



## Things to be kept in mind while SMEs approach a bank for financing needs

Written by Babu S

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- Certified copies of partnership deed / Memorandum of Association / Articles of Association
- Audited Financial statements for the last 2-3 years
- IT Returns of directors/partners of 2-3 years
- SSI/SME registration certificate
- KYC norms
- Detailed Project Report
- Professional qualification certificate (if applicable)

**2: Have a professional project report in place:** As a lender the bank will need to know the business plan of the borrowing company. As a SME applying for a loan with the bank, you must present a good business plan that can convince the bank of the project worthiness. Banks give due importance to the submitted business plan so make sure your business plan has a short term plan, a long term vision and a proper business strategy to make it convincing. Many SMEs are guilty of thinking a business plan is just a formality and present a simple survival business plan which may not be good enough to convince the bank for any loan.

**3: Do not have an obsolete business model:** Banks give due importance to the business model submitted by the SME seeking loans. If your business model is obsolete due to change in market conditions or increase in competition etc. banks will not be keen to offer you a financial helping hand. Many SME owners think banks may not have much idea about their niche markets and hence a business model which they used to seek funds in the past may work again. Banks have absolute understanding of various SME business models and approve loans only for those establishments who present a well oriented business model.

**4: Get rated from a credit rating agency:** As a SME one of the best things you can do to increase your chances of getting a loan from the bank is to get approval from a certified credit rating agency. Rating agencies will assess the overall financial viability including your sales, operations, capability to honor business obligations etc thereby assessing the overall benchmark performance of your company. Rating agencies use a grading system ranging from SME 1-8. Rating 1 denotes the highest rating and 8 the lowest. A good rating can not only help you gain faster credit but also loans at cheaper rate of interest.

**5: Do your research on potential lenders and schemes:** Banks are offering multiple SME centric loans and as a borrower the onus is on you to apply for the right loan. There are dedicated SME loans available for working capital requirements, to purchase machinery or to upgrade existing infrastructure. Before applying for loan under any schemer make sure to

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compare all available schemes for your industry and doing your research as an informed borrower.

Raising money from banks and other financial institutions for an SME has become simpler over the years. By having the right documentation in place and following the above mentioned steps you can avail funding for your business easily and in quick time.