Change Management

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Change is a Journey and not destination

- The mind follows the heart, passion wins more battles than ability. Develop Passion for ‘Made in Telangana’

Reactions to Change

1. Shock
2. Denial
3. Guilt
4. Projection
5. Rationalisation
6. Integration
7. Acceptance

Change as a Function

- Change = *f(VFD>x) where*
- *V= Vision*
- *F= First Action (Expected feasible actions)*
- *D= Dissatisfaction with present and*
- *X= Cost of Change.*
- *CEO should be seen as incarnation of Change by all the stakeholders – internal (Employees) and external.*

Thank you

Document Type: Quiz
Course Code:
Course Name: MSME Working Capital Products

S. No.	Question
1.	Current assets are assets which are realizable into cash within: A. One Year B. One year to three years C. After three years D. None of the above **Correct answer: A** **Explanation:** Current assets are those which can be realizable in to cash within a period of one year. Debtors, inventories etc. which can be converted in to cash within a year are included under current assets.
2.	Which of the following statement is correct about inventory? A. Inventory consists of only raw material in hand B. Inventory consists of only work in process C. Inventory consists of only stock of finished goods in hand D. Inventory consists of raw material in hand, work in progress and stock of finished goods in hand of any merchandise **Correct answer: D** **Explanation:** Inventory includes everything from stock of raw material, work in process and finished goods stock.
3.	The number of parties involved under factoring is: A. One B. Two C. Three D. Four **Correct Answer: C** **Explanation:** Under factoring three parties are involved. They are Seller (borrower), buyer and factor.

4.	Which of the following is considered for the assessment of cash credit limits by bank? A. Equity B. Average levels of stock & Book Debts C. Fixed Assets D. Profitability **Correct Answer: B** **Explanation:** Generally the banks assess the Cash Credit limit based on the average levels of stocks and book debts.
5	In case of Overdraft provided by banks, interest is charged on the amount overdrawn at a rate that is: A. Below the bank base rate B. At par with the bank base rate C. Above the bank base rate D. None of the above **Correct Answer: C** **Explanation:** On overdraft facility provided by banks, it will charge interest on the amount overdrawn at a rate which is above the bank base rate.
6.	In the contest of working capital loans, drawing power refers to A. Maximum amount that can be drawn by a borrower as part of working capital credit, includes fund based and non fund based limits B. Lower of cash credit and maximum permissible bank finance C. The debtors and current assets of the bower D. Working capital gap of the borrower Correct answer A Drawing power refers to the ability of borrower to draw credit , it is maximum amount of credit that a bank would allow as a working capital loan, ot can include fund based products such as CC and non fund based products such as BG
7.	Given below are documents that are required to be submitted by the borrower as part of regular compliance requirements after disbursement of WC loan. Which of them is not required A. Stock statement B. Statement of financial performance C. Statement showing debtor levels D. CIBIL documents

	Correct answer : D CIBIL score is not needed to be submitted by the borrower as the bank as access to it on line through CIBIL website.
8.	As per RBI guidelines for assessing working capital limits through turnover method, which of the following turnover has to be used A. Both Peak & Non Peak Turnover B. Peak Turnover C. Non Peak Turnover D. Annual Turnover **Correct Answer: A** **Explanation:** Instead of considering annual turnover for assessment of working capital limits of seasonal industries both peak & non peak turnovers are to be considered.

Author: Date:
Course Group: Version: First/Reworked/Final
Course Name:

Product Name	
Course Group	**MSME financing**
Course	**Working Capital Products**
No. of Screens	**39**
Author	**B. Yerram Raju**

Please note that all "Sample Course Contents" are in black color. Green colored text indicates instructions for ease of understanding and is highlighted with turquoise color.

Author: Date:
Course Group: Version: First/Reworked/Final
Course Name:

Welcome page	Page No. 1

Course group: **MSME financing**

Course name: **Working Capital debt Products**

Course description:

This course will familiarise you with need & importance of working Capital; Working capital loan products and bank practices for assessing working capital funding requirements of the borrowers.

Course level: Basic

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Job aids	**Page No. 2**
For this course your job aids are 1. Case study 2. Exercises 3. Glossary	
Interactivity / Animation	
Special features	

Author:	Date:
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Objectives	**Page No.3**

On completion of this course you will be able to:

1. Describe key terms related with working capital debts like Drawing power, Creditors, Debtors, Inventory, working capital cycle etc.
2. Understand the need & importance of working capital
3. Explain working capital debt products such as Factoring, Cash credit, Overdraft etc.
4. Understand how bankers assess working capital funding needs of borrowers

Interactivity / Animation	

Special features	

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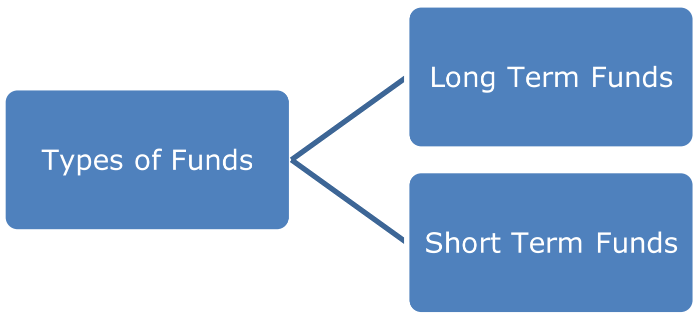
Unit 1: Introduction	Page No. 4

Any MSME unit requires two types of funds; long term fund to meet the expenses on purchase of fixed assets/start up expense in order to bring the establishment into operation and short term funds to meet the needs of day-to-day expenses such as raw-materials, stores, power and fuel, salaries, wages, administrative expenses, interest, sales and distribution expenses.

The following figure describe the types of Funds required by an MSME unit:

Figure No.1



The long term funds are typically invested for acquisition of fixed assets such as plant, land etc after which the business needed working capital-funds to meet its short term needs.

A number of working capital funding options are available and an MSME unit should choose the most appropriate funding option depending upon its requirements.

Interactivity / Animation	

Special features	

Unit 1: Introduction	**Page No.5**

What is working capital: Working capital refers to the capital needed to meet day to day business requirements such as raw material, wages, salary, freight etc. Let us understand it with a simple example; An organization has sales of Rs.100 of which Rs. 20 is cash sales and remaining is to be paid by its customers after a month. The company has raw material requirement of Rs. 50, salary of Rs.10, thus its total requirements are Rs. 60, since Rs. 20 is met out of cash sales, and it needs Rs. 40 more to sustain its operations. Therefore the working capital needs of the company are Rs. 40.

It is also difference of current asset and current liabilities; current assets are those which can be realized into cash within a year and current liabilities are those which are to be paid off within a year. In the above example cash sales of Rs 20 generated cash immediately and credit sales of Rs 80 which remains debtors for a period of one month because customer will make payment after one month so current assets are in total of Rs 100 and payment for raw materials of Rs 50 & salary of Rs 10 are current liabilities in total of Rs 60 as they are to be paid in less than a year, which means that to some extent CA can be funded out of CL, remaining Rs. 40 is his WC requirement and has to be met out of equity or debt.

In order to better understand the WC needs, first we should understand working capital cycle which is described in the next slide.

Interactivity / Animation	
Special features	

Unit 1: Introduction	**Page No. 6**

Practice question

Which of the following statement is not correct about working capital?

A. Working capital refers to the capital needed to meet day to day business requirements
B. Working capital is difference of current asset and current liabilities.
C. Working capital requirement can be met out of equity or debt.
D. Working capital funds are required to meet short term as well as long term needs.

Correct Answer: D

Feedback loop	
A	Correct, WC is capital needed to meet daily business needs.
B	Correct, WC is difference of current assets and current liabilities.
C	Correct, WC requirement can be met out of both equity and debts.
D	Wrong, WC funds are required to meet short term need only.

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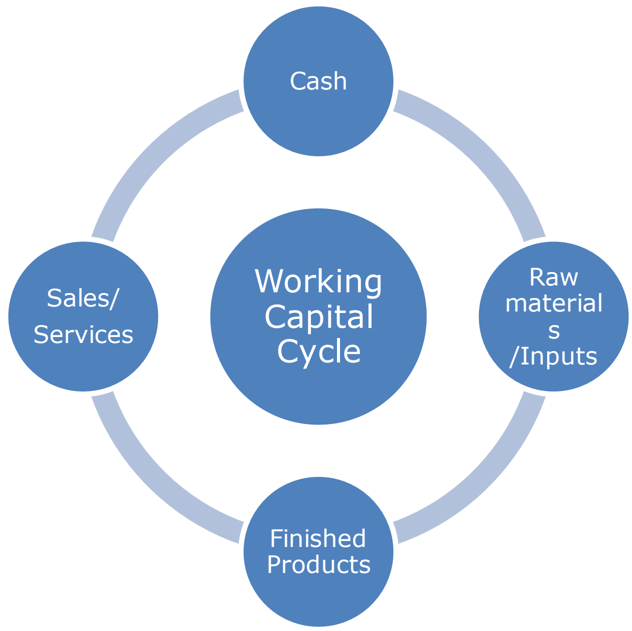
Unit 2: Working capital Cycle	Page No. 7

Working capital cycle: Refers to the time taken by any organization to complete the cycle of manufacturing, sale and realization of proceeds from customers.

The following Figure No. 2 gives a brief idea about working capital cycle:

Figure No. 2



Interactivity / Animation	

Special features	

Unit 2: Working capital Cycle	Page No. 8

Working capital cycle is described below in detail:

The time spent between investing in a product or service and receiving payment for that product or service constitutes working capital cycle. The starting point of the working capital cycle is usually when the business purchase raw materials or hire people for the service. The ending point of the working capital cycle is when the customer makes the payment. Working capital cycle consists of creditors' days, inventory days and debtors' days.

Creditors' days: The average time required by a company to pay to its creditors. The other name for it is account payable days. Some banks term it as sundry creditors.

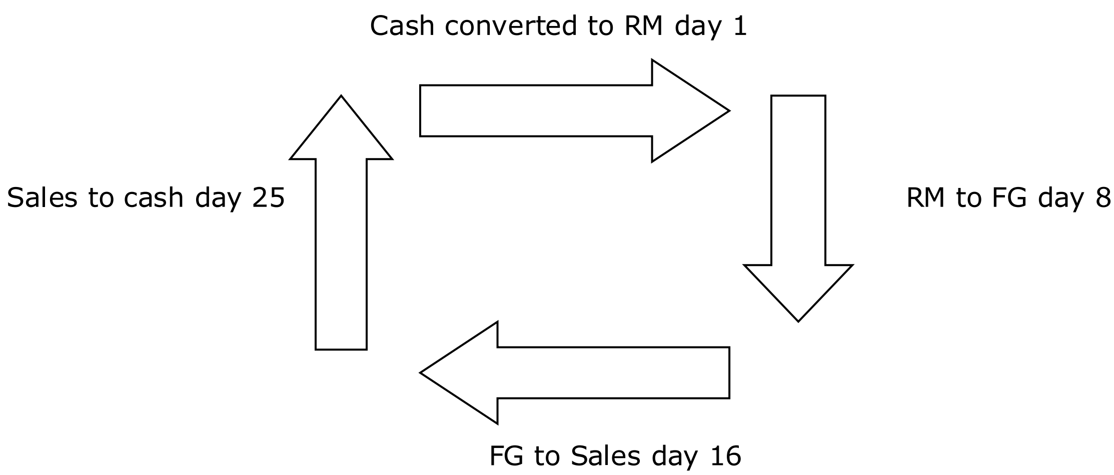
Debtors' days: The average time taken by a company to receive payments for what it has sold. The other name for it is account receivable days. Some banks term as sundry debtors/book debts

Inventory days: The average holding period of inventory by a company is called inventory days.

Interactivity/Animation	

Special features	

Let us understand it through an example; if a company purchases raw material on day 1, manufactures the product on day 8, sells it on day 16 and receive payment on day 25 then the working capital cycle is of 25 days. If the company sells the same product on cash basis (it receives cash immediately as it sells the product), then the working capital cycle is 16 days.



A simple working capital cycle describes the conversion of cash to raw materials and labor, the raw material and labor to finished products, and the finished products to cash. Sustained disturbance in the working capital cycle may lead to liquidity crisis as the company may not be left with funds to purchase additional raw materials or to make payments to sustain its operations. This can lead to shutdown and even bankruptcy. Typically working capital cycle of MSME units is up to three months. Depending on the nature of activity and various other factors it may be either more than 3 months or lesser than 3 months. Some businesses such as engineering component, where the client pays after 2 months (due to inspection of goods etc) it can be higher than 3 months. Sometimes the raw material has to be imported and then stored for a long time, that can also lead to higher WC.

Interactivity/Animation	

Special features	

Unit 2: Working Capital Cycle	Page No. 10

Practice question

A company purchases RM on day 1 and manufactures the goods on day 10, goods are sold on day 15 and payment is received on day 30. The working capital cycle will be of:

A. 10 days
B. 15 days
C. 30 days
D. None of the above

Correct Answer: C

Feedback loop	
A	Wrong, By this day goods are just manufactured
B	Wrong, By this day goods are sold only, collection is still due.
C	Correct, Working capital cycle is the time spent from purchasing the RM till collection of proceeds of the sale.
D	Wrong, One of the above is correct

Unit 2.1: Key terms related with working capital	Page No 11

Important terms/concepts related to working capital:

Given below are definitions of some of the key terms that we would be using as part of this lesson.

Operating cycle: It is another name for working capital cycle. The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale. The companies try to minimize the working capital cycle so as to receive cash faster.

Drawing Power: Drawing power refers to the maximum amount an MSME is allowed to draw /borrow as part of the working capital credit. While sanctioning drawing power banks assess the credit needs of the company via analyzing its debtors and inventory needed. The credit available to the company from the supplier is deducted from the debtor/stocks and remaining amount is the maximum that one can borrow.

Drawing Power is calculated as follows

(Stock + Debtors – Creditors)* 0.75 = Drawing Power

Example: Stock of Rs.100, Debtors of Rs. 300 and Creditors of Rs. 100. So in this case calculation of Drawing power will be (100+300-100)*0.75=225

If company issues cheques when there is no drawing power left in the account, banks can stop payments.

Debtors: Refers to the customers who have been sold goods on credit by the company. For example if a company has sales of Rs. 100 of which Rs. 25 payment is received immediately and Rs. 75 is to be received after a month. Then debtor would be Rs. 75

Creditors: A person or company who provides credit to another person or company is known as a creditor of that person /company. When goods are purchased from suppliers and payments is made afterwards then that supplier is creditor for that firm/company. For example; bank gave loan/credit to the MSME unit then the bank is creditor of that MSME unit.

1Interactivity / Animation	

Unit 2.1: Key terms related with working capital	Page No.12

Inventory: Inventory includes stock in hand of raw materials, work in progress, finished goods on hand etc. made each year by a business concern.

Current Assets: Current Assets are those which can be realizable into cash in a short span of time or say one year. It includes Stocks of raw materials, Work-in-progress, Finished goods, Trade debtors, Pre payments (Prepaid Expense), Cash and bank balances. For example: Raw material of Rs 50, Work in progress of Rs 100 and finished goods of Rs 200 are in stock then total Inventory will be Rs 350 (50 + 100 +200), Trade debtors of Rs 500, Pre payments of Rs 50 and cash & bank balances of Rs 100. Therefore total current assets will be Rs 1000 (350+500+50+100)

Current Liabilities: Current Liabilities are those for which obligations are to be met within in year. It includes trade creditors, Taxation payable, Dividends payable, Short term loans, and outstanding expenses. Installments of long Term loan payable in the upcoming year will be current liabilities for the current year. Current liabilities do not include provisions for contingencies because these are made for uncertain events.

Gross Working Capital: Gross working capital constitutes only Current assets. For example: if a company has inventory of 350, trade debtors of Rs 500, pre payments of Rs 50 and cash & bank balances of Rs 100.Therefore gross working capital will be Rs 1000 (350+500+50+100) as it constitutes total current assets.

Net Working Capital: Net working capital of a business is its current assets less its current liabilities. For example: current assets are of Rs 1000 and current liabilities are of Rs 500 then net working capital will be Rs 500 (Rs 1000- Rs 500)

Current ratio: The number of times current assets are to current liabilities. Formula for current Ratio is CA divided by CL.

Margin: Refers to contribution from promoter's side for working capital. Generally banks ask for 25 % margin against inventories and book debts for manufacturing concern. However for traders bankers ask for higher margins of 30 % to 40% against stocks and 40% against book debts.

Interactivity / Animation	

Unit 2.1: Key terms related with working capital	Page No. 13

Practice question

Which of the following is incorrect about current liabilities?

A. Current liabilities for the current year include installments of long term loans payable in the upcoming year.
B. Current liabilities include Dividend payable.
C. Current liabilities include outstanding Expenses.
D. Current liabilities include provision for contingencies.

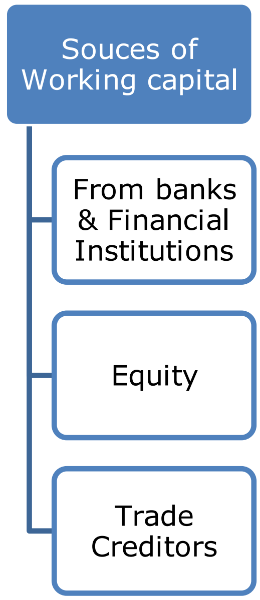
Correct Answer: D

Feedback Loop	
A	Correct, This statement is correct as the installments are to be paid in the upcoming year.
B	Correct, Dividend payable in the upcoming year will be included under current liabilities
C	Correct, Outstanding Expenses are required to be paid in the upcoming year hence it will be included under current liabilities.
D	Wrong, Provision is made for uncertain events hence its treatment is separate from current liabilities and is not included under current liabilities
Special features	

Unit 3: Working Capital Products	Page No. 14

Sources of Working capital: Working capital can be funded out of three sources. The following figure explains the various sources for availing working capital debts:

Figure No.3



Interactivity / Animation	

Special features	

Unit 3: Working capital Products	Page No. 15

Sources of Working capital other than banks & FIs are described below:

Equity

If business is in its initial year of operation and has not yet become profitable, then it might have to rely on equity funds for meeting its short-term working capital needs. These funds might be introduced from promoters own personal resources or from any third-party.

Trade creditors

Trade creditors also provide credit for meeting out the need of short-term working capital. For instance, a company which generally gets a 30 day credit from its supplier may get an extended 60 day credit to meet specific needs of a particular large order.

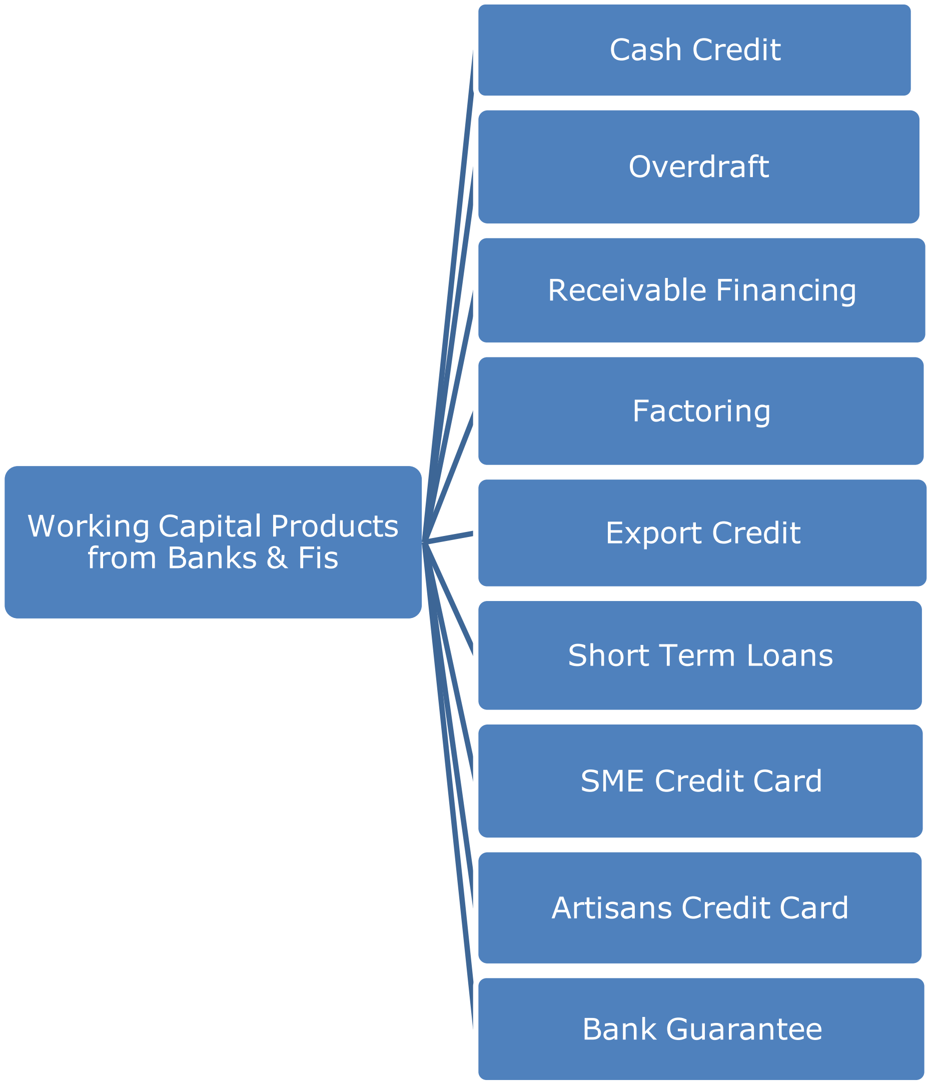
Banks

Working capital assistance from banks & FIs is available through various debt products. In this module we will discuss the various WC products from banks & financial institutions.

Interactivity/animation	
Special features	

The following figure explains the common working capital products provided by banks & financial institutions:

Figure No. 4



The above mentioned all the products are described below in detail one by one:

Interactivity/Animation

Special features

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Unit 3: Working capital products	Page No. 17

Cash credit:

This kind of fund based working capital facility is provided to traders and manufacturers. Cash credit (CC) is one of the traditional forms of working capital products. By granting this facility, bank allows borrower to withdraw money up to certain fixed amount sanctioned by the bank. The banks assess the CC limit based on the drawing power of the borrower. The drawing power refers to borrower's ability of draw credit based on his/her average levels of stocks and book debts. Therefore CC is type of advance made by banks to its borrowers. Typically, borrowers have to offer primary security such as inventory and secondary security such as land/ fixed deposit to avail of CC. The CC limits are generally reviewed every year and can be increased/decreased depending on the borrower's sales.

Interactivity / Animation	
Special features	

Unit 3: Working Capital Products	Page No. 18

Overdraft:

Sometime when working capital loan is given on adhoc basis, because the borrower wants it urgently, or because borrower doesn't have stocks or doesn't have receivables that can be pledged/charged to the bank, borrower is given an adhoc facility called OD. It is very similar to Cash credit, the only difference is that it is given without formally assessing borrowers drawing power.

There are several important factors to consider while assessing the appropriateness of an overdraft as a source of funding for SMEs:

1. Like CC on overdraft also interest is charged further the interest may be higher as compared to CC because it is adhoc. The bank may also charge an overdraft facility fee.
2. Overdraft is short-term financing requirement & not to be used as a permanent source of finance.
3. Depending on the size of the overdraft facility, the bank may require the SME to provide some security - for example by securing the overdraft against tangible fixed assets or against personal guarantees provided by the directors.
4. The amount of an overdraft provided varies with cash flows of the business due to the timing of receipts and payments, seasonal trends in the sales etc.

Interactivity / Animation	

Special features	

Unit 3: Working Capital Products	Page No. 19

Practice question

Which of the following working capital finance facility is provided by banks by assessing borrower’s drawing power formally?

A. Overdraft
B. Cash Credit
C. Line of Credit
D. Receivable Financing

Correct Answer: B

Feedback loop	
A	Wrong, Only difference between Overdraft and cash credit is that OD is provided without assessing borrower’s drawing power
B	Correct, Cash credit facility is provided after assessing borrower’s drawing power.
C	Wrong, For providing this facility borrower’s drawing power is not assessed
D	Wrong, For providing this facility borrower’s drawing power is not assessed
Special features	

Factoring:

Factoring is another source for short-term working capital financing. Here, the accounts receivables are sold to a third party called factor at a discount and immediate money is received to finance running business. When order is completed, a factoring company buys the account receivable and takes care of the collection.

Some of the companies providing factoring services in India are India Factoring and Finance Solutions Private Ltd, HSBC Ltd, Canbank Factors Ltd, SBI Factors & commercial services Private Ltd, Foremost factors Ltd, Global trade finance Ltd, Export credit guarantee corporation of India Ltd, Standard Chartered Bank.

Factoring differs from loan in three ways which is explained with the help of Table below:

Basis	Factoring	Loan
Whose Credit worthiness is considered	Of Receivable	Of Firm
Efforts for obtaining	Easy to obtain	Not Easy to obtain
No. of Parties	Three Parties (Borrower, Buyer & Factor)	Two parties (Lender & Borrower)

Interactivity / Animation

Special features

Unit 3: Working Capital Products	Page No. 21

Export Credit:

Banks and financial institutions provide credit facilities for the purpose of exporting goods outside the country. This is provided in the form of pre shipment credit and post shipment credit to support exporters in meeting out their working capital requirements.

Pre shipment credit facility is given by a bank or financial institution when the exporter wants the payment of the goods before exporting the goods for the purpose of procuring raw materials, processing of raw materials, packing the goods, shipping the goods and to meet out other financial costs related with business.

Post Shipment Finance is a kind of credit provided by a bank or financial institution to an exporter or seller against a shipment that has already been made. Under it finance is granted for the period from the date of shipment of goods till the date of realization of exporter's proceeds.

Both pre shipment credit and post shipment credit are explained in detail in the module on export finance.

Interactivity / Animation	

Special features	

Unit 3: Working Capital Products	Page No.22

Short-term loan:

If new business does not qualify for a line of credit from a bank, it can apply for obtaining a one-time short-term loan which is given for a period of less than one year for the purpose of meeting out its temporary working capital needs. The bank would generally provide this facility to a borrower that already has a current account with them and has a good credit history. This is typically needed to meet sudden increase in working capital needs to meet requirements of a large order or to stock raw material in the lean season. This is granted in the name of Demand Loan repayable from the cash flows of the firm with a prescribed repayment programme.

SME Credit Card:

The purpose of SME credit card product is to meet both long term short term or credit requirements for personal use. It is available to small retail traders, professionals, self employed and other small enterprises with satisfactory track record for last 2 years. Credit card is generally allotted as part of working capital limits. The amount of credit extended would differ borrower to borrower and also from bank to bank. Here working capital sanction is valid for 3 years subject to annual review.

Interactivity/animation	

Special features	

Unit 3: Working Capital Products	Page No. 23

Artisans Credit Card:

This scheme provides loans to artisans to meet their credit requirements both for investments as well as working capital. Maximum loan under the scheme is 2 lakhs INR.

Bank Guarantee:

Bank guarantee is a guarantee from the bank ensuring that the liabilities of a debtor will be met. In other words, if the debtor fails to settle a debt, the bank will cover it. A bank guarantee enables the customer to acquire goods and thereby expand business activity.
When running a business, MSME units come across situation when client asks them to provide a financial guarantee from a third party. In such circumstances, it can approach its bank for a guarantee.

Interactivity/animation	
Special features	

Unit 3: Working Capital Products	Page No. 24

Practice Question:

Under SME Credit card working capital loan is provided for:

A. 1 Year

B. 2 Years Subject to annual review

C. 3 Years Subject to annual review

D. 5 Years Subject to annual review

Feedback Loop	
A	Wrong, It is valid for 3 Years Subject to annual Review
B	Wrong, It is valid for 3 Years Subject to annual Review
C	Correct, It is valid for 3 Years Subject to annual Review
D	Wrong, It is valid for 3 Years Subject to annual Review
Special features	

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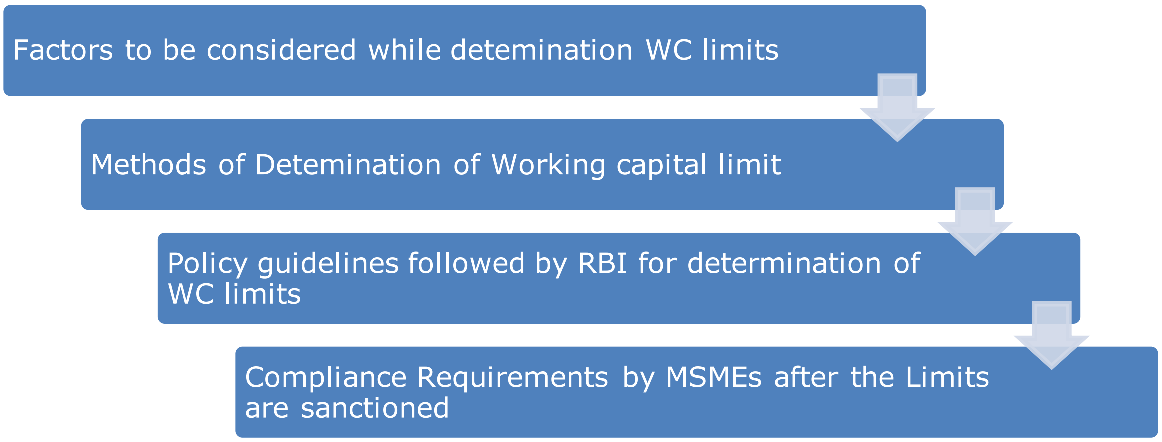
Unit 4: Banker's assessment of borrower's working capital requirements	**Page No 25**

In this section, we will learn the:



The above all points are discussed in detail in the following slides.

Interactivity / Animation	
Special features	

Unit 4: Banker's assessment of borrower's working capital requirements	**Page No. 26**

Banks consider a number of factors while assessing working capital limits of the borrowers that are mentioned below:

1. Nature & size of business?
2. Production policy
    - Working capital cycle
3. Seasonal variations
4. Stock turnover
5. Credit policy of the lending entity.

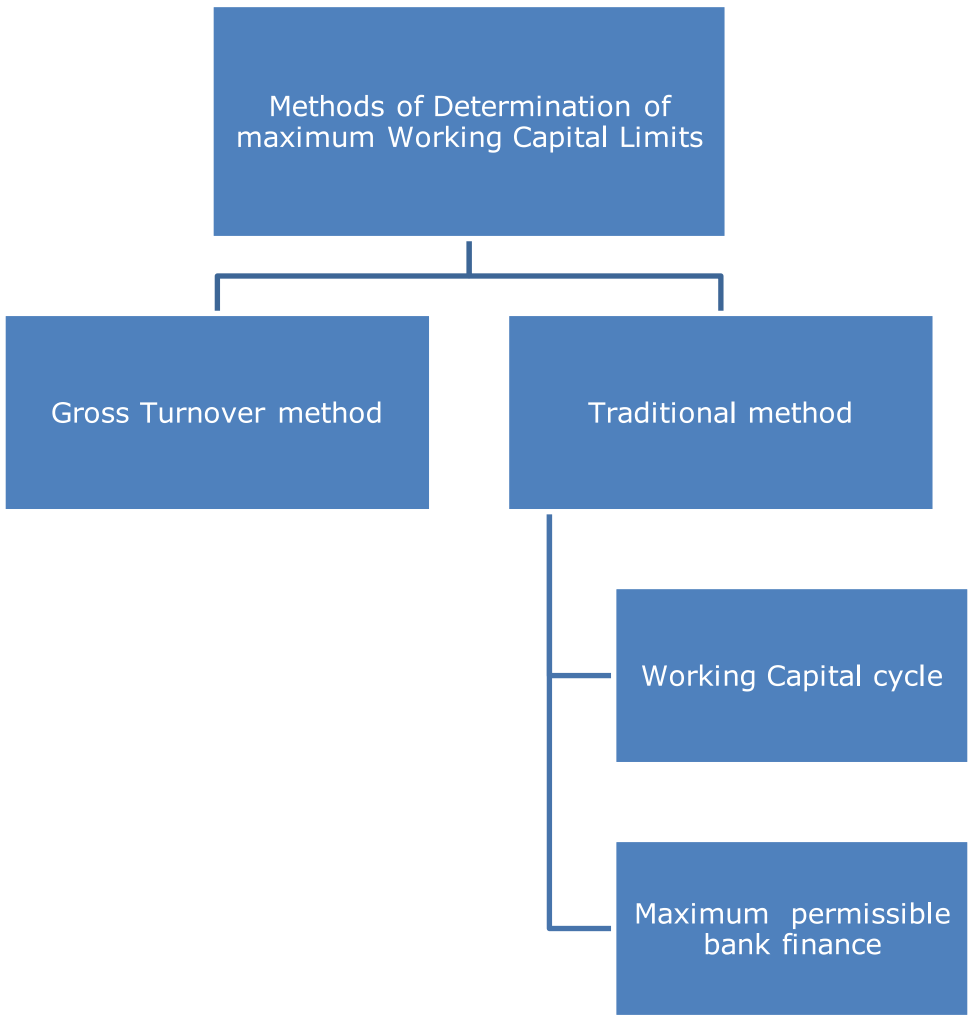
The banks by and large follow the RBI guidelines for assessment of working capital needs of the borrowers. However, they are allowed discretion in changing their specific guidelines to meet their borrowers' needs.

Special features	

Methods of determination of working Capital:

This slides discuss the methods of determination of working capital limits:

Figure No.5



All the above mentioned methods of determination of working capital are described below in detail.

Special features

Unit 4.1 Methods of determination of working Capital

1. **Gross turnover Method:** Under gross turnover method, 25% of the projected gross sales are determined as maximum working capital needed by the borrower.
   For SSIs banks calculate WC as 20 per cent of turnover, total WC 25 %, 20 % limit and 5% owner's contribution. For example; total turnover is Rs 1000 so the Quantum of working capital will be Rs 1000*0.20= Rs 200

2. **Traditional method:** Under traditional method, working capital is determined on the basis of:
   (i) Working capital cycle (Discussed in detail in the beginning of the module)
   (ii) Maximum permissible bank Finance (Discussed below in detail)

Special features

Unit 4.1 Methods of determination of working Capital	**Page No. 29**

Traditional method of determination of working capital limit: Banks are free to follow any of the traditional method. Mostly banks prefer maximum permissible bank finance because the calculations are more scientific under it. Traditional methods of determination of working capital are described below in detail.

1. **Working capital cycle:** Discussed in the beginning of this module. For example; if the working capital cycle is 30 days ie one month of sale and his annual turnover is Rs 360, then the working capital needs will be Rs 30 and the bank will fund 75 per cent of that which is Rs 22.50.
2. **Methods of arriving at maximum permissible bank finance (MPBF): There are two approaches**
   a. Bank could provide finance up to a maximum of 75% of working capital gap ensuring current ratio of 1:1. For example if CA is 100 and CL is 50 and working capital gap is 50, the bank will fund 75% of 50 or 40. Hence

current ratio = CA/(CL+bank borrowing)
=100/(50+40)
=1.0

This approach results in current ratio of enterprise being at 1

Special features	

b. Bank would fund the difference of 75% of CA and CL (CA*75% - CL). The borrower has to bring in 25 per cent of current assets as his contribution. The bank would fund the difference of remaining CA and CL, resulting in a current ratio of 1.33. Continuing with our example of CA being 100 and CL being 50. The borrower would have to bring 25% of 100 as his contribution.

CA= 100, 25 % to be funded by the borrower, remaining 75 will be considered for working capital gap calculations

Working capital gap to be funded by the bank= 75-50=25

Current ratio=(Ca/CL+bank borrowing))

=100/(50+25)

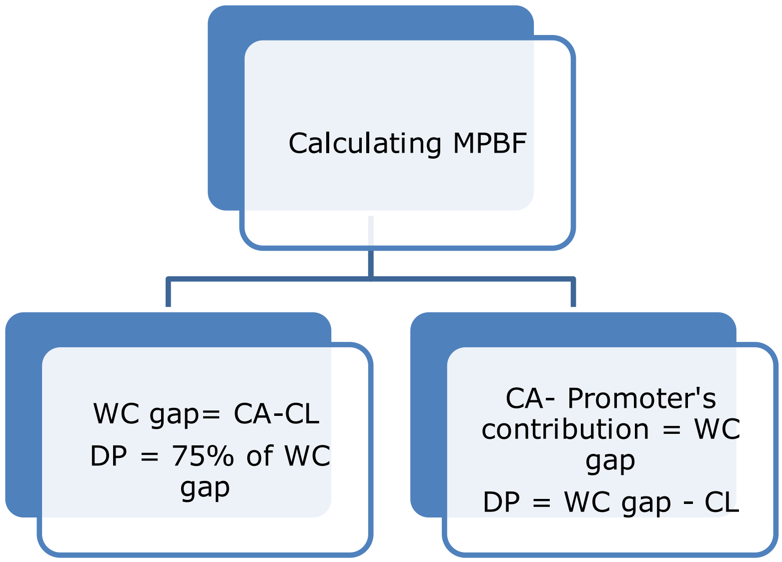
=1.33

This approach results ina current ratio of 1.33 for the enterprise, banks prefer this approach vis a vis the first one as it results in lower bank funding and higher promoter contribution.

Special features

The two methods for calculating MPBF explained in earlier slide have also been illustrated through a picture.

Figure No.7



Let us understand both the methods of calculating MPBF with the help of example taking current assets of Rs 1000 and current liabilities of Rs. 400

1st method of calculating MPBF	**2nd method of calculating MPBF**
WC gap = CA-CL WC gap = Rs 1000- Rs 400= Rs 600 DP = 75% of WC gap DP = Rs 600*0.75 = Rs 450	Promoter's contribution = 25% Promoter's contribution = Rs 1000*0.25 =Rs 250 WC gap = CA-promoter's contribution WC gap = Rs 1000- Rs 250 = Rs 750 DP = WC gap-CL DP = Rs 750- Rs 400 = Rs 350

Unit 4.1 Methods of determination of working Capital	**Page No 32**

Practice question

Please select leas accurate choice among Following statements

1. Turnover method is not used any longer for assessment of working capital requirement of an enterprise
2. MPBF refers to maximum permissible bank finance and is a method of calculating the maximum credit that can be given to an industry
3. Under MPBF, one of the method of calculating drawing power requires estimation of working capital gap
4. Bank normally do not finance more than 75 per cent of the working capital gap.

Feedback Loop	
A	Wrong, turnover method is very popular method of aseessing working capital requirements
B	Correct, MPBF calculates the drawing power (DP), the maximum amount of credit that can be given to an enterprise
C	Yes, DP is calculated as 75% of working capital gap
D	Yes, bank fund up to 75 per cent of the working capital gaap.

Special features	

Unit 4.1 Methods of determination of working Capital	Page No.33

Practice question

Please select leas accurate choice among Following statements

5. **Turnover method is not used any longer for assessment of working capital requirement of an enterprise**
6. **MPBF refers to maximum permissible bank finance and is a method of calculating the maximum credit that can be given to an industry**
7. **Under MPBF, one of the method of calculating drawing power requires estimation of working capital gap**
8. **Bank normally do not finance more than 75 per cent of the working capital gap.**

Feedback Loop	
A	Wrong, turnover method is very popular method of aseessing working capital requirements
B	Correct, MPBF calculates the drawing power (DP), the maximum amount of credit that can be given to an enterprise
C	Yes, DP is calculated as 75% of working capital gap
D	Yes, bank fund up to 75 per cent of the working capital gaap.
Special features	

RBI guidelines for working capital assessment:

RBI has prescribed a number of guidelines about how bankers should assess the working capital needs of a MSME. These are as under:

1. RBI guidelines stipulate working bank finance at minimum of 20 per cent of the projected turnover. Guidelines suggest that the assessment of working capital credit limits should be done both as per projected turnover basis and traditional method. If the credit requirement based on production/ processing cycle is higher than the one assessed on projected turnover basis, the same may be sanctioned.

For example:-

(A) Working capital bank finance assessment under projected turnover basis where projected turnover is Rs 1000 and working capital bank finance will be 20% of projected turnover ie (Rs 1000*0.20)= Rs 200

(B) Let us assume that working capital bank finance requirements as assessed under working capital cycle/production cycle/processing cycle is Rs 300.

Then higher of (A) or (B) ie Rs 300 may be sanctioned as working capital bank finance.

Special features	

2. The margin will be 5% of the turnover in all cases except where the working capital cycle is not taken at three months. Margin will increase in proportion to the period of operating cycle. No dilution is allowed from this minimum margin of 5% except is special cases like sick units or in case it is permitted lower than 5%

   2.1 While assessing the limits through traditional method the sub-limits against the various components of stocks and receivables should be fixed taking into account the existing norms of inventory and receivables as bench mark and bankers should be flexible and realistic while assessing the credit needs. For example; if the receivable or inventory needs are higher than 3 months then the banker should not fix the limit just by assuming 3 months of cycle and should take into account the existing norms which may be higher than 3 months as benchmarks for fixing the limits.

   2.2 When allowing drawing power on the basis of stocks and receivables then statements of actual turnover on a monthly basis or certificate from auditor's every 6 months in respect of actual sales and monthly stock statements for the inventory position have to be submitted to the bank.

   2.3 For existing units while checking the validity of projections for turnover, sales data from audited financial statements of last five years, estimates /provisional for the current year and projections for the next years would be used.

   2.4 For assessing working capital for seasonal industries both peak & non peak turnovers are to be considered.

   2.5 Banks decision regarding working capital assistance should be communicated to the applicant within 8-9 weeks.

Special features	

Unit 4.2: RBI guidelines for working capital assessment	Page No.36

Practice question

Bank's decision regarding working capital assistance, should be communicated to the applicant within:

A. 4-5 weeks
B. 6-7 weeks
C. 8-9 weeks.
D. None of the above

Feedback Loop	
A	**Wrong**
B	**Wrong**
C	**Correct**
D	**Wrong**
Special features	

Unit 5: Steps to be taken after loan disbursements	Page No. 37

After the loan has been disbursed banker has to ensure that borrower meets the compliance requirements for the loan at the time of sanction and also at the time of renewal of loan. The compliance requirements are given below:

Compliance Requirements from borrower after receiving WC loan: The borrower is required to submit monthly stock statements for the inventories and statements of actual turnover on a monthly basis or certificate from auditor's every 6 months in respect of actual sales. Debtor's confirmation letters are also required to be submitted on a periodic basis.

Renewal of WC facilities: Working capital facility has to be renewed every year. For renewal of working capital facilities the same procedure is to be followed as in case of applying for fresh limit. Therefore the documents that need to be submitted are KYC Documents, six month bank statement, two years income tax returns, two years balance sheet, profile of the company/firm etc.

Collateral security / Third Party Guarantee for working capital debts: For working capital loans that are secured against collateral security, the borrower is required to give immovable assets like land, building etc or immovable assets like fixed deposit receipts (FDR) as collateral security to bank. The following table gives information about exceptional cases where there is no requirement of collateral security /third party guarantee.

Particulars	**Explanation**
Working capital limits up to Rs 10 Lacs	No collateral Security required
Up to Rs 100 Lacs	For deserving cases covered under CGTMSE no collateral security required other than that it is required. However, bankers generally do not lend without collateral for amounts higher than Rs. 25 lakhs.

Interactivity / Animation	

Unit 6: Summary	Page No. 38

Any business requires two types of funds; long term to start the business and short term to run it successfully. Short term funds are generally termed as working capital debts. Working capital is required to meet out the day to day needs like payment to raw material suppliers, wages, salaries & other operational expenses. The sources of WC funds are equity, trade creditors, banks & financial institutions.

Quantum of WC is determined with the help of working capital cycle and several other factors. Working capital cycle is nothing but the time taken for converting cash to RM, RM to FG, FG to Receivables and Receivables into cash.

WC debt products are both fund based and non fund based. Fund based products include Receivable Financing, Factoring, Cash credit, Overdraft, Export credit, Line of credit, Bank Guarantee and short term loans.

The bankers assess WC requirements of a unit based on its working capital cycle. In order to simplify the working capital requirement calculation RBI has stipulate that it should be assessed at 25 per cent of the MSME turnover.

Post disbursal of working capital facilities the unit is required to submit stock statements, monthly turnover details and debtor's confirmation letter as specified at the time of sanction of WC limits.

Interactivity / Animation	
Special features	

Case study	Page No. 39

Ambika paper products is a manufacturer of paper bags, the company makes more than 100 varieties of paper bags, customized to different clients' requirements. Since the company makes different variety of bags, it has to stock different kinds of papers. Further, some of its raw material is imported and takes a month to be delivered as a result it has to stock extra quantity to avoid stock out situation. As a result Ambika's working capital needs are over 4 months of its turnover.

Ambika paper products banker has been concerned about the rising inventory level at the company. He says that overall working capital limits cannot be more than 3 months turnover, as per RBI guidelines.

Ambika has approached you to review its working capital limits, how should its working capital limits be decided

1. By turnover method, at 20 per cent of 3 months of turnover
2. Traditional method and it could exceed the limits decided by turnover method
3. By turnover method, but at 25 per cent of the turnover
4. Ambika should ask for adhoc limits

Correct answer:2

Feedback Loop	
1	Wrong, as per RBI guideline limits should be higher of the traditional or turnover method
2	Correct, since traditional method results in higher requirements than turnover method, so it should be followed
3	Wrong, turnover method doesn't allow limits to be assessed at 25 per cent, it should be 20 per cent. Further since traditional method is resulting in higher requirements, that should be followed
4	Wrong, adhoc limits are provided for situations that come once in a while, since Ambika needs higher credit on a regular basis , adhoc limit is not the solution
Special features	

Glossary	Page No. 40

BG- Bank Guarantee

CA- Current Assets

CC- Cash Credit

CGTMSE- Credit Guarantee Trust fund for Micro & Small Enterprises

CL- Current Liabilities

DP- Drawing Power

FG- Finished Goods

FIs- Financial Institutions

KYC- Know your Customer

LC- Line of Credit

MBPF- Maximum Permissible Bank Finance

MSME-Micro, small and medium organization

NABARD- National Bank for Agriculture & Rural Development

OD- Overdraft

RBI- Reserve Bank of India

RM- Raw Material

SIDBI- Small Industries Development Bank of India

SFC- State Finance Corporation

SME- Small & Medium Enterprise

SSI- Small Scale Industry (Micro and small enterprises)

WC- Working Capital

Interactivity / Animation	

Special features	

Author: Date:
Course Group: MSME financing Version: First/Reworked/Final
Course Name: Credit appraisal

Product Name	
Course Group	**Loan disbursal Process in banks**
Course	**XXX**
No. of Screens	**34 (including quiz)**
Author	**B. Yerram Raju**

Please note that all "Sample Course Contents" are in black color. Green colored text indicates instructions for ease of understanding and is highlighted with turquoise color.

Welcome page	Page No. 1

Course group: loan disbursement Process in banks

Course name: XXXX

Course description: This course covers a brief about the processes performed by the banks before/after providing loans to the MSME clients. It also explains about various divisions of the banks that are involved in credit processing and disbursal. The course would cover the following

- Lead generation process
- Pre and post disbursal documentation process
- Functions and role of different divisions in a bank that are involved in credit processing and disbursal

Interactivity / Animation	
Special features	

Job aids	**Page No. 2**
For this course your job aids are:- 1. Flowcharts 2. Exercise 3. Quiz	

Interactivity / Animation	

Special features	

Unit 1: Objectives	Page No. 3

On completion of this course, you will be able to understand the following in the credit appraisal process:

- Roles and functions of various departments involved in loan processing
- Policy guidelines for credit appraisal/ disbursal in a bank
- Sources of SME lead generation
- Documentation required for SME loan

Level: Basic

Interactivity / Animation	

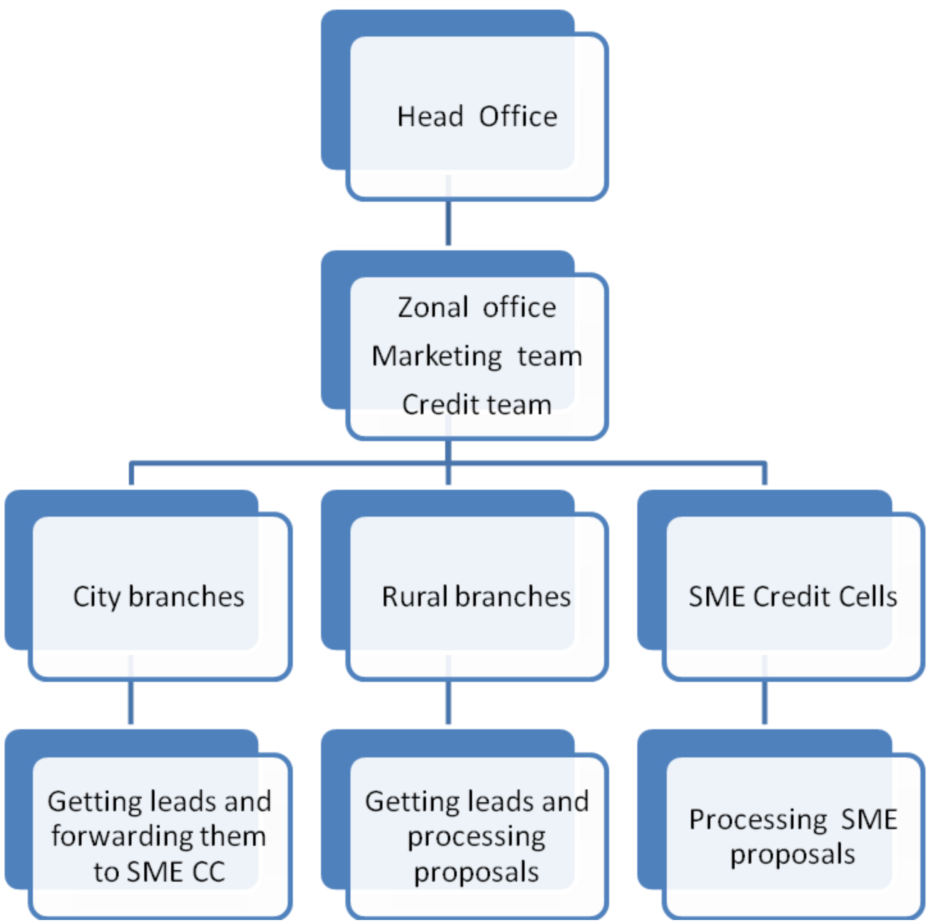
Special features	

Unit2: Introduction to loan disbursement process	**Page No. 4**

The loan disbursement related processes in the bank can be divided into three parts-

1. Getting the lead- Responsibility of marketing team/relationship managers/branch managers
2. Credit appraisal and documentation- Done by credit team
3. Loan disbursal- Done by operations team
4. Post loan monitoring- Done by the Credit team and relationship team

The structure of various departments involved in lending/disbursal is shown in figure below.



under

Interactivity / Animation	

Special features	

Unit 2: Introduction	Page No. 5

Departments involved in Loan disbursement

Most Banks have decentralized functional units in the name of circle offices,zonal offices and regional offices depending on the spread of their branches for effective monitoring and control. Several have circle offices at the State headquarters while at the district and sub-district levels they have zonal and regional offices. Smaller banks have only corporate offices and zonal and regional offices. Each decentralized unit has separate delegation of powers vested with the functional heads to sanction loan limits to various types of market segments: agriculture, MSMEs, other retail loans and corporate loans. This zonal office supervises all the branches and credit cells for a particular region. The branches are of three types

1. City based branches- These may or may not specialize in MSME; however, all branches in a city generally forward the proposals to SME credit cell (SME CC) for credit assessment. Since city based branches are generally in the vicinity (within 30 kms) of SME credit cell, it is convenient for SME cell officers to monitor city based accounts/customers.

2. Rural branches- These branches are generally far from SME CC and hence SME credit cell officers are not available to them for credit appraisal and monitoring. These process the proposals at the branch level itself and they have both relationship managers and credit staff, sometimes at the branch level and in others at the level of group of branches.

3. SME Credit cells- Largely process credit proposals, these also have their own relationship staff.

Broadly, bank's credit functions can be divided into two categories
Sales division, which is the face of the bank to the client; it is responsible for getting clients on board and understanding their requirements. Sales/relationship staff is mostly based out of bank branches, while credit staff can either be located at branches or at MSME credit processing cells.

The credit division performs functions like credit assessment of clients, loan processing and credit monitoring among others.
In some banks the activities of credit assessment and loan processing and disbursement is performed by different departments, to better align the responsibilities among different departments. We will discuss role of sales team and Credit team in detail over the next few slides.

Interactivity / Animation	

Special features	

Unit 2 : Practice Question	**Page No. 6**

Given below are some statements about the role of credit and sales function in a bank, which of them is lease accurate?

A. The credit team is mostly at the SME CC, and relationship team in the branches
B. All SME credit proposals are processed by SME CC only, branches do not have credit processing function
C. The post loan monitoring is done by credit and relationship team
D. The credit and relationship officers may report to the branch manager

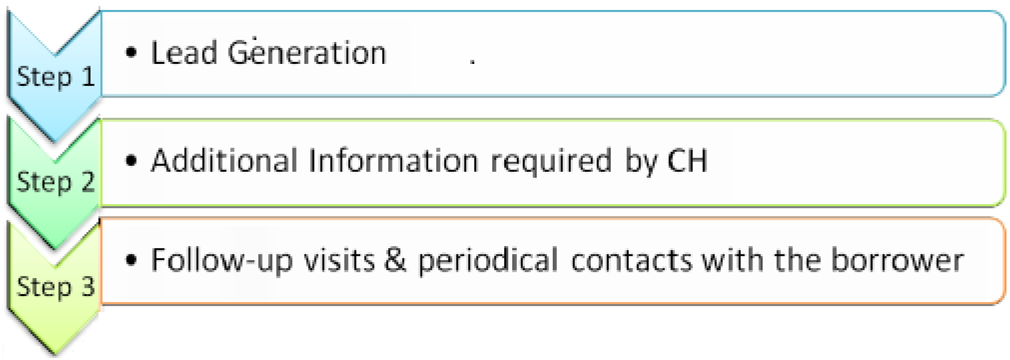
Feedback loop

A.	Correct, the credit team for SME proposals is mostly located in SME credit cells and relationship managers are generally located in branches
B.	Wrong, rural branches have their credit processing team, they do not send their proposals to the SME CC
C.	Correct, both credit officer and relationship manager monitor the account
D.	Correct, the credit officer and relationship manager report to the branch manager

Special features

Unit 3 : Loan lead generation	Page No. 7

Loan lead generation is done by the relationship /sales team. Sales team is located in zonal offices, branches and in SME loan factory. Usually the branch manager is responsible for getting the sales lead and he is given specific MSME lending targets. The sales team reports to the branch managers, who in turn report to zonal offices Following is the diagrammatic presentation of the functions performed by the sales Hub:



Lead origination: When the client shows interest in taking loans and gives the relevant papers. It's when the loan proposal first comes to the bank. (use loan origination instead of generation at all places where loan generation is used)

Proposal generation: Preparation of proposal from the lead which is sent to the credit hub for processing.

The sales hub demands all the additional information from the client on behalf of the credit hub and periodically contacts the borrower.

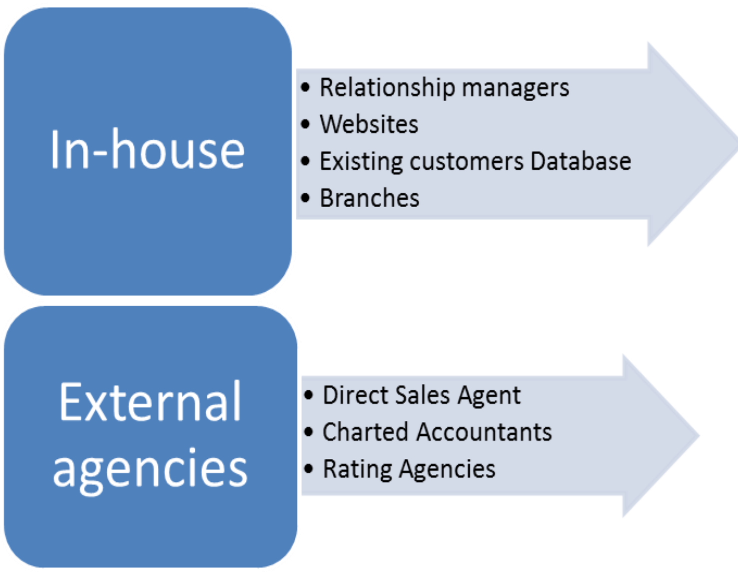
Interactivity / Animation	

Special features	

Unit 3: Loan lead generation	**Page No. 8**

Sources of Leads

The most important function of sales hub is lead generation. This can be done through two channels as depicted below. The person in charge of lead generation/marketing is called relationship manager.



Interactivity / Animation	

Special features	

Unit 3 : Loan lead generation	**Page No. 9**

Responsibilities of Relationship manager:

- Visiting industrial Estates to meet the prospects
- Following up with existing clients to understand their new requirements
- Following up on the online loan applications that bank may have received
- Participating in the Events/conferences to keep track of industry related events
- Meeting with MSME industry association staff to understand loan requirements of their potential clients
- Meeting with Government Institutions such as staff of District Industry Centres, MSME development Institutes to generate leads
- Communicating with the credit team about the status of loan proposals

Interactivity / Animation	

Special features	

Unit 3 : Practice Question	**Page No. 10**

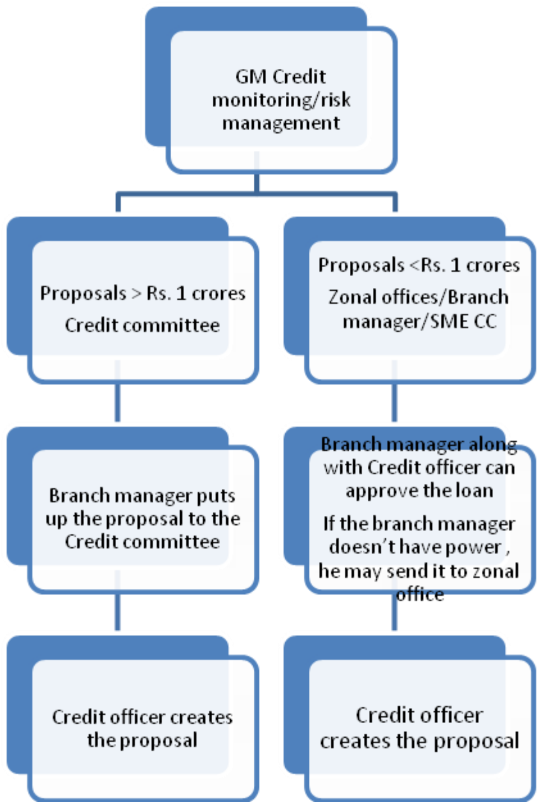
Which of the following is a not a function performed by sales hub

A. Lead generation
B. Follow up visits
C. Contact with the borrower
D. Proposal generation

Feedback loop	
A.	Wrong, Lead generation is done by sales hub
B.	Wrong, Follow op visits is done by sales hub
C.	Wrong, Contact with the borrower is done by sales hub
D.	Correct, proposal is prepared by credit hub for submission to sanctioning committee
Special features	

Unit 4 : Credit functions	**Page No. 11**

The credit functions involving appraisals, document verification and post loan disbursement monitoring are carried out by credit team. The following diagram explains the structure of credit department.



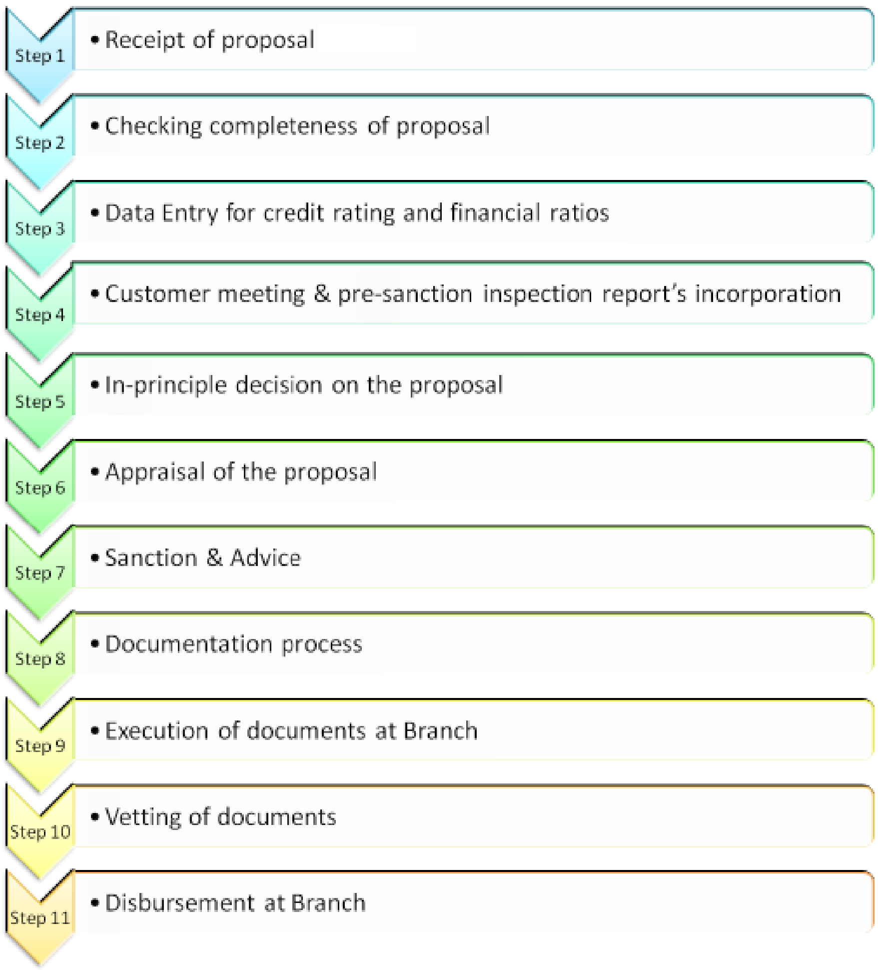
Function of credit department

- Study of loan proposals/ leads generated by sales team and provide their recommendation on the borrower's credit worthiness
- Management of delinquent and overdue accounts
- Pursuing legal action against those who do not repay their loan
- Monitoring of credit performance through regular interaction with the borrower
- Ensuring that documentation as prescribed by regulations and internal policy have been obtained before approving loan

Interactivity / Animation	
Special features	

Unit 4.1: Credit appraisal	**Page No. 12**

Credit appraisal involves verification and validation of data and information furnished by the applicant(s). The following diagram shows the steps performed by credit department before loan is disbursed-



iness of the borrower	
Special features	

Unit: 4.2 Verification of MSME	**Page No. 13**

During the course of credit appraisal, credit team verifies many documents for establishing their genuineness. Some of the important documents are:

1. ROC search report: Performed for limited company to check whether the company is registered or not. It cannot be done for proprietorship/partnership firms. It is to ensure whether there is charge against the company, whether the balance sheet submitted to bank is the same as the one submitted to the registrar. The search report is done by Chartered Accountant.

2. Legal search report: Prepared by empanelled advocate of the bank. It is to check whether the land/collateral is mortgagee or not, to ensure that there is no legal restrictions on the collateral.

3. Valuation report: Prepared by the empanelled valuer of the bank. He does the valuation of the collateral to ensure whether the collateral is worth the value which the borrower is claiming.

4. CIBIL report: Done to check the credit worthiness of the borrower, to ensure there are no filed cases against him. Moreover it can also disclose if the borrower has applied for loan to other banks.

5. RBI willful defaulter's list: It is to ensure the borrower name is not in the list. The list is updated by all banks into RBI's database of the defaulters and the information can be checked there.

6. Pre-sanction inspection: Done by the bank officials to inspect the securities. Also they look at the present status of the project in case of term loan facility.

7. TEV (Techno economic viability) report: Performed to ensure that the proposal is techno-economically viable.

8. Credit Rating: If the bank has taken the Crisil Model for rating. Crisil Input sheet is first filled according to the model and then rating is done as per the model.

For advances accounts in excess of certain aggregate limit (as per banks policy), the documents are verified by the bank's Legal department.

Interactivity / Animation	

Special features	

Unit: 4.3 Loan documentation	**Page No. 14**

Credit department is also responsible for proper documentation. The execution of documents in proper form and according to the requirements of the law is known as documentation. Documentation establishes the legal relationship between the lending bank and the borrower. The terms and conditions of loans and advances, the securities charged and the repayment schedule are recorded in writing.

Documents are necessary for acknowledgement of the debt by the borrower and charging of securities to the bank. Proper and correct documentation is essential not only for the safety of loan but also necessary for taking legal action against the borrower in case of non-repayment of dues. Depending on the types of loans and advances different documents are required. The **key documents** required are listed below:

- Demand promissory (DP) Note;
- Letter of pledge (in case of pledge of goods);
- Letter of hypothecation (in case of hypothecation of goods);
- Letter of Lien and ownership (in case of advance against share);
- Letter of lien for packing credit (in case of packing credit);
- Letter of lien (in case of advance against FOR);
- Legal documents for mortgage of the property (as drafted by legal advisor);
- Credit rating documentation;
- Correspondence with Chartered accountant (if authorized by the borrower), etc. if any;
- ROC report
- Statement of personal net worth of individual/promoter;
- Bank statement of individual/promoter;
- Financial Statements of company;
- Trade License of the borrower;
- Valuation report of collateral and collateral Visiting Report;
- Business team/Sales team site visit report;
- Guarantor details;
- Stock Report;

All required documents are obtained before any loan is disbursed to the borrower. Sanctioning authority ensures that all the required documentation has been completed before giving approval.

Interactivity / Animation	

Special features	

Unit: 4.4- Other Credit functions	Page No. 15

The credit team is also required to determine the interest rate to be charged on the loan and collateral required for the loan. Further, the team has to insure the assets that the borrower is pledging to the bank. These functions are enlisted below:

- **Determination of Interest rate**

Depending on the credit rating, interest rate for the loan is determined. Lower the credit rating higher is the interest rate charged and vice versa.

- **Collateral requirement**

Each loan application is assessed and suitable margin/securities/collateral is stipulated based on risk assessment and bank's guidelines.

- **Insurance**

All assets (stocks / fixed assets) charged to the bank as security for advances are comprehensively insured against the risk of theft/fire with an insurance company. Insurance charges are generally paid by the borrower. The credit officer ensures that the insurance is renewed form time to time till the loan is completely repaid. In case the borrower has not renewed insurance, the matter is brought to the attention of higher authority of the bank. It is not uncommon that the banks take an authorization to debit the insurance premium to the borrower's deposit account/loan account (if the credit limits allow) on the date when the premium falls due for renewal). The Bank on its part is expected to maintain a daily list – that may pop up on the computer screen of the loan account that the insurance premium is due for renewal on the relevant date)

Interactivity / Animation	
Special features	

Unit 4.4: Practice Question	**Page No. 16**

Given below is a list of documents that are required to be submitted by the MSME to avail a loan, which of the following is not needed

A. Statement of personal net worth of the promoters
B. Financial statements of the company
C. Valuation reports of the property
D. CIBIL score of the promoter

Feedback loop	
A.	correct, Statement of personal net worth of the promoters is needed
B.	Financial statements of the company are required
C.	Valuation reports of the property are required
D.	**CIBIL score of the promoter is not required to be submitted by the MSME, bank accesses this data from CIBIL website**
Special features	

Unit: 4.5 Credit committee	**Page No. 17**

A credit committee is appointed by the Boards of Directors (BOD) of the bank to oversee the credit risk of the bank's portfolio. There would typically be at least one credit committee per regional office; sometimes there can be more than one committee to look into different kinds of proposals. The credit committee has two core functions:

- Overseeing the credit risk management of the bank, including reviewing internal credit policies and establishing portfolio limits;
- Reviewing the quality and performance of the bank's credit portfolio; and
- Sanctioning of credit to the borrower.

Credit committee also has the final authority to approve the loan to the borrower. The Committee can also make changes to the credit terms proposed by the credit department. Committee can altogether reject the loan application of the borrower.

The Committee reports directly to the Board. The Committee monitors the credit risk management of the bank and is responsible for establishing the Bank in-house lending limi**t** for different sectors.

The Committee reviews the Bank's compliance with regulatory and internal policies, including any legal and in-house lending limit restrictions. It also reviews the strategies to develop and achieve the credit and lending goals of the Bank.

Interactivity / Animation	
Special features	

Unit 4.6 : Credit Function-Credit policy	**Page No. 18**

Credit Policy

All credit related decisions of a bank are governed by a credit policy of the bank. Separate policies are formulated for SME sector. SME Credit policy covers the following aspects-

- Structure of loan administration department
- Documentation required while approving or disbursing a loan
- Disbursement process of SME loan
- Bank wise and industry wise exposure limit for SME loans
- Monitoring process of SME loan
- Risk Management capacity of the bank, including staffing professionals with adequate experience
- MIS to be generated for loan performance monitoring
- Comprehensive recovery procedures for the delinquent loans;
- Training programs for bank staff involved in MSME lending

Interactivity / Animation	

Special features	

Unit 4.7: Centralized Processing Hub/SME loan factory	Page No. 19

SME credit Processing Cells

Most banks in India have established Centralized Cells (CC), such as Retail Hubs and SME Loan Factories, wherein several erstwhile branch-based credit functions have been shifted. Under this model separate hub for centralized processing of SME proposals is developed. It results in bank having two nodes to take care of the marketing/sales and credit processing sanction (as discussed before), under a single umbrella of the SME Loan Factory.

SME CCS enhance lending capabilities, they improve risk control and reduce branch workload making them more focused on originating loan applications and developing client relationships. This model is adopted by the banks for hassle free and faster dispensing of loan to SME segment.

Characteristics of the model are:

- Team of officers having expertise in credit management is selected to process the loan facility.
- Bank may select appointed officers from existing dedicated team only, instead of appointing direct selling agents.
- The hub's role is ensuring speedy appraisal & sanctioning of proposals pertaining to SME sector in a time bound program.

Interactivity / Animation	

Special features	

Unit 5 : Disbursement of loan	Page No. 20

Loan disbursal is the responsibility of operations department. Operations department after ensuring that the borrower has complied with the conditions for availing the loan (as directed by credit committee or otherwise) disburses the loan to the borrower.

Documentation performed at the time of disbursal:

Disbursement of loans sanctioned is to be made in strict compliance of terms and conditions including execution of loan documents governing such sanction. Important aspects of documentation with reference to the loan disbursement include:

- The nature and description of the security, offered for the advance, and the terms and conditions of sanctioning the advance.
- Bank's rights for taking possession of securities when necessary. When a default takes place, as a last resort. Documents obtained by the Bank form the basis upon which the Bank may file a suit, as and when found necessary, in a competent court of Law against the defaulting borrower/guarantor.
- Creation of Security is also an important aspect involving creation of mortgage, assignment etc. Such charges are also registered with competent authorities in case of certain type of organization say with Registrar of Companies (ROC) in case the borrower is a company.
- Execution of loan documents, including the DP Note, should corroborate with the date of first disbursement of the loan. Date of execution should be recorded without fail.

Changes in Terms and conditions relating to loan:

Any change in terms and conditions, including interest rate and service charges, is authorized by the sanctioning committee and is informed in writing to the borrower. Consequent upon such changes any supplemental deeds, documents or writings which are required to be executed, is advised to the borrower. Availability of facility is subject to execution of such deeds, documents or commitment of the borrower in writing. Disbursing authority is solely responsible for proper execution and maintenance of the documents relating to the loan account.

Interactivity / Animation	
Special features	

Unit 5.1: Post disbursement Supervision	Page No. 21

Post disbursement supervision by credit department

Credit department of the bank on on-going or at regular intervals (as per the bank's credit policy) reviews the performance of the credit. This exercise is done to assess the changing credit quality of the borrower in light of the changing economic, product and technical factors. Post sanction supervision can raise potential red flags before the credit comes under stress, in which case the bank can engage with the borrower for remedying the situation in time.
If allowed as per the agreement, bank gives reasonable notice to the borrower in case it recalls/accelerates the payment or performance of the sanctioned loan or seeks additional securities to safeguard the interests of the bank.

All securities pertaining to the loan are released on receipt of full and final payment of the loans. This is subject to any legitimate right or lien and set off for any other claim that the Bank may have against the borrowers. Whenever such securities are returned, all the documents should be duly cancelled by scrolling two lines across the documents to ward off any unwarranted future claims on the bank. It is the sole responsibility of the bank to keep the title deeds and document history including legal opinion on the properties/assets pledged in state of good retrieval.

Copy of loan documents, along with a copy each of all relevant enclosures quoted in the loan agreement is furnished to all the borrowers at the time of sanction/disbursement of loans.

Interactivity / Animation	

Special features	

Unit 5.1 : Practice Question	Page No. 22

Why is post disbursal supervision performed

A. To assess the changing credit quality of the borrower in light of the changing economic, product and technical factors
B. To provide further credit to the borrower
C. To verify that the documentation aspects of the credit is complete
D. None of the above

Feedback loop

A.	Correct, banks on a timely basis (as per the banks policy) reviews the performance of the credit. This exercise is done to assess the changing credit quality of the borrower in light of the changing economic, product and technical factors.
B.	Wrong, It is mainly done to verify the credit quality of the borrower and not to assess future requirements, however it may lead to an enhancement/curtailment in the borrowers credit availability
C.	Wrong, This function is taken care of by audit team of the bank
D.	Wrong, Refer point A above

Special features

Unit: Summary	Page No. 23

The loan disbursement process in a bank can be divided into four steps; lead generation, credit appraisal, documentation and verification, loan disbursement and post disbursement supervision.

Lead generation is done by the relationship managers, who are based out of bank branches, SME credit cells and zonal offices.

Credit appraisal is mostly done by SME credit cells. Most banks have specialized cells for processing MSME credit proposals. Other than credit cells, some MSME branches have their own credit staff. The credit cell puts up the proposal for approval and ensures that documentation for the proposal is in order. Further, the cell also monitors the performance of the account frequently.

Credit disbursement is generally done by the operations team in the local head office.

After the credit disbursement, the performance of the loan account is monitored frequently by relationship manager and the credit officer. The relationship manager periodically visits the client and collects the performance related data, which is analyzed by the credit cell.

Interactivity / Animation	

Special features	

Glossary

SME CC: SME Credit Cell

ROC: Registrar of companies

Lien: The legal right, generally created in favour of lender to sell the collateral submitted by the borrower if he fails to pay his obligations.

CIBIL:

CRISIL:

Interactivity / Animation	
Special features	