

FREQUENTLY ASKED QUESTIONS

Micro, Small and Medium Enterprises

(Updated as on July 29, 2025)

Q.1. What is the definition of MSME?

In terms of [Gazette Notification S.O. 1364 \(E\) dated March 21, 2025](#), an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria viz.,

- i. a micro enterprise, where the investment in plant and machinery or equipment does not exceed ₹2.5 crore and turnover does not exceed ₹10 crore;
- ii. a small enterprise, where the investment in plant and machinery or equipment does not exceed ₹25 crore and turnover does not exceed ₹100 crore; and
- iii. a medium enterprise, where the investment in plant and machinery or equipment does not exceed ₹125 crore and turnover does not exceed ₹500 crore.

All such enterprises are required to register online on the Udyam Registration portal and obtain 'Udyam Registration Certificate'. For Priority Sector Lending (PSL) purposes banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC). (Refer [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#) and [circular FIDD.MSME & NFS.BC.No.13/06.02.31/2023-24 dated December 28, 2023](#))

Q.2. What measure has been taken for enterprises those are unable to get registered on the Udyam Registration Portal (URP) due to lack of mandatory documents such as PAN or Goods and Services Tax Identification Number (GSTIN)?

Ministry of Micro, Small and Medium Enterprises, Government of India has launched the Udyam Assist Platform (UAP) to facilitate formalisation of Informal Micro Enterprises (IMEs) through online generation of Udyam Assist Certificate. Ministry of MSME has defined IMEs as those enterprises, which on the basis of their turnover, are exempted from filing returns under the provisions of the Central Goods and Services Tax Act, 2017.

The UAP is managed by SIDBI wherein registration of enterprises on the platform is done with the assistance of Designated Agencies which are RBI regulated entities (including scheduled commercial banks, non-banking financial companies, etc.). The certificate issued on UAP to IMEs is treated at par with URC for the purpose of availing PSL benefits. IMEs with an Udyam Assist Certificate are treated as micro enterprises for the purpose of PSL classification. (Refer [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#) and [circular FIDD.MSME & NFS.BC.No.09/06.02.31/2023-24 dated May 09, 2023](#))

Q.3. What are the guidelines issued by RBI for lending to the MSME sector?

In terms of the [Master Directions - Reserve Bank of India \(Priority Sector Lending – Targets and Classification\) Directions, 2025 dated March 24, 2025](#), all bank loans to MSMEs shall qualify for classification under priority sector lending (PSL). The definition of MSMEs shall be as given in the [Master Direction - Lending to MSME Sector FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#) as updated from time to time. For PSL classification purposes, banks shall be guided by the classification recorded in the Udyam Registration Certificate (URC)/ Udyam Assist Certificate (UAC).

Further, RBI has, from time to time, issued a number of instructions / guidelines to banks relating to lending to the MSME Sector. The [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#) incorporates the updated instructions / guidelines on the subject. The instructions issued by RBI, to banks, on various matters are available on our website www.rbi.org.in.

Q.4. Whether retail and wholesale trade can be classified under MSME?

The Ministry of Micro, Small and Medium Enterprises vide [Office Memorandum No. 5/2\(2\)/2021-E/P & G/Policy dated July 02, 2021](#) decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending and they would be allowed to be registered on Udyam Registration Portal. Detailed guidelines are available in our [circular FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22 dated July 07, 2021.](#)

Q.5. What is meant by Priority Sector Lending?

Priority sector lending include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and Micro and Small enterprises. Detailed guidelines on Priority sector lending are available in our [Master Directions - Reserve Bank of India \(Priority Sector Lending – Targets and Classification\) Directions, 2025 dated March 24, 2025](#) and updated from time to time.

Q.6. Are there any targets prescribed for lending by banks to MSMEs?

A sub-target of 7.5% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, towards lending to the Micro-enterprises under overall Priority Sector Lending has been prescribed for Domestic commercial banks, Foreign banks with 20 branches and above, Regional Rural Banks and Small Finance Banks.

Q.7. How do banks assess the working capital requirements of borrowers?

Banks have been advised to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors (Refer [circular RPCD.SME & NFS.BC.No.102/06.04.01/2008-09 dated May 4, 2009](#)). Banks have, however, been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short-term credit requirement. As per Nayak Committee Report, working capital limits to SSI units is computed on the basis of minimum 20% of their estimated turnover up to credit limit of Rs.5 crore.

Q.8. Is there any provision for grant of composite loans by banks?

A composite loan limit of Rs.1 crore can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window in terms of our [Master Direction on lending to the MSME sector dated July 24, 2017.](#) All scheduled commercial banks were advised vide our [circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009](#) that the banks which have sanctioned term loan singly or jointly must also sanction working capital (WC) limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production thereby ensuring that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned.

Q.9. What is Cluster financing?

In terms of the [Master Direction on lending to the MSME sector dated July 24, 2017](#), a cluster has been defined as identified by the Ministry of MSME, Government of India or the respective State /UT Governments. SLBC/UTLBC Convenor banks shall display the list of these clusters on their portals and update them semi-annually as at end-March and end-September. The updated list of clusters identified by Ministry of MSME may be accessed from Ministry's official website, while information on clusters recognized by State Governments/Union Territories shall be obtained directly from the respective authorities.

The lead banks of districts have been advised to promote 'credit-linkage' in all clusters located within the district. The initiatives under promotion of the credit-linkage, include addressing credit needs of MSE units in the clusters, creating awareness among MSE units through financial literacy initiatives, enabling coverage under skill development initiatives and undertaking proactive measures in underbanked clusters.

The banks have also been advised to ensure that the credit needs of clusters are appropriately included in the exercise of preparation of branch/block level credit plans so that the same can be aggregated by lead banks to form the District Credit Plan (DCP) and subsequently by SLBC /UTLBC Convenor banks to prepare the Annual Credit Plan (ACP).

Q.10. What are the RBI guidelines on interest rates for loans disbursed by the commercial banks?

As part of the financial sector liberalisation, all credit related matters of banks including charging of interest have been deregulated by RBI and are governed by the banks' own lending policies.

With a view to improve monetary policy transmission, banks have been advised to link loans to Micro and Small Enterprises to an external benchmark from October 01, 2019. (Refer [circular DBR.DIR.BC.No.14/13.03.00/2019-20 dated September 04, 2019](#)). To further improve the transmission of monetary policy rates, it has been decided that with effect from April 01, 2020, loans to Medium Enterprises shall be linked to external benchmark. (Refer [circular DOR.DIR.BC.No.39/13.03.00/2019-20 dated February 26, 2020](#)).

Q.11. Can the MSE borrowers get collateral free loans from banks?

In terms of our [circular RPCD.SME&NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010](#), banks are mandated not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector.

Q.12. What is the Credit Guarantee Fund Trust Scheme for MSEs?

The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals / third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral - free credit facilities, failing to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender to the tune of 75-90 per cent of the outstanding amount in default.

The CGTMSE would provide cover for credit facility up to ₹10 crore which have been extended by lending institutions without any collateral security and /or third party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. For more details you may visit www.cgtmse.in.

Q.13. Is credit rating mandatory for the MSE borrowers?

The credit rating by external rating agencies is not compulsory from regulatory capital perspective, if the maximum aggregate exposure to one counterparty does not exceed the threshold limit of ₹7.5 crore, subject to meeting certain other conditions. (Refer [Circular on Regulatory Retail Portfolio – Revised Limit for Risk Weight dated October 12, 2020](#))

Q.14. What are the guidelines for delayed payment of dues to the MSE borrowers?

With the enactment of the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, for the goods and services supplied by the MSME units, payments have to be made by the buyers as under:

- (i) The buyer is to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- (ii) If the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- (iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- (iv) In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

Further, banks are advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs. (Refer [circular IECD/5/08.12.01/2000-01 dated October 16, 2000](#) reiterated on May 30, 2003, vide [circular No. IECD.No.20/08.12.01/2002-03](#)).

Q.15. What are the salient features of the guidelines on ‘Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)?’

The salient features of the Framework are as under:

- i) Before a loan account of an MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Framework.
- ii) Any MSME borrower may also voluntarily initiate proceedings under this Framework.
- iii) Committee approach to be adopted for deciding corrective action plan.
- iv) Time lines have been fixed for taking various decisions under the Framework.

For more details you may refer to [circular no. FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated March 17, 2016](#).

Q.16. On which accounts are the provisions of the above Framework applicable?

The provisions made in the above framework shall be applicable to MSMEs having loan limits up to Rs.25 crore, including accounts under consortium or multiple banking arrangement (MBA).

Q.17. How can a bank or creditor identify incipient stress in MSME account?

Before a loan account of a MSME turns into a Non-Performing Asset (NPA), banks or creditors should identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

Q.18. How does the committee resolve the stress in the accounts under the Framework?

The Committee may explore various options to resolve the stress in the account. The Committee shall not endeavour to encourage a particular resolution option and may decide the CAP as per the specific requirements and position of each case. The options under CAP by the Committee may include:

- i. Rectification
- ii. Restructuring
- iii. Recovery

For more details you may refer to [circular no. FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 dated March 17, 2016.](#)

Q.19. Which regulation governs the resolution of MSMEs with loan limit above ₹25 crore that are not covered under Framework for Revival and Rehabilitation (FRR) of MSMEs?

MSME advances not covered under FRR shall be governed under [circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019](#), on 'Prudential Framework for Resolution of Stressed Assets', as updated from time to time.

Q.20. What are the RBI guidelines on One Time Settlement Scheme (OTS) for MSEs for settlement of their NPAs?

Scheduled commercial banks have been advised in terms of our [circular RPCD.SME&NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009](#) to put in place a non-discretionary One Time Settlement scheme duly approved by their Boards. The banks have also been advised to give adequate publicity to their OTS policies.

Q.21. Apart from the loans and other banking facilities, do the banks provide any guidance to MSE entrepreneurs?

Yes, banks provide following services to the MSE entrepreneurs:

(i) Rural Self Employment Training Institutes (RSETIs)

At the initiative of the Ministry of Rural Development (MoRD), Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country. These RSETIs are managed by banks with active co-operation from the Government of India and State Governments. RSETIs conduct various short duration (ranging preferably from 1 to 6 weeks) skill upgradation programmes to help the existing entrepreneurs compete in this ever-changing global market. RSETIs ensure that a list of candidates trained by them is sent to all bank branches of the area and co-ordinate with them for grant of financial assistance under any Govt. sponsored scheme or direct lending.

(ii) Financial Literacy and consultancy support:

Banks have been advised to either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage. Through these FLCs, banks provide assistance to the MSE entrepreneurs in regard to financial literacy, operational skills, including accounting and finance, business planning etc. (Refer [circular RPCD.MSME & NFS.BC.No.20/06.02.31/2012-13 dated August 1, 2012](#)).

Also, Financial Literacy Centres operated by Scheduled commercial Banks (including RRBs) have been advised vide our [circular FIDD.FLC.BC.No.22/12.01.018/2016-17 dated March 02, 2017](#) to conduct target specific financial literacy camps wherein one of the target groups identified is MSEs.

Q.22. What are the guidelines of RBI to facilitate timely and adequate availability of credit to MSE borrowers?

In terms of the [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#), banks have been advised to review and tune their existing lending policies to the MSE sector by incorporating therein the following provisions so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances:

- i. To extend standby credit facility in case of term loans
- ii. Additional working capital to meet with emergent needs of MSE units
- iii. Mid-term review of the regular working capital limits, where banks are convinced that changes in the demand pattern of MSE borrowers require increasing the existing credit limits of the MSEs, every year based on the actual sales of the previous year.
- iv. Timelines for Credit Decisions.

(Refer to the [circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015](#) for further information.)

Q.23. Has RBI prescribed any timeline for credit decision with reference to MSME loan applications?

In terms of the [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#), banks have been advised that timeline for credit decisions for loans up to ₹25 lakh to MSE borrowers shall not be more than 14 working days. For loans above the aforementioned limit, timelines shall be as per the Board approved sanction time norms of the banks. Further, banks

have also been advised to display all credit related information pertaining to MSMEs including timelines for credit decisions, indicative document checklist etc., under a separate tab prominently on the bank's website.

Q24. Are there any guidelines for banks regarding monitoring disposal of MSME credit proposals?

In terms of the [Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 dated July 24, 2017](#), banks have been advised to put in place a Credit Proposal Tracking System (CPTS)/ equivalent tracking mechanism to facilitate central registration and a system of e-tracking of all MSME loan applications. This mechanism shall automatically generate an acknowledgement of the application, having a unique application serial number for both physical and online applications. Banks shall ensure that the acknowledgement and status of the application is sent automatically to the applicants.

Further, Banks have also been advised to convey to the MSME borrowers in writing the main reason/reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications. (Refer to the [circular RPCD. MSME&NFS.BC.No.74/06.02.31/2012-13 dated May 9, 2013](#) for further information.)

Q.25. What is Trade Receivables Discounting System (TReDS)?

The objective of TReDS is to create Electronic Bill Factoring Exchanges which could electronically accept and settle bills so that MSMEs could encash their receivables without delay. This will not only give them greater access to finance but will also put greater discipline on corporates to pay their dues on time. For more details you may refer to [RBI guidelines for setting up and operating TReDS](#).

Q.26. What is the Certified Credit Counsellors (CCC) Scheme?

In terms of announcement in [para 48](#) of First Bi-monthly Monetary Policy Statement, 2016-17, Reserve Bank laid down a framework for accreditation of credit counsellors which was shared with SIDBI for laying down operational guidelines. Accordingly, the scheme was launched by SIDBI in July 2017. As per the scheme, Certified Credit Counsellors are institutions or individuals registered with SIDBI who shall assist MSMEs in preparing project reports in a professional manner which would, in turn, help banks make more informed credit decisions.