



Axis Bank Ltd.

Policy for lending to Micro and Small Enterprises (MSEs)

Introduction: The Micro and Small Enterprise (MSE) sector contributes significantly to manufacturing output, employment and exports of the country. MSE sector, in terms of value contributes for 45% of the manufacturing output and 40% of total exports of the country. Keeping in view the regulatory requirements, Axis Bank has initiated a focused approach to ensure flow of credit to the MSE sector. Our Bank follows the broad guidelines issued under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Herein below, we furnish the Bank's Policy on MSEs.

1. Definition: MSEs are broadly classified into two classes:

- a) **Manufacturing Enterprises:** Enterprises engaged in the manufacturing or production, processing or preservation of goods.
 - i) Micro (manufacturing) Enterprises – Original Investment in plant and machinery does not exceed Rs 25 lakhs.
 - ii) Small (manufacturing) Enterprises – Original Investment in plant and machinery is more than Rs 25 lakhs but does not exceed Rs 5 crores.

- b) **Service Enterprises:** Enterprises engaged in providing /rendering of services.
 - i) Micro (service) Enterprises – Original Investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs 10 lakhs.
 - ii) Small (service) Enterprises – Original Investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) is more than Rs 10 lacs but does not exceed Rs 2 cores.

Service Enterprises shall include small road and water transport operators, small businesses, professional and self employed persons, retail traders and all other service enterprises.

40% of the total advances to Small Enterprises sector should go to Micro (manufacturing) enterprises having investment in plant and machinery (original cost) upto Rs 10 lacs and Micro (service) Enterprises having investment in equipment upto Rs 4 lacs.

20 % of the total advances to small enterprises sector should go to Micro (manufacturing) enterprises with investment in plant and machinery above Rs 10 lacs and upto Rs 25 lacs, micro (service) enterprises with investment in equipment above Rs 4 lacs and upto Rs 10 lacs.

Thus 60 % of the Small Enterprises advances should go to the Micro Enterprises.

- 2. Bank's structure to serve the MSE sector in India** - The Bank provides finance to the MSE sector in India through 41 dedicated Centres/Cells well spread out throughout the country. We have a strong professional team placed at these Centres to evaluate the borrowers' needs and provide customized solutions.
- 3. Products and services** - We have created the following products exclusively for the MSE sector. These are template products, which follow a simple scorecard model for Rating, simple appraisal process, decentralized sanctioning powers, quick Turnaround Time (TAT) and offers wide range of facilities that include working capital, term loans & non fund based facilities. These are generally secured by collateral security. The Bank also provides traditional credit facilities like Cash credit/overdraft, Loan against Deposits/property, Bill discounting, Non fund based credit facilities, Export credit etc. to MSE borrowers through a few other templated products, as well as non-templated products.
 - MSE Power (MSEs-Manufacturing).
 - Micro Power (MSEs-Manufacturing & Services).
 - Service Power (Services).

Lending under CGTMSE scheme - Axis Bank already has a simplified templated Zero Collateral Loans (ZCL) product to sanction working capital & Term Loan facilities guaranteed by CGTMSE upto Rs. 1.00 Cr. to MSEs under this scheme. We are regularly sensitizing branch staff / field staff regarding Zero Collateral Loan product and on the CGTMSE scheme available with CGS cover upto 75% through workshops, trainings, e-mailers etc.

- 4. Processing of applications** - The application form for credit facilities can be downloaded from our Bank's website and is also available free of cost with our SME Centres.
 - i. Each SME Centre will issue an acknowledgement for loan application received from the prospective borrower.
 - ii. SME Centres maintain a register wherein the date of receipt of receipt of application, sanction/rejected with reasons etc.
 - iii. The applicant can find out the status of his application from the SME Center where he has tendered his application.
- 5. Credit selection strategy** - With a view to having a consistent and transparent credit selection process, the following criteria is followed by the Bank:
 - i. Acceptable internal/external rating.
 - ii. Healthy cash flows.
 - iii. Sustainable business model.
 - iv. Leadership in business.
 - v. Professionalism in management.
 - vi. Satisfactory track record, integrity, corporate governance etc.

- 6. Loan Origination Software** - We monitor movement of loan applications centrally through Loan Origination Software (LOS). Bank is also in the process of developing system for linkage of LOS to web site for online tracking of the applications. Loan Origination Software captures reasons for rejections, in case of rejection of application.
- 7. Credit Rating** - The rating tool captures the Financial/ Business parameters for any enterprise between a scale of SME 1 and SME 8. The Credit/ Business risk of the firm is captured in the rating and the pricing is based on the same. Meticulous KYC norms are followed by the Bank. As part of the due diligence process, we check the CIBIL score of the borrowers, check RBI/ECGC defaulters list etc.
- 8. Appraisal process** - The appraisal process involves obtaining KYC of the applicant, evaluating the profile of the prospect, business viability, past credit history, future potential, cash flows, unit visit, end use etc. All applications for credit limit / enhancement in existing credit limit upto Rs 5.00 lacs will be disposed off within two weeks and for credit limits above Rs 5.00 lacs upto Rs 25.00 lacs within four weeks from the date of receipt, provided the application is complete in all respects.
- 9. Delegation of Power** - Sanctions of credit limits to MSEs are carried out through a committee based approach. The sanctions are decentralized and are delegated at the SME Centres to ensure speedy turnaround time.
- 10. Security** – The credit facilities would be secured by primary and collateral security wherever applicable and as per the Credit Policy of the Bank from time to time. All assets given to the Bank as security should be fully insured in the Bank's favour. No collateral security will be taken for credit limits upto Rs 10.00 lacs or upto limits specified by RBI from time to time.
- 11. Disbursement** - The Bank will disburse all sanctioned loans to MSEs within 2 working days after compliance with all the terms and conditions of sanction. A dedicated credit operations team at the branches ensures prompt disbursement of the facilities.
- 12. Monitoring** – Monitoring of the account would be as per the Policy of the Bank from time to time. These include periodical visits, stock verifications, audits etc. The Bank also has a mechanism in place for identifying quick mortality through a EWS (Early warning System) Tool by which delinquent accounts are identified and classified into Exit/Watch List categories and accordingly different strategies are adopted for bringing these accounts back to normal category. Apart from this the Bank's Internal Audit Department conduct periodical audits for monitoring the portfolio.
- 13. Greenfield Projects** - Our Bank provides credit facility for Greenfield projects for setting up expansion projects. Greenfield project would refer to the following –
First project by first generation entrepreneurs/groups, manufacturing activity of traders, both forward & backward integration, diversification into non-core business, etc.

- 14. Interest Rate structure** - The interest rate charged to a customer is decided based on a) Rating b) Availability of Security/ Guarantee cover. c) PSL segment.
- 15. Implementation of Restructuring** - Restructuring will be done strictly on merits and as per RBI guidelines. Bank has a Board approved policy on restructuring of borrowal accounts, including loans to MSEs. The units identified are monitored closely by Relationship Managers dealing with these accounts in order to understand reasons for the stress and to understand the feasibility of additional funding to the customer. The RBI guidelines on Rehabilitation of Sick Micro & Small Enterprises have been communicated to all our officers in order to reiterate the need to identify potentially sick accounts at an early stage in order to take corrective action.
- 16. Delivery Channels** - Bank's Corporate Banking Operations (CBO) Dept. supervises the credit operations in respect of MSE business segment. These operations are regulated by a standardized and highly skilled pool of resources. The operations are carried out through 8 Corporate Banking Branches (CBBs), 58 Mini Credit Management Centres (MCMCs) and 2 Corporate Credit Operations Hubs (CCOH) that are mapped to over 400 Axis Bank branches.
- 17. Budget/Targets** - Annual targets are allotted to SME centres which are broken further into month-wise targets. The achievement of the targets is monitored on a regular basis by the officials in the Centres, the Geography and the Corporate Office. Separate targets are given for Micro, Priority Sector Loans etc.
- 18. Foreign Currency Loans** - For foreign currency loans, RBI guidelines issued from time to time will be applicable. All foreign currency loans / imports / Buyers credit arranged shall be hedged by way of suitable forward contracts. The percentage of hedge cover would depend on the internal rating of the enterprise. However, where a natural hedge exists, hedging is not necessary to that extent.
- 19. Loans/OD against Fixed Deposit** - Our Banks does sanction loans/OD against FDs by marking lien on the deposit. The procedure for sanction is very simple and the same can be availed at the Axis Bank branches. The delegation of sanction will be as applicable to the authority granted from time to time by the Bank.
- 20. Temporary overdrafts/Adhocs** - We do grant TODs/Adhoc facility to needy MSE borrowers, who satisfy the internal guidelines to meet contingencies, meet temporary cash flow mismatches, statutory payments etc.
- 21. Collection Policy** - The collection policy of our Bank believes in following fair practices with regards to collection of dues & repossession of security by fostering borrower confidence & long term relationship. Our policy ensures that there is no coercive practice followed while collecting the dues.

22. Management of NPAs - The following strategy shall be followed for NPA containment:

- a. Identify potential NPAs at the beginning of the Year / HY / Quarter on basis of feedback from the SME Centres through Early Warning System.
- b. Bank's watch on the strengths and weaknesses of the relationships on a continuous basis.
- c. If business is not generating enough surpluses to repay dues, the borrower is persuaded to sell personal assets / borrower assets to bring down exposure.
- d. Persuasion for regularisation of accounts is communicated verbally / through notices with guarantors also.
- e. When the accounts are classified into NPA, legal action is initiated speedily through Stressed Assets Department.

23. Grievance handling mechanism - The Bank has a defined process in place to deal with customer complaints at various levels. Discussions are held with customers and formal replies are given in such cases. In addition, an escalation matrix upto the level of Business Head at Central Office has been shared with Branches to refer any queries/ complaints to the appropriate officers. We also have an online grievance recording system whereby any MSE borrower availing facilities can lodge his complaint on the Bank's website. Contact details of the concerned officials (postal address, telephone number and e-mail) are given and any complaint received is dealt with at the earliest.

24. Relationship with Industry/Association - Axis Bank has a tie-up with NSIC for credit financing of MSE units that deal with NSIC. Our Bank also has tie-ups with industry associations (eg. Faridabad Industries Association) for exploring opportunities to provide funding to member enterprises.

25. Training of staff: Bank imparts training to credit analysts on a regular basis to upgrade their appraisal skills. The Relationship managers are also imparted soft skills. Staff handling MSE clients are also sensitized on the various schemes/products offered to MSEs. Senior officials are deputed to management institutions to participate in Management development programmes. A calendar of training is drawn at the beginning of each year, which is circulated to all the SME Centres seeking nominations for the programmes.

Conclusion: Our Bank adapts the MSE Credit policy (which is reviewed annually) to ensure orderly growth of the MSE business. Our policy also conforms to the regulatory guidelines. The provisions of the policy are meticulously adhered to by all the operating functionaries.