

# What are Banks looking for during credit appraisal

# MSME Definition

Enterprise	Manufacturing sector	Service sector
	Investment in P&M	Investment in equipment
Micro	Upto Rs.25 lakh	Upto Rs.10 lakh
Small	Above Rs.25 lakh & upto Rs.5 cr	Above Rs.10 lakh & upto Rs.2 cr
Medium	Above Rs.5 cr & upto Rs.10 cr	Above Rs.2 cr & upto Rs.5 cr

# Purpose of Credit Appraisal

- ✓ To ascertain whether the project is sound – technically, economically, financially and managerially and is ultimately viable as a commercial proposition.

# CREDIT APPRAISAL

- Appraisal of a project involves examination of:
  1. Prima facie acceptability
  2. Technical Feasibility
  3. Economic Viability
  4. Financial Feasibility
  5. Commercial Viability
  6. Managerial Competency
  7. Other internal Parameters

# Prima facie acceptability

- Bank's Norms / RBI Guidelines / Govt. regulations
- Credit Risk Rating norms
- RBI / CIBIL Defaulter's List
- MA&A in respect of cos., - scope of activity, borrowing powers, etc.
- Project cost, DER, Profitability, etc

# Technical Feasibility

- Suitability of the technology selected; its availability, cost, quality and accessibility of all the factors required for production.
- Other Factors to be looked into:
  - Location of plant & accessibility to critical inputs
  - Size of the plant
  - Type of technology
  - Manufacturing process
  - Availability of basic infrastructure, etc.

# Economic Viability

- Conduciveness of economic parameters for setting up the project and their impact on the scale of operations

Factors to be looked into:

- Thorough market analysis
- Marketing & Selling arrangements.
- Demand & supply gap, etc.
- Ancillary industry / OEM / Export

# Financial Feasibility

- Accuracy of cost estimates, suitability of pattern of financing and general soundness of the capital structure
- Estimated project cost is reasonable and complete and has a fair chance of materialising as per anticipations
- Estimates of earnings and operating costs are as realistic as possible
- Borrower's repaying ability

# Commercial Viability

- Extent of profitability of the project and its sufficiency in relation to the repayment obligations pertaining to term assistance.
- Profitability estimate helps in arriving at estimated DSCR, the single most important factor in Term Credit
- Projected Balance Sheet - whether unit will continue to have a sound financial position even after the implementation of the proposed project.

# Commercial Viability – contd.

- The contribution of promoters to the project cost
- Security Margins
- Debt Equity Ratio / DSCR
- Sensitivity Analysis

Is the capacity of the project to absorb various shocks, i.e., changes in critical factors like Cost, Volume & Price.

# Managerial Competency

- Competent men are behind the project to ensure its successful implementation and efficient management after commencement of commercial production.
- Integrity, track record, credit worthiness, initiative, competence and experience of the management shall be examined.

# Other parameters

- Examination of environmental regulations –  
To ascertain whether the project is in full compliance with the various environmental provisions in force.
- Examination of Government policies
- Examination of other statutory obligations

# What we look for from SMEs

- Application is complete in all respects and sent along with relevant enclosures
- Satisfactory banking track record/credit opinion
- Consensus from all the stakeholders before conceiving the capex programme to avoid frequent changes and delay in project implementation.
- Tangible security will strengthen the rating in turn better pricing is possible
- Finalise the project cost items viz. contractor, machinery supplier, etc. based on past experience, credentials in the market, after sales service, etc.

# What we look for from SMEs

- Clarity on raising of promoters contribution – capital, internal accruals, unsecured loans, etc.
- Investment in capex to be based on conservative future projections with proper assumptions underlying profitability estimates.
- Diversify client base across various industries to mitigate business risk / industry risk.

# What we look for from SMEs

- Satisfactory external rating from reputed rating agencies gives lot of comfort to bankers.
- Ensure that all statutory approvals are in place viz. building plan approval, consent from PCB, NA order, etc.

# What we look for from SMEs

- Immovable properties being mortgaged
  - Title should be clear and marketable
- - valuation of properties should be reasonable in line with market rates - based on govt. approved / banks empanelled valuers reports.
- Queries from banks to be clarified with proper justification.

# Credit Facilitation Centre

- SIDBI is in the process of opening 'CREDIT FACILITATION CENTRES" AT ALL THE IMPORTANT CLUSTERS / INDUSTRY ASSOCIATIONS to provide consultancy and advisory services to MSMEs which will lead to faster delivery of credit.

# Credit Facilitation Centre

- The CFC would guide MSME entrepreneurs regarding availability of schemes of SIDBI / commercial banks, inform the Government subsidies/benefits, debt counselling, facilitate response to queries raised by banks etc

# THANK YOU

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