FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

FIFTH REPORT

(Presented on 27th October, 2016)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2016

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

FIFTH REPORT

on

The Action Taken by Government on the recommendations contained in the Sixtieth Report of the Committee on Public Undertakings (2014-2016) relating to Kerala Financial Corporation, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 & 2009 (Commercial)

1286/2016.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)
COMPOSITION

Chairman :

Shri C . Divakaran

Members :

Shri T . A. Ahammed Kabeer

Shri K . B. Ganesh Kumar

Shri C . Krishnan

Shri M . M. Mani

Shri Thiruvanchoor Radhakrishnan

Shri P . T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C . F. Thomas

Shri P . Unni

Legislature Secretariat:

Shri V . K. Babu Prakash, Secretary

Smt. P . K. Girija, Additional Secretary

Smt. Manju Varghese, Deputy Secretary

Smt. Deepa V., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019), having been authorised by the Committee to present this Report on their behalf, present this fifth Report on the Action Taken by Government on the Recommendations contained in the 60^{th} Report of the Committee on Public Undertakings (2014-2016) relating to Kerala Financial Corporation based on the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003 & 2009 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee constituted for the year 2014-16 in its meeting held on 9-9-2015.

This Report, incorporating the recommendations of the Committee and the replies furnished by the Government was considered and approved by the Committee(2016-19) at its meeting held on 17-10-2016 with remarks.

The Committee places on record its appreciation for the assistance rendered to it by the Accountant General (Audit), Kerala during the examination of the Action Taken Statements included in this Report.

C. Divakaran,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
27th October, 2016.

REPORT

This Report deals with the Action Taken by Government on the recommendations contained in the Sixtieth Report of the Committee on Public Undertakings (2014–2016) relating to Kerala Financial Corporation based on the report of the Comptroller and Auditor General of India for the year ended 31st March 2003 & 2009 (Commercial).

The Sixtieth Report of the Committee on Public Undertakings (2014-16) was presented to the House on 11th December, 2014. The report contained 8 recommendations in Para Nos. 16, 17, 18, 28, 29, 30, 33 & 34 of which the Government furnished replies to all of them. The Committee accepted the replies to the recommendations in Para No 17, 18, 28, 29, 30, 33 and 34 without remarks. The recommendations of the Committee and their corresponding replies from the Government form Chapter I of the Report.

The Committee accepted the reply to the recommendation in Para No.16 with remarks. The recommendation of the Committee, its reply from Government and remarks of the Committee form Chapter II of the Report.

1286/2016.

CHAPTER I

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*	*Action taken by the Government*
(1)	(2)	(3)	(4)	(5)
1	17	Finance	The Committee opines that there will be more transparency in the dealings of KFC if auction procedures are done through internet. Before going in for e-sales the Committee wants to have a detailed report in this matter.	Kerala Financial Corporation(KFC) has introduced e-auction portal in 2011. The portal can be accessed through KFC website.
2	18	"	The Committee recommends that before sanctioning loans KFC should ensure that the value of the collateral security pledged is adequate to meet the realisation of the loan amount with interest accrued in case of default and that necessary precautions should diligently be taken to ensure the safety of the assets taken over under section 29 of the SFC Act, 1951.	(1) Corporation has introduced a system of over all asset coverage ratio ranging from 1.2 times to 2 times of the loan sanctioned to safeguard the realization of loan amount. (2) Corporation has appointed professional security agency to safeguard the assets taken over U/S 29 of SFC Act ,1951.

3	28	Finance	The Committee is astonished to find that despite the loanee had repaid an amount exceeding the principal amount a lion's share of the debt still remained outstanding as his liability. The Committee opines that KFC charges exorbitant rate as interest making it virtually impossible for the loanee to repay the loan even when he commits a single default in the repayment. The Committee recommends that KFC should modify the pattern of interest rate in line with the rate of interest newly introduced in KSIDC.	Corporation has introduced system of floating interest rate based on PLR from time to time. Additional interst rebate (ranging from 1.5% to 3.5%) for prompt repayment is allowed for timely repayment and based on credit rating of customers. Once the account becomes NPA, the interest rebate and reduction are withdrawn and in addition penal interest of 2% is charged in the account for the defaulted amount for the period of default. Hence the balance outstanding keeps increasing in the account after it turns into NPA. The balance outstanding shows the total claim of the Corporation in the loan account. The loans are secured by primary and collateral property normal at 1.2 to 2 times of sanctioned amount according to schemes. However except land all other assets such as buildings, machinery equipments, furniture etc. depreciate over period of time. In case of units in default, since the rate of interest charged is higher, the balance outstanding will be much

(1)	(2)	(3)	(4)	(5)
				more than the security value at the time of settlement. OTS amount is worked out, as per the policy approved by the Board of the Corporation, at simple interest rate on PLR/document rate on the balance outstanding from the date of NPA. Corporation is now following a liberal compromise settlement(CS) guidelines which is practical, non-prejudiced, non-discriminatory and result oriented for all doubtful category cases and were no willful default/fraudulent practices have taken place. Normally the settlement amount is principal outstanding + other expenses, subject to remittance of 1.5 times of the amount disbursed including the CS amount for loans up to Rs.10.00 lakhs. In cases, where the amount disbursed is more than Rs.10.00 lakhs, the settlement is done if the total amount is atleast 2 times of the amount disbursed.

4	29	Finance	The Committee desires to be furnished with a copy of the new circular issued by RBI, treating KFC loans under non-priority sector.	This circular was issued by RBI in 2011 and 2012 as part of the master circular issued to banks for priority sector lending. From 2013 onwards RBI has withdrawn this condition based on the representation by SFCs. (Copy given at Annexure IV(a), IV(b), IV(c).
5	30	,,	The Committee remarks that while sanctioning the loan, the Corporation has to ensure the repayment capacity of loanees. The Corporation has failed to conduct a detailed study about the profitability of the business venture and to make a real assessment on the repayment capacity of the loanee, before sanctioning the loan. Therefore, the Committee directs the Corporation to conduct a detailed study and furnish a detailed and updated report in this regard.	It is reported that while sanctioning project loan, Corporation assesses the viability and profitability of each project. Repayment capacity of the loanee is also taken into account based on past credit report and antecedents. Benchmark financial norms are prescribed and financial viability is worked out based on these norms.
6	33	,,	The Committee observes that KFC is not acting like a supportive institution to the society since many cases of unfair incidence of suicides of loanees are increasingly reported. The Committee opines that the loanees had	With the advent of Universal Banking, Development Financial Institutions like KFC had to face acute competition from Commercial Banks. Commercial Banks have become active in the MSME segment

(1)	(2)	(3)	(4)	(5)
			to face much difficulty in clearing the heavy burden of debt owed to KFC due to exorbitant rate of interest charged by KFC and views that KFC is charging exorbitant rate of interest on their loans compared to that of any financial institutions in the State. The Committee remarks that it is high time that the Government restructured the existing service system in KFC in an inclusive manner to the industrial growth of the state, and demands that the existing system of the Institution should summarily be changed to meet the genuine financial needs of the society.	and Corporation cannot charge interest rates which are not competitive in the market. Currently the interest rates charged by the Corporation is one of the lowest in the market. Corporation has introduced system of floating interest rate based on PLR from time to time. Additional interest rebate (ranging from 1.5% to 3.5%) for prompt repayment is allowed for timely repayment and based on credit rating of customers . The effective rates of interest are in the range of 11% to 13.5%. Corporation also provides interest free loans under Kerala State Entrepreneur Development Mission (KSEDM) for entrepreneurship development among the youth and for reducing unemployment in the State.
7	34	”	The Committee is of the view that the pattern of interest rate followed by the Corporation needs drastic changes. Therefore the Committee recommends that the Government should issue	Thus KFC has completely shed its old image of a Financial Institution which is not supporting the society and has transformed itself into a customer friendly and technology

specific guidelines to impose ceiling on interest rate and requisite steps should be taken to avoid penal interest in KFC and other parallel financial institutions.

driven organization by bringing about attitudinal changes in its objective of improving the industrial activities and promoting entrepreneurship development in the State

CHAPTER II

REPLIES FURNISHED BY GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITH REMARKS

Sl. No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*	*Action taken by the Government*
(1)	(2)	(3)	(4)	(5)
1	16	Finance	The Committee observes that sanctioning of 3 additional loans to Star Refineries Private Limited by KFC without insisting on adequate collateral security and its failure to safeguard the assets taken over resulted in the non-recovery of dues amounting to 9.18 crore. The Committee disagrees with the practice followed by KFC in sanctioning additional loans to its defaultees for making adjustments in the original loan without insisting on adequate collateral security. The Committee further observes that KFC had failed to take adequate steps to ensure the safety of the assets taken over	Revised report on loans disbursed to M/s Star Refineries and Sri M. J. Jose and present status is enclosed in Annexure I.

1286/2016.

which in turn enabled the loanees to dismantle and sell the mortgaged assets. The Committee strongly condemns the laxity on the part of KFC in reporting the matter to the police only after a lapse of 6 months. The committee expresses dissatisfaction over the fact that the report forwarded by the Government in the matter is incomplete and did not contain the details of Vigilance enquiry. The Committee wants to have a detailed report in this regard containing all aspects of the case.

Remarks :- The Committee directs to furnish detailed report of the Vigilance enquiry.

Thiruvananthapuram,
27th October, 2016.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

ANNEXURE I

(I) M/s. Star Refineries (P) Ltd.

(i) Sanction and disbursement details.

M/s. Star Refineries (P) Ltd was an existing unit which started commercial production in June 1992. The unit was situated at Development Area, Edayar, Ernakulam. The product of the unit were refined rice bran oil and palm oil.

The company also had two other units in the same premises, one for manufacturing Dhal flour and the other for gingerly oil.

The proposed unit was in a land of 1 Acre in Edayar Development Area, which was allotted to the company at a price of Rs.0.70 lacs by DIC, Ernakulam. The company had total 2 Acres of land in the Edayar Development Area and in one acre the other units of the company were situated. The entire two acres were mortgaged for the loan.

The Corporation originally sanctioned a term loan of Rs.59.00 lakhs on 20.03.1993 for expansion and diversification of the unit. Out of the Rs.59.00 lakhs Rs.9.00 lakhs was for construction of industrial building and Rs.50.00 lakhs for acquisition of machinery. The total cost of project was Rs.100.40 lakhs and promoters contribution was Rs.41.40 lakhs. Rate of interest for the loan was 20%. No collateral security insisted for the loan as per the norms prevailing then.

As per the profit and loss accounts of the company during in 1992, the company had made a net profit of Rs.1.24 lakhs. On completion of the construction, the company started commercial production in 1994. In the F. Y. 1994-95 the company made a profit of Rs.32.25 lakhs before depreciation. From 1994 to 1999, for expansion and for starting Vanaspathi unit additional loans amounting of Rs.200.50 lakhs was sanctioned and disbursed to the unit.

(ii) Project Details

The capacity of the unit was for manufacturing 5600 ton of oil, 375 ton of fatty acid and 300 ton of vanaspathy. The total investment made in the project at the final stage of the implementation was as follows:

Land	: 0.70 lakhs
Building	: 39.79 lakhs
Plant & Machinery	: 386.14 lakhs
Total	: **426.63 lakhs**

Means of finance were as follows:

Term Loan	: 259.50 lakhs
Company's contribution	: 167.03 lakhs
Total	: 426.53 lakhs

(iii) <u>Repayment details</u>

The entire loan was to be repaid in various monthly instalments beginning from 10.05.1995 to 10.03 2004.

The details of loan repayment realized in the loan are as follows.

(Rs. in lakhs)

• Remittance made by the company	91.21
• Machinery sold in 2002 under RR and remitted after RR commission	4.48
• Industrial land & bldg. Sold in 2003 under RR and remitted after RR commission	28.03
• Personal property at Malappuram sold under RR in 2003 and remitted after RR commission	6.98
Total payment received	**130.70**

(iv) <u>Recovery details</u>

Though the company had been making remittance towards loan account the amount remitted was not sufficient to wipe off the demands of principal and interest and the arrears were increasing. Therefore Corporation decided to initiate recovery proceedings against the company in 1997 On understanding that the chances for sale of the factory and fetching a considerable amount were very remote, the Corporation initiated RR action against the factory and the Directors in July 1997. The company moved the court against the RR action and obtained a stay. The OP was dismissed on 06.08.2001 with direction to the company to clear the arrears in the loan accounts in three monthly instalments from September 2001. The arrears in the loan account as on 01.07 2001 was Rs.5[illegible].76 lakhs. This was intimated to the company but the company remitted no amount.

Meanwhile the Tahsildar, Parur on 23.12.2000 attached the entire assets of the company for the recovery of Sales Tax arrears. Corporation informed the Dy. Tahsildar (RR), Parur that corporation is holding 1st charge and requested to withdraw RR attachment. Later the Tahsildar informed that the RR attachment for sales tax arrears were lifted.

On [illegible].04.2002, the Dy. Tahsildar (RR), KFC along with then Manager (Tech) visited the unit for attaching the industrial unit. Then it was found that the entire plant and machinery items were removed from the unit. This was done without the knowledge and consent of the Corporation. A criminal complaint was lodged before the S. I. of Police, Binanipuram against the theft as 186/02 on 21.06.2002.

Therefore Dy. Tahsildar (RR) attached the personal property situated at Ponnani Taluk of Malappuram District owned by one of the Directors and sold the property for Rs 7.35 lakhs under the auction sale on 17.08.2002 and the sale proceeds of Rs.6,98,250/- was credited in the loan account. The industrial unit with land was sold by Dy. Tahsildar (RR) for a sale consideration of Rs. 29.50 lakhs on 25.09.2003 and remitted an amount of Rs.28.03 lakhs after RR commission. The scrap items of plant and machinery items worth Rs. 5.79 lakhs were sold by Dy. Tahsildar (RR) of a sale consideration of Rs. 4.72 lakhs in December 2002 and remitted an amount of Rs. 4.48 lakhs after RR commission.. Thus Dy. Tahsildar (RR) realized a total amount of Rs.41.57 lakhs by sale proceedings and remitted Rs.39.49 lakhs towards loan account after deducting RR commission.

The auction purchaser M/s. Meron Bio Products filed a WP(C) No.21344/10 before the Hon'ble High Court of Kerala against the Revenue Recovery authorities, KSEB, Asst. Provident Fund Commissioner, Sales Tax Officer North Parur, ESI Corporation and Secretary Kadungalloor Grama Panchayat to release the attachment over the property against subsisting statutory dues. The writ petition disposed off upholding the title in favour of the purchaser but leaving freedom to respondents or any other creditor to file claim petition before the Land Revenue Commissioner.

On the basis of the Hon'ble High Court order Land Revenue Commissioner in his proceedings dated 29.11.2006, decided to co-ordinate the matter by KFC with all the other agencies and also directed the other agencies to send their complete claim details to KFC and also directed that KFC will identify the other properties of defaulter and follow up for RR proceedings. KFC issued notice to all claimants on 15.10.2007. Most of the claimants filed claim petition.

On the basis of the Hon'ble High Court order in WP (C) 36175/2005 filed by EPF Commissioner. The Corporation disbursed a claim amount of Rs.3,27,744/- to PF Department on 31.01.2011.

(v) Present position of defaulters and loan account.

Mortgaged security sold and no other mortgaged security is available.

The promoter directors of the company Sri. S. K. Abdul Rasheed, S/o. S. A. Kunju Mohammed residing at Srambikal House, Vadanappilly P.O., Thrissur belongs to Thrissur District and Sri. A. M. Salam also residing at Thrissur District. Corporation initiated RR action in Thrissur District and obtained fresh RRC vide RRC No.G(4)2010/59966/8 dated 12.12.2010 of District Collector, Thrissur. We have also requested District Collector, Ernakulam to issue section 65 of RR Act against the defaulter.

Sri. A. M. Salam is one of the directors of the another unit M/s. Five Star Rubber Industries, which is financed by KFC for an amount of `150.00 lakhs. The chief promoter of this unit was Sri. A.M. Sadique, who is the brother of Sri. A. M. Salam. Sri. P. K. Sunil is the director of both the Companies. This unit was sold by Official Liquidator and the loan account is still unsettled even though Corporation sanctioned OTS. A vigilance case is also pending against the company and its directors. VACB, Central Range, Ernakulam has registered case VC 2/2010/CRE against Sri. Zanu Zacharias former General Manager, KFC, in connection with the sanctioning of financial assistance to M/s. Five Star Rubber Industries (P) Ltd. We have asked them to provide the present status of the case. Reply from them is awaited.

Arrears & Balance O/s. as on 01.05.2015

(` in lakhs)

Loan No.	Principal	Interest & others	Balance O/s
030239010	32.66	353.17	385.83
030239020	19.31	479.92	499.23
030239030	90.50	2475.70	2566.20
030239040	90.00	2762.28	2852.28
Total	**232.47**	**6071.07**	**6303.54**

(II) Sri.M.J. Jose (Short Term Loan)

(1) Sanction and disbursement details

Kerala Financial Corporation sanctioned a Short Term loan of Rs.75.00 lakhs on 28.03.1996, to Sri.M.J. Jose, Mankoottathil House, Chilavannoor, Ernakulam for the expansion of his teak processing unit. The unit was in existence since 1990 and had been running profitably – Main customer of the unit were Telecom Department of Govt. of India.

The original collateral security for the loan was 133 cents of land in Thrikkakara North Village owned by promoter Sri.M.J. Jose and his wife Smt. Mercy Jose valued at Rs.66.51 lakhs on 27.3.1996. Based on the value of the security property Corporation disbursed a sum of Rs.50.00 lakhs on 31.3.1996.

Subsequently on offering another property of 72 cents in Edapally South village which was valued at Rs.39.66 lakhs on 10.4.1996, the Corporation released balance amount of Rs.25.00 lakhs on 15.6.1996.

As per security norms prevailed at that time, for short term loan scheme 100% Collateral Security i.e. Rs.75.00 lakhs was required, whereas the collateral offered by the applicant was wroth Rs.106.11 lakhs. So the sanction and disbursement of loan was well within the norms and security was more than sufficient as per norms. In this context it may kindly be recalled that the value of landed property in general was at peak during 1996 and it has decreased subsequently due to market recession in real estate.

Corporation also obtained personal guarantee of Sri.M.J.Jose along with post dated cheques towards six monthly instalments from May, 1996 to October, 1996.

(2) Loan repayment and recovery details:

The loan had to be repaid in 6 monthly instalments starting from the subsequent month of 1st disbursement. The first 3 instalments, amounting to Rs.32.27 lakhs and the interest dues upto 01.07.1996 were regularly remitted by the borrower. On 23.10.1996, the borrower informed that due to heavy monsoon, he could not conduct the business as expected and requested for reschedulement of loan. The post dated cheques deposited by him were dishonoured by the bank.

The loan carried interest at 22% per annum (compounded quarterly). In addition penal interest at 2% per month (i.e. 24% per annum) was also charged and this was also compounded. As a result the balance outstanding in the loan account increased alarmingly. Due to recession in the market and paucity of funds the borrower could not run the unit profitably and meet the repayment obligations as expected.

Corporation took over both the above collateral security properties (72 cents and 133 cents) under Section 29 of SFCs Act on 09.01.1997. Corporation advertised the property for sale, but the Hon'ble High Court stayed the sale on condition that the borrower should remit Rs.10.00 lakhs within 3 weeks from 03.03.1997. But the party could not remit the amount as directed by the Hon'ble High Court. Therefore Corporation sold the collateral property of 72 cents for Rs 28.80 lakhs in 2002.

Since there was shortage of 9.2 cents of land out of 133 cents in other collateral property, Corporation could sell only 123.80 cents of land for Rs.72.76 lakhs in 2004-2005 under Sec. 29 of SFCs Act.

RR action was initiated in 1997 against the borrowers for recovery of balance loan dues at Ernakulam. Thereafter RR action had been initiated at Idukki and Kottayam Districts in 2003 as the promoter had properties in that Districts. The RR authorities had reported that as the promoter has sold the said properties before initiating RR proceedings and they are taking steps to return the RRC to the respective collectors.

(3) Present position

The RRC against the defaulters is in force in Ernakulam District . On enquiry with the Village Officials at Ernakulam, Thrikkkara, Edappally, it is reported that the defaulters have no personal property in their name.

The Corporation formulated OTS for Short Term Loans and sanctioned OTS to the borrower for Rs.31.19 lakhs in 2006. But the borrower could no avail this facility.

In 2008 the promoter offered Rs.5.00 lakhs to settle the account under Compromise Settlement Scheme which was rejected by the Corporation. The Branch Office has contacted him several times and requested to enhance the CS offer. Still he is not offering a higher amount.

The balance [illegible] in the loan account as on 01.05.2015 is as follows.

Principal	: ` 45.51 lakhs
Other expenses	: ` 1.47 lakhs
Interest	: `6268.95 lakhs
Total	: `6315.93 lakhs

Corporation has realized total amount of Rs.134.63 lakhs (through sale of assets Rs.102.36 lakhs and remittance by party Rs.32.27 lakhs) against loan of Rs.75.00 lakhs released.

ANNEXURE IV(a)

RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2011-12/107

RPCD. CO. Plan. BC 10 /04.09.01/ 2011-12 July 1, 2011

The Chairman/ Managing Director/
Chief Executive Officer

[All scheduled commercial banks
(excluding Regional Rural Banks)]

Dear Sir,

MASTER CIRCULAR - LENDING TO PRIORITY SECTOR

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks on lending to Priority Sector. In order to enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on the subject has been prepared and enclosed. This Master Circular consolidates all the circulars/mail box clarifications issued by Reserve Bank on the subject up to June 30, 2011 as indicated in the *Appendix*.

2. Please acknowledge receipt.

Yours faithfully,

(Deepali Pant Joshi)
Chief General Manager-in-Charge

Encl: As above

on-lending to micro and small enterprises (manufacturing as well as services) are eligible for priority sector status subject to the compliance of guidelines specified in para 3.2.

2.3 **Loans not eligible for classification as direct or indirect finance to MSE sector**

2.3.1 Loans sanctioned by banks to State Financial Corporations for on-lending to micro and small enterprises.

2.3.2 Loans sanctioned w.e.f. April 1, 2011 to NBFCs (other than MFIs which adhere to the criteria specified in paragraph 3.2) for on-lending.

3. MICRO CREDIT

3.1 Loans of very small amounts, not exceeding Rs.50,000 per borrower provided by banks either directly or indirectly through a SHG/JLG mechanism for on-lending up to Rs. 50,000 per borrower.

3.2 Bank credit to Micro Finance Institutions extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs.

3.2.1 A "qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

(i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.

(ii) Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles

(iii) Total indebtedness of the borrower does not exceed Rs.50,000/-.

(iv) Tenure of loan is not less than 24 months when loan amount exceeds Rs.15,000/- with right to borrower of prepayment without penalty.

(v) The loan is without collateral.

(vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

3.2.2 Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans:

ANNEXURE IV(b)

रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RPCD/2012-13/102
RPCD.CO.Plan.BC 12/04.09.01/2012-13

July 2, 2012

The Chairman/ Managing Director/
Chief Executive Officer

[All scheduled commercial banks
(excluding Regional Rural Banks)]

Dear Sir,

MASTER CIRCULAR - LENDING TO PRIORITY SECTOR

Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks on lending to Priority Sector. In order to enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on the subject has been prepared and enclosed. This Master Circular consolidates all the circulars/mail box clarifications issued by Reserve Bank on the subject up to June 30, 2012 as indicated in the *Appendix*.

2. Please acknowledge receipt.

Yours faithfully,

(C D Srinivasan)
Chief General Manager

Encl: As above

Tel: 022-22601000 Fax: 91-22-22621011/22610943/22610948 ई-मेल
Rural Planning & Credit Dept, Central Office, 10th Floor, Central Office Building, Shahid Bhagat Singh Marg, P.B. No. 10014, Mumbai 400 001
Tel: 022-22601000 Fax: 91-22-22621011/22610943/22610948 email

हिंदी आसान है, इसका प्रयोग बढ़ाइए

INDIRECT FINANCE

2.2 Indirect finance to the micro and small (manufacturing as well as service) enterprises sector will include credit to:

2.2.1 Persons involved in assisting the decentralised sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

2.2.2 Advances to cooperatives of producers in the decentralised sector viz. artisans village and cottage industries.

2.2.3 Loans granted by banks to Micro Finance Institutions on, or after, April 1, 2011 for on-lending to micro and small enterprises (manufacturing as well as services) are eligible for priority sector status subject to the compliance of guidelines specified in para 3.2.

2.3 Loans not eligible for classification as direct or indirect finance to MSE sector

2.3.1 Loans sanctioned by banks to State Financial Corporations for on-lending to micro and small enterprises.

2.3.2 Loans sanctioned w.e.f. April 1, 2011 to NBFCs (other than MFIs which adhere to the criteria specified in paragraph 3.2) for on-lending.

ANNEXURE IV(c)

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2013-14/107
RPCD.CO.Plan.BC 9 /04.09.01/2013-14

July 01, 2013

The Chairman/ Managing Director/
Chief Executive Officer
[All scheduled commercial banks
(excluding Regional Rural Banks)]

Dear Sir,

Master Circular - Priority Sector Lending-Targets and Classification

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks on Priority Sector Lending. In order to enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on the subject has been prepared and enclosed. This Master Circular consolidates all the circulars/mail box clarifications issued by Reserve Bank on the subject up to June 30, 2013 as indicated in the *Appendix*.

2. Please acknowledge receipt.

Yours faithfully,

(A. Udgata)
Principal Chief General Manager
Encl: As above

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

2.1. Direct Finance

2.1.1. Manufacturing Enterprises

The Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951 and as notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in plant and machinery.

2.1.1.1. Loans for food and agro processing

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

2.1.2. Service Enterprises

Bank loans up to ₹5 crore per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

2.1.3. Export credit to MSE units (both manufacturing and services) for exporting of goods/services produced/rendered by them.

2.1.4. Khadi and Village Industries Sector (KVI)

All loans sanctioned to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such loans will be eligible for classification under the sub-target of 60 percent prescribed for micro enterprises within the micro and small enterprises segment under priority sector.

2.2. Indirect Finance

(i) Loans to persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to cooperatives of producers in the decentralized sector viz. artisans village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSE sector as per the conditions specified in paragraph VIII of this circular.

Education

Loans to individuals for educational purposes including vocational courses upto ₹10 lakh for Studies in India and ₹20 lakh for studies abroad.

Housing

(i) Loans to individuals up to ₹25 lakh in metropolitan centres with population above ten lakh and ₹15 lakh in other centres for purchase/construction of a dwelling unit per family excluding loans sanctioned to bank's own employees.

(ii) Loans for repairs to the damaged dwelling units of families up to ₹ 2 lakh in rural and semi- urban areas and up to ₹5 lakh in urban and metropolitan areas.

(iii) Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ₹10 lakh per dwelling unit.

(iv) The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which do not exceed ₹10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of ₹1,20,000 per annum, irrespective of the location, is prescribed.

(v) Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of ₹10 lakh per borrower, provided the all inclusive interest rate charged to the ultimate borrower is not exceeding lowest lending rate of the lending bank for housing loans plus two percent per annum.

The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

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