

Policy for serving and lending to Micro, small and medium enterprises of India

1. Background

Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

2. Bank's structure to serve the MSME sector of India

All the bank's branches are networked to provide Anywhere Banking Services. The Branch Network is further supported by alternate channels like:

- ATMs
- Internet Banking
- Phone Banking
- CMS (Cash management services) etc.

The branch forms the centre to service the customer's day to day banking requirements. To cater to the lending requirements of the customer the respective relationship teams are based at the Branches/Area/Regional offices.

3. Product & Services

The Bank has signed up an MOU with NSIC and will work closely with the institution so as to enable working capital to Micro & Small Enterprises. YES Bank is also registered as Member Lending Institution with Credit Guarantee Fund Trust Scheme for Small Industries (CGTSI) launched by SIDBI, which provides guarantee cover of 75 % of the amount of default, in respect of facilities up to Rs 25 lacs, without collateral security and/or third party guarantee.

The Bank aims to provide end to end support for all the business requirement of MSEs. Below is the indicative list of products and services available to the MSE customers.

	Products	Features	Segments
1	Cash Credit/Overdraft	Working capital management of entities	MSEs
2	Unsecured Credit Facility	To meet the business expansion/working capital requirement	MSEs
3	Secured Term loan/OD Against Property	To meet the business expansion /working capital requirement	MSEs
4.	Bill Discounting	Short term finance requirement by discounting the bills/hundi's providing funds upfront at the time of raising the bills.	MSEs
5	CMS	Receivable Management solutions and Payable Management Solution	MSEs
4	Foreign Trade Products		
	- Export Packing Credit	To facilitate export transaction of the borrower	Exporter
	- Post Shipment Credit	Working Capital requirement	Exporter
	- Bill Discounting Under LC	bill discounting is available to bridge the short term finance requirements	Exporter
	- Forward Cover	To hedge foreign currency risk	Importer/ Exporter
	- Collection of Documents	Faster processing of documents, constant follow ups with correspondent banks, arrangement of credit reports.	Importer/ Exporter
5	Non Fund Facilities		
	- Letter of Credit	Bank extends LC to enable foreign and inland trade	All MSEs
	- Bank Guarantee	Bank Guarantees for Performance, Advance Payment, Tender Money Security Deposit, Guarantees for getting orders, for procurement of raw materials etc. Bank issues various types of guarantee - Performance, financial, bid bonds etc.	All MSEs

4. Process for lending to MSEs

a) Application process

- Application forms are provided free of cost, along with a checklist. Information pertaining to fees/prepayment charges and rates would be provided to the customers at the time of application.
- The branches would give acknowledgement with date of receipt on the duplicate of the application received.
- No processing fee will be charged up to 5 lacs if the loan is not sanctioned.

b) Appraisal Process

- The loan appraisal consists of evaluating customer profile, business viability, past credit history of the borrower and the end use of the fund.
- The borrower is visited by the officers of the bank at residence /office / factory premise. The officer understands the management, business requirement, future potential of the business and exact credit requirement of the borrower.
- Detailed ratio/balance sheet analysis to also carried out to grade the financial health of the borrower entity.

All loan applications for Micro and Small Enterprise up to Rs. 2 lacs would be processed within 2 weeks and up to Rs. 5 lacs would be processed within 4 weeks provided the loan applications are complete in all respects and accompanied by a 'check list'. YES Bank has dedicated specific bank officers who are part of the Small Business Banking/Business Banking loan sanction and disbursement process team dedicated to assist the borrower in filling the application form as also completing the loan sanction and disbursement process.

5. Pricing

- Interest rate and other charges would be as per the sanction terms as detailed in the loan agreement and copy of the same is also given to the borrower at the time of executing the agreement
- Loan can be fixed/ floating. Floating rate will be linked to the BPLR of the bank
- Increase in the Fees/Charges would be notified through our website/Account statements/email/sms/notice at the branches 30 days prior to the revised charges becoming effective.
- The PLR would be available on the website for reference and would be updated within seven days of change.
- The interest rates on loans up to Rs 2 lacs will not exceed BPLR. The penal interest will be charged for all loans as per the Bank guidelines for the relevant product portfolio and not be decided on a case to case basis. Also there will not be any prepayment charge of working capital loans upto 5 lacs.

6. Security

The facilities offered by banks would be secured by primary security and collateral security, wherever applicable. The evaluation and acceptability would be as per the credit policy decided by the Bank from time to time. All assets given as security should be insured to the fullest.

Collateral Free loans for limits less than Rs. 5 lacs: The bank has in place retail lending programmes, which cater to small ticket advances on collateral free basis upto Rs. 5 lacs

7. Post disbursement

- a. Change in interest rates: The bank would intimate the customer regarding interest rate change through any or all of the following modes:
 - i. Written letter
 - ii. Notice at the branch
 - iii. Notification on Website
- b. Servicing of existing accounts:
 - i. Convey our consent or otherwise within two weeks of receipt of a request for transfer of the borrower account, either from the customer or from the bank / financial institution that proposes to take over the account.
 - ii. Release all securities on receiving repayment of loan immediately and in any case not later than 25 working days subject to any legitimate right or lien for any other claim we may have against you.
 - iii. Grant the customer increase in the drawing power within 96 hours of lodgment of stock and book debt statement.
 - iv. Bank would provide authenticated copies of all loan documents with a copy of enclosures, as quoted in the loan document.
 - v. All working capital accounts would be sent a regular bank statement. Customers can also request for Interest statements, wherever applicable, preferably within a period of 2 months.
 - vi. Effect pledges/deliveries on priority upon receiving your request.
 - vii. Permit pre-payment of working capital loans up to Rs.5 lacs without levying any prepayment penalty.

8. Monitoring and Due Diligence

All businesses entities having credit facility with the bank would be subject to regular monitoring as per the policy. These include, visits to Administrative offices and Manufacturing facilities, Regular stock statements assessments and Stock Audits, Monitoring churn in the account and other account conduct parameters like over drawings, Cheque bounces, Interest Servicing and EMI servicing.

9. Abstract of MSMED Act 2006

The charter for serving & lending to Micro, small and medium enterprise of the bank is guided by the MSMED Act 2006.

The Micro, Small and Medium Enterprises development (MSMED) Act, 2006 is the first single comprehensive legislation covering all the three segments.

As per MSMED Act 2006 the MSME segment has broadly been classified into manufacturing Enterprises & Service Enterprises.

Manufacturing Sector Enterprise is one, which is engaged in the manufacturing or production, processing or preservation of goods. Investment in plant & machinery (Original Cost excluding Land & Building and the items specified by the Ministry Of Small Scale Industries vide its notification No. S.O. 1722(E) dated 5.10.2006 in Annexure 1) is the criterion for classifying a manufacturing enterprise into Micro, Small and Medium Manufacturing Sector Enterprise.

A Service Sector Enterprise is one, which is engaged in providing or rendering of services. Investment in equipments (Original Cost excluding Land & Building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED ACT 2006) is the criterion for classifying a service enterprise into Micro, Small and Medium Service Sector Enterprise.

Service Sector Enterprises include Small Road & Water Transport Operators, Small Business, Professional & Self Employed persons, Retail Traders and all other Service Enterprises. While bank's lending to Micro & Small enterprises will comprise Priority Sector Advances, advances to Medium Enterprises will not be included for the purpose of reckoning under the priority sector.

The following table reflects the investment ceilings for classifying Micro, Small and Medium sector enterprises:

Classification	Manufacturing Sector (Investment in P & M)	Service Sector (Investment in Equipments)
Micro Enterprise	Upto Rs 25.00 lacs	Upto Rs 10.00 lacs
Small Enterprise	More than Rs 25.00 lacs upto Rs 5.00 crores.	More than Rs 10.00 lacs upto Rs 2.00 crores
Medium Enterprise	More than Rs 5.00 crores upto Rs 10.00 crores	More than Rs 2.00 crores upto Rs 5.00 crores

Following activities are also falling under Service Enterprises:

- Consultancy Services including Management Services

- Composite Broker Services in Risk and Insurance Management
- Third Party Administration (TPA) Services for Medical Insurance Claims of Policy Holders
- Seed Grading Services
- Training-cum-Incubator Center
- Educational Institutions
- Training Institutes
- Retail Trade
- Practice of Law i.e. legal services
- Trading in medical instruments (brand new)
- Placement and Management Consultancy Services
- Advertising agency and Training centers