

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.

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.

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 inflows
is considered a material discrepancy.

Such discrepancies require clarification and may result in application hold.

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.

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.

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.

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

*This document is used by the GenAI system only for reference and grounding.
Final decisions remain with human credit officers.*