

Business and Agricultural Loans

Business Loan Proposals

- Fund based business requirements.
- Non-fund based business requirement.

Classification of Loans based on Loan Pricing

- Sub-PLR (Prime Lending Rate) lending
- Fixed interest rate
- Geographical region wise ceiling
- Maturity wise exposures
- Precious metals like gold, diamond
- Retail lending
- Small and medium enterprise
- Large borrowers

Types of Loans and Advances

- Working Capital Finance
 - ✓ Daily operational requirements
 - ✓ Short term funding needs
 - ✓ Unexpected contingencies
 - ✓ Stop gap arrangements
 - ✓ Procurement of materials or commodities

Types of Loans and Advances

- Project Finance
 - ✓ New projects
 - ✓ Expansion projects
 - ✓ Diversification projects
 - ✓ Long term requirement
 - ✓ Short term requirement
 - ✓ Medium term requirement

Methods for Sanctioning Business Loans

- Turnover method
- Cash flow method
- Cash budget method
- Projected balance sheet method
- Net owned fund method
- Standard procedures
- Specific justification for loan proposals

Turnover Method

- Credit facility in relation to
 - ✓ Project objective
 - ✓ Process methods
 - ✓ Business cycle
 - ✓ Trade terms
 - ✓ Availability of collateral security
- Loan system of credit delivery

Turnover Method

- Cash flow management between the bank and the borrower
- Credit exposure limits
- Competition among banks for loan portfolios
 - ✓ Accounts of the lender transferred from one bank to another
 - ✓ No additional credit
 - ✓ No asset creation

Cash Flow Method

- Borrower project status
 - ✓ Industry capacity
 - ✓ Sector projections
 - ✓ Regional performance

Cash Flow Method

- Projected cash flows
 - ✓ Historical data sets
 - ✓ Industry wise details
 - ✓ Financial outcome of the borrower
- Return to the bank
 - ✓ Loan proposal pricing
 - ✓ Terms of proposal

Cash Budget Method

- Cash budgets based on
 - ✓ Sales forecast
 - ✓ Market forecast
 - ✓ Investment forecast
 - ✓ Project expense forecast
 - ✓ Administrative commitments forecast
 - ✓ Loan commitment estimates

Projected Balance Sheet Method

- Total performance of the business
 - ✓ Asset structure
 - ✓ Investment structure
 - ✓ Borrowing structure
 - ✓ Capital structure

Projected Balance Sheet Method

- Projecting of asset performance
- Projection of individual projects in the business portfolio
- Projection of sources of funding
- Quality of projects and assets
- Liquidity position of the business
- Multiple analytical ratios
- Cash generation capacity of the business

Net Owned Fund Method

- Estimation of risk
- Capital commitment of borrower
- Cash margin estimation
- Bank's collateral requirement
- Bank's guarantee requirement
- Bank's loan documentation requirement
- Owned funds that are free of encumbrance
- Free reserves of borrowers and capital
- Risk appetite of the bank
- Quality of net owned funds

Standard Procedures

- Compilation of specific sectors for which loan proposals are sanctioned
- Set of pre requisites created
 - ✓ Analytical tools
 - ✓ Appraisal
 - ✓ Delivery of credit
 - ✓ Monitoring of accounts
 - ✓ Scheduling payments
 - ✓ Restructuring proposals

Standard Procedures

- Export Loans
- Import requirements
- Foreign commitments or obligations
- Letter of credits for domestic obligations
- Credit guarantees

Specific Justification

- Certain pre specified sectors are considered without any prior reference to higher authorities
- Specific acceptable proposals for which selective approach on a case to case basis is made
- New or additional exposures are accepted upon approval from concerned authorities
- Sectors or business segments that require new additional loan exposures though temporary curb has been set by the bank management

Loan Portfolio of Banks

Industry Loans

1. Mining & Quarrying

2. Food Manufacturing & Processing

- Rice Mills Flour & Dal Mills
- Sugar
- Edible Oils & Vanaspati
- Tea Processing
- Processing of Fruits & Vegetables
- Others

Loan Portfolio of Banks

Industry Loans

3. Beverage & Tobacco

4. Textiles

- Cotton Textiles
- Jute & Other Natural Fibre Textiles
- Handloom Textiles & Khadi
- Other Textiles & Textile Products

Loan Portfolio of Banks

Industry Loans

5. Paper Products & Printing
6. Woods and Wood Products
7. Leather & Leather Products
8. Gems and Jewellery
9. Rubber & Plastic Products

Loan Portfolio of Banks

Industry Loans

10. Chemicals & Chemical Products

- Heavy Industrial Chemicals
- Fertilisers
- Drugs & Pharmaceuticals
- Non-Edible Oils
- Other Chemicals & Chemical Products

11. Petroleum Coal Products & Nuclear Fuels

12. Manufacture of Cement & Cement Products

Loan Portfolio of Banks

Industry Loans

13. Basic Metals & Metal Products

- Iron & Steel
- Non-Ferrous Metals
- Metal Products

14. Engineering

- Heavy Engineering
- Light Engineering
- Electrical Machinery & Goods

15. Vehicles ,Vehicle Parts & Transport Equipments

Loan Portfolio of Banks

Industry Loans

16. Electricity ,Gas & Water

- Electricity Generation & Transmission
- Non-Conventional Energy
- Gas, Steam & Water Supply

17. Construction

- Other than Infrastructure
- Infrastructure Construction

Loan Portfolio of Banks

18. Transport Operators

19. Professional and other Services

(a) Professional Services

(b) Tourism Hotel & Restaurants

(c) Recreation services

(d) IT and Telecommunications

(e) Others

Loan Portfolio of Banks

20. Personal Loans

- (a) Housing
- (b) Consumer Durables
- (c) Vehicles
- (d) Education
- (e) Personal Credit Cards
- (f) Others

Loan Portfolio of Banks

21. Trade

(a) Wholesale Trade

(b) Retail Trade

22. Finance

Agriculture Loan Portfolio of Banks

- Agricultural Loans
 - ✓ Karif Season
 - ✓ Rabi Season

RBI Sample Data (Amount in Crores)

State Bank of India & its Associates				Nationalised Banks		
Occupation	No. of Accounts	Credit Limit	Amount Outstanding	No. of Accounts	Credit Limit	Amount Outstanding
Agriculture	9435692	91920.24	75323.85	16521949	191463.4	157803.6
1. Direct Finance	9256102	76252.71	63626.97	16187935	131572.5	112971
2. Indirect Finance	179590	15667.53	11696.88	334014	59890.89	44832.67

Reference:<http://www.rbi.org.in/scripts/PublicationsView.aspx?id=13884>

RBI Sample Data (Amount in Crores)

Foreign Banks				Private Sector Banks		
Occupation	No. of Accounts	Credit Limit	Amount Outstanding	No. of Accounts	Credit Limit	Amount Outstanding
Agriculture	156	1150.02	423.03	4218815	47919.6	39481.3
1. Direct Finance	51	542.44	100.92	4174904	32624.49	27027.55
2. Indirect Finance	105	607.57	322.11	43911	15295.1	12453.75