

Axis Bank Ltd.
Policy for lending to Micro Small & Medium Enterprises (MSMEs)

Introduction:

The Micro and Small Enterprise (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.

Definition:

I. Manufacturing Sector:

Manufacturing sector refers to enterprises engaged in manufacture or production, processing or preservation of goods. The definition of Micro, Small and Medium Enterprises under the manufacturing sector is as below:

i. A **micro enterprise** is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006] **does not exceed Rs. 25 lakh;**

ii. A **small enterprise** is an enterprise where the investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006] is **more than Rs.25 lakh but does not exceed Rs.5 crore;** and

iii. A **medium enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is **more than Rs.5 crore but does not exceed Rs.10 crore.**

II. Services Sector:

Enterprises engaged in providing or rendering of services and whose 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) are specified below.

(i) A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh;**

(ii) A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore;** and

(iii) A **medium enterprise** is an enterprise where the investment in equipment is **more than Rs. 2 crore but does not exceed Rs. 5 crore.**

Bank structure:

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

Products & Services:

- Axis Bank offers a number of Fund Based and Non-Fund Based limits 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 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 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 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.
- ii. The Bank also has a simplified templated product to sanction working capital & Term Loan facilities guaranteed by CGTMSME upto Rs. 1.00 Cr. to MSE borrowers as prescribed under the scheme.
- 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.

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 SME Centres, Loan centres 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.
- The Bank requires a processing timeline from the date of completed loan application. This is subject to submission of all documents required by the Bank. 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/SME centres/ Loan centres/ Branches basis this application ID.

- In case the application is turned down, 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 disposal.

Credit selection strategy:

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

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 Corporate Credit Policy/ 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 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 based models for enabling quick credit decisions. For larger exposure (above Rs. 5 crs), Bank uses a detailed credit rating model to determine the credit worthiness of the borrower.

Review/ Renewal of limits:

Working capital limits that are sanctioned to borrowers are **renewed once in 12 months**. Information that is required from the borrower (such as audited financials, estimated financials for the current year, orders on hand, etc) to renew the limits is sought prior to the renewal. In cases where the borrower has not finalized the audited financials for the previous FY, the provisional financials are obtained from the borrower in order to renew/ enhance limits. **Mid-term review** of limits sanctioned to borrower is also done **in order to re-assess the credit requirement of the borrower**, which may have changed during the course of the year.

Pricing

The interest rate/ processing fee/ transaction charges that are charged to the customer is decided on the basis of a number of factors including **a) Credit rating of the borrower, b) availability of collateral security, c) business model of the entity and d) satisfactory market reference.**

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 also done multiple times in a given year. We also **use analytics in order to study the transactions of the borrower in order to obtain early warning signals on the health of a particular account.** Early warning signals are also monitored at a portfolio level.

Mechanism for monitoring the growth to MSME sector

System driven MIS 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.

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.

Rehabilitation

- RBI vide its circulars dated November 1, 2012 and May 09, 2013 has issued guidelines on Rehabilitation of Sick Micro and Small Enterprises.
- In line with the RBI guidelines, the Bank has devised the Rehabilitation policy for MSE borrowers, which documents the approach for identification and rehabilitation of sick MSE units.
- The objectives of the Rehabilitation Policy are to lay down guidelines for the following:
 - a. Identifying the sickness at an early stage.
 - b. Initiating remedial measures promptly with a proactive approach.
 - c. Formulation and implementation of rehabilitation package for potentially viable sick MSE Units.

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 Bank's NPA Management & Recovery policy is to reduce the level of NPAs and to maximise 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.

Grievance handling:

The Bank is committed to extend the best possible services to its customers. Grievance Redressal policy of the Bank is mentioned on the Banks website. The MSME customers can utilize different channels i.e Branches/ Loan centres/ SME centres/ Phone Banking to reach to the bank and submit the grievance. We also have 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.

Training:

Bank imparts training to credit analysts on a regular basis to upgrade their appraisal skills. The Sales/ Relationship managers are also imparted soft skills. Staff handling MSME clients is also sensitized on the various schemes/products offered to MSME borrowers. 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.