

Lending Policy for Micro, Small & Medium Enterprises (MSME) Sector

1 Guiding Principle

The policy seeks to establish the framework that would be followed by the Bank in determining lending norms to Micro, Small and Medium Enterprises ('MSME') in compliance with the Reserve Bank of India guidelines in this regard and the Code of Bank's Commitment to Micro and Small Enterprises ('Code') established by Banking Codes and Standards Board of India ('BCSBI').

1.1. Definition of Micro, Small and Medium Enterprises

The GOI has notified new composite criteria of investment and turnover for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020. The details are as under:

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

- i. a **micro enterprise**, where the investment in plant and machinery or equipment does not exceed INR 10 million and turnover does not exceed INR 50 million
- ii. a **small enterprise**, where the investment in plant and machinery or equipment does not exceed INR 100 million and turnover does not exceed 500 million; and
- iii. a **medium enterprise**, where the investment in plant and machinery or equipment does not exceed INR 500 million and turnover does not exceed INR 2,500 million

All the above enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. For the purpose of classification for Priority Sector Lending (PSL), banks may rely on the Udyam Registration Certificate.

2 Policy

Any lending given to MSME Sector under various lending programs of DBS Bank India Ltd. (DBIL) shall be governed by this policy.

1.1. Products and Services

The various kind of credit facilities offered to MSME and the tenor of those shall be governed by the respective credit programs as applicable. The Bank also offers various cash and transactional products to MSMEs.

1.2. Evaluation and Assessment of Limits

Borrower appraisal is a process of evaluating various risks such as industry risk, management risk, business risk, financial risk, transaction risk, security risk, regulatory risk, etc. for arriving at credit decision. In addition, the pre-screening criteria/grading are used as additional filter to evaluate the credit proposal. The screening criteria as well as grading risk acceptance criteria (RACs) cover both quantitative/financial factors as well as qualitative factors such as integrity, borrower's market position, management competence, expectation of future performance, etc.

Loans are sanctioned on the basis of the various underwriting criteria defined under various approved credit programs for the MSME segment in the Bank. The programs are periodically reviewed and approved by the senior management. CRMs diligently ensure adherence to policies while approving credit proposals. All necessary dedupe checks and borrower rating are done.

The key parameters Bank assesses at the time of credit appraisal of MSMEs include a) Industry b) Business Vintage c) Credit Bureau d) Other dedupe checks e) Financial Strength f) Bank Statement analysis g) Business model. This is an indicative and not exhaustive list.

For MSMEs, the fund based working capital facilities to be up to 25% of projected / estimated turnover based on credit assessment and needs. The Bank may further approve temporary ad hoc limits to fulfil demand in case of an unforeseen/seasonal increase in sales, and it shall be regularised not later than three months from date of sanction or as per Bank policy as amended from time to time.

A composite loan limit of INR 10 M can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

A CGTMSE loan limit of upto INR 20 M can be sanctioned by bank to enable the MSE entrepreneurs to avail of their working capital and term loan requirement in hybrid model i.e., portion of limit is secured by immovable assets.

Bank may undertake need based mid-term review, based on assessment of sales performance without waiting for the latest audited financials. However, such mid-term reviews shall be revalidated during the subsequent regular reviews based on audited financial statements.

The Bank may approve a “standby credit facility” while funding capital expenditure to fund unforeseen project cost overruns however fund only in case of an actual cost overrun. Such funding would be to ensure capital asset creation is not delayed and commercial production can commence at the earliest.

In above cases, the Bank shall have discretion to approve such stand-alone facility basis fresh evaluation of the viability of the project and the actual status on the commercialization of the project.

1.3. Security

The facilities offered by Banks would be secured by primary security and collateral security, wherever applicable. The evaluation and acceptability of the security would be as per the Bank’s policy. The assets provided as security should be insured to be the fullest. In case of plant and machinery or immoveable property that is taken as security, valuation and legal report should be obtained from independent agencies empanelled by the Bank.

The Bank shall not insist upon any collateral for loans of limits up to INR 1 M.

1.4. Application

Loan application forms are provided free of cost & can be applied digitally, along with a document checklist. Information pertaining to fees, prepayment charges and rates would be provided to the borrowers at the time of application / approval along with a checklist.

All applications would be duly acknowledged to the borrower in writing / digitally by the Bank. All particulars required for processing to be collected at the time of application in order to make the process hassle free. The Bank shall inform the borrower for any additional information/documentation within 7 working days post receipt of application.

The borrower should be communicated the reason for rejection in line with stipulation mentioned in the Fair practice lender code and BCSBI code.

A register/ electronic record should be maintained by the bank/branches wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded. The register/electronic record should be made available to all inspecting agencies.

1.5. Disposal of Application

Bank has an internal loan origination system where cases are processed and approved. Turnaround time for each case is tracked through this system. The Bank ensures tracking of applications of MSME closely and ensures timely sanction of such loans.

- For credit limit up to INR 2.5 M within 14 days from the date of receipt¹
- For credit limit above INR 2.5 M within 6 weeks from the date of receipt²

¹ provided the application is complete in all respects and is accompanied by documents as per ‘check list’ provided.

² provided the application is complete in all respects and is accompanied by documents as per ‘check list’ provided.

1.6. Disbursal

- Ensure disbursal within 2 working days from the date of compliance with all terms and conditions governing such sanction.
- The Bank shall indicate all the terms and conditions governing credit facilities in sanction letter given to the borrower.

1.7. Pricing

- The pricing for the various lending products is based on several parameters like risk profile of the borrower, type of the product, income profile, linkage to any credit guarantee schemes etc.
- Interest Rate and other charges would be as per the sanction terms as detailed in the Sanction Letter for the facility, duly acknowledged by the borrower.
- All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from October 01, 2019 and floating rate loans to Medium Enterprises from April 01, 2020 shall be benchmarked to one of the following external benchmarks:
 - Reserve Bank of India policy repo rate
 - Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL)
 - Government of India 6-Months Treasury Bill yield published by the FBIL
 - Any other benchmark market interest rate published by the FBIL.

The actual lending rates shall be determined by adding the components of spread to the appropriate external benchmark rate. Further details as per guidance in the Policy for Pricing of Credit (IBG&CBG) Assets Product.

The bank may also offer such loans at a fixed price at the request of the borrower subject to meeting of other compliances as per the RBI circular. The pricing will be guided by the IBG pricing policy from time to time.

- The pricing for certain facilities like foreign trade services are guided by RBI stipulations on subvention, tenors, amount etc., wherever applicable. These shall be followed.
- There shall be no processing fees and service charges up to Loan amount of INR 25,000/-
- Bank will charge penal charge as per the bank approved pricing policy.
- In the case of loans to borrowers under priority sector, no penal charge should be charged for loans up to Rs. 25,000/- except for reasons such as default in repayment, non-submission of financial statements, etc.

1.8. Post Disbursement- Servicing

- DBS / DBIL Biz-Care setup shall provide borrower support on all pre-transactional and post-transactional queries.
- There shall be a dedicated RM to support each borrower and shall also help in providing credit counselling services for MSME.
- The Bank shall share the broad rating parameters with MSME.
- The Bank shall give the borrower copies of all the loan documents executed along with enclosures at Bank's cost to the MSME.
- The Bank shall ensure timely release of securities on repayment of loan facility.
- The Bank shall provide need-based TOD/ad hoc facility to MSME based on credit assessment.
- The Bank shall have authenticated copies of all loan documents with a copy of enclosures.
- All working capital accounts would be sent a regular Bank statement. Borrowers shall also be entitled to request for Interest statements, wherever applicable.

1.9. Deferral/Exception

Lending to MSME shall follow the Bank policy on deferral and exceptions.

1.10. Monitoring and Due Diligence

All businesses entities having credit facility with the Bank would be subject to regular monitoring as per the Early Warning Framework of the Group Watch List Standards.

MIS of applications, sanction/disbursement, TAT and rejection with the reasons of MSME would be circulated within the business for review of senior management.

1.11. Grievance Redressal Process

The Bank has a grievance redressal mechanism for all borrowers in place where any complaints received from MSME borrowers are also monitored and resolved. The Bank adheres to the Code of Commitment to MSE borrowers issued by the Banking Code and Standards Board of India in this regard as well.

2. Regulatory/Other Guidelines Reference

RBI Master Directions: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11060

RBI Notifications

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11934&Mode=0> FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020

Gazette Notification: <https://rbidocs.rbi.org.in/rdocs/content/pdfs/IndianGazzate02072020.pdf>

BCSBI Code of Commitment to MSEs: http://www.bcsbi.org.in/codes_mse.html

CGTMSE Scheme: https://www.cgtmse.in/files/CGTMSE_Booklet_updated_November_17_2017.pdf

Fair Practice Code: <https://www.rbi.org.in/SCRIPTS/NotificationUser.aspx?Id=1172&Mode=0>

