

PRIORITY SECTOR LENDING TO MICRO, SMALL AND MEDIUM ENTERPRISE

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Abstract: *Today's banking system is becoming increasingly competitive for both customers and financial intuitions. Customers must learn as much as they can, and learn it effectively. The banking system will become even more competitive in the contemporary times. The products offered are desk designed with comfort and learning mind. The desk is attractive looking and provides customers with a more enjoyable sitting and working experience in this environment. THE RATNAKAR BANK LTD.(RBL)has made very simple and effective improvements to traditional desks that another bank has implemented before, including a reclining chair with adjustable height, our implementation plan for producing the banking throne is both cost effective and efficient. Our qualified team has expertise in both theory and practical, which will ensure successful product development.RATNAKAR BANK LTD. aims to replicate the success model of existing players in a short span through innovate distribution model market linked underwritten standards, high end technology and flexibility in the overall business approach to match the market dynamics and hence stays ahead of competition. As per business aligned to select branches located in the MSME cluster.*

Keywords: *MSME, Credit Appraisal, Competitiveness, Secured&Unsecured Loans.*

I. INTRODUCTION

The Government of India and Reserve Bank of India (RBI) has focused to increase finance to the MSME sector especially the Micro Enterprises and we also know that increase in bank finance to MSME sector has become a part of the priority sector lending guideline. In today's rapid growing financial sector RBL Bank stays ahead of competition by launching products like SBL (Small Business Loan) to provide finance to the needy sector, but funding of companies, societies, trusts and HUF is not allowed under the target entities. The entities could be Manufactories, Traders, Wholesalers, Contractors and Service Providers. The purpose of SBL is to meet the credit needs of trade, commercial activities and other general business, & to undertake repairs, renovation and extension of existing business units, for purchasing machinery and to meet working capital. As per business aligned to select branches located in the MSME cluster. SBB has only one product namely BLSME (Business Loan Small and Medium Enterprise) in which the bank can provide loan from 1 lac to 20 lacks under secured and unsecured types of securities. Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities

at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises are engaged in the manufacture or production, processing or preservation of goods.

II. OBJECTIVES OF THE STUDY

The present study has been carried on with the following important objectives:

- To meet the credit needs of trade, commercial activities and other general business.
- To understand the process by which The Ratnakar bank appraises the creditworthiness of the prospective borrowers.
- To assess the performance of branch and the expected demand of credit facilities of the bank in the near future.

III. RESEARCH METHODOLOGY

During the study, the researcher worked under the guidance of Credit Appraisal Team at Zonal office, Indore. The researcher worked on the existing and past proposals for credit facilities- analyzing the financial statements, assessment of Working capital requirement and application of project appraisal techniques in case of appraising term loans. The researcher also interacted with the commercial borrowers of the Madhu Malan Chorha Ratnakar Bank Ltd. branch Indore which gave an insight about their perception about the branch and the expected demand of credit in the near future. The branch performance has been evaluated on 4 parameters- Managing the account, Handling Queries, Financial guidance and Staff of the branch.

Data collection

Both primary and secondary data was collected for the purpose of this study. Primary data was collected from the commercial borrowers of the branch and the senior managers of Ratnakar Bank Ltd.

Secondary data was collected from Ratnakar Bank's official website, circulars and other records of the bank; data was also collected from text books and other websites for theoretical knowledge.

Method of collecting Data

Primary data was collected through Structured Questionnaire/Interview method from the commercial borrowers of the branch. Primary data was also collected directly from the senior managers of Credit Appraisal Team through Unstructured Direct Communication.

Number of borrowers surveyed

Census method was used for the purpose of 2nd part of the study. All the 26 MSME borrowers of the branch were surveyed for the purpose of the study.

Discussion and Analysis:

The Process of Lending

The whole process consists of four main steps:

- Origination
- Appraisal, Sanction and Documentation
- Loan Process and Disbursement
- Servicing/collections

Origination:

Prospecting:

The relationship officers (RO's) of small business banking at RBL bank contact the customers by making cold calls to the customers, referrals or leads generated while performing marketing activities. They brief the customers of products and services that RBL bank offers, if the customer is interested in availing a loan and fits the board definition of RBI bank's target segment an application form is handed over to the prospective customer.

Application form:

The customer hands over the application form along with KYC documents and through as required. Care should be taken to ensure that the application form is signed by the customer and the co-applicant. RO is expected to countersign and put an OSV original seen and verified stamp after checking the original KYC proofs.

Lead confirmation:

The file is then created which contains the signed application form KYC document and photograph of the applicant and co-applicant RO then visits the residence and business sight of the borrower, see if the applicant is eligible for the small business loan and fill in eligibility check list. He also collects required documents and files it properly RO then prepares the rating sheet for the customer. He also collects required documents and files it properly RO then prepares the rating sheet for the customer. If the customer gets the double rating for the proposal, the same along with the collected documents are sent to branch credit manager (BCM) for further processing.

Credit Bureau Check:

Once the proposal is sourced, the RO sends the details required for pulling out the CIBIL report to the concerned cluster sales manager (CSM) /BCM, CSM/BCM will run a CIBIL query and send the result to the concerned RO within 24 working hours. The BCM also has to perform the

following check for finding the credit history of the borrowers.

- RBI defaulter list
- CIBIL check
- Equifax check

Results:

If the proposal is rejected, the customer has to be appropriately communicated back by the RO if the CIBIL report is below the cutoff limit and deviation is required for the same, the RO should send a mail with all the details to the deviation approval authority for his approval. If credit bureau report is positive, then RO is permitted to proceed further,, otherwise the original documents are returned to the customer but a set of duplicate copy of those documents to be kept with the rejected file for further reference and record.

Appraisal of the Loan:

Contact Point Verification (CPV):

RO along BCM will then conduct a business and residence verification for both the applicant and the co-applicant. BCM also survey and verify the security details that the customer intends to provide as a security. If the verification is positive, then BCM does a details personal discussion.

Personal discussion and credit verification:

BCM while doing the security verification takes photographs of the property. The pictures need to include the entrance of the unit, the approach road, other interior arrangements and merchandise or equipment available at the site.

Photocopies of the legal documents are then handed over to the panel advocate of the bank for doing the title search and other legal formalities. All this information is shared with the Hub Credit Manager (HCM)/CSM for following up with the legal advisor and Value for getting the report.

BCM also asks the borrower to come and visit the branch and meet with branch manager before he sends out the CAM (Credit Approval Memo) for approval.

BCM then prepares the CAM. The branch manager and the BCM recommend for the sanction of the loan and send the CAM to Hub Credit Manager for approval.

BCM also initiate the FCU check for the customer and sends the report to HCM for reference during sanction of the loan.

Legal opinion on security documents:

Security documents that are to be collected from the customer are:

- Copies of the sale deed by which the customer has purchased the premises/fix assets.
- Past link documents of sale covering up to as many years as possible, but not less than 13 years.
- If it is inherited premises, then the probated copy of the will by which premises was inherited by the customer along with the original purchase deeds if available.
- The certified copy of the document needs to be taken to the lawyer. The lawyer will then review the documents and provide his recommendations in the prescribed format of the bank.

If the lawyer requires additional documents, the RO arranges for the documents from the customer by coordinating with the applicant. Once the additional documents are available the same is reviewed by the lawyer. The lawyer gives a formal letter of opinion to RBI based upon which the credit approver takes the final decision. All deviations need to be approved and documents by the loan approving authority.

Credit Approval:

- The HCM receives the CAM, CIBIL report, CPV and security verification report from the BCM, title search report and legal advisor's report from the advocate and security valuation report from the panel valuer.
- After receiving all these documents, HCM evaluates the credit proposal. If anything is required to be clarified before the sanction of the loan the same goes back to the concerned person/team with a copy to CSM & RO CSM & RO organizers for that clarification and submits back to the sanctioning authority. If required HCM visits the customer for final personal discussion.
- If any deviation is to be approved, the same needs to be evaluated to the concerned authority for his approval.
- After getting all the details, HCM evaluates the proposal and approves/rejects the proposal with his comments.
- If the proposal gets approved, HCM will inform the RO and CSM and send the sanction letter to RO for handing over to the customer.
- RO upon receipt of the instructions from HCM hands over a duly signed sanction letter to customer and take the acknowledgement on the duplicate copy which is kept for record.

Valuation of the property:

Valuation of the property should be assigned to a valuer on the bank and approval panel. The valuation report should contain a confirmation of having physically inspected the property and show valuation of the property separately on the basis of:

- Cost price of the property.
- Market price of the property.
- Distress sale value.
- Registration value for similar properties with sub-register office.

Loan process and disbursement:

The activities in loan processing and disbursement are:

- In flow file tracking.
- File process.
- Opening of CIF and loan account in finale.
- Disbursal of loan.
- Post disbursal document tracking.
- Repayment management.
- Loan servicing/closures.

Sanctioned files are received at OPERATIONS for processing on receipt of post sanction documents from branch/BCM, file is processed for non-discrepancy check (NDC) in case of hold, reason for hold is mentioned in tracker and status would be communicated by mail. The following activities are done at operations level prior to making a case disbursed on system.

- File checking and processing (Non Discrepancy Check).
- Availability of title documents/property papers.
- Discrepant file tracking.
- System updating.
- Ready for disbursal maker.
- Cheque printing/RTGS/NEFT.
- Ready for disbursal checker.

File checking and processing (Non discrepancy checks):

On receipt of the file as a part of file processing authenticity of the documents provided is verified as per the product program and date captured on system is cross checked with documents.

Broadly following checks are performed during NDC:

Application form:

An application form signed and fulfilled by with mandatory critical details, photograph should be duly passed not stapled and cross signature of borrower, in case of proprietor or partnership firm rubber stamp with authorized signature is required.

KYC documents:

KYC compliance is a mandatory, regulatory and legal requirement prior to disbursal of loan. The KYC documents are defined and approved as per the banks policies and require self-attestations by the borrower/co-borrowers on original seen and verified by the employee of the bank.

Credit documents:

Such as valuation report, various verification report, approval are checked for availability.

Financial details:

Checking of processing/stamping fee/collection of differential charges and process the same wherever applicable. To check the loan amount/disbursal amount ROI/Tenure Due Date/EMI amount with DM, loan agreement and accepted sanction letter.

Legal documents: (product specific):

- Lawyers report and title search report, availability of title documents as per lawyer report is checked and any deviation is approved based on approval matrix/approvals are attached in file.
- The disbursal documents i.e. the loan agreement.
- Repayment documents such as SI/ECS mandate form.

Loan Documentation:

Loan agreement signed and fulfilled by all the borrowers as well by bank official. Loan agreement should be franked/stamped as per respective state stamp act agreement date should be prior to loan disbursement date or on same date. Tampered or torn loans agreements are not considered for loan disbursement.

Payment mode and postdated cheques:

The financial parameters are cross verified or accuracy as per details mentioned on legal documents and credit approval sheet. Received mandate should be fulfilled and verified by borrowers banks the cheque is drawn in the favor of "Ratnakar Bank Ltd A/C <<product name >> loan account No."

Documents executed by the borrower:

Loan agreement:

- Loan agreement should be complete in all respect. Each field to be filled in correctly by the RO before execution of the document.
- Customer signature to match with the signature done on application form.
- RO ensures that correct rate of interest is captured in the loan document.
- New loan agreement required in case of partially filled/incorrect loan agreement.
- Loan agreement should be signed by applicant and co-applicant all pages.
- For partnership concern all partners has to sign the agreement under the rubber stamp.
- Revenue stamp should be cross signed by the sole owner affixed with rubber stamp.

PDC (Post Cheques):

- EMI amount (as stated on the system) in word and figures to be correctly filled on the PDCs.
- Account number mentioned on PDC must always be equal to the account number written on disbursement copy as well as bank statement.
- Date should be mentioned on the cheque and the same has to be in accordance the repayment cycle.

Disbursement request form:

- Signed by the borrower as per CAM and sanction letter.
- Clearly provide details on the bifurcation of disbursement.
- Disbursement bank a/c details must tally with the bank statement submitted for approved.
- Cheque submission form to be filled completely.
- All the KYC documents have to be stamped as OSV.

Availability of title document/property papers:

- OPERATIONS will check for availability of documents based on lawyers report.
- Any deviation will be highlighted to credit through login MIS.
- All PDDs will be logged in any credit to OPERATIONS along with lawyers report and copy

of disbursement memo.

- All the state OPERATIONS will check for conformance of the find disbursement amount and beneficiary details as specified to that in the disbursement request form.

Financial Check:

- Finance amount and EMI charges deducted (Processing fee if any sanction fee and login fee) are captured correctly in CBS as specified in the disbursement request form. Sanction letter and agreement.
- EMI and finance amount should always be in line of the credit approval (we need to check the same form calculation sheet and sanction remarks) any deviations needs to have a credit sign off.

Cheque printing/release of payment through RTGS/NEFT.

The next step is cheque printing, the cheques will be printed from system on continues cheque leaves provided by the bank at respective branch. Operation team will give instruction to the branches after disbursement in the system to print cheque/DD.

Ready for disbursement – checker:

Cheques will be printed for all files for which the file review has been successful completed. OPERATIONS will review the file once again so as to ensure the file has been processed as per defined policies and procedures.

This process is termed as "CHECKER".

Application form:

Applicant and co applicant name and details should be matched with provided KYC documents. All details in application form should be filled up properly DSA (Direct Sells Agent) so name and sign on the application form. Application forms signed and fulfilled with mandatory.

Available latest photograph should be duly pasted (should not stapled) and across signature of borrower on application and photograph. In case of artificial (Non individual) person rubber stamp with authorized signature required. All the cutting to be counter signed by the customer.

- Application form name should match with PAN card, or any identify proof as per KYC norms.
- Application form DOB\Date of incorporation should be matched with provided KYC documents as per KYC norms.
- Application form resident address/off address should be marked with provided KYC documents as per KYC norms.
- Application form signature/authorized signature should be matched with provided KYC documents as per KYC norms.

CIBIL (Credit Information Bureau (INDIA) Limited:

Credit information Bureau (India) limited in association with Dun and Bradstreet and union. CIBIL provides consumer credit information report like.

Consumer information:

It provides us consumers Name, DOB, Gender and identification type and number telephone emails contact and address.

CIBIL Transunion score (S):

It provides us possible range for CIBIL Transunion score version 2.0.

- Consumers with more than 6 months credit history 300 (high risk) to 900 (low risk).
- Consumer having less than 6 month credit history: 1 (high risk) to 5 (low risk).
- Consumers not CIBIL database or with insufficient information for scoring.

Equifax: Basic Consumer Credit Score:

It provides us information of FEMALE Gender consumer whose record is not found.

Legal report:

Legal report required from empanels lower legal report and property address should be matched with loan documentation.

In case of balance transfer and list of documents should match win pre and post disbursement.

Property papers: Title search report. Documents verifying report should be required.

Performa Invoice: Original Performa invoice is required with signed and stamped.

Valuation report: Technical report required from empanels value with property photograph. Property owner should be present and property address to be match with property paper.

Technical report, legal report, property to be on record.

Property address and details should be matched with legal documents and loan documents.

This valuation report is provided by Chartered Engineer. Approved Govt. Valuers from income tax and wealth tax consultant Engineers., Builders, Interior designer and valuers and survey and loan and surveyed and loss assessor.

This result of inspection of property appraisal, analysis considered opinion that the fair market value of the property (open plot).

CFA (Cash flow analysis for small business loan) up to 20 lakh.

CFA is done on the computation of income tax returns, computation of income like income from business/profession. When CFA is to be done we should have profit and loss account balance sheet and capital account of customers business.

In CFA we firstly calculate total monthly sales as per provided ITR from trading and profit loss account.

Income:

Total monthly sheet:

We take BY Sales Figure and if the figure amount is above 20 lakh we multiply the amount by up to 1.5 and divide by 12.

Business expenses:

- Raw material consumed.

- Raw material consumed as per provided ITR in Trading and Profit and Loss account. (To opening stock plus to purchase minus by closing stock)

In business expenses we calculate net business income. Net business income total value sales.

Net business income as % of gross sales/gross margin.

Additional income: Additional income should be added.

Personal expenses: Personal expenses should be subtracted.

Repayments for liabilities: These should also be subtracted.

Total monthly Surplus:

In this we calculate 75% of debt service ratio and final EMI are offered to the borrower if the income is calculated on basis of kachha bills DSR should be 65%.

Amortization chart for the proposed loan:

In this the total no of installments and EMI are to be calculated and opening of loan interest principal are calculated. While opening balance, interest is to be decreasing and principle should be increased.

Installment No.	Opening	EMI	Interest	Principle
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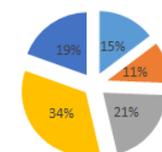
Score card for rating small business loan between 1 lakh to 20 lakh.

Name of the customer/firm/address and business activity.

It gives us information regarding whether customer is eligible for loan or not the eligibility score is SBL-1 to SBL-5.

- Financial risk score (96): Based on latest balance sheet and information verified from Kachha and Pucca bills.
- Personal / Behavior risk score (72): Based on information provided by the borrower.
- Demographic risk score (136): Based on information provided by the borrower.
- Credit risk score: Based on information obtained doing CPV and CIBI.
- Business risk score (224): Based on information on the existing business of the borrower.
- Transactional risk score (128): Based on information obtained from the bank account statement.
- Security coverage risk score: Based on the bankable securities the borrower is willing to offer for his loan
- Technical and economic risk score: It provides technical and coming information borrower.

Risk score



■ Financial risk ■ Personal risk ■ Demographic risk ■ Business risk ■ Transactional risk

CAM (Credit approval Memo):

Basic details of the customer:

Name of the firm/individual. Name of the proprietor partners individual loan.

Name of the co-borrower and relationship.
CIBIL score, Equifax score.
CIBIL/RBI default (if any).

Customer meeting details:

- BCM met the customer and do meeting including all senior members. He also know the family background of customer and co-borrowers.
- BCM knows earning members in family. Income and other sources. He know the nature of business with elaboration and business model No. of years in business and proof of the business.
- Current stock levels are verified during CPV and if stock register is available when at needs to be verified. Appearance of stock should be known like old/new.
- If seasonal business is, then it should be explained.
- Key suppliers should be mentioned, monthly volume of business scholarship with supplier, mode of payment and credit period.
- It should be also verified by BCM that daily and monthly income of customer business margin money, monthly profits after all expenses as told by customer.
- Properties assets purchased by customer from the last 3 years, current investment saving like LIC, RD, and chit should be known.
- It should be also known that the customer is having any vehicle like care, two wheeler, and purpose of loan is must whether he want to find for business expansion or want to increase stock.

Banking and financial information:

- Bank statement of customer in which 6 month wise credits. Total no. of credits and no. of credits in each month is to be mentioned. It should also know the no. of cheques bounces and reason for bounce.
- Existing loan details of customer should be known.

Collateral security details:

As observed by BCM, it include location and address building area in sq. ft fair market value of property, how much distance from branch and whom the property is owned by.

Contact point verification (CPV)/ personal discussion (PD) details:

- BCM meet the person and relationship is to be verified. Complete address proof is verified.
- Applicant's landmark which is to be filled mandatory. House is owned or rented, if rented then what is the rent paid and who the land lord is.
- No. of years in applicant business, if it is less than 3 years and mention then previous business address. Type of construction whether RCC, file.
- Distance from branch (KM). Area of building (in sq. ft, and list of assets seen (vehicles/bikes).
- Neighbors, feedback are mentioned. Original documents are seen (ID address proof bank

statement, notebooks, register etc.

- CPV observation should be noted and finally result whether positive or negative.

Deviations/exception approval:

- Details of credit deviations and justification are to be given.

Loan details (For operation team):

- This is called disbursement memo in which loan amount applied. Loan amount approved, processing Fee, Insurance Charge. Customers comfortable EMI Max IMI as per CFA, Final EMI offered and tenor period.
- Customers amount of existing loan if any and then net disbursement amount their respective bank amount.

Approval Grid (Signatory as per approval delegation matrix:

- Signature and date, BCM's name, ID and final approval by senior Manager.

Sanction letter:

Sanction letter is provided to borrower and is signed by Branch Manager. It includes information of credit facility and these are under below:

- | | |
|------------------------------|---------------------------------|
| 1. Name of the Applicant. | 11. EMI start date. |
| 2. Bane if the co-applicant. | 12. Broken period interest. |
| 3. Nature of the Loan. | 13. Validity of the sanction. |
| 4. Purpose of Loan. | 14. Inspection charges. |
| 5. Loan amount. | 15. Insurance premium. |
| 6. Rate of Interest. | 16. Primary security. |
| 7. Penal Interest. | 17. Security creation charges. |
| 8. Other Charges. | 18. Foreclosure of account. |
| 9. Tenor in Months. | 19. Other terms and conditions. |
| 10. EMI amount. | |

Limitations of the study

One of the important limitations of the study is lack of time. Due to time constraint some aspects of the study were not studied in detail. The researcher was not able to work out the risk grading model for all the proposals which is a part of credit appraisal process

The study covers only the appraisal process of MSME loans; it does not involve understanding of appraisal process for retail credit.

The findings of the survey of commercial borrowers are restricted only to the Madhu Malan Chorha branch of TheRatnakar bank, Indore. Hence the findings cannot be applicable to all the branches of The Ratnakar bank.

The findings of the survey of commercial borrowers are subjected to personal bias of borrowers.

IV. CONCLUSION

The Credit Appraisal System of Bank is in accordance with the RBI norms and effective Credit Appraisal Cells at Zonal offices has helped the bank in effectively identifying the creditworthiness of the borrowers and NPA management. The overall performance of RBL as per the survey is satisfactory. The expected demand for enhancement of existing Cash Credit facilities is high among the MSME borrowers of the branch. The Bank has improved its performance and established its visibility and strong presence in the market. The Bank is steadily moving at a

faster pace to consolidate its position in the coming days introducing extensive computerization to ensure state of the art service comfort for its customers.

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