10.00 Lakhs under 3 categories. Shishu : Covering loans upto 50,000/- Kishore : Covering loans above 50,000/- and upto 5 lakhs Tarun : Covering loans above 5 lakhs to 10 lakhs.
6. Margin (Promoter's contribution)	Shishu Loans -- Nil Margin Kishore -- 10% Tarun -- 15%
7. Type of Assessment	As per extant guidelines
8. Security	Primary Securities : ➢ Assets Created out of the loan. ➢ CGFMU cover to be taken – Mandatory No collateral security or third party guarantee should be taken under this product.
9. Others	✓ GST Registration Number for applicant is mandatory, if not exempted as per GOI guidelines.

<table>
<tr><td>Particulars</td><td>Guidelines</td></tr>
<tr><td></td><td>
✓ CGFMU Coverage is mandatory. Annual premium to be paid within the stipulated time. All guidelines of CGFMU scheme to be followed meticulously .
✓ All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower.
✓ In case of accounts with annual turnover more than a 1.00 crores, audited financial statements to be submitted.
✓ Units should be inspected at least once in a quarter and condition of the working of the unit should be recorded.
✓ End use of funds should be ensured by the Branch Manager and documentary proof for the same to be kept along with the documents. Stock statement for the first month after disbursement should be obtained and kept along with documents as a proof of end use of working capital component and stamped receipt in respect of term loan component.
✓ Proper care should be taken at pre sanction and post sanction stages. Branch Manager should ensure existence of the unit and pre Sanction Inspection report should be part of the documents.
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<tr><td>10. Documents</td><td>
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<tr><td>Other Common Documents</td><td>F172, F189, F190, F201</td></tr>
<tr><td>Constitution based</td><td>Proprietorship - F82
Partnership firm – D2, D5
F83, F83A in case of reconstitution of partnership
Pvt. Ltd. Company – F45</td></tr>
</table>
</td></tr>
</table>

Administrative Approval for sanction of Loans under Mudra (PMMY) Scheme

Branches have to obtain prior Administrative Approval from Zonal Office before sanction of Loans under Mudra (Pradhan Mantri Mudra Yojana) Scheme for limits above Rs. 1 lakh with effect from 01.04.2020.

Mudra Loans includes the following category of loans upto Rs. 10 lakhs per borrower:

- ✓ Loans sanctioned under Government sponsored schemes viz. Prime Minister Employment Guarantee Programme, TAHDCO, National Urban Livelihood Mission (NULM),EBC/ BC / SC /ST action plan etc. schemes for Non farm Sector and allied Agriculture.
- ✓ Loans to Self Help Groups at urban centres for non-agri purpose
- ✓ OD under Pradhan Mantri Jan Dhan Yojana (PMJDY)
- ✓ Loans to MSMEs outside Government Sponsored Schemes without collateral
- ✓ IB Weavers credit card.
- ✓ Swarojgar credit card etc.

However the obtention of administrative approval is exempted for the following:

- ✓ Loans to Self Help Groups at urban centres for non-agri purpose
- ✓ OD under Pradhan Mantri Jan Dhan Yojana

Zonal Office should put in place a mechanism so that approval is accorded within T+1 day on receipt of the request from branches. The approval should also be in line with MoU /Annual action plan approved for the branch concerned.

Zonal Audit Committee of Executives (ZACE) may review the number of approvals, adherence to timelines etc. under this mechanism for better monitoring in their monthly meetings.

IB MUDRA - TVS KING

Particulars	Guidelines
1. Target Group	Micro and Small Enterprises / Entrepreneurs
2. Eligibility	Bonafide Road Transport Operators, having a valid "Driving License" issued from the competent transport authority, residing within the command area of the Branch. Applicant should have the "Road Permit", issued from the competent authority. A copy of the same should be obtained and kept on record.
3. Purpose	Term Loan for purchase of three wheeler autos from M/s. TVS Motor Company Limited.
4. Types of Facility	Term Loan
5. Loan Amount	Maximum – Rs.2.00 Lakhs
6. Margin (Promoter's contribution)	15%
7. Type of Assessment	Upto 85% of Invoice Value. (Cost of Vehicle + Road Tax + Insurance + Registration Charges + Body Building Cost + Meter Cost + Accessories)
8. Security	Primary: Hypothecation of vehicles purchased out of Term Loan. Collateral – NIL CGTMSE Coverage to be obtained; Annual fee to be borne by the borrower.
9. Repayment terms	Repayable in 60 monthly instalments with a moratorium period of 3 months; Door to Door Tenor : 63 months Interest to be serviced during holiday period.
10. Others	10.1 GST Registration Number for applicant is mandatory, if not exempted as per GOI guidelines. 10.2 Benchmark Norms as per MSME Policy to be complied. 10.3 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.4 Documents and RTO vehicle transfer forms as required by Bank shall be obtained.

	10.5 Borrower shall undertake to deposit subsidy, if any receivable under State Govt schemes, in the loan account and Branch shall follow up for disbursal of such subsidy directly to the Bank, based on such undertaking. 10.6 Periodic MIS on stressed accounts be shared with the dealers of TVS, for prompt recovery.
11. Documents	D7, D36, D101, D19 A,B,C,D, F20, F172, F189, F190, F201

IB MICRO

Particulars	Guidelines
1. Target Group	All Micro (Manufacturing and Service Sector including Trade Sector) units – Priority Sector – as per extant definition of Govt. of India. Activities not eligible for CGTMSE cover (like educational institutions, SHG etc.) should not be financed under this product.
2. Eligibility	Both Existing and new units (Individual / Proprietary / Partnership / Private Ltd. Companies)
3. Purpose	Working Capital Requirements and Purchase of Fixed Assets
4. Types of Facility	Composite Loan
5. Loan Amount	Maximum – Rs.20.00 Lakhs
6. Margin (Promoter's contribution)	As per MSME Policy
7. Type of Assessment	20% of the estimated annual turnover can be given as working capital. Loan can be given with a margin of 25% for purchase of machines / equipments, other fixed assets, interiors, initial expenditure in commencing a unit etc; Term loan requirement plus working capital requirement should be given as composite loan.
8. Security	Primary Securities : ➢ Assets created out of the loan ➢ CGTMSE cover to be taken – Mandatory No collateral security or third party guarantee should be taken under this product.
9. Repayment terms	60 EMIs after a holiday period of 6 months. Interest need not be serviced during the holiday period of six months and the interest accrued during the holiday period alongwith the principal to be paid in 60 EMIs. (Total repayment period – 66 months).

Particulars	Guidelines
10. Others	10.1 CGTMSE Coverage is mandatory. Annual premium to be paid within the stipulated time. All guidelines of CGTMSE scheme to be followed meticulously. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Branch should ensure filing of charges as applicable to other extant guidelines. 10.4 In case of accounts with annual turnover more than a 1.00 crores, audited financial statements to be submitted. 10.5 Units should be inspected atleast once in a quarter and condition of the working of the unit should be recorded. Securities charged to the Bank are to be periodically verified / inspected as per extant guidelines 10.6 CMA Data, MSOD and Periodical Stock Statement need not be obtained.
11. Documents	D7, D36, D101, F20, F172, F189, F190, F201

IND-SME Secure

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India
2. Eligibility	Both Existing and new units Finance can be extended to new units subject to the availability of 100% security in the form of immovable property / liquid security.
3. Purpose	Working Capital Requirements, Purchase of Fixed Assets, Construction of Building etc.
4. Types of Facility	All Fund Based and Non Fund Based Limits
5. Loan Amount	5.1 Minimum Loan Amount: Above Rs.10.00 Lakhs 5.2 Maximum Loan Amount: No Ceiling (For Secured Overdraft, maximum loan amount is Rs.25.00 Lakhs per Borrower)
6. Margin (Promoter's contribution)	As per MSME Policy For SOD Limit : 30% margin on Land and Building In case of extending loan to purchase Factory / Industrial land, minimum margin of 50% to be ensured. Loans for purchase of other land not permitted
7. Type of Assessment	7.1 Working Capital (FB & NFB): As per Credit Policy For SOD : Assessment of limit should be done based on turnover method subject to availability of security value with stipulated margin. Drawing Power shall be based on property security value (Realizable sale value)

Particulars	Guidelines
	7.2 Term Loan – Total Cost less Margin Financing for purchase of second hand machines is also permitted subject to the following conditions In case of indigenous machines, age of the machines should be maximum of three years and the residual life of the machine should be satisfactorily longer than the repayment period proposed. Second-hand machines to be financed should be valued by a panel engineer of the Bank, preferably by a Mechanical Engineer, certifying the current value, residual economic life of those assets and the working conditions of the machines. In case of imported machines, the residual life of the machine should be satisfactorily longer than the repayment period proposed. An approved chartered engineer should be engaged to evaluate the economic/residual life of the machinery, its capacity, comparative worth, the working conditions of the machines etc. 7.3 Bank Guarantee Limits – Based on the orders on hand / Need based facilities after covering the margin. 7.4 IBN / FBN limits may be assessed as per extant guidelines (outside MPBF) and the same may be considered outside IND SME Secure.
8. Security	8.1 Primary Security: Secured OD : Mortgage of immovable property OCC : Hypothecation of Stocks and Book Debts upto 90 days (can be extended to 180 days on a case to case basis depending upon nature of activity) TL - Machine / Bldg - Hypothecation / Mortgage of assets created out of the term loan. LC / BG / IBN / FBN – As per extant guidelines. 8.2 Collateral Security: Secured OD : Hypothecation of stocks & book debts. Others : MORTGAGE of properties. Minimum 50% coverage of Bank Exposure (FB & NFB) by way of realizable sale value of immovable properties (Properties taken as primary and collateral), Cash Margin on NFB Limits and LIC Policy / NSC / RBI Bonds. Uncovered portion should be covered under CGTMSE upto eligibility. 8.3 Personal Guarantee : From Promoters and Property owners Guidelines on properties taken as security • Factory land: Factory land, either freehold or lease hold. In case of lease hold properties, the same should be in select

Particulars	Guidelines
	centers like metropolitan cities, State capitals, District Head quarters, approved Industrial Estates etc. where local development authorities of State / Central Governments have leased out such properties on long term lease (residual lease period shall not be less than proposed repayment period plus five years), with mortgage rights / permission to the lessee from the lessor. • Factory buildings: Factory buildings owned by the borrower / guarantor • Freehold residential plots and / or residential / commercial buildings owned by the borrowers & guarantors / lease hold properties of State Govt. development authorities like MMDA, DDA, CMDA, NOIDA etc. with mortgage rights / permission to lease from the lessor. • LIC policies, RBI bonds and NSCs shall be accepted as collateral security. • Hypothecation of machines can be accepted as security. However, residual value of machines / WDV of machines should not be included for assessing the Collateral security coverage as per the scheme • Properties belonging to the partners / directors can be taken as security. • Third party security (only owned properties and not lease hold properties) along with the personal guarantee of the third party property owner may be accepted subject to strict compliance of KYC norms. Powers for accepting third party security is vested with ZLCC for accounts upto ZLCC powers. Extant guidelines as per Credit Policy to be complied with. • Agricultural properties, disputed properties, properties attached by Tax authorities not to be considered for this purpose. Properties belonging to Trusts / HUFs not to be considered for this purpose. • If any property held as security for the other credit limits like HL etc; sanctioned to the borrower / guarantor outside IND SME Secure, is extended to the credit facilities under IND SME Secure to the borrower, then, the residual value of the property should be calculated after taking the margin on the property stipulated as per sanction terms for that credit limits, for assessing the security coverage under IND SME Secure.
9. Others	9.1 GST Registration Number for applicant is mandatory, if not exempted as per GOI guidelines. 9.2 Benchmark Norms as per MSME Policy to be complied. 9.3 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 9.4 Pre-release Audit / Legal Audit are to be conducted as per

Particulars	Guidelines
	extant guidelines of Credit Policy. 9.5 Branch should ensure filing of charges and satisfaction of charges as applicable to other advances. 9.6 Verification of Stocks and book debts (for OCC & SOD) to be carried out by branch official on monthly basis. For SOD, annual stock & book debt statement with agewise classification of book debts to be obtained. For OCC, Simplified monthly stock statement showing opening stock, purchases, cost of sales and closing stock to be obtained. Detailed stock and book debt statement (with age-wise break up) at the end of each quarter duly certified by CA to be obtained.
10. Documents	For Working Capital Facility D1/D2,D101,D105, D32/ D33/ D33A/ D34/ D34A/ D34B F52,F104,F105,F106,F163,F167,F172,F189,F190,F201,F206 MTL D7, D36, D57,D101, D32/ D33/ D33A/ D34/ D34A/ D34B F20,F172,F189,F190,F201,F206 BANK GUARANTEE D32/D33/D33A/D34/D34A/D34B F44,F44B,F73,F75,F111,F172,F189,F190,F201,F206

IB CONTRACTOR

Particulars	Guidelines
1. Target Group	Individual / Proprietor / Registered Partnership / Limited Liability Partnership (LLP) / Pvt & Public Limited Companies under Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India
2. Eligibility	2.1 All well established contractors (civil, mechanical, electrical etc.), performing contracts for Central / State Govt. / reputed PSUs / reputed Corporates. 2.2 Contractors / Sub-Contractors should be in the line of business for 3 years & has earned continuous profit for last 2 years. 2.3 Sub-Contractors are eligible for finance under the scheme subject to:- (a) Main contract should permit assigning job to sub-contractors. (b) Double finance should be avoided. 2.4 GST registration of the borrower is mandatory, wherever applicable. 2.5 Applicant Should have certificate under MSME Act, 2006 2.6 The applicant should have infrastructural facility to complete the project.

	2.7 The real estate / residential project should be RERA compliant as per the applicability in the respective states.
3. Purpose	To finance contractors carrying out work orders from various Central / State Govt departments /reputed PSUs/ reputed Corporates covers all aspects like purchase of machinery, working capital requirements etc.
4. Types of Facility	4.1 Fund Based: Secured OD / OCC / Term Loan / BP 4.2 Non-Fund Based: Bank Guarantee / LC
5. Loan Amount	5.1 Minimum Loan Amount: Above Rs. 10 lakh per borrower 5.2 Maximum: Rs. 10 Crores per borrower (FB+NFB) Rs. 20 Crores per group (FB+NFB)
6. Margin (Promoter's contribution)	50% on EM property for Secured OD 20% on Stock and Book Debts 20% on equipments / Term Loan 15% for Bill Finance. 10% against Guarantees / LC Others : As per MSME Policy Zonal Managers may relax the margin by maximum 10% for Fund Based Limits on case to case basis on merits.
7. Type of Assessment	7.1 Working Capital: Turnover Method Projected / accepted sales to be justified on the basis of past track record, orders in hand and available infrastructure with the contractor. 7.2 Term Loan : Total Cost Less Margin 7.3 Others – Need Based basis
8. Security	8.1 Primary Security: SOD – EM of property (Min. 200% of the limit). *Agricultural property shall not be accepted. The security should be SARFAESI compliant. Third Party property along with personal guarantee of property owner may be accepted subject to strict compliance of KYC norms. Sanctioning of advances with third party security is vested with ZLCC for accounts upto ZLCC powers.* OCC - Stock and Book Debts (If stock value could not be assessed, same shall be excluded while arriving at Drawing Power. 100% collateral security in the form of Immovable Property / liquid security to be obtained.) MTL - Hypothecation of equipments purchased by availing MTL. BG- Counter guarantee by applicant. Cash margin by way of FDR. Portion uncovered by cash margin should be covered with value of security. LC- Cash margin by way of FDR and Hyp. of stocks procured against LC. BP- Undertaking from the debtors to make payment directly to the Bank. 8.2 Collateral Security: In case of OCC, 100% collateral security

	coverage in the form of immovable property / liquid security to be obtained.
9. Repayment terms	Term Loan shall be repayable in maximum of 84 months, including holiday period. Interest to be serviced during holiday period. Tenor of Bank guarantee as per Credit Policy norms.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy. 10.4 For NFB Facility: • Bank Guarantee Audit to be conducted once in a year for BG limit above Rs.2.00 Crores. • The project receipts, monthly stock statements and cash flow statements to be submitted. 10.5 Two valuation reports from different panel valuers shall be obtained. 10.6 Legal Audit to be conducted irrespective of limit. 10.7 Quarterly progress report in respect of contracts against which bank guarantees are outstanding should be obtained and analysed. 10.8 Guarantees should be extended after looking into the reasons for seeking such extensions and not as a matter of routine. 10.9 EM property to be inspected on half yearly basis by bank officials. 10.10 QIS and CMA may not be insisted upon. 10.11 Stocks and Book Debts Audit to be insisted as per our bank guidelines. 10.12 Eligible contractors shall have the option to avail credit facilities under Ind SME Secure Scheme.
11. Documents	For SOD Facility D1/D2,D105, D32/D33/D33A/D34/D34A/D34B F172,F189,F190,F201,F206 MTL D7, D36,D57,D101 D32/D33/D33A/D34/D34A/D34B, F20, F172,F189,F190,F201,F206 BANK GUARANTEE D32/D33/D33A/D34/D34A/D34B F44,F44B,F73,F75,F111, F172,F189,F190,F201,F206 INLAND LC D87A, D48,D73 F149, F172,F189,F190,F201,F206 IMPORT LC D48,D48A,D73 F172,F189,F190,F201,F206 BP D1/D2,D35 F72A, F172,F189,F190,F201,F206 SUPPLY BP D1/D2, D35,D105

	F71, F172,F189,F190,F201,F206

IB DOCTOR PLUS

Particulars	Guidelines
1. Target Group	Micro, Small & Medium Enterprises (MSME) - Service Enterprises
2. Eligibility	Individuals / registered partnership firm / Limited Company / Trust etc. Key promoters or their spouse should be qualified medical practitioners, with satisfactory track record. Passed out students from various streams (Medicine, Dental etc.) planning to set up their diagnostic centre / clinics in India. To be eligible for this, the student must have completed the course in MBBS / BDS / BAMS / BUMS from recognised / approved college.
3. Purpose	Working Capital requirements, For Purchase/ Construction of Hospital / To set up clinic, clinic cum residence, nursing home (Allopathi, Homeopathy, Ayurvedic etc.), Machinery / Equipments etc. Second hand machinery should not be considered for financing.
4. Types of Facility	4.1 Fund Based: Working Capital / Term Loan 4.2 Non-Fund Based: LC
5. Loan Amount	5.1 Minimum Loan Amount: Rs.1.00 Lakh 5.2 Maximum: No Ceiling For fresh passed out students – Maximum exposure is Rs.2.00 Crores and if collateral security is not available, CGTMSE coverage is to be ensured.
6. Margin (Promoter's contribution)	As per MSME Policy
7. Type of Assessment	7.1 Working Capital: Cash Budget Method 7.2 Term Loan : Total Cost Less Margin 7.3 LC – Need Based basis
8. Security	As per MSME Loan Policy <u>Loans upto Rs.10 lakhs</u>: <u>Primary Security</u> : Hypothecation of assets created out of loan amount. <u>Collateral Security :</u> ➢ Should be covered under CGTMSE. No Collateral Security / Third party guarantee to be obtained. ➢ If Primary Security is held in the form of immovable properties with 100% coverage, CGTMSE cover need not be insisted. ➢ If Primary security is held in the form of immovable properties with less than 100% coverage, CGTMSE with Hybrid security to be obtained. <u>Loans above Rs 10 lakhs to Upto Rs.2.00 Crores</u>:

	➢ Should be covered under CGTMSE. No Collateral Security / Third party guarantee to be obtained. ➢ If Primary Security plus Collateral Security is held in the form of immovable properties with 100% coverage, CGTMSE cover need not be insisted. ➢ If Primary security plus Collateral Security is held in the form of immovable properties with less than 100% coverage, CGTMSE with Hybrid security to be obtained. For Medium Enterprises, Security coverage should be at a minimum of 100% in the form of immovable properties (Primary + Collateral Security). <u>For Above Rs.2.00 Crores:</u> Branch should obtain 100% security in the form of LIC policy (Surrender Value) assigned in favour of the Bank or other immovable properties (Primary and Collateral), so as to ensure compliance with Loan Policy guidelines in respect of security coverage.
9. Repayment terms	Maximum 120 months including moratorium of upto 12 months or stabilization of cash flows from the project whichever is earlier. Interest to be serviced during holiday period.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy
11. Documents	SOD D1/D2,D101,D32/D33/D33A/D34/D34A/D34B F52 MTL D7,D32,D36,D57,D101 F20 Common for both facilities wherever applicable F172,F189,F190,F201,F206,F41/F42,F43,F94

<u>IND-SME MORTGAGE</u>

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprise (MSME) both Manufacturing and Service as per extant definition of Government of India.
2. Eligibility	Existing & New Units – Proprietorship concern / Partnership Firm / Private Limited Company / Public Limited Company / Limited Liability Partnership Firm (LLP)

Particulars	Guidelines
	(In case the applicant is an individual i.e., professional, self-employed etc. engaged in the activity classified under MSME, the mortgage loan shall be considered under "IND MORTGAGE" Scheme with the terms and conditions applicable for the said scheme and the limit is to be classified as MSME as stipulated in the IND MORTGAGE Scheme). Entry Level Age / Exit Level Age of the owner/s of the immovable property offered as security Minimum entry level age : 18 years Maximum exit level age : 70 years ZLCC can relax upto 75 years FGM can relax upto 80 years
3. Purpose	Genuine business needs viz. expansion of capacity, purchase of assets meant for the unit.
4. Types of Facility	Term Loan only
5. Loan Amount	5.1 <u>Minimum Loan Amount</u>: New customers : 10 lakhs Existing customers : 1 lakh* * total of existing limit & proposed limit should be more than Rs. 10 lakh 5.2 Maximum Loan Amount: 5.00 Crores
6. Margin	40% of the security value. (40% of residual value, if residual value of the security is considered) Maximum 10% relaxation in margin shall be permitted by ZLCC for sanctions upto ZLCC powers & by respective sanctioning authorities for sanctions under the powers of COLCC GM and above. It should be ensured that minimum margin requirement 40% / 30% as per sanction is maintained till the entire repayment period of the loan.
7. Type of Assessment	Not applicable
8. Security	8.1 <u>Primary Security</u>: Immoveable property proposed to be mortgaged 8.2 <u>Collateral Security</u>: Extension of charge over existing Factory Land and Building, Plant and Machinery and Current Assets of the unit. The residual life of the building should be atleast 10 years more than the proposed repayment period. 8.3 <u>CGTMSE</u> : Not applicable 8.4 <u>Personal Guarantee</u>: Personal Guarantee of property owner/s whose security has been considered. Corporate Guarantee of group concern/s which had offered the security. Personal Guarantee of Partners / Directors as per extant guidelines. (a) The immovable property offered as security should be SARFAESI Compliant.

Particulars	Guidelines
	(b) The immovable property offered should be located in Tier I to Tier 4 Centres. Property located in Tier 5 & Tier 6 (i.e. centres with population less than 10000) should not be accepted as security for considering loan under this product. (c) The Security can be • <u>Factory Land</u>: Factory land, either freehold or lease hold. In case of lease hold properties, the same should be in select centres like metropolitan cities, State capitals, District Headquarters, approved Industrial Estates etc. where local development authorities of State / Central Governments have leased out such properties on long term lease (residual lease period should not be less than proposed repayment period (door to door tenor) plus Ten Years), Leasehold amount is fully paid upfront and with mortgage rights / permission to the lessee from the lessor. • Factory buildings • Freehold residential / commercial plots and / or residential / commercial buildings • Leasehold residential properties allotted by State Govt. development authorities like MMDA, DDA, CMDA, NOIDA etc. wherein residual lease period should not be less than proposed repayment period (door to door tenor) plus Ten Years, Leasehold amount is fully paid upfront and with mortgage rights / permission from the lessor. (d) The property offered as security can be held by • MSME enterprise (applicant) OR • Proprietor/ Proprietrix, his / her Spouse, Adult Children and Parents OR • Partners OR • Directors / Shareholders (major shareholder i.e., more than 5%) OR • Group concern/s (e) Agricultural properties, disputed properties, properties attached by Tax authorities, Properties belonging to Trusts / HUFs are <u>not to be</u> considered as security. (f) The residual value of property/ies already mortgaged with us (subject to compliance of (a) to (e) can be considered as security. (g) The security should be exclusively charged to our Bank i.e., charge on Paripassu basis, first / second charge etc. not to be accepted as Security (h) The property held as security for this loan can be extended for other facility / ies sanctioned by our Bank to the applicant concern or group accounts (however only on residual value after ensuring adequate margin for this limit) If Vacant Land is to be considered as security, and there is no deviation in norms of the scheme, the proposal should be referred to COLCC(GM) for sanction.

Particulars	Guidelines
	If Vacant Land is to be considered as security and with deviation in norms of the scheme, the proposal should be referred to COLCC (ED) for sanction.
9. Repayment terms	Repayment Period: Maximum 120 months (Door to Door tenor) Holiday Period / Moratorium Period: Maximum 6 months from the date of disbursement. Method of Repayment: a. Principal in equal Monthly Installments. b. Equated Monthly Installments (EMIs) c. Negotiated repayment of principal - Ballooning repayment based on repaying capacity Interest to be serviced during holiday period. While fixing repayment period, projected cash flow of the applicant and residual life of the building (which is offered as security) is to be taken into account.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy. 10.4 It should be ensured that this loan amount is not utilized as margin for any other Term Loan availed / to be availed by the applicant. 10.5 A Declaration from the borrower that the loan amount have been utilized for the purpose/s for which it is sanctioned, to be obtained, to ensure end use of loan. 10.6 In case of existing securities, where the residual value to be considered, the valuation report should not be fresh valuation and neither it should be more than 3 years old. 10.7 Bank officials should visit the property and satisfy themselves about the approachability, marketability and value of the property before sanction. The value of the property should be discreetly enquired by the Bank officials and reasonableness of valuation reported by panel valuer should be ensured. A report about this should form part of the appraisal.
11. Documents	D7,D5,D32/D33/D34/D34A/D34B,D57D131 F16,F137,F72,F178,F189,F190,F201

IND-MSME VEHICLE

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India.
2. Eligibility	Proprietorship Concern / Partnership Firm / Private Limited Company / Public Limited Company / Limited Liability Partnership (LLP) • All existing MSME clients with satisfactory promoter/s' track record, group affiliation and viable project/s, with or without credit facilities, should have maintained satisfactorily operated account at least for the last one year. • Applicant should have Road Permit issued by Competent Authority. • No relaxation is permitted below Combined Rating "A" category for exposure (existing plus proposed facility) of Rs.50.00 Lakhs and above.
3. Purpose	Financial Assistance for purchase of new vehicle (LMV /HMV) for existing MSME units meant for transport of Men and Material (This includes Car, Tempos, Mini Van, Trucks etc.)
4. Types of Facility	Fund Based: Term Loan
5. Loan Amount	Maximum Loan Amount: Rs.200.00 lakhs.
6. Margin (Promoter's contribution)	15%
7. Type of Assessment	Total Cost (On Road Price) Less Margin (On Road Price = Cost of Vehicle + Road Tax + Insurance + Registration Charges + Body Building Cost + Meter Cost + Accessories)
8. Security	8.1 Primary Security: Hypothecation of vehicles purchased out of Term Loan. 8.2 Collateral Security: • For the accounts already covered under CGTMSE : Coverage should be extended for this product too (The annual service fee to be borne by the borrower). • For accounts other than CGTMSE – Immovable Properties need to be taken / extended with a minimum RSV of 50 % of the loan as per laid down procedure. • Guarantor/s wherever applicable (In case of CGTMSE, third party guarantee should not be obtained.)
9. Repayment terms	1.In case of LMV : 60 EMIs commencing from next month from the date of disbursement of loan 2.In case of HMV : a) Principal in equal Monthly Instalments and Monthly interest is to be serviced then and there; b) Holiday Period : Maximum 3 Months from the date of disbursement of loan; c) Repayment Period : Maximum 60 months (Door to Door tenor) i.e., total tenor including holiday period should not exceed 60 months.

Particulars	Guidelines
	While fixing repayment period, projected cash flows of the applicant / DSCR are to be taken into account.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured (Comprehensive insurance) with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy 10.4 Amount will be remitted directly to the dealer / supplier by means of DD / NEFT / RTGS. 10.5 There should not be any bar on issuance of Permits / licenses for such vehicles in the area of operations. 10.6 Documents and RTO vehicle transfer forms as required by Bank shall be obtained. 10.7 Borrower shall undertake to deposit subsidy, if any receivable under State Govt. schemes, in the loan account and Branch shall follow up for disbursal of such subsidy directly to the Bank, based on such undertaking.
11. Documents	D7,D36,D57,D101,D19 A,B,C,D,F20 F13,F74,F172,F181,F189,F190,F201

IB MY OWN SHOP

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India
2. Eligibility	Individuals, Professionals and Self employed people, firms (registered partnership firms, companies) and businessmen. The applicant should have been in the activity for a minimum period of 3 years (Can be reduced to 2 years by ZLCC) Applicant should not be more than 50 years of age at the time of availing the facility (can be extended upto 60 years by ZLCC).
3. Purpose	To purchase new commercial space / shop and also second hand purchase provided the residual life of commercial space is not less than actual repayment period plus 2 years, and / or fresh construction, renovation of the business premises. Estimates to be vetted by panel valuer and all statutory approvals to be ensured. The property to be acquired should be for own business.
4. Types of Facility	Term Loan
5. Loan	In case of individuals / professionals, 36 times monthly gross income or 60

Particulars	Guidelines
Amount	months net income, whichever is higher. In case of self employed professionals, gross income net of tax before deducting depreciation may be considered while computing the eligible amount. Income of co-borrower can be included in arriving the quantum. In case of firms / company, five times the cash profit of immediate preceding year or four times average cash profit for last three years, whichever is higher Maximum Loan amount - Rs.10.00 Crores
6. Margin (Promoter's contribution)	Minimum 25% on the cost of property In case of purchase of ready built commercial space, the borrower should bring in full margin amount prior to release of limits by the Bank. It shall be on pro rata basis where construction is involved.
7. Type of Assessment	Total Cost less Margin, subject to a maximum amount of Rs.10.00 Crores.
8. Security	EM on commercial property to be acquired Personal guarantee of partners / directors in individual capacity CGTMSE Coverage to be obtained for all eligible accounts. Third Party Guarantee having networth not less than the loan amount to be obtained. However, if the margin is maintained at minimum 40%, third party guarantee need not be insisted. No collateral / third party guarantee to be taken for loans upto Rs.10 lakhs to MSE borrowers and accounts to be covered under CGS of CGTMSE
9. Repayment terms & Holiday period	As per MSME Policy Holiday Period : • For Ready Built Commercial Space : Maximum of 3 months • Property under construction : Maximum of 12 months from date of first disbursement. Interest to be serviced during holiday period.
10. Others	10.1 GST Registration Number for applicant is mandatory, if not exempted as per GOI guidelines. 10.2 Benchmark Norms as per MSME Policy to be complied. 10.3 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.4 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy 10.5 Satisfactory credit opinion from existing banker in case of takeover of limits. 10.6 NOC from builder / housing society wherever applicable. 10.7 Wherever license is required, they should get the same from competent authority

Particulars	Guidelines
	10.8 In the Building plan, it should be approved by competent authority as commercial and no deviations should be allowed from the approved plan
11. Documents	D1/D2, D7, D36,D57D96, D32/D33/D33A/D34/D34A/D34B, F20,F172,F189,F190,F201,F206

IB PURE JAL DHARA

Particulars	Guidelines
1. Target Group	All Micro and Small Enterprises (MSEs) as per extant definition of Government of India
2. Eligibility	1. Any MSE with valid Udyog Aadhar registration. 2. The Land which sources the water, should be owned or leased (with lease period more than 5 years above the repayment period of Term Loan) by the applicant. 3. Sufficient Water Source should be available, for uninterrupted running of Water Kiosk. 4. FSSAI license to be arranged.
3. Purpose	Financial Assistance for setting up Water Kiosks for the purpose of providing clean water to people.
4. Types of Facility	Fund Based: Composite Loan / Term loan.
5. Loan Amount	Maximum Loan Amount: Rs.10.00 lakhs. (For purchase of Plant and Machinery, Borewell Cost etc. for setting up of Water Kiosk)
6. Margin (Promoter's contribution)	20%
7. Type of Assessment	7.1 Working Capital: As per MSME Policy. 7.2 Term Loan: Total project cost Less Margin
8. Security	8.1 Primary Security: Hypothecation of Plant and Machinery purchased out of Term Loan. 8.2 Collateral Security: Nil 8.3 CGTMSE : Coverage is mandatory and annual guarantee fee to be borne by the borrower. 8.4 Personal Guarantee of Promoter
9. Repayment terms	Door to Door Tenor: 84 Months. Repayment Period: 81 Months. Holiday Period / Moratorium Period: 3 Months from the date of disbursement. Interest to be serviced during holiday period

Particulars	Guidelines
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 Prior Administrative Clearance from ZO to be obtained by Branches as applicable for Mudra Loan. 10.3 All securities should be adequately insured (Comprehensive insurance) with Bank Clause – Premium to be borne by the borrower. 10.4 Report from accredited credit information companies to be verified. 10.5 Sanctioning Authority should ensure availability of water, viability in their locality, before considering the loan. 10.6 Economic Viability should be assessed based on the projected income. 10.7 There should not be any bar on issuance of licenses for such activity in the area of operations.
11. Documents	D7,D36,D101 F172,F189,F190,F201

IND-SME EASE

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India.
2. Eligibility	Existing units (Individual / Proprietorship Concern / Partnership firm / Private Limited Company / Public Limited company / Limited Liability Partnership firm (LLP) with the following conditions:- • GST and Udyog Aadhar Registration is mandatory. • GST returns should have been filed atleast for the past two years. The Entry level age / Exit level age of the individual applicant / Proprietor/ix / any one of the partners in case of partnership firm: Minimum entry level age : 18 years Exit level age : 70 years ZLCC may relax exit level age upto 75 years and FGM and above may relax exit level age upto 80 years.
3. Purpose	To meet working capital requirements
4. Types of Facility	Open Cash Credit. Based on the request of the applicant, a portion of the assessed limit or entire limit can be considered as Composite Loan.
5. Loan Amount	5.1 Minimum Loan Amount: Above Rs.10.00 Lakhs 5.2 Maximum Loan Amount: Less than Rs.50.00 Lakhs

6.	Margin	NIL
7.	Type of Assessment	Assessment Method: Turnover method • Sales declared in GST return during the past twelve months should be treated as Turnover for assessing the limit. • GST site must be accessed for cross-verification of turnover declared by the applicant. While verifying, it should be ensured that a) Sales declared pertain to the business activity of the applicant b) exempted sales declared are genuine. Assessment of Limit for Sanction: Sales declared in GST return during the Past 12 months : A Eligible Limit : 25% of A If the applicant is already enjoying WC Limit with our Bank, existing limits to be absorbed in this limit. Total Limit including existing limits should not exceed the maximum eligible limit less than Rs. 50.00 Lakhs.
8.	Security	Primary Security : Hypothecation of Stock and Book debts – based on the declaration submitted by the borrower before availing the limit and at the time of review / renewal of limit/s. Collateral Security (immovable property / Liquid Securities): For Micro & Small Units: Loan may be considered with or without collateral security. If no collateral security is offered, CGTMSE coverage is Mandatory. Partial security is also permitted by covering the unsecured portion under CGTMSE. Guarantee fee is to be borne by the borrower. For Medium Enterprises: 100% Collateral Security 1. The immovable property offered as collateral security should be SARFAESI compliant. 2. The Security can be • Factory Land: Factory land, either freehold or lease hold. In case of lease hold properties, the same should be in select centers like metropolitan cities, State capitals, District Headquarters, approved Industrial Estates etc. Where local development authorities of State / Central Governments have leased out such properties on long term lease (residual lease period shall not be less than proposed repayment period plus five years), with mortgage rights / permission to the lessee from the lessor. • Factory buildings • Freehold residential / commercial plots and / or residential / commercial buildings • Lease hold residential properties allotted by State Govt. Development authorities like MMDA, DDA, CMDA, NOIDA etc. With mortgage rights / permission from the lessor.

	3. The property offered as security can be held by • MSME enterprise (applicant) OR • Proprietor/Proprietrix, his / her Spouse, Adult Children and Parents OR • Partners OR • Directors / Shareholders OR • Group concern/s 4. Agricultural properties, disputed properties, properties attached by Tax authorities, Properties belonging to Trusts / HUFs are <u>not to be</u> considered as security. 5. The residual value of property/ies already mortgaged with us (subject to compliance of 1 to 4) can be considered as security. 6. The security should be exclusively charged to our Bank i.e., charge on Paripassu basis, first / second charge etc. Not to be accepted as Security 7 The property held as security for this loan can be extended for other facility / ies sanctioned by our Bank to the applicant concern or group accounts. Personal Guarantee : Personal Guarantee of Property Owner/s whose security has been considered Corporate Guarantee of group concern/s which had offered the security Personal Guarantee of Partners / Directors as per extant guidelines.
9. Repayment terms (TL)	Composite Loan – 120 months without any holiday period
10. Others	10.1 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.2 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy. 10.3 Drawing Power for OCC limit must be fixed once in a quarter based on the turnover declared by the borrower in GST return during the past twelve months. Calculation of Drawing Power: Sales declared in GST return during the past 12 months : A Eligible DP : 25% of A (B) Sanctioned Limit : C Drawing Power : B or C whichever is less 10.4 Audited financials to be obtained where turnover exceeds Rs.1.00 Crore. 10.5 Quarterly Stock / Book Debt statements are to be obtained. 10.6 Quarterly unit vist to be done. 10.7 If the applicant is already enjoying WC limit with other Banks, the limit should be adjusted and No due certificate is to be obtained before availing limit from our Bank under this product.
11. Documents	For Working Capital Facility D1/D2,D101,D105, D32/ D33/ D33A/ D34/ D34A/ D34B F52,F104,F105,F106,F163,F167, F172,F189,F190,F201,F206 MTL D7, D36, D57,D101, D32/ D33/ D33A/ D34/ D34A/ D34B F20, F172,F189,F190,F201,F206

IND-SME E-VAAHAN

Particulars	Guidelines
1. Target Group	All Micro, Small & Medium Enterprises (MSME) as per extant definition of Government of India
2. Eligibility	Individual / Proprietorship concern / Partnership Firm / Private Limited Company / Public Limited Company / Limited Liability Partnership Firm / Trust The Entry level age / Exit level age of the individual applicant / Proprietor/ix / any one of the partners in case of partnership firm: Minimum entry level age : 18 years Exit level age : 70 years ZLCC may relax exit level age upto 75 years and FGM and above may relax exit level age upto 80 years. (For other entities, entry / exit level age criteria need not be reckoned).
3. Purpose	• For purchase of 2 / 3 / 4 wheeler electric vehicles (New vehicle) by MSMEs for the business purpose. • 2 wheeler - for delivering goods to their clients at door step etc. • 3 wheelers – AutoRickshaw passenger vehicles, commercial vehicle for transporting material. • 4 wheelers - passenger vehicles for official use by MSMEs / commercial vehicle for transporting material.
4. Types of Facility	Fund Based: Term Loan
5. Loan Amount	Maximum Loan Amount: No ceiling More than one vehicle per borrower can also be considered.
6. Margin (Promoter's contribution)	15% on "On Road" cost of the vehicle (ZLCC and above level sanctioning authority may relax this by 5%)
7. Type of Assessment	7.1 Term Loan: Total Cost Less Margin
8. Security	8.1 Primary Security: Vehicle/s purchased out of the Loan. 8.2 Collateral Security: a) Loans to Micro & Small Enterprises should be covered under CGTMSE Scheme (if the limit is for Manufacturing / services unit upto Rs. 2 crore & if the limit is for Trade sector upto Rs. 1 crore). Guarantee Fee is to be borne by the borrower. b) If the Loan limit to Micro & Small Enterprises is beyond CGTMSE coverage eligibility: 100% collateral security in the form of immovable properties / liquid securities for the loan portion beyond CGTMSE coverage is to be obtained. c) Loans to Medium Enterprises upto Rs. 25 lakh: NIL

Particulars	Guidelines
	d) Loans to Medium Enterprises above Rs. 25 lakh : 100% collateral security in the form of immovable properties / liquid securities for the loan portion above Rs. 25.00 lakhs. (Sanctioning authority at the level of ZLCC and above may waive this on merits) Personal Guarantee : Personal Guarantee of Partners / Directors as per extant guidelines.
9. Repayment terms	Holiday Period : Maximum 3 Months from the date of disbursement of loan Repayment Period : Loan for 2/3 Wheeler: Maximum 48 months (Door to Door tenor) Loan for 4 Wheeler : Maximum 60 months (Door to Door tenor) i.e. total tenor including holiday period No relaxation in repayment period is permissible. Interest to be serviced during holiday period. Repayment shall be in any of the following ways: a. Equated Monthly Instalments (EMIs) b. Principal in equal Monthly Installments and Monthly interest is to be serviced then and there.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy. 10.4 Bank's Lien should be marked on the Vehicle Registration Certificate.
11. Documents	D7,D36,D57,D101,D19 A,B,C,D F13,F74,F172,F181,F189,F190,F201

InDhan Vahana

Particulars	Guidelines
1. Target Group	SC / ST Entrepreneurs sourced by DICCI (Dalit Indian Chamber of Commerce and Industry), classified under MSME.
2. Eligibility	• Secured tender (Bulk LPG transportation Contract) of Oil Marketing Companies (IOC/ BPCL/ HPCL). • Branch to select borrowers with proper due diligence from the applications sourced by DICCI.
3. Purpose	Purchase of New LPG Trucks/ Tankers
4. Types of Facility	✓ Fund Based: Term Loan, OD (Clean) ✓ Non Fund Based – Bank Guarantee (in lieu of Security Deposit

Particulars	Guidelines
	as per the Tender document)
5. Loan Amount	Above Rs 10 lakh to Rs 100 lakh (FB &NFB put together) ✓ Maximum Loan Amount: OD (Clean)* – Max Rs 3.00 lakh *(Maximum Rs 1.00 lakh per Vehicle) (Upto three Trucks / Tankers per borrower and to be operated only for Oil Marketing Companies)
6. Margin (Promoter's contribution)	✓ Term Loan : Promoter contribution of 10% of project cost wherever minimum 15% Government Subsidy is available or else promoter should bring in 25% cash margin ✓ Bank Guarantee : 10% ✓ Overdraft (Clean) : NIL
7. Type of Assessment	Total Cost Less Margin On Road Price may be considered including Road Tax, Registration Charges & Insurance
8. Security	<u>Primary Security:</u> • Hypothecation of Vehicles financed under Term Loan • CGSSI cover to be taken mandatorily (Premium to be borne by borrower) & renewed every year • Personal guarantee of the Partners/ Promoter Directors (not third party) • Margin Money & Counter Guarantee for Bank Guarantee <u>Collateral Security</u>: NIL • Escrow account to be maintained with the branch
9. Repayment terms	Repayment Period: • Term Loan – 60 EMIs. (Door to door – 66 months); Holiday Period : 6 Months. • Clean OD – (On reducing balance basis – Maximum Period of 50 months) Interest to be serviced during holiday period
10. Others	✓ Benchmark Norms as per MSME Policy to be complied. ✓ All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. ✓ Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy ✓ The loan will be eligible under the Stand Up India Scheme. ✓ Borrower to ensure that the Trucks/ Tankers are made available to Oil manufacturing companies (OMC) on or before the scheduled date ✓ Drivers with valid driving license only should be enrolled for operating the vehicles. ✓ Copy of SC / ST certificate issued by competent authority (as required for participating in Tender) ✓ Copy of RC Book, Insurance, PESO license, Tender allotment letter, National permit etc. To be kept on record ✓ Valid license from Petroleum Explosives Safety Organisation (PESO) to be produced

Particulars	Guidelines
	✓ Overdraft and BG to be extended only to borrowers availing Term Loan under the Scheme ✓ DICCI will coordinate for smooth implementation of the scheme and will take all efforts in helping the Bank for recovering the loan in case of any issues/ overdues persist in the loans sanctioned.
11. Documents	Term Loan D7,D36,D57,D101,D19 A,B,C,D F13,F74,F172,F181,F189,F190,F201

IND-SURYA SHAKTI

Particulars	Guidelines
1. Target Group	All MSMEs, Mid Corporate & Large Corporates
2. Eligibility	Existing & New Units. Applications from borrowers of other banks / FIs shall also be considered.
3. Purpose	Setting up solar power plants for captive consumption. Solar power plants should be in accordance with the technical standards issued by MNRE and / or Central Electricity Authority.
4. Types of Facility	Term Loan
5. Loan Amount	No Ceiling
6. Margin (Promoter's contribution)	25% on the cost of the equipments & erection charges
7. Type of Assessment	Total Cost Less Margin
8. Security	8.1 Primary Security: Assets purchased out of loan 8.2 Collateral Security: EM of property on which solar plant is erected. If the property is mortgaged with other banks / FIs, NOC only to be obtained from the respective Banks / FIs.. 8.3 Personal Guarantee: Partner / directors to be obtained.
9. Repayment terms	<u>Repayment Period</u> : Door to Door Tenor: 15 years <u>Moratorium Period</u>: Roof Top Solar : Maximum 6 months Others : Maximum 12 months Interest to be serviced during holiday period.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy.
11. Documents	D7,D36,D101 F172,F189,F190,F201

IB STANDBY WC FACILITY (WCDL) FOR MSMEs

Particulars	Guidelines
1. Target Group	All existing MSME Borrowers enjoying Working Capital Facility (FB + NFB) with us
2. Eligibility	Standby WC facility can be considered for the existing customers, enjoying OCC, SOD & NFB Limit.
3. Purpose	To meet mismatch in cash flows / working capital gap / pending realisation of Receivables / delay in receipt of GST Input Tax credits (including for exports) and other business requirements.
4. Types of Facility	Working Capital Demand Loan / Non Fund Based Limits
5. Loan Amount	5.1 Minimum Loan Amount: Nil 5.2 Maximum: 25% of FBWC + NFBWC with a maximum of Rs. 1.25 Crores
6. Margin	NIL
7. Type of Assessment	➢ Limit should be arrived based on Receivables only, after providing for existing working capital limit. Stocks should not be considered for assessment. ➢ In case of existing SOD, Limits can be ascertained based on the Receivables, after carving out the value equivalent to 100% of existing SOD Limit. If value of Receivables is less than the existing SOD Limit, Customer is not eligible for Stand by WC facility. ➢ Receivables considered as doubtful, if any, should be excluded while arriving the limit. ➢ While assessing the limit for second or subsequent tranche of sanction, advance value for the existing working capital limit and balance outstanding in earlier tranche/s to be excluded.
8. Security	Existing Primary, Collateral Security and personal guarantees to be extended for this facility CGTMSE Coverage to be obtained, wherever applicable
9. Repayment terms	Fund Based : Repayable in 12 months (either as bullet payment or in instalments) from the date of disbursement of loan. Non Fund Based : If the borrower is already enjoying NFB limit, the assessed limit can be financed in the form of NFB limits also, for a period one year. After completion of one year, this balance is to be subsumed in the original limit.
10. Others	10.1 Benchmark Norms as per MSME Policy to be complied. 10.2 All securities should be adequately insured with Bank Clause – Premium to be borne by the borrower. 10.3 Pre-release Audit / Legal Audit are to be conducted as per extant guidelines of Credit Policy.

	10.4 Chartered Accountant certificate with UDIN No. to be obtained for the Stock in hand (unpaid) and Receivables outstanding including GST input tax credits before each tranche of sanction. 10.5 Limit will be over and above the MPBF.
11. Documents	D1/D2,D101,D105, D32/ D33/ D33A/ D34/ D34A/ D34B F52,F104,F105,F106,F163,F167, F172,F189,F190,F201,F206

Jewel Loan to TRADERS & Jewel Loan Priority (Non-Agri)

Particulars	Guidelines
1. Target Group	Traders, Businessmen, Professional, Self employed & Entrepreneurs
2. Eligibility	Existing & new customers
3. Purpose	To meet short term production / working capital needs
4. Types of Facility	Term Loan only
5. Loan Amount	a. Minimum Loan Amount: No Limits b. Maximum Loan Amount: No Ceiling
6. Margin	30% (LTV 70%) – For all limits
7. Type of Assessment	Limits should be assessed based on the activity of the applicant, purpose of loan etc. subject to loan to value of jewels (as per the existing guidelines for loan against Gold Ornaments and Jewellery)
8. Security	a. Primary Security: Pledge of jewels b. Collateral Security: Nil.
9. Repayment terms	For limits upto 5 lakhs: Maximum tenor: 12 months. Repayable at the end of 12^{th} month along with interest accrued For limits above 5 lakhs: Tenor upto 35 months – repayable in monthly instalments
10. Others	14.1 For Short term loans with tenor upto 12 months, interest will be charged to the account on monthly rests and will be recognized on accrual basis, provided the account is classified as “Standard” account. For Short term loans with tenor above 12 months up to 35 months, interest will be charged to the account at monthly rests and payable along with the principal at monthly intervals. 14.2 Along with Jewel Loan application form and Appraiser’s Certificate, following documents are to be obtained:- • Latest KYC documents

	• Udyog Aadhaar Number Copy or Trader / Business Lincese or SSI Registration Certificate or any other proof of business / activity of the applicant. • For existing MSME customers, the above documents need not be insisted. 14.3 Applicable Loan to value (LTV) of the jewels pledged to be maintained throughout the tenor of the loan. 14.4 All other conditions applicable for loan against gold ornaments and jewellery.
11. Document	F120 E

MSME LOANS - STANDARD OPERATING PROCEDURE

1. Sourcing of applications and Identification of borrower.

Applications from the prospective borrower may be sourced through various channels like,

- Udyami Mitra Portal.
- In Principle sanctions accorded in PSBLOANSIN59MINUTES.COM platform.
- GSTN leads.
- Walk-In Customers
- Introduced by existing customers.
- Online Applications.
- Sourced by marketing team, through loan melas, town hall meetings.
- Leads from Industry associations, MSME associations etc.

Identification of borrower.

- Ask key questions to understand the mentality/ attitude of the borrower.
- Track record to be enquired and scrutinized.
- Apprise the applicant, in detail about the various loan products from the Bank.
- Find out the requirement of the customer.
- The MSMEs are to be identified based on the original investment in plant and machinery.
- If convincing, issue the appropriate application form.
- Help in completion of application if necessary. Give a pre prepared checklist to the customer regarding the requirements to be met.

2. Receipt of application from the borrower :

- Obtain the Application in the prescribed format with all credentials.
- Upon receipt of application complete in all respects, the details have to be entered in the Loan Automation Processing System-LAPS and the loan application reference number to be generated.
- Evaluate the credit applications by using prudent judgement, business discretion and due diligence in selecting commercially viable proposals.

For MUDRA Loans:

- Administrative clearance for loans under MUDRA to be obtained from the Zonal Offices for loans above Rs. 1 lakh and upto Rs. 10 lakh.

3. **Details to be obtained for MSMEs**:
    - GSTN Number, Udyog Aadhar Number should be obtained wherever applicable.
    - GSTN site to be verified for Turnover details (with the consent of the applicant).

4. **Due Diligence:**
    - Proper Due diligence to be done like KYC verification, Credit Information bureau report like CIBIL, Experian etc.
    - Central Fraud Registry for all accounts above Rs. 1.00 lakh to be verified.
    - All other due diligence like CRILC, Defaulter's list to be verified, wherever applicable.
    - Credit Investigation to be ensured and due diligence on all the entities / promoters/ partners/ Trustees/Directors/ Guarantors/ securities to be undertaken.
    - Due diligence of the Quotations to be done and compared with market trend.
    - Pre Sanction Visit to be done.
    - Independent market report to be obtained.

5. **Appraisal:**
    - Full fledged Credit Appraisal to be done after collecting all required data.
    - The Appraisal / evaluation process involves obtention of all the required data from the borrower, and thereafter evaluating the various parameters viz., constitution, background and net worth of the promoters, purpose of the Credit, working results, financial position, requirement of credit, repayment capacity, security, guarantee, industry prospects, operations under the account, other ancillary business passed on to the Bank, etc.
    - Analysis of the financial statements, Asset liability statement etc to be done in the credit appraisal.
    - Credit Report to be prepared for arriving at Net Worth.
    - Legal Scrutiny Report (LSR), Engineers Valuation Report (EVR) to be obtained wherever applicable.
    - Compliance to fit to the appropriate MSME loan product to be verified.
    - The appraisal note in the prescribed format to be prepared and placed/ forwarded to the appropriate sanctioning authority.

6. Branches to endeavour to achieve Turn Around Time (TAT) of 7 days for sanction for loans without mortgage and 15 days TAT for loans with mortgage.

7. **Pre Disbursement formalities:**
    - Proper documentation to done as per norms. Compliance of terms and conditions before disbursement of loans to be ensured.
    - Security creation and registration of charge with appropriate authorities like Registration of Memorandum of Deposit of Title Deeds (wherever applicable), Charges with Registrar of Companies and CERSAI etc. well within the stipulated time to be done.

- Ensure recording proper entries in statutory registers like Document Execution Register, Equitable Mortgage Register etc.
- It is to be ensured that the security perfection is completed in all respects.
- Pre release audit, Legal audit to be conducted wherever applicable.

8. The Loan reference number generated under Loan Tracking System is to be entered in the CBS at the time of opening the account.

9. Loan account to be opened with the applicable product code.

10. Post Sanction Visit to be done and reports to be kept along with loan documents. End-use verification to be completed.

11. Periodic visits to the unit to be done and register to be maintained.

12. Monitoring and Follow up

Accounts to be monitored for ensuring the asset quality,

- Periodic Stock statement, Book debt statement to be obtained.
- MSOD (Monthly Statement of Operational Data) to be obtained for limits > Rs.10 Lakh.
- QIS I, II and III to be obtained as per Credit Policy Guidelines. Scrutiny of QIS returns, cash flow, funds flow to be done.
- Audited Financials to be obtained.
- Scrutiny of operations in the account to be ensured.
- Periodic unit visits to be done.
- MSME accounts if any under important reports like supervisory override, exceptional reports, TOD/Excess Report, SMA/NPA accounts etc. to be ensured/ tracked/rectified/ mitigated, on day to day basis for effective monitoring.

Check Your Progress:

1	Working capital and term loan are combined together and sanctioned as a single Limit. This type of advance is called? a. Term Loan b. Working capital term loan c. Composite Loan d. Working Capital facility
2	What is the objective of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) a. To provide credit to MSME Sector b. To facilitate flow of credit to the Micro units under MSME Sector c. To facilitate flow of credit to the Small units under MSME Sector d. To facilitate flow of credit to the MSE sector without the need for collaterals/ third party guarantees
3	As per RBI guidelines up to what amount collateral free loan is to be sanctioned for MSME mandatorily? a. Rs 5 lacs b. Rs10lacs c. Rs 25 lacs d. Rs 100lacs
4	OD should be opened for _____of the eligible working capital limit in the same CIF to be operated through MUDRA card a. 10% b. 15%

	c. 20% d. 25%
5	Monitoring of advances in MSME will include a. Unit/Factory Visit Reports. b. Stock Statements/Book Debts Statements. c. Quick Information System (QIS). d. All the above

Answers

1	2	3	4	5
c	d	b	c	d

Unit: 11

IMPORT FINANCE

Objective: To make the reader understand the import finance and its appraisal

Contents: General guidelines on Import, Import Authorisation, Obligation of Purchaser of Foreign Exchange, Time limit for normal imports, Operational Guidelines for Imports, Advance Remittance for import of goods/ Rough Diamonds/ Aircrafts / Helicopters and other Aviation Related purchases, Interest on Import Bills and other operational details. Evidence of Import, Import on consignment basis and Direct Import of Gold

Introduction

Import

Import trade is regulated by the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce & Industry, Department of Commerce, Government of India. While handling import, the following should be ensured:-

- Imports into India are in conformity with the Foreign Trade Policy in force
- Foreign Exchange Management Act (FEMA, 1999)
- Directions issued by Reserve Bank under FEMA, 1999
- Adhere to the provisions of Uniform Customs and Practices for Documentary Credits (UCP 600), etc. while opening letters of credit. Uniform Rules for Collection (URC 522) and Uniform Rules for Bank to Bank Re-imbursement (URR725)
- Provisions of Research & Development Cess Act, 1986 for import of drawings and designs.

Imports are classified under following categories;

✓ Freely importable, Restricted, Canalized, Prohibited (banned)

✓ Restricted – goods restricted to the entire importers and only can be imported by a license/ authorization holder

✓ Canalized - goods can be imported through (by) a specific nominated agency only.

✓ Prohibited (banned) – import of this type of goods are banned by the GOI

✓ Freely importable – Items which are not prohibited / restricted / canalized are freely importable

General Guidelines for imports

The following facilities are available to importers at our branches:

- Opening of LC
- Handling of Import Bills
- Remittances connected with imports
- Guarantees/Indemnities for release of goods without transport documents

For handling import transactions the importer-customer should have valid Importer-Exporter Code Number assigned by the Import Trade Control authorities. This code number should be mentioned in all remittance application forms as well as in branch records.

Form A-1

Applications for making payments, exceeding **USD 5000** or its equivalent, towards imports into India must be made in Form A-1. If the import payment does not exceed USD 5000, a simple request letter from the applicant containing basic information viz. the name and the address of the applicant, name and address of the beneficiary, amount to be remitted and the purpose of remittance, as long as the exchange is being purchased for a permitted current account transaction.

Import License / Authorization

Except for goods included in the negative list which require license under the Foreign Trade Policy in force, freely open letters of credit and allow remittances for import. The earlier name "license " is now termed as "authorization". Import authorizations are issued by Regional Offices of DGFT. While opening letters of credit, the "For Exchange Control purposes" copy of the license should be called for and special conditions, if any, attached to such licenses should be adhered to. After effecting remittances under the license, Authorised Dealer may preserve the copies of utilized license /s till they are verified by the internal auditors or inspectors.

Obligation of Purchaser of Foreign Exchange

Where foreign exchange acquired has been utilized for import of goods into India, bank should ensure that the importer furnishes evidence of import viz., Exchange Control copy of the Bill of Entry, Postal Appraisal Form or Customs Assessment Certificate, etc., and satisfy himself that goods equivalent to the value of remittance have been imported.

Time limit for normal imports

In terms of the extant regulations, remittances against imports should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance, etc. Authorized Dealer may permit settlement of import dues delayed due to disputes, financial difficulties, etc. Interest in respect of delayed payments, usance bills or overdue interest for a period of less than three years from the date of shipment may benpermitted.

Time limit for import of books

Remittances against import of books may be allowed without restriction as to the time limit.

Advance remittance for import of goods

(a) Advance remittance for import of goods may be allowed upto USD 200000 or its equivalent. If the amount of advance remittance exceeds USD 200,000 or its equivalent, standby Letter of Credit or a guarantee from an international bank of repute situated outside India or a guarantee of an AD Category – I bank in India, if such a guarantee is issued against the counter-guarantee of an international bank of repute situated outside India, is obtained.

(b) In cases where the importer (other than a Public Sector Company or a Department/Undertaking of the Government of India/State Government/s) is unable to obtain bank guarantee from overseas suppliers and the AD Category – I bank is satisfied about the track record and bonafides of the importer, the requirement of the bank guarantee / standby Letter of Credit may not be insisted upon for advance remittances up to USD 5,000,000 (US Dollar five million) based on the internal guidelines. As per our bank internal guidelines, prior approval is to be obtained as per Policy on Advance Remittance for Imports for all remittance above USD 200,000 in respect of imports of goods.

(c) A Public Sector Company or a Department/Undertaking of the Government of India / State Government/s which is not in a position to obtain a guarantee from an international bank of repute against an advance payment, is required to obtain a specific waiver for the bank guarantee from the Ministry of Finance, Government of India before making advance remittance exceeding USD 100, 000.

All payments towards advance remittance for imports shall be subject to the specified condition

Advance Remittance for Import of Rough Diamonds

The Authorized Dealers are permitted to allow advance remittance without any limit and without bank guarantee or standby Letter of Credit, by an importer (other than a Public Sector Company or a Department / Undertaking of the Government of India / State Government/s), for import of rough diamonds into India from the under noted mining companies, viz.

a) De Beers UK Ltd,	d) ALROSA, Russia	g) Namibia DTC (PTY) Ltd(NDTC)
b) RIO TINTO, UK,	e) GOKHARAN, Russia,	
c) BHP Billiton, Australia	f) Rio Tinto, Belgium,	

While allowing the advance remittance, AD bank may ensure the following:

(a) The importer should be a recognized processor of rough diamonds as per the list to be approved by Gems and Jewelry Export Promotion Council (GJEPC) in this regard and should have a good track record of export realization.

(b) In case of an importer entity in the Public Sector or a Department / Undertaking of the Government of India / State Government/s, Authorised dealer may permit advance remittance subject to the above conditions and a specific waiver of bank guarantee from the Ministry of Finance, Government of India where the advance payments is equivalent to or exceeds USD 100,000.

(c) AD Category to submit a report of all such advance remittances made without a bank guarantee or Standby Letter of Credit, where the amount of advance payment is equivalent to or exceeds USD 5,000,000, to RBI on a half yearly basis as at the end of September and March every year. The report should be submitted within 15 days from the close of the respective half year.

Advance remittance for import of Aircrafts/Helicopters and other Aviation Related purchases:

As a sector specific measure, airline companies which have been permitted by the Directorate General of Civil Aviation to operate as a schedule air transport service, can make advance remittance without bank guarantee, up to USD 50 million. The remittances for the above transactions shall be subject to the following conditions:

i. In case of a Public Sector Company or a Department / Undertaking of Central /State Governments, the Authorised Dealer bank shall ensure that the requirement of bank guarantee has been specifically waived by the Ministry of Finance, Government of India for advance remittances exceeding USD1,00,000.

ii. Physical import of goods into India is made within six months (three years in case of capital goods) from the date of remittance

iii. AD may ensure that the requisite approval of the Ministry of Civil Aviation / DGCA / other agencies in terms of the extant Foreign Trade Policy has been obtained for import.

Advance remittance for the import of services

AD may allow advance remittance for import of services without any ceiling subject to the following conditions:

(a) Where the amount of advance exceeds USD 500,000 or its equivalent, a guarantee from a bank of international repute situated outside India, or a guarantee from an Authorised Dealer in India, if such a guarantee is issued against the counter-guarantee of a bank of international repute situated outside India, should be obtained from the overseas beneficiary.

(b) In the case of a Public Sector Company or a Department/ Undertaking of the Government of India/ State Governments, approval from the Ministry of Finance, Government of India for advance remittance for import of services without bank guarantee for an amount exceeding USD 100,000 (USD One hundred thousand) or its equivalent would be required.

(c) Authorised Dealer should also follow-up to ensure that the beneficiary of the advance remittance fulfils his obligation under the contract or agreement with the remitter in India, failing which, the amount should be repatriated to India.

Interest on Import Bills

(i) AD may allow payment of interest on usance bills or overdue interest for a period of less than three years from the date of shipment at the rate prescribed for trade credit from time to time.

(ii) In case of pre-payment of usance import bills, remittances may be made only after reducing the proportionate interest for the unexpired portion of usance at the rate at which interest has been claimed or LIBOR of the currency in which the goods have been invoiced, whichever is applicable. Where interest is not separately claimed or expressly indicated, remittances may be allowed after deducting the proportionate interest for the unexpired portion of usance at the prevailing LIBOR of the currency of invoice.

Import of Equipment by Business Process Outsourcing (BPO) Companies for their overseas sites:

AD may allow BPO companies in India to make remittances towards the cost of equipment to be imported and installed at their overseas sites in connection with the setting up of their International Call Centres (ICCs) subject to the following conditions:

- The BPO Company should have obtained necessary approval from the Ministry of Communications and Information Technology, Government of India and other authorities concerned for setting up of the ICC.
- AD should also obtain a certificate as evidence of import from the Chief Executive Officer (CEO) or auditor of the importer company that the goods for which remittance was made have actually been imported and installed at overseas sites.

Receipt of import documents by the importer directly from overseas suppliers

In case where import bills have been received directly by the importers from the overseas supplier, remittance can be made in the following cases:

- Where the value of import bill does not exceed USD300,000
- Import bills received by wholly-owned Indian subsidiaries of foreign companies from their principals.
- Import bills received by Status Holder Exporters as defined in the Foreign Trade Policy, 100% EOU / Units in SEZ, PSUs and Limited Companies.
- Import bills received by all limited companies viz. public limited, deemed public limited and private limited companies.

Receipt of import documents by the importer directly from suppliers in case of specified sectors

As a sector specific measure, AD are permitted to allow remittance for imports up to USD 300,000 where the importer of rough diamonds, rough precious and semi-precious stones has received the import bills / documents directly from the overseas supplier and the documentary evidence for import is submitted by the importer at the time of remittance. Authorised Dealer may undertake such transactions subject to the following conditions:

- The import would be subject to the prevailing Foreign Trade Policy.
- (ii) The transactions are based on their commercial judgment and they are satisfied about the bonafides. Before extending the facility, they should also obtain a report on each individual overseas supplier from the overseas banker or reputed overseas credit rating agency.

Receipt of import documents by the Authorised Dealer (AD) directly from overseas suppliers

- At the request of importer clients, Authorised Dealer may receive bills directly from the overseas supplier as above, provided the AD is fully satisfied about the financial standing/status and track record of the importer customer.
- Before extending the facility, the Authorised Dealer should obtain a report on each individual overseas supplier from the overseas banker or a reputed overseas credit agency. However, such credit report on the overseas supplier need not be obtained in cases where the invoice value does not exceed USD 300,000 provided the AD is satisfied about the bonafides of the transaction and track record of the importer constituent.

Evidence of Import – Physical Imports:

In case of all imports, where value of foreign exchange remitted/ paid for import into India exceeds USD 100,000 or its equivalent, it is obligatory on the part of the AD Category to ensure that the importer submits Bill of Entry / Customs Assessment Certificate or Postal Appraisal Form.

Evidence of import in lieu of Bill of Entry

AD bank may accept, in lieu of Exchange Control copy of Bill of Entry for home consumption, a certificate from the Chief Executive Officer (CEO) or auditor of the company that the goods for which remittance was made have actually been imported into India provided :-

- the amount of foreign exchange remitted is less than USD 1,000,000 or its equivalent,
- the importer is a company listed on a stock exchange in India and whose net worth is not less than Rs.100 crore as on the date of its last audited balance sheet, or, the importer is a public sector company or an undertaking of the Government of India or its departments.
- The above facility may also be extended to autonomous bodies, including scientific bodies/academic institutions, such as Indian Institute of Science / Indian Institute of Technology, etc. whose accounts are audited by the Comptroller and Auditor General of India (CAG). AD Category – I bank may insist on a declaration from the auditor/CEO of such institutions that their accounts are audited by CAG.

Non Physical Imports

Where imports are made in non-physical form, i.e., software or data through internet / datacom channels and drawings and designs through e-mail/fax, a certificate from a Chartered Accountant that the software / data / drawing/ design has been received by the importer, may be obtained.

Follow up for Import Evidence

(i) In case an importer does not furnish any documentary evidence of import within 3 months from the date of remittance involving foreign exchange exceeding USD 100,000, the Authorised Dealer bank should rigorously follow-up for the next 3 months, including issuing registered letters to the importer.

(ii) AD should forward a statement to RBI on half-yearly basis as at the end of June & December of every year, in form BEF furnishing details of import transactions, exceeding USD 100,000 in respect of which importers have defaulted in submission of appropriate document evidencing import within 6 months from the date of remittance.

(iii) AD need not follow up submission of evidence of import involving amount of USD 100,000 or less provided they are satisfied about the genuineness of the transaction and the bonafides of the remitter.

Import on consignment basis

Gold may be imported by the nominated agencies/banks on consignment basis where the ownership will remain with the supplier and the importer (consignee) will be acting as an agent of the supplier (consignor). Remittances towards the cost of import shall be made as and when sales take place and in terms of the provisions of agreement entered into between the overseas supplier and nominated agency/bank. These instructions would also apply to import of platinum and silver.

Check Your Progress:

(1) Importer / Exporter code No is issued by

(a) RBI (b) Min of Finance (c)DGFT (d) Authorised Dealer

(2) Import value. exceed USD 5000 or its equivalent, applications for making payments towards imports into India must be made in form:

(a) A-2 (b) A-1 (c)Simple letter (d)GR

(3) Prohibited list does not consists of:

(a) Items which are prohibited from being imported.

(b) Items that could be imported only against a license / authorization or specific public notice

(c) Items which are canalized
(d) Items that can be freely imported.

(4) Normally remittances against imports should be completed not later than____months from the date of shipment:
(a) 3 months (b)1month (c) 9 months (d) 6months

(5) A D may allow payment of interest on usance bills or overdue interest for a period of less than______years from the date of shipment at the rate prescribed for trade credit from time to time"
(a) 3years (b) 2Years (c)5 years (d) 4years

(6) Advance remittance can be permitted, by AD branch, without insisting any guarantee or standby letter of guarantee for amount upto the equivalent of:

(a) USD 100,000 (b) USD 300,000 (C) USD 200,000 (d) USD 5,000,000

(7) In case of all imports, where value of foreign exchange remitted/ paid for import into India exceeds USD____________or its equivalent, it is obligatory on the part of the AD Category to ensure that the importer submits Bill of Entry / Customs Assessment Certificate or Postal Appraisal Form

(a) USD 5000 (b) USD 25,000 (c) USD 50,000 (d) USD 100,000

(8) In case where import bills have been received directly by the importers from the overseas supplier, remittance can be permitted without insisting on guarantee

(a) USD 300,000 (b) USD 100,000 (c) USD 200,000 (d) USD 500,000

(9) Which is a true statement:

(a) All branches can handle import transaction

(b) Non-authorized branches can route the import transaction through authorized branches

(c) Non-authorized branch cannot route the import transaction through authorized branches.

(d) Authorised branches to seek prior permission from ZO for taking up the import transaction of the non-authorized branch.

(10) Import value is up to USD 5000 or its equivalent, applications for making payments towards imports into India must be made in form:

(b)A-2 (b) A-1 (c) Simple letter (d)BEF

Answers:

1	2	3	4	5	6	7	8	9	10
c	b	c	d	a	c	d	a	b	c

Unit: 12

EXPORTFINANCE

Objective:

To make the learner understand the export finance and its appraisal

Contents:

Introduction, Pre-shipment credit & appraisal, Post-Shipment Credit, ECGC, Gold Card Scheme

Introduction:

Export Finance is a short term, working capital finance allowed to an exporter for manufacturing, processing and packing and after shipment of goods / rendering service to the date of realization of export proceeds. When there is a commercial deal in export finance, it is guided by the following viz.,

- Reserve Bank's Guidelines
- Directions under Foreign Exchange Management Act (FEMA –1999)
- Trade Control Regulations (Foreign Trade Policy) in force
- International Chamber of Commerce (ICC) guidelines – Uniform Customs and Practice (UCPDC – IC 600), Uniform Rules for Collection (URC – ICC 522), Uniform Rules for Bank to Bank Re-imbursement (URR 725), International Standard Practice (ISP – 1998 and ICC Publication – (ICC 590)
- Export Credit Guarantee Corporation Ltd.
- FEDAI Guidelines and Rules.

Export Finance consists of two stages viz., Stage 1: Pre-Shipment Credit and Stage 2: Post-Shipment Credit.

Eligible borrowers for Export Finance:

- **Direct Export:** Bonafide exporters of goods from India, on the basis of irrevocable letter of credit opened in his favour by a prime bank abroad or a confirmed and irrevocable order issued by the importer.
- **Export of Services:** Exporters of all the 161 tradable services covered under the General Agreement on Trade in Services (GATS) where payment for such services is received in free foreign exchange as stated at Chapter 3 of the Foreign Trade Policy 2009-14. A list of services is given in Appendix 10 of Hand Book – Vol.1.
- **Indirect Exporters:** Rupee Export Packing Credit to Manufacturer Suppliers who do not have export orders/letters of credit in their own name and goods are exported through the

State Trading Corporation/Minerals and Metal Trading Corporation or other export houses, agencies etc.

- **Sub-Suppliers:** Packing credit can be shared between an Export Order Holder (EOH) and sub-supplier of raw materials, components etc. of the exported goods as in the case of EOH and manufacturer suppliers.
- **Agriculture :**Floriculture, Grapes and Other Agro-based Products, Agri-Export Oriented Units (processing) set up in Agri- Export zones as well as outside the zones
- **Deemed Export :**Transactions in which the goods supplied do not leave the country and the payment for such supplies is received either in Indian Rupees or in free foreign exchange refers to deemed export. It includes Supply of goods against licenses issued under duty exemption scheme, EPZ, STP, EOU, EHTP and projects funded by UN agencies etc.,
- **Construction contractors:** To meet their initial working capital requirements for execution of contracts abroad

Pre-Shipment Credit:

Pre-Shipment Credit refers to any loan or advance granted or any other credit provided by the bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment for export of goods / services from India.

Types of Pre-Shipment Credit

1. Packing Credit – (for financing the purchase, processing, manufacturing or packing of goods prior to shipment for export of goods / services)
2. Advance against receivables from the Government like duty drawback etc.,
3. Advance against Cheques / drafts representing advance payment.
4. Foreign Currency Pre-shipment Finance (Foreign currency Packing Credit -FCPC)

Quantum of Advance

Pre-shipment finance should not exceed the FOB value (Free On Board) of the goods or domestic cost of production, whichever is less. Margin as stipulated must be maintained. Where the order/LC is on CIF basis and its amount should be reduced to FOB value before deducting the margin. Finance in excess of the FOB value of the goods may be considered in the following circumstances:

a) Up to domestic cost of production where the goods are covered by Duty Drawback scheme.

b) Up to the cost of Raw materials can also be made in the case of export of HPS groundnuts and de-oiled / de-fated cakes. The excess is to be adjusted either in cash or by sale of residual by product oil within a period not exceeding 30 days from the date of advance, to be eligible for concessional rate of interest.

c) To meet the cost of wastage of agro products (like cashew nuts etc.,) while processing, can be allowed to exporter, inter alia, to extinguish the excess PC by export bills drawn in respect of by-product (like cashew shell oil).

Period of Advance

Period for which the pre-shipment finance can be extended at concessional rates, as determined by RBI, is 360 days for all types of commodities, from the date of advance. If pre-shipment advances are not adjusted by submission of export documents within 360 days from the date of advance, the advances will cease to qualify for prescribed rate of interest for export credit to the exporter *ab initio*.

Disbursement of Packing Credit

(i) Each packing credit sanctioned should be maintained as separate account for the purpose of monitoring period of sanction and end-use of funds.

(ii) Packing credit may be released in one lump sum or in stages as per the requirement for executing the orders /LC.

(iii) Where there is need, different accounts may also be maintained at various stages of processing, manufacturing etc. depending on the types of goods/services to be exported e.g., hypothecation, pledge, etc., and ensure that the outstanding balance in accounts are adjusted by transfer from one account to the other and finally by proceeds of relative export documents on purchase, discount etc.

Liquidation of Packing Credit

Liquidation of Packing Credit refers to adjustment of packing credit. The liquidation can be by

a. Proceeds of bills drawn for the exported commodities on its purchase, discount etc.

b. Repaid / prepaid out of balances in Exchange Earners Foreign Currency A/c (EEFCA/c)

c. From rupee resources of the exporter to the extent exports have actually taken place.

d. Packing credit in excess of export value can be permitted to liquidate the excess PC by export bills drawn in respect of by-product e.g. agro product like cashew nuts and its by product cashew shell oil. In case of partial domestic sale is involved, commercial rate of interest applicable to the domestic advance from the date of advance of packing credit is to be charges. In case of HPS groundnut and de-oiled / de-fatted cakes, the advance in excess of the export order is required to be adjusted either in cash or by sale of residual by-product oil within a period not exceeding 30 days from the date of advance to be eligible for concessional rate of interest.

Substitution: Repaying / liquidating of packing credit with proceeds of export documents relating to any other order covering the same or any other commodity exported by the exporter are known as substitution. Substitution is permitted only to Exporter clients who have a good track record and is subject to:

a) Only with the approval of the members of the consortium, if any.
b) Ensuring that the exporter has not availed any packing credit from another bank against the documents submitted.
c) These relaxations should not be extended to transactions of sister / associate / group concerns.

'Running Account' Facility

Pre-shipment Credit „ Running Account' facility in respect of any commodity, without insisting on prior lodgment of letters of credit / firm export orders may be extended, depending on the judgment regarding the need to extend such a facility and subject to the following conditions:

a. Exporters whose track record has been good as also to Export Oriented Units (EOUs)/ Units in Free Trade Zones / Export Processing Zones (EPZs) and Special Economic Zones (SEZs)
b. Letters of Credit / firm orders should be produced within a reasonable period of time to be decided by the banks.
c. Mark off individual export bills, as and when they are received for negotiation / collection, against the earliest outstanding pre-shipment credit on 'First In First Out' (FIFO) basis.
d. Should ensure that export credit available in respect of individual pre-shipment credit does not go beyond the period of sanction or 360 days from the date of advance, whichever is earlier.
e. Packing credit can also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter.
f. Running account facility should not be granted to sub-suppliers.

Application of interest rate

If pre-shipment advance is not liquidated from proceeds of export bills on purchase / discount within 360 days from the date of advance, the advance will cease to quality for concessional rate of interest. In case exports do not take place within 360 days from the date of pre-shipment advance, such credit will be termed as„ Export Credit Not Otherwise Specified' and the interest rate as applicable to "ECNOS"– pre-shipment will be charged from the very first day of advance. In case exports do not materialize, interest as applicable to domestic packing credit plus penal interest will be charged from the very first day of advance.

POST-SHIPMENTCREDIT

Post shipment Credit means any loan or advance granted or any other credit provided by the bank to an exporter after shipment of goods / rendering services to the date of realization of export proceeds. Types of Post-Shipment Credit are:

1. Export Bill Purchased / Negotiated / Discounted
2. Advance against bill sent on collection basis
3. Advance against undrawn balance
4. Advance against Duty Drawback receivable from Government.
5. Post shipment Credit in Foreign Currency (FC –FBN/FBP/FBD)

Period : Maximum 270days

Demand bills - Normal Transit Period (NTP) as specified by FEDAI – 25 days for all bills drawn in FC

Usance bills - Maximum duration of 365 days from date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any.

Fixed Due Date - Due date is reckoned from the date of shipment or date of Bill of Exchange, NTP shall not be applicable

Liquidation of Post-shipment Credit:

Liquidation of Post shipment Credit refers to adjustment of pot shipment advance. The liquidation can be by

a) Proceeds of export bills received from abroad in respect of goods exported / services rendered.

b) Repaid / prepaid out of balances in Exchange Earners Foreign Currency Account (EEFC a/c)

c) From the proceeds of any other unfinanced (collection) bills.

Interest application on Post-Shipment Credit:

Concessional rate of interest will be applicable only upto the due date of the bill – NTP in case of demand bill and specified period in case of usance bills.

Appraising export finance

While appraising credit proposal for an export finance, the following facts should be considered

a. Exporter is a regular customer, bonafide exporter and have a good standing in the market

b. Exporter should not be under the caution list of RBI
c. Exporter should have IE code number allotted by DGFT.
d. Goods/ service are freely exportable and covered under Foreign Trade Policy 2015-20 and should not be classified as banned/canalized/restricted.
e. Exporter is not under Special Approval List (SAL) of ECGC.
f. Country with which the exporter wants to deal is not in the list of Restricted Cover Country (RCC) of ECGC.
g. The exporter is registered with the Export Promotion Council for services
h. There is an Export Contract for the export of the service
i. There is a time lag between the outlay of working capital expense and actual receipt of payment from the service consumer or his principal abroad.
j. There is a valid Working Capital gap i.e. service is provided first while the payment is received some time after an invoice is raised.
k. Ensure that there is no double financing/excess financing.
l. The export credit granted does not exceed the foreign exchange earned less the margins if any required, advance payment/credit received
m. Inward remittance is received in Foreign Exchange for the export of goods and services.
n. All requisite facilities at pre-shipment and post shipment stages must be considered as a package deal.
o. Past experience of the exporters and the future potential

Export Credit in Foreign Currency:

Exporter can avail both pre-shipment and post-shipment credit in foreign currency in one of the convertible currencies viz USD, GBP, JPY, EUR etc. PCFC (Packing Credit in Foreign Currency) can also be availed in one convertible currency in respect of order invoiced in another convertible currency. The risk and cost of cross currency transaction will be that of exporter. The instruction with regard to rupee export credit applies to export credit in foreign currency, unless otherwise specified. The lending rate should not exceed 3.5% over LIBOR/EURO LIBOR/EURIBOR. Customers are allowed to book forward contract in any permitted currency of their choice,

ECGC Whole Turnover Pre-shipment / Post-shipment Guarantee Scheme:

All the pre-shipment and post shipment credit should be covered by ECGC insurance cover. Export Credit Insurance Cover for Banks (Whole Turnover Packing Credit) ECIB (WT-PC) is against losses that may be incurred in extending packing credit advances due to protracted default or insolvency of the exporter-client. The limit proposed to be sanctioned should be within the discretionary limit prescribed by ECGC per borrower. In case, it exceeds the discretionary limit fixed by ECGC and exporter's account falls under "Standard Asset", the disbursement can be made but sanction details should be communicated to ECGC within 30 days.

The cost of premium should be collected from the exporter in respect of whole turnover packing credit. The cost of premium in respect of the Whole Turnover Post-shipment Guarantee is borne by our bank not passed on to the exporters.

Gold Card Scheme

All creditworthy exporters, including those in small and medium sectors with good track record would be eligible for issue of Gold Card. Depending on their track record and credit worthiness, will be granted better terms of credit including rates of interest than those extended to other exporters by the banks.

- The sanction and renewal of the limits under the Scheme will be based on a simplified procedure.
- In-principle Sanction will be accorded for a period of 3 years with a provision for automatic renewal subject to fulfillment of the terms and conditions of sanction.
- A stand-by limit of not less than 20 per cent of the assessed limit shall be additionally made available to facilitate urgent credit needs for executing sudden orders.
- In the case of exporters of seasonal commodities, the peak and off-peak levels may be appropriately assessed
- In case of unanticipated export orders, norms for inventory may be relaxed, taking into account the size and nature of the export order.
- Preference in the matter of granting of packing credit in foreign currency.
- Fresh applications / renewal of limits and adhoc limits would be processed in 25/15/7 days respectively.
- Waiver of collaterals and exemption from ECGC guarantee schemes can be considered.
- Concessional rate of interest on post-shipment rupee export credit applicable up to 90 days shall be extended for a maximum period up to 365days.

Check Your Progress:

1. Export Finance is a
   (a) Term Loan
   (b) Short Term Working Capital
   (c) Deferred Payment Guarantee
   (d) Non-Fund Based Limit

2. Which one of the following is not a Pre-Shipment Credit

   (a) Advance against Cheques / drafts representing advance payment.
   (b) Advance against receivables from the Government like duty drawback etc.,
   (c) Packing Credit
   (d) Export Bill Purchased / Negotiated /Discounted

3. Transactions in which the goods supplied do not leave the country and the payment for such supplies is received .either in Indian Rupees or in free foreign exchange refers to:

   (a) Indirect export
   (b) Deemed Export
   (c) Direct Export
   (d) Export of service

4. Finance in excess of the FOB value of the goods may be considered in the following circumstances:

   (a) Up to domestic cost of production where the goods are covered by Duty Drawback scheme.
   (b) Up to the cost of Raw materials can also be made in the case of export of HPS groundnuts and de-oiled / de-fatted cakes.
   (c) To meet the cost of wastage of agro products (like cashew nuts etc.,) while processing, can be allowed to exporter, inter alia, to extinguish the excess PC by export bills drawn in respect of by-product (like cashew shell oil).
   (d) All the above

5. Maximum Period for which the pre-shipment finance can be extended at concessional rates for all types of commodities, from the date of advance is:

   (a) 270 days (b) 360 days (c)180 days (d) 90days

6. Liquidation of Packing Credit can be done by:

   (a) Proceeds of bills drawn for the exported commodities on its purchase, discount etc.,
   (b) Out of balances in Exchange Earners Foreign Currency A/c (EEFC A/c)
   (c) From rupee resources of the exporter to the extent exports have actually taken place.
   (d) All the above

7. What is not true above running account facility:

   (a) Letters of credit / firm orders should be produced within a reasonable period of time to be decided by the banks.
   (b) Mark off individual export bills, as and when they are received for negotiation / collection, against the earliest outstanding pre-shipment credit on 'First In First Out' (FIFO)basis.
   (c) Packing credit can also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter.
   (d) Running account facility can be granted to sub-suppliers.

8. Which one of the following is Post-Shipment credit?

   (a) FCPC
   (b) Export Bill Purchased / Negotiated /Discounted

(c) Advance against Cheques / drafts representing advance payment.
(d) Packing Credit

9. The lending rate should not exceed____% over LIBOR/EURO LIBOR/EURIBO in respect of foreign currency pre-shipment Post-shipment credit.

(a) 1.5%
(b) 2.5%
(c) 3.5%
(d) 4.00%

(10) What is true about the payment of ECGC Premium

(a) The cost of premium should be collected from the exporter in respect of whole turnover Post shipment credit.
(b) The cost of premium should not be collected from the exporter in respect of whole turnover packing credit.
(c) The cost of premium in respect of the Whole Turnover Post-shipment Guarantee is borne by our bank not passed on to the exporters.
(d) If limit exceeds the discretionary limit fixed by ECGC and exporters accounts does not fall under "Standard Asset" the disbursement can be made and but sanction should be communicated within 30 days to ECGC.

Answers:

1	2	3	4	5	6	7	8	9	10
b	d	b	d	b	d	d	b	c	c

Unit: 13

NON FUND BASESD FACILITIES

Objective:

To make the reader aware of non-fund based loan activities of a bank and the ways to deploy the funds to increase the non-fund based loan business.

Content coverage:

- Guarantee
- Letter of Credit(LC)

Introduction:

Banks extend some borrowable facilities to borrowers which do not involve any funds. These types of facilities are called non fund based limits. Non fund-based facility is a contingent liability which may occur in future date. Fee charged by bank for issuing LC/Bank guarantee increase bank non-interest income.

The non fund based facilities are broadly into two viz., Guarantees and Letters of Credit. Normally guarantees will be issued for a maximum period of 10 years.

Bank Guarantee:

Bank Guarantee is one of the facilities that Banks extend to their customers. A contract of guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default. There are three persons in a contract of guarantee. The person giving the guarantee is called the **Guarantor or Surety**; the person on whose behalf the guarantee is given is called the **Principal Debtor** and the person in favor of whom the guarantee is given is called the **Creditor or Beneficiary**.

The issuance of guarantees does not result in outlay of funds. The Bank's liability arises only when the customer fails to perform the act for which the guarantee has been issued and the bank is required to part with any money to the beneficiary of the guarantee. This is the main reason for guarantee limits being classified as non-fund based limits and such limits are not included for ascertaining the total sanctioned credit limits under the Credit Monitoring arrangement of Reserve Bank of India. The guarantees are classified as contingent liability. However, the appraisal and rating of the proposal for a guarantee limit should be done as if for a regular advance proposal, as always there is a risk of crystallization of contingent liability into liability at a future date.

Types of Guarantees: Guarantees can be broadly classified as follows.

a. Performance Guarantees
b. Financial Guarantees
c. Deferred Payment Guarantees

The details of various types of Guarantees are as follows:

a. Performance Guarantees:

These are Guarantees issued in respect of performance of a contract or obligation. In the event of non-performance or short performance of the obligations, the Bank will be called upon to make good the monetary loss arising out of the non-fulfillment of the guarantee obligation, within the amount guaranteed. This is a guarantee confirming the performance competency of the person on whose behalf the guarantee is issued, liability, however reduced to money terms.

b. Financial Guarantees:

In certain contracts entered into by the customer of the Banks with Government / quasi-Government Department / Large Companies, there is a provision for payment of certain amount of money against the bank guarantee to enable the customer of the Bank to carry out the performance of the contract. The amount of the guarantee is the amount which is made available to the customer in advance and the guarantee terms, inter-alia, include that the amount will be paid by the Bank in case of customer does not fulfill the terms of the contract within the period stated in the contract. In this case, the entire amount of money is received by the customer and as such, such guarantees are known as money guarantees.

c. Deferred Payment Guarantees:

These guarantees normally arise in the case of purchase of machinery or such other capital equipment by customers (from suppliers in India or outside). The manufacturer of the machinery supplies the machinery against a cash payment of say, 10% or 15% and gets accepted bills for the balance amount by the Purchaser’s Bank or alternatively for the balance amount, the Seller of the machinery gets guarantees issued. Such guarantees are known as Deferred Payment Guarantees.

Guarantees which should not be executed

The following are the types of guarantees of unusual nature or with onerous clauses which Bank should not execute even against 100% cash margin. They are

a. Guarantees in respect of contracts which are likely to lead to disputes about their actual performance or which cast on the bank the responsibility to determine fulfillment of the terms of the guarantee.

b. Guarantees which are anomalous in their nature and contents and create unknown and undefined responsibilities and liabilities on the Bank.

c. Guarantees which are transferable and assignable by the beneficiaries

d. Guarantees which are against good conscience and morality such as guarantees to shipping companies or railways for converting a claused bill of lading or railway receipt into a clean one, i.e., for not mentioning the actual condition of goods shipped or booked which otherwise would have been mentioned

e. Guarantees which in any way restrict the unfettered rights of the bank to pay the amount guaranteed or call upon them to await decision of a Court of Law or of arbitration proceedings before paying the guaranteed amount.

Appraisal and Forwarding Proposal

All proposals for providing a guarantee or fixing up a limit for guarantees to be issued from time to time should be made with full particulars/details especially, the worth of the customer, existing liability under the guarantees issued already, limits or facilities sanctioned by the Manager/ZO/Corporate Office to the borrower. A proforma of the guarantee to be issued should also be attached to the proposal. In case a guarantee is to be extended, particulars of previous sanction (only if sanctioned by higher authorities, such as the date of sanction etc.), should be furnished.

Points to be borne in mind before issuing guarantees:

Before the issuance of any guarantee, the following points should be borne in mind. The guarantee should be:

a. for a specified amount;

b. specific validity period including claim period.

c. relate to the normal business of the customer and

d. All the guarantees are to be issued as per IBA standard format; else guarantee format must be approved by CO/ZO. Legal Dept.,

Precautions to be taken while issuing the Guarantee:

Documentation	Before issuing any guarantee / allowing the party to avail guarantee limit, the counter guarantee in the format prescribed by Documentation Manual should be obtained.
Issue of single Bank Guarantee for the entire limit	A stamped counter-guarantee on F-44 (stamp as on indemnity as applicable to the State in which it is obtained) should be got executed by the party.
Issue of more than one Bank Guarantee for the entire limit	A stamped composite counter-guarantee as given in F-44. A (stamp as on indemnity as applicable to the State in which it is obtained) should be got executed by the party.
Issue of Deferred Payment Guarantee	Counter Guarantee in the format F-44 C should be obtained.
Margin on guarantees	The margin on guarantee is usually recovered as cash margin and kept under nominal account heading 'Margin on Guarantees'. If the validity of the guarantee is longer the customer may keep the amount in fixed deposit. In such circumstances, the branch should take the FDR duly discharged along with a covering letter as per F-73, The margin should not be released till the guarantee is released/redeemed.
Commission on Guarantee issued	The guarantee commission has to be calculated on the specified period of liability. 'Specified period of liability' shall mean the actual validity period of the guarantee plus such additional period as may be specified in the guarantee during which claims can be made on the bank under the guarantee. Part of the month has to be reckoned as a month while calculating the guarantee commission. If the specified period of liability is 9 ½ months, the guarantee commission has to be calculated for 10 months. The minimum period for calculation of guarantee commission shall be 3months.
Honouring of Guarantees:	1. Banks should honour the guarantees issued by them as and when they are invoked in accordance with the terms and conditions of the guarantee deeds. In case of any disputes such honouring can be done under protest, if necessary and the matters of dispute pursued separately. 2. On receipt of any claim from the beneficiary, the branch should acknowledge the receipt of the claim to the beneficiary. The branch should scrutinize whether the claim made is in order and in terms of the obligations undertaken by the Bank.

	3. The Govt has advised their departments, etc., that the invocation of guarantees should be done, after careful consideration at a senior level that a default has occurred in accordance with the terms and conditions of the guarantees and as provided in the guarantee deed. Reserve Bank will be constrained to take deterrent action against the banks for noncompliance of the instructions regarding honoring commitments under invoked guarantees. 4. Where the bank is a party to the proceedings initiated by Govt. for enforcement of the bank guarantee and the case is decided in favour of the Govt. by the Court, banks should not insist on production of certified copy of the judgement as the judgement /order is pronounced in open Court in the presence of the parties /their counsels and the judgement is known to the bank. 5. In case the bank is not a party to the proceedings, a signed copy of the minutes of the order certified by the Registrar /Deputy or Asst. Registrar of the High Court or the ordinary copy of the judgement/order of the High Court duly attested to be true copy by the Govt. Counsel is sufficient for honouring the obligation under the guarantee, unless the guarantor bank decides to file any appeal against the order of the High Court. 6. In cases where the claim is in order, the claim should be honoured without delay and hesitation. However, payments should be made only after obtaining legal opinion.
Extension of guarantee	Extension of guarantee should be allowed only at the request of the customer and that too after getting approval from the appropriate sanctioning authority. At the time of processing the proposal involving extension of guarantee, the branch should consider whether the extension is really warranted or is asked for as a matter of routine to avoid invocation of the guarantee. A letter as given in F-75 shall be addressed to the beneficiary and a copy of such letter shall be kept along with copy of original guarantee, counter-guarantee and other related documents.

Check your progress:

1. Bank is issuing a guarantee in favour of Government of India on behalf of a contractor. This is a

   a. Money guarantee
   b. Performance guarantee
   c. Deferred payment guarantee
   d. Bid bond guarantee

2. What is the relationship between banker and customer in case of Guarantees?

    a. Trustee –beneficiary
    b. Debtor –Creditor
    c. Bailer -Baillie
    d. Creditor –Debtor

3. In bank guarantees the bank makes payment on

    a. being convinced that the beneficiary has incurred loss
    b. on being used by the beneficiary
    c. on the guarantee being invoked and after seeking concurrence of the debtor
    d. merely on demand by the beneficiary

4. In case of bank guaranteed on behalf of company that is in liquidation the bank on invocation of the guarantee by the beneficiary:

    a. must pay the amount to the liquidator and not the beneficiary
    b. must deposit the amount in the court to avoid any controversy
    c. must pay the beneficiary
    d. need not pay, since the bank guarantee lapses on the company being liquidated

5. Guarantee can be extended at the request of

    a. Beneficiary
    b. Customer
    c. Banker
    d. Both beneficiary and customer

Answers for check your progress: 1 (b) 2. (b) 3. (d) 4. (c) 5.(b)

Letter of Credit (LC):

A **Letter of Credit** is an undertaking given by the buyer's bank on behalf of the buyer to seller stipulating that if specified documents are presented within a stipulated date the bank establishing the credit will pay the amount of the bill drawn in terms of such letter of credit.

The purpose of a LC is to ensure that: the exporter is assured of payment once he fulfils his obligations under the contract and produces documentary evidence to that effect, and by stipulating the relevant documents the importer is assured that no payment is made unless the goods under the sale contract have been dispatched. In defining the rights and obligations of parties involved in a LC transaction almost all the countries have agreed to follow the rules enunciated in the Uniform Customs and Practice for Documentary Credits (UCPDC), a publication of the International Chamber of Commerce.

Parties to a Letter of Credit: A Letter of Credit has essentially the following parties:

a. **Buyer** : Also known as purchaser or one who applies for a Letter of Credit i.e. importer.
b. **Opening Bank / Issuing Bank / Importer's Bank** : The Bank which opens a Letter of Credit and adds its credit standing to that of the buyer.

c. **The Beneficiary / Seller / Exporter**: Is also known as the shipper and is the beneficiary under the credit.

d. **Advising Bank / Notifying Bank:** The bank that advised the LC to the beneficiary

e. **Negotiating Bank / Paying Bank / Nominated Bank*:*** Is a Bank other than the opening Branch or another Bank at which the beneficiary may negotiate the drafts drawn under a Letter of Credit.

f. **Confirming Bank:** The bank which is the advising bank when it also confirms the credit.

g. **Reimbursing Bank:** The bank which reimburses, the negotiating / paying / confirming bank

Types of Letters of Credit:

Irrevocable without recourse Letter of Credit	Letter of Credit that cannot be cancelled by the buyer on whose behalf it is opened or be revoked by the bank which has opened it without the consent of the beneficiary/seller. Once a credit of the above type is opened and the beneficiary is advised, the drafts drawn under the credit together with documents there under if found to be in conformity with the terms of the credit, will have to be paid by the opening Bank. As this is a 'without recourse' Letter of Credit, when once such bills are paid, no recourse can be had against the beneficiary.
Revocable without recourse Letter of Credit	These are not legally binding undertakings between Banks and beneficiaries. Such credits may be modified or cancelled at any moment without notice to the beneficiary. When a credit of this nature has been transmitted to a branch or to another bank, its modification or cancellation can take effect only upon receipt of notice thereof by such branch or other bank, prior to payment or negotiation, or the acceptance of drawings there under by such branch, or other bank. Bill/Bills paid, negotiated or accepted by the negotiating branch/bank prior to the receipt of cancellation or modification of such credit will have to be honored by the opening branch/bank.
Revolving Letter of Credit	Revolving Letter of Credit is one which also provides that the amount of drawing stipulated in it will be available to the beneficiary again and again as may be agreed between the buyer and the seller within a stipulated period. Provision can also be made in this to control the frequency of the drawing and limit the total extent that could be thus drawn within the due date.

Documents under Letter of Credit:

1. Transport Documents: It may include a bill of lading, a non-negotiable seaway, airway bill, lorry / railway receipts etc. Sometimes the importer may demand postal or courier receipts as the documents evidencing transport, to be sent under cover of the document of credit.

2. Insurance Documents: The dispatched goods are required to be insured for transit.

Insurance policy or insurance certificate should be signed by the company or underwriter or their agent, amount, kinds of risk etc. should be same as mentioned in the LC.

3. Bill of Exchange: This is the basic document which requires to be discharged by making the payment. The right to draw this document is available to beneficiary and the amount, tenor etc. has to be in terms of the credit.

4. Commercial Invoice: This document provides relevant details of sale transaction, which is made in the name of the applicant, by the beneficiary. The details regarding quantity, price, specification etc. should be same as mentioned in LC.

5. Special Invoice: Exports made to countries of some specific regions call for special invoices which are required to be legalized example Latin American and Middle East countries, the invoices is required to be legalized by the diplomatic mission of the importing country.

6. Certificate of Origin: It provides details about the name of manufactured product's country, information on local material and labour content of the product. This is an important document for the purpose of customs clearance at the importing centre.

7. Packing List: A packing list provides the following information:

i. A general description of goods

ii. Net & gross weight of individual packages

iii. Number of packages in a master carton

iv. Weight and measurement of each master carton

v. Details of buyer, seller, shipping particulars etc.

8. Inspection report / Quality certificate: This is a report issued by an external agency nominated by the buyer for the purpose of obtaining an independent confirmation that the quality of the goods shipped conforms to the standards stipulated in the contract.

9. Beneficiary certificate: The buyer often stipulates a condition regarding a certificate to be issued by the beneficiary stating that all the requirements necessary to facilitate customs & port formalities have been complied with.

Stages of a Letter of Credit transaction:

- ✓ Agreement between seller and buyer that payment shall be made by a LC.
- ✓ The buyer (Applicant of LC) applies to a bank at his place of business (Issuing bank) for the opening of a LC in favour of the seller (beneficiary). The buyer has to specify the terms and conditions under which the LC shall be issued.
- ✓ The issuing bank issues the LC, thus undertaking the definite obligations of effecting payment to the beneficiary upon presentation of documents, strictly as per terms and conditions of LC.
- ✓ The issuing bank may invite another bank into the transaction in the country of seller is

called the correspondent bank may act as an advising bank, if it merely informs the seller of the LC without any obligation on its part. It may also act as a confirming bank, if it confirms the LC issued by issuing bank and thus undertakes primarily obligation to effect payment to the beneficiary. It may also be a nominated bank if the LC calls for negotiation.

- ✓ As soon as the seller receives the LC, he is in a position to effect shipment – provided the terms of the LC meet the terms of the underlying sales contract.
- ✓ The seller then presents the documents stipulated under LC to the correspondent bank, which is authorised to take up the documents and examined it whether these strictly comply with the terms and conditions of LC. If the documents fulfill the requirements, the correspondent bank makes payment to the seller in the manner stipulated under the LC.
- ✓ The correspondent bank then sends the documents to the issuing bank, which examines the documents and reimburses the correspondent bank that has effected payment to the seller, if the issuing bank finds that the documents comply with the LC.
- ✓ The issuing bank sends the documents to the buyer (Applicant) and obtains reimbursement in the manner agreed during the opening of LC (usually by debit to the applicant’s account). ix. On receiving the documents, the buyer is now in a position to take over the goods.

Advantages and Disadvantages:

1. Importer is assured that all terms and conditions of the LC must be met before payment is made to the exporter.
2. Importer is in a position to negotiate more favourable trade terms with the exporter when payment by LC is offered.
3. LC assures correct documents but not necessarily correct goods.
4. Payment under LC is assured by issuing bank to the exporter, provided that he meets all terms and conditions of the LC.
5. Exporter is not obliged to ship against a LC that is not issued as agreed.
6. On the part of the exporter’s bank, biggest advantage is shifting of the credit risk from the importer to the issuing bank.
7. Non- compliance of terms and conditions of LC leaves the exporter exposed to risk of non-payment.

Appraisal:

1. A critical assessment of the exposure in respect of LC is important as devolvement of LC is common phenomenon.
2. Examination of all relevant aspects of fund based appraisal is to be considering in respect of LC as well.

3. A proper analysis of the cash flow pattern should be made to ensure that sufficient funds are available to meet the liability when payment under LC falls due.

4. Other important aspects to be examined include tenor of credit and verification of trade control and exchange control regulations etc.

5. Margin should be stipulated just like working capital, if LC is required for the purpose of working capital.

6. Where 100% margin has been ensured, the LC facility should always be commensurate with the fund-based limits for WC purpose.

7. Margin component should be maintained continuously till the maturity of LC.

8. In case of LC requirements for acquisition of capital goods, tie up of term finance, wherever necessary, should be ensured before the LC matures.

Precautions to be taken while issuing Letters of Credit:

1. A suitable clause may be incorporated in the loan agreement in order to prevent the applicant from approaching other banks for additional limits.

2. Excessive details as rightly belonging to the underlying contract should not be included in the LC covenants.

3. The issuing bank should not issue LCs against guarantee of other banks or issue guarantees to other banks for opening of LCs on behalf of their clients.

4. As a general rule, interchangeability between the fund-based and non –fund based facilities should not be allowed. However, it may be allowed selectively and restrictively between non-fund based components, for example, between BG and LC.

5. Bank shall not issue “without recourse LC”.

6. LC should not be issued with onerous clauses which are prejudicial to the interests of the issuing bank.

7. LC for importing machinery and other capital goods should be linked to availability of long term funds including term loans.

8. Devolvement of the LC shall crystallize through Cash Credit Account. If the borrower is enjoying stand-alone LC Limit, the devolved amount shall be debited to Current Account only.

<u>Check your progress:</u>

1. The letter of credit is opened on the request of

    a. Issuing bank
    b. Applicant
    c. Beneficiary
    d. Confirming bank

2. The LC issuing bank is also called

    a. the importers bank or the opening bank
    b. the advising bank or the confirming bank
    c. the negotiating bank or the nominated bank
    d. the reimbursement bank

3. The advising bank is also called

    a. Confirming bank
    b. Notifying bank
    c. Reimbursing bank
    d. Issuing bank

4. The confirming bank is

    a. the issuing bank when it confirms the issue of the LC
    b. the negotiating bank when it confirms the negotiation of the bills
    c. the advising bank when it confirms the LC
    d. the negotiating bank when it confirms the negotiation of the bills

5. Reimbursing bank is the bank

    a. that reimburses the seller
    b. that reimburses the negotiating/paying or confirming bank
    c. that reimburse the buyer on the goods being found defective
    d. that reimburse the seller on dispatch of the goods

Answers for check your progress:
1. (b) 2. (a) 3. (b) 4. (c) 5. (b)

Unit: 14

DOCUMENTATION AND CHARGE CREATION

Objectives:

a. To make the reader understand what, why and how of documentation, the process flow of documentation and the effects of non-adherence of the same.
b. To know the different types of charges created in favour of the banker for different types of securities.

Contents:

Document and documentation, Identification of Borrower, Security, Written evidence, Creation of Charge on Security, Settlement of terms and conditions, Prevention of fresh charge on security, Deciding the period of limitation, Filing of Suits and enforcing claim.

Introduction:

Section 3 of the Indian Evidence Act and Sec.3(18) of the General Clauses Act defines a Document as **"any matter written, expressed or described upon any substance by means of letters, figures or marks or by more than one of these means intended to be used or which may be used for the purpose of recording that matter"**.

Documentation, in other words is *'execution of documents in proper form and according to the law'.*

Documentation is a must as documents are useful for:

- Identification of Borrower.
- Identification of Security.
- Written evidence.
- Creation of Charge on Security.
- Settlement of terms and conditions.
- Prevention of fresh charge on security.
- Deciding the period of limitation.
- Filing of Suits and enforcing claim.

REQUISITES OF PROPER DOCUMENT

✓ The document from the perspective of Bank should –

✓ contain correct name(s) of the party(ies),
✓ contain proper recital or narration,
✓ be properly stamped,
✓ be current and legally enforceable,
✓ contain the amount of loan/facility, interest and overdue interest, if any chargeable,
✓ give the description of the security, if any, g. describe how consideration has been passed on,
✓ give terms of repayment, i. give major and important terms and conditions mutually agreed upon,

- ✓ give the place of execution,
- ✓ mention the date of execution,
- ✓ Duly registered wherever required with the appropriate authority.

Identification of Borrower:

After the 9/11 incident, **"Know Your Customer"** (KYC) has been made mandatory all over the world and RBI has also specified the documents to be taken as proof of Identity and Address. Earlier also we used to take the identification but not as a rule of law. Now not only the Know Your Customer, Know Your Customer's Business and Know Your Customers Product have also become relevant. RBI has also specified to the Bankers which are the documents that have to be accepted as proof of identity and the documents to be accepted as proof of address.

Identification of Security:

Documents are very important for identification of security. Bank has given clear cut guidelines regarding the documents to be submitted by the customers for identification of a security. The following are the general documents bank insists to prove the ownership title by a customer.

a. Original Document
b. Back Document: If all the back documents submitted are original, 13 years and if any of the back documents submitted are photocopies or certified copies, 30years.
c. Encumbrance Certificate for 13 years.
d. Possession Certificate / Chitta / Adangal etc depending upon the state.
e. Location Certificate, if any
f. If original property holder has expired, Legal heir-ship Certificate also to be submitted.

All these original documents should be handed over to the advocate and a clear legal opinion has to be obtained as per the format given by the bank. Advocate has to clearly mention that the submitted documents are originals and he has verified the documents with the Sub Registrar Office and is perfect in all respects. He has to submit Certificate of Genuineness of title deeds.

An EC reflects encumbrances effected in the concerned property during the EC period. An EC will be taken for a minimum of 13 years before documents are handed over to the advocate. Advocate will scrutinize the documents, EC and give his opinion to create mortgage. EC is to be obtained immediately after EM registration and subsequently every year.

Branch Managers have to read the whole report very carefully and no omission is acceptable. While valuing the property also, it is better the BM or the Loans Officer accompany the Official Valuer. BM has to take a copy of the original document to verify the boundaries to ensure that the property mentioned in the legal opinion / original document is the same property they are valuing. East, West, South and North boundaries will be clearly marked in the documents and it is to be ensured that the person/s mentioned in the document is/are the same person/s residing in the site. Personal visits to the site along with the Valuer will eliminate most of the property related frauds. It should be ensured that the Valuer is taking a photo of the property valued, location of the property and the same is included in the valuation report.

Written Evidence:

Every document is written evidence in a court of law. Hence the most important document a branch takes is the loan application. All the Branch Managers should keep in mind that the loan application will be there along with the documents, till the loan is closed and in case a suit is to be filed, the original application will be sought by the advocate and it is the first and foremost document to be presented to the court of law.

Another very important document after the Loan application is the Assets and Liabilities Statement submitted by the borrower. The Assets and Liabilities Statement submitted by the borrower throws light on many aspects about him. Hence proper filling of the A & L Statement is a must. Ensure that all the properties owned by the borrower is mentioned in the necessary columns and also request him to mention the date and number of the document of registration of the property so that in case of need on a future date we may be able to attach those properties also. Also request him to clearly mention the balance available in cash and also in Bank so that we will be in a position to know whether he will be able to bring in the necessary margin. Also request him to mention, existing liabilities if any with our bank and any other bank to know his financial position. After downloading the details from CIBIL again go through the A & L statement to confirm that he has mentioned all the loans available in the CIBIL report.

All the documents are to be written properly, stamped and executed in front of an officer of the bank. Documents are to be stamped at the time of execution of documents or prior to execution. The value of the stamp to be affixed depends upon the State in which the documentation takes place and according to the stamp act of the respective State. But this is not applicable to Promissory Notes, Bills of Exchange and Acknowledgement of Debt which are coming under the Central Act. Stamps are revenue for the concerned States and if one fails to stamp before or at the time of execution of the documents, one has to pay 10 times penalty of the original value of the stamps. After the due documentation, entry should be made in the Documents Execution Register. After the documentation is completed, it should be entered in the Documents Execution Register. The Documents Execution Register should be signed by the officer in front of whom the documents have been executed. He has also to mention in the Execution Register, whether he has explained the details of the documents to the borrower. Execution Register is a very important document and if necessary should be produced in a court of law on a future date. The court can summon the officer who has signed in the Documents Execution Register, whose presence the documents were executed, to give evidence.

Likewise, the documentation should be completed in the same sitting. If the documentation is not completed in the same sitting, the possibility of using different ink in filling the documents, different handwriting in filling the documents etc can happen which may eventually jeopardize the possibility of winning a court case for the bank.

Specific direction is given by our bank that for all types of advance of Rs.50 lakhs and above, Pre-release audit is compulsory. This pre release audit can be done by another officer of the same branch who is not connected with the sanctioning of the loan or by an officer of another branch or by the concurrent auditor. The officer who does the pre release audit has to fill in the pre release audit format and specifically see whether all the things mentioned in the format has been properly complied with. Once it is complied with, he can complete the pre release audit and the loan amount can be released.

Legal Audit: Legal audit to be done for accounts with exposure of Rs.100 Lakh and above where mortgage of property is involved. Periodical legal audit to be done within three years from the last legal audit in case of all credit exposure of Rs. 5.00 Crore and above

Credit Audit:

Credit Audit to be conducted by the Inspector of branches / Chartered Accountants as may be decided by CO. Inspection Department.

Category	Limit
Standard borrowal A/Cs with rating of IB-BBB (Obligor) and above	Rs.5 Crore and above
Standard borrowal A/Cs with rating below IB-BBB (Obligor)	Rs.1 Crore and above

Stock Audit:

Stock and book-debt audit should be conducted on yearly basis* (the gap between two such audits should not exceed 15 months) for all advances except NBFC (sanctioned against stocks/books debts as primary security) having aggregate fund based and non-fund based exposure equal to or above the threshold limit as given below

Type of customer		Threshold limit (FB+NFB)
Individual / Partnership Firm	-	1.00 crore
Private Limited Companies	-	1.00 crore
Public Limited Companies	-	5.00 crores

- ✓ For NPA Accounts, stock audit to be conducted on an annual basis for working capital limit of Rs.1.00 Crore and above irrespective of constitution

If the value of the property is more than 100 lakhs in the case of Home Loan, two valuation reports are compulsory. It should be ensured that the difference in valuation should not be more than 15% and if it is more, one more valuation should be taken and the actual value of the property should be ascertained

Creation of charge on Security:

A **security interest** is a property interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets. Such rights vary according to the type of security interest, but in most cases, a holder of the security interest is entitled to seize, and usually sell, the property to discharge the debt that the security interest secures.

Almost any asset capable of being identified may be charged. The type of asset will generally determine the type of charge required and registration requirements.

There are two types of Charges:

1. Fixed Charge

2.Floating Charge.

A **fixed charge** is a mortgage on a specific fixed-asset (such as a parcel of land) to secure the repayment of a loan. In this arrangement the asset is signed over to the creditor and the borrower would need the lender's permission to sell it. The lender also registers a charge against the asset which remains in force until the loan is repaid.

A **floating charge** is mortgage on an asset that changes in quantity or value from time to time (such as an inventory), to secure the repayment of a loan. In this arrangement, no charge is registered against the asset and the owner of the asset can deal in it as usual. If a default occurs, or the borrower goes into liquidation, the floating assets 'freezes' into its then current state 'crystallizing' the floating charge into a fixed charge and making the lender a priority creditor. A floating charge is not as effective as a fixed charge but is more flexible.

Exclusive Charge: Only one creditor having the charge on the assets without intervention of any other creditor.

Paripassu Charge is being created in favour of several creditors, with the condition that they have equal priority, subject to maximum of their share in the security linked to the amount of the loan.

First Charge: Where asset is charged to a creditor on first basis, that creditor has the first charge.

Second Charge: Where assets are already charged to a creditor on first basis and subsequently charge is created in favor of another creditor, the 2nd creditor is called to have the second charge.

Various Kinds of Securities available to a Banker and the kinds of charges:

Nature of security	Types of Security	Kinds of Charges	Defined in Act
Immovable property	Land and Building	Mortgage	Transfer of Property Act Sec 58.
Actionable Claim i,.e.unsecureddebts	Book Debts, FDR,NSC, Life policy	Assignment	Transfer of property Act Sec.130.
Movable Property/goods	Plant and Machinery, Stock, Vehicle etc	Pledge/ Lien/ hypothecation	Indian Contract Act (Pledge Sec.172) Hypothecation (SARFAESI ActSec.2)
Paper Securities	Shares, Debentures, mutual fund, units bonds	Lien	Indian Contract Act (Sec.170 and 171)
Personal Guarantee	Promoters and third party Guarantee	Personal liability	Indian Contract Act Sec.126

Mortgage: Mortgage is defined in the Transfer of Property Act. Equitable Mortgage (EM) is the predominant form of Charge on Immovable properties by a Banker. Bankers prefer EM over Registered Mortgage because of the simplicity in execution as well as on cost considerations. If Registered Mortgage (RM) is to be done, higher stamp duty is to be paid and also the parties have to go to the Sub Registrar office to get the same registered in favour of the banker.

In Equitable Mortgage, the borrower need to just handover the Title Deeds of the properties to the banker to create a charge on the property under mortgage. Depending upon the state in which the EM is being done, stamping as well as registration is also being done. In some

States, there is no stamping and registration for EM Wherever as per the local stamp act, if the Memorandum (D 32/33/34/34A) is to be stamped, it is to be stamped. In some States, registration of EM is also compulsory and wherever it is compulsory, it should be done and wherever registration is permitted and not compulsory, we shall get it registered in order to protect the interest of the bank.

Actionable Claim: This term is defined in Section 3 of the Transfer of Property Act. The points to be highlighted from the definition of the Actionable Claim are as follows:

It is a claim to any debt other than a debt secured under a mortgage or hypothecation or pledge on any immovable or moveable property, possession of which is given to person or institution which gave the loan.

An Actionable Claim is a plain unsecured debt which can be claimed by a person against another person and which can be enforced in civil courts according to law. E.g. Loan against LIC Policy.

Hypothecation:

As per Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act) Sec.2, Hypothecation has been defined as „a charge in or upon any movable property, existing or future, created by a borrower in favour of a secured creditor without delivery of possession of the movable property to such creditor as security for financial assistance and includes floating charge and crystallization of such charge into fixed on movable property.

Hypothecation is an equitable charge, where the borrower keeps the possession of the security on behalf of the creditor. If the borrower fails to repay the loan, under Securitization Act, the banker can take possession of the securities hypothecated without intervention of the court subject to compliance of certain legal formalities. If there is a shortage of securities, the bank can bring criminal proceedings u/s 405 of the Indian Penal Code.

Pledge:

U/s 172 of Indian Contract Act "Pledge is bailment or delivery of goods as security for payment of a debt or performance of a promise" In Pledge, Goods are delivered as a security. Banker can sell the goods pledged giving sufficient notice. Eg. Jewels pledged to the bank.

Lien:

The legal claim of one person upon the property of another person to secure the payment of debt or the satisfaction of an obligation. Eg. Lien on Deposits, Lien on Shares etc

Personal Guarantee:

Agreement that make one liable for one's own or a third party's debts or obligations. A personal guarantee signifies that the lender (obligee) can lay claim to the guarantor's assets in case of the borrower (obligor) default. It is equivalent of a signed blank check without a date. The obligee is generally not required to seek repayment first from the obligor's assets before going after guarantor's assets. The lender's actions are usually based on whose assets are easier to take control of and sell. Once signed, a personal guarantee can only be cancelled by the obligee. E.g. D 57(Guarantee agreement) signed by the Guarantor.

Settlement of Terms and Conditions:

Process of loan is an agreement between parties. Different laws are involved in this process. Indian Contract Act is one of the important laws governing the process of loan. The process is a contract between Debtor and Creditor and there should be passing of consideration for an effective contract. The consideration can be past, present or future. The rate of interest charged by the bank, the repayment obligations of the borrower, other charges to be borne by the borrower etc are purely based on the contract between the parties. Hence settlement of terms and conditions of the contract is the foremost thing in a contract of loan. Hence, all your terms and conditions should be specifically included in the Sanction Ticket given to the borrower and always his acknowledgement should be obtained on a copy of the sanction ticket and kept in the file, to avoid future disputes. Handing over a copy of the sanction ticket to the customer will help increase the mutual trust and reduce the possibilities of future litigations.

Prevention of fresh Charge on Security:

Observance of guidelines issued by the bank while giving advances will reduce the possibility of loss due to operational risk. Bank gives clear cut guidelines regarding how the charge is to be created while giving advance against mortgage and also while giving advance to limited companies. Bank has given clear cut guidelines to the BMs or Loan Officers that wherever there is scope for registration of EM in the Sub Registrar Offices, it should be adhered to. This possibility is not available in some States where there is no provision for registration of EM. In those states wherever Registration of EM is available it should be done, so that anybody deal with that particular property will immediately understand that there is a subsisting loan on that property and he will take the necessary precautions.

Likewise, bank has given very clear cut guidelines that while giving loan to any limited company, our charge should be registered with the Registrar of Companies. When we register our charges with the Registrar of Companies, it becomes a public document and anybody dealing with the company knows that the company has taken loan from us and has created charges in favor of the bank. This should be done within 30 days of creation of charge and if we are not in a position to create charge within the stipulated time, we lose our priority and we will be at par with other creditors.

Likewise, now all the EMs other than for Agricultural lands should be registered with the Central Registry (CERSAI). CERSAI is an institution constituted under the SARFAESI Act and all the EMs should be mandatorily registered with the Central Registry. For registration with Central Registry also there is 30 days time from creation of charge on the property and if we are unable to create charge within the first 30 days, we can do so within next 30 days by paying a penalty. Beyond 60 days it becomes difficult to create charge and a hefty penalty should be paid for every day of default. By creating charge with the Central Registry, we shall know whether any other bank has already created charge with them and we can avoid multiple financing on the same property. Registering charges with the Central Registry is over and above the other different forms of registrations.

Deciding the Period of Limitation:

Period of limitation is a very important aspect in banking. We have to renew documents mandatorily every three years otherwise the document will get time barred. Once document gets time barred, we lose the opportunity to recover money through a court of law. Three years from the date of execution of the document is the period of limitation in the case of a promissory note and 12 years from the date of execution in case of a suit on mortgages. If the suit is on the personal liability of the mortgagor, it is 3 years from the date of execution. If it is loan recovery in installments, the period of limitation is 3 years from which the relative installment has fallen due. The date of execution is excluded while calculating the due date of expiry of the documents i.e. if a document has been signed on 12th October 2018, the document will get time barred on 12th October 2021. Hence all the documents should be kept alive and the life of a document can be extended by (1) Acknowledgement of debt (2) A part payment or (3) A fresh promise today.

Filing Suits and Enforcing Claim:

All the loans are not repaid in time because of various reasons. When a loan is not repaid according to the terms and conditions of the sanction, bank has to enforce its rights and remedies to recover the money advanced. There are different means of enforcing his right. They can be (1) SARFAESI Act (2) Debt Recovery Tribunal (DRT) (3) Suit Filing (4) Lok Adalat.

SARFAESI Act: Before the initiation of the SARFAESI Act, for realization of money by sale of mortgaged property, bankers had to approach a court of law, get a decree and then only the banks can sell the mortgaged property. This took undue long time and it was very difficult to get a decree within a stipulated time. Hence the SARFAESI Act has been passed by the Parliament and under SARFAESI Act, bankers need not approach a court of law to sell a mortgaged property, subject to conditions.

The conditions are

(1) The loan amount should be more than 1 lakh

(2) There should be a Non Agricultural Property / Security under mortgage or hypothecation.

(3) The amount due must not be less than 20% of the principal amount and interest there on.

Banker can take possession of the property after giving 60 days notice (Demand Notice) to the borrower and guarantor and can sell the property 30 days after taking possession of the property by giving another notice (Sale Notice) and publication of the intended sale. Publication of the possession notice is compulsory after taking possession of a property. Publication should be done on an English Newspaper and a Local language news paper and the publication should be done within 7 days of taking possession of the property. Likewise for the sale of the property 30 clear days notice should be given to the borrower to pay off the debt.

Agricultural lands are exempted from registering in the Central Registry. Agricultural lands cannot be possessed and sold under the SARFAESI Act and hence it is exempted. However, SARFAESI can be enforced where agricultural land given for mortgage is not used for agricultural activities.

Debt Recovery Tribunals (DRTs): DRTs have been established by the Government for easier recovery of Banks dues which are Rs.20 lakh and above. The processes at DRT will be speedier than the usual courts and these courts will deal only in bank loan cases which are more than 20 lakhs. Immediately after the award by the DRT, the Recovery Officer of DRT will sell the properties available to the banker for recovery of bank dues.

Suits: Loans less than Rs.20 lakhs will be filed in the ordinary courts according to the valuation and these cases will be dealt by the courts along with other civil cases.

Lok Adalat: Lok Adalat is a method of recovery of loan of smaller value without the due process of law. Lok Adalat has been initiated in order to reduce the cost of litigation. A Legal Officer (usually a Judge) will preside the conciliation proceeding between banker and the borrower and settlement will be reached over the table and the award will be passed. Large no of cases disposed within a short time. It does not stick to unnecessary cumbersome Court procedure. The default amount covered under Lok Adalat is up to Rs.20 lakh.

Main condition of the Lok Adalat is that both parties in dispute should agree for settlement. The decision of the Lok Adalat is binding on the parties to the dispute and its order is capable of execution through legal process. No appeal lies against the order of the Lok Adalat.

Summary:

Documentation is the heart and soul of any loaning process. If the process of documentation is faulty, bank loses its chance of getting back the loan advanced through a due process of law. In an era of more fraudulent activities, bank has to protect itself from multiple financing on the same security by creation of his charges with various statutory authorities, making it difficult for the fraudster to defraud the banks. Hence by doing the proper documentation, banks protect themselves from different types of risks.

Check Your Progress:

Q No.1: When an EM is registered at the Central Registry, whether different types of other registrations are also should be done?

Q No.2: Whether publication of Possession Notice is compulsory after taking possession of a property under the SARFAESI Act?

Q No.3: Whether a second publication is required for sale of the possessed property?

Q No.4: Whether EM of Agricultural land should be registered with the Central Registry?

Q No.5: Branch Manager has forgotten to file charges with the Registrar of Companies. What will be the impact of non registration of charges with the Registrar of Companies.

Q No.6: Why the Assets and Liabilities Statement submitted by the borrower and the Credit report prepared by the Branch very much important in loan documentation?

Q No.7: Why the bank is insisting that the documentation should be done in front of an officer and also in the same stretch?

Q No.8: Why Pre Release Audit, Legal Audit and two valuations by Official Valuer if the value of the property is made compulsory by the bank?

Q No.9: Why Bank is insisting EC after creation of EM and EC is to be taken every year thereafter.

Q No.10: Why Bank is insisting that Insurance is to be taken for the full value of the stock available in the business, even though our loan amount may be less compared to the value of the stock.

Answers:

1. Yes

2. Yes.

3. Yes

4. No.

5. Till the company functioning perfectly the non registration will in no way affect the banker. But when the company is going on liquidation, the possibility of getting our money back will become bleak if we have not registered our charges with the Registrar of Companies, because we will be at par with the other creditors and we will not get any priority in repayment.

6. The A & L statement shows the Assets and Liabilities position of the Borrower at the time of taking the loan. From the A & L statement you can also know whether he will be able to meet his margin obligations and any other bank liabilities.

7. In case of need, the Court of Law may call the concerned officer to give evidence regarding the execution of the document. Use of different ink, filling up of document in different handwriting etc may also jeopardize the possibility of winning of the case by the bank.

8. To ensure that the valuation is a fair one and also to ensure that the branch has done the documentation as per the sanction terms.

9. In order to ensure that no encumbrances have been created by the borrower.

10. Because in Insurance, average clause applies. A condition set by an insurer that a payment for damage or loss will be in proportion to the value insured.

Unit: 15

CREDIT RISK MANAGEMENT

Objective:

To make the reader understand the various credit risk management concepts, measurement of credit risk, monitoring and mitigation of Credit Risk.

Content coverage:

Aspects of credit risk, Mitigation of Credit Risk, Important guidelines on rating models

Introduction:

Financial sector has undergone far-reaching changes in the operational arena of Banking both in respect of approach and procedure. One such important dimension is Credit Risk Management. Taking a lending decision is discriminating between an affordable risk and non-affordable risk and a need, therefore, arises to design a yardstick to accurately measure risks.

Even at the loan appraisal stage, it is important to have clear perceptions of risks involved. A proper understanding of various risks is vital for improving credit appraisal skill. Any inadequate focus on credit risk assessment may adversely affect the quality of the credit portfolio.

Aspects of Credit Risk

Credit Risk is the possibility of losses associated with diminution in the credit quality of borrowers or counter-parties. In a Bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counter-party to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in Credit Quality.

Mitigation of Credit Risk

As risk is inherent in every form of lending, the management of risk involves scientific management of the risk aimed at mitigating adverse effects. The Credit Risk management would encompass:

- Measurement of risk through credit rating / scoring
- Risk pricing (based on past experience, by quantifying the risk through estimation by expected and unexpected loan losses)
- Control of Risk through effective Loan review mechanism and Portfolio management.
- Zero Error Documentation

Risk Rating

Rating is a risk measurement tool. The likely performance of a loan is assessed by credit rating model. Credit rating has to be obtained from different sources for different type of loans. The applicability of the rating methodology for different loan segments is as under:

Segment	Rating
Big Corporate loan accounts of Rs. 10 Crores and above	Rating from External Rating agency
Manufacturing, Trading & Services Segment accounts with exposure of Rs.50 lakh and above	RAM rating
Rural Banking Segment**:** Accounts with exposure of Rs.100 lakh and above	RAM rating
Personal Banking Segment : All SLPs under Personal Banking Segment having exposure of Rs.25000/- and above	Internal scoring model viz Home Loans, Mortgage Loans, Automobile Loans, Educational Loans, Consumer Loans, Personal Loans & Others

External Rating Agencies:

The external rating is an opinion of an independent external agency, which is nothing to do with either the borrower or lender. The rating agency assesses the credit worthiness, calculated from financial history and current assets and liabilities. It tells a lender the probability of the subject being able to pay back a loan. The rating exercise would also facilitate the credit granting authorities some comfort in its knowledge of loan quality at any moment of time. This system takes into account all possible factors which go into appraising the risks associated with the Credit Proposal which are broadly classified into Management, Industrial and Financial and Business parameters in arriving at the overall risk / rating. The rating agency assesses the probability of default of a loan calculated from financial history and current assets and liabilities of borrower. While arriving at the rating, the rating agency takes into account both external factors like industry characteristics and industry financials and internal factors such as business risk, management risk and financial risk of the borrower. Following are the external rating agencies available in India

(a) Credit Analysis and Research Limited (CARE)
(b) CRISIL Limited (CRISIL)
(c) India Ratings and Research Pvt. Ltd
(d) ICRA Limited(ICRA)

(e) Brickwork Ratings India Pvt., Ltd (BRICKWORK)
(f) Acuite Ratings & Research (earlier SMERA Ratings Limited)
(g) Infometrics Valuation and Rating Pvt. Ltd

Risk Assessment Model (RAM)

A well-structured internal risk rating system is a good means of differentiating the degree of credit risk in the different credit exposures of bank. Bank has comprehensive risk scoring/rating system as a single point indicator of diverse risk factors. For this purpose, a Credit Risk Assessment - Rating system has been devised in our Bank, which will serve as a single point indicator of diverse risk factors and for taking credit decisions in a consistent manner. The rating system has two separate and distinct dimensions viz., (a) the risk of the borrower default and (b) transaction specific factors. Accordingly, “Two Dimensional RAM Rating System” was introduced in our bank during 2006-07. As per this system, the risks associated with the borrower are measured through “Obligor Rating” and the risks associated with the business transaction / exposures related to the borrower are measured through “Facility Rating”. Both the ratings are combined / integrated to arrive at the “Integrated Rating” of the Borrower.

Rating Scale (Grade)

The RAM Rating scale is with 9 grades (besides "D" for NPA accounts) viz., AAA, AA+, AA, A, BBB, BB, B, CC, C and D. For project rating, the grades are P1, P2, P3, P4 and P5.

Generally „ratings" are assigned based on audited financial data or accepted projected financials. In certain cases where provisional financial data (i.e., unaudited) alone is available, the ratings may be worked out based on such provisional data also. The validity of the ratings is as specified below:

	Particulars	**Validity period**
1	• Rating based on audited data for entity required to get audited • Rating based on audited or unaudited data for entity not required to get audited	Internal rating should be completed by 31st Dec of next financial year of rating and it should be authorized by 31st March of next financial year of rating. Validity of the rating will be 24 months from the end of financial year of the rating.
2	Rating based on Provisional Company Financial Data	3 months from the due date of submission of return to income tax authority
3	Rating based on Projected Company Financial Data	6 months from the date of first year of financial projections.

4	Project rating	18 months from the financial closing date of rating year, and is to be reviewed based on the progress / available financials of the project, till publication of financial results for the first year of commercial operation.

On expiry of validity of rating, interest rate will be revised to the interest rate applicable for unrated exposure.

Applicability of RAM rating Models

	RAM rating Model	**Applicability**
1	SME Manufacturing Model	Manufacturing Segment Borrowers with exposure of Rs 50 lakh to less than Rs 10 crore
2	SME Services Model	Services Segment Borrowers with exposure of Rs 50 lakh to less than Rs 10 crore
3	SME Trader Model	Trading Segment Borrowers with exposure of Rs 50 lakh to less than Rs 10crore
4	MFI Model	MFIs with exposure of Rs 50 lakh to less than Rs 5 crore
5	NBFC Model	NBFCs, HFCs irrespective of exposure and MFIs With exposure of Rs 5 crore & above
6	Bank Model	All Banks and Financial Institutions with exposure of Rs 50 lakh and above
7	Real Estate Developer Model	Borrowers engaged in real estate development with exposure of Rs 50 lakh and above LRD Loans/IND Mortgage-CRE (Rs 5 Cr and above) proposals are be rated under Real Estate Developer Model.
8	Contractor Model	Construction contractors and Other Contractors with exposure of Rs 50 lakh and above
9	Broker Model	Share / Stock brokers with exposure of Rs 50 lakh and above
10	State Government Model	State Governments / Departments
11	Singapore Model	Companies incorporated in Singapore
12	Colombo Model	Companies incorporated in Sri Lanka
13	Infrastructure – Power	Power Generation/ Transmission/ Distribution companies
14	Infrastructure – Road	Road Projects
15	Infrastructure – Port	Port development projects (including Airport development)
16	Infrastructure – Telecom	Unit engaged in providing telecom services
17	Large Trader	Trading Segment Borrowers with exposure of Rs 5 crore and above

18	Large Corporate Model	Manufacturing, Trading & Services Segment (incl. Rural Banking Segment) Borrowers with exposure of Rs 10 crore and above and any other exposure of Rs 10 crore and above not covered under any other model Further, State PSUs guaranteed by state government shall be rated under Large Corporate Model where final rating will be arrived by capturing the weightage of state government rating as per state government model/framework.

Rural Banking segment proposals with exposure of Rs 1 crore and above to less than Rs 10 crore shall be rated under respective SME models.

Exemption from internal Rating or internal Scoring

The following categories of advances are exempted from Rating or Scoring:

- ✓Advances against security of Bank's own Deposit, Advances against, NSC,KVP, LIP & pledge of Gold Jewellery, Advances against government securities including RBI Bonds, Food Credit etc.
- ✓Advances to Staff Members.
- ✓Advances against security of Units, Bonds etc. of UTI and Advance against shares.
- ✓Bills Discounting under LC issued by Prime Banks and negotiated/ discounted after acceptance of issuing banks.
- ✓Bills discounted/negotiated under non-prime banks LC or other bills, exposure is considered on borrower, and rating will as per Borrower category.
- ✓For Customers whose exposure (both fund based and non-fund based-domestic), which are fully secured by 100% cash margin at any point of time.
- ✓If the counterparty is central or state sovereign. This kind of exposure includes exposure to RBI, DICGC and CGTMSE and CRGFTLIH.
- ✓Commercial Paper
- ✓Asset Reconstruction Companies
- ✓Exposures becoming eligible for rating due to application of interest (marginal increase)
- ✓TREDs Accounts
- ✓Non fund based Exposure (viz BG) against counter guarantee of other Bank
- ✓Any existing facility becoming eligible for RAM rating due to marginal increase in exposure due to sanction of GECLS/Covid relief loans

<u>The following are the functional authorities for assigning, reviewing and approval of the rating grades:</u>

Initiator:

Initiation of internal rating will be done at Branch irrespective of sanctioning authority of the credit proposal. When proposal is sanctioned at Processing Centre initiation of internal rating will be done at Processing Centre. The initiation can be done by any officer at Branch/ Processing Centre including one who has processed the proposal.

Reviewer and Approver:

Exposure	Sanctioning authority at	Reviewer	Approver
Less than Rs.2.00 crore	Branch / Processing centre	Not required	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at Branch/Processing centre. If no such officer is available at Branch/ Processing Centre then Risk officer at ZO.
	ZO	Not required	Risk Officer at ZO. If Risk Officer at ZO is not available then any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at ZO.
	FGMO		
	CO	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at concerned Functional Credit department at CO	Any Officer/s in Scale IV or above nominated by GM (RMD) or Department Head (RMD)
Rs. 2 crore to less than Rs.5 crore	Branch / Processing centre	Any officer other than rating initiator one who is not involved in credit process (appraisal or sanction) at Branch/ Processing Centre. If no such officer is available at Branch/ Processing Centre then any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at ZO	Risk Officer at ZO
	ZO	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at ZO	
	FGMO		

	CO	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at concerned Functional Credit department at CO	Any Officer/s in Scale IV or above nominated by GM (RMD) or Department Head (RMD)
Rs. 5 crore to less than Rs.10 crore	Branch / Processing centre	Risk Officer at ZO. If Risk Officer at ZO is not available then any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at ZO	Risk Officer at FGMO
	ZO		
	FGMO		
	CO	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at concerned Functional Credit department at CO	Any Officer/s in Scale IV or above nominated by GM (RMD) or Department Head (RMD)
Rs. 10 crore and above	Branch / Processing centre	Risk Officer at ZO. If Risk Officer at ZO is not available then any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at ZO	Any Officer/s in Scale IV or above nominated by GM (RMD) or Department Head (RMD)
	ZO		
	FGMO	Risk Officer at FGMO. If Risk Officer at FGMO is not available then any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at FGMO	
	Corporate or Mid Corporate Branch or CO	Any officer other than rating initiator and one who is not involved in credit process (appraisal or sanction) at concerned Functional Credit department at CO	

Independence of rating Process

Independence of internal rating review or rating/scoring approval from credit process (appraisal or sanction) should be maintained at all the levels. The officer who has been involved in appraisal of a credit proposal or one who has sanctioned the credit proposal independently or as a part of the sanctioning committee, cannot review rating or approve the rating/scoring. For example an officer A has done appraisal of a credit proposal X or he is the sanctioning authority or a member of the sanctioning committee for the credit proposal X, cannot review or approve the rating of Credit proposal X but he can review or approve rating/scoring of credit proposal Y for which he is not the appraising officer or sanctioning authority or a member of sanctioning committee of the credit proposal.

The credit proposals will also detail the variations in the rating grade between two periods. No credit (Fund based /Non fund based) proposal (fresh / enhancement / review / renewal / reduction) will be taken up without rating. Further details like the confirmed rating, date of confirmation, approving authority should be incorporated in the Credit proposal. Hard copy of final company rating report (RAM) should be kept along with the documents and should be available with the branch for verification by the Inspecting Officials.

General Guidelines for internal rating

- ✓ The internal rating would be done at least once in each year for all existing standard borrowal accounts.
- ✓ No Fund based/Non fund based credit proposal (fresh /enhancement/reduction /review /renewal) should be forwarded /placed before the sanctioning authority without having valid and confirmed internal rating based on rating or scoring models as per applicability.
- ✓ The risk officer validating the rating will be at arm's length distance from the sanctioning authority.
- ✓ Fresh internal rating is essential for proposals which are being placed to different credit committees for interest rate concessions, waiver of charges, permission for NOC, and permission for deviation.
- ✓ Details like the confirmed rating, date of confirmation, approving authority should be incorporated in the Credit proposal. A copy of final company rating report (RAM) should be available with the branch for verification by the Inspecting Officials.

Dynamic internal rating System

Internal rating to be conducted more than once in a year in following cases:

- ✓ Internal rating is to be conducted in an interval of 6 months for listed corporate borrowers having exposure of Rs 250.00 crore and above.
- ✓ Internal rating is to be conducted within 1 month from the external rating downgrade when the external Credit rating has downgraded for a particular borrower.
- ✓ Internal rating is to be conducted in an interval of 6 months for Corporate borrowers with external rating “C" or “D"
- ✓ Internal rating is to be conducted within 1 month where there is adverse news in the market about the borrower.

Rating/Risk Based Pricing

Risk based pricing is applicable for all exposures where RAM rating is applicable. It is based on combined rating of RAM. RAROC has to be assessed for all the exposures of Rs 10 crore and above to arrive minimum interest rate.

Entry Barrier for financing

The entry level rating for sanctioning of advances to borrowing entities has been fixed as below:

Segment	Entry Barrier
NBFC, HFC and NBFC-MFI	Combined internal rating IB A(Based on RAM) and external rating A/A2 (+ /-)
MFI	Combined internal rating IB BBB (Based on RAM)
Unsecured loans of Rs 5	and external rating mfR3
crore and above	Combined internal rating IB A (Based on RAM)
Exposure where Project rating is applicable	Combined internal rating IB BBB (Based on RAM) and Project rating P2 (Based on RAM)
Short Term Loans	External rating of AA(+ or -)

- ✓ The above entry barrier is not applicable for Public Sector Undertakings (PSU) for all fresh sanctions. In respect of PSUs powers are vested only at Corporate Office within the respective committee.

- ✓ Sanction of fresh proposals other than PSU “below entry barrier” (up to one notch) falling up to the powers of ZLCC are to be considered by FGMCAC; under FGM CAC powers by COLCC(GM) and proposals falling under COLCC(GM) and above can be considered by the respective sanctioning authorities within their delegated powers with justification. For NBFC, HFC and short term loans only CAC and MC are vested with powers to consider proposals below entry barrier within their respective delegated powers.

<u>Down gradation in Internal Rating</u>

Wherever there is a down grade in rating, the following actions will be taken:

- ✓ A copy of the rating communication will be sent to Credit Monitoring Department and respective functional credit department at corporate office and respective Zonal Offices for stepping up the monitoring mechanism and for ensuring maintenance of asset quality.
- ✓ Such downgraded accounts are being scheduled for review in LRMC. This process is ongoing and hence mitigation gets reinforced after each quarter to ensure better asset quality.
- ✓ The interest rate applicable to such borrowal account shall be refixed based on downgraded rating.
- ✓ Any kind of relaxation on interest rate or other charges on such accounts should be reviewed and it should be referred to the appropriate sanctioning authority for concession in interest rate or other charges.
- ✓ Any proposals for enhancement in limits or sanction of new facility to borrowers downgraded by two notches or downgraded to below investment grade shall be recommended to the next higher authority

Any borrowal account which slips to NPA will be downgraded to D category

Applicability of scoring Models

S.No	Scoring Model	Applicability
1	Housing loan	Housing Loans of Rs 1 lakh and above
2	Vehicle Loan	Vehicle Loans of Rs 1 lakh and above
3	Personal Clean Loan	Clean Personal Loans of Rs 1 lakh and above
4	Personal Secured loan	Secured Personal Loans, Consumer Loans of Rs 1 lakh and above
5	Bank Property Loan	Loan Against Property or Mortgage Loans of Rs 1 lakh to less than Rs 5 Crore
6	Rent Loan	Rent Loan of Rs 1 lakh to less than Rs 5 Crore
7	PMEGP Loan	PMEGP and other Government Sponsored Scheme Loans of Rs 1 lakh and above
8	Agricultural Loan	Agriculture Loan (including Crop Loan) of above Rs 3 lakh to less than Rs 1 crore
9	Small Business Loan	Business Loans irrespective of Manufacturing, Trade and Services activity of Rs 1 lakh to less than Rs 50 lakh
10	SHG Loan	SHG Loans of Rs 1 lakh and above
11	Credit Card	Credit Cards of Rs 1 lakh and above
12	Education Loan- IBA Scheme	Education Loans under IBA Scheme of Rs 1 lakh and above
13	Education Loan- Non IBA Scheme	Education Loans under Non IBA Scheme of Rs 1 lakh and above.
14	Generic Model	Any other loans of Rs 1 lakh to less than Rs 50 lakh not covered under any other scoring model

Process flow for Scoring Model

Scoring Initiation: Initiation of scoring will be done at Branch irrespective of sanctioning authority of the credit proposal. When proposal is sanctioned at Processing Centre initiation of scoring will be done at Processing Centre. The initiation can be done by any officer at Branch/ Processing Centre including one who has processed the proposal.

Scoring Approval: Approval of scoring will be done by any officer other than rating initiator and not involved in credit process (appraisal or sanction) at Branch/ Processing Centre or Zone level or FGMO level or CO level as the case may be.

When sanctioning authority is at Branch including specialized branch or Processing Centre level, approval will be done by any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at Branch including specialized branch or Processing Centre. If any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at Branch including specialized branch or Processing Centre is not available then Risk Officer at ZO will approve scoring. If Risk Officer at ZO is not available then any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at ZO will approve the scoring.

When sanctioning authority is at ZO level, approval of scoring will be done by Risk Officer at ZO. If Risk Officer at ZO is not available then any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at ZO will approve the scoring.

When sanctioning authority is at FGMO level, approval of scoring will be done by Risk Officer at FGMO. If Risk Officer at FGMO is not available then any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at FGMO will approve the scoring.

When sanctioning authority is at CO level, approval of scoring will be done by any officer other than scoring initiator and one who is not involved in credit process (appraisal or sanction) at concerned Functional Credit department at CO will approve the scoring.

The following are the functional authorities for assigning, reviewing and approval of the rating grades under scoring model:

Exemption from Scoring

The following categories of advances are exempted from Scoring:

-

- Advances against security of Bank's own Deposit, Advances against, NSC,KVP, LIP & pledge of Gold Jewellery, Advances against government securities including RBI Bonds, Food Credit etc.
- Advances to Staff Members.
- Advances against security of Units, Bonds etc. of UTI and Advance against shares.
- All accounts eligible for RAM rating as per CRM policy.
- Bills Discounting under LC issued by Prime Banks and negotiated/ discounted after acceptance of issuing banks.
- Bills discounted/negotiated under non prime banks LC or other bills, exposure is considered on borrower, and rating will as per Borrower category.
- For Customers whose exposure (both fund based and non fund based-domestic), which are fully secured by100% cash margin at any point of time.
- If the counterparty is central state sovereign. This kind of exposure includes exposure to RBI, DICGC and CGTMSE and CRGFTLIH.

Hurdle Scoring / Entry Barrier for financing

The entry level rating for sanctioning of advances to borrowing entities has been fixed as below:

Segment	Entry Barrier
Exposure where Scoring Model is applicable	Internal rating BBB (Based on Scoring Model) and CIBIL Score of 700 or Experian/Equifax/CRIF Highmark Score of 650

- ZLCC may consider CIBIL Score up to 650 or Experian/Equifax/CRIF Highmark Score up to 600. FGMCAC may consider CIBIL Score up to 600 or Experian/Equifax/CRIF Highmark Score up to 575 with proper justification. Cases with CIBIL Score below 600 or Experian/Equifax/CRIF Highmark Score below 575 will be put up to COLCC (GM) for permission/administrative clearance.

Risk Identification:

The process of risk identification starts at the time of accepting the credit proposal for consideration of sanction of credit limits to borrowers. In case of existing borrowal accounts, the following tools are utilized for identification of credit risk.

Legal Audit:

Before disbursement of loan and before commencement of pre-release audit, Legal Audit has to be conducted for all advances with limit Rs. 100 lakhs and above. The legal audit has to be conducted by the panel advocate.

Pre Release Audit:

To mitigate the operational risk arising on account of documentation defects, the system of Pre –Release Audit is in place for all advances (fresh or enhancement) of Rs.50 lakhs and above. Pre release audit, as per guidelines in force shall be completed before disbursal of the advances. In a Corporate Branches/Credit Intensive Branches where the service of a Concurrent Auditor is available, the pre-release audit shall be carried out by the respective Concurrent Auditor. For other Branches, the services of the inspection centre officials/ officer of the same branch conversant with credit portfolio but not working in the credit department /near by branch loans officer/ Zonal Office loans officer shall be utilized.

Special Mention Accounts (SMA):

SMA is an asset which has potential weaknesses and hence deserves close management attention and which can be resolved through timely remedial action. If left uncorrected, the potential weaknesses in the said asset may result in deterioration in the asset classification. With 90 days delinquency norms in place, close monitoring of each and every account is absolutely necessary for maintaining the quality of the asset.

Sub-Categories	Basis for classification: Principal or interest payment or any other amount wholly or partly overdue between
SMA – 0	01-30 Days
SMA – 1	31-60 Days
SMA – 2	61-90 Days

Loan Review Mechanism (LRM):

LRM is an independent assessment, which evaluates the effectiveness of the loan administration, maintains the integrity of the credit rating process, and assesses the loan loss provisions, portfolio quality etc. It examines compliance with extant sanction and post sanction processes / procedures laid down by the bank from time to time. Such a mechanism provides appropriate checks and balances to ensure that loan portfolio is managed in accordance with the bank's policy. Effective credit review helps to detect weakness in credit assessment since the overall credit assessment process tends to be more diligent when subjected to review.

The LRM will focus on approval process, accuracy and timeliness of credit rating assigned, adherence to internal policies and procedures and applicable laws/Regulations, compliance with loan covenants, post sanction follow up, sufficiency of loan documentation, portfolio quality and review of improving portfolio quality.

Coverage under LRM shall not be less than 40% of the standard domestic credit outstanding as on the previous year end..

Credit Audit:

Credit Audit helps us to pick-up early warning signals and suggest remedial measures, also recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

Credit Audit to be conducted by the Inspector of branches / Chartered Accountants as may be decided by CO. Inspection Department.

Category	Limit
Standard borrowal A/Cs with rating of IB-BBB (Obligor) and above	Rs.5 Crore and above
Standard borrowal A/Cs with rating below IB-BBB (Obligor)	Rs.1 Crore and above

Stock Audit:

Stock and book-debt audit should be conducted on yearly basis* (the gap between two such audits should not exceed 15 months) for all advances except NBFC (sanctioned against stocks/books debts as primary security) having aggregate fund based and non-fund based exposure equal to or above the threshold limit as given below

Type of customer		Threshold limit (FB+NFB)
Individual / Partnership Firm	-	1.00 crore
Private Limited Companies	-	1.00 crore
Public Limited Companies	-	5.00 crores

Risk Mitigation

The following Risk Mitigation techniques have been adopted by the Bank

Loan Participation

In order to reduce dependency on a particular sector of economy or group of related borrower, loan participation / risk-sharing arrangement is being practiced.

Ceiling on Exposures

Different exposure limits (like Single / Group Borrower, Large Exposure, Sensitive Sector, Industry-wise etc.,) have been fixed to mitigate concentration risk.

Escrow Mechanism

Escrow Mechanism for meeting the commitments is being stipulated on a case to case basis to mitigate default risk. This will be implemented by collecting Cash Flows (Actual) in accounts under Trust and Retention arrangements

Forward Cover

Where there is no natural hedge, forward cover is suggested to customers in respect of import / export transactions. The forward cover will act as risk mitigation on exchange risk. While sanctioning the facilities, it should be ensured that all the exposures (fund based and non-fund based including letter of comfort / letter of undertaking) in foreign currencies are covered by forward cover. Request for considering waiver of forward cover can be considered only by the functional credit General Managers at Corporate Office for powers up to COLCC (GM). While reviewing the borrowal accounts, hedged and unhedged exposures are to be captured and incorporated in the proposal.

Bank has to calculate incremental capital requirement based on likely loss due to the volatility in foreign currency computed as a percentage of EBID of the entity. If likely loss to EBID is more than 75%, additional 25 % capital should be provided for these entities.

Loan covenants

Standards on stipulation of Loan Covenants are covered in the Loan Policy and the same will form part of Credit Risk Management Policy.

Collateral Security

Sanctioning Authorities may stipulate suitable collateral security where primary security is not considered adequate based on merits of the loan proposal

Insurance cover

The assets charged to the Bank (both primary and collateral) excluding the value of land are to be insured for all the attendant risks incorporating agreed Bank clause with any of the insurance companies approved by Insurance Regulatory and Development Authority (IRDA). Requests for relaxation in the type of insurance cover (i.e., waiver for covering any of the attendant risk(s)) can be considered only by functional Credit General Managers at Corporate Office up to his powers, Executive Director(s) for COLCC (ED) sanctioned accounts and the Managing Director and Chief Executive Officer for CAC / MC sanctioned accounts.

Credit Guarantee Fund Trust Scheme for Micro and Small Enterprises (MSE)

All the eligible MSE accounts shall be covered under the Credit Guarantee Fund Trust Scheme.

ECGC — Export Credit Insurance to Banks: (Pre shipment / Post shipment)

All eligible export finances both pre-shipment / post shipment facilities including bills drawn on associate concerns abroad (except the advances excluded vide Circular No. FX-41/2014-15 dated 19/01/2015) would be covered under ECGC insurance to Banks. In terms of Section 64 VB of the Insurance Act 1938, the insurance premium has to be paid in advance in order to make an insurance cover effective. For Post-shipment credit other than FBN, ECGC buyer-wise policy to be obtained by the Exporter. Powers to Waive ECGC cover is dealt in credit administrative power booklets.

Check Your Progress:

1. Under the Credit Risk Management Policy of our Bank, the entry level rating for a loan application is fixed as
    a. combined rating Not below BBB
    b. obligor/combined rating BB and above only
    c. obligor/combined rating A, AA and AAA only
    d. No specific minimum rating is fixed.

2. Credit Audit will cover one of the following types of loan accounts:
    a. Standard borrowal accounts with a limit of Rs.5 crore and above and having a rating of BBB & below for limits of Rs. 1 crore and above
    b. All standard borrowal accounts
    c. All borrowal accounts with limit of Rs.50 lakh and above
    d. All non performing advances
3. Credit Information Report (CIR) is being provided to the member banks by one of the following agencies:
    a. CRISIL
    b. ICRA
    c. CIBIL
    d. SMERA
4. What is the cut off limit for pre release audit?
    a. Rs. 25Lakhs
    b. Rs.50Lakhs
    c. Rs.10Lakhs
    d. Rs.100Lakhs
5. Who conducts Credit Audit?
    a. Zonal Office Legal Officer
    b. Inspector of branches
    c. Chartered accounts
    d. Either b or c
6. Generally rating under RAM model has to be done

a. Biannually
b. Once in 5years
c. Half yearly
d. Annually

Answers:

1	2	3	4	5	6
a	a	c	b	d	d

Unit: 16

MONITORING OF ADVANCES – WHY & HOW?

Objective:

To make the reader understand various aspects of monitoring of advances starting from selection of borrower, appraisal, disbursement and post sanction follow up. All essentials for maintaining quality credit are discussed in this module.

Content coverage:

The management of credit portfolio at branch has three important stages, viz,

i. Pre-sanction appraisal

ii. Sanction and disbursal

iii. Post sanction/disbursal follow up and monitoring

Pre-sanction appraisal:

Monitoring of credit starts from the selection of the borrower, appraisal and disbursement itself. Careful selection of the borrower and proper appraisal helps in easy monitoring and averts slippage at a later date. Following are the techniques to be followed pre sanction of loan.

Selection of borrower	1. Observe KYC guidelines in letter and spirit. 2. Careful about takeover accounts. 3. Seek the answer to the following questions? a. What is the necessity for approaching our bank? b. Whether it is for better price or better service? c. Is it a game plan of the exit policy of the present banker? 4. Various KYC documents for various types of borrowers
Collection of Papers	1. Latest Salary Certificate & Bank Statement (Statement for last 6 months) / Income Tax Certificate for the last 3years. 2. SME Registration/Udyog Aadhar / Sales Tax/GST return/Certificate under Shops & Establishment Act/Pollution control authority certificates etc. 3. Original documents of the property offered as security including prior documents. 4. Original sanction permits of various Government agencies. 5. Assets and Liability statement of the borrower/guarantor. 6. Audited Financial statements for the last 3 years and other certificates like NetWorth Certificates etc from Chartered

	Accountant. Also verify the authenticity of the auditor firms. 7. Agreements between the seller/buyer of the property in case of home loan and other such loans. 8. Quotations in original – Also verify the supplier of the machinery / other items to ascertain whether such suppliers are available or not and the rates quoted are reasonable 9. Collect Credit Information Report of CIBIL to know the details of loans availed by the applicant
Legal Opinion	Legal opinion must be unqualified. No middleman be entertained in respect of obtention of legal opinion, EC; The advocate must make a visit to SRO and must submit “Certificate of Genuineness of Title deeds”. Legal opinion from two panel advocates in respect of advances of Rs.100.00 lakhs and above to be obtained.
Engineer’s valuation	Engineer - must visit the property. Boundaries should be verified and certified in the report, make discreet enquiries, Approved sanction plan to be verified for its genuineness. Two valuations to be obtained 1) if the property value is more than Rs. 50 Lakhs 2) Structured products (other than MSME) with exposure of Rs 1 crore and above 3) Non structured product loans and MSME structured product loans with exposure of Rs 5 crore and above. The lower of the two valuations will be considered.
Verification of property	Verify property independently before sanction and record enquiries made property to be identified with boundaries, photographed and recorded.

Sanction and disbursal:

Assessment of Credit	• Up to 500 lakhs: Apply turnover method and above 500 lakhs apply MPBF Second method. • Analyze balance sheet – Regroup the items under different heads like Net worth, Long Term Liabilities, Current Liabilities, Fixed Assets, Noncurrent assets, Intangible assets, Current assets etc. • Assess the value of the property offered. • Credit Assessment of SLPs as per norms
Compliance of sanction terms	Ensure compliance of sanctioned terms and conditions. Verify the rate of Interest, Credit facilities, period, Margin, Documents taken, Charges to be created, obtain Guarantees, Securities, collect processing charges and obtain acknowledgement of sanction terms.
Pre-release Audit	Pre-release Audit for all advances (fresh or enhancement) of Rs. 50 Lakhs and above.

Legal Audit	➢ Legal audit for accounts of Rs. 100 lakhs and above, where mortgage of property is involved ➢ 100% filling up of the documents. ➢ Stamp to be affixed and cancelled. ➢ Insist for original company board resolution for signing of the documents. ➢ Ensure that no impersonation takes place. ➢ Creation of whatever charges required. ➢ Register EM charges with Central Registry'&Sub Registrar's Office. ➢ Charged assets should be insured.
Disbursal	➢ Release the loan as per sanction ticket. ➢ Insist on Money receipt. ➢ Check end use ➢ Bank shall stipulate appropriate conditions to ensure creation of assets, verification and end use of funds along with documentary proof such as LIE report, CA certificate, Chartered Engineer Certificate etc. followed by Inspection by Bank officials / independent outside agency as may deem fit.

Post-sanction Follow-up

The post sanction follow up has the following steps / procedures.

Disbursal	Disbursal of advances/allowing operations of limits can be made only after obtaining all cover documents and securities prescribed by documentation manual/Sanction ticket. The documents should be duly filled in and properly stamped before obtaining the signature of the borrowers. Pre-release Audit / Legal Audit should be completed.
Ensure end use	Verify whether the advance granted is used for the purpose for which it is raised. In case of advances for purchase of equipment/machinery/vehicle/other movable assets, the cost price of such articles should be sent directly to supplier of goods. The delivery of articles by the supplier to the borrower should be ensured. On arrival of equipment or machinery etc. a visit to the factory/premises of the borrower should be made to ensure the equipment/machinery is installed and is in working condition. The cash receipt/bill should be kept with our records.
Insurance	Insurance against fire, strike, riot and wherever necessary burglary risks covering the goods/articles/machinery/immovable property taken as primary or collateral security should be taken. Due date of expiry of insurance policies covering our securities is to be diarized and action should be taken for renewal of such policies well in time.
Submission of Stock statements	Borrowers should submit a stock statement showing the quantity and value of stocks hypothecated to the bank. The stock statement should clearly show value of unpaid stock, stocks under DA/LC etc.

Periodical valuation of securities	Review valuation of securities pledged periodically. Any short fall should be recovered from the borrower(s).
Stock Audit	➢ Working Capital limit for individuals / Partnership / Private Ltd. Co of Rs.1Crore and above and Public Ltd Co. of Rs. 5 Crores and above. ➢ Periodicity once in a year (Gap between two audits should not be more than 15 months) ➢ Record observation on each post sanction visits. ➢ Insist for the margin before disbursal as per sanction terms ➢ Stock Audit to be conducted by Auditors
Credit Audit	➢ Standard borrowal accounts with a limit of Rs.5 crore and above and having a rating of “BBB” and below of Rs.1 crore and above is to be covered under Credit Audit. ➢ Credit Audit to be conducted by the Inspector of branches / Chartered Accountants as may be decided by HO. Inspection Department. The reports are to be submitted to the branch / Zonal Office / Inspection Centre / HO. Functional Credit Departments and HO. Credit Monitoring Department (in case of accounts under HO powers).
Review / Renewal	➢ Working capital limit to be renewed every year. ➢ Review of the term loan /working capital to be done once in 6 months

Follow up

- Obtain post-dated EMI checks.
- Verify the SMA statements
- Keep all the details (e-mail, mobile, landline etc) of the borrower in your data bank.
- In the first month of nonpayment itself call the borrower and if necessary immediately meet him.
- Form a small recovery team at the branch.
- At least two persons in the branch should know the place and details about all the SMA/NPA borrowers.
- Do regular inspection visits to the office/unit and regular interaction with the MD/FM.
- Do follow up for submission of MSOD, QIS and CRM should prepare his monthly statements regularly and submit.

- Verify whether statutory dues to Electricity board, Tax authorities, ESI etc are being paid correctly.
- Find any cases against the company are pending, new cases filed if any.
- Find what the share price movements in the stock market are.

Special Mention Accounts (SMA):

SMA is an asset which has potential weaknesses, hence deserves close management attention and which can be resolved through timely remedial action. If left uncorrected, the potential weaknesses in the said asset may result in deterioration in the asset classification. With 90 days delinquency norms in place, close monitoring of each and every account is absolutely necessary for maintaining the quality of the asset.

Features used for identification of SMA.

a. Default in payment of interest / installment
b. Persisting irregularities due to excess drawl in Cash Credit account.
c. Shortfall in DP in Cash Credit account not regularized.
d. Devolvement of LC/DPG installment and non-payment of the same
e. Non-creation of Primary securities affecting the ultimate recovery prospects in the account.
f. Delayed / Non-submission of stock statements, other monthly information data
g. Decline in production activity below the accepted level.
h. Accounts remaining without review / renewal beyond due date.
i. Any other feature considered requiring attention of higher authorities.
j. Continuous overdue in Bills facility.
k. BP returned unpaid outstanding.

Check Your Progress:

1. Monitoring of credit starts at the time of

a. Sanction of loan
b. Selection of borrower
c. Processing of loan application
d. After Disbursement of loan

2. Legal Audit has to be done for all loans

a. with sanctioned limits of Rs. 100 Lakhs and above
b. with both fund based and non fund based limits of Rs. 50 Cores and above
c. If the value of the mortgaged property is Rs. 50 Lakhs and above
d. If the both mortgaged property value and sanctioned limits are Rs. 50 Lakhs and above

3. An account finds place in SMA on account of

a. failure of payment of installment
b. failure of payment of interest
c. failure of payment of both installment and interest
d. failure of payment of either interest or installment

4. An account slips to SMA -1 if the interest or installment is due for more than

a. 90 days
b. 60 days
c. 30 days
d. No account will slip into SMS because of nonpayment of interest /installment

5. Pre-release Audit is compulsory for all accounts with sanctioned limits of

a. 50 Lakhs
b. 25 Lakhs
c. 10 Lakhs
d. All loans irrespective of limit sanctioned

6. Stock audit for a private limited company should be done once in a year, if the working capital limit sanctioned is more than

a. Rs. 1 Crore
b. Rs 2 Crores
c. Rs. 5 Crores
d. Rs. 10 Crores

7. When an account slips to SMA even if there is no overdue in the account

a. Accounts remaining without review / renewal beyond due date
b. Non-submission of stock statements.
c. Decline in production activity below the accepted level
d. All the above

8. An account in SMA slips into NPA if not recovered within 90days

a. No it will continue to be in SMA till recovery
b. Yes. If not recovered within 90 days it will slip into NPA
c. SMA position do not have any relation with NPA
d. Once in SMA automatically slips into NPA

9. An SMA account can become a performing asset on account of

a. Recovery of full amount
b. Recovery of critical amount
c. Recovery of overdue
d. Once slipped to SMA cannot become performing asset

Answers:

1	2	3	4	5	6	7	8	9
b	a	d	c	a	a	d	b	b

CHECK LISTS

CHECK LIST FOR HOME LOAN / PLOT LOAN – RESIDENT / NRI

Application:

- Application for Home Loan duly filled in pasted with Passport size photo of Applicant/s and Guarantor
- Assets and Liabilities statement of Applicant/s and guarantor with details of existing liabilities if any with other Bank/s/FIs
- Guarantor's form

KYC:

- Address proof, identity proof and pan card copy of Applicant/s and guarantor
- In case of NRI, copy of Passport, valid visa and work permit
- Proof of business address in respect of businessmen.

Employment details

- Proof of employment for minimum 3years experience.
- Where service is less than 3 years proof for the previous employment experience.
- If employed in a private concern, company profile of the employer to ascertain the Standing/status of the company
- For NRI – copy of employment contract for the remaining period of service.

Financial papers:

- Salary certificate for 6 months for Applicant/s.
- Form 16 or ITR for immediate preceding 3 years with income computation sheet.
- Proof of other income like rent, interest on investment if any.
- Statement of Bank accounts for 6 months for verifying salary credit / other income etc.
- In case of Professionals / businessmen, ITR for immediate preceding 3 years and Balance Sheet for 3 years.

Property related documents:

- Original document of title to the property
- Prior documents (parent documents) for 13 years if originals are available for perusal. Otherwise, certified copies of documents of title deeds for a minimum period of 30years.
- Whenever the Legal Scrutiny Report given by our Panel Advocate states that the applicant has got/will derive good, valid, clear, absolute, perfect and marketable title over the property based on the title deed (e.g. Sale Deed, etc registered with Sub-Registrar Office) acquired/to be acquired by the applicant, Patta/Possession Certificate/Location Certificate (as the case may be) need not be insisted upon, if the same is not available.
- EC for 13 years.
- No objection certificate and other documents issued by builders or other organizations / department/ institutions (wherever applicable)
- Latest Tax paid Receipts wherever applicable
- Sale Agreement
- Registered / adjudicated power of Attorney as per approved format if documents are to be executed By PA Holder.
- Construction agreement in case of Flats under construction
- In case of construction of house/ Repairs and Renovation, Estimation duly approved by Panel Engineer
- Approved Building Plan duly endorsed by the Panel valuer and planning permit duly signed by the competent authority.

- In case of Plot loan, copy of approved lay out of the plots (duly approved by the competent authority).

In case of takeover

- copy of original sanction letter, Additional sanction ticket if any, (including top up loans)
- Latest Balance outstanding letter from the erstwhile lending institution.
- Confirmation from the lending institution that the account is a Standard asset and the balance outstanding is in order
- List of documents held with the erstwhile Bank
- Latest property tax and other statutory tax paid receipts.
- Statement of Home Loan account from the date of availment

CHECK LIST FOR VEHICLE LOANS

APPLICATION:

- Application for Vehicle Loan duly filled in pasted with Passport size Photo of the Applicant/sand Guarantor/s
- Assets and Liabilities statement of Applicant/s and Guarantor/s with details of existing liabilities if any with other Bank/s/FIs
- Guarantor's form duly filled in by the Guarantor/s

KYC:

- Address proof, identity proof and pan card copy of Applicant/s and Guarantor/s
- In case of NRI, copy of Passport, valid visa and work permit
- Proof of business address in respect of self-employed / Professional / Businessmen / Firms / Limited Companies

EMPLOYMENT DETAILS:

- Proof of employment for minimum 2 years' experience for 4-wheeler loans and one-year experience for 2-wheeler loans.
- Where service in the current employment is less the above stipulation - proof of the previous employment experience.
- If employed in a private concern, company profile of the employer to ascertain the Standing /status of the company
- For all the salaried class applicants - a copy of the confirmation letter.
- For NRI – latest employment contract indicating residual contract period of not less than 3 years.
- Assets and liabilities Statement in the Bank's format from applicant(s), co-applicant(s) and guarantor(s).

FINANCIAL PAPERS:

- Salary slips/Salary Certificate for 6 months for Applicant/Guarantor
- Form 16 or ITR for immediate preceding 2 years with income computation sheet.
- Proof of other income like rent, interest on investment, if any.
- Salaried Class / Pensioners - Statement of Bank accounts for 6 months for verifying salary/pension credit/other income etc.
- In case of Self-employed / Professionals / Businessmen, ITR & Balance Sheet for immediately preceding 2 years.

OTHER PAPERS

- Quotation for the vehicle to be purchased from a reputed dealer.
- Driving license is mandatory for two wheelers, and optional for four wheelers.
- In case of old Vehicles, valuation to be done by Automobile Association of

India/reputed Automobile Engineer/Valuer acceptable to the Bank; if the car is sold by any original automobile manufacturer like M/s. Maruti True Value, no valuation certificate is required.

- EMI details of existing liabilities, if any, with other Banks.
- In case of NRI undertaking letter as to the usage of vehicle in India.

Check List for Educational Loan Proposal under IBA Scheme

Sl No.	Particulars	For studies in India	For studies Abroad	Whether furnished
1	**2**	**3**	**4**	**5**
1.	Proof for residence	Xerox copies of Ration card or Voters Identity card or Passport or Electricity or Telephone bill or any such document acceptable to the bank.	Same as in Col.3	Yes / No
2.	Academic record	Copy of the Xth std / XIIth std mark list for under graduates, Degree mark list / provisional certificate for post graduates	Same as in Col.3	Yes / No
3.	a. Date of birth /age b. Community (for statistical purpose only)	SSLC / TC / Mark List Community Certificate	Same as in Col.3 besides Passport	Yes / No
4.	Family income	Salary certificate / Pension Certificate / Auditor's certificate in case of business category / IT return filed/ any other proof for the income stated	Same as in Col.3	Yes / No
5.	Admission	Admission letter / Bonafide student certificate from the College / University	Certificate / I 20 from the College / University	Yes / No
6.	Fee Structure	Letter / Certificate from the College / University	Certificate / I 20 from the College / University	Yes / No
7.	Passport / VISA	Not applicable	Copies to be enclosed.	Yes / No
8.	Guarantee/Co-obligation	Parent's/Guardian's Co-obligation furnished	Same as in Col.3	Yes / No
9.	Collateral, wherever required	LIC Policy / Share certificates / Units of UTI etc., Valuation certificate from Bank's approved panel valuer and legal opinion from Bank's panel advocate in case of land/buildings	Same as in Col.3	Yes / No
10.	Margin – (Above Rs.4.00 lacs) For studies in India: 5% For studies abroad:15%	Details regarding source of funds for meeting the margin furnished along with documentary evidence.	Same as in Col.3	Yes / No

11.	Declaration / affidavit stating that no Educational Loan is availed from any other bank by the applicant and his parent	Submitted	Submitted	Yes / No
12.	Documents to be enclosed	a) A & L of the student / parent / guardian / guarantor b) Details of securities as in Col.9	Same as in Col.3	Yes / No

<u>Check List for MSME Fresh Proposal</u>

1. Application Form duly filled in & Photograph affixed thereon.
2. Profile of the unit (includes names of promoters, other directors of the company, the activity being undertaken, addresses of all offices and plants, share holding pattern etc)
3. Detailed Project report
4. Performance of the firm/unit/company from April up to date
5. KYC documents: Aadhar/Pan Card/Passport/ Voter's ID Card / Driving license/Latest Telephone bill/Electricity Bill of the applicant/s, guarantor/s.
6. A & L and Credit report as per latest format for individual/proprietor/partner/ Director.
7. Past (latest) three years - ITR along with ABS (3CB/3CD- wherever applicable) of individual/proprietor/partner/Director & one year for Guarantor.
8. CMA data for 5 years (Actuals 2 years + projection, estimation for next 3 years)
9. Scoring/Rating
10. Business Proof: GST Certificate with annexure/Udyog Aadhar/Udyam Registration/ DIN/CIN/Firm Registration certificate/PAN.
11. GST returns (GSTR1 & 3B) for previous F.Y and up to date for current F.Y
12. Business Address Proof: Copy of Title Deed/Telephone, EB bills/TPR or rental agreement.
13. Partnership Deed duly registered at SRO and firm with Registrar of Firms, MOA/ROA – for company
14. Latest Stock/book debt (tenor wise certified by Auditors)/sundry creditor details.
15. Copies of mandatory licenses such as clearance from PCB/Environment Dept (Wherever applicable) & other statutory approvals to run the business if any.
16. In case of existing business & Name of the present Bankers, copy of statement of business account for past one year.
17. Invoices/quotations for machinery to be purchased – for term loan
18. DDR/Unit Visit/Residence visit/EM property Visit report as per prescribed format.
19. Details of collateral security to be offered with latest EC *<u>(LSR & EVR will be taken at borrower's cost, if the proposal is acceptable upon scrutiny of the above)</u>*

<u>For Enhancement of limits/Review Renewal & Takeover: Along with documents listed above:</u>

20. Copy of the sanction letter for original (first) sanction, latest review renewal/enhancement of accounts with our Branches & *<u>from the present bankers (for takeover)</u>*
21. Compliance of previous sanction terms/Audit/Inspection/LFAR etc.,
22. <u>Reason for Statement of loan account right from the beginning</u> *(for takeover)*
23. *<u>CIR from existing banker in case of takeover.</u>*
24. Position of accounts from the existing bankers and confirmation about asset being standard with them *<u>(in case of takeover)</u>*
25. Details of Associate Concern/ Family Concerns and their Bankers if any