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शाखा प्रबन्धक / मुख्य प्रबन्धक / उप महाप्रबन्धक,
उ०प्र० कोआपरेटिव बैंक लि०,
समस्त शाखायें,
उत्तर प्रदेश।

विषय : बैंक में एमएसएमई योजना लागू करने के सम्बन्ध में।

बैंक की प्रबन्ध समिति की बैठक दिनांक-13.02.2024 में पारित प्रस्ताव सं०-12 में लिये गये निर्णयानुसार बैंक में निम्नवत् एमएसएमई पालिसी निर्गत की जाती है :-

UPCB MSME POLICY

1. BACKGROUND

Micro, Small and Medium Enterprise (MSME) sector has emerged as an important sector of the Indian economy, contributing significantly to employment generation, innovation, exports and inclusive growth of the economy. In the changed circumstances, it is imperative that the thrust should be focused more on market facilitation and promoting ease of doing business for MSMEs.

MSMED Act came in existence with effect from 2nd October 2006, which defines an "enterprise" instead of an "industry" to give recognition to service sector and has introduced several major policy initiatives for support and promotion of micro, small & medium enterprises in the country. These include; establishment of

- ✓ Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of MSME sector,
- ✓ Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) was in 2000 to offer credit facilities to eligible borrowers and
- ✓ Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self employment ventures / projects / micro enterprises.

MSMEs have greater opportunities to grow as ancillary industries to unleash higher industrial growth. MSMEs being less capital intensive and more employment-friendly have easier access to raw materials, subsidies and other incentives under cluster programs. The country has huge growth potential to create

and enhance the capacity of enterprises both in the manufacturing and service sector by using the available resources. There are huge opportunities for the MSMEs to grow as ancillary industries to unleash greater industrial growth.

Based on above Uttar Pradesh Cooperative Bank has been registered as MLI (Member Lending Institution in CGTMSE) recently and MSME Policy for Lending to Micro, Small & Medium Enterprises has been formulated to improve flow of credit to MSME Sector and to devise an organizational structure at all levels for handling MSME credit portfolio in a more focused manner.

2. OBJECTIVES-

The MSME Policy is based on the following principles:

- i. The Policy aims at enlarging the MSME client base through aggressive credit marketing.
- ii. The Policy addresses the credit needs of the existing MSME clients for judicious and prompt credit decision.
- iii. The Policy describes the Bank's approach towards credit appraisal skills and strategies on the one hand and flexibility and innovation on the other hand.
- iv. The Policy document attempts to ensure that the socio-economic obligations of the Bank are fully met.
- v. The Policy endeavors to ensure continuous growth of loan assets while keeping those assets performing and standard.
- vi. The Policy aims at a comprehensive Management Information System based on a reliable data base and endeavors to mitigate and reduce risk associated with the lending by fine tuning systems and controls.
- vii. The Policy document ensures compliance of all the directives, guidelines issued by Government/Reserve Bank of India and other regulatory authorities on MSME credit matters. The Bank would follow the guidelines in all aspects issued from time to time by the authorities. MSME Department to communicate MSME related schemes/guidelines of Government Authorities issued from time to time for growth of MSME credit portfolio. In case of varying interpretations of these guidelines, the Bank will adopt reasonable interpretation as determined by MSME Department without deviating from the spirit behind the guidelines.
- viii. One of the basic objective of issuing this Policy is to create awareness among the Branch level functionaries regarding needs of the sector and guidelines issued thereof.

3. Scope

1. The Policy would deal with all MSME credit related matters such as fund based, dispensation of MSME credit.
2. Since other credit related areas have been dealt in detail by the Loan Policy, these aspects are not covered in the MSME Policy to avoid duplication. Hence, the MSME Policy should be read along with the Loan Policy.
3. The Policy will cover all types of MSME customers such as Individuals, Proprietorship, Partnerships, Limited Liability Partnership, Association of persons, companies registered under Indian Companies Act, SHG, JLG, Co-operative Society etc.
4. This policy has been made in compliance with all RBI & extant regulatory guidelines issued till date.
5. The guidelines enumerated in the policy are applicable for all branches of bank in Uttar Pradesh.

4. MICRO, SMALL & MEDIUM ENTERPRISES DEVELOPMENT (MSMED) ACT (Along With Reserve Bank of India Guidelines & internal guidelines thereof)



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- The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which was notified on June 16, 2006. With the enactment of MSMED Act, 2006, Services Sector is included in the definition of MSME apart from extending the scope to Medium Enterprises. The MSMED Act, 2006 has modified the definition of Micro, Small & Medium Enterprises engaged in manufacturing or production and providing or rendering services. Reserve Bank of India has notified the aforesaid changes which along with the definition of MSME, as per the Act have been adopted by the Bank for the purpose of credit.
- Following significant changes have been introduced through MSMED Act, 2006.
 - The word "Industry" has been replaced by "Enterprises".
 - The word "Tiny" has been replaced by "Micro".
 - The Services sector has been brought under the purview of MSMED Act, 2006.

5- Definition of Micro, Small & Medium Enterprises

Segment	Classification based on
Micro Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees.
Small Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees.
Medium Enterprise	Where the investment in Plant & Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

6. Becoming a micro, small or medium enterprise:

- Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal, based on self declaration with no requirement to upload documents, papers, certificates or proof.
- 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.
- An e-certificate, namely, —Udyam Registration Certificate|| shall be issued on completion of the registration process.

7. Composite criteria of investment and turnover for classification:

- A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
- 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.

8. Calculation of investment in plant and machinery or equipment

- i. The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.
- ii. In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.
- iii. The expression "plant and machinery or equipment" of the enterprise, shall have the same meaning as assigned to the plant and machinery in the Income Tax Rules, 1962 framed under the Income Tax Act, 1961 and shall include all tangible assets (other than land and building, furniture and fittings).
- iv. The purchase (invoice) value of a plant and machinery or equipment, whether purchased first hand or second hand, shall be taken into account excluding Goods and Services Tax (GST), on self-disclosure basis, if the enterprise is a new one without any ITR.
- v. The value of Plant and Machinery or Equipment for all purposes and for all the enterprises shall mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act.

9. Calculation of Turnover

- i. Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.
 - ii. Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN.
 - iii. The turnover related figures of such enterprise which do not have PAN is considered on self-declaration basis for a period up to 31st March, 2021 and thereafter, PAN and GSTIN is mandatory.
10. 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. 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. The operational guidelines, including capturing of details in CBS are communicated separately.
11. During registration by MSMEs in Udyam Registration portal, data of Investment and Turnover either get auto filled/fetched from the Income Tax Department and GSTN (for those enterprises who have filed IT & GST returns) or is filed on a self-declaration basis (by those enterprises who are yet to file the IT & GST returns). The data which gets auto filled/fetched from the IT Department and GSTN is the data which had been finalized by



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the above respective departments after rectification, wherever necessary, for the relevant Financial Year.

In this regard, Ministry of MSME, Government of India (considering the timeline for filing the returns and the time required for further processing the return) has clarified that the following procedure has been adopted in relation to data (auto filled/fetched) in the Udyam Registration portal with effect from 01.07.2020 onwards:

Financial Year of Registration in Udyam Portal and Classification as MSMEs	Data (Investment, Turnover and Export) taken or to be taken from IT Department and GSTN from the relevant Financial Year
2020-21	2018-19
2021-22	2019-20
2022-23	2020-21

12. Ministry of MSME, GOI vide their office memorandum 5/2(2)/2021-E/P&G/Policy (E19025) dated 02.07.2021 has notified addition of Retail & Wholesale Trading activity (NIC codes) under MSMED Act, 2006 and allowed such enterprises for registering on Udyam Registration portal. [IC 2672-2021 dt 06.07.2021]

13. Registration as MSME: UDYOG AADHAR MEMORANDUM

Ministry of MSME, GOI has notified the Udyog Aadhaar Memorandum (UAM) under the MSMED Act, 2006, for registration, in order to promote ease of doing business for MSMEs.

The filing of UAM can be done on <http://udyogaadhaar.gov.in>. In the above backdrop, Bank branches and the field functionaries are hereby advised to proactively encourage their MSME customers, to get their Udyog Aadhaar registration in a expeditious manner and accept UAM dated on or after 18th September 2015 as valid registration of MSME.

14. COMPUTATION OF VALUE OF INVESTMENT IN PLANT AND MACHINERY/EQUIPMENTS

Investment under head "Plant and Machinery" should include **the original price of every productive item**(irrespective new or second hand, acquired and proposed to be acquired, on lease or hire purchase or on ownership basis by the unit) irrespective of the manner in which the cost has been shown in its books.

Cost of the following items should be included:

1. Original cost of Plant and Machinery (price paid by the owner / hirer / lesser).
2. Cost of control panels, starters, Electric Motors, other electrical accessories mounted on individual machines.
3. Cost of only those testing and quality control equipment, which are, used for/in process testing.
4. The investment in establishing of Wind Mills to generate electricity for captive consumption or partly for captive consumption and remaining power to sell to Electricity Boards/others.

Cost of following items should be excluded:

1. Equipment such as Tools, Jigs, Dies, Molds, and Spares for maintenance and cost of Consumable Stores.
2. Installation charges etc. of Plant & Machinery



- III. Research & Development Equipment and Pollution Control Equipment
- 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 Equipment
- 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.
- VII. Such other items as may be specified, by notification from time to time
- VIII. Service Enterprises, the original cost to exclude furniture, fittings and other items not directly related to the services rendered.
- IX. Cost of Land and Building should be excluded while computing the investments in P&M Equipment for both Manufacturing & Service Industries.

In the case of imported machinery following should be included:

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

15. BANK'S STRATEGIES / APPROACH TO MSME SECTOR

- MSMEs are growth engines for development of Economy and Banks business growth.
- MSME Banking business will thus include the following across the bank:
- Micro, Small and Medium Enterprises – as per regulatory definition irrespective of geographical location, i.e. rural, semi-urban, urban, metro areas.
- All other entities with their annual sales turnover of Rs. 1/- crore to Rs. 150/- crores and new infrastructure where the project cost is upto Rs. 50/- crores.
- MSMEs which are Associate/sister concerns of Wholesale Banking customers.
- Clubs, Trusts, etc.
- Financing under various Government schemes launched for MSME Sector.
- However, such units, which are outside the purview of regulatory definition will not form part of Priority Sector lending.
- The small and micro (service) enterprises shall include small road and water transport operators, small business, professional & self employed persons and all other service enterprises.
- Financing to Micro & Small Enterprises will only be treated as part of Priority Sector advance. Bank's lending to Medium Enterprises will not be included for the purpose of reckoning advance under the priority sector.
- Loans granted to Retail & Wholesale Traders would be eligible for classification under Micro and Small Enterprises Sector provided they satisfy the definition of Micro & Small (Service) Enterprises in respect of investment in Equipment.



Note:-

U.P. Coop. Bank will sanction Loan up to 60.00 Lakh in MSME Sector as per NABARD Exposure Norms dt. 12-05-2008

16. PROCESSING FEE AND UPFRONT FEE

The processing fee, upfront fee and other fee (including upfront fee and processing fee for review of term loan) will be decided through Bank's Circular.

17. COMMITTEES ON MSMEs

EMPOWERED COMMITTEES ON MSMEs

U.K.Sinha Expert Committee Recommendation on MSME

As per the U.K.Sinha Expert Committee recommendation presently, banks assess working capital and term loan requirement of MSME units based on various methods viz.

- ❖ Cash Budget Method,
- ❖ Nayak Committee of minimum 20% of Turnover Method,
- ❖ Traditional or Operating Cycle Method.

Out of these methods assessment based on projected turnover based method prescribed by Nayak Committee is generally used by banks.

18. COMMON GUIDELINES/INSTRUCTIONS FOR LENDING TO SME SECTOR

CODE OF BANK'S COMMITMENT TO MICRO & SMALL ENTERPRISES (MSE)

These Code sets minimum standards of banking practices for banks to follow when they are dealing with Micro & Small Enterprises (MSEs) as defined in the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.

a. The MSE Code broadly covers the following areas:

- Objectives of the Code
- Commitment of banks to the customers
- Information regarding availability of interest rates, tariff schedule etc.
- Privacy and confidentiality
- Lending methods
- Collection of dues
- Features pertaining deposit accounts
- Services offered
- Complaints, grievances and feed back (bank's internal procedures and Banking Ombudsman Scheme)
- Products and services
- Protection to customers

The focal points comply with in the area of lending.

- Banks to make available free of cost, simple, standardized and easy to understand application forms for loans to MSMEs.
- All loan applications should be acknowledged in writing.



- All loan applications should be disposed off within the stipulated time as under from the date of receipt of application complete in all respects and accompanied by documents as per the check list:

For credit limits up to Rs. 2/- lakh	Within 2 weeks
For credit limits up to Rs. 5/- lakh	Within 4 weeks
For credit limits exceeding Rs. 5/- lakh	Within a reasonable time frame (4 weeks normally)

- It should be ensured that sanctioned loans are disbursed within 2 working days from the date of compliance of all terms and conditions of sanction/ documentation.
- In case of rejection of application, reasons for rejection should be conveyed in writing to the applicant for credit facilities.
- To provide working capital limits to Micro & Small Enterprises (Manufacturing) on the basis of minimum of 20% of projected turnover.
- To follow credit rating system, the parameters of which should be shared with the borrowers.
- Have regular contact with the borrowers after sanction of facilities and provide credit counselling services that can be of help to the borrower in dealing with their problems.
- The printed copies of MSME code at branches and a copy of the Code is also placed on bank's website.

19. MSME Application Forms for Financial Assistance:

The simple standardized loan application form for borrowers in Micro & Small Enterprises Sector preferably circulated by Indian Banks' Association shall be introduced. Bank shall make necessary correction in the form.

This form is to be used by all the borrowers irrespective of the loan amount.

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 can 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.
- All those cases, which have been either rejected or where credit limits, have been curtailed in respect of advances to Small Enterprises to be referred to the next higher authority.

20. Register of Credit Applications Received:

All applications received should be entered in a Register for recording therein the particulars like date of sanction, rejection, reasons for rejection etc.

In respect of credit applications processed at MSME branches, application 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** (Techno economic viability) study is required.

- Rejection of application for fresh limit/enhancement of existing limits should be reported to GM (Banking).



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- Sanction of reduced limits should be reported to GM (Banking)_ immediately with full details for review and confirmation.
- The reason for rejection should be communicated in writing to the borrower within the period stipulated for disposal in line with stipulation mentioned in the Fair Practice Lenders Code.

21. Type of Loan / Facility

The Bank provide all types of fund based facilities to the borrower under this sector viz. Term Loan, Cash Credit, Overdraft facility.

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', RBI has advised to review and tune their existing lending policies to the MSME sector by incorporating therein the following provisions so as to facilitate timely and adequate availability of credit to viable MSME borrowers especially during the need of funds in unforeseen circumstances:

- I. To extend standby credit facility in case of term loans
- II. Additional working capital to meet with emergent needs of MSME units
- III. Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSME borrowers require increasing the existing credit limits of the MSMEs, every year based on the actual sales of the previous year.
- IV. Timelines for Credit Decisions

22. Composite Loan:

A composite loan with maximum limit up to Rs.60.00 Lakh. as per exposure norms, should be considered by bank to enable the Micro and Small Enterprises {both for manufacturing and service sector} to avail of their working capital and Term loan requirement.

23. Assessment of Working Capital Limits:

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

❖ Turnover method –

The credit requirements of village industries, Micro Enterprises, Small Enterprises and Medium Enterprises having aggregate fund based working capital limits upto Rs.60.00 Lakh. from the bank, will be computed on the basis of a minimum of 20 % of their acceptable projected annual turnover for new as well as existing units.

24. Method of assessment:

The assessment of working capital credit limits will be done on the basis of following method.

1. Turn Mover method
2. MPBF (Maximum Permissible Bank Finance) method
3. Cash Budget method

25. Term Loan :-

- I. Term loan may be for normal capital expenditure, acquisition of fixed assets, expansion of existing operational facilities etc.
- II. Maximum duration of loans including of moratorium period should be up to 5 years, based on cash flow. Relaxation may be allowed in the line of lending policy and as per Scheme specific products of MSMEs.
- III. Moratorium period should be considered depending on requirement of the project / proposal.



- IV. The technical feasibility and economic, financial, commercial viability, Managerial competence, environment viability and bank-ability of the proposal with reference to risk should be assessed. Technical, financial, commercial viability will be done through competent CA of bank, it will be mandatory.
- V. Disbursement of term loan should be made, upon compliance of all pre disbursement formalities, phase wise as per draw-down schedule maintaining stipulated margin, preferably directly to the supplier, as per as practicable. Proper end-use of disbursed fund is to be ensured.
- VI. Repayment schedule should be fixed taking into account the sustenance requirements, surplus generating capacity, breakeven point, life of the asset, etc., and not in an "ad hoc" manner.
- VII. Other parameters and benchmark financial ratios like, Total outside liabilities/Tangible Net worth (TOL/TNW), Debt equity Ratio, Current Ratio, DSCR, etc. should be in line with the Bank's lending policy.

26. Due Diligence

To a greater extent it is observed in MSME sector that a major chunk of them are single owner run or family run businesses. It could take the shape of proprietorship or partnership, but generally unregistered. Therefore a proper due diligence in borrower selection assumes paramount importance.

The due diligence exercise should inter alia cover the following aspects

- ✚ KYC formalities (identification & address verification through generally accepted documents).
- ✚ Checking of CIR (Credit Information Reports)-to be done annually at the time of review.
- ✚ Verification RBI / ECGC (Export Credit Guarantee Corporation) defaulters' list. (As per circular)
- ✚ Search in records of Registrar of Companies (ROC) (As per circular)
- ✚ Verification of PAN.
- ✚ Educational qualifications, experience, skills.
- ✚ Employment / business details.
- ✚ Scrutiny of existing Bank Accounts / borrowing if any
- ✚ Family background, social reputation, standing/duration in the business.
- ✚ Market reports
- ✚ Interview of the borrower and compliance of KYC norms.
- ✚ Financial Statements/Data submitted by the borrower
- ✚ Integrity of the borrower.
- ✚ Track record with special emphasis on servicing/repayment/ restructuring history.
- ✚ Report from existing bankers.
- ✚ Scrutiny of RBI Willful / Defaulters' (Non-Suit Rs.1 Crore & above) List/ CIR/SAL List/RBI's Caution List/List of NPA Borrowers of the Bank
- ✚ Behavior of Payment history of electricity bill and telephone bill to be checked. "Other statutory Payment like ITRs, Tax Receipts and GST Returns".



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27. Margin

Requirement of margin shall be guided by loan policy or circular of the Bank, except for scheme specific products of MSME, which are to be followed while disposal/processing of loan applications.

(a) For Term Loan

- In case of factory land & building, overall margin of 20%
- In case of Plant & Machineries and Equipment margin is proposed at 20%.

(b) For Working Capital

- 20% uniform margin is proposed on stocks and receivables

(c) Rate of Interest:

As decided by the management committee keeping in mind RBI directions.

(d) Mudra Loans will not be sanctioned as per E-Mail send by CGFMU (NCGTC) on dt. 02.01.2024

(e) Security:

- Branches are instructed not to accept collateral security of those loans which are covered under CGTMSE guarantee.
- Those loans which are not secured by Credit Guarantee Fund Trust for Micro and Small Enterprise (CGTMSE) / Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL) / other guarantee schemes / where no credit guarantee is available, the Bank should obtain the collateral as per Bank's guidelines for specific product schemes.

28. Credit rating:

(i) Internal Credit Rating System

- The assigned Credit rating of all priority sector advances having credit limit up to Rs. 60.00 lakh for MSME account shall be rated as per respective rating model adopted by the Bank.
- MSME loan of limit above Rs.60.00 lakh are to be rated as per rating manuals or Bank's Circular.

(ii) External Credit Rating

Rating from an external accredited agency if it is required for all borrowers availing loan will be done by ICRA, CARE, CRISIL and FITCH etc. or Reserve Bank of India approved external credit rating agencies in India. The exposure to MSME borrower rated by any of these rating agencies will be recognized as rated exposure.

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

29. Collateral Free Loans:

Loan which are covered by CGTMSE Guarantee cover no collateral or third party guarantee will be taken.

Coverage of collateral free loans under Credit Guarantee Fund Trust Scheme for Micro & Small Enterprises(CGTMSE):

- All the collateral free loans upto Rs.60.00 lakh sanctioned to Micro & Small Enterprises in manufacturing and service sector as defined under MSMED Act,2006, PMEGP scheme are eligible for cover under the Scheme. (Subject to the implementation of the scheme)



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- Bank will not share the one-time guarantee fees and annual service charges covered under the scheme. Entire guarantee fee/Service Charges is to be borne by the borrower

30. REVIEW

Credit facilities sanctioned to borrowers are subjected to annual review as per the prevailing guidelines. Branches have been authorized to review advance accounts of borrowers in trading activities, Micro & Small Enterprises, borrowers in rural area, borrowers having only term loan accounts, financed under government sponsored programme, borrowers enjoying only guarantee facility, etc, with limits upto Rs. 20/- lakh pending receipt of audited financial statements provided the conduct of the account is satisfactory in terms of various parameters stated below:

- Satisfactory conduct and turnover in the account
- Fulfilment of repayment obligations (Interest/ Instalments)
- Adequacy of securities, drawing power, insurance coverage etc.
- Rectification of inspection irregularities (other than non submission of financial statements)
- Compliance of all terms and conditions of previous sanction.
- Satisfactory trend in production and /or Sales as per projections
- Documentations and mortgages in the account being complete, valid and enforceable
- Prompt payment of bills under L/cs, realization of BP/BDs, Guarantee Commission etc.
- Submission of Income Tax / GST returns filed with Statutory Authority as per time schedule prescribed, wherever applicable (which will also indicate about the sales and profitability of the operations).

However, Financial statements should be obtained within 9 months of the close of the fiscal year and reviewed by the Approving Authority based on financial parameters derived from the balance sheet/profit and loss statement submitted by borrowers at a later date. If the financial parameters resulting from the submitted balance sheet are not satisfactory, appropriate measures should be taken, if necessary.

The review on above lines will not be applicable to:

- Irregular accounts
- Accounts under restructuring / rephasing or rehabilitation
- Retail loans
- NPA accounts
- Suit filed accounts
- Staff Loans

31. FINANCIAL RATIOS FOR CREDIT APPRAISAL

Following ratios can be accepted for granting credit facilities to SME units falling as per regulatory guidelines.



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Sr. No.	Ratio	Norms	
		Micro & Small Enterprises under manufacturing sector and Service Sector (regulatory guidelines)	Medium Enterprises under manufacturing sector and Service Sector (regulatory guidelines)
1	Current Ratio	1.17 & above	1.20 & above
2	Debt Equity Ratio (Total Term Liability / Tangible / Net Worth)	3:1	3:1
3	FACR (Net FA/Term Debts)	Not below 1.25	Not below 1.25
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

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A. PSB loans in 59 minutes:

Govt. of India launched a transformative initiative in MSME credit space by launching portal **www.psbloansin59minutes.com**. This web portal is enabled for in principle approval for MSME loans having value minimum of Rs.1.00 Lakh and maximum upto Rs. 5.00 Crore within 59 minutes. The Portal sets a new benchmark in loan processing and reduces the turnaround time. Subsequent to this in-principle approval, the loan is required to be sanctioned & disbursed in 7-8 working days. Bank may take help of PSB Loan in 59 minutes.com for loan limit upto 60.00 Lakh.

i. Eligibility Criteria:

MSME Enterprises (Both Manufacturing and Services)

- Possessing Valid GSTN number & Udyog Aadhaar Number [UAN]
- Other documents which will be required by the bank or incorporated in the circular of the bank for MSME.

TRAINING : A group of officers in various grades to be built up to post in branches having potential of SME financing.

33- RECOVERY /REHABILITATION / DEBT RESTRUCTURING /OTS.

These areas are covered under the Recovery Policy. The guidelines are conveyed from time to time by various circulars from HO.

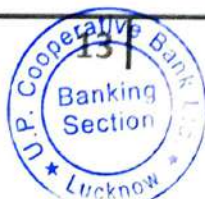
34- Credit Guarantee Fund Trust Scheme for Micro & Small Enterprises (CGTMSE):

- Purpose:** To provide collateral free loans up to Rs.60.00 lakh to Micro & Small Enterprises (As per Exposure Norms)
- Eligibility:** The coverage of the Scheme is extended to all new and existing Micro and Small Enterprises (both in the Manufacturing Sector as well as in the Service Sector) as defined under MSMED Act, 2006 for which credit facility has been provided by the Bank without any collateral security and/ or third party guarantees.

Definitions

For the purposes of this Scheme –

- "Amount in Default" means the principal and interest amount outstanding in the account(s) of the borrower in respect of term loan and amount of outstanding working capital facilities (including



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- interest), as on the date of the account becoming NPA, or the date of lodgment of claim application whichever is lower or such other date as may be specified by CGTMSE for preferring any claim against the guarantee cover subject to a maximum of amount guaranteed.
- (ii) "Collateral security" means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution to a borrower.
- (iii) "Credit facility" means any financial assistance by way of term loan and / or fund based and non-fund based working capital (e.g. Bank pg. 2 Guarantee, Letter of credit etc.) facilities extended by the lending institution to the eligible borrower. For the purpose of calculation of guarantee fee, the "credit facility extended" shall mean the amount of financial assistance committed by the lending institution to the borrower, whether disbursed or not. For the purpose of the calculation of Guarantee Fee, the credit facility extended shall mean the credit facilities (both fund and non-fund based) covered under CGS-I and for which guarantee fee has been paid, as at March 31, of the relevant year.
- (iv) "Eligible borrower" means new or existing Micro and Small Enterprises to which credit facility has been provided by the lending institution without any collateral security and/or third party guarantees. However, a "Hybrid / Partial Collateral Security" product allowing guarantee cover on credit facilities having collateral security, for the portion of credit facility not covered by collateral security (unsecured portion), has also been introduced by CGTMSE. In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, can be covered under Credit Guarantee Scheme of CGTMSE.
- (v) 'Guarantee Cover' means maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution
- (vi) "Lending institution(s)" means a commercial bank for the time being included in the second Schedule to the Reserve Bank of India Act, 1934, Regional Rural Banks, Scheduled Urban Co-operative Banks, Non Scheduled Urban Co-operative Banks, State Co-operative Banks, District Central Co-operative Banks, Small Finance Banks and Microfinance Institutions as may be specified by the Trust from time to time, or any other institution(s) as may be directed by the Govt. of India from time to time. The Trust may, on review of performance, remove any of the lending institution from the list of eligible institution.
- (vii) "Material date" means the date on which the annual guarantee fee on the amount covered in respect of eligible borrower is paid/ credited to the Trust by the Member lending institution.
- (viii) "Non-Performing Assets" means an asset classified as a nonperforming based on the instructions and guidelines issued by the Reserve Bank of India from time to time.
- (ix) "Primary security" in respect of a credit facility shall mean the assets created out of the credit facility so extended and/or existing unencumbered assets which are directly associated with the project or business for which the credit facility has been extended. pg. 3
- (x) "Scheme" means the Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I)
- (xi) "SIDBI" means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).
- (xii) "Micro and Small Enterprises" As per the MSMED Act, 2006 an "enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services; and "Micro and Small Enterprises" are defined in 7.1.a.i) and ii) & in 7.1.b.i) and ii) of the said Act and amended from time to time.
- (xiii) "Tenure of guarantee cover" means the maximum period of guarantee cover from Guarantee sanction date which shall run through the agreed tenure of the term credit and for a period of 5 years or block



of a 5 years from Guarantee start date where working capital facilities alone are extended or loan termination date, whichever is earlier or such period as may be specified by the Trust.

- (xiv) "Trust" means the Credit Guarantee Fund Trust for Micro and Small Enterprises set up by Government of India and SIDBI with the purpose of guaranteeing credit facility(ies), extended by the lending institution(s) to the eligible borrowers.
- (xv) "Third Party Guarantee" means any guarantee obtained by a Member Lending Institution in connection with the credit facility extended by it to a borrower except from Sole-Proprietor in case of Sole Proprietary concern, Partners in case of partnership / limited liability partnership, Trustees in case of Trust, Karta & Coparceners in case of HUF and promoter directors in case of private/ public limited companies and owner of the immovable property in case of guarantee under Hybrid / Partial collateral security model.

Credit facilities eligible under the Scheme

Though the Trust shall cover credit facilities (Fund based and/or Non fund based) extended by Member Lending Institution(s) to a single eligible borrower in the Micro and Small Enterprises sector for credit facility (i) not exceeding ₹50 lakh (Regional Rural Banks/select Financial Institutions/ Microfinance Institutions); (ii) not exceeding ₹200 lakh (Scheduled Commercial Banks, select Financial Institutions, Small Finance Banks (SFBs)) **(for U.P. coop. bank as per exposure norms it will be Rs 60.00 Lakh)** and Scheduled Urban Co-operative Banks (including Non-Scheduled Urban Co-operative Banks, State Co-operative Banks and District Central Co-operative Banks) by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees or such amount as may be decided by the Trust from time to time.

The registration criteria for Regional Rural Banks, Small Finance Banks, Scheduled Urban Co-operative Banks, other Co-operative Banks (Non Scheduled Urban Co-operative Banks (NSUCBs), State Co-operative Banks (STCBs) and District Central Co-operative Banks), State Financial Corporation and Microfinance Institutions are given in Annexure I

The cap of ₹200 lakh is the maximum guarantee coverage limit (irrespective of the unit activity including Trading) per borrower based on the outstanding credit facilities and the borrowers can avail incremental credit facilities (i.e. to the extent of reduction in the outstanding exposure limit) under Credit Guarantee Scheme of CGTMSE, subject to maximum cap of ₹200 lakh. For the purpose of calculating the exposure limit on outstanding basis, the following shall be considered i) In respect of fully disbursed Term Loans, the outstanding as on the date of consideration of fresh coverage shall be considered; ii) In respect of partially disbursed Term Loans, the entire sanction amount shall be considered. In case, if the MLI proposes to cancel the undrawn portion of the sanctioned facility, MLI to update the same in CGTMSE portal; iii) In respect of Working Capital Limits, the total sanctioned pg. 5 amount of working capital limit (irrespective of the utilization) shall be considered.

Member Lending Institutions (MLIs) can apply for guarantee cover anytime during the tenure of Loan provided the credit facility was not restructured / remained in SMA2 status in last 1 year from the date of submission of application. The guideline was made effective from October 08, 2021 to only fresh coverage / credit facility applying for the first time for coverage i.e the same credit facility should not have been covered previously under CGTMSE / coverage discontinued in between.

Provided further that, as on the material date:

- (i) Credit facility is standard and regular (not SMA) as per RBI guidelines and / or
- (ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or
- (iii) The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.



Trading (Retail / Wholesale Trade) has been made eligible activity under CGTMSE for all MLIs (including RRBs). Also, Trading activity has been aligned with other activities in respect of the extent of coverage, ceiling of credit guarantee coverage and guarantee fee.

Educational / Training Institution also made eligible activity under Credit Guarantee Scheme of CGTMSE and would attract fee, extent of coverage and other terms and conditions as applicable under existing normal Scheme.

"Hybrid Security" product has been introduced where the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of ₹200 lakh (for U.P. coop. bank as per exposure norms it will be Rs 60.00 Lakh) can be covered under CGS-I. CGTMSE will, however, have notional second charge on the collateral security provided by the borrower for the credit facilities extended. Under the hybrid security product, there is no requirement for MLIs to create security / charge in favour of CGTMSE by way of legal documentation.

Credit facilities extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower up to a maximum of ₹200 lakh (for U.P. coop. bank as per exposure norms it will be Rs 60.00 Lakh) per borrower subject to ceiling amount of individual MLI or such amount as may be specified by the Trust.

The information on total exposure of the borrower under CGTMSE and status of the account (NPA/Standard) are made available to the MLIs at no cost. System Path to access such information: MLI Login>> Reports & MIS>> Search History >> Enter ITPAN number of the chief promoter of the unit.

The guarantee cover will commence from the guarantee start date and shall run through the agreed tenure of the term credit in respect of term credit / composite credit. Where working capital alone is extended to the eligible borrower, the guarantee cover shall be for a period of 5 years or a block of 5 years or for such period as may be specified by the trust in this behalf. Guarantee for working capital account can be renewed after completion of initial 5 years block coverage. There is no maximum guarantee coverage period cap for working capital account.

Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme: -

- (i) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.
- (ii) Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.
- (iii) Any Credit facility shall not be eligible to covered under the Scheme if the said credit facility has been covered for guarantee through NCGTC Ltd.
- (iv) Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.
- (v) Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.



- (vi) Any credit facility which has been sanctioned by the lending institution against collateral security and / or third party guarantee. However, after the introduction of Hybrid Security model, MLIs can cover the unsecured part of the credit facility(ies) under CGTMSE upto the overall exposure of ₹200 lakh.

Agreement to be executed by the lending institution

A lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Trust in such form as may be required by the Trust for covering by way of guarantee, under the Scheme all the eligible credit facilities granted by the lending institution, for which provision has been made in the Scheme.

Responsibilities of lending institution under the scheme:

- (i) The lending institution shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.
- (ii) The lending institution shall closely monitor the borrower account.
- (iii) The lending institution shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.
- (iv) The lending institution shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims.
- (v) The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.
- (vi) The lending institution shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit and the lending institution shall be bound to comply with such directions.
- (vii) The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust. The lending institution shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor. In particular, the lending institution should intimate the Trust while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security. The lending institution shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust. Further the lending institution shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust

- **Guarantee Fee:** Composite all-in Guarantee Fee (plus applicable GST) as under:

Credit Facility- Slab Rs	Annual Guarantee Fee (AGF) [% p.a.] as on 01.04.2023
0-10 Lakh	0.37
Above Rs 10 Lakh to Rs 50 Lakh	0.55



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Above Rs 50 Lakh to Rs 100 Lakh	0.60
Above Rs 100 Lakh to Rs 200 Lakh	1.20
Above 2 crore upto 5 crore	1.35

▪ **Extent Of Guarantee: Quantum of credit to be covered and Guarantee Coverage (w.e.f.01.04.2023)**

Category	Maximum extent of Guarantee where credit facility is		
	Upto Rs.5 lakh	Above Rs.5 lakh upto Rs.50 lakh	Above Rs.50 lakh and upto Rs.500 lakh
Micro Enterprises	85%	75%	75%
MSEs located in North East Region (incl. Sikkim, UT of Jammu & Kashmir & UT of Laddakh)	80%		75%
Women Entrepreneurs /SC/ST Entrepreneurs/ Person with Disability (PwD)/ MSE promoted by Agniveers/ MSEs situated in Aspirational District U ZED certified MSEs	85%		85 %
All other category of borrowers	75%		75%

▪ **Guarantee Period:**

- (i) Where WC alone is extended , the guarantee cover shall be for a period of 5 years or a block of 5 years , or for such period as may be specified by the trust in this behalf. Fresh upfront guarantee fee is to be paid after 5 years to keep guarantee coverage live. or as per circular of CGTMSE.
- (ii) The guarantee cover will commence from the date of payment of guarantee fee and shall run through the agreed tenure in respect of term credit/ composite credit i.e. in case where WC and TL both are sanctioned the agreed tenure in both the cases will be the repayment period of TL only. In other words in case where TL and WC both are sanctioned, the coverage period of WC may not necessarily run through 5 years. In such cases the WC limit be got renewed and fresh coverage thereof be obtained from CGTMSE by paying fresh upfront guarantee fee in order to keep Guarantee coverage live.

36. POLICY REVIEW

- The Policy document may be generally operative till further review by the Board. However, efforts would be made to update the policy document preferably on annual basis.
- Any regulatory guidelines issued by RBI/NABARD/CGTMSE/MSME /Govt. etc. from time to time will automatically be the part of this policy.
- References / clarifications, if any, on the interpretation of any provision (s) of this policy may be made to Banking Department which will clarify its provisions and wherever required, after consultation with relevant institutions.
- MSME Policy has been prepared as mentioned above. Implement the MSME policy after approval from management committee of the bank. Detailed terms and conditions will be decided through circulars after due approval from management committee of the bank.



NOTE:

- "If any dispute arises as to the applicability or interpretation of the clauses of this policy, the matter shall be referred for Arbitration as per U.P. Cooperative Societies Act, 1965."
- The borrower will be required to submit proof of his ownership of the land/property on which he proposes to establish his Enterprise. Generally Loan will not be disbursed to any person who is not the Owner of the land or property on which the Enterprise is to be established but relaxation can be granted by appropriate authority at branch level if following conditions are fulfilled.
 1. The bank will not have direct exposure of security to Leased, Hire Purchased and Rented properties, either primary or collateral.
 2. The Bank may extend credit facilities to such borrowers having security as Leased, Hire Purchased and Rented properties on subject to the fulfillment of the following conditions.
 1. It is in commercial area (not residential).
 2. Unexpired Lease/Registered Agreement period in 10 years or more at the time of sanction.
 3. With Prior written approval of Appropriate Authority (at Branch)

अग्रेतर योजना के सम्बन्ध में परिपत्र एवं आवेदन फार्म शीघ्र ही निर्गत किये जायेंगे।

R20.2.24

(आर०के० कुलश्रेष्ठ)
प्रबन्ध निदेशक

प्रतिलिपि निम्न को सूचनार्थ एवं आवश्यक कार्यवाही हेतु प्रेषित :-

1. समस्त क्षेत्रीय प्रबन्धक, उ०प्र० कोआपरेटिव बैंक लि०, उत्तर प्रदेश।
2. सचिव/मुख्य कार्यपालक अधिकारी, समस्त जिला सहकारी बैंक लि०, उ०प्र०।
3. महाप्रबन्धक (आई०टी० सेल) को इस निर्देश के साथ कि उक्त एमएसएमई पालिसी को वेबसाईट पर अपलोड किये जाने के सम्बन्ध में सम्बन्धित को निर्देशित करें।
4. समस्त महाप्रबन्धक/विभाग प्रभारी, उ०प्र० कोआपरेटिव बैंक लि०, मुख्यालय, लखनऊ।
5. निदेशक, कृषि सहकारी स्टाफ प्रशिक्षण संस्थान, 472 रिंग रोड, इन्दिरा नगर, लखनऊ।
6. मुख्य महाप्रबन्धक, उ०प्र० कोआपरेटिव बैंक लि०, मुख्यालय, लखनऊ।
7. स्टाफ आफिसर-अध्यक्ष प्रकोष्ठ को अध्यक्ष महोदय, उ०प्र० कोआपरेटिव बैंक लि० के अवलोकनार्थ।
8. मुख्य महाप्रबन्धक, राष्ट्रीय कृषि एवं ग्रामीण विकास बैंक, क्षेत्रीय कार्यालय, लखनऊ।
9. आयुक्त एवं निबन्धक, सहकारिता, उ०प्र०, लखनऊ।

R20.2.24

प्रबन्ध निदेशक
KS