



## Preface

**A**s a professional banker and now as a banking consultant I review, practically every day, several applications for term loans, overdrafts, working capital finance and a host of other facilities. There are many instances when the applicant, unaware of the bank's needs, does not present all the details required, or presents them in a manner that causes the bank to reject the application. At other times, as the information given is incomplete, the applicant is harassed by demands for more information and after he has submitted what was asked for is asked for yet some more. Time drags on while the bedeviled applicant runs hither and thither, exasperated, frustrated and harrowed. The banker is also exasperated, frustrated and harrowed. He exists to make loans but before he can approve an application and permit disbursal, as a responsible professional he has to be convinced that the borrower has the capacity and the willingness to repay. Nothing thrills him more than a well presented, detailed application that addresses all the concerns that he may have.

This book seeks to reveal to the borrower how the banker's mind works. It attempts to enlighten him on what a banker looks for, the issues that he thinks are important, and to explain how he finally arrives at the decision to lend.

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This book is also for the banker to remind him of the issues that are important when assessing the credit-worthiness of a prospective borrower.

Finally, this book is intended also to help students of banking, management sciences and finance.

RAGHU PALAT





## Acknowledgements

**A**writer has many thoughts that he would like to put on paper — to share with others. The problem that he is often confronted with is the manner in which these thoughts should be presented.

In writing this book I would like to thank Mr R. Jagannathan, the Editor of the *Financial Express*, a superb financial editor and a good friend. It was he who helped me plan this book. He believed that there is a need for such a book for businessmen and entrepreneurs — persons who at some time may need to approach banks for a loan but are uncertain regarding the information that banks require and the manner in which it should be presented. His encouragement and his concern for the prospective borrower spurred me to write this book.

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- Our daughters Divya and Nikhila who lend meaning to our dreams.
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## Chapter 1



# The Business of Lending

**R**aman Menon is an exporter of garments. He has received a large order from the US and the finished goods have to be exported within 90 days. In order to fulfil the order he requires approximately Rs 50 lakh to purchase the raw materials and meet production costs. He has never before sought a bank loan and is unclear on how he should approach a bank, or, indeed, which bank he should approach.

Rusi Daruwalla, on the other hand, is the managing director of Unisulphur Ltd, a company that manufactures chemicals and he needs to expand capacity in his factory to meet growing demand. He has approached the company's bankers — The Manufacturers Bank — for a loan. However, even after two months, they were still raising several queries and Mr Daruwalla was at his wit's end. He was growing suspicious that the bankers were raising queries in order to find a way out of not lending him the funds that he needs.

Vinod Desai is a young professional. He has just qualified as a doctor and wishes to set himself up as a medical practitioner. He needs essential seed capital of around Rs 10 lakh to rent and equip a clinic. Unfortunately, he has no funds;