

## **SME CREDIT POLICY — EXCERPT**

**(Internal Use – Credit & Risk Management)**

### **1. Purpose**

This document outlines the credit appraisal, documentation requirements, and risk evaluation framework for Small and Medium Enterprise (SME) lending.

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### **2. Mandatory Documentation Requirements**

The following documents are mandatory for SME loan pre-screening:

- Last 12 months bank statements (all operating accounts)
- GST returns (GSTR-1 and GSTR-3B) for the last 12 months
- Audited financial statements (last 2 financial years, where applicable)
- KYC documents of promoters and entity

Missing any mandatory document requires escalation to Senior Credit Officer.

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### **3. Cash Flow & Turnover Assessment**

- Average monthly bank credits must reasonably align with reported turnover.
- A mismatch of greater than 20% between:
  - GST reported sales, and
  - Bank credit inflowsis considered a material discrepancy.

Such discrepancies require clarification and may result in application hold.

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### **4. Leverage & Existing Obligations**

- Existing EMI obligations must not exceed 35–40% of average monthly cash inflows.
  - High leverage combined with volatile cash flows is considered a high-risk indicator.
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### **5. Cash Flow Volatility**

Indicators of elevated risk include:

- Frequent negative monthly balances
- Sharp unexplained spikes or drops in credits
- Declining trend in quarterly average inflows

A declining cash flow trend requires escalation.

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## 6. Red Flag Indicators

The following are considered red flags:

- GST sales materially higher than bank credits
- Sudden increase in liabilities without turnover growth
- Missing or inconsistent documentation
- Declining cash flows with rising debt obligations

Presence of multiple red flags requires senior review.

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## 7. Escalation Policy

Cases must be escalated to Senior Credit Officer if:

- Mandatory documents are missing
  - Material inconsistencies exist
  - Cash flow trends are declining
  - Policy thresholds are breached
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*This document is used by the GenAI system only for reference and grounding.  
Final decisions remain with human credit officers.*