ROLE OF LEADING NATIONALISED BANKS / INSTITUTIONS IN DEVELOPMENT OF MSMEs

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SME – MAIN GROWTH DRIVER

•The SME sector is the main growth driver for the economy.

• In a nation's economy, it's the small and micro enterprises which play a vital role.

•For, they not only give employment to a large number of unskilled and semi-skilled people but also support bigger industries by supplying raw material, basic goods, finished parts and components, etc.

• The critical role and place of the MSME sector in the Indian economy in employment generation, exports and economic empowerment of a vast section of the population is well known.

SME – SOME STATISTICS

• The Micro, Small and Medium Enterprises (MSME) segment has been a vital component of Indian economy. This sector accounts for around 40.0% of total industrial production, 34.0% of industrial exports, 95.0% of industrial units and 35.0% of total employment in manufacturing and service sectors of India. The unorganized sector which forms a major component of the MSE segment comprises almost 95.0% of total industrial units and employs over 65 million people.

•The contribution of Services Sector within the SME segment is quite significant; especially IT enabled services, hospitality services, tourism, couriering, transportation, etc. The SMEs have also been playing a vital role in the job creation process. To give a focused attention to emerging SMEs in India, the Bank has been considering other commercial units with a turnover up to Rs 150 crore at par with the SMEs.

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SME – HARD FACTS

The MSMEs of yesterday are the large corporates of today and could be MNCs of tomorrow. Thus the banks and other agencies should take pride while servicing the MSMEs as they are playing an instrumental role in the formation of MNCs of tomorrow.

Eg NIRMA – RELIENCE – ADANI They were SE originally became ME then Mid Corporate – Large corporate

MSME ACT

- It was, therefore, only appropriate that the Government of India enacted the Micro, Small and Medium Enterprises Development Act, 2006.

- Subsequently, MSMED Act was operationalized with effect from 2nd October 2006, which defines an “enterprise” instead of an “industry” to give recognition to service sector and also defines a “medium enterprise” to facilitate technology upgradation and graduation.

Definition of MSME as per Act

Particulars	Investment in Plant & Machineries of Manufacturing Enterprises	Investment in Equipments of Service Sector Enterprises
Micro Enterprises	Upto Rs. 25/- lacs	Upto Rs.10/- lacs
Small Enterprises	Above Rs. 25/- lacs and upto Rs.500/- lacs	Above Rs.10/- lacs and upto Rs.200/- lacs
Medium Enterprises	Above Rs.500/- lacs and upto Rs.1000/- lacs	Above Rs.200/- lacs and up to Rs.500/- lacs

Challenges to the MSEs

- An increasingly globalised world, marked by competition and innovation, is posing newer and varied challenges to the MSEs. Because of their small size, individual MSEs are handicapped in achieving economies of scale in procuring equipment, raw materials, finance and consulting services.

- Often, they are unable to identify potential markets to take advantage of market opportunities, which require large volumes, consistent quality, homogenous standards and assured supply.

- In today's globalised economy, improvements in products, processes, technology and organizational functions such as design, logistics and marketing have become key drivers in delivering competitiveness, for the MSEs.
- MSEs primarily rely on bank finance for a variety of purposes including purchase of land, building, plant and machinery as also for working capital, etc.
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- Availability of timely credit at reasonable rates is the need of the sector. Here the Banks & FIs plays vital role.

Challenges to the MSEs

The non credit related factors which affect the growth rate of small enterprises sector are :

§Non-availability of power and other infrastructural facilities,
Delay in getting clearance from different agencies,

§Lack of entrepreneurship development, infrastructure and historical / social bottlenecks etc.

§The solution thus lies in the engagement of the Central and State Government in easing the licensing and documentation requirements, exit policy and labour laws, putting in place an efficient tax structure in conformity with public finance principles, appropriate infrastructure development etc.

§Delayed payments from large corporate. While banks have been advised to allocate a sub-limit in respect of large borrower accounts, for making payments to the MSE units against purchases from them but it is not possible for banks to force the large buyers to utilize the limit for making payments

Role of Bankers / FIs

- RBI has recently taken several measures to enhance credit delivery to the employment intensive micro and small enterprises (MSE) sector.
- One of the major concerns of the MSE sector is the inability to arrange for collateral security and or third party guarantee.
- As a result, new entrepreneurs find it difficult to access credit from the banking system. Accordingly, RBI have issued guidelines from time to time thereby advising banks to grant collateral free loans up to Rs. 10 lakh sanctioned to the units of MSE sector (both manufacturing and service enterprises).
- Introduction of Financing under CGTMSE wherein Collateral free Loan up To Rs. 100 lacs to MSME unit is enviseged

Role of Bankers / FIS

In particular, three important recommendations made by the Task Force relating to credit have been considered by the Steering Group and it has been decided that:

(i) All scheduled commercial banks should achieve a 20 per cent year-on-year growth in credit to micro and small enterprises to ensure enhanced credit flow;

(ii) To increase the flow of credit to micro enterprises all scheduled commercial banks should lend 60% of their MSE lending to micro enterprises in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in 2012-13.

(iii) All scheduled commercial banks should achieve a 10 per cent annual growth in the number of micro enterprise accounts

WAY FORWARD

- If India has to have a growth rate of 8-10 percent for the next couple of decades, it needs a strong MSME sector, without which it cannot be achieved.

- There has been a burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas. This has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered.

- A small entrepreneur today will be a big entrepreneur tomorrow, and might well become a multinational enterprise eventually if given the comfort of financial support.
- But we also have to understand that there will be failures as well as successes. Bank will therefore have to tone up their risk assessment and risk management capacities, and provide for these failures as part of their risk management. In MSME sector, the failure rate is relatively higher – the reasons for which range from delayed/inadequate availability of credit to non-availability of backward and forward support system. Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth.

CONCEPT OF SME LOAN FACTORY

SME –Loan Factory

- **To promote the growth of SME Sector, the Bank has launched a special and novel delivery model, viz. SME Loan Factory, which at present, is operationalised in 36 centres of the Bank and well accepted in the marketplace.**
- **The SME Loan Factory is an innovative model for streamlining processes and for timely sanctions of SME loan proposals. The model comprises of the Central Processing Cell for speedy appraisal and sanctioning of proposals within the stipulated deadline. Business Model on assembly line is adopted by the bank for SME segment by establishing separate Hub for Centralized Processing of SME proposals. This model is named as "SME LOAN FACTORY" at identified centers.**
- **Out of 36 SME Loan Factories as on 31st March 2010, three SME Loan Factories have been established during the year. The Bank has SME Loan Factories at all major business centres across the country, viz. Agra, Ahmedabad, Bangalore, Bareilly, Baroda, Bhilwara, Bhubhaneshwar, Bulsar, Chandigarh, Chennai, Coimbatore, Dehradun, two Factories in Delhi, Hyderabad, Indore, Jaipur, Jamshedpur, Jamnagar, Jodhpur, Kanpur, Kolhapur, Kolkata, Lucknow, Ludhaina, 3 Factories in Mumbai, Nagpur, Nashik, Pune, Rajkot, Raipur, Surat, Varanasi and Vishakhapatnam.**

SME –Loan Factory

- **These SME Loan Factories sanctioned loans aggregating Rs 11,071 crore during FY10 as against Rs 8,508 crore in the previous year.**

- In respect of credit applications processed at SME loan Factories, it should be disposed off within 14 working days on receipt of full information if no TEV study is required and within 21 working days on receipt of full information if TEV study is required.

Our Bank's Approach to MSME Sector

SMEs are growth engines for development of Economy. Our bank has therefore for internal purposes given focused attention to finance all Commercial enterprises i.e. enterprises which may be outside the purview of regulatory definition of SME but having turnover upto Rs 150.00 crores and new infrastructure and real estate projects **where the project cost is upto Rs. 50/- crores** by treating them as part of SME segment.

•SME Banking business will thus include the following across the bank:

•Micro, Small and Medium Enterprises – as per regulatory definition irrespective geographical location, i.e. rural, semi urban, urban, metro areas.

•All other entities with their annual sales turnover of Rs. 1/- crore to Rs. 150/- crores and new infrastructure and real estate projects, where the project cost is upto Rs. 50/- crores.

• SMEs which are Associate/sister concerns of Mid and large Corporates.

• Clubs, Trusts, etc.

•Financing under various Government schemes launched for MSME Sector.

•• However, such units, which are outside the purview of regulatory definition will not form part of Priority Sector lending.

Scope of SME Loan Factory

- Sales & marketing of new / existing SME Products and services of the Bank
- Development of customized products for SME customers based on specific activities /cluster/location of these clusters
- Cross Selling of various products and services of the Bank, including retail products , liability products, third party products etc. through various SME constituents , their promoters , employees , relatives, etc
- Appraisal and Sanction of credit proposal falling within revised definition within discretionary Lending powers of the SME Head

Scope of SME Loan Factory

- **Appraisal & Recommendations of SME credit proposals to appropriate sanctioning authorities when the proposals falls beyond SME Head lending powers**
- **Co-ordination , monitoring and liaisoning with approved advocate valuers consultants for TEV study for expeditors disposal of credit proposals**
- **To arrange meeting seminars & such other events to develop healthy relations with various segment of SME community**

Types of Credit Facilities Made available to SME Customers

1. **Term Loan/ Demand Loan /Differed Payment Guarantee**
2. **Working Capital by way of Cash Credit (Hypo. Of Stock & Book Debts) or Overdraft**
3. **Bills Purchased/Bills Discounted under Letter of Credit / outside LC**
4. **Export Credit Facilities like Packing Credit / FBP /FBD /PSDL**
5. **Letter of Credit (Inland / Fgn,) for purchase / import of raw material / capital goods**
6. **Bank Guarantee – performance / Advance Money /Ernest Money deposit / Security deposits etc**

SME Products devised by Bank of Baroda

1. **Baroda Vidhyasthali Loan**
2. **Baroda Arogyadham Loan**
3. **Composite Loans**
4. **Collateral Free Loans under Credit Guarantee Fund Trust Scheme for Small Industries**
5. **SME Short Term Loans**
6. **SME Medium Term Loans**
7. **Baroda SME Gold Card**
8. **Scheme for Financing Energy Efficiency Projects**
9. **Baroda Overdraft Against Land and Building**
10. **Baroda SME Loan Pack**
11. **Special Scheme for Financing Existing SME Borrowers for Purchase of New Vehicles at concessional ROI**

SME Products devised by Bank of Baroda

12. **Baroda Laghu Udhyami Credit Card**
13. **Baroda Artisans Credit card**
14. **Loans under National Equity Fund Scheme**
15. **Margin Money Scheme under Rural Employment Programme of KVIC**

TIE UP FOR FINANCING

1. **Scheme for Financing purchasers of Construction Equipments manufactured by M/s JCB India Ltd & L & T – Case Equipments Pvt Ltd - Max Limit Rs. 2 crs , Margin 15% , 50% Concession in Processing / Documentation / Up front Charges**
2. **Scheme for Financing Road Transport Operators for Purchase of Commercial Vehicles Manufactured by M/s Ashok Leyland Ltd – Max Rs. 50 Lacs, Concessional ROI (1.25% below BPLR up to Rs. 25 lacs & 1% below BPLR above Rs. 25 lacs, Margin 15% , 50% Concession in Processing / Docum charges**

AREA SPECIFIC SCHEMES
(Cluster approach)

1. **Scheme for Financing Cotton Ginning , Pressing & Oil Mills - Concession in ROI & Service charges**

2. **Scheme for Financing Rice Mills, Dal Mills, & Flour Mills - Concession in ROI & other Service charges**

3. **Scheme for Financing Onion / Garlic Dehydration units - Concession in ROI & Service charges**

Initiatives in SME Financing During FY10

- The Bank set up three new SME Loan factories during FY10.
- The SME Meets and interactive sessions were held at various centres with SME customers
- The Bank introduced seven new customer-centric area specific products to suit the local cluster needs.
- The Bank Sponsored a full day Seminar on "Importance of CFO & Financial Advisory Services for SMEs" jointly with Maharashtra Industrial and Economic Development Association, India International Trade Centre (IITC-India), SME Training Institute of India and CFO and Financial Advisory Council for SMEs.
- The Bank celebrated SME Month from 1st December, 2009 to 31st December, 2009, which was subsequently extended upto 15th January, 2010 in order to give boost to SME advances. The concessions in rate of interest and service charges were announced for loans sanctioned during the celebration period.
- The Bank participated in the Workshops arranged by D&B in partnership with CGTMSE on Bank Credit to Micro & Small Enterprises and Role of Credit Guarantee.

SME Products - Baroda SME Gold Card

- **Baroda SME Gold Card envisages provision of additional limit of 10% of the assessed eligible bank finance for Working Capital to existing Small & Medium Enterprises, on request along with regular application for Working Capital limits to meet emergent requirements.**
- **PURPOSE:**
- **To provide hassle free on the spot assistance to take care of borrowers' emergent requirements and tie up temporary mismatch in liquidity arising out of delayed payment by buyers, tax payment, execution of bulk orders, etc.**
- **ELIGIBILITY**
- **Accounts in Standard Category for last 2 years, with credit rating of BOB - 4 and above and enjoying working capital limits of Rs. 25/- Lakhs and above.**
- **Accounts having sole banking arrangement with our bank.**

Baroda SME Gold Card

- **MARGIN : Nil**
- **RATE OF INTEREST**
- **As applicable for regular Cash Credit facility.**
- **PERIOD**
- **12 months to be allowed on 4 occasions during the year for a maximum period of 2 months on each occasion.**
- **SECURITY**
- **As applicable to regular Cash Credit facility.**
- **DOCUMENTATION**
- **No additional documentation/formalities required at the time of availing facility every time as the 10% additional limit will be a part of the regular sanction.**

Baroda Overdraft Against Land and Building

- A unique product for financing working capital requirements/long term margin requirements of SME borrowers against the security of unencumbered land and building belonging to the unit or Promoters of the unit.
- PURPOSE : To provide hassle free credit to SME borrowers to meet working capital requirements/augment long term margin requirements.
- ELIGIBILITY : Proprietorship, Partnership firms, Private/Public Ltd. Cos., engaged in Manufacturing and/or Service Sector of any commodity/goods and such activity is not prohibited by law or opposed to public interest established in the line of business for a minimum period of 2 years and financed/proposed to be financed under Sole Banking arrangement.

Baroda Overdraft Against Land and Building

- LIMIT : Minimum : Rs. 15.00 Lacs, Maximum: Rs. 500.00 Lakhs
- SECURITY : Mortgage of factory land and building and/or any other property (Land & Building) belonging to promoters, viz. Directors, who will also stand as guarantors, Proprietor or Partners.
- In case of residential/commercial building, age of property should not be more than 25 years.
- MARGIN : 40% of the market value of property mortgaged (valuation of the property will be carried out by the valuer on bank's approved panel/Government approved valuer)

Baroda Overdraft Against Land and Building

- RATE OF INTEREST :
- For Small Enterprises in Manufacturing & Service Sector – 3.25% above Base Rate. For Medium Enterprises in Manufacturing & Service Sector Base Rate + 4%
- OTHER FEATURES :
- Simplified assessment methods.
- Submission of stock/book debts statements on half yearly basis.
- Annual inspection of securities.
- Non-fund based facilities allowed by earmarking Overdraft facility.
- Valuation of properties once in 3 years.

Baroda SME Loan Pack

- **Baroda SME Loan Pack provides single line of credit for meeting SME borrowers' working capital as well as long term requirements within the overall limit approved by the bank.**
- **PURPOSE :**
- **To provide hassle free credit for working capital (fund based and non-fund based) as also long term requirements, taking into account nature of business, cyclical trends, cash flow projections, peak time requirements and any eventuality of unforeseen spurt in the business.**
- **ELIGIBILITY**
- **All Enterprises, i.e. Small and Medium Enterprises, and other entities (including Service Sector) with sales turnover upto Rs. 150/- Crores, exclusively banking with our bank/new borrowers desirous of having sole banking arrangement with our bank.**

Baroda SME Loan Pack

- COMPOSITE LIMIT : 4 times of borrower's tangible net worth as per last audited Balance Sheet, or, Rs. 5.00 Crores, whichever is lower.
- MARGIN : 25%.
- RATE OF INTEREST : As per credit rating of the borrower.
- SECURITY :
- Exclusive charge on the assets of the enterprise.
- Personal Guarantees of all promoter Directors.
- Charge on the unencumbered personal properties of the partners, promoter Directors, wherever applicable.
- Third party guarantee in case of credit line above Rs. 25.00 Lakhs.
- Any other collateral for the credit line above Rs. 25. 00 Lakhs to maintain asset coverage ratio above 1.25.
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Baroda SME Loan Pack

- **PERIOD :**
- **12 months in case of Working Capital**
- **3 to 7 years in case of Term Loan, depending upon the cash flow.**
- **OTHER FEATURES :**
- **Loans upto Rs. 100/- Lakhs will be covered under Credit Guarantee Fund Trust Scheme**

Collateral Free Loans under Credit Guarantee Fund Trust Scheme for Small Industries

PURPOSE

To provide collateral free loans upto Rs. 100/- lacs to Small Scale Industrial units including Small Scale Service & Business (Industry related) Enterprises (SSSBE) and Information Technology and Software industries

ELIGIBILITY

Small Scale Industrial units including Small Scale Service & Business Industry related) Enterprises (SSSBE) and Information Technology and Software industries by the bank are eligible for cover under the scheme.

LIMIT

Term Loan and/or Working Capital / Non Fund Based facility like Letter of Credit, Guarantee etc. upto an aggregate limit of Rs.100/- lacs to a single borrower.

Collateral Free Loans under Credit Guarantee Fund Trust Scheme for Small Industries

SECURITY

Current/fixed assets of the unit. No collateral / third party guarantee.

GUARANTEE FEE

A one time guarantee fee (Joining fee) at specified rate (currently 1.5% p.a. of the credit facilities sanctioned and annual service fee @ 0.75% p.a.

BANK'S INITIATIVE

50% of the guarantee fee is shared by the bank with the borrowers, to reduce the cost to the borrower for a limit up to Rs. 50 lacs.

Baroda Medium Term Loan

Purpose :

To augment enterprises working capital gap and to help in improvement of current ratio and also for meeting genuine business requirements. The facility will also be available for repayment of secured and unsecured Loans of other banks or institutions, but not for any purpose, which is not related to the enterprises activity.

Borrower Group: SMEs as per expanded definition

Eligibility:

Satisfactory credit rating for the last three years (BOB-4 and above) and for 4 half years in case of accounts where credit rating is done on half yearly basis. Accounts with continuous decline in credit rating will not be considered eligible. Latest Balance Sheet etc. should be available. Satisfactory financial performance in terms of sales / turnover and profits. Negative variance, if any, should not be more than 10%. Satisfactory dealings with the Bank for at least three years. No major inspection/audit irregularities. Debt Equity Ratio not to exceed 4.5 &average Debt Service Coverage Ratio not less than 1.75

Baroda Mefium Term Loan

Loan Amount: Upto 25% of the existing Fund based Working capital limits in case of BOB-1,BOB-2 and BOB-3 rated accounts, 20% in case of BOB-4 rated accounts, subject to a minimum of Rs. 25 lakhs and maximum of Rs. 500 lakhs.

Period: Not exceeding 36 months payable in equal Quarterly or Half yearly installments

Security: First charge / Equitable mortgage of fixed assets of the company / firm or extension of existing first charge / equitable mortgage of fixed assets, ensuring that there is a minimum asset cover of 1.25.

–Rate of Interest: As per Credit rating. Prepayment penalty of 1% if the Loan is prepaid within24 months of drawdown

BARODA VIDYASTHALI LOAN

Target Group :Educational Institutions

Eligibility: Educational institutions, Schools, Colleges and other education bodies running education activities set up by Firms, company, Trusts, Society etc. (HUF are not eligible).

Nature of Credit Facility: Term Loan / Overdraft

Purpose:

* Construction of building including expansion, modernization & renovation activities of the education institution for the purpose of education.

• Purchase of instruments meant for imparting Education / Training to the students.

• Finance for purchase of land alone is not permissible. However, if the land cost is included in the total cost of project, the same can be financed. However, land cost should not be more than 20% of the total project cost and an undertaking to be obtained that building construction will be completed within a period of 2 years.

• Overdraft for meeting short term fund requirements based on Cash budget provided the institution is profit making and does not have any other Bank liability

BARODA VIDYASTHALI LOAN

Limit :Minimum: Rs. 25.00 lacs & Maximum: Rs. 10.00 crores

–**Security:** Equitable mortgage of Land & Building (not agricultural land).• Where land & building of an educational institution cannot be mortgaged due to restriction from AICTE, local Govt. Laws/guidelines, alternate collateral security (land & building – not agricultural land) in the name of the institution or promoters of the institution of at least equivalent value to be obtained. However, an undertaking to be obtained from the borrower that no charge will be created on the property belonging to the educational institution and the same to be kept under negative lien.

• Hypothecation of Instruments & Equipment acquired out of the loan and other assets of the Educational Institution.

• Personal guarantees of the Promoters of the Institution

Valuation: Branch to obtain a valuation report on the property from Bank approved valuer. Further, the valuation is to be done once in three years. Valuation fee is to be borne by the applicant.

• **Title clearance report** : It should be obtained from the approved advocate of the bank before creation of the equitable mortgage.

BARODA VIDYASTHALI LOAN

Margin : Overall margin of 25% of cost of Project.

ROI 3.50 % below Base Rate i.e. 11.50% p.a. at present with monthly rests with reset clause (reset every 2 years) Note : Rate of interest is not linked with Credit Rating. However, Credit Rating to be carried out as per bank's extant guidelines.

Repayment Period: Maximum 84 months (including maximum moratorium upto 2 years) subject to annual review. Repayment period to be decided based on the project cash flow.

Takeover of Accounts
(Non- Financial Norms)

Sr.	Norms
a.	Profit-making (i.e. net profit before tax) concerns only as per last audited Balance Sheet.
b.	Accounts be rated as per the new credit rating model (CRISIL) subject to 'minimum' BOB 6. Accounts, which are not covered under CRISIL Credit Rating System, may be considered under permitted deviation as per extant guidelines issued from time to
c.	There should not have been any reschedulement / restructuring in the account during last two years.
d.	Satisfactory report from the existing bank/FI and/or satisfactory conduct of account as per latest statement of accounts.
e.	Accounts with existing lenders should be under the category of "Standard Assets".
f.	All other existing norms, guidelines as applicable to borrowal accounts are to be scrupulously followed.

Takeover of Accounts (Financial Norms)

Sr.	Ratio	Norms		
		1	2	3
		Micro & Small Industries under manufacturing sector and service Sector as per	Medium Enterprises under manufacturing sector and service Sector as per	Units outside the purview of regulatory definition but covered under SME Sector as per
1	Current Ratio	Minimum 1.17 & above	Minimum 1.20 & above	Minimum 1.33 & above
2	DER (TTL / TNW)	Maximum 4:1	Maximum 3:1	Maximum 3:1
3	Total outside liability / TNW	Maximum 4.5:1	Maximum 4.5:1	Maximum 4.5:1
4	Average DSCR for Term Loan	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25	Minimum 1.75 with a condition that in any one year it should not be below 1.25

THANK YOU