

# Policy Framework for Micro and Small Enterprises

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## 1.1 Background and Objective

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')

## 2. Definitions

### 2.1 *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 Rs.25 lakh or an enterprise engaged in rendering services where investment in equipment does not exceed Rs.10 lakh.

### 2.2 *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 Rs.25 lakh but does not exceed Rs.5 crore or an enterprise engaged in rendering services where investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore.

## 3. Scope and Target Audience

Loans given to Micro and Small Enterprises under the lending program for the following products would be governed by this policy –

- (1) Mortgages
- (2) Citibusiness
- (3) Asset Backed Finance
- (4) Commercial bank

## 4. Effective Date / Transition Period

These guidelines are effective immediately

## 5. Retired Policies / Related Policies

These Guidelines will supersede the previous versions of these guidelines which are in existence. The requirements specified under these guidelines operate in conjunction with the other Citi policies related to customer disclosures.

## 6. Exception Process

Any changes/ exceptions to this guideline, must be approved by the respective Business Head, Compliance Head (Global Consumer Banking) and through submission to LOMC.

## **7. General Guidelines**

### **7.1. Types of Loans**

MSE Units may be granted a variety of Credit facilities for their different needs which will include the following:

1. Term Loan  
For acquisition of capital goods (excluding second hand), fixed assets, vehicles, Plant & machinery, purchase of land, construction of buildings etc.
2. Working Capital Demand Loan, Working Capital by way of Overdraft / Cash Credit facilities etc for:  
Purchase of raw material, components, stores and maintenance of stock of these items at minimum level and stock in process and finished goods.
3. Finance against receivables including receipted challans/invoices.
4. Bills Purchase/Discounting under L/C or outside L/C.
5. Export Finance
6. Letter of Credit on sight / usance basis for purchase of raw material / capital goods.
7. Bank Guarantees.
8. Buyer's Credit for raw material and capex
9. Standby letter of credit
10. Foreign exchange – spot and forwards

### **7.2. Framework**

Loans are sanctioned on the basis of established underwriting criteria that are detailed in the internal policy manual of the various businesses that contribute towards the MSE segment in the bank. These policies are based on the bank's experience of credit performance of its existing portfolio. Further all policies are periodically reviewed and approved by the senior management Credit officers diligently ensure adherence to policies while approving credit proposals.

### **7.3. COMMON GUIDELINES FOR LENDING TO MSE SECTOR**

#### **7.3.1 Processing of Applications:**

##### **a. Issue of Acknowledgement of Loan Applications:**

The Bank will issue an acknowledgement for loan applications received from the borrowers towards financing under this sector and maintain the record of the same.

##### **b. Disposal of Applications:**

For credit limit up to Rs 5 lakh within 2 weeks from the date of receipt, for credit limit above `5 lakh and up to `25 lakh within 3 weeks and for credit limit above `25 lakh within 6 weeks from the date of receipt, provided your application is complete in all respects and is accompanied by documents as per 'check list' provided..

c. Register of Receipt/Sanction/Rejection of Applications :

- (i) The MIS of applications, sanctions/ disbursement and rejection with the reasons should be circulated within the Business for review of senior management.
- (ii) The reason for rejection should be communicated to the borrower in line with stipulation mentioned in the Fair Practice Lenders Code and BCSBI Code

### **7.3.2 Sanction**

- (1) Provision to extend loans upto Rs.10 lakhs without any collateral or up to the limits specified by the Reserve Bank of India, from time to time (for unsecured loans)
- (2) Consider collateral free limit upto a loan amount of Rs. 25 lakhs basis sound track record and financial position.
- (3) Wherever possible, working capital limits will be computed for manufacturing units on basis of minimum of 20% of annual projected turnover and basis borrower need, ability to repay and risk policies of the Bank
- (4) Plant & Machinery or immovable property is taken as security, valuation report and legal scrutiny report on the same will be required to be obtained from Engineer / Advocate empanelled by the Bank

### **7.3.3 Credit scoring model for MSE customers**

Factors that are considered prior to the loan sanction include –

- (1) Best available information about the borrower's ability to pay
- (2) Type of loan
- (3) Security and / or collateral available as applicable
- (4) Tenor of the loan and
- (5) Quantum of the loan

In order to make an assessment of borrower's ability to pay, underwriting policies for sanctioning any credit facility should place reliance on factors like availability of satisfactory documents, positive contact verification results and customer interaction.

The bank does not use any score card, but has a standardized template for credit risk assessment used to assess collateral coverage required for a facility. In evaluating the MSE sector for certain sections during credit assessment, the bank relies on score given to the customer based on the key financial ratios with different weights assigned to each such parameter based on their significance. These ratios and their value ranges have been chosen through an internal assessment of bank's portfolio and industry trends. Score derived from this assessment is used to determine credit eligibility of the borrower and the security requirement. An obligor level risk rating (ORR) is also in use.

The key parameters of the bank's lending policy across the various businesses are as follows:

- (1) Target Market
- (2) Demographic criteria

- (3) Credit parameters such as DSCR, leverage, cash profits, debt to EBITDA, buyer/ supplier profile and concentration etc.
- (4) Credit Bureau verification criteria
- (5) Minimum income requirement or other indicator of ability to repay
- (6) Loan eligibility amount
- (7) Minimum / maximum loan amount
- (8) Tenor
- (9) Required Documents
- (10) Pricing
- (11) Repayment
- (12) Verification requirement
- (13) Maximum LTV (Secured Loans)
- (14) Collateral type (Secured Loans)

#### **7.3.4 Disbursal**

- (1) Ensure disbursal within 2 working days from the date of sanction.
- (2) Inform the customer for any additional information / documentation within 7 working days post receipt of application.

#### **7.3.5 Repayment**

- (1) No pre-payment penalty on fixed rate loans of less than Rs. 50 lakhs and all floating rate loans regardless of amount.

#### **7.3.6 Other aspects**

- (a) The Bank will approve or reject, within two weeks of receipt of a request from the Borrower/ financial institution, for transfer of the borrowal account.
- (b) All securities deposited by the borrower immediately on repayment of loan/ cancellation of the facility accompanied by client request to release security and in any case within fifteen days of the repayment of all dues agreed to or contracted provided it is accompanied by client request to release security. If any right to set off is to be exercised for any other claim, then due notice with full particulars about the other claims need to be provided to the client and retain the securities OR documents OR title to mortgaged property, till the relevant claim is settled / paid.

#### **7.3.7 Pricing**

The pricing for lending products is based on various parameters like risk profile of the customer, type of product, income profile etc. The bank is not currently a Member Lending Institution of the Trust under the CGTMSE scheme (credit guarantee cover), however there are provisions within each business to offer concessional pricing for MSE customers based on type of customers, industry etc.

### **8.0 Structured Mechanism for monitoring the credit growth to the MSE sector**

## **8.1 Credit Proposal Tracking System**

A centralised loan application tracking system/ MIS is in place for each business which contributes to MSE lending. Details of each application are entered in the centralised lending system. The bank follows a relationship management based model wherein the RM is in touch with the customer and provides regular updates with regards to the application status.( For Mortgages, an email alert is triggered to customer regarding the acknowledgement of the application through File Reference Number(FRN)). While currently we don't have online tracking available at customer's end, the application status changes are tracked manually through the unique application serial number, where applicable, and intimated to the customer vide the Relationship Manager.

## **8.2 Rehabilitation of Sick Units**

The bank undertakes lending to MSE through four business units – Citibusiness, Commercial Bank, Mortgages & Asset Backed Finance.

Citibusiness/Commercial Bank: The business has instituted a Policy on Rehabilitation of Sick MSE units. The process for identification, viability study and reporting of sick MSE accounts will be followed as laid down under the Policy along with the constitution of the MSE Rehabilitation Cell as required by RBI for decision making purposes as regards to the viability status and rehabilitation package.

For Mortgages/ Asset Backed Finance: The bank extends term loans to these customers basis a financial assessment of the customer at the time of initial loan application and there is no process of annual review of financial statements/ stock & book debts. In the event of the account missing repayment, then the collections staff engages with the borrowers and basis customer's financial position reliefs in terms of settlement, rewrite and forbearance can be offered. Therefore a viability study as envisaged in the guidelines on Rehabilitation of Sick MSE units is not feasible given the customer profile and the nature of the facility (term loan)

Bank's credit assessment process is holistic and considers current and prospective needs of customers while sanctioning limits. Our credit process has provision to assign higher limits if turnover of the company has increased. We also have flexibility to accommodate request to increase limits in case clients has contingency need/unexpected expenditure.

## **9.0 Grievance Redress 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.

## **10.0 Communication**

This policy will be made available on the website and branches for customer's perusal

**Policy Contact:** Santosh Narayanan, Vinod Raghavan