

## **SCHEME FOR FINANCING SERVICES SECTOR**

### **ELIGIBILITY**

The said scheme covers Individuals, Firms, Companies, HUF and Co-operative Societies providing various services which are approved by the banks as per prescribed rules and regulations. This scheme may vary bank to bank. Hence while requesting the financing under the scheme kindly check whether the bank is willing to extend finance or not under the said scheme.

### **ABOUT SCHEME**

<b>Type of Facility</b>	<b>Term Loan</b>		<b>Working Capital (Fund Based/Non-fund based)</b>	
<b>Purpose</b>	-To finance fixed assets required for setting up the business. -Furnishing/Renovation of the office/work-place. -Advance against future receivables of reputed firms/companies		To finance stocks and other assets, receivables, future receivables, business expenses including salary/wages of employees, etc	
<b>Loan Amount- Need Based</b>	Submit the project report covering all aspects along with the other docs. Amount will be decided by sanctioning authority after assessment.		Submit the CMA data and all other document. Bank will assess the limit in normal course and then sanction as per prescribed rules	
<b>Margin (i.e. Owner's contribution): Normally 20% to 40%</b>	Depend on the sanctioning authority and other assessment parameters		Depend on the sanctioning authority and other assessment parameters	
<b>Repayment</b>	-The term loan for acquiring fixed assets will be repayable in monthly/quarterly instalments within a period of 2 to 5 years.  -In case of providing term loan against future receivables, the maximum repayment period shall be 3 years or period of contract, whichever is earlier		-The working capital limits shall be sanctioned for a period of one year and shall be renewed/reviewed annually  -WCTL shall be repayable within a maximum period of 2 to 5 years depending upon the repaying capacity of the borrower	
<b>Rate of Interest</b>	<b>Upto 2 Lakh</b>	<b>Above 2 Lakh</b>	<b>Upto 2 Lakh</b>	<b>Above 2 Lakh</b>
	BPLR or linked to Base rate	As per bank guidelines and subject to bank internal rating	BPLR or linked to Base rate	As per bank guidelines and subject to bank internal rating
		In case of term loans repayable in 3 years & above, bank may propose to add a term premia of 0.50% in interest rates		

**Note:** Certain smaller service providers may find difficulty in making regular transactions from CC account, therefore, working capital limits upto Rs.25 lakhs in such cases may be granted by way of Working Capital Term Loan (WCTL) repayable in 2 to 5 years depending upon repayment capacity of the borrower.

## ASSESSMENT

- i) While making appraisal besides general aspects, banks also keeps in mind the following:
  - Weightage to Qualification/experience/goodwill of the entrepreneur.
  - Feed back of the end users of the services.
  - Comparison with the peers of such service providers.
  - Capability to generate cash in future along with past trends
- ii) Working capital requirement is assessed on the basis of estimated cash inflows & outflows and the deficits work out at peak level. Working capital finance would be available on the basis of cash deficits shown at relevant point of time after ensuring that the borrower has provided required contribution as per sanction.

Operational cycle and day to day expenses involved including salaries/wages, past experience and position prevailing in that sector/activity is taken into consideration.

- iii) For credit appraisal following information is to be obtained.
  - a) Bank normally asks to submit Operating statement giving last two years actual (in case of existing units), current year estimates and next year projections. However, in case of new entrant current year estimates and next year projections need to be submitted. It is the sole discretion of the sanctioning authority and may vary bank to bank.
  - b) Projected Cash Flow Statement for the year (monthwise/quarterwise) need to submit.
  - c) Monthly/Quarterly Cash Flow Statement showing estimates of the current month/quarter along with projections vis-à-vis actual of the last month/quarter to determine Drawing Power (DP) requires to be submitted. The DP shall be arrived on the basis of cash deficit estimated for the current month/quarter in the statement ensuring that requisite margin/contribution has been considered, which should reflect in cash flow statement. Bank may ask for verification of Securities offered and books of accounts whether they are as per sanction terms or not.

Sanctioning authority may prescribe to obtain the cash flow statement on monthly or quarterly basis on merits of each case.

- d) In case of appraising proposals involves technical aspects such as software/IT related services etc, bank may appoint technical officials for technical guidance in such proposals. Bank may also request to get appraise the project from approved outside organization/agency. The charges for rendering such services by the outside expert shall be finalized by bank officials and are to be borne by the borrower

- e) Future Receivables: In cases where services are being provided to the reputed firms/companies under an agreement (e.g. Annual maintenance Contract, Confirmed Orders, etc) and/or sites/commercial places (e.g. Publicity Sites, Shops, Restaurants, Roof Rights for Telecom and Communications, Health Care Centre, etc.) the future receivables of maximum period of 3 years or remaining period of contract, whichever is earlier, may be financed. The amount of loan shall be Present Value of cumulative future receivables.

$$\text{Present Value is calculated as P.V.} = \frac{\text{Future Value}}{(1 + \text{Interest rate per month})^{\text{no. of months}}}$$

## SECURITY

Primary	Collaterals (In the Form of Tangible Security**)		
	Upto 10 lakh	Above 10 Lakh	
Hypothecation/pledge/ mortgage/ assignment, etc. of stocks/book debts/future receivables*/assets of the borrower	At least 50% of loan amount by.	100% of loan amount	
	Sanctioning Authority at their discretion may permit relaxation or waive the condition of obtaining of tangible collateral security	<u>Tripartite Agreement /Assignment have been obtained:</u> Sanctioning Authority may relax or waive obtaining of tangible collateral security only in those cases where.	<u>Tripartite Agreement /Assignment have not been obtained:</u> Relaxation only upto 50% of loan amount is permitted on merit basis.

\*Tripartite Agreement /Assignment (duly acknowledged) to receive future payments directly by bank.

\*\*Tangible security means Immovable Property or alternatively government/postal securities, quoted liquid shares/ debentures, PSU Bonds/mutual funds/bank's FDR/LIC policies, etc and others as decided by banks rules and regulations.

## DOCUMENTATION

- a) Standard documents for loan and security as prescribed by the Bank for the respective facilities shall be submitted.
- b) In respect of finance against future receivables, besides standard documents for loan & security, the following documents need to be submitted:
- Tripartite Agreement
  - Power of Attorney
  - Letter of Authority
- c) In respect of companies (borrowers), charge with ROC need to be created within stipulated time period as prescribed.

## **OTHERS**

- i) The statement of stocks /book debts/future receivables need to be submitted monthly or quarterly as stipulated in sanction and in accordance with guidelines issued by bank from time to time.
- ii) Future Receivables should be reckoned in terms of the contract/agreement. While financing future cash flows, bank normally ensures that the contract/agreement is alive and the cash flows are discounted for the remaining maturity period or 3 years whichever is earlier.
- iii) While allowing finance against futures receivables/book debts bank ensures that the past record of payment of firm/company is good i.e. no defaults.
- iv) Bank officials closely monitors the amount disbursed, account transactions, progress of the project, implementation status, deployment of funds etc.
- v) Bank requests to submit the certificates such as SSI Registration, Import-Export Code, Sales/Service tax registration etc and check the compliance of guidelines relating to SSI, Export Sectors, Service tax and all other applicable provisions of law.