

## **ELIGIBILITY CRITERIA FOR FINANCING AS PER SBP PR-SME**

### **Prudential Regulations for SMEs**

We strongly recommend that you go through SBP “Prudential Regulations” (PR) for Small & Medium Enterprise Financing”. A copy of PR is attached for your ready reference. This will provide you guidelines to understand as to which businesses fall under SME and what the required parameters are.

However, we are giving hereunder parameters for small and medium enterprises, as provided in SME PR:

### **Small Enterprise (SE):**

Nature	Number of Employees	Annual Sales Turn-Over
Small Enterprise	Up to 50 including contract employees	Up to Rs. 150 M

An entity has to fulfill both the criteria of number of employees and sales turnover for categorization as small enterprise. However, in cases where an entity fulfills one parameter of SE and its second parameter falls within the range prescribed for medium enterprise (ME) or above the upper limit prescribed for ME, then the subject entity shall be classified as ME or commercial/corporate entity as the case may be.

### **Other important PRs pertaining to SE:**

- **Per Party Limit:** Small Enterprise can avail exposure of Rs. 25 M from a single Bank/DFI or from all banks/DFIs
- **Requirement of Audited Accounts:** Banks/DFIs are not required to obtain copy of audited accounts in case of lending to small enterprises for exposure up to Rs. 15 M. However, in such cases, the banks/DFIs may ask the borrower to submit financial accounts in some form, signed by the borrower, to help banks/DFIs assess SE’s cash flows or carry out counter verification etc.
- **Repayment capacity of the borrower and cash flow based lending:** Normally, small enterprises do not maintain proper financial accounts for the satisfaction of the banks/DFIs. Their record generally contains sale/purchase books and cash received/paid records in a rudimentary form. Banks/DFIs shall use relevant/practical cash flow estimation techniques and other proxies to assess repayment capacity of SE borrower.
- **Collateral valuation:** For valuation of securities against loans up to Rs. 5 million, banks/DFIs at their own discretion may either use the services of their own evaluating staff or the services of PBA approved evaluator. However, valuation of securities for loans above Rs. 5 million shall be done only by an evaluator on the approved panel of PBA.

### **Medium Enterprise (ME):**

<b>Nature</b>	<b>Number of Employees</b>	<b>Annual Sales Turn-Over</b>
Medium Enterprise	51-250 (Manufacturing & Service MEs)	Above Rs. 150 M and up to Rs. 800 M
	51-100 (Trading MEs)	All types of Medium Enterprises

An entity has to fulfill both the criteria of number of employees and sales turnover for categorization as medium enterprise. However, when an entity's one parameter is as per ME criteria and its second parameter is as per SE criteria, than subject entity would be categorized as ME. Similarly, when an entity's one parameter is as per ME and its second parameter is above the upper limit prescribed for ME, then the subject entity shall be categorized as commercial/corporate entity.

### **Other important PRs pertaining to ME:**

- **Repayment capacity and cash flow based lending:** Banks/DFIs shall specifically identify the sources of repayment and assess the repayment capacity of the borrower on the basis of assets conversion cycle and expected future cash flows. In order to add value, the banks/DFIs are encouraged to assess conditions prevailing in the particular sector/industry they are lending to and its future prospects. Banks/DFIs should be able to identify the key drivers of their borrowers' businesses, the key risks associated with their businesses and their risk mitigants. Banks/DFIs may also use Income Estimation Models specially in program-based lending to assess repayment capacity of the borrowers.
- **Per Party Exposure Limit:** Medium Enterprise can avail financing (including leased assets) upto Rs 200 million from a single bank/DFI or from all banks/DFIs. It is expected that Medium Enterprises approaching this limit should have achieved certain sophistication as they migrate into larger firms and should be able to meet the requirements of Prudential Regulations for Corporate/Commercial Banking.
- **Requirement of Audited Accounts:** In case of lending to medium enterprises, banks/DFIs shall obtain a copy of financial statements duly audited by a practicing Chartered Accountant, from the medium enterprise who is a limited company or where the exposure of a bank/DFI exceeds Rs 10 million, for analysis and record. Banks/DFIs may also accept a copy of financial statements duly audited by a practicing Cost and Management Accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company. However, banks/DFIs may waive the requirement of obtaining audited copy of financial statements when the exposure net of liquid assets does not exceed the limit of Rs 10 million.