

FINSTARS CAPITAL LIMITED

SOP & Framework for MEL/Credit Process for small & medium ticket size loans (Kept between 2 Lakhs to 15 Lakhs)

1. DSA: Direct Selling Agents (DSA), company to appoint Direct Selling Agents after verification of their KYC. DSA's to provide loan file to the designated credit officer of the company. On receipt of the documents credit officer to process the same as per below mentioned process. Selling agents will be appointed and their referral fees will depend on the case to case basis and as negotiated with them which will be between 1 to 1.5%.
2. Credit Appraisal Process:
 - Credit Manager to ensure that the data entry of loan file is done in FINOS Software on the same day of receipt or latest by the next working day.
 - Credit officer to check the Credit Score of Borrower and Guarantor in CIBIL and Highmark.
 - Minimum credit score acceptable is 610 however only in case of credit card default deviation can be allowed up to 550.
 - However if there are previous loan default by borrower than the borrower will not be eligible for obtaining loan.
 - Close relative of the borrower will be co guarantor and applicant of loan.
 - Credit officer to personally visit the business/home and other premise offered as collateral and make part of his due diligence report as part of CRAM.
 - Credit Officer to conduct the credit check of borrower & guarantors with CIBIL and HIGHMARK
 - Credit officer to check the internal records to understand about the existing profile of the customer and experience of Company.
 - Credit Manager to review & verify all the documents like KYC/Financial Documents/ROC/Search Report.
 - Following Documents would be mandatory for Login of the case
 1. Filled and Signed Loan Application form along with DSA code and below mentioned list of documents
 2. Adhaar of Borrower and Guarantors (For directors/Authorized Officials in company)
 3. PAN of Borrower and Guarantors (For directors/Authorized Officials in company)
 4. Mobile/Telephone Number and other contact details including email ID.
 5. Passport/Election card (Also For directors/Authorized Officials in company)
 6. Ration Card
 7. 3 Passport size Photograph
 8. Incorporation documents like Registration certificate for company, Partnership deed for firm, Professional Tax Registration number, GSTIN number, Shop

Establishment certificate.

9. Electricity/Property Tax/Society Certificate for Address proof
10. Annual Results/Reports for last three years
11. Provisional Financial Statement for current year
12. Last two years Income Tax Return of Borrower/Guarantor and Authorized officials
13. Last Six Month Bank Statements
14. Copy of last 3 months electricity bill
15. Copy of cancelled cheque
16. Reference of Minimum two persons who can be contacted.
17. Details of property to be offered as security along with Copy of documents

- Based on the above set of documents Credit officer to check the CIBIL & HIGHMARK Score and if it fits in to eligibility than credit officer to conduct the Personal Discussion and Personal Visit of residence and business/office premises along with the premises offered as security and simultaneously **field investigation and FCU to be checked**. If credit officer is satisfied with the visit and report from FCU/Field Investigation team than credit officer to follow following process;

1. Call for ROC/Search Report after collection of charges of ROC.
2. Call for valuation report after collection of charges of Valuation.

- Credit officer to obtain in principal approval from Director after discussing the case with him. Based on the discussion if Director is giving go ahead than credit officer confirm to DSA to inform borrowers that charges collected are required to be paid for Search and Valuation which will not be refundable.
- Based on the credit officer visit and report credit officer to prepare a case for approval as per attached Credit Risk Assessment Note (CRAN).
- Based on the documents and his visit credit officer to critically analyzed the various risk factors such as;
 - Market Risk
 - Consumption Pattern
 - Geographical Risk
 - Demographic & Political, law and order Risk
 - Industry Risk
 - Business Risk
 - Product Risk
 - Financial Risk
 - Credit Risk
- Based on the valuation and title search report credit officer to work out the eligibility of borrower.

- As per the product the maximum ticket size of loan will be Rs.15 Lakhs. Maximum Tenure of loan will be 5 years. Any deviation needs to be approved by the Director.
- Based on the credit assessment Credit Manager to prepare the complete CRAN with all the financial highlights, financial ratios and highlight strength, weakness, risks, mitigants etc.
- Credit Head to finally provide the sanction to loan with mentioning all the credit conditions.
- Property Valuation and Legal Title search to be conducted before issuing sanction letter however in principal sanction can be provided considering the eligibility.
- Sanction letter to be issued to borrower with all the prescribed terms and conditions of loan mentioning Processing Fees, Legal Charge, Stamp duty, Collateral, Amount of loan, Rate of Interest, Other charges, terms of loan and list of documents/security required.
- Before issuance of sanction letter internal approval of Director needs to be obtained.
- Sanction letter to be issued in 2 copies one to be returned by customer after signing as terms of acceptance.
- Before disbursing loan, necessary loan agreements to be in place. Draft Loan agreement needs to be standardized and vetted once through Legal Professional. And as routine part the document needs to be vetted by Compliance/Risk.
- Below set of documents to be part of sanction letter terms and conditions
 1. Original Documents of property offered as security
 2. CA Certified Net Worth Certificate
 3. PDC for all the installments and 2 Cheques equivalent to loan amount.
 4. Bank/Personal Guarantee documents (Optional)
 5. Insurance Endorsement documents(Optional)
 6. FD Lien (Optional)
 7. NACH/ECS form
 8. Loan Agreement
 9. Mortgage Agreement
 10. Debt acknowledgement (at time of disbursement of loan)
- Other suggested by Credit Manager/Head
- DSA and Credit officer to ensure that drawdown happens in 15 days else Director approval will be required.
- Any deviation to basic set of documents to be approved by the Director
- Deviation more than 60 days need further approval from all the executive directors.

3. Reference

- DSA & Credit team to ensure that reference is obtained and independent reference check is done.

4. Documentation

- All the necessary documents obtained needs to be arranged and stored in physical in a borrower separate file.

- Original Property documents and PDC needs to be handed over to credit manager and credit manager is accountable to store in **Safe Locker**. Acknowledgement to be obtained from the in charge of the Locker

5. Monitoring after disbursement:

- As part of credit monitoring activity Credit team to ask following;
 - LUC (Loan utilization check) being verified in 15 days & keep record by credit Team
 - Call for Six Monthly Bank and Stock Statement
 - Annual Audit report and Audited BS
 - To get confirmation in change of management
 - If stock is hypothecated than monthly/quarterly stock statements certified by a practicing Chartered Accountant.
 - To get alert reports from Credit Bureau Agencies to track the financial behavior of the borrower and alert the organization on borrowers financial irregularities
 - To track the deviations and highlight the extensions on fortnightly basis or when due whichever is earlier. However a monthly summary of deviation report to be circulated to the Sales Head and CEO being the approval authority.

6. Minimum Security

- Based on the credit history credit team to ensure
 - Minimum physical **security of 2.5 times of value of loan amount**. Valuation report to be submitted.
 - Personal Guarantee of relatives/guarantor/director/authorized official if security fall short of the minimum requirement
 - Margin FD and Lien marked
 - Title Search since 1951 and channel documents for last 30 years. No deviation for less than 30 years channel documents.

7. Rate of Interest

- Flat interest :- 15-18% , Reducing Rate of interest @ 18-24% % p.a. subject to client

8. Processing fees, Documentation charges and Legal Charges

- Processing fees can be collected minimum 2.5% + 18% GST on loan amount however negotiable which needs to be approved by the Sales Head
- Valuation and Legal charges is Rs. 6000/- + 18% GST to be collected from the borrower before issuing sanction letter.
- **Stamp duty and registration charges to be borne by Borrower. (Need to ask with Lawyer, approx .35+.25= .60%)**
- **Term plan of the borrower and insurance of the property to be taken and cost will pay by borrower**

9. Approval Matrix: All loans to be approved by Director subject to first approve from credit manager

10. Stamping Requirement on loan and other agreement & Legal vetting of documents

- In absence of dedicated legal personnel credit team to get opinion of stamping requirement. Company Legal advisor to take care of legal documentation and registration.

11. Repayment & Collection

- Primary responsibility of timely collection of EMIs will be on the DSA and Credit Officer.
- Credit to ask PDCs and ECS/NACH form from the Borrower as part of sanctioning condition.
- Therefore all documents which are mentioned as part of sanctioning conditions to be collected before disbursement.
- All the installments needs to be in equated monthly installment mode and to be collected in ECS form.
- At time of collecting ECS/NACH form it is important that the same is verified and stamped through respective Bank.

12. Overdue & Recovery Process:

- In case of Overdue DSA and Credit Officer to visit the customer and understand the issues and convince him to deposit the funds.
- The visits to the OD Borrowers needs to be done on regular/daily basis and report needs to be maintained.
- Weekly automated SMS to be send to the borrower and guarantor for payment of outstanding installment till the time it is paid.
- Even call can be made to the guarantors asking for repayment.
- Report to be provided by Credit team to Director
- If OD is not cleared in 7 days than PDC to be deposited.
- Any deviation from the visit to OD customer needs to be approved by Director.
- In case guarantee has been taken it can be encased in the Bank after due notice to Borrower & Guarantor.

13. Legal Process

- Credit Team to engage Advocate with approval of Director.
- If PDC get bounced than a Legal Demand Notice to be send to the customer through RPAD and e mail within 7 days from the date of dishonor of cheque. Person is directed to make the payment within 7 days from the date of notice. Legal notice is required to be sent through an Advocate.
- If after issuing the notice payments is received the matter ends.
- Any decision of filing legal case in court needs to be initiated by Compliance Team after getting approval from the Director.

- If payment is not received within the said timelines then criminal case needs to be filed in the court of law within 30 days from the expiry of notice period of 15 days.
- Court proceeding includes summons to the accused through police stations, arguments in court, sentence of judgement.
- Borrower/Company has the right to appeal to Session court within 30 days.
- Even though case is filed in the Court compounding is allowable and application to that extent is required to be made in Court.
- SARFAESI option can also be thought after discussion with Advocate and all procedures to be followed as mentioned in SARFAESI ACT and Rules.

14. Pre Disbursement Checklist

Sr No	Document	Yes/No	Deviation approval Signature
1	Adhaar of Borrower and Guarantors (For directors/Authorized Officials in company)		
2	PAN of Borrower and Guarantors (For directors/Authorized Officials in company)		
3	Passport/Election card/Ration Card (For directors/Authorized Officials in company)		
4	3 Passport size Photograph		
5	Incorporation documents like Registration certificate for company, Partnership deed for firm, Professional Tax Registration number, GSTIN number, Shop Establishment certificate		
6	Electricity/Property Tax/Society Certificate for Address proof		
7	Annual Results/Reports for last three years		
8	Provisional Financial Statement for current year		
9	ITR Borrower/Guarantor and Authorized officials		
10	ROC/Search Report/Valuation Report		
11	CIBIL Report		
12	Fraud Check report		
13	Original Documents of property offered as security		
14	Last Six Month Bank Statements		
15	Copy of last 3 months electricity bill		
16	Copy of cancelled cheque		
17	CA Certified Net Worth Certificate		
18	PDC for all the installments and 2 Cheques equivalent to loan amount.		
19	Bank/Personal Guarantee documents (Optional)		
20	Insurance Endorsement documents(Optional)		
21	Contact details of Borrower and Guarantor.		
22	FD Lien (Optional)		
23	NACH/ECS form		
24	Sanction Letter		
25	Debt acknowledgement (at time of disbursal of loan)		
26	Compliance Vetted Loan Documents		
27	Signed Loan Agreement		
28	Registered Mortgage Documents		

CREDIT RISK ASSESSMENT NOTE						
Branch				CA Date		
Relationship Manager				Credit Analyst		
Up-front process fees payable						
Project Proposal No.		MEL/AHM/001				
Proposal Sourced by						
Visited by		(RMName)				
Borrower's name & address		M/s ABC (Partnership Firm)				
Contact Numbers:		1234567980				
Guarantor's Name & Address						
Activity Proposed		Dairy Activity				
Fresh case / Top-up /Review		Fresh				
Approval sought for Exposure Rs. In Lacs	Existing Facility in lacs	Existing o/s	Additional Facility	Proposed Loan Details		
				(Rs. Lacs)	Tenure	IRR/ROI
5	0	0	Overdraft	4	M	
			Days revolving STL	1	N Days	
			5			
Total Company Exposure (In Rs. Lacs)			5			
Repayment terms	Interest on OD to be served on monthly basis with yearly renewable terms.					
	Interest of STL to be served on monthly basis. Limit to be repaid in full at the end of N days.					
Relationship Value	A/c Profit.					
	Business Value					
	Credit History	Name of Other financial institutions				
	A/c Strategy					
Priority Sector Qualification	Yes/No					
Terms of disbursal						

Family member details			
Name of member	Age	Status to the loan (borrower/co-borrower)	Relationship to Mr. Borrower
		Guarantor	Father
		Guarantor	Self
			Wife
		Guarantor	Brother
			Nephew

Sr. No.	Name of Party	CIBIL/Highmark/OtherCB Score	Remarks
1	XX	790	One written off case of credit card, other track records are ok & no delinquency observed.
2	XX	802	Good CIBIL score. No delinquency
3	Xx	-1	No major records found.
4	XX	806	Good CIBIL score. No delinquency

PART: B BUSINESS & OTHER DETAILS

Customer Profile, Qualification & Family Background:

Business Profile & Process:

Key Business Product - Rate/volume & Margin

Industry Profile

Margins:

- Having the margins of Rs. 1 in whole sale supply.
- Having minimum margins of 20% in the retail market.

Cash flow Calculation, Financial Snapshot & Eligibility calculation is as under:

Transaction Summary, Use of funds & Rationale of Limit

Rationale of the Limit: *Below mentioned is indicative and for illustration purpose*

- Business is the Seasonal Business. Client needs to stock the items like “Mawa” & “Shrikhand” in the festival seasons. This stock may go up to the value of Rs. XX Lacs.
- As on date, client is having the stock of Rs. XX Lacs on hand for Janmashtami Festivals.
- For Short Term & Timely requirements of funds, client has availed many personal loans also.
- They intend to avail the _____ Limit for the same. In seasons, the same will be fully utilized at the end of which, on receiving the payments, the churning will happen.

Payment cycle to Suppliers is almost in cash & Milk is procured in cash only. Payment cycle from Debtors is within _____ days.

WC eligibility as per the Turnover method is as under:

Finstars Capital Limited

Name of Customer	Legal Name	
		Rs. In Lacs
A	Gross Sales (as per Financials of XXXX)	
B	Working Capital (___% of A)	
C	Maximum possible working capital finance from bank (4/5th of B assuming 80%)	
D	Existing CC/OD Limit availed (sanctioned limit)	
E	Maximum possible working capital finance from GMFL(C-D)	
F	Working capital finance from GMF. restricted to	

DSCR Calculation - Group

Particulars	Rs. In Lacs
Cash Margin -	
Cash Margin -	
Total Surplus available as per FY _____ Audit Report	
Annual Loan obligation for existing loans as on date in the name of partners	
Pre Disbursement DSCR	
Annual Interest obligation for proposed OD & STL of Rs. 40 Lacs	
Post Disbursement DSCR	
Comments:	

****Financial Snapshot**

Particulars				2017-
	2014-15	2015-16	2016-17	18(Provisional)
Rs. In Lacs				
Gross Turnover				
Gross Profit				
Finance Charges				
Depreciation				
Net Profit				
Cash Profit				
Partners' Margin				
Capital				
Secured Loans				
CC/OD				
TERM LOAN				
Unsecured				
Fixed Assets				
Current Assets				
Current Liabilities				
WC GAP				

Networth Details - Borrower family			
Nature of Property	Name of Owner	Market Value Rs in Lacs	Remarks, If any
House Property		xxx	To be mortgaged
Factory -		xxx	
Shop 1		xxx	
Shop 2		xxx	
Other Assets		xxx	Motor Vehicle , Share Investment, Gold & LIC policies
Total Assets		XXX	
Total Liabilities		XX	
Networth		XX	

Collateral Security		
Particulars	Market Value (Rs. Lacs)	Discounted Value (Rs. Lacs)
Property 1 Residential Bunglow		
Comments:		
<ul style="list-style-type: none"> • Proposed collateral is the self occupied residence. • Location is near • 		

Bank Account details				
Name of Bank & A/c type	A/c holder	Sum of credits in last 6 months (In Lakhs)	Max balance in last 6 months (In Lakhs)	Remarks
Comments:				
All over banking is average. Most of the transactions are done in cash & hence banking transactions are on lower side.				

Banking Details								
Existing Liabilities								
Term loans	Loan amount in lacs	Total EMI	Paid EMI	EMI Rs.	Future Principal in lacs	Annual repayment in lacs	Track	Remarks
								Terminated
								Running
TOTAL	105.75				27.18	20.91		
Note: Repayment of the borrower is clean till date. No bouncing or delinquency is observed in any loan account. ??								

References		
Name of Reference	Background of reference	Comments
Concerns/Risks		Mitigants proposed
For Eg: Banking is on Lower side as compared to turnover		Major transactions are done in Cash it being Dairy Industry.
Deviations		Mitigates
Other Terms and Conditions		

ANNEXURE A	
Particulars	Rs. In Lacs
Total Turnover	
Total Sales is discounted by XX% approximately Internal Sales	
Average Margin	
Assessed Income from Business	
Less: Existing annual liabilities	
Less: Household expenses - 4 families	
Available Surplus	
Less: Annual Interest obligation for propsoed Facility	
Net Surplus post disbursement	XXX

CREDIT APPROVAL SHEET CUM TRACKER

Credit Recommendation:

Particulars	Proposed ByOps	Recommended By Credit
Loan Amount	Rs. XX	Rs. XX
Facility		

Strengths of the Case:

Concerns:

Mitigates:

Basis of Recommendation:

Credit Head:

Date:

Signature