

Welcome!

Take a moment to close your eyes for one minute, allowing yourself to meditate and enhance your concentration.

Session On

MSME & Credit Facilitation

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MSME : Definition			
MSME	Micro, Small and Medium Enterprises		
Criteria	Investment in Plant and Machinery	Turnover	Example
Micro	Less than 1 Cr	Less than 5 Cr.	Atta Chaki
Small	Less than 10 Cr	Less than 50 Cr.	Dal Mill
Medium	Less than 50 Cr.	Less than 250 Cr.	Frozen Food
Fixed Asset to Turnover Ratio : Expected is Minimum 5			
NEW Definition : Budget 2025			
Criteria	Investment in Plant and Machinery	Turnover	Example
Micro	Less than 2.5 Cr	Less than 10 Cr.	
Small	Less than 25 Cr	Less than 100 Cr.	Frozen Foods
Medium	Less than 250 Cr.	Less than 500 Cr.	PCB Board Mfg

Start up Loan

- Funding Businesses registered as Start Up (Under Deptt of Promotion of Industry and Internal Trade).
- Entity working for innovation and development of new products.

	Existence	Turnover	Facility	Amount
Eligibility	< 10 Years	< 100 Cr.	Fund Based + Non Fund Based	> 0.10 Cr.

Asset Backed Loan (LAP)

Loan is given backed by immoveable property.

Purpose	Loan Type	Property	LTV	Amount
Financing Current Assets	Term Loan	Resident	60%	< 20 Cr.
Fixed Assets	Overdraft	Other	50%	
Payment of High Cost Debt	Non Fund Based Sublimit			

Supply Chain Finance

- Financing to Dealers / Vendors of sponsor corporates
- Maruti Dealer needs funds to buy vehicles , funds will be remitted to Maruti on behalf of the Dealer. Dealer will repay after a decided period

Purpose	Loan Type	Period	Amount
Purchase of Stock	Revolving Credit	< 90 days	Max 20% of Annual Purchase from Corporate

Drawee / Invoice Financing

- Financing to suppliers/vendors of a Large Corporate.
- Maruti has received auto parts from M/s ABC Co. and given acceptance to make the payment in 90 days. Funds are given to M/s ABC Co and recovered from Maruti.

Purpose	Borrower	Period	Amount
Preponement of payment to vendors	Supplier / Vendors	< 90 days	Max 90% of the Invoice

Lease Rental Discounting

Financing to owners of the property against their regular rental income from corporate tenants : M/s ABC Co has rented its commercial building to an MNC.

Escrow Mechanism:

Rent is paid by the tenant in an Escrow Account between (Property Owner + Bank + Tenant).

Purpose	Type	Period	Amount
Infra and real estate investment	Term Loan / DLOD	< 12 Years	Approx 50% of total future rental



Export Finance

Financing to Manufacturer / Merchant Exporters against confirmed order or Letter of Credit.

Pre Shipment Finance: Providing Funds to fulfill the Export Order.

EPC (Orderwise PC): PC against Order A will be settled by Receipt of Order A only.

RPC (Running PC): PC against Order A can be settled against receipts on FIFO basis.

PCFC: Packing Credit in Foreign Currency.

Post Shipment Finance: Discounting the Export Bill to give fresh Funds. Convert pre shipment to post shipment.



TREDS: Trade Receivables E Discounting System

Financing of trade receivables of MSME through Multiple Financiers, specially invoices raised against large corporates. Similar to Factoring (Digital Platform).

- M/s ABC Co raises invoice on Maruti
- Maruti accepts the invoice
- Maruti uploads the the invoice on TREDS platform
- Multiple Banks Bid to discount the accepted invoice
- M/s ABC gets the funds from the Bank
- Maruti pays to the Financing Bank on Due Date



TREDS: Trade Receivables E Discounting System

In most cases **TReDS discounting is treated as an exposure separate from the MSME's regular fund-based working capital limits**, because the financing is against an accepted receivable and is generally a **without-recourse** transaction. The primary credit risk shifts to the buyer whose invoice has been accepted.

For RBI priority sector/MSME lending discussions, TReDS financing is encouraged as an additional source of liquidity to MSMEs and is not intended to replace existing working capital facilities



TREDS: Trade Receivables E Discounting System- RBI (TReDS) Directions, 2026 — Latest Amendment

The Reserve Bank of India has issued the **Reserve Bank of India (Trade Receivables Discounting System) Directions, 2026**, bringing into effect a revised regulatory framework for TReDS platforms.

The new directions came after the RBI released draft guidelines on April 8, 2026



TREDS: Trade Receivables E Discounting System :Key Changes in the 2026 Directions:

1.Removal of MSME Due Diligence Requirement
One of the most notable changes is the removal of the mandatory due diligence requirement for MSME sellers, which is expected to reduce onboarding hurdles and facilitate quicker access to receivables financing for small businesses.

2.R**evised Capital Requirements**
The framework prescribes a minimum net worth of ₹25 crore(earlier ₹5 crores) for platform operators, streamlined capital requirements aligned with non-bank payment system operators, and clearer governance and 'fit and proper' criteria.



TREDS: Trade Receivables E Discounting System: Key Changes in the 2026 Directions:

3. CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) Registration for Assignment of Receivables

Financing transactions on TReDS result in assignment of receivables in favour of the financier, and the platform shall file this assignment with the central registry (CERSAI), as provided under the Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022.

4. Credit Guarantee & Re-discounting

The framework also enables re-discounting, insurance facilities, and permits financiers to avail credit guarantee cover through entities like NCGTC (National Credit Guarantee Trustee Co).

5. **Increased Operator Flexibility**

Authorised TReDS operators now have increased flexibility in framing operational and procedural guidelines, allowing them to tailor processes in line with business requirements and technological advancements.



CGTMSE : Credit Guarantee Trust for Micro and Small Enterprises

Credit guarantee is provided for loan to Micro and small enterprises.

Permitted Activities	Amount	Type	Security
Both New and Existing MSME	10.00 Cr per eligible borrower (50% to 90% of the amount in default.)	TL. CC. BG	No collateral
	Nominal annual fee as low as 0.37% per annum. Gurantee fee by borrower once approved	Can’t apply directly. Through Member Lending Institution like Banks.	For comprehensive guidelines, pl visit: CGTMSE.in official website



CGTMSE : Credit Guarantee Trust for Micro and Small Enterprises

Relationship between Guarantee Cover and Security

CGTMSE was primarily designed to facilitate **collateral-free lending** to Micro and Small Enterprises. The guarantee cover is provided by CGTMSE to compensate banks for a portion of the loss if the borrower defaults.

Security Norms

- For loans covered under CGTMSE, banks generally **do not insist on collateral security**.
- Primary security created out of the assets financed by the bank continues to be obtained.
- If a bank takes substantial collateral security, the loan may not qualify under the standard collateral-free CGTMSE framework.
- The guarantee cover is available only after complying with CGTMSE eligibility and claim conditions.



CGTMSE : Credit Guarantee Trust for Micro and Small Enterprises

Example
Suppose a bank sanctions a ₹100 lakh loan under CGTMSE with a 75% guarantee cover:

•Borrower defaults.

•Outstanding amount in default = ₹80 lakh.
•CGTMSE may compensate the bank up to **75% of the eligible amount in default**, subject to scheme rules and claim admissibility.
•**Eligible claim amount = 75% × ₹80 lakh = ₹60 lakh**
•The bank bears the balance loss.
For current sanctioning and claim settlement, banks should refer to the latest CGTMSE operational guidelines, as guarantee percentages and eligible limits may be revised from time to time by CGTMSE.



Startup TN, FAME TN, NSIC and TANSTIA, the focus should be on **growth, funding, market access, compliance, innovation and sustainability**

1. Funding is No Longer the Biggest Challenge

•Banks today are increasingly supporting viable MSMEs and startups through collateral-free lending under CGTMSE. CGTMSE

•Focus on building strong financial discipline, cash flows and governance to improve creditworthiness.

•Explore invoice financing through TReDS to unlock working capital without increasing borrowing burden.



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2. Government Procurement – A Huge Untapped Opportunity

•Register with National Small Industries Corporation under the Single Point Registration Scheme.

•Government departments and PSUs have procurement targets from MSMEs, creating significant business opportunities.

•Participate actively in GeM(Government e-Market place) – digital platform and public procurement platforms.



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3. Innovation Must Lead to Commercialization

•Innovation alone is not enough; market adoption determines success.

•Protect innovations through patents, trademarks and IPR registrations.

•Focus on solving real customer problems rather than merely developing products.



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4. Quality Certification Creates Market Advantage

•Encourage adoption of ISO, quality standards, and process excellence.

•Certifications improve customer confidence and export readiness.

•Quality is increasingly becoming a prerequisite rather than a differentiator



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5. Collaboration Over Competition

•Industry associations such as Tamil Nadu Small and Tiny Industries Association and FAME TN can create cluster-based advantages.

•Shared facilities, common marketing efforts and collective bargaining reduce costs and improve competitiveness.



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6. Digital Transformation is Non-Negotiable

•Adopt digital payments, ERP systems, AI-driven productivity tools and data analytics.

•Customers increasingly expect faster, digital and transparent interactions.

7. Sustainability is a Business Opportunity

•Energy-efficient technologies reduce costs and improve competitiveness.

•Green manufacturing and ESG compliance are becoming important for supply chain participation.



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8. Export Markets Are Within Reach

•MSMEs should think beyond local markets.

•Government schemes support participation in international exhibitions, trade fairs and buyer-seller meets.

•Even small enterprises can become global suppliers with the right quality and compliance standards.



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9. Importance of Financial Discipline

•Maintain proper books of accounts.

•File GST and statutory returns on time.

•Build a healthy credit history to access cheaper finance and larger limits.

10. Message to Entrepreneurs

"The future belongs not to the biggest companies, but to the fastest learners.

Startups bring innovation, MSMEs create employment, and industry associations build ecosystems.

Together, you are not merely creating businesses—you are shaping Tamil Nadu's economic future."



Case Study: Startup MSME Getting a Bank Loan in India

Background — "FreshBox Organics" (Illustrative Composite Case)
Business: A food processing startup packaging and selling organic produce directly to urban consumers.
Location: Coimbatore, Tamil Nadu
Founder: First-generation entrepreneur, age 28
Stage: 6 months old at time of loan application

The Challenge
The founder had an idea, a small rented unit, and ₹3 lakh in personal savings — but no collateral, no credit history as a business, and no existing relationship with a bank. Traditional bank lending criteria (collateral, 2–3 years of ITR/financials) immediately excluded her.
The biggest challenge MSMEs face is the unavailability of sufficient funds at considerable interest rates, worsened by the fact that banks aren't inclined to offer loans to micro and small enterprises as they consider this sector high-risk — which is particularly challenging for the budding entrepreneur who may not have collateral to secure funds

Case Study: Startup MSME Getting a Bank Loan in India

Step 1: MSME Registration (Udyam)

The first step was registering under the **Udyam portal**, classifying the business as a **Micro Enterprise** (investment under ₹2.5 crore, projected turnover under ₹10 crore).

As per the latest update, the composite criteria are: Micro Enterprise with up to ₹2.5 crore investment and ₹10 crore turnover; Small Enterprise up to ₹25 crore investment and ₹100 crore turnover.

This Udyam certificate became the gateway to government-backed schemes.

Step 2: Choosing the Right Loan Scheme
After consulting a SIDBI facilitation centre, she chose two complementary routes:

4 types of Mudra Loan for Non-farm, Non Corporate-1.Shishu-Rs.50,000, 2.Kishore-Rs.50,000 to Rs.5 lakhs, 3.Tarun-Above Rs.5 lakhs to Rs.10 lakhs and 4. Tarun Plus-Above Rs.5 lakhs to Rs.10 Lakhs.

A) MUDRA Loan (Kishore Category Rs.50,000 to Rs.5 lakhs) — ₹4 lakh
MUDRA loans are meant for small businesses like tailors, kirana store owners, food vendors, and salon owners.
She applied for a Kishore loan of ₹4 lakh through the local Canara Bank branch for working capital — purchasing raw materials, packaging equipment, and cold storage rent.

B) CGTMSE-backed Loan — ₹15 lakh
The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provides collateral-free loans up to ₹2 crore, with coverage of 85% for loans up to ₹5 lakh and 75% for others — helping MSMEs secure funding without third-party guarantees, facilitating faster access to credit.

Since she had no property to pledge, the bank used CGTMSE coverage to sanction ₹15 lakh as a term loan without collateral.

Case Study: Startup MSME Getting a Bank Loan in India

Step 3: What the Bank Evaluated
Since there were no past financials, the bank assessed:
•A detailed **project report** with revenue projections and market analysis.

•**Promoter's personal credit score** (CIBIL: 730)
•GST registration and projected GST filings
•Udyam certificate

•How did the bank assess:
The digital credit assessment model leverages digitally fetched and verifiable data including GST data through service providers, bank statement analysis using account aggregators,
ITR verification, and commercial bureau fetch —

enabling automated loan appraisal for both existing and new-to-bank MSME borrowers

Step 4: Loan Sanction & Terms

Interest rates for MSME startup loans in 2026 typically range between 8% and 14%, depending on scheme and lender. Repayment tenure usually ranges from 3 to 7 years, and some schemes may offer a moratorium period for new businesses

Parameter	MUDRA (Kishor)	CGTMSE Term Loan
Amount	₹4 lakh	₹15 lakh
Interest Rate	9.5% p.a.	10.2% p.a.
Tenure	3 years	5 years
Collateral	None	None (CGTMSE covered)
Processing Time	7 days	14 working days

Case Study: Startup MSME Getting a Bank Loan in India

Outcome

Within 18 months:

•Monthly revenue grew from ₹0 to ₹2.8 lakh

•The business onboarded 3 corporate buyers and registered on a **TReDS platform** to discount invoices for faster cash flow

•Timely repayment improved the credit score to 780, enabling a larger working capital line later.

Key Takeaway

MSME loans are not just about meeting short-term cash needs — they are about creating a launchpad for growth. By leveraging these loans, entrepreneurs can focus on building their products and scaling operations rather than worrying about financial bottlenecks.

The combination of **MUDRA + CGTMSE** is the most practical route for a startup MSME in India — no collateral needed, government-backed risk coverage, and accessible through most public sector banks.

RBI Master circular on MSME like Startup TN, FAME TN, NSIC and TANSTIA, the focus should be on **growth, funding, market access, compliance, innovation and sustainability**

1. Life-Cycle Based Lending – Not Just One-Time Funding

RBI has advised banks to support MSMEs throughout their business life cycle by providing:

- Standby credit facilities
- Additional working capital for emergent needs
- Mid-term enhancement of limits based on actual sales growth
- Faster sanction timelines for smaller loans

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Message to audience:

"Don't approach banks only when you are in distress. Engage proactively and seek enhancement as your business scales."



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2. Revival and Rehabilitation Before NPA

Many entrepreneurs think support ends when stress begins. RBI has specifically created a framework for identifying stress early through SMA accounts and facilitating revival and rehabilitation for viable MSMEs.

Message:
"A stressed account is not the end of the road. Early communication with the bank can often save the enterprise.“



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3. Importance of Udyam Registration

Several MSMEs still operate without fully leveraging Udyam benefits.

•Udyam Registration is now central for MSME classification.

•It enables access to priority sector benefits, government schemes, subsidies and easier credit assessment.

Message:

"Your Udyam Certificate is not just a registration document; it is your passport to the MSME ecosystem."



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4. Delayed Payments – The Biggest Hidden Cost
Many MSMEs focus on obtaining loans but lose liquidity because customers delay payments.
RBI reiterates the MSMED Act provisions:
•Buyers should pay within the agreed period, not exceeding 45 days.
•Delayed payments attract penal interest.
•MSME Facilitation Councils can be approached for disputes.

Message:
"Cash flow is more important than profit. Collecting receivables on time is often more valuable than obtaining an additional loan."



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5. Cluster-Based Growth
RBI encourages banks to adopt a cluster approach for MSME financing.

For TANSTIA and FAME TN members:
"The future belongs to ecosystems, not isolated enterprises.

Clusters help improve access to credit, technology, skills, markets and exports."



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Closing

"Three things will determine the future success of MSMEs:

1. formalisation through Udyam,
2. digitisation through technology, and
3. scalability through finance.

Tamil Nadu's entrepreneurs have the talent;

our responsibility is to connect them with the right ecosystem, credit and opportunities."

