

प्रत्यक्ष ऋण योजनाएं
उधारकर्ताओं हेतु दिशानिर्देश

**Direct Finance Schemes -
Guidelines to the Borrowers**



भारतीय लघु उद्योग विकास बैंक
Small Industries Development Bank of India

ऋण विभाग, मुंबई
Credit Department, Mumbai

October 2005

DIRECT FINANCE SCHEMES
GUIDELINES TO THE BORROWERS

These guidelines are intended to familiarise the prospective borrowers with the various procedural and legal formalities for availing of financial assistance from SIDBI. Part I explains the steps to be taken by the borrower from the stage of sanction of assistance for timely drawal of the assistance and implementation of the project. Part II deals with the various legal requirements to be complied with. Part-III includes the various formats in which the information/ reports etc. are required by SIDBI.

These guidelines are only indicative and not exhaustive. The borrower may approach SIDBI for further information/clarifications. SIDBI has the right to add/modify the requirements, without notice. In case of any discrepancy between the guidelines given here and the contents of Loan Agreement / General Conditions / other documents executed, the latter will prevail.

Direct Finance Scheme - Guidelines to the Borrowers**INDEX**

Sl. No.	Contents	Page No.
Part-I	General	4 - 9
1	Acceptance of Letter of Intent (LOI)	4
2	Documentation and Security Creation	4
3	Disbursement Procedure	5
	- No-lien account:	6
	- Direct payments to suppliers	7
4	Cost and time Overrun	7
5	Modification in the covenants of the loan agreement	7
6	Insurance	7
7	Progress Reports / Periodical Certificates	8
8	Periodical Inspections:	9
9	Display of SIDBI's charge	9
10	Repayment , interest calculation etc.	9
11	Premature Repayment	9
12	Approvals to be obtained from SIDBI	9
Part-II	Legal Formalities	11 - 16
1	Appraisal Stage - A. Submission of Documents, B. Title Investigation at the time of Appraisal	11
2	Post Sanction Stage - A. For a Company, B. For a Partnership Firm,	12
3	C. For a Society/ Trust, D. Proprietorship Concern, Security Wise Formalities	13
	A. Mortgage	13
	-Creation of first/ exclusive charge, Creation of second/ pari passu charge	14
	B. Hypothecation	15
	C. Pledge - Pledge of demat shares	15
	-Pledge of shares in physical form, -Pledge of term deposit receipts (TDR),	16
	D. Guarantee - Personal Guarantee Corporate Guarantee	16
	Corporate Guarantee, E. Miscellaneous	17
Part-III	Annexures	20 - 30
1	Annexure I - No Lien Letter from the Borrower's Bankers	20
2	Annexure II - Compliance Chart to be submitted alongwith Disbursement Request	21
3	Annexure III - Format for CA Certificate	22
4	Annexure IV - Progress Report (for project under implementation)	23
5	Annexure V - Projection Completion Report	25
6	Annexure VI - Progress Report (for units under operation)	27
7	Annexure VII - Certificate of compliance	29
8	Annexure VIII - Title Investigation - Advocate's Report	30

GUIDELINES TO THE BORROWERS

PART I

(GENERAL)

1. ACCEPTANCE OF LETTER OF INTENT (LOI)

After the assistance is sanctioned and compliance with pre-LoI conditions, if any, SIDBI will issue the Letter of Intent [LoI] conveying the terms and conditions of sanction. Upfront fee / processing fee will be collected at the time of issue of LoI / before taking up detailed appraisal. The upfront fee / processing fee once paid is nonrefundable. The LoI will be issued along with a copy of the specimen form of the Standard Loan Agreement, "General Conditions" [which is considered as part of the Loan Agreement] and the draft Board Resolution [for companies]. The borrower should furnish to SIDBI unqualified acceptance of the terms and conditions of the LoI within 30 days from the date of the LoI.

In case of companies, LOI should be accepted by way of resolution passed by the Board of Directors at its meeting. In case of partnership concerns, all partners should sign the acceptance. In case of proprietary concerns, the proprietor should convey the acceptance. A statement of anticipated drawals of loan indicating probable date[s] and amounts of drawals should be furnished at the time of acceptance of the LOI.

If the borrower desires some modification of the terms of sanction, the same shall be communicated to SIDBI immediately, in writing, for its consideration. SIDBI reserves the right to decide in the matter.

2. DOCUMENTATION AND SECURITY CREATION

The borrower will have to execute the loan agreement in duplicate and other documents in such form as may be required by SIDBI within **three months** from the date of the LOI. Further, the borrower will have to create the stipulated security and comply with other pre-disbursement conditions before seeking disbursement. It would be in the interest of the borrower to expeditiously initiate and complete the entire process so that the implementation of the project is not hampered.

The financial assistance is generally secured by way of :

mortgage of the immovable properties owned by the borrower/ promoters,

mortgage of leasehold rights in case the property is on leasehold basis. In case of leased property, SIDBI may insist upon mortgage of ownership rights of the owner,

hypothecation of the movable properties, present and future, of the borrower,

pledge of shares/ Term Deposit Receipts.

irrevocable and unconditional personal guarantees of the promoters/ others as may be stipulated. Guarantee [personal/corporate] of the owner of the property offered as security is also insisted upon.

such other security as may be mutually agreed to between the borrower & SIDBI.

The bank does not accept agriculture land etc. as security.

On receipt of the property documents and other particulars as indicated in Part II, SIDBI would entrust the title investigation work to its empanelled advocate. Fees payable to the advocate as also valuation charges of property etc. will have to be borne by the borrower and paid to SIDBI in advance. With the consent of the applicant, title investigation work and the valuation of the property could be initiated during the processing of the application itself to save time. However, this should not be construed as commitment on the part of SIDBI to sanction assistance.

Net worth statement of each promoter / guarantor should be furnished in SIDBI format containing following particulars :

- i. full details of his/her immovable properties including complete address, area (residential, commercial etc.) and whether they are mortgaged with others with details thereof; copies of title deeds of such property may also be enclosed;
- ii. full details of movable assets including the details of investments in shares, bonds, debentures, fixed deposits indicating name of company / firm, amount, face value, interest rate, etc., and whether they are pledged with others with details thereof; and
- iii. full details of liabilities

Updated networth statement of each guarantor should be submitted to SIDBI, once every year.

All the promoters/ guarantors are also requested to submit the following documents towards proof of their identity/ address.

- i. photographs/signatures attested by his/ their banker or photograph alongwith copy of any of the following valid documents i.e. passport, PAN card, voters identity card, driving license.
- ii. telephone bill, bank account statement, letter from any recognised public authority, electricity bill, ration card for verifying correct permanent address.

More detailed guidelines for execution of loan agreement and other documents and creation of security are given in Part II.

3. DISBURSEMENT PROCEDURE

A. Conditions precedent to disbursement :

Before seeking disbursement of assistance, the borrower shall :

- i. execute all the loan documents to the satisfaction of SIDBI;
- ii. create the security stipulated in the Lol/ Loan agreement and register the charge with ROC (in case of companies);
- iii. mobilise the entire promoter's contribution envisaged and utilise the same towards the project. A copy of form 2 A filed with Registrar of Companies should be furnished for allotment of shares;

- iv. satisfy SIDBI that the physical progress as well as expenditure incurred on the project are as per the accepted schedule. In the event of any deviation from the accepted schedule, the borrower shall satisfy SIDBI as regards the justification for such deviation and seek the approval of SIDBI;
- v. enter into effective agreement with such institutions and banks to the satisfaction of SIDBI in case the financing plan envisages raising of funds from other institutions;
- vi. comply with all pre disbursement conditions to the satisfaction of SIDBI including obtaining of government / statutory approvals;
- vii. keep SIDBI informed about the progress made in obtaining of sanction of power envisaged for the project and the steps initiated for getting the consents / approvals for effluent treatment / disposal arrangement etc. from the concerned authorities.
- viii. furnish a letter from the bank for having opened a No-lien account with the bank as per the format indicated at **Annexure I**;
- ix. make a written request duly signed by the authorised official of the borrower indicating the amount required together with the compliance chart in the format given in **Annexure II**;
- x. submit a certificate from the Chartered Accountant / statutory auditors of the borrower for the expenditure incurred on the project with sources of finance. The certificate should be on the letter head of the Chartered Accountant. The Chartered Accountant should verify all the relevant documents /vouchers/ books of accounts/bank accounts etc. of the borrower and satisfy himself before giving the certificate. The certificate should be to the satisfaction of SIDBI and generally contain the minimum details given in the **Annexure III**;
- xi. furnish copies of all invoices with a statement indicating the type of asset acquired, date etc. Value of the machinery/ equipment, taxes, duties, should be indicated separately. The list should be as per the detailed breakup of the project cost finalised with SIDBI. A copy of the same may be obtained from SIDBI. The borrower should obtain prior concurrence of SIDBI for any material modification in the project like change in scope, machinery/ suppliers, technical consultants, etc.
- xii. submit a certificate from a Chartered/Civil Engineer approved by SIDBI, certifying the expenditure incurred on civil works, fabricated items of machinery etc. to assess the cost incurred on these items, in case SIDBI desires so.

B. Modes of Disbursement

I No-lien account:

- i. All disbursements made to the borrower directly should be deposited in the No-lien account and utilised only for the purpose for which it has been

sanctioned/released by SIDBI. Hence, no amount should be transferred to any other account/fixed deposit of the borrower without the prior approval of SIDBI.

- ii. A copy of the No-lien account statement duly certified by the bank should be furnished at periodic intervals/ at the time of seeking second/subsequent disbursements and after completion of the project.

II Direct payments to suppliers

- i. Wherever feasible, the loan disbursements would be made by way of direct payments to the suppliers of machinery / materials, architects and contractors instead of routing them through the no lien account.
- ii. In such cases, the borrower should furnish suitable authorisation to SIDBI to effect such payments.

4. COST AND TIME OVERRUN

At the time of execution of loan documents, the promoters / the borrower would give an undertaking to finance any cost overrun from out of their own resources. However, in case there is any increase in the project cost or a time overrun is envisaged due to various factors, the borrower should immediately bring the same to the notice of SIDBI. Approval of SIDBI should be obtained in case any material change in the cost of project and means of finance.

5. MODIFICATION IN THE COVENANTS OF THE LOAN AGREEMENT

Any modification to the covenants of the loan agreement would be advised to the borrower by means of a letter from SIDBI in duplicate. The borrower should return the duplicate copy of the said letter duly signed by the authorised person of the borrower in token of acceptance of the modifications contained in the said letter within the stipulated time. In case he fails to send the same, the modified covenants shall become effective and binding.

6. INSURANCE

In terms of the Loan agreement, the borrower should keep insured upto the replacement value of the properties charged/to be charged to SIDBI and such other properties as are of insurable nature against fire, theft, lightning, explosion, earthquake, riot, strike, civil commotion, storm, tempest, flood, marine risks, erection risks, war risks and such other risks as may be specified by SIDBI. The insurance cover would generally be taken for gross value of the assets i.e. the original value of the assets before charging depreciation with the reinstatement value (RIV) clause. The cost of land and the value of building upto plinth level etc., are not required to be insured. The units under implementation are required to take out either separate marine / transit and erection policies or a combined marine-transit-cum-erection policy.

The insurance in respect of the properties charged/to be charged to SIDBI should be taken in the joint names of the borrower and SIDBI with Institution Clause. The

borrower should deposit the original insurance policies and renewals thereof with SIDBI.

7. PROGRESS REPORTS / PERIODICAL CERTIFICATES

The borrower is required to submit quarterly progress reports during implementation of the project in the format indicated at **Annexure IV**. Thereafter on completion of the project, the borrower should submit a Project Completion Report in the format indicated at **Annexure V**. On completion of the project, the company should also furnish to SIDBI the list of plant/ machineries, equipment acquired under the project with details of machinery suppliers, machinery serial number duly signed by the authorised person. On commencement of commercial operations, the borrower is required to submit half-yearly progress reports in the format indicated at **Annexure VI**. The progress reports should be prepared as at the end of the calendar quarter/half-year and submitted to SIDBI within 15 days from the date of the relevant quarter/half-year. In addition to the above, the borrower should also submit the provisional/audited accounts on a yearly basis.

The borrower is required to furnish a Balance Confirmation Certificate (BCC) once in a year as on December 31 while Acknowledgment of Debts [AOD] is to be furnished by the borrower, mortgagor[s], hypothecator[s], pledgor[s] and guarantor[s] once in every two years as on June 30 in the prescribed format. The borrower is also required to submit a periodical Certificate of Compliance as per format given in the **Annexure VII** to the effect that they have not granted without prior approval from SIDBI, any interest free loan(s) or loan(s) at a rate of interest lower than the rate at which the company / concern / firm has borrowed the funds from SIDBI / Bankers / Financial Institutions to their subsidiary concerns

The borrower should immediately inform SIDBI of any problems / developments etc. which would have an impact on the project/the interest of SIDBI.

The summary of various periodical reports etc. required to be submitted to SIDBI is given below:-

Report	Periodicity	To be submitted by	Format
Progress report during Implementation	Quarterly (March, June, Sep, Dec)	15 the day of the succeeding month	Annexure IV
Project Completion Certificate	On completion of the Project		Annexure V
Progress report during operation	Half- yearly (June, Dec)	15 the day of the succeeding month	Annexure VI
Balance Confirmation Certificate	December 31 every year	January 15	As per the format sent by SIDBI
Acknowledgment of Debt and Securities	June 30, once in two years	July 15	As per the format sent by SIDBI
Certificate of Compliance	Annual	April 15	Annexure VII
Audited Financial Statement	Annual	As soon as the audit is completed	N.A.
Original Insurance Policy	Immediately on insurance/ renewal		N.A.

8. PERIODICAL INSPECTIONS:

SIDBI through its officers / authorised representatives would carry out unit inspections at periodical intervals. The borrower should extend necessary cooperation in this regard. All expenses incurred in connection with carrying out the inspection are to be borne by the borrower.

9. DISPLAY OF SIDBI'S CHARGE:

A board/notice indicating SIDBI's charge on the hypothecated/ mortgaged assets should be prominently displayed in the factory/premises of the borrower.

10. REPAYMENT, INTEREST CALCULATION ETC.

Repayment schedule would be indicated in the Lol/ Loan Agreement. The moratorium is generally linked to the first disbursement of assistance. Interest is payable monthly / quarterly as indicated in the LOI/ LA. A demand advice indicating the dues payable on a particular due date is normally sent a week to ten days in advance. However, it is not obligatory on the part of SIDBI to send the demand advice and the borrower must ensure payment promptly on the due date. Detailed procedure relating to payment of interest/instalments of principal are given in the General Conditions/ Loan Agreement.

11. PREMATURE REPAYMENT

The Borrower shall not prepay the outstanding principal amount of loan in full or part before the due dates except after obtaining prior approval of SIDBI in writing. Permission may be granted subject to such conditions as SIDBI may deem fit including payment of premium for such prepayment.

12. APPROVALS TO BE OBTAINED FROM SIDBI

As per the various covenants of loan agreement, the borrower is required to obtain SIDBI's prior approval before undertaking expansion, new projects, issue of debentures /investments in any concern, change in management etc. The borrower may carefully go through the General Conditions and Loan Agreement and obtain such prior approvals wherever necessary.

GUIDELINES TO BORROWERS

PART - II

LEGAL FORMALITIES

1. APPRAISAL STAGE

A. Submission of Documents

The following documents are, inter alia, required to be furnished alongwith the application form.

- i. Updated latest certified copy of Memorandum and Articles of Association/Certificate of Incorporation / Certificate of Commencement of business/Bye-laws of the borrower company/society/ may be furnished to ascertain the object/borrowing and other related clauses. In case of partnership firm, a certified copy of partnership deed and copy of registration certificate (in case the firm is registered with the Registrar of Firms)may be provided.
- ii. Copies of title deeds and other related documents such as revenue records/municipal records in respect of the properties being offered as security by the borrower/others may be furnished to enable SIDBI to, prima facie, ascertain clear and marketable title of the properties. The borrower should inform whether the registration formalities for conferring title to the borrower/mortgagor had been completed and whether original title documents are in possession.
- iii. In case the security stipulated is second/paripassu charge on the assets, then the details of the prior/paripassu charge holder may be furnished together with copies of documents evidencing charge of the prior/paripassu charge holder.
- iv. If any of the documents are in a language other than Hindi or English, English translation (attested by Notary) of the documents may also be furnished.
- v. A certified copy of updated Memorandum and Articles of Association of the guarantor company (where financial assistance is proposed to be secured by Corporate Guarantee) may be furnished to enable SIDBI to verify the powers of the guarantor company to give such guarantee.
- vi. The net worth statements including the details of immovable/movable assets of the proposed guarantors in the format prescribed will have to be furnished together with copies of title deeds of the immovable properties mentioned in the net worth statement. The statement should be duly signed by the concerned individual and certified by a CA firm.

B. Title investigation at the time of Appraisal :

Title investigation of immovable properties offered as security and on which charge is to be created is generally a time consuming process, considering the legal formalities involved. In order to facilitate faster drawal of the assistance

sanctioned, the process of title investigation could be initiated subsequently during the appraisal stage itself. For this purpose the borrower shall furnish particulars of properties proposed to be mortgaged as indicated in the para 3 (A) below and deposit with SIDBI advance fee for title investigation. However, this should not be construed as a commitment on the part of SIDBI to sanction the assistance.

2. POST-SANCTION STAGE :

After acceptance of Letter of Intent , the Borrower will have to execute a loan agreement in duplicate as per the draft provided. The borrower will have to also arrange for Undertaking from its Promoters/Directors as per the specified formats given by SIDBI regarding i) financing of overrun in the cost of the project, ii) non-disposal of share holding during the currency of SIDBI loan (in the case of company) and iii) non-withdrawal of unsecured loan.

The execution of the loan documents would be carried out as under :

A. FOR A COMPANY

- i. Resolution under section 292 of the Companies Act, in the specified format, to be passed at the meeting of its Board of Directors for the purpose of acceptance of Lol, execution of loan documents and creation of security and a copy of the resolution passed to be furnished to SIDBI.
- ii. Board resolution to be typed on the letter head of the Company to be signed by an Authorised Director, who should certify the same as true extract of the resolution.
- iii. Documents to be executed only by the persons authorised by Board resolution.
- iv. Circular resolution will not be accepted for the purpose of borrowing.
- v. In case of public limited companies resolution under section 293 (1)(a), and 293 (1)(d) of the Companies Act to be passed in the specified format at company's AGM/ EGM. Statutory Auditor's certificate regarding borrowings being within limits to be furnished in the proforma provided therefor.
- vi. Common seal (metallic) to be affixed in accordance with the provisions of Articles of Association and Board resolution in the presence of the directors/ secretary/authorised persons who shall sign/countersign the documents.

B. FOR A PARTNERSHIP FIRM

All the partners have to execute the documents.

C. FOR A SOCIETY/TRUST

Members of the society/trustees have to pass a resolution authorising the executant to execute documents on behalf of the society/trust, a certified copy of the resolution passed will have to be furnished to SIDBI.

D. PROPRIETORSHIP CONCERN

Loan Documents to be executed by the Proprietor only.

3. SECURITY WISE FORMALITIES**A. MORTGAGE (For Investigation of title and creation of mortgage)****I. Creation of first/exclusive charge**

- a. In order to enable SIDBI to take up investigation of title to the immovable properties to be mortgaged to SIDBI, the borrower should furnish the following particulars :
 - i. Situation, extent and brief description of the properties alongwith a site map showing distinct plot, location, right of way, overall boundary etc.
 - ii. How and when the properties were purchased/ allotted/acquired.
 - iii. Nature of the properties i.e. freehold or leasehold.
 - iv. Photostat copies of all the title deeds relating to the properties alongwith record of rights, municipal/city survey record, etc. for the past 13 years or from the date of acquisition of property which ever is earlier. If any of these documents are in vernacular, English translation thereof duly attested by a Notary Public/Advocate should also be forwarded.
 - v. Whether the properties stand in the name of the Borrower in the municipal/ city survey records. If not so, whether mutation process has been started and the expected period for completion of the same.
 - vi. Certificate from the concerned Registrar of Assurances confirming that there are no encumbrances recorded in respect of the subject properties for the last 13 years. In case the land is allotted/ transferred in favour of the Borrower by any Government organisation/ authority, the certificate may confine to the period starting from the date of such allotment/ transfer.
 - vii. Whether any suit or other proceedings are pending before any Court/ Authority, involving the said properties.

- viii. Whether the properties fall under the purview of Urban Land (Ceiling & Regulation) Act. If so, whether permission required to be obtained for creating mortgage in favour of SIDBI has been obtained by you.
 - ix. Details of existing charges or encumbrances, if any, on the aforesaid properties.
 - x. Whether there is any bar or restriction under any of the local or general laws and/or in any documents relating to the properties, affecting/ restricting transfer of the property by sale, mortgage or otherwise. Particularly, whether the Borrower will have to comply with any requirements in connection with mortgaging the property in favour of SIDBI.
- b. On receipt of the property documents and other particulars, SIDBI would entrust the title investigation work to its empanelled advocate. Fees payable to the advocate as also valuation charges of property etc. will have to be borne by the borrower and paid to SIDBI in advance. Advocate, in his report on title, is required to give opinion in respect of all matters referred to in **Annexure VIII**
- c. Equitable mortgage is created when the original title deeds of the properties are physically or constructively deposited. While making such deposit, the mortgagor will have to give declaration and undertaking as per the drafts given by SIDBI.
- d. If the title deeds are pending registration, certified copies of the title deeds along with original receipt issued by the Registrar of Assurances and certified copy of Index II should be obtained and deposited with SIDBI. A letter should be addressed to the Registrar of Assurances authorising him to forward the original title deeds directly to SIDBI after completion of registration formalities. A copy of such letter with the acknowledgment of the Registrar should also be furnished to SIDBI.

II. Creation of second/pari passu charge

Borrower will be required to furnish the following:

- i. Names of first charge/paripassu charge holders, nature of assistance and amount of assistance.
- ii. Type of charge created i.e. whether mortgage by deposit of title deeds or registered mortgage.
- iii. Copy of the title report prepared by the advocate for prior charge holder.

- iv. Copies of documents evidencing the charge; if it is equitable mortgage, a copy of the Memorandum of Entry and if it is a registered mortgage, copy of the mortgage deed.
- v. If charges are ranking paripassu/second among each other, copies of the letters exchanged/agreements among the charge holders relating to the inter se agreement of the charges.
- vi. Consent letter from the institution/banks in whose favour first charges are created/to be created permitting creating of the proposed second charge in favour of SIDBI. For this purpose, letters ceding second charge/prior charge paripassu charge will have to be exchanged as per the drafts to be given by SIDBI.

B. HYPOTHECATION

- i. If the hypothecation is by way of exclusive/ first charge, the borrower will have to furnish a letter from the existing charge holders before execution of the deed, confirming that they have no charge on the assets charged to SIDBI and that they have no objection to the borrower charging such assets in favour of SIDBI.
- ii. If hypothecation is by way of second/paripassu charge details of prior charges should be furnished to SIDBI together with copies of documents executed in favour of the prior charge/paripassu charge holder.
- iii. The details of the assets proposed to be hypothecated should be furnished by the borrower as the same will have to be incorporated in the schedule of deed of hypothecation. In case the exact details are not available at the time of execution of deed of hypothecation, a duly signed list of hypothecated assets should be furnished by the borrower subsequently.

C. PLEDGE

I Pledge of demat shares

- i. Both pledgor and pledgee (SIDBI) must have electronic accounts with Depository Participant (DP).
- ii. Pledgor will have to deliver to SIDBI a certified copy of the statement of accounts issued by the DP in respect of the shares held in the Depository in the dematerialised form which are being pledged together with a letter from DP confirming therein that the pledgor is holding the shares to be pledged as beneficial owner of the same.

- iii. The pledgor will have to sign duly filled in prescribed form for pledge of shares (Annexure 'W' to business rules of National Securities Depository Limited [NSDL]) and it shall be deposited by the pledgor with NSDL through DP.
- iv. On receipt of the said form for pledge of shares, the Depository shall create the pledge and inform the DP of the pledgor and SIDBI about recording of pledge and the respective DPs will intimate the same to the pledgor and SIDBI.
- v. The pledgor will also have to execute an agreement for pledge of shares (under dematerialised form) as per the standard draft to be given by SIDBI
- vi. In case the pledgor is a third party company, it has to be ensured that the pledgor has necessary powers to pledge the shares. Further, a copy of resolution passed by the Board of directors authorising the pledge of shares would also be required. Thereafter, the authorised signatory would execute the relevant documents including agreement for pledge of shares.

II. Pledge of Shares in physical form

An agreement of pledge as per the format given by SIDBI will have to be executed by the holders of the shares. Original shares are to be deposited by the pledgor along with transfer forms duly stamped with SIDBI. If required, SIDBI reserves the right to insist upon conversion of shares into demat form.

III. Pledge of term deposit receipts (TDR)

- i. The deposit receipts (TDR) are to be duly discharged in favour of SIDBI by affixing revenue stamp.
- ii. The pledgor is required to issue letter of authority to the bank (which has issued TDR) in the format as prescribed by SIDBI.
- iii. The bank will have to issue a letter to SIDBI waiving its right to lien, set off, adjustment, etc. as per the format prescribed by SIDBI.
- iv. The pledgor will have to execute an agreement for pledge of deposit receipt and the original receipt will have to be deposited with SIDBI.

D. GUARANTEE

I. Personal Guarantee

- i. Execution of the guarantee by a power of attorney holder will not be allowed.

- ii. Whenever there is change in the address of the guarantor, the same should be intimated to SIDBI.
- iii. Photographs of the guarantors duly attested by the bankers have to be furnished to SIDBI.
- iv. If the guarantor is residing abroad, guarantee will have to be executed in the presence of the officials of Indian consulate/Embassy/High Commissioner's Office. While executing the said officials should not attest or witness the guarantee and separate certificate confirming that the documents are executed in their presence should be given.
- v. If the guarantee is executed abroad, it should be duly stamped within 3 months of its first receipt in India. Even if the guarantee is stamped prior to execution, it is required to be re-stamped as above.

II. Corporate Guarantee

- i. A copy of special resolution passed by the guarantor company authorising to issue guarantee in terms of section 372 A of Companies Act should be furnished.
- ii. A certificate from Chartered accountant that the guarantor company has necessary powers to give guarantee and all the provisions including Section 372 A of the Companies Act have been complied with.
- iii. Copy of resolution authorising the person to execute the guarantee on behalf of the guarantor company under its common seal should be furnished.
- iv. A certified copy of updated Memorandum and Articles of Association of the guarantor company may be furnished .

E. MISCELLANEOUS

- i. Permission from income tax authorities in terms of section 281 (1) (ii) of Income-tax Act, 1961 should be furnished before creation of mortgage / hypothecation. To avoid delay in creation of mortgage, borrowers are advised to take immediate steps for getting the said permission on receipt of letter of intent from SIDBI. In case the borrower is not an assessee or is a new entity and no IT dues are pending, a certificate from Statutory Auditor/CA may be obtained to this effect.
- ii. Certain projects are eligible for incentives like State investment / capital subsidy depending upon the size of the project / policies of respective State Governments. Such incentives are generally released the institutions providing term loan assistance for the

- project. The borrower is required to execute suitable Power of Attorney (PoA) in favour of SIDBI and register the same with the disbursing authorities for direct release of subsidy to SIDBI.
- iii. Where the Borrower is a company within the meaning of Companies Act, 1956 Form No.8 and 13 should be filed with Registrar of Companies (RoC) concerned within 30 days from the date of creation of security in consultation with SIDBI. The form 8 and 13 will have to be countersigned by SIDBI officials.
 - iv. Original receipt/certificate issued by the RoC while filing form No.8 should be furnished to SIDBI. It should be ensured that formalities for registration of charge are completed and certificate of registration of charge issued by RoC are deposited with SIDBI.
 - v. Whenever there is a modification of charge, form No.8 and 13 are required to be filed for modifying such charge and the requirements in respect of registration of charge should be complied with for such modification.
 - vi. In case vehicle are hypothecated, charges are also required to be registered with the concerned RTO.
 - vii. All documents deposited while creating mortgage will be returned to the mortgagors/borrowers only after entire dues to SIDBI have been satisfied/ liquidated by the concerned borrower/ mortgagor and no dues, whatsoever, are pending from the borrower/ mortgagor.
 - viii. In cases where SIDBI had ceded second charge to any other creditor, the title deeds will be returned to the Mortgagor only after receipt of necessary written instructions from such second charge holder(s) to that effect.

GUIDELINES TO THE BORROWERS

PART III

ANNEXURES

ANNEXURE I**NO LIEN LETTER FROM THE BORROWER'S BANKERS**

Small Industries Development Bank of India

Dear Sirs,

Financial Assistance to _____

At the request of _____ [the Borrower], we advise that we have opened a separate account _____ (A/c details) for the purpose of crediting the SIDBI Term Loan of Rs. _____ lakh (Rupees _____ lakh only) including any interim disbursement that may be availed of by the Borrower from SIDBI.

We confirm that the said sum of Rs. _____ lakh [Rupees _____ lakh only] or part thereof when received by us will be credited by us to the said account and that we will not exercise or claim any right of lien or set off or adjustment on any balance lying to the credit of the said account against any indebtedness or liability or claim whatsoever of the above borrower to us. We agree to provide statement of the above account with full details whenever required by SIDBI.

Yours faithfully.

For the Bank of

Manager

ANNEXURE II**COMPLIANCE CHART TO BE SUBMITTED ALONG WITH
DISBURSEMENT REQUEST**

Sr. No.	Conditions stipulated in the LOI	Status of Compliance *	Remarks
Key conditions			
[1]	[2]	[3]	[4]
A. Pre-disbursement conditions			
1			
2			
B. Special conditions			
1			
2			
C. Other Conditions			
1			
2			

Note:- a] Under column [2] the conditions stipulated by SIDBI indicated in the LOI/loan agreement should be reproduced verbatim serially under each category as indicated in the LOI.

b] Specific comments may be given in column [3] instead of expressions like 'will be done shortly', 'being obtained'.

ANNEXURE III**FORMAT FOR CA CERTIFICATE**

(To be submitted on the letter head of CA)

Based in the verification of all the relevant documents /vouchers/ books of accounts/bank accounts etc. of the _____ (borrower), we certify that the following expenditure has been incurred on the project financed by SIDBI till _____ (Date).

COST OF PROJECT

[Rs. lakh]

Sr. No.	Description of Asset	Cost			
		As estimated at the time of appraisal	Amount incurred	To be incurred in the next quarter	Balance to be incurred
1	Land & Site Development				
2	Building				
3	Plant and Machinery				
4	Other Fixed Assets				
5	Vehicles				
6	Prelim. & preoperative expenses				
7	Advance payment for Capital Expenditure				
8	Margin money for working capital				
9	Cash and bank balance				
Total					

*Details of expenditure under each head may be given as separate Annexure
In case the project includes vehicles, details of owner, registration no. etc. should be given as a separate statement.*

MEANS OF FINANCE

[Rs. lakh]

Sr. No.	Promoter's Contribution	Amount		
		As estimated at the time of appraisal	Actually brought in/ loan availed	Balance to be brought in/ undisbursed loan
1	Share Capital			
2	Internal Accruals			
3	Interest free unsecured loan			
4	Term loan availed from SIDBI			
5	Unpaid suppliers			
6	Others (give full details)			
Total				

The certificate should be signed by the CA, and his membership number with ICAI should be indicated.

ANNEXURE-IV**PROGRESS REPORT**

(Format for project under implementation)
for the period ended _____ (Quarterly)

- I. Date of
- Project implementation
 - Trial production
 - Commercial production

2. Cost of project

[Rs.lakh]

	Original	Revised	Incurred	Balance to be incurred	Remarks
Land					
Building					
Plant & machinery					
Other assets					
Pre. & Pre. op expenses					
Contingency					

3. Means of finance

[Rs.lakh]

	Original	Revised	Incurred upto	Balance to be incurred	Remarks
<u>Share capital</u>					
Promoters					
Others [please Specify]					
<u>Term loans</u>					
SIDBI					
Other [Please specify]					

4. Debt equity ratio : Original
: Revised

5. Promoters contribution

	Raised upto	Balance to be raised	Remarks
Share capital			
Internal generation			
Unsecured loan from promoters			
% to project cost			

ANNEXURE-IV (Contd)

6. Physical progress

		Time schedule		Reasons for delay
		Original	Revised	
i.	Acquisition of land			
ii.	Construction of buildings			
iii.	Purchase of plant & machinery			
iv.	Others			
v.	Commercial production			

7. Status of sanction of working capital facilities by bank

8. Technical know-how

9. Appointment of personnel

10. Government approvals / consents such as

- DIC Registration
- Power
- Pollution Control Board
- Conversion of land for indl. use
 - Local authorities.

Authorised signatory
of the Borrower

ANNEXURE-V**PROJECT COMPLETION REPORT***[To be submitted by the borrower soon after commencement of commercial production]*

1. Name of the unit
2. Address
3. Location of factory / address
4. Backward area / non-backward area
5. Industry
6. Products
7. Capacity
[relating to the project under reference]

INSTALLED CAPACITY

Products	Proposed during appraisal	Actual on commencement of commercial production	Reasons for variation, if any.
----------	---------------------------	---	--------------------------------

8. Date of commencement of trial production

9. Date of commercial production

10. Working capital borrowings [first year of working] .	Originally Envisaged	Actual	Reasons for variation
--	----------------------	--------	-----------------------

11. Employment			
<u>Actual [1 year]</u>	<u>Present estimate</u>	<u>Originally envisaged</u>	<u>at optimum production level</u>

12. Teething problems faced during trial runs and how those were overcome; [please specify activities where delays occurred, specific reasons thereof and impact thereof]

13. Steps taken for
- a. Market development
 - b. Distribution / selling arrangement

ANNEXURE-V (Contd)

- 14 a. Creation of final security
 - b. Filing of relevant form with Registrar of Companies [ROC] for registering SIDBI's charge on the assets.
 - c. Details of insurance policies taken [policy no... amount.. due date.. etc.] Confirm that SIDBI's interest on the assets has been noted in the policies
- 15 a. Your experience in dealing with SIDBI
 - b. Your suggestions in this regard
- 16 a. Your experience in dealing with commercial banks
 - b. Your suggestions in this regard
- 17 a. Problems faced during implementation and how overcome
 - b. Problems anticipated during operations and the measures proposed to be taken to overcome the same-
18. Final list of plant/ machineries, equipment acquired under the project with details of machinery suppliers, machinery serial number duly signed by the authorised person is attached as Annexure.

[Managing Director]

Date :

ANNEXURE-VI**PROGRESS REPORT***[format for units under operation]*

For the period ended _____ (half yearly)

	Half year for which reported		Corresponding period of last yr.	Cumulative for the year
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>
<u>Actual</u>				
Capacity utilisation (%)				
Production	- Quantity			
	- Value			
Sales	- Quantity			
	- Value			
[net of excise if applicable]				
Profit before interest, depreciation & taxes				
Depreciation				
Profit before tax				
Stock of finished Goods - Quantity				
	- Value			
[as at the end of period]				
Receivables				
[Any major problems]	- Value			
Payables				
Order book position	- Quantity			
	- Value			
Quality maintenance / rejection / waste				
	Rate			
[Brief comments]				
Arrangements made for raw material				
[Brief comments]				
Market / selling arrangements				
[Brief comments]				

ANNEXURE-VI (Contd)

Labour relationship
[Brief comments]

Working capital limits

Name of the bank / address	Limits sanctioned	Margin	Security	Drawing Power	Outstanding
----------------------------	-------------------	--------	----------	---------------	-------------

Position regarding

i] Payment of interest / principal

ii] Statutory Dues

Any suit / case filed against by the firm or company

Export performance - Quantity
- Value

Positive features / highlights
[Brief comments]

Major problems
[Brief comments]

Outlook for the next half year
[Brief comments]

Authorised signatory / Partner / Proprietor

ANNEXURE-VII**CERTIFICATE OF COMPLIANCE**

(to be submitted on yearly basis)

The General Manager,
Small Industries Development Bank of India,

Dear Sir,

Certificate of Compliance

We certify that we have not granted any interest free loan (s) or loan (s) at a rate of interest lower than the rate at which the company / concern / firm has borrowed the funds from SIDBI / our bankers / other financial institutions to our subsidiary / associate company (s) / concern (s) / firm (s), without prior approval of the SIDBI and our Board of Directors.

Yours faithfully,

For XYZ Company
Director

Annexure-VIII**Title Investigation - Advocate's report**

The advocate, while preparing the report, is required to investigate the title with reference to all documents for the past 13 years (or from the date of the acquisition of the property whichever is earlier) and devolution of title will have to be given in the report after conducting searches in

- a. the Office of the Registrar of Assurances with reference to index I and II,
- b. the Office of Registrar of Companies with reference to "D" file and "C" file (subject ROC permission),
- c. mutation records maintained by respective village office/ panchayat office and
- d. local courts to ascertain pending litigation involving the properties.

List of points to be specifically examined and incorporated in the report on title is given below:

1. Description of the property viz., extent of property, Survey No./ Plot No., Municipal No. Village, Taluka/ Tahsil, District and boundary etc.
2. Nature of tenure of land whether Agricultural or non agricultural and Lease hold or free hold.
3. List of documents scrutinised (reference to all available documents for the past 13 years or from the date of acquisition of property whichever is earlier)
4. Name of the present owner/ Lessee
5. Mode and date of acquisition by the present owner/ Lessee.
6. History of devolution of title on the present owner giving chain in title for last 13 years or from the date of acquisition of property whichever is earlier.
7. Specific comments, if any, on the previous title deeds on the basis of which the present owner's title is being examined.
8. If the property belongs to Hindu Undivided Family, whether there is any interest of minor(s) in it and whether necessary precautions have been taken while transferring such interest.
9. Whether the property stands in the name of the present owner in the Revenue/ Municipal/ City Survey record. If not so, whether mutation process has been started.
10. Whether there is any restriction on transfer of the property or creation of registered/ equitable mortgage in favour of SIDBI under any of the local laws. If so, whether necessary permissions are obtained.
11. In case of lease hold rights whether it is necessary to obtain permission from the lessor in terms of lease deed.

12. Whether the property is attracted by the provisions of any special enactment such as Urban Land (Ceiling & Regulation) Act, Tenancy Laws, etc., and if so, whether necessary permissions for transfer/ mortgage under these enactment have been obtained.
13. Whether the property's user for nonagricultural purposes is affected by any town planning or similar schemes applicable to the area. Whether the property is reserved for any public purposes, such as gardens/ widening of roads, etc.
14. If the property is being purchased from the Builders, comments on the following points:
 - a. Agreement between the owners of the land and the builders.
 - b. Power of the builders to sell the property.
 - c. Municipal and other relevant permission for construction of the building.
 - d. Agreement between the builders and the applicant and the registration thereof.
 - e. If there is an existing co-operative society, whether the formalities relating to the owner getting membership therein have been completed.
 - f. Whether the land has been conveyed in favour of the Co-operative society already existing or if it is under formation whether agreement for sale has been executed/ registered between its promoters and owners of the land.
15. Whether any suit or other legal proceedings are pending before any court or authority involving the property under investigation.
16. Whether any encumbrance certificate is issued by the concerned Registrar.
17. If the property belongs to a Company, searches must be taken in the Office of Registrar of Companies. If the said office is situated in other city, the Company may be requested to obtain certificate of searches from a local Advocate or practicing Company Secretary and comments thereon may be given in the report on title.
18. Details of existing mortgages, charges or encumbrances, if any on the above properties observed while taking searches in the officers of Sub-Registrar, Revenue authority. Municipal authority Courts and Registrar of Companies etc.
19. Whether all taxes, lease rent or other dues in respect of the property have been paid upto date. Supporting receipts may be obtained.
20. Whether the property to be mortgaged is in peaceful and exclusive possession of the present owner/ Lessee.
21. List of documents to be deposited by the Borrower/ owner for creation of equitable mortgage with SIDBI.

Borrowers are requested to cooperate with the advocate for submitting necessary information/ clarification/ documents required.
