Annexure- I

Amendments to "Bank's Policy on Lending to MSME Sector"

Sl No.	Topic	Existing guidelines	Proposed guidelines
1	Working Capital Assessment. *Turnover Method*	For working capital limits requirement up to `.5.00 crores, Turnover method would be applicable as per Nayak Committee recommendations. Under this method, working capital is assessed at 25% of the projected turnover based on the assumption of a three month operating cycle. 20% of the turnover is provided by way of bank finance and balance 5% or 1/5th of the working capital required should be by way of net working brought in by the borrower capital contribution. It is abundantly clarified that this 20% is the minimum WC limit to be sanctioned even if the proponent's operating cycle is shorter than 3 months. Branches should, however, ensure to restrict the drawings in such cases to actual drawing power arrived at based on the amount of inventory/receivables declared by the borrower vide his monthly statements.	For working capital limit requirement up to `.5.00 crores, working capital limits under Turnover Method to be assessed as under: I. for **Medium Enterprises under MSME** : **No change in existing guidelines** II. **For Micro & Small Enterprises under MSME:** **a. Units with digital portion turnover of 25% & above in previous year** The projected turnover is further to be divided into two components- Digital and Non Digital. Working capital assessment is to be carried out as under: **i. For Non Digital portion :** Working capital limits – Minimum 25% of the projected turnover(accepted). **ii.For Digital portion :** Working capital limits - 30% of the projected turnover (accepted). The percentage of digital transaction in projected turnover (accepted) to be taken as actual percentage of digital portion in the previous year. **b. All other MSEs, except those mentioned under II (a) above :** Working capital limits - Minimum 25% of the projected turnover (accepted).

			Borrower's contribution by way of net working capital continues to be at 20% (1/5th) of the working capital requirement. In all the cases, branches should ensure to restrict the drawings to actual drawing power arrived at , based on the amount of inventory/receivables declared by the borrower vide his monthly statements.
2	Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'	In terms of RBI recent guidelines the sanctioning authority to consider fixing of a separate limit over and above the regular working capital limit at the time of sanction/renewal of limits, specifically for meeting the temporary rise in working capital requirements arising mainly due to unforeseen/ seasonal increase in demand for products produced by them. Limit up to 15% of regular working capital limit may be considered subject to overall limits (regular + additional limit) falls within the delegation of sanctioning authority. Such limits may be released primarily, where there is a sufficient evidence of increase in the demand for products produced by MSEs and to be repaid within the operating cycle of the unit. Sanctioning authority may also sanction ad-hoc limits subject to the extant prudential norms, to be regularized not later than three months from the date of sanction.	IBA has clarified that if the assessment is made at the rate of minimum 25% of the projected turnover required, a need for contingency sanction of minimum 25% of the limit may not arise immediately. Hence this stands discontinued.