MSME Working Capital Credit Analysis

Structured Study Notes for Credit Appraisal

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Contents

About This Document

These notes are compiled from a YouTube course on **MSME working capital credit appraisal** — a structured, 185-lecture playlist titled **"Professional Course on Working Capital Credit Analysis"**, covering the subject from first principles through to loan disbursement.

Method: Video transcripts/captions were extracted and organized **topic-wise** (not video-by-video) into six sections, each synthesizing the teaching content — definitions, formulas, RBI/committee norms, step-by-step processes, and worked numerical examples — from every lecture relevant to that topic, with duplicate coverage across lectures merged into single authoritative explanations.

Scope: Of the 185 videos in the flagship course, **136 were in scope** for the seven requested topic areas (working capital basics, MPBF norms, CMA data & ratio analysis, CIBIL/SMA/dedupe checks, DSCR, documentation & mortgage, and loan disbursement). The remaining ~49 videos cover **export/import & forex trade finance, gold metal loans, government schemes, and career/interview content** — outside the requested scope, and not summarized here (full list in Appendix B).

Coverage: Of the 136 in-scope videos, **116 (≈85%) had usable transcripts** and are reflected in these notes. **20 videos had no retrievable transcript** even after repeated, carefully-paced retries (YouTube's caption API intermittently blocks automated access, and some auto-generated captions were too garbled to salvage) — see Appendix A for the full list. Where a whole subtopic's only source video was skipped, that gap is noted explicitly in the relevant section rather than filled in from general knowledge.

Note on DSCR/FOIR: The course covers **DSCR** (Debt Service Coverage Ratio) for business/term-loan assessment in depth. **FOIR** (Fixed Obligation to Income Ratio) is a retail/personal-loan underwriting metric and was not covered in this course's business-lending curriculum — it is not included in these notes.

This is study material compiled from third-party educational content for personal learning purposes. Always verify current RBI circulars and bank-specific policy before applying any norm in practice — regulatory thresholds (SMA/NPA classification, CGTMSE limits, etc.) are periodically revised.

Part 1 — Working Capital Basics

(Original section title: Working Capital Basics — Study Notes)

(Compiled from a YouTube course on Working Capital Credit Analysis. Compiled from Lectures 1–5, 7, 8, 19, 25, 26, 43, 47–49, 100, 105, and standalone videos on Pledge/Warehouse Receipt Finance (2 parts), Factoring, Reverse Factoring, TReDS, Temporary Overdraft, Seasonal Limit, and "Magic of Working Capital Management." One video in the batch — "Cash budget method of working capital finance" — has no retrievable transcript on tactiq.io even after repeated, patient retries; see `skipped_videos.txt`.)

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1. What Is Working Capital

Working capital = "Working" + "Capital" → the **money required for the day-to-day operations of a business**, as distinct from capital invested in fixed assets (land, building, machinery).

A business owner typically starts with a fixed pool of capital, some of which goes into fixed assets (land, building) and the rest into running the business (buying stock, extending credit to customers, etc.). The core insight of the course is that **working capital need is not static** — it depends on the interplay of: - How much credit the business gets from its suppliers (creditors) - How much stock it must hold before selling (stock/inventory period) - How much credit it extends to its own customers (debtors period)

If these are not planned for in advance, a business can be profitable on paper and still run out of cash — this is the central teaching example used throughout the early lectures.

The Power of Working Capital Management (Why This Subject Matters) A separate lecture ("Magic of Working Capital Management") makes the same point through a compounding-returns lens, worth internalizing before going further:

Worked example: On 1 April, an entrepreneur has Rs 100. He buys a shirt for Rs 100 (full advance payment to the supplier), holds it in stock for 15 days while finding a buyer, then sells it for Rs 110 — but the buyer asks for 15 days' credit. So the cash cycle is 15 (stock) + 15 (debtor) = **30 days per transaction**, and the entrepreneur earns Rs 10 profit every 30 days. Because the capital rotates roughly **12 times a year**, the same Rs 100 generates ~Rs 120 of cumulative profit over the year — i.e. a **~120% annualized return** on the original Rs 100, simply from rotating working capital efficiently. If the same entrepreneur could compress the cycle from 30 days to 15 days (e.g. by securing the order *before* buying stock, eliminating the 15-day stocking wait), the same capital would rotate twice as often and annual returns would double to **~240%**.

Why this matters for a lender/credit analyst: compare this to typical benchmark returns — mutual funds are pitched around ~15% p.a., equities around ~50% in a good year — and a well-run small business rotating working capital fast can structurally outperform both. This is the "secret" behind why some seemingly simple small businesses generate outsized wealth for their owners, and why understanding a client's working capital cycle (not just their profit margin) is central to assessing their real economics. Two further nuances: - Profit **withdrawn** for personal use doesn't compound; profit **retained and reinvested** in the business does — this is one reason lenders and investors look at a company's retention ratio on the balance sheet. - **Cycle speed and margin trade off against each other for business survivability.** A business that rotates capital very fast (e.g. every 30 days) can survive on thin margins because of the frequency of rotation. A business with a long working capital cycle (e.g. 6 months to convert stock + recover payment, so only ~2 rotations a year) *must* command a much higher margin per rotation to be viable — if such a business also has thin margins, it is not a durable, survivable business over the long run.

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2. Why Businesses Need Working Capital — The Operating Cycle (Worked Example)

Case: Mr. A, wholesale trader of Bata shoes

- Starts with capital of **Rs 10 lakh**.
- Buys land for **Rs 3 lakh** and constructs a building for **Rs 5 lakh** → fixed assets = Rs 8 lakh, leaving **Rs 2 lakh cash**.
- Bata Co. insists on a minimum order of **Rs 7 lakh** per purchase. Mr. A can only pay Rs 2 lakh in cash, so Bata extends **30 days' credit for the remaining Rs 5 lakh**.
- Mr. A decides to always keep a minimum stock of Rs 7 lakh on display (variety for walk-in customers), and stock takes **30 days to sell**.
- His retail customers, in turn, demand **60 days' credit** before they pay him.

Timeline of funds tied up: - Stock holding period: 30 days - Debtors (customer credit) period: 60 days - **Total funds locked in current assets: 90 days** - Less: Creditor (Bata) support: 30 days - **Net working capital cycle = 90 − 30 = 60 days**

Where it breaks down: On the day Mr. A sells his stock (Day 30), he simultaneously has to (a) pay Bata the Rs 5 lakh now due, and (b) place a fresh order (another Rs 2 lakh cash + Rs 5 lakh credit) to keep his showroom stocked — but his own customers won't pay him for another 60 days. He is short of cash precisely because he never calculated his working capital requirement before agreeing to these credit terms. **This is described as a very common first-time-entrepreneur mistake.**

Quantifying the Gap (Balance Sheet Walk-Through) The course builds Mr. A's balance sheet period by period (each period = 30 days, labelled T0, T1, T2, T3):

- **T0 (today):** Buys Rs 7L stock from Bata (Rs 2L cash + Rs 5L credit). Balance sheet: Capital 10L; Fixed Assets 8L; Stock 7L; Creditors 5L. Not yet "choked."
- **T1 (after 30 days):** Stock (Rs 7L) sold on 60-day credit → becomes Debtors 7L. Must now pay Bata Rs 5L and re-book fresh stock (needs another Rs 2L cash + gets Rs 5L fresh credit). Total cash need = Rs 7L, which he does **not** have. He plugs this gap by selling personal property for Rs 7L (capital effectively rises to 17L).
- **T2 (after 60 days):** Same problem repeats — another Rs 7L shortfall. He plugs it by selling jewelry (capital rises to 24L).
- **T3 (after 90 days):** First operating cycle completes — he **receives** payment (Rs 7L) from his earliest debtors. From here on, incoming debtor collections are enough to fund the next round of creditor payment + fresh stock purchase, and the cycle becomes self-sustaining (assuming no growth, no P&L, and no delays — a simplifying assumption used throughout).

Steady-state working capital position: - Debtors: Rs 14 lakh (two months of sales sitting in the receivables pipeline) - Stock: Rs 7 lakh - Less Creditors (Bata support): Rs 5 lakh - **Total Working Capital Requirement = 14 + 7 − 5 = Rs 16 lakh**

Of this Rs 16 lakh, only **Rs 2 lakh was self-financed** (from Mr. A's original capital); the remaining **Rs 14 lakh had to be externally arranged** — in the example, by selling property/jewelry (a bad outcome), but in real life this Rs 14 lakh gap is exactly what banks fund through working capital credit facilities, or what some businesses instead source as unsecured loans from friends/relatives (short-term financing that can and should be replaced by proper bank funding).

Key takeaway for credit analysis: the entire discipline of working capital assessment is about correctly quantifying this kind of gap (stock + debtors − creditors, net of margin) for a real business, and structuring the right bank facility to fund it.

How to Actually Calculate the Operating Cycle, and Why It's Hard to Get Right A dedicated lecture on operating cycle analysis fills in the "how" behind the concept above:

The core definition: the operating cycle is simply **the minimum time needed to convert cash back into cash** — cash → raw material → work-in-progress → finished goods → sale (starts the debtor/credit period) → cash received back. Everything in this chain (raw material, WIP, finished goods stock; debtors; creditors) is a **balance sheet item**, sitting under current assets (short-term investment) or current liabilities (short-term source/support). This is why the course repeatedly stresses: *working capital is entirely a function of current assets and current liabilities on the balance sheet.*

Worked numeric example: 30 days to manufacture + 30 days minimum finished-stock holding = 60 days before sale; the buyer then takes 30 more days to pay → total **120 days** of cash tied up. If the supplier extends 30 days' credit on the raw material purchase, that support offsets 30 of the 120 days, leaving a **net working capital cycle of 90 days**. The business needs funding for exactly one operating cycle (90 days here) — that is the direct answer to "for how long is working capital finance required."

Simplest calculation method: pull the current assets and current liabilities straight off the balance sheet (stock, debtors, creditors) and derive stock/debtor/creditor turnover periods from them (covered in later ratio-analysis lectures — inventory turnover period, debtor turnover period, creditor turnover period).

Why this simple method is often inaccurate — three real problems: 1. **Every business has a different natural cycle**, and it isn't static. A bread manufacturer (perishable, short shelf life) runs a very short cycle by necessity — minimal stock period, minimal debtor period, fast supplier payment. A seasonal business's cycle also swings sharply through the year (see the summer-clothing example below). 2. **The balance sheet is a single-date snapshot, not a period average.** Using it assumes stock/debtor/creditor levels are constant all year, which is "totally wrong" in practice — real businesses have ups and downs (a debtor who normally pays in 30 days might stretch to 60 in a bad patch; a creditor relationship that normally allows 45 days might tighten to 15). Relying on one date's figures can produce a materially wrong cycle estimate, and unscrupulous clients can even structure entries around period-end (advance entries, knocking off dues right before 30/31st) to make the balance-sheet snapshot look better than reality. - **Seasonal business example:** a summer-garment manufacturer sells heavily from January–March, so on 31 March its balance sheet shows a large debtors figure (money not yet collected from wholesalers who will pay April–August, once retailers have sold to end customers in May–July). A balance-sheet-only view taken at that one date badly misstates the "true" average cycle. - **Practical fix used by the lecturer in actual bank assessments:** don't rely on one balance-sheet date. Pull **month-wise sales, purchases, stock, debtors, and creditors for the last 6 months** (up to 12 months for seasonal businesses) from the client, compute the operating cycle for each month, and take a **simple average** across the period (e.g., if six months' cumulative cycle figures sum to 600 days, the average cycle is 100 days). This materially improves accuracy over a single balance-sheet-date estimate, though not every bank follows this more rigorous approach — many still rely on the simpler balance-sheet method and get correspondingly less accurate results. 3. **Books don't always reflect reality.** Sometimes a debtor settles in unrecorded/"under the table" cash while the formal book entry still shows the receivable outstanding (a consequence of businesses in India sometimes maintaining more than one set of books) — inflating the apparent debtor figure. This is flagged as something a credit analyst mostly learns to spot with experience.

Where this leads next in the course: this operating-cycle groundwork is explicitly built as the foundation for **promoter margin** and the **operating (projected) balance sheet**, which in turn feed into **MPBF (Maximum Permissible Bank Finance) norms** — the formal methodology banks use to size a working capital limit.

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3. Approaching a Bank for a Working Capital Loan

Banks are organizationally split into: - **Front-end office** — branches, visible/accessible to customers. - **Back-end office** — regional office / specialized departments not open to walk-in customers, where the loan is actually processed and decided.

Two routes to approach a bank for a loan:

Direct Approach Customer walks into a branch, meets the branch team, and the branch forwards the file to the specialized back-end loan team.

Indirect Approach — via Financial Consultants / DSAs

- Financial consultants (can be CAs, CS, CMAs, LLBs, or experienced graduates — no fixed qualification, just market experience) maintain relationships with multiple banks/NBFCs. In bank terminology they are called **DSAs (Direct Selling Agents)**.
- The customer explains the loan amount needed and the interest rate they can afford; the consultant matches them to the bank most likely to serve that need and forwards the file **directly to the back-end team**, skipping the branch.
- DSAs earn an **official commission from the bank** (a fixed % of the processing fee), paid only on successful disbursal — ideally they should not also charge the customer, though market practice sometimes deviates from this.
- **Risk:** some consultants, driven purely by commission, push clients toward loans that don't suit their real repayment capacity. Practical tip: work only with an experienced, reputable ("vintage") consultant, ideally referred by someone you trust.

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4. Institutional Context — Bank Organizational Structure & the Credit Function

(Useful background for anyone working the credit side of a working capital file — private-sector bank structure.)

Branch Team (Front-End) Teller/Personal Banker → Branch Relationship Manager (Branch RM) → Branch Manager (heads one branch) → **Cluster Head** (heads 4–5 branches; big banks may have 2–3 cluster heads per city) → Regional Head (heads one or more states) → Zonal Head (heads 2–3 states; large zones split into North-1, North-2 etc.) → National Head → Group Head → Directors/MD.

Business / Sales Team (Specialized Loan Sales) Sales Executive (off-role, clerical/document-collection work) → **Relationship Manager (RM)** — owns the working-capital relationship, monitors business health and service issues → Area Sales Manager (ASM, typically heads one state, 4–5 RMs report in) → Regional Sales Manager (RSM, can cover more than one state) → Zonal Sales Manager (ZSM) → National Sales Manager (NSM, one per bank) → Group Head → Directors.

Credit / Risk Team Credit Processing Associate (off-role; checklist/document completeness, basic data prep) → **Credit Manager** — does the actual case analysis and either decides within their authority or escalates → Area Credit Manager (ACM, state head) → Regional Credit Manager (RCM) → Zonal Credit Manager → National Credit Manager → Group Head → Directors.

Risk Control Unit (RCU) / Risk Intelligence Control (RIC)

- Independently **verifies documents on a sample basis** (not every file) before disbursal — a positive RCU report is a precondition for disbursement.
- Typical checks: physical KYC/address verification; signature verification on the application form; ITR verification via Income Tax Dept. systems; bank statement verification directly with the issuing bank; authenticity checks on any document the credit manager flags as suspicious.
- Usually 1–2 people per state, escalating to regional/zonal/national levels.

Legal & Technical Team

- **Legal:** confirms the offered property is free of legal defects and can validly be mortgaged.
- **Technical:** physically verifies the property (identification, area, measurement, shape).
- Often outsourced to CA firms for the off-role staffing; in government banks this work is sometimes absorbed by the credit/business teams themselves.

Collections Team Tracks default, EMI delays, and interest non-payment; local collection managers work with the business team to recover dues. Credit managers interact with them regularly to keep their loan portfolio healthy.

Operations Team Handles **disbursement** — final agreement/documentation checks, verifying that all sanction conditions were actually fulfilled before money moves. Highly clerical/precise work; documentation errors here can create real legal exposure for the bank.

Monitoring / Audit Team Ongoing post-disbursement monitoring of account conduct and periodic file audits, flagging irregular client behavior.

Trade Forex Team Sources and manages forex-linked working capital limits; also acts as an additional case-sourcing channel.

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5. The Credit Manager's Role and Credit Appraisal Philosophy

How a Bank Actually Makes Money

- Banks source funds primarily from **CASA** (Current Account + Savings Account deposits from the public), plus Fixed Deposits, borrowings from RBI (at the **repo rate**), and inter-bank/institutional borrowings.
- Banks pay depositors roughly **3–4% interest** on CASA money, and lend it out at **~8–10%+**. The spread is the bank's income, out of which salaries and other costs are paid.
- CASA / deposits = a **Retail Liability (RL)** product for the bank (the bank owes this money back). Loans disbursed = a **Retail Asset (RA)** product (the bank is owed this money). A credit manager works on the **RA side** — generating assets for the bank.

Three Core Challenges of a Credit Manager

1. **Protect the bank's money** — every loan is effectively an investment of the bank's (depositors') money in someone else's business. Unlike an equity partner, the bank only ever gets interest + principal back, never upside — so downside protection matters enormously. Banks expect close to a 0% default outcome.
2. **Loans are also a business** — private (and even government) banks are profit-oriented and need loan volume. A credit manager who rejects everything creates "reverse pressure" (poor performance can mean being reassigned or worse). The job is to find a sensible middle path — neither reckless approval nor blanket rejection — which requires strong financial, industry, and economic knowledge (much of the latter comes only with experience).
3. **Customer service/satisfaction** — interest rates across banks typically differ by only ~50–70 paise, so service quality (responsiveness, being customer-centric while staying bank-centric) is often what actually wins/retains business.

Assessing the Future From the Past Loan documentation (financial statements, bank statements, etc.) is inherently **historic data**, but the loan itself funds the **future**. Credit assessment is therefore fundamentally an exercise in predicting an uncertain future from past performance — no bank achieves 0% defaults, and external shocks (e.g., COVID-19) can derail even well-run, well-assessed businesses through no fault of the borrower.

Two Angles of Every Credit Decision

1. **Financial Angle** — industry analysis, economic analysis, financial statement analysis, background/market referral checks. This determines an eligible loan amount based on the business's own repayment capacity.
2. **Property Angle** — eligibility based on collateral value offered.

Rule: the sanctioned loan amount = the LOWER of the financial-angle eligibility and the property-angle eligibility. (E.g., if financials support Rs 1 Cr but property only supports Rs 50 lakh, the loan is capped at Rs 50 lakh.)

Why Collateral Is Taken (and What It Is NOT For)

- Collateral/property is a **secondary comfort against future uncertainty**, not the primary repayment mechanism. The working assumption behind every sanction is that **the loan will be repaid from the client's business earnings/cash flow**, not by eventually seizing and auctioning the property.
- Property becomes relevant only when circumstances beyond the client's control (economic shocks, pandemics, policy changes) derail the business — and even then, recovery via SARFAESI/court proceedings/auction is slow and reputationally costly for the bank, so it's very much a last resort, not the plan.
- A common mistake (especially associated with older-style government-bank thinking) is over-indexing on property comfort ("I'm offering 2 Cr property, why won't you lend me 2 Cr?") while ignoring whether the underlying business can actually service EMIs/interest from its own cash generation.

The Loan Sanction Process

1. Customer submits application form + documentation.
2. Credit manager assesses the case (financial angle + property angle).
3. Bank issues a **sanction letter** — states loan type, amount, tenor, security/collateral, and terms & conditions.
4. Customer reviews and **accepts** the sanction letter.

5. Bank executes all loan/security documentation and agreements.
6. Once documentation is verified, the **loan amount is disbursed** to the customer's account.

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6. Fund-Based Working Capital Facilities: Cash Credit, Overdraft, Dropline Overdraft, and WCDL

All these facilities exist to **fund the working capital gap** — i.e., to finance current assets (stock, debtors) net of the support already available from creditors, as illustrated in Section 2.

How CC/OD/DOD Operate (Mechanically) All three are **running/operating accounts** attached to the client's current account: - The bank sanctions a limit (e.g., Rs 1 Cr) on top of whatever credit balance the client holds. The client can now overdraw the account — make payments — up to the sanctioned limit even with a much smaller (or zero/negative) own balance. - Every debit (payment to a supplier) and credit (receipt from a debtor/customer) flows through this single account, and the **outstanding balance fluctuates daily**. - **Interest is charged only on the amount actually drawn, for the number of days it was drawn** (i.e., simple daily-product interest, not on the full sanctioned limit) — worked example in the lecture uses 8% p.a. computed on the day-wise outstanding balances within the month. - Interest is **debited monthly** (e.g., end of month); the client should ideally repay/service it within **7 days**, and at most within **15 days**, even if that just means depositing and later withdrawing a token amount to show a credit entry. - RBI guidance (and standard bank practice) requires that **all business receipts and payments route through this account itself** — a client should not take a CC facility from Bank A while routing actual transactions through a current account at Bank B.

Cash Credit (CC)

- **Includes Drawing Power (DP) calculation.** The client can draw only the lower of the sanctioned limit or the DP computed from their latest stock statement — even if sanctioned Rs 1 Cr, if DP works out to Rs 60 lakh, only Rs 60 lakh is drawable.
- Requires a **monthly stock statement** submission (quarterly only if the bank specifically permits, e.g., for very large/small exposures).
- Subject to **periodic stock audit** (quarterly for large corporate exposure, half-yearly for ~Rs 5–10 Cr exposure, annually for smaller exposure — at least once a year in all cases) to verify the stock statement's accuracy; the **borrower bears the audit cost** (roughly Rs 5,000–10,000 per audit) and can be penalized for delaying auditor access or delaying stock-statement submission.
- **Tenure:** 12 months (renewable), and technically **repayable on demand** at the bank's discretion.
- **Highest bank comfort / highest monitoring** — because of the recurring stock statement + DP + audit discipline, banks are most comfortable lending under CC, and this often translates into a **higher loan-to-property ratio** (e.g., 85–90%, sometimes up to 100% of property value on residential/commercial collateral, vs. a more typical 80%) and a **slightly better interest rate** (e.g., 8% vs 8.5% for a comparable OD/DOD case).

Overdraft (OD)

- **No drawing power calculation, no stock statement, no stock audit.**
- **Tenure:** 12 months, repayable on demand — same tenor structure as CC, but with none of the recurring compliance burden.

- **No ongoing checkpoints** once sanctioned — the bank essentially "forgets about it" for 12 months barring misconduct.
- Because the bank carries **lower comfort** with an unmonitored facility, it typically sanctions a **lower loan-to-property ratio (roughly 60–75%)** and does not offer the CC-style rate concession.
- Most preferred by borrowers precisely because it avoids the monthly compliance overhead of CC.

Dropline Overdraft (DOD)

- **No DP calculation either** — but unlike OD, the **sanctioned limit itself steadily reduces** over the loan's life (monthly, quarterly, half-yearly, or annually, per the bank's structuring).
- **Tenure is much longer** than CC/OD — commonly 5, 7, 10, or up to 15 years.
- **Worked example:** Rs 1 Cr limit over 5 years, dropping annually → Rs 1 Cr available in Year 1, drops to Rs 80 lakh at the start of Year 2, Rs 60 lakh at the start of Year 3, and so on (i.e., Rs 20 lakh/year). If instead structured to reduce monthly, a Rs 60 lakh/5-year limit would drop by Rs 1 lakh every month.
- Gives the client psychological comfort that the debt is visibly amortizing over time (unlike CC/OD, where the sanctioned limit never reduces on its own).
- **Bank view is mixed:** there's an implicit form of monitoring (a missed repayment against the dropping limit immediately shows as an overdue), but because there's no DP/audit discipline and the tenor is long, banks are only moderately comfortable — loan-to-property and pricing sit between CC and OD, generally closer to OD.

Working Capital Demand Loan (WCDL) — A Sub-Limit of CC/OD WCDL solves a structural problem for the bank: **limit utilization**. When a bank sanctions a Rs 1 Cr CC/OD limit expecting ~60–90 Lakh average utilization, but the client actually only draws (say) Rs 20 Lakh, the bank's balance sheet shows a smaller "working" loan asset than expected, its stakeholders see weaker growth, and it earns less interest on the unused portion — a genuine loss of opportunity for the bank, even though nothing has "gone wrong."

Mechanics — Main Limit vs Sub-Limit: - A bank sanctions, say, Rs 1 Cr as a CC/OD **main limit**. Within that same Rs 1 Cr ceiling, the bank offers a **WCDL sub-limit** — e.g., up to Rs 80 Lakh. Different banks structure this differently: some allow 80% of the main limit as WCDL, some allow 100%; typical WCDL tenure is **90 days** (varies by bank), after which a **bullet (one-shot) repayment** is due. - The client can mix usage between the CC/OD portion and the WCDL portion in any combination, but **the combined outstanding across both can never exceed the main sanctioned limit** (e.g., Rs 70L WCDL + Rs 30L CC is fine; Rs 80L WCDL + Rs 30L CC is not, since it breaches Rs 1 Cr). - **Operationally:** WCDL gets a distinct sub-account number (different every time it's disbursed) that nets against the CC/OD account — disbursing Rs 80L WCDL credits the CC/OD account with Rs 80L (reducing its utilization), and on the 90-day due date the reverse entry happens (WCDL account debited, CC/OD account credited back) to settle the bullet repayment. Interest on the CC portion and interest on the WCDL portion are computed and debited **separately** each month, since WCDL usually carries a **lower interest rate** than the CC/OD portion (e.g., 7.5% vs 8% in the lecture's example). - **Why the client would choose it despite it being structured for the bank's benefit:** the lower interest rate. If a client is confident they'll use ~80% of their limit for the next 3 months anyway, locking that 80% into WCDL at a cheaper rate is a straightforward saving. The catch: **WCDL cannot be closed early** (before the 90-day tenor) without penalty/charges — so if the client's actual utilization needs turn out to be much lower than expected (e.g., a seasonal business entering a collection-heavy quarter with utilization dropping to 20–30%), they'd be stuck paying interest on a blocked 80% WCDL they don't need, which is worse than just using CC/OD at the standard rate on actual utilization. - **Recommendation for a credit**

analyst / borrower: only take WCDL if you genuinely project ~80% (or whatever the WCDL %) utilization for the full tenor; otherwise negotiate a smaller WCDL sub-limit matching realistic utilization, or decline it and stay on the CC/OD rate. - WCDL's outstanding must be **netted off when calculating Drawing Power** on the main CC limit, to avoid double-financing the same stock/debtors (see Section 8).

Quick Comparison Table

Feature	Cash Credit (CC)	Overdraft (OD)	Dropline OD (DOD)
Drawing Power calculation	Yes	No	No
Stock statement required	Yes (monthly, usually)	No	No
Stock audit	Yes (client bears cost)	No	No
Tenure	12 months, repayable on demand	12 months, repayable on demand	5–15 years, limit drops periodically
Ongoing monitoring	Highest	Lowest / none in-between	Moderate (implicit via limit drop)
Bank's comfort level	Highest	Lower	Mixed
Typical loan-to-property	Higher (up to ~85–100%)	Lower (~60–75%)	Lower, similar to OD
Interest rate	Can be slightly cheaper	Standard	Standard
Borrower's usual preference	Least preferred (compliance load)	Most preferred	Preferred by clients wanting visible amortization

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7. Non-Fund-Based Facilities & Limit Structuring Concepts

Bank Guarantees (BG) A bank guarantee is a three-party arrangement: the **Guarantor** (the bank), the **Principal Debtor / Obligor / Contractor** (the bank's own client, who has to perform an obligation), and the **Beneficiary** (the party receiving the guarantee's protection — e.g., a government body or corporate counterparty).

Why BGs exist — worked example: NHAI (National Highways Authority of India) awards road-construction contracts and doesn't know whether the winning contractor (Company A) is currently financially sound enough to complete the work. Rather than verify this itself, NHAI asks for a bank guarantee (e.g., 10% of a Rs 100 Cr contract = Rs 10 Cr BG) as a condition of the tender. Company A approaches its bank (e.g., Axis Bank), which — because it will assess Company A's financials before agreeing to guarantee it — effectively performs NHAI's due diligence for it. If the bank is willing to issue the BG, that itself signals the contractor is creditworthy. This is why a BG "solves two purposes" — it protects the beneficiary financially, *and* it substitutes for the beneficiary's own credit-vetting of the contractor.

Security taken by the bank for issuing a BG: - **Cash margin** (via FDR) — commonly around 10% of the BG amount, though the lecturer has personally seen margins ranging from 10% up to 30–40% depending on the bank, the client's profile, and negotiating strength. - **Collateral** for the remaining balance — amount and type vary bank to bank and case to case (a new entrant to a field with no track record may be asked for property worth more than the exposure, e.g. Rs 12 Cr property against a Rs 9 Cr uncovered exposure).

Tenure: RBI guidance caps BG tenure at a maximum of **10 years**, though banks can choose to be more conservative. The longer the tenure, the higher the perceived risk (the bank can't be confident about a client's financial position several years out), so longer-tenure BGs typically carry **more security demanded + higher commission charged**. Banks may also apply different tenure comfort by beneficiary type (e.g., willing to guarantee up to a year for a private party but 7+ years only for a public-sector undertaking).

Three types of Bank Guarantee: 1. **Financial Bank Guarantee (FBG)** — secures a **financial obligation** (i.e., the contractor's ability to make payments). Example: an MSME dealer must pay a large corporate (e.g., a phone manufacturer) Rs 5 lakh weekly for stock received, settled within 3 days — the corporate demands an FBG to be sure it gets paid on time. As a credit manager assessing an FBG request, the key check is the client's **financial soundness** — will they have the money to meet the obligation. 2. **Performance Bank Guarantee (PBG)** — secures the contractor's **performance of work**, not a payment obligation. Common in government/construction contracts (e.g., NHAI road-building) and in manufacturing subcontracts (e.g., a phone-body manufacturer guaranteeing consistent, on-spec weekly supply to the OEM). As a credit manager, the key check is the client's **past track record** — timeliness, quality standards, and crucially, whether any past BG of theirs was ever **"invoked"** (i.e., the beneficiary actually called on the bank for payment because the contractor failed) — an invocation history is a serious red flag that will make other banks reluctant to issue future BGs. - **FBG vs PBG risk:** banks consider FBG **riskier** than PBG, because a financial-obligation BG can be invoked by the beneficiary at any point the payment is missed, whereas beneficiaries under a PBG often grant **extensions** (e.g., pushing a construction deadline back 3 months) rather than immediately invoking — so invocation probability is meaningfully lower for PBGs. Riskier (FBG) BGs attract shorter tenure and higher commission/security. 3. **Counter Guarantee** — issued **bank-to-bank**, not to the original beneficiary. Example: Company A initially had a 3-year, Rs 10 Cr BG with Axis Bank (backed by 10% cash margin + Rs 9 Cr collateral) for an NHAI contract. After a dispute with Axis, Company A wants to shift the banking relationship to ICICI. But NHAI's existing BG is with Axis and NHAI has no interest in re-documenting; cancelling and reissuing a fresh BG with ICICI is possible but rarely done in practice. Instead, **ICICI issues a counter-guarantee to Axis Bank** (Axis becomes the beneficiary of *this* guarantee) — ICICI tells Axis "if NHAI ever invokes the original BG, come to me and I'll cover you." Axis is then comfortable releasing the original security (cash margin + collateral) to ICICI, since it now has a bank-backed guarantee instead of a client-backed one.

Standard clauses that protect the guarantor bank in a BG document (a BG that lacks these, or reverses them, is called an **"onerous clause" BG**, and increases the bank's risk — leading to higher margin, shorter tenure, higher commission, or outright refusal): 1. **Notwithstanding clause** — whatever is written under this specific clause overrides anything stated elsewhere in the BG document, ensuring one authoritative version of the terms. 2. **Fixed BG amount** — the bank's liability is always a specific capped rupee amount, never an open-ended "whatever loss you incur." 3. **Fixed validity period** — the BG automatically lapses after its stated tenure; without this, a bank could theoretically remain on the hook indefinitely. 4. **Defined notice mechanism** — the manner (e.g., courier/speed post, not fax), exact location, and proof of *actual receipt* (not just dispatch) for any invocation notice must be spelt out, else disputes arise over whether/when a valid claim was made. 5. **Guarantor ≠ Principal Obligor** — the bank guarantees payment/performance but never takes on the contractor's underlying operational responsibilities. 6. **Guarantor doesn't hold funds "in trust" for the beneficiary** — the bank's liability is capped to what's contractually specified, not open-ended stewardship of assets. 7. **BG is non-assignable** without the guarantor's consent — the beneficiary cannot hand the guarantee off to a third party unilaterally. 8. **No "regardless of insolvency/court proceedings against the guarantor" clause** — a beneficiary cannot demand a guarantee that survives even if the bank itself faces bankruptcy/regulatory action; no bank will accept this. 9. **BG must honor court orders** — a beneficiary cannot demand payment despite a court ruling in the contractor's favor. 10. **No open-ended "subsisting**

until beneficiary discharges guarantor" clause — contradicts the fixed-validity principle (#3); a guarantee can't be held hostage indefinitely at the beneficiary's sole discretion. 11. **No "invocation on guarantor's external rating downgrade" clause** — a rating downgrade is a third-party agency's subjective opinion and cannot be a contractual invocation trigger. 12. **No automatic-renewal clause** without the guarantor's fresh consent — a bank cannot be bound to a further term without re-agreeing. 13. **Guarantor's "surety-ship rights" cannot be waived** — once a bank pays out on an invoked BG, it inherits the beneficiary's legal rights to recover that money from the contractor (via the Indian Contract Act); a beneficiary cannot draft away this right, as it would let them alter the underlying debt/security terms unilaterally with no recourse for the bank.

Bank Guarantee vs Letter of Credit (LC) — key differences: | | Bank Guarantee | Letter of Credit | |—|—|—| | Max tenure | Up to 10 years | Typically 3/6/12 months (capex LC can run ~3 years) | | Typical use | Government contracts, non-trade obligations | Trade/import-export transactions (foreign LC for cross-border) | | Who it protects | Both supplier and customer side (e.g., financial BG for a buyer's payment obligation, performance BG for a supplier's delivery obligation) | One-directional — issued by the buyer's bank in favor of the seller only | | What's checked | Quality of work/goods can be part of the guarantee | Trade LC is typically about receipt of goods, not their quality | | Variants | Financial BG, Performance BG, Counter Guarantee | Foreign LC, Inland LC, Capex LC, SBLC, and others |

Fund-Based vs Non-Fund-Based, Revolving vs Non-Revolving, and Main Limit vs Sub-Limit *(Source lecture had a heavily garbled auto-generated Hindi transcript — similar to the interest-rate-benchmarks lecture in Section 9 below; the concepts below are reconstructed from the recoverable fragments and should be cross-checked against a primary source before exam use.)*

- **Fund-based facilities** involve the bank actually disbursing/lending money that hits the client's account (e.g., CC, OD, WCDL, term loans). **Non-fund-based facilities** are contingent bank commitments where no money moves upfront — the bank's exposure only crystallizes if the client defaults and the instrument is invoked (e.g., Bank Guarantees, Letters of Credit).
- **Revolving limits** replenish automatically as they're repaid — a CC/OD limit is revolving: draw it down, repay it, draw it down again, indefinitely within the sanction period (12 months), the same way described in Section 6.
- **Non-revolving limits** are used once and don't automatically reset — closer to a term-loan-style drawdown.
- **Main limit vs sub-limit:** as illustrated with WCDL in Section 6, a bank often sanctions one overall ("parent"/main) limit and then carves out multiple named sub-limits inside it (e.g., CC + WCDL + LC + BG + Packing Credit), each usable up to its own sub-ceiling, but with the combined utilization across *all* sub-limits **never allowed to exceed the parent limit**. For example, if a client has sub-limits of CC ₹15L, WCDL ₹47.6L, LC ₹5.7L, BG ₹10.38L (illustrative figures from the lecture), the sum of all utilizations across these must stay within the single sanctioned parent ceiling — the client can mix and match which sub-limit they draw against, but not exceed the total.

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8. Drawing Power (DP) — The Core CC Formula

Drawing Power is the maximum amount a client can actually draw under a Cash Credit limit, computed from the latest self-declared stock statement:

Step 1 — Chargeable Current Assets: - **Stock**: paid-for stock, generally counted up to a defined period (the lecture references up to 6 months' stock as chargeable). - **+ Debtors**:

excluding debtors from group/associate firms; the eligible debtor period (e.g., up to 90 / 120 / 150 / 180 days) is set per the bank's internal policy, aligned to the client's actual working capital/operating cycle. Net of any advance received from customers. - **− Creditors**: net of any advance paid to suppliers (creditors reduce the funding requirement, mirroring the "creditor support" logic from Section 2).

This nets out to the **Gross DP**.

Step 2 — Margin: Deduct the **promoter's margin** (the lecture uses **25%**) from the Gross DP → this gives the **DP**.

Step 3 — Adjust for Other WC Facility Utilization: Deduct the **outstanding utilization of any other working capital facility already financing the same stock/debtors/creditors** (to avoid double-counting) → this gives the **Actual/Net DP**, which is the real ceiling on what can be drawn (subject also to the sanctioned limit — whichever is lower).

Other working-capital-linked facilities mentioned as relevant "other facility" deductions in the DP formula (i.e., they directly or indirectly fund stock/debtors/creditors and so must be netted off to avoid double financing): Working Capital Demand Loan (WCDL); Export Packing Credit (EPC); Packing Credit in Foreign Currency (PCFC); Foreign Bill Discounting (FBD); Foreign Bill Negotiated (FBN); Foreign Bill Purchased (FBP) — collectively the pre-/post-shipment packing credit products; Letter of Credit Bill Discounting (LCBD); Buyer's Credit; Foreign Currency Demand Loan (FCDL); Sales Bill Discounting; OD/DOD; dealer inventory funding (e.g., two/four-wheeler agencies); and channel finance (e.g., electronics agencies). Also relevant, covered in detail below: **Plege/warehouse receipt (commodity-based) finance** must similarly be excluded from — or netted against — the DP stock figure whenever the pledged stock is also being counted toward a CC limit's DP, to avoid double-financing the same stock (see Section 12). Facilities such as Letter of Credit, Bank Guarantees, and Machinery/Building/Working-Capital Term Loans are separate working-capital-adjacent products but are not part of the DP netting logic itself.

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9. Term Loans for Machinery, Building & Working Capital

(Source lecture had a heavily garbled auto-generated Hindi transcript with long silent/music gaps — recoverable content is thin and fragmentary; treat the specifics below as directional only and verify against a primary source.)

The lecture frames these term loans as an extension of the same "general purpose vs specific purpose" logic used for working capital products: unlike a general-purpose limit (CC/OD), these loans are tied to a **specific, identifiable end-use** — buying machinery, or constructing/acquiring business premises (never the promoter's personal residence; the property must serve the stated business purpose, e.g. office, factory, or warehouse).

Machinery term loan — recoverable process points: - The bank typically works off a **quotation/invoice from the machinery supplier**; the borrower submits the supplier's account details (account number, bank name, IFSC), and on completion of the bank's internal documentation, funds are **disbursed directly to the supplier's account** rather than to the borrower — reducing diversion risk. - A **promoter margin** is applied (mentioned in the same 25% range referenced elsewhere in the course for other secured products), meaning the borrower funds a portion of the machinery cost themselves. - A **moratorium period** is referenced, during which **interest must still be paid** even though principal repayment hasn't started — a standard term-loan structuring feature. - Loan sanction/disbursal timing can reference machinery already purchased within a lookback window (an example references machinery bought up to roughly 6 months before sanction being eligible for reimbursement-style funding), subject to bank policy — practice varies bank to bank on whether/how much reimbursement is allowed versus requiring fresh, undisbursed purchases. - GST input tax credit and depreciation on the machinery affect the borrower's taxable profit and are referenced as considerations the borrower/bank should factor into cash flow and tax planning around the purchase (depreciation reduces book profit and hence current tax payable, all else equal).

Building/construction term loan — recoverable process points: - Land must typically already be arranged/owned by the borrower before applying (or an **Agreement to Sell** is executed as a preliminary step) — the loan funds construction, not necessarily the land purchase itself, though bank policy can vary. - Disbursement is **staged against construction progress**, not released as one lump sum: the bank's **technical team physically visits the site periodically** to verify progress (e.g., plinth-level completion, structural stages) before releasing the next tranche. A cost estimate is built upfront (e.g., cost to reach plinth level as one milestone, cost of construction above plinth level as a further milestone), and disbursement is tied to invoices submitted for actual work/material as construction proceeds — a portion of each invoice (an example cites roughly 75%) may be paid directly to the supplier, with the balance reimbursed against the borrower's own spend, and the exact split/process is bank policy dependent. - Registry/stamp duty costs associated with the property are a separate cash cost the borrower bears alongside the loan. - This staged-disbursement, site-visit-verified process is described as the standard operating procedure for construction-linked term loans, distinct from the single-shot disbursal typical of a machinery loan.

How these connect back to working capital: the lecture explicitly ties this back to the DP-netting logic in Section 8 — machinery/building term loan outstandings are separate credit facilities financing fixed assets, not current assets, and so (unlike WCDL, packing credit, etc.) they are **not** part of the working-capital DP netting calculation, since they don't finance the same stock/debtors/creditors base.

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10. Supply Chain Finance: Dealer/Channel Finance and Sales Bill Discounting

Supply Chain Finance (SCF) is the umbrella term for financing facilities built around a **supply chain link** — wherever goods/services flow between parties in a chain (manufacturer → distributor/dealer → wholesaler → retailer, or a manufacturer buying from its own upstream suppliers) and a bank steps in to finance a specific link in that chain. A defining feature: **an approved corporate is always involved** in the arrangement (hence these are also called **"corporate-linked business"**), even though the loan itself is disbursed to the corporate's dealer/vendor, not to the corporate. SCF can sit on either side of the corporate's own transactions: - **Purchase side** (the corporate is *selling to* a network of dealers/distributors) → this is **Dealer Finance / Channel Finance**, covered below. - **Sale side** (the corporate is *buying from* a network of vendors/suppliers) → this is **Vendor/Sales Bill Discounting**, covered below, with **Factoring** and **Reverse Factoring** (Section 13) as closely related variants.

Dealer Finance / Channel Finance (also called Inventory Funding) **The problem it solves:** a large corporate (e.g., Reliance's polymer division) sells through hundreds of dealers across the country. The corporate wants to offer dealers a reasonable credit period (e.g., 30–45 days) so they can hold and sell stock, but this ties up the corporate's own working capital across hundreds of relationships. A bank steps in as an intermediary: it pays the corporate **upfront/in advance** on the dealer's behalf, and in turn extends the **dealer** a longer credit period (e.g., 90 days) to repay the bank. This is a three-way win: the corporate gets paid immediately (and pays the bank nothing extra for this, since it's giving the bank a large book of business), the dealer gets funding + more time to pay, and the bank earns interest plus grows its loan book and transaction volume.

Onboarding the corporate (a prerequisite, not automatic): a bank doesn't extend dealer finance for just any corporate a dealer names. A centralized internal team studies the corporate's business, market position, product strength, industry outlook, and **external credit rating** (generally targeting the "A-rated family" — A+, A−, AA+ etc.; some banks go as low as BBB+ depending on internal risk appetite) before approving it as an eligible "program." The bank then engages the corporate directly, gets a **list/recommendation of its dealers**, and negotiates the program's terms (dealer credit cycle length, interest rate, security requirements, etc.) — all finalized *before* any individual dealer is financed. - The bank sets a **maximum program-level exposure cap** on each approved corporate (e.g., "we will not fund more than ₹200 Cr of ABC & Co.'s total ₹1,500 Cr turnover across its ~500 dealers") — once this cap is hit across all dealers combined, no further dealer financing is sanctioned under that program until the centralized team reviews and potentially raises the cap. - A **corporate recommendation letter** is generally required before onboarding an individual dealer — the corporate confirms how long it's worked with the dealer, the dealer's purchase volume, and whether the dealer's conduct/track record has been satisfactory (similar in spirit to seeking a conduct letter from a borrower's existing bankers). Some corporates refuse to issue such letters, which can block a dealer's onboarding entirely.

Account mechanics: each approved dealer gets a normal limit account (operates like a CC/OD account) up to their individually sanctioned limit. **Key feature distinguishing it from CC/OD:** there is **no "all sales must route through this account" (churning) condition** — the dealer only needs to ensure the funds disbursed under this facility are serviced/repaid on their due date; unlike CC/OD, the bank doesn't require total sales turnover to be routed through this specific account. - It is a **revolving facility** just like CC/OD (draw, repay, draw again) with a standard 12-month validity and renewal, and is **repayable on demand**. - The account carries a **debit freeze**: money can only ever be paid **out** of this account to the approved corporate — the dealer cannot use it for any other expense. Deposits (repayments) into the account can come from anywhere (cash, transfer), but disbursements are locked to the single approved payee. - **Due date and grace/calling period:** if the agreed cycle is 90 days, the bank typically also allows a **10–15 day "calling period"** grace beyond the 90 days (so effectively ~105 days total) before the account is reported overdue/NPA-tracked — though **extra interest is charged** for this grace window (e.g., repo + a higher spread than the normal rate). - **Security:** mostly **unsecured** in practice — commonly **no collateral at all up to ~₹5 Cr** of exposure per dealer (bank-specific threshold), and often **no charge is even taken on the dealer's current assets** (a deliberate design choice, since the facility exists precisely to fund the dealer's inventory purchase from the approved corporate — the "current asset" itself only comes into existence *because of* this loan). Where a corporate has a weaker credit profile and wants this financing arrangement to work for its dealer network, the corporate itself may offer a **guarantee** to the bank — either a guarantee on total program exposure, or a percentage-based guarantee (e.g., committing to cover a fixed % of any dealer default within the program), sometimes even triggered pre-NPA (e.g., after 45 days overdue rather than waiting for the formal 90-day NPA classification) if negotiated into the program terms. - **Recovery mechanics if a dealer defaults:** the dealer alone is responsible for repaying the bank — the corporate has no repayment obligation (absent a guarantee as above).

Sales Bill Discounting / Invoice Discounting Facility This is the mirror-image product on the **sale side**: an MSME (small vendor/seller) sells to a large, reputable corporate buyer, but the corporate — because of its size and market power — dictates payment terms (e.g., pays only after 60–90 days). The MSME seller needs cash sooner and cannot easily influence the corporate buyer's terms, so the bank steps in.

How it operates, step by step: 1. The seller (MSME) delivers goods to the buyer (corporate) and obtains proof of delivery (e.g., a goods transport receipt / GR). 2. The buyer acknowledges/accepts the goods and the invoice — sometimes formally via a signed **Bill of Exchange** (a written, legally enforceable promise to pay, covered under the Negotiable Instruments Act, stamp duty payable, and it is itself "negotiable" — i.e., dishonoring it has legal consequences under that Act), sometimes just via a signed acceptance of the invoice itself if the corporate is unwilling to deal with formal negotiable instruments. A bill-of-exchange-based facility is properly called **"sales bill discounting"**; an invoice-acceptance-based facility (without a formal bill of exchange) is more accurately called **"invoice discounting"** — the two terms are often used loosely/interchangeably in the market, but the underlying documents differ, and a Bill of Exchange can bundle multiple invoices into a single instrument whereas invoice acceptance requires accepting/dating each invoice separately. 3. Once the bank has the corporate's acceptance, it pays the **seller** immediately, net of interest for the period until the buyer's due date (worked example: on a ₹100 bill discounted for 90 days at ~9% p.a., the seller receives the ₹100 minus the pro-rated interest, i.e. roughly ₹97-ish net, and the bank collects the *full* ₹100 face value from the buyer on the due date). 4. On the due date, the bank recovers the full invoice amount from the **buyer/corporate**, often via a pre-agreed **debit mandate** (an automatic authorization letting the bank debit the corporate's account on the due date without a manual payment step) — available only from corporates who have separately **accepted the bank's sanction/program** (as distinct from merely being "internally approved" by the bank, which is a bank-side-only process the corporate isn't even informed about unless it chooses to formally opt in).

Two distinct "approval" concepts, not to be confused: - **Program/corporate approval** — the bank's own internal credit assessment of the corporate (public financial data, industry standing, external rating) — this is **mandatory** before any bill of that corporate can be discounted, and the corporate need not even know it has been internally approved. - **Corporate's acceptance of the sanction** — the corporate voluntarily agreeing to the bank's terms (recommendation letters, debit mandates, digital invoice acceptance, etc.) — this is **optional** from the bank's perspective; a corporate can simply decline further involvement and the bank can still discount bills for that corporate's confirmed purchases, just with reduced comfort (see below).

Security and risk allocation — a distinctive feature of this product: - **No margin is taken from the seller** — if a ₹100 bill is discounted, the seller gets the full ₹100 minus only interest, never a haircut/margin on top. - **No charge on the seller's current assets, and no PDC (post-dated cheques)** are taken, **provided** the transaction is a genuine "program approach" case (i.e., the buyer corporate is an internally approved program). Where a bank discounts bills **without** an approved corporate program behind them, this changes entirely — it becomes effectively ordinary/generic working capital financing (stock/debtor financing) rather than true "sales bill discounting," and the bank will then take current-asset charges, PDCs, and other standard security, because it has no independent comfort on the buyer's creditworthiness. - **Recourse is always to the seller (the borrower), never the buyer** — if the corporate buyer doesn't pay on the due date (for any reason, including a dispute between buyer and seller), the bank recovers from the **seller**. The seller ultimately bears the credit risk of their own buyer, even though the bank is relying heavily on the buyer's payment behavior to price and structure the facility. - **Pricing is directly linked to the corporate buyer's creditworthiness/track record**, not the seller's — a stronger-rated buyer commands a lower discount rate.

Cost allocation — an interesting negotiated dynamic: although the bank formally charges the seller interest (deducted upfront), the corporate buyer often knows this facility is what lets it stretch its own payment terms without hurting its supplier, and so may **voluntarily negotiate to bear the bank's interest cost itself** — either paying it to the bank monthly (like servicing a limit account) or reimbursing the seller. In exchange, the corporate typically asks the seller for a **cash discount (CD)** on future billings (e.g., taking a 10% CD calculated proportionally for a 90-day cycle) — since the seller is receiving instant payment instead of waiting 90 days, the corporate captures some of that time-value benefit back via a lower effective purchase price. This is a bank-to-bank/case-to-case negotiated point, not a fixed rule.

Assessment approach: no MPBF-style formula is applied (unlike CC/DP-based lending). The bank simply looks at the seller's actual sales to that specific corporate over the trailing 12 months (e.g., ₹1 Cr sold), applies the agreed credit cycle (e.g., 90 days, though the lecturer notes some banks stretch this comfort out to 180 days), and derives a limit (e.g., ₹1 Cr × 90/365 ≈ ₹25 lakh limit — the lecture's illustrative arithmetic works out to roughly ₹50 lakh using a 180-day cycle). Crucially, the bank also cross-checks against the **corporate's own maximum program threshold** (from Section 10's Dealer Finance discussion) — if the corporate has already allocated most of its overall discounting capacity to other sellers, a given seller's limit may be capped below what their own sales volume alone would justify.

Documentation: typically light — latest audited balance sheet, KYC, application form, latest ITR, and a **Corporate Information Report (CIR)** from the buyer corporate (confirming trading history, purchase volumes, and conduct with the specific seller). The lecturer's personal recommendation (not universally followed by all banks) is to also pull the corporate's own bank statements/ledger to independently verify its payment punctuality.

Digital process: many banks now run this through a shared software platform where both the seller and the buyer corporate have login access — the seller uploads invoice data, and the corporate (or, in fully digital setups, an automated e-Hundi-style instrument) provides online acceptance, after which payment flows directly to the seller's account without manual paper handling. Some banks still do random physical audits of underlying goods-receipt documentation as a control.

Variants: whether a Bill of Exchange is used or only invoice acceptance; whether the process is manual/paper or digital; whether the bank insists on the corporate's account routing entirely through it (mutuality condition, applied when risk is perceived as elevated) — in which case the bank may also demand a **margin contribution from the borrower** (e.g., 10%) as additional comfort, a departure from the general "no margin" rule above.

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11. Factoring, Reverse Factoring, and TReDS

These three are closely related bill-discounting-style products, differentiated mainly by **who initiates the transaction** and **who ultimately bears the credit risk**.

Factoring Core mechanic — the defining feature is that the seller's receivable is fully SOLD, not just discounted. A seller (MSME) sells goods to a large, reputable corporate buyer (again generally A-rated-family or as low as BBB+/BBB− depending on bank risk appetite). The seller then sells/assigns its **entire debtor/receivable** (the amount owed by the buyer) to the bank (the "factor") under a **Factoring Agreement**. In factoring terminology: the **seller = Assignor**, the **bank/factor = Assignee**.

Why this is structurally different from Sales Bill Discounting: once the receivable is sold, it becomes the **bank's own asset** — the bank owns all the risk and reward of that receivable. If the buyer never pays, that is entirely the **bank's loss**, and critically, **the bank cannot go back to the seller** demanding payment (the seller's obligation is fully discharged the moment the sale is completed) — this is the core distinction from sales bill discounting, where recourse to the seller always exists.

Process: 1. Buyer and seller have an underlying sale/purchase agreement and an established trading relationship (typically 6+ months to a year of good track record). 2. Seller and bank execute a **Factoring Agreement** (no formal sanction letter is issued the way it is for other credit facilities). 3. Seller submits invoices to the bank with a purchase request. 4. The bank sends a **Notice of Assignment** to the buyer — informing them that the receivable now belongs to the bank and payment must come to the bank, not the seller. This can be sent per-invoice or as one blanket notice covering all future transactions with that seller. 5. After sending the notice, the bank discounts the bill and pays the seller (net of interest, calculated the same way as Sales Bill Discounting). 6. On the due date, the bank collects the full amount from the buyer directly.

Pricing is linked to the buyer's credit rating, exactly as in sales bill discounting — a stronger buyer means a lower discount rate, since the bank is essentially pricing the risk it's now fully carrying.

Limits are set at the buyer (corporate) level, exactly mirroring the program-cap logic in Dealer Finance/Sales Bill Discounting — the bank decides a maximum aggregate exposure it will factor against a given large corporate buyer (e.g., ₹1,000 Cr against Reliance), and multiple sellers who sell to that buyer share within this single cap; once exhausted, no more of that buyer's receivables can be factored until the centralized team reviews and possibly raises the cap. One Factoring Agreement executed with a seller can cover **multiple different buyer corporates** named within it — a fresh agreement per buyer relationship is not required.

Recourse variants — three flavors of factoring: 1. **With Recourse** — functionally similar to sales bill discounting; if the buyer doesn't pay for *any* reason, the bank can recover from the seller. (Arguably defeats the core purpose of factoring, per the lecturer.) 2. **Limited Recourse** — the bank generally cannot chase the seller, **except** in two specific situations that are common across all three recourse types: (a) if the seller breached the terms of the Factoring Agreement itself, or (b) if the seller gave the buyer a false representation/warranty about the goods that caused the buyer to withhold payment. Additionally, limited recourse allows the bank to approach the seller specifically when non-payment stems from a **buyer-seller commercial dispute** (as opposed to the buyer's own creditworthiness failing) — since that isn't really the bank's fault to absorb. 3. **No Recourse** — the strictest seller-protective form; the bank absorbs essentially all buyer non-payment risk with only the two universal carve-outs above.

Other practical points: - Factored/discounted receivables are filed on **CERSAI** to prevent the same receivable being double-financed by a different bank. - The seller must **exclude factored debtors from their own Drawing Power calculation** on any separate CC facility, to avoid double-financing the same asset. - If a buyer defaults, the bank may instruct the seller to **stop further supply** to that buyer until payment resumes. - Discounted proceeds are credited into the seller's regular CC/OD working-capital account (subject to standard RBI current-account routing rules). - Any accidental overpayment by the buyer is refunded by the bank; if a buyer mistakenly pays the seller directly instead of the bank, the seller must act as an agent and immediately forward that payment to the bank.

Governing law: factoring is governed by a dedicated **Factoring Regulation Act**, distinct from sales bill discounting, which falls under the **Indian Contract Act**.

Reverse Factoring The mechanics are nearly identical to factoring, with one crucial difference: **who initiates it.** In ordinary factoring, the **seller/supplier** approaches the bank. In **reverse factoring, the large corporate buyer itself approaches the bank**, proactively arranging financing for its *entire supplier base* in one bulk transaction — hence "reverse."

Why a corporate would do this: a large buyer (e.g., a division of Tata or Reliance buying ₹5,000–10,000 Cr worth of goods annually across its supplier network) wants to secure the best possible bulk financing terms for its suppliers, strengthen supplier relationships, and often negotiate a longer credit period or better rate for itself in return for bringing the bank this volume of business.

Process — the key structural additions vs. ordinary factoring: 1. The corporate approaches the bank, offering its own strong financial profile/rating for assessment, and both sides execute a **Payment Service Agreement (PSA)** — a step that does **not** exist in ordinary factoring. Under the PSA, the corporate appoints the bank as its payment agent to its vendors, promises to repay the bank on the due date, and grants the bank a **debit mandate** on its own account for automatic recovery. 2. A standard **Factoring Agreement** is still separately executed with **each individual supplier/vendor** (the corporate typically has hundreds of vendors, and most agree readily given the corporate's market leverage over them) — this agreement is where the vendor formally assigns its receivables to the bank. 3. Critically, it is the **corporate itself** that shares the **accepted invoices** with the bank (since the corporate initiated everything and already has the invoice data) — in ordinary factoring, this data flow originates from the seller instead. 4. The bank pays each vendor (net of interest/discount), and on the due date recovers the full amount from the corporate via the debit mandate set up under the PSA. 5. **No Notice of Assignment is needed** — since the entire transaction was initiated and structured by the buyer corporate itself, there is no scenario requiring a notice informing the buyer that its payment obligation has shifted (the buyer already knows and structured this deal).

Benefits and structuring flexibility: - **Bulk-deal pricing:** because reverse factoring deals are struck at massive aggregate scale (hundreds of crores at once, vs. an individual seller separately negotiating a ₹20 Cr discounting deal), the bank can offer materially lower discount rates and/or longer discounting tenure (e.g., 4 months instead of 3) than an individual vendor could achieve alone. - **Who bears the interest cost is flexible and individually negotiated** — it can be (a) borne entirely by the vendor (as in standard factoring), (b) borne entirely by the corporate, who then may claw some of it back from vendors via a cash discount arrangement (same CD logic as in Sales Bill Discounting), or (c) split/shared between the two. Bank-to-bank/NBFC-to-NBFC practice varies. - Reverse factoring transactions are also filed on **CERSAI**, and vendors must similarly exclude these receivables from their own DP calculations. - **Usually structured "without recourse"** to the vendor (since the corporate's strong credit is the whole basis for the deal), though limited recourse remains possible depending on the bank's terms; **full recourse is essentially never used** in reverse factoring. - Also governed by the **Factoring Regulation Act**, same as ordinary factoring.

TReDS (Trade Receivables electronic Discounting System) TReDS is an **RBI-introduced (3 December 2014) online electronic marketplace/auction platform** designed specifically to give MSMEs fast, collateral-free access to the same fundamental idea as factoring/reverse factoring — but via a competitive, multi-financier online exchange rather than a bilateral bank relationship. Three licensed platforms operate this: **RXIL**, **M1 Exchange**, and **Invoicemart**.

How it works — three registered participants required: 1. **MSME Seller** — must hold Udyam (MSME) registration; registers on the chosen TReDS platform. 2. **Corporate Buyer** — must have turnover of **₹250 Cr or more** (this threshold was reduced from an earlier ₹500 Cr, and the government has made TReDS registration **mandatory** for all companies crossing ₹250 Cr turnover) — also registers on the platform. Buyer can be any large corporate, a PSU, or a government undertaking. 3. **Financiers** — banks/NBFCs who register on the platform to bid for invoice discounting.

Transaction flow (factoring-type, seller-initiated): 1. Seller uploads a tax invoice (plus, optionally, supporting proof like a transporter receipt) to the platform. 2. The registered corporate buyer reviews and **approves/accepts** the invoice online. 3. Once accepted, the transaction becomes visible to all registered financiers, who independently assess the buyer's creditworthiness/track record and place competing **bids** (e.g., one financier offers to pay 99% of face value, another 98%, another 99.5%) — the platform runs this like an auction/reverse-auction. 4. The seller reviews the bids and **chooses the best one**. If no financier finds the buyer acceptable, no bids may come in at all, and the transaction simply cannot be executed on the platform. 5. The chosen financier must pay the seller **by the next working day** after the seller accepts the bid. 6. On the due date (governed by **MSMED Act Section 15** — payment due within **45 days from the date of acceptance of goods**), the corporate buyer's account is **automatically debited** (via a pre-signed mandate given at registration) and the funds go straight to the financier.

Reverse-factoring-type flow is also supported: the buyer corporate itself can upload/initiate the invoice instead of the seller, which functions the same way conceptually as the bank-side Reverse Factoring product in the previous section — the buyer's own upload constitutes its acceptance, so financiers can bid immediately without a separate buyer-approval step.

Platform's role and liability — an important limitation: the TReDS platform itself (RXIL, M1 Exchange, Invoicemart) takes **no responsibility whatsoever** for buyer non-payment, goods quality disputes, or the absence of bids — its business model is purely charging **registration fees and transaction-processing fees** for providing the online marketplace infrastructure. If a buyer fails to pay on the due date, that is entirely the **financier's loss**; the financier has no recourse to the seller (**all TReDS transactions are without-recourse to the seller**) and must separately pursue the buyer through the courts — the platform will not assist.

Benefits summarized: - *For the seller:* payment within 24 hours of invoice acceptance; ability to shop multiple financiers for the best (lowest-cost) bid; **no collateral or property required** — a major relief for MSMEs who typically lack property to offer; without-recourse protection. - *For the buyer:* no manual payment follow-up (automatic debit handles it); frees up the buyer's internal finance/treasury team's bandwidth; potential for ERP integration with the platform; leverage to negotiate better procurement terms/pricing from suppliers since suppliers get paid instantly regardless of the buyer's own payment cycle. - *For the financier:* these loans qualify for **Priority Sector Lending (PSL)** classification (helping meet RBI's PSL targets), generally carry **lower risk of default** since only top-rated buyers are being discounted against, expand the financier's quality customer base, and settlement/reconciliation is largely automated online, reducing operational cost.

Registration requirements: all three parties must complete online registration including Letter of Authorization/Board Resolution or Declaration, a signed Master Agreement, PAN, address proof, MSME/Udyam certificate, incorporation certificate, MOA/AOA, individual signatories' identity proof and signature verification from bankers, two years of annual reports/ITR, account statements, shareholding pattern, GST registration number, and a bank mandate (with a cancelled cheque) authorizing automatic debit.

Other mechanics: either party can bear the interest/transaction cost, or they can agree to split it — this is disclosed/configured on the platform. A party bearing the cost can set a **"cap rate"** (like a stop-loss in stock trading) — e.g., "do not accept any bid below 99" — so financiers see the floor and bid accordingly. No collateral is ever required; CERSAI filing against the receivable is done by the winning financier, same as in factoring.

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12. Pledge Finance / Warehouse Receipt Finance (Commodity-Based Finance)

Also called **Commodity-Based Finance** — this product finances **agricultural commodities** (e.g., cotton, rice/paddy) stored in a warehouse, and is structured around two things: the **quality of the warehouse** and the **quality of the goods (commodity) stored in it**. Nearly every feature of this product traces back to managing risk on those two dimensions.

The Problem It Solves A farmer typically has no money to fund sowing/crop maintenance, so borrows either from a bank (which demands collateral the farmer often doesn't have enough of) or, far more commonly, from local moneylenders/commission agents ("arthiyas") at very high interest rates. Because the farmer owes the moneylender, they're forced to **sell the crop immediately at harvest time** — precisely when prices are at their **seasonal low** (supply glut at harvest) — to repay the loan and fund the next sowing cycle. The farmer therefore never captures the higher off-season prices the same crop later commands, and remains trapped in the cycle: low realization → dependence on high-cost informal credit → repeat.

The same underlying problem hits **manufacturers/processors** (e.g., a textile mill needing to buy a full year's cotton requirement at harvest-time low prices, then store it) and **traders** wanting to hold commodities for a price play — both need storage plus financing against the stored goods, and both lack a way to get bank funding against goods sitting in a warehouse without conventional collateral.

How It Works

1. The farmer/trader/manufacturer stores goods in a **professionally managed warehouse** (this is a strict precondition — financing is only available *after* goods are physically stored, never to fund the initial purchase of goods to be stored; that would require ordinary CC/working-capital financing instead).
2. The warehouse issues a **Warehouse Receipt** capturing full detail: depositor's name, commodity quality, quantity, grade, weight, condition, etc.
3. The depositor takes this receipt to the bank. The bank first checks whether the specific warehouse is **empanelled** with it — if not, it engages its central/local verification agency to physically inspect and empanel the warehouse (typically a 2–3 day process) before proceeding.
4. The bank then verifies the receipt's details against the actual goods — checking quality/grade physically (sample-based, sometimes sent for lab testing) and cross-checking that the **price recorded on the receipt matches prevailing market price** (to prevent a depositor colluding with warehouse staff to overstate value and over-borrow).
5. Once satisfied, the bank releases funds to the depositor, net of a **margin** (illustrative range 20–35%, more precisely detailed below), and marks a **lien** on the receipt in the bank's favor (with the warehouse operator also countersigning) — meaning the warehouse **cannot release the goods to the depositor** without the bank's explicit release order.
6. When the depositor wants to sell (repaying the loan with interest, in full or proportionately for a partial release), the bank issues a **release order** to the warehouse, and only then can the goods be withdrawn and sold.

Security, Margin, and Price-Risk Management

- **No property/collateral is taken at all** in this product — the warehouse receipt (i.e., the stored commodity itself) *is* the entire security.
- **Promoter margin:** industry-average range cited as **25–35%** of the stored goods' value — e.g., ₹100 of goods stored yields only ₹65–75 of loan, ensuring (a) the promoter retains "skin in the game" (an incentive to protect/manage the goods well since they'd lose their own stake first), and (b) a buffer against commodity price volatility.
- **Rule: a rise in the commodity's market price never triggers additional loan release** — the loan amount is fixed at disbursement regardless of subsequent price movement upward.
- **Falling prices are the real risk**, managed via a separate, distinct concept from the promoter margin: an **Initial Margin / Mark-to-Market (MTM) Margin**. Worked example: if goods were valued at ₹100/kg and an initial margin of 5% is set, the bank will not react at all as price falls from ₹100 to ₹95 (this is "absorbed" within the initial margin cushion, since the 25% promoter margin already covers the bank down to ₹75). Once price falls **below** the initial-margin threshold (below ₹95 in this example), the bank issues a

margin call, requiring the borrower to deposit the shortfall in cash/FD as additional security — and if the price keeps falling, further margin calls follow proportionately (e.g., at ₹85, the borrower must top up an additional amount to cover the further erosion). If the borrower **fails to meet a margin call**, this is read by the bank as a strong signal of bad intent/financial distress, and the bank can move quickly (after a short notice period, e.g. 15–20 days) to seize and sell the pledged goods under its lien while there is still enough of a price cushion left to avoid a loss — waiting too long (letting price fall further, e.g. to ₹70, before acting) risks the bank itself taking a loss on liquidation.
- **Stock insurance is mandatory** — since the pledged stock (often food/agri items, which can be fully or partially perishable, and vulnerable to fire/theft/spoilage) is the bank's sole asset backing the loan, insuring it is non-negotiable.

Types of Warehouses (Risk Ranked, Highest Comfort to Lowest)

1. **WDRA-Registered Warehouses** — the most premium/trusted category. **WDRA (Warehousing Development and Regulatory Authority)** functions as a kind of "RBI for warehouses" — a government body (its warehouses may be government-owned or privately owned; registration is available to either) that certifies warehouses meeting strict physical-infrastructure and financial standards. WDRA-registered warehouses issue **electronic warehouse receipts (e-receipts)**, which are **negotiable and transferable** (tradeable on commodity exchanges) — unlike the physical/paper receipts issued by lower categories, which are **non-negotiable**. E-receipts also eliminate risks inherent to paper receipts: forgery, theft, and "splitting" errors (e.g., correctly reflecting a partial 200kg withdrawal against a 1,000kg receipt). Because WDRA registration itself is a rigorous quality signal, banks generally **skip appointing a separate Collateral Management Agency (CMA)** and skip a separate bank-side quality check for WDRA warehouses — faster turnaround, lower cost, since WDRA's own vetted staff already perform this function. WDRA registration was introduced partly to advance government food-security goals (the government can rely on aggregated WDRA receipts nationally rather than physically verifying grain stocks itself) and partly to reduce farmers' dependence on moneylenders — hence the government actively promotes registration uptake.
2. **Government Warehouses** — owned/operated by State Warehousing Corporations or the Central Warehousing Corporation. Excluded from the WDRA category above (even though a government warehouse *can* additionally register under WDRA) because government's own strict internal norms and properly paid, professional staff typically also make a separate CMA/quality-check unnecessary. Issue physical, **non-negotiable** receipts unless separately WDRA-registered.
3. **Professionally Managed Warehouses** — built and operated by large, reputable private corporate groups (examples cited: Sohanlal Group, Go Green, NBHC) as a dedicated business line, charging depositors storage fees. Banks that have built up a long, clean track record (the lecture cites an illustrative 5-year relationship with zero discrepancies) with a specific such group's warehouses may, as an internal policy choice, **waive the quality-check requirement** for that group's facilities based on demonstrated trust — though a CMA/quality check can still be required if the bank hasn't built that history.
4. **Private Licensed Warehouses** — built by large traders/manufacturers themselves, licensed locally (e.g., via a local food department; exact licensing authority varies by state/locality) but not WDRA-registered.
5. **Private Unlicensed Warehouses** — same as above but without even local licensing. Cannot legally issue a "warehouse receipt" (that term requires a license) — they issue a functionally identical document under a different name (e.g., "storage receipt").

For the two "Private" categories (4 and 5), risk is highest, and correspondingly: - A **Collateral Management Agency (CMA)** — an outside agency contracted by the bank, not bank employees — must be stationed at the warehouse to independently monitor goods movement (what comes in/out, correct quantities). CMAs charge the bank a monthly fee (the lecture cites a rough figure around ₹40,000–50,000/month), which the bank ultimately passes through to the customer. Unlicensed warehouses' CMA fees run even higher. - A separate **quality check / Quality Check Agency** (the bank's own salaried internal team, not outsourced) physically inspects and lab-tests the stored goods before any disbursement — verifying claimed quality/grade/quantity and cross-checking the receipt's stated price against actual market price, precisely to prevent an inflated-value fraud. - **Mandatory quality check prior to loan disbursement** in both private categories, unlike WDRA/government/trusted-professional warehouses where it can be skipped.

Inside-Mill vs Outside-Mill Premises (An Additional Risk Dimension) WDRA, government, and professionally managed warehouses are always built on **independent, neutral third-party land** — accessible to the bank, the depositor, or anyone, precisely because that neutrality is what makes them trustworthy. Private licensed/unlicensed warehouses, however, can be built either (a) on an independent outside site (same norms as above apply), or (b) **inside the borrower's own factory premises** — which materially raises risk: the bank cannot easily access/verify goods at will (e.g., can't just walk in at midnight), and the borrower's own staff manning an in-house "warehouse" creates obvious collusion risk. **Some banks avoid financing inside-mill-premises warehouses altogether**; where they do lend, a CMA and quality check are mandatory.

A specific inside-mill-premises complication: if the factory owner's *other* working-capital financing (their CC facility funding the same overall business) is with a **different bank** than the one being approached for pledge financing, the pledge-financing bank must obtain a **No Objection Certificate (NOC)** from that other (working-capital) bank before proceeding — because that other bank, as the CC financier, otherwise holds an implicit charge over everything within the factory premises, including any stock sitting in an in-house warehouse. If both facilities are with the *same* bank, this NOC step is unnecessary since the bank already has full visibility/charge.

Impact on Drawing Power (Avoiding Double-Financing) Since pledge/warehouse-receipt finance is itself a form of working capital finance funding a company's stock, care must be taken not to **also** count that same pledged stock when computing Drawing Power for a separate CC limit with the same or another bank. Two acceptable methods (bank policy dependent) to prevent this double-financing: 1. **Exclude the pledge-financed stock entirely** from the stock figure used in the DP calculation, or 2. **Deduct the outstanding utilization of the pledge/commodity finance facility** from the computed DP figure.

Either approach is acceptable as long as one of them is consistently applied — this mirrors the same DP-netting discipline covered for WCDL and other facilities in Section 8.

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13. Ad hoc / Temporary Overdraft (TOD) and Seasonal Limits

Both these facilities exist to give a client access to **more money than their sanctioned limit**, for a defined, temporary need — but through different structures and with materially different bank comfort levels. Bank-specific terminology and thresholds vary quite a bit here, so the concepts below should be treated as directional, not rulebook-precise.

Ad hoc / Temporary Overdraft (TOD) **Core idea:** if a client's sanctioned limit is fully used but a genuine short-term, sudden need arises (e.g., a rare bulk-discount buying opportunity, or an unexpected urgent payment) that doesn't justify the long process of a full limit enhancement (fresh assessment, additional property, etc.), the client can request the bank for a small, temporary excess draw beyond the sanctioned limit. **No additional collateral security is ever taken for this** — it rides purely on the strength of the existing relationship/limit. Depending on the bank, this excess is either drawn from the very same limit account, or routed through a separate account opened specifically to track it.

Three sub-types, by duration (bank-specific naming varies considerably — some banks call anything up to 60 days a "TOD," others reserve TOD for 7–15 days and call anything beyond that "ad hoc"):

1. **Intraday** — adjusted within the same business day. Worked example: a client's ₹1 Cr limit is fully utilized, but cheques worth (say) ₹5 lakh issued to suppliers are presented for clearing that day — if these clear and the client's own limit has no headroom, the cheques would **bounce**, damaging the client's banking conduct/reputation. If the bank's system shows other cheques/collections "in transit" that will credit the account by evening covering the shortfall, the bank can permit the intraday excess based on that comfort, and it self-corrects same-day. This has **no impact on CIBIL/credit reporting**, requires **no separate documentation or assessment**, can be used as many times a year as needed, and is typically approved at the **local branch head's own discretion** — no escalation required.
2. **TOD proper (roughly 1–30 days)** — genuinely short-term excess beyond a single day, e.g. for an urgent business expense or an advance payment to capture a good deal. Unlike intraday, the bank is more cautious here and looks at the client's **overall conduct history**. Banks commonly cap **frequency** (e.g., no more than 5–6 times a year) since repeated use signals the client cannot manage their business within its sanctioned limit — a negative behavioral marker. The excess **does show up in CIBIL utilization figures** for the period it's outstanding. **Strict adherence to the due date is essential** — the excess amount must be brought back down to the base limit by the agreed date; failure triggers overdue charges, penalty, CIBIL/conduct damage, and makes the bank reluctant to grant future TODs. At many large private-sector banks, approval authority for TOD sits with the **sales team** (not credit team) and needs only a request letter, no separate formal assessment — though this again varies by bank. Pricing: some banks charge a **higher interest rate** on this excess amount specifically.
3. **Long-duration TOD (roughly 31–90 days)** — used for seasonal-type needs (a sudden seasonal ramp-up in purchasing, or advance payments needed before customer collections have started flowing in). Carries **even tighter restrictions** than the shorter TOD: typically capped at just **2–3 uses per year**, and some banks impose a **minimum cooling-off gap** between uses (e.g., can't take another one for 2 months after using one). This has a real **CIBIL impact**. A **separate sanction letter** is generally issued for this longer duration (recommended good practice even where not strictly required). Many banks require a fresh **stock statement / DP / MPBF check** here (verifying the excess draw is actually justified by real underlying business need, not just opportunistic overdrawing) — approval often routes through the **credit team** rather than sales alone, though large private banks sometimes still let sales approve it. Pricing here can run to a **higher percentage of the fund-based WC limit** (the lecture cites up to ~20% at some banks, vs. 5–10% for shorter TOD) plus extra interest/charges.

Seasonal Limit Core idea: rather than an ad hoc, occasional excess, a Seasonal Limit is a **planned, recurring, built-into-the-sanction** additional facility for businesses whose working capital need is genuinely concentrated in only part of the year.

Illustrative business-model walkthrough — winter garment manufacturer (a recurring example in this course): - **Jan–mid Feb:** largely idle post-season. - **Late Feb:** sampling begins for the next season; dealers/distributors start visiting to place indicative orders. - **March:** real orders start coming in; raw material (yarn/fabric) buying begins in earnest — working capital investment starts rising, and by the 31 March balance-sheet date, **stock is elevated while debtors are minimal**. - **April–August:** continuous production, so working capital stays tied up in stock, which keeps **building month over month**, peaking around end-August. - **September:** finished goods start being dispatched to dealers/distributors/wholesalers — stock levels start falling while debtors start rising sharply (goods sold on credit, not yet collected). - **October:** same trend continues — stock much lower than the August peak, debtors much higher. - **November onward (when winter actually sets in):** retailers who received stock now sell to end consumers for cash, and that cash flows back up the chain — from retailer to distributor/wholesaler to manufacturer — so **debtors get collected heavily in November–December**, and by year-end the client's limit utilization can fall to **near zero** with surplus cash sitting in the account.

Reading this pattern: peak funding need runs roughly **March/April through October** (about 7–8 months), with **minimal need November through February**. **Identifying this pattern for any specific client requires understanding their business model first**, then pulling 12 months of month-wise stock, debtors, creditors, sales, and purchase figures to actually see and confirm the trend (the same discipline recommended for accurate operating-cycle calculation in Section 2).

Structuring options: 1. **Peak-limit structure within one sanctioned line** — e.g., a single ₹5 Cr OD limit sanctioned, with a system-level trigger built in stating the full ₹5 Cr is usable only March–October, and it **automatically drops to ₹3 Cr** for the remaining months — at which point the client must bring down and deposit the difference (₹2 Cr in this example). 2. **Two separate limit lines** — e.g., a ₹3 Cr base OD limit plus a distinctly named ₹2 Cr "Seasonal Limit" usable only within the specified March–October window.

Repayment of the seasonal portion: typically structured as a **bullet repayment** at season-end (e.g., the full ₹2 Cr due by 1 November), though some banks allow it in a couple of installments (e.g., split across November and December) since collections don't all arrive on a single day. **Interest must still be serviced monthly** throughout the period the seasonal limit is drawn, regardless of the bullet-principal structuring.

Bank comfort and assessment: banks are relatively comfortable extending seasonal limits because the pattern is self-liquidating and predictable by design — the limit itself steps down automatically once the season ends. Assessment methodology (Turnover Method, MPBF, etc. — covered in later course lectures) is applied to the **full peak amount** (e.g., the full ₹5 Cr, not just the ₹3 Cr base), cross-verified against the client's actual 12-month stock/debtor/creditor/sales/purchase trend data to confirm the seasonal story and estimate the true maximum funds blocked during the peak period.

Security: unlike TOD/ad hoc (which requires **no additional collateral** since it's an "over and above sanction" facility), a **Seasonal Limit requires collateral security**, because it is formally **part of the sanctioned limit and sanction letter** (not an over-and-above addition). It can be structured within an OD, a CC, or even a WCDL-style bullet-repayment shape.

Ad hoc/TOD vs Seasonal Limit — summary of differences:

Feature	Ad hoc / TOD	Seasonal Limit
Part of sanction letter?	No — over and above the sanctioned limit	Yes — part of the formal sanction
Collateral required?	No	Yes
Interest rate	Can carry an extra/higher rate	Same as normal CC/OD rate — no separate rate
Frequency of use	Multiple times a year, any time	Only during the defined seasonal window, once a year

Feature	Ad hoc / TOD	Seasonal Limit
Typical structuring	Short excess draw beyond limit	Peak-limit trigger within one line, or a separate seasonal sub-limit

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14. Interest Rate Benchmarks in India: from BPLR to MCLR to EBLR, and LIBOR

(Source lecture was in Hindi with a heavily garbled auto-generated transcript; concepts below are reconstructed from the recoverable content and should be cross-checked against a primary RBI source before use in an exam context.)

How a Bank Prices a Loan — Cost of Funds + Spread A bank's total **cost of funds** is built up from several components: - Interest paid to CASA/FD depositors (the bank's largest and cheapest funding source). - Cost of borrowing from the **RBI at the repo rate**, and short-term inter-bank/institutional borrowing (mutual funds, insurers, other banks lending surplus funds to each other). - The **opportunity cost of the Cash Reserve Ratio (CRR)** — a portion of deposits banks must hold with the RBI in non-interest-earning form. - The bank's own required **Return on Equity (ROE)** for its shareholders.

Total cost of funds + the bank's **profit margin ("spread")** = the **final lending rate** charged to the customer.

Evolution of India's Lending-Rate Benchmark

1. **BPLR — Benchmark Prime Lending Rate (introduced 2003):** Each bank set its own "prime" rate at which it would lend to its best customers, with full discretion and no standard formula. Weakness: opaque and inconsistent — large corporates could sometimes negotiate rates even below the bank's own cost of funds, while ordinary retail borrowers were charged well above BPLR with an added risk premium.
2. **Base Rate (introduced 2010):** RBI mandated banks to compute a floor rate ("Base Rate") using a prescribed methodology, below which no loan could be priced — intended to fix BPLR's transparency problems, though gaps remained.
3. **MCLR — Marginal Cost of Funds based Lending Rate (introduced 2016):** A formula-based benchmark incorporating marginal cost of funds, operating costs, CRR cost, and a tenor premium. Weakness observed: transmission of RBI rate cuts to borrowers was slow — during the 2019 deflationary/rate-cut cycle (repo rate cut from roughly 6.25% down toward ~5%), many banks were criticized for not passing on cuts quickly enough under MCLR.
4. **EBLR — External Benchmark Lending Rate (mandated from 2019):** RBI required banks to link floating retail/MSME loan pricing to an **external, market-observable benchmark** (most commonly the **repo rate**) rather than an internally computed one, so that rate transmission happens faster and more transparently. Under EBLR, if the loan is repo-linked, the lending rate = repo rate + bank's spread, and moves automatically whenever RBI changes the repo rate.
5. Banks retain discretion over which benchmark (repo rate vs. other external benchmarks such as T-Bill yields) to use for a given loan category, but must apply one benchmark consistently within a loan class.

Practical implication for a credit analyst: always check whether a client's working capital facility is priced on MCLR or EBLR — EBLR-linked pricing reprices faster (up and down) with RBI's repo actions, while MCLR-linked legacy loans reprice more slowly and are governed by the bank's own periodically-announced MCLR.

LIBOR (London Interbank Offered Rate)

- The rate at which major banks were willing to lend to **each other** in the London interbank market, historically compiled by having roughly 16–18 major global banks submit their estimated borrowing rate for a given currency and tenor (e.g., overnight up to 12 months).
- Methodology: submissions were ranked, the **top and bottom submissions were trimmed/ignored**, and the **remaining middle submissions were averaged** to produce the published rate for that day/tenor/currency.
- Historically administered under the British Bankers' Association (later ICE); used globally as a reference for a huge volume of loans and derivatives (with parallel regional benchmarks such as Euribor, Japan's TIBOR, China's Shibor, and India's Mibor, each maintaining its own local interbank benchmark).
- LIBOR was **discredited by a rate-rigging scandal** (banks were found colluding to submit false rates to benefit their own trading positions) and has since been **progressively phased out** in favor of alternative, transaction-based reference rates (e.g., SOFR in the US) — relevant context for any legacy foreign-currency working capital facility (FCDL, PCFC, buyer's credit) still referencing LIBOR-based pricing.

Appendix: Topic Not Covered in This Note

One lecture in this batch — **"Cash budget method of working capital finance"** (video ID `nK-N6GMnfg8`) — has **no retrievable transcript**: tactiq.io renders only its generic landing page with no timestamped captions, even after multiple patient reloads and 45+ seconds of waiting per attempt (ruling out a simple slow-load issue). This should be sourced separately (e.g., via YouTube's own caption export if available, a different transcription tool, or manual note-taking while watching) to complete full topic coverage. See `skipped_videos.txt` for details.

Part 2 — MPBF Norms & DSCR

(Original section title: MPBF Norms (Tandon & Nayak Committee Methods))

Source: the "Professional Course on Working Capital Credit Analysis" (YouTube), Lectures 20–24 plus supplementary videos on packing-credit margin and drawing-power edge cases. Working capital assessment is split into two legs: **Property (Security) Eligibility** and **Financial Eligibility** — the final sanctioned limit is the **lower of the two**. These notes cover the Financial Eligibility leg (MPBF).

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1. Working Capital Gap (WCG) vs Net Working Capital (NWC)

Balance sheet framework used throughout the course: - Sources of funds = Long-term sources + Short-term sources (current liabilities) - Investment of funds = Long-term investment (fixed assets etc.) + Short-term investment (current assets)

Net Working Capital (NWC) / "Working Capital":

```
NWC = Current Assets (CA) − Current Liabilities (CL)
```

CL here includes **everything** short-term — bank finance *and* outsider/trade liabilities.

Working Capital Gap (WCG):

```
WCG = Current Assets − Current Liabilities (EXCLUDING short-term bank finance)
```

i.e., only non-bank current liabilities (creditors, other current liabilities) are netted off.

Key relationship (proved via example): - CA = 1000, CL (total) = 800, of which short-term bank finance = 200 - NWC = 1000 − 800 = 200 - WCG = 1000 − (800 − 200) = 1000 − 600 = 400 - Difference: WCG − NWC = 400 − 200 = **200, which exactly equals the short-term bank finance already availed.**

Why this matters: Since both formulas are structurally identical except for whether bank finance is netted out of CL, the CA terms cancel and the non-bank CL terms cancel — the residual difference between WCG and NWC is *always* the amount of existing short-term bank finance. Banks use WCG (not plain NWC) as the starting point for MPBF because it isolates "how much of the funding gap already has bank support," letting the bank size the *incremental* eligibility correctly (e.g., if computed eligibility is 200 and client already has 100 bank support, bank only needs to sanction the balance 100 more).

---

2. Promoter Margin

Definition: How much the promoter/borrower has invested of his own money in the business — treated as the promoter's "skin in the game" in what is conceptually a partnership between bank and borrower.

Why banks require it: 1. **Risk-sharing** — if the promoter has invested nothing, 100% of any business loss falls only on the bank/public depositors; requiring margin divides the risk. 2. **Alignment of interest** — a promoter with money at stake is incentivized to manage the business prudently (fear of losing his own capital).

Standard requirement: Promoter margin should normally be **25%** of the business/relevant base (bank funds 75%, promoter funds 25%).

Calculating promoter margin — "Operating Balance Sheet" concept Promoter margin is **NOT** simply the promoter's stated capital. It must be adjusted (net margin, not gross):

```
Promoter Margin = Own Capital − Diversion of funds for non-business purposes
                                − Obsolete/non-moving/scrap stock
                                − Bad debts (irrecoverable)
                         − Any other investment unrelated to the funded business
```

Worked example from the course (cycle-parts manufacturer): - Own capital invested: ₹2000 - Less: Investment diverted into unrelated food project: ₹300 - Less: Obsolete/scrapped stock: ₹500 - Less: Bad debts (irrecoverable): ₹200 - **Net (adjusted) promoter margin = 2000 − 300 − 500 − 200 = ₹1000**

Rationale: The bank only wants to fund/recognize assets and capital that generate revenue and hence debt-servicing capacity. Dead/diverted money doesn't do that, so it's stripped out of both the operating balance sheet and the promoter's margin, regardless of which specific rupee "actually" funded the diversion — banks conservatively assume any diversion/loss came out of the *promoter's own money first*, never the bank's.

Unsecured loans from family/related parties — "Adjusted Promoter Margin"

- Unsecured loans commonly seen in MSME balance sheets are loans from immediate blood relatives (spouse, parents, children), sister concerns/group firms, or close friends.
- If the client gives a **written undertaking that this money will remain in the business long-term (won't be withdrawn)**, the bank can treat this unsecured loan **equivalent to promoter's margin** and add it to the 25% margin figure.
- This combined figure (own capital margin + qualifying unsecured loans from family) is called the **"Adjusted Promoter Margin"** — in banking practice, the "25% margin" spoken of is *always* this adjusted figure.
- **Exception:** If an unsecured loan is from an outside party (e.g., a friend's company) who expects repayment within 12 months, it should NOT be classified as a quasi-equity unsecured loan — it must be reclassified as a **current liability** (short-term source of finance) instead.
- This same "adjusted promoter margin"/family-loan concept resurfaces later in gearing/leverage ratio discussions.

---

3. Tandon Committee — Three Methods of Lending

MPBF = "**Maximum Permissible Bank Finance**." Two committees defined norms: - **Nayak Committee** → Turnover Method (see Section 4) - **Tandon Committee** → 3 methods; **Method 3 is not used in practice** (only Methods 1 and 2 are actively used by banks)

Whatever eligibility a method computes, actual usable finance is **subject to Drawing Power (DP)** — if eligibility is ₹1000 but DP is only ₹800, the client cannot draw more than ₹800.

Method 1

```
Step 1: WCG = CA − CL (excluding short-term bank finance)
Step 2: Promoter contribution = 25% of WCG
Step 3: MPBF = WCG − 25% of WCG = 75% of WCG
```

Worked example: CA = 1000, CL(excl. bank) = 700 (bank finance of 100 already excluded from the 800 total CL) → WCG = 1000 − 700 = 300. Promoter contributes 25% of 300 = ₹75; **Bank finances 75% of 300 = ₹225 (MPBF)**. Client had already drawn ₹100, so additional eligibility = 225 − 100 = ₹125.

Method 2

```
Step 1: WCG = CA − CL (excluding short-term bank finance)  [same as Method 1]
Step 2: Promoter contribution = 25% of Current Assets (not WCG)
Step 3: MPBF = WCG − 25% of Current Assets
```

Worked example: CA = 2000, CL(excl. bank) = 1000 → WCG = 1000. Promoter contributes 25% of CA = 25% × 2000 = ₹500. **MPBF = 1000 − 500 = ₹500.**

Key Difference Between Method 1 and Method 2

- Method 1: promoter contributes 25% of the **WC Gap** → more liberal, more bank funding.
- Method 2: promoter contributes 25% of **Current Assets** → more conservative, less bank funding (25% of CA is always ≥ 25% of WCG since CA ≥ WCG).

Minimum Current Ratio Requirement

- **Method 1: minimum current ratio = 1.00** (technically must be *slightly above* 1, e.g. 1.001, to get even ₹1 of eligibility; exactly 1.00 current ratio yields ₹0 MPBF). The exact minimum current ratio required rises as the loan requirement rises — but the floor is always ~1.
- **Method 2: minimum current ratio = 1.33x.** Derivation: Under Method 2, promoter funds 25% of CA and short-term finance (CL) funds the remaining 75% of CA → CA/CL = 100/75 = **1.33**. This must hold both presently and on a **projected** basis (including the proposed additional finance) if the borrower wants eligibility under Method 2.
- If current ratio is below the method's minimum, utilization is in excess and MPBF calculated may be less than what's already drawn (i.e., the borrower is over-borrowed relative to that method).

When Banks Use Which Method (practitioner's rule of thumb, varies bank to bank)

Loan size	Typical method used
Up to ₹1–2 crore	Turnover Method (Nayak Committee)
₹2–5 crore	Tandon Method 1
Above ₹5 crore	Tandon Method 2

Bigger borrower = bigger bank risk = stricter method. Not a hard rule; policy varies by bank, and some banks use only Method 1 (never Method 2), or extend turnover method usage up to ₹5 crore.

---

4. Nayak Committee — Turnover Method

Simplest method, but its simplicity is also its main weakness — it assumes a uniform, generic business/operating cycle for every borrower regardless of actual sector dynamics.

Core assumption: The method assumes the business completes **4 operating cycles per year**, i.e., each cycle = 90 days (360-day banking year ÷ 4).

Derivation of the 20% figure: - Annual sales/turnover is assumed to occur in 4 equal cycles. - Working capital is required for just **one cycle** = 1/4 = **25% of annual turnover**. - Of that 25% requirement, the **bank funds 20% of turnover** and the **promoter contributes 5% of turnover**.

```
MPBF (Turnover Method) = 20% of projected annual turnover
Promoter margin = 5% of projected annual turnover
(Total working capital requirement assumed = 25% of turnover)
```

Practical deviations noted: - Many banks don't rigidly apply the 20% figure — some go up to 22–25% or higher, especially if property/collateral security coverage is very strong (bank willing to take marginally more risk on the WC side when fully secured elsewhere).

---

5. Drawing Power (DP) Calculation

Concept: DP is the *actual* amount the borrower can draw within the sanctioned MPBF/cash credit limit at any point in time — it can never exceed the sanctioned limit, only be equal to or less than it. Analogy used: sanctioned limit = total money in your wallet (₹100); DP = how much your parents allow you to actually spend this month (say ₹50) — you cannot spend more than the DP even though ₹100 is technically available.

Basic DP Formula

```
DP = [Stock (paid, ≤180 days) + Debtors (≤90/120/150/180 days, excl. group-firm debtors) − Creditors (full amount)] × (1 − Promoter Margin %)
```

Standard promoter margin applied here = **25%** (same as MPBF norms), though banks can vary this.

Component rules, precisely: **Stock:** - Only stock **up to 6 months (180 days) old** is includible — older stock is presumed obsolete/non-moving/useless and excluded. - Practical computation: sum the **last 6 months' purchases** (FIFO logic — assume only the most recent 6 months of purchases remain in stock). If actual closing stock < 6-months' purchases, show the lower (actual) figure. - Exception: sector-specific extensions are possible with bank approval — e.g., a **jeweler** may be allowed older-than-6-month gold stock in DP since gold doesn't obsolete/lose value (can always be melted and remade).

Debtors: - Standard period = **last 90 days' sales** (ties back to the 4-cycles-of-90-days logic used in the Turnover Method). - Simplified computation: take last 3 months' sales; whatever debtor balance remains (up to that sales figure) is includible; excess beyond 90-day-equivalent sales is excluded. - More accurate method = **debtor ageing**, party-wise: only debtors who pay within 90 days (per ledger history) qualify; overdue-beyond-90-days balances are excluded regardless of total debtor figure. Stock auditors verify this way. - **Group-firm/related-party debtors are always excluded** from DP (example given: proprietor's firm selling to spouse's firm — bank treats this as "your own money," not genuine trade debtors, and won't fund it). - The 90-day period **can be extended** (e.g., to 120/150/180/210 days) with specific bank approval if the borrower's genuine business/collection cycle is longer — up to a practical ceiling the instructor has seen of ~180 days normally, extended to ~210 days in exceptional circumstances (e.g., COVID-era payment delays). - **Advances received from customers** must be **subtracted from debtors** (net debtors) — since an advance is cash already received, it reduces the genuine funding requirement.

Creditors: - Unlike stock/debtors, creditors are taken at their **full outstanding amount, no matter how old** — banks are conservative and assume any payable must eventually be paid regardless of age. - **Advances paid to suppliers** must be **subtracted from creditors** (net creditors) — mirrors the customer-advance adjustment on the debtors side.

Variants of the margin split (bank-specific)

- Some banks apply a **higher overall margin** than 25% (e.g., 40%).
- Some banks apply **different margins to different current-asset categories** rather than one blended 25%:
  - Example cited: Bank funds **75% of (Stock − Creditors)**, i.e., “paid stock” (borrower’s margin = 25% on this net/paid-stock figure), **and separately** funds **60% of Debtors** (borrower’s margin = 40% on debtors). This is a legitimate variant — don’t be surprised to see it in the market.
  - The “paid stock” concept: Stock − Creditors = the portion of stock the borrower has actually paid for out of own/other funds (vs. stock still financed by trade creditors).

Full/Accurate DP Formula (accounting for other WC facilities)

```
Step 1: Gross requirement = Stock(≤180d) + Debtors(≤90–210d, excl. group firms, net of custome
                                   − Creditors (full amount, net of supplier advances)
Step 2: Gross DP = Step 1 amount × (1 − 25% promoter margin)
Step 3: Actual/Net DP = Gross DP − Outstanding utilization of OTHER working-
capital facilities
                      (e.g., Packing Credit, LC Discounting, Buyer's Credit, Sales Bill
                         Discounting, Inventory Funding for dealers, Channel Finance)
```

Why Step 3 matters: These other facilities also fund the *same* stock/debtors/creditors — so their outstanding must be netted off the gross DP to avoid double-counting, since the cash-credit-limit DP should only cover what isn’t already financed elsewhere.

Worked numeric example: - Stock = 200, Debtors = 100, Creditors = 200 → net = 200 + 100 − 200 = 100 - Promoter margin 25% of 100 = 25 → Gross DP = 75 - Outstanding on other facilities = 25 → **Actual DP = 75 − 25 = ₹50**

Common calculation error flagged in the course: Do NOT net the “other facility” utilization *before* applying the promoter margin (i.e., don’t compute (Stock+Debtors−Creditors−Other Utilization) × 75%). That produces an inflated, incorrect DP (₹56.25 in the example vs. the correct ₹50), because the “other facility” outstanding is itself a *loan/finance amount*, not a balance-sheet item — it must be deducted from the Gross DP (post-margin), not from the pre-margin base.

Operational/monitoring mechanics

- DP is generally **recomputed monthly** (or quarterly for small loans, if bank policy allows), based on a **stock statement** the borrower self-submits at the start of each month, reflecting the prior month-end position (e.g., DP used for the month of May is based on the stock statement as of 30th April, submitted in the first week of May).
- Because figures are borrower-self-declared and not routinely cross-checked, banks periodically conduct a **stock audit** to validate accuracy. If the stock auditor’s calculated DP is lower than what the borrower declared (e.g., declared ₹75 vs. audited ₹50), the excess drawn (₹25) is treated as **immediately overdue** — triggering penal/overdue interest, collection action, cheque bounces (limit freeze), CIBIL impact if unresolved within 30 days, and reputational damage with the bank.
- DP applies specifically to the **cash credit limit**; other WC products (packing credit, LC discounting, etc.) have their own separate mechanics, hence Step 3’s netting adjustment above.

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6. Family/Related-Party Funds — Internal Accruals & Impact on Current Ratio / MPBF

(Note: A dedicated video on this exact topic — "Analyzing treatment of payment to family as internal accruals & impact on current ratio & MPBF" — could not be transcribed; tactiq.io never rendered captions after repeated retries. It is logged in `skipped_videos.txt`. The content below is drawn from the closely related, successfully transcribed Promoter Margin lecture, which covers the core mechanics of how family/related-party money is treated.)

- Unsecured loans in MSME balance sheets from immediate family (spouse, parents, children) or group/sister-concern firms are common.
- **Treatment options:**
  1. If the client gives a **written undertaking that the money will stay in the business long-term**, treat it as **equivalent to promoter's margin** → added to the 25% margin base to form the **"Adjusted Promoter Margin."** This *increases* effective promoter contribution and hence can *increase* computed MPBF eligibility (since more of the funding base is "equity-like" rather than pure external liability).
  2. If instead a related/friendly party's loan is expected to be **repaid within 12 months**, it should be reclassified as a **current liability**, not treated as quasi-equity — this pulls it into the WCG/current-ratio calculation as ordinary short-term debt instead.
- This distinction directly affects the **Current Ratio**: money classified as adjusted promoter margin sits outside current liabilities (improves CL, hence improves current ratio), whereas money classified as a current liability increases CL (depresses current ratio). The classification choice therefore has a direct, mechanical impact on MPBF eligibility under both Tandon Method 1 (WCG-based) and Method 2 (current-ratio-gated).

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7. Minimum Promoter Margin in Pre-Shipment Packing Credit

(Source video was in Hindi; key content below extracted/translated from that transcript.)

- Pre-shipment packing credit finances the **stock/cost build-up phase before shipment** (raw material purchase, labour, manufacturing overheads) for an export order — as distinct from post-shipment finance, which finances the debtor/receivable once the goods have shipped and the export bill/invoice is generated.
- Normal bank practice: apply a **25% promoter margin** on packing credit, same as general MPBF norms (₹100 export order → ₹75 bank finance, ₹25 promoter contribution).
- **Key technical point raised:** If margin is calculated on the **export order/sale value**, the bank ends up effectively financing part of the borrower's **profit margin embedded in the sale price**, not just the cost of goods. This is conceptually wrong — packing credit should only finance the **Cost of Goods Sold (COGS)**, i.e., stock-in-process financing, not the profit component of the order value.
- **Correct approach:** Calculate eligibility on **COGS**, not on order/sale value.
- **Practical shortcut (when full COGS costing is cumbersome):** At minimum, ensure the margin taken is **at least equal to the borrower's average Gross Profit Margin %** (e.g., from the last 3 years' financials), so the bank isn't inadvertently financing the profit slice.
  - Worked example: Export order value = $1000; average GP margin (last 3 years) = 15% → minimum margin to apply = 15% → **bank finance = $850** (not $750 at the "normal" 25%, since here the higher of the standard margin and the GP-based margin is intended as the floor — the point being at minimum the GP% must be excluded from financing).
- **Floor rule when GP margin itself is very low (e.g., 1–2%):** Even then, banks conventionally still apply a **minimum margin of ~10%** on the lower side (i.e., won't drop margin below ~10% regardless of how thin the client's GP margin is), per general banking practice (bank-specific credit policy can vary).

- This is explicitly flagged by the instructor as his own practitioner suggestion/heuristic (debatable, not a rigid rule) rather than an official Tandon/Nayak norm — different banks' credit policies can differ.

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8. Drawing Power Edge Case — Creditors Greater Than Stock / Differential Margins

(Note: The dedicated video "Drawing power when creditor is greater than stock and margins are different" could not be transcribed — tactiq.io never rendered captions after repeated retries; logged in `skipped_videos.txt`.)

Related content that **was** captured (see Section 5 above, "Variants of the margin split"): the course does confirm that (a) creditors are always taken at full value with no ageing haircut (unlike stock/debtors), and (b) banks may apply **differential margins to different current-asset categories** — e.g., 25% margin on net "paid stock" (Stock − Creditors) versus 40% margin on Debtors — rather than one blended 25% margin on the combined Stock+Debtors−Creditors figure. If creditors exceed stock, the "paid stock" (Stock − Creditors) component would mathematically go negative, at which point that component would typically be floored at zero for DP purposes (this specific mechanic is inferred from the general DP framework, not stated in a retrievable transcript — treat as needing verification against the missing video / bank-specific policy).

DSCR (Debt Service Coverage Ratio)

Source: Lectures 61–62 of the same course. **Transcript quality caveat:** The auto-generated captions for both DSCR videos (via tactiq.io) were heavily degraded — long stretches were mis-transcribed as repeated "subscribe"/filler noise, likely due to background music or audio quality issues in the source recording. The formula and concepts below reflect what could be reliably reconstructed from the decipherable fragments of both transcripts; some worked-example figures in the Excel-calculator video (Lecture 62) could not be recovered with confidence and are omitted rather than guessed.

Purpose

DSCR measures whether the cash profit a business generates is sufficient to service its **term debt obligations** (interest + principal repayment) for a given year — used primarily for term loan/project finance appraisal (as distinct from working capital assessment above).

Formula

`DSCR = (Profit Available for Debt Servicing) / (Total Debt Service Obligation for the year)`

Numerator — Profit Available for Debt Servicing, built via a top-down adjustment starting from Profit After Tax (PAT):

```
Profit Available for Debt Servicing
    = Profit After Tax (PAT)
   + Interest on Term Loan (added back, since it's part of what's being serviced)
    + Depreciation (added back, as a non-cash charge)
    + Other non-cash / exceptional, non-recurring expenses (added back)
  − Non-operating income (excluded, as it's not a recurring/reliable source of cash for debt se
```

The instructor also builds this **bottom-up** from Operating Profit as a cross-check: Operating Profit + non-cash charges (depreciation etc.) + interest and tax add-backs − non-operating income, arriving at the same numerator.

Denominator — Total Debt Service Obligation for the year:

`= Interest on Term Loan (for the year) + Principal Repayment Installment (due in that year)`

So, in the commonly used textbook form the course arrives at:

`DSCR = (PAT + Depreciation + Interest on Term Loan) / (Interest on Term Loan + Principal Repayme`

Treatment of Family/Related-Party Payments (parallel to the Promoter Margin logic)

- Similar to the unsecured-loan/promoter-margin adjustment discussed in Section 2, payments made to family members (e.g., salary or interest paid to relatives who are part of the promoter group) can be **added back** to profit when computing the numerator — the rationale is that such payments are discretionary/internal to the promoter family and could, if needed, be foregone or deferred to service the loan instead, similar to treating family unsecured loans as quasi-equity.
- This is presented as a judgment call/adjustment technique rather than a rigid rule — the instructor frames it as something the analyst should evaluate case by case (whether the payment is a genuine arm's-length professional expense vs. a discretionary family drawing).

What a "Healthy" DSCR Looks Like

- The transcript's specific numeric benchmark could not be reliably recovered due to caption quality, but standard practice referenced in the course (consistent with general banking norms) is that:
  - **DSCR should be comfortably above 1** — a DSCR of exactly 1 means cash profit exactly equals the debt obligation, leaving zero cushion for any variability.
  - **DSCR below 1** signals the business's own operating cash generation is insufficient to cover interest + principal in that year, and is treated as a red flag requiring either restructuring or additional support.
  - Banks typically look at **average DSCR over the full loan tenure**, not just a single year, since early years of a term loan (heavy capex, ramp-up) often show weaker DSCR than later years.

How to Improve a DSCR Below 1 (as extractable from the lecture)

1. **Add back legitimate non-cash and discretionary items** to the numerator where justified — depreciation, non-recurring/exceptional expenses, and (per the family-payment logic above) discretionary payments to family members that could be treated as quasi-equity drawings rather than hard costs.
2. **Restructure the repayment schedule** — extending loan tenure reduces the annual principal installment, directly reducing the denominator and improving DSCR (this is implied by the instructor's discussion of loan tenure/short-term debt instruments in the Excel-calculator walkthrough, though the exact worked mechanics were not recoverable from the transcript).
3. **Negotiate/reduce the interest cost** where possible (e.g., through better security coverage or facility restructuring), which reduces the denominator directly.
4. **Infuse additional promoter capital / reduce reliance on debt**, lowering the debt service burden itself.

5. Ensure **non-operating/one-off income is excluded** from the numerator so the DSCR reflects sustainable, recurring debt-servicing capacity rather than being artificially inflated by a one-time gain (equally, this means such items shouldn't be relied upon to "fix" a genuinely weak DSCR).

(Given the transcript degradation on this specific video, treat point 2–4 as directionally correct standard credit-analysis practice consistent with the fragments recovered, rather than verbatim, precisely-quoted lecture content. If exact figures/steps from the Excel calculator are needed, the source video should be re-fetched or watched directly.)

Part 3 — CMA Data Preparation & Financial Ratio Analysis

(Original section title: CMA Data Preparation & Financial Ratio Analysis — Study Notes)

Source: a YouTube course on MSME working-capital credit appraisal (transcripts extracted via tactiq.io). Consolidated from three parallel note sets covering balance sheet fundamentals, CMA data preparation, key financial ratios, bank/stock/tax/GST/ITR/cash-flow analysis techniques, and advanced underwriting topics.

How to Read a Balance Sheet for Credit Appraisal

Big picture of working capital assessment: Loan eligibility for working capital finance is assessed via two independent methods — **Financial Assessment** and **Property/Security Assessment** — and the **final sanctioned loan amount is the LOWER of the two**.

The core danger: mismatched tenor of funds and use Illustrative example: A borrows ₹50,000 from B on a 3-month (short-term) basis, but invests it in a fixed asset (scooter/bike) — a long-term, illiquid use. When B asks for the money back after 3 months, A cannot repay, because the money is now locked in a long-term asset.

Golden rule of working capital management: *Never use short-term (current) sources of finance to fund long-term (non-current) investments.* The reverse — using long-term funds for short-term investment — is safe.

What a balance sheet actually shows

- It is a **position statement as on a single date** (not a period). E.g., “position as on 31 March 2021,” never “from 1 April 2020 to 31 March 2021.”
- Left/liability side = **Source of Funds** (where the money came from).
- Right/asset side = **Usage of Funds** (where the money was invested).

Sources of Funds (Liability side)

1. **Capital / Share Capital** — owner’s own investment; always treated as **long-term** funds (business is presumed to have perpetual existence).
2. **Bank Finance** — can be:
    - Long-term (term loans; the portion of a term loan due beyond the next 12 months)
    - Short-term (CC/OD limits — treated as short-term even though sanctioned for 12 months at a time; and the *next 12 months’ EMI portion* of any term loan, called the current maturity)
3. **Unsecured Loans** — from friends/relatives/associate firms; can be long-term or short-term depending on facts (given without security).
4. **Sundry Creditors / Accounts Payable** — a form of non-cash, short-term finance (goods received but not yet paid for).
5. **Other current liabilities** — GST payable, tax payable, salary/wages payable, etc. — always short-term.

Usage of Funds (Asset side)

1. **Fixed Assets** — land, building, machinery, vehicles, computers, etc. — long-term investments (benefit spans many years).
2. **Other (non-current) investments** — telephone/electricity security deposits, shares & securities.

3. **Stock/Inventory** — short-term investment.
4. **Debtors** — money owed by customers for goods already sold; a form of investment in someone else's business.
5. **Cash & Bank balance** — residual after other investments.
6. **Other current assets** — GST receivable, advances to suppliers, prepaid expenses, etc.

Sticky Debtors

- Debtors whose recovery is doubtful/under dispute (e.g., buyer became insolvent) are called **sticky debtors** and are reclassified as a **non-current (long-term) asset**, not a current asset.
- Company law definition: debtors outstanding **> 6 months (180 days)** are sticky.
- In banking practice (proprietorships/partnerships not bound by company law), sticky debtors are identified practically: compare the debtor list as on the balance sheet date against the following year's list — any amount still unpaid a year later is treated as sticky (e.g., ₹1,000 owed by a customer as on 31-Mar-2019, still unpaid as on 31-Mar-2020 → sticky, reclassified as long-term investment).

Simplified 4-quadrant balance sheet

	Source of Funds	Usage of Funds
Long-term (Non-current)	Capital, long-term bank finance, long-term unsecured loans	Fixed assets, long-term investments, shares/securities, sticky debtors
Short-term (Current)	Sundry creditors, short-term bank finance, short-term unsecured loans, other payables (GST/tax/electricity)	Stock, non-sticky debtors, cash & bank, other current assets (prepaid insurance, GST receivable, advances to suppliers)

Renaming for clarity: Non-current source = **Non-current liabilities**; Current source = **Current liabilities**; Non-current investment = **Non-current assets**; Current investment = **Current assets**.

Rule to apply: If current liabilities (short-term source) are financing non-current assets (long-term investment), the business is mismanaged and heading for a liquidity crunch when creditors demand repayment. This mismatch is exactly what the **Current Ratio** is designed to detect.

Current Ratio

Formula:

```
Current Ratio = Current Assets / Current Liabilities
```

Conventionally taught as needing to be ≥ 1, but the mechanics below explain *why*.

Worked example 1 (healthy)

- Non-current liabilities = ₹500; Current liabilities = ₹1,000 → Total sources = ₹1,500
- Non-current assets = ₹300; Current assets = ₹1,200 → Total uses = ₹1,500

- Reading the balance sheet: ₹300 of long-term funds financed the ₹300 fixed assets; the remaining ₹200 of long-term funds + the full ₹1,000 of current liabilities together financed the ₹1,200 of current assets.
- **Current Ratio = 1,200 / 1,000 = 1.2x** → healthy; entity has adequate current assets to repay current liabilities as they mature, and has good long-term margin invested in the business.

Worked example 2 (mismanaged)

- Non-current liabilities = ₹500 (of which ₹100 excess got used); Current liabilities = ₹1,000
- Non-current assets = ₹600 (₹100 more than available long-term funds, funded by diverting current liabilities); Current assets = ₹900
- **Current Ratio = 900 / 1,000 = 0.90x** → current liabilities have been partly used (₹100) to fund a fixed/long-term asset — classic short-term-for-long-term mismatch. Entity will struggle to repay short-term creditors.

Two equivalent ways to explain Current Ratio (useful for client conversations)

1. **Liquidity framing**: "Do you have enough current assets to repay your current liabilities when they fall due?" Current Ratio ≥ 1 = yes.
2. **Long-term funding framing**: "Is your business adequately funded by long-term/promoter money?" A ratio > 1 means the excess of current assets over current liabilities is funded by long-term sources (i.e., adequate promoter margin). A ratio < 1 signals **promoter margin / long-term funds are on the lower side** — softer language for clients than "you've misused short-term funds."

The rule and the diagnosis

- No issue investing **non-current liabilities into current assets** (safe — you have time to recover before repayment is due).
- Problem only arises investing **current liabilities into non-current assets** (mismatch — repayment due before recovery).

Fixing a sub-1 Current Ratio (practical prescription)

1. Check the bank's internal policy for the required minimum Current Ratio (commonly assumed 1:1 for simplicity; actual required ratio is debated further under MPBF norms).
2. Compute the shortfall: e.g., Current liabilities ₹1,000, Current assets ₹900 → shortfall = ₹100.
3. Solution = infuse ₹100 of **additional long-term funds** into the business.
4. The *shape* of the long-term infusion doesn't matter — owner's own capital, funds from relatives, or bank's long-term finance, in any combination (e.g., 100:0:0, or 50:50 owner+friend, or 50:25:25 split) — as long as the total long-term infusion covers the gap.

Improving the Projected Current Ratio Without Infusing Funds A **projections-only** technique (it cannot alter what has already happened historically) — a way to adjust the *projected* Current Ratio in CMA data without injecting fresh capital or raising a long-term loan.

Three possible starting positions: - **Exactly 1** (Current Assets = Current Liabilities) - **More than 1** (e.g., CA=110, CL=100 → CR=1.1) - **Less than 1** (e.g., CA=80, CL=100 → CR=0.8)

Case 1 — Current Ratio exactly 1.0: No adjustment is mathematically possible using this technique. If Current Ratio must be improved from exactly 1.0, the *only* way is genuine long-term fund infusion (capital or a long-term loan), because increasing (or decreasing) both CA and CL by the same amount keeps the ratio unchanged at 1.0 (balance sheet still tallies, but the ratio itself doesn't move).

Case 2 — Current Ratio > 1.0: **Reduce both Current Assets and Current Liabilities by the same absolute amount** — the balance sheet still tallies (both sides reduced equally), but because the starting ratio is above 1, reducing both the numerator and denominator by an equal amount **improves** the ratio. - Worked example: CA=12, CL=10 → CR=1.2. Reduce both by 2 → CA=10, CL=8 → CR=1.25. Ratio improved from 1.2 to 1.25 purely by shrinking both sides equally — no long-term capital or loan was added. - **Caution**: credit managers sometimes make the opposite mistake — *increasing* both CA and CL when the ratio is already above 1 — which actually **worsens** (lowers) the ratio. Know which direction to move.

Case 3 — Current Ratio < 1.0: The relationship inverts: **increasing both Current Assets and Current Liabilities by an equal amount improves** the ratio (when it's below 1.0), whereas decreasing both worsens it further. - Worked example: CA=8, CL=10 → CR=0.8. Increase both by 2 → CA=10, CL=12 → CR≈0.83. Ratio improved (moved closer to 1) purely by growing both sides equally.

Practical limits and required discipline: - Best suited for **small mismatches/shortfalls** — e.g., closing a minor gap to meet an MPBF current-ratio threshold (say improving 0.95 to 1.01) without troubling the client for actual capital infusion. - **Not** a substitute for genuine capital infusion when the gap is large (e.g., taking a 0.8 ratio all the way to a required 1.33 cannot realistically be achieved this way without the underlying numbers becoming implausible). - **Every adjustment must have a real justification** — never move numbers "in thin air." Example: if a client's stock genuinely runs at ₹X and creditors at ₹50 lakh, arbitrarily reducing creditors to ₹10 lakh (implying only a 2-3 day payment cycle) would not be accepted if the business's real trade-credit cycle is longer — adjusted figures must stay consistent with the client's real operating cycle. - **Preferred practice**: adjust **"Other Current Assets" and "Other Current Liabilities"** first, rather than touching the core cycle figures (stock, debtors, creditors) that directly reflect the business's operating cycle. Touching stock, debtors, or creditors should be the last resort. - Always be able to justify the adjustment if later questioned by a senior, an auditor, or in the event of a loan turning bad — have a documented rationale ready.

Working Capital and P&L Analysis

Definitions

- **Working Capital** = the (long-term) capital invested in the regular/day-to-day working of the business.

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  Working Capital = Current Assets − Current Liabilities
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  Example: Current assets ₹1,000, current liabilities ₹900 → Working Capital = ₹100 (this ₹100 represents long-term capital sunk into short-term/current assets).

- **Working Capital Finance** = the loan taken specifically to fund working capital, i.e., to carry on day-to-day business operations.

The "reverse loan logic" puzzle and its resolution Naive logic: if Current Assets (₹900) < Current Liabilities (₹1,000), the business is short by ₹100 and "needs" a loan of ₹100. **This is backwards.** A Current Ratio < 1 signals *mismanagement* (current liabilities were misused to fund non-current assets) — it does NOT automatically qualify the business for more working capital finance. The fix must come from long-term fund infusion, not a fresh short-term loan on top of the mismatch.

How current assets and current liabilities actually arise from the P&L (key conceptual bridge) Take a 1-year P&L (1/4/20 to 31/3/21). Worked numeric example: - Opening stock ₹2,000 + Purchases ₹50,000 + Purchase expenses ₹5,000 + Manufacturing expenses ₹23,000 − Closing stock ₹5,000 = Cost of Sales - Sales = ₹1,00,000; Gross profit = ₹25,000 - Other expenses: Manufacturing cost, employee salary ₹2,000, advertisement ₹500, bank interest ₹500, other office expense ₹5,000, depreciation, etc. - Net profit = ₹10,000 - Total of the "expense-side" heads = ₹1,05,000; Total of the "income-side" heads (Sales + Closing Stock) = ₹1,05,000 (they must tally, since both sides represent the same transactions). - The ₹10,000 profit is embedded inside Sales (₹1,00,000 sales *includes* ₹10,000 profit on top of ₹90,000 of "cost"). So: Sales-without-profit (₹90,000) + Closing stock (₹5,000) = ₹95,000 = Total expenses-without-profit (₹95,000).

Core insight: The entire P&L account boils down to just two buckets — **Sales** and **Closing Stock** — and both represent the *same underlying expenses* (plus embedded profit), just at different stages of recovery: - **Closing stock** = expenses already incurred but **not yet realized/sold** (goods sitting unsold). - **Sales** (specifically, the debtors arising from credit sales) = expenses (+ profit) that have been **converted to a sale but payment not yet recovered**. - **Debtors** = sales for which payment has not been received — i.e., expenses of the business awaiting recovery from the customer. - **Prepaid expenses / advances to suppliers** = expenses paid in advance, money already gone out, benefit not yet received — another form of current asset "expense not yet realized."

So: all current assets fundamentally represent business expenses whose recovery/benefit is still pending.

On the liability side, the mirror logic: - **Sundry creditors** = purchases/expenses incurred but **not yet paid for** — this is *support* extended to you by suppliers. - **Salary payable, other payables, customer advances** = similarly, support/funding provided to you by others (employees, suppliers, customers) that reduces your own funding burden.

Reframed conclusion: - Current assets = your unrecovered expenses (money you've put in, awaiting recovery). - Current liabilities = the "support" other parties (creditors, employees, customers) are extending you by letting you defer payment or by prepaying you. - If Current Assets (₹900) < Current Liabilities (₹1,000): people are supporting you MORE (₹1,000) than what you've actually got stuck in unrecovered expenses (₹900) — you're actually running a ₹100 **surplus of support**, not a shortfall. In the earlier "reverse logic" trap, this ₹100 surplus is really covering a **fixed-asset purchase financed by short-term creditors** — the real fix is long-term fund infusion, not a fresh WC loan. - If Current Assets (₹1,500) > Current Liabilities (₹1,100): you need ₹400 MORE of support/funding — this is the genuine, correctly-computed working capital gap that justifies a working capital loan.

This is the conceptual foundation considered essential before understanding **MPBF (Maximum Permissible Bank Finance) / Tandon Committee norms**.

CMA Data — Preparation Walkthrough

CMA = **Credit Monitoring Arrangement** data, also called a "Financial Analysis Tool." It is the single most important document in any credit underwriting proposal (working capital, unsecured business loans, LAP, project funding) — wherever financials/balance sheets are involved, CMA data preparation is the first task a credit manager performs on receiving a proposal file.

Two parts of CMA data

1. **Historic data punching** — inputting already-prepared/audited (or provisional) past P&L and balance sheet data. Banks typically want **3 years** of historic data (e.g., audited FY19,

FY20 + provisional FY21; if provisional isn't available, use FY18–FY20 audited instead).
2. **Projections** — estimating future P&L and balance sheet (e.g., next 2–3 years), based on past data + client discussion.

Foundational principles for CMA preparation

1. **Accuracy improves only with practice** — even experienced preparers (7+ years) need to think through each new P&L/balance sheet; every client's business and transactions differ, requiring judgment each time.
2. **Know the client's business** before punching — trader vs. manufacturer vs. contractor/builder, domestic vs. export, etc. — this materially affects classification accuracy.
3. **CMA preparation is "free spirit"** — you are NOT bound by the classifications a CA/auditor made in the audited P&L (their classification of direct/indirect expense, operating/non-operating income may serve the client's loan objective, not accuracy). Reclassify per your own judgment and logic. However, always check your **organization's/bank's own internal policy** for CMA classification norms first.
4. **Conservative approach when unsure**: if you cannot confidently classify an item (operating vs non-operating, etc.), always classify it into the "worse" head — i.e., the one that makes the financials look weaker/more conservative. Never let ambiguity inflate a client's apparent profitability; correct later after clarifying with the client/supervisor, but default cautious.

Two main punching sheets (parts)

1. **Operating Statement** (Form 2) — the P&L account gets punched here.
2. **Liability/Balance Sheet Statement** — the balance sheet gets punched here.

Once both are punched, CMA generates: **MPBF**, cash flow statement, fund flow statement, ratio analysis, statement of changes in working capital (rarely used practically), summary sheets. CMA formats vary bank to bank (Kotak, ICICI, HDFC, IndusInd, etc.) but the underlying logic/theme is common — master the logic and you adapt to any bank's format within 2–3 months.

P&L Punching (Operating Statement) — detailed rules **Sales**: - Show **net of sales returns**. - Show **excluding taxes** (e.g., GST). If a ₹100 item was billed at ₹118 (18% GST), enter Sales = ₹100 and the ₹18 GST separately in the tax-deduction column — sales must reflect only the amount retained by the business, not tax collected on behalf of the government. - If domestic/export bifurcation is unavailable, default to punching the whole amount under **Domestic Sales** (presentation-only issue; total gross income used for ratios is unaffected).

Operating income — defined as income that is either: (a) of a **recurring nature** across the 3 years of financials being punched, AND part of the main business, or (b) **incidental to the main business** (a natural side-effect of core operations), e.g., scrap sales from an iron casting business, export incentives/duty drawback/RoDTEP for exporters, discount received from suppliers. - **Not operating income**: interest on FD/savings account — even if received every year, it is NOT generated from business operations, so it's **non-operating** income. - Ambiguous items → apply the conservative-approach rule (classify as non-operating if unsure, to avoid inflating operating profitability).

Cost of Production / Cost of Sales — Direct side: - Raw material consumption: split exported (imported) vs. indigenous (domestic) if known; if unknown but the client does import, ask the client. If truly no info, default to punching as **indigenous** (safer/conservative). - **Direct expenses** = expenses primarily/necessarily incurred to make the main product — without which the finished product cannot be made. Examples: power & fuel (factory lighting, coal, gas), direct labor/wages, job work charges (getting work like dyeing done by a 3rd party on your material), repair & maintenance of production machinery, packaging expenses essential to product survival (e.g., bread), freight inward, other manufacturing expenses. - **Depreciation on Plant & Machinery** = a **direct** expense in a manufacturing entity (reclassify it up into cost of production even if the audited P&L showed it as an indirect expense) — because P&M is core to making the product. Depreciation on office assets (computers etc.) stays indirect. Convention varies by company culture: some split P&M depreciation as direct and rest as indirect; some put all depreciation as indirect in a trading business. Follow your organization's convention. - **Consumable items** = items used in production but not visible/present in the finished product (e.g., needles used to sew a T-shirt) — distinct from raw material (which is visible in the end product, e.g., the fabric). - **Stock**: if no bifurcation of raw/WIP/finished stock is available, treat the whole stock figure as **finished stock** (don't assume WIP). If a raw-material-value line doesn't exist in the CMA format, adjust by adding opening & subtracting closing raw material stock into the raw material consumption line directly. - **Missing expected expenses are a red flag**: e.g., a manufacturing P&L with NO labor/wages line and no auditor's remuneration line despite claiming to be audited — flag these as **queries to raise with the client**; may indicate an inaccurate/manipulated balance sheet.

General, Administrative & Selling Expenses (Indirect operating expenses): - Must be of an **operating nature** — recurring, arising from normal business. Exclude one-off items like loss by fire, theft, loss on sale of assets (these are **non-operating expenses**); similarly profit on sale of assets / insurance claims received are **non-operating income**. - **Personnel cost** = staff (accountant, secretary, peon, watchman, storekeeper) OTHER than production labor. - **Manager's sales commission** = a selling expense (not personnel cost), tied to achieving sales targets — put in a "commission" head if available, else lump into "other selling expenses" or "other G&A/selling expenses." - **Remuneration to partner/director** and **remuneration to auditor** — separate presentational lines, useful later for ratio analysis. - **Freight carriage outward** (delivering to customer) vs **freight inward** (bringing raw material in) — inward is a direct expense, outward is an indirect selling expense. - **Depreciation (trading/other assets)** — non-P&M depreciation (e.g., computers) goes here. - **Rent, rates & taxes** and **insurance premium** can be clubbed under one head if the format allows. - The **"Other G&A/selling expenses" line is a balancing figure** — after classifying every other identifiable line item, whatever pending unclassified expense remains (to make the net profit tally with the actual audited net profit) gets dumped here.

Financing charges (interest): - Interest on unsecured loans, bank charges/commission (e.g., LC issuing charges), interest on term loans, interest on WC/CC limit. - If bifurcation between term loan interest and WC/CC interest is unavailable in the P&L, **default to punching the whole interest expense under "Working Capital" interest** — the total financing cost/net profit result is unaffected either way, only presentation changes.

Non-operating income/expenses: interest income, profit/loss on sale of assets, preliminary expenses, etc. — kept separate from operating P&L lines.

Balancing to net profit: After classifying everything possible, the true (audited) net profit figure is known; whatever remaining amount is needed to make the punched P&L tie out to that net profit gets absorbed into the "Other G&A/selling expenses" balancing line.

Balance Sheet Entry — Liability Side

- **Unsecured loans from family/friends/relatives/group companies**: Banks treat these as **quasi-capital** (equivalent to promoter's own long-term capital) **if** (a) the amount has stayed consistently invested in the business across multiple years' balance sheets (not fluctuating in/out), and (b) ideally, the promoter/lender gives an **undertaking that the money will not be withdrawn from the business**. Practically: build a year-wise list of every unsecured loan party and balance to check consistency/stagnancy before treating as capital.

- **Term loans — splitting current vs. non-current portion**: Only the **principal outstanding** balance (not principal+interest) matters for balance sheet classification. Use the bank's loan **repayment/amortization schedule** to determine how much principal will be repaid in the **next 12 months** (→ classify as **current liability** / current maturity of long-term debt) vs. the remaining principal due after 12 months (→ **long-term liability**).
- **Multiple Banking Arrangement**: When a client maintains independent credit facilities with several different banks (no single lead bank, no consortium/shared information), it's called Multiple Banking Arrangement — riskier from a lending perspective because no single bank has full visibility into the client's total exposure across banks.

Balance Sheet Entry — Asset Side

- **Fixed assets** are long-term/non-current because they generate revenue/benefit over many years (machinery used across many production cycles, buildings used over years).
- **Revaluation Reserve caution**: If a company revalues an asset upward (e.g., land bought at ₹10L, revalued to ₹25L due to a nearby infrastructure development) and books the increase, the increase should be tracked separately as a **Revaluation Reserve**, NOT treated as organic capital growth. Flag balance sheets that appear to be growing rapidly year-on-year — check whether the growth is genuine profit-driven growth or artificially inflated via asset revaluation.
- **Sticky debtors** (recap): recovery chances are low/uncertain (e.g., payment stuck in dispute, extended beyond agreed credit terms) — reclassify to non-current assets.

P&L Practice — Additional Practical Notes

- **WIP (Work-in-Progress) for contractors/service businesses** = percentage-of-completion basis (e.g., a road-construction contract 30% complete has WIP = 30% of contract cost incurred).
- **Transport/logistics businesses**: driver salary + fuel/oil & lubricant expenses are treated as **direct expenses** (core to the transport service), and can vary significantly with route length (long-haul routes = higher driver salary + fuel).
- Multiple banking arrangement clients often show government-contractor or trading-plus-export business models — bifurcate accordingly and note if a large one-time or volatile order affects a single year's figures unusually (flag as a query rather than smoothing it silently).

Sales Projection *(Source video's auto-captions were almost entirely unusable/garbled — no reliable formulas or step-by-step method could be extracted. See "Videos Not Covered" at the end.)*

Projected P&L in Excel Practical technique for projecting recurring P&L line items using historical trends: - **Projected Depreciation**: Compute an **average depreciation rate** from history — Total historical depreciation ÷ Average fixed-asset balance (opening + closing, /2) for each past year — then average that rate across the historic years and apply it to the projected year's average fixed asset base (opening balance + expected additions during the year, averaged). - **Projected Interest expense**: Similarly compute an **average effective interest rate** — Total historical interest cost ÷ average outstanding loan balance (opening + closing /2) — for each loan/liability head (term loans, unsecured loans, CC/OD limits) across historic years, then average and apply the resulting blended rate to the projected year's average loan balance. Where a single lump interest figure isn't broken down by loan account, allocate it proportionately or use a reasonable blended market rate (e.g., ~3% differential over CC limit if unknown) and adjust for reasonableness (loans typically can't be obtained below a certain floor rate). - Sanity-check projected ratios (e.g., interest rate implied) against what is realistically available in the market — an implausibly low computed rate signals a calculation error.

Balance Sheet Projection (in CMA Format)

- Project term loan **outstanding balances** using the bank's **repayment schedule** (principal only, matched to the relevant future balance sheet date) — this directly gives the split between current maturity and long-term outstanding for each projected year.
- Cross-verify related-party fund movements (e.g., a director/partner transferring money to/from spouse or a group entity) via **bank statements** before accepting the client's claim about the source/use of funds.
- Verify any large receivable claimed as "already recovered" post-balance-sheet-date against actual bank statement credit entries before excluding it from projected current assets.
- If projected balance sheet doesn't tally, use permissible items (e.g., other current liabilities, capital/reserves) as a **balancing plug**, and be transparent that judgment was applied.
- Sanity-check projected turnover-based ratios (debtor/creditor/stock days) against the historical trend — if a projected ratio deviates sharply from history without business justification, flag/reconsider it.
- Net-profit carry-forward logic: when projecting retained earnings/reserves, decide explicitly whether the prior year's profit is assumed retained in the business or withdrawn by the promoter (informs the projected capital/reserves balance).

Trial Balance → Provisional Balance Sheet Demonstrated end-to-end using a live trial balance example. Key steps and principles:

1. **Starting point**: A Trial Balance (all ledger account closing balances, debit and credit) is the client's most basic financial data — even before an audited balance sheet/P&L exists, a provisional balance sheet can be built directly from it.
2. **Classify every trial balance line item** into either a **Trading/Manufacturing & P&L account line** (income or expense) or a **Balance Sheet line** (asset or liability), using the same direct/indirect expense and operating/non-operating income logic covered in the P&L punching section above.
3. **Build a Current Assets schedule** separately: cash in hand, bank balances (savings/current accounts across all banks — add up all positive bank balances), stock (opening + purchases − consumption, or directly from trial balance closing stock), debtors, advances to suppliers, prepaid/other receivables — sum them into one "Current Assets" total.
4. **Bank accounts showing a negative/overdrawn balance** in the trial balance are **NOT cash/bank assets** — they represent a **secured bank loan / CC-OD limit utilization** and must be moved to the **liability side** (secured loans), not netted against cash.
5. **Investments** (e.g., investment in a joint venture) are classified as non-current assets, kept separate from current assets.
6. **Liability side build-up**: Share capital (at face/paid-up value — note that share capital is always shown at paid-up value, not market value), Reserves & Surplus (including current year's profit b/f), secured loans (term loans + CC/OD), unsecured loans, sundry creditors (trade payables to suppliers), other current liabilities (statutory dues, provisions, security deposits received — if a deposit-received balance appears negative/contra in the trial balance, reclassify it into "other current liabilities" rather than leaving it stranded).
7. **Depreciation**: apply asset-wise (e.g., Plant & Machinery depreciation computed and deducted; consistent with the depreciation treatment described in the P&L section).
8. **Computing Net Profit as a balancing/derived figure** — three practical approaches when the exact current-year net profit isn't independently available:

- (a) **Direct balancing**: Total of all classified P&L debit-side (expense) items vs. credit-side (income) items — the difference is the net profit, which is then also carried to the balance sheet (capital/reserves) to make it tally.
- (b) **Trend/ratio-based estimation**: If historical Net Profit Margins are known for prior years (e.g., a consistent ~5% net margin), apply the same or a judgmentally-adjusted percentage to current-year sales to estimate net profit, then true this up against the trial balance once other figures are finalized.
- (c) **Net Profit Margin formula used for sanity-check**:
  `Net Profit Margin (%) = Net Profit / Sales × 100`
  Compare the computed/derived margin against the prior years' margins — a wildly divergent margin (much higher or lower than history) signals a likely misclassification somewhere in the P&L punching and should be re-checked before finalizing the provisional balance sheet.

9. Cross-check that the **final balance sheet ties out** (Total Assets = Total Liabilities) once all P&L and balance sheet items, including the derived net profit, are punched in.

(Note: "Stock Statement Analysis of Borrowers" — a separate, related sub-topic — had no usable transcript; see "Videos Not Covered.")

Key Financial Ratios

EBITDA / PBDIT *(Source video's captions were almost entirely garbled/unusable — no formula, worked example, or definition could be reliably extracted. See "Videos Not Covered.")*

Gearing Ratio / Leverage Ratio (Debt-Equity Ratio) Also called **Debt-to-Equity Ratio**.

Formula:

`Gearing Ratio = Total Debt / Net Worth`

Where: - **Total Debt** = all outside borrowed funds carrying interest — includes both **short-term debt** and **long-term debt** (term loans + working capital/CC-OD borrowings + unsecured loans that are interest-bearing / not treated as quasi-capital). - **Net Worth** = Equity/Share Capital + Reserves & Surplus (i.e., owned funds / promoter's stake in the business).

Interpretation: measures how much of the business is funded by outside debt vs. the promoter's own stake — a higher gearing ratio signals higher financial risk/leverage, since debt carries a fixed repayment obligation regardless of business performance, unlike equity.

Turnover / Activity Ratios — Debtor, Creditor & Stock Days General method in banking practice: because typically only the **balance sheet as on one date** is available (not month-by-month averages), these ratios are computed using the **closing balance sheet date figures**, not period averages.

Debtor Days (Debtor Velocity):

`Debtor Days = (Closing Debtors / Net Sales) × 365`

Worked logic: if annual sales = ₹1,200 spread evenly across 365 days, then ₹1 of sale happens every 365/1,200 days. If closing debtors = ₹300, that represents 300 × (365/1,200) ≈ **91.25 days** of sales still outstanding — i.e., on average, ~91 days of credit is extended to customers.

Creditor Days (Creditor Velocity / Payment Period):

`Creditor Days = (Closing Creditors / Net Purchases) × 365`

Worked example: Purchases = ₹1,200 for the year (365 days); closing creditors (unpaid purchases) = ₹300 → Creditor Days = (300/1,200) × 365 = **91.25 days** — i.e., on average the business takes ~91 days to pay its suppliers.

Stock / Inventory Holding Days (also called Stock Turnover Days / Inventory Holding Period):

```
Stock Holding Days = (Closing Stock / Cost of Goods Sold) × 365
```

(Note: Uses Cost of Goods Sold in the denominator, not Sales, since stock is carried at cost.)

Important practical caveats: - These ratios use the **closing balance** (point-in-time), not an average — because average/monthly data usually isn't available to the credit analyst preparing CMA data from an audited balance sheet. - **Seasonal businesses distort these ratios badly.** Example: a winter-garment manufacturer builds stock through the year (starting production in March for a winter/Nov–Dec selling season) — if the balance sheet date happens to fall right after peak dispatch (stock cleared, debtors high) or right before dispatch (stock high, debtors low), the computed days will look very different from the "typical" mid-year picture. Similarly, if a client wins an unusual one-time large order that gets executed and billed right before the balance-sheet date, debtors will spike temporarily and distort the ratio. Always understand the business's seasonal cycle and question outlier ratios rather than accepting them mechanically — cross-check current-year figures against the historical trend line for the same client. - When verifying a claimed reduction in creditor/debtor balances, ask for supporting proof (bank statements, party ledger confirmation) rather than accepting a verbal explanation.

The balance-sheet-date trap These ratios are all pulled from the balance sheet, which is a **single-date snapshot (31 March)** — not a reflection of the full year's activity. This is a structural disadvantage: both the analyst and the credit manager can be misled by a single date's figures, especially for **seasonal businesses** (e.g., a business whose season is Jul-Sep will show very different working-capital levels at a March off-season balance-sheet date).

Recommended workaround: don't rely solely on the 31-March figure. Ask the client for the **month-end levels of stock, debtors, and creditors for the trailing 6-12 months** so the actual trend/pattern can be checked, rather than inferring the whole year's working-capital cycle from one date.

Four-step framework when a stock/debtor/creditor days figure looks "too high" or "too low"

1. **Check the business model first.** Some business models inherently carry high or low stock (e.g., heavy-machinery manufacturers naturally carry high-value stock; retail counters with thousands of SKUs carry high stock; fast-moving low-shelf-life items like bread carry very low stock by necessity — e.g., 2-3 days). Compare against industry peers if unsure. A bakery business showing 50-60 days of "bread" stock would be a red flag exactly because the model doesn't support it.
2. **Check for an exceptional/one-off event** — e.g., a large exceptional order in Q4 driving a bulk purchase in Feb-March that temporarily inflates the stock figure (not obsolete stock, just very recent stock); or a large one-off sale to a new party inflating debtors temporarily (recent receivable, not a bad/stuck debtor). Cross-check with the **following quarter's (Q1) bank statement/stock data** to confirm the money did indeed come in. Exporters commonly show this pattern from shipment/container delays.
3. **Physically verify via site visit** — especially for a "stock too high" query, to confirm whether the stock is genuinely fresh (not obsolete) and genuinely exists (not fictitiously shown in the books).
4. **Check for a formula/classification error on your own side** — stock days should be computed on **Cost of Goods Sold**, debtor days on **Sales**, and creditor days on **Pur-**

chases + relevant expenses (not purchases alone). A common analyst mistake is comparing creditors only against purchases, ignoring that creditors also include payables for job-work charges, consumable stores, and other manufacturing expenses that are shown separately in the CMA data — this alone can distort the computed "days" figure.

Creditor Analysis — Deep Dive (Sticky Creditors, Capex Creditors, Creditor Cycle, DP Fraud Cross-Check) 1. "Sticky" creditors (balances standing unchanged across multiple years) - Definition: a creditor balance (e.g., party "A & Co.") appears static — same figure — across 2021, 2022, 2023 balance sheets. Query: is this a current liability or should it be reclassified as non-current / quasi-equity for CMA and drawing-power (DP) purposes? - **Treatment**: Regardless of whether the amount is genuinely "stuck" due to internal settlement or is a sign of default, **treat it as an ordinary current liability**: - It still gets **deducted in drawing power calculation** (no DP comfort/benefit given for "this creditor won't really be paid" reasoning). - It does **not** get reclassified as quasi-equity or non-current liability, because these are amounts owed to parties *outside* the borrower's own group/promoters. - Apply judgment case-by-case: understand from the borrower *why* it's stuck (settled internally vs. genuine default risk to the market). If sticky-creditor balances are a large proportion of the balance sheet (illustrative case: creditors are 10% of a ₹10-15 crore balance sheet, and 30-40% of *that* creditor figure is stagnant/stuck), it becomes much harder to give the borrower benefit of the doubt.

2. Capex creditors (payables for fixed-asset purchases, e.g., machinery) - Even though the underlying asset (machinery) is non-current, the **creditor is still a current liability** — because in practice, a machinery vendor is not going to wait 2-3 years for payment; payment is expected within ~12 months unless the vendor has explicitly extended long-term/EMI-based financing (rare). - So: capex creditors remain part of current liabilities in the CMA. - **DP benefit exception**: capex creditors *can* be excluded from the deduction applied in drawing power calculation (i.e., don't need to reduce DP for them), because that money is tied up in machinery, not in stock/debtors that the DP formula is meant to secure.

3. Creditor cycle / creditor days trend - **Formula**: `Creditor Days = Creditors ÷ Purchases × 365` - Track the direction of the creditor-days trend across successive years. - **Interpreting a rising/high creditor cycle** — four possible explanations to investigate: 1. Borrower has genuine strong bargaining power in the market and is negotiating longer credit terms — verify this is plausible given the business's real standing. 2. Borrower is cash-strapped and is relying on market/trade credit to survive — if the market is already supporting the borrower this generously, ask why they need *more* bank funding. 3. Suppliers may be embedding an implicit interest charge into a higher billed price in exchange for extended credit terms (e.g., a ₹50/kg item billed at ₹55/kg) — this quietly erodes margins and can make the borrower less competitive against peers who buy for cash. 4. The "stickiness" may actually mask **default/non-payment** to suppliers. - **Benchmark against industry norms**: e.g., fast-moving perishable items (illustrative: tomatoes) should never show a 7-month creditor cycle — if they do, something is off. - **Watch out for point-in-time distortion from bulk/seasonal purchasing**: creditor days computed on annual COGS can be misleading if there was a large bulk purchase concentrated in Feb-March (near the balance-sheet date). Check **month-wise purchase figures**, not just the year-end balance. Apply FIFO logic — treat the *latest* purchases as most likely still unpaid to get a truer days-figure from the most recent 1-2 months of purchase rather than the full-year average.

4. Cross-checking creditors in stock statements vs. actual bank payments (fraud/DP-manipulation check) - Take 6 months of monthly stock statements. For each month, compute the *implied* payment to creditors: `Opening creditors + Purchases during month − Closing creditors = Payment made`. - Compare this implied monthly payment figure against the **actual payments visible in the bank statement** to creditors. - A large mismatch (beyond a normal ~10-20% variance) indicates the **creditors figure has been deliberately under-**

stated in the stock statement submitted to the bank, typically to inflate the apparent drawing power (DP manipulation / fraud indicator).

5. Creditor concentration / dependency and supplier quality checks - Check what % of total purchasing is concentrated with each supplier. Red flag: heavy dependency on just 1-2 parties (e.g., 100% from one supplier, or 80% from two). - Lower risk: diversified across many suppliers (e.g., 50-60 parties, none over ~3-5%) — supply risk is diversified. - Adjust the concern level based on how **specialized vs. commodity** the material is: if the material is a widely available branded/generic item (e.g., Colgate toothpaste from a wholesaler), even 100% dependency on one supplier is lower risk because substitutes are easy to find. Genuinely specialized/scarce inputs raise the risk of a concentrated supply relationship. - Do a CIBIL/credit check on major creditors/suppliers — if a key supplier is sub-standard or under stress with its own lenders, there's a real risk of supply disruption to the borrower.

6. Business-logic and geography checks on creditors - Read the names of major creditors carefully — do they make sense for the borrower's declared business? Example red flag: a garment-business borrower showing payments in the bank statement going to "iron & steel" sounding creditors — an inconsistency that must be investigated, not glossed over. - Check **where creditors/suppliers are geographically located** relative to the borrower and its selling markets. Example: borrower based in Ludhiana, buying raw material from suppliers in Mumbai, and selling finished goods in Bengaluru — question why the trade doesn't flow more directly instead of routing unnecessarily through Ludhiana. The farther/more circuitous the supply chain, the higher the input cost and the weaker the margin. - **Vintage of the relationship with each creditor** matters: longer-standing supplier relationships (many years) provide more comfort — minor fluctuations in such relationships are less concerning than similar fluctuations with newly onboarded suppliers.

Fixed Assets Turnover & Debtors Analysis (reference definitions) *(These specific videos — "Fixed Assets Turnover Ratio" and "Analysis of Borrower's Debtors" — had no usable transcript; standard definitions given here for reference, not sourced from this lecture series.)* - **Fixed Assets Turnover Ratio** = Net Sales / Net Fixed Assets — indicates how efficiently a business is using its fixed asset base to generate revenue; a declining ratio over time (sales not growing in proportion to fixed asset additions) can indicate over-investment in capacity or under-utilization. - **Debtors (Receivables) analysis** typically involves: Debtors Turnover Ratio (Net Credit Sales / Average Debtors), Debtor (Collection) Days = 365 / Debtors Turnover Ratio, ageing analysis of receivables, and identifying concentration risk (top debtor(s) as a % of total receivables) — consistent with the party-wise bank-statement drill-down technique described under Bank Statement Analysis below.

Interest Coverage Ratio (ICR) Formula:

```
Interest Coverage Ratio (ICR) = Operating Profit (before interest) / Interest Expense on Borrow
```

- **Operating Profit** here = profit from core business operations, computed *before* deducting interest expense (i.e., add back interest paid to bank/institutional borrowings to net profit, or take profit before interest and tax from the operating P&L).
- Interpretation: it shows **how many times over** the business's operating earnings can cover its interest obligation — e.g., an ICR of 3x means operating profit is 3 times the interest expense, indicating comfortable debt-servicing capacity. A low or sub-1 ICR is a red flag that operating earnings alone cannot service the interest burden.
- Only interest on borrowings (bank loans, term loans) is used in the denominator — not all financing charges indiscriminately.

Profitability Ratios (the "ultimate truth" framework) This framework covers DSCR, ISCR, FACR%, Gross Profit Ratio, Net Profit Ratio, and Total Debt ÷ Net Cash Accrual Ratio

— approached not ratio-by-ratio mechanically, but via the underlying "end truth" each ratio is really probing for. *(Detailed formulas for DSCR/ISCR/FACR% were referenced by name in the source lecture but not worked through in the available transcript — see "Videos Not Covered.")*

Net Profit Margin (used as a sanity-check when deriving/estimating profit, e.g., from a trial balance):

```
Net Profit Margin (%) = Net Profit / Sales × 100
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Three underlying risks Credit is really probing for via profitability ratios: 1. Borrower's earnings are too low. 2. Earnings are not sustainable long-term (a downturn or one-off shock could sink the business). 3. Debt obligations are disproportionately large relative to earnings capacity.

These distill into two practical focus areas: **low earnings** (checked both in % terms and absolute ₹ terms — e.g., 5% margin sounds fine, but if absolute profit is only ₹10 lakh, that still matters) and **high debt**.

When earnings look too low (or suspiciously too high) — questions to work through: - **Internal accruals to family members**: check if the borrower has routed profit out via salary to spouse, rent to parents, or interest on unsecured loans from family — this is essentially moving money from one pocket to another within the family, and analysts can give benefit of the doubt by **adding these back** when assessing true earning capacity. (Real example: a client with ₹60 crore sales had made ₹1.6 crore of payments to family members that year — without those, reported profit would have been meaningfully higher.) - **Business-model/industry-inherent low margins**: e.g., a commodity trader (yarn, coal) simply operates on thin margins by the nature of the trade. If the concern is purely "this industry has low margins," the real question for the bank is whether to fund that industry segment at all — not whether this specific borrower is doing something wrong. - **One-off/exceptional events**: fire loss, theft, sudden bad debts, or (on the upside) a one-off windfall — look for these directly in the P&L; also consider family disturbances (illness, disputes) that may have disrupted business focus for a period, or loss of long-time customers. - **Structural business changes**: change in business model, product pricing shifts, raw material cost spikes that couldn't be fully passed through to finished-goods pricing (check if prices have since stabilized), a new low-margin corporate customer added to the portfolio (common trade-off: a genuinely "good" large customer is onboarded at a lower/competitive margin, while a riskier customer might be charged more) — analogous to how a bank prices a good credit customer lower and a weaker one higher. - **Operating vs. non-operating income misclassification**: check whether the credit team has mistakenly bucketed a genuinely operating income line as "non-operating" — e.g., scrap sales in an iron & steel manufacturing business (a natural by-product of the core process) treated as non-operating, or forex fluctuation gain/loss in an export-import business treated as non-operating — this distorts operating profit and can also affect DSCR (non-operating income typically isn't counted in DSCR).

When earnings are genuinely low — what to do about it: - Look at the client's **other income sources**: rental income, income from group/sister firms. - Ask for a **CA-certified net worth statement**, including any mortgage-free (unencumbered) assets — real cases exist where a borrower's personal/family net worth was ₹100-150 crore, which materially changes the credit call even if the specific business's P&L is thin. - Consider **family income in totality**, not just the single business's net profit — combine business net profit, add back internal-accrual payments to family, and layer in other family income streams to get a fuller earning-capacity picture. - Assess **sustainability of the (lower) profit level**: is the pricing/purchasing strategy stable (e.g., low stock turnover with fast sell-through, or pre-order/pre-fixed-rate contracts)? Is the borrower's net worth substantial? Is vintage long and are the trade relationships (with old, financially sound counterparties who reliably pay on time — verified via SMA/credit checks on them) stable? If yes, a lower-but-stable profit can still be an acceptable credit given long operating history. - If debt is simply too high relative to earning capacity —

that's a judgment call on how much debt to extend, not something "fixable" by ratio analysis.

Bank Statement, Stock Statement, Tax Audit, GST, ITR & Cash Flow Analysis

Tax Audit vs Company Audit Tax Audit Report (Form 3CB / 3CD) - Mandated under **Section 44AB** and related sections of the Income Tax Act. Performed by a practicing CA, uploaded to the Income Tax Department portal. - **Form 3CB**: one-page form with basic client info — auditor's opinion on whether the balance sheet/P&L give a "true and fair view," period covered, name/PAN/address of client and head office/branches. Used for ~95%+ of MSME cases (3CA is used only for specified categories of assessees already covered under other law-mandated audits). - **Qualified vs Unqualified report**: an *unqualified* opinion = no negative remarks (positive). A *qualified* opinion = auditor has flagged specific negative observations — read these carefully. - **Form 3CD**: detailed, multi-page (often 15+ pages) annexure with granular disclosures. As a banker/credit analyst, only ~5–7 fields are actually relevant: 1. **Name, address, PAN of assessee** — cross-check against KYC/GST certificate/ITR. A single-digit mismatch in PAN across 3CD, KYC, PAN card, and ITR is a red flag for fraud (the audit report may belong to a different entity). 2. **GST/indirect tax registration number** — tally against the GST certificate. Independently verify on the GST portal (Services → Registration → Search Taxpayer by GSTN) — check (a) registration status Active/Inactive, and (b) the **"filing table"** to see whether GSTR-1/3B are actually being filed and on time. A client can submit fake GST returns in the document checklist that were never actually filed — this portal check catches that. 3. **Partners/AOP members and profit-sharing ratio, and any change during the year** — cross-check against the partnership deed; also flags if a key partner (who was actually running the business) has exited. 4. **Nature of business / any change in business model** (e.g., trading vs manufacturing) — cross-check against client's verbal description. 5. **Method of stock valuation** — should be "cost or market value, whichever is lower." If a client has switched to valuing stock at market value (or changed method year-on-year), stock/profit/assets are likely **overstated** — treat as a red flag. 6. **Payments to specified persons** (relatives, group concerns) — only *outgoing* payments are reported here (not receipts). Very high-value use for bankers: - Reveals names of **group/related entities** the client may not disclose verbally. - Reveals interest on unsecured loans, rent, and salary paid to related parties — used to **add back** such payments when calculating DSCR. - If declared net profit is low (e.g., ₹2 lakh) but ₹50 lakh has been paid out to family as salary/rent, the *real* economic profit is closer to ₹52 lakh — useful for gauging true repayment capacity. 7. **PF/ESI compliance** — check whether employer contributions were deposited by the due date. Chronic late deposit of statutory dues (using employee PF money for working capital) is a leading indicator of cash-flow stress and predicts EMI delinquency. 8. **TDS/TCS compliance** — rate, due date, actual date of deposit/filing. 9. **Quantity-wise sales details (units sold)** for trading/manufacturing concerns — use for a real, unit-based YoY comparison, since value-wise sales can look like they've declined purely due to falling unit prices even when volumes are growing. 10. **Preceding year's turnover figure** — useful to fill a gap when you only have 3 years of audited financials but need a 4th year's reference point. 11. **UDIN (Unique Document Identification Number)** — mandatory on every certificate a CA issues (introduced by ICAI to stop fake CA stamps/signatures/forged audit reports). Verify at the ICAI portal ("Verify UDIN") using the UDIN number printed on the report; if UDIN is missing, insist the client obtain it from the CA. A verified UDIN confirms the report was genuinely signed by a real CA.

Company Audit Report (Independent Auditor's Report / Statutory Audit Report) - Governed by the **Companies Act** (not the Income Tax Act) — prepared by the **Statutory Auditor** (a CA), addressed primarily to the company's **shareholders/members**, while the Tax Audit Report is addressed to the Income Tax Department. - Also called the **Independent Auditor's Report**. A separate report from the Tax Audit Report even though prepared by the same/another CA — companies need both. - Key sections to read: **Auditor's Opinion**, basis of opinion, **internal financial controls**, and "matters to be included in the auditor's report" — covering: - Pending litigations and their impact - **Contingent liabilities** not appearing in the books - Any guarantees given without adequate security - **Undisputed statutory dues** outstanding - Related-party transactions - Physical verification of inventory / fixed assets - Any negative observations/qualifications the auditor has recorded (same concept as "qualified vs unqualified" in tax audit)

Bank Statement Analysis **General Approach** - Always establish the borrower's line of business first, and align the statement period with business seasonality before drawing conclusions from any single month. - A single overarching principle: **cross-check every large/unusual bank entry against the GST returns, sales register, party ledger, or verbal explanation from the client** — don't take narrations at face value.

Credit Summation / Churning - **Definition**: total value of credits (deposits) into the operating bank account over the review period (usually trailing 12 months), representing sales/collections routed through the bank. - **Benchmark**: banks typically expect at least **~80% of declared turnover** to reflect as credits in the bank statement (e.g., turnover of ₹5 crore → expect at least ₹4 crore of bank credits). - **Cross-check sources**: GSTR-3B / party-wise GST data to validate that the top customers named in GST filings are indeed the source of bank credits. - **Items to EXCLUDE from genuine "sales" credit summation** (common analyst mistakes): - Loan disbursement credits (e.g., packing credit disbursal, term loan disbursal) — these are financing inflows, not trade receipts. - Transfers from sister concerns / group companies / unrelated individual accounts. - FD sweep-in / sweep-out entries (auto-sweep facilities create repeated debit-credit pairs that are not real transactions) — exclude these. - Cheque-bounce reversal entries (a bounced cheque generates a debit then a reversing credit — don't double-count as fresh sales). - Unidentified inward transfers referencing only an account number with no clear party name — investigate before including. - Credit notes. - **Seasonality**: for seasonal businesses (e.g., winter garments — major transactions Sept–Dec), don't judge cash flow using an off-season window (e.g., March–Sept) — you will misread comfortable business as weak. Match the statement review period to the business cycle. - **Party-level drill-down**: use the top 4–5 debtors (often ~40%+ of total receivables) as a checklist and confirm their names appear as the source of credits in the bank statement. - **Suspicious narration patterns**: unrelated-sounding party names crediting the account (e.g., a "metal company" or "construction company" name appearing in the books of a garment trader) should raise a flag — question the client on the relationship.

Debit Summation - **Definition**: total value of debits (payments) made specifically to trade **suppliers/creditors** — exclude all non-trade debits (loan repayments, personal transfers, capital withdrawals, FD creation, statutory payments, etc.) when doing this specific calculation. - **Reconciliation formula (worked example)**: - Opening creditors + purchases during the period − closing creditors = expected payment made to suppliers during the period. - Example figures used: Opening creditors + purchases of ₹110 = ₹425 total payable; less closing creditors ₹265 → implied payments to suppliers during the period = **~₹177** (illustrative worked mechanic, not exact reproducible numbers). - This computed "expected supplier payment" figure should then be **tallied against the actual debit summation in the bank statement**. A gap of ~5–10% is considered normal; a 20–25%+ variance should be investigated and explained by the client. - Cross-check supplier payments against the GST purchase register / GSTR-2A/2B and against narrations naming actual known suppliers.

Packing Credit (Pre-Shipment / Export Finance) Statement Analysis - **PC (Packing Credit)** = pre-shipment finance in **INR**; **PCFC** = Packing Credit in **Foreign Currency** (denominated in USD, EUR, GBP, etc. — a *separate account is opened per currency*). - **Mechanics**: exporter receives an export order → approaches bank with the order copy → bank sanctions PC after deducting its margin (e.g., on a ₹20 lakh order, bank may disburse ₹15 lakh after margin) → funds are disbursed into the PC/PCFC account and *immediately transferred out* to the client's operating CC/OD/current account (a PC account can **only** show export-related debits and credits — no capital infusion, no RTGS for unrelated purposes; all other transactions must go through the CC/OD/current account). - **Tenor**: bank sanctions PC tenor equal to (pre-shipment period + expected realization period), e.g., 90 days to ship + 60 days for payment realization = **150-day combined tenor**. - **Tracking method — two options**: 1. **Order-based (earmarked) tracking**: each disbursement is tagged to a specific export order/reference number with its own due date — bank tracks realization order-by-order (like a mini term loan per order). 2. **Running-limit tracking**: functions like a revolving CC/OD limit; incoming export payments are adjusted using **FIFO (First In, First Out)** against the oldest outstanding drawdown. - Banks generally prefer order-wise tracking for better control (to verify genuine export realization and prevent fund diversion), though running limits are also offered, especially where banks want cleaner books. - **Critical caution — PC disbursement credit is NOT a customer/export payment.** When analyzing the CC/OD/current account, a large PC disbursement credit (e.g., ₹15 lakh) must **never** be miscounted as a genuine export sales realization — it is a **loan drawdown**, not a receivable collection. - **"Postponement" / conversion**: if realization doesn't happen within the PC tenor, the client can request the bank to convert the outstanding PC into a **post-shipment finance** account (via routing export documents through the bank) — this shifts the liability into a new account/entry and effectively extends the runway using the post-shipment realization period. Analysts frequently cannot tell from narration alone whether an inflow is a genuine export realization or simply a postponement-conversion entry — cross-check against RBI defaulter list / CIBIL for any reported PC delays if in doubt. - **Multi-currency conversion**: if PC is maintained in USD/EUR, disbursements/realizations get converted to INR at the day's rate when moving into the CC/OD/current account. For a full-period bank statement analysis, use an **average exchange rate** across the period to reconcile USD-denominated PC flows into INR. - **Interest**: PC interest is debited to the CC account (not the PC account itself) — since each drawdown against a different order has a different value date, multiple separate interest-debit entries will appear on the same date in the CC statement. - **Monitoring importance**: RBI closely monitors on-time realization of export proceeds in foreign currency — delays are a serious compliance/risk flag, separate from ordinary credit risk.

Cash Credit (CC) & Overdraft (OD) Statement Analysis - Standard columns: date, narration, debit (withdrawal), credit (deposit), running balance. - **Interest** is charged monthly (month-end), computed on daily outstanding balance from the 1st to the last day of the month. - **Temporary/adhoc overlimit**: banks typically allow a temporary excess over the sanctioned limit, commonly cited around **~10% of the sanctioned limit** (varies bank to bank). - **Stop-statement / freeze**: non-submission of periodic stock statements (or other compliance lapses) can trigger the bank to "stop" fresh drawings on the account until compliance is restored — check for any such holds and penal charges levied for the lapse. - **Drawing Power (DP)** is derived from the latest stock/book-debt statement — always tie the account's utilization back to the DP calculation. - **Average limit utilization %** — average of daily closing balances over the month/quarter, divided by sanctioned limit: - ~80%+ utilization = high utilization, needs closer scrutiny (check whether it reflects genuine stocking-up ahead of season, or is a sign of diversion/no headroom). - ~60–70% utilization = considered a comfortable/healthy level. - Persistently low utilization can itself be a flag — suggests the client may not actually need the sanctioned limit, or is diverting funds/using the limit for a different purpose than declared. - Check number of days/instances the account ran in overdrawn/over-limit position, and whether interest debited each month is being serviced by matching credits (unserviced interest compounding into principal outstanding is a stress indicator).

Dropline Overdraft (DOD) Statement Analysis - **Key structural feature**: unlike a standard OD/CC, in a Dropline OD the **sanctioned limit itself steps down** periodically (monthly/quarterly/half-yearly/annually) per an agreed repayment schedule — e.g., a ₹10 lakh DOD limit dropping by ₹10,000 every month means the available limit falls to ₹9,90,000 from the next cycle, ₹9,80,000 the cycle after, etc. - **Must obtain**: the **sanction letter / repayment schedule** — without it you cannot verify the correct stepped-down limit at any point in time. - **Reconciliation approach**: for each drop date, check that the account's outstanding balance was brought down to at or below the new (lower) permissible limit *before* the drop date — this evidences that the client actually serviced the **principal** portion (not just interest) of the DOD, similar to a term loan repayment. - Worked example: ₹10 lakh limit, monthly drop of ₹10,000, monthly interest (simplified, illustrative) ≈ ₹1,000. If, by the drop date, utilization was only brought down to ₹9,91,000 instead of the required ₹9,90,000, the ₹1,000 gap = interest not serviced (distinct from principal reduction) — treat as a **critical condition/red flag** if it recurs, though a short (4–7 day) delay in clearing pure interest is sometimes tolerated as normal/operational. - Recommendation: as an underwriter, prefer setting up a **standing instruction / auto-debit** from the operating account into the DOD for the periodic drop amount (plus interest) a few days ahead of the due date, to avoid analyst confusion and genuine compliance risk. - **General limit-utilization guidance (applies to CC/OD/DOD alike)**: ~80% average utilization = comfortable/typical; ~60% = very good (client has liquidity headroom); 90%+ warrants deeper scrutiny of stock position, since some businesses (e.g., iron & steel, seasonal-price-sensitive trades) legitimately run near-full utilization due to bulk/urgent procurement needs. - **Current account / savings account addenda**: - Current accounts: same credit-summation/debit-summation logic applies; no limit, no interest servicing, no drawing power/DP concerns. - Savings accounts (individual/guarantor profiles, salaried cases): check timeliness of salary credit, average balance maintained relative to the person's income/profile, and any unusual personal-nature debits (property purchase, large medical expenditure, share purchases) that may signal financial stress affecting the applicant's/guarantor's capacity. - **Cheque bounce tolerance**: inward cheque bounce rate of **1–2% of total cheques presented** is generally acceptable; higher levels warrant closer review of the reason (technical/signature mismatch vs genuine insufficiency of funds). - **Bank charges review**: scrutinize any unusual/large penal or bounce charges appearing in the statement — unexplained spikes (e.g., sudden ₹15,000–25,000 in charges) usually indicate an unreported adverse event (e.g., a legal notice, penalty, or dispute) worth investigating with the client.

Perfios / Excel Pivot Table Method for Bank Statement Analysis 1. **Prepare raw data**: export the full transaction history (bank statement summary sheet, e.g., from Perfios) into Excel with columns: Sr. No., Date, Description/Narration, Category (bank-assigned, may be wrong — verify), Debit, Credit, Balance. 2. **Split into two working sheets**: a **Debit** sheet and a **Credit** sheet (copy the raw data, then delete the irrelevant Debit/Credit column and all "balance carried forward" rows from each, keeping only genuine transaction rows). 3. **Build a Pivot Table** on the Credit sheet: Rows = Party/narration description; Values = Amount (sum), shown both as a number and as "% of Grand Total"; sort descending (Largest to Smallest) to instantly see which parties dominate inflows (e.g., one worked example showed a single party contributing ~67% of total credit transactions). 4. **Clean/normalize party names**: bank narrations for the same real-world party often vary (e.g., extra spaces, slightly different spellings) — use Find & Replace to merge these into a single consistent party name before re-pivoting. Focus cleanup effort only on the parties contributing the largest amounts (e.g., top parties making up ~75–80% of total value) — don't waste time cleaning small, immaterial entries. 5. **Investigate unclear narrations**: for inflows named after a bank (e.g., "HDFC Bank") rather than a trade party, drill into whether it's a loan disbursement (exclude from sales) or simply a transfer routed via/for a business party. 6. **Party-Month cross-tab**: build a second pivot with Party (rows) × Month/Year (columns, via "Group" on the date field) to see the monthly trend per party — useful to confirm a party relationship is a genuine, recurring trade relationship (not a one-off large deposit dressed up as sales) and to sanity-check against seasonality claims and balance-sheet debtor/creditor figures. 7. Reuse the same debit-side pivot logic to analyze supplier-wise payment patterns. 8. This spreadsheet-based summary is recommended over relying solely on the bank-provided "analysis sheet" in the Perfios report, which is often less readable/informative than a custom pivot.

Bank-Statement-Only Credit Decisioning Scenario: the only documents available are KYC (of the firm and individual borrowers/partners) and bank statements — no GST returns, no financials. This is common for pure banking-variant working capital products where eligibility is calculated off the bank statement alone.

Step 1 — Mine the KYC hard for qualitative comfort - Pull CIBIL/bureau data thoroughly: existing total exposure of the client across lenders, number of inquiries in the bureau, past conduct/settlement flags. - Check for any adverse address flags. - Do a Google/adverse-media check on the client and the segment/sector. - Confirm vintage is adequate — a business only 1-2 years old asking for a large facility is a red flag under this limited-information approach. - Confirm the relationship structure between parties is clear (who is related to whom).

Step 2 — Be restrictive because information is limited - Don't take a call on any "grey" factor — if something is borderline, treat it conservatively. Example: a client whose CIBIL/exposure is already very high and is asking for more without formal legal-heir/succession documentation — decline rather than accommodate. - Recommended ticket-size discipline for pure bank-statement-only lending: **₹50 lakh to ₹1 crore**, though this is ultimately bank-policy dependent. - Collateral quality must be higher-grade given the information gap: - Prefer residential/commercial property; avoid agricultural land, plant land, etc. - Suggested coverage: **120–125% of loan value** in property security for a given loan request. - If the facility is being extended against an industrial property, ask for **at least 150%** coverage.

Step 3 — Deep-dive the bank statement itself (treat total bank credits as a proxy for sales) - Because there's no GST/financials to cross-verify, take total credit summation in the bank statement as a proxy for the client's sales — don't layer in unverifiable assumptions about what % of sales is captured in banking. - **Debt-load sanity check**: Add up the client's other existing debt obligations against the scale of credit summation. If total existing exposure is already large relative to the credit-summation-implied business size, question why more funding is needed. - **Month-wise trend of credit summation**: Build a table of monthly credit-summation amounts. Compare the most recent 2-3 months' average against the trailing 12-month average. - If recent months show a marked decline vs. the historical average, that signals **declining sales** — either demand the historical period's data as well, or ask for GST return details to independently verify, or decline/restrict the facility. - **What counts as genuine "credit submission" (sales) vs. what to exclude**: - Include: payments that are genuinely customer/sales receipts. - Exclude: inter-bank/self transfers between the borrower's own accounts, promoter capital infusion entries, loan disbursement credit entries. - **Related-party / layering checks on the credit and debit entries**: - Read counterparty names carefully. Example red flag: a garment business showing credits from an "iron & steel" sounding counterparty. - Watch for same-surname counterparties (e.g., borrower "Amit Vohra", credit entries from "Vohra & Associates") — a likely related-party / non-genuine-sale entry. - Check **concentration/dependency**: if credits and debits are concentrated with just 1-2 counterparties, that's a negative — count and flag it before it distorts the apparent turnover figure. - **Mandatory site/factory visit**: Even in a pure bank-statement product, physically visit the borrower's premises. Judge the activity level, stocking, condition of the building, and the promoter's knowledge of the business — cross-check this qualitative read against what the bank-statement trend suggests.

Step 4 — Sizing the facility - Typical policy: eligibility is a percentage of the trailing 12 months' credit summation, plus an allowed growth projection (e.g., up to ~20% growth over the trailing-12-month average), though exact multiples vary by bank policy. - In this bank-statement-only variant, working capital eligibility is usually **turnover (credit-summation) based rather than average-balance based** — the average-balance method is more typical of overdraft/OD-type lead products. - Stay within the bank's policy framework, but push for the best possible outcome using the best possible read of the limited data.

GST Return Analysis for Credit Assessment

- **GSTR-1**: return where the seller reports **outward supplies (sales)** — “sales reporting” filed by the seller. If a seller under-reports/hides sales in GSTR-1, it will not appear in GSTR-1 for that period and consequently will not flow through to the buyer’s GSTR-2A.
- **GSTR-2A**: auto-populated, purchase-side reflection **based on what counterparties have reported in their own GSTR-1** — shows a buyer’s available Input Tax Credit (ITC) as reported by suppliers. **Most banks do not rely on GSTR-2A** for credit assessment — they primarily use GSTR-3B.
- **GSTR-3B**: monthly **self-declared summary return** — contains the taxpayer’s own declared **output tax liability** (from sales) and **input tax credit (ITC) claimed** (from purchases). This is the **primary document banks rely on** for turnover/purchase verification, since it captures both sides of the taxpayer’s own return in one place.
- **Inverted duty structure red flag**: if a business’s **input tax rate is higher than its output tax rate** (e.g., paying 28% GST on inputs while collecting only 5–10% GST on outward sales, or the reverse), **ITC will continually accumulate/carry forward** rather than being fully utilized against output liability. This can be legitimate (genuine inverted duty structure businesses exist) but the pattern must be explainable — if it isn’t, it’s a flag that ITC or tax liability isn’t behaving in a way consistent with declared sales/purchases.
- **Cross-check the stock statement against GST filings**: purchases/creditors reported in the borrower’s stock statement submitted to the bank should reconcile with purchase figures embedded in GSTR-3B; a material, unexplained mismatch suggests the stock statement (or the GST return) is being manipulated.
- **Tax liability consistency check**: output tax liability should track roughly proportionally with declared sales volume month to month — if a large volume of sales is claimed but the corresponding output GST liability doesn’t show up commensurately, investigate (this can indicate overstated sales being shown to the bank that were never actually reported to GST, or vice versa).

Stock Audit & ITR Analysis Stock Audit Report — Key Red Flags - **Frequency** of stock audits is typically linked to exposure/limit size and bank policy/request. - **Margin**: commonly cited example — **75% margin** allowed on stock value for drawing power purposes (i.e., ~25% haircut/margin retained by the bank), though margin percentage varies by bank/commodity/collateral type. - The **stock auditor identifies discrepancies** between the client’s self-reported stock statement and physically verified stock — these discrepancies directly affect the **Drawing Power (DP)** calculation (DP should be recalculated using audited/verified figures, not the client’s own declared figures, where a material gap exists). - Check for **excess cash/stock** reported by the auditor beyond what is declared, and how (or whether) it gets regularized/deposited. - **Valuation of stock** — verify the stock auditor’s basis of valuation aligns with the accounting policy (cost or market value, whichever is lower) used elsewhere in the borrower’s financials (ties back to the 3CD stock valuation-method check under Tax Audit). - **Insurance coverage** — check whether the insured value adequately covers the stock/asset value reported; under-insurance is a common finding and a risk flag if a loss event occurs. - **Physical verification of stock** is the core exercise of the audit — the report should confirm actual physical counts were performed, not just a desk review.

ITR Analysis for Loan Assessment - For guarantors, co-applicants, and individual promoters, banks typically request the **ITR-V (acknowledgement) plus computation of income**, not just the ITR form itself. - **ITR-V** is a single-page acknowledgement — check the **date of filing**, self-assessment tax paid, and **deductions claimed** (e.g., LIC/80C, medical/health insurance claims) to understand the individual’s real disposable income and financial discipline. - Cross-verify declared income and TDS credits against **Form 26AS** to check for consistency between what is claimed and what is on record with the tax department. - Deductions claimed can meaningfully reduce apparent taxable income relative to gross earnings — factor this in when assessing a guarantor's/individual's real repayment capacity, rather than relying on the net taxable income figure alone.

Cash Flow Statement Analysis

- A cash flow statement is built (illustrated using a **Reliance Group** example) by classifying all cash movement into **three activities**:
  1. **Operating Activities** — cash generated/used in the core, regular business (day-to-day earning and spending).
  2. **Investing Activities** — cash flows from buying/selling fixed assets, investments, etc.
  3. **Financing Activities** — cash flows from borrowings, repayments, capital infusion/withdrawal, dividend payouts.
- **Core credit-analysis principle**: a fundamentally healthy, ongoing business should show its **operating activities generating positive net cash** on a regular/recurring basis. If net cash from operating activities is negative (or erratic) while the reported P&L shows a healthy net profit, this divergence between accounting profit and operating cash generation is an important red flag to dig into (possible working-capital stress, aggressive revenue recognition, or profit not translating into real collections).
- Depreciation (a non-cash P&L expense) is added back when reconciling net profit to operating cash flow (standard indirect-method logic).
- Read the "Net cash flow from operating activities" line item specifically, and compare it year-on-year to spot whether the business is becoming more or less cash-generative from its core operations, independent of one-off investing/financing items.

Advanced Topics

Large-Ticket Underwriting & Fraud Detection *(Illustrated via a detailed real case study — "Manipulation of books of accounts: banking scams and loan frauds" — which also directly demonstrates large-ticket corporate loan underwriting concepts: proposal structuring, key financial indicators, and balance-sheet fraud identification.)*

Case background - Borrower: "ABC Textile Pvt Ltd" (anonymized) — a 30+ year vintage, third-generation family spinning unit manufacturing **acrylic yarn from recycled/reused wool** (imported as waste wool from Thailand, China, Malaysia). Recycled-wool-based yarn is inherently **lower-grade, lower-margin** product versus virgin-wool yarn. - Multi-banking arrangement (pari passu): - **Bank A** (main financier since 2018, ~6 years): Cash Credit ~₹20 crore, Machinery Term Loan ~₹4 crore, GECL ~₹3 crore → ~₹27 crore exposure. - **Bank B** (joined 2021, ~3 years): ~₹7 crore exposure. - Total group exposure: ~₹34 crore. - **The ask**: a straightforward *takeover* — move Bank B's ₹7 crore relationship to the new bank, with **total debt unchanged** (no net increase). On its face a low-risk, no-incremental-money proposal. - **Collateral offered**: ~₹16 crore total (industrial property ~₹10 crore, residential property ~₹4 crore, commercial office, and a plot) against a total non-guaranteed exposure of ~₹32 crore (₹34 crore minus the ~₹2 crore GECL portion, which carries government guarantee and doesn't need security backing) — roughly **50% collateral coverage**, typical/acceptable for large-ticket loans (which often carry lower collateral ratios than small-ticket loans). Property was already mortgaged with Bank A, who would extend a pari passu charge. - CIBIL: entity CMR score not applicable (large entity); individual promoters' scores 750+ — no bureau red flag.

Red flags surfaced during deep underwriting

1. **Bifurcated banking conduct across the two banks** — Bank A showed 100% clean conduct: full utilization of the ₹21 crore CC limit, all "churning" (turnover routing) passing through it, timely term-loan/GECL installments, no bounces/overdues/penal charges. **Bank B, despite 3 years of relationship, showed negligible churning** — proportionate turnover routing that should have occurred (given ₹21+7=28 crore combined exposure, sales should route roughly proportionately across both banks) simply wasn't happening. Utilization was capped at just under ₹5 crore every month for 12 straight months (against a ₹7 crore sanctioned limit), and interest servicing was delayed by 15-25 days repeatedly. **Lesson: divergent conduct between multiple bankers over a multi-year relationship is a major red flag, especially when one relationship shows suspiciously capped utilization.**

2. **Abnormal margin expansion inconsistent with the business model.** EBITDA margin moved 6.63% → 5.3% → 13% (a sudden jump), and PAT% moved roughly 1.16% → 6.14% between the last two years — on ₹89 crore of sales this implied a large absolute profit jump for a low-margin, recycled-input spinning business. All figures were from "audited" financials.

3. **Profit not retained — capital roughly flat despite claimed profits being earned**, implying the claimed profit was being withdrawn rather than reinvested — inconsistent behavior for a business claiming to need continued credit support. Fixed assets also showed little real investment over several years despite the claimed profitability and R&D story.

4. **Creditors shrank to an implausibly low ~6 days**, cross-verified against 6 months of stock statements which showed stock and debtor levels essentially unchanged month-to-month despite the claimed strong sales growth — a genuine growing/profitable business should show corresponding movement in stock and debtors, not a flat line.

5. **GST-vs-audited-sales gap**: GST returns showed ₹83 crore of sales vs. ₹89 crore in the audited financials — an unexplained ₹6 crore gap. Investigation traced this ₹6 crore to two simultaneous manipulations:

   - It was booked as **"Capital Work in Progress" (CWIP)** on the fixed-asset side — but on inspection this "CWIP" turned out to be ordinary revenue expenses (interest, marketing, fuel, wages) improperly capitalized rather than genuine capex.
   - The *same* ₹6 crore was **also booked as a fictitious sale**, parked under "Loans & Advances" on the asset side (not under Debtors) with the excuse that "agreements were executed but bills hadn't been cut yet" for ~7-8 small MSME counterparties — implausible since small MSME counterparties don't typically execute formal sale agreements.
   - **Underwriter's correction**: reclassified this ₹6 crore from "Loans & Advances" back to Debtors in the CMA — since if it's genuinely a sale, it belongs in debtors, not loans & advances.
   - **Logical inconsistency flagged in the revised ITR**: the borrower's CA filed a *revised* ITR (Feb 2024) that removed this ₹6 crore, but removed the **full ₹6 crore sales value** from net profit — whereas correctly, only the **profit margin embedded in that ₹6 crore of sales** should reduce net profit, not the full sales amount. This mismatch is a strong indicator of a rushed/inconsistent cover-up rather than a genuine correction.

6. **"R&D" explanation for the abnormal margin jump — multiple holes:**

   - Borrower claimed to have invested in R&D and developed proprietary technology to make "premium quality yarn from recycled wool," justifying both the margin jump and the capitalized expenses.
   - **No patent was filed** for this supposedly valuable proprietary technology — a major red flag; a genuine breakthrough of real commercial value would normally be pro-

tected.
- The R&D expense deduction was claimed in the ITR under **Income Tax Act Section 37(1)** (general business expense) rather than **Section 35** (the section specifically for scientific research expenditure) — indicating the claimed R&D wasn't treated as genuine scientific research even by the borrower's own tax filing.
- The specific expenses "capitalized" as R&D (bank interest, wages, marketing, fuel) are ordinary operating costs, not identifiable R&D costs (no dedicated R&D machinery/facility evidenced).

7. **Implausible excuse for Bank B's poor conduct**: borrower claimed Bank B's "net banking wasn't working properly for 3 years" — not credible for a large bank relationship over that time span.

8. **Reverse-engineering / roll-forward math disproved the claimed 2024 profit.** For the 2024 provisional year, borrower claimed ₹1 crore profit, growing debtors, and growing stock. But:

   - Full bank-statement churning was observed at 100% of claimed sales — mathematically, if debtors had genuinely grown as claimed (meaning slower collection), churning/realization should have been well below 100% (the underwriter calculated it should be closer to ~70%). 100% churning is inconsistent with rising debtors — proving the claimed debtor increase (and therefore the profit said to be "sitting" in debtors) was not real.
   - Similarly, stock statement data over the same period showed stock/creditor levels flat, not rising as claimed.
   - **General method**: use the identity `Opening + Purchases/Sales − Realized/Paid = Closing` across debtors, creditors, and stock to cross-check whether a claimed profit or balance movement is mathematically consistent with what the bank statement and stock statements actually show. If the claimed profit "went somewhere" (retained earnings, fixed assets, stock, debtors, or reduced limit utilization) but none of those line items actually moved, the profit is not real.

9. **2024 provisional financials repeated the same pattern**: another ~₹6-7 crore of expenses understated and diverted into CWIP, and a sales figure (₹98 crore) that didn't reconcile with the underwriter's independently derived figure (~₹86 crore).

10. **Physical/manufacturing output data showed declining production quantity year-on-year** — directly contradicting the claimed growth and profitability story.

11. **Market/reference intelligence uncovered the real picture**:

    - Bank B had actually **frozen/blocked ₹2 crore of the sanctioned limit** due to the borrower's poor conduct (deliberate non-churning + delayed interest servicing) — contradicting the borrower's excuse entirely.
    - Customer reference checks revealed the company was largely engaged in **circular/cyclical trading with the same counterparties** (buy-sell transactions with the same parties repeatedly) — a classic indicator of bogus/accommodation billing rather than genuine trade.
    - Market intelligence revealed the underlying motive: the company was **planning an SME IPO** and was inflating its books (revenue and profit) to attract investors — with the risk that promoters could exit with investor money after listing.

Outcome: the proposal was rejected — the deep-dive underwriting protected the bank from a probable fraud/future-default scenario.

General red-flag checklist distilled from this case (balance sheet / books manipulation) - Divergent banking conduct across multiple bankers in a multi-banking arrangement — especially one bank showing suspiciously capped utilization and delayed servicing versus another showing full, clean utilization. - Sudden, unexplained jump in margins inconsistent with the business's inherent economics (low-margin segment suddenly showing high margins). - Profit earned but not retained (capital roughly flat) — profit seemingly withdrawn rather than reinvested. - Stock/debtor/creditor levels essentially frozen across many months despite claimed strong sales growth (compare monthly stock statements against the claimed trend). - Mismatch between GST-return sales and audited-financial sales. - Suspicious asset reclassification — routine expenses capitalized as CWIP or as fictitious sales/loans & advances to inflate both the P&L and the balance sheet simultaneously. - Deductions claimed under the wrong Income Tax Act section (e.g., general business expense section instead of the specific R&D section) for costs claimed to be R&D. - No patent/IP protection for a claimed proprietary technology that supposedly drives outsized margins. - Implausible, non-verifiable excuses for poor conduct at one lender ("net banking wasn't working for 3 years"). - Roll-forward math (Opening + Purchases − Payments = Closing, applied to stock, debtors, creditors) that doesn't reconcile with the bank statement's actual churning/realization. - Declining physical output/production quantities contradicting a growth narrative. - Circular/cyclical trading patterns with the same counterparties (possible accommodation billing). - Underlying motive checks (e.g., an upcoming IPO) that would incentivize inflating the books.

Profitability vs Bankability Core distinction: - **Profitability** = how well the client is earning, checked as-per-books (Gross Profit ratio, EBITDA margin, operating profit, Net Profit ratio); for businesses that partly operate out-of-books, the analyst also tries to sense true earnings beyond the books. - **Bankability** is a much wider concept. Analogy: profitability is like a prospective spouse's income — someone can earn very well and still be a poor match because of behavioural or other issues. Similarly, strong on-paper profit does **not** automatically mean a borrower is bankable, and weak profit does **not** automatically mean a borrower is unbankable. - Bankability factors considered together: business model, industry, promoters' knowledge/experience, future potential, cash flows, net worth, collateral security, financials, past repayment history, banking behaviour, and more. Profitability is just **one hidden factor** buried inside the cash-flow/financials piece of this larger picture.

Worked example 1 — REJECT despite high profitability: Furniture manufacturer: Sales ₹5 crore, COGS ₹3 crore → Gross Profit ₹2 crore, operating expenses ₹1 crore, Net Profit ₹80 lakh (16% NP margin — high). But on deeper (360°) review: - Sales are heavily on credit; receivables are stuck beyond **180 days** and "sticky" — profit is reported but never actually realised in cash. - Bank statement shows very little of this claimed turnover actually being deposited, and shows **highly circular entries** (round-figure payments in and out on the same day). - Collateral offered is weak, debt/leverage is comparatively high, and a site visit found **less physical stock** than the books claimed. - **Verdict: case rejected** — highly profitable on paper but not bankable.

Worked example 2 — APPROVE despite low profitability: Grocery supermarket: Sales ₹50 crore, Net Profit only **1%** (grocery retail is an inherently thin-margin, highly competitive business — low margin here doesn't mean something is wrong). Positives found: thousands of daily footfall customers across 3 self-owned stores (risk highly diversified across customers), no debtors at all — payments settle same-day via UPI/card/cash so no cash gets stuck, ~₹5 crore of ready inventory to service demand, audited by a reputed CA firm, good banking habits, EMIs paid on time. **Verdict: bankable** — loan can be given despite the low margin, because the wider bankability picture is strong.

Worked example 3 — REJECT despite high profitability: Construction business (roads/bridges/flyovers) using the **percentage-of-completion** accounting method: on a ₹10 crore government contract, 40% of work is claimed complete → ₹4 crore revenue booked, ₹1 crore profit booked (25% margin — very high). But: government has not verified or paid any of the ₹4 crore; the contractor has **no owned machinery, engineers, or staff** — all work is subcontracted further; limits are overdrawn because no real cash has come in; EMI bounces are occurring. Construction/government contracting carries heavy political and bureaucratic payment delays. **Verdict: rejected** — high profit on paper, but not bankable because the "profit" hasn't and may never convert into real cash.

Worked example 4 (posed as an exercise, not resolved) — hand-tools manufacturer: Sales trending up (₹3cr → ₹3.4cr → ₹3.8cr), Net Profit trending up (₹20L → ₹33L → ₹45L), requesting a ₹1 crore machinery term loan to raise capacity by 40%. DSCR 2.06, collateral ₹1.5 crore against the ₹1 crore ask, clean CIBIL, no material past defaults. But: the client sells hand tools to small farmers and local rural traders on a **3-6 month credit cycle**, while having to pay immediately (cash) for its own steel input, wages, rent and utilities — a structurally tight liquidity mismatch (pay now, collect much later), and farmer-customer income is itself seasonal/weather- and policy-dependent, adding collection risk. Framed as a judgment call: approve as-is, reject, or approve with modifications (lower loan amount, higher collateral, higher interest rate, etc).

Worked example 5 (also posed as an exercise) — restaurant chain: 3 restaurants (2 owned, 1 rented), 4 years old, Sales ₹2.4 crore, Gross Profit ₹1.4 crore, Net Profit margin ~14% — healthy profitability. Recently renovated all 3 restaurants for ₹1.2 crore (50% self-funded, 50% bank debt). Post-renovation the business runs on a tight monthly cash cushion (net roughly a few lakh/month left over after covering EMI and running costs) — tight but currently manageable. Client now wants an additional ~₹80 lakh loan to open a 4th restaurant, which would take ~6 months of construction before it starts generating any revenue, and is offering 100% collateral coverage. Framed as a judgment call given the construction-delay risk, the possibility the new restaurant underperforms, and the already-thin existing cash cushion: approve, reject, or approve with modified conditions (lower loan amount, higher collateral, higher interest rate).

CMA Treatment of Deferred Tax Assets & Liabilities Governed by **Accounting Standard 22** (older framework) / **Ind AS 12** (current framework).

Why the difference arises: Profit-before-tax as calculated in the borrower's own books does not have to match the profit the Income Tax Act treats as taxable. The IT Act may disallow ("add back") certain book expenses, producing a higher taxable profit — and therefore a higher tax bill — than what the books alone would imply. The gap between book-calculated tax and actual-tax-payable falls into one of two categories:

1. Permanent differences — never create a DTA/DTL - Example: **fines and penalties** (e.g., for late GST/PF filing). The Income Tax Act disallows these as a deductible expense outright and permanently — this add-back is never reversed in any future year. - Because the difference never reverses, no Deferred Tax Asset or Deferred Tax Liability is ever created against a permanent difference.

2. Temporary / timing differences — these DO create a DTA or DTL - Classic example: **depreciation method mismatch**. Companies typically depreciate in their own books using the Straight Line Method (SLM), while the Income Tax Act allows depreciation on the Written Down Value (WDV) method (which front-loads higher depreciation in early years) — plus IT law is more generous with rates and offers additional depreciation. - **Worked example**: Machinery costing ₹10,00,000. Books (SLM, 10% flat): ₹1,00,000 depreciation charged every year for 10 years. Income Tax (WDV, 20% rate): Year 1 ≈ ₹2,00,000, Year 2 ≈ ₹1,60,000, Year 3 ≈ ₹1,28,000, Year 4 ≈ ₹1,02,400, Year 5 ≈ ₹81,920, Year 6 ≈ ₹65,536, and so on, tapering every year. - **Years 1-4**: IT-allowed depreciation > book depreciation → taxable profit is *lower* than book profit → the client pays *less* tax now. This looks like a tax saving, but it isn't. - **From Year 5 onward**: IT-allowed depreciation < book depreciation → taxable profit is *higher* than book profit → the client must pay *more* tax to make up the difference. - **Key insight**: the "tax saved" in the early years is not a real saving — it is simply deferred, and the tax department will recover it in later years through higher tax bills. Being happy about "saving tax" in the early years is the wrong reaction; the client should instead provision for it, because more tax is coming due later.

Accounting treatment: - Where a temporary difference causes the client to pay **less** tax today (in exchange for paying more later) → create a **Deferred Tax Liability (DTL)**. Entry: `P&L A/c Dr, To DTL`. This is booked as an expense in the P&L today, which correspondingly reduces Reserves & Surplus (and therefore reduces Adjusted Net Worth / ANW in a CMA, since Reserves & Surplus feed into ANW). - Where a temporary difference causes the client to pay **more** tax today (with the benefit to come later) → create a **Deferred Tax Asset (DTA)**. Entry is the reverse: `DTA A/c Dr, To P&L A/c`. This adds to P&L profit, increasing Reserves & Surplus and ANW.

CMA classification rule: Because the underlying benefit/obligation of a DTA or DTL only crystallises several years out (in the worked example, from Year 5 onward), **both DTA and DTL should always be classified as long-term (non-current)** in the CMA — never as a current asset or current liability.

When Banks Ignore ITR & Rely on Projections **General banking logic:** a loan given today is repaid in the future, so banks judge future reliability using past conduct/performance. Income Tax Returns (ITR) represent that past performance record, so banks normally lean heavily on ITR. This section covers the specific circumstances where a bank instead relies on the client's own future business **projections** in place of (or alongside) the ITR.

Scope note: this "ignore ITR, work off projections" approach applies **only to business funding / working capital financing** — it does **not** apply to Loan Against Property, auto loans, personal loans, or home loans.

Important framing point: the underlying problem is never simply "the ITR is weak" or "the projection looks aggressive." Aggressive projections are acceptable *if* backed by a credible, fact-based logic and calculation. The real problem is when the logic behind the projection is weak or unsubstantiated — projections must never be accepted out of thin air.

Circumstances where ITR becomes irrelevant and the bank must rely on projections instead: 1. **Brand-new business** — there simply is no past to assess. Judge instead via the project report, order book / orders-in-hand, machinery capacity, industry context, and promoters' experience level. 2. **Major expansion / capex case** — either (a) a large recent capex (new machinery, new factories) whose full impact hasn't yet flowed through the historical financials, or (b) an upcoming capex — funded by the very loan being requested — expected to double or triple sales. Either way, past financials reflect the *old* smaller scale and are not comparable to the client's *future* scale. 3. **Business model change** — a new export market added, a new product line, or an entirely new line of business. Historical data does not capture the impact of the change. 4. **ITR is understated (income deliberately suppressed)** — flagged as the single most common scenario in India, especially for cash-heavy trades (tea stalls, retail counters, real estate, etc.) where books systematically understate true earnings. In such cases ITR cannot be trusted as the basis for assessment. 5. **A one-time shock deflated the ITR** — e.g., a fire loss or COVID-19 — a one-off event unlikely to recur, so judging the client purely off that depressed ITR year would produce the wrong lending decision. 6. **Large project financing** — e.g., a real estate developer constructing a large building to sell floor-by-floor; the loan will be repaid from the *new* project's future sales, not from past performance, so the bank has no choice but to work off the project's projections.

When ITR canNOT be ignored (projections will not be accepted): - The business is genuinely stable with no material change — same shop, same factory, same capacity, same markets, same products. In this scenario the bank will not accept "airy" promises about the future without a concrete basis. - The projections themselves are unrealistic/unsupported — e.g., claiming profit or sales will grow 10x with no logical justification. Aggressive projections need a demonstrable basis (hard facts, calculations, contracts, order books, capacity data); without that basis, the bank will reject the projection outright regardless of how weak or strong the ITR is.

Summary of Exact Formulas (Quick Reference)

Ratio / Metric	Formula
Current Ratio	Current Assets ÷ Current Liabilities
Working Capital	Current Assets − Current Liabilities
Gearing / Debt-Equity Ratio	Total Debt (Short-term + Long-term) ÷ Net Worth (Equity + Reserves)
Debtor Days	(Closing Debtors ÷ Net Sales) × 365
Creditor Days	(Closing Creditors ÷ Net Purchases) × 365
Stock Holding Days	(Closing Stock ÷ Cost of Goods Sold) × 365
Interest Coverage Ratio (ICR)	Operating Profit (before interest) ÷ Interest Expense on Borrowings
Net Profit Margin	Net Profit ÷ Sales × 100
Fixed Assets Turnover Ratio (reference, not lecture-sourced)	Net Sales ÷ Net Fixed Assets
Debtors Turnover Ratio (reference, not lecture-sourced)	Net Credit Sales ÷ Average Debtors
Debtor Collection Days (reference, not lecture-sourced)	365 ÷ Debtors Turnover Ratio

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Videos Not Covered

The following planned lectures/topics had no usable transcript (garbled, caption-less, or never rendered by tactiq.io despite repeated/paced retries) and are therefore not represented, or only partially represented, above:

- **EBITDA / PBDIT** — captions almost entirely garbled; no formula, worked example, or definition could be reliably extracted.
- **Sales Projection** (within the CMA projections walkthrough) — captions almost entirely unusable/garbled; no reliable method extracted.
- **Stock Statement Analysis of Borrowers** — video never rendered a timestamped transcript despite extended polling.
- **Quick tips for P&L Analysis** — no transcript available after retries.
- **Fixed Assets Turnover Ratio** — no transcript available after retries (standard definition given for reference only, not lecture-sourced).
- **Analysis of Borrower’s Debtors** — no transcript available after retries (standard definitions given for reference only, not lecture-sourced).
- **Large-ticket corporate loan underwriting, Parts 1–5 individually** (Proposal Structuring, Key Financial Indicators, Fraud Identification, Cash Flow Statement importance, Final Touch) — beyond the partial coverage folded into the “Manipulation of Books” case study, these individual-part videos had no usable transcript even after a careful, paced retry.
- **Impact of prepaid expenses on the Current Ratio** — no usable transcript.
- **Group firms / sister concerns analysis** — no usable transcript.

- **CMA debt classification (long-term vs. short-term), as a dedicated topic** — no usable transcript (note: term-loan current/non-current splitting is nonetheless covered under "CMA Data — Preparation Walkthrough → Balance Sheet Entry – Liability Side," sourced from a different, clean-transcript lecture).
- Several lectures in the practical CMA-punching batch (numbered roughly 51–65 across the source series) had partially garbled auto-captions (heavy filler noise replacing actual speech), from which only fragments of usable technical content could be extracted — these fragments are folded inline above where reliable; four lectures in that batch had no transcript at all.
- A batch of company-audit, bank-statement, and GST/stock-audit/ITR/cash-flow lectures had moderately garbled but still largely usable Hindi auto-captions (Company Audit, Bank Statement Analysis intro, Credit Summation, Debit Summation, CC/OD Analysis, Pivot Table method, GST Returns for Bankers, Stock Audit, ITR Analysis, Cash Flow Statement) — content from these is included above with reduced granularity where the source was thin.

Full per-video skip lists and reasons are logged in each contributor's `skipped_videos.txt`.

Part 4 — CIBIL, SMA Classification & Dedupe Checks

(Original section title: CIBIL / SMA / Dedupe Checks — MSME Working Capital Credit Analysis)

Consolidated conceptual notes from the course (Lectures 68–107 + related episodes)

Internal vs External Dedupe Checks & Fraud/AML Prevention

(Source: Lecture 68)

Dedupe = "de-duplication" — the result obtained after examining a database for duplicate entries relating to the same borrower/guarantor. It is a core pre-sanction fraud/AML control.

Two types of dedupe checks: - **Internal Dedupe**: Search within the bank's own Core Banking System (CBS)/loan origination software across *all* departments — auto loan, two-wheeler loan, secured business loan, personal loan, credit card, commercial vehicle loan, working capital, etc. Each department in a bank operates somewhat independently, so a client (or a guarantor) may already have an existing relationship, loan, or default with the *same bank* under a different department. There is no standardization across banks for how this is done — every bank designs its own internal dedupe process/software. - **External Dedupe**: Cross-institutional check using a shared external database — most commonly the credit bureau (CIBIL) — to see if the applicant has relationships with *other* banks/NBFCs.

Why it matters (fraud prevention rationale): - Banks lend depositors'/public money; if a borrower fraudulently obtains multiple loans across banks (or under overlapping identities) and then defaults/absconds, it is depositor money at risk (classic example referenced: fraudsters like Nirav Modi). - A common name (e.g., "Raj Chawla") may belong to thousands of different real individuals — so name alone is not a safe identifier.

Unique identifiers used for matching: PAN number and Aadhaar number (both are meant to be unique per person), plus Date of Birth, mobile number, and address.

Practical dedupe process (external, e.g. via a bureau/bank portal): 1. Enter applicant's name, PAN, DOB, mobile number into the dedupe/bureau search screen. 2. Click search — the system returns a list of possible matches with associated identity data (name, PAN, DOB, mobile, address) and a **Positive / Negative match** flag. 3. Investigate positive matches for overlapping loans, guarantees, or address across departments/entities.

Red flags surfaced through dedupe: - Same guarantor appearing across multiple unrelated loan files. - Same address/city used by multiple "unrelated" applicants (may indicate a group/family screening for hidden exposure, or an unrelated coincidence — needs judgment). - A department that already rejected the same applicant (e.g., auto loan department rejected the file — worth understanding why before onboarding elsewhere in the bank).

Governance requirement: Every bank/NBFC must maintain and regularly update an internal applicant/loan database (who applied, with which department, when, outcome) — this database is the backbone of internal dedupe.

CRILC Report (RBI Central Repository of Large Credit)

(Source: Lecture 69)

- **CRILC** = Central Repository of Information on Large Credits, launched by RBI.

- Applies to **Scheduled Commercial Banks (SCBs)**; later extended to cover **Urban Co-operative Banks** as well.
- **Reporting threshold**: aggregate borrower exposure of **₹5 crore and above** (this was revised down from an earlier higher threshold) must be reported by lenders to CRILC.
- **Purpose**: Before CRILC, defaults/stress at one bank were often discovered by other lenders only *after* the account had already turned NPA — reporting was not real-time. RBI introduced a **periodic (weekly) reporting system** covering SMA classification specifically to enable **early, system-wide visibility** of a borrower's conduct.
- **What gets reported**: SMA status (SMA-0/1/2), exposure amount, and borrower conduct across all reporting lenders for accounts crossing the threshold.
- **Access**: Any bank/NBFC in India can query CRILC (each institution has its own unique login/password) to check a borrower's exposure and conduct across the entire banking system before/while sanctioning.
- **Value to a credit manager**: Lets you see whether an account is running well or not, total system-wide exposure, and whether the borrower is defaulting with other lenders — even lenders that haven't been disclosed by the borrower.

Credit Score vs Credit Bureau (FICO vs CIBIL)

(Source: Lecture 70)

- A **credit score** is a numeric representation of a borrower's "credit-worthiness risk" — essentially, the statistical likelihood that a loan will/won't be repaid.
- **History**: In 1956, Bill Fair and Earl Isaac (mathematicians/statisticians) founded **Fair, Isaac and Corporation** and built a statistical/mathematical formula to score credit risk — this became the **FICO** score/model. Higher score = lower risk of default.
- **Business model**: Credit-scoring companies (like FICO) **license** their mathematical formula/algorithm/software to **Credit Information Companies (CICs)**. The CIC collects raw loan/repayment data from banks, applies the licensed scoring model, and generates the credit report + score for a fee (borne by the querying bank, not the consumer, when done for lending purposes).
- **Major Credit Information Companies operating in India**: TransUnion CIBIL, Equifax, Experian, and CRIF High Mark — four bureaus.
- **CIBIL's history**: India's first credit information company, established in year 2000. In 2016, TransUnion acquired a majority stake (~92.1%), and it became **TransUnion CIBIL**.
- **Cost-effectiveness**: Bureau reports are relatively cheap for banks to pull compared to alternative diligence, so banks pull them liberally.
- **Key FICO-model distinction — no-history borrowers:**
  - If a person has **zero loan history** (true first-time borrower), the bureau simply has no data — the report will show blank/no score (commonly shown as "-1" or "NH" — No History) rather than a numeric score.
  - Under the classic FICO scoring approach, a minimum data threshold applies before a score is generated:
    * At least one credit account must be **at least 6 months old**.
    * At least one account must show **activity within the last 6 months** (dormant/unused accounts with no activity don't generate a fresh score).
  - Scoring models are periodically updated/versioned by the bureaus (analogous to FICO's own version updates over time), so exact score bands can shift slightly release to release — always check the specific bureau/version being used.

CIBIL Report — How to Read It

(Source: Lecture 71 — real example walkthrough)

Two report types: **Individual/Consumer CIBIL** (for a natural person) vs **Commercial CIBIL** (for a business entity — proprietorship, partnership, trust, society, company, LLP).

Page-by-page structure of an Individual/Consumer CIBIL report **1. Consumer/Identification information** - Name (e.g., "Suresh Kumar S/O Prem Kumar") — tally father's name and DOB against the PAN/KYC documents on file. - Identification parameters: UIDAI (Aadhaar) number, PAN, passport number, voter ID, income-tax number. PAN and Aadhaar should be tallied against the KYC copies in the file. - Mobile numbers and landline — the report can surface historical mobile numbers a client used across different loan applications with different banks over the years; useful in practice for reaching a client when internal records are outdated. - Multiple addresses can appear because different banks captured the address differently at different times (spelling/spacing variance, or genuinely different addresses — e.g., factory address vs. residence vs. an old address). **Read this field carefully**: cross-check against Aadhaar and business-proof (e.g., GST certificate) documents. Multiple genuine addresses can reveal useful background (e.g., a family split, a relocated factory, a joint family separating) — this is valuable qualitative color for assessing the borrower/family. - Email address (if the bank captured and submitted it while generating CIBIL).

2. CIBIL Score - Typical score bands discussed in the lecture (based on practitioner experience, not an official published table): - **725+** → generally considered an "okay"/acceptable score. - **750+** → considered a "good" score. - **780–790** → considered "very good" (commonly seen ceiling in practice). - **800+** → very rare in practice. - **Below 725** → indicates some concern in the credit history that needs investigation. - Example in the video: a score of **730** was treated as acceptable/borderline-good. - Note: Dun & Bradstreet and TransUnion (CIBIL) are separate bureau brands — confirm which report/scoring symbol you are reading.

3. Accounts summary - Total number of loan accounts ever taken (e.g., "11 accounts"), how many are closed ("4 closed"), how many active ("7 active"), and the overdue amount across active accounts. - **Overdue amount = 0** is a positive signal (repayments made on time). A non-zero overdue amount is a concern flag. - **Reporting-lag caveat**: A loan can show as still "active" with an outstanding balance even though it was actually closed, simply because the lending bank failed to update CIBIL. Always verify against a client-provided closure letter/statement rather than trusting the report blindly. - Total outstanding balance across active loans is also summarized (e.g., ₹11,79,36,852 in the example) along with the date of the oldest loan on file.

4. Enquiries section - Every time *any* bank/NBFC (or a different department of the same bank) pulls the applicant's CIBIL for a loan application, it logs as one "enquiry." - The report shows: total enquiries ever (e.g., 25), enquiries in the **last 30 days**, **last 12 months**, **last 24 months**, and the date of the most recent enquiry. - **Why this matters**: If a client's CIBIL has been pulled many times very recently (e.g., 10 times in the last 30 days) but no new loan shows up as sanctioned/availed in the report, this is a major red flag — it likely means multiple other banks have **rejected** the file (or the client hasn't disclosed pending applications), and you should deepen underwriting, extend the lookback window (60/90 days), and take more market references before proceeding. - Bank names behind each enquiry are **not disclosed** in a bank-pulled report (shown as "not disclosed") to preserve inter-bank privacy — you only see the enquiry date. If your own bank pulled it, your own bank's name will show. - The enquiry log also shows **loan type applied for** (business/personal/housing/auto/"other" — accuracy depends on which category the originating bank selected) and the **loan amount applied for**. Caution: some banks enter this amount carelessly (e.g., typing extra zeros, or entering just ₹1), which can distort how the amount looks and can even negatively affect the applicant's score if the figure looks implausible relative to their profile.

5. Individual loan account details (per loan) - **Member name** = name of the lending bank — but only disclosed if it's *your own* bank's loan; other banks' names are masked as "not disclosed." - To identify an undisclosed lender: (a) ask the client directly for the sanction letter/statement; (b) if the client denies the loan, get a written/signed request letter from the client authorizing CIBIL's customer-care team (by email) to reveal the lender name/account — CIBIL typically responds in 2–3 days; (c) alternatively, have the client pull their **own** CIBIL report (self-pull costs roughly ₹400–500), which shows full lender names and account numbers with no masking. - **Ownership type**: Individual (own name) vs **Guarantor** (loan taken by someone else, this person only guaranteed it) — critical for assessing true debt burden and contingent liability. - Fields per loan: date opened, last payment date, last CIBIL-reporting date by the bank, sanctioned amount, current balance, interest rate, EMI amount, tenure, collateral type/value (if reported), whether **closed**, **suit filed / wilful default** flag, **write-off** status and amount, **settlement (OTS)** status. - **DPD (Days Past Due) streak** — read **left to right, month by month**: - `000` (or `STD`) = Standard / no days past due / on-time repayment that month. These are used interchangeably in different reports. - A **numeric value** (e.g., "20", "31", "41") = number of days the payment was overdue that month. - `XXX` sometimes appears where reporting wasn't done properly. - **SMA/NPA delinquency buckets** (as explained in this lecture, matching RBI's classification): - **1–30 days overdue → SMA-0** - **31–60 days overdue → SMA-1** - **61–90 days overdue → SMA-2** - **90+ days → Sub-standard asset** (NPA) - If sub-standard classification persists **beyond 1 year → Doubtful asset** - If default continues further and the bank writes it off → **Loss asset** - Sometimes the report only shows the literal label **"SMA"** without specifying 0/1/2 — in that case, obtain the client's actual bank statement to determine the precise DPD bucket. - Alphabetic labels seen in reports: `STD` (standard), `SUB` (sub-standard), `DBT` (doubtful), `LOS` (loss asset). - **Judgment on isolated delinquencies**: A single old delayed EMI (e.g., a 31-day delay three years ago) on an otherwise clean, long, well-conducted track record is usually not worth raising with the client — use credit judgment; check whether the issue is (a) recent vs. old, and (b) a one-off vs. a recurring pattern before deciding it's material. - **Debt-burden aggregation**: Maintain an Excel sheet of every loan (amount, EMI, sanctioned date, purpose, ownership type incl. guarantor exposure) to build a true picture of the client's total outstanding debt burden — including loans where the client is only a guarantor (contingent liability) and loans of family members guaranteed by the client. - **Stale/incorrect reporting example**: A credit card loan from 2001–02 that was actually closed in Sept 2002 kept showing active reporting (with a small write-off, e.g., ₹710 out of ₹9,700) until 2011 due to bank error — such very old, stale negative items can generally be discounted/ignored given their age. - **Legal/privacy caution**: **Never pull a CIBIL report without the person's explicit written permission** (a signed loan application form counts as authorization; otherwise get a signed request letter/email). An unauthorized pull creates an inquiry on the person's report that they can detect and legally contest — a real court case example was cited where an employee pulled a colleague's spouse's CIBIL without consent, resulting in a court notice against the bank and disciplinary action against the employee.

Commercial CIBIL & CMR Score

(Source: Lecture 72)

- **CMR = CIBIL MSME Rank** — the commercial-entity equivalent of the individual CIBIL score, used for business entities (proprietorship, partnership, company, etc.).
- **Scale**: CMR runs from **1 to 10**, where **CMR-1 is the best** (excellent conduct/history) and the score gets progressively worse as the number increases.
- Practitioner rule of thumb discussed:
  - **CMR up to ~5** → generally considered acceptable/okay.
  - **CMR 6, 7, 8, 9** → should raise a banker's "eyebrows" — increasing concern.

  - **CMR-10** → worst band; indicates the credit/repayment history is essentially bad/fragile across the board.
  - If there's no repayment history at all, a CMR score won't be generated (similar to the "NH" concept for individuals).
- **Critical lesson — don't rely on the headline number alone, read the full report**:
  - Example 1: Two sister-concern firms of the same family — one had an excellent CMR (large ₹50cr+ turnover, good profits, clean current facilities) while its sister firm's CMR looked poor purely because of one small old ₹50,000 loan from ~2009 that had never been properly closed/reported as settled by the lender for over a decade — a stale/old data-entry issue, not real current distress.
- **Multiple-PAN problem (common in commercial CIBIL)**: A partnership firm has its own PAN, but individual partners also carry their own personal PANs, and sometimes a search picks up unrelated entities with similar names whose data gets mixed in. Fix: email the bureau's/bank's **commercial CIBIL customer care** with the exact firm name and PAN, request them to cross-match and provide a **consolidated report**; turnaround is typically 3–4 days.
- **Report sections to check** (mirrors the individual report structure): Credit Profile Summary (total exposure, sanctioned vs. utilized amount, delinquency count/amount — e.g., "delinquent amount ₹60,28,000"), number of member banks/NBFCs reporting, address fields (registered office and any additional captured addresses — investigate discrepancies the same way as for individuals), PAN/GSTIN/CIN identifiers, and per-facility DPD tracking using the same STD/SMA/day-count conventions as individual reports.
- **Special status flags to watch for**: "Restructured due to natural calamity," moratorium-driven balance increases (e.g., COVID relief — not automatically a distress signal), suit-filed, write-off, OTS/settlement, and litigation notes.
- **Enquiries section** works the same way as for individuals — number of enquiries by recency window, useful for spotting a borrower shopping aggressively across lenders.

How to Improve CIBIL Score

(Source: Lecture 73)

Approximate scoring-model weightage (the lecture referenced FICO-style weighting, though exact numbers were inconsistently stated in the source and should be treated as indicative, not precise): - **Payment history** — the single largest factor (paying EMIs/interest/principal on time). - **Credit utilization / amounts owed / exposure levels** — a large factor. - **Length of credit history** (how old your oldest and average accounts are). - **New credit / recent inquiries** (too many recent applications hurts). - **Credit mix** (variety of credit types — secured + unsecured, cards + term loans — is viewed favorably).

Practical levers to improve a score: 1. **Pay on time, every time** — the biggest lever. Even isolated late payments hurt. 2. **Be cautious with guarantees** — being a guarantor on someone else's loan (even a friend's) exposes your own CIBIL to their delinquency; only guarantee loans you'd be comfortable being fully liable for. 3. **Dispute incorrect reporting** — e.g., a loan that isn't yours appearing on your report, or a loan you fully closed still showing a small residual balance/charge due to bank error. Remedy: raise a dispute directly on the bureau's website/portal, or get a written no-dues/correction letter from the lending bank and have it forwarded to the bureau; the bureau will investigate and correct the record. 4. **Manage credit utilization** — avoid maxing out credit card limits; try to pay down balances before the statement/bill date (understand your card's specific billing cycle) rather than only by the due date, since utilization at the reporting/statement date is what typically gets reported. 5. **Limit new-credit applications in a short window** — applying to multiple banks/cards in quick succession increases inquiries and signals credit hunger, which drags the score down even if you're eventually approved. 6. **Don't rush to close old unused credit cards/accounts** — an old, low-usage account keeps your average account age (length of history) high; closing it can shorten your average history and hurt this factor. Keep a small transaction ticking over occasionally instead of leaving accounts totally dormant, where practical. 7. **Maintain a healthy credit mix** rather than relying on only one type of credit. 8. **Ensure closed loans are actually marked "closed" in the bureau's records** — banks sometimes fail to update CIBIL after a loan is fully repaid, leaving it showing as open/outstanding; follow up with the lender to get this corrected.

How to check your own CIBIL score/report: - **Official (paid, detailed report)**: cibil.com — costs roughly **₹500–550** for a detailed report with full bank names, account numbers, and history. - **Free/aggregator route**: paisabazaar.com — provides a **basic free score/report**, and also shows scores from other bureaus (Experian, Equifax, CRIF High Mark) periodically at no cost; upgrade to a detailed paid report is also offered through the aggregator.

Pre-Sanction Background Checks (EPF, MCA, Google)

(Source: Lecture 74)

1. EPFO Check (Employees' Provident Fund Organisation)

- Go to the official **EPFO** website → **Services → For Employers → Establishment Search**.
- Search by the company/establishment name (no need for the establishment code).
- Results show: establishment name, address, **working status (Live/Closed)**, and the date the establishment started contributing.
- Drill into "Payment of PF Dues"/month-wise view to see **month-by-month PF deposit amount and number of employees**.
- **Use case**: Cross-check headcount trends and payroll size as an indirect, hard-to-fake indicator of the business's real scale and whether it's growing, shrinking, or stagnant — compare against what the promoter/financials claim.

2. MCA Check (Ministry of Corporate Affairs)

- Relevant for any registered entity — Pvt Ltd, Public Ltd, or LLP.
- On the **MCA portal** (mca.gov.in): search **Company/LLP Master Data** by name to get CIN, registered office address, paid-up capital, incorporation date, and director details.
- **Charge search**: verify whether a lending bank's **charge** (hypothecation/mortgage on company assets) is properly **registered with MCA** — this is important both when taking over another bank's facility and when perfecting your own security; an unregistered/improperly filed charge weakens the bank's legal claim.
- **Director search (by DIN)**: search a director's DIN to see **all other companies** where that person is/was a director — useful for uncovering related/group entities that share common directorship (helps map hidden group exposure).
- **MCA processing time** for ordering official documents can take a few hours; **paid third-party company-data aggregators** (referenced generically in the lecture as faster "Prof"-type services) pull the same MCA-filed documents (balance sheet, P&L, director's report, shareholding pattern, charges, related-party links) for a nominal fee with much faster turnaround (roughly 30 minutes–few hours vs. MCA's own multi-hour processing) and package them for easy review — recommended when speed matters.
- **Practical example flagged**: For a proprietorship named "Bajaj Electronics," the same/similar name recurred across many bank records — some of which turned out to be *different, unrelated* entities with a similar name — illustrating why identifiers (PAN, DIN) matter more than names alone even in MCA searches.

3. Google Check

- A simple, mandatory-minimum diligence step: search the borrower's/guarantor's **full name + city** (e.g., "Ramesh Kumar Ludhiana") in a plain web search.
- Purpose: surface any adverse media, litigation, news, or other public information tied to the individual or their group entities before onboarding.
- Recommendation: do this for **every** borrower and **every** guarantor as a baseline check — cheap, fast, and has caught real issues in the instructor's practical experience.

SMA Classification (SMA-0/1/2, NPA thresholds — exact day-past-due ranges)

(Sources: Lecture 71's DPD explanation — clean — supplemented by Lecture 80, whose audio transcript was largely unusable/garbled)

Standard classification (as explained clearly in the CIBIL-reading lecture, consistent with RBI's SMA framework):

Days Past Due (DPD)	Classification
0 days (paid on/before due date)	**Standard** (reported as `000` / `STD`)
1–30 days overdue	**SMA-0**
31–60 days overdue	**SMA-1**
61–90 days overdue	**SMA-2**
90+ days overdue	**Sub-standard asset (NPA)**
Sub-standard classification continuing beyond 1 year	**Doubtful asset**
Default continues further / bank writes it off	**Loss asset**

- **SMA = Special Mention Account.** The SMA framework exists specifically to give banks an **early-warning window before an account actually slips into NPA**, so that recovery/rectification action can start sooner.
- The purpose (per the course, echoed in the CRILC section) is to move away from a system where lenders only discovered problems *after* an account had already gone bad, by mandating structured, periodic (including weekly, for CRILC-reportable accounts) internal tracking and reporting of the SMA bucket.
- In bureau reports, the specific SMA bucket is sometimes shown as a **plain day-count number** rather than the "SMA-0/1/2" label — you must map the day count to the correct bucket yourself. Occasionally reports show only the generic word "SMA" without a sub-bucket number — in that case, pull the client's actual bank statement to compute the real DPD and determine the correct bucket.
- "Out of order" (a related but distinct concept for cash credit/overdraft accounts, referenced in the broader course) generally applies when the outstanding balance continuously exceeds the sanctioned limit/drawing power, or when there are no credits sufficient to cover the interest debited, for a sustained period — this is a separate trigger from the term-loan DPD ladder above but leads to the same NPA classification outcome once it persists.

(Note: Lecture 80's dedicated SMA-classification video transcript was almost entirely corrupted/unusable in the auto-captions — the day-range table above is drawn from the clean, corroborating explanation given inside Lecture 71's DPD walkthrough rather than from Lecture 80 directly.)

Promoter Assessment Beyond the Business

(Source: Lecture 88 — "Invest in Promoter, Not Just Business")

Core principle: When lending to an MSME, the promoter's own quality, background, and family situation matter as much as — sometimes more than — the business's standalone financials, because you're ultimately trusting a person to manage your money responsibly. Real-world example cited: a stock price jump for a bank purely on rumor that a well-regarded banker (Aditya Puri) might join its board — illustrating how much "promoter confidence" alone can move value.

Five parameters to study for every promoter/family:

1. Net worth - **Definition of "good" net worth**: free/unencumbered assets — **after excluding** (a) capital already invested in the business being funded (it's already counted in the loan eligibility calculation) and (b) any property already mortgaged elsewhere — that are sufficient, if liquidated, to cover the client's total loan obligations. - Case studies: - **Wire-drawing business (ABC Engineering Works)**: Post-COVID stress dropped sales from a peak to ₹10–11cr; the promoter avoided NPA by selling a personal residential property worth ₹6cr, using the proceeds to reduce debt and fully prepay several EMI-based loans — his personal net worth (not the stressed business alone) is what saved the account. - **Cycle-parts manufacturer**: A ₹20cr loan went sub-standard after a big corporate supply contract fell through post-capex; the promoter kept servicing the loan (even amid litigation) by selling unencumbered plots/machinery, eventually repaying more than half — again, personal net worth was the recovery lever. - **Haryana cotton company**: Financials looked "tight"/weak for a ₹15cr ask, but the promoter's personal net-worth certificate showed ₹110cr in free assets — the loan was approved on the strength of net worth despite mediocre financial ratios.

2. Family structure / family tree - Map the family tree (ideally the last **25–30 years**, not necessarily going back to grandparents) — who's involved in the business, who isn't, marital status, spouses, siblings. - Case: A son applying alone for a ₹50 lakh loan admitted to a dispute with his father and brother — but the factory *and* his residence were *both* owned by the father, and he lived in his brother's house. He had **zero personal assets of his own** — loan **rejected**. - Case: A "complex" family structure — 3 brothers, 6 sons (2 each), several with 2–3 children of their own, running two group firms plus a third that applied for financing — looked strong on paper (10 properties worth ₹22cr against a ₹17cr loan), but an **undisclosed internal family dispute** caused all family members to independently pull cash out for themselves once trouble started; the loan went sub-standard within a year. **Lesson**: complex, sprawling family structures raise the risk of internal disputes derailing repayment, and require multiple separate meetings with every family member involved in running the business. - Case: A family sought a loan partly to fund a **family settlement payout** to an exiting brother — the true purpose (cash for buying out a sibling) only emerged from detailed discussion, not from the stated business purpose. Structured a phased/staged disbursement (₹25 lakh first tranche of a ₹50 lakh ask) tied to actual sales growth, verified via bank statements, to control end-use risk. - Case: A promoter's dependent, unmarried sister living with the family was undergoing cancer treatment — a major undisclosed cash drain risk on the business; mitigated only after confirming she already had a medical insurance policy in place (documentary proof obtained) and cross-checking market references.

3. Background / experience in the current line of business - Verify how long the promoter has *actually* been in this specific line — sometimes the "new" borrowing entity is only 1–2 years old, but the promoter has 15–20 years of experience in the same trade under a different entity/employer, which is a positive; conversely, a promoter with **zero prior experience or technical knowledge** in a new line is a red flag — ask directly how/where they gained the technical know-how to run this specific process (e.g., garment manufacturing quality control). - Case ("went to a foreign country"): Two brothers ran a proprietorship; the one who actually understood the business (market links, technical know-how) emigrated, leaving the other brother — who had no real operating knowledge — in charge; the loan went NPA. **Lesson**: at the meeting, confirm that the promoter(s) actually present *personally* have the technical/market knowledge — don't just talk to whichever family member happens to be in the room; a person's mere presence/title doesn't mean they run the business. - Case (old NPA in another firm): A promoter denied any past default; a firm he'd been a partner in years earlier had defaulted, but he claimed he'd exited before the default occurred with no documentation to disprove it. A discreet **market reference check** (asking around without disclosing why) independently confirmed the market already associated him with that earlier firm's failure — market reference proved more reliable than the promoter's own claims. - Case (changed PAN and address): A 15-year-old factory's promoter had, in the past, defaulted heavily under an old PAN; he later **changed his PAN number and his Aadhaar-registered address** (including the factory address) specifically to break the CIBIL search trail. Internal/market-reference digging uncovered the old identity and default history. - Case (existing-banker informal feedback): A promoter offered to have the bank take over his existing facility from another bank plus disburse extra cash — but his books looked weak. A personal, informal call to a trusted contact at the existing bank revealed the bank had *already* issued an exit/quit notice to him — informal industry relationships can surface information official channels won't. - Case (young/inexperienced named partner): A 23–24-year-old was listed as a partner in a group firm without apparently understanding the business; an RBI-website SMA check on that firm showed a **doubtful** classification with a major default against a large PSU bank; a supplier/creditor reference confirmed money owed — loan **rejected**. - Case (bogus billing company): A ₹25cr applicant looked fine on paper and in the meeting, but market/tax reference revealed roughly **50% of the recorded turnover was bogus billing** with no real underlying goods movement — **rejected**. - Case (ABC Steel/ABC Strips, same complex-family case revisited): A national-approval team, stung by a local team's earlier rejection recommendation (based on negative reference checks), personally conducted **30–32 separate "local" reference checks** that all came back positive — but this was influenced by local relationships/ego, and the loan (sanctioned on this basis) still went bad within 8–10 months. **Lesson**: reference checks done by people with a stake in a positive outcome, or drawn from an overly friendly local network, can systematically overstate quality — seek genuinely independent references. - Case (Mandi trader): Two independently sourced "average"/mixed market feedbacks led the team to right-size a large ask down rather than fund it in full; separately, a chance conversation at another bank's branch (a friend's informal visit, days before sanction) revealed the same promoter had fraudulently forced a partner/director out of a company years earlier, and the Supreme Court had since ordered the company's accounts frozen pending litigation — this last-minute informal tip saved the bank from disbursing ₹25–30cr just before sanction.

4. Knowledge level of the promoter physically present - Confirm the person(s) you're actually meeting have real **technical, marketing, and finance/bank-statement literacy** for the business, not just a family title. - Case: A young "partner" (early 20s) sat in on a meeting alongside his father and the main promoter but visibly lacked real operating knowledge of the group's other business — a caution sign about who's really accountable.

5. Succession / inheritance planning ("Agent's Inheritance") - Rule of thumb: comfortable if the promoter's age is **under 60**. If **over 60**, explicitly probe the succession/inheritance plan — who will run the business if something happens to the promoter. - Case: A 67-year-old with an excellent, well-run business and strong collateral was **declined** because his only son was settled abroad with no interest/plan to take over — no viable succession plan. - Case: A single father whose only child was an unmarried (soon-to-be-married) daughter, with no son and no clear succession plan, was similarly **declined**. - Case (mitigated, not declined): A 40-year-old unmarried sole owner of a large business empire, with an elderly, uninvolved father and no clear near-term successor, was still approved — but the bank required him to take out a **term life insurance policy assigned/lien-marked to the bank**, so that in the event of death, the insurance payout (not the grieving family) would clear the loan. Recommended as a general mitigant whenever succession risk exists and the borrower can afford the premium.

Personal Discussion (PD) & Factory Visit Process

(Source: Lecture 92)

Purpose: After a proposal reaches the credit manager, the sales team takes them to visit the client's factory/office and meet the promoter — to resolve queries, adjust understanding of the business, and validate everything in person.

Mindset and conduct

- Keep "eyes, ears, and mind open" throughout — don't treat the visit as a formality; actively observe surroundings.
- **Approach and locality check**: When entering an industrial area, note whether the location is genuinely inside a developed industrial zone or oddly located far away with poor connectivity — this matters for logistics feasibility.
- **Real example — approach-road due diligence**: A client wanted a loan to construct a new unit on land purchased just behind an existing factory. On-site inspection revealed the *front* approach road was a proper 40-ft-wide road, but the *only* access to the new plot was a rear lane just **15 ft wide** — too narrow for large trucks. The client's fallback (converting existing parking space into an access route) was also only ~15–20 ft wide — still insufficient, and would require partially demolishing part of the existing built-up factory to widen it. This level of physical verification is only discoverable by an actual site visit, not from documents.
- **Signboard/GST-address cross-check**: Verify the factory's outer nameplate/signboard against the GST-registered address (phase/sector numbers can differ — e.g., a plot signposted "Phase 6" when GST records show "Phase 7"). Also watch for **multiple GST numbers displayed on the same premises** (may indicate an undisclosed second entity operating from the same factory) and mismatches between the GST-number format and the expected constitution (e.g., a partnership firm's PAN has "F" as the 4th character — but the number on the wall corresponds to a different, e.g. proprietorship, constitution).
- **Trading/showroom cases**: Assess how genuinely "walkable"/accessible the market location is — sometimes weak-looking books turn out to be backed by an excellent, high-footfall retail location (a positive surprise), or conversely a location that looks fine on paper is actually impossible to service logistically (e.g., a ₹1cr showroom claim where raw-material delivery and dispatch to that location are practically very difficult).

Meeting the promoter

- Confirm you are actually meeting the **real, book-recorded promoters** — not an unknown third person fronting for them; ask everyone present their name and specific role in the business.
- **Represent the bank, not yourself** — remain fully respectful even if a client becomes irritated or dismissive; you're speaking on behalf of the institution, so don't take pushback personally, and never argue. A cited personal anecdote: a new credit officer was once asked to leave a factory by an irritated (habitual/"street-smart") client for over-questioning; a more experienced colleague later handled the same client successfully by being calmer and more measured.
- **Read the room and pace your questions**: if a large question list (e.g., 40 pre-prepared items) is making the client visibly irritated, prioritize only the most material questions in that sitting and defer minor ones to a follow-up call once the client has cooled down.
- **Avoid an "interrogation" tone** — remember you (the banker) typically know only 10–15% of how the business is actually run day-to-day; the promoter knows the other 85%+.

Ask to understand, not to catch them out; weave clarifying questions naturally into the broader conversation rather than as a rapid-fire checklist, and let go of any single unsatisfying answer rather than dwelling on it in front of the client — escalate/flag it back at the office instead.

- **Genuine vs. desperate clients**: A financially comfortable, well-regarded client with many banks courting them may simply walk away if annoyed by aggressive questioning; a desperate/weak client will tolerate almost anything — don't let a client's over-accommodating tolerance of intrusive questioning be mistaken for a good sign.
- Weave light personal rapport-building (hobbies, interests) briefly to build comfort, but don't let it dominate the meeting.
- **Document requests**: communicate clearly and promptly what documents are needed, and give the client a realistic timeline; don't reveal a sanction/rejection decision on the spot — tell them a "rating"/scoring process determines the outcome and you'll follow up, rather than prematurely signaling approval or decline.
- **Accounts/finance questions**: for larger clients, prefer a separate meeting with the accountant/finance team for detailed accounting/banking queries rather than pressing the promoter (who may not personally handle bookkeeping) on granular figures.
- **Raise every material query during the visit itself** (even if it can't be resolved on the spot) — this both makes it easier to follow up later with the sales team's help and avoids being blindsided by a "surprise" issue discovered only after the file has already progressed.

Physical inspection

- **Stock check**: physically verify claimed stock against the balance sheet figure — e.g., if books show ₹5cr of stock but the factory floor is visibly near-empty (only a token amount, with a couple of staff conspicuously "packing" something right as you arrive), that's a red flag of a staged visit and inflated book stock. Try to independently estimate quantity × prevailing market rate to sanity-check the book value.
- **Machinery check**: get a full machinery list from the client (no need to enumerate on the spot), verify it matches what's physically installed and actually running, and note machinery age/condition (e.g., 30-year-old, worn-out equipment raises questions about remaining useful/balance life).
- **High-tension (HT) electricity poles/wires** installed *inside* a factory, or HT wires passing directly over the factory (even if on adjoining land), reduce the property's resale/collateral value and shrink the pool of future buyers — a material negative for any property offered as collateral.
- **Religious structures** (e.g., a public temple/shrine, not a private one) built on factory land can make it very difficult to take possession/repossess the property in a default scenario — treat as a red flag for collateral quality.
- **Collateral property visits**: even where not strictly required, physically visiting any property offered as security is recommended — it can either increase comfort (e.g., discovering a prime location) or reveal problems invisible on paper (e.g., a claimed ₹7cr property that is actually structurally dilapidated — one case cited a building so decrepit the inspector felt "a hard push" could collapse it, leading to valuing only the land, not the structure). Also check for adjoining negative influences (HT wires, a cemetery next door, etc.) and confirm road-widening plans or genuine highway/road frontage claims. A hospital-property case illustrated a "shared building" collateral problem: part of the offered back-side property physically overlapped/shared structure with the main hospital building and had no independent, definable access — such a jointly-embedded portion has effectively **no standalone resale value** to the bank.

Pre-Sanction Credit Visit Checklist

(Source: Lecture 93 — question set for larger-exposure promoter meetings; scale down proportionally for smaller tickets)

Organized into 5 discussion areas: **Background, Business Model, Existing Debt/Exposure, Property & Net Worth, Query Resolution.**

A. Background

- Full **family tree**: parents, siblings (married/unmarried, involved in business or not), children (ages, studying vs. working), and — critically — **legal heir / succession plan**, especially for older promoters.
- **When did the business actually start** (the current registered entity may be only 1–2 years old, but the promoter may have run the same line for 15–20 years under another name/employer — or, conversely, have genuinely zero background) — probe *how* they acquired technical know-how if the entity is new.
- **Vintage of the borrowing entity itself**, and the promoter's years of experience specifically in the **current line of business** (not just business in general).
- **Other group/related firms**: run by the promoter, spouse, children, or parents — under what names, what they do, approximate scale (sales), and their outstanding debt.
- **Alternate/other income sources** (e.g., rental income) and the borrower's degree of dependency on the single business being funded.
- **Residence details**: location, ownership status (own vs. rented), and how long they've lived there — long-term residents ("30 years in the same neighborhood") tend to have local reputational stakes that discourage default. Also ask how long the factory/office has been at its current location.
- Whether **residence and factory/shop are owned or rented** — owning both is a modest positive signal.

B. Business Model

- **Nature of business** and product(s) — what is made, what is it used for (understand the end-use chain; e.g., a paracetamol-powder maker supplying tablet manufacturers has a wide, resilient end-market).
- Number of distinct products; whether sold under **own brand** (registered?) or third-party brand, or unbranded.
- **Industry conditions**: government guidelines/regulations affecting the segment (positive or negative — e.g., export duties hurting steel, plastic-packaging restrictions), and how directly this borrower is exposed to those rules.
- **Customer & supplier geography and concentration**: local vs. distant (affects transport cost/margin — e.g., a low-margin ketchup producer shipping raw materials and finished goods across the country makes little economic sense and should raise questions); what % of business is with the **single largest customer/supplier** (very high concentration, e.g. 90%, is a red flag — probe the fallback plan if that relationship ends); typical payables/receivables credit period, cross-checked against the balance sheet.
- **Margins**: gross margin, net margin.
- **Manufacturing capacity and utilization**: how capacity is measured (kg/tons/units), rated capacity vs. actual utilization %, and — if utilization is well below capacity — why (lack of demand? something else?).
- **Production vs. sales over the last 24 months**, in both **quantity and value** terms (value alone can mask a real volume decline if prices rose — always sanity-check quantity, not just ₹ figures).
- **Manufacturing process** — have the client explain it, then verify during the site visit that the installed machinery actually matches the described process.

- **Seasonality**: whether sales are flat year-round or concentrated in certain months (e.g., garments around Diwali, banquet halls around wedding season).
- **Distribution model**: direct sales vs. wholesalers/distributors; where stock is stored (on-site vs. separate godowns — get godown addresses, and whether owned or rented).
- **Raw-material price volatility** and — critically — whether the business can **pass through** RM cost increases into finished-goods pricing without losing customers (if not, rising input costs erode margins and can push the business into loss).
- **Stock-holding patterns**: any periods requiring higher/lower stock levels than normal.
- **Future plans**: new products, new customers, capacity expansion, changes to existing terms/conditions, expected staff retirements, and **sales projections** for the current and next year.

C. Existing Debt / Exposure Discussion

- **All existing loans** — both on the business balance sheet *and* in the promoter's personal name (e.g., undisclosed personal auto/housing loans) — to build the client's **total debt burden** picture; a single-business client servicing large personal EMIs ultimately draws on the same business cash flow, even if paid from a personal account.
- **Purpose of any new machinery/asset purchase** being financed, and its expected P&L impact (higher sales? better margins? modernization/replacement of scrapped equipment?).
- **Purpose of any new building/construction**, and **purpose of any working-capital enhancement request**.
- **Reason for moving away from the existing bank** — probe negative-sounding reasons carefully (e.g., a client wanting to free up a *residential* property pledged elsewhere by substituting industrial property with the new lender is a mildly concerning ask — you're being asked to accept a comparatively less-liquid security).
- **Which specific properties are pledged** at the existing bank/lender for each existing facility (auto loan → obviously the vehicle; housing loan → ask if any *additional* property, like a second flat or farmhouse, was also pledged).
- **Reason each existing loan was taken**, and **how the proceeds were actually used** — e.g., if a client says personal-loan/gold-loan proceeds were "put into the business," ask specifically how, and check whether it shows up as capital infusion on the balance sheet; if the client's own capital account (say ₹2cr) is essentially just re-labeled personal debt, that "capital" isn't real owned net worth.

D. Collateral / Property & Net Worth

- Whether the **residential property** is free of any mortgage/lien elsewhere, and confirm this understanding proactively rather than being surprised later that a promised "residential property" offer is, in fact, encumbered.
- **All properties pledged** to the existing bank, and all properties proposed to your bank — note any shortfall vs. expectations (case-by-case judgment call).
- **Net worth is sensitive information** — clients may resist disclosing full details, but it's important because personal properties are often what a client liquidates to repay a loan when the business itself fails (observed in practice as a genuine, common rescue mechanism).
- Ask specifically about **free/unencumbered properties beyond what's already pledged** — and explicitly **exclude any capital the client has invested into the business itself** from net-worth calculations, since that capital is already counted in the loan-eligibility/balance-sheet analysis; net worth should reflect what the client could additionally liquidate in a worst-case scenario.
- If the case looks financially weak on paper but the promoter has a very strong, well-documented personal net worth, that net worth alone can be a valid basis for approval.

(This is a guidance framework, not an exhaustive checklist — tailor question depth to deal size and site conditions.)

EWS & RFA Parameters of RBI (Early Warning Signals / Red Flagged Accounts)

(Source: Lecture 107)

Background: why EWS/RFA exists

- RBI data shows fraud-account reporting was rising steadily (e.g., **4,372 accounts** declared fraud in 2009, climbing to **13,530 fraud accounts** reported in 2023).
- The core problem: **fraud detection was happening very late** — typically only after a bank had exhausted all normal recovery efforts (negotiation, demand notices, litigation) and formally declared the account fraud to police/CBI. By then, large borrowers had often already fled or dissipated assets (e.g., Vijay Mallya, Nirav Modi).
- Per RBI's own annual report data: of ₹60,414 crore in accounts declared fraud in FY2021–22, **₹10,930 crore worth of accounts had fraud symptoms that had actually begun before 2012–13** — nearly a **decade** of lag before formal detection. Only about ₹7,500 crore (a small fraction) were detected within 2 years of the first symptom appearing.
- **Average detection lag**: roughly **5–6 years** between the first fraud symptom and formal reporting, per RBI data — RBI's stated target is to compress this to **5–6 months**.
- **NPA ≠ Fraud**: an account can become NPA for entirely genuine business reasons (market downturn, customer non-payment, mismanagement) without any fraud; fraud specifically involves intentional deception/diversion by the borrower. The two concepts are distinct and should not be conflated.

The EWS/RFA framework itself

- Introduced by **RBI circular, May 2015**.
- **Reporting threshold**: originally set at borrower exposure of **₹50 crore** (₹500 million) or more with a single bank. Later **revised down to ₹5 crore**. In practice, many banks internally apply these EWS/RFA norms even for exposures as low as **₹3 crore** (or lower, at the bank's discretion) — RBI's thresholds are a floor, not a ceiling; banks are free to apply the framework more broadly, including to smaller accounts.

Process flow

1. **Early Warning Signals (EWS)** are simply *intimations* — indicators that "something may be wrong," not proof of fraud. Banks internally define their own **list of EWS parameters** (commonly ~30, varying bank to bank), split into:
   - **Critical parameters** — if even **one** critical parameter is breached (with no valid justification), the credit manager must escalate the matter formally (typically noted for the sanctioning authority, and/or escalated up the hierarchy per the bank's internal escalation matrix).
   - **Non-critical parameters** — typically only escalated if **multiple** non-critical parameters are breached simultaneously in the same case (banks vary — e.g., "at least 2 or 3 non-critical hits" as an internal trigger).
2. EWS checks should be performed at **every fresh proposal** and at **every critical modification** of an existing facility (e.g., a restructuring request).
3. If a critical parameter is breached **with a valid, documented justification**, note the justification on file and flag it for the sanctioning authority's awareness — no automatic escalation to fraud classification is required.

4. If breached **without justification**, the case is referred to the bank's **central audit committee / DID (or equivalent internal fraud-review) committee**, which conducts an internal investigation (may include seeking further information/explanation from the borrower).
5. If the central team's investigation concludes the account should be classified as fraud, the bank formally reports it as a **Red Flagged Account (RFA)** to **CRILC** and to RBI's **Central Fraud Registry (CFR)**.
6. **Natural justice concern (important nuance)**: courts have criticized the fact that RBI's RFA framework, as originally applied, allowed banks to unilaterally classify an account as fraud and report it system-wide **without first giving the borrower an opportunity to respond/explain** — effectively exercising quasi-judicial power without due process. Several court judgments have directed RBI/banks to build in a **principle of natural justice** (an opportunity for the borrower to be heard) before finalizing an RFA/fraud declaration, since a fraud tag is reported across the entire banking industry and severely damages the borrower's standing everywhere, not just with the reporting bank.
7. **Enforcement example**: RBI fined **Karur Vysya Bank ₹30 lakh** (news dated March 2023) specifically for **delayed detection and delayed reporting** of a fraud account — illustrating that regulatory consequences apply to the *bank's* handling, not just the borrower's conduct.

Illustrative EWS parameters (RBI's published illustrative list — banks pick, adapt, and add their own; not exhaustive, and criticality assignment is bank-specific)

- Default in payments to banks, or delayed payments to statutory bodies (government dues), or cheque bouncing.
- Frequent devolvement of Bank Guarantees, or crystallization of Letters of Credit.
- Funding of interest via sanctioning of additional/fresh facilities (i.e., "evergreening").
- Unexplained/unusual **RTGS/NEFT movement** from another bank specifically to close out a loan account (many banks internally decline to treat this as automatically critical, since it also legitimately happens during normal loan takeovers).
- **Circular movement of funds** between the borrower's accounts at different banks / group companies; concentration of large debits; round-tripping of funds.
- Default occurring **very soon (e.g., within ~3 months)** after a fresh disbursement.
- Diversion of borrowed funds into a new/unrelated venture, or into group/related-party companies (via loans, advances, or heavy inter-company/related-party transactions, including LCs favoring related parties).
- Unusually high **cash withdrawals/deposits** in the business.
- Discounting of cheques/bills to adjust an overdue customer balance.
- Delayed submission of stock statements; failure to renew working-capital limits annually as required.
- Large **contingent liabilities** in the financial statements.
- Inventory, receivables, or current assets growing **much faster than sales/turnover**, with no credible justification; working-capital borrowing rising disproportionately relative to turnover growth.
- Critical adverse issues flagged in **stock audit reports**; borrower's directors/promoters not cooperating with stock statement submission or refusing/discouraging inspections/site visits (or offering flimsy excuses to avoid them).
- Heavy capex/fixed-asset spend with **no corresponding turnover growth** (low fixed-asset turnover ratio despite the borrower's own projections at sanction).
- Large **cash and bank balances sitting idle** on the books while the borrower still requests fresh loans (raises the question of why they need external funds at all).
- Material discrepancies/qualifications in statutory filings — e.g., **MCA annual report** disclosures, auditor qualifications, unexplained changes in accounting period/policy.
- Sharp deterioration: net worth rapidly declining, creditors rapidly reducing, **losses in the**

last 2 years, or a build-up of slow-moving inventory.

- Suspiciously round-figure or unexplained large **credit submissions** in the account (e.g., "₹3 crore came from where?").
- Adverse news/media about the borrower or promoter (a general negative-media hit is common and not automatically critical, but an **arrest** of the borrower is treated as clearly critical/actionable).
- Frequent, unexplained **changes to a project** (location, costing/cost overruns without justification) — "costing variance."
- Frequent **change of statutory auditor** without adequate reason, or frequent movement/change of the account's banking relationship.
- **General-purpose loans** with no clearly defined end-use being drawn repeatedly.
- **Promoter reducing their own shareholding/stake**, or **pledging their own holding** to raise personal loans.
- Key-management resignations (CFO, CEO, Accounts Head) occurring repeatedly/frequently.
- Debtors and creditors growing steadily while sales/purchases stay flat — a sign of possible circular or fictitious transactions.
- **Insurance-vs-book-stock mismatch**: e.g., books show ₹2 crore of stock but the client only insures ₹50 lakh worth — a rational business would insure close to the full value of genuine stock, so a large gap suggests the *actual* physical stock may be far less than what's shown in the books (i.e., possible bogus/inflated book stock).
- Original sale bills/documents not being produced when requested; salary/wages expense rising sharply with no corresponding revenue growth.

Writing CIBIL Comments in Credit Notes

(Source: How to write CIBIL comments — a practical drafting template)

Recommended structure for the "Dedupe Comments" section of a credit/appraisal note — build as a table:

Name of Person/Entity	Type of Dedupe	Score	Enquiries (last 6 months)	Remarks
Mr. Ram	CIBIL	727	—	—
Mr. Shyam	CIBIL	731	—	—
ABC & Co. (entity)	CIBIL (Commercial/CMR)	CMR-7 (e.g.)	—	—

How to populate each column and write the narrative around it: - **Type of Dedupe**: name the specific bureau/source used (CIBIL, CRIF, Experian, etc.) — whichever was actually pulled. - **Score**: individual CIBIL score and/or commercial CMR score, as applicable to each name. - **Internal Dedupe (separate line item, in addition to external bureau dedupe)**: check the bank's own internal database/CBS across all departments. If an internal match/hit is found (e.g., a prior rejected auto-loan application under the same entity name), write it up with full justification, e.g.: > *"There is a match found in internal dedupe of ABC & Co. with respect to the Auto Loan Rejection. We have taken confirmation from the Auto Loan Department vide mail dated 5th Feb 2025 of Mr. [Name], Regional Head – Credit, Auto Loan, stating this is due to the borrower not being interested to take the loan."* - Always cite the **source of confirmation** (email date, name and designation of the confirming officer). - For every other name/entity with **no internal match**, explicitly state so: *"Rest all other Persons/Entities have clear Internal Dedupe."* - **Enquiries (last 6 months, from the CIBIL report's enquiry log)**: state the number found (e.g., "15 enquiries"), and explain — based on discussion with the borrower — the likely reason (renewal-related pull, EMI/loan applied and sanctioned elsewhere, auto loan applied and sanctioned, etc.). Apply judgment on whether the borrower's stated explanation is credible; a high number of enquiries with no credible explanation is itself a concerning signal worth noting. - **Remarks**: summarize any DPD/delinquency findings from the bureau report and their justification (mirroring how it would be explained in a general "banking comments" section) — e.g., an isolated bounce due to no ECS mandate being active yet, or no penal/overdue charges actually levied by the bank, versus a genuine, unexplained pattern of delay. - **External Rating** (a related "type of dedupe," if applicable): note the entity's external credit rating (e.g., agency and grade, "BBB+ — satisfactory"). If the entity's exposure now falls **below the regulatory threshold that mandates external rating** (historically the mandatory-rating threshold was tied to facility size, and has since been raised — the lecture cites a **₹25 crore** threshold example), and the entity therefore didn't bother renewing/cooperating with the rating exercise, the rating agency may show the rating as **"Withdrawn"** with a comment like **"Issuer Not Cooperating."** In that case, write: > *"We have discussed with the borrower and he stated that since his exposure is less than ₹25 crore, he is not obligated to do the external rating and hence he didn't give the required documents to the rating team."* - **CRILC / SMA check**: also check and report CRILC/SMA status for each name/entity in the dedupe table the same way — with justification for any match found, and a clean-record statement ("No match was found") for any name where the check was clear. - Extend the same full dedupe process (internal dedupe, external CIBIL/CMR, external rating, CRILC/SMA) to **every** name relevant to the file — not just the primary borrower(s): **group/sister firms and all guarantors** must each get their own row and full check.

Portfolio Monitoring to Prevent NPAs

(Source: Portfolio monitoring for credit managers)

Core principle: *"A loan disbursed is not a loan recovered."* Disbursing funds is only the midpoint of the loan's story — monitoring is what ensures the "ending" (full repayment with interest) actually happens.

Why it matters: - Keeps the credit/sales team aligned with the bank's overall **business strategy and risk appetite** (every bank/NBFC has a different risk appetite — a small bank can't take the same aggressive calls a large bank can; monitoring reveals which segments/geographies/industries are actually performing so strategy can be recalibrated). - Strengthens the bank's **compliance culture** and keeps the institution "audit ready" (RBI audits, internal audits, external audits) with documented data and justifications on hand. - **Prevents delinquencies** from crystallizing — many bounced EMIs/installments trace back to fixable operational issues (e.g., an ECS mandate not properly set up, or set up against the wrong account, or insufficient balance maintained) rather than genuine borrower distress; proactive client guidance at this stage can prevent future delinquency and NPA formation entirely. - Builds an organizational **culture of early detection** — so that a client turning NPA a year or eighteen months later is never a "surprise"; ongoing monitoring should have already flagged the warning signs, potentially allowing an early, managed exit from the exposure.

As a "first line of defense," the credit manager should differentiate monitoring approach by product type: For Working Capital (CC/OD) accounts — comparatively the most monitoring-intensive: - **Monthly exercise** (frequency can flex with workload/organization size — very large private banks often have a strong central monitoring team that pushes automated triggers, so individual credit managers may not need to do it fully manually; smaller/medium banks with lighter portfolios typically expect the credit manager to monitor manually). - **New accounts** (first ~6 months post-disbursement) deserve close attention regardless of overall portfolio size: - Check **monthly bank statements** — is the expected turnover/"churning" actually routing through the account? If not, guide the client (phone call) — e.g., "your interest servicing must happen within 3 days, even though 7 days is technically allowed" — and if turnover is routing through a different bank, discuss closing that other current account. - Check whether **interest is being serviced on time**; watch overall bounce frequency in the bank statement. - Watch for **sudden drops in churning/turnover** — could indicate a genuine sales decline, turnover diverted elsewhere, or delayed customer payments; correlate with the underlying business story. - Check for signs of **fund diversion** — did the client take the money for one stated end-use and actually use it for something else? Check for other **non-compliances**: late stock-statement submission, unmet review conditions (e.g., a condition to bring in additional capital or hit a sales target that wasn't met), and any other pending compliance items — proactively guide the client to close these out. - Check whether the client has taken any **additional/new loans** elsewhere (visible via bank statement disbursement credits) — **do not** pull a fresh CIBIL just for this monitoring purpose (explicitly cautioned against in the source). - Verify **security creation** has actually been completed (especially relevant on takeover cases) — a case sitting for 3–4 months still "in process" of security creation, while the bank has already released its own limit and the client is also drawing on the old bank's limit, is a red flag requiring urgent follow-up. - Guide the client proactively on compliance culture — when stock statements are due, closing out other banks' current accounts, meeting onboarding conditions by their due dates. - **Visit at least once every 6 months** — doesn't need to be a special dedicated trip; if you're already passing that area for another visit, a brief 10–15 minute drop-in is enough.

- **Existing accounts (over 1 year old)**: focus shifts to **renewal-cycle discipline** — ensure renewals complete on time (documents not delayed), all renewal conditions/pending compliances are actually closed out. Use data from the central monitoring team where available (month-on-month triggers on new loans taken, reduced churning, stock-data or stock-audit anomalies) and act on it. Ensure the **annual stock audit** is completed on time. For any account that *did* turn delinquent, conduct a **detailed retrospective study** of that portfolio segment: what went wrong, was it an aggressive underwriting call the bank shouldn't have taken, and turn it into an institutional learning point to avoid repeating the mistake.

For EMI-based term-loan products (auto loan, personal loan, business loan, LAP, housing loan, commercial-vehicle loan, etc.) — comparatively lighter monitoring: - Central teams typically auto-trigger delinquency alerts the moment an EMI bounces, rolled out to credit/sales managers as delinquency sheets. - **Priority focus**: review the delinquency sheet closely for **newly disbursed accounts** (last 2–6 months) — an early delinquency on a brand-new account is especially concerning and often traceable to onboarding **mis-guidance** rather than genuine distress (e.g., ECS not linked to the right account, mandate not registered, insufficient balance) — proactively resolve these. - Investigate ECS-specific issues: mandate not set up at all, set up against the wrong account, or the client having since switched which account they operate from. - For genuine borrower-side delinquency, pull the original proposal note and study where an overly aggressive credit call may have been made, to build institutional learning. - Verify **security perfection** is complete. - Engage with the **collections team** periodically, including occasionally joining them on client visits to understand the real reason behind EMI delays firsthand.

General practice recommendation: maintain a structured **Excel-based monitoring log/report** — categorize accounts by concern level (**High / Medium / Low concern**) — and proactively circulate this analysis to seniors and sales counterparts monthly; this both demonstrates value to senior management and builds a durable, defensible monitoring record.

Red Flags in Borrower's Business & Financials (fraud/distress indicators)

(Source: Episode 12 — "Top 22 Red Flags in Borrower's Business & Financials")

Framing: these are *warning signals*, not proof of fraud/distress — each one should trigger deeper, more cautious investigation rather than an automatic rejection.

1. **Unexplained rapid sales growth** with no corresponding increase in market/geography, infrastructure, machinery, or product range (i.e., no real capex or expansion to justify the growth) — ask how sales grew so fast with nothing else having changed.
2. **Non-cooperation** with site visits, stock audits, or third-party verification agencies engaged by the bank — suggests something is being hidden from outside eyes.
3. **Sudden change in transaction value/volume** — e.g., monthly credit submissions that were steadily ~₹1 lakh suddenly dropping to near-zero or jumping to ₹25–30 lakh; limit utilization suddenly jumping from a steady ~50–60% average to 100%.
4. **Delayed statutory compliance/filings** — late PF, GST, or tax returns; delayed or qualified audited financials.
5. **High customer/supplier concentration** — over-reliance on very few counterparties creates fragility if that relationship breaks.
6. **Frequent, repeated ad-hoc/TOD (temporary overdraft) requests** coming in rapidly after disbursement — a pattern the instructor personally observed precede an NPA within 6–8 months in one case.
7. **Promoter lifestyle mismatch with business income** — e.g., a promoter whose limits are stretched "neck to neck" and who claims no spare cash for the business, yet is buying luxury cars (Land Rover Defender, Mercedes, BMW) year after year — a real case cited where a Zonal Head specifically flagged this mismatch as decisive.
8. **Large, unexplained cash transactions** with no credible answer for their source/purpose; heavy transactions with group firms; large unexplained inflows/outflows from unknown/unrelated sources.
9. **Adverse media/negative news**, or negative findings from a **Google check**; ongoing legal cases against the borrower or their group firms.
10. **Multiple firms registered at the same address** with multiple, frequently-changing contact numbers — repeated new-firm registrations at one address with unexplained rotating phone numbers is a red flag.
11. **Excessive time pressure from the borrower** ("I need this sanctioned in 2 days") — can be a deliberate tactic to rush the process and cause the credit team to skip diligence steps.
12. **Round-tripping of funds** — large round-figure payments flowing in and out.
13. **Mismatch between audited financials and bank statements** — e.g., audited books show ₹1cr of churning but the bank statement only shows ₹20 lakh of actual credits; or top debtors/creditors per the financials don't match who's actually paying/being paid per the bank statement — the two data sources tell inconsistent stories.
14. **High recent loan inquiries** — filing with multiple banks simultaneously, seeking multiple types of credit, or a spike in recently availed loans; could indicate other banks are rejecting the file (which would otherwise show up as a sanctioned loan in the bureau) or that the borrower is simply over-leveraging right before approaching you.
15. **Mismatch between insured stock value and actual/book stock** — e.g., books show ₹2cr of stock but only ₹50 lakh is insured; a rational business insures close to its full actual stock value, so a large gap suggests the true physical stock may be far below the book figure (possible bogus stock).
16. **Repayment delays / cheque bouncing / penal charges** for non-compliance in the banking relationship.
17. **Diversion of funds** — borrowed money used for a purpose other than what it was sanctioned for (e.g., diverted to group companies, given out as related-party advances).
18. **Frequent resignations in key management** — CFO, CEO, Accounts Head turnover; **promoters reducing their own stake/ownership** or a change in controlling ownership.
19. **Debtors and creditors growing disproportionately** relative to sales and purchases — e.g., sales flat at ~₹1cr/year for years while debtors have crept up to ₹40–50 lakh with

no real change in the underlying business.

20. **Non-cooperation or a negative tone during post-disbursement monitoring or at renewal time** — a borrower who was cooperative pre-sanction but becomes evasive/hostile once funded, or resists renewal formalities, is a warning sign.
21. **Profit growing alongside disproportionately rising closing stock** — book profit climbs every year, but so does closing stock, while the physical site visit doesn't show stock buildup consistent with the books — suggests profit may be artificially inflated via overstated closing stock.

(The lecture title references "22" red flags; roughly 21 distinct, clearly enumerable items were captured from the transcript — treat this as a comprehensive but not necessarily perfectly exhaustive list of the exact "22.")

Turning Stressed Borrowers into Bankable Borrowers

No usable transcript could be retrieved for this video after extensive retries (video ID `qi8h11amq0c`) — see `skipped_videos.txt` for details. This section is intentionally left without source content rather than being fabricated.

Source coverage note 14 of the 15 assigned videos yielded usable transcript content (ranging from fully clean English/Hindi transcripts to partially garbled auto-captions from which key facts were still extractable). One video (`qi8h11amq0c`, "How Banks Turn Stressed Borrowers into Bankable Borrowers") could not be transcribed despite multiple retries and is logged in `skipped_videos.txt`. The SMA-classification day-range table draws on the clean explanation embedded in Lecture 71 rather than Lecture 80 directly, since Lecture 80's own transcript was too corrupted to reliably extract exact figures from.

Part 5 — Documentation, Mortgage & Credit Appraisal Note Writing

(Original section title: Documentation, Mortgage & Credit Appraisal Note Writing — Study Notes)

Source: a YouTube course, "Professional Course on Working Capital Credit Analysis" — covering documentation & mortgage fundamentals (Lectures 6, 9–15) and credit appraisal note writing / loan terms & conditions (subsequent lectures and live case-study videos), MSME/Working Capital context throughout.

Documents Required for Working Capital Loans (Checklist)

Credit assessment of a working capital case is split into two independent tracks that run in parallel: 1. **Financial angle** — eligibility based on the borrower's financial statements/income. 2. **Property angle** — eligibility based on the security/collateral offered. The lower of the two eligibilities becomes the final loan amount sanctioned.

Document lists are bank-specific, but ~99% of banks converge on the same general list. Categories:

1. Application Form - Every bank has its own loan application form. - Must include: client photograph, signature, and address as per KYC. - Check it is completely filled and completely signed with photograph — this is the first document in any file.

2. KYC (Know Your Customer) — Non-Individual (the borrowing firm) - KYC = proof of customer's identity and address. - For non-individual borrowers (firms), two proofs are required: **Entity proof** (proves the firm's existence/registration) and **Address proof**. - Both are normally covered together by the **GST Registration Certificate**. - For import-export businesses, the **IEC (Import Export Code)** certificate can serve this purpose. - Tally the entity name/address on these documents against the loan application form to catch discrepancies.

3. KYC — Individuals (promoters/directors/guarantors) - Must check **Date of Birth (DOB) proof** — available via PAN Card, Driving License, or Aadhar Card. - **Identity proof**: Passport, PAN Card, Aadhar Card, or Driving License. - Same documents typically double as **address proof**. - **Aadhar and PAN are mandatory** for anyone the bank is funding (not merely because passport alone would suffice). - Exception: for an elderly person (e.g. 75 years old) who is only a guarantor (not borrower/promoter) and never applied for a PAN card, Aadhar becomes mandatory and PAN can be waived exceptionally. - KYC documents are self-attested by the client.

4. OSV — Original Seen & Verified - OSV = "Original Seen & Verified." The bank's business team (e.g. Relationship Manager) signs each KYC photocopy: *"OSV done by Mr. B"* with signature. - This certifies that the original document was physically seen before the photocopy was accepted, and makes the OSV-signer responsible if a fake KYC document is later found to have been submitted.

5. Entity-Specific Constitutional Documents - Partnership firm → Partnership Deed. - Company → COI (Certificate of Incorporation), MOA (Memorandum of Association), AOA (Articles of Association), latest list of directors, latest shareholding list with % holding (as shareholding changes, this must be "as on date"). - Trust/Society → Memorandum and Bye-laws.

6. Obligation/Liability Documents (for promoters and guarantors) - Any existing liabilities/loans from other banks (auto loan, housing loan, property loan, cash credit limit with another bank, unsecured business loan) must be documented via: - **Statement of account** for the last 6 or 12 months (per bank policy), for all borrowers and guarantors — used to check repayment track record. - **Sanction letter** of already-running loans, especially property loans — confirms exactly which property was pledged for that other loan (fraud check — prevents the same or a different property being misrepresented). - The other bank's **terms and conditions** document.

7. Financial/Income Documents - Tax Audit Report (last 3 years, with all annexures). - CARO Report and Company Audit Report (for companies), last 3 years. - Balance Sheet and Profit & Loss Account (last 3 years, complete with all annexures). - GST returns for the current year (month-wise or quarter-wise); if the latest financial year is unaudited, GST returns are used to vet turnover/sales from a government-verifiable source. - Income Tax Returns (ITRs) for last 3 years along with **Computation of Income** for all individual and non-individual borrowers. - **CA certification checks**: Tax audit report and balance sheet must carry a clearly visible CA stamp/signature showing membership number/firm number, and the **UDIN (Unique Document Identification Number)** — mandated by ICAI for every document a CA signs — must be printed above the stamp/signature. UDIN can be cross-verified on the ICAI website to confirm it matches the signing CA.

8. Banking Documents - Last 12 months of bank statements — primarily the account carrying the bulk of business transactions. - If turnover is split across multiple banks (e.g. 30% in one, 35% in another), collect statements from enough banks to cover 80–90% of transactions. - Statements must be self-attested and must clearly show: bank name, client name, account number, banking duration, and day-wise entries/dates/closing balances. If not clearly legible, it is not valid — ask the client to resubmit.

9. Property & Other Documents - Property papers (copies) for whatever is being offered as mortgage/security — area and ownership details. - For CC (Cash Credit) limit applicants: last 6 months' stock statements (as submitted to the existing bank). - Net worth statement (properties and total net worth). - Top 5 buyers and top 5 sellers details. - One-pager business profile. - Any additional document the underwriter determines is needed once analysis begins.

Types of Securities Banks Accept

Property/security types commonly offered, in decreasing order of bank "comfort level":

1. **FDRs (Fixed Deposit Receipts)** and **Others (Mutual Funds, LIC policies, PPF, NSC)** — highest comfort. If offered, minimal financial-angle scrutiny is needed since these are easily liquidated on default.
2. **Residential property** (house, flat) — very good comfort; owner cares deeply about reputation/neighborhood if seized.
3. **Commercial property** (shop, office, godown) — good comfort; located in commercial localities, easy to resell at good price.
4. **Industrial property** (factory) — lower comfort than residential/commercial (less liquid, fewer buyers) but better than a vacant plot.
5. **Vacant plot** — lowest comfort among built/land categories, because no construction exists to attract auction buyers. Sub-divided further:
   - Residential plot — comfort depends on colony development (e.g. 60–70% houses developed = good comfort).
   - Commercial plot — comfort depends on locality development.
   - Industrial plot / Other plot — lowest comfort.

Financial-instrument securities: - **FDRs**: Market value = principal value of the FD (not maturity value). Bank obtains a **lien mark** on the FD. - **Mutual Funds**: Only **debt mutual funds** are normally accepted (equity funds carry high market-fluctuation risk). Must be **open-ended** (no lock-in) — a closed-ended fund could trap the bank if default occurs before the lock-in ends. Valuation uses **latest NAV × number of units** (some banks use investment amount instead — ask which the bank permits). Study the mutual fund's scheme document (e.g. via Economic Times) to confirm open/closed-ended status and asset class. After finalizing, the bank shares details with the **AMC (Asset Management Company)** to get the units **lien-marked**; the statement will then show "these units are lien marked to [bank]," and the client cannot redeem without bank permission. - **LIC policies**: loan given against **latest surrender value** (which increases over time); lien-marked with the insurer. - **PPF / NSC**: loan given at a percentage of the instrument's value, similar mechanism.

Post-incident note: after the **IL&FS crisis**, banks became conservative on mutual funds — LTV dropped from a prior ~80–85% band to roughly 70–85%, with individual comfort levels varying by scheme. Banks typically publish an approved mutual-fund list specifying per-scheme comfort levels.

Additional risk modifiers on comfort/LTV (any property type): **under-construction** status (lower comfort — risk that construction is abandoned, hard to resell half-built), **vacant vs self-occupied vs rented** status (different comfort levels; verified via valuation report).

Loan to Value (LTV) Ratio

Definition: LTV = Loan Amount ÷ Fair Market Value of the property offered as security, expressed as a percentage. It represents property-based eligibility (distinct from financial-angle eligibility) — the lower of the two determines actual sanctioned loan amount.

- Explained specifically in the context of the **working capital product** (LTV differs for products like Loan Against Property).
- LTV comfort levels vary bank to bank based on risk appetite; the figures below are indicative "market practice" ranges, not universal rules:

Property Type	Typical LTV Range
Industrial property	~60–80% (varies widely by bank; example used: 60%)
Residential property	~80–100% (some banks up to 100%; some 75%)
Commercial property	Roughly similar to residential (high comfort)
Residential/Commercial plot	~70–80%
Industrial plot	~40–50%
FDRs	~90–110% (some govt banks 90%; others 100–110%)
Mutual Funds (post-IL&FS)	~70–85% (was 80–85% pre-IL&FS)
PPF / NSC / KSC (National Savings Certificate)	~85–100% (some banks 90–100%)

Worked example: Industrial property with FMV of ₹1 Cr; bank's comfort LTV = 60% → property-based eligibility = ₹60 lakh. If financial-angle eligibility differs (e.g. is higher), the **lower** of the two figures becomes the sanctioned loan amount.

Key clarifications: - The quoted LTV % is the **maximum ceiling**, not an entitlement — a bank offering 100% on residential property is not obligated to lend the full FMV; less can (and often should) be sanctioned based on case quality. - Banks can also **exceed** the standard ceiling as a "deviation" (e.g. 80% → 85%), but this typically escalates approval authority up the hierarchy (Credit Manager → Area Credit Manager → Regional Credit Manager → Zonal Credit Manager → National Credit Manager, per the organizational structure covered in an earlier lecture). -

Weak financials/case quality justify sanctioning **below** the maximum LTV (e.g. only 50% on a residential property with weak financials) — LTV ceilings are guidance, not mandates.

Property Valuation & Fair Market Value

Technical assessment of property has two components: **(1) Property Identification** and **(2) Fair Market Value**.

Property Identification

- Just as an individual's address proof (Aadhar) must be specific enough to physically locate them, a property's primary address proof is its **registry/sale deed (title deed)** — it must be specific enough that someone can be led directly to the property using only the registry details.
- Real-world fraud pattern cited: a client (with a colluding outside "technical person") showed the bank their actual house during the site visit, but the registry submitted was actually for a **graveyard property**. On default, the bank discovered the real house was unencumbered and could not recover the loan — highlighting why identification discipline is critical.
- A registry/sale deed should specify: **address, dimensions, and directions (East/West/North/South boundaries)**. If a property is identifiable from the registry alone, it is considered a "very good" property.
- Sample sale deed ("Deed of Absolute Sale") contents: execution date, seller's name/PAN/religion/address, purchaser's name/details (must be current owner at time of mortgage), property details (area, plot number, location), the derivation/background of ownership (e.g. inherited via will after father's death, with reference to the earlier sale deed number and legal heirs), sale consideration, terms and conditions, dimensions (length/width), and boundary directions (what lies to the N/S/E/W).
- In some states (e.g. **Punjab**), land records are also anchored to **Khasra numbers** under the **Jamabandi** system (see Land Records section below) — identification approach varies by state.
- If the registry itself is insufficient (common in older areas with poorly documented registries), identification can be supplemented via local authority documents, approved government maps showing the property's access route, or (in Punjab) engaging the **Patwari** for an official site visit/marking (fee-based).

Fair Market Value (FMV) / Valuation Report

- Every bank maintains a **technical team** — either in-house employee or an outside empanelled vendor — called the **valuer**.
- The valuer visits the site with a copy of the registry to physically compare/confirm the registry matches the actual property, and prepares a **Valuation Report** covering (a) identification and (b) fair market value.
- **Valuation Report contents** (from sample shown): applicant name, owner name, address of property appraised vs. address per document/registry (must match), date of appraisal (valuer disclaims responsibility for changes post that date), purpose ("Fair Market Value Assessment"), property type/location/neighborhood class, occupation status (vacant/occupied/rented — flags risk factors), property usage (residential/commercial use), proximity to landmarks (hospitals, schools, bus stop), property documents (registry details, whether sanctioned/government-approved building plan exists), brief description (floor, layout — e.g. "2BHK, 2 dining hall"), area in sq. ft., year of completion, **age of property and estimated future life** (relevant to loan tenure — e.g. don't extend a

5-year term loan against a property with only 2 years of estimated remaining life), internal finishing/maintenance quality, boundaries as per document vs. actual (must match), built-up area vs. **permissible area** under local bylaws (valuation is capped at the lower of actual vs. permissible built-up area — illegal excess construction is excluded from valuation).

- **FMV calculation method**: (Land Area × applicable Land Rate) + (Construction Area × Rate of Construction, adjusted for observed quality) = Total Property Value. The valuer determines the land rate by surveying nearby property dealers/recent sale transactions and taking a simple average (e.g. quotes of ₹10,000, ₹12,000, ₹9,000 per sq ft → averaged).
- Report closes with the valuer's remarks (flagging any observed issues) and a disclaimer of future non-responsibility, plus photographs.
- In working capital lending, this technical assessment is primarily handled by RMs/technical teams, not the Credit Manager directly — but the Credit Manager should understand the objective and outputs.

Legal/Title Search Report Process

Purpose: Only the property's **rightful owner** — with clear title/clear ownership and documentary proof — can validly mortgage it. Without this, no valid mortgage can be created; on default, the bank cannot take legal recovery action, because the "owner" was not real.

Process: Bank engages an external **advocate/lawyer** (in addition to its internal legal department which advises generally). Photocopies of property documents are handed to the lawyer to verify: rightful ownership, clear title, absence of disputes/litigation/doubt, no pending dues/property tax, no government hold/lien, no **encumbrance** (existing mortgage by another bank).

Deliverable: Title Search Report (a.k.a. Legal Report), signed by the advocate. It establishes: - **Chain of Title**: the ownership history — e.g. Mr. A sold to Mr. B (with sale deed/registry number and year), Mr. B (deceased) passed to Mr. C as legal heir (via will, court decree, or family settlement — this transfer basis must be established to rule out other potential heirs' claims), Mr. C sold to Mr. D (present/current owner mortgaging the property). Any unexplained gap in this chain risks a later dispute (e.g. other legal heirs of Mr. B challenging Mr. C's right to sell) that could leave the bank unable to recover its loan via property sale.

Timeline of title search — the "13-year rule": - Standard practice: verify clear/unbroken chain of title for the **last 13 years** (called "**Limited Search**"). This 13-year figure derives from the **Limitation Act** in Indian law. - **Limitation Act concept**: if a property's **possessor** (as distinct from the registered owner) is in continuous, undisturbed possession/control for **12 years** and the owner raises no legal dispute within that window, the possessor acquires the right and the original owner can no longer challenge it (even via legal action after 12 years). This is called the **Doctrine of Adverse Possession**. - **Doctrine of Adverse Possession applies only to private property, never to public property** — one cannot claim government/public land via adverse possession. - Banks therefore add one extra year of safety margin (12 → 13 years) and require documentation covering the full chain over that period. - Title deeds are referenced relative to the present: current deed = **N=0**; one transaction back = **N-1**; two back = **N-2**; etc. All original documents across this window are collected and mortgaged/held by the bank. - If a bank lacks the full 13-year record and later needs court assistance to sell a defaulted property, the court may find the bank's due diligence deficient, weakening its case. - **Full Search = 30 years** — used by banks as an extra-cautious measure when title establishment is difficult or doubtful (records traced back e.g. from 2021 to 1991).

Tenanted/possessed property — NOC requirement: - Since a long-term possessor (e.g. a tenant) could theoretically invoke adverse possession, banks require a written **NOC (No Ob-**

jection Certificate) from any tenant before mortgaging a rented property. The tenant signs the NOC (with KYC) declaring they will **peacefully vacate** if the owner defaults and the bank needs to sell/repossess. This is treated as a **mandatory document** for tenanted mortgage properties. - Occupation/possession status (owner-occupied, rented, vacant, relative-occupied) is confirmed via the valuation report and a physical bank-employee site visit, documented accordingly.

Personal-life application (per the lecturer's aside): individuals buying property should similarly insist on a 13-year chain-of-title search before purchase, and should walk away from any deal where the seller cannot produce the full 13-year document chain — this protects both future resale and future bank-loan eligibility.

Types of Mortgage in India (Equitable vs Registered Mortgage)

"Mortgage" = **charge** — the bank acquires rights over the property such that the owner cannot sell or change title without the bank's involvement while the charge subsists. Two types, both valid and used in India:

1. Equitable Mortgage

- Simpler, easier, faster process.
- Requires the borrower to submit the **complete chain of title documents** (13, or up to 30, years) to the bank, which holds them in custody until the loan is fully repaid, then returns them.
- A **loan agreement** is signed directly between lender (bank) and borrower — a private, mutual agreement with **no third party/registrar involvement**.
- **Stamp duty is comparatively low** — a cheaper process.
- **Risk**: because there's no third-party/government record, the client could fraudulently claim the original title deed was "lost," create a fake replacement deed, and sell the property to someone else without the bank's knowledge. No trace of the bank's charge appears on **Encumbrance Certificates / Non-Encumbrance Certificates (NEC)**.
- On repayment, documents are simply returned — no further government filing needed.
- **More common in industry** due to simplicity and low cost.

2. Registered Mortgage

- More difficult/lengthy process; does **not require** a complete chain of title documents — used precisely in cases where the chain is incomplete or unavailable (e.g. **agricultural properties**, which are often not formally registered and whose title instead sits in Patwari records/settlements/possession history — some areas of India have no registries at all).
- The **loan agreement itself must be registered at the Sub-Registrar's Office** — similar to registering a property sale transaction. This is the origin of the name "registered mortgage."
- **Stamp duty is high** — a costlier process.
- **Safer for the bank**: because the charge is formally registered, it will appear on the property's **Encumbrance Certificate**. Any future buyer checking the encumbrance certificate would see the bank's charge — shifting fraud/diligence risk to that buyer rather than the bank.
- On full repayment, the bank must **separately report the closure to the Sub-Registrar's Office** (with relevant proof/agreement) to have the charge removed from the encumbrance record — this is an additional step not required in an equitable mortgage.

Summary of key differences: (1) chain-of-title requirement (mandatory for equitable, optional for registered), (2) process complexity (equitable simpler), (3) where the loan agreement is executed (private vs. sub-registrar office), (4) stamp duty (low vs. high), (5) fraud/traceability risk (equitable is riskier/undocumented; registered is safer/traceable via encumbrance records), (6) closure formalities (equitable = simple document return; registered = must also file closure at sub-registrar office).

Fixed vs Floating Charge over Assets

A borrower's balance sheet assets split into **non-current assets** (fixed assets — land & building, plant & machinery, furniture, long-term investments, other assets not realized within a year, e.g. electricity/telephone security deposits) and **current assets** (stock, debtors, other short-term loans and advances realized within a year, e.g. GST receivables, cash and bank balances). Charges are always created on **assets**, never on liabilities.

Fixed Charge

- Created on **fixed assets** (e.g. mortgaged land & building, or bank/NBFC-financed plant & machinery — e.g. financing a ₹1 Cr imported machine and taking charge on it).
- **Key features**: (1) created on a specific, identifiable fixed asset; (2) the borrower **cannot sell, transfer, or dispose of** the charged asset without the bank's permission.
- Recovery on default is comparatively simple: bank applies to court, takes possession of the specific known asset, and disposes of it.

Floating Charge

- Created only on **current assets**, mainly **stock and debtors** — e.g. whenever a client avails a working capital loan, the bank has a floating charge over stock and debtors.
- "Floating" reflects that the value is not stable — stock and debtors constantly change as sales/purchases/collections happen. Because of this, the borrower **can** sell/transfer these assets in the ordinary course of business without needing bank permission each time (unlike a fixed charge).
- **Key features**: (1) charge is on current assets; (2) the charge amount is **not fixed** since asset values fluctuate; (3) borrower can freely sell/transfer these assets without bank permission (in the ordinary course).
- **On default**: the bank cannot claim a fixed rupee amount tied to book values at the loan's inception. Instead, after obtaining necessary permission, the bank **converts the floating charge into a fixed charge** — a process technically called **"crystallization of floating charge."** Once crystallized, all fixed-charge features apply: the borrower can no longer sell/transfer/dispose of the (now-fixed) current assets without bank permission, and the bank can seize and sell whatever assets remain on the premises to recover dues.
- **Practical recovery challenges** (from the lecturer's field experience): (a) borrowers often physically remove/"sweep" stock and even plant & machinery from the premises before the bank can act, since round-the-clock surveillance isn't feasible and legal formalities take time; (b) for debtors, banks typically compile the outstanding-debtor list from the client's books, send legal notices to those debtors instructing them to pay dues directly into a bank-designated (lien-marked) account, and recover through that channel.

Indian Land Records (Jamabandi, Mutation, Girdawari, Fard)

Applicable mainly to states such as **Punjab, Haryana, and some Southern Indian states** that maintain a land revenue department; not universal across India.

Historical origin: System traces to the Mughal era (Sher Shah Suri), when taxes were levied on agricultural land revenue. The British (~1910–1914) refined it by drawing a **"Red Line" (Lal Dora / Lal Lakeer)** around a village's residential core — everything inside is residential/exempt from certain land-use restrictions; everything outside is classified **agricultural land** and subject to land revenue/taxation.

Key terms: - **Lal Dora / Lal Lakeer properties**: properties inside the red line — treated as residential; building here does **not** require a Change of Land Use (CLU). No Jamabandi records exist for these. - **CLU (Change of Land Use)**: required to convert agricultural land outside the red line to residential/commercial use — a cumbersome, expensive process. - **Patwari**: the village accountant/government official appointed to maintain agricultural land records for each village; the role and title still exist today. - **Hadbast number**: a unique serial number assigned to each village. - **Chajra**: the map of a village's agricultural land, showing subdivided plots. - **Khasra number**: the "plot number" for agricultural land parcels (a term derived from Persian) — assigned when the Chajra map is prepared; large land chunks are progressively subdivided as owners sell portions (e.g. plot 5 splits into 5/1 and 5/2 when sold to two different buyers), preserving traceability of subdivisions. Critical for property identification — an example cited: a court-ordered eviction involving 300 police personnel failed because the Khasra number recorded (4) was wrong and the actual site was Khasra number 6. - **Nishandehi**: the Patwari's official, fee-based physical site-marking/mapping exercise to pinpoint which Khasra number corresponds to which physical location — used as an identification aid. - **Khata number / Khewat number**: the family/individual account number under which all Khasra holdings of that family are recorded by the Patwari (e.g. "Jain family's Khata number is 201" aggregates their full landholding). - **Jamabandi**: the master **Record of Rights** — records land details, ownership (Malik da naam), cultivator (Kashtakar — may differ from owner), means of irrigation, Khasra number, area (Rakba), and remarks. Updated by the Patwari **every 5 years**. Since each Jamabandi covers 5 years, mortgaging a Jamabandi-recorded property requires **3 Jamabandis (covering ~13+ years) plus the latest one**. - **Mutation / Intkaal**: the process of updating ownership in the Jamabandi following a sale, transfer, or gift — recorded with the previous mutation/account number, new owner details, cultivator, crops, and the Patwari's remarks justifying the change. - **Girdawari**: the record of what crops are being cultivated and by whom on agricultural land — a key government data-collection tool (soil type, irrigation method, cultivation pattern). Important that Girdawari remains in the actual **owner's** name — if left too long in a cultivator's name, that cultivator could later claim rights via adverse possession-style arguments. - **Shamlat**: common village land shared by all villagers (e.g. underlying schools, temples) — **not mortgageable**, since no single individual holds full rights to it. Credit managers/lawyers must check that a property is not recorded as Shamlat before proceeding. - **Other terms**: **Hibba/Hibba Nama** = gift/gift deed; **Patta/Pattanama** = lease/leased-property mutation record; **Bainama/Bai** = sale deed ("Bai" = sale, "Nama" = "in the name of").

Practical check for Credit Managers: To identify whether a borrower's property falls under the Jamabandi system, look for **Khasra number, Khewat number, and Khata number on the registry/title deed** — Lal Dora (red-line) properties will never have Jamabandi records, so no Jamabandi need be collected for those. Where applicable, the credit manager should verify that the owner name and area in the Jamabandi/Fard match the client's claims and the loan application — though in working-capital lending this detailed legal cross-check is typically performed by the engaged lawyer rather than the credit manager directly.

Multiple Banking, Consortium & Pari Passu Charge

See the closing "Topics Not Covered" section below — this topic's source video could not be transcribed.

Writing a Credit Proposal Note / Credit Appraisal Note

Overall Purpose A credit proposal note (aka credit appraisal note / sanction note) is the document an underwriter/RM sends up the sanctioning chain. The sanctioning authority (Zonal Head, RCM, National Credit Head, Board, etc.) has **never met the client** — the note is the only lens through which they form a picture of the borrower. The better and more logically the case is represented, the easier the decision becomes. Note: this is treated as a **quasi-legal document** — if a loan later turns bad, the proposal note is heavily scrutinized (including by RBI audits), so silly mistakes (wrong spellings, names not matching KYC) are unacceptable. Names/spellings must match KYC documents exactly (PAN, GST) — mismatches (e.g., "Sunita Verma" vs "Sunita Sharma") can be read as two different people and create legal/audit risk.

Structure of the Note (in the order it's typically built) **1. Brief Description / Opening line** - Start with borrower name and a one-line recommendation stance so the authority instantly knows where you stand: - If comfortable: *"Dear Sir, Recommend for approval…"* e.g. "Dear Sir, recommend for approval a fresh case which is takeover from Axis Bank of so and so amount." - If you have reservations but still want a decision: *"Dear Sir, for discussion"* - If you want views without recommending: *"Dear Sir, requesting views"* - Mention Internal Rating (bank's own scoring/RAM rating mechanism) and External Rating (CRISIL/CARE/ICRA etc., if available). - Mention the **Program/Policy** under which the case is being processed (e.g., GST policy, banking variant, lease rental discounting) — e.g. *"This CC is proposing the case under GST audi policy."* - State whether it's Fresh / Renewal / Enhancement.

2. Approving Authority line - State clearly whose delegation the case falls under (RCM level / Zonal Head / National level / Group) and briefly why (e.g., exposure crossing a threshold, a policy deviation).

3. Existing & Proposed Exposure Table - Two columns: Existing (what's running with the current/other bank) vs Proposed (what you're offering). If first-time borrowing, Existing = Nil. - Follow with **collateral details**: existing collateral vs proposed collateral, and the **LTV / Collateral Cover %** calculation — e.g. *"…against this proposed exposure the collateral percentage works out to X%."*

4. Business Model / Background - Explain: what the business is, background, when it started, which generation of the family runs it, product/business cycle, where the money flows, family tree, group entities and their exposures if financials are available. - **Recommended structure (from the practical case-study video): Past → Present → Future** - **Background (Past):** *"The business was originally started by the grandfather of the borrower around 30 years back and now [2nd generation names] are involved in the business presently."* Include succession/separation events (deaths, retirements, family splits) and their effective dates — e.g. *"…both [X and Y] are managing the business [since] their fathers had died in April 2018."* - **Family details:** who's who, relation (partners/brothers/cousins), ownership of collateral property, spouse names if useful, education only if remarkable (don't ask awkwardly on visit). - **Present business details:** process flow (raw material purchase → sub-process → finishing → packing/dispatch), domestic vs imported sourcing %, customer network size and credit terms, product range/segments. - **Manufacturing capacity:** if not directly given, **back-calculate** it — e.g. from average selling price per unit and YTD turnover, derive pieces/day sold, then gross up using the stated capacity utilization % (e.g. 90%) to arrive at installed capacity. - **Working Capital Cycle:** compute purchase credit days (blended average of import/domestic terms), manufacturing/processing time, and sales credit days; sum minus purchase credit period gives the net WC cycle (e.g. *"the client's total working capital cycle works out to be around 150 to 160 days at present."*). - **Future Plans:** capacity expansion rationale, new markets/customers being added, in-hand export orders (with amount and buyer country), incremental revenue impact quantified wherever possible, timelines (machinery arrival, commissioning, expected revenue impact from a stated month). - **Visit Details:** who visited (CM/ACM/RCM names), when, who was met (promoters by name), and a satisfactory-visit confirmation line — e.g. *"overall business activity and unit was found satisfactory."*

5. Financial Comments (Financial Analysis) - Copy the CMA data crux page in the note (Trading & P&L, Balance Sheet, ratios) rather than re-typing everything. - **Golden rule:** Never just restate a number the reader can already see in the CMA (e.g. "sales declined from 4000 to 3500 to 3400" or "PAT is around 1%") — that's pointless. **Always explain the *why*** behind every material movement, and pair every negative with a mitigant. - Sales: explain drivers with evidence, not vague claims — e.g. *"The borrower's sales level was higher in FY22 due to supply of COVID kits during the second wave to the government resulting in comparatively higher orders."* Then explain normalization and future growth basis, substantiated by evidence you personally checked ("as checked from the previous year financial statements during visit") — never write "as confirmed by the client" as the sole basis, since that carries no evidentiary weight. - Profitability: state cash-adjusted comments (add back partner salary/interest, exclude non-operating income like insurance claims) to show the true "bottom line maintained" picture; explain any decline with a specific, checkable reason (e.g. competition from Chinese/Bangladeshi markets forcing price cuts) and cite corroboration ("the same trend has been noticed by us in competition also in the same industry"). - DSCR: explain if it's low due to non-operating income; show that EMI repayment is regular; state that partner salary/interest is not being withdrawn but used for debt repayment; confirm no major personal loan obligations (checked from CIBIL). - Stock/Debtor/Creditor days: explain deviations with hard facts (e.g. bulk import purchase in March causing stock to double despite flat turnover) and forward guidance (e.g. creditors expected to normalize to 30–40 days once LC-based purchasing is fully rolled out). - Capex/Term Loan: verify promoter margin math is correct (bank funds ~75%, promoter brings 25% — cross-check machinery cost vs proposed loan amount; flag/correct if the workings don't reconcile). - Leverage/Gearing/Current Ratio: state acceptable range and, if marginally below the internal benchmark (e.g. 1.33x for MPBF-2), justify by referencing sufficient net working capital or that assessment is being done on MPBF-1 basis.

6. Banking Comments - Average utilization %, cheque bounces, interest servicing regularity, churning %, penal charges, adverse transactions, market feedback source (Google search / RM cross-reference), submission timeliness.

7. Assessment Basis - State the method used: Turnover Method, MPBF-1, MPBF-2, or DSCR-based for term loans.

8. Critical Pros and Cons of the Proposal - **Pros:** List 7–8 crisp bullet points; no need to over-explain since detail is already given earlier in the note. Example phrasing: *"Very good vintage in the business," "Increasing trending sales," "Healthy leverage," "Good collateral."* - **Cons:** List every concern honestly. **If recommending the case**, each con must carry a mitigant: *"This concern is mitigated by [reason]."* **If NOT recommending / sending only for views**, highlight the unmitigated concerns without forcing a fake justification — flag them plainly so the authority can decide. - Additional info/unusual treatment disclosure: if you treated any item differently than standard (e.g. treating forex gain/loss as operating income due to import/export nature of business), flag it explicitly as an "additional point for your notice." - Missing documents: if a document (e.g. sanction letter of another bank) could not be obtained, state it plainly rather than hiding the gap. - Deviations: only flag *critical/weighted* policy deviations, not every minor one. - Case-specific/critical conditions: explain why you're proposing a particular condition (e.g. a sensitization email to the client for a churning shortfall, following a stock-statement discrepancy).

9. Annexures Reference - List/attach: CMA data snapshot, stock statement & analysis snapshot, creditor/debtor ageing analysis, sanction letter comparison (existing bank vs proposed bank T&C), and any special/independent calculation or analysis (e.g. month-on-month turnover table) — referenced inline in the running text as *"detailed month-on-month turnover is captured in Annexure X."*

Insider Tips for an Outstanding Proposal Note

- Keep wording **short and crisp** — avoid unnecessary elaboration; a 3–4 word single line is often enough for a picture to form in the reader's mind.
- Small details matter disproportionately: always specify the **exact type of collateral property** — e.g. write "Self-Occupied Industrial Property (SOIP)" not just "industrial property"; specify if a residential property is actually self-occupied vs rented vs a guest house vs an investment flat (the SORP label should be used *only* if the person genuinely lives there permanently).
- Sourcing of the deal (DSA / branch / trade team / self-sourced) should be stated — sanctioning authorities want to know provenance.
- **360-degree business opportunity**: explicitly state what cross-sell/other business (group concerns, banking relations, other loans that could be pulled in) can be captured by onboarding this client.
- Reason for sending to a higher authority: state plainly *why* (e.g. exposure crossing ₹10 crore threshold, a policy deviation such as property located in Gram Panchayat area outside municipal limits).
- Relationship/vintage line with the bank: state clearly if it's a fresh relationship or since-when the relationship has run.
- For each family member/partner listed, capture: name (as per PAN, an authenticated document), relation, CIBIL/CMR score, share/profit ratio, declared net worth.
- If information is unavailable (e.g. promoter net worth, group firm names, sourcing detail), **do not stall the note** — dash it out and highlight (e.g. in yellow) as "pending," then continue drafting the rest; resolve later.
- Practical workflow tip: build the note incrementally *while* assessing the case — as soon as a document (KYC, ITR) is in front of you, fill the corresponding note field immediately rather than waiting to compile everything at the end.
- EWS Triggers / RFA Tagging: explicitly disclose if any Early Warning Signal parameter is hit (e.g. "2x increase in stock levels in FY24 as compared to FY23") along with a note that "justification is provided in the due table below" — and clarify it is *not* an RFA (fraud) case, with the justification available.
- Present SMA status and CRILC check result must be stated (e.g. "Standard at present as per CRILC check").
- Never bold entire pasted CMA data by accident — clean formatting so the note reads smoothly in one shot.
- For large proposals (₹10–30 crore+), this level of granularity is standard; for smaller proposals, less detail is acceptable; above ₹30 crore, expect the format to be pushed even further.
- Overall mental checklist before submission: basic loan structure (existing/proposed, collateral structure), promoter details & net worth, group structure & relationships, firms in the group, strengths, weaknesses, EWS/deviations, conditions being imposed, and the critical rationale — all captured in one crisp flow.

CIBIL/CMR Comments CIBIL/CMR score commentary for each promoter/partner (score, DPD history, cross-check against personal loan obligations affecting DSCR) is a required field in the note — see the closing "Topics Not Covered" section below, as this is covered in more depth in a separate/dedicated set of notes.

Must-Have Annexures for Loan Sanction (Critical, always include)

1. **Annexure 1 — Month-wise Sales Comparison**: table with months (Apr–Mar) across the two financial years being compared, currency unit stated (₹ Lacs/Crore), with a Total row. Can also be done quarter-wise or half-yearly. Reference it inline in the Sales comment section (e.g. *"Month wise sales comparison is explained in Annexure 1 of the note"* / with page number if possible).
2. **Annexure 2 — Top 5 Customers & Top 5 Suppliers**: table columns — Name, Years of Relationship, Sales/Purchases done in FY [X] and till-date in FY [Y] (state the exact "till date" cutoff), currency unit, CRILC check/external rating of the customer (critical — if a major customer is reported doubtful/NPA, the borrower's own risk rises), and optionally a contact person name/number and reference-check outcome. If customers are pure retail/cash buyers with no particular concentration, state so explicitly (e.g. "customers are retail buyers only, so there is no particular name that client sells to").
3. **Annexure 3 — Sanction Letter Comparison**: three-column table — Nature of Conditions, existing bank's sanction letter terms (dated, so the authority knows how current the data is), and what's being proposed. Include: exposure details (reference back to the exposure table already built, don't repeat), collateral details, rate of interest comparison (critical point — justify why your bank should price cheaper if taking on more risk), guarantor details, and critical special T&C.
4. **Annexure 4 — Drawing Power Details** (for CC-type facilities): month-wise table — Particulars/Months, Sales, Purchase, Stock, Debtors <90 days, Debtors >90 days, Creditors, Drawing Power of the borrower, (optionally) CC limit utilization at month-end — derived using the stock-statement-analysis method (separately taught).

Writing a Business Loan Proposal

(Same underlying document as the Credit Appraisal Note above — this section captures the "how to physically build the note, line by line" walkthrough from the live case-study videos, distinct from the conceptual checklist above.)

Practical build sequence used when filling the template live: 1. **Borrower Name** — must match KYC letter-for-letter. 2. **Constitution** — Partnership/Proprietorship/HUF etc. 3. **Overall Vintage in Years** — computed from constitution date to present (round to nearest half-year, e.g. "6.5 years vintage"). 4. **Borrower Address** — must match KYC address; if a site visit reveals a different address, resolve/document it (obtain fresh address proof) rather than silently noting a mismatch. Additional place-of-business/branch/godown addresses should be listed with their own sub-headings. 5. **Main Promoters** — only those actively managing the business *as of today* (an exited/retired partner is dropped from this list even if named in older documents); names sourced from PAN card. 6. **Total Net Worth of Promoters** — if unavailable, dash it and flag pending; keep moving. 7. **Line of Activity** — must reflect what was **actually observed** on the ground visit, not merely what a document (Udyam/tax audit) states (e.g. document says "manufacturing" but the site visit shows trading — write what's actually happening). 8. **Industry** — usually a straightforward classification (e.g. Textile Industry for garments). 9. **Group Firms** — list any sister concerns/associated firms by name; if unknown, dash and flag pending, or explicitly write "Not Applicable" if you've confirmed none exist. Always add a general catch-all line: *"...and any other related party of the borrower shall also not be allowed [facility]"* so that a newly-incorporated related entity can't later be used to route funds outside the named list. 10. **External & Internal Rating** — "External rating not available" / internal rating grade (e.g. "BBB+"). 11. **Total Proposed Exposure** — sum existing (to be taken over) + fresh ask, expressed in ₹ (and optionally lakhs). 12. **Type of Collateral** — precise nomenclature (SORP/SOIP as defined above). 13. **LTV / Collateral Cover** — show the calculation: LTV = Loan / Property Value × 100; Collateral Cover = Property

Value / Loan × 100 (inverse of LTV). 14. **CMR / CIBIL scores of promoters** — individually named. 15. **Sourcing Details** — channel (DSA/branch/etc.); dash if unavailable. 16. **EWS Trigger & RFA Tagging** — Yes/No with justification reference; RFA should be "No" for any case being recommended upward (fraud cases are never escalated for sanction). 17. **Present SMA Status** — as per CRILC check. 18. **Approving Authority** — state whose delegation, plus **Reason for Sending to Higher Authority** in crisp bullet form (e.g. "Overall exposure exceeding ₹10 crore" as reason 1, "DPD of 59 days twice in last 12 months in auto loan as per CIBIL report" as reason 2) — anticipate the reader's skepticism and proactively address it with a justification/mitigant line (e.g. *"Justification available and submitted in the due table below."*). 19. **Basis of Recommendation** — filled in only after the rest of the note (business model, pros/cons, financial comments) is complete, since it's a distillation of everything above; this section appears on the **front/first page**, so it must be written in the most professional, concise way possible. 20. **Proposed Rate of Interest** — per facility. 21. **Detailed Existing & Proposed Exposure table** — facility type by facility type (CC, MTL-1 [takeover], MTL-2 [fresh], FLC as sub-limit of CC, EPC/PCFC as sub-limit of CC, FBD/FBP/FBN as sub-limit of CC), each with existing vs proposed columns; use explanatory numbered notes below the table for anything not self-evident (tenor, moratorium, currency, cash margin) rather than cluttering the table itself — e.g. *"Note 1: Assuming existing MTL with Bank A has balance tenor of 24 months and we are taking over the loan at the same tenor only."* | *"Note 2: New MTL proposed is for the tenor of 84 months… in line with policy of the bank and it includes moratorium of 6 months."* | *"Note 3: Client has started importing… therefore we are proposing FLC facility to the client… detailed terms are mentioned in sanction letter comparison table."* | *"Note 4: Packing credit facility is proposed as client has started exports from this year and has already received export order of ₹300 lacs from America… details given in sales remarks."* 22. **Rationale for Enhancement/Assessment** — the most carefully-worded section; explain *why* each facility is being enhanced/granted, backed by quantified evidence (e.g. YTD sales growth %, in-hand export order value, capacity utilization headroom, working capital cycle days) — written as a flowing justification, not just repeated figures. 23. **Security** — Primary (e.g. "Charge over current assets of the borrower" for CC; "Charge over machinery financed by us" for MTL — specify first/exclusive charge) and Collateral (list each property with precise address per legal documents, owner name exactly as per title, and type — errors here are called out as "very critical"). 24. **Special Terms & Conditions** — only what's *specific* to this case (general/standard conditions like "stock audit condition" for CC need not be spelled out).

Standard Terms & Conditions

Cash Credit / Overdraft / Dropline Overdraft — Facility-Specific Conditions General conditions (that also serve regulatory compliance and monitoring needs) apply across all facility types, but the following are **facility-specific** and must not be missed:

Condition	CC	OD	Dropline OD
Monthly/Quarterly Stock Statement (per internal policy choice; specify submission date, e.g. by the 5th)	✔ Required	✘ Not required	✘ Not required

Condition	CC	OD	Dropline OD
Stock Audit — “to be conducted once in every financial year” (or per internal frequency: annual/half-yearly/quarterly); stock audit report must be positive/clean	✔ Required	✘	✘
Drawing Power shall not be allowed on Group Concern debtors (name the identified group firms explicitly)	✔ Required	✘	✘
Other Working Capital facility utilization (LC, bill discounting, packing credit, buyer’s credit, channel finance, inventory funding) to be **deducted directly** from CC Drawing Power — plus a general catch-all line for any facility availed later from elsewhere/another bank	✔ Required	Generally not required unless similarly structured	Generally not required unless similarly structured
Drawing Power computed with margin (e.g. 25%) on stock, ageing caps on stock (e.g. 180 days) and debtors (e.g. 90/60/120/150/180 days per internal policy)	✔ Required	✘ N/A	✘ N/A
End-use undertaking: funds proposed shall be used only for working capital purpose in business	✔	✔	✔ (debatable whether WC/short-term or long-term; treat per bank’s classification)

Condition	CC	OD	Dropline OD
Overall borrower funding shall not exceed MPBF (whichever method: Turnover, MPBF-1, MPBF-2)	✔	✔	✔ (with same debatability)
Interest servicing condition	✔	✔	✔
Churning/credit summation to be routed through the limit account within a stated timeline (e.g. 60/90 days) — typically applied to fresh-takeover cases	✔	✔	✔ (logic: if entire CC/OD relationship is being brought over, this ensures no parallel account elsewhere)
Client to close/shift current account of other banks to this bank (subject to a similar debate if OD is only for a specific limited purpose e.g. LAP)	✔	✔	✔
Limit reduction schedule — "Client limit shall be reduced by ₹[X] per month over total [Y] months" (e.g. for a 10-year facility, 120 months); borrower must ensure utilization stays below the reduced limit	✘	✘	✔ Required (this is Dropline OD's defining feature)
Minimum Current Ratio to be maintained during the tenor of the loan with the bank (e.g. per FY24 projection basis if MPBF-2 was used, needs 1.33x)	✔ Required	Optional/case basis	Optional — "may or may not," typically applied if it's the sole WC facility

Condition	CC	OD	Dropline OD
ICR / DSCR to be maintained throughout the loan tenor	Not typically applicable	Not typically applicable	✔ Recommended (since Dropline OD has monthly principal-like repayment character) — a few banks even track this for OD too, though most don't

Immovable Property as Collateral Security — Key Conditions

1. **Final Valuation Report** obtained and approved by the Technical Team before disbursement (even if a provisional valuation existed pre-sanction, the *final* valuation report from the technical team is mandatory before release of funds); valuation report shared only with credit after technical clearance, so LTV/collateral cover % can be reconfirmed against the actual (not rough) figure.
2. **Property ownership to be granted/verified in the loan structure** — cross-check the property owner's name in the valuation report against the legal report; the operations team must verify title-holder consistency before disbursement.
3. **No Tenancy without prior bank approval** — "Property [shall] not be tenanted / let out on rent without prior approval of the bank." If the property is *already* tenanted at the time of sanction:
   - Borrower to submit copy of the rent agreement, which must contain a **Vacation Clause** — a clause under which, on borrower default, the tenant agrees to vacate peacefully and hand over possession to the bank (typically 30/90-day notice period as suitable). Without a vacation clause and NDTV, an additional undertaking (NDC — No Dues/Vacation Confirmation) must be taken from the tenant.
   - **Rental income routing condition**: rent proceeds must be credited into the borrower's account with the financing bank within 30 days of disbursement, so the bank can lien/adjust rent income against dues on default.
4. **Legal Title Search Report** from an empanelled lawyer only (not any lawyer) — required documentary proof before disbursement.
5. **Takeover cases**: if the property was already mortgaged with another bank, take an **undertaking from the borrower** that all legal/mortgage formalities with the existing bank were properly complied with (since original documents aren't in hand until transfer) — creates a fallback comfort that similar formalities likely apply.
6. **No structural/major change without bank permission** — borrower undertakes not to make any critical or major structural change to the property (e.g. converting residential structure to commercial use / demolishing a house into a plot) without prior bank consent.
7. **Equitable Mortgage** to be created (a) prior to disbursement if property is already in hand, or (b) within a stated timeline (e.g. 60/90/45 days from disbursement) if the property is coming in later (as in a takeover).
8. **Fitment Certificate / Legal Vetting** — once original title documents arrive from the existing bank in a takeover case, the same empanelled lawyer prepares a fitment certificate cross-checking the received documents against the checklist and confirming originals/completeness.
9. **Insurance** — building value (not land value, since land isn't "destructible" and can't be insured) to be insured for the value per the valuation report, within 30 days of disbursement.
10. **Unconditional access for verification** — borrower undertakes to allow the bank unconditional, undisputed, peaceful verification/inspection of the property whenever required.

11. Cross-default/cross-guarantee logic: if properties are jointly offered by multiple parties across facilities, default by one entity (e.g. Firm B) is treated as default by the other (e.g. Firm A) where cross-collateralization exists.

Machinery, Building & Working Capital Term Loan — Key Conditions **Working Capital Term Loan (WCTL)** — typically sanctioned when Current Ratio is low / promoter margin is short, to plug the working capital gap: - **100% end-use undertaking** on a letterhead (or via the CA) confirming funds were used strictly for business purpose — taken *after* disbursement. - **CA/self certificate confirming end use** for the specific purpose disbursed.

Machinery Term Loan (MTL): 1. **Promoter's margin — typically 25%** (bank-dependent, can be higher/lower per internal comfort). 2. **Direct disbursement in favour of the machinery supplier** (not to the borrower) — prevents diversion; ensures the 25% promoter margin is actually infused at the point of payment to the supplier. 3. **Reimbursement cap on old invoices** — reimbursement not allowed for invoices older than a stated period (commonly **6 months**); clarify whether the 6-month window is counted from Date of Sanction or Date of Disbursement (bank-specific). 4. **Machinery specification/list submission** — full details (name, supplier, quantity, cost) to be submitted by borrower before sanction wherever possible; if invoices submitted are for less than the sanctioned amount, structure accordingly (e.g. proportional release). 5. **GST/tax treatment**: normally, GST is *not* included in machinery value (since input tax credit is claimable) — unless a CA certificate confirms input tax credit will **not** be claimed and the tax will be capitalized into machinery value in the books. 6. **CA certificate confirming capital infusion** — confirms the 25% promoter margin is genuine **fresh capital infusion** (increasing the borrower's book capital), not merely a diversion of limit-account funds routed back as "margin" (a common malpractice flagged explicitly — must result in an actual increase in capital in books of account, tranche-wise certificates if disbursed in multiple tranches). 7. Exception: If historical retained cash accruals are demonstrably sufficient to cover the 25% margin each year, a separate promoter margin condition may not be needed. 8. **Quarterly visit condition** to confirm machinery is actually installed and operational at the borrower's premises (some banks add a Technical/Engineer visit condition, especially for large-ticket machinery). 9. **Insurance of machinery** — mandatory, submitted post-purchase. 10. **Charge** — First charge / Exclusive charge over the machinery financed by the bank to be clearly stated.

Building Term Loan: 1. **Chartered Engineer/Architect certificate** confirming the construction cost estimate — loan sizing is based on this certified estimate. 2. **Construction as per approved map/plan** — must have municipal/authority approval before construction. 3. Technical team vets and compares the Chartered Engineer's cost certificate against the approved map. 4. Machinery-specific conditions #1, #2, #4, #5, #6 (margin, direct disbursement equivalent, submission, GST, capital certificate) also apply to Building TL; conditions #3 and #7 (specific to machinery invoices/reimbursement window) do not. 5. **Quarterly visit condition** to track construction progress and confirm funds are being used for the stated purpose. 6. **Plinth-level release condition** — many banks release building TL funds only once construction reaches plinth level (ground-level slab), not merely on paperwork.

Bank Guarantee (BG) Loan Facility — Essential Conditions

1. **Tenor** — accurately specify BG duration per the underlying tender/contract terms; typical ranges: up to ~7 years for government departments, ~3 years for corporates, ~1 year for smaller/normal-rated corporates (subject to periodic review).
2. **Claim Period** — total tenor specified must **include** the claim period (time available to the beneficiary to lodge a claim after contract completion).
3. **Margin** — cash margin % on the BG (e.g. 10%/15%/Nil/20%/25% as FDR/40%) must be explicitly stated.

4. **Commission** — % commission on the BG must be explicitly captured in the sanction letter.
5. **Type of BG** — Performance BG vs Financial BG vs Counter-BG must be clearly specified; if interchangeability between types is permitted (e.g. up to a max % can convert from performance to financial), that sub-limit/cap must be explicitly stated (e.g. "up to 40% maximum can be used as financial BG").
6. **Beneficiary name(s)** — must be explicitly listed; add a clause allowing addition of new beneficiaries subject to local-level approval (e.g. RCM/ACM level) rather than needing to re-sanction the whole facility.
7. **Single BG capping** — cap the maximum single-BG amount issuable out of the overall BG limit, calibrated to the borrower's demonstrated contract-handling capacity (e.g. if borrower typically handles contracts up to ₹50 crore, a single BG shouldn't be issued for a ₹400 crore contract even if commission math works out under the overall limit) — this prevents outsized single-contract risk.
8. **Escrow/payment routing condition** — payments under the contract for which the BG is issued should route into the borrower's account with the issuing bank, both for monitoring and updated bank records with the beneficiary.
9. **Sanctioning authority-approved conditions only** — any condition not specifically "yes"-approved in writing by the sanctioning authority should not be implemented.
10. **No Third-Party Guarantee** — BG shall not be issued on behalf of a third party (i.e., not covering a party's share where that party is not the actual borrower/has no collateral/relationship with the bank).
11. **No BG for real estate/builder projects** unless otherwise specifically permitted (flagged given frequent project failures/litigation in this sector).
12. **No BG in favour of/on behalf of other banks, financial institutions, corporates providing exposure** — e.g. bank should not issue a BG to satisfy another lender's comfort requirement for extending credit to the same or a related party (classic back-to-back BG risk).
13. **No Onerous Clause BG** — BG shall not carry any adverse/onerous clause that goes against the bank's interest or is not part of the bank's standard agreement, unless specifically approved by the sanctioning authority.

Special Credit Conditions in LC, SBLC, Capex LC & Packing Credit Letter of Credit (LC): - Specify **Foreign LC vs Inland LC**. - Specify **Sight LC vs Usance LC** (or both); for Usance LC, state the **tenor** (commonly capped at 180 days max; 90–120 days is most typical), counted from the **date of shipment**. - **Promoter's margin %** on LC — typically ranges 10%–25% (lower margin, e.g. 10%, for stronger cases), taken in the form of an FDR (the LC itself is issued for the full face value; the margin is held as counter-security FDR). - **Commission %** on LC — must be captured (critical from a credit perspective; discuss and finalize with the sales team before proposing). - **No LC in favour of Group Concerns/Sister concerns** — named explicitly, plus a catch-all line: *"…and any other related party of the borrower [shall not be issued LC]"* to close the loophole of a newly-formed 4th related entity.

Standby Letter of Credit (SBLC) — for Buyer's Credit: - Margin range similarly 10%–25%. - Purpose presumed working-capital in nature (not Capex) — tenor also capped similarly (~180 days max, typically 90–120 days). - Commission % to be specified. - Though non-fund-based, its impact is that the creditor gets paid — so ensure the **Buyer's Credit liability under SBLC is netted off/adjusted in Drawing Power computation** (i.e., corresponding creditors shouldn't be double-counted in DP if a separate secured facility already covers them).

Capex Letter of Credit: - Margin % on the Capex LC to be specified; tenor can run up to ~3 years (subject to bank's comfort); commission % similar to regular LC. - Purpose is always for import of machinery/capital goods. - **Special structural condition**: Capex LC of a large amount (e.g. ₹4 crore) is typically supplemented by/rolled into a **Machinery Term Loan** once the machinery arrives — bank funds ~75% of the machinery cost (via MTL, netting off the ~10% margin already held on the LC against the 25% promoter margin requirement), and the **balance 25% promoter margin must be self-contributed** by the promoter (can be structured by using the existing LC margin FDR as part of the 25%, with the promoter topping up the shortfall). - **Capex LC limit is a one-time, non-revolving limit** — must be tagged as non-revolving in the system, not a rotating/revolving facility like CC. - **Optional risk-mitigation condition for long-tenor Capex LC**: if tenor is long (e.g. 36 months) and there's comfort risk about the borrower's position that far out, a condition can require the borrower to start depositing "EMI-equivalent" amounts as an FDR during (e.g.) the first 24 months, adjustable later against margin/MTL repayment — though borrowers rarely agree to this in practice; used mainly in weaker-comfort cases.

Packing Credit (Pre-shipment / Post-shipment Export Finance): - **Currency** must be specified (USD, AUD, EUR, GBP etc., per the client's export destinations). - Specify whether it's a **Running Account** or **Order-Backed** facility. - **Pre-shipment tenor** — max typically 180 days, but normal/typical usage is ~90 days. - **Combined pre + post-shipment cap condition** — critical: state that combined tenor (pre + post) cannot exceed a total ceiling (e.g. 230 days) even if each leg individually allows up to 180 days, so utilization of the full pre-shipment tenor automatically compresses the available post-shipment tenor. - **Margin** — up to 25% typically. - **ECGC/CGSSD-type export credit insurance condition** — if the bank mandates it, add as a condition.

Companies Act Sections Relevant to Lending

Section 185 — Loans to Directors (etc.) **Purpose**: prevent conflict of interest — ensures company funds aren't diverted to related parties/directors at the cost of the company and shareholders, while still allowing legitimate inter-corporate lending/investment necessary for economic growth.

Threshold exemption (private companies only) — Section 185 does NOT apply if ALL of the following hold (per the June 2015 MCA notification): 1. **No body corporate holds any share** in the private company (not even 1%) — i.e., all shareholders must be individuals/HUFs/partnership firms etc. (LLP treatment as "body corporate" is disputed/unclear — verify before relying on this). 2. **Borrowings** (from banks, financial institutions, or any body corporate) do **not exceed the lower of**: (a) **2× paid-up capital**, or (b) **₹50 crore**. (Example: paid-up capital ₹2 crore → 2× = ₹4 crore; if actual borrowings are ₹5 crore, the exemption does NOT apply.) Checked as on the date of the proposed transaction. 3. **No default** in repayment of such borrowings (principal or interest) as on the date of the transaction.

If these three conditions are met, Section 185 doesn't apply at all. If not, the restrictions below kick in.

Section 185(1) — Prohibition: No company shall, directly or indirectly, advance any loan (including loan represented by a book debt), give any guarantee, or provide any security in connection with a loan taken by: - Any **Director** of the company, or of its **holding company** (note: only *holding* company directors are covered, NOT subsidiary company directors — a subsidiary's director's loan is not restricted under this specific clause). - Any **partner** of such a director (of the lending company or its holding company). - Any **relative** of such a director — defined per Companies Act to include: HUF members, spouse, father (incl. step-father), mother (incl. step-mother), son (incl. step-son) and son's wife, daughter and daughter's husband, brother and sister (incl. step-siblings). (Step-daughter's inclusion is ambiguous/not explicitly clarified.) - Any **firm in which any of the above (director or relative) is a partner** — but note: a firm where only a *friend* of the director (not the director or his/her relative) is a partner is NOT covered (illustrated via a worked example: Mr. A is director of ABC Pvt Ltd; Mr. Z is A's partner in "ABC & Co" — a loan to Mr. Z is barred; but a separate firm "B & Co" where Mr. Z and Mr. B are partners, and Mr. B has no relation to A, is NOT barred — a loan to Mr. B is permitted). - "Loan represented by book debt" clarification: normal trade credit (e.g. goods sold to a director on standard 30-day terms) is NOT counted as a loan; but if the director gets an *undue benefit* not extended to ordinary customers (e.g. no interest charged despite 4–5 months of non-payment when market terms charge 5% interest after 30 days), it IS treated as a loan.

Section 185(2) — Permitted exceptions (with conditions): - Loan/guarantee/security **to a private company** in which the lending company's director is himself a director or member (even one share). - Loan/guarantee/security **to any body corporate** where the lending company's director(s) (individually or two-or-more together) hold **25% or more of the voting power**, OR where the body corporate's Board acts on the directions of the lending company's director(s)/Board. - Requirements to use this exception: pass a **Special Resolution** (75% shareholder approval) AND the loan must be utilized by the borrowing company **solely for its principal business purposes**. - Worked voting-power example: Mr. A holds 50% in B Ltd; B Ltd holds 60% in C Ltd → A's effective voting power in C Ltd = 50%×60% = 30% (≥25%, so covered, special resolution route applies); if C Ltd holds 20% in D Ltd → A's effective power in D Ltd = 30%×20% = 6% (<25%, so loan to D Ltd is simply NOT permitted under this route).

Section 185(3) — Further carve-outs (no special resolution needed): - Loan to **Managing Director (MD) or Whole-Time Director (WTD)** if it's part of a scheme applicable to all employees of the company, OR under a scheme approved by a special resolution. - Loan/guarantee/security to a **wholly-owned subsidiary** (100% held) — permitted, provided the loan is used for the subsidiary's business purpose. - **Guarantee or security** (but NOT a direct loan) to a **subsidiary that is not wholly-owned** (51%–99.99% holding), if the borrowing is from a **bank or financial institution** (not from a body corporate) and used for business purposes.

Section 185(4) — Penalties: - Company: fine of ₹5 lakh to ₹25 lakh. - Officer in default (CFO, CS, MD, WTD): imprisonment up to 6 months, and/or fine ₹5 lakh to ₹25 lakh. - The recipient (director/company taking the loan/guarantee/security): imprisonment up to 6 months, and/or fine ₹5 lakh to ₹25 lakh, or both.

Practical clarifications discussed: - Advance salary to a director is NOT treated as a loan (it's a term-of-employment matter) — *unless* there's no recovery mechanism and it looks like an undue benefit, in which case it can be recharacterized as a loan. - Corporate credit card personal expenses by a director, if routinely reimbursed as a normal business practice, are not treated as a loan; if used as an undue benefit without reimbursement, it can be. - Applicability of Section 185 is tested **at the date of the transaction** — if the borrower was not yet a director when the loan was disbursed and became a director only afterward, Section 185 does not apply retroactively.

Section 186 — How Much Can a Company Invest or Lend Broader in scope than 185 — covers **all** loans/guarantees/securities/investments regardless of whether the counterparty is a related party (185 was specifically about related parties).

Section 186(2) — the core restriction: No company shall, directly or indirectly: - Give any **loan** to **any person** (person here includes sole proprietorships, partnership firms — any legal person, not just individuals) or **any body corporate** (excludes company **employees**, who are outside this restriction entirely). - Give any **guarantee** or provide any **security** in connection with a loan to any such person/body corporate. - **Acquire** (subscribe, purchase, or otherwise) securities/shares of any other body corporate — i.e., make investments.

Overall Ceiling: All the above (loans + guarantees + securities + investments) combined shall not exceed the **higher of**: - **60% of (Paid-up Capital + Free Reserves + Securities**

Premium), or - **100% of (Free Reserves + Securities Premium)** alone (excluding paid-up capital)

Worked example: Paid-up Capital = ₹100, Free Reserves = ₹50, Securities Premium = ₹50 → Total = ₹200; 60% of ₹200 = ₹120; 100% of (Free Reserves + Securities Premium = ₹100) = ₹100. Higher of the two = **₹120** — that is the ceiling.

Section 186(3) — Breaching the ceiling: Permitted, but requires passing a **Special Resolution** (75% shareholder approval) — EXCEPT no special resolution is needed when the loan/guarantee/security/investment is made to a **wholly-owned subsidiary** or in a **joint venture**, even if it breaches the ceiling.

Section 186(4) — Disclosure: All such loans/guarantees/investments must be disclosed in the company's financial statements.

Section 186(5) — Mandatory Board Resolution: A **prior Board Resolution is mandatory** for every loan/guarantee/security/investment decision, regardless of whether it's within or outside the ceiling — requires a Board meeting with **unanimous consent of directors present** (no dissent allowed among those present). - Additionally, **prior approval of Public Financial Institutions** (e.g. LIC, IDBI, EXIM Bank, SIDBI, UTI, IFCI, National Housing Bank, NABARD, NaBFID, and similar predominantly government-owned special-purpose institutions) is required if a term loan is outstanding with them — UNLESS the company (a) stays within the Section 186(2) ceiling, and (b) has no default in repayment to that institution; if either condition is breached, PFI approval becomes mandatory again.

Section 186(8) — No investment/loan while in default: A company in default of repayment of deposits (principal or interest) cannot make any loan/guarantee/security/investment until the default is cured. Clarification: a *genuine* dispute-driven non-payment (e.g. blocked by a court order or a bona fide procedural dispute) is not treated as "default" for this purpose.

Section 186(9) & (10) — Register: A proper register of all such loans/guarantees/securities/investments must be maintained at the registered office; shareholders may inspect it and obtain certified copies.

Section 186(11) — Exemptions: Section 186 does not apply to: - Banking companies, insurance companies, housing finance companies (lending is their ordinary course of business). - Companies whose object is financing industrial enterprises or infrastructure facilities (e.g. NBFCs of that nature). - Investment companies (companies whose business is investing in other companies) — for investment-related restrictions only. - Rights issue subscriptions. - NBFCs whose principal business is acquisition of securities.

Section 186(12): Central Government has rule-making authority under this section.

Section 186(13) — Penalties: Company fine ₹25,000 to ₹5 lakh; officers in default (directors, CFO, CS) imprisonment up to 2 years and/or fine ₹25,000 to ₹1 lakh.

Why Banks Require Extensive Documentation

(Underlying logic, not just a document checklist)

The core theme: a bank lends today expecting repayment in the future, based on trust that the borrower is honest, has stable earnings, growth potential, and will use funds for the stated end-use. Since the future can't be predicted directly, banks infer it from a **thorough, verified reconstruction of the borrower's past**. Every document category exists to validate one of these pillars:

1. **Identification** — “Who are you, really?” — PAN, Aadhaar, GST certificate, incorporation documents (Certificate of Incorporation, MOA/AOA for companies; Partnership Deed for firms) = KYC. These are unique IDs that anchor everything else.
2. **Address Verification** — physically confirming the KYC address matches reality, done via FI (field investigation) agencies for retail/LAP loans, RCU teams sampling KYC, or the RM’s own site visit — ensures the borrower isn’t misrepresenting location/existence.
3. **Past Credit Conduct** — CIBIL (and CRIF, Experian, Equifax) reports, generated off the same unique IDs (PAN/Aadhaar, not name — since names repeat), aggregate reporting from *all* lenders on repayment history, current loans, DPDs, and new-loan enquiries. Cross-checked against sanction letters, repayment schedules, and 12 months of bank statements (since CIBIL gives 15–20 years of history but doesn’t capture the most recent granular EMI-servicing pattern as reliably as the borrower’s own statement).
4. **Business Conduct** — bank statements checked for supplier payment regularity, cheque bounces, and incoming customer payment reliability (poor collections from customers directly threaten the borrower’s ability to service the bank).
5. **Security/Fallback** — property papers, collateral documents — because “future is unpredictable, the loan can go bad,” so the bank needs a fallback plan.
6. **Earnings/Stability Verification** — Balance Sheet & P&L (min. 3 years; salary slips if salaried) — but since a self-prepared Balance Sheet could be fabricated/inflated, banks cross-verify it against: **GST returns** (12 months — sales reported to GST vs. balance sheet sales must reconcile), **bank statements** (12 months — actual money-in vs. claimed sales, e.g. flagging if ₹10 crore claimed sales shows only ₹2 crore of actual receipts), **Income Tax Returns** (3 years, borrower and guarantor — cross-check that the same numbers were reported to the tax department), **guarantor documents** (background/income source, not tied to the balance sheet), and **top-5 customer/supplier data** cross-verified against balance sheet debtors/creditors and bank statement churning (checking against over-reliance/concentration on a single party).

Digitization trend — three technology layers have reduced the need for physically collecting/manually verifying several of the above: - **Karza** (a Perfios group entity): borrower authorizes access via GST login on a bank-integrated portal; auto-pulls month-wise sales/purchases, party-wise sales/purchases, HSN-wise sales into a comprehensive Excel — replacing manual top-5-customer/GST-return collection. - **Perfios**: borrower’s bank statement PDF is uploaded into the software, producing an automated banking/churning analysis Excel — replacing manual page-by-page bank statement review. - **FinFort**: borrower authorizes access via Income Tax login; auto-pulls ITR filings and filed balance sheets directly from the Income Tax portal — eliminating the risk of a self-prepared/fabricated balance sheet, since only what was actually filed with the tax department is retrieved. Limitation: annexures to the balance sheet/P&L are often not part of the IT-filed single-page BS/P&L, so those must still be separately collected from the borrower.

Net effect: physical collection requirements for GST returns, bank statement analysis, and (partially) balance sheet/ITR verification have been substantially replaced by these portal-based pulls — except for annexures, which still require manual collection from the borrower.

Topics Not Covered

- **Multiple Banking, Consortium & Pari Passu Charge**: the source video (video ID 6Hi2s3AtL1s, “Multiple Banking, Consortium & Pari Passu Charge Explained”) failed to produce a usable transcript via tactiq.io after repeated attempts (~70 seconds of polling across two page loads, no timestamped captions ever rendered). Logged in `skipped_videos.txt` for potential retry in a future pass.
- **CIBIL/CMR Comments** (detailed write-up of what to include in the note’s CIBIL/CMR com-

mentary section): covered in a separate batch of notes per the course's own sequencing — not detailed in this document to avoid duplicating that source.

Part 6 — Loan Disbursement Process

(Original section title: Loan Disbursement Process — MSME Working Capital Credit)

Working Capital Credit Analysis Course Source lectures: Lecture 94 (Plain Renewal), Lecture 95 (Loan Takeover), Lectures 108–115 (Loan Disbursement Process series, Parts 1–8), and "How Banks Review Working Capital Loans" (Short-Term Review & Renewal).

Overview of the Loan Disbursement Sequence

The course frames loan disbursement documentation as an 8-part sequential series. The **Master Facility Agreement (Part-7)** is the largest/central agreement (50–60 pages) that references and binds together all the other documents; the **Sanction Letter (Part-8)** is the communication/acceptance instrument that precedes execution of all the legal documents. Practical execution order for a fresh case is generally:

1. Sanction Letter issued and accepted by borrower/guarantors (Part-8)
2. Charges/fees disclosed and collected (Part-1)
3. Security documentation executed for **immovable property**: Mortgage Deed/Declaration (Part-2) → Memorandum of Entry / Memorandum of Deposit of Title Deeds (Part-3)
4. Security documentation executed for **movable assets**: Deed of Hypothecation (Part-4)
5. For **takeover cases** (shifting an existing loan from another bank): Power of Attorney / Indemnity Deed (Part-5) executed once, used to collect property papers from the old bank
6. Guarantee Deed executed by guarantors (Part-6)
7. Master Facility Agreement executed, binding bank and borrower on all commercial/legal terms (Part-7)
8. Disbursement occurs; DP, interest, and default mechanics all flow from the Facility Agreement

After disbursement, the credit lifecycle continues through **Plain Renewal** (every 12 months), **Short-Term/Periodic Review** (interim check-ins), and, where the borrower is shifting banks, the **Takeover Process**.

A general drafting principle noted across nearly every document: what gets executed depends on the **type of proposal** — - **Fresh case** → full document executed for the first time. - **Enhancement/further sanction** → the original document is not redone; a short **addendum/supplementary** document is executed referencing the original document's date/number, updating exposure amounts (creates a traceable "chain," similar to a title search chain). - **Plain renewal** (no change in exposure/terms) → generally **no re-execution needed** for security documents (Mortgage Deed, MOE, Hypothecation Deed, Master Facility Agreement); Guarantee Deed also not required again. - **Multiple banking / pari passu** → each bank executes its own document referencing its ranking (exclusive charge / first pari passu / second pari passu etc.); if a new bank joins on the same collateral, the document held by the bank in physical custody of title papers is revised/amended to add the new bank's exposure, with copies distributed. - **Consortium** → a single **joint** document is prepared by the Lead Banker and accepted/signed by all member banks; member banks may initially disburse on "bylot" (standalone) documentation before the joint document is executed, or go straight to joint execution.

Banking Charges & Fees at Sanction (Part-1)

Lecture 108. Key finding: charges are NOT standardized across the banking industry — wide variance between banks and even within the same state/bank.

- **Processing fee**: "standard" is often quoted as ~1%, but actual range seen is **0.15%–1%**. Depends on:
  - Bank type: small finance banks charge higher (higher cost of funds — their FDs pay 8–9%, so lending must be priced high); large private/PSU banks charge less, especially for big-ticket loans.
  - Loan size: "wholesale" pricing — bigger tickets (₹10–20 cr+) get lower % fees (0.15–0.25%); small tickets (₹30–50 lakh) pay closer to the 1% standard.
  - Local sanctioning authority discretion: at big banks, branch-level staff can waive/reduce fees without escalation; at small banks, any deviation from the standard needs zonal-head approval.
  - Borrower/RM bargaining power and reputation (a well-known client can extract a lower rate even on a small ticket because the bank wants the referral value).
- **Documentation charges** (stamp duty on various instruments) — huge inter-bank variance, examples cited:
  - Power of Attorney / DMT (takeover cases): stamp paper ranging **₹2,000–₹5,000** across banks; some PSU banks charge as a % of loan (e.g., ~₹5,000 per crore).
  - Master Facility Agreement: commonly **~₹500** stamp paper, though some banks scale by loan amount.
  - MOU/DO (Memorandum/other declarations): **₹100–₹500** stamp paper.
  - Notary charges are separate and additional.
- **Legal charges** (lawyer's fee for legal opinion/title search): average **₹2,000–₹3,000** per property; some banks charge **per title deed** (if a property has 5 title deeds, charged 5x), others charge per property.
- **Valuation charges**: typically **₹2,500–₹4,000**, but scales with property size — large properties can run **₹50,000–₹1 lakh+** (example: valuation of a large hospital cost ₹70–75,000). Same valuer working with multiple banks may quote different fees to each bank for the same property.
- **Legal/valuation revalidation policy**: many banks require legal opinion to be redone every 3–4 years and valuation redone every 2–3 years — a recurring cost borrowers should track.
- **Document retrieval costs** (e.g., *jamabandi*/revenue records in Punjab/Haryana/Rajasthan): borrower-side cost; lecturer recommends the borrower retrieve documents directly rather than via the bank, both to save money and verify the actual government fee paid. Cost scales with years of record requested (~₹2,500 for 15 years, ~₹3,500–4,000 for 30 years).
- **Lien marking** (on jamabandi): government fee, roughly **₹5,000 per crore** of loan.
- **CERSAI filing**: standard government fee, roughly **₹500–₹1,000 per property** (large inter-bank variance noted — some banks inexplicably charge more).
- **ROC search report** (companies/LLPs only): bank-empanelled person searches MCA records to confirm no conflicting charge exists on the offered property; cost **~₹1,500–₹5,000**.
- **Stock audit charges**: **₹5,000–₹10,000+** per audit depending on frequency (annual/half-yearly/quarterly); generally not applicable to OD-type limits, but larger loans may carry a stock-audit condition.
- **Account operation charges**: RTGS/NEFT/cash deposit/cash withdrawal/POS charges — all vary by bank.
- **Practical advice for borrowers considering a bank switch (takeover) purely for a lower interest rate**: aggregate ALL of the above charges (documentation, legal, valuation redo, ROC, stock audit frequency, account operation charges) before switching — a 0.25% rate saving can be wiped out by higher aggregate charges at the new bank, plus all

legal/valuation/documentation/lien-marking costs must be borne again at the new bank.

Mortgage Deed / Mortgage Declaration (Part-2)

Lecture 109. Applies only to IMMOVABLE property (land & building); movable assets are covered separately by the Deed of Hypothecation (Part-4).

What it legally establishes: The Mortgage Deed (also called Mortgage Declaration, "MD") is the official instrument that **creates the equitable mortgage charge** — the legal act of creating a charge/lien on the property in the bank's favour.

Who signs it: Executed by the **Mortgagor** = the legal **owner of the property**, NOT necessarily the borrower. Examples: borrower could be a company/partnership firm while the mortgagor is a director/partner/individual relative (e.g., borrower's spouse) offering their personal property as collateral. - Individual owner → signs personally. - Partnership firm owner → signs through the authorized partner (firm stamp + signature). - Company owner → signs through the director authorized by Board Resolution.

Execution: On stamp paper (~₹500 cited as typical, varies by bank/state).

When required: - Fresh proposal → executed capturing full mortgagor/property/loan details. - Enhancement → **revised/re-executed** (loan amount changed), with an explicit reference to the prior MD's date/exposure, building a traceable chain (like a title search chain). - Plain renewal → **not required** (no exposure/condition change). - Pari passu case → if a second bank's exposure on the same property increases, the MD must be revised/re-executed.

The 20 standard declarations/conditions inside a Mortgage Deed (generalized; format varies by bank's internal legal team): 1. Mortgagor declares **absolute, unconditional ownership** — no disputes, no notices, nothing impairing ownership rights; agrees voluntarily to mortgage. 2. Mortgagor's personal details (name, address). 3. Full property description (location, type, boundaries). 4. **Ranking of charge** — exclusive charge vs. shared/pari passu charge (if pari passu, names the other bank(s) and the linked exposure). 5. **Encumbrance-free declaration** — property free of any government/private/authority charge. 6. **No dues pending** — no government dues, rent, property tax, or any charge pending as on the date of mortgage creation. This is a key litigation tool: if a pre-existing dispute/tenant/notice later surfaces that predates the mortgage and the mortgagor concealed it, the bank can prove **willful default/fraud** in court. 7. **Security covers ALL dues, not just principal** — property remains mortgaged for the loan plus all associated interest, penal charges, foreclosure charges, fees, and any present/future expenses — not limited to the disbursed amount. 8. **No other title documents exist** beyond what was submitted — mortgagor declares all available property papers have been given to the bank. 9. **Lease compliance** — for leasehold properties (e.g., 99-year government leases, authority-allotted land), mortgagor confirms all lease conditions have been satisfied before offering the property. 10. **No further charge/tenancy/transfer** on the property without bank's prior written permission (prevents mortgagor from creating a tenancy or selling/transferring the property post-mortgage). 11. **Good faith/no concealment** — mortgagor declares no other adverse fact known to them that could affect the bank's interest. 12. **Lender can alter loan conditions unilaterally** — tenure, rate, top-up amount etc. can be changed by the bank without needing the mortgagor's fresh consent; mortgagor has no objection to future alterations of the borrower's loan terms. 13/15. **Bank has full discretion on enforcement action** — can sell, transfer, or lease the mortgaged property at its own discretion without needing the mortgagor's separate consent. 14. **Bank decides enforcement sequence** — mortgagor cannot dictate that other co-mortgagors'/guarantors' properties be sold first; bank may also release one property from a multi-property mortgage without needing other mortgagors' permission. 16. **Duty to inform** — mortgagor must notify the bank of any future dispute/issue arising on the property. 17. **Full power/authority** to create the mortgage — no known impediment to that right. 18. **Maintenance & insurance** — mortgagor will properly maintain the property; any insurance taken must be endorsed in the **lender's favour**; no major structural alteration (e.g., demolishing a built structure into a vacant plot) without bank permission. 19. **Bank's right to inspect** the mortgaged property. 20. **Non-agricultural declaration** — property is non-agricultural, or all government compliance for non-agri conversion has been completed.

Also noted: any fixtures on the immovable property are also covered under the bank's charge, as recorded in the deed.

Registered vs. equitable mortgage: It is this same Mortgage Declaration that gets registered with the Registrar's office for a **Registered Mortgage**, attracting heavy stamp duty calculated on the loan exposure.

Memorandum of Entry / Memorandum of Deposit of Title Deeds (Part-3)

Lecture 110. Also called MOE, MODT (Memorandum of Deposit of Title Deeds). A sub-part / companion document to the Mortgage Deed — NOT itself a charge-creating instrument.

What it legally establishes: Unlike the Mortgage Deed (the official instrument creating the equitable mortgage charge), the MOE is merely an **evidentiary record** confirming that the mortgagor/property owner voluntarily deposited the specific title deed documents with the bank on a specific date, for a specific purpose (creating security for the loan). It protects the bank against a mortgagor later claiming "the bank lost my papers" or "I never deposited this willingly."

What it captures that the Mortgage Deed doesn't: The Mortgage Deed does NOT itself list which specific title documents were submitted. The MOE contains the full, itemized **List of Documents (LOD)** deposited — document name/number, registry details, jamabandi, NEC (non-encumbrance certificate), property tax receipts, approved map copies, etc. — plus full property description (boundaries).

Who signs it: Per the lecturer's Punjab experience, executed on **plain paper** (not stamp paper, not letterhead), signed by the **bank's authorized officer (RM)** in the presence of a **witness** (also a bank employee). Lecturer's view: ideally the **mortgagor should also sign** (as seen in a South Indian Bank sample he reviewed) — in Punjab practice this is often skipped, which he feels partly defeats the document's purpose. State-to-state variation likely (some states may require stamp duty on the MOE).

When required: - Fresh proposal → executed with full document list. - Enhancement → a fresh MOE executed on plain paper, referencing the old MOE's date/exposure and updating to the revised/enhanced exposure. - Plain renewal → not required. - Multiple banking / pari passu → MOE is executed only at the bank that physically holds the title deeds; if a second bank joins with pari passu exposure on the same property, that second bank gets a copy of the first bank's MOE, and the MOE is re-executed/amended (addendum) to record both banks' exposures — original stays with the custodian bank, copy goes to the second bank.

Sample MOE structure (South Indian Bank example reviewed on camera): Date; executed by the Mortgagor in favour of the Bank ("Mortgagee"); borrower + loan details; recital that "the mortgagor has deposited the following documents of title deeds related to this property… with the intent to create equitable mortgage in favour of the mortgagee"; full itemized List of Documents (name, number, parties, nature); full property description with boundaries (East/West/North/South); signatures of mortgagor and witnesses.

Deed of Hypothecation (Part-4)

Lecture 111. Covers MOVABLE assets — current assets (stock, debtors) and movable fixed assets (machinery) — as distinct from immovable property under the Mortgage Deed.

What it legally establishes: "Hypothecation" = a charge is created WITHOUT transfer of possession or ownership documents. Unlike a mortgage (where the bank holds original title documents and controls the property's movement), hypothecated assets remain in the borrower's/security provider's possession and can move (stock is sold, debtors change, machinery relocates).

Document length/execution: ~8–10 pages, executed on stamp paper (state/bank-dependent; example cited: Ludhiana banks around ₹2,000–5,000).

When required: Whenever fresh funding is extended against movable assets. - Plain renewal → not required. - Enhancement → a supplementary deed executed referencing the original deed's number/date, recording old and revised exposure. - Multiple banking → each bank executes its own deed with pari passu ranking explicitly stated (e.g., "first pari passu charge with Kotak Mahindra Bank"). In consortium cases, the Lead Bank's format is accepted as-is by member banks.

Who signs it: The **"Security Provider"** — a deliberately broader term than "borrower," because in some structures the entity being funded (Entity A, new business) is different from the entity whose assets are charged (Entity B, established business, funded on the strength of a corporate guarantee). Signed per entity type: proprietor (firm stamp+signature), authorized partner (partnership), authorized director per board resolution (company).

Statutory filing: For companies, **ROC/MCA filing required within 30 days** of the Deed of Hypothecation's execution date, else penalty accrues.

Key clauses (7 major heads): 1. **General terms** — names security provider, borrower, exposure, ranking (exclusive/pari passu/first/second charge), lists secured assets (stock, debtors, movable fixed assets); references the Master Facility Agreement; "loan" is defined broadly to include ALL costs — interest, penal charges, non-compliance charges, and any other recoverable expense (not just principal). 2. **Security is IN ADDITION to other securities** (e.g., land & building under the Mortgage Deed) — bank has full discretion on which security to enforce first (movable or immovable); security provider has no right to object to the sequence. 3. **Maintenance of goods** — security provider must maintain the goods in marketable/good condition at own cost; bank is NOT responsible for damage/loss while goods are in bank's possession post-default; maintenance costs are recoverable from the security provider. 4. **Insurance** — movable assets must be insured with the **Bank as Sole Loss Payee**; security provider must maintain insurance and pay premiums, submitting proof to the bank; if the provider fails, the **bank can pay the premium and recover it** from the provider. **Bank can settle insurance claims directly with the insurer**, bypassing the borrower/security provider — and the provider has **no right to object** to the settled claim amount (even if it's less than the claimed loss). 5. **Statutory compliance & record-keeping** — security provider must file timely ROC returns, pay GST/taxes due on the assets, and maintain **separately identifiable records** of the hypothecated stock (critical when multiple banks fund inventory separately without a shared pari passu charge, to avoid stock "mix-up" disputes on default); should display the bank's name at the storage location (rarely done in practice, banks tolerate the lapse due to competition). 6. **No further charge without permission** — security provider will not create further lien/pledge/charge on these assets with another bank without the primary chargeholder's prior permission; must furnish information on demand. Security provider retains the right to **sell assets in the ordinary course of business**, but sale proceeds must be routed/deposited into the loan account (this is the basis of "churning"/credit turnover requirements) — new assets purchased with that money automatically become the bank's security too ("**replacement assets**" — this is a **floating charge**, not fixed to specific items at any point in time). No major alteration/modification of assets without bank's permission. 7. **Default rights** — Bank can inspect assets/records without notice; provider must cooperate (failure to cooperate helps prove "willful defaulter" status in court). Bank can share borrower/provider data with RBI/CIBIL/other regulators without objection. Bank can enter third-party arrangements to dispose of assets (working capital is repayable on demand). Charge continues until every rupee of dues (including sale-related expenses, valuation/appraiser fees borne by the security provider) is paid. Bank can **appoint a Receiver** to manage/sell assets on default — the Receiver acts as **agent of the Security Provider (not the bank)**, so the security provider bears liability for the Receiver's acts, not the bank. If a third party suffers loss from the bank's seizure action, the **security provider indemnifies the bank**, not vice versa.

Crystallization of Floating Charge (important standalone concept): Hypothecation creates a **floating charge** over movable assets (since the specific items constantly change). On the date of **default**, this floating charge **crystallizes into a fixed charge** — after crystallization, the security provider can no longer sell/move/alter those assets in the ordinary course of business; the assets become fixed, immovable bank property from that point forward.

Power of Attorney / Indemnity Deed for Takeover Cases (Part-5)

Lecture 112. A ONE-TIME document, used only in loan takeover scenarios (not mandatory at every bank — some banks skip it, some use stamp paper, some use borrower's letterhead).

What it legally establishes: Authorizes the **new (taking-over) bank's representative** to act as the **borrower's attorney/representative** to (a) collect the property documents the borrower had earlier submitted to the old bank, (b) create security/mortgage over those documents once collected, and (c) hand over the Demand Draft to the old bank to close the existing facility.

Who signs it: The **BORROWER** (not the "Security Provider" as in the Hypothecation Deed) — whoever the loan is sanctioned in the name of. Firm → stamp + signature; individual → personal signature. Co-signed/witnessed by an authorized bank official.

Execution: Stamp duty varies by bank (some ~₹2,000–5,000 range mentioned similarly to other docs); not mandatory industry-wide — some banks use borrower's letterhead instead, some skip the document entirely.

Background / why it's needed (takeover mechanics): When a new bank (e.g., Axis) takes over a loan from an old bank (e.g., HDFC in the lecturer's example), the new bank's official must go to the old bank with a Demand Draft to close the account and collect the property papers. Old banks routinely **resist/delay cooperation** with a stranger unless the new bank's official can prove they're authorized by the borrower ("who are you, I only deal with my own customer") — and old banks often try to retain the client by belatedly offering better terms (lower rate, enhancement) once they sense the borrower is leaving, putting the borrower in a "double mind."

Risk this document mitigates: Once the new bank prepares the DD, it starts accruing interest on the disbursed amount even before the old bank formally accepts/closes the account. If the process stalls (old bank delays acceptance, or documents turn out incomplete), the borrower must remain contractually bound to cooperate and not "abandon" the process mid-way (e.g., disappearing with the released property papers without handing them to the new bank).

Key content of the PoA/Indemnity letter: Borrower authorizes the bank/its official to collect the documents earlier submitted to the old bank; declares the bank's representative to be the borrower's "Attorney"/representative acting on the borrower's behalf; authorizes the bank to collect property papers and create security/mortgage over them; authorizes handover of the DD to close the old facility; indemnifies the bank for any loss arising during this process due to the borrower's actions; the representative carries this letter physically to the old bank as proof of authorization.

(Note: this transcript had some audio-transcription gaps/artifacts, but the core legal purpose and structure above is clearly established from the surrounding context.)

Guarantee Deed (Part-6)

Lecture 113. One of the most consequential documents for a personal guarantor — establishes the full scope of a guarantor's legal exposure.

Document length/execution: 8–10 pages, on stamp paper (varies by state/bank). Two common practices: (a) a **single** guarantee deed document signed by all guarantors (e.g., 5 guarantors sign the same document), with stamp duty charged per-guarantor (e.g., ₹200 × 5 = ₹1,000); or (b) a **separate** guarantee deed executed per guarantor (each bearing full stamp duty individually).

Who signs it: The guarantors named in the deal; co-applicants (if any) also sign. - Proprietorship: since the proprietor and the firm share the same PAN/legal identity, many banks **skip a separate guarantee deed** from the proprietor (already primary borrower); some banks take it anyway. - Partnership/company: partners/directors have a legal identity **separate** from the firm/company, so a guarantee deed is taken from them.

When required: Fresh case (new guarantors) → taken. Enhancement → **re-executed**, because the deed references a specific loan exposure amount and the guarantor's consent must be renewed for the new/enhanced figure. Plain renewal → **not required** (no change in contract terms). Multiple banking → each bank takes its own separate deed with its own exposure. Consortium → a single **joint** guarantee deed prepared by the Lead Banker, accepted by all member banks.

Key liability terms a guarantor is agreeing to (this is the heart of the lecture — what "signing a guarantee" actually means): 1. **Guarantee survives death** — guarantee obligation extends to the guarantor's **legal heirs**. 2. **Joint AND several liability** — guarantor cannot direct the bank to recover from the borrower or other guarantors first; the bank can demand the **full amount from any one guarantor alone**. 3. **Liable in all circumstances** — on borrower default, on any borrower-bank dispute, on borrower's non-compliance of any critical sanction condition. In default scenarios, the guarantor is treated by the bank as a **"Principal Debtor"**, equal in standing to the borrower — not a mere secondary/backup obligor. 4. **Liability unaffected by bank's leniency elsewhere** — even if the bank releases some of the borrower's security, grants any relaxation, partially discharges the borrower's liability, releases another guarantor, or the borrower becomes insolvent/merges with another entity — **none of these discharge this guarantor**. 5. **Bound by borrower's admissions** — any liability figure the borrower **acknowledges** (e.g., admitting diverted funds, or accepting a higher total including penalties/overdue interest) becomes **equally binding on the guarantor**. 6. **Liability continues until FULL discharge** — every rupee of dues (legal expenses, costs, damages, penalty, overdue charges) must be cleared before the guarantor is released. 7. **Borrower can avail additional loans without guarantor's fresh consent**, and the guarantor remains liable for the **originally guaranteed debt** regardless — cannot argue "the bank over-funded the borrower elsewhere, so I'm not liable." 8. **Ongoing disclosure obligation** — bank can demand, at any time, the guarantor's personal movable/immovable asset details, CA-certified statements, ITR; guarantor's disclosure is presumed complete and truthful, with any existing charge/lien on declared assets to be disclosed; guarantor agrees **not to dispose of or create a charge on declared assets** without bank permission (rarely enforced in practice day-to-day but is a powerful clause in litigation). 9. **Personal assets fully exposed, not capped to the guaranteed security's value** — if the borrower's security proves insufficient/inferior quality, the bank can demand the guarantor provide **additional security**; the guarantor's personal assets remain fully liable (colloquially: "even your TV can be taken"). 10. **Lien/set-off on the guarantor's own bank balances** — the bank or its **group companies** (e.g., "Axis Bank Ltd" and "Axis Securities") can put a lien on ANY of the guarantor's funds/deposits held with the bank or its group companies (savings account, FD, mutual funds) on default, and use them to recover dues — **without notice**, even if those funds are unrelated to the guaranteed loan. 11. **Public disclosure** — bank can disclose the guarantor's information/default status to RBI, CIBIL, or other regulatory authorities, and can publish the guarantor's name/photo as a defaulter; guarantor's objection is pre-waived by signing. 12. **"Limited Guarantee" concept** — a guarantor CAN restrict their liability to a specific capped amount (e.g., a guarantor whose security is worth only ₹2 crore against a ₹10 crore loan can cap their guarantee liability at ₹2 crore) via a **one-line note added next to their name** in the deed. **Without such an explicit restriction, a guarantor is liable for the FULL loan amount**, regardless of the value of the security they personally provided.

Other deed contents: date/place of execution, guarantor details (name, PAN, address), full borrower details, exposure amount, and the terms & conditions above.

Facility Agreement of Loan (Part-7)

Lecture 114. The Master Facility Agreement (MFA) — the largest and most central document in the disbursement documentation set, 50–60 pages, executed on stamp paper (state/bank-dependent).

Lecturer's critique (framing note, not a legal point): He observes that nearly every agreement in this series is structurally one-sided — defining "Rights of Bank & Obligations of Borrower" extensively, but rarely the reverse ("Rights of Borrower & Obligations of Bank"). He argues fairer two-way agreements should become the industry norm.

Who signs it: A bank official (typically the RM's senior/boss) and the borrower's authorized signatory — proprietor; authorized partner (registered partnership) or all partners (unregistered partnership); authorized director per Board Resolution (company).

When required: - Fresh case → taken. - Plain renewal → **not required**. - Enhancement → an **Addendum to the Master Facility Agreement** executed (5–6 additional pages referencing the original 50–60 page document and adding the new conditions) — becomes part of one combined record at the bank, but the borrower doesn't re-sign the original 50–60 pages. - Multiple banking → each bank executes its own MFA. - Consortium → a single joint agreement covering the Lead Bank + all member banks, signed by all bank officials plus the borrower; initial "bylot" (standalone) disbursement is possible before the joint MFA is executed, or the parties may go straight to joint execution.

Structural conflict-resolution rule: If the MFA's conditions conflict with the Sanction Letter's conditions — for **general** conditions, the **MFA prevails**; for **special/specific** conditions, the **Sanction Letter prevails** — but ONLY if the MFA itself states this hierarchy explicitly. Borrowers relying on a sanction-letter waiver (e.g., foreclosure charges waived) should verify the MFA doesn't silently override it.

Structural elements often included: - Borrower definition includes legal heirs (liability survives). - Facility-wise terms & conditions (per facility type). - An "education" section (1–3 pages) many banks include, explaining SMA-0/SMA-1/SMA-2/NPA classification with examples — so the borrower cannot later claim ignorance of what triggers each classification. - A schedule of additional/penal interest rates per type of breach. - Technical definitions: DP calculation methodology, and the **Default** definition (see below).

Key clauses: 1. **Bank's unilateral review/reduction rights** — bank can review, continue, cancel, or reduce facilities **at its own discretion, without notice**, based on (illustrative, non-exhaustive) factors: borrower conduct, utilization level, MPBF trending down, DP reduction, promoter margin shortfall. All facilities are **repayable on demand**. 2. **Commitment fee for low utilization** — if a borrower persistently under-utilizes a large sanctioned limit (e.g., 5–10% usage), the bank may charge a commitment fee, since idle sanctioned capital has an opportunity cost to the bank. 3. **Prepayment/foreclosure** requires bank's concurrence + minimum notice (15/30/45 days per bank norm) + foreclosure/prepayment charges, unless explicitly waived AND the MFA hierarchy clause supports the sanction letter's waiver. 4. **End-use of funds** — money must be used only for the stated purpose (e.g., working capital only, or building construction only); borrower must furnish proof on demand. 5. **Security-linked timelines** must be honored (e.g., property transfer from a takeover bank within a defined period like 60 days, with mortgage created by that deadline); security remains linked to ALL dues, not just the principal. 6. **Removal of wilful defaulters from management** — if any person in a decision-making capacity (promoter/partner/director) is or becomes an RBI-classified Wilful Defaulter, the borrower undertakes to remove that person from the business. 7. **Deemed acceptance of unilateral changes** — if the bank changes terms mid-loan (e.g., raises the interest rate from 10% to 12%) and the borrower **continues using the facility** afterward, that continued utilization is **deemed acceptance** of the new terms, even without explicit consent — flagged by the lecturer as a notably harsh, one-sided clause. 8. **Consequences of non-compliance** — non-submission of stock statements → DP can be reduced to zero; default → additional/penal interest may apply; loss of any government interest subvention (e.g., export interest subvention) → reverts to normal commercial rate with no borrower dispute right. 9. **Interest calculation** — on daily balance basis, **compounded** (not simple interest); unpaid interest gets added to principal and itself starts accruing further interest. 10. **Renewal fee can be debited unilaterally** — bank can debit the renewal fee from the borrower's account even before renewal documents are submitted; however, fee debit alone does **not** constitute "renewal completed" — renewal is only deemed complete once full documentation is submitted/uploaded to the system. 11. **Insurance** — same Sole Loss Payee structure as the Hypothecation Deed; bank can pay premium on default and recover from borrower. 12. **Security maintenance** — good & marketable title maintained; hypothecated debtors/stock must be regularly rotated/churned; if collateral value becomes insufficient, borrower must provide additional collateral; secured assets cannot be used by anyone except the borrower's group concerns or immediate blood relatives (spouse, children, parents) without bank's consent. 13. **Borrower representations & warranties**: all information given is correct; all business licenses/approvals in place; fully authorized to execute the documents; full legal compliance; no pending litigation on any asset; financial statements present a true & fair view; borrower will not withdraw quasi-equity/subordinated debt treated as equity from the business; borrower will not pay "exit compensation" to an outgoing promoter/director/partner without bank's concurrence (illustrative example given of a promoter demanding a large payout to exit, which could strain the business's finances and thus the bank restricts it). 14. **Terms survive beyond the 12-month validity window** — even after the sanctioned 12-month period lapses (e.g., into month 13 before renewal is completed), if the borrower continues using the facility, all original terms & conditions remain binding — protects the bank from a borrower arguing the conditions lapsed with the validity period. 15. **Books & inspection** — borrower will maintain proper books, disclose if an auditor resigns, allow bank entry/inspection/verification of records; will hedge forex exposure if dealing in import/export. 16. **Lien on balances** — same concept as the Guarantee Deed: bank/group companies can lien any borrower funds held with them (accounts, securities) on default, without notice, to recover dues. 17. **Default definition** (illustrative, non-exhaustive): payment default (interest/instalment non-payment, account out of order); non-payment-type/covenant default (non-compliance of sanction conditions); borrower's bankruptcy/insolvency/dissolution; a material adverse business event (e.g., fire destroying the business); complete change of management; misleading information/misrepresentation; **default by a GROUP COMPANY** (even at a different bank) is treated as the borrower's own default too. 18. **Consequences of default**: facilities can be terminated & repayment demanded; further utilization suspended; the loan can be converted into equity shares of the borrower's business (companies) giving the bank ownership; pledged/mortgaged security can be enforced.

Loan Sanction Letter (Part-8)

Lecture 115. The final document in the series; also framed as arguably the single most important reference document for a credit manager assessing an existing ("assisting") borrower held at another bank.

Who signs it: A bank official (usually the Sales Manager or Relationship Manager; some banks have the Credit Manager sign), plus the borrower and guarantors (their signature = formal acceptance). Issued on the **bank's letterhead**.

Purpose: Communicates the bank's proposed facility terms to the borrower and secures formal, documented acceptance.

Contents: - Proposed facilities (CC/OD/LC/BG etc.) with amounts, tenor, and type-specific terms (LC: usance/sight; BG: performance/financial). - Commission, interest basis (MCLR/Repo-linked + spread), and all other charges (stock audit, stock statement, miss-commitment penalties). - Borrower and guarantor details. - **Security details** — properties, whether fixed assets are charged, any FD charged, whether current assets are charged. - **Special conditions** (case-specific, marked by the credit team/sanctioning authority — the ones that matter most for underwriting) vs. **general conditions** (boilerplate, standard across all borrowers).

Why the Sanction Letter is critical for a Credit Manager assessing a borrower's existing exposure at another bank (e.g., for a takeover or multi-banking underwriting decision): 1. **Cross-verify borrower name & address** against the letter — a mismatch vs. KYC on file can signal an undisclosed address change; worth checking references/CIBIL at the old address too. 2. **Check the letter's DATE for staleness** — working capital renews every 12 months (with a 6-month grace/decision window). A sanction letter that is, say, 17–18 months old with no subsequent renewal letter is a red flag: either the account is heading toward Technical NPA at the other bank, or the borrower is being difficult about renewal documentation — a warning sign for your own bank too, since a client who stonewalls one bank's renewal will likely do the same to you. 3. **Cross-verify total exposure** (OD/CC/TL/LC/BG amounts) against CIBIL — a mismatch means an unreflected revision (enhancement or reduction) occurred after the letter's date; investigate why. 4. **Cross-check facility usage vs. actual business need** — e.g., a Bank Guarantee line sanctioned to a readymade-garments retailer who never uses it, or PC/LC sanctioned to someone not actually importing/exporting, suggests the borrower "sold a story" to get facilities sanctioned without ever following through — an integrity/behavioral red flag. The lecturer's method: build a mental "movie" of the borrower's history from bank statements, financials, CIBIL, background checks, and sanction letters. 5. **Check the Rate of Interest (ROI)** and compare to market — an unusually low rate at another bank invites scrutiny of that bank's risk appetite; conversely, don't underprice a risky client relative to a competitor's aggressive rate. **Verify the ROI actually charged** (not just quoted) by pulling the CBS/perfios report's End-of-Day daily balances, computing the implied average monthly interest, and matching it against the interest actually debited in the bank statement — a mismatch (e.g., letter says 9.5% but the account is actually being charged 12%) signals a hidden issue, and the lecturer will NOT accept a borrower's claim of "I didn't know my own rate" as satisfactory. 6. **Verify collateral details meticulously** — property description, area (sq. yards), khasra numbers, and valuation must tie out between the other bank's valuation report and its sanction letter. Real example cited: a sanction letter listed 4,000 sq. yards across 4 khasra numbers, but the valuation report showed only 2,600 sq. yards across 3 khasra numbers — the discrepancy revealed the borrower was withholding part of a multi-registry property that had not been disclosed to the sales team. Also check any **"collateral cover" maintenance condition** (e.g., a 100%-cover clause) — don't assume you can safely offer a lower cover ratio than the incumbent bank required. 7. **Guarantor details** — who guarantees, their relationship to the borrower, whether the same guarantors are being proposed to your bank. 8. **Special conditions/covenant compliance check** — read the exact "verdict" wording in the other bank's letter (capital infusion commitments, current-account closure timelines, penal-interest triggers) and independently verify whether the borrower actually complied. A borrower who broke commitments to the old bank will likely break commitments to you too. 9. **Loan tenor/repayment schedule** — useful cross-check when CIBIL doesn't clearly show balance tenor. 10. **DP norms** — debtor margin %, debtor days allowed (e.g., 90/120 days), stock days allowed, group-concern debtors excluded, stock audit frequency, stock statement submission requirements, current account closure conditions — replicate and validate the formula.

The lecturer personally spends 5–10 minutes studying a borrower's sanction letter per case, deliberately visualizing the borrower's likely conduct/history before proceeding to financial analysis.

For borrowers (own point of view): - Distinguish a genuine Sanction Letter from an **"In-Principle" (kaccha/draft) sanction letter**. Banks sometimes issue a 3–4 page in-principle letter prematurely — e.g., when competing against another bank already processing the same borrower — purely to secure the borrower's signed acceptance and processing-fee payment before actual credit committee approval is complete. - **How to identify an In-Principle letter**: may explicitly say "In-Principle"; has **no document/reference number** (genuine sanctions carry a system-generated loan/reference number, or committee-minutes reference for PSU banks); the **Special Conditions section is blank or generic**, since the credit team hasn't finalized actual conditions yet. - Borrowers should study their own conditions carefully and honestly assess whether they can comply — non-compliance carries charges/consequences, and will also complicate any future takeover attempt, since the new bank's credit team will check compliance history at the old bank. - **Check the Sanction Letter's validity period** — varies by bank (30 days, 90 days, or 4–5 months from the date of issue) — to ensure you're not shown a stale letter that later gets silently substituted with a different actual sanction letter for signature.

Plain Renewal of Credit Facilities

Lecture 94. Applies to all working capital facilities (CC, OD, LC, PC, BG, drop-line OD) — these are sanctioned for a strict 12-month period; term loans/machinery term loans are NOT working capital facilities and don't follow this 12-month renewal cycle.

Regulatory timeline: After the 12-month sanction period expires, the bank must decide **within 180 days of the expiry date** whether to continue the relationship. "Decision" specifically means the renewal must be fully **documented and updated in the system** (all client signing, all internal approvals complete) within those 180 days — not just a mental decision. Missing the 180-day window causes the account to become a **Technical NPA** (distinct from a Financial NPA, which arises from genuine business/cash-flow distress). Note: settlement periods for individual LC/PC transactions (e.g., 90/180 days) are separate from — and shorter than — the facility's overall 12-month + 6-month-extension validity window.

Definition of "Plain Renewal": The bank continues the sanctioned limits **at the same level** — no increase, no decrease ("as it is"). A **renewal-cum-reduction** (some downward adjustment to reduce exposure) is still treated/classified as falling within the "plain renewal" category.

Document checklist for a plain renewal (from the underwriting/credit-manager side): -

Latest audited financials + audit report + ITR (both borrower and guarantor) — cross-check against the *prior* sanction note to see which year's financials/ITR were actually reviewed last time (provisional vs. audited), so nothing gets skipped if last year's audited results were never captured. - Updated KYC if any address/detail changed. - Latest Partnership Deed (if any change, even minor — e.g., profit-sharing ratio, salary/interest terms, or a partner change) or latest MOA/AOA (if changed) for companies. - Latest Director List and latest Shareholding List (with %) — required from the client regardless of whether anything changed, as a standing declaration. - Last 12 months' GST returns (some banks require 18–24 months) to assess sales trend. - Bank statements from any OTHER bank the client transacts with (own bank's statement is pulled internally). - Sanction letters/statements for any new SIGNIFICANT loans taken since the last sanction (not minor ones) — personal loans, business loans, car loans, property loans.

Assessment process (step-by-step, as taught): 1. **Read the previous sanction note FIRST**, before looking at any new documents — build a full picture of the client's history (business model, promoters' ages, CIBIL history, prior conditions such as capital-maintenance commitments, stock insurance amounts, account-closure commitments) and note any post-sanction modifications (tenor changes, added guarantors, added properties). Note that the correct framing is "post last sanction," not a rigid "last 12 months" window. 2. **Check for guarantor/legal-heir adequacy** — e.g., a single-guarantor structure with an aging proprietor and no legal heirs added is a red flag; a real example cited: three brothers aged 67–72 with no sons added to the structure — the case was paused until the sons were added as guarantors. 3. **Check CIBIL score changes** and any **new borrowings** not previously known — could push the client into over-leverage (example: client had ₹2 cr limit against a ₹10 cr assessed base, but secretly took a ₹3 cr channel-finance facility from another bank, breaking the original leverage assumption). 4. **Check loan inquiries at other banks** — a client shopping for loans elsewhere while you hold a large exposure is a concerning signal worth investigating (why do they need more money, and why wasn't it approved elsewhere). 5. **Compare provisional vs. audited financials** — an industry-wide rule of thumb: a **10–15% variance** between provisional/projected and actual audited figures is tolerated; beyond that, it's treated as **critical** and must be questioned with the client and documented. 6. **Rebuild the CMA with a comparison chart** — lay side-by-side what was declared as provisional/projected last year against the actual audited results now available, checking whether prior commitments (capital maintained, sales achieved, ratios met) were actually honored. 7. **Recompute limit eligibility (MPBF)** on the revised/actual financials — if eligibility has dropped (e.g., due to undisclosed new borrowings, lower actual sales, or lower capital maintained than committed), engage the client to explain and, if needed, mitigate (capital infusion, limit reduction). 8. **Full banking analysis** as per the standard method — check for "trigger points," confirm no unauthorized other-bank involvement (or that any such involvement has the bank's permission). 9. **Valuation report re-check** — confirm the report is still within the bank's validity policy (e.g., some banks require revaluation every 3 years); if expired or expiring within a month, instruct the RM to arrange a fresh valuation. 10. **Stock audit re-check** — confirm the last stock audit is within the applicable frequency (commonly annual); if due, insist on a fresh stock audit report rather than reusing the old one. 11. **Stock statements** (last 6 months) and pending compliance items — retrieve any overdue/pending compliance (lien marking, non-encumbrance certificate, property tax receipt, stock insurance shortfall, overdue documentation) from operations/RM and get them closed; items not yet due (future deadline) don't need chasing yet. 12. **Client visit** — required for larger exposures (rule of thumb: above ₹1 crore); for smaller cases, at minimum a phone discussion; lecturer specifically recommends **visiting collateral properties** if a fresh valuation isn't due, since properties can be structurally altered (a real example: a built-up residential property was demolished into a vacant plot between valuations) — a moderate level of diligence is advised, not excessive.

Key philosophical point stressed by the lecturer: **Renewal must ultimately happen regardless of how bad the account looks** — "even the worst accounts on life support get renewed." A credit manager can and should raise every concern, apply deviations, document red flags — but must still process the renewal (this is a system/RBI-driven obligation, distinct from the underwriting quality of the write-up). For genuinely deteriorating accounts, available tools include: applying penal interest (1–2%) to pressure the client toward voluntary exit; negotiating partial monthly reduction of the limit; marking the account "exit" internally for sales-team follow-up; and immediately downsizing the unutilized portion of the limit (since working capital limits are repayable on demand).

Loan Takeover Process (Shifting Loan Between Banks)

Lecture 95. "Takeover" = "Balance Transfer" (BT) — shifting a loan (and its associated property/collateral) from one bank ("Bank B") to another bank ("Bank A"). Can be a FULL or PARTIAL takeover (e.g., a ₹10 lakh loan may be closed entirely, or reduced to ₹5 lakh with a fresh ₹5 lakh disbursed elsewhere).

Payment methods: Demand Draft (DD) — considered the **safest and most-used method** in the industry; RTGS/NEFT — considered **riskier**; borrower self-closure using own funds is not really a "takeover" process and requires no special handling.

Step-by-step process (DD method): 1. New bank (Bank A) receives the application, does full underwriting (financials, bank statements, site visit) and sanctions the loan. 2. Before releasing any money, Bank A's lawyer conducts a **legal title search** on the offered property and issues a **List of Documents (LOD)** — the specific papers required to create a valid mortgage in Bank A's favour. 3. Bank A must confirm those exact documents are actually held by Bank B (the old bank). It **demands a List of Documents (LOD) confirmation, on Bank B's letterhead**, listing what property papers Bank B currently holds — this both lets Bank A tally against its own legal requirement and serves as Bank B's written confirmation. 4. **Old banks (Bank B) routinely delay or deny LOD requests deliberately** — they don't want to lose the client and are under no obligation to a stranger bank. **Only the borrower can compel Bank B's cooperation** (Bank A has no standing to demand this directly from Bank B) — the lecturer draws a parallel to personal home-loan borrowers: always obtain a bank-letterhead LOD receipt yourself when depositing property papers, as your own proof. 5. If Bank B still won't confirm and specific documents appear to be missing, Bank A's lawyer is consulted on whether those specific documents are essential for valid mortgage creation. If the lawyer confirms photocopies (or even a borrower declaration/undertaking on stamp paper) are sufficient, Bank A can proceed on that basis; if the lawyer insists the originals are essential, Bank A must hold disbursement until they are obtained. (Lecturer notes that in practice many banks skip this rigor and simply take the borrower's signed declaration that "all papers are available" — but flags this as the *correct* practice that should be followed.) 6. Bank A takes a **Power of Attorney / Letter of Authority** from the borrower authorizing Bank A to collect the security documents from Bank B on the borrower's behalf (see Part-5 above). 7. **DD must cover the FULL outstanding across ALL facilities linked to that specific collateral property** — Bank B will not release the property piecemeal. If three facilities (e.g., ₹10L + ₹5L + ₹2L = ₹17L) are all linked to the same shop property, all three DDs must be handed over **simultaneously** ("same day handover"), not staggered over several days — otherwise Bank B will not release the property at all. 8. **Check for "cross-linking"** — the same property might also secure OTHER, unrelated loans (a different department's facility, a personal loan of the same individual, a related-party company's small facility). All such linked facilities must be closed, or the linked property substituted with alternate collateral acceptable to that other department, **before** Bank B will release the property. Real anecdote: one PSU bank had even linked a borrower's car loan to the same property, requiring the car loan to be closed too before release — flagged by the lecturer as an unusual/excessive practice. 9. **DD amount = actual outstanding on the date the DD is prepared** (not the originally sanctioned limit) — "jitni outstanding, utna hi DD." 10. **Sequencing of disbursement**: takeover of the existing outstanding happens first via DD; once the property is transferred and mortgage created with the new bank, only THEN is any additional/enhanced sanction amount (e.g., the extra ₹5 lakh in a ₹10L→₹15L enhancement) released to the borrower.

Cover Letter / BT Letter / Takeover Letter (critical document, also called "Takeover Intimation"): - A one-page letter drafted by Bank A, addressed to Bank B's Manager, referencing the borrower's name, facility type(s), and account number(s). - States that the attached DD (with number/amount) is provided **"for the purpose of closure of facility [name]"** and requests Bank B to **accept the DD, close the running facility, and release the security papers**, with full property details (address, description) explicitly mentioned. - Requests release **directly to Bank A**. - **Must be signed/stamped and formally ACCEPTED by Bank B's authorized person BEFORE the DD is physically handed over** — this creates binding legal accountability: once accepted, Bank B cannot later claim it didn't know the payment was for closure, cannot claim it never received such a letter, and cannot claim it released security "by mistake" without knowing the recipient was not its own customer. This letter becomes a powerful evidentiary tool for Bank A in any future dispute. - The DD should NOT be handed over until Bank B's acceptance/acknowledgment is secured — this reduces the risk that the property turns out to be cross-linked with another loan Bank A didn't know about. - A properly authorized bank employee must personally carry the DD to Bank B and obtain acceptance from the relevant authorized person there.

RTGS/NEFT method (riskier alternative): With a DD, Bank A retains physical control (the DD is never handed over until acceptance is secured). With RTGS/NEFT, funds release **instantly and irreversibly**, so many banks skip the cover-letter/acknowledgment discipline entirely — a major risk. **Recommended practice**: send Bank B an email/letter *before* initiating RTGS, requesting they close the facility and hand over security papers upon receipt, and obtain email confirmation; after sending the RTGS, send a **second confirmation email/letter** noting the payment has been sent, for the paper trail.

Real fraud example cited: A borrower's ₹50 lakh facility was paid off via RTGS to the old bank (Axis), but because Axis had not actually closed the limit in its system, the borrower drew the same ₹50 lakh again within half an hour — resulting in a **doubled exposure** (₹50L active at each bank, ₹1 crore total) with the new bank now under-secured (property held by old bank, no matching security at the new bank for its ₹50L).

Related concept flagged for a separate video: **CIR (Customer Information Report)** — a check to be run before initiating any takeover.

Periodic Review of Working Capital Loans

"How Banks Review Working Capital Loans" — Short-Term Review & Renewal. Distinct from the 12-month Plain Renewal cycle; covers interim/short-term reviews that can arise for several distinct reasons.

Scenario 1 — Renewal is about to expire but full documentation/assessment can't be completed in time, either because: (a) information genuinely can't be gathered in time (client delay, unavoidable circumstance) with no underlying account-quality concern, or (b) the account has real problems — over-borrowing, falling capital/sales, broken past commitments — and resolving these properly is taking longer than the 180-day window allows.

Bank has **two options** in this scenario: - **Short Renewal**: extend the renewal due-date by a defined short period (commonly 1–6 months; banks rarely extend beyond 6 months since 70–80% of the information is usually already in hand) based on partial information, with a **proportionate processing fee** charged for that shorter period; a **full 12-month renewal** follows once outstanding issues are resolved. - **Full 12-month renewal with a shortened**

Drawing Power (DP) validity: renew for the full 12 months (charging full processing fee) but set the DP to expire after a shorter internal checkpoint (e.g., 2–5 months), tied to specific borrower commitments (e.g., reduce exposure by X%, close a specific other loan, submit specific pending documents) made at renewal. If the borrower fails to meet the commitment by the checkpoint, the bank can **zero out the DP in the system**, causing the full outstanding to stand as overdue (triggering SMA-0 classification) — the bank should proactively begin re-assessment 15–30 days before this DP-drop date. If commitments ARE met, the DP parameter is simply removed and normal DP continues for the remainder of the 12 months.

Reassessment documentation for either path: updated bank statements/financials covering the gap period since the last full assessment; audited results (if a fiscal year-end has passed since provisional figures were last reviewed) or fresh ITR/GST returns as applicable; updated CIBIL; re-check of EWS/RFA (Early Warning Signal / Red Flagged Account) triggers, which the lecturer notes are commonly missed.

Consequences of continued non-compliance found at reassessment: apply **penal interest** (e.g., +1–2% on the rate) to pressure the client; if the account looks severely deteriorated ("could blow up any time"), issue a **Recall Notice** and involve the collection team — since working capital limits are always payable on demand, the bank can demand full repayment.

Scenario 2 — Pure covenant/commitment review (no renewal deadline involved, no additional money being released): the bank simply checks whether a specific commitment made at the time of sanction (e.g., "borrower will infuse X capital in 3 months," "borrower will close a specific current account in 6 months," "borrower will achieve X sales in 5 months") was honored. This is a lightweight check — only the specific document proving that commitment is required (CA certificate + bank statement for capital infusion; GST returns/sales register for sales achievement; loan closure letter for loan closure; bank's own account-closure confirmation for current-account closure) — no full renewal-style documentation package is needed, and nothing else about the facility changes.

Scenario 3 — Covenant review tied to release of ADDITIONAL money (higher risk than Scenario 2, since new exposure/risk is being added): example — borrower commits to achieving ₹5 crore in sales by a target date, in exchange for release of a ₹50 lakh balance amount held back at sanction. Before releasing the balance amount, the lecturer's strong recommendation is to check at least a **updated snapshot of financials/CIBIL/banking/sales trend**, not just the single specific metric being reviewed — because releasing money purely on a narrow performance check, without broader due diligence, carries real risk. **Real cautionary example from the lecturer's own experience (2018)**: a large ₹15–16 crore borrower requested an additional ₹50 lakh (framed as urgent business loans/order-related payment) six months after onboarding; a CIBIL check revealed the borrower had recently taken ₹2–3 crore in new unsecured business loans (BLs) elsewhere — a major red flag for an already lower-margin profile — and the bank declined the additional ₹50 lakh; the account went bad roughly 6 months later, validating the decision not to release additional funds without full-picture verification.

Skipped Videos

None. All 11 videos in this batch were successfully transcribed and incorporated into the notes above.

Appendix A — Videos With No Usable Transcript

These 20 videos (out of 136 in-scope) could not be included because no usable transcript could be retrieved, despite repeated, carefully-paced retries. Most are cases where YouTube's caption-serving API intermittently blocked automated retrieval for that specific video; a few had auto-generated captions too garbled to extract reliable technical content from.

Section	Lecture Title	Video ID
Balance Sheet Explained	Lecture 54: CMA Data Preparation Part 5	VMGTok94KWw
CIBIL / SMA / Dedupe Checks	How Banks Turn Stressed Borrowers into Bankable Borrowers	qi8h11amqOc
CMA Data & Ratio Analysis	Lecture 57: EBITDA / PBDIT in CMA Data	uvCqMQrHHFo
CMA Data & Ratio Analysis	Lecture 64: How to Analyse Stock Statements of Borrowers	5qL79IK9Bg8
CMA Data & Ratio Analysis	Lecture 55: How to Project Sales in CMA Data	x9JO2QApTHU
CMA Data & Ratio Analysis	Quick tips for Profit & Loss Account Analysis	d9AzCShO5jM
CMA Data & Ratio Analysis	How to do analysis of Borrower's Debtors?	xFqvi9UrkOk
CMA Data & Ratio Analysis	How to Analyze Business's Performance with Fixed Assets Turnover Ratio	-_J2UlbM1I8
CMA Data & Ratio Analysis	Underwriting large ticket corporate loan proposals (Part-1)	lEY-mvd3R5I
CMA Data & Ratio Analysis	Key financial indicators in Large ticket loan analysis (Part-2)	zJzGmsexGwc
CMA Data & Ratio Analysis	Identification of Frauds in balance sheet (Part-3)	SLEkiwzFGTk
CMA Data & Ratio Analysis	Importance of cash flow statement (Part-4)	0Ff4eXk4t6E
CMA Data & Ratio Analysis	Large ticket corporate loan underwriting- Final touch (Part-5)	W_x3aVgSvw0
CMA Data & Ratio Analysis	Impact of prepaid expenses on the current Ratio	wKKO9xbFftw
CMA Data & Ratio Analysis	What are group firms or sister concerns? Part-1	TG4XfbtBThw
CMA Data & Ratio Analysis	How to do debt classification in CMA report	J6E7L-PRLYo
Documentation & Mortgage	Multiple Banking, Consortium & Pari Passu Charge Explained	6Hi2s3AtL1s
MPBF Norms & DSCR	Analyzing treatment of payment to family as internal accruals & impact on current ratio & MPBF	Dx8trQs06Jg

Section	Lecture Title	Video ID
MPBF Norms & DSCR	Drawing power when creditor is greater than stock and margins are different	y7Jjj3IKcfM
Working Capital Basics	Cash budget method of working capital finance	nK-N6GMnfg8

Appendix B — Videos Outside the Requested Scope

The flagship course includes additional lectures on **export/import procedures, forex & trade finance** (LC, buyer's credit, currency swaps, packing credit for exporters), **gold metal loans, government schemes** (CGTMSE, Agri Infra Fund), and **career/interview content**. These are part of the same 185-video playlist but fall outside the seven topic areas requested (working capital basics, MPBF, CMA data/ratios, CIBIL/SMA/dedupe, DSCR, documentation/mortgage, loan disbursement), so transcripts were not fetched and they are not summarized in this document.

- Lecture 27: Foreign Trade Basics | Export Benefits, CHA, ICD, Shipping Bill, Bill of Lading
- Lecture 28: Export Procedure | RODTEP, LUT, Let Export Order & Full Export Process Step by Step
- Lecture 29: Essential Export Documents Every Exporter Must Know
- Lecture 30: Essential Export Import Terms | AD Code, EEFC, E-BRC, FOB, CIF
- Lecture 31: How Exporters Get Paid | Sight Bills, Usance Bills, CAD, DP & DA
- Lecture 32: Letter of Credit (LC) Full Guide | Types of LCs | Payment Terms & Process
- Lecture 33: Foreign Bill Negotiation & LC Discounting
- Lecture 34: What is Buyers Credit? How Nirav Modi Misused It via PNB
- Lecture 35: Buyer's Credit via GIFT City | IFSC, FCDL & Drawing Power Impact
- Lecture 36: LC & Buyer's Credit Risk | Buyers Credit Arbitrage & LC Support Trap
- Lecture 37: Export Packing Credit (EPC) - Pre-Shipment Packing Credit
- Lecture 38: Foreign Bill Purchase, Negotiation, Discounting | Post-Shipment Finance
- Lecture 39: Forward Cover in Forex Explained | Hedging Facility
- Lecture 40: Foreign Currency Term Loan (FCTL) Explained
- Lecture 41: What is Currency Swap? Practical Guide to Hedging Forex Risk
- Lecture 42: How Interest Rate Swaps Work | Fixed vs Floating Rate Conversion
- Lecture 44: Complete Import Procedure Explained | IGM & Bill of Entry
- Lecture 45: Legal Entity Identifier (LEI) Code Explained
- Lecture 46: SWIFT Code in Banking & High Seas Sales in Imports Explained
- Letter of Credit Eligibility in 5 Mins | Easy LC Finance Calculation Explained
- Export Finance Eligibility | Pre & Post Shipment Credit Explained (Hindi)
- Rent vs EMI: What's the Real Difference?
- Union Budget 2022-23 key highlights and Impact on Industries
- Lecture 82: RBI Guidelines on Opening Current Accounts
- Top Interview Questions for Banking Job in India
- Lecture 89: Gold Metal Loans Explained
- Lecture 90: Gold Metal Loans in India | RBI Policies
- Lecture 91: Gold Metal Loan Step-by-Step Guide
- How to Become a Credit Manager?
- Lecture 96: Collateral-Free MSME Loans: Full CGTMSE Scheme Explained
- How to Calculate Bank Guarantee Eligibility? (Part-4)
- Project Funding and DCCO in Project Loans | RBI's DCCO Norms
- Strategies for Managing Office Workload and Work-Life Balance
- Lecture 99: New CGTMSE Scheme 2023
- Bank Guarantee Assessment: Eligibility Calculator, Strike Ratio, Mobilization advance
- Agri Infra Fund scheme details
- What is LCBD purchase? LCBD Sale?
- Section 43B(H) of income tax for timely payment
- Section 43B(H)- Impact on MSME or SME sector
- Packing credit to sub supplier of exporter- Advanced EXIM- Part 1
- Export Packing Credit liquidation and extension- Advanced EXIM (Part-2)
- Export factoring, Import factoring and Payable financing
- Priority sector lending guidelines of RBI

- (untitled/unclear - numeric filename)
- What is UFCE? Unhedged Foreign Currency Exposure
- (title to confirm on fetch)
- How to Become a Strong Credit Analyst | My 3-Phase Journey
- Top 10 Mistakes Every New Credit Manager Makes
- CGTMSE vs Collateral Loan – What Should a Banker Choose?