

Policy Guidelines for Servicing and Lending to Micro and Small Enterprises

1. Background

The Micro and Small enterprises contribute almost 50% of the total industrial output and 20% to the GDP. The sector not only contributes 40% of the value addition in the manufacturing sector but also significantly contributes to employment generation.

However, lending to MSE has its own challenges on account of diversity in operations, limited availability of professional accounting advisory and high dependence on owner's expertise and skill. In view of this, the Policy guidelines lay down a broad framework for lending to MSEs by the Bank

2. Bank's structure for supporting MSEs

All the bank's branches are networked to provide Anywhere Banking Services. The Branch Network is further supported by alternate channels like

- ATMs
- Internet Banking
- Phone Banking

The branch forms the centre to service the customer's day to day banking requirements. To cater to the lending requirements of the customer the respective relationship teams are based at the Branches/Area/Regional offices

3. Products and Services

The Banks aims to provide end to end support for all the business requirement of MSEs. Below is the indicative list of products and services available to the MSE customers

Products	Brief	Customer Segment
Working Capital Facilities		
Cash Credit/Overdraft	To meet the complete working capital needs of the business	MSEs
Foreign Trade Facilities		
Export Packing Credit	Finance is provided in Indian or foreign currency depending upon the need of the borrower.	Exporter
Post Shipment Credit		Exporter
Bill Discounting under LC	Bill discounting is available to bridge the short term finance requirements	Exporter
Business Expansion		
Term Loan	Fixed tenor loans for business expansions	MSEs
For Retail Outlets		
Merchant Enterprises Over draft/Term Loan	OD/TL against credit card receivables	Retailers, Hotels, Restaurants
Non Fund Facilities		
Letter of Credit	Bank extends Domestic and Foreign LCs and has a strong trade finance set-up.	All MSEs
Bank Guarantee	Banks issues various types of guarantees - performance, financial, bid bond etc.	Suppliers/Service Providers/Construction and others
Government Schemes/Subsidies		
Credit Guarantee Scheme	Collateral free loans under the Credit Guarantee Scheme of Credit Guarantee Trust are available for Micro and Small Enterprises	MSEs
Technology upgrade scheme of MoFPI	Being a nodal bank for the Ministry of Food Processing subsidy scheme for Technology up gradation, the bank would provide the assistance to the customers in processing their subsidy claims.	MSEs in Food Processing
Technology Up gradation Fund Scheme (TUFs)-Textiles	HDFC Bank being a co-opted Project Lending Institution (PLI) for the TUFs scheme of Ministry of Textiles and all eligible customers availing loan from the bank can apply for the subsidy through us	MSEs in Textile Sector
CLCSS –Credit linked capital subsidy scheme	Facilitate Technology Upgradation of units in the specified products / sub-sectors by providing 15 % capital subsidy for induction of well established and improved technologies	MSE'S as specified

4. Process for Lending to MSEs

a. Application

- i. Loan application forms are provided free of cost, along with a document checklist. Information pertaining to fees, prepayment charges and rates would be provided to the customers at the time of application.
- ii. All applications would be duly acknowledged in writing
- iii. No processing fees would be charged for working capital facilities up to 5Lakhs .

To ensure the application process is hassle free, we would normally collect all particulars required for processing the application for facility at the time of application. In case we need any additional information, we will contact the customer within seven working days from receipt of application, unless otherwise required due to transactional or regulatory requirements or assessment complexities

b. Evaluation and Assessment of limits

Customer appraisal is a process of evaluating various risks such as Management risk, Business risk, Financial risk, Transaction risk, Security risk, Regulatory risk etc for arriving at credit decision. In addition, the borrower grading used is an additional screen to evaluate the credit proposal. The grading model covers both quantitative/financial factors relating to Leverage, Interest Coverage, Profitability, Debt Service Coverage etc as well as wide spectrum of qualitative factors such as Integrity, Borrower's market position, Management competence, Expectation of future performance etc. Facility, tenor, security would affect the risk of the facility itself.

Illustratively, the financial indicators prescribed would be min Current Ratio of 1.50, continuous growth in sales / profits for last 3 years period, Interest service coverage of 4, Total Leverage of 1.5, owned funds in the business at twice the facility proposed, satisfactory banking conduct with nil over drawings, nil cheque bounces etc and standard asset classification of the potential obligor.

For small businesses, the fund based working capital facility are normally assessed at 20% of acceptable projected turnover and linked to the borrower's operating cycle so that facilities are need based.

5. Pricing

- Interest Rate and other charges would be as per the sanction terms as detailed in the Sanction Letter for the facility, duly acknowledged by the customer.
- Working capital facilities would normally linked to the prevailing base rate.
- The pricing for certain facilities like foreign trade services are guided by RBI stipulations on subvention, tenors, amount etc, wherever applicable.
- Increase in the Fees/Charges would be notified through our website/Account statements/email/sms/notice at the branches, 30 days prior to the effective date of such increase.
- The Base rate would be available on the website for reference and would be updated within seven days of change.

6. Security

The facilities offered by banks would be secured by primary security and collateral security, wherever applicable. The evaluation and acceptability would be as per the credit policy decided by the Bank from time to time. All assets given as security should be insured to the fullest.

Collateral Free loans for limits upto Rs. 10 lacs: The bank has in place retail lending programmes, which cater to small ticket advances on collateral free basis upto Rs. 10 lacs through various specific offerings.

7. Post disbursement

a. Change in interest rates : The bank would intimate the customer regarding interest rate changes within seven days of the change through any or all of the following modes

- i. Letter
- ii.SMS/E-Mail
- iii. Notification on Website

b. Servicing of existing accounts

- i. Convey our consent or otherwise within two weeks of receipt of a request for transfer of the borrowal account, either from the customer or from the bank / financial institution that proposes to take over the account.
- ii. Release all securities on receiving repayment of loan immediately and in any case not later than 25 working days subject to any legitimate right or lien for any other claim we may have against you.
- iii. Grant the customer increase in the drawing power within 96 hours of lodgment of stock and book debt statement
- iv. Bank would provide authenticated copies of all loan documents with a copy of enclosures, as quoted in the loan document
- v. All working capital accounts would be sent a regular bank statement. Customers can also request for Interest statements, wherever applicable, preferably within a period of 2months
- vi. Effect pledges/deliveries on priority upon receiving your request.
- vii. Permit pre-payment of fixed rate loans upto Rs 50 Lakhs without any pre-payment penalty and floating rate loans without levying any pre-payment penalty, provided the pre-payment is from self-owned sources.

8. Monitoring and Due Diligence

All businesses entities having credit facility with the bank would be subject to regular monitoring as per the policy. These include, visits to Administrative offices and Manufacturing facilities, Regular stock statements assessments and Stock Audits , Monitoring churn in the account and other account conduct parameters like over drawings, Cheque bounces, Interest Servicing and EMI servicing

9. Related Policies

These guidelines should be read in conjunction with related policies formulated by the bank from time to time. The indicative list of the related policies are listed below

- Citizen's Charter : Rights and services a customer is entitled to receive as an HDFC Bank Account holder
- Cheque Collection Policy
- Customer Compensation Policy
- Grievance Redressal Policy
- Model Policy on Collection of dues and Repossession of Security
- OTS (One-Time settlement)
- Re-habilitation policy