

## Funding Options

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### Funding Under Govt. Schemes (MSME)

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

As part of the financial sector liberalisation, all credit related matters of banks including charging of interest have been deregulated by the Reserve Bank of India (RBI) and are governed by the banks' own lending policies. With a view to enhancing transparency in the methodology followed by banks for determining interest rates on advances and the efficiency of monetary policy transmission, from 1 April 2016, banks are required to sanction all their advances with reference to marginal cost of fund-based lending rates (MCLR). Banks shall have to provide an option to the customers to switch to the MCLR from Base rate/Benchmark Prime Lending Rate (BPLR) and this should not be treated as a foreclosure of existing facility. For more information, [click here](#)

#### 2. Why do small borrowers need to have credit rating?

With a view to facilitating credit flow to the micro, small and medium enterprises (MSME) and enhancing the comfort-level of the lending institutions, the credit rating of MSMEs done by reputed credit rating agencies should be encouraged. The 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 MSMEs. For more information, [click here](#).

#### 3. Is credit rating mandatory for the MSE borrowers?

Credit rating is not mandatory but it is in the interest of the micro, small and medium enterprises (MSME) to get their credit rating done as it would help in credit pricing of the loans taken by them from the banks. For more information, [click here](#).

#### 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. Is it mandatory to put all sick units 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 the banks. A unit should be declared unviable only if such a status is evidenced by a viability study. For more information. [click here](#).

#### **6. What is the timeline for banks to implement the rehabilitation package?**

Viable or potentially viable micro and small enterprise (MSE), which turns sick despite debt restructuring needs to be rehabilitated and put under nursing by the bank within six months from the date such enterprise is declared viable or potentially viable. It will be for the bank/financial institution to decide whether a sick MSE unit is potentially viable or not. During the six months period of identifying and implementing rehabilitation package, the bank is required to do a 'holding operation' that allows the sick unit to draw funds from the cash credit account at least to the extent of deposit of sale proceeds. For more information, [click here](#)

#### **7. Is there any provision for grant of composite loans by banks?**

A composite loan limit of \$1.5 mn can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window. For more information, [click here](#).

#### **8. 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](#).