Confederation of Indian Industry

Financing for MSMEs
The eastside story

www.pwc.com/india

Foreword

The Micro Small and Medium Enterprise (MSME) sector in India is essential to achieving the targeted growth rate of our nation. This sector nurtures budding entrepreneurs and incubates innovation at its most rudimentary level. A growth in the MSME sector not only ensures industrialisation in backward areas, but also indicates a more equitable Gini coefficient. In the last five-year plan, this sector demonstrated an average growth of 12%, raising the share of the manufacturing sector in GDP to 16%. With the country moving towards a more inclusive growth agenda, a robust MSME sector can accelerate the growth rate, as they do not necessitate huge investments while simultaneously acting as ancillary units to larger industries. Hence, for the growth of the manufacturing sector in the country and specifically in the eastern region, there is a need to focus on the MSME sector.

Albeit the sector has shown impressive potential, it also faces a number of challenges to its growth story. MSMEs suffer the high cost of credit which does not reach them on time. There is inadequate capital infusion compounded by insufficient data on credit requirement.

To address such issues, various central and state government schemes have been rolled out supported by government bodies, banks and financial institutions to infuse funds in this sector. Central government bodies such as the National Small Industries Corporation which assists small units by forwarding requisite machinery, play an important role. The Small Industries Development Agency is a unique single-window service for SSI units. The Reserve Bank of India Rural Planning and Credit Department acts to refinance nationalised banks and financial institutions in the industry sector. The credit guarantee scheme i.e. CGTMSE facilitates collateral free credit and merit based lending. Schemes like TUF (Technology Upgradation Fund) provide technological inputs to the beneficiary units.

This study attempts to document the various schemes and new financing methods available for MSMEs and provide them with a roadmap for optimal use. The report delineates the pivotal role of the credit rating agencies in assessing and establishing the authenticity of firms who seek financial support. It also highlights alternative financing options like venture capital, factoring and supply chain financing as a route to access capital from bank and non bank sources. The innovative platform provided by the recently introduced SME Exchange, that promises to give the SMEs a much needed access to low cost equity capital, has also been analysed.

This CII-PwC report focuses on financing solutions for MSMEs in east India and provides a roadmap for MSMEs to overcome liquidity issues.

MSMEs and their financing

Overview

The MSME sector in India is incredibly heterogeneous in terms of size of the enterprises, variety of products and services produced and levels of technology employed. As per the Micro, Small and Medium Enterprises Development Act of 2006, enterprises with the capital investment (plant, machinery and equipment) levels within 10 crore INR (for services worth 5 crore INR) qualify as MSMEs.

The MSME sector contributes in a significant way to the growth of the Indian economy with a vast network of over 32 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly.

It is an acknowledged fact that the MSME sector can help realise the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022. However, this sector has faced certain impediments to growth, owing to some historical factors discussed below.

Challenges

Despite showing a robust growth rate of over 10% over the last 5 years, the MSME sector is beset with operational problems due to size and nature of business. In 2010, the Prime Minister of India appointed a task force set up under the chairmanship of the Principal Secretary, to consider various issues raised by MSME associations, discuss with the stakeholders and chalk out an action agenda. The key issues identified by the task force, and subsequently taken up by the Planning Commission in the 12th plan are as follows:

Financing related	*Legal and tax related*
• Non-availability of adequate and timely credit; • High cost of credit; • Collateral requirements; • Limited access to equity capital.	• Multiplicity and procedural complexity of labour laws; • No mechanism for quick revival of viable sick units and speedy shutdown of unviable ones; • Issues relating to taxation, both direct and indirect, and procedures thereof.
Operations related	*Infrastructure and technology related*
• Problems in supply to government departments and agencies; • Cost efficient procurement of raw materials; • Problems of storage, designing, packaging and product display.	• Lack of access to global markets; • Inadequate infrastructure; • Lack of access to modern technologies; • Lack of skilled manpower in manufacturing, services, marketing, etc.

Various action points were included in the Task Force's recommendations, but the financing problems still persist. MSME owners generally have limited access to credit. This forces them to borrow from unregulated lending markets or from their own dealers and they end up paying much higher interests. Not only does this lead to overpricing of products, but also limits the MSME owners' ability to add value, upgrade technology, quality and adopt modern management techniques. Thus availability of credit at affordable cost is critical for Indian SMEs.

Financing of MSMEs

MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:

- Retained earnings, funding through sale of assets
- Ancestral capital, personal savings, loans from relatives, loans from unregulated market
- Institutional financing from scheduled commercial banks
- Venture capital funds/ seed funds

Among the formal financial institutions, commercial banks constitute the largest source of financial assistance for the MSME sector at about 87% as of 31st March 2011. The outstanding MSE credit by SCBs recorded a strong growth of 34% in FY 2011 on a strong base of 3,62,291 crore INR as of 31st March 2010.

The traditional and emerging options for financing MSMEs in the eastern states of West Bengal, Bihar, Odisha, Jharkhand and Chhattisgarh, MSMEs have been discussed in the subsequent section.

MSME financing in eastern India

Traditional financing options

The number of new MSMEs has been consistently increasing across the nation. Financial support can be attributed as a reason for this. This has been possible through various debt instruments, limited equity capital and a slew of government schemes. However, the picture is less rosy in the eastern region of India. To address this, many schemes for the development of MSMEs have been launched by the central and state governments. Many central and state institutes provide varied assistance for the growth of MSMEs in eastern India.

Financial support from public sector banks

Public sector banks have been pioneers in providing financial assistance to several MSMEs which can approach the banks for loans under various schemes. The government of India has shown strong commitment to double the credit flow to this sector in the next five years. Hence the RBI has mandated scheduled commercial banks to achieve 20% year-on-year credit growth to the MSME sector. MSMEs needing financial assistance can approach the banks for aid as per the specific schemes constituted for different types of financial aid. These schemes offered by multiple banks are expanded in Appendix B.3. Also, certain public sector banks provide MSMEs with various bank-specific schemes which have been expanded in Appendix B.4.

Government institutes and schemes

Central institutes and schemes

The following table captures in brief the nodal government bodies looking after MSME development and some of the central government financing schemes available.

Name of scheme/ institute	Nature of assistance
National Small Industries Corporation (NSIC)	Financial and marketing assistance to the small scale unit supplying requisite machinery on hire purchase and leasehold basis
Small Industries Development Agency (SIDA)	Single window service for SSI units
Credit Linked Capital Subsidy Scheme (CLCSS) (by various banks and institutes refer to appendix A.2)	Facilitates technology upgradation of micro and small enterprises. The scheme provides 15% capital subsidy on institutional finance availed by them for induction of well-established and improved technology in approved subsector products. The maximum limit of loan for calculation of capital subsidy under the scheme is 100 lakh INR with a maximum subsidy of 15 lakh INR.
PMEGP Training Programme	Beneficiaries can set up micro enterprises by availing of margin money subsidy of 25% (35% for special categories) of the project cost in rural areas. The maximum cost of the projects assisted under PMEGP is 25 lakh INR in the manufacturing sector and 10 lakh INR in the service sector.
Small Industry Development Bank of India (SIDBI) (Eastern Regional Office)	Promotion, financing and development of the small scale sector, and co-ordination of the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector. SIDBI also refinances institutions such as state financial corporations (SFCs), state industrial development corporations (SIDCs), and commercial banks against loans granted to the small-scale sector. SIDBI also acts as financer for small-scale projects directly on a selective basis. Products and servies offered by SIDBI may be broadly classified: **Institutional:** Focuses on refinance schemes, like Mahila Udyam Nidhi, finance to small transport operators, technology upgradation fund for textile units, loans for acquisition of ISO certification, self-employment loan for ex-servicemen, single window finance for short term credit, all of them operated through SFCs or SIDCs or primary lending institutions or Banks or other microfinance institutions, depending upon the category of loans. **Promotional:** SIDBI acts as a nodal agency for several Government schemes such as Technology Upgradation Fund Scheme for the textile sector, Integrated Development of Leather Sector Scheme for the leather sector and Modernization/Upgradation of Food Processing Industry. SIDBI Venture Capital Fund Ltd (SVCL) manages two funds set up by SIDBI at the national level. • The National Venture Capital Fund for Software and IT Industry (NFSIT) is worth 100 crore INR, established with the focus of supporting incubation projects of small-scale units in the IT and related business. • The SME Growth Fund has a corpus of 500 crore INR which targets growth-oriented businesses in the areas of life sciences, retailing, light engineering, food processing, IT, infrastructure related services, healthcare, logistics and distribution, for making primary equity and equity related investments.
National Bank of Agriculture (NABARD)	Assistance and refinance to farm and rural development agro processing sector

Name of scheme/ institute	Nature of assistance
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	CGTMSE, established jointly by SIDBI and the government of India, extends credit facilities to the micro and small enterprises sector. The mandate is: Credit facilities, including term loans, fund and non-fund based working capital facilities up to 1 crore INR extended to micro and small enterprises are guaranteed up to 80% of the amount in default, subject to a maximum of 65 lakh INR. With regard to loans up to 5 lakh INR to micro units, the coverage is 85%. Loans guaranteed under the scheme carry zero percent risk weight and provision for the lending institution for the guaranteed portion. The scheme also facilitates lending institutions by the evaluation of the credit proposals on the basis of intrinsic merits of the projects, rather than merely on adequacy of collaterals.
Reserve Bank of India Rural Planning and Credit Dept	Providing refinance to nationalised banks and financial institutions in the industry sector and framing of policy decision in the working of banks
Exim Bank	Credit facilities are available for financing all stages of the export cycle of Indian firms. The bank's lines of credit (LOC) extend to commercial banks, financial institutions, regional development banks, and entities overseas serve as a market entry mechanism to Indian exporters and provide a safe mode of nonrecourse financing option to Indian exporters. The bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help SMEs, to offer competitive credit terms to the buyers and to explore newer geographical markets.
TUF	TUF facilitates those SMEs that look to improvise their technological skills. It provides 15% margin money subsidy for the SSI textile and jute sector in lieu of 5% interest reimbursement on investment in TUF compatible specified machinery subject to a capital ceiling of 200 lakh INR and ceiling on margin money subsidy 15 lakh INR. A minimum of 15% equity contribution from beneficiaries is ensured.
CLCSS	Under CLCSS, tiny units with investment in plant and machinery of less than 10 lakh INR are eligible for a loan support of upto 8 lakh INR. Tiny units with investment in plant and machinery between 10 lakh INR to 25 lakh INR are eligible for a loan support of upto 20 lakh INR. Small units with investment in plant and machinery of above 25 lakh INR are eligible for a loan support of upto 40 lakh INR.
Interest subsidy scheme of IPR, which works effectively with the active assistance of banks and financial institutions	The interest subsidy scheme helps in dispensation for labour-intensive industry by extending the facility of 2% interest subvention for handlooms, handicrafts, carpets and small and medium enterprises (SMEs).
NEF	Under NEF, loans are given to firms with a project cost (including margin money for working capital) not exceeding 50 lakh INR in case of new projects. No interest is charged on the loan component except service charge of 5% p.a.
Scheme of Fund for Regeneration of Traditional Industries (SFURTI) through Coir Board	75% for CFC, technology upgradation, product development and 100% for capacity building, market development with component-wise ceiling. The components of funding are technology upgradation, setting-up of common facility centres (CFCs), development of new products and designs, new and improved packaging, etc, market promotion activities, capacity-building activities, other activities identified by the implementing agency (IA) as necessary for the development of the cluster

Assistance in West Bengal

Name of scheme/ institute	Nature of assistance
West Bengal Handicrafts Development Corporation Ltd	Promotion and development of handicrafts through skill development and organisation of direct haats in rural and urban areas, to provide artisans a market
West Bengal Industrial Development Corporation Ltd (WBIDC)	Nodal agency of the state government for the promotion and financing of medium and large-scale industries. Provides support to industries by facilitation, financing, disbursing incentives and by setting up industrial parks
The West Bengal Small Industries Development Corporation Ltd (WBSIDC)	Providing infrastructural support, marketing assistance, supply of raw materials and other promotional assistance for SSI units
West Bengal Industrial Infrastructure Development Corporation	Providing supporting infrastructure relating to roads, drainage, water and power supply, street lighting, CFC of 12 established growth centres in the state
West Bengal Financial Corporation (WBFC)	Providing term loan assistance to small-scale industries in the state
Modular Food Park Modular Industrial Infrastructure Ltd	Sponsored by the FPI department, it provides infrastructure at Dankuni and other support of food processing industries.

Assistance in Jharkhand

There are no specific institutes in Jharkhand but the state government itself undertakes promotion and support of the MSMEs through following activities.

- Coordination support for MSMEs to micro finance institutions, raw material focused market access.
- Special emphasis is given on providing common facility centres (CFC) mainly through public-private-partnership (PPP) initiatives to MSME projects of a cluster.
- Implementation of schemes such as ASIDE, Credit Guarantee Fund Trust Scheme, Cluster Development Programme for MSMEs.
- Other financial support for MSMEs:
  - Tender forms for biding will be made available free of cost.
  - Exemption from payment of Earnest Money Deposit (EMD) and Security Deposit (SD)
  - Bill discounting facility will be made available on government orders.
  - 10% price preference i.e. where the bid of micro and small enterprises are within 10% of L1 (Least priced bid), the local micro and small enterprises will be given an offer of reasonable part of the order at L1

Assistance in Chattisgarh

Name of scheme/ institute	Nature of assistance
Biotechnology Development Fund	The government has set up a special Biotechnology Development Fund with an initial corpus of 30 crore INR.
Automotive Industries Policy -2012	This will help automotive industry growth in state[1]. Various facilities under this Act are mentioned in Appendix B2.
Agro and Food Processing industries Policy – 2012	To promote the agri processing industry, the state is providing benefits to the industry. The details may be referred to in Appendix B.2
ITEs[2]/IT infrastructure Policy	This provides incentives to companies setting IT projects in Chattisgarh. • Interest subsidy of 75% of the total interest paid up to the period of seven years with a maximum limit of 60 lakh INR pa • Fixed capital investment subsidy of 45% with maximum limit of 140 lakh INR • Electricity duty exemption for upto 12 years • VAT/CST/CGST reimbursement for a period of 5 years
Solar Policy[3]	Industries may enter the solar energy sector and avail of the following benefits: • Electricity exemption till 2017 • VAT for the equipments in the project is exempted • Cross subsidy charges are not applicable.

1 http://www.csidc.in/Automotive%20Eng.pdf
2 http://www.csidc.in/it%20english%20final.pdf
3 http://www.csidc.in/Solar%20Policy%20English%20FINAL.pdf

Assistance in Odisha[4]

Name of scheme/ institute	Nature of assistance
District Co-ordination Committee (DCC)	New small-scale units in priority sectors are entitled to interest subsidy at the rate of 5% per annum for a period of five years from the date of commercial production on term loans availed from recognised financial institutions and banks. Small-scale industrial units (existing or new) which undertake modernisation are eligible for interest subsidy at the rate of 5% per annum for a period of five years from the date of completion of modernisation on term loans availed from recognised financial institutions and banks. The interest subsidy will be limited to 20 lakh INR in case of small-scale units and 10 lakh INR in case of tiny units. Industrial units operating in Kalahandi, Nuapada, Bolangir, Sonepur, Koraput, Malkangiri, Rayagada, Nawarangpur, Gajapati and Deogarh will get additional interest subsidy at the rate of 5% of the term loan or 5 lakh INR, whichever is less, as an incentive for backward area development.
Odisha Small Industries Corporation (OSIC)	The OSIC has the following objectives: • To provide quality raw materials • To provide quality building materials • To assist in marketing the products • To act as a syndicate leader as per the IPR of the government of Odisha • To act as a contract exchange for the MSME sector
Odisha State Financial Corporation (OSFC)	The provide term loans on below loan limit[5] Minimum: 5 lakh INR Maximum: 1000 lakh INR (to corporations, companies, co-operative societies) Maximum: 400 lakh INR (to proprietorship concerns and partnership firms and trusts) Rate of interest shall be fixed on risk-based rating of the project which will vary from 13.5% p.a. to 15.5% p.a.

Assistance in Bihar

Name of scheme/ institute	Nature of assistance
Chief Minister Cluster Development Scheme[6]	SME requirements are the focal point of this proposed scheme.
Bihar State Financial Cooperation	Helps in planning and arranging finance
SL Industry Subsidy	Those who allotted land and shed in Industrial Area Development Authority (IADA), Export Promotion Industrial Park, Food Park, Agri-Export Zone, etc are eligible for subsidy after commercial production of unit. • Small/Tiny unit, 50% with a ceiling of Rs. 15 lacs • All large/Medium/Mega units 25% with a ceiling of Rs. 30 lacs
NABARD schemes	Initiatives like the urban cooperative bank, Self Help Group (SHG) were strengthened further to ensure wider financial inclusion and also reduce the incidence of informal credit lending and high interest rates in Bihar. The MSME units were made entitled to credit cards similar to the kisan credit card. The power loom sector needs to be included in the list of the beneficiaries eligible for credit linked subsidy scheme of the PMEGP as the power loom sector has already benefitted from the same scheme in the neighbouring state of West Bengal. The central scheme interest subsidy of 3% to enable weavers to access loans at the rate of 7 to 8% interest for the next three years had been implemented.

4 The Odisha government has unveiled a 1,600-crore INR investment plan aimed at creation of 32,000 new units in the MSME sector in the 12th Plan period (2012-17).

5 http://www.osfcindia.com/PDF/SALIENT_FEATURE_OF_LOAN_POLICY_FY-11-12.pdf

6 The scheme is pending with the central government with 54 plans forwarded.

Financial support from venture capitals

SME private equity and venture capital funds

Venture capital is a means of equity financing for rapidly-growing MSMEs. Venture capitalists provide funds after carefully scrutinising projects. Their main aim is to earn higher returns on their investments, but their methods are different from traditional lenders. They take active part in the management of the company as well as provide the expertise and qualities of good bankers, technologists, planners and managers. As funds required by SMEs are too large for microfinance institutions and too small or too risky for commercial banks, this is one of the primal issues that the PE/VC component addresses as part of the investment promotion of the consolidated project for SME development in India.

Advantages of VC funding

Venture capital has a number of advantages over other forms of finance:

It injects long-term equity finance which provides a solid capital base for future growth.

The venture capitalist is a business partner, sharing both the risks and rewards. Venture capitalists are rewarded by business success and capital gain. The venture capitalist is able to provide practical advice and assistance to the company based on past experience.

The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners, and if needed, co-investments with other venture capital firms when additional rounds of financing are required.

Mode and criteria for investment

Venture capital provides financial assistance primarily by way of equity or equity-linked capital investment. It also endeavours to provide mentoring support and other value addition to enable funded companies to achieve rapid growth and achieve and maintain their competitive edge in domestic and international markets. The VC fund seeks a strategic stake in the funded companies with board representation and other rights as venture capital investor.

Key criteria for SME project selection are as follows:

- Strong and committed core team
- Growth potential
- Long-term competitive advantage
- Viable business plan
- A clear exit plan

Institutions offering VC/ PE

Some venture capital firms, institutional investors and banks who provide venture capital to MSMEs are as follows:

- SIDBI Venture Capital Limited (SVCL)
- IFCI Venture Capital Funds Limited (IVCF)
- Helion Venture Partners/ Erasmic Venture Fund
- Accel India Venture Fund/ SeedFund
- Upstream Ventures
- Aavishkaar India Micro Venture Capital Fund (AIMVCF)
- IL&FS Trust Company Limited
- Infinity Venture India Fund
- Walden International Investment Group
- SEAF India Investment and Growth Fund
- BTS India Private Equity Fund Limited
- Canbank Venture Capital Fund
- SBI Capital Markets Limited
- ICICI Bank's SME venture capital fund
- IDBI Bank's SME venture capital fund

This is not an exhaustive list and there are many niche VC funds who actively participate in providing financial assistance to SMEs.

New channels of financial aid

Access to equity capital through SME exchanges

There is a general lack of awareness among SMEs about equity capital, stock markets and funding options, other than banks. So far, there have been only debt-financing options, without any access to alternative equity options. The small and medium exchanges for SMEs listing norms unlike the regular listing on a SME platform through an IPO are a major introduction. Meant for SMEs with a paid-up capital of less than 25 crore INR, it empowers them to tap into the capital markets by getting listed on the exchange without having to make any initial public offering.

To enable SMEs to get over the liquidity crisis that they continue facing, regulators have mandated market making in the SME Exchange platform, to ensure that liquidity is generated. The handholding of the company by the merchant banker in the form of market making will create the liquidity on the SME Platform.

Moreover, the sector is highly unorganised and fragmented, and the new SME exchange will facilitate the creation of a financial ecosystem for SMEs in India.

The trend in this sector has been of overleveraging debts for lack of opportunity to raise equity capital. The revised ecosystem therefore has to justify opportunities of raising equity capital, balancing the debt equity ratios of companies and facilitate these enterprises to sustain a healthy balance sheet. The need for Indian SMEs to acquire capital at low cost to compete at a global level is one of the key factors behind the creation of this revised framework.

The newly introduced SME exchange will acknowledge the expansion aspirations of these SMEs and help them find solutions to their financial requirement. Companies will be high on the valuation matrix, once they get listed on the exchange. The tax benefits are immense as well. By remaining unlisted, any company attracts a 15% long-term capital gains tax on the sale of shares, while a listed company attracts none.

The listing will also hopefully bring about a sea change in transparency and corporate governance in the listed firms and ensure better visibility among investors.

Compliance norms have also been simplified to the advantage of the SMEs. They need to submit half-yearly financial results instead of quarterly ones. SMEs can send the abridged version of the annual report with the details of the profit-and-loss account and balance sheet to the shareholders, instead of a full annual report. They can make the soft copy of the annual report available on their website. They can send the soft copy to the Exchange, regulators and the ROC also. This will bring down the recurrent cost of compliance substantially for listed companies on the SME Exchange[7].

The enlistment also comes with a market making support for three years in the secondary market which will ideally help create the desired liquidity for SMEs. Considering the fact that there are 15 million to 20 million investors in the capital market who can invest in these companies through any of the branches and franchisees of more than 1600 BSE members, the influence on the investor base for these SMEs will be manifold, thus improving their valuation and promoting wealth creation.

The SMEs listed on the SME exchange can migrate to the BSE main board without bringing a fresh IPO, if the paid-up capital of the listed SME is above 10 crore INR and the non-promoter shareholders approve the migration by a two-third majority. This is a bonus for the listed SMEs[8].

Extension of state Industrial Promotion Assistance Scheme

The Industrial Promotion Assistance scheme provides financial assistance to micro and small enterprises in the state. This scheme was supposed to come to an end on 31 March 2013. However, owing to the government's clear focus on the employment-intensive micro and small scale enterprises the Finance Minister of West Bengal stated an extension of this scheme till 31 March 2014[9].

Scheme for financial aid in R&D

The mini tools room and training centre scheme is focused to develop more tool room facilities and R&D intended to provide technological support to MSMEs. This is conceived as one of the prime aids in driving investment in R&D and technology by the SMEs.

The Finance Minister's recognition of technology as a driver of growth was exemplified with a sum of 2200 crore INR pledged for 15 additional tool rooms and technology development centres to be set up by the Ministry of Micro, Small and Medium Enterprises.

The importance of technology and IT services in the growth story of SMEs in India has been growing over the past few years. The trend being the fact that while Indian enterprises are investing cautiously in traditional technology in 2013, they are likely to increase investments in R&D in the areas of emerging technologies such as mobility, data analytics and cloud computing to improve their core business.

Securitisation of SME credit

SME credit could be converted into loan pools or securitised assets and sold to investors interested in investing in such asset classes. The RBI had issued new guidelines for the securitisation of standard assets in order to enable creation of a true securitisation market in India. These guidelines have numerous safeguards embedded in them to enhance the quality of the pass-through certificates (PTCs) issued in any securitisation transaction.

A precedence can be seen in a recent transaction by a Chennai-based NBFC, IFMR capital, who closed the first of a kind PTC in India, with its partner Vistaar Financial services Pvt Ltd, a Bangalore-based NBFC, worth 77.2 million INR. IFMR intends to conduct further transactions of a similar kind and is building a pipeline of SME lenders. They are also planning to replicate a multi-originator (MOSEC) structure for small business lenders, the intent being that of building up several instances of such institutions using their knowledge and expertise to create such an asset class in a systemic manner against a strong underwriting framework and subsequently marketing it to larger investor franchisees. These transactions in turn will open the capital markets to small business lenders at a cost reasonable to them and this will boost funding to SMEs.

7 SME World article dated April 2012: http://www.smeworld.org/story/sme-exchange/sme-exchange-launched.php

8 http://articles.economictimes.indiatimes.com/2012-10-25/news/34729842_1_sme-platform-bse-sme-exchange-debt-and-equity-ratios

9 Government of West Bengal: Annual Financial Statement for the Financial Year 2013-14 http://www.wbfin.nic.in/writereaddata/Speech%20English.pdf

Improving credit health for MSMEs

Credit related issues

MSMEs depend predominantly on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions. An indication is that even in recent times, MSME credit as a percentage of net bank credit of commercial banks has been below 15%. Banks perceive MSMEs as risky field of investment due to the following:

- Low growth rate of small firms
- Firms following informal business practices
- Inability of MSME owners to maintain collateral securities
- Lack of credit worthiness and goodwill
- Relatively high processing costs (in background checks, etc)
- Lack of transparency due to poor reporting of firm data

Some of the reasons cited above are uncontrollable from the perspective of MSMEs. MSMEs generally operate on tight budgets, and are often unable to procure adequate financial resources for the purchase of machinery, equipment, raw materials, or even day-to-day operational expenses. This is because on account of their low goodwill and limited fixed investment base, they find it difficult to borrow at reasonable rates from institutions. Hence, for an MSME, any unforeseen event (large order, rejection of consignment or inordinate delay in customer payment) may result in the unit having close operations due to lack of funds. Also, the dearth of capital also implies there is little scope for growth and expansion.

Role of credit rating in financing

One of the most important procedures taken by financial institutes that offer credit to MSMEs is to scrutinise their credit rating status in order to get a clear picture of the creditworthiness of the enterprises. Credit rating is done by the credit rating agency (CRA) which assigns credit ratings for issuers of certain types of debt obligations as well as the debt instruments themselves to form a basis to prove the authenticity of the new firms who seek financial help from different organisations for their business. Hence, credit ratings are used by investors, issuers, investment banks, broker-dealers, and governments.

Credit rating is done on the basis of credit scores that are numerical values assigned to the MSMEs based on a statistical analysis to notify their credit worthiness. These scores are often evaluated on the basis of the credit reputation of a company, commonly known as a credit report, available from the Credit Bureau of India.

The government of India also operates a specialised rating agency known as the SME Rating Agency of India Limited (SMERA), which is a third-party rating agency exclusively set up for micro, small and medium enterprises in India for ratings on creditworthiness. It provides ratings which enable only MSME units to raise bank loans at competitive rates of interest. SMERA's MSME rating scale consists of two parts, a composite appraisal/condition indicator and a size indicator. SMERA rating categorises MSMEs based on size, so as to enable fair evaluation of each MSME amongst its peers. SMERA's MSME rating scale is specified below:

Condition indicator	
MSME 1	Highest
MSME 2	High
MSME 3	Above average
MSME 4	Average
MSME 5	Below average
MSME 6	Inadequate
MSME 7	Low
MSME 8	Lowest

Size indicator (based on net worth)	
A	20Cr INR and above
B	Between 5 Cr INR and 20 Cr INR
C	Between 1Cr INR and 5Cr INR
D	Less than 1Cr INR

Some of the important credit rating agencies working in India are CRISIL, CARE, ICRA, FITCH RATING, NDIA and ONICRA.

A scheme for performance and credit rating mechanism for SSIs has been formulated by the government of India in consultation with the Indian Banks' Association (IBA) and various rating agencies. The National Small Industries Corporation (NSIC) has been appointed the nodal agency for implementation of this scheme. Under the scheme, the NSIC provides subsidy in the rating fees to the small scale industrial units (SSIs) obtaining credit ratings from the agencies which are empanelled by them.

Guide to better credit worthiness

There are several guidelines laid down by the United Nations, the RBI and many others to safeguard the working of MSMEs. The most common teething problem faced by MSMEs is getting access to credit. One of the best ways to ensure credit worthiness, as recommended by many organizations, is to go for credit rating by a third party. Some others include the following:

- Credit rating not only ensures the credibility of the SME, but also helps them to get interest relaxation against credit from banks even in future credit applications.
- Credit rating assists the MSMEs in building their business credibility and hence, reduces the perceived risk of default from the banks' perspective.
- Credit worthiness may be further improved by increasing the level of transparency and process rigour in record keeping and financial reporting. Most micro enterprises are weak in this aspect and this may be greatly improved through rating. Rating involves analysis for which the starting point is the financial statement of the firm. The last line should be: Hence, this process also increases the level of discipline and record keeping standards in MSMEs.
- Financing institutes also apply qualitative parameters extensively in gauging the credit worthiness of an MSME applicant since the financial statements furnished may not reflect the correct business strength. Such parameters would include typically organisation structure, background check of promoters (and family), management strength, resilience of the firm, quality of product, supplier and client network, trade relationships, previous credit defaults (by any director or kin), etc. Hence, maintaining transparency is of utmost importance in building credit worthiness. The other aspect is of having well-defined processes and adhering to them that would ensure quality of product, consistency of delivery, etc.
- Credit rating also helps an MSME by getting more financial support as banks may increase their credit limits due to higher comfort factor in transacting with a well rated MSME.
- The rating also allows the MSMEs to expand their market base, get new contracts from export markets.

Expanding the financing horizon

Any start-up generally seeks financial support. Usually in the MSME sector, start-up capital is funded by personal savings, borrowings from the unregulated market or family members. Sometimes, such funding may be sufficient, but most of the time, the requirement for financial support is not met.

Organisations can seek financial assistance depending on the project and the financial support provided by various financial institutes.

Approach to a sound project report

Any company seeking financial assistance for the implementation of its business idea is required to prepare a project report covering the following aspects of the project:

- Promoters background and experience
- Product with capacity to be built up and processes involved
- Project location
- Cost of the project and means of financing
- Availability of utilities
- Technical arrangements
- Market prospects and selling arrangements
- Environmental aspects
- Profitability projections and cash flows for the entire repayment period of financial assistance

Since the appraisal of the project involves evaluation in the following key areas, submitting certain key information in these areas is necessary to ensure a watertight and viable project report[10].

Management evaluation

The management quality of the MSME is the first and foremost checkpoint for the financing institution. The background and previous track record of the management and the promoters in terms of heading businesses as well as their credit history forms an important value add for the firm. The organisation structure is significant as well as it is checked for balance of control and responsibility. The incorporation documents for the company have to be in line with the company's intended business vision and areas.

Memorandum and articles of association: Object, authorised and paid-up share capital, promoter's contribution, borrowing powers, list of directors on the board, terms of appointment of directors

SMEs company as the promoter: Corporate plan of the company, projects promoted, implemented, under implementation, bankers' report on dealings and repayment of past loan assistance, details of group companies, operations, balance sheet and profit and loss account of the promoter company

New promoters: Educational background, any industrial experience, family background, sources of income, details of personal properties, banker's reference, income tax and wealth tax returns

Management and organisation set-up: Broad composition of the board, details of fulltime directors and their responsibilities, details of chief executive and functional executives including qualification, experience, organisation set-up for existing company and during project implementation for new company.

Technical feasibility

The technical feasibility is tested by the financer by a standard assessment procedure of mapping the local unmet demand for the specific service/ product being sold by the applying SME with factors like local competition, availability of raw materials and required manpower, logistics and infrastructure etc. The other important cog that is tested here for soundness is the background of the contractors setting up the plant/ facility and their project track record. The last and of increasing importance, is the environmental impact of the proposed project and clearances needed thereof.

Technology and manufacturing process: Proven and new technology, basis of selection of technology, competing technologies, performance data of plants based on the technology, details of licensor of technology, process flow chart and description

Location of the project: Locational advantage, availability of raw material and other utilities, infrastructure facilities, availability of labour, environmental aspects

Plant and machinery: List of machinery and equipment, details of suppliers, competitive quotations, technical & commercial evaluation of major equipment

Raw material, utilities and manpower : Details of raw materials and suppliers, electricity and water supply, basis of manpower estimates, details of manpower, e.g. managerial, supervisory, skilled or unskilled, training needs

Contracts: Agreement with contractors detailing on know-how, engineering, procurement, construction, financial soundness and experience of contractors

Project monitoring and implementation: Mode of implementation, details of monitoring team, detailed schedule of implementation

Environmental aspects: Air, water and soil pollution, list of pollutants or hazardous substances, their safety, handling and disposal arrangements, compliance with national and international standards, clearances and no objection certificates required and obtained, etc.

10 SIDBI guidelines for preparing a Detailed Project report : http://smallb.in/%20/plan-new-entrepreneurship%20/guidelines-preparing-detailed-project-report

Commercial viability

Existing and potential market demand and supply for the proposed product in respect of volume and pattern

Share of the proposed product of the company in the total market through marketing strategy

Selling price of the product and export potential, if any

Buy-back arrangements, if any.

Financial appraisal

The financial appraisal is the most crucial aspect from the point of view of the financer. Here the overall costs, revenue projections are checked for realistic estimates, and also tested with sensitivity analysis by changing some crucial project parameters like CAGR, service cost inflation, raw material costs etc. The project is also measured in terms of payback period, break even period and internal rate of returns, to give an idea about the revenue and profit generating capacity of the project.

Cost of the project: This includes the cost of land and site development, building, plant and machinery, technical know-how and engineering fees, miscellaneous fixed assets, preliminary and preoperative expenses, contingencies and margin money for working capital. SMEs are expected to submit realistic estimates. The cost of the project will be examined with reference to various factors such as implementation period, inflation, various agreements, quotations, etc.

Means of financing: This shall have to conform to proper mix of share capital and debt. This includes share capital, unsecured loans from promoters or associates, internal accruals, term loans, government subsidy or grant. The reasonableness of promoters' contribution in the form of equity and interest-free unsecured loans, if any, is ascertained in view of commitment to the project.

Profitability projections: Past records of financial performance of SME will be examined. SMEs need to submit profitability estimates, cash flow and projected balance sheet for the project and for the company as a whole. Based on the projections, various financial ratios such as debt -equity ratio, current ratio, fixed asset coverage ratio, gross profit, operating profit, net profit ratios, internal rate of return(over the economic life of the project), debt service coverage ratio, earning per share, dividend payable, etc. will be worked out to ascertain financial soundness of the project.

Economic viability

This aspect is checked for projects where there is either export orientation or probability of international players entering the domestic market in same area of service/ product as the SME. Hence this is particularly relevant for IT related businesses as well as any FMCG or light engineering venture.

SMEs will have to take real value of input as against the value accounted in financial analysis for the economic evaluation of the project.

SMEs should carry out social cost benefit analysis as a measure of the costs and benefits of the project to the society and the economy.

Economic analysis is aimed at the inherent strength of the project to withstand international competition on its own.

Apart from the mandatory documents MSME borrowers can make convincing business cases for funding by keeping the following things in mind while approaching any lender.

MSME borrowers can meet their borrowing requirements and avail the best possible terms if they approach banks or financial institutions in an appropriate manner. They must clearly understand the various criteria that banks employ to screen, rate and process their loan applications and the importance of furnishing precise and correct information. As commercial credit bureaus (particularly CIBIL) expand their database, it will become progressively easier for financial institutions to track past repayment or default behaviour of loan applicants.

Business plans

They should ideally have an updated business plan for their company, showing intended capital investments and forecast revenue and expenditure for the next three to five years. This is an excellent document to produce during discussions with a banker or financial adviser.

Having a feasibility study of the project the fund is intended for might prove to be useful as well. Feasibility studies are usually carried out in connection with medium- or long-term projects and are consequently prepared, among other reasons, as an aid to raising medium- to long-term project loan finance. They may wish to start a new project or expand an existing activity, and need capital to finance the additional capital goods required (e.g., machinery, tools, spares and raw materials). MSMEs will need a feasibility study to present to their banker. They will also need to give copies of draft or actual loan agreements with other lending institutions. These are important because the loan agreements may stipulate that they cannot borrow from another lender unless the loan is subordinated to them. This may mean that they cannot pledge fixed or current assets if the first lenders have fixed and floating charges on such assets. They may be limited to providing their bank with a second charge or some other, less secure, form of guarantee. In many respects, the feasibility study is not dissimilar in its presentation to the business plan. The main difference lies in its purpose.

Use of alternative financing options

In spite of the various policies created to augment financial support to SMEs and the growth in the credit limits of banks, SMEs still face challenges when it comes to accessing timely and sufficient credit at a reasonable cost. The credit flow to them is not aligned to the needs of the economic activities undertaken by them. According to a RBI report,[11] statistics reveal that small businesses rely on multiple sources of financing ranging from internal sources namely personal funds and funds from friends, to external sources ,both formal and informal, which include financing from banks, NBFCs, venture capital funds, trade credit factoring, etc. The raw sample includes more than 14,000 non-financial firms. In particular, trade credits (bank loans) are less (more) important for Indian firms based on the World Bank surveys. These findings are one of the many indicators of the increasing importance of alternative source of financing for SMEs in India.

Factoring

Factoring is a form of receivables finance whereby a business sells or assigns its accounts receivables (i.e. invoices) to a finance company (a factor) at a discount in exchange for immediate money with which to finance continued business.[12] The delayed payment cycle by the large scale customers of SMEs have an adverse effect on their operational facets and fund recycling efforts.

A CRISIL study on 5000 small and medium enterprises (SMEs) reveals that SMEs can enhance profits by at least 15 per cent if they receive payments on time from their large corporate customers. CRISIL estimates that timely payments from large customers will help SMEs reduce interest costs, improve profitability and have a positive impact on the long-term health and sustainability of India's SME sector. SMEs with large corporate customers have receivables of 90 to 120 days of sales on their balance sheets, as against 45 days stipulated by the Micro, Small, and Medium Enterprises Development (MSMED) Act.

Factoring is capable of providing SMEs with the liquidity needed against their receivables and can be efficient alternate source of working capital. Factors buy the right to collect on invoices raised against any sales by the SME and releases 80-90% of the invoice value to the firm. It is on account of its superior conversion time of receivables into cash, absence of geographical restraints, non requirement collateral security etc makes it a much preferred and superior product than bank finance.

The Indian factoring market is still at a nascent stage. As per the Factors Chain International (FCI), a global network of factoring companies worldwide, the turnover of India is only 2750 million euros, which is less than half of the turnover of Singapore and not even 2% of China's turnover. There are nearly 10 factoring companies in India with Canbank factors and SBI Global Factors being two of the oldest.

Supply chain finance

Supply chain finance can prove to be another route to facilitate SMEs' access to enhanced working capital from bank and non bank sources. This mode of financing enables SME suppliers to large OEMS to receive short-term credit against the volume supplied during the payment receivable period. HSBC for instance has a distributor finance programme (DFP) which assists in creating the support framework for financing and collection for any SME client's delivery chain. Regular MIS helps the SME update their sales ledgers and avoid reconciliation issues.

Angel funds or venture capital funds

SMEs involved in commercialising innovations and high-end technologies need to be able to access venture or risk capital fund effectively. These firms need finance during the initial stages of conceptualising their product offerings (seed phase) and during development and marketing phase. These concept and ideas generally need an incubation period before they can be utilised for generating revenue or profit. This is where venture capital comes in to provide them with funds required to enter new markets and attain accelerated growth. The GOI in terms of the recommendations of the PM's task force has been working towards clearing the SME route towards accessing this kind of much needed fund. In the Union Budget 2012-13 the Finance Minister had announced to set up a 50 billion INR India Opportunities Venture Fund with SIDBI to enhance the availability of equity to the MSME sector.

With the government of India putting the development of the MSME sector as top priority, and the state governments of the eastern region aligning themselves to this objective through implementation of various schemes, the future for MSMEs in the east is brightening up. The MSME companies need to be aware of the schemes and financial aids being offered through various banking and non-banking channels to fund their innovation. With increasing participation of SMEs in the innovative exchange platform, along with their active opt-in for third party credit ratings, access to capital, both equity and debt, should no longer be a bottleneck for growth and expansion. These financial aids and processes will not only give the MSMEs a much needed reprieve from their liquidity crunch, but also help them in instilling the rigour of process, transparency and quality.

11 **Strengthening SMEs Capabilities for Global Competitiveness** (Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the interactive session on 8 October 2012 at Mumbai) http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?id=739

12 SME World article dated Sep 2011 http://www.smeworld.org/story/money/factoring-alternative-source-of-wc.php

Appendix A. - MSME support links

A.1. State level banker's committees

These SLBCs may be contacted for financing options available for MSMEs

SLBC West Bengal	http://www.slbcbengal.com/contact.asp
SLBC Jharkhand	http://slbcallahabadbank.com/index.html
SLBC Odisha	http://Odisha.gov.in/finance/slbc/co.htm
SLBC Bihar	http://slbc.bih.nic.in/Contact.htm
SLBC Chattisgarh	http://slbcchhattisgarh.com/index.asp

A.2. Banks and institutes for credit linked capital subsidy scheme

S.No	Name of Bank	Related Link
1.	Canara Bank	http://www.canarabank.com/english/scripts/prioritycredit.aspx
2.	NABARD	http://www.nabard.org/nonfarm_sector/clcss.asp
3.	SIDBI	http://www.sidbi.com/governmentclcss.asp
4.	Bank of Baroda	http://www.bankofbaroda.com/bbs/clcss.asp
5.	Punjab National Bank	http://www.pnbindia.in/En/ui/Home.aspx
7.	Andhra Bank	http://andhrabank.in/english/clcss.aspx

Appendix B. - Highlights of existing schemes and policies

B.1. Important schemes in West Bengal

B.1.1.1. Schemes from WBIDC

WBIDC's key function is to provide financial assistance to investors for setting up new medium as well as expansion, diversification and modernisation of existing units. The loans are available in the following forms:

1. Normal term loan

Extent of loan	No limit, however subject to prudential norms
Type of rate	Floating rate
PLR	12.75%
Applicable rate	PLR + upto 1% per annum
Moratorium	Up to 18 months
Repayment period	Up to 7 years
Interest payments	Payable quarterly

Note: Applicable rate of interest for term loan varies from PLR (12.75%) + up to 1% per annum depending on credit rating of the company.

2. Term loan under equipment finance scheme (EFS)

In this scheme the loan can be up to 77.5% of the cost of capital goods or equipment (other than second hand for indigenous capital goods or equipments) to be acquired.

Extent of loan	No limit, however subject to Prudential norms
Type of rate	Floating rate
Applicable rate	Term loan interest rate i.e. 13.75% per annum
Moratorium	Up to nine months
Repayment period	Up to 5 years
Interest payments	Payable quarterly

Note: In case of imported second hand capital goods or equipments certificate from chartered engineer regarding the condition of the capital goods or equipments and their expected residual life has to be provided.

3. Short term loan

Extent of loan	No limit, however, subject to prudential norms
Type of rate	Fixed rate
Applicable rate	Term loan interest rate + up to 50 bps = 14.25% per annum
Moratorium	Up to nine months

Note: Total installments and interest should be met in PDCs within nine months from disbursement.

4. Bridge loan

WBIDC offers bridge loans up to 60% of the admitted claim of state government incentives as per the following terms:

Extent of loan	No limit, however, subject to prudential norms
Type of rate	Fixed rate
Applicable rate	Term loan interest rate i.e 13.75% per annum
Repayment	15 months
Interest payments	Payable quarterly

B.1.1.2. Schemes from the NABARD

From the current year, the NABARD offers direct loan to SMEs and farm sectors. It will also step up its fiscal support for the farming and agro sector as well as the rural India based MSMEs. Loan from banks with refinance facility from NABARD is available for starting many of the agricultural activities including dairy farming. The margin money depends on the category of the borrowers and range from 5 to 25%. Banks are free to decide the rates of interest within the overall guidelines. However, for working out the financial viability and bankability of the model projects it has been assumed the rate of interest would be 12 % p.a for ultimate borrowers.

B.2. Facilities under specific policies in Chhattisgarh

B.2.1.1. Facilities under the Automotive Industries Policy -2012

Details of facilities	Schemes and rebates, grants and incentives
VAT reimbursement	Limited to maximum 115% of the capital investment for original and ancillary unit, for a maximum period expiring before 18 years whichever is earlier. This rebate shall be equivalent to the VAT paid for the sale of finished products manufactured by automotive industrial units. The rebate shall be available as capital investment incentive. The unit shall have an option to receive the incentive under this policy or to avail capital investment grant under industrial policy, as applicable at the time.
CST rebate	For the period of 18 years 50% on the rate prevailing at that time.
Entry tax exemption	100% rebate from purchase of first Raw material for the project for period of 8 years.
Electricity duty rebate	For the period of 10 years from the date of commencing commercial production.
Stamp duty exemption	100% on sale/lease related documents of land, buildings, sheds and flat.
Exemption from registration fee	100% exemption on land, buildings, sheds and flat.

Scheme	Nature of Assistance	Amount
Production Credit	This is a short-term refinance facility, aimed at supporting agricultural production operations and marketing of crops by farmers and farmers cooperatives marketing and distribution of inputs like fertilisers, seeds and pesticides. Production and marketing activities of village cottage industries, handicrafts, handlooms, power looms, artisans, small scale and tiny industries and other rural non-farm enterprises.	Eligible institutions for this facility are state cooperative banks (SCBs) and regional rural banks (RRBs). The period of credit is 12 months.
Short Term Credit	This is a short term financing facility for agricultural operations, pisciculture activities and distribution of agricultural inputs.	Refinance is provided for production purposes at concessional rate of interest to state cooperative banks (SCBs) and regional rural banks (RRBs) by way of sanction of credit limits. Each withdrawal against the sanctioned credit limit is repayable within 12 months.
Direct Credit	Supporting cooperatives in order to strengthen the owned funds position of cooperative credit institutions and thereby increasing their capacity to leverage larger resources, NABARD provides loans to state governments to contribute to the share capital of these institutions.	Direct credit is provided by regional rural banks and government banks.

B.2.1.2. Facilities under the Agro and Food Processing Industries Policy – 2012

Details of facilities	Schemes and rebates, grants and incentives
Reimbursement Concession in VAT and central sales tax	Maximum limit is 150 % of the fixed capital investment, up to maximum period of 10 years. This exemption shall be equal to the amount of VAT and Central Sales Tax Act paid in connection with the sale of goods produced by the food processing units. This exemption will be in the form of capital incentive assistance. The unit will have option that they should get this 'incentive assistance' under this policy or avail benefit of fixed capital investment subsidy applicable under the Industrial Policy of the state government, in force at that time. Calculation of assistance amount will be done on the basis of VAT payable on sale and central sales tax payable on the interstate sale.
Entry tax rebate	Hundred per cent exemptions for the period of 7- years from the date of commencement of commercial production.
Electrical duty exemption	Hundred per cent exemption for the period of 10 years from the date of commencement of commercial production
Mandi tax exemption	Total exemption of Mandi tax leviable on the agro few products shall be granted to the agro and food products processing units from the date of first purchase of raw materials from the Mandies of the state for the period of five years, maximum limit of the exemption will be equal to 75% of the fixed capital investment of the processing unit

B.3. General financing schemes

These are few financing schemes drafted for the MSMEs, which the industry could approach for(depending on their requirement). Almost all the public sector banks do provide the following schemes. The MSMEs are advised to visit the Banks with their requirement to get more detailed information.

Name	Scheme particulars and workings
SME Credit Card (up to 10 lakh INR)	Loans are for the micro enterprises including SSI units, small business enterprises, professional and self employed persons, small retail traders, transport operators etc for meeting any kind of credit requirement including purchase of shops, maximum limit being 10 lakh INR including term loan and working capital loan. The loan will be sanctioned for three years with an annual review.
SME Smart Score (up to 50 lakh INR)	The loan product is for manufacturing trade and services segments to meet working capital needs and for acquisition of fixed assets. A simplified appraisal model has been developed to standardise the appraisal process for loans up to 50 lakhs INR in SSI sector and up to 25 lakh INR for trade and services sector available with attractive interest rates. The loan will be sanctioned for two years with an annual review.
SBI SMILE (interest free loan as equity)	The scheme provides interest free loan as equity assistance towards part of margin requirements of the project, to assist eligible professional and technically qualified entrepreneurs setting up new micro and small enterprises and units covered under the bank's project uptake for technology upgradation. Equity assistance is up to a maximum of 10 lakh INR. The interest free loan is repayable in three years with a moratorium period of 5-7 years.
General Purpose Term Loan for SSI sector (up to 50 lakh INR)	This product is for existing borrowers for any general commercial purpose such as shoring up of net working capital, substitution of high cost debt, R&D, ISO certification, etc. subject to disbursement being made in line with the specific purpose approved. The maximum loan available is 50 lakh INR repayable in maximum period of five years.
Open Term Loan (up to2.5 crore INR)	A pre-sanctioned term loan with limit up to 2.5 crore INR for existing or new corporate or non-corporate customers in manufacturing sector and up to 1 crore INR for hotels, hospitals, educational institutions in service sector. The sanctioned limit is valid for a year. Margin requirement is 10%. The borrower can utilise pre-approved sanction to plan capital expenditure and negotiate with suppliers of machinery and finalize best possible contract.

Name	Scheme particulars and workings
Corporate Loan (from 25 lakh INR up to 10 crore INR)	The scheme provides term loan for all existing customers and established non customers (subject to takeover norms of the bank) in manufacturing sector. Quantum of finance is minimum 25 lakh INR and maximum 10 crore INR for non-corporate and no cap for corporate borrowers. No margins are required under the scheme. A maximum of three corporate loans can be outstanding per borrower at any point of time.
SME Credit Plus	For existing and new borrowers this scheme provides a clean cash credit facility to meet contingencies. Under the scheme 20% of aggregate WC or max 25 lakh INR fund based limit can be availed. Margins are not required and interest rate will be same as applicable to cash credit limit. The facility is repayable in two months and can be availed for 12 times a year.
Standby Line of Credit	For existing units including export units, an additional working capital(fund based and non-fund based) limit by way of cash credit, packing credit and bills discounting against stock, receivables to meet contingencies such as bunching of orders, delay in shipment, sudden increase in raw material prices, mismatch in cash flows. Under this 15% of aggregate working capital or max 5 crore INR can be availed. Margins as applicable to original limit.
Rice Mill Plus	Term loan for acquisition of machinery, factory building for modernisation, expansion and working capital needs of rice mills engaged in milling, sorting, grading and polishing. No upper ceiling on loan amount.
SME Collateral Free Loan (SMECFL)	Collateral free loan for viable projects of micro and small enterprises in manufacturing and service sector with maximum guarantee cover up to1 crore INR under the CGTMSE guarantee scheme for working capital and term loan (FB+NFB) facilities.
Traders Easy Loan	Easy loan for specific business needs of traders, self-employed, small business enterprises, agents engaged in purchase and sale of food grains etc. Loan can be availed for normal day to day business requirements or for purchase of equipment/ fixed assets. Loan is available up to 5 crore INR with very competitive rate of interest.
Dal Mill Plus	Term loan for dal mill owners for acquisition of machinery, factory building, modernization and all working capital needs.
Artisan Credit Card	Maximum loan under the scheme is 2 lakh INR. The scheme provides loans to Artisans to meet their credit requirements both for investments as well as working capital in a flexible manner at liberal rates of interest.
SME Construction Equipment Loan	Maximum loan available is up to 25 crore INR with minimum margin applicable up to 15%. Tenure of loan can be extended up to maximum of four years. Term loan for purchase of construction equipments viz. loaders, excavators, cranes etc., for contractors and firms engaged in construction activity.
SME Car Loan	Loans for purchase of passenger cars, jeeps, multi utility vehicles, etc., to the promoter/partner/senior executives of the SME units having borrowing arrangements with the bank.

B.4. Snapshot of bank-specific schemes

Some of the bank specific schemes are outlined below. The MSMEs can contact the nearest regional branch of the following banks to get more details of the schemes mentioned below.

Banks	Schemes
State Bank Of India	Commodity backed warehouse receipt financing, SSI loans, Traders easy loan scheme, Open term loan, Business current accounts, Retail Trade, SBI Shoppe, SME Petro Credit, Small business credit card, Paryatan Plus, Swarojgar credit card, etc.
Bank of Baroda	Baroda SME Gold Card, Baroda Vidyasthali Loan, KVIC-ISEC, Scheme for Financing Energy Efficiency Projects, Baroda Overdraft Against Land and Building, Baroda SME Loan Pack, Baroda Arogyadham Loan etc.
Export Import banks of India	Agri Finance, Several Debt Restructuring schemes for Small and Medium Enterprises (SMEs) etc.
United Bank of India	United Doctor Plus, United Medical Plus, United Mahila Udhyami Yojana, United Shilpi Card, United Udyogshree Yojana etc.
Indian Bank	IND SME secure, IB Doctor Plus, IB BPO finance, IB Vidya mandir, IB ayushman Scheme, IB my own shop etc.
Central Bank of India	Cent trade, Cent Doctor scheme etc.
I.D.B.I.	Entrepreneurial development fund, Dealer finance program, SME hosiery A/C etc.
Corporation Bank	One-Time Settlement Scheme for NPA under SME, Corp Kisan Vehicle Loan Yojna, Corp Kisan Farm Mechanisation Scheme, Corp Kisan Tie-Up Loan Scheme, Corp Gram Mitra Yojana etc.
Vijaya Bank	Liquidity Finance To MSEs, Technology Upgradation Fund Scheme For MSE, Vijaya Kisan Card, Credit Guarantee Fund Scheme To MSE, etc.

Banks	Schemes
Union Bank of India	Union high pride, Union support, Union transport, Union Cyber etc.
P.N.B.	PNB vikash udyami, PNB SME sahayog scheme etc.
Syndicate Bank	Synd Vyapar, Synd Udyog, Synd Swarozgar Credit Card, Synd Laghu Udhyami Credit Card, Synd General Credit Card etc.
Dena Bank	Dena Shakti Scheme[for women entrepreneurs], Scheme for financing wind mills Channel financing scheme for dealers / suppliers etc.
UCO bank	SME Medium Term Loans, Scheme for Financing Energy Efficiency Projects etc.
Allahabad Bank	Micro, Small & Medium Enterprises (MSME) Advances etc.
Andhra Bank	Composite loan scheme, Composite loan scheme, Term Finance, Open cash credit (OCC), AB Power Tools (Shakti) etc.
ICICI Bank Ltd.	The ICICI bank edge, vendor bill discounting, SME dialogue etc.
HDFC Bank Ltd.	Working capital finance, construction equipment loan, commercial vehicle finance, Credit substitute, Export credit etc.
Yes Bank Ltd.	Working capital loans, Term loans, Export finance etc.
Axis Bank	Financing to Non-Priority Sector Entities, Overdraft against Property, Financing to Priority Sector Entities, Term Loan against Property, Lease Rent Discounting, Business Loan for Property (BLFP) etc.
Kotak Mahindra Bank	Kotak Business Loan, Working Capital Finance, International Import Finance, International export Finance.

Appendix C. - Abbreviations

Abbreviation	Explanation
ASIDE	Assistance to States for Infrastructure Development of Exports
CFC	Common facility Center
CGST	Central Goods and Services Tax
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CII	Confederation of Indian Industries
CLCSS	Credit Linked Capital Subsidy Scheme
CST	Central Sales Tax
DCC	District Co-ordination Committee
DFP	Distributor finance Programme
EFS	Equipment Finance Scheme
EMD	Earnest Money Deposit
GDP	Gross Domestic Product
GOI	Government of India
IADA	Industrial Area Development Authority
LOC	lines of credit
MSMED	Micro, Small, and Medium Enterprises Development
MSMEs	Micro, Small and Medium Enterprises Development
NABARD	National Bank of Agriculture
NEF	National Equity Fund
NFSIT	National Venture Capital Fund for Software and IT
NSIC	National Small Industries Corporation
OSIC	Odisha Small Industries Corporation
PMEGP	Prime Minister's Employment Generation Programme
PwC	PricewaterhouseCoopers
SD	Security Deposit
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SIDA	Small Industries Development Agency
SIDBI	Small Industry Development Bank of India
SLBC	State Level Banker's Committees
SMERA	Small and Medium Enterprises Rating Agency
SMEs	Small and Medium Enterprises
SVCL	SIDBI Venture Capital Fund Ltd
TUF	Technology Upgradation Fund
VAT	Value Added Tax
VC	Venture Capital
WBFC	West Bengal Financial Corporation
WBIDC	West Bengal Industrial Development Corporation Ltd
WBSIDC	West Bengal Small Industries Development Corporation Ltd

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 7000 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 400 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

The CII Theme for 2012-13, 'Reviving Economic Growth: Reforms and Governance,' accords top priority to restoring the growth trajectory of the nation, while building Global Competitiveness, Inclusivity and Sustainability. Towards this, CII advocacy will focus on structural reforms, both at the Centre and in the States, and effective governance, while taking efforts and initiatives in Affirmative Action, Skill Development, and International Engagement to the next level.

With 63 offices including 10 Centres of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organisations in 90 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

6 Netaji Subhas Road
Kolkata - 700001
Phone: 033-22307727/ 28/ 1434/ 033-22303354
Fax: 033-22301721/ 2231 2700
Email: ciier@cii.in

Reach us via our Membership Helpline: 00-91-11-435 46244 / 00-91-99104 46244

About PwC India

PwC* helps organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services.

PwC India refers to the network of PwC firms in India, having offices in: Ahmedabad, Bangalore, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, please visit www.pwc.in.

*PwC refers to PwC India and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

You can connect with us on:

facebook.com/PwCIndia

twitter.com/PwC_IN

linkedin.com/company/pwc-india

youtube.com/pwc

pwc.in

MS 475 - March 2013 MSME.indd
Designed by: PwC Brand and Communications, India