

— FAQ'S

Funding Options

Funding Under Govt. Schemes (MSME)

1. What are the RBI guidelines on interest rates for loans disbursed by the commercial banks?

As part of the financial sector liberalisation, all credit related matters of banks including charging of interest have been deregulated by RBI and are governed by the banks' own lending policies. With a view to enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy, all scheduled commercial banks had been advised in terms of circular DBOD.No.Dir.BC.88/13.03.00/2009-10 on April 9, 2010 to introduce the Base Rate system w.e.f. 1 July 2010. Accordingly, the Base Rate System has replaced the BPLR system with effect from July 1, 2010. All categories of loans should henceforth be priced only with reference to the Base Rate. For further details please visit [link1](#) or [link2](#).

2. Why is credit rating of the micro small borrowers important?

With a view to facilitating credit flow to the MSME sector and enhancing the comfort-level of the lending institutions, the credit rating of MSME units done by reputed credit rating agencies should be encouraged. Banks are advised to consider these ratings as per availability and wherever appropriate structure their rates of interest depending on the ratings assigned to the borrowing SME units.

3. Is credit rating mandatory for the MSE borrowers?

Credit rating is not mandatory but it is in the interest of the MSE borrowers to get their credit rating done as it would help in credit pricing that is cost of funds (interest and other charges etc.) of the loans taken by them from banks

4. What are the guidelines for delayed payment of dues to the MSE borrowers?

The buyer is to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and

buyer shall not exceed more than 45 days. If the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank. For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised above. In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government. To take care of the payment obligations of large corporate borrowers to MSEs, banks have been advised that while sanctioning/ renewing credit limits to their large corporate borrowers (i.e. borrowers enjoying working capital limits of \$ 1.5 million and above from the banking system), to fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from MSEs either on cash basis or on bill basis. Banks are also advised by RBI to closely monitor the operations in the sub-limits, particularly with reference to their corporate borrowers' dues to MSE units by ascertaining periodically from their corporate borrowers, the extent of their dues to MSE suppliers and ensuring that the corporate pay off such dues before the 'appointed day' /agreed date by using the balance available in the sub-limit so created. In this regard the relevant RBI circular; IECD/5/08.12.01/2000-01 dated October 16, 2000 (reiterated on May 30, 2003, vide circular No. IECD.No.20/08.12.01/2002-03) available on RBI website. For further details please visit link1 or link2.

5. What is debt restructuring of advances?

A viable/potentially viable unit may apply for a debt restructuring if it shows early stage of stickiness. In such cases the banks may consider to reschedule the debt for repayment, consider additional funds etc. A debt restructuring mechanism for units in MSME sector has been formulated and advised to all commercial banks. The detailed guidelines have been issued to ensure restructuring of debt of all eligible small and medium enterprises. Prudential guidelines on restructuring of advances have also been issued which harmony the prudential norms over all categories of debt restructuring mechanisms (other than those restructured on account of natural calamities). The relevant circulars in this regard are circular DBOD.BP.BC.No.34/21.04.132/2005-06 dated September 8, 2005 and circular DBOD.No.BP.BC.37/21.04.132/2008-09 dated August 27, 2008 which are available on the website. For further details please visit link1 or link2.

6. What is the definition of a sick unit?

As per the extant guidelines, a Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become Sick, if any of the borrower account of the enterprise remains NPA for three months or more or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. This criterion enables banks to detect sickness at an

early stage and facilitate corrective action for revival of the unit. For further details please visit [link1](#) or [link2](#).

7. Are all sick units put under rehabilitation by banks?

No. If a sick unit is found potentially viable it can be rehabilitated by the banks. The viability of the unit is decided by banks. A unit should be declared unviable only if such a status is evidenced by a viability study.

8. Is there a time frame within which the banks are required to implement the rehabilitation package?

Viable / potentially viable MSE units/enterprises, which turn sick in spite of debt re-structuring would need to be rehabilitated and put under nursing. It will be for the banks/financial institutions to decide whether a sick MSE unit is potentially viable or not. The rehabilitation package should be fully implemented by banks within six months from the date the unit is declared as potentially viable/viable. During this six months period of identifying and implementing rehabilitation package banks/FIs are required to do “holding operation” which will allow the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds. The relevant circular on rehabilitation of sick units is RPCD.CO.MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012 is available online. For further details please visit [link1](#) or [link2](#).

9. Is there any provision for grant of composite loans by banks?

A composite loan limit of \$ 1.5 million can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window in terms of RBI Master Circular on lending to the MSME sector dated 1 July 2010. All scheduled commercial banks have been advised by circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 on 4 May 2009 that the banks which have sanctioned term loan singly or jointly must also sanction working capital (WC) limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production thereby ensuring that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned. These instructions have been reiterated to schedule commercial banks on 11 March 2010. For further details please visit [link1](#) or [link2](#).

10. How do banks assess the working capital requirements of borrowers?

The banks have been advised to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors (Refer circular RPCD.SME & NFS.BC.No.102/06.04.01/2008-09 dated 4 May 2009). However, banks have been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short term credit requirement. As per Nayak Committee Report, working capital limits to SSI units is computed on the basis of minimum 20% of their estimated turnover up to credit limit of \$.7 million. For more details paragraph 4.15.2 of the Master Circular on lending to the MSME sector dated 1 July 2014 may please be seen. For further details please visit [link1](#) or [link2](#).

