

Policy Framework for Lending to MSE (Micro and Small Enterprises)

Scope: Guidelines for Lending to MSE

1 Guiding Principle

- The policy seeks to establish the framework that would be followed by the bank in determining lending norms to Micro and Small Enterprises ('MSE') 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')
- **Definition of Micro and Small Enterprises**

Micro enterprise

An enterprise engaged in the manufacture or production of goods pertaining to any industry where the investment in plant and machinery does not exceed INR 2.5 M or an enterprise engaged in rendering services where investment in equipment does not exceed INR 1 M.

Small enterprise

An enterprise engaged in manufacture or production of goods pertaining to any industry where the investment in plant and machinery is more than INR 2.5 M but does not exceed INR 50 M or an enterprise engaged in rendering services where investment in equipment is more than INR 1 M but does not exceed INR 20 M

2 Policy

Any lending given to Micro and Small Enterprises under various lending programs of DBS Bank will be governed by this policy.

2.1 Products and Services

The various kind of credit facilities offered to MSE 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 SMEs. DBS has a branch network across 12 locations to support the MSE. The branch network would be further supported by ATMs, Business Care (bank call centre) and Internet Banking.

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 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 MSE 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 assess at the time of credit appraisal of MSEs 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 MSEs, 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 any collateral for loans of limits up to INR 1 M. The bank has recently 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 Applications

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 MSE 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*

- 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*

*provided the application is complete in all respects and is accompanied by documents as per 'check list' provided.

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.
- There will be a dedicated RM to support each customer. and will also help in providing credit counselling services for MSE
- The bank will share the broad rating parameters with MSE
- The bank will give the customer copies of all the loan documents executed along with enclosures at bank's cost to the MSE
- The Bank will ensure timely release of securities on repayment of loan facility
- The Bank will provide need based TOD/ad hoc facility to MSE 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 MSE 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 MSE would be circulated within the business for review of senior management.

2.11 Related Policies

The requirements specified under these guidelines operate in conjunction with the other policies of the bank. The bank has a specific policy on rehabilitation on MSME and lending to CGTMSE.

2.12 Grievance Redressal Process

The bank has a grievance redressal mechanism for all customers in place where any complaints received from MSE 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

Roles and Responsibilities of Different Units:

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

4 Governance

4.1 Ownership and Approving Authority

The policy will be co-owned by IBG and RMG and will be approved by IMC. Any changes that are not substantive, but incidental or administrative in nature, do not require a sign-off by the approving authority.

4.2 Deviations

Any deviations, including any addendum, if any, shall be on an exceptional basis and must be documented and approved by IMC. Any changes that are not substantive, but incidental or administrative in nature, do not require a sign-off by the approving authority and can be approved by SRE India.

4.3 Review

The policy will be reviewed on an annual basis, unless otherwise required. This document will be effective from date of approval. A separate internal process guideline will be issued within 2 months i.e. till 31 May 2017 in order to meet certain requirements under the policy (like maintaining MIS related to application processing time, etc).

