

Policy for Lending to Micro, Small and Medium Enterprises (MSME) Sector

1 Definition of MSME:

The definition of MSMEs shall be as given in the Master Direction – Lending to Micro, Small & Medium Enterprises (MSME) Sector FIDD.MSME & NFS.12/06.02.31/2017- 18 dated July 24, 2017 as updated from time to time. All bank loans to MSMEs shall qualify for classification under priority sector lending.

2 Classification of Enterprises:

In terms of Gazette Notification S.O. 1364 (E) dated March 21, 2025, an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria viz.,

- (i) Micro Enterprises - where the investment in plant and machinery or equipment does not exceed ₹2.5 crore and turnover does not exceed ₹10 crore;
- (ii) Small Enterprises - where the investment in plant and machinery or equipment does not exceed ₹25 crore and turnover does not exceed ₹100 crore; and
- (iii) Medium Enterprises - where the investment in plant and machinery or equipment does not exceed ₹125 crore and turnover does not exceed ₹500 crore.

3 Composite criteria of investment and turnover for classification:

- (i) A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium.
- (ii) If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.
- (iii) 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.

4 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.

5 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) PAN and GSTIN shall be mandatorily obtained.

6 Value of Plant and Machinery or Equipment:

The online form for Udyam Registration captures depreciated cost as on 31st March each year of the relevant previous year. Therefore, the value of Plant and Machinery or Equipment for all purposes of the Notification No. S.O. 2119(E) dated June 26, 2020 and for all the enterprises shall mean the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not cost of acquisition or original price, which was applicable in the context of the earlier classification criteria.

7 Change in Status of MSME:

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 reclassification 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.

Other aspects relating to registration of enterprises, grievance Redressal, etc. are mentioned in the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

8 Common guidelines/Instructions for lending to MSME sector:

- a) **Udhyam Registration:** All the above enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. For PSL purposes banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC).

Retail and Wholesale trade are included as MSMEs for the limited purpose of priority sector lending and are allowed to be registered on Udyam Registration Portal.

The certificate issued on Udyam Assist Portal (UAP) to Informal Micro Enterprises (IMEs) shall be treated at par with Udyam Registration Certificate for the purpose of availing Priority Sector Lending benefits. IMEs with an Udyam Assist Certificate shall be treated as micro enterprises for the purpose of PSL classification.

- b) **Collateral:** As per the RBI Master circular RBI/ 2013-14/ 96 dated July 1, 2013 and Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 (as updated from time to time), Bank is mandated not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector. Bank may also extend collateral free loans upto Rs 10 lakh to all units financed under Prime Minister Employment Generation Programme of KVIC. However, Bank may aim to take primary security for exposures more than Rs 1 lakh.
- c) **Flow of credit to Micro and Small Enterprises for facilitating timely and adequate credit flow during their 'Life Cycle':**

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle, the Bank shall adhere to the guidelines issued by the Reserve Bank of India (RBI) vide circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 and as updated from time to time.

Timeline for credit decisions for loans up to ₹25 lakh to units in the MSE borrowers shall not be more than 14 working days. All categories of loan proposals (including priority sector credit) of above Rs. 25 lakhs (Rupees Twenty-five lakhs) for fresh / enhancement /renewal shall be disposed of within a period of 30 days from the date of receipt of loan proposal complete in all respects. Bank shall ensure to dispose of the proposal within the timeframe. All credit related information pertaining to MSMEs including timelines for credit decisions, indicative document checklist etc., shall be displayed under a separate tab prominently on the bank's website.

- d) Turnover method of assessment of SME loans shall be applied only to loans up to Rs. 5.00 crore as suggested by Nayak Committee. Under this method, a projection of annual turnover of the borrower shall be made and the working capital finance upto 20% of the projected annual turnover would be considered for approval.
- e) **Mechanism for monitoring the credit growth to the MSE sector:**

The Bank shall put in place a structured mechanism to monitor the entire gamut of credit related issues pertaining to the MSE sector. Accordingly, the Bank shall implement the following:

- (i) **Credit Proposal Tracking System (CPTS):** The Bank shall put in place a CPTS/ equivalent tracking mechanism to facilitate central registration and a system of e-tracking of all MSME loan applications. This mechanism shall automatically generate an acknowledgement of the application, having a unique application serial number for both physical and online applications. Further, it shall also be ensured that the acknowledgement and status of the application is sent automatically to the applicants.
- (ii) **Indicative check list of documents:** The Bank shall furnish the MSME borrowers with an indicative checklist of documents required for processing the loan application at the time of applying for the loan.
- (iii) **Monitoring the loan application disposal process:** The Bank shall monitor the loan application disposal process and pendency beyond sanction time norms at appropriate levels under Credit Underwriting on a quarterly basis.

The position in this regard shall be displayed by the Bank on its websites in the prescribed RBI format within one month from the end of the preceding quarter.

- (iv) **Reasons for rejection of loan applications:** Bank shall take due care that proper appraisal is carried out for all eligible loan proposals and suitable reasons for rejections shall be properly documented for rejected applications.
- (v) **Comprehensive Performance MIS:** Banks shall implement a system-driven comprehensive performance management information system (MIS) at supervisory levels under appropriate team as per SOP and the performance should be critically evaluated on a regular basis. The credit flow to the sector shall also be reviewed by the Board annually.
- f) **MSE Code:** The Bank shall adopt the Code of Bank's Commitment to Micro and Small Enterprises as prescribed by Banking Codes and Standards Boards of India (BCSBI) in collaboration with the Indian Banks' Association (IBA), Reserve Bank of India (RBI) and member banks. The Bank shall ensure compliance with guidelines prescribed under MSE Code issued from time to time.

9 Factoring Transactions:

- (i) 'With Recourse' Factoring transactions by bank which carry out the business of factoring departmentally wherever the 'assignor' is a Micro, Small or Medium Enterprise would be eligible for classification under MSME category on the reporting dates.
- (ii) In terms of paragraph 9 of Circular DBR.No. FSD.BC.32/24.01.007/2015- 16 dated July 30, 2015 on 'Provision of Factoring Services by Banks- Review', inter alia, the borrower's bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the 'factors' must intimate the limits sanctioned to the borrower and details of debts factored to the bank concerned, taking responsibility to avoid double financing.
- (iii) Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

10 Export Credit:

- (i) All Export Credit under MSME sector are allowed to be classified as Priority Sector Lending.
- (ii) Export Credit includes Pre Shipment and Post Shipment export credit (excluding off balance sheet item) as defined in Master Circular on Rupee / Foreign Currency

Export Credit and Customer Service to Exporters issued by Department of Regulation, RBI vide DBR No.DIR.BC.14/04.02.002/2015-16 dated July 1, 2015 and updated from time to time.

11 Khadi and Village Industries Sector (KVI):

All loans to units in the KVI sector will be eligible for classification under the subtarget of 7.5 percent prescribed for Micro Enterprises under priority sector.

12 Other Finance to MSMEs:

- (i) Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that confirm to the definition of MSME.
- (ii) Loans to entities involved in assisting the decentralized sector in the supply of inputs and marketing of output of artisans, village and cottage industries.

- (iii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
- (iv) Loans sanctioned by bank to NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognized SRO for the sector for on-lending to MSME sector, borrowers being individuals and members of SHGs/ JLGs as per the conditions specified in para 22 of the RBI Master Direction.
- (v) Loans to registered NBFCs (other than MFIs) for on-lending to Micro & Small Enterprises up to Rs.20 lakh per borrower as per conditions specified in para 22 of the RBI Master Direction.
- (vi) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals.
- (vii) Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
- (viii) Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.
- (ix) Export credit to the MSME sector, including pre-shipment and post-shipment export credit (excluding off-balance sheet items) as defined in the Master Circular on Rupee/Foreign Currency Export Credit and Customer Service to Exporters, issued vide DBR No.DIR.BC.14/04.02.002/2015-16 dated July 1, 2015 and updated from time to time.

13 Framework for Revival and Rehabilitation of MSMEs:

In order to provide a simpler and faster mechanism to address the stress in the accounts of Micro and Small Enterprises (MSMEs), the Government of India, vide their Gazette Notification dated May 29, 2015 had notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Accordingly, our Bank has already been adopted this framework and is captured in the Stressed Asset Management & Recovery (SAMR) Policy of the Bank. The Bank shall be guided by RBI vide their circular no. FIDD.MSME & NFS: BC. No. 21/06,02.31/2015-16 dated March 17, 2016, Circular No. FIDD.MSME & NFS.BC.No.21/06.02.31/ 2015-16 dated March 17, 2016, RBI vide circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019 as amended from time to time.

The provisions made in this framework shall be applicable to Micro, Small & Medium Enterprises (MSMEs) having loan limits up to Rs.25 crores, including accounts under consortium or multiple banking arrangement (MBA).

The policy also covers Restructuring of loan accounts having exposure up to Rs.25 crores. Restructuring of loan accounts with exposure of above Rs.25 crores will continue to be governed by the circular RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19 dated 07.06.2019.

The detailed guidelines of the Bank on 'Framework for Revival and Rehabilitation of MSMEs' is provided in the Stressed Asset Management & Recovery (SAMR) Policy of the Bank.