



TOOLKIT

for

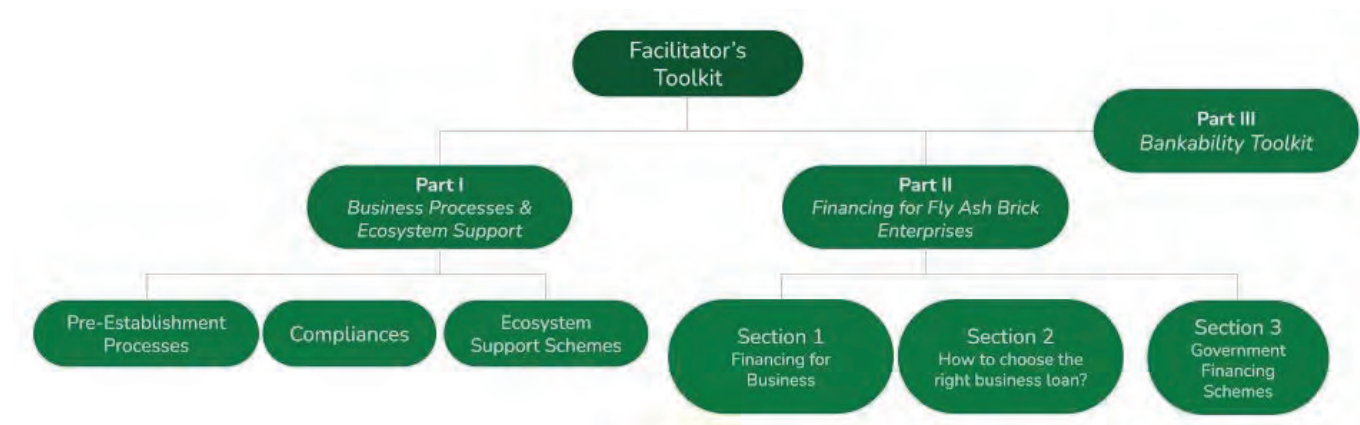
FACILITATING MICRO FLY ASH ENTERPRISES



ABOUT THE TOOLKIT

Fostering Ease of Doing Business for local green enterprises is a prerequisite for driving a green and inclusive economy in Bihar. To further it, Development Alternatives has designed this Facilitator's Toolkit for Fly Ash Brick Enterprises as an end-to-end guide for those wishing to start a fly ash brick unit in Bihar, as much as those who already have one and wish to expand it.

The Toolkit follows the following structure:-



APART FROM ENTREPRENEURS, THIS TOOLKIT WILL BE RELEVANT FOR



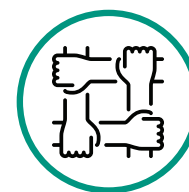
Government



**Enterprise
Facilitators**



**Industry
Association(s)**



**NGO/CSOs & Others Working
with Entrepreneurs**

BUSINESS PRIMER

As a new entrepreneur, it is relatively common to base the decision of starting a business on a few successful examples or decide against it, considering a few failed ones. Either way, the decision should be informed and not just based on the experiences of those near you.

This primer is a quick glimpse into the market of the fly ash bricks, to help you decide if this is a business you would want to start.

Cost Differential (approx. estimates)

	Fly Ash Brick per unit	Red Brick per unit
1. Cost of Manufacturing	Rs.6-7	Rs.8-10
2. Selling Price	Rs.8	Rs.9-12
3 Profit Margin	Rs.1	Rs.1-2

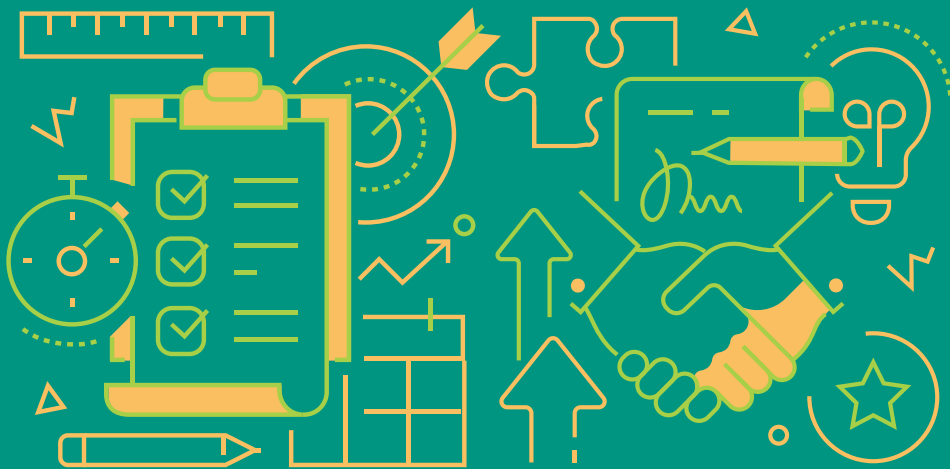
MARKET ANALYSIS

Who are the consumers of fly ash bricks? From where is the current demand for fly ash brick sourced?

- Majority of the demand of the fly ash bricks in Bihar are driven by the Government Contractors..
- Private Contractors have now started The Government of India has issued multiple notifications making usage of fly ash bricks mandatory in construction of Government buildings and structures – due to which, a huge proportion of demand today is being driven by the Government Contractors.
- Private Contractors come second in the list of demand sources for fly ash bricks. You can try and build partnerships with local building contractors to supply bricks to their projects.
- Individual households, though low in the demand pyramid, are also shifting their preferences and slowly but surely adopting fly ash bricks for house construction.

If this fits into your idea of a fly ash brick business and you would want to start a unit, this toolkit will come handy.

PART I **BUSINESS PROCESSES & SUPPORT FOR FLY ASH BRICK ENTERPRISES**



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Disclaimer:

This document is an outcome of a project titled, 'Sustainable and Green Recovery of Economy in Bihar under a Post-COVID Scenario'. It is intended for use by nano and micro enterprises operating in the Fly Ash Brick (FAB) sector in the State; and may as well serve as a reference for government and non-government stakeholders engaged in industry facilitation. However, the decision and responsibility to use the information contained in this document lies solely with the reader. The author(s) or publisher(s) are not liable for any consequences as a result of use or application of this document. Content may be used/quoted with due acknowledgment to Development Alternatives and Shakti Sustainable Energy Foundation.

Acknowledgement(s):

This toolkit is a result of multiple consultations held with stakeholders including entrepreneurs (FAB and non-FAB), financiers and Government Departments at State and District Level including Bihar State Pollution Control Board and Industries Department. We are thankful to them for their support.

We are also thankful to Shakti Sustainable Energy Foundation, for understanding the need for such a tool, and investing with resources for bringing this to reality.

Theme: Enterprise Support - Financial

Sector: Fly Ash Brick (FAB) Manufacturing

State: Bihar

Keyword(s): Government Financing, Private Financing, Financial Literacy

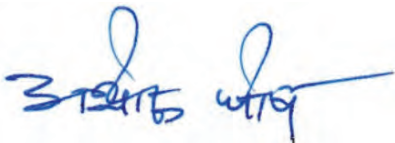
Foreword

Brick is an essential raw material for constructing houses. With over 50 percent of India's estimated building stock for the year 2030 yet to be built, one can reasonably expect the growth in demand for bricks to be phenomenal. As one of the major brick producing States, this gives Bihar a tremendous opportunity to bolster its brick sector and guide it towards sustainable practices – a process that can effectively promote and facilitate a green economic transition in the state.

The brick sector in Bihar is currently dominated by red bricks. It consumes 350 million tonnes of topsoil every year, affecting its availability for agriculture and threatening the sustenance of the agrarian economy. In addition to this, during the firing process, large quantities of coal are being burnt which contribute roughly 16 million tonnes of CO₂ to the State's annual emissions. The Government of Bihar is working in a big way towards achieving its Net Zero target of 2070, and therefore, reducing CO₂ emissions from the brick sector is an important mandate for them. Fulfilling the demand for bricks thus presents a valuable opportunity to promote Fly Ash brick enterprises who can play a leading role towards meeting Bihar's low carbon pathway ambitions.

The Bihar State Pollution Control Board (BSPCB), jointly with the Development Alternatives Group, conducted a study that found that at least 1000 new fly ash brick enterprises can be set up to utilise the fly ash already available and projected to be available in the State in the coming years. Interactions with stakeholders have highlighted the need for capacity building, financial literacy and access to credit to entrepreneurs as immediate concerns and this Toolkit is built towards filling these gaps.

My heartiest congratulation to the team at Development Alternatives for coming up with this comprehensive Toolkit for Facilitating Micro & Small Fly Ash Enterprises. Having said that, this is just the beginning. I look forward to witnessing the wide impact that this toolkit can have and wish the team all the best for taking it to fly ash brick entrepreneurs in the far corners of Bihar.



Dr. Ashok Kumar Ghosh

Chairman,

Bihar State Pollution Control Board



A glimpse into mindset shift among households. Those who had earlier constructed their houses with red bricks have started opting for fly ash bricks for new and existing construction. This glimpse is of a house near Raja Fly Ash Brick unit. With correct policy and behavioural nudges, adoption of fly ash bricks among households can be increased manifold

List of Abbreviations

BSPCB	Bihar State Pollution Control Board
CIN	Company Information Number
CLU	Change of Land Use
DA	Development Alternatives
DIC	District Industries Centre
DPR	Detailed Project Report
EAP	Entrepreneurship Awareness Programme
ESDP	Entrepreneurship Skill Development Programme
FAB	Fly Ash Bricks
FABE	Fly Ash Brick Enterprise
FARC	Fly Ash Resource Centre
GeM	Government e-Marketplace
GST	Goods & Service Tax
ITR	Income Tax Return
MCEFC	Micro and Small Enterprises Facilitation Centre
MDP	Management Development Programme
MSME	Micro, Small & Medium Enterprises
OEM	Original Equipment Manufacturer
UAM	Udyog Aadhaar Memorandum
ZED	Zero Effect, Zero Defect

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Glossary

Term	Definition	Applicability
Collateral/ Security	Any tangible asset such as an immovable property (land, building), jewelry etc which the borrower keeps with the bank in addition to promising the primary security.	Bankers feel more secure with collateral backed loans. Check the section 'Collateral and Repayment' for more details.
Detailed Project Report (DPR)	A comprehensive outline of the project. It consists of business, technical and financial aspects/estimations of the investment.	DPR can be a deal-maker or a deal-breaker for a loan application. A properly prepared DPR will give the banker confidence in the borrower's vision of the project, and ease out the loan conversion process.
Interest	The price you pay for borrowing money. It is distributed at set frequencies (monthly/yearly).	The type and percentage of interest can severely impact your total payments to the bank in lieu of loan. Check the section 'Interest, Margin Money & Moratorium' for more details.
Margin Money	Also called beneficiary's contribution, it is the percentage of the project cost that the borrower puts in from his own pocket.	Bankers ask for margin money to be sure of the borrower's financial stability or commitment to the project. Check the section 'Interest, Margin Money & Moratorium' for more details.
Moratorium	The time period right after the loan sanction, wherein the borrower doesn't have to pay any installment.	Moratorium is beneficial if your project requires some time before it reaps revenue. Check the section 'Interest, Margin Money & Moratorium' for more details.
Project Cost	The total fund needed to complete the project. It consists of both Direct Cost and Indirect Cost.	While applying for a loan, the applicant is required to mention the project cost.. The bankers generally provide a percentage of it as a loan (about 50-75%), in very rare cases 100% of the project cost is funded.
Repayment/ Loan Tenure	Number of months/years in which the loan (principal and interest) needs to be repaid to the bank.	Longer the loan tenure, smaller the installment amount and vice versa. You may want to check the section on 'Collateral and Repayment' for details.
Ticket Size	The loan amount.	Too small a ticket size (up to Rs.50,000) are generally rejected by the traditional bankers. Check footnote 11 of the document for more details.
Turnaround Time	The number of days/months an application takes to get a response (conversion/rejection).	If your loan requirement is immediate, a loan with longer turnaround time will not be feasible for you.

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Introduction

Brick Production in Bihar & Scope for Fly Ash

India is the second largest producer of bricks in the world, contributing about 13% of the global production (averaging to about 4.75 lakh bricks every single minute). About 65% of the national brick production comes from the North Indian States lying on the Gangetic belt – Punjab, Haryana, Uttar Pradesh, Bihar and West Bengal. From among these States, Bihar in itself produces about 23 billion bricks per year through its 7700 kilns. There is also an annual increase of 7-10% in the brick demand in the State of Bihar – widening the market for the entrepreneurs engaged in brick production.



The brick sector in Bihar is severely dominated by red bricks – the production of which raises two issues:-



1. **CO₂ Emission:** The brick production process involves coal burning. In fact, the brick sector in Bihar is the third largest consumer of coal in the State, contributing 16 million tonnes of CO₂ annually. This is likely to increase with growth in the building economy.



2. **Critical Resource Use:** The brick sector consumes about 350 million tonnes of topsoil every year for red brick production, severely affecting the availability of soil for agriculture, and severely impacting food security and livelihoods of those dependent on farm activities in the vibrant agrarian economy of Bihar.

Given these disadvantages of red bricks, the State Government is actively promoting a shift to cleaner technologies such as Fly Ash Bricks or FAB. In layman terms, fly ash¹ consists mostly of spherical, glassy particles that are produced as a by-product of coal fired power plants. If disposed improperly, fly ash acts as a health hazard but when utilized in the brick production process, it produces light-weight bricks with more strength, uniformity and density. Fly Ash Bricks require less water and less mortar during construction, making these an economically viable choice.

At the current availability of fly ash, the State of Bihar has the potential to support at least 1,000 new fly ash brick enterprises.



The State of Bihar has the potential to support at least

1,000
new fly ash brick enterprises

¹ When coal is ignited in the Thermal Power Plants, two types of residues are generated. The ash that settles at the bottom is called Bottom Ash or Coal Ash, and the ash that remains suspended in the air is called Fly Ash.

How to navigate through Part-I?

Compliances & Ecosystem Support Schemes.

These sections will answer questions such as:-

Section 1. Pre Establishment Processes

What should you check for while building your business and technical knowledge of FAB?

Section 2. Registration/Compliances for Fly Ash Brick Enterprises

What are the common compliances applicable to the fly ash brick enterprise?

Section 3. Ecosystem Support Schemes for FABE

What other training, marketing or business development related schemes are available for your enterprise?

You can read through these as independent sections, picking up the one of importance to your immediate need or if you are one of those planning to start a FAB enterprise, we suggest you follow through the sequence as is.

Section 1.

Pre Establishment Processes

Building an Understanding of FAB Businesses

Take this quick quiz to check your understanding of the fly ash brick business.

Knowledge Check - Activity 1

Which of these are mandatory raw materials for manufacturing a Fly Ash Brick:-

Fly Ash	Water	Sand	Lime	Cement
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

A FAB unit could be of which of these types:- Tick all applicable

Manual	Semi-Automatic	Fully-Automatic
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

As of today, who among the following places the highest demand for fly ash bricks?

Households	Private Construction Contractors	Government Construction Contractors
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

For how long can the machine operate in continuity, without a gap/break?

Up to 5 Hours	About 8-12 Hours	Above 12 Hours
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Two most common challenges found among those wishing to start a fly ash brick enterprise are the lack of business and technical knowledge, and lack of information on financing.

- **Business Knowledge** is the understanding of average investment required for setting up and running the unit, recurring expenditure and the profit margins.
- **By technical knowledge**, we mean the understanding of the need of raw material and their sources including costing), potential markets for selling off the product etc.

- **Information on financing** covers both financial literacy and knowledge of Government and private schemes to fill the credit gap for business.

This toolkit caters for the first two types of information, while the third i.e., information on financing is covered in detail in Part-II.

WHY DOES BUSINESS AND TECHNICAL KNOWLEDGE MATTER?

While the lack of technical knowledge may result in issues such as poor quality bricks, less than optimum resource efficiency (input to output ratio), more wastage etc, the lack of business knowledge means that even if you manage to produce market worthy bricks, you won't know where or how to sell those. Both of these are red flags when it comes to your credibility as a proprietor, especially in terms of whether you will be able to run the business or not.

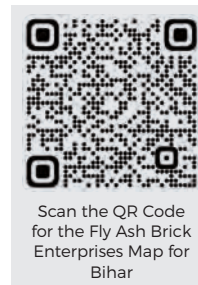
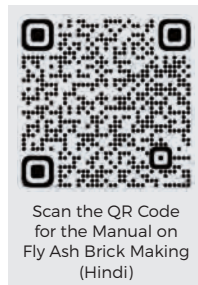
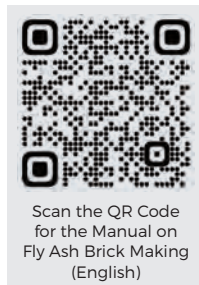
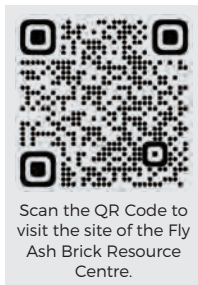
More often than not, those wishing to start a FAB enterprise start with incomplete business and technical knowledge, planning to learn along the way. This, in itself, is a risky proposition since you may be underestimating the amount of money and effort needed or may end up investing in the wrong type of assets (machinery and labors). It is important that you acquire as much knowledge of this business as you can before you decide to explore financing options.

HOW CAN YOU ACQUIRE THIS KNOWLEDGE?

■ **Step 1: Preliminary Research**

Start by checking videos regarding the fly ash brick processes on YouTube and reading articles online. This should help you have a basic understanding of fly ash brick business before you take the next step. *Development Alternatives (DA) in collaboration with the Bihar State Pollution Control Board (BSPCB) has developed a Fly Ash Resource Centre (FARC) that enlists resources related to the status of fly ash in Bihar, guidelines for procuring fly ash from thermal power plants etc. Scan the QR Code to visit the site.*

You can also check the Manual for Fly Ash Brick Making (available in English and Hindi) for the manufacturing processes.



■ **Step 2: One to One Connect with FAB Entrepreneurs**

Information gained at Step 1 is only preliminary, and may need to be verified on the field. This is where one-to-one connect with existing FAB entrepreneurs will help. Identify different scales of fly ash brick enterprises in your area and visit all of them. Speak to the proprietor to understand the investment and processes.

From where to get the details of FAB entrepreneurs in your area? Check the Fly Ash Brick Enterprise Map by DA and BSPCB. You can also contact the Fly Ash Resource Centre in Patna to get information.

Fly Ash Resource Centre

Room Number 201, Bihar State Pollution Control Board, Parivesh Bhawan,
Plot no. ns-b/2, Patliputra Industrial Area, Patliputra, Patna (Bihar) - 800 010
Phone Number - +91 8709875763
Email Id - flbresourcecenter@gmail.com

1.1 Deciding a Tentative Budget

Before finalizing any other factors of your fly ash brick enterprise, give yourself a tentative budget – not on the basis of how much your unit may require but on the basis of how much money you can spend at most. This will give you a figure to work with while deciding the land, labour or machinery. Just to give you a starting point, know that a basic fly ash unit requires anywhere from Rs.20-25 lakh to set up.



1.2 Deciding a Tentative Location

Similar to budget, you should also decide on a tentative location of your unit. This and the next step (Finalizing Land & Structure) can go hand in hand. If you already have land and would want to install a FAB unit there, your location is pre decided. If not, follow the tips below:-



Schedule 1: Do's and Don'ts of Deciding on a Tentative Location for FAB unit

	Do's	Don'ts
1.	Set location on the basis of proximity from market and labor source – this will cut down on the transportation cost for supplying the material.	Set location on the basis of that of thermal power plants or sources of other raw material – your plant may be closer to one source but away from the other. There is no cost cutting here.
2.	Conduct a market research and select the location which is closest to the customer and labour network.	Base your decision on anyone's suggestion or because there are too many/too few FAB units in your area.
3.	Units on the roadside or closer have advantage of good connectivity.	Install your units too deep into a village.

SITING CRITERIA BY THE STATE POLLUTION CONTROL BOARD

Irrespective of the nature of land (self-owned or rented/leased), you need to comply by revised siting criteria laid down under Bihar State Pollution Control Board notification dated 08.11.2003² and revised as on 11.09.2018. As per this, a fly ash unit needs to be set up 100 meters away from habitation, 200 meters from school/hospital & courts, 50 meters from river/wetland and 25 meters from national highway/State Highway/Railway line³.

Inspection can be conducted by the State Pollution Control Board on complaint, and if found guilty, the entrepreneur can be charged with fine or a penalty while requiring to shift the unit as per the criteria. The best practice is to inform the State Pollution Control Board about your unit as soon as possible.

2 Bihar State Pollution Control Board notification dated 08.11.2003 on Guidelines under the Provisions of Section 17, 25/26 and 17, 21 of the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981

3 List of industries with revised siting criteria (Distance in m)

1.3 Finalizing the Land & Plant Infrastructure



You need land for two purposes in the fly ash brick process:- one, for putting up a shed with a machine for producing fly ash bricks and second, as a separate area for stacking and curing bricks. If you already have a land or are planning to procure one for setting up a fly ash brick unit, either way, be mindful of the following:-

1.3.1 SIZE & NATURE OF LAND

- A minimum of half an acre or 20000-25000 square foot of land is required for setting up a fly ash brick unit.
- The land shouldn't be agricultural. If it is, you will have to convert it to non-agricultural/commercial land by undertaking a Change of Land Use (CLU) certificate. Note that you can also not put agricultural land as collateral for business loans.

1.3.2 STRUCTURE/SHED:-

You will need to level the land and install a shed under which the machines will be installed. The minimum shed size needed for a FAB unit is 25ft x 30ft.

Schedule 2: Land and Shed Size by Production Capacity (approx.)

	Production Capacity	Minimum Land Size	Minimum Shed Size
1.	Up to 5000 bricks/shift ⁴	20000-25000 sq ft	25ft x 30ft or 25ft x 35ft
2.	Up to 10000 bricks/shift	~30000 sq ft	25ft x 30ft or 25ft x 35ft
3.	Up to 30000 bricks/shift	~45000 sq ft	60ft x 40ft

In addition, you may need a space to build a small office/sitting area, separate toilets for men and women, storage space etc. Add on the area required for these while you calculate the total land requirement.

1.3.3 ELECTRICITY CONNECTION:-

You will need electricity to run the machines in the unit.

- Application for Electricity Connection:- In order to get an electricity line, visit the Vidyut Vibhag and submit the application.
 - In case of a self-owned land, you will need to submit your Aadhaar Card, Ownership Certificate and Tax Receipt.
 - In case of a rented/leased land, you will need to submit an Aadhaar Card (both yours and the owner's), Agreement from the Owner and Tax Receipt. Note that in this case, the Tax Receipt will be in the name of the owner, and the agreement will state that he/she is renting/leasing you the land for the specified period of time at the given cost.

It takes anywhere from a few weeks to a month to get the confirmation letter from the Department. Once received, an official would visit your land and set a meter for electricity.

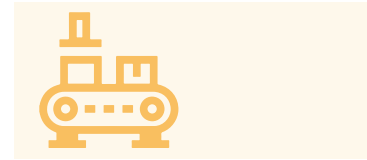
- Some FAB entrepreneurs also keep a DG set in order to feed electricity into the machines during power cuts.

1.3.4 WATER CONNECTION:-

Water is used in FAB units for general human consumption and for curing the bricks. FAB entrepreneurs in Bihar usually drill bore into the underground water reserve to fulfill this need.

⁴ A shift is usually 8 hours, and can be extended up to 12 hours at most. The machine cannot run continuously for longer without overheating.

1.4 Finalizing Machinery & its Type



There are three types of fly ash brick units:-

- Manual Fly Ash Brick Unit:-** The entire process from mixing the raw material (fly ash, sand, water and cement), to feeding it into the machine and stacking the bricks for curing is done by workforce. The machine is simply a hand run tool to mold the mixture into the shape of a brick.
- Semi-Automatic Fly Ash Brick Unit:-** In this set up, there is no automation in the handling system - it has to be manually batched and stacked for curing.
- Fully-Automatic Fly Ash Brick Unit:-** The only difference between this and the semi-automatic fly ash brick unit is that there is a separate loader and batching plant that helps in mixing and feeding the raw material into the machine, and at the other end of the cycle, an auto-stacker stacks the bricks without any human intervention.

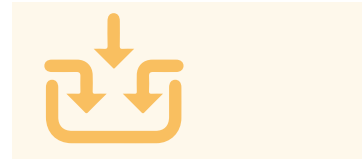
Schedule 3: Difference between Manual, Semi-Automatic and Fully-Automatic Units

Stages of Brick Production / Type	Minimum Investment	Production Capacity	Stages of Production Process				
			Batching & Mixing	Feeding the mixture into the Machine	Brick Molding	Stacking	Curing
Manual Unit	Rs.20-25 Lakh onwards	250-500 bricks per hour, depending upon the workforce	Done Manually	Machine is involved but still needs some human intervention			Done Manually
Semi-Automatic Unit	Rs.30-35 Lakh onwards	Up to 1500 bricks per Hour	Need some human intervention	Machine is involved, with none to minimal human intervention			Done Manually
Fully-Automatic Unit	Rs.75 Lakh onwards	Up to 7000 bricks per Hour	Machine is involved, with none to minimal human intervention				

Things to consider before deciding on a type of unit:-

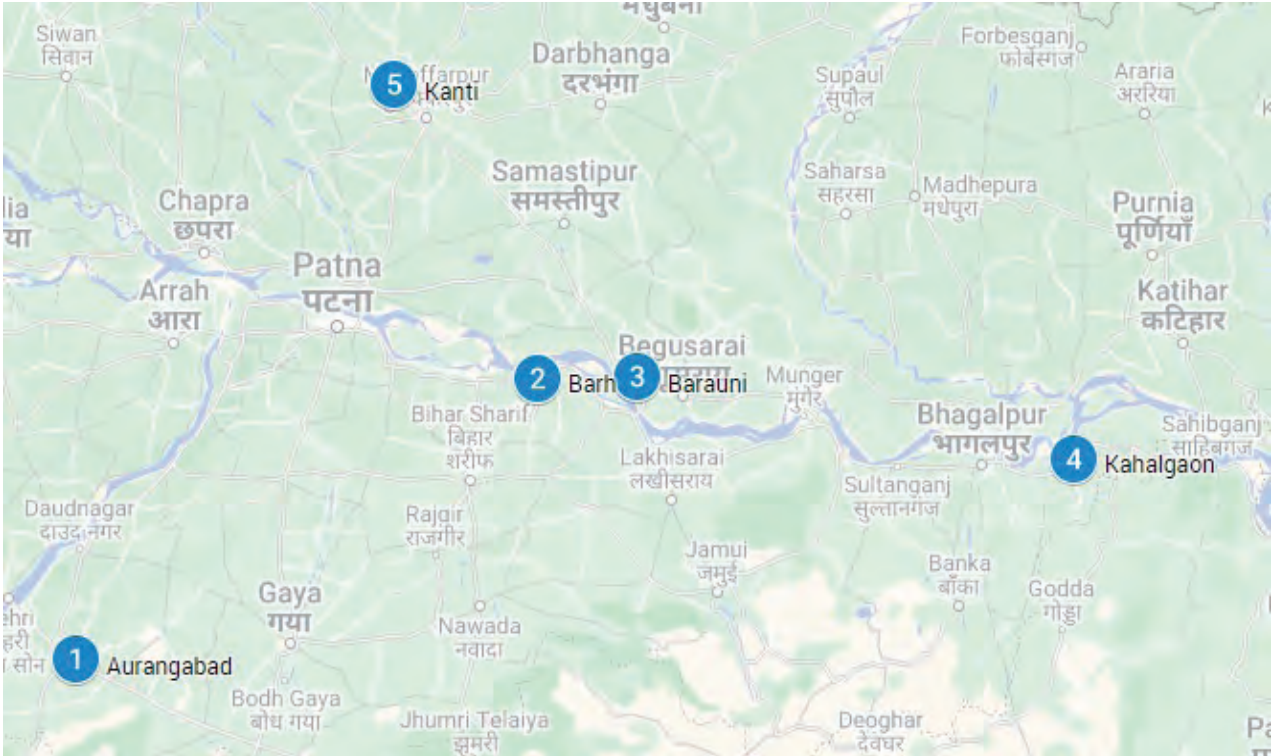
- Compare the price and efficiency of the machine from multiple vendors. Check if the machine asks for too much maintenance and prefer the one which you know would be able to bear the maintenance cost of.
- In the case of a fully-automatic unit, you cannot wait for the previous batch to sell out before producing another batch. The cost of stopping the production process is too high. There are similar challenges with semi-automatic units too, though not at such a level. Manual units can be operated as required.
- Fully-automated units require trained workforce. You may want to check for the availability and wage rate of such workers to estimate your total cost of running the unit. Semi-Automated Units need a few trained resources, but most of the work can be handled by unskilled workers. In manual units, though you may benefit from one or two trained workers, you can even train the unskilled worker to use the machine in order to get the work done.

1.5 Understanding Inputs



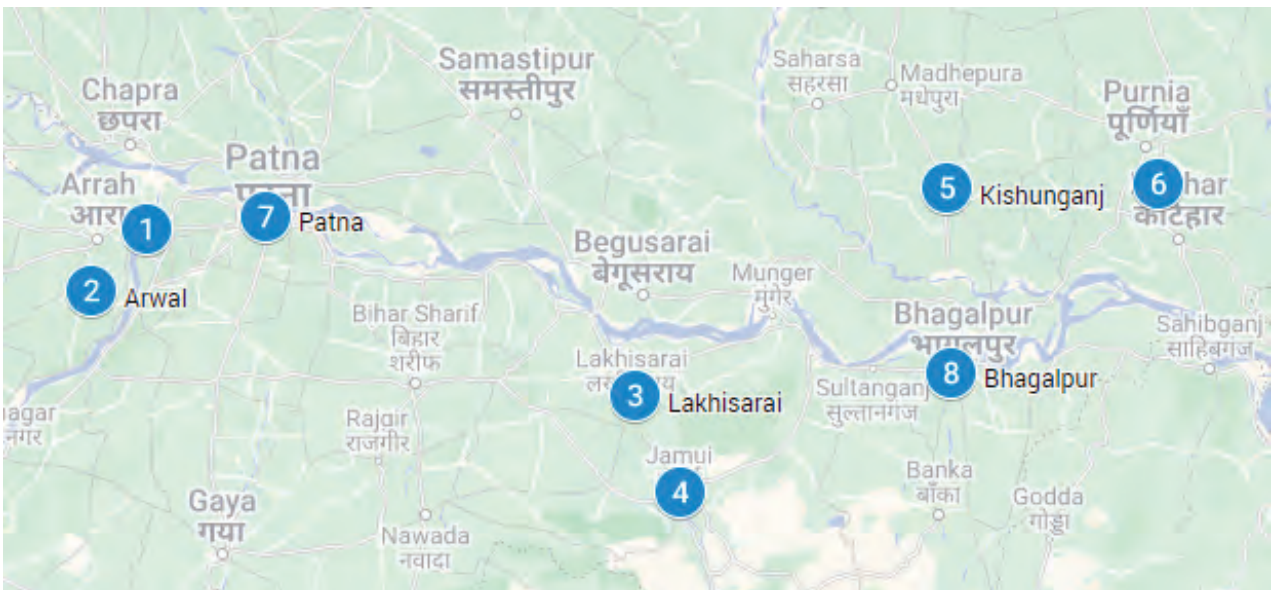
Raw Material: The basic raw materials required in the brick manufacturing process are fly ash, cement, sand and water. Some entrepreneurs do also add lime or gypsum in the mixture, but that is optional. Of the mix, water is procured at the site while the rest of the raw materials are purchased in and outside Bihar. Given below are some prominent ones for quick reference.

- **Sources of Procuring Fly Ash:** Fly Ash is procured directly from the thermal power plants in Bihar. Some of the prominent sources of procuring fly ash are (1) Aurangabad, (2) Barh, (3) Barauni, (4) Kahalgaon and (5) Kanti. These can be found mapped below:-



Map 1: Prominent Sources of Procuring Fly Ash in Bihar

- **Sources of Procuring Sand:** Sand is procured from the Gangetic riverbeds. Prominent sources include (1) Koilwar, (2) Arwal, (3) Lakhisarai, (4) Jamui, (5) Kishunganj, (6) Bilorja, (7) Patna and (8) Bhagalpur. These are plotted on a map above for reference.



Map 2: Prominent Sources of Procuring Sand in Bihar

- **Sources of Procuring Cement:** Cement can be procured from any rail rake points in bulk, or in case required in low quantity, is also purchased from the local vendors. There is as such no prominent procurement points.
- Lime is usually imported from Rajasthan and dust is procured from Koderma, Gaya and Sheikhpura in Bihar.

Please note that the list isn't exhaustive. The maps given below highlight the prominent sources of procurements, but there may be others too closer to your unit location. Contact the Fly Ash Resource Centre for more details.

Things to consider before deciding upon a procurement source for raw materials:-

Compare price and availability. You would want to stick to a vendor who can provide you raw material in continuity with minimal price increases. For raw materials apart from fly ash, you may also want to have more than one vendor in order to reduce dependency on one.

Knowledge Check - Activity 1

Which of these are mandatory raw materials for manufacturing a Fly Ash Brick:-

- | | | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------|-------------------------------------|
| Fly Ash | Water | Sand | Lime | Cement |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

A FAB unit could be of which of these types:- Tick all applicable

- | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Manual | Semi-Automatic | Fully-Automatic |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

As of today, who among the following places the highest demand for fly ash bricks?

- | | | |
|--------------------------|----------------------------------|-------------------------------------|
| Households | Private Construction Contractors | Government Construction Contractors |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

For how long can the machine operate in continuity, without a gap/break?

- | | | |
|--------------------------|-------------------------------------|--------------------------|
| Up to 5 Hours | About 8-12 Hours | Above 12 Hours |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

Section 2.

Registration/ Compliances for Fly Ash Brick Enterprises

Clearing the Concepts: Registrations v/s Compliances v/s Licenses

The terms 'Registration', 'Compliance' and 'License' are often used interchangeably. The meaning, however, differs by the purpose it serves and its nature.

- Registration usually serves as a proof of business identity i.e., if you approach a banker for a loan today, this document/certificate will tell him about the name, address and activity the business is engaged in. Some registrations may have the proprietor's name, some may not.
- Do not be confused with the use of the term 'registration' in the name of compliances such as Goods & Services Tax (GST) Registration. When in doubt, check if you can be fined or penalized in case that specific document is not taken. If yes, it is a compliance; if not, it is a registration.
- License is 'permission'. If you cannot start a business or a particular activity without a specific document, it is a license. This differs from compliance in the sense that licenses are most often than not obtained at preoperative level. You take permission before starting an activity for which the permission is needed. Compliance is required to be availed as and when an enterprise meets a certain criteria. Say, a manufacturing enterprise may not be eligible for GST at the time of establishment but may have to avail it once it crosses a certain turnover threshold.

Given below is a comparison matrix of the three for more clarity.

Schedule 4: Difference between Registration, Compliance & License		
	Can it act as a business identity proof?	Is it mandatory for the business?
Ask yourself this:-	Would the document be accepted to prove that your business exists, engaged in the activity and at the location you claim it to be?	Can you be fined or penalized, in case this document is not taken?
Registrations	Yes	Mostly optional, but if availed, may provide access to benefits
Compliances	Mostly, yes	Yes, if applicable (if your business meets the eligibility criteria)
License	Often, not	Yes, if applicable
Case in Focus	Bankers accept both Udyam and GST Registration as a proof of business; the first is a registration, the second - a compliance.	Consent to Establish (CTE) and Consent to Operate (CTO) are both licenses which any polluting industry (such as red brick production) needs to avail from the Pollution Control Board before starting any operation; one can be charged with penalty in case of non-adherence.

2.1 Registrations & Compliances

Every business requires a set of registrations and compliances. Given below are the ones most applicable to fly ash units.



Is Consent to Establish (CTE) and Consent to Operate (CTO) required for Fly Ash Brick units?

The Central Pollution Control Board (CPCB) has classified all industries into four types on the basis of their pollution generation potential. Red category consists of highly polluting industries, followed by Orange and Green. Industries under all three of these categories need to mandatorily obtain the Consent to Establish (before construction of the site) and Consent to Operate (before starting the production) from the State Pollution Control Board.

In 2016, another category was added to the list – White, consisting of all non-polluting industries. Any industry under white category is, exempted from these two licenses.

Fly Ash Brick (FAB) manufacturing has been categorized as a white industry - given which, you do not need to apply for these before construction of site or production.

1. UDYAM REGISTRATION

Every Micro, Small and Medium Enterprise which is not registered under the Companies Act 2013 needs an alternate business identity proof that verifies the nature, location and activity of the business. Udyam Registration is a free online registration that generates such a proof. It allocates each registered enterprise a 12-digit unique identity number, which may be used for applying for availing various other Government schemes and incentives.



Eligibility:

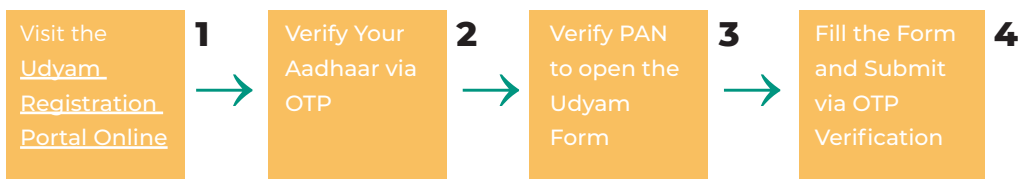
Any Micro, Small or Medium Enterprise (MSME).

Documents: No document needs to be uploaded while making the application for Udyam Registration. Some pre-requisite information pieces are:-

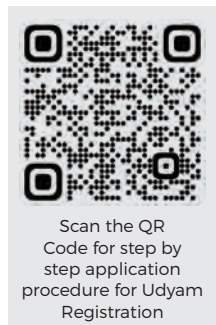
- Aadhaar Card, must be linked with mobile phone
- PAN Card Number
- GST Number, if applicable
- ITR Form Type
- Bank Account Details (Branch Name, IFSC Code and Account Number)

Application Process

Application for Udyam Registration is completely free and online. In order to apply, follow these steps:-



Please note that the spelling entered in the 'Name of Entrepreneur' should be as is in the Aadhaar Card. Any change in spelling will result in an error. You will have to verify OTP on your phone twice in the process – first during the Aadhaar verification and second during the application submission.



Post-Application Process



Figure 1: Acknowledgement Message of Udyam Registration

On successful submission, you will be shown an acknowledgement similar to the one given here. Note down the Reference Number immediately; know that the acknowledgement is a one time message i.e, it cannot be retrieved if the tab/window is closed or refreshed.

For fresh applications such as this one, the information is validated at the backend within 7 days.

How to retrieve the Certificate?

- After 7 days from the date of application submission, go to https://udyamregistration.gov.in/Udyam_Login.aspx.
- Enter your Udyam Reference Number and the Mobile Number (as filled in the application). Verify via OTP either on mobile or email.
- On verification, your Udyam Certificate will be generated. Download/save the certificate for future reference.

Things to take care of:-

- Please provide only that mobile number and email ID in the Udyam application which will be accessible to you throughout the duration of running the enterprise. In case of any change, update your certificate online.
- The Government of India has given each manufacturing, service and retail activity a 5 digit code for easy identification. This code is called National Industrial Classification (NIC) Code. It is extremely important to enter the right code for each activity being undertaken by the enterprise, in the Udyam application. For fly ash brick making, the code is 23921 Manufacture of bricks.

Whom to contact for more information:-

General Manager, District Industries Centre (DIC)



Scan the QR Code
for list of District
Industries Centres in
Bihar

FREQUENTLY ASKED QUESTIONS (FAQS)

1. How is the certificate issued?

After application submission, your details will be verified at the backend and your certificate should be generated digitally within 7 days. You will have to visit the Udyam website in order to check and download it.

2. What are the common error codes one can get during Aadhaar verification? What can be done in each case?

There are three common OTP error codes one can get during the Aadhaar verification, while attempting Udyam Registration. These are given below with solutions:-

Schedule 5: Common Error Codes in Udyam Application		
OTP Error Code	Meaning	What can be done?
Error Code 111: Aadhaar Card does not have a verified mobile number	Your Aadhaar is not linked with a mobile number.	Visit your nearest post office or CSC Centre to get your Aadhaar linked with the mobile.
1) There is an error in Aadhaar Validation/Authentication. Error Code: Pi (basic) attributes of demographic data did not match. 2) Your Aadhaar has not been validated hence you cannot register Udyam. 3) Please Visit Your Nearest Aadhaar Enrolment Centre.	The details entered by you do not match those available in the UIDAI database.	Check if you have put the correct Aadhaar number. If yes, check next if the spelling under 'Name of Entrepreneur' is as given in the Aadhaar Card. The error is usually resolved if both the inputs are corrected.
Error Code 8899 – something unexpected happened	This could be due to network issues. The other common reason for this message to show is when the server is down.	Check your network connectivity. Reattempt the verification after a few minutes.

3. “I have applied for my PAN Card but haven’t got it yet. Can I still apply for Udyam Registration?”

No, the application form for Udyam will only open once your Aadhaar and PAN details are verified. If your application for PAN is in process, it means that the PAN number is not officially in the Government database yet and cannot be verified. Attempt again after getting your PAN Card.

4. “Do I need an Individual PAN or a Company PAN to apply for Udyam?”

There are two different types of PAN Cards - Individual PAN (registered in name of an individual) and Company PAN Card (registered in name of the Company). Individual PAN Card is issued in the name of a person and usually includes his/her photograph and date of birth. Contrary to it, Company PAN Card is issued in the name of the company as its identity proof, and includes date of incorporation instead of DOB. There is no photo on the Company PAN Card.

You will only have a Company PAN Card if your enterprise is registered under Companies Act 2013. In that case, you need to register for Udyam using this only. In case of sole proprietorship or entity types wherein the registration under Companies Act 2013 is not applicable, register using your Individual PAN Card.

5. “I am a fly ash brick manufacturer, with two units – one in Nalanda and the other in Vaishali. Do I need separate Udyam Registrations for both the units?”

No, you will have to enter details of individual units under Unit Address during Udyam application. The Udyam Certificate will be issued in the name of the enterprise, mentioning the existence of two units under it.

6. “I am registering my enterprise for Udyam but cannot identify the Income Tax Return Form Type (3,5,6 or 4). How to find it out?”

The ITR Type is usually mentioned on the upper right hand side of the ITR form/receipt. Ask your CA or accountant to check for it or check it yourself.

7. “I forgot to note down the Udyam Reference Number after the application submission of Udyam. Is there any way I can still generate my Udyam Certificate?”

You will need your Reference Number in order to generate/download the Udyam Certificate. In case you forgot to note it down or have lost it, visit <https://udyamregistration.gov.in/UAM-convert-udyam-msme-free-registration.htm>. Tick Udyam Registration and enter the mobile number or email address given in the application. You will be able to see your Reference Number once verified via OTP on the selected option (mobile number/email ID).

8. “I don’t remember the email address given in the Udyam Application and don’t have access to the mobile number either. Can I still find out my Reference Number or generate the Certificate?”

No, you need to have access to at least one of the two options – mobile number and email address given in the Udyam application in order to find your Reference Number or generate the Certificate. In this case, the best way out will be to approach your nearest DIC for support.

9. “I need to change some details in my Certificate. Can it be done?”

You can change some details of the Udyam Certificate, but only after it is generated i.e., you will have to wait at least for a week after application. In order to change details, visit https://udyamregistration.gov.in/Udyam_Login.aspx. Enter your Reference Number and mobile number (as given in the Udyam Application). Verify via OTP to open the editable version of the certificate. Change the details as required and save via OTP verification.

10. “Can I download the Udyam Certificate anytime, now that I have the Reference Number?”

Once generated, a digital copy of your certificate is stored on the official Udyam website. As long as you have the Reference Number and access to the mobile number given in the application, you can download the certificate as many times as you want.

11. “I want to close my enterprise and start a new one. Should I let my Udyam Certificate be?”

No, make sure that you cancel your Udyam Certificate as soon as your enterprise is closed. You can do so by following the same process as for Updating Udyam (Check Q8).

2. MIGRATION FROM UDYOG AADHAAR MEMORANDUM (UAM) TO UDYAM OR RE-REGISTRATION TO UDYAM

Udyog Aadhaar Memorandum (UAM) is the earlier version of Udyam Registration. Similar to Udyam, it acted as the business identity proof for the MSMEs and provided access to apply for an array of Government schemes and incentives, especially those provided by the Ministry of MSME. With the launch of Udyam Registration though in June 2020, UAM was decided to be discontinued. All those registered with UAM are required to immediately shift or migrate to Udyam Registration, a process called 'Re-Registration'.



Eligibility:

MSMEs already registered with Udyog Aadhaar Memorandum (UAM) are eligible to re-register.

Documents: Similar to the case of Udyam Registration, the applicant isn't required to upload any document during Re-Registration. In fact, given that this process is simply a shift from the old format to new one, most of the details are prefilled in the application on the basis of information given in UAM. The following may still be needed though:-

- Udyog Aadhaar Memorandum (UAM) Number, to open the form
- Banking Details (Bank Name, IFSC Code, Account Number)

Application Process

Application for Re-Registration to Udyam is completely free and online. In order to apply, follow these steps:- Visit the Re-Registration Page on Udyam Website → Verify Your UAM Number → Verify PAN to open the Udyam Form → Fill the Pending Details and Submit via OTP Verification

In this case too, you will have to verify OTP in order to submit the application. In re-registration cases, considering that most of the details may already have been verified during the UAM issuing process, the validation only takes 2-3 days. In fact, for businesses with no ITR filing, the new certificate is issued immediately.

How to retrieve the Certificate?

- Go to https://udyamregistration.gov.in/Udyam_Login.aspx.
- Enter your Udyam Reference Number and the Mobile Number (as filled in the application). Verify via OTP either on mobile or email.
- On verification, your Udyam Certificate will be generated. Download/save the certificate for future reference.

Whom to contact for more information:-

General Manager, District Industries Centre (DIC)



Scan the QR Code
for list of District
Industries Centres in
Bihar

3. GST REGISTRATION

GST Registration is a mandatory registration for any enterprise with a turnover more than Rs.40 lakh in case of manufacturing business (called 'Supplier of Goods' in GST terms) in general States and Rs.20 lakh in Special Category States⁵. For service enterprises or 'Supplier of Services', the threshold is Rs.20 lakh and Rs.10 lakh for general and Special Category States respectively.

Eligibility:

- Any enterprise with aggregate turnover⁶ crossing the threshold mentioned above is by law required to register for GST.
- Businesses with inter-State trade as well as those registered on e-commerce sites need to obtain the registration irrespective of the turnover.

Documents Required:

The list of documents required for GST registration differs by the type of business (Proprietorship, Partnership, Hindi Undivided Family etc). The following are the documents required by sole proprietors. In case of other business types, these documents remain the same and in addition, some more business specific documents are attached.

- Aadhaar Card of the Proprietor
- PAN Card (Individual or Company)
- Passport Size Photograph
- Bank Passbook or Canceled Cheque
- Proof of Business Address: Any one of:-
 - Electricity Bill, mentioning the name of the owner/proprietor
 - Tax Receipt
 - In case of rented/leased premises, rent deed or lease agreement

Application Process

Application for GST can only be made online. It is a 2 step process:- You first create an account (called 'Part-A' of the application) and then apply for the GST Registration (called 'Part-B' of the application). In case of a proprietor, apply as a Normal Taxpayer. Follow the tutorial for step by step procedure.

Post Application Process

Once you submit your GST application, it is allocated to an official at the backend, who conducts the first round of verification on your details. In case of any gap (including blur or unclear images), the comment is dropped online on the GST portal - to be resolved by the applicant usually within 7 working days. On resolution, the application is forwarded for next steps.

GST Certificate is generated online on the official website, post verification. You can login to your account using the application number and check for the status.

Whom to contact for more information:-

Contact at the GST Helpdesk at 1800-103-4786

5 Special Category States are as follows:- Arunachal Pradesh, Assam, Jammu and Kashmir (Fully exempted), Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.

6 Aggregate Turnover is the total turnover of your business, covering multiple units. It is calculated as:- Value of all (taxable supplies+Exempt supplies+Exports+Inter-state supplies) - (Taxes+Value of inward supplies+Value of supplies taxable under reverse charge + Value of non-taxable supplies) of a person having the same PAN (Permanent Account Number) across all his business entities in India.



Scan the QR Code for video tutorial of GST Registration Process.

Section 3.

Ecosystem Support Schemes for FABE

Introduction to Ecosystem Support

WHAT ARE ECOSYSTEM SUPPORT SCHEMES?

Schemes targeted at supporting enterprises with procurement, marketing, operational efficiency, skill development & training as well as grievance redressal are called ecosystem support schemes. The Central Government has released a number of such schemes for MSMEs, especially for micro entrepreneurs. Some of these schemes as applicable to the FAB enterprises are mentioned in the subsequent pages.



WHAT SHOULD YOU PAY HEED TO IN SUCH SCHEMES?

More often than not, entrepreneurs prefer financing schemes over ecosystem support schemes or in the worst case scenario, completely ignore the latter. While it is true that financing is an important mobiliser for enterprises, it is important to understand that only finance doesn't run a business. Consider this:-



You got a working capital loan of Rs.4 lakh, which you spent on purchasing raw materials for FAB. In absence of proper business knowledge, even with the finance, you may not be able to position your product properly in the market. Or, due to lack of business visibility, you may not be able to find enough buyers to clear your stock. Another scenario is that your buyers/Contractors may not pay you on time, resulting in the cash flow issues at your enterprise.

The impact of all these factors can be lessened, if not eliminated completely, with ecosystem support schemes.

HOW TO NAVIGATE THROUGH THIS SEGMENT?

This segment covers ecosystem support schemes, one each for marketing, operational efficiency, skill development and grievance redressal. Don't go for all these schemes at once! Identify the immediate need of your enterprise, apart from loan, and check a scheme that aligns with it.



3.1 Ecosystem Support Schemes

1. REGISTRATION ON GOVERNMENT E-MARKETPLACE (GEM) PORTAL NATURE OF ASSISTANCE:



Marketing/Product Visibility

Government e-Marketplace (GeM) is the National Public Procurement Market, via which the Central Government, State Governments, autonomous bodies and agencies procure products and services from the private suppliers. Originally only meant for procurement by the Government Department, it is now open to private buyers too. As of 2019, more than 40,000 buyers were registered on the Government e-Marketplace.

Documents:

- Proof of Identity:
 - Aadhaar Card, must be linked with mobile phone, OR
 - PAN Card¹
- Address Proof
- Bank Account Details: Canceled Cheque Copy
- Business Identity Proof:
 - Udyam Registration (formerly called 'Udyog Aadhaar Memorandum') OR
 - In case of startup, DIPP Number
 - In case of Public/Private Limited Company, Company Information Number (CIN)
- VAT/TIN if applicable

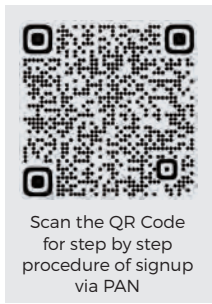
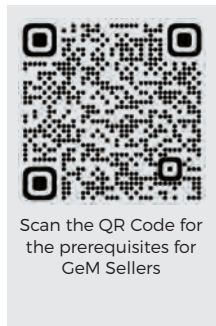
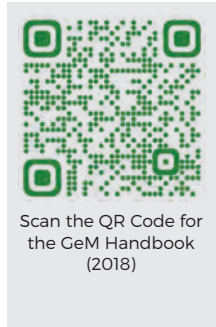
Application Process

Seller Registration on the Government e-Marketplace is of two types:- one, as an Original Equipment Manufacturer (OEM) and second, as a reseller. As the names suggest(s):-

- Original Equipment Manufacturer (OEM) refers to the individual or entity originally manufacturing the product.
- Resellers refer to distributors or suppliers, who purchase the product from the OEMs and sell it further with a small added profit margin. Thus, any product being provided by the reseller would have a higher price than the same provided by the OEM.

A FAB Enterprise will be registered as an OEM since the bricks are manufactured in-house. The registration process is slightly longer in this case, in comparison to the process followed by resellers. In order to register as an OEM, follow through the process in the given sequence:-

Visiting GeM Seller Portal → Reviewing Terms & Conditions → SignUp Using PAN or Using Aadhaar Card → Profile Updation → Creating Secondary Seller (if applicable)



¹ In the case of proprietorship, an Individual PAN Card would work. But if you are registered under Companies Act 2013, you need to provide a Company PAN Card.

A few things to take care of while registering:-

- At SignUp Stage,
 - In case authenticating via Aadhaar, please ensure that your Aadhaar is linked to a mobile number.
 - In case authenticating via PAN Number, please enter the details exactly as given in the PAN Card. Any change in spelling will cause rejection in the verification
- At Profile Updation Stage,

If registering as an OEM, you will have to pay a one time fee called 'Caution Money'² as per the following turnover criteria.

S.No	Seller Turnover	Caution Money
1	Seller Turnover Less than Rs.1 Crore	Rs.5,000/-
2	Seller Turnover in between Rs.1 Crore to Rs. 10 Crore	Rs.10,000/-
3	Seller Turnover more than Rs.10 Crore	Rs.25,000/-
	Vendor Assessment Charge	Rs.11,200 + GST

Schedule 6: Caution Money charges for Government e-Marketplace Registration

This payment is to be made online, and is completely refundable.

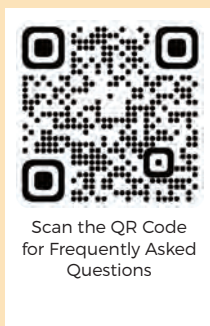
Post-Application Process

Post application, you can explore your Vendor Dashboard to check for bids. If registering as an OEM with products falling under Q1 and Q2, it is also mandatory to initiate the Vendor Assessment process through the Dashboard. Post the assessment, a report is made available on the GeM Portal too as a mark of authenticity of the seller.



Whom to contact for more information:-

Business Facilitator, Government e-Marketplace
Check the details here: https://gem.gov.in/aboutus#gem_ofc



² There is as such no fee to onboard on GeM Portal. Caution Money is a form of security which can be refunded later.

FREQUENTLY ASKED QUESTIONS (FAQS)

1. "I was told that there is no fee for onboarding on GeM Portal, but the previous section talks about Caution Money. So is there a fee or not?"

Caution Money is a refundable security with the GeM Portal. It is still not a fee, which by definition, is always non-refundable.

2. "But there is a fee for Vendor Assessment. What is it?"

Every OEM with products falling under Q1 and Q2 category needs to initiate the process of vendor assessment. It is a process to verify your business authenticity and quality of products/ services. Once you submit your vendor assessment form online, your details are forwarded to an assessment agent (currently, Quality Council of India is responsible for all vendor assessments). Apart from verifying the submitted documents, the agency may as well conduct a video call to verify the location of the business, process capacity, safety measures etc.

There is a common fee of Rs.11,200 + GST on vendor assessment.

3. How do I know if my product falls in the Q1 and/or Q2 category?

In order to maintain genuinity of sellers on the platform, GeM has adopted a Quadrant Policy, which divides the types of sellers into four cases.

- Q1 Category: Product offers in categories under this group will be solely offered by GeM validated OEMs.
- Q2 Category: OEMs operate Marketplace by providing its complete list of open market authorized sellers, along with formal commitment to list and maintain all appropriate and current Product Catalog for pairing by its Resellers.

The other two categories are as follow:-

- Q3 Category: Product offers in categories under this group can be from OEMs and/or their Authorized Resellers concurrently. In case OEM has not created a Product Catalog, Authorized Resellers of OEMs are also permitted to do the same.
- Q4 Category: Product or services in categories under this group can be from OEMs and/or Resellers. In case an OEM has created a Product Catalog, then their catalog will be used exclusively for pairing by all Resellers without any requirement of further endorsement of any kind by the OEM.

4. Are there any exemptions in case of Vendor Assessment?

Only the following types of entities are exempted from the process of vendor assessment:-

- OEMs having the annual turnover of Rs.500 Crore and more;
- Central Government or State PSUs;
- Vendors of Stationery items (except paper) where average volume of transactions on GeM for the last three years is less than Rs. 20 lakh;
- KVIC, ACASH, WDO, Coir Board, TRIFED;
- NSIC registered OEMs - given that the NSIC Registration is for the same categories for which the GeM Registration is obtained
- OEMs holding BIS License for the particular product category which are validated through BIS database.
- Micro and Small Enterprises registered with the District Industry Centre (DIC) for the particular product category whose credentials are validated through the DIC database.
- ZED Certified Sellers

5. Is there any validity of the Vendor Assessment Report?

A Vendor Assessment Report is valid for the duration of 3 years.

2. MSME SUSTAINABLE (ZED) CERTIFICATION SCHEME NATURE OF ASSISTANCE:

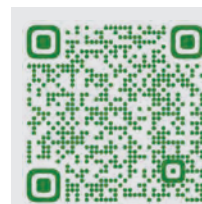
Improved Operational Efficiency

ZED stands for Zero Effect, Zero Defect. This is a certification that encourages MSMEs to adopt quality systems and energy efficient practices in a manner that there is zero recall of their products from the market and there is minimal possible impact on the environment too. The MSME can benefit from the economic savings in terms of reduced wastage and increased productivity.

There are three levels of the certification. The costing³ and subsidies are as under.

Certification Level	Actual Costing	Subsidy	Additional Subsidy of 10% for the MSMEs owned by the women/SC/ST entrepreneurs or MSMEs in NER/ Himalayan/LWE/Island Territories/ Aspirational District;
Bronze	Rs.10,000	80%	
Silver	Rs.40,000	60%	
Gold	Rs.90,000	50%	Second additional subsidy of 5% for MSMEs which are a part of SFURTI or MSE-CDP;

Schedule 7: Subsidy Matrix of ZED Certification



Scan the QR Code for guidelines of the scheme

How to improve your score on ZED Assessment?

Improving your score on ZED Assessment is easier than anticipated. A few good practices that you can implement to get a better result on assessment are:-

- Maintaining cleanliness at the workplace, both in office and at worksite – have separate toilets for men and women.
- Waste Management – use separate dustbins for dry and wet waste, ensure segregation and proper waste disposal; in case generating wastewater, treat it before releasing it.
- Occupational (Workplace) Safety – provide ready to use safety equipments to your workforce and ensure that they use it at all times required.
- Energy Management – use energy efficient resources, better yet if you could incorporate some source of renewable energy in your usage profile.

Important Parameter(s):

- Every MSME will have to take a ZED Pledge before applying for the certification. On taking the pledge, the concerned MSME will get a one time benefit of Rs.10,000. This needs to be utilized within an year of the award, and can only be adjusted in the assessment cost for ZED certification.
- The assessment is carried out for the applying enterprise on the basis of select parameters (check the QR Code) and a level/rating is allocated to it.
- Enterprises with at least bronze rating can apply for handholding support (subsidies) from the QCI accredited consultant for moving on to the next level.
- Once the Pledge is taken, there is also an option to apply for MSME KAWACH- Workplace Assessment for Safety & Hygiene (WASH). Know more about this added benefit here: https://zed.msme.gov.in/uploads/WASH_Standard_Guidance_Document.pdf and about the application process here: https://zed.msme.gov.in/uploads/MSME_KAWACH_User_Manual.pdf



Scan the QR Code for assessment criteria of ZED Certification

³ Costing includes cost of verification, assessment, certification and monitoring, and taxes.

Eligibility:

- All manufacturing MSMEs registered with Udyam are eligible to apply for this scheme.

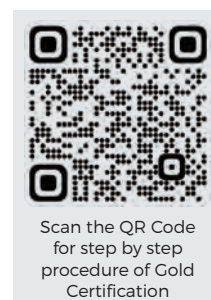
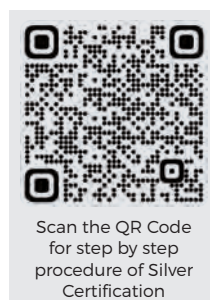
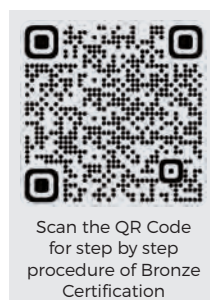
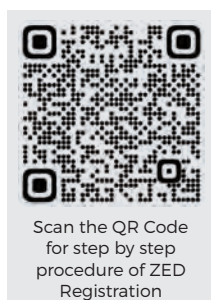
Documents:

- Udyam Registration
- Mobile number, as registered with Udyam

Application Process

Application for ZED certification is a two step process and completely online. The flow is as such:-

ZED Registration or Pledge → Application for the Certificate



Whom to contact for more information:-

The Office of Director, Ministry of MSME, New Delhi

Click [here](#) for the contact details

FREQUENTLY ASKED QUESTIONS (FAQS)

1. Is ZED Certification mandatory for MSMEs?

No, it is a voluntary certification. It is beneficial for any MSME that may want to optimize its production processes and avail subsidized support under the certification/scheme.

2. "I have two Fly Ash Units - one in Patna and one in Vaishali. Do I need to apply for their certification separately?"

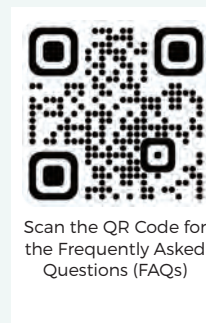
A business may have two units/factories - one each at different locations. While applying for Udyam, such a business needs to mention both units in a single application rather than applying for both separately. This is because only one Udyam can be available on one PAN Card⁴. But in case of ZED Certification, separate applications need to be made for each of these units in order to avail a subsidy.

3. Does an enterprise need to follow the certifications in progression (Bronze → Silver → Gold), or can it apply for any of which it fulfills the conditions?

An enterprise can apply for any level of the certification as long as it is fulfilling the requirements.

4. Is there any add-on cost you should know of?

For enterprises with Silver and Gold Certification, a surveillance is conducted by the assessment agencies accredited by the Quality Council of India after 18 months of certification. The cost of the surveillance is Rs.10,000 for Silver and Rs.20,000 for Gold category and need to be borne by the enterprise. Subsidy of 80%, 60% and 50% is provided to Micro, Small and Medium Enterprises respectively.



⁴ Reference to Chapter 2

SAMPLE ZED CALCULATION

There are two components to this calculation - one time award and certification subsidy.

- First Check:** Do you want to adjust your one time award in the certification fee?
 Let's take examples, one each of a case where you want this adjustment and you don't. We will call these Case 1 and Case 2.
- Second Check:** Which category of certification do you wish to apply for, and what is its actual cost?
 In this case, this is the Bronze Category. The cost of application is Rs.10,000.
- Third Check:** What is the enterprise category and subsequent subsidy? Do you qualify for any additional subsidy?
 The unit in consideration is a Micro unit. The upfront subsidy rate is 80%. But since this is being run by a woman, the additional subsidy of 10% will be added to it. The total subsidy would become 90% (80% + 10%).

My name is Sarita. I am one of the few female Fly Ash Brick Manufacturers running units in Bihar. My micro FAB unit is based out of Vaishali. I have recently taken the ZED Pledge and received the one time award of Rs.10,000. I now wish to apply for Bronze ZED Certification. How much money would I have to spend out of my pocket?"

	ZED Calculation Case 1 (adjustment of the one time award)		ZED Calculation Case 2 (non-adjustment of the one time award)	
Step 1: Adjusting for One Time Benefit	Adjustment Amount (A)	10,000	Adjustment Amount (A)	0
	Actual Cost of Certification (B)	10,000	Actual Cost of Certification (B)	10,000
	Cost, Post Adjustment (C.)	$= (B) - (A)$ $= 10,000 - 10,000 = 0$	Cost, Post Adjustment (C.)	Same, since no adjustment is to happen
Step 2: Adjusting for Subsidy	The calculation will end at Step 1 only, since the cost post adjustment is nil anyway.		Subsidy Rate (D)	90%
			Amount to be Paid	$= (C.) - \{(C.) \times (D)\}$ $= 10,000 - (10,000 \times 90\%)$ $= 1,000$

In Case 1, where the one time benefit of Rs.10,000 is being adjusted - the amount to pay from the pocket is nil. In Case 2, where no such adjustment is happening, Sarita will have to pay Rs.1,000 post subsidy calculation.

3. ENTREPRENEURSHIP SKILL DEVELOPMENT PROGRAMME (ESDP) NATURE OF ASSISTANCE:

Awareness & Capacity Building Support

This programme provides for an array of support services to enable individuals, especially youth, SC/ST, women, physically handicapped, ex-servicemen, Below Poverty Line (BPL) families etc consider self-employment or entrepreneurship as an option. It is divided into three components:-

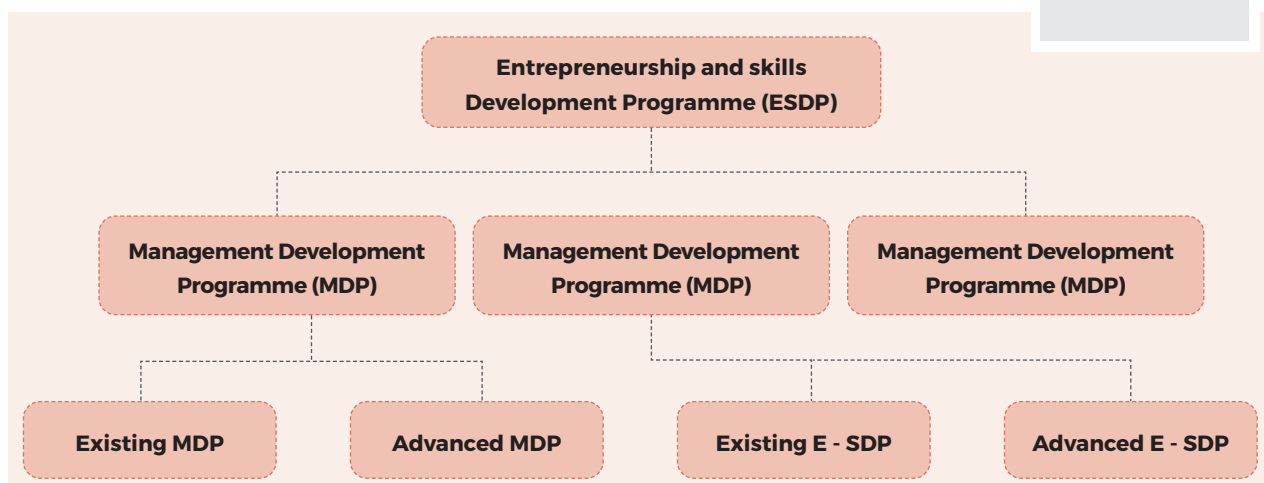
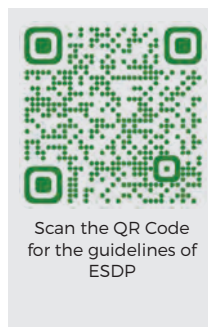


Figure 2: Components of ESDP Scheme

- **Entrepreneurship Awareness Programme (EAP):-** This is a one day awareness program to identify traditional/non-traditional entrepreneurs with potential to set up an enterprise and motivate them.
 - Each district shall have at least one EAP.
 - The intake capacity of the programme may be 50 to 100. Smaller programmes with industry associations/stakeholders may also be organized.
- **Entrepreneurship cum Skill Development Programme (E-SDP):-**

Existing E-SDP:- This will be a six week long comprehensive training cum hands-on practice. The participants intake shall be 25-30, all of at least 18 years of age. At least 4 sessions per day are mandatory. Payment of fee will be exempted for SC, ST, Differently-Abled Persons, Ex-Servicemen, BPL category participants and women.

Advanced E-SDP:- This will comprise of a minimum of a week of training, with the intake capacity of 20 participants. IIMs/IITs/ICAR/CSIR/BARC/IISC/NIT/ Agricultural University of Central and State Government etc shall be looped in to provide this training.
- **Management Development Programme (MDP):-**

Existing MDP:- This will be a week-long activity to improve the management capacity (including decision making) of the entrepreneurs. The intake capacity of the programme shall be 25-30. At least 4 sessions per day are mandatory with overall 20 sessions in a week. Participants shall be either the owners themselves or an authorized member of their managerial staff.

Advanced E-SDP:- This will be a one week training, with the intake capacity of 25 participants. The Advance MDP Training Programmes will be conducted through State Administrative Training Institutes (ATIs) and/or other reputed institutions in this domain of Central or State Governments/NITs/Regional Engineering Colleges/Agricultural colleges/ Autonomous bodies of Central/State Governments to provide MDP training to MSMEs promoters/executives.

Important Parameter(s):

- Programmes under SC/ST Hub shall be organized only when at least 40% of the participants are from SC/ST category.
- Part time programmes may as well be held, but the total duration of the programme over the week(s) should be the same as the full-time programme.
- There should be at least 40% participation for women entrepreneurs in E-SDP.

Eligibility, Document & Application Programme:

Exact qualification of the participants shall be decided by the director/official incharge from the organization conducting the programme, but by and large, the participants must at least be 18 years of age. Similarly, documents and the application process shall be specified in the call for participation itself.

In order to know about such programmes, keep in touch with your nearest MSME-DI or MSME Technology Centre.

Whom to contact for more information:-

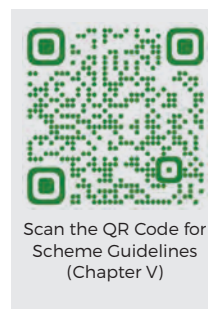
MSME Development Institute (MSME-DI)



4. REGISTRATION ON MSME SAMADHAAN

Nature of Assistance: Grievance Redressal

The MSME Development Act 2006 states that in case a buyer delays payment of an MSME supplier post 45 days of the date of acceptance of goods/services, the buyer shall be liable to pay the compound interest to the supplier, with monthly readjustment of the loan amount in case of reducing balance interest rate. The interest is compounded at three times the bank rate notified by the RBI, and is calculated starting from the 46th day from the date of acceptance. This is on the condition that the payment was agreed to be paid within 45 days.



WHAT IS A WORK ORDER? WHY SHOULD YOU HAVE IT?

A Work Order is a formal document or a contract describing the nature and amount of goods or services required by the buyer from the supplier. A good work order should include among other details:-

- Description of the task or need
- Name of requesting entity or individual (Buyer)
- Estimated completion date
- Name of person or team to complete the task (Supplier)
- Location of activities (name of facility, or name of area within a facility)
- Prerequisites to completing the end goal (e.g., parts, tools, documentation)
- Signatures by both parties to close the deal
- Having a work order binds you and the buyer for a particular assignment. It prevents a situation where the buyer refuses to purchase the good and service he/she asked for, or add any special requirements midway. It also acts as a proof of work demanded in case of denied or delayed payment or any other grievance.

The Micro and Small Enterprise Facilitation Council (MSEFC), empowered under the MSME Development Act 2006, hears all the appeals related to such delayed payments. MSME SAMADHAAN is an online portal that allows for easy submission of the appeal, in comparison to the physical mode.

This is a form of a complaint against the buyer.

Eligibility:

This facility is only available for MSMEs possessing Udyam Registration/Udyog Aadhaar Memorandum.

Documents:

- Work Order issued by the buyer
- Invoices generated by the supplier against those work orders
- Udyam Registration/Udyog Aadhaar Memorandum Number
- PAN Number of both supplier and buyer
- GST Number, if applicable, of both supplier and buyer

Application Process

Step 1:

Visit the application webpage at https://samadhaan.msme.gov.in/MyMsme/MSEFC/COM_MSEFC_EntLogin.aspx

Step 2:

Enter your Udyam Registration or Udyog Aadhaar Memorandum number and verify via OTP on the mobile number. In case of Assisted Filing Cases, you will also have to enter your Aadhaar Card. This will open the application page.

Step 3:

Enter your details (officially called 'Petitioner'), the buyer details (officially called 'Respondent'). Upload the Purchase/Work Order of the buyer and the invoices generated by you (in PDF format), and click at 'Submit'.



Scan the QR Code for Application Webpage

Application for MSME SAMADHAAN can either be made physically at the MSEFC or online on the website⁵.

Once submitted, the buyer will be intimated about the application/complaint via an email.

Post Application Process



Figure 3: Post Application Process Flow of MSME SAMADHAAN

If converted to a case, the payment must be settled within 90 days from the date of issuance of notice to the buyer.

Whom to Contact:

Reach out to your nearest Micro and Small Enterprises Facilitation Centre (MCEFC).

Find a address here: <https://samadhaan.msme.gov.in/MyMsme/MSEFC/CouncilAddress.aspx>



Scan the QR Code for a List of MSEFC in India



Scan the QR Code for the list of MSME DI in India

⁵ Note that the application is not the same as the case registered. It is the first step. Post submission, your application shall be reviewed by a Council. If accepted, it is registered as a case.



Fly Ash Brick Unit



An operational machine at a fly ash brick unit



Stakeholders consultations



PART II

FINANCING FOR FLY ASH BRICK ENTERPRISES



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Disclaimer:

This document is an outcome of a project titled, 'Sustainable and Green Recovery of Economy in Bihar under a Post-COVID Scenario'. It is intended for use by nano and micro enterprises operating in the Fly Ash Brick (FAB) sector in the State; and may as well serve as a reference for government and non-government stakeholders engaged in industry facilitation. However, the decision and responsibility to use the information contained in this document lies solely with the reader. The author(s) or publisher(s) are not liable for any consequences as a result of use or application of this document. Content may be used/quoted with due acknowledgment to Development Alternatives and Shakti Sustainable Energy Foundation.

Acknowledgement(s):

This toolkit is a result of multiple consultations held with stakeholders including entrepreneurs (FAB and non-FAB), financiers and Government Departments at State and District Level including Bihar State Pollution Control Board and Industries Department. We are thankful to them for their support.

We are also thankful to Shakti Sustainable Energy Foundation, for understanding the need for such a tool, and investing with resources for bringing this to reality.

Theme: Enterprise Support - Financial

Sector: Fly Ash Brick (FAB) Manufacturing

State: Bihar

Keyword(s): Government Financing, Private Financing, Financial Literacy

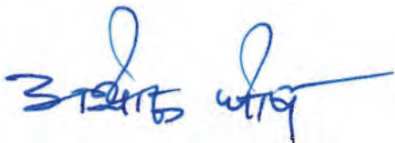
Foreword

Brick is an essential raw material for constructing houses. With over 50 percent of India's estimated building stock for the year 2030 yet to be built, one can reasonably expect the growth in demand for bricks to be phenomenal. As one of the major brick producing States, this gives Bihar a tremendous opportunity to bolster its brick sector and guide it towards sustainable practices – a process that can effectively promote and facilitate a green economic transition in the state.

The brick sector in Bihar is currently dominated by red bricks. It consumes 350 million tonnes of topsoil every year, affecting its availability for agriculture and threatening the sustenance of the agrarian economy. In addition to this, during the firing process, large quantities of coal are being burnt which contribute roughly 16 million tonnes of CO₂ to the State's annual emissions. The Government of Bihar is working in a big way towards achieving its Net Zero target of 2070, and therefore, reducing CO₂ emissions from the brick sector is an important mandate for them. Fulfilling the demand for bricks thus presents a valuable opportunity to promote Fly Ash brick enterprises who can play a leading role towards meeting Bihar's low carbon pathway ambitions.

The Bihar State Pollution Control Board (BSPCB), jointly with the Development Alternatives Group, conducted a study that found that at least 1000 new fly ash brick enterprises can be set up to utilise the fly ash already available and projected to be available in the State in the coming years. Interactions with stakeholders have highlighted the need for capacity building, financial literacy and access to credit to entrepreneurs as immediate concerns and this Toolkit is built towards filling these gaps.

My heartiest congratulation to the team at Development Alternatives for coming up with this comprehensive Toolkit for Facilitating Micro & Small Fly Ash Enterprises. Having said that, this is just the beginning. I look forward to witnessing the wide impact that this toolkit can have and wish the team all the best for taking it to fly ash brick entrepreneurs in the far corners of Bihar.



Dr. Ashok Kumar Ghosh

Chairman,

Bihar State Pollution Control Board



A glimpse into mindset shift among households. Those who had earlier constructed their houses with red bricks have started opting for fly ash bricks for new and existing construction. This glimpse is of a house near Raja Fly Ash Brick unit. With correct policy and behavioural nudges, adoption of fly ash bricks among households can be increased manifold

List of Abbreviations

AoA	Articles of Association	MSME-TC	Micro Small and Medium Enterprises - Technology Centre
CA	Channelizing Agency	MSMEs	Micro, Small and Medium Enterprises
CDE	Cluster Development Executive	NA	Nodal Agency
CFC	Common Facility Centre	NBFCs	Non-Banking Finance Companies
CGFSIL	Credit Guarantee Fund Scheme for Stand Up India Loans	NPAC	National Project Approval Committee
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises	NSIC	National Small Industries Corporation
DIC	District Industries Centre	P2P	Peer to Peer Lending
EBC	Extremely Backward Classes	PLR	Prime Lending Rate
EDP	Entrepreneurship Development Programme	PMC	Project Monitoring Committee
EFC	Enterprise Facilitation Centre	PMEGP	Prime Minister Employment Generation Programme
IA	Implementing Agencies	PSC	Project Steering Committee
ID	Infrastructure Development	RMB	Raw Material Bank
KVIB	Khadi and Village Industries Board	SEBI	Security and Exchange board of India
KVIC	Khadi and Village Industries Commission	SFBc	Small Finance Banks
MCLR	Marginal cost of Funds	SFURTI	Schemes of Funds for Regeneration of Traditional Industries
MFIs	Microfinance Institutions	SHG	Self Help Group
MoA	Memorandum of Association	SIDBI	Small Industries Development Bank of India
MoMSME	Ministry of Micro, Small and Medium Enterprises	SLBC	State Level Bankers' Committee
MSE-CDP	Micro & Small Enterprises Cluster Development Programme	SPV	Special Purpose Vehicle
MSME-Dis	Micro Small and Medium Enterprises Development Institutes	SSC	Scheme Steering Committee
		TA	Technical Agency
		UAM	Udyog Aadhaar Memorandum

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Figure 5	Structure & Process Flow of SFURTI
Figure 6	Process Flow of MSE-CDP

Glossary

Term	Definition	Applicability
Business Vantage	The number of years for which the business has been in existence.	Private bankers usually prefer borrowers with 2-3 years of business vantage.
Collateral/ Security	Any tangible asset such as an immovable property (land, building), jewelry etc which the borrower keeps with the bank in addition to promising the primary security.	Bankers feel more secure with collateral backed loans. (Check the section 'Collateral and Repayment' for more details.)
Detailed Project Report (DPR)	A comprehensive outline of the project. It consists of business, technical and financial aspects or estimations of the investment.	DPR can be a deal-maker or a deal-breaker for a loan application. A properly prepared DPR will give the banker confidence in the borrower's vision of the project, and ease out the loan conversion process.
Interest	The price you pay for borrowing money. It is distributed at set frequencies (monthly or yearly).	The type and percentage of interest can severely impact your total payments to the bank in lieu of loan. (Check the section 'Interest, Margin Money & Moratorium' for more details.)
Margin Money	Also called beneficiary's contribution, it is the percentage of the project cost that the borrower puts in from his own pocket.	Bankers ask for margin money to be sure of the borrower's financial stability or commitment to the project. (Check the section 'Interest, Margin Money & Moratorium' for more details.)
Moratorium	The time period right after the loan sanction, wherein the borrower doesn't have to pay any installment.	Moratorium is beneficial if your project requires some time before it reaps revenue. (Check the section 'Interest, Margin Money & Moratorium' for more details.)
Project Cost	The total fund needed to complete the project. It consists of both Direct Cost and Indirect Cost.	While applying for a loan, the applicant is required to mention the project cost. The bankers generally provide a percentage of it as a loan (about 50-75%), in very rare cases 100% of the project cost is funded.
Repayment/ Loan Tenure	Number of months or years in which the loan (principal and interest) needs to be repaid to the bank.	Longer the loan tenure, smaller the installment amount and vice versa. (Check the section on 'Collateral and Repayment' for details.)
Subsidy/ Subvention	Subsidy is a discount, in actual money or percentage.	There are different types of subsidies. Project Subsidy, Interest Subsidy and Margin Money Subsidy are some examples.
Ticket Size	The loan amount.	Too small a ticket size (up to Rs.50,000) are generally rejected by the traditional bankers. (Check footnote 11 of the document for more details.)
Turnaround Time	The number of days or months an application takes to get a response (conversion/rejection).	If your loan requirement is immediate, a loan with longer turnaround time will not be feasible for you.

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Introduction

About 98% of all registered MSMEs in Bihar are micro enterprises. It comes as no surprise that the State has the 7th highest micro to MSME ratio in India, and the highest in the Eastern Region¹. Unfortunately, it is also the same segment that is most marred with the issue of lack of access to finance for business. This stems from multiple factors included but not limited to low financial literacy, lack of information about available financing options and lender preferences etc.

Part-II of this Facilitator's Toolkit addresses these challenges by not only providing information on the Government financing schemes but also taking a step back and decoding critical financing terms and processes for the Fly Ash Brick entrepreneurs.

How to navigate through Part-II?

This part is divided into three sections:-

- **Section 1. Financing for Businesses** is a precursor to your financial literacy journey with this Toolkit. It provides information on the Types of Lenders for business loans, Types of Loans for Businesses and some major business concepts – all of which have been decoded in a manner that is more practical than theoretical. For instance, you will find insights on when to prefer a particular type of lender or loan and what to watch out for.
- Section 1 is succeeded by **Section 2. How to Choose the Right Business Loan?** This section will entice those who prefer quick comparisons to weigh their options. You will find two matrices here – one on choosing among commercial banks for loan and the other on choosing between private products and Government schemes.
- **Section 3. Government Financing & Incentives** can be taken as a part of its own. It is a comprehensive guide to multiple schemes made available by the Central and State Government, and applicable to the Fly Ash Brick (FAB) Enterprises. Here you will find quick tips, calculators and FAQs customized only for you!

In between these sections are what we are calling 'inserts'. These are information pieces that can be read standalone or in complement to the rest of the sections. Refer to Quick Tips (on making your journey for applying and availing a loan easier) as well as Financial Toolkits for these.

In one of his speeches dating back to 2016, Sh. SS Mundra, the then Deputy Governor of the Reserve Bank of India defined financial literacy for MSMEs as “the individual's ability to translate financial literacy concepts to business needs”². This section shall help you with exactly that. It starts with the Types of Lenders – which will help you differentiate one over the other and select the one most suited for your business need, followed by Types of Loans for Businesses and common loan concepts – both of which will prepare you for your next discussion with the banker for loan.

1 Ministry of MSME. (2021). (rep.). Analysis of Udyam Registration Data. Retrieved July 2022, from <https://udyamregistration.gov.in/docs/Buletin-VII-Analysis-of-Udyam-Registration-Data.pdf>.

2 https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1018

Figure 1: Persona Wise Scheme Diversification



Persona 1

New Entrepreneur, Female, willing to set up a FAB unit in Bihar

Best Bet(s):-

PMEGP 1.0, Stand Up India and Mahila Udyami Yojana

Other Government schemes you are eligible for:-

PM MUDRA Yojana and CGTMSE

Persona 2

Existing FAB Entrepreneur (>2 years), wishing to upgrade/expand the operations

Best Bet(s):-

Private Financing, followed by PMEGP 2.0 & PM MUDRA Yojana

Other Government schemes you are eligible for:-

CGTMSE

Persona 3

New Entrepreneur, Male Youth, willing to set up a FAB unit in Bihar

Best Bet(s):-

PMEGP 1.0 and CM Yuva Udyami Yojana

Other Government schemes you are eligible for:-

PM MUDRA Yojana and CGTMSE

Persona 4

Existing Red Brick Entrepreneur (>2 years), SC/ST, wishing to start a FAB unit

Best Bet(s):-

PMEGP 1.0, Stand Up India and CM SC/ST/EBC Udyami Yojana

Other Government schemes you are eligible for:-

PM MUDRA Yojana and CGTMSE

You may also want to explore private financing simultaneously since you already have 2 years of experience in brick sector.

How to navigate through Part-I?

Compliances & Ecosystem Support Schemes.

These sections will answer questions such as:-

Section 1. Financing for Businesses

Section 2. How to Choose the Right Business Loan?

Section 3. Government Financing & Incentives

You can read through these as independent sections, picking up the one of importance to your immediate need or if you are one of those planning to start a FAB enterprise, we suggest you follow through the sequence as is.

Section 1.

Financing for Businesses

1.1 Types of Lenders

There are multiple types of lenders within the formal financing ecosystem. These can be broadly classified into:-



1 COMMERCIAL BANKS



Public Sector Banks - These are the banks of which majority (50% and above) stakes are with the Central or State Government. State Bank of India, Bank of Baroda, Bank of Maharashtra are all public sector banks.



Private Sector Banks - Banks with majority (50% and above) stakes with the private individuals or entities, and thus, having private ownership are the Private Sector Banks. YES Bank, HDFC Bank, Axis Bank all fall in this category.



Regional Rural Banks - These banks operate on a joint ownership model where the majority stake may be with the Central Government, and the rest may be divided between the State Government and a private sponsor bank. These banks have the mandate of providing financial services to those in rural areas who may not be preferred borrowers in the eyes of the other banks.

Refer to *Opting among Commercial Banks for Business Loan* under Section 2 for comparison.

2 NON-BANKING FINANCE COMPANIES (NBFCs)

These are companies registered under the Companies Act and governed by the Reserve Bank of India (RBI) for their banking operations. Non Banking Financial Companies differ from the public and private banks in the sense that the deposits by the public in these companies are restricted to term deposits only. They also have more customized financial products, offering better options for those finding the loan products of traditional banks too rigid or general.

When to go for a loan from an NBFC? Some common scenarios when a loan from NBFCs may have a better chance of conversion are:-

- You do not have sufficient collateral, especially for loans above Rs.10 Lakhs.
- Your co-signee isn't someone from an immediate family.

- Your loan requirement is different from what the traditional banking products offer - say, you need a loan to repay a machinery loan etc. While these options exist in the traditional banking system too, you may find a better fit in NBFCs.

What to watch out for? Remember that NBFCs provide financial products for those who may not be a fit into the traditional banking system, which points to some level of risk taking. To cover for that,

- NBFCs may charge a higher interest rate, even in comparison to private banks.
- There may not be any moratorium period for loan repayment, depending upon the product - what this means is that you may have to start paying the EMIs without any gap from disbursement.

To find a list of NBFCs in Bihar, visit <http://nbfcbihar.gov.in/PublicInfo.aspx> or scan the QR Code.

3 COOPERATIVE BANKS³

When the paid-up capital and reserves of a Cooperative Credit Society attain the level of Rs. 1 lakh, it automatically becomes a Cooperative Bank. Similar to the Cooperative Credit Society, a Cooperative Bank can still only lend to its members – just that, it can accept deposits from the larger public, beyond membership.

A Cooperative Bank must obtain a license from the Reserve Bank of India in order to carry out the banking business, though it is allowed to run as a ‘bank’ until it is refused a license.

When to go for a loan from a Cooperative Bank? As mentioned, a Cooperative Bank can only lend to its members. A loan from a Cooperative Bank may be a better option for you if:-

- You are a member of a Cooperative Bank;
- You are a farmer, labour, small businessmen or belong to any other such group which is generally left out of the financial coverage by the commercial banks;

What to watch out for? Even when the lending group of the Cooperative Bank is limited to only its members, know that these banks aren’t as advanced as say, a private sector bank. Due to this, there may be a higher load of documentation or longer processing time for loan applications.

The Bihar State Cooperative Bank is the apex bank for financing of societies in the State of Bihar.

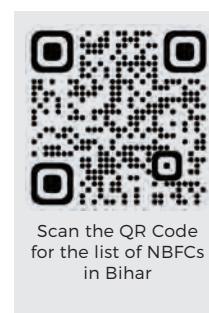
4 MICROFINANCE INSTITUTIONS (MFIS)⁴

Micro Financial Institutions serve the same role as the Non Banking Financial Companies (NBFCs) except that these primarily deal in small ticket sizes of loans, usually Rs.10,000 up to Rs.50,000, and are not permitted to accept any type of deposit. The mandate of MFIs is to provide ‘banking services to unbankable’ i.e., to cover such an underprivileged section of the society to whom the traditional banking system may have failed to cover.

When to go for a loan from a Microfinance Institution?

A loan from MFI is a better choice if:-

- Your requirement of loan is smaller, especially under one lakh.⁵



³ Unfortunately, there have been instances of Cooperative Credit Societies misleading the borrowers by using ‘bank’ in its name, without meeting the criteria or with refusal of license. In this effect, the RBI in 2021 released a statement cautioning the public against such cases. The coverage can be accessed here: <https://www.thehindu.com/business/co-operative-societies-cant-use-bank-in-their-names-rbi/article37624056.ece>

⁴ Ref: <https://www.livemint.com/Money/PuQ6tbCp3liYHWxd1MH5CP/What-to-expect-from-small-finance-banks.html>

⁵ Commercial Banks generally prefer loans from Rs.2-5 lakhs upwards - any loan below that amount bears the bank lower earnings (in terms of interest), while the cost of processing shall be the same, if not more. This makes small ticket size loans expensive for the commercial banks and they may not be willing to fund these.

- You may not have sufficient collateral - MFIs may have products suitable to such a case.
- You need financing for a non-mainstream business or one for which you may not be able to prove the concept as yet. Though it would still be a high risk, MFIs may be better accommodating for it than commercial banks.

What to watch out for?

- The interest rate for loans from MFIs may be quite higher, even in comparison to the commercial bank.
- Repayment durations for MFI loans could be weekly, monthly or annual. Though it is beneficial if you prefer more options for repayment, a short term repayment may be difficult to cater to if your business has a higher gestation period (always check for moratorium if you cannot start paying EMIs right away).

5 SMALL FINANCE BANKS (SFBC)

Small Finance Banks are similar to Microfinance Institutions in the sense that they provide banking services to the unbankable (especially those with low income levels), except that it can raise deposits while an MFI cannot. The former also have the margin to offer loans at lower interest rates in comparison to the Micro Financial Institutions due to lower rate of operations and cost of funds.

When to go for a loan from a Small Finance Bank?

If you are interested in the loaning model of MFIs but don't want to bear higher interest rates, it may be a good option for you to check Small Finance Banks.

What to watch out for?

Small Finance Banks may be a bit more selective in loaning than MFIs. This may also translate to stricter due diligence of the loan application.

OTHER FINANCING OPTIONS

6 PEER TO PEER LENDING (P2P)

Peer to Peer Lending is a form of innovative finance wherein the borrower submits the loan ask on a financial marketplace/platform, of which investors/lenders (individual or group) are a part and can bid to cover for the loan ask partially or fully. P2P Platforms are governed by the conditions set by the Reserve Bank of India, and thus are safe.

When to go for a loan from P2P?

P2P is largely preferred to fill in for short term working capital requirements, which may be too expensive operationally for a commercial bank or an NBFC. Go for it if:-

- Your financing need is short term and short ticket size (up to Rs.10 lakh maximum)
- You would want to pay it off quickly - repayment duration of P2P loans range from 3 months to 3 years

What to watch out for?

- The interest rate of P2P loans starts from 9%.
- Since this form of borrowing is not bound by the banking system, it may be too risky for a first time borrower, and is commonly suggested for seasoned ones who may be willing to explore alternate sources of finance for their venture.

P2P can be explored online by onboarding on a P2P platform and completing your KYC. Some popular P2P platforms are Lendbox, i2iFunding, Faircent, OmIP2P etc.

7 NEO-BANKS

Neo Banks are fintech companies that provide banking and other financial services entirely online via a website or a mobile application. They don't have any physical branches.

When to go for a loan from Neo-Banks? If your loan ask is small and you don't want to go through the processing at a traditional commercial bank for it, Neo-Bank may be the right choice for you. Here, loan processing is almost immediate given that you have completed KYC verification. It is also a good option if you need a loan for a purpose which may not be mainstream (loan to repay a loan, small expenditure at business etc).

What to watch out for? Because Neo-Banks are online and quick, the ticket size of loans are generally small. The repayment duration is shorter as well.

1.2 Types of Loans for Businesses

Loans are of two types – secured (with collateral) and unsecured (without collateral). Business Loans are largely secured ones, except in case of small ticket size loans – which require collateral but can be covered under CGTMSE.

The terms of loans (documentation, interest rate and repayment tenure) vary depending on how you are planning to utilize it. Say, one may require a loan to start a business, for expansion/upgradation or simply a short term finance for paying off wages while the entrepreneur awaits payment from clients. Higher the loan amount, higher the amount of documentation required and more complex the due diligence.

1. TERM LOAN (SHORT & LONG TERM)

Term loan is a loan for larger investments such as setting up of business or expansion/upgradation. These loans end up creating assets (say, plant in case of new business). The repayment duration is generally 12 months to 5 years and above. Term Loan is mostly secured.

2. WORKING CAPITAL LOAN

While a term loan creates an asset (say, plant in case of new business), a working capital loan is a loan that helps to keep the work going. It can be spent to bear the operational costs including purchase of raw material, payment of rent and wages, transportation and marketing cost etc. Because the benefits of these investments are immediate or short term, the repayment duration is mostly short term too. Working capital loans can be secured or unsecured.

3. LETTER OF CREDIT

Letter of Credit is issued by a bank guaranteeing that the seller would get his/her payment on time and in full amount. In case the buyer is unable to make the payment, the bank becomes liable to pay on the buyer's behalf. Though largely used in export-import, the letter of credit can also be availed for a domestic/in-land transaction.

4. OVERDRAFT (OD) FACILITY

Overdraft facility is availed when the bank account's balance reaches zero. The concerned bank in this case issues a credit limit to the account holder on the basis of multiple factors including the transaction history and background check. This means that the account holder can spend up to that issued amount even post the balance reaching zero. Though a type of loan, overdraft facility is different in the sense that:-

- The interest on the overdraft facility is calculated daily and charged monthly on only that amount that is actually spent of the credit limit. Say, if the credit limit was Rs.50,000 but



the actual spending is of Rs.25000, the interest will be calculated on Rs.25000 only.

- No repayment installments are set in case of OD. You can repay the overdraft amount as soon as you can, either in parts overtime or in full at once, along with the overdraft fees/interest.

To know more or apply for any of the above mentioned loan types, approach your bank branch.

PERSONAL LOAN FOR BUSINESS USE/SELF-EMPLOYMENT

The loan types mentioned above are loans specified for businesses i.e., it cannot be used for any other purpose than to start or strengthen the business. But there is another type of loan which can be availed for business use – this is personal loan.

What are Personal Loans? Personal Loans are loans which are issued in the name of an individual and can be used for personal expenses – it can be for housing, education, vehicle and other purchases or for business, among other uses. This type of loan differs from business loans in the sense that while handing out personal loans, the borrower's credibility plays a much more important role than the business proposition itself. Though the banker may still be worried about whether the business will survive, he/she sanctions the loan believing that even if it doesn't, the borrower will still be able to manage the repayments through other means.

What are the situations where this may be beneficial? Think of situations where the conversion chances of business loans may be slim.

1. If you are setting up a new enterprise/do not have much to show in terms of entrepreneurial experience or training.
2. If you require a small ticket size of loan (say, Rs.25000), which may not have a high return for banking institutions and thus, may not be a priority.
3. If you do not have collateral and the bank insists on one/refuses to accept CGTMSE coverage request.

What should you know?

1. Because the loan is unsecured, the interest rate would be higher than in case of a business loan.
2. Only small ticket size loans can be financed via Personal Loans for Business Use/Self-Employment. The capital required in business at any point may be more.

OTHER PRIVATE FINANCING INSTRUMENT(S)

5. INVOICE DISCOUNTING⁶

- Invoice Discounting is when the payment against products and/or services provided by the entrepreneur is delayed or is to be made at a later date but the entrepreneur needs funds immediately. In such a case, the entrepreneur generates the invoice on a discounting platform/company (mostly online), which may agree to discount that invoice i.e. pay a percentage of the invoice in cash/online transfer up front.
- Whenever the customer makes the payment, it is made online on the platform and goes directly to the company/lender - who then deducts the lend amount with a fee and returns the remaining amount to the entrepreneur.

⁶ Invoice Discounting is different from invoice factoring in the sense that here, the responsibility of the payment collection from the customer is on the entrepreneur. In case of invoice factoring, the discounting company maintains the books and is responsible for payment collection as well.

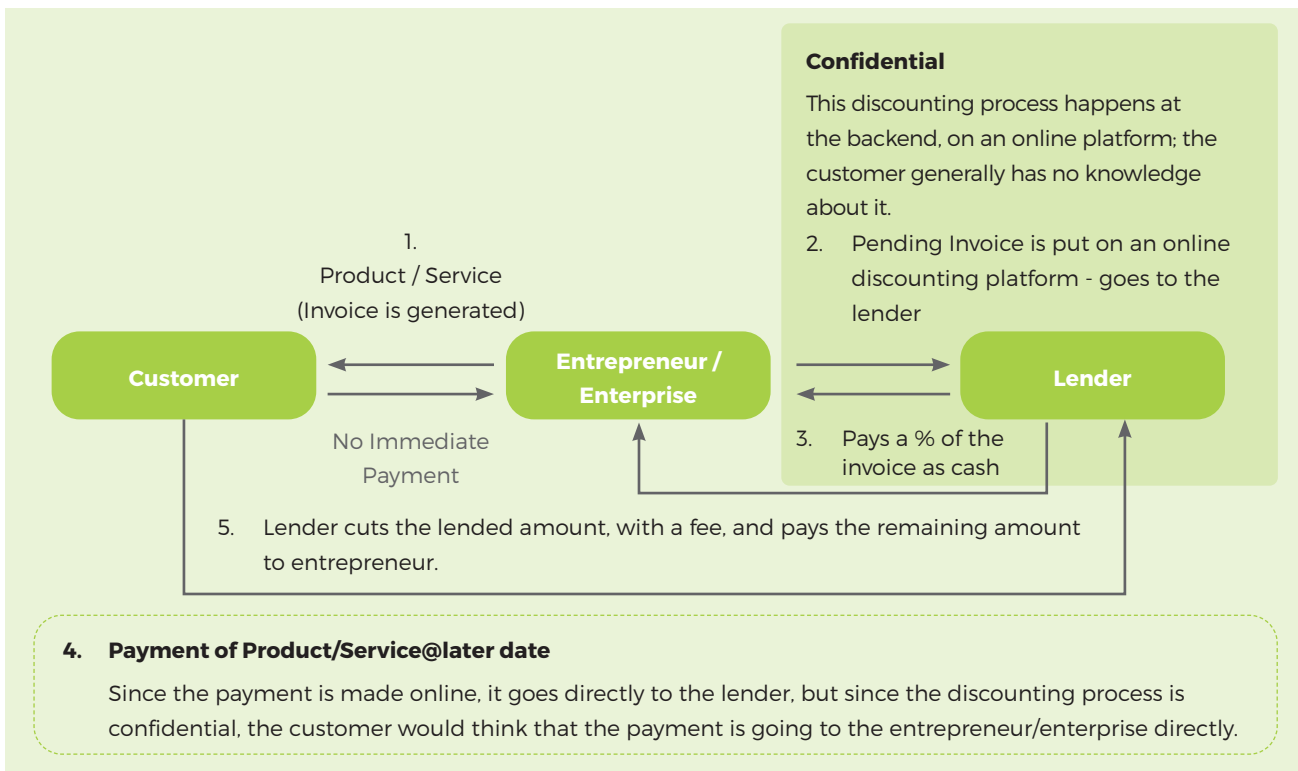


Figure 2: Process Flow of Invoice Discounting

This type of lending is short term (30-90 days) at the interest rate ranging from 9% to 20%.

6. MERCHANT CASH ADVANCE

Similar to Invoice Discounting, Merchant Cash Advance is operated online on company platforms. In this type of financing,

- The lending company provides the capital upfront on the basis of the average monthly sales instead of credit score.
- The monthly payment is not a fixed amount but a percentage of the sales, and is deducted directly from the borrower's. Two risks with Merchant Cash Advance are:-
 - Since the installment is deducted directly from the bank account, you may not have much liquidity in hand with you.
 - In case your monthly sales fall below the average, the borrower won't be able to pay the monthly installment - thus, maintaining at least the average sale record is important.

1.3 Banking Concept(s) I – Interest, Margin Money & Moratorium

■ Flat Interest Rate v/s Reducing Balance

Flat Rate is calculated on the total loan amount at the start of the loaning tenure and doesn't change throughout the duration. In case of Reducing Balance on the other hand, the interest rate is revised monthly and is charged only on that part of principal amount that is left unpaid.

Check how the interest rate changes per type with this [Calculator by Groww](#)



■ **Concept of Margin Money: What is it and why is it needed?**

Margin Money can simply be called the Beneficiary's Contribution. While the banker is considering your application, he/she wants to be sure of your financial stability and commitment to the project. They thus ask for the beneficiary to put in some part of the project cost from his/her own pocket. The simple idea is to divide risk i.e. make the borrower accountable for the project's success to some extent. Margin Money is often a small percentage of loan, say 5-15%. The bankers specify it while explaining the terms and conditions. A grave mistake that any borrower can make is to ignore margin money while making a decision on a loan.

Is margin money refundable? No, margin money is not refundable. This is given the fact that you are not giving your contribution to the banker, but are investing it in YOUR project only.

Do you need margin money for all sorts of business loans? The requirement of margin money depends upon the terms and condition of the loan. Though asked in most cases, if your application is strong enough or the loan product doesn't require it by design- the banker may not even ask for a margin money.

■ **Moratorium Period: What is it and why should you consider it?**

In common parlance, Moratorium means delay or temporary suspension.

The standard loaning practice is to start paying the installments right after the loan sanction. However, if your project is such wherein it may take a few months before you start reaping revenue after investment, you may not have sufficient revenue to pay these installments. In such a case, it may be beneficial to consider a loan that provides a moratorium of a few months. A moratorium period is the time right after the loan sanction when you will not be required to pay back to the financial institution. Your installments start after the end of the moratorium period.

For instance, if you are sanctioned a loan of Rs.25 lakh with a moratorium of 18 months - this means that your first installment will be 18 months after the date of loan sanction. You can utilize this time to build your business and obtain revenue.

1.4 Banking Concept(s) II – Collateral & Repayment

■ **Concept of Collateral: What is it and why is it needed?**

A bank's function can in most basic ways be demonstrated as that of receiving deposits and lending a proportion out of it to those looking for financing. When it does the first, it promises the individuals safety of their money with earning in terms of interest. The bank sources this interest by adding a small component of its facilitation cost and charging that amount from the borrower of the loan. Now, irrespective of whether the borrower pays back the loan on time or not, the bank has to pay the depositor his/her money if a transaction is requested. To ensure not having to bear it on its own books, the bank must ensure proper loan repayment or at least reduce the risks of non-repayment. This is where security comes into the picture.

Security in banking terms is any tangible commodity of value which the borrower keeps with the banks for covering up the loss in case he/she is unable to repay the loan timely.

Types of Securities:-

- **Primary Security:** Primary security refers to the asset which is created or acquired with the loan amount. Say, if you availed a loan to purchase a new machine for your fly ash brick unit, that machine is the primary security.

What does it mean? It means that in case of repayment, the bank has the right to seize that machine.



Collateral Security: Sometimes, the primary security may not be enough to cover up the potential loss in case of non-repayment (for example, in cases where the borrower spent a part of money on machine and another part on wages - in which case the machine price would be lower than the loan amount). In such a scenario, the bank may as well ask for a collateral! Collateral is any tangible asset such as an immovable property (land, building), jewelry etc which the borrower keeps with the bank in addition to promising the primary security.

While primary security is an in-built requirement of any loan, collateral security may be asked depending upon the loan amount, business viability and proposed utilization.

Q. Isn't it a one-sided risk - banks may harass the borrower since it already has a security in place?

Against common perception, selling off of the collateral/security is a strenuous task for banks too and they generally try to avoid it! On one end, it means added compliance burden on the bank. Not to mention, there is also a negative perception around buying assets with legal history - which makes finding a buyer cumbersome and delays the selling process.

If you don't think you would be able to repay your loan on time, talk to your banker to explore options. Depending upon the bank, you may either have to take another loan to repay this one or pay at a later time with some late fee. In any case, bankers are ready to help most of the time!

■ **Can you Repay the Loan Before Time?**

The concept is called prepayment. You can either make a partial prepayment (i.e., repayment of half or some proportion of the loan) or a full prepayment (i.e., complete repayment at once). Either way, it comes with a penalty fee.

■ **Why is there a penalty if you are repaying your loan in advance? Isn't that a safe scenario for a banker?**

You repaying your loan in advance is actually a loss to the bank! The bank earns interest on your loan⁷. The way it decides your monthly installment is by dividing the total obligation (principal and interest) by the loan tenure. When you repay your loan in advance, while the bank recovers the principal amount in full - it still loses out on some part of the interest payment. If your installments were set by the months in which you actually repaid your loan, your monthly installments would ideally have been higher.

■ **If there is a penalty on the prepayment anyway, should you even consider it?**

Repaying a loan saves a borrower much more money than the penalty amount. Not to mention, by making repayment before schedule, you are building your case for business viability and the same banker may be more willing to lend you the next time.

⁷ Technically, only a portion! The function of a bank is to accept deposits from citizens and lend it further to the potential borrowers. In the first case, it promises the depositor some earnings in form of interest and it charges the same, adding to its own fee, from the borrower. A major proportion of the interest earned by banks from lending is paid to depositors.

Section 2.

How to Choose the Right Business Loan?

BUSINESSES WISHING TO AVAIL CREDIT FACILITY TO START OR STRENGTHEN THE BUSINESS CAN DO SO IN THREE DIFFERENT WAYS:-

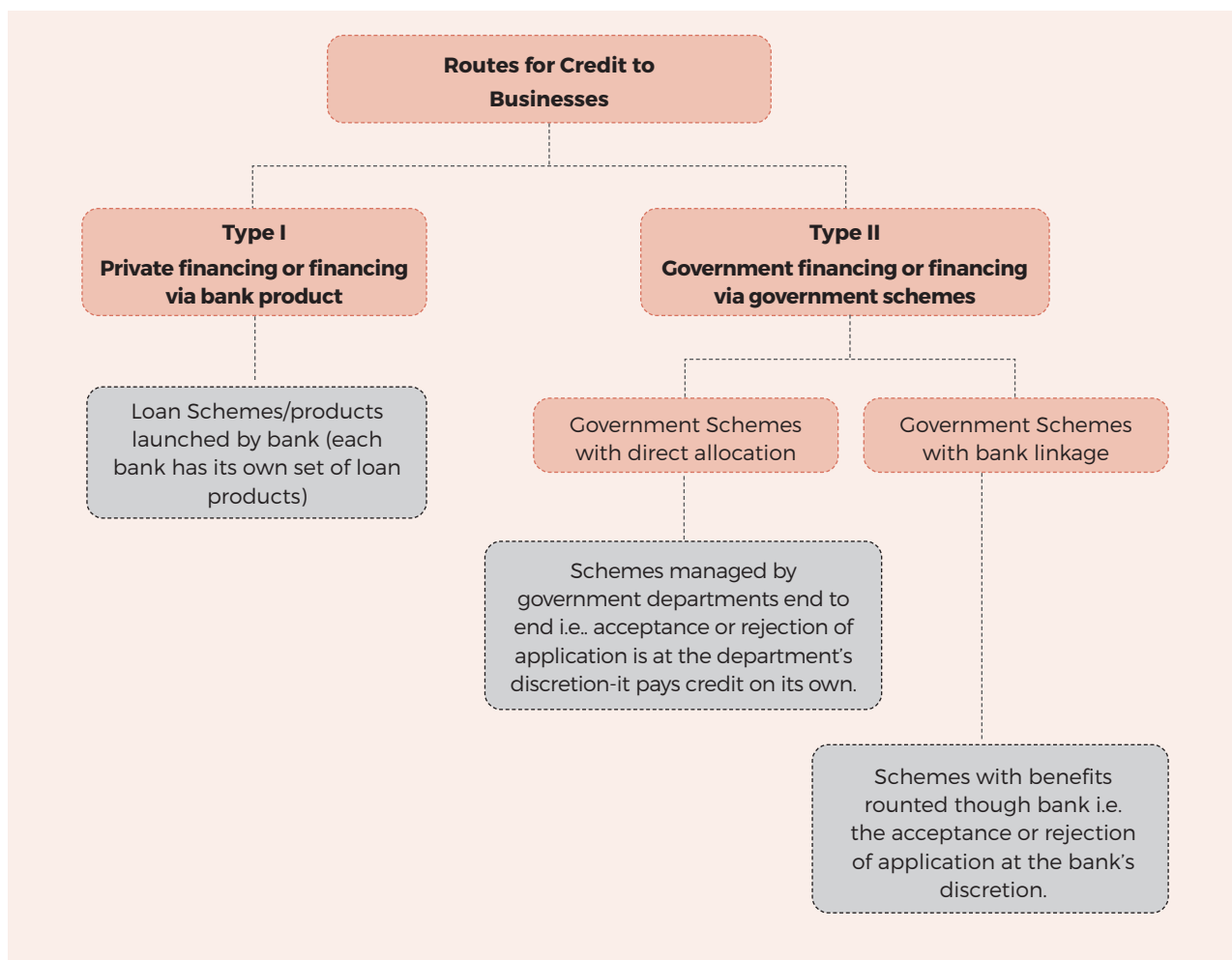


Figure 3: Different Routes for Business Financing

- 1. Private Financing**, the main component of which is the bank specific loan product - both public and private. The terms and conditions of lending in this case are set by the concerned bank, the Government doesn't interfere with the process.
- 2. Via Government Schemes with direct allocation** wherein the entire financing process - from supervision of the application submission to the fund release, is undertaken by the concerned Department. These are generally State schemes, very few Central Schemes follow this mode.

Chief Minister Yuva, Mahila and SC/ST/EBC Udyami Yojana, given under States' Schemes under Section 3, route its funding in this manner.

- 3. Via Government Schemes with bank linkage**, wherein the Government Department supervises the loan application process but the actual loan is provided by the financial institution - the Government simply incentivises banks to lend. The Central or Centrally Sponsored Schemes largely follow this mode since the existing banking infrastructure in different States can be utilized for extending outreach.

PMEGP, PM MUDRA Yojana, Stand Up India and all other Central Schemes explained under Section 3 follow this model.

Each route has its own preference and benefits - knowing about which will put you a step ahead by enabling you choose the loan option best suited to your business needs. Given below are two comparison matrices and a few tips to guide you to that end.

2.1 Opting among Commercial Banks for Business Loan



We have learnt in the previous section about the different types of commercial banks within the formal financing ecosystem. Even if you feel more secure in hands of the conventional lenders, you still need to decide as to which among the Public, Private and Regional Rural Bank is the best for you. Given below are some parameters that may help you make a decision.

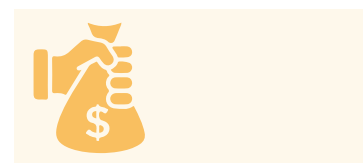
Schedule 1: Comparison Matrix of Commercial Banks

	Lending Preferences ⁸	Facilitation for Government Schemes ⁹	Ease of Application		Interest Rates
			Documentation	Loan Processing Time	
Public Sector Banks	Flexible - have products for unbankables / low income groups	Greater push for Government Schemes	More documentation	High	Marginal
Private Sector Banks	Largely focuses on profitability - any flexibility may be limited and only product based	Less push for Government Schemes	Limited documentation, mostly paperless/online	Comparatively Lower	Comparatively High
Regional Rural Banks	Comparatively flexible - have products for unbankables, especially in rural areas	Greater push for Government Schemes	May and may not be documentation driven * depending upon the governing bank	Comparatively Lower, but largely depends upon the governing bank	Comparatively lower for most products

8 Business viability or profitability is the first consideration for lending by every bank, including Public Sector Banks and Regional Rural Banks. Banks that by mandate have to provide financial services to lower income strata or unbankables add a second layer of representation to their selection criteria. Say, after confirming if the business is viable, they may prefer a woman entrepreneur over a male entrepreneur (profitability parameter remaining same for both) to increase their representation.

9 Public Sector Banks are owned by the Government, due to which it is easier for the implementing Department/Ministry to push its financing schemes via these institutions. In comparison, while the application for a Central or a State Financing Scheme may be applied through a Private Sector Bank, the focus of private banks would always be on their own financial products.

2.2 Opting between Private Financing Products & Government Financing Schemes



Private Financing Products vastly differ from the Government Financing Schemes in terms of interest rate, applicability and preference for business vantage etc. Find more about it below.

Schedule 2: Comparison Matrix of Private Financing v/s Government Financing Schemes		
	Private Financing Products	Government Financing Schemes
What are these?	Individual products of banks - the entire process flow from product development to fund flow is managed by the bank.	Designed by the Central or State Governments - the Government can either directly handle the end to end implementation or utilize the existing bank network for managing the fund flow.
What are the interest rates like?	Ranges from 9% to 25%, depending upon the product. Usually higher than that of Government Financing Schemes.	Ranges from 8% to 15% ¹⁰ Lower than private financing products in most cases
Is this applicable to existing businesses?	Yes	Yes, some schemes may however be only for new enterprises. Check the scheme guidelines to know.
Is this a viable choice for existing businesses?	Yes, banks generally prefer existing businesses (at least 2-3 years of operations) for loans.	It can be a good option.
Is this applicable to new businesses?	Yes	Yes
Is this a viable choice for new businesses?	No. Unless the entrepreneur has undertaken training, had some engagement in the industry that he/she wishes to open an enterprise in or has some other way to prove domain knowledge - the conversion rate of applications by new businesses are generally low. ¹¹	Yes, given the limitation with private financing, Government Financing Schemes may be the best bet for new enterprises to avail funds.

¹⁰ Some Government Financing Schemes with bank linkage (such as PM MUDRA Yojana) let the banks decide the terms of the loans (interest rate, repayment duration, margin money and other components) on the basis of the strength of the application and the viability of the proposed business.

¹¹ Read on to know about Personal Loan for Self-Employed, which may act as an alternative alongside Government Financing Schemes for individuals with no business history or collateral.

QUICK TIPS

FOR MAKING YOUR JOURNEY OF AVAILING AND REPAYING A LOAN EASIER

- **Diversify your risks** - conversion of any business loan is never guaranteed.
 - **Apply for at least two loan products at once** so that in case one fails to convert, you have another to fall back on. This is especially when your capital requirement is immediate and you may not have time to restart the hunt after a waiting period of first application.
 - **Make sure to try different types-** while relying on only one loan application for conversion is not preferred, what may not be a solution is applying for two loan products of the same type. Instead, diversify your risk by exploring two different loan types best fitted to your requirement (say, a Government Financing Scheme and a Bank Loan, a Government Financing Scheme and a P2P, a Bank Loan and a Bill Discounting etc).
- **What if both loans are sanctioned?** You have a choice to only disburse the one with better terms (interest rate, repayment duration, margin money etc).
 - **Sanction v/s Disbursement:** Getting a sanction letter of loan from a bank is simply a guarantee that the loan will be disbursed by the bank if the collateral related checks (if provided) and all validations are found to be correct. Disbursement is when the bank actually pays the loan amount to the borrower.
- **Leverage your existing banking network** - If you have a bank account, speak to your Relationship Manager/Branch Manager to know of their products or if they are accepting applications for Government Financing Schemes. Even if making an online application, if given the option, select your branch under bank preference. This may make processing a bit smoother since you are already a 'customer' of the bank.
- **Know Your Tenure** - The Code of Bank's Commitment to Micro and Small Enterprises (MSEs), formulated by the Banking Code and Standard Codes of India (BSCBI), dictates the timeframe for disposal of MSE Loans as such:-
 - Loans up to Rs.5 Lakh - within 2 weeks
 - Loans above Rs.5 Lakh up to Rs.25 Lakh - within 3 weeks
 - Loans above Rs.25 Lakh - within 6 weeks from the date of receipt

The time frame is calculated from the date of completed application's submission (including all documents as prescribed). Please note that a disposal of the loan means that your application will either be rejected or accepted within this timeframe.



Section 3.

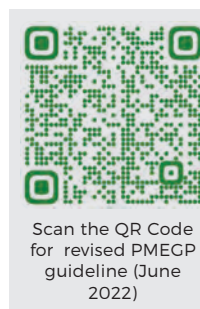
Government Financing & Incentives

Central Financing Schemes - Individual

1 PRIME MINISTER EMPLOYMENT GENERATION PROGRAMME (PMEGP)

Nature of Assistance: Loan | Margin Money Subsidy

Under this scheme, any individual, Cooperative Society, Self Help Group (SHG) willing to set up a new self-employment venture/project/micro unit costing up to Rs.50 lakh in case of manufacturing and Rs.20 lakh in case of business/services, can avail a loan with an additional benefit of a margin money subsidy. The project cost is divided as such that margin money subsidy comes up to the rate of 15-35% depending upon the area and beneficiary category, beneficiary's contribution is 5-10% and the remaining is financed as loan from the bank.



Schedule 3: Benefit Matrix of PMEGP 1.0

Categories of Beneficiaries	Beneficiary's Contribution/Margin Money (of project cost)		Rate of Subsidy (of project cost)
	Urban	Rural	
Area (location of project/unit)			
General Category	10%	15%	25%
Special Category (including SC/ST/OBC, Minorities, Women, Transgenders, DifferentlyAbled, Ex-Servicemen, PwD, NER, Aspirational Districts, Hill and Border areas as notified by the Government etc)	5%	25%	35%

Important Loan Parameters:

- PMEGP Loan accrues a nominal interest rate, determined by the bank on the basis of their policies and/or the repayment potential.
- Repayment tenure for PMEGP ranges between 3 to 7 years, after the initial moratorium set by the bank.
- Loans from Rs.5 lakh up to Rs.25 lakh are eligible for guarantee coverage under Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE). Collateral is required for loans above Rs.10 lakh.

Eligibility:

- **Age:** Any individual above 18 years of age;
- **Educational Qualification:** Candidate should possess at least VIII standard pass educational qualification;
- **Purpose of Loan:**
 - Loans under PMEGP can be availed only for setting up a new enterprise; financing for upgrading/expanding an existing unit is not covered.
 - Capital expenditure should be covered under the loan ask.
- **Permission Project Cost:** The proposed project should cost above Rs.10 lakhs up to Rs.50 lakhs in case of manufacturing, and above Rs.5 lakhs up to Rs.20 lakhs in case of business/service type of project.
- Only one person in a family can avail benefits under PMEGP. Individuals or units having already availed Government subsidy under any other scheme of the Government of India or the State Government are not eligible to apply.

Documents Required:

- Passport Size Photograph
- Project Profile/Summary
- Aadhaar Card
- Population Certificate, in case of rural projects
- Highest Educational/Technical Qualification
- Special Category Certificate, if applicable

Application Process

Application for PMEGP can only be made online at the designated portal.

Post-Application Process:

Agency (DIC/KVIC/KVIB) receives the application electronically → Confirmation of application received to the applicant within 5 days → In case of any gap in application, the nodal officer makes correction in consultation with the applicant → Shortlisting of applications takes place on the basis of marks in the Scorecard (only 60 and above are recommended) and overall proposal → Shortlisted applications are forwarded to the Task Force (DLTFC) → DLTFC takes a call (accepts/rejects) on the applications within 3 days of its meeting → Recommended applications are forwarded to the selected bank for further processing → Banks conduct due diligence - all responses (acceptance/rejection) are reflected on the PMEGP portal

WHOM TO CONTACT FOR MORE INFORMATION:-

General Manager, District Industries Centre (DIC)



Scan the QR Code for Model Project Profile of FAB Enterprise



Scan the QR Code for video tutorial of the process



Scan the QR Code for list of District Industries Centres in Bihar

WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE FIELD? READ ON:-

1. What constitutes a 'family' in case of PMEGP?

A 'family' is defined as self and spouse.

2. How long does the entire loan processing take?

Processing can take about 45 working days from the successful receipt of the online application. Keep checking the online portal to be updated!

3. When to approach the bank for a follow up on the loan application?

After submission, wait a day before you check with the concerned bank branch (as selected) if they have received your loan application. If you are visiting in person, you can carry a printout of the online acknowledgement for the banker's reference. That's the first touchpoint. Post that, it is suggested to wait at least a week before you start regular follow-ups.

4. How many times could you be called at the bank branch?

The application process is online, so you shouldn't be visiting the branch to apply for the scheme. Some banks may however reach out to you on receiving your form to confirm the details.

5. Would there be any interview before the loan sanction?

Interview is not a standard part of the due diligence process by the DLFC. The candidate may however be called for one if it is deemed necessary.



Scan the QR Code for Frequently Asked Questions



Scan the QR Code for EMI Calculator



Combined Loan & Subsidy Calculator for PMEGP 1.0 & 2.0

SAMPLE PMEGP LOAN CALCULATION

CASE 1:

Let's assume that a candidate belonging to the general category wants to establish a fly ash manufacturing unit in the Patna city, roughly calculated to require financing of Rs.15 lakh.

■ First Check: Type of business - manufacturing or services?

This is a manufacturing activity.

■ Second Check: Whether the total amount falls under the permissible project cost limit?

Yes, for manufacturing activity, the project cost limit is up to Rs.50 lakh.

■ Third Check: Beneficiary Contribution & Subsidy as per the Type of Area and Category of Entrepreneur

The candidate wishes to establish a unit in Patna city, which would fall under urban area (check the Municipality map for determining this), and belongs to the general category. Accordingly, the beneficiary contribution would be 10% and subsidy would be 15% of the project cost.

PMEGP Calculation- Case 1

Project Cost (A)	Beneficiary Contribution (B)	Rate of Subsidy (C)	Term Loan from Bank (D = A-B-C)
15,00,000	10%	15%	11,25,000
	10% x A = 1,50,000	15% x A = 2,25,000	

This means that out of the total project cost, the amount of loan from the bank (as selected during application) would be Rs.11,25,000. Of the remaining amount, Rs.2,25,000 would be provided by the Government as a grant (not to be repaid) and Rs.1,50,000 would have to be contributed by the candidate as margin money i.e, beneficiary's contribution.

CASE 2:

Let's assume that a woman entrepreneur is willing to establish a fly ash manufacturing unit in her village nearby Patna, roughly calculated to require financing of Rs.25 lakh.

- **First Check: Type of business - manufacturing or services?**
- This is a manufacturing activity.
- **Second Check: Whether the total amount falls under the permissible project cost limit?** Yes, for manufacturing activity, the project cost limit is up to Rs.50 lakh.
- **Third Check: Beneficiary Contribution & Subsidy as per the Type of Area and Caste Category of Entrepreneur**

The woman entrepreneur wishes to establish a unit in a rural area. She is also covered under Special Category. Thus, the beneficiary contribution would be 5% and subsidy would be 35% of the project cost.

PMEGP Calculation- Case 2			
Project Cost (A)	Beneficiary Contribution (B)	Rate of Subsidy (C)	Term Loan from Bank (D = A-B-C)
25,00,000	5%	35%	15,00,000
	5% x A = 1,25,000	35% x A = 8,75,000	

This means that out of the total project cost, the amount of loan from the bank (as selected during application) would be of Rs.15 lakh. Of the remaining amount, Rs.8,75,000 would be provided by the Government as a grant (not to be repaid) and Rs.1,25,000 would have to be contributed by the woman entrepreneur as margin money i.e, beneficiary's contribution.

2 PRIME MINISTER EMPLOYMENT GENERATION PROGRAMME (PMEGP) 2.0 - 2ND LOAN WITH SUBSIDY FOR UPGRADING AN EXISTING UNIT

Nature of Assistance: Loan | Margin Money Subsidy

Beneficiaries of PMEGP/MUDRA who have settled the loan repayment within the stipulated time and for whom the margin money component has already been adjusted can avail another trench of loan with subsidy at 15% (20% in case of North East or Hilly States) to upgrade/expand their existing unit. The margin money/beneficiary's contribution in this case would be 10%. Remaining amount shall be provided as loan by the private lending institution/bank selected by the applicant during the application stage.

Important Loan Parameters:

- PMEGP Loan accrues a **nominal interest rate**, determined by the bank on the basis of their policies and/or the repayment potential.
- **Repayment tenure** for PMEGP ranges between 3 to 7 years, after the initial moratorium set by the bank.
- Loans from Rs.5 lakh up to Rs.25 lakh are eligible for guarantee coverage under Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE). **Collateral** is required for loans above Rs.10 lakh.

Eligibility:

- **Purpose of Loan:** Loans under PMEGP can be availed only for upgradation of an existing unit, established with the first loan under the PMEGP/MUDRA scheme. Accordingly, capital expenditure should be covered under the loan ask.
 - The loan repayment must be settled within the stipulated time period;
 - The margin money/subsidy component must be successfully adjusted;
 - The unit must be making profits for the past 3 years, and have potential for further growth with upgradation.



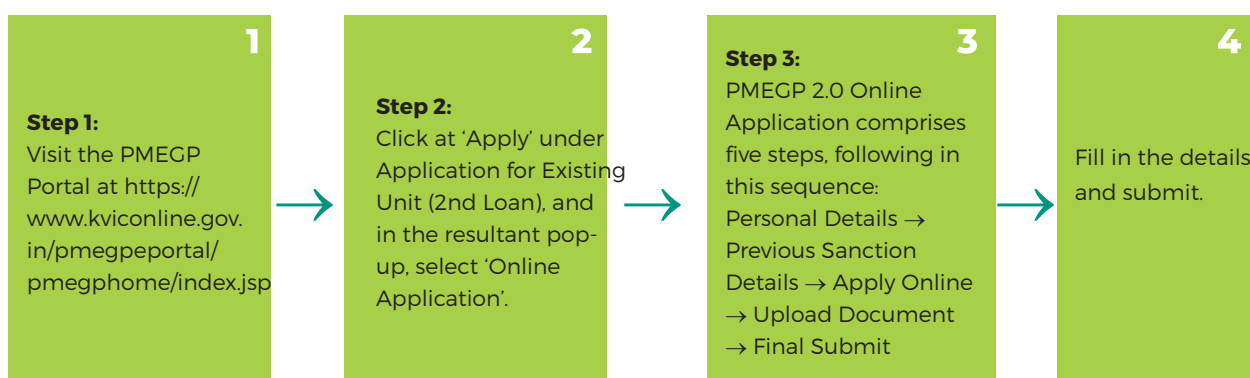
Scan the QR Code for revised PMEGP guideline (June 2022)

- **Permission Project Cost:** The maximum permissible project cost for availing the margin money subsidy is Rs.1 Crore in case of manufacturing activity and Rs.25 lakh in case of service/business activity.

Documents Required:

- Aadhaar Card
- PAN Card
- Previous Loan Sanction Letter with:-
 - Proof of Margin Money claims adjusted against previous loan
 - Bank Certificate for full bank repayment
- Udyam Registration (previously called Udyog Aadhaar Memorandum)
- Project Report of Extension/Upgradation
- Passport Size Photograph
- ITR for Past 3 Years
- Annual accounts certified by Chartered Accountants for the past 3 years

Application Process



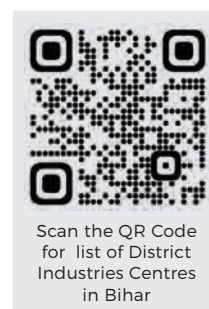
Application for the second PMEGP loan trench can only be made online.

Post-Application Process:

Agency (DIC/KVIC/KVIB) receives the application electronically and conducts preliminary scrutiny within 15 days → Correction, if any required, is made in the application in consultation with the applicant → Corrected applications are forwarded to Banks/invalid applications are rejected and returned back to the applicant. In case of any gap in application, the nodal officer makes correction in consultation with the applicant → Banks approve/reject the proposal within 60 days → Lead status is updated on the PMEGP portal

WHOM TO CONTACT FOR MORE INFORMATION:

General Manager, District Industries Centre (DIC)



WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE FIELD? READ ON:-

1. "I want a loan of Rs.75 lakh for setting up an enterprise. Can I avail PMEGP 2.0"?

No, this loan is a second trench for those profitable businesses which were set up under PMEGP or MUDRA Yojana. You can take a loan for expansion or upgradation of such a unit though.

2. How is expansion different from upgrading?

Think of expansion as change in quantity, and upgradation as change in quality. If you have a fly ash brick unit and want to add more machines/labour, the end result would be an increase in the number of machines or workers. Vis-a-vis, consider that you want to replace your existing machine with a better one or hire more skilled workers. The number would largely be the same in this case but the output may be more due to improvement in the quality of input(s). The first case is that of expansion and the second one, of upgradation. Another common example of expansion is establishing a fly ash brick plant, in addition to an existing one.

3. How long does the entire loan processing take?

Processing for PMEGP 2.0 takes 45-60 working days from the successful receipt of the online application. Keep checking the online portal to be updated!

4. How would you track the status of the application online?

PMEGP e-Portal provides for a separate dashboard for the second tranche of loan. That for the first trench is different, please be sure of checking the right dashboard.

5. When to approach the bank for a follow up on the loan application?

After submission, wait a day before you check with the concerned bank branch (as selected) if they have received your loan application. If you are visiting in person, you can carry a printout of the online acknowledgement for the banker's reference. That's the first touchpoint. Post that, it is suggested to wait at least a week before you start regular follow-ups.

6. Could there be any physical verification of the business location before or after sanctioning of the loan? A

bank may decide to visit the location to be sure of the proposal's viability. After loan disbursement, a joint physical verification of the unit shall be carried out at least twice a year by the implementation agency.

7. Would there be any interview before the loan sanction?

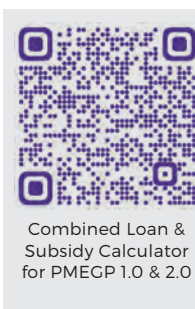
Interview is not a standard part of the due diligence process by the DLTF. The candidate may however be called for one if it is deemed necessary.

SAMPLE PMEGP 2.0 CONTRIBUTION CALCULATION

CASE 1:

Let's assume that a candidate had availed PMEGP Loan of Rs.25 lakh to set up a micro fly ash brick unit in Vaishali, back in 2018. He repaid his loan amount on time and his unit is accruing profits. He now requires Rs.70 lakhs which he will spend on upgrading from a manual to a fully automatic machine and procuring raw material and labour accordingly.

- **First Check:** Whether the unit was established under PMEGP/MUDRA and is profitably running? Yes, the unit was set up under PMEGP and has accrued profits since commencement.
- **Second Check:** Would there be any capital expenditure out of the loan amount? (for upgradation/expansion)
Capital expenditure is money spent on procuring or maintaining fixed assets such as machinery, land etc. PMEGP 2.0 requires at least some capital expenditure to be made from the loan amount. Here, the candidate is planning to procure a fully automatic machine - thus, the eligibility to apply.
- **Third Check:** Whether the total amount falls under the permissible project cost limit? Yes, for manufacturing activity, the project cost limit is up to Rs.1 Crore.
- **Fourth Check:** Beneficiary Contribution & Subsidy as per the location



The unit is in Vaishali, in the State of Bihar. The subsidy rate for all States is 15%, except for NER and Hilly States, where it is 20%. Accordingly, the beneficiary contribution would be 10% and subsidy would be 15% of the project cost.

PMEGP Calculation- Case 1			
Project Cost (A)	Beneficiary Contribution (B)	Rate of Subsidy (C)	Term Loan from Bank (D = A-B-C)
70,00,000	10%	15%	52,50,000
	10% x A = 7,00,000	15% x A = 10,50,000	

This means that out of the total project cost, the amount of loan from the bank would be Rs.52,50,000. Of the remaining amount, Rs.10,50,000 would be provided by the Government as a grant (not to be repaid) and Rs.7,00,000 would have to be contributed by the candidate as margin money i.e, beneficiary's contribution.

CASE 2:

Let's assume that a candidate had availed a MUDRA Loan of Rs.10 lakh for starting a fly ash brick unit in Patna city. She needs working capital to the tune of Rs.5-6 lakhs to procure more raw material, pay salaries and also keep some amount for contingency.

- **First Check:** Whether the unit was established under PMEGP/MUDRA and is profitably running? Yes, the unit was set up under MUDRA Scheme and has accrued profits.
- **Second Check:** Would there be any capital expenditure out of the loan amount? (for upgradation/expansion)
Capital expenditure is money spent on procuring or maintaining fixed assets such as machinery, land etc. PMEGP 2.0 requires at least some capital expenditure to be made from the loan amount. Here, the candidate needs working capital and there is no component of capital expenditure involved. Thus, the case is not eligible for PMEGP 2.0.

3 PM MUDRA YOJANA

Nature of Assistance: Loan

Under this scheme, any individual, Public Limited Company/Private Limited Company, Cooperative Society, Self Help Group (SHG) can avail a loan up to Rs.10 Lakh to set up or strengthen an income generating activity in agriculture and allied, manufacturing, trading or service sector. The loan can be in the form of a term loan, OD limit, composite loan to borrowers etc, and can be utilized for acquiring capital assets, as working capital or to fulfill the marketing requirements. Working capital limit can also be provided in the form of a MUDRA Card, a debit card issued on RuPay Platform.

MUDRA Loans are classified into three different categories on the basis of its ticket size. Higher the amount of loan, more the documentation/formalities involved in the process.

Schedule 4: Benefit Matrix of PM MUDRA Yojana	
Category	Ticket Size
MUDRA Shishu	Loans to up Rs.50,000/-
MUDRA Kishor	Loans from Rs.50,001/- to Rs.500,000/-
MUDRA Tarun	Loans from Rs.500,001/- to Rs.10,00,000/-

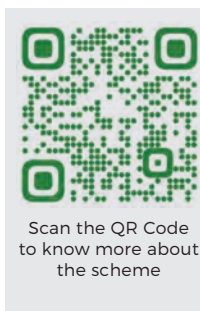
Important Loan Parameters:

- MUDRA Loans accrue **nominal interest rate**, generally in the range of 10% to 12% for Shishu Loans, 14% to 17% for Kishor Loans and from 16% onwards for Tarun Loans.
- **Repayment duration** for Shishu Loans is 3-5 years. That for Kishor and Tarun Loans is determined by the bank on the basis of the proposal.

- MUDRA Loans up to Rs.10 Lakh are eligible for **coverage under CGTMSE.**
- Banks may apply some nominal charges for documentation or processing of the application.

Eligibility:

- **Age:** Any individual above 18 years of age;
- **Nature of Applicant:** Both individual and SHGs/FPOs/Groups can apply;
- **Nature of Enterprise:** Both new and existing enterprises can apply;



DOCUMENTS REQUIRED:

Schedule 5: Documents required to apply for PM MUDRA Yojana			
Type	MUDRA Shishu	MUDRA Kishor	MUDRA Tarun
KYC of Proprietor	Identity Proof:- Any of, • Aadhaar Card • Driving License • PAN Card • Passport • Self Attested Copy of Voter ID	Identity Proof:- Any of, • Aadhaar Card • Driving License • PAN Card • Passport • Self Attested Copy of Voter ID	Identity Proof:- Any of, • Aadhaar Card • Driving License • PAN Card • Passport • Self Attested Copy of Voter ID
	Address Proof:- any of, • Aadhaar Card • Passport • Ration Card	Address Proof:- any of, • Aadhaar Card • Passport • Ration Card	Address Proof:- any of, • Aadhaar Card • Passport • Ration Card
	Passport Size Photo	Passport Size Photo	Passport Size Photo
	Signature (Scanned)	Signature (Scanned)	Signature (Scanned)
	Special Category Proof, if applicable:- • Scheduled Caste/Tribe Certificate • Disability ID Card • Ex-Servicemen Proof • Any other proof	Special Category Proof, if applicable:- • Scheduled Caste/Tribe Certificate • Disability ID Card • Ex-Servicemen Proof • Any other proof	Special Category Proof, if applicable:- • Scheduled Caste/Tribe Certificate • Disability ID Card • Ex-Servicemen Proof • Any other proof
KYC of Business/ Enterprise	Business Enterprise Detail	Proof of Identity/Address of Business Enterprise*	Proof of Identity/Address of Business Enterprise*
	Proof of Ownership of Land/Building:- • Ownership Certificate • Rent/Lease Agreement	B/S (Last 2 yrs) with IT/ Sales Tax Returns (Mandatory if Rs.2 Lac & above)	B/S (Last 2 yrs) with IT/ Sales Tax Returns (Mandatory if Rs.2 Lac & above)
	Supplier Details	MOA & AOA of Co./Partnership deed, etc	MOA & AOA of Co./Partnership deed, etc
	Quotation of Machinery	In absence of Third Party Guarantee, NET WORTH Statement of Borrower/Directors/ Partners etc	In absence of Third Party Guarantee, NET WORTH Statement of Borrower/ Directors/ Partners etc
		Statement of Accounts (Last 6 Months)	Statement of Accounts (Last 6 Months)
		Projected B/S (Cash credit - 1 yr; Term loan - loan period) (Mandatory if Rs.2 Lakh & above)	Projected B/S (Cash credit - 1 yr; Term loan - loan period) (Mandatory if Rs.2 Lakh & above)
		Sales up to the Date of Application (Current FY)	Sales up to the Date of Application (Current FY)
		Proposed Project Report (technical & economic viability)	Proposed Project Report (technical & economic viability)
	Proof of Rent Agreement	Proof of Rent Agreement	

Application Process

The application for MUDRA Shishu Loan is a 2-3 pager form. MUDRA Kishor and Tarun Loan has a 6-7 pager application which is comparatively complex than that of Shishu Loan and requires more documentation. Applications can either be made online or directly at the Bank.

Online Application Process:-

For the step by step application procedure, check below.

- **Step 1:** Visit the Udyami Mitra Portal at <https://www.udyamimitra.in/> and click at 'Apply Now' on the homepage.
- **Step 2:** Sign-up by entering your details and log-in.
- **Step 3:** From the Applicant's Dashboard, click at 'Apply Now' under Loan Application Centre.
- **Step 4:** Select the type of MUDRA Loan you wish to apply for, by clicking on 'Apply Now'.
- **Step 5:** Follow through the application form in the following sequence: Applicant's Details → Other Information → Attach Documents → Declarations
- **Step 6:** Submit the application form.

Offline Application at the Bank:-

Visit your bank branch → You can either check with your Relationship Manager or with the local SPOC on MUDRA application → Some banks have special SME Centers to route MUDRA Loans. Depending upon the bank, there may also be an option to fill the application online → Fill the application form and submit with prescribed documents.

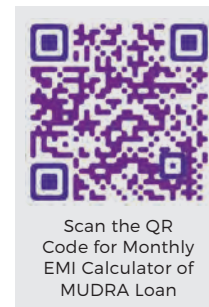
Post-Application Process:

Application is forwarded to the selected bank branch → Bank processes the application

Whom to contact for more information:

General Manager, District Industries Centre (DIC)

WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE



FIELD? READ ON:-

1. **“I already have a unit and want to upgrade it now. I have estimated a cost of Rs.7 Lakh to do so. Which scheme would be better for me - PMEGP or MUDRA?”**

PMEGP is only applicable for setting up of new businesses. You can take a loan for upgradation under MUDRA Yojana though.

2. **Why is there no definite post-application process for MUDRA loans?**

Once the loan application reaches the bank, its processing is internally handled, and may differ as per the bank's process flow. This is different from PMEGP where there is a definite after submission process, since the due diligence there rests with the Government and not with the bank. What is definite in case of MUDRA though is the online application process. You can always check for the status on the Udyami Mitra portal.

3. **How long does the entire loan processing take?**

Processing time for Shishu Loan is 7-10 days. It differs from bank to bank for Kishor and Tarun Loans.

4. **How would you track the status of the application online?**

Login to your account on the Udyami Mitra portal. You will find a status tab on your dashboard. Every time your application crosses a stage (say, submission to review), the status is updated on the portal.

5. **When to approach the bank for a follow up on the loan application?**

After submission, wait a day before you check with the concerned bank branch (as selected) if they have received your loan application. If you are visiting in person, you can carry a printout of the online acknowledgement for the banker's reference. That's the first touchpoint. In case of Shishu Loan, since the turnaround time is of 7-10 days only, follow up if you don't hear back from the bank within that duration. In case of Kishor and Tarun Loans, check with the banker in 1-2 weeks' time if the status of your application doesn't change on the portal.



Scan the QR Code
for Frequently Asked
Questions

4. STAND UP INDIA SCHEME FOR SC/ST & WOMEN ENTREPRENEURS

Nature of Assistance: Loan | Interest Subsidy

This scheme provides a composite loan (including term loan and working capital) up to 85% of the project cost, between Rs.10 lakh and Rs.1 Crore, to at least one woman and SC/ST entrepreneur per bank branch for setting up a greenfield enterprise. The enterprise may be in manufacturing, services, agriculture allied activities or the trading sector. In the case of non-individual enterprise, at least 51% of the stakeholders must be women or must belong to Scheduled Caste/Scheduled Tribe category.

The beneficiaries are expected to contribute up to 15% of the project cost as margin money. In case this contribution exceeds 15% along with convergence with any other scheme, the limit of the loan being 85% of the project cost would not apply.

Important Loan Parameters:

- Stand Up India Loans accrue the lowest applicable **interest rate** of the bank in that rating category. It must not exceed the limit of base rate (Marginal Cost of Funds Based Lending Rates or MCLR) + 3% + Tenor Premium
- Loans under Stand Up India Scheme are eligible for **guarantee coverage** under Credit Guarantee Fund Scheme for Stand Up India Loans (CGFSIL).
- **Repayment tenure** is 7 years including a moratorium of 18 months.

Eligibility:

- **Age:** Any individual above 18 years of age;



Scan the QR Code
to know more about
the scheme

- **Nature of Applicant:** Both individuals and SHGs/FPOs/Groups can apply;
- **Nature of Enterprise:** Stand Up India Loan can only be availed for starting an enterprise, it is not applicable for upgradation/expansion purposes.
- **Special Category:** This scheme is only for women and SC/ST candidates; others do not qualify to avail the benefit of this scheme.

Documents Required:

- KYC for Proprietor
 - ID Proof - Aadhaar Card / Driving License / PAN Card / Passport / Self Attested Copy of Voter ID Card
 - Address Proof - Aadhaar Card / Passport / Ration Card
 - Applicant Photo
 - Applicant Signature
 - Proof of Category - SC / ST Certificate
- KYC for Enterprise
 - Proof of Identity / Address of Business Enterprise
 - Bank Statement (Last 2 Years) with IT / Sales Tax Returns (Mandatory if Rs.2 lakh and above)
 - Memorandum of Association & Articles of Association of the Company / Partnership Deed etc
 - In absence of the Third Party Guarantee, Net Worth Statement of Borrower / Director / Partners etc.
 - Statement of Accounts (Last 6 Months)
 - Projected Bank Statement (Cash credit - 1 Year; Term Loan - loan period) - (Mandatory if Rs.2 Lakh and above)
 - Sales up to the Date of Application (Current FY)
 - Proposed Project Report (technical & economic viability)
 - Proof of Rent/Lease Agreement (in case rented or leased) or Ownership Deed (in case of self-owned property)

Application Process

Those interested can apply for the Stand Up India Scheme in any of three ways - Online at UdyamiMitra Portal, Offline via Bank and Offline via Lead District.

Online Application Process:-

For the step by step application procedure, scan the given QR Code or alternatively check the Annexures.

Offline Application at the Bank:-

Visit your bank branch → You can either check with your Relationship Manager or with the local bank SPOC on Stand Up India application → Fill the application form and submit with prescribed documents.

Post-Application Process:

Application is forwarded to the selected bank branch → Bank processes the application

Whom to contact for more information:

General Manager, District Industries Centre (DIC)



Scan for guided tour of the online application process



Scan the QR Code for list of District Industries Centres in Bihar

WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE FIELD? READ ON:-



Scan the QR Code
for Frequently Asked
Questions

1. "I am a woman and I want to start a FAB enterprise in Patna. How should I decide between PMEGP, MUDRA and Stand Up India Loan?"

The first thing to do is to check whether you are eligible for all three of these loans. The eligibility coverage for PMEGP, MUDRA and Stand Up India compares as follow:

Schedule 6: Eligibility Matrix by Beneficiary & Purpose of Scheme - PMEGP, MUDRA & Stand Up India Loans

Scheme(s) / Categories	Type of Beneficiary		Purpose of Loan	
	General	SC/ST/Women	New Businesses	Existing Businesses
PMEGP	Eligible	Eligible	Eligible	Ineligible
MUDRA Yojana	Eligible	Eligible	Eligible	Eligible
Stand Up India Loans	Ineligible	Eligible	Eligible	Ineligible

Since you are a woman and want to start a new business, you are eligible for all three schemes. Now check as to which one of these fulfills your requirement or would be the most beneficial for you in the following steps:-

- **Ticket Size of Loan:-** If your loan requirement is within Rs.10 lakh, you can choose between MUDRA and PMEGP 1.0. In case your requirement is more than that, you can go for either of PMEGP & Stand Up India Loans

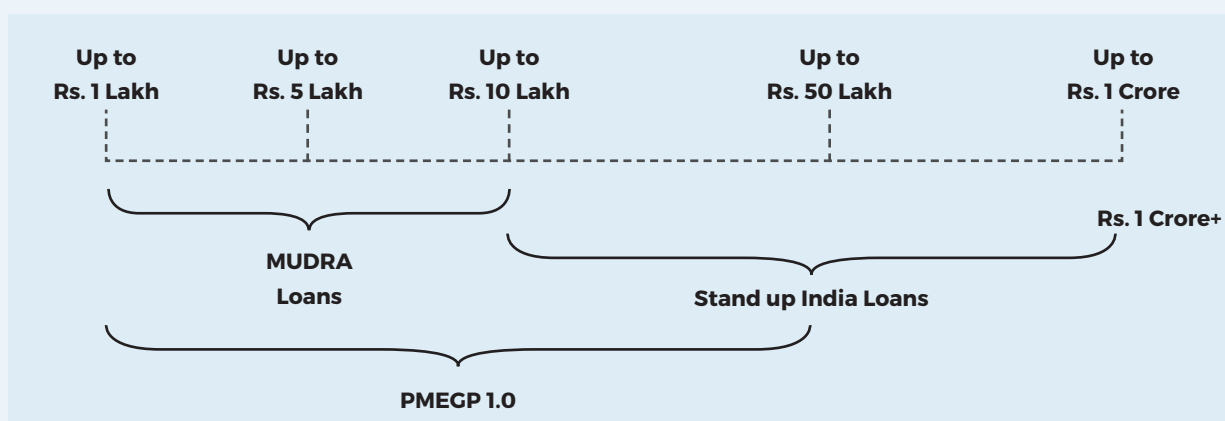


Figure 4: Ticket Size Wise Eligibility for PMEGP 1.0, PM MUDRA and Stand Up India Loans

- **Target Audience of the Scheme:** Niche schemes have higher chances of conversions since the applicant cohort is usually restricted. Say, Stand Up India is only for women/SC/ST entrepreneurs. The scheme by mandate targets this cohort and thus, higher chances of conversion. Now assume if you apply for PMEGP instead, you would be competing for a loan against a much wider group of applicants.

2. The scheme says that the interest rate on Stand Up India Loans must not exceed the base rate (MCLR)+ 3% + Tenor Premium. What is MCLR?

MCLR is the minimum interest rate below which the financial institutions cannot lend, except in certain cases such as fixed rate loans for above three years tenure. What about the Government schemes offering loans at zero interest rate (such as CM Mahila Udyami Yojana in this chapter)? These schemes are funded and sanctioned by the Government Department. Since the MCLR only applies to the financial institutions, such schemes with end to end implementation by the Government are unaffected by it.

3. Why is there no definite post-application process for MUDRA loans?

Similar to MUDRA Loans, once the application for availing Stand Up India Loan reaches the bank, its processing is internally handled, and may differ as per the bank's process flow.

4. How long does the entire loan processing take?

Processing can take about 3-6 weeks from the successful receipt of the online application. Keep checking the online portal to be updated!

5. When to approach the bank for a follow up on the loan application?

After submission, wait a day before you check with the concerned bank branch (as selected) if they have received your loan application. If you are visiting in person, you can carry a printout of the online acknowledgement for the banker's reference. That's the first touchpoint. You can cut down on your contact with the bank by checking the status online on the Udyami Mitra portal. Reach out to the bank if the application status doesn't change in 1-2 week's time.

6. How many times could you be called at the bank branch?

The application process is online, so you shouldn't be visiting the branch to apply for the scheme. Some banks may however reach out to you on receiving your form to confirm the details.

7. Would there be any interview before the loan sanction?

The scheme gives the bank discretion on how it conducts the due diligence. You may be called for an interview if the banker feels the need.

**5 CREDIT GUARANTEE TRUST FUND FOR MICRO AND SMALL ENTERPRISES
NATURE OF ASSISTANCE: CREDIT GUARANTEE**

Under this scheme, an entrepreneur can avail guarantee coverage for loans up to Rs.2 Crore for manufacturing or service enterprises, and up to Rs.1 Crore for retail/trade type of activities. The coverage slabs are as follows:-

Schedule 7: Benefit Matrix of CGTMSE				
Activity - Manufacturing / Service	Category	Maximum extent of guarantee where credit facility is:-		
		Up to Rs.5 Lakh	Above Rs.5 Lakh up to Rs.50 Lakh	Above Rs.50 Lakh up to Rs.2 Crore
	Micro Enterprises	85% of the amount in default subject to a maximum of Rs. 4.25 lakh	75% of the amount in default subject to a maximum of Rs. 37.50 lakh	75% of the amount in default subject to a maximum of 150 lakh
	Women entrepreneurs/ Units located in the NorthEast Region (incl. Sikkim)	85% of the amount in default subject to a maximum of Rs. 4.25 lakh	80% of the amount in default subject to a maximum of 40 lakh	
	All other category of borrower	75% of the amount in default subject to a maximum of 37.50 lakh		
Activity - Retail / Trade	Category	From 10 lakh upto 100 lakh		
	Micro and Small Enterprises (MSEs)	50% of the amount in default subject to a maximum of 50 lakh		

IMPORTANT PARAMETER(S):

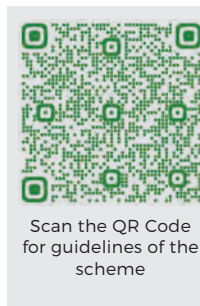
- **Tenure of the Guarantee Coverage** for term loan is till the repayment duration of the loan. In case of working capital loan, the coverage is of 5 years or block of 5 years.
- Interest rate, repayment duration, margin money and other components of the loan would be at the discretion of the lender or in case of Government scheme, as mandated by the guidelines. CGTMSE shall only add a layer of guarantee coverage to the loan.

Eligibility:

- **Project Cost:** Loan must be up to Rs. 2 crore in case of manufacturing and service, and Rs.1 crore in case of retail/trade.
- **Nature of Enterprise:** Both new and existing businesses (manufacturing, service and retail/trade)

Documents Required:

There is no specific document required for CGTMSE; the application is made by expressing interest for guarantee coverage under this scheme while applying for any loan product.



Application Process

Applicants cannot directly approach the Trust for guarantee coverage. They simply need to inform their banker about their interest in availing the benefit under this scheme, and if the bank is a registered member of the Trust, it will be able to file for the coverage for your loan application. Similarly, the bank remains the mediator between the Trust and the customer for other processes (such as claims, fee collection etc) too.

Whom to contact for more information:-

Contact your banker directly, or reach out to the Udyami Mitra at the helpline number (18003456214).

WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE FIELD? READ ON:-

1. What happens when you fail to repay the loan that is covered under CGTMSE?

When such a situation arises, the bank can lodge an online claim with the Trust for the guarantee amount. This is subject to fulfillment of two conditions:- the guarantee must be in force at the time of the account turning NPA (non-repayment), and the claim must be made after completion of the 18 months of a lock-in period from the guarantee start date or last disbursement date, whichever is earlier.

[Check the sample guarantee calculation for more details.](#)

2. "I approached my bank to avail credit guarantee for a loan under CGTMSE but it is still asking for collateral. Can they do that?"

CGTMSE provides guarantee coverage for only a part of the amount in default, a marginal percentage of loan is still unsecured. If the ticket size of the loan is more and thus this unsecured proportion of loan is substantial, the banker may ask you for a collateral that covers it.

3. Why avail CGTMSE if the bank may still ask you for a collateral to cover some part of the loan?

It is still only a part (usually only 25-50%) that you need to cover on your own! If you do not have a collateral sufficient in value to the bank's requirement, CGTMSE may be a good choice.

4. Why would the Trust give out guarantees for free? Are there any hidden charges in availing this guarantee coverage?

Guarantee coverage doesn't come for free. A nominal annual fee up to 1-2% of the credit facility is charged by the Trust on the guaranteed amount for the first year and the outstanding amount (guaranteed amount - amount repaid in installments) from second year onwards. This fee may not always reach the borrower though. The Trust has given the MLIs discretion to choose whether they want to pass on it to the borrowers, or bear it on their own.

5. "I approached my bank to avail credit guarantee under CGTMSE for a loan but it refused. Can they do that?"

The first thing to note is that not all banks offer credit guarantee under the CGTMSE Scheme. In order for an eligible financial institution to route the guarantee coverage, they must enter into a one time agreement with the Trust for

becoming its Member Lending Institution (MLI). Only these MLIs are permitted to offer benefits under this scheme. Once registered, they receive login credentials using which they can access the online portal for claiming coverage.

Even if your bank is registered with the Trust, if it doesn't feel confident of a loan application, it may as well refuse to provide the coverage.

6. **"I am availing loans in parts from two different banks, and want CGTMSE coverage for both of them. How to get it?"**

You cannot avail the coverage for both the loans! The credit facility to which the guarantee coverage is applied must be availed from a single financing institution. Even if the total loan amount of both the loans add up to the project cost limit of CGTMSE, the coverage can be availed at maximum for only one of these.

7. **How much time does it take for the CGTMSE coverage to be approved?**

The guarantee is approved within 24 hours of the Member Lending Institution raising the application with the Trust. The information may be passed on to the borrower, in case of rejection; else, at the time of approval of loan (may follow a different turnaround time).

SAMPLE CGTMSE GUARANTEE CALCULATION

Let's assume that as a woman entrepreneur, you availed a loan of Rs.25 lakh to set up a micro FAB unit. You paid the installments on time but due to low market trends, couldn't earn enough profit to repay Rs.10 lakh of the total amount. How would the coverage work?

As the first step, the concerned Member Lending Institution (MLI) would have to mark the status of loan as NPA on the CGTMSE portal. This would alert the Trust that the guarantee payment is in order. Without this, the coverage process wouldn't initiate.

How is the guarantee calculated?

■ **First Check: Is the enterprise engaged in manufacturing, service or retail/trade?**

Since this is a FAB unit, it is a manufacturing activity.

■ **Second Check: What category of applicant do you fall under (check the table given under Nature of Assistance) and what is the guarantee coverage for your ticket size of loan?**

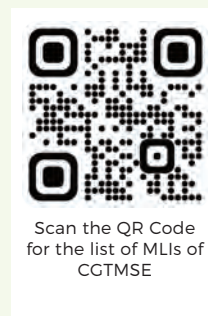
You are a woman and the loan is of Rs.25 lakh. Thus, the coverage would be 80% of the amount in default subject to a maximum of 40 lakh. Note that the guarantee coverage is **on the default** (i.e, amount of loan not repaid) and not on the original loan amount. Here, Rs.10 lakh is the default.

Hence, the calculation will be as follow:-

Guarantee Calculation			
Project Cost (A)	Amount in Default (B)	Rate of Coverage (C)	Recovery by Bank from Borrower's Secured Assets
25,00,000	10,00,000	80%	100%-C = 20%
		80% x B = 800,000	(B) - (C.) = 200,000

This means that out of Rs.10 lakh of default, the Trust would pay Rs.8 Lakh to the bank against NPA. The bank can only recover up to Rs.2 Lakh by auctioning off the secured assets. This Rs.8 Lakh will be paid in two installments by the Trust – one after the legal action is initiated on the account turning NPA, and the second after the recovery of Rs.2 Lakh from auction is made.

In absence of CGTMSE, the entire default amount would have been recovered by the bank from the auctioning.

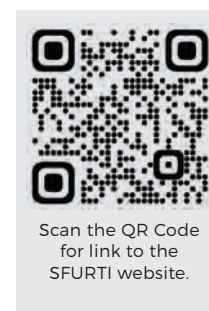
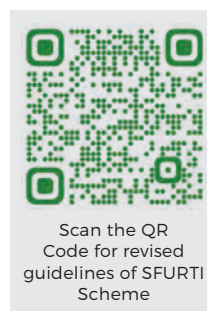


Central Financing Schemes - Cluster/ Group Based

6. SCHEMES OF FUNDS FOR REGENERATION OF TRADITIONAL INDUSTRIES (SFURTI) - ASSISTANCE UP TO RS.5 CRORE

Nature of Assistance: Grant-in-Aid

This scheme provides financial assistance to artisan clusters engaged in the traditional industries such as handicraft, textile, agro-processing, bamboo, honey, coir, khadi etc. The amount of assistance is up to Rs.2.5 crore for general clusters (500 and less artisans)¹ and Rs.5 crore for major clusters (more than 500 artisans) for interventions falling under two areas:-



Schedule 8: Intervention Areas under SFURTI		
	Hard Intervention	Soft Intervention
Amount of Assistance	Financing support up to 90% of the project cost, to the maximum of Rs. 5 crores	Assistance up to 10% of the hard intervention or Rs.25 lakh, whichever is lower
Purpose	For setting up or upgradation of infrastructure including:- <ul style="list-style-type: none"> • Common Facility Centre (CFC) • Raw Material Bank (RMB) • Production/ Processing Infrastructure • Warehousing facility • Training Centre etc. 	<ul style="list-style-type: none"> • General Awareness • Skill Development & Capacity Building • Institutional Development • Exposure Visits • Market Promotion Initiatives • Design & Product Development • Participation in seminars, workshops, technology enhancement programmes etc.

Apart from it, activities including brand building & promotion campaigns, new media marketing, e-Commerce initiatives, innovation, and research & development initiatives may also be considered.

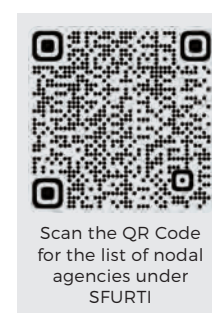
OPERATING MECHANISM & APPLICATION(S)

Three types of agencies are involved in the successful implementation of the scheme – Nodal Agency, Technical Agency & Implementation Agency.

Nodal Agency (NA): National institutions with sectoral expertise in the major sub-sectors of the traditional industries. NA constitutes a Project Steering Committee, headed by its Chief Executive, for management and implementation of the scheme.

Technical Agency (TA): Nodal Agencies appoint Technical Agencies, which are responsible for tasks including but not limited to sensitization and awareness generation about the scheme and its benefits; preparation of DPRs, assisting the Nodal Agency in examining the proposals.

Implementation Agency (IA): It can be an NGO, Trust, Corporation, PRI or other body, responsible for implementing the scheme on the ground level. It does it by appointing a Special Purpose Vehicle or SPV², while ensuring minimum 33% representation of the artisans in the Governing Body/Managing Committee. It also appoints a Cluster Development Executive (CDE) to implement the scheme on ground.



1 In case of NER and Hilly Areas, the number of artisans/workers in a cluster must not be less than 50, and not less than 100 otherwise. In such cases, a proportionate Grant in Aid may be considered by the Scheme Steering Committee while granting approval.

2 Special Purpose Vehicle (SPV) is a type of a subsidiary company formed to undertake a specific activity.

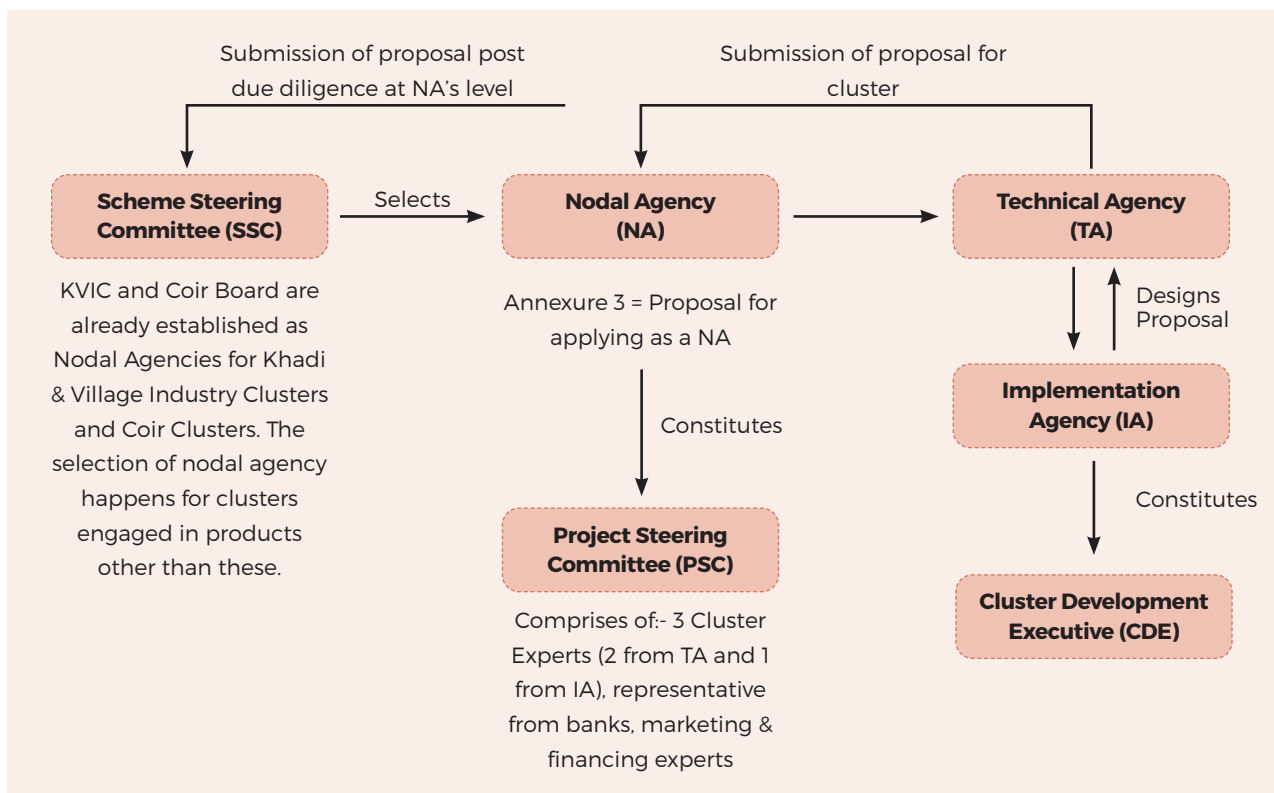


Figure 5: Structure & Process Flow of SFURTI

Application Process for Agencies:

As a cluster scheme, application for SFURTI is made by non-individual entities including Government institutions, NGOs, Panchayati Raj Institutions (PRIs), Corporate Responsibility Foundations etc.

- In order to apply as a Nodal Agency, submit Annexure 3 with prescribed documents to the following address:

The Joint Secretary (ARI Division),
 Ministry of Micro, Small & Medium Enterprises,
 Room No.171 Udyog Bhawan, New Delhi-110011.
 Telephone (011) 23061543 Telefax: (011) 23062858
 E-mail: js.ari@nic.in

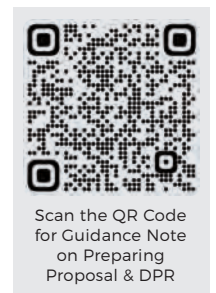
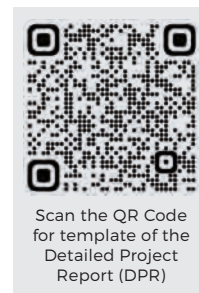
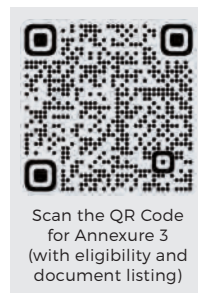
- Appointment of a Technical Agency and Implementation Agency happens via the empanelment process, led by the Nodal Agency.

Submission of Proposal/Concept:

The Implementation Agency can file for submission of a new proposal/concept online on the website of the Nodal Agency (NA). There is also a site by the Ministry for submission of concepts. The project cost must include the cost of soft and hard intervention, along with the cost of the Cluster Development Executive (CDE) employed by the IA and other administrative costs of the Technical Agency.

Documents Required for Implementation Agency:-

- Institution's registration certificate
- 3 years' audit report



- Documents regarding land for CFC
- List of machines and its usage
- SPV Details

WHOM TO CONTACT FOR SUPPORT WITH APPLICATION:-

Sh. Yatendra Kumar at 7835904076 (9.00AM to 5.30PM) Monday to Friday

7. MICRO & SMALL ENTERPRISES CLUSTER DEVELOPMENT PROGRAMME (MSE-CDP) - ASSISTANCE FROM RS. 5 CRORE UP TO RS. 30 CRORE

Nature of Assistance: Grant-in-Aid

The Micro & Small Enterprises Cluster Development Programme provides grants to support development of 1.) Common Facility Centers and 2.) Infrastructure Development. The grant is provided up to a percentage of the total project cost, as follow:-

Schedule 9: Benefit Matrix of MSE-CDP							
Components	Total Project Cost	Funding Pattern - General States			Funding Pattern - Special Geographies (Aspirational Districts, NER, Hill States)		
		GoI	State Gov.	SPV	GoI	State Gov.	SPV
Common Facility Centre (CFC)	Rs. 5 Crore to Rs. 10 Crore	70%	20%	10%	80%	15%	5%
	Rs, 10 Crore to Rs. 30 Crore	60%	20%	20%	70%	15%	15%
Infrastructure Development - New Industrial Estate/ Flatted Factory Complex	Rs. 5 Crore to Rs. 15 Crore	60%	40%	-	70%	30%	-
Infrastructure Development - Upgradation of existing Industrial Estate/ Flatted Factory Complex	Rs.5 Crore to Rs. 10 Crore	50%	50%	-	60%	40%	-

- Project costing more than Rs.30 crore may also be considered but the grant would be calculated keeping Rs.30 crore as the maximum amount;
- Similarly, a project costing more than Rs.10 crore for upgrading an existing Industrial Estate/Flatted Factory Complex and Rs.15 crore for setting up a new one may be considered but the benefit would be calculated considering Rs.10-15 crore as the maximum limit.

Operating Mechanism & Application(s)

Proposal for MSE-CDP follows the following process flow. The project would have to be completed within 18 months from the date of approval by NPAC.

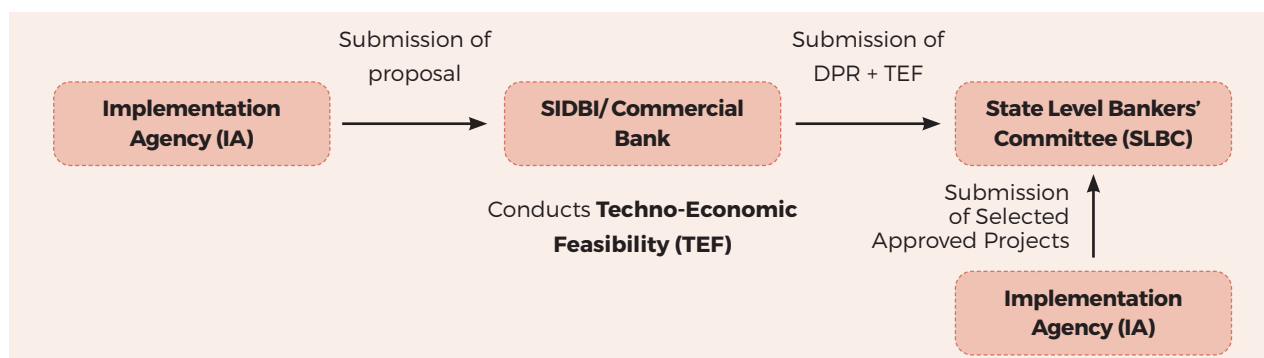
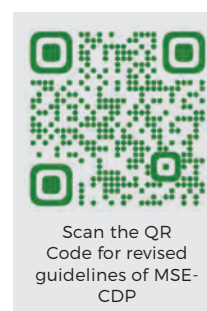
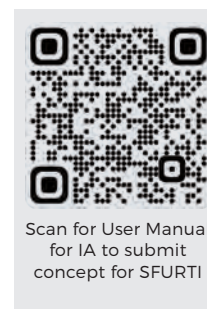


Figure 6: Process Flow of MSE-CDP



Application for MSE-CDP can be made online by registering on www.cluster.dcmsme.gov.in. Hardcopies of the application must also be submitted through MSME-DI or State Government.

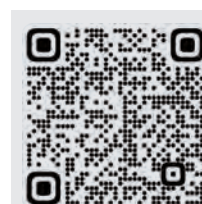
Document(s) required for consideration at NPAC level:-

For Common Facility Centre (CFC)

- DPR, as per the performa
- Project Appraisal Report
- Registered land documents (if in vernacular language then English/Hindi translation)
- SPV registration as Section 8 Company (certificate of registration, with MoA and AoA)
- Geo Tagging
- SLSC recommendation along with minutes of meeting - will be provided by SLBC
- Statutory Compliances
- Certificate from State Government for compliance of GFR/CVC guidelines

For Infrastructure Development (ID)

- DPR, as per the performa
- Project Appraisal Report
- Land Documents (if in vernacular language then English/Hindi translation)
- Geo Tagging
- SLSC recommendation along with minutes of meeting
- Statutory Compliances
- Certificate from State Government for compliance of GFR/CVC guidelines



Scan the QR Code
for template of the
Detailed Project
Report (DPR)

WHOM TO CONTACT:

The Director, Cluster Development Division
Room No. 724, O/o DC (MSME) 7 th Floor, Nirman Bhawan, New Delhi
Phone No. 011-23062230

State Financing Schemes - CM Udyami Yojana

CM Udyami Yojana is divided into three types on the basis of beneficiary base. These are given as under:-

1. CHIEF MINISTER MAHILA UDYAMI YOJANA

Nature of Assistance: Loan & Subsidy

Under this scheme, any unemployed woman can avail financial assistance up to Rs.10 lakh for starting a small business or industry. This assistance is divided into two parts:- 50% (maximum of Rs.5 Lakh) is provided as a subsidy (not to be returned) and the remaining 50% (maximum of Rs.5 Lakh) is provided as an interest free loan to be repaid in 7 years (or 84 equal monthly installments). Moreover, the selected beneficiaries shall undergo a 14-days long Entrepreneurship Training Programme (EDP) worth rupees Rs.25000.

Important Parameters:

- There is **no collateral or margin money** required to apply for this scheme.
- The assistance is provided in maximum two installments. Only one member of a family can benefit from the scheme.

Eligibility:

- **Residency:** Must be a citizen of Bihar;
- **Gender:** Must be a female or a transgender;
- **Age:** Must be between 18 and 50 years of age;
- **Educational Qualification:** Must have cleared at least +2 or matriculation/ITI/Polytechnic Diploma.
- **Nature of Applicant:** Proprietorship, Partnership Form or Private Limited Company;
- **Banking Particulars:** In case of proprietorship, the registration will be made on an individual PAN Card³. There must also be an active current account in the name of the company/firm.
- **Business Vintage:** New enterprises only

Documents Required:

- Proof of Residency- Residence Certificate
- Education Proof - Certificate
- Aadhaar Card
- PAN Card
- Passport Sized Photograph
- Signature Copy
- Canceled Cheque of the Current Account, along with the account opening date statement (should be after 17.05.2018 for women belonging to SC/ST caste, after 04.02.2020 for those from Extremely Backward Classes and 13.05.2021 for those from unreserved or Other Backward Classes.)

Application Process

- Application for CM Mahila Udyami Yojana can be made online at <https://udyami.bihar.gov.in/>.

Whom to Contact:

In order to know more, call at the toll free number (18003456214) between 10:00am to 5:00pm, Monday to Friday



Scan the QR Code for Scheme Guidelines (in Hindi)



Scan the QR Code for User Manual of the Scheme



Scan the QR Code for sample filled application form

³ There are two types of PAN Cards - Individual PAN and Company PAN. Individual PAN Card is issued in the name of a person and usually includes his/her photograph and date of birth. Contrary to it, Company PAN Card is issued in the name of the company as its identity proof, and includes date of incorporation instead of DOB. There is no photo on the Company PAN Card.

2. CHIEF MINISTER SC/ST/EBC UDYAMI YOJANA

Nature of Assistance: Loan & Subsidy

Under this scheme, an unemployed individual belonging to Scheduled Caste, Scheduled Tribe or Economically Backward Classes can avail financial assistance up to Rs.10 lakh for starting a small business or industry. This assistance is divided into two parts:- 50% (maximum of Rs.5 Lakh) is provided as a subsidy (not to be returned) and the remaining 50% (maximum of Rs.5 Lakh) is provided as an interest free loan to be repaid in 7 years (or 84 equal monthly installments). Moreover, the selected beneficiaries shall undergo a 14-days long Entrepreneurship Training Programme (EDP) worth rupees Rs.25000.

Important Parameters:

- There is **no collateral or margin money** required to apply for this scheme.
- The assistance is provided in maximum two installments. Only one member of a family can benefit from the scheme.

Eligibility:

- **Residency:** Must be a citizen of Bihar;
- **Caste:** Must belong to SC, ST or EBC caste category;
- **Age:** Must be between 18 and 50 years of age;
- **Educational Qualification:** Must have cleared at least +2 or matriculation/ITI/Polytechnic Diploma.
- **Nature of Applicant:** Proprietorship, Partnership Form or Private Limited Company;
- **Banking Particulars:** In case of proprietorship, the registration will be made on an individual PAN Card⁴. There must also be an active current account in the name of the company/firm.
- **Business Vintage:** New enterprises only

Documents Required:

- Proof of Residency- Residence Certificate
- Education Proof - Certificate
- Aadhaar Card
- PAN Card
- Passport Sized Photograph
- Signature Copy
- Caste Certificate
- Canceled Cheque of the Current Account, along with the account opening date statement (should be after 17.05.2018 for those belonging to SC/ST caste and after 04.02.2020 for those from Extremely Backward Classes)

Application Process

Application for CM SC/ST/EBC Udyami Yojana can be made online at <https://udyami.bihar.gov.in/>.

Whom to Contact

In order to know more, call at the toll free number (18003456214) between 10:00am to 5:00pm, Monday to Friday



Scan the QR Code for Scheme Guidelines (in Hindi)



Scan the QR Code for User Manual of the Scheme



Scan the QR Code for sample filled application form

4 There are two types of PAN Cards - Individual PAN and Company PAN. Individual PAN Card is issued in the name of a person and usually includes his/her photograph and date of birth. Contrary to it, Company PAN Card is issued in the name of the company as its identity proof, and includes date of incorporation instead of DOB. There is no photo on the Company PAN Card.

3. CHIEF MINISTER YUVA UDYAMI YOJANA

Nature of Assistance: Loan & Subsidy

Under this scheme, an unemployed male belonging to unreserved or Other Backward Classes can avail financial assistance up to Rs.10 lakh for starting a small business or industry. This assistance is divided into two parts:- 50% (maximum of Rs.5 Lakh) is provided as a subsidy (not to be returned) and the remaining 50% (maximum of Rs.5 Lakh) is provided as a loan at the interest rate of 1%, to be repaid in 7 years (or 84 equal monthly installments). Moreover, the selected beneficiaries shall undergo a 14-days long Entrepreneurship Training Programme (EDP) worth rupees Rs.25000.



Scan the QR Code for Scheme Guidelines (in Hindi)

Important Parameters:

- There is no collateral or margin money required to apply for this scheme.
- The assistance is provided in maximum two installments. Only one member of a family can benefit from the scheme.

Eligibility:

- **Residency:** Must be a citizen of Bihar;
- **Gender & Caste:** Must be a male and must belong to either unreserved or OBC
- **Age:** Must be between 18 and 50 years of age;
- **Educational Qualification:** Must have cleared at least +2 or matriculation/ITI/Polytechnic Diploma,
- **Nature of Applicant:** Proprietorship, Partnership Form or Private Limited Company;
- **Banking Particulars:** In case of proprietorship, the registration will be made on an individual PAN Card⁵. Must also have an active current account in the name of the company/firm.
- **Business Vintage:** New enterprises only

Documents Required:

- Proof of Residency- Residence Certificate
- Education Proof - Certificate
- Aadhaar Card
- PAN Card
- Passport Sized Photograph
- Signature Copy
- Caste Certificate
- Canceled Cheque of the Current Account, along with the account opening date statement (should be after 13.05.2021)

Application Process

Application for CM SC/ST/EBC Udyami Yojana can be made online at <https://udyami.bihar.gov.in/>.

Whom to Contact:

In order to know more, call at the toll free number (18003456214) between 10:00am to 5:00pm, Monday to Friday



Scan the QR Code for User Manual of the Scheme



Scan the QR Code for sample filled application form

5 There are two types of PAN Cards - Individual PAN and Company PAN. Individual PAN Card is issued in the name of a person and usually includes his/her photograph and date of birth. Contrary to it, Company PAN Card is issued in the name of the company as its identity proof, and includes date of incorporation instead of DOB. There is no photo on the Company PAN Card.

WANT TO KNOW WHAT ENTREPRENEURS ASK ON THE FIELD? READ ON:-

1. What is the best time to apply for this scheme?

The application window for this scheme opens for only a specific duration - usually a quarter (spilling over to the subsequent quarter if the beneficiary count is not met).

2. "I am a woman belonging to the Scheduled Caste category. I wish to avail benefits under CM Udyami Yojana. Should I apply under CM Mahila Udyami Yojana or CM SC/ST/EDC Udyami Yojana?"

A woman entrepreneur belonging to SC category and willing to avail benefits under this scheme is eligible to apply for both Chief Minister Mahila Udyami Yojana and Chief Minister SC/ST/EBC Udyami Yojana. It is suggested though that you apply for the former given the special focus on business facilitation to women.

3. "I am 21 years old, belonging to the Scheduled Caste category. If I apply under CM Yuva Udyami Yojana, I will have to pay interest on the loan amount. I wish to apply for CM SC/ST/EDC Yojana instead to save on the interest amount. Can I do that?"

Chief Minister Yuva Udyami Yojana defines 'youth' as a male belonging to unreserved/general category or a Backward Class⁶. Please note that Extremely Backward Classes (EBCs) are covered under Chief Minister SC/ST/EBC Udyami Yojana instead.

Schedule 10: Eligibility Matrix for Chief Minister Udyami Yojana

Gender	Caste Category				
	General/Unreserved	Scheduled Caste	Scheduled Tribe	Other Backward Classes - Backward Class	Other Backward Classes - Extremely Backward Class
Male	CM Yuva Udyami Yojana	CM SC/ST/EBC Udyami Yojana	CM SC/ST/EBC Udyami Yojana	CM Yuva Udyami Yojana	CM SC/ST/EBC Udyami Yojana
Female	CM Mahila Udyami Yojana	CM Mahila Udyami Yojana OR CM SC/ST/EBC Udyami Yojana	CM Mahila Udyami Yojana OR CM SC/ST/EBC Udyami Yojana	CM Mahila Udyami Yojana	CM Mahila Udyami Yojana OR CM SC/ST/EBC Udyami Yojana

⁶ Other Backward Classes (OBC) comprises two categories - Backward Class and Extremely Backward Class. The former is covered under Chief Minister Yuva Udyami Yojana and the latter, under Chief Minister SC/ST/EBC Udyami Yojana.



Fly Ash Brick Unit



An operational machine at a fly ash brick unit



Stakeholders consultations



PART III

BANKABILITY KIT

FOR FLY ASH BRICK

ENTREPRENEURS



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Contributor(s): Mohak Gupta

Reviewer(s): Dr. Arun Kumar, Gitika Goswami

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Disclaimer:

This document is an outcome of a project titled, 'Sustainable and Green Recovery of Economy in Bihar under a Post-COVID Scenario'. It is intended for use by nano and micro enterprises operating in the Fly Ash Brick (FAB) sector in the State; and may as well serve as a reference for government and non-government stakeholders engaged in industry facilitation. However, the decision and responsibility to use the information contained in this document lies solely with the reader. The author(s) or publisher(s) are not liable for any consequences as a result of use or application of this document. Content may be used/quoted with due acknowledgment to Development Alternatives and Shakti Sustainable Energy Foundation.

Acknowledgement(s):

This toolkit is a result of multiple consultations held with stakeholders including entrepreneurs (FAB and non-FAB), financiers and Government Departments at State and District Level including Bihar State Pollution Control Board and Industries Department. We are thankful to them for their support.

We are also thankful to Shakti Sustainable Energy Foundation, for understanding the need for such a tool, and investing with resources for bringing this to reality.

Theme: Enterprise Support - Financial

Sector: Fly Ash Brick (FAB) Manufacturing

State: Bihar

Keyword(s): Government Financing, Private Financing, Financial Literacy

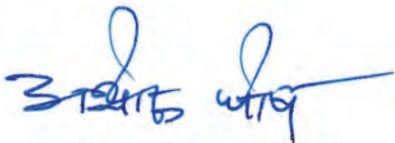
Foreword

Brick is an essential raw material for constructing houses. With over 50 percent of India's estimated building stock for the year 2030 yet to be built, one can reasonably expect the growth in demand for bricks to be phenomenal. As one of the major brick producing States, this gives Bihar a tremendous opportunity to bolster its brick sector and guide it towards sustainable practices – a process that can effectively promote and facilitate a green economic transition in the state.

The brick sector in Bihar is currently dominated by red bricks. It consumes 350 million tonnes of topsoil every year, affecting its availability for agriculture and threatening the sustenance of the agrarian economy. In addition to this, during the firing process, large quantities of coal are being burnt which contribute roughly 16 million tonnes of CO₂ to the State's annual emissions. The Government of Bihar is working in a big way towards achieving its Net Zero target of 2070, and therefore, reducing CO₂ emissions from the brick sector is an important mandate for them. Fulfilling the demand for bricks thus presents a valuable opportunity to promote Fly Ash brick enterprises who can play a leading role towards meeting Bihar's low carbon pathway ambitions.

The Bihar State Pollution Control Board (BSPCB), jointly with the Development Alternatives Group, conducted a study that found that at least 1000 new fly ash brick enterprises can be set up to utilise the fly ash already available and projected to be available in the State in the coming years. Interactions with stakeholders have highlighted the need for capacity building, financial literacy and access to credit to entrepreneurs as immediate concerns and this Toolkit is built towards filling these gaps.

My heartiest congratulation to the team at Development Alternatives for coming up with this comprehensive Toolkit for Facilitating Micro & Small Fly Ash Enterprises. Having said that, this is just the beginning. I look forward to witnessing the wide impact that this toolkit can have and wish the team all the best for taking it to fly ash brick entrepreneurs in the far corners of Bihar.



Dr. Ashok Kumar Ghosh

Chairman,

Bihar State Pollution Control Board



A glimpse into mindset shift among households. Those who had earlier constructed their houses with red bricks have started opting for fly ash bricks for new and existing construction. This glimpse is of a house near Raja Fly Ash Brick unit. With correct policy and behavioural nudges, adoption of fly ash bricks among households can be increased manifold

List of Abbreviations

DIC	District Industries Centre
DPR	Detailed Project Report
FAB	Fly Ash Bricks
FABE	Fly Ash Brick Enterprise
FARC	Fly Ash Resource Centre
GST	Goods & Service Tax
ITR	Income Tax Return
UAM	Udyog Aadhaar Memorandum

List of Schedule(s)

Schedule 8	Summary Matrix for Components of DPR by Ticket Size
Schedule 9	Summary Sheet of DPR
Schedule 10	Division of Project Cost by Contribution

Glossary

Term	Definition	Applicability
Collateral/ Security	Any tangible asset such as an immovable property (land, building), jewelry etc which the borrower keeps with the bank in addition to promising the primary security.	Bankers feel more secure with collateral backed loans. Check the section 'Collateral and Repayment' for more details.
Detailed Project Report (DPR)	A comprehensive outline of the project. It consists of business, technical and financial aspects/ estimations of the investment.	DPR can be a deal-maker or a deal-breaker for a loan application. A properly prepared DPR will give the banker confidence in the borrower's vision of the project, and ease out the loan conversion process.
Interest	The price you pay for borrowing money. It is distributed at set frequencies (monthly/yearly).	The type and percentage of interest can severely impact your total payments to the bank in lieu of loan. Check the section 'Interest, Margin Money & Moratorium' for more details.
Margin Money	Also called beneficiary's contribution, it is the percentage of the project cost that the borrower puts in from his own pocket.	Bankers ask for margin money to be sure of the borrower's financial stability or commitment to the project. Check the section 'Interest, Margin Money & Moratorium' for more details.
Moratorium	The time period right after the loan sanction, wherein the borrower doesn't have to pay any installment.	Moratorium is beneficial if your project requires some time before it reaps revenue. Check the section 'Interest, Margin Money & Moratorium' for more details.
Project Cost	The total fund needed to complete the project. It consists of both Direct Cost and Indirect Cost.	While applying for a loan, the applicant is required to mention the project cost.. The bankers generally provide a percentage of it as a loan (about 50-75%), in very rare cases 100% of the project cost is funded.
Repayment/ Loan Tenure	Number of months/years in which the loan (principal and interest) needs to be repaid to the bank.	Longer the loan tenure, smaller the installment amount and vice versa. You may want to check the section on 'Collateral and Repayment' for details.
Ticket Size	The loan amount.	Too small a ticket size (up to Rs.50,000) are generally rejected by the traditional bankers. Check footnote 11 of the document for more details.
Turnaround Time	The number of days/months an application takes to get a response (conversion/rejection).	If your loan requirement is immediate, a loan with longer turnaround time will not be feasible for you.

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Introduction

Bankability for Micro and Small Enterprises

Availability of finance, or lack thereof, is a critical component that impacts the decision of starting a business or expanding an existing one. Part II of this MSME Facilitator's Toolkit provided detailed information about type of lenders, type of loans, markers for decision-making etc. Apart from it though, another component which is equally important is that of being bankable. Bankability is the ability to source finance from financial institutions when need arises. If an entrepreneur is bankable, it means that he/she holds a strong profile as a borrower – which makes it easier for a lender to process the loan application.

While bankability isn't built in a day, one can always learn the trick of gauging the investability of their own project and improve their approach of engaging with the financial institutions. This can not only increase the chances of loan conversion of the current application, but also in a longer run can make you bankable enough to be received positively with bankers.

ABOUT THIS PART

Part-III of this Toolkit is designed as a practical guide for fly ash brick entrepreneurs to be able to improve their understanding and work around the following fundamental aspects of project financing and banking for loan:-



Estimation of Project Cost



Preparing the Detailed Project Report



Maintaining & Checking Credit Score



Preparing for Interview with the Lender

How to navigate through Part-I?

Compliances & Ecosystem Support Schemes.

These sections will answer questions such as:-

Financial Toolkit 1	How to Calculate Your Project Cost?
Financial Toolkit 2	How to Create a Detailed Project Report (DPR)? Structure of Detailed Project Report
Financial Toolkit 3	All About Your Credit Score
Financial Toolkit 4	Interview with a Lender for Loan

You can read through these as independent sections, picking up the one of importance to your immediate need or if you are one of those planning to start a FAB enterprise, we suggest you follow through the sequence as is.

Financial Toolkit 1

How to Calculate Your Project Cost?

Why this toolkit on estimation of the project cost?

For most potential entrepreneurs, the best way to know about the required money to start a business is by asking those who are already engaged in that activity. Though an effective approach, what many forget is that the project cost differs by the kind of processes (manual, semi or fully automatic), scale of project (micro, small or medium) or even location for that matter. Unless you are replicating the manufacturing model exactly as is – setting up a unit in the same place, of same type and scale, procuring raw material from the same vendors and using the same machine – your project may require more or less money. Say, if you have a budget of only Rs.25 lakh for installing a Fly Ash Brick unit but midway through the construction, you realize that the machine you have installed can only be run by trained workforce, you may have to shell out extra money to either hire such workers or train the hired ones before you actually start the manufacturing process.

It is, therefore, critical that you have the correct estimates of how much money you will need for the project. A good project estimate is one from which the actual cost doesn't differ much.

Is estimation of the project cost relevant for the purpose of business loan?

When you visit a bank to apply for a loan or approach any external consultant for support, two common questions they may ask you are:- **1.) How much money do you need? and 2.) How will you spend that money?**

Consider two entrepreneurs answering these questions in the following manner:-

- Entrepreneur 1: I need Rs.25 Lakh to start a Fly Ash Brick unit in Hajipur, Vaishali District of Bihar. I will spend it on buying machinery and employing workers.
- Entrepreneur 2: I need Rs.25 Lakh to start a semi-automatic Fly Ash Brick unit in Hajipur, Vaishali District of Bihar. The machine I need costs Rs.20 Lakh as per (Name of Vendor) vendor. It will take (Enter Months) time for the unit to set up and then (Enter Months) for the first batch to sell off. I will have to pay wages and for living arrangements for the workers irrespective, for which I will need about Rs.4 lakhs more and Rs. 1 lakh is for contingency.

If you were a banker, in most cases, you would be more willing to lend to the second entrepreneur in comparison to the first because the second seems to have thought this through. Unfortunately, nano and micro entrepreneurs – especially the first time borrowers, often fail to provide these details. When that happens, it gives the banker/consultant an impression that you are not clear

with your business idea- thus, breaking the deal. This is where estimating the project cost comes into picture!

Is estimation of the project cost relevant ONLY for the purpose of business loan?

The worst mistake a potential entrepreneur can make is to treat the activity of estimating the project cost as a mere requirement for the business loan. Project Cost estimation is much more than that – it is where you can actually judge whether the project is worth investing for you as an entrepreneur or not. Which is why, it is also necessary that the project cost is either estimated by the entrepreneur himself/herself, or if any external party is involved (such as a Chartered Accountant), that the entrepreneur remains an active contributor to the process – providing inputs and asking questions wherever the numbers seem off.

HOW TO ESTIMATE YOUR PROJECT COST?¹

Your project cost includes two main components:- Fixed Cost (investment made in assets such as building, machinery and equipment) and Working Capital (investment made from time to time to run the plant/unit; this includes salaries of workers, printing and advertisement etc). All different types of costs are covered under these two heads alone.

Project Cost = Fixed Cost + Working Capital

You can find the value of the project cost by calculating the value of each of these components, and adding those together.

CALCULATING FIXED COST

Fixed Cost is a summation of all of the following expenses:-

1. Cost of Land (rented/leased)

LAND DETAILS			
Particulars	Area	Rate/Sq.ft	Amount in Rs.
Total			-

2. Cost of Construction

BUILDING/SHED DETAILS			
Particulars	Area	Rate/Sq.ft	Amount in Rs.
Total (A)			-
OTHER CONSTRUCTION & INSTALLATION			
Particulars	Area	Rate/Sq.ft	Amount in Rs.
Construction of Office Structure			
Construction of Store			
Construction of Separate Toilets			
Tubewell with over Head Tank, Pipeline and other Civil Construction including Boundary and Gate			
Total (B)			-
Total of Building, Construction & Installation (A+B)			-

¹ Sample entries are added for reference. These are hypothetical in nature, please edit/remove as per need.

3. Cost of Machinery & Equipments²

MACHINERY DETAILS			
Particulars	Quantity	Rate/Unit	Amount in Rs.
Brick Press			
Pan Mixer			
Hydraulic Pallet Truck			
Wheel Burrows			
Installation & Electrification			
Weightage Machine			
Office Equipments & Furniture			
Total			-

4. Other Pre-Operative Expenses

Such as legal (registration related) and secretarial cost, expense on training activities etc.

CALCULATING WORKING CAPITAL COST

Working Capital is the money that you need in hand to run the business. Any such investment needs to be accounted for. The basic estimate for working capital covers:-

1. **Cost of Personnel:** This can be calculated monthly or annually. Please ensure that you use the same time frequency for other calculations in project cost estimates too, for consistency.

PERSONNEL DETAILS			
Particulars	Quantity	Wage / Month	Amount in Rs.
Manager / Supervisor	1	8000	8000
Machine Operator	2	5000	10000
Skilled Workers	3	4000	12000
Unskilled Workers	3	2500	7500
Watchman	1	1500	1500
Total	10	-	31000

2. Raw Material

RAW MATERIAL DETAILS				
Particulars	Quantity	Unit	Rate / Unit	Amount in Rs.
Fly Ash	150	MT	120	18000
Sand or Crushed Stone	200	MT	80	16000
Calcined Gypsum	10	MT	2300	23000
Total	10		-	57000

3. **Utilities:** This is different from the installation charge added under Fixed Cost. Here, the charges mentioned are of usage only.

UTILITY CHARGES	
Particulars	Amount in Rs.
Power	
Water	
Total	-

² Should be based on the quotations from a vendor having GST.

4. Other Contingent Expenses

OTHER CONTINGENT CHARGES	
Particulars	Amount in Rs.
Postage & Stationery	
Telephone	
Repair & Maintenance	
Transport & Traveling Cost	
Advertisement & Publicity	
Insurance	
Miscellaneous	
Total	-

The total working capital cost will be a summation of all the expenses mentioned above.

FREQUENTLY ASKED QUESTIONS

1. **“I wish to start a fly ash brick unit on my spare land in Nalanda. Should I include the cost of this land in the project cost?”**

No. Every cost that you cover in the estimation needs to be the investment you actually make to install the project. Keep in mind that the bank can ask you for a quotation for any cost mentioned in the sheet. In case of rented/leased land, you can provide the rent deed or lease agreement (if already established), or an affidavit (validating the cost, in case the agreement is yet to be signed). But for self-owned land, since you will not have a quotation, you cannot prove that you are actually incurring it.

2. **“But if not for this unit, I would have rented this land out. I am losing at least Rs.15,000 per month by using it for my FAB enterprise instead. Can I still not include this in my estimation?”**

No, you still cannot. As mentioned, every cost you give under the estimation needs to be backed with a quotation by a registered vendor. Since you will not be able to provide any document for this loss, it cannot be accounted for.

3. **What is a vendor quotation and why is it needed?**

Vendor Quotation is the price sheet for the products you wish to buy from the concerned vendor. The purpose of adding vendor quotation to the loan application is to validate the costs given in the project cost estimation.

4. **What should you take care of while arranging a vendor quotation?**

Quotation is a means to verify the cost used in project cost estimation. But it is only considered valid if it is on the bill book of the vendor and possibly stamped by him/her.

One common mistake entrepreneurs make is getting a kacha bill. Given the nature of such bills, it is difficult to validate the authenticity, thus, are often rejected by bankers.

It is also critical to avoid getting quotations from any vendor who doesn't have or follow proper registrations or licenses. On the other hand, avoid evading business regulations and taxes yourself too! You want to establish yourself as a trustable borrower in the eyes of the banker. Trying to save money by not getting taxes included in the quotation does exactly the opposite. It sends out the message that you can indulge in unfair practices and may put you up as a risky profile.

Financial Toolkit 2

How to Create a Detailed Project Report (DPR)?

What is a Detailed Project Report?

Detailed Project Report (DPR) is the proposal document that showcases the project idea, financial viability and implementation plan. For a banker assessing the viability of your project for investment, a good DPR clearly answers:- What (the business you plan to start), Where (the location), Why (why that specific business and not something else - the value proposition), When (when is the plant expected to start running with the desired investment), and How (from where would you procure raw material, where would you sell the product etc).

How long is a Detailed Project Report? What is covered in it?

The length of the DPR can vary from a simple 2 pager to a comprehensive 7-10 page report, depending upon the ticket size of the loan. Generally for loans up to Rs.50,000 – a 2-3 pager report mentioning the proposed business, its market and scope, and project cost estimate works. As the ticket size increases, the lending risk rises and thus, the banker expects you to provide more details in order to be sure of the value proposition.

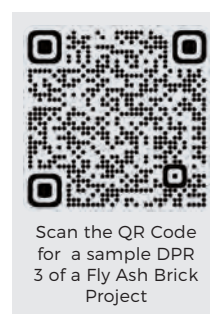
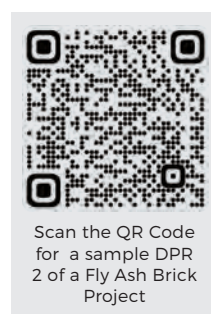
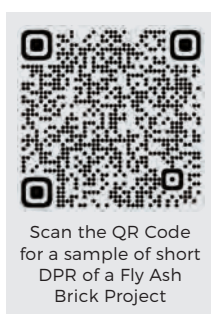
Irrespective of the length of the document, the following information needs to be added in the DPR. The only difference shall be that a larger report will provide more details under the heading while a smaller report can simply have numbers given.

Schedule 8: Summary Matrix for Components of DPR by Ticket Size

Components of a DPR / Project Size	For Loans Up to Rs.50,000	Rs.50,000 to Rs.5 Lakh	Above Rs. 5 Lakh
Summary Sheet A quick glimpse into the important parameters of the project. This includes about the business (name, address, constitution), business financials and contact details.	Only the Summary Sheet is provided, with detailed financials.	Is Given	Is Given
Introduction This section provides a glimpse into your sector and its importance to the banker. Refer to the 'Structure of Detailed Project Report' for more info.	A small paragraph may be added before the summary sheet.	Is Given	Is Given, in detail

Schedule 8: Summary Matrix for Components of DPR by Ticket Size

Components of a DPR / Project Size	For Loans Up to Rs.50,000	Rs.50,000 to Rs.5 Lakh	Above Rs. 5 Lakh
Project Timeline A short table mentioning different milestones of the project completion and the expected time (month) of their achievement.	Optional	Is Given	Is Given and Explained
Project Technical This section provides technical understanding of the business and includes information on the manufacturing processes (raw material to processing, to market), production capacity per annum, machinery used etc.	Optional	Is Given	Is Given and Explained
Project Financial(s) It is the most critical section, which talks about the project cost estimates and the ways in which this is to be met (term loan or working capital loan, beneficiary contribution etc).	Covered in the Summary Sheet itself	Is Given in detail	Is Given in detail
Conclusion Wraps up the DPR. This section is as important as the introduction. Mention any additional information here.	Optional	Is Given	Is Given in detail (with lists of vendors and other information)
Sample DPRs	Given below:-		



STRUCTURE OF DETAILED PROJECT REPORT

Schedule 9: Summary Sheet of DPR

Project Report Summary Sheet	
Name of Enterprise	<ul style="list-style-type: none"> In case of a new enterprise, give it a name. This must remain the same in registrations and other compliances. In case of an existing enterprise, mention the registered name.
Business/Product	Mention the name of the product; in case of fly ash bricks, write "Fly Ash Bricks" Pro Tip: If you know the NIC Code of your business, mention that too. What is the NIC Code? NIC Code or National Industrial Classification Code is a 5 digit code given to economic activities for easy identification. It is mandatorily used during Udyam Registration. You can also find your NIC Code by simply typing your product/service here.
Address	In case of both new or existing enterprises, mention the address where the enterprise will be set-up.
Constitution	Insert one of the following:- Individual or Proprietor/ Hindu Undivided Family (HUF) / Private Limited Company / Private Limited Company / Cooperative / Other
Name of the Promoters/ Partner	A business may have more than one owner, mention the names here.
Raw Material	Mention the main raw material required for your product
Total Project Cost	Mention the estimated project cost (Refer to the Financial Toolkit 1 - How to calculate your project cost?)

Schedule 9: Summary Sheet of DPR

Division of Project Cost by Contribution	
Owned Capital / Beneficiary's Contribution	Applicable in case of Government Schemes with margin money component. (Refer to Part-II for Government Schemes & Incentives for schemes as well as margin money calculations) In case of private financing, if your banker has specified the requirement of margin money, mention it here or remove this row.
Requirement from Bank	Project Cost - Owned Capital / Beneficiary's Contribution is your Requirement from the Bank in terms of loan. You can further bifurcate it into:- Term Loan = Rs.xxx Working Capital Loan = Rs.xxx
Date of DPR Preparation	Month & Year
Contact Details	Phone Number & Email Address

INTRODUCTION:-

This is the opening section of your report, and should present your choice of business as an investable one with good returns and growth potential. A few tips to frame this section are below:-

- Assume that the banker doesn't know anything about your line of business. Provide details about the sector, challenges and potential front on.
- Provide official statements and statistics to prove your point. "The demand for bricks has been increasing in Bihar" may seem like your own opinion. "The demand for bricks in Bihar has been increasing at 7-10% annually as per (enter source details)" seems more trustworthy.
- While doing so, also be careful of the sources you use. Think from the banker's perspective and prefer business newspapers, Government sites including that of Reserve Bank of India and India Brand Equity Foundation, reports by multilateral organizations such as UNDP, the World Bank and the International Monetary Fund (IMF). The fact you provide is as good as the source you take it from. Those from a less reliable source is as good as not adding it.
- Highlight the market of the product – though critical, this is often ignored by entrepreneurs. Mention the locations where you plan to sell your final good/service.
- You can also mention if the Government has released any programme/scheme for promoting your sector. This is especially helpful if you are applying under the Government scheme.
- Depending upon the amount of information, you can either include all under Introduction or create separate headings. Either way, avoid going beyond 1-2 pages for this part.

PROJECT TIMELINE:-

Start by mentioning in a sentence the total number of months it will take for the plant to be installed (if the project is of setting a new unit) or expanded (if it is for expansion). The count should start from the day of loan disbursement and end at the commencement of production. Follow that up with a day wise tentative summary. Scan the QR Code to find a DPR with a sample project timeline.

PROJECT TECHNICAL:-

This section is where you can explain about the technical aspect of your business in detail. Some of the details you can mention are:-

- Manufacturing Process – break down the manufacturing process for the banker, right from the procurement of the raw material to the machinery used, production capacity per annum and process flow.
- Quality Specifications – what all quality standards or licenses are applicable on your business, which all Government Departments shall be involved, how much time would be required to avail those licenses etc.
- Energy and water consumption, pollution control requirements etc.



Scan the QR Code
for a DPR with
sample Project
Timeline

PROJECT FINANCIAL(S):-

Though there is no one way of presenting the project financials, you will find this section divided by two parameters in most of the DPRs:-

- A table explaining how the money will be invested - which is nothing but the project cost estimate (Refer to Financial Toolkit 1)
- A table mentioning that out of the total project cost, how much would be paid by you and how much would be given to you as loan. Further out of loan, how much would be given as the Term Loan and Working Capital Loan.

Schedule 10: Division of Project Cost by Contribution	
Division of Project Cost by Contribution	
Owned Capital / Beneficiary's Contribution	Applicable in case of Government Schemes with margin money component. (Refer to Part-II for Government Schemes & Incentives for schemes as well as margin money calculations) In case of private financing, if your banker has specified the requirement of margin money, mention it here or remove this row.
Requirement from Bank	Project Cost - Owned Capital / Beneficiary's Contribution is your Requirement from the Bank in terms of loan. You can further bifurcate it into:- Term Loan = Rs.xxx Working Capital Loan = Rs.xxx

Provide any further calculations for depreciation (loss of value of asset over a period of time) and other aspects in this section.

Who should create the financial sheet or Project Financials?

Financial sheet is the most important segment of the Detailed Project Report (DPR). If your numbers don't add up, the banker may reject the application on the spot. Having said that, attempt creating the sheet yourself only if you are confident with numbers. If not, have an external consultant (Chartered Accountant or Consultant) help you. But be sure of actively participating in the process, especially because it is you who will have to act on the financials and monitor those.

Conclusion:-

This section should wrap up your DPR. You can add any additional information (such as a list of vendors from whom the quotations have been taken, CIBIL score and rank etc) too for more clarity.

THINGS TO ADD IN YOUR DPR:-

- Mention the years of repayment, with moratorium (if any).
 - In case of private financing, this would be based on your discussion with the banker.
 - In case of Government financing scheme, this is mostly preset, you simply have to mention it from the scheme guidelines. There are some Government schemes which do not specify the repayment or moratorium and leave it at the discretion of the banker, in which case, you will have to check with the banker.
- Mention the sales forecasts, if you can. This can be based on the sales of existing businesses (similar to yours) in the concerned location, or on the basis of your own experience (say, if you have been working as a dealer and now are availing loan to start your own business).
- Talk about the existing businesses in your area producing/providing similar products/services. Mention why you are setting up a business despite such competitors and how your business may still avail profit. Some scenarios could be:-
 - Even though there are existing businesses in the area, the demand is far more than the current supply - thus, there is sufficient market even if a new business joins in.

- The existing businesses are producing x product, your product differs from it in some way and thus, there would be a market for it.

THINGS TO LOOK OUT FOR/AVOID:-

- **Duplicating a Sample:** Given the availability of DPR Samples online, some entrepreneurs or their consultants copy the samples as is by only changing the financial details. This is a bad practice and should be avoided. Remember that yours is not the only DPR that the concerned banker will receive. Any duplicity can easily be identified and may result in direct rejection of the application.
- **Leaving the DPR entirely on the third party:** Even if you are taking support from a third party (Chartered Accountant/Consultant), be an active participant in the preparation process. Ask questions wherever the financials fail to make sense to you. Remember that it is ultimately you who will have to answer questions during the interview round and justify the numbers. Not only this, any wrong information in the DPR may impact your ability to repay the loan.

Financial Toolkit 3

All About Your Credit Score

What is a Credit Score?

Credit Score is a number calculated on the basis of an individual's credit history, and represents his/her credit worthiness or likelihood of paying the credit obligations 90 days or more (within two years) after the due date. A higher credit score means that the borrower is less likely to pay the credit late (90 days or more), while a low credit score means higher likelihood of delay. Lenders are most willing to lend to borrowers with a higher credit score.

Who calculates the Credit Score?

The credit scores are calculated by credit bureaus or rating agencies. In India, these are TransUnion CIBIL, Equifax, Experian and CRIF Highmark. They collect monthly credit card and payment related data from the financial institutions. When a request to generate a credit score is received at their end, either by the individual or the lender, they calculate the score on the basis of this information available.

CIBIL is the most popular amongst lenders, and is often used synonymously with credit scores.

How is your Credit Score calculated? How can you improve your score?

Each credit bureau selects a scoring model in order to calculate the credit score. This is important because the type of model determines the parameters that would be taken into account and their weightage in the calculation. **Two famous scoring models are:- FICO and VantageScore 3.0. Both provide credit scores in the range of 300 to 850. A score above 750 is considered very good and above 800, exceptional.**

Even though the weightage differs slightly, both FICO and VantageScore 3.0 mostly cover the same parameters. Since FICO is the most popular among lenders, given below are the parameters by FICO weightage and applicability.

Schedule 11: FICO Parameters' Matrix

S.No	Parameter	Applicability	Weightage	How to improve it?
1.	Payment History Record of all your past and prevent payments to the lenders.	Timely payment gives the banker an assurance that you are most likely to not delay payment for their loan too.	35%	Pay your credit obligations on time. Maintaining a regularity for at least 6 months is necessary for any change to show in the credit score.

Schedule 11: FICO Parameters' Matrix

S.No	Parameter	Applicability	Weightage	How to improve it?
2.	Total Debt Owed - Credit Utilization Rate % of credit utilization of your total credit limit (especially for credit cards)	A low credit utilization is preferred - as it shows that you are not highly dependent on credit.	30%	Keep a check on your expenses. Utilization rate of 10% and less is ideal. But if it is difficult to maintain, try to keep your utilization under 30%. ³
	Length of Credit History The length for which your credit record is available.	You not only need to have a good payment and credit record, but have it for a long duration! The longer the record, the more credible your candidature becomes.	15%	Leave old accounts active Open new accounts only when those are absolutely necessary
4.	Type of Credit The type of credit availed by the borrower.	Diversity in the credit type shows the banker your capability of handling different types of credit obligations. This may include mortgage loans, education loans, credit cards or any other form of credit.	10%	Try to maintain a diversity in your credit mix.
5.	New or Recent Credit Number and type of new or recent credit.	This is to check the tendency of the borrower to take repeat credit. If you have opened many new accounts, it reflects poorly on your financial stability and may lower the score.	10%	Avoid availing new credits until if absolutely necessary.

Can you check your Credit Score yourself or do you need to visit your bank branch?

Credit Score can as easily be generated online. Each credit bureau provides for one free credit report in a calendar year (four free reports in one calendar year in total). If you have availed it already, you may have to take a subscription.

Can your score vary from one bureau to another?

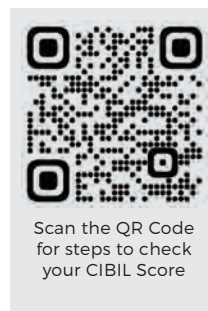
It very well can. The bureau calculates credit score on the basis of information provided to them by the lenders. Unfortunately, there is no regulation that makes it mandatory for a lender to provide ALL the information to EVERY bureau - due to which, the information available with one bureau may be different than the other. Moreover, there may be delays in reporting to one bureau in comparison to another. Scenarios like these result in the score being different from different bureaus.

Do you need to mandatorily provide a credit score with your application then?

Bankers don't generally rely on the credit reports attached with the loan application. This is for multiple reasons - one, it could be tempered and second, they may prefer a report by a different bureau. If you provide one with your application, your lender may still have to raise a score request (with the bureau) at the backend. Having said that, it is still suggested that you do so. This shows the banker your awareness of the lending processes, which in itself increases the lender's confidence in your candidature.

Is there any scenario where you may not be able to get your Credit Score?

If you have never taken a credit card or a loan, the bureau will not have much data to feed into the calculations. In such a case, your credit history will be shown as NH or No-History. Without a score to back your application, a lender may be resistant to offer you a loan - especially an unsecured one.



³ Another way of improving your credit utilization rate is by increasing the credit limit of your card. This may be taken negatively by some lenders though.

Financial Toolkit 4

Interview with a Lender for Loan

Post submission of the application, especially for big ticket size loans, a lender may decide to conduct an interview with you. There are usually three main purposes behind doing so:-

- To check if you understand the business which you propose to set up;
- To project the financial viability of the business - whether there would be sufficient cash flow for you to pay the loan installments;
- To confirm if you/your business has sufficient cash/security to fall back on - so that in case the business fails, the bank's money is not at risk and you are able to repay the loan.

How to Prepare for an Interview for a Loan?

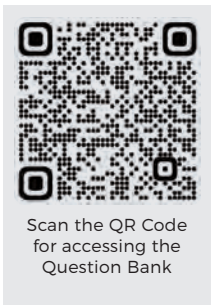
If you have been asked to report for an interview with the lender, do the following:-

- **Know Your Proposal Inside-Out:** You cannot convince a lender to pay you credit if you aren't convinced of the business and its cash flow yourself. To get there, read through your proposal, especially if you have gotten it prepared by a third party (CA or other experts) and understand what you are proposing.
- **Know Your Lender:** More often than not, you may find a bank preferring or more actively lending in one specific type of loan or activity. If you have done your research while selecting a bank for loan, this would come easy to you while preparing for the loan interview. Know why you want to transact with this lender and not any other (what is your benefit - if it aligns with their interest area, nothing better than that).
- **Conduct Mock Interviews:** It is always a good idea to practice your responses in a mock interview.
 - Start by jotting down questions that you think a lender may ask, and preparing an answer for it.
 - Have someone in your family or friend circle analyze your proposal and question you as if he/she is a lender. If you have already hired a CA, you can take his/her support.

You will be surprised by how much you can refine your responses at this stage.

QUESTION BANK

Prepare yourself for the bank interview with this question bank. Please note that this is only a suggestive list of questions that may be asked in a loan interview. Do cover any other business aspect that may seem relevant as per your application.



HERE ARE A FEW TIPS & TRICKS TO LEAVE A GOOD IMPRESSION ON THE LENDER...

- Dress appropriately for the interview. A clean and nicely ironed suit works well for such events.
- Make sure to carry at least 2 sets of printouts of your proposal and other documents in original.
- Arrive at the venue at least 10-15 minutes before the time of interview. Do inform the frontdesk about your arrival, so that the interviewer is in the know.
- Turn your phone silent before entering the interview room, and avoid taking any calls in between the conversation. It will distract you and make it difficult for you to grab the lender's attention.
- Be confident while speaking to the lender. As long as you are able to explain your business idea to the lender, you have fared well.
- Lead the conversation. If a CA or any other expert is accompanying you, make sure that you do the talking (at least most of it). The lender is there to interview YOU for YOUR loan. Someone else speaking on your behalf does more harm than good in the loan interviews.
- Before wrapping the conversation, check with the lender if you could answer any other of their questions.
- Thank the lender for the time before leaving.

