



## SME POLICY 2007

### **BANK'S POLICY IN RESPECT OF LENDING TO SME SECTOR**

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#### **1. PREAMBLE**

SME is fast growing sector in the Indian Economy. Every Bank has given highest importance to financing SMEs in their strategical growth plan. It has become necessary to bring policy shift and create free market environment from regulations & interventions in economic activity. Growth resulting from globalization and liberalization is visible most profoundly in the SME segment. The relationship between the banker and the customer has become most crucial and competitive. The technology has entered the scene almost as a natural corollary of liberalization. Liberalized policies provide ample opportunities to Indian Market to compete with developed and developing countries. The clearance of the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 is a turning point for the development of Indian industry, as it addresses and streamlines entire frame work along with key governance & operational issues being faced by the SMEs.

The SME segment is broadly classified as under:

Particulars	Investment in Plant & Machineries of Manufacturing Enterprises	Investment in Equipments of Service Sector Enterprises
<b>Micro Enterprises</b>	<b>Upto Rs. 25/- lacs</b>	<b>Upto Rs.10/- lacs</b>
<b>Small Enterprises</b>	<b>Above Rs. 25/- lacs and upto Rs.500/- lacs</b>	<b>Above Rs.10/- lacs and upto Rs.200/- lacs</b>
<b>Medium Enterprises</b>	<b>Above Rs.500/- lacs and upto Rs.1000/- lacs</b>	<b>Above Rs.200/- lacs and up to Rs.500/- lacs</b>

#### **2. OBJECTIVES**

The SME Loan Policy is framed with the following objectives:

- To improve flow of credit to SME Sector so as to double the credit to the Sector in 5 years, i.e. by the year 2010.
- To formulate liberal norms of lending to SME sector, to ensure availability of adequate and timely credit to the sector.
- To provide guidelines to the branches to dispense credit to SME Sector on liberalized terms.
- To devise an organizational structure at all levels for handling SME credit portfolio in a more focused manner.

- To comply with terms of Policy package announced by Hon'ble Union Finance Minister on 10.08.2005 and further guidelines received from Reserve Bank of India from time to time for implementation of the Policy Package.

### 3. SCOPE OF POLICY

This Policy will form a part of Bank's Domestic Loan Policy and will interalia cover following:

- Composition of SME Sector
- Broad guidelines on lending to SME Sector
- SME Loan Factory Model
- Pricing Policy
- Identifying Thrust Industries

### 4. SMALL & MEDIUM ENTERPRISES SECTOR

#### Manufacturing Industries

1. **Micro Enterprise** is an enterprise where investment in plant and machinery (original cost excluding land and building and the items specified by the erstwhile Ministry of Small Scale Industries) does not exceed Rs. 25.00 Lacs
2. **Small Enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the erstwhile Ministry of Small Scale Industries) is more than Rs. 25.00 lacs but does not exceed Rs. 5.00 crores and
3. **Medium Enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the specified items) is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.

#### Service Sector

Enterprises engaged in providing or rendering services whose investments in equipment (original cost excluding land & Building and Furniture, Fittings and other items not directly related to the service rendered or as may be notified under MSMED Act, 2006) are as detailed here under:

- 1) **Micro Enterprise** is an enterprise where the investment in equipment does not exceed Rs. 10.00 lacs;
- 2) **Small Enterprise** is an enterprise where the investment in equipment is more than Rs.10.00 lacs but does not exceed Rs. 2.00 crores and
- 3) **Medium Enterprise** is an enterprise where the investment in equipment is more than Rs. 2.00 crores but does not exceed Rs. 5.00 crores.

Units with investment in plant and machinery in excess of Rs 5.00 crores & upto Rs 10.00 crores in case of manufacturing units and in excess of Rs 2.00 crores & upto Rs 5.00 crores in respect of Service Sector will be treated as Medium Enterprises (ME) and will not form the part of Priority Sector advance. Financing to Micro & Small Enterprises will only be treated as part of Priority Sector advance.

## 5. COMPOSITION OF SME SECTOR

The SME Sector includes Micro Enterprises, Small Enterprises, Artisans & Village Industries, Medium Enterprises, Service Sector units & individual sub-sector units.

### a. **Micro Enterprises :**

Micro Enterprises are those engaged in manufacturing, processing, preservation of goods, mining, quarrying, servicing & repairing of specified type of machinery & equipment, agro service units whose investment in Plant and Machineries does not exceed Rs. 25.00 lacs irrespective of location of the unit in respect of manufacturing units and investment in equipments not exceeding Rs 10.00 lacs in respect of Service Sector units.

### b. **Small Enterprises :**

A Small Enterprise industrial undertaking / unit is one which is engaged in the manufacture, processing or preservation of goods or is a servicing and repair workshop undertaking repairs of machinery used for production, mining or quarrying or custom service unit (except water service units), having investment in Plant and Machineries (original cost) above Rs 25.00 lacs but not exceeding Rs. 5.00 crores in respect of manufacturing unit and above Ra 10.00 lacs but not exceeding Rs 2.00 crores in respect of Service Sector unit.

### c. **Medium Enterprises :**

A Unit which is engaged in the manufacture, processing or preservation of goods or is a servicing and repair workshop undertaking repairs of machinery used for production, mining or quarrying or custom service unit (except water service units), with investment in Plant & Machinery in excess of Rs 5.00 crores and upto Rs.10.00 crores in respect of manufacturing units and investment in equipments in excess of Rs 2.00 crores and upto Rs 5.00 crores in respect of Service Sector units will be treated as Medium Enterprises (MEs).

#### **Note:**

Bank's lending to Medium Enterprises will not be included for the purpose of reckoning advance under the priority sector.

## 6. OUR BANK'S APPROACH TO SME SECTOR

- SMEs are growth engines for development of Economy.
- There are many advantages for the banking industries in financing SMEs.
- Our bank has therefore for internal purposes given focused attention to all Commercial Units, including units which may be outside the purview of statutory definition of SME but having turnover upto Rs 100.00 crores by treating them as part of SME segment.
- However, such units, which are outside the purview of statutory definition, will not form part of Priority Sector lending.

## 7. ESTABLISHMENT OF SME LOAN FACTORIES

**Business Model on assembly line is adopted by the bank for SME segment by establishing separate Hub for Centralized Processing of SME proposals. This model is named as "SME LOAN FACTORY".**

## 8. COMPUTATION OF VALUE OF INVESTMENT IN PLANT AND MACHINERY

- Investment under head 'Plant and Machinery' should include **the original price of every productive item** irrespective of whether new or second hand, acquired and proposed to be acquired, whether on lease or hire purchase, or on ownership basis by the industrial undertaking, irrespective of the manner in which the cost has been shown in its books.
- For computing the value of the investment in Plant and Machinery, cost of the following items should be included:
  1. Original cost of Plant and Machinery (price paid by the owner / hirer / lessor).
  2. Cost of control panels, starters, Electric Motors, other electrical accessories mounted on individual machines.
  3. Cost of only those testing and quality control equipments, which are, used for/in process testing.
- **Cost of following items should be excluded:**
  - I. Equipments such as Tools, Jigs, Dies, Moulds, and Spares for maintenance and cost of Consumable Stores.
  - II. Installation of P & M
  - III. Research & Development Equipments and Pollution Control Equipments
  - IV. Power Generation Set and extra Transformer installed
  - V. Bank Charges and Service Charges paid to the NSIC or to the State Small Industries Corporation

- VI. Fire Fighting Equipments
- VII. Cables, Wires for safety measures
- VIII. Gas producer Plants
- IX. Transportation Charges for indigenous Machineries
- X. Technical Know-how Fees
- XI. Storage Tanks not linked to manufacturing activities but are used for storing of Raw material and Finished Goods.

● **In the case of imported machinery following should be included:**

- I. Import duty.
- II. The shipping charges.
- III. Custom clearance charges.
- IV. Sales tax.

**9. TARGETS FOR SME SECTOR /PRIORITY SECTOR LENDING**

- Banks are advised to fix their own target in order to achieve a minimum 20% YOY growth over the SME advances as of March, 2005 so as to double flow of credit to SME sector by the year 2009-10.
- Sub-targets for lending to Micro Enterprises within the Small Enterprises, which are included under Priority Sector lending, are as under :
  - a. 40% of total advances to Small Enterprises Sector should go to Micro (Manufacturing) enterprises having investment in Plant and Machinery upto Rs. 5/- lacs and Micro (Service) Enterprises having investment in equipment upto Rs. 2/- lacs;
  - b. 20% of total advances to Small Enterprises Sector should go to Micro (Manufacturing) Enterprises with investment in Plant and Machinery above Rs. 5/- lacs and upto Rs. 25/- lacs, and Micro (Service) Enterprises with investment in equipment above Rs. 2/- lacs and upto Rs. 10/- lacs. (Thus, 60% of Small Enterprises advances should go to Micro Enterprises).

**10.COMMON GUIDELINES/INSTRUCTIONS FOR LENDING TO SME SECTOR:**

**1. Application Forms for Financial Assistance:**

- Application forms in use to grant credit facilities are detailed as under :

I.	Application form for credit facilities upto Rs.10/- lacs.
II.	Application form for credit facilities of over Rs. 10/- lacs and upto Rs.50/- lacs.
III.	Application form for credit facilities of over Rs. 50/- lacs and upto Rs. 2/- crore.
IV.	Application form for credit facilities over Rs. 2/- crore.

- Application forms as aforesaid are devised for assistance by way of either term loans or working capital or both and are applicable to new projects, expansion, diversification and modernisation of existing projects.
- Bank is in process of devising application forms for ME units and will be provided to the branches on its approval by the competent authorities. In the meantime, above forms may be used for ME units also.

## 2. Receipt of applications and acknowledgment:

With a view to facilitate timely sanction of adequate credit facilities, the following guidelines have been issued to the branches:

- An acknowledgment with the date of receipt for credit application received to be given. A definite date to be intimated to the applicant for discussions, clarifications etc. if considered necessary.
- The bank's decision regarding credit assistance to be communicated to the applicant within the prescribed period.

## 3. Register of Credit Applications Received:

All applications received should be entered in a "Register of Loan Applications Received" for recording therein the complete particulars such as date of sanction, rejection, reasons for rejection etc.

## 4. Time norms for disposal of loan applications:

In order to provide better customer service and to ensure that applications for loans for all categories of borrowers are dealt with and disposed off expeditiously, the following norms shall be adhered to, provided the loan applications received are complete in all respects and duly accompanied by a check list.

- In respect of loans upto Rs.25,000/- within a maximum period of **one week** of receipt of loan applications complete in all the respects and duly accompanied by a check list.
- In respect of other cases for loans above Rs.25,000/- and upto Rs.5.00 lacs, within a maximum period of **two weeks** on receipt of duly completed loan applications in all the respects and accompanied by a checklist.
- In respect of loans over Rs. 5.00 lacs, within a maximum period of **4 weeks** on receipt of duly completed loan applications in all respects and accompanied by a check list.
- In respect of credit applications processed at SME loan Factories, it should be disposed off within **14 working days** on receipt of full information if no TEV study is required and within **21 working days** on receipt of full information if TEV study is required.

## 5. Types of Facilities:

SME Units may be granted a variety of credit facilities for their different needs which will include the following:

**(a) Term Loan / Demand loan / Deferred Payment Guarantee:**

For acquisition of capital goods (including second hand), fixed assets, vehicles, plant & machinery, purchase of land, construction of buildings etc.

**(b) Working Capital by way of Cash Credit, Overdraft etc for:**

1. Purchase of raw material, components, stores, spares and maintenance of stock of these items at minimum level and stock in process and finished goods.
2. Finance against receivables including receipted challans / invoices.
3. Meeting marketing expenses where the units have to incur large-scale expenditure towards marketing of their products.

**(c) Bills Purchase / Discounting under L/C or outside L/c.**

**(d) Export Credit facilities like Packing Credit, FBP / UFBP.**

**(e) Letter of Credit on sight/usance basis for purchase of raw material/capital goods**

**(f) Bank Guarantees for Performance, Advance Payment, Tender Money Security Deposit, Guarantees for getting orders, for procurement of raw materials etc.**

## 6. Assessment of Working Capital Limits:

Presently, the following guidelines are in place for financing Working capital facilities of SME units:

**Limits upto Rs. 5.00 crores:**

The credit requirements of village industries, Micro Enterprises, Small Enterprises and Medium Enterprises having aggregate fund based working capital limits upto Rs.5.00 crores from the banking system, will be computed on the basis of a minimum of 20 % of their acceptable projected annual turnover for new as well as existing units as per Nayak Committee recommendations.

**Limits above Rs. 5.00 crores:**

For assessment of Working Capital requirements beyond Rs.5 crores of Small Scale Industrial Units / Medium Enterprises, the guidelines on PBF method of lending will be followed.

## **7. Margin**

### **(a) For Term Loan**

- In case of factory land & building, overall margin of 30%
- In case of Plant & Machineries and Equipments margin is proposed at 25%

### **(b) For Working Capital**

25% uniform margin is proposed on stocks and receivables. For export credit margin may be stipulated @ 10 %.

## **8. Rate of interest:**

If accounts are falling under SME category as per statutory guidelines, rates as applicable to Micro, Small & Medium Enterprises to be applied.

However, if accounts are falling under SME category based on expanded coverage i.e. they are outside the purview of regulatory definition, interest to be applied as per separate guidelines being issued from time to time.

Rates of interest applicable for SME lending are displayed separately on bank's website.

## **9. Penal Interest**

Penal Interest @ 1% to 2% to be charged for the period of default in repayment, non-submission of financial statement, non-compliance of terms and conditions etc. as per extant guidelines of Bank.

## **10. Credit rating:**

### **Internal Credit Rating System**

The internal comprehensive credit rating system under CRISIL Model has been approved by the bank and is already in place as advised to all branches. Pricing of loan to be decided based on the guidelines issued from time to time.

### **External Credit Rating System**

Small Enterprises borrowers are rated by few external credit rating agencies. In case of MEs, some of the borrowers are getting their accounts rated by external credit agency like CRISIL etc.

Our Bank has entered into MOU with SMERA, CRISIL and Dun & Bradstreet to get our SME borrowers rated at concessional rate.

External credit rating should be carried out in all Medium Enterprise accounts going for expansion and fresh sanction involving exposure above Rs 5.00 crores by the agencies approved by RBI.

Pricing be continued to be linked to our internal credit rating system. However, due weightage will be given for the credit rating of the external agency.

#### **11. Techno-economic viability study:**

The guidelines of bank on TEV study issued from time to time will continue to apply.

#### **12 Collateral Free Loans:**

- Presently, Bank's guidelines for providing collateral free loans are as under:
  - a) Collateral free loan upto Rs.5.00 Lacs to Micro & Small Enterprises.
  - b) Collateral free loans (including third party guarantee/ security) upto a limit of Rs. 25.00 lacs to units having satisfactory dealings with the branch for last 3 years and having sound and healthy financial position.
- It is already decided to dispense with collateral security including third party guarantee for loans to Medium Enterprises upto a limit of Rs. 25.00 lacs as in case of loans to Micro & Small Enterprises in manufacturing activities subject to satisfying the following criteria in case of existing borrower as also takeover accounts:
  1. Consistent growth in sales for last 3 years.
  2. Continuous profit for last 3 years.
  3. Credit rating of "A" or equivalent and above and no slippage in credit rating during last 3 years.
  4. The units' assets (fixed as also current) are charged to the bank and promoters / directors personal guarantee are available
  5. Asset coverage ratio of more than 1.5
  6. Other take over norms are complied with.
- Coverage of loans under Credit Guarantee Fund Scheme for Micro & Small Enterprises:
  - All the collateral free loans upto Rs.50.00 lacs sanctioned to Micro & Small Enterprises are eligible for cover under the Scheme.
  - Our bank is sharing the upfront fees and annual service charges on 50:50 basis with the borrower to reduce the cost burden to the borrower.

#### **13 Composite Loan Scheme:**

- As per RBI guidelines, Credit assistance to artisans, village and cottage industries and other Small Industrial units upto Rs.100.00 lacs for equipment finance or working capital or both should be considered as Composite Term Loan.
- This will enable majority of Micro and Small Enterprises to avail loans from a single window eliminating the need for borrowing term loan from SFCs and working capital from banks.

- This will also facilitate to sign one set of documents only instead of signing facility-wise separate documents.

#### 14 Charter of credit entitlements:

- Presently as per action plan for implementing High Level Committee (Kapur Committee) recommendations on credit flow to SSI Sector”, a ‘Charter on credit entitlements is displayed at Branch premises.

#### 15 FINANCIAL RATIOS FOR CREDIT APPRAISAL

- Following ratios can be accepted for granting credit facilities to SME units falling as per regulatory guidelines or SMEs as per expanded coverage.

Sr.	Ratio	Norms		
		Micro & Small Enterprises under manufacturing sector and Service Sector <b>falling under regulatory guidelines</b>	Medium Enterprises under manufacturing sector and Service Sector <b>falling under regulatory guidelines</b>	Units covered under SME Sector as per expanded definition and outside the purview of regulatory definition
1	Current Ratio	<b>1.17 &amp; above</b>	<b>1.20 &amp; above</b>	<b>1.33 &amp; above.</b>
2	Debt Equity Ratio (Total Term Liability /Tangible Net Worth)	<b>3:1</b>	<b>3:1</b>	<b>3:1</b>
3	FACR (Net FA/Term Debts)	<b>Not below 1.25</b>	<b>Not below 1.25</b>	<b>Not below 1.25</b>
4	Average DSCR for Term Loan	1.75 with a condition that in any one year it should not be below 1.00 instead of 1.25 as per extant guidelines.	1.75 with a condition that in any one year it should not be below 1.25	1.75 with a condition that in any one year it should not be below 1.25

- The above ratios are indicative and deviations can be considered by **the sanctioning authority / competent authority** on case-to-case basis, depending on industry specific problems of unit, etc.

#### 16. GUIDELINES FOR TAKEOVER OF ADVANCE ACCOUNTS:

There are two types of compliances:

- **Non-Financial norms to be complied in case of takeover of SME accounts as per regulatory guidelines or SME as per expanded coverage:**

Sr.	Norms
a.	<b>Profit-making (i.e. net profit before tax) concerns only as per last audited Balance Sheet.</b>
b.	Accounts be rated as per the new credit rating model (CRISIL) subject to ‘minimum’ BOB 6. Accounts, which are not covered under CRISIL Credit Rating System, may be considered under permitted deviation as per extant guidelines issued from time to time.

c.	There should not have been any reschedulement / restructuring in the account during last <b>two</b> years.
d.	Satisfactory report from the existing bank/FI and/or satisfactory conduct of account as per latest statement of accounts.
e.	Accounts with existing lenders should be under the category of "Standard Assets".
f.	All other existing norms, guidelines as applicable to borrowal accounts are to be scrupulously followed.

- **Financial norms in case of takeover of SME accounts as per regulatory guidelines or SME accounts as per expanded coverage:**

Sr.	Ratio	Norms		
		1	2	3
		<b>Micro &amp; Small Industries under manufacturing sector and service Sector as per regulatory guidelines</b>	<b>Medium Enterprises under manufacturing sector and service Sector as per regulatory guidelines</b>	<b>Units outside the purview of regulatory definition but covered under SME Sector as per expanded definition.</b>
1	Current Ratio	Minimum 1.17 & above	Minimum 1.20 & above	Minimum 1.33 & above
2	Debt Equity Ratio (TTL / TNW)	Maximum 4:1	Maximum 3:1	Maximum 3:1
3	Total outside liability/ TNW	Maximum 4.5:1	Maximum 4.5:1	Maximum 4.5:1
4	Average DSCR for Term Loan	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25

#### 17. Discretionary lending powers:

For the present, existing discretionary lending powers delegated to various authorities as contained in bank's various circulars issued from time to time will continue to be in force and operative.

#### 18. SME PRODUCTS

Sr. No.	Name of the Product/Scheme
1.	Baroda Laghu Udhyami Credit Card
2.	Baroda Artisan Credit Card
3.	Loans under KVIC Margin Money Scheme – since merged with PMRY Scheme and re-named as PMEGP Scheme
4.	Collateral free loans under Credit Guarantee Fund Trust Scheme
5.	Composite Loans to SSI units
6.	Loans under Technology Upgradation Fund Scheme for Textile Units

7.	Loans under Credit Linked Capital Subsidy Scheme for Technology Upgradation of Small Enterprises
8.	Loans under National Equity Fund Scheme
9.	Scheme for financing Energy Efficiency Projects
10.	SME Short Term Loans
11.	SME Medium Term Loans
12.	Baroda SME Gold Card
13.	Baroda Overdraft against Land and Building
14.	Baroda Vidyasthali Loan
15.	Baroda SME Loan Pack
16.	Baroda Arogyadham Loan
17.	Scheme for financing existing borrowers under SME Segment for purchase of new vehicles.

The details of above products are displayed separately on bank's website.

**19. REHABILITATION OF SICK UNITS / DEBT RESTRUCTURING SCHEME FOR SMEs/SCHEME FOR ONE TIME SETTLEMENT FOR SMEs.**

These areas are covered as per guidelines received from RBI from time to time.

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