

## Appendix 15

### Lending to Micro, Small & Medium Enterprises (MSME) Sector

#### 1 Guiding Principle

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

##### 1.1. Definition of Micro, Small and Medium Enterprises

###### a. Manufacturing Enterprises:

Manufacturing enterprises would mean enterprises engaged in the manufacture or production of goods as specified below:

- I. A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
- II. A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
- III. A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries.

###### b. Service Enterprises:

Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building, furniture and fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) as specified below:

- I. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
- II. A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and
- III. A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

#### 2 Policy

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

##### 2.1. Products and Services

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

## 2.2. Evaluation and Assessment of Limits

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

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

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

For MSMEs, the fund based working capital facilities to be up to 20% of projected turnover based on credit assessment and needs. The Bank may further approve temporary ad hoc limits to fulfil demand in case of an unforeseen/seasonal increase in sales, and it will need to be regularised not later than three months from date of sanction or as per Bank policy as amended from time to time.

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

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

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

## 2.3. Security

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

The Bank will not insist upon any collateral for loans of limits up to INR 1 M. The Bank has registered under the CGTMSE scheme and the same can be availed in select locations. The Bank is currently a registered Member Lending Institution (MLI) under the CGTMSE scheme (Credit Guarantee cover).

## 2.4. Application

Loan application forms are provided free of cost, along with a document checklist. Information pertaining to fees, prepayment charges and rates would be provided to the customers at the time of application along with a checklist.

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

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

## **2.5. Disposal of Application**

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

- For credit limit up to INR 0.5 M within 2 weeks from the date of receipt<sup>16</sup>
- For credit limit above INR 0.5 M and up to INR 2.5 M within 3 weeks and
- For credit limit above INR 2.5 M within 6 weeks from the date of receipt<sup>17</sup>

## **2.6. Disbursal**

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

## **2.7. Pricing**

- The pricing for the various lending products is based on several parameters like risk profile of the customer, type of the product, income profile, linkage to any credit guarantee schemes etc.
- Interest Rate and other charges would be as per the sanction terms as detailed in the Sanction Letter for the facility, duly acknowledged by the customer.
- Interest rate would be linked to floating rate (MCLR) or fixed rate.
- The pricing for certain facilities like foreign trade services are guided by RBI stipulations on subvention, tenors, amount etc., wherever applicable. These will be followed.
- MCLR rate would be available on the website for reference and would be updated within seven days of change.
- There will be no processing fees up to Loan amount of INR 0.5 M
- Bank will permit pre-payment of fixed rate loans up to INR 5 M without any pre-payment penalty and floating rate loans without levying any pre-payment penalty

## **2.8. Post Disbursement- Servicing**

- DBS Biz-Care setup will provide customer support on all pre-transactional and post-transactional queries.

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<sup>16</sup> provided the application is complete in all respects and is accompanied by documents as per 'check list' provided.

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

## **2.9. Deferral/Exception**

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

## **2.10. Monitoring and Due Diligence**

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

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

## **2.11. Grievance Redressal Process**

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

# **3 Key Responsibilities**

## **Business Unit**

- Loan Origination, Documentation, Memo Preparation, CGTMSE Application, OSCA processing.

## **RMG-Credit**

- Review of Loan Application submitted by BU
- Responsible for ensuring that the borrower and the credit facilities approved as per the CGTMSE program

## **RMG -CCU**

- Responsible for pre-disbursement documentation
- Setting up of limit

For details the Guidance to Policy Framework for lending to MSME as per Appendix 1 should be referred.

## Annexure 1 Guidance to Policy Framework for lending to MSME

### 1. Loan Application Process

SI No.	Action Points	FPR
1	Loan Application form needs to be attached with every MSE Loan application. The application form will have a document checklist as well. A copy of indicative interest rate, fees and charges to be shared with customer. A reference document is available on intranet for usage.	RM
2	The application form will have an acknowledgment slip which will be handed over to the customer and same should be duly signed by the Bank designated authority.	RM
3	The RM will inform the customer for any additional information/documentation within 7 working days post receipt of application (4 days for RM for Origination and submission to CRM and 2 working days for CRM to raise additional queries and on the 7 <sup>th</sup> day, queries to be released to client). RM and CRM to ensure respective TATs to be able to get back to the customer within this stipulated time frame.	RM/CRM
4	The details of the application will be updated in the Share-point and tagged as MSE( Dropdown would be created in Share-point)	RM
5	Any case that is rejected whether by Business or Credit, rejection letter (in a DBIL approved format) should be sent to customer via email/letter with reject reasons. The rejection letter should carry Bank's logo.	RM
6	Reasons for rejected case should be duly updated in Share point as well for future analysis.	RM

### 2. Disposal of Application

SI No.	Action Points	FPR
1	Any loan that is meeting the credit program would be processed for Credit decisioning through OSCA. RM needs to select MSE in OSCA if applicable.	RM
2	<p>Loan decisioning has to be done with a definite time frame:</p> <ul style="list-style-type: none"> <li>For credit limit up to INR 0.5 M within 2 weeks of date of receipt of application (4 days for Origination and 10 days for underwriting of which CRM TAT will be 5 days and RM TAT 5 days)</li> <li>For credit limit above INR 0.5 M and up to INR 2.5 M within 3 weeks (1 week for Origination and 2 week for underwriting of which CRM TAT will be 7 days and RM TAT 7 days)</li> <li>For credit limit above 2.5 M within 6 weeks from date of receipt (1 week for Origination and 5 weeks for underwriting of which CRM TAT will be 2.5 weeks and RM TAT 2.5 weeks)</li> </ul> <p>Please note the above timelines are for maximum permissible scenario as per the MSME guidelines. RM &amp; CRM to take special note if it is MSE Case from timeline perspective. Even if the case needs to be rejected same to be informed to the customer within the above time limits.</p>	RM & CRM
3	The Bank will indicate all terms and conditions in the -sanction letter given to customer (Legal approved Offer Letter already available for use)	CCU/RM
4	Disbursal of Loans would happen within 2 working days from date of compliance of terms and conditions governed by sanction	RM

### 3. Pricing

SI No.	Action Points	FPR
1	Interest Rate and other charges would be as per the sanction terms detailed in Offer Letter duly acknowledged by customer	RM
2	There would be no processing fees for loan amount up to INR 0.5 M. Same should be taken care at the time of issuing of sanction letter.	RM

3	Bank will permit pre-payment of fixed loans up to INR 5 M without any pre-payment penalty and floating rate loans without levying any pre-payment penalty. Floating rate loans will be made available as and when system enhancements are ready.	RM
4	Interest rate will be linked/benchmarked to MCLR (Except Cash-backed lending against borrower's own deposits). If there is any specific stipulation of fixed rate, same will be complied to.	RM

#### 4. Post- Disbursement Servicing

SI No.	Action Points	FPR
1	DBIL would provide customer support on all pre-transactional and post-transactional queries.	Biz-Care/RM
2	Customer would be provided need-based credit counselling services	RM
3	Broad Rating parameters will be shared to the customer: <ul style="list-style-type: none"> <li>Financial Strength</li> <li>Industry</li> <li>Business Vintage</li> <li>Credit history (Credit Bureau and other Dedupe Checks)</li> <li>Bank Statement Analysis</li> <li>Business Model</li> </ul> The same maybe shared with the customer post disbursement either through email/letter in a standardized format.	RM
4	All customers need to be provided with a copy of facility agreement post activation. Timely release of securities should happen on repayment of facilities.	CCU
5	Bank statements to be sent out to the customers. Customer would be entitled to interest statements as well. Any other services can be provided from time to time. This is an existing process as well.	Biz care/ Branch Ops

#### 5. Monitoring and Due Diligence

SI No.	Action Points	FPR
1	MIS of the following needs to be circulated on quarterly basis to Business Head, Risk Head, Regional Head, COO Head with a cc to PSL Team. Regulatory reporting if any to be done by the GPA team as per requirement. The below fields can be included on SharePoint, SME SMO/Analytics team can then generate a report and circulate. <ul style="list-style-type: none"> <li>a) Number of Application filed (Share-point)</li> <li>b) Number of Cases sanctioned (Share point/OSCA)</li> <li>c) Number of Cases rejected (Share-point)</li> <li>d) TAT for Sanctioned Cases (OSCA)</li> </ul>	SMO/Analytics

#### Annexure 2 Related Policies and Standards

- CGTMSE Policy
- Code of DBS Bank's Commitment to Micro and Small Enterprises
- Process Addendum to Policy Framework for Lending to MSME
- Loan Disposal Guidelines for MSME
- Rehabilitation / Restructuring of potentially viable units in MSME sector [including One Time Settlement (OTS)]
- Fair Practice Code for Lenders
- Grievance Policy

### Annexure 3 Regulatory/Other Guidelines Reference

RBI Master Directions: [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=11060](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11060)

BCSBI Code of Commitment to MSEs: [http://www.bcsbi.org.in/codes\\_mse.html](http://www.bcsbi.org.in/codes_mse.html)

CGTMSE Scheme:

[https://www.cgtmse.in/files/CGTMSE\\_Booklet\\_updated\\_November\\_17\\_2017.pdf](https://www.cgtmse.in/files/CGTMSE_Booklet_updated_November_17_2017.pdf)

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