



Policy on MSME Lending

1. Preamble

1.1 Objective of the Policy

The objective of this Policy is to provide a framework, which will enable the Equitas Small Finance Bank to lay down procedures to extend loans and advances for Micro, Small & Medium Enterprises.

1.2 Scope of the Policy

This policy will cover the role and responsibilities of the Equitas Small Finance Bank (ESFB or “Bank”) to provide guidelines to dispense credit to MSME sector

1.3 Definitions – MSME

- a. The criteria for classification of Micro, Small and Medium enterprises is as below

The following definitions are as per Government of India notification dated [June 01, 2020](#) and [June 26, 2020](#).

Enterprises	Criteria
Micro Enterprises	where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees
Small Enterprises	where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees
Medium Enterprises	where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

- If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- All units with Goods and Services Tax Identification Number (GSTIN) listed against the same Permanent Account Number (PAN) shall be collectively treated as one enterprise and the turnover and investment figures for all of such entities shall be seen together and only the aggregate values will be considered for deciding the category as micro, small or medium enterprise

- b. 'Specified Period', in relation to a restructured account, means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.
- c. 'Satisfactory Performance', in relation to a restructured account, means no payment (interest and/or principal) will remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account will not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

1.4 Registration as a micro, small or medium enterprise

As per the notification, S.O.2119 (E) dated June 26, 2020, issued by Ministry of Micro, Small and Medium Enterprises:

- (1) Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration form online in the Udyam Registration portal, based on self-declaration with no requirement to upload documents, papers, certificates or proof.
- (2) On registration, an enterprise (referred to as —"Udyam" in the Udyam Registration portal) will be assigned a permanent identity number to be known as —Udyam Registration Number.
- (3) An e-certificate, namely, —Udyam Registration Certificate shall be issued on completion of the registration process.
- (4) An enterprise registered with any other organization under the Ministry of Micro, Small and Medium Enterprises shall register itself under Udyam Registration.

2. ESFB Policy framework

2.1 Micro, Small & Medium Enterprises- Ascertaining the investment in Plant & Machinery

The classification criteria, calculation of investment in plant and machinery, turnover, registration process will be in accordance with the RBI guidelines/Gazette notifications issued on the same. Accordingly, Udyam Registration Certificate needs to be obtained from the borrowers for classification into appropriate MSME category.

2.1.1 Subsequent Change in classification

- a. Based on the information furnished or gathered from Government's sources including ITR or GST return, the classification of the enterprise will be updated
- b. In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration.
- c. In case of reverse-graduation of an enterprise, whether as a result of re-classification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the Act or not, the enterprise will continue in

its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place.

2.2 Priority Sector Guidelines for MSME sector

The Bank will adhere to the Priority sector guidelines for MSME sector as stipulated by RBI from time to time.

2.3 Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) sector

The Bank will adhere to achieve the targets / sub-targets specified by RBI from time to time.

2.4 Products & services

The Bank will provide the following products and services to MSME sector

- a. Cash Credit/Overdraft
- b. Bill discounting
- c. Term loan / Demand Loan
- d. Issue of LC / Bank Guarantee

2.5 Process for lending to MSEs

2.5.1 Application

Customers are selected based on initial screening – experience, expertise, and based on thorough KYC compliance.

The Bank will acknowledge all loan applications. Information pertaining to fees/prepayment charges and rates will be provided to the customers at the time of application.

2.5.2 Appraisal process

The Bank will evaluate customer profile, business viability, past credit history of the borrower and the end use of the fund.

The borrower will be visited, wherever necessary, at residence /office / factory premise. The detailed ratio / balance sheet analysis will also be carried wherever necessary.

In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities will be made.

2.5.3 Collateral

All MSME advances up to Rs.10 lakhs will be granted without collateral security and third party guarantee as per RBI guidelines. These advances will be brought under CGTMSE guarantee cover, wherever possible.

No MSME proposals, however, will be rejected for want of tangible collateral security alone, if otherwise the Bank is satisfied with regard to overall strength of the proposal in terms of promoter's background, financial performance, repayment history, business viability, repayment capability etc.

2.5.4 Composite Loan

The Bank will provide composite loan of ₹1 crore to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window

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

The Bank will ensure to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances

- a. Additional working capital to meet with emergency needs of MSE units
- b. Mid-term review of the regular working capital limits, where the Bank is convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.
- c. Timelines for Credit Decisions
- d. To extend standby credit facility in case of term loans- Bank may, at the time of sanction of project loans, consider sanction a „standby credit facility“ to fund unforeseen project cost overruns, if needed. Such „standby credit facilities“ are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun

Loan applications from units under MSME sector will be disposed of within a reasonable time as mentioned below, provided such applications are complete in all respects

Application for a credit limit or enhancement in existing credit limit up to ₹5 lakh	Within 2 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹5 lakh and up to ₹25 lakh	Within 3 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹25 lakh	Within 6 weeks from the date of receipt

Application for additional / ad-hoc credit facilities and restructuring of accounts, if considered viable from units under MSME sector will be disposed of within a reasonable time as mentioned below, provided such applications are complete in all respects

Application for a credit limit or enhancement in existing credit limit up to ₹5 lakh	Within 10 days from the date of receipt
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Application for a credit limit or enhancement in existing credit limit above ₹5 lakh and up to ₹25 lakh	Within 20 days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above ₹25 lakh	Within 20 days from the date of receipt

2.6 Review / Renewal of limits

Working capital limits that are sanctioned to borrowers are renewed once in 12 months. Information that is required from the borrower (such as audited financials, estimated financials for the current year, orders on hand, etc.) to renew the limits is sought prior to the renewal. In cases where the borrower has not finalized the audited financials for the previous FY, the provisional financials are obtained from the borrower in order to renew/ enhance limits. Midterm review of limits sanctioned to borrower is also done in order to re-assess the credit requirement of the borrower, which may have changed during the course of the year.

2.7 Pricing

Interest rate and other charges will be as per the sanction terms as detailed in the loan agreement and copy of the same will be given to the borrower at the time of executing the agreement

The Interest on loans and advances will be offered as per Master Direction on interest rate for advances issued by RBI dated 3rd March 2016 and amended from time to time. The Bank already has an Interest Rate on Advances Policy approved by the Board.

In case of any revision in the interest rates, under the circumstances, which warrants for the same, the Bank will notify the customer through appropriate channels.

2.8 Assessment

2.8.1 Working capital

- a. MSE units having working capital limits of up to Rupees five crore from the banking system will be provided working capital finance computed on the basis of minimum 20 percent of their projected annual turnover or under the Net working capital method
- b. However basis the facts and justification for the case MPBF can be considered and can be assessed as per Nayak Committee recommendation.
- c. For MSE units requiring working capital limits above ₹5 crores, Working Capital Limits will be allowed as per Lending based on Credit Monitoring Arrangement (CMA) data.

2.8.2 Cash Budget System

- a. For Seasonal industries such as sugar, tea etc.; Software industry; Sick units; Construction/Contractors/Developers cash budget method will be used for assessment of working capital requirements. Separate Peak and Non Peak level credit limits will be given consideration while working on the credit appraisal where the borrower's activities are of seasonal nature.
- b. A combined working capital limit will be allowed against the stock and receivables without any sub limit for receivables. However, a separate Bills Discounting/Purchase limit can be sanctioned wherever required depending upon the nature of activity. Margins may be different for stocks and receivables on case to case basis.

2.8.3 Term Loans

Term Loan can be sanctioned for various purposes like purchase of property, plant & machinery, construction of factory/ building, business expansion, working Capital term loan etc.

2.9 Servicing of Existing accounts

- a. The Bank will release all securities on receiving repayment of loan immediately and in any case not later than fifteen days subject to any legitimate right or lien for any other claim that the Bank may have against the customer
- b. Bank may levy pre-payment penalty on all types of working capital limits and loans as per schedule of charges.

2.10 Monitoring & Due diligence

All businesses entities having credit facility with the Bank will be subject to regular monitoring. These include, visits to Administrative Offices and Manufacturing Units, Regular stock statements assessments and Stock Audits, Monitoring of account conduct parameters like over drawings, Cheque bounces, Interest Servicing and EMI servicing etc.

The Bank will track all MSE loan applications and monitor the loan application disposal process online from the point of lead generation till the loan disbursement

2.11 Framework for Revival and Rehabilitation of MSME (other than the one-time restructuring described above)

[Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises \(MSMEs\) dated May 5, 2021](#)

The framework will be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA).

The restructuring of stress on account of COVID – 19 pandemic will be guided by the Board approved “COVID 19 Restructuring Policy” for MSME borrowers with exposure above Rs. 25 crores.

The rest of the MSMEs can approach the Bank for rehabilitation / restructuring and the same will be processed under applicable restructuring / rehabilitation policy of the Bank. Restructuring will however be used selectively based on various parameters to deserving applications.

2.11.1 Identification of Incipient stress

Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), the Bank will identify incipient stress by creating three sub-categories under the Special Mention Accounts (SMA)

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress (Illustrative list of signs of stress for categorizing an account as SMA-0 is given in Annexure – I)
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

On the basis of the above early warning signals, the Bank’s Management committee will review the stressed accounts with aggregate loan limits above ₹10 lacs within five working days upon identification under SMA-2 for a suitable corrective action plan. The accounts in SMA-2 will be reviewed by the committee for Corrective action plan (CAP), as per the process defined in the paragraphs 3.11.2 onwards below. The Review and Rehabilitation Committee for the purpose has been defined in paragraph 3.11.7 below.

As regards accounts with aggregate loan limits up to Rs.10 lakh identified as SMA-2, the account will be mandatorily examined for CAP by the Business Head & Credit Head or such other official (hereinafter referred to as ‘designated official’) as decided by the Bank.

2.11.2 Application to the committee for a CAP

Any MSME borrower enjoying aggregate limits of more than Rs.10 lakh may voluntarily initiate proceedings, under this framework and submit an application to the Bank, if it apprehends failure of its business or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. The Committee will convene its meeting within 5 working days. The application by the enterprise will inter-alia include:

- a. Latest audited accounts of the Enterprise including its Net worth;
- b. Details of all liabilities of the enterprise, including the liabilities owed to the State or Central Government and unsecured creditors, if any;
- c. Nature of stress faced by the Enterprise; and
- d. Suggested remedial actions

On receipt of information relating to the liabilities, the committee will send notice to statutory creditors as disclosed by the enterprise informing them about the application under the Framework and permit them to make a representation regarding their claims before the Committee within fifteen working days of receipt of such notice. The Bank will mention in the notice that these information are required for determining the total liability of the Enterprise in order to arrive at a suitable CAP and not for payments of the same by the lenders.

The Committee will make suitable provisions for payment of tax or any other statutory dues in the corrective action plan and the enterprise will take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan

2.11.3 Corrective Action plan

The Committee will explore various options to resolve the stress in the account and will decide the CAP as per the specific requirements and position of each case.

The options under CAP by the Committee may include

- a. Rectification: Obtaining a commitment, specifying actions and timelines, from the borrower to regularize the account so that the account comes out of SMA status or does not slip into the Non-Performing Asset category and the commitment will be supported with identifiable cash flows within the required time period and without involving any loss or sacrifice on the part of the existing lenders.
- b. Restructuring: Consider the possibility of restructuring the account, if it is prima facie viable and the borrower is not a willful defaulter, i.e., there is no diversion of funds, fraud or malfeasance, etc.
- c. Recovery: Once the first two options at (a) and (b) above are seen as not feasible, due recovery process may be resorted to. The Committee may recommend recovery in the account.

Within 30 days of convening its first meeting for a specific enterprise, the Committee will take a decision on the option to be adopted under the corrective action plan which may include rectification, restructuring or recovery. The enterprise will be notified within 5 working days from the date of such decision.

In connection to finalizing the Corrective Action Plan (CAP) the committee may adopt the simplified model of Techno-Economic Viability given by IBA for rehabilitation of eligible MSME accounts having aggregate exposure up to Rs.25 Crore under sole banking arrangement as per extant RBI guidelines.

If the corrective action plan decided by the Committee envisages restructuring of the debt of the enterprise, the Committee will, alternatively, conduct the detailed Techno-Economic Viability (TEV) study and finalize the terms of such a restructuring in accordance with the extant prudential norms for restructuring,

- a. within 20 working days (for accounts having aggregate exposure up to Rs.10 crore) and
- b. within 30 working days (for accounts having aggregate exposure above Rs.10 crore and up to Rs.25 crore)

and notify the enterprise about such terms, within 5 working days.

While Techno-Economic viability of each account will be decided by the Committee before considering restructuring as CAPs. For accounts with aggregate exposure of Rs.10 crore and above, the Committee will- conduct a detailed Techno-Economic Viability study before finalizing the CAP. Willful defaulters will not be eligible for restructuring.

Upon finalization of the terms of the corrective action plan (CAP), the implementation of that plan will be completed by the Bank within 30 days (if the CAP is Rectification) and within 90 days (if the CAP is restructuring). In case recovery is considered as CAP, the recovery measures will be initiated at the earliest.

The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the Committee will be considered as the basis for proceeding with the restructuring of the account and will be binding on all lenders.

Detailed time-lines are given for carrying out various activities under the Framework. If the Committee is not able to decide on CAP and restructuring package due to non-availability of information on statutory dues of the borrower, the Committee may take additional time not exceeding 30 days for deciding CAP and preparing the restructuring package.

2.11.4 Additional Finance

If the Committee decides that the enterprise requires financial resources to restructure or revive, additional finance will be matched by contribution by the promoters in appropriate proportion which will not be less than the proportion at the time of original sanction of loans. Additional funding provided under restructuring / rectification as part of the CAP will have priority in repayment over repayment of existing debts.

The restructuring package will stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios after a period of 6 months may be achieved.

In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of 10 working days from the date of receipt of the decision of the Committee.

2.11.5 One Time Settlement for Micro and Small Enterprises

In terms of RBI's "Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector", Bank will follow a merit based non-discretionary, one-time settlement policy for the recovery of NPAs under MSE Sector. All settlement proposals/offers will be examined by the Bank's delegated authority based on facts and merits of each case.

Bank will permit 30 days' time to the borrowers to submit the application and also make payment of the dues in order to extend the benefits of the scheme to eligible borrowers.

a. Scheme Coverage

- i. The scheme will cover all Non Performing Loans in MSE sector which had turned NPA.
- ii. The scheme will also cover eligible cases where Bank has initiated recovery action under SARFAESI Act, DRT, Sec 138 and the awaiting adjudication/enforcement.
- iii. This OTS proposal is non-discretionary.

- iv. Cases of willful default, fraud and malfeasance will not be eligible under this scheme.
- v. All OTS proposals that are not covered under this scheme will be considered on case to case basis at the sole discretion of the Bank
- vi. All decisions taken by the Bank will be final.
- vii. This OTS scheme will be valid as per directions of Reserve Bank of India from time to time.

b. Settlement Amount

- i. Full principal to be repaid
- ii. Interest percentage

c. Payment terms

- i. The settlement amount is payable in one lump sum.
- ii. In case, lump sum payment cannot be made, then a minimum of 25% of the settlement amount to be paid upfront and the balance settlement amount along with simple interest at 10 % p.a from the date of settlement up to date of final payment to be paid within 60 days from the date of communication of acceptance of settlement proposal by the Bank.

2.11.6 Review

In case the Committee decides that recovery action is to be initiated against an enterprise, such enterprise may request for a review of the decision by the Committee within a period of ten working days from the date of receipt of the decision of the Committee.

The request for review will be on the following grounds:

- a. A mistake or error apparent on the face of the record; or
- b. Discovery of new and relevant fact or information which could not be produced before the Committee earlier despite the exercise of due diligence by the enterprise.

A review application will be decided by the Committee within a period of thirty days from the date of filing and if as a consequence of such review, the Committee decides to pursue a fresh corrective action plan, it may do so.

Non-viable Units: Units declared as 'unviable' after a viability study will be proceeded against for initiating appropriate recovery proceedings.

2.12 Constitution of the committee

The Composition of the Committee will be as under:

- a. The regional or zonal head of the convener bank, will be the Chairperson of the Committee;
- b. Officer-in-charge of the Micro, Small and Medium Enterprises Credit Department of the convener bank at the regional or zonal office level, will be the member and convener of the Committee;

- c. One independent external expert with expertise in Micro, Small and Medium Enterprises related matters to be nominated by bank.
- d. One representative from the concerned State Government. Endeavour will be made to bring representative from the respective State Government in the Committee. In case State Government does not nominate any member, then the convening bank will proceed to include an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.
- e. In the event of consortium / MBA, senior representatives of all banks / lenders having exposure to the borrower.

Accordingly, a Committee has been constituted with the following members.

1	President Head - MSME	Member & Convener
2	Credit Head - MSME	Member
3	Recovery In-Charge	Member
4	Zonal Head – MSME	Member
5	External Member 1 (as may be approved by Head MSE Banking)	Member (External)
6	External Member 2 (as may be approved by Head MSE Banking)	Member (External)
7	Portfolio Manager - MSME	Member (by invitation)
8	Legal Head – MSME	Member (by invitation)
9	Representative from Compliance Department	Member (by invitation)

The two external members are senior retired bank executives and have rich experience in banking at field level as well as at policy level their Zonal / Head Office.

All eligible stressed MSMEs will have access to the Committee for resolving the stress in these accounts in accordance with regulations prescribed in this Framework.

Annexure – I

Illustrative list of signs of stress for categorising an account as SMA-0:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.
2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.
3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
4. Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days.
5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction.
6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.
8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress