

# State Bank of Mauritius - India Operations

## Micro and Small Enterprises (MSE)

### 1. Introduction

The Micro & Small Enterprise (MSE) is a major component of MSMEs in India. It comprises of the Small Scale Industries in the manufacturing sector and other small enterprises from service sector. The Small Scale Industries (SSI) produces about 8000 products and offers the largest employment after agriculture. The sector therefore offers an opportunity for the bank for a diversified and broad-based asset base as well as a possible liability source from cash-rich units.

MSEs in general and Micro Enterprises in particular have inadequate access to finance due to lack of financial information and non formal business practices and banks are required to maintain a well-defined and transparent approach and policy towards their treatment of MSE Sector.

### 2. MSE Policy

Our Bank has now designed a separate document- MSE Policy- to have a transparent and standardized approach towards the MSEs and be a reference material to one and all dealing with MSE matters.

The MSE Policy is a formal policy document mentioning therein the bank's role, approach for MSE clients. The policy document is only a broad framework and does not envisage replace/substitute the Credit Policy/Procedures issued from time to time.

#### Objectives:-

The MSE Policy is based on the following principles:

- The Policy describes the bank's approach towards credit appraisal strategies for handling MSME loans.
- The Policy document ensures compliance of all the directives, guidelines issued by government/Reserve Bank of India and other regulatory authorities on MSE credit matters. The bank would follow the guidelines in all aspects issued from time to time by the authorities.

### Scope:-

- The Policy would deal MSE credit related matters such as fund based, non fund based and other forms of credit dispensation of MSE credit.
- Since other credit related areas have been dealt in detail by the Credit Policy, these aspects are not covered in the MSE Policy to avoid duplication. Hence, the MSE Policy should be read along with the Credit Policy.
- The Policy will cover all types of MSE customers such as individuals, proprietorship firms, partnerships, association of persons, companies registered under Indian Companies Act, etc.

### 3. MSME definition

Govt. of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. As per the MSMED Act, 2006, the definition of Micro, Small and Medium Enterprises is modified and is required to be implemented by the Banks with immediate effect.

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

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

Micro Enterprises (Manufacturing Sector) - It is an enterprise where investment in plant & machinery (original cost excluding land and buildings and other related items) does not exceed Rs.25 lacs.

Micro Enterprises (Services Sector) - It is an enterprise where investment in equipment does not exceed Rs.10 lacs.

Small Enterprise (Manufacturing Sector) - It is an enterprise where the investment in plant & machinery (original cost excluding land and buildings and other related items) is more than Rs.25 lacs but does not exceed Rs. 5 crores.

Small Enterprise (Services Sector) - It is an enterprise where the investment in equipment is more than Rs. 10 lacs but does not exceed Rs.2 crores.

Medium Enterprise (Manufacturing Sector) - It is an enterprise where the investment in plant & machinery (original cost excluding land and buildings and other related items) is more than Rs.5 crores but does not exceed Rs. 10 crores.

Medium Enterprise (Services Sector) - It is an enterprise where the investment in equipment is more than Rs.2 crores but does not exceed Rs. 5 crores.

The Micro & Small (Service) Enterprises shall include small road & water transport operators, small business, professional & self-employed persons and all other small enterprises.

With effect from September, 2009, the loans granted to Retail Traders form the part of the MSE (Service) sector. (RBI Circular No. RBI/2009-10/164, RPCD.CO.Plan.BC.24/04.09.01/2009-10 dt. 19<sup>th</sup> Sep, 2009.). Retail Traders include (a) traders dealing in essential commodities (Fair Price Shops) and consumer co-operative stores irrespective of their credit limits, provided investment in equipment (Original cost excluding land & building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006). does not exceed Rs. 10 lacs and Rs. 2 crores for Micro (Service) Enterprises and Small (Service) Enterprises respectively, (b) Private Retail Traders upto credit limit not exceeding Rs. 20 lacs provided they satisfy the definition of Micro and Small (Service) enterprises in respect of investment in equipment.

Following activities have also been included under Micro & Small (Service) Enterprises, provided such enterprises satisfy the definition of MSEs (Service) in respect of investment in equipment i.e., not exceeding Rs. 10 lacs for Micro Enterprises and Rs. 2 crores for Small Enterprises.

- Consultancy Services including Management Services
  - Composite Broker Services in risk and insurance management
  - Third Party Administration (TPA) services for Medical Insurance claims of Policy holders
  - Seed Grading Services
  - Training- cum- Incubator Centre
  - Educational Institutions
  - Practice of law, i.e., Legal Services
  - Trading in Medical Instruments (Brand new)
  - Placement and Management Consultancy Services and
  - Advertising Agency and Training Centres
- (Ref RBI Circular No. RPCD.CO.Plan.BC.24/04.09.01/2009-10 dt. 18-09-2009)

#### 4. MSE- Priority Sector Lending

In term of the RBI Circular No. RPCD.CO.Plan.BC.13/04.09.01/2012-13 dt. 20-07-2012, the Bank has to achieve a priority sector target of 32% of adjusted net bank credit. While no specific target is given for MSME enterprises, any credit given to MSME sector would qualify for reckoning as priority sector advances. In term of the said circular, loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units qualify under MSMED Act, 2006. Similarly, bank loans upto Rs. 1 crore per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investments in equipment under MSMED Act, 2006.

#### 5. Other guidelines/instructions for lending to Micro & Small Enterprises sector

##### RBI Guidelines

As and when an application is received from a MSME unit, it will be registered in a Central Tracking System by the Credit Team (IOPS) in Mumbai. The loan will be given a unique identification number, which will be used for acknowledgment of the loan by the sales teams.

Disposal of applications - All loan applications for SSI (SSE) upto a credit limit of Rs.25,000/- will be disposed within two weeks and those upto Rs. 5 lacs within four weeks provided the loan applications are complete in all respects and accompanied by check list.

Collateral - Banks will not insist on collateral security in case of loans up to Rs. 10 lacs as against present limit of Rs. 5 lacs extended to all units of MSE sector.

## 6. Restructuring / Rehabilitation Policy and OTS policy for non-viable limits.

Depending on the factors affecting the cash flows and after ascertaining the viability of the unit post-restructuring a suitable component can be carved out from their regular limits as FITL/WCTL. While doing so necessary guidance and assistance shall be provided to the MSME clients who require such guidance. Other parameters for restructuring will be as per the bank's policy and RBI guidelines.

In case if the viability is not established, bank will explore the possibility of One Time Settlement (OTS) for recovery of dues in a transparent manner. The components of OTS scheme will be decided by the repayment capacity and value of collateral security, if any, in a transparent and just manner.

## 7. Assessment of Credit Limits

The assessment of credit limits has been discussed in detail in the Bank's Credit policy. Hence the credit policy may be referred to in case of need. The RBI guidelines about assessment of credit limits through turnover method are as under:

- Assessment of Working Capital Requirements:-

The Working Capital Requirements of the MSEs in Manufacturing sector would be computed on the basis of minimum 20% of their projected annual turnover whose credit limit in individual cases is upto Rs. 500 lacs.

As regards to the MSEs in Service Sector, the working capital requirement would be computed on the basis of minimum 20% of their projected annual turnover whose credit limit in individual cases is upto Rs. 100 lacs.

- Assessment of Term Loan Requirements:-

Term Loan assessment should be done as per the regular norms/guidelines prescribed by the bank depending upon the project cost, projected cash flow etc.

## 8. MSME Nodal Officer

In terms of extant guidelines of RBI, our bank has identified an official as nodal officer for MSME and the details are available in website. He will ensure that each MSME application is acknowledged and tracked at the corporate office. Each application would be given a unique serial number and the acknowledgement has to bear this number. He will be responsible for the following:-

- ❖ To keep a track of Govt. Guidelines/RBI Guidelines, market requirements and accordingly to formulate bank's policy on MSE in line with laid down guidelines and to modify the policy from time to time.
- ❖ To design lending schemes for segment specific/cluster-specific MSEs from time to time to drive business growth.
- ❖ To identify broad inputs for the training courses to be conducted for skill development of the field functionaries for quality appraisal and marketing of credit proposals.
- ❖ Identification of MSE clusters with a view to market our products/schemes, in consultation with SIDBI / Govt. of India.

## 9. MSE 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 will design various MSME products looking into the requirements of the borrowers.

## 10. Modification and Review / Revision

The Policy shall be modified to give effect to the changes in the existing guidelines/directives/instructions based on the directives/advice of Reserve Bank of India/Govt. of India/other regulatory authorities, issued from time to time, subject to reporting and approval of Head Office.

The Policy will be reviewed/revised from time to time to adapt to the changing economy/environmental demands and to incorporate/implement any changes in the credit strategy of the Bank related to the MSE customers.