IDFC FIRST Bank Limited

Policy for lending to Micro, Small & Medium Enterprises (MSMEs)	
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POLICY FOR LENDING TO MICRO, SMALL & MEDIUM ENTERPRISES

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Policy for lending to Micro, Small & Medium Enterprises (MSMEs)

1. Introduction

The MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Building a diversified and granular MSME loan portfolio is a key strategic goal for IDFC FIRST Bank and various policies and processes have been built in order to effectively address the credit requirement of MSME customers.

Definition of Micro, Small and Medium Enterprises

(i) a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed two crore and fifty lakh rupees and turnover does not exceed ten crore rupees;

(ii) a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed twenty five crore rupees and turnover does not exceed one hundred crore rupees;

(iii) a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed one hundred twenty five crore rupees and turnover does not exceed five hundred crore rupees.

The definition of MSME is as per circulation in The Gazette of India dated 21 March 2025 and the above definition is effecting from 1 April 2025

MSME shall include retail and wholesale trades as under:

NIC Code	Activity
45	Wholesale and retail trade and repair of motor vehicle and motor cycles.
46	Wholesale trade except of motor vehicles and motor cycles.
47	Retail trade except of motor vehicles and motor cycles.

As guided, the benefits to retail and wholesale trade are restricted to Priority sector lending only.

2. Bank structure and locations

The Bank caters to MSME lending through various verticals depending on the profile of the customers. Internally, Wholesale Banking and Retail Including Business Banking teams lend to MSMEs falling under their respective target segments. Accounts are sourced primarily through DSA, Relationship Managers and Branch Banking Team who are supported by dedicated Credit and Operations teams to ensure smooth customer on-boarding and early credit delivery.

Currently, the Bank operates through Branches and regional offices located across the country. As the Bank's distribution increases to other locations, MSME lending solutions shall be offered in these locations also.

3. Products offered

We Typically offer the following loan short term and long term credit products to MSME borrowers.

- Cash Credit/ Overdraft
- Drop line Overdraft
- Term Loan
- Bill Discounting
- Import/ Export finance
- Letter of Credit / Buyers Credit
- Bank Guarantee (Performance and Financial)
- Forward/ Option
- Stand-by Letter of Credit

The Bank offers the above credit products to MSMEs through programs that have been designed keeping in mind the characteristics of MSME borrowers and their requirements. Further, the above list is illustrative only and bank may offer other products keeping in mind requirement of MSME borrower.

Generally, for loans ranging up to Rs. 5.00 Crs, the Bank offers credit facilities under these programs that have a defined eligibility and credit selection criteria, leading to early credit delivery TAT. For higher loan requirements, the Bank conducts a detailed credit appraisal in line with the approved credit policy norms.

4. Loan application

Loan application form / customer request / customer information is obtained from borrowers indicating their loan requirement and providing certain basic details. An acknowledgement to the loan application form is provided that contains a running serial number on the application form as well as on the acknowledgement receipt. Checklist of documents required for loan processing is also provided to the customer. Bank has an internal loan origination system where cases are processed and tracked. Once a loan application is made, the credit appraisal process is aided by technology and the underwriting happens through a loan origination system. The Bank ensures tracking of applications of MSME closely and ensures timely decision of such loans. Timeline for credit decisions for loans up to ₹25 lakh to units in the MSE borrowers shall not be more than 14 working days. For MSE loans above ₹25 lakh, timeline for credit decision shall not be more than 45 working days. Further said timelines is also displayed on our Bank's website.

On submission of loan application, the customer can get in touch with Relationship Manager to understand status of the same. In case the loan application is turned down, the Bank will convey in writing to the applicant the reasons for rejection

5. Assessment of loan requirement and Review of Limits

The working capital requirement of the MSMEs is assessed through the appropriate method of assessment, in line with our board approved credit guidelines. Depending on various factors (such as loan amount, working capital cycle, activity, etc.) the appropriate method of lending is used for arriving at the eligibility of the borrower. For Term Loans, the assessment is generally based on the cash accruals over the tenure of the loan. Further Term Loan are assessed basis overall project cost including contingencies if any, which takes care of

unexpected expenses due to unforeseen reasons such as cost overrun and escalation. For specific products (such as Bill discounting, LC, BG, etc), the assessment is done as per the requirement of the enterprise and the operating cycle.

Various documents from the borrower such as audited/ provisional financials, sales achieved till date, projected financials for the next financial year, etc are considered while assessing the loan requirement.

A composite loan limit of ₹1 crore can be sanctioned to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

Limits may also be enhanced during the year to meet increased working capital requirements of MSMEs based on information such as interim financials, sales performance / profitability estimate in current financial year, etc. Further, mid-term review of the regular working capital limits may be done, where changes in the demand pattern of MSE borrowers require increasing the existing credit limits based on the actual sales of the previous year.

Lending to MSME segment will also be governed by the extant Credit Policy, Retail Credit Policy, respective product notes/programs, credit manuals and other extant policies /processes laid down in the Bank.

Bank may also sanction TOD/ Adhoc limits in order to cater to sudden funding requirement of MSME customers. These limits are usually sanctioned to meet peak season requirement or any unforeseen credit requirement.

6. Pricing and Fees

The applicable pricing is conveyed transparently through a sanction letter that contains various terms of sanction including the commercials. Typically, the pricing that is charged to the borrower depends on a variety of factors (including risk profile determined through a scoring/ rating, business model, security offered, loan amount and market reference). Depending on these factors and based on discussions with the borrower, the applicable pricing is arrived at and conveyed through the sanction letter.

Pricing – The same should be guided by the RBI Directive on Interest Rate on Advances and extant policy of the bank.

As per RBI directive External Benchmark Based Lending dated September 04, 2019 and February 26, 2020, all floating rate loans to Micro & Small Enterprises extended with effect from October 01, 2019 would be benchmarked to one of the following: -

- Reserve Bank of India policy repo rate
- Government of India 3-Month Treasury Bill Yield published by FBIL
- Government of India 6-Month Treasury Bill Yield published by FBIL
- Any other benchmark market interest rate published by FBIL

In this regard, all new floating rate personal, retail loans, loans extended to micro and small enterprises (with effect from October 1 2019) and medium enterprises (with effect from April 1,2020) shall be linked to an

external benchmark (e.g. repo rate). Details in this regard are covered in the Board approved "Policy on Interest Rate on Advances', 'Risk Based Pricing Policy' and Risk Based Pricing Policy for Retail Loans"

7. Security

A wide range of securities can be offered by customers in order to avail loans from IDFC FIRST Bank. Where appropriate, Bank also lends against primary security (such as Fixed Assets/Receivables) to fund the credit requirement of MSMEs in line with approved credit manual/policy of the respective department. We also accept collateral security in the form of residential, commercial, industrial, demarcated open land and liquid securities.

The collateral requirement complies with regulatory requirement and internal guidelines of the bank in that respect. In line with regulatory requirements, we do not obtain collateral security[1] for loans up to Rs 20 Lakhs extended to MSE borrowers. Where applicable, the Bank may obtain Credit Guarantee Scheme coverage for credit facilities

8. Basic customer selection criteria

In order to deal with large volume of loan applications, the Bank has board approved eligibility and credit decisioning criteria for each business segment which ensure consistency in terms of nature of customers on-boarded. While each customer's credit requirement is unique and appraised by taking into account the information available, the following parameters play a role during the credit appraisal stage:

- Satisfactory promoter, business, industry and financial analysis or internal scoring of the customer
- Satisfactory quality of the banking transactions
- Positive reference check
- Sustainable and healthy business model in line with aforesaid

9. Documentation

For ascertaining the investment in plant and machinery and turnover of entity for classification of an enterprises as Micro, Small and medium, the following documents could be relied upon:

(i) Udyam Registration Number and Certificate
(ii) Latest detailed ITR
(iii) Latest GSTR 1 return
(iv) Certificate issued on the Udyam Assist Platform to Informal Micro Enterprises

10. Grievance handing

Bank has a board approved grievance redressal policy that is applicable to all segments of customers. In terms of the said policy, customers can register their complaints either through Customer Care, Branch or through the Website. In addition, since BBG / WB customers deal with a dedicated Relationship Manager, complaints can be directly raised with the RM. The Bank believes in providing transparent and efficient services to our customers at all times. However, if a customer is not satisfied with the timelines of response or the resolution

[1] excluding Gold and Silver pledged voluntarily by borrower

provided through the channels listed above, the customer can escalate the grievance to the Principal Nodal Officer of the Bank.

On receipt of a complaint, Bank shall endeavor to respond to the complaint in a timely and a transparent manner. The policy on dealing with customer grievance shall be subject to extant RBI guidelines on the same.

11. Use of technology

At IDFC FIRST Bank, there is a strong focus towards utilizing technology for various processes related to loan application, processing and disbursement. The objective is to build an operating model that can handle a large volume of transactions.

We have in place a loan origination system across all business verticals for smoothly handling loan requests/ applications. Post sanction of credit limits, the entire documentation and disbursement also happens in a seamless manner. Going forward, IDFC FIRST Bank will continue to put in place technology enablers for various processes related to providing banking services to various segments of customers, including MSMEs. Comprehensive Performance MIS would be circulated within the business for review of senior management.

12. Training

The Bank places a lot of focus on ensuring that officers interacting with MSMEs are trained on the requirement of this segment / needs of the customers and IDFC FIRST Bank's solutions that address this requirement. Officers who join the Bank undergo a structured training program on various topics. Officers who are responsible for growing the MSME asset book are given training that enables them to assess the eligibility within IDFC FIRST Bank's policy framework

The policy would further be guided by the extant scheme document on Interest Subvention, PSL guideline for MSME sector, Framework for Revival and Rehabilitation, Recovery policy and any other documents of the bank, to the extent applicable.