



# The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)



## Seminar on **BANK BRANCH AUDIT**

Organised by  
**Auditing & Assurance Standards Board of ICAI**

# Advances to MSME & Priority Sector

CA. Maheshwar Marathe,  
Pune

**PUNE**

CA. Maheshwar Marathe, CMRS, PUNE

**16th March 2024**

# Important Notifications

- Master direction on Priority Sector Lending – 21<sup>st</sup> June 2024
- Master Direction - Lending to MSME – 11<sup>th</sup> June 2024
- Master Circular – Housing Finance – 1st April 20204
- Exports Interest Subvention – Aug24, Sep24, Oct24
- KCC Interest Subvention – 6<sup>th</sup> Aug 2024
- RBI FAQ on PSL – 21<sup>ST</sup> June 2024

<https://www.rbi.org.in/scripts/faqview.aspx?id=87#FH>

RBI says..

## Priority – 40%

Banks must ensure that loans extended under priority sector are for **approved purposes** and the **end use is continuously monitored**. The banks should put in place **proper internal controls** and systems in this regard.

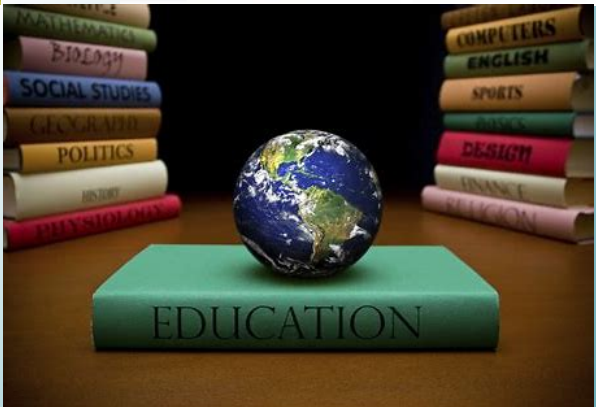
(LFAR - Clause 5 (e) – Advances – Monitoring)

# What is Priority?

- i. Agriculture
- ii. Micro, Small and Medium Enterprises
- iii. Export Credit
- iv. Education
- v. Housing
- vi. Social Infrastructure
- vii. Renewable Energy
- viii. Others



Marathe, CMRS, PUNE



## Why priority?

Empowering **underserved groups**

Improve their living conditions

Increase the **accessibility of financial services**

Enhance **economic well-being**

Fostering social harmony and **inclusivity**.

Promotes **social justice** and togetherness

Helping people **rise out of poverty**

**Serve the Under-served**

# TARGETS

Categories	Domestic commercial banks	Urban Cooperative Banks (UCB)
Total Priority Sector	<b>40%</b>	<b>65%</b> (75% in 25-26)
Agriculture	<b>18%</b> ( <b>10%</b> for Small and Marginal Farmers (SMFs))	0
Micro Entp	<b>7.5%</b>	<b>7.5%</b>
Advances to Weaker Sections	<b>12%</b>	<b>11.75%</b>

# Target Breach?

- Non-achievement of priority sector targets and sub-targets will be taken into account while granting **regulatory clearances**.
- Shortfall to be fulfilled by contribution to the Rural Infrastructure Development Fund - **RIDZ**
- Promotion of priority credit to unserved area (Adjustments for weights to incremental PSL credit will be done by RBI)

PSL exposure	Limit	Weight	Districts
Lower PSL p.c.	Rs. 9000	125%	Gadchiroli
Higher PSL p.c.	RS. 42000	90%	Aurangabad, Kolhapur Mumbai, Mumbai Suburban, Nagpur, Nasik, Pune, Raigad, Thane.
Others	Others	100%	Others

# Before the audit

- Ask for Branch profile to know the scope
- Check the composition of advances, portion of PSL
- Check how PLS accounts are identified, PSL tagging is done
- Know the certificates to be signed
- Fix the samples from each category of PSL



# Agricultural Advance

Overall 18% and  
10% to Small and Marginal  
Farmers (SMFs)

# Agriculture

## Includes

- Farm Credit (Agriculture and Allied Activities)
- Lending for Agriculture Infrastructure and Ancillary Activities.

## Types

- Farm Credit - Individual farmers
- Farm Credit - Corporate farmers, FPCs
- Agriculture Infrastructure
- Ancillary Services
- Lending for on-lending

# Farm Credit - Individual farmers

## (Individuals, SHGs, Proprietary's)

- Traditional/non-traditional plantations, horti allied activities.
- MTL LTL for agri **allied** activities. (Purchase of agri implements, machinery)
- Loans for pre and **post-harvest** activities viz. spraying, harvesting, grading
- Loans to **distressed** farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme. - **KCC**
- Loans to SMFs for purchase of **land** for agricultural purposes.
- **Pledge**/WRs, 12 mths - ₹75 lakh against NWRs, ₹50 lakh in other cases.
- installation of stand-alone **Solar** Agriculture Pumps
- Installation of **solar** power plants on barren land
  
- ***Any upper limit – No (except WRs)***

## Small and Marginal Farmer (10%)

- Farmers with landholding of up to **1 hectare** (Marginal Farmers).
- Farmers with a landholding of more than 1 up to **2 hectares** (Small Farmers).
- **Landless agricultural labourers**, tenant farmers with share of landholding
- Loans to **SHGs** groups of individual SMFs directly engaged in Agri/allied
- Loans up to **₹2 lakh** to individuals solely engaged in **Allied activities (without any accompanying land holding criteria)**
- Loans to **FPOs**, co-ops of farmers directly engaged in Agri/Allied (**landholding share of SMFs is not less than 75%**)

# Farm Credit - Corporate farmers, FPCs

## 1. Loans to following activities with aggregate limit of ₹2 cr/borrower

- Traditional/non-traditional plantations, horti allied activities.
- MTL, LTL for **agri allied** activities (e.g. purchase of agri implements, machinery)
- Loans for **pre and post-harvest** activities viz. spraying, harvesting, grading, **transporting**.

2. Pledge/WRs, **12 mths - ₹75 lakh** against NWRs, **₹50 lakh** in other cases.

3. Loans up to **₹5 cr** per borrower to FPOs/FPCs undertaking **farming** with assured marketing of their produce at a pre-determined price.

# Agriculture Infrastructure

## Loans for agriculture infrastructure - limit of ₹100 crore per borrower

- Loans for construction of **storage facilities** - warehouse, market yards, godowns, silos, cold storage units
- **Soil conservation** and watershed development.
- Plant **tissue culture** and agri-biotechnology, seed production, production of bio-pesticides, **bio-fertilizer**, and vermi composting.
- Loans for construction of oil extraction units for production of **bio-fuels**, their storage and distribution infrastructure
- Loans to entrepreneurs for setting up **Compressed Bio Gas (CBG)** plants. (*Gobardhan scheme*)

# Ancillary Services

- Loans up to ₹5 crore to co-operative societies of farmers for **purchase of the produce of members**
- Loans up to ₹50 crore to **Start-ups**, as per definition of **Ministry of Commerce (DPIIT)**, that are engaged in agriculture and allied services.
- Loans for **Food and Agro-processing including transportation** up to an aggregate sanctioned limit of **₹100 crore** per borrower from the banking system.
- Loans to custom service units to undertake farm work for farmers on contract basis.



YES



NO



CANT SAY  
IS THIS PRIORITY?



# On-lending

## Lending by banks to NBFCs and MFIs for On-lending in agriculture

- Bank credit extended to registered **NBFC-MFIs** for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories of agriculture – *NBFCs to comply with Specific MDs*
- Bank credit to registered NBFCs (other than MFIs) towards on-lending for 'Term lending' component under agriculture will be allowed up to **₹ 10 lakh per borrower.**

# Kisan Credit Card (KCC) - Interest Subvention Scheme (ISS)

- **Available to** - Short term crop loans and short term loans for Allied Activities (including animal husbandry, dairy, fisheries, bee keeping etc.)
- **Overall limit** of ₹3 lakh
- **Period:** IS will be on loan amount from drawal to actual repayment or up to the due date fixed by banks, whichever earlier, subject to a max 1 yr.
- **Quantum:**
  - Lending rate to farmers - 7%
  - Rate of Interest Subvention to Lending Institutions - 1.50%
  - Additional interest subvention of 3% (***prompt repayment incentive***)-

# Additional interest subvention of 3% (*prompt repayment incentive-PRI*)

- An additional interest subvention of 3% per annum
- To farmers repaying in time
- Period - From the date of **disbursement** to actual date of repayment or due date **wei earlier**, subject to a **max 1 year**.
- This implies effective **RIO of 4%** for those repaying promptly
- This benefit would not accrue to those farmers who repay their agri loans after one year of availing such loans.

# Total benefit under subvention scheme

- **Overall limit of ₹3 lakh** per annum subject to a maximum sub-limit of **₹2 lakh** per farmer involved only in **allied activities**.
- **Crop loan component will take priority** and the residual amount will be considered towards allied activities – Max 2lks.
- **Illustration**
  - Overall KCC limit - ₹3 lakhs
  - Limit under Crop loan - ₹0.5 lakh & Sub-limit for allied – ₹2.5 lk
  - Total benefit quantum?
  - IS and PRI benefit will be available on overall ₹2.5 lakhs i.e. ₹0.5 lakh - Crop loan + ₹2 lakhs – allied activity.

# Warehousing and Natural calamity

- To discourage distress sale by farmers ISS under KCC will be available to SMFs for a further period of **upto 6 months** post the harvest of the crop against negotiable **warehouse receipts (NWR)**
- In **natural calamities**, ISS for that year will be made available to banks for the **first year** on the restructured loan amount.
- Such restructured loans will attract **normal rate of interest** from the **second year onwards**.
- In **Severe Natural Calamities**, ISS + PRI for will be available to banks for first **3 yrs/entire period (max of 5 yrs)** on the restructured amount.
- For hassle-free benefits, **Aadhar linkage, DBT platform** mandatory.

# Certification

- **Formats I** - Claim for 1.50% Interest Subvention on Short-term Crop Loans/warehouse receipts/ Loans restructured natural/ severe natural calamities (**separate claim on each head**)
- **Formats II** - One-time claim for 3% Prompt Repayment Incentive (PRI) for timely repayment of Short-term Crop Loans/Loans restructured due to severe natural calamities (**separate claim on each head**)
- **Formats III** - Claim for 1.50% Interest Subvention on Short-term Loans to farmers for allied activities.
- **Formats IV** - One - time claim for 3% Prompt Repayment Incentive (PRI) for timely repayment of short-term loans to farmers for allied activities.

# Certificate of IS

We certify having disbursed the above loans at 7% p.a. up to ₹3 lakh by way of short-term credit through KCC to the farmers during the year 2022-23/2023-24 and having calculated the interest subvention claim correctly and strictly in accordance with the RBI circular FIDD.CO.FSD.BC.No.13/05.02.001/2022-23 dated November 23, 2022. Further, we certify that Aadhar Number / Aadhar Enrolment Number (AEN) of all farmers for whom the interest subvention is being claimed for reimbursement has been captured and available with the bank and there is no case of claim for reimbursement where Aadhar No./AEN is not available (except for Assam, Meghalaya, and UTs of Jammu and Kashmir and Ladakh).

Date: \_\_\_\_\_

Seal and signature of authorized signatory of bank

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

We certify that the above claim for interest subvention of ₹ \_\_\_\_\_ calculated on eligible short term credit to farmers through KCC disbursed by the bank during the period from \_\_\_\_\_ to \_\_\_\_\_ has been found true and correct and strictly in accordance with the RBI circular FIDD.CO.FSD.BC.No.13/05.02.001/2022-23 dated November 23, 2022. Further, we certify that Aadhar Number / Aadhar Enrolment Number (AEN) of all farmers for whom the interest subvention is being claimed for reimbursement has been captured and available with the bank and there is no case of claim for reimbursement where Aadhar No./AEN is not available (except for Assam, Meghalaya, and UTs of Jammu and Kashmir and Ladakh).

Date: \_\_\_\_\_

Seal and signature of Statutory Auditor/s

Name: \_\_\_\_\_

Firm Registration Number: \_\_\_\_\_

Membership Number: \_\_\_\_\_

UDIN: \_\_\_\_\_

# Common mistakes in certification

Clerical mistakes, mistakes in Excel formulas

- Variance in eligible borrowers
- Period of subversion – Date of repayment Vs due date Vs year end wrong date, period



## FAQ - Agri

- Any limit on loan to SMF

**NO (limit is on land holding)**

- Loan to landless individuals in allied activities eligible as PSL SMF?

**YES - Upto 2lks**

- How to monitor credit cap of ₹100 crore from banking system?

**Declaration/Crilc/cibil/BS**

- Limit is borrower wise?

**NO Borrower wise and facility wise**

## FAQ....

- If more than 100cr, entire exposure out of PSL?

**YES**

- Loans to transporter eligible under Agri?

**YES if used exclusively for food/agro or is for Own farm produce**

- PRI available for NWR or Natural calamity?

**NO**

- Can loans against gold classified as Agri/priority

**YES. Security is secondary, end use it important.**

# Agri: PSL Vs IRAC

- Crop season linked asset classification norms eligible to entire Agri funding?

**NO. Only farm credit eligible**

**PSL Para 8.1 and 8.2 VS IRAC Annexure – 2**

- Interest subvention eligible to entire Agri funding?

**NO. Only STL, Crop + Ancillary, Max loan cap of 3 laks**

# Weaker Sections

- Small and Marginal Farmers
- Artisans, village and cottage industries - individual limits up to ₹1 lakh
- Beneficiaries under Government Sponsored Schemes
- Scheduled Castes and Scheduled Tribes
- Beneficiaries of Differential Rate of Interest (DRI) scheme
- Self Help Groups
- Distressed farmers indebted to non-institutional lenders
- Distressed persons, upto ₹1 lakh to prepay their debt to non-institutional lenders
- Individual women beneficiaries up to ₹1 lakh per borrower
- Persons with disabilities
- Minority communities as may be notified by Government of India from time to time.

# Housing Finance

# Housing - Priority

- Loans to individuals up to ₹35 lakh in metro (population > 10 lk) [Cost not more than 45 lks]
- ₹25 lakh in other centres for purchase/construction of a dwelling unit per family [Cost not more than 30 lks]
- Housing loans to own employees not priority
- Loans up to ₹10 lakh in metro, up to ₹6 lakh in other for repairs
- SRA, Affordable – carpet not more than 60 sqmtrs
- Loans to HFCs for on-lending, up to ₹20 lakh for individual borrowers
- Outstanding deposits with NHB on account of priority sector shortfall.

# What qualifies?

- **Acquisition Of Land** - Bank finance can be granted only for purchase of a plot, **provided a declaration is obtained** from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.
- **Upfront disbursal/80:20** - Disbursal of housing loans sanctioned to individuals should be closely linked to the stages of construction of the housing project and upfront disbursal **should not be made** in cases of incomplete/under-construction/green field housing projects

# Loan to Value (LTV) and Risk Weights (RWs) prescribed

Category of Loan	LTV Ratio (%)	Risk Weight (%)
(a) Individual Housing Loans		
Upto ₹ 30 lakh	$\leq 80$	35
	$> 80$ and $\leq 90$	50
Above ₹ 30 lakh & upto ₹ 75 lakh	$\leq 80$	35
Above ₹ 75 lakh	$\leq 75$	50



# Education

- Loans to individuals for educational purposes, including vocational courses, not exceeding ₹ 20 lakh (sanctioned limits form all banks) will be considered as eligible for priority sector classification.
- Loans currently classified as priority sector will continue till maturity.

# Social Infrastructure

Bank loans up to a limit of ₹5 crore **per borrower** for setting up

- Schools
- Drinking water facilities and
- Sanitation facilities including
- Construction/refurbishment of household toilets and water improvements at household level, etc. and

Loans up to a limit of ₹10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres

# Renewable Energy

Bank loans up to a limit of ₹30 crore to borrowers for purposes like

- solar based power generators,
- biomass-based power generators,
- wind mills,
- micro-hydel plants and
- for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc.,

For individual households, the loan limit will be ₹10 lakh per borrower.

# Export Credit

- Export credit under agriculture and MSME sectors are allowed to be classified as PSL in the respective categories
- Export credit includes pre-shipment and post-shipment export credit  
Re + Fc

## PSL

- Incremental export credit - up to **2% of ANBC**.
- Max sanctioned limit - of up to ₹ 40 crore per borrower.

# Interest Equalization Scheme - EXPORTS

- Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit
- Wef July 1, 2024, **only** MSME Manufacturer exporters would be eligible
- Max Subvention – 10cr p.a. 5cr upto 30/09/24, 2.5cr upto 30/06/24 **per IEC**
- Fiscal benefits restricted to ₹50 lakhs/MSME for FY24-25, till 31/12/24,.
- If 50 lks crossed by 30<sup>th</sup> September – no benefit thereafter.
- Quantum - 3% (2% for 410 HS lines - **Edible products of animal origin**)
- Banks to apply reduced RIO to the eligible exporters, upfront
- Banks to furnish i)Present RIO, ii)Interest subvention %, iii)Net RIO charged.
- Monthly claim by bank.

## With effect from FY 2023-24

- The banks which have priced the loans covered under this scheme at an average interest rate of greater than Repo Rate + 4% **prior to subvention** would be subjected to certain restrictions under the scheme.
- Non compliance by banks will result in restricting and debarment from the scheme.

# Advances to MSME (Sublimit of 7.5% to Micro)

# Credit Flow to the MSME sector by SCBs

		2019-20	2020-21	2021-22	2022-23	2023-24
1	2	3	4	5	6	7
Public Sector Banks	No. of accounts	111	151	150	139	144
		(-1.9)	(36.1)	(-0.7)	(-7.4)	(4.2)
	Amount Outstanding	8,93,315	9,08,659	9,55,860	10,84,953	12,22,687
		(1.5)	(1.7)	(5.2)	(13.5)	(11.3)
Private Sector Banks	No. of accounts	271	267	113	73	110
		(31.8)	(-1.4)	(-57.7)	(-35.2)	(50.2)
	Amount Outstanding	6,46,988	7,92,042	9,69,844	10,89,833	14,02,324
		(14.8)	(22.4)	(22.4)	(12.4)	(28.7)
Foreign Banks	No. of accounts	3	3	2	2	3
		(14.1)	(-5.1)	(-19.0)	(-26.3)	(72.9)
	Amount Outstanding	73,279	83,224	85,352	85,349	1,00,261
		(9.5)	(13.6)	(2.6)	(0.0)	(17.5)
All SCBs	No. of accounts	384	420	265	213	257
		(19.8)	(9.4)	(-37.0)	(-19.4)	(20.5)
	Amount Outstanding	16,13,582	17,83,925	20,11,057	22,60,135	27,25,272
		(6.8)	(10.6)	(12.7)	(12.4)	(20.6)



# Definition

- The definition of MSMEs will be as per Government of India (GoI), Gazette Notification S.O. 2119 (E) dated June 26, 2020 – **Amendment to MSME Act.**
- **Budget 2025 – Investment X 2.5 times and Turnover X 2 Times.**

Manufacturers & service providers	MICRO	SMALL	MEDIUM
Investments in Plant & Machinery or Equipment	Upto Rs. 1 crore	Upto Rs. 10 crores	Upto Rs. 50 crores
Turnover	Upto Rs. 5 crores	Upto Rs. 50 crores	Upto Rs. 250 crores

## Prominent...

- All units to register online on the Udyam Registration portal.
- For PSL purposes banks to follow status as per Udyam RC.
- Retail and Wholesale trade are included for PSL
- Banks not to accept collateral security - upto ₹10 lakh to SMEs
- Credit decisions up to ₹25 lakh to MSEs 14 working days.
- Turnover threshold for TReDS onboarding reduced to 250cr to 500cr
- Credit Support to MSMEs during SMA for reasons beyond their control, to continue their business and to avoid getting into the NPA.

# Micro Entp – 7.5%

Udyam Assist Certificate shall be treated as MICRO enterprises for the purpose of PSL

## Factsheet of MSME (Udyam) Registration Including Udyam Assist Platform (UAP)

Facts Dated:- 15/03/2025 07:00:12 PM

Total Registration

**6,13,14,747**

Total Classified

**6,12,60,437**

Micro

**6,04,47,959**

Small

**7,42,769**

Medium

**69,709**

Total Employment

**26,08,10,299**

## Factsheet of MSME (Udyam) Registration

Total Registration

**3,50,29,899**

Total Classified

**3,49,75,589**

Micro

**3,41,63,111**

Small

**7,42,769**

Medium

**69,709**

Total Employment

**22,91,47,958**

## Factsheet of Udyam Assist Platform (UAP)

Total Registration & Classified

**2,62,84,848**

Micro

**2,62,84,848**

Total Employment

**3,16,62,341**

# Classification of MSMEs - **Min of MSME Vs**

## **RBI**

- **Min of MSME - Oct 2022**

In case of an **upward change** in terms of investment and consequent re-classification, an enterprise shall continue to avail of all **non tax benefits** of the category it was in before the re-classification, for a period of **three years from the date of such upward change**.

- **RBI - Dec 2023**

All enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. **For PSL purposes** banks shall be guided by the classification recorded in the **Udyam Registration Certificate (URC)**

# MSME Products....

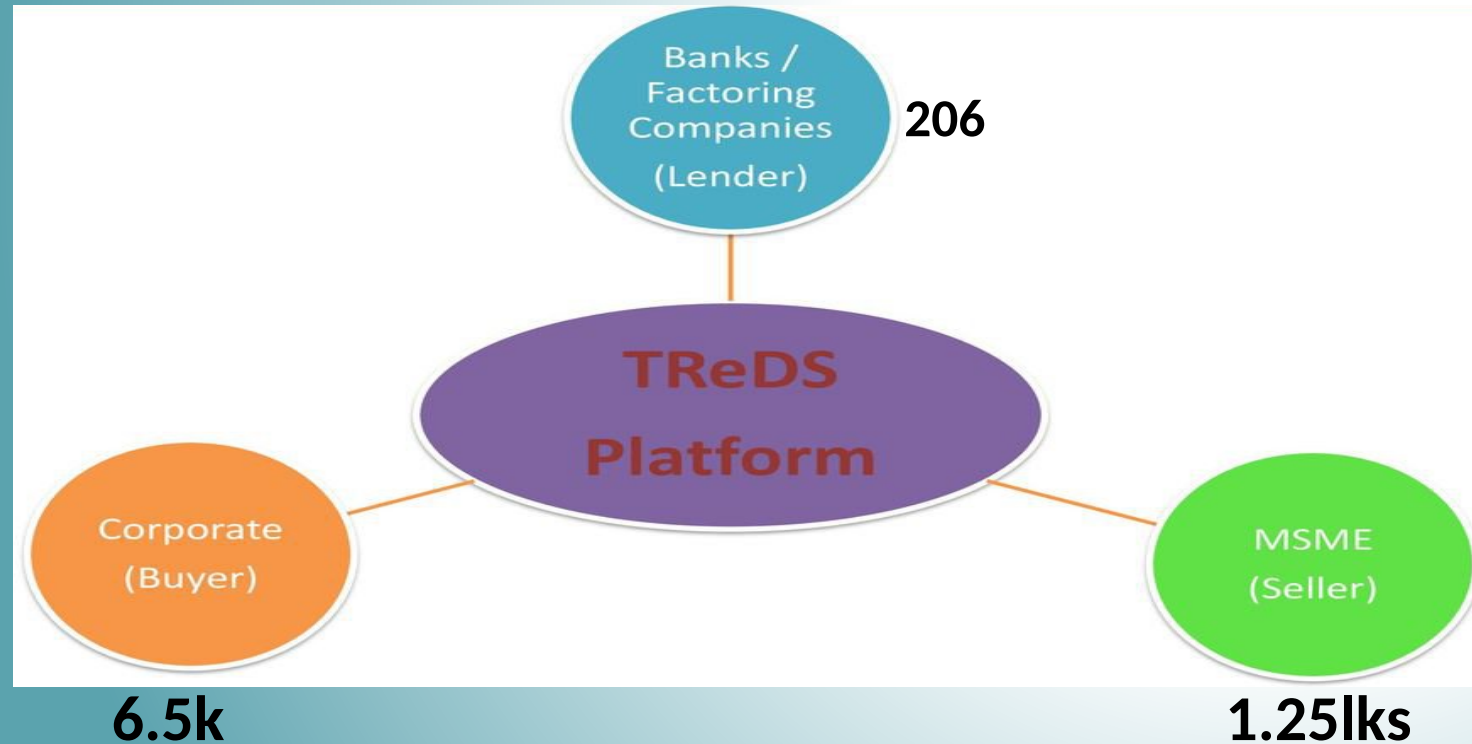
- Loans up to ₹50 crore to **Start-ups**,.
- **Loans to entities** involved in supply of inputs and marketing of **output of artisans, village and cottage industries.** – Vishwakarma
- Loans to **co-operatives** of producers in the decentralized sector viz. artisans, village and cottage industries.
- Loans to NBFC-MFIs for on-lending to MSME sector.
- Credit outstanding under General Credit Cards (Artisan CC, Laghu Udyami Card, Swarojgar CC, Weaver's Card etc).
- Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders qualify as lending to Micro Enterprises.
- Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

## MSME Products ....

- All loans to units in the **KVI sector** will be eligible for classification under sub-target of 7.5% prescribed for Micro Enterprises sector.
- **‘With Recourse’ Factoring** transactions by banks which carry out the business of factoring departmentally wherever the ‘assignor’ is a Micro, Small or Medium Enterprise would be eligible for classification under MSME category on the reporting dates.
- Factoring transactions pertaining to MSMEs taking place through the Trade Receivables Discounting System (**TReDS**) shall also be eligible for classification under priority sector.

# TReDS

TReDS is an **electronic platform** facilitating the **financing of trade receivables of MSMEs** through multiple **FIs**. These receivables can be due from corporates and other **Buyers**, including Govt. Depts & PSUs.



## So far...

FY 20 - 11.2k cr

FY 21 - 17.1k cr

FY 22 - 40.3k cr

FY 23 - 150k cr+

FY 24 - 25k cr /Month

# FAQ

**? Whether the MSME liable to pay to the financier in case the buyer defaults in repayment?**

**Ans:** No. The transactions processed under TReDS are “without recourse” to the MSMEs.

**? Are there charges for registration?**

**Ans:** No, all three platforms have free registration facility.

**? Is this compulsory for all buyers**

**Ans:** Its compulsory for all PSU and corporates with turnover > 250 Crores (Before 31<sup>st</sup> March 20205)



**Compliance under MSMED Act**  
**At Bank Branch**  
**Or as a CSA**  
**1.25lks**

# Disclosure requirements

Sec 22: **Any buyer required to get his accounts audited under any law** for the time being in force, such buyer shall furnish the 5 point info in his annual statement of accounts,

SN	PARTICULATS	Principle Amt. RS.	Interest Amt. Rs.
1	Interest & Principle paid beyond due date (During the year)	800000	100000
2	Interest & Principle o/s (Year end)	1600000	150000
3	Interest due for principle paid beyond due date (Out of 2 above, but relating to 1 above)	-	80000
4	Balance Interest accrued for principle unpaid (2-3)	-	70000
5	Status of Interest up to reporting date (As on date of signing of balance sheet)	-	40000

## Section 43B

**(h)** any sum payable by the assessee to a **MSE** beyond the time limit specified in **section 15 of MSMED Act** - shall be allowed (irrespective of its accrual) only in computing the income referred to in section 28 of that **previous year, in which such sum is actually paid by him.**

**Provided** that nothing contained in this section shall apply in relation to any sum which is actually paid by the assessee on or before the due date of ITR **except clause (h)**

# Audit Procedure

- Documentation of verification process adopted “*to verify how auditee has identified its MSE suppliers*” .
  - Correspondence with suppliers, replies received?
  - If a supplier has printed his udyam on invoice - straight way classify.
  - Any claim is received through SAMADHAAN?
- **Audit conclusion** on findings & Reporting of non compliance
  - No identification procedure done – **Qualify**.
  - Procedure done MSEs identified but no interest provided - **Qualify**
  - MSEs identified and Interest provided – **Compliance done**.
- **MRL** - NIL MSEs identified, Total delay in payment, Interest provision and calculation thereof.

# MSME - FAQ

- Whether the continuity of the PSL status for 3 years is still applicable to MSMEs?

**NO**

- New funding to Udyog Adhaar holder possible?

**NO, it has expired**

- Trading activity any limit on funding to be PSL?

**NO**

- Funding to School more than 5 cr, is it social infra or MSME?

**MSME**

- Can the account be reconned in both Social + MSME?

**NO**

# KEY AUDIT POINTS

- Borrower Documentation & End-Use Verification – Udyam, Land holding
- Internal/concurrent audit points for PSL compliance.
- Verify if PSL loans are being granted at rates as per RBI norms - HL
- Application of Risk Weights – LTV
- Loan Classification Accuracy
- Validate whether the bank has purchased PSLCs to meet PSL targets. - HO
- Verify PSL reporting in regulatory returns - HO
- Verify whether the bank has met the prescribed PSL target - HO
- Check sector-wise classification - HO

# Key Audit points..

## Misclassification of Loans

- Loans given to large businesses instead of MSMEs.
- Advances to large farmers wrongly included under Small & Marginal Farmers (SMF) category.
- Incorrect classification of education loans beyond the prescribed limit.
- Export credit wrongly included beyond the permissible limits.

## Poor Documentation & Due Diligence - Lack of proper KYC and documentation

- Missing income proof, land records (for agricultural loans), or Udyam registration for MSMEs.

# Key Audit points..

## **End-use monitoring not conducted**

- Loans disbursed for PSL purposes but used for other activities.
- No post-disbursement checks on fund utilization.

## **Not linking PSL loans with government schemes like PMEGP, MUDRA, and KCC**

- Customers losing benefits due to lack of awareness.



# Priority Sector Lending by Banks [Growth of 16.9% in FY 23-24 (10.8%)]

Item	Target/ sub- target (per cent of ANBC/ CEOBE)	Public Sector Banks		Private Sector Banks		Foreign Banks		Small Finance Banks		Scheduled Commercial Banks	
		Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE	Amount outstanding	Per cent of ANBC/ CEOBE
1	2	3	4	5	6	7	8	9	10	11	12
<b>Total Priority Sector Advances</b>	<b>40/75*</b>	<b>31,85,092</b>	<b>42.6</b>	<b>24,09,329</b>	<b>47.4</b>	<b>2,51,550</b>	<b>41.6</b>	<b>1,31,967</b>	<b>90.6</b>	<b>59,77,938</b>	<b>45.0</b>
<i>of which</i>											
Total Agriculture	18.0	14,25,554	19.1	9,51,089	18.7	49,700	18.6	38,964	26.8	24,65,307	19.0
Small and Marginal Farmers	10.0	8,32,757	11.2	5,05,484	10.0	29,309	11.0	26,517	18.2	13,94,068	10.8
Non-corporate Individual Farmers#	13.8	11,05,493	14.8	7,08,677	14.0	29,435	14.2	36,962	25.4	18,80,568	14.6
Micro Enterprises	7.5	5,97,854	8.0	5,17,925	10.2	22,682	8.5	47,494	32.6	11,85,956	9.2
Weaker Sections	12.0	10,53,784	14.1	6,37,014	12.5	32,284	12.1	52,146	35.8	17,75,229	13.7

Let's set the **PRIORITY** - \$ 10  
T

**Thank you**

[camarathe@cmrs.in](mailto:camarathe@cmrs.in)

8055566683