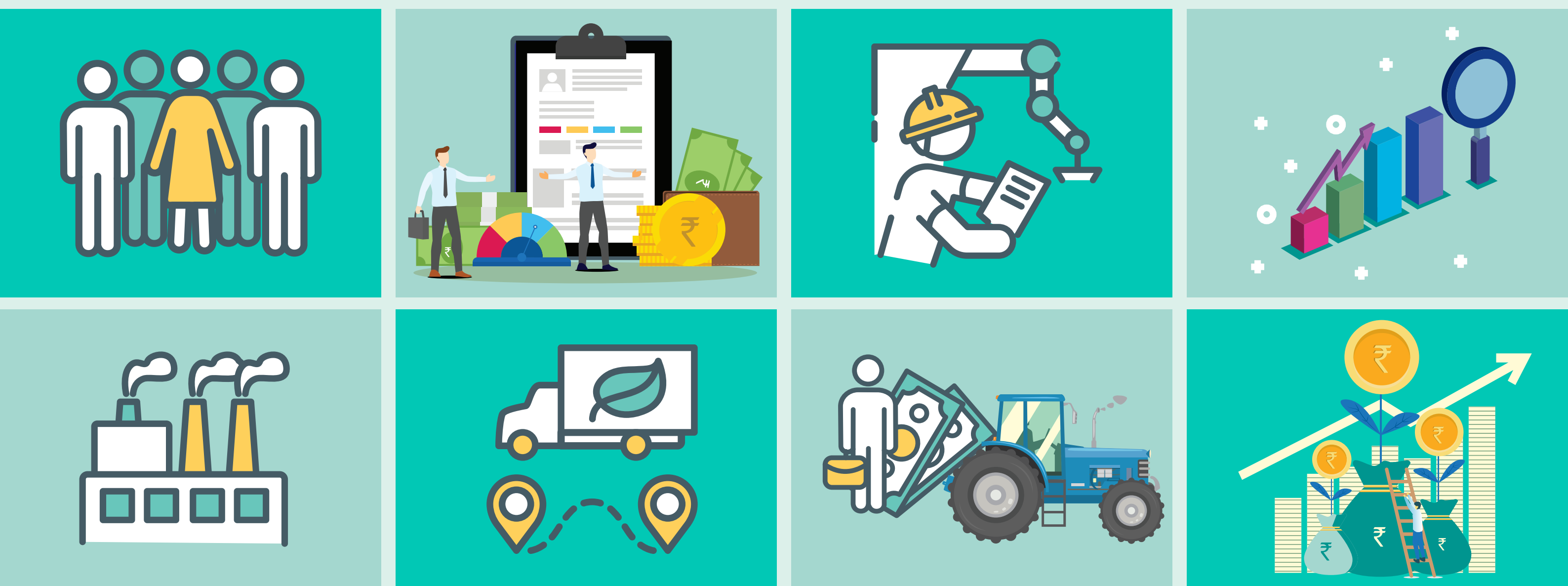
- Training of Trainers
- Methodology
- MSME Eco-System
- MGP Guidelines, Business Plan Preparation and Selection of Entrepreneurs

Training Manual

MATCHING GRANT PROGRAM
Guideline and Business plan preparation

Vaazhndhu Kaattuvom Project

PREPARED BY
LEAD LEVERAGING EVIDENCE FOR ACCESS AND DEVELOPMENT
KREA UNIVERSITY



MATCHING GRANT PROGRAM
GUIDELINES AND
BUSINESS PLAN PREPARATION

TRAINING MANUAL

Vaazhndhu Kaattuvom Project

Table of Content

Vaazhndhu Kaattuvom Project (VKP)

Vaazhndhu Kaattuvom Project (VKP)

Vaazhndhu Kaattuvom Project (VKP) is an innovative World Bank assisted Project that aims at rural transformation through strategies that look beyond poverty alleviation by building sustainability and prosperity of rural communities through rural enterprise promotion, access to finance and employment opportunities in the selected blocks of Tamil Nadu.

The Project will build on existing institutional capital and investments made by TNEPRP, TNSRLM and NRLP. To achieve its objectives, VKP has been prioritizing its work around

- Enterprise promotion,
- Value chain development, and
- Skilling and employment generation

It targets to-

- Work in 120 blocks of 31 districts of Tamil Nadu
- Covers households across the farm and non-farm sectors,
- Producers and producer collectives, and
- Rural entrepreneurs and enterprises,

To meet its objectives, VKP facilitates to build strong association / network with relevant institutions such as banks, other finance institutions, government line departments, technology providers and other market players. A financial instrument, the Matching Grant Program (MGP), to be managed by the Enterprise Business Plan Financing - VKP, is being set up to facilitate access to finance for the enterprises, producer collectives, etc.

Enterprise Business Plan Financing in VKP aims to address the financial needs of the enterprises that are identified and promoted through the project. Apart from the Matching Grant Program, it also adopts different mechanisms such as linkages through Panchayat Level Federation (PLF), Village Poverty Reduction Committee (VPRC)/ Community Based Organizations (CBOs), and Linkages through Block level federation (BLF), etc. It will also be extensively engaged in linking the enterprises to the mainstream financial institutions, and provides technical assistance in preparing business plans, training, and other required linkages in the promotion of rural enterprises on a need basis. It targets to facilitate formal financing to enable around 6620 individual enterprises, 500 enterprise groups (EGs), and 50 producer collectives (PCs) for access to finance. For further information, please log on to https://www.tnrtp.org/

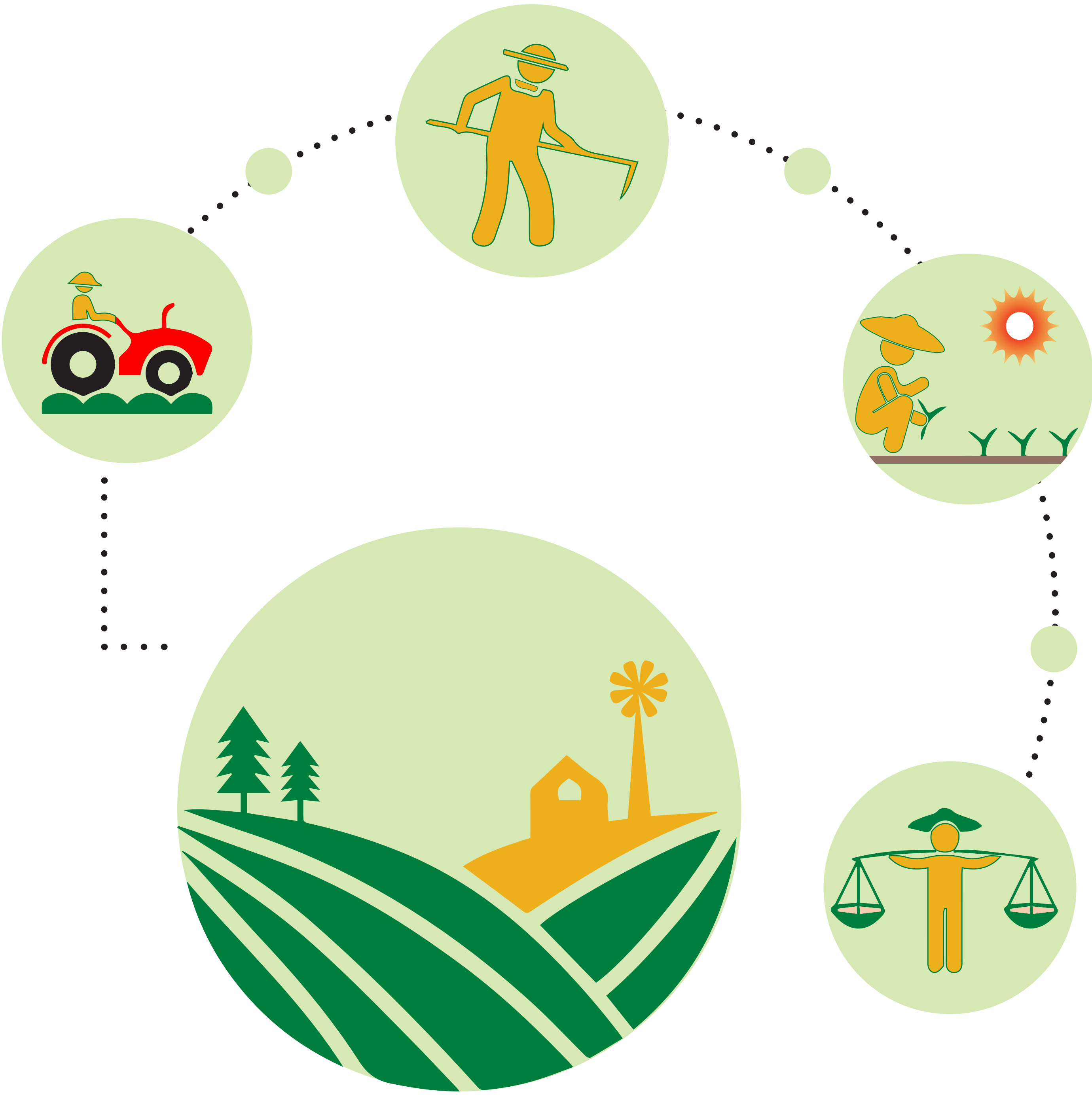
Matching Grant Program (MGP)

Matching Grant Program (MGP)

The Matching Grant Program is an exclusive financial instrument which aims to address the issues of the demand-supply gap in lending to rural enterprises such as producer-companies, first-time entrepreneurs, women-led businesses, and other enterprises that are perceived as high-risk entities by the mainstream finance sector. An arrangement of 70:30 ratio is proposed under the matching grant. Apart from entrepreneur/s' contribution, 70% or more of the approved project value will be covered by the partnering financial institution, and the remaining up to 30% will be covered by MGP. MGP is envisioned to promote rural enterprises through a robust financing mechanism that will also lead to improved loan-repayment discipline among borrowers. The proposed capital-subsidy will enhance the scope for the sustainability of enterprises. It will also encourage mainstream financial institutions to proactively participate in extending timely credit support in the future.

A well-defined three tier structure along with the support of community professionals at the grassroot level and an incubation center for providing first hand technical support to the prospective entrepreneurs at the block level has been in place for implementation of the VKP's rural enterprise promotion project.

Introduction
Training of Trainers



Introduction: Training of Trainers

Program

Vaazhndhu Kaattuvom Project (VKP), GoTN with the support of the World Bank, introduced the Matching Grant Program that aims to develop the rural enterprises and MSME ecosystem in 31 districts of Tamil Nadu. It is aiming to increase access to credit and required technical support by

- Designing a special financial instrument to finance rural enterprises and entrepreneurs
- Setting up facilities that will provide technical support to the entrepreneurs in the form of -
- Business plan development
- Risk assessment, assistance in loan availing process
- Market linkages and convergence with other relevant line-departments and institutions
- Capacity Building; training, hand-holding, and monitoring

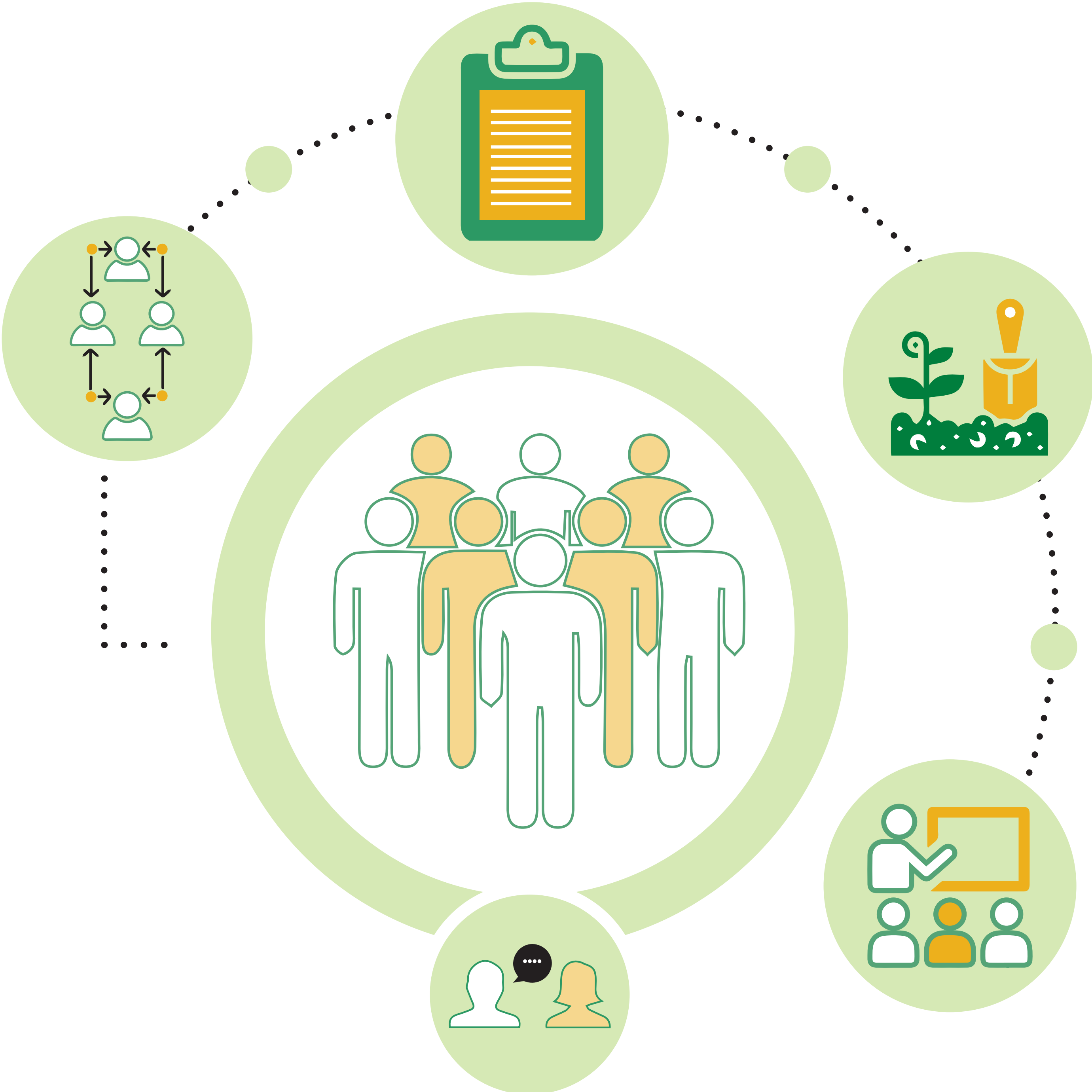
Under this scheme, up to 30% of the total project cost will be covered by MGP, and the margin (own contribution of the entrepreneur) will be 5% to 10% of the project cost. The remaining will be mobilized through the formal financial institutions as loans. A three-tiered structure (i.e. State, District, and Block Level Project Management Unit/s) has been envisioned for effective implementation of the program.

The Training

The VKP leadership acknowledged the need for the training of the project officials to accomplish the desired objective of promoting and nurturing rural MSME. The team needs to have the right skill set and a comprehensive understanding of the MSME financing and its ecosystem. To address the above-discussed training requirements of the officials, customized training on 'Matching Grant Program Guidelines and Business Plan Preparation' was designed and the training was organized in two phases for the concerned officials on MSME financing with a special focus on developing business proposals, assessing the risk of the proposed business, and critical data-points for screening and shortlisting of aspirant entrepreneurs, etc.

Learning Objectives

- Enable participants (the project staff) aware of the critical aspects of MGP credit guidelines
- Equip the project staff with the skills of risk assessment, in preparing and assessing a business plan
- Build their knowledge on the required documentation for the bank financing
- Make them aware of the ongoing credit-linkage schemes of banks
- Opportunity to learn from direct interaction with lenders and practitioners



Methodology

Methodology

The training was conducted online through two sessions for around 50 to 55 participants each (a minimum of 4 officials per district), from December 29th to 31st, 2020, and January 5th to 7th 2021. The training sessions comprised a combination of theoretical learning sessions as well practical exercises, case studies, and mock exercises. Along with individual presentations on relevant topics, case studies and exercises facilitated better comprehension and understanding of areas amongst the participants.

Learning evaluation

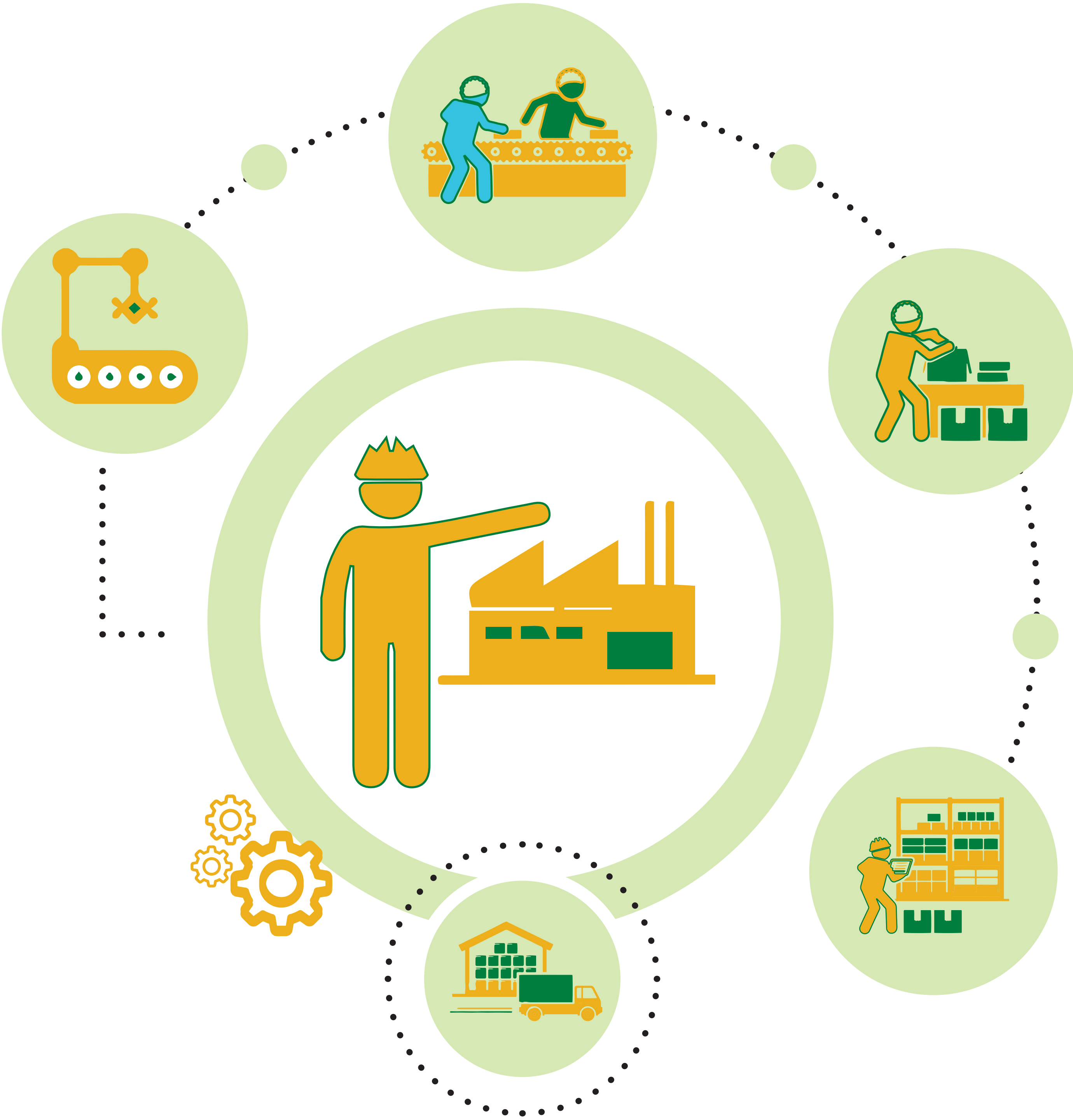
The participants were made to engage in short tests through the course of the training as well as submit answers to take-home assignments and short exercises at the end of the day. A pre-test and post-test evaluation were conducted for the training participants, to facilitate better comprehension of topics as well as assess learning outcomes from the training modules, both for the benefit of the participants as well as the moderators/facilitators.

Training Outline

The training modules are developed and designed in the following thematic areas.

1. MSME ecosystem - Scope, Opportunity, and Current state
2. Identifying and Profiling Potential Entrepreneur
   - Relevant information and data-points for the screening of aspirant entrepreneurs
   - Product and eligibility
3. Business Plan Development
   - Preparation of business plan factoring into partner FIs' and banks' requirements and MGP guideline
   - Risk Assessment and Loan application preparation for bank/FI linkages
4. Bank/FI Linkages: Loan sanction & Disbursement
   - Procedures and mechanism under MGP
5. Bank/FI Linkages; principles & guidelines (lending norms) under MGP
   - repayment schedule | interest rate | margin money | credit guarantee fees | insurance | matching grant | Loan utilization
6. Learning and perspective from direct interaction with lenders and practitioners

MSME Eco-System



MSME Eco-System

Global Scenario

- According to the World Bank, Micro, Small and Medium Enterprises (MSMEs) are defined as
    - micro enterprises: 1-9 employees;
    - small: 10-49 employees; and
    - medium: 50-249 employees.
- Local definition of MSMEs vary from country to country, based not only on number of employees, but also by inclusion of other variables such as turnover and assets, etc.
- Worldwide; there are about 365-445 million MSMEs in emerging markets:
    - 25-30 million are formal SMEs,
    - 55-70 million are formal micro, and
    - 285-345 million are informal enterprises
- World Bank reports;
    - SMEs account for about 90 percent of businesses and
    - 50 percent of Gross Domestic Product worldwide.
- Entrepreneurship and Investing in Women Entrepreneurs: According to UN, the global economy could see as much as US$ 28 trillion growth by 2025, if women participate equally as men in entrepreneurship.
- Women MSME entrepreneurs, particularly those from rural poor communities, are often further disadvantaged in growing their business, lacking land deeds and/or collateral needed to access formal sources of credit.

India Scenario

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment ₹ 25 Lac	Investment ₹ 5 Cr.	Investment ₹ 10 Cr.
Services Enterprises	Investment ₹ 10 Lac	Investment ₹ 2 Cr.	Investment ₹ 5 Cr.
Revised MSME Classification			
Composite Criteria : Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment ₹ 1 Cr. and Turnover ₹ 5 Cr.	Investment ₹ 10 Cr. and Turnover ₹ 50 Cr.	Investment ₹ 50 Cr. and Turnover ₹ 250 Cr.

• In the MSME sector, nearly 63.05 million units of micro, small and medium enterprises (as per the Government of India's estimation) play a pivotal role in the economic development of the country.

- 31% in manufacturing, 36% in trade and 33% in service sector (0.03% in non-captive electricity generation and transformation)
- 51 percent of MSME units are situated in rural India and
- about 19 to 50 MSME units (registered unit) per 1000 population.
- Social status of MSME ownership in India; About 66 per cent of all MSMEs are owned by people belonging to Forward Castes, Scheduled Castes (12.5%), the Scheduled Tribes (4.1%) and Other Backward Classes (49.7%).
- Gender equation in MSME; The gender ratio among employees is largely consistent across the board / segment at roughly 80% male and 20% female.

• The sector is not only contributing significantly to the GDP but also a major source for employment generation in the country.

- In 2016 - 2017, the share of MSMEs in GDP was almost 30% (Ministry of Micro, Small and Medium Enterprises, 2019);
- Contributes around 6.11% of the manufacturing GDP and
- 24.63% of the GDP from service activities.
- According to the National Sample Survey 2015 – 2016, the MSME sector has been creating 11 crore jobs across the country.

• A study done by the Confederation of Indian Industries (CII) on the Indian MSMEs reveals that the MSME's contribution will be around 50% of India's GDP by 2024.

- The sector has also consistently grown at an average rate of 10% annually
- Responsible for a 45% share of India's total exports,.

MSME in Tamil Nadu

- Tamil Nadu has around 49.48 lakh MSMEs and makes up for 8% of the total MSMEs in the country.
- It has the third-largest number of MSMEs in India and employs up to 96.73 lakh people.
- 99% of the MSMEs in Tamil Nadu are micro-enterprises (Ministry of Micro, Small and Medium Enterprises, 2019).

Challenges

- The growth of these micro-enterprises is constrained due to several reasons.
  - Apart from the regulatory constraints, access to finance is the single biggest hurdle facing the MSMEs in India.
  - According to a 2018 report by the International Finance Corporation (IFC), the formal banking system supplies less than one-third (or about Rs 11 lakh crore) of the credit demands of the MSMEs.
- However, the paucity of funds in the imperfectly developed credit market is one of the main reasons preventing these firms from undertaking innovation and growth.
- They are unable to get credit from financial institutions because of the lack of collateral.
- Financial institutions do not have the adequate resources and interest in screening applicants who are not able to provide collateral.

- The provision of timely disbursement of credit and shorter repayment periods are essential characteristics of finance, especially for small and micro-enterprises (International Finance Corporation, 2018).
- According to an RBI study, financial institutes serve nearly 33% of enterprises. However, the majority are underserved.
- Other key challenges faced by MSME sector such as
    - Procurement of raw materials at a competitive cost,
    - inadequate infrastructure facilities including power, water, & road, and
    - lack of skilled manpower for manufacturing, services, marketing, etc.
    - technological backwardness.
- Information Communication and Technology (ICT) can play a bigger role for MSMEs advancement
- Managing demands, and assist in efficiently managing competition in the domestic market as well as the international market.
- the need of the hour is the up-gradation of technology.

Therefore, it becomes necessary for the government to intervene to facilitate access to finance, and encourage innovation, adoption of technology, support in skill upgradation, infrastructure and effective regulations, etc.

Government Initiatives

- Guarantee scheme acts as an incentive for financial institutions to lend to MSMEs.
    - Governments across the world have implemented schemes where they act as guarantors to establish links between financial institutions and entrepreneurs.
- The Indian government has also made tremendous efforts to improve the access to institutional credit.
    - Decades of pushing norms of Priority Sector Lending have had positive impacts.
- The Government, both at the national and state-level, has introduced many schemes aimed at not only providing credit but also the development of skills, market linkages, etc. to uplift the MSME sector in India.
    - one of the largest schemes introduced is the Credit Guarantee Trust Fund for Micro and Small enterprises.
- Launched by Govt. of India to provide collateral-free credit to micro and small enterprises.
- Through this scheme, around 4.36 lakhs of credit facilities valued at about 30.168 crores were approved by financial institutions in 2018 – 2019 (Credit Guarantee Fund Trust for Micro and Small Enterprises, 2019).
- Other schemes in Tamil Nadu
    - NEEDS, and Entrepreneurship Development Program, etc. are being implemented.

Comparison of MSME Financing Schemes in Tamil Nadu

Parameters	PMEGP by GOI	NEEDS by GoTN	TAHDCO by GoTN	UYEGP by GoTN
Project cost & Loan size	Max. Project cost for Production activities- Rs.25 lakhs and for service sector activities Rs. 10 lakhs	Project cost: For production and service sector, the project cost should be minimum of Rs.10 lakhs and maximum 5 crore.	For the purpose of subsidy, the maximum project cost is Rs.7.50 lakhs. Banks have the discretion to allow the project cost beyond this ceiling subject to the capacity of the applicant & security.	Max loan for Production Rs.10 lakhs, Service sector Rs.5 lakhs and for Business Rs. 5 lakhs loan.
Margin	General – 10% Special - 5% (SC, Weaker section, ST, Minorities, OBC, Ex-service man, Differently abled, People in North East, Hill and Border areas.	General -10% Special – 5% (SC, ST, Women, Ex-Service man, Differently abled, Transgender.	--	General: 10% Special: 5% (SC, ST, Minorities, BC, MBC, Women, Ex-service man, Physically handicapped and Transgender)
Subsidy	- Back ended subsidy. General: -For rural: 25% Non-rural-15% - Special: - For rural : 35% Non-rural- 25%	- Front ended subsidy, 25% and maximum of Rs. 50 lakhs	Front ended subsidy, 30% of the project cost or Rs.2.25 lakhs max.	- Front ended subsidy. 25%
Target group eligibility	- For production activities & project cost above Rs.10 lakhs and for service sector activities & project cost of above Rs. 5 lakhs – 8th Pass.	- Minimum 21 years' age. Max. age for general- 35 years. For special category- 45 years. - First generation entrepreneur - Graduate, Diploma or ITI or Vocation training.	- Family annual income within Rs.1 lakh. - Belong to SC - 18 to 65 years of age preferred. - Prior experience in the business. - No other family member should have benefitted out of TAHDCO schemes.	- 18 to 35 years of age. For special category-up to 45 years of age - VIII pass| - Resident in a place for 3 years - Family income not to exceed Rs.5 lakhs/year
Lock in period	Subsidy kept as Term deposit without interest for 3 years.	--	--	--
Training to the entrepreneur	2 week EDP training compulsory.	3 weeks EDP training.	Those who got the TAHDCO training are preferred.	7 days EDP training

Parameters	PMEGP by GOI	NEEDS by GoTN	TAHDCO by GoTN	UYEGP by GoTN
Interest subvention	--	3% interest subvention.	--	--
Other terms	Those availed subsidy under any other scheme, cannot avail this subsidy again. Negative list – activities listed in the negative list will not be financed. Projects without Capital Expenditure are not eligible for financing under the Scheme.Borrower should give an undertaking to return the subsidy, if the terms are violated.	Those availed loans under any other state/ central govt subsidy linked credit schemes are not eligible.	The applicants has to pay Rs.60 to the service provider at the TAHDCO office for uploading the loan application through online portal. Out of this Rs.60, the person who does the work will get Rs.30 and the balance Rs.30 for consumables.	--
Asset creation	--	--	Within 30 days of the loan disbursement. Asset creation should be supported with a photo upload in the portal.	-
Selection by	District level Task force committee	District level Task force committee	District level Task force committee	District Task Force
Sponsoring agency	KVIC (for rural areas) or DIC (for non-rural areas).	District Industries Centre at the District HQs.	District Manager, TAHDCO.	DIC

Training Manual MGP Guidelines, Business Plan Preparation and Selection of Entrepreneurs

Training Manual
MGP Guidelines, Business Plan Preparation and Selection of Entrepreneurs

MGP OPERATIONAL FRAMEWORK AND PRINCIPLES

Session Objective: To make the participants aware of the MGP operational framework and its context, particulars of the scheme, etc.

Duration of the Session: 1 hour and 30 Minutes.

Pre-session preparation: PowerPoint presentation on the framework of operational MGP and basic principles of the scheme (10 slides)

Training Method: Lecture and discussion.

Training Process

- Set the context of the training theme with a set information and data on MSME ecosystem (presentation on the current state of the sector; reference MSME ecosystem presentation)
- Discussion on MSME contribution in emerging economy and employment
- Discuss the basic questions relating to access to finance in the context of MSME in rural Tamil Nadu
- Discuss the key learnings from the stakeholder consultations in the process of developing the guidelines

Content:

Matching Grant Program Overview: discussion on MGP and its key features

- Matching Grant Program (MGP) promotes rural enterprises through special finance instrument and constant professional support
- MGP-Instrument: an arrangement of 70:30 ratio is proposed under the matching grant
- 30% of the approved project cost will be covered by MGP
- 70% or more of the approved project cost will be covered by partnering financial institution/bank
- Key Feature of the program
- Efficient targeting
- Right incubation program
- Enabling ecosystem

Learning and challenges both from the supply-side and demand-side

Challenges faced by Bankers

- High unqualified applications and middle-men or agents' involvement
- Lacks time and capacity and resource
- Challenges in Government - sponsored schemes; Delay in the release of subsidy, no representation of bankers in the applicant selection process, inadequate post-loan - disbursement support

Challenges faced by Govt. Department

- Delay in processing the loan application
- Rejection of applications without valid reasons
- Banks unaware of schemes and their provisions
- Lack of transparency

Demand-side

- Lack of enthusiasm on bankers, no field visit on time for verification of application
- Unable to produce quotations to avail of the loan from the Bank.
- Each bank calls for a different set of enclosures and no common procedure is followed by banks
- Banks ask for security and personal guarantee of the Directors for sanctioning loan to FPCs
- lack of financing support for 'top-up' or ad-hoc limits to meet our seasonal requirements
- There is less transparency in bank charges for the applicants.

MGP Operational framework

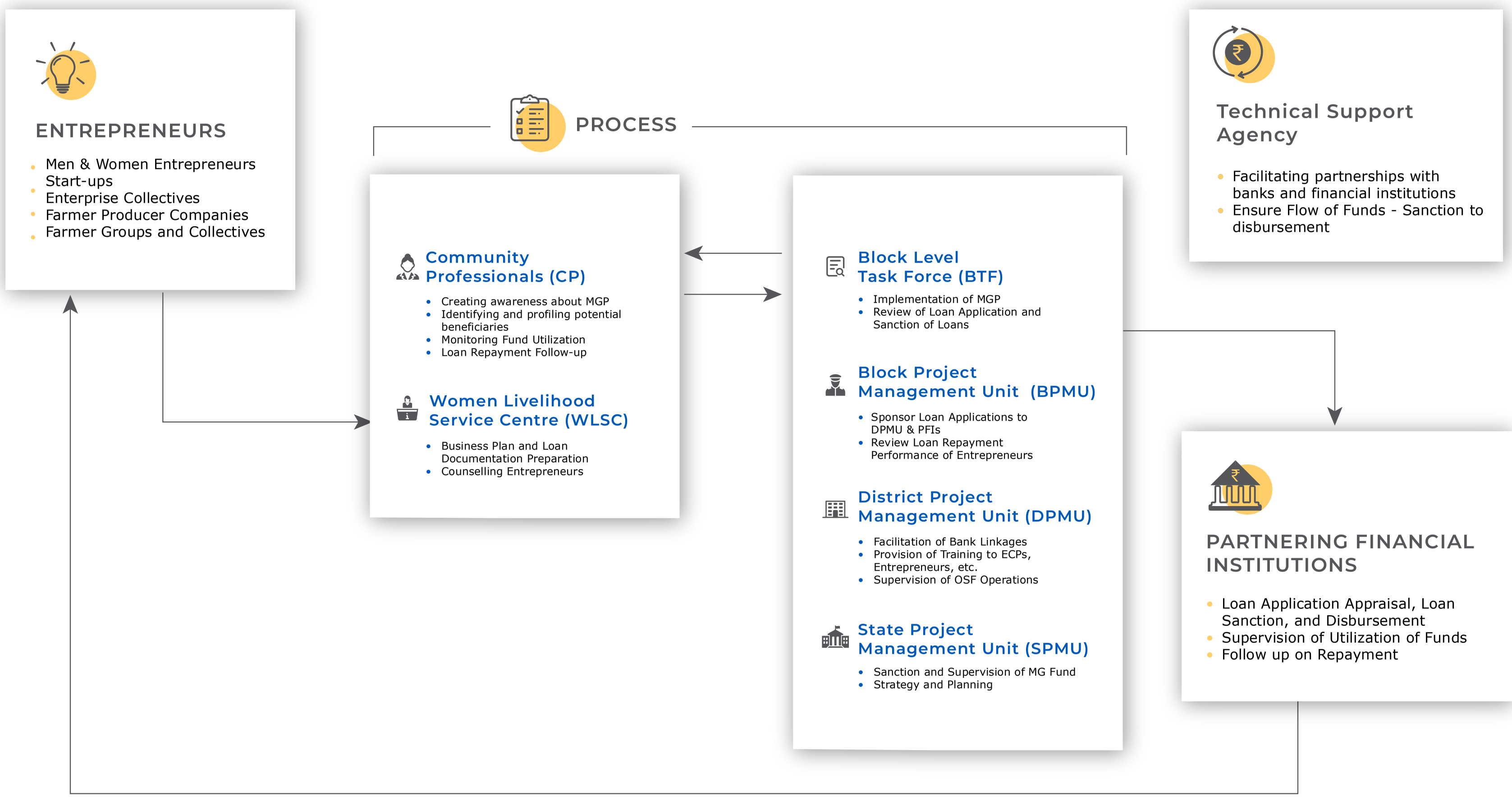
Facilitate discussion on three-tier operational structure and role of the transaction manager (technical support agency) and bank

Training of Entrepreneurs

Orientation and Counselling	Entrepreneurship Development Program
• Introduction to TNRTP – MGP	• Introduction to TNRTP – MGP
• Provisions under MGP	• Ideation of Business / Enterprise
• Eligibility & Process of availing financial assistance	• Business and Finance Management
• Loan Utilization	• Accounting / Book-keeping
• Other terms and conditions	• Budgeting and Pricing
• Grievance Redressal	• Branding etc.

Matching Grants Program

PROJECT OPERATIONAL STRUCTURE



Tamil Nadu Rural Transformation Project (TNRTP)

Training of Project Team

Credit Guidelines: Target Beneficiaries and Eligibility

Target Entrepreneurs

- First-time entrepreneurs
- SHG women entrepreneurs
- Enterprises led by differently-abled persons
- Producer Collectives
- Women-led businesses
- Entrepreneurs from SHG member's household
- Enterprise Groups

Eligibility

- Age: 21 to 45 years
- The applicant should be a resident of the project implementing area, with proper KYC documents (ID Proof and Address proof)
- In the case of SHG members, the applicant/s should have completed one-cycle of loan with full repayment.
- If the applicant is from an SHG member's households, preference will be given to the applicant/s who have attended any relevant training or have relevant business experience
- The applicant should not be a defaulter of any financial institution
- The enterprise group / producer collective should comply with the norms of the VKP.
- The entrepreneur/applicant who is drawing the benefits concurrently under any of the subsidy linked loan program may be considered on a case to case basis.
- The entrepreneurs ishould be from project implementing area that is primarily a rural area
- The entrepreneur / group / collective should be willing to start or expand an enterprise.

Loan Product Details

- **Categories of Loans**
  - Individual Loans and
  - Group Loans for Enterprise Groups and Producer Collectives
- **Loan Facilities**
  - Term Loan only
  - Composite Loan (Term Loan + Working Capital Limit)
  - Working capital in the form of loan
- **Type of Loan**
  - Nano
  - Micro
  - Small

Parameters	Nano	Micro	Small	EG / PC
Project Cost	Up to INR 5 lakhs	Above INR 5 lakhs to INR 15 lakhs	Above INR 15 lakhs	Upto Project cost based on business plan
Margin Money	General Category 10% Special Category 5%	General Category 10% Special Category 5% EG / PC - 15 %	upto 50 Lakhs General Category 10% Special Category 5% For loans of above INR 50 lakhs; General Category 15% Special Category 10%	upto 50 lakhs 15% above 50 Lakhs 25%
Matching Grant	30% of the project cost	30% of the project cost	30% of the project cost max Rs. 40 lakhs	30% of the project cost max Rs. 40 lakhs
Rate of interest	As per Bank's norms	As per Bank's norms	As per Bank's norms	As per Bank's norms
Repayment term	As per Bank's norms	As per Bank's norms	As per Bank's norms	As per Bank's norms
Holiday period	In accordance with Bank / RBI norms	In accordance with Bank / RBI norms	In accordance with Bank / RBI norms	In accordance with Bank / RBI norms
Security	Hypothecation of assets created out of loan. additional security as per bank norms	Hypothecation of assets created out of loan. additional security as per bank norms	Hypothecation of assets created out of loan. additional security as per bank norms	Hypothecation of assets created out of loan. additional security as per bank norms
Other charges	As per Bank's norms	As per Bank's norms	As per Bank's norms	As per Bank's norms
Insurance	Insurance for the borrower, her / his spouse and for the assets created out of the loan	Insurance for the borrower, her / his spouse and for the assets created out of the loan	Insurance for the borrower, her / his spouse and for the assets created out of the loan	Insurance for the assets Created out of the loan
Credit guarantee cover fee	Guarantee fee will be borne by the borrower. If borrower opts for hybrid option, bank can offer the hybrid option.	Guarantee fee will be borne by the borrower. If borrower opts for hybrid option, bank can offer the hybrid option.	Guarantee fee will be borne by the borrower. If borrower opts for hybrid option, bank can offer the hybrid option.	Guarantee fee will be borne by the borrower. If borrower opts for hybrid option, bank can offer the hybrid option.

MGP Entrepreneurs Selection and Credit Sanction Diagram

Explain the selection and sanction process-

a) profiling and sourcing of applications at CP and WLSC level

b) Business proposal preparation and risk assessment and counselling at WLSC level

c) Selection of entrepreneurs by BTF

d) Sponsoring of application at BPMU and DPMU

e) Training at DPMU; Matching grant sanction by SPMU

f) Loan utilization verification by CP / BPMU / (TSA)

Note: Bank will follow its own procedure for selection and disbursal of loans

MGP Credit Sanction Diagram

Category of Loan: NANO (UP TO INR 5 LAKHS)

01 Profiling
CP|WLSC*
- Screen and profile potential entrepreneurs | GEs | PCs

3 days

02 Business Proposal & Application
WLSCs
- Counselling
- Business Plan Preparation and Risk Assessment
- Loan Application

4 days

03 Selection of Entrepreneurs
BTF at BPMU
- Business Plan Appraisal and Loan Application Review
- Sponsoring Applications to PFI by BPMU
- Selection and Sponsoring of Entrepreneurs | GEs | PCs

7 days

04 Loan Sanction
PFI
- Review and Sanction of Loans
- Requisition for Matching Grant to DPMU

14 days

05 Training
DPMU
- Organize Mandatory Training for Entrepreneurs | GEs | PCs

06 MG Claim Review
SPMU (DyCOO - BF)
- Review of MG claim
- Note by TM with approval of Deputy COO

07 MG Claim Sanction & Release
SPMU (Sanctioning Board)
- Review & Approve MG Claims
- Release of MG claimed amount to PFI

7 days*

08 Loan Disbursement
PFI
- Place the matching grant at SRF
- Loan documentation and disbursement

7 days

09 Loan Utilization
PFI
- Utilization of Fund and asset creation

within 30 days

10 Loan Utilization Verification
CP | BPMU | TAS
- 100% of cases by CP
- 15% of cases by BPMU
- 10% of cases by TSA (100% of GE & PC loans by TSA)

within 60 days

Tamil Nadu Rural Transformation Project (TNRTP)

OSF is prime responsible for screening porfiling of Group Enterprises (GEs) and Producer Collectives (PCs) CP can assist in the process under OSF's guidance.
*Steps 6, 7, and 8 are completed within the 14 days that taken by the PFI to review and sanction the loan application

MGP Credit Sanction Diagram

Category of Loan: MICRO (INR 5 LAKHS - 15 LAKHS)

01 Profiling

CP|WLSC*

- Screen and profile potential entrepreneurs | GEs | PCs

3 days

02 Business Proposal & Application

WLSCs

- Counselling
- Business Plan Preparation and Risk Assessment
- Loan Application

4 days

03 Selection of Entrepreneurs

BTF at BPMU

- Selection and Sponsoring of Entrepreneurs | GEs | PCs

7 days

04 Sponsoring Applications

DPMU

- Sponsoring applications to PFI

2 days

05 Loan Sanction

PFI

- Review and Sanction of loans
- Requisition for Matching Grant to DPMU

21 days

06 Training

DPMU

- Organize Mandatory Training for Entrepreneurs | GEs | PCs

07 MG Claim Review

SPMU (DyCOO - BF)

- Review of MG claim
- Note by TSA with approval of Deputy COO

08 MG Claim Sanction & Release

SPMU (Sanctioning Board)

- Review & Approve MG Claims
- Release of MG claimed amount to PFI

7 days*

09 Loan Disbursement

PFI

- Place the matching grant at SRF
- Loan documentation and disbursement

7 days

10 Loan Utilization

PFI

- Utilization of Fund and asset creation

within 30 days

11 Loan Utilization Verification

CP | OSF | TSA

- 100% of cases by CP
- 15% of cases by OSFs
- 10% of cases by TSA (100% of GE & PC loans by TSA)

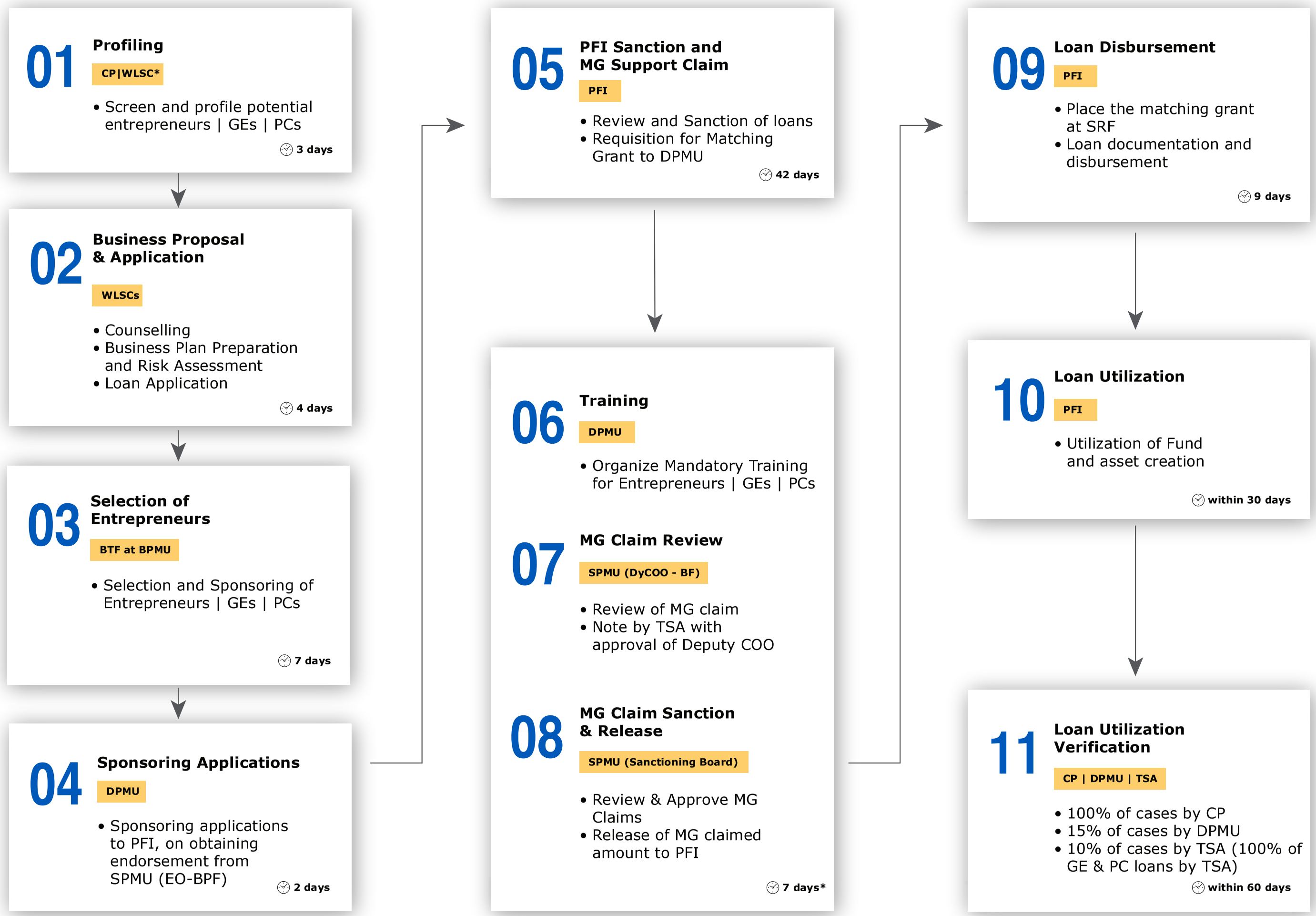
within 60 days

Tamil Nadu Rural Transformation Project (TNRTP)

OSF is prime responsible for screening porfiling of Group Enterprises (GEs) and Producer Collectives (PCs) CP can assist in the process under OSF's guidance.
*Steps 6,7, and 8 are completed within the 21 days days taken by the PFI to review and sanction the loan application

MGP Credit Sanction Diagram

Category of Loan: SMALL (> INR 15 LAKHS)



OSF is prime responsible for screening porfiling of Group Enterprises (GEs) and Producer Collectives (PCs) CP can assist in the process under OSF's guidance.
*Steps 6,7, and 8 are completed within the 42 days days taken by the PFI to review and sanction the loan application

BASIC TERMS IN CREDIT GUIDELINES

Session Objective: To make the participants aware of the "Basic Terms" in credit guidelines so that they will understand the context under which these terms are used in the credit guidelines.

Duration of the Session: 1 hour and 30 Minutes.

Pre-session preparation: Interest working sheet to be given as a Hand-out to all participants, presentations (PPTs) (6 slides)

Training Method: Lecture and discussion.

Training Process

- Distribute the Interest working sheet - Hand-outs to the participants.
- Initiate a discussion on how an entrepreneur raises funding to his enterprise and elicit the sources viz. Equity, Borrowed capital, and Grants from government or projects.
- Give examples of various types of assets – Fixed capital – which is going to be used for more than a year e.g machinery installed in a Production unit. Working capital – Funds needed to run the business operations e.g For purchase of raw material, to pay for labour, and so on.
- Explain the role of Margin, which will boost the confidence of bankers. As putting your own money to risk, one will do it only after proper due diligence. When one puts in Margin money, his application will be favorably considered by the banks.
- In case of not giving additional security by you, what way banks can secure their loans – ask this question and elicit the response, that credit guarantee fund is the option.
- Tell an example of a business (e.g. establishing a plantation crop, which will take at least 4 years to get an economic yield) When some projects take more time to generate cash flow and in such cases, they cannot start the repayment immediately after the disbursement of the loan. In such cases, the repayment will start after an initial period of 1 or 3 or 6 or 12 months of the holiday period.

Content:

Capital and its source:

Capital

- Amount invested in a Business

Sources

- Equity capital: Amount invested by the owners and investors
- Borrowed capital: Amount lent by banks and financial institutions
- Grant capital: Amount given by govt or development agencies as subsidy

Fixed Capital / Working Capital

Fixed capital

- This is the capital amount used to buy assets that will be used for many years, usually beyond one operating cycle.
- E.g. Purchase of machinery for a business or Equipment to provide a service.

Working capital

- This is the capital amount used to purchase raw material, to pay for labour, and other recurring expenses. It is the total sum required to have adequate raw materials, Stock-in-process, finished goods, Goods sold on credit sales (receivables), and all other working expenses.
- E.g. Purchase of raw materials, Credit sales outstanding and yet to be collected.

Cost and Means of the Project

- The cost of the project includes both fixed capital, working capital & pre-operative expenses (amount required for establishing a business).
- Means of the project indicate the sources of the funding – e.g. own source (Margin), Borrowing (loans from banks / financial institutions), Grants (Margin money) from govt or special projects.
- The cost of the project and Means of the project should be equal and should tally.

Margin: Out of the total project cost of the business, the promoters/entrepreneurs have to put a certain percentage of their own money to have a stake in the business and this is called Margin money. When entrepreneurs put in their own money in business, they take extra care.

- It ranges from 5% to 25% of the project cost depending upon the schemes and type of borrower.

Credit guarantee

- This is the credit guarantee given by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to banks which will encourage them to lend to these sectors without taking the additional security by way of collaterals like a mortgage or third-party guarantee.

Holiday period

When the projects financed by banks have a long gestation period (income generation starts after a long period), banks give a holiday period during which borrowers need not repay either principal or interest or both as the case may be. The holiday period from 1 month to 2 years' period can be given as a holiday period.

Collateral

- This is the additional security given to the bank for securing the repayment of the bank loan by the borrower. This collateral may be by way of giving a property – land or building as additional security. This is in addition to the primary security (the assets purchased out of loan availed e.g. In case of a loan for the purchase of a vehicle – the vehicle is the primary security).
- For Agri loans – no collateral up to Rs.1.60 lakhs
- And for Micro-enterprises and small enterprises, no collateral is required for loan up to Rs.10 lakhs.

Interest: Flat rate / Interest on reducing balance

- Interest is the amount paid to Bank or financial institution for the borrowed money. This is payable on the loan outstanding amount or on the full loan amount availed.
- Flat rate: Interest is charged on the full loan amount
- Interest on reducing balance: Interest is charged on the reducing balance.
- The difference in working for the flat rate and interest on reducing balance is given in the handout.

Hand-out:

Interest on Reducing Balance					
Loan amount: Rs.10000		**Repayment**			
Rate of interest: 12% per annum	**Debit**	**Interest charged**	**Principal repaid**	**Interest paid**	**Loan outstanding**
1.10.2019	10000				10000
1.11.2019		100	1000	100	9000
1.12.2019		90	1000	90	8000
1.1.2020		80	1000	80	7000
1.2.2020		70	1000	70	6000
1.3.2020		60	1000	60	5000
1.4.2020		50	1000	50	4000
1.5.2020		40	1000	40	3000
1.6.2020		30	1000	30	2000
1.7.2020		20	1000	20	1000
1.8.2020		10	1000	10	0
Total interest paid				**550**	

Interest on flat rate (on full loan amount)					
Loan amount: Rs.10000		**Repayment**			
Rate of interest: 12% per annum	**Debit**	**Interest charged**	**Principal repaid**	**Interest paid**	**Loan outstanding**
1.10.2019	10000				10000
1.11.2019		100	1000	100	9000
1.12.2019		100	1000	100	8000

1.1.2020		100	1000	100	7000
1.2.2020		100	1000	100	6000
1.3.2020		100	1000	100	5000
1.4.2020		100	1000	100	4000
1.5.2020		100	1000	100	3000
1.6.2020		100	1000	100	2000
1.7.2020		100	1000	100	1000
1.8.2020		100	1000	100	0
Total interest paid				**1000**	

Learning Evaluation

At the end of the session, ask a few questions from the questions given here in below, to test the participants' understanding of the topic. The learning evaluation questions are...

1. Among the following which one comes under fixed capital.
   a. Purchase of fruits for a jam-making unit
   b. Purchase of a Deep freezer for a dairy processing unit
   c. Purchase of spares for a minor repair
   d. None of the above
2. Among the following which one comes under the working capital.
   a. Constructing a work shed for workspace
   b. Receivables outstanding from retailers
   c. Purchase of scanning machine in a Lab
   d. None of the above.
3. In general, the credit guarantee is over and above the collateral one entrepreneur gives as additional security to the bank to secure his loan availed.
   a. True
   b. False
4. For ensuring the interest and commitment of the borrower, banks take margin money from the borrower. This margin money is generally calculated as a % of ......amount.
   1. Total loan amount
   2. Total project cost
   3. Net loan amount
   4. None of the above
5. Your SHG member requires Rs.50,000 loan for expanding her enterprise. She has approached two institutions- one NBFC, which is ready to give her loan at an interest rate of 22% per annum on a reducing balance basis and another informal institution is ready to give the same loan immediately at an interest rate of 15% per annum on a flat rate basis. SHG member has decided to go in for informal institution as the interest rate is only 15% per annum. What will be your suggestion -either NBFC at 22% or informal source at 15%?

1. NBFC at 22%
2. Informal source at 15%

Answers:

1. B – Purchase of a Deep freezer for a dairy processing unit
2. B- Receivable outstanding from retailers
3. B- False
4. B- Total project cost
5. A- NBFC at 22%

Summary: Wrap up the lecture by asking the participants to recall the important points and try to elicit the following points from the participants.

- Fixed capital is the asset that will be used for more than one season or one year.
- The means of the project should be equal to the cost of the project.
- When one needs to decide about the interest rate options, caution should be exercised to see whether the interest calculation is based on a Flat rate basis or it is based on the reducing balance and then to opt for the reducing balance option.
- Collateral security – It is the additional security taken by the banks to secure its loan besides the primary securities (assets purchased out of Bank loan).

SCREENING

Session Objective: To make the participants aware of the "Screening" process to filter the aspiring entrepreneurs at the entry-level.

Duration of the Session: 1 hour and 30 Minutes.

Pre-session preparation: Screening scoring sheet to be given as a Hand-out to all participants, presentations (PPTs -7 slides)

Training Method: Lecture and discussion

Training Process

- Distribute the Screening scoring Hand-outs to the participants
- Tell them how to check the basic eligibility criteria for applying to MGP (Matching Grant Program) especially, age, KYC documents (ID proof and address proof), Whether the applicant is a defaulter or not, and so on.
- Emphasize the need for a personal visit to the place of residence or place of business of the applicant to check and confirm whether the applicant has the required space for the proposed business.
- Show them the list of documents that can be accepted as ID proof and as address proof.
- Initiate a discussion on how to verify the existence of enterprises and explain the way of checking the Incorporation Documents or Registration Certificates for the businesses with govt. authorities.
- Explain the importance of assessing 3 Cs – Character, Capacity, and Capital and out of the three, focus more on Character assessment – both in a formal way and also in an informal way by taking the feedback from SHGs / PLFs.
- Tell the participants about the various criteria used in the screening scoring sheet and scores for individual criteria. This will help them understand the process of taking up the screening in a more objective way.

Content:

Screening

- For individual loans, Screening by CPs.
- For Enterprise groups and Collectives, screening by WLSC

Eligibility

- Age: 21 to 60 years
- a resident of the project implementing area, with proper KYC documents (ID Proof and Address proof)
- In the case of SHG members, should have completed one-cycle of the loan with a full repayment.
- If the applicant is from an SHG member's households, preference will be given to the applicant/s who have attended any relevant training or have relevant business experience , not a defaulter of any financial institution
- The enterprise group/producer collective should comply with the norms of the VKP.
- The entrepreneur/applicant who is drawing the benefits concurrently under any of the subsidy linked loan program may be considered on a case to case basis.
- should be from project implementing area that primarily a rural area (Population up to 9999)
- should be willing to start or expand an enterprise.

Assessing Feasibility of Place of Business

- CP's Visit to the entrepreneur's residence and/or proposed place of business
- To check the availability of adequate space for the proposed activity and to confirm the residence of the entrepreneur.
- If space is rented, to check whether the No Objection Certificate from the landlord is available

Know Your Customer (KYC)

- To Check the original KYC (Know Your Customer) documents of the entrepreneur for ID proof and Address proof.

To take the Self-attested copies of any one of the following KYC documents like ID and Address proof:

ID proof documents:	Address proof documents:
Aadhaar card	Passport
Voter's ID card	Telephone bill **
Driving License	Electricity bill **
PAN Card	Property tax receipt **
	Voter's ID card,
	Aadhaar card
	Passport
	* * Bill not older than 2 months

Documents of Incorporation (to check)

- In case of expansion of existing businesses, check the availability of incorporation documents from MCA (Ministry of Corporate Affairs) or MSME (Micro, Small and Medium Enterprises) Dept. / approval from the local bodies (Panchayat, Panchayat Union, Municipal office or Corporation).

Evaluating 3 Cs viz. Character, Capacity and Capital

Character:

- Reference check for the character with SHGs / PLF
- Oral enquiry with their business stakeholders viz. partners, vendors, or suppliers in the local area.
- Any negative antecedents reported earlier or any past over dues in SHGs internal loans or previous bank linkage loans by checking the previous loan passbooks or digital records .
- No. of credit linkages with formal financial institutions in the past.

Capacity:

- Whether the entrepreneur has the technical / business skills to run the proposed enterprise?
- Whether any of the family members of the entrepreneur will support the entrepreneur in the proposed business activity?
- Whether the entrepreneur has attended any skill up-gradation program for a minimum of 3 days on the selected activity in the recent past?
- Whether the entrepreneur's household has the buffer to manage any cost escalations of the project in case of delayed execution (This can be assessed by the household's multiple sources of income or whether multiple members of the household are earning)

Capital:

- Check Whether the entrepreneur is ready to bring in the required margin money (either 10% for the general category or 5% for the special category).
- Check Whether the proposed activity requires any specialized Human capital– skilled persons for technical aspects, operations, marketing, accounting, finance, IT, or compliance & its availability-hiring or outsourcing.
- Check Whether the entrepreneur/enterprise has the assets as stated by them in the Assets and Liabilities statement (as per the format prescribed in the annexure: iii) as on the date of screening. Whether the assets stated in the Assets & Liabilities statement are more than the liabilities.

Hand-out:

SCREENING - SCORING SHEET		(Total Score: 60)		
Sl. No	Criteria	Score	Given Score (Sub-Criteria)	Final Score
A	**Entry level criteria (Total Score 10):**			
	1. INDIVIDUAL LOANS			
	(a) SHG member			
	SHG member : age 21 to 45 years	5		
	SHG member : for the last 3 years	5		
	(b) Family members of SHG member			
	Attended relevant training program	5		
	Has work-experience in the proposed activity	5		
	2. GROUP LOAN			
	(a) Enterprise Group:			
	Group functions as per project norms prescribed	5		
	Group / Collective in existence for a minimum of 6 months	5		
	(b) Producers Collective			
	Group functions as per project norms prescribed	5		
	Group / Collective in existence for a minimum of 12 months	5		
B	**Space for place of business (Total Score 10):**			
	Verified the residence / place of business and found adequate space for the proposed activity	5		
	Own place / In Case of Rented Place - NOC from the Owner	5		
C	**KYC & Incorporation Documents (Total Score 10):** (In case of groups, KYC documents of office bearers)			
	ID proof & address proof	5		

	Incorporation documents- MCA registration or MSME registration or Approval from local body i.e. Panchayat office	5		
D	**Character** (Total Score 10)**			
	At least one cycle of loan with full repayment	5		
	Credit linkage from formal financial Institutions - 3 times or more	5		
E	**Capacity (Total Score 10)**			
	If existing enterprise, whether the enterprise is operation for More than 2 years	10		
	6 months - 2 years	5		
	Less than 6 months	0		
	(Or)			
	If new, Whether the entrepreneur possess relevant experience in the proposed trade,	10		
	More than 2 years	10		
	6 months - 2 years	5		
	Less than 6 months	0		
F	**Capital (Total Score 10)**			
	On Availability of Human Capital			
	(i) Whether the entrepreneur is able to bring-in the margin money required for the activity proposed:	5		
	(ii) Whether the value of the assets are more than the liabilities stated in the networth statement:	5		
G	**GRAND TOTAL**			
	If the entrepreneur scores more than 35** in the screening, the entrepreneurs will be selected for further processing at the WLSC.			

Date: (Name and Signature of CP)

Learning Evaluation:

Before ending the session, ask a few questions to test the participants' understanding of the topic. The learning evaluation questions are ....

1. Kala is the animator of the Roja SHG for the last 5 years and she has been active during the Covid pandemic helping all SHG members in her village and she is managing the group well. Her son has applied for loan support under MGP. During the credit bureau check, it has been reported that her son had availed education loan 5 years back and it remains unpaid and it is overdue.

   Whether you will consider this as a special case or not.

   (a) Yes

   (b) No.

2. Malliga is a member of an SHG for the last 25 years. She has applied for a loan and she approached CP. Her date of birth is 1st Jan 1959. Whether we can consider in the screening?

   (a) Yes

   (b) No

3. CP is making screening and in the proposed business, CP feels that there is bound to be a cost escalation. In that case, what would be the most important criteria to consider the proposal to ensure that the household can absorb the cost escalation risk.

   (a) The big house as an asset

   (b) More than one source of income to the household

   (c) Owning a plot of Agriculture land

   (d) Owning a house plot in a prime locality.

4. Which one of the following you will take as ID proof for the purpose of KYC compliance?

   (a) Telephone bill

   (b) Property tax receipt

   (c) Electricity Bill

   (d) PAN card

5. Green foods are a Farmer Producer Organization promoted under the project. CP is screening the proposal of FPO for a loan of Rs.1 crore for putting up a processing plant. FPO is ready to provide a margin of Rs.10 lakhs as the maximum. Whether it can be considered?

   (a) Yes

   (b) No.

Answers:

1. B. no
2. B. no
3. B. More than one source of income to the household
4. D. PAN Card
5. B. no. (For above Rs.50 lakhs loan, the margin should be 25%)

Summary:

Wrap up the discussion by emphasizing the key points again at the end.

- Ensure that the eligibility criteria are fulfilled
- Place of residence/place of business to be checked in person during the screening process.
- Obtain proper KYC documents
- Assess the 3Cs -Character, Capacity, and Capital.

RISK ASSESSMENT

Session Objective: To enable the participants to understand the process of risk assessment to select the right applicant.

Duration of the Session: 1 hour and 30 Minutes.

Pre-session preparation: Risk assessment sheet to be given as a Hand-out to all participants, Presentation (PPTs - 7 slides)

Training Method: Lecture, presentation and discussion

Training Process:

- Distribute the Risk assessment as a Hand-outs to the participants
- Explain what is a risk -Possibility of an undesirable outcome affecting the business.
- Differentiate between different risks in brief –
- Credit risk – Borrower failing to repay the loan
- Operational risk – Frauds due to System failure or human failure
- Business risk – Whether the product chosen has enough demand, whether the entrepreneur has a plan to manage the competition
- Implementation risk – Is there any risk for delay in the execution of the project due to delayed approvals or construction activities getting delayed.
- Financial risk: Whether the business is able to meet the current payment obligations (Liquidity risk) and whether the entrepreneur can ensure a decent profit margin?
- Environmental risk – To check whether the proposed activity leads to any deterioration of the environment due to its effluents discharge or any other negative impacts.
- Initiate a discussion on the possible ways to control the risks effectively.
- Share the important risk management strategies using the slides given in the Content part.

Content:

Banks assess different risks before taking a decision to finance a unit. Bankers focus on key risks

Risk: Possibility of an undesirable outcome affecting the business.

Risk Management: Managing the risk by reducing, transferring, or controlling the risk.

- Credit risk
- Operational risk
- Business risk
- Implementation risk
- Financial risk
- Environmental risk

Sourcing of application and risk assessment should not be done by the same person. Hence, the Risk assessment will be done by the person one level above the person collecting / sourcing the application.

WLSC i/c should make a field visit (Place of business/residence of the applicant) for risk assessment.

Credit risk:

Possibility of the entrepreneurs failing to repay (may be willful default or for the reasons beyond their control)

Credit risk:

- The entrepreneur lives permanently in the address given in the KYC documents Yes / No
- No Negative references about the entrepreneur during oral enquiry Yes / No
- No Previous record of overdues in the loans of the entrepreneur Yes / No

Operational risk:

Possibility of system or human failure in the business leading to loss.

- No major risks for systems failure ((e.g. IT servers kept in risk areas like flood-prone or earthquake-prone areas)) in the proposed business Yes / No
- No major risks for human failure (e.g. chances for monitoring lapse due to remote or decentralized operations) resulting in frauds Yes / No

Business risk:

Possibility of any loss due to the aspects related to the business operations.

Business risk:

The entrepreneur has the adequate experience in the

- Line of activity selected Yes / No
- The selected activity has enough scope or market Yes / No
- The entrepreneur has a plan to manage the Competition in the industry / sector Yes / No

Implementation risk:

Possibility of any loss due to the aspects like getting approval from the local body or other regulatory authority e.g. In case of Construction of factory/workshed – building plan approval.

- The business will be commenced on time as per the plan (Is there any risk for time-lapse due to construction or approval from Govt.) Yes / No

Financial risk

Possibility of any loss due to the poor liquidity i.e. not able to meet the current payment obligations with the current cash inflow.

- The entrepreneur can maintain the profit margin assumed: Yes / No
- The payment terms of the clients (credit for 15 / 30 /60 days) are manageable to the entrepreneur Yes / No

Environmental risk:

- The selected activity is not on the Negative list Yes / No
- If the response for the above risk factors is "Yes", no risk is perceived and WLSC i/c will recommend such cases to the TFC.
- If for any risk factors, the response is "No", WLSC i/c will discuss further with the entrepreneur about the risk mitigation and then recommend to the TFC with that risk mitigation plan.

Hand out:

The Risk Assessment by WLSC

The WLSC will make a field visit to the entrepreneur's place of residence and the proposed place of business to will carry out a risk assessment during the Business plan preparation stage. WLSC i/c will look into the important risk dimensions such as Credit risk, Operational risk, Business risk, Implementation risk, Financial risk and Environment risk as given below.

Risk assessment for the entrepreneur / enterprise

Credit risk:

- The entrepreneur lives permanently in the address given in the KYC documents Yes / No
- No Negative references about the entrepreneur during an oral enquiry Yes / No
- No Previous record of overdue in the loans of the entrepreneur Yes / No

Operational risk:

- No major risks for systems failure (e.g. IT servers kept in risk areas like flood-prone or earthquake-prone areas) in the proposed business Yes / No
- No major risks for human failure (e.g. chances for monitoring lapse due to remote or decentralized operations) resulting in frauds Yes / No

Business risk:

The entrepreneur has the adequate experience in the

- Line of activity selected Yes / No
- The selected activity has enough scope or market Yes / No
- The entrepreneur has a plan to manage the Competition in the industry / sector Yes / No

Implementation risk:

- The business will be commenced on time as per the plan (Is there any risk for time-lapse due to construction or approval from Govt.)   Yes / No

Financial risk:

- The entrepreneur can maintain the profit margin assumed: Yes / No
- The payment terms of the clients (credit for 15 / 30 /60 days) are manageable to the entrepreneur   Yes / No

Environment risk:

- The selected activity is not in the Negative list   Yes / No

i. I have reviewed all the risk factors and find "No major risk" in the proposal.

ii. I find the following risk as a significant risk and the entrepreneur has the following plan to manage that risk.

Date: Name and Signature of WLSC

If the response for the above risk factors is "Yes", no risk is perceived and WLSC i/c will recommend such cases to the TFC. if for any risk factors, the response is "No", WLSC i/c will discuss further with the entrepreneur about the risk mitigation and then recommend to the TFC with that risk mitigation plan.

Learning evaluation:

Before ending the session, ask a few questions from the questions given herein below, to test the participants' understanding of the topic. The learning evaluation questions are

1. The applicant is having an overdue bank loan availed by her earlier and this will indicate which type of risk?

   a. Financial risk

   b. Environmental risk

   c. Credit risk

   d. Business risk

2. One group is approaching you for setting up a rural BPO in tie up with a corporate to give jobs to the youth in the village. They plan to set up their server in their office itself, which is located in a low-lying area, prone to floods. Under this scenario, which type of risk you will expect?

   a. Credit risk

   b. Operational risk

   c. Liquidity risk

   d. Business risk

3. Sita is a SHG member running a retail business selling household articles. She is already doing business for 3 years. Still, she could not able to earn much. Now, she wants to scale up her business. One of the practices she followed was selling the articles to rural people on credit terms – may be for 60 days or 90 days or 120 days credit. During the pandemic, her business suffered some defaults in the case of persons who have taken credit for 90 and 120 days. While she is planning to scale up the business also, she would like to sell on credit terms. Which risk do you identify under this scenario?
    a. Environmental risk
    b. Financial risk- (Liquidity risk)
    c. Political risk
    d. None of the above.
4. Star FPO is operating for the last year and is mainly involved in the supply of inputs and marketing of milk produced by the dairy farmers. They want to expand their business by going for a processing unit. They have identified a place for putting up the plant in a residential area as one of the members has given it for freehold without rent and there is a primary school & ICDS centre also nearby. What kind of risk, you see here?
    a. Environmental risk
    b. Credit risk
    c. Operational risk
    d. None of the above
5. Mullai SHG members were doing vegetable selling as a group activity in a town by procuring vegetables from groups in villages and selling to the homes in town. They want to have a shop in a major market road pavement. As setting up a new shop involved some construction, they applied for the building plan approval to the local town planning office. As the Head of the office post is vacant and the office is under in-charge, the approval was getting delayed for the last 6 months. Which type of risk you can expect in this case?
    a. Credit risk
    b. Operational risk
    c. Implementation risk (cost escalation)
    d. Environment risk.

Answers:

1. C-Credit risk
2. B-Operational risk
3. B- Financial risk (Liquidity risk)
4. A- Environmental risk
5. C- Implementation risk (Cost escalation).

Summary:

Wind up the discussion by repeating the key points again at the end.

- Risk assessment should not be done by the person who has sourced the loan application. It should be always done by the WLSC, ie. By the person one level above the Community Professional.
- Expect liquidity risk (financial risk) and be prepared with alternate arrangements like sufficient working capital funds.
- Ensure that no activities in the negative list are financed, which will harm the environment.

BUSINESS PLAN PREPARATION

Session Objective: To equip the participants to assess the different segments of the Business plan viz. Assessment of technical feasibility & commercial viability.

Duration of the Session: 1 hour and 30 Minutes.

Pre-session preparation: Business plan format to be given as a Hand-out to all participants, ppts (9 slides)

Training Method: Lecture and discussion.

Training Process:

- Distribute the Business Plan format as - Hand-outs to the participants.
- Initiate a discussion on how to elicit information from the applicant to fill in the profile of the entrepreneur and the enterprise.
- Explain the nature of enterprises by giving e.g. i.e. Production or Manufacturing (Soap making,
- Masala powder making), Service enterprise (Mobile repairing service, Beauty parlour & wellness centre), and Trading enterprise (Grocery shop, Departmental store).
- Enlist the steps for collecting info on infrastructures like Land, building, machinery, water, power, road access & connectivity, and so on and availability of raw material, labour, skilled persons, technology, and operating cycle to check the technical feasibility.
- Describe the steps for eliciting information on the customer and market and risks and risk mitigation measures planned to assess the commercial viability.
- Ask the participants to explore the optimum use of various resources like water, fuel & wood on a sustainable basis and decide on the waste handling systems & worker safety measures.
- Explain the Cost of the project and means of the project – The cost of the project is what constitutes fixed capital, working capital, and pre-operative expenses (expenses related to establishing a new business) and whereas the means is the ways in which the cost of the project is funded through various sources. The means of the project should be equal to the cost of the project.
- Introduce the matching grant terms and tell that for the matching grant amount, interest will not be charged on the loan portion proportionate to the matching grant availed.
- Explain why the margin contribution by the entrepreneur is important and make the participants understand how to assess whether the applicant's family has the capacity to provide the required margin.

Content:

Validating assumptions:

- For any business, the first step is to make technical assumptions regarding the business.
- For this, the applicant should spend sufficient time in the market place to gather data
- Data gathering may be from different stakeholders like prospective clients, competitors, suppliers of raw materials & machineries, MSME dept of the govt (District Industries Centres), Market place, EDP training institutes and respective line departments like Dept. of Agriculture, Animal Husbandry, Horticulture, Fishery, Sericulture, KVIC, Forestry and MSME and so on.
- WLSC i/c will refer to data available with the Participatory Growth Plan document to validate the assumptions on the proposed business.
- WLSC i/c will have a discussion with the entrepreneur on the rationale of assumptions of the proposed business and on risks perceived by WLSC.
- WLSC i/c will support the entrepreneur in preparing the Business plan as per the format given in the annexure: vi. / MGP Operational and Credit Guidelines

Enterprise and Entrepreneur Profile

1. Profile of the Entrepreneur	
Name	
Spouse Name	
Age	
Education	
Aadhaar Card No	
Address	
Phone No	
Mobile No	
Email ID	
Number of years of experience in business	
Trainings attended (no. and hours)	
Spouse's occupation	
If Special category	SC / ST / Differently abled / Widow / Separated woman
2. Enterprise Profile	
Name of the Enterprise	
Legal form of Enterprise	
Registration No	
Registration Date	
Registered with whom	
GST No (if available)	

For MSME in Manufacturing and Service sector, Register with Udyam registration: https://udyamregistration.gov.in/

- Aadhaar card is compulsory
- From 1.4.2021, PAN card and GST for the enterprise is compulsory for udyam registration.

Enterprise Nature

Type of enterprise	Production & Manufacturing / Service / Trading
Product to be produced:	
Service to be offered:	
Present Demand	
Current Supply	
Current issues in the supply and how the entrepreneur will address this in her / his venture? What is the USP to overcome the competition?	

- Production / Manufacturing – Making a product e.g. Making soap, Making jam
- Service sector – offering a service e.g. Beauty parlour, Gym, Mobile repair service
- Trading – Buying and selling goods e.g Grocery store, Retail shop
- Current demand and supply may be found from the Industry forecast, magazine, rating agency reports, Industry association's market trend reports and from conferences held in the sector.
- How the current gaps will be addressed and what is USP? Or differentiator.

Technical Feasibility

Location / Infrastructure:	
(Land, Building, Power / Water/ Access / Approval from local panchayat or Pollution control board):	
Materials Needed: Quantity / Cost / Availability / Delivery Time	
a. Raw materials :	
b. Equipment :	
c. Technology :	
d. Cost of capital assets:	
e. Cost of working capital for one operating cycle (raw-materials, Semi-finished goods, finished goods, receivables outstanding):	

- Whether the land and building are going to be owned or leased?
- Whether raw material available round the year or only during a specific season?
- How much time the supplier will take for the delivery of the machineries?
- Who is going to be a technology provider? How it will be updated and what is the cost of AMCs (Annual Maintenance Costs).
- Operating Cycle – Cash to Cash cycle: Cash – Raw materials – Semi-finished goods (work in process), Finished Goods, Receivable outstanding – Cash. The operating cycle of a business may be few hours (fish buying and selling in the morning or flower vendor – flower sales -one-day operating cycle) or a few weeks/ months.

Skills Requirements: Availability of skilled labour – Yes / No

If not available: whether people can be trained? If so, training period and training facility?

Production Process:

a. Production Plan/cycle (operating cycle may be one-day / week / month or one year as per the activity selected):

1. If technical manpower required to operate special machines, whether such people are available or can we train the local people.
2. Production plan – How many working days in a month or a quarter or in a year.

Commercial Feasibility

- Marketing strategy :
  - •Direct to customers :
  - •Bulk to Institutions :
  - •Through Retailers / Wholesalers:
  - •Online:
- Pricing & Discounts Strategy (in practice)
- Market promotion strategies:
- Physical and digital connectivity:
- Risks and risk mitigation planned:

•Whether B to C, B to B or B to G
•Whether Bulk or retail selling
•Whether online or physical stores
•Pricing strategy – Least cost pricing or Premium pricing
•Market promotion offers
•Access to roads, transport facilities
•Access to internet
•Market risks – Some products face seasonal downfall in prices

Exploitation of local resources (water and energy)	• Water • Fuel • Wood • Electricity • Any other specify
Waste generation and disposal	• Dust/air pollutants • Disposal of waste water • Seed coats • Peels, • Feather/skin and other disposal • Any other specify

Worker and Community safety	• Safety measures/gadgets • Chemical usage & handling • Infected raw materials • Presence of stale • Any other specify

Cost of the project and Means of the project:

a. Cost of the Project:

i. Fixed capital

ii. Working capital

iii. Pre-operative expenses

Total cost of the project (i + ii + iii)

b. Means of the project:

i. Loan from financial Institution / Bank (95% or 90%):

ii. Margin money -Borrower's contribution (5% or 10%):

Total means of the project (i + ii)

c. Matching grant from the project**

- List out the fixed capital assets you plan to buy
- List out the working capital expenses items,
- Assess the expenses before the commencement of the business e.g Business unit set up expenses
- Find out the margin requirement for the specific category
- Find out the net loan requirement from Banks or financial institutions
- Matching grant eligible i.e. 30% of the project cost and maximum of Rs.40 lakhs per borrower.

Check whether The entrepreneur has the sufficient means to bring in the margin money and has enough buffer to manage any cost escalations Yes / No

**Matching Grant is @30% of the total cost of the project. As Matching Grant will be kept in a "Subsidy Reserve Fund" account of the bank as a back-ended grant, it is not shown under the Means of the project.

Hand-out: Business Plan format:
BUSINESS PLAN
Category of Loan: Nano (UP TO INR 5 lakhs)
Enterprise and Entrepreneur Profile

3. Profile of the Entrepreneur	
Name	
Spouse Name	
Age	
Education	
Aadhaar Card No	
Address	
Phone No	
Mobile No	

Email ID	
Number of years of experience in business	
Trainings attended (no. and hours)	
Spouse's occupation	
If Special category	SC / ST / Differently abled / Widow / Separated woman
4. Enterprise Profile	
Name of the Enterprise	
Legal form of Enterprise	
Registration No	
Registration Date	
Registered with whom	
GST No (if available)	
5. Enterprise Nature	
Type of enterprise	Production & Manufacturing / Service / Trading
Product to be produced	
Service to be offered	
Present Demand	
Current Supply	
Current issues in the supply and how the entrepreneur will address this in her / his venture? What is the USP to overcome the competition?	

TECHNICAL FEASIBILITY

Location / Infrastructure: (Land, Building, Power / Water/ Access / Approval from local panchayat or Pollution control board):	
Materials Needed: Quantity / Cost / Availability / Delivery Time • Raw materials : • Equipment : • Technology : • Cost of capital assets : • Cost of working capital for one operating cycle (raw-materials, Semi-finished goods, finished goods, receivables outstanding):	
Skills Requirements: Availability of skilled labour – Yes / No If not available: whether people can be trained? If so, training period and training facility?	
Production Process:	
Production Plan/cycle (operating cycle may be one-day / week / month or one year as per the activity selected):	

COMMERCIAL FEASIBILITY:

Marketing strategy: • Direct to customers : • Bulk to Institutions : • Through Retailers / Wholesalers : • Online :	
Pricing & Discounts Strategy (in practice)	
Market promotion strategies:	
Physical and digital connectivity:	
Risks and risk mitigation planned:	

ENVIRONMENT ASSESSMENT:

- Category of the enterprise proposed: Green / Orange / Red

Environment Issue identified	Environment Guidelines or mitigation measures Integrated (Please select)	Greening Measures identified (for green, orange and red categories)	Support needed	
			Implement the mitigation measures	Implement the greening measures
Exploitation of local resources (water and energy)	• Water • Fuel • Wood • Electricity • Any other specify			
Waste generation and disposal	• Dust/air pollutants • Disposal of waste water • Seed coats • Peels, • Feather/skin and other disposal • Any other specify			
Worker and Community safety	• Safety measures/ gadgets • Chemical usage & handling • Infected raw materials • Presence of stale • Any other specify			

Whether the activity proposed is in the negative list:

FINANCIAL VIABILITY

1. COST OF THE PROJECT AND MEANS OF THE PROJECT	
a. Cost of the Project:	
• Fixed capital	
• Working capital (25% of the projected turnover)	
• Pre-operative expenses	
Total cost of the project (i + ii + iii)	
b. Means of the project:	
Loan from financial Institution / Bank (95% or 90%):	
Margin money -Borrower's contribution (5% or 10%):	
Total means of the project (i + ii)	
c. Matching grant from the project**	
The entrepreneur has the sufficient means to bring in the margin money and has enough buffer to manage any cost escalations	Yes / No

**Matching Grant is @30% of the total cost of the project. As Matching Grant will be kept in a "Subsidy Reserve Fund" account of the bank as a back-ended grant, it is not shown under the Means of the project.

2. INCOME AND EXPENSES OF THE ENTERPRISE	
Metrics	**Amount in INR**
a. Sales	
b. Cost of Production: • Cost of raw materials + • Direct wages + • Cost of utilities like water, power, consumables+ repairs +opening stock of raw materials – closing stock of raw materials	
c. Gross profit (a – b)	
d. Admin and selling expenses	
e. Operating Profit before Depreciation, Interest, Tax and Amortization (c – d)	
f. Depreciation	
g. Interest on loan	
h. Taxes	
i. Profit after Tax (e – (f+g+h))	

Cash surplus from the enterprise: Profit after tax + Depreciation – withdrawal.

Total income of the household members by way of wages, salary, rent and others:	
Total household expenses:	
Net surplus of the household from other income (3 – 4)	

Note: where matching grant is to be considered for working capital loan and composite loan Justification for sales

- Existing units – justification to be done based on sales figures for past 3 years and projections for 2 years
- New units - justification to be done based on projections for 2 years (Projected sales accepted is 10,00,000)

Working capital assessment (turnover method)

25% of the projected sales (i.e: 25% of 10,00,000)	2,50,000
less 5% of the projected sales (i.e 5% of 10,00,000/-	50,000
Eligible Working Capital 20% of Projected sales	2,00,000

Learning evaluation:

At the end of the session, ask the participants the questions, that are given below to check their level of understanding of the topic. The evaluation questions are given hereunder.

1. For registering an enterprise under Udyam registration, which one of the following is also compulsory from 1.4.2021.

   a. Voter ID

   b. Aadhaar card

   c. Passport

   d. PAN card

2. Which one of the following business unit is a Service unit?

   a. Mobile sales shop

   b. Fitness & Dance studio

   c. Readymade garments Selling

   d. Agricultural inputs sales

3. While procuring the technology for your business, which one of the Following you will not miss to negotiate?

   a. OTC

   b. AMC

   c. KYC

   d. None of the above

4. Which one of the following is not the stage in the operating cycle of a business?

   a. Raw material

   b. Cash

   c. Finished goods

   d. Machinery

5. One of the SHG is doing a group activity of making match sticks and wants to expand the business and requested loan. In this business, which one of the risk is more common and how to mitigate that risk?

   a. Credit sales & Discounting credit bills

   b. More storage requirement during rainy season & Higher working capital limit

   c. Fire and Fire insurance & personal accident cover.

   d. None of the above.

Answers:

1. D – PAN Card
2. B – Fitness & Dance studio
3. B – AMC (Annual Maintenance Cost)
4. D – Machinery
5. C – Fire and Fire insurance & personal accident cover.

Summary:

Conclude the discussion by focusing on the following key points.

- Verify the assumptions with the technical departments.
- For MSME in the Manufacturing and Service sector, ask the participants to guide the entrepreneurs to Register with Udyam registration:
- Using the link: https://udyamregistration.gov.in/
- Deciding the operating cycle promptly will pave way for the right assessment of working capital needs.
- Evaluate the options for the possible marketing strategies for assessing the commercial feasibility.

TESTING THE BUSINESS PLAN FOR FINANCIAL VIABILITY

Session Objectives: To make the participants understand the different methods of assessing a Business plan for its financial viability and analyse the balance sheet and Profit & Loss statements of businesses.

Duration of the Session: 1hour and 30minutes.

Pre-session preparation: Balance sheet blank format to be given as a Hand-out to all participants, ppts (16 slides)

Training Method: Lecture, Presentation, and Discussion

Training Process:

- Distribute the blank Balance sheet format as - handouts to the participants.
- Initiate a discussion on how bankers look at 4 Cs viz Character, Capacity, Capital and Collateral
- Even though different methods of assessing the financial viability of a business plan are available, explain the basic principles of commonly used methods viz. Net disposable income & ratios like Debt Equity ratio, Debt Service Coverage Ratio, and Current assets ratio.
- Highlight that for the loans above Rs.15 lakhs, the financial projections should be certified by a Chartered Accountant.
- Introduce the concept of a Balance sheet and explain the main sub-heads like Equity, Liabilities, Current liabilities, Fixed assets, Investments, Current assets and ask them to work on the case given in the slides.
- Make them work on the dynamic balance sheets for the mock cases given in the slides so that the participants will understand how the funds flow through the business makes changes in the assets side of the balance sheet.
- Work out the examples for deciding the cases for financial feasibility using the net disposable as repayment capacity (Repayment capacity is equal to 50% of the net disposable income) as shown in slide no: 11.
- Ask the participants to assume the income projections as given in slide no: 12 and ask them to make a decision for the cases in Slide 13 & 14 so that they will clearly understand the use of net disposable income criteria for testing the business plan for financial viability.
- Explain the current ratio (slide 15) and Debt equity ratio calculation (Slide 16).

Content:

Bankers before testing the Business plan, look out for 4 Cs in any appraisal.

- Character: The expected behaviour of the entrepreneur/reputation
- Capital: How much entrepreneur will invest in his/her own
- Capacity: The ability to manage the proposed business
- Collateral: The additional security the entrepreneur will give to secure the repayment of the loan.

- Different banks will use different methodologies for making assessments.
- We will see here the basic and common principles used by most of the banks and financial institutions
- We suggest three types of assessing the viability of Business plans viz
- Up to Rs.5 lakhs loan – Assessing the repayment capacity of the household & projected income from the enterprise
- For loans above Rs.5 lakhs and up to Rs.15 lakhs loan – Projected Balance sheet and Income & Expenses statements will be used to calculate Debt Service Coverage Ratio (DSCR)

- For loans above Rs.15 lakhs, Banks usually expect a Projected Balance sheet and Income & Expenses statements duly certified by a Chartered accountant. For this category of borrowers, banks usually look at DSCR, Current Ratio, and Debt Equity Ratio.

- Review the projected income and expenses statements and projected Balance sheets of the enterprise and assess the repayment capacity of the entrepreneurs or borrowing entity.
- For loans up to INR 5 lakhs: the repayment capacity will be assessed in terms of the net disposable income of the household including the enterprise income. The maximum repayment capacity can be considered as 50% of the net disposable income of the household including the projected income from the enterprise.

- For loans above INR 5 lakhs & up to Rs.15 lakhs: the net profit projected in the Income and Expenses Statement along with the Balance sheet will be used for assessing the repayment capacity. The (Debt Service Coverage Ratio) DSCR should be between 1.5 to 2.

- For loans above INR 15 lakhs: the projections should be certified by a chartered accountant. With regard to the repayment capacity, the DSCR should be between 1.5 to 2, the current ratio should be above 1.25 and Debt Equity Ratio should be up to 3 (for the purpose of calculation of DER, the matching grant will be deemed to be the margin from the entrepreneur)

Balance Sheet and Income & Expenses Statements.

- The balance sheet is a statement on a particular date mentioning what a business owns (assets) and what a business owes (liabilities / to pay to others).
- Income and Expenses statements are usually for a period – daily, weekly, monthly, quarterly, half-yearly, or annual. This is for a particular period of time. It specifies how the business is earning by way of revenues and how it spends by way of various expenses for running the business.

Balance sheet:

Assets (How the funds are used) = Liabilities (From where the funds are coming)

Assets = (Equity + Liabilities)

Equity & Liabilities:

- Equity
- Liabilities

Current Liabilities:

Total liabilities:

Assets:

- Fixed assets
- Investments

Current Assets

- Stocks / Receivables
- Cash at Bank
- Cash on hand

Total assets

The Balance sheet as on 1.12.2020 (Amount in Rs.)

Selvi, a SHG member is planning to start a Beauty parlour business. She has brought her margin Rs.10,000 for a project of Rs.100,000. She has deposited her margin in the Bank.

As on 1.12.2020

Liabilities		Assets	
Equity		**Fixed Assets**	
Own capital	10,000	Equipment	
Reserve/Surplus		Furniture's	
Liabilities		**Investments :** **Current assets :**	
Bank loan		Stocks /Receivables within 12 months.	10,000
Other liabilities		Cash at Bank	
Current liabilities		Cash on hand	
Payables within 12 months			
Total Liabilities	**10,000**	**Total assets**	**10,000**

On 15th Dec 2020, she gets Rs. 90,000 as Bank loan and bank has credited in her account. Bank receives Matching grant of Rs. 30,000 from VKP for her a/c.

As on 15th Dec 2020.

Liabilities		Assets	
Equity		**Fixed Assets**	
Own capital	10,000	Equipment	
Reserve/Surplus		Furniture's	
Liabilities		**Investments :** **Current assets :**	
Bank loan	90,000*	Stocks /Receivables within 12 months.	
Other liabilities		Cash at Bank	
Current liabilities		Cash on hand	1,00,000
Payables within 12 months			
Total Liabilities	**1,00,000**	**Total assets**	**1,00,000**

*30,000 matching grant will be adjusted to the bank loan after repayment of the Net Principal loan amount and interest due of the loan amount

On 20th Dec 2020, She has purchased equipment for the Beauty parlour at a cost of Rs. 50,000 and furniture for Rs.20,000 and cosmetics for Rs.20,000 and drawn cash of Rs.2,000 from ATM for making petty expenses.

As on 20.12.2020.

Liabilities		Assets	
Equity		**Fixed Assets**	
Own capital	10,000	Equipment	50,000
Reserve/Surplus		Furniture's	20,000
Liabilities		**Investments :** **Current assets :**	
Bank loan	90,000	Stocks (Cosmetics)	20,000
Other liabilities		Receivables within 12 months.	
Current liabilities		Cash at Bank	8,000
Payables within 12 months		Cash on hand	2,000
Total Liabilities	**1,00,000**	**Total assets**	**1,00,000**

*30,000 matching grant will be adjusted to the bank loan after repayment of the Net Principal loan amount and interest due

Assessing repayment capacity: (For loans up to Rs.5 lakhs).

Income:

- Cash surplus from the enterprise: Profit after tax + Depreciation – withdrawal.
- Total other income- other income of household members by way of wages, salary, rent and others
- Total income (a) :
- Total household expense (b) :
- Net disposable income of the household (c) :
- Repayment capacity (d) : 50% of (C)

To avoid the over indebtedness of the entrepreneurs, a conservative threshold of 50% of net disposable income is suggested as the repayment capacity. This norm is also being followed in projects funded by NABARD. Some aggressive lenders consider 60% of net disposable income as repayment capacity.

Method - I

Assume the following is the projected income for an enterprise and the household per month.

Income:

- Cash surplus from the enterprise: Profit after tax + Depreciation – withdrawal : Rs.30,000
- Total other income- other income of household members by way of wages, salary, rent and others: Rs. 20,000
- Total income (a): Rs. 50,000

- Total household expense (b): Rs. 30,000
- Net disposable income of the household (c): Rs. 20,000
- Repayment capacity (d) : 50% of (C) : Rs.10,000

Method – II

- Public Sector Banks normally assess the repayment capacity through Debt Service Coverage Ratio considering the projected cash flows from the project or the business. Household income is not considered for assessing the repayment capacity.
- Accordingly, the interest calculation and DSCR is worked out as below:
- Loan Amount: 500000
- Interest rate: 12% p.a.
- Repayment Period: 36 Months

Date	Particulars	Debit	Credit	Balance	Interest*	Interest Per annun
01.03.21	To loan	500000		500000		
01.04.21	By repayment		13900	486100	5000	
01.05.21			13900	472200	4861	
01.06.21			13900	458300	4722	
01.07.21			13900	444400	4583	
01.08.21			13900	430500	4444	
01.09.21			13900	416600	4305	
01.10.21			13900	402700	4166	
01.11.21			13900	388800	4027	
01.12.21			13900	374900	3888	
01.01.22			13900	361000	3749	
01.02.22			13900	347100	3610	
01.03.22			13900	333200	3471	50826
01.04.22			13900	319300	3332	
01.05.22			13900	305400	3193	
01.06.22			13900	291500	3054	
01.07.22			13900	277600	2915	
01.08.22			13900	263700	2776	
01.09.22			13900	249800	2637	
01.10.22			13900	235900	2498	
01.11.22			13900	222000	2359	
01.12.22			13900	208100	2220	

01.01.23			13900	194200	2081	
01.02.23			13900	180300	1942	
01.03.23			13900	166400	1803	30810
01.04.23			13900	152500	1664	
01.05.23			13900	138600	1525	
01.06.23			13900	124700	1386	
01.07.23			13900	110800	1247	
01.08.23			13900	96900	1108	
01.09.23			13900	83000	969	
01.10.23			13900	69100	830	
01.11.23			13900	55200	691	
01.12.23			13900	41300	552	
01.01.24			13900	27400	413	
01.02.24			13900	13500	274	
01.03.24			13500	0	135	10794
Total		500000	500000		92430	92430

- Interest calculated on reducing balance outstanding.
- Interest assumed to be serviced every month on the due date.

DSCR Calculation Assumptions

- Net profit per month is Rs.30000/- Rs.360000/- per annum
- Loan amount Rs.500000 repayable in 36 monnths @ 12%
- Monthly instalment - principal amount is Rs.13900/-
- Last instalment - Rs,13,500/-

	YEAR 1	YEAR 2	YEAR 3		
Net profit after tax	360000	360000	360000		
Depreciation	0	0	0		
Interest	50826	30810	10794		
Cash surplus A	410826	390810	370794		
Principal Repayment	166800	166800	166400		
Interest	50826	30810	10794		
Repayment obligation B	217626	197610	177194		
DSCR A/B	1.89	1.98	2.09		
Average DSCR			1.99		

Since the average DSCR is 1.99, i.e.above 1.5, the applicant is eligible for the loan of Rs.5 lakhs.

Repayment capacity may be assessed under any of the above two methods, depending on the PFI.

Scenario: 1

Let us assume that this member applies for a loan of Rs.5 lakhs for her business and the monthly repayment comes to Rs. 13,900 for 36 months (principal) The repayment commitment of Rs. 13,900 (Principal) exceeds the repayment capacity of the SHG member i.e Rs. 10,000/-

- Loan cannot be considered, as the repayment capacity is not enough.

Scenario: 2

Let us assume that this member applies for a loan of Rs.2.5 lakhs for her business and The monthly repayment comes to Rs. 7,000 for 36 months (principal)

- Loan can be considered as the Repayment commitment of Rs.7000 (Principal amount) is within the repayment capacity of Rs. 10,000.

Current assets Ratio:

Current Assets Ratio: It shows the ability of the business to pay its current obligations (the dues that are payable within 12 months). When the current assets ratio is strong, the business can survive the challenges like short term recession or downfall due to external reasons.

$$\text{Current Assets Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Current Assets Ratio should be minimum 1.05. It is desirable to have the Current Assets Ratio above 1.25.

Debt Equity Ratio (DER):

DER shows the leverage of the own capital employed in the business by the owners. Banks have different risk appetites and some banks allow the liabilities to the limit of 5 times the equity. Most commonly seen is 4 times leverage. But for micro-enterprises, as they have a low capital base, leverage of 3 times is prudent.

Here, equity includes the equity brought by the promoters and investors and reserves & surplus.

Debt includes all liabilities of the business.

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Current Liabilities}}$$

Learning evaluation:

At the end of the session, ask the participants the questions, that are given below to check their level of understanding of the topic. The evaluation questions are given hereunder.

1. Which one of the following "C" does any banker look at when assessing an applicant for a loan?
   a. Collaboration
   b. Cash inflow
   c. Character

d. None of the above

2. In a balance sheet, when we look at the assets side, we can know how the business is using its funds.

   a. True

   b. False

3. Cash at the bank is which form of asset?

   a. Fixed asset

   b. Non-current asset

   c. Current asset

   d. None of the above.

4. Receivables within the next 12 months in the business is a non-current asset.

   a. True

   b. False

5. Repayment capacity is generally assessed as the

   a. 70% of net disposable income of the household:

   b. 50% of net disposable income of the household:

   c. 80% of net disposable income of the household:

   d. None of the above.

Answers:

1 C- character

2 A- True

3 C- Current asset

4 B- False

5 B- 50% of the net disposable income of the household.

Summary:

- Bankers look at first – 4 Cs – Character, Capacity, Capital, and Collateral.
- Testing of financial viability of the business plan varies with the loan size – Up to Rs.5 lakhs, based on net disposable income and Above Rs.5 lakhs loans, ratios like DSCR (Debt Service Coverage Ratio), Debt Equity Ratio, Return on Investment are considered.
- The Balance sheet shows the status of the Business as on a particular date – what it has (assets) and what it owes to (liabilities)
- Profit and Loss statement is for a particular period showing the revenues and expenses and net profit.


Poomex
Red Max
Best Baby
Emel

LOAN SANCTION, MGP SANCTION, DOCUMENTATION & LOAN DISBURSEMENT

Session Objective: To make the participants aware of the loan sanction process followed by PFIs (Participating Financial Institutions), MGP sanction, Loan documentation, and Disbursement.

Duration of the Session: One hour and 30 minutes

Pre-session preparation: List of Enclosures to be submitted along with the loan application to be given as a Hand-out to all participants, ppts (Loan Sanction: 5 slides, MGP Sanction- 3 slides, Loan documentation – 2 slides & Loan disbursement – 2 slides)

Training Method: Lecture, Presentation, and Discussion

Training Process:

- Distribute the List of Enclosures checklist as - Handouts to the participants.
- Initiate a discussion on how banks will process the loan application and accord sanction.

Loan Sanction:

- Explain the time frames for sanction of loans by PFIs
- Emphasize the fact that the loan application should be submitted to the PFI with the enclosures as per the checklist (Hand out given) so that it will help the branch manager to take the decision fast.
- Make them aware that the rejection of the application is only by the controlling office of the bank and not by the branch manager.

MGP Sanction:

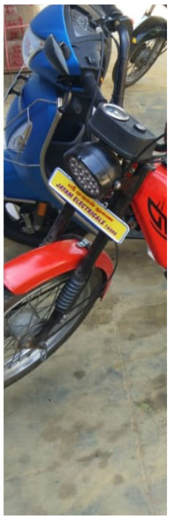
- Explain the process flow from PFI to DPMU and SPMU for MGP sanction.
- Make them well aware of the fact that for running accounts like Overdraft or Open cash credit facilities, there will not be a Matching grant.

Loan documentation:

- PFIs in general take Demand Promissory Note for the loan amount and a loan agreement.
- In case of payment to the vendor, PFIs take an authorization letter from the borrower.
- Emphasize that the purchase of the assets of Rs. 20,000 and above, the borrower needs to give a quotation to the PFI. -
- Encourage the borrowers to read the terms mentioned in the sanction ticket given by the PFI and then sign for having accepted the sanction terms.

Loan disbursement:

- Ensure that before disbursement of the loan, the borrower completes three things viz – Signed the loan documents, deposited the margin money in the SB a/c and completed the mandatory EDP training to be arranged by the project.
- Disbursement should always be cashless i.e. direct credit to the account of the borrower.



Content:

Loan Sanction:

- The PFIs have to sanction the loans within a timeframe** of 2 weeks / 3 weeks / 6 weeks from the date of the receipt of the loan applications for the Nano/ Micro/ Small category of loans respectively. (**Banking Codes and Standards Board of India prescribes a similar timeframe for banks to expedite the sanction of small loans by the branches.)
- On receiving the loan applications, the PFI has to provide a written acknowledgement using the counterfoil available in the loan application.

ACKNOWLEDGEMENT	
Acknowledgement at the WLSC I herewith acknowledge the receipt of the loan application with complete enclosures as per the check list. Date: Signature of the WLSC i/c	Acknowledgement at the Branch of PFI. I herewith acknowledge the receipt of the loan application at the branch with complete enclosures as per the check list. Date: Signature of the Branch manager

- The PFI will perform a quick check of the loan applications and its enclosures (as given in the checklist).

Category of Loan: Nano (UP TO INR 5 lakhs)

- Two passport size photos of the entrepreneur
- If existing an enterprise is there, a photo of the enterprise with the entrepreneur
- Proof of ID-self attested copy
- Proof of Residence- self attested copy
- In case of special category like SC, ST, Differently abled, Widow, Separated woman, proof from the local authority -Panchayat President or Village Administrative Officer.
- Proof and address of the Business enterprise- Copies of relevant incorporation / registration certificates
- Quotations, if any capital asset purchase is envisaged
- Statement of bank accounts for the last 6 months for the enterprise account, if available
- Statement of Assets and Liabilities
- Net-worth report
- Business plan
- For Producers collectives, Memorandum of Association and Articles of Association
- In case of partnership unit, Registered Partnership deed.

Category of Loan: Micro (INR 5 lakhs – INR 15 lakhs)

- All the above documents as mentioned for the category of loans from INR 50,000 to INR5 lakhs.
- Projected Balance Sheet and Income and expenses statement
- If existing unit, the last two years' balance sheet and Income & expenses statement and GST return copies (If GST is applicable).

Category of Loan: Small (Above 15 lakhs)

- All the above documents as mentioned for the category of loans from INR 50,000 to INR5 lakhs.
- Projected balance sheet and income and expenses statement duly certified by a Chartered accountant
- If an existing unit, the last two years audited balance sheet and Income & expenses statement and GST return copies (If GST is applicable).

- If any additional particulars / documents are needed for processing the applications, the concerned official at PFI will inform the BTL within a stipulated timeline. BTL will facilitate this process of obtaining the additional information / documents and submit it to the PFI as soon as possible.
- In case of any discrepancy found by the PFI with regard to the entrepreneur's outstanding loans as per the credit bureau report, the PFI can ask BTF to recheck and resubmit the application with the corrected net-worth of the entrepreneur within the stipulated timeframe.
- If the PFI wants to interview the applicant or wants to visit the applicant's proposed place of business or residence, the BTL will facilitate the meeting/visit, as well as, provide all required assistance to the PFI for completion of the due diligence process in a timely manner. The sanction of the loan will be communicated to DPMU through an online portal. The PFI will issue a sanction ticket to the entrepreneur informing them of the terms of sanction in a detailed and transparent manner.

If the PFI rejects the application, they should state the reasons for rejection to their controlling office. (Power of Rejection is kept at the controlling office level so that the controlling office will also look at the reason for rejection by the branch manager and will confirm that it is a valid reason for rejection.)

- The controlling office after verifying the reason for rejection, will approve the Branch manager's decision on the rejected applications. The controlling office should inform the details of rejected applications along with the rationale/ reasons for rejection to the DPMU within a stipulated timeline.
- If possible, the DPMU can address the concern raised by the PFI through BPMU and WLSC within a short period and resubmit the application for reconsideration.

MGP SANCTION:

Once the Matching Grant claim proposal is received from the PFI, DPMU will verify matching grant calculation and process the same at SPMU for approval and release of the claimed grant support amount to the concerned PFI.

Note: Matching grant should be only for a term loan or composite loan. Matching grant should not be given on the separate working capital limit sanctioned as a running account.

However, if working capital is sanctioned as a loan repayable over a period, then such working capital loan is eligible for matching grant.

Verification at SPMU

- Dy.COO - Business Plan Financing at SPMU will scrutinize the matching grant proposal and prepare a note in consultation with TSA for the Matching Grant Sanction Panel.
- The Dy.COO-BPF will put up the note to the Matching Grant Sanction Panel for its approval. The panel consisting of Finance Specialist, Dy.COO-BPF, ACOO-BPF, COO and CEO.
- The Finance Specialist will release the sanctioned matching grant (subject to the approval of the MG Sanction Panel) with due payment approval process (by CEO), directly to the PFI (through online transfer) and inform transaction manager, Dy. COO-BPF and concerned DPMU and BPMU.
- The Process checks at DPMU and SPMU will happen in parallel while the branch is processing the loan for sanction. Process checks should be completed before the final release of the matching grant from the finance department.

LOAN DOCUMENTATION:

The PFI will prepare the required loan documents after the receipt of the matching grant from SPMU. The loan documentation will be in the format as prescribed by their head office, subject to the RBI norms. The standard loan document will include the following.

- Demand Promissory note to be executed by the Individual borrower or the borrowing group.
- Loan agreement
- Authorization letter to pay the loan proceeds directly to the supplier of the machines or equipment that are going to be bought out of the loan from the PFI.
- Affidavit from the entrepreneur duly certified by the notary public.
- Quotation from a reputed supplier for assets purchase worth INR 20,000 or more (recommendation to bank).

The branch will provide the sanction ticket (one set of copies) to the entrepreneur. The sanction ticket should indicate

- The key terms and conditions of the sanctioned loan

- Specifics of margin money,
- Interest rate & other fees
- Repayment schedule
- Repayment holiday period
- Details of credit guarantee fee and insurance

LOAN DISBURSEMENT

The branch manager will disburse the sanctioned loan amount, subject to the following conditions:

- The Entrepreneur has completed the required loan documentation
- The entrepreneur has brought in the necessary margin money
- The entrepreneur has successfully completed the mandatory EDP training

If a part of the loan is to be used for the purchase of assets, the following norms may apply:

- For purchase of assets worth INR 20,000 or more, PFI will make a direct payment to the concerned vendor/s in proportion to the margin money and the loan amount i.e. 90% to 95% of the sanctioned loan amount
- For the purchase of assets worth less than INR 20,000, the sanctioned loan amount shall be transferred to the borrower's bank account and the borrower need not submit any quotation for the same.
- The balance sanctioned loan amount will be disbursed into the bank account of the borrower.
- In case the PFI decides to disburse the sanctioned loan amount for different phases (in 2 to 3 instalments) of project implementation, then the branch manager should exercise caution and should verify asset creation (as per the business proposal) after each instalment released.

Hand-outs:

List of enclosures to the Loan application:

Category of Loan: Nano (UP TO INR 5 lakhs)

- Two passport size photos of the entrepreneur
- If an existing enterprise is there, a photo of the enterprise with the entrepreneur
- Proof of ID-self attested copy
- Proof of Residence- self attested copy
- In case of special category like SC, ST, Differently abled, Widow, Separated woman, proof from the local authority -Panchayat President or Village Administrative Officer.
- Proof and address of the Business enterprise- Copies of relevant incorporation / registration certificates
- Quotations, if any capital asset purchase is envisaged
- Statement of bank accounts for the last 6 months for the enterprise account, if available
- Statement of Assets and Liabilities
- Net-worth report
- Business plan
- For Producers collectives, Memorandum of Association and Articles of Association
- In case of partnership unit, Registered Partnership deed.

Category of Loan: Micro (INR 5 lakhs – INR 15 lakhs)

- All the above documents as mentioned for the category of loans from INR 50,000 to INR5 lakhs.
- Projected balance sheet and income and expenses statement.
- If existing unit, the last two years' balance sheet and Income & expenses statement and GST return copies (If GST is applicable).

Category of Loan: Small (Above 15 lakhs)

- All the above documents as mentioned for the category of loans from INR 50,000 to INR5 lakhs.
- Projected balance sheet and income and expenses statement duly certified by a Chartered accountant
- If an existing unit, the last two years audited balance sheet and Income & expenses statement and GST return copies (If GST is applicable).

Learning Evaluation:

At the end of the session, evaluate the learning of the participants by asking few questions – from the questions listed herein below.

1. You have submitted a loan application to ABC Bank for a SHG member for starting a small tiffin centre. The branch manager has rejected the loan application without telling a valid reason. Whether the Branch manager can reject the loan application?

   a. Yes b. No

2. Bank has sanctioned a loan of Rs. 100,000 to a SHG member for the fruit processing unit. Out of the loan, Rs. 60,000 is meant for the purchase of machinery and equipment and the bank has to pay this Rs.60,000 direct to the manufacture of the machine and equipment. What document the bank has to take from the SHG member, apart from the regular ones.

   a. Demand Promissory Note

   b. Term loan agreement

   c. Authorization letter from the SHG member

   d. None of the above.

3. What is the threshold limit above which, the bank usually asks for a quotation for the purchase of equipment?
   a. Rs. 30,000
   b. Rs. 20,000
   c. Rs. 40,000
   d. Rs. 10,000

4. The Matching grant can be given for a working capital loan sanctioned as a running account i.e. Open Cash Credit or Overdraft account.
   a. True
   b. False

5. For the branch manager to make the loan disbursement of Rs.5 lakhs under MUDRA loan to a SHG member for starting a Bakery to make special cakes, which one of the following is not generally required to comply?
   a. Completing the training by the applicant
   b. Applicant bringing the margin money
   c. Applicant completing the documentation
   d. Mortgaging the landed property as security

Answers:

1. B-No
2. C- Authorization letter from the SHG member
3. B- Rs.20,000
4. B- False
5. D- Mortgaging the landed property as security.

Summary:

Wrap up the session after highlighting the key take-aways like

- To facilitate quick sanction by the branch manager, all information has to be given in one lot as per the checklist of a list of enclosures to be submitted along with the loan application.
- Facilitate a due diligence visit by the branch manager to the place of residence / business of the applicant and an interview with the applicant by the branch manager.
- Ensure that the Matching Grant is received and kept in the Subsidy Reserve Fund account at the financing branch and check whether the bank is charging interest only for the net loan i.e. Loan outstanding – Matching grant amount = net loan outstanding.
- Enlighten the participants that the matching grant will not be eligible if the working capital loans are given in the form of Open cash credit or overdraft facilities.

BUSINESS PLAN – MOCK EXERCISE

Session Objective: To equip the participants with the skill of analyzing ratios for evaluating business plans submitted by the applicants.

Duration of the Session: One hour and 30 minutes

Pre-session preparation: Mock exercise handout to be given to all the participants.

Training Method: Lecture, Presentation, and Discussion

Training Process:

- Distribute the Mock exercise - Handouts to all the participants.
- Read the Mock exercise given in the Hand out aloud
- Elicit discussion among the participants on how to start filling up the hand-out and ask them to first which will come as fixed capital and which is working capital.
- Ask the participants to capture funds that will be raised for the business and ask them to enter in the format.
- Ensure that the means of the project should be equal to the cost of the project.
- Explain the calculation of cash surplus generated from the business using slides: 4 & 5 and explain the ratio calculations as given in slide 6 (DSCR).
- DSCR should be between 1.5 and 2

Content:

SHG member Mallika has started a Beauty parlour unit and she has brought the 10% of the project cost as margin And the balance was raised as bank funding.

She invested Rs. 50,000 for purchasing equipment and Rs.20,000 for purchasing a computer and billing software. Cost of raw materials (for one month) Rs. 25,000 and monthly maintenance expenses of Rs.15000*. (*Admin & Selling expenses per month include rent Rs.5000, Travel Rs.500, Communication Rs.500, office maintenance Rs.1500, Sales promotion Rs.1000 and others Rs.500. She has engaged a SHG member for marketing the parlour service on a part-time basis and her salary is Rs.6000 per month).

Fill in the Cost of the project and Means of the project using the above data.

Cost of the project and Means of the project:

a. Cost of the Project:

iv. Fixed capital

v. Working capital

vi. Pre-operative expenses

Total cost of the project (i + ii + iii)

b. Means of the project:

ii. Loan from financial Institution / Bank (95% or 90%):

ii. Margin money -Borrower's contribution (5% or 10%):

Total means of the project (i + ii)

c. Matching grant from the project**

The per-day sales expected is Rs.1800. The shop is open for 25 days a month.

Depreciation is provided for equipment @10% and for computer @20%. The loan is repayable in 60 monthly instalments of Rs.1650 per month Interest payable on Bank loan is Rs.10692. Tax payable is 10% of operating profit.

INCOME AND EXPENSES OF THE ENTERPRISE	
Metrics	**Per annum Amount (INR)**
a. Sales	
b. Cost of Production:(variable costs)	
• Cost of raw materials +	
• Direct wages +	
• Cost of utilities like water, power, consumables+ repairs + opening stock of raw materials – closing stock of raw materials	
c. Gross profit (a – b)	
d. Administrative and Selling Expenses (fixed cost)	
e. Operating Profit before Depreciation, Interest, Tax and Amortization (c – d)	
f. Depreciation	
g. Interest on loan	
h. Taxes	
i. Profit after Tax (e – (f+g+h))	

She has taken out Rs.10,000 from the business for her personal use.

Cash surplus expected:

Profit after tax		:
+	Depreciation	:
-	Personal with-drawings	:
Cash surplus expected		:
Repayment of principal		:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Profit after tax + depreciation +interest}}{\text{Principal + Interest}}$$

DSCR should be between 1.5 and 2.

MOCK EXERCISE - HAND OUT:

SHG member Mallika has started a Beauty parlour unit and she has brought the 10% of the project cost as margin And the balance was raised as bank funding.

She invested Rs. 50,000 for purchasing equipment and Rs. 20,000 for purchasing a computer and billing software. Cost of raw materials (for one month) Rs. 25,000 and monthly maintenance expenses of Rs.15000*. (*Admin & Selling expenses per month include rent Rs.5000, Travel Rs.500, Communication Rs.500, office maintenance Rs.1500, Sales promotion Rs.1000 and others Rs.500. She has engaged a SHG member for marketing the parlour service on a part-time basis and her salary is Rs.6000 per month).

Fill in the Cost of the project and Means of the project using the above data.

1. Cost of the project and Means of the project:

a. Cost of the Project:

vii. Fixed capital

viii. Working capital

ix. Pre-operative expenses

Total cost of the project (i + ii + iii)

b. Means of the project:

iii. Loan from financial Institution / Bank (95% or 90%):

iii. Margin money -Borrower's contribution (5% or 10%):

Total means of the project (i + ii)

c. Matching grant from the project**

The per day sales expected is Rs.1800. The shop is open for 25 days in a month.

Depreciation is provided for equipment @10% and for computer @20%. The loan is repayable in 60 monthly instalments of Rs.1650 per month Interest payable on Bank loan is Rs.10692. Tax payable is 10% of operating profit.

INCOME AND EXPENSES OF THE ENTERPRISE	
Metrics	**Per annum Amount (INR)**
a. Sales	
b. Cost of Production:(variable costs)	
• Cost of raw materials +	
• Direct wages +	
• Cost of utilities like water, power, consumables+ repairs + opening stock of raw materials – closing stock of raw materials	
c. Gross profit (a – b)	
d. Administrative and Selling Expenses (fixed cost)	
e. Operating Profit before Depreciation, Interest, Tax and Amortization (c – d)	
f. Depreciation	
g. Interest on loan	
h. Taxes	
i. Profit after Tax (e – (f+g+h))	

She has taken out Rs.10,000 from the business for her personal use.

Cash surplus expected:

Profit after tax :

+	Depreciation	:
-	Personal with-drawings	:
Cash surplus expected		:
Repayment of principal		:

Ratios:

1. DSCR:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Profit after tax} + \text{depreciation} + \text{interest}}{\text{Principal + Interest}}$$

DSCR should be between 1.5 and 2.

Also find out the DSCR

Learning evaluation:

Ask the participants about the important ratios that bankers use for assessing the Business plans. Facilitate the participants so as to elicit the following from them.

- Debt Service Coverage ratio
- Current assets ratio
- Debt equity ratio

Summary:

- Distinguish between Gross Profit, Operating Profit and Net profit.
- For fixed capitals, only depreciation should be accounted as per the accounting standards e.g. Computers – 20%, Buildings – 5%, Furniture and vehicle: - 10%
- Using the same format, ask the participants to create different projections for a business assumed and do the analysis of various options.
- Practice and repeated practice make a person to be perfect in understanding the analysis of ratios and their interpretation for deciding the viability of the business plans.

Vaazhndhu Kaattuvom Project

Department of Rural Development and Panchayat Raj
5th Floor, Tamilnadu Small Industries Development Corporation Limited,
Thiru Vi Ka Industrial Estate, Chennai 600 032

(044) 434 43200 tnrtpstate@gmail.com wwwtnrtp.org

TNRTP tn_rtp tn_rtp