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A study on “MSME & Credit Appraisal” with Reference to Different Credit Appraisal and Assessment System used by United Bank of India.

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ABSTRACT

Indian Micro Small and Medium Enterprises (MSMEs) contribute significantly to the national priorities of employment generation, entrepreneurship promotion, backward area development and wealth distribution. The factors inhibiting the growth trajectory of MSMEs often lie in limited resources in terms of skilled manpower, finance, infrastructure and market outreach.

INTRODUCTION

SSI, SME or anything else, enterprise (UDYOG) as such, is considered important for the growth of any economy which may be developed, developing or under developed. Be it America, India, Nigeria small enterprises are considered the growth engine. They drive the economy forward. They create demand and they also supply. Small enterprises are the seed bed of entrepreneurship. That which is small today grows big tomorrow & that which is big today was a sapling yesterday. The underlying principle is “Help the Small”. It re-emphasizes the age old proverb “Child is the father of Man”.

The advent of globalization offers both challenges and opportunity to MSMEs. The challenge for them is to remain competitive and consistently deliver value to customers. The opportunities available include tapping the global markets and growth in scale by forging strategic partnerships.

Majority of the MSMEs are owner driven with lesser inclination towards formal organizational structures. The non corporate structure and small size of the majority of MSMEs in India makes the venture capitalists and other risk capital providers reluctant to investing in them due to higher transaction costs and difficulties in exits out of such investments. Thus, it is critical to have appropriate risk capital products and focused funds for MSMEs of different size and constitution.

MSMED ACT, 2006

The micro, Small and Medium Enterprises Development Act,2006 (MSMED Act, 2006) which aims to facilitate promotion, development and enhancement of micro, small and medium enterprises’ competitiveness and enhancement of the competitiveness of micro, small and medium enterprises through skill development, technological up gradation and preference in procurement by government, government aided institutions and public sector enterprises. The Act also seeks to provide protection to such enterprises by making provisions for timely release of payment due to these organizations. The Act is in furtherance to the Industries (Development and Regulation) Act, 1951.

Salient provisions of MSMED Act, 2006 which are relevant to the banker is given below.

1. Classification of Enterprises (Chapter III - 7)

Concept of 'Enterprises' as against 'industries'. Enterprises broadly classified into:

(i) Enterprises engaged in manufacturing /production of good pertaining to any industry.
(ii) Enterprises engaged in providing/rendering of services.

Manufacturing Enterprises:

Defined in terms of investment in plant and machinery (excluding land and building) and further classified into:

Micro Enterprises – investment upto Rs 25 Lakh
Small Enterprises – investment above Rs 25 lakh & upto Rs 5 crore.
Medium Enterprises – investment above Rs 5 crore and upto Rs 10 crore

Services Enterprise:
Defined in terms of investment in equipment and further classified into:

Micro Enterprises – investment upto Rs 10 Lakh
Small Enterprises – investment above Rs 10 lakh & upto Rs 2 crore.
Medium Enterprises – investment above Rs 2 crore and upto Rs 5 crore

2. Credit

The policies and practices in respect of credit to the MSMEs shall be progressive and such as may be specified in the guidelines or instructions issued by the Reserve Bank of India, with the aim of:

- Ensuring smooth flow of credit to the MSMEs
- Minimizing sickness among them and ensuring enhancement of their competitiveness

How to handle credit Proposal? A step by step checklist.

1. Receive the application and record it in the proposal receiving register.
2. Conduct an interview with the borrower and record it. If the proposal is found prima-facie untenable as per bank's norms, reject the proposal at this stage.
3. Check the application and the enclosures to ensure that all relevant Documents/ papers are received as per checklist supplied to the borrower.
4. Verify photocopies of documents with the original. Keep a note "verified with original" on the photo copy itself.

5. If there is missing documents/information ask/write to the party to submit them within specific date. Keep the office copy along with the proposal. Do not ask papers/information from the borrower in piecemeal.
6. Conduct pre-sanction due diligence inspection of the factory/location of the unit/residence of the borrower. If you feel the need, you may take the help of approved outside agencies for conducting due diligence investigation. This will be in addition to your own.
7. Make local enquiry to verify the personal data.
8. Appraise the project. Take assistance from DIC/SISI/NSIC/ Nabard/KVIC as the case may be, whenever you do not have sufficient knowledge about the venture (technology/ process, etc).
9. Analyze the financial data/ratios and compare with benchmark and also with bank's lending norms to ensure that there is no deviation.
10. Asses the Working Capital/ term loan as the case may be.
11. Physically inspect the collaterals offered against the loan. Obtain search certificate & valuation reports as per norms.
12. Obtain credit information from existing banker, if the prospect borrower is enjoying credit limit from other banks. Take the help of RO to access CIBIL credit information database/ RBI defaulter List.
13. If the proposal is not within branch DP, Process the proposal and send the proposal to the next higher authority with your recommendation.
14. Dispose of the proposal within the time norms.
15. Communicate your decision (sanction/ rejection) to the party.
16. Sanction loans as per lending norms and guidelines issued by the bank. Any deviation needs to be approved by the next higher authority. Keep note of all the deviation/relaxations with justification in the process note. Communicate sanction to the borrower and disburse only after the deviations are approved by the next higher authority.

OBJECTIVES OF THE STUDY

i) To ensure that increase in credit level is in line with the RBI/Government directives declared from time to time viz. exposure norms, asset liability management guidelines and other operational guidelines;
ii) To ensure that the lending policy is in conformity with corporate business plan ensuring suitable risk return environment under the available scopes and opportunities;
iii) To ensure distribution of credit in different sectors of the economy, in line with corporate business plan and to avoid concentration of risk in any sector/industry/group;
iv) To ensure proper assessment, prompt and quick disposal of credit proposals, thereby improving upon the credit delivery system;
v) To provide an effective tool for measuring credit risk of individual accounts and to provide certain important benchmark parameters for monitoring the health of the individual accounts;
vi) To provide need based finance to the existing borrowers with good track record;
vii) To secure bankable credit proposals with satisfactory yield on assets linked to tenor, including taking over of accounts from other banks /FIs, complying with benchmark

parameters as approved in the lending policy of the bank; after proper due diligence from entities with integrity and satisfactory internal/external risk rating.

viii) To ensure proper end use of funds, maintenance/improvement of asset quality through continuous and effective monitoring of the credit exposures.

ix) To ensure commonality of approach regarding credit basics, appraisal skills, documentation standards and awareness of institutional concerns and strategies;

x) To increase non-fund business and non-interest income.

SCOPE OF STUDY

The scope of the study is analyzing the credit appraisal system of the United Bank of India and the appraisal adopted by different MSMEs for lending.

For competitive positioning analyzing the major areas of threats, the improvements that can be implemented easily and which are very essential to make a market for their products.

ORGANIZATIONAL OVERVIEW

United Bank of India (UBI) is one of the 14 major banks which were nationalized on July 19, 1969. Its predecessor the United Bank of India Ltd., was formed in 1950 with the amalgamation of four banks viz. Comilla Banking Corporation Ltd. (1914), Bengal Central Bank Ltd. (1918), Comilla Union Bank Ltd. (1922) and Hooghly Bank Ltd. (1932) (which were established in the years indicated in brackets after the names). The origin of the Bank thus goes back as far as 1914. As against 174 branches, Rs. 147 crores of deposits and Rs. 112 crores of advances at the time of nationalization in July, 1969, today the Bank has 1528 branches, over Rs. 68859 crores of deposits and Rs. 42733 crores of gross advances as on 31-03-10. Presently the Bank has a three-tier organizational set-up consisting of the Head Office, 28 Regional Offices and 1577 branches.

The Bank has three full fledged Overseas Branches one each at Kolkata, New Delhi and Mumbai with fully equipped dealing room and SWIFT terminal . The operations of 500 branches have been computerized either fully or partially and Electronic Fund Transfer System came to be implemented in the Bank's branches at Kolkata, Delhi, Mumbai and Chennai. The Bank has ATMs all over the country and having Cash Tree arrangement with 11 other Banks

The name of the RRBs, the location of the Head Office and the name of the present Chairmen are given in the following table:

CREDIT APPRAISAL SYSTEM FOLLOWED BY THE UNITED BANK OF INDIA

The Bank has a systematic credit appraisal methodology, which is being constantly reviewed in the light of the experiences gained from time to time. The bank follows the norms of the Lending Policy for operation of any credit facility it provides. Certain basic parameters have evolved over the years. These could broadly be classified as indicated below:

1. Selection of Borrower:

Due diligence for selection of the borrower may be undertaken taking into account different factors including but not limited to the followings:

- **i)** Interview of the borrower
- **ii)** Financial Statements/Data submitted by the borrower
- **iii)** Integrity of the borrower
- **iv)** Track record
- **v)** Report from existing bankers
- **vi)** Scrutiny of RBI Wilful / Defaulters' (Non-Suit Rs.1 Crore & above) List / CIBIL / SAL List / RBI's Caution List / List of NPA Borrowers of the Bank.
- **vii)** Market report on the borrower/promoters/key persons
- **viii)** Purpose/bank ability of the proposal
- **ix)** Pre-sanction inspection of place of activities/office, wherever applicable, to ascertain the existence of the unit as well as the assets offered as prime/collateral security and their acceptability. The visit may also be used to understand the trade practices / manufacturing process of the unit as also to interact with the employees / other relevant persons to collect purposeful information.
- **x)** Scrutiny of adverse orders/observations, if any, issued by CLB and/or SEBI

In deserving cases, if the Bank feels necessary, it may take services of empanelled professional agencies for undertaking above due diligence process.

2.Analysis of basic financials for credit appraisal:

The basic financial parameters, which form the foundation of the Bank's credit appraisal, are as follows;

a) Capital Gearing: Needs to be seen to assess the owner's financial strength/commitment. For ascertaining this, two major ratios, viz. TOL/TNW and Debt/Equity (for Term Loan), are to be analysed. Movement of TNW and variations in the ratios are to be critically examined and reflected in appraisal note.

b) Liquidity: This is to be analysed to assess the borrowers' strength/ability to meet the current commitments. To ascertain this, following ratios/parameters are to be looked into;

- Current Ratio (with & without TL/Debenture/Bond/preference share repayment/redemption instalment)
- Interest Coverage Ratio
- Debtor Turnover Ratio
- Debt Service Coverage Ratio (for Term Loan)

Variations in the ratios are to be critically examined and reflected in appraisal note.

c) Net Working Capital: Net working capital is the indicator of the long-term margin available for working capital purpose and its movement is required to be watched generally through fund flow analysis to ascertain whether the long term and short term funds are used for proper purposes. Working capital appraisals for Rs.5 crores and above should contain fund movement analysis.

d) **Non-current assets:** Composition and movement of non-current asset are to be examined. In cases where investment/advance to group/sister/subsidiary concerns are observed, the interlocking of funds/circular movement of funds amongst them needs to be examined through the balance sheets of the respective concerns.

e) **Turnover:** The trend in turnover is to be analysed considering both amount and volume. Any downward trend needs to be critically examined.

f) **Profitability:** Beside Profit before and after tax (PBT & PAT), Profit before depreciation, interest, tax and amortization (PBDITA) is also to be examined. PBDITA indicates the borrowers' capability to earn from its operations. Any variation in these parameters needs to be examined with the help of the following ratios;

PBDITA/Turnover; Raw material & spares consumption/sales; direct input cost/sales; etc.

g) **Cash Accrual:** This eliminates non-cash income/expenditures from the net profit element and help to understand the Borrowers' capability to meet obligations from its operation. However, as the priority obligations like repayment/redemption/lease rentals are to be met from cash only, this ability can be better understood by Priority Obligation Ratio. It is desirable that all appraisals for working capital/term loan of Rs.5 crores and above should contain this ratio for the immediate preceding financial year to understand the Borrowers' capability to meet priority obligations from operations.

While analysing the financial parameters of past financial years due weight should be given on last audited financials. However, when major part of a financial year has been passed or during the interim period between close of a financial year and completion of audit, the performance during current/just concluded year should also be considered along with the financial parameters for taking credit decision.

3. Industry Scenario and Inter-firm Analysis

While appraising a working capital/term loan proposal for commercial/industrial ventures, the market situation of the respective industry requires to be kept in view. The Bank subscribes to CRISIL and CMIE for getting updates on performance and outlooks of different industries. Help of such information bank as well as other market/industry sources should be utilized.

Further, while appraising working capital/term loan proposals of Rs.10 crores and above, inter-firm comparison, wherever possible, should be done to judge the competence / performance of the borrower amongst its peer group.

4. Working Capital (New & Existing)

Proposals should be processed using formats prescribed by H.O. from time to time as also conforming to the norms and benchmarks applicable as per Lending Policy and extant guidelines of the Bank.

4.1 Assessment of Working Capital Requirement

a) In respect of borrowers who are enjoying aggregate fund-based working capital limit up to Rs.5.00 crores from the banking system, the turnover method shall be followed for sanction of credit limits to them. In turnover method working capital requirement is computed at 25% of projected annual turnover and the borrower should bring at least 20% of the working capital

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requirement towards margin. The assessment of such credit requirement may also be done by 1st Method of Lending as par Tandon Committee recommendations. In certain cases, viz. petrol pump, etc, it may be observed that turnover is high but cash flow is also high because of major part of turnover is in cash. In such cases allowing limit on the basis of turnover only may result in over finance. Hence only the need-based limit should be allowed judiciously.

b) For all other borrowers (except certain seasonal industries as specified below) enjoying fund based working capital limit over Rs.5.00 crores, the bank would continue to follow the MPBF (2nd Method of Lending) system of assessment of working capital requirement. For assessment under 2nd Method, projected Build up of Current Assets and Build up of Current Liabilities are to be worked out to find Working Capital Gap.

4.2 Short Term Working Capital Finance:

The Bank may allow short term working capital finance in the following cases for cost effective deployment of surplus short-term funds as a part of Asset-Liability Management. In all cases the end use of the fund will be ascertained and put on record. It will be ensured that the fund will not be used for sensitive sector. It is desirable that such facilities are supported by post-dated cheques and personal guarantee of promoter(s), wherever available.

a) Within regular working capital limit:
Short term working capital loan within the existing working capital limit in deserving cases may be allowed by the sanctioning authority. When sanctioning authority is MCBOD, CMD is authorised to sanction the short term working capital loan.

b) Standalone short-term loan within MPBF/Working capital finance :
In deserving cases the Bank may consider standalone short term loan for working capital purpose against earmarking working capital limit of other Bank(s) / within assessed MPBF/Working capital finance.
If in such cases the Bank is one of the members of working capital consortium and on sanction of standalone short-term finance the other members' limits are pegged by the Company through written communications, the Bank's additional finance will be indirectly secured by overall consortium security.

c) Standalone short-term loan outside Assessed/sanctioned MPBF/Working capital limit :
Bank may allow short term working capital loan arising out of temporary mismatch in cash flow beyond MPBF/Working capital finance by judging the exigent requirement of the borrower through critical examination of the current and projected cash flow statements.

5. Working capital finance to Information Technology and Software Industry:

The software industry in the country is showing an exponential growth. Software Development business has its peculiar characteristics like critical dependence on manpower skills, rapid technological obsolescence, high manpower turnover, vast potential for introducing new products, intense competition within the industry etc. The sector also offers enormous scope for expansion and development. Software Development is one industry in which our country is regarded as having potential to become global leader.

6. Discounting of Bills :

As part of working capital finance the Bank may sanction bill discounting limit to the borrowers within the overall working capital limit, assessed as per Bank's policy. Further, to boost up secured business the Bank also encourage discounting of bills backed by LC, where the exposure will be against LC issuing bank as per RBI guidelines. The general guidelines for discounting of bills and salient features of the scheme for discounting of bills backed by LC are stated below;

7. Non-Fund facilities :

The bank's non-fund credit portfolio includes Letter of Credit and Letter of Guarantee/standby Letter of Credit. To boost up Bank's non-interest income the Bank should encourage non-fund business.

However, with the introduction of risk weights of both On-balance Sheet and Off-balance Sheet exposures, the bank has become more risk sensitive requiring structuring its non fund business in a more prudent manner.

Generally non-fund exposure should be taken along with funded exposure (except in case of stock brokers' account).

8. Bank Guarantee:

General Guidelines:

The Bank should comply with the following general guidelines in the conduct of their guarantee business:

i) While sanctioning guarantee limit / issuing guarantee it should be ensured that the purpose of the guarantee(s) commensurate with the normal business activities of the Borrower for which credit facilities are extended.

ii) Where the borrower is enjoying both fund-based and non-fund based working capital facilities from the banking system, the possibility of participation in fund-based facilities should be explored while allowing Bank Guarantee limits.

iii) As regards maturity, as a rule, Bank should guarantee shorter maturities; say up to 3 years and for any guarantee period beyond 3 years period necessary clearance should be obtained from the General Manager in charge of credit. However, no permission is required if the Guarantee is being issued against 100% cash margin for a period up to 10 years.

iv) In the changed scenario, where the banks are lending long term loans for longer than 10 years for various projects, Reserve Bank of India, vide its circular no DBOD.No.Dir.BC. 14/13.03.00/2009-10 dated July 01, 2009 has allowed to issue guarantees beyond 10 years

v) Guarantees issued to cover disputed liabilities (towards custom / excise etc.) shall be issued only against 100 % cash margin. However, lesser cash margin may be allowed by CMD or in his absence by the ED but the liability shall be fully secured.

vi) Precautions & Safeguards while issuing Guarantees.

9. Letter of Credit:

Bank should not extend any non-fund based facilities including LC to parties who are not its regular constituents.Further, it is desirable that LC limit should be with a fund based limit.

LC may be issued for payment of bills at sight, i.e. delivery on payment (DP) or with uasance, i.e. delivery on acceptance (DA). Usance tenor for Inland LC for working capital/capital goods should generally be upto 180 days, may be extended upto less than 1 year. Usance tenor for foreign LC for working capital may be upto 3 years as per extant RBI guidelines.

Extension of LC from original usance period, within permissible maximum period of usance, and/or issuance of Letter of Comfort (must not exceed maximum permissible usance period) against Buyers Credit substituting existing LC may be allowed

REVIEW OF LITERATURE

For the success of any research the review of literature relating to research conducted earlier by researchers in the same field of research is highly essential.

1-**Rajendran (2005)** in his article entitled "Global Challenges to Small Scale Industries", points out adequate credit is still not available to small-scale industries. The credit guarantee fund created by SIDBI is not being exploited, as there are still shortcomings in the scheme. The scheme covers only loan higher than Rs.5 lakhs and below Rs.25 lakhs. He also emphasized that the RBI circular to banks on loan up to Rs.5 lakhs which does not provide for waiver of collateral as a rule will be withdrawn and superseded by Credit Guarantee Fund Scheme benefit. Hence RBI suggests that the banks provide online services to SME sectors which contain updated information and tools to SMEs in emerging markets learn how to increase productivity, efficiency and capacity, as well as improve their access to capital and new markets.

2-Jayalakshmi Srikumar (2006) in her article entitled "SMEs and Global Competitiveness Strategies for Survival and Growth in the WTO Era" , points out that the SME entrepreneurs felt that the government only frames the schemes did not implement them effectively. He suggests that Industrial Liberalization and Post WTO regime has made enhancement of competitiveness crucial for the development of Small and Medium Industries. In many countries, the policies and strategies towards industrialization have been reformulated with a special focus on SMEs. The policy framework for the development of SMEs has been undergoing fast change in tune with the changing economic scenario in India like Asian Countries. He concludes that the government should ensure provision of basic infrastructure through public sector banks and conducive environment for the survival and growth of the SME Sector in the country.

3-**RajeshKr.Singh et al. (2007)** in their article entitled "Comparative study on strategies of Indian Small, Medium and Large Scale Organizations", suggests that financial constraints faced by the small firms and reluctance to utilize the external funding are strategic obstacles that may deter an entrepreneur from using the latest technology.

4-Sobha Rani and Koteswara Rao (2008) found in their study entitled "Financing Small Enterprises-Recent Trends", that to bring about the change in the mind-set of banks and financial institutions to strengthen the hands of SMEs through a liberal approach for SME credit by looking at the sector as one with high potential, deserving encouragement.

5-Ganeshan (2009) in his article entitled "Institutional Finance for Small-Scale Industries-An overview", points out that the role of public sector banks in the small-scale sector is not confined merely to the provision of finance in the article. The banks have to evaluate the feasibility of the project and assist the entrepreneurs to select the right type of project. He also emphasizes that adequate and timely credit at reasonable rate of interest, without collaterals is an essential requirement of the small sector in India.

6-**Pandya et al. (2010)** examines assessment of entrepreneurship policies by taking a sample of 120 SMEs and an article entitled "Assessment of Entrepreneurship Policies: 32 A Case of Credit Guarantee Scheme in India". The study reveals that the performances of loan guarantee scheme in India. For entrepreneurs without having any own collateral, a loan guarantee scheme allows them to access bank loans with the state of act as a guarantor.

7-Kanishka Gupta (2011) in an article entitled "MSMEs Cash-Strapped", examined that the main problem of MSMEs are accessing adequate and timely financing in competitive terms particularly long-term loans, which have been exacerbates by the current global finance.
Krishnaveni Muthiah and Sudha Venkates (2012) in their article entitled "A Study on Barriers Affecting the Growth of Small Scale Industries in India", identified that the firms which are not interested in doing the business for long have not registered their firms. Consequently, firms need to know the advantages of registering their firms to avail facilities such as external credit, government orders and other services offered by the SMEs supporting institutions. Firms can change their legal form to partnership or private limited companies; this will generate more funds and more hands to work. Initially the funds can be generated through relatives and friends, as the business improves they can easily avail bank loans. By improving the sales activities, efficiently limiting the credit period and utilizing the production capacity to the maximum level, the financial position will improve substantially.

ANALYSIS

Analysis of strength & weakness of the credit appraisal system of United Bank of India.

The UBI, Regional office, Burdwan, sanctions different types of loan to different people, concerns, traders, institutes, etc. through different appraisal system of credit. As we know strength & weaknesses are inevitable in every system, the case of **Credit Appraisal** system in UBI is not an exception. Several strength & weaknesses identified in this system are discussed below:

General profile:

In this profile all the personal information of the applicant are collected. The strength and weakness of this profile are:

Strength: By this profile all the personal information are collected and by this bank can get all the details of the borrower whether the borrower is the citizen of the India or not and is he or she is risky for the bank in case for repayment.

Weaknesses: If the borrower does not give the proper or details of him correctly or if the verification is not correct for the applicant then it is risky for the bank to sanction the loan. The applicant may conduct any antisocial activity in his job which will not be given in the application, and then it is risky for the bank to sanction the loan. However the Bank takes due precaution in this regard through the KYC Norms and other internal means adopted by the bank.

Banking details:

Here the account details for the applicant are to be taken by the bank. The numbers of the bank accounts of the applicant are to be taken from RBI's statement. The strength and weaknesses for this profile are:

Strength: The bank can know the name of the bank in which the applicant has his/her bank account & also the number of the accounts. The bank can also estimate the condition of the accounts of the borrower and his ability to repay the loan.

Weaknesses: If there is newly created account by the borrower, RBI may not provide details about it. However the bank is taking full precaution by consulting the latest RBI- Defaulter list, Will full defaulter list, CIBIL data, etc.

Salient financial indicators:

For sanction of any loan, the financial indicators like current asset and liabilities, working capital, net worth, net profit, PBDIT, etc should be analyzed to measure the business condition.
Strength: From the company balance sheet and analysis of financial indicators the condition of profit or loss can be estimated for sanctioning the exact amount of loan.

Weakness If the company gives wrong balance sheet signed by any auditors the wrong information will be taken by the bank hence the financial indicators analysis may be wrong and the decision for the loan also may be wrong. However the bank is taking due precaution by calculating all the financial by their own with practical applicability without blindly following the figures suggested / submitted by the Company.

Ratio analysis:

Ratios are the key factors for any company to measure its financial condition and profit by the bank.

Strength: It helps to measure the condition of any company by analyzing the different ratios and to make decision of particular amount of loan.

Weakness: If the company submits biased audited balance sheet the ratios will also give biased prediction. But the ratios are calculated very carefully at bank level to take care of all misc. mistakes done by the company's auditor.

Industry analysis:

It helps to measure the industrial condition of the company in the markets.

Strength: It helps to analyze the industrial condition and predict the company's degree of risk.

Weakness: In case of wrong information the determination of the perfect amount of loan is impossible. But rating analysis has been considered by the bank to calculate the risk level engaged in the financing.

Assessment of working capital requirement:

Strength: It helps to assess the proper amount of loan by analyzing the working capital requirement from the audited balance sheet of the company.

Weakness: If the company submits biased audited balance sheet the bank cannot predict the proper amount of loan for the company.

Financial project analysis:

Financial project analysis helps to predict projected profitability, break-even point & DSCR properly.

Strength: It helps to determine financial stability of any company and the actual amount of loan.

Weakness: If the company supplies wrong financial project information or bank has a lack of information about the financial projects of the company, the proper financial project condition as well as proper amount of loan is difficult to predict. However the bank is following the past trend to derive all these financial and any extra ordinary diversions may not entertained.

Security analysis:

It is essential risk recovery factor of any loan. So it should be analyzed properly.

Strength: It helps to analyze the personal and collateral security for any loan that is bound to repay. So it helps to deduct the risk of payment for the bank.

Weakness: If the security verification is wrong the risk of repayment will increase for the bank. So the security document should be legal and proper for any loan. However the procedure adopted by the bank is solid for verification of the security i.e. non encumbrance certificate, Search report, registered mortgage / equitable mortgage, Valuation report, etc. is obtained before disbursement of loan amount.

Credit rating:

It is essential for setting the rate of interest.

Strength: Proper credit rating helps to determine the correct rate of interest through proper mathematical analysis of different statement in point or grade basis.

Weakness: If the credit rating is wrong then the perfect gradation for rate of interest cannot be done properly. For this Bank is doing credit rating on the basis of audited balance sheet to minimize any mistake.

Determination of pricing of loan:

Strength: The bank determines the actual amount of loan for a period on the basis of margin settles for the applicant. It helps to set the amount of loan for a work or purpose in a particular period of time.

Weakness: If the pricing system is wrong then the actual amount of loan cannot be determined for a purpose. Bank is adopting the system of pricing based on the credit rating so that the pricing for one type of type / level of industry should not vary for the another of same type.

Justification of proposed rate:

Justification of proposed rate for any loan is very much necessary to sanction the loan.

Strength: It helps to determine the accurate rate for any loan.

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Weakness: Sometimes the loan cannot be justified due to wrong account information by the borrower and also the system may be wrong, then the rate may not be settled correctly and the bank may face some losses to get back the proper amount of repayment.

Risk assessment:

The proper system of risk factors analysis should be done to deduct the risk for the loan.

Strength: The project computation risk, market risk, operational risk and force mature risk can be calculated by this system which leads to remove the risk to sanction the loan.

Weakness: It does not consider the legal risk which is one more risk factor and sometimes it makes risk in future for bank which increases losses for bank.

SWOT analysis:

'SWOT" of any company should be analyzed properly for sanctioning any loan.

Strength: SWOT helps to measure the strength, weaknesses, opportunity, threat of a company to measure the present condition of the company to sanction a loan.

Weakness: By the wrong information the SWOT analysis cannot properly determine the true picture of the company.

FINDINGS:

Lending Policy Norms for MSME and Others :

To make it easy the various norms of lending policy (relevant to branches) are presented here in a capsule form. However it is suggested that one should always go through the Lending Policy Booklet thoroughly to have better understanding.

Types of Proposal	Take over	New	Existing
Risk Rating	At least UBICR3	At least UBICR3	At least UBICR3
Positive Post Tax Profit	Last 3 years	XX	XX
Asset Quality	Standard for 3 years	XX	XX
Satisfactory performance	Last 3 years	XX	XX
Current Ratio(Gen) Current Ratio(MSME) Export	Minimum 1.33 Relaxed up to 1.25 Relaxed up to 1.17	Minimum 1.33 Relaxed up to 1.25 Relaxed up to 1.17	Minimum 1.33 Relaxed up to 1.25 Relaxed up to 1.17
TOL/TNW – Industrial Infrastructure/Real state	2.5:1 6:1	4:1 6:1	4:1 6:1

MSME(Service) MSME(mfg) Trading NGO/SHG NBFC(TOL/NOF)	3:1 3:1 3:1 8:1 5:1	6:1 4:1 3:1 8:1 5:1	3:1 3:1 3:1 8:1 5:1
Debt to Equity- Industrial Infrastructure/Real state MSME(mfg) MSME(Service) Trading NGO/SHG NBFC(TOL/NOF)	XX	3:1 4:1 3:1 4:1 2.5:1 2:1 xx	3:1 4:1 2.5:1 2.5:1 2.5:1 2:1 Xx
DSCR(Average) Minimum DSCR in any year	1.5:1 1.20:1	1.5:1 1.20:1	1.5:1 1.20:1
Promoter’s Contribution	Min. 20% of Equity	Min. 20% of Equity	Min. 20% of Equity
Asset Coverage Ratio Working Capital Composite Term loan	1.33,should not be < 1.20 1.50, -do- 1.50, should not be <1.20	1.33,should not be < 1.20 -do- 1.50, should not be <1.20	1.33,should not be < 1.20 -do- 1.50, should not be <1.20
Interest rate	As per Risk Rating	As per Risk Rating New units UBICR3	As per Risk Rating

SUGGESTION

Planning is an important phase of every work. Adequate planning can improve and make the difficult task of appraisal smooth in difficult cases. Proper assistance to the co-worker & loanee can improve the work. Efficient manager are experts should guide in the preparation of credit reports, scrutiny and prompt release of loan. The department should strengthen the appraisal mechanism with new outlook and efficient use of software program. Good computer operators and proper software can increase the efficiency of the credit appraisal procedure and decrease the time taken for the lengthy process of appraisal. Evaluation should be done at regular intervals to assess the impact of program implementation.

In some cases the loanee cannot get the adequate loan amount. This limitation may be decreased as much as possible for the satisfaction of the loanee and the other customers of the Bank. The Bank should not give excessive importance to its existing customers only but also importance should be given to the other individuals who are not the customer of the Bank. This may increase the financial transactions & the reputation of the Bank far and wide.

To decrease the risk of non payment or any loss the Bank may set up a different section or department for verification of different documents proofs etc. The verification of the personal information like name, address, personal details, date of birth, property, jobs, etc should be proper & legal.

Financial indicators & other security documents of any company should be analyzed properly and the loan limit should be determined with perfect margin. The credit rating should be full proof as much as possible to set the proper interest rate of loan for any borrower.

CONCLUSION

Money is very much useful and helpful to us in today's competitive world. Without money we cannot continue our life in full motion. From this project of "MSME and CREDIT APPRAISAL" under United Bank of India, it is evident that Bank provides many types of loans like education, trading, business, research and personal uses to the people in times of their need. It also provides all types of national & international services of credit system to the Indians.

United Bank of India provides financially stability to the women by 'NARI SAMMAN YOJANA" and "SHIKSHAK SAMMAN YOJANA" scheme. We are really grateful to United Bank of India and its authority for their invaluable cooperation to us.

LIMITATIONS

i) The time of the project was very short, so I could not analyze so many cases of credit appraisal.
ii) Due to short span of time I could not study all the reports & information in details for a long time.
iii) I could not work with credit monitoring systems of United Bank of India within the short span of time.
iv) My project was under United Bank of India, Burdwan Regional Office, so I could not attend the branch offices to collect further information about the loans sanctioned by branch authority.
v) The data type was secondary. So there may be limitations inherent in the secondary data.

BIBLIOGRAPHY:

To complete this project successfully I have taken different helps from these books & web site stated bellow:

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