

Policy Framework for Micro, Small and Medium Enterprises

1. Background and Objective

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 vide RBI/FIDD/2017-2018/56 Master Direction FIDD. MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017 as updated from time to time and the Code of Bank's Commitment to Micro and Small and Medium Enterprises ('Code') established by Banking Codes and Standards Board of India ('BCSBI')

2. Definitions

2.1 Micro enterprise

An enterprise where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover, net of export, does not exceed ₹5 crore;

2.2 Small enterprise

An enterprise where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover, net of export, does not exceed ₹50 crore;

2.3 Medium enterprise

An enterprise where the investment in plant and machinery or equipment does not exceed ₹50 crore and turnover, net of export, does not exceed ₹250 crore

All the above enterprises are required to register online on the Udyam Registration portal and obtain an 'Udyam Registration Certificate', which shall be kept on records by the Bank.

3. Effective Date / Transition Period

These guidelines are effective immediately and reviewed as per the revisions in RBI regulations or Bank's internal policies.

4. Retired Policies / Related Policies

These Guidelines will supersede the previous versions of these guidelines which are in existence. The requirements specified under these guidelines operate in conjunction with the other Citi policies related to customer disclosures.

5. Exception Process

Any changes/ exceptions to this Policy except those regulatory in nature must be approved by the competent authority defined per internal processes of the bank.

6. General Guidelines

6.1. Types of Loans

MSME Units may be granted a variety of Credit facilities for their different needs (subject to satisfactory credit assessment by the bank) which will include, but not limited to, the following:

- a) Term Loan for acquisition of capital goods (excluding second hand), fixed assets, vehicles, Plant & machinery, construction of buildings etc.
- b) Working Capital Demand Loan, Working Capital by way of Overdraft / Cash Credit facilities etc for: Purchase of raw material, components, stores, and maintenance of stock of these items at minimum level and stock in process and finished goods.
- c) Finance against receivables including receipted challans/invoices.
- d) Bills Purchase/Discounting under L/C or outside L/C.
- e) Export and import Finance
- f) Letter of Credit on sight / usance basis for purchase of raw material / capital goods.
- g) Bank Guarantees.
- h) Buyer's Credit for raw material and capex
- i) Standby letter of credit
- j) Foreign exchange – spot and forwards
- k) With Recourse Factoring Supply Chain Financing
- l) Sales or Purchase domestic Bill/ Invoice financing

6.2. Framework for Revival and Rehabilitation of MSMEs

Loans/facilities are sanctioned on the basis of established underwriting criteria that are detailed in the internal / local credit policy manual of the various businesses that contribute towards the MSME segment in the bank. These policies are based on the bank's experience of credit performance of its existing portfolio. Further all policies are periodically reviewed and approved by competent authority of the bank.

6.3 COMMON GUIDELINES FOR LENDING TO MSME SECTOR

6.3.1 Processing of Applications:

- a) Issue of Acknowledgement of Loan Applications:

The Bank will issue an acknowledgement for loan applications received from the borrowers towards financing under this sector and maintain the record of the same. A running serial number will be recorded by each business on the application form as well as on the acknowledgement receipt. The Bank has a system of Registration of loan applications. The acknowledgment will include timelines for disposal of application and list of the tentative documents required for the initial assessment of the application.

- b) Disposal of Applications:

For credit limit up to 25 lakh to MSE borrowers within 14 working days and for credit limit above `25 lakh within 6 weeks from the date of receipt, provided the loan application is complete in all respects and is accompanied by documents as per 'check list' provided.

- c) Register of Receipt/Sanction/Rejection of Applications:

- i. The MIS of applications, sanctions/disbursement and rejection with the reasons should be circulated within the Business for review of senior management

- ii. The reason for rejection should be communicated to the borrower in line with stipulation mentioned in the Fair Practice Lenders Code and BCSBI Code

6.3.2 Sanction

- a) Provision to extend loans up to Rs.10 lakhs without any collateral or up to the limits specified by the Reserve Bank of India, from time to time (for unsecured loans)
- b) Consider collateral free limit up to a loan amount of Rs. 25 lakhs basis sound-track record and financial position
- c) No Processing fee to be charged for loan application up to Rs.5 lakh credit facility
- d) Working capital limits and eligibility will be computed basis internal policies of the Bank
- e) Plant & Machinery or immovable property is taken as security, valuation report and legal scrutiny report on the same will be required to be obtained from empaneled valuers, law firms as applicable. For exceptional cases, where customers are into Multiple Banking or Consortium Arrangements other bank reports can be taken into consideration
- f) The sanction letter to include Most Important Terms and Conditions governing the loan / credit facility

6.3.3 Credit Assessment

Factors that are considered prior to the loan/facility sanction include –

- a) Financial trending / minimum income requirement/ other similar indicators and best available information about the borrower's ability to service the interest and repay the loan
- b) Type of loan and end use
- c) Security and / or collateral available as applicable
- d) Tenor of the loan
- e) Quantum of the loan
- f) Track record of conduct on previous loans
- g) Credit bureau checks and market reference checks
- h) Compliance with RBI guidelines and bank's internal policies
- i) Promise to pay from anchor in buyer led supplier financing program

The bank does not use any score card but has a standardized template for credit risk assessment of facility at borrower level. In evaluating the credit proposals for MSME sector, the bank applies a wholistic approach and assesses the proposals on (but not limited to, depending on nitty-gritties of the case) key financial ratios, industry trends and above-mentioned parameters, as applicable, with different weights assigned to each such parameter based on their significance.

Other key parameters of the bank's lending policy across the various businesses are as follows:

- a) Target Market as defined by the internal policies of the bank
- b) Credit parameters such as DSCR, leverage, cash profits, debt to EBITDA, buyer/ supplier profile and concentration etc.
- c) Purpose of Borrowing
- d) Business Plan and outlook
- e) Market Reports
- f) Ratings assigned by reputed credit rating agencies if any
- g) Loan eligibility amount, tenor and repayment schedule based on internal policies and credit assessment done by the bank
- h) Required Legal Documents
- i) Pricing

- j) KYC and Other Verification requirements
- k) Maximum LTV (Secured Loans)
- l) Collateral type (Secured Loans)

At the time of renewal of an existing loan facility, which has been satisfactorily conducted, the bank will endeavor to obtain only additional information which are already not in our possession.

6.3.4 Disbursal

Ensure disbursal within 2 working days from the date of completion of loan documentation and receipt of loan disbursal request in acceptable format accompanied by requisite supporting documents.

6.3.5 Repayment

No pre-payment penalty on fixed rate loans of less than Rs. 50 lakhs and all floating rate loans prepaid on the reset date regardless of amount.

6.3.6 Other aspects

- (a) The Bank will approve or reject, within two weeks of receipt of a request from the Borrower/ financial institution, for transfer of the borrower account.
- (b) All securities deposited by the borrower immediately on repayment of loan/ cancellation of the facility accompanied by client request to release security and in any case within fifteen days of the repayment of all dues agreed to or contracted provided it is accompanied by client request to release security. If any right to set off is to be exercised for any other claim, then due notice with full particulars about the other claims need to be provided to the client and retain the securities OR documents OR title to mortgaged property, till the relevant claim is settled / paid.

6.3.7 Pricing

The pricing for lending products is based on various parameters like risk profile of the customer, type of product, income profile etc. the bank has a Board approved policy on interest rate and same would be adhered for MSME Segment. At the time of submitting facility application form, the request letter includes agreed interest rates applicable along with the annualized rates of interest and the fees / charges, if any. The bank is not currently a Member Lending Institution of the Trust under the CGTMSE (Credit Guarantee Trust for Micro and Small Enterprises) scheme (credit guarantee cover).

7. Structured Mechanism for monitoring the credit growth to the MSME sector

Credit Proposal Tracking System

A centralized credit application tracking system/ MIS is in place for each business which contributes to MSME lending. The bank follows a relationship manager (RM) based model wherein the RM is in touch with the customer and provides regular updates with regards to the application status.

8. Rehabilitation of Sick Units

The Bank shall endeavor to do all that the Bank can to help the borrower overcome its difficulties within the regulatory framework.

9. Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'

Bank's credit assessment process is holistic and considers current and prospective needs of customers while sanctioning limits. Our credit process has provision to assign higher limits if credit facility requirements of the company has increased as and when it is required. We also have flexibility to accommodate request to increase limits in case clients has contingency need/ unexpected expenditure, subject to credit assessment per bank's internal policies. The bank regularly reviews working capital limits at least once in a year based on either audited or provisional financials.

10. Grievance Redress Process

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

11. Communication

This policy will be made available on the website and branches for customer's perusal.

12.



CodeOfBankMSE.pdf

Annexure 1

Indicative Document Checklist

1. Last three year Financials and IT Returns
2. KYC of the entity and all beneficial owners.
3. Top 5 buyer and supplier details
4. Receivable and Payable accounts breakup with aging
5. Existing banks sanction letter, if any (optional)
6. 1 Year bank statement of the operational account