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CIRCULAR No.867

**Sub : Line of Credit (LoC) for purchase of raw materials
by MSMEs from KSSIDC – MoU and scheme.**

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A new scheme in the form of Line of Credit to Micro, Small and Medium scale Industrial units is envisaged to extend assistance to units which intend purchasing raw materials in the form of steel, coal and other products from KSSIDC. The proposal for introducing this scheme was discussed with KSSIDC during the joint meeting held on 04.07.2009 by MDs of KSFC and KSSIDC. In this regard, a note was placed before the EC in its meeting held on 24.07.2009. After detailed deliberation, the EC has approved the scheme and its immediate implementation. The details of the scheme is given at Annexure-I. Further, an MoU has been entered into between KSSIDC and KSFC on 24.07.2009. A copy of the MoU is given at Annexure-II.

All the BMs and concerned HODs at HO are hereby advised to have a close rapport with the officers of KSSIDC, also give wide publicity to the scheme and mobilise substantial business under this scheme. The contents of this circular shall be brought to the notice of all the concerned in your office / department.

Encl: As above.

Sd/-
MANAGING DIRECTOR

All BMs
All ZMs / DGMs of Super 'A' Branches / IA cells
All Principal Officers / Section Heads in HO
All General Managers
Library

Executive Directors - for information



ANNEXURE-I

Line of Credit (LoC) for purchase of raw materials from KSSIDC

1.Introduction :

KSFC as a leading institution for financing of Micro, Small and Medium enterprises (MSMEs) in the State, introduces an LOC scheme for financing towards purchase of raw materials by MSMEs from KSSIDC.

2.Objective:

The objective of the scheme is to provide timely and adequate working capital assistance in the form of WCTL to MSMEs for purchase of raw materials from KSSIDC.

3.Eligible Borrowers:

Sole Proprietorships, Partnerships, Cooperative Societies, Private and Public Limited Companies etc., engaged in the manufacture / production, processing or preservation of goods.

4.Quantum of assistance:

The line of credit may be sanctioned normally to the extent of 50% of the average raw material cost of production during previous three years in respect of existing units. In respect of new units, 50% of the estimated cost of raw material for the next 12 months may be considered. However, for execution of specific orders if any, this limit can be extended up to 80% of the raw material cost of the proposed orders on hand, with the prior approval of the next higher level of sanctioning authority. The LOC sanctioned is valid for a period from 12 months from the date of sanction. The additional assistance / LOC can be sanctioned afresh after the expiry of 12 months OR after repayment of earlier LOC in full, whichever is earlier. However, the minimum LoC amount will be Rs.5.00 lakhs and maximum LoC amount will be Rs.100.00 lakhs.



5.Extent of Finance:

Upto 80% of the cost of raw materials proposed for purchase from KSSIDC, within the LOC sanction limit.

6.Promoters' Contribution:

20% of the proposed cost of raw material.

7.Debt Equity Ratio:

Not applicable.

8.Debt Service Coverage Ratio:

Not applicable.

9. Collateral Security:

First charge on the raw materials financed under the scheme shall be obtained. Apart from this, collateral security shall be obtained as detailed below:

- i.Collateral security of 30% of the loan for existing borrowers of the Corporation in standard category and who are working on profitable lines;
- ii.Collateral security of 50% of the loan for existing units (other than existing borrowers) who are working on profitable lines;
- iii.Collateral security of 100% of the loan in respect of other cases;

10.Interest rate:

The rate of interest applicable to the term loans for MSMEs shall be charged for the loans under the scheme. In case of default, a penal interest of 2.5% p.a. over and above the gross rate of interest is applicable on the default amount for the period of default.

**11.Repayment period:**

The interest on the amount outstanding shall be paid on monthly basis. The principal shall be repaid on or before the end of 15th month from the date of first disbursement. Pre-payment / fore closure of the account will not attract payment of any premium.

12.Time limit for availing the assistance:

The assistance sanctioned under the scheme is valid for a period of 12 months from the date of sanction. The borrower may draw the amount in installments based on his requirements within this period. Any amount undrawn after a period of 12 months shall lapse automatically. The interest shall be charged on the loan outstanding for the period of usage of LoC.

13.LAFD / Upfront fee:

LAFD : 0.25% of the loan amount + service tax;

Upfront fee : 0.25% of the loan amount + service tax;

14.Delegation of powers:

The delegation of powers for sanction of LoC is as under:

<i>Sl. No.</i>	<i>Sanctioning Authority</i>	<i>Sanctioning powers</i>
1	BMs of 'B' Grade Branch Offices	Upto Rs.10.00 lakhs
2	AGMs of 'A' Grade Branch Offices	Upto Rs.15.00 lakhs
3	DGMs of Super 'A' Grade Branch Offices/ ZMs	Upto Rs.20.00 lakhs
4	General Managers	Upto Rs.30.00 lakhs
5	Executive Directors	Upto Rs.50.00 lakhs
6	Managing Director	Upto Rs.100.00 lakhs

The above delegation is over and above delegation of powers for term loan and WCTL.

15. The terms as detailed in the MoU entered into with KSSIDC for the operation of the scheme shall be meticulously adhered to.

Sd/-
MANAGING DIRECTOR



ANNEXURE-II

MEMORANDUM OF UNDERSTANDING

This **Memorandum of Understanding** is entered into BY and BETWEEN Karnataka State Financial Corporation (a Statutory body established under the State Financial Corporations Act 1951) having its head office at KSFC Bhavan, No.1/1, Thimmaiah Road, Bangalore-560 052, hereinafter for brevity's sake referred to as **KSFC** OF THE FIRST PART and Karnataka State Small Industries Development Corporation, a company wholly owned by the State of Karnataka and having its head office at Rajajinagar Industrial Estate, Bangalore, hereinafter for brevity's sake referred to as **KSSIDC** OF THE SECOND PART.

Whereas, KSFC & KSSIDC are instrumentalities of Government of Karnataka established for the purposes of encouraging small and micro scale industrial units within the State of Karnataka. Whereas the First Party is a Financial Institution which assists micro, small and medium scale industries to meet their financial requirements for acquisition of plant & machinery, land & building and other fixed assets. KSFC also finances working capital requirements of industrial concern. Whereas KSSIDC in addition to allotment of sheds / land to the intending entrepreneurs also deals in the supply of raw material required for the industrial units in the form of steel and coal.

Whereas presently, the Second Party is selling goods which are required by industrial concerns. Due to various reasons inter alia economic slow down, industrial concerns require material on credit basis. Therefore, with a view to help industrial units to tide over such short term liquidity problems, KSFC has agreed to introduce a scheme whereby it would undertake to pay KSSIDC the amount due from the industrial concern and for this purpose would sanction limits to the Borrower in the form of Line of Credit (LoC) exclusively to be used by the Borrower concern for such type of purchase of raw material from KSSIDC under the scheme.

Whereas both KSFC & KSSIDC have mutually discussed the details of entering



into such transactions and have agreed to implement the understanding. Both the parties desire that the duties and obligations be reduced to writing. In consideration of the mutual benefit to be derived by both the parties, the Parties are entering into this Memorandum of Understanding to evidence the terms and conditions agreed to by the Parties.

This scheme shall be applicable to micro, small and medium industrial units.

1. The First Party KSFC shall sanction need based working capital assistance to its clients for purchase of items from KSSIDC. For this purpose, KSFC is at liberty to make its own assessment of the requirement of the unit and fix such margins that could be financed depending on the securities available and viability of the project according to its internal appraisal. This assessment shall be carried out solely by KSFC according to its norms and conditions and after obtaining necessary documentation from the Borrower. A copy of sanction communication issued to the Borrower shall be sent to KSSIDC for its information.
2. On receiving a request from the Borrower and KSSIDC for raising a bill for sale of goods, KSFC shall process the same and issue commitment letter for the specified amount undertaking to repay the bill amount ordinarily within 20 days from the date of invoice, in any event within a period not exceeding 30 days including a grace period of 10 days from date of invoice. In the event of failure to pay the commitment amount on the 30th day of invoice by KSFC, KSSIDC shall charge interest @12% p.a., from date of invoice till date of payment. It is specifically understood that such payment shall be made by KSFC within an overall limit of 45 days from date of invoice.
3. KSSIDC undertakes to supply the raw material / goods to the industrial concern after obtaining commitment letter from KSFC and shall send a copy of the bill / invoice to KSFC for its records. KSSIDC agrees that if the Borrower becomes defaulter in its payment to KSFC towards any of the earlier bills, KSSIDC on intimation from



KSFC shall stop the supply of any further raw materials to the Borrower under the scheme envisaged by this Memorandum. In such an event further supplies will be taken up by KSSIDC only on obtaining NOC from KSFC.

- 4.KSSIDC undertakes that if the Borrower becomes defaulter to KSFC in clearing its dues, it shall not supply any goods to such Borrower till the earlier dues of KSFC are cleared and NOC is obtained from KSFC. This applies in cases where the Borrower may approach KSSIDC directly even without commitment letter for further supplies. KSSIDC will not entertain any such requests for supply of goods to such Borrower till the dues of KSFC are cleared and NOC is obtained from them.
- 5.The maximum limit of assistance under the scheme shall be limited to upper limit of Rs.100.00 lakhs to any one industrial unit during the period of one year.
- 6.KSSIDC for having supplied the goods ordered by the Borrower industrial concern shall obtain proper acknowledgment from the authorised person of the unit for having received the delivery of the goods as per the specifications in the purchase order and that the goods received by him are in good condition as regards the quality and quantity of the goods supplied.
- 7.KSFC shall issue commitment letter to the concerned Deputy Chief Manager, KSSIDC with a copy to the Zonal Chief Manager, KSSIDC and also to the Borrower unit.
- 8.KSSIDC and KSFC understand that the amount due to KSSIDC under any of the invoices sent to KSFC against the commitment letter shall not be set off or adjusted towards any amounts which may be due to KSFC from KSSIDC towards any other account.
- 9.KSSIDC specifically indicates that it shall supply and deliver goods to industrial units only against the commitment letter issued by KSFC under this scheme. Further, KSSIDC undertakes not to enter into any cash transactions with such units directly.



All transactions will be routed through KSFC under the scheme.

10. The parties agree that in case of nonpayment of the invoice amount by the 30th day, KSSIDC shall be entitled to charge interest on the invoice amount @ 12% per annum from the 31st day onwards giving retrospective effect, i.e., interest shall be charged from the date of invoice till the date of actual payment of the amount within 45 days by KSFC.

11. During the course of implementation of this scheme if any additions / modifications to the understanding arrived at are required, the same may be effected by the Parties by way of an addendum to this Memorandum to more fully implement the scheme.

In witness whereof the Authorised Signatories of the First Party and Second Party have set their hand to this Memorandum of Understanding.

Signed, sealed & delivered
on behalf of KSSIDC

Sd/-
MANAGING DIRECTOR

Place: Bangalore
Date : 24.07.2009

Signed, sealed & delivered
on behalf of KSFC

Sd/-
MANAGING DIRECTOR