

POLICY FOR LENDING TO MICRO SMALL AND MEDIUM ENTERPRISES (MSMES)

FY 2024-25

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I. Introduction

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to manufacturing output, employment generation and exports of the country. Considering the large number of MSME units across various segments and industries, and the opportunity that this provides towards building a profitable loan portfolio, Axis Bank is focused towards meeting the credit requirements of this segment over the years. In order to target this segment effectively, we have built a wide distribution network, a strong product offering, simplified appraisal norms and robust credit delivery processes.

II. Definition:

The Government of India has enacted Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is (Revised Classification applicable w.e.f. 1st July 2020)

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover; not more than Rs. 50 crores	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover; not more than Rs. 250 crores

Revised through Gazette Notification S.O. 2119 (E) dated June 26, 2020

Further, RBI vide circular "New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade" dated July 07, 2021, has informed that the addition of Retail and Wholesale trade to MSMEs is for the limited purpose of Priority Sector Lending. They would be allowed to be registered on Udyam Registration Portal for the following NIC Codes and activities mentioned against them.

NIC Code	Activity
45	Wholesale and retail trade and repair of motor vehicles and motorcycles
46	Wholesale trade except of motor vehicles and motorcycles
47	Retail trade except of motor vehicles and motorcycles

As per RBI Circular No RBI/2023-24/100 FIDD.MSME & NFS.BC.No.13/06.02.31/2023-24 dated December 28, 2023, all enterprises are required to register online and obtain 'Udyam Registration Certificate'. All lenders may, therefore, obtain 'Udyam Registration Certificate' from the entrepreneurs. For PSL purposes banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC).

Composite criteria of investment and turnover for classification

- i) Composite criteria 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 will 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.

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. 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.
- 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 MSMED Act, 2006 shall be excluded from the calculation of the amount of investment in plant and machinery.

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 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 will be considered on self-declaration basis for a period up to March 31, 2021 and thereafter, PAN and GSTIN shall be mandatory.

Classification of Enterprises in case of upward /downward migration:

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 shall continue to avail of all non-tax benefits of the category (micro, small or medium) it was in before the re-classification, for a period of three years from the date of such upward change (As per Gazette Notification S.O. 4926(E) dated 18.10.2022).. 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. Other aspects relating to registration of enterprises, grievance redressal, etc. are mentioned in the Gazette Notification S.O. 2119 (E) dated June 26, 2020

III. Bank structure:

Lending to the MSME segment is primarily done through the Wholesale Department, Retail Lending (RL) and Rural Lending Department of the Bank. All departments have officials performing various roles such as Sales, Relationship Management and Credit appraisal. As on date, the Bank does MSME lending through loan centers, Bank Branches, corporate tie-ups & alternate channel arrangements spread out throughout the country.

IV. Products & Services:

- Axis Bank offers a number of Fund Based and Non-Fund Based facilities that cater to both the Working Capital as well as the Term Loan requirement of MSME borrowers. Facilities that address the day-to-day liquidity requirement of the borrower such as standard Cash Credit and Overdraft limits as well as Temporary Overdraft (TOD), ad-hoc limits to meet sudden liquidity requirements of the borrower are also offered.
- Term Loans/ Stand-by Term Loans for capacity expansion, general business development, etc. are also sanctioned to borrowers having such requirements. The assessment for Term Loans is on the basis of the overall cost of the project/capital expenditure which includes a contingency component, which takes care of unforeseen expenses due to reasons such as cost overrun and escalation.
- The Bank also provides retail loans viz., Loan against property, Business Loans, Auto Loans, Commercial Vehicle, Construction Equipment Finance, Medical Equipment Loans and Industrial Equipment Loans, etc., to the MSME borrowers.

Security

- i. In line with regulatory requirements, Axis Bank does not obtain collateral security for loans up to Rs. 10 Lakhs from MSE borrowers and loan sanctioned under PMEGP scheme. On the basis of good track record and financial position of the MSE units, bank may increase the limit to dispense with the collateral requirement for loans up to ₹25 lakh (with the approval of the appropriate authority).
- ii. The Bank also has a simplified templated product to sanction Working Capital and Term Loan facilities guaranteed by ¹CGTMSE.
- iii. For other loans, we accept a number of securities as collateral, such as Residential/ Commercial/ Industrial land and building, open land and liquid securities such as fixed deposits, surrender value of LIC policy, NSC, Mutual Funds, etc.

V. Timelines for processing of applications:

- The application form for credit facilities can be downloaded from the Bank's website and is also available free of cost with the Bank's Loan centers and Bank branches. The Bank provides an acknowledgement for receipt of all loan applications which specifies the time frame within which the application will be processed. An applicant can also make an online application on the Bank's website.
- In line with the changes done in Master direction, revised max timeline for credit decision of MSME Borrowers is as under:

Loan Amount	Timeline for Credit Decision
up to ₹25 lakh	14 working days
Above ₹25 lakh up to ₹1Cr	30 working days
Above ₹1Cr up to ₹5Cr	45 working days
Above ₹5Cr	60 working days

¹ The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to MSE sector without the need of collaterals/ third party guarantees. CGTMSE would provide cover for credit facility upto Rs.500 lakh which have been extended by lending institutions without any collateral security and /or third party guarantee. CGTMSE also provides guarantee under its hybrid program where exposure is partially secured by collateral security and unsecured portion is guaranteed by CGTMSE (Max up to Rs 500 Lacs).

The Credit Guarantee Scheme (CGS) seeks to reassure the lender that, in the event of MSE unit, which availed collateral- free credit facilities, failing to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender upto 85% of the outstanding amount of default. The extent of guarantee cover for various categories is mentioned in the scheme guidelines.

- This is subject to submission of all documents required by the Bank for decision of application. 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.
- Indicative check list of documents required for processing the loan application is shared in the application form at the time of applying for the loan.
- The Bank ensures that decision w.r.t. credit facility / loan is conveyed to the customers within the defined timeline. These timelines are mentioned on the application form as well as displayed on the Bank website. Basis the submission of requisite documents, an application ID is created for each applicant. The applicant can check the status of the application on the website/ Loan centres/ Branches basis this application ID. Additionally, the applicable schedule of charges is available on Bank's website.
- In case the application is turned down/rejected, the Bank will convey in writing to the applicant the reasons for rejection within one month.
- The Bank has put in place a Credit Processing Tracking System (CPTS). The reports generated through this CPTS enables the department to track the applications and ensure their disposals within the prescribed timeline.

VI. Credit selection strategy:

With a view to have a consistent and transparent credit selection process, the following broad parameters are appraised by the Bank:

- Acceptable internal/external rating.
- Healthy cash flows.
- Sustainable business model.
- Leadership in business.
- Professionalism in management.
- Satisfactory track record, integrity, corporate governance etc.

Decentralized delegation for sanctioning loans

With a view to enable quick credit decisioning at the local level, officials located at various locations are vested with sanctioning power up to limits that are defined in the Delegation of Financial powers. This ensures that credit decisions up to the defined limits are taken at the local level enabling faster credit delivery to the MSME borrower.

Appraisal and credit rating norms:

- The appraisal process involves obtaining KYC of the applicant, evaluating the financial performance/cash flow, profile of the prospect, business viability, past credit history, future potential, cash flows, unit visit, end use, etc. The appraisal format captures the key information that is essential for taking a credit decision.
- The Bank uses scorecard / Rating models for enabling credit decisions.

VII. Digital Lending Platform:

With the various upcoming digital initiatives of the Government, the Bank has forayed into catering to the working capital needs of MSME segment digitally. The Bank has designed various product variants, both revolving and short term in nature, to cater to the working capital requirements of the MSME segment. The Bank's product offerings through the digital mode cater to entire gamut of customers viz existing and new customers and merchants (with POS machines). New initiatives will also follow the digital route as and when required. All regulatory guidelines will be adhered while enabling the sourcing of MSME customers through the digital lending platform.

VIII. Review/ Renewal of limits:

Credit facilities (both fund based and non-fund based) extended to borrowers need to be renewed / reviewed at predefined intervals. Since there are multiple products being offered in the bank, the concerned departments have framed detailed guidelines for respective products. Respective product wise Credit Criterion and Policy parameter document covers the details about periodicity and methodology of review/renewal of credit facilities. Further norms related to short renewal covered in Credit Criterion and Policy parameter document of respective product.

IX. Pricing:

All credit facilities will be priced according to internal bank guidelines within the regulatory directives.

X. Account monitoring:

In addition to the various steps taken to establish borrower's credit worthiness at the pre-sanction stage, we monitor the health of the account on a continuous basis at various levels. At periodic intervals, we obtain stock statements from customers and observe the position of stocks and receivables for Cash Credit borrowers. Unit inspections are done on periodic intervals. We use analytics in order to study the transactions of the borrower, use analytics to combine transaction history, bureau and other variables to obtain early warning signals on the health of a particular account. Early warning signals are also monitored at an account and portfolio level at monthly intervals.

XI. Mechanism for monitoring the growth to MSME sector:

- System driven analytics is published at regular intervals to monitor the growth of MSME advances. Based on the same, region-wise growth is reviewed and evaluated with the concerned officials. Region specific strategies and activities are planned accordingly for growing MSME advances in line with the organizational goals. The credit flow to the sector is reviewed by the Board of the bank at periodic intervals.
- The Bank has in place an e-tracking of MSME applications and monitors the loan disposal process and pendency beyond sanction time norms at appropriate level. The position in this regard, region wise and zone wise is displayed on the Bank's website.

XII. Foreclosure charges / pre-payment penalty:

In case of Micro and Small Enterprises (MSE) customers, no Foreclosure/Part Prepayment charges are applicable if;

- Loan amount is up to Rs.50 Lakhs under Fixed rate loans or
- Floating rate loans (irrespective of the loan limit)

XIII. Subsidy Schemes:

Loans are appraised and sanctioned to borrowers who fall eligible for subsidy as per the Credit Linked Capital Subsidy Scheme and various other schemes that are applicable for MSME borrowers.

XIV. Priority Sector Lending (PSL) Guidelines for MSME sector:

In terms of Master Direction FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020 updated on June 21, 2024 on 'Priority Sector Lending - Targets and Classification', bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the norms specified in the Master Direction.

The credit facilities to MSMEs, if eligible, as classified as priority sector loans in accordance with the aforementioned directions

Further, RBI vide circular "New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade" dated July 07, 2021, has informed that the addition of Retail and Wholesale trade to MSMEs is for the limited purpose of Priority Sector Lending.

In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve:

- (i) 20 per cent year-on-year growth in credit to micro and small enterprises,
- (ii) 10 per cent annual growth in the number of micro enterprise accounts and
- (iii) 60 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.

The Bank is fully committed in its efforts to achieve the targets prescribed as part of the recommendations of the Prime Minister's Task force on MSME.

XV. Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises:

The Government of India, vide their Notification no.FIDD.MSME&NFS.BC.No. 21/06.02.31/2015-16 dated March 17, 2016, has notified 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'.

The Bank has adopted these revised guidelines and rolled out a policy framework. Key Highlights are as under:

Under this Policy, each Bank has formed "Committee for Stressed Micro, Small and Medium Enterprises" (CSMSME) as per the following arrangements:

1. These Committees will be Standing Committees at each CBG Geography Office and will resolve the reported stress of MSME accounts of the branches/Centres/Units falling under their jurisdiction.

2. These committees will cover lending to the Micro, Small & Medium Enterprises for Retail Lending, Bharat Banking, CBG & any other Businesses covering MSME, provided the data and SPOCs identified for the purpose make themselves available for the meeting at the frequency decided for such meetings.
3. For MSME borrowers having credit facilities under a consortium of banks or multiple banking arrangement (MBA) the request shall be referred to the consortium leader or the bank having the largest exposure to the borrower under MBA.
4. Wherever we are the lead bank or the bank having the largest exposure to the borrower, request received from the other bank(s) shall be referred to the CSMSME if the account is reported as stressed either by the borrower or any of the lenders under this framework. This Committee will also coordinate with the other lenders.

XVI. Micro, Small and Medium Enterprises (MSME sector) Restructuring of advances:

In view of the continued need to support the viable MSME entities on account of the fallout of Covid19, RBI vide its circular dated May 05, 2021 DOR.STR.REC.12/21.04.048/2021-22 (Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises) has extended the scheme permitted in terms of circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 06, 2020 (Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances) to extend the one-time restructuring of MSME advances permitting existing loans to MSMEs to be classified as 'standard' without a downgrade in the asset classification subject to the conditions mentioned in the circular (this is an extension of the scheme with reference to RBI circular dated January 1, 2019 on 'Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances'). The bank had implemented the MSME restructuring guidelines in accordance with the regulatory directives in the matter.

XVII. Collection & NPA management:

The Bank follows fair practices with regards to collection of dues & repossession of security by fostering borrower confidence & long-term relationship.

The main objective of the NPA Management & Recovery policy of the bank is to reduce the level of NPAs and to maximize recoveries from the pool of NPAs within the shortest possible time. To achieve the above objective, the following broad strategies are followed:

- Persistent and effective follow-up of existing accounts to curb fresh slippage.
- Rescheduling and restructuring of accounts strictly on merits and as per RBI guidelines.
- Encouraging compromise settlement rather than resorting to the long drawn legal process.
- Initiating legal action and effective follow up.

In terms of RBI's "Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector" dated July 24, 2017 (Updated as on June 11, 2024), Bank shall follow a merit based non-discretionary, one-time settlement policy for the recovery of NPAs under MSE Sector. All settlement proposals/offers shall be examined by the Bank's delegated authority based on facts and merits of each case. The details are covered in the Bank level 'Policy on Compromise Settlements, One-time Settlements and Write Offs'.

XVIII. Grievance handling:

The Bank has put in place a grievance redressal mechanism to address the grievances of its customers. The Grievance Redressal policy of the Bank is mentioned on the Bank's website. The MSME customers can utilize different channels i.e. Branches/ Loan centers / Phone Banking to reach out to the Bank and submit the grievance. The Bank also has an online grievance recording system whereby all borrowers (including MSME borrowers) availing facilities can lodge their complaint on the Bank's website. Contact details of the concerned officials are given and any complaint received is dealt with at the earliest.

XIX. Training:

The Bank imparts training to its credit analysts on a regular basis to upgrade their appraisal skills. The Sales/ Relationship managers are also imparted soft skills on an ongoing basis. Staff handling MSME clients is also sensitized on the various schemes/products offered to MSME borrowers as well as various aspects. Bank shall also endeavor to set up a program to impart knowledge to MSME units on various topics of relevance such as marketing, accounting, business planning, etc.

XX. Interest equalization scheme for MSME

Government of India had approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit ('Scheme') up to March 31, 2024, or till further review, whichever is earlier. The extension takes effect from October 1, 2021 and ends on March 31, 2024. Revised interest equalization rates under the Scheme was 3% for MSME manufacturer exporters exporting under any HS lines, and 2% for manufacturer exporters and merchant exporters exporting under 410 HS lines (after excluding 6 HS lines pertaining to Telecom Sector). With effect from April 1, 2022, banks shall reduce the interest rate charged to the eligible exporters upfront as per the guidelines and submit the claims in original within 15 days from the end of the respective month, with bank's seal, and signed by authorized person, in the prescribed format.

XXI. Emergency Credit Line Guarantee Scheme (ECLGS):

Emergency Credit Line Guarantee Scheme (ECLGS) – the scheme provided 100% guarantee coverage for the GECL by National Credit Guarantee Trustee Company (NCGTC), for a pre-approved sanction limit of upto 20% of loan outstanding as on February 29, 2020, to MSMEs in form of additional working capital term loan facility in view of COVID-19 crisis, as a special Scheme. Further, National Credit Guarantee Trust Company (NCGTC) rolled out ECLGS II, III & IV with additional coverage, sanction limits and extended validity from time to time. Industry focused loan guarantee scheme for COVID affected businesses like tourism service sector (LGSCATSS), hospitals/nursing homes/clinics/medical colleges/units engaged in manufacturing of liquid oxygen, oxygen cylinder etc. were also rolled out. Last extension for sanction of facility under ECLGS was 31st March 2023.

XXII. Credit Guarantee Scheme for Subordinate Debt (CGSSD):

The recent economic slowdown in economy, specifically Due to COVID -19 lockdown resulted liquidity / cash flow issues to MSME Sector. Against this backdrop, RBI vide its circular dated 1/7/2020 (Ref no Dor.BP.BC.No.01/21.04.048/2020-21 by referring no 170/2020-21 dated June 24,2020 issued by CGTMSE permit the Banks to provide quasi equity support to this critical sector. It was also allowed to provide quasi equity support to MSME in the form of subordinated debt. Initially the scheme was up to 31.03.2021. In order to keep the avenues of assistance to stressed MSME Units open, the Government had earlier extended this scheme up to 31.03.2022 and further extended till 31.03.2023.

XXIII. Interest Rate and Pricing Methodology:

External Benchmark lending: The Reserve Bank of India vide circular dated 4th September, 2019 on External Benchmark Based Lending directed banks to link all new floating rate personal or retail loans (housing, auto etc.) and floating rate loans to Micro and Small Enterprises extended by banks with effect from 1st October 2019 to external benchmarks like repo rate, MIBOR, Tbill, CD, G-sec or any other FBIL published benchmark.

The Bank had decided to link all new floating rate loans to Micro, Small and Medium enterprises to the RBI Policy Repo rate.

XXIV. Key Facts Statement (KFS) for Loans & Advance:

In terms of RBI's notification RBI/2024-25/18 DOR.STR.REC.13/13.03.00/2024-25 dated 15th April 2024 on Key Facts Statement (KFS) for Loans & Advances Bank shall follow instructions as applicable in cases of all retail and MSME term loan products.

XXV. Cluster Approach:

A cluster shall mean a cluster identified by the Ministry of Micro, Small and Medium Enterprises, Government of India or the respective State /UT Governments. SLBC/UTLBC Convenor banks shall display the list of these clusters on their portals and update them semi-annually as at end-March and end-September. The updated list of clusters identified by Ministry of MSME may be accessed from Ministry's official website, while information on clusters recognized by State Governments/Union Territories shall be obtained directly from the respective authorities.

Respective Business & Product teams shall prepare standard operating process for implementation of this approach.

XXVI. Amendments to the MSME Policy:

The policy will abide by the RBI directive and notifications issued from time to time and any modification to these directives will be implemented.

The Managing Director shall be empowered to effect necessary changes/modifications /amendments to the MSME Policy subject to reporting the same to the Risk management Committee.

XXVII. Conclusion:

The policy will remain in force till it is superseded.