Saraswat Bank

Saraswat Co-operative Bank Ltd.

(Scheduled Bank)

Policy on Lending to MSMEs and Rehabilitation of MSMEs

A) Lending to MSMEs

Definition of Micro, Small and Medium Enterprises:

MSME Act, 2006 enacted by the Government of India in June 2006, lays down the definition of MSME for industrial and service enterprises as under:

Business enterprises Classification	Original Investment in plant and machinery	Original Investment in Equipment
	Industrial Enterprises	**Service Enterprises**
Micro	**Upto Rs 25 lacs**	**Upto Rs 10.00 lacs**
Small	**>Rs25 lacs & Upto Rs.5 crores**	**>Rs.10 lacs &upto Rs. 2 crores**
Medium	**>Rs.5 crores & upto Rs.10- crores**	**>Rs.2 crores & upto Rs. 5 crores**

A Micro manufacturing Enterprise is further classified as Micro 1 and Micro 2.

- Micro 1 is defined as an enterprise wherein Investment in Plant & Machinery is up to Rs. 5.00 lacs & Micro – 2 wherein Investment in Plant & Machinery is between Rs. 5.00 lacs and Rs. 25.00 lacs.
- A micro service enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh; (Micro Service Enterprise is further classified as Micro – 1 wherein investment in equipment is up to Rs. 2 Lacs & Micro – 2 wherein investment in equipment is between Rs. 2.00 Lacs to Rs. 10.00 lacs.)

- A small service enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; A medium service is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crores.

Accordingly, in the light of the recommendations of the Group and the Banking Codes Standards Board of India's Code of Commitment for the MSME borrowers, the Bank will lend to the MSMEs through various specially designed products the details of which are enumerated below:

The Bank will finance MSMEs by way of fund based & non-fund based facilities.

a) Cash Credit :

The Bank will provide working capital finance based on the operating cycle for each type of the MSME activity under the following methods:

i. MPBF Method: Working Capital needs will be assessed on the concept of Maximum Permissible Bank Finance (MPBF).

ii. Turnover Method: For accounts with annual Turnover up to ₹ 100.00 lacs or limits upto ₹ 25.00 lacs, the maximum limit will be based on the Turnover method.

iii. Cash Flow Method: The Bank will consider assessing the working capital requirements on cash flow method by adopting Cash Budgeting Method. In such cases the borrowers will satisfy the Bank that they have necessary infrastructure in place to submit the required information periodically on time.

b) Negotiation/Discounting of Bills under Letter of Credit (LCBD)

- The Bank will provide the borrowers' negotiation/ discounting of bills under Letters of Credit. Their requirements will be assessed on the basis of volume of sales under Letters of Credit and the payment terms of the Letters of Credit.

- The discounting/negotiation of bills under Letters of Credit will be restricted to the following two categories only:

  a. Negotiation of bills under Letters of Credit for borrowers

  b. Bills drawn under our own Letters of Credit subject to the beneficiary who are not our borrowers but became a member of the Bank.

- LCBD business will be undertaken only at specified branches as intimated from time to time.

- Discounting / negotiation of bills drawn under the Letters of credit of other bank for non borrowers **will not be entertained**.

c) Working Capital Demand Loan:

The Bank will provide Working Capital Demand Loan, a system of delivery of bank credit for ensuring better rationalization in the system of credit administration in banks, instill efficiency in funds management and bestow cost-benefit to the borrowers. The actual “loan component” will be determined in consultation with the borrowers. The Bank will decide on the loan component by offering competitive rate to ensure optimum utilization.

d) Term Loan:

The Bank will provide Term Loans with period of repayment ranging from over three years to a maximum of 10 years to support projects and also for acquiring of capital goods. For infrastructure projects the repayment period will be considered up to 12 years.

Term Loans will be assessed on the following parameters:

- Cost of project,
- Value of land and building - considering the location, type of construction.
- Large size projects
- The Bank normally will consider repayment period of 7 years. However, the same will be extended upto 10 years in deserving cases.
- The computation of moratorium period will be based on any of the criteria like first drawal date, the date of commencement of trial/commercial production, reaching break even level of sales etc.

e) Deferred Guarantees :

The Bank will provide Deferred Payment Guarantees instead of Term Loans to acquire capital goods. The requirement of Deferred Payment Guarantee will be processed on the lines of appraisal of Term Loan requirement with due consideration to DSCR, security and repayment capability of the borrower/ project. In the normal course the period of the Deferred Payment Guarantee will not exceed 5 years.

f) Line of Credit for Fixed Assets:

The Bank will provide Line of Credit to MSME borrowers who require continuous investment in fixed assets which might not be in the form of main assets but ancillaries required by them from time to time. This facility will be provided to avoid diversion of funds. The Line of Credit will be released for purchase of income generating minor fixed assets. The payment will be made directly to the vendors against proper

invoice. Own margin will be brought in by the borrower as per the norms.

g) Standby Line of Credit (SLC):

The Bank will provide Standby Line of Credit as an additional limit which will be assessed along with Working Capital limits to meet financial contingencies / liquidity mismatches.

h) Corporate Loan:

The Bank will provide Corporate Loans for any genuine commercial purpose as stated below:

- Shoring up the net working capital (NWC).
- Ongoing capital expenditure such as replacement of parts of machines, upgradation, renovation etc.
- Repayment of high cost debt.
- Research and development expenditure
- Acquisition of tools and jigs etc.
- Implementing voluntary retirement scheme in the company.
- Acquisition of trade marks/patents/ brand equity (in exceptional cases only).

i) Overdraft Facility Under Gupt Dhan Yojana (GDY):

The Bank will provide a specially designed product named as Overdraft Limit under GDY Scheme to satisfy the financial needs of the individual as well as that of the business enterprises for providing timely assistance to meet the financial contingencies. The potential borrower's CIBIL records are pursued. The brief details of the GDY scheme are stated below:

Type of Facility	Overdraft Limit
Eligibility	A self employed or a business entrepreneur who is having an established practice or business for the last 3 years and having contractual capacity to execute the required documents in the Bank's favour. An individual who is in employment for the last 3 years.
Limit	Minimum – ₹ 10.00 lacs Maximum – ₹ 200.00 lacs
Income Criteria	Equivalent to ISCR>2.5 (last two years average income)
Validity of sanction	Limit can be availed within 3 months from the date of sanction.

Commitment / Prepayment charges	No commitment for unavailed portion.
Security	i. Equitable / legal mortgage of unencumbered residential / commercial property. ii. Personal guarantee of all the owners of property. If property is in single name then personal guarantee of the spouse or of family member or of third party individual of acceptable means.
Repayment Period	Repayable on demand subject to annual review/renewal.
Shareholding	2.5% of the loan amount. Maximum 2500 shares. Guarantor to be admitted as a nominal member.
Valuation of the property	The property offered as security to be valued by Bank's approved valuer. The building should not be more than 25 years old and residual life of the building should be minimum 15 years.
Legal Opinion	Legal opinion on the property to be obtained from Bank's Legal Dept. or from Bank's approved advocate.
Insurance	Security charged to the Bank to be comprehensively insured with Bank's clause. Premium to be borne by the borrower.
Application	Customer has to apply in a prescribed application form with all relevant documents.

j) Bank Guarantee:

The Bank will provide Bank Guarantees of various types like Performance Guarantees, Bid-Bond Guarantees, Earnest Money Guarantees, Security Deposit Guarantees, Advance payment guarantees, etc. As a normal practice, the period of Bank Guarantee will not exceed 3 years.

k) Buyers Credit:

The Bank will provide Buyers Credit through a Line of Credit established with overseas banks. Buyer's Credit refers to loans for payment of imports into India arranged on behalf of the importer through an overseas bank. Based on the Letter of Undertaking of the Importer's bank, the overseas bank credits the nostro of the importer's bank. The Importer's bank uses the funds and makes the payment to the Suppliers bank against the import bill on due date.

I) Packing Credit / Post Shipment:

The Bank will provide Packing Credit / Post Shipment for export activities.. Packing Credit advance will normally be granted, against confirmed order or Letters of Credit in favour of the supplier in India issued by the overseas buyer, for procurement of raw material, conversion and also all expenses connected till the time the finished product is placed on board for shipment. Post shipment finance will be extended against shipping documents drawn on the basis of export order or as per documents stipulated under the export Letter of Credit. Export finance will be extended in Indian rupees or in foreign currency.

(B) Rehabilitation for MSMEs

The Bank will provide Rehabilitation to MSME borrowers by undertaking restructuring / rehabilitation in line with the guidelines / instructions contained in RBI Master Circular No. RBI/2013-14/18 UBD.BPD.(PCB) MC No.3 /09.14.000/2013-14 July 1, 2013 on Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs and RBI/2013-14/20 UBD.BPD.(PCB) MC No.5 /13.05.000/2013-14 July 1, 2013 on Master Circular- Management of Advances – UCBs.