

MSME POLICY

1. Introduction:

- 1.1 Micro, Small and Medium Enterprise (MSME) sector has emerged as a very important sector of the Indian economy, contributing significantly to employment generation, innovation, exports, and inclusive growth of the economy. The MSME sector also contributes in a significant way to the growth of the Indian economy with its vast network. In terms of Annual report of Ministry of MSME: 2021-2022, India's MSME Sector comprises of 633.88 lakh units, of which 51% are Rural MSMEs and 49% are Urban MSMEs. MSME sector has created about 11.10 crore jobs in the country, of which 3.60 crore are in manufacturing segment, 3.87 crore in Trade segment and 3.63 crore in other services. The MSME sector has emerged as highly vibrant and dynamic sector of the Indian economy over the last five decades. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.
- 1.2 In order to enable identification and facilitate development of MSMEs, Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. The MSMED Act, 2006, was enacted to provide enabling policy environment for promotion and development of the sector by way of defining MSMEs, putting in place a framework for developing and enhancing competitiveness of the MSME enterprises, ensuring flow of credit to the sector and paving the way for preference in Government procurement to products and services of the MSEs, address the issue of delayed payments, etc.
- 1.3 Further towards bringing in reforms amongst the Public Sector Banks (PSB), the Govt. of India mandated Bank for adoption of "Reforms Agenda" (EASE). The Reforms Agenda is aimed at "Enhanced Access & Service Excellence -EASE" which is broadly based on various themes. One of these themes is dedicated to MSMEs interalia covering "EASE of Financing for MSMEs". It is imperative that all Branches/ Offices/Business units of the bank work in synchronization to ensure that all needs of MSMEs in line with EASE Agenda are fulfilled in timely manner.

2. MSME Policy:

2.1 Background

Bank has therefore designed a separate document - MSME Policy - to have a standardized approach towards the MSMEs and have a reference material to one and all dealing with MSME matters.

The MSME Policy is a formal policy document mentioning therein the Bank's role & approach for meeting the need of the MSME clients. Lending to MSMEs being an integral part of MSMED Act and priority sector lending guidelines of RBI is also discussed in the policy, wherever applicable.

Bank has also issued operating guidelines on lending to MSMEs in sync with policy guidelines.

2.2 Objectives:-

2.2.1 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.

2.3 Scope

- 2.3.1 The Policy would deal with all MSME credit related matters such as fund based, non fund based and other forms of credit dispensation of MSME credit.
- 2.3.2 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.
- 2.3.3 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.

- 2.3.4 This policy has been made in compliance with all RBI & extant regulatory guidelines issued till date.
- 2.3.5 The guidelines enumerated in the policy are applicable for all domestic branches.
- 2.3.6 In view of the changes that are taking place in the financial sector, action may be called for at a short notice and therefore it is necessary that the Credit Risk Management Committee (CRMC) is empowered to take decisions on exceptions or deviations. Such modifications should be placed before the Board for ratification.

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

3.1 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.

3.1.1 Following significant changes have been introduced through MSMED Act, 2006.

- i. The word “Industry” has been replaced by “Enterprises”.
- ii. The word “Tiny has been replaced by “Micro”.
- iii. The Services sector has been brought under the purview of MSMED Act, 2006.

3.1.2 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.

3.1.2.1 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 II 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.

3.1.2.2 Composite criteria of investment and turnover for classification:

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

3.1.2.3 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.

3.1.2.4 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.

3.1.2.5 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 shall continue to avail of all non-tax benefits of the category (micro or small or medium) it was in before the reclassification, for a period of three years from the date of such upward change. 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.

The details of registration process, including for existing enterprises, updation of information and transition period in classification etc as notified in gazette notification of Government dated 26.06.2020 are provided in Annexure I. Notification dated 18.10.2022 is also provided in Annexure I.

(As per RBI guidelines on Priority Sector Lending, loans for Food & Agro processing units upto aggregate sanctioned limit of Rs100.00 crore per borrower from Banking system will form part of agriculture).

- 3.1.2.6 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 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

- 3.1.2.7 Ministry of MSME, GOI vide their office memorandum 5/2(2)/2021-E/P&G/Policy (E-19025) 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]

4 MSME- PRIORITY SECTOR LENDING (Reserve Bank of India Guidelines & Internal Guidelines thereof)

- 4.1 Priority Sector Lending shall continue to be a chosen area of the Bank. Bank will endeavor to exceed the overall share of 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher as at the end of the previous year. Further the sub-target for lending to Micro Enterprises, under priority sector, is 7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher as at the end of the previous year.
- 4.2 Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:
- 4.2.1 Manufacturing Enterprises:**
The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in Plant & Machinery and Turnover. (It is clarified that all eligible manufacturing enterprises under MSME irrespective of size of credit exposure will be classified under priority sector.)
- 4.2.2 Service Enterprises:**
All bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment & turnover under MSMED Act, 2006, shall qualify under priority sector without any credit cap.
- The classification of an MSME enterprise as manufacturing or service shall be as per extant regulatory and statutory guidelines.
- 4.2.3 Khadi & village Industries Sector (KVI)**
All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.
- 4.2.4 Other finance to MSMEs:**
- 4.2.4.1 Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
- 4.2.4.2 Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- 4.2.4.3 Loans sanctioned to MFIs for on-lending to MSME sector as per the conditions specified by RBI.
- 4.2.4.4 Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
- 4.2.4.5 Overdrafts extended up to Rs.10,000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts will qualify as achievement of the target for lending to Micro Enterprises.

- 4.2.4.6 Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.
- 4.3 MSME Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person /company for the purpose of classification of industrial undertakings as Micro, Small & Medium Enterprises.
- 4.4 Investments in Securitized Assets, transfer of pool of loan assets through direct assignments / outright purchases and investments in Inter Bank Participation Certificates (IBPCs) on risk sharing basis shall be eligible for classification under respective categories of priority sector provided the underlying assets are eligible to be categorized under the respective categories of priority sector as per RBI guidelines.
- 4.5 The outstanding Priority Sector lending certificates bought by the bank will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, and are eligible to be classified as priority sector advances and fulfill the Reserve Bank of India guidelines on priority sector lending certificates.
- 4.6 To increase liquidity support for the MSME sector, factoring transactions taking place through TReDS (Trade Receivables Discounting System) shall be eligible for classification under priority sector.
- 4.7 A system should be put in place at all levels for maintaining a register/ electronic record, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.
- 4.8 An acknowledgement is to be provided for loan applications received under priority sector MSME loans and decision should be communicated in writing to the applicants within prescribed time limit.
- 4.9 **Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) Sector**
- 4.9.1 Advances to Micro, Small and Medium Enterprises (MSME) sector is reckoned for computing achievement under the overall Priority Sector target as per point No.4.1.
- 4.9.2 Bank is required to achieve a sub-target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for lending to Micro Enterprises.
- 4.9.3 In terms of the recommendations of the Prime Minister's Task Force on MSMEs, Bank has to achieve:
- i. 20 per cent year-on-year growth in credit to micro and small enterprises,
 - ii. 10 per cent annual growth in the number of micro enterprise accounts and

- iii. 60 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro Enterprises.

Hence, all endeavors to comply with the directives should be made in letter and spirit.

5. COMMON GUIDELINES / INSTRUCTIONS FOR LENDING TO MSME SECTOR (Reserve Bank of India Guidelines & internal guidelines thereof)

5.1 Issue of Acknowledgement of Loan Applications to MSME borrowers

- Acknowledgement of all loan applications, submitted manually or online, by MSME borrowers is mandatory.
- It should be ensured that a running serial number is recorded on the application form as well as on the acknowledgement receipt.
- Bank will encourage Central Registration of loan applications and technology will be used for online submission of loan applications, processing and tracking of MSE loan applications to strengthen TAT and improve customer experience.
- The above guidelines should be read along with Priority Sector guidelines of RBI enumerated under Point No.4.6 & 4.7.

5.2 Credit Guarantee Schemes

5.2.1 Credit Guarantee Scheme of Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) was established in August, 2000 and promoted by Government of India and SIDBI with an objective of providing the guarantee cover to the collateral free loans extended to Micro & Small Enterprises under its scheme known as Credit Guarantee Scheme.

5.2.2 Further, Government of India through Ministry of Finance, Department of Financial Services has notified (a) Credit Guarantee Fund for loan to Micro Units (CGFMU) for the purpose of providing guarantees to loans extended under Pradhan Mantri Mudra Yojana (PMMY) and (b) Credit Guarantee scheme for Stand-up India (CGSSI) for the purpose of providing guarantees to loans extended under Stand-up India Scheme. Also, Government of India through Ministry of Social Justice and Empowerment has launched Credit Enhancement Guarantee Scheme for the Scheduled Castes (CEGSSC) for SC entrepreneurs engaged in Small and Medium Enterprises. The aforesaid schemes are adopted by the Bank. Further, CGTMSE has introduced new “Hybrid Security” product i.e. Partial Collateral security under Credit Guarantee Scheme wherein the Bank shall be allowed to obtain Collateral Security for a part of the Credit Facility, whereas the remaining part of the credit facility, up to a maximum of Rs 200.00 lakh, can be covered under Credit Guarantee Scheme of CGTMSE. The existing features of the Credit Guarantee Schemes of CGTMSE and other approved Institutions along with the modifications are communicated by MSME Department from time to time.

5.2.3 Credit Guarantee Scheme is a tool for:

- i. Widening of credit portfolio
- ii. Better management of risk
- iii. Faster recovery of dues
- iv. Enhancement of profitability

5.2.4 No collateral should be accepted in case of loans upto Rs.10 lacs extended to units in the MSE sectors (whether eligible under Credit Guarantee Scheme or not). Also, Collateral-free loans up to Rs. 10 lakh should be extended to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC. Further, Branches/Offices should cover all loans upto Rs. 25 lacs extended to Micro & Small Enterprises and are eligible for coverage under guarantee scheme of CGTMSE or other approved institutions without any exception. If at all there is any exception, the same should be only with the prior permission of their Regional Head.

5.2.5 Branches/Offices can provide collateral free credit limits upto Rs.200 lacs under Credit Guarantee Scheme for MSEs subject to availability of Credit Guarantee cover, satisfaction of borrower's track record and good & sound financial position.

5.2.6 In order to extend the collateral free loans to number of MSE accounts and cover the same under the Credit Guarantee Scheme, targets are assigned to the Regions for covering accounts under the Credit Guarantee Scheme. The Regions are supposed to distribute these targets among the branches in their jurisdiction. Similarly, Branch level functionaries are to be encouraged to avail the Credit Guarantee Scheme cover by Controlling Offices and the performance of the field functionaries regarding coverage of accounts under Credit Guarantee scheme is to be considered as one of the parameters for evaluating the performance of the field functionaries.

5.2.7 Credit Guarantee Fund for Micro Units (CGFMU):

Under the CGFMU scheme, the guarantee coverage is available on a portfolio basis for the MUDRA loans sanctioned up to Rs.10 lacs. Presently, in our Bank obtaining the fresh credit guarantee from CGFMU is confined to PMMY loans sanctioned for agriculture allied activities and Overdraft in PMJDY accounts only. However these coverage guidelines are dynamic in nature and are subject to change based on the operational feasibility as informed by MSME dept from time to time.

5.2.8 Credit Guarantee Scheme for Standup India (CGSSI):

In order to increase the pace of lending under Standup India Scheme, Government of India introduced Credit Guarantee Scheme for Standup India (CGSSI). It facilitates Credit Guarantee Coverage of all eligible accounts sanctioned under Stand-up India on portfolio basis. The guarantee coverage is available for the loans sanctioned between Rs. 10 lacs to Rs. 100 lacs.

{In our bank, new eligible accounts under Stand Up India are being covered under CGTMSE at present}

5.2.9 Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC):

The scheme is envisaged for extending Term Loans or Composite Loans (combination of term loan, working capital facility and non fund based facility) to SC entrepreneurs engaged in Small and Medium enterprises. The borrower engaged in Manufacturing / Trading / Service Sector may be considered for financial assistance. Working capital and non fund based facility can be availed only along with term loan facility and not independently.

5.2.10 Credit Guarantee Scheme for Startups - Transaction Based

Government of India, Ministry of Commerce and Industry (Department for Promotion of Industry and Internal Trade- DPIIT), has introduced the 'Credit Guarantee Scheme for Startups (CGSS)' for providing guarantee cover to Startups, subject to a maximum coverage of Rs.10.00 Crore per borrower.

The Fund and scheme will be managed and operated by National Credit Guarantee Trustee Company Limited (NCGTC), which is a wholly owned trustee company of Government of India.

The broad objective of CGSS is to provide guarantee up to a specified limit against credit instruments extended by Member Institutions (MIs) to finance eligible Startups. This scheme would help provide the much needed collateral free debt funding to Startups.

Detailed guidelines on CGTMSE, CGFMU, CGSSI, CEGSSC and CGSS are communicated to Offices/ Field Functionaries at periodical intervals.

5.2.11 The various credit guarantee schemes/ interest schemes of the Government is subject to periodical changes. In view of the same, CGM/ GM (MSME) will be competent authority to enact any changes in the guidelines in guarantee schemes/ interest schemes in line with statutory/regulatory direction.

5.3 Composite loan

- A composite loan upto Rs.1.00 crore can be sanctioned comprising both term loan and working capital to MSMEs through single window based on the track record and financials of the borrower as per delegated authority. Branches/Offices which have sanctioned Term Loan singly or jointly must also sanction working capital limit singly (or jointly) to avoid delay in commencement of commercial production thereby ensuring that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned.

5.4 Specialized MSME branches

5.4.1 As per Reserve Bank of India guidelines at least one specialised branch is to be opened in each district and categorization of general banking branches having 60% or more of advances to MSME sector as specialized MSME branches for providing better service to this sector as a whole is permitted.

- 5.4.2 Specialized MSME branches is to be ensured in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.
- 5.4.3 The existing specialized SSI Branches are also identified as MSME Business Banking Branches by the Bank. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers also. The Bank has identified 200 MSME Focused Branches (MFBs) for all the regions as per Government's "Reform Agenda for Responsive and Responsible PSBs" to ensure EASE (Enhanced Access and Service Excellence).
- 5.4.4 Accordingly, Bank have credit focused branches known as Business Banking Branches (BBBs) with special focus on extending finance and other services to MSME Sector and have the operational flexibility to extend finance/render other services to other sectors/ borrowers. Regional Head to ensure that BBBs/ MFBs are provided with credit officers specially recruited for improving MSME finance / or specially trained credit officers in order to provide prompt service to the MSME clients.
- 5.4.5 Each Business Banking Branch (BBB) and MSME focused branch (MFB) should have a designated single-point MSME relationship officer for monitoring and to provide dedicated services to the top 20 MSME accounts.
- 5.4.6 Regional offices to designate the MSME relationship officer for each BBB and MFB for monitoring the top 20 MSME accounts pertaining to respective BBB and MFB.
- 5.4.7 **Union MSME First Branches:** With a view to have focussed approach towards lending to MSME, Bank has launched Union MSME First Branch (UMFB).
- **UMFB** will cater to loan, deposit, third party products and other banking activities pertaining to MSMEs.
 - Only MSME loan products (including Retail loans offered to MSME unit) will be available at the branch.
 - Branch shall refer to the nearest General Banking Branch for retail leads and retail requirement of promoters/staff members/family of MSME unit.
 - Branch will be headed by AGM/CM and shall have a dedicated Relationship Manager (RM) for end to end servicing of MSME customers.
 - Dedicated MSME Marketing Managers (MMMs) will be deployed for canvassing new MSME connections for the branch.
 - Dedicated Collection Officer will be deployed for monitoring SMA account and spearheading recovery initiatives in NPA accounts.

Gradually, Bank propose to migrate to UMFB structure in place of MFB/BBB for focussed attention on growth of MSME.

5.5 Delayed Payment

- 5.5.1 Under the Amendment Act, 1998 of Interest on Delayed Payment to Small Scale and Ancillary Industrial Undertakings, penal provisions have been incorporated to take

care of delayed payments to MSME units. After the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened as under:

- i. The buyer has to make payment to the supplier on or before the date agreed upon between him and the supplier in writing or, in case of no agreement, before the appointed day. The period agreed upon between the supplier and the buyer shall not exceed forty five days from the date of acceptance or the day of deemed acceptance.
- ii. In case the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- iii. For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- iv. In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

5.5.2 Branches/Offices to explore fixing of sub-limit within the overall working capital limits sanctioned to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs.

5.6 Framework for Revival and Rehabilitation of MSMEs

5.6.1 The Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 has notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. The Reserve Bank has issued the guidelines on the captioned Framework along with operating instructions on March 17, 2016 for revival and rehabilitation of MSME units having loan limits up to Rs.25 crore. The revised Framework supersedes the earlier guidelines of RBI on Rehabilitation of Sick Micro and Small Enterprises issued vide RBI circular RPCD. CO. MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012, except those relating to Reliefs and Concessions for Rehabilitation of Potentially Viable Units and One Time Settlement mentioned in 'Policy on Debt Restructuring Mechanism for SMEs'.

The salient features of the Framework are as under:

- i. Before a loan account of an MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework
- ii. Any MSME borrower may also voluntarily initiate proceedings under this Framework
- iii. Committee approach to be adopted for deciding corrective action plan
- iv. Time lines have been fixed for taking various decisions under the Framework

Bank has put in place a separate Policy on Framework for revival and rehabilitation of MSMEs in consonance with the latest RBI guidelines.

5.6.2 MSE Rehabilitation Cells at Regional Offices for sick Micro and Small Enterprises to monitor / identify sick units / incipient sickness, conduct viability study, follow-up action etc. for timely rehabilitation of viable /potentially viable sick MSE units.

5.6.3 In terms of the RBI circular on Prudential Framework for Resolution of Stressed Assets issued vide ref no. RBI/2018-19/203 DBR.No.BP.BC.45/21. 04.048/2018-19 dated 07.06.2019 Sections I(B) (Implementation of Resolution plan), I(C) (Implementation conditions for Resolution Plan) & I (D) (Delayed Implementation of Resolution Plan) shall not be applicable to Revival & rehabilitation of MSMEs under this Framework.

Detailed guidelines on Framework for Revival & Rehabilitation of MSME are issued through a separate policy i.e. Policy on Framework for Revival & Rehabilitation of MSMEs.

5.7 The imperative of Financial Literacy and consultancy support to Micro and Small Enterprises Sector

5.7.1 Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative that the excluded units are brought within the fold of the formal banking sector.

5.7.2 The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenge for MSE borrowers underscoring the need for facilitation in these critical financial areas.

5.7.3 Moreover, MSE enterprises are further handicapped in this regard by absence of scale and size.

5.7.4 To effectively and decisively address these handicaps, a special cell at branches, or vertical integration of this function in the Financial Literacy Centres (FLCs) is to be set up as per the comparative advantage.

5.7.5 The bank staff is to be trained through customized training programs to meet the specific needs of the sector.

5.7.6 Government e-Marketplace (GeM) [details available on <https://gem.gov.in>] is the National Public Procurement to facilitate online procurement of common use goods and services required by various Government Departments / organizations / PSUs. GeM will enhance transparency, efficiency and speed in public procurement. It will also provide the tool for e-bidding and reverse e-auction as well as demand aggregation to facilitate the government users to achieve best value for the money. Our MSME customers should be advised to get themselves registered at GeM for easy facilitation of access to market place.

5.8 Structured Mechanism for monitoring the credit growth to the MSE sector

5.8.1 The existing systems for monitoring credit growth to the sector is to be strengthened by system-driven comprehensive performance management information system (MIS)

at every supervisory level (Branch, Region, Zone, Central office), which is to be critically evaluated on a regular basis.

- 5.8.2 System of e-tracking of MSE loan applications and monitoring the loan application disposal process, giving branch-wise, region-wise, zone-wise and State-wise positions is to be put in place. The position in this regard is to be displayed in Bank's websites.
- 5.8.3 Timely rehabilitation of sick MSE units as discussed under Point 5.6 is to be monitored. The progress in rehabilitation of sick MSE units is to be made available on the Bank's website.

5.9 Empowered Committee on MSMEs

- 5.9.1 Empowered Committees on MSMEs have been constituted under the Chairmanship of the Regional Directors of RBI with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of Industries of the State Government, one or two senior level representatives from the MSME Associations in the state, and a senior level officer from SFC/SIDC as members.
- 5.9.2 The Committee will meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units.
- 5.9.3 It will also coordinate with other Banks/Financial Institutions and the State Government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector.
- 5.9.4 The committees may decide the need to have similar committees at cluster/district levels.

5.10 Cluster Approach

- 5.10.1 The credit requirement in the clusters identified by the Ministry of Micro, Small and Medium Enterprises, Government of India, where our Bank is a SLBC Convenor is to be incorporated in Annual Credit Plan.
- 5.10.2 A full-service approach to cater to the diverse needs of MSE sector may be achieved through extending banking services to recognized MSE clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk.

A cluster based approach to lending may be more beneficial:

- i. In dealing with well-defined and recognized groups
- ii. Availability of appropriate information for risk assessment and
- iii. Monitoring by the lending institutions.

Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and/or other cluster specific data.

- 5.10.3 Institutional arrangements for delivering credit to the MSME sector, where our Bank is a SLBC Convenor is to be reviewed, especially in 388 clusters identified by United Nations Industrial Development Organisation (UNIDO) spread over all states in various parts of the country.
- 5.10.4 The Ministry of Micro, Small and Medium Enterprises has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in various Minority Concentration Districts.
- 5.10.5 In terms of recommendation of Prime Minister's Task Force more MSE focused Branches at different MSE clusters are to be opened, which could also act as Counselling Centres for MSEs. Further, at least one MSE cluster may be adopted in a district where our bank is a lead bank as per comparative advantage.
- 5.10.6 The Niti Aayog of the Government of India has identified Aspirational Districts for improving the socio-economic status. The program focuses on 5 themes, including theme on Financial Inclusion & Skill Development. Under the Government's EASE Agenda one of the Action points is reach & ease of institutional financing for small businesses (MSMEs) with focus on disbursement of MUDRA loans. The list of Aspirational Districts is communicated by MSME Department time to time to RO/FGMO for necessary focused attention.
- 5.10.7 The initiatives taken by the Bank in development of MSE clusters is discussed in Point No. 6.5 of the policy.

5.11 Credit Linked Capital Subsidy Scheme (CLCSS) / Special Credit Link Capital Subsidy Scheme (SCLCSS)

5.11.1 Government of India, Ministry of Micro, Small and Medium Enterprises has introduced Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of Micro and Small Enterprises and was valid till 31.03.2021. The Scheme was subsequently discontinued by the Government of India.

Special Credit Link Capital Subsidy Scheme (SCLCSS) is introduced with a special provision of 25 % subsidy to SC/ ST MSEs under National SC / ST Hub (NSSH) with following features:

- i. The Scheme would cover SC/ST MSEs of manufacturing and service sectors. Valid Udyam Registration is required for availing the subsidy.
- ii. Ceiling on the loan under the scheme is Rs.1 crore.
The rate of subsidy is 25% in case of SC/ST for all units of micro and small enterprises up to loan ceiling of Rs 1.00 Crore

5.11.2 Bank is implementing the scheme with Connaught Circus Branch, New Delhi as a nodal branch. The details of the scheme are circulated through separate guidelines from time to time.

6. BANK'S INITIATIVES FOR STEPPING UP CREDIT TO MSMEs:

Bank has taken various initiatives for the growth of credit to MSMEs which are as under:

6.1 Separate Organizational set up at Central Office

MSME vertical headed by Chief General Manager has been established at Central Office to focus attention on growth of MSME sector through selected Business Banking Branches, MSME Focused Branches, Union MSME First Branches and other branches having MSME business.

6.2 Business Banking Branches and MSME Focused Branches:

The Bank has 224 Business Banking Branches (BBB) and 200 MSME Focused Branches (MFB) and 105 Union MSME First Branches (UMFBs) at present. An MSME Focused Branch is identified in all the Regions. These branches are directly monitored by the Central Office apart from their controlling Offices for the growth of business.

Modification in the number/list of Business Banking Branches and MSME focused branches can be undertaken by MSME Vertical after obtaining permission from the Managing Director & CEO. Gradually, Bank propose to migrate to UMFB structure in place of MFB/BBB for focussed attention on growth of MSME.

Besides above, Bank has set up specialized Mid-Corporate Branches (MCBs) which also caters to large value MSME credit.

6.3 Pradhan Mantri MUDRA Yojna (PMMY)

6.3.1 Micro Units Development and Refinance Agency (MUDRA) is a Public Sector Financial Institution which was launched by the Prime Minister on 08-04-2015. The prime objective behind setting up of this Agency is for "Funding the unfunded" and "Formalizing the informal". MUDRA aims at providing refinance /finance to the 'Last mile Financial Institutions' which are in the business of financing micro enterprises in manufacturing, trading and services sector in rural and urban areas. Accordingly, MUDRA would be extending refinance to the Banks for their lending to Micro Enterprises in the country.

6.3.2 MUDRA has categorized exposure to Micro Units into different buckets based on amount of Loan. The details of classification are as under:

- i. **Shishu:** Loan amount upto Rs.50,000/-
- ii. **Kishore:** Loan amount exceeding Rs.50000/- and upto Rs.5.00Lacs
- iii. **Tarun:** Loan amount exceeding Rs.5.00Lacs upto Rs.10.00Lacs

6.3.3 All the credit facilities extended to Micro Enterprises with overall credit limit upto Rs.10.00 lacs extended on or after 08-04-2015 are to be reported under PMMY. A separate MUDRA loan application is formulated by IBA, which is adopted by the Bank.

6.3.4 MUDRA Ltd. has also conceived a product called “MUDRA Card”. The co-branded card will be issued by the Bank which will help the eligible borrower to access credit on a flexible manner to meet working capital needs.

6.3.5 The operating guidelines under Prime Minister MUDRA Yojana including instructions of the Ministry will be communicated by MSME Department from time to time.

6.4 Standup India

STAND UP INDIA is an initiative taken by the Honourable Prime Minister of India which basically aims to promote entrepreneurship among SC/STs and Women entrepreneurs. Standup India scheme facilitates Bank loans between Rs. 10 lacs to Rs. 100 lacs for SC / ST / Women beneficiaries for starting green field projects. This enterprise may in manufacturing, services or trading sector.

6.5 Start-up India

A new MSME Scheme “Union Start Up” has been started to provide a bankable platform for economically viable business units to meet their need based business requirement. Unit must be eligible and certified as “Start-up” by the concerned Government Authority as per Start-up India scheme launched by Government of India (GoI).

6.6 Simplified Common Loan Application Form for MSMEs

6.6.1 Indian Banks' Association (IBA) Managing Committee has approved a Simplified Common Loan Application Form for MSMEs to be used by the Bank for loans upto Rs.2.00 crore.

6.6.2 Bank has adopted the same and circulated among all the branches for use. (Copy enclosed as Annexure-IV).

6.6.3 A copy of the same is also available on Bank's website.

6.6.4 All branches to use invariably simplified common loan application forms for MSMEs. However, MSMEs may also utilize the loan application form as per SARAL guidelines, wherever applicable as per their convenience.

6.7 Online Application Facility

6.7.1 For MSME Applicants:

Bank has introduced the online application module for MSE entrepreneurs. Now the MSE applicants have facility to apply online for a loan and can track online the status of his application at any point of time.

Under the module, the entire application for MSE is available online to the applicant. Applicant may choose his preferred branch and shall fill up the entire application form. A unique reference number will be generated by the system through which applicant can track the status of his application. Online acknowledgement will also be generated.

The online loan application facility is extended for MSE loans applications having credit requirement up to Rs.200.00 Lacs.

- 6.11.1.a The Online loan application Facility for the MUDRA loan on U-Mobile, Website and Tab is launched by the Bank. The online application form will have the provision to select the branch, where 'Mudra loan' facility is proposed to be availed by the customer. The guidelines are issued to the field by CP&MSME Dept.
- 6.11.1.b The Bank pursues tie-ups with Fintech companies engaged in development of innovative financial technologies and providing an end to end credit dispensation solution. The bank has on-boarded on the "psbloansin59minutes.com"/ "psbloansin59minutes.com/unionbank" portal. The interface enables MSME borrowers to get in-principle approval subject to fulfillment of set criteria. The portal has in-built integration of numerous channels such as GST, Income Tax, Bank Statement analyser, MCA etc. The detailed operational modalities for the usage of the subject portal are already issued separately.
- 6.11.1.c Straight Through Processing (STP) is a key technological advancement used by banks to digitally process the loan proposals from end-to-end without manual intervention. Bank has launched STP facility for New as well as existing MSME customers seeking credit facilities upto Rs. 5.00 crore. The loan facility can be applied through link hosted in Bank's Website / U-mobile & the customer can receive in-principle approval. STP facility is one of its kind in the industry providing seamless and instant approvals.
- 6.11.1.d Bank has also put in place a dedicated STP loan facility for Shishu Mudra Loans. It is an 'End-to-end Digital Loan' origination platform for enabling existing and new to bank customers to avail loan up to Rs. 50,000 through mobile and web application interfaces' in a self-service mode.
- 6.11.1.e Bank has also put in place a dedicated STP loan facility for Kishore and Tarun Mudra Loans. It is an 'End- to- end Digital loan' origination platform for enabling existing and new to bank customers to avail loan up to Rs.10.00 Lacs through mobile and web applications interfaces" in self service-mod.
- Bank has also put dedicated STP facility for Union Nari Shakti and Union GST Gain Scheme through our Mobile Banking Application Vyom.

6.7.2 Standupmitra:

Government of India has unveiled standupmitra portal, a virtual market place, where MSME entrepreneurs can apply for loans online through <https://www.standupmitra.in/>, which can be accessed by Bankers and Standupmitra team. As per the preference given by the entrepreneurs, concerned Bank / branch has to pick up the proposal for processing, sanctioning and disbursement. The same is to be updated on the portal simultaneously. All branches have to log in to the portal for verification of proposals submitted by the customers on daily basis.

6.7.3 Udyamimitra:

Udyamimitra is a portal developed by SIDBI for submitting the online loan applications by the MSME entrepreneurs with various Banks which can be accessed through <https://udyamimitra.in/>.

6.8 Assessment of Credit Limits

- 6.8.1 The applicable lending methods and other related matters for assessment of credit limits have been discussed in detail in the Bank's Loan Policy. Hence, they are not being reiterated and can be referred from Loan Policy.
- 6.8.2 In line with Nayak Committee Report, working capital limits to MSE units is to be computed on the basis of minimum 20% of their estimated turnover up to credit limit of Rs.5 crores. The turnover method shall be applied for sanction of fund based working capital limits to the non MSE borrowers requiring working capital facilities upto Rs.100 Lacs from the banking system. Otherwise, the applicable lending methods such as Flexible Bank Finance, Cash Budget Method etc are to be followed. If any schemes allowed any other method of assessment, then assessment as prescribed under the scheme will be valid.
- 6.8.3 In order to mitigate the constraints faced by MSEs and to support Digital Push as desired by Government of India, Bank has introduced a new scheme "Union Turnover Plus" to fund the need based requirement of MSEs having working capital cycle of above 3 months based on projected/accepted sales turnover and which are adopting digital cashless channels for their business transactions. Under the schemes, Bank finance upto 30% if Digital portion and 25% of the balance portion of the projected sales will be considered. In furtherance of the Government initiative in tax reforms, Bank has introduced Union GST Gain scheme for GST registered MSMEs wherein assessment is done based on the turnover as per GST returns.

Detailed guidelines for assessment of working capital are given in Loan Policy.

- 6.8.4 Term Loan can be considered to the MSME borrowers as per the existing guidelines of the Bank.
- 6.8.5 Off-Balance Sheet facilities like Letters of Credit, Bank Guarantee etc. can also be considered to the MSME borrowers as per the existing guidelines of the bank.
- 6.8.6 **Loans under A-TUFS (previously TUFS) scheme**
- Our Bank is nominated as a nodal agency by the Govt. of India, Ministry of Textiles for ascertaining eligibility under TUFS, both for MSME and Non-MSME entities as also to disburse subsidies directly to eligible entities.
 - A TUFS Cell is established at MSME Deptt Central Office, with a view to have proper control and to monitor the above activities under TUFS and also to assess the eligibility, disbursal of subsidies and co-ordination with different Government departments. The detailed guidelines regarding Scheme have been issued from time to time.

- A-TUFS (Amended Technology Upgradation Fund scheme) had been notified by Ministry of Textile on 13.01.2016. The guidelines of A-TUFS on financial and operational parameters and implementation mechanism for A-TUFS during its implementation period from 13.01.2016 to 31.03.2022 were laid down.
- The detailed guidelines under TUFS are issued by Ministry of Textiles, Government of India from time to time which will be followed by Bank.

6.9 Risk Rating and Pricing

In addition to internal and external rating of borrowers, the Bank has subscribed to CIBIL MSME Rank (CMR) as an additional due diligence tool. It is applicable to MSMEs with aggregate commercial borrowings **between Rs.25 lakhs to Rs.25 crores**. The applicable guidelines on risk rating and pricing is enumerated in Loan Policy, Internal Risk Rating Policy and Credit Risk Management Policy of the Bank. Hence, they are not being reiterated and can be referred from the subject policies.

6.10 Rejection/Curtailment of MSE proposal

There should not be any delay in sanctioning and disbursement of credit. The time schedule for disposal of application should be adhered to. In case of rejection/curtailment of credit limit of the MSE /Priority Sector loan proposal a reference to next higher authority should be made.

6.11 MSME Products:

The credit requirements of MSMEs vary according to place, cluster, activity etc. In this age of fast changing technology and competition, MSMEs require hassle free credit facilities for updation of technologies, acquisition of machineries, tide over the liquidity crunch etc. Bank has, therefore, designed various MSME products looking into the requirements of the borrowers as detailed below:

1.	Union Parivahan	15.	Union e-Way Bills Solution
2.	Union Nari Shakti	16.	Union Standby Line of Credit
3.	Stand Up India	17.	Union General Credit Card
4.	Union Professional	18.	Union Residential Real Estate Inventory Support
5.	Union Turnover Plus	19.	Union Guaranteed Emergency Credit Line: 1.0, 2.0, 3.0, 4.0, 1.0 (Ext), 2.0 (Ext) & 3.0 (Ext)
6.	Union Ayushman Plus	20.	Prime Minister SVANidhi
7.	Union Start up	21.	Union Credit Guarantee scheme for sub-ordinate debt.
8.	Union MSME Suvidha	22.	Union Aarogyam
9.	Union GST Gain	23.	Union Sanjeevani
10.	Union Progress	24.	Financing Traders against Electronic Negotiable Warehouse Receipt (eNWR)

11.	Union Liqui Property	25.	Union Loan Guarantee Scheme for Covid Affected Sectors (ULGSCAS)
12.	Union Rent	26.	Union Loan Guarantee Scheme for Covid Affected Tourism Service Sector (ULGSCATSS)
13.	Union MUDRA	27.	Union Equipment Finance
14.	PMEGP	28.	Union MSME Credit Card
29.	Union Solar		

6.12 **Channel financing initiatives:** Channel financing scheme by the name Automated Invoice Finance (AIF) Scheme integrated with Cash Management Services branches at e-CB branches is continued for the amalgamated entity. The facility involves AIF to dealers and vendors of identified reputed manufacturers.

6.13 **Co-Lending with NBFCs:** Bank shall also extend finance to MSMEs under tie up with NBFCs through Co-lending Model as per RBI guidelines. Detailed guidelines of Co-lending model are issued through separate policies.

6.14 MSME Sustainable (ZED) Certification Scheme: Concession in processing Charges

Ministry of Micro, Small and Medium Enterprises (MSME), Govt. of India, launched the 'Zero Defect Zero Effect (ZED)' Certification Scheme on 11.07.2016 in accordance with the objective of supporting the effort of 'Make in India' and the call for 'Zero Defect Zero Effect'. The same was revamped and MSME Sustainable (ZED) Scheme was launched in April 2022.

The competent authority has approved for extending concession in processing charges for ZED rated MSMEs as under

Rating of the Unit	Concession in Processing Charges
Gold	50 %
Silver	35 %
Bronze	25%

7. Modification and Review

7.1 The policy shall be valid up to **31.03.2024** from the date of issue and should be renewed by the end of March every year. The continuity of the policy may be extended for a further period of 3 months with the specific approval of Managing Director & CEO.

7.2 The Policy shall also be modified to give effect, in case of any changes in the existing guidelines/directives/instructions based on the directives/advice of Reserve Bank of India/Government of India/other regulatory authorities, issued from time to time, subject to reporting and approval of the Board of Directors.

7.3 The Policy will be reviewed / revised from time to time, at least once in a year to adapt to the changing economy/environmental demands and to incorporate/ implement any changes in the credit strategy of the Bank related to the MSME customers.