

Revolving Business Loan

Ceylon Digital Funding Force (Pvt) Ltd



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Section Title: Scope of Product and Competition				

Description

- **Ceylon SME** is the revolving SME loan scheme offered to small and medium-scale (SME) traders by Ceylon Digital Funding Force (Pvt) Ltd.
- The purpose of this loan scheme is to facilitate working capital requirements (especially purchasing of trading stocks) of SME level traders on a revolving basis. Applications could be accepted individually or jointly with the spouse/parent/blood-related brother or sister.

Competition

The prevailing SME market for the product is competitive and several finance companies have already entered into the market. Different companies approach the customer in different techniques to the customer where most of the schemes are on daily instalment collection basis. The SME industry is not as vulnerable as the microfinance industry in Sri Lanka that opens up an opportunity to grow a quality portfolio for Ceylon Digital Lending Force. Licensed commercial banks and finance companies do not focus on the segment at the grassroots level and a majority of the working capital requirement is catered by informal money lenders.

Note: SME Customer – sales revenue of LKR 250,000/- to LKR 500,000/- range are considered.

Objective

- The objective of this lending product is to support small and medium entrepreneurs to become financially independent and eventually become eligible for loans from commercial banks.

Responsibility

Executive Officer – Client Networking and Executive Officer – Credit Administration are the responsible bodies for the implementation procedures of the product.

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Section Title: Market Segments and Eligibility				

Market Segment

This product will target the existing / new trading customers that fall under the SME category and the following traders will be targeted initially to carry out the operations of this product.

- Groceries and retail shops
- Retailed hardware stores
- Retailed textile shops
- Retailed motor spare part shops
- Retailed bakery shops
- Pharmacies
- Fish stoles
- Farm shops
- Restaurant and hotels
- Vegetable merchants
- Fruits merchants
- Salon and beauty parlours
- Cold drink sellers
- Any other SME merchant who has at least a proven sales revenue of LKR 10,000/- per day.

Eligibility

- Existing retailed business with a minimum sales revenue of LKR 10,000/- per day.
- Any Sri Lankan nationals below 60 years of age would be eligible for this loan.
- Eligible businesses and individuals will be selected through a research by collecting big data and a pre-credit appraisal will be performed in order to create a profile on our online platform.
- Permanent residence / business place and a minimum daily income are the main eligibility criteria. In addition to this, the character of the borrower, repayment ability, and integrity will be established through referrals.

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Section Title: Customer Types and Requirements				

Customer Types

▪ SME customers will be divided into two main categories under this scheme based on several financial and non-financial parameters.

- **Small businesses (Daily T/O <30,000/-)**
- **Medium scale businesses (Daily T/O > 30,000/-)**

Small Scale Business

Customers who are successfully running a business that generates revenue between a range of LKR 10,000/- to LKR 30,000/- sales turnover per day fall in to this category and they are eligible to draw up to LKR 100,000/- depending on the requirement and the purpose. Funds will be released solely to purchase stocks as a part of the working capital requirement of the business and any other purpose of business development.

Customers would be given a maximum of up to 24 weeks to repay the loan on a weekly collection basis. Seven days a week will be counted in the calculation of the repayment period. Deciding the maximum eligible loan amount will depend on the average daily turnover of the business.

Average Daily Business Turnover (LKR)	Eligible Loan Amount (LKR)	Tenor	Charges
10,000/- to 30,000/-	10,000/- to 100,000/-	12-24 W	3% of the loan amount

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Parameter Requirements

- Daily business turnover - should be within the range of 10,000/- to LKR 300,000/-.
- Existence of the business - over one year.
- Ownership of the business premises - customer may own the business premises or possess a valid rent/lease agreement of the business location.
- Regular payment obligation – utility bills, rent, taxes, loan instalment, credit card should have been paid on regular basis.
- Facility should be granted only for pre-approved customers.
- Referral ratio 4/5 or above.

Medium Scale Businesses

Customers who are successfully running a business that generates a turnover of over LKR 30,000/- and above per day fall in to this category are eligible to draw up to LKR 500,000/- depending on the requirement and the purpose. Funds will be released solely to purchase stocks as a part of the working capital requirement of the business and any other purpose of business development.

Customers would be given a maximum of up to 48 weeks to repay the loan on weekly collection basis. Seven days a week will be counted in the calculation of the repayment period. Deciding the maximum eligible loan amount will depend on the average daily turnover of the business.

Average Daily Business Turnover (LKR)	Eligible Loan Amount (LKR)	Tenor	Charges
31,000/- to 100,000/-	101,000/- to 500,000/-	36-48 W	3% of the loan amount

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Section Title: Customer evaluation process				

Parameter Requirement

- Daily business turnover - daily business turnover should exceed LKR 30,000/-.
- Existence of business - over 3 years.
- Ownership of the business premises - customer may own the business under valid title (e.g. transfer deed, long term lease agreement exceeding tenor of the requested loan).
- Regular payment obligation – utility bills, rent, taxes, loan instalment, and credit card should have been paid on regular basis.
- Referral ratio must be 4/5 or more.

Customer Evaluation Process

Activity	Remarks / Comments
Identify the potential area	Customer research is mandatory Collect accurate data to identify potential customers and to identify who is under the purview of the willing and possible category
Collect big data of the business/customer/referrals	Provide clear information to the system to create the profile of the customers
Finalise the list of eligible customers for loans	Send the messages to respective clients informing their eligibility for the loans
Segment the clients as “small scale” or “medium scale” with the eligible loan amount and tenor	Categorise the client profile for easy administration purpose
Create the loan in the system upon receipt of the request from customer	Credit appraisal to be generated once the disbursement is done for record purposes

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Section Title: Investigation & Documentation				

Investigation Report

Comprehensive investigation must be carried out by the “Head of operations” in order to verify the information of the clusters provided in CDFF system prior to approval, and also investigate the funding process in line with the loan created in CDFF system with the intention to avoid bogus contracts.

Documents Required from Customer

- NIC, DL, utility bills (water, electricity, telecommunications)
- Title deeds, rent/lease agreements
- Business registration certificate, approvals from local/relevant authorities
- Bank statements (savings or current account), stock purchase bills, tax payment receipts
- Copies of management accounts
- Vehicle CR book copies and any other asset confirmation.

Following should be obtained by the Executive Officer - Client Networking

- Photograph of a client
- Photographs of business premises displaying the interior and exterior of the business operations (stock)
- Location from Google Maps.

Client Credit Score

- Credit score mechanism has been introduced to evaluate the clients by using several financial and nonfinancial factors.
- This credit score has been developed to measure the credit worthiness, honesty, and integrity of clients specially based on referrals.

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Section Title: Risk grading and Financial Analysis				

Financial Analysis

- 1) Average daily sales during the past 6 months – to know about the business volumes.
- 2) Sales growth during the past 3 months - to see the market potential.
- 3) Servicing of other loans.
- 4) Current ratio - capacity to meet short term financial obligations.

Non-Financial Analysis

- 1) Referrals to be obtained from the connected parties and surroundings.
- 2) Life status score improvement.

Risk Grading of a Loan Contract

After entering the details of the customer and business into the system, risk grading will be automatically generated. According to the evaluation, risk grading will be arranged based on 5 levels (e.g. Risk <3).

- Risk <3 - These customers are good to Invest. Risk involved with these borrowers is below the average and they have a strong credit score
- (Risk <3 to 4) - Risk involved with these borrowers is just above the average risk and they have a moderate credit score
- (Risk <4 to 5) - Risky clients
- (Risk <5)- High potential is available for losses.
- These ratings should be generated using the artificial intelligence.

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Section Title: Collateral requirements & interest rates				

Security

No security will be obtained for this lending product instead collaterals will be established through referrals.

Collateral Requirements

The following security documents shall be executed prior to granting of loan facility.

1. Loan Application
2. Loan Agreement
3. Promissory Note
4. Approved Loan Appraisal
5. Letter of Offer and Acceptance

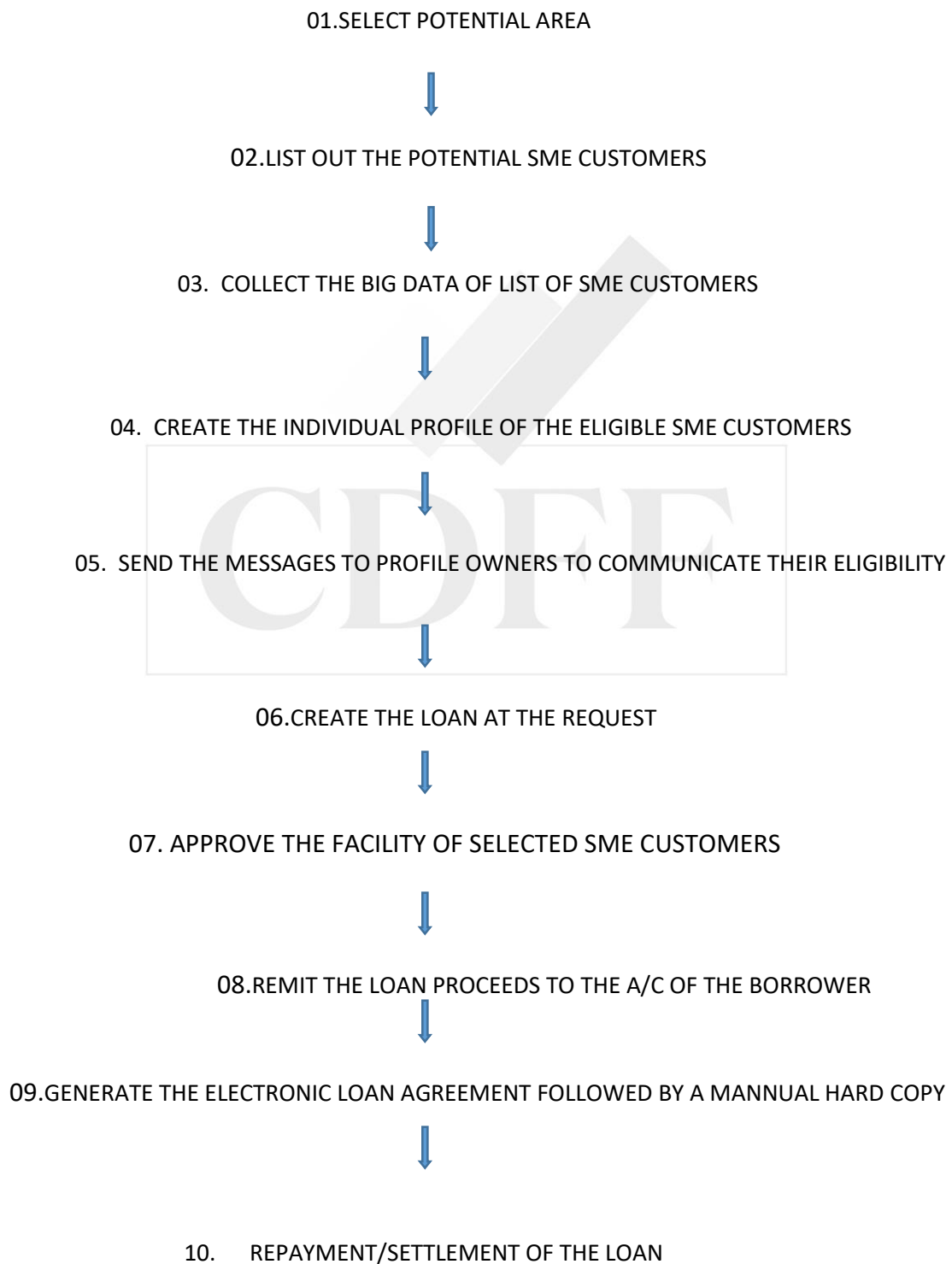
Current Interest Rates

- 36% p.a for first loan (rate will be varied based on the integrity level and the credit score given by AI).
- 2% of the amount financed will be charges as facility processing fee.
- 1% of the amount financed will be charged as insurance premium in order to cover the death, total, and partial disability of the client (income earner).

Note – These processing charges will be deducted at the point of loan disbursement.

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Section Title: Steps of the loan product				

Process of the revolving business loan



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Section Title: Process of the selecting the potential clients				

01.Select potential area

Specific area must be decided first and marked in the ERP system of CDFF by way of geo- fence to monitor the area selected. Executive Officer- Networking should be well aware about this area and cannot lend beyond the area for any reason.

02.List out potential SME customers

After deciding and marking the area in which potential customers could be listed by way of doing a research of the businesses available in the area based on the criteria's such as ownership, period of running the business, profitability, management succession plan , credibility and accountability of outside commitments.

03.Collect the big data of list of SME customers

After finalizing the list of potential customers based on the above criterias, CDFF needs to register the customers in the system storing big data of clients in order to consider RBL loans and connect to company's eco systems going forward.

04.Create the individual profile of the eligible customers

Thirdly, after deciding the area and customers, we need to create an individual profile of each customers and referrals in CDFF mobile app by using the collected big data in order to proceed going forward.

05.Send messages to communicate their eligibility

After creating the individual profile, message will be sent to the potential clients with the user name and pass word asking them to sign in to CDFF mobile app in order to confirm the eligibility of being CDFF client.

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Section Title: Loan Creation in the system				

06.Create the loan in the system

After doing all of above, loan can be created at the request of the customer through the clients profile and forwarded for approval of the management committee through the executive- credit administration using the mobile app itself. Make sure the data is entered correctly, especially the following big data.

Activity	Remarks / Comments
Create customers on the computer system. Create: 1. Principle applicant 2. Joint applicant 3. Referral agent.	1. Full name 2. Home address 3. Business address 4. Land line contact number 5. Mobile number/ numbers 6. Income details 7. Business registration details 8. Asset details 9. Family information 10. Expertise or strength of the customer.
Credit Scoring	Fill the details of referrals
Credit appraisal creation	Comprehensive credit appraisal to be forwarded through the system for approval
E-File creation	Fill the loan details, amount, weeks, rate, and due date
Uploading documents	Add photos of the business premises, Inventory, etc.
Progress and investigation feedback updating	Customer profile should be updated after obtaining the facility with the progress as a feedback.

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Section Title: Disbursement and documentation				

07.Approved the facility of selected SME customers

Based on the recommendation and the confirmation of the information provided in the e-appraisal form by executives of CDFF, Loan could be approved by the management committee. Up to approval level information should be visible in clients profile for their information.

Facility Limit up to	Security	Approving Authority
Rs. 10,000/- to 100,000/-	3 referrals or above + risk grading > 3	Management Committee
Rs. 50,001/-to 500,000/-	3 referrals or above + risk grading > 4	Management Committee

08.Execution of the loan agreement and other docs

Security documentation such as letter of offer, loan agreement to be executed as a digital agreement prior to disbursement and printed copy of the same should be signed manually by the client in front of the executive-client networking of CDFF prior to pay the first instalment.

09.Disbursement of the loan proceeds

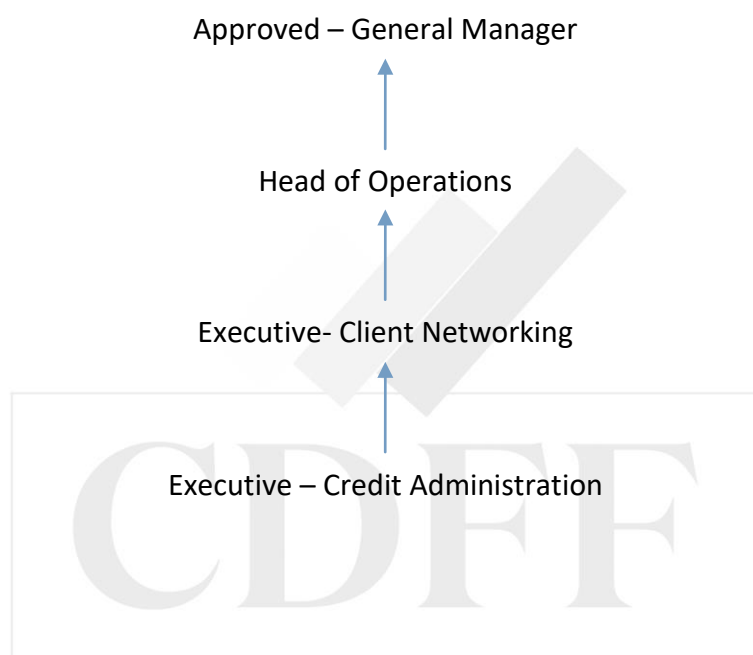
Proceeds of the loan, after deducting the applicable charges to be remitted on line to the client's account only after authenticated in the profile of the client. Credit of the proceeds should be acknowledged by the client on their profiles.

10.Repayments and the settlement of the loan

Instalments to be repaid weekly on regular basis and updated in CDFF system real time to see the updated client profile with accurate payment histories. Settlement of the loan should be notified in the online in client's profile. Executive-client network can collect money and deposit to the collection bank account of CDFF on the following day morning.

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Section Title: Approval hierarchy & Rescheduling				

Delegated authority of the approval process



Rescheduling

If the customer is unable to make the instalment payments due drop of business income, (management should evaluate whether the reasons are acceptable) rescheduling / restructuring will be considered based present possibility of payment and willingness of pay.

Following factors should be considered when rescheduling the contracts only

1. Future Interest should be waived off.
2. Same interest rate should be applied for extended tenor.
3. Processing fee of 1000 rupees to be charged.
4. Only the re-schedulement could be considered until they settle the existing facility in full.
5. Further facilities cannot be granted for rescheduled customers.

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Section Title: Collection Process				

Collection

“Executive Officer - Client Networking” is responsible to collect weekly loan instalments as per the initial agreement made with the client. They are supposed to visit each client on a daily basis and update the mobile app about the business progress and collect the instalment once a week.

Collection Process through Mobile App

“Executive Officer – Client networking” should update the payments in order to update the contract details and profile of the client and the total of daily collection should be banked to the given bank accounts on the following morning.

When the customer completes the final instalment of the contract, a confirmation should be issued manually while updating the customer’s profile with the congratulatory note to be viewed by the referrals as well.