



**CIRCULAR No.827**

Sub : Modifications to *Debt Reconstruction Scheme (DRS)*  
and *Debt Reconstruction Scheme for sick units (DRS-RSR)*  
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The Corporation had implemented DRS & DRS-RSR schemes for the existing high-cost borrowers and sick units during the financial year 2002-03 and the validity of the schemes were extended upto 29.02.2005. Subsequently, with certain modifications it has been further extended and detailed guidelines are issued vide circular No.762 dated 25.06.2005.

As the above scheme is applicable only for the high cost borrowings, many of the sick units where the rate of interest is below 15.5% could not be covered under the scheme. Further, as per the recent decision of the Board no fresh OTS proposals can be processed. This subject was placed before the EC in its meeting held on 20.08.2008. After deliberations, the EC has found merit in the proposal to widen the scope of the DRS / DRS-RSR scheme as part of managing the NPAs and to merge the existing DRS-RSR with DRS and to put in a modified DRS (Debt Reconstruction Scheme) for rehabilitation of viable sick units. Accordingly, the EC has approved the immediate implementation of the DRS as per the terms given hereunder:

1.1 ELIGIBILITY:

All MSMEs are considered eligible for DRS if:

(a)The account is an NPA as on 01.04.2006 and continues to be so.

AND

(b)The unit is in commercial production / operation for atleast 2 years. Units becoming sick on account of willful mismanagement, willful default, unauthorized diversion of funds, disputes among partners, promoters, etc., will not be eligible.

1.2 INELIGIBLE CASES:

The loan sanctioned for following purpose / activity are ineligible to be covered under the scheme:

(a)Privileged Entrepreneur Loans;



- (b) Residential Apartments;
- (c) Loans for formation of layouts;
- (d) Construction of Godowns;
- (e) Construction / purchase of commercial complexes;
- (f) Any other loans extended for real estate related activity;
- (g) SSC component under NEF/MUN schemes.

## 2. RELIEFS AND CONCESSIONS:

It is emphasized that only those units which are considered to be potentially viable should be taken up for rehabilitation. The reliefs and concessions specified are not to be given in a routine manner and have to be decided based on the commercial judgment and merits of each case.

The following reliefs and concessions may be extended:

Particulars	Age of default as on 01.04.2008		
	5 – 9 quarters (D-I)	10 – 17 quarters (D-II)	More than 17 quarters (D-III)
1. Waiver of penal and compound interest included in the overdue interest	100.00%	100.00%	100.00%
2. Minimum down payment of interest (in one lumpsum) after deducting penal and compound interest as above	100.00%	75.00%* 50.00%**	50.00%* 30.00%**
3. Rate of interest on funded interest per annum	-Nil-	-Nil- 10.00%**	-Nil- 10.00%**
4. Funded interest repayment period (maximum) to be repaid in monthly instalments	-Nil-	1 year * 2 years **	2 years* 3 years**
5. Rescheduling of the principal dues - extension of overall repayment period not to exceed 20 years from the date of first disbursement of any live account	upto 2 years	upto 3 years	upto 7 years
6. Rate of interest on the principal amount (entire loan outstanding) per annum	Contracted rate of interest (gross) + 1% subject to minimum of 13% and maximum of 15% without any further rebate.		

\* If the party pays minimum 75% of interest dues in respect of D-II cases, the remaining interest dues may be funded without further interest to be repaid in one year.

\*\* If the party pays minimum 50% of interest dues in respect of D-II cases, the remaining interest dues may be funded with interest at 10% p.a. to be repaid



in two years.

- \* If the party pays minimum 50% of interest dues in respect of D-III cases, the remaining interest dues may be funded without further interest to be repaid in two years.
- \*\* If the party pays minimum 30% of interest dues in respect of D-III cases, the remaining interest dues may be funded with interest at 10% p.a. to be repaid in three years.

NOTE :

- 1)The penal and compound interest already recovered shall not be considered for waiver;
- 2)In respect of existing funded interest accounts, the funded interest loan balance and funded interest principal dues shall not be considered for waiver. Only the waiver of interest arrears (penal and compound interest portion) in the funded interest account may be considered.

3.DELEGATION OF POWERS:

The following officers are authorised to approve the coverage of the eligible cases and extend the reliefs and concessions as above under the scheme:

<i>Particulars</i>	<i>Sanctioning Authority</i>
Where the waiver amount is Rs.5.00 lakhs and below	Zonal Managers / DGMs of SA BOs / DGMs of Recovery Dept. at HO
Where the waiver amount is Rs.10.00 lakhs and below	General Managers
Where the waiver amount is Rs.25.00 lakhs and below	Executive Directors
Where the waiver amount is more than Rs.25.00 lakhs	Managing Director

4.OTHER GUIDELINES :

- (a)After the DRS-RSR package is extended, the borrower should continue their account with KSFC for next 1½ years. If they decide to foreclose the account within 1½ years, the benefits given under DRS-RSR shall be withdrawn. A condition to this effect shall be included in communication of sanction.
- (b)After extension of DRS-RSR package, if the instalments are not paid promptly as per the revised repayment schedule, the benefits extended under DRS-RSR package should be withdrawn and further recovery action should be taken, soon after the overdue amount equates to 4 quarterly instalments of principal and interest.
- (c)The units are not eligible to get any fresh loans under the scheme. However, after ensuring that the unit is elevated to standard category (if the units are regular in repayment for a minimum period of one year after DRS benefit is extended), the



additional loan proposal can be considered based on its merits.

(d)The applicability of the scheme to an account is not automatic and shall not be claimed as a matter of right.

Accordingly, the DRS as per the terms detailed above comes into vogue in the Corporation with immediate effect.

*All the BMs and HODs are advised to cover all the eligible cases, put effort to collect maximum possible amount under the scheme and ensure that substantial amount of NPAs are upgraded.*

*The contents of this circular shall be brought to the notice of all the concerned in your office / department.*

Sd/-  
MANAGING DIRECTOR

To :

All BMs  
All ZMs / DGMs of Super 'A' Branches / IA cells  
All Principal Officers / Section Heads in HO  
All General Managers  
Library

Executive Directors - for information.