Appendix I

For Internal Circulation Only

Loan Policy

Financial Year 2020

Small Industries Development Bank of India

Risk Management Vertical, Mumbai

Index

LOAN POLICY – FY 2020

1 OVERVIEW

1.1 PREFACE

The significant role played by the Micro, Small and Medium Enterprises [MSMEs] in the Indian Economy is well known. MSMEs make significant contributions to India's Gross Domestic Product [GDP], manufacturing output, exports and employment generation. The MSME sector is the second largest contributor to country's GDP. MSMEs also help address geographic disparities through dispersal of entrepreneurial activities. They are considered to be the nurseries for entrepreneurship, often driven by individual creativity and innovation. MSMEs are important for the national objectives of growth with equity and inclusion.

In order to address the challenges of the MSMEs to scale up their performance and competitiveness, the Bank has adopted a multi-pronged approach to meet their requirement of capital, term credit, working capital, receivable finance, infrastructure (in clusters), etc., through various instruments/products of assistance.

1.2 FRAMEWORK OF THE LOAN POLICY

The Policy lays down the broad approach, which the Bank adopts in respect of different credit processes, credit risk management, control and monitoring and is supplemented by specific circulars, manuals, guidelines issued from time to time. The policy will be amended from time to time in the light of changing business and economic environment and will be reviewed annually.The focus of the Loan Policy is on quality asset growth coupled with growth in net income in each segment of business while maintaining the focus on customer needs.

The Loan Policy covers all lending of the bank in rupee as well as foreign currency. Operations under Bank's Treasury, Fund of Funds and Promotional & Development activities are excluded from the purview of this policy[1].

The Bank would provide financial assistance to MSMEs for the eligible activities, irrespective of the nature of constitution of the enterprise. Accordingly, assistance could be extended by the Bank to an individual, proprietorship, association of persons, partnership firm, limited liability partnership, company, society or trust.

[1]Exposure caps would be applicable to Credit operations and Treasury

1.3 OBJECTIVES OF THE LOAN POLICY

The broad objectives of the Loan Policy of the Bank are outlined hereunder:

(i) To build and sustain a high quality portfolio well diversified in terms of clients, markets and products with an acceptable risk adjusted yield.

(ii) To establish a comprehensive credit strategy to fulfill the corporate mandate as per the SIDBI Act, 1989, amended from time to time, and undertake all such activities, directly or indirectly, that supports the MSME sector.

(iii) To pursue product innovation by the Bank based on market requirements.

(iv) To promote inclusive growth through micro finance.

(v) To strengthen the risk management systems for appropriate pricing of credit risks and ensure close monitoring of the credit portfolio.

(vi) To build strong alliances with intermediaries for tapping new business areas.

1.4 OVERVIEW OF LOAN POLICY

The strategy for lending takes into account the Bank's approach for developing a healthy credit portfolio, its management and risk mitigation. Accordingly, the Loan Policy of the Bank broadly covers the following aspects:

- Credit Management Policy
- Credit Risk Management
- Business Policy of Verticals

1.5 VALIDITY/ AUTHORITY OF LOAN POLICY

The Loan Policy is the principal document for the credit operations of the Bank, duly approved by the Board of Directors and is expected to serve as the guiding document for lending operations of the Bank.

This Loan Policy shall remain in force till the next revision is carried out and disseminated, which will be on annual basis.

All Verticals / Operating Offices shall act upon this Policy. Clarifications / further guidelines, if needed, would be issued by Risk Management Vertical (RiMV)/concerned Business Vertical.

The Loan Policy guidelines will be applicable to all the facilities extended to various customers.

The Bank will abide by all the guidelines, directives and advices of Reserve Bank of India as may be in force from time to time. The product verticals would align their guidelines/ master circulars relating to the products, procedural aspects of credit appraisal, processing, sanction, documentation, etc. with the Loan Policy framework.

2 CREDIT MANAGEMENT POLICY

The business development strategy would be supported by a prudent Credit Management Policy. The market demand to improve products & processes would be balanced with exercise of sufficient control on the credit delivery processes so that exercise of prudence is not sacrificed.

2.1 MICRO, SMALL and MEDIUM ENTERPRISES

The definitions adopted for manufacturing and service sector activities are as indicated under Micro, Small and Medium Enterprises Development [MSMED] Act, 2006 as modified by Government of India [GoI] from time to time. The extant definitions under MSMED Act, 2006 are as under:

Enterprise Category	Manufacturing (Original Investment in P&M)	Services (Original Investment in Equipment)
Micro	Up to ₹25 lakh	Up to ₹10 lakh
Small	Upto ₹500 lakh	Upto ₹200 lakh
Medium	Upto ₹1000 lakh	Upto ₹500 lakh

For manufacturing enterprises, a list of equipments to be excluded for ascertaining the eligible investment in plant and machinery is notified under MSMED Act.

The activities being financed/to be financed by the Bank, would include enterprises eligible under the definition of MSMED Act, both manufacturing and service enterprises and also, other service sector projects as approved by the Bank with focused approach on the MSME linkages of the assisted projects.

The Bank also extends term loan to MSME units which would graduate out of the MSME category with the said assistance from the Bank subject to checks defined by the Product Vertical. No fresh assistance is granted to unts once they have graduated out of MSME category. In respect of working capital limits to such units, renewal is allowed as a one time measure subject to clear exit strategy.

2.2 THRUST BUSINESS AREAS

The Bank has identified the following to be the thrust business areas:

- Institutional lending viz. resource support / refinance to banks/ Financial Institutions [FIs], and non-banking financial companies [NBFCs], Small Finance Banks [SFBs], Micro Financial Institutions [MFIs], public financial institutions [PFIs] and public sector undertakings [PSUs] etc. benefiting MSME sector.
- Sectors under important missions of the Central Government such as “Make in India”,
- Green finance to promote environmental sustainability through energy efficiency, cleaner technologies and adoption of renewable energy etc.
- Contactless lending to existing MSE units
- Co-origination and Structured arrangement with Fintech / Smaller NBFCs
- Partnership arrangement with Original Equipment Manufacturers [OEM]s
- Partnership with Industry Associations
- Emphasis on small “New to SIDBI” [NTS] customers
- Direct Credit to Micro Enterprises through Partnership Arrangement under PRAYAAS.
- Co-lending with Banks and other financial intermediaries
- Direct assignment

While the Bank will maintain its emphasis on financing thrust areas, it shall continue to provide assistance to all eligible MSMEs to meet their various fund and non-fund requirements.

2.3 PRODUCT MANAGEMENT

2.3.1 Benchmarks for Sanction:

The benchmarks for sanction [BfS] as applicable to various products of the Bank are given in **Annexure I**. Relaxation cap has also been prescribed against BfS norms. Proposals upto the relaxation cap can be approved by the delegated authority. However, in respect of renewals at current level or reduced level, delegated authority may relax the BfS norms, beyond relaxation caps specified for the respective Committees, provided suitable risk mitigants are put in place.

Further, Central Credit and Investment Committee [CCIC] - CGM for proposals up to the delegation of Regional Credit, Settlement and Investment Committee [RCSIC], CCIC - DMD for proposals up to the delegation of CCIC-CGM and in other cases, Executive Committee [EC], can consider relaxations beyond the cap prescribed in the Policy [except Prudential Rating and sector specific norms as indicated in para 3.3.2] on the merits of individual credit proposals. However, such relaxation may be accorded only under exceptional circumstances and rationale for seeking such relaxations/deviations together with risk mitigation measures are suitably brought out in the appraisal memorandum.

Further, additional risk premium, if any to be charged for such relaxations, would be decided by the delegated authority.

2.3.2 Facilitation for Product Development / Innovation

The Bank has put in place a suitable mechanism to understand the business needs of the MSME customer / beneficiaries [including IFV and SFMC products] and address them swiftly. Accordingly, Product Innovation and Review Committee [PIRC] at the HO level would consider and recommend new products / approve test products and modifications to existing products/ processes.

Apart from the above, PIRC would also approve structuring of specific arrangements in a cluster or around a large corporate/ OEM where several MSMEs are expected to be benefited. Such arrangements could have different dispensations than those followed for regular credit products.

PIRC would function as per details given in Para No. 3.3.5 of the Enterprise and Risk Management (ERM) Policy.

2.3.3 Coverage under Guarantee schemes

The credit facilities to the eligible MSE customers may be generally covered under guarantee schemes operated by Credit Guarantee Fund Trust for Micro and Small Enterprises [CGTMSE], National Credit Guarantee Trustee Company [NCGTC], ECGC Limited etc., as applicable.

2.3.4 Cross-selling with Government Schemes

The products of the Bank would also be dovetailed with the schemes of GoI and State Governments, wherever feasible, to improve the viability of the assisted projects and growth in overall asset base of the Bank.

2.4 PROCESS MANAGEMENT

2.4.1 Delegation of Powers

The key tool for managing the internal processes of the Bank is the Delegation of Powers [DoP] to various committees and the individual functionaries of the Bank. It also puts in place suitable system of checks and balances in the credit and investment related decision processes.

2.4.2 Appraisal process

The credit proposals for term loan and working capital assistance to MSMEs would be appraised in Credit Appraisal and Rating Tool [CART]. However, credit proposals falling under Secured Business Loan [SBL], asset light[2] and other cash flow based financing categories, infrastructure and any other new products may be appraised outside CART in Detailed Appraisal Note [DAN].

The Bank also delivers a contactless solution for dispensing faster credit to existing MSMEs units through digital lending platform for loans between ₹10 lakh to ₹100 lakh. Under this dispensation, the appraisal is carried out based on the preliminary Credit Appraisal Memorandum [CAM] generated in the platform and the Due Diligence Report [DDR] prepared by the branch.

The Bank’s current guidelines on due diligence with regard to obtaining satisfactory credit reports, undertaking visits, due diligence of suppliers /contractors etc., checking of CIBIL/Credit Information Companies [CICs] database for consumer/commercial credit information reports, CIBIL MSME Ranking [CMR] (wherever available), KYC and AML norms, checking of RBI defaulters list, and CRILC database, caution advices etc.,

[2]Projects in the service sector which do <u>not</u> create substantial tangible fixed assets and invest in light assets but generate comfortable cash flows.

guidelines on connected lending, multiple banking arrangements, NOC from existing lenders, etc., wherever applicable, shall be followed.

No additional facilities would be granted by the Bank to the wilful defaulters as identified by it and those appearing in the list as published/disseminated by RBI/CICs. In addition, such companies/entities (including their entrepreneurs / promoters) where the Bank has identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions would be debarred from the Bank's exposure for floating new ventures for a period of 5 years from the date of removal of their name from the list of wilful defaulters.

In compliance with the Policy Guidelines on KYC Norms and Anti Money Laundering [AML] Standards, the process of risk categorization of customers has been put in place depending upon their activity, location, constitution, etc.

2.4.3 Fair Practices Code for lenders/ Code of commitment to Micro, Small and Medium Enterprises [MSMEs]:

Fair Practices Code for Lenders, as per RBI guidelines, has been adopted by the Bank and hosted on Bank's website. The Code sets out the guidelines for processing of loan applications, appraisal, disbursement, post-disbursement supervision, etc. A Grievance Redressal Mechanism has also been put in place to resolve the disputes arising out of the Fair Practices Code. The Bank has adopted the Code of Commitment to Micro, Small and Medium Enterprises of Banking Codes and Standards Board of India [BCSBI].

3 CREDIT RISK MANAGEMENT

In terms of RBI guidelines the banks should have a robust Credit Risk Management (CRM) system which is sensitive and responsive to the credit risks emanating from its dealings with individuals, corporates, banks, FIs or sovereign. According to the guidelines, banks have to devise a risk management framework oriented towards their requirements, dictated by size, complexity of business, risk philosophy, marketing perception, etc.

The dimensions of credit risk to which the Bank is exposed to fundamentally emanate from exposure to MSME enterprises/ sector which are characterized by weaknesses in corporate structure, systems, accounting standards, lack of availability/ reliability of information and vulnerability to external developments, risk concentration in exposure to the MSME sector.

3.1 CREDIT RISK STRATEGY

In line with the strategy for managing risks in the credit portfolio, following tenets have been incorporated in the Loan Policy:

a. Monitoring exposure to SFCs/ SIDCs as a percentage of total portfolios.

b. Use of internal rating models to measure credit risk for majority of the customer categories.

c. Risk control, *inter alia*, through implementation of exposure limit framework for different segments of customers.

d. Implementation of processes to ensure that initiative to increase lending by innovation in products, target clients, etc., does not lead to deterioration of the asset quality of the Bank's portfolio.

e. Installation of an enabling framework capable of grading the risk and eventually linking pricing to internal ratings as suited to the Bank's requirements.

3.2 RISK MEASUREMENT

3.2.1 Internal Credit Rating Systems –

The Bank uses Credit Appraisal and Rating Tool [CART] to process loan proposals [Greenfield and existing units] and rating of loan proposals received from existing units fulfilling certain criteria.

For loans outside the purview of rating in CART, Risk Assessment Models [RAMs] are being used.

For dispensation through the contactless lending platform, rating is carried out as per scoring model hosted on the website. Rating under CART / RAM is not applicable in such cases.

Proposals for Resource Support to NBFCs shall be rated through a scoring model card for NBFCs. Score card shall mean a scoring template defined under the scheme.

3.2.2 External Rating –

In respect of MSME-RFS limits and resource support to NBFCs & MFIs, External Rating (Bank Loan Rating - BLR) by RBI accredited credit rating agencies is considered for the purpose of eligibility and pricing with minimum specified external rating grade.

Further, all credit proposals for assistance from the Bank and renewal or enhancement of fund / non fund based limits with aggregate exposure above ₹50 crore will be considered with applicable BLR by an RBI accredited credit agencies as per the External Rating Framework for Direct lending to MSMEs modified from time to time.

3.2.3 **Investment Grades –**

Proposals with internal obligor risk rating at the time of appraisal between S1 to S8 in RAM [equivalent grade in CART] are considered as 'investment grade' i.e. suitable for extending credit facility.

In respect of MSME-RFS limits and resource support to NBFCs & MFIs, investment grade has been defined in the respective scheme.

3.3 RISK MITIGATION

3.3.1 The present credit risk mitigation strategies in vogue would be continued which are primarily being applied at two levels. At the project specific level [transaction level], efforts are made to identify critical risk factors and suitable mitigation measures are explored and stipulated, wherever possible. Risk rating would be used for objective grading of risk. At the portfolio level, the Bank has been following a strategy of exposure management and prudential caps on credit exposures under various activity/ industry /type of customer.

3.3.2 **Higher investment grade ratings – Select Sectors -** In view of relatively high delinquency levels in certain sectors, the Bank would adopt a cautious/selective approach for financing under these sectors with better risk mitigation. Currently these sectors are textiles, drugs & pharmaceuticals, hotels, leather & leather products, food & food products, power including windmill & solar, hospitals and iron & steel. Metal & metal products, textiles, plastic. Higher investment grade ratings have been stipulated in these sector for greater selectivity and credit quality as indicated in **Annexure – II** with minimum internal rating grade and compliance of other conditions specified. The list may be modified during the year based on review of stress / NPA performance and other factors.

3.3.3 **Restricted industries** - The extant instructions for a cautious approach in respect of industries such as chemical dyes & dye intermediates, industrial oxygen, distilleries, etc., would continue. Assistance to deserving units in the list could be considered if they have an internal obligor risk rating of S7 or above. Industries consuming / producing ozone depleting substances viz. Chlorofluorocarbons [CFCs], Halon, Carbon tetrachloride, Methyl chloroform, Hydrobromo-fluorocarbons [HBFCs), hydrochloro-fluorocarbons [HCFCs], Methyl bromide, Bromochloromethane (BCM), etc., would **not** be assisted at all.

3.4 PRICING

In the existing scenario of dynamic interest rates, competition and the need for the Bank to expand the direct finance portfolio with addition of quality assets, a dynamic pricing strategy has become *sine qua non*. The pricing of loans is carried out as per the gradation of risk determined by the internal ratings for various customer segments. With a view to remaining competitive in the market, the existing practice of fixing the interest/ discount rate depending upon competitiveness/ demand, asset cover and such other factors, may continue. As regards assistance sanctioned to infrastructure projects and such other projects under joint finance/ consortium arrangement, the interest rate stipulated by the lead institution/ other banks would normally be followed.

In case of projects involving multiple/joint/consortium financing, interest rate reset clauses would be in line with other banks/ institutions.

3.5 MANAGEMENT OF ASSET CONCENTRATION

3.5.1 Exposure Caps and Counterparty / Activity / Industry exposure

Asset concentration is being managed by the Bank by way of various exposure caps/ norms for credit deployment which have been fixed, as under, taking into account the norms prescribed by RBI. Exposure cap has been defined for SIDBI on solo basis (as a % of capital funds of the Bank) and SIDBI group-wide (as a % of capital funds of the group). Such internal caps have been laid down in respect of different schemes of direct assistance and for various industrial sectors as summarized in the table at **Annexure – III**. The exposure caps are applicable on exposure taken from the banking book as well as Treasury.

3.5.2 Policy on Group Lending

The Bank considers assistance to large groups only under select schemes such as MSME-RFS, NBFC and Infrastructure Scheme. Decisions on sanction/ continuation of exposure on a concern whose group/ associate concern(s) has defaulted to the Bank and / or to other banks/ FIs are being taken on case specific merits. The practice would be continued and a final view on such cases would be taken by the delegated sanctioning authorities.

Further, SIDBI Group wide Exposure cap has also been defined in all the above scenarios.

BUSINESS POLICY OF VERTICALS

4 INSTITUTIONAL LENDING [INCLUDING ASSISTANCE TO MFIs]

Institutional lending portfolio of the Bank comprises predominantly of refinance to Scheduled Commercial Banks [SCBs], Small Finance Banks [SFB], Micro Finance Institutions (MFIs) and resource support to Non-Banking Financial Companies [NBFCs]. Keeping in view the significant contribution from the institutional lending portfolio for the performance of the Bank, it was felt necessary to have an independent broad framework for this activity. Accordingly, a separate policy covering broad framework for lending to Bank, SFBs, NBFCs and MFIs has been put in place. However, the benchmark norms and exposure norms would be as contained in the Loan Policy of the Bank.

In view of Bank's decision to phase out State Financial Corporations [SFCs] portfolio, SFCs are not eligible for refinance under Line of Credit. However, refinance could be considered to SFCs up to 40% of the actual repayment subject to compliance of various performance parameters decided by Bank. Further, the performance of the SFCs would continue to be monitored as per provisions of the SFCs Act, 1951.

The Bank is also not taking any fresh exposure to SIDCs / SIICs (including TFIDCs).

5 DIRECT LENDING TO MSMEs

5.1 ASSISTANCE UNDER SIDBI MAKE IN INDIA SOFT LOAN FUND FOR MICRO, SMALL & MEDIUM ENTERPRISES [SMILE]

The Central Government launched an ambitious 'Make in India' campaign in FY 2016 to make India a manufacturing hub and has identified 25 sectors under the 'Make in India' initiative. The Bank had launched "SIDBI Make in India Loan for Micro, Small & Medium Enterprises (SMILE) with a fund corpus of ₹10,000 croreto be met out of the Budget allocation. The objective of SMILE is to provide soft loan in the nature of quasi-equity and term loan on relatively soft terms to eligible new and existing MSMEs in India with endeavour to maximise utilisation of the fund.

5.2 ASSISTANCE FOR SUSTAINABLE DEVELOPMENT

The Bank has recognized sustainable development of the MSME sector as one of the high potential areas for strengthening the competitiveness of MSMEs in India. The Bank has been operating Lines of Credit from various multilateral/ bilateral agencies viz. KfW, Germany; JICA, Japan; AfD France; for financing investments in MSMEs with an objective to promote use of energy efficient and cleaner technologies, reduce CO2 emissions, promote and sustain renewable energy, encourage technology innovation, upscale demonstration and commercialization of innovative technology based projects.

- International/Multilateral Lines of Credit for Sustainable Finance: Recognizing the importance of Energy Efficiency [EE] & Cleaner Production [CP] in tackling the challenge of climate change and curtailing the demand for energy from fossil fuels, SIDBI has been operating Lines of Credit from various multilateral/ bilateral agencies. These EE/CP investments will result in energy savings and reduction in global Green House Gas [GHG] emissions. Besides, it also strengthens the competitiveness of MSMEs in India and in global markets.
- The 4E (End-to-End Energy Efficiency) - Solutions and Financing schemes: The End to End Energy Efficiency Solutions [4E Solutions] launched by SIDBI provides technical support to its MSMEs to improve their energy savings by availing the services of Technical Consultant / ESCOs at a reasonable cost with assurance on the quality of services.
- Partial Risk Sharing Facility (PRSF) for Energy Efficiency Project:The Bank is the Project Executing Agency (PEA) for the World Bank Project, viz. “Partial Risk Sharing Facility for Energy Efficiency (PRSF)”. The objective of the project is to support the GoI efforts to transform the EE market in India by promoting increased level of EE investments, particularly through energy service performance contracting (ESPC) delivered through ESCOs.

  Under the project, SIDBI (PEA) provides partial risk coverage to the extent of 75% of the loans given by Banks / FIs / NBFCs (including SIDBI loans) to ESCOs and ESCO-implemented projects. Minimum loan size eligible for coverage under PRSF is ₹10 lakh and the maximum loan eligible for coverage is ₹15 crore per project.

- Assistance for Technology Innovation Projects : Need for developing national capabilities to innovate and create business opportunities in emerging technology areas has been acutely felt as there continues to be a dearth of early stage funding for commercialization of innovations by MSMEs due to higher risks of investment in unproven technologies. The Bank has joined hands with Technology Information Forecasting and Assessment Council (TIFAC), Dept. of Science & Technology, GoI for implementing Technology Innovation Programme[SRIJAN Scheme].
- SIDBI has been accredited with Green Climate Fund (GCF), which has been set up within the United Nations Framework Convention on Climate Change (UNFCC). SIDBI can submit its own projects (to be implemented by SIDBI) or can act as an agent of GCF (to be implemented by other entities in India) for channelizing GCF funds. Further, SIDBI can effectively blend its own resources with the grants, concessional funding and other instruments available from GCF. This would help in scaling up of SIDBI's financing activities & developmental efforts in the area of sustainable development of MSMEs.

5.3 WORKING CAPITAL ASSISTANCE

Working Capital Assistance would be considered selectively to:

- existing customers who are solely banking with the Bank ;
- existing customers of the Bank (who are also banking with other banks) and have placed major share of immovable security with the Bank;
- existing well performing entities who are new to the Bank and do not enjoy working capital facility with any other bank;
- New entities where term loan is considered by the Bank.

Besides, takeover of Working Capital Limit [WCL] of existing customers of SIDBI may be considered selectively as a client retention strategy. However, if security pertaining to WCL are interlinked with any other term loan account with WCL banker, both the WCL and term loan could be taken over.

5.4 ASSISTANCE TO SERVICE SECTOR PROJECTS

5.4.1 Thrust Business Areas

While the Bank would consider support to all eligible service sector activities for faster asset growth during the year with emphasis on the following areas viz. Financing of trade and supply chain; Logistics & supply chain management; Organized retail outlets / Retail Chains/dealerships; Restaurants / food chains / Quick Service Restaurants etc.; Healthcare / Diagnostic Chains / Specialty Clinics etc.; Tourism related services; IT / IT enabled services; Franchisee chains of well known brands; Warehouses etc.

5.4.2 Approaches to finance Service Sector

The assistance to service sector is broadly divided into two categories viz. (a) asset backed term loan assistance and (b) term loan assistance to asset light service sector enterprises.

Asset backed assistance to service sector enterprises - Asset backed term loan assistance would include assistance towards projects involving substantial primary and /or collateral security in the form of fixed assets like immovable properties and equipment, etc. Warehouses and hotels would generally fall under this category.

Term loan assistance to asset light service sector enterprises - Some of the projects in the service sector do not create tangible fixed assets and invest in light assets and, therefore, may not meet security related norms of asset backed assistance, but these are found to generate comfortable cash flows. Proposals of deserving customers in these segments could be considered for Bank’s financial support based on merits.

5.5 ASSISTANCE FOR RECEIVABLE FINANCE

MSME Receivable Finance Scheme [MSME-RFS] is being operated by the Bank to mitigate the receivables problem of MSME sellers and improving their cash flow / liquidity.

RFS covers discounting/purchasing of bills/invoices arising out of sale of indigenous components/ parts/ sub-assemblies/ accessories/ intermediates manufactured/ job work done/ services provided by MSMEs and eligible service providers to Large Purchaser Corporates.

End-use of funds is verified by undertaking visits to select MSME beneficiary units and random verification of the purchased/discounted invoices/ bills to ensure utilization of funds as per objectives of the Scheme.

In order to improve the quality of overall portfolio, external rating is made mandatory under MSME RFS. Wherever possible, personal guarantees of directors would also be obtained for such facilities. More thrust is given for creating a portfolio of secured/partially secured limits and limits not backed by collateral security with external rating of 'AA (-)' and above. For existing customers, the thrust would be on retaining customers with a good track record.

5.6 PARTNERSHIP ARRANGMENTS

5.6.1 CO-LENDING WITH NBFCS

NBFCs specialize in meeting the credit needs of niche areas such as hire purchase, financing of physical assets, commercial vehicles and infrastructure loans. They cater to a wide range of financial activities particularly in areas where commercial banks have limited penetration. Further, the NBFCs are expected to play a main role in fostering inclusive growth, especially in sectors like MSMEs in the years to come. Accordingly, it is proposed to enter into Joint lending programme / arrangements with NBFCs for extending financial assistance in the form of term loans to MSMEs against a single common application for meeting their capital expenditure requirements.

5.6.2 DIRECT LENDING UNDER PRAYAAS - ASSISTANCE FOR DIRECT CREDIT TO MICRO ENTERPRISES UNDER PARTNERSHIP ARRANGEMENT

- With an objective to evolve and develop a market to extend credit (loans ranging from ₹ 0.50 lakh to ₹5 lakh) to micro borrowers at the bottom of the pyramid at competitive rates and with allocation of fund from RBI, Bank proposes to launch a Scheme under the name 'PRAYAAS' on all India basis with suitable partners viz. MFI / NBFC / Fintech / Banking Correspondents (BCs) etc. The Scheme also intended to help such microfinance clients who look forward to upscale/diversify their business but facing challenges to access affordable finance.
- Under the arrangement SIDBI would enter into an agreement with the Partner Institution (PI) wherein the PI would facilitate direct SIDBI lending to individual borrowers.
- With a view to make available low cost funds, SIDBI had requested RBI to allocate the undrawn balances under India Aspiration Fund for direct lending to micro enterprises under partnership arrangement. Reserve Bank of India while allocating the balance fund to SIDBI, advised to be guided by the extant applicable regulatory norms, besides ensuring the following:

i. Credit to be extended in only such cases where the interest rate charged to the ultimate borrower is reasonable, i.e. not more than SIDBI’s prime lending rate plus 300 bps.

ii. The entire credit to the borrower would be extended by SIDBI and the exposure of SIDBI would be on the individual client.

iii. To provide all the information like average amount of loan, interest rate and processing fees charged, margin etc. as and when called for by RBI.

5.6.3 CO-ORIGINATION OF LOANS AND STRUCTURED ARRANGEMENT WITH FINTECH / SMALLER NBFCs

The Bank provides affordable credit to MSEs by way of co-origination, specifically keeping in mind those MSEs which generally do not get access to finace from PSBs / SCBs in accordance with Bank’s and RBI guidelines in vogue.

Under such structured arrangement, existing well performing MSME entities would be financed by FINTECH / Small NBFCs and SIDBI under a co-lending / other arrangement as per credit model of FINTECH – NBFC stipulated by SIDBI.

6 CONCLUSION

Efficient credit delivery is the key to build-up of quality portfolio and customer retention. The Loan Policy gives adequate flexibility to develop viable business proposals. The Policy has also put in place a suitable structure for approval / clearance of new products. Hence, any business proposition considered to be viable and bankable should not be lost on account of non-availability of a suitable scheme/product. It will also be the endeavor of the Bank to further simplify and streamline procedures/processes to expedite the credit delivery besides making efficient use of IT for internal credit monitoring.

Annexure - I

Benchmarks for Sanction (BfS)

A. Term Loan

Sl. No.	Parameters	BfS Norm	Relaxation Cap
1	Prudential Rating	S8	No relaxation
2	Debt-equity Ratio (DER)[3]	3:1[4]	3 : 1
3	Promoters' contribution[5]		
	New entity[6]	33%	25%
	Existing entity[7]	25%	20%
4	Projected DSCR[8]	1.50	1.25
5	Fixed asset coverage Ratio (FACR)		
	New entity	1.00	0.90[9]
	Existing entity		
	Asset light & Cash-flow based	0.50	0.40
6	Asset coverage Ratio (ACR)		
	New entity	1.40	1.30
	Existing entity	1.30	1.20
	Asset light & Cash-flow based	1.30	1.00

B. Working Capital

Sl. No.	Parameters	BfS Norm	Relaxation Cap
1	Prudential Rating	S8	No relaxation
2	Interest coverage ratio (ICR)[10]		
	New entity	1.50	1.50
	Existing entity[11]	1.25	1.10
3	Fixed asset coverage Ratio (FACR)		
	New entity	0.75	0.75
	Existing entity		0.65
4	Asset coverage Ratio (ACR)		
	New entity	1.40	1.30
	Existing entity	1.30	1.20
5	Current ratio		
	New entity	1.25	1.10
	Existing entity	1.25	0.90
6	TOL to TNW ratio		

[3]For the company/entity as a whole after considering sub-debt [SD] and interest-free unsecured loans [IFUSL] as quasi equity

[4]4:1 for Fleets/Vehicles under logistics (Service Sector)

[5](a) Not applicable for secured business loan (SBL) & privileged customer scheme (PCS) **and** (b) 15% for proposals under SMILE

[6]A "New entity" is an entity newly set up/proposed to be set up. This would also include entities established in the past but with nil/ insignificant commercial production.

[7]An "Existing entity" is one which has already been established and is engaged in commercial production (with or without SIDBI's financial assistance)for minimum one year and audited accounts [for a full year] thereof are available.

[8]1.25 for service sector with no relaxation

[9]Applicable for customers having top 2 valid SME Credit rating/Bank loan rating of BBB+& above

[10] ICR = Earnings Before Deprecation, Interest and Tax [EDBIT] / Interest expenses

[11]Based on last audited accounts

Sl. No.	Parameters	BfS Norm	Relaxation Cap
	New entity	4:1	5:1
	Existing entity	4:1	6:1
7	Margin on stocks of raw materials, receivables/book debts etc.		
	New entity	30%	25%
	Existing entity	30%	20%

C. MSME – Receivable Finance

Sl. No.	Parameters	Secured (for renewal of existing limits)		Clean/ not backed by collateral	
		BfS Norm	Relaxation Cap	BfS Norm	Relaxation Cap
1	Prudential Rating	S8	No	AA-	No relaxation
2	Fixed asset coverage Ratio (FACR) [12]	0.75	0.65	Not applicable	
3	Asset coverage Ratio (ACR)[13]	1.25	1.10	Not applicable	
4	Current ratio				
	New customer	-	-	1.25	1.10
	Existing customer	1.25	0.85		0.90
5	Quick Ratio	0.50	0.40	0.50	0.40
6	TOL to TNW ratio				
	New customer	-	-	4:1	5:1
	Existing customer	4:1	6:1		6:1

D. Resource support to NBFCs[14] [Investment and Credit Companies]

Sl. No.	Parameters[15]	BfS Norm	Relaxation Cap
1	Prudential Rating	6 / A- and above	No relaxation
2	CRAR	>or =15%	>or =15%
3	Gross NPA	<10% for AAA	<10% for AAA
		<8% for AA	<8% for AA
		=< 6% for A	=< 6% for A
4	Net NPA	=<5% for AAA	=<5% for AAA
		=<4% for AA	=<4% for AA
		=<3% for A	=<3% for A

E. Small Finance Banks – Refinane to SFBs

Sl. No.	Parameters	BfS Norm	Relaxation Cap
1	Networth	> Or = ₹100 crore	> Or = ₹100 crore
2	CRAR	> Or = 15%	> Or = 15%
3	Gross NPA	< Or = 7 %	< Or = 7 %

[12] Not applicable in respect of proposals backed by LC / BG / Co-accpetance / 100% FD
[13] 1.00 for exposure backed by LC/ BG / Co-acceptance / 100% FD
[14] No exposure to Investment company
[15] Unless specified otherwise, credit ratings A, AA or AAA would include respective (-) & (+) ratings.

F. Micro Credit – Resource support to MFIs

Sl. No.	Parameters	BfS Norm	Relaxation Cap
1	Prudential Rating	MfR5	No relaxation
2	Debt-equity ratio (DER)	10:1[16]	10 : 1
3	CRAR[17]	>or =15%	>or =15%
4	Portfolio at Risk >90 days	<5%	<7%
5	Operational self sufficiency (OSS)	100%	90%

Note:

a. The Product Verticals would align their scheme norms / operational guidelines with the Loan Policy framework.
b. Relaxation of BfS norms within the cap may be considered for maximum **3 [three]** parameters. Additional risk premium, if any, to be charged for such relaxations, will be decided by the delegated authority.
c. In respect of renewals at current level or reduced level, the delegated authority may relax the BfS norms suitably provided proper risk mitigants are put in place. The exit strategy, if any, would be decided by the delegated authority.

[16] 15:1 for Section 8 companies and Societies/Trusts
[17] Applicable for NBFC-MFIs

Annexure –II

Higher investment grade ratings – Select Sectors

Sr. No.	Particulars of industry	Minimum obligor rating
1	Iron & steel industry	S7
2	Textiles[a]	S7
3	Drugs & Pharmaceuticals	S7
4	Hotels[b]	S6
5	Hospitals[c]	S6
6	Food & Food Products	S7
7	Leather & Leather Products	S7
8	Power sector projects	S6
9	Wind Mill/ Solar Projects[d]	S7
10	Deserving units in the restricted list of Industries such as Chemical dyes & dye intermediates, industrial oxygen, distilleries etc.	S7

a) Except knitting cluster at Tirupur.

b) Hotel projects may be considered with matching collateral outside the project. Since Hotel projects typically have a relatively higher implementation/ stabilization period, a sufficiently long repayment period with ballooning/ stepped-up schedule may be drawn with sufficient moratorium.

c) Hospital projects may be considered with matching collateral outside the project. Since Hospital projects typically have a relatively higher implementation/ stabilization period, a sufficiently long repayment period with ballooning/ stepped-up schedule may be drawn with sufficient moratorium.

d) Wind Mill/ Solar Projects may not be considered on standalone basis. However, such projects for captive use (>50% of installed capacity) may be supported subject to existing cash flows of the borrowing entity being adequate to service the proposed debt obligation and the proposed exposure being secured with collateral in the form of immovable property/ liquid security having value of at least 50% of exposure.

Annexure III

Exposure Caps

S. No.	Activity / Industry		Exposure cap for SIDBI on solo basis (as a % of capital funds of the Bank[18])	SIDBI Group wide[19] Exposure cap (as a % of capital funds of the Group[20])
1	**Individual / Borrower Group Exposure[21]**			
(a)	Direct assistance to MSMEs & specialized organizations marketing MSME products			
(i)	Single borrower		1%	1%
(ii)	Proprietorship entities		₹10 crore	₹10 crore
(iii)	Borrower Group exposure		3%	3%
(b)	NBFCs & private sector corporations			
(i)	Single borrower	Investment and Credit company[22]	10%	10%
		Others	10%	10%
(ii)	Borrower Group exposure		40%	40%
(c)	MSME Receivable Finance Scheme (MSME-RFS), direct resource support & such other form of bulk lending (except refinance and BRS) to public financial institutions, public sector undertakings and corporates			
(i)	Single borrower		15%	15%
(ii)	Borrower Group exposure		25%	25%
(d)	MFIs[23]			
(i)	Single borrower	NBFC-MFIs	10%	10%
		other MFIs	3%	3%
(ii)	Borrower Group exposure	NBFC-MFIs	15%	15%
		other MFIs	5%	5%
(e)	Partnership Institutions under Prayaas Scheme – Other than MFIs, NBFCs and SFBs			

[18] As per latest audited final accounts. As on March 31, 2019, the Capital funds of SIDBI was ₹15757.23 crore.
[19] Includes exposure from SIDBI, MUDRA Ltd., SVCL and STCL (wholly owned subsidiaries of the Bank)
[20] As per latest audited final accounts. As on March 31, 2019, the Capital funds of SIDBI group was ₹17975.40 crore.
[21] Exposure has been defined as existing outstanding, undrawn commitments / unutilized limit and proposed sanctions under all facilities [fund based and non fund based].
[22] No exposure to Investment company [IC]
[23] Includes exposure under partnership arrangement in respect of PRAYAAS scheme

S. No.	Activity / Industry	Exposure cap for SIDBI on solo basis (as a % of capital funds of the Bank)	SIDBI Group wide[24] Exposure cap (as a % of capital funds of the Group)
(i)	Single borrower	3%	3%
(ii)	Borrower Group exposure	5%	5%
2	MSME-RFS without collateral	30%	-
3	**Infrastructure activities / projects**		
(a)	Total portfolio[25]	10%	10%
(b)	Power sector including generation, transmission and distribution.	5 %	5 %
4	**NBFCs**		
(a)	Exposure cap: BBB and BBB- rated	₹100 crore	₹100 crore
(b)	Exposure cap: NBFC-MFIs	30 %	30 %
(c)	Overall Exposure cap	200 %	200 %
5	**Contribution to Venture Capital Funds**[26]	40 %	40 %
6	**Resource Support**[27]	50 %	50 %
7	Exposure cap in service sector projects	40 %	40 %
8	**Industry Exposure**		
(a)	Cap on exposure to a particular industry other than those at (b) below	10 %	10 %
(b)			
(i)	Transport Equipment (including Auto and auto components)	30 %	30 %
(ii)	Textiles / readymade garments and hosiery	30 %	30 %
(iii)	Engineering industry	30 %	30 %
(iv)	Electronics and electrical products	30 %	30 %
(v)	Agro based industries	30 %	30 %
9	**Direct Assignment business**	10 %	10 %
10	**Ceiling on Exposure in unsecured advances [including MSME-RFS without collateral at 2 above]**	100%	100%
11	**Individual bank/institution wise limit**		
	Refinance/Co-accepted Bills/ BRS/LOCFC/Resource Support [per institution]		
(a)	State Bank of India and Nationalized Banks	Individual banks / FI wise limit as approved by the Board	
(b)	Private sector banks/ foreign banks		
(c)	SFCs [per institution]	15%	-
(d)	SIDCs including TFIDCs [per institution]	1%	-
(e)	SSIDCs [per institution]	0.5%	-
(f)	Scheduled Co-operative banks	5%	5%
(g)	Non scheduled Co-operative banks	-	₹10 crore

[24]Includes exposure from SIDBI, MUDRA Ltd., SVCL and STCL (wholly owned subsidiaries of the Bank)
[25]Includes exposure to activities in various sub-sectors under infrastructure
[26] Subject to compliance with capital market exposure limit
[27] Excluding NBFCs

S. No.	*Activity / Industry*	*Exposure cap for SIDBI on solo basis (as a % of capital funds of the Bank)*	*SIDBI Group wide[28] Exposure cap (as a % of capital funds of the Group)*
(h)	*Regional Rural Banks [per institution]*	*2.5%*	*2.5%*
(i)	*Small Finance Banks[29]*	*15%*	*15%*
12	***Aggregate exposure to***		
(a)	*All SFCs (Aggregate)*	*₹2000 crore*	*-*
(b)	*All SIDCs including TFIDCs (Aggregate)*	*5%*	*-*
(c)	*State Bank of India and all Nationalized Banks (aggregate)*	*500%*	*500%*
(d)	*All FIs (aggregate)[30]*	*100%*	*100%*
(e)	*Private Sector Banks (aggregate)*	*700%*	*700%*
(f)	*Foreign Banks (aggregate)*	*200%*	*200%*
(g)	*Scheduled Co-operative banks (aggregate)*	*10%*	*10%*
(h)	*Non scheduled Co-operative banks*	*-*	*₹100 crore*
(i)	*Regional Rural Banks (aggregate)*	*5%*	*20%*
(j)	*Small Finance Banks (aggregate)*	*50%*	*50%*
13	*Intra Group Exposure*	*10% of paid up capital and reserves in case of regulated financial services company.*	
		20% of paid up capital and reserves in case of the group i.e. all group entities (financial and non financial) taken together.	

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[28] Includes exposure from SIDBI, MUDRA Ltd., SVCL and STCL (wholly owned subsidiaries of the Bank)
[29] Includes exposure in respect of partnership arrangement under PRAYAAS scheme
[30] Excluding SFCs and SIDCs