



मध्य बिहार ग्रामीण बैंक  
(पंजाब नेशनल बैंक द्वारा प्रयोजित)  
प्रधान कार्यालय: श्री विष्णु कमर्शियल काम्प्लेक्स  
नेशनल हाईवे पेट्रोल पंप के बगल में  
एन.एच. 30, आसोचक, पटना - 800016

**साख प्रबंधन विभाग**

**TO ALL OFFICES**

**Date: 19.04.2017**

In Suppression of L & A Circular No. 31/16  
dated 07.11.2016

**Loan & Advances Circular No: 05 /2017**

**REG: GENERAL POLICY GUIDELINES ON MSME**

**GENERAL POLICY GUIDELINES ON MSME**

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on October 2, 2006. With the enactment of MSMED Act 2006, a paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope of medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

<b>Enterprises</b>	<b>Micro I</b>	<b>Micro II</b>	<b>Small</b>	<b>Medium</b>
<b>Manufacturing</b> (Investment in Plant & Machinery)	Upto Rs. 10 Lakh	Above Rs. 10 Lakh to Rs.25 Lakh	Above Rs. 25 Lakh & upto Rs. 5 crore	Above crore Rs. 5 & upto Rs. 10 crore.
<b>Services</b> (Investment in Equipments)	Upto Rs. 4 Lakh	Above Rs. 4 Lakh to Rs.10 Lakh	Above Rs.10 Lakh & up to Rs. 2 crore	Above Rs. 2crore & up to Rs. 5 crore.

**MSMED ACT 2006 – OWNERSHIP OF THE UNITS – TWO OR MORE UNDERTAKINGS UNDER THE SAME OWNERSHIP – STATUS OF UNIT**

Reserve Bank of India vide their letter No. RPCD.SME & NFS. BC. NO. 35/06.02.31

(P)/ 2010-11 dated 6<sup>th</sup> December'10 has informed that MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by the same person / company for the purpose of classification as micro, small and medium enterprises, Government of India, vide office memorandum No.5(10)2007 MSME/POL dated April 15, 2009, have intimated that the provision, as notified in Gazette Notification No. S.O.2 (E) dated 1 January 1993, of clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI (further notified in the principal notification No. S.O.857 (E) dated December 10, 1997), **has already been rescinded** vide Notification No. S.O.563 (E) dated February 27, 2009. Therefore, all such cases which are not classified as Micro/Small/Medium enterprises because their **clubbed** investment exceeded the investment limits and classify them appropriately on the basis of their standalone investment without clubbing together.

### **PRIME MINISTER HIGH LEVEL TASK FORCE TARGETS FOR LENDING:**

- 20% YoY growth in MSE Lending.
- Share of Micro Enterprises out of total MSE advances should be 60% of MSE outstanding of previous year.
- 10% incremental growth in Micro Enterprises accounts.

### **SUB TARGETS FOR LENDING TO MICRO ENTERPRISES**

Reserve Bank of India vide their circular no RBI/2012-13/354 RPCD.MSME & NFS BC NO 54/06.02.31/2012-13 dated 31.12.2012 has revised the existing investment limit in Plant & Machinery and Equipments for lending to Micro Enterprises in the 40:20 proportion as per following details:

#### **Sub Targets for Lending to Micro Enterprises**

- i) 40 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises having investment in plant and machinery up to Rs 10 lac and micro (service) enterprises having investment in equipment up to Rs 4 lac.
- ii) 20 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises with investment in plant and machinery above Rs 10 lac and up to Rs 25 lac, and micro (service) enterprises with investment in equipment above Rs 4 lac & upto Rs 10 lac.

Bank Loans to Micro and Small enterprises, both Manufacturing and Service are eligible to be classified under Priority Sector advance as per the following:

#### **Direct Finance**

##### **Manufacturing Enterprises**

The Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951

and notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in plant and machinery.

### **Loans for food and agro processing**

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

### **Service Enterprises**

Bank loans up to Rs. 5 crore per borrower / unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006

### **Export Credit**

Export credit to MSE units (both manufacturing and services) for export of goods/services produced /rendered by them.

### **Khadi and Village Industries Sector (KVI)**

All loans sanctioned to units in the KVI sector, irrespective of their size of operations and location and amount of original investment in plant and machinery. Such loans will be eligible for classification under the sub -target of 60 percent prescribed for micro enterprises within the Micro and small enterprises segment under priority sector.

### **General Credit card (GCC)**

The loans sanctioned under the Scheme “General credit Card” (GCC) to Micro and Small Enterprises, should be classified under respective categories of Micro and Small Enterprises as per the definition given above.

### **Indirect Finance**

- (i) Loans to persons involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.
- (ii) Loans to cooperatives of producers in the decentralized sector viz. artisans village and cottage industry.
- (iii) Loans sanctioned by banks to MFIs for on-lending to MSE sector as per the conditions specified in extant Master Circular on Priority Sector Lending.

Lending by banks to medium enterprises will **not** be included for the purpose of reckoning of advances under the priority sector.

## **4. NATURE & EXTENT OF FINANCE FOR MSMEs:**

Need based fund based and non-fund based limits may be given to MSMEs depending upon their requirement in the shape of working capital /Term Loan /Bill discounted/ Letter of Credit/Letter of Guarantee etc.

## 5. ASSESSMENT OF WORKING CAPITAL:

In terms of existing guidelines fund based working capital requirements of MSME units requiring fund based working capital limits up to Rs. 5 Crore from the banking system is assessed on the basis of 20% of their projected annual turnover (Nayak Committee). Working capital limit above Rs. 5 crore to be is assessed as per CMA method.

The projected turnover / receipts from the activity of the units should be assessed objectively. Generally the projections accepted should not be higher than 30% Compounded Annual Growth Rate (CAGR) unless there is a past track record of higher CAGR.

In case of seasonal business, higher / lower limits for busy / slack season can be set up keeping in view the past trend.

Where the trade/business cycle is more or less than 3 months, the PBF may be arrived at through traditional methods.

However, **Cash Budget System** shall continue to be followed in case of Sugar, Tea, and Film production accounts.

In case of MSME service sector units, other than those where any scheme specific method of Working Capital assessment has not been specified, the same may be decided by sanctioning authority on the basis of business model/seasonal operation/working capital cycle and genuine needs of the unit.

**Assessment of Non-fund based facilities** shall be subjected to the same degree of appraisal, scrutiny as in the case of fund-based limits.

## 6. REPAYMENT SCHEDULE – TERM LOAN

As per the extant guidelines, the repayment of Term Loan given under MSME sector is fixed for 3 to 10 years under different schemes depending upon the project profitability including the gestation period of 6 to 12 months. However, in deserving cases, i.e. in the event of delay in the execution of project and/or due to circumstances beyond the control of the promoter, Regional Officer may extend the repayment period up to 12 months only on the merits of each case keeping in view the cash generating capacity of the unit and the life of the machinery.

In case of MSEs, liberal moratorium on term loan be extended by including interest also, during first 6-12 months of operation on cases to case basis by the sanctioning authorities. Interest debited during this period be treated as long term funding of project and installments after moratorium period be fixed accordingly.

**For old machinery the repayment schedule for MSME** is 36 months provided the minimum expected life of such machinery is 5 years.

## NEW / OLD DIESEL GENERATOR SET

For new and old Diesel Generating Sets with or without acoustic enclosures to MSME units, the repayment schedule is fixed for 42 months (for new diesel generator set) and 30 months (for old generator set) commencing after 6 months from the date of advance.

## **MEDIUM ENTERPRISES**

The repayment period for medium term loans in case of Medium Enterprises is normally fixed between 5 to 7 years.

In case of financing purchase of old machinery/asset, its residual life may be least 5years and the repayment period is fixed within the residual life.

**However, the Scheme specific guidelines on repayment schedule, wherever prescribed, would prevail.**

## **7. MARGIN**

In case of MSME advances where Scheme specific margins have not been prescribed, the following margin norms would be applicable:

### **WORKING CAPITAL FACILITIES**

Against stocks of raw material, components, spares, stores, material in process and finished goods.

#### **a) Cash Credit (Hyp.)**

I. Upto Rs. 2.00 lakh: NIL

II. Above Rs.2 lakh & upto Rs 5 lakh :15%

III Above Rs.5 lakh: 20%

b) Cash Credit (Pledge) : 15%

c) Cash Credit (Book Debts)

I. Limits upto Rs.5 lakh : 20%

II. Above Rs. 5 lakh : 25%

#### **d) Bills for collection**

- ABC limits covering RRs and MTRs of IBA approved transporters : 20%
- Govt. supply bills : 10%
- Against existing : 25% unencumbered machinery
- Against Selective Credit Control Commodities margin is to be maintained as per RBI/

Bank's guidelines issued from time to time.

**e) MEDIUM TERM LOAN**

**Land and building for factory, plant and machinery**

- I Upto Rs. 2.00 lakh: NIL
- II Above Rs.2 lakh & upto Rs 5 lakh: **5%**
- III Above Rs.5 lakh: 20%

**For purchase of old machinery**

- Minimum life of 5 years. (In case of old generator sets, it should not be older than three years) : 25%\*
- Deferred payment guarantees : 25%\*

\* Where subsidy/margin money is available from Govt. and/or other agencies and is not less than 15% of loan amount it should serve as margin and no fresh margin should be asked for.

**8. RATE OF INTEREST**

**The interest rate as applicable for MSME advances may be followed as per bank guidelines issued by L&A circulars from time to time. Presently as per L&A Circular No.21/2016 dated 23.09.2016.**

Note: Term Premia of 0.50 is to be added in respect of loan repayable in 36 months and above. Further, GM (Credit) / Chairman can permit reduction in interest rates on case-to-case basis as per vested discretionary powers circulated vide L&A circular from time to time(Presently through L& A circular No.34/14(Credit and Risk Management Policy) dated 31.12.2014.

**9. COLLATERAL SECURITY - MSME**

9.1 Loans amount up to Rs. 10 Lakh: Loans Upto Rs.10 lakh to micro and small enterprises which are eligible for coverage under Credit Guarantee Scheme are to be considered on merits without accepting any collateral security/ third party guarantee and all such cases must be got covered under guarantee scheme of CGTMSE. **It is clarified here that our bank is not eligible for CGTMSE coverage at present, in spite of Bank's not eligible for CGTMSE coverage, bank will not insist for any collateral security/ third party guarantee.**

9.2 Loan amount above Rs. 10 Lakh to Rs.100 lakh: Where the borrower/Bank opts not to get guarantee coverage under the scheme of CGTMSE and the loan amount is above Rs. 10 lakh to and up to Rs.100 lakh, officers up to MMG-III will seek permission of Regional Managers who will examine on merits of the case to permit acceptance of collateral security /third party guarantee in accounts, whereas Chief Managers and above are permitted to take decision in such cases on their own depending upon merits of each case.

9.3 Loan amount above Rs. 100 lakh: No specific collateral security norms have been prescribed

for financing other MSME advances not covered under para 9.1 and 9.2 above. The collateral security is obtained on merit of each cases.

In respect of MSME advances, where collateral security/3<sup>rd</sup> party guarantee norms have been categorically mentioned the security norms under that specific scheme to be followed. However, where no specific collateral security norms have been prescribed, the endeavour should be to adequately secure the advance by obtaining minimum of 100% collateral security, to the satisfaction of sanctioning authority and to safe guard Bank's interest.

Further, the scheme specific discretionary powers for relaxation in collateral security vested at various levels would be applicable as mentioned in Scheme Specific guidelines.

## **10. LOANING POWER**

Sanctioning authority will exercise loaning powers as delegated presently vide **L&A Circular No. 3/15 dated 15.01.2015** and other operative circulars issued on the subject from time to time.

## **11. DISPOSAL OF APPLICATIONS**

The Bank has fixed stipulated time frame for disposal of MSME loan application, which is as under:

Upto Rs. 2.00 Lakh	- 2 Weeks
Above 2.00 Lakh to Rs. 50.00 Lakh	- 4 Weeks
Above Rs. 50.00 Lakh to Rs. 100.00 Lakh	- 5 - 6 Weeks
Above Rs. 100.00 Lakh to Rs. 100 crore	- 6 – 7 Weeks

The time schedule as mentioned above is the upper time limit. Regional Managers shall ensure that there is no delay in approval/rejection of the loan proposal.

## **12. SERVICE CHARGES**

Processing fees and documentation charges shall be levied as applicable to MSME borrowers presently circulated by **L&A Cir. No. 33/15 dated 01.10.2015** and subsequent circulars issued on the subject from time to time.

## **13. INSURANCE AGAINST FIRE AND OTHER RISKS**

All the securities mortgaged or hypothecated to the Bank should be kept fully insured against fire and other risks, which may be considered necessary. The insurance policies should be in the joint names of the borrower and the Bank with the agreed Bank clause and remain in the custody of the Bank.

### **a) Where IP is mortgaged to the Bank as Primary Security**

In respect of IP mortgaged to the bank as primary security, Risk Coverage Policy equivalent to reconstruction cost of the property excluding land cost instead of full market value should be

obtained.

#### **b) Where IP is mortgaged to the Bank as Collateral Security**

In respect of IP mortgaged to the bank as collateral security, Risk Coverage Policy equivalent to full market value excluding land cost should be obtained.

BMs should ascertain by reviewing on an ongoing basis that the adequate coverage of insurance is available for reconstruction cost/ market value (as the case may be) at all times as the cost may increase during the period of insurance policy. The value of property for arriving at insurance premium is to be based on rate of construction of the building as per PWD rates for that particular region and the same is suitably loaded for extra fittings and fixtures, superior construction and other relevant details. In fire insurance, building above the plinth and foundation is covered. However, when the policy is extended to cover the risk of earthquake, then the cost of plinth and foundation can be included in the sum insured.

#### **14. CREDIT RISK RATING**

Presently we do not have system of credit risk rating. The same will be implemented in our bank after the development of risk rating model for the purpose.

Borrowers if they so desire, may get themselves rated from external rating agencies.

#### **15. CONTROL MEASURES – POST SANCTION FOLLOW UP OF MSME LOAN ACCOUNTS**

To inculcate repayment discipline amongst borrowers and for ensuring that MSME borrowal accounts remain regular and maintain asset quality, it is essential that they are reminded of due dates of installments and in case of nonpayment of installments reminders are sent to them.

2. It is, therefore, required that mobile numbers of all existing as well as new MSME Loan borrowers are invariably captured in CBS System. Mobile numbers is to be captured through menu option CUMM (new accounts) CBS.

3. All Incumbents are therefore, advised that mobile numbers are invariably entered in existing accounts.

**General Manager**