



Bank
Financing for

MSME &
Startup

BY-

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1. Background & Structure

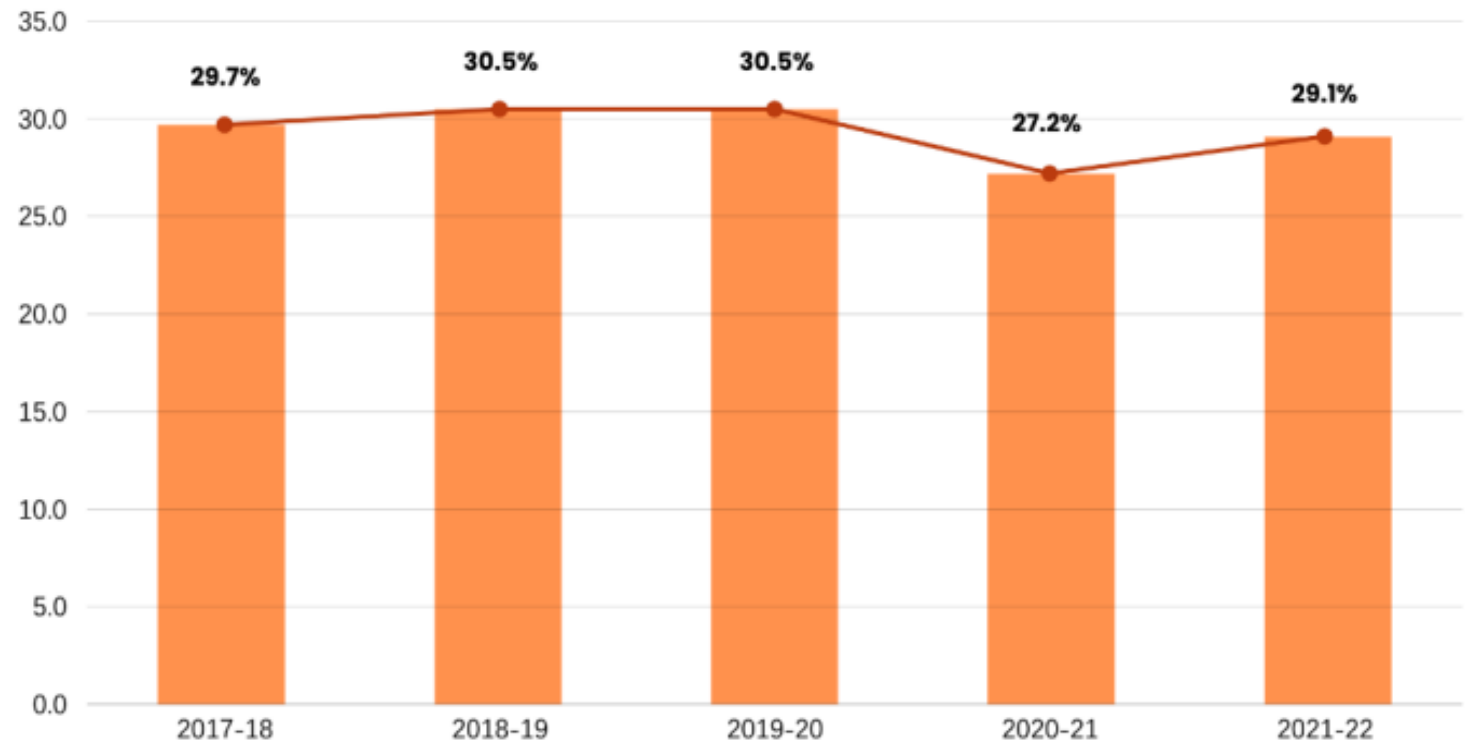
Classification	Plant & Machinery	Turnover
Micro (सूक्ष्म)	< = 1 crore	< = 5 crore
Small (लघु)	< = 10 crore	< = 50 crore
Medium (मध्यम)	< = 50 crore	< = 250 crore

MSME Day ‘*Udyami Bharat*’ is celebrated on 27th June

2. Market Scenario – Country & Worldwide

	No. of business	Employment	GDP	Export
India (2022)	-	45%	29.1%	45%
Worldwide (2024)	90%	60-70%	50%	-

Share of MSME in
GVA to India's
GDP



3. Importance of MSME to India Economy



Economic Backbone: MSMEs represent 90% of businesses and over 50% of global employment.



Job Creation: They are key drivers of employment, especially in developing economies.



Innovation & Flexibility: MSMEs foster innovation and adapt quickly to market changes.



Export Contributions: They play a crucial role in global exports and supply chains.



Inclusive Growth: MSMEs promote regional development and economic inclusion.



Resilience: They are resilient to economic shocks, providing stability across industries.

4. MSME's Challenges in securing Finance

Limited Collateral: MSMEs often lack the required collateral to secure traditional bank loans.

High Interest Rates: Banks and financial institutions charge higher interest rates due to perceived risks in lending to MSMEs.

Lengthy Credit Processes: Complex and time-consuming loan application procedures hinder quick access to financing.

Inadequate Credit History: Many MSMEs lack formal credit history, making it difficult to secure loans or attract investors.

Lack of Financial Literacy: MSME owners often lack knowledge about financial products and services, limiting access to financing options.

Dependency on Informal Lending: Due to financing barriers, many MSMEs rely on informal sources with unfavorable terms.

5. Present Govt. schemes & support systems for MSMEs

Udyam Registration Portal:

A simplified online platform for MSMEs to register and gain formal recognition for accessing benefits and schemes.

PM Vishwakarma Scheme:

A program aimed at empowering traditional artisans and craftsmen by providing them with financial and skill development support.

Prime Minister's Employment Generation Programme (PMEGP):

A credit-linked subsidy scheme designed to promote self-employment by setting up micro-enterprises in non-farm sectors.

Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

An initiative to support and promote cluster-based development of traditional industries, enhancing their competitiveness.

Public Procurement Policy for MSEs:

A policy mandating government bodies to procure at least 25% of their goods and services from Micro and Small Enterprises (MSEs).

Credit Support- CGTMSE & NCGTC

A collateral support system from govt. departments

6.1 Mode of bank financing to MSME



Loan types: Banks offer a variety of loan types, including term loans, working capital loans, overdrafts, cash credit, letters of credit, and bill discounting.



Loan amounts: MSME loans can range from Rs. 10,000 to Rs. 100 crores.



Interest rates: Interest rates vary by lender and applicant profile, but can start at 8.50% per annum.



Repayment terms: Repayment terms can go up to 15 years, depending on the loan amount.

6.2 Mode of bank financing to MSME



Collateral: Some banks offer collateral-free loans.



Government schemes: The government offers schemes like PMMY, PMEGP, and CGT MSE to help MSMEs get credit and upgrade their technology.



Trade Receivables Discounting System (TReDS): TReDS aims to create electronic bill factoring exchanges so that MSMEs can get paid faster.



Eligibility: MSME loans have specific eligibility criteria that business owners must meet.



Certified Credit Counsellors (CCC) Scheme: This scheme helps MSMEs prepare project reports, which can help banks make better credit decisions.

7.1 Eligibility criteria for bank financing

Business registration:

The business must be registered as a legal entity.

Business vintage:

The business must have been in operation for at least a minimum period of time.

Credit history:

A good credit score is important for loan approval.

Business turnover:

The business must have a minimum annual turnover.

Loan purpose:

The business must have a clear purpose for the loan.

Compliance:

The business must comply with regulatory requirements such as GST, Company's Act, Income Tax Return etc.

7.2 Eligibility criteria for bank financing

Business Plan:

A well-defined business plan can improve eligibility.

Credit Worthiness:

The business's ability to repay the loan is important

Collateral:

Depending on the loan amount and lender's policies, collateral or security may be required.

8. Importance of commercial credit score in banking finance



Enhanced Access to Credit: MSMEs with high scores are seen as low-risk, improving their chances of securing loans quickly and at competitive interest rates.



Risk Mitigation: Lenders rely on the MSME score to assess the risk involved in lending, ensuring more informed decision-making.



Improved Business Credibility: A strong credit score enhances the MSME's reputation, building trust with suppliers, customers, and investors.



Financial Discipline: Tracking the MSME score encourages businesses to maintain good financial discipline, which is essential for sustainable growth.

9. ZED Rating & SME Rating

MSME Sustainable (ZED)
Certification Scheme
implemented by Quality
Council of India (QCI)

Benefits of ZED – Zero Defect & Zero Effect Certification

- **Higher Revenues:** By adopting ZED practices, you can improve product quality, reduce waste, and increase profits.
- **Credibility:** Being ZED certified makes your business a trusted vendor, attracting more clients and partnerships.
- **Environmental Protection:** ZED Certification ensures you operate as a responsible manufacturer, reducing your environmental footprint.
- **Recognition and Awards:** High-performing ZED-certified businesses receive recognition and rewards, boosting your reputation.
- **Global Competitiveness:** Certification helps your business stand out in the global market, opening up new opportunities for growth.
- **Banking Benefits:** ZED-certified MSMEs may receive better terms from banks, such as lower interest rates and reduced processing fees.

10. Bank Finance and Incentives for Export Oriented MSMEs



Type of Finance to Exporters:

The most common type of finance for MSME exporters can be in shape of Pre-Shipment and Post-Shipment working capital limit. This type of finance is eligible for Interest Equalization Scheme of RBI.

Eligibility:

It applies to all scheduled commercial banks, excluding regional rural banks, and aims to enhance the competitiveness of MSMEs in international markets.

Interest Rates

The scheme offers an interest equalization rate of 3% for MSME manufacturers exporting under any HS line and 2% for manufacturers and merchant exporters under specified HS Lines.

Subvention Cap:

There is a cap on the annual net subvention amount, set at ₹10 crore per Importer-Exporter Code (IEC) for a financial year. The scheme is recently extended up to 30th September 2024.

Compliance:

Banks must ensure that the average interest rate charged does not exceed the Repo Rate + 4% to continue participating in the scheme

11. Women in MSME Sector and Incentives for Women



1. Access to Finance

- Tailored financial products with lower interest rates and flexible terms for women entrepreneurs. Concession in ROI from 25bp.
- Digital platforms increase ease of access to loans, savings, and insurance.

2. Government Initiatives

- Subsidies and grants reduce funding barriers for women-led MSMEs. Lower Annual Fees under CGTMSE and enhanced coverage
- Capacity-building programs enhance financial literacy and business skills.

3. Supportive Policies

- Gender-disaggregated data helps tailor financial services for women entrepreneurs.
- Regulatory frameworks promote equal access to finance for women-led MSMEs.

4. Networking and Mentorship

- Women-focused networks provide mentorship and support for finance and business opportunities

12. Introduction of ESG and Green Finance in MSMEs



- **For the Indian banking sector, the ESG transition is being largely driven by the Reserve Bank of India (RBI).**
- **Most MSMEs either do not track their ESG compliance or still rely on manual processes to collect internal ESG data.**
- **The Indian Banks' Association (IBA) committed to crafting an ESG framework while carrying out credit assessment and including climate risk as part of their risk assessment strategy.**
- **Considering the regulatory requirements from the banks, MSMEs will also soon be required to know their ESG scorecard.**
- **This implementation is thought to be done by way of certain incentives and concessions.**



THANK YOU

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