nor can he give any collateral apart from the assurance that he would work hard and repay the amount borrowed within a year or two.

Raman Menon, Rusi Daruwalla and Vinod Desai have several commonalties; they require money now; they need this money essentially from a bank; they are unclear on how to approach the bank and what information they need to furnish. This is a problem many in need of finance face and they often believe, misguidedly, that banks do not want to lend to them.

I state 'misguidedly' because banks exist in order to lend. They avidly and aggressively seek persons or corporates to whom they can lend monies. However, as the downside of a bad debt is very high a banker has to be convinced that he is actually not throwing away good money and that he will be repaid in full, and in time. To this end he will ask questions, seek answers and documentary evidence. This is natural. He has to always remember that a bad loan is a loss. It must be remembered that the return that a banker normally earns on a loan is about 2%-3% per annum. If the Manufacturers Bank advanced a loan of Rs 2,000,000 to Unisulphur Ltd, it could expect a net annual return or earning of Rs 40,000. If however, the loan becomes bad and uncollectable, the bank would need to lend Rs 100,000,000 at 2% per annum to another company in order to recoup its loss. And rupees ten crore is an enormous amount. In short, considering the cost of a bad loan, from a banker's perspective it is safer to refuse advancing a loan to someone he is unsure of than make one in the hope of earning an income. This is the reason why bankers prefer to lend only to those companies which are growing, are profitable, running smoothly and seem well regarded. Ironically, this often leads to a situation where banks desperately try to lend to those who do not need the money and refuse to "give the time of day" to those who do!

One must bear in mind that the non-performing asset recognition norms now imposed by the Reserve Bank on banks are becoming increasingly stringent. If interest is not paid for two quarters on a loan, the loan has to be deemed/recognized as a non-performing asset (NPA). Interest then cannot be accrued on this advance by the bank and banks are also required to state in their financial statements the quantum of non-performing assets they have at the year end. Provisions too would need to be made — the amount depending on how good the advance is the amount of collateral the bank has and the period it has been outstanding. This is a direct charge on profits. The enormous emphasis placed on non-performing assets and the scrutiny it is subjected to (quite rightly) is one of the main reasons that bankers are reluctant to lend when there is even a shred of concern on the viability of a project or the creditworthiness of a borrower. The dictum they follow is "when in doubt, don't".

In conclusion, it needs to be remembered that the business of banking is lending. The banker takes a risk whenever he approves a loan. This is accepted. His job, as a prudent person, is that he has to ensure that the risk is minimal on any money lent. The borrower, on the other hand, if he wishes to receive the money he needs for his enterprise has to satisfy the banker that he is competent, and that the monies lent to him are both safe and will be repaid when due.

In the ensuing chapters I will attempt to enlighten the reader on the factors bankers look at when reviewing a loan, or credit, proposal, i.e. give you a peep into the banker's mind. Essentially, such factors are:

- Nature of the loan sought.
- Period within which it would be repaid.
- The manner in which it would be repaid.
- The security or collateral that is given for the loan.
- The economic conditions and the industry conditions that might affect the creditworthiness of the borrower.
- The viability of the project. This would include knowing the industry and the relationship of its performance with the economic/business cycle.
- Competence and integrity of management and its intention to repay the loan in the manner agreed.
- The past track record. How successful has the particular business/businessman been.

Once the borrower addresses these issues to the satisfaction of a bank, chances are that the loan would indeed be granted in record time.

Chapter 2

The Purpose

The pivotal question upon which the lending decision rests is the purpose for which a loan is sought and this is usually the first issue that a banker ascertains when approached for a loan or any other credit facility. In regard to the purpose there are a few critical factors that must be remembered:

1. The nature of the credit facility sought must be consistent with the borrower's activities. Raman Menon is an exporter of garments. It would be inconsistent and illogical for a bank to advance him a loan to purchase a chemical agitator.
2. It must be for a matching need. For example, short-term funding should be sought for a short-term need. Raman Menon, as an exporter of garments, should not seek a term loan to finance pre-shipment expenses. Alternatively, a manufacturer should not seek to finance a factory expansion with an overdraft. In short:

- A company that needs working capital to purchase inventories (stocks) and pay expenses should seek an overdraft.

- An exporter who needs finance to purchase goods to export should seek a pre-shipment packing loan.
- An exporter who needs finance on goods exported under a usance letter of credit (payment is made after 90 to 180 days after the acceptance of the documents by the buyer) should seek an export bill discount facility.
- An industrialist, on the other hand, who needs a large loan to finance an expansion, or build a factory, or buy some very expensive machinery should seek a term loan that is repayable over a period of time. Often, due to the gestation period, banks would give a moratorium regarding payment of interest and principal for a year or so.
- At times a loan may be required for a short period to "bridge two events". This is known as a bridge loan. For example, a company may have had a public issue to finance its expansion. In order not to hold up work until the final allotment is made and the money is available to the company, it may seek a bridge loan.
- Certain companies and industries require seasonal loan facilities. A classic example is the seafood industry. It requires finance soon after the monsoons to purchase and process seafood for export. During the monsoons no finance is usually required. Similarly, the tea industry requires finance when there is no picking of tea — to replant tea and to maintain the tea gardens.

It is imperative that the nature of the facility sought be compatible with the reason for which the loan is sought. If it is not there could be horrendous repercussions as happened soon after the liberalization initiatives announced after 1992. At that time the capital markets were booming and most industrialists believed that they could access the