

U.P. FINANCIAL CORPORATION
1/88, CIVIL LINES,
KANPUR

Ref.No. ____FC:P&M/2005-06

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RM/AGMs (Field)
U.P. Financial Corporation,
_____.

SUB: Operational guidelines for sanction of loan

A study was conducted at H.O. to identify reasons of closure /sickness of units in D-2 and Loss assets categories. The findings of the study are given in the note enclosed at Annexure -II for record and reference. Based on these findings, comprehensive operational guidelines for sanction of term loan/WCTL cases have been formulated. These guidelines are placed at Annexure-I . It is enjoined that all appraisal notes in future would be prepared as per the enclosed guidelines.

Further, it has been decided that in future, Regional Offices would process loan proposals up to Rs. 100.00 lakh and put up before sanctioning authority through their respective Incharge Zones. Loan proposals above Rs. 100.00 lakh would be processed at H.O. by Incharge Zones and would be put up before sanctioning authority directly.

Above orders would come into force with immediate effect.

(MAJID ALI)
MANAGING DIRETOR

CC for information to :

1. All AGMs/CMs/at H.O. UPFC, Kanpur
2. S.O. to M.D.
3. Dy. G.M. Camp

(D.K. DHEER)
DY. GENERAL MANAGER

Annexure-I

Operational Guidelines for financing of Projects

The Corporation has financed nearly Rs. 3080 crore to more than 40,000 units since inception. Although the loan of Rs.2358 cr. have been repaid, but many of these units turned into Non performing assets, which has been the matter of concern to Corporation. Normally, the loan proposals are examined and processed in two phases. First, at the time of registration and subsequently during appraisal of project. The loan proposals/applications along with project report and other documents received from entrepreneurs are prima-facia examined by ROs for registration purpose. However, A realistic and good appraisal would result in good Recovery from the unit. It is important that R.M.s and the appraisal officers should ensure checking of following parameters, while taking decision of registration of loan proposals:-

(1) The Profiles of the Promoters/Partners/Directors:

The past background and Bio-data of all the promoters should be carefully checked and examined by R.O. A study conducted by H.O. revealed that 28.5% of the units turned into D-2 and Loss Assets categories due to problems associated with promoters. It is important that the family background, age, educational qualification, experience of similar trades, financial resources, details of property, existing liabilities of all promoters should be checked, verified and properly analyzed. In case of partnership/Company, Regional Manager should check whether the management is cohesive and consists of people who have had a successful track record of working together or are people having diverse back ground. It has been observed that projects promoted by people of diverse background often result in to sick unit. A homogeneous group of limited number of partners /directors with professional qualifications would have better chances of success of project. It is not enough that the promoters have financial resources for the proposed project, the emphasis should also be on the managerial capabilities of promoters to run the project successfully, even in adverse situation.

(2) The ability of the promoters to service the debt:

Normally, it is presumed that repayment of the loan will come from the cash accrual/profit of the project. However, the possibility of the failure of a project can not be ruled out and repayment of loan would be jeopardized. To avoid such situation, ROs invariably would ascertain the net worth of all the partners /directors and likely possibility of repayment of loan from personal resources of the promoters.

Loan to the existing units whether it is self-financed /Bank /UPFC financed, should normally be considered if the same is making profit for atleast three financial years. In case of UPFC financed unit, the additional loan may only be considered after the gap of two financial years or atleast 25% of the immediate previous loan is repaid.

3) Identification/selection of project :

ROs should check whether the selection of particular project has been made after detailed and careful study of all the aspects by the promoters. Further, what factors have been accounted by the promoters in deciding the particular project and preparation of report. Assessment of the promoters regarding knowledge of the project prepared is necessary as it is observed that the project report and other financial statements are prepared by consultant /chartered accountant and promoters have very little knowledge.

The competitive nature of particular industry and item proposed to be manufactured should be carefully studied .The growth trend and economic cycle of the industry are necessary to know so as to ascertain whether the industry is passing / likely to pass in recession phase in coming years. Association of all industrial sectors and many business magazines forecast the growth of industries, and it should also be taken into account at registration stage. Further an assessment of the competitive nature of items/production and risk involved should be made on realistic basis, and loan proposals with high risk involved should be avoided.

4. Working capital for the project :

The study conducted also revealed that 45.5% of assisted units turned into D-2 and Loss assets category due to working capital problem. The banks are reluctant to provide working capital limits to first generation entrepreneurs. However, in few cases, working capital limits may be sanctioned subject to availability of adequate collateral security and personal guarantee. Similarly, banks may agree to provide limits to second generation entrepreneurs on the basis of conduct of accounts of existing business. However, for granting limits for new ventures, banks may require further collateral security, ROs should ensure that the promoters have adequate collateral security / guarantee and banks are ready to sanction working capital limit to the project. The good past track records of repayment of loans to Banks /Financial Institutions is necessary for registering the loan proposals/applications.

5. Marketing of products/items :

The study further revealed that a fairly large number of units become NPAs due to marketing problem. It should be examined whether the market scope, competition, marketing of products envisaged in the projects are satisfactory or not. RMs should examine following essential elements for successful marketing of products:-

- (i) Whether the product has industrial or consumer use or it is of durable or non-durable nature.
- (ii) Whether the products have cash or credit sale and period of credit involved.
- (iii) Whether it is consumer items with credit sale which requires large amount of working capital and big marketing set up.
- (iv) Whether the products will be marketed locally, within the State or out of State also and requirement of dealers net work etc.
- (v) International competition or affects of WTO norms should also be examined while considering the marketing aspects of project.

6. Infra structure facility:

Regional Managers should check the suitability of location of unit in terms of infra structure facilities, such as power, transport, communication, water, labour raw, material etc. Normally projects of manufacturing nature of industrial area or within the municipal limit or other fast moving area may be considered for financing. Projects of rural /remote area/ very slow /slow moving area may be avoided as in case of failure of projects, it would be extremely difficult to get buyers of the property in order to make recovery of dues.

7. Debt Equity ratio for proposed Project

The project of Debt Equity ratio upto 1:1 may only be considered for registration/financing.

8. Security Coverage of Loan:

While registering the Loan applications/proposals, R.M. should ensure that the security coverage of minimum 200% is available on loan amount. However, it should be ensured that the component of P/M should not be constituted more than 25% of the value of total security. Further, the location, RRV and Marketability of collateral security offered should be ascertained on realistic basis. Land or house situated within the municipal limits, surroundings by boundary wall with open passage to main road may be considered in order to ensure that the same may be easily be disposed of u/s.29 of SFC Act in case of non-payment of loan. Further, the house having many tenants/ occupants should not be considered, as it would be difficult to realize the loan through sales u/s.29 of SFC act. Similarly, if commercial establishment/building is offered as security, R.O., should be satisfied that there would be no problem of disposal of collateral security for recovery of dues of the Corporation.

It has also been observed that many a time, agricultural land/land of interior area of Tehsil/village /low lying is often accepted as collateral security and valuation is done on circle rates. At the time of recovery, Corporation finds it extremely difficult to get buyers and the offered amount is substantially lower than the valuation of appraising officer. Such collateral security should not be accepted.

9. The Procedure for Registration:

All loan proposals/application will be carefully examined by ROs, keeping in view the aforesaid parameters. The full details of the case will be put up before Regional Negotiation Committee (RNC) meeting in prescribed formats (RG-I to RG-4) enclosed herewith at Annexure-A. The promoters of the unit should also attend the RNC meeting. On the recommendations of the RNC, the loan proposal upto Rs.50.00 lacs will be registered by RMs with Debt equity ratio of 1:1 and minimum security coverage of 200%. The Dy. GM/M.D. are empowered to register proposals of loan amount above Rs.50.00 lacs.

Processing of loan proposal for sanction

The quality of appraisal depends on the collection of accurate, correct and precise data after necessary physical verification and also analysis and compilation of estimates, presenting into prescribed format, so that the sanctioning authority have full knowledge of viability and feasibility of project and could make realistic assessment of recovery of loan in objective manner. All the appraising officers should keep in mind that a good quality of appraisal ensure timely repayment of loan and reducing the possibility of failure of project (formation of NPAs). While no change is proposed in the appraisal format/procedure, however appraising officers/RMs should also carefully examine following points: -

SUITABILITY OF SITE OF UNIT:-

While the suitability of site was being checked for smooth setting-up and operation of the unit, but it is also very important that now suitability should also be seen from the recovery angle as well. Whether the site would be saleable within a reasonable period say one year and on good price, if corporation decides to sell land and other assets for recovery of dues. Similarly suitability of the collateral security should also be seen from recovery angle. Further, R.Os should also mention the estimated sale price of land/collateral security after 5 years in the appraisal note. A clear site map should be invariably provided in the appraisal note.

Normally, the unit proposed to be set up in industrial estate, within municipal limits, highways, near to district town (only big units) may be considered for financing. However, it should also be checked whether land is not low-lying, no possibility of water logging, high tension line does not pass through the plot, there is no canal or rivulet within 100 mt. and there should not be any problem of pollution.

FACTORY BUILDING

It should be ensured that the proposed factory building is adequate for installation of plant and Machinery/requirement of godown. However, excess building should be avoided. Similarly, the type of construction of building should be as per the requirement of project and cost under this head should be minimized, as it is non-productive expenditure. Further, it should be ensured that the map of the building and lay out have been sanctioned by the competent authority. Building rates have been revised and the detail of the same is enclosed at Annexure-B.

PLANT AND MACHINERY:

Selection of Plant and Machinery is the most significant aspect of the project appraisal. Whether the machines are being purchased from a manufacturer or authorised dealer or General supplier or having been fabricated at site. Reasons of choice of particular machinery supplier be specifically mentioned Normally fabrication of machinery may be avoided in view of poor experience in the past. However, in case of justification, the cost benefit analysis of fabrication of machinery at site vis-a- vis purchase should be made, with proper assessment of capability of the promoters and their contractors of fabrication in terms of quality size, and required capacity and same should be mentioned in detail in the appraisal memorandum. Further, the appraising officers/RM should also ascertain the cost of machinery from other manufacturers/suppliers market to rule out the possibility of over invoicing. The appraising officer must have his own judgment after necessary checking/verification in respect of genuineness of manufacturers/suppliers as well as the reasonable of value of plant and machinery. The machines supplied by reputed manufacturers should invariably be entertained.

Besides above, the other significant points, which require attention of appraising officers/RM are given as under:-

1. Many of our appraising officers seem to believe that the mere registration of loan proposal means that it has to be sanctioned. It is not true. As a matter of fact, until the viability/feasibility of the project and other related parameters such as the ability of the promoter, working capital arrangement, debt-equity ratio, profitability, competitive nature of project in terms of market scope/sale, risk involved, security coverage of loan etc have been properly assessed and found to be acceptable only then the project may be considered for financing.
2. **Inspection of Prime and collateral security**

As far as possible, legal title deeds of prime/collateral security should also be examined by Law officer at the appraisal stage itself so as to avoid delay in legal documentation after loan is sanctioned. He should also contact the concerned department for verification of documents/records submitted by the party.

At the appraisal stage, the inspection of the site and/or collateral security should be carried out by a team of officers consisting of appraising officers & Law officer for verification of site as per the instruction issued vide cirNo.20/2001-02 dated 26th July 2001. The copy of the circular is enclosed at Annexure-C.

3. **Security Margin**

The security coverage of loan should not be less than 200%. Liquid collateral security to a small extent may also be insisted in the projects, which have higher element of risk.

4. **Repayment period**

The gestation period of loan should be taken realistically as per the implementation schedule and should not exceed the period of 18 months. Normally repayment period of loan should not be extended beyond six years. The Debt service coverage ratio should be considered 2: 1 or more.

5. **Credit Rating:**

The credit rating of all loan proposals shall be done as per guidelines issued vide Circular No.49/2002-03 , dated 4th March, 2003 in objective manner . The prime rate of lending (1% less than the normal rate) shall be admissible to the units only for credit rating awarded A, on the terms and conditions envisaged in the aforesaid circular, the copy of the circular is enclosed herewith at Annexure-D. Projects with A&B credit rating would only be considered for financing.

6. **Bank Credit Report :**

Bank Credit report of all the individual partners/directors should be obtained in addition to credit report of all sister concerns / borrowing company in the prescribed format. Further atleast two officers should discuss managers of all concerned banks to have full knowledge about the opinion of bank about net worth, liability, working capital limits availed, conduct of account etc. of all partners/directors and their concerns. This should be ensured at the time of Appraisal.

7. It is pertinent to mention that appraisals need to have more focus and objectivity on Technical, Financial and Economic aspect of the case . greater in depth study and analysis by appraising officers (Technical, financial and Law) at R.O. before forwarding the proposals to H.. O. Further following aspects should also be kept in mind by appraising officers.

1. Factual details and authenticity of data /information used and relied upon in the appraisal.
2. The analysis of financial statements with ratio analysis and detailed comments on the basis of conclusion drawn.
3. Account position with a note about repayment behaviour of the party including the details of payment made, reschedulement etc provided by UPFC as well as bank.

4. **Appraising officer shall also take special care that no grammatical and typographical mistakes creep into the appraisal note and it neatly /properly type.**
5. **In addition to usual statements in the appraisal, following statements should also be given in the loan proposals:-**
 - a) **Fund flow/Internal rate of return (Loan proposals above Rs.20.00 lacs) including outstanding of existing loan.**
 - b) **Sensitivity analysis**
 - c) **SWOT Analysis**
 - d) **credit rating**
 - e) **Independent verification of entrepreneurs, antecedents, suppliers and collateral/prime security. Photograph of entrepreneurs and all addresses should also be verified. Further for proof of permanent address documents related to PAN Number of income tax, Trade Tax vehicle registration certificate of RTO etc may be checked.**
6. **Work of verification/pre-sanction inspection of Prime/Collateral security may be done independently in absence of borrowers. Pre-sanction inspection report and valuation reports of prime/collateral security should be signed by all officers of the inspection teams(Tech, finance &Law)**
7. **While R.M. will examine all the above points, he will further give specific**
Comments /remarks on the following: -
 - a) **Overall views about management viz.capability, resources, experience and repaying capacity of loan in case of failure of project.**
 - b) **Sectoral performance viz. industry status, comparison of similar project, and past performances of similar units financed by UPFC.**
 - c) **Quality, workability, and realizable value after 5/10 years in case project fails.**
 - d) **Technology aspect & machine/equipment supplier credibility and price considered.**

PROCESSING FEE:

The processing fee structure for loans would be as under: -

Sl. No.	AMOUNT OF FINANCIAL ASSISTANCE APPLIED FOR	PROCESING FEE
1.	Loan up to Rs. 2.00 Lakh	Rs. 1,000/-
2.	Loan above Rs. 2.00 Lakh to Rs. 5.00 Lakh	Rs. 2,000/-
3.	Loan above Rs. 5.0 Lakh to Rs. 10.00 Lakh	Rs. 4,000/-
4.	Loan above Rs. 10.00 Lakh to Rs. 30.00 Lakh	Rs. 8,000/-
5.	Loan above Rs. 30.00 Lakh to Rs. 60.00 Lakh	Rs. 12,000/-
6.	Loan above Rs. 60.00 Lakh to Rs. 90.00 Lakh	Rs. 18,000/-
7.	Loan above Rs. 90.00 Lakh	Rs. 25,000/-

SERVICE CHARGE :

The borrowers would be required to pay service charges of 1% of the loan amount in lieu of incidental/legal/upfront fees at the time of 1st disbursement as usual, as per the Circular No. 10, dated 18th April, 1999. However, it has been decided not to levy annual service charge on working capital loan .

ADVISORY COMMITTEE:

The Advisory Committee will comprise of the following :-

- | | | |
|----|-------------------|----------|
| 1. | M.D. | Chairman |
| 2. | G.M./D.G.M. | Member |
| 3. | All A.G.Ms. | Member |
| 4. | C.M.(RMA)/Law/P/M | Member |

The Committee will examine loan proposals which will be within the sanctioning power of E.C./Board.

The refinance from SIDBI is available for financing under the Term loan/NEF/Single Window Scheme etc. Regional Manager should focus their efforts for financing under these schemes, in which refinance/LOC is provided by SIDBI/Hudco.

e. Chart for the sanction and documentation of loan proposals

The stages for registration/sanction of loans to unit, documentation and time taken in each activity will be as under: -

S.No.	Activities	Period
(i)	All Loan applications received in ROs will be processed and put up to RNC for registration	within 7 days from the date of receipt of application
(ii)	On the recommendation of RNC (i) RMs would register the case and issue instruction to team of officers for processing or(ii) would refer the loan proposal file to H.O.	within 3 days from the date of RNC meeting
(iii)	Processing of loan application for sanction :- The work regarding examination of title deed, Technical & financial aspects of project and preparation of appraisal note.	Within 15 days from the date of registration of loan proposal.
iv	Comments and recommendation of loan proposal by the Regional Manager and referring the same to H.O.	Within 3 days from the date of preparation of appraisal note.
v.	Examination of loan proposal /appraisal note by AGM,Incharge Zones and putting up the same to Dy.GM/M.D. with specific details comments/recommendation	Within 7 days from receipt of loan proposal from R.O.
vi.	The loan proposal will be put up by AGM Incharge Zone to the concerned sanctioning authority such as IC/EC	As per the scheduled meeting
vii	The minutes/decision of the sanctioning authority will be communicated to ROs by AGM Incharge	Within 5 days of the meeting
viii.	RMs will issue sanction advise to the borrower on receipt of minutes	within 3 days of receipt of minutes/decision
ix	The legal documentation and transfer of file to follow up Deptt. for disbursement at R.O.	within 10 days from date of issue of sanction advice