

# MSME LOAN

MSME Loan that is Micro, Small and Medium Enterprise Loan is the financing option offered to small enterprises, individuals, and startups to enhance their business. It could be for any business type to meet their working capital requirement, boost cash flow, business expansion, stock up on inventory, pay off rent, salaries, purchase raw materials, equipment, tools or anything related to their business for growth. Depending on the loan amount, the interest rate, tenure and the bank you apply for your loan, you could opt for a secured or an unsecured MSME Loan.

MSME Loan for New and Existing Business or Enterprise is a type of credit facility in form of a term loan (short-term/intermediate-term/long-term), working capital loan, overdraft, cash credit, letter of credit, bill discounting, and other funding products.

Micro, Small, and Medium Enterprise (MSME) loans are offered by numerous financial institutions to startups, self-employed professionals, MSMEs, business owners, sole proprietorships, private and public limited companies, partnership firms, limited liability partnerships, and other business entities engaged in the Services, Manufacturing, and Trading sectors.

Further, let's discuss business loan interest rates offered by leading Banks/NBFCs, along with MSME loan features, eligibility criteria, fees & charges, and much more.

## **BENEFITS AND FEATURES OF THE MSME LOAN**

MSME loans are a good source of funding for business owners who want to expand or even start a small business. The following are some of the benefits of MSME loans:

- The MSME business loans are intended to improve credit flow in the MSME sector.
- These loans are intended to improve technology in the small company sector.
- MSMEs loans contribute to the overall growth of the small-scale sector by funding skill development and training initiatives.
- Depending on the ongoing cycle and the plan, the payback duration might range from 12 to 30 months.
- Loan applications can be submitted online or in person at the local branch.

## **ELIGIBILITY**

<b>Particulars</b>	<b>Criteria</b>
<b>Business Type</b>	<ul style="list-style-type: none"><li>• Manufacturing Sector</li><li>• Service Sector</li></ul>
<b>Business Size in Manufacturing Sector</b>	<ul style="list-style-type: none"><li>• For Micro- Above 25 lakhs</li><li>• For Small- Above 5 crore</li><li>• For Macro- Above 10 crore</li></ul>
<b>Business Size in Service Sector</b>	<ul style="list-style-type: none"><li>• For Micro- Above 10 lakhs</li><li>• For Small- Above 2 crore</li><li>• For Macro- Above 5 crore</li></ul>

## **MSME Loan Schemes initiated by the Govt. of India**

MSME loan schemes initiated under the Ministry of MSME (MoMSME) are offered to Micro, Small, and Medium Enterprises (MSMEs) by various banks and NBFCs. Popular MSME schemes offered by financial institutions and initiated by the Indian Government are below mentioned:

- CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises
- CLCSS: Credit Linked Capital Subsidy Scheme
- Credit Guarantee Scheme
- MUDRA Yojana under PMMY
- National Small Industries Corporation (NSIC) Subsidy
- PMEGP: The Prime Minister Employment Generation Programme
- PMRY: Prime Minister's Rozgar Yojana
- PSB Loans in 59 minutes
- Standup India
- Startup India

## **MSME Loan – Features, Types, Fees & Charges**

MSME loans are primarily used for business expansion purposes, starting a new business, meeting working capital requirements, enhancing cash flow, purchasing raw materials, goods, or stock, buying or upgrading equipment/machinery, paying off rent/salary, hiring, and training staff, etc.

<b>Interest Rate</b>	Depending on the applicant's profile and business requirements
<b>Loan Amount</b>	No Minimum Limit to borrow & Maximum up to Rs. 2 crore (Unsecured Business Loan), which can exceed as per business requirements
<b>Repayment Tenure</b>	From 12 months to 5 years, may exceed, as per the business requirements
<b>Collateral/Security</b>	Not required for unsecured business loans
<b>Processing Fee</b>	Nil to 4% of the sanctioned loan amount
<b>Foreclosure Charges</b>	From Nil to 5% of the outstanding principal amount
<b>Part-payment Charges</b>	From Nil to 4% of the outstanding principal amount
<b>Subsidy</b>	Offered by selected financial Institutions
<b>Credit Facilities</b>	Working Capital Loan, Bill discounting, Overdraft, Term Loan, Cash Credit, Letter of Credit, Bill of Purchase, Merchant Cash Advance, Loans under Govt. Schemes, etc.

## **Eligibility Criteria**

- Minimum business vintage of 1 year
- Business Turnover: Min. Rs. 12 lakh for existing enterprises, varies from bank to bank
- Good repayment history with financial stability
- No previous loan default with any financial institution
- The applicant's company must have submitted Income Tax Returns for at least the last year
- The applicant must not have a history of loan defaults in his or her name or that of the business
- The loan must be used to start a firm in the service or manufacturing sectors
- The candidate for an MSME loan must be over the age of 21
- The candidate must be a member of one of the following groups:
  - o Sole Proprietorship
  - o Self-Employed Individuals
  - o Companies that are Private Limited
- Partnership Firms
  - Individuals, MSMEs, business owners, women entrepreneurs, self-employed professionals, and people falling under SC/ST/OBC category.
  - Private or Public Limited Companies, Sole Proprietorships, Partnership Firms, and Limited Liability Partnerships engaged only in the trading, services, and manufacturing sectors.

## Documents Required for a MSME / SME Loans

Documents	Proprietorship	Partnership	Pvt. Ltd. / LLP / One Person Company
Bank statement (12 months)	✓	✓	✓
Business registration proof	✓	✓	✓
Proprietor(s) PAN Card Copy	✓	✓	✓
Proprietor(s) Aadhar Card Copy	✓	✓	✓
Partnership Deed Copy	✗	✓	✗
Company PAN Card Copy	✗	✗	✓

- Proof of Age of the Applicant(s): even though it may be a business, the partners, individuals or directors involved in the business need to submit their proof of age as one of the documents required for MSME Loans.
- Business Plan; this would be necessary to ascertain your business, the industry and the long term growth prospects before the loan is sanctioned.
- Bank Statement: Bank account statement under the name of the company of the last 6 months.
- Income Proof: this is the income proof of the business that could be the Income Tax Returns with the profit and loss account and balance sheet.
- Registration Proof: A vital documentation required for MSME Loans is proof of registration that could be:
  - o Partnership deed
  - o Memorandum of Associations (MoA), Article of Associations (AoA)
  - o Sales Deed
  - o Copy of Licenses & Certificates
  - o Rent agreement
- MSME Certificate also known as Udyam Registration Certificate
- Duly filled Application form with passport-sized photographs.
- KYC documents of applicant and co-applicants that include Passport, Aadhar card, Voter's ID card, Driving License, PAN Card, and Utility Bills (Telephone, Electricity Bills)
- Business Address and Vintage Proofs
- Last 6 months' bank statement along with bank details
- Business Establishment Certificate or Incorporation Letter
- Proof of belonging to SC/ST or OBC category, if applicable
- Any other document required by the bank/NBFC

### **Identity Proof**

Your PAN Card is mandatory, and any one of these:

- Passport
- Voter ID
- Aadhar Card
- Driving License

### **Address Proof**

- Passport
- Voter ID
- Aadhar Card
- Electricity bill/ water bill/ telephone bill
- Driving License

### **Proof of Income**

- IT Returns and/or Financial Statements of last 3 years And/or
- Informal Income Documents

### **Other Documents**

- Signed Application Form with Picture
- Cheque For Processing Fee
- Bank Statement of Last 6 Months

### **Property Documents**

- Title Deeds of the Property
- Proof of No Encumbrances on the property

### **Following Are Business Registration Proof**

- 1) Business Registration Certificate
- 2) GST filing
- 3) Gumastadhara
- 4) Trade License
- 5) Drug License
- 6) TIN 7) VAT registration

## **MSME DOCUMENTATION**

**A. The existing units are expected to approach the bank with the following indicative documents:**

**A.1 For Existing Units seeking WC facilities:**

- Last 3 years audited profit & loss statement with notes on accounts & annexure
- Last 3 years IT returns
- Last 3 years balance sheet & profit & loss statement of associate / sister concerns
- CMA data
- Order book position / contracts / proof of demand
- Last GST assessment order
- Statutory clearance certificate
- Lead Bank assessment note in case of consortium finance.
- Details of Associate / Sister / Group Concerns with names, bankers, credit facilities enjoyed, present status etc.
- Details of Collaterals wherever applicable.
- Last 3 years audited balance sheet with notes on account & annexure

**A.2 Additional documents required in case of take over account:**

- NOC / status of the account
- Credit report from the existing bankers
- Statement of account for last 1 year.

**A.3 Additional documents required for Term Loan / LC for capital goods application, if they are not included in project report:**

- Cash flow statement for entire repayment schedule
- Fund flow statement for entire repayment schedule.
- Profitability projections and assumptions for entire repayment period
- Break-even analysis.
- IRR working
- DSCR working
- CA certificate for promoter's contribution
- Project Report covering:
  - a) Details of cost of machinery, suppliers of machinery
  - b) Quotations / proforma invoices from suppliers
  - c) Installed capacity calculation
  - d) Raw material details & their availability
  - e) Market survey: viability reports from market, reports from associations
  - f) Project implementation schedule.
  - g) Status of various clearances required.

**A.4 Additional documents required in case of factory building:**

- Building approval plan
- Estimate from Architect
- Statutory clearances: Environment, pollution clearance, and other applicable clearances.
- Power & water sanction proof,
- Any other clearances like explosive license etc wherever applicable to different projects.

#### **A.5 Additional documents required for raw material LC:**

- Pattern of purchase
- Quantum & Value of import and domestic purchases.
- Import license
- Percentage of Total Purchase under LC
- Lead-time required
- DA period in case of DA LC

#### **A.6 Additional details required in case of Bank Guarantee:**

- Details of existing guarantees & facilities
- Bid bond / security deposit Details

#### **B. In case of New Projects seeking TL & WC facilities Complete Project Report to be submitted including the following indicative documents by the Entrepreneurs:**

- Projected Balance Sheet for the entire repayment period,
- Projected P & L Account for the entire repayment period,
- Presumptions made in Projected Profitability Estimates
- Projected Cash Flow Statement for the entire repayment period,
- Projected Fund Flow Statement for the entire repayment period,
- Break Even Analysis
- DSCR Computation for the entire repayment period, with Average DSCR Calculation,
- IRR Computation,
- CA certificate for promoter's contribution
- IT return & personal Balance Sheet of the promoter's & guarantors
- Bio data of Promoter's / Directors
- Details of cost of machinery viz Name of Machine, Machine Capacity, Supplier of machinery, Quoted Value etc.
- Estimates of Construction by Architect / Chartered Engineer.



- Copies of Various Basic / Statutory Approvals to establish the unit & to run the activity.
- Installed capacity calculation
- Raw material details & their availability
- Market survey: viability reports from market, reports from associations
- Project implementation schedule.
- Market Demand & Market Arrangements
- Details of Collaterals wherever applicable.

C.MSME Certificate or Incorporation Certificate not mandatory for opening of current account for Micro Enterprises

## **\*\* Important Points To For All Applicants\*\***

- 1. Please Note, If There Are Existing Loans, Submit Payment Track Record And Sanction Letter To Respective Loan Provider For Finalizing Loan Amount Eligibility.**
- 2. Credit Score Plays An Important Role In Finalizing Loan Amount & ROI\*\***
- 3. Timely Payment Of EMI Helps In Maintaining A Good & Healthy Credit Score.**
- 4. Please Keep Sufficient Amount In Account Before ECS Hitting Date.**
- 5. Wisely Usage Of Money Is Highly Required For Financial Planning.**
- 6. Don't Miss To Pay Any EMI Amount , Neither Get Delayed On Due Dates.**
- 7. There Can We Change In Loan Documentation Requirements From Time To Time And My Vary In Banks, NBFC & Private Lenders. Will Update , If There Will Be Some Changes In Documentations.**