A Comprehensive Guide for bankers to Preparing Sanction Letters for the SME Sector

A Credit Team Manual

Table of Contents

1. Introduction & Purpose

This document serves as the definitive guide for the Credit Team, outlining the standard operating procedures for preparing comprehensive and accurate Sanction Letters for SME borrowers. A Sanction Letter is a legally binding document that formalizes the terms of a credit facility offered by the Bank to a customer. It is the culmination of the credit appraisal process and acts as the single source of truth for all subsequent activities, from onboarding to disbursement and monitoring.

The primary objectives of this manual are to:

1. **Standardize the Process:** Ensure a uniform, consistent, and error-free approach to Sanction Letter preparation across the entire Credit Team.
2. **Ensure Compliance:** Guarantee that all Sanction Letters are compliant with internal policies, regulatory guidelines (as referenced in the Master Term Sheet), and approved sanctioning authority decisions.
3. **Empower the Credit Analyst (CA):** Provide a clear, step-by-step methodology for using the Master Term Sheet Bank as a reference manual, minimizing ambiguity and maximizing efficiency.

4. **Mitigate Risk:** Reduce operational, legal, and credit risks by ensuring all critical terms, covenants, and events of default are correctly and comprehensively documented.
5. **Facilitate "Straight-Through Processing":** Create precise and clear Sanction Letters that can be easily understood and actioned by downstream departments like Service Solutions, Credit Administration, and Operations.

The Master Term Sheet Bank is not just a collection of templates; it is a carefully constructed guide that reflects the Bank's credit policy and institutional wisdom. This manual aims to teach you how to interpret and use it effectively.

---

2. The Core Principle: Mastering the Master Term Sheet Bank

Before drafting any Sanction Letter, it is crucial to understand that the provided Master Term Sheet Bank document is your primary tool. It is a dynamic, living document that codifies the Bank's standard and variable conditions for every conceivable product.

The Credit Team must treat the Master Term Sheet as a manual of instructions, not a set of *fait accompli* that can be copied and pasted without thought. The "Notes for Users" section at the beginning is particularly critical and must be read and understood before proceeding. This section sets the foundation for your work.

Key Foundational Concepts Explained in the "Notes for Users":

1. **Abbreviations:** A list of standard abbreviations (RM, SRM, CA, CC, etc.) is provided. Use these uniformly in all internal and external communications to maintain clarity.
2. **The Concept of Variable and Internal Conditions:**

- **Variable Conditions:** These are *indicative* conditions that are *not exhaustive*. They are a starting point. The RM, CA, and Sanctioning Authority (SA) are **free to stipulate additional conditions** on a case-specific basis. This flexibility is crucial, as every borrower is unique. **You cannot simply rely on the template; you must tailor it.**

- **Standard Conditions:** These are the core, essential conditions for a particular facility. However, the document explicitly states that even standard conditions may be waived if the case warrants it. **Crucially, the waiver of a standard condition must be highlighted by the RM/CM/CA in the Credit Appraisal Note and approved by the SA/Credit Committee (CC).** This is a critical control point to ensure deviations are discussed and vetted.

3. **Internal vs. Borrower Conditions:**

- **Internal Conditions:** These are conditions that are **not to be communicated to the Borrower**. They are for internal risk management, monitoring, and operational guidance (e.g., PFE limits, internal approval processes).
- **Borrower Conditions:** All other conditions (Standard and Variable) are to be communicated to the borrower. The final Sanction Letter must clearly differentiate between these, and internal conditions must be stripped out from the version sent to the client.

4. **Presentation of the Final Term Sheet:** The guidelines on presentation are critical for professionalism and legal clarity. You must adhere to the specified font (Trebuchet MS, Size 10), include a specific footer on every page, and ensure it is a standalone, comprehensive document that entirely replaces any previous Term Sheet.
5. **The Distinction: Covenant vs. Undertaking vs. Event of Default (EOD):**

- **Covenant:** A condition for monitoring purposes. Breach of a covenant may lead to a penalty.
- **Undertaking:** A specific promise from the borrower, usually captured in a separate document or incorporated via the acceptance of the Sanction Letter.
- **Event of Default (EOD):** A critical breach that gives the Bank the right to recall the facilities. EODs must be explicitly stated in the Sanction Letter. They should not be internal conditions.

6. **Facility Structuring - Sub-limits and Interchangeability:** This section explains how to present a complex credit structure using a numbering system (e.g., 1, 1.1, 1.2, 1.1.1). The illustration is your guide to creating clear and logical tables that show the relationship between main limits, sub-limits, and interchangeable facilities. **A critical warning is that the Bank's IT system does not allow interchangeability between revolving and non-revolving facilities.** This means you must design the limit structure carefully at the outset.

Actionable Insight for the Credit Analyst (CA):

- **Do not simply copy and paste.** The Master Term Sheet is a reference, not a final draft.

- **Think critically** about the borrower's unique profile and any risks identified during the appraisal.
- **Document your decisions.** If you select a variable condition or waive a standard condition, ensure the rationale is clearly documented in the CREDIT APPRAISAL NOTE.
- **Ensure clear communication.** The final Sanction Letter must be clear and unambiguous for the borrower, Service Solutions, CREDIT ADMINISTRATION, and Ops.

---

3. Initiating the Sanction Letter Process: Pre-Approval Steps

The preparation of the Sanction Letter does not begin in a vacuum. It is the final step in a chain of credit analysis and approval. Before drafting, the following prerequisites must be met:

1. **Credit Appraisal Note Approval:** The Sanction Letter is a direct outcome of the approved CREDIT APPRAISAL NOTE. The CA must have completed a thorough financial analysis, industry assessment, and management evaluation of the SME borrower. The CREDIT APPRAISAL NOTE outlines the "why" and "how much," while the Sanction Letter is the "how."
2. **Sanctioning Authority Approval:** The final Sanction Letter must reflect the exact terms approved by the appropriate Sanctioning Authority (SA) or Credit Committee (CC). This includes the approved:
   - **Limit Amounts:** The exact sum for each facility.
   - **Pricing:** The exact interest rate, MCLR spread, discounting margins, and fees.
   - **Tenor/Usance:** The maximum periods for drawdown and repayment.
   - **Security:** The approved securities to be taken.
   - **Covenants:** The key financial and non-financial covenants.
3. **Gather Necessary Data for Annexures:** Before you start, you must have all relevant data to populate the Term Sheet correctly. This includes:
   - **Accurate Borrower Details:** Registered name, full address, constitution (Company/LLP/Partnership/Proprietorship/Trust), group details, and industry classification.

- **External Ratings:** The latest external rating (e.g., from CRISIL, ICRA) and its date.
- **Banking Arrangement:** Is it Sole Banking, Multiple Banking, or a Consortium? Who are the other bankers and what are their limits?
- **Security Details:** Full descriptions, values, and addresses of all properties and assets to be charged.
- **Guarantor Details:** Full names, addresses, and net worth details of personal and corporate guarantors.

---

4. Deconstructing the Master Term Sheet: A Step-by-Step Guide

This section provides a detailed walkthrough of the Master Term Sheet structure, helping you understand each component and how to use it to construct a Sanction Letter.

4.1. The Top Sheet & Facilities Summary Table

The Top Sheet is the face of the Sanction Letter. It contains critical metadata and a high-level summary of the entire proposal.

- **Term Sheet No.:** A unique identifier for the letter. Usually generated by a tracking system.
- **Date:** The date of issuance.
- **Transaction (Borrower, Group, Constitution, etc.):** This is where you populate the borrower's details. Ensure the names are correct and consistent with legal documents. This section also flags critical classifications like Real Estate Exposure or Priority Sector Lending.
- **The Facilities Summary Table:** This table provides a quick snapshot of all facilities being sanctioned. Each facility must be logically numbered to show its relationship to other limits.

- **Instructions:**

1. Start by defining the overarching limit (e.g., "Working Capital limit").

2. Under it, list the specific sub-limits (e.g., "1.1 Cash Credit", "1.2 WCDL").
3. If there are further sub-limits, number them accordingly (e.g., "1.1.1 WCDL").
4. For each facility, fill in the margin, revised amount, status, tenor, and validity.
5. **A critical rule:** Validity must be a specific date (e.g., "30.06.2018"), not a relative term like "12 months."

   - **Interchangeability:** If facilities are interchangeable, this must be clearly noted. For example, `"CC and STL are interchangeable with total exposure not exceeding Rs.10 Cr."`
   - **Internal Facilities Table:** This duplicate table includes facilities that are for internal monitoring only and are NOT to be communicated to the borrower (e.g., "Forex Fwd LER," "Derivative LER," "Risk limits"). This must be prepared but excluded from the borrower's Sanction Letter.

4.2. Common Facility Templates & Their Nuances

This section of the manual explores the specific templates provided in the Master Term Sheet. Each template has a specific structure and a set of standard conditions.

4.2.1. Working Capital: Cash Credit (CC), Working Capital Demand Loan (WCDL), Overdraft (OD)

- **Cash Credit (CC):**
  - **Purpose:** General working capital to finance inventory and receivables.
  - **Tenor:** Repayable on demand.
  - **Security:** Secured by charge on current assets.
  - **Drawing Power (DP):** The facility is DP-driven. The CA must ensure the DP computation method is correctly specified.
  - **Key Standard Condition:** "The Borrower shall obtain and keep alive all statutory approvals required for the Business..." (from Appendix 1 if MFA not used).
- **Working Capital Demand Loan (WCDL):**
  - **Purpose:** Bridge short-term cash flow mismatches.
  - **Tenor:** Maximum 180 days (specific period to be mentioned).
  - **Key Standard Condition:** "No automatic roll-over of WCDL shall be allowed. Fresh disbursements shall be allowed only after repayment of earlier tranche on due date with a break of at least Two days."

- **Variable Condition:** The CA must decide if the WCDL is a sub-limit of a DP-backed CC or a standalone facility, as this affects the rollover rule.

- **Overdraft (OD):**
  - **Purpose:** Meeting temporary cash flow mismatches.
  - **Tenor:** Repayable on demand.
  - **Standard Condition:** "Outstanding in the OD account shall be brought to zero at least once in a year/ every quarter."

4.2.2. Trade Finance: Export and Import, Bills & Invoice Finance

This category includes a wide array of products. The CA must carefully select the appropriate template.

- **Export Packing Credit (EPC/PCFC):**
  - **Purpose:** Pre-shipment finance for export orders.
  - **Disbursement:** Against a firm export order.
  - **Standard Condition:** "The bills relating to export of goods against which PC has been allowed... will be tendered only to the Bank for negotiation."
  - **Key Standard Condition:** "The Borrower is not on the Exporters' Caution List of RBI..."
- **Foreign Bill Purchase/Discounting (FBP/FBD) & Negotiation (FBN):**
  - **Purpose:** Post-shipment finance. FBP/FBD are for bills not under a Letter of Credit (LC). FBN is for bills drawn under an LC.
  - **Disbursement:** Proceeds are first used to liquidate outstanding EPC/PCFC.
  - **Standard Condition:** "All bills discounted by the Bank would be with full recourse to the Drawer." (Important for risk assessment).
  - **Internal Condition for FBN:** "Acceptable banks are those banks on whom the Bank has approved trade lines (These are trade lines approved periodically by ALCO)." This is crucial internal guidance.
- **LC Backed Bill Discounting (LCBD):**
  - **Purpose:** Bill discounting for bills drawn under an LC.
  - **No margin is required.**
  - **Standard Condition:** "Bills under LCs of only acceptable banks shall be discounted."

- **Internal Condition:** The definition of "acceptable banks" is given as internal guidance. This implies that the operations team has a list of approved banks.

- **Sales Bill Discounting (SBD) & Purchase Bill Discounting (PBD):**
  - **Purpose:** Discounting of domestic sales and purchase bills.
  - **Margin:** Typically a percentage is required.
  - **Key Standard Condition:** "All bills discounted by the Bank would be with full recourse to both the Drawer and the Drawee."
  - **Variable Condition:** "The Bank reserves the right to stipulate Drawee--wise sub-limits within overall bill discounting limits."
  - **The three combined templates (SBD & SIF, SBD & PBD, SBD & SIF) are invaluable** when a borrower has multiple facilities. They show how to combine conditions and security from different products into one consolidated template, avoiding repetition.
- **Factoring Facility:**
  - **Purpose:** Purchase of receivables, either with or without recourse to the assignor.
  - **The key difference: Without recourse** means the default risk is borne by the Bank (buyer), requiring a first-loss default guarantee (FLDG). **With recourse** means the risk of default is with the assignor.
  - **Key standard documents include Notice of Assignment (NOA) and CERSAI registration.**
  - The template provides detailed instructions on "Whole Turnover Method" vs. "Invoice Basis" and prescribes strict internal controls for operations, including "Acceptable debtor" and "Duplication check."

4.2.3. Term Loans (TL): Fixed Asset, Real Estate, NBFC/HFC

Term loans are non-revolving facilities for specific purposes, repaid in installments.

- **Term Loan - General (TL / FCTL / WCTL):**
  - **Disbursement:** Staged, based on CA certificates and margin contribution (promoter's equity).
  - **Repayment:** Equated Monthly Installments (EMIs) or bullet repayment.
  - **Security:** Primary security is the asset being financed (e.g., plant & machinery, property).

- **DSRA:** For FCTL and Project loans, a Debt Service Reserve Account (DSRA) is a common condition.
- **Variable Condition:** "Borrower shall hedge the exchange risk on the loan amount" (for FCTL/WCTL).
- **Internal Condition:** "Business / Service Solutions shall verify POs/invoices covering at-least 25% of the cost considered for loan release" – a critical operational control.

- **Term Loan - Real Estate Project Funding:**
  - **Purpose:** Funding the construction of a real estate project.
  - **The entire process is highly regulated.** The template incorporates RERA requirements, including the mandatory setup of a RERA Account and a Collection Escrow Account.
  - **Standard Conditions for RERA Compliance:** "At least 70% of the project collections shall be deposited in a RERA Account" and withdrawals permitted only in proportion to project progress.
  - **Common Conditions for Real Estate Borrowers:** This is a separate section that lists all regulatory and monitoring requirements specific to this sector, providing a comprehensive checklist.
  - **Events of Default (EOD):** Specific to this sector, such as "Stoppage in construction activity... for a consecutive period of 3 months" or "Estimated residual receivables being lower than estimated residual cost."
- **Term Loan - NBFC/HFC Onward Lending:**
  - **Purpose:** To provide funding to an NBFC for its own lending activities.
  - **Key Standard Condition:** "The Borrower to submit a CA certificate within 90 days... certifying the end use of the funds." This is the primary risk control for these facilities.
  - **Common Conditions for NBFC Borrowers:** This section establishes the DP mechanism based on the NBFC's loan book, which is more complex than standard inventory-based DP.
  - **Key Covenants:** "Asset cover of at-least _____ times shall be maintained on the eligible loan receivables..." and quarterly reporting of financials and NPAs.

4.2.4. Non-Fund Based Facilities

These facilities do not involve an initial outlay of funds but represent a contingent liability for the Bank.

- **Bank Guarantee (BG) / Standby LC (SBLC):**

- **Purpose:** Issuance of a guarantee on behalf of the borrower.
- **Tenor:** Includes a claim period.
- **Commission:** A percentage fee is charged.
- **Margin:** Cash margin is typically required, 100% for disputed liabilities.
- **Key Standard Condition:** "Guarantee format shall be acceptable to the Bank." The legal vetting of the BG format is critical.
- **Variable Condition:** "In case of discontinuation of facility... Borrower shall place term deposit of the equivalent amount with the Bank for the balance tenor of the Bank Guarantee." This protects the Bank from running exposure.

- **Letter of Credit (LC) & Buyers Credit (BC):**

  - **Purpose:** LC is issued for the purchase of goods; BC is an import financing mechanism extending the tenor of an LC.
  - **Usance:** The maximum period. **A critical combined condition:** "Combined tenor of Working Capital LC and Working capital TC/BC i.e. facilities ____ and ____ not to exceed ______ months." This is an essential control to prevent the circumvention of the maximum tenor limit.
  - **Margin:** Cash margin is required.

4.2.5. Specific Programs: Invoice Finance, PO Financing

These are highly specialized templates designed for specific corporate buyers. The CA's role is to select the correct one and ensure all unique operational requirements are captured.

- **Invoice Finance** for specific large corporates (Hero MotoCorp, Honda Cars, Mahindra, TAFE, etc.) includes:

  - **Standard Process:** The templates detail the exact process for invoice submission, discounting, and due date calculation, often based on weekly or monthly cycles set by the corporate buyer.
  - **Key Standard Condition:** All invoices must be marked "Pay to Kotak Mahindra Bank Ltd."
  - **Repo rtment Method:** The loan is liquidated from an Escrow account, often on a FIFO basis.
  - **Internal Conditions:** These include detailed instructions for the operations team, like verifying data on the buyer's vendor portal (TMTL's SRM portal, Hero MotoCorp's web portal) and conducting invoice audits. This shows how to define a process for Operations.

- **Purchase Order (PO) Financing** for specific corporates (Hero MotoCorp, Mahindra) is for financing the *manufacturing* process, not the final receivable.
    - **Disbursement:** Based on a CA certificate showing the average monthly sales of the last three months.
    - **Dependency:** This facility is often linked to the Sales Invoice Finance facility. The "Repayment Conditions" state: "The liquidation of disbursement... shall take place from the proceeds of invoices/receivables discounted (as per facility 1) on Day 1, Month 1 onwards." This linkage must be made clear.

4.3. The "Other Terms and Conditions" Annexure

This annexure is a central repository for all the general conditions that apply across the facilities. It contains critical sections that must be populated for every Sanction Letter.

- **Validity of Sanction:**
    - Includes a standard clause on the Bank's discretion to continue, cancel, or reduce the facility.
    - **Critical Clause:** "The Borrower shall submit data for renewal/review (as required by the Bank) by dd/mm/yyyy." **This date must be at least 2 months before expiry.** This is a key deadline for RM and CA to ensure timely renewal.
- **Rate of Interest / Discount:**
    - This table is a key deliverable. For each Rupee-denominated facility, you must specify the MCLR period (e.g., 1M, 3M, 6M, 1Y) and the spread. For foreign currency facilities, specify the LIBOR benchmark and spread.
    - **MCLR Reset Date:** If the facility is floating and linked to MCLR, you must include the standard clause explaining how and when the interest resets. (The instructions in pink font explicitly state this applies if the rate of interest is linked to MCLR).
    - **FBIL linked ROI:** The Master Term Sheet now includes a section for FBIL (Fixed Income and Banking Information) linked rates, an external benchmark. If pricing is linked to FBIL, you must use this section.
- **ROI Covenants:**
    - A standard clause giving the Bank the right to change the rate of interest.
    - **Critical Clause:** "Interest rates that are / may be communicated... are also based on the credit rating of the Borrower... In the event of any downgrading... Bank shall be entitled to vary / reset the interest rate." This protects the Bank's earnings from a deterioration in the borrower's credit risk.

- **Inspection / Audit:**
  - Standard clause for inspection of stock, book debts, and securities by the Bank or its agents at a 24-hour notice.
  - **Cost of audit and inspection shall be borne by the Borrower.** (Not applicable for unsecured facilities).
- **Insurance:**
  - Standard condition for comprehensive insurance on all charged assets.
  - The insurance policy must be endorsed in favor of the Bank.
  - Insurance cost is to be borne by the Borrower. Insurance renewal is a key monitoring requirement.
- **Stock and Book Debts Statement:**
  - A standard condition for all DP-linked facilities (OD, CC, WCDL, EPC).
  - The CA must clearly specify in the "Applicable Facilities" section which facilities are subject to this condition. This is often a missed step.
  - The template provides a detailed list of what the statement must include (ageing of book debts, break-up of group companies, etc.), ensuring no gaps in monitoring.
- **Drawing Power (DP) Computation:**
  - A critical section that defines how the DP will be calculated for facilities like CC and WCDL.
  - **Margin:** You must specify the applicable margin on stock and book debts.
  - **DP Computation:** The template lists what must be deducted from the stock and book debts (creditors, unpaid LCs, outstanding with other banks, etc.). **This is an essential control against double financing.**
  - **Consortium:** If the borrower is in a consortium, the clause specifically states DP will be allowed in proportion to the Bank's share of the total limits.
- **Security:**
  - This section is a comprehensive checklist for the type of security to be taken.
  - **For Hypothecation:** You must fill in the priority of charge (e.g., "First and exclusive" or "Second pari passu") and the type of asset (e.g., "current assets," "moveable fixed assets").
  - **For Mortgage:** You must specify the priority and provide the full address of the property. The clause also includes a reference to **RoC form CHG1** for registration.

- **For Personal/Corporate Guarantee:** You must name the guarantors and stipulate that documents like IT Returns and Net Worth Statements be submitted.
- **Timelines for completion of Security:** If a deferral of security creation is approved, you must use the table to provide clear deadlines for each type of security (e.g., NOC, Hypothecation, Mortgage). This is a key risk-mitigation tool.

- **General Terms and Conditions:**
  - **LEI Number:** A new and important clause: "The borrower shall obtain Legal Entity Identifier (LEI) number... Continuity/Renewal of credit facilities shall be subject to compliance with these stipulations." **This is applicable and must be stipulated for borrowers with Rs.50 crores or more exposures with the Bank.**
  - **IBC Provisions:** Clauses requiring the borrower to inform the Bank of any initiation of proceedings under the Insolvency and Bankruptcy Code (IBC). This is a key risk indicator.
- **Additional Events of Default (EODs):**
  - This is where the CA must list all EODs specifically approved for the borrower.
  - The template provides an indicative list of financial norms (TOL/TNW, Current Ratio, DSCR). The CA must fill in the actual numbers approved by the sanctioning authority.

4.4. Escrow and Takeover Conditions

These are stand-alone sections for special cases.

- **Escrow Conditions:**
  - The Master Term Sheet includes a separate Escrow Conditions section. This is because escrow mechanisms vary by counterparty (e.g., Star India, Tata Motors, Bajaj Auto).
  - **Key Standard Actions:** The CA must ensure the "Two separate current accounts (Escrow & Ops)" are opened. Standing Instructions for sweeping are set. Joint letters are drafted and acknowledged by the counterparty. The escrow account is a "non-cheque book" account.
  - **Internal Conditions:** A bank memo must be flagged at the account level to prevent cheque books or channel access being issued for the escrow account.
- **Takeover Conditions:**

- This section is used when the Bank is taking over facilities from an existing banker.
- **Key Standard Conditions:** Pre-disbursement checks (e.g., RoC search to confirm charges), ensuring no overdue interest is taken over, and obtaining No Dues Certificates.
- **First Disbursement:** The procedure for issuing pay-orders/RTGS directly to the existing bank and the process for taking over non-fund-based limits (counter guarantees or BG swaps) are defined.
- **Internal Conditions:** The RM is required to meet with the officials of the exiting bank to understand the account's performance and the procedure for security release.

4.5. Standard Penalty Clauses

This section is a crucial part of the Sanction Letter. It establishes the consequences for non-compliance and delinquency.

- **Default Clauses Table:** This is a standardized table of penalties for non-submission of documents (Audited Annual Report, Provisional Financials, Stock Statements, Insurance Policy).
- **Cheque Bouncing/Collection Charges:** Reference to the Bank's standard Schedule of Charges.
- **Variable Conditions:** This table is exhaustive and includes penalties for specific events.
  - **Non-Creation of Security:** Specific time lines are set, and failure to meet them results in additional interest.
  - **Commitment Charges:** Penalty for under-utilization of limits.
  - **Penalty for non-compliance of Covenants:** 2% additional interest on total exposure.
- **Additional Interest for Unhedged Foreign Currency Exposure (UFCE):** This is a critical regulatory requirement. The table defines the Additional Interest charges if a borrower does not submit UFCE declarations or has a high UFCE to EBIDTA ratio.
- **Standard Penalty Clauses for FIG:** A separate, slightly different set of penalty clauses for the Financial Institutions Group.

5. The Art of Selection: Standard vs. Variable Conditions

One of the most important skills for a Credit Analyst is the ability to choose the right conditions for the specific borrower and facility.

Feature	Standard Conditions	Variable Conditions
Definition	Essential, base-level conditions for a facility.	"Indicative" conditions to be applied on a case-specific basis.
Source	The Master Term Sheet Bank.	The Master Term Sheet Bank (as a starting point) + Case-specific conditions from the CREDIT APPRAISAL NOTE/Approval.
Change/Waiver	Can be waived, but **must be highlighted in the CREDIT APPRAISAL NOTE and approved by SA/CC.**	Can be freely added, deleted, or modified based on the specific borrower's assessment.
Examples	- "All bills discounted by the Bank would be with full recourse to the Drawer."	- "The Bank reserves the right to stipulate Drawee--wise sub-limits."
	- "Bills under LCs of only acceptable banks shall be discounted."	- "Outstanding in the OD account shall be brought to zero at least once in a year/ every quarter."

Feature	Standard Conditions	Variable Conditions
	- "The Borrower is not on the Exporters' Caution List of RBI..."	- "The Borrower to submit monthly sales statements... on or before 15th of the following month."
User Action	Incorporate into the Sanction Letter unless specifically waived and approved.	**Critically evaluate** if each variable condition is appropriate for the borrower's situation. Add it, delete it, or modify it as necessary.

Example 1: WCDL Disbursement

- **Standard Condition:** No automatic roll-over allowed. A 2-day break is required between tranches.
- **Variable Condition:** "WCDL shall be drawn in minimum tranches of Rs. ...."
- **User Action:** If the borrower is a very stable, large SME with high volumes, the CA might decide to specify a higher minimum tranche amount to reduce administrative costs.

Example 2: Cash Credit Covenants

- **Standard Condition:** "The Borrower shall obtain and keep alive all statutory approvals required for the Business..." (from Appendix 1).
- **Variable Condition:** "Outstanding in the cash credit account shall be brought to zero at least once in a year/ every quarter."
- **User Action:** For a borrower with seasonal business, the CA might choose the "once in a year" option to allow for a longer repayment cycle.

6. Internal vs. External Conditions: What to Communicate

The distinction between what goes into the borrower's Sanction Letter and what is kept internally is critical to maintaining control without creating misunderstandings.

Condition Type	Nature	Purpose	Where it Appears in TS
External (Borrower)	Specific terms, covenants, rates, security requirements, and events of default.	Legally binding on the borrower. Creates the contractual framework.	In the main facility templates and "Other Terms and Conditions" section of the Sanction Letter.
Internal	Operational instructions, risk parameters, approval processes, and monitoring mechanisms.	Guides the Bank's internal teams (Service Solutions, CREDIT ADMINISTRATION, Ops, Credit Monitoring) on how to administer the facility and monitor risk.	In a separate "Internal Conditions" section of the Term Sheet. These are **excluded** from the Sanction Letter provided to the borr

Key Guidelines:

- **Derivative Limits:** The LER limit and the MTM threshold limit are both internal. The "MTM threshold limit" is the only part communicated to the borrower (the trigger for a margin call). However, the LER limit itself is strictly internal.

- **Acceptable Banks for LCBD:** This is strictly an internal condition to guide the Operations team. The borrower does not need to know the bank's internal credit assessment of foreign banks.
- **Operational Process Guidance:** "Operations to essentially verify the data submitted for discounting with the SRM portal of TMTL" is an internal instruction for the Ops team, not a condition for the borrower.
- **Specific Internal Limits:** "The approved PFE value is Rs.________" is an internal risk limit that the Treasury team must monitor, but it's not communicated to the borrower.

7. Security, Documentation & Checklist

This is the most critical administrative part of the process. The Sanction Letter is not complete until the security and documentation conditions are finalized.

1. **Define Security:**

- **Be Specific.** Do not just say "first charge on current assets."
- **For Movable Assets:** Specify if it's a "hypothecation charge" on "all existing and future receivables / current assets/ moveable assets."
- **For Immovable Property:**
  - **"Equitable/Registered mortgage charge on immoveable properties being land and building situated at ________, Village ________, District ________, State ________."** You must provide the full, correct postal address. This is essential for legal perfection and subsequent monitoring.
- **Priority:** Is it a "First and exclusive," "First pari passu," "Second pari passu," or "Subservient" charge? The Sanction Letter must be clear on this.
- **RoC/CERSAI Registration:** Always include the standard clause: "Charges shall be registered with RoC vide **Form CHG1** within statutory time limit." This is a non-negotiable legal requirement.

- **"Timelines for completion of Security":** If a deferral was approved, this table is mandatory. It is an explicit condition of sanction that prevents the facility from remaining unsecured indefinitely.

2. **List All Documents:**

- The "List of Documents" annexure is a comprehensive checklist. The CA is not expected to list all possible documents for every case. Instead:

1. **Delete the inapplicable.** Only include the documents relevant to the facilities being sanctioned.
2. **Use the "Facility Specific Documents" table.** This helps you identify the exact documents required. For example, for "Sales Bill Discounting," the Board Resolution "should specify persons authorized to draw and endorse bills of exchange."
3. **Ensure Undertakings are Listed.** If a specific undertaking is required (e.g., "That the Borrower shall not advance or give any loans to group companies without prior approval"), it must be listed in the "List of Documents."

2. **Understand the "List of Documents" Section:**

- The first table contains the **Common Documents** for almost all borrowers (e.g., Request Letter, Sanction Acceptance, MOA/AOA, Board Resolution).
- The second table contains **Facility Specific Documents** (e.g., DP Note, Letter of Continuing Security, specific undertaking).
- **Note:** If MFA is not taken, the covenants from Appendix 1 must be added to the Sanction Letter or its annexures. This is a critical legal control.

3. **Documentation for Derivatives:**

- The "List of Documents" annexure has a specific sub-section for Forward Contracts and Derivatives.
- **Note the importance of the Board Resolution (BR) for Derivatives.** The guidelines clearly state that the BR must explicitly mention the limit assigned to the Bank, name the authorized officials, and be signed by a person other than those authorized to transact. This is a fundamental internal control (segregation of duties).

Section 8: Putting It All Together: Drafting the Final Sanction Letter

8.1 The Assembly Process

The final Sanction Letter is not created by simply copying and pasting from the Master Term Sheet Bank. It is a carefully constructed document that must be assembled with precision and attention to detail. The following steps outline the complete assembly process.

8.1.1 Step-by-Step Assembly Guide

8.1.1 Step-by-Step Assembly Guide

Step	Action	Description
1	**Compile the Facilities Table**	Ensure the Top Sheet and Facilities Summary Table are complete and accurately reflect the CREDIT APPRAISAL NOTE and approval. Verify that all numbered facilities match the approved limit structure.
2	**Populate the Facility Templates**	For every approved facility, select the correct template from the Master Term Sheet Bank. Fill in all blank fields with the specific terms approved in the CREDIT APPRAISAL NOTE.

Step	Action	Description
3	**Complete the "Other Terms and Conditions"**	Populate all required sections of the "Other Terms and Conditions" annexure. This includes Interest Rate, DP Computation, Security, Covenants, and Events of Default.
4	**Create Required Annexures**	Include the Escrow Conditions annexure (if applicable), Takeover Conditions annexure (if applicable), and the List of Documents. Also include the GLEMS Annexure-II data tables.
5	**Remove Internal Conditions**	Ensure all "Internal Conditions" from the Master Term Sheet are stripped out and not communicated to the borrower. Create a separate Internal Facilities Table for internal use.
6	**Apply Standard Formatting**	Ensure the final Sanction Letter is in Trebuchet MS font, Size 10, Color Black only. Add the required footer to every page with Borrower name, RM/CM names, and page numbers.
7	**Review for Consistency**	The cover page, the facilities table, and the facility-specific terms must all be consistent. Details on the cover page must not differ from facility-wise conditions.

Step	Action	Description
8	**Highlight All Changes**	If this is a modification of a previous Sanction Letter, clearly indicate all changes in **bold letters**. Provide a separate table for *Deleted Conditions* to capture any conditions being removed.

8.1.2 The "Deleted Conditions" Table

When a new Sanction Letter replaces a previous one, and certain conditions are being removed or deleted entirely, these deletions must be captured in a separate table under the header **'Deleted Conditions'**. This process is essential for Service Solutions, CREDIT ADMINISTRATION, Ops, and Credit Monitoring teams to determine the nature of modifications being made.

Example of a Deleted Conditions Table:

S. No.	Previous Condition Reference	Previous Condition Text	Reason for Deletion
1	Facility 1.1, Covenant 3	"Outstanding in the cash credit account shall be brought to zero at every quarter."	Changed to annual clean-up due to seasonal business cycle.
2	Other Terms, Section 5.2	"The Borrower shall submit monthly cash flow statements."	Duplicate condition; already captured under Stock & Book Debt statements.

8.2 The Facility Templates Selection Process

8.2.1 How to Choose the Right Template

8.2 The Facility Templates Selection Process

8.2.1 How to Choose the Right Template

Scenario	Template to Select	Reason
Only SBD facility	Sales Bill Discounting (SBD)	Individual template.
Only SIF facility	Sales Invoice Finance (SIF)	Individual template.
Both SBD and SIF sanctioned	SBD and SIF Combined Terms	Avoids duplication of common conditions.
Only SBD or Only PBD	Individual templates	Use separate templates.

Scenario	Template to Select	Reason
Both SBD and PBD sanctioned	SBD and PBD Combined Terms	Common conditions apply to both.
Pre and Post-shipment export credit	EPC/PCFC/FBP/FBD/PSCFC/FBN Combined Terms	All export facilities are interchangeable.
Working Capital LC and BC	LC and BC Combined Terms	Combined tenor condition applies.
Capex LC and BC linked to TL	Capex LC and BC Combined Terms	Repayment linked to TL facility.

8.2.2 Key Decisions to Make for Each Template

Facility Type	Key Decisions Required
Cash Credit / WCDL / OD	- Is it DP-backed? - What is the margin percentage?

Facility Type	Key Decisions Required
	- Clean-up frequency (annual/quarterly)? - Is there a commitment fee?
Export Credit (EPC/PCFC/FBP/FBD/FBN)	- Are facilities interchangeable? - What is the discounting rate? - What is the margin on export orders? - Is status report on overseas buyers required?
SBD/PBD/SIF/PIF	- What are the approved drawee/drawer parties? - What is the margin percentage? - What is the usance period? - Is there a float period?
LCBD	- Is it for Sales or Purchase bills? - Is the borrower constituent or non-constituent? - Is the LC confirmation pending? - What are the acceptable banks?
Term Loan (TL/FCTL/WCTL)	- What is the disbursement method (staged/bullet)? - What is the repayment schedule (EMIs/EQIs)?

Facility Type	Key Decisions Required
	- Is there a moratorium period? - What is the margin/contribution requirement? - Are there DSRA requirements?
Non-Fund Based (LC/BG/SBLC)	- What is the margin/commission? - What is the usance period? - Are there combined tenor constraints? - What is the BG format?
Real Estate Project Loan	- Is RERA compliance included? - Are escrow accounts set up? - Is DSRA required? - Are project monitoring conditions included?
NBFC/HFC Term Loan	- Is end-use certification included? - Are loan receivables statements required? - What is the DP computation methodology?

8.3 Completing the "Other Terms and Conditions" Annexure

8.3.1 Rate of Interest / Discount Table

This table must be filled for every facility. The CA must ensure the interest rate matches the approved terms in the CREDIT APPRAISAL NOTE.

Example of a Completed ROI Table:

Credit Facility	Rate of Interest / Discount	Applicable MCLR Period	Remarks
Rupee denominated:			
Cash Credit	MCLR + 2.50%	6M	Reset on Feb 1 and Aug 1 annually
WCDL	MCLR + 2.00%	1M	Reset monthly
SBD	MCLR + 3.00%	3M	Discount upfront
EPC	MCLR + 1.50%	3M	Reset quarterly

Credit Facility	Rate of Interest / Discount	Applicable MCLR Period	Remarks
Term Loan	MCLR + 2.00%	1Y	Reset annually
Foreign currency denominated:			
PCFC	LIBOR + 1.75%	1M	Based on 1M LIBOR
WCDL-FC	LIBOR + 2.25%	3M	Based on 3M LIBOR
FCTL	LIBOR + 2.50%	6M	Based on 6M LIBOR

8.3.2 MCLR Reset Date Calculation

For floating rate facilities linked to MCLR, the reset date must be clearly specified.

MCLR Period	Reset Frequency	Example Calculation
ON (Overnight)	Daily	Reset daily

MCLR Period	Reset Frequency	Example Calculation
1M	Monthly	First reset on 1st of next month
3M	Quarterly	First reset after 3 months
6M	Half-yearly	First reset after 6 months
1Y	Annually	First reset after 1 year

Example: For a disbursement made on August 12, 2017 (in case of K-MCLR 6M):

- First reset date will be February 1, 2018
- Subsequent reset date will be on August 1, 2018

8.3.3 Drawing Power (DP) Computation Table

This is one of the most critical sections. The CA must specify:

1. **The margin percentages** for each category of stock and book debts.
2. **The deductions** that must be applied.
3. **The consortium/MBA sharing pattern**, if applicable.

Example of a Completed DP Computation Section:

Margin Component	Percentage
Imported Raw Materials	10%
Indigenous Raw Materials	15%
Stock in Process	20%
Finished Goods	15%
Stores and Spares	25%
Book Debts (up to 90 days)	25%
Book Debts (> 90 days)	Not eligible

Deductions from DP:

- Creditors (all outstanding)
- Guarantees executed by the Bank in lieu of advance payment

- Goods received under unpaid usance LCs
- Stocks purchased under Purchase Bill Discounting
- Outstanding under EPC/PCFC
- Advance received against firm export orders
- Outstanding with other banks

8.3.4 Security Table

Type of Security	Priority	Details	Timeline for Creation
Hypothecation	First Pari Passu	All existing and future current assets of the Borrower.	Within 30 days of disbursement
Mortgage	First Pari Passu	Land and building at [Full Address].	Within 45 days of disbursement
Personal Guarantee	N/A	Mr. XYZ	To be executed before first disbursement
Corporate Guarantee	N/A	ABC Ltd.	To be executed before first disbursement

Type of Security	Priority	Details	Timeline for Creation
SBLC	N/A	From XYZ Bank, minimum 108% coverage.	To be received before disbursement

8.3.5 Events of Default (EODs) Table

Type	Event of Default	Monitoring Frequency
Financial	TOL/TNW exceeding 3.50 times.	Quarterly
Financial	Current Ratio falling below 1.10.	Quarterly
Financial	DSCR falling below 1.25 times.	Annually
Operational	Non-creation of security within stipulated time frame.	Ongoing
Operational	Change in management control without prior approval.	Ongoing

Type	Event of Default	Monitoring Frequency
Regulatory	Filing of any application under Insolvency and Bankruptcy Code, 2016.	Immediate

---

8.4 Handling Special Situations

8.4.1 When MFA is Not Taken

If the Master Facility Agreement (MFA) is waived for any borrower, the term sheet shall also contain the covenants specified under **Appendix-1** of the Master Term Sheet Bank. These are covenants removed from the Master Term Sheet since there are corresponding suitable covenants in MFA. CA/CM/Service Solutions and CREDIT ADMINISTRATION shall ensure compliance with this.

Appendix-1 Covenants that must be added if MFA is NOT taken:

Clause	Description
A1.1	"The Borrower shall obtain and keep alive all statutory approvals (IT, GST, Factory approvals, PCB clearances etc.) required for the Business."
A1.2	"The Borrower should not induct on its board a person whose name appears in the list of Wilful Defaulters."
A1.3	"The Borrower shall keep the Bank informed of any event likely to have a substantial effect on their stock, production, sales, profits etc."
A1.4	"Irrespective of the description of the Facilities... the securities furnished shall secure the aggregate secured facilities."
A1.5	"The Bank reserves the right... to revoke or cancel the Facility/ies sanctioned... without assigning any reasons."
A1.6	"In case the scheduled payment date of any installment / interest falls on a non-working day, such interest / installment shall be paid on the preceding working day."

Clause	Description
A1.7	Declaration that none of the directors/partners is a director or specified near relation of a director of a banking company.

8.4.2 When Rating is Linked to Interest Rate

If the interest rate is linked to the borrower's credit rating:

- **Standard Clause:** "Interest rates that are / may be communicated by the Bank to the Borrower from time to time, are also based on the credit rating of the Borrower assessed by the external credit rating companies... In the event of any downgrading / downward revision in the credit rating of the Borrower, Bank shall be entitled to vary / reset the interest rate."

  Action by CA: Include this clause in the ROI Covenants section. Ensure the current rating and date are mentioned in the Top Sheet.

8.4.3 When Pricing is Linked to FBIL Rate

If the rate of interest is linked to FBIL rate (external benchmark rate):

Example of FBIL Linked ROI Table:

Applicable FBIL Rate	Details
Overnight	Rate shall be FBIL Overnight Rate + Spread
14 Day	Rate shall be FBIL 14 Day Rate + Spread
1 Month	Rate shall be FBIL 1 Month Rate + Spread
3 Months	Rate shall be FBIL 3 Months Rate + Spread
Reset Date	In case of "FBIL 14 days", loan will be reset on the 15th day from the date of disbursement. Applicable FBIL prevailing on the preceding working day of the Reset Date + Spread shall be the Rate of Interest for that Facility until next Reset date.

8.5 The Formatting Checklist

8.5.1 Mandatory Formatting Requirements

Requirement	Details
Font	Trebuchet MS
Font Size	10
Font Color	Black only
Track Changes	Must not be issued in track change mode
Header	Bank Logo (on every page)
Footer	Borrower Name, TS No., Page No., RM Name, CA Name
Page Numbering	Format: Page____/ ____ (e.g., 1/10)
Color Highlighting	Remove all color highlights before issuing

8.5.2 Final Sanction Letter Structure

Section	Pages	Content
Cover Page	1	Term Sheet No., Date, Division, Borrower Details, Approvals
Facilities Table	1-2	Summary of all facilities (External)
Internal Facilities Table	1-2	Summary of all facilities (Internal - NOT for borrower)
Facility Templates	Varies	Facility-wise detailed terms and conditions
Other Terms and Conditions	Varies	All general conditions applicable to all facilities
Annexure I	1	For use of Service Solutions and CREDIT ADMINISTRATION (Borrower details, sharing pattern)
Annexure II	1	Data needed for GLEMS
Escrow Conditions	Varies	If applicable
Takeover Conditions	Varies	If applicable

Section	Pages	Content
List of Documents	Varies	All documents to be obtained from borrower
Appendix-1	1	Covenants to be annexed if MFA not taken

8.5.3 Validation Checks Before Final Issuance

#	Validation Check	Responsibility
1	All blank fields in the Top Sheet are filled.	CA
2	The facility structure (main limits, sub-limits) is correctly numbered.	CA
3	Validity dates are specific dates (not relative terms like "12 months").	CA
4	All "Internal Conditions" have been removed from the borrower's version.	CA/CM
5	The correct templates have been selected for each facility.	CA

#	Validation Check	Responsibility
6	The ROI table is correctly populated with MCLR period and spread.	CA
7	The Security table includes full addresses for all mortgaged properties.	CA
8	Escrow/Takeover annexures are included where applicable.	CA
9	The List of Documents is complete and accurate.	CA
10	All changes from the previous TS are clearly indicated in **bold**.	CA
11	Deleted conditions are captured in a separate table.	CA
12	The format is correct (font, footer, page numbers).	CA
13	Internal conditions are compiled on a separate page.	CA

Section 9: Quality Control & Review Process

9.1 The Review Structure

Review Stage	Responsibility	Timing	Key Checks
Self-Review	Credit Analyst (CA)	Before submission to CM	Verify all calculations, ensure all blanks are filled, check for consistency between the facilities table and detailed terms, confirm internal conditions removed.
Peer Review	Senior Credit Analyst/Manager	If complex case	A fresh pair of eyes to catch errors in logic, arithmetic, or omissions.
Manager Review	Credit Manager (CM)	Before approval	Validate that the Sanction Letter accurately reflects the approved CREDIT APPRAISAL NOTE. Ensure the conditions are appropriate for the risk profile of the borrower.
Formal Review	Service Solutions / CREDIT ADMINISTRATION	Before issuance	Ensure the final version adheres to all formatting and operational guidelines. Confirm the Sanction Letter is ready for STP (Straight-Through Processing).

Review Stage	Responsibility	Timing	Key Checks
Final Sign-off	Sanctioning Authority (SA) / Credit Committee (CC)	Before issuance	Authorize the issuance of the final Sanction Letter to the borrower.

9.1.1 Self-Review Checklist

#	Self-Review Item	Completed?
1	All numeric amounts (limits, margins, rates) match the CREDIT APPRAISAL NOTE approval.	☐
2	The facility numbering is logical and correctly represents sub-limits and interchangeability.	☐
3	All blanks (indicated by __________ in the templates) have been filled.	☐
4	**Internal Conditions** have been removed from the borrower's version.	☐

#	Self-Review Item	Completed?
5	The final version is in Trebuchet MS, Size 10, Color Black.	☐
6	The footer on every page includes the Borrower name, TS No., Page No., RM, and CA.	☐
7	All changes from the previous TS are in **bold** (if applicable).	☐
8	Deleted conditions are captured in a separate table (if applicable).	☐
9	The Sanction Letter is comprehensive and replaces all previous versions.	☐

9.1.2 Common Errors to Avoid

Error	Impact	Prevention
Copy-paste without customization	Conditions may not fit the borrower's risk profile.	Carefully review each variable condition for applicability.

Error	Impact	Prevention
Internal conditions in borrower version	Reveals internal risk limits and monitoring parameters.	Use the "Internal Facilities Table" and flag all internal conditions.
Blank fields not filled	Indicates incomplete approval or laziness.	Use the Find function to locate all underscores.
Validity as "12 months"	Ambiguous and not legally enforceable.	Always use a specific date (DD Month YYYY).
Incorrect numbering of facilities	Confusing for all stakeholders.	Follow the illustration in the Master Term Sheet.
Previous TS not cancelled	Legal ambiguity regarding which TS is valid.	State clearly: "(Earlier Term Sheet No. XXXX dated __________ stands cancelled)".
Font/Style errors	Unprofessional and fails STP checks.	Use the Style Inspector to ensure correct formatting.

Section 10: Final Checklist & Approval Procedure

10.1 Final Checklist for Sanction Letter Issuance

#	Checklist Item	Verified By	Status
SECTION A: BASIC INFORMATION			
A1	Borrower details are correctly entered in the Top Sheet.	CA	☐
A2	External rating and rating date are updated.	CA	☐
A3	Industry code and description are correctly classified.	CA	☐
A4	Whether MFA is applicable is correctly indicated.	CA	☐
SECTION B: FACILITIES TABLE			
B1	The facilities table is correctly numbered.	CA	☐

#	Checklist Item	Verified By	Status
B2	Each facility's limit, margin, tenor, and validity are specified.	CA	☐
B3	Interchangeability is correctly captured (if applicable).	CA	☐
B4	The Internal Facilities Table is prepared but excluded from the borrower's version.	CA	☐
SECTION C: FACILITY-SPECIFIC TERMS			
C1	Correct templates from the Master Term Sheet Bank have been selected.	CA	☐
C2	All Variable Conditions have been reviewed and tailored to the borrower.	CA	☐

#	Checklist Item	Verified By	Status
C3	All Standard Conditions have been included unless specifically waived and approved.	CA	☐
C4	Blank fields in templates have been filled.	CA	☐
SECTION D: OTHER TERMS AND CONDITIONS			
D1	ROI table is correctly populated for each facility.	CA	☐
D2	MCLR reset date methodology is correctly specified.	CA	☐
D3	DP computation methodology is clearly defined.	CA	☐
D4	Security details are complete (addresses, priority, timelines).	CA	☐
D5	Covenants and EODs are correctly specified.	CA	☐

#	Checklist Item	Verified By	Status
D6	Standard penalty clauses are included.	CA	☐
SECTION E: ANNEXURES			
E1	Annexure I (Service Solutions/CREDIT ADMINISTRATION data) is completed.	CA	☐
E2	Annexure II (GLEMS data) is completed.	CA	☐
E3	Escrow annexure is included (if applicable).	CA	☐
E4	Takeover annexure is included (if applicable).	CA	☐
E5	List of Documents is complete.	CA	☐
E6	Appendix-1 is included (if MFA not taken).	CA	☐
SECTION F: FORMATTING			

#	Checklist Item	Verified By	Status
F1	Font is Trebuchet MS, Size 10, Color Black.	CA	☐
F2	Footer is present on every page (Borrower, TS No., Page No., RM, CA).	CA	☐
F3	All color highlights have been removed.	CA	☐
F4	The document is not in track change mode.	CA	☐
SECTION G: MODIFICATIONS			
G1	Changes from previous TS are in **bold**.	CA	☐
G2	Deleted conditions are captured in a separate table.	CA	☐
G3	The previous TS is explicitly cancelled.	CA	☐

10.1.1 Sign-off Process

Stage	Sign-off Required By	Documentation
1	Credit Analyst (CA)	Sign-off on the CREDIT APPRAISAL NOTE and TS
2	Credit Manager (CM)	Sign-off on the CREDIT APPRAISAL NOTE and TS
3	Credit Committee (CC) or Sanctioning Authority (SA)	Approval in the CREDIT APPRAISAL NOTE
4	Service Solutions / CREDIT ADMINISTRATION (post-issuance review)	Confirmation of STP readiness

Section 11: Conclusion & Best Practices

11.1 Summary of Key Principles

1. **The Master Term Sheet is Your Guide, Not Your Draft.** Always tailor its contents to the specific borrower. The "Variable Conditions" are there for a reason.
2. **Clarity is Key.** A Sanction Letter is a legal document. Avoid ambiguity. If a condition can be interpreted in two ways, it is not a good condition.
3. **Document Everything.** Any waiver of a standard condition or the introduction of a unique variable condition must be clearly reasoned and documented in the CREDIT APPRAISAL NOTE.
4. **The Sanction Letter is the "Source of Truth."** Once issued, it dictates how the entire banking relationship will function. Get it right the first time to avoid confusion and costly amendments.
5. **Know Your Client.** The best Sanction Letter is one that reflects a thorough understanding of the borrower's business, industry, and specific risks.

11.2 Best Practices for the Credit Team

11.2.1 During Appraisal

Practice	**Rationale**
Identify key risks early.	Allows for specific, tailored covenants.
Confirm security availability.	Prevents delays in creation of security.
Understand the business cycle.	Informs DP clean-up frequency and repayment schedules.
Check for group/related party transactions.	Requires additional covenants on inter-company loans/guarantees.
Assess foreign currency exposure.	Determines need for hedging and UFCE reporting.

11.2.2 During Sanction Letter Preparation

Practice	Rationale
Use the correct templates.	Ensures all essential conditions are covered.
Review each variable condition carefully.	Standard templates may not fit every borrower.

Practice	Rationale
Document all changes from previous TS.	Essential for audit trail and stakeholder communication.
Validate all calculations.	Avoids costly errors.
Use consistent terminology.	Reduces confusion across departments.

11.2.3 Post-Issuance Monitoring

Practice	Rationale
Track adherence to covenants.	Identifies early warning signs.
Ensure timely receipt of stock/book debt statements.	Validates DP and asset cover.
Monitor insurance renewal.	Protects security value.
Track security creation timelines.	Ensures legal perfection of security.

Practice	Rationale
Maintain communication with RM.	Ensures alignment on borrower's performance.

11.3 Quick Reference Guide

11.3.1 Standard vs. Variable Conditions Quick Reference

Facility Type	Key Standard Conditions	Key Variable Conditions to Review
CC/WCDL	DP computation, no roll-over (WCDL)	Clean-up frequency, minimum tranche size
EPC/PCFC	Full recourse to drawer, routing of proceeds	Commitment fee, group entity restrictions
SBD/PBD	Full recourse to drawer and drawee	Drawee-wise sub-limits, margin percentage
LCBD	LC of only acceptable banks	Acceptable banks (internal)

Facility Type	Key Standard Conditions	Key Variable Conditions to Review
Term Loan	Staged disbursement, margin contribution	Moratorium period, DSRA, hedging requirement
Factoring	NOA, CERSAI registration	Without/with recourse, FLDG percentage
Real Estate	RERA compliance, escrow accounts	DSRA, project progress reporting
NBFC/HFC	End-use certificate, loan receivable statements	Asset cover, quarterly reporting

11.3.2 Common Documentation Requirements

Facility Type	Key Documents
All	Sanction Acceptance, MFA, Board Resolution, DP Note
CC/WCDL/OD	Hypothecation Deed, Letter of Continuing Security

Facility Type	Key Documents
SBD/PBD/Invoice Finance	Escrow Arrangement, Joint Letter to Counterparty
LCBD	LC Indemnity
BG/SBLC	BG Indemnity
Term Loan	Mortgage Deed, Corporate/Personal Guarantee
Factoring	Assignment Agreement, Notice of Assignment
Foreign Currency	Forward Contract Declaration, ISDA Agreement
Derivatives	Board Resolution (with specific authority), Risk Disclosure Statement

11.3.3 Key Internal Condition Categories

Category	Type of Conditions	Purpose
Risk Limits	LER Limit, MTM Limit, PFE Value	Internal risk monitoring
Operational Instructions	Verification processes, escalation processes	Guidance for Operations teams
Approval Processes	CC Level 'A' approval for specific transactions	Delegation of authority
Monitoring Frequency	Timeline for reviewing specific documents	Compliance tracking
CRM Instructions	Key monitoring items for Credit Monitoring team	Ongoing risk management

---

11.4 Final Word

The preparation of a Sanction Letter is a critical function that requires precision, judgment, and a deep understanding of both the borrower's business and the Bank's policies. This manual is designed to provide you with a structured approach to this task, leveraging the Master Term Sheet Bank as a comprehensive reference tool.

Remember that each Sanction Letter is unique and must reflect the specific risks and opportunities of the borrower. The Master Term Sheet provides the framework, but it is your expertise as a Credit Analyst that brings it to life.

A well-prepared Sanction Letter not only protects the Bank's interests but also builds trust with the borrower by providing clear, transparent, and fair terms. It is the foundation upon which a long-lasting banking relationship can be built.

Document Control

Version	Date	Author	Description of Changes
1.0	June 2026	Kondamgire & Co.	Initial Document Created

End of Document