

Business Loans for Startups by the Indian Government

There are more than 39,000 startups in India at present who have access to many private equity and debt funding options. However, it is a challenge to get funding when the business is just an idea or is in the early stage. Also, the Micro, Small, and Medium Enterprises (MSME) sector in India only has limited access to formal credit which is why the Government of India decided to roll out startup business loan schemes for MSMEs and startups.

The Small Industries Development Bank of India (SIDBI) has also begun lending to startups and MSMEs directly rather than channelising it through banks. The interest rates on these loans are lower than the one offered by banks by almost 300 basis points. Some of the most notable and popular schemes offered by the Indian government for startups and MSMEs are as follows:

► **Bank Credit Facilitation Scheme**

Headed by the National Small Industries Corporation (NSIC), this scheme is targeted at meeting the credit needs of the MSME units. The NSIC has partnered with various banks to provide loans to the MSME units. The repayment tenure of the scheme ranges between 5 years and 7 years but in special cases, it can be extended up to 11 years.

► **Pradhan Mantri Mudra Yojana (PMMY)**

Launched in 2015, this scheme is headed by the Micro Units Development and Refinance Agency (MUDRA) and it aims at offering loans to all kinds of manufacturing, trading, and service sector activities. The scheme offers loan under three categories – Shishu, Kishor, and Tarun in amounts ranging between Rs.50,000 and Rs.10 lakh. The Mudra loan can be availed by artisans, shopkeepers, vegetable vendors, machine operators, repair shops, etc.

► **Credit Guarantee Scheme (CGS)**

This loan can be availed by both new and existing MSMEs that are involved in service or manufacturing activities but excludes educational institutions, agriculture, retail trade, Self Help Groups (SHGs), etc. Up to Rs.2 crore can be borrowed under this scheme headed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

► **Standup India**

Launched in April 2016 and headed by SIDBI, this scheme extends loans to enterprises in manufacturing, trading, or services. Under this scheme, loans ranging between Rs.10 lakh and Rs.1 crore can be availed. The repayment of loans taken under this scheme can be done in seven years while the maximum moratorium period allowed is 18 months.

► Sustainable Finance Scheme

This scheme is also headed by the SIDBI and aims at offering loans to industries that deal in green energy, renewable energy, technology hardware, and non-renewable energy. The government started this scheme with an intent to offer support to the entire value chain of cleaner production/energy efficiency and sustainable development projects.

7 Government Schemes for Startups

Below we have provided the best start up business loan by Indian government:

1. National Bank for Agriculture and Rural Development (NABARD)
2. Credit Guarantee Scheme (CGS)
3. Pradhan Mantri Mudra Yojana (PMMY)
4. Stand Up India Scheme
5. Coir Udyami Yojana
6. Bank Credit Facilitation
7. Market Development Assistance (MDA)

1. National Bank for Agriculture and Rural Development (NABARD)

NABARD is a development bank whose primary focus is the rural sector of India. It is one of the most critical financial institutions in the country. NABARD is responsible for developing small-scale industries, cottage industries, and any other such rural projects. The National Bank for Agriculture and Rural Development was established on 12th July 1982, with an initial capital of 100 crores. Besides meeting the rural sector's financial requirements, NABARD also provides for social innovations and projects by partnering with various organizations for many innovative projects and schemes for water and soil conservation.

2. Credit Guarantee Scheme (CGS)

The government launched the Credit Guarantee Scheme (CGS) to strengthen the credit delivery system and facilitate financing to the MSME sector. New and existing MSMEs in manufacturing or service activities, excluding retail trade, agriculture, self-help groups (SHGs), training institutions, etc., can apply for CGS. The lending institutions that offer this scheme mainly include public, private sector banks, foreign banks, regional rural banks, the SBI, and associate banks. This MSME scheme for entrepreneurs comes with several benefits, including term loans and working capital loan facilities up to Rs. 100 Lakhs per borrowing unit.

3. Pradhan Mantri Mudra Yojana (PMMY)

The Micro Units Development and Refinance Agency (MUDRA) was launched in 2015, and it aims at offering loans to all kinds of manufacturing, trading, and service sector activities. PMMY provides loans under three categories – Shishu, Kishor, and Tarun loans. Anyone, from artisans to shopkeepers to machine operators, can avail of a Mudra Loan. MUDRA loan scheme offers incentives through these interventions:

- Shishu: Loans up to Rs. 50,000
- Kishor: Loans above Rs. 50,000 and up to Rs. 5 Lakhs
- Tarun: Loans above Rs. 5 Lakhs and up to Rs. 10 Lakhs

4. Stand Up India Scheme

The Stand Up India scheme facilitates bank loans between Rs 10 Lakh and Rs 1 Cr to at least one SC or ST individual and at least one woman borrower per branch to build their business. Businesses that fall under the trading, manufacturing, or service industry can apply for the standup scheme. For non-individual enterprises, at least 51% of the shareholding needs to be held by an SC/ST or a woman entrepreneur. The applicant should have a good credit history and not have default payments with any bank or financial institution.

5. Coir Udyami Yojana

The Coir Udyami Yojana is aimed at supporting the establishment of coir units. Banks will finance capital expenditure in a term loan to meet the working capital requirements. The bank can also fund projects in the way of composite loans consisting of Capex and working capital. All coir processing MSME startups registered under the Coir Industry (Registration) Rules, 2008, are eligible for this scheme. Banks will finance projects that cost up to Rs 10 Lakh one cycle of working capital, which should not exceed 25% of the total project cost. This amount should be exclusive of the Rs 10 Lakh limit, and the credit amount will be 55% of the total project cost after deducting 40% margin money and the owner's contribution of 5% from beneficiaries.

6. Bank Credit Facilitation Scheme

The National Small Industries Corporation (NSIC) is targeted at fulfilling the credit requirements of the MSME units. The NSIC scheme has partnered with various banks to provide loans to the MSME units. The loan repayment tenure of the scheme ranges between 5 years and 7 years; it can be extended up to 11 years. The loan repayment tenure varies depending on the income generated from the startup and generally extends from 5 to 7 years. However, in exceptional cases, it can extend up to 11 years.

7. Market Development Assistance (MDA) Scheme

The Ministry of Commerce currently operates a Market Development Assistance Scheme to encourage exporters (including MSME exporters) to access and develop overseas markets. This scheme provides funds for participation by manufacturing SMEs in International Trade Fairs/ Exhibitions under the MSME India stall. Funding for sector-specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation.

How to Apply for Startup Business Loan?

Some of the ways through which you can apply for a Startup Business Loan are:

- Visit the official website of the lender from you wish to avail the loan and apply for it online by filling up the form and submitting the required documents.
- Visit the nearest lender's branch and submit the loan application form and documents.
- You can also call the lender's customer care and request for assistance for applying loan.

Features and Benefits of Startup Business Loan

- No collateral or security needs to be provided to avail a startup business loan.
- Startup business loans come with easy and flexible repayment tenures.
- The documentation required for availing a startup business loan is minimal.
- The funds are swiftly disbursed to the applicant's bank account.
- The interest rate charged by the lender will depend completely on the applicant's credit history.

Eligibility Criteria for New Business (Startup) Loan in India

- Applicant should have a well-drafted business plan
- Startup to be formed must as a sole proprietorship, partnership firm, private or public limited company or a limited liability partnership (LLP)
- Credit score: 750 or above
- Applicant with no previous loan defaults with any bank
- Total turnover of the firm should not exceed Rs. 25 crore

Documents Required to Avail Startup Business Loan

Photographs	2 copies (passport-size)
Proof of Identity	PAN Card, Passport, Aadhaar Card, Voter's ID, Driving License
Address Proof	Passport, Driving License, Aadhaar Card, Postpaid Phone Bill, Voter's ID
Age Proof	Passport, PAN Card (Age Above 21 & Below 65)
Bank Statements	Last six months
Proof of Income	Income Tax Returns, Salary Slips, Business Vintage 3 Years
Signature Proof	Bank verified signature, PAN Card, Passport
IFSC Code Proof	Cancelled/scanned cheque, copy of passbook's front page of the same bank account

- 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)
- Self-drafted Business Plan
- Last 12 months' bank statement
- Last 1-year ITR
- Business Incorporation Certificate
- Business Address Proof and PAN card
- Any other document required by the lender

Steps For Getting A Loan To Start A New Business:

When opting for a business loan for a new business, there are certain requirements that must be met. These facilitate the process of acquiring the new business loan and serve as a checklist to see if the bank will suffer a loss if they decide to proceed with the loan.

It is important to get one's costs and finances in order before proceeding with any step. Understanding and reviewing the startup cost will help you understand the purpose for which the small business start up loans are being taken in the first place and in which direction will the capital be utilized.

Next, the person taking the loan must require the related documents and registration forms to legally and officially apply for the loan. These documents are simple ones that recount the business plan, credit score of the company and other formalities.

There are a number of different start up business loans to choose from. Depending on the aim and goals of your startup, one needs to choose the right business loan for new business.

Advantages and benefits of taking up a startup loans

Capital is the most important aspect of any business and thus having a startup business loan for a new or expanding business can prove to have a number of benefits and advantages. This also greatly helps all individuals, especially in cases for startup business loan for women.

Convenience: most people are familiar with their banks and are regular visitors to the branches. This makes bank loans for startup businesses that much more convenient and more accessible for application.

Interest rate: bank loans tend to have lower interest rate in comparison to private equity lenders. In addition, bank loans have the added benefit of tax benefits which make it a more attractive and lucrative option for taking a new loan for a new business loan in India.

Multiple loan options: Larger banks have specialized loan plans that are intended for small and new startups and businesses. Also, banks do not take any share from the startup like angel investors. The banks and their loan schemes are only concerned with the loan principal and have no affiliation any fund exchange of the startup or business itself.

**** 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.**