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FREQUENTLY ASKED QUESTIONS

Financing Options for Small Businesses (II)

Q1. I am a small business and I want to understand the different government approved credit schemes

If you are new or have an existing small-scale manufacturing or service activity you are eligible for the CGTMSE loan. But there are certain entities excluded from it like educational institutions, retail trade, agriculture, self-help groups and training institutes. The business unit must be established as a distinct unit. All the major financiers are giving adequate loans for starting new ventures, development, procurement of machinery etc. Loans under the CGTMSE scheme are backed without any external collateral or third-party guarantee. Loans are available in Mudra, namely Kishor wherein loans are from Rs.50,001 to Rs.5,00,000 (For buying equipment/machinery, raw materials, business expansion for existing enterprises The MSME loan sanctioned by the Member Lending Institution (MLI) is backed by the scheme which provides the guarantee cover for a large portion of the loan amount. Kindly check with your nearest financial institution for further details. Visit your nearest public-sector bank / NBFC for opting suitable loan and scheme as per your requirements

Q2. I am a small business owner struggling with finances at the moment. Can I still restart my business? How do I use my sources of funding better?

There are various government loans that offer capital and are an excellent way to source funding for your business namely, Mudra loans categorised into Shishu, Kishor and Tarun. Loans beyond 5 lakh and up to 10 lakh comes under the 'Tarun' category. Generally, loans up to Rs.10 lakh issued by banks under Micro Small Enterprises are given without collaterals. You can also consider "Ashwas Dinam Gold Loan" and "Restart India Pradhan Gold Loan" provided by Muthoot Fincorp Ltd (MFL) for immediate funding. Banks can provide a wide variety of lending options for small business owners, including short-term or long-term financing for nearly every venture. The main criteria considered for approval of a business loan, is the cash flow to repay the principal plus interest. It is important to have a forecast on the expenditure and income, so that you can spend your funds wisely. A good budgeting to plan your revenue inflow, projecting the collections, investments and expenses and cash flows is of utmost importance. This will also help in managing expenses prudently and help in keeping a check on the costs. Ensure prompt payment to banks. In short, get started with cash inflow (revenue and collections), reduce your costs (investment and expenses and payment to creditors). The net cash flow available will be useful for owners to re-invest in business.



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Q3. I am a small business. Are there any loan schemes available which are unsecured, and repayment starts after a holiday period?

Banks and other lenders are making the underwriting processes much stricter. Availing credit facilities from banks and NBFCs can be challenging in the given uncertain environment, unsecured loans would be difficult to obtain. Almost every banking and financial institution offers unsecured business loans to its customers. However, the interest rates and the eligibility criteria vary from one lender to another. The collateral free unsecured business loan approval depends on the documents given, applicant's profile, and nature of business and sole discretion of the lender. As a matter of fact, secured loans have a much higher tenure than unsecured loans. In unsecured loans, the maximum tenure is usually of 5 years or less whereas secured loans, the maximum tenure can go up to 15 years. Additionally, the risk factor in unsecured loans is high, as rate of interest is very high. But in secured loans, since collateral is already given, the rate of interest is comparatively low. Additionally, individuals with a credit score of 750 points or above are considered loan worthy. Banks prefer to give loans to companies that have accounts with them. These businesses can easily avail a loan as the bank has an experience of working with them. For those who are finding it difficult to get an unsecured loan, the collateral loans may come handy. One can opt for a loan against their existing assets such as gold and bank fixed deposits. If interested, you may visit your nearest bank / NBFC for opting suitable loan scheme and understanding the terms and conditions end to end in line with your requirement and eligibility criteria.

Q4. I am a small business/MSME and I am seeking a government loan. Please advise

The MSME schemes as Collateral-free loan, Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE), MUDRA Loans, Stand-Up India, Emergency Credit Line Guarantee Scheme (ECLGS) etc. can be considered as an option. The SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises (SMILE) is also another possibility for receiving financial support. Muthoot Fincorp Ltd. has launched a special Gold Loan Scheme for businesses known as "Ashwas Dinam Gold Loan" The features are: Maximum loan value against gold • Steady interest rate for 180 days • 24x7 online repayment options • Reducing interest on daily payments. Also, there are many other schemes provided by other financial institutions as well. However, the eligibility criteria and terms and conditions need to be assessed before processing as it depends on the business plan and the amount of loan that is availed. Check with your nearest financial institution for further guidance.

Q5. I am an MSME in manufacturing. Are there any financing options for Capital loans?

Finance Minister, Nirmala Sitharaman had recently announced on 13 May 2020 that collateral-free loans will be given to businesses including MSMEs to help them sustain in the economy that has

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been greatly affected by COVID-19. With this loan, the MSMEs that have been struggling to survive and need additional funds to purchase raw material and restart their business can avail this loan as a part of the relief package by the government. Mudra Yojana started under the Jan Dhan Yojana, provides collateral free loans. Three types of loans are disbursed under the MUDRA yojana and the borrowers are not required to provide any collateral or security for availing this loan. The three free collateral loans available under Mudra loans are Shishu, Kishore and Tarun. Various Public and private sector banks, regional rural banks, MFIs, NBFCs and co-operative banks function as MLIs (Member Lending Institutions) to the borrowers under the Pradhan Mantri MUDRA Yojana (PMMY). The other options are Crowd Funding, Angel investment, bootstrapping etc.

Q6. I am looking to start a business. Will banks help me with a loan even if I am not an existing customer?

Small and medium enterprises, which are interested in increasing their current business or need to capitalise in a new business can opt for SME loans. All the major financiers are giving adequate loans for development, procurement of machinery etc. If you are businessman and willing to start a business of your own, then you can apply for SME loans. One must have proper project plan or business plan in paper so that no bottlenecks pop up at the time of getting loan for business. Alternatively, loans are available in Mudra namely Kishor wherein loans are from Rs. 50,001 to Rs. 5,00,000 (For buying equipment/machinery, raw materials, business expansion for existing enterprises). Loans under the CGTMSE scheme are backed without any external collateral or third-party guarantee. The MSME loan sanctioned by the Member Lending Institution (MLI) is backed by the scheme which provides the guarantee cover for a large portion of the loan amount. Kindly check with the nearest financial institutions for getting further details.

Q7. I am recently unemployed and looking to start a business. I have not so far fallen under the tax bracket and so I have not filed returns. Please advise if I will get a loan for a new business.

The Prime Ministers Rozgar Yojana scheme has been designed especially for the unemployed. The main aim of the scheme is to provide employment to the unemployed by providing them financial resources to start their own ventures. The loan is available to any youth who is educated. The loan is of composite nature and a loan of Rs.2 lakh and a loan of Rs.5 lakh each is advanced for business sector and industry sector respectively. MUDRA loans are such that can be considered, which will be available through Banks/NBFCs/MFIs. Non-Corporate Small Business Segment (NCSB) comprising of proprietorship / partnership firms running as small manufacturing units, service sector units, shopkeepers and others. Loans are categorised into Shishu, Kishor and Tarun. Loans beyond 5 lakh and up to 10 lakh comes under the 'Tarun' category. Generally, loans up to Rs.10 lakh issued by banks under Micro Small Enterprises are given without collaterals. The terms and conditions of the lending agency may have to be followed for availing loans. Government Programs that offer capital are an excellent way to source funding for your business. You may visit your nearest bank / NBFC

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for opting suitable loan scheme and understanding the terms and conditions end to end in line with your requirement and eligibility criteria. You can also consider "Ashwas Dinam Gold Loan" and "Restart India Pradhan Gold Loan" provided by Muthoot Fincorp Ltd (MFL) for immediate funding.

Q8. I am recently unemployed and looking to start a manufacturing business. I have personal loan EMIs pending. Will I get an additional loan to start my business?

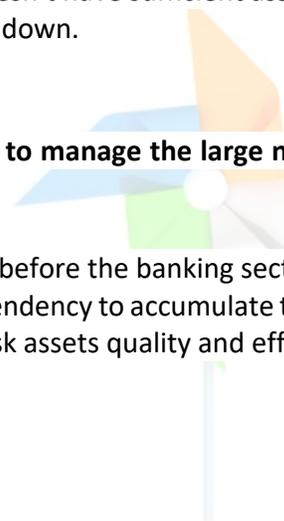
All the major financiers are giving adequate loans for starting new ventures or restarting business, development, procurement of machinery etc. If you are businessman and willing to start a business of your own, then you can apply for SME loans. One must have proper project plan or business plan in paper so that no bottlenecks arise at the time of getting the loan for your business. Loans are available in Mudra, namely Kishor wherein loans are from Rs. 50,001 to Rs. 5,00,000 (For buying equipment/machinery, raw materials, business expansion for existing enterprises). Loans under the CGTMSE scheme are backed without any external collateral or third-party guarantee. The MSME loan sanctioned by the Member Lending Institution (MLI) is backed by the scheme which provides the guarantee cover for a large portion of the loan amount. Kindly check with the nearest financial institutions for getting further details. Visit your nearest public-sector bank / NBFC for opting suitable loan and scheme as per your requirements. You can also consider "Ashwas Dinam Gold Loan" and "Restart India Pradhan Gold Loan" provided by Muthoot Fincorp Ltd (MFL) for immediate funding.

Q9. I run a service business and I have a steady customer base with good prospects. I am seeking investment for sustaining operations through loans, but I am unable to convince the institutions favourably. Is there a set of prerequisites I need to look at?

It is important to fulfil the eligibility criteria in order to get your loan approved. Apart from the regular documents, that needs to be submitted, here are some of the main factors that are considered for a business loan to be approved. • Credit score – The higher your score, the better your chances of getting a loan • Cash flow - Your cash flow analysis shows your capability of repaying your loan after covering operating expenses. • Business plan – A concrete and robust business plan is necessary, to win the confidence of your lenders. On the other hand, an inaccurate business plan or one that has redundancies will be rejected. • Collaterals - In case your business doesn't have sufficient assets that could be pledged as collateral, your loan application might be turned down.

Q10. What is the right strategy for banks and financial institutions to manage the large numbers of NPA accounts in present times and keep their portfolio healthy?

The issue of NPA management continues to be the biggest challenge before the banking sector. One of the major constraints of the competitive efficiency of banks is the tendency to accumulate the non-performing assets It is a critical indicator for assessing banks credit risk assets quality and efficiency



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in allocation of resources to productive sectors reflecting the success of financial sector reforms, regulatory and supervisory process reforms, regulatory and supervisory process in particular selected public sector and private sector banks have made substantial progress in cleaning up the NPAs from their balance sheets. Post the pandemic, a lot of liquidity is being infused by the RBI in the system and lenders are encouraged to further lend, to improvise the economy. However, over a period of time, the rising level of NPAs, major banking frauds, has increased the risk averseness of banks. Banks will be excessively reluctant to lend to even mature and established businesses. In the present crisis, banks will have a critical time to ramp up lending to businesses in the face of extra demands for loans to survive, repair and re-construct their COVID-19 battered businesses. There are various discussions are on at this stage, as per Indian Banking Association, they plan for a presentation to the regulator to see if some relief regarding non-performing asset classification in the small and medium enterprises sector can be proposed.

Q11. How can we apply for a business loan? What are the steps involved and the prerequisites?

It is important to meet the eligibility criteria for receiving loan approval. The applicant can submit the duly filled application form online or directly in the financial institution. The following mentioned documents are required while applying for the loan. 1. ID Proof (Aadhaar Card, PAN card, Voter ID, Driving Licence) 2. Residential Proof: Electricity or water bill (latest), Ration Card. 3. Proof of dairy business registration. 4. Partnership deed (if any) 5. Passport sized photographs 6. Banking documents: Salary credit of last 6 months. Small and medium enterprises, which are interested in increasing their current business or need to capitalise in a new business are opting for SME loans. All the major financiers are giving adequate loans for development, procurement of machinery and the like. If you are businessman and willing to start a business of your own, then you can apply for a SME loans. One must have proper business plans in place so that no bottlenecks arise at the time of getting the loan for business. The required documents may vary for different financial institutions. Kindly check with concerned bank before proceeding.

Q12. I am a small businessperson and am currently defaulting on my loans/have a low CIBIL score. Can I still get a business loan to cover my existing debts?

In the current scenario it is better to try to improve business using the past experience, technical knowhow, new methods etc. One of the key elements which lenders or banks see is the financial stability and the future prospects in terms of income generation through the business. If there is no future prospect of income generation, it will lead to rejection of loan. If you have a low CIBIL score, you can consider LENDBOX, an online platform where the chances of getting loans are not based on your CIBIL score. You could also try to reach out to your friends, relatives, angel investors etc to help you with immediate loans.

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Q13. I am a small business unable to repay my loans at the moment. Are there any relief packages that can help me?

In the current scenario it is better to try to improve business using the past experience, technical knowhow, new methods etc. One of the key elements which lenders or banks see is the financial stability and the future prospects in terms of income generation through the business. If there is no future prospect of income generation, it will lead to rejection of loan. If you have a low CIBIL score, you can consider LENDBOX, an online platform where the chances of getting loans are not based on your CIBIL score. You could also try to reach out to your friends, relatives, angel investors etc to help you with immediate loans.

Q14. I am a start-up owner, and I am seeking funding. Please advise on the options I can consider

In order to seek funds, it's necessary to have a very sound business plan in order to convince your banks or the lenders. As it is a start-up, it could be a bit of a struggle to arrange funds from banks or financial institutions unless your plan is highly convincing and promising in terms of future profits. In such cases, financial help can be taken from friends, relatives, crowd funding etc. Another option is to explore LENDBOX as an online platform where you can register yourself as a borrower and find prospective investors for your business.

Q15. I am an MSME business looking to #Restart. What are the funding options available for me?

All the major financiers are giving adequate loans for starting new ventures or restarting business, development, procurement of machinery etc. If you are businessman and willing to start a business of your own, then you can apply for SME loans. One must have proper project plan or business plan in paper so that no bottlenecks arise at the time of getting a loan for your business. Loans are available in Mudra, namely Kishor wherein loans are from Rs. 50,001 to Rs. 5,00,000 (For buying equipment/machinery, raw materials, business expansion for existing enterprises). Loans under the CGTMSE scheme are backed without any external collateral or third-party guarantee. The MSME loan sanctioned by the Member Lending Institution (MLI) is backed by the scheme which provides the guarantee cover for a large portion of the loan amount. Kindly check with the nearest financial institutions for getting further details. Visit your nearest public-sector bank / NBFC for opting suitable loan and scheme as per your requirements. You can also consider "Ashwas Dinam Gold Loan" and "Restart India Pradhan Gold Loan" provided by Muthoot Fincorp Ltd (MFL) for immediate funding. Sources: <https://bit.ly/3iMckBg>, <https://bit.ly/2FId3oK>, <https://bit.ly/32WJBnX> "



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Q 16. I am an MSME business. Are there any financing options for me that do not involve collateral?

Finance Minister, Nirmala Sitharaman had recently announced on 13 May 2020 that collateral-free loans will be given to businesses including MSMEs to help them sustain in the economy which is greatly affected by COVID-19. With this loan, the MSMEs which have been struggling to survive and need additional funds to purchase raw material and restart their business can avail this loan as a part of the relief package by the government of the country. Mudra Yojana started under the Jan Dhan Yojana, provides collateral free loans. Three types of loans are disbursed under the MUDRA yojana and the borrowers are not required to provide any collateral or security for availing this loan. The three free collateral loans available under Mudra loans are Shishu, Kishore and Tarun. Various Public and private sector banks, regional rural banks, MFIs, NBFCs and co-operative banks function as MLIs (member lending institutions) to the borrowers under the Pradhan Mantri MUDRA Yojana (PMMY). The other options are Crowd Funding, Angel investment, bootstrapping etc.

Q17. I am an MSME looking for a top-up loan. Can I get one in this environment?

The bank / NBFC will consider your repayment history and credit score for a loan top-up. But when there are multiple business loans – the eligibility / loan sanction depends on the type of loan scheme and the financial service provider. Top-up of existing loans can be facilitated by approaching your lender and understanding the terms and conditions of your availed loan. The key objective of a comprehensive and timely top-up loan will help you to get access to sufficient finance to sustain the business. You may request your bank / NBFC to relax the terms and conditions of your existing loan. This may result in discount of charges, dropping of interest rate, increase of the loan tenure, etc. If your reasons are genuine, the banks / NBFC will usually provide a leeway. In MSME, loan top-up may be implemented only if you want to improve tasks and reconsider your strategies for growth. Financial challenges will be there in a business cycle, but the important part is to overcome them with a systematic and sensible approach.

Q18. I am an MSME with a good loan repayment track record. In the current situation, can my interest payment be waived because of a good record?

Interest waiving options depend upon the lender and the loan scheme you have availed. Interest pay waiver may impact your creditworthiness. The same will be reported to CIBIL and may affect your future loan approvals. In the next three to eight months, bankers are likely to be vigilant, while sanctioning loans to customers who have availed EMI moratorium or interest waivers. This is because of the uncertainty on your capability to handle the full burden of your loans. Repaying your loans and its interest (as per the scheme) is a legal and moral obligation.

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Q19. I am an MSME. I wanted to understand how interest rates are calculated if I have availed the moratorium.

The moratorium interest is calculated based on the monthly nominal interest rate applicable to your current loan. Below is the example of the interest accrued for availing 6 months moratorium.

The monthly nominal interest rate for a 12% p.a. loan will be $12/12 = 1\%$.

Subsequently, Interest for the 1st month (A) = Principal outstanding x Monthly rate/100.

Subsequently, interest for the 2nd month (B) = (Principal Outstanding + A) x Monthly rate/100.

Then interest for 3rd month (C) = (Principal outstanding + A + B) x Monthly Rate/100.

Subsequently, interest for the 4th month (D) = (Principal Outstanding + A+B+C) x Monthly rate/100.

Subsequently, interest for the 5th month (E) = (Principal Outstanding + A+B+C+D) x Monthly rate/100.

And finally, interest for the 6th month (F) = (Principal Outstanding + A+B+C+D+E) x Monthly rate/100.

Total interest accrued for moratorium period of 6 months = A+B+C+D+E+F.

Q20. I am seeking a loan for education purpose. Are there any low interest options available?

Most banks and financial institutions offer education loans. The funding is on the basis of the course which you are choosing. Some banks may not provide loan for self-financing course while some banks provide loans for any courses. Visit your nearest bank for further details and the tenure. ICICI, SBI, Axis bank all provide education loans.

Q21. I am seeking a personal loan. Are there any options available that do not require collateral?

Post the Covid-19 pandemic situation, banks and other lending institutions are conservative on providing loans which are collateral free for the risk of NPAs. The chances of availing a personal loan will depend on your relationship with the particular NBFC or bank. An easier option for funding would be to opt for gold loans as they are easy and quick.

Q22. My occupation does not give me a regular or stable income. Can I still get a personal loan?

To be eligible for a personal loan, you must be within the age of 25 to 60 years. If self-employed, your eligible income should be 30,000/- per month, with at least five years of earning turnover.

Q23. Now that the lockdown is getting over, when will active lending resume for MSMEs?

MSME is an important sector which contributes to the Indian economy. For the time being it is better to concentrate on business models, modifications in business, new products to be launched, new ideas, expansion, planning etc. Collections are gradually picking up for the lending institutions.

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Q24. What is the right strategy for banks and financial institutions to manage the large number of NPA accounts in present times and keep their portfolio healthy?

To improve the banks'/FIs ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner, it is proposed to put in place a robust mechanism for early detection of signs of distress, and measures, including prompt restructuring in the case of all viable accounts wherever required, with a view to preserving the economic value of such accounts. This can be executed and monitored only if all the branches of the FIs/ Banks' are fully computerised. The strategies for the management of NPAs may be governed by the circumstances connected to each individual cases. Generally, the NPA is more likely to be resolved in terms of recovery if the company/account is in operation. For this to be effective there must be a system of identifying the weakness in accounts at an early stage. Gathering and analysing the required data regarding the project to be financed and their credit assessment and appraisal based on the data available and if sanction of credit facilities is undertaken on a realistic, pragmatic and practical way and followed by effective and efficient credit monitoring of loan account, would lead to better management of credit. Besides, understanding the problems and predicament faced by the borrowers and taking timely decision and implementing the plan of action to prevent the account becoming NPA would certainly help and if the account becomes NPA, then taking remedial measures without delay will ensure the rehabilitation / restructuring of the account based on a pragmatic and realisable cash flow would certainly reduce and contain the incidents of account becoming NPA.

Q25. Will the government provide funding support or materials to businesses?

Government Programs that offer capital are an excellent way to source funding for your business. You are required to submit a plan that can be accepted by the assigned entity. Once your plan has been scrutinized and approved, you will be provided with the funds for your business. The Government of India has announced a package called "Atma- Nirbhar Bharat Yojana" for the Small business group. It is a major boost to the MSME sector where collateral free loans of 3 lakh crore rupees has been declared with a moratorium of 12 months. MUDRA loans are available through Banks/NBFCs/MFIs. Generally, loans up to Rs.10 lakh issued by banks under Micro Small Enterprises are given without collaterals. Small industrial Development Bank of India (SIDBI) has started lending to companies directly rather than through banks and offers long-term loans. You can visit your nearest public-sector bank / NBFC for opting suitable loan and scheme as per your requirements.

Q26. I am an MSME and I am unable to make loan repayments/instalment payments currently? Can I avail a personal loan in this situation?

In the current scenario it is better to try to improve business using the past experience, technical knowhow, new methods etc. One of the key elements which lenders or banks see is the financial stability and the future prospects in terms of income generation through the business. If there is no future prospect of income generation, it will lead to rejection of loan. If you have a low CIBIL score,

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