

Manual for Appraisal of Loan Products of Regional Rural Banks

(A Guidance Document)

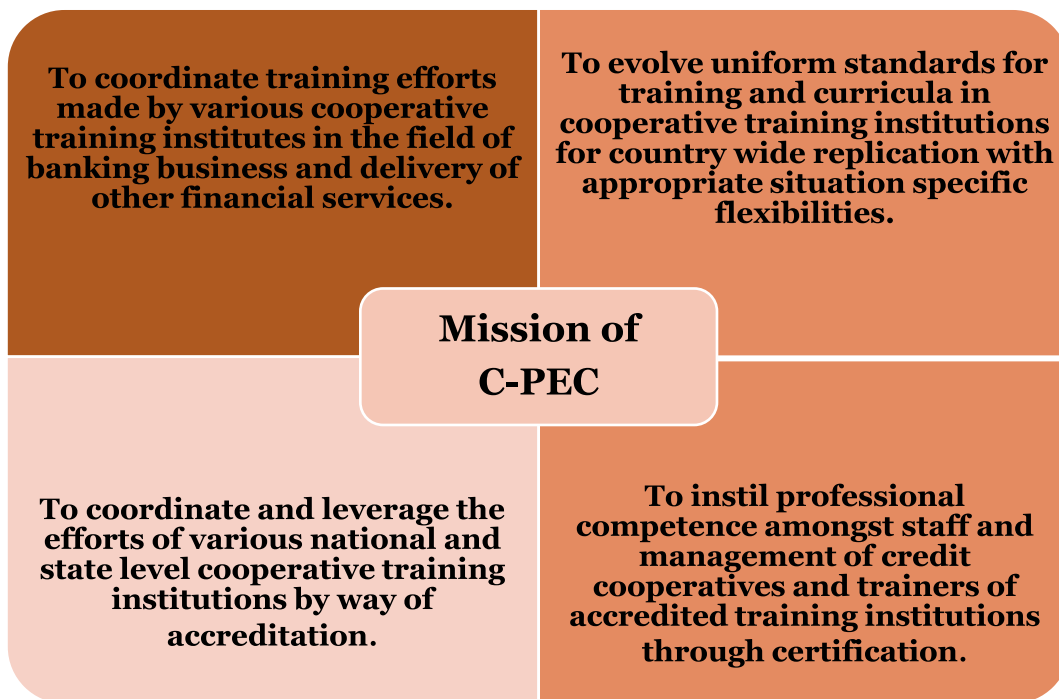


Bankers Institute of Rural Development, Lucknow

Centre for Professional Excellence in Cooperatives (C-PEC)

Vision of C-PEC

To be an independent, competent and eminent centre offering services to promote creation of a cadre of professional excellence in the cooperative credit structure.



Key Functions

- ***Certification of CCS Personnel***
- ***Accreditation of CTIs***
- ***Standardisation of Training Material & Procedures etc.***
- ***Research & Consultancy***
- ***Resource Centre for Cooperative Banking (conferences & seminars, manuals, newsletter & other publications etc.)***

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(A Guidance Document)

(Version 1.0)



Centre for Professional Excellence in Cooperatives (C-PEC)

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PREFACE

Regional Rural Banks (RRBs) were set up as region based and rural oriented institutions with capital contributed by Government of India (50%), State Governments (15%) and Sponsor Banks (35%) under the Regional Rural Banks Act, 1976; with the objective of functioning as a professionally managed alternative channel for credit dispensation to small and marginal farmers, agricultural labourers, socio-economically weaker section of population for development of agriculture, trade, commerce, small scale industry and other productive activities in rural areas.

As on 31st March 2024, there are 43 Regional Rural Banks (RRBs) with 22,069 branches across 26 States and 3 Union Territories. These banks are sponsored by 12 Scheduled Commercial Banks (SCBs) and have around 3.00 crore loan accounts and 31.3 crore deposit accounts. (Source: NABARD Annual Report 2023-24)

In order to further strengthen the RRBs, Government of India (GoI) has provided capital infusion to the tune of Rs. 10,890 crore of capital during FY 2022 and FY 2023, which includes GoI's share of Rs. 5,445 crore, as well as contributions from State Governments and Sponsor Banks. This is more than the total capital infused into RRBs from 1975 to 2020-21, which was Rs. 8,393 crore.

Consequent upon the capital infusion, all RRBs had rolled out a 3-year Board approved Viability Plan (VP) in FY 2023 with a well-defined implementation mechanism. The Plan is aimed at achieving sustainable viability through expansion in credit, business diversification, improvement in quality of asset, cost rationalization, technology adoption and improvement in corporate governance.

Against this backdrop, the performance of RRBs has improved significantly during FY 2023-24 and has reached historic highs on many fronts. RRBs have posted a consolidated net profit of Rs. 7,571 crore during FY 2024 and their consolidated Capital to Risk Weighted Assets Ratio (CRAR) stood at 14.2% as on 31 March 2024. The asset quality as measured by GNPA (Gross Non-Performing Assets) at 6.1% was lowest in the previous 10 years. Credit expansion led to increase in consolidated CD ratio to 71.2%, the highest in 33 years. The pace of technology adoption has increased as more RRBs have started rolling out digital services to their customers.

To further strengthen RRBs & improve resilience, GoI and Reserve Bank of India have implemented various regulatory measures. GoI has authorized RRBs to raise capital through the capital market through specific guidelines, while RBI has eased the requirements for offering internet banking services by RRBs. The Government has established high-level committees to address Human Resource (HR) related issues and facilitate the transition of RRBs to a more robust capital adequacy framework.

NABARD, in collaboration with Sponsor Banks and other stakeholders, has been instrumental in implementing the operational and governance reforms associated with the recapitalization scheme. The dashboard RRB दर्पण (RRB Darpan) was introduced in FY 2022-23 to facilitate comprehensive performance monitoring. The dashboard tracks progress against Viability Plan targets and enables RRBs to benchmark their performance against top-performing RRBs at State and National levels.

In order to facilitate uniformity in lending practices among Regional Rural Banks, keeping in view the changed HR scenario as also the market, Centre for Professional Excellence in Cooperative (C-PEC) at Bankers Institute of Rural Development (BIRD), Lucknow is pleased to present this "Manual for

Appraisal of Loan Products of Regional Rural Banks (RRBs)- A Guidance Document" detailing various loan products and the procedure to appraise these products. The Manual attempts to present greater clarity of different types of borrowers and types of credit facilities along with the detailed analysis of the financial statements, which the banks normally require at the time of scrutinizing a proposal. Further, the various products which the banks use for lending in various sectors like Agriculture, MSME, Retail sectors and as also relating to Non-funded business are discussed in detail along with NPA resolution.

The purpose of this document is to equip Rural Regional Banks (RRBs) with the tools and knowledge necessary to effectively assess and manage loan products using this document, RRBs can enhance their operational efficiency, improve transparency and ultimately strengthen their role as vital financial institutions in rural areas.

While the loan Manual serves as a guide and model, however, it has to be read along with the Guidelines/policies (particularly Loan policy) and the latest circulars issued by Banks/RBI/NABARD, etc.

I place on record my sincere thanks to consultants Shri P. Nagendranath Rao, General Manager (Retd.), Andhra Bank, Shri A. K. Srivastava, General Manager (Retd.) NABARD, Sh. Vinai Kumar Srivastava, DGM (Retd.), Punjab National Bank (PNB) for their valuable insights in preparation of the manual. Their extensive experience and expert guidance have been instrumental in shaping this comprehensive knowledge resource.

I take this opportunity to place on record my sincere gratitude to Shri. Shaji K. V., Chairman, NABARD and Shri G. S. Rawat, Deputy Managing Director, NABARD who have always provided the overall guidance and words of encouragement in our various endeavours. I also thank Director and Joint Director, BIRD for their constant guidance & support during this assignment. Further, my special thanks to the officials of Department of Supervision (DoS) and Institutional Development Department (IDD), NABARD, Head Office for providing necessary support and guidance at various points of time.

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(Nikhil Kumar)
DGM/C-PEC In-Charge
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Disclaimer: Efforts have been made to make the Manual as comprehensive and useful, however, C-PEC & BIRD shall neither have liability nor responsibility to any person or entity with respect to any damage or loss caused directly or indirectly, by the information contained in this Manual.

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CHAPTER 1

LOANS AND ADVANCES – AN OVERVIEW

Banking is, as per Section 5 (b) of Banking Regulation Act, 1949, “accepting, for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft and order or otherwise”. As seen from the above definition of Banking, the primary functions of banking are accepting deposits and lending. The main source of funds for bank lending is the deposits accepted by the bank from the public. Banking is dependent on the trust of the people. As such, systems have to be put in place to ensure the same. The depositor expects the bank to return to him the deposit along with the interest promised by the Bank for eligible deposits.



The deposits accepted by the Bank are to be lent in time and in proper manner so that Bank can earn interest on the funds lent.

The entire amount of deposits thus collected by the Bank cannot however be lent as loans and advances. RBI stipulates minimum quantum of cash to be maintained in the form of Cash Reserve Ratio (CRR); amounts to be invested in specified Government securities in the form of Statutory Liquidity Ratio (SLR) etc. Thus, the resources available for ultimate lending would be limited. There are also guidelines/ Direction for the level of credit to be maintained, exposure limit and credit to particular sectors/sections of society. Moreover, there is a limit on interest and charges that can be levied (because of govt. induced policy and competition), the collateral security that may be obtained and the manner in which a security may be enforced. Therefore, the funds are to be utilized judiciously by the bank in its lending activity and earn sufficient return to pay interest to its depositor customers and meet its expenses, while also providing for various exigencies including default in repayment of loans.

So the deposits accepted by the Bank are to be lent in time and in proper manner so that Bank can earn interest on the funds lent. While lending the funds obtained as deposits is important, equally important and vital is the collection of the same. Unless the loans given by it are repaid / returned by the borrower in time, it will not be possible for the Bank to repay the depositor and where there is failure on the part of the bank to repay in time, the trust which the depositor has on the Bank will come down.

Bank credit meets the requirements of a wide range of economic activities of the society. Broadly these activities can be classified into Agriculture, Industry, Trade and Services. Bank Credit is also extended for personal needs like housing, vehicles and for consumption purposes.

Socio-economic developmental programmes of the Government such as poverty alleviation, rural development, education, self-employment, public distribution of essential commodities etc., are also some of the areas to which bank credit is made available.

It is very important that Banks lend and lend to such people that the repayment comes in time and thus the trust based on which the Banking stands remains strong. Now, the question that comes in is how to find the right borrower so that the risk in lending can be minimized. It goes without saying that there is no loan proposal (also called credit proposal) which is risk free. As a banker if we wait for a credit decision without any risk, we cannot do business at all. Banker should strive for understanding the risks involved before taking a decision and record the same in his credit appraisal, duly identifying and recording the mitigation techniques.

Credit Appraisal is unique for each individual proposal. Due diligence of promoter is a must before accepting the credit proposal. Further, credit appraisal is based on future projections which is uncertain and also involves tail risk. Hence, the credit dispensing should reflect the expertise of processing / recommending / sanctioning authority in depicting future (Excluding unforeseen events) based on present available information.

A credit decision is basically taken after collection and verification of various types of information as well as due diligence from all the available sources as per roles and responsibilities of various levels involved in credit dispensation process. The extent of quality depends again upon various risks foreseen by the manager both from borrower's point of view and bank's point of view. There is no definite formula like one shoe size fits all and similarly decisions taken also vary from case to case. What is applied for a particular case need not be applied blindly for other cases. It is basically the study of borrower and viability of the unit along with other comforts like collaterals and guarantees. The decision maker has to take a call with the present situation and environment whether a decision can be taken or not.

There is no compulsion on any decision taking authority always to sanction a loan to the borrower. However, the rejection for any loan within a reasonable period should be communicated to the borrower in writing.

It is therefore important that while assessing the credit proposal, it is necessary that we know the nature of business, the constitution of the borrower, nature of facility sought and the security that is offered. We shall study about each of these in the subsequent chapters.

CHAPTER 2

PRINCIPLES OF LENDING

2.1 Safety

The safety of money lent by the bank is of paramount importance. The money lent by the bank should be repaid to it with interest within the stipulated time. Therefore, pre-sanction appraisal and post sanction follow up should be done to ensure safety of funds.

Every lending involves an element of risk with regard to the funds lent. Magnitude of the risk however differs from case to case. It is absolutely necessary that the risk element in each case is carefully assessed and adequate precautions are taken to keep the advances safe or to keep the magnitude of the risk lowest possible.

2.1.1 Character, Capacity and Capital (3 Cs) of the borrower

These are known as 3 Cs in bank's lending activity and following are the basic checks any banker has to undertake to ensure that basic tenets of 3Cs are met.

- i) **Trust-worthy:** The safety of an advance primarily depends upon the borrower. If the man behind it is not capable and trustworthy, it is likely to be a failure.
- ii) **Qualities:** The requisite qualities of the borrower such as honesty, frankness, business acumen, reasonableness, capacity, willingness to work hard and to repay the money borrowed, health and temperament should be judged to assess his capacity not only at the time of lending but also throughout the period that the advance remains outstanding.
- iii) **Reliability:** The borrower should be reliable person in whom the bank can repose full confidence. His character should hold out an assurance that arrangements made with the bank would be faithfully and successfully adhered to. The market information and information from CICs should be used for this purpose.
- iv) **Reputation:** It is not advisable to grant an advance to a person of doubtful reputation and of bad habits. An unscrupulous borrower may succeed in defrauding the bank despite all the precautions that the bank generally takes. It is, therefore, necessary to avoid such borrowers at all costs.
- v) **Capacity:** The borrower should have capacity to manage all his affairs. This does not mean that a single individual should be an expert in every activity like manufacturing, marketing etc. What is required is the entrepreneurial capacity. He may hire the services of experts in respective fields like production, publicity, marketing etc. But he should generally have some basic knowledge of all the departments to coordinate the different functions.
- vi) **Ability and Past Experience:** In order to assess the ability of the borrower, his past record and his experience in the field should be looked into. If the borrower is engaged in the particular line of business for several years and if he has been successful in the past, it can generally be presumed that he possesses adequate business ability. On the other hand, if he is a new entrant into the field or has been sustaining losses in the past, the proposal for sanction of credit facilities should be studied more carefully.



The borrower's character, capacity, and capital (3 Cs) are crucial for assessing the safety and reliability of lending, ensuring that the borrower is trustworthy, capable and financially invested is most important.

- vii) **Past Record:** The past record of any borrower is a good guide to the bank. The account books, financial statements etc., of the applicant for the last three or four years should be scrutinized to ascertain whether he had been making profits or sustaining losses and the trend of the business. Such a scrutiny will be very useful in judging not only the applicant's ability but also the future prospects of his business.
- viii) **New Entrant:** For a new entrant, the viability studies should be conducted more critically. In the case of new entrants into the business, the past record and experience of other persons engaged in similar business should be carefully studied to determine the future prospects of the business itself and the scope for new entrants to successfully enter and stabilize in it.
- ix) **Borrower's Stake:** In any business activity, the borrower's stake is of paramount importance. His contribution (Margin) must be ensured as per Bank's guidelines so as to ensure that he takes proper care and conducts the business on profitable lines. This stake is known as capital of the borrower. In the case of certain advances, (particularly of small amounts) and govt. sponsored schemes, there may not be any need for financial contribution on the part of the borrower. In certain cases like crop loan, the borrower's stake may be in the form other than financial contribution. Each case should be carefully studied from the angle of requirement of capital investment by the borrower and its amount.

2.2 Security

- i) The borrower is personally liable to repay the bank the money lent to him, together with interest thereon within the stipulated time.
- ii) **Primary Security:** Usually the asset created out of the bank advance or the asset against which bank loan is sanctioned is taken as security for the advance for the following reasons:
 - a) To ensure that the borrower discharges his obligations towards the bank properly.
 - b) To serve as a cover in case of need to get the advance adjusted out of its sale proceeds.
 - c) To safeguard the interest of the bank in the security as it is created out of bank finance or against which bank advance is made.
 - d) As a measure of control on the borrower from resorting to multiple borrowing.
- iii) **Collateral Security:** In certain cases where the magnitude of risk is high, depending upon the circumstances, some security in addition to the primary security can be stipulated. Such additional security is known as Collateral Security. Collateral Security should not be stipulated as a matter of routine for every advance. Viability of the project should be given precedence over collateral requirement. Each case should be studied from the angle of requirement of collateral security but it should be noted that it must not be insisted in cases where the same is exempted.

2.3 Liquidity

Liquidity refers to the ease with which an asset or security can be converted into cash without affecting its market price. Efforts have to be made to ensure that adequate liquidity is maintained for the bank to honour its various fund commitments. The role of Assets Liability Management Committee is of immense importance in this regard.

2.4 Profitability

- i) Bank operations shall be profitable so as to ensure viability of the system. Bank lending is the single major source of income to the bank. Though the rates of interest on advances in some cases are governed by the directives of Reserve Bank of India, the bank, by a judicious management of advances portfolio can augment its income to the optimum level.
- ii) Branches, while considering proposals for sanction of credit facilities should keep in view the profitability angle without ignoring safety and liquidity factors.

2.5 Diversification

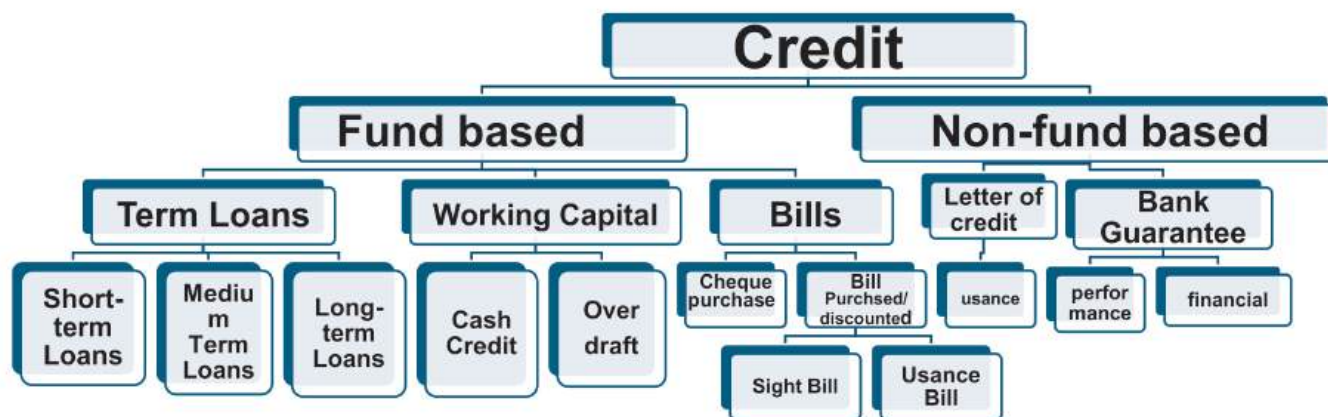
- i. Loans / Advances should, as far as possible, be diversified over various sectors like Agriculture, Industry, Trade, Services and Consumption. Advances under any category should also be similarly spread over different activities. In such a case, even if one type of activity / category fails, the over-all advances will not be affected. Similarly, there should be diversification in respect of security also. The exposure to each category will be determined by the Bank depending on its Risk Appetite, keeping in mind the Inherent Business Risk and as per Board Directives.
- ii. While considering any proposal for sanction of an advance bank's experience in lending to similar activities/categories should be kept in view. An activity/ category which is not picking up or which is already financed to the optimum level will not be suitable for consideration for further financing.

2.6 Purpose

- i. Bank advances can in general, be given for any genuine productive / consumption purposes but not to illegal or anti-social activities.
- ii. Productive activities generate additional incomes and as such the advances given for these purposes are self-liquidating and are preferable to consumption credit.

2.7 Classification of Loans and Advances

Loans & advances refer to long term & short term credit facilities to various types of borrowers and includes non-fund facilities as under:-



Advances can also be classified as Productive advances and Non-productive advances.

The following can be called productive advances as they directly or indirectly increase the productivity and result in increase in employment generation and the per capita income.

Productive advances can be further classified as

- Agriculture
- Industry (including MSME)
- Trade
- Service Sector Activities
- Others

While discussing about these in detail, we will discuss the various sub-categories under these classifications.



Productive advances directly or indirectly increase productivity, employment opportunities and per capita income

Non-productive advances are generally given as retail advances to individuals such as housing loans, educational loans, consumer loans, vehicle loans, personal loans etc.

2.8 Extent of Advance

- The extent of finance that can be sanctioned to any borrower should be decided as per loan policy guidelines, basing on the following factors:
 - a) Need based appraisal of the proposal
 - b) Credit worthiness of the borrower.
 - c) Maximum permissible bank finance/limits, if any, prescribed by Government, RBI, NABARD, SIDBI, NHB etc.
 - d) Exposure limit for financing to any single or group of borrower(s), if any, prescribed under the Loan Policy of the Bank.
 - e) Restrictions/limitations under any Law, Rules, Regulations, Byelaws, Articles, Agreements, Contracts etc.
- The extent of finance arrived as above is the limit upto which credit facilities can be sanctioned to a borrower.

2.9 Margin

- Margin is the borrower's financial stake in the primary security.
- "Margin" is the borrower's stake and is normally insisted upon for any one or more or all of the following reasons:
 - a. To ensure continued interest of the borrower in the activity.
 - b. To meet the market fluctuations of the security.
 - c. To meet the depreciation and deterioration in the quality of the security.

- d. To discourage hoarding and speculative activities.
 - e. To meet the additions of interest, insurance and other incidental charges to the amount of advance, in case the borrower fails to meet the same in time.
 - f. To cover shortfall, if any, in case of forced sale of security upon the borrower failing to repay the advance.
- The rate of margin depends upon the nature of security and the category of the borrower and will be communicated by the corporate office from time to time.
 - RBI may also be communicating minimum margin to be followed in the case of a few sensitive commodities.
 - Margin is maintained as per bank's guidelines.

2.10 Drawing Power

- The entitlement i.e. Drawing Power of a borrower to draw money under a credit limit depends upon the value of primary security less the margin stipulated.
- If, however, the drawing power so arrived at is more than the limit, the borrower can draw up to the limit only.

Thus, the borrower can draw up to the drawing power or limit whichever is less. In other words, the liability in an advance account should be within the limit as well as drawing power. Banks follow different methods for assessment of working capital requirement of business entities while calculating drawing power, viz.:

1. Turnover method
2. Inventory Method and
3. Cash Budget Method.

In the case of clean advances, the limit sanctioned itself will be the drawing power of the borrower since there will be no security to calculate the drawing power.

2.11 End-use of funds lent

The bank lending is basically purpose oriented and hence the funds lent by the bank must be used by the borrower for the intended purpose. If the funds are not used for the intended purpose, it may become difficult for the bank to recover the advance.

Therefore, in every lending, the end use of funds should be ensured through proper disbursement process and post disbursement follow up.

2.12 National Interest

Bank credit should help furtherance of the declared socio-economic objectives of the Government. The directives issued by the Reserve Bank of India in this regard should be scrupulously followed while handling proposals for sanction of credit facilities.

CHAPTER 3

TYPES OF BORROWERS

3.1 Introduction

While as Bankers we expect that borrowers repay the loans availed by them, it is very important that we also ensure that the documentation for the loans sanctioned is perfect. When an account is overdue and the borrower is not repaying the amount borrowed, it is essential that bank seeks legal remedy to recover its dues. For the decision to come in favour of the Bank in the Court of Law, the most essential requirement is the enforceability of the documents. In this context, it is very essential for the Banker to obtain the correct set of documents from the borrower.

With this end in view, the primary factor which is to be ensured while obtaining documents for any loan is the constitution of the borrower.

Constitution-wise, the borrowers can be classified under various categories like

1. Individual
2. Joint Individuals
3. Joint Hindu Family
4. Sole Proprietorship
5. Partnership
6. Limited Companies
7. Limited Liability Partnership
8. Societies/Cooperative Societies
9. Trusts / Associations

3.1.1 Individual

- An individual is a person who has capacity to contract.
- A minor is a person who has not completed 18 years of age (21 years of age in case of a minor under Guardian appointed by a Court of Law) and is not having capacity to contract and thus no lending can be done to minors.
- Further, the Individual should not be of unsound mind and he/she is not an un-discharged insolvent person for availing any credit facility.

3.1.2 Joint Individual

- More than one individual, who are familiar with each other and trust each other are called as joint individuals for a specific purpose or for a specific time or on a permanent basis for undertaking any business activity and approaching the bank jointly for the purpose of loan/advances.
- In retail loans for e.g., housing loans, this is a common phenomenon as the income of both husband and wife is considered for arriving at the eligibility which increases the borrowing Limit.

3.1.3 Joint Hindu Family/ Hindu Undivided Family (HUF):

- Under Hindu Law, an HUF is a family which consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. Any transactions done by the Karta is for the benefit of the members of his HUF and only Karta is authorized to operate the accounts.
- The senior most male member will be called Karta and all other members of the Hindu Undivided Family are called Coparceners.
- An HUF cannot be created under a contract, it is created automatically in a Hindu Family. A person gets his right to be a co-parcener through birth in the family.
- Dayaabagha and Mitaakshara are the two types of the HUF available in India.
- Dayaabagha is prevalent in Bengal and Assam, rest of the India follows Mitaakshara system. While in "Dayaabagha", the person gets the right only on the death of the senior most male member i.e., Karta, in "Mitaakshara" it is by birth in the family a person gets the right to ancestral property/business.
- After the Hindu Succession Amendment Act, 2005, females are also treated as coparceners in the HUF.
- Post amendment of the Hindu Succession Act, 1956 (The HSA) it was stated that while females have equal rights to HUF property (post HSA), they also have the right to manage the same property as 'KARTA'. Also, the court found no restrictions regarding a female karta in Section 6, HSA.
- Hindu Undivided Family ('HUF') is treated as a 'person' under section 2 (31) of the Income-tax Act, 1961.
- Since HUF is a separate entity, personal guarantee of the karta and co-parceners is generally obtained while granting loans to HUF.

3.1.4 Sole Proprietorship

- If an individual carries on a business under a trade name, it is called a proprietorship firm. The proprietor or owner receives all the profits and owns all the losses of the business. The owner is inseparable from the proprietorship and as such in the eyes of law, all the business income is reported in his personal income tax returns only.
- In other words, Proprietorship concern is not a separate legal entity and the owner is responsible and acts as a firm. -
- Since there is no difference, as per law between the proprietor and the proprietorship, a loan given to the firm binds the proprietor in his personal capacity also.

3.1.5 Partnership

The Indian partnership Act, 1932 defines "Partnership" as under:- "Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Persons who have entered into partnership with one another are called individually, "partners" and collectively "a firm", and the name under which their business is carried on is called the "firm-name". As such,

- When two or more persons join together to do a business activity, then such arrangement is called as partnership. Partnership is formed by an agreement which can be oral or written.
- While a Partnership firm is formed with a minimum of 2 partners, the maximum partners can be 50 as per Rule 10 of Companies (Miscellaneous) Rules 2014.
- Partnership refers to an agreement between persons to share their business profits or losses arising on account of actions carried by all or one of them acting on behalf of all.

- Partnership is a legal entity as per the Indian Partnership Act, 1932.
- A firm or even a Limited company can also become a partner provided the person owning the firm and the company are treated as one partner.
- Partnership can be registered or unregistered. The advantage of registered firm is that it can file a suit against any third party for enforcing a right from a contract. In the case of an unregistered firm, it cannot file a suit against any third party to enforce a right. However, any third party can file a suit against the unregistered firm.
- Partnership is formed by an agreement called as Partnership Deed. The declaration of partnership is to be obtained from all the partners in the Bank's format, even in case of a partnership having a written partnership deed.
- Once the partnership firm is reconstituted by death or retirement of the partner then the account should be closed immediately and a new partnership account to be opened and all the liabilities of the existing partnership should be transferred to the new partnership firm.
- A partner is having unlimited Liability in the partnership firm.
- Minors can also be admitted in a partnership firm but only for the benefits. On attaining the majority, he has the right to continue or leave from the partnership.

3.1.6 Limited Companies

- Companies are created and registered as per Companies Act, 1956 and new Companies Act, 2013.
- Companies are legal entities with perpetual succession. The companies can be bifurcated into private limited companies and public limited companies.



Loans to companies will not be entertained unless such a provision is there in the articles of association and memorandum of association. A resolution from the board is to be passed before availing the loan from the bank.

The characteristics of a private limited company in India are as follows:

- **A company should have Memorandum of Association and Articles of Association.** The MOA (Memorandum of Association) and AOA (Articles of Association) are the two foundational documents required for incorporating a company.
- The MOA is the constitution document of the company consisting of all its basic details.
- AOA is a document which contains all the rules and regulations formulated by the company for its internal management.
- **Limited Liability Protection:** Shareholders of a private limited company are only liable to the extent of their shareholding. This means that their assets are not at risk in case of financial losses incurred by the company.
- **Separate Legal Entity:** A private company is a separate legal entity from its owners. It has its legal identity and can own property, enter into contracts, and sue or be sued in its name.
- **Minimum Number of Shareholders:** A private limited company must have a minimum of two shareholders and a maximum of 200 shareholders.
- **Minimum Number of Directors:** A private limited company must have a minimum of two directors.

- It is mandatory for at least one director to be an Indian citizen.
- There is no minimum requirement for share capital.
- The name of the company must end with the words “Private Limited.”
- **Restrictions on Transfer of Shares:** The right to transfer shares in a private limited company is restricted. Shares can only be transferred with the approval of the Board of Directors or following the Articles of Association of the company.
- **Prohibition on Invitation to the Public:** A private limited company is prohibited from inviting the public to subscribe to its shares or debentures.
- **Compliance Requirements:** Private limited companies must comply with various legal and regulatory requirements, such as maintaining proper books of accounts, holding annual general meetings, and filing annual returns with the Registrar of Companies.

A closely held private limited company is one where the majority of the shares are held by the close family members and shares of such companies are not open to outsiders.

Broad differences between a Private Limited Company and a Public Limited Company are as under:

Private Limited Co.	Public Limited Co.
Private Limited Companies do not publicly trade shares	Public limited companies are listed on a stock exchange and their shares are traded publicly.
Maximum shareholders restricted to 200 only	No such restriction.
Minimum shareholders are 2	Minimum shareholders are 7
Minimum Directors are 2	Minimum directors are 3
No requirement of issuing prospectus before collection of shares	Public Limited Company has to issue a prospectus before collection of shares.
Founders, executive management and private investors own Private Ltd Co.	Shareholders and directors own public limited companies, and members of the public can buy stock.
Not such stringent norms as are applicable to public limited companies.	Public Ltd Cos are legally required to disclose information about their financial status and future.
No restriction on payment of remuneration to directors	Restriction on remuneration to directors.

Other important points about Public Limited Companies are as follows:

- The directors have to obtain consent from the Registrar of company before being appointed as directors.
- Earlier, as per Companies Act 2013, a public limited company was not allowed to start doing the business without obtaining Certificate of Commencement of Business. Now Companies Act (amended) 2015 has removed the previous compulsion of having this certificate. Now, it depends upon the company whether to obtain it or not.
- Loans to companies will not be entertained unless such a provision is there in the articles of association and memorandum of association. A resolution from the board is to be passed before availing the loan from the bank.

A One Person Company (OPC) is also now permitted by the Companies act and such companies have to suffix Pvt. Ltd. Most of the terms of these companies are in the form of the Private Limited Companies only. OPC is permitted only for the Indian citizens.

As per section 560, if the companies become defunct and non- functioning, Registrars of Companies are having powers to strike off companies' name from the list. If the company names are deleted, then they cease to be legal entities after which Bank cannot initiate any legal action or recovery if there are any dues from these companies.

For detailed rules and regulations, provisions of Companies Act 2013, Companies (Amendment) Act, 2015, Companies (Amendment) Act, 2017 and Companies (Amendment) Act, 2019 may be read in totality and amendments thereof, if any, from time to time.

3.1.7 Limited Liability Partnership (LLP)

- Limited Liability Partnership is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.
- LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession.
- The LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name.
- The LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.
- Further, no partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.
- Mutual rights and duties of the partners within LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be. The LLP, however, is not relieved of the liability for its other obligations as a separate entity.
- Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.
- LLP form is a form of business model which:
 - Is organized and **operates on the basis of an agreement called LLP Agreement requiring registration with Registrar of Companies.**
 - Enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner
- **LLP Vs Partnership:** Under "traditional partnership firm", every partner is liable, jointly with all the other partners and also severally for all acts of the firm done while he is a partner. Under LLP structure, liability of the partner is limited to his agreed contribution. Further, no partner is liable on account of the independent or un-authorized acts of other partners, thus allowing individual partners to be shielded from joint liability created by another partner's wrongful acts or misconduct.
- **LLP Vs Company:** One basic difference between an LLP and a joint stock company lies in that the internal governance structure of a company is regulated by statute (i.e. Companies Act, 1956) whereas for an LLP it would be by a contractual agreement between partners governed by Limited Liability Partnership Act, 2008. The management ownership divide inherent in a company is not

there in a limited liability partnership. LLP has more flexibility as compared to a company. LLP will have lesser compliance requirements as compared to a company.

3.1.8 Society / Co-operative Society

- The Society / Co-operative Society should be registered under the relevant State Act.
- Society bye-laws are regulations governing the internal affairs of a society. They cover issues such as membership, elections, powers and responsibilities of the managing committee, financial matters, and dispute resolution procedures. Bye-laws provide a structured framework for the governance of the society.
- Bye-Laws /Rules/ Regulations of the Society/ Co-operative Society are the documents which specifically permit borrowal and the borrowing powers, power to execute the documents and power to offer the security etc should be clearly specified.

3.1.9. Trust / Association

- A trust may be created for any lawful purpose. The purpose of a trust is lawful unless it is (a) forbidden by law, or (b) is of such a nature that, if permitted, it would defeat the provisions of any law, or (c) is fraudulent, or (d) involves or implies injury to the person or property of another, or (e) the Court regards it as immoral or opposed to public policy.
- The trustee is bound to fulfil the purpose of the trust, and to obey the directions of the author of the trust given at the time of its creation, except as modified by the consent of all the beneficiaries being competent to contract.
- The trustee /s may be empowered as per the Trust Deed to avail loans on behalf of the trust for specific purposes and by offering securities belonging to the Trust.
- Further, in the case of Public Trust, Charity Commissioner's permission should be obtained before borrowing / creation of charge or giving security.
- An association should be registered for availing any loans and the registration certificate and Bye-laws are the basic documents, which need to be verified and copies, duly attested by authorised signatories obtained and kept on record.

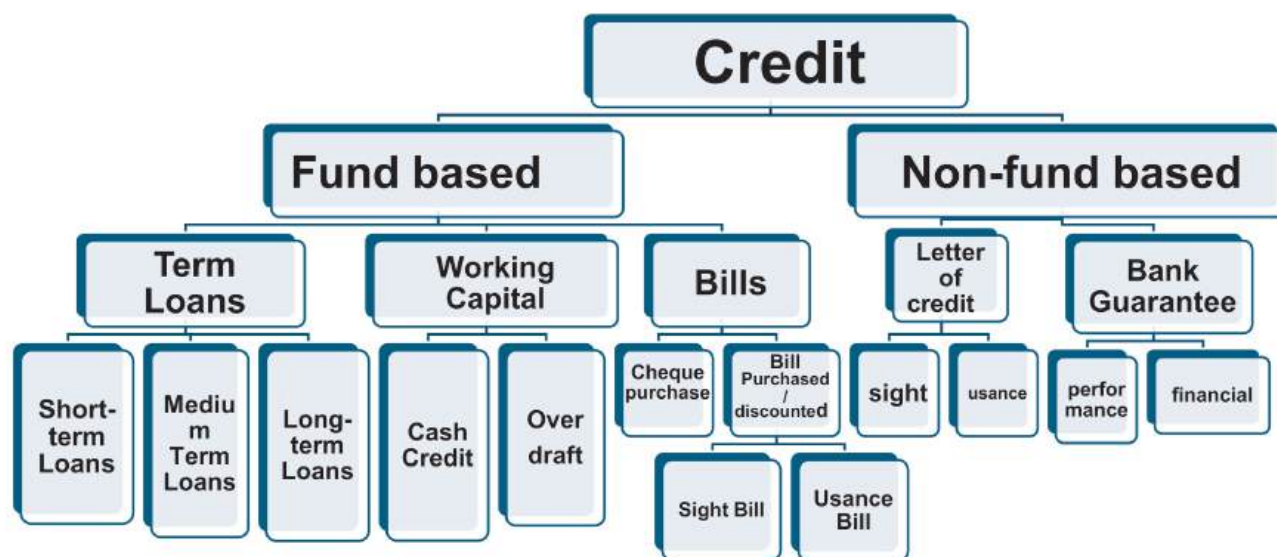
As in the case of Trusts, the bye-laws of the association must permit borrowings for the specified purpose and for creation of charge / security.

CHAPTER 4

TYPES OF CREDIT FACILITIES

4.1 Introduction

The following classification broadly describes the Credit portfolio of a bank. All loans disbursed by the Bank fit into one of the categories of advances listed hereunder:



Fund Based advances are where actually there is transfer of money from the Bank to the borrower and the borrowal accounts thus become the assets of the Bank.

Non-fund based advances are where the Bank gives its commitment to pay as per the terms of the contract to the beneficiary. Here till such time the commitment arises, there is no transfer of funds. Instead, it is a letter of commitment / guarantee that the bank issues and hence it is called contingent liability. The contingent liability will become an asset when the guarantee / letter of commitment is enforced upon the Bank by the beneficiary and he demands payment for the guarantee/ letter of commitment issued by the Bank.



Fund Based advances involve the actual transfer of money from the bank to the borrower, making the borrower's accounts assets of the bank, while Non-fund based advances involve the bank's commitment to pay without immediate transfer of funds, acting as contingent liabilities

Fund Based limits are, as the name suggests, based on the outgo of the funds from the Bank to the borrower or to the person as instructed by him. Fund Based limits are categorized as:

4.1.1 Term Loans

These are loans given for a specific purpose, say for purchase of machinery or equipment, construction of buildings for a factory or residential houses, purchase of vehicles etc. Term Loans are given for a specific period of time. Based on the period of loan, the loans are further sub-classified as:

- a. Short-term Loans: Loans which are repayable in less than 1 year.
- b. Medium Term Loans: Loans repayable between 1 year to 3 years
- c. Long-term Loans: Loans repayable beyond 3 years.

Generally, banks give term loans for a period of less than 7 – 10 years. However, depending on the project being financed and the life of the assets created out of bank finance, banks are now extending the repayment beyond 10 years also, as per their loan policy. Once disbursement upto the sanctioned limit is completed, the only debits into this account can be insurance, interest, bank charges etc. and the borrower will not be allowed to drawback the amount already deposited into the account.

4.1.2 Working Capital Loans

These are short-term loans and are generally given for a period of one /two years. These loans are based on the operational cycle and cash flows of the borrower. The borrower will have the freedom to operate the account based on the drawing power and he may credit and withdraw at his convenience upto the drawing power / limit fixed whichever is less. The primary security for these types of loans are generally paid stock and receivables and recently banks are allowing overdrafts against property also.

4.1.3 Bill Limit

Bill limit is very short-term in nature and is sanctioned against purchase /discounting of cheque / bills drawn against genuine trade transactions. With the migration of banks to Cheque Truncation System, the concept of purchase/discount of cheque /demand draft/ other such instruments is reduced. In respect of Bill purchase /discounting of negotiable instruments and where payment is immediate, it is called a Sight Bill and where payment is made after a certain period of time as per the agreement entered between the drawer and the drawee of the bill it is called Usance Bill. While cheques /DDs etc purchased are called Clean Bills Purchased limit, the limit against purchase/discounting of a bill backed by documents of title such as Lorry Receipt, Railway Receipt, Airway Bill, Postal Parcel etc. payable on sight or after a specified period of time and are called Documentary Bills.

4.1.4 Non-fund based

Non-fund based Limits are those where there is no immediate out-go of funds. These are basically guarantees given by the bank on behalf of its client. Generally, any business is run on trust but when the supplier is unsure of the credibility of the buyer, he will insist on full advance payment for the same. However, the buyer may also not have the confidence that once the payment is made, the supplier will supply the same quality of goods as ordered /will perform the work entrusted in the same fashion as assured in the contract. As both sides need some assurance, the Banker steps in.

1. In the case of Letter of Credit the banker assures the supplier that if he supplies the goods /performs the contract as per the agreement entered into , bank will pay the amount of invoice as per the terms of the contract, irrespective of whether the buyer pays or not.
2. In the case of Bank Guarantee, the banker guarantees performance of work by his client and promises to pay the guaranteed person in case of failure by his client to perform the work as per the terms of contract.

We shall study about these in more detail in the coming chapters.

CHAPTER 5

TYPES OF LENDING

5.1 Sole Banking

Normally, when a borrower requires credit facilities, he approaches the Banker for sanction of the required amount. Banker, depending upon his risk appetite, regulatory sector-wise restrictions on exposures etc., decides to take up the proposal in full. When the entire credit requirements of the borrower are met by a single banker, this type of lending is called Sole Banking.

In this type of lending, where there is a borrower and a lender and the loan agreements are between the banker who lends and the borrower who borrows.

5.2 Syndication

The term "loan syndication" refers to the process of involving a group of lenders that fund various portions of a loan for a single borrower. Loan syndication most often occurs when a borrower requires an amount that is too large for a single lender or when the loan is outside the scope of a lender's risk exposure levels. Multiple lenders pool together and form a syndicate to provide the borrower with the requested capital.

- Loan syndication occurs when two or more lenders come together to fund one loan for a single borrower.
- Syndicates are created when a loan is too large for one bank or falls outside the risk tolerance of a bank.
- The banks in a loan syndicate share the risk and are only exposed to their portion of the loan.
- A loan syndicate always has a syndicate agent, which is the lead bank that organizes the loan, its terms, and other relevant information.
- The Loan Syndications and Trading Association provides resources on loan syndications within the corporate loan market.

5.2.1 Understanding Loan Syndications

Loan syndication is often used in corporate financing. Firms seek corporate loans for a variety of reasons, including funding for mergers, acquisitions, buyouts, and other capital expenditure projects. These capital projects often require large amounts of capital that typically exceed a single lender's resource or underwriting capacity.

There is only one loan agreement for the entire syndicate. But each lender's liability is limited to their respective share of the loan. With the exception of collateral requirements, most terms are generally uniform among lenders. Collateral assignments are generally assigned to different assets of the borrower for each lender. The syndicate does allow individual lenders to provide a large loan while maintaining more prudent and manageable credit exposure because the associated risks are shared with other lenders.

The agreements between lending parties and loan recipients are often managed by a corporate risk manager. This reduces any misunderstandings and helps enforce contractual obligations. The primary lender conducts most of the due diligence.

For most loan syndications, a lead financial institution is used to coordinate the transaction. This institution is often known as the Syndicate Agent. This agent is also often responsible for the initial transaction, fees, compliance reports, repayments throughout the duration of the loan, loan monitoring, and overall reporting for all lending parties.

A third party or additional specialists may be used throughout various points of the loan syndication or repayment process to assist with various aspects of reporting and monitoring. Loan syndications often require high fees because of the vast reporting and coordination required to complete and maintain the loan processing.

5.3 Consortium Arrangement

Where a project has to be financed and the Bank which proposes to fund the said project opines that it is prudent to share the funding with other banks in order to conserve its resources for other lending and / or to share the risk of funding with other banks, it joins hands with other banks and forms a **consortium** of lenders.

Thus, Banks form / join into a consortium for the following reasons

1. Risk-sharing – It is a known fact that lending of finances involves an element of risk; higher the amount, higher the risk. So the banks in such cases decide to enter into a consortium agreement with other banks.
2. Maintain the exposure limit- As per the regulations of RBI, the banks have a limit on credit exposure and the banks cannot provide financial assistance to the borrower beyond such limits. So the banks resort to the practice of entering into a consortium agreement with other banks.

5.4 Multiple Banking Arrangement (MBA)

MBA is another form of lending where there are several lenders for the same project but each lender interacts separately with the corporate without coordination with other banks lending for the same project. Here, information exchange among lenders is fragmented, and corporates interact separately with each lender. MBA thus is riskier than consortium as there is no common agreement between lenders and the chances of misuse by the borrower are higher.

5.5 Modus operandi of Consortium / MBA Lending

It should be noted that the consortium agreement / Multiple Banking Arrangement is project specific. If a borrower has two or more projects, there might be equal number of consortium lenders, some of them present in all the consortiums while others may not.

Among the bankers, normally the one with the highest exposure is chosen as the leader of the consortium and the other banks are called Members of the consortium. The leader of the consortium acts as a representative of all the other banks in front of the borrower, regulator and other statutory bodies.

In a joint meeting of bankers, the leader of the consortium is chosen. The Lead Bank will thereafter call for regular consortium meetings to discuss various aspects including joint documentation, release of limits, unit inspection etc. He allocates the limits to all members of the consortium and arranges for execution of documents. As the role of Lead Bank involves responsibility and work, the Lead Bank is given charges called Lead Bank Charges.

5.6 Broad functions of the Bank where it is the leader of the consortium

5.6.1 Pre-documentation/ function

The leader bank performs the following functions:

1. prepares appraisal note for the proposed loan for the full amount of loan,
2. conducts due diligence on the borrower, the suppliers and debtors the same way as it does for a loan which is sanctioned on a standalone basis.
3. sanctions its share of the loan
4. circulates the appraisal notes to other member banks,
5. syndicate the loan. Where it is mandated
6. tie-up of credit limits and collection of sanction letters from other members
7. forming of consortium
8. announcing financial closure
9. allocating limits to the members where the amount of sanctions received are in excess of the appraised amount.
10. Collection of Leader Bank's charges from the borrower.

5.6.2 Documentation

As leader of consortium, the bank should arrange the following:

1. Preparation of documents and arranging for execution of joint documentation duly incorporating in the Common loan agreement the following :
 - Share of advance of each member,
 - Rate of interest,
 - Margin,
 - Repayment schedule,
 - Creation of security,
 - Insurance and
 - Realization of security.
2. Joint Equitable mortgage of the existing assets and assets to be created out of term loans
3. Joint deed of pledge or hypothecation of the total limit in favour of all the participating banks providing equal or pro-rata rights on the charge
4. Inter-se agreement among the lenders
5. Obtaining security documents, from the borrower on behalf of consortium.
6. Obtaining legal opinion, including conducting search in the registrar's office and obtention of copies of title deeds wherever required
7. Obtaining engineer's valuation
8. Circulating the copies of documents among members of consortium.
9. Filing necessary charges with the appropriate authorities to secure the interest of all members of consortium

10. Insure the securities on behalf of the consortium
11. Obtaining periodical stock statements, MSOD, QIS etc and allocating DP to the members of the consortium with due intimation to them
12. Conducting periodical review meetings,
 - a. Conducting Periodical joint inspection and exchange of information on the borrowing unit
 - b. Reporting to RBI, NABARD under CMA for credit authorization
 - c. Filing necessary charges with the concerned regulators and forwarding copies of the joint documentation to other members
13. Ensuring periodical exchange of information as per the inter-se agreement.
14. Collecting the interest and instalment due and proportionately distributing to member banks.
15. Initiate action where a member of the consortium reports default / classification of account as SMA 2.

5.7 Where the Bank is a member of the consortium

1. Obtain the appraisal note from the leader and put up for sanction
2. Conduct independent due diligence on the borrower
3. Communicate sanction terms to the leader
4. Ensure that the sanctioned terms match that of the leader and in case variance take up with the sanctioning authority / leader of the consortium for synchronizing the terms and conditions.
5. Execute joint documentation arranged by the leader
6. Attend consortium meetings regularly and ensure that the points raised by you are discussed and minuted in the consortium minutes.
7. Obtain copies of all documents and security documents, legal opinion, engineer valuation reports, insurance policies etc.
8. Release the limit only on request from the leader in the form of drawdown notice along with the borrower's request
9. Seek periodical progress / performance reports through the leader
10. Ensure obtention of DP allocation letter from the leader in the periodicity as decided in the Inter-se Agreement.
11. Obtain and review the MSOD / QIS reports submitted by the borrower.
12. Follow up with the leader for interest and instalment due
13. Report default / classification into SMA category to the leader.

Vital among the documents that bankers execute in the case of joint lending is 'Inter Creditor Agreement'. The consortium / MBA members enter into an agreement called Inter Creditor Agreement (ICA) /Inter-Se agreement. ICA is an extension of debt to the borrower as a result of an agreement between/among the lender, classes of lenders, which specifies their respective rights and obligations regarding the borrower and its assets. There can be provisions in an ICA that specify the person who has the authority to declare defaults and overdraw the loan, foreclose on the collateral, grant waivers, or amend the loan agreement and security agreement.



In a consortium arrangement, banks join forces to share risk and manage large loans, while in a multiple banking arrangement (MBA), each bank operates independently with fragmented information, increasing the risk of borrower misuse.

Furthermore, this agreement can also specify the payment distribution among the lenders based on the payments the borrower makes.

An ICA is also called an intercreditor deed. An Intercreditor Agreement is a legal document between two or more creditors. It explains in advance how their competing interests will be resolved and how they will work together to serve their mutual borrower. It is common for two types of creditors to participate in a given agreement, i.e., an authoritative senior lender and a subordinate junior lender. It is, however, possible that there may be more senior lenders present in some situations. Should such a circumstance arise, another agreement would need to be drafted between them.

In simple words, an Intercreditor Agreement describes the terms and the allocation of collateral between common lenders in the event of a default by the borrower. Having such an understanding is positive in the sense that it protects the rights of the subordinate lenders. As the name suggests, an Intercreditor Agreement is designed to – among other things – establish a borrower's rights and positions concerning collateral, payment, and payment priority, as well as the hierarchy between various creditors. Despite the relatively recent rise of Intercreditor Agreements in prominence, there remains little case law regarding the interpretation of these arrangements.

As per ICA, common joint loan documents will be executed by the Borrower which will be in the custody of the Leader Bank. Documents evidencing title to property offered as security along with the letter depositing the title deeds also will be executed by the Borrower and will be retained with the Leader Bank. The Leader Bank will circulate copies of all such documents to the members of the consortium. On behalf of all the members of the consortium, the Leader Bank will obtain legal opinion, valuation of approved engineer, file the charges with the concerned (Registrar of Companies etc.) government agencies and CERSAI etc.

The leader convenes meetings for the consortium to execute documents and register charges on the loanee's assets.

At the time of granting fresh facilities, a declaration must be obtained from the borrowers about the credit facilities already enjoyed by them from other banks in the format prescribed by RBI.-

In the case of existing lenders, declaration from the existing borrowers availing sanctioned limits of Rupees five crore and above or wherever, must be obtained on the above lines.

Subsequently, the Leader Bank should ensure that exchange information about the conduct of the borrowers' accounts is submitted by all member banks in the format given by RBI at least at quarterly intervals.

The Leader Bank shall obtain regular certification by a professional, preferably a Company Secretary, Chartered Accountant or Cost Accountant, regarding compliance on the part of the borrower to various statutory prescriptions that are in vogue, as per specimen given by RBI. These certificates shall be circulated to all members of the consortium.

Leader Bank shall also examine the credit reports available from a credit information company (which has obtained Certificate or Registration from RBI and of which the bank is a member) regarding the borrowing unit and see if there are any adverse features observed and red flag them in the consortium meetings.

Inspection of the unit is done on rotation basis or jointly as decided in the consortium meetings.

At the time of disbursement of term loan, the leader bank is given the request for release. After ensuring that all the pre-disbursement formalities are fulfilled and the release can be effected, the leader bank

sends a demand to all the members in proportion to their share of the loan. As the lenders release their proportionate share, the amount gets pooled up in the leader's bank and the loan is released by the leader bank. Repayment of loan is also normally done through the leader bank.

In the case of working capital limits, normally proportionate turnover is reflected in the accounts of each of the member banks or it is routed through the Leader Bank's account who will ensure that proportionate credits are routed through the member bank's account as is required to keep the status of the account in performing status.

5.8 Opening of Current Accounts for borrowers availing Cash Credit / Overdraft facility

In the recent past it was observed that several borrowers who availed fund-based working capital facilities from bank/s, have opened an operative account with a non-lending bank and have diverted their business proceeds through this account, with an intention of defrauding the lender/s. Reserve Bank of India guidelines have to be borne in mind by all branches of the Bank while opening current accounts for those who have availed facilities from either the Bank or from other Banks.

The important takeaways from the circular are reproduced here:

- **No current account for customer having CC / OD limits:** No bank shall open current accounts for customers who have availed credit facilities in the form of cash credit (CC)/ overdraft (OD) from the banking system and all transactions shall be routed through the CC/OD account.
- **Exposure of Bank is less than 10% of the entire exposure:** Where a bank's exposure to a borrower is less than 10 per cent of the exposure of the banking system to that borrower, while **credits are freely permitted, debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that has 10 per cent or more of the exposure** of the banking system to that borrower. Funds will be remitted from these accounts to the said transferee CC/OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in such accounts shall not be used as margin for availing any non-fund based credit facilities. In case there is more than one bank having 10 per cent or more of the exposure of the banking system to that borrower, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks. It may be noted that banks with exposure to the borrower of less than 10 per cent of the exposure of the banking system can offer working capital demand loan (WCDL) / working capital term loan (WCTL) facility to the borrower.
- **Where a bank has a share of 10 per cent or more** in the total exposure of the banking system to the borrower, it can provide CC/OD facility as hitherto.
- In case of **borrowers covered under guidelines on loan system for delivery of bank credit**, bifurcation of working capital facility into loan component and cash credit component shall henceforth be maintained at individual bank level in all cases, including consortium lending.
- In case of customers who have not availed CC/OD facility from any bank, banks may open current accounts as under:
 - In case of borrowers where exposure of the banking system is **Rs. 50 crore or more**, banks shall be required to put in place an **escrow mechanism**. Accordingly, current accounts of such borrowers can only be opened/maintained by the escrow managing bank. However, there is **no restriction on opening of 'collection accounts'** by lending banks subject to the condition that funds will be remitted from these accounts to the said escrow account at the frequency agreed between the bank and the borrower. Further, the balances in such accounts shall not be used as margin for

availing any non-fund based credit facilities. While there is no prohibition on amount or number of credits in 'collection accounts', debits in these accounts shall be limited to the purpose of remitting the proceeds to the said escrow account. Non-lending banks shall not open any current account for such borrowers.

- In case of borrowers where exposure of the banking system is **Rs. 5 crore or more but less than Rs. 50 crore**, there is no restriction on opening of current accounts by the lending banks. However, non-lending banks may open only **collection accounts** as defined in the previous para.
- In case of borrowers where exposure of the banking system is **less than Rs. 5 crore**, banks may open current accounts **subject to obtaining an undertaking** from such customers to the effect that customers shall inform the bank(s), if and when the credit facilities availed by them from the banking system becomes Rs. 5 crore or more. The current account of such customers, as and when the exposure of the banking system becomes Rs. 5 crore or more and Rs. 50 crore or more, will be governed by the preceding two paragraphs.
- Banks are **free to open current accounts** of prospective customers who have **not availed any credit facilities** from the banking system, subject to necessary due diligence as per their Board approved policies.

CHAPTER 6

CREDIT INFORMATION COMPANIES

6.1 Introduction

In addition to the information gathered from various sources during its exercise of due diligence on an applicant, guarantor etc., Bank has another source through which it can gather information and collate it with its own finding to draw the conclusion about lending to the applicant viz. Credit Information Companies (hereinafter referred as CICs)

The role of CICs is to provide information to Banks and Financial Institutions for curbing the un-desired growth of NPA.

CIC is an independent third-party agency that collects financial data of individuals and companies pertaining to their credit facilities and other related information across various financial institutions.

CICs in India are licensed by Reserve Bank of India (RBI) and are governed by the provisions under Credit Information Companies Regulation Act (CIC Act), 2005 and other RBI regulations and guidelines. This was further followed by Credit Information Companies, Regulations and Rules Act, 2006.

In India, there are four prominent Credit Information Companies that generate credit scores for individuals and credit ranks for companies or businesses. These four credit bureaus are TransUnion CIBIL, Experian, Equifax and CRIF High Mark.

In terms of Section 15 of the Credit Information Companies (Regulation) Act, 2005 (CICRA), every Credit Institution shall become member of at least one CIC".

6.2 TransUnion CIBIL Ltd.

We shall hereunder discuss the information provided by TransUnion CIBIL Ltd i.e. "CIBIL" for both Consumer and Commercial – Credit Information Reports (CIR) and CIBIL's MSME Rank-Online (CMR).

CIBIL collects and maintains monthly reports (Credit Information Report-CIR) from Banks and Financial Institutions with details regarding payments made by the individual /institution towards not only loans availed by it but also the Credit Cards sanctioned to the individual. This it maintains in the form of a credit history along with other basic information about the borrower. This record of credit history is maintained under two segments namely commercial information and consumer information.

CIBIL credit score ranges from 300 to 900 points which denotes a borrower's credit worthiness. This figure is derived from advanced statistical algorithms that take into account the credit history including borrowings, repayment patterns, defaults in repayment and other data relevant to an individual's financial conduct and discipline.

6.2.1 CIBIL Scoring

CIBIL reports provide two scores:



CIBIL credit score ranging between 300-600 is considered to be credit risky by banks and other financial institutions. In general, credit cards and loans will not be provided to people in this slab.

Credit Vision Score: It reflects credit health of the person in respect of all loans viz. both secured as well as unsecured loan and also credit history of last 36 months.

Personal score: It considers repayment pattern of a person in respect of only personal loans viz. unsecured loans (Credit Card/Personal Loan, etc.).

Score	Interpretation of Score
-1	- This implies that the borrower has no previous history of borrowing with any bank or other financial institutions in the country from last 36 months. - The individual has no credit history and it has not been reported to CIBIL by the lending institutions. - The individual has no credit history but has only been enquired upon by the lending institution. - The individual has a credit history, but none is reported in the 36 months prior to enquiry.
300-900	- The individual has a credit history of more than 6 months (in last 36 months). The further break-up of this score range 300-900 is mentioned below based on the industry response. 300-600: CIBIL credit score in this slab is considered to be credit risky by banks and other financial institutions. In general, credit cards and loans will not be provided to people in this slab. 601-750: This is the intermediate range of scores. Banks may consider financing the borrower falling in this range, provided, banks are satisfied about the overall financial position and other factors where the risk level is considerably low for e.g., stable government employment, different sources of additional income like rents, spouse's income, type of security etc. 750+: Scores above 750 are considered to be good and will help in getting a loan or a credit card with ease.

6.2.2 CIBIL Report

The following aspects available in the CIBIL Report, in addition to the score, enable us to form an opinion on the borrower:

- 1. Payment history** – From the report we will be able to assess the repayment trend of the borrower and we can observe whether he is regular in his payment obligations or not. In the case of Borrower having trouble to pay existing credit obligations and therefore delays payments, it will negatively affect the score.
- 2. Number and types of credit accounts (more the unsecured loan, less the score):** Where a borrower has been recently sanctioned multiple loans and credit cards, then the proposal has to be viewed with caution because this behaviour indicates that the debt burden has increased over the past few months and this will negatively impact one's score.
- 3. A higher percentage of credit cards or personal loans:** Having a balanced mix between the secured loans (such as auto, home loan) and unsecured loans (such as personal loan, credit card) is likely to have a more positive effect on the score.

4. **High Utilization of facilities:** While increased spending on credit card will not necessarily affect the score in a negative manner; an increase in the current balance of credit card indicates an increased repayment burden and may negatively affect the score.
5. **Enquiry-** The number of enquiries made about the applicant indicates that several lending institutions are viewing the details of the applicant, probably because he has approached them for credit facilities. More number of queries not translating into loans should throw caution on the banker as this may indicate desperation of the applicant to get financial assistance.

The data furnished by the applicant can be cross-checked from CIBIL data, from which the following can be verified and checked whether the data given to the Bank along with /in the application tallies with the data available in CIBIL Report:

- Name,
- Date of birth,
- PAN number if any and its details,
- Telephone number both land line and mobile,
- E-mail address if any
- Postal address (last address categorized as residential, official, not categorized are listed).

From the above it can be seen that CIBIL report is a useful tool for cross- verification of the data furnished by the borrower while submitting the proposal.

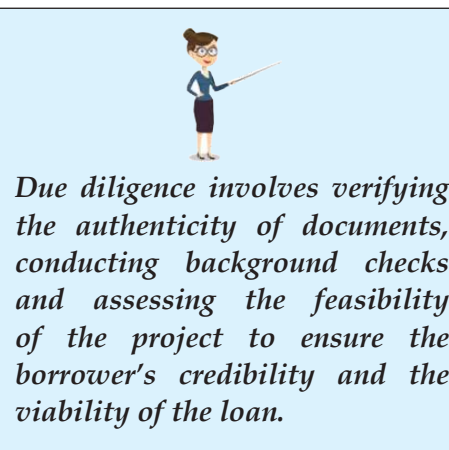
CHPATER 7

DUE DILIGENCE

7.1 Introduction

Due diligence can be termed as an independent verification of the data provided by the borrower and the guarantor regarding their business, security offered and their financial capacity. This has to be necessarily done as a pre-lending activity and should be continued at periodic intervals as long as the loan given is outstanding for all types of loans. However, while due diligence on the existing borrower can be done by reviewing the conduct of the account, care should be taken when conducting due diligence on new and takeover customers.

Due diligence gives us an insight as to the nature and volume of business, operations reflecting the integrity of the entity and about the credit worthiness of the client and his guarantor and enables the bank to take a credit decision.



7.2 Due diligence for business purposes

While conducting due diligence for a business entity, the following aspects should be covered:

- Person/ people behind the borrower/ entity /organisation / business, /vintage of family in the business.
- Conduct of the account
- Market report of borrower/ guarantor
- purpose of loan and managerial, operational, marketing and technological capabilities of the borrower
- Technical feasibility and economic & financial viability
- additional comfort or collateral securities provided
- Past experience in implementing /running business
- Inter-group transfers and investments to group /subsidiary concerns.
- Asset quality of the borrower / group /subsidiary concerns
- Where the unit is a family-run business, the involvement of the members of the family in the business and availability of a proper succession plan.

Regarding the activity being undertaken the following aspects should be looked into:

- Competition in the business.
- Alternatives available in the market for the Product/s manufactured.

Net-worth statements of the borrower/partners/designated partners /promoter directors/guarantors are to be obtained and the borrower should be advised to submit details of all the assets and liabilities owned /owed by him.

In addition to the above, it should be examined if the borrowing company /group is maintaining cordial relations with its employees, suppliers, buyers etc.

7.3 Process of due diligence

- All basic documents such as PAN Card, KYC documents, IT return, etc. to be verified with the originals to ensure their genuineness for all applicant(s)/ guarantor(s).
- The past track record of the promoter, the activities undertaken by him in the past and presently being undertaken, associate /group concerns, details about the proposed project, such as infrastructural arrangements, forward and backward linkages, sources of margin, arrangements for financial tie-up, procurement of raw material and selling and marketing arrangements etc have to be discussed in detail with the promoter and recorded.
- RBI Defaulters list, Wilful Defaulter List, RBI Central Fraud Registry, ECGC SAL list, and CERSAI database, GSTIN database, UIDAI Database, etc. shall be verified ab initio.
- Caution Advices circulated by the Bank should be verified to ensure that names of borrowers / guarantors / firms /companies owned by them do not appear in the said caution advices.
- CIBIL check and CIBIL Mortgage check shall be conducted in case of all new/renewal/takeover/enhancement accounts for all accounts as per the Bank's policy.
- Reports of Credit Information Companies (CICs) like CIBIL (Commercial /Consumer / Mortgage) or other Credit Information Agencies on the applicant / sister concerns / promoters /guarantors shall be obtained and their comments are recorded. The CIN and DIN Number of company / guarantors shall be obtained and verified.
- Details of the PAN to be verified from the IT Website and details of existing charges from the ROC website, wherever applicable. From the MCA website, details of shareholding, security charges, names of directors etc. should be accessed and verified for correctness.
- Verification of Unique Document Identification Number (UDIN) in all certificates / documents / reports certified by Chartered Accountants should be done through UDIN portal
- Legal Entity Identifier (LEI) is a 20 digit unique code to identify parties to financial transactions worldwide. As per RBI guidelines, Non-Individual borrowers enjoying aggregate exposure of Rs.5.00 crore and above from Banks and Financial Institutions shall be required to obtain LEI codes. Borrowers who fail to obtain LEI shall not to be sanctioned any new exposure nor shall they be granted renewal / enhancement of credit facilities. If the applicant is enjoying credit facilities of Rs.5 crores and above from Banks and FIs, it shall be ensured that such borrowers have obtained LEI and details of the same be noted in the due diligence appraisal.
- As part of due diligence, pre-sanction visit to the applicant's places, factory, office, godowns, residences etc. should be invariably conducted and during such visits, discrete discussions with the workers, employees, neighbours, suppliers and buyers shall be made and the findings are to be recorded.
- The ownership of the premises from where the factory, godowns and the office are functioning has to be seen. If it is not owned by the applicant, the lease agreements have also to be verified and where a term loan is considered, then it is ensured that the period of the lease should be at least 6 month beyond the term loan due date.
- As part of due diligence, in case of existing borrower, the operations in the running account during the previous 12 months, the repayment track record in case of existing term loans, devolvment of L/Cs,

invocation of bank guarantees, submission of periodical statements like stock statements, MSOD, QIS, Audited Balance Sheet etc, have to be checked.

- In the case of units which are new entrants into the Bank's fold, the previous banker's confidential report should be obtained and should be studied with all care to ensure that the account being brought into the Bank's fold is meeting the Bank's requirements. In addition to the above, the statement of account of the applicant for the last 12 months shall be studied to identify any signs of incipient sickness.
- Where proposal is for financing a project / business, the financial feasibility and technical viability of the project should be established.
- In case of term loans, the due diligence should also include the due diligence on the suppliers of machinery and the alternatives available in the market. The terms of supply of machinery and the warranty period, after sales servicing, availability of spares etc. have to be studied /discussed and recorded.
- Similarly, due diligence on the collateral securities being offered has to be done keeping in mind the enforceability, accessibility, saleability of the securities being offered. The ownership of the securities and the relationship between the applicant and the owner of the securities has to be taken into account and in case of III Party securities, stricter scrutiny should be made to ensure that the same is done with free will and without any financial consideration.
- In respect of securities offered / business location, due diligence should look into the presence of negative factors like close vicinity to slums/burial grounds/ high voltage lines above the property, railway lines, non-availability of water, absence of independent motor-able access and the same should be recorded in the visit report.

From the above, it may be noted that due diligence on the borrower, unit, guarantors, suppliers and securities are vital tools for a credit decision and hence due care is to be taken by the concerned while conducting the due diligence exercise.

CHAPTER 8

APPLICATION FOR CREDIT FACILITIES

8.1 Introduction

Application for Credit facility from the borrower is the basic document for processing any credit proposal. No loan facility can be considered unless the borrower along with all the guarantors /co-obligants submits the application seeking sanction of credit facilities. Bank has specific application format for different types of credit facilities. Branch should obtain the application in the Standard format for the relevant loan product duly filled in all respects. KYC Norms of the borrower, authorised representatives (based on the constitution of the borrower) guarantors /co-obligants and others, as applicable should be fulfilled.



The application for a credit facility is a fundamental document for processing any credit proposal, and it must be submitted by the borrower and all guarantors/co-obligants in the standard format for the relevant loan product, along with fulfilling KYC norms and providing all required supporting documents.

8.2 Documents to be obtained

A list of other documents to be obtained are appended hereunder:

- Photographs of the borrower and the co-obligants / guarantors.
- Copy of Aadhar Card.
- Property Statement/s containing full particulars of the properties owned by the borrower and guarantor / co-obligant are obtained under their signatures of the Borrower, Co-obligant/s/ Guarantors duly signed by them.
- Statement of Legal Heirs of the applicant and guarantor / co-obligant along with their Relationship.
- Based on the constitution of the borrower, additional documents as mentioned hereunder may be obtained:
 - Where the borrower is an **individual**, In respect of advances to minors or on the security of minors' properties, prior permission of the Court is obtained and is in place and the natural guardian/ legal guardian appointed by the court have executed the same for the benefit of the minor.
 - In the case of **Sole proprietary concerns**, a letter from the sole proprietor that he would continue to carry on manufacturing /trading in the name of proprietary concern as its sole proprietor is obtained and kept on record.
 - Where borrower is a **HUF**, all the adult members including the Karta sign the application and documents including receipts on behalf of HUF and in their personal capacity also and where, if any co-parcener has not signed, he has given an authorisation in writing.

- Where the borrower is a **Partnership Firm**, the application in the prescribed format shall be signed by all the Partners on behalf of the firm and in their individual capacity. In addition, the following documents shall also be obtained:
 - i. Partnership Letter, if any, in the Bank's Proforma, duly signed by all partners.
 - ii. Copy of Partnership Deed duly certified by the partners as latest.
 - iii. Copy of Certificate of Registration of Firm, wherever it is available.
- Where the borrower is a **Charitable Trust**, it should be registered under the relevant State Act and copy of Trust deed is to be obtained, duly certified by authorised persons with date and the same should be obtained every time the documents are executed and form part of loan documents and security documents.
- Where borrower is a **Society/ Co-operative Society**,
 - Copy of Registration Certificate of the Society registered under the relevant State Act should be obtained and the Bye-Laws / Rules/ Regulations of the Society/ Co-operative Society permit the Society to borrow, explain the manner of exercise of borrowing powers of Society and creation of security.
 - A copy of necessary resolution to borrow shall be passed by the governing body/ managing committee members of the society.
- Where the borrower is a **Trust/ Association**, copy of Trust deed, which permits the Trust to borrow for the purpose mentioned in the application and also create charge on the assets proposed to be offered as security, shall be on record duly certified by authorised persons with date and shall be obtained every time the documents are executed and form part of loan documents and security documents. Wherever necessary, the approval from the concerned department of the Government should be obtained for mortgaging Trust's assets.
- In case of advances to **Association**, Registration Certificate / Bye-Laws has to be obtained and it should be ensured that the bye-laws of the association permit borrowing for the purpose mentioned in the application.
- Where the borrower is a **Limited Liability Partnership (LLP)**, the copy of the agreement shall be obtained duly certified by authorised persons with date along with the resolution for borrowing money and agreement copy be obtained every time the documents are executed and form part of loan documents and security documents. At least two partners should have been designated as "Designated Partners". The agreement has to be scrutinised to ascertain details of the persons who have entered into such LLP / objectives / purpose for which it is formed / power to operate / borrow from Bank / create security for such borrowing.
- Where the borrower is a **Limited Company**, branch shall obtain
 - CIN No., PAN No. of the company,
 - copies of MOA, AOA,
 - Certificate of Incorporation duly certified by authorised persons with date,
 - DIN Nos of the Directors.
 - The activity being undertaken by the company shall be part of MOA and the amount being borrowed is within the borrowing powers of the company.
 - Where the borrower is a Limited Company, Branch should verify the Board Resolution to ensure that it contains

- Specific sanctions regarding power to borrow,
- To execute documents,
- To create security,
- Nature and extent of loan required,
- Names of directors and other persons authorised to execute the documents,
- Names of the directors authorised to operate the bank account,
- Names of the directors to create mortgage and deposit title deeds etc
- It is prudent to check Register of guarantees, Register of Resolutions and Register of Directors maintained with the Registered Office of the Company and crosschecked the same with the records at ROC.
- A search at the office of SRO /land registry to ascertain whether any prior mortgage /charge exists over the immovable property offered by the borrower company to the Bank as security shall be done while processing the proposal.
- Personal guarantee of all directors except those who are nominated are to be obtained.
- Proof of Land Holdings giving the extent of holding and crops grown therein duly certified by Revenue Department Officials. (In respect of Crop Loans/KCC)
- Non Encumbrance Certificate (search Report) from bank's approved advocate
- CIBIL Score.
- Details of Securities offered (wherever applicable).
- Pre-sanction Visit Report.
- Copy of the Lease deed in case of loan to Tenant/Sharecropper.
- In case of tie-up loans for sugarcane, tie-up letter from the sugar factory clearly mentioning the ownership details, Survey No, extent of land cultivated, proposed crop to be grown i.e. plantation or ratoon as per allotted quota. (In respect of KCC)
- In case of tie-up loans with Tobacco Board, obtain copy of barn license issued by Tobacco board and make entry about loans in the tie up book/card/license. (In respect of KCC)
- In case of finance to tenant farmers against LEC cards issued by MRO/Tahsildar in the states like A.P. and Telangana, obtain original LEC card and verify the validity of card.
- Negotiable Warehouse Receipt duly endorsed in favour of the Bank along with details of produce lodged in the Warehouse. (In respect of Loans against Warehouse Receipts)
- Ground Water Availability Certificate issued by the State Ground Water Department / Approved Hydrogeologist.(In respect of Loans for Minor Irrigation)
- Power Connection Certificate issued by the concerned State Electricity Board (In respect of finance to Electric Pumpsets).
- Quotations for Equipment proposed to be purchased (In respect of Loans for Farm Mechanisation).
- In respect of Loans to Plantation & Horticulture, Dairy, Poultry etc. in addition to the above the following additional documents shall be obtained:
 - Quotations for Equipment proposed to be purchased.
 - Estimates for Land Development, Levelling etc.

- Copies of Land Proof Records such as Pattadar Pass Books / 10(1) and Adangals / Pahani as applicable to respective States certified as duly verified with Originals by a Competent Authority as per State Regulations.
- Soil Test Analysis Reports where the present development is proposed and Water Analysis Reports for Irrigation water in the area.
- Civil Estimates and Quotations for Civil Constructions/other equipment etc.

It may be noted that while these are the basic documents that are generally attached to a loan application, additional documents may also be needed for a specific loan proposal depending upon the type of facility / security for which the loan is applied. Details of such additional documents are furnished while discussing about the particular product and branches may obtain those additional documents also along with the application.

CHAPTER 9

UNDERSTANDING & ANALYSING FINANCIAL STATEMENTS

9.1 Introduction

The financial statements are the basic tools for understanding the health of a unit. Comparing the financial data of the same concern for a couple of years or comparing the financial statements of a concern with that of its peer will throw light on the performance of the unit and will enable the banker to take a prudent view of the financial strength / health of the unit.

The broad set of financial statements include:

- Profit and Loss account for a period, generally a year
- Balance Sheet at the end of such period
- Cash flow statements
- Explanatory schedules or notes forming part of the above statements
- Auditor's report and Directors' report
- Statement of change in equity

The study of the above statements is generally called financial analysis of a unit/ concern. Financial analysis is a tool for making objective decision on bank lending. Such analysis would give us an insight into the previous years' operations and performance and would enable comparison of the future projections with the actuals of the past.

9.2 Analysis of Financial Statement

Analysis is a process of breaking down a complex set of facts and figures into simple elements and interpretation involves their critical examination and drawing of conclusions from the simplified statements. The various steps in analysis and interpretation of Financial Statements are as follows:

- Obtaining Financial Statements
- Understanding various items in Financial Statements
- Computation of various Financial Ratios
- Preparation of Funds Flow/Cash flow Statement
- Analysing the fund flow and examining the trends in the ratios

A critical analysis of financial statements of a business enterprise is of crucial importance for the lenders to assess the prospects of the enterprise both from a short-term and co-obligant perspective. It is to ensure that the short-term liquidity prospects of the Company are strong, to assess the debt-equity structure, long-term solvency and debt servicing capabilities of the Company / Co-obligant.

In addition to the financial statements,

- Auditor's certificate and other supporting documents in case of Proprietorship, Partnership accounts,
- Auditor's Report and the report of the Board of Directors in case of Private/Public limited companies and

- Income and expenditure account and the assets and liabilities statement along with the audit reports in case of trust/society, etc.,

Further, the notes of the auditors on the financial statement should be carefully examined as it throws valuable information on the performance of the unit during the year.

In order to have a deeper understanding, Audited Balance Sheet of the applicant/borrower for the last 3 years may be obtained and analyzed.

In order to prevent frauds and manipulations of any data certified by the Chartered Accountants, Unique Document Identification Number (UDIN) is introduced. UDIN is an 18-Digit system generated unique number which has to be generated by Full-time Practicing Chartered Accountants for every document certified/attested by them. Banker should therefore verify and confirm that every document which is submitted as audited / certified by Chartered Accountant has the UDIN No.



Financial analysis is a tool for making objective decision on bank lending. This tool gives the bank an insight into the previous years' operations and performance as also enable comparison of the future projections with the actuals of the past.

If the latest audited balance sheet is not yet ready, a certified unaudited provisional Balance Sheet and Profit and Loss account of the company may be obtained together with all schedules.

If break up of any item in the Balance Sheet and Profit and Loss Account is not available, the same should be sought from the borrower/applicant, in case of need.

In the case of a Company, it should be verified whether the balance sheet and profit and loss accounts have been signed by Company's Chairperson (if the board of directors has allowed him) OR. Two Directors (one of whom shall be the Managing Director) and Company's Chief Executive Officer/ Company Secretary/ Chief Financial Officer in the case of Limited Companies.

Where the proposal is from a listed company and is received after the end of a quarter, then the financial results based on the published quarterly results may be called for and analysed. In case of other entities, the provisional financials for the completed quarters may be insisted to find out the performance of the units during the period.

It is very important to read thoroughly the report of the auditor which is attached to the audited balance sheet, particularly for any qualifications by auditor in the 'Notes to Accounts'.

The qualification of the auditor in his report would mainly cover matters like

- change in accounting policy/accounting treatment of a particular item,
- no/under provisioning of certain items of expenses etc.

A study of accounting policies of the entity in the annual accounts like method of valuation of stock, calculation of depreciation etc., would provide better appreciation of the auditor's report.

Therefore, 'Notes to Accounts' and 'Audit Report' have to be studied along with Balance Sheet to form proper judgment on the financial position of the entity. While gauging the impact of 'Notes to Accounts' and 'Audit Report' on the overall financial position and bottom line of the entity, the 'Concept of Materiality'

must be considered. If the observations have material bearing on the annual accounts, then it must be remembered to consider the aspect before interpreting financial statements and other ratios.

9.3 Directors' Report

The balance sheet of a company will also have the Director's Report. The contents of the director's report are as follows:

- A statement about the directors' responsibilities regarding the financial statements and the report of the auditors
- An overview of the company's performance and activities during the year
- A description of the principal risks and uncertainties faced by the company
- A review of the company's financial position and prospects
- A statement of the amount of any remuneration and benefits paid or accrued to the directors during the year
- The names of the directors who served on the board during the year
- Change in share capital
- Particulars of related party transactions in Form AOC-2
- Comments by the board for remarks given by the auditors in audit reports.

The directors' report is addressed to the shareholders of the company. It should be noted that the directors' report is a public document and is available to any person who requests it from the company.

Any material information given in the Directors' Report which has not been stated in Balance Sheet should be carefully noted. For example, any plan for expansion or for renovation and modernization of the plant will find a mention in the Directors Report. As the execution of plans will require additional funds, these should be taken into consideration in relation to lending propositions being considered by bank. Similarly, changes in the composition of Board of Directors and other changes at the top managerial level are indicated in the Directors Report and the bank should assess their possible repercussions on the management and financial position of the company.-

9.4 Balance Sheet

The Balance Sheet is a statement of Assets and Liabilities of an organisation on a given date. The Assets are what the business organization owns. The Liabilities are what the business organization owes.

The classification of assets as current assets and current liabilities is to be keenly studied by the Banker as it affects several ratios based on which the banks lend.

The assets and liabilities are generally divided into the following groups for the purpose of proper analysis of the Balance Sheet:

Liabilities	Assets
1.Owned Funds	1.Fixed Assets
2.Long-term Liabilities	2.Non-Current Assets
3.Current Liabilities	3.Current assets
	4.Intangible Assets

We shall now study about each of these groups in little detail.

9.4.1 Liabilities

Group	Includes	Short explanation
Owned funds*	1. Promoters' contribution to the business/ shareholders' investment in the business 2. Profit / loss retained in the business 3. Withdrawals made by promoters	Increase or decrease in capital is indicative of the health of the concern as well as interest, which the promoters are taking in the business. An increase in the Owned funds by way of infusion of fresh funds by the promoters may be construed as promoters' commitment to business. Similarly, retention of part or full amount of profits in the business is also an indication of the continued interest in the business.

* In the case of Limited Companies, we also come across the following terms, details of which are as under:

Authorised Capital: This is the extent to which the capital of the company can be raised.

Issued Capital : The amount of nominal value of shares held by shareholders is known as issued share capital. It represents the shares' par value, which has been distributed to shareholders. The amount that the shareholders have invested in the firm is shown by the issued share capital and share premium. The subscribed capital or subscribed share capital are other names for it. Issued share capital is a part of the company's balance sheet according to the issued capital definition.

Share Premium: Share premium is the difference between the par value of a company's shares and the price investors pay for them. It's also known as capital surplus. For example, if a company offers its shares, with a face value of Rs.10, at Rs.60, then Rs.50 (Rs.60-Rs.10) is called share premium.

The paid-up capital once added cannot be reduced, although indirectly erosion thereof may take place because of losses.

Share Application Money: It is the money collected from the subscribers along with the application form. The amount is transferred to the paid-up capital/share premium to the extent of the shares allotted and the balance is to be returned back to the subscribers if not allotted.

According to the Companies Act 2013, a company must allot share application money within 60 days of receiving it. If the company doesn't, it must refund the application money to the subscribers within 15 days. If the company doesn't repay the money within 15 days, it must refund the money with interest at 12% per year from the end of the 60th day.

Share application could be returned any time, hence same is to be treated as Current Liability, if it is not converted to share capital within a justified time period.

Reserves: The reserves represent the surplus of income from the business over the years, or earmarking of funds out of the profits for particular purpose, or the funds received as premium or subsidy, etc.

Capital subsidy Reserve: Government in order to develop certain areas into industrial belts provides incentives to the promoters by way of subsidy on the investment in fixed assets for creation of manufacturing facilities. Such subsidy is not returnable once it is received and it forms permanent part of the owned funds of the promoters.

Revaluation Reserve: In the Balance Sheet, fixed assets are shown on a historical cost basis. At times the business entity goes in for revaluation of its assets to reflect their true value at that particular time. While showing the assets at higher value than the existing book value, the liability in the shape of revaluation reserve is created. It is not a direct result of profits earned by the organization and it does not in any manner enhance the actual funds available to the business. It is only a notional item created as a result of book entries. Since, the increase in the book value of fixed assets is on account of revaluation under the assets side and also the revaluation reserve under the liability side (notional entries); therefore, it is not considered for Net Worth calculation purpose.

Share/Debenture/Bonds Redemption reserve: As a prudent policy, the concerns make provision for payment of debentures or bonds or redeemable preference shares whenever redemption thereof falls due. This is also called a Sinking Fund and it is generally invested in specific securities to get good return. The balance left out of sinking fund can be treated as part of the free reserves.

General Reserve: The reserves created out of profit without earmarking for any specific purposes, are known as free/ general reserves which are freely available to the shareholders. The free reserves can be capitalized either by making partly paid-up shares as fully paid-up or by issuing bonus shares subject to fulfilment of certain conditions.

Long-term Liabilities

Group	Includes	Short explanation
Long-term Liabilities	1. Long-term Loans from Banks and Fis	These funds are normally brought into the business for acquisition of fixed assets and for meeting working capital margin.
	2. Unsecured loans from promoters and relatives	
	3. Debentures	Term loans and debentures are repaid as per the contractual terms.
	4. Preference Share Capital	Unsecured loans from promoters, friends and relatives do not normally have a fixed contractual term as that of debentures or term loans.

Term Loans from Banks/Financial Institutions: Term loans are very popular mode of finance for meeting long-term business requirements. The amount which falls due within 12 months from the date of balance sheet, are taken as part of the current liabilities and the remaining portion of the term loans are treated as long-term liability.

Unsecured Loans from friends & relatives: In a few cases, instead of bringing in funds as capital, the entity may bring in funds as unsecured loans from promoters, friends and relatives. The treatment of this entry whether as a co-obligant liability or short-term liability or as a quasi-capital, depends on the nature of the entry and also the repayment terms. The loan can be treated as a term liability only when the repayment of such loan is beyond 12month period, failing which it is to be treated as a current liability. Some Banks treat this liability as quasi equity and hence include it in Net Owned Funds.

Debentures: Debenture is a document acknowledging a debt by the company tradable in the capital market. This may be secured or unsecured. Debentures can be issued as redeemable (Specific date of redemption) or Irredeemable. Another type of classification of debentures is non-convertible, partially

convertible, fully convertible or optionally convertible. It is in the nature of loans raised by companies from the general public and institutions.

A private company cannot issue debentures by making an invitation to general public through prospectus. They can raise funds by issuing debentures through private placements. The redemption of such debentures whenever falls due, has to be made and the interest is to be continuously paid without any default till the principal is repaid.

The debentures become redeemable after a particular specified time which may be at par, discount or premium. Any portion of such debentures which falls due within 12 months from the date of the balance sheet need to be taken as part of the current liabilities.

Preference Share Capital: Preference share capital is another source of co-obligant funds available to companies for financing their operations. Preference shares must be redeemed within a period of 20 years or within the period for which the preference shares have been issued, whichever is earlier.

The amount of preference share capital to be repaid within one year should be treated as current liability.

Preference Shares maturing after 1 year and before 12 years to be treated as part of long-term liability.

The preference shares maturing after 12 years could be added for the purposes of computation of Net Worth.

A company has to first meet its commitment to the Preference Shareholders by meeting its interest obligation before it pays dividend to its shareholders. If in case a company is not able to generate adequate profits to pay its preference shareholders the interest it is obligated to pay, the amount so payable has to be treated as contingent liability. The same has to be crystallized when the company earns sufficient distributable profit.

Group	Includes	Short explanation
Current Liabilities	1. Working capital loans	These are amounts which the entity has to pay within a period of maximum 12 months.
	2. Bills purchased under letters of credit	
	3. Bills payable	Generally, for an entity having financial discipline, the current liabilities will be lesser than the current assets and the difference between them is known as Net Working Capital (NWC).
	4. Unsecured short-term loans	
	5. Trade creditors	
	6. Advances received for supply of goods	
	7. Instalments of term loans payable within one year	Current liabilities are short-term source of funds and it helps the business to tie-up short-term liquidity problems. If not planned properly for liquidating them, they could also cause liquidity crunch since they have to be repaid within a short span of time.
	8. Public deposits maturing in one year	
	9. Statutory liabilities	
	10. Intercompany deposits	

Working Capital Loans: These can be in the form of Overdrafts (OD), Cash Credits (CC), Short-term borrowings from banks in the form of demand loans, Pre-shipment credit for exports, Bills purchased or discounted against bills drawn on the clients for genuine business transactions. While generally Cash Credits and Overdrafts are given for a period of one year against security of stocks, book debts or some fixed assets. In some cases, the limits are sanctioned for a period of two years and these are running accounts where there can be deposits and withdrawals for genuine business needs.

Short-term loans are generally given as one time measure to correct working capital imbalance and is repaid either in instalments or in lumpsum within a period of maximum 12 months.

Bills Purchased / Discounted: A very popular and short-term advance is Bills purchased or discounted. The genuine bills drawn on the buyer are discounted with the banker. In this category, there are bills drawn against L/Cs of other banks, usance bills discounted and bills /cheques purchased and payable on demand.

Unsecured loans of short-term nature from friends, relatives, business associates, private financiers or by way of commercial paper are another form of raising short-term resources.

Public deposits maturing within one year are also classified as current liabilities.

Sundry trade creditors or bills payable for raw material/consumable stores/spares and services which are payable within a period of time as per the contract are classified under this head and are treated as current liabilities.

Advances received against goods to be supplied: In some cases, depending on the terms of contract, the entity may receive advance for the goods to be supplied. As this is a short-term liability, this is also classified as current liability.

Inter Corporate deposits (ICDs) An ICD is an unsecured loan extended by one corporate to another. This market allows corporates with surplus funds to lend to other corporates.

Term Loan instalments: Instalments of term loans, deferred payment credit, debentures, preference shares etc., payable in the period of 12 months from the date of the balance sheet.

Expenses payable: Where an expenditure which is payable during the current year is carried forward to next year, the same is classified here.

Statutory liabilities like PF dues, provision for taxation, GST pertaining to this year not yet paid are classified here.

All the above are classified as Current Liabilities.

9.4.2 Assets

Fixed Assets

Group	Includes	Short Explanation
Fixed Assets	1. Land 2. Buildings 3. Plant and Machinery 4. Tools and equipment 5. Furniture and fixtures 6. Capital work in progress 7. Lease hold assets	• These assets are permanently held or held for a long duration. • These assets are for enabling the entity to produce its goods / services. • Whether the asset is a fixed asset for a concern is determined by the nature of its business i.e. for a vehicle dealer, vehicle is a current asset and for any other entity, it may be a fixed asset. • Fixed asset should be acquired from long-term funds/ net owned funds.

Gross Block of fixed assets represents the original cost of fixed assets and increase and decrease in fixed assets is in reference to Gross Block.

Depreciation is calculated against each category of fixed assets. The net of gross block after adjustment of depreciation is Net Block.

Capital work in progress or advance against fixed assets: Where a building is under construction or machineries are under installation such fixed assets which will be put to use on completion of process of construction or erection or testing are classified as capital works in progress. On completion of the work, these assets will be transferred to the appropriate head, say buildings or plant & machinery.

Leaseholds/leased assets: The term leasehold usually refers to immovable property taken on lease. Mostly contract for the leasehold immovable properties tends to cover a fairly long period and lease contracts covering 99 years are quite common. The leasehold period covering land and sheds leased out by the Industrial Area Development Authorities are usually 33 years in a majority cases. These assets are shown in the balance sheet at the cost of acquisition of the assets and are treated as properties owned by the enterprise. Some of the lease deeds confer the right to the leaseholders to mortgage, sub lease and such other rights which can be exercised only by the owner.

Non-current Assets

Group	Includes	Short explanation
Non-Current Assets	1. Deposits held with Government agencies 2. Advances granted to staff under staff welfare measures 3. Obsolete, non-consumable spare parts and stores. 4. Investment in non-marketable securities, in Government securities, loans/ investments to/in sister or allied or associate firms. 5. Investments in shares quoted or unquoted and debentures. 6. Inter corporate deposits 7. Advances to suppliers of capital goods. 8. Deferred receivables other than those maturing within one year.	• These assets are neither current nor fixed assets going by their use. Many a times they may be unrelated to the day-to-day business operations. • These assets are realisable but not as quickly as the current assets. • For Example, advance given to the electricity boards for getting power connection – we are sure to get back these funds when we surrender connection. So this is an asset but it is not liquid in nature.

Current Assets

Group	Includes	Short explanation
Current Assets	1. Cash & Bank Balance 2. Sundry Debtors also called Receivables and book debts. 3. Stock of raw materials, 4. Work in process 5. Finished goods. 6. Deferred receivables payable in less than 12 months. 7. Stores and spares 8. Advances paid for supply of goods 9. Other current assets	• These assets are realisable in short span of time into cash. • The process of getting converted as one of the current assets and finally getting converted as cash is called Working Capital Cycle. • These are the assets which are required by the business for the purpose of re-sale and arise out of usual business dealings. • An entity is said to be having good liquidity when its current assets are more than the current liabilities. It means that part of the current assets are funded by long-term sources i.e., long-term liabilities and owned funds. • While classifying the assets as current assets, care should be taken to ensure that the asset can be encashed within a reasonably short span of time.

Cash and Bank Balances: The cash is the most liquid asset for any business but should be maintained prudently. If cash is held more than the requirement, the business may not earn the profits it can earn if the amount is properly put to use.

Cash, bank balances and the fixed deposits (whether under lien or not) with banks are classified as quick/current assets along with margins deposited for LCs and Guarantees relating to Working Capital.

Receivables / Book Debts / Sundry Debtors: It is a common practice in most of the industries to allow certain credit on the goods sold. There are two types of receivables i.e. bills receivables where the payment is due on a particular day and general receivables where payment is not fixed on a particular maturity date.

Age-wise analysis of debtors is very essential to determine whether the asset will be realised or whether it may turn out to be a bad debt. It is prudent to consider debtors outstanding for more than 6 months as non-current assets.

Increase in debtors without increase in sale indicates poor management of receivables or change in business model.

Where the debtor is a government department, there may be longer receivable cycle, but the payment would generally not be in doubt. In such cases, with proper justification, even though receivable is more than 6 months old, the same can be treated as current assets.

Instalment of deferred receivables due within one year: The business concerns which is engaged in sale of items of capital nature such as manufacturers or dealers in vehicles, sellers or manufacturers of machinery etc. have to supply the goods on a longer credit basis at times extending over several years. In such cases, the amount of receivable due for payment within 12 months would be considered as part of

the current assets while the balance would be taken as non-current assets. These transactions are generally covered by guarantees from banks or financial institutions.

Raw materials: Raw material holding level is an important parameter for success of any manufacturing unit. Holding high level of raw material may add to the cost of manufacturing and there is every possibility that the stock held by the entity may become out-dated or stale. So it is essential that only such quantity which ensures uninterrupted production shall be ideally maintained. However, due weightage should be given to the seasonal availability and overall conditions of availability of the items, for instance, the raw material is imported from other countries, then there has to be storage of large quantity as compared to indigenous one. Raw material available on quota basis will have higher holding as compared to the one available in the open market. Similarly, the raw material having longer Lead period has to be in bigger quantity than the one having shorter lead period. The age of the stock of raw material may also to be examined and if it is obsolete and unusable then the value of such stocks should be considered as non-current assets.

Stock – in – process / semi-finished goods: The raw material which is fed into machines for processing in order to manufacture a final product is accounted as stock in process. Stock in process is valued as Cost of Raw Materials plus other manufacturing expenses such as wages, power, fuel etc and these should be incurred only in connection with the process of manufacturing.

Finished goods: Maintenance of stocks of finished goods is to be managed prudently. The level should not be unduly high as there is a likelihood of stocks becoming obsolete while very low level may result in missed sales opportunity.

Old stocks or obsolete stock or non-moving stock are to be considered and classified as non – current asset.

The valuation of raw material, stock in process and finished goods is to be done at cost price or market price whichever is lower.

Stores and Spares: As these are necessary for maintaining continuity in production, the level of inventory shall be maintained at optimum levels to ensure continuity in operations and at the same time ensure that stocks beyond the required levels are not maintained.

Advance payment of tax: The business entities pay tax as per self-assessment which is shown as advance payment against the final liability.

Other items under current assets: It includes advances for purchase of raw materials, stores and spares, Pre paid expenses, Receivables in the form of bills drawn under LCs, Dues from associate and subsidiary companies in the form of receivables for genuine trade transactions and Short-term investments, temporary investments in money market instruments like Commercial Paper, Certificate of Deposits, etc. which are for the purpose of parking short-term surplus.

Intangible / Fictitious Assets: There are certain expenses like preliminary expenses to the extent not charged to the profit & loss account, discount allowed on issue of shares or debentures, etc. which appear in the asset side of the balance sheet. These are fictitious assets which do not carry any intrinsic value. These expenses are not charged to the profit & loss account either fully or in part during the year in which such expenses are incurred, as it can be carried forward over a period and charged only a portion of it to profit & loss account every year.

Goodwill, patents, copyrights, trademark rights, brand equity, etc. are also shown under Intangible assets. These items represent monetary values of different rights enjoyed by the business enterprise and are therefore considered as assets. These are qualitatively better assets than the fictitious assets which represent nothing, but expenses carried forward by a company.

While it is possible that the entity shows Goodwill, Patents, etc. under fixed assets in the balance sheet, bankers should treat them as intangible assets only.

9.5 Profit And Loss Account

Profit & Loss account provides information on the operations of the entity. At the end of a particular period, say a year, it shows whether the entity has made profit or whether it has ended up making loss is shown in this statement.

A business organization not set up for the purpose of earning profit should prepare an Income & Expenditure statement instead of Profit & Loss account.

A profit and loss account is prepared for a particular period, say one year and the income / expenditure pertains only for the year for which the statement is prepared and not for the previous period or future.

The Profit/ Loss of an entity is presented in the following statements:

1. Trading / Manufacturing Account
2. Profit and Loss Account
3. Profit and Loss Appropriation Account

Trading/Manufacturing Account

Businesses that make their own products must prepare a manufacturing account as part of their internal financial statements.

A manufacturing account shows the cost of running and maintaining the factory. It is prepared to calculate the cost of goods produced during the year and it is also known as the production account. Cost of production includes direct cost and indirect cost.

Direct costs are expenditure which can be economically identified with a specific cost unit. It has a direct relationship with number of output (units produced). For example:

- Direct materials.
- Direct labour/ direct wages/ factory direct wages/ factory direct labour/ manufacturing wages.
- Direct expenses (example: royalties)

Indirect costs are factory expenses that are not directly related with the final product. It is commonly termed as factory overheads and is incurred in running the operation of the factory. Indirect cost does not vary with the level of output. Whatever be the level of production, indirect cost remains the same.

Example of factory overheads

- Factory rent and rates
- Factory machinery's depreciation
- Factory insurance
- Factory supervisor's salary
- Indirect materials

- Indirect labour
- Indirect wages
- Factory light and heat
- Depreciation of Factory Non-Current Assets (NCA)

Items not included in the manufacturing account but treated as an expense in the income statement:

- Office rent and rates
- Office insurance
- Sales staff wages
- Carriage outwards
- Discount allowed
- Depreciation of office non-current assets
- Administrative, selling and distribution cost
- Finance cost
- General expenses, sundry expenses, advertising cost
- Bad debts and provision for doubtful debts

The manufacturing/trading account will show manufacturing/trading income on right side and expenses on the left side. The resultant surplus is called gross profit which will also appear on the left side.

The Profit and Loss account will open with this gross profit/loss and end with the net profit/loss. The appropriation account will show the appropriation of net profit under various heads.

Inventories in Manufacturing Businesses and the statement in which they are reflected is given here under:

Type of inventory	Opening inventory	Closing inventory
Raw Materials	Manufacturing account	Manufacturing account
Work in progress	Manufacturing Account	Manufacturing Account
Finished goods	Profit & Loss Account	Profit & Loss Account

From the above table, it may be seen that the cost of raw materials and the expenses incurred during the process of manufacturing are shown in the Manufacturing Account Statement and hence the stock of raw materials and stock in process are also accounted for in this statement only, while the stock of finished goods is accounted for in the profit and loss account.

Profit & Loss Account: Its objective is to derive surplus or deficit generated from the operation of the enterprise after charging all other costs of business for the year as for example, administrative and general expenses, selling and marketing expenses, distribution expenses, interest on borrowings, provision for bad or doubtful debt etc. to the Gross Profit derived above.

Profit & Loss Appropriation Account: Management has to decide how much they would like to set apart from profits for different purposes before transferring the balance of profit to Balance Sheet.

Provision for repayment of capital/ term liabilities,

Provision for taxes,

Provision for different contingencies,

Asset replacement reserves and other specific reserves and general reserves etc.,

To pay dividend to the owner of business etc.

The above description gives in detail the components of Balance Sheet and Profit and Loss Account. Banker has to study these financial statements not in isolation, but should compare the same with performance over the previous years and the also by comparing the same with the financial statements of the peers. The cross verification of various data may be carried out.

The Tandon Committee (1974) had prescribed a format for operating statement in which the various items of profit and loss items are shown in tune with the bankers' priority. This form is incorporated in CMA (Credit Monitoring Arrangement), under Form- II.

9.6 About Credit Monitoring Arrangement (CMA)

CMA data is a systematic evaluation of a borrower's working capital management, with the primary objective of ensuring that long-term and short-term funds are used for their designated purposes.

CMA report is known as Credit Monitoring Arrangement report is the report showing the projected performance and the past performance of a business in financial terms. It is compiled with all the required financial ratios and metrics to help Financial Analysts and Bankers to ascertain the financial health of a business.

It covers the following statements:

Particulars of current & proposed limits

Form 1 in the Credit Monitoring Arrangement (CMA) report states about the existing fund & non-fund based credit limits, their usage limits and history. In addition to this, the statement also contain the proposed or applied limit of the borrower. This document is a basic document which is to be provided by the borrower to the banker.

Operating statement

Form II indicates the borrower's business plan showing the Current Sales, profit before & after tax, sales projections, direct & indirect expenses, and profit position for 3 to 5 years. These requirements are case to case specific on the basis of the borrowers working capital request. This is a scientific analysis of existing & projected profit-generating capacity of the borrower.

9.7 Analysis of Balance sheet

Form III statement contains an analysis of the current & projected financial years. It helps in providing a comprehensive analysis of current & non-current assets, current & non-current liabilities and cash & bank position of the borrower. This statement also specifies the net worth position of the borrower for the future projected years. As the name says, it is the analysis of the Balance sheet and gives a complete picture of the financial position of the borrower.

Comparative statement of Current Asset & Current liabilities

Form IV provides the comparative analysis of the movement of the current assets & liabilities. Basically, this analysis helps to decide the capacity of the borrower to meet the working capital requirements and the actual working capital cycle for the projected period.

Calculation of Maximum Permissible Bank Finance (MPBF)

Form V includes a calculation which indicates the Maximum Permissible Bank Finance. It shows the borrower's capacity to borrow money.

Fund flow statement

Fund flow analysis for the current & projected period. In this analysis, it indicates the fund position of the borrower with reference to the projected balance sheets and MPBF (Maximum Permissible Bank Finance) calculations. The main objective of this statement is to capture the movement of the fund for the given period.

Ratio analysis

Form VI in Credit Monitoring Arrangement report (CMA report) which provides key financial ratios for the Financial Analysts and Bankers use. The basic key ratios are GP (Gross profit) ratio, Net profit ratio, Current ratio, Quick ratio, Stock turnover ratio, Net worth, the ratio of Net worth to Liabilities, DP limit, MPBF, Asset turnover, Current asset turnover, Working capital turnover, Fixed asset turnover, Debt-Equity ratio etc

The main purpose of structuring the operating statement is to standardize the calculation of annual consumption of raw material & consumable, Cost of Production, Cost of Sales, Operating profit etc.

Operating profit is calculated in two stages before and after charging interest.

Some of the factors which call for careful scrutiny by Bankers are:

- Basis of valuation of inventory – any change in the method adopted should be looked into and reasons for the same should be ascertained along with the repercussion of such change should be studied.
- Calculation of depreciation: change in the method should be questioned and reasons should be documented.
- Provision for accrued liabilities and outstanding expenses should be realistic.
- Provision for Bad and Doubtful Accounts should be adequate.
- Efficiency of operations should also be assessed by study of various ratios.
- Different groups of expenses like financial expenses, Selling and distribution expenses, administrative expenses etc. should also be studied.

Contingent Liabilities: These items are indicated by way of a footnote in the balance sheet as they are not prima facie crystallized liabilities affecting the overall liability position.

As these do not affect the ratios of an entity, generally there is a laxity in having attention to these items of the Balance Sheet. However, there is a likelihood of these liabilities devolving at a later date and hence a closer look at these items may, many a times, reveal that they often include liabilities/commitments with serious financial implications, which may have adverse impact later on. For example, claims not

acknowledged as debts, every special comment should be carefully and critically analysed to understand its implications for the amounts included in the balance sheet e.g. liabilities under leasing agreement etc.

Particular care should be taken to fully satisfy that the company has made satisfactory arrangements for meeting capital commitments in case of crystallization of contingent liabilities.

9.8 Director's Report

Under Companies Act, the Directors of the company are obliged to make a report on the company's performance for the year under review. It will offer explanation to the qualification raised by the auditors in their report, material changes having financial implications which might have taken place after the date of Balance Sheet but before the date of Annual General Meeting. Examples of such changes are change in capital structure, decline in market value of investment, purchase and sale of plant & machinery etc. Besides, they are also expected to comment on technology absorption by the company during the year, energy conservation measures taken by the company and its impact on cost of production as well as steps taken to augment export sales.

9.9 Auditor's Report

On the conclusion of audit of financial statements, the auditors are statutorily required to study as to whether the financial statements present true and fair picture of the financial position of the company and its profit. Their report will be qualified if it is otherwise. Auditors report would be qualified if there is a change in method of depreciation, change in basis of valuation of inventories, violation in accounting standards and practices etc. Besides, they are also required to quantify the effects of such change on profit or loss of the year. Furthermore, under Companies Act, many classes of companies engaged in production, processing manufacturing, mining activities are required to keep proper books of accounts (cost records) relating to utilisation of material, labour, overheads, etc. Auditors are also required to comment whether or not cost records, as prescribed, have been maintained. Any adverse comments on cost classification and cost records is to be taken seriously while scrutinising and accepting the operating statements of the company.

9.10 Analysis of the Financial Statements- Ratio Analysis

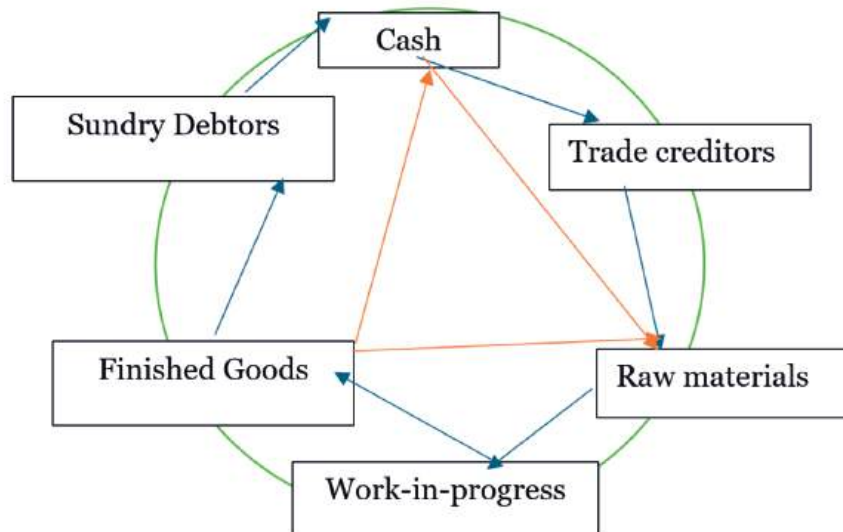
Till now, we have seen in detail about the Balance Sheet and Profit and Loss accounts, which are essential for our understanding the borrower's financial ability and strength. We will now discuss what and how we infer from these financial statements. The study of this is called Ratio Analysis and is a very useful tool for all bankers. This analysis will help the banker to evaluate the financial soundness in terms of long-term viability (net worth), short-term viability (liquidity position), the profitability and growth.

Before we go into the analysis in detail, let us familiarise ourselves with a few terms we use very often in ratio analysis and how we arrive at them:

Terms used	What comprises it
Net Worth (NW)	Capital+ Reserves & Surplus (Excluding Revaluation Reserve.)
Tangible Net Worth(TNW) =	Net Worth-Intangible Assets

Operating cycle of a unit

For a manufacturing unit, the operating cycle will be as under



The red arrows indicate that the raw materials are purchased by paying cash and the stocks are sold for cash. Hence, the trade creditors and trade debtors will not be there in the case of cash purchases and cash sales. For a trading unit, instead of raw materials, directly the stock will be purchased and sold and the intermediary step of work in process will not be there.

This operating cycle is important in determining the working capital eligibility of a unit based of course on ratios, which are as under:

1. Liquidity Ratios

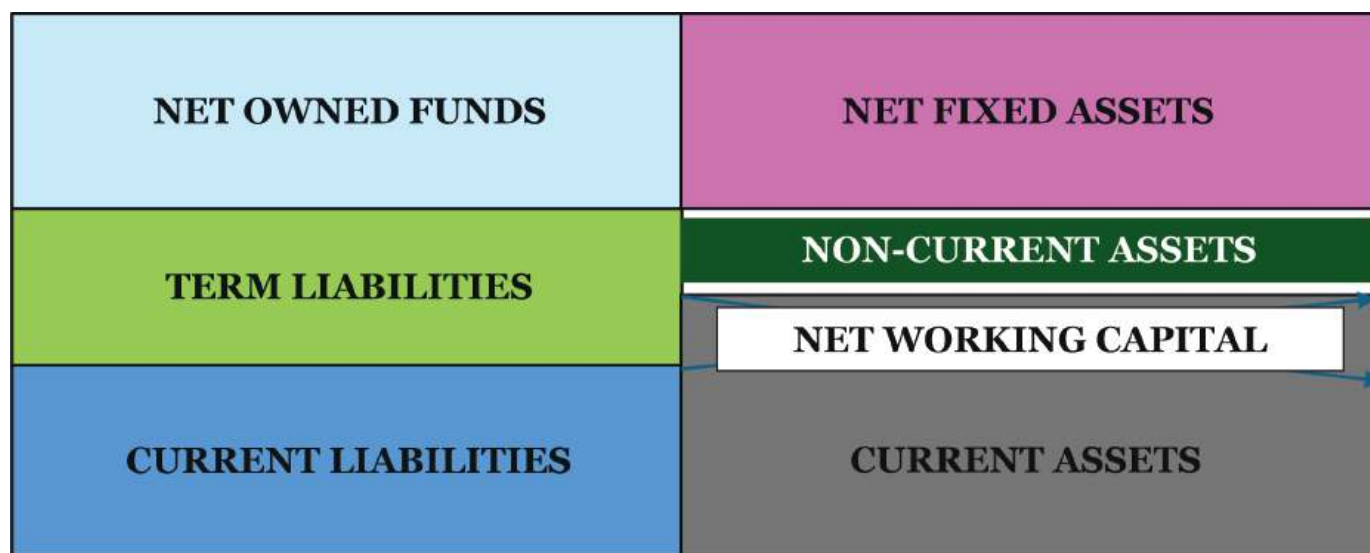
For assessing the working capital requirements of a borrower, the ratios that are to be looked into are called Liquidity Ratios. These ratios indicate whether the borrower has been /will be able to service his short-term obligations, called current liabilities from his short-term resources, also called Current Assets. The following are the commonly used liquidity ratios:

1. Current Raio
2. Quick ratio

Current ratio

Current Ratio is calculated by the formula $\text{Current Assets} / \text{Current Liabilities}$. Thus, Current ratio measures the level of current assets with relation to current liabilities. i.e., it shows whether the current assets will be able to pay off its current liabilities or not and thus measures its liquidity.

Ideal current ratio is 1.33 : 1, which shows that the borrower has the ability to pay off its current liabilities and above that maintain a surplus. Since in the ideal situation, the current assets are more than the current liabilities, as discussed earlier, the long-term sources fund a part of the current assets. This is known as Net Working Capital and serves as margin for the working capital facilities. A pictorial description of the same is as under:



If the ratio drops to less than 1:1, caution should be exercised since current liabilities are greater than current assets, the company is in an unstable situation. In many such cases, the company may be only marginally profitable or unprofitable.

Furthermore, the company might be following the unsound practice of buying fixed assets with short-term sources. Caution should also be exercised if the current ratio has been dropping over a successive period of several years.

However, slippage of current ratio within permissible limits during the commissioning and initial years of operation may not be adversely looked upon.

Where the current ratio is lower than or below the prescribed level, the reasons can be

- Diversion of short-term funds for long-term uses (like acquisition of fixed assets using working capital funds)
- Incurring losses.
- Unable to collect payments from creditors

Such accounts need constant monitoring by the branches and it should be ensured that the working capital funds are utilised for meeting working capital obligations only and there is no diversion of short-term funds for long-term uses.

In some cases, the lower current ratio may be due to large amount of term loan instalments falling due in next year which is classified as current liability. In such cases, the low current ratio need not be seen as a problem if the borrower's cash generations are adequate to service the instalments due next year.

Where the current ratio is low, bankers normally impose a condition that the promoters should bring in additional capital to augment long-term sources. It should be ensured that such additional liquidity is brought into the system by the borrower to ensure smooth operations in the account.

The movement of Current Ratio (CR) should be read in conjunction with the movement of Net Working Capital (NWC) in order to arrive at a proper and meaningful conclusion, i.e. where the NWC is on the increase, the current ratio also improves and vice versa.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Acid Test or Quick Ratio: Current Assets, as the name suggests, can be liquidated faster than other assets like fixed assets and non-current assets. Out of these assets, while assets like Bank Balance, fixed deposits, advances and sundry debtors can be converted into cash quickly, the stock of goods takes a longer time for conversion into cash. All current assets other than inventory are considered for the quick ratio. However, debtors which have longer maturity are excluded for calculation of the said ratio.

$$\text{Quick Ratio} = \frac{\text{Current Assets excluding inventory}}{\text{Current Liabilities}}$$

In some cases, bank borrowings are excluded from current liabilities to calculate the above ratio.

If the quick ratio is low but current ratio is high, it may mean that the company is carrying too high an inventory and is not able to sell its finished products.

In interpreting liquidity ratio, consideration of the proportion of various types of current assets is also important. It is, therefore, necessary that proportion of different current assets to their total as well as their condition should be taken into account before concluding that the liquidity of the concern is favourable.

2. Solvency Ratios

Also called Leverage Ratios, these ratios help us to understand the long-term solvency of the business. These ratios give the long-term lenders the confidence that the business will remain solvent till the loan given by it, together with interest, is fully repaid.

These ratios enable us to assess whether the unit is funded adequately by promoters' contributions or is it largely dependent on the borrowed funds. Where the ratio is low, it is a positive indication that the borrower is having high stake in the business and hence his commitment to the business will also be high. Where the ratio is high, then the lenders will suffer higher than the promoter in case of the abnormality of the unit failing.

The following are the solvency ratios usually used in financial analysis by Banks:

1. Debt Equity Ratio (DER)
2. Total Debt Equity Ratio also known as TOL/TNW
3. Adjusted Debt Equity Ratio.

Debt Equity Ratio: This ratio enables one to judge the quantum of long-term debt with relation to the Net Owned Funds. Current liabilities are not considered for arriving at this ratio. This ratio shows the dependency of the unit on outside long-term borrowings.

In many instances we notice that the balance sheet of the unit shows a head "unsecured loans from friends

$$\text{Debt Equity Ratio} = \frac{\text{Total Long-term outside liabilities}}{\text{Tangible Net worth}}$$

and relatives" under the category of long-term borrowings. The borrower also represents that these are his own funds and hence they may be treated as capital or quasi capital. By showing the amount under this head, the borrower keeps with him the option of withdrawing the funds so brought in, calling it as repayment of the loans availed and thus eroding the net working capital consequent to such withdrawal.

While encountering such instances, Banker should see whether interest is being paid on such borrowings and the rate at which the same is paid. Generally, the banker imposes a condition that the funds brought in as unsecured loans should not be withdrawn during the currency of the loan which the banker is processing. An undertaking to this effect should be obtained from the borrower and branch should monitor the account to ensure prevention of the money being taken out.

Total Debt Equity Ratio: This ratio indicates relationship between short term and long term debt of the borrower with the tangible net worth or the funds brought in by him into the system. Thus, in this ratio, we include on the numerator both term liabilities and current liabilities, while in the denominator we have the net owned funds of the promoters.

Adjusted Debt Equity Ratio: This is a stricter version of TOL / TNW. In this ratio, the investments made

$$\text{Total Debt Equity Ratio} = \frac{\text{Total outside liabilities (TOL)}}{\text{Tangible Net worth (TNW)}}$$

by the borrower in the group and outside entities is deducted from the TNW, as this gives the true picture of the solvency capacity of the borrower as the funds invested in group companies will not be available to him for repaying the long-term/ short-term debt obligations.

$$\text{TOL/Adjusted TNW Ratio} = \frac{\text{Total Co-obligant Debt+ Short-term Debt+ Current Liabilities + Provisioning+ Deferred Tax Liabilities}}{\text{TNW- Investment \& Loan in the group and outside entities}}$$

3. Coverage Ratio

These ratios indicate the amount of borrowed funds utilized to the proportion of shareholder's funds to finance the assets and the ability of the unit to service the loan. Bankers generally look into the following coverage ratios:

1. Debt Service Coverage Ratio (DSCR)
2. Interest Service Coverage Ratio

Debt Service Coverage Ratio: (DSCR) : It is a ratio which bankers use for determining whether the repayment period fixed / proposed for term loan is in line with the borrower's ability to meet the obligations of both interest and principle.

Where the borrower has multiple term loans and is proposing to avail one more, then the DSCR of the proposed loan and DSCR for overall loan repayment both are worked out to ensure satisfaction of the above mentioned obligations.

Since the term loan proposals are assessed on the basis of accepted projections for a number of years, DSCR is to be calculated for the individual years. Then average DSCR is to be worked out by dividing the total cash accrual over the entire period of the project by the total repayment obligation.

While considering a proposal for sanction of term loan, it is essential to calculate the DSCR for the term loan and also for the entire term loan portfolio. In the event of average DSCR being on higher side, it may be suggested that the repayment period of the proposed term loan can be reduced, as the borrower has capacity to pay increased amount as instalment.

DSCR is computed as follows:

$$\text{Debt Service Coverage Ratio (DSCR)} = \frac{\text{Profit after tax + Depreciation + interest on term loan}}{\text{Annual Principal instalments + interest on term loan}}$$

Please note that interest on term loan alone is taken here for calculation of this ratio. It is considered both in the numerator and denominator also. In the numerator, we consider profit after tax and depreciation, which is only a book entry and there is no outflow of funds, we can ascertain the amount of surplus that is available in the system to meet the annual principal instalments, which forms part of the denominator. Where the ratio is less than 1, it means that the surplus projected is not sufficient to meet the instalments that fall due during the year. Similarly, if the ratio is higher than 2, it means that the borrowing unit is projecting to generate cash profits twice the amount of instalments it is due to pay during the year.

While analysing a term loan proposal, it should be ensured that for any year during the pendency of the loan, the projected DSCR should not be less than 1 and ideally, the average DSCR should be less than 2.

The repayment period, holiday period of a term loan can be adjusted in such a way that the DSCR is above the prescribed level.

Interest Coverage Ratio: This ratio indicates the company's capacity to service the total interest burden of the company. Normally all interest pertaining to various creditors, charged to the profit & loss account are included in computing this ratio to get a broader picture of the servicing capability of the unit.

$$\text{Interest coverage Ratio} = \frac{\text{Profit before tax + Depreciation + interest}}{\text{Interest}}$$

Fixed Assets Coverage Ratio: Term loans are usually secured by Fixed Assets. The excess of fixed assets over term loans secured by them provides margin on security.

The ratio is useful to find out the available security cover for the term loan i.e. the number of times the value of the Fixed Assets cover the amount of loan.

It is computed as under:

$$\text{Fixed Assets Coverage Ratio} = \frac{\text{Net Fixed Assets (i.e. after providing for depreciation) + Capital work-in-progress}}{\text{Long-term debts secured by Fixed Assets}}$$

4. Profitability / Return Ratios

Profitability indicates the efficiency of the organization in generation of income and surplus out of the operations of main business.

The study of the profitability of the unit is undertaken by relying on certain ratios which have relevance to profits. These ratios provide information on whether the profits earned are adequate. Following are some important profitability ratios:

Return on Capital employed: This ratio helps us know as to how much the organization is earning on its capital employed. The higher return in the short run as well as in the long run would keep the interest of the management in the project and keep them tied to the project. This is also important and significant from inter-firm comparison point of view and opportunity cost aspect.

This ratio is calculated as under:

$$\text{RETURN ON CAPITAL EMPLOYED (ROCE)} = \frac{\text{Net Profit after Tax + Interest on Long-term Loan}}{\text{Tangible Net Worth + Long-term Liabilities}} \times 100$$

Return on Equity:(ROE)

This ratio provides information about the earnings, which is generated by the funds put in by the promoters.

The continuation of the interest of the promoters in the business or expanding it further is dependent on the fact that they are getting reasonable return on the funds invested by them in the business. It is worked out as under:

Gross Profit, Net Profit, Operating Profit Ratios: These ratios reflect the income being generated by the

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Tangible Net Worth}} \times 100$$

organization, with regard to level of sales. Operating Profit ratio denotes the margin of profit on the operations revealing the operational efficiency of the unit. Operating profit ratio is calculated to see that the main activity remains viable for a long time. These are calculated as under:

$$\begin{aligned}\text{Gross Profit Ratio} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \\ \text{Net Profit Ratio} &= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 \\ \text{Operating Profit Ratio} &= \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100\end{aligned}$$

5. Holding / Turnover Ratios

Holding Ratios measure the efficiency of the organization in deploying the available funds particularly short-term funds. These ratios indicate how effectively the funds have been utilised in the business.

If the business keeps large funds idle in the form of cash or bank deposits, there is no return on these funds and hence it is not an ideal situation. However, there is good liquidity in the system.

It is also dangerous to invest the entire resources without maintaining sufficient amount in the form of cash balance to meet various contingencies in future as and when they occur.

A balance is, therefore, to be struck between liquidity and profitability.

The Holding Ratios help to analyse the following:

- The level of inventory vis-à-vis the sales.
- Credit period enjoyed by the borrower with his suppliers
- Credit discipline of the borrower in meeting its commitment on the due date.
- Sales vs debtors
- Effectiveness in collection of its dues from the debtors.

As discussed earlier, an operating cycle consists of procuring the raw materials, processing them, converting them into finished goods, sales and collecting the amount from the debtors. The number of days the inventory is held in each of these stages is called the holding period. The sum of all individual holding periods of various components of current assets gives a fairly reasonable estimate of the Gross Operating Cycle.

Holding period of these components are computed to determine the working capital cycle and then the total working capital requirement in monetary terms can be arrived at. The holding periods are best utilized in making a meaningful comparison with the corresponding holding periods for the same enterprise over a period of time and also compare the holding periods with units of similar capacity and determine whether the unit is handling the assets efficiently.

The turnover ratio and holding period are calculated as under:

Particulars	Formula	Holding period in days
Raw material Turnover Ratio (RTR) =	$\frac{\text{Raw Material consumed}}{\text{Average stock of raw material}}$	$\frac{365}{\text{RTR}}$

Stock in process Turnover Ratio (STR) =	$\frac{\text{Cost of raw materials}}{\text{Average stock in process}}$	$\frac{365}{\text{STR}}$
Finished goods Turnover Ratio (FTR) =	$\frac{\text{Cost of sales}}{\text{average stock of finished goods}}$	$\frac{365}{\text{FTR}}$
Debtors Turnover Ratio =	$\frac{\text{Credit Sales}}{\text{Debtors}}$	$\frac{365}{\text{DTR}}$

Inventory Turnover Ratio

Inventory turnover ratio is industry specific. The inventory turnover ratio is a metric that measures how many times a company has sold and replenished its inventory over a given period. It is calculated by dividing the cost of goods sold by the average inventory for the same period.

The quicker the rate of turnover of inventory, the greater will be the return on the amount invested in it. Therefore, the faster the stock is turned over the better, for it is financially unsound to have capital tied up in stock to a greater extent than necessary. While it is so, it is also essential to have inventory at optimum level to ensure that all the needs of the customers are met in time.

Low turnover ratio may be due to sales resistance which may be due to a variety of reasons such as unpopularity of products, cheap quality or product out of fashion or management being not able to control inventory. Stock may also consist of obsolete or unsalable items. In such a scenario, age-wise analysis of the stock on hand will give the banker an indication regarding the movement of stocks.

Debtors Turnover Ratio

The debtor turnover ratio (DTR) is a financial metric that measures how quickly a company collects money from customers. It's also known as the accounts receivables turnover ratio. If the debtor level is high, to that extent the liquidity of the firm is blocked.

This ratio brings out the relationship between sales and outstanding amounts to be collected in respect of sales. If debtor turnover/holding is lower/higher than is customary in the trade, it may be due to one or more of the following reasons: -

- Proper selection of customers is not made.
- Products of borrower are losing market.
- Larger credit period is being allowed to push up sales.
- The older the receivable, more remote is the chance of its realization.

Creditors Turnover Ratio: This ratio brings out the relationship between purchases and outstanding amounts to be paid in respect of purchases.

Generally, while large creditors level implies that the firm is not able to meet its obligations in time, low creditors may imply that the firm is not being extended credit by its suppliers. There may also be a situation where in order to avail cash discounts the firm may pay off its creditors. Therefore, while assessing the creditors turnover ratio, Banker should look into the industry practice and come to a conclusion/

Particulars	Formula	Holding period in days
Creditors Turnover Ratio (CTR)=	$\frac{\text{Credit Purchases}}{\text{Creditors}}$	$\frac{365}{\text{CTR}}$

Limitations of Ratio Analysis

Ratio analysis is a tool to throw light on the performance of businesses. But, as in the case of every rule, there are exceptions here also.

The first and foremost is that the ratios are based on the numbers given in the financial data. Hence, the accuracy of the data is very essential for giving accurate analysis.

Some important points to be borne in mind while analysing the data using the above guidelines are:

- While comparing the data between years or between peer firms, the ratios do not explain the reason for variance. This should be obtained from the borrower as additional information and using the information and the ratios obtained, analysis should be done.
- All businesses are affected by general economic conditions, competition, local factors, policies adopted by management etc. Ratios must be evaluated keeping these factors in mind.
- One particular ratio without reference to others may be misleading. Changes in many ratios are closely associated with another and produce similar conclusions.

9.11 Break Even Analysis

Breakeven point (BEP) refers to that level of sales at which, a unit recovers all its costs. This is the point where the unit neither makes profit nor loss. So, while looking into a credit proposal, banker should ensure that the sales levels of the unit are beyond the breakeven level, so as to ensure that the firm will be able to generate surplus to repay the debt and interest obligations.

Calculation of Breakeven Point (BEP)

In any business, there are certain expenses which are unavoidable and are not dependent on the level of production or sales. For example, rents, insurance of assets, Annual Maintenance contract expenditure (AMC)s, depreciation, salaries etc are fixed and are not directly proportional to the volume of production /sales. These are called Fixed Costs. On the contrary, the amount spent on purchase of raw materials depends on the production and as the number of units manufactured increase, this cost increases and vice versa. These expenditures are called Variable Costs. While arriving at the BEP, we use the above two classifications.

If a unit breaks even at a very high level of activity, there is every possibility that the unit may start incurring loss, if any of the variables like fixed cost, variable cost, sales change even marginally. Therefore, the proposal should be scrutinized very carefully whenever BEP is reached at a very higher level of activity instead of at a lower level.

$$\text{BEP in Quantity} = \frac{\text{Fixed Costs (FC)}}{\text{Sale Price of one unit} - \text{Variable Cost of one unit}}$$

$$\text{BEP in Value (Rs.)} = \frac{\text{Fixed Cost} \times \text{Sales}}{(\text{Sales} - \text{Variable Cost (VC)})}$$

Here, Sales means Net Sales
Sales - VC is also Contribution

9.12 Fund Flow Analysis

Among the various statements that are analysed based on the financial statements of a borrower, fund flow statement is an important tool with which the banker reviews how the borrowing unit utilized the funds available with it during the reference period.

Fund flow statement also reveals the information whether short-term funds were used to meet short-term requirements or whether they were diverted for long-term uses and vice versa. It thus throws light on the movement of Net Working Capital during the years under review. By analysing the fund flow statement, the banker can come to a conclusion if there was diversion of short-term funds for long-term purposes.

Funds: Funds do not mean only cash. Assets may be acquired by paying cash, on credit or by borrowings. There is a common factor in all the said methods of finance, viz. economic value or purchasing power. This is equivalent to cash but not cash itself. Credit obtained is a source of purchasing power and it is a source of "Funds". Funds flow analysis is the study of generation of purchasing power and its usage. Funds flow means inflow and outflow of funds. Inflow of funds takes place from different sources and outflow through various uses. Funds flow analysis is an evaluation of sources and use of funds. A statement showing the different "sources" and "uses" of funds during a particular period is termed as funds flow statement.

Sources of Funds: Funds can be raised by issue of capital, by borrowing, by issue of debentures, by accepting fixed deposits and also from the profits. These are long-term sources. Funds can also come into the system by disposing off of assets, realization of debts, reduction in other assets/ advances etc, which are short-term sources.

Uses of Funds: Funds raised can be deployed in many ways, such as acquisition of fixed assets which is a long-term use, increase in inventory/ debtors, reduction in liabilities, payment of dividend etc., which are short-term uses.

When an entity incurs losses, the losses are met by the usage of fund available in the system.

Funds flow will be useful to gauge whether long-term uses (like acquisition of fixed assets) are met by long-term sources (profits, infusion of additional capital, term loans etc.) Similarly, funds flow will show us the sources of funds for short-term uses. If funds are brought in from long-term sources and used for short-term uses, then it is a positive sign that NWC is being built up.

When a liability is created, it is a source of funds and when it is reduced, it reflects the usage of funds.

Increase in assets is usage of funds, conversely decrease in assets results in availability of funds.

Computation of Fund Flow Statement

In funds flow analysis, we compare the position of each item of asset and liability as on a given balance sheet date, with the corresponding item as on the previous balance sheet date to ascertain the changes in various assets and liabilities or various sources and uses of funds. This will be balanced by the funds generated internally or lost in business.

Profit or loss shown in the Profit and Loss account is after making book adjustments. However, there is no actual outflow of funds in the case of such adjustments like depreciation, investment allowance etc. therefore, for arriving at the actual flow of funds, we have to add back these expenditures which have been booked in the Profit and Loss account. Likewise, Taxes/Dividend paid or payable should be subtracted from the said figure. Other items like profit or loss on sale of fixed assets or investments, income from investments etc. are to be deducted from or added to net profit, as the case may be, if they are not already accounted for. After this, each item of liability and asset should be examined for ascertaining the sources and uses for computing fund flow statement.

Uses of Funds Flow Analysis: Funds flow statement is analysed to study, whether the working capital finance provided by the Bank for acquiring current assets has resulted in the increase in value of current assets. If working capital finance is used for long-term uses, such as for acquiring of fixed or non-current assets, it indicates diversion of funds which may have serious implications for the concern and also for the Bank. Funds flow statement also indicates increase in the value of various assets and the sources of finance for the same. In addition, we get a clarity on various sources and uses of funds by the concern.

9.13 Cash Flow Statement

Securities & Exchange Board of India (SEBI) has made it obligatory for the listed companies to include cash flow statement in the audited balance sheet.

The cash flow statement is segregated into three parts, namely

1. Cash Flow from operating activities
2. Cash Flow from investing activities and
3. Cash Flow from financing activities.

Cash Flow from the above three activities are added or deducted from the Cash and Cash equivalent as on the date of the Balance Sheet of the previous year to arrive at the cash and cash equivalent as on the date of the Balance Sheet of the current year.

Cash Flow from operating activities is an important parameter as it clearly shows the actual flow of capital from sales to purchases and other expenses. It does not include unrealised funds for example, a business unit has earned a net profit of, say, Rs. 10 crore whereas the operating cash flow is only, say, Rs. 5crore. This may be due to increase in Sundry Debtors which actually means that though the account shows net profit, it has not been realized.

Cash flow from investing activities shows the purchase and sale of various fixed assets and investments.

Cash flow from financing activities shows the inflow and outflow of cash from various financing activities of the company such as issue of share capital, debentures, borrowings, dividend payout etc.

9.14 Conclusion

In this chapter, we have extensively dealt with the different financial statements that we come across while scrutinizing a credit proposal, various components of the said statements. We have also dealt with the analysis of these financial statements, the various ratios we normally come across while reviewing a credit proposal, implications of such ratios, Breakeven point and its relevance, importance of fund flow and cash flow statements.

It is reiterated that these statements and ratios are not to be read in isolation and many of them are interlinked. Further, when comparing with peers in the industry, many more parameters like location, goodwill etc. are to be considered before drawing conclusions.

Finally, it should also be borne in mind that each bank has a loan policy in place and the benchmark levels of each ratio is also arrived at, which should serve as indices for considering a credit proposal.

CHAPTER 10

TAKEOVER ACCOUNTS

10.1 Introduction

Taking over liabilities from one bank account to another Bank is common in banking business. There are distinct advantages while taking over the liabilities of an account, some of them are:

- In addition to the appraisal the present banker does for the loan being taken over, the proposal would have already passed the scrutiny of another banker and hence is double checked.
- The borrower's credit discipline can be cross verified from the conduct of his account with the existing banker.
- In the case of a term loan, the disbursement would have been already completed and the project would be ready for implementation / already implemented so the time lag in commencement of repayment is lower than in the case of a greenfield project.
- The risk of cost-overflow and time-overflow is not there in the case of takeover accounts as the project is already implemented.
- In addition to the legal opinion from the panel advocate of the taking over bank, the legal opinion of the existing banker will also be available for reference to the bankers, in the case of collateral security.

However, it is observed historically that many taken over accounts have failed subsequent to the taking over. So due care should be taken while taking over liabilities from other banks.



Major key considerations for Liability Takeover are Due Diligence, Risk Assessment, Collateral Evaluation, Legal and Regulatory Compliance and Inter-Bank Collaboration.

10.2 Checklist

A checklist is provided here to serve as ready reference but it should be noted that it is not exhaustive and each borrowal account is unique in its own way and care has to be taken to study the weaknesses in such accounts at the time of takeover.

- Account copies of the borrowal account for a period as prescribed in the Loan Policy or a minimum of 12 months should be obtained, analysed and should ensure that there are no adverse observations.
- The minimum external credit rating as per Bank's Loan Policy is to be ensured.
- Where substantial business growth / slowdown is observed, reasons for the same are to be ascertained and documented.
- Frequent change of lender should throw warning signals.
- Group accounts should also be studied in depth to ensure that the accounts are performing and should ensure that they are not restructured and do not show any signs of stress.
- It should be ensured that inter-group transfers are done only based on genuine trade transactions.
- Mortgageability of title deeds has to be examined before takeover.

- It should be ensured that normally, the security offered to the existing banker is not released and substituted with another property.
- There should be no dilution in security offered.
- No Objection Certificate, Credit Information Report as per format prescribed by RBI Circular on Lending under consortium arrangements / Multiple Banking arrangements shall be obtained from the transferor Bank, even when partial limits are being taken over.
- Internal rating, wherever applicable, shall be above the prescribed minimum.
- It should be ensured that the account to be taken over is not a project under implementation.
- It should also be ensured that there are no arrears with the existing bank at the time of takeover.
- Branch shall conduct pre-sanction visits of the site / godowns / customer's premises / securities and should be satisfied with the performance of the unit.
- Branch shall obtain a letter seeking confirmation from existing bankers that original title deeds will not be routed through / handed over to the borrower.
- Branch shall obtain NOC from the borrower for release of title deeds directly to the Bank from the existing lender.
- Branch shall make an independent assessment of the credit requirement of the borrower based on financials, production and sales data along with the latest annual account.
- Where enhancement is sought while taking over working capital limits -
 - a. it is ensured that the enhancement is for genuine/ need based working capital purpose only
 - b. Enhancement in working capital limit is not more than what is prescribed in the loan policy
 - c. Financial parameters are within the stipulated levels as prescribed in the loan policy
- Where the limits are being taken over from a bank where Chairman / CMD / MD & CEO/ ED have worked earlier, the permission / approval of the board is in place.

CHAPTER 11

SANCTION

11.1 Introduction

Application and appraisal are two vital components of pre-sanction exercise. Once the appraisal indicates the strengths and weaknesses of the proposal, the sanctioning authority takes the decision either to sanction or reject a proposal. Once the sanctioning authority decides to sanction credit limits to the applicant, the terms of sanction are prescribed by the sanctioning authority and a sanction letter is issued to the applicant.

Sanction letter is an important document in the post-sanction scenario as it is the first document which determines a contract between the borrower and the lender. So it is very vital that for every loan account, a sanction letter is prepared which consists of the following:

- Name of the Borrower and his Net Worth,
- Name/s of Co-obligant/s/Guarantor/s along with their Net Worth,
- Purpose of loan
- Limit Sanctioned
- Rate of Interest
- Margin stipulated
- Securities stipulated (Primary and Collateral)
- Due Date
- Repayment Schedule (depending on the scheme repayment should be fixed as per Bank's guidelines / Government guidelines)
- Any other important aspect as found necessary by the bank

Wherever loans are financed under Government of India / State Government schemes, the prescription under the specific scheme relating to loan, margin, security and repayment period should be complied with.

Depending upon the purpose of loan and the nature of security offered, the charge that should be created is spelt in the sanction.

In addition to the above, a set of standard covenants, as per the suggested model provided at the bottom of this chapter, should be part of the sanction letter.

The sanction letter shall be prepared in duplicate and invariably the second copy of the sanction letter shall be signed by borrower/s, co-obligants / guarantors as a token of having accepted the terms of the sanction in toto.

Sanction made under Branch Discretionary Powers should be reported to controlling office for review and any remarks/directions in the review by Controlling Office should be addressed before release of loan.



Sanction letter is an important document in the post-sanction scenario as it is the first document which determines a contract between the borrower and the lender.

11.2 Sanction at the branch level

Where the sanction is done at the branch level, as is applicable to all other loans, the following guidelines shall be followed:

- i. Appraisal shall be done by an officer other than the sanctioning authority.
- ii. Sanction shall be reported to the higher authorities within the prescribed timelines.
- iii. Where the reviewing authorities make some observations, the same shall be adhered to and compliance shall be submitted to the said authority.

While the above are common for all types of advances, based on the type of advances, the following additional points shall also be included.

For KCC

- Crops cultivated
- Scale of Finance applied

For Minor Irrigation

- Details of the minor irrigation scheme sanctioned (Dug Well, Repairs/Re-vitalisation of old Well/Tube Well/Bore Well/Sprinkler Irrigation/Pipe Lines/Electric Motor/Diesel Motor Pumpset etc.)
- Unit Cost applied (Cost of the project/pumpset etc.)

For Farm Mechanisation

- Details of the Tractor/Harvester/Power Tiller etc. along with implements to be purchased with cost of each component.

For Plantation and Horticulture

- Details of the equipment to be purchased with cost of each component, purpose and limit for each component of the Loan such as Land Development, Irrigation facilities, Drip/Sprinklers, Motor Pumpset, Civil Constructions etc.

For Sericulture

- Details of the assets to be purchased.
- Scale of Finance applied for Mulberry Crop.

For Animal Husbandry

- Full details of livestock to be purchased should be included in the Sanction Letter.
- Veterinary Certificate regarding the health of the livestock to be purchased
- Tagging of animals where specified
- Vaccination of Animals.

For Pisciculture

- Details of the Pisciculture scheme sanctioned (Digging of Ponds, Preparation of Ponds, Seed Cost, Breed details, Feed Cost, Civil Construction like Sheds etc.)
- Scale of Finance applied (As per NABARD Guidelines)
- Due date is fixed based on the variety of shrimp / fish reared & within 12 months.

- Repayment terms are fixed based on the cash flow, as per NABARD/Bank guidelines and interest commitments, duly examining suitability of fixing ballooning instalment terms.
- Veterinary Certificate regarding quality of Seed/feed financed and suitability of the same for fish/shrimp/Prawn farming, if stipulated in the guidelines, shall be obtained.
- Seed and Feed are purchased from approved vendor and payment is made directly to the Seller after collecting Borrower's Margin.
- Bank's Hypothecation Board shall be displayed at the Unit.

For Marine Fisheries

- Details of the Activity sanctioned such as Marine Trawler/ Motor Boat /Netting equipment/ Fishing Equipment / Diesel Engine Pumpset etc. along with their Cost as per approved quotation.
- Scale of Finance applied (As per NABARD Guidelines) for Working Capital Limit.

11.3 Standard Covenants

11.3.1 Pre-disbursement Conditions

1. A sworn affidavit from the Directors and the Company confirming that he/she is different from the name, if appearing in the ECGC specified approved list, CIBIL Suit filed list, RBI Defaulters list etc.
2. Branch shall obtain a declaration from the applicant/borrowers regarding details of relationship of borrowers/directors with senior officials of the Bank/other Banks.
3. Certificate of Compliance of sanction terms and conditions should be submitted to the controlling/sanctioning authority in the approved format and prior permission to be sought for release of enhanced limits.
4. Documents, wherever mandated by the Bank's Loan Policy should be verified by Law Officer / Panel Advocate before release of loan. Legal audit of documents to be done as per Bank's norms.
5. Branch shall submit unit inspection report to Controlling Office before disbursement of loan.
6. Sanction terms and conditions should be communicated to the borrower/guarantors. The limits should be released only after the terms and conditions of the sanction are accepted/ acknowledged by the borrower/guarantors. Branch to obtain letter from the borrower/guarantors for having accepted all terms and conditions in toto.
7. Processing Charges/Up Front Fees as per loan policy shall be collected.

11.3.1.1 Enabling conditions

1. Bank reserves its right to alter/cancel and/or modify the credit limits/loans sanctioned and/or terms and conditions stipulated without notice and without assigning any reason thereof.
2. Branch to obtain consent letter from the applicants and all the guarantors for disclosure of their names in the defaulters' list, CIBIL Data in the event of default on the part of the borrowers, as per RBI guidelines.
3. Bank reserves the right to rearrange the repayment schedule and to call upon the Company to accelerate the payments, if the Company's financial position so warrants as per the opinion of the Bank.
4. The rate of interest and margins stipulated are subject to changes from time to time at the sole discretion of the Bank/as per the guidelines of Reserve Bank of India/Govt. of India/NABARD etc.

5. The Bank will have the right to examine at all times the Company's books of accounts and to have the Company work-sites/units inspected from time to time by Officer(s) /representative(s) of the Bank and/or qualified Auditors and/or technical experts and/or Management Consultants of the Bank's choice. Cost of such inspections shall be borne by the Company.
6. The Company will keep the Bank informed of the happening of any event likely to have substantial effect on their profit or business, with explanations and the remedial steps proposed to be taken.
7. The Company shall submit Audited Financial Statements on yearly basis.
8. Branch shall obtain undertaking from the borrowing concern as well as from the co-obligant/guarantor to the effect that "No consideration by way of commission, brokerage, fee or in any other form would be paid by the borrower or received by the co-obligant/guarantor directly or indirectly for standing as a co-obligant/guarantor".
9. The Company shall furnish undertaking letter stating that the funds will be utilized for the purpose for which the credit facilities/limits are sanctioned by the Bank. The working capital limits shall be utilised for the purpose for which it is intended and there shall not be any transfer of funds to and from among the group concerns. Working capital funds shall not be diverted for acquisition of fixed assets/investments in associate companies/subsidiaries and investment in capital market.
10. This credit sanction is valid for an availment period as per loan policy from the date of this communication before which the said credit facilities are to be availed. Unless availed within the stipulated period, this sanction requires revalidation by the Sanctioning Authority.
11. Company should follow accounting standard No.AS 7 of ICAI guidelines.
12. Company has to submit latest IT and WT assessment orders of all the Directors.
13. The borrower Company shall get themselves rated by External Credit Assessment Institutions as prescribed under the loan policy and the rating be informed to bank
14. The borrower shall be advised to appoint Concurrent Auditor towards compliance of Ghosh Committee Recommendations.
15. Branch shall obtain an undertaking from the Company that they have no outstanding dues towards small depositors.
16. Any delay in repayment of the loan instalments will have adverse impact on credit rating and will affect the credit history of the Borrower.
17. Default, Fraud, Legal incompetence during the currency of the Limits, Non-Compliance of agreed terms and conditions, Non-submission of required papers for renewal of limits, Overdues in the Term Loans, any other Irregularities by the Borrower will enable the Bank to Recall the Loan/advance.



Sanction terms and conditions should be communicated to the borrower/guarantors. The limits should be released only after the terms and conditions of the sanction are accepted/ acknowledged by the borrower/guarantors. Branch to obtain letter from the borrower/guarantors for having accepted all terms and conditions in toto.

11.3.1.2 End use of funds – Monitoring

- Branch/ Controlling Office to have meaningful scrutiny of the periodical progress reports and operating/financial statements of the borrowers.
- Branch/ Controlling Office to conduct regular unit visits and inspect the securities charged/ hypothecated to the Bank.
- During periodical unit visits, the books of accounts of the borrower are to be scrutinized.
- Stock audit is to be conducted as per stipulated guidelines under Bank's Loan Policy based on the exposure to the borrower. Certificates from the borrower is to be obtained that the funds have been utilized for the purposes approved and in case of incorrect certification, prompt action as may be warranted is to be initiated which may include withdrawal of the facilities sanctioned and legal recourse as well. In case a specific certification regarding diversion/siphoning of funds is desired from the auditors of the borrowers, a separate mandate may be awarded to them and appropriate covenants incorporated in the loan agreements.
- Branch/Controlling Office to examine all aspects of diversion of funds noticed during internal audit/inspection of the Branches and at the time of periodical reviews.

11.3.1.3 Insurance

All Securities are to be insured for full value with Bank clause against all risks.

11.3.1.4 Other Charges

1. For Working capital limits which are overdue for renewal, penal charges at the rate prescribed shall be charged from the due date of the limits.
2. For non-submission/delayed submission of stock statement etc. penal charges at applicable rates will be charged.
3. Commitment Charges for non-availment of working capital limits shall be charged as per Bank's policy.
4. All other applicable charges shall be collected.
5. If the audited balance sheet is not submitted for review within the stipulated period as per Bank's Loan Policy, additional interest as applicable shall be charged.

11.3.1.5 Security conditions

1. Collateral Securities are to be valued periodically as per Bank's Loan Policy guidelines.
2. Equitable mortgage by deposit of title deeds of the property offered as collateral security should be created as per guidelines in force. Legal opinion, latest ECs and valuation report are to be obtained and Branch has to satisfy about the worth of the security, title and submit certificate of Inspection of collateral security.
3. Branch / Controlling Office shall follow the guidelines as per Loan Policy with regard to registration of charges with Central Registry of Securitisation, Asset Reconstruction and Security Interest of India (CERSAI) under SARFAESI Act.
4. Where the collateral security is being created by third parties, they must be advised to open SB Account with the Branch, with proper introduction and affixing photograph.
5. Branch to ensure stamping of documents as per latest guidelines.

6. Branch to take all precautions as per Bank's guidelines in respect of accepting collateral securities and satisfy themselves about the relationship of the mortgagors with the firm/Company and its partners/Directors.
7. Inspection of securities shall be done periodically as per Bank's Loan Policy guidelines.

11.4 Post disbursement monitoring

1. Unit inspection to be conducted as per Bank's guidelines.
2. Stock and receivable audit shall be conducted once in a year as per guidelines at the cost of the Company.
3. Controlling Office has to ensure that short inspection and periodical unit inspections to be conducted within time schedule as per guidelines and review the performance.

11.5 Short fall in NWC

1. Unsecured loans shall not be repaid during the currency of the loan. Branch should obtain an undertaking to this effect from the borrower.
2. Branch should obtain Auditor certificate confirming the available NWC in the system.

11.6 Terms and conditions applicable to Cash Credits & Overdrafts

1. Branch should review the MSOD statements submitted by the Company at monthly intervals and forward copies of the MSOD statements to the controlling office before 10th of succeeding month to which it pertains along with the observations of the Branch.
2. QIS statements shall be obtained and submitted to controlling authority. The same shall be reviewed by controlling authority and a copy should be marked to sanctioning authority.
3. The borrower should submit statement of Sundry Debtors at stipulated intervals along with the stock statements. The auditor of the Company should certify the Sundry Debtors statement along with amount of Creditors as prescribed.
4. Bank's name board must be exhibited in the premises as financiers.
5. Branch shall obtain the stock statement and review the same as per the procedure.
6. Branch to ensure genuineness of cash withdrawals and the end use.

11.7 Terms and conditions applicable to Public & Private Limited Company

1. The Company shall submit all the necessary resolutions required for approaching the Bank for the credit facilities and also availing the same.
2. The Company shall file charges/modification of charges with Registrar of Companies within 30 days of documentation and get the same registered.
3. The Company shall obtain Digital Signatures and Directors Identification Number (DIN) for all Directors as well as Corporate Identity Number (CIN) as per the guidelines of Ministry of Company Affairs (under MCA21) and make arrangement for e-filing of various returns and forms as required under the Companies Act.
4. During the currency of Bank finance, the Company shall not, without Bank's permission in writing –
 - a. Effect any change in the Company's capital structure.
 - b. Formulate any scheme of amalgamation.
 - c. Implement any scheme of expansion or acquire fixed assets.

- d. Make investments/advances or deposit amounts with any other concern.
- e. Enter into borrowing arrangements with any Bank/FI/Company.
- f. Undertake guarantee obligations on behalf of any other Company.
- g. Declare dividends for any year except out of profits relating to that year.
- h. Change in composition of Company's Board of Directors.

11.8 Consortium accounts

1. The Company shall route its transactions through Bank proportionately. An undertaking is to be obtained in this regard.
2. Release of enhanced working capital limit is subject to tie up of the total assessed limits.
3. Working capital limits shall be disbursed only after completion of joint documentation. In case where Joint documentation is not immediately possible, disbursement of limits may be on individual documentation on the basis of exchange of letters confirming pari-passu charge after getting legal clearance subject to obtention of permission from competent authority i.e. Controlling Manager. In all such cases, additional interest, if any, shall be charged as per Bank's Policy if the joint documentation is not executed within 3 months.
4. Where facility is being granted outside consortium and outside MPBF, NOC is to be obtained from other consortium members before release of limits.
5. The Company should restrict their operations to the members of the consortium.
6. All other terms and conditions as stipulated by Lead Bank shall also be applicable.
7. Branch to obtain drawing power particulars from Lead Bank and allow drawings strictly based on drawing power.
8. All other terms and conditions stipulated by term lender in their sanction hold good for this sanction also.
9. Inspection of stocks is to be undertaken as per consortium decision.
10. Branch shall exchange information with member Banks and keep Controlling Office informed. The asset classification of member Banks shall be obtained and inform to sanctioning authorities once in a year.
11. Consortium meeting shall be held at least once in a quarter and the minutes to be forwarded to sanctioning authority with recommendations on action to be initiated if any.

11.9 Other conditions of sanction

- Branch is advised to explore the possibilities of utilizing the services of insurance Companies where the Bank is acting as corporate Agent for insuring the assets financed by the Bank.
- Documents to be obtained as per the Manual of Instructions, Guidelines on documentation and other circulars/circular letters/guidelines issued by HO/Controlling Office from time to time.
- An undertaking letter from the Company to be obtained stating that all the required dues like taxes, duties etc. shall be paid as and when they fall due.
- Branch to submit Legal Audit Report, wherever applicable.

The Company shall not undertake derivative transaction without approval of the existing member Banks. Company to provide details of derivative transactions undertaken along with other financial data for discussion at consortium meeting and to confirm that transactions are undertaken purely for hedging purpose and within the board approved policy.

CHAPTER 12

DOCUMENTATION

12.1 Standard Documents

Standard Documents as prescribed by the Bank such as:

- Demand Promissory Note, (Term Loan Agreement in case of loans payable beyond 3 years)
- Crop/Equipment Hypothecation Agreement, (for KCC)
- Bank's right to cancel limits,
- Memorandum of Entry in case of mortgage of properties (wherever stipulated)
- Letter of continuity.
- Letter of General Lien and set off.
- Interest Rate Agreement.
- Letter of guarantee (if stipulated).
- Undertaking from borrower/Guarantor for disclosure to CIBIL

Any other documents prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

All Documents relating to the loan facility as prescribed by the Bank shall be

- Duly filled without leaving any gaps ensuring continuity, uniformity
- Executed by both borrower/s and guarantor/s with their full signatures and
- Executed in tune with the constitution of the borrower.

All insertions and corrections/alterations / cancellations shall be properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable.

Where the executant is an illiterate person, the contents of documents should be explained to him/her/ them in a language known to him/her and the same shall be recorded.

12.2 In respect of Loans against Warehouse Receipts,

Pledge Agreement along with Original Warehouse Receipt duly endorsed in favour of the Bank should be obtained.

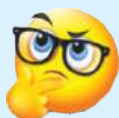
Bankers lien over Agricultural commodities/stocks stored in warehouse/cold storage should be registered with the central/state warehousing corporation/approved private warehouse/cold storage or accredited collateral manager's storage area.

Hypothecation agreement and an undertaking from the borrower that the produce shall not be disposed of before adjustment of loan in lieu of duly endorsed receipt/pledge agreement (cases where the produce stored at own rural godowns or stored without engaging collateral Manager).

An undertaking from the Warehouse/godown/cold storage owner accepting unrestricted charge of the bank over the agricultural commodities stored with them and conveying that:

1. They have no lien or charge on the commodities and agreeing to deliver the stocks to the bank or its nominee against the surrender of receipt by the bank
2. The stocks/ commodities stored shall not be delivered to any one or disposed of in any manner without written consent/instruction of the bank.

An agreement should be executed between private warehouse/godown/cold storage units and the bank.



All Documents relating to the loan facility as prescribed by the Bank shall be duly filled, executed by both borrower/s and guarantor/s with their full signatures and executed in tune with the constitution of the borrower.

This agreement is not required wherever the services of approved collateral manager are availed, and commodities are under the custody of collateral managers.

In cases where services of approved collateral managers are availed, in a private WH and commodities/ goods pledged are not under the custody of collateral manager, tripartite agreement should be executed among the collateral manager, Bank and the private warehouse/storage owner in lieu of bipartite agreement.

A letter of guarantee/indemnity/acknowledgement should be obtained from the approved warehouse/godowns/cold storage owners agreeing to indemnify the bank against all losses arising out of following;

- Delivery to farmer/other persons without explicit consent of the bank.
- Deterioration in quality and /or quantity of stock due to malfunction storage units or any other reasons, whatsoever; Wrongful disposal of stock; Loss of stocks due to any other reasons.

12.3 In respect of Loans for Minor Irrigation

- Ground Water Availability Certificate issued by the State Ground Water Department / Approved Hydrogeologist.
- Power Connection Certificate issued by the concerned State Electricity Board.

12.4 In respect of Loans for Farm Mechanisation / Marine Fisheries

- Bank's Lien in Registration Certificate (RC) book for tractor and trailer, Trawler etc.
- Transfer forms
- Comprehensive insurance policy of the asset financed with 3rd party coverage.

12.5 Other Types of Credit Facilities

Documents are to be executed in the proper capacity, (Proprietor /Partner /Karta / Director etc.) and in the branch premises in the presence of officials of the branch.

- Where the documents are executed by a Power of Attorney (POA) holder, it is to be ensured that a copy of the POA is attached to the documents and the person executing the documents has the power to sign the documents as per the POA.
- Where the borrower is an individual, branch shall obtain documents under full signature of the borrower/ authorised persons at designated places and all insertions and over writings shall bear full Signature/s of the executants.

- Where the borrower is an individual / sole proprietor/ HUF/ Society who is an illiterate person, the fact that the documents are explained in a language known to him/her is recorded. Where the borrower is HUF, it is to be ensured that all coparceners have executed the document.
- In the case of Sole proprietary concerns, full name of the concern and the proprietor are mentioned in the body of the documents and are executed in the name of concern and proprietor.
- Where borrower is a Society/ Co-operative Society, it is to be ensured that the documents are executed in accordance with the resolution passed by the Governing body/ Managing Committee members of the Society.
- Where the borrower is a Partnership Firm, full name of the concern and names of all the partners shall be mentioned in the documents and the documents are to be executed by all partners of the firm on behalf of the firm and in their personal capacity also.
- Where the borrower is a Limited Liability Partnership (LLP), personal guarantee of designated partners/ controlling partners based on the LLP agreement shall be obtained.
- Where the borrower is a Limited Company, common seal is to be affixed on the document in accordance with the AOA of the company. Where the company does not have a common seal, authorisation to execute such documents is made by two directors or by a director and the company secretary, wherever the company has appointed a company secretary, and documents are to be executed as per the said authorisation, a copy of which shall be made available in branch records.
- The acknowledgement of terms and conditions of sanction on the sanction letter should be obtained from the borrower, co-obligants and guarantors and it should be kept as part of the documents.
- It should be ensured that the documents are executed by the person having capacity to do so and the documents should have the full names of the borrowers / guarantors / co-obligants.
- The date and place of execution of the documents should be filled up and all pages and schedules forming part of documents should be signed in full and in the same style throughout the documents.
- Where two executants are signing the documents at different places and /or different dates, it should be ensured that the correct date and place are mentioned by them in their own handwriting.
- Documents should be stamped as per the prescribed stamp duty applicable. Where signatures have been obtained from signatories in different states, then the stamp duty applicable in the state where it was first executed shall be applicable.
- Creation of mortgage over the property has to be done as advised by the legal advisor, shall be signed by the persons who are the owners of the property as listed in the legal opinion and documents / signatures have to be obtained as indicated by him. Immovable property taken as security shall be described in detail in the schedules with reference to their survey nos., patta nos etc along with their boundaries, exactly as mentioned in the title deeds.
- Where non-agricultural property is taken as security, for loans sanctioned subsequent to 22 January 2016, branch shall file with the Central Registry particulars of creation/modification/ satisfaction of security interest in respect of:

- i. Immoveable property other than mortgage by deposit of title deeds
- ii. Hypothecation of current assets
- iii. Intangible assets (know-how, patent, copyright etc)
- iv. Any under-construction residential or commercial building.

12.6 Mortgage of Securities

Where Mortgage of Securities are stipulated depending on the quantum of limit, the following shall be ensured:

- i. Original documents of title should be obtained,
- ii. Legal audit shall be conducted as per norms and the observations made therein shall be complied with.
- iii. Title verification of the property offered as collateral shall be done by the panel advocate and his opinion shall be in the Bank's format indicating clear and marketable title without any subjective clauses.
- iv. Legal opinion shall be obtained on the clear title and Mortgageability of the security from approved legal advisor.
- v. Valuation shall be done as per Bank's Policy. It should be noted that agricultural land shall not be mentioned in square yards and the extent is mentioned in Acres/Cents/Guntas
- vi. All title deeds as indicated in the Legal opinion shall be obtained in the manner as mentioned in the legal opinion.
- vii. Branch should ensure that there are no subjective clauses in the report and that it is in the prescribed format.
- viii. Where the Bank's policy is to obtain legal opinion from two empaneled advocates, Branch should obtain the same and ensure that there are no contradictions in the said reports.

Wherever original documents of title have been lodged for registration, copies of such documents as certified by the Sub-Registrar of Assurance along with the original lodgment receipt and certified copy of duly acknowledged letter addressed by the mortgagor to the sub-registrar, instructing him to forward the original documents to the Bank after registration should be obtained and Branch should follow up to collect the original documents on the date mentioned in the acknowledgement.

Certified copy of title deed should be obtained independently from Sub-registrar of assurances and cross checked with the Original Title deeds for their genuineness.

12.7 Where leased lands are taken as security

- Branch should ensure that lease deed permits mortgage of property by the lessee and the unexpired period of lease is sufficiently longer than the tenure of the loan.
- It should also be ensured that NOC from lessor is not required for creating mortgage.
- In cases where NOC is required, the branch should ensure that the same is obtained and a copy of such permission is on record before disbursement.
- Enforceability of mortgage should be ensured.
- Branch should obtain a letter from the lessor that he will not exercise the right of forfeiture or cancellation of the lease during the currency of credit facilities or upon enforcement of security by the bank in a Court of Law without prior written permission from the Bank.

- Where non-agricultural property is taken as security, for loans sanctioned subsequent to 22.01.2016, branch has to file immediately with the Central Registry the particulars of creation/modification/satisfaction of security interest in respect of not only immoveable property other than mortgage by deposit of title deeds, but also Hypothecation of Current Asset, Intangible Assets such as Know-how, Patent, Copy Right etc., and any under construction residential or commercial building.
- Schedule provided for Security should be filled giving full particulars of the property including Survey Nos, Description of property, Boundaries. Extent along with Document Number/s, date etc.
- Document(s) should be properly stamped as per stamp duty applicable in the state where they are executed and registered and attested (wherever applicable). Where two executants sign the documents at different places and /or different dates, correct date and place of execution should be mentioned by them in their own handwriting.
- Sanction letter /LOI, duly acknowledged by the Borrower/s, Co-obligant/s/Guarantor/s is attached to the loan agreement.

12.8 Creation of Mortgage and checks thereon

- Mortgage checks under CERSAI should be conducted by the Branch.
- Where the security is obtained by a mortgage other than by equitable mortgage, it should be witnessed by 2 people.
- Mortgage should be registered (wherever applicable) with Sub Registrar's Office and EC should be obtained after registration of Memorandum of Entry.

Details of Securities should be entered in the Title Deeds Register/Memorandum of Entry giving full particulars such as Title Deed Number, date, name of the executor/s and beneficial owner, Survey Number, Extent and Boundaries etc. along with link documents, latest Encumbrance Certificate etc. (All the documents as listed and as required viz., originals / certified copies / photocopies obtained) and should be witnessed by one of the Officials/authorised staff of the Branch.

All the title deeds in the Title Deeds Register should be entered in Chronological Order.

12.9 Valuation of Property

Panel Engineer's Valuation Report shall be obtained in Bank's approved format, clearly indicating the extent of the property mortgaged, its boundaries and market value along with the photograph of the property.

It shall be ensured that the valuation of Agriculture properties is done only as acres and cents not in sq. yards.

All the documentation formalities should be completed in all respects before disbursement.

These are indicative credit facilities hence bank may refer to their respective loan policy also.

CHAPTER 13

KISAN CREDIT CARDS

13.1 Introduction

The Kisan Credit Card (KCC) scheme was introduced in 1998 for issue of Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that farmers may use them to readily purchase agriculture inputs such as seeds, fertilizers, pesticides etc. and draw cash for their production needs. The scheme was further extended for the investment credit requirement of farmers viz. allied and non-farm activities in the year 2004.

The scheme was further revisited in 2012 by a working Group under the Chairmanship of Shri T. M. Bhasin, CMD, Indian Bank with a view to simplify the scheme and facilitate issue of Electronic Kisan Credit Cards.

The Kisan Credit Card scheme aims at providing adequate and timely credit support from the banking system under a single window with flexible and simplified procedure to the farmers for their cultivation and other needs as indicated below:

- To meet the short-term credit requirements for cultivation of crops;
- Post-harvest expenses.
- Produce marketing loan.
- Consumption requirements of farmer household,
- Working capital for maintenance of farm assets and activities allied to agriculture.
- Investment credit requirement for agriculture and allied activities.

Note: The aggregate of components 'a' to 'e' above will form the short-term credit limit portion and the aggregate of components under 'f' will form the long-term credit limit portion.

13.2 Eligibility

- Farmers - individual/joint borrowers who are owner cultivators.
- Tenant farmers, oral lessees & sharecroppers.
- Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, sharecroppers etc.

13.3 Scale of finance

The scale of finance (SOF) for each crop in a district is determined by the District Level Technical Committee (DLTC). As per the guidelines issued by NABARD, DLTC which is a sub-committee of the District Consultative Committee (DCC) headed by District Collector or District Magistrate assesses the crop loans and determines the scale of finance for each crop in a district. The SOF is the amount of money needed



Kisan Credit Card (KCC) provides comprehensive credit support to farmers for various agricultural needs. It offers both short-term and long-term credit components to address diverse farming needs.

to grow a crop for unit of cultivated land. The DLTC considers factors like land area, crops grown and agro-climate zones while deciding the SOF. The Committee meets once a year and includes members such as the District Central Co-op Bank convener, Major Banks in the district, State Agriculture Department officials, leading farmer and Lead District Managers.

The DLTC recommends increases to SOF but must provide substantial reasons for increases above 15%. They also need to provide complete details when recommending SOF for new crops. SOF is used to determine the amount of loans to be provided to farmers under Kisan Credit Card Scheme.

13.4 Fixation of credit limit / Loan amount

The credit limit under the Kisan Credit Card is fixed as under:

13.4.1 All farmers other than marginal farmers

13.4.1.1 The short-term limit to be arrived for the first year (For cultivating single crop in a year):

Scale of finance for the crop (as decided by District Level Technical Committee) x Extent of area cultivated

- + 10% of limit towards post-harvest/household/ consumption requirements
- + 20% of limit towards repairs and maintenance expenses of farm assets
- + crop insurance and/or accident insurance including PAIS, health insurance & asset insurance.

13.4.1.2 Limit for second & subsequent years

First year limit for crop cultivation purpose arrived at as above plus

10% of the limit towards cost escalation / increase in scale of finance

for every successive year (2nd, 3rd, 4th and 5th year) and

estimated term loan component for the tenure of Kisan Credit Card, i.e., five years.

For cultivating more than one crop in a year

The limit is to be fixed as above depending upon the crops cultivated as per proposed cropping pattern for the first year plus

An additional 10% of the limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year).

It is assumed that the farmer adopts the same cropping pattern for the succeeding four years.

In case the cropping pattern adopted by the farmer is changed in the subsequent year, the limit may be reworked.

13.4.1.3 Illustration

Small farmer cultivating multiple crops in a year

1. Assumptions

A. Land holding: 2 acres

B. Cropping Pattern

Paddy - 1 acre (Scale of finance plus crop insurance per acre : Rs. .11000)

Sugarcane - 1 acre (Scale of finance plus crop insurance per acre : Rs. .22,000)

Crop loan Component

Year	Particulars	Amount in Rs.
1	Scale of finance + crop insurance per acre	33,000
	Add 10% towards post-harvest / household expense / consumption	3,300
	20% towards farm maintenance	6,600
	Total Crop Loan Limit for 1 st year	42,900
2	Limit for I year	42900
	Add 10% of the limit towards cost escalation / increase in scale of finance	4300
	Total Crop Loan Limit for 2 nd year	47,200
3	Limit for 2 year	47,200
	Add 10% of the limit towards cost escalation / increase in scale of finance	4,700
	Total Crop Loan Limit for 3 rd year	51,900
4	Limit for 3rd year	51,900
	Add 10% of the limit towards cost escalation / increase in scale of finance	5,200
	Total Crop Loan Limit for 4th year	57,100
5	Limit for 4th year	57,100
	Add 10% of the limit towards cost escalation / increase in scale of finance	5,700
	Total Crop Loan Limit for 4th year	62,800

Other farmer cultivating multiple crops in a year

Assumptions

Land Holding: 10 acres

Cropping Pattern:

Paddy - 5 acres (Scale of finance plus crop insurance per acre Rs. .11,000)

Followed by

Groundnut - 5 acres (Scale of finance plus crop insurance per acre Rs. .10,000) Sugarcane - 5 acres (Scale of finance plus crop insurance per acre Rs. .22,000)

Crop loan Component

Year	Particulars	Amount in Rs.
1	Cost of cultivation of 5 acres of Paddy, 5 Acres of Groundnut and 5 acres of Sugarcane	2,15,000
	Add 10% towards post-harvest / household expense / consumption	21,500
	20% towards farm maintenance	43,000
	Total Crop Loan Limit for 1 st year	2,79,500
2	Limit for I year	2,79,500
	Add 10% of the limit towards cost escalation / increase in scale of finance	27,950

	Total Crop Loan Limit for 2 nd year	3,07,450
3	Limit for 2 year	3,07,450
	Add 10% of the limit towards cost escalation / increase in scale of finance	30,750
	Total Crop Loan Limit for 3 rd year	3,38,200
4	Limit for 3rd year	3,38,200
	Add 10% of the limit towards cost escalation / increase in scale of finance	33,800
	Total Crop Loan Limit for 4 th year	3,72,000
5	Limit for 4th year	3,72,000
	Add 10% of the limit towards cost escalation / increase in scale of finance	37,200
	Total Crop Loan Limit for 4 th year	4,09,200

KISAN CREDIT CARD LIMIT: Rs. 4,09,200

13.4.1.4 Maximum Permissible Limit for KCC-Short Term Loan

The short-term loan limit arrived for the 5th year will be the Maximum Permissible Limit (MPL) and is to be treated as the Kisan Credit Card limit.

13.4.1.5 Term loan for investment

The term loan for investment is to be made towards land development, minor irrigation, purchase of farm equipment and allied agricultural activities. The banks may fix the quantum of credit for term and working capital limit for agricultural and allied activities, etc., based on the unit cost of the asset/s proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, the bank's judgment on repayment capacity vis-a-vis total loan burden devolving on the farmer, including existing loan obligations.

The long-term loan limit should be based on the proposed investment(s) during the five year period and the bank's perception on the repaying capacity of the farmer.

Maximum Permissible Limit for KCC (both Short Term Loan and Long-Term Investment Loan)

The short-term loan limit arrived for the 5th year plus the estimated long-term loan requirement will be the Maximum Permissible Limit (MPL) and is to be treated as the Kisan Credit Card limit.

13.5 Fixation of Sub-limits

- Short term loans and term loans are governed by different interest rates. At present, short term crop loans upto Rs. 3 lakh are covered under Interest Subvention Scheme/Prompt Repayment Incentive scheme of the Government of India. Further, repayment schedule and norms are different for short term and medium/long-term loans. Hence, in order to have operational and accounting convenience, the card limit is to be bifurcated into separate sub-limits for short term cash credit limit cum savings account and term loans.
- Drawing limit for short term cash credit should be fixed based on the cropping pattern. The amount(s) for crop production, repair and maintenance of farm assets and consumption may be allowed to be drawn as per the convenience of the farmer. In case the revision of scale of finance for any year by the district level technical committee exceeds the notional hike of 10% contemplated while fixing the five-

year limit, a revised drawable limit may be fixed in consultation with the farmer. In case such revisions require the card limit itself to be enhanced (4th or 5th year), the same may be done and the farmer be so advised.

- iii. For term loans, amount may be allowed to be withdrawn in instalments based on the nature of investment and repayment schedule drawn as per the economic life of the proposed investments. It is to be ensured that at any point of time the total liability should be within the drawing limit fixed for the concerned year.
- iv. Wherever the card limit / liability so arrived warrants additional security, the banks may take suitable collateral as per their policy.

13.5.1 For Marginal Farmers

- i. A flexible limit of Rs. 10,000 to Rs. 50,000 may be provided (as Flexi KCC) based on the land holding and crops grown including post-harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc., plus small term loan investment(s) like purchase of farm equipment(s), establishing mini dairy/backyard poultry as per assessment of the Branch Manager without relating it to the value of land. The composite KCC limit is to be fixed for a period of five years on this basis.
- ii. Wherever higher limit is required due to change in cropping pattern and / or scale of finance, the limit may be arrived at as per the requirement.

13.5.2 Assessment of KCC Limit

13.5.2.1 Marginal farmer cultivating single crop in a year

Assumptions

- i. Land holding : 1 acre
- ii. Crops grown : Paddy (Scale of finance plus crop insurance per acre : Rs. 11,000)
- iii. There is no change in Cropping Pattern for 5 years
- iv. Allied Activities to be financed - One Non-Descript Milch Animal (Unit Cost Rs : 15,000)

13.5.2.2 Assessment of Card Limit

Year	Particulars	Amount in Rs.	
1	Limit Calculation for 1 st year		
	(i) Crop loan Component	11,000	
	Add : 10% towards post-harvest / household expense / consumption	1,100	
	Add : 20% towards farm maintenance	2,200	
	Total Card Limit for 1 st year (A1)	14,300	
	(ii) Term Loan Component		
	Cost of one milch animal (B)	15,000	
	Total Loan for I year		29,300
2	Limit Calculation for 2 nd year		
	Previous year's crop loan eligibility + Add 10% of the limit towards cost escalation / increase in scale of finance for Crop loan 110% of A1 (A2)	15,730	

	(ii) Term Loan Component (B)	15,000	
	Total Card Limit for 2 nd year (A2+B)		30,730
3	Limit Calculation for 3 rd year		
	Previous year's crop loan eligibility + Add 10% of the limit towards cost escalation / increase in scale of finance for Crop loan 110% of A2 (A3)	17,300	
	(ii) Term Loan Component (B)	15,000	
	Total Card Limit for 3 rd year (A3+B)		32,300
4	Limit Calculation for 4 th year		
	Previous year's crop loan eligibility + Add 10% of the limit towards cost escalation / increase in scale of finance for Crop loan 110% of A3 (A4)	19,030	
	(ii) Term Loan Component (B)	15,000	
	Total Card Limit for 4 th year (A4+B)		34,030
5	Limit Calculation for 5 th year		
	Previous year's crop loan eligibility + Add 10% of the limit towards cost escalation / increase in scale of finance for Crop loan 110% of A4 (A5)	20,930	
	(ii) Term Loan Component (B)	15,000	
	Total Card Limit for 5 th year (A5+B) say		36,000

Note: All the above costs estimated are illustrative in nature. The recommended scale of finance / unit costs may be taken into account while finalising the credit limit.

13.6 Procedure for Sanction and Appraisal

Due Diligence of the Borrower/Co-obligant/Guarantor should be done as per norms.

Branch should verify the various defaulters' list of RBI and other agencies (defaulters list, wilful defaulters list, caution list, ECGC SAL,) etc. and also check whether the internal rating is above the applicable level prescribed by the Bank.

Borrower/Co-obligant/Guarantor should be from within the area of operation of the Branch. In case of any deviation, approval from competent authority should be obtained.

Credit History of the Borrower should be scrutinised and ensured that there are no overdues in any of his accounts with the Bank/Other Financial Institutions.

Track Record of the Borrower in paying the earlier loans should be examined.

Where the borrower is enjoying facilities with other Banks/financial institutions, a No-dues / No-Objection certificate / P&C Report should be obtained from those Institutions.

Pre-sanction visit of primary/collateral securities should be conducted before sanction and such visit report should be attached to Application.

Where the applicant is tenant/sharecropper, Branch should obtain details of lease along with copy of lease deed and attach it to the appraisal note.

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms. For full details, please refer to Chapter 8 on Application for Credit Facilities.

After obtaining the application along with all enclosures, branch should appraise the loan proposal in the standard appraisal format of the Bank duly arriving at the quantum of Limit eligible as explained in foregoing paragraphs.

The appraisal note should be signed by an Officer other than Sanctioning Authority. It is to be noted that the sanction shall be made within the timelines stipulated and the applications shall not be kept pending for unduly long time,

Where applications are not considered for sanction, the approval of the next higher authority shall be obtained before communicating the decision.

Appraising Officer and Sanctioning Authority should subscribe their full Signatures on the Appraisal Note.

13.7 Sanction

Please refer to Chapter 11 on Sanction.

13.8 Documentation

Standard Documents as prescribed by the Bank as per Bank's Policy Guidelines should be taken duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

For full details, please refer to Chapter 12 on Documentation.

13.9 Disbursement

The short term component of the KCC limit is in the nature of revolving cash credit facility. There should be no restriction in number of debits and credits. The drawing limit for the current season/year could be allowed to be drawn using any of the following delivery channels.

- i. operation through branch.
- ii. operation using cheque facility.
- iii. withdrawal through ATM /debit cards
- iv. operation through Business Correspondents and 'banking outlet/part-time banking outlet'
- v. operation through PoS available in Sugar Mills/Contract farming companies, etc., especially for tie-up advances.
- vi. operations through PoS available with input dealers.
- vii. Mobile based transfer transactions at agricultural input dealers and mandies.

The long-term loan for investment purposes may be drawn as per instalment fixed.

In the case of loans where tie-up is available, after the loan is sanctioned, details of the loans are to be furnished to factory/board with due acknowledgment along with details of co-obligation with request to route all the sale proceeds through the SB account of the borrower with the Bank, till the instructions are revoked by the branch.

In case of tie-up loans with Tobacco Board, copy of barn license issued by Tobacco board shall be obtained and make entry about loans in the tie up book/card/license.

13.10 Issue of Electronic Kisan Credit Cards

All new KCC accounts must be issued as EMV Compliant Rupay Chip Cards with magnetic stripe and PIN.

The short-term credit limit and the term loan limit are two distinct components of the aggregate KCC limit bearing different rates of interest and repayment periods. A composite card could be issued with appropriate software to separately account for transactions in the sub limits or two separate electronic cards may be issued for all new/renewed cards.

13.11 Post Disbursement Follow Up

While selection of the borrower and fixing the quantum of finance are vital in pre-disbursement stage and timely sanction and getting the correct documents executed at the sanction stage, stage-wise disbursement at the disbursement stage, post-disbursement follow up is the most vital part of the loan cycle.

Branch should make periodical visits as per the loan policy to ensure that funds have been used properly and that the borrower is not diverting the funds. During the visit, if any diversion is noticed, branch should take steps for recovery immediately without waiting for the due date.

Processing Fee should be Collected as per norms wherever applicable.

It should be ensured that

- Primary security, i.e., crops under cultivation shall be insured for crop insurance under Pradhan Mantri Fasal Bhima Yojana (PMFBY), if applicable.
- Vehicles shall be insured under comprehensive insurance including III Party Insurance
- Other securities hypothecated should be insured against all risks.
- Collateral security in the form of non-agricultural building property shall be insured for full value against fire and other calamities.
- the Bank's interests need to be distinctly noted.
- Interest Subvention (wherever applicable) should be claimed as per the eligibility.
- In the case of loans where tri-partite agreement is entered into with the purchasing factory/ entity, branch should ensure that the proceeds of the crop sent to the factory/purchased by the entity are sent to the borrower's account with bank by informing the factory immediately after disbursal of the loan. In case of tie up loans for sugarcane/ tobacco/ any other crop on leased lands, branch should also obtain guarantee of owner of the land.
- Loan disbursed for each crop season should be repaid as per repayment fixed.
- Whenever there is a change in cropping pattern, a new loan should be sanctioned.
- Whenever the borrower is sanctioned a Produce Loan, it should be linked to this KCC account.
- Account should be reviewed every year for fixing Maximum Drawal Limit (MDL) based on the proposed cropping pattern, scale of finance etc. duly obtaining declaration from the borrower.
- Revival documents/ Acknowledgement of Debt should be obtained in terms of bank guidelines.
- Where there is a mortgage of property is involved, Branch should inform the mortgage details to the Revenue authorities for noting Bank's lien in revenue records in those states where the same is permitted and keep the acknowledgement on record.

- Branch should promptly follow up for Renewal/Recovery by issuing notices/physical follow up. The follow up should include inspecting the crop at least once during the middle of the crop season and issue a notice for recovery of loans 15 days before harvest of the crop and where it is not paid, branch should issue a registered notice to the borrower and the co-obligant / guarantor. Branch should make visits to the field regularly to check up whether the crop hypothecated to the Bank is not cut and sold.
- Where it is necessary, the help of government machinery should be obtained and possession of the crop shall be taken.
- Where refinance /subsidy /interest subvention etc., is available, Claim for Refinance (wherever eligible) should be done promptly and follow up of claims for refinance/ subsidy / interest subvention etc. should be done.
- In case of death of a borrower, notice to all the legal heirs for recovery of entire loan outstanding should be issued with copies to guarantor / co-obligant.
- Where the account is classified as NPA, branch should follow up for recovery and the efforts should be documented.
- The One Time settlement/ Negotiated Settlement should be carried out in terms of Bank's Recovery/ OTS policy.

CHAPTER 14

LENDING AGAINST WAREHOUSE RECEIPTS

14.1 Introduction

Farmers generally dispose off their agricultural produce soon after harvest when the prices tend to be low to meet their consumption needs and thus they are unable to take advantage of the higher price at a later date.

In order to avoid distress sale of farm produce, Govt has encouraged Banks to lend to farmers/SHG/JLG/Processors/Commodity Aggregators against pledge of Warehouse Receipts both NWR (Negotiable Warehouse Receipts) and eNWR (Electronic Negotiable Warehouse Receipts) upto a maximum limit of Rs.75 Lakhs per borrower/borrowing entity for periods not exceeding 12 months. In order to encourage small and marginal farmers having KCC, such loans are allowed at interest subvention rates for a period of 6 months.

14.2 Identification and Due Diligence

Branch should conduct Pre-sanction inspection of stocks before disbursing the loan to ensure proper storage of goods, its quality and quantity and genuineness of warehouse receipt issued.

- In respect of loans to SHGs/JLGs, Branch should ensure that the groups satisfy the eligibility criteria as per internal scoring model and all the members engaged in similar activity. Branch should ensure that none of the members of the SHG / JLG are defaulters to any Bank and self-certification to that effect is to be obtained. The member/s who is/are depositing is/are the original owner and depositor of the commodities.
- In respect of Loans to Processors, Branch should ensure that the borrowers are not in RBI /CIBIL list of defaulters, branch should obtain and examine account statements for the last 6 months and ensured satisfactory operations. Borrower should have a minimum business vintage of 2 years or as per Bank's Loan Policy.
- In respect of Loans to Commodity Aggregators/Traders, Branch should ensure that they possess valid license from market yard / market board, the borrowers are not in RBI /CIBIL list of defaulters, borrower has satisfied investment criteria for equipment as defined under MSMED Act 2006 / revised PSL guidelines issued by RBI, branch should obtain and examine account statements for the last 6 months and ensured satisfactory operations. Borrower should have a minimum business vintage of 2 years or as per Bank's Loan Policy.
- Due diligence on the Warehouse where the produce is proposed to be stored (other than Central Warehousing Corporation/State Warehousing Corporation/warehouses approved by the Bank) should be conducted duly recording the past record of the Warehouse in meeting the obligations and quality of the storage unit and record observations of the Bank's official conducting such due diligence.



Genuineness of the receipts should be ensured after conducting spot verification of quality and quantity of goods and records of warehouse/godown/cold storage invariably in all cases.

14.3 Application & Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 8 on Application for Credit facilities.

14.3.1 Appraisal

After obtaining the application along with all enclosures, branch should appraise the loan proposal in the standard appraisal format of the Bank duly arriving at the quantum of Limit eligible.

While appraising the limit, Branch should ensure that the Warehouse is approved by the Bank and the commodities stored by the applicant are approved for financing by the Bank under the Scheme. The value of the Commodities should be arrived at by comparing with the market rates of the produce stored. Margin as stipulated by the Bank for the product as per their Credit Policy is correctly specified along with Rate of interest to be specified for the type of loan as per Bank's norms.

14.4 Nature & Classification of advance

Priority Sector: Agriculture: Farm Credit

- a. It is a Short-term loan (Demand Loan) under production credit for a period not more than 12 months, irrespective of whether the farmer was given crop loans or not
- b. Loan given to individual farmers, SHGs, JLGs and groups of farmers (provided bank maintains disaggregated data on such loans) are categorised under Farm credit for loans up to and inclusive of Rs. 75.00 lakhs against NWRs/e-NWRs and upto Rs. 50 lakh against other warehouse receipt.
- c. Loans against warehouse receipts to traders/processors/Arhatiyas may be considered in micro and small enterprises category as per the investment norms applicable.

The criteria for repayment period is suggestive only and banks will follow their own guidelines in this regard

14.5 Purpose

- a. Advance can be granted to a farmer against approved commodities/produces (list of approved commodities stored in Central/State Warehouses, or
- b. Approved private Warehouses/Godown/Cold Storages or
- c. Accredited collateral manager's storage area.
- d. Advance can also be granted to a farmer against approved produce stored separately in his rural godown/house itself.
- e. Some of the approved commodities are also consumed as vegetable in initial stages. Thus, vegetable stages (except potato) are not eligible for finance due to quick perishability.

14.6 Margin

- a. As stipulated for approved commodities by Bank from time to time.
- b. It varies from 25% to 50%.
- c. Value of commodity pledged with respect to amount outstanding should be closely monitored by the branch in all cases.
- d. Wherever margin declines by 05% from the stipulated level, the borrower should be intimated to provide top up margin either by calling for reduction of the outstanding balance or increase in

the commodity cover with in a week's time failing which suitable action should be initiated by the branch for maintaining margin at stipulated level (Margin Call).

14.7 Assessment of loan amount

- a) Price of the commodity prevailing in the local market/nearest market; or
- b) Price mentioned in the warehouse receipt (if mentioned); or
- c) Price communicated by the Bank

Whichever is lowest.

Permissible finance can be fixed after deducting stipulated margin on valuation as arrived above.

14.8 Rate of Interest

As per interest table for WHR finance in interest rate circular issued by Bank from time to time.

14.9 Security

14.9.1 Primary Security

Pledge/Lien of warehouse receipts covering stocks of agricultural commodities in warehouses of Central/State Warehousing Corporations, and/or accredited collateral Manager's Storage area, and/or approved private warehouses/cold storages and/or Hypothecation/pledge of agricultural produce stored separately with the cultivator.

14.9.2 Collateral Security

As per Bank's Policy. However, branch can explore the possibility of getting collateral security in case of loan sanctioned against the pledge of receipts issued from private warehouses/godowns/cold storage. Appropriate collateral security to the extent of 100% of amount of loan like Equitable/Simple mortgage of immovable property or charge on marketable security may be stipulated.

14.9.3 Guarantee

Where advance is granted against the WHR of Central Warehouse Corporation/ State Warehouse Corporation, branch may explore the possibility of getting third party guarantee acceptable to bank on "a best effort basis" in individual cases of farmers.

Corporate/personal guarantee of owners or promoters of the warehouse / Godown/ Cold storage unit and / or third party guarantee acceptable to the bank is required in case of private warehouse/Godowns/ cold storage.

Charge over land mortgaged to bank may also extended wherever produces are stored in own godowns/ house.

The appraisal note should be signed by an Officer other than Sanctioning Authority.

Appraising Officer and Sanctioning Authority should subscribe their full Signatures on the Appraisal Note.

14.10 Sanction

Please refer to Chapter 11 on Sanction.

14.11 Documentation

Standard Documents as prescribed by the Bank and as per Bank's Loan Policy Guidelines should be obtained. For full details, please refer to Chapter 12 on Documentation.

Where the executant is an illiterate person, the contents of documents should be explained to him/her/ them in a language known to him/her and the same is recorded.

14.12 Disbursement

- Branch has to ensure that all the Documents are obtained, duly filled in all respects, Security (wherever stipulated) is created before disbursement of the Loan.
- Pre-disbursement verification of stocks in Warehouse is conducted before disbursement of loan.
- Loan Proceeds are credited to respective Crop Loan accounts in case of individual borrowers and to working capital accounts in case of Traders/Aggregators.
- Separate accounts are opened for each individual commodity and due date is fixed as per the guidelines, in any case not exceeding 12 months.
- Pricing of the Loan is done as per HO guidelines and interest is charged as applicable.
- Margin is collected as per guidelines.

14.12.1 Post Disbursement Follow Up

- Branch has to conduct Monthly Inspections of the Stocks and the observations during visit are to be recorded.
- Genuineness of the receipts should be ensured after conducting spot verification of quality and quantity of goods and records of warehouse/ godown /cold storage invariably in all cases.
- Commodities should be stored in such a way that they are easily identifiable, accessible and custody, safety and quality of the commodities are ensured.
- A letter of declaration to the effect that no loan is outstanding from any other lender for the cultivation of the pledged/hypothecated produce should be obtained from the borrower.
- Signboard indicating that the stocks are under pledge to _____BANK _____ branch should be displayed at the Warehouse premises.
- Branches should obtain and keep on record, the specimen signatures of officials authorized to sign receipts for verification.
- Comprehensive Insurance with Bank Clause is to be done for the products under pledge in the Warehouse. In respect of commodities stored in CWC/SWC warehouses, where the insurance is taken by the Corporations, Insurance policy details are to be mentioned in WHR.
- Prompt action should be taken by the branches on alerts received from storage area on quality deterioration, fumigation requirement, margin call requirement or any other pertinent issue to protect the interest of the bank.
- Repayment period should be fixed based on the shelf life/prevailing market condition of commodities at the time of sanctioning loan. No rollover of credit facility is permitted.
- Interest subvention, wherever available as per norms, to small and marginal farmers (SF/MF) having loans against Negotiable Warehouse Receipt (NWR) for maximum period up to 06 months post-harvesting, is to be claimed promptly.

- Branch has to monitor the prices of the Commodities and wherever the prices have fallen substantially, additional margin should be collected.
- Branch has to follow up for prompt recovery of the loans on the due date. Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as auctioning of the produce, initiate legal action where necessary.

CHAPTER 15

MINOR IRRIGATION

15.1 Introduction

Water is a precious natural resource. One of the major constraints for full exploitation of intensive agriculture is lack of assured and dependable irrigation water supply throughout the year. In the above context, development of surface as well as ground water assumes lot of importance for increasing the agricultural production and productivity.

Irrigation schemes using either ground water or surface water and having a Cultivable Command Area of less than 2000 hectare individually are categorized as Minor Irrigation Schemes.

Ground water schemes comprise of dug wells, dug-cum-bore wells, shallow tubewells, filter points and deep tubewells. The surface water schemes comprise of surface flow schemes such as tanks, check dams, structures, Sprinklers etc., and can serve as water conservation cum ground water recharge scheme. As the surface water projects alone are not able to meet the full demand of water, farmers install wells and tube-wells to provide supplementary irrigation.

The minor irrigation schemes provide farmers assured, adequate and timely irrigation for optimizing their yields and incomes. These schemes are labour intensive with shorter implementation period and involve reasonably low investments for their development.

The Department of Mines and Geology – Central Ground Water Board (CGWB) has carried out survey all over India and ascertained different water shade areas according to availability of Ground water potential.

15.2 Categorisation of Assessment Unit Based on Quantity

The categorisation based on status of ground water quantity is defined by Stage of Ground Water Extraction as given below:

Stage of Ground Water Extraction	Category
<70%	Safe
>70% and <90%	Semi Critical
>90% and <100%	Critical
>100%	Over Exploited

(Source: 2.1.1.14.1 of National Compilation on Dynamic Ground Water Resources of India 2023 published by Central Ground Water Board, Department of Water Resources, River Development & Ganga Rejuvenation, Ministry of Jal Shakti, Government of India – September 2023)

15.3 Assessment of Potential for sinking of new wells & where to finance

The State Government's Ground Water Development Department provides data about the number of existing wells in a particular area, availability of ground water and also further scope for sinking new wells. Based on this data, branches can take up new well irrigation schemes only in such areas.

15.4 Technical Feasibility

While examining the technical feasibility, the following points should be kept in mind:

- i. Branches should not take up any minor irrigation program in Dark blocks (critical), while limited exploitation of irrigation water may be financed for installation of micro irrigation structures in Grey Blocks (Semi-critical) and any irrigation project can be taken up in White blocks (safe category).
- ii. Obtain Hydro-geological survey report from Hydrogeologist approved by State Ground Water Development Department and observe parameters like soil profile, availability of water bearing aquifer and soil pans if any, expected yield of well and recommendation regarding nature of minor irrigation structure and depth of well.
- iii. Observe number of existing irrigation wells in the proposed area and the ground water levels to assess the Ground water potential in the area.
- iv. Assess the potential for additional wells without affecting the recharge rate of water in the existing wells.



While examining the technical feasibility, Branches should prioritize irrigation projects in areas with sufficient water availability (white blocks). In regions with limited or moderate water resources (grey blocks), funding should be restricted to micro-irrigation structures; Branches should not take up any minor irrigation program in Dark blocks (critical).

- v. Observe depth of water table from the nearby wells.
- vi. Minimum distance (spacing) norms have to be adhered to between wells, as prescribed by Ground Water Development Department, such that simultaneous pumping of two wells do not adversely affect the discharge of both the wells.
- vii. Obtain Electricity feasibility certificate from the Electricity department. If some electric poles have to be erected for energization from the source of power to the field, necessary permission from the electricity board has to be obtained.
- viii. Suitability of water for irrigation may be checked because quality of water is very essential. Water is not suitable for irrigation if
 - 1) Total dissolved solids > 1200 PPM
 - 2) Electrical Conductivity (EC) > 2250 $\mu\text{hos/cm}$
 - 3) Chloride > 500 PPM
 - 4) Boron > 2.5 PPM.

Soil Water analysis should invariably be undertaken in all the Minor irrigation activities for their suitability for the crops planned.

- ix. Yield of well as per the Ground water feasibility report.

15.5 Financing Activities

The following activities can be financed:

- Minor irrigation (Digging / deepening of bore-well / Dug-well)
- Micro Irrigation (Drip, Sprinkler irrigation)

- Lift irrigation & pipeline , Pump-set
- Construction of tanks / ponds / laying of pipeline
- Other irrigation equipment
- Artificial recharge of dug wells

15.5.1 Wells

Wells are of two types:

a) Dug wells

1. These are of varying depth from few feet to 60-80 ft.
2. Cost of digging depends upon the depth, diameter and soil strata of aquifer, water table in the area etc.
3. Diameter depends upon availability of water and area to be irrigated varying from few feet to 40 to 50 ft.

b) Bore well or Tube well

1. It is small size hole in the earth extending up to potential water bearing formation with a view to tapping underlying aquifer.
2. Tube wells are suitable:
 - Where there is adequate supply of water detected by survey in one aquifer:
 - where underground water level (water table) is very deep:
 - Where soils are very deep, higher cost of constructions or where construction is not possible e.g. Deep cotton soil, sandy soils and near riverbanks.
3. Other details about bore wells:
 - The tube wells can be opened on the surface of the earth or inside a dug well.
 - The necessity of drilling a bore inside a dug well arises due to inadequate water in the dug well and when there is a chance to exploit very deep underground water resources at a particular spot.
 - The depth and size of the well depends upon the depth at which adequate water bearing strata or aquifer is available and its water discharging capacity, which can be judged by geological survey.
 - In general, size varies from 4 inch to 9 inch and depth varies from 50ft to 500ft or more.

15.5.2 Surface Water Resources

- In surface source, low lying areas, natural lakes / rivers and ponds act as reservoir from which water can be lifted and irrigated to the crops where crop is at higher level than reservoir and by gravitational force where the reservoir is at higher level than the field to be irrigated.
- India is rich in surface as well as underground water resources.

15.5.3 Sprinkler Irrigation

- In this method water is spread into the air and allowed to fall on the ground surface somewhat resembling rainfall.
- The spray is developed by flow of water under pressure through small orifice or nozzles.

- The pressure is usually obtained by pumping, with careful selection of nozzle sizes, operating pressures and sprinkler spacing.
- The amount of irrigation water required at crop root zone can be applied nearly uniformly at a rate, to suit the infiltration rate of the soil, thereby obtaining efficient results.
- The sprinkler irrigation can be used for almost all crops except Rice and Jute and on most soils.
- The method is particularly suited to sandy soils that have a high infiltration rate, too shallow to be leveled properly for surface irrigation method.
- Land leveling is not essential for irrigation with sprinkler.
- The amount of water can be controlled to meet crop needs and light application can be made efficiently on seedlings and young plants.
- Field supply channels and bunds or ridges are not required.
- Sprinklers are also being increasingly used for irrigating high valued plantation crops like tea, coffee, cardamom and orchards.

15.5.4 Drip Irrigation

This method of irrigation is accomplished by using small diameter plastic lateral lines with devices called drippers, at selected spacing, to deliver water to soil surface near the base of the plant directly to root zone where optimum use of water can happen. The main item of expenditure is the cost of lateral lines.

15.6 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the well is proposed to be dug.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

15.7 Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 8 on Application of Credit Facilities.

15.8 Eligibility

- Individual farmers, joint individuals (owning the land in their names).
- Farmers cultivating registered leased land where lease period is substantially more than the repayment period.
- Land should be free from any encumbrance.

Minimum land holding for an economically viable unit as per NABARD is:

1. Dug Well (DW) with pumpset: approx. 2.5 acre
2. Bore well (BW) with pumpset: approx. 4.00 acre

The same may vary from state to state as per NABARD guidelines.

Spacing between two wells:

NABARD provides norms for spacing of wells both for dug wells and bore wells.

1. Between 02 Dug wells (DW)– approx. 600 ft
2. Between 02 Bore wells (BW) – approx. 825 ft
3. Between DW and BW – approx. 700 ft
4. The same spacing to be adhered to while financing pumpsets

15.9 Loan Amount

1. NABARD convenes a State Level Unit Cost Committee (SLUCC) meeting every year to fix or revise unit costs for major investment credit activities in the farm sector. The Committee's Goal is to set realistic unit costs for various farm sector activities.
2. As per NABARD 's unit cost guidelines which may vary from state to state and serves as a reference.
3. However proper estimation should be obtained for dug wells and for drilling bore wells
4. In case of purchase of assets like, pumpset, drip, sprinkler etc., loan amount decided as per quotation from an authorized dealer.

15.10 Margin

As Per Loan Policy Guidelines ranging from NIL to 10% depending on the Loan Sanctioned.

15.11 Security

As per Bank's Loan Policy Guidelines. Presently,

- Up to Rs. 1.60 lakhs: Hypothecation of assets/crops.
- Above Rs.1.60 lakhs: Mortgage of land and/or third party is taken in addition to hypothecation of Assets/crops.
- In case of well loan, land is a primary security. Hence mortgage of land to be obtained irrespective of loan amount.

15.12 Sanction

For Sanction, please refer to Chapter 11 on Sanction.

15.13 Documentation

Standard Documents as prescribed by the Bank and as per Bank's Policy Guidelines should be obtained. For further details, please refer to Chapter 12 on Documentation.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

15.14 Disbursement

For dug well

Disbursement schedule for dug well loan:

1. 30% after ensuring that the digging of well has commenced at the decided site.
2. 50% after water has been struck.
3. 20% when the work is completed

For bore wells

As per the contract, loan should be disbursed directly to the bore well agency.

For pumpset/drip/sprinkler/cost of pipes

Loan to be disbursed directly to dealer and relative invoice/receipts to be held record.

For pipeline

Loans

Loan to be disbursed depending on progress of work as per estimation accepted.

The loan amount should be disbursed in stages depending upon the progress of work as per project report. Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

15.15 Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Comprehensive Insurance with Bank Clause is to be done for the pumpsets under Hypothecation with Bank Clause.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated pumpsets and initiate legal action where necessary.

CHAPTER 16

FARM MECHANISATION

16.1 Introduction

Farm mechanisation means the use of modern mechanical devices for different agricultural practices.

16.2 Components of farm mechanisation

Tractor, Power Tiller, Combine Harvester, Sprayer / duster, Thresher / winnower, Seed-cum fertilizer drill, Rotavator, Potato digger etc.

S.No	Name of the machinery / asset	Purpose
1	Tractor & its Accessories	Ploughing, leveling, threshing, sowing, transporting, harrowing, drilling, puddling
2	Power Tiller	Same as Tractor
3	Thresher	Threshing
4	Combine Harvester	Threshing, winnowing, packing

The accessory / equipment which is attached to tractor:

- For ploughing (tilling) is tiller, disc plough or mould board plough
- For puddling is cage wheel
- For leveling is earth leveler
- For harrowing (making harrow, ridges, weed removal) is harrower
- For seed sowing is seed driller
- For transportation is trailer
- For harvesting of crops like paddy, wheat etc., is harvester.
- For separating grains from straw is thresher
- Winnowing means separating chaff from grains



The repayment in tractor loan accounts should always be linked to the harvesting period and the income generated from tractor custom hiring activity. The moratorium period should be extended till the next harvest from the acquisition of the machinery.

16.3 Eligibility

Technical Aspects

For Tractors with accessories, implements &/or Trolley

On the basis of Horse Power (HP) of the Tractor

Upto 35 HP	*3 acres perennially irrigated land OR 6 acres of dry land.
Above 35 HP	*5 acres perennially irrigated land OR 10 acres of dry land.

Productive work / custom hiring of minimum of 1000 hours per year.

For Combine Harvesters.

- Farmers having *10 acres of perennial irrigated land or corresponding acreage as prescribed for different categories of land under the concerned State Land Ceiling Act.
- Productive work/custom hiring of minimum of 2,000 hours per year.

For Power tillers with accessories

- Farmers having at least *1acre of perennially irrigated Land or *2 acres of dry land.
- Productive work/custom hiring of minimum of 600 hours per year.
- Perennially irrigated land means where irrigation is available throughout the year and crops are grown round the year in all seasons. If land is only partially irrigated, then minimum acreage of land to be mortgaged is to be proportionately revised upward.

**The criteria for land requirement and repayment period is suggestive only and banks will follow their own guidelines in this regard*

16.4 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

16.5 Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 8 on Application for Credit facilities.

16.6 Dealer Verification

- Dealer's antecedents are to be verified as is done in the case of borrower applicant.
- It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list.
- It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the Equipment and price etc are also verified.
- If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

16.7 Margin

As per RBI / NABARD / Loan Policy Guidelines ranging from NIL to 15% or above depending on the quantum of loan. Margin to be calculated on Road Price including cost of the tractor, registration charges, accessories, insurance and road tax.

16.8 Quantum of Loan

Maximum 85% of unit cost (including implements) based on quotation or as per Bank's Loan Policy whichever is lower.

16.9 Security

Primary : Hypothecation of asset created out of bank finance.

Collateral: Mortgage of land (Accepted value of land should be more than 100% of loan amount) & / or third-party guarantee (with means not less than 100% of loan amount) as per Bank's Loan Policy depending on the quantum of Loan.

16.10 Interest

As per Bank's policy on Interest Rate on Advances.

16.11 Repayment

Tractor, Combine Harvester: Max 9 years

Power Tiller : Max 7 years

The repayment in tractor loan accounts should always be linked to the harvesting period and the income generated from tractor custom hiring activity. The moratorium period should be extended till the next harvest from the acquisition of the machinery.

The criteria for repayment period is suggestive only and banks will follow their own guidelines in this regard

16.12 Sanction

Please refer to Chapter 11 on Sanction.

16.13 Documentation

Standard Documents as prescribed by the Bank and as per Bank's Policy Guidelines should be obtained. For further details, please refer to Chapter 12 on Documentation.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

16.14 Disbursement

- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Post disbursement inspection should be carried out & report should be kept on record.

16.14.1 Post Disbursement Follow Up and Recovery

- Bank's hypothecation charge on vehicle should be registered with RTA and ensured that Bank's lien is recorded in registration book (wherever is applicable).
- A copy of the registration book evidencing said charge should be obtained and kept on record (wherever is applicable).

- The vehicle should be comprehensively insured in the name of the borrower with Bank clause for its full cost, and the relative policy should be kept on record (wherever is applicable).
- Bank's name should be painted or Sticker to be affixed on the farm equipment purchased.
- Display of Bank's hypothecation on the tractor/trailer & other implements "Financed by _____ Bank, Branch....." should be painted in bold letters at the prominent place on Tractor/Trailer & others implement.
- Post disbursement inspection should invariably be conducted by the branches to ensure end use of funds, purchase of accessories by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study.
- Branch has to follow up for prompt recovery of the instalments on the due date.
- All efforts should be made to recover the loan instalment and interest as per stipulated repayment schedule and if not recovered upto the period of 30 days from the due date, then the account should be identified as SMA-0. If the instalments and interest have remained overdue for more than 30 days, then it should be categorized as SMA-1.
- The tractor loan account should be categorized as NPA only when the instalment of principal or interest thereon remains overdue for two crop seasons in case of short duration crops or one crop season in case of long duration crops.
- Branches / Offices should take all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Tractor/ Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue during harvesting season in order to upgrade the accounts.

CHAPTER 17

PLANTATION AND HORTICULTURE

17.1 Purpose

To meet the following expenses for Plantation & Horticultural crops:

- Plantation Expenses: Cost of planting material, Manures, Fertilizers, Insecticides, Pesticides, Cost of Labour, Power, Others if any.
- Irrigation: Tube Well/Submersible pump, Cost of Pipeline, others if any
- Cost of Drip/ Sprinkler
- Infrastructure : Store, Labour Shed, & Pump House, Farm Equipment
- Land Development: Soil levelling, Digging, Fencing, Other if any
- Land if newly purchased: cost of newly purchased land will be limited to 10 % of the total project cost

17.2 Eligibility

1. Farmers taking up plantation and Horticultural crops conversant with management techniques and should be otherwise eligible for finance. For large value proposals the promoter should possess the necessary experience or employ qualified personnel.
2. Eligible Entities: Unless otherwise specified, organization/promoters such as Association of growers, Individuals, Group of Farmer, growers/consumers, FPOs, Partnership/Proprietary firms, SHG, NGO, Companies, Cooperative marketing federation, APMCs, Marketing Board/ committees, State Agriculture Universities other R&D Organization.
3. Borrower should have agriculture land in his/her name.
4. There should be assured & adequate perennial source of irrigation for the Plantation & Horticulture Crops.
5. Applicant should obtain all required licenses / permissions for proposed business from respective competent authorities.
6. Defaulter of any bank / financial institution are not eligible for loan under the scheme.

17.3 Quantum of loan

As per NABARD /NHB/ NHM guideline subject to economic viability of the project.

17.4 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

17.5 Application

Branch should obtain the Standard Application form as per Bank's Loan Policy Guidelines duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 8 on Application for Credit Facilities

17.6 Appraisal

For Cost of planting material, Manures, Fertilizers, Insecticides, Pesticides, Cost of Labour, Power, Others if any, NABARD /NHM/NHB guidelines on Scale of Finance, No. of plants per acre, spacing between the plants etc. should be followed.

For sanction of term loans for Irrigation (Tube Well/Submersible pump, Cost of Pipeline etc.), please refer to the guidelines given in Chapter 15 on Minor Irrigation.

Appraisal Note should cover Technical Feasibility of the Proposal such as suitability of the soils like the depth of the Soil, availability of Water, Crops proposed for specific climatic conditions, general lay out of the Orchard, availability of the planting material, plant density proposed (spacing of the plants), number of plants proposed to be planted per acre and other infrastructure facilities like drip / sprinkler irrigation, dug wells / bore wells, Pipelines etc., electric / diesel motor pumpsets, marketing arrangements besides economic viability of the project and should contain the Schedule of Disbursement depending on the Crop. Guidelines issued by NABARD / NHB/ NHM in this regard have to be strictly followed.

17.7 Dealer Verification

Dealer's antecedents are to be verified as we do it in the case of borrower applicant. It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list. It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the Equipment and price etc are also verified. If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

17.8 Margin

As per RBI / NABARD / Loan Policy Guidelines.

17.9 Security

Primary : Hypothecation of asset created out of bank finance.

Collateral: Mortgage of land (Accepted value of land should be more than 100% of loan amount) & / or third party guarantee (with means not less than 100% of loan amount) as per Bank's Loan Policy depending on the quantum of Loan.

17.10 Interest

As per Bank's policy on Interest Rate on Advances.

17.11 Repayment

- Gestation/Moratorium is fixed based on the Crop financed.
- Repayment Schedule (including Gestation/Moratorium) is fixed as per crop (Short/Medium/Long-term) and is not exceeding 8-12 years or as per NABARD/NHB/NHM/Bank Guidelines.
- Due Date of the Loan is fixed as per Crops financed.

17.12 Sanction

For Sanction, please refer to Chapter 11 on Sanction.

17.13 Documentation

Standard Documents as prescribed by the Bank and as per Bank's Policy Guidelines should be obtained.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

17.14 Disbursement

- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Post disbursement inspection should be carried out & report should be kept on record.
- For Irrigation, Land Development, Levelling, Civil Constructions, loan should be disbursed in phases based on the progress of work after obtaining Field Officer's/ Approved Engineer's Certificate

17.14.1 Post Disbursement Follow Up and Recovery

- Bank's name should be painted or Sticker to be affixed on the farm equipment purchased.
- Post disbursement inspection should invariably be conducted by the branch to ensure end use of funds, purchase of accessories by the borrower and bringing in operation the business activity as envisaged in economics of business/ viability study. Thereafter, unit should be visited at least once in a quarter and the observations should be recorded in the visit report.
- Branch has to follow up for prompt recovery of the instalments on the due date.
- Branch make all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/ arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue during harvesting season in order to upgrade the accounts.

17.15 Insurance

Securities should be insured for full value with Bank as Loss Payee and should be kept in force by renewing the same on their due dates.

Eligible Crops should be insured as per Guidelines.



The Appraisal Note should address the technical feasibility of the proposal, including soil suitability (e.g., soil depth), water availability, crop selection for specific climatic conditions, general orchard layout, availability of planting material, proposed plant density (spacing), number of plants per acre, and necessary infrastructure such as drip or sprinkler irrigation systems, dug wells or bore wells, pipelines, and electric or diesel motor pumps. Additionally, it should evaluate marketing arrangements and the project's economic viability, and include a schedule of disbursement based on the crop type.

CHAPTER 18

SERICULTURE

18.1 Introduction

Rearing of silkworm for producing silk is called sericulture. “Seri” is a word derived from Latin which could be interpreted as

S- Self

E- Employment

R - Remunerative

I - Industry

Sericulture is an Agro industry (combining both agriculture and industry), the end product of which is silk. It is a labour-intensive activity providing direct and indirect employment to many families.

Loan for Sericulture helps provide hassle-free and adequate credit for Mulberry cultivation, purchase of equipment, construction of rearing house, establishment of reeling unit, purchase of eggs, etc. The action taken by the Government to increase production of natural silk is called “Operation Cocoon”.

- Mulberry takes only six months to grow for commencement of silkworm rearing. Mulberry once planted will go on supporting silkworm rearing for 15-20 years depending on inputs and management provided.
- Five crops can be taken in one year under tropical conditions.
- By adopting stipulated package of practices, a farmer can attain net income levels up to Rs.30000 per acre per annum.

Sericulture industry is backed by the Central Silk Board and the State Department of Sericulture offices and is an avenue for rural development.

Government of India, through Central Silk Board, is implementing various schemes for Sericulture. Some of them are as under.

- i. Centrally sponsored Catalytic Development Programme (CDP)
- ii. Beneficiaries Empowerment Programme (BEP)
- iii. Implementation of cluster promotion programme
- iv. Scheduled castes and tribal sub plan. Integrated tribal development projects with NABARD- TDF assistance.

18.2 Process in Sericulture

1. Silk work produces a protein fibre (fibroin and sericin), which it keeps inside a cocoon.
2. A cocoon of Indian variety contains filaments of length around 350 meters.
3. These silkworms grow in certain types of host plants like Mulberry.
4. Mulberry is a perennial plant and once grown in the field will last for at least 15 years.
5. The silkworm lays eggs on Mulberry leaves and silkworms feed on the leaves of these plants after the stage of eggs to the stage of cocoons.

6. For rearing of silkworms, one has to first procure silkworm eggs.
7. These eggs are available in Grainages (Nurseries) set by government agencies where Disease free Layings (DFL) are produced under controlled conditions
8. A mass of 250 to 300 eggs is called laying.
9. The eggs develop into larva and then to pupa stage. Cocoon is the protective hard layer of the pupa.

18.3 Production process of mulberry raw silk

The production of silk from silkworm consists of three distinct processes namely:

1. Cultivation of mulberry plant, for its leaves, to feed the worms
2. Buying eggs from Grainages and rearing them till they reach cocoon stage.
3. Reeling of silk thread from cocoons.

First two activities are classified as Agricultural finance, while the third is classified under finance to small scale/cottage/tiny industrial sector.

Advance to set up Grainages is classified as agricultural advance.

18.3.1 Cultivation of mulberry plants

1. Cultivation of mulberry plants is also called as Moriculture
2. Normally mulberry plants come to flush in about 06 months' time
3. These plants can be rainfed or irrigated
4. Mulberry leaves are the food for silkworms

18.3.2 Rearing of silkworm

1. Eggs are purchased from Grainages
2. 01 acre of irrigated mulberry plantation require about 200-250 laying's
3. 01 acre of rain fed mulberry plantation require about 100-120 laying's
4. One and a half to 02 months is required for one batch of eggs to mature
5. Hence 06-08 batches of silkworms can be grown in 01 years' time under irrigated conditions, however 04-05 batches can be grown in rain fed conditions
6. The cocoons are sold before moths emerge from cocoons.
7. The yield of cocoons for 100 laying is around 30-35 kgs, for irrigated mulberry and around 25-25 kgs, for rain fed mulberry.

18.3.3 Silk thread from cocoons

The cocoons are then processed, and silk thread is reeled out which is not a part of agricultural activity (It is a part of MSME).

18.4 Eligibility

1. Any person desirous of rearing silk and having the necessary technical know-how can be considered for the loan for development of sericulture
2. Individual farmers cultivating own land/ registered leased land with irrigation facilities for cultivation of mulberry, SHGs, Firms and companies engaged in sericulture activities

3. Improved mulberry cuttings, suitable hybrid disease free layings (DFL), silk worm, rearing equipment's, other inputs and labour, and adequate facilities for marketing of cocoons to be available in the locality.
4. It should be ensured that the proposal is technically feasible and economically viable.
5. Borrower has either prior experience in a) Sericulture Activity, b) undergone training or c) the activity is being done under the supervision of State Authorities or any similar agency and is actively engaged in the same.

6. 18.5 Purpose

- a. To meet the expenditure in respect of cultivation of mulberry plantation as crop loan
- b. To purchase silkworm rearing equipment's like wooden stands, bamboo trays, chandrikas, knife, ant-well, paraffin, wax etc.,
- c. Construction of rearing house;
- d. Rearing of silkworms up to cocoon stage
- e. Processing of cocoons and reeling out silk and its weaving and printing

Finance to activity (e) is to be covered under MSME and (a) to (d) are a part of agricultural activity.

18.6 Identification and Due Diligence

Branch should conduct Pre-sanction inspection of field where the unit is going to be set up.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.



The bank shall ensure that wherever there is need for working capital during the gestation period during mulberry cultivation and rearing of silkworms, the same is also provided for in the appraisal and Sanction includes both Term Loan and Need based Working capital. DLTC approved Scale of Finance (SOF) is applied for Working Capital limit. Further, in cases where the DLTC approved SOF is not stipulated, adequate margin as per Bank's guidelines is stipulated.

18.7 Application and Appraisal

Branch should obtain the Standard Application form as prescribed under Bank's Loan Policy Guidelines duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 11 on Application for Credit Facilities.

Branch should study the technical feasibility and Commercial Viability of the activity with all the financial projections for Plantation, Eggs, Reeling equipment, Construction of Reeling Shed, Establishment of Reeling Unit etc., Insurance etc. covering the total repayment period is obtained and analysed. The branch should also examine the following:

- Market enquiries regarding availability of material for raising Mulberry crop, Eggs/infrastructure for establishing Sericulture Unit is made and the same is recorded in the Appraisal Memorandum.
- The Market is available nearby for purchase of Eggs.

- Wherever there is need for working capital during the gestation period, the same is also provided for in the appraisal and Sanction includes both Term Loan and Need based Working capital.
- It is established that the borrower has own / leased land for undertaking this activity.
- DLTC approved scale of finance is applied for working capital limit.
- In cases where the DLTC approved SOF is not stipulated, adequate margin as per Bank's guidelines is stipulated.
- Cost of Rearing of Silkworms is done based on the number of broods Viz., Univoltine, Bivoltine or Multivoltine.
- Branch examined and ensured that the climate is suitable for rearing mulberry plantation and Silkworms. Branch ensured that the environmental conditions such as temperature and humidity are adhered to while appraising the proposal.
- The finance is assessed based on the type of rearing of silk works viz., Chawki Rearing or Late Age worm Rearing.
- The estimates for construction of Rearing House are examined and are in tune with market estimates.
- Quotations for purchase of Rearing equipment are obtained from genuine vendors who are engaged in the supply of the same. Enquiries are made by the branch regarding the vendors and the same is recorded in the Appraisal Memorandum. The vendors' capability to supply the equipment is verified

18.8 Category of Loan

- Loans granted for mulberry cultivation and rearing of silkworms to be treated as short term loans
- Loans granted for construction of rearing house, purchase of equipment's and other development loans to be treated as medium term loans.
- Both the above can also be financed together as a composite loan and classified as medium-term loans.

18.9 Quantum of loan

Depends on area of cultivation of mulberry and nature of project Item of investment	Tray system of rearing (Rs)*	Shoot system of rearing (Rs)@
Mulberry garden establishment	18500	37000
a) 01 ac for tray system		
b) 02 ac for shoot rearing		
Rearing equipment	18900	17000
a) Rearing house tiled roof	75000	350000
(375 sft. @ Rs.200 for tray system)		
b) RCC/ stone slabbed		
(1000 sft. @ Rs. 350 for shoot system)		
Isolation chambers (LS)	4000	-
Rearing cost for 01st batch – 300 dfls DFLs / batch	8000	8000
Total	124400	412000

Above rates may vary as per latest NABARD guidelines subjected to economic viability of the project.

* Tray system of rearing: Silkworms are reared in a tray by feeding mulberry leaves to the larvae

@ Shoot rearing system: The last 03 stages of rearing will be done by giving mulberry shoots instead of individual leaves. This system of rearing is economical as it saves about 40% of rearing labour.

18.10 Margin

As per RBI/ NABARD/ Bank Guidelines. The loan for Mulberry Cultivation shall be treated as Crop Loan and accordingly margin, as per guidelines, has to be stipulated.

For other activities, as Per Loan Policy Guidelines ranging from NIL to 10% depending on the Loan Sanctioned.

18.11 Security

As per Bank's Loan Policy Guidelines. Presently,

- Up to Rs. 1.60 lakhs: Hypothecation of assets/crop.
- Above Rs.1.60 lakhs: Mortgage of land and/or third party is taken.

18.12 Rate of Interest

As per Bank's Policy. Interest rates may differ for Mulberry Cultivation where Interest Subvention is eligible and other activities.

18.13 Charges

Processing, documentation, inspection charges as applicable to agriculture term loans as per Bank's Loan Policy.

18.14 Sanction

For Sanction, please refer to Chapter 11 on Sanction.

18.15 Documentation

Standard Documents as prescribed by the Bank relating to the loan facility and as per Bank's Loan Policy Guidelines should be obtained duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

18.16 Disbursement

Loan for Disbursement of Mulberry Plantation is released as Crop Loan by credit to the Borrower's Account.

Eggs and Reeling equipment component of the loan is released directly to the seller in instalments depending on the requirement as assessed in the proposal.

Loan for Construction of Reeling Shed and other Civil Works should be released in phases according to the progress of work and as per directions of approved valuer.

18.17 Insurance

Worms at every stage are insured as per Bank's Guidelines for the activity with Bank Clause and the Insurance policy is kept in force.

Similarly, all other equipment financed are comprehensively insured against all risks and the insurance policies are kept in force.

18.18 Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated pumpsets and initiate legal action where necessary.

CHAPTER 19

DAIRY

In the earlier chapters under Agriculture and Allied activities, we have discussed in detail regarding different aspects of financing under the heads. Since requirements regarding obtention of applications, processing, documentation, post-sanction monitoring, recovery and legal aspects are the same for any type of borrower, the same are not discussed in detail here. Readers are requested to note that all the aspects discussed earlier are applicable to loans given for dairy also. Additionally, the following may also be borne in mind.

Description	Requirement
Purpose	- Capital expenditure, either for setting up or for expansion of the dairy unit viz, cost of animals (including transportation and insurance), - sheds/other civil works, development of associated infrastructure, - purchase of machinery/ equipment/vehicle and - forward linkages like chiller /packing infrastructure /milk parlor and rearing of calves/heifers.
Eligibility	- Applicant / promoter has experience in Dairy farming including related activities and is actively engaged in the same. - Borrower has adequate arrangements to cultivate green fodder or has definite arrangements for its supply. - Borrower should have adequate arrangements to house the existing animals, if any and also for those to be purchased.
Minimum Unit Size	Two freshly-calved or second calving animals
Infrastructure Required	- Sheds, equipment required. - Land required for cultivation of green fodder /arrangements for supply of the same. - Availability of concentrate feed and dry fodder - Veterinary facilities including facility for artificial insemination. - Marketing facility / tie-up with milk collection and chilling centre.
Cost of the unit	Unit cost as approved by NABARD
Margin	As per NABARD/ Bank guidelines
Loan Component and assessment	Loan component includes transportation, insurance, sheds and other civil works as per requirement, feed etc. Bank should study the technical and economic feasibility of the project with all the financial projections for feed, insurance, veterinary facilities, medicines etc covering the total repayment period and analyse the same.
Rate of interest	As per Bank's Policy

Repayment	Repayment terms are fixed based on the cash flow, staggered induction of animals (as per NABARD / Bank guidelines) and interest commitments, duly examining suitability of fixing ballooning instalments terms. Where Central / State governments/ NABARD support is available to the said scheme, the repayment terms and conditions applicable to such scheme are also applicable.
Primary Security	• Hypothecation of Animals purchased • Mortgage of land on which the shed / civil structures are constructed
Collateral Security	Depending upon the quantum of loan, collateral securities are to be obtained as per policy.
Documentation	Standard Documents as prescribed by the Bank such as Demand Promissory Note, Hypothecation Agreement, Bank's right to cancel limits, Memorandum of Entry in case of mortgage of properties (wherever stipulated) and any other documents prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower. All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable. All the documentation formalities should be completed in all respects before disbursement.
Disbursement	In the case of purchase of animals: • Payment to the vendor directly by way of PO/DD. • Branch official and veterinary doctor should accompany the borrower to the shandy from where the animals are purchased. • Certificate from the veterinary doctor regarding the health and fitness of the animals stating that the animal is free from diseases and is sufficiently vaccinated should be obtained at the time of purchase. • Animals purchased should be properly tagged with numbers for easy identification. • Animals should be inducted in batches. • Civil Works: Quotations for civil works such as shed etc., should be vetted by approved engineer and released in stages, depending upon the progress of construction, based on approved engineer's report.

Insurance	• All animals, civil constructions and equipment / machinery financed as well as securities obtained as collateral should be adequately insured covering all applicable risks, with bank clause. • Insurance policies should be renewed before the due date and policies should be kept on record.
Post-sanction Monitoring	• Unit Inspection shall be done periodically and record of the same maintained. • Animals should be examined regarding their health and fitness by the Veterinary Doctor and such certificate should be obtained annually during the tenor of the loan. • Where the loan is eligible for subsidy, branch should file the application for release of the same within the specified period. • Branch should follow up for instalment / interest as and when due. • In case of non-payment of instalment, branch should follow the procedure laid down for recovery and all actions as suggested in the Chapter 55 on NPA Management & Recovery shall be followed without any deviation.

CHAPTER 20

POULTRY

In the earlier chapters under Agriculture and Allied activities, we have discussed in detail regarding different aspects of financing under the heads. Since requirements regarding obtention of applications, processing, documentation, post-sanction monitoring, recovery and legal aspects are the same for any type of borrower, the same are not discussed in detail here. Readers are requested to note that all the aspects discussed earlier are applicable to loans given for poultry also. Additionally, the following may also be borne in mind.

Description	Requirement
Purpose	- Capital expenditure, either for setting up or for expansion of the poultry unit, (layers / broilers), - Cost of day-old chicks (including transportation and insurance), - Cost of feed - Sheds/other civil works including power connection, development of associated infrastructure.
Eligibility	- Applicant / promoter has experience in poultry farming and is actively engaged in the same. - Borrower should have adequate arrangements to house the existing chicks, if any and also for those to be purchased.
Minimum Unit Size	As per norms prescribed by NABARD
Infrastructure Required	- Sheds, equipment, cages for birds, electrical equipment required. - Availability of feed - Availability of Veterinary facilities. - Adequate Marketing facilities
Cost of the unit	Unit costs as approved by NABARD
Margin	As per NABARD guidelines
Loan Component and assessment	- Loan component includes transportation, insurance, sheds and other civil works as per requirement, feed etc. - Bank should study the technical and economic feasibility of the project with all the financial projections for feed, insurance, veterinary facilities, medicines etc. covering the total repayment period and analyse the same.
Rate of interest	As per Bank's Policy

Repayment	- Repayment terms are fixed based on the cash flow, (as per NABARD / Bank guidelines) and interest commitments, duly examining suitability of fixing ballooning instalments terms. - Where Central / State governments/ NABARD support is available to the said scheme, the repayment terms and conditions applicable to such scheme are also applicable.
Primary Security	- Hypothecation of Birds purchased - Mortgage of land on which the shed / civil structures are constructed. - Hypothecation of equipment, if any purchased.
Collateral Security	Depending upon the quantum of loan, collateral securities are to be obtained as per policy.
Documentation	- Standard Documents as prescribed by the Bank such as Demand Promissory Note, Hypothecation Agreement, Bank's right to cancel limits, Memorandum of Entry in case of mortgage of properties (wherever stipulated) and any other documents prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/ Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. - All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower. - All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable. - All the documentation formalities should be completed in all respects before disbursement.
Disbursement	In the case of purchase of birds: - Day old chicks are to be obtained from genuine suppliers. Payment to the vendor directly by way of PO/DD. - Certificate from the veterinary doctor regarding the health of the birds should be obtained at the time of purchase. - Branch should ensure that the birds are vaccinated as soon as they are received by the borrower. Civil Works: - Quotations for civil works such as shed etc., should be vetted by approved engineer and released in stages, depending upon the progress of construction, based on approved engineer's report. - Branch should obtain documents supporting creation of assets, invoices, bills, receipts, engineer's report, completion certificate and kept on record.

Insurance	• All birds and civil constructions financed as well as securities obtained as collateral should be adequately insured covering all applicable risks, with bank clause. • Insurance policies should be renewed before the due date and policies should be kept on record.
Post-sanction Monitoring	• Unit Inspection shall be done periodically and record of the same maintained. • Birds should be examined regarding their health and fitness by the Veterinary Doctor periodically and such certificate should be obtained annually during the tenor of the loan. • Where the loan is eligible for subsidy, branch should file the application for release of the same within the specified period. • Branch should follow up for instalment / interest as and when due. • In case of non-payment of instalment, branch should follow the procedure laid down for recovery and all actions as suggested in the Chapter 55 on NPA Management & Recovery shall be followed without any deviation.

CHAPTER 21

PIGGERY

In the earlier chapters under Agriculture and Allied activities, we have discussed in detail regarding different aspects of financing under the heads. Since requirements regarding obtention of applications, processing, documentation, post-sanction monitoring, recovery and legal aspects are the same for any type of borrower, the same are not discussed in detail here. Readers are requested to note that all the aspects discussed earlier are applicable to loans given for piggery also. Additionally, the following may also be borne in mind.

Description	Requirement
Purpose	- Capital expenditure, either for setting up or for expansion of the unit for pig rearing / pig farming, - Cost of animals (including transportation and insurance), - Sheds/other civil works, - Development of associated infrastructure.
Eligibility	- Applicant / promoter has experience in pig farming / rearing activities and is actively engaged in the same. - Borrower should have adequate arrangements to house the existing animals, if any and also for those to be purchased.
Minimum Unit Size	3 sows + 1 boar for pig rearing 20 sows + 4 boars for pig farming Market enquiries regarding availability of breeds for rearing should be made and recorded in the appraisal memorandum
Infrastructure Required	- Sheds, equipment required. - Availability of feed - Availability of Veterinary facilities. - Adequate Marketing facilities
Cost of the unit	Unit costs as approved by NABARD
Margin	As per NABARD/ Bank guidelines
Loan Component and assessment	- Loan component includes transportation, insurance, sheds and other civil works as per requirement, feed etc. - Bank should study the technical and economic feasibility of the project with all the financial projections for feed, insurance, veterinary facilities, medicines etc. covering the total repayment period and analyse the same.
Rate of interest	As per Bank's Policy

Repayment	• Repayment terms are fixed based on the cash flow, staggered induction of animals (as per NABARD /Bank guidelines) and interest commitments, duly examining suitability of fixing ballooning instalments terms. • Where Central / State governments/ NABARD support is available to the said scheme, the repayment terms and conditions applicable to such scheme are also applicable.
Primary Security	• Hypothecation of Animals purchased • Mortgage of land on which the shed / civil structures are constructed • Hypothecation of equipment, if any purchased.
Collateral Security	Depending upon the quantum of loan, collateral securities are to be obtained as per policy.
Documentation	• Standard Documents as prescribed by the Bank such as Demand Promissory Note, Hypothecation Agreement, Bank's right to cancel limits, Memorandum of Entry in case of mortgage of properties (wherever stipulated) and any other documents prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. • All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower. • All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable. • All the documentation formalities should be completed in all respects before disbursement.
Disbursement	In the case of purchase of Pigs: • Payment to the vendor directly by way of PO/DD. • Branch official and veterinary doctor should accompany the borrower to the shandy from where the animals are purchased. • Certificate from the veterinary doctor regarding the health and fitness of the animals stating that the animal is free from diseases and is sufficiently vaccinated should be obtained at the time of purchase. • Animals purchased should be properly tagged with numbers for easy identification. • Animals should be inducted in batches. Civil Works: Quotations for civil works such as shed etc., should be vetted by approved engineer and released in stages, depending upon the progress of construction, based on approved engineer's report.

Insurance	• All animals and civil constructions financed as well as securities obtained as collateral should be adequately insured covering all applicable risks, with bank clause. • Insurance policies should be renewed before the due date and policies should be kept on record.
Post-sanction Monitoring	• Unit Inspection shall be done periodically and record of the same maintained. • Animals should be examined regarding their health and fitness by the Veterinary Doctor and such certificate should be obtained annually during the tenor of the loan. • Where the loan is eligible for subsidy, branch should file the application for release of the same within the specified period. • Branch should follow up for instalment / interest as and when due. • In case of non-payment of instalment, branch should follow the procedure laid down for recovery and all actions as suggested in the Chapter 55 on NPA Management & Recovery shall be followed without any deviation.

CHAPTER 22

SHEEP AND GOAT REARING

In the earlier chapters under Agriculture and Allied activities, we have discussed in detail regarding different aspects of financing under the heads. Since requirements regarding obtention of applications, processing, documentation, post-sanction monitoring, recovery and legal aspects are the same for any type of borrower, the same are not discussed in detail here. Readers are requested to note that all the aspects discussed earlier are applicable to loans given for Sheep and Goat Rearing also. Additionally, the following may also be borne in mind.

Description	Requirement
Purpose	- Capital expenditure, either for setting up or for expansion of the unit for sheep / goat rearing, - cost of animals (including transportation and insurance), - sheds/other civil works, - development of associated infrastructure.
Eligibility	- Applicant / promoter has experience in sheep /goat rearing activities and is actively engaged in the same. - Borrower should have adequate arrangements to house the existing animals, if any and also for those to be purchased.
Minimum Unit Size	20 ewes + 1 ram for sheep rearing 20 does + 1 buck for goat rearing Market enquiries regarding availability of breeds for rearing should be made and recorded in the appraisal memorandum
Infrastructure Required	- Sheds, equipment required - Availability of feed - Availability of veterinary facilities - Adequate Marketing facilities
Cost of the unit	Unit cost as approved by NABARD
Margin	As per NABARD guidelines
Loan Component and assessment	- Loan component includes transportation, insurance, sheds and other civil works as per requirement, feed etc. - Bank should study the technical and economic feasibility of the project with all the financial projections for feed, insurance, veterinary facilities, medicines etc covering the total repayment period and analyse the same.
Rate of interest	As per Bank's Policy

Repayment	• Repayment terms are fixed based on the cash flow, staggered induction of animals (as per NABARD /Bank guidelines) and interest commitments, duly examining suitability of fixing ballooning instalments terms. • Where Central / State governments/ NABARD support is available to the said scheme, the repayment terms and conditions applicable to such scheme are also applicable.
Primary Security	• Hypothecation of Animals purchased. • Mortgage of land on which the shed /civil structure is constructed. • Hypothecation of equipment, if any purchased.
Collateral Security	Depending upon the quantum of loan, collateral securities are to be obtained as per policy.
Documentation	• Standard Documents as prescribed by the Bank such as Demand Promissory Note, Hypothecation Agreement, Bank's right to cancel limits, Memorandum of Entry in case of mortgage of properties (wherever stipulated) and any other documents prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/ Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. • All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower. • All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable • All the documentation formalities should be completed in all respects before disbursement.
Disbursement	In the case of purchase of animals: • Payment to the vendor directly by way of PO/DD. • Branch official and veterinary doctor should accompany the borrower to the shandy from where the animals are purchased. • Certificate from the veterinary doctor regarding the health and fitness of the animals stating that the animal is free from diseases and is sufficiently vaccinated should be obtained at the time of purchase. • Animals purchased should be properly tagged with numbers for easy identification. • Animals should be inducted in batches. Civil Works: Quotations for civil works such as shed etc., should be vetted by approved engineer and released in stages, depending upon the progress of construction, based on approved engineer's report.

Insurance	• All animals and civil constructions financed as well as securities obtained as collateral should be adequately insured covering all applicable risks, with bank clause. • Insurance policies should be renewed before the due date and policies should be kept on record.
Post-sanction Monitoring	• Unit Inspection shall be done periodically and record of the same maintained. • Animals should be examined regarding their health and fitness by the Veterinary Doctor and such certificate should be obtained annually during the tenor of the loan. • Where the loan is eligible for subsidy, branch should file the application for release of the same within the specified period. • Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to. • Branch should follow up for instalment / interest as and when due. • In case of non-payment of instalment, branch should follow the procedure laid down for recovery and all actions as suggested in the Chapter 55 on NPA Management & Recovery shall be followed without any deviation.

CHAPTER 23

PISCICULTURE

23.1 Introduction

Banks can finance for any activity (whether marine/inland) like

1. Purchase of trawlers, boats, nets, etc., for marine and
2. Desilting, deepening, repairing or excavation of new ponds, manures, feeds, nets, purchase of fingerlings, equipment, labour inputs etc.
3. Farmers can easily take up fish culture in village ponds, tanks or any new water body and can improve their financial position substantially.
4. It also creates gainful employment for skilled and unskilled youths.
5. More than one type of fish can be cultured simultaneously which is called as composite fish farming
6. This technology enables to get maximum fish production from a pond or a tank through utilization of available fish species from natural sources, supplemented by artificial feeding.
7. Any perennial water body having 2 meters of water around the year can be used
8. Even seasonal ponds can also be utilized for short duration fish culture.

23.2 Fish species involved in composite fish culture

Depending upon the compatibility and type of feeding habits of the fishes, the following types of fishes have been identified for culture in composite fish culture technology:

Species	Feeding Habit	Feeding Zone
Indian Major Carp		
Catla	Zoo plankton feeder	Surface feeder
Rohu	Omnivorous	Column feeder
Mrigal	Detriticolous	Bottom feeder
Exotic Carps		
Silver carp	Phytoplankton feeder	Surface feeder
Grass carp	Herbivorous	Surface, Column & marginal areas
Common carp	Detritivorous/ Omnivorous	Bottom feeder

23.3 Financial Outlay & Financial Analysis

1. The capital cost and recurring cost has to be considered as per NABARD guidelines, however, actual assessment of the cost parameters have to be done keeping in view the site conditions.
2. Financial parameters like Cash flow, IRR to be considered as per NABARD specifications.



For Pisciculture financing, banks to ensure that the area of operation of the unit is one where fishery is regularly and extensively undertaken with availability of water in abundance from natural sources. The borrower should have obtained a 'Feasibility certificate' from fisheries department in case the activity is undertaken in non-traditional area.

23.4 Technical Parameters

- a. Technical parameters of composite fish culture include site selection, items of development, pre and post stocking operations, stocking density, fertilization, feeding etc.
- b. The main criteria to be kept in mind while selecting the pond/tank is that the soil should be water retentive, adequate supply of water is assured and that the pond is not in a flood prone area.
- c. New water body may be excavated with construction of embankments, construction of inlets & outlets, construction of other civil structures like watchman's hut, arrangement of water supply etc.
- d. In case of new ponds, pre stocking operations starts with liming and filling of the pond with water. However, the first step for existing ponds requires development deals with clearing the pond of unwanted weeds and also unwanted fishes either by manual, mechanical or chemical means.

23.5 Pre-stocking

- a. The pond is first cleaned by mechanical/ chemical removal of unwanted weeds and predatory fish
- b. This is accomplished by repeated netting and sun drying or use of mahua cake @ 2500 kg/ha
- c. The toxic effect of mahua cake remains for 15 days in which fish is not to be used for human consumption
- d. Lime is used to bring the pH of the pond/tank to the desired level as alkaline ponds are more productive.
- e. Lime increases the resistance of soil to parasites.
- f. It hastens organic decomposition
- g. Treatment of lime @ 200-250 kg./ha

23.6 Fertilization

- a. Fertilization of pond is an important means for intensifying fish culture by increasing the natural productivity of the pond.
- b. A combination of both Organic and Inorganic fertilizers may be used for best results. Organic manure to be applied after a gap of 03 days from the date of liming. Inorganic fertilization to be undertaken after 15 days of organic manuring.
- c. Organic manuring by use of cow dung @ 5000kg/ha
- d. Inorganic fertilizers like urea, triple super phosphate depending on the soil profile, type of fish and the climatic condition

23.7 Stocking

- a. The pond will be ready for stocking after 15 days of application of fertilizers.
- b. Fish fingerlings of 50-100 gm size (10cm size) should be used for stocking @ 5000 nos. per hectare.
 - i. Catla – 500
 - ii. Silver carp – 1000
 - iii. Mrigal – 750
 - iv. Common carp – 750
 - v. Rohu – 1500
 - vi. Grass carp – 500
- c. Fishes need much more food than what is available naturally in the pond. Fishes can be fed with a mixture of rice bran and oilcakes in the ratio 4:1. The feed should be placed on a feeding tray or in feeding bags and lowered to the pond bottom to reduce the feed losses.

- d. The recommended feeding rates is 5-6% of the body weight up to 500 gm size of the fish and then reduce to 3.5% of body weight from 500-1000 gm size.
- e. Organic manuring may be done at monthly intervals. Inorganic fertilization may also be done at monthly intervals however alternating with organic manuring.
- f. It should be ensured that excess fertilization does not take place which may result in eutrophication.

23.8 Harvesting

- At the end of 1st year, the fish will grow to up to 750 – 1000 gms.
- Harvesting is done by partial dewatering and netting.
- Yield may be around 03-05 tons / ha.

23.9 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the unit is proposed to be established.

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry etc.

23.10 Application and Appraisal

Branch should obtain the Standard Application form as prescribed by the Bank duly filled in all respects and after fulfilling the KYC Norms. For further details regarding Application, please refer to Chapter 8 on Application for Credit Facilities. For Pisciculture financing, the following are additionally required:

- Copy of the Lease deed in case of the unit is established in leased lands. The residual lease period should be longer than the tenor of the loan and there are no clauses in the lease deed which are detrimental to the Bank's interest.
- Availability of sufficient water resources as per requirements.
- Power Connection Certificate issued by the concerned State Electricity Board.
- In respect of Loans for establishing pisciculture unit, branch should study the technical feasibility and Commercial Viability of the activity with all the financial projections for Feed, Insurance, Veterinary facilities, medicines etc. covering the total repayment period is obtained and analyse.
- Market enquiries regarding availability of seed/infrastructure for establishing Pisciculture Unit should be made and the Wherever there is need for working capital for acquiring feed etc. during the gestation period, the same should also be provided for in the appraisal and sanctioned and the same should be recorded in the Appraisal Memorandum.
- The Market is located close by for purchase of seed/feed.
- Wherever there is need for working capital for acquiring feed etc. during the gestation period, the same should also be provided for in the appraisal and sanctioned.
- Minimum Commercial Unit for financing pisciculture should be ensured.
- Where the unit is engaged in farming/ culture of species like shrimp / Prawn / crabs etc., the approval of State Fisheries Dept / Coastal Aquaculture Department shall be obtained.

- Area of operation of the unit is one where fishery is regularly and extensively undertaken with availability of water in abundance from natural sources.
- Feasibility certificate from fisheries department should be obtained in case the activity is undertaken in non-traditional area.
- Layout map of the area under cultivation with boundaries and major landmarks is to be obtained along with application.
- Layout map certified by village/revenue authorities.
- In case of Leased Land, branch should verify the ownership of Lessor and establish that Lessor has absolute rights over the leased land & has the authority to lease it.
- Lease agreement should be examined before sanctioning the loan and ensure that there are no conditions adverse to bank's interest.
- Lease agreement has the provision for undertaking fish culture on the land and also for construction of pond / civil construction.
- Wherever fish culture is undertaken in leased land, lease agreement should be supported by certified copies of land record, including latest tax paid receipt by the lessor and the same shall be obtained and kept on record.
- Activity has been registered with local fisheries controlling authority of the respective district for fish culture and with Coastal Aquaculture Authority for shrimp culture.
- Actual acreage after consolidation shall be taken into consideration while fixing the limit.
- No objection certificate from the Lessor shall be obtained for mortgaging the leased land.

23.11 Eligibility

- Individuals
- Company Partnership firm
- Co-operative society
- Group of fish farmers – SHG/JLG

Note: Training in fish farming is being provided by the Fish Farmers Development Agency (FFDA) and it is essential that the borrower has prior knowledge in fishing line before availment of bank loan. Borrower has adequate arrangements to provide water to the ponds.

23.12 Quantum of Loan

The loan amount should be assessed on the cost of preparation of ponds, fencing, civil works for sheds etc. wherever needed, cost of seed, feed, Insurance and power connection wherever required. NABARD guidelines on the unit costs should be followed.

Quotations, Estimates for Pond Construction and preparation, Civil Construction have to be obtained along with quotations for Seed (indicating the Breed) and Feed. Due diligence on the suppliers should be made before sanctioning the limit. The estimates for Civil Constructions should be vetted by the approved Engineer.

23.13 Margin

As per NABARD/ RBI/ Bank Guidelines. Margin stipulated should be in accordance with the Bank's Loan Policy guidelines.

23.14 Security

23.14.1 Primary Security

1. Hypothecation of assets created out of loan.
2. Mortgage of Land where the loan is given for Ponds.

23.14.2 Collateral Security

Depending on the Bank's Loan Policy Guidelines based on the quantum of Loan.

23.15 Rate of Interest: As per Bank's Policy Guidelines.

23.16 Sanction

For Sanction, please refer to Chapter 11 on Sanction.

23.17 Documentation

Standard Documents as prescribed by the Bank under their Loan Policy Guidelines should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. For further details, please refer to Chapter 12 on Documentation.

23.18 Disbursement

- All the documentation formalities should be completed in all respects before disbursement.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.
- Disbursement shall be made in stages on the basis of progress of work, both for Pond Construction & Preparation and Civil Works on the basis of approved Engineer's certification. Payment for Seed, Feed etc. shall be made directly to the Vendor as per quotations obtained.
- Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

23.19 Monitoring

- In respect of Working Capital Limit, branch should consider renewal of the limits with the same extent of own lands/ponds and the existing terms of lease as was available at the time of original sanction under the existing Pisciculture scheme loan.
- For working capital limit, the lease period is more than 3 years.
- Fish/Shrimp/Prawn are insured as per Bank's Guidelines for the activity and the Insurance policy is in force.
- Certificate from veterinary doctor is obtained on annual basis and it is free from diseases, if stipulated in the guidelines.
- Liability in Working Capital Limit is brought to zero after three years/as per Bank's norms for renewal of the limit.
- Periodical inspections to the site should be conducted and observations to be recorded.
- Comprehensive Insurance with Bank Clause for all probable risks is to be done for the assets under



Hypothecation and Mortgage with Bank Clause.

- Branch has to follow up for prompt recovery of the instalments on the due date.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated pumpsets and initiate legal action where necessary.

CHAPTER 24

MARINE FISHERIES

24.1 Introduction

Marine Fisheries form another segment of Pisciculture where Bank finance is given for fishing in Seas through Motorboats, Trawlers, Netting Equipment etc.

24.2 Purpose

- Purchase of motorboat or trawler
- Purchase of fishing equipment / netting equipment
- Purchase of diesel engine
- Purchase of Handling & Transport equipment / vehicles.

24.3 Eligibility

- Individuals
- Company Partnership firm
- Co-operative society
- Group of fish farmers – SHG/JLG
- Borrower/s is/are traditional fishermen having knowledge/ experience in marine fisheries.
- Borrower has either a) prior experience in fish farming, b) undergone training or c) the activity is being done under the supervision of State Fisheries Dept or any similar agency and is actively engaged in the same.

24.4 Identification and Due Diligence

- Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.
- Branch should conduct Pre-sanction inspection of the borrower.
- Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry etc.

24.5 Application and Appraisal

Branch should obtain the Standard Application form as prescribed by the Bank duly filled in all respects and after fulfilling the KYC Norms. For further details regarding Application, please refer to Chapter 8 on Application for Credit Facilities.

In respect of Loans for establishing unit, branch should study the technical feasibility and Commercial Viability of the activity with all the financial projections for Fuel, Insurance etc., covering the total repayment period.

- Market enquiries regarding availability of equipment & infrastructure should be made and the same is recorded in the Appraisal Memorandum.

- The Market is available nearby for purchase of fuel and other accessories required.
- Wherever there is need for working capital for fuel, accessories etc., during the gestation period, the same should also be provided for in the appraisal and sanctioned.
- Sanction should both Term Loan and Need based Working capital.
- Approval of State Fisheries Dept / Coastal Aquaculture Department (wherever required) should be obtained.
- NABARD/DLTC approved scale of finance is applied for working capital limit and where the DLTC approved SOF is not stipulated, adequate margin as per Bank's guidelines should be stipulated.
- Activity should be registered with local fisheries controlling authority of the respective district for deep water fishing and with Coastal Aquaculture Authority.
- The financial projections obtained should be analysed and all the financial ratios such as DSCR, Current Ratio, Debt to Equity Ratio etc., are within permissible limits as per Bank's Policy guidelines for loans to such activity.
- Due date is fixed based on the income generated and repayment capacity of the applicant.
- Whenever Term Loan limit is sanctioned for Boats / Trawlers, branch should obtain and verify the quotation from Licensed Boat Manufacturers for their genuineness.
- Maximum tenor for repayment should be as per Bank's Policy Guidelines for the product.
- Where reimbursement for investments undertaken is to be permitted, end-use shall be established while submitting the proposal.
- Where Central/ State Government support is available to the said scheme, the terms and conditions applicable to the scheme shall also be made applicable to the said loan.



During the application process, the bank shall ensure that approval of State Fisheries Dept. / Coastal Aquaculture Department (wherever required) has been obtained. Further, the activity should be registered with local fisheries controlling authority of the respective district for deep water fishing and with Coastal Aquaculture Authority.

24.6 Margin

As per NABARD/ RBI/ Bank Guidelines. Margin stipulated should be in accordance with the Bank's Loan Policy guidelines.

24.7 Security

24.7.1 Primary Security

Hypothecation of the Assets created out of Bank Finance. In respect of Trawlers, Motor Boats etc., the vessels should be registered with appropriate authorities and Bank's Hypothecation clause should be noted in the Registration Certificate.

24.7.2 Collateral Security

Depending on the Bank's Loan Policy Guidelines based on the quantum of Loan.

24.8 Rate of Interest: As per Bank's Policy Guidelines.

24.9 Sanction

Please refer to Chapter 11 on Sanction.

24.10 Documentation

Standard Documents as prescribed by the Bank under their Loan Policy Guidelines should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. For further details, please refer to Chapter 12 on Documentation.

24.11 Disbursement

1. All the documentation formalities should be completed in all respects before disbursement.
2. In case of Boats / Trawlers, the vessel should be registered with Merchant Shipping Department / Shipping Docks.
3. Bank's Lien should be noted on the Registration Certificate of the Vessel
4. Bank's name should be painted on the vessel as charge holder
5. Where loans are eligible for subsidy, claims for subsidy are made in time.
6. Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.
7. Related bills / receipts should be held on record.

Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

24.12 Monitoring

- In respect of Working Capital Limit, branch should consider renewal of the limits within due date.
- Liability in Working Capital Limit is brought to zero after three years/as per Bank's norms for renewal of the limit.
- Periodical inspections of the Assets should be conducted and observations to be recorded.
- Comprehensive Insurance with Bank Clause for all probable risks is to be done for the assets under Hypothecation and Mortgage with Bank Clause.
- Branch has to follow up for prompt recovery of the instalments on the due date.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated pumpsets and initiate legal action where necessary.

CHAPTER 25

SELF HELP GROUPS (SHG)

25.1 Introduction

SHG is a homogeneous group of micro entrepreneurs with affinity among themselves, voluntarily formed to save whatever amount they can conveniently save out of their earnings, mutually agree to contribute to a common fund of the group. Small loans are given to the members for meeting their productive and emergent credit needs from the common fund, Rate of interest, period of loan and other terms for the loan is decided by the group.

25.2 Objectives

- To meet the credit needs of the poor.
- To build mutual trust and confidence between the bankers and the rural poor.
- To encourage banking activity both on thrift as well as credit side in a segment of the population that the formal financial institutions usually find difficult to cover.
- To enable additional employment generation.
- To facilitate women empowerment in case of women SHGs.

25.3 Characteristics of SHG

- Membership of a Group may be generally 10 to 20. However, under NRLM (National Rural Livelihood Mission) Scheme, in case of special SHGs i.e., groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of 5 members.
- Normally members should be homogenous, belonging to the same place, same social and economic background having common interests.
- Group may be formed by only women, OR only by men, OR by a combination of both women as well as men.
- NRLM is a group of only Women members. However, in case of groups to be formed with persons with disabilities and other special categories like elders and transgenders, male members are permitted.
- Group should devise a code of conduct /bylaws to bind themselves.
- Work democratically wherein all members feel that they have a say should be evident.
- Internal savings mobilized by members is the core of SHG concept and group to decide the amount to be saved, its periodicity and the purposes for which loan can be given to members.
- Group to decide the rate of interest to be paid/charged on savings/credit to members.
- Group should function in a democratic way allowing free exchange of views and participation by members.
- There should be preferably at least one member who is educated and capable of preparing and maintaining the basic records.
- Group should maintain simple basic records such as Minute Book, Membership Register, Saving and Credit Registers etc.
- Group to open a Savings Bank Account with the bank.

25.4 Revolving Fund

DAY-NRLM would provide Revolving Fund (RF) support to SHGs in existence for a minimum period of 3/6 months and follow the norms of good SHGs, i.e. they follow 'Panchasutra' – regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts. Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of Rs. 10,000 and up to a maximum of Rs. 15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.

25.5 Linkage programme

There are two ways of linkages

1. Linkage of SHG to the Bank by opening an SB account in the name of SHG immediately after formation of the group.
2. Credit linkage by giving loan to the SHG / extending bank finance to SHGs. However, credit linkage will be normally after at least 06 months of successful / satisfactory operations of the SHG with the Bank.

Where the lending is directly from bank to the group, the same should have linkage with the Group. Group will prepare a credit plan for members and submit to the Bank for sanction.

Branch should be convinced that the group has not come into existence only for the sake of participation in the project and availing benefits / subsidy there under.

25.6 Eligibility Criteria for SHGs to avail loans

1. SHGs should be in active existence for at least 6 months as per their books of accounts (and not from the date of opening of S/B account).
2. SHGs should be practicing 'Panchasutras' i.e., regular meetings, regular savings, regular inter-lending, timely repayment and up-to-date books of accounts.
3. SHGs should qualify as per grading norms fixed by NABARD. As and when the federations SHGs come into existence, the grading exercise may be done by the federations to support the banks.
4. The existing defunct SHGs are also eligible for credit if these are revived and continue to be active for a minimum period of three months.

25.7 Loan Application and documents to be submitted

- Common Loan Application Forms devised by Indian Banks' Association (IBA) for extending credit facility to SHGs/ Standard Application format as devised by the Bank as per their loan policy guidelines.
- Applicants may be encouraged to submit loan applications online through the system developed by DAY-NRLM and the National Portal for Credit Linked Schemes.

The application should be accompanied by enclosures as given in the Chapter 8 on Application for Credit Facilities. Additionally, branch should also obtain

- Copy of bye laws.
- Copy of proceedings/ resolution.
- Inter se Agreement by all members.
- Articles of Agreement by authorized members.
- Application should be signed by members authorised to sign the same.

25.8 Loan amount

SHGs should be encouraged to avail loans, through repeat doses of credit, to enable the group to access higher amounts of credit for taking up sustainable livelihoods and improving the quality of life.

- Dual authentication: Transaction authenticated by two members of the SHG through their Aadhaar and biometrics. NPCI has enabled dual authentication for both intra-bank (SHG account and BC/terminal belonging to the same bank) and inter-bank (SHG account and BC/terminal belong to the different banks) transactions.
- ON-US/ intra bank transactions: Such transactions where the instrument that is used for the transaction is issued by the same bank whose terminal is acquiring the transaction
- OFF-US/ inter bank transactions: Such transactions where the instrument that is used for the transaction is issued by a bank which is different from the bank whose terminal is acquiring the transaction.

SHGs may be sanctioned either Term Loan (TL) or a Cash Credit Limit (CCL) or both based on their requirement. In case of need, additional loan may be sanctioned even though the previous loan is outstanding, based on the repayment behaviour and performance of the SHG.

In case of CCL, a minimum loan of Rs. 6 lakh / as per the Bank's extant guidelines may be considered to each eligible SHG for a period of 3 years with a yearly Drawing Power (DP). The drawing power may be enhanced annually based on the repayment performance of the SHG.

The drawing power may be calculated as follows:

- DP for the first year: 6 times of the existing corpus or minimum of Rs. 1.5 lakh, whichever is higher
- DP for the second year: 8 times of the corpus at the time of review/enhancement or minimum of Rs. 3 lakh, whichever is higher
- DP for the third year: Minimum of Rs. 6 lakh based on the Micro Credit Plan (MCP) prepared by SHG and appraised by the federations/support agency and the previous credit history.
- DP for the fourth year onwards: Above Rs. 6 lakh, based on the MCP prepared by SHG and appraised by the federations/support agency and the previous credit history.

In case of Term Loan, loans may be sanctioned in doses as mentioned below / as per Bank's extant guidelines:

- First dose: 6 times of the existing corpus or minimum of Rs. 1.5 lakh, whichever is higher
- Second dose: 8 times of the existing corpus or minimum of Rs. 3 lakh, whichever is higher
- Third dose: Minimum of Rs. 6 lakh, based on the MCP prepared by the SHGs and appraised by the federations/support agency and the previous credit history
- Fourth dose onwards: Above Rs. 6 lakh, based on the MCP prepared by the SHGs and appraised by the federations/support agency and the previous credit history.

(Corpus is inclusive of revolving funds, if any, received by the SHG, its own savings, interest earned by the SHG from on-lending to its members, income from other sources, and funds from other sources in case of promotion by other institutes/NGOs.)



The loan amount shall be distributed among SHG members based on the Micro Credit Plan (MCP) prepared by the SHGs. The loans may be used by members for meeting social needs, high cost debt swapping, construction or repair of house, construction of toilets and taking up sustainable livelihoods or to finance any viable common activity started by the SHGs.

25.9 Credit facilities to SHG members

In order to facilitate women SHG members to graduate to entrepreneurs, loans up to Rs. 10 lakh / as per the bank's policy may be sanctioned to individual members of select matured and well performing SHGs (SHGs which are more than 2 years old and have accessed at least one dose of bank loan with timely repayment). The individual should be running a viable economic enterprise.

- Bank should share the data on individual loans to women SHG members in a mutually agreed format and periodicity with DAY-NRLM.
- One woman in every SHG under DAY-NRLM may be sanctioned loan up to Rs. 1 lakh under the MUDRA Scheme, if she is otherwise eligible.
- Bank may also sanction minimum OD facility of Rs. 5000 to every woman SHG member having PMJDY account in accordance with the guidelines issued by Indian Banks' Association (IBA).
- Bank should share data on OD limit to members of women SHGs in a mutually agreed format and periodicity with DAY-NRLM.
- Total exposure of the constituent is taken into account for purposes of security requirement and interest to be charged.
- Branch should participate in a Group Meeting and observe the Dynamics Viz. Regular Savings, Conducting of Regular Meetings, Internal Lending, Maintenance of Records, Income Generating Activities, Co-ordination among Group Members etc., and record the findings in the appraisal.
- Declaration is obtained from the individual borrower stating that his/her total indebtedness to all the institutions is within the limits prescribed under guidelines issued by the Bank.
- For proposals sourced through BC/BF, they are considered basing on approved terms of such BC/BF arrangement.
- In case of loans sourced through BC / BF, processing fees is fixed and collected as per the arrangement with BC / BF.
- In case of loans sanctioned under Corporate BC tie-up, interest shall be serviced along with principal as EWI / EFI / EMI and end use of funds should be ensured by such agency. Branch should ensure end use of funds in random cases as per Bank's Policy.
- In case of loans sourced through BC / BF, additional charges shall be charged as per Bank's Guidelines and branch should have a recovery mechanism as per the terms of Agreement entered in to with such BC/BFs.

25.10 Purpose of loan and repayment

- The loan amount would be distributed among members based on the Micro Credit Plan (MCP) prepared by the SHGs. The loans may be used by members for meeting social needs, high cost debt swapping, construction or repair of house, construction of toilets and taking up sustainable livelihoods or to finance any viable common activity started by the SHGs.
- 50% of loans above Rs. 1 lakh, 75% of loans above Rs. 4 lakh and at least 85% of loans above Rs. 6 lakh should be used primarily for income generating productive purposes. MCPs prepared by SHGs would form the basis for determining the purpose and usage of loans.
- Repayment schedule for Term Loans may be as follows:
- The first dose of loan may be repaid in 24-36 months in monthly/quarterly instalments.
- The second dose of loan may be repaid in 36-48 months in monthly/quarterly instalments.

- The third dose of loan may be repaid in 48-60 months based on the cash flow in monthly/quarterly instalments.
- From the fourth dose onwards loans may be repaid between 60-84 months based on the cash flow in monthly/quarterly instalments.

25.11 Security and Margin

- i. For loans to SHGs up to Rs. 10 lakh, no collateral and no margin will be insisted upon and lien shall not be marked against savings bank accounts of SHGs and no deposits should be insisted upon while sanctioning loans.
- ii. For loans to SHGs above Rs. 10 lakh and up to Rs. 20 lakh, no collateral shall be obtained, and no lien shall be marked against savings bank account of SHGs. The entire loan (irrespective of the loan outstanding, even if it subsequently goes below Rs. 10 lakh) is eligible for coverage under Credit Guarantee Fund for Micro Units (CGFMU).
- iii. For loan to SHGs above Rs. 10 lakh and up to Rs. 20 lakh, a margin not exceeding 10% of the loan amount exceeding Rs. 10 lakh shall be obtained/ as per the bank's approved loan policy.

25.12 Rate of Interest

As per Bank's Loan Policy Guidelines.

25.13 Interest Subvention

- i. The scheme is limited to Women Self Help Groups under DAY-NRLM in rural areas only.
- ii. For loans up to Rs. 3 lakh under the scheme, banks will extend credit at a concessional interest rate of 7% per annum. For outstanding credit balance upto Rs. 3 lakh, banks will be subvented at a uniform rate of 4.5% per annum during FY 2022-23.
- iii. For loans above Rs. 3 lakh and upto Rs. 5 lakh under the scheme, banks will extend credit at interest rate equivalent to their 1 year-MCLR or cost of funds or any other external benchmark based lending rate or 10% per annum, whichever is lower. For outstanding credit balance above Rs. 3 lakh and upto Rs. 5 lakh, banks will be subvented at a uniform rate of 5% per annum during FY 2022-23. Regional Rural Banks and Cooperative Banks will be required to disclose their applicable benchmark rate or lending rates for credit above Rs. 3 lakh and upto Rs. 5 lakh to NABARD.
- iv. Interest Subvention will be payable only for the period during which an account remains in standard category.

25.14 Sanction communication

Please refer to Chapter 11 on Sanction.

25.15 Documentation

- Standard Documents as prescribed by the Bank for loans to SHGs shall be obtained in the Branch premises in the presence of Bank Official.
- All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by authorized members with their full signatures.
- All insertions and corrections/alterations / cancellations are properly attested under full signature of authorised members, wherever applicable.
- For all other details regarding Documentation, please refer to the Chapter 12 on Documentation.

- All the documentation formalities should be completed in all respects before disbursement.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

25.16 Disbursement

The loan amount should be disbursed by credit to the Account of the Group. Where assets are created, disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

25.17 Monitoring

- Periodical inspections to the site should be conducted and observations to be recorded.
- Branch official / officials should attend SHG group meetings as often as possible and a record of the same shall be maintained by the Branch.
- Timely filing and follow up of claims for refinance/ subsidy / interest subvention etc. shall be done.
- Comprehensive Insurance with Bank Clause is to be done wherever assets are created.

25.17.1 Dealing with Defaulters

- Wilful defaulters should not be financed under DAY-NRLM. In case wilful defaulters are members of a group, they may be allowed to benefit from the thrift and credit activities of the group including the corpus built up with the assistance of Revolving Fund. However, as regards credit facilities, the group may be financed excluding such defaulters while documenting the loan.
- Loans to SHGs shall not be denied on the grounds of family members of individual members of SHG being defaulters with the bank. Further, non-wilful defaulters should not be debarred from receiving loans.
- In case default is due to genuine reasons, restructuring the credit facilities may be considered duly following the laid down guidelines.

25.18 Recovery

- Branch shall take all possible measures to ensure recovery of loans, such as:
 - Personal contact and
 - Organization of joint recovery camps with District Mission Management Units (DMMUs)/ District Rural Development Agency (DRDAs)
- Branch should prepare a list of defaulting SHGs under DAY-NRLM every month and furnish the list in the Block Level Bankers Committee (BLBC) and District Consultative Committee (DCC) meetings.
- Branch should conduct Community Based Recovery Mechanism (CBRM) meetings every month and supplying list of Village-wise overdue Groups and Branch should ensure participation of Village Organisation (VO), Mandal Mahila Samakhyas (Wherever Possible) in the CBRM Meetings.
- Acknowledgement of Debt is obtained from the Group Members within 30 Months and documents are in force.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated and initiate legal action where necessary.

CHAPTER 26

JOINT LIABILITY GROUPS (JLG)

26.1 Introduction

JLGs are similar to SHGs with the some differences. Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) are both microfinance delivery models that differ in their focus, purpose, and structure:

- **SHGs**

These community-oriented groups promote saving habits among their members, who can then borrow the money for income or financial support. SHGs are more democratic and decentralized than JLGs and are often made up of 10–20 members who live below the poverty line and share similar interests, occupations, and social heritage. SHGs must keep proper records and accounts, and may seek outside help if needed.

- **JLGs**

These credit-oriented groups are primarily formed to obtain loans from banks or other financial institutions. JLGs are made up of smaller groups of people who come together to take out loans, either individually or as a group, using mutual guarantees. In a JLG, all members are jointly and severally liable for repaying any loans taken out by the group.

Comparison between SHG and JLG

SHG	JLG
10- 20 members	04 – 10 members
Savings mandatory	Not mandatory
Quantum of loan based on corpus (projected savings of 05th year)	Purely based on activity
No ceiling in limit – based on the project (in case of loan for income generating activities)	For crop loans – Max. Rs.1.00 lac / member Others – Rs.0.50 lac/member
Gestation period – Min. 06 months	No gestation period

26.2 JLG Objectives

- To augment flow of credit to landless farmers cultivating land as tenant farmers, oral lessees or share croppers and small / marginal farmers as well as other poor individuals taking up farm activities, off-farm activities and non-farm activities.
- To serve as collateral substitute for loans to be provided to the target group. To build mutual trust and confidence between bank and the target group.
- To minimize the risks in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline.
- To provide food security to vulnerable section through enhanced agriculture production, productivity and livelihood promotion through joint farming and cluster approach.



JLG members need to be encouraged to save regularly. Banks may open savings account by the JLG/individual members of the JLG to ensure regular savings and thrift habit amongst them.

26.3 General features of JLG

A Joint Liability Group (JLG) is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity. In certain groups, members may prefer to undertake different type of economic activities as well. The members would offer a joint undertaking to the bank to enable them to avail loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

26.4 Criteria for membership

- i. Members should belong to similar socio-economic status, background and environment carrying out farming, allied activities or non-farm activities and who agree to function as a joint liability group. This way the groups would be homogeneous and organized by likeminded farmers/Individuals and develop mutual trust and respect.
- ii. The members should be residing in the same village/ area/ neighbourhood and should know and trust each other well enough to take up joint liability for group/individual Loans.
- iii. Members who have defaulted to any other formal financial Institution, in the past, are debarred from the Group Membership.
- iv. More than one person from the same family should not be included in the same JLG.

26.5 Group Approach

- i. All members of the JLG should be active enough to assume leadership of the group to ensure the activities of the JLG. The selection of an effective /able/active leader for the JLG is essential as this will ultimately benefit all the JLG members. The leader fosters a sense of unity, oversees and maintains discipline, shares information and facilitates repayments. For the bank, he is the focal point for group activities, although all the members are liable jointly and severally.
- ii. The JLG should hold regular meetings which must be attended by all the members regularly to discuss issues of mutual interests.
- iii. The principles of self - help and group strength need to be emphasised. Group cohesion has to be ensured. Adequate emphasis should be placed on the roles, expectations and functions of the group/ members & the benefits of group dynamics.
- iv. The JLG can easily serve as a conduit for technology transfer, facilitating common access to market information, for training and technology dissemination in activities like soil testing, training and assessing input requirements.
- v. The JLGs for specific activity, e.g. production of pulses/ vegetables/ fruits may be federated at village/ block level for development of the product.
- vi. The JLG in the clusters on their stabilization could come together in the form of cluster federation or producers' companies with a view to contributing the entire value chain and thereby achieving economics of scale in procurement, processing and marketing of the produce.

- vii. The JLGs and evolving JLG structures are expected to build up empathy and understanding and create responsive lending mechanisms leading to greater interaction and interdependence between the members of JLGs.

26.6 Savings

JLG members need to be encouraged to save regularly. Banks may open savings account by the JLG / individual members of the JLG to ensure regular savings and thrift habit amongst them. In case of group saving accounts, suitable accounts should be maintained at JLG level. However the quantum of loan to be given to the groups should be related to the credit needs of the enterprise and not to the quantum of saving.

26.7 JLG Models

JLGs can be financed under any of the two models.

Model A - Financing Individuals in the JLG.

Each member of the JLG should be provided an individual KCC / GCC or term loan. The financing bank could assess the credit requirement, based on the crop to be cultivated, available cultivable land / activity to be undertaken and the credit absorption capacity of the individual. Similar, credit need would be done in case of off-farm activities like dairy, poultry, etc. and non-farm activities. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group.

The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual KCC. Any member opting out of group or joining the group, will necessitate a new loan agreement, to be kept on record in the bank branch.

Model B - Financing the JLG as a Group.

The JLG functions, operationally as one borrowing unit in this model. The group would be eligible for accessing one loan, which could be combined credit requirement of all its members. The credit assessment of the group could be based on the available cultivable area of each member of the JLG/ activity to be undertaken for farm sector, off-farm sector or on farm sector. All members would jointly execute the document and own the debt liability jointly and severally.

The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in composition of the group, will lead to a new document being registered by the bank branch.

26.8 Credit Appraisal

Bank may conduct a thorough credit appraisal to avoid under or over-financing. Suitable assessment tools may be applied for the purpose of rating of JLGs. The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, marketing and investment credit, besides other productive purposes in the agriculture, allied sectors as well as non-farm activities. All other norms of financing including rate of interest, margin on security, documentation, coverage under crop insurance scheme and personal accident insurance, etc., may be followed by the bank as per its regular norms.

Credit to JLGs of farmers to form normal business activity under Priority Sector. Lending to JLGs of farmers for agriculture and allied sector may be treated as direct agricultural advances under the priority sector. Lending to JLGs in non-farm sector will be treated as normal business activity under priority sector. Banks may include lending to JLGs in their corporate plan and also in the training schedule of officers/ staff.

26.9 Monitoring and Review

- i. The JLGs through peer pressure ensure loan utilization and timely repayment. The bank may hold all members liable in case of default.
- ii. The bank's loan officers are expected to maintain harmonious relations and continuous close contact and relationship with the JLG leader and other members so as to convert them into good reliable customers of the bank. Maintenance of good credit history by the JLGs will gradually lead to lowering of the banks's own transaction costs in terms of intensity of appraisal and monitoring.

26.10 Capacity Building

Banks may undertake capacity building measures like conduct of training programmes for stakeholders, awareness and sensitization of JLG concept both for bank's own staff as well as the target group. The bank's operating staff should be familiar with the concept, benefits for the banks and clients under the programme.

CHAPTER 27

RENEWABLE ENERGY

27.1 Purpose

- a. For installation of solar water pumping system for use in agricultural farm
- b. Installation of Solar Water Heater
- c. Installation of Solar Home Lighting System
- d. Installation of Gobar/Bio Gas Plant

27.1.1 Solar Water Pump-set

Eligibility

- Individual farmers, joint individuals (owing the land in their names)
- Farmers cultivating registered leased land where lease period is substantially more than the repayment period.
- Land should be free from any encumbrance.

In addition to the above,

- a. The farmer/s should own the land and should have adequate source of water.
- b. In case, any public/Government source is being used like canal water, permission from government/irrigation department should be obtained to lift the water.
- c. Wells should have sufficient recouping / recharging capacity to irrigate the area proposed to be brought under irrigation.
- d. Farmer should own an economic land holding with a minimum of 10 acres.
- e. However, loans can be considered even if the benefiting area is less than 10 acres provided the farmer is able to sell surplus water.
- f. It is also possible that due to Technical limitation of solar pumpset that it can work at low Heads only (shallow water source) and low capacity (2.50 HP Pumpsets) and hence capacity to irrigate small area only (1-2 Hectares) due to small discharge.
- g. In such cases it should be ensured that viability is ensured and projected DSCR is not less than 1.6.

Components

- a. Solar PV panel
- b. One of the following motor pumpsets compatible with the photovoltaic array:
 - Surface mounted centrifugal pumpset,
 - Submersible pumpset,
 - Floating pumpset,
 - Any other type of motor-pumpset, after approval from MNRE.

Quantum of Loan: Maximum 75 % of the cost of the equipment.

Margin: 25% or as per Bank's Policy and if subsidy is available, the same can be considered as margin.

Security

Primary: Hypothecation of equipment / assets financed.

Collateral: As per Bank's Policy depending on Quantum of Loan sanctioned, Mortgage of land (accepted value of land should be preferably more than 100% of loan amount or as per Bank's Loan Policy whichever is higher) and/or Third party guarantee (means should not be less than 100% of loan amount or as per Bank's Loan Policy whichever is higher).

Repayment period

- In suitable instalments depending on the Cash flows coinciding with overall income generation of farmers without linking to any individual project within a maximum period of 07 years.
- Repayment should normally coincide with the harvest and marketing of the crop.

Rate of Interest: As per Bank's Policy.

Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the solar equipments are proposed to be installed.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

Application and Appraisal

Branch should obtain the Standard Application form as prescribed by the Bank duly filled in all respects and after fulfilling the KYC Norms. For further details, please refer to Chapter 8 on Application for Credit Facilities. Additionally, Branch should obtain Quotations for the purchase of Solar Pumpset, Solar Panel and other equipment from authorised dealers.

Loan Amount

For purchase of assets specified under Components, loan amount is decided as per quotation from an authorized dealer duly deducting the margin.

Sanction

Please refer to Chapter 11 on Sanction.

Documentation

Standard Documents as prescribed by the Bank under Bank's Loan Policy should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

For further details regarding Documentation, please refer to the Chapter 12 on Documentation.

Disbursement

The loan amount should be disbursed in stages depending upon the progress of work as per project report.

Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Comprehensive Insurance with Bank Clause is to be done for all the assets under Hypothecation / mortgage with Bank Clause.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated pumpsets and initiate legal action where necessary.

27.1.2 Solar Water Heater

Purpose

To purchase brand new solar water heating systems with necessary accessories for usage by the farmers for domestic as well as for farming activities viz. Agro processing units.

Eligibility

- Small & Marginal farmer
- Sharecroppers/tenant farmers
- Agri. Entrepreneurs

Quantum of Loan

As per Bank's Loan Policy, preferably Maximum 85% of the project cost including the cost of accessories.

Margin

- Preferably Minimum 15% of cost of equipment including the cost of accessories or as per Bank's Loan Policy whichever is higher.
- If subsidy is available, the same can be considered as margin.

Security

- **Primary:** Hypothecation of equipment / assets financed.
- **Collateral:** As per Bank's Policy depending on Quantum of Loan sanctioned, Mortgage of land (accepted value of land should be preferably more than 100% of loan amount or as per Bank's Loan Policy whichever is higher) and/or Third-party guarantee (means should not be less than 100% of loan amount or as per Bank's Loan Policy whichever is higher).

Repayment period

- In suitable instalments depending on the Cash flows coinciding with overall income generation of farmers without linking to any individual project within a maximum period of 05 years.
- Repayment should normally coincide with the harvest and marketing of the crop or with income generation periodicity of the activity.

Rate of Interest: As per Bank's Policy.

Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the solar heater/equipment are proposed to be installed.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

Application and Appraisal

Branch should obtain the Standard Application form as prescribed under Bank's Loan Policy duly filled in all respects and after fulfilling the KYC Norms along with Quotations for the Purchase of Solar Heater from authorised agencies. For further details, please refer to Chapter 8 on Application for Credit Facilities.

Loan Amount

For purchase of assets loan amount is decided as per quotation from an authorized dealer duly deducting the margin.

Sanction

Please refer to Chapter 11 on Sanction.

Documentation

Standard Documents as prescribed by the Bank under Bank's Loan Policy should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

For further details regarding Documentation, please refer to the Chapter 12 on Documentation.

Disbursement

The loan amount should be disbursed in stages depending upon the progress of work as per project report. Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Comprehensive Insurance with Bank Clause is to be done for all the assets under Hypothecation / mortgage with Bank Clause.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated equipments and initiate legal action where necessary.

27.1.3 Solar Home Lighting System

Purpose

Solar home lighting scheme for providing electricity for operating LED lights in the residence of farmers and small DC loads for specified hours of operations per day in rural farms.

Eligibility

- Small & Marginal farmer
- Sharecroppers/tenant farmers
- Agri. Entrepreneurs

Quantum of Loan

As per Bank's Loan Policy, preferably maximum 85% of the project cost including the cost of accessories.

Margin

- Preferably minimum 15% of cost of equipment including the cost of accessories or as per Bank's Loan Policy whichever is higher.
- If subsidy is available, the same can be considered as margin.

Security

Primary : Hypothecation of equipment /assets financed.

Collateral: As per Bank's Policy depending on Quantum of Loan sanctioned, Mortgage of land (accepted value of land should be preferably more than 100% of loan amount or as per Bank's Loan Policy whichever is higher) and/or Third-party guarantee (means should not be less than 100% of loan amount or as per Bank's Loan Policy whichever is higher).

Repayment period

- In suitable instalments depending on the Cash flows coinciding with overall income generation of farmers without linking to any individual project within a maximum period of 05 years.
- Repayment should normally coincide with the harvest and marketing of the crop or with income generation periodicity of the activity.

Rate of Interest: As per Bank's Policy.

Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the solar heater/equipment are proposed to be installed.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

Application and Appraisal

1. Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with Quotations for the Purchase of Solar lighting equipments from authorised agencies.
2. For further details, please refer to Chapter 8 on Application for Credit Facilities

Loan Amount

For purchase of assets loan amount is decided as per quotation from an authorized dealer duly deducting the margin as per Bank's Policy .

Sanction

Please refer to Chapter 11 on Sanction.

Documentation

Standard Documents as prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

Further details regarding Documentation, please refer to the Chapter 12 on Documentation.

Disbursement

The loan amount should be disbursed in stages depending upon the progress of work as per project report. Related bills / receipts should be held on record.

Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed.

Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Comprehensive Insurance with Bank Clause is to be done for all the assets under Hypothecation / mortgage with Bank Clause.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated assets and initiate legal action where necessary.

27.1.4 Gobar / Bio-Gas Plant

Purpose

To provide hassle free and adequate credit for the construction of biogas/Gobar gas plant and to acquire accessories like stove, lamp, etc. by farmers for domestic activities.

Eligibility

Small & Marginal farmer, Sharecroppers/tenant farmers & Agri. Entrepreneurs (Beneficiary farmer should have minimum cattle herd at least to support the proposed bio gas/Gobar gas plant size. The beneficiary farmer should have proper place to establish the proposed plant).

Quantum of Loan

Amount of loan depends upon the estimation which should be accordance with NABARD guidelines which may vary from state to state and depending on local situation and market rates.

Margin

1. Preferably minimum 10% or as per Bank's Loan Policy whichever is higher.
2. If Subsidy is available, the same may be considered as Margin, depending on the Bank's Loan Policy.

Security

- **Primary** : Hypothecation of equipment / assets financed.
- **Collateral**: As per Bank's Policy depending on Quantum of Loan sanctioned, Mortgage of land (accepted value of land should be preferably more than 100% of loan amount or as per Bank's Loan Policy whichever is higher) and/or Third-party guarantee (means should not be less than 100% of loan amount or as per Bank's Loan Policy whichever is higher).

Repayment period

- In suitable instalments depending on the Cash flows coinciding with overall income generation of farmers without linking to any individual project within a maximum period of 07 years.
- Repayment should normally coincide with the harvest and marketing of the crop or with income generation periodicity of the activity.

Rate of Interest: As per Bank's Policy.

Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should conduct Pre-sanction inspection of field where the solar heater/equipment are proposed to be installed.

Branch should complete the due diligence of the borrower/s (in respect of Individual farmers) and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans by obtaining self-certification or village / market enquiry.

Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms.

For further details, please refer to Chapter 8 on Application for Credit Facilities.

Loan Amount

For purchase of assets required loan amount is decided as per quotation from an authorized dealer duly deducting the margin.

Sanction

Please refer to Chapter 11 on Sanction.

Documentation

Standard Documents as prescribed by the Bank should be obtained duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

Further details regarding Documentation, please refer to the Chapter 12 on Documentation.

Disbursement

The loan amount should be disbursed in stages depending upon the progress of work as per project report. Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS & obtain original bills & receipts & other disbursement norms to be followed. End use to be verified

Monitoring

Periodical inspections to the site should be conducted and observations to be recorded.

Comprehensive Insurance with Bank Clause is to be done for all the assets under Hypothecation / mortgage with Bank Clause.

Branch has to follow up for prompt recovery of the instalments on the due date.

Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated assets and initiate legal action where necessary.



The loan amount should be disbursed in stages depending upon the progress of work as per project report. Related bills / receipts should be held on record. Disbursement of loan amount along with margin will be made directly to supplier through DD / NEFT / RTGS and original bills & receipts shall be obtained.

27.2 Common Guidelines for all the 4 Products

Asset Classification: Asset classification is applicable as per the 'crop season' delinquency norms if financed to a farmer cultivating crops.

Asset classification is applicable as per the '90 days' delinquency norms if financed to persons engaged in allied agriculture activity.

27.3 Compressed Biogas Scheme (CBG) Under Satat Scheme

27.3.1 Introduction

Ministry of Petroleum & Natural Gas announced Sustainable Alternative Towards Affordable Transportation (SATAT) initiative on 1st October 2018. It promotes compressed biogas (CBG) as a cost-effective transportation fuel made from farm and municipal solid waste as a responsible and environmentally sustainable way to meet India's growing energy demand.

Under SATAT initiative, Entrepreneurs need to set-up CBG plants, produce and supply CBG to Oil Marketing Companies for sale as automotive & industrial fuels.

Compressed Biogas (CBG) is produced by anaerobic decomposition from a variety of waste/biomass sources, including agriculture residue, cattle dung, sugarcane press mud and spent wash from distilleries, sewage water, municipal solid waste (MSW), biodegradable fractions of industrial waste, and so forth. After purification it is compressed and called CBG, which has pure methane content of 95%. It is very similar to the compressed natural gas (CNG) in terms of its fuel properties, economics, engine performance, and emissions.

27.3.2 Process of Producing CBG

CBG from biomass involves a two-pronged approach.

First Step

Biogas is produced through the anaerobic decomposition of biomass.

Anaerobic Process: In this process, microorganisms break down biodegradable material in the absence of oxygen. The process is used for industrial or domestic purposes to manage waste or to produce fuels.

Second Step

Biogas contains 55 to 60% methane, 40 to 45% carbon dioxide (CO₂) and trace amounts of hydrogen sulphide. The second process involves purifying the gas to remove carbon dioxide and hydrogen sulphide gases to prepare CBG.

27.3.3 Advantages of CBG

1. It will serve as a buffer against crude oil and gas price changes, reducing the country's reliance on imports of natural gas and crude oil
2. Provides Sustainable Alternatives Towards Affordable Transportation (SATAT)
3. A new source of income, creating rural jobs and improving rural economy
4. Helps to utilize MSW and to tackle the problem of polluted air due to farm stubble burning and carbon emissions efficiently
5. Use of agricultural leftovers, livestock dung and MSW for production of CBG resulting in lower emissions and pollutants
6. Helps in attaining National climate change goals and meeting national obligations
7. CBG has a higher calorific value and can be used as a green fuel in the automotive, industrial and commercial sectors
8. Responsible trash management contributes to the Swachh Bharat Mission.

27.3.3.1 Other advantages of CBG

1. Compressed biogas has the potential to minimize India's need to import fuel.
2. The solid by-products of CBG can be used as bio-manure. According to experts, bio-manure produced using paddy straw can result in a 20% increase in crop yield.
3. The other by-product from CBG is CO₂. It is used to produce a liquid or solid CO₂. It has a high demand for food preservation or to be used in fire extinguishers

27.3.4 Initiatives of Ministry

1. To promote SATAT, GOI planned to set up 5000 CBG plants by 2025 under SATAT Scheme.

2. Aggregate Limit sanctioned up to 100 crore per borrower is considered as financing for Agriculture-Agriculture Infrastructure under Priority Sector Lending by RBI on 4th September 2020
3. The Ministry promotes entrepreneurs to set up CBG plants and supply CBG to OMC/GMCs for sale of CBG as automotive and industrial fuels.
4. Funding Pattern

27.3.5 Standard Financial Assistance (SFA) pattern

Standard pattern of financial assistance is as follows:

1. A maximum financial assistance of 50% of the procurement cost of biomass aggregation machinery or Rs. 90 lakh per set (whichever is less) will be admissible as grant to a CBG producer.
2. CBG producers will have the flexibility to choose equipment with in the approved list based on their project requirements.
3. CBG producers must submit a Detailed Project Report (DPR) outlining the CBG project. The PMA will assess the biomass requirements and the number of biomass aggregation machinery sets based on the DPR.
4. The financial assistance of Rs. 1.8 crore for 4 TPD CBG capacity project would be provided with a capping of Rs. 9 crore per project on pro rata basis.
5. Approval of application for financial assistance will be followed by actual procurement of the equipment and uploading the documents for verification and subsequent processing for sanction of financial assistance.

Entire SFA will be released to the developer's loan account in the lending financial institution/banks for the purpose of offsetting the loan amount only after successful commissioning of the project, achievement of COD.

Operating units shall ensure that capital subsidy received for the Project, if any, should get credited to the Term loan account.

(Government of India, Ministry of Petroleum and Natural Gas (GP Division) Office Memorandum dated 2nd February, 2024)

- Oil & Gas marketing companies are executing long-term agreements for off-take of CBG at an assured price
- Ministry of Petroleum and Natural Gas provides support for CBG projects under SATAT in the form of assured offtake of CBG @ Rs 46/ Kg by Oil Marketing Companies
- Inclusion of Bio-manure produced from CBG Plants as Fermented Organic Manure (FOM) under Fertilizer Control Order 1985 and it is notified vide Gazette Notification dated 14.7.2020.
- Ministry is also in discussion with multilateral financial institutions like World Bank, Asian Development Bank for enabling financing options via line of credit for CBG developers.

27.3.6 Eligible entities

1. Entrepreneurs/ Technology Providers/ Sole Proprietorship/ Partnership/Limited Liability Partnership/Companies/constitution of borrowers permissible by Ministry of Petroleum and Natural Gas who have been awarded Letter of Intents (LOIs) by Oil Marketing Companies (OMCs) and Gas Marketing Companies (GMC) for supply of Compressed Bio-Gas under SATAT Scheme
2. Obtaining LOI from OMCs and GMCs is a pre -condition for applying for the loan.

3. As per expression of interest, the minimum designed capacity of single Compressed Bio Gas plant is 2.0 Tonnes per day of CBG.
4. CBG plants have been included as one of the eligible projects under community farming assets subject to condition that CBG plant is established by eligible beneficiaries like PACs, Marketing Co-operative Societies, FPOs, SHGs
5. Multipurpose Co-operative Societies, Agri- Entrepreneurs, Start-ups and Projects promoted by Central/ state/ Local governments or their agencies under PPP are also eligible for availing loan under this scheme.
6. Bio-fertiliser plants have been included as eligible projects under organic input production.

27.3.7 Interest Subvention

Loans up to a limit of Rs.2 crores for eligible projects will have an interest subvention of 3% per annum, which will be available for a maximum period of 7 years. In the case of loans beyond Rs.2 crores, the interest subvention will be limited up to Rs. 2 crores.

27.3.8 Quantum of loan

Up to 75% of the estimated / actual project cost.

Sanctioned limit up to Rs.100 crores can be classified under Priority Sector Lending.

27.3.9 Rate of interest & service charges

As per Bank's extant guidelines. Interest during the moratorium period has to be serviced.

27.3.10 Security

Primary Security

- Hypothecation of entire project assets created out of Bank finance. Hypothecation of Stocks and Receivables.
- Mortgage of land and building for which credit facilities has been extended / project has been established out of Bank Finance.
- Exclusive charge over the Commercial Agreement, Escrow account*, DSRA/ISRA etc.
- Branch should explore the possibility of having tripartite agreement among the CBG plant owner, OMC/GMC and the bank for assuring regular payment and for safeguarding bank's interest.

*An Escrow account shall be maintained by the CBG Plant owner in which all sales proceeds received from the OMCs from sale of CBG and Bio-manure will be credited. Payment will be made as per usual waterfall mechanism. The proceeds in the Escrow account shall be appropriated first towards Bank's term loan repayment.

Collateral Security

Mortgage of Property as per Bank's Loan Policy. In cases where Mortgageability of lease-hold land is not possible, equivalent amount of collateral to be obtained.

"Hybrid Security" model to be adopted by the branches wherein they can obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of 200 lakh, can be covered under Credit Guarantee Scheme of CGTMSE.

Personal Guarantee

- Personal guarantee of the Proprietor, Partners of the Firm, Directors of the company and of all mortgagors of collateral security to be obtained.
- Corporate guarantee of the Parent company in case of SPV / Joint Ventures.

Bank Guarantee

CBG plant owners need to submit BG for appropriate amount as per Bank's Policy after receiving LOI for fresh CBG plant & for existing CBG plant. The said BG requirement is to be considered under total project cost.

27.3.11 Debt / Interest Service Reserve Account (DSRA/ISRA)

- Equivalent to 3 months Principal Instalment and interest amount.
- The DSRA/ISRA should be created/built-up latest by end of moratorium.
- DSRA/ISRA is a part of project cost to be included in project cost for the purpose of calculation of MPBF.

27.3.12 Repayment period (including Moratorium)

- Term loan is repayable maximum in 10 to 15 years but not to exceed with tenor of offtake agreement. (Including the moratorium period of minimum 6 months and maximum 24months).
- Repayment frequency can be fixed Monthly/Quarterly based on the cash flow of the project and as per agreement with OMCS.
- Date of commencement of commercial operations (DCCO) has to be clearly documented and recorded.
- Interest during moratorium period has to be serviced.
- As per current guidelines under SATAT scheme, maximum timeline for commercial supply is 2 years from LOI (Letter of Intent) and branch must ensure that the construction to be completed within the said time to avoid any further breach of LOI.
- Maximum 24 months is the moratorium allowed in the proposed scheme inclusive of construction/project implementation period. However, the same timeline can be extended for 3 months after genuine request from CBG plant owner.
- Operating unit should also examine availability of tail period at the time of analysing the financial model and commercial viability of the project.

27.3.13 Pre disbursement Conditions

- Branch should ensure execution of Commercial Agreement between Seller and Buyer (In this case Borrower and OMCs respectively) duly incorporating the important clauses like offtake commitment, tenor of offtake agreement, price fixation modalities, Creation of Charge on Commercial Agreement, Termination clause, Substitution rights and Project completion time etc. The agreement should be vetted and got approval from bank's legal department/legal advisor.
- At least 50% of the promoter contribution should be brought in up-front by way of pure equity.
- 100% Land acquisition (through outright purchase) should be ensured with own funds of the applicant to set up the unit. In case of lease hold land, the period of lease should be more than tenor of bank loan and having transferable & substitution rights. Further land should have clearance for Commercial activities with mortgageable rights and SARFAESI compliant. Non-agricultural land conversion should be ensured.

- The plants which are running on Agro waste (like Paddy Stubble) should procure the entire raw material required for a year during the season to ensure that there is no shortage of raw material.
- In case of municipal waste, binding agreement has to be signed with Corporations to ensure regular supply.
- In case Binding Agreement with Municipal Corporation is not available, additional collateral could be explored as a risk mitigation.
- Branch officials should visit the official website of MPNG and other initiatives/resources made available by MPNG for reference to necessary approvals/clearances and other important information like checking the project report with respect to revenue generation from CBG production, what quantity of feedstock needed for production of 1 ton of CBG etc. Website like www.satat.co.in powered by IOCL specially dedicated for SATAT scheme.

27.3.14 Other Terms and Conditions

- The business model has been framed by the OMCs (Oil Marketing Companies) and the same has been incorporated in the Letter of Intents (LOI) issued to the entrepreneurs. OMCS will be nodal agencies and will be issuing LOIs and will also facilitate LOI holders in design, construction, and commissioning of these plants as also off take/marketing the CBG produced, and bio manure produced from these plants.
- If the LOI holder faces cost overrun due to delay in project implementation, entire cost overrun should be met by promoters and an undertaking in this regard to be obtained from the borrower.
- The detailed supply plan shall be appended to the commercial agreement.
- Since it is the responsibility of LOI holders to make available CBG from the plant to the designated retail outlet of OMCs through vehicle with trailer mounted cascades which shall be arranged and operated by LOI holder, comprehensive insurance including fire insurance and transit insurance policy shall be obtained and adequacy of insurance should be ensured. All statutory clearance like Fire, Safety etc. should be in place.
- In case the LOI holders are not able to supply adequate quantum of CBG as per terms of LOI to OMCs and the OMCs issue termination notice, branch shall advise the OMC by way of a separate letter to assist the branch in short listing suitable buyers for substitution of existing borrower.

Regarding Identification, Due Diligence, Application, Appraisal, Sanction, Documentation, Disbursement and Post Sanction Monitoring, please refer to Chapter 27 on Renewable Energy.

CHAPTER 28

PM KUSUM

28.1 Introduction

Central Sector Scheme for financing facility

PM-KUSUM (Pradhan Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan) Scheme.

- Renewable energy is energy that is collected from renewable resources that are naturally replenished on a human timescale. It includes sources such as sunlight, wind, rain, tides, waves, and geothermal heat. Renewable energy stands in contrast to fossil fuels, which are being used far more quickly than they are being replenished.
- Renewable sources are often associated with green energy and clean energy. Renewable sources are those that are recyclable, clean energy are those that do not release pollutants like carbon dioxide, and green energy is that which comes from natural sources.

28.2 Types of Renewable Energy

There are range of renewable sources that have been developed, with each offering their own advantages and challenges depending on factors such as geographical location, requirements for use and even the time of year.

1. Solar Power

The potential for the sun to supply our power needs is huge, considering the fact that enough energy to meet the planet's power needs for an entire year reaches the earth from the sun in just one hour. However, the challenge has always remained in how to harness and use this vast potential.

We currently use solar energy to heat buildings, warm water and power our devices. The power is collected using solar, or photovoltaic (PV), cells made from silicon or other materials. These cells transform sunlight into electricity. Rooftop panels can provide power to a home, while community projects and solar farms that use mirrors to concentrate the sunlight can create much larger supplies. Solar farms can also be created in bodies of water, called 'floatovoltaics' these provide another option for locating solar panels.

As well as being renewable, solar powered energy systems are also clean energy sources, since they don't produce air pollutants or greenhouse gases. If the panels are responsibly sited and manufactured, they can also count as green energy as they don't have an adverse environmental impact.

2. Wind Power

Wind energy works much like old-fashioned windmills did, by using the power of the wind to turn a blade. Where the motion of these blades would once cause millstones to grind together to make flour, today's turbines power a generator, which produces electricity.

3. Hydroelectric Power

Hydroelectric power works in a similar manner to wind power in that it is used to spin a generator's turbine blades to create electricity. Hydro power uses fast moving water in rivers or from waterfalls to spin the turbine blades and is widely used in some countries

4. Biomass Energy

Biomass energy uses organic material from plants and animals, including crops, trees, and waste wood. This biomass is burned to create heat which powers a steam turbine and generates electricity. While biomass can be renewable if it is sustainably sourced, there are many instances where this is neither green nor clean energy.

Studies have shown that biomass from forests can produce higher carbon emissions than fossil fuels, while also have an adverse impact on biodiversity. Despite this, some forms of biomass do offer a low-carbon option given the correct circumstances. Sawdust and wood chippings from sawmills, for example, can be used for biomass energy where it would normally decompose and release higher levels of carbon into the atmosphere.

5. Geothermal

Geothermal energy uses the heat trapped in the Earth's core which is created by the slow decay of radioactive particles in rocks at the centre of the planet. By drilling wells, we are able to bring highly heated water to the surface which can be used as a hydrothermal resource to turn turbines and create electricity. This renewable resource can be made greener by pumping the steam and hot water back into the earth, thereby lowering emissions.

6. Tidal Power

Tidal power offers a renewable power supply option, since the tide is ruled by the constant gravitational pull of the moon. The power that can be generated by the tide may not be constant, but it is reliable, making this relatively new resource an attractive option for many.

28.3 Status of Agriculture Pumps in India

- At present, over 30 million agricultural pumps are installed in India, out of which nearly 10 million pumps are diesel based.
- The Distribution Companies (DISCOMs) are not in a position to energize these pumps through grid connection as seen from the long waiting lists with such Distribution Companies. Hence there is a need to provide energy to these pumps through solar energy.
- Also, over 20 million grid-connected agriculture water pumps installed in the country consume more than 17 percent of total annual electricity consumption of the country.
- Solarization of the same can reduce dependence of these pumps on conventional sources of energy supplied by DISCOMs and thus reducing their burden of subsidy on agriculture consumption of electricity.
- This will also provide additional source of income to farmers who will be in a position to sell the surplus power to DISCOMs.
- The new Scheme has provision for the decentralized renewable energy plants, Solar agriculture water pumps and solarization of existing Grid connected Agriculture pumps.

28.4 New Scheme for Farmers "PM-KUSUM"

- It has been planned to simultaneously develop decentralized Solar energy and other renewable energy generation Plants of capacity up to 2 MW which could be connected directly to existing 33/11 kV or 66/11 kV or 110/11 kV sub-stations of Distribution Company.

- Such plants near these sub-stations may be developed, preferably by farmers, giving them an opportunity to increase their income by utilizing their barren and uncultivable land for solar or other renewable energy based power plants.
- Cultivable land may also be used if the Solar plants are set up on stilts where crops can be grown below the stilts and sell RE power to DISCOMs.

28.5 Components of PM-KUSUM Scheme

The Government of India has launched New Scheme for Farmers with following components:

- i Component-A: Setting up of 10,000 MW of Decentralized Ground/ Stilt Mounted Grid Connected Solar or other Renewable Energy based Power Plants;
- ii Component-B: Installation of 17.50 Lakh Stand-alone Solar Agriculture Pumps; and
- iii Component-C: Solarisation of 10 Lakh Grid Connected Agriculture Pumps.

The Component-A and Component-C will be implemented initially on pilot mode for 1000 MW capacity and one lakh grid connected agriculture pumps respectively and Component-B will be implemented in full-fledged manner with total Central Government support.

After successful implementation of pilot project of Components, A and C, the same shall be scaled up with necessary modifications based on the learning from the pilot phase with total Central Government support.

28.6 Bank's PM KUSUM Scheme

28.6.1 Objective

- For installation of Solar Pumps and Grid Connected solar and other Renewable Energy Power Plants (REPP).
- For decentralization of Renewable Energy Power Plants, Solar Agriculture Water Pumps and Solarisation of existing grid connected agriculture pumps.

28.6.2 Eligible Entities

- Individual farmers/ SHGs, JLGs forming Group of Farmers / Co-operatives of Farmers
- Panchayats
- Farmer Producer Organization (FPO), Water User Associations (WUA)
- Other constitution of borrowers permissible by Ministry of New and Renewable Energy as explained below:
 - In case the eligible entities are not able to arrange equity required for setting up the Renewable energy power plants (REPP), they can opt for developing the REPP through developers or even through local DISCOM, which will be considered as Renewable Power Generator (RPG) or Eligible Entity.
 - These developers who are permitted by MNRE will form other constitution of borrower.
 - The acknowledgement received from MNRE on registration by the Eligible Entity in the online portal is the proof of approval.

28.6.3 Eligible Project

Component- A

- Setting up Decentralized Ground Mounted Grid Connected Solar or other Renewable Energy based power plants of individual plant size from 500KW to 2 MW.

Component- B

- Installation of Stand-alone Solar Powered Agriculture Pumps of Individual capacity up to 7.5 HP for replacement of existing diesel pumps/ New pumps other than dark zone area. (Dark zone: The dark zone is an area where groundwater depletion exceeds the rate of recharging.)

Component- C

- Solarization of Grid Connected Agriculture Pumps.

Quantum of Loan, Margin / Beneficiary Contribution and Subsidy if any: Project

Particular	Maximum Loan Component	Margin / Borrower Contribution	Front End Subsidy by Central & State in 50:50 ratio
Component A	70% of Project Cost	30% of Project Cost	Nil
Component B	30% of Project Cost	10% of Project Cost	60% of Project Cost
Component C	30% of Project Cost	10% of Project Cost	60% of Project Cost

Note: For component B & C in Northern Eastern State, Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand, Lakshadweep and Andaman & Nicobar, Central subsidy of 50%, state subsidy 30%, Farmer Margin will be 10% and remaining 10% may be bank finance.

28.6.4 Project costs

MoNRE, GoI, has laid down expected financial requirement under 3 components as mentioned below:

- Component A: Rs. 3.50 Cr per one MW
- Component B: Rs. 3.25 Lakhs per pump
- Component C: Rs. 3.25 Lakhs per pump
- These costs are only indicative cost and not the threshold limit for acceptance of maximum allowed project cost in each component.
- The viability of the project under Component A shall be assessed at the project level and project appraisal shall be conducted on Credit Assessment, project parameter etc. While conducting Project appraisal, Sensitivity Analysis with variables such as reduced power generation, reduction in sale price etc. shall be conducted.

Application duly attaching the property statements of the borrower and guarantor along with their property statements and KYC documents as are submitted for other loan applications shall be obtained. Pre-sanction unit visits, KYC checks as well as market enquiry about the borrower and his antecedents shall also be conducted as is being done in the case of other loans.



The viability of the project under Component A shall be assessed at the project level and project appraisal shall be conducted on Credit Assessment, project parameter etc.

Example of Assessment:

Sr No	Working Variables	Comp -B	Comp- C
1	Cost of Project	325000	450000
2	30% Subsidy from CG	97500	135000
3	30% Subsidy from CG	97500	135000
4	10% Margin from Borrower	32500	45000
5	Bank Finance	97500	135000

28.7 Sanction and documentation

Depending upon the discretionary powers vested with the officials, the proposals will be taken up for sanction. If sanctioned within branch head powers, the processing shall be done by another officer and shall be sanctioned by the branch head. The sanction shall be reported to the higher authorities for review. If the reviewing authority makes some observations regarding the sanction, the same shall be taken cognisance of before documentation and disbursement.

The sanction letter duly incorporating all the terms and conditions of the sanction shall be prepared in duplicate.

The second copy of the sanction letter shall be returned back by the borrower after accepting the terms and conditions in toto and affixing the signatures of himself as well as the guarantor, in token of accepting the terms of sanction in toto.

Documentation, as discussed in chapters for term loans shall be obtained.

Sanction shall be reported in the format prescribed by the Government Agency for claiming subsidy. Branch should follow up till the subsidy is received and pass the necessary entries in the books.

28.8 Mode of disbursement**For Component A:**

- The disbursement shall be made directly to the MNRE approved manufactures / suppliers of the systems along with borrower's margin
- MNRE approved list of such manufacturers / suppliers to verify the vendor details from MNRE portal.
- Disbursement in stages depending on schedule of implementation.
- End use verification to be done at every stage of disbursement.
- Relative invoices/ bills to be held on record.

For Component B & C:

The disbursement shall be made directly to the MNRE approved manufactures / suppliers of the systems along with borrower's margin subject to fulfilling following norms:

- Installation of the system and acceptance of the project completion report and release of full and final CFA.
- Letter from borrower to the effect that the system has been installed to his satisfaction.
- Authorising bank to disburse the loan amount to the supplier directly.

28.9 Security

Component A

Primary Security

Hypothecation of assets created out of Bank loan

Mortgage of landed property where project is established

Exclusive charge over the Power Purchase Agreement and Escrow Account

Collateral Security : As per Bank's Policy.

- The farmers / developers can also avail the benefit of CGTMSE by registering them as MSME duly complying the CGTMSE guidelines.
- In cases where mortgage ability of lease-hold land is not possible, equivalent amount of collateral to be obtained.

Component B & C

Primary Security

- Hypothecation of assets created out of Bank loan along with hypothecation of benefitting crops.
- Exclusive charge over the Power Purchase Agreement and Escrow Account for component C.

Collateral Security : As per Bank's Policy. Indicative Security norm is

Up to Rs. 1.60 Lakhs- Nil

Above Rs. 1.60 Lakhs – Mortgage of land &/ or third-party guarantee.

28.10 Repayment period

Component A

The loan will be repaid based on estimated revenue with max period of 10 to 15 years including moratorium of 12 months.

Repayment frequency will be monthly / quarterly as per tripartite agreement with DISCOM.

Interest to be served as and when debited.

DCCO has to be clearly recorded and documented.

Interest during moratorium period has to be serviced.

Component B & C

The loan amount will be repayable in Quarterly / Half Yearly / Yearly instalments within maximum period of 7 years including moratorium period of 6 months.

Repayment shall be based on income generation from power unit and crops grown by the farmers.

28.11 Insurance

Assets created by bank finance will be comprehensively insured with bank clause to their full value.

28.12 Due Diligence

Thorough due diligence of borrower, supplier & Land Record should be carried out.

28.13 Post Sanction Inspection

Post sanction & periodic follow up inspection to be undertaken and report should kept on record.

CHAPTER 29

FOOD AND AGRO PROCESSING UNITS

29.1 Introduction

The agro-industry mainly comprises of the post-harvest activities of processing and preserving agricultural products for intermediate or final consumption. A strong and dynamic food processing sector plays a vital role in reduction in the wastage of perishable agricultural produce, promoting diversification & commercialization of agriculture, generation of employment and enhancing income of farmers. Considering the importance of the Agro & Food Industry in our economy, RBI has classified it under Agriculture. Loans for food and Agro processing up to an aggregate sanctioned limit of Rs.100 crores per borrower from the banking system are classified as Agriculture. Ministry of Food Processing Industries (MoFPI) is the agency for formulation and implementation of the policies and programs for the food processing industries. It has also launched a special scheme for promotion of Mega Food Parks in the country.

The Agro Industry is broadly categorized into the following types:

1. Village Industries owned and run by rural households with very little capital investment and a high level of manual labour; products include pickles, papad, etc.
2. Small scale industry characterized by medium investment and semi- automation; products include edible oil, rice mills, etc.
3. Large scale industry involving large investment and a high level of automation; products include sugar, jute, cotton mills, etc.

Some of the Agro and food processing activities eligible for financing by Bank are as under:

- Fruits, vegetables, mushrooms, plantation crops and other horticulture crops.
- Milk and milk products
- Poultry and meat
- Fish and other aquatic & marine products.
- Cereals, pulses, oilseeds and oil crops
- Herbs, medicinal and aromatic plants, forest produce, etc.
- Consumer food products such as bakery items, confectionery, snack, etc.
- Any other ready-to-eat food/ convenience foods.
- Beverages, non-alcoholic drinks, energy drinks, carbonated drinks, packaged drinking water, soft drinks, etc.
- Food flavours, food colours, spices, condiments, ingredients, preservatives and any other item which may be required in food processing.
- Nutraceuticals, health foods, health drinks, etc.

The above list is illustrative and not exhaustive.

29.2 Purpose

1. To meet the working capital requirements.
2. For purchase of new machinery, equipment, expansion of unit and construction / renovation of factory building.

29.3 Promoter's contribution/Margin

Subsidy if any may be treated as a part of margin.

Margin as per Bank's guidelines.

For Example, Indicative Margins may be as under:

25% for stock

25% for Book Debts

25% for Term Loan (acquisition of Plant & Machinery)

35% for factory building (Construction/Renovation)

15% for LC (DP) & LG

10% + 15% for usance LC (DA maximum up to 180 days)

10% at the time of opening of LC and 15% at the time of acceptance of documents)

29.4 Loan Assessment

The assessment of credit limits will be considered as per the appropriate methods as stipulated in the Loan Policy from time to time i.e. turnover method for WC limit at 20% of the projected turnover acceptable by the Bank up to the limit of Rs.5.00 crores and Inventory method for above Rs. 5.00 crores.

29.5 Nature of Facility

- Fund Based: Cash Credit (Stock & Book Debt) and Term Loan.
- Non- Fund based: As per Bank's Policy guidelines for MSME advances.

29.6 Eligibility

Existing and proposed Food and Agro Based Industrial units.

Individuals, Proprietorship, Partnership concerns (including Limited Liability Partnerships), Limited Companies, etc. engaged in the activity.

Units / Borrowers fulfilling the minimum required Internal Rating and (wherever applicable) External Rating.

29.7 Application, Due Diligence and Appraisal

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans.

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms. Additionally, Branch should also obtain the following:

- Quotations for Equipment proposed to be purchased.

- Estimates for Civil Constructions along with approved plans duly vetted by the approved Engineer of the Bank.
- Audited Financials for the previous year, current year estimates and projections for future years covering the repayment of term loan tenor.
- If Banking with another Bank, Confidential Report of the Existing Banker and NOC should be obtained.
- Account Statements for the past 12 months should be scrutinised for any adverse indications such of return of cheques, diversion of funds etc.

29.8 Dealer Verification

- Dealer's antecedents are to be verified as we do it in the case of borrower applicant.
- It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list.
- It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the Equipment and price etc are also verified.
- If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

29.9 Indicative Levels of Various Financial Ratios

As per bank's credit risk management/ loan policy . Some of indicative financial ratio/s is/ are as under:

- Minimum Current Ratio of 1.17: 1
- DER of 2.00 : 1
- TOL/TNW of 4.00: 1
- DSCR: 1.50 (Minimum DSCR of 1.20 with an average of 1.50)

29.10 Other Terms

For newly established units estimated/projected financials should be taken into consideration.

Units should have all the statutory approvals from the respective Departments and Boards.

For detailed guidelines on Assessment and Appraisal, please refer to Chapters 46 on Open Cash Credits and Chapters 50 on Term Loans.

29.11 Quantum of Finance

- Minimum: Rs.10 lakhs and Maximum: Rs.100 crores (Rs.100.00 Crores form entire banking system.)
- Suitable limits can be sanctioned based on the requirements and financials of the borrower
- To be assessed as per the lending methods indicated in the Loan Policy.

Suitable limits can be sanctioned based on the requirements and financials of the borrower to be assessed as per the lending methods indicated in the loan policy.

29.12 Rate of Interest

As per Loan Policy guidelines.

29.13 Charges

As per Bank's Loan Policy Guidelines.

29.14 Security

Primary: Hypothecation of Assets financed by the Bank.

Collateral: As per Bank's Policy Guidelines.

29.15 Repayment

Working Capital / Term Loan limits

As Per Bank's Policy. Indicative repayment suggested are:

- 12 months for WC and subject to renewal as per extent guidelines
- Term Loans to be repaid in maximum 84 monthly instalments inclusive of moratorium period in line with the project cash flow.

29.16 Sanction

Please refer to Chapter 11 on Sanction.

29.17 Documentation

Standard Documents as prescribed by the Bank shall be obtained and duly stamped as per the local State Stamp Act.

Copy of the sanction letter duly signed by the borrower/s and co-obligant/s/ guarantor/s having accepted the terms and conditions of the sanction in toto shall also form part of the documents.

All the documentation formalities should be completed in all respects before disbursement.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

29.18 Disbursement

- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Post disbursement inspection should be carried out & report should be kept on record.
- For Civil Constructions, loan should be disbursed in phases based on the progress of work after obtaining Approved Engineer's Certificate.

29.19 Insurance

Machinery, Equipment and other fixed assets acquired from out of Bank Finance should be comprehensively insured with Bank as the Loss Payee covering all risks.

Stocks should be insured for full value with Bank as Loss Payee covering all the risks.



Loan amount along with margin amount for food and agro processing units should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/Invoices in the name of the Bank & Borrower and to note the Bank's Lien.

29.20 Post Disbursement Follow Up and Recovery

- Bank's hypothecation Board should be displayed prominently at the unit.
- Periodical Post disbursement inspection should be conducted by the branches to ensure end use of funds, purchase of equipment, machinery by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study.
- All the transactions should be routed through the Cash Credit Account and it should be ensured that the credits in the Working Capital Accounts are always more than the interest debited in the account.
- Stock Statements should be obtained every month and drawings in the Working Capital limit should be allowed as per Drawing Power.
- Other periodical reports such as MSOD, QIS should be obtained depending on the limit sanctioned.
- Branch has to follow up for prompt recovery of the Term Loan instalments on the due date.
- Where non-funded limits are sanctioned, branch should monitor the fulfilment of the purpose for which BG/LC are issued.
- All efforts should be made to recover the loan instalment and interest as per stipulated repayment schedule.
- Branch should make all efforts to recover instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue during harvesting season in order to upgrade the accounts.
- For proposals received under PMFME (Prime Minister Formalisation of Micro-processing Enterprise) Scheme, guidelines issued by MoFP would be followed.

CHAPTER 30

CUSTOM HIRING UNITS (CHCs)

30.1 Introduction

The increasing cost and scarcity of labour brought a shift in Indian agriculture from dependence on human and animal power to mechanical power. Mechanization also helped in carrying out the agricultural operations in time thereby resulting in increase in productivity. However, with the fragmented land holdings and the investment required for the entire array of agricultural machinery is still beyond the reach of small/marginal farmers, limitations for accessing credit from the institutional sources are high. Therefore, in order to bring farm machinery available within the reach of small/marginal holdings, collective ownership or Custom Hiring Centres(CHCs) is one of the options available for extending credit.

30.2 Objectives

1. To make available various farm machinery / equipment to small & marginal farmers.
2. To offset the adverse economies of scale due to high cost of individual ownership.
3. To improve mechanization in places with low farm power availability.
4. To provide hiring services for various agricultural machinery/implements applied for different operations.
5. To expand mechanized activities during cropping seasons in large areas especially in small and marginal holdings.
6. To provide hiring services for various high value crop specific machines applied for different operations.

Ideally, the CHC has to be located in places where large number of small land holdings exist within a radius of 5 to 7 kms. This will reduce the transport cost and time of transport of agricultural machinery. One CHC is expected to cater to 4/5 villages.

An ideal model of CHC comprises of farm machinery that are commonly used for tillage operations for all crops, multi crop equipment and a minimum of crop specific machinery.

- i. Min 35 hp tractor - for tillage operations, traction source and transport
- ii. Power tiller – for tillage operations in small farms, traction source for small equipment and agri input transport for short distance.
- iii. Multi crop Power thresher
- iv. Winnowing
- v. Self-Propelled Reaper
- vi. Sprayers
- vii. Repairing tools

30.3 Eligibility

- a. Individuals, institutions or organizations (also include firm/company) who maintain/desire to maintain a fleet of tractors, threshers, combines etc., Who undertake farm work for farmers on contract / hire basis

- b. Applicant shall have good reputation in the Market
- c. Overall demand and supply position at the command area of the unit shall be conducive for running the unit in a viable manner.

30.4 Nature of Facility

- Medium / long-term loan (TL) for acquiring / maintenance of equipment and other assets necessary to smoothly run the business.
- Short term loan or Cash Credit / Working Capital (WC) facility for day to day running of business / operational expenses.

30.5 Application and Due Diligence

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with Quotations for Tractor, Implements, Required Equipment proposed to be purchased, Financial Estimates and Projections for the activity for the entire tenure of the loan.

For further details, please refer to Chapter 8 on Application for Credit Facilities.

30.6 Dealer Verification:

Dealer's antecedents are to be verified as we do it in the case of borrower applicant. It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list. It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the Equipment and price etc are also verified. If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

30.7 Appraisal

Please refer to the Chapters 16 on Farm Mechanisation, Chapters 50 on Term Loans and Chapters 46 on Open Cash Credits for appraisal of the Proposal.

30.8 Margin

As per NABARD/ RBI/ Loan Policy Guidelines ranging from NIL to 15% or above depending on the quantum of loan. Margin to be calculated on Road Price including cost, registration charges, accessories, insurance and road tax.

30.9 Security

Primary : Hypothecation of asset created out of bank finance. In respect of Tractor/Trailer, registration certificate should bear Bank's Interest.

Collateral: Mortgage of land (Accepted value of land should be preferably more than 100% of loan amount) & / or third party guarantee (with means not less than 100% of loan amount) as per Bank's Loan Policy depending on the quantum of Loan.



Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with Quotations for Tractor, Implements, Required Equipment proposed to be purchased, Financial Estimates and Projections for the activity for the entire tenure of the loan shall also be obtained.



30.10 Interest

As per Bank's policy on Interest Rate on Advances.

30.11 Repayment

As per Bank's Policy. Suggested repayments are:

For Term Loan:

Tractor, Combine Harvester: Max 9 years

Power Tiller and other equipment: Max 7 years

Moratorium period ranging from 6 months to 2 years depending on the cash flows projected.

For Working Capital:

12 Months and seek renewal every year.

30.12 Insurance

All the assets must be insured comprehensively against all risks with Bank as Loss Payee and ensure that Insurance is renewed on due date every year to keep the Policy in Force.

30.13 Other Guidelines

Please refer to Chapter 11 on Sanction, Chapter 12 on Documentation, Chapter 16 on Farm Mechanization, Chapters 50 on Term Loans and Chapters 46 on Open Cash Credits.

CHAPTER 31

FINANCING FARMER PRODUCER ORGANISATIONS / COMPANIES (FPO/FPC)

31.1 Introduction

1. A Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen, etc.
2. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members.
3. In some forms like producer companies, institutions of primary producers can also become member of PO.
4. It is one type of PO where the members are farmers.
5. Small Farmers' Agribusiness Consortium (SFAC) is providing support for promotion of FPOs
6. PO is a generic name for an organization of producers of any produce, e.g. Agricultural, non-farm products, artisan products, etc.

31.2 Essential Features of FPO

1. It is formed by a group of producers for either farm or non-farm activities.
2. It is a registered body and a legal entity.
3. Producers are shareholders in the organization.
4. It deals with business activities related to the primary produce/product.
5. It works for the benefit of the member producers.
6. A part of the profit is shared amongst the producers.
7. Rest of the surplus is added to its owned funds for business expansion.

31.3 Objectives

1. To meet the credit requirements of the Farmer Producer Companies / Organizations in the form of term loans to create an asset and Working capital loan to meet the recurring expenditure.
2. Improve the income level of the farmers especially Small and marginal farmers through collectives of farmers.
3. Enhance the bargaining powers of Small and marginal farmers in the market to receive good price for their commodities through aggregation.

31.4 Purpose

To meet the working capital and term loan requirements of the FPC / FPO.

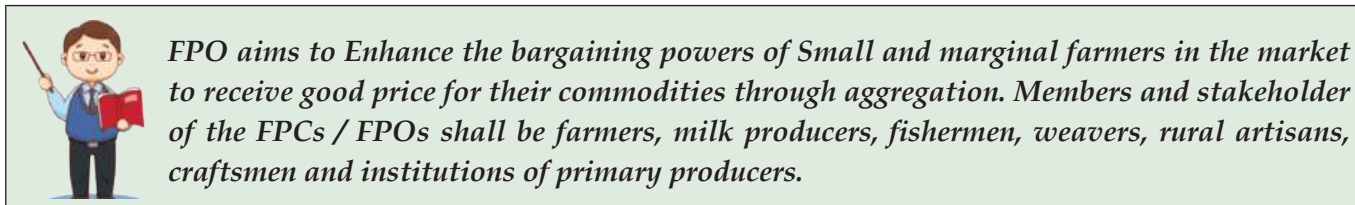
31.5 Nature of limit

- Term loans for investment purpose.
- Working capital.

- Composite loan comprising of both working capital and term loan requirements.

31.6 Eligibility

1. Farmer Producer Companies / Organizations who are registered under legal provisions i.e. Cooperatives, Producer Companies, Farmer Producer Companies, Societies.
2. Members and stake holder of the FPCs / FPOs shall be farmers, milk producers, fishermen, weavers, rural artisans, craftsmen and institutions of primary producers.
3. Farmers having their lands in contiguous areas / one or two contiguous Gram Panchayats / Revenue villages.
4. The productive land under an FPC / FPO shall be around 500 to 4000 ha.
5. The minimum number of farmer producers in FPC is 500. Small Farmer Agribusiness Consortium (SFAC) has stipulated minimum farmers as 500 to avail Credit guarantee from SFAC.
6. The FPC / FPO should have the minimum capital of Rs.5 lakhs.
7. They shall have six months of active operations from the date of registration as FPC / FPO.
8. They shall have one audited balance sheet for availing loan.
9. FPC / FPO shall have positive net worth.
10. Preference should be given to the FPC / FPO having tie ups / marketing arrangements for their produces with the reputed organizations / Corporate companies.
11. In case of FPCs / FPOs eligible for Equity Grant and Credit Guarantee Scheme, branch shall follow SFAC guidelines issued on the scheme.



31.7 Application and Appraisal

Branch shall obtain the Standard Application for Credit facilities sought along with following:

- 1) Appropriate resolution from FPOs for availing the loans from bank and the Resolution should have borrowing powers / borrowing clause in the legal provision.
- 2) They should not be defaulter in filing the statutory returns. The director's status shall be active in the portal of Ministry of Corporate Affairs.
- 3) Branch to ensure that project is technically feasible and economically viable.
- 4) Ensure credit guarantee cover is lodged with SFAC in the prescribed format.
- 5) An undertaking shall be taken from FPC / FPO that the borrower shall not create any charge on the securities held with the bank i.e. Primary and Collateral securities.
- 6) They shall file all the statutory returns as per the Act and submit to the branch a copy of the same for records.

Documents to be submitted along with loan application as under:

- Request of the FPC/FPO for sanctioning the Loan/Limit on companies /Organization's letter head.
- Property statements (duly attested) of all directors/ guarantors.
- Copies of ITAO of the company for the last three years.
- Copies of ITAOs /WTAOs of the directors and guarantors.
- Certificate of Registration
- Copies of Article of Association and Memorandum of Association.
- Copy of the PAN card
- Copy of the KYC documents of chairman/ CEO / Managing Directors / Directors of the company.
- Utility bills such as electricity and land line telephone bills in the name of the company.
- Rent / Lease agreement in case of leased units.
- Project report for the loans.
- Copies of licenses / permission granted.
- Audited financial statements for the existing accounts and projections for new FPCs/FPOs.
- Board resolution for availing the loan / borrowing powers / borrowing authority.
- List of directors.
- Copies of CIBIL.
- Copies of certificate from banks and financial institutions certifying the latest liability with them.
- Audited financial statements of associate concerns for the past three years dealing with bank and other banks.
- Latest Valuation report of collateral security, wherever required.
- Credit rating as per extent guideline.
- Credit report and due diligence report in banks prescribed format.
- Confidential credit report from existing financing institution in case of existing limits.
- Civil estimates and quotations of the expenditure proposed wherever applicable.
- Approved plan from the local body.
- Pre sanction and unit inspection Report.
- NOC from local body in applicable cases.

31.8 Assessment of Limit

A. At the farmer / member level:

- 1) Short term Production Credit / Crop loan as per existing UGC/KCC scheme.
- 2) To Farmer Interest Groups (FIGs) / JLGs as per their needs. As the members would be aggregating the produce with the FPOs, repayment of the crop loans can be taken care out of the working capital that the banks can provide to the FPOs against the security of the aggregated produce.
- 3) Term Loan for development of farms & Agri allied activities such as irrigation pumpsets, purchase of farm equipment, development of land, vermi-compost units, biogas plants, livestock – dairy cattle or draught animals, construction of sheds, etc.

B. At the FPC / FPO level:**Short term finance for crop production purpose:**

In case of the cultivation of crops / crop production purpose, working capital limits can be financed at FPC/ FPO level duly considering the combined requirements of the farmers. Hence, branch shall obtain the member / farmer wise details / acreage / crops / loan requirements to arrive the maximum permissible limit.

Working capital finance for input stocking/purchase:

Based on the seasonal requirement of inputs of member farmers, FPCs/FPOs shall assess the requirements and stocking of inputs for the farmers to buy. Hence, working capital limit is required by FPC / FPO to place orders in advance directly from the manufacturers/bulk suppliers at lower prices. Limit shall be assessed based on the combined requirements of members not on the sales turn over.

Working capital finance for aggregation of produce from members:

- FPC / FPO can hold stock of the produce and negotiate for better prices or hold stocks in godowns for better prices at the later date.
- FPCs/FPOs can also hold stocks of semi-processed/processed produce for the market based on the buyer's needs.
- A working capital limit can be assessed based on the average yield of the crop grown by the farmers and multiplied by Minimum Support Price (MSP) to arrive the combined limit of all the farmers at FPCs / FPOs level.
- Branch should ensure to close the existing short term crop production loans of their members after availing the aggregation of produce limit by FPCs / FPOs.

Finance against warehouse receipt / Negotiable warehouse receipt:

FPO /FPC can store the produce at warehouse / godowns and avail the limits against the security of Warehouse Receipts/Negotiable warehouse receipt as per extent guidelines in the above cases.

Branch should ensure the bifurcation of goods / commodities under warehouses receipt financing and/ or Cash Credit limits or the other limits availed by FPC / FPO.

Finance to Agri Value Chain:

The term 'agri-commodity value chain' normally refers to the entire chain of activities pertaining to an agricultural crop/product, starting from the selection of a crop/ activity for cultivation/ farming passing through different phases of production (arrangement of inputs, agronomic practices and associated services), marketing, right up to the final produce reaching to consumers.

Loans can be given to FPOs for quality improvements along the value chains of the produce. The limits may be arrived based on the project cost in the form of term loans / working capital requirements.

31.9 Term loans for Investment credit /Infrastructure Finance

Term loans can be considered for creating infrastructure by FPCs / FPOs in order to provide efficient services to its members. The needs could be construction of buildings for processing/grading/sorting yards, storage godowns including cold storages, transport facilities, etc.

Term loans to meet the operational expenses for initial years like office infrastructure.

Term loan for Common irrigation facilities, Common Service centre, Custom hiring of farm implements and equipment.

Any activity that falls under Agri. and allied activities can be considered for finance.

31.10 Quantum of loan

- 1) Maximum loan amount under financing per FPC / FPO is Rs.1 crore.
- 2) Exposure to FPC / FPO does not exceed 6 times of the Net worth of FPC / FPO Co-obligation.

31.11 Other conditions

- 1) In case of loans covered under Credit Guarantee Scheme of SFAC, no collateral and no personal guarantee of the shareholder directors shall be obtained.
- 2) In other cases, Personal guarantee of the shareholder directors, if any shall be taken as per bank's existing guidelines.

31.12 Margin

As per Bank's Policy Guidelines. Suggested margins are:

- Term loan: Minimum 15%.
- Cash credit: Minimum 20%.
- Finance against Negotiable warehouse receipt / Ware house Receipts: As per WHR scheme guideline.

31.13 Security

Primary Security:

- 1) Hypothecation of assets created out of bank finance / Stock in trade / pledge of warehouse receipts / credit guarantee from SFAC.
- 2) In case of the cash credit limits, branch should obtain the member/farmer level disaggregated data to arrive the Drawing Power.
- 3) In case FPO is registered as company, charge on the assets has to be created with Registrar of companies as per the extent guideline.

Collateral Security:

As per :Bank's Loan Policy Guidelines.

- 1) No collateral security shall be obtained in case the loans are covered under credit guarantee scheme implemented by SFAC.
- 2) In all other cases, branch shall obtain Minimum 100% collateral security or as per Bank's Loan policy whichever is higher.

Co- obligation / Third Party Guarantee:

In case of loans covered under credit guarantee scheme of SFAC, NO collateral and NO personal Guarantee of the shareholder directors shall be obtained.

In other cases, personal Guarantee of the shareholder directors in the case of companies and personal Guarantee of the members in case of co-operative societies shall be taken as per bank's as per Bank's Loan Policy guidelines.

31.14 Rate of Interest & Service charges

As decided by the Bank from time to time.

Where additional credit risk premium added for longer term loans, the same should be mentioned in the sanction letter.

31.15 Repayment

As per Bank's Loan Policy Guidelines. Suggested repayment is:

Term Loan:

Repayment period maximum up to 7 years (including the moratorium period of maximum 12 months) depending upon the purpose of investment, economic life of assets and cash flow of the activity.

Working Capital:

12 months subject to renewal annually.

31.16 Sanction

Please refer to Chapter 11 on Sanction. Additionally,

- Securities stipulated, Primary (with details of the assets to be created with full particulars and Cost, particulars of land and building and wherever Collateral Security is stipulated, in the absence of Credit Guarantee, full details of security such as Survey number, Patta Number, Extent in Acres/Cents/Guntas and Value.
- Due date/ Repayment Schedule.

31.17 Documentation

Standard Documents as prescribed by the Bank. For further details on the Documentation, please refer to Chapter 12 on Documentation.

All the documentation formalities should be completed in all respects before disbursement.

Where loans are eligible for subsidy, claims for subsidy are made in time.

Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.

31.18 Insurance

Branch shall insure the assets created out of bank funds / stock for full value and collateral security as per banks guidelines.

31.19 Disbursement

31.19.1 Term loans:

The disbursement of term loan shall be made in phases based on the requirement of the project and progress of the work.

Payment with margin money shall be made directly to the supplier / dealers through NEFT / RTGS only.

31.19.2 Working Capital:

Working Capital limit shall be released after completion of the project.

Cash credit limits are utilized as per the needs of the company to procure the stock / inputs / purpose of sanction and ensure end use of funds duly obtaining the stock statement.

31.20 Post Disbursement Follow Up and Recovery:

- Charge should be filed with Registrar of Companies within 30 days from the date of disbursement, wherever required.
- Bank's hypothecation Board should be displayed prominently at the unit.
- Periodical Post disbursement inspection should be conducted by the branches to ensure end use of funds, purchase/creation of assets by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study.
- All the transactions should be routed through the Cash Credit Account and it should be ensured that the credits in the Working Capital Accounts are always more than the interest debited in the account.
- Stock Statements should be obtained every month and drawings in the Working Capital limit should be allowed as per Drawing Power.
- Other periodical reports such as MSOD, QIS should be obtained depending on the limit sanctioned.
- Branch should follow up for prompt renewal of Working Capital Limit on or before due date. Branch should avoid operations in the Working Capital Account under overdue limits.
- Branch has to follow up for prompt recovery of the Term Loan instalments on the due date.
- Where non-funded limits are sanctioned, branch should monitor the fulfilment of the purpose for which BG/LC are issued.
- All efforts should be made to recover the loan instalment and interest as per stipulated repayment schedule.
- Branch should make all efforts to recover instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Tractor/Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue during harvesting season in order to upgrade the accounts.
- GoI guidelines shall be kept in view for financing of FPOs under GoI Scheme.

31.21 Annexure: SFAC Norms

Equity Grant Fund Scheme and Credit Guarantee Fund Scheme of SFAC:

SFAC has implemented Central Sector Scheme to support Farmer Producer Companies (FPCs) / Organizations (FPOs) by way of providing matching equity grants. It offers 100% matching grant to registered producer companies up to Rs. 15.00 Lakh, matching the equity contributed by shareholders to double their equity.

Further, SFAC is offering the credit guarantee cover up to Rs 100.00 lakh to the Member Lending Institutions where loans are sanctioned to FPCs without collateral security and/or third-party guarantees.

Branch shall collect the Guarantee Fee and Annual Service Fee from the Borrower.

The detailed guidelines on Equity Grant Fund (EGF) Scheme:

At present, Equity Grant and Credit Guarantee Fund scheme is implemented for Farmer Producer Companies (FPC) only. SFAC has informed that other categories of producer organizations (such as Cooperatives, Societies, etc.) may be considered for inclusion at a later stage.

SFAC Guidelines for Equity Grant Fund:

S.No.	Parameter	Guideline
1	Eligibility Criteria	An FPC shall be eligible to apply for Equity Grant under the Scheme based on its fulfilling the following criteria: ➤ It is a duly registered FPC as defined in the section IXA of the Indian Companies Act, 1956. ➤ It has raised equity from its Members as laid down in its Articles of Association/ Bye laws. ➤ The number of its Individual Shareholders is not lower than 50. Its Paid up Equity does not Exceed Rs.30 Lakh ➤ Minimum 33% of its shareholders should be small, marginal, tenant and landless farmers as defined by the Agriculture Census carried out periodically by the Ministry of Agriculture, GoI. ➤ Maximum shareholding by any one member other than an institutional member is not more than 5% of total equity of the FPC. ➤ Maximum shareholding of an institutional member should not be more than 10% of total equity of the FPC. ➤ It has a duly elected Board of Directors (BoD) with a minimum of five members, with adequate representation from member farmers and minimum one woman member. ➤ It has a duly constituted Management Committee responsible for the business of the FPC. ➤ It has a business plan and budget for next 18 months that is based on a sustainable, revenue model as may be determined by the Implementing Agency. ➤ The FPC has an Account with “Bank”. ➤ It has a Statement of Accounts audited by a Chartered Accountant (CA) for at least one full financial year.

S.No.	Parameter	Guideline
2	Process of Equity Grant Sanction	The Equity Grant Fund enables eligible FPCs to receive a grant equivalent in amount to the equity contribution of their shareholder members in the FPC, thus enhancing the overall capital base of the FPC. The Equity Grant shall be sanctioned to eligible FPCs as follows: ➤ Equity Grant shall be a cash infusion equivalent to the amount of shareholder equity in the FPC subject to a cap of Rs. 15 lakh per FPC. ➤ Equity Grant sanctioned shall be directly transferred to the bank account of the FPC. ➤ The FPC shall, within 45 days of the receipt of the Equity Grant, issue additional shares to its shareholder members, equivalent in value to the amount of the Grant received by it, provided that the maximum grant per category of shareholder is as follows: i. Individual Shareholder - Rs 1000.00 ii. Group of Individual Shareholders (e.g. SHG, Farmer Interest Group, Joint Liability Groups of Farmers) – Number of Members multiplied by Rs. 1000.00 subject to a maximum of Rs.20000.00 iii. Institutional Shareholders (FPC) – Rs. 100000.00 ➤ The criteria for calculation of Equity Grant (rounded off to the Share Unit Value (subject to point iii) to each shareholder member of the FPC (as per authenticated copy of the Shareholders Register maintained by the Producers Company as per the applicable provisions of the relevant Act) is as follows: • Allocation of shares shall be on matching/ pro-rata basis of the shareholders' current shareholding, subject to the maximum specified above and ensuring that each shareholder member receives minimum one equity share. • If the Grant sanctioned to the FPC is not sufficient to ensure a minimum one share to all its shareholder members, allocation of grant shall be based on the shareholders' current landholding, starting with shareholder with the least land holding / the smallest producer in case of allied activities/ or by transparent draw of lots where such identification is not possible. ➤ The FPC shall be allowed to draw the Equity Grant in a maximum of two tranches (within a period of 2 years of the first application) subject to the cap of Rs 15.00 lakh per FPC, provided and to the extent that it is able to raise additional Member Equity to qualify for an additional matching grant within the overall ceiling of Rs. 15.00 lakh. The request for the second tranche shall be treated as a fresh application and the full process of due diligence shall be repeated.

S.No.	Parameter	Guideline
		➤ In the event that a shareholder, who receives additional shares issued by the FPC against Equity Grant sanctioned by the Implementing Agency, exits the FPC at any point after receiving the shares, the additional shares received by him/her in lieu of the Equity Grant and standing in his/her name must be transferred to another shareholder or new shareholder within 90 days of his/her exiting the FPC, through an open and transparent draw of lots. In such cases, the original shareholder cannot receive the value of the additional shares transferred to other/ new members. ➤ SFAC shall have the right to recall the Equity Grant amount from the FPC, which shall be legally liable to comply with the same in the case of: • Failure to issue additional shares to members against the Equity Grant received by the FPC within 45 days of its receipt, and Closure/Dissolution of FPC within three years of the receipt of the Equity Grant. • Instances of misuse / misappropriation of the Equity Grant (viz. use of funds for activity other than mentioned in Memorandum of Association/ Articles of Association/ Business plan of the FPC) of the Equity Grant.
3	Application for Equity Grant Fund	Eligible FPCs shall apply for the Equity Grant in the prescribed Application Form. The other mandatory documents to be submitted are: - Shareholder List and Share Capital contribution by each member verified and certified by a Chartered Accountant (CA) prior to submission. - Resolution of the FPC Board/Governing Council to seek Equity Grant for members. - Consent of shareholders, stating name of shareholder, gender, number of shares held, face value of shares, land holding, signifying consent for SFAC to directly transfer the equity Grant sanctioned to the FPC on their behalf, to FPC Bank account, against the consideration of additional shares of equivalent value to be issued to them by FPC and on exit transfer of the shares as per rules. - Audited Financial Statements of FPC for a minimum 1 year /for all years of existence of the FPC if formed less than three years prior to application/ for the last 3 years for FPCs in existence for 3 years or more, verified and certified by a Chartered Accountant (CA) prior to submission. - Names, photographs, and identity proof (anyone from among ration card, Aadhaar card, election identification card, passport) of Representatives/ Directors authorized by the Board for executing and signing all documents under the Scheme. In case of point No: i to v, SFAC has given clarification vide Lr No: SFAC/EGSC/2014-15/1295 dt: 01.07.2014. copy of the letter is available on the website of www.sfacindia.com - Photocopy of Bank Account Statement for last six months authenticated by the Branch Manager of the Bank. - Business Plan of FPC and budget for next 18 months.

S.No.	Parameter	Guideline
4	Disbursement	After accepting the terms of sanction, the FPC shall enter into Agreement with SFAC and transfers sanctioned funds to the FPC Account.
5	Compliance and Verification	The FPC shall submit the following documents to SFAC: ➤ List of additional shares issued by it to its shareholder members under the Scheme, along with the respective Folio Numbers, verified and certified by a Chartered Accountant (CA), within 45 days of the funds having been received by it. ➤ If the FPC does not honour its commitment in any manner whatsoever, either in the matter of issuing shares or in notifying SFAC within the specified time limit, the Equity Grant amount sanctioned and released by SFAC to the FPC is liable to be cancelled and recalled by SFAC, as detailed in the Agreement between SFAC and FPC.

CHAPTER 32

FINANCING MICRO, SMALL, MEDIUM ENTERPRISES (MSME)

32.1 Introduction

The Micro, Small and Medium Enterprises (MSME) are defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. As per GoI Notification issued in June 2020, the MSMEs are defined as under:

An enterprise shall be classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely:

- a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;
- a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees

Classification	Investment in Plant and Machinery or equipment Rs. In crores	Turnover Rs. In crores
Micro unit	Not exceeding Rs. 1 crore	Not exceeding Rs. 5 crores
Small Unit	Not exceeding Rs. 10 cr	Not exceeding Rs. 50 cr
Medium Unit	Not exceeding Rs. 50 cr	Not exceeding Rs. 250 cr

It should be noted that both the investment criteria and the turnover criteria need to be satisfied for classification of the Enterprise. For example, if a unit has its investment in plant and machinery at less than Rs. 1 cr but the turnover is exceeding Rs. 5 cr, then it is classified as Small Enterprise and not Micro Enterprise.

For classification purposes, if an enterprise crosses the ceiling limits fixed in one of the above two criteria, it will move to the next higher category.

However, to move to the lower category, both the criterion have to be satisfied.

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.



All loans to MSMEs qualify for classification under priority sector lending. A minimum of 7.5% of Adjusted Net Bank Credit (ANBC), or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher is required to be provided for Micro Enterprises

32.2 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 cost of certain items specified in the Explanation I to sub-section (1) of section 7 of the Act shall be excluded from the calculation of the amount of investment in plant and machinery.

32.3 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 were considered on self-declaration basis for a period up to 31st March 2021 and thereafter, PAN and GSTIN are mandatory.

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 will maintain its prevailing status till expiry of one year from the close of the year of registration.

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.

All loans to MSMEs qualify for classification under priority sector lending. A minimum of 7.5% of Adjusted Net Bank Credit (ANBC), or Credit Equivalent of Off-Balance Sheet Exposures (CEOBE), whichever is higher is required to be provided for Micro Enterprises.

32.4 Mudra Loans

Among the several initiatives taken by the Government of India for improving financial assistance to MSME sector, the main scheme is the Pradhan Mantri Mudra Yojana (PMMY), which was launched on 8th April 2015. This scheme provides loans upto Rs. 10 lakhs to non-corporate and non-farm small or micro enterprises. These loans are classified as MUDRA (Micro Units Development and Refinance Agency Limited) loans under PMMY.

MUDRA is a non-banking financial company (NBFC) which supports the development of MSMEs. MUDRA provides support by refinancing to banks, microfinance institutions (MFIs) and NBFC for lending loans

to micro units having a loan requirement of up to 10 lakhs. Under this scheme, the loans are provided by Commercial Banks, Small Finance Banks, MFIs and NBFCs. The borrowers can approach any of these lending institutions or apply for loans online through the Udyami Mitra portal.

Under the PMMY, there are three different schemes namely 'Shishu', 'Kishore' and 'Tarun' which signify the stage of development or growth and the funding need of the beneficiary micro-units or entrepreneurs and it also provides a reference point for the next phase of graduation or growth.

32.4.1 Eligible borrowers under MUDRA Yojana

- Individuals
- Proprietary concern.
- Partnership Firm.
- Private Ltd. Company.
- Public Company.
- Any other legal entities.

The applicant should not be defaulter to any bank or financial institution and should have a satisfactory credit track record. The individual borrowers may be required to possess the necessary skills/experience/knowledge to undertake the proposed activity. The need for educational qualification, if any, need to be assessed based on the nature of the proposed activity, and its requirement.

32.4.2 Nature and Purpose of assistance

Need based term loan/OD limit/composite loan shall be sanctioned to eligible borrowers for acquiring capital assets and/or working capital/marketing related requirements. The MUDRA loans are provided for income generating small business activity in manufacturing, processing, service sector or trading. The Project cost is decided based on business plan and the investment proposed. MUDRA loan is not for consumption/personal needs.

It may be noted that trading, both retail and wholesale, which falls within the broad guidelines of MUDRA are also included in the list of eligible types of activities which come under MUDRA radar.

For the purpose of working capital limit, MUDRA has launched a new product called "MUDRA Card", which is a Debit card issued on Rupay platform and provides hassle free credit in a flexible manner.

32.4.3 Amount of assistance

Upto to Rs. 10 lakh in three categories viz. Shishu, Kishore and Tarun.

'Shishu' offers loans up to Rs. 50,000.

'Kishor' provides loans above Rs. 50,000 up to Rs. 5 lakhs.

'Tarun' provides loans above Rs. 5 lakhs up to Rs. 10 lakhs to micro-units

32.4.4 Margin/Promoters Contribution

Margin/Promoters Contribution is as per the policy framework of the bank, based on overall guidelines of RBI in this regard. Banks may not insist for margin for Shishu loans.

32.4.5 Interest rate

Interest rates are to be charged as per the policy decision of the bank. However, the interest rate charged to ultimate borrowers shall be reasonable. Scheduled Commercial Banks, RRBs and Cooperative Banks wishing to avail of refinance from MUDRA will have to peg their interest rates, as advised by MUDRA Ltd., from time to time.

32.4.6 Security

First charge on all assets created out of the loan extended to the borrower and the assets which are directly associated with the business/project for which credit has been extended.

No collateral security is to be obtained for MUDRA loans.

32.4.7 Guarantee cover- As per existing guidelines.

32.4.8 Tenor of Assistance:

Based on the economic life of the assets created and also the cash flow generated. However, MUDRA's refinance assistance will be for a maximum tenor of 36 months which will also be aligned to terms of allotment of MUDRA funds by RBI from time to time.

32.5 Prime Minister's Employment Generation Programme (PMEGP)

This is a scheme which is a merger of Prime Minister Rozgar Yojana (PMRY) and Rural Employment Generation Programme (REGP).

This scheme focuses on generating self-employment opportunities to the unemployed youth and traditional artisans through micro-enterprise establishments in the non-farm sector.

It is executed by the Khadi and Village Industries Commission (KVIC) which functions as the nodal agency for this scheme at the national level.

32.5.1 Eligibility for new enterprises

Any individual/s who is/are above 18 years of age is/are eligible. No income criteria.

For setting up of project costing above Rs. 10 lakhs in the manufacturing sector and above Rs. 5 lakh in the business or service sector, the beneficiary should possess at least VIII standard pass educational qualification.

Maximum project cost for Manufacturing sector under PMEGP is Rs. 50 lakhs and for service /trading sectors it is Rs. 20 lakhs. This includes term loan for capital expenditure and working capital.

For manufacturing units, working capital component should not be more than 40% of the project cost and for units under service /trading sector, the working capital shall not be more than 60% of the project cost.

Under this scheme only new projects are eligible. Any unit which is existing and even if under PMRY or REGP is not eligible. Also, those units which have already availed Government subsidy under any other scheme of GoI or State Governments are also not eligible.

Self Help Groups (SHG)s, Institutions Registered under Societies Registration Act, 1860, Production based Co-operative Societies and Charitable Trusts are also eligible.

For the projects where capital expenditure reaches the maximum ceiling of the Project cost for manufacturing / service and trading sector units , Bank can consider sanctioning of additional funds over and above Rs.50 lakhs and Rs.20 lakhs respectively. In such cases, the additional funds over and above Rs.50 lakhs / Rs.20 lakhs, will not be covered for subsidy.

32.5.2 Project Cost and Subsidy

Categories of beneficiaries under PMEGP	Beneficiary's contribution (of project cost)	Rate of Subsidy (of project cost)	
		Urban	rural
For setting up of new enterprises			
General Category	10%	15%	25%
Special Category (including SC,ST,OBC, Minorities, Women, Ex-Servicemen, Transgenders, Differently abled, NER, Aspirational Districts, Hill and Border areas(as notified by the Government) etc. Note Beneficiary's	5%	25%	35%
2nd Loan for Upgradation of existing unit			
All Categories	10%	15% (20% in NER & Hill states)	

Note:

- 1) The maximum cost of the project/unit admissible for Margin Money subsidy under Manufacturing sector for upgradation is Rs. 1.00 crore. Maximum subsidy would be Rs.15 lakh (Rs.20 lakh for NER and Hill States).
- 2) The maximum cost of the project/unit admissible for Margin Money subsidy under Business/ Service sector for upgradation is Rs. 25 Lakh. Maximum subsidy would be Rs.3.75 lakh (Rs.5 lakh for NER and Hill States).

32.6 Credit Guarantee Fund Trust for Micro And Small Enterprises (CGTMSE)

32.6.1 Objective of the scheme

To strengthen credit delivery system and increase the flow of credit to the MSE sector. Availability of bank credit without the hassles of collaterals / third party guarantees is to be provided which would be a major source of support to the first generation entrepreneurs in setting up a unit of their own under Micro and Small Enterprise (MSE).

Importance to be given on project viability and the credit facility is to be secured purely on the primary security of the assets financed.

Bank availing guarantee facility should endeavour to give composite credit to the borrowers so that the borrowers obtain both term loan and working capital facilities from a single agency. The Credit Guarantee Scheme (CGS) seeks to reassure the bank that in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to a specified percent of the credit facility.

32.6.2 Guarantee Cover

Any collateral / third party guarantee free credit facility (Both fund as well as non-fund based) extended by RRBs to a single eligible borrower in the Micro and Small Enterprises sector for credit facility not exceeding Rs. 200 lakh by way of term loan and/or working capital facilities or as decided by the Trust are eligible to be covered.

The extent of guarantee cover is given here under :

Micro Enterprises	
Up to Rs. 5.00 lakh	85% of amt in default (Max. Rs. 4.25 Lakh)
Above Rs. 5.00 to 500 lakh	75% of amt. in default (Max Rs. 375.00 lakh)
MSE Units located in North East Region	
Rs. Up to Rs. 50.00 lakh	80% of amount in default (max 40 lakh)
Above Rs. 50 to Rs 200 lakh	75 % of Amount in default
Women entrepreneurs / SC /ST entrepreneurs / Person with Disability (PwD)/ MSE promoted by Agniveers / MSEs situated in Aspirational District/ ZED certified MSEs	
Limits up to Rs. 200 lakh	85% of the amount in default .
All other categories of borrowers	75% of the amount in default
The extent of guarantee coverage for MSEs situated in Identified Credit Deficient Districts (ICDD) is additional 5% over and above the applicable guarantee coverage wef December 15, 2023 (i.e. for guarantee of 75%, the coverage would be 80%, for 80% it would be 85% and for 85% it would be 90%)	

The above coverage shall be applicable for all guarantees approved on or after April 01, 2023 including enhancement in Working Capital of existing covered accounts. All other Terms and conditions of the Scheme shall remain unchanged.

In case of renewal / enhancement of existing Working Capital accounts engaged in Trading activity which is already covered under Guarantee Scheme, the revised extent of coverage & fee shall be applicable. All proposals for sanction of guarantee approvals for credit facilities above Rs. 50 lakh will have to be rated internally by the Bank and should be of investment grade. Extent of guarantee for already old cases approved before April 01, 2023 would continue to apply.

Guarantee coverage has been increased from 50% to 75% for credit facilities of Rs 50 lakhs and above for cases sanctioned on or after 01.04.2018. Indicative guidelines are as below:

- Banks can apply for guarantee cover anytime during the tenure of Loan provided the credit facility was not restructured /remained in SMA2 status in last 1 year from the date of submission of application. This is a very vital change in favour of the banks as there were number of cases which were rejected by DICGC earlier, as the banks did not, in many cases, by oversight, report the sanctions to the agency.
- The guideline was made effective from October 08, 2021 to only fresh coverage / credit facility applying for the first time for coverage i.e. the same credit facility should not have been covered previously under CGTMSE/coverage discontinued in between.
- Provided further that, as on the material date:
 - o Credit facility is standard and regular (not SMA) as per RBI guidelines and / or

- o The business or activity of the borrower for which the credit facility was granted has not ceased;
- o And / or The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

Trading (Retail / Wholesale Trade) has been made eligible activity under CGTMSE.

Also, Trading activity has been aligned with other activities in respect of the extent of coverage, ceiling of credit guarantee coverage and guarantee fee.

Educational / Training Institution were also made as eligible activity under Credit Guarantee Scheme of CGTMSE and would attract fee, extent of coverage and other terms and conditions as applicable under existing normal Scheme.

“Hybrid Security” product has been introduced where Bank will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of Rs. 200 lakh, can be covered under CGS-I.

32.6.3 Credit facilities not eligible for being guaranteed under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme: -

- (i) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.
- (ii) Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.
- (iii) Any Credit facility shall not be eligible to covered under the Scheme if the said credit facility has been covered for guarantee through NCGTC Ltd.
- (iv) Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.
- (v) Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii), (iii) and (iv) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.
- (vi) Any credit facility which has been sanctioned by the lending institution against collateral security and / or third-party guarantee. However, after the introduction of Hybrid Security model, MLIs can cover the unsecured part of the credit facility(ies) under CGTMSE upto the overall exposure of Rs. 200 lakh.

32.7 Processing and Sanction

Processing the MSME proposals is similar to the normal Term Loan or Cash Credit assessment methods and hence the same is not discussed here once again.

CGTSME expects the bank to evaluate credit applications by using prudent banking judgement and shall use its business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.

32.8 Post Sanction Monitoring

CGTMSE expects that :

- Bank shall closely monitor the borrower account.
- Bank shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.
- Bank shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims.
- The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the Bank to recover the entire outstanding amount of the credit from the borrower.
- Bank shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.
- Bank shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit and the lending institution shall be bound to comply with such directions.
- Bank shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust.
- Bank shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor. In particular, Bank should intimate the Trust while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security.
- Bank shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust.
- Further Bank shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust

32.9 Annual Guarantee Fee (AGF)

AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facilities as detailed below on all the guarantees approved/ renewed on or

after April 01, 2023 including enhancement in existing working capital account already covered under Guarantee Scheme.

Slab	Standard Rate (SR)*	Fee Rate after Discount	Fee Rate with Risk Premium			
			15%	30%	50%	70%
0 to Rs. 10 lakhs	0.37	0.33	0.43	0.48	0.56	0.63
>Rs. 10 lakhs upto Rs. 50 lakhs	0.55	0.50	0.63	0.72	0.83	0.94
>Rs. 50 lakhs upto Rs. 100 lakhs	0.60	0.54	0.69	0.78	0.90	1.02
>Rs. 100 lakhs upto Rs. 200 lakhs	1.20	1.08	1.38	1.56	1.80	2.04

Further, concessions are given for AGF in the following cases:

- Women entrepreneurs/ SC/ST/ Person with disability (PwD) Borrowers would be given the discount of 10%. In case of PwD, Bank should obtain Disability Certificate(s) with regard to the promoter(s) issued by the competent authority while applying for guarantee coverage.
- Guarantee to the MSEs promoted by Agniveers shall also carry 10% relaxation in Annual Guarantee Fee.
- Units in Northeast Region (incl. Sikkim) upto Rs. 50 lakh would be given discount of 10%.
- MSEs situated in Aspirational District would be given discount of 10%.
- MSEs situated in Identified Credit Deficient Districts (ICDD) would be given discount of 10% with effect from (w.e.f. December 15, 2023).
- Zero Defect and Zero Effect (ZED) Certified MSEs would be given discount of 10%.
- An MSE falling in all the above three categories viz. Social, Geographic, MSE Status shall be eligible for maximum discount of 30%.
- MLIs newly registered/ which do not have sufficient history of transactions under CGTMSE will be placed at 70% risk premium for a period of at least 1 year.
- The review of Risk classification of MLI would be an annual exercise or at such interval as decided by the Trust. The review of Risk classification of MLI would be carried out by external agency or internally as decided by the Trust.
- The fee would be charged on outstanding basis i.e. First fee (guarantee fee) would be charged on guarantee amount and subsequent fee (annual fee) would be charged on outstanding amount.
- The total exposure of the MSE would be considered to arrive at the slab of the borrower and accordingly, applicable fee would be charged on the guarantee/outstanding amount.

In case of term loans, AGF would be calculated on outstanding amount as on 31st December against each guarantee account.

For working capital, AGF would be calculated on present / expected Outstanding as provided by MLI.

For cases covered under Hybrid Security Model, Guarantee fee will be charged on the guaranteed amount for the first year and on the outstanding amount after netting off collateral value and unsecured portion, if any, subsequently resulting in lower annual guarantee fee charged to MSEs.

Online module for updating the outstanding amount in respect of eligible guaranteed loan accounts is made available between January 01- January 15 every year.

32.9.1 Payment of AGF

- Annual Guarantee fee (first time fee) shall be paid to the Trust within 30 days from the date of first disbursement of credit facility (not applicable for Working capital) or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is later or such date as specified by the Trust.
- The Annual Guarantee fee (subsequent to first time fee) at specified rate (as specified above) on pro-rata basis for the first and last year and in full for the intervening years would be generated by first week of February every year.
- AGF so demanded would be paid by the Bank on or before 30th March each year or any other specified date by CGTMSE, of every year.
- Non-payment of the AGF within the stipulated time would cause the guarantee against the liability to be lapsed.

32.10 Submission of Claims

- Bank should inform the date on which the account has been classified as NPA during a particular calendar quarter, by the end of next quarter.
- Bank may invoke the guarantee in respect of credit facility within a maximum period of 3 years from the NPA date or lock-in period whichever is later, if the NPA date is on or after 15/03/2018. (For NPAs prior to 15/03/2018, time period for claim lodgement will be 1 year for cases sanctioned prior to 01/01/2013 and 2 years for cases sanctioned after 01/01/2013), if the following conditions are satisfied: -
- The guarantee in respect of that credit facility was in force at the time of account turning NPA.
- The lock-in period of 18 months for guarantee above Rs. 10 lakh with tenure of more than 36 months and 9 months for guarantee upto Rs. 10 lakh with tenure upto 36 months (wef December 15, 2023) from either the date of last disbursement of the loan to the borrower or the guarantee start date in respect of credit facility to the borrower, whichever is later, has lapsed. The amount due and payable to the Bank in respect of the credit facility has not been paid and the dues have been classified as Non-Performing Assets. The loss to the Bank should not be due to the negligence on the part of the Bank. The loan account should have been recalled and recovery proceedings be initiated. Waiver of legal action before the claim is made is increased to Rs. 10.00 lakhs w.e.f.01.04.23 provided the same is approved by a committee headed by an AGM of the Bank.
- Claims will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year by the Bank. Any claim lodged / received exceeding 2 times of the total fee including recovery remitted by the Bank will be suspended till such time the position is remedied i.e. payout is brought within the payout cap limit.

The Trust shall pay 75 per cent of the guaranteed amount on preferring of eligible claim within 30 days, subject to the claim being otherwise found in order and complete in all respects. In case of delay in settling the claim, the Trust will pay interest at prevailing Bank Rate for the period of delay beyond 30 days.

The Balance 25% of the guaranteed amount will be paid on the conclusion of recovery proceedings or till the decree gets time barred.

CHAPTER 33

SMALL ROAD TRANSPORT OPERATORS

33.1 Purpose

To finance transport operators and others for purchasing of Brand new commercial vehicle as under:

1. Utility Vehicle, Light / Medium/ Heavy Commercial vehicles. Light Motor Vehicles (LMV) - like Three-wheeler, e-Rickshaws, Jeep (commercial purpose), Taxi, Delivery Van to be operated for both passenger & Goods carrier and vehicles.
2. Heavy Commercial Vehicles (HCVs)
3. Heavy Motor Vehicles (HMTVs)- Vehicles used for both commercial Goods transportation & in construction/mining activities etc.
4. Passenger Bus / Semi Luxury / Luxury buses.

33.2 Eligibility

Individuals, HUF, Proprietorship, Partnership concerns (including LLP), Limited Companies, engaged in transportation business or any other business.

33.3 Project Cost

1. Cost will include cost of the vehicle, body building cost, registration charges, road tax, insurance charges, cost for tanker, cost of accessories, etc.
2. Cost of accessories (if any) to be financed should not exceed 5% of actual cost of vehicle, or as per Bank's Loan Policy.

33.4 Nature of Facility

Term Loan for purchase of New Vehicle.

33.5 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

33.6 Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with following:

- Quotations for Vehicle/s and other accessories proposed to be purchased.
- Financial Projections covering tenor of the Loan.
- Income Tax Returns (wherever applicable) for the past 3 Years
- Bank Account Statements for past 12 Months

For further details, please refer to Chapter 8 on Application for Credit facilities.

Bank Account Statements should be checked to study any cheque returns or other undesirable trends in the account, repayment track record of earlier loans etc.

If the Borrower/s is/are banking with another Bank, Branch should obtain a Confidential Credit Report on the dealings of the Borrower/s from his/her/their existing Banker/s.

33.7 Dealer Verification

- Dealer's antecedents are to be verified as we do it in the case of borrower applicant.
- It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list.
- It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the Equipment and price etc are also verified.
- If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

33.8 Margin

Minimum 20% or as per Bank's Loan Policy.

33.9 Repayment

EMI with Maximum upto 60 months including moratorium of maximum 3 months in case of HCV/HMV only, since additional time is required for body/trailer building. In case of LCV/LMV 1 month moratorium to be given.

33.10 Rate of Interest

As per Bank's Loan Policy Guidelines.

33.11 Security

Primary: Hypothecation of Vehicle to be purchased including accessories from out of Bank Finance.

Collateral: Depending on the quantum of Loan and as per Bank's Loan Policy, preferably Mortgage of Property worth at least 100% of the Loan or as per Bank Guidelines.

33.12 Sanction

Please refer to the Chapter 11 on Sanction.

Additionally, Details of the Vehicle/s, accessories to be purchased with cost of each component.

33.13 Documentation

Standard Documentation prescribed under Bank's Loan Policy Guidelines duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower.



While sanction of Term Loan for purchase of New Vehicle, Bank should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable.

33.14 Disbursement

- All the documentation formalities should be completed in all respects before disbursement.
- Margin should be collected upfront.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.
- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/ Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- In case of LMV/HMV wherein body / trailer building/tanker manufacturing work require additional time, disbursement to be done directly to the vendor in phased manner as per progress of work.

33.15 Insurance

The vehicle should be comprehensively insured in the name of the borrower with Bank clause for its full cost, and the relative policy should be kept on record

33.16 Post Disbursement Follow Up and Recovery

- Bank's hypothecation charge on vehicle should be registered with RTA and ensured that Bank's lien is recorded in registration book.
- A copy of the registration book evidencing said charge along with Duplicate Key should be obtained and kept on record.
- Bank's name should be painted or Sticker to be affixed on the Vehicle purchased.
- Display of Bank's hypothecation on the Vehicle purchased as "Financed by _____ Bank, Branch....." should be painted in bold letters at the prominent place.
- Post disbursement inspection should invariably be conducted by the branch to ensure end use of funds, purchase of Vehicle/s, accessories by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study.
- Branch has to follow up for prompt recovery of the instalments on the due date.
- Branch should take all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Vehicle / Accessories etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue in order to upgrade the accounts.

CHAPTER 34

PROFESSIONAL & SELF EMPLOYED – DOCTORS

34.1 Purpose

1. Purchase of new equipment and machinery for medical purpose including ambulance
2. For Acquisition of Premises and/ or for setting-up of clinic/ hospital in own site Or Purchase of Site & Construction of hospital/ clinic thereon
3. Expansion/ Renovation / Modernization of existing premises. Furnishing of premises and cost of medicines
4. Purchase/ Installation of Lift / Elevator, Solar Water heating system, Solar Electrification System etc to be installed at hospital premises.
5. Financing refundable deposit: up to '6 month's rent'

34.2 Eligibility

1. All practicing qualified medical practitioners holding a recognized graduate degree in any branch of Medicine/ Surgery /Dental Science / Physiotherapy/ Radiology/ Pathology /Diagnostic imaging etc.
2. Minimum practicing experience of one year in any branch of medical science, with minimum qualification of : MBBS/ BAMS/BHMS/BDS/BVSc & AH Or Degree in Para medical services like X-ray Technology and Radiology/ Medical laboratory Technology/ Physiotherapy / Optometry of Ophthalmic Technology recognized by related statutory/ regulatory authorities in India.
3. Individuals and sole proprietorship
4. Partnership firms/ LLP/ Limited Companies in which at least 50% of stake holding should be of medical practitioners.
5. Registered Trust/ Society are eligible provided one of the trustees/ members must be a medical practitioner.

34.3 Nature of Facility

Term Loan, working Capital, Non-fund based facility for capex.

34.4 Quantum of Loan

As Per Bank's Loan Policy Guidelines.

34.5 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

34.6 Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with following:

- Quotations for Equipment proposed to be purchased
- Estimates for Civil Construction, if applicable
- Financial Projections covering tenor of the Loan
- Income Tax Returns for the past 3 Years
- Bank Account Statements for past 12 Months
- Licence /registration for medical practice

For further details, please refer to Chapter 8 on Application for Credit Facilities.

On the basis of Financial Projections given, DSCR should be calculated. DSCR should not be less than 1.2 in any year and the average DSCR should be at least 1.5 or as per Bank's Policy Guidelines.

Bank Account Statements should be checked to study any cheque returns or other undesirable trends in the account, repayment track record of earlier loans etc.

If the Borrower/s is/are banking with another Bank, Branch should obtain a Confidential Credit Report on the dealings of the Borrower/s from his/her/their existing Banker/s.

34.7 Margin

As per Bank's Loan Policy Guidelines.

34.8 Repayment

As per Bank's Policy guidelines and should be based on the Cash Flows projected, preferably should not exceed 60 Months in case of Equipment Finance and 84 Months in case of Construction with a moratorium not exceeding 6 Months and 12 months respectively.

34.9 Rate of Interest

As per Bank's Loan Policy Guidelines.



Repayment of loan for professional/ self-employed doctors should be based on the Cash Flows projected, preferably should not exceed 60 Months in case of Equipment Finance and 84 Months in case of Construction with a moratorium not exceeding 6 Months and 12 months respectively.

34.10 Security

Primary: Hypothecation of Equipment Financed and Mortgage of land, Building in case of Construction.

Collateral: As per Bank's Policy guidelines depending on the quantum of Loan and preferably should not be less than 100% of the Loan Amount.

34.11 Sanction

Please refer to Chapter 11 on Sanction. Additionally,

- Details of the Equipment to be purchased with cost of each component.
- Details of Construction Cost, in case loans are given for Civil Construction.

34.12 Documentation

Standard Documentation prescribed under Bank's Loan Policy Guidelines duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.

For further details, please refer to chapter 12 on Documentation.

34.13 Disbursement

- All the documentation formalities should be completed in all respects before disbursement.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/ Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Loan should be disbursed in stages depending on progress of Construction in case of Civil Works duly obtaining Approved Engineer's Certificate.

34.14 Insurance

All Assets created out of Bank Loan and Collateral Securities (if obtained) should be insured for full value against all risks with Bank Clause (Bank as Loss Payee).

34.15 Post Disbursement Follow Up and Recovery

- Post disbursement inspection should invariably be conducted by the branch to ensure end use of funds, purchase of equipment by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study. Thereafter, branch conduct quarterly visits to the Unit to ensure its running and record their observations in their visit reports.
- Branch has to follow up for prompt recovery of the instalments on the due date.
- Branches / Offices should take all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action such as seizure and auctioning of the hypothecated Vehicle/ Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue during harvesting season in order to upgrade the accounts.

CHAPTER 35

PROFESSIONAL & SELF EMPLOYED – OTHERS

35.1 Purpose

1. Outright purchase of ready built office premises or premises under construction in commercial complexes/ independent buildings.
2. Construction of office premises in the land already owned'
3. Purchase of site/ land and construction of office premises thereon.
4. Loans for repair/ renovation/ extension of office premises against the security. of such premises or any other immovable property/ other financial assets after maintaining prescribed margin.
5. Purchase of office furniture & fixture, books, solar water/ electricity systems (only if office premise is acquired under the scheme).

35.2 Eligibility

1. Practicing professionals like Chartered Accountants, Architects, Engineers, Valuers, Management/ Financial Consultants, Company Secretaries, Cost Accountants, Advocates etc.
2. Individuals, Firms, LLP, Companies, Trust or Societies engaged in rendering professional services and having an established practice.
3. The existing Professionals/ Firm should be an assessee under Income Tax or as per Bank's Policy Guidelines.
4. No income criterion for new business. Loan shall be based on the projected financials given.
5. In case of existing professionals/ Firm preferably with more than 3 years of experience, income criteria shall be as per Bank's Policy.
6. Should be a registered member with their respective Professional Association/ Board/ Body etc.
7. The professionals should have established practice. The professional should have minimum experience and within the age group as per bank guidelines. -
8. The applicants should not have any outstanding statutory dues.

35.3 Nature of Loan

Term Loan/ Working Capital, if necessary

35.4 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

35.5 Application and Appraisal

Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with following:

- Quotations for Furniture / Fixtures / Equipment / Books proposed to be purchased.
- Estimates for Civil Construction.
- Financial Projections covering tenor of the Loan.
- Income Tax Returns for the past 3 Years
- Bank Account Statements for past 12 Months

For further details, please refer to Chapter 8 on Application for Credit facilities.

On the basis of Financial Projections given, DSCR should be calculated. Preferably, DSCR should not be less than 1.2 in any year and the average DSCR should be at least 1.5 or as per Bank's Loan Policy Guidelines.

Bank Account Statements should be checked to study any cheque returns or other undesirable trends in the account, repayment track record of earlier loans etc.

If the Borrower/s is/are banking with another Bank, Branch should obtain a Confidential Credit Report on the dealings of the Borrower/s from his/her/their existing Banker/s.

Where the application is for construction of building, approved plan shall be obtained and kept on record.



On the basis of Financial Projections given with the Loan Application, DSCR should be calculated. Preferably, DSCR should not be less than 1.2 in any year and the average DSCR should be at least 1.5 or as per Bank's Loan Policy Guidelines.

35.6 Margin

The Margins proposed hereunder are indicative and Branch should follow their Bank's Loan Policy Guidelines in this regard.

1. 35% of total project cost i.e. cost of construction/ purchase consideration (the agreement value inclusive of stamp duty/ registration etc.) of office premises including the cost of land.
2. 40% for furniture & fixtures etc.

Note: In case loan is for purchase of land and construction thereon, the value of the land shall not exceed 50% of total project cost.

35.7 Repayment

As per Bank's guidelines.

Generally, Term loan is repayable in maximum 84 EMIs (including moratorium). Interest to be recovered during moratorium.

Moratorium: Maximum 12 months (in case of purchase of ready built office premises, moratorium may be restricted up to 2 months).

35.8 Rate of Interest

As per Bank's Loan Policy Guidelines.

35.9 Security

Primary: Mortgage of office premises and hypothecation of furniture & fixtures for which bank loan is given subject to:

- In case of ready built property, the age of the property shall not be more than 30 years at the time of sanction of loan.
- Residual life of the property should be at least 10 years more than the repayment tenor of the loan and the fact is to be certified by empanelled valuer.
- In case loan is also given for purchase of land, construction should start within a period of 3 months from first disbursement.

Bank's Policy Guidelines should be followed in respect of above three points.

Collateral: As Per Bank's Loan Policy Guidelines depending on the quantum of Loan.

35.10 Sanction

Please refer to Chapter 11 on Sanction. Additionally,

- Details of the Furniture/Fixtures/other Equipment to be purchased with cost of each component.
- Details of Cost of Ready Built Premises /Construction Cost, in case loans are given for Civil Construction.

35.11 Documentation

- Standard Documentation prescribed under Bank's Loan Policy Guidelines duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official.
- All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower.
- All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable.
- For further details, please refer to Chapter 12 on Documentation.

35.12 Disbursement

- All the documentation formalities should be completed in all respects before disbursement.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/ Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Loan should be disbursed in stages depending on progress of Construction in case of Civil Works duly obtaining Approved Engineer's Certificate.

35.13 Insurance

All Assets created out of Bank Loan and Collateral Securities (if obtained) should be insured for full value with Bank Clause (Bank as Loss Payee).

35.14 Post Disbursement Follow Up and Recovery

- Post disbursement inspection should invariably be conducted by the branch to ensure end use of funds, purchase of equipment by the borrower and bringing in operation the business activity as

envisaged in economics of business/ viability study. Thereafter, branch conduct quarterly visits to the Unit to ensure its running and record their observations in their visit reports.

- Branch has to follow up for prompt recovery of the instalments on the due date.
- Branches / Offices should take all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues / arrears, Branch should issue notices and where there is no response to the Branch's notices, initiate action under SARFAESI Act, seizure and auctioning of the mortgaged property (if taken), seizure of Equipment etc. and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue in order to upgrade the accounts.

CHAPTER 36

LOANS AGAINST DEPOSITS

36.1 Introduction

This type of loan is by far the safest type of advances in any branch. However, the yield on these loans is much lower as compared to the other type of advances. It should also be noted that all care should be taken while granting loans against deposits as there have been instances where frauds have surfaced in this type of loans also.

36.2 Application

- The Loan against Deposits (LAD) documentation is also simple and it is an application cum document.
- This has to be filled in and signed by all the depositors, even in case where the deposits are in the nature of either or survivor, former or survivor, operable by first name depositor only etc. The reason for the same is that these instructions are for payment of the deposit on the due date. Any transaction in between the date of deposit and the due date requires concurrence from all the joint owners of the deposit.



Care should be taken to ensure that where interest is paid on the deposit into the operative account of the constituent, upon the sanction of loan against deposit, this instruction should be changed and interest shall be credited to the loan account. Even Part payments can also be made into the Loan against Deposits (LAD) account.

36.3 Documentation

- The application duly signed by all the joint depositors and the deposit receipt duly discharged, by all the depositors, forms the documents for the loan.
- The deposit receipt is to be duly discharged over a revenue stamp.
- Stamp duty as applicable per the state law shall also be paid and stamps affixed on the documents.
- Where deposits are held in the names of non-individuals, the deposit loan application and the deposit receipt have to be signed by the authorised signatory with per pro stamp affixed both on the application and the deposit receipt.

36.4 Sanction

On receipt of the above, branch has to verify the signatures of the depositors and after satisfying itself about the correctness of the same, the loan may be sanctioned, within the discretionary powers assigned.

The loan may be sanctioned taking into account both the deposit amount and interest accrued duly retaining a margin as per bank policy.

36.5 Disbursement

- Proceeds of the loan so sanctioned shall be credited to the operative account of the depositor / first depositor in the case of joint deposit.
- The entire loan amount shall be disbursed in one lot and not on instalment basis.

36.6 Margin and Interest

As per Bank's policy/ guidelines

36.7 Post Sanction and operations in the account

- Care should be taken to ensure that where interest is paid on the deposit into the operative account of the constituent, upon the sanction of loan against deposit, this instruction should be changed and interest shall be credited to the loan account.
- Part payments can also be made into the LAD account. However, amount once credited cannot be withdrawn again.
- It is very important to mark lien against the deposit in the system and ensure that the proceeds of the deposit are first used for adjusting the loan availed and balance, if any, may be credited to the operative account of the depositor.
- On the due date of the deposit, the deposit loan shall be closed from the proceeds of the deposit and the balance shall be credited to the operative account of the depositor. At no cost, both deposit and the loan be renewed.

36.8 Loans against Special type of deposits

Loans may be sanctioned against deposits made by minors, HUF, Government Departments / Government Corporations, Trusts, Associations, Partnerships, Proprietary concerns and limited companies etc.

36.9 Deposit in the name of Minor

- Where the deposit is in the name of a minor, loan against the deposit cannot be allowed for any other purpose except for the benefit of the minor depositor. So, a declaration to the effect that "the proceeds of the loan will be utilised for the benefit of the minor depositor" shall be obtained along with other documents.
- Where a deposit is made in the name of a minor by a court, loans against such deposits are to be sanctioned only after getting permission in writing from the Court.

36.10 Deposit in the name of Government / Government Department / Trust

- Where the depositor is a Government Department or a Trust etc., care should be taken to ensure that the request for loan comes from the competent authority and the person making the request is authorised to sign on behalf of the department.
- Supporting documents authorising him to raise the loan shall also be obtained and kept on record.
- Similarly, in the case of Trust, the Managing Trustee must be authorised by the members of the managing committee to avail the said loan.

36.11 Deposit in the name of Hindu Undivided Family (HUF)

In the case of a HUF deposit, the application and the discharge on the deposit shall be done by the Karta and all major co-parceners. If there is a minor as a member of HUF, then signature on his behalf shall also be done by them.

36.12 Loans to Illiterate Depositors

When a loan is allowed against deposits made by the illiterates, Branch has to explain to the depositor the details of transaction and the fact that it has been explained shall be recorded.

36.13 Third (III) Party Loans against Deposits

- A III Party Loan against Deposits is a loan availed by a person on the deposit standing in the name of another person.
- Bank stipulates a higher rate of interest and additional margin.
- Such loans shall not be sanctioned against deposits placed by Government /Government Bodies / Trusts / Bodies.
- In the case of III Party Deposit Loan, the application shall be signed by the borrower as well as the depositor offering the security. In addition, the depositor shall discharge the deposit receipt and shall also give his consent in the bank's prescribed consent form. All these form part of the documents for III Party Loans against Deposits.
- Where a deposit loan is sanctioned to a proprietorship firm on a deposit of its proprietor, or a partnership firm on the deposit of one of the partners of the firm, it is not classified as a III Party deposit loan.
- However, in the case of partnership firms, the partnership deed has to be looked into, if it permits availing such a facility. If the deed is silent, then all the partners have to sign the deposit loan application.

36.14 Loans to Companies, Trusts, Clubs and Associations

- Where the loan is sanctioned to a limited company /club / association etc., the application for deposit loan shall be accompanied by a resolution authorising an individual /s to sign on behalf of the company /association and submit the application and avail the loan duly discharging the deposit receipt.
- The application and deposit receipt shall be signed by the authorised signatory/ies and a per pro stamp shall be affixed against the signatures.

CHAPTER 37

OVERDRAFT AGAINST DEPOSITS

37.1 Introduction

Another form of availing credit facility against the deposit is known as Secured Overdraft against deposits. This is also a safe advance and again here also the rate of interest charged is linked to the deposit interest rate.

The difference between the loan against deposit and overdraft against deposit is that in the former case, once a loan is released, there can be only repayments and further withdrawals will not be allowed.

37.2 Application, Sanction and Documentation

- While the application and documentation are almost similar to deposit loan, an OD continuity letter in the bank's format is additionally obtained in the case of Overdraft against deposit.
- The limit will be fixed based on the amount of deposit. Due date shall be fixed as the due date of deposit or two years, whichever is earlier.
- The limit will be fixed based on the amount of deposit.
- No overdraft will be allowed against deposits to an illiterate depositor.
- Similar to III Party Loans against Deposits, III Party Overdrafts may also be allowed against deposits, again with the same rules as applicable to Loans against deposits. Deposit receipt shall be discharged by the depositor customer and the application and OD continuity letter shall be signed by the borrower. A letter of consent shall be given by the depositor.



In the case of Secured Overdraft against deposits, where the borrower has deceased, operations should be stopped immediately and legal heirs be intimated about the liability. The liability, if not adjusted, shall be adjusted from the proceeds of the deposit and the balance be settled to the legal heirs.

37.3 Operations in the account

- In the case of secured overdraft, the borrower will be fixed a limit, based on the amount of deposit.
- After considering the margin, a limit will be determined and the borrower will be given a cheque book and he will be at liberty to draw the amount from the overdraft upto the limit fixed at his discretion.
- This can be done any number of times whereas in loans against deposits, the entire limit has to be disbursed at a time.
- In Secured Overdrafts against deposits, the depositor-borrower will also be able to deposit money into that account and subsequently again withdraw the amount as and when he requires. All the other conditions and stipulations as mentioned in loans against deposits are applicable here also.
- All other conditions and stipulations as are applicable to loans against deposits regarding crediting of interest to the borrowal account, closure of deposit on the due date and adjusting to the borrowal account etc are the same for OD against deposits also.



In case of death of the depositor, the nominee / legal heirs shall be informed of the outstanding liability in the loan against deposit account. Where it is a III party loan against deposit, the borrower shall also be informed.

In the case of Secured Overdraft against deposits, the operations in the account shall be stopped on the death of the depositor and the legal heirs / nominee be informed of the liability existing.

In the case of Secured Overdraft against deposits, where the borrower has deceased, operations should be stopped immediately and depositor (in case of joint deposits)/ Nominee shall be intimated about the liability. The liability, if not adjusted, shall be adjusted from the proceeds of the deposit and the balance be settled to the legal heirs.

Other terms and conditions shall be as per Bank's policy/guidelines

CHAPTER 38

GOLD LOANS & AGRI GOLD LOAN

38.1 Introduction

A very popular scheme, gold loan is one of the safest loan products of any Bank. The ticket size of the loan starts from a very low amount. This is a loan product, where high appraising skills are not required. For gold loans, the borrower “pledges” the gold ornaments and avails the loan.

38.2 Gold Loan Appraiser

- Appraisal of gold ornaments has to be done only by the appraiser appointed by the bank.
- The appraiser enters into an agreement with the Bank.
- The agreement should be stamped with adequate stamp duty as applicable.
- The agreement will be in the standard format of the Bank.
- Branch should ensure that the agreement with appraiser is in force and should take all the necessary steps to renew the same before the due date of the agreement.
- The performance of the appraiser shall be reviewed periodically in the frequency fixed as per loan policy.

38.3 Eligibility

- Gold loans are sanctioned to individuals only.
- No gold loan should be sanctioned to the appraiser himself.
- Similarly, the borrowers should not be introduced by the appraiser.

38.4 Application

It is a simple document where the applicant requests the bank to sanction him a gold loan and also requests the bank to take delivery of the listed ornaments he proposes to pledge.

38.5 Appraisal and Sanction

- Bank official examines the KYC of the applicant and when found in order, hands over the ornaments given by the borrower to the appraiser for his appraisal regarding quality, weight and value.
- The person pledging the gold should own the ornaments and therefore care should be taken when names or initials are engraved on the jewellery. A declaration to the effect that the ornaments belong to him should be obtained in such a case.
- The ornaments proposed to be pledged to the bank should be examined by the appraiser and they should be clearly listed out in the application-cum-appraisal form.
- Appraiser should clearly mention the gross weight and net weight of each of the ornaments pledged.
- Precious stones studded on the ornaments are to be deducted from the weight, should not be valued and bank will not finance against them.



Precious stones studded on the gold ornaments are to be deducted from the weight, it should not be valued and bank should not finance against them.

- Ornaments below 18 carats shall not be accepted as security.
- After valuation of the ornaments, the appraiser should handover the ornaments to the joint custodian officer.
- The officer should place them in a tamper-proof cover and seal the same in front of the second joint custodian.
- Bullion shall not be accepted as security.
- Where gold coins are accepted as security, it should be ensured that these are specially minted gold coins sold by banks and that the total weight of these coins shall not exceed 50 grams.
- Joint custodians should verify for correctness of the list of ornaments mentioned by the appraiser with the ornaments in the cover, seal the tamper proof cover and should affix their signatures on the appraisal cum application form, duly confirming receipt of the ornaments.
- The label on the packet should have the name of the borrower, the gold loan number, date of sanction, amount of loan, No. of pieces, the gross weight and net weight and should be signed by the joint custodians.
- The list of jewels pledged should be entered in the ornament register under joint signatures.
- Based on the value of the jewels pledged, as mentioned by the appraiser, loan amount shall be fixed duly deducting the margin as per Bank's guidelines.
- The limit is then sanctioned by the branch head if it falls within his discretionary powers or should seek sanction from the higher authority.
- Due date shall be fixed as per the extant guidelines.

38.6 Documentation and disbursement

- Gold loan application duly filled in along with details of the ornaments pledged along with appraiser's valuation of the ornaments should be duly stamped as per the state laws.
- Demand promissory note and the gold loan application mentioned above form the documents for the gold loan.
- Where the loan is classified as Agricultural Gold Loan, proof of land holding shall be obtained and kept with the documents.
- Where the loan is classified under Agriculture, end-use shall be ensured.
- The total quantum of gold loans availed by a single borrower shall be the criteria for fixing the rate of interest and repayment terms.
- Nomination shall be obtained for gold loan.
- Processing fee, if any, fixed by the Bank shall be collected.
- Appraisal charges shall be collected as per norms.
- The loan shall be disbursed in single tranche on the date of sanction by credit to the operative account of the borrower and shall not be by payment of cash.
- In the case of non-agricultural gold loans, interest shall be serviced as per the related guidelines.

Gold loan under Bullet Repayment (RBI circular dated 16 February 2017 - RBI/2016-17/229 DBR.RRB. BC.No. 53/31.01.001/2016-17)

- Amount of loan – Not to exceed Rs. 2 lakh
- Period of loan – Maximum 12 months

- Loan to Value Ratio- Maximum 75% - Loan plus interest
- Crop loans sanctioned against the collateral security of gold/gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans

38.7 Post-sanction

- The borrower has the liberty to repay the loan in convenient instalments.
- Where the limit is overdue, notice advising repayment of the entire amount should be sent to the borrower.
- The borrower should be contacted in person and should be advised to clear the overdues.
- Where there is no response, auction notice in the prescribed format shall be prepared and sent by registered post acknowledgement due.
- Even after the auction notice, there is no response, branch shall issue public notice for auction of jewels after obtaining permission from the competent authority.
- Wide publicity shall be given for auction of jewels.
- On the date of auction, after following the procedure laid down in the policy, the gold ornaments shall be auctioned.
- After appropriation of the Auction proceeds to the loan outstanding together with all expenses relating to Gold Auction, if there is a shortfall, notice has to be given to the borrower advising him to clear the balance.
- If there is a surplus, the surplus amount shall be refunded to the borrower after duly collecting all the interest and charges payable by the borrower.
- In case the payment of the balance amount is not forthcoming, the branch shall file suit in the court of competent jurisdiction,

38.8 Agricultural Gold Loans

Where a borrower proposes to avail a gold loan for the purpose of his farming or allied activities, the loan availed is classified as Agricultural Gold Loan. While application, processing and sanction of the loan is the same as in the case of non-agricultural gold loans, banks should obtain proof of agricultural land holding and a declaration that the amount would be used for agricultural purposes.

CHAPTER 39

RETAIL LOANS – COMMON POINTS

39.1 Introduction

We have seen that lending activity in Banking is very vital for its existence. Lending activity is divided into various segments, mainly among them are the following:

1. Agricultural Finance
2. Loans to MSME
3. Loans to Other Priority Sector Advances
4. Retail Loans
5. Export Finance

In this chapter we shall discuss in detail about the Retail Loans.

Retail Loans, have, of late formed a significant portion of Bank Credit, partly due to the incentives given by the Government and partly due to the lesser extent of non-performing assets in this sector.

Retail loans are designed to meet the financial needs of individuals and not businesses. Depending upon the repayment capacity of the individual, his credit record, these loans are sanctioned. Some of these loans like clean loans / personal loans are given for short term duration, while loans given for education purpose or vehicle loans are given for medium term duration while housing / home / mortgage loans are long-term loans.

The following are classified as Retail Loans:

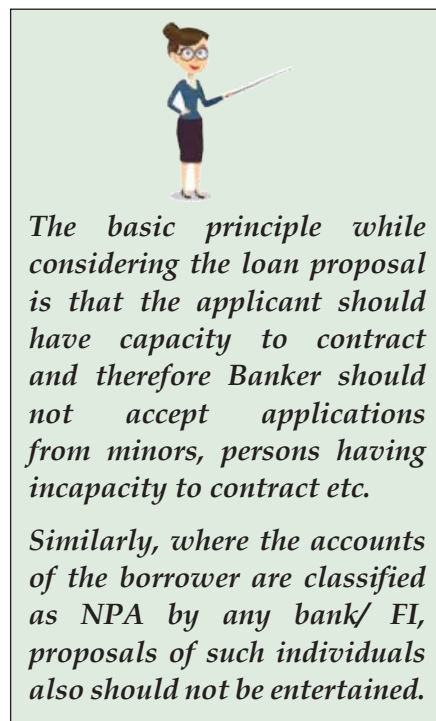
1. Personal Loans / Clean Loans
2. Vehicle Loans
3. Educational Loans
4. Housing Loans
5. Mortgage Loans.

Retail loans are generally given to individuals for meeting their personal requirements. A common set of rules are applicable for any retail loan and these should be borne in mind while taking up any retail proposal.

39.2 Application

Bank has standard application form for each type of loan and it should be ensured that the applicant fills up all the details in the said application. Necessary guidance may be given to the needy applicants to ensure that the application is filled up in all respects and the necessary enclosures attached to prevent delay on account of such omissions.

The basic principle while considering the loan proposal is that the applicant should have capacity to contract and therefore Banker should not accept applications from minors, persons having incapacity



to contract etc. Similarly, where the accounts of the borrower are classified as NPA by any bank/ FI, proposals of such individuals also should not be entertained.

Along with the application, property statement in the Bank 's standard format should also be obtained. The property statements of both borrower and co-obligant are to be obtained, filled up in all aspects and signed by them. It should be advised that the applicant and co-obligant disclose all their assets and liabilities in the property statement even if they are encumbered to others. Encumbrances on the assets should also be specified. It is also advisable to collect the details of Legal Heirs of the applicant also.

A salaried employee should be a permanent employee of the organisation and should furnish his last 3 pay slips along with details of his employer. All applicants should furnish Income tax returns for the preceding three years and other relevant documents. All the documents submitted are to be duly self-attested by the borrower / co-obligant as applicable.

39.3 Appraisal

Once an application is received, the same must be properly recorded in the application received/ sanctioned /rejected register. It is very important that the Branch Head / Credit Officer should have a personal discussion with the applicant regarding the purpose of the loan and get first-hand information on his credit worthiness, nature of employment and family background.

The branch should also verify the CIBIL records and ensure that the CIBIL score is above the benchmark prescribed. It is just not the score that we have to get satisfied with, but CIBIL Report throws lot of light on the applicant which was discussed at length in Chapter No. 6 on Credit Information Companies.

Generally, personal loans are sanctioned to the existing customers of the Bank and hence their KYC would have been verified earlier. However, as we are now lending funds to the applicant, it is advisable that fresh KYC compliance be ensured not only for the borrower but also for the co-obligant/guarantor.

Another useful tool for banker is the statement of account of the applicant. Banker should examine the account to ascertain

- whether the customer is meeting his obligations in time or not,
- whether there are any cheque returns,
- whether the net salary as shown in the salary slip is credited to the account
- where the applicant is a pensioner, whether the pension is being credited to the account
- whether the borrower is having other repayment obligations
- whether the Fixed Obligations to Income Ratio (FOIR) is comfortable and it indicates that the applicant has enough capacity to repay in addition to his existing commitments.

It should also be verified, where the applicant is a salaried employee, whether the employment is of a permanent nature or not. It should also be ascertained whether the salary is being routed through the account of the applicant with lending bank. An undertaking from employer that the salary will be continued to be remitted through the applicant's account with lending bank, should be obtained. Where the salary is not being routed through the Bank account, a No-Objection is obtained from the Bank where salary is credited and an unconditional undertaking that the monthly instalment will be remitted to the Bank should be attached to the loan application. The repayment period should be at least 6 months before the retirement date of the salaried employee or as per Bank's Policy Guidelines.

Where such an undertaking is in place, it should also be ascertained whether the person issuing such undertaking has the capacity to issue the same and record such confirmation in the proposal.

In the case of pensioners, the pension shall be routed through the Bank and the family pensioner shall join the loan as co-applicant. An undertaking should be insisted from the pensioner that he will not shift his pension from Bank without the consent of the Bank and the same shall be forwarded to the Pension Paying Authority. The pension paying authority should acknowledge receipt of the request from the pensioner and should confirm that the request has been acceded to.

In the case of non-salaried applicants, the operative account of the applicant's business should preferably be with the Bank and the operations in the account shall be satisfactory.

We shall now discuss in detail about each of the retail products bearing in mind that the above factors are applicable to all types of retail loans.

39.4 Documentation

The foremost point to be taken cognisance of is that the sanction letter should be acknowledged in writing and the borrowers and co-obligants should accept the terms and conditions in toto and record the same in the second copy of the sanction letter and the same should form part of the documents.

It should be ensured that documents shall be obtained in the Bank's prescribed format only and any deviation shall have the approval of the competent authority. It should also be ensured that all the terms and conditions mentioned in the sanction letter are incorporated in the loan documents. The documents should state the full names of the borrowers and guarantors along with the names of their father/ husband and should be completed without leaving any blanks. It should also be ensured that all alterations are attested by both the borrower and co-obligant with their full signature.

Normally, the documents should be executed within the branch premises in the presence of officials of the branch / authorised official or the approved representatives / agents of the Bank. In case they are executed at a place other than the branch premises, sufficient care is to be taken to ensure that the same is witnessed. In a few cases, documents are executed by a Power of Attorney (POA) holder. In that case, a copy of the power of attorney should be attached to the documents and it should be ensured that the person giving the POA has executed the same and has the power to do so. Branch should also ensure that the power of attorney is in full force and effect and the same is not revoked at the time of execution of the documents.

It is very important to ensure that all pages and schedules in the documents are signed by the borrower and co-obligants and the signatures are in the same style throughout the documents.

In some cases, it may so happen that two executants sign the documents at different places and / or different dates. Branch should ensure that the correct date and place are mentioned by each of them in their own handwriting.

After the documents are properly executed and completely filled up, they should be put together in separate docket / file as per the practice prevailing. The documents should be entered serially, date-wise, in the documents register under signatures of the custodians.

Where the quantum of the loan is such that it needs legal vetting of the documents or permission for release, the same should be obtained before release of limits.

CHAPTER 40

PERSONAL LOANS

40.1 Purpose

The loan is generally given to meet the urgent needs of an individual. Medical purposes, contingencies in the family, travel abroad are some of the examples for which these loans can be considered. No personal loans should be considered for speculative or illegitimate purposes.

40.2 Category of Borrowers

Normally, personal loans are given for a specified category of individuals, viz., salaried class, pensioners, professionals and self-employed persons. It is given only to resident Indians and non-residents are not eligible for such loans.

40.3 Application and Appraisal

Branch should follow the guidelines given in Chapter 8 on Application for Credit Facilities.

While arriving at the eligibility, only regular monthly components of the salary are taken for computation of the eligibility and components like travelling allowance, bonus, overtime, incentives etc should be excluded from arriving at the eligibility.

In the case of non-salaried / pensioner applicants, it should be ensured that the applicants is in the business since at least the last 2 years and they should have submitted the income tax returns on an annual basis and that no two ITRs are submitted within a span of 6 months. Copies of Shop and Establishment licence , GST registration, other mandatory licences / registrations are to be obtained and kept on record.



It should be ensured by the bank that the proceeds of the loan are credited to the Savings Bank account of the borrower maintained with the bank branch and under no circumstances cash payment shall be allowed towards proceeds of the loan amount.

40.4 Sanction

While sanctioning the personal loans, care should be taken to ensure that the Fixed Obligation to Income Ratio (FOIR) is maintained as per the Bank's norms and that the repayment period is not beyond the date of retirement in the case of salaried applicants. The sanction should also clearly stipulate that the loan is payable in equated monthly instalments or in monthly instalments with the interest being serviced as and when debited. Sanction shall incorporate all the terms and conditions that are prescribed for any non-security bearing facility. Branch shall communicate the sanction to the applicant in writing all the terms and conditions of sanction immediately after receipt of the sanction letter from the sanctioning authority. It should be communicated in duplicate and a copy of the communication shall be obtained back from the borrower in token of having accepted the terms and conditions in toto. The same shall be signed both by the borrower and the co-obligant.

40.5 Documentation

Branch should follow the guidelines mentioned in Chapter 12 on documentation and shall obtain the relevant documents applicable for Personal Loan

40.6 Disbursement

Branch should ensure that the processing charges as applicable are collected upfront before disbursement of the loan. In cases where the borrower is maintaining salary account with the Bank, branch should obtain standing instructions for recovering monthly instalments. Bankers also insist for 2 undated cheques signed by the borrower and favouring the bank. In some cases, Banker may accept ECS mandate. In such cases, it should be ensured that the same is acted upon and the acknowledgement of the ECS mandate accepting bank is kept on record.

Where the documents require stamping as per the local laws prevailing, the same should be done before disbursement of the loan.

It should be ensured that the proceeds of the loan are credited to the Savings Bank account of the borrower maintained with the branch and under no circumstances cash payment shall be allowed towards proceeds of the loan amount.

40.7 Post Sanction Monitoring

The loan being clean and not backed by any collateral, every care should be taken by the field level staff to check whether the instalments are regularly credited to the loan account.

In case where there is a default, the borrower should be immediately contacted both by correspondence and personally and the recovery shall be ensured.

Where there is an undertaking by the employer to deduct the instalment and send it to the Bank, the signatory of such undertaking shall be contacted immediately and reasons for non-remittance ascertained and corrective steps shall be initiated immediately.

Similarly, where in spite of obtaining ECS mandate, recovery has not been forthcoming, the banker shall be contacted immediately for recovery of the instalments.

Where post-dated cheques are obtained, care shall be taken to present the cheques on the due date. Branch should also have a check on the availability of post dated cheques and when they are getting exhausted should obtain additional cheques from the borrower, sufficiently in advance.

Branch should constantly monitor the account for critical indicators of incipient sickness leading to classification under Special Mention Account (SMA) category.

Wherever necessary, branch should obtain Acknowledgement of Debt (AOD) signed both by the borrower and co-obligant / guarantor before the pro-note becoming time barred.

Wherever there is no positive response for persuasive collection methods, legal action is to be initiated after obtaining necessary approvals. In case of death of the borrower, a notice is to be issued to all legal heirs with a copy marked to the guarantor, demanding payment of the entire loan outstanding. When all the legal heirs request for transfer of the outstanding liability in their names, fresh documentation is obtained as per the Bank's policy.

After account is classified as NPA, branch should follow up for recovery on one side and on the other side initiate all action as is appropriate. Sometimes, borrower may approach the bank for One time settlement (OTS), Branch has to verify the capability of the borrower to bring in the required amount in case the OTS proposal is received and if satisfied, obtain necessary approvals. The methodology of handling OTS proposals is discussed in the subsequent chapters.

CHAPTER 41

HOUSING LOAN

41.1 Introduction

The popular and most important portfolio in retail assets is Housing Loans portfolio. Government of India (GoI) has also attached importance to this segment by giving tax reliefs to individuals purchasing houses /apartments and has classified affordable housing loans as priority sector advances.

Housing is one of the priority sectors identified by the Reserve Bank of India. Loans to individuals up to Rs. 35 lakh in metropolitan centres (with population of ten lakh and above) and loans up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family, are eligible to be considered as priority sector provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed Rs. 45 lakh and Rs. 30 lakh, respectively. Housing loans to banks' own employees are not eligible for classification under priority sector.

This, coupled with the fact that this is secured asset and default rate is lower as compared to other types of advances, housing loan has been a good source of credit deployment by Banks.

Banks are using several aggressive strategies to attract customers to avail housing loans from them. Some of them are:

- Approving the project itself wherever a residential complex is coming up and giving publicity of the same in order to attract the prospective buyers in that venture to approach the Bank for housing loans.
- Approach existing customers of the bank availing other services from them to avail housing loans also from the Bank.
- Take over existing housing loans from other banks.
- Fund the builders constructing housing projects so that cross-selling of the housing loans will be easier.

However, housing loans also have some distinct disadvantages:

- The tenor of the loan is very long.
- In view of the competitive market, the rate of interest is also low.
- Recovery process in case of default is quite long.
- Incidence of frauds is increasing.

41.2 Purpose of loan

1. Purchase of Plot:

Housing Loan can be granted for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

2. **Construction Of Building / Ready-Built House:**

Housing Loans may be granted to individuals for purchase/construction of dwelling unit. The applicant may own a property already in his name but still he is eligible for a housing loan.

3. **Out-right purchase of old house:**

Housing Loans may also be sanctioned to individuals for purchase of old house the age of which is within the age-limit prescribed as per loan policy guidelines of the Bank.

4. **Repairs and renovations:**

Loans may be sanctioned for repairs and renovations to the existing dwelling units and such loans also can be classified as Housing Loans.

5. **Takeover of existing housing loans:**

Where a borrower having availed a loan in other FI is now desirous of availing the loan from the Bank, takeover of such housing loans also fall under the same category.

Gestation period for housing loan depends upon the stage of construction. Generally, if the house / apartment is to be constructed, a holiday equivalent to the period of construction subject to a maximum as prescribed in the Loan Policy,

Please refer to Chapter 39 on Retail Loans- common points. The information given under Paragraphs Application and Appraisal are applicable to this type of loans also.

41.3 Pre-sanction stage

Housing loans are given to individuals either singly or jointly and not to HUF, Trust and Association of persons. Since this is a loan involving individuals, due diligence has to be conducted very diligently and all the joint owners have to join as borrowers.

The relationship between the applicant and the co-applicant shall be only spouse/ parents /son/ daughter (if sole child). It is advisable to consider joint application of siblings only when the property is owned jointly by them.

Since these loans have a long tenure, it is advisable to ensure that the age of the applicant is also taken cognisance of while considering the proposal.

General Conditions – The age, income, amount, margin ,etc. should be as per bank guidelines.

In the case of loans given to salaried class,

- The age of the applicant should be above the prescribed minimum age as per Bank's Loan Policy guidelines and the loan should be ideally cleared before the retirement date of the applicant in the case of single borrower or before the retirement of the borrowers.
- Where proof of income beyond the retirement age is provided, it is advisable to ensure that the due date shall be before such applicant reaches the age of 70 or as prescribed under Bank's Loan Policy Guidelines.
- Where in exceptional cases the due date is fixed beyond 70 years of age of the applicant or maximum age as per Bank's Loan Policy. The legal heirs should join the loan as guarantors/ NOC from the legal heirs should be in place.

- Branch shall ascertain whether the employment is of a permanent nature or otherwise and obtain the latest three salary slips to arrive at the eligibility,
- Income tax assessment orders for the previous three years shall also be obtained and it should be verified whether the income shown in the returns matches with that shown in the salary slips and reasons for variance, if any, shall be recorded, if found satisfactory.

Where the loan is given to self-employed & professionals, outer age limit should be considered as 65 years or as per Bank's Loan Policy, unless there is a proper succession plan and income proof to support repayment.

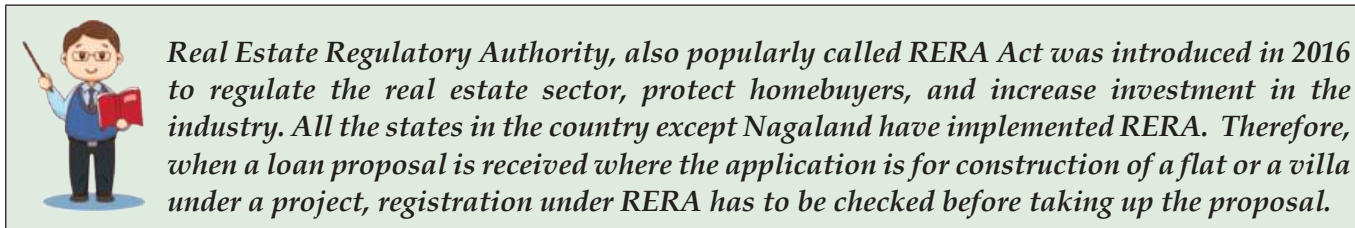
Where the loan is given to an individual on the basis of the income of the company, it should be ensured that the borrower and the co-borrower have substantial interest, preferably not less than 75% in the business.

Where the branch has considered any other income from other than salary/ net profit etc. for computation purposes, proof of such income should be verified and recorded in the appraisal note.

It should be borne in mind that minor's income should not be included for computing the eligibility.

Where an NRI is the applicant, branch should check and ensure that

- a) that he holds an Indian passport
- b) that he is in a permanent job
- c) that a local resident has signed as co-applicant / guarantor
- d) that borrower has given General Power of Attorney
- e) that the NRI has signed the application form for housing loan



41.4 Computation of eligibility

For salaried class, the applicant should be a permanent employee. The income should be assessed on the basis of ITR or salary slip.

Branch should insist on submission of past three years' income tax returns to compute the eligibility. Care should be taken to ensure that the borrower has not clubbed submission of the returns of any two years. It should also be verified that there is no substantial increase in the income during the succeeding two years as compare to the income three years ago. If there is a steep increase, branch should ascertain the reasons thereof and record the same if they are satisfied with the explanation given by the applicant, duly noting the same in the appraisal note. Similarly drastic drop in income over the previous years has to explained by the borrower and recorded by the branch in the appraisal note.

Where Rental income is included in eligibility calculations, it should be ensured that the same is supported by bank statements where the income is reflected / ITR returns / rental agreement. While including this income, care should be taken to include the expenses related to the said property like municipal tax, maintenance cost etc. The income of spouse may be added in case she is a co-obligant / co borrower.

While arriving at the eligibility based on the income as provided in the IT returns, incomes such as income from capital gains, income speculative purposes or arrears etc should not be included while arriving at the eligibility. Similarly, while assessing income based on the salary slips, income from overtime, provident fund and other statutory obligations are deducted while arriving at the income. Where the borrower is salaried, care should be taken to ensure that all fixed obligations are deducted from the absolute amount in order to arrive at the proposed EMI and the loan eligibility.

While assessing the proposal for housing loan, as it is a non-productive loan and is dependent only on the income generated from salary / business / profession, care should be taken to examine the banking habits of the borrower by

- Ensuring regular payment of EMIs, credit of salary and other credits in the bank statement
- Where the borrower is a State Govt. employee and salary is received in cash, verification of Form 16 / ITR should be done
- Checking the Average Quarterly Balance (AQB) in his operative account and comparing the same with EMI of the proposed loan.
- Analysing bulk credits in the account
- Checking for any cheque returns in the last 6 months
- Checking for regular issue of Stop payment instructions

Different methods have to be adopted for arriving at the eligibility for different types of employment. The same thumb rule which we applied for salaried class cannot be used for self-employed & professionals or non-professionals, where we should consider their gross receipts and arrive at the net annual income and there after the eligibility. Net annual income can be computed as (Gross Profit + Depreciation + Appropriations if any + Interest payments other than interest on working capital loan - annual loan payment commitments).

41.5 Margin

Also called Loan to Value (LTV) should also be stipulated in the sanction. This depends on the Fixed Obligations to Income Ratio (FOIR) also. FOIR is thus the ratio or % of fixed expenses like loan instalments etc. to income of an individual. Margin for a loan depends not only on the value of the security but also on the repayment capacity of the applicant.

Generally, margin for housing loans is fixed at 15 -25% of the cost of the house/apartment. Thus, the Loan to Value (LTV) would be in the range of 75- 85% depending on factors like FOIR, age of the applicant, age of the property being purchased etc.

Reserve Bank of India, vide its Master Circular No. RBI/2023-24/08 DOR.CRE.REC.No.06/ 08.12.001/2023-24 dated April 03, 2023, while discussing the quantum of loan to be given directed as under:

While deciding the quantum of loan to be granted as housing finance, banks should abide by the following Loan to Value (LTV) and Risk Weights (RWs):

Category of Loan	LTV Ratio (%)	Risk Weight (%)
Individual Housing Loan		
Upto Rs.30 lakhs	< 80	35
	> 80 and < 90	50
Above Rs.30 lakhs upto Rs. 75 lakhs	< 80	35
Above Rs.75 lakhs	<75	50

From the above, it can be seen that RBI has stipulated higher risk weight where the LTV is high.

41.6 Checkpoints to be additionally scrutinised for sanction of housing loans

- While processing a housing loan, branch should ascertain the source from which the margin of the borrower is being brought. Further, the applicant should be in a position to bring in additional funds in case of cost overrun. The capacity of the applicant to bring in the margin and sources through which the same is brought should be thoroughly checked so as to avoid issues during the subsequent disbursements.
- In addition to the documents relating to KYC, income details, property documents being offered as security, Bank should insist on submission of approved plan. The plan approval is done by the Planning Authorities in respective Corporations, Municipalities and Panchayats.
- The builder's KYC is to be checked before sanctioning housing loans in a project. Number of units, as a percentage of the total no. of dwelling units in a housing complex, that can be sanctioned in the same complex is stipulated in the loan policy of the Bank and branch has to take cognisance of the same. The reputation of the builder and his track record of having completed the projects in time is an important attribute for considering sanction of housing loans, because if there is a delay in completion of the project, the burden of repayment will fall on the borrower even before completion of the apartment, which may result in the account becoming non-performing. So, KYC of the builder, his reputation in the market, his ability to complete the project in time are to be scrutinized and documented while processing a housing loan.
- The ability of the builder to bring in the required funds for completion of the project, even in the worst scenario of some of the flats remaining unsold shall be ascertained and recorded.
- Where the housing ventures are coming up, in order to protect the interest of the purchasers, government is now keeping under its lien a few flats till the completion of the project and obtention of Occupancy Certificate (OC). Care should be taken to ensure that such flats are not financed by us before the OC is issued.
- The flat number being purchased should be clearly spelt out in the agreement for sale and the same is also noted in the building plan submitted.
- Real Estate Regulatory Authority, also popularly called RERA Act was introduced in 2016 to regulate the real estate sector, protect homebuyers, and increase investment in the industry. All the states in the country except Nagaland have implemented RERA. Therefore, when a loan proposal is received where the application is for construction of a flat or a villa under a project, registration under RERA has to be checked before taking up the proposal.
- While financing housing loans for purchase of flats, the Bank officials should invariably verify the original title deeds of the land where the building is being constructed / has been constructed. It may so happen that the land may be mortgaged and the builder may sell individual flats based on sale deeds to several buyers. Since the original land documents are mortgaged, the individual owner of the flat may not acquire any title unless the mortgage is cleared. While many apartments come up on a land parcel and therefore it is not possible to handover the original title deeds to each buyer, buyer and his banker should therefore confirm that the land where the building is coming up is free from all encumbrances.
- Where the application is for construction of an independent house in the land belonging to the applicant, detailed estimate for construction, prepared by a civil engineer has to be attached to the application and this will form the basis for arriving at the cost of the project.

- Where the application is for outright purchase of a constructed dwelling unit, the sale agreement shall be obtained and this will form the basis for arriving at the eligible amount.
- Where the application is for purchase of an old house, valuation specifying the residual age done by the panel engineer shall form the basis for arriving at the eligible amount.
- Where the loan is for purchase of a fully constructed property, latest municipal tax paid receipt shall be obtained and kept on record.
- Where the application is for purchase of a flat under construction, the agreement entered into with the builder shall be obtained and on the basis of the cost projected therein, scrutinize the same and then eligibility is worked out.
- In the case of housing loan for resale of a property, branch should verify and confirm that vacant possession is being given to the buyer and the property is free from all encumbrances.
- The property being purchased should be easily accessible and should not have high tension wires going above the building.
- The property being purchased under second sale should not be used for religious activities, schools and hospitals.

41.7 Takeover of housing loan

- Takeover of housing loan should be done with utmost care and after ensuring thorough scrutiny of the borrower's profile, his KYC and CIBIL data.
- Reasons for shifting his loan to the Bank have to be ascertained, verified and documented.
- The list of title deeds already mortgaged to the previous lender shall be obtained and the title to the property duly verified by the panel advocate.
- A confidential report about the borrower and conduct of the account shall be obtained from the existing lender.
- A No-objection letter for takeover shall also be obtained.
- The statement of account of the previous outstanding loan account shall be obtained and studied for any abnormalities.
- The loan shall be taken over only after the commencement of the repayment and not during gestation period.
- It is advisable that a clear track record of at least 12 months / as per Bank's policy should be there before any account is taken over.
- While considering the proposal for takeover, it should be ensured that there should be no change of borrowers, security and the due date shall not be beyond the original sanctioned due date.
- Where a tri-partite agreement is in force between the previous lender, builder and the borrower, necessary changes are to be made duly obtaining the advice of the legal advisor.
- A letter of authorisation addressed to the previous lender to handover all the documents relating to the property to the taking over Bank should be obtained from the borrower.
- The existing lender should confirm that upon receipt of the amount outstanding in the loan together with upto date interest, he will hand over all the title deeds, link documents and other documents relating to the property.

- On the day of release of the loan, after completing all formalities like obtention of housing loan documents signed by all applicants and guarantors, if any, getting legal audit completed, if required, branch should obtain the balance due certificate from the existing lender.
- After obtaining the dues together with upto date interest and after obtaining a request for payment of the said amount to the existing lender, branch should release the payment directly to the existing lender and obtain an acknowledgement.
- Thereafter, branch should obtain the original documents lodged with the existing banker and complete the mortgage formalities as discussed in this chapter.

41.8 Gestation/Holiday Period

Fixing the gestation / holiday period for housing loan is different from fixing the same in the case of manufacturing units / loans given to technocrats. In housing loan, the time taken for completion of the house / apartment is the criteria for fixing the holiday period. In the case of loans given for the purpose of repairs and renovation, the holiday period should be shorter.

41.9 Sanction

Based on the above discussion and after appraisal of the proposal and arriving at the eligibility, the sanction is to be made according to the discretionary powers duly incorporating all terms and conditions pertaining to housing loan.

Sanction should stipulate that disbursement of housing loans should be closely linked to the stages of construction of the housing project / house and upfront disbursement should not be made in cases of incomplete / under-construction / green field housing projects.

However, in cases of projects sponsored by Government/Statutory Authorities, this condition can be waived depending upon the Bank's policy and loan may be permitted to be disbursed as per the payment stages prescribed by such authorities, even where payments sought from house buyers are not linked to the stages of constructions, provided such authorities have no past history of non-completion of projects.

Reserve Bank of India in its Master Circular Master Circular No. RBI/2023-24/08 DOR.CRE.REC. No.06/08.12.001/2023-24 dated April 03, 2023, directed that "In order to have uniformity in the practices adopted for deciding the value of the house property while sanctioning housing loans, banks should not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. However, in cases where the cost of the house/dwelling units does not exceed Rs.10 lakh, bank may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio." Sanctioning authority should take cognisance of the same while considering the cost of the project.

The sanction shall be made duly considering Fixed Obligation to Income Ratio (FOIR) and LTV and thus stipulating necessary margins and considering the gestation as discussed above.

Example of calculation of FOIR:

Fixed income of the applicant	A	100,000
Variable income like TA Bill, medical reimbursement etc.	B	20,000
Monthly instalments payable	C	30,000
Medical expenditure during the month	D	10,000
Fixed Obligation to Income Ratio (FOIR) as %	C/A	30%

Sanction should include the following points in the case of housing loan for purchase of flat from a developer:

- Approved plan should be in place
- The apartment being purchased should be distinctly identified with boundaries specified
- Margin money should be brought in up-front.
- The builder should be informed about the bank finance and that the title deed should be handed over directly to the Bank.
- A tri-partite agreement, duly approved by the Bank, shall be entered into between the borrower, builder and bank specifying the consideration, extent of the flat, extent of undivided share of land, time schedule by which the possession shall be given, commitment that occupation certificate shall be produced as soon as the completion of construction and detailing the amenities that are being given etc.
- Original land documents have to be verified with the builder and a record of the same is to be made and kept with the documents.
- Branch officials shall accompany the borrower to the registrar's office and ensure that the documents post registration are handed over to the representative of the Bank.
- On receipt of the title deeds, legal opinion shall be obtained and equitable mortgage shall be created, duly noting the list of documents mortgaged and specifying the area and boundaries of the mortgaged property.
- Entry in the Title deeds register shall be done ensuring chronological order.
- Where payment is made to the builder, branch shall obtain receipts for each payment and keep them along with the documents.
- No instalment shall be released only on the request of the builder. Request for release shall invariably come from the borrower /s.

Sanction should include the following points in the case of housing loan for construction of a residential house in the land owned by the applicant/s:

- Title deeds in original along with all link documents as instructed by the legal advisor in his legal opinion shall be obtained.
- 13 years nil encumbrance certificate shall be obtained.
- Approved plan should be in place and panel engineer shall certify that the building is being constructed only as per approved plan only.
- Estimate of cost of construction shall be submitted.
- Borrower should bring in the margin money /show proof of margin money upfront.
- Loan should be disbursed in phases depending on the progress of work and duly ensuring the margin money is brought in.
- The title deeds along with the link documents shall be deposited with the Bank and an equitable mortgage shall be created.
- Bills for purchase of materials and payments made should be submitted to the bank.
- As far as possible, bulk payments shall be made directly by the Bank.

Sanction should include the following points in the case of housing loan for outright purchase of a second-hand house /flat :

- Title deeds in original along with all link documents as instructed by the legal advisor in his legal opinion shall be obtained.
- Approved plan shall be obtained and panel engineer should confirm that the building has been constructed as per the approved plan. In case of deviation, building regularisation certificate shall be in place.
- Branch should obtain and keep on record the agreement of sale entered into by the applicant with the existing owner.
- The building shall be valued by bank approved engineer duly giving the value and the residual life of the building.
- Encumbrance certificate for the previous 13 years shall be obtained.
- A no-due certificate shall be obtained from the existing lender in case a loan is outstanding.
- Where a loan is outstanding by mortgage of the property, branch should obtain from the lending bank a letter confirming the amount to be paid for release of the mortgage and that upon payment of the said amount, the title deeds would be handed over to the branch upon authorization

41.10 Common to all types of housing loans

Sanction should incorporate the following points for all types of housing loans :

- Complete description of the property including boundaries should be mentioned in the sanction letter.
- Every time the borrower is seeking release of loan amount, a request in writing shall be submitted to the bank. Only upon obtaining written request and upon payment of margin money, the instalment shall be released.
- Loan will be disbursed in stages depending on the progress of construction.
- Before disbursement of the loan, the property shall be visited by branch official along with the approved valuer and the same shall be valued by the valuer every time a fresh disbursement is sought.
- The draft copy of the sale deed shall be approved by the Bank before execution.
- Borrower should authorise the Bank to collect the sale deed after registration.
- Borrower should undertake to mortgage the said property in favour of the bank once it is executed and the sale deed is obtained.
- Borrower should undertake to get the mortgage registered in favour of the Bank (wherever applicable).
- After registration of the mortgage, branch should obtain an EC and ensure that the interest of the Bank is noted therein.
- Certified copy of title deed is obtained independently from Sub-registrar of assurances.
- Sanction shall also clearly state that during the gestation period, interest shall be payable monthly and after the gestation period, the EMI as informed by the bank from time shall be paid by the borrower.
- E-Nach / Nach authorisation to be obtained.
- Branch should ensure periodic unit visits as per the Bank's policy.

41.11 Documentation and Post Sanction follow-up

- All the documents as required for housing loan and listed out in the loan policy shall be obtained and they shall be duly signed by all applicants/Co-obligants/Guarantors on all pages by subscribing their full signatures.
- Document(s) shall be properly stamped as per stamp duty applicable in the state where they are executed and registered and attested (wherever applicable).
- Sanction letter / LOI duly acknowledged by the Borrower/s, Co-Obligant/s and Guarantor/s is to be attached to the loan agreement.
- Legal vetting shall be done wherever required.
- The second copy of the sanction letter shall be obtained duly signed by the borrower/s and guarantors, if any, accepting all the terms and conditions of the sanction.
- All the terms of sanction shall be complied with before starting disbursement.
- Branch should confirm to all the directions given in the legal audit.
- Where repayment is by DAS (deduction at source) it is to be ensured that the confirmation for such deduction is signed by the person authorised to sign on behalf of the organisation.
- Where an ECS mandate is obtained, it is advisable that a cancelled cheque as supporting evidence of the bank details should also be obtained.
- Panel engineer's report shall be obtained for each release and branch official shall accompany the engineer during his visit.
- Insurance shall be done for the property duly incorporating bank interest in the mortgaged property.
- Branch shall conduct periodical visits as prescribed and report deviations, if any.
- Branch should ensure that Municipal taxes are paid every year and copies of the receipts shall be kept on record.
- Continuity and uniformity is maintained in filling the documents.
- Document mentions the correct place and date of execution.
- Documents distinctly stipulate the terms and conditions of repayment of loan, payment of interest, other charges and all other essential terms and conditions.
- Where two executants are signing the documents at different places and /or different dates, correct date and place are to be mentioned by them in their own handwriting.
- There is no delay in filing charge with CERSAI where Mortgage of Securities is obtained.
- Where SI is accepted, it is to be ensured that the account is in operative status.
- Where sale or purchase transaction is undertaken by the GPA Holder, the POA should be obtained in Bank's format and the same is registered and the POA specifically authorises the Power of Attorney holder to receive the sale consideration.
- Periodical valuation of mortgaged asset shall be done by empanelled valuer as per Bank's norms.
- It should be ensured that there is no deterioration in the asset value and the value covers the liability in the loan after the stipulated margin.
- Periodical encumbrance certificate is to be obtained by the Branch to verify the transactions relating to the mortgaged asset.
- Re-valuation of properties shall be done as per guidelines.

- In case of overdues in the loan account, Branch should follow up by issuing notices/SMS Alerts/e Mail Alerts to the Borrower and also follow up with the Borrower with personal visits for recovery.
- In spite of regular follow up, wherever the account becomes NPA, branch should follow the laid down norms for recovery.
- Loan Recall Notice, in the Bank's proforma is issued where instalments are overdue beyond 90 days.
- Where Post Dated Cheques are dishonoured, branch shall issue notice under Section 138 of NI Act and filing case in case of non-response within stipulated time limit as per the Act.
- Where Mandate is given for recovery of instalments from the salary but payment is not received, Branch shall make personal visits / contact the employer and ascertain the reasons.
- Where the account is classified as NPA, shall issue notice under SARFAESI Act duly following the timelines as per the Act.
- Before auctioning the property, it should be ensured that there are no legal issues.
- Acknowledgement of Debt (AoD) is obtained and kept on record to ensure that the documents are enforceable.
- Where SARFAESI proceedings are initiated, all relevant formalities are to be complied with, and the relative copies of correspondence shall be maintained.
- Where possession of Mortgaged Asset is taken, branch should adhere to the laid down guidelines in disposing off the asset duly following the time lines stipulated therein.
- After auction, the post-sale notice shall be issued to the borrower.
- After receipt of sale price, the Authorised Officer shall issue a certificate of sale in the format prescribed by the Bank.
- After sale of asset, if there is a shortfall, notice should be given to the borrower for recovery of the same and legal action to be initiated in case there is no response.
- Similarly, if there is excess amount recovered by sale of asset, the amount after appropriation to the loan account and other expenses, the same shall be returned to the borrower within a reasonable time.
- In case of death of a borrower, notice to all the legal heirs for recovery of entire loan outstanding shall be issued with copies to guarantor / co-obligant.
- Where OTS / NS is contemplated, the said offer should be received in writing duly signed by all parties, duly indicating the source of funds.
- OTS sanction shall be conveyed along with terms and conditions in writing to the borrower and guarantor and their acceptance of the terms and conditions shall be obtained and kept on record

Please also refer the detailed chapter 55 on NPA Management and Recovery.

CHAPTER 42

MORTGAGE LOANS

42.1 Introduction

Mortgage Loans also called as Loans against Property, are a very popular form of retail asset products which can be availed by an individual to tide over his liquidity issues.

This is a form of credit which is easy for handling on the part of the Bankers also as there is no requirement of ensuring the end-use, great assessment tactics are not needed and is a secured asset for the Bank. The only condition insisted upon by the Bankers is that the amount lent by the Bank should not be used for any speculative purposes.

Please refer to Chapter 39 on Retail Loans- Common Points. The information given under Paragraphs Application and Appraisal are applicable to this type of loans also.

42.2 Purpose

Mortgage loan is availed, as mentioned above, to meet the credit requirements of an individual or enterprise and can be used for any purpose except for an activity which is speculative in nature, in Chit Fund Business, Nidhi Company, Agricultural or Plantation activities or in Real Estate business (other than development of townships, construction or Residential / Commercial premises, Roads or Bridges) or for construction of Farm House, Trading in Transferrable Development Rights (TDRs) and any other activity specifically restricted by the Government / Regulator.

While the loan is fully secured and hence the risk of failure is reduced as compared to personal loans, educational loans etc., care should be taken to ensure that the repayment capacity is also considered while arriving at the eligibility. In the case of applicants who are self-employed or engaged in business, the income tax returns are to be closely looked into to arrive at the share of the applicant's profit, duly adding back items like depreciation for arriving at the eligibility.

42.3 Eligibility

While the eligibility should be worked out based on the value of the security offered and the income of the applicant, care should be taken when rental income is considered for arriving at the eligibility. Bank should satisfy about the correctness of the rent taken for computation of eligibility by verifying the rental agreement, ITRs, Bank statements etc.

In the case of salaried applicants, the eligibility will be worked out on the basis of the regular income that the applicant receives, which is verified from the salary slips of the preceding three months.

42.4 Constitution of borrower

The applicant should be an Indian Resident, either an individual, Self-employed Professional, Proprietary Concern, Partnership firm and Companies. It can also be a society registered under Societies Act. However, applications from HUFs, Trusts, Association of Persons (AoP) and Non-Governmental Organisations are not considered for this type of loans.

42.5 Security

The security shall be an immovable property held in accordance with FEMA regulations and should not be an Agricultural land / Plantation Land / Farm House. Where a property is jointly owned, all the joint owners shall be applicants / co-applicants. Where HUF is a co-owner of the property, HUF can be taken as a co-applicant only because of the ownership rights that exists on the property. However, its income should not be considered for arriving at the eligibility.

As the security offered becomes the primary and sole security, while care should be taken to ensure compliance with the local laws as to the minimum built-up area, the purpose for which the property proposed to be mortgaged is being used, the approach to the property, the marketability etc. should also be looked into. Sale of properties where schools, hospitals or religious activities take place are difficult for disposing off and such security should be taken up with lot of caution.

Some of the housing societies insist on obtention of NOC from them before mortgaging property within the society. Such clauses should be carefully examined before accepting the security and care should be taken to obtain NOC before making any disbursement.

Wherever leasehold property is accepted as security, the rights of the lessor have to be examined to check whether he has mortgageable right over the said property and if such mortgage has to be informed to the lessor, the same should be done to have enforcement rights over the same.

The legal opinion obtained shall be in Bank's approved format only and without any gaps and the opinion should not be ambiguous and with any subjective clauses. The panel advocate shall obtain copies of the documents from the sub-registrar and confirm the genuineness of the title deeds and the title of the owner over the said property. The advocate should list clearly the documents, both main and supporting, to be obtained and should also confirm if originals or certified copies / photocopies are to be obtained. The encumbrance of the property over the last 13 years need to be checked and commented upon by the Panel Advocate.

The securities are to be valued by the Bank's Panel valuer and his report should be submitted in the Bank's standard format. The panel valuer should be accompanied by authorised representative of the Bank. Photographs of the borrower applicant, Officer visiting the property and the panel engineer along with photograph of the premises proposed to be mortgaged should form part of the documents. As per the bank's policy, if the property is to be valued by two engineers, the same should be got done and the least of the valuations shall be taken as the value of the property and the loan shall be considered accordingly.

The residual life of the property is to be ascertained from the panel engineer and it should be ensured that the same should be at least 5 years after the scheduled due date of the proposed loan,

42.6 Guarantor

A suitable guarantor shall be obtained and it should be ensured that the guarantor is a resident Indian with sufficient means and income and should be a resident of the place from where the loan is being availed. While the liabilities of the co-obligant can also be ascertained from the CIBIL report, care should be taken



Mortgage loan is availed, to meet the credit requirements of an individual or enterprise and can be used for any purpose except for an activity which is speculative in nature, or specifically restricted by the Government / Regulator.

to ascertain the contingent liabilities of the co-obligant / guarantor by obtaining information regarding the loans outstanding for which he has already stood as co-obligant. Bank, as a matter of prudence, should insist that before standing as guarantor / co-obligant to any other loan the borrower / co-obligant / guarantor shall obtain written approval from the Bank. This is very much required as by standing as guarantor to a new loan, the contingent liability of the guarantor / co-obligant / borrower will increase and may finally impact his financials which were considered while sanctioning the present proposal.

42.7 Assessment

While assessing the proposal, the Loan to Value ratio (LTV) is the parameter which is very significant. The LTV as per the loan policy of the bank shall be the basis for fixation of the quantum of loan in addition to the other criteria discussed above. It must be remembered that the loan is not for creation of any asset and as such the margin on the same shall be carefully prescribed meeting the above LTV norms.

42.8 Insurance of Securities

It is advisable that the security/ies being offered for the said loan shall be insured for all risks for the entire period of loan ab initio with the Bank's interest duly incorporated in the policy document.

Wherever applicable, Branch should obtain Liability insurance wherein the loan liability is met by the Insurance Company in case of death of the Borrower.

42.9 Sanction Letter

The sanction letter shall be prepared in duplicate, duly incorporating all terms and conditions of sanction. The sanction shall clearly stipulate the particulars of security being taken for the proposed loan together with extent, no. of floors, boundaries etc. The borrower and the co-obligant / guarantor shall sign the second copy of the sanction letter duly mentioning that the terms and conditions have been accepted in toto and the same shall be form part of the documents.

42.10 Documentation

Documents as prescribed shall be obtained, duly filled in and signed by the borrower and the co-obligant / guarantor at the relevant places in full.

Guidelines as mentioned in Chapter 12 regarding Documentation need to be followed here also.

Prescribed documents for mortgage loans, duly ensuring equitable mortgage rights to the bank are to be obtained. Equitable mortgage shall be created by deposit of title deeds and sufficient stamp duty as per the state laws shall be paid to ensure enforceability of the documents. All the documents listed in the legal opinion shall be obtained and wherever the legal advisor suggested that originals shall be obtained, branch should ensure that they are invariably obtained. The documents creating equitable mortgage rights shall be signed by the person/s who is/ are the owner/s of the property which is being mortgaged to the Bank. The other loan documents shall be signed by the borrower and co-obligant.

The title deeds shall be entered in the title deeds register in a sequential form and the description of the security shall be clearly entered in the said register duly signed by the officers holding the same in custody.

Mortgage shall be registered with the sub-registrar immediately (wherever applicable as per State law) and an encumbrance certificate be obtained after the registration to ensure that the name of the Bank appears as the mortgagee.

CERSAI registration shall be completed immediately after execution of the mortgagee deed.

42.11 Post-sanction monitoring

The proceeds of the loan shall be credited to the operative account of the borrower duly obtaining his request in writing for release of the loan amount.

Standing instructions for debiting the operative account with the instalments / ECS mandate in favour of the bank shall be obtained along with the documents. An acknowledgement from the ECS mandated bank shall be kept on record.

Branch should collect the monthly instalments on or before the due date. It should follow up wherever the PDCs are getting exhausted, well in advance. In case of failure on the part of the ECS bank to remit the instalments as agreed upon, Branch should follow up with the said bank. If the borrower fails to honour the commitment of repayments, steps should be taken to keep the asset intact and ensure its safety.

The mortgaged asset shall be visited periodically and the visit reports shall be properly signed and kept on record. Branch should ensure that the mortgaged asset is not alienated and is maintained in good condition.

Periodical valuation of the property shall be done as per the extant guidelines in order to ensure that the property is not alienated.

In case of overdues in the loan account, Branch should follow up by issuing notices/SMS Alerts/e Mail Alerts to the Borrower and also following up with the Borrower with personal visits for recovery.

In spite of regular follow up, wherever the account becomes NPA, branch should follow the laid down norms for recovery.

Where Post Dated cheques are dishonoured, the branch should issue notice under Section 138 of NI Act and filing case in case of non- response within stipulated time limit as per the Act.

When the account is classified as NPA, Branch should, after obtaining necessary approvals, initiate action by issuing the notices under SARFAESI act for recovery of dues. The action under SARFAESI Act shall be completed within the timelines stipulated for issue of notices, possession and auction. Branch can also initiate legal proceedings after obtaining permission from the competent authority. Regarding the procedure for suit filing and SARFAESI, detailed discussion will be covered in separate Chapter no 55 on NPA Management & Recovery.

CHAPTER 43

EDUCATION LOANS

43.1 Introduction

One of the very popular and most important portfolios in retail assets is Educational Loans. Government of India (GoI) regularly monitors the performance of commercial banks in this segment. The loans sanctioned for educational purposes, including vocational courses, not exceeding Rs. 20 lakhs will be considered eligible for priority sector classification. These loans presently classified as priority will continue to remain priority sector advances, irrespective of changes at a later date, till completion of the loans. Hence, this category of loans assumes great significance in Banking.

Educational loans are broadly classified as

1. Loans for studies within India
2. Loans for studies outside India.

Within India, another important classification is Loans for top rated institutions and Other institutions.

While it is important to know the KYC of the applicant and his parent/s/ guardian, it is equally important to know the details about the institution where the applicant proposes to pursue his education, as repayment depends on the applicant getting an employment immediately after his education / his ability to start a venture on his own. Many accredited institutions get their students placed during their last semester itself and education in such institutions therefore guarantee employment, which will therefore generate repayment opportunities. While it is easy for the banker to get placement details about the institutions within the country, it becomes difficult when the loan is being considered for education overseas and bank has to therefore depend on search engines like google to get information about the university and course being undertaken by the applicant.

43.2 General critical issues in handling Educational Loans

- The holiday period for educational loans is generally very long.
- There is a possibility that the applicant may pursue his higher education after the completion of the course for which the loan is availed.
- The applicant may not complete the course / may drop out midstream without informing the bank.
- There is a possibility that the borrower applicant may avail similar loan for the same purpose from some other FI.
- The applicant borrower may not get suitable employment after completion of the course.
- The applicant may change the University / Course during the course of his study duly informing / not informing the Bank.
- Change of place may not be informed to the Bank.
- Where institutional tie-up is in place, the possibility of the applicant living in a place far off from the branch is very common.

Keeping the above factors in mind, an application for educational loan has to be considered with utmost caution.

43.3 Application

The application for educational loan shall be in the prescribed format and it is mandatory that the same is acknowledged as soon as it is received. KYC compliance can be done by the branch if the borrower is residing within the vicinity of the branch but in other cases, branch may take the assistance of the branch which is nearest to the borrower's residence for completing the same. At the time of submission of the proposal itself, a declaration that the borrower has not availed any other educational loan from other banks / FIs shall be obtained and kept on record. Along with the general attachments like PAN card copy, AADHAR copy, branch should insist and obtain copy of the mark sheets of the last qualifying exam, proof of admission, any scholarship available, schedule of expenses etc. and along with the above, the details of the parent who is offering his co-obligation may also be obtained.

Please refer to Chapter 39 on Retail Loans. The information given under Paragraphs Application and Appraisal are applicable to this type of loans also.



Care should be taken to ensure that only fees payable for the courses under Management Quota is restricted to fees as approved by the State Govt. / Govt. approved regulatory body for payment seats, subject to viability of repayment and should not include the capitation fees or donation the college is collecting at the time of admission.

43.4 Due diligence

About the institution

About the Institution where course is being taken up: As mentioned above the details of the institute where the applicant is pursuing his course / proposes to pursue his education are to be obtained and it should be looked into and also it should be verified whether the institution has approval from the statutory council, like AICTE, MCI etc. Branch shall verify the adequacy of infrastructural facilities, record of placements, list of courses being conducted, duration of each course and the intellectual capital of the institution.

About the parents

Normally, at the time the educational loan taken for graduation, the student will be a minor and hence all the documents will be signed by the parent/s/guardian. Further, the gestation period for educational loan being high, some parents prefer paying the interest charged during the gestation period as and when debited. It is also essential that the track record of the parents should be good and that the parents shall not be defaulters to any of the financial obligations. Therefore, it is vital that due diligence on the parents shall be done even in cases where the applicant is a major and is signing the documents of loan himself. It is essential that bank collects information about the financial standing of the parents by duly scrutinizing the ITRs, Bank Statements, verifying the repayment track record of the parents, verifying the CIBIL scores of the parents and the applicant student.

43.5 Additional documents required

The criteria for determination of the eligibility for an educational loan depends upon the seat the applicant gets in a particular college / University / course. So, at the time of application, the borrower, in addition to the documents required for KYC compliance, income proof etc., has to also submit proof about his admission to the specific course and the institution in which he is getting admitted. The proof of hostel fees and cost other components of the loan cited hereunder are to be furnished to enable the bank to assess the loan requirement. The proof of academic records may also be insisted upon.

Where the loan is for studies abroad, it should be ensured that self-attested valid passport, self-attested I 20 form, any other document issued by the Institute to the student for visa purpose, self-attested copies of travel documents are obtained and kept on record.

43.6 Loan Component

While computing the quantum of loan, the following are generally included for computing the requirement:

- a) Fee payable to the college /hostel
- b) Examination / Library / Laboratory fee
- c) Caution deposit, Building fund/ refundable deposit
- d) Travel expenses / passage money for studies abroad
- e) Purchase of books /equipment / instruments / uniforms etc.
- f) Purchase of computer at reasonable cost, if required for completion of course
- g) Any other expense like study tours, project work etc. required for completion of course
- h) Service tax/GST and cess, if applicable
- i) Insurance premium for student

From the above, it may be noted that all expenses that are required for completion of the course are included in computation of eligibility, lest the student may face hardship while undertaking the course. Care should be taken that the caution deposits etc. which are refundable, are paid by the borrower and will constitute as margin for the loan as these are refundable.

Normally, educational loans are given from the first year of the course and not during the subsequent years. Where such situation warrants, suitable care has to be taken to ensure that the borrower has not availed the loan from another FI during the previous year.

Care should be taken to ensure that only fees payable for the courses under Management Quota is restricted to fees as approved by the State Govt. / Govt. approved regulatory body for payment seats, subject to viability of repayment and should not include the capitation fees or donation the college is collecting at the time of admission.

In the case of admission, the student is not given time for payment of fees at a later date and immediately after getting the admission intimation, the student may have to pay the first year /semester fee to ensure his admission. In that case, banks normally consider reimbursement of the same subject to production of original receipts in proof of having paid the same. But in all other cases, the payment is to be made directly to the college authorities or suppliers of computers etc. and reimbursement should be minimum to ensure end-use of the loan amount.

43.7 Sanction

While sanctioning an educational loan, special care has to be taken to ensure that the following points are taken into account while releasing the sanction letter:

- While issuing the sanction letter, care should be taken to fix the holiday period keeping in view the period of the course being studied.
- Where the loan is considered for studies abroad, the sanction letter should stipulate a condition that upward difference in cost of project due to variation in Exchange Rate has to be borne by the borrower as additional margin.

- Where a student has not produced the admission letter, while sanctioning the loan branch should mention in the sanction letter that the loan is being sanctioned based on the information given by the student and that the disbursement will be made only after the Admission Letter is received and subject to no adverse comments/information contained in the said admission letter.
- A condition should be stipulated in the sanction that the branch shall intimate the University / Institution where the borrower is proposing to pursue/ pursuing his education that the student has availed loan from the Bank.
- The sanction shall stipulate that where the student is a minor, the parent shall execute the documents and the student borrower shall ratify the action of his parents in availing the loan /accept all the terms and conditions of the sanction /acknowledge the debt when he attains majority.
- The sanction shall also stipulate a condition that where the student is a minor and is studying abroad, upon his attaining majority, the letter ratifying the action of his parent in availing the loan and acknowledging the debt shall be done in the presence of the Embassy officials.
- Sanction should clearly state that the disbursement will be made in proportion during the entire course of study and will be released upon the borrower submitting a demand from the institution for payment of semester fees / hostel fees / examination fee etc., after duly collecting the margin.
- Sanction should indicate that further release of instalments will be done only after obtaining satisfactory progress report from the university /institution.
- It should contain a clause that “Where the borrower has opted for payment of interest debited during the gestation period, further disbursement will be made when there are no overdues”.
- The sanction shall stipulate a condition that in the event of the institution / university debarring the student from further studies, Bank will recall the advance and shall demand payment of its dues.
- Where the sanction is done at the branch level, as is applicable to all other loans, the following guidelines should be followed:

Where the sanction is done at the branch level, as is applicable to all other loans, the following guidelines should be followed:

- Appraisal shall be done by an officer other than the sanctioning authority.
- Sanction shall be reported to the higher authorities within the prescribed timelines.
- Where the reviewing authorities make some observations, the same shall be adhered to and compliance shall be submitted to the said authority.

The other normal covenants applicable for retail loans shall also form part of the sanction and it shall be communicated in duplicate duly obtaining acknowledgement of the borrower/parent on the second copy of the sanction letter confirming that the terms and conditions have been accepted in toto.

43.8 Credit Guarantee Fund Scheme for Education Loan (CGFSEL)

The eligible Member lending Institutions (includes RRBs) under CGFSEL are required to cover their Education Loan under the Scheme. In case the loan is covered, for loans upto Rs. 7.50 lakh , no margin or security (except parent/guardian as co borrower) is to be obtained.

43.9 Interest

As per Bank’s Policy Guidelines. The interest has to be calculated at simple rate till the completion of study and moratorium, if any

43.10 Repayment

Repayment Holiday – Course Period plus 1 year

It is optional to repay the interest accrued till the repayment commences.

43.11 Documentation and Disbursement

Branch should obtain the prescribed documents relevant to the educational loan along with copies of proof of admission. Where collateral securities are offered, the securities as listed out in the sanction letter and as prescribed by the legal advisor have to be obtained. The primary security for this type of loan is usually the assignment of future income of the applicant and relevant documents shall be obtained for assignment of the same.

Disbursement of loan is to be done in stages depending upon the successful completion of the previous year's study and obtaining a certificate to that effect from the institute / university.

Where margin is stipulated, care should be taken to see that the margin amount is brought upfront or in proportion during the entire period of disbursement.

The disbursement from the loan account shall be made in favour of the Institute / vendor of books / instruments and not by credit to the borrower/ his parent's account.

It is possible that the borrower may have to pay the first year / term fees before the allotment of the college. In that case, subject to submission of proof of payment, proof of allotment of college and course, the amount may be reimbursed. The borrower should make a request for such release in writing and it should be before 6 months after the payment is made.

Where collateral security is stipulated in the sanction, the original title deeds as listed out in the legal opinion have to be obtained. Legal opinion shall be from the panel advocate and in the Bank's prescribed format. It should be unconditional and it should confirm that the property is free from any encumbrance. Legal opinion shall also not be subjective. Certified copies of the title deeds are to be obtained independently from Sub-Registrar of Assurances. A mortgage check is to be conducted under CERSAI, before release of the loan and CERSAI shall be informed immediately after release of the first instalment of the loan. Memorandum of deposit of title deeds shall be registered with the sub-registrar (wherever applicable as per State Laws) and an Encumbrance Certificate shall be obtained after the Memorandum of entry from where the bank's interest in the mortgage shall be verified.

Where a second legal opinion is to be obtained as per guidelines, branch shall obtain the same from a second panel advocate and it should be ensured that his opinion is also giving clear title to the mortgagor.

Encumbrance certificate for the last 13 years shall be obtained and kept on record. Entries shall be made in the Title Deeds Register in chronological order giving full details of the documents and the property mortgaged and it should be properly authenticated.

Valuation of collateral securities shall be done as per extant guidelines. The valuation shall be done by the approved panel engineer and the visit report should clearly state the name of the officer accompanying the approved valuer. The valuation report shall be in the prescribed format and shall mention the boundaries of the property being offered as security.

Insurance of the collateral security shall be in place during the tenor of the loan and the bank's interest shall be clearly noted therein.

43.12 Monitoring and Recovery

As mentioned earlier, this is a loan which has a long gestation period and long repayment period. There will be a long period of disconnect with the borrower which may result in the Bank losing contact with him. Hence, it is absolutely essential that branch maintains contact with the borrower and if he is abroad, with him and also the family members residing in India. Branch should keep in contact with the applicant through social media right from the beginning of the loan so that the relationship will continue even after completion of the disbursement period.

Branch should ensure that the mark statements and progress reports are obtained periodically from the borrower to confirm that the applicant is pursuing the course for which the Bank has financed him. Branch should also strictly not release subsequent instalments if the progress reports are not sent and if the applicant is detained.

Branch should obtain and keep on record the employment particulars of the applicant once he takes up a job as the bank has a charge on his future income.

Periodical inspection of the property mortgaged shall be conducted as per Bank's policy and revaluation of the property should be done as per guidelines. It should be ensured that the statutory dues are regularly paid.

One important aspect which has to be taken care of is that the branch should send a written communication to the borrower and co-obligant / guarantor regarding the commencement of repayment and the amount instalment payable.

Acknowledgement of debt shall be obtained from the borrower, guarantor / Co-obligant well within the expiry of the time limit fixed for documents getting time barred.

Where repayment is not regular, branch should initiate appropriate steps to invoke the assignment of future income clause in the agreement. In case the borrower is not traceable, branch should initiate steps to ascertain his whereabouts through social media. Overdues should be regularly informed to the borrower and guarantor / co-obligant by way of notices / SMS Alerts / e Mail alerts.

In spite of best efforts, where the account slips to NPA, the laid down norms for recovery shall be initiated upfront. Detailed guidelines regarding suit filing and proceeding under SARFAESI act have been dealt with in separate chapters, which branch shall follow.

Where there is a dishonour of cheque, notice under Section 138 of NI Act and filing of response in case of non-response within stipulated time limit as per the Act has to be initiated.

It should be ensured that the branch follows the recovery guidelines and where there is a default, it initiates steps in time to ensure the enforceability of the mortgage and assignment rights that are bestowed upon the bank.

CHAPTER 44

VEHICLE LOANS

44.1 Introduction

Vehicle Loans are a popular retail loan product after housing loans in the Retail Segment. While most of the pre-sanction conditions that a branch must scrutinize are much similar to Personal Loans, which we discussed in the earlier chapter, there are certain conditions specific to vehicle loans.

These loans fall under the category of secured loans as the primary security is the vehicle purchased out of the Bank's loan. Generally, these loans are also considered for individuals only and trust and HUF are not eligible for loans in this segment. As in the case of any loan facility, where borrower is an individual, KYC documents (age proof, identity proof, address proof, latest colour photograph, signature proof and 6 months' bank statement) shall be obtained, scrutinized and kept on record, duly noting any adverse features observed. Where borrower is non-individual entity, KYC documents (date of incorporation, entity proof, ID and address proof of signatory, proof of registered address, Photograph of the signatory of loan, resolution, shops & establishment/SSI/GST Registration certificate and 6 months' bank statement) shall be obtained and scrutinized, keep on record and any adverse features in the above may be recorded.

Generally, the vehicle loans are given to the constituents who are residents of the area of operation. In case, the salary of the person is being credited to his account with the branch but he is a resident of other area / place, it is advisable to refer the application to the branch situated close to his residence for easy monitoring.

As generally driving licences are not given for age groups below 18 and above 70, vehicle loans also will be considered only for those in the age group of 18 to 70. However, in the case of employees, it should be ensured that the loan amount is repaid in full before the retirement of the borrower or he should be able to establish sufficient income post-retirement also.

While arriving at the quantum of eligibility, care should be taken to ensure that only such income which is recurring is taken for eligibility calculations in the case of salaried persons and incomes like bonus, incentives, overtime, etc, are not considered. In the case of persons engaged in business or self-employment, the share of the applicant in the business is an important aspect to be considered. Instead of considering a single year's performance, the average of the last 3 years' income is considered, based on which the eligibility is worked out. In the case of business units, depreciation can be added back, as it is only book entry. In case there is a sudden spurt/ drop in income in the above 3 years, reasons for the same may be enquired and Banker should satisfy himself from the explanation provided. It should also be seen if IT returns have been bunched together and filed or whether they were filed in the normal course every year. Where IT returns are bunched together or where there is a spurt in income in one year, there is a possibility that the same has been done with an intention to get the bank loan / higher quantum and hence Banker should view the proposal very diligently.

As a proof of income, in the case of salaried persons, last three salary slips and Income Tax Returns are to be obtained, duly self-certified by the borrower. In the case of businessmen / professional self-employed persons, the Balance Sheet, Profit and Loss statements for the preceding 3 years along with the ITRs for the relevant period again duly self-attested by the applicant shall be obtained.

Where the loan is considered for a non-individual entity, co-obligation of the signatories and promoters should be insisted upon.

Please refer to Chapter 39 on Retail Loans. The information given under Paragraphs Application and Appraisal are applicable to this type of loans also.

44.2 Type of vehicle

The vehicle proposed to be purchased should be a reputed brand and the model should have a good reputation in the market. The value of the vehicle should be ascertained from the market and should be cross-checked with the quotation obtained by the constituent.

Where a second-hand vehicle is being purchased, the vehicle should be in good serviceable condition and a report about the same and its value should be obtained from a certified garage.

44.3 Dealer verification

It is equally important that the dealer's antecedents are also to be verified as we do it in the case of borrower applicant. It is suggested that the Branch verify from Manufacturer's website wherein details of the dealer are available and ensure that this dealer is in the said list. It is also suggested that a telephonic verification about the quotation is to be made at the telephone numbers available at the manufacturer's website. While talking to the dealer, the availability of the colour, vehicle model and price etc are also verified. If in the proforma invoice, the dealer makes a mention of the advance amount received, the same has to be cross verified and confirmed.

44.4 Tenor of the loan

The tenor of the loan should be as per bank's loan policy and definitely lower than the life of the vehicle. Where a used vehicle is being financed, it should be ensured that the tenor of the loan is lesser at least by 6 months than the residual life of the vehicle.

44.5 Commercial Use

One important factor that is to be borne in mind while considering the vehicle loans under Retail segment is that the vehicle should not be registered for commercial use.

44.6 Sanction

The sanction should clearly stipulate among other things the brand and type of the vehicle, the name of the dealer and the cost of the vehicle and its accessories. The instalment shall be fixed on equated monthly instalment (EMI) basis and the same shall be incorporated in the sanction letter. The sanction letter should stipulate that the duplicate key of the vehicle shall be handed over to the Bank. The letter shall be prepared in duplicate and handed over to the borrower applicant.



As a proof of income, in the case of salaried persons, last three salary slips and Income Tax Returns are to be obtained, duly self-certified by the borrower. In the case of businesspersons / professional self-employed persons, the Balance Sheet, Profit and Loss statements for the preceding 3 years along with the ITRs for the relevant period again duly self-attested by the applicant shall be obtained.

44.7 Documentation

Guidelines as mentioned in Chapter 12 regarding Documentation need to be followed here also. Terms and conditions of the sanction shall be accepted in toto by the borrower and guarantor, if any, by signing on the duplicate copy of the sanction letter.

Prescribed documents for vehicle loans, duly giving hypothecation rights to the bank are to be obtained. The name of the vehicle being purchased out of the said loan, its model and year of manufacture, Chassis No. and Engine No. shall be incorporated in the documents.

44.8 Disbursement

The margin money of the borrower shall be drawn from his operative account and together with the loan amount disbursed, payment shall be made to the dealer as specified in the proforma invoice.

Standing instructions for debiting the operative account with the instalments / ECS mandate in favour of the bank shall be obtained along with the documents. An acknowledgement from the ECS mandated bank shall be kept on record.

A letter addressed to the dealer quoting his proforma invoice informing him about the borrower's name, remittance details and advising him to issue a receipt favouring the bank a/c the borrower should be sent and an acknowledgement shall be kept on record. The dealer shall be informed to note hypothecation interest in the vehicle and record the same in the RC book that will be issued to the borrower.

A copy of the RC book indicating Bank's interest in the vehicle and a duplicate key shall be kept along with the documents.

The vehicle shall be insured for its full value for comprehensive risk coverage and duly noting the Bank's interest in the vehicle. Insurance shall be in force through out the loan period and the Branch shall ensure renewing the insurance on or before the due date and a copy of the renewed policy shall also be kept on record.

Wherever applicable, Branch should obtain Liability insurance wherein the loan liability is met by the Insurance Company in case of death of the Borrower.

44.9 Post-sanction monitoring

Branch should collect the monthly instalments on or before the due date. It should follow up wherever the PDCs are getting exhausted, well in advance. In case of failure on the part of the ECS bank to remit the instalments as agreed upon, Branch should follow up with the said bank. If the borrower fails to honour the commitment of repayments, steps should be taken to keep the asset intact and ensure its safety.

44.10 Guidelines for repossession

The bank's guidelines on repossession and sale of vehicle would be followed.

As soon as the account shows signs of sickness, letter has to be sent to the borrower and co-obligant, if any, stating the overdues and advising them to regularise the account. In spite of the same, if the repayment is not forthcoming, branch should recall the advance after obtaining permission from the competent authority.

Where there is no response from the customer, branch should take all steps to persuade the borrower for voluntary surrender of the vehicle, after taking permission to obtain the repossession of the vehicle.

Where repossession of the vehicle has not been voluntary, the task may be assigned to a recovery agency for seizure of the same duly obtaining approval from the competent authority.

It should also be ensured that the recovery agency follows prudence and should not cause inconvenience to the borrower or his representatives. Recovery agency should also ensure that possession is taken only between 8.00 hours (RBI 12 August 2022) and 19.00 hours and in the presence of two witnesses and a panchanama should be drawn making proper inventory of the secured asset and obtaining the signatures of witnesses on the same.

After the repossession process is completed, the local police authority shall be informed by way of a Post Intimation letter informing the repossession and the same shall be duly acknowledged by the said authority in whose jurisdiction the repossession exercise has been completed.

Valuation of the vehicle shall be done immediately after repossession and the same shall form the basis for fixing the upset price at the time of auction. After obtaining repossession of the vehicle, all care should be taken to keep the vehicle under safe custody.

The seized vehicle shall be kept in the stock yard taken on hiring basis or in Bank's own premises duly informing the higher authorities and following all aspects of the RBI regarding repossession.

After re-possession, a Pre-sale notice should be sent to the borrower by the Authorised officer of the Bank, giving him a 30 days' time for making payment of the outstanding amount. Where the repayment is not forthcoming, the same shall be disposed off in 90 days from the date of possession by way of public auction. The fixation of reserve price and deposit of earnest money should be approved by competent authority, duly checking the valuation, market rates and any other parameter to enable the Bank to find out the best price the asset can fetch and should be sold at the highest quoted price.

Care should be taken to ensure that there were no legal issues reported before auction. The process of auction should be transparent and at every stage, the borrower should be given an opportunity to repay the dues. After auction and receipt of the amount, post-sale notice shall be issued to the borrower and a certificate of sale in the prescribed format shall be issued to the successful bidder.

After the sale of asset, a notice shall be issued to the borrower to clear the shortfall within 15 days of notice issue date, failing which bank will proceed for legal action to recover the shortfall, where there is a shortfall and where there is an excess amount recovered by sale of asset, the amount after appropriation to the loan account and other expenses refunded to the borrower within stipulated time.

CHAPTER 45

CONSUMER LOANS

45.1 Purpose

The loan is generally given to meet the requirement of an individual for purchase of household articles, like television, refrigerator etc.

45.2 Category of Borrowers

Normally, consumer loans are given for a specified category of individuals, viz., salaried class, pensioners, professionals and self-employed persons. It is given only to resident Indians and non-residents are not eligible for such loans.

45.3 Application and Appraisal

Branch should follow the guidelines given in Chapter 39 on Retail Loans- Common Points, regarding the application and appraisal.

Along with the documents mentioned in the said chapter, consumer loan application should also be supported by a proforma invoice for the household article proposed to be purchased. The proforma invoice should clearly mention the price of the article proposed to be purchased, the manufacturer and the capacity of the article. It should also mention the applicable taxes and give details of the bank account of the merchant to which the remittance has to be sent.

While giving a loan we do due diligence on the borrower and the co-obligant, their financial status, their ability to meet the financial commitment and obligations. It is equally important in the case of consumer loans to look into the KYC of the merchant from whom the household goods are proposed to be purchased. The market standing of the dealer, his KYC need to be thoroughly checked before sanctioning the loan.

While arriving at the eligibility, only regular monthly components of the salary are taken for computation of the eligibility and components like travelling allowance, bonus, overtime, incentives etc. should be excluded from arriving at the eligibility.

In the case of non-salaried / pensioner applicants, it should be ensured that the applicant is in the business since at least the last 2 years and they should have submitted the income tax returns on an annual basis and that no two ITRs are submitted within a span of 6 months. Copies of Shop and Establishment licence , GST registration, other mandatory licences / registrations are to be obtained and kept on record.

45.4 Sanction

- While sanctioning the consumer loans, care should be taken to ensure that the Fixed Obligation to Income Ratio (FOIR) is maintained as per the Bank's norms and that the repayment period is not beyond the date of retirement in the case of salaried applicants.
- Margin as per the policy of the bank should be stipulated and the margin money should be brought upfront by the borrower.
- There will be some applications where the proforma invoice shows the receipt of margin money.

Diligently, bank should enquire the details of such remittance, source of such remittance and if the same was paid through an account, details of such account are to be mentioned in the process note. Where the dealer mentions that margin money has been paid in cash, branch should ascertain from the borrower the source from which the funds have been paid.

- The sanction should also clearly stipulate that the loan is payable in equated monthly instalments or in monthly instalments with the interest being serviced as and when debited.
- Sanction shall incorporate all the terms and conditions pertaining to the type of facility being sanctioned.
- It should also mention that the household article proposed to be purchased is to be hypothecated to the Bank.
- Sanction should stipulate that the payment shall be made to the dealer quoting the proforma invoice and after collecting the margin money from the borrower, duly debiting the operative account of the borrower.
- Branch shall communicate the sanction to the applicant in writing with all the terms and conditions of sanction immediately after receipt of the sanction letter. It should be communicated in duplicate and a copy of the communication shall be obtained back from the borrower in token of having accepted the terms and conditions in toto. The same shall be signed both by the borrower and the co-obligant.
- Depending upon the cost of the article purchased, insurance shall be done covering all risks and with Bank's interest noted therein.



Sanction with regard to consumer loans should stipulate that the payment should be made to the dealer quoting the proforma invoice and after collecting the margin money from the borrower, duly debiting the operative account of the borrower.

45.5 Documentation

Branch should follow the guidelines mentioned in Chapter 39 on Retail Loans- Common Points under documentation and shall obtain the relevant documents applicable for Consumer Loan.

45.6 Disbursement

Branch should ensure that the processing charges as applicable are collected upfront before disbursement of the loan.

Margin money shall be debited to the operative account of the borrower and along with the loan amount, remittance may be made to the dealer as per the proforma invoice and with a covering letter mentioning that the article being purchased is under hypothecation to the Bank. An invoice in the name of the Bank a/c the borrower shall be obtained and kept on record. Wherever stipulated in the sanction, insurance of the article shall also be done duly mentioning the bank's name as lender.

In cases where the borrower is maintaining salary account with the Bank, branch should obtain standing instructions for recovering monthly instalments. Bankers also insist for 2 undated cheques signed by the borrower and favouring the bank. In some cases, Banker may accept ECS mandate. In such cases, it should be ensured that the same is acted upon and the acknowledgement of the ECS mandate of accepting bank is kept on record.

Where the documents require stamping as per the local laws prevailing, the same should be done before disbursement of the loan.

It should be ensured that the proceeds of the loan are credited to the Savings Bank account of the borrower maintained with the branch or directly remitted to the supplier and under no circumstances cash payment shall be allowed towards proceeds of the loan amount.

45.7 Post Sanction Monitoring

Branch should follow up regularly for recovery of instalments. Where the account is falling in the category of SMA 1, branch should immediately visit the borrower and take steps to regularise the account. In case where there is a default, the borrower should be immediately contacted both by correspondence and personally and the recovery shall be ensured.

Where there is an undertaking by the employer to deduct the instalment and send it to the Bank, the signatory of such undertaking shall be contacted immediately and reasons for non-remittance ascertained and corrective steps shall be initiated immediately.

Similarly, where in spite of obtaining ECS mandate, recovery has not been forthcoming, the banker shall be immediately contacted for recovery of the instalments.

Where post-dated cheques are obtained, care shall be taken to present the cheques on the due date. Branch should also have a check on the availability of post-dated cheques and when they are getting exhausted should obtain additional cheques from the borrower, sufficiently in advance.

Branch should constantly monitor the account for critical indicators of incipient sickness leading to classification under Special Mention Account (SMA) category.

Wherever necessary, branch should obtain Acknowledgement of Debt (AOD) signed both by the borrower and co-obligant / guarantor before the pronote becoming time barred.

Wherever there is no positive response for persuasive collection methods, legal action is to be initiated after obtaining necessary approvals. In case of death of the borrower, a notice is to be issued to all legal heirs with a copy marked to the guarantor, demanding payment of the entire loan outstanding. When all the legal heirs request for transfer of the outstanding liability in their names, fresh documentation is obtained as per the Bank's policy.

After account is classified as NPA also, branch should follow up for recovery on one side and on the other side initiate all action as is appropriate. Sometimes, borrower may approach the bank for One Time Settlement (OTS), Branch has to verify the capability of the borrower to bring in the required amount in case the OTS proposal is approved and if satisfied, obtain necessary approvals. The methodology of handling OTS proposals is discussed in the subsequent Chapters.

CHAPTER 46

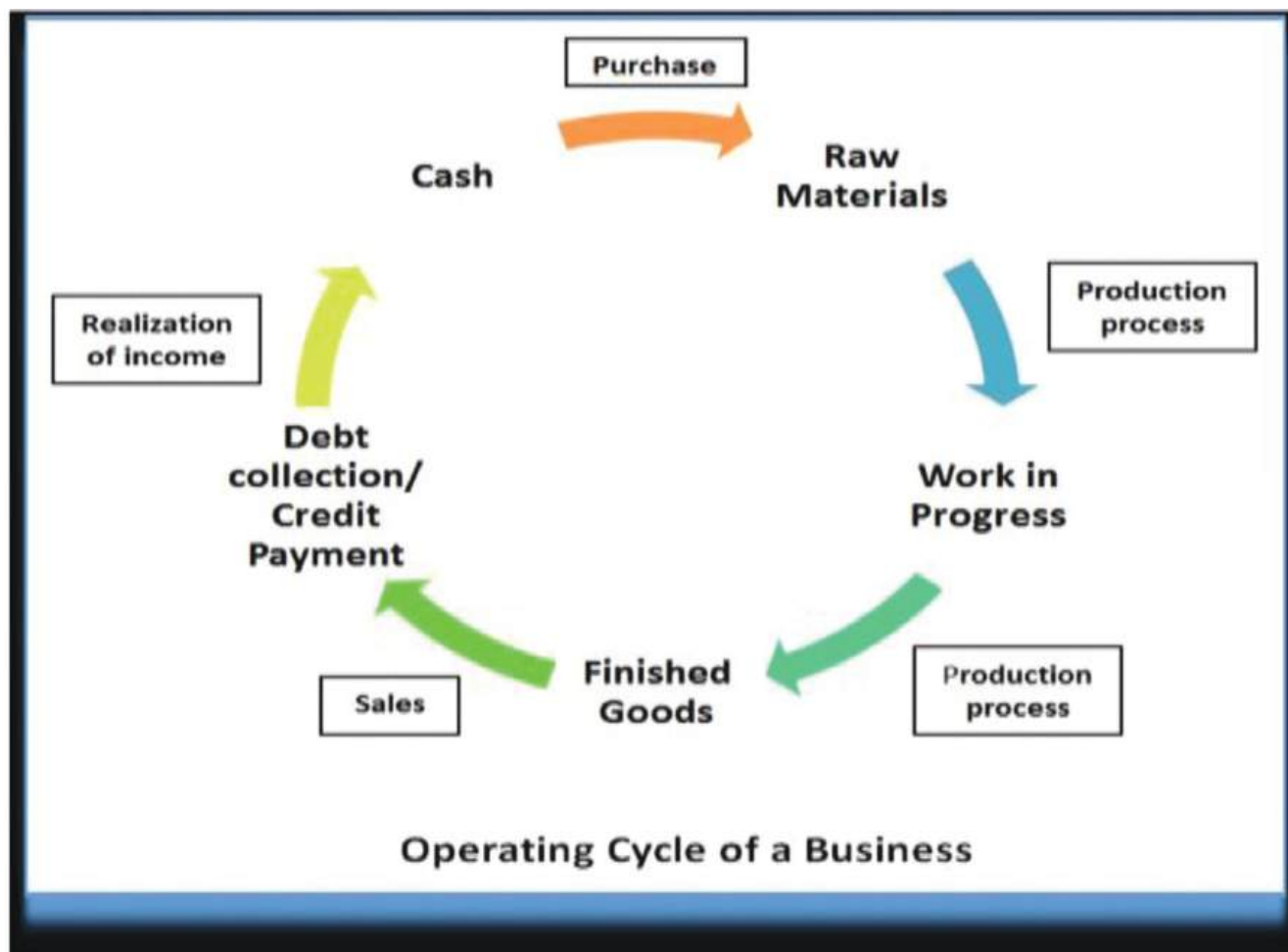
OPEN CASH CREDITS

46.1 Introduction

As discussed earlier, based on the tenor of the loans, the loan portfolio can be divided as Short Term Loans, Medium Term Loans and Long-term Loans.

Among the Short Term Loans, the most popular and very useful type of credit facilities being offered by the Banks are Cash Credits, Overdrafts and Bill limits. Funding under these categories is also known as Working Capital Finance. Working Capital of a business entity is the amount that is required to run the day to day activities of the unit as against the term finance which is meant to finance the acquisition of fixed assets of an entity.

In other words, the working capital of an entity is used in acquiring those assets which are transformed into saleable goods /services. The quantum of requirement of working capital is determined by assessing the working capital cycle of the entity. A pictorial description of the working capital cycle of a manufacturing unit is shown as hereunder:



Thus, working capital cycle, also known as Operating Cycle, is the average time taken by the enterprise in manufacturing the goods and selling them duly realising cash so that the funds can be deployed in starting another batch of production.

In other words, the operating cycle commences when cash is initially injected into the system for purchase of the raw material components required for production. The system completes one cycle when cash is realized out of the sale proceeds of finished goods including those from the receivables/debtors.

Every rupee invested in current assets at the beginning of the cycle comes back with the profit element added, after a lapse of a specific period of time. This length of time is known as 'Operating Cycle' or 'Working Capital Cycle'. This operating cycle determines the requirement of funds for the manufacturing process.

The period of the operating cycle is measured by the aggregate of the holding period of all the major components of the current assets viz., raw material, work in process, finished goods, receivables.

It should be however noted that the time allowed by the suppliers for payment for purchase of raw materials does not reduce the total operating time i.e. from the time of purchase of raw materials to the final realization of receivables.

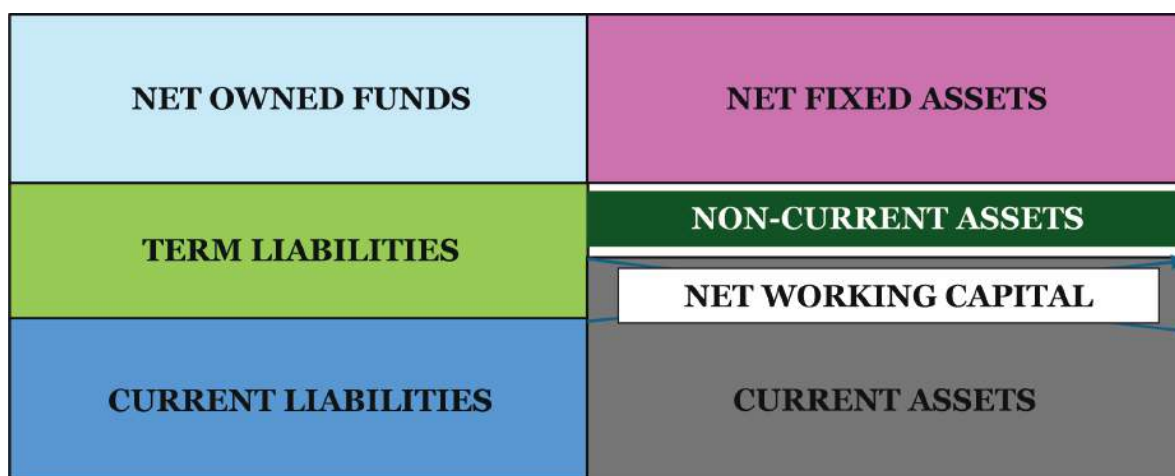
Trade credit is essentially a financing concept and it does not impact the total operating cycle. However, the amount to be paid to the supplier will be reckoned for computing the eligible working capital requirement.

46.2 Sources of funds for the working capital

The sources of funds for the working capital are:

1. Surplus from capital and long-term sources
2. Trade creditors
3. Working capital finance in the form of Cash Credit /Overdraft/Bill finance.

A pictorial description of the sources and uses of working capital is shown as under:



Ideally, as seen from the above example, current assets should be more than current liabilities and the difference between the current assets and current liabilities is called the Net Working capital. This will be funded partly by term liabilities and net owned funds.

Net Working Capital (NWC) as seen from the above, is thus the margin towards day to day operations made available in the system from long-term funds, which is also called Liquid Surplus. In the mathematical terms,

$$\text{NWC} = \text{Long-term Sources} - \text{Fixed Assets} - \text{Non-current Assets}$$

It can also be defined as $\text{Current Assets} - \text{Current Liabilities}$.

46.3 Methods of Assessment of Working Capital Limits

The assessment of Working Capital of the borrower can be done under anyone of the following methods:

1. Turnover Method
2. Inventory Method
3. Cash Budget Method

It should be noted that in the case of working capital limits, though the limits are fixed by any one of the above methods, actual withdrawal of funds should be allowed only to the extent of permitted level of drawing power.

46.3.1 Turnover Method

- Under this method, the working capital limit shall be computed at 20% of the projected sales turnover accepted by the Bank and 5% of projected turnover shall be considered for margin requirements.
- In case of MSE borrowers seeking / enjoying fund based working capital facilities upto Rs.500 lakh from banking system, the limits shall be assessed on the basis of turn over method (As per Nayak Committee Recommendations).
- In Case of other borrowers, the turnover method shall be applied for sanction of fund based working capital limits upto Rs.600 Lakh from the banking system.
- This system shall be made applicable to traders, merchants, exporters who are not having a predetermined manufacturing/ trading cycle. Though this method envisages turnover in existing units, however in case of new unit (Greenfield) projected/ accepted turnover is to be taken into consideration for sanction in the first year of operation.
- Under this method, projected annual sale is to be justified. The realistic projection of annual sales is absolutely essential, which minimizes the possibility of over financing or under financing.

As the limit is fixed in consonance with level of projected sales, it is very essential that Bank accept only a realistic projection based on the information provided by the borrower/ applicant.

The reasonableness of the projected/ accepted sales may be verified based on the following factors with proper justification:

- Year – on – Year growth for the last three years
- Achievement of projections by the unit in the last three years
- Annualizing the sales based on the actual sales made during past months in the accounting year.
- Additional orders / expansion
- Marketing potential
- Future production, any increase in the capacity utilization, etc.

- Experience and capability of the borrower
- Scope for expansion like additional distributorship/ orders/ franchise, etc. during the review period

Under this method:

- the total working capital requirements are pegged at 25% of the projected annual sales, which assumes an average working capital cycle of 3 months i.e. working capital would be turned over 4 times in a year.
- One factor to be noted is while 20% of the projected sale is sought as limit, the borrower has to bring 5% as margin. The sources for bringing the same, the time by which the same will be brought into the system need to be assessed and documented.
- Release of higher limits should be done only after the additional margin is brought in.
- Under this method, the working capital limit is arrived as under:

25% of the accepted projected annual sales	(a)
Less	
(a) minimum margin at 5% of accepted projected annual sales Or Actual margin (NWC) available Whichever is higher	(b)
Limit	a – b

In case of seasonal activities, the seasonality of the sales and production are to be taken into account. The sales during the peak season and non peak season periods are to be analysed separately and two different limits are to be arrived as peak level and non-peak level limits.

Under this method, the working capital limit is arrived as under:

Generally, the assessment of working capital credit limits is done both as per Inventory method (discussed below) and Turnover method. If the credit requirement based on Inventory method is higher than the one assessed as per turnover method, the higher limit may be sanctioned.

On the other hand, if the assessed limit as per Inventory method is lower than the one assessed as per Turnover method, it means that adequate drawing power will not be available for the limit in excess of the amount arrived as limit under Inventory method. Hence, while the limit can be sanctioned up to 20% of the projected sales, actual drawals may be allowed on the basis of the drawing power.

The minimum of 20% of the projected sales as per the turnover method may not be treated as common to all types of activities. In certain cases of traders like grains dealers, petrol bunks, commission agents, travel agents, turnover methods would not be appropriate as it may end up in over financing.

In such cases, average stock holding level, storing capacity and the normal book debts level should be taken into consideration while determining the eligible working capital finance.

Similarly, for traders dealing in perishable goods like vegetables, fruits, food products, milk and bakery products, not more than 15 days sales and debtors put together may be considered as working capital limit.

WC requirements could also be funded after assessing the borrower's requirements on the basis of his WC cycle, after fixing proper margins.

46.3.2 Inventory Method

- Working Capital requirement for a manufacturing unit is dependent upon the Operating cycle (as per the pictorial presentation made above), which starts with procurement of raw material, converting the raw material into finished goods where the stock will be available as stock-in-process and after the activity is completed, the finished product comes out, which is sold either for cash or on credit.
- We have seen earlier that there is a time lag between procurement of raw material till the sales are realised and amount is received and in monetary terms it is called Working Capital Gap (WCG). Under the inventory method, the working capital requirements of the borrower are calculated based on operating cycle and the WCG projected for the future years.
- The projections submitted should be looked into by comparing with the actual performance of the unit during the preceding years.
- This method is based on the assessment of limit as the difference between Working Capital Gap and Projected Net Working Capital.
- The assessment of credit requirement of a party shall be made based on the study of the borrower's projected business operations vis-à-vis the production / processing cycle of the industry.
- The projected level of inventory and receivables shall be examined in relation to the past trend, market developments and industry trend.

The analysis of Balance Sheets and Profit and Loss Account Statements and assessment of working capital requirement under Inventory method is ideally done with the help of CMA (Credit Monitoring Arrangement) formats,

CMA Form I enables one to understand about the credit and other facilities being enjoyed by the applicant from the banking system and from other lenders also.

Form II: The borrowing unit's Operating Statement and the Manufacturing/Trading & Profit & Loss account are provided in this form.

A scrutiny of the same will enable one to arrive at the details of Raw Materials consumed during the year, Cost of Production, Cost of Sales, Operating Profit, details on other income and expenses. The statement throws light on the amount of profit retained in the business and amount appropriated to various reserves and provisions.

Form III: It is the analysis of Balance Sheet.

Total liabilities are captured with sub-totals of detailed entries under the heads Current Liabilities, Long-term Liabilities and Net Worth.

Similarly, total assets are captured with subtotals of detailed entries under the heads Current Assets, Fixed Assets, Non- Current Assets and Intangible Assets.

Analysis of balance sheet and profit & loss account over the previous two years is an important tool in assessing the financial position of the borrower and his requirements for the succeeding years.

After ensuring the correctness of total liabilities and assets as per the Balance Sheet, Tangible Net Worth, Net Working Capital, Current Ratio, etc. are computed in Form III.

Additional details based on the notes on accounts attached to the audited statements, the information on the contingent liabilities if any, like disputed excise/customs/tax liabilities, arrears of cumulative dividends, gratuity liabilities, etc. are also provided.

Form IV:

This is the comparative statement of Current Assets and Current Liabilities and the break-up of current assets and current liabilities which forms the basis for computing working capital requirement is furnished here. It may so happen that the borrowing concern may have a reason in classifying an asset as a current asset /liability. But the banker's perspective may be different and he may not show it under current assets /liabilities but may shift the same to Non-current assets or term liabilities. By inclusion of items which are not current in nature as current assets, the current ratio of the concern will improve, which, in reality, may not improve the liquidity. So a deeper analysis and understanding of the current assets and liabilities is required and hence CMA IV helps the banker to do this analysis.

Analysis of CMA Data:

As seen from the above, while Form I and Form II provide an insight into the operations and financial strength of a borrowing concern, Form III and Form IV provide the analytical tools for the Banker to assess the financial strength of the concern.

If the latest financials available is more than one year old, a certified unaudited provisional balance sheet and profit and loss account as at the end of the last accounting year to be obtained.

The auditor's certificate and the report of Board of Directors (in case of Limited Companies) together with the notes of the auditors on the financial statement should be carefully examined as they may have bearing on the borrower's financial position.

The borrower may be requested to furnish the required information if the same is not available in the financial statements.

By this method of analysis, uniformity across all the financial years in classification of various assets and liabilities mainly, current assets and current liabilities is adopted for assessing the working capital limit.

Break up of current assets and current liabilities shown in Form III is provided in detail in Form IV statement. In this statement, the holding level in days/month of the major components in both current assets and current liabilities are computed, which may be studied in comparison with the holding levels of similar units in the industry, wherever available.

The projected levels of inventory may be studied along with holding levels of raw materials, finished goods, stores, stocks in process etc. and it should be ensured that these projections are based on the past trend of the concern.

The levels of projection to be examined with reference to the borrower's specific operational strengths and weakness, their need to hold the current assets at the levels projected and their ability to absorb cost of carrying inventory / receivables at the levels proposed.

In cases where the projections of current assets reflect excessive levels of inventory and receivables, or where the projected level of creditors is low (this will result in higher eligibility of working capital limit) and does not bear adequate explanation, the same has to be reduced to the existing levels.

Divergence in the holding levels as compared to past trend may be allowed with justification.

Form V: The working capital eligibility is worked out here using the following formula:

Total Current Assets (TCA)	A
Current Liabilities other than Bank Borrowings	B
Working capital Gap	$A - B = C$ (say)
Less actual / projected Net Working Capital (NWC)	D
Eligible limit	$C - D$

Maximum Permissible Bank Finance (MPBF) (Tandon Committee II method of Lending)

Under the second method of lending, Minimum Net Working Capital is to be stipulated at 25% of the current assets, excluding export receivables. The calculation of MPBF under II Method of Lending is given hereunder:

Let us call Current Assets as A

All Current Liabilities (including Bank Borrowings) as B

Current Liabilities other than bank borrowings as C, then

- Working Capital Gap (WCG)** = Current Assets (A) - Current Liabilities (other than bank borrowing) (C) viz. $A - C$
- Net Working Capital (NWC)** = Current Assets (A) - Current Liabilities (including bank borrowings) (B) viz. $A - B$
- Minimum stipulated Net Working Capital (NWC) in II method of lending** = 25% of Current assets (excluding exports receivables)
OR **Minimum Stipulated NWC (D)** = $A - C - \text{Bank Borrowings}$
Bank Borrowings = $A - B - \text{NWC}$
(since in II Method of lending minimum stipulated NWC is 25% of A)
Bank Borrowings = 75% of $A - C$
(As $A - 25\%$ of A is 75% of A)
- Or **MPBF** = 75% of Current Assets- Current Liabilities (other than bank borrowing).

Form VI A is the fund flow statement and

Form VI B is the cash flow statement

Where diversion from short term to long-term uses can be identified.

The specimen of all the forms are provided as Annexure

46.3.3 Cash Budget Method

This method is usually adopted to assess the credit requirement of seasonal businesses like rice mills, educational institutions as well as contractors whose inventory levels may not reflect the actual requirement of working capital.

Cash Budget is a forecast of receipts and payments of an enterprise drawn at small intervals of time say monthly or quarterly.

It consists of all cash receipts and cash payments (either month wise or quarter wise) to arrive at the final closing cash balance at the end of the month/quarter after adjusting the opening cash balance.

It is drawn for a specific period in near future in order to ascertain the liquidity position of an enterprise at prescribed intervals during this period.

An enterprise with an ideal funds flow position may face severe liquidity crunch during a specific period of the year. In order to find out the specific reasons behind the strain on liquidity during the period, the enterprise would have to draw a realistic cash budget and it is only on the basis of the pragmatic cash budget that an enterprise would be in a position to decide when and how to meet the short term cash deficit so that it can tide over a temporary liquidity crisis.

Under this method, the required finance is quantified from the projected cash flows and not from the projected values of assets and liabilities.

The working capital limit/cap is fixed based on the maximum deficit of the cash balance (negative cash balance) based on the projected cash budget submitted either monthly or quarterly for the next accounting year.

The operations in the account are allowed based on the liquidity requirement of the enterprise subject to the working capital limit fixed and subject to the availability of the drawing power.

Though the working capital limit is determined by the peak level of deficit in the cash budget, the availability of finance is limited to the extent of deficit in the cash budget for the respective months.

No capital expenditure may be included in the cash budget without providing for a matching item of cash inflow to ensure that funds provided for working capital is not utilized for funding acquisition of capital assets or for other purposes.

We have so far discussed about the three types of assessment which are in vogue for working out the eligibility of a borrower and we have also studied the applicability of the method for a particular industry. We are also aware that Cash Credits is a popular method of working capital finance. We shall now see in detail the methodology to be adopted when we receive a proposal for sanction of cash credit limit.

There are two types of Cash Credits and among them the most common type is the Open Cash Credit (Cash Credit- Hypothecation), while the other is the Key Cash Credit (Cash Credit- Pledge).

Open Cash Credit is a form of a running facility, where depending on several factors, a limit is fixed for each constituent, upto which and based on other parameters, the borrower can withdraw and deposit funds into the account.

The primary security provided for Cash Credit facility will generally be the stocks in trade which are fully paid, either in the form of raw materials, stock in trade or finished goods and trade receivables. While in Open Cash Credit, the charge by which the above primary security is offered to the bank is called Hypothecation, in Key Cash Credit, the charge is Pledge. The basic difference is that in Open Cash Credits, where hypothecation is the charge, the possession of the security remains with the borrower. To elaborate, though the banker gets charge on the assets, the possession of the assets will remain with the borrower and he will be able to dispose off existing assets and bring in new assets.

In the case of Key Cash Credit, the possession of the asset will remain with the Bank and as and when the borrower needs to dispose off the stock pledged, he has to pay for the same and get the stocks released.

Thus, we see that Open Cash Credit facility is a convenient form of loan to the borrower and while availing the credit facility by offering the primary security of stocks and receivables, he will be able to use them also and hence this is a very popular credit.

46.4 Eligibility

Any individual, proprietary concern, partnership firm, limited company etc who are engaged in business are eligible to avail this facility.

For any type of borrower, the following ratios have to be analysed and it should be ensured whether they are within the prescribed levels :

Current Ratio

Quick Ratio

TOL / TNW

Profitability Ratios

Turn Over Ratios

The components of these ratios and the significance of them is detailed in the Chapter 9 on Financial Statements and their utility. Readers are requested to visit the said chapter for clarification regarding these ratios.

One important factor the processing officer has to look at is the ratios based on the future projections. The future projections shall be in tune with the past trends and any deviation shall be explained.

46.5 Pre-sanction process

As we do for any particular loan, the branch should conduct due diligence on the borrower and the guarantor / co-obligant. The KYC of the applicant and the co-obligant / guarantor and their 5Cs, viz., Character, Capacity, Capital, Collateral, Condition) are duly taken into consideration while selecting the borrower. Branch should interact with the borrower and ascertain the following regarding the borrower and his family / financial / business reputation by examining the following:

- person/ people behind the borrower/ entity /organisation / business /vintage of family in the business
- family background and reputation in the market
- purpose of loan
- capacity of the borrower in terms of business ability, managerial and marketing capability
- credit worthiness of the borrower
- additional comfort or collateral securities provided
- past experience in implementing /running business
- stability of business being conducted
- turnover track record
- conduct of the account

- outlook of business,
- market report of the borrower etc.

As part of the pre-sanction process, financial statements of the borrower and its operative accounts have to be studied to observe whether:

- any frequent cheque returns are observed
- any frequent cheque returns of its clients are observed
- any delay in servicing of the interest is noticed
- frequent drawings above the sanctioned limits are observed
- diversion of funds to promoters' account are observed.
- inter-group transfers and investments are observed

Where the borrower is a new connection, the opinion report from the existing banker shall be obtained and it should be studied to ensure that there are no adverse reports about the borrowing concern or its promoters.

Net worth statements of the borrower/partners/designated partners /promoter directors/guarantors shall be obtained and kept on record.

Branch has to ensure during the pre-sanction visit that the borrowing company /group is maintaining cordial industrial relations and the same is recorded in the appraisal memorandum.

Market reports about the borrower and his business acumen have to be obtained and recorded in the appraisal form.

Branch shall also check CIBIL data, CRILC, ECGC SAL reports, caution advices given by the bank and entries in CERSAI are to be verified to ensure that there are no adverse features.

In respect of advances to minors or on the security of minors' properties, prior permission of the Court is obtained and is in place and the natural guardian/ legal guardian appointed by the court have executed the same for the benefit of the minor.

Branch should ensure that :

- All assets and liabilities of the promoters and guarantors shall be obtained in the bank's format.
- In the case of **Sole proprietary concerns**, a letter from the sole proprietor that he would continue to carry on manufacturing /trading in the name of proprietary concern as its sole proprietor is obtained and kept on record.
- Where borrower is a **HUF**, all the adult members including the Karta sign the application and documents including receipts on behalf of HUF and in their personal capacity also and where, if any co-parcener has not signed, he has given an authorisation in writing.
- Where the borrower is a **Charitable Trust**, it should be registered under the relevant State Act and copy of Trust deed is to be obtained, duly certified by authorised persons with date and the same should be obtained every time the documents are executed and form part of loan documents and security documents.
- Where borrower is a **Society/ Co-operative Society**, Copy of Registration Certificate of the Society registered under the relevant State Act should be obtained and the Bye-Laws /Rules/ Regulations of the Society/ Co-operative Society permit the Society to borrow, explain the manner of exercise of

borrowing powers of Society and creation of security.

- A copy of necessary resolution to borrow shall be passed by the governing body/ managing committee members of the society.
- Where the borrower is a **Trust / Association**, copy of Trust deed, which permits the Trust to borrow for the purpose mentioned in the application and also create charge on the assets proposed to be offered as security, shall be on record duly certified by authorised persons with date and shall be obtained every time the documents are executed and form part of loan documents and security documents. Wherever necessary, the approval from the concerned department of the Government should be obtained for mortgaging Trust's assets.
- In case of advances to Association, Registration Certificate / Bye-Laws has to be obtained and it should be ensured that the bye-laws of the association permit borrowing for the purpose mentioned in the application.
- Where the borrower is a **Partnership Firm**, a copy of Partnership agreement / deed shall be obtained, duly certified by authorised persons with date shall be obtained every time the documents are executed.
- Branch shall study the partnership deed for:
 - o Details of persons who have entered into partnership
 - o Purpose / object for which the partnership is formed
 - o Restrictions imposed on the rights of the partners to borrow or operate the Bank account
 - o Conditions relating to retirement / death / insolvency of partners and status or continuance of partnership in such events.
- Where the borrower is a **Limited Liability Partnership (LLP)**, the copy of the agreement shall be obtained duly certified by authorised persons with date along with the resolution for borrowing money and agreement copy be obtained every time the documents are executed and form part of loan documents and security documents. At least two partners should have been designated as "Designated Partners". The agreement has to be scrutinised to ascertain details of the persons who have entered into such LLP / objectives / purpose for which it is formed / power to operate / borrow from Bank / create security for such borrowing.
- Where the borrower is a **Limited Company**, branch shall obtain CIN No., PAN No. of the company, copies of MOA, AOA, Certificate of Incorporation duly certified by authorised persons with date, DIN Nos of the Directors. The activity being undertaken by the company shall be part of MOA and the amount being borrowed is within the borrowing powers of the company.
- Where the borrower is a Limited Company, Branch should verify the Board Resolution to ensure that it contains:
 - o Specific sanctions regarding power to borrow,
 - o To execute documents,
 - o To create security,
 - o Nature and extent of loan required,
 - o Names of directors and other persons authorised to execute the documents,
 - o Names of the directors authorised to operate the bank account,
 - o Names of the directors to create mortgage and deposit title deeds etc

- It is prudent to check Register of guarantees, Register of Resolutions and Register of Directors maintained with the Registered Office of the Company and crosschecked the same with the records at ROC.
- A search at the office of SRO /land registry to ascertain whether any prior mortgage /charge exists over the immovable property offered by the borrower company to the Bank as security shall be done while processing the proposal.
- Personal guarantee of all directors except those who are nominated are to be obtained.
- In the case of **takeover of accounts**, the following points are to be borne in mind:
 - o Minimum internal/external credit rating as prescribed by bank is adhered to.
 - o Borrower is not shifting his accounts too frequently between lenders.
 - o Steep increase/decrease of turnover in the account is not observed.
 - o All accounts of group are in order and not stressed.
 - o There is no dilution of security at the time of takeover.
 - o Statement of account shall be thoroughly scrutinised for any adverse features.
 - o Liabilities of the borrower with the existing lender are clearly specified.
 - o Confidential report and NOC, Credit information report as per the format prescribed by RBI Circular on "Lending under consortium arrangements/ Multiple Banking arrangements" from the existing banker (the report of the existing lender should be satisfactory) shall be obtained.
 - o Contingent liabilities have to be covered in the takeover.
 - o Care should be taken to ensure that the project is still not under implementation at the time of takeover.
 - o The project is fully implemented.
 - o Account is not rescheduled / restructured.

Where the business premises /factory is in rented /leased premises, branch should obtain a copy of the rental agreement /lease deed and examine the same to ensure that there is no condition detrimental to the interest of the Bank.



The working capital limit is though determined by the peak level of deficit in the cash budget, the availability of finance is limited to the extent of deficit in the cash budget for the respective months.

46.6 Security

The primary security being stocks should have easy marketability, storability, stability in price, easy transferability of title, easy handling and valuation.

The collateral security shall have easy transferability of title, easy handling and disposal as well as one whose price does not fluctuate rapidly.

All the securities should be inspected by the Branch and it should be ensured that the securities have easy approach and good marketability. In the case of building properties offered as securities, care should be taken to ensure that such properties are not used for housing hospitals, religious gatherings, schools etc., where vacating the premises at a later date may create issues. In respect of securities offered / business

location, branch should look into the presence of negative factors like close vicinity to slums/burial grounds/ high voltage lines, railway lines, non-availability of water, absence of independent motor-able access and the same is recorded in the visit report

Legal Opinion in Bank's standard format shall be obtained on the collateral securities offered and where a second opinion is required, the same shall also be obtained. The opinion shall not be subjective and shall clearly trace the title. It should also mention the list of documents to be obtained for enforcing right on the property mortgaged. Certified copies of the title deeds are to be obtained through an independent source to ascertain the genuineness of the same.

A search in CERSAI shall be conducted to ensure that there is no prior security interest affecting the immovable property and any other chargeable security of the borrower.

Valuation/s shall be entrusted to panel valuers and the report shall be in the approved format without leaving any blanks and clearly specifying the boundaries.

In respect of existing accounts, all the previous non-compliances as reported in various audits shall be rectified before sending the renewal proposal.

In case of MBA / Consortium arrangement, NOC from existing lenders for ceding pari passu charge has to be obtained before sanction/execution of facility agreement.

46.7 Sanction and Documentation

LOI/Sanction letter in duplicate incorporating all terms and conditions of sanction approved by the sanctioning authority shall be issued.

It is ensured that the standard, basic and optional covenants that are relevant to the borrowal account be incorporated in the LOI/Sanction Letter.

Branch has to ensure that the standard formats of Documents as brought out in the Manuals of the Bank are used for execution of the same and should also see that they are completely filled in all aspects. Wherever the documents are not in bank's standard format, approval for the same is to be obtained from the competent authority as per DoP (Delegation of Powers). Documents are to be executed in the proper capacity, (Proprietor / Partner / Karta / Director etc.) and in the branch premises in the presence of officials of the branch. For further details please refer to Chapter 12 on Documentation.

Title deeds obtained are entered in the title deeds register in chronological order, duly listing out all the documents obtained and clearly mentioning the description of the property under mortgage. Memorandum of entry should be registered /noted with SRO, wherever it is required, within the time prescribed and an Encumbrance Certificate shall be obtained after registering banks charge with Sub Registrar Office.

Where the property to be mortgaged is a leasehold property, the lease deed should permit mortgage of the property by the lessee. Due care has to be taken to verify if NOC from the lessor for creating the mortgage is available and if the mortgage is enforceable. It is very important to obtain a letter from the lessor that he will not exercise the right of forfeiture or cancellation of the lease during the currency of credit facilities or upon enforcement of security by the bank in a Court of Law without prior written permission from the Bank.

46.8 Post-sanction Monitoring

46.8.1 Charge Creation

- Charges other than lien and pledge are to be registered with the concerned ROC within 30 days of creation of such charge / modification of charge.
- Charge has to be registered in Central Registry with particulars of transaction of security interest over the property and it should be ensured that such registration with CERSAI is completed soon after creation of charge.
- For loans sanctioned subsequent to 22 January 2016, charge has to be filed with the Central Registry giving particulars of creation/modification/satisfaction of security interest in respect of
 - immoveable property other than mortgage by deposit of title deeds
 - hypothecation of current assets
 - intangible assets (know-how, patent, copyright etc.)
 - any under-construction residential or commercial building
- Documents obtained should be entered in the document register.
- Search Certificate from ROC shall be obtained through CS/CA within 6 months of registration of charge confirming all charges in favour of various creditors including Bank, wherever applicable.
- Similarly, in the case of companies, certified extract of the register of charges maintained in the registered office of the Company duly certified by a notary public (U/S 85 of Companies Act) shall also be obtained.

46.8.2 Insurance

Security/ies charged to the Bank shall be comprehensively insured against all possible risks for their full value and Bank's interest is mentioned in the policy. Care should be taken to ensure that the value of stock holding shall not be lower than the insured value of the stock.

46.8.3 Computation of Drawing Power

- Drawing Power (DP) shall be calculated based on the market value or purchase value of the security, whichever is less.
- Computation of DP shall be as per the Bank's policy, i.e., where the Bank's policy stipulates that drawing power shall be calculated only on the paid stocks, the DP shall be calculated as total stock of raw material less stocks unpaid.
- Care should be taken to enter the drawing power periodically into the system as drawings have to be restricted to availability of DP or limit, whichever is lower.
- While calculating the DP against stocks, following are to be excluded and drawing power shall be arrived at.
 - a) Non-useable, non-moving, slow-moving stocks
 - b) unpaid stocks including sundry creditors for purchases, stocks under Documents accepted under Letter of Credit (DALC),
 - c) advance payment guarantee/suppliers credit etc.,
 - d) stock hypothecated/ pledged to any other facilities
- Where the account is under consortium / multiple banking, a copy of the DP statement forwarded

by the lead bank shall be obtained and operations be monitored based on the DP arrived at basing on such statement.

- Stock statements shall be obtained, even where the account is in continuous credit in the periodicity prescribed and in the prescribed format, as non-updation of drawing power for a period beyond 90 days also will result in the account being treated as non-performing. These should be signed by the person authorised to operate the account.
- It should be ensured that the addresses mentioned in the insurance policies as addresses of the godowns and the addresses where the stocks are stored are the same. The original insurance policies shall be kept along with the documents and due dates shall be diarised. It should be ensured that subsequent renewals of the policy are done prior to the due date to ensure that the policy is in force.
- Where stock statements are submitted on the letter heads of the borrower, it should contain a declaration that the goods are their property, they are entitled to hypothecate the goods to the Bank, goods are not subject to any lien, claim or charge of any sort.
- Stock and receivables statements submitted should be compared with the previous month's statements to check movement of stock of raw material and finished goods.
- While calculating DP against Book debts, debtors within the period permitted in the sanction shall be considered for computing the DP and should exclude value of bills discounted and advance received against supplies.
- Statement of Book debts certified by the Chartered Accountant shall be obtained periodically wherever stipulated in the sanction.

46.9 Operations in the account

- Operations in the account shall be monitored periodically to prevent diversion of funds either to long-term needs or outside the system.
- Monthly statements like Monthly Select Operational Data (MSOD), stock statements, quarterly statements like quarterly performance reports in QIS I and II, Annual Balance sheet, profit and loss statements shall be obtained, recorded and analysed to see whether they match with the projections given. In case, there are large variations with the projected figures, reasons for the same are to be ascertained and drawings restricted suitably.
- It should be ensured that the borrower routes his transactions through the account regularly.
- Where a permission to operate the account in some other bank is given by the sanctioning authority, periodical statements of operations of such accounts shall be obtained and analysed the same way as mentioned above.
- Care should be taken to ensure that the quantum of credits into the account shall exceed the interest debited into the account, even where the liability is lesser than the sanctioned limit.
- Where the liability exceeds the sanctioned limit, the same should be brought within the sanctioned limit or drawing power, whichever is less, immediately.
- Penal charges as applicable for exceeding the limit, non-submission of statements shall be charged as per Bank's policy.

46.10 Unit Inspection

- Physical verification of stocks shall be conducted as per the laid down norms and in the frequency stipulated, even where accounts are in credit balances.

- While conducting physical verification, branch has to ensure that they look into:
 - o Condition of the factory / godown / shop
 - o Availability and adequacy of stocks in terms of age, quality and value
 - o Saleability of stock
 - o ABC analysis of stocks and checking all high value items and their movement during each visit
 - o Random sampling of non-high value items should be done and the stocks are to be inspected during the visit.

46.11 Other Operational Aspects

- Processing charges and other charges as applicable should be collected.
- GST and other indirect tax records are to be checked and correlated to movement of stocks
- Identification of slow moving stocks during unit visit
- Identification of book debts under dispute and pending for a long time
- Keeping an eye on any unusual spurt or decline in activity levels
- Random check of books and invoices to be conducted for valuation of stocks
- It should be ensured that the borrower is displaying in the factory / godown / office premises, a board displaying Bank's interest in the stocks and other securities charged to the Bank.
- It should be checked periodically whether regular payments like salaries, payment of rent, electricity bills, water charges etc are being made in the periodicity they are supposed to be paid.
- Bank should monitor the status of statutory payments payable on the due dates and ensure that returns are being submitted promptly.
- Transactions to and from group accounts are to be checked with utmost care , as they are the major cause of diversion. Where the borrower claims them to be business transactions, proof of such sale and purchase are to be verified and compared with previous years' turnover.
- Wherever shares are offered as security, it should be ensured that Bank is complying with relevant guidelines / regulations and monitoring the value of shares as per extant guidelines.
- Where the unit is having exports, availability / continuation of ECGC Cover should be ensured.
- Branch should develop a mechanism to detect and get to know any aberrations in the business.
- While taking over accounts from other bank, payment should be made directly to the transferor bank after getting information from the said Bank regarding the total dues of the constituent.
- No dues certificate shall be obtained immediately after making the full payment to the transferee bank.
- Branch should note that reasons such as the following should red-flag the account and closer monitoring needs to be ensured :
 - o fall in sales turnover
 - o elongation of debtors
 - o diversion of funds for long-term purposes for repayment of debts
 - o siphoning of funds for non-business related activities

- Branch should develop a mechanism for monitoring large cash withdrawals / kite flying operations / transfer of funds to unrelated parties / sister or associate concerns / circular transfer of funds to and from a set of accounts / frequent return of cheques both issued by the borrower and issued for credit of his account.
- Early warning signals should be taken cognisance of and account slipping to SMA category for non-financial reasons shall be prevented.
- Monitoring of non-funded limits shall also be done in the same spirit as that of fund-based limits and interchangeability between funded and non-funded limits should be discouraged.
- In the case of accounts under MBA / Consortium, branch should ensure that
 - o proportionate share in business is routed through the Bank.
 - o Interest is being serviced regularly.
 - o Stock statements and other financial statements are being submitted in time.
 - o Joint Lenders' Meetings are attended to regularly and copies of minutes of such meetings are to be kept on record.
 - o Copies of documents including security documents are forwarded by the leader bank.
 - o Renewal is taken up duly considering the assessment made by the leader of the consortium.
 - o Where the loan is under MBA/Consortium, NOC / letter ceding paripassu charge shall be exchanged among the lenders or by executing an inter-creditor agreement amongst the lenders holding paripassu charge.
 - o Where the bank is a leader of consortium, copies of appraisal note, joint documentation, insurance, stock statements and drawing power calculations, legal opinion on collateral securities, valuation reports are all forwarded to member banks.
 - o As a leader of the consortium, meetings should be conducted in regular intervals, joint unit inspections should be conducted in turns and minutes of the meetings shall be shared with the other members.
 - o Leader fees, syndication fees, documentation fees, charges for legal opinion and valuation etc should be collected upfront.
- Renewal of limits is taken up sufficiently in advance and renewal is completed on the due date.
- At the time of enhancement of credit facilities and extension of mortgage, the owners/mortgagors have to execute the Declaration cum Undertaking in the standard format, giving consent to retain the title deeds already deposited by way of mortgage and the authorized officer of the Bank has to record the Memorandum of Entry.
- Balance Confirmation letter confirming the debit balance in the account shall be obtained as per the periodicity prescribed by the Bank's policy.
- In anticipation of sanction of a higher limit, branch shall not give excess drawing to the account.
- Adhoc limits should not be adjusted with enhancement of limits and borrower should be advised to bring the account to order before allowing enhancement of limits.
- Revaluation of limits shall be done as per the extant guidelines.

46.12 Recovery Action

- Where the irregularity is beyond 90 days, legal action under Section 138 of NI Act /SARFAESI Act /DRT/Civil Suit, as applicable shall be initiated without any loss of time.

- In case of death of the borrower, branch shall issue notice to all legal heirs of the borrower along with co-obligant / guarantor for recovery of the loan outstanding.
- Operations in the account shall be stopped upon receipt of information regarding the borrower's death.
- Where the legal heirs of the deceased agree to takeover the liability, fresh documentation shall be obtained from all the legal heirs and the guarantor / co-obligant.
- Where legal heirs do not come forward to settle the dues, legal action as is fit may be initiated.
- Identification of fraud / non-starter / quick mortality / First Time NPA (FTNPA) shall be as per norms.
- After the account is classified as NPA, branch should continue to follow up for recovery and document its efforts for the same.
- One Time Settlement (OTS) / Negotiated Settlement (NS) offer should be received in writing and the sources for bringing the money should be verified before accepting the proposal. It should be accompanied by a portion of the OTS amount.
- OTS / NS sanction should be communicated in writing and duplicate copy of the sanction shall be accepted by the borrower in having agreed to the terms of OTS/NS and the copy should be kept on record.
- Normally, OTS settlement shall be completed in 90 days.
- Wherever the due date for OTS payment is extended, interest as applicable shall be collected in addition to the OTS amount.
- In the case of NS, payment shall be made according to the sanction and PDCs shall be obtained for each payment.
- Release of securities and issuance of NOC shall be made after the terms of sanction of OTS / NS are fully satisfied.
- Where the borrower is declared as wilful defaulter / fraudulent borrower, OTS sanction communication should contain a condition stating that the approval is without prejudice to the existing/ future criminal cases against the borrower.
- Identification of defaulting borrower as non-co-operative / wilful defaulter shall be as per the extant guidelines and criminal action shall be initiated in the case of wilful defaulter.
- Publication of photographs of wilful defaulters shall be done duly following the laid down procedure.
- Right of set-off shall be exercised by the Bank, wherever applicable.

The chapter is exhaustive in dealing with working capital limits, however, the other chapters like types of borrower and NPA management and recovery shall also be referred for fuller picture. In order to avoid repetition, the same have not been reproduced here.

Annx.No.I

ASSESSMENT OF WORKING CAPITAL REQUIREMENTS**FORM - I**

Particulars of the existing/proposed limits from the Banking System (Limits from all Banks and Financial Institutions as on date of application)

(Amount - Rs. in lacs)

A. WORKING CAPITAL LIMITS

Sr. No.	Name of Bank/ Fin. Institution	Nature of facility	Existing limits	Extent to which limits were uti- lised during last 12 months		Bal. O/s. as on	Limits now requested
				Max.	Min.		
1	2	3	4	5	6	7	8
1.							
2.							
3.							
4.							
5.							
6.							
7.							

B. LEASE/HIRE PURCHASE/ICDs/ECB/ADR/GDR, etc.

Sr. No.	Name of the Institution/ Company	Sanctioned limit	Purpose	O/s. as on	Terms of repayment	Security	Overdue	Remarks
1.								
2.								

C. TERM LOANS/DPG

(excl. Working Capital Term Loans)

Sr. No.	Name of the Institution/ Bank	Sanctioned limit	Purpose	O/s. as on	Terms of repayment	Security	Overdue	Remarks
1.								
2.								

D. DEBENTURES/OTHER LONG TERM BORROWINGS

Sr. No.	Nature	Amount	Due on	Security	Remarks
1.					
2.					

ASSESSMENT OF WORKING CAPITAL REQUIREMENTS
FORM II : OPERATING STATEMENT

Name _____

(Amount - Rs. in lacs)
Actuals/Estimates for the year ended/ending

	19	19	19	19
	LAST 2 YEARS ACTUALS (As per audited accounts)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ.
	(1)	(2)	(3)	(4)
1. <u>Gross Sales</u>				
(i) Domestic sales				
(ii) Export sales				
Total				
2. Less: Excise duty				
3. Net Sales (1-2)				
4. %age rise (+) or fall(-) in net sales as compared to previous year				
5. <u>Cost of sales</u>				
(i) Raw materials*(including stores and other items used in the process of manufacture)				
(a) Imported				
(b) Indigenous				
(ii) Other spares				
(a) Imported				
(b) Indigenous				
(iii) Power and fuel				
(iv) Direct labour (Factory wages & salaries)				
(v) Other mfg. expenses				
(vi) Depreciation				
(vii) SUB-TOTAL (i to vi)				
(viii) Add: Opening stocks- in-process Sub-total				
(ix) Deduct: Closing stocks- in-process				
(x) Cost of production				
(xi) Add: Opening stock of finished goods Sub-total				
(xii) Deduct closing stock of finished goods				
(xiii) SUB-TOTAL (Total cost of sales)				

(Amount - Rs. in lacs)
Actuals/Estimates for the year ended/ending

	19	19	19	19
	LAST 2 YEARS ACTUALS (As per audited accounts)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ.
	(1)	(2)	(3)	(4)
6. Selling, general and administrative expenses				
7. SUB-TOTAL (5+6)				
8. Operating profit before interest (3-7)				
9. Interest				
10. Operating profit after interest (8-9)				
11 (i) Add other non-operating Income				
(a)				
(b)				
Sub-total (income)				
(ii) Deduct other non-operating expenses				
(a)				
(b)				
Sub-total (expenses)				
(iii) Net of other non-operating income/expenses (net of 11(i) and 11 (ii))				
12. Profit before tax/loss 10+11 (iii)				
13. Provision for taxes				
14. Net profit/loss (12-13)				
15. (a) Equity dividend paid/proposed				
(b) Dividend Rate				
16. Retained profit (14-15)				
17. Retained profit/Net profit (%age)				



FORM III

Name :

(Amount - Rs. in lacs)

As per Balance Sheet as at

CURRENT LIABILITIES

- I. Short-term borrowings from banks (including bills purchased/ discounted and excess borrowings placed on repayment basis)
 - (i) From applicant bank
 - (ii) From other banks
(of which BP/BD)

Sub total (A)

- 2(a) Short term borrowings from others
- (b) ICDs, CPs, etc. if any
3. Sundry creditors (Trade)
4. Advance payments from customers/
deposits from dealers
5. Provision for taxation
6. Dividend payable
7. Other statutory liabilities
(due within one year)
8. Deposits/Instalments of term
loans/DPGs/debentures/ECB/
ADR/GDR
(due within one year)
9. Other current liabilities &
provisions (due within
one year)
(Specify major items)
- Sub-total (B) (2 to 9)

10. TOTAL CURRENT LIABILITIES
(total of 1 to 9) (A + B)

TERM LIABILITIES

11. Debentures (not maturing within one year)
12. Preference Shares (redeemable after one year)
13. Term loans (excluding instalments payable within one year)

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Name :

(Amount - Rs. in lacs)

As per Balance Sheet as at

<u>LIABILITIES</u>	19	19	19	19
	LAST 2 YEARS ACTUALS (As per audited B/S)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ
	(1)	(2)	(3)	(4)
14. Deferred Payment Credits (excluding instalments due within one year)				
15. Term deposits (repayable after one year)				
16. Other term liabilities like ADR, GDR, ECB, FCNR(B) loans, etc.				
17. TOTAL TERM LIABILITIES (Total of 11 to 16)				
18. TOTAL OUTSIDE LIABILITIES (10 + 17)				
<u>NET WORTH</u>				
19. Ordinary share capital Preference share beyond 12 years				
20. General reserve				
21. Revaluation Reserve				
22. Other reserves (excluding provisions)				
23. Surplus (+) or deficit (-) in Profit & Loss account				
24. NET WORTH (Total of 19 to 23) [NET WORTH excl. Rev.Res.]	()	()	()	()
25. TOTAL LIABILITIES (18 + 24)				

**FORM III (CONTD.)
ANALYSIS OF BALANCE SHEET**

(Amount - Rs. in lacs)

ASSETS

As per Balance Sheet as at

		19	19	19	19
		LAST 2 YEARS ACTUALS (As per audited B/S)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ.
		(1)	(2)	(3)	(4)
CURRENT ASSETS					
26.	Cash and Bank Balances				
27.	Investments (other than long term investments)				
	i) Govt. & Other Trustee securities				
	ii) Fixed deposits with banks/MMMF, CPs, CDs, etc.				
28.	i) Receivables (less than 6 months) other than deferred & exports (including bills purchased & discounted by banks)				
	ii) Export receivables (including bills purchased/ discounted by banks)				
29.	Instalments of deferred receivables (due within one year)				
30.	Inventory :				
	i) Raw materials (including stores & other items used in the process of manufacture)				
	a) Imported				
	b) Indigenous				
	ii) Stocks-in-process				
	iii) Finished goods				
	iv) Other consumable spares				
	a) Imported				
	b) Indigenous				
31.	Advances to suppliers of raw materials & stores/spares				
32.	Advance payment of taxes				
33.	Other current assets like Cash margin on LCs, LGs, etc. (Specify major items)				
34.	TOTAL CURRENT ASSETS (Total of 26 to 33)				
FIXED ASSETS					
35.	Gross Block (land & building machinery, work-in-progress)				
36.	Depreciation to date				
37.	NET BLOCK (35 - 36) [NET BLOCK (excl.Rev.Res.)]	()	()	()	()

(Amount - Rs. in lacs)

ASSETS

As per Balance Sheet as at

		19	19	19	19
		LAST 2 YEARS ACTUALS (As per audited B/S)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ.
		(1)	(2)	(3)	(4)
<u>OTHER NON-CURRENT ASSETS</u>					
38.	Investments/book debts/ advances/deposits which are not Current Assets i) a) Investments in subsidiary companies/affiliates b) Others ii) Advances to suppliers of Capital goods & contractors iii) Deferred receivables (maturity exceeding one year) iv) Others, ICDs, etc. v) Deposits with Govt. Depts./ Statutory Bodies, etc.				
39.	Non-consumable stores & spares				
40.	Other non-current assets including dues from directors				
41.	TOTAL OTHER NON-CURRENT ASSETS (Total of 38 to 40)				
42.	Intangible assets (patents, goodwill, preliminary expenses, bad/doubtful debts not provided for, etc.)				
43.	TOTAL ASSETS (Total of 34, 37, 41 & 42)				
44.	TANGIBLE NET WORTH (24-42) [TNW excl. Rev.Res.]	()	()	()	()
45.	NET WORKING CAPITAL (17+24) - (37+41+42) Totally with (34-10)				
46.	Current Ratio (Items 34:10)				
47.	TOL/TNW (18:44) [TOL/TNW excl. Rev.Res.]	()	()	()	()

(Amount - Rs. in lacs)

ASSETS

As per Balance Sheet as at

....19	19	19	19
LAST 2 YEARS ACTUALS (As per audited B/S)		CURRENT YEAR ESTIMATES	FOLLOWING YEAR-PROJ.
(1)	(2)	(3)	(4)

ADDITIONAL INFORMATION

- (A) Arrears of depreciation
- (B) Contingent Liabilities :
- i) Arrears of cumulative dividends
 - ii) Gratuity liability not provided for
 - iii) Disputed excise/customs/ tax liabilities
 - iv) Other liabilities not provided for
 - v) Bills Purchased/Discounted under LC
 - a) Inland
 - b) Export
- (C) Assets acquired on lease/ Hire Purchase
- (D) ICDs placed with others
ICDs taken from others

Annx.No.IV

FORM IV
COMPARATIVE STATEMENT OF CURRENT ASSETS AND
CURRENT LIABILITIES

(Amount - Rs. in lacs)

As per Balance Sheet as at

	NORMS	19 LAST YEAR	19 CUR. YEAR ESTIMATES	19 FOL. YEAR PROJ.	19 PEAK REQUIRE- MENT As on
	(1)	(2)	(3)	(4)	(5)
A. CURRENT ASSETS					
1. Raw Materials (including stores & other items used in the process of manufacture)					
a) Imported :					
Months' consumption	()	()	()	()	()
b) Indigenous :					
Months' consumption	()	()	()	()	()
2. Other consumable spares excluding those included in 1 above					
a) Imported :					
Months' consumption	()	()	()	()	()
b) Indigenous :					
Months' consumption	()	()	()	()	()
3. Stocks-in-process :					
Months' cost of production	()	()	()	()	()
4. Finished Goods :					
Months' cost of sales	()	()	()	()	()
5. Receivables other than export & deferred receivables (including bills purchased and discounted by bankers)					
Months' domestic sales:	()	()	()	()	()
6. Export receivables excluding deferred payment sales (including bills purchased and discounted by bankers)					
Months' export sales	()	()	()	()	()
7. Advances to suppliers of raw materials & Stores/ Spares consumables					
8. Other current assets including Cash & Bank balances and deferred receivables due within one year (specify major items)					
(To agree with item 34 in Form III)					

**FORM IV (CONTD.)
COMPARATIVE STATEMENT OF
CURRENT ASSETS & CURRENT LIABILITIES**

As per Balance Sheet as at

	19 LAST YEAR	19 CUR. YEAR ESTIMATES	19 FOL. YEAR PROJ.	19 PEAK REQUIRE- MENT As on
	(1)	(2)	(3)	(4)
B. CURRENT LIABILITIES (Other than bank borrowings for working capital)				
10. Creditors for purchase of raw materials, stores & consumable spares Months' purchases	()	()	()	()
11. Advances from customers				
12. Statutory liabilities				
13. Other current liabilities (specify major items) Short Term borrowings, unsecured loans, dividend payable, instalments of, TL, DPG, Public Deposits, ECB, ADR, GDR, and debentures, ICDs, etc. payable in next 12 months				
14. TOTAL (To agree with sub-total B- Form III)				

Annx.No.V

FORM VCOMPUTATION OF FLEXIBLE BANK FINANCE

(Amount - Rs. in lacs)

	Previous Year	Current Year	Next Year	Peak require- ments
1. Total CA				
2. Other CL (other than bank borrowings)				
3. Working Capital Gap (1-2)				
4. Net Working Capital (Actual/Projected) (Item No. 45 in Form III)				
5. Flexible Bank Finance (FBF) (3-4)				
6. NWC to TCA (%)				
7. Flexible Bank Finance to TCA (%)				
8. S. Creditors to TCA (%)				
9. Net Sales				
10. Inventories to Net Sales (days)				
11. Inventory to Cost of Sales				
12. Receivables to Gross Sales (days)				
13. S. Creditors to Purchases (days)				

FORM VI (A): FUNDS FLOW STATEMENT

(Amount - Rs. in lacs)

As per balance sheet as at

	19	19	19
	LAST YEAR ACTUALS as per audited bal. sheet	CURRENT YEAR ESTIMATES	FOLLOWING YEAR PROJECTIONS
	(1)	(2)	(3)
1. <u>SOURCES</u>			
a) Net profit (after tax)			
b) Depreciation			
c) Increase in Capital			
d) Increase in Term Liabilities (including Public deposit)			
e) Decrease in			
i) Fixed Assets			
ii) Other non-current assets			
f) Others			
g) TOTAL			
2. <u>USES</u>			
a) Net loss			
b) Decrease in Term Liabilities (including public deposits)			
c) Increase in :			
i) Fixed Assets			
ii) Other non-current assets			
d) Dividend payments			
e) Others			
f) TOTAL			
3. Long Term Surplus (+)/ Deficit (-) (1-2)			
4. Increase/decrease in current assets (as per details given below)			
5. Increase/decrease in current liabilities other than bank borrowings			
6. Increase/decrease in working capital gap			
7. Net surplus (+)/deficit (-) (Difference of 3 & 6)			
8. Increase/decrease in bank borrowings			
INCREASE/DECREASE IN NET SALES			

(Amount - Rs. in lacs)

As per balance sheet as at

.....19	19	19
LAST YEAR ACTUALS as per audited bal. sheet	CURRENT YEAR ESTIMATES	FOLLOWING YEAR PROJECTIONS
(1)	(2)	(3)

Break-up of (4)

- i) Increase/Decrease in Raw materials
- ii) Increase/Decrease in stocks-in-process
- iii) Increase/Decrease in Finished Goods
- iv) Increase/Decrease in Receivables
 - a) Domestic
 - b) Export
- v) Increase/Decrease in stores & spares
- vi) Increase/Decrease in other current assets

NOTE : Increase/decrease under Items 4 to 8 as also under break-up of (4) should be indicated by (+) (-)

FORM VI (B) : CASH BUDGET

Sr. No.	Particulars	Audited Figures Previous two years		Actuals/Projection CURRENT YEAR	
		199 9	199 9	1st half	2nd half
1.	CASH FLOW FROM BUSINESS OPERATIONS : A. Receipts : Cash Sales Collection from trade Debtors (Annexure to contain figures of outstanding trade debtors: - with age upto 90 days - with age between 91 & 180 days - with age more than 180 days - TOTAL OUTSTANDING DEBTORS) Others (specify) TOTAL (A) B. Payments Cash Purchases (of inventory items) Payments to trade creditors (Annexure to contain figures of outstanding trade creditors: - with age upto 90 days - with age between 91 & 180 days - with age more than 180 days - TOTAL OUTSTANDING CREDITORS) Other Manufacturing expenses Administrative & Selling Expenses Interest on borrowings (Short term & Long term - - (Annexure to contain total payments made to EACH payee having received 10% or more of total interest payments) Others (specify) TOTAL (B) C. Cash from Business Operations i.e. NET OF (A) and (B)				

Sr. No.	Particulars	Audited Figures Previous two years		Actuals/Projection CURRENT YEAR	
		199 9	199 9	1st half	2nd half
II	<u>CASH FROM NON-BUSINESS OPERATIONS</u>				
D.	<u>Receipts :</u> Dividend/interest on investments (Annexure to contain details for (i) from associates; (ii) from other companies; (iii) on bonds/shares of Fis and banks; (iv) others - specify) Sale of investments (specify) Exchange fluctuations Profits Others (specify) TOTAL (D)				
E	<u>Payments :</u> Dividend/interest on investments (Annexure to contain details for (i) to associates; (ii) to other companies; (iii) others - specify) Purchase of investments (specify nature and annex details, if necessary) Exchange fluctuations losses Others (specify) TOTAL (E)				
F	<u>Cash flow from non-business operations</u> i.e. Net of (D) and (E) TOTAL (F)				
III	<u>CASH FLOW FROM CAPITAL ACCOUNTS</u>				
G	<u>Receipts</u> Issue of shares (and receipts on allotments, calls, forfeiture, etc.) Issue of debentures/bonds Borrowings from Banks/FIs Borrowings from: - Directors, friends and relatives; - Associates; - Public (specify nature) - Others (specify)				
H	<u>Payments</u> - Purchase of Fixed Assets (specify) - Others (specify)				
I	<u>Cash Flow from Capital Accounts</u> (Net of (G) and (H))				
J	<u>Total Cash Flow</u> i.e. (C+F+I)				

CHAPTER 47

KEY CASH CREDITS

Key Cash Credit facility (Cash Credit- Pledge) is another form of working capital advance. The assessment, working out the eligibility etc. are all similar to Open Cash Credits. The difference between Open Cash Credit and Key Cash Credit is that, in the former, the possession of the goods charged to the bank are with the borrower himself and the charge available to the bank is hypothecation. In the case of Key Cash Credit, the possession of the goods offered to the bank as security remain the custody of the Bank and the charge that is available is Pledge.

Thus, CC-Pledge is a more secured form of advance from the banker's point of view. However, in view of the practical problems involved in operation of the facility, it is slowly being discontinued and Open Cash Credit is gaining popularity.

All the conditions laid down in Open Cash Credit are applicable to this type of facility also and hence reader is requested to go through Chapter 46 on Open Cash Credit for a complete view on this type of credit.

In Key Cash Credit, the stocks pledged to the Bank are in the custody of the Bank. The keys of godowns where the pledged stocks are kept are with the Bank. Thus, possession of the stock is with the Bank and hence it is important that Bank takes care of these goods with utmost caution.

The godowns where the stocks are kept should preferably have single entrance and where there are multiple entrances, then Bank should lock all these doors and keep the keys in its possession.

The godown where the stocks are kept shall be easily accessible and should not be in close proximity to places which are vulnerable to fire accidents.

Where the godowns are situated inside a factory or a complex, bank should be given free access by way of a document where the right of the bank to enter the premises and have access to the godown where pledged stocks are stored is given.

The stocks pledged should be kept neatly stacked and in such a way that the quantity can be easily measured. Each such stack should have a card wherein the quantity pledged with date is indicated and whenever there is a withdrawal, the same is noted. The stock available in the stack should tally with the quantity mentioned in the card attached to it.

Each time the pledge or release takes place, a letter is to be obtained from the borrower giving the quantity and particulars of the stocks pledged / to be released. These letters shall be kept separately by the Bank.

Bank should periodically inspect the stocks that are pledged and ensure that:



The stocks pledged should be kept neatly stacked and in such a way that the quantity can be easily measured. Each such stack should have a card wherein the quantity pledged with date is indicated and whenever there is a withdrawal, the same is noted. The stock available in the stack should tally with the quantity mentioned in the card attached to it.

- The quantity pledged are available in the godown under Bank's custody.
- There is no deterioration of stocks pledged.
- There are no rodents or pests in the godown which might destroy the stocks pledged.
- The locks for the doors are not tampered.

One vital factor which the Banker has to keep in mind in the case of Key Cash Credit is the value of stocks pledged. If the market reports indicate fall in the value of the pledged stocks, banker should immediately insist on payment of the difference in value from the borrower and ensure that the liability in Key Cash Credit account matches with the market value of the stocks available in the godown less the margin.

There should be periodical movement of the stocks pledged. If the stocks pledged with the Bank are not being released within a reasonable time, bank has to insist on adjustment of the liability. When stocks remain in the pledge for a long time, it indicates that the stocks are not saleable and hence banker has to insist on changing the stocks immediately.

The banker may, in case of default, dispose off the stock by conducting auction, duly following the procedure of giving notice to the borrower and issuing a final auction notice.

If in the auction, the amount recovered is lesser than the amount outstanding, banker may initiate legal action against the borrower for recovery of its dues.

Bank's board displaying the information that stocks are pledged with the bank should be conspicuously displayed at prominent places.

Stocks should be insured fully against all risks.

CHAPTER 48

LOANS AGAINST SECURITIES

48.1 Introduction

Among the portfolio of assets which are considered to be safe and where there no assessment is required, other than KYC of the proposed borrower, is Loans against securities like National Savings Certificates (NSC), Life Insurance Policies, Kisan Vikas Patra (KVP)etc.

48.2 Eligibility

- The applicant shall be legally competent to contract the loan and execute the documents.
- Income criteria, if any, prescribed by the Bank's policy shall be fulfilled.

Please refer to Chapter 39 on Retail Loans- Common Points. The information given under Paragraphs Application and Appraisal are applicable to this type of loans also.

48.3 Application

- Individuals, joint holders of security, Proprietary, Partnership concerns, Limited Companies are eligible to avail this facility.
- Prescribed Application form duly signed by the applicant(s)/holders of the Security shall be obtained.
- In the case of individuals, proof of income like salary certificate, IT Assessment order shall be obtained and scrutinized.
- In the case of Partnership Firm, all the partners should sign the application.
- A copy of the partnership deed shall also be obtained and kept on record, duly verifying whether the deed has a borrowing clause and permits partners to raise loans against such securities.
- In the case of loan to Limited Company, the application shall be signed by the persons authorized by the Board of Directors and a copy of the Board Resolution authorising the person concerned to apply and sign the necessary documents, including the securities that are being offered, should be obtained.
- Branch should obtain a copy of the Memorandum and Articles of Association (MOA & AOA) of the company and verify whether the borrowing clause is incorporated in the same and the said clause should permit the company to avail loan by pledging the securities.

48.4 Assessment and Sanction

- Bank's loan policy prescribes margin to be maintained while granting loans against different types of securities. The branch should adhere to the margins stipulated while processing the loan.
- KYC documents, viz., Proof of Identity, Proof of address, Photograph of the applicant, details of his bank account etc. shall be obtained and kept on record.
- CIBIL Report of the borrower and all the signatories are to be obtained and the CIBIL Scores should be above the minimum stipulated score.
- In the case of NSCs and KVPs, the present value of the certificates should be obtained from the Post Office.

- In the case of life insurance policies, the surrender value certificate shall be obtained from the Insurance Company.
- In the case life insurance policies, the latest premium paid receipt shall also be obtained.
- Based on the surrender value in the case of insurance policies and value of the security offered in the case of NSCs and KVPs etc., the loan amount shall be fixed, duly considering the margin prescribed in the loan policy.
- Life Insurance policy shall be got assigned in favour of the Bank, duly obtaining the necessary application for the assignment in the format prescribed by the insurance company.
- In the case of NSCs, KVPs etc., Bank's lien should be got noted from the post office issuing such bonds.
- Discharge from the policy holder/ purchaser of the Bonds shall be obtained on the assigned policies and NSCs/ KVPs etc.
- Suitable Co-obligant / guarantor may also be obtained wherever necessary, duly adhering to KYC norms.
- Limit shall be sanctioned as per the discretionary powers duly taking into account the value of the security offered and the income of the applicant.
- Monthly instalments shall be fixed depending on the income of the applicant.
- The due date of the loan should be fixed as per policy guidelines issued by the Board and such that it is not beyond the due date of the policy /bond offered as security.
- As is the case with all other sanctions, sanction letter is to be prepared duly incorporating all terms and conditions relevant to this category of advance and mentioning the Limit, Value of Security, Details of Security, margin, applicable rate of interest, No. of instalments fixed and the due date for the loan. The sanction letter should be prepared in duplicate.
- Signatures of all the applicants and co-obligants / guarantors should be obtained on the second copy of the sanction letter, confirming acceptance of all terms and conditions of sanction in toto.
- Where sanction is made within the discretionary powers of the Branch Head, it should be ensured that the appraisal is done by an officer other than the Branch Head himself.
- Where the limit is sanctioned within the discretionary powers of the Branch Head, the sanction shall be reported to the Controlling Office within the prescribed time period.



Sanction letter is to be prepared duly incorporating all terms and conditions relevant to this category of advance and mentioning the Limit, Value of Security, Details of Security, margin, applicable rate of interest, No. of instalments fixed and the due date for the loan.

48.5 Documentation and Disbursement

- Prescribed documents for the loan as per Bank Guidelines shall be obtained duly signed by the Borrower and Guarantor(s)/ Co-obligant(s), wherever stipulated.
- It should be ensured that all the holders of the security executed the documents.
- Where the loan is sanctioned to a partnership firm, all the partners should execute the necessary documents.
- Where the loan is sanctioned to a Company, copy of the Board Resolution authorising the Company to Borrow against Securities shall be obtained duly specifying the persons authorized to execute the documents on behalf of the Company.

- The documents shall be complete in all respects and entered in the documents register.
- Legal audit and permission to release are to be obtained, wherever necessary.
- The entire loan has to be disbursed in single instalment.

48.6 Post Sanction Monitoring

- Instalments /Interest /EMI as stipulated in the sanction have to be collected promptly, either by executing standing instructions or by obtaining NACH/ECS mandate.
- Where NACH /ECS mandate is obtained, the mandate is forwarded to the concerned Bank and it should be ensured that it is acted upon.
- Processing charges as applicable shall be collected upfront.
- Wherever there are overdues, Branch should follow up with notices to the borrower/s and guarantors/co-obligants if any.
- Where the loan remained unpaid after the due date, Branch shall invoke the securities and adjust the proceeds to the loan account.
- For any shortfall after such adjustment, notice shall be sent to all the parties to the contract and in case of failure to recover, legal remedy should be initiated.

CHAPTER 49

OVERDRAFT AGAINST SECURITIES

49.1 Introduction

Similar to sanction of Overdraft against deposits, overdrafts can also be considered against Lien /Pledge / Assignment of approved securities / NSCs and KVPs / Life Insurance policies.

49.2 Application

- Individuals, Joint holders of security, Proprietary, Partnership concerns, Limited Companies are eligible to avail this facility.
- Prescribed Application form duly signed by the applicant(s)/holders of the Security shall be obtained.
- In the case of individuals, proof of income like salary certificate, IT Assessment order shall be obtained and scrutinized.
- In the case of Partnership Firm, all the partners should sign the application.
- A copy of the partnership deed shall also be obtained and kept on record, duly verifying whether the deed has a borrowing clause and permits partners to raise loans against such securities.
- In the case of loan to Limited Company, the application shall be signed by the persons authorized by the Board of Directors and a copy of the Board Resolution authorising the person concerned to apply and sign the necessary documents, including the securities that are being offered shall be obtained.
- Branch should obtain a copy of the Memorandum and Articles of Association (MOA & AOA) of the company and verify whether the borrowing clause is incorporated in the same and the said clause should permit the company to avail loan by pledging the securities.

49.3 Assessment and Sanction

- Bank's loan policy prescribes margin to be maintained while granting overdraft against different types of securities. The branch should adhere to the margins stipulated while processing the loan.
- KYC documents, viz., Proof of Identity, Proof of address, Photograph of the applicant, details of his bank account etc shall be obtained and kept on record.
- CIBIL Report of the borrower and all the signatories are to be obtained and the CIBIL Scores should be above the minimum stipulated score.
- In the case of NSCs and KVPs, the present value of the certificates should be obtained from the Post Office.
- In the case of life insurance policies, the surrender value certificate shall be obtained from the Insurance Company.



Based on the surrender value in the case of insurance policies and value of the security offered in the case of NSCs and KVPs etc., the loan amount shall be fixed, duly taking into account the margin prescribed in the loan policy.

- In the case life insurance policies, the latest premium paid receipt shall also be obtained.
- Based on the surrender value in the case of insurance policies and value of the security offered in the case of NSCs and KVPs etc., the loan amount shall be fixed, duly taking into account the margin prescribed in the loan policy.
- Life Insurance policy shall be got assigned in favour of the Bank, duly obtaining the necessary application for the assignment in the format prescribed by the insurance company.
- In the case of NSCs, KVPs etc., Bank's lien should be got noted from the post office issuing such bonds.
- Discharge from the policy holder/ purchaser of the Bonds shall be obtained on the assigned policies and NSCs/KVPs etc.
- Suitable Co-obligant / guarantor may also be obtained wherever necessary, duly adhering to KYC norms.
- Limit shall be sanctioned as per the discretionary powers duly taking into account the value of the security offered and the income of the applicant.
- The tenor of the facility should be 2 Years or as per the Policy approved by the Board and it is not beyond the due date of the policy /bond offered as security.
- As is the case with all other sanctions, sanction letter is to be prepared duly incorporating all terms and conditions relevant to this category of advance and mentioning the Limit, Value of Security, Details of Security, margin, applicable rate of interest and the due date for the facility. The sanction letter should be prepared in duplicate.
- Signatures of all the applicants and co-obligants / guarantors may be obtained on the second copy of the sanction letter, confirming acceptance of all terms and conditions of sanction in toto.
- Where sanction is made within the discretionary powers of the Branch Head, it should be ensured that the appraisal is done by an officer other than the Branch Head himself.
- Where the limit is sanctioned within the discretionary powers of the Branch Head, the sanction should be reported to the Controlling Office within the prescribed time period.

49.4 Documentation and Disbursement

- Prescribed documents for the loan as per Bank Guidelines shall be obtained duly signed by the Borrower and Guarantor(s)/ Co-obligant(s), wherever stipulated.
- OD Continuity Letter shall be obtained duly signed by all the applicants/ guarantors /co-obligants.
- It should be ensured that all the holders of the security executed the documents.
- Where the overdraft is sanctioned to a partnership firm, all the partners should execute the necessary documents.
- Where the overdraft is sanctioned to a Company, copy of the Board Resolution authorising the Company to Borrow against Securities shall obtained duly specifying the persons authorized to execute the documents on behalf of the Company.
- The documents shall be complete in all respects, entered in the documents register.
- Legal audit and permission to release are to be obtained, wherever necessary.

49.5 Post Sanction Monitoring

- Processing charges as applicable shall be collected upfront.

- Cheque Book may be issued to the borrower after execution of all documents.
- The borrower will be at liberty to draw upto the limit sanctioned by issuing cheques as and when he requires.
- The borrower may deposit and withdraw in the account as per his requirement upto the limit sanctioned.
- Branch shall ensure that the credits into the account during any month shall be more than the quantum of monthly interest debited during the month.
- The Overdraft facility shall be renewed as per request of the borrower on the due date duly following the guidelines set out in the Bank's Policy.
- Branch should avoid allowing drawing under Overdue limits.
- **Penal Charges**, as per Bank's Policy, shall be charged on the Overdue balances.
- Wherever limit is overdue, Branch should follow up with notices to the borrower/s and guarantors/co-obligants if any, to get the limits renewed/adjusted.
- Where the overdraft remained unpaid after the due date, Branch shall invoke the securities and adjust the proceeds to the loan account.
- For any shortfall after such adjustment, notice shall be sent to all the parties to the contract and in case of failure to recover, legal remedy should be initiated.

CHAPTER 50

TERM LOANS

50.1 Introduction

Among the various products Banks offer to business segment and manufacturing segment, term loans is a very important portfolio.

We had earlier, in Chapter 4 on Types of Credit Facilities, discussed that bank's credit portfolio is divided into funded and non-funded credit and in the funded portfolio, we had discussed that term loan is a form of credit, which is again sub-categorised as Short-Term Loans, Medium Term Loans and Long-term Loans.

Short Term Loans are loans repayable within, as the name suggests, loans repayable within 12-36 months. These loans are generally given for meeting the short term gap in the fund-flow of the borrowing concern and are not a substitute for working capital loans.

Medium Term Loans are loans generally repaid within 3 to 5 years and Long-term Loans are loans with a longer tenor and extends upto 15 years. Long-term loans were, in the past, funded by Term lending institutions like IFCI, IDBI, ICICI, SIDBI and State Financial Corporations. This was because commercial banks had Asset Liability Mismatch and hence they were not lending for longer periods. However, since 1980s, commercial banks have also started lending for infrastructure projects, which had longer repayment periods.

- Term loans are generally provided for acquisition of fixed assets whereas, working capital loans are given for acquisition of current assets.
- Term loan is repayable in instalments over a period of time normally more than a year.
- Repayment of term loan is required to be made as per the schedule planned beforehand at the time of sanction.
- Fund - based term loans are provided for outright acquisition of capital goods. On the other hand, non-fund based term loans are in the form of Deferred Payment Guarantee (DPG) where the liability to make payment crystallizes after the bills against such guarantees are presented for payment.
- The term loans may be given for buying fixed assets both for production purposes and for consumption purposes. The term loans given for consumption purposes are broadly classified under Retail Lending Schemes like Housing Loans, Vehicle Loans, Educational Loans, Consumer Loans etc.



While appraising a proposal for sanction of Term Loan, the banker has to fix the repayment after the project for which Bank has financed starts giving returns and in such a way that it matches the cash flows of the prospective borrower. While the projected fund flows determines the repayment period, the start of repayment depends upon the commencement of commercial production. So in a Project Finance, the estimation and fixation of Date of Commercial Operations (DCCO) is very important.

Term Loans are normally given for acquisition of assets and funding which is done for setting up of a project is also called Project Finance. 'Project Loan'/ 'Project Finance' would thus mean any term loan which has been extended for the purpose of setting up of an economic venture.

While appraising a proposal for sanction of term loan, the banker has to fix the repayment after the project for which Bank has financed starts giving returns and in such a way that it matches the cash flows of the prospective borrower. While the projected fund flows determines the repayment period, the start of repayment depends upon the commencement of commercial production.

50.2 Date of Commencement of Commercial Operations (DCCO)

In a Project Finance, the estimation and fixation of Date of Commencement of Commercial Operations (DCCO) is very important.

At the time of submission of proposal, the borrower estimates the DCCO and submits the same to the bank in the project report, projecting the same based on the estimated time taken for various parameters like acquisition of land, construction of sheds and buildings, procurement of machinery, installation of the same, setting up of effluent treatment plants, obtention of all licences etc. The DCCO is documented at the time of sanction.

In project loans which are sanctioned under Consortium or Multiple Banking Arrangements, at the time of financial closure (where the required term loan amount is tied up by obtaining sanctions from different lenders, the leader of the consortium / MBA announces financial closure) the DCCO is announced and documented.

Based on the date of commercial production, the holiday period and repayment period of the term loan is fixed by bankers.

50.2.1 Importance: For a lender, DCCO is very vital in Project financing. Income recognition and asset classification norms prescribe that a term loan where commencement of commercial operations is delayed, subject to certain conditions, will attract the income recognition and provisioning norms.

50.2.2 Deferment of DCCO

- (i) There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by banks. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations.
- (ii) For this purpose, all project loans have been divided into the following two categories:
 - a. Project Loans for Infrastructure Sector
 - b. Project Loans for Non-infrastructure Sector

The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects (including commercial real estate projects) respectively

All such project loans will be treated as standard assets in all respects, they will attract standard asset provision

Banks may restructure project loans, by way of revision of DCCO beyond the time limits quoted above and retain the 'standard' asset classification, if the fresh DCCO is fixed within the following limits, and the account continues to be serviced as per the restructured terms:

- a) Infrastructure Projects involving court cases
Up to another two years (beyond the two-year period quoted above, i.e., total extension of four years), in case the reason for extension of DCCO is arbitration proceedings or a court case.
- b) Infrastructure Projects delayed for other reasons beyond the control of promoters
Up to another one year (beyond the two-year period quoted above, i.e., total extension of three years), in case the reason for extension of DCCO is beyond the control of promoters (other than court cases).
- c) Project Loans for Non-Infrastructure Sector (Other than Commercial Real Estate Exposures)
Up to another one year (beyond the one-year period quoted above, i.e., total extension of two years).
- d) Project Loans for Commercial Real Estate Exposures delayed for reasons beyond the control of promoter(s)
Up to another one-year (beyond the one-year period quoted above, i.e., total extension of two years), provided that the revised repayment schedule is extended only by a period equal to or shorter than the extension in DCCO and all provisions of the Real Estate (Regulation and Development) Act, 2016 are complied with.

50.3 Appraisal of Term Loan

The basic purpose of appraisal of term credit requirements is to ensure that

- The borrower acquires the proposed fixed assets
- Puts them to use in producing goods / services which would have a market / render the desired service.
- Generate enough cash from operations to repay the term loan and service the interest commitments thereon over the stipulated period of repayment.

The appraisal of a term loan is made as under:

1. Management appraisal
2. Technical appraisal
3. Economic appraisal

Where the project cost is high and has to be analysed deeper, bankers insist on production of a Techno Economic Viability (TEV) Report, prepared by a qualified person where the technical, economic and managerial analysis is done in a critical way. Whether a TEV Report is obtained or not, banks do their own assessment based on the above mentioned parameters.

50.3.1 Management Appraisal

In **Managerial Appraisal**, the first aspect to be examined is Due Diligence. After completing the due diligence exercise as discussed in Chapter 7 of Due Diligence, where the qualities of the entrepreneur like honesty, integrity, financial resources, risk appetite and competence etc. are studied. The following aspects may also be examined:

- The track record of the promoters as a borrower provides an invaluable clue.
- The credentials of the promoters and the status of the existing loan accounts, if any with the other banks need to be examined.
- The list of suit filed accounts and the list of wilful defaulters need to be browsed to ensure that the promoter, group concerns or the applicant do not appear in the said list.
- Credit Information Companies like CARE, ICRA, INDIA RATINGS, BRICKWORKS and CRISIL give their rating of a borrower. A scrutiny of these reports gives us indication of the redflags.
- Similarly, CRILC report gives us details of the assets belonging to the company which are charged to lenders and this report also needs to be examined.

One factor that needs to be examined is whether the promoter has necessary expertise and experience in handling such a manufacturing process. If no, the Banker has to assess the steps taken by management to recruit and retain such professionals who can assist the management in the manufacturing and marketing.

50.3.2 Technical Appraisal

This is mainly applicable to manufacturing units.

- The process of manufacturing the product proposed / process flow of the product being manufactured has to be examined and if need be, technical guidance be obtained.
- It has to be examined whether the machinery being purchased is available in the country or is it to be imported. The opinion report of the machinery to be purchased and the manufacturer has to be obtained, whether the machinery is being procured from within the country or imported.
- Where the machinery is being imported, the trade restrictions with the country from where it is being imported, is to be studied.
- Adequacy of the machinery being installed is to be studied taking into consideration the projected levels of goods manufactured / sold.
- The availability of alternative suppliers and the cost of machinery available with them vis-à-vis the cost of machinery proposed to be purchased and the advantages of buying the one proposed have to be studied.
- The cost of the machinery proposed to be acquired should be compared with cost of machinery manufactured by other agencies.
- Whether the parts of the machinery are easily available locally or not is to be examined and analysed.
- Whether the manufacturer gives training to the employees of the unit in handling the machinery proposed to be purchased and will handhold them till they can handle the machinery independently.
- Availability of infrastructure, i.e., land, buildings, water, power etc needs to be examined and if the same is not available, the steps proposed to obtain the same needs to be examined. The time that would be taken to acquire the required infrastructure needs to be documented and the same has to be taken into consideration while arriving at the date of commencement of commercial production.
- Effluent treatment and the pollution control mechanisms (wherever required as per law) need to be discussed in the appraisal.
- Availability of proper trained /skilled labour and the cost of retaining them needs to be discussed in the appraisal.
- The licences required for starting such a unit and the availability of the same needs to be brought out in the proposal.

50.3.3 Economic Appraisal

- The economic appraisal consists of assessing whether the project is economically feasible and is remunerative.
- It should be studied whether the project ensures timely repayment of both principal and interest to the lender and brings reasonable profit to the promoters.
- It also studies the holiday period that would be required to enable the borrower to start repayment of the loan availed and also the length of time the repayment should be fixed.
- It also studies the sensitivity of the project to changes in various parameters, like increase in costs, increase in interest burden etc and shows at which point the project is sensible to changes.

50.4 Appraisal process

After completing due diligence on the borrower concerned and the promoters, branch should invariably conduct Unit Visit. During the unit visit

- it is essential that the officials visiting the site should take cognizance of the location of the unit, its connectivity to various modes of communication like road and railways.
- The next factor which is significant is the sources of raw materials, market for the finished goods, competitors in the area and the frequency of fluctuations in the prices.
- Effluent disposal and treatment as well as availability of alternate source of power need to be looked into and commented upon in the appraisal.
- The visiting officer has to look into the aspect of availability of power and water and its adequacy.
- Skilled manpower availability is a vital factor for success of the unit and hence the visiting officer has to ensure that the management has made manpower planning and has on hand resources available for uninterrupted production.

It is advisable that a chart as detailed hereunder is prepared and kept ready to assess the project implementation time, which will enable the Bank to take a decision on the holiday to be given for repayment:

S. No.	Particulars	Commencement (Month & Year)
1	Acquisition of land	
2	Development of land	
3	Civil works	
	1) Factory Building	
	2) Machinery foundation	
	3) Auxiliary Building	
	4) Administrative Building	
	5) Auxiliary Building	
4	Plant and Machinery	
5	Arrangement of power	
6	Arrangement of water	
7	Erection of Equipment	
8	Commissioning	

9	Procurement of raw material & chemical	
10	Training of Personnel	
11	Trial Run	
12	Commercial Production	

50.5 Assessment of Project Cost

The project cost for setting up a manufacturing unit normally includes the following:

Cost of

1. Land
2. Factory building
3. Office building
4. Plant and Machinery including transportation
5. Other equipment
6. Office Equipment
7. Vehicles
8. Effluent Treatment Plant
9. Cost of technical know how
10. Preliminary and Pre-operative expenses
11. Interest during construction
12. Foreign exchange rate fluctuation, etc.
13. Provision for contingencies
14. Working Capital Margin

In the case of existing units, where the unit proposes to go for modernisation / upgradation of existing infrastructure, expansion of the production capacity or diversification, not all the above will be reckoned for arriving at the cost of project. Only the cost of equipment procured and cost of installation alone will be considered in such cases.

While assessing the cost of the project, care should be taken to ensure that the cost is estimated accurately and it is comprehensive, reasonable and realistic. We shall now discuss financial feasibility aspects of above elements:

Land: Adequacy of the land, suitability for the proposed construction are the main considerations. The land should be adequate taking into account the proposed expansion in the near future. The land being procured shall be free from all encumbrances and shall have a clear title. The panel advocate's legal opinion shall be clear and shall trace the title for at least 13 years.

In the case of leasehold land, it is to be ensured that the terms of the lease deed provide for mortgage of the lease rights in favour of the lender, the unexpired lease period is sufficiently long till the dues are settled finally and the lease deed does not contain any clause that is prejudicial to the interest of the bank.

Another factor that has to be borne in mind while taking the cost of land in the project report, only the registered value of the property should be considered and not the market value. The following additional costs may also be included while arriving at the cost of land:

- Expenses incurred in levelling the land
- Cost of fencing and compound wall.

Building: It is to be ensured that the cost of construction of the buildings/ factory is not overestimated. The estimate of cost of construction is to be got vetted by the approved valuer/architect. The adequacy of the building and the correctness of the type of construction proposed for the factory may also be commented upon by the panel engineer.

The cost of the office building needs to be carefully analysed and it should be borne in mind that extravagant expenditure for this building should not be included in the project cost.

Plant and Machinery: The necessity and adequacy of the proposed machinery shall be examined with the help of technical experts or based on the Technical Feasibility Report. Proper due diligence is to be conducted on the supplier and his capacity to support the erection of plant and machinery.

In respect of machineries procured indigenously, the cost generally includes the cost of the machinery, transit insurance, freight, local taxes, installation charges, etc.

In respect of the imported machinery, the cost estimates generally include CIF price, import duty, clearing and loading, forwarding & unloading charges and other installation charges.

Other equipment and office equipment etc.: Requirement and reasonability of the expenditure projected under this head is to be studied by the Branch. The other equipment like generator, effluent treatment plant, storage tanks etc. are very much required for the unit and whether their adequacy and size are as per the requirement of the unit shall be cross verified with the technical expert. There may be other miscellaneous fixed assets not directly involved in the manufacturing process as part of the project cost. Cost of these assets should be validated on the basis of invoices, and compared with the cost incurred on the specific assets in similar projects, market enquires, confirmation from suppliers regarding genuineness of invoices etc.

Office equipment like computers, servers etc also are part of the project and their cost can also be included in the cost of the project.

Project cost may include payment of fees and expenses incurred on account of technical know-how, consultancy, etc. A reasonable estimation of these expenses may be made from the relative contract documents available with the promoters.

Preliminary and Pre-operative Expenses: Preliminary expenses are those which are incurred before the incorporation of the company. Examples are expenses incurred for formation of firm/company, advertisement expenses about new firm /company etc. It is usually written off / amortized over a period of time and do not create any physical or tangible assets.

Pre-operative expenses are incurred during the post incorporation period but before the commencement of commercial production.

Interest during construction, trial run expenses, day to day administrative and establishment expenses etc. prior to commencement of commercial production are some of the important pre- operative expenses.

Proper estimation of such expenses are important.

Provision for Contingencies: In the course of implementation, the cost of a project may go up on account of various reasons. Hence it is necessary that the estimate of a project cost should contain a provision for escalation of cost.

Cost of the main items including fixed assets may be subject to upward fluctuation on account of increase in basic prices, increase in various taxes, fluctuation in foreign exchange rates, etc.

Implementation of the project may get delayed on account of technical factors, non-obtention of statutory approvals from Government departments and other factors. A delay in implementation automatically gets translated into escalation of project cost.

There may also occur some unforeseen expenses that were not initially envisaged as a part of the project cost.

Provision for contingencies should bear a reasonable proportion to the amount of the project cost.

Margin on working capital finance: In addition to the cost incurred in procuring and acquiring fixed assets, the unit requires funds for its day to day management, which is called working capital management. Working capital is also funded by commercial banks and the products used for funding them are known as Cash Credit, Overdraft and Bills Purchased limit. However, banks do not fund 100% of the working capital requirement of the unit and expect the borrower to bring in his stake towards working capital also.

Margin money has to be provided for availing of working capital facilities from the bank and such margin money should be taken into account in the project cost.

The total of the above components constitutes the Project Cost.

50.6 Means of Finance

Having arrived at the project cost, the means of finance has to be looked into. The following are the sources of Means of Finance:

1. Capital – amount invested by the promoters and investors in the business which cannot be withdrawn. No interest is paid on this investment and
2. Accrued profit, in the case of existing units – when an existing unit retains its profits earned in the business itself, it is called accrued profit and will be available for investing in the business.
3. Long-term Debt in the form of Bank Term Loans- Bank sanctions term loans for acquisition of fixed assets /setting up of a unit. However, banks insist on the borrower bringing in his share as margin as it ensures that the borrower also has interest in the assets created. Different margins are prescribed for different type of assets, which we shall discuss in detail in the following paragraphs.
4. Borrowings from friends and relatives: Where the borrower brings certain sum into the business either from his own funds or from his friends and relatives mostly as an unsecured loan bearing interest, with an intention to take it back when there is sufficient cash surplus in the business, it is treated as a borrowing from friends and relatives.
5. Debentures / Preference shares: Debentures are interest bearing long-term secured/clean debt instruments. A debenture can be either convertible into equity or non-convertible instruments.
6. Capital Subsidy: In some cases, governments either state or central, announce certain subsidies for industries set up in certain areas or for setting up certain industries. The subsidy should be utilised only towards part payment of final instalments of the term loan.

It may thus be seen that the above sources can be classified as Owned funds and borrowed funds and the ratio between the two depends upon the nature of the activity proposed, the security available and the profitability of the proposed venture.

While funding a project, banker also has to look into the aspect of cost overrun and time overrun. Banker has to also look into the aspect of capability of the promoter to bring in additional funds in case of any increase in the project cost due to both cost and time overrun.

An important factor in the case of large sized projects is the time taken for financial closure. Financial closure refers to the conclusion of legally enforceable documentation with the lenders which provides for financial requirements of the project.

50.7 Assessment of Term loan Component

Term loan amount is to be computed after deducting the margin of promoters from the cost of acceptable of item of the project. Normally minimum margin of 25% is expected from promoters and margin may vary depending on the nature of the item of the cost of the project, complexity of items of the cost of the project and borrowers track record etc.

Each component of the project is taken up and the margin proposed is worked out. For example, banks generally don't fund the cost of land and this forms part of the borrower's margin. Margin for building is generally fixed at 40% and may be relaxed if the borrower is a micro, small or medium unit. An illustrative example of arriving at the project cost is as under:

Component	Cost (Rs. In lakhs)	Margin %	Bank loan component (Rs. In lakhs)
Land	200	100	0
Building	500	40	300
Machinery	1600	25	1200
Other equipment	400	25	300
Preliminary & Preop expenses	50	100	0
Working Capital Margin	100	100	0
Total	2850		1800

50.8 Contracts/Agreement

Most of the capital intensive projects are also contract intensive and it is imperative for the financial analyst to thoroughly study/analysis these agreement/contracts related to the project for safeguarding bank's interest. Many issues regarding appraisal could be clarified from the various agreements reached between project participants like EPC Contractor, shareholder, Fuel supplier, off takers, Govt. Authorities etc.

Appraisal of a project may start with identification of major contracts/agreement involved, terms & conditions of such agreement and how risk has been parked to various project participants for ensuring smooth operation of the Project Unit.

Some of the contracts involved in setting up a project are listed out here:

- Shareholders' Agreement
- License Agreement / Concession Agreement
- EPC (Turnkey Contract)
- Fuel Supply Agreement / Procurement Contract
- Water Supply Agreement

- Operation & Maintenance (O&M) Contract
- Product Off take or Usage Agreement
- Foreign Collaboration Agreement
- JV Agreement

While taking up a project for financing, it should be borne in mind that the borrower should obtain necessary approvals from the authorities concerned. Banker should therefore ensure that such approvals are in place before releasing the term loan. The borrower should be kept aware of obtaining such approvals / permissions from the competent authority to ensure that there are no hitches at the time of commencement of commercial production or subsequent to that.

50.9 Financial Analysis of Project

Before the banker analyses the financial side of a project proposed to be financed, he has to look into the following aspects and comment in his proposal:

Process Technology: The reputation, qualification and experience of the consultants who have prepared the technical feasibility report have to be looked into.

A study of the alternative production processes is to be made to ascertain if the process proposed is best suited for the proposed venture.

It has to be found out whether the manufacturing technology proposed to be adopted has taken into account the various factors such as location, climate, availability of inputs and utilities, availability of standard plant and machinery, quality of the product and product-mix.

Technical Know-How/Consultancy: The arrangement for securing technical know-how (both process and engineering) and consultancy services has to be evaluated; the background of technical collaborators both Indian/foreign, their experience operating standard of other projects where they were associated are to be verified.

Size of the Plant: It is to be carefully ascertained as to whether the size of the plant is economic (smaller plant size may make the plant unviable because of higher cost of production while an extra-large plant may not be able to sell the output), considering the type of industry, technology adopted, availability of standard/proven plant size operating in the country/abroad etc.

The flexibility of the plant in respect of forward or backward integration, expansion, use of alternative inputs (e.g. use of natural gas or naphtha for fertilizer production) and variation in product-mix have also to be looked into.

Plant & Machinery: The basis of selection of plant and machinery and other equipment have to be examined. The capacity, price, quality and overall suitability for the process technology proposed to be used and scale of output specified should be evaluated. Suitability may also be judged in regard to domestic weather conditions.

Whether the list of machinery and other equipment is comprehensive and whether all the auxiliaries and equipment for utilities have been included are also to be seen.

The reputation of the suppliers of indigenous/imported machinery and timely delivery are also important. Whether the agreement or contract, inter-alia, include penalty clauses for late delivery and replacement conditions/uninterrupted supply of spares and performance guarantee for workmanship, quality, output/input are to be looked into.

How the machinery is operating in actual work environment and topographical condition both domestic/abroad may be observed. If performance guarantee is given by the machinery supplier, the terms and condition of performance guarantee should be studied.

In case of acquisition of 2nd hand/used equipment, extra precautions are necessary to assess the condition of such equipment and reasonableness of cost vis-à-vis new equipment. The equipment so acquired should also be assessed for their residual life which should preferably be at least 1.5 times the project loan period. We may also stipulate that the borrower to submit the Chartered Engineers certificate regarding the condition of the machinery and residual life of the machinery in case of imported second hand machinery.

Loan requested against specific schemes eligible for subsidy/grant may also be analyzed for viability/profitability without the subject subsidy/grant. Also, the acceptability of machinery eligible under such schemes should be ascertained for estimating the subsidy available, if any and cost of the project/means of finance.

Location: The suitability of the size of the project should be examined with reference to its locational advantages such as infrastructural facilities, availability of raw materials skilled labour, nearness to the market, climatic conditions of the location, soil topography, and proneness to the natural calamities. Social infrastructural facilities such as housing, schools, hospitals, places for recreation etc. are also to be looked into. It should be seen that the site selected is the best one after taking into the various factors stated above vis-à-vis other alternative sites.

Lay-out: Branch to satisfy itself that the layout is properly drawn facilitating easy movement of men and material, availability of adequate storage and handling facilities at the production point, overall integration and safety factors. The scope for future expansion should be embodied in the plant layout.

Raw Materials And other Inputs: It has to be ensured that the raw materials and consumable in required quantity and acceptable quality should be available for smooth production. If the raw materials are agricultural products (for example, sugarcane, bamboo, rice bran etc.) the procurement zones should be looked into and arrangements for development of cultivation in the procurement zone should be taken into account.

Utilities: The requirements, sources, availability, reliability and cost of all the utilities such as power, water, fuel etc. are to be ensured. Necessity for making provision for alternate source of supply of vital utilities (say captive power plant/diesel generating set for power) should be examined.

Labour: The availability of skilled and supervisory manpower in the vicinity of the proposed site is definitely advantageous. In case the technical and skilled man power have to be brought from distant places, accommodation and other infrastructural facilities for their stay have to be provided.

50.10 Financial Viability Study

A careful study of the financial projections given by the borrower shall be conducted.

The financial viability aspects of a term loan are ensured only after the projections in respect of the various operating and financial parameters are validated and the relevant indicative ratios fall within the acceptable level.

50.10.1 Examination of projected Profit and Loss Statements:

The Bank should first see that the basic factors taken into consideration to arrive at the production figure, such as installed capacity per annum, number of working days in a year, number of shifts per day, capacity

utilisation level during initial years till optimum output of the projects reached, are realistic and where applicable are comparable with the performance of similar industries located in the country.

While examining the cost of production, the reasonability in projections made in respect of cost of various inputs like

- cost of raw materials including wastage factor
- cost of chemical components and consumable stores,
- cost of power, water and fuel,
- cost of wages and salaries,
- expenses with regard to repairs, maintenance, insurance, rents and taxes and other miscellaneous factory expenses has to be examined. Further, the administrative expenses and selling expenses has to be properly estimated.

It should also be ensured that adequate provision for increase in expenditure over the years has to be properly estimated.

Sales level projected shall be reasonable and the increase year over year (y-o-y) shall be properly assessed and estimated. Similarly, the cost of raw material and the conversion norms adopted for conversion of raw material into finished goods shall be studied and it should be ensured that the same is in consonance with the conversion rate of similar units in the area of operation.

Adequacy of the costs estimated for labour and projected increase y-o-y shall be studied and shall be compared with those of similar units in the area of operation.

Fuel and Power Cost: Power and Fuel cost is a key item in some industries.

Freight Expenses: In cases, particularly when a commodity is moved over long distances, freight is a significant cost component. A good example of this is the cement industry, where it is expensive to transport cement, a bulky product over long distances.

Selling & Distribution Expenses: Adequate Selling & Distribution expenses should be provided for.

Interest Cost: Based on the tenor of the loan and the holiday proposed, rate of interest applicable based on the rating of the unit should be estimated.

Depreciation: Depreciation in a company's account is normally charged as per the Companies Act.

Tax Liability: Taxable profit is calculated after a few adjustments in the accounts.

Dividend: Generally, dividend is paid out of current year profits and it should be ensured that the dividend payment shall be after the commencement of repayment of the term loan.

50.10.2 Projected Funds Flow Statement:

Funds flow projections help in keeping a track of the sources and uses of funds. It is important to ensure that funds will be available when they are needed, be it during the construction period of a project or the operational period.

The quantum of share capital to be raised may have been decided upon and the loan assistance may have been sanctioned by the financial institutions; but if there is not sufficient flow of funds to meet the various claims as and when they arise, the entire project may be in jeopardy resulting in delay, overruns and litigation.

Likewise, proper estimates of the receipts and disbursements of cash and the provision of their timely and adequate supply is to be made.

50.10.3 Projected Balance Sheet:

Based on the projected cost of production, profitability and funds flow statement, the projected Balance Sheet is drawn.

The position of share capital, term loans, sundry creditors, bank borrowings, fixed assets, inventory, sundry debtors and the preliminary expenses (after deducting the amount already written off) are ascertained at the end of each year.

50.10.4 Ratio Analysis :

The relevant ratios used in the term loan appraisal include the following:

- Current Ratio
- Debt Equity Ratio
- Interest service Coverage Ratio
- Debt Service Coverage Ratio
- Fixed assets Coverage Ratio
- Break Even Level
- Internal rate of return

All the above ratios are discussed in detail in the Chapter 9 titled Understanding & Analysing Financial Statements.

Internal Rate of Return (IRR): It is the discount rate which makes the Net Present Value (NPV) of future cash flows (Inflow & outflow) equal to zero.

The guiding principle to decide whether any project is acceptable is that its IRR should be greater than the weighted average cost of capital.

This assessment will be in addition to satisfying norms under various parameters.

50.11 Fixation of Repayment Period and Holiday

After assessing the above parameters and finding that the proposal is suitable for consideration, the important factor that has to be borne in mind is fixing the holiday period and the repayment period.

The holiday period for any loan shall be so fixed that the new machinery installed will be able to produce sufficient quantity, which the promoter will be able market and convert into cash. The holiday period shall be such that the unit shall be able to service its own debt and there is no necessity for bringing in funds from outside for meeting the repayment obligation.

The holiday period should not be longer than what is required as there is adequate chance that funds thus available in the system may be diverted for other purposes. It should not be lesser than the holiday actually required as it would put pressure on the unit to bring in funds from outside sources.

Similarly, tenor of the loan shall not be elongated as it would lead to diversion of funds and shall not be made too short as it would put pressure on the unit to bring funds from outside to meet repayment obligations. The tenor of the loan shall also take into consideration the life of the machinery being installed and the tenor shall be so fixed to ensure that the loan is fully repaid before the machinery becomes outdated.

Debt Service Coverage Ratio is the tool with the help of which the repayment period can be adjusted. The ratio indicates the ratio between the cash profit of the unit and the instalment burden y-o-y.

Since the term loan proposals are assessed on the basis of accepted projections for a number of years, DSCR is to be calculated for the individual years. Then average DSCR is to be worked out by dividing the total cash accrual over the entire period of the project by the total repayment obligation.

While considering a proposal for sanction of term loan, it is essential to calculate the DSCR for the term loan and also for the entire term loan portfolio. In the event of average DSCR being on higher side, it may be suggested that the repayment period of the proposed term loan can be reduced, as the borrower has capacity to pay increased amount as instalment.

50.12 Cost Over-run

Cost overrun is an unexpected change in the project budget that ends up increasing the total project cost. It can happen due to three primary reasons: Economic factors that occur due to inaccuracies in project budget or scope. Technical reasons, including erroneous estimates or incorrect data gathering. Bank should ensure that the borrower has the capacity to bring in additional margin in the form of capital to cover the cost overrun. Sanction letter should stipulate a condition to this effect.

50.13 Sensitivity Analysis

The various items entering the cost-benefit stream of the project whose viability is being appraised on the basis of estimates and forecasts are subject to various uncertainties.

Sensitivity analysis is a process by which the effects of assumed changes in the values of key variables such as revenues, costs, size of outlays etc. on the present value of the project are worked out.

The objective is to assess the risks and uncertainties involved in the investment decision of the Bank so that necessary corrective steps could be taken by the promoters or the bank/Financial Institution assisting the project.

The effect on break-even point (BEP) and/or debt service coverage ratio (DSCR) and/or Internal Rate of Return (IRR) etc. due to variation/change of a major item could be ascertained through sensitivity analysis. For instance, if there is any increase in the project cost say by 5%, the additional resources that have to be mobilized and whether the same should be by way of equity or funding through raising additional term loan or a suitable mix of the two could be decided by the promoter / bank looking at the changes that these important indicators signify.

Similarly, sensitivity analysis may be made for ascertaining likely impact on viability arising out of some uncertain factors like fall in demand and/or selling price, along with increase in the cost of production etc.

Also, in sensitivity analysis critical or sensitive elements are identified and their effect analyzed by (i) reducing the Sales price/Sales Volume, (ii) increasing cost of inputs, etc. to test the viability of the project under stressed circumstances. The critical factors could be then scrutinized carefully and an attempt can be made to improve or strengthen the project in respect of critical factors. Thus, if raw material cost or selling price is critical, efforts could be made to enter into a long-term firm contract for purchase of raw material or sale of products.

From the point of view of the bank, while appraising a project, the sensitivity analysis is of particular importance as the promoters of the project seeking financial assistance are generally keen to establish high profitability of the project based on assumptions made on a rather optimistic basis. The soundness

of the project should, therefore, be subjected to the scrutiny of sensitivity analysis to assess the effect of unfavourable circumstances/factors thereon.

Branches should carry out sensitivity tests/scenario analysis while sanctioning Term Loan for large projects especially for infrastructure projects, which should inter alia include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding Corrective Action Plan (CAP).

Further, parameters of sensitivity test shall be decided based on nature of business activity, estimation of probability of variation etc.

50.14 Operational Guidelines : Term Loan Account

So far, we have discussed the various aspects that are to be looked into while appraising a term loan. We shall in the following paragraphs discuss the operational guidelines that are to be considered while looking into the term loan account.

50.14.1 Eligibility:

Any individual, proprietary concern, partnership firm, LLP, Private/Public Limited company etc who are engaged in business are eligible to avail this facility.

For any type of borrower, the following ratios have to be analysed and it should be ensured whether they are within the prescribed levels :

Current Ratio

Quick Ratio

TOL / TNW

Profitability Ratios

The components of these ratios and the significance of them is detailed in the Chapter 9 on Understating & Analysing Financial Statements. Readers are requested to visit the said chapter for clarification regarding these ratios.

One important factor the processing officer has to look at is the ratios based on the future projections. The future projections shall be in tune with the past trends and any deviation shall be explained.

50.14.2 Pre-sanction process:

As we do for any particular loan, the branch should conduct due diligence on the borrower and the guarantor / co-obligant. The KYC of the applicant and the co-obligant / guarantor and their 5Cs, viz., Character, Capacity, Capital, Collateral, Condition) are duly taken into consideration while selecting the borrower. Branch should interact with the borrower and ascertain the following regarding the borrower and his family / financial / business reputation by examining:

- person/ people behind the borrower/ entity /organisation / business, /vintage of family in the business
- family background and reputation in the market
- purpose of loan
- capacity of the borrower in terms of business ability, managerial and marketing capability
- credit worthiness of the borrower

- additional comfort or collateral securities provided
- past experience in implementing /running business
- stability of business being conducted
- turnover track record
- conduct of the account
- outlook of business
- market report of the borrower etc.

As part of the pre-sanction process, financial statements of the borrower and its operative accounts have to be studied to observe whether

- any frequent cheque returns are observed
- any frequent cheque returns of its clients are observed
- any delay in servicing of the interest is noticed
- frequent drawings above the sanctioned limits are observed
- diversion of funds to promoters' account are observed
- inter-group transfers and investments are observed

Where the borrower is a new connection, the opinion report from the existing banker shall be obtained and it should be studied to ensure that there are no adverse reports about the borrowing concern or its promoters.

Net worth statements of the borrower/partners/designated partners /promoter directors/guarantors shall be obtained and kept on record.

Branch has to ensure during the pre-sanction visit that the borrowing company /group is maintaining cordial industrial relations and the same is recorded in the appraisal memorandum.

Market reports about the borrower and his business acumen have to be obtained and recorded in the appraisal form.

Branch shall also check CIBIL data, CRILC, ECGC SAL reports, caution advices given by the bank and entries in CERSAI are to be verified to ensure that there are no adverse features.

Where the borrower is an individual, In respect of advances to minors or on the security of minors' properties, prior permission of the Court is obtained and is in place and the natural guardian/ legal guardian appointed by the court have executed the same for the benefit of the minor.

Branch should ensure that

- All assets and liabilities of the promoters and guarantors shall be obtained in the bank's format.
- In the case of Sole proprietary concerns, a letter from the sole proprietor that he would continue to carry on manufacturing /trading in the name of proprietary concern as its sole proprietor is obtained and kept on record.
- Where borrower is a HUF, all the adult members including the Karta sign the application, all the documents including receipts on behalf of HUF and in their personal capacity also and where if any co-parcener has not signed, he has given an authorisation in writing.
- Where the borrower is a Society / Co-operative Society it should be registered under the relevant State Act and copy of Registration Certificate is to be obtained, duly certified by authorised persons

with date and the same should be obtained every time the documents are executed and form part of loan documents and security documents.

- Where borrower is a Society/ Co-operative Society, the Bye-Laws /Rules/ Regulations of the Society/ Co-operative Society permit the Society to borrow and should explain the manner of exercise of borrowing powers of Society and creation of security.
- A copy of necessary resolution to borrow shall be passed by the governing body/ managing committee members of the society.
- Where the borrower is a Trust / Association, copy of Trust deed, which permits the Trust to borrow for the purpose mentioned in the application and also create charge on the assets proposed to be offered as security, shall be on record duly certified by authorised persons with date and shall be obtained every time the documents are executed and form part of loan documents and security documents. Wherever mandated, necessary approvals should be obtained from the concerned Government Departments for creating charge on the Assets of the Trust.
- In case of advances to Association, Registration Certificate / Bye-Laws has to be obtained and it should be ensured that the bye-laws of the association permit borrowing for the purpose mentioned in the application.
- Where the borrower is a Partnership Firm, a copy of Partnership agreement / deed (preferably registered) shall be obtained, duly certified by authorised persons with date every time the documents are executed.
- Branch shall study the partnership deed for
 - o details of persons who have entered into partnership
 - o purpose / object for which the partnership is formed
 - o Restrictions imposed on the rights of the partners to borrow or operate the Bank account
 - o Conditions relating to retirement / death / insolvency of partners and status or continuance of partnership in such events.
- Where the borrower is a Limited Liability Partnership (LLP), the copy of the agreement shall be obtained duly certified by authorised persons with date along with the resolution for borrowing money and agreement copy should be obtained every time the documents are executed and form part of loan documents and security documents. At least two partners should have been designated as “Designated Partners”. The agreement has to be scrutinised to ascertain details of the persons who have entered into such LLP, objectives / purpose for which it is formed / power to operate / borrow from Bank / create security for such borrowing.
- Where the borrower is a Limited Company, branch shall obtain CIN No., PAN No. of the company, copies of MOA, AOA, Certificate of Incorporation duly certified by authorised persons with date, and DIN Nos of the Directors. The activity being undertaken by the company shall be part of MOA and the amount being borrowed is within the borrowing powers of the company.
- Where the borrower is a Limited Company, Branch should verify the Board Resolution to ensure that it contains
 - o Specific sanctions regarding power to borrow,
 - o To execute documents,
 - o To create security,
 - o Nature and extent of loan required,

- o Names of directors and other persons authorised to execute the documents,
- o Names of the directors authorised to operate the bank account,
- o Names of the directors to create mortgage and deposit title deeds etc
- It is prudent to examine Register of guarantees, Register of Resolutions and Register of Directors maintained with the Registered Office of the Company and cross-check the same with the records at ROC.
- A search at the office of SRO /land registry to ascertain whether any prior mortgage /charge exists over the immovable property offered by the borrower company to the Bank as security shall be done while processing the proposal.
- Personal guarantee of all directors except those who are nominated are to be obtained.
- In the case of takeover of accounts, the following points are to be borne in mind:
 - o Minimum external credit rating as prescribed by bank is adhered to.
 - o Borrower is not shifting his accounts too frequently between lenders.
 - o Steep turnover in the account is not observed.
 - o All accounts of group are in order and not stressed.
 - o There is no dilution of security at the time of takeover.
 - o Statement of account shall be thoroughly scrutinised for any adverse features.
 - o Liabilities of the borrower with the existing lender are clearly specified.
 - o Confidential report and NOC, Credit information report as per the format prescribed by RBI Circular on "Lending under consortium arrangements/ Multiple Banking arrangements" from the existing banker of the existing lender shall be obtained & it is satisfactory.
 - o Contingent liabilities have to be covered in the takeover.
 - o Care should be taken to ensure that the project is still not under implementation at the time of takeover.
 - o The project is fully implemented.
 - o Account is not rescheduled / restructured.

Where the business premises /factory is in rented /leased premises, branch should obtain a copy of the rental agreement /lease deed and examine the same to ensure that there is no condition detrimental to the interest of the Bank. Further,

- Detailed project report is to be obtained and the same has to be studied with respect to viability and feasibility of the project.
- It is very important to ensure that the applicant has got the financial capability of bringing in the required margin and additional amount in case of cost and time overrun. Adequacy of infrastructure to meet the requirement of the unit, like land, water, electricity etc. is to be looked into.
- Demand for the product proposed to be manufactured and competition existing is to be studied by Branch.
- Availability of machinery and probable date of arrival is to be examined along with the genuineness of the supplier and his market reputation. Branch to examine the terms of the purchase contract and ensure that there are no clauses detrimental to the interest of the Bank and the borrower.

- Availability of raw material and capacity of the proposed suppliers to supply the quantity projected by the applicant is to be examined.
- Where applicant does not have the required skills and proposes to engage personnel for running the unit, availability of such personnel in the market in the eventuality of the present employee leaving the organisation should be carefully analysed.
- Permissions and licences required for running the unit shall be obtained upfront.
- Land shall be procured by the borrower from his own sources and bank should not fund for acquisition of land.
- Term Loan shall not be considered on a standalone basis and working capital shall be tied up before release of term loan.
- Branch should look into the market reports about the industry proposed, more particularly research reports published by CRISIL /CARE or similar rating agencies and ensure that there are no adverse remarks about such industry.
- Financial viability study as indicated above is conducted and it is ensured that the projections made are reasonable and the ratios are within the acceptable levels.
- Where the business premises /factory is in rented /leased premises, a copy of the rental agreement /lease deed shall be examined to ensure that there is no condition detrimental to the interest of the Bank.
- Legal opinion on the property being mortgaged to the Bank is obtained in the bank's proforma and is having clear, marketable title and the property is mortgageable. Branch should inspect the property and ensure that the same is easily marketable and is free from all encumbrances. Certified copies of the title deeds are obtained through an independent source to ascertain the genuineness of the title deeds.
- CERSAI check shall be conducted on the security at the pre-sanction stage.
- In respect of securities offered / business location, the presence of negative factors like close vicinity to slums/burial grounds/ high voltage lines, railway lines, non-availability of water, absence of independent motor-able access shall be examined and a valuation report from panel engineer shall be obtained. The said property shall not be used for activities such as Educational Institution, Nursing Home etc., where recovery by way of taking possession may be difficult
- Where the properties are near National Highways, valuation of the property shall be done after scrutinizing the Master Road Plan of the state.
- Where the loan is being considered for an existing borrower, non-compliance of inspection and other audit irregularities should have been complied with.

50.14.3 Sanction and Documentation:

- Standard, basic and optional covenants that are relevant to the borrowal account shall be incorporated in the LOI/Sanction Letter.
- Terms and conditions of sanction are clearly mentioned in the sanction letter, which is prepared in duplicate and the acknowledgement from all parties concerned shall be obtained having accepted the terms and conditions of sanction in toto.
- The sanction letter should clearly mention the supplier of machinery and its cost, Margin amount be brought in by the borrower etc.

- Standard formats of documents as brought out in the Manuals of the Bank shall be used for execution of the same and the same shall be completely filled in all aspects. Documents are signed by the authorised signatories and proper capacity of the persons signing shall be noted in the documents by way of a per pro stamp.
- Where the documents are executed by a Power of Attorney (POA) holder, it is to be ensured that a copy of the POA (which is in force) is attached to the documents and the person executing the documents has the power to sign the documents as per the POA.
- Where the borrower is an individual, branch shall obtain documents under full signature of the borrower/ authorised persons at designated places and all insertions and overwriting shall be properly authenticated by subscribing full signature.
- Where the borrower is an individual / sole proprietor/ HUF/ Society who is an illiterate person, the fact that the documents are explained in a language known to him/her is recorded.
- In the case of Sole proprietary concerns, full name of the concern and the proprietor are mentioned in the body of the documents and are executed in the name of concern and proprietor.
- Where borrower is a Society/ Co-operative Society, it is to be ensured that the documents are executed in accordance with the resolution passed by the Governing body/Managing Committee members of the Society.
- Where the borrower is a Partnership Firm, full name of the concern and names of all the partners shall be mentioned in the documents and the documents are to be executed by all partners of the firm on behalf of the firm and in their personal capacity also.
- Where the borrower is a Limited Liability Partnership (LLP), personal guarantee of designated partners/ controlling partners based on the LLP agreement shall be obtained.
- Where the borrower is a Limited Company, common seal is to be affixed on the document in accordance with the AOA of the company. Where the company does not have a common seal, authorisation to execute such documents is made by two directors or by a director and the company secretary, wherever the company has appointed a company secretary, and documents are to be executed as per the said authorisation, a copy of which shall be made available in branch records.
- Documents have to be executed within the branch premises in the presence of officials of the bank and where it is executed at the other place, the officer in whose presence it is executed must confirm the same.
- All pages and schedules shall be signed at the end of each page in full and in the same style throughout the documents. All insertions and overwriting shall be properly authenticated by subscribing full signatures.
- The date and place of execution of the documents should be filled up and all pages and schedules forming part of documents should be signed in full and in the same style throughout the documents.
- Where two executants are signing the documents at different places and /or different dates, it should be ensured that the correct date and place are mentioned by them in their own handwriting.
- Documents should be stamped as per the stamp duty applicable in the State where they are executed. Where signatures have been obtained from signatories in different states, then the stamp duty applicable in the state where it was first executed shall be applicable.

Creation of mortgage over the property has to be done as advised by the legal advisor and shall be signed by the persons who are the owners of the property. Documents as listed in the legal opinion have to

be obtained. Immovable property taken as security shall be described in detail in the schedules with reference to their survey nos., patta nos etc. along with their boundaries, exactly as mentioned in the title deeds.

Title deeds obtained are entered in the title deeds register in chronological order, duly listing out all the documents obtained and clearly mentioning the description of the property under mortgage. Memorandum of entry should be registered /noted with SRO, wherever it is required, within the time prescribed and an EC shall be obtained after registering banks charge with SRO.

Where the property to be mortgaged is a leasehold property, the lease deed should permit mortgage of the property by the lessee. Due care has to be taken to verify whether NOC from the lessor is required for creating the mortgage and if the mortgage is enforceable. It is very important to obtain a letter from the lessor that he will not exercise the right of forfeiture or cancellation of the lease during the currency of credit facilities or upon enforcement of security by the bank in a Court of Law without prior written permission from the Bank.

It should be ensured that all the documents as listed out by the legal advisor in the form as mentioned by him (originals / certified copies / photostat copies) are obtained and are entered in the title deeds register in the chronological order, duly describing in detail in the schedules the Survey Nos., Patta Nos and boundaries etc as mentioned in the title deeds. In order to create Equitable Mortgage/ Mortgage by deposit of title deeds, a declaration-cum-undertaking from the mortgagor on the date of creation of mortgage shall be obtained followed by a recording of the Memorandum of Entry on the next working day.

Memorandum of entry shall be registered /noted with SRO wherever required within the prescribed time and an EC shall be obtained after registering the mortgage. Where the depositor of title deeds is a limited company, charge with ROC has to be filed within 30 days.

It is to be ensured that the particulars of transaction of security interest over the property is to be registered with the central registry /CERSAI immediately of creation of the charge.

For loans sanctioned subsequent to 22.01.2016, branch has to file with the Central Registry the particulars of creation/modification/satisfaction of security interest in respect of

- a) immoveable property other than mortgage by deposit of title deeds
- b) hypothecation of current assets
- c) intangible assets (know-how, patent, copyright etc.)
- d) any under-construction residential or commercial building

Document register shall be updated with the documents obtained.

50.14.4 Disbursement and Post Sanction Monitoring:

- Required Margin has to be brought upfront by the borrower. Where entire margin is not brought upfront and the loan is released in stages, release of loan shall be after receipt of margin money at the time of each disbursement.
- Disbursement of loan shall be in phases depending on the progress.
- Where the borrower produces receipts confirming receipt of part amount by the supplier, authenticity of such receipts and sources of funds from where such payment is made are to be verified.

- For each disbursement, separate letter seeking release of the instalment is to be obtained from the borrower.
- Stamped receipts / vouchers / CA / Architect / Engineer's certificate shall be obtained for each payment.
- Release of limit shall be within the validity period of sanction.
- Unit inspection has to be conducted after receipt of the machinery and it should be ensured that the machinery received is as per the proforma invoice. Building shall be constructed as per the sanctioned plan
- Where reimbursement of the expenditure is sought by the borrower, it should be ensured that
 - o Certificate from Chartered Accountant certifying the expenditure incurred shall be obtained.
 - o Certificate from chartered valuer shall be obtained.
 - o Verification of invoices on expenditure already incurred shall be conducted.
 - o A copy of the statement of bank account through which the payment has been made shall be obtained and verified.
- Where the loan is for purchase of vehicle, it should be ensured that the RC Book and insurance shall have the bank's hypothecation clause.
- Insurance of the assets charged to the Bank shall be done covering all risks and duly noting the bank's interest in the assets.
- A drawdown schedule shall be obtained at the beginning of each quarter and the disbursement shall be made according to the said schedule.
- Where an L/C is opened for machinery supply, margin shall be collected upfront and in case the machinery is to be imported, a forward contract covering the amount of FLC shall be taken to avoid exchange fluctuation risk.
- Where there is a change of machinery and /or supplier, same procedure of due diligence on the supplier as was done earlier shall be done and approval from the sanctioning authority is to be obtained.
- Any cost overrun shall be met by the borrower and an undertaking to this effect shall be obtained along with the documents.
- Where the proposal is for takeover of liability of the borrower with another Financial Institution, all the points referred in the Chapter 10 on Takeover Accounts shall be ensured.
- Periodical verification of assets procured out of the term loan shall be carried out and the inspection report shall be properly maintained.
- Before making the first disbursement, the drawdown details shall be obtained in writing from the borrower and any deviation shall be properly explained and documented.
- The date of drawl for term loan assistance is fixed based on the project requirement and as per the implementation schedule mentioned in the Loan Agreement, entered into with the borrower.
- It is advisable that for subsequent releases, branch shall obtain a certificate from the statutory auditor of the borrower, indicating the expenditure already incurred out of the total funds brought in, including the promoter's margin, bank loan and funds from other sources.
- While making disbursals, branch to ensure that the financial progress made under each head of expenditure (correlated with the physical progress) is compared with the data/ implementation

schedule given at the time of appraisal and reasons for deviations shall be discussed with the borrower, duly recording the same.

- Each disbursement shall be made after preparing a disbursement note. The disbursement note shall contain details of utilisation of funds already disbursed and the utilisation of the same.
- Progress of implementation of the project should be constantly monitored and delay in implementation should be red flagged.
- Where the health of the unit is not found satisfactory, monitoring of the account shall be more meticulous and the performance shall be closely monitored.
- During the tenor of the term loan, the financial statements of the unit shall be obtained by the Bank and shall be scrutinized for any diversions and auditor's report shall be carefully analysed.
- Term loan shall be reviewed periodically as per bank's norms and rating of the borrower shall be reviewed annually.
- Where there is a prepayment of the term loan, charges as applicable are collected.
- Insurance of assets shall be in force till the closure of the term loan, duly indicating bank's interest in the machinery.
- Post disbursement, the payment of statutory dues and renewal of licences and permissions shall be monitored during the currency of the term loan.
- In case of a standalone term loan, the operative account shall be closely monitored for large cash withdrawals / transfer of funds to unrelated parties / sister or associate concerns / circular transfer of funds to and from a set of account/ return of cheques , etc.
- Where Early Warning Signals are seen, appropriate steps shall be taken to bring the account back to order by discussing with the borrower.
- Balance confirmation letters shall be obtained from the borrower every year and encumbrance certificate and municipal tax paid receipts shall also be obtained and kept on record.
- Where the loan is under MBA/Consortium, NOC / letter ceding paripassu charge shall be exchanged among the lenders or by executing an inter-creditor agreement amongst the lenders holding paripassu charge.
- **Where the bank is the leader of the consortium,**
 - o The role of leader Bank shall be followed in appraisal, conducting of meetings, Joint documentation etc.
 - o Copies of joint documents along with legal opinion and valuation reports shall be shared with other member banks.
 - o Consortium meetings shall be conducted as per the norms and the minutes circulated immediately after the meeting.
 - o Charges like Lead Bank Charges, Syndication fee, Documentation charges etc. shall be collected as applicable.
 - o Drawdown notices shall be sent to all the members for disbursement of the term loan duly enclosing all the relevant documents and the disbursement shall be followed up to ensure that there is no delay in project implementation.

- **Where bank is a member of the consortium,**
 - o Financial closure shall be concluded.
 - o Joint documentation shall be completed and copies of the documents along with legal opinion, valuation report, encumbrance certificate for the property mortgaged etc. shall be obtained from the leader of the consortium.
 - o Operative account of the borrower shall be obtained and scrutinised for any diversion of funds.
 - o Branch should attend all the consortium meetings and a copy of the minutes should be kept on record.
- Where the irregularity is beyond 90 days legal action under Sec.138 of NI Act / SARFAESI Act / DRT / Civil suit as applicable is initiated.
- Identification of Fraud / Non-starter / Quick Mortality / (First Time Non-Performing Asset) FTNPA shall be done as per laid down norms.
- Where the account is classified as NPA, follow up for recovery shall be continued and the overdues shall be recovered.
- Where OTS / NS is contemplated, branch shall obtain the offer in writing from the borrower / guarantor / related party along with a part amount of the OTS amount in advance.
- Source of income for payment under OTS / NS shall be verified before communicating sanction.
- Sanction along with terms & conditions shall be conveyed in writing to the borrower / guarantor / 3rd party mortgager / pledgors.
- Where the borrower is declared as wilful defaulter / fraudulent borrower, OTS sanction communication shall include a condition stating that the approval is without prejudice to the existing / future criminal cases against the borrower
- NOC shall be released to the borrower only after all the terms and conditions mentioned in OTS sanction are fulfilled.
- Criminal action shall be initiated against wilful defaulters after approval from the competent authority.
- Where SARFAESI proceedings are initiated, all relevant formalities shall be complied with, duly maintaining copies of correspondence with the branch.
- Right of set off shall be exercised as per the laid down policy of the Bank.

It should be observed that in Term Loan, operations will not be there as in the case of working capital accounts. Hence, chances of diversion, disposal of assets charged to the Bank may occur where the intentions of the borrower are not genuine. So, care should be taken to ensure close monitoring by the Bank to protect the interest of the Bank.

CHAPTER 51

FINANCE TO CIVIL, ELECTRICAL, MINING, RAILWAY CONTRACTORS

51.1 Purpose

1. To meet need based working capital (Fund Based & Non-Fund Based) requirements for Business Activity.
2. Term Loan for own business use, which is detailed as under:
 - Purchase/ Construction / Renovation of Business Premises, Factory / Offices / Shop / Godown / Plant & Machinery / Equipment etc. for business activities are eligible.
 - Any other purpose whereby asset is created out of Bank's finance for the purpose of running the business.

51.2 Eligibility

1. All Construction Contractors / Electricals Contractors/ Mining / Railway Contractors eligible to be classified as MSME with a valid UDYAM Registration.
2. MSME units irrespective of constitution i.e. Individuals, Proprietorship, Partnership Concern (including LLP), Limited Companies.
3. The borrower must be engaged in the contractor work for minimum two years.

51.3 Nature of Facility

1. Term Loan and/or Working Capital (Fund Based and Non-Fund Based)
2. Working Capital facility in the form of secured Overdraft (OD) can also be extended to the Contractors.

51.4 Identification and Due Diligence

Application in the standard format prescribed by the Bank should be obtained and filled without leaving any blanks.

Branch should complete the due diligence of the borrower/s and Co-obligant/s/Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

51.5 Application and Appraisal

Application: Branch should obtain the Standard Application form duly filled in all respects and after fulfilling the KYC Norms along with following:

- Property Statement/s containing full particulars of the properties owned by the borrower and guarantor / co-obligant are obtained under their signatures of the Borrower, Co-obligant/s/Guarantors duly signed by them.
- Statement of Legal Heirs of the applicant along with Relationship with the applicant.



Before sanction of Loan, Bank should complete the due diligence of the borrower/s and Co-obligant/s/ Guarantors duly verifying the KYC, track record of the borrower/s in repaying the earlier loans, if any.

- Copy/ies of Aadhar Card/s and PAN Card/s.
- CIBIL Score/s
- Details of Securities offered
- Pre-sanction Visit Report
- Quotations for Equipment proposed to be purchased
- Estimates for Civil Works
- Financial Projections covering tenor of the Loan
- Audited Balance Sheet for the previous year, current year estimates and projections for the following year
- Income Tax Returns for the past 3 Years
- Bank Account Statements for past 12 Months
- Statement providing details of Contracts done/undertaken during the past 3 years
- Details of Contracts on Hand

Bank Account Statements should be checked to study any cheque returns or other undesirable trends in the account, repayment track record of earlier loans etc.

If the Borrower/s is/are banking with another Bank, Branch should obtain a Confidential Credit Report on the dealings of the Borrower/s from his/her/their existing Banker/s.

It is desirable to have the borrower bank with the lending Bank only. He/They may be given time to close the account with other Bank/s within a timeframe decided by the Bank. Where for any reason acceptable to the Bank, account is to be maintained with another Bank, the non-lending bank shall be informed of the facilities availed by the borrower with the lending Bank. It should be examined whether the account with the non-lending bank can be only a collection account. Where it is required that the account shall have debit transactions also, the statement of account shall be obtained every month and transactions be carefully studied to check for any diversion.

Appraisal: For appraisal, please refer to Chapters 42 on Mortgage loans, Chapter 46 on Open Cash Credits, Chapter 50 on Term Loan and Chapter 53 on Bank Guarantees.

Assessment for working capital limits shall be under cash budget method.

Assessment for Bank Guarantee limit shall be done as explained in the Chapter 53 on Bank Guarantees.

51.6 Margin

As Per Bank's Policy Guidelines.

51.7 Repayment

Term Loan: As per Bank's Loan Policy based on the financial projections provided by the Borrower.

Working Capital: 12 Months

51.8 Security

Primary: All assets created out of Bank's finance shall be charged in favour of Bank by way of Hypothecation/ Mortgage etc.

Collateral: Collateral security by way of immovable properties (Land and Building) and / or other liquid assets like NSCs / KVPs/ Deposits/assignment of LIC policies/other Govt. Securities should be obtained for the accounts sanctioned under the Scheme.

51.9 Sanction

Please refer to Chapter 11 on Sanction.

- Details of the Equipment to be purchased with cost of each component.
- Details of Cost of Ready Built Premises /Construction Cost, in case loans are given for Civil Construction.

51.10 Documentation

Standard Documentation prescribed under Bank's Loan Policy Guidelines duly obtaining full signatures of the Borrower/s, Co-obligant/s/Guarantor/s in all the pages in the Branch premises in the presence of Bank Official. All Documents relating to the loan facility as prescribed by the Bank are duly filled without leaving any gaps ensuring continuity, uniformity and executed by both borrower/s and guarantor/s with their full signatures and are executed in tune with the constitution of the borrower. All insertions and corrections/alterations / cancellations are properly attested under full signature of the borrower and guarantor / co-obligant, wherever applicable.

For further details on Documentation, please refer to Chapter 12 on Documentation.

51.11 Disbursement

- All the documentation formalities should be completed in all respects before disbursement.
- Where loans are eligible for subsidy, claims for subsidy are made in time.
- Where Interest Subvention is applicable, claims for the same are made in time and all the terms for applying interest subvention are adhered to.
- For purchase of equipment, Loan amount along with margin amount should be paid directly to Dealers or Supplier by way of NEFT/RTGS only along with a letter to issue the Bills/ Invoices in the name of the Bank & Borrower and to note the Bank's Lien.
- Bills/ invoices duly signed by borrowers should be obtained & held on record.
- Loan should be disbursed in stages depending on progress of Construction in case of Civil Works duly obtaining Approved Engineer's Certificate.

51.12 Insurance

All Assets created out of Bank Loan and Collateral Securities should be insured for full value with Bank Clause (Bank as Loss Payee).

51.13 Post Disbursement Follow Up and Recovery

- Post disbursement inspection should invariably be conducted by the branch to ensure end use of funds, purchase of equipment by the borrower and bringing in operation the business activity as envisaged in economics of business/viability study. Thereafter, branch conduct quarterly visits to the Unit to ensure its running and record their observations in their visit reports.
- Periodical progress reports on Contract Works should be obtained (at least once in a quarter)
- Stock Statements and Statement of Book Debts should be obtained every month and scrutinized.

- Branch has to follow up for prompt recovery of the instalments on the due date.
- Branches / Offices should take all efforts to recovery of instalment/interest so as to retain the loan accounts in Standard category.
- Where there are overdues/arrears, Branch should issue notices and where there is no response to the Branch's notices and initiate legal action where necessary.
- In case of NPA accounts, intensive efforts should be made to recover the overdue at the time of payment of contract work amounts by writing to the concerned Department which awarded the Contract.

CHAPTER 52

BILLS PURCHASED & DISCOUNTED

52.1 Introduction

The NI Act, 1881, defines a Negotiable Instrument as a promissory note, bill of exchange or cheque.

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

A Hundi is a Bill of Exchange in an Indian language, governed by customs and local usage. A Bill of Exchange may, therefore, include a Hundi, but Hundi may not be a Bill of Exchange. Though NI Act does not define Hundis, the guidelines will be equally applicable for the same.

Reserve Bank of India has also attached lot of importance to the bill limit and has issued guidelines for setting up of and operating the Trade Receivables Discounting System (TReDS) for facilitating the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers.

52.2 To whom an Advance can be sanctioned

All types of constituents who are engaged in some commercial activity and who are in need of bank finance to support their sales/supplies/services may be sanctioned suitable types of facilities against bills subject to Bank's terms and conditions and credit policy.

52.3 Application for Sanction of Credit Facilities

Wherever a party seeks facilities against bills on regular basis, an application in the prescribed format for sanction of required facilities should be obtained from the proposed borrower with relevant information applicable to the type of the borrower as well as to the sector to which the proposed borrower belongs to.

Like any normal working capital proposal, proposal for Bills Purchased / Discounted limit shall also be analysed in a similar fashion duly working out the working capital eligibility. The same is not discussed here and readers may refer to the Chapter 46 on Open Cash Credit for detailed study on assessment, sanction and documentation.

Where different types of working capital facilities are sought, the quantum of advances sought under each category/sub-category should be clearly indicated in the application form.

Where an application is submitted for sanction of facility for purchase of Clean Bills of Exchange or for discounting of Clean/Documentary Usance Bills, the application should contain the names and addresses of all the proposed drawees of the Bills of Exchange/makers of Promissory Notes and credit information of such parties.

The Property Statements, Wealth Tax/Income Tax Return copies/Assessment Orders, Profit & Loss Account, Balance Sheet, Annual Report etc., as is applicable to each such party should accompany the application.

Wherever Bills of Exchange drawn by parties other than the applicant are also to be purchased/ discounted, their names and their credit information should be mentioned in the application. The names and addresses of the bankers of all such parties should also be mentioned in the application form.

The application and the enclosures should be signed by the applicant/Co-obligant/Guarantor. They should contain complete information.

52.4 Processing the Application for Advance

The applications of the parties from priority or non-priority sector should be entertained as per the guidelines applicable to the sector.

Wherever a party enjoys cash credit, overdraft, with another bank but approaches the bank for sanction of advances against bills only, the sanction should not be granted without prior consent of that other bank in writing.

In the case of consortium advances, the borrower should not be sanctioned additional bill Limits outside the total consortium arrangements either by a member bank or by any other bank without the express consent of all the member banks of the consortium.

Apart from the above stated general guidelines, the under mentioned specific guidelines should also be followed:

- The integrity and credit worthiness of the applicant should be satisfactory as in the case of any other type of advance. The capacity of the applicant to pay the overdue / dishonoured bills should be examined and the same should also be satisfactory.
- Details of the legal heirs of the borrower and guarantor / co-obligant shall be obtained in the prescribed format.
- Full particulars of the properties owned by the borrower and guarantor / co-obligant shall be obtained in the Property Statement under their signatures-
- For granting limits for purchase of Clean/Documentary Demand Bills of Exchange and for Clean/Documentary Usance Bills Discounting facilities, the integrity and credit worthiness not only of the Borrower but also of all other parties to the bills should be satisfactory.
- Confidential Reports about the drawees of the Bills of Exchange/makers of Promissory Notes and about all other parties to the bill should be called for from their respective bankers and studied.
- The letters addressed to such bankers seeking their Confidential reports should be sent to them directly. Such letters should not be handed over to the applicant or to any other party/person for delivery to the concerned bank(s).
- The concerned bank(s) are expected to send the Confidential reports to the Bank branches directly and not through their constituents or through the applicant or any other party. Where the reports are not received directly from the other banks, the same should be disfavoured and fresh confidential reports should be sought directly from the banks.
- Granting of the advance can be considered only in such cases where the confidential reports of the other banks indicate satisfactory means, standing and business operations of the concerned parties in clear terms.

52.5 Limit and Credit Period

- The average period of credit allowed on the sales/supplies/services for local as well as up-country transactions and the normal period of transit for receiving the proceeds in the case of up-country transactions should be kept in view for fixing up of the limit for the advance.
- In cases where different types of bills arise covering total sales / supplies / services of the applicant, suitable limits for each type of bills should be stipulated.
- Seasonality of the sales/supplies/services should be kept in view for fixing the limits. Suitable increase/decrease in the limits may be stipulated for the busy/off season.
- In the case of Usance Bills, the usance period should be fixed based on the operating cycle of the unit.

52.6 Margin on Bills

- Suitable margin should be stipulated in the case of Supply Bills.
- In the case of other bills, margins may be stipulated wherever necessary, depending upon the need in each case and depending upon the guidelines in force from time to time.

52.7 Collateral Security

- In the case of Clean bills Purchase, Supply Bills Purchase and Clean Usance Bills Discounting facilities, there would not be tangible security backing the advance. In the case of Documentary Usance Bills Discounting facility, the security would be parted with on acceptance of the bills. Therefore, for granting such facilities, it is desirable to stipulate suitable and adequate collateral security to protect the interest of the Bank.
- In the case of Documentary Bills Purchase facility, collateral security may be stipulated depending upon the need in each case.
- However, in the case of priority sector advances for stipulating collateral security, the guidelines issued by RBI in the matter should be kept in mind.

52.8 Other Aspects

Identifiability, Marketability, Ascertainability of value, Price fluctuations, Shelf-life etc., are to be borne in mind while considering sanction of DBP/ SBP limits for sanction.

52.9 Granting Supply Bills Purchase Facility

- Only the supplies, services, works etc., proposed to be made to Government Department, Corporations, Public Sector Undertakings and reputed companies can be considered.
- Contracts between the applicant and the concerned department, corporation etc. are to be studied and copies shall be obtained and kept on record. Bills should be drawn only confirming to the contract.
- Hypothecation/ Assignment of book debts of the applicant should always be stipulated.

52.10 Sanction of Advance and communication to the Applicant

- After an application is processed, depending upon the discretionary powers it should either be dealt with at the branch level or forwarded to controlling authority with specific recommendations.
- Sanctions should be made by the appropriate authority in terms of powers delegated and keeping in view all the aspects mentioned in the previous paragraphs as well as the guidelines relating to sanction.

- After the Advance is sanctioned by the appropriate authority and communicated to the Branch, the sanction should in turn be communicated to the applicant by the concerned and acknowledgement on the duplicate copy shall be obtained duly confirming acceptance of all terms and conditions.
- Where the limit is sanctioned under Branch Head's discretionary powers, the proposal shall be processed by another officer and shall be sanctioned by the Branch Head. Sanction details, as per the Bank's policy regarding periodicity, shall be reported to the higher authorities. Any comments on the sanction made by the reviewing authority shall be attended to.
- All Standard, basic and optional covenants that are relevant to the borrowal account shall be incorporated in the sanction letter.
- III Party guarantee and /or Collateral Security as per norms should be stipulated.



Where an application is submitted for sanction of facility for purchase of Clean Bills of Exchange or for discounting of Clean/Documentary Usance Bills, the application should contain the names and addresses of all the proposed drawees of the Bills of Exchange/ makers of Promissory Notes and credit information of such parties.

52.11 Documentation

- Documentation, as prescribed under Bank's Loan Policy Guidelines, should be completed in all respects before releasing the advance.
- Separate Sets of Documents should be obtained from the Borrowers in respect of different types of Bills Purchased and Bills Discounted in the Bank's standard formats.
- The Documents to be obtained in respect of Bills Purchased / Bills Discounted Limits are as here under:
 - o Agreement for Bills Purchased / Discounted
 - o Letter indicating banks right to cancel the limits
 - o In the case of Partnership, all the Partners have executed the prescribed documents.
 - o In case of Companies, Corporations etc, a Resolution of the Board of Directors of the Company / Corporation duly naming the Officials who are authorized to draw, make, endorse and negotiate all types of Bills and Documents of title to goods on behalf of the Company / Corporation should be obtained.
 - o Alternatively, the concerned Officials of the Company / Corporation should hold Power of Attorney issued by the Company / Corporation in their favour in which the above said Powers are granted to such Officials.
- In either case the specimen signatures of the concerned officials duly attested by Chairman of the Company/ Corporation and/or Company Secretary should be obtained and held on records.
- In the case of Documentary Bills Purchased and Documentary Usance Bills Discounted facilities –
 - o Where Lorry Receipts would be submitted along with the Bills, a letter of Indemnity should be obtained from the Borrower and Lorry Transport Operator/s should be on the IBA approved List.
 - o Where Railway Receipts covering consignment of goods to Notified Railway Stations are submitted along with the Bills, a declaration to the effect that "all the necessary arrangements will be made with the Railway Administration for giving information to the Bank about arrival of Goods at the destinations" should be obtained from the consignor.

- In the case of Supply Bills Purchase facility the following requirements should be fulfilled –
 - o Agreement for Hypothecation/ Assignment of Book-Debts should be obtained along with a schedule showing detailed list of Book Debts.
 - o In the case of Limited Companies, banks charge on the Book debts should be registered with the Registrar of Companies. The statement of Book Debts should thereafter be obtained once in a quarter duly certified by auditor.
 - o Irrevocable Power of Attorney should be obtained from the Borrower in respect of each contract separately and registered with the concerned Government Body, Department, Corporation, Company etc.
- In the case of Clean / Documentary Usance Bills Discounting facilities-
 - o The specimen signatures of all the parties to the Bills must be obtained and kept on record.
 - o In case such parties are not Constituents of the Bank, their signatures should be got attested by their respective Bankers.
- All documents should be recorded in the Documents Register in the usual manner and the documents should be held under Joint custody as per Bank's Guidelines.
- Primary / Collateral securities shall be obtained as per sanction terms without any deviation.
- Wherever original documents of title are to be lodged for registration, copies of such documents as certified by the Sub-Registrar of Assurance shall be obtained and kept on record.
- Branch shall invariably obtain Credit Report about the drawees on whom the bills are drawn. These reports shall not be older than 12 months or as mentioned in the Bank's policy.
- Genuineness of the Lorry Receipts (LRs) / Railway Receipts (RRs) / Airway Bills etc evidencing dispatch of goods shall be established before the bills are discounted.
- Loan shall be disbursed within the validity period of sanction and in case of delay, approval from the competent authority shall be obtained for re-validation of sanctioned limits.
- Necessary entries shall be made in the Title Deed Register in chronological order and properly authenticated.
- Memorandum of Deposit of title deeds shall be registered with SRO (wherever applicable)
- EC shall be obtained after registration of Memorandum of Entry.
- Wherever required, charge shall be registered with ROC and confirmation be kept on record.

Documentation is also similar to the documentation done for working capital limits, except that a Bill Purchase agreement, giving hypothecation of goods which are covered under the bill is obtained.

Each bill is self-liquidating, i.e., the bill liability gets nullified when the bill is paid by the drawee.

The limit is sanctioned with the condition that a margin amount will be retained for the bill at the time of purchase. i.e., when a bill of Rs. 1.00 lakh is purchased and the margin stipulated is say 20%, then Rs. 80,000 is released against the bill and the balance amount of Rs. 20,000 will be released after the entire Rs. 1.00 lakh is paid by the drawee.

Bill Limit consists of two components. One is collection of the bill drawn by the drawer on the drawee and the other is the advance part, where bank parts its funds to the drawer of the bill duly accepting the bill as security. Hence, as is being charged while collecting the bill, the bill collection charges, known as Commission of Bills is charged on the entire amount of the bill.

While collecting the bill on behalf of the client, the bill amount is credited to the drawer of the bill after the drawee pays the bill. But in Bills Purchased / discounted, the bank lends the funds upfront. Hence, the bank collects exchange / discount on the amount credited to the account of the drawer and this is the interest cost on the funds parted by the Bank.

52.12 Types of Bills and Facilities

- a) Inland Trade Bills
- b) Foreign Trade Bills

In this chapter, we shall be dealing only with Inland Trade Bills.

52.12.1 Types of Lending against Inland Trade Bills

While we all know about cheques, bills of exchange are broadly classified as

- a) Usance Bills
- b) Sight Bills

Sight bills are which are payable on demand.

Usance Bills have a time limit, say 30 days usance to 90 days usance or more as per sanction.

The following are the types of bill limits which banks consider and the details of documents that are required to be submitted to the Bank are furnished here:

Documentary Bills Purchased (DBP)	Bills accompanied by invoices and documents evidencing dispatch of goods (Lorry Receipt L/R, Railway Receipt R/R, Airway Bill etc)
Clean Usance Bills Discounted (CUBD)	Bills of Exchange / Promissory Note
Documentary Usance Bills Discounted (DUBD)	• Bill of exchange accompanied by Invoice and Document evidencing dispatch of goods.(Lorry Receipt L/R, Railway Receipt R/R, Airway Bill etc)
Supply Bills Purchased (SBP)	• Invoices arising out of execution/ supply of works / services which are accompanied by receipted challans / Inspection notes etc.

In the case of documentary bills purchased and discounted, these bills might also be drawn against a Letter of Credit issued by a Bank. In that case, in all the documents mentioned above, the details of the Letter of Credit against which the bills are drawn will be provided by the drawer of the bill. All the Documents as specified in the Letter of Credit should accompany the Bill of Exchange.

As a part of conducting due diligence, Branches to monitor alerts related to Trade Based Money Laundering.

Bills purchased on any one particular drawee should be within the limit approved for each drawee.

52.13 Post-Sanction – Points for consideration while purchasing/ discounting bills

- In case of Documentary Bills, documents covering goods as well as invoices must be thoroughly examined and correctness of prices verified.
- Bills should not be accepted for purchase/ discount unless documents are accompanied by invoices duly signed by the drawers.

- The value given in the invoice should be generally verified with prevailing market rates.
- The description of goods in the RR or Lorry Receipt must agree with the relative invoice and the amount of the Bill should be approximately equal to the value of goods as per invoice.
- Bills should cover goods, which are normally traded by the customers.
- Documents tendered should not bear the crossing stamp of any other Bank.
- Railway Receipt (RR) or Bill of Lading (BL) should be made out in the name of the consignor and drawn to himself and duly endorsed in the Bank's favour or blank endorsed.
- Alternatively, goods may be consigned to the name of the Bank, i.e., the Bank will figure as consignee in RR or BL.
- There should be no undue time lag between the date of despatch of goods and the date of negotiation of the Bills, and the documents must be despatched on the same day they are received for collection or purchase.
- If goods are consigned to a place other than the place on which the Bill is drawn, there should be valid reasons for the same.
- Further, RR must be made out at Railway Risk. If they are at owner's risk, they may be accepted for collection only, or adequate insurance to cover all transit risks including non-delivery may be insisted upon.
- The RR should not bear any clause indicating damaged condition of the goods or defective or improper packing.
- For goods sent by inland or coastal water transport services, or by domestic airlines, consignee copies of water transport receipts / air consignment receipts are to be obtained.
- Lorry Receipt must have been issued in the 'Special Form' by an IBA approved Road Transport Operator with Code Number.
- The receipt should show the goods as consigned to the Bank (and not to Drawee) and the Lorry Receipt should be the Consignee copy (not Consignor Copy) and should be in favour of Bank.
- Letter of Lien giving full details of RR should be sent under certificate of post to the Railway authorities at the Centre to which goods are consigned, putting them on notice of the Bank's lien on the relative documents of title to goods.
- The Lorry Receipt must clearly indicate that the relative goods are carried at carrier's risk. It should also contain a 'Notice' that the consignment covered shall be stored at the destination of the Transport Operator and shall be delivered to or To Order of the consignee bank.
- Credit report on drawers/drawees shall be satisfactory in line with bank's internal guidelines and practices & to the satisfaction of branch head. Credit report to be obtained from bank's empanelled agencies.

The goods mentioned in the LR/RR shall match with the description of the goods mentioned in the invoice and the order copy. As an additional measure of due-diligence, wherever the E-way Bill is mandatory/ required as per the GST guidelines, the same is to be obtained invariably for Bill discounting. In all other cases, genuineness of the transporter shall be ascertained by accessing e-vahan portal (<https://www.vahan.nic.in>) using the registration number.

Banks should be able to distinguish genuine trade bills and accommodation bills and should not consider funding against accommodation bills.

52.14 Accommodation Bills

A borrower with an intention to defraud the bank may resort to presenting bills which are not backed by genuine trade transactions but are made to accommodate the drawer. These bills are called Accommodation bills. Branches should not purchase / discount / negotiate such bills. The underlying trade transactions should be clearly identified and a proper record thereof maintained at the branches conducting the bills business. Bills having the following features are likely to be accommodative in nature:

- Clean Bills drawn on related parties.
- Bills wherein the address of different drawees is the same or where the address is suspicious.
- Bills relating to the movements of goods, in which the party does not normally deal.
- Bills where the lines of business of the drawer and the drawee are totally different.
- Bills drawn in respect of commodities which are not normally dealt by the businesses in the place from where the bill is drawn.
- When the drawee gets a new bill for purchase / discount of the bill around the due date.
- Bills are retired by the drawee by raising a bill either on the drawer of the bill or his associated concerns.
- Bills are for round amounts and the bill amounts increase every time to include the commission and discount charges so that the previous bill can be honoured.
- Bills are retired by the drawee on receipt of funds from the drawer / some other party at the drawer's centre, or by drawing a Bill on the drawer / some other party.
- Bills are repeatedly drawn for the same amount on the same drawee (unless the drawee is the sole-selling agent).

A Bill purchase limit should be utilized for purchase of Demand Bills and should not be made use of for discount of Usance Bills unless specifically provided for in the sanction. Similarly, Clean Bills should not be purchased under limits for Documentary Bills.

Branches should ensure that bills purchased are realised expeditiously. While documentary bills purchased should be realised within a reasonable time (say for example 7 days), usance bills shall be paid on the due date. Branches should therefore meticulously follow up for realisation of the bills as mentioned above. In respect of documentary bills not retired by drawers within reasonable time, care is to be taken to safeguard the consignment as Railways do not assume responsibility for the goods after 30 days, particularly at notified centres.

If Bills are returned unpaid, notice of dishonour must be sent to the drawers, endorsers and other parties to the Bills. Such Bills are not to be debited to the party's account if the debit results in an excess / OD. Returned Bills and documents must not be handed over to the parties concerned but retained till reimbursement is received. If reimbursement is not received up to 90 days noting, protesting of returned bills under Section 99 and 104 of Negotiable Instruments Act should be ensured by the concerned Branch.

If a Documentary Bill is not paid in time and if the amount thereof cannot be recovered from the party, it would be necessary to take delivery of goods and resort to their sale. In all such cases, prompt action must be taken to safeguard the Bank's interests.

Under no circumstances, fresh Bills can be purchased to adjust the outstanding Bills. It is to be ensured that no dishonoured bill is purchased again. RR or other documents of title to goods of unpaid Bills, if

offered under a fresh Bill, must not be accepted. If Bills Purchased from a particular customer are returned frequently unpaid, no bill on such drawees is to be purchased.

52.15 Purchasing / Discounting / Negotiating of bills under LC

Bills under Letter of Credit (LC) are considered to be a safe lending from the banker's point of view as the LC opening bank is under an obligation to pay the bill on the due date, of course, subject to certain conditions. However, banks have identified frauds in LC Bill Discounting also and hence it is pertinent to carefully select the borrower while sanctioning these limits also.

Therefore, Bills drawn under LCs shall be purchased/discounted/negotiated only in respect of genuine commercial and trade transactions of borrower constituents who have been sanctioned regular credit facilities. Non-constituents shall not be entertained for purchase/discount of Bills under LC.

In cases where negotiation of bills drawn under LC is restricted to a particular bank and the beneficiary of the LC is not a constituent of that bank, the bank concerned may negotiate such an LC, subject to the condition that the proceeds will be remitted to the regular banker of the beneficiary. However, the prohibition regarding negotiation of unrestricted LCs of non-constituents will continue to be in force.

Sometimes, a beneficiary of the LC may want to discount the bills with the LC issuing bank itself. In such cases, banks may discount bills drawn by beneficiary only if the bank has sanctioned regular fund-based credit facilities to the beneficiary. With a view to ensuring that the beneficiary's bank is not deprived of cash flows into its account, the beneficiary should get the bills discounted / negotiated through the bank with which he is enjoying sanctioned credit facilities.

52.16 Operational Precautions

- Borrower shall give a request in writing for purchase / discount of bills.
- While purchasing / discounting / negotiating bills under LCs, branches shall entertain only those inland LCs which are issued through SFMS. Any inland LC received in physical form shall not be considered for negotiation/discounting.
- While purchasing / discounting / negotiating bills under LCs also, genuineness of underlying transactions / documents shall be established.
- Before accepting Bills of exchange for purchase / discount / negotiation under LC or as security in any loan account, the Bills should be carefully scrutinised to make sure that the same are genuine Bills, drawn by persons duly authorised and are properly endorsed in favour of the Bank. The documents should be carefully examined to see that the same are in order.
- Bills under LC are to be purchased / discounted / negotiated only when the LC is an irrevocable LC.
- Bills under LCs established by Co-operative Banks shall generally not to be accepted for purchasing / discounting / negotiation.
- Sight Bills against LC shall be purchased only after obtaining confirmation from the LC opening bank/ LC Paying Bank regarding correctness of the documents.
- Usance Bills against LC shall be discounted only after obtaining confirmation from the LC opening bank/ LC Paying Bank regarding correctness of the documents and confirmation that the bill has been accepted by the drawee duly confirming the due date
- While purchasing / discounting / negotiating bills under LC, the documents are to be carefully

examined to ensure that the same confirm to all the terms and conditions of the LC and each document is consistent to another.

- In case of any discrepancy in the documents confirmation is to be obtained from the LC opening Bank. Funds shall not be parted before receipt of acceptance from the opening Bank.
- Acceptance of Bills under LC to be received through recognized electronic system i.e. SFMS (Structured Financial Messaging system).
- Proceeds of bills purchased shall be credited to the operative account of the borrower.
- Branch shall ensure that the tenor of bill is not exceeding the maximum prescribed as per Sanction / Bank's policy.
- All instructions, including special instructions, if any, shall be incorporated in the covering letter being forwarded to the drawee's bank for payment.

52.17 Dishonour of bill

- Where a discounted bill is dishonoured, branch shall ensure that the disposal instructions as mentioned in the collection schedule are followed by the presenting bank.
- Where no instructions were given by the drawer at the time of presentation regarding process at the time of dishonour, branch shall obtain his disposal instructions upon dishonour and shall act upon the said instructions.
- Noting and protesting of unaccepted/ unpaid bill shall be as per the policy of the Bank.
- Where non-availability of the drawee for presentation of bill is informed by the presenting banker, drawer shall be informed of the same immediately and instructions obtained from him shall be passed on to the presenting bank.
- Where there is dishonour of bills, Branch shall take appropriate steps like sending notice of dishonour to all parties and recovery action shall be initiated.
- When recovery efforts also fail, branch shall initiate legal action after ensuring that documents are in order and acknowledgement of debt is also in place, wherever required.
- All steps listed out in the Chapter 55 on NPA Management and Recovery shall be initiated.

CHAPTER 53

BANK GUARANTEES

53.1 Introduction

For any business transaction, there would be an underlying contract. Let us take a small example:

A and B enter into a contract according to which A would sell certain goods to B at a certain price. If A sends the goods to B without receiving any money, B might not pay him and he would suffer a loss. If B sends the money in advance and A does not send the material, B would be suffering a loss. In order to tide over this issue, B approaches the Bank and requests the bank that upon A delivering the goods he had ordered at a certain price and by a certain date, the bank assures A that the Bank would make the payment to A, irrespective of B paying the bank or not. Thus, for a financial transaction, there is a guarantee given by the Bank that it assures the seller the payment it is due. This is a Financial Guarantee.

Let us take another example.

Government orders construction of a road and awards the contract to X. It also releases some advance payment to the contractor X. In order to give the assurance to the Government that X will complete the specified work within the specified time, Bank gives a guarantee, called performance guarantee, whereby it gives assurance to the Government that X will complete the work allotted to it and in case of its failure to do so, the Bank will compensate the Government with the amount as mentioned in the Guarantee. This type of guarantee is called Performance guarantee.

The above two are examples of two types of Bank Guarantees which are popular:

1. Financial guarantee
2. Performance guarantee.

Deferred Payment Guarantee is another type of guarantee which was once very popular but in present day banking is not finding a significant place.

When a term loan /Cash Credit limit is sanctioned, the borrower draws money and a liability is created in the books of the Bank. So, these loans are called funded limits. However, when a Bank Guarantee is issued by a Bank on behalf of a customer, the Banker is not parting with any funds. Banker gives a letter of guarantee confirming that he would pay subject to certain triggers. Since funds are not going out of the system, these limits are called Non-Fund Limits and they reflect in the balance sheet as Off-Balance sheet items. They are also called contingent liabilities as the amount may percolate as a liability at a later date and hence it is contingent on the Bank. Since BGs are off-balance sheet items, bank has to make provisions under prudential norms at relatively lower risk weights than it is provided for funded limits.

Since no funds are parted by the Bank to the constituent, bank cannot charge interest for the bank guarantees issued, Banks collect service fee called Commission on BGs issued. As security for the Bank Guarantees issued, Bank collects cash margin in the form of fixed deposits and also insists on some collateral security to cover its risk.

Normally, BGs are issued on behalf of a constituent who enjoys credit facilities from the Bank, have business relationship with the bank and conduct of account enjoys good reputation. -BG as a standalone limit is generally discouraged.

The application for working capital limit shall be used for BG limit also, where BG is required for working capital purposes. Where BG is required for procurement of capital goods, the application for term loan shall include the BG limit also.

Appraisal of Bank Guarantee limit differs from the regular working capital limit. In this the nature of business of the borrower is important. Where the borrower is a contractor engaged in construction of buildings, roads etc., the assessment will be based on the projected turnover, orders on hand, stage of completion of the work, existing bank guarantees, number of bids he is intending to participate, his success rate in the past etc.

While assessing the proposal for BG limit, the existing bank guarantees and the works against which these guarantees are issued also will have to be looked into.

Where the borrower is a trader / manufacturer, the purpose of the bank guarantee shall be looked into. Bank shall also obtain the underlying contract and examine whether the requirement of BG is discussed in the said contract.

Financial guarantees can be further classified as:

Bid Bond : A bid bond provides a guarantee that a winning bidder will take up the contract as per the terms at which they bid. A bid bond ensures compensation to the bond owner if the bidder fails to begin a project. Bid bonds are often used in construction jobs or other projects. The Bid Bond automatically gets cancelled, when the bidder fails to get the contract and the BG will be returned. If he is a successful bidder, the bid bond gets released after the successful bidder completes the formalities of starting the work.

Advance Payment Guarantee: An advance payment guarantee (APG) is a written contract between a bank and the beneficiary that guarantees the performance of a commercial contract. The beneficiary normally gives advance for the work that is entrusted to the contractor (BG Applicant). It acts as collateral to reimburse an advance payment if the bank's constituent doesn't fulfil his obligations. For example, if a seller doesn't supply the goods specified in a contract, the APG can reimburse the buyer's advance payment.

Retention Money Guarantee: This guarantee is normally given to contractors who execute works like construction of roads, bridges, buildings etc. The awardee of the contract retains a portion of the contracted amount that will be released after a certain period of time according to the contract. This, however, causes a gap in the working capital funds of the contractor. In order to overcome this difficulty, Banks provide Retention Money Guarantee, which enables the awardee of the contract to release the money held by him to the contractor.

The above three are examples of Financial Guarantees.

Performance Guarantee: As soon as the contractor /supplier is a successful bidder in a contract, a contract is entered into between the agency awarding the contract of the contract and the contractor / supplier. To enable the agency awarding the contract to have an assurance that the contractor will be able to complete the contract within the stipulated time, a bank guarantee is issued assuring the performance of the contractor. This is called performance guarantee.

As mentioned above, Bank collects Commission for the BGs issued. The rate of Commission for a financial guarantee and a performance guarantee differ, the former being higher than the latter. Hence, branches have to be careful in deciding whether the BG issued by them is financial or performance and a wrong classification may lead to leakage of revenue.

53.2 Sanction and Documentation

The Bank Guarantee limit is assessed by a ratio called Gearing ratio.

A gearing ratio is a financial metric that compares a company's debt to its equity or capital to measure its financial leverage and risk level. It shows how much of a company's operations are funded by debt versus equity and highlights the financial risk that comes with borrowing to fund operations.

As was discussed earlier, the other ratios like current ratio, debt-equity ratio, DSCR, TOL/TNW etc. take into consideration the figures available in the Balance Sheet or the Projected Balance Sheet. However, the bank guarantee, as mentioned above, is a contingent liability and excess release of the limit, may result in the company ending up with a high debt-equity ratio, when the contingent liability becomes funded liability. Hence a separate ratio is used to assess the bank guarantee limit and it is calculated as under:

Particular	Audited	Estimates	Projections
Current Liabilities (A)			
Less : Advances to Capital goods (B)			
Net current Liabilities (c)			
Term Liabilities (D)			
Non-Fund-Based Limits (E)			
Total (A-B+C+D +E) = X			
Tangible Net worth (F)			
Non Current Assets (G)			
TNW-NCA (F -G) = Y			
Gearing Ratio X / Y			

Depending upon the Bank's policy, the maximum gearing ratio is fixed.

The sanctioning authority, based on the track record of the constituent, the financials, the underlying contracts on hand and expected and the risk perception in the account, the previous record of Bank Guarantees getting invoked, sanctions the limit and stipulates a cash margin for the guarantees. In addition, again based on the risk perception, sufficient collateral is also stipulated.

The sanction letter clearly indicates the purpose for which the BG is to be issued, the quantum of limit fixed for each type of guarantee discussed above and the beneficiaries to whom the BGs are to be issued.

The sanction letter also indicates the maximum period of the guarantee and the maximum limit against each beneficiary, wherever required.

As in the case of other facilities, the sanction letter has to be prepared in duplicate, incorporating all the terms of sanction and the standard covenants prescribed as per policy. Borrower/s and guarantor/s have to accept the terms of the sanction and confirm the same by signing the duplicate copy of the sanction letter.



Bank Guarantee, is a contingent liability and excess release of the limit, may result in the company ending up with a high debt-equity ratio. When the contingent liability becomes funded liability, hence, a separate ratio called Gearing Ratio is used to assess the bank guarantee limit.

Documentation is similar to that of any working capital limit and normally, BG limit is not released as a standalone limit. For BG limit, a counter guarantee is issued by the borrower which is signed by the borrower/s and the guarantor/s.

Margin money may be brought in upfront and deposited with the bank or may be deposited as and when the BGs are applied. Each Bank Guarantee shall be issued only after a specific request is received from the borrower.

The Bank Guarantee format shall be carefully studied and it should be ensured that it does not have any onerous clauses.

The liability under the Bank Guarantee shall be restricted to a certain amount and the period of enforcement of claim shall be clearly mentioned in the guarantee. This is called the claim period.

While issuing financial guarantees, it shall be ensured that the borrower has the capacity to reimburse the Bank in case of invocation of BG.

Where performance guarantees are issued, it is to be ensured that the customer has necessary experience, capacity and means to perform the obligations under the contract and is not likely to commit default.

It should be ensured that the BG shall not be issued for more than 10 years, even if it is backed by 100% cash margin.

When BGs are issued, underlying contract shall be obtained and carefully studied and branch should pass contra entries that are reflected on either side of the Balance Sheet.

Branches should invariably include the "Restrictive Clause" popularly known as "notwithstanding clause" as the last paragraph of the Balance Sheet, which reads as under:

"Notwithstanding anything contained herein

- a) Bank's liability under this Bank Guarantee shall not exceed Rs. _____ (Rs. _____) only
- b) The Bank Guarantee shall be valid upto _____ (date)
- c) The Bank is liable to pay the guarantee amount or part thereof only and only on receipt of a written demand or claim is made by the Employer in writing on or before _____ (expiry date of the bank guarantee)"

It should be clearly noted and stated to the applicant that the liability of the Bank continues till release by the beneficiary of the Bank Guarantee in spite of there being a restrictive clause, wherever the BG contains a specific clause for extension of BG till Bank is released by beneficiary/on receipt of a request from beneficiary.

BG shall be issued with a standard numbered covering letter and shall be signed by two officers.

Where BG issued /cancelled in favour of President of India, BG should be clearly addressed to the Concerned Government Dept with detailed name, section/dept and full address after addressing the same to President of India. and details of the same shall be mentioned in Bank's records.

No Bank Guarantee shall be issued for speculative purposes.

Where auto renewal of BG is permitted by the sanctioning authority, an indemnity cum undertaking shall be obtained from the borrower, acknowledging Bank's right to either extend or refuse extension/renewal of BG at a future date and in case of non-renewal, not to hold Bank responsible for the same.

Where a bid bond is issued and the borrower is a successful bidder, the branch to ensure that there is availability of limit for the borrower to take performance guarantee and other such related guarantees. It may be noted that the Bid Bond may be invoked if the borrower is not taking forward the contract for which he is the successful bidder.

Where performance guarantees are issued, branch shall obtain periodical progress reports about the progress recorded in the contract and ensure that there are no time delays in the project.

53.3 Invocation

- Where a letter of invocation is received by the branch, which is in terms of BG, branch shall make payment to the beneficiary.
- It shall be ensured that validity of the claim is verified and that the claim has been lodged as per the terms of the BG, before making payment.
- Where the claim is not valid, the same shall be confirmed by the Legal Department of the Bank and branch shall immediately dispute the same with the beneficiary, duly giving the valid reasons for such dispute.
- Where court injunction / restraint orders have been brought at the instance of the applicant, branch shall inform the beneficiary about the same and shall not pay the invoked amount. However, branch shall ensure recovering the guarantee commission as long as Contingent Liability is remaining in the books.
- Wherever a decision has been taken not to honour the obligation under invoked BG, such decision shall be taken at a higher level as it involves the reputation of the Bank.
- Where the Bank received an invocation and found that the claim is valid as per the terms of the BG, the borrower is informed of the same and that the same is being paid to the beneficiary.
- Expiry/cancellation/extension notice is sent to the concerned department and the said notice shall stipulate a time period as prescribed by the policy for returning the original BG duly discharged / issuing a letter of discharge in lieu of original Bank Guarantee.
- Contra entries shall be reversed and the borrower's liability shall be reduced to the extent of BG, only after the receipt of the original Bank Guarantee from the beneficiary.
- Margin Money against the BG shall be released only after the reversal of entries.
- All Expired BGs outstanding for more than one year shall be reversed within one month of servicing notice to the beneficiaries and entries shall be reversed in the CBS system.
- When the BG is invoked and amount is paid to the beneficiary, branch shall debit invoked guarantees paid account and demand payment from the borrower.
- Notice for payment of the invoked amount shall be sent regularly and follow up shall be effectively made to recover the amount from the borrower,
- Account shall be marked as non-performing, if the amount is not adjusted within 90 days of payment.
- After invocation and the bank has paid the BG amount to the beneficiary and borrower does not pay the invoked amount, Bank shall initiate the appropriate action as discussed in the Chapter 55 on NPA Management and Recovery.

CHAPTER 54

LETTERS OF CREDIT (L/C)

54.1 Introduction

Letter of Credit (L/C) is a contract by which a bank guarantees the seller that the buyer will make the payment for the goods and services. The use of L/Cs to effect payment is widespread in international trade, but since the last two decades, Letters of Credits have become popular even in domestic trade. This is because they offer security of payment for and receipt of goods to the parties involved in the trade transaction who may be in different places and do not know each other.



Letter of Credit are off-balance sheet items, bank has to make provisions under prudential norms at relatively lower risk weights than it is provided for funded limits.

54.2 Different types of Letters of Credit

The different types of Letters of Credit offered by banks in India are as follows:

1. Documentary

A documentary L/C is an obligation by the issuing bank to pay the agreed amount to the beneficiary (usually the seller) on behalf of the applicant (buyer) upon receipt of specified documents.

2. Sight LC or Usance Letter of Credit

A sight L/C guarantees the payment once the beneficiary (the party which is about to receive the payment) presents the sight L/C to the issuing bank along with any other required documents. In respect of Usance L/C, on receipt of documents, the payment is made on the due date mentioned in the documents by the L/C Issuing Bank.

3. Standby LC

A Standby L/C (SBLC) is a type of guarantee issued by the buyer's bank in favour of the seller. If the buyer fails to pay for the goods and services provided by the seller, the seller will demand the buyer's bank to step in and make the payment. An SBLC essentially acts as a backup.

4. Revocable and Irrevocable Letters of Credit

With a Revocable L/C, the terms and conditions can be changed or cancelled by the bank that has issued the L/C. Banks do not need to give any prior notice to beneficiaries before doing so. On the other hand, an irrevocable L/C is one wherein the terms and conditions cannot be changed or cancelled; the Issuing Bank is bound by the commitments given in the L/C.

5. Back-to-Back Letter of Credit

With this L/C, the beneficiary (i.e., the seller) can request their bank to issue an L/C on behalf of their supplier on the basis of the export L/C received.

6. Transferable Letter of Credit

This is an L/C with an added provision permitting the bank to transfer the sum specified by the L/C to another party at the request of the original beneficiary.

7. Revolving Letter of Credit

A Revolving L/C is a single L/C that can cover multiple shipments, so the credit can be renewed either as to the amount or as to the time it is available. These are often used where regular shipments are made from the same seller over a period of time.

8. Confirmed Letter of Credit

Confirmation is usually requested if the seller is concerned about the creditworthiness of the issuing bank and/or the buyer's country risk. The advising bank adds its confirmation to the L/C at the issuing bank's request. The advising bank then becomes the confirming bank and undertakes to pay the seller (this is a separate undertaking from the one given by the issuing bank and so offers extra security to the seller).

54.3 Difference between a Letter of Credit and a Bank Guarantee

A letter of credit is a written commitment document issued by a bank or other financial institutions to assure payment to seller based on documentary proof that the seller has fulfilled their end of the deal as per the L/C. Under an L/C, the seller gets guarantee on payment of his sale of goods from the buyer's bank.

With a bank guarantee, the bank offers guarantee to a third party on behalf of their customers. If the customer defaults on their obligations, the bank will assure payment to the third party.

As mentioned in Bank Guarantees, when a Term Loan / Cash Credit limit is sanctioned, the borrower draws money and a liability is created in the books of the Bank. So, these loans are called funded limits. However, when a Letter of Credit is issued by a Bank on behalf of a customer, the Banker is not parting with any funds. Banker gives a letter confirming that he would pay the amount subject to certain triggers. Since funds are not going out of the system, these limits are called Non-Fund Limits and they reflect in the balance sheet as Off-Balance sheet items. They are also called contingent liabilities as the amount may percolate as a liability at a later date and hence it is contingent on the Bank. Since L/Cs are off-balance sheet items, bank has to make provisions under prudential norms at relatively lower risk weights than it is provided for funded limits.

Since no funds are parted by the Bank to the constituent, bank cannot charge interest for the L/Cs issued. Banks collect service fee called Commission on L/Cs issued. As security for the L/C limit issued, Bank collects cash margin in the form of fixed deposits and also insists on some collateral security to cover its risk.

Assessment, sanction, documentation are all similar to any working capital assessment. Banks generally do not sanction standalone Letter of Credit Limit and it should be part of working capital limits, including OD or CC. L/C limit can be considered only taking into account such creditors of the borrower who extend credit period and accept L/Cs.

L/C can also be opened for acquisition of capital goods. In that case, it should be ensured that the L/C payment shall be met from its own long-term funds or from term loans from FIs.

Letter of Credit is issued on behalf of a client who procures raw material for his working capital needs. Hence L/C assessment also forms part of working capital assessment and the L/C limit is also carved out of the working capital gap. The following table is normally used for calculation of L/C requirement for procurement of raw material and stores.

Assessment of sight LC :	FOR FLC	FOR ILC
1. Annual Purchase/Import		
2. Out of the above on sight L/C basis		
3. Average of (2) per month		
4. Lead time (in terms of months)		
5. Sight LC requirement : (3) x (4)		
Assessment of Usance L/C		
1. Annual Purchase/Import		
2. Out of the (1) on credit basis		
3. Out of the (2) on usance LC basis		
4. Average of (3) per month		
5. Lead time (in terms of months)		
6. Usance period (-do-)		
7. Usance LC requirement (5 + 6) x (4)		

While sanctioning credit limits, it should be clearly mentioned that the stocks procured against L/C will be hypothecated exclusively for the L/C Limits.

The sanction shall also stipulate that the L/C should be in the standard format approved by the Head Office or else permission shall be obtained for the format in which it is proposed to be issued.

Every time an L/C is issued, a request for issuance of the same shall be obtained. It should be ensured that the person making such request has the authority to sign such documents and it should be ensured that the beneficiary is engaged in the manufacture and the product being procured is required by the applicant for his business for which the working capital limits are sanctioned.

Margin money as stipulated in the sanction shall be collected before opening the L/C.

All Letters of Credits shall be issued through SFMS software only.

Branch shall obtain Credit Report on the beneficiary from its existing banker and shall open the L/C only when a satisfactory report is obtained and it is ensured that the beneficiary deals with the products which are required by the borrower.

Once when the L/C is prepared, it shall be forwarded to the applicant, who will give his confirmation in writing for the issuance of L/C, after which the L/C will be transmitted.

Normally, the documents against the L/C will be presented through the beneficiary's banker. When the L/C issuing banker receives the bills so forwarded, it should be ensured that

- Documents are presented during the validity of the Letter of Credit.
- Documents as required to be presented as per terms of L/C have been presented.
- Documents submitted for payment/ negotiation are consistent with the terms of Letter of Credit such as volume, quality etc.
- Documents submitted for payment/ negotiation are executed and signed as stipulated in the L/C.
- Documents have been submitted before the expiry of letter of credit.

- Borrower shall be informed about the presentation of the bill against the L/C.
- Where the presentation is complying with the terms of L/C and where the bill is a usance bill, due date shall be confirmed.
- Where branch observes that the presentation is not complying with the terms of L/C, it has to refuse the presentation within the time prescribed, unless the discrepancy is acceptable to the applicant.
- Where an amendment is sought, it should be within the validity period and the amendment shall not violate the terms of L/C.

Branch shall periodically review its L/C portfolio and follow up with the applicant and the beneficiaries for reversal of expired L/Cs.

54.4 Devolvement of L/C

When the bill drawn against L/C is due for payment and the beneficiary or his banker has demanded the payment, it is obligatory on the part of the Bank to pay the bill amount, even where the borrower does not meet his financial obligation. This is called devolvement of L/C. Steps should be taken by the branch to recover this devolved amount immediately as it attracts NPA norms.

When each L/C is devolved, a separate account shall be opened and the liability shall be transferred to that account.

No fresh L/C shall be opened when devolvement remains unadjusted. Operations in the operative account also shall be stopped.

Recovery process in case of devolved L/C is the same as that of any operative limit and detailed guidelines regarding Recovery discussed in the Chapter 55 on NPA Management and Recovery.

The conditions stipulated in Uniform Custom and Practice for Documentary Credit (UCP-600) must be complied with.

CHAPTER 55

NPA MANAGEMENT AND RECOVERY

55.1 Introduction

A non-performing asset (NPA) is a loan or an advance where;

Nature of facilities	Parameters
Term Loan	Interest and/or instalment of principal remain overdue beyond 90 days
Cash Credits / Overdrafts	Remains 'out of order' as mentioned below
Bills Purchased / discounted	Remains overdue beyond 90 days
Crop Loans (short duration crops)	Instalment of principal or interest thereon remains overdue for 2 crop seasons
Crop Loans (Long duration crops)	Instalment of principal or interest thereon remains overdue for 1 crop season
Securitization transactions	Amount of liquidity facility remains outstanding beyond 90 days
Derivative transactions	Overdue receivables representing positive mark-to-market value of a derivative contract which remains unpaid beyond 90 days from specified due date for payment

55.2 What is Out of Order Account

A CC/OD account shall be treated as 'out of order' if:

- The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period.

Even in the case of accounts where the account balance is below the sanctioned limit or drawing power but there are no credits / credits not equivalent to the interest debited for 90 days, the account will be treated as out of order.

55.3 What is Overdue Account

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank. The borrower accounts shall be flagged as overdue by the bank as part of the day-end processes for the due date, irrespective of the time of running such processes.

55.4 Classification of NPAs:

When an account is classified as Non-performing, provisioning norms will be applicable and the provisioning will increase depending on the following classification of NPA into 3 categories, as under:

S. No.	Category	Description
1	Sub-Standard	Asset which has remained as NPA for a period of less than 12 months
2	Doubtful	Where an asset has remained as NPA for a period of more than 12 months
3	Loss asset	Where loss has been identified by Bank / any auditor / regulator

Consequences of classification of accounts as Non-performing:

Once accounts are classified as Non-performing,

- i) Interest cannot be charged to the account unless it is recovered
- ii) Provisioning norms will apply.



When the account is classified as NPA, Bank should take all steps to enforce the security by enforcing SARFAESI Act / DRT / Civil Courts / Lok Adalat / IBC etc. While filing suit for recovery, branch shall make additional prayer for seeking declaration, under oath, by the borrower / guarantor of all assets that are not under pledge/ mortgage.

55.5 Income Recognition

Only when the interest debited to the account is serviced by the borrower, it has to be recognised in the Income account of the Bank. It is the record of recovery of the interest debited. When interest is not recovered by the bank, such interest cannot be recognised.

The exception to this rule is the interest on advances against Term Deposits, National Savings Certificates (NSCs), Kisan Vikas Patras (KVPs) and Life Insurance policies may be taken to income account on the due date, provided adequate margin is available in the account.

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. This will apply to Government guaranteed accounts also. As and when the borrower pays, the un-debited interest can be recognised and credited to the Profit and Loss account.

If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period need not be reversed.

55.6 Guidelines for Classification

- NPA classification should be done taking into account the degree of credit weaknesses and availability of collateral security for realization of dues.
- The regulator insists that Banks should avoid the tendency to delay or postpone identification of NPAs especially in respect of high value accounts;
- Availability of security/net worth of the borrower/guarantor should not be taken into account while identifying the NPA;
- An advance account should not be classified as NPA merely due to existence of some temporary aberration/deficiency such as non-availability of adequate Drawing Power based on latest stock statement, exceeding sanctioned limit, non-submission of stock statement, renewal of account, etc.
- A working capital account would become NPA, if the irregularity continues beyond 90 days even though the unit would be working and its financial position is satisfactory.

- Regular and ad hoc limits are required to reviewed/regularized within 180 days from the due date/ date of sanction; else, it is to be classified as NPA.
- A NPA Loan account, other than restructured and rescheduled, can be upgraded to standard assets upon payment of arrears of interest and principal.
- Asset classification should be borrower-wise and not facility wise. In case one facility/ investment of the borrower becomes NPA, all the facilities granted to the borrower are to be treated as NPA.
- Bills discounted facility under LC favouring a borrower need not be classified as NPA in case any other facility is NPA. However, in case of non-payment of bills under the LC on due date by the LC issuing bank and the borrower fails to make good the amount immediately, the outstanding under the Bills discounted is also to be classified as NPA.
- In account where there is potential threat of recovery on account of erosion in value of security (50% / 10% of value assessed earlier or outstanding respectively), non-availability of security, existence of other factors such as frauds committed by borrowers, etc. such asset should straightaway be classified as doubtful or loss asset as appropriate:
- Finance granted to PACS/FSS under the on-lending system, only that particular portion of credit in default to be classified as NPA.
- Advances against paper securities such as TDRs, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.
- Loan with moratorium for payment of interest, the amount of interest would become overdue after the due date for payment of interest, if uncollected.
- In staff housing loan or similar other accounts where the interest is to be recovered after repayment of principal, such accounts would become NPA only when there is default in repayment of principal or interest on respective due dates.
- Advances backed by guarantee of Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. However, State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days.

55.7 Consortium Arrangement

Asset classification of accounts under consortium is to be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. Where however, the lending under consortium is more than Rs. 100 crores and the account slips into SMA 2 category in one bank, the said bank has to report the same in Central Repository of Information on Large Credits (CRILC) and a Joint Lenders' Forum has to be formed within 60 days.

55.8 Provisioning Norms

55.8.1 Standard assets:

The provisioning requirements for all types of standard assets are as below. Banks should make general provision for standard assets at the following rates for the funded outstanding on loan portfolio basis:

Type of advance	Provision required
Direct Advances to Agriculture & SME sector	0.25%
Advances to Commercial Real Estate (CRE) Sector	1.00%
All other loans and advances not included above	0.40%

55.8.2 Sub- Standard Assets:

Type of advance	Provision required
Total Outstanding Minus Guarantee cover under CGTMSE/CGFMU etc	10%
For Unsecured exposure which are identified as Sub Standard	20%

55.8.3 Doubtful assets:

- 100 percent of the extent to which the advance is not covered by the realisable value of the security (unsecured portion) and the realisable value is estimated on a realistic basis.
- In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year (D1)	20
One to three years (D2)	30
More than three years (D3)	100

55.8.4 Loss assets:

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 percent of the outstanding should be provided for.

55.8.5. Provisioning Norms at a glance:

S.No	Category	Conditions	Provision Requirement
1	Standard		
	A	Direct Advances to Agriculture & SME sector	0.25%
	B	Commercial Real Estate (CRE) sector	1.00%
	C	All other Loans and advances not included in (a) and (b) above	0.40%
2	Sub Standard		
	A	Total Outstanding Minus Guarantee cover under CGTMSE/CGFMU etc	10%
	B	For Unsecured exposure which are identified as Sub Standard	20%
3	Doubtful		
	A	For secured Portion under D1	20%
	B	For secured Portion under D2	30%

	C	For secured Portion under D3	100%
	D	For unsecured portion	100%
4	Loss	100% Outstanding	100%

However, Provisioning Norms as suggested in the NPA Management Policy of the Bank should be followed.

The securities are to be valued once in three years for arriving at the available level of securities for the purpose of arriving at the level of provisions.

55.9 Special Mention Accounts

Special Mention Accounts (SMA) refer to the accounts that show signs of turning into a non-performing asset in the first 90 days or even before being identified as an NPA. RBI introduced the SMA classification in 2014 to help identify those accounts that pose a threat of becoming NPA soon.

There are four types of Special Mention Accounts: – SMA-NF (Non-Financial), SMA 0 (not applicable for Cash Credit Account), SMA 1 and SMA 2. The Special Mention Accounts are usually categorized in terms of duration. For example, in the case of SMA -1, the overdue period is between 31 to 60 days. On the other hand, an overdue between 61 to 90 days will make an asset SMA -2.

Loans other than revolving facilities		Loans in the nature of revolving facilities like Cash Credit/ Overdraft	
SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue	SMA Sub-categories	Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	Upto 30 days		
SMA-1	More than 30 days and upto 60 days	SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days	SMA-2	More than 60 days and upto 90 days

(RBI/2021-22/125 DOR.STR.REC.68/21.04.048/2021-22 Dated November 12,2021)

Non-financial reasons like non-submission of stock statements, non-renewal of working capital limits also will also make an account be classified as SMA and NPA.

In view of the above, it should be noted that

- Branch adheres to regulatory guidelines relating to Asset Classification, Provisioning and Income Recognition with respect to NPA accounts.
- Branch should constantly monitor all the accounts for critical indicators as under to ensure avoidance of incipient sickness.
 - (a) Persistent delay in submission of stock statement beyond the prescribed period
 - (b) Non-renewal /review of credit facilities in time
 - (c) Return of 3 or more cheques issued by the borrower for want of funds or lack of drawing power

- (d) Return of 3 or more bills /cheques discounted within a period of 30 days
- (e) Devolvement of DPG instalments / Letters of Credit / Invocation of BGs and non-payment thereof within 15 days on three instances.

55.9.1 In respect of accounts categorized as SMA-0,

- Branch shall undertake visit to the unit as well as to the collateral securities and address deficiencies if any
- In case unit visit throws up deficiencies in stock or in debtors such as piling up of receivables, elongated recovery period etc., branch shall conduct Stock & Receivable Audit
- Branch shall closely monitor cash flow into and from the account
- Branch shall conduct reverification of all the documents to ensure their genuineness and enforceability
- Branch shall re-ensure security perfection by verifying ROC / CERSAI / Others
- Branch shall contact/conduct visit to high value debtors and suppliers to evaluate stress in borrower's business.
- An action plan for revival /restructuring/phased exit shall be prepared and acted upon.
- Wherever the default is due to temporary problems, branch shall extend suitable support to the borrower to come out of SMA status at the earliest.

These points are applicable to loans other than 'Loans in the nature of revolving facilities like Cash Credit/ Overdraft'.

55.9.2 In respect of SMA-1 accounts,

- (a) Conduct investigative audit to identify any financial irregularities.
- (b) Examine the possibility of any wilful default on the part of the borrower and initiate necessary action in this regard.
- (c) Examine symptoms that lead to red-flagging of the account and initiate necessary action in this regard.
- (d) Examine for repeated instances of non-cooperation by the borrower to identify the borrower as non-cooperative borrower.

55.9.3 In respect of SMA-2 accounts, branch shall ensure that

- (a) A legal notice of default shall be served on the borrower with copies to the personal / corporate guarantors seeking rectification of accounts / clearance of dues.
- (b) It shall be ensured that the assets under bank's charge are adequately insured and that the insurance is in vogue.

55.9.4 In respect of accounts under Multiple Banking Arrangement, where Bank has highest aggregate exposure and the account is SMA-2 with one or more Banks, branch shall initiate action to form Joint Lenders Forum (JLF) and ensure corrective action plan to improve status of the account, within the timelines stipulated.

55.9.5 In respect of accounts under Consortium Arrangement, where Bank is the leader and the account is SMA-2 with one or more Banks, branch shall initiate action to form Joint Lenders Forum (JLF) and ensure corrective action plan to improve status of the account.

- Even where an account is standard with the Bank, but is classified as SMA-2, by any other Bank, branch should intensify its efforts as applicable to SMA-2 accounts.

55.10 Wilful Defaulter

Banks classify certain borrowers as wilful defaulters and report their details to Reserve Bank of India and CRILC. The following are some of the cases where banks classify the borrower as wilful defaulter.

- Where the borrower, though having capacity to honour his obligation, has failed to do so, firm /company represented by proprietor / partner/ promoter directors of the company including wholetime directors / other directors in lieu of key managerial personal excluding Non-wholetime directors shall be classified as Wilful Defaulters.
- Where it is observed that a borrower has utilised the funds for purposes /activities or creation of assets other than those for which the loan is sanctioned, such action shall be identified as diversion of funds by the borrower and action shall be initiated.
- Where it is observed that a borrower has utilised the funds for purposes /activities unrelated to the operations of the borrower, against terms of sanction, such action shall be identified as siphoning of funds by the borrower and action shall be initiated.
- Where it is observed that a borrower has disposed off or removed or created further charge on assets offered as security to the Bank without the consent of the bank, such action shall be identified as alienation of assets charged and action shall be initiated against the borrower
- Where a non-group corporate guarantor or individual guarantor who has signed as guarantor on or after 09.09.2014 and has refused to settle the claim of the Bank despite having sufficient means in meeting the payment obligations, such action shall be identified as wilful default by the said guarantor and action shall be initiated.
- Where the guarantor is a group company of the wilful defaulting unit and it fails to honour the claim of the Bank, such action shall be identified as wilful default by the said guarantor and action is initiated.
- Where a borrower is identified as a Wilful Defaulter, it is to be ensured that no assistance /loans in any form shall be made available to him from the entire banking system.
- Where a borrower identified as Non-cooperative / where a company has on its board of directors, any of the wholetime directors/promoters of a non-cooperative borrowing company / any firm in which such a non-cooperative borrower is in charge of management of affairs is provided any fresh financial assistance, higher provision as applicable to sub-standard assets should be made.

In order to identify a borrower as a Wilful Defaulter, the branch has to collate necessary proof /records evidencing the incidence of wilful default by borrowers /proprietors /partners /directors /guarantors of the borrower firms /companies and declare them as wilful borrowers. A Committee called Wilful Defaulters' Committee (WDC) formed at the Head Office shall have to approve the proposal of classifying a person/ a concern as Wilful Defaulter, after which a Show Cause Notice (SCN) shall be issued to the defaulter. Any reply to the SCN shall be examined by the WDC and the defaulter shall be given an opportunity for personal hearing by WDC, whereafter, the decision of the Committee shall be communicated.

An order recording the fact of wilful default and the reason for the same shall be issued by WDC, once its decision is finalised. This decision of WDC will be reviewed by the Wilful Defaulters Review Committee (WDRC) and will either confirm or not confirm the decision taken by the WDC. Where the decision is confirmed, the same shall be informed to Reserve Bank of India and Credit Information Companies (CIC) for dissemination of the information.

Similarly, the names and photographs of wilful defaulters whose names shall be publicised, shall be approved by an authority not below the rank of a higher level executive and the same shall be reported to WDC.

No additional facilities shall be granted to the borrowers declared as wilful defaulters.

If the borrower had indulged in

- a) siphoning off funds to the detriment of the defaulting units
- b) assets financed have not been purchased /been sold and proceeds have been misused
- c) disposal or removal of movable properties which are offered as security without bank's knowledge, Criminal proceedings under section 403 shall be initiated.

Criminal Proceedings U/s 403/415 IPC shall be initiated against the wilful defaulters where it is found that there is a breach of trust or cheating, construed to have been committed by the borrower or his representative.

55.11 Recovery Process in NPA accounts

Where an account is classified as NPA, branch should take timely action either for recovery / upgradation of the account or should initiate legal action, by adopting multiple approaches.

After the account is classified as NPA, Branch should take all steps to enforce the security by enforcing SARFAESI Act / DRT / Civil Courts / Lok Adalat / IBC etc. While filing suit for recovery, branch shall make additional prayer for seeking declaration, under oath, by the borrower / guarantor of all assets that are not under pledge/ mortgage.

Simultaneously, branch should also look into One Time Settlement (OTS) / Negotiated Settlement (NS) / Sale of asset to Asset Reconstruction Company etc.

All liquid securities held as security /margin money shall be first appropriated. Shares pledged also shall be encashed duly following laid down procedure.

Wherever, an account is classified as NPA, branch has to ensure that following actions are initiated immediately to preserve and realize the value of security :

- Where post-dated cheques are issued by the borrower for recovery of instalments and the cheques are returned unpaid upon presentation, Branch should immediately proceed with filing a case under Section 138 of NI Act.
- Where ECS mandate is given and is not being acted upon by the paying Bank, the same has to be escalated to the higher authorities of the said Bank and where there is no response, to the Banking Ombudsman.
- Where property is mortgaged to the bank, the security documents are to be reviewed for any discrepancies or gaps and corrective action shall be initiated.
- Under consortium or otherwise, when an account becomes NPA, branch has to conduct immediate unit visit and pursue vigorously with other member banks for early recovery.
- Wherever, the securities in respect of an NPA account are under dispute, branch should obtain fresh legal opinion from Bank's empanelled advocate, other than the advocate, who has previously given legal opinion.

- Wherever recovery action is initiated under settlement / SARFAESI Act / sale or assignment of debt to ARCs/Banks / FIs / NBFCs, branch to get the securities revalued duly following bank's policy guidelines on Collateral Security Management.
- Branch should ensure that Insurance is in force and the sites where the stock is available are all covered under insurance.
- Bank to recheck whether its name is included as the loss payee in the insurance policies.
- Action under SARFAESI Act shall be initiated against all NPA accounts immediately after the account becomes Non-performing.
- Action under SARFAESI Act cannot be initiated only where the asset size is not exceeding Rs.1 lakh and where the security is an agricultural land.

55.12 Action Under SARFAESI

55.12.1 Notice under section 13(2)

Before issuing a notice under Section 13(2) of SARFAESI Act, branch should identify the assets charged to it and issue the notice within 30 days of the account becoming non-performing.

The notice shall be issued by the Authorised Officer designated by the Head Office and the notice shall give 60 days' time from the date of notice to discharge the liability in full.

The notice U/s 13(2) shall indicate to the borrower / mortgagor / guarantor that in the event of his failure to pay the amount within 60 days of notice, the Bank may exercise the following rights:

- a) take possession of the secured assets, including the right to transfer by way of lease, assignment or sale for realizing the secured asset
- b) takeover the management of the secured asset
- c) appoint any person for management of the said asset
- d) demand the amount in writing from any person who has acquired any of the secured asset from the borrower and from whom the amount is due, so much of the money as is sufficient to pay the secured debt.

Branch should obtain acknowledgment of receipt of notice U/s 13 (2) from the borrower and guarantor and keep the same on record. If any one of the persons to whom notice is issued refuses to accept the same, the same should be sent by Registered Post Acknowledgement Due.

After serving the notice U/s 13 (2), a representation / objection is received from the borrower/ mortgagor/ guarantor U/s 13(3) of SARFAESI Act, in reply to the above notice, branch shall reply within 15 days from the date of receipt of such representation / objection.

Notice U/S 13(4) is called Possession notice. This notice also shall be given to the mortgagor, borrower and the guarantor and as mentioned in the above paragraphs, acknowledgement from all of them shall be obtained and kept on record. Where any one of the persons to whom notice is served refuses to accept the notice, the notice shall be sent by registered post acknowledgement due and a copy of the possession notice shall be affixed on the outer door or at a conspicuous place within the property. Possession notice shall also be published in two leading newspapers, one of which shall be in vernacular language.

A caveat shall be lodged before DRT/court, where any application or appeal challenging the Bank's action under Section 13(4) of SARFAESI Act is expected to be filed by the borrower/ mortgagor / guarantor or any other aggrieved party.

Where branch apprehends any resistance for taking peaceful possession of the secured asset, an application may be filed with the DM/CMM seeking assistance to obtain peaceful possession of the said asset.

Immediately after the expiry of statutory notice period of 60 days, branch should take all steps to take possession of the asset, the process which is explained hereunder:

- A panchanama should be taken duly witnessed by two persons, duly drawing the list of inventory.
- A copy of the panchanama shall be given to the borrower or his representative against his acknowledgement and if he refuses to receive the same, it shall be sent by registered post acknowledgement due to him.
- It is the responsibility of the branch to keep the assets taken under possession safe and secure, duly insuring the same for full value.
- Valuation of the assets thus obtained shall be obtained from the empanelled valuer.
- Based on the valuation, the reserve price shall be fixed.
- 30 days' notice of sale shall be given for sale of the assets.
- Branch shall give wide publicity through nearby branches and shall reach out to local contacts, industry associations, real estate agents etc., for participation in the sale process.
- Fresh valuation giving the Fair Market Value (FMV), Realisable Market Value (RMV) and Distress Sale Value (DSV) shall be obtained from the empanelled valuer, duly giving value of land and building separately and where the machinery is involved, its condition and potential use.
- Branch shall follow the laid down procedure under SARFAESI Act in obtaining quotations / inviting tenders / holding public auction, preferably through e-auction / private treaty.
- Where sale is made through public auction, a sale notice, duly mentioning the reserve price, shall be published in two leading newspapers, one of them being in vernacular language in that locality.
- A sale certificate in the standard format shall be issued to the successful bidder on receipt of the bid amount.
- In case of failure of auction, a 15 days' notice is given for re-sale, the reserve price is lowered, taking into account the realisable value of the asset and a fresh auction notice.
- In some cases, bank may acquire the immovable property under SARFAESI act by participating in the bidding process.
- Where the sale is made by private treaty, it has to be ensured that a confirmation shall be obtained from the purchaser regarding the price along with a token payment, which is at least not less than 10% of the sale price.
- Where the dues of the bank are not fully satisfied by appropriation of the sale proceeds of secured assets, steps shall be taken for recovery of balance amount of outstanding dues by pursuing the application filed before DRT.
- Branch shall recover all costs, charges, expenses incidental to the action taken under SARFAESI Act from the sale proceeds. Sale proceeds shall first be appropriated to charges, costs and expenses and then to the interest and principle.

55.12.2 Suit Filing

Another recourse available for bankers for recovery of the dues other than recovery under SARFAESI Act is approaching the court for recovery through legal process. Before filing suit,

- It should be ensured that documents are not time barred under Limitation Act 1963.

- It should also be ensured that the documents are complete in all respects, correctly stamped and signed by all concerned parties.
- Latest addresses with complete details of the borrower / proprietor / partners / guarantors shall be obtained to ensure serving of notices.
- List of legal heirs of the borrower / guarantor is updated.
- While filing suit in the court of law, it should be ensured that suitable prayers / interim relief (s) are incorporated in the plaint / petition / application.
- It should be examined whether prayers such as Attachment Before Judgement (ABJ) or restraint order or appointment of receiver be sought, depending on the availability of assets other than those charged to the Bank.
- Regular follow-up should be made with the lawyer representing the Bank in the case and date of next hearing shall be diarised.
- If the hearing is getting unduly delayed, branch head should meet the Honourable Judge and request him for early hearing of the case.
- Once when the preliminary decree is in favour of the bank, Execution decree shall be obtained at the earliest.
- When a case is decreed in favour of the bank, steps shall be immediately taken for obtaining the Recovery Certificate.
- The properties attached as per decree should be identified and details of such properties shall be furnished to the legal advisor.
- When execution proceedings of the recovery certificate have commenced, branch shall ensure attachment and sale of properties.
- Where the borrower has not paid the decretal amount, steps should be taken to declare him insolvent, wherever warranted.
- In case of death of the borrower / guarantor, the branch should substitute the deceased with the legal heirs of the deceased.
- Branch should take all steps to identify potential buyers for purchase of the decreed property.
- Where it is found necessary, branch should engage the service of a detective agency for ascertaining the whereabouts of the judgement debtors.

55.13 One-time settlement (OTS) / Negotiated settlement (NS)

- Proposal for OTS/NS shall be received in writing from the borrower except where the borrower is a PSU/ Govt. Undertaking.
- The proposal shall be accompanied by partial payment of the OTS /NS amount upfront at least upto 10% of the OTS /NS amount.
- Outcome of negotiations at each stage of negotiation shall be documented.
- Staff accountability study shall be conducted.
- The sources of funds for the borrower to bring the OTS amount shall be critically examined as it is vital for the success of the OTS.
- Where the guarantor sought release of his guarantee and where no collateral security is offered by him, latest Net Worth Certificate certified by Chartered Accountant shall be obtained.

- Where an OTS/NS proposal is under discussion in an account where SARFAESI action is initiated, SARFAESI action shall be deferred only after the settlement proposal is finalised.
- Where an OTS is considered favourably, sanction shall be communicated in writing and in duplicate, duly obtaining acknowledgement from borrower and the guarantor having accepted the terms of the OTS sanction.
- Where settlement terms are not adhered to and the package is revoked, the action against the borrower under SARFAESI is continued.
- OTS / NS settlement shall conclude within the timeframe specified in the OTS / NS sanction.
- In a case of accounts where legal proceedings are already initiated and where the settlement is spread over a period of more than 6 months, consent terms shall be filed with DRT / Court.
- Where the settlement amount is not fully paid by Expiry Date of the package, the borrower shall be informed regarding revocation of OTS / NS.
- Where the OTS / NS has failed, original dues shall be restored and part payments, if any, received shall be adjusted to the outstandings.
- Request for extension of time for settlement of OTS shall be entertained, only when such request is made before the due date of OTS.
- Where an extension of OTS/NS payment is considered, interest as stipulated in the Bank's guidelines for OTS/NS shall be charged for the period from the final due date for payment of OTS/NS till the actual date of payment.
- OTS amount shall be first appropriated to the principal dues, then towards the expenses and charges and then to the interest.
- ECGC / CGTMSE or such other agencies shall be informed about the Bank considering OTS / NS for the borrower.
- Where ECGC / CGTMSE / other claim is settled in an account where OTS / NS payment is received, share of ECGC/CGTMSE / Other claim received shall be remitted back in the proportion of claim received after deducting all admissible expenses pending for recovery.

ABBREVIATIONS

ABJ	Attachment Before Judgement
AGF	Annual Guarantee Fee
AH	Animal Husbandry
ANBC	Adjusted Net Bank Credit
AoA	Articles of Association
AoD	Acknowledgement of Debts
AoP	Association of Persons
APMC	Agriculture Produce Market Committee
AQB	Average Quarterly Balance
ATM	Automated Teller Machine
BAMS	Bachelor of Ayurvedic Medicine and Surgery
BC	Business Correspondent
BF	Business Facilitator
BDS	Bachelor of Dental Surgery
BEP	Break Even Point
BEP	Beneficiaries Empowerment Programme
BHMS	Bachelor of Homeopathic Medicine and Surgery
BL	Bill of Lading
BVSc	Bachelor of Veterinary Science
CBG	Compressed Bio Gas
CBRM	Community Based Recovery Mechanism
CBS	Core Banking System
CC	Cash Credits
CDP	Catalytic Development Programme
CEO	Chief Executive Officer
CEOBE	Credit Equivalent of Off-Balance Sheet Exposure
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CFA	Central Financial Assistance
CG	Central Government
CGST Act	Central Goods and Services Tax Act
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CGFSEL	Credit Guarantee Fund Scheme for Education Loan
CIC	Credit Information Company

CICRA	Credit Information Companies (Regulation) Act, 2005
CIN	Corporate Identification Number
CIR	Credit Information Report
CMA	Credit Monitoring Arrangement
CMD	Chairman and Managing Director
CMR	CIBIL's MSME Rank
CNG	Compressed Natural Gas
CRILC	Central Repository of Information on Large Credits
CRR	Cash Reserve Ratio
CTR	Creditors Turnover Ratio
DALC	Documents Accepted under Letters of Credit
DBP	Documentary Bills Purchased
DCC	District Consultative Committee
DCCO	Date of Commencement of Commercial Operation
DD	Demand Draft
DER	Debt Equity Ratio
DFL	Disease Free Layings
DIN	Director Identification Number
DLTC	District Level Technical Committee
DRT	Debt Recovery Tribunal
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
DSV	Distressed Sale Value
DTR	Debtors Turnover Ratio
ECGC-SAL	ECGC – Specific Approval List
ECS	Electronic Clearance Service
ED	Enforcement Directorate
EFI	Equated Fortnightly Instalment
EMI	Equated Monthly Instalment
EMV	Europay, Mastercard and Visa
EWI	Equated Weekly Instalment
ENWR	Electronic Negotiable Warehouse Receipt
FACR	Fixed Asset Coverage Ratio
FC	Fixed Cost
FI	Financial Institution

FLC	Foreign Letter of Credit
FMV	Fair Market Value
FOIR	Fixed Obligation to Income Ratio
FOM	Fermented Organic Manure
FPC	Farmer Producer Company
FPO	Farmer Producer Organisation
FTNPA	First Time NPA
FTR	Finished Goods Turnover Ratio
GMC	Gas Manufacturing Companies
GoI	Government of India
GSTIN	Goods & Services Tax Identification Number
HCV	Heavy Commercial Vehicle
HMV	Heavy Motor Vehicle
HAS	Hindu Succession Act
HUF	Hindu Undivided Family
IBA	Indian Banks' Association
ICD	Inter Corporate Deposit
ICDD	Identified Credit Deficient District
IIN	Issuer Identification Number
IMPS	Immediate Payment Service
IRR	Internal Rate of Return
ISO	International Organization for Standardization
ISRA	Interest Service Reserve Account
IT	Income Tax
ITR	Income Tax Return
IVR	Interactive Voice Response
JLG	Joint Liability Group
KCC	Kisan Credit Card
KVIC	Khadi and Village Industries Commission
KVP	Kisan Vikas Patra
L/C	Letter of Credit
LAD	Loan Against Deposits
LCV	Light Commercial Vehicle
LEI	Legal Entity Identifier
LIC	Life Insurance Corporation of India

LLP	Limited Liability Partnership
LMV	Light Motor Vehicle
LoI	Letter of Intent
LR	Lorry Receipt
LTV	Loan to Value
MBA	Multiple Banking Arrangements
MBBS	Bachelor of Medicine and Bachelor of Surgery
MCP	Micro Credit Plan
MFI	Microfinance Institution
MFPI	Ministry of Food Processing Industries
MLI	Member Lending Institution
MNRE	Ministry of New and Renewable Energy
MoA	Memorandum of Association
MoC	Ministry of Corporate Affairs
MoFPI	Ministry of Food Processing Industries
MoNRE	Ministry of Natural Resources and Environment
MPBF	Maximum Permissible Bank Finance
MSOD	Monthly Select Operational Data
MUDRA	Micro Units Development and Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NACH	National Automated Clearing House
NCA	Non-Current Asset
NCGTC	National Credit Guarantee Trustee Company
NGO	Non-Governmental Organisation
NHB	National Housing Bank
NHM	National Horticulture Mission
NOC	No Objection Certificate
NPA	Non-performing Asset
NPV	Net Present Value
NS	Negotiated Settlement
NSC	National Savings Certificate
NW	Net Worth
NWC	Net Working Capital
NWR	Negotiable Warehouse Receipt
OCC	Open Cash Credit

OD	Overdraft
OMC	Oil Marketing Company
OPC	One Person Company
OTS	One-time Settlement
PAC	Primary Agricultural Committee
PAN	Permanent Account Number
PDC	Post Dated Cheques
PF	Provident Fund
PIN	Personal Identification Number
PMEGP	Prime Minister Employment Generation Programme
PMFBY	Pradhan Mantri Fasal Bima Yojana
PM-KUSUM	Pradhan Mantri Kisan Urja Suraksha Evam Utthan Mahabhiyan
PMMY	Pradhan Mantri Mudra Yojana
PO	Pay Order
POA	Power of Attorney
PoS	Point of Sale
PSU	Public Sector Undertaking
PwD	Person with Disability
QIS	Quarterly Information System
RBI	Reserve Bank of India
RC Book	Registration Certificate Book
REGP	Rural Employment Generation Programme
REPP	Renewable Energy Power Plant
RERA	Real Estate Regulatory Authority
RMV	Realisable Market Value
ROC	Registrar of Companies
ROCE	Return on Capital Employed
ROE	Return on Equity
RPG	Renewable Power Generator
RR	Railway Receipt
RTR	Raw material Turnover Ratio
RW	Risk Weights
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SATAT	Sustainable Alternative Towards Affordable Transportation
SBLC	Stand-By Letter of Credit

SBP	Supply Bills Purchased
SCN	Show Cause Notice
SEBI	Securities & Exchange Board of India
SFAC	Small Farmers Agribusiness Consortium
SFMS	Structured Financial Messaging System
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SLR	Statutory Liquidity Ratio
SLUCC	State Level Unit Cost Committee
SMA	Special Mention Account
SOF	Scale of Finance
SR	Standard Rate
SRO	Sub-Registrar's Office
STR	Stock in Process Turnover Ratio
TCA	Total Current Assets
TDF	Tribal Development Fund
TNW	Tangible Net Worth
TOL	Total Outside Liability
TReDS	Trade Receivables Discounting System
UDIN	Unique Document Identification Number
UIDAI	Unique Identification Authority of India
VC	Variable Cost
WC	Working Capital
WCG	Working Capital Gap
WDRC	Wilful Defaulters Review Committee
WHR	Warehouse Receipt
Wef	With effect from
WT	Wealth Tax
WUA	Water User Association
y-o-y	Year over year
ZED	Zero Defect and Zero Effect

Bankers Institute of Rural Development, Lucknow

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