

ICAI Conference – Funding
Avenues in MSME Sector

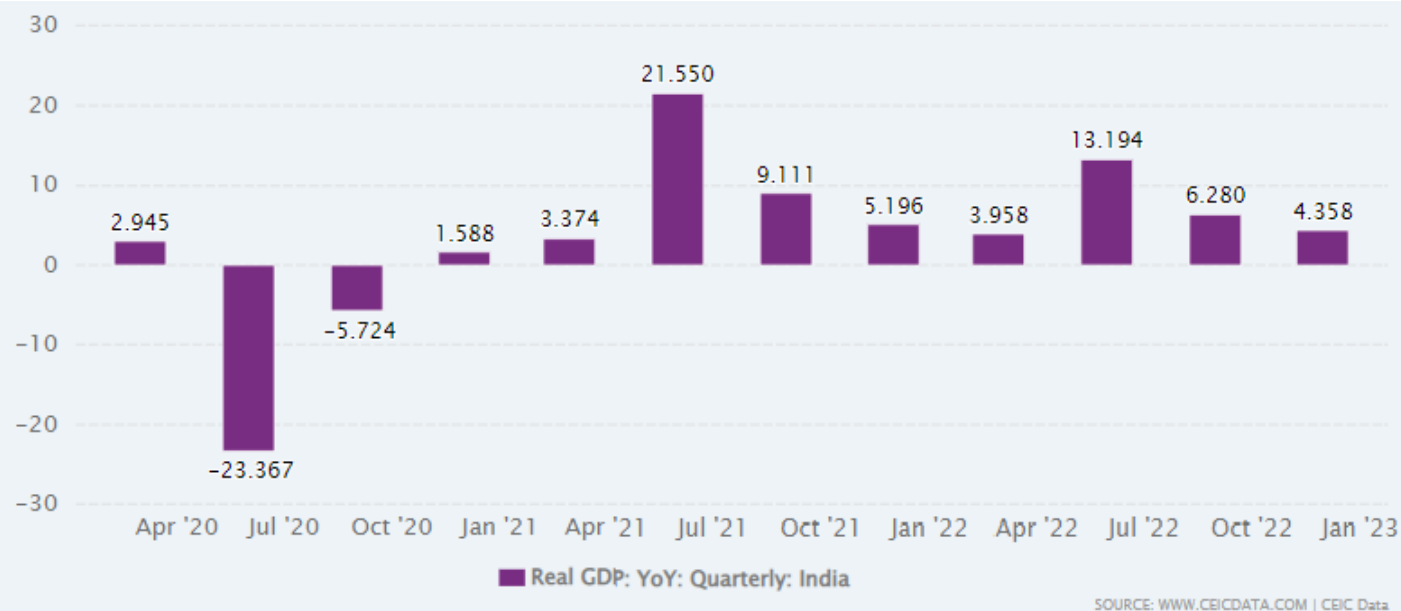


Business Banking Assets (Working Capital)

Indian Economy at a glance

\$ 3.47 trillion – Nominal GDP, 2022 (est.)

- 5th Largest economy, after US, China, Japan, Germany
- 7.19% share in the world GDP



Sources:

- <https://www.worldometers.info/gdp/gdp-by-country/>
- <https://www.imf.org/en/Countries/IND>
- <https://tradingeconomics.com/india/gdp>

RBI Monetary Policy

Indicator	Current rate
CRR	4.50%
SLR	18.00%
Repo rate	6.50%
Reverse repo rate	3.35%
Bank Rate	6.75%

- ✓ The RBI has announced a repo rate hike of 25 bps which currently stands at 6.5 percent. This is the first repo rate increase in 2023, which projects that RBI will maintain an assiduous policy stance to square off the inflationary woes.
- ✓ The CPI inflation rate has been above the Reserve Bank of India (RBI) medium-term target of 6% for nine months. The CPI rate in Nov. was 5.88% and 5.72% in Dec. 2022. The RBI governor Shaktikanta Das expects inflation to remain above 4%. It is expected to average 5.6% in Q4 of 2023-24.

Sources:

- <https://www.bankbazaar.com/finance-tools/emi-calculator/monetary-policy.html>
- RBI Policy

Indian Economy at a glance - Sectors contributing to GDP

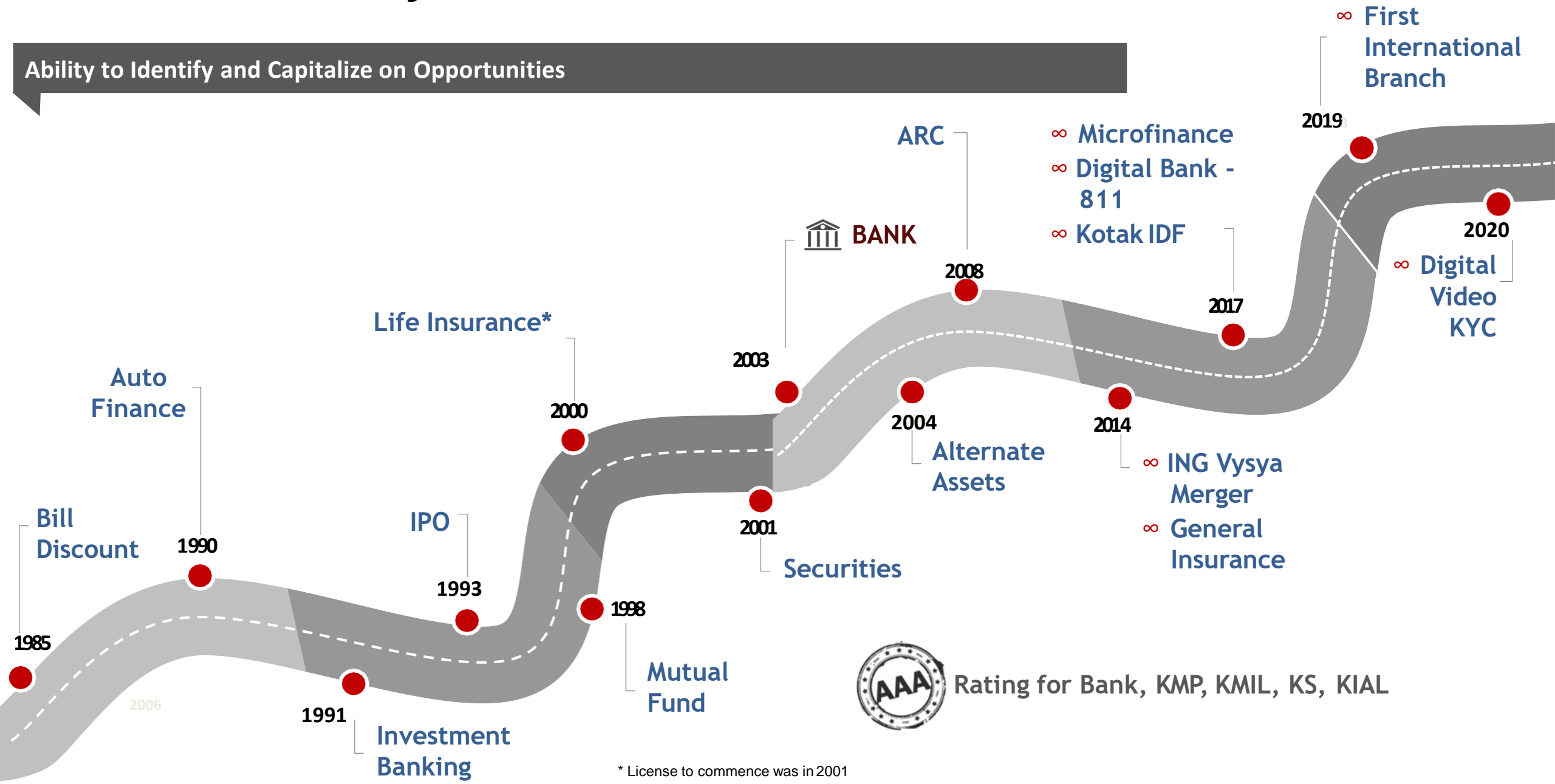
Sectors	Share%
Primary Sector	21.82 %
Agriculture, forestry & fishing	20.19 %
Mining & quarrying	1.63 %
Secondary Sector	24.29 %
Manufacturing	14.43 %
Electricity, gas, water supply & other utility services	2.70 %
Construction	7.16 %
Tertiary Sector	53.89 %
Trade, hotels, transport, communication and services related to broadcasting	16.42 %
Financial, real estate & prof service	22.05 %
Public Administration, defense and other services	15.42 %

MSME Contribution	
Year	Share in GDP
2019-20	30%
2020-21	26.83
2021-22	29%

<https://www.pib.gov.in/PressReleasePage.aspx?PRID=1744032#:~:text=As%20per%20the%20information%20received,30.5%25%20and%2030.0%25%20respectively.>

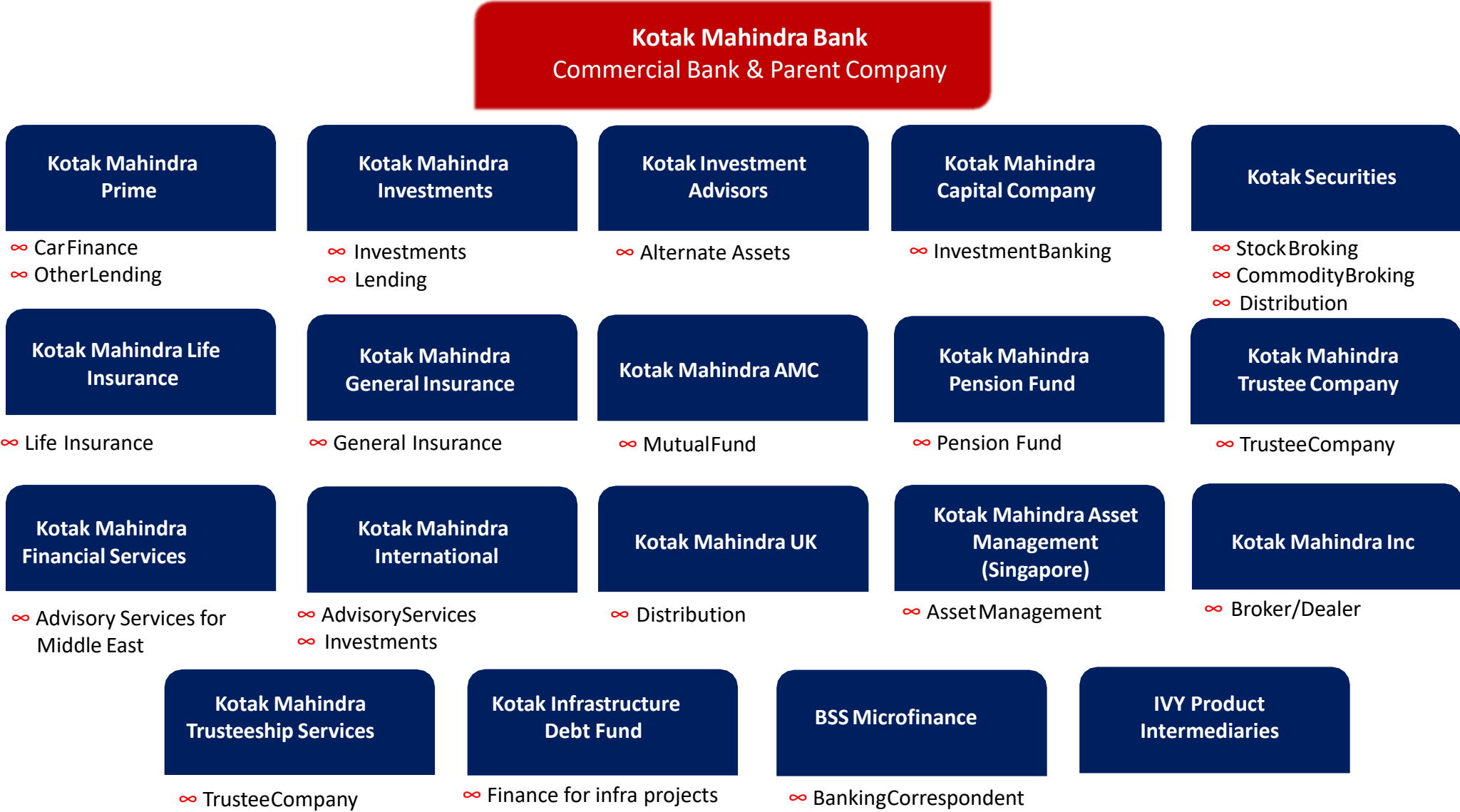
Kotak – The Journey so far...

Ability to Identify and Capitalize on Opportunities



* License to commence was in 2001

Kotak – Diversified and Integrated Financial Services



Note: All subsidiaries are 100% owned beneficially by the Bank

Kotak – Our Presence & Strengths

Platform with Wide Product Portfolio

Wholesale Banking

- ∞ Corporate Loans
- ∞ Trade Finance
- ∞ Business Banking
- ∞ Commercial Real Estate
- ∞ Forex/ Treasury
- ∞ Cash Management
- ∞ Custody Business
- ∞ Off-shore Lending

Commercial Banking

- ∞ Agriculture Finance
- ∞ Tractor Finance
- ∞ Commercial Vehicles
- ∞ Construction Equipment
- ∞ Microfinance

Consumer Banking

- ∞ Branch Banking
- ∞ 811
- ∞ Home loans & LAP
- ∞ Personal Loans
- ∞ Consumer Finance
- ∞ Credit Cards
- ∞ Priority Banking
- ∞ Small Business Loans
- ∞ Working Capital
- ∞ Small Business Enterprise
- ∞ Healthcare Finance
- ∞ NRI Banking
- ∞ Gold Loans
- ∞ Rural Housing & Business Loans
- ∞ Forex Cards
- ∞ FASTag

Other Financial Services

- ∞ Wealth Management
- ∞ Car and 2W Loans
- ∞ Mutual Funds
- ∞ Alternate Assets
- ∞ Off-shore Funds
- ∞ Life Insurance
- ∞ General Insurance
- ∞ Investment Banking / DCM
- ∞ Broking
- ∞ Loan against Shares
- ∞ Infra Debt Finance
- ∞ Asset Reconstruction

Our Strengths

Our Strengths



An integrated financial services conglomerate with a diversified business model



Ability to identify and capitalize on opportunities



Healthy asset quality & prudent risk management capabilities



Strong brand and leadership across businesses

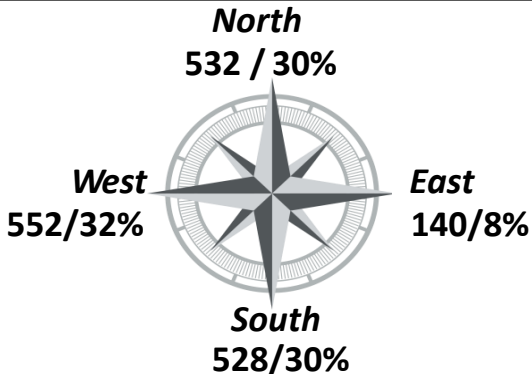


Digital & technological capabilities



Strong governance culture and an experienced management team

Branches - 1752* [No./%]



No. of ATMs



2,814

* Does not include branches in DIFC, Dubai & GIFT city, Gujarat

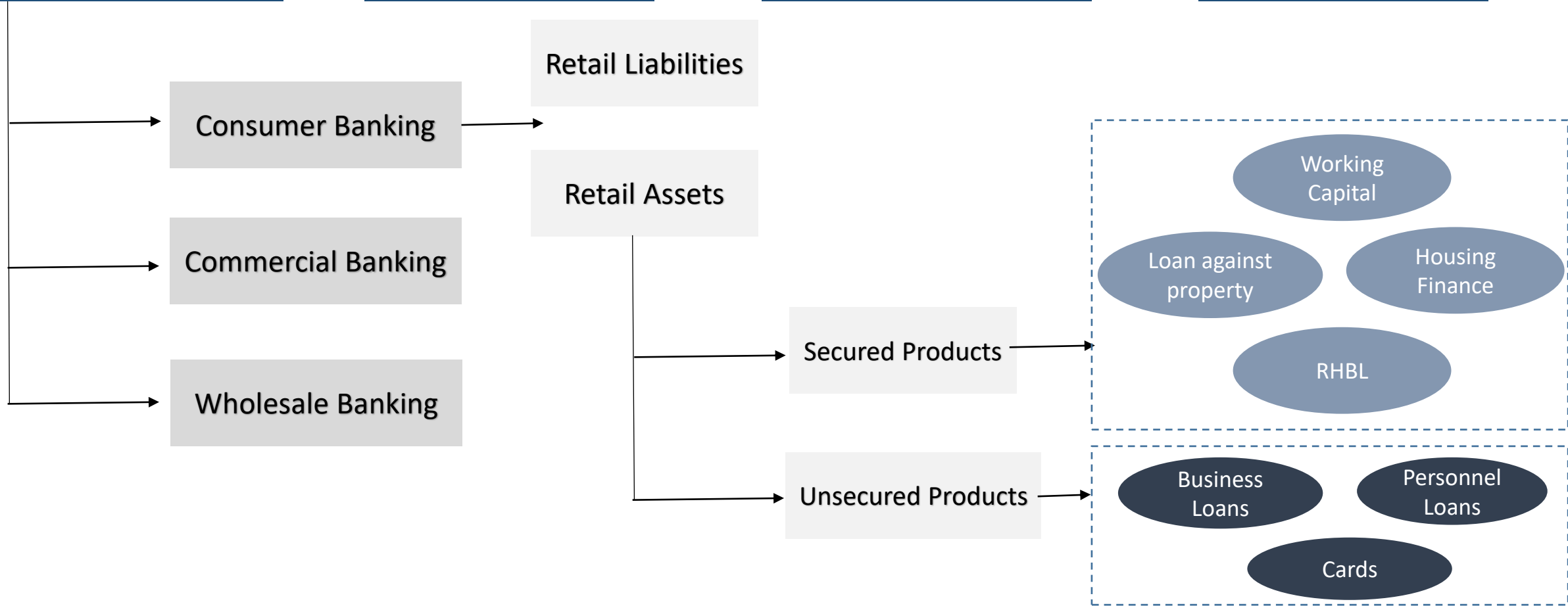
KOTAK

Kotak Mahindra Bank Limited (KMBL)

Kotak Securities

Kotak Asset & Wealth Management

Kotak Insurance



Working Capital (WC)

What is Working Capital and WC Finance?

- **Working Capital:** It refers to that part of the firm's capital, which is required for financing short-term business needs
- **Working Capital Finance** is financial assistance given to entities to help run their business i.e. the operational needs.

Working Capital

Fund Based Product

Is any credit facility which involves direct outflow of Bank's fund to the borrower.

Cash Credit

Overdraft

Export Finance

Bill discounting

TL/FCTL/
Standalone TL

Gold Metal
Loan

Non- Fund Based Product

Is a credit facility where there is no involvement of direct outflow of Bank's fund to account of borrower but gives an assurance on behalf of the customer.

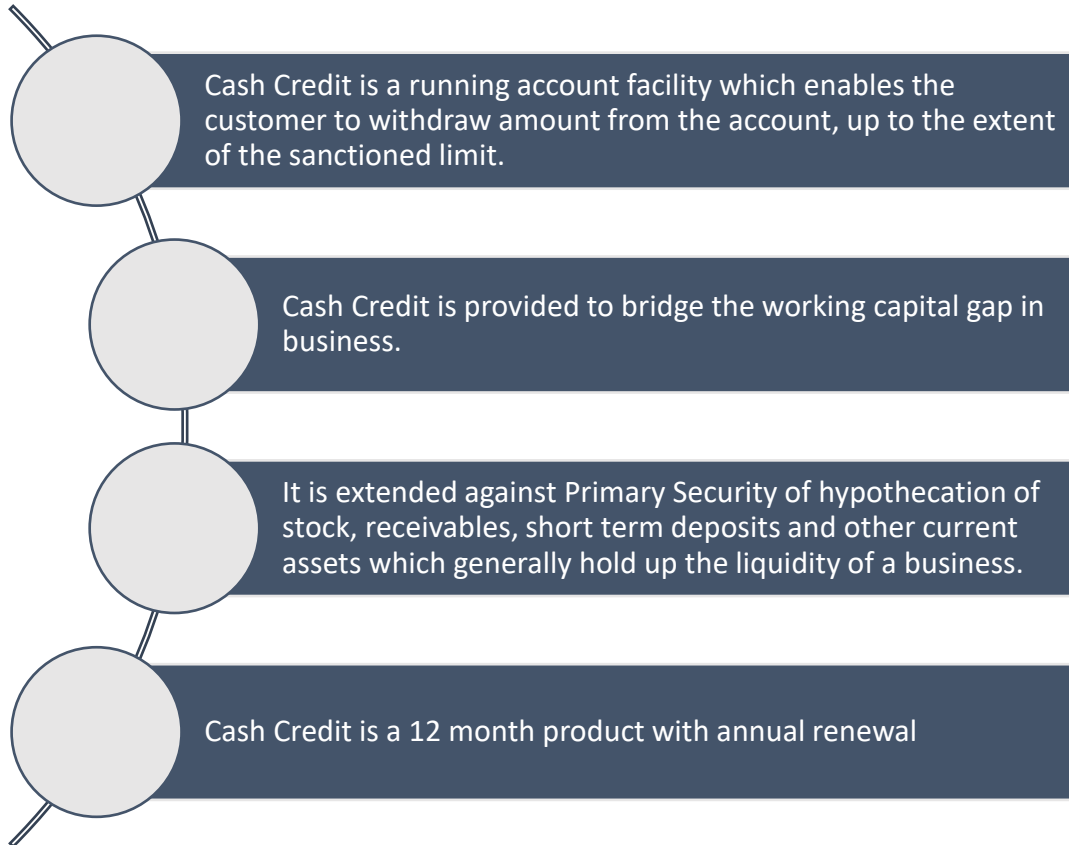
Buyers Credit

Bank Guarantee

Letter of Credit/ Capex LC

Cash Credit

What is Cash Credit?



Customer Profile

- Manufacturers
- Retail/Wholesale Traders
- Importers/Exporters
- Service Providers

Eligibility

- Assessment of Working Capital Gap
- Cash profits in the current and previous year
- Availability of Suitable/Acceptable collateral Properties
- Minimum 3 years of Business Vintage

Overdraft (OD)

Features

OD is a running a/c facility where the borrower could remit and draw funds freely within the fixed limit

Credit Limit is normally granted against lien/pledge of assets like government securities, units of mutual funds, shares, debentures, bank's FD, property etc.,

OD facility may be Constant or Dropdown

Monthly stock statements are not required for OD facility

Interest is charged in the OD account (which is a running account) based on the debits outstanding at the end of each day at monthly intervals

Suits the needs of Trader Profile in general

Working Capital Demand Loan

Target Customer: Rate Sensitive

A short term funding usually with tenor up to 90 days and usually given as a sublimit to CC/OD

Can be for seasonal purposes - this fills in the short term cash crunch where the cash flow is certain but currently not available in the business

WCDL
Features

Helps customer to avail funding at lower cost, when the short term cost of funds is low in the market.

WCDL facility availed is settled by bullet payment at the end of tenure. Can be availed again s t credit sanction

Bill Discounting

Process

While discounting a bill, the Bank buys the bill (i.e. Bill of Exchange or Promissory Note) before it is due and credits the value of the bill after a discount charge to the supplier's account.

The transaction is practically an advance against the security of the bill and the discount represents the interest on the advance from the date of purchase of the bill until it is due for payment by the supplier's customer.

Types

Demand bills

- Are payable at sight
- As payments are immediate bank finance is not involved

Usance bills

- Are payable after a agreed period of time between the parties
- Banks Discounts the bill on acceptance for the usance period and receives the payment on due date.

Advantages

- Advance against documentary bill supported by Bills of Exchange is secured. Backed by LC or Bank/Vendor Line of Credit.
- Bills financing is short term lending.
- The interest payable and commission are normally recovered in advance

Export Finance

Types

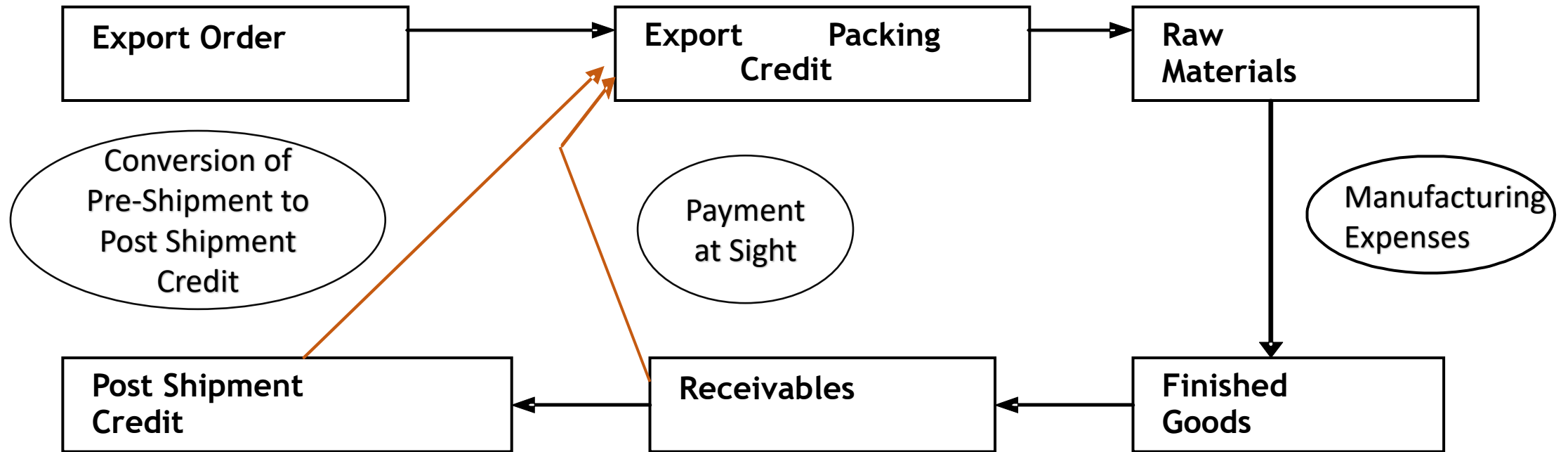
1

Pre-Shipment finance

2

Post-shipment finance

Process flow



Working Capital (WC)

Export Finance

Pre-shipment finance

Description

- Working Capital finance extended to an exporter to facilitate the fulfilment of export orders.
- The quantum of finance should not exceed the FOB value or domestic value of goods, whichever is lower.

Purpose

- To enable exporters to procure raw materials, processing, manufacturing, packing, transporting / shipping and warehouse the goods meant for export.

Essentials & Features

- Existence of an export order and/or irrevocable letter of credit
- Liquidation of the advance out of the proceeds of the relative export bills.
- Packing credit tenor is arrived based on the working capital cycle and usually around 90 days period

Types

- Export Packing Credit (EPC) in INR
- Packing Credit In Foreign Currency (PCFC)

Export Finance

Post-shipment finance

Description

- Exporters, after execution of an order, when the goods are shipped to the final destination, can avail funding against such bills or invoices, in Indian Rupee as well as in foreign currency

Features

- Customers can also borrow in foreign currency, which results in natural hedge

Gold Metal Loan

Target customer

Jewellery Manufacturers. (Manufacturers include Principal manufacturers [including ones who are manufacturing on job work basis])

Workings

Customers are offered physical Gold for tenure upto 6 months or as per the working capital cycle whichever is lower. The customer has to repay in price which is equivalent to Gold weight. Interest is also charged in equivalent Gold. At the end of the tenure customer is charged at Gold price as on date in USD.

Customer should be into jewellery manufacturing and not bullion trading

GML will be sublimit of Cash Credit

Features

Stock Statement, Stock Audit and Stock Insurance are mandatory

Yearly Certification from CA on End Use of GML limit

End Use Certification from Manufacturer (Borrowing Firm)

10% Cash margin required for each case

Working Capital Term Loan (WCTL)

What is WCTL?

It is a fund based product for entities having a medium to long term working capital requirement of business as well as for expansion of business.

What is FCTL?

FCTL stands for Foreign Currency Term Loan. It is also a medium to long term working capital product issued in foreign currency with similar features as WCTL. FCTL is offered mainly to exporters.

Eligibility of TL is determined basis capex requirement and revenue inflows of the customer. The repayment capacity is determined basis the same.

Features

Tenure is up to 3/5/7 years

It is an EMI based product, non-revolving in nature

Lower rate of interest

Facilitates capital expenditure

Letter of Credit

What is Letter of Credit?

- It can be characterized as an arrangement of making payment against stipulated documents.
- It can also be termed as an arrangement whereby a Bank acting at the request of its customer, undertakes to pay a third party at a given date against presentation of documents or the counter value of the goods
- Typically, the documents stipulated under a letter of credit are, commercial invoice, transport documents (bill of lading/ airway bill), insurance, inspection certificates, etc.
- For opening a letter of credit the applicant should have a line of credit established with the Bank or provide cash collateral

Types

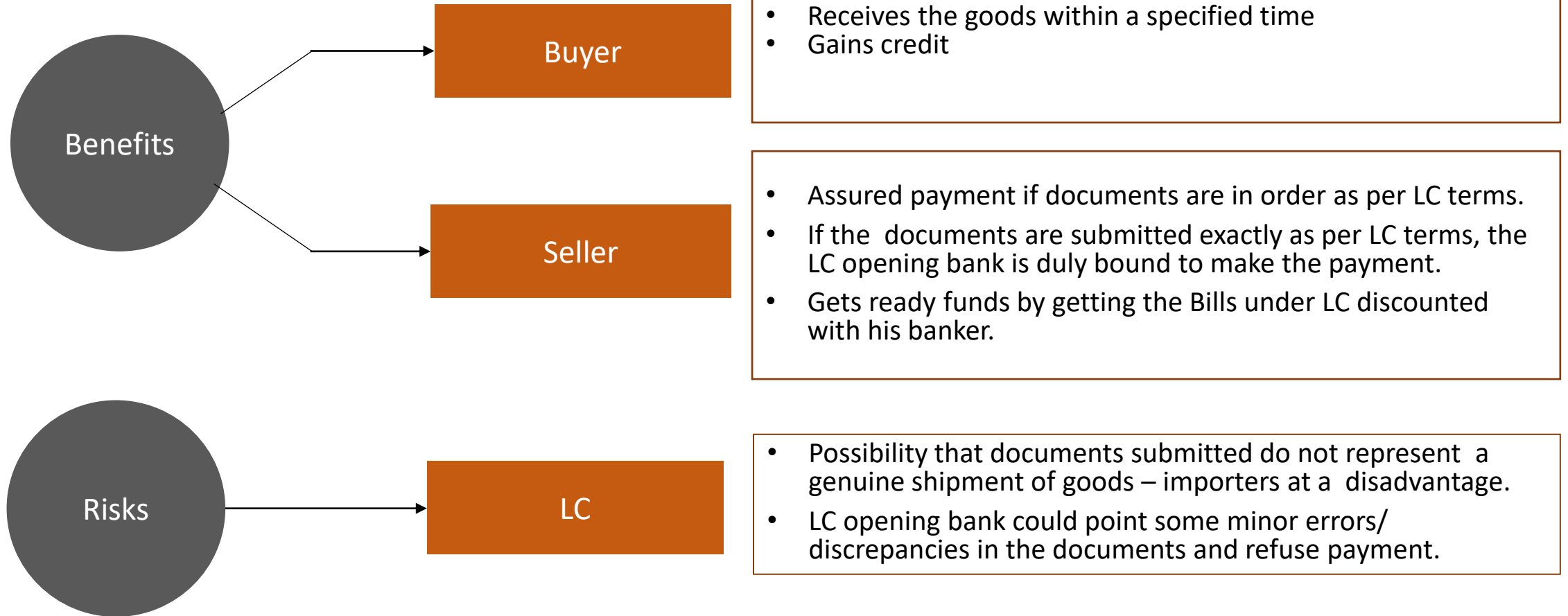
Sight LC

The payment has to be made immediately on sight

Usance LC

The buyer enjoys a credit period, as a result, payment under the LC will be made by the buyer on due date

Letter of Credit



Bank Guarantee

What is Bank Guarantee?

- It guarantees the performance of the applicant against an underlying contract
- By issuing a Bank guarantee the bank is taking on a commitment, which may translate into a fund-based liability at a latter date, in case of non-performance by the applicant
- The performance could be financial or contractual
- So before opening of a Bank Guarantee the applicant should have line of credit established with the Bank or provide cash collateral

Types

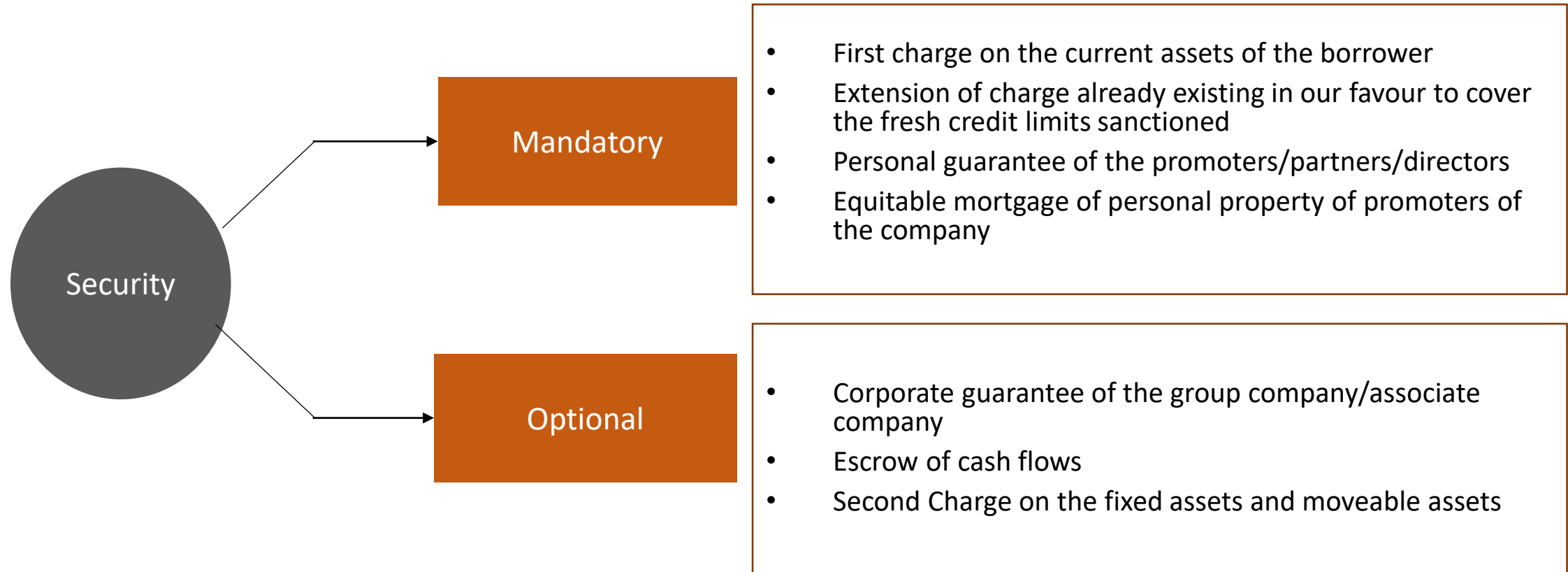
Financial BG

All guarantees guaranteeing financial commitments, and in the nature of credit substitute are classified as Financial Guarantees

Performance BG

The customer, on whose behalf the guarantee is given, will perform the contract. On his failing to perform the same, the banker shall make good, the loss caused

Bank Guarantee



Small Business Enterprise

Features

Ticket size: Min. 15 lacs – Max. 100 lacs

Facility: Cash Credit/Overdraft, Term loan and Unsecured Business Loan

Locations: Present across all major cities in India

Cases to be processed through **e-financials**

Sanction under **Insta** products

Disbursements through **Kiosk / DigiSign**

BLTM

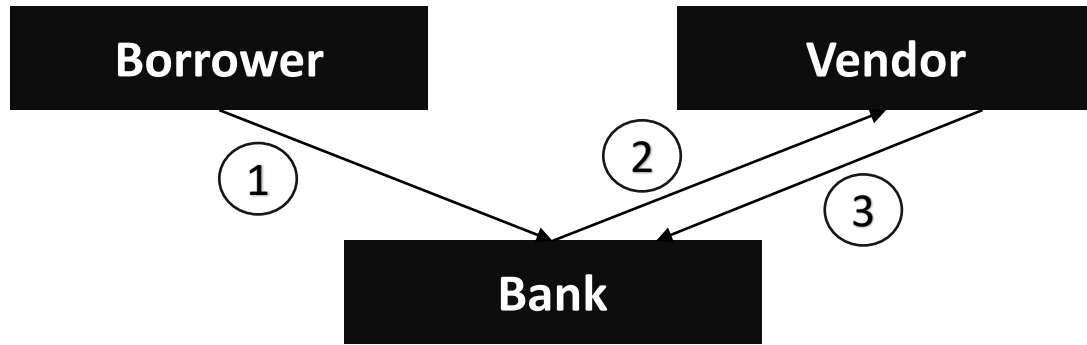
Target Customers

- Retail Traders and Small Business
- Professionals including Practicing Doctors / Advocates / Consultancy Units / Travel Agencies / Advertising and Publicity agencies etc.,
- Wholesale Distributors & Dealers / Stockists, Commission Agents
- Gold & Jewelry Shops
- Nursing homes, Contractors, Manufacturers

Features

- Business loans parameterized for manufacturers and traders falling in the ticket size of **25 lakhs - 2 crores**
- Eligible for auto renewal of limits for cases **below 50 lakhs**
- **LTV of up to 80%** on Residential & Commercial;
LTV of up to 60% on Industrial

Corporate linked Sales invoice funding (SIF)



1. Bank takes the bill drawn by borrower on his (borrower's) customer
2. Pays immediately deducting some amount as commission.
3. Bank then presents the Bill to the borrower's customer on the due date and collects the total amount.
4. If the bill is delayed, the borrower or his customer pays the Bank a pre-determined interest depending upon the terms of transaction.

Target Customers

- Vendors who supply to large corporates

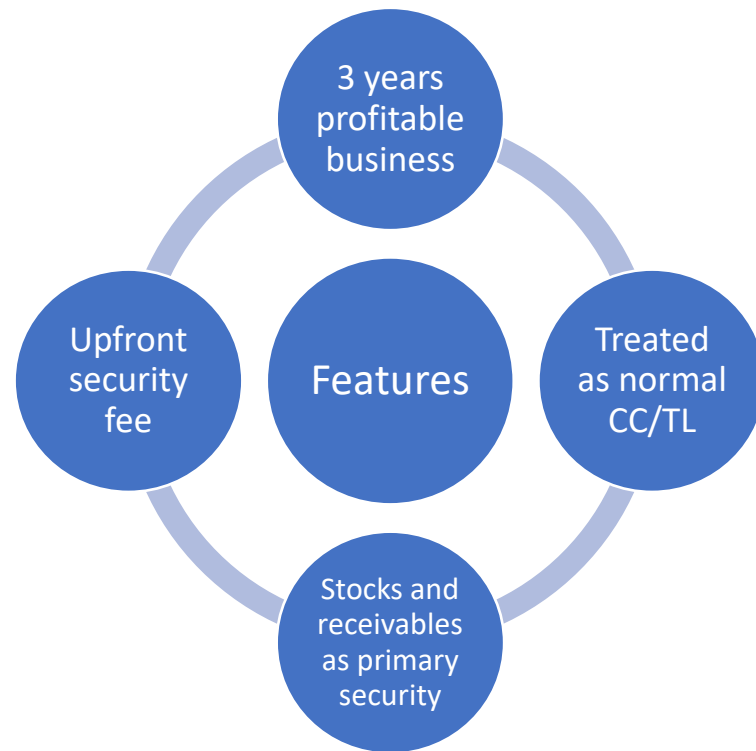
Features

- Funding basis comfort on corporate
- **No collateral required**
- It provides upfront payment to suppliers for their receivables due from the corporates

Credit Guarantee Fund Trust for Micro and Small Enterprises

Pure CGTMSE

Hybrid CGTMSE



Target Customers

Existing Micro and Small Enterprises engaged in manufacturing, service activity and Traders.

Benefits

- Cover up to **Rs. 200 lakh** for Manufacturing and Services profile
- Cover up to **Rs. 100 lakh** for Trader Profile
- All Working Capital Product **and Term Loan Product are allowed**. (Capex Term Loan is allowed up to 60 months tenor)

Security

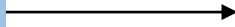
Security

Primary Security



- Stock
- Book debts
- Other current assets and moveable assets

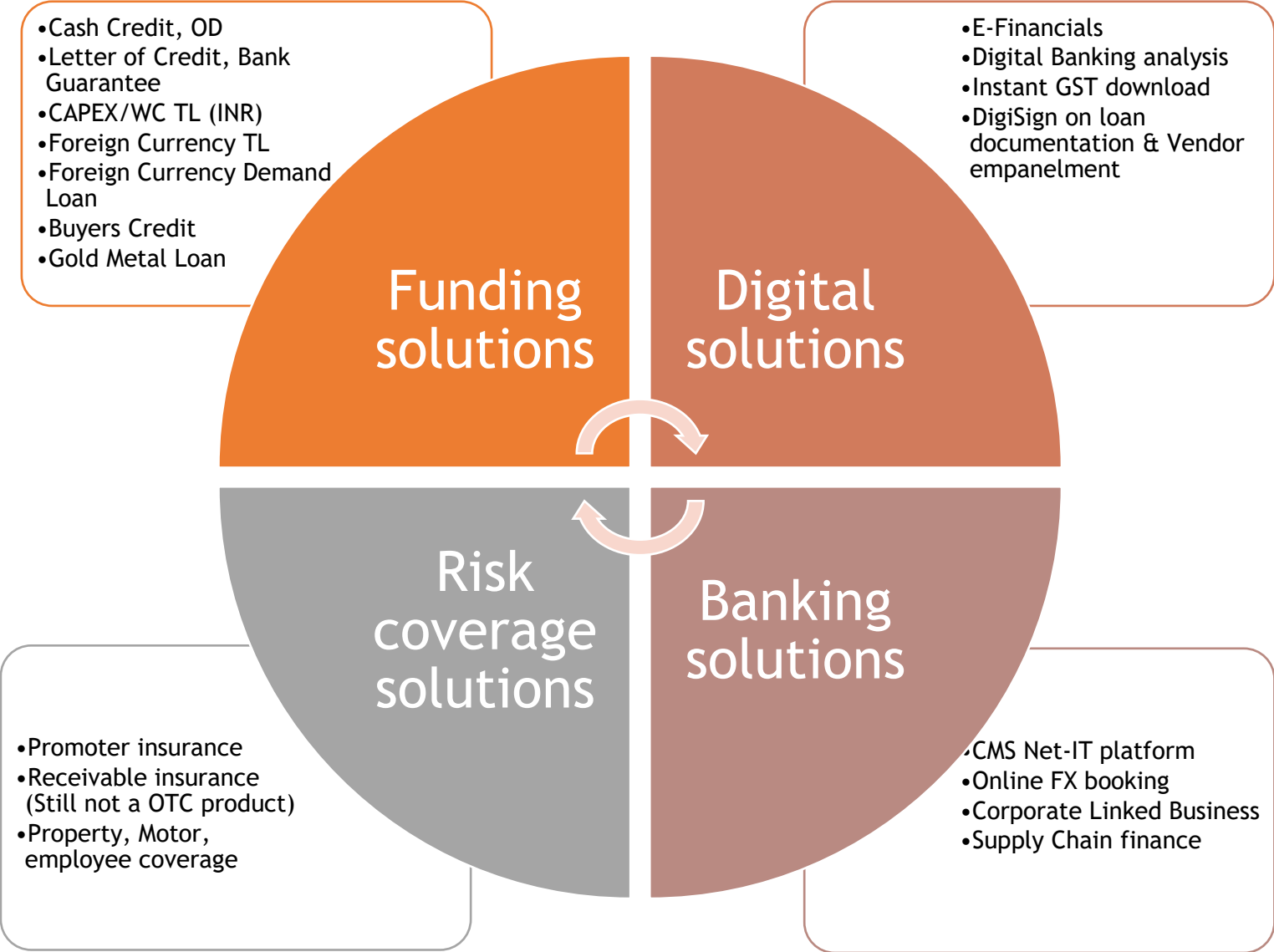
Secondary Security
(Collateral)



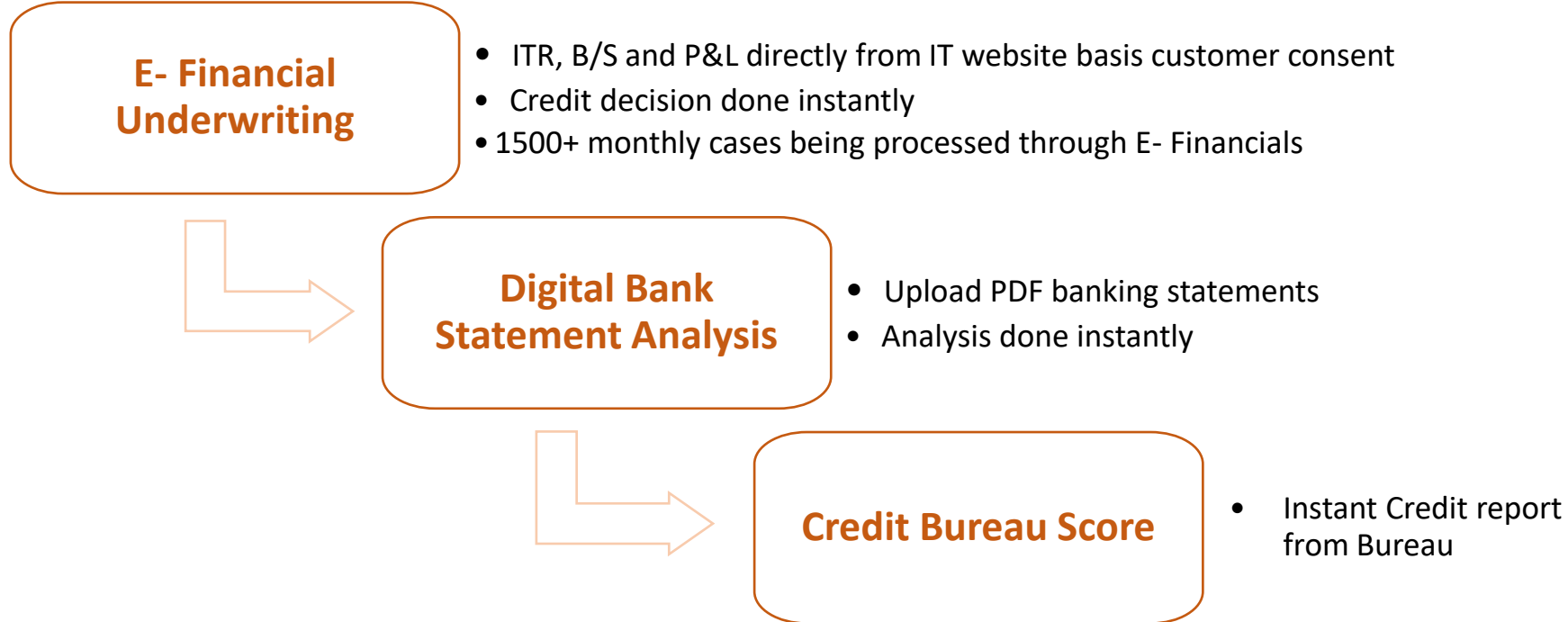
- Residential property/ Commercial property
- Industrial property
- NA Plot
- KMBL Fixed deposit
- Insurance/ GOI bonds
- Debt mutual funds

Working Capital (WC)

Kotak – We aim to be the growth partner of MSME



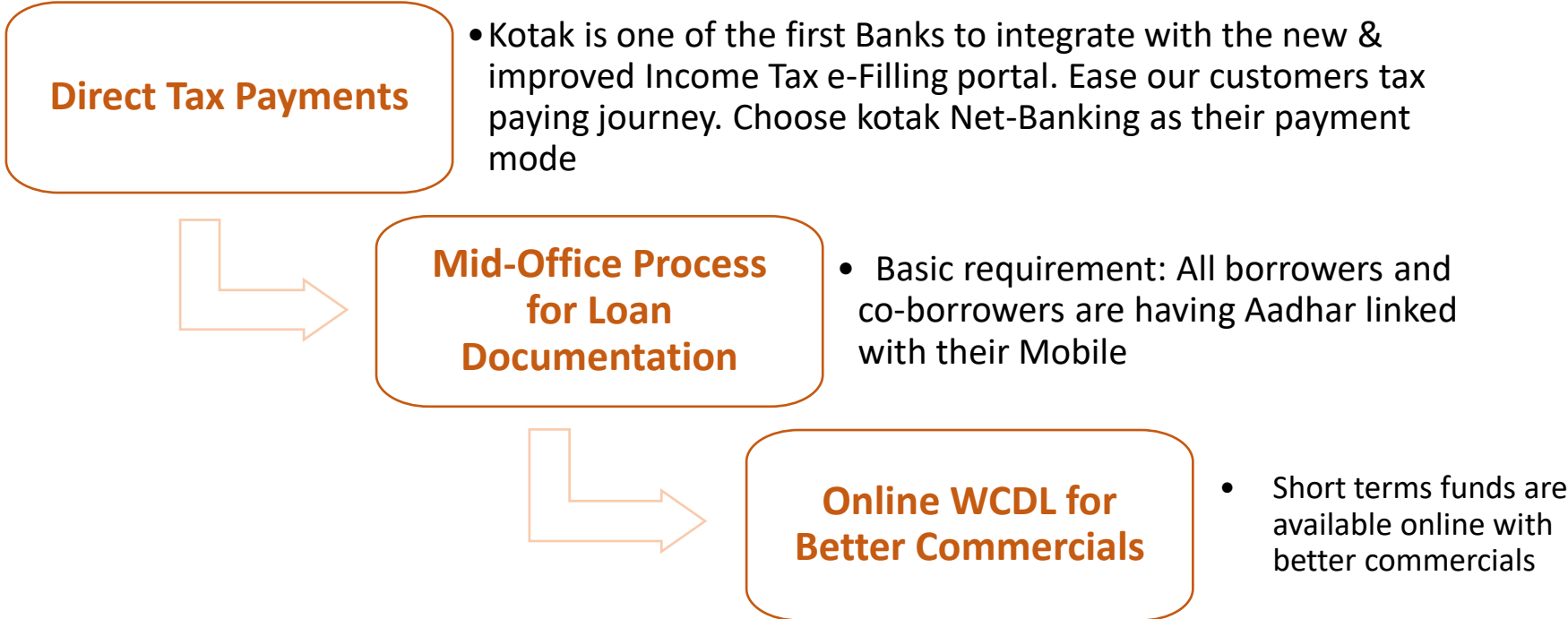
Kotak – Our Digital Lending Solutions



Way forward:

- Online stock statement submission
- Online Renewal
- Instant In-principal sanction on website(PSB Loans in 59 minutes)- First Private Sector Bank

Kotak –Initiatives



Kotak Loan Partner program (Connector Model)

Connectors are business sourcing partners of the Bank, where they provide leads of the interested customers to the bank for potential business conversions. Among the major differences between a connector and that of a DSA / DST are:

- Connectors are only into facilitating the bank with the customer leads & conversions, while DSA/DST owns the End to End (E2E) journey which includes collection of documents, ensuring timely inward of application and docket to the bank for disbursements.
- Physical offices may not be in existence for connectors as the lead generations are online, while for a DSA, brick and mortar office set ups are usually still required.

Products - Home Loan/ Loan against Property/Business Loan/Personal Loan/Working Capital

Locations Covered - All active HL, LAP, BL, PL, WC sourcing Locations

Through this portal we have attempted to digitize the entire on-boarding experience, Lead sharing and product knowledge corner in phase 1

Process brief:

Submit Application -> Gating rule based decision -> Document collection-> FI ->RCU -> Share account details / Opening 811 Account -> Agreement execution & verification -> Onboarding

Thank You!!

Mr. Suresh Bajaj

National Sales Manager – Working Capital (Alternate Channel)