

# BANKING & FUNDING



**AATMANIRBHAR BHARAT**

PM Formalisation of Micro Food Processing Enterprises Scheme (PM FME Scheme)



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# OVERVIEW

**PMFME** is a centrally sponsored scheme and is implemented in close collaboration with State Nodal Agencies of respective States. All the States/UTs have appointed Nodal Agencies for the implementation of the scheme. The MIS portal for PMFME Scheme is receiving individual applications for credit-linked subsidies for the upgradation of food processing units.

The Scheme is to be implemented for a period of five years from 2020-21 to 2024-25 with an outlay of Rs.10,000 Crore.

The main theme of the Scheme is the One District One Product (ODOP) approach, a part of a broader strategy of concentrated agro and industrial development focused on each district



# AIM

The PMFME scheme aims to support capital investment for gradation and formalization with registration for GST, FSSAI, Hygiene Standards, and Udyog Aadhaar, Capacity Building through skill training, Imparting technical Knowledge of food safety, standards & hygiene and quality improvement, handholding support for the preparation of DPR, availing bank loan and up gradation.

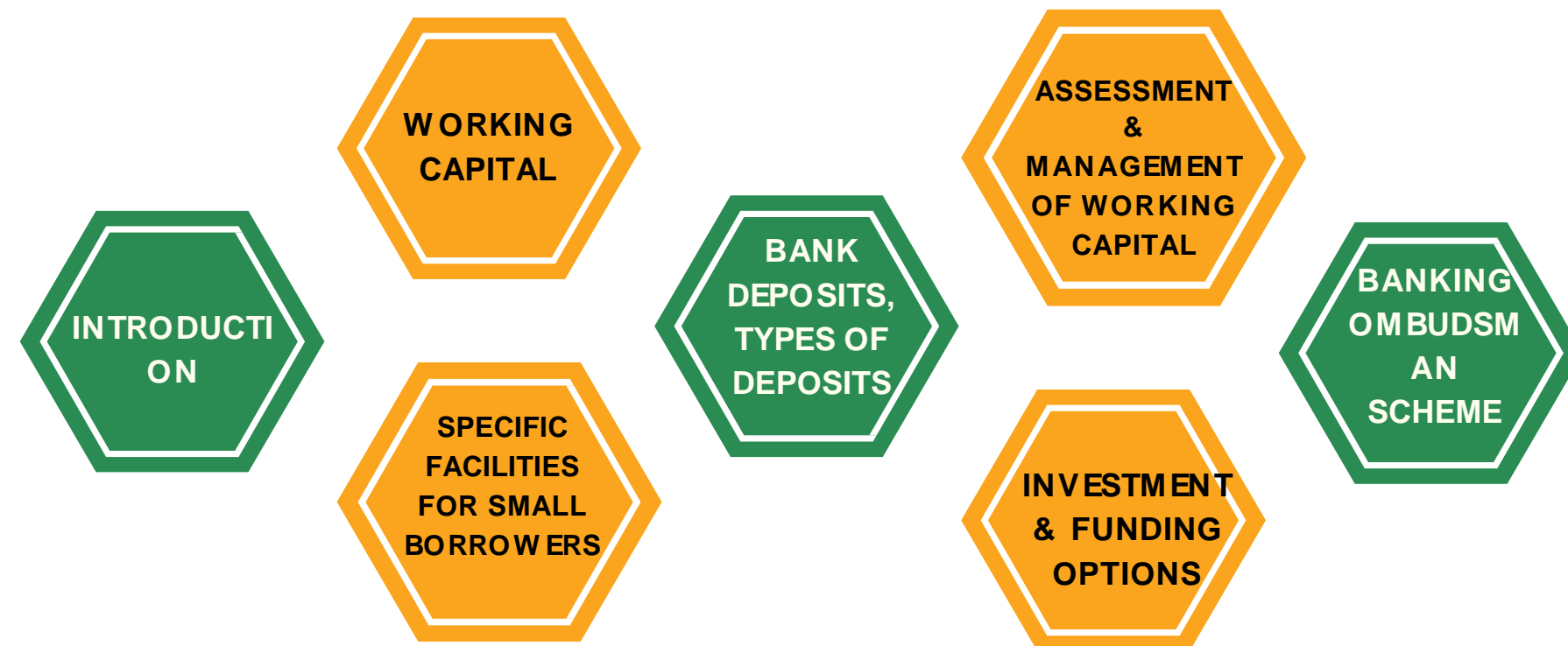
- Support to Individual Micro Enterprises in terms of credit-linked capital subsidy @35% of the eligible project cost with a maximum ceiling of Rs. 10 lakhs
- Seed capital @ Rs. 40000/- per member of NHG for working capital and purchase of small tools would be provided under the scheme.



# TOPIC- UNDERSTANDING BANKING & FUNDING

In this Presentation, you will be introduced to the standard treatment of money and the financing system as well as the role that banks play in our financial system. In the banking and finance sector, psychometric assessments are regularly used to hire more efficiently across a range of roles and departments, including both customer-facing roles and high-level appointments.

To better understand the whole concept, the Topic has been divided into five segments:-





- Credit-linked capital subsidy @35% (Rs.10 lakh)
- Existing micro food processing units
- Support for common Infrastructure
- Seed capital of Rs 40,000/- to SHG members

**SUPPORT TO INDIVIDUAL AND GROUPS OF MICRO ENTERPRISES 01**

- To groups of FPOs/SHGs/Cooperatives or an SPV of micro food processing enterprises
- Limited to 50% of the total expenditure



**02 BRANDING AND MARKETING SUPPORT**



**SUPPORT FOR STRENGTHENING OF INSTITUTIONS 04**

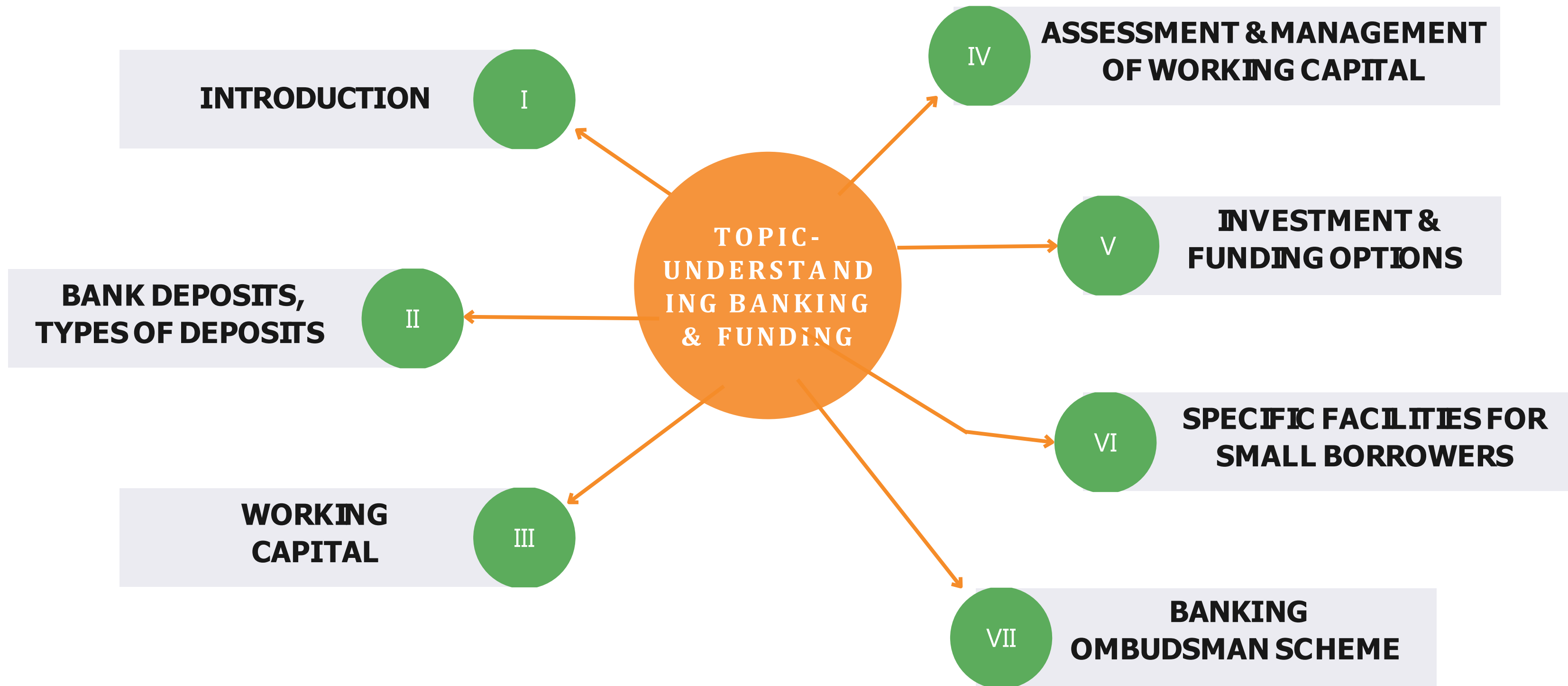
- Capacity Building & Research - Institutes in partnership with State Level Technical Institutions
- Training & Support to SLTIs

**03 SETTING UP ROBUST PROJECT MANAGEMENT FRAMEWORK**

- Monitoring & evaluation
- Project management support
- Convergence & handholding



**BENEFICIARY COMPONENTS UNDER PM FORMALIZATION OF MICRO FOOD PROCESSING ENTERPRISES**



# ***INTRODUCTION***





# BANKING SYSTEM IN INDIA

It is a financial account maintained by a bank or other financial institution in which the financial transactions between the bank and a customer are recorded. Each financial institution sets the terms and conditions for each type of account it offers, which are classified into commonly understood types, such as savings accounts, fixed deposit accounts, current accounts, Demat accounts, and many other types of accounts.

## SECTION 5(B) OF BANKING REGULATION ACT, 1949 (BR ACT):

A banking company is a company, which accepts deposits of money for the purpose of lending or investment from the public which is payable on demand (Savings Bank and Current Accounts) or otherwise (after a period like Fixed Deposits) and withdrawable by cheque.



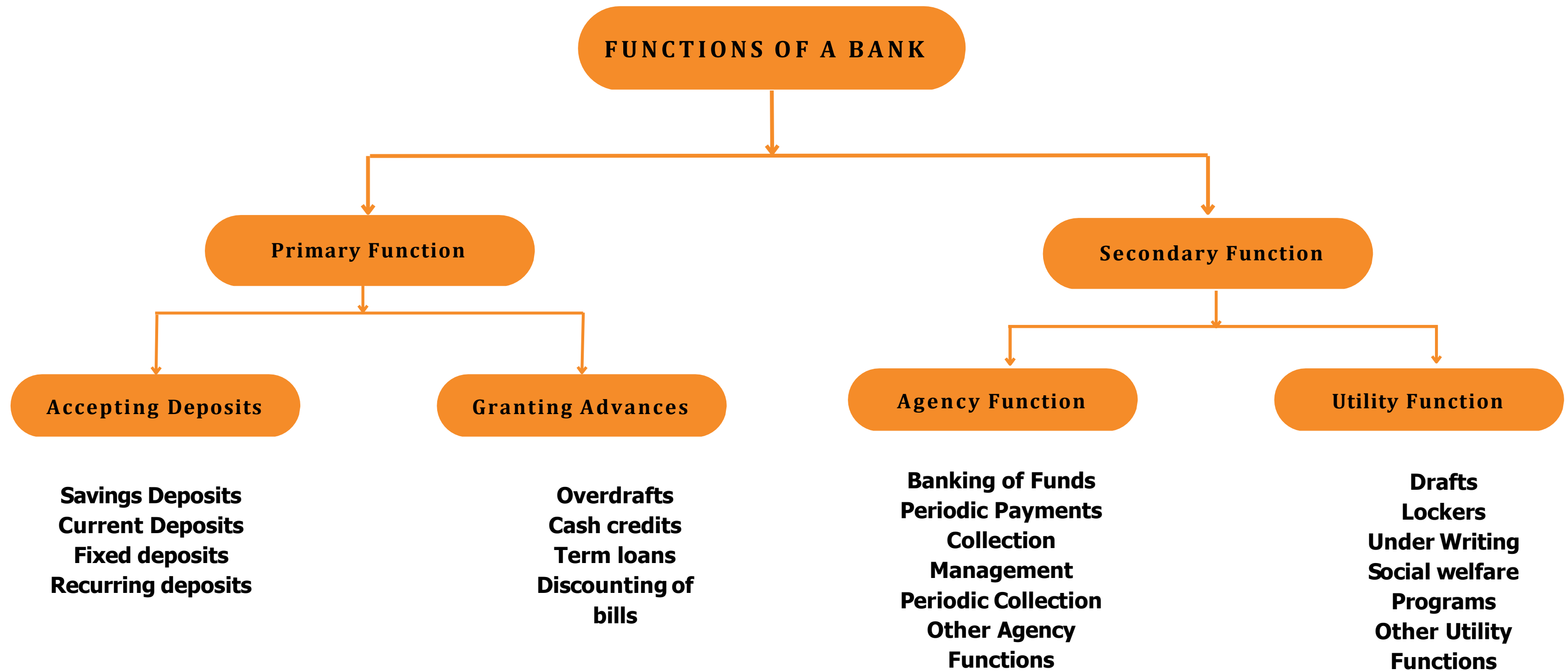
## BASIC FUNCTIONS OF A BANKER

A banker also gives clients financial advice on matters relating to loans, investments, securities, and savings.

- **Keep Records:** Bankers record all the daily financial transactions they conduct. This duty involves reviewing documents, such as bank statements and loan application forms, every day.
- **Advice Clients:** One of the primary duties of a banker is to help clients fulfill their financial needs. They do so by answering the financial questions asked by clients either during face-to-face meeting or phone conversations.
- **Gather Financial Information:** Another integral duty performed by a banker is gathering pertinent financial information from both new and existing clients. After speaking with clients about their financial needs, a banker uses the information gathered to prepare accounts and loans.



# FUNCTIONS OF A BANK



## A. PRIMARY FUNCTIONS

A banker also gives clients financial advice on matters relating to loans, investments, securities, and savings.

There are two primary functions of a commercial bank as given in Banking Regulations Act, 1949.

1. Accepting deposits of money from the public in the form of

- Savings accounts
- Current accounts
- Fixed deposits
- Recurring deposits

2. Advancing Loans: The other important function of the banks is to make loans and advances to needy people in the form of

- Overdrafts
- Cash credits
- Term loans
- Discounting of bills
- Credit Cards loan

Banks are also permitted to invest their funds in securities which may be Government securities or corporate securities.



## B. SECONDARY FUNCTIONS

Transfer of funds: Helps customers to transfer money to another customer or the same bank or of any other bank in the same country or even in another foreign country.

Agency services provided by Commercial Banks

- Purchasing and selling of shares, securities, bonds, etc. on behalf of its customers
- Collection and regular payments of bills, checks, and other commercial instruments, dividends, interest, etc. as per the standing instructions given by their customers.
- Collection and payment of rent, insurance premiums, and other charges. Acts as trustees, representatives, and executors of their clients.

Acts as income tax consultants and they prepare and finalize the income tax returns of their clients



# TYPES OF BANK ACCOUNT



SAVINGS ACCOUNT



CURRENT ACCOUNT



RECURRING DEPOSIT  
ACCOUNT



FIXED DEPOSIT ACCOUNT



DEMAT ACCOUNT



NRI ACCOUNT

# SAVINGS ACCOUNT

The main benefit of opening a savings bank account is that the bank pays you interest for opening this type of account with them.

- There is no limit to the number of times the account holder can deposit money in this account but there is a restriction on the number of times money can be withdrawn from this account.
- The rate of interest that an account holder get varies from 4% to 6% per annum
- There is no minimum balance that needs to be maintained for this type of an account
- The savings account holders can get an ATM/Debit/Rupay Card if they want to
- Savings bank account is further divided into two types: **Basic Savings Bank Deposit Account (BSBDA)** and the other one is **Basic Saving Bank Deposit Accounts Small Scheme(BSBDS)**
- The savings bank account is mostly eligible for students, pensioners and working professionals.



# CURRENT ACCOUNT

The second type of bank account is the current bank account. These accounts are not used for the purpose of savings.

Some important pointers related to the current bank account have been discussed below:

- This type of bank account is mostly opened by businessmen. For associations, Institutions, Companies, Religious Institutions, and other business-related works, the current account can be opened
- There is no fixed number of times that money can either be deposited or withdrawn from such accounts
- Internet banking is available
- This type of bank account does not have any fixed maturity
- Overdraft facility is available for current bank accounts
- There is no interest that is paid on such accounts.





## Differences between

### Current Account

1

Opened for meeting day to day requirements.

2

Opened for meeting day to day requirements.

3

No limitation on the number of transactions that can be done in a particular month.

4

Bank does not give any interest on these accounts

### Savings Account

Opened for deposits/savings from regular income.

Opened for meeting day to day requirements.

Limitation on a number of transactions in a month.

Savings Bank offers interest

# RECURRING DEPOSIT ACCOUNT

A recurring Deposit account or RD account is a form wherein the account holder must deposit a fixed amount every month until it reaches the fixed maturity date.

- Any individual or Institution can open a recurring deposit account either separately or jointly
- Periodic or monthly installments that need to be added can be as low as Rs.50/- or may vary from bank to bank
- The range of months for which an RD account can be opened varies from 6 months to 120 months
- The interest rate varies depending on the bank you choose to open an account with
- A nomination facility is also available for RC accounts
- Passbook is issued for this type of bank account



# FIXED DEPOSIT ACCOUNT

FD or a fixed deposit account is another type of bank account that can be opened in any Public or Private sector bank.

- It is a one-time deposit and a one-time takeaway account. Under this type of account, the account holder needs to deposit a fixed amount of sum (as per their wish) for a fixed time period
- The amount deposited in an FD account can only be withdrawn all at once and not in installments Banks pay interest on the fixed deposit account The rate of interest depends upon the amount you deposit and the time duration of the FD
- Full repayment of the amount is available before the maturity date of FD.



# DEMAT ACCOUNT

Shares and securities which can be held in electronic format constitute the DEMAT account. The DEMAT account also stands for Dematerialized Account.

- This helps facilitate easy trade of bonds and shares
- and Helps in conducting stress-free transactions of shares
- KYC is required for opening the DEMAT Account
- Transaction cost is reduced Traders can work from anywhere
- The transfer of securities can be done with reduced paperwork.



# NRI ACCOUNT

To fulfill the bank requirements of a Non-Residential Indian or a Person of India Origin, the option of an NRI account is available. The NRI Accounts are further divided into three types.

- **NRO (Non-Resident Ordinary Rupees) Account** – This shall allow you to transfer your foreign earnings easily to India. It can be opened in the form of an FD/RD/Current/Savings account.
- **NRE (Non-Resident External Rupees) Account** – When an Indian citizen moves abroad to work there, his/her account needs to be converted into an NRE account.
- **FCNR (Foreign Currency Non-Resident) Account** – This type of account can be opened to manage an international currency. It can only be in the form of a Term deposit and can be withdrawn after the maturity period only



**BANK**  
**DEPOSIT**  
**AND TYPE OF**  
**DEPOSITS**



# BANK DEPOSIT

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Bank deposits consist of money placed into banking institutions for safekeeping. These deposits are made to deposit accounts such as savings accounts, checking accounts, and money market accounts. The account holder has the right to withdraw deposited funds, as set forth in the terms and conditions governing the account agreement.

SAVING AND CHECKING ACCOUNTS ACCEPT BANK DEPOSITS.

MOST BANK DEPOSITS ARE INSURED UP TO \$250,000 BY THE FDIC.

BANK DEPOSITS ARE CONSIDERED EITHER DEMAND OR TIME DEPOSITS



Current Account Deposits

Saving Account Deposits

Fixed Deposit

Recurring Deposit

# TYPES OF DEPOSITS



# DEMAND DEPOSITS

The money deposited with a financial institution that can be drawn from the account without providing any prior notice is called a demand deposit. Generally, demand deposits pay very little interest or no interest at all since the lock-in periods are shorter than time deposits.

Below are three types of demand deposit accounts:

**Checking Account:** A checking account enables easy cash accessibility by allowing withdrawals from debit cards, ATMs, and writing checks.

**Money Market Account:** The interest rates of a money market account depend on the market, and hence, the interest rates vary daily.

**Term Deposit/Savings Account:** They are a type of deposit accounts intended for longer periods. They also provide higher interest rates and lesser liquidity than checking accounts.





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## **Saving Account Deposits:**

A savings account can be opened with a bank or financial institution, to earn interest on the balance maintained. This account should be opened with the objective of storing money in electronic form. These days, most savings accounts can be used for multiple purposes like paying bills, quick transactions, easy credit, etc.

**There are different types of savings account that can be opened depending on the customer's need:**

REGULAR SAVINGS  
ACCOUNT

SALARY BASED  
SAVINGS ACCOUNT

SAVINGS ACCOUNTS  
FOR SENIOR CITIZENS

ZERO BALANCE  
SAVINGS ACCOUNT

SAVINGS ACCOUNTS FOR  
CHILDREN AND MINORS

EXCLUSIVE BENEFITS  
ACCOUNTS FOR WOMEN

LINKED SAVINGS  
ACCOUNT





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## **Current Account Deposits:**

These accounts should only be opened by you if you are a small business person who has multiple monetary transactions on a daily basis. These are the most liquid deposits and there are no restrictions on the number and the number of transactions in a day.

Banks also offer overdraft facilities on these, i.e., they let account holders withdraw more money than there is in the account. Moreover, there is no minimum balance required to be maintained here, unlike other bank accounts.

### **DISADVANTAGE:**

**A disadvantage of these accounts is that banks do not pay any interest on these accounts. Also, these accounts also charge hefty fees for their services and maintenance..**



# TIME DEPOSITS

A bank deposit with a fixed interest rate and the term is called a time deposit. A person cannot withdraw money from a time deposit account for a fixed term or must pay a penalty should he/she need to withdraw funds before the term ends. The penalty amount depends on the issuer and the term of the time deposit.

**A time deposit account is an interest-bearing account that allows the depositor to accumulate money at higher rates of interest than the standard savings account.**

The funds in time deposit accounts are used by financial institutions to provide financial products – such as loans – to eligible businesses or individuals. For making profits, banks lend the funds kept in time deposit accounts at interest rates higher than the ones provided to the depositors.



**Time  
Deposits**

## Fixed Deposit:

A fixed deposit (FD) is an investment avenue offered by banks, financial institutes, and Non-Banking Financial Companies (NBFCs) that offers guaranteed returns with an interest rate ranging between 5%-9%. It gives higher interest than a regular savings account and offers a wide range of tenures ranging from 7days to 10 years. You should try out a fixed deposit account when you want to build your habit of investing but your risk appetite is quite low since it offers guaranteed returns.



## **Recurring Deposit:**

It is a special type of term deposit where you do not need to deposit a lump sum savings rather a person has to deposit a fixed sum of money every month (which can be as low as Rs.100 per month).


The interest rates on these accounts range from 5% – 7%, and varying rates are offered to senior citizens. These accounts have maturities ranging from 6 months to 120 months.

### **Advantages of Recurring Deposits**

- Compulsion to save
- High rates of interest as compared to Term Deposits
- Liquidity to access those savings anytime.
- Helps to create a fund

**WORKING**  
**CAPITAL**





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Working capital is described as capital that is not fixed but the more common use of working capital is to consider it as the difference between the book value of current assets and current liabilities.

Working Capital is a part of the capital which is needed for meeting the day-to-day requirements of the business concern.

**For example:-**

**PAYMENT TO  
CREDITORS**

**SALARY PAID TO  
WORKERS**

**PURCHASE OF RAW  
MATERIALS ETC.,**

**normally it consists of recurring in nature. It can be easily converted into cash. Hence, it is also known as short-term capital.**





# CONCEPT OF WORKING CAPITAL

Gross Working  
Capital

NET Working  
Capital

**A. GROSS WORKING CAPITAL:** Gross Working Capital is a general concept that determines the working Capital concept. Thus, the gross working capital is the capital invested in the total current assets of the business concern.

**GROSS WORKING  
CAPITAL + ASSETS**

**B. NET WORKING CAPITAL:** Net Working Capital is the specific concept, which, considers both current assets and current liability of the concern. Net Working Capital is the excess of current assets over the current liability of the concern during a particular period. If the current assets exceed the current liabilities it is said to be positive working capital; in reverse, it is said to be Negative working capital.

**NET WORKING CAPITAL + CURRENT  
ASSETS - CURRENT LIABILITIES**

# Nature Of Working Capital



IT IS USED FOR THE PURCHASE OF RAW MATERIALS, AND PAYMENT OF WAGES AND EXPENSES.



IT CHANGES FORM CONSTANTLY TO KEEP THE WHEELS OF BUSINESS MOVING.



WORKING CAPITAL ENHANCES THE LIQUIDITY, SOLVENCY, CREDITWORTHINESS AND REPUTATION OF THE ENTERPRISE.



IT GENERATES THE ELEMENTS OF COST NAMELY: MATERIALS, WAGES, AND EXPENSES.



IT ENABLES THE ENTERPRISE TO AVAIL OF THE CASH DISCOUNT FACILITIES OFFERED BY ITS SUPPLIERS.



IT HELPS IMPROVE THE MORALE OF BUSINESS EXECUTIVES AND THEIR EFFICIENCY REACHES AT THE HIGHEST CLIMAX.

# SIGNIFICANCE /NEED OF WORKING CAPITAL

Working capital plays a vital role in business. This capital remains blocked in raw materials, work in progress, finished products, and with customers. The needs for working capital are as given below.

**01 Working capital helps avoid the possibility of under-capitalization.**

**It is needed to pick up stock of raw materials even during economic depression.**

**02**

**03 Working capital is needed in order to pay a fair rate of dividend and interest in time, which increases the confidence of the investors in the firm.**

**Working capital ensures the regular and timely payment of wages and salaries, thereby improving the morale and efficiency of employees.**

**04**

**05 Working capital is needed for the efficient use of fixed assets. In order to enhance goodwill a healthy level of working capital is needed.**



# IMPORTANCE OF WORKING CAPITAL

**Higher return on capital**

**Higher liquidity**

**Uninterrupted production**

**Higher profitability**

**Favorable financing conditions**

**Improved credit profile and solvency**

**Increased business value**

**Ability to face shocks and peak demand**

# Classification of Working Capital

01

## Gross Working Capital

Gross working capital refers to the number of funds invested in various components of current assets. It consists of raw materials, work in progress, debtors, finished goods, etc

02

## NET Working Capital

The excess of current assets over current liabilities is known as Net working capital. The principal objective here is to learn the composition and magnitude of current assets required to meet current liabilities.

03

## Positive Working Capital

This refers to the surplus of current assets over current liabilities.

04

## Negative Working Capital

Negative working capital refers to the excess of current liabilities over current assets.

05

## Permanent Working Capital

The minimum amount of working capital which is even required during the dullest season of the year is known as Permanent working capital

06

## Temporary or Variable Working Capital

It represents the additional current assets required at different times during the operating year to meet additional inventory, extra cash, etc.

# COMPONENTS OF WORKING CAPITAL

## (A) CURRENT ASSETS

1. These assets are generally realized within a short period of time, i.e. within one year. Current assets include:

- Inventories or Stocks
- Raw materials
- Work in progress
- Consumable Stores
- Finished goods

2 .Sundry Debtors

3. Bills Receivable

4. Pre-payments 5.

Short-term Investments

## (B) CURRENT LIABILITIES

Current liabilities are those which are generally paid in the ordinary course of business within a short period of time, i.e. one year.

Current liabilities include

- Sundry Creditors
- Bills Payable
- Accrued Expenses
- Bank Overdrafts
- Bank Loans (short-term)
- Proposed Dividends
- Short-term Loans
- Tax Payments Due

# WORKING CAPITAL INVESTMENT POLICIES

Working capital financing policy basically deals with the sources and the amount of working capital that a company should maintain. A firm is not only concerned about the number of current assets but also about the proportions of short-term and long-term sources for financing the current assets.

## There are several working capital investment policies

- **Conservative Policy-** this policy tries to avoid the risk involved in the financing of current assets. Here, relatively high proportions of long-term sources are to be used for financing current assets.
- **Aggressive Policy-** Aggressive working capital financing policy is a risky policy that requires the maximum amount of investment in current assets. Fluctuating as well as permanent current assets under this policy will be financed through short-term debt.



- **Highly Aggressive Policy-** This is a highly risky policy for financing the working capital. As per this policy, even some part of fixed assets is financed through short-term sources.
- **Hedging Policy-** One of the policies by which a firm finances its working capital needs is the hedging policy, also known as matching policy. This policy works in an arrangement where the current assets of the business are used perfectly to match the current liabilities.

## LONG TERM & SHORT-TERM SOURCES OF WORKING CAPITAL

### LONG TERM

- **Indigenous Bankers**
- **Trade Credit**
- **Installment Credit**
- **Advances**
- **Accrued Expenses**

### SHORT TERM

- **Shares**
- **Debentures**
- **Public Deposits**
- **Ploughing back of profits**
- **Loans From Financial Institution**



# SHORT TERM OF WORKING CAPITAL

01

**Indigenous Bankers:** Private money lenders and other country bankers used to be the only source of finance prior to the establishment of commercial banks.

02

**Trade Credit:** It refers to the credit extended by the suppliers of goods in the normal course of business

03

**installment Credit:** This is another method by which the assets are purchased and the possession of goods is taken immediately but the payment is made in installments over a period of time.

04

**Advances:** It is a cheap source of finance and in order to minimize their investment in working capital.

05

**Factoring or Accounts Receivable Credit:** Another method of raising short-term finance is through accounts receivable credit offered by commercial banks and factors.

# LONG TERM OF WORKING CAPITAL

01

**Shares:** Issue of shares is the most important sources for raising the permanent or long term capital.

02

**Debentures:** It is an instrument issued by the company acknowledging its debt to its holder. The debenture holders are the creditors of the company.

03

**Ploughing Back of profits:** This means the re- investments by concern of its surplus earnings in its business of finance & it most suitable for an established firm for its expansion, modernization & replacement etc

04

**Public deposits:** Public deposits are the fixed deposits accepted by a business enterprises directly from the public

05

**Loans from financial institutions:** Financial institutions such as commercial banks, LIC, Industrial Finance Corporation of India (IFC) SFC State Industrial development corporation, IDBI etc.

# WORKING CAPITAL MANAGEMENT

Decisions relating to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between a firm's short-term assets and its short-term liabilities.

The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

**Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.**



# ASSESSMENT & MANAGEMENT OF WORKING CAPITAL



The requirement for working capital of a small-scale enterprise needs to be assessed correctly as far as possible. Because, under and over working capitals are harmful for the enterprise.

#### EXAMPLE

**over-estimation of working capital would result in blockage of scarce funds in idle assets.**

under-assessment of working capital would deprive the enterprise of profitable opportunities. It is here that the concept of operating cycle of working capital reveals its sharpness.



# FORMULA & METHODS OF WORKING CAPITAL

Suppose the operating cycle of a small-scale enterprise is of four months. It means that the cycle of operations is repeated three times in a year. This further means that the enterprise would need an amount of working capital equal to one-third of the operating expenses of the whole last year.

**This is best expressed by the following formula:**

## **METHODS:-**

PERCENTAGE OF  
SALES METHOD

REGRESSION  
ANALYSIS METHOD

CASH FORECASTING  
METHOD

OPERATING CYCLE  
METHOD

## **FORMULA**

**Total Working Capital  
Requirement = Total  
Operating Expenses in  
the Last Year/Number of  
Operating Cycles in the  
Year**

01

**Percentage of Sales Method:** It is based on the assumption that the level of working capital for any firm is directly related to its sales value.

**Regression Analysis Method** It is the measure of the average relationship between two or more variables, i.e.; sales and working capital, in terms of the original units of the data.

02

03

**Cash Forecasting Method:** This method of estimating working capital requirements involves forecasting of cash receipts and disbursements during a future period of time. Cash forecast will include all possible sources from which cash will be received and the channels in which payments are to be made  
**This method is similar to the preparation of a cash budget.**

**Operating Cycle Method:** The cycle starts with the purchase of raw material and other resources and ends with the realization of cash from the sale of finished goods. It involves purchase of raw materials and stores, its conversion into stock of finished goods through work-in-process with progressive increment of labour and service costs, conversion of finished stock into sales, etc.

04

# MANAGEMENT OF WORKING CAPITAL

Management will use a combination of policies and techniques for the management of working capital. The policies aim at managing the current assets (generally cash and cash equivalents, inventories and debtors) and the short-term financing, such that cash flows and returns are acceptable.

**Cash management-** Identify the cash balance which allows for the business to meet day-to-day expenses, but reduces cash holding costs

**Inventory management-** IT reduces the investment in raw materials—and minimizes reordering costs—and hence increasing cash flow

**Debtor's management-** credit terms that will attract customers, such that any impact on cash flows and the cash conversion cycle will be offset by increased revenue

**Short-term financing** –Identify the appropriate source of financing, given the cash conversion cycle: the inventory is ideally financed by credit granted by the supplier



**The different forms in which the banks normally provide loans and advances are as follows**

LOANS

CASH CREDITS

OVERDRAFTS

PURCHASING AND  
DISCOUNTING OF BILLS

- 1.Loans:** When a bank makes an advance in lump-sum against some security it is called a loan. The borrower is required to pay interest on the entire amount of the loan from the date of the sanction.
- 2.Cash Credits:** A cash credit is an arrangement by which a bank allows his customer to borrow money up to a certain limit against some tangible securities or guarantees.
- 3.Overdrafts:** Overdraft means an agreement with a bank by which a current account-holder is allowed to withdraw more than the balance to his credit up to a certain limit.
- 4.Purchasing and discounting of bills:** It is the most important form in which a bank lends without any collateral security.

## **PRACTICAL PROBLEMS UNDER WORKING CAPITAL REQUIREMENT**

### **SOLUTION 1**

Prepare an estimate of working capital requirement from the following information of a trading concern. Projected annual sales 10,000 units Selling price Rs.10 per unit Percentage of net profit on sales 20% Average credit period allowed to customers 8 Weeks Average credit period allowed by suppliers 4 Weeks Average stock holding in terms of sales requirements 12 Weeks Allow 10% for contingencies

### **SOLUTION 2**

Prepare an estimate of working capital requirement from the following information's of a trading concern. Projected annual sales Rs.6,50,000 Percentage of net profit on sales 25% Average credit period allowed to debtors 10 Weeks Average credit period allowed by creditors 4 Weeks Average stock holding in terms of sales requirements 8 Weeks Allow 20% for contingencies.

**INVESTMENT &**  
**FUNDING OPTIONS**



# BANK LOAN

A loan is the lending of money by one or more individuals, organizations, or other entities to other individuals, organizations, etc. The recipient (i.e., the borrower) incurs a debt and is usually liable to pay interest on that debt until it is repaid as well as to repay the principal amount borrowed.

**There are 5 basic principles for lending known as the 5 C's.**

**Character:** The borrower's willingness to repay, his honesty and integrity

**Capital:** How much money he has put in the business as capital and how much he has saved from his earnings so far, i.e. his net worth

**Collateral:** The security offered to the bank as cover for the advance. If the borrower does not pay the dues, the bank can always recover it by selling the security

**Capacity:** Ability to successfully run the business and repay the borrowing out of the earnings

**Conditions:** The changes that are constantly occurring in the economy which may affect the borrower's business.



## **Maximum amount of the loan which can be sanctioned**

**Normally, the maximum Loan Amount that can be sanctioned is**

**Maximum Rs.10.00 lacs for Studies in India**

**Maximum Rs.30.00 lacs for Studies Abroad**

**Normally, repayment will commence one year after completion of course or 6 months after securing a job, whichever is earlier. But it can vary from Bank to Bank.**

<b>Maximum Loan Limit</b>	<b>Repayment Period</b>
<b>Upto Rs 4 Lacs</b>	<b>upto 10 years</b>
<b>Above Rs 4 Lacs Upto Rs 7.5 Lacs</b>	<b>upto 10 years</b>
<b>Above Rs 7.5 Lacs</b>	<b>upto 12 years</b>

## Important components of a loan

### Deposit or Down-payment

It is an amount of money that the borrower is required to pay, as the first contribution towards clearing the debt, so that the loan deal can be finalized.

The deposit is usually higher than the monthly contribution towards the loan.

### Installments

An Installment is a money that is a monthly payment towards the loan. It may not be necessarily paid monthly but it has to be paid from time to time over throughout the loan deal.

### Deposit or Down-payment

Interest is a charge on top of the value of the loan that acts as a cost of the loan.

Interest is paid according to a rate called an interest rate. The interest rate varies from loan to loan and from lender to lender.

# TYPES OF LOANS

## • Secured loans

**Secured loans** are loans for which the borrower is required to guarantee repayment, by pledging with property, for instance, a car, a house etc. This property is called security or collateral. Because of the pledging, secured loans are given in larger amounts and have lower interest rates.

- Auto loans- purchase of new / used four and two wheelers.
- Home Loans - Purchase of land and construction of residential house / purchase of ready built house / for repairs and renovation of an existing house

## • Unsecured loans

**Unsecured loans** are loans that are given without pledges of repayment. This means that the borrower is not required to provide security to get the loan. Because of the high risk involved, unsecured loans are given out in smaller amounts and have higher interest rates.

- Credit Cards and Personal Loans for the purchase of jewels, meeting domestic consumption needs, etc.
- Educational Loans for pursuing higher education both in India and abroad.

## Differences between

### Secured Loan

### Unsecured Loan

- 1** Loan against collateral / Security
  - 2** Interest rates are lower than an unsecured loan
  - 3** Loans are available for a long tenure
  - 4** Borrowing limits are higher than unsecured loan
- 1** Loan based on individual credit rating
  - 2** Interest rate are higher than secured loan
  - 3** Loan are available for a fixed period
  - 4** Borrowing limits are lower than unsecured loan



## **Personal Loan**

A personal loan is a 'small expense' loan that is mostly used by people to finance their day to day emergencies. They come in smaller amounts and therefore, just like most unsecured loans, they are easily approved.

**Personal bank loan repayment period may span from 12 months to 30 years depending on the size and type of loan.**

## **Home Loan**

Home loans are loans that are taken for the purpose of buying a house. Home loans are secured loans. The house acts as a collateral or security to the loan.



# TERM LOAN

Term loan is a simply a loan that is given for a fixed duration of time and must be repaid in regular instalments. These loans usually extended for a longer duration of time which may range from 1 year to 10 or 30 years. Rate of interest charged under these loans may be on a fixed or floating basis, which will vary with market fluctuations.

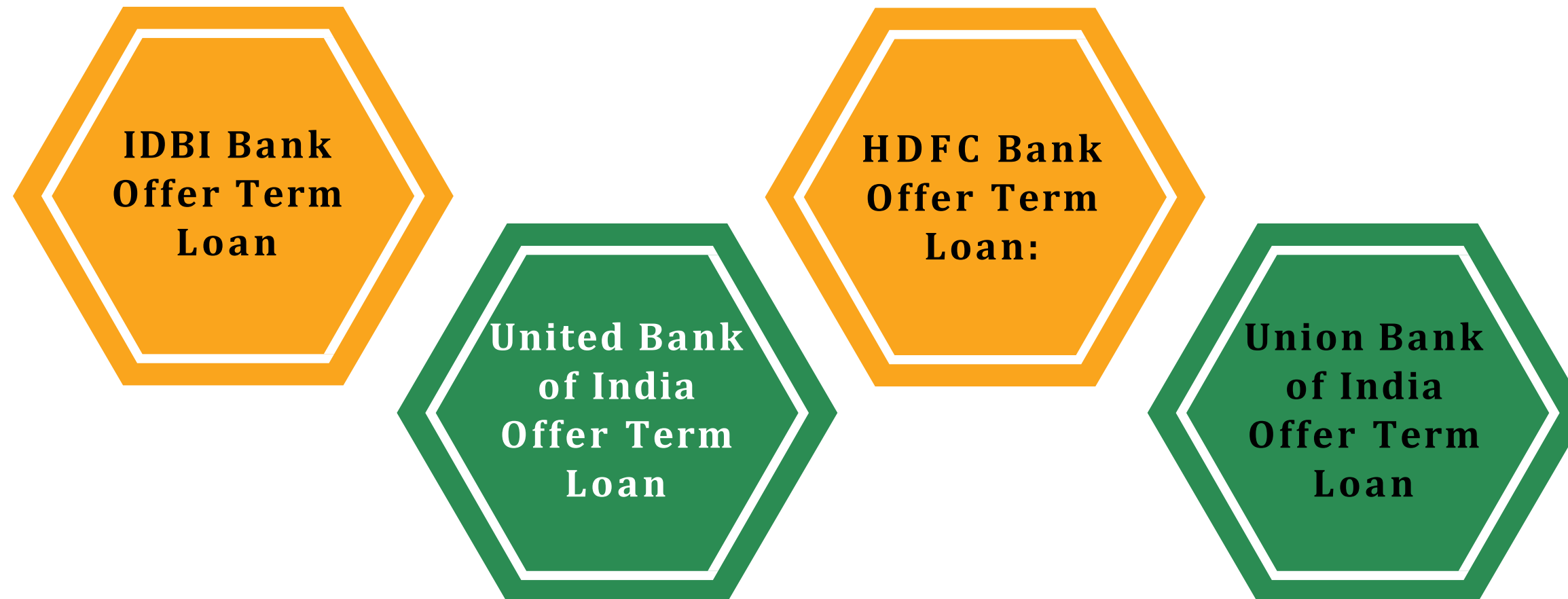


Classification of the Loans based on repayment is as follows

- Within 3 years: 'Short Term 'loans.
- If the period is more than 3 years but within 5 years: 'Medium Term loans.
- If the period is more than 5 years: 'Long Term 'loans.



# TERM LOAN OFFERED IN INDIA



- **IDBI Bank offers term loans:** Terms loans are sanctioned for a project loans. The loan is used to set up a new unit or to expand the existing units. The loan amount can also be used to buy plant, machinery, building, etc.
- **Union Bank of India offers term loans** to help you acquire capital goods or asset creation for your firm for a long term basis. You can also swap the high cost debts availed from other banks or lenders.

# TERM LOAN OFFERED IN INDIA

- **United Bank of India Offer Term Loan:** Term loans are offered to fund capital expenditure for setting new units and expanding the existing units and for modernization of the project.
- **HDFC Bank Offer Term Loan:** Term loans are offered to business for tenure of 5 years for expanding their business, for capital expenditure and for fixed assets. Short term finance option is also available to meet the borrower's individual needs.

CASH CREDITS

OVERDRAFTS

- Generally the facility given to the Industrial / Business customers is known as 'Cash Credit' (CC) account in which the stock (raw material / work in process / finished goods) lying in the godown is pledged or hypothecated as the security to the bank.
- An overdraft facility is an open-ended facility. Normally the limit is initially sanctioned for a period of one year and rolled over after a review by the bank of the facility utilized by the borrower. Bank charges interest on the actual amount utilized by the borrower

## Types of Overdraft facility available

### INTRADAY OVERDRAFT LIMIT

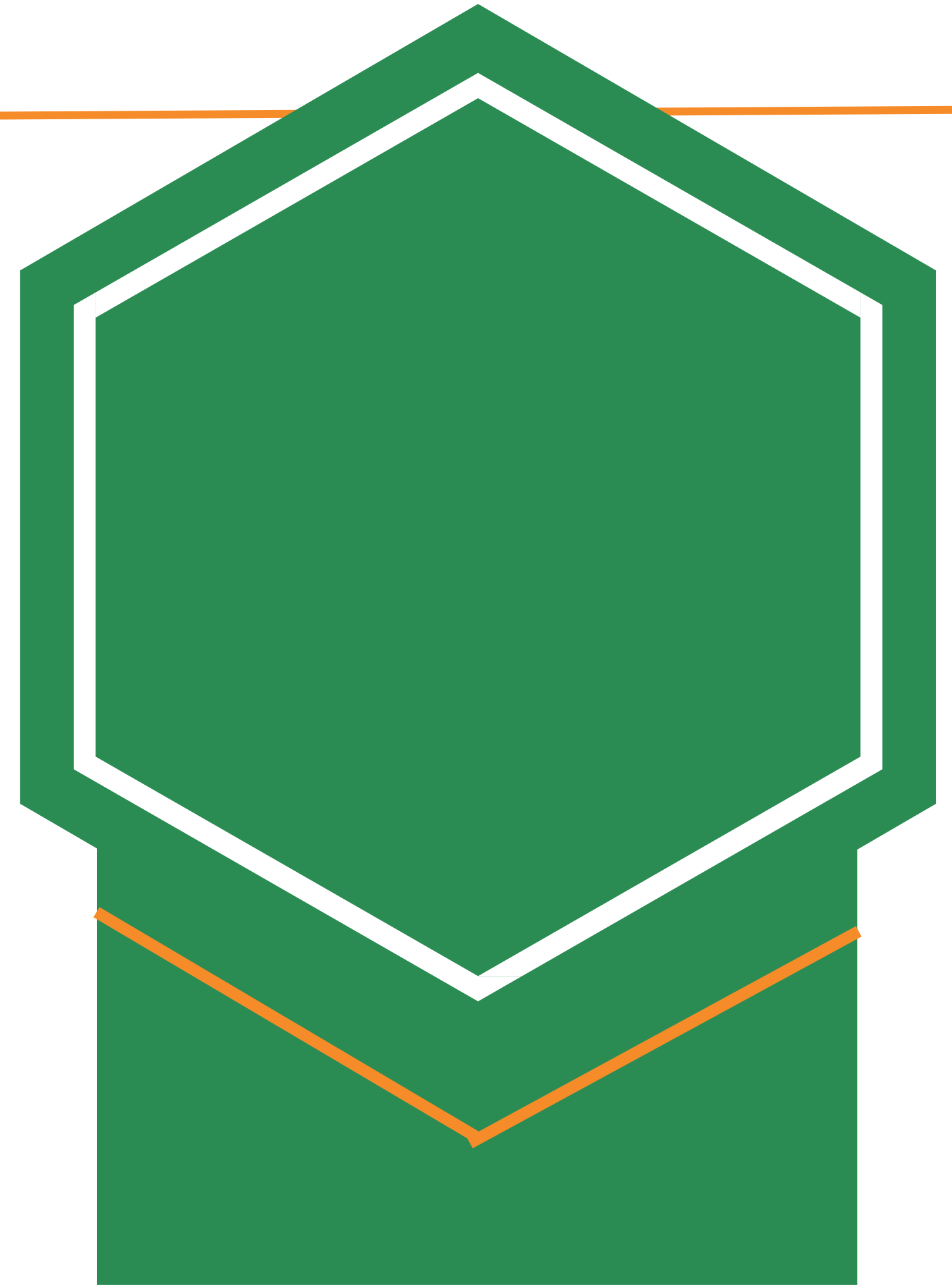
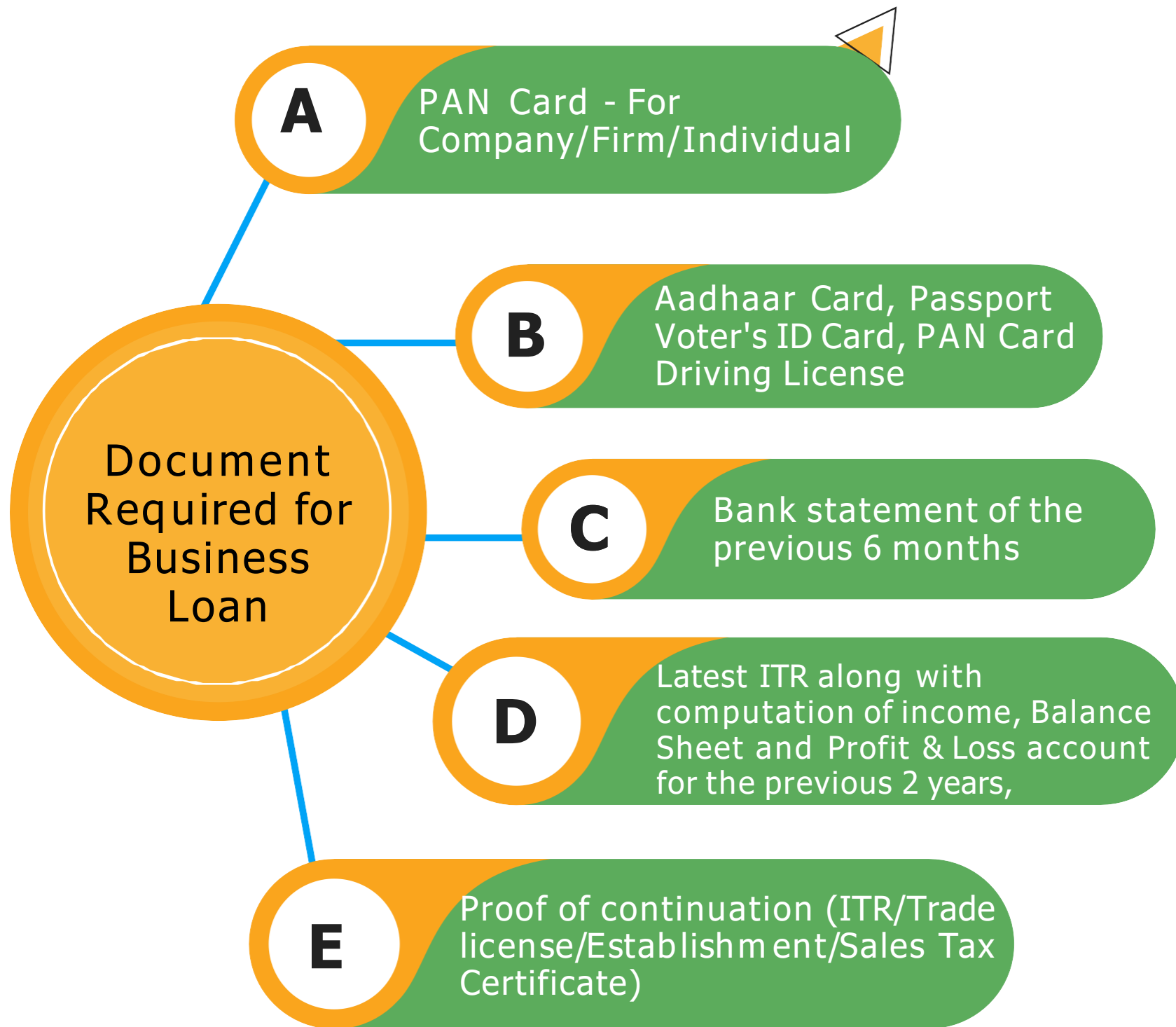
Maximum limit that can be overdrawn during the day is fixed. During the day, the account may be overdrawn up to this limit but before the end of the day, the outstanding balance should come back to levels within the normal limit.

### END-OF-DAY OVERDRAFT LIMIT

This is to help the borrower to tide over the mismatches of receipts and payments. So the outstanding balance should be brought within the normal limits with the next few days.

ADVANTAGES	DISADVANTAGES
Flexible - An overdraft is there when you need it, and costs nothing (apart from possibly a small	Cost - Overdrafts carry interest and fees; often at much higher rates than loans. This makes them expensive.
Quick - Overdrafts are easy and quick to arrange.	Security - Overdrafts may be secured by business assets, which put them at risk if you cannot meet repayments.

# ***DOCUMENT REQUIRED FOR A BUSINESS LOAN***



# ***DOCUMENTS REQUIRED FOR LOAN AGAINST PROPERTY***

## **FOR SALARIED INDIVIDUALS**

- **Proof of Residence - Any one of RationCard / Telephone Bill / Electricity Bill / VotersCard.**
- **Proof of Identity- Any one of VotersCard / Aadhaar Card/ DriversLicense / Employers Card.**
- **Latest Bank Statement / Passbook (where salary/income is credited for the past 6 months).**
- **Latest 6 Months' Salary Slip with all deductions and last 2 years' Form 16.**
- **Copies of all property documents.**

## **FOR SELF-EMPLOYED INDIVIDUALS**

- **Certified Financial Statement for the last two years.**
- **Proof of Residence - Any one of RationCard / Telephone Bill / Electricity Bill / VotersCard.**
- **Proof of Identity- Any one of VotersCard / Aadhaar Card/ DriversLicense / Employers Card.**
- **Latest Bank Statement / Passbook (where salary/income is credited for past 6 months).**
- **Copies of all Property Documents**



Do's

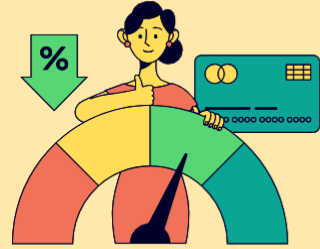
## Do's for Getting a Loan



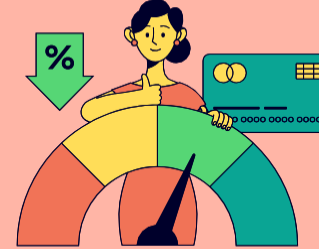
## Dont's for Getting a Loan



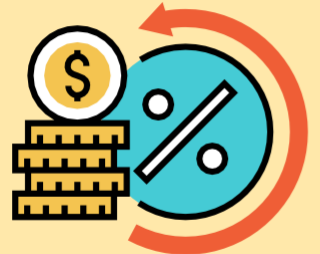
DON'TS



Fetch your credit report before making your loan application



Don't ignore your credit score



Ensure to compare loans available from various lenders



Don't apply without assessing your requirement



Opt for a loan tenure on the basis of your repayment capacity



Do check interest rates



Avoid loan applications with multiple lenders within a short span of time



Don't borrow from unrecognized lenders



**SPECIFIC**  
**FACILITIES FOR**  
**SMALL BORROWERS**



# PRADHAN MANTRI MUDRA YOJANA

Pradhan Mantri Mudra Yojana (PMMY) is a flagship scheme of Government of India to “fund the unfunded” by bringing such enterprises to the formal financial system and extending affordable credit to them.

It enables a small borrower to borrow from all Public Sector Banks such as PSU Banks, Regional Rural Banks and Cooperative Banks, Private Sector Banks, Foreign Banks, Micro Finance Institutions (MFI) and Non-Banking Finance Companies (NBFC) for loans upto Rs.10 lakhs for non-farm income generating activities.

## ELIGIBILITY

Any Indian Citizen who has a business plan for a non-farm sector income generating activity such as manufacturing, processing, trading or service sector and whose credit need is less than Rs.10 lakh can approach either a Bank, MFI, or NBFC for availing of Micro Units Development & Refinance Agency Ltd.

PRADHAN  
MANTRI MUDRA  
YOJANA

MUDRA provides refinancing support to banks and NBFCs for lending to micro units having loan requirements up to INR 10 Lakhs under the scheme of Pradhan Mantri MUDRA Yojana. Under PMMY, MUDRA divided the loan into three categories as 'Shishu' 'Kishor' and 'Tarun' to signify the stage of growth/development.


<b>LOAN TYPE</b>	<b>COVERAGE</b>	<b>RATE OF INTEREST</b>
<b>Shishu</b>	<b>Covering loans up to Rs.50,000</b>	<b>@ 1% to 12% per annum</b>
<b>Kishor</b>	<b>Covering loans above Rs.50,000 and up to Rs.5 Lakh</b>	<b>@8.60 to 11.15% per annum</b>
<b>Tarun</b>	<b>Covering loans above Rs.5 Lakh and up to Rs.10 Lakh</b>	<b>@11.15 to 20% per annum</b>



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## **Sectors covered Under This Scheme**

To maximize coverage of beneficiaries and tailor products to meet the requirements of specific business activities, sector/activity-focused schemes would be rolled out.

- **Land Transport Sector /Activity** - This will inter alia support units for the purchase of transport vehicles for goods and personal transport such as auto rickshaws, small goods transport vehicles, 3-wheelers, e-rickshaw, passenger cars, taxis, etc.
  - **Community, Social & Personal Service Activities** - Such as saloons, beauty parlors, gymnasium, boutiques, tailoring shops, dry cleaning, cycle and motorcycle repair shop, DTP and Photocopying Facilities, Medicine Shops, Courier Agents, etc.
  - **Food Products Sector** - Support would be available for undertaking activities such as papad making, achar making, jam / jelly making, agricultural produce preservation at rural level, sweet shops etc.
  - **Textile Products Sector /Activity** - To provide support for undertaking activities such as handloom, power loom, chicken work, zari and zardozi work, traditional embroidery and hand work, traditional dyeing
- 

## Sectors covered Under This Scheme

To maximize coverage of beneficiaries and tailor products to meet the requirements of specific business activities, sector/activity-focused schemes would be rolled out.

### **How to Apply**

Borrowers, who wish to avail assistance under Pradhan Mantri MUDRA Yojana (PMMY), can approach the local branch of any of the financial institutions in their region - PSU Banks, Regional Rural Banks and Cooperative Banks, Private Sector Banks, Foreign Banks, Micro Finance Institutions (MFI) and Non-Banking Finance Companies (NBFC).

## Check List: (Documents to be submitted along with the application)

**Proof of identity**

**Proof of Residence**

**Applicant's recent Photograph**

**Quotation of Machinery / other items to be purchased.**

**Name of Supplier / details of machinery / price of machinery and / or items to be purchased.**

**Proof of category like SC / ST / OBC / Minority etc.**

# Pradhan Mantri Suraksha Bima Yojana

The Scheme is available to people in the age group 18 to 70 years with a bank account who give their consent to join / enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhar would be the primary KYC for the bank account.

The premium of Rs.20 per annum is to be deducted from the account holder's bank account through 'auto-debit' facility in one installment.

**The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose.**



**Pradhan Mantri  
Suraksha Bima  
Yojana**

## **Pradhan Mantri Jeevan Jyoti Bima Yojana**

The **PMJJBY** is available to people in the age group of 18 to 50 years having a bank account who give their consent to join / enable auto-debit. Aadhar is the primary KYC for the bank account. The life cover of Rs. 2 lakh is for the one year period stretching from 1st June to 31st May and is renewable.

**Risk coverage under this scheme is for Rs.2 lakh in case of death of the insured, due to any reason**

## **Atal Pension Yojana**

**APY** is open to all saving bank/post office saving bank account holders in the age group of 18 to 40 years and the contributions differ, based on pension amount chosen. Subscribers would receive the guaranteed minimum monthly pension of Rs.1, 000 or Rs.2, 000 or Rs.3, 000 or Rs.4, 000 or Rs.5, 000 at the age of 60 years.

**Under APY, the monthly pension would be available to the subscriber, and after him to his spouse and after their death, the pension corpus, as accumulated at age 60 of the subscriber, would be returned to the nominee of the subscriber**

## **CREDIT GUARANTEE FUND SCHEME**

It was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme.

**The scheme was formally launched on August 30, 2000, and is Operational with effect from 1st January 2000. The corpus of CGTMSE is being contributed by the Government and SIDBI in the ratio of 4:1 respectively.**

### **Eligible Lending Institutions**

The institutions, which are eligible under the scheme, are scheduled commercial banks (Public Sector Banks/Private Sector Banks/Foreign Banks) and select Regional Rural Banks (which have been classified under the 'Sustainable Viable' category by NABARD).

**As on March 31, 2010, there were 112 eligible Lending Institutions registered as (MLIs) of the Trust, comprising of 27 Public Sector Banks, 16 Private Sector Banks, 61 Regional Rural Banks, 2 Foreign Bank and 6 other Institutions viz.,**



## **Eligible Credit Facility**

The credit facilities which are eligible to be covered under the scheme are both term loans and working capital facility up to Rs.100 lakh per borrowing unit, extended without any collateral security or third party guarantee, to a new or existing micro and small enterprise.

## **Tenure of Guarantee**

The Guarantee cover under the scheme is for the agreed tenure of the term loan/composite credit. In case of working capital, the guarantee cover is of 5 years or block of 5 years.

## **Tenure of Guarantee**

The fee payable to the Trust under the scheme is one-time guarantee fee of 1.5% and annual service fee of 0.75% on the credit facilities sanctioned. For loans up to Rs.5 lakh, the one-time guarantee fee and annual service fee is 1% and 0.5% respectively.



http://

WEBSITE: [www.cgtsi.org.in](http://www.cgtsi.org.in)

# COLLATERAL FREE LOANS

Collateral-free loans imply any loan that is disbursed without supporting collateral or security to limit the lender's exposure to risk. A special type of collateral free loan scheme is available in India under the Credit Guarantee Fund Trust Scheme for Micro & Small Enterprises (CGTMSE).

Under this scheme, the micro and small enterprises (MSEs) are eligible for collateral free loans up to Rs.1. crore in value. The CGTMSE scheme had been introduced as a propellant to the lagging MSE industry in India.

## ELIGIBILITY

- Private limited companies with SME/SSI registration can apply.
- Product development expenses, procurement of computers, tools machinery etc.
- Share allotment proof.
- Share purchase agreement.

COLLATERAL  
FREE LOANS

## Features/ Benefits Under This Scheme

The loans are available for an amount up to Rs.2 crore (Rs.1 crore for retail trade) as per the terms of the MSMED, act of 2006.

These loans are available for working capital and term Loans

Both, New and existing MSEs can avail the loans

The entities excluded from the loan coverage are educational/training institutions, retail trade, and SHGs.

There may be loans for a higher amount as well.

Manufacturing, as well as the Service sectors are covered.

# BANKING COMPLIANCE

Compliance has traditionally been explained by reference to the deterrence theory, according to which punishing a behavior will decrease the violations both by the wrongdoer (specific deterrence) and by others (general deterrence).

Its function is to prevent, detect and address any and all deviations, illegalities and nonconformities in the company's operations.

- **Information**
- **processing; Security;**
- **Risk management;**
- **Ethical conduct and other controls;**
- **Data reliability**



**Pradhan Mantri  
Suraksha Bima  
Yojana**

01

## BANKING COMPLIANCE POLICY

- The banking compliance policy is a set of procedures that includes the guidelines to be followed, the definition of responsibilities and personnel in charge, as well as the means of communication between staff and senior management.



## BANKING COMPLIANCE DEPARTMENT & ITS ROLE

02

- financial investment accounts. Such actions are taken in an attempt to avoid or minimize administrative and financial losses to the bank

# CREDITWORTHINESS

Creditworthiness is determined by several factors including your repayment history and credit score. Some lending institutions also consider available assets and the number of liabilities you have when they determine the probability of default.

**Your creditworthiness is what creditors look at before they approve any new credit to you.**

## IMPORTANCE

Staying on top of your creditworthiness is important even when you don't have a credit card or loan application planned for the near future. Many other businesses, such as cell phone carriers and cable service providers, will consider your creditworthiness, too. Keeping your credit in the best shape possible



**BANKING**  
**OMBUDSMAN**  
**SCHEME**

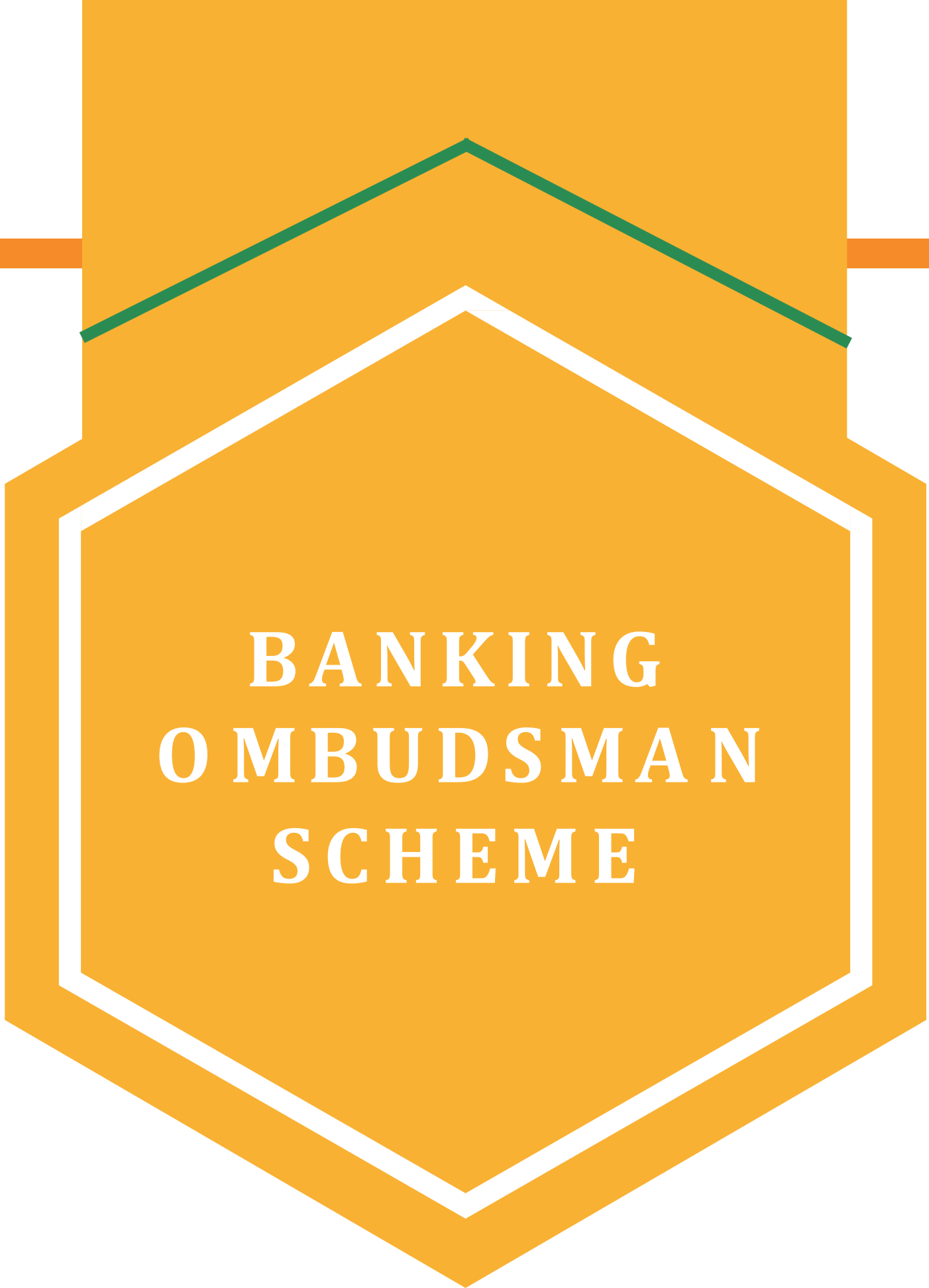


# BANKING OMBUDSMAN SCHEME

This Scheme was implemented by the RBI to redress the complaints of customers on certain types of banking services provided by banks and to facilitate the settlement of those complaints.

## NOTE

**The Banking Ombudsman actually is a senior official appointed by the RBI to redress customer complaints against pitfalls in the stipulated banking services covered by the Banking Ombudsman Scheme 2006 (modifications were made in 2017). As of the end of April 2018, twenty Banking Ombudsmen have been appointed with their offices located mostly in state capitals.**



BANKING  
OMBUDSMAN  
SCHEME



# ESTABLISHMENT OF BANKING OMBUDSMAN

01

**APPOINTMENT-** the Reserve Bank may appoint one or more persons to be known as Banking Ombudsman to carry out the functions entrusted to him by or under the scheme.

02

**TERRITORIAL JURISDICTION-** the Reserve Bank shall specify the territorial limits, to which the authority of each of the Banking Ombudsman appointed pursuant to Clause 4 shall extend.

03

**LOCATION OF OFFICE-** The office of the Banking Ombudsman will be located at such places as may be specified by the Reserve Bank.

04

**FACILITY FOR HAVING TEMPORARY HEADQUARTERS-** In order to expedite disposal of complaints, the Banking Ombudsman may hold sittings at other places within his area of jurisdiction.

05

**QUALIFICATION-** the Banking Ombudsman will be a person of high standing in the legal, banking, financial services, and public administration or management sectors.

# ESTABLISHMENT OF BANKING OMBUDSMAN

06

**TENURE-** the Banking Ombudsman will be appointed for a period not exceeding three years and be eligible for extension for a further period not exceeding two years subject to an overall age limit of 65 years.

**REMUNERATION-** The remuneration and other perquisites payable/extended to the Banking Ombudsman will be determined by the Reserve Bank from time to time

07

08

**STAFFING OF THE OFFICE-** the Banking Ombudsman shall be provided with a secretariat drawn from banks, Reserve Bank, etc. who will be placed on duty with the Office of the Banking Ombudsman.

## **INSTITUTIONS COVER UNDER SCHEME**

All Scheduled Commercial Banks, Regional Rural Banks (RRBs) and Scheduled Primary Co-operative Banks (UCBs) are covered under the Scheme.

### **PROCEDURE FOR MAKING A COMPLAINT**

A bank customer can file a complaint with the Banking Ombudsman simply by writing on a plain paper or through online.

- The bank fails to provide reply to the customer's complaint in one month
- The bank rejects the complaint,
- The complainant is not satisfied with the reply given by the bank.

### **OBJECT OF THE SCHEME**

**The object of the Scheme is to enable the resolution of complaints relating to the provision of banking services and to facilitate the satisfaction, or settlement of such complaints.**



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