

FOREWORD

Close monitoring of performance of assisted units and timely recovery of the dues is very important for the health of the Corporation. The recovery of dues needs special attention as timely intervention would ensure arresting slippage of outstanding advances to NPA category. The slippage of the assets to NPA category would affect the profitability as well as the Credit Risk Adequacy Ratio (CRAR) and would further affect the resource rising capabilities of the Corporation. It is in this background that the recovery officers will have to be very vigilant about timely recovery of dues. Further, the recovery officers play a very important role in timely detection of sickness, taking corrective actions, safety of assets secured, and performance monitoring.

I urge all the officers/officials of the Corporation to put in their best efforts in recovery of loans and resolution of the NPAs. The changed economic and legal scenario over the past decade, the procedure of recovery has undergone lot of changes. It was felt very necessary to bring about the updated manual to update the knowledge of the officers and I hope this updated Manual will serve a very useful purpose in this direction.

I thank each and every employee of the Corporation for their contributions, especially the efforts of officers/officials of Recovery Department in Head Office and those who have recently attained superannuation, for their active participation, support and commitment in preparation of this Manual.

Date : 15-02-2019
Bengaluru

(Dr.Ekroop Caur)
Managing Director

ACKNOWLEDGEMENT

Recovery Manual outlining the effective system & procedures, timely measures to be taken in the area of recovery of loans etc, was brought in by the Corporations way back in 1992 and later updated in the year 2003. The manual has served as a useful guide to the officers/ officials of the Corporation in effective discharge of their duties, improving of recovery performance & arresting slippage of accounts as NPA etc.,

Over the period of time, many new dimensions in the area of loan recovery are introduced apart from enactment of new Acts, absolescence of some of the old Acts, changes in recovery procedures, various decisions of court/s, field learning and the suggestions received from the Branch Offices etc., have necessitated updating of the Recovery Manual.

The task of compiling and bringing out the revised manual would not have been complete without the efforts of a dedicated team of officer/ officials in the Recovery Department at Head Office led by Sri. Subhas H. Konaraddi, Assistant General Manager and the efforts & inputs of officers like Sri. Kamalakar Deshpande, Sri. B.V. Sambrani and many others, who have retired from service, have immensely helped in shaping of this revised Recovery Manual.

I am sure the revised Recovery Manual would be a handy & useful guide to officers/ officials would help them in discharging of their duties effectively and results in better recovery performance, management of NPAs etc.,

Even though the task of updating was taken up sometime back, we are thankful to Smt. Ekroop Caur, IAS, Managing Director for her pursuance and guidance which has resulted in bringing out this version of Recovery Manual.

My sincere thanks and appreciation to all the officers / officials who have contributed directly/indirectly in preparation of this revised Recovery Manual and I seek their continued support in bringing in amendments / updating of the manual in the coming years.

Date : 20-02-2019
Bengaluru

(Vishwanath B Patil)
Executive Director-II

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CHAPTER-I

INTRODUCTION

- (a) Close monitoring of assisted units and timely recovery of amounts due is most important for the survival and growth of the Corporation. The recovery function consists of monitoring the performance of the unit, recovery of interest and principal installment on the due dates, visit to assisted units to assess the performance of units and ensure the availability of all the financed assets, ensure proper insurance coverage, analysis of problems faced by the borrowers and suggest corrective actions like restructuring and rehabilitation, takeover and disposal of assets, invocation and enforcement of guarantees for recovery of dues as last option.
- (b) Quality lending involves scientific and systematic appraisal of the promoters and their projects before sanctioning the loans. It is necessary to examine various aspects of the project such as technical viability, financial viability, market viability, management ability, etc. In a nut shell, it can be said that the loans should be granted to the right projects promoted by right people. The recovery, therefore, largely depends on the quality of portfolio created, while the recoveries to some extent can be improved by systematic and constant follow-up.
- (c) The team of officials engaged in the appraisal of project and disbursement of loans and monitoring will associate themselves with the promoters of the project probably for a period of about 2 years. But the officials responsible for recovery will have to be in touch with the project and promoters for a long time i.e., 5 - 10 years generally. Therefore, the role of the recovery officer assumes greater importance in the organization. The growth and success of the organization can be directly attributed to the successful role played by the recovery officers. The recovery is, therefore a major function in achieving the organizational goals. It is very important to mention here that the experience gained during the recovery process will be a vital feed back to the appraisal and disbursement departments in

order to evolve better appraisal standards and to evolve promotional lending policies and follow up measures.

- (d) The role of recovery officials is to render efficient services to the customer throughout the period of recovery. He acts as an intermediary between the customer and the Corporation, keeps the pulse of the borrower and protects the interest of the Corporation. He is supposed to extend a helping hand in sorting out the various problems faced by the industrial units and suggest proper remedial measures to come out of the problems without sacrificing the interest of Corporation. He would also guide the customer in getting other facilities available from various Government organizations, corporate bodies, banks etc. He keeps a close watch over the borrower and project throughout the period of recovery.
- (e) The identification of NPAs and provisioning as per norms are mandatory. With this, the recovery function becomes more focused. It would be possible to manage the NPAs and improve quality of loan portfolio only by close follow up of cases. By constant interaction with the borrowers it would be possible to prevent threshold cases from becoming NPAs. Working out newer and better strategies focused at reducing NPAs would automatically improve the recovery performance. A lot of emphasis needs to be given on NPA Management.
- (f) Close monitoring, timely identification of NPAs / sickness of the units, quick implementation of revival / nursing program, building up of good rapport with the entrepreneurs of assisted units, etc. would help in NPA management.
- (g) A business organization can survive only by earning sufficient profits. The profit of a financial institution mainly comes from the interest it earns on its lending. Recovery mainly comprises of amounts recovered towards interest and principal. The timely recovery of dues will ensure the asset quality and interest income. A slippage in asset quality results in cessation of interest and calls for NPA provisioning which affects the profitability, capital adequacy and

resource raising capability and viability of the organization. Keeping in view these aspects, the Corporation, over the years, has developed well established procedures for follow up and recovery of loans and close monitoring of assisted units. It has evolved strategies for tackling chronic default units, sickness in assisted units, tackling willful and deliberate defaulting units etc. It has also evolved guidelines and procedures for taking over and disposal of units under Section 29 of SFCs Act, for filing petition under Section 31 of SFCs Act 1951, for initiating recovery action under Section 3(1) of KPM(RD) Act 1979, for proceeding against the borrowers and their assets i.e. invoking of personal guarantee of borrowers / guarantors. The Corporation also has policy guidelines to initiate action U/s 32 (G) of the SFCs Act 1951 which is a effective tool. In addition, the Corporation has three more additional remedies viz., Recovery of Debts due to Banks & Financial Institutions (RDDB) Act [DRT], Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) for recovery of dues, and referring the defaulting cases in respect of Companies to NCLT for resolution. All these have been communicated by way of circulars and guidelines from time to time to all the implementing officers. However, all the procedures and guidelines framed by the Corporation subsequent to 2003 are not available in one Booklet. Therefore, an attempt has been made to bring out a revised updated recovery manual. This manual will surely educate the recovery officials and serve as a guide to all the officials in their day to day working.

CHAPTER -II

BENCH MARKING AND TIME STANDARDS IN RECOVERY

The various functions and corresponding time standards are brought out explicitly for the following activities in the table below:

Sl. No	Bench marking	Time Standards	Responsibility
A	Recovery functions to be carried out by the Corporation on its own		
1	Opening of recovery file	Within 15 days of first disbursement.	Recovery Officer (RO)
2	Sending reminders for non-payment of dues	Within 30 days of default, if it is a fully disbursed case. If the project is under implementation, to record the default position on the note sheet and put up the file to section head / branch manager for instructions.	RO
3	Visit to the unit: a) Assets in standard category b) Assets in sub-standard category c) Doubtful category d) Single window cases e) Units under Section 29 f) Units under SARFAESI	Once in 06 months Once in 02 months Once in a month Once in a month Once in a month Once in a month <u>Note:-</u> The visit reports as per the format in vogue should be recorded <u>within a week</u> from the date of visit.	RO RO RO/BM/HOD RO/BM RO/BM/HOD RO/BM/HOD
4	Sending second reminder letter for non-payment of dues, with copies to collateral security owner/ guarantors.	Within 15 days of account becoming sub-standard if it is a fully disbursed case. In the case of projects under implementation, to record the default position on the note sheet and put up the file to section head / branch manager for instructions.	RO

5	(a) Review of schedules by BM	Within 30 days of the first instalment default.	RO/BM
	(b)(i) Calling for the DRC meeting at BMs level at BO	Within 30 days of the account becoming NPA. Once in a quarter	RO/BM
	(ii) Calling for the DRC meeting at GMs level at BO		RO/BM
	(c) Drawing of proceedings of DRC meeting (and extract of the proceedings to be recorded on note sheet of / filed in the concerned file)	Within 7 days from the date of meeting.	RO/BM/HOD
	(d) Communicating the decision of the DRC meeting to the loanee	Within 10 days of the date of meeting.	RO/BM/HOD
	(e) If the decision of meeting is to reschedule / funding of interest	To reschedule and give the accounting effect within 20 days of meeting.	RO/BM/HOD
	(f) Compliance report of actions on the decision taken in DRC meeting	Within one month from the date of meeting	RO/BM/HOD
	(g) Calling for DRC meeting for the second time before GM	Within 60 days of account become default in payment of five installments of interest / principal.	RO/BM/HOD
	(h) If the decision of DRC is to extend RSR	To be done within 60 days of the meeting	RO/BM/HOD
6	<u>Action under Section 29:</u>		
	(a) Issue of Show Cause Notice (SCN) with a copy to guarantors/collateral security owners	Within 10 days of decision taken to takeover the unit/ asset.	RO/BM/HOD
	(b) Obtaining order for Seizure / Possession Notice	Within 30 days of SCN issued, if there is no acceptable proposal from the loanee.	RO/BM/HOD
	(c) Information to other participating institutions viz: KSSIDC/KSIIDC, Banks etc., if any regarding seizure within 7 days of publication in local daily newspapers.	Before 7 days of the proposed date of seizure	RO/BM/HOD

(d) Seizure of vehicles	Should be seized immediately on tracing the vehicle, once the order is obtained.	RO/BM/HOD
(e) To send the information after seizure of the unit to other participating institutions / organisations like KSSIDC, KSIIDC, KIADB, Banks etc.,	Within 7 days of the date of seizure along with a copy of mahazar report.	RO/BM/HOD
(f) Intimation after seizure of the unit/ vehicle, as per the format in vogue to the loanee alongwith a copy of mahazar.	Within 03 days from the date of seizure of unit / vehicle, by giving a period of one month to come with acceptable proposal to repay the overdues and taking back the unit / vehicle.	RO/BM/HOD
(g) If the unit has been seized without recalling the loan and if there is loan balance in the account, to send the recall notice under Section 30 of SFCs Act.	Within 30 days after the expiry of time given as above [at Sl.No.(vii)]	RO/BM/HOD
(h) Shifting of plant & machinery to our godown: (i) If the unit is located in the leased premises	Within 6 months from the date of seizure under normal circumstances The guidelines mentioned in Circular No.307 dated 10-11-90 shall be followed for seizure of assets housed in private leased premises.*	RO/BM/HOD
(ii) If it is located in a KSSIDC shed	Within 6 months from the date of seizure	
<p>*Note : The shifting of the machines must be taken up after a careful study of pros & cons. For any specific reasons, if shifting of machinery adversely affect the saleability / interest of the Corporation, the time frames specified may be relaxed with specific clearance from the authority who has approved seizure.</p>		

	(i) Recovery pertaining to Vehicle		
	(i) To intimate RTO regarding non-use of vehicle in form No.30 with prescribed fee;	Within 15 days after seizure of the vehicle.	RO/BM/HOD
	(ii) If party fails to submit concrete proposal for repayment of dues within 30 days of seizure of vehicle – to file for FRC with RTO in Form No.36 with prescribed fee	Within 15 days after the expiry of time given i.e., one month for submitting the acceptable proposal for repayment / taking back the vehicle.	RO/BM/HOD
	(iii) To obtain NOC from RTO while releasing the vehicle from Section 29	Before handing over of vehicle to the buyer or loanee in case vehicle is returned to him.	RO/BM/HOD
	(j) Release of first sale advertisement after recall of loan and expiry of time given in the recall notice.	Within 15 days after the completion of 30 days time given for the loanee to submit acceptable proposal for taking back the unit / vehicle.	RO/BM/ HOD
	(k) Release of second & thirdsale advertisements through e-auction.	In a gap of two months each	RO/BM/HOD
	(l) Sending copy of paper clippings of sale advertisement to loanee / guarantor/ col.sec. owner.	Within 2 days after each advertisement	RO/BM/HOD
	(m) Preparation of valuation report of the assets	Before first sale or 45 days from the date of seizure, whichever is earlier. In subsequent cases, within six months from the date of last advertisement.	RO/BM/HOD
	(n) Completion of sale note for approval of competent authority	Within 7 days of the conclusion of e-auction	RO/BM/HOD
(o) Issue of sale confirmation letter to the successful bidder	Within 7 days of sale approval by the competent authority.	RO/BM/HOD	
(p) Execution of sale deed or other documents to the successful bidder	Within 10 days after receipt of full amount and compliance of all terms & conditions of sale.	RO/BM/HOD/ Legal Officer	

7	Action under SARFAESI Act:		
	(a) Obtaining approval for declaring the account as NPA.	Within 15 days of making decision to initiate action under the SARFAESI Act.	RO/BM/HOD
	(b) Issuing Demand Notice under Sec 13(2)	Within 10 days of obtaining the approval of declaring the account as NPA.	RO/Authorised Officer
	(c) Affixing a copy of Demand Notice in a conspicuous place of the secured asset & publishing the contents of the notice in 2 leading news papers, in case the notice is returned unserved.	Within 07 days from the receipt of unserved notice.	RO/Authorised Officer
	(d) Replying to the objections to the Demand Notice if any received.	Within 15 days of the receipt of such objection. .	RO/Authorised Officer
	(e) Taking possession of the secured assets.	Within 10 days of the completion of the period of the Demand Notice	RO/Authorised Officer
	(f) Publishing about having taken possession of the secured Assets. (Possession notice)	As soon as possible, but in any case not later than 7 days from the date of taking possession.	RO/Authorised Officer
	(g) Issuing Notice for sale of the secured assets including publishing in two leading news papers.(sale notice)	Within 10 days after expiry of time stipulated in possession notice.	RO/Authorised Officer
	(h) Conducting sale of the secured assets	After expiry of 30 days from the issue of Notice for sale.	RO/Authorised Officer
	(i) Depositing 25% of the bid amount by the successful bidder.	Immediately after the closure of the auction/sale.	RO/Authorised Officer
	(j) Obtaining confirmation of the sale.	Within 10 days from the date of completion of auction/sale and receipt of 25% of the bid amount.	RO/Authorised Officer
(k) Intimating sale confirmation demanding the payment of balance bid amount	Within 10 days from the date of receipt of confirmation of the sale.	RO/Authorised Officer	

	(l) Collection of balance amount i.e. 75% of the bid amount.	Within 15 days from the date of communication and confirmation of sale.	RO/Authorised Officer
	(m) Issue of certificate of sale.	Within 30 days after receipt of full sale amount	RO/Authorised Officer
8	Identification of personal properties and submission of investigation report	To start work on this matter no sooner the account slip to Doubtful-I or within 15 days from the date of decision taken by the competent authority, whichever is earlier and to submit the report within 3 months.	RO/BM/HOD
9	(a) Action under Section 31(1)(a) & (aa) (against personal guarantors) (b) Execution petition	Within 3 months from the date of identification of the personal properties. To be filed within one month from the date of decree	RO/BM/HOD
10	(a) Notice under Sec 32 (G) of SFCs Act to the promoters & collateral security owners	Within 1 month of taking decision by the competent authority.	RO/BM/HOD
	(b) Taking action to refer the case to DC for further recovery action.	Within one month after the expiry of time given above, i.e., at 10(a).	RO/BM/HOD
	(c) Attachment of PP under DC action.	Attachment within 15 days from the date of identification of personal properties.	RO/BM/Spl.Tah.
	(d) To complete the action under Revenue Recovery Provisions by the Special Tahsildar (including the sale of personal properties).	Within 24 months from the date of issue of certificate to the DC.	RO/BM/Spl.Tah/
11	Referring to D.R.T.(Wherever decision taken by the competent authority).	Within 2 months from the date of decision taken by the competent authority.	RO/LO/BM/HOD
12	(a) Notice for cheque bouncing under Section 138 of Negotiable Instrument Act.	Within 30 days from the receipt of endorsement from the bank regarding return of the cheque as unpaid.	RO/LO

	(b) To file a complaint in the Court of law (with the approval of competent authority).	Within 30 days from the receipt of the said notice by the borrower of the cheque.	RO/BM/HOD
13	Missing assets: (a) Issue of notice for missing of assets to the loanee.	Within 3 days of identifying missing of assets by the Corporation.	RO/BM/HOD
	(b) Lodging of police complaint for breach of trust case / filing of private complaint register in the Magistrate Court	Within 15 days of notice of missing of assets.	RO/BM/HOD
14	Issue of legal notices (based on the decision taken by the competent authority on specific issues).	Within 15 days from the date of decision taken by the competent authority.	RO/BM/HOD
15	Recording of review meeting instructions on the note sheets.	Within 3 days from the date of receipt of approved proceedings.	RO/BM/HOD
16	Status report of each cases where default is more than Rs.5.00 lakhs (in the format which is in vogue).	Updating every quarter on the note sheet and a copy shall be filed in the recovery file before 20 th of the succeeding month of quarter ending.	RO/BM/HOD
17	Sharing of information between recovery officers and legal officers in respect of cases involving litigation.	As per circular No.828 dated 28-04-2003.	RO/LO/BM/HOD
18	Sharing of information between other institutions like banks, KSIIDC, KSSIDC etc.,	Atleast once in a quarter and to record the exchanged information in the concerned files.	BM/HOD

A Functions relating to requests made by the parties			
1	Decision regarding change of location / management / constitution.	Within one month of the date of receipt of request	RO/BM/HOD
2	Issue of NOC to cede second charge in favour of Banks/ DIC.	Within 7 days of the request of the loanee.	RO/BM/HOD
3	Rescheduling	To communicate the decision of the Corporation within a month.	RO/BM/HOD
4	RSR	To communicate the decision of the Corporation within two months.	RO/BM/HOD
5	Decision regarding change in collateral security	Within 30 days of request.	BM/GM/ED/ MD
6	Return of documents on closure of account (including issue of HP cancellation letter)	Within 15 days after confirming second / subsequent charges are not created on the property or after obtaining NOC from the concerned agency / department.	RO/BM/HOD/ LO

If there were to be any valid reasons for not being able to adhere to the above time standards, the concerned officer/official shall record the reasons on the note sheet and seek necessary extension of time from the BMs / HODs or higher ups as the case may be. Any delay beyond the above prescribed limits without proper reason & approval of the competent authority will be treated as dereliction of duty on the part of officer / official handling the files concerned.

CHAPTER -III

FOLLOWUP FOR RECOVERY

1 Opening Of Recovery Files :

- (a) The follow up and recovery of loans begin from the date of first disbursement. The recovery file should be opened **within 15 days from the date of first disbursement** of the loan. Thus, the officer incharge of recovery should keep a close watch on the units from the date of first disbursement of loan. The officer in charge of disbursement in the branch office will however, follow up for payment of interest during implementation period. It shall be the responsibility of the disbursement officer to identify the concerned recovery officer on the on-line system by entering the area code/officer code at the time of first disbursement. The officer in-charge of recovery should review the files of all the units under implementation on month to month basis in association with the concerned officer in Appraisal & Disbursement Section. This will help the officer in-charge of recovery to make effective recovery from the date of receiving the files after full disbursement / limiting of loan as the case may be.
- (b) The Officer in-charge of disbursement should send the file to the concerned officer through BM soon after the loan is fully disbursed or limited. The loan file should be sent along with the **Disbursement Data sheet & Legal Data sheet** duly filled in. The BM will refer the file to the concerned recovery officer for further follow up. The recovery officer should enter the receipt of the file in a register maintained as per **Annexure-I**. A copy of the final inspection report shall be placed in the recovery file.
- (c) The recovery officer should take out the copy of loan file note sheets and Disbursement Data sheet & Legal Data sheet sent along with the loan file and annex these to note sheets of recovery file.
- (d) The Recovery officer should obtain and read the memorandum and the entire note sheet of the loan file. He should also file a joint inspection report if made and legal data sheet and incorporate salient points on the note sheet of the recovery file which is already opened after first disbursement for future reference.

- (e) **Annexure-II** known as Status Report should be enclosed to the facing sheet of recovery file note sheet. This status report should also be kept updated and it should be the responsibility of the Recovery Officer.
- (f) Proper follow up and monitoring of the assisted units by the recovery officer would help him in recovery.

2. Visit To The Place Of Business:

- (a) The Recovery Officer should visit the place of business as stipulated in the chapter on Bench marking and Time Standards in **CHAPTER II**.
- (b) The officer should also verify whether the assets financed by the Corporation are intact during his every visit. Any changes (deletion/omission and addition) should be brought to the notice of higher ups. In respect of Single Window Scheme/Corporate Loans, the officer should verify whether adequate current assets are available. The SWS guidelines should be referred for more details.
- (c) The periodical visit to the unit and verification of assets will help to know whether any additional constructions are taken up by the unit or additional machineries are acquired. It further helps to know whether all the hypothecated plant and machinery are available. These will help in tackling the borrower at a future date.
- (d) If the borrower / chief promoter is not available at the unit, a suitable written message indicating the purpose of visit should be left in the unit with a responsible person and acknowledgment be obtained. This message may indicate a date of appointment to the borrower / chief promoter to meet the recovery officer at the Office of Corporation. The acknowledgment so obtained should go on record in the concerned recovery file. A proforma of message which may be left in the unit is given in **Annexure-III**.
- (e) Some times the recovery officer may find that the unit is closed at the time of visit. The recovery officer should take keen interest to know the reasons for closure, duration of closure either by contacting the neighbouring units, unit's banker or by discussing with the

borrower. He may bring these facts on record in the recovery note sheets. This should also be brought to the notice of the concerned reporting officers.

- (f) The recovery officer should prepare a visit report as per **Annexure-IV** and file it in the recovery file and make suitable notings in the note sheet of recovery file. If any serious irregularities are found which affect the interest of the Corporation, such irregularities should be noted on the visit report / recovery file and brought to the notice of HOD / Branch Manager with suitable recommendations. Further follow-up action should be taken as per the instructions of HOD / Branch Manager.
- (g) The recovery officer should make it a point to visit even regular units which will enable him to build a good rapport with the promoters of the unit and in mobilising additional loan proposals for expansion, diversification / modernisation of the unit / business for our fee based activities.
- (h) In a nutshell, the visit to the unit will help:-
 - (a) to assess the working of the unit;
 - (b) to know the problems faced by the unit;
 - (c) to recover the dues;
 - (d) to assess the future prospects of recovery;
 - (e) to assess the security position / missing of assets
 - (f) to know early symptoms of sickness.

3. Visit To The Unit's Banker/S:

The recovery officer should meet the bankers of the assisted unit frequently to exchange information on the affairs of the units. As the banker will be monitoring the current assets of the unit very frequently, he would certainly be in a better position to give an opinion on the working of the unit. During discussions, the dues position of the unit, outstanding, dealings of the unit etc., can be exchanged. If the unit is not financed or inadequately financed by the bank, the recovery officer can advocate the case on behalf of the unit. If found necessary, the chief promoter of the unit may be asked to accompany the recovery officer. This will help in building good rapport with the borrowers and the bankers and may thereby result in solving various common problems.

4. Visit To The Office Of Other Term Lending Institutions:

- (a) In some cases, the promoters might have availed term loan assistance from other institutions / banks for the project. The recovery officer should, therefore, visit the office of the other term lending institutions as many times as found necessary to exchange information on :-
 - i) the repayments made by the unit;
 - ii) the opinion of that institution;
 - iii) dues position of that institution/bank;
 - iv) recovery action / strategy for recovery which they intend to adopt etc.
- (b) As far as possible, it is desirable to have a common approach / strategy to tackle the default of the unit / to arrive at a solution to the problems of the unit. The lead institution concept should be adhered to. Each institution should take the other institution into confidence in tackling the default of the borrower unit.
- (c) If the industrial unit is situated in a land allotted by KIADB, the recovery officer should visit the office of KIADB and exchange information on subjects of mutual interest. Similarly, if the unit is located in a shed allotted by KSSIDC, the recovery officer should visit the office of the KSSIDC to know:-
 - i) the dealings of the unit with them;
 - ii) dues position;
 - iii) action proposed by them for recovery of their dues if any etc.
- (d) Good rapport should be developed by the recovery officer with his counterpart in other term lending institutions / agencies which will go a long way:-
 - i) in tackling the default;
 - ii) in solving the problems faced by the unit;
 - iii) in evolving appropriate recovery strategies etc.
- (e) The recovery officer should record his visit to other institutions as above and their views on subjects of common interest in the note

sheet of recovery file and send it for information of HOD / Branch Manager with his suitable recommendations wherever necessary.

5. Frequent Correspondences With The Defaulting Unit:

- (a) The recovery officer should make frequent correspondence with the defaulter to persuade him to submit acceptable proposals and to make the payment towards overdues. The correspondence should aim at knowing the reasons for default, working results of the unit, proposal of the unit for clearing of overdues, etc. If necessary letters from superior officers in the departments viz., BM / AGM / DGM / GM may be issued to press for clearing of overdues. Letters may be sent under the signature of ED / MD in respect of HO cases to pressurize the unit to make payments and or to give acceptable payment proposals for clearing of the overdues. The proforma of these letters are given at **Annexure –V(A), V(B) & VI**. The recovery officer should examine proposals, if any, received from the defaulting unit and send appropriate replies thereto promptly. If the proposals submitted for payment of overdues are found not acceptable, suitable recommendations should be made to BM /AGM / DGM/ GM for rejecting such proposals & for offering counter proposals. The rejection of defaulter's proposal along with counter proposal, if any, by the Corporation should be communicated to the defaulter in writing and further recovery action should be followed up.
- (b) The copies of these letters may be sent to other promoters / guarantors / collateral security owners/ suretys / collateral security owners etc.,

6. Review Meeting:

The review meetings should be held at various levels of officers in the Recovery departments / branch office. Before convening such review meetings, the recovery officer should do some preparatory work as explained in the following paragraphs which will help him in persuading the borrower for making payments.

7. Pace Of Implementation Of Project :

The recovery officers should study the pace of implementation of the project, as many borrowers try to seek excuses for non-payment of dues on the pretext that the project implementation was delayed, working capital sanction was delayed, etc. This can be countered by noting the following and comparing it with what was assumed at the time of sanction of loan.

- (a) Date of issue of communication of sanction of loan:
- (b) Progress made in implementation of project at the time of spot inspection (this will be available in loan appraisal memorandum) ;
- (c) date of execution of loan documents ;
- (d) dates of first and last disbursement ;
- (e) actual project cost and means of finance ;
- (f) date of sanction of power and date of power supply ;
- (g) date of sanction of working capital ;
- (h) date of commencement of commercial production.

If the borrower had genuine difficulties, a sympathetic view should be taken in the review meeting.

8. Study Of Financial Statements:

- (a) The financial statements received from the unit should be studied and findings be noted. The Balance Sheet of the unit indicates the sources and application (cumulative) as on the last day of the accounting year. The difference in 2 balance sheets figures will give the funds flow statement for the period. The networth of the unit, debt equity ratio, incentives received, current ratio etc., should be arrived at and compared with that estimated at the time of sanction of loan. Similarly, the turnover achieved by the unit, profits earned, cash generations, DSCR etc., can be compared with what was estimated at the time of sanction of loan, by carefully studying the P & L account. The various expenses incurred by the unit should be closely verified and if found necessary, it should be discussed with the borrower. Important among them are selling commission paid, interest paid on unsecured loans, salaries and wages paid,

administrative expenses, etc. In the balance sheet, the investments, loans and advances, investment on fixed assets should be closely watched and any abnormalities be noted for discussion.

- (b) The deviations found should be noted and they should be made use of in tackling the borrower during the review meeting.

9. Legal Notice :

A legal notice may be issued to discipline the borrower in conduct of his loan account and also to clear the overdues in a mutually acceptable period. A legal notice is not mandatory for initiating any recovery action as we have already formulated show cause notices for proposed recovery actions. However a legal notice will facilitate the following :

- (a) Perusal of the legal documents executed by the loanee / guarantors by a legal officer in favour of the Corporation for the loan availed by them vis-a-vis sanction terms and also to give a message to the borrowers / guarantors / collateral security owners that they have executed the documents and the securities are enforceable in the event of non-payment of the dues.
- (b) If any interim documents are obtained, it will give a feed back to the branch offices / recovery departments to complete the documentation with the borrower and others concerned as defaults have already occurred in the loan account.
- (c) To intimate the borrower a statement of account indicating the rate of interest, repayment schedule and the amount overdue as per the contractual terms.

If the borrower / guarantors / collateral security owners do not raise any objection to the legal notice, it will be a strong defence to the Corporation in future recovery actions.

10. Dishonour Of Cheques Issued :

During the course of follow up and recovery of dues from the borrower /guarantors, payments are also made by cheques towards the

loan account. The recovery officer should make it a point to collect the cheques drawn by the loanee / guarantors and authorised persons on behalf of the borrower concerned. The cheques are subject to realisation and dishonour of cheques is a criminal offence. There are provisions under Sec.138 of the Negotiable Instruments Act to proceed against the drawer of the cheque i.e., loanee unit / guarantors / collateral security owners who have entered in to contract with KSFC in respect of the loan transaction if the cheques issued by them are dis-honoured.

The recovery officer has to recommend action under Sec 138 of the Negotiable Instruments Act to proceed against the drawer of the cheque in the following circumstances.

- (a) The cheque is issued towards the payment of the dues to the Corporation.
- (b) The cheque is issued by the proprietor / partner / directors / authorised persons of a loanee concern.
- (c) The Notice of dishonor of cheque is issued to the borrower/guarantor within 30 days of intimation from the banker, asking them to make good the cheque amount
- (d) The notice issued to make good the dis-honoured cheque amount has not received satisfactory response by way of payments equal to the cheque amount within the time limit fixed by the statute i.e., 15 days from the date of intimation of dis-honour of cheque by the collecting bank.
- (e) There is proof of having served the notice as mentioned above in the form of RPAD cards or any other form of acknowledgement.
- (f) The authority delegated to approve filing of criminal complaints has to take a view of all the above and the conduct of the borrower concerned / cheque issuing authority before approving the action under the said provisions of the Negotiable Instruments Act. The criminal complaint should be filed within 30 days from the date of failure to make good the cheque amount. It is important that the returned cheque should be preserved along with the bankers intimation and acknowledgement received for having served the notice.

- (g) The complaint can be withdrawn by the same authority who is delegated to file the complaint provided the loan account is made regular and the asset is classified as a standard category.

11. Repayment Position:

- (a) The repayment position of the subject unit should be studied by looking into the on-line accounts system. The repayments received year-wise right from the first year and age of principal & interest default can be extracted and kept ready from the on-line system. The actual cash generations in the unit, actual repayments made should be computed / extracted and kept ready to facilitate discussions in the review meeting.
- (b) The review meeting may be called by the recovery officer at his own level to understand the problems, if any faced by the unit, to recover the overdues.
- (c) The review meeting may also be arranged at the level of Branch Manager, in the Branches, DGMs, GMs, EDs and Managing Director at Head Office. If a solution can not be achieved at one level of officers, it can be tried at the next higher level. At times, depending upon the quantum of default and the size of the unit etc., review meetings can be arranged at appropriate levels.
- (d) Any borrower can be tackled successfully if adequate data / information is collected and the affairs of the unit is studied in depth.
- (e) The recovery officer should prepare the background notes before he convenes review meeting after following the procedures mentioned above.

CHAPTER - IV

RECALLING OF LOAN

(a) The loan is repayable in installments on the dates fixed as per the repayment schedule (i.e., agreed period). The Corporation has right to demand repayment of the entire liability forthwith under Section 30 of the SFCs Act 1951. Therefore, calling upon the borrower to repay the loan earlier to the date fixed is called recalling of the loan.

(b) 1) There must be decision to recall the loan.

2) The decision may be taken only if, all or any one of the following circumstances occurs :

i If, it appears to the Board that false or misleading information in any material particular was given by the industrial concern in its application for the loan or advance ;

OR

ii If, the industrial concern has failed to comply with the terms of its contract with the financial Corporation in the matter of the loan or advance ;

OR

iii If, there is a reasonable apprehensions that the industrial concern is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof ;

OR

iv If, the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation as security for the loan or advance is not insured and kept insured by the industrial concern to the satisfaction of the Financial Corporation or depreciates in value to such an extent that, in the opinion of the Board further security to the satisfaction of the Board should be given and such security is not given ;

OR

v If, without the permission of the **Corporation**, any machinery, plant or other equipment, whether, forming part of the security **or otherwise**, is removed from the premises of the industrial concern without being replaced ;

OR

vi If, for any reason it is necessary to protect the interest of the Financial Corporation.

- (c) Notice must be in writing and require industrial concern (borrower) to discharge forth with in full its liability to the Corporation.
- (d) The Board of Directors of the Corporation have delegated the authority of recalling the loan to specified officers of the Corporation under Sec.43-A of the SFC's Act.
- (e) The recovery officer should put up the file with grounds recommending for recalling the loans to HOD/BM. After the approval for recalling of loans by the delegated authority, the recovery officer in consultation with Legal officer, shall put up the Recall Notice, with the up to date statement of accounts obtained from the Accounts Department and also with particulars of loans viz., date of sanction, amount sanctioned, amount released/limited and date of limitation for obtaining statement of account. The file shall be put up through HOD/BM. The proforma of Recall Notice is given in **Annexure-IX**.
- (f) The Recall Notice shall be issued to the industrial concern such as proprietary / company / firm / society /Trust as the case may be under copy to the respective proprietors/ directors / partners/ members / guarantors/surety /collateral security owners as the case may be. The procedure set for issuing Show-cause Notice with respect to sending copies, RPAD, A/D cards etc., shall be adopted for Recall Notice also by the recovery officer. Care should be taken to ensure that the Notices are sent to the proper addresses of the concerned.

- (g) In response to the Recall Notice, if substantial amount is paid, the same shall be brought to the notice of HOD/BM by the Recovery Officer with his recommendations if any for future recovery action. If any concrete proposal for payment of balance due / overdues is submitted, it shall be examined carefully by the Recovery Officer in the frequent visits and by watching closely the functioning of the borrower's unit along with other relevant factors and he shall put up the file with his detailed note and recommendation as to the requirement of time for payment of dues or rescheduling of the loan or examination of covering under RSR scheme, to the HOD/BM for approval / decision. Such decision shall be communicated to the borrower. If the borrower finds any mistake in the Statement of accounts or seeks any clarifications, the Recovery Officer shall clarify to the borrower. If the Recall Notice does not yield recovery of substantial dues or the borrower does not show or give acceptable cause or proposal for withholding the recovery action, the recovery officer shall put up the file with his recommendation as to the further action (one of the remedies available to the Corporation under law) to HOD/BM for further orders.
- (h) The recovery officer should ensure that as and when the loan is recalled its effect is given to the borrower's loan accounts of the Corporation.

If the borrower clears the dues to a substantial extent and satisfactorily complies with breach of terms and circumstances which caused recalling of loan, the Corporation may in writing reinstate the loan installments for the remaining loan amount by considering refixing / rescheduling for which communication shall be issued. Further, fresh documents shall be obtained for the repayment and refixation / rescheduling of the remaining loan amount. This shall be ensured positively.

CHAPTER - V

RECOVERY OF LOANS - ALTERNATIVE PROCEDURES

Several remedies are available to the Corporation for recovery of the amounts due to it. Some are through the process of Courts while under some remedies direct action can be initiated by the Corporation. Based on the facts of the case, practicality, circumstances, an appropriate decision to initiate action which would be the most suitable in the circumstances may be resorted to. This calls for a thorough application of mind to the facts of the case. Otherwise the process would not only result in loss of money and time but may also be hit by the law of limitation.

The following remedies are available under law for institution of recovery proceedings:-

1. Taking over of the management and/or possession of the mortgaged/hypothecated assets of the industrial concern under Section 29 of the SFC's Act;
2. Proceeding against the properties secured to the Corporation under the provisions of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
3. Filing a petition under Section 31(1) (a) and (aa) of SFC's Act before the District Judge within whose jurisdiction the industrial concern is situated / mortgaged and hypothecated properties are situated for sale of the mortgaged assets as well as enforcement of the liability of the sureties;
4. Issuing of certificate under Sec. 32 G of the SFC's Act to the Deputy Commissioner (within whose jurisdiction the mortgaged/hypothecated properties situated) for recovery of the loan amount due to the Corporation as an arrears of land revenue under the provisions of the Karnataka Land Revenue Act;
5. Filing of application before the Debts Recovery Tribunal under the provisions of Recovery of Debts Due to Banks and Financial

Institutions Act, 1993 for issue of recovery certificate against the borrower and the guarantor for the amount due to the Corporation and for sale of properties mortgaged as well as the personal properties of the guarantors. However, this remedy to be resorted to sparingly as it involves payment of heavy court fees and Advocate fee;

6. Filing of application under insolvency and Bankruptcy Code 2016 for enforcement of its rights where the borrower is a company and LLP in a time bound manner under Sec. 7 of the Act, before the National Company Law Tribunal.

It is important to note that a person cannot be proceeded against under two remedies simultaneously. If any such action has already been initiated under two remedies available, a decision has to be taken to continue with one of them found to be more appropriate.

However, it is to be always kept in mind that before initiating any recovery action, it is necessary that the Corporation follows Principles of Natural Justice, which in simple terms means that the Borrower is given reasonable opportunity to Show Cause why action contemplated against him should not be taken. Further the cause shown by him must be considered on merits and the decision taken after such consideration has to be communicated giving reasons for the said decision. Fair play is another touchstone on which the action taken by the Corporation would be tested. The Corporation acts as a trustee and should ensure that no arbitrary or biased action is taken especially in the sale of assets.

The Corporation has different options for recovery of the amounts due from the borrowers, guarantors, collateral security owners and also for proceeding against the personal assets of the borrowers.

The Recovery actions available can be broadly classified as Direct Action and Proceedings through Courts. The Corporation can resort to Direct Action either under Sec.29 of the SFC's Act or under the provisions of Sec.32(G) of the SFC's Act, KPM(R&D) Act & SARFAESI Act. The proceedings through Court can be in the form of filing an application under Sec.31(1)(a) – against the Secured assets belonging to the

industrial concern or under Sec.31(1)(aa) for proceeding against the guarantee executed by the third parties other than the borrower. Likewise the Corporation can also file an application before the D.R.T for enforcement of its claims both against the borrower and the sureties & any other person under obligation to pay the debt secured or unsecured to the Corporation. It may be noted that the Code of Civil Procedure has been amended to speed up the disposal of court cases. A circular No.828 dated 28-04-2003 issued in this regard is given at **Annexure-X**.

Each of the above action / proceeding has its own advantages and limitations. Therefore, it is necessary that the most appropriate remedy be chosen based on the facts of the case and other attendant circumstances. The advantages and limitations of the above remedies is briefly listed below so as to give a broad frame work within which the concerned could take an appropriate decision to invoke one of the above remedies on a case to case basis.

1. RIGHTS AND REMEDIES TO ENFORCE THE CLAIMS OF THE CORPORATION UNDER SEC. 29 OF SFCs ACT:

Right to take over the management / possession or both of the industrial concerns as provided in Sec.29 of the SFC's Act 1951. This is a special and speedier remedy available to the Corporation.

This enables the Corporation to take over :

- i Possession or
- ii Management or
- iii Possession and Management of the industrial concern

2. PRECONDITIONS FOR TAKING OVER

- i. default in repayment of any loan or advance any installment thereof;
- ii. default in meeting its obligations in relation to any guarantee given by the Corporation or
- iii. default in complying with the terms of its agreement with the financial Corporation

3. PRELUDE TO TAKE OVER OF UNITS / ASSETS:

- (a) The guidelines for taking over a unit / assets are well established in the Corporation. A Show Cause Notice giving 10 days time should be sent to the borrowers by Registered Post to their correct address, Proforma given vide **Annexure –VIII**. It is observed that the Corporation has taken over quite a large number of units under Section 29 of SFC's Act and many units have remained unsold due to various reasons. Consequently, it has become necessary to safeguard these assets for a longer period by appointing security which results in additional expenditures apart from other hassles. Added to this, there is a general impression in the minds of public that the Corporation is very harsh in recovery actions and such criticisms are found to be common.
- (b) Keeping these points in mind, due diligence has to be made before taking over any unit / assets to the custody of the Corporation. The following points need to be kept in mind while taking over the assets:
- (i) Taking over of a unit / assets under Section 29 should be avoided as far as possible and used as a last resort after exhausting all the possible persuasion methods of recovery, rescheduling, rehabilitation etc., as per the needs in each case. Taking over of the running units for small defaults shall not be resorted to unless there are some other specific reasons warranting such steps. However, under extraordinary circumstances such as, possible misuse of assets by the entrepreneur, any illegal acts if noticed, then the assets falling even under standard category can be taken over.
- (ii) Before taking over of the unit / assets, the general understanding of the market situation, the possibility of selling the assets within reasonable time frame need to be explored. It must be kept in mind that simply taking over the units / assets without having proper ways of selling the same does not help either the borrower or the Corporation.

(iii) Before taking over of the unit, it should be examined whether the unit is located in own premises, rented premises, KSSIDC Sheds, KIADB land and so on. Whenever, the unit is located in rented premises / KSSIDC sheds, the possible expenditure in the form of rent / custodian charges to be paid in the event of take over of the unit must be looked into well before and a considered decision shall be taken under such circumstances. Proper planning before hand to shift the assets to our godown is more desirable.

(iv) The concept of notional take over (taking over the unit and handing over it to the promoter for safe custody with a proper undertaking) may be explored wherever possible as this will not burden both the Corporation as well as the party in terms of security charges / custodian charges, insurance etc., but at the same time provides option for the Corporation to bring the assets for sale by advertising. But it should be ensured that before sale is confirmed to the buyer, the assets are taken to KSFC's custody.

(v) The takeover of assets under Sec.29 should not be stopped / delayed for want of collecting information about the dues to other departments / institutions, & such information should be collected within a period of one month from the date of take over of the assets and updated on a quarterly basis till disposal of assets.

(vi) If it is inevitable to take over the unit / assets, simultaneous efforts should be started to identify personal properties of the promoters / guarantors confidentially. By the time the takeover is effected, the investigation of personal properties should also be completed.

4. PROCEDURE FOR TAKING OVER UNDER SECTION 29 OF THE SFCs ACT

- (a) A Show Cause Notice giving 10 days time should be sent to the borrowers by Registered Post to their correct address, Proforma given vide **Annexure –VIII**. If, the borrower fails to comply with the

demand made in the Show cause Notice or Recall Notice or fail to show good cause to the Corporation, the recovery officer shall put up the file with detailed note recommending for taking over of the assets of the unit under section 29 of the SFC's Act to the HOD/ BM.

- (b) The officer delegated with the power to pass the order under section 29 of the SFC's Act for taking over of the assets of the industrial concern can only sign the Sec 29 order. The recent delegation of powers in this regard are given vide **Chapter- XII**.
- (c) Therefore, the above authorised officer has to take into consideration all the above aspects and examine the cause shown by the borrower, if any, before taking a decision to pass orders under Section 29 for taking over the unit within the delegated powers whenever the file is put up to them. Such authority shall record the proceedings in the note sheet of the Recovery file indicating the cause shown by the borrower and the reasons for taking the decision for rejecting the representation of the borrower and for taking a decision to takeover the unit. A proforma of take over order is as per Annexure-XI .
- (d) As soon as the recovery file comes back to the recovery officer with the above order, the recovery officer shall take further action as under:
 - i) The recovery officer shall obtain a letter from the MD/ED/GM/ DGM/BM as the case may be to the Circle Inspector of Police / Sub-Inspector of Police of the concerned area requesting them to provide adequate police protection as and when necessary as per **Annexure-XII**.
 - ii) The recovery officer should give a few hours 'Verbal Notice' in advance to the borrower about the taking over of the assets. This verbal notice should invariably be recorded in the note sheet by the recovery officer.

- iii) Before proceeding to take over, the recovery officer should plan for security personnel for watch and ward. The officers authorised shall proceed to the spot with security personnel; and watch the situation there, first. The recovery officer should also secure, minimum of two witnesses, for witnessing taking over of the assets.
- iv) Recovery officer shall serve the take over order to the borrower or to his representative, if available, otherwise it shall be affixed to a conspicuous part of the factory premises. If the borrower and / or his representative refuses to receive the takeover order, the same shall be affixed to a conspicuous part of the factory premises, in the presence of witnesses and it should be recorded by the recovery officer and such record should be attested by the witnesses.
- v) If the industrial concern is open and the borrower or his representative is present, the authorised officers should take over the assets of the industrial concern in their presence as far as practicable. If there is any threat or resistance, the authorised officers may take the police help while taking over the unit. If neither the borrower nor the representative is present, the assets of the industrial concern shall be taken over by the authorised officers in their absence also.
- vi) If the unit is found locked and the borrower/ his representative refuses to open up or not available, the lock shall be broken in the presence of witness and the same shall be recorded in the Mahazar by the authorised officers. However when such actions are resorted to, prior intimation to jurisdictional police be invariably given.
- vii) While taking over of the assets, the authorised officers shall make inventory of all items found in the premises and the same shall be incorporated in the Mahazar. The value of those assets should not be mentioned in the Mahazar. The draft Mahazar to be taken is as per **Annexure-XIII**. The Mahazar recorded by the authorised officers shall be signed by the authorised officers, witnesses, borrower/ his representative (if present)/ representative of financial institution/ Banks/ Security agency. If the borrower or his representative refuses to sign the Mahazar, the same shall be recorded at the end of the

Mahazar and it should be endorsed by the authorised officers and the witnesses.

- viii) After taking over of assets, the authorised officer shall arrange as far as practicable to keep all the assets in order and lock and seal the premises and appoint security personnel for safety of the assets. At the time of take over, the security agency should acknowledge copy of Mahazar and its responsibility.
- ix) Agreement for security is provided at **Annexure-XIV**. The authorised officers should give a copy of the Mahazar to the borrower or his representative and get his acknowledgment. If the borrower or his representative refuses to take the copy of the Mahazar or to give endorsement or they are absent, the authorised officers shall make record of this and get the signature of the witnesses.
- x) Once the unit is taken over, the Corporation assumes high responsibility not only to the borrower but also to the other persons who have interest therein. Therefore due care has to be taken for its safe custody and quick disposal.
- xi) In the case of transport vehicles, if the party fails to turn up with any acceptable proposal within a reasonable time period, action should be taken to intimate the jurisdictional RTO for non use of the vehicle within ten days as per required rules of RTO from the date of seizure of the vehicle. This shall be ensured by BM/HOD. Action to be taken to renew the insurance if it is expired, collect tax arrears details etc., Vehicles so seized shall be kept under the custody of the Corporation at the places earmarked for parking the same and safety of seized vehicle .
- xii) While taking over or after taking over, if bank/ institution comes forward to take possession of its exclusively charged properties, with the consent of the Corporation, the same may be permitted provided bank/ institution has informed its action to the borrower. The recovery officer shall obtain the approval of BM/HOD, before handing over of such assets. It is necessary to intimate the borrower to be

present at the time of handing over by giving advance intimation to borrower.

- xiii) The recovery officer with the approval of the BM/HOD get the valuation of the assets done from the appropriate officer having technical background of the recovery department. If any other institution or bank is involved in the project finance, such institution / bank should also be requested to be present during valuation. As soon as the valuation is completed, the same shall be brought to the notice of the BM/HOD. Further valuation of assets should be updated on half yearly basis.
- xiv) The valuation reports, both in house valuation report and the valuation report from the approved valuer, shall be ready before issue of advertisement for sale. The format for inspection and valuation report is given vide **Annexure – XV**.
- xv) Recovery officer soon after taking over of the assets should put up the file along with the Section 29 seized units register and take over memo for signature of the BM/HOD. The recovery officer should take action to affect status change in the system provided by IT department.
- xvi) The recovery officer shall arrange to send a letter to the borrower as per the **Annexure-XVI** under the signature of BM/HOD immediately after taking over of the unit informing the intention of the Corporation to sell the assets in the event of non-payment.
- xvii) In response to the above letter, if the borrower comes forward with satisfactory payment, the recovery officer shall put up the file to the BM/HOD for orders. The decision for handing over the possession of the unit shall have to be taken by the officers delegated with the authority. Refer the **CHAPTER XII**. If the decision is taken to hand over back the assets, the Recovery Officer shall take action to put back the borrower in possession of the assets of the unit after obtaining proper acknowledgment as per **Annexure-XVII**.
- xviii) If the borrower does not come forward with satisfactory payment and

acceptable proposal for the payment of dues within 15 days from the date of issue of letter under **Annexure -XVI**, the entire loan shall be recalled under Sec.30 of the SFC's Act, 1951, after obtaining approval of the delegated authority in the event of taking over the unit before recalling the loan. Recovery officer shall follow the procedure set for recalling the loan.

- xix) Even after the recall of the loan, the borrower continues to be in default and does not offer acceptable proposal for the payment, action may be taken to bring the properties for sale. The recovery officer shall put up the file with his recommendations to the BM/HOD in respect of further decision for sale.

5. OTHER GUIDELINES WHILE INVOKING SECTION 29

In addition to the above guidelines, following may be noted while invoking Sec.29 action for recovery.

- (a) The appropriate authority to approve the take over of unit / asset, is as per the delegated powers as per **CHAPTER-XII**.
- (b) Necessary notices under Section 29 of SFCs Act should be sent well in advance (at least giving notice of ten days) to the promoters to their correct address. The copy of the same may be sent to the guarantors, collateral security owners, etc for the information.
- (c) Only the designated officers mentioned in the take over order should take the lead in executing the take over process by taking the assistance of other staff/personnel wherever necessary.
- (d) Prior intimation of atleast one week before taking over the unit / asset shall be given to the associated agencies such as the bankers who have provided working capital facility, the other participating financial institutions if any, KSSIDC in the case of KSSIDC sheds and so on. These Institutions/ Banks must be invited by writing letters to be present during take over to witness the assets belonging to them.

- (e) It is necessary to make an assessment of the type of industry being taken over. If it is a processing industry involving perishables, due care should be taken for proper protection of such raw-materials and disposing them before these get spoiled. We must invariably invite the bankers to be available during take over and request them to take possession of raw materials on which they have charge so that they can deal with these materials separately. It is also essential that the raw-materials / semi-finished products held up in the plant are taken out in order to avoid any damage to the plant if these materials are left out on the plant. It may pose more serious problems in the case of chemical plants where it is absolutely necessary to drain out all the chemicals in the plant before the unit is closed.
- (f) If some of the materials / equipment are lying outside the premises of an industry, it should be ensured that all these items are kept inside the building before seizing the building.
- (g) Proper care should be taken to turn off all the lights and electrical connections, water connections, gas connections etc., if any before seizing the unit. If the building has some openings which are likely to cause security threats, these should be closed using some temporary methods.
- (h) In the case of taking over of service establishments like hotels, restaurants, hospitals, convention halls etc., prior notice should be displayed prominently on the building for the knowledge of the public in order to avoid any possible complications at the time of seizure. The method of notional takeover may be adopted in these cases as far as possible.
- (i) In case of vehicles, the battery of the vehicle should be disconnected and due care must be taken to keep the vehicle properly so that no deterioration in its condition takes place.

Further, the RTO shall be informed about the Non-use of the vehicle along with the details of the parking place. This shall be done as soon as the notice period after taking the vehicle is over, without

delay. The details of the tax arrears to RTO shall be obtained. The RTO shall be followed up for noting the non-use status in their records and this shall be ensured. Also, it shall be ensured that the vehicle be not removed from parked place without the approval of RTO. Even, after sale of vehicle, the buyer shall be informed that the vehicle be removed from the place of parking only after obtaining the approval of RTO.

- (j) Soon after take over, necessary verifications should be made whether the insurance cover is in currency and if it is not, immediate action should be taken to insure the assets taken over for covering theft, burglary, fire, natural calamities etc.,
- (k) In respect of cases where the pari-passu charge or subsequent charges have been given to other financial institutions, such institutions be informed and involved in the process of take over of the unit.
- (l) Similarly, where banker have given working capital assistance, the bankers be involved while take over of such units and detailed Mahazar be drawn with the description of assets financed by KSFC and also current assets financed by banker's available in the premises at the time of take over.
- (m) In many of the cases where the Corporation has financed for imported machinery under concessional duty such machinery are deemed to be "bonded by the Customs authority". The discretion shall be exercised to take over the assets in consultation with Customs Department.
- (n) At the time of take over of the units under Sec.29, due care is to be taken to draw the Mahazar. In addition to mentioning of the description, make and capacity of the machinery to be taken over, the other assets which are lying in the factory premises which are not financed, such as current assets, furniture, office fixtures, the vehicles etc., have to be recorded in the Mahazar.

6. PREPARATION OF MAHAZAR REPORT :

Proper preparation of mahazar report is an important exercise in the process of taking over the units / assets. This document should contain all the necessary information and it should stand the test of law in the event of any litigations later on. Keeping this in view, the following guidelines must be followed:

- (a) The mahazar report shall be prepared on the spot in the presence of persons available during the takeover. One of the authorized person shall draw the mahazar in his own hand writing. Printed format of the mahazar shall never be used.
- (b) A format of mahazar report to be prepared while taking over the units is already circulated vide ION No.36 dated 19.04.2001 as per **Annexure - XIII**. All relevant information must necessarily be included in the mahazar while taking over the units / assets.
- (c) Details of land and building as per the format be furnished. General comments on maintenance be mentioned in the mahazar report.
- (d) In the case of plant & machinery, it is essential to mention the list of machinery available in the unit in detail specifically indicating the attachments to the machines, electrical items, etc., The make of machine, Sl.No. model etc., also be mentioned if these details are readily available on the machines. In the event of these details not available, the same may be mentioned against each item of equipments.
- (e) Other accessories such as tools, dies, portable machines etc., if available in the unit shall be listed out in the mahazar report and stored properly at one particular place within the premises of the unit.
- (f) The nature of raw-materials available at the site, approximate quantity (wherever possible) etc., must be clearly mentioned. As far as possible, the raw-materials be stored at one place so that it is easy for making routine verification at a future date.

- (g) In the case of perishables as already indicated, (5.e), precautions should be taken to shift these materials and dispose them off after following usual procedure before these get spoiled.
- (h) The mahazar report should be signed by the officer / officers (with name & designation) carrying out the seizing operation with minimum two witnesses (with name & address) as per the norms.
- (i) Invariably the photographs of the units / assets such as plant and machinery, equipments, inventory (raw materials, semi finished goods and finished goods) may be taken and be enclosed to mahazar report. A copy of the mahazar report shall be handed over to security agency identified for safeguarding the unit / asset with due acknowledgment. A copy of the mahazar report should also be given to the owner of the unit, participating institutions / banks for their records after obtaining acknowledgment.
- (j) In the case of vehicles, Mahazar report should contain the registration number of the vehicle, engine number, chassis number, model in addition to a list of extra fittings in the vehicle. The extra fittings may include stepney, music set etc.,

7. POST TAKE OVER PROCEDURES :

- (a) For any valid reasons if the participating institutions / organisations like KSSIDC, KSIIDC, KIADB, Banks etc., are not informed before taking over, it should be informed immediately after taking over of the assets by delivering suitable letters personally explaining the special circumstances under which the unit was taken over along with a copy of the mahazar report. This is very necessary to avoid / minimise loss / destruction caused to the goods on account of locking of the unit. Similarly when the assets are returned to the borrower on settlement, the Institutions / Banks should be intimated by writing a suitable letter.
- (b) The units / assets taken over under Section 29 (other than notional

take over), must be kept under proper watch and ward.

- (c) Details of assets taken over and recorded in the Mahazar should be verified from the list of assets mortgaged / hypothecated as per our records in the loan file and legal file. Any discrepancy observed such as missing of asset, missing parts etc., should be immediately recorded in recovery file note sheet so that police complaint could be filed. If the same were reported to be sent for repair / servicing etc., this should be cross verified and necessary proof to be obtained along with an undertaking to handover the asset to KSFC. Any asset found outside our approved list, the same should be noted separately for necessary action. If these assets are financed by Bank / PSU / others, then we should deal with them after due verification of facts and concurrence of the unit holder.
- (d) Soon after taking over of the unit, a notice in the prescribed format as already in vogue should be issued to the promoters, guarantors, collateral security owners to come up with their plans to repay the overdues and taking back the unit. This notice shall be issued within 3 days from the date of taking over the unit. A time period of 15 days shall be allowed for the parties to respond to this notice and during this period the parties should be pursued to make the acceptable payments and to take back the unit / assets.
- (e) If all the installments have not fallen due and in case the take over has been done without recalling the loan, a notice under Sec.30 of the SFC's Act has to be sent to the borrowers with copies to the guarantors, collateral security owners if any, for their information, recalling the entire loan and requiring them to discharge the same forthwith. A time of 30 days may be given for such payment.
- (f) Wherever the units are located in leased premises and if loanee does not come forward to take back the unit within 6 months, it is necessary to shift the machinery to godown. Proper care must be taken to shift the machinery to our godown. The guidelines concerning seizure of the assets housed in the private leased premises shall be followed as per Circular No.307 dated 10.11.1990.

The aforesaid circular is provided at **Annexure-XVIII**. Further, while keeping the machinery in the godown, a demarcation / bifurcation of the machinery of each unit shall be made and a name board be affixed for easy identification.

- (g) If there is no acceptable proposal forthcoming from the promoters within 15 days time, the advertisement for sale of the assets must be issued in such newspapers keeping in view publicity and coverage required.
- (h) The second and third advertisements should follow in a gap of two months from there on.
- (i) The advertisement of units for sale must be issued clubbing as many units as possible. Such bunching will save cost. The advertisement expenses shall be appropriated among each of the units included in the advertisement proportionately to the total liability.
- (j) The actual expenditure incurred in the process of seizure & selling of assets / vehicle shall be debited to the respective account immediately. This is because if an expenditure is claimed in respect of any account after the account is closed, there will not be provision to debit the same against the corresponding account. Due care shall be taken to charge all the expenditure to the concerned account before issue of account closure letter.
- (k) The sale communication letter should contain the description of machinery and the details of the property with schedule. Such details be obtained from Loan Files and legal files.
- (l) In respect of sale of properties, the details of the purchaser like the constitution of the purchaser, name and addresses of the directors, proprietor, partners etc., be obtained which will be helpful to execute the sale deed in favor of the purchaser to avoid benami transactions.
- (m) In respect of cases where winding up order is passed, the Corporation has to follow certain procedures like filing of application before Company Court for bringing the assets for sale in association with the Official Liquidator.

- (n) When the assets of the Company under liquidation is sold in association with the Official Liquidator, it is mandatory on the part of the financial institution to file the Company application before the Company Court and get the sale confirmed by the Company Court.

Note: The clauses m and n above are applicable to the cases which are already under the purview of the OL. After introduction of Insolvency and Bankruptcy Code (IBC), the cases will be covered under IBC and such cases are to be referred to NCLT for further proceedings.

Cases of Head Office taken over u/s.29 and located in the jurisdiction of BOs :

Head office cases which have been taken over u/s.29 of SFCs Act shall now be monitored by the concerned Branch Offices, as indicated in Circular No.847 dated 25.2.2004, which is at **Annexure – XIX(A)**.

8. GUIDELINES FOR RELEASING THE UNIT TO THE PROMOTERS:

- (a) All the units which are taken over under Section 29 does not end up in selling alone. In many cases, the promoters come up with part payments and take back the unit. The guidelines on delegation of powers in respect of Recovery Functions contained in Circular No.950 dated 31.3.2012 are to be followed while giving back the unit to the entrepreneur (**Chapter XII**).

- (b) Before Handing Over:-

While handing over the units / assets to the entrepreneurs, an acknowledgment mentioning specifically the details of assets vis-à-vis the mahazar of having received back the unit / assets in good conditions shall be obtained in the prescribed format as per **Annexure-XVII**. Such acknowledgment shall be kept in the recovery file.

- (c) After Handing Over :-

Soon after release of the unit, information regarding the same should

be passed on to other participating institutions such as banks, financial institutions, KSSIDC, KPTCL, KIADB, etc.

9. GUIDELINES ON VALUATION OF ASSETS:

A realistic valuation of assets assumes great importance in taking credit decisions in the Corporation. It is observed that no uniform norms are followed by the officers in valuing the assets. Hence it is desired that there should be some common norms for valuing the assets. The following broad guidelines may be adopted:-

9.1. Land :-

- (a) Branch office / Recovery Departments (HO) shall collect the guidance value fixed by the Sub-Registrar for registering the properties in the respective areas. This information will be available either in the jurisdictional Sub-Registrar office or with the District Registrar;
- (b) While computing the value of land, the minimum registration value should be taken as the base value. In addition, the branch office shall make efforts to find out the recent registrations that have been taken place within one year time in and around the property being valued from the office of the Sub-Registrar. Efforts should also be made to know the fair market value of the property in the locality through local enquiries keeping saleability in view;
- (c) Value of the land shall be finally determined based on these three values with proper justifications. It may please be noted that if the fair market value is less than the value fixed by the Sub-Registrar office, then the minimum value fixed by the Sub-registrar should be taken for the purpose of valuation. All the above information shall be given under the column provided in valuation report for this purpose.
- (d) Branch offices / Recovery Departments (HO) shall enclose an extract of the Sub-Registrar minimum value list along with the valuation report wherever immovable assets are valued.
- (e) The following details should be furnished in the valuation report :

- (i) Address of the property as per legal documents and owners name;
- (ii) Layout plan:- A copy of the layout plan approved by the concerned authority be enclosed. If it is not there, the inspecting officer shall prepare a layout sketch and attest the same.
- (iii) Schedule of property shall be given;
- (iv) Extent of the land i.e., site (L X B) and total area;
- (v) Surface condition of the land;
- (vi) Basis on which the valuation has been made. If the land is situated in the area of KIADB / KSSIDC developed area, then the present allotment price of KIADB / KSSIDC should be indicated;
- (vii) Approach road to the land from the main road should be indicated;
- (viii) Any beneficial advantages of the land which will enhance its market value should be indicated. Similarly if there are negative aspects which would reduce the value also must be mentioned.

9.2. Building :-

- (a) The value of the building should be estimated on the basis of the current cost of construction of various structures.
- (b) From the current cost of construction, depreciation at a rate considered to be appropriate should be deducted to arrive at market value.
- (c) As it is not possible to lay down a standard rate of depreciation, the officer valuing the building should indicate the reasons why a particular rate of depreciation has been adopted. There may be necessity to adopt different rates of depreciation for different structures. A depreciation of 2% to 5% is considered acceptable in a satisfactorily maintained building.
- (d) The valuation report should contain the following details:
 - (i) The details of different structures, their measurement in terms of L

X B in meters and the type of construction of each of the structures, present status / condition, etc.;

- (ii) The valuation of individual items of building and the rate taken per Sq.Mtrs. and the type of construction of each of the structures;
- (iii) The rate of depreciation in respect of each item of structure and the justification for the rate of depreciation adopted;
- (iv) The present condition of the building, the nature of structures and the material used in the construction, age, saleability, balance life etc.,
- (v) The opinion of the officer valuing, on the saleability of the building, if put up for sale.
- (vi) Type of building whether industrial / commercial / residential / others.
- (vii) Items which are not considered for valuation if found unsuitable, with specific reasons.

9.3. Plant and machinery:-

- (a) The plant and machinery should be valued at the current price;
- (b) From the current price of the machinery, depreciation at an appropriate rate has to be deducted for the number of years the machinery was in usage;
- (c) While deciding the rate of depreciation, factors such as maintenance of the plant and machinery, its present condition, number of years it was used etc., should be taken into consideration and the officer valuing the plant and machinery should give the justification for the rate of depreciation he has adopted. A depreciation of 5 to 15% is generally found acceptable under normal circumstances;
- (d) To the extent possible, the current price of machinery should be arrived at based on the quotation(s) from supplier(s) for the same or similar machinery. If it is not possible to obtain quotation(s) within a reasonable time period, then the current price shall be arrived at

based on inquiries at supplier(s) or sales against supplying the same or similar machinery and the name(s) of the suppliers / sales agents so enquired at, shall be mentioned in the valuation report;

- (e) Details of valuation of individual machineries should be given separately and the rate of depreciation may also vary from item to item. However, in respect of small miscellaneous items, a lumpsum value may be given.
- (f) The list of machinery inspected in the unit, in detail specifically indicating the attachments to the machines, electrical etc., make of machine, sl.no. of the machine, model etc., if these details are available on the machine, the same shall be mentioned against each item / equipment;
- (g) General condition of the machineries, – erected / dismantled etc.
- (h) General comments on the maintenance of the machine, technology obsolescence, salability etc., which forms basis for valuation.

The format of valuation report to be submitted as per **Annexure – XV**.

10. ISSUING OF ADVERTISEMENTS FOR SALE OF ASSETS THROUGH E-AUCTION:

For the last 10 years, the Corporation has adopted sale of assets through e-auction. Now, the e-procurement portal of the Government of Karnataka is being used for e-auctioning the assets under Sec. 29 / SARFAESI Act. The details of the property, name of the borrowers, EMD details, reserve price, date and time of commencement and closure of the e-auction, date and time to obtain the bid key, details of payment terms and conditions, etc shall be incorporated in the online portal.

The Board in its meeting held on 11.3.2002 has approved operational guidelines on recovery functions and the same are circulated vide

Circular No.812 dated 3.4.2002. The following guidelines for sale of assets taken over under section 29 of SFC's Act, may be followed:

- (a) Before conducting sale of immoveable property, the valuation reports of the properties to be sold are to be obtained from the empanelled / approved valuer and from the technical officers of the Corporation.
- (b) The authority concerned shall serve to the borrower a notice of 30 days for sale of immoveable secured assets.
- (c) The Reserve price shall be fixed as per the guidelines in Circular No.921 dated 15.10.2010. This is given vide **Annexure – XIX (B)**.
- (d) The EMD amount shall not be less than 10% of the Reserve Price.
- (e) The sale advertisement shall contain details such as Name of the Borrower, the description of the property, Reserve Price, EMD amount, the date of commencement /closure of auction, terms of payment etc. The terms and conditions shall necessarily include the time frame / schedule within which the party has to pay the sale consideration and also a clause indicating that the EMD will be forfeited in the event of failure to adhere to the terms and conditions, conditions regarding other dues / expenses etc.,
- (f) The intention to bring the property for sale shall be published by way of advertisements in two leading news papers, one in vernacular language, having wide publicity in the local area giving adequate description of the units / assets taken over and indicating the intention to sell the same and also thereby calling for the offers from the public, as per **Annexure - XX**.
- (g) The law provides for sale of property by any one of the methods such as (i) by obtaining quotations from the persons dealing with similar secured assets or otherwise interested in buying such assets; or (ii) by inviting tenders from the public; or (iii) by holding public auction; or (iv) by private treaty. **However, the Corporation is conducting the sale through e-auction.**
- (h) A copy of the paper clipping of sale advertisement issued should

be sent to the borrowers with a covering letter as per the format given at **Annexure - XXI (A)**, as per circular given vide **Annexure - XXI (B)**.

- (i) Dues to other institutions / agencies i.e., KIADB/KSSIDC, KPTCL, local tax arrears, etc., if any , shall be indicated. The payment of such amount whether to be paid by the purchaser or by the Corporation shall be decided before hand and shall be indicated clearly in the terms and conditions of the sale through e-auction.
- (j) Effort should be made to give wide publicity for sale of the assets and for this purpose, clippings of the advertisement may be sent to related associations, Chamber of Commerce and other such bodies with a request to them to display the advertisement on their notice board.
- (k) The sale advertisement of the unit / assets should appear soon after completion of two months from the date of take over but after loan is recalled. If there are no good offers, a second advertisement should be made soon after the completion of two months from the date of first advertisement. Even after this, if there are no proper offers, a third advertisement shall be issued soon after the completion of two months of the second advertisement. By doing this, the issue of three advertisements would be completed in a matter of 6-9 months time. Originals of all the advertisements must be kept in the respective files.
- (l) The advertisements should be properly drafted so as to save the cost to the Corporation. The number of units/ assets should be clubbed in one advertisement and contents of the advertisement should be brief and at the same time communicative effectively. Proper care should be taken to avoid issuing of elaborate explanations in the advertisement. Further, the size of the industry, its nature and amount involved also to be looked into while deciding the newspaper in which it should be advertised. If it is the traditional tiny industry, advertisement in the local newspaper may be acceptable. On the other hand, if the unit / assets require wider publicity, state level

newspapers be chosen for issuing advertisements. Paper advertisements may be released through approved panel wherever applicable.

- (m) EMD of the offerers where offers are rejected in the negotiation meeting should be returned immediately. In case, if the highest offerer approved by the Corporation fail to comply with the conditions of sale of assets / unit within the stipulated time, the EMD / amount paid till then, shall be forfeited and be credited to 'other income' head of account.
- (n) The Supreme Court has observed that the Central Government has not yet framed rules under the SFC's Act laying down the procedures to be followed for sale of assets under Sec.29 of SFCs Act. Till such time the Central Government frame rules in this regard, the Supreme Court in a judgement has laid down the procedure that has to be followed by the State Financial Corporations. The directions issued by the Supreme Court is extracted and highlighted in the circular given vide Annexure – XIX(C). The officers **are hereby advised to follow the guidelines laid down by the Supreme Court meticulously while bringing the properties for sale under Sec.29 of SFC's Act.**

11. PROCEDURE POST E- AUCTION OF ASSETS / UNITS :

The recovery officer shall view the details of the bidders regularly on the portal during the currency of the auction. Soon after the closure of the e-auction:

- (a) **In case of no bidders:** Take the print out of the bid sheet and the same be filed and recorded in the recovery file and bring it the notice of the HOD / BM;
- (b) **In case of successful bidders:**
 - (i) Take the print out of the bid sheet and the same be filed and recorded in the recovery file and bring it the notice of the HOD / BM;

- (ii) Send a email to the successful bidder intimating to pay amount equivalent to differential amount of 25% of the sale amount and the EMD amount within the stipulated period as per the terms and conditions of the e-auction.
- (iii) After confirmation of the payment of the amount as per above para, the sale note (**Annexure – XXII**) be prepared and put up along with the file through HOD / BM, for approval of the competent authority.
- (iv) After obtaining the approval of the competent authority, the sale communication be sent to the successful bidder confirming the sale and requesting for the payment of the balance bid amount i.e. 75% of the bid amount within the stipulated period as per the terms and conditions of the e-auction. Format of the same is given vide **Annexure – XXIII**. In case of joint finance case, before issue of the sale communication to the bidder, the concurrence of the other financial institution be obtained.
- (v) Once the full sale amount is received as per the bid, the recovery file be updated on this regard and the file be forwarded to the legal officer for drafting the sale deed to be executed in favour of the successful bidder. The legal officer shall ensure the execution of the sale deed on respect of the asset sold through the e-auction. The earlier title deeds of the assets sold, held by the Corporation shall be handed over, with the approval of the competent authority, to the successful bidder with due acknowledgement which shall be recorded in the file. Before handing over the earlier title deeds of the property, a set of photocopy of the earlier title deeds shall be obtained and kept in the file.
- (vi) The amount received as above is to be kept in suspense account initially and after receipt of the entire amount and execution of the sale deed, the amount shall be got adjusted to the loan account by referring the file to the Controller Department in case of HO case / account section in respect of BO cases. In case joint finance cases, before adjusting the sale amount to the loan account, the sale

amount shall be shared between the other participating institution as per the pari passu agreement.

- (vii) After receipt of the full sale amount and compliance of the terms and conditions, if any, the sale transactions can be completed by giving delivery of the assets / vehicle by obtaining receipt to this effect from the purchaser. The proforma to be obtained is as per the **Annexure – XXIV (A)**. The acknowledgement to be obtained is as per the **Annexure – XXIV (B)**.

12. OTHER GUIDELINES :

- (a) Soon after the conclusion of sale of the assets under Sec.29, further actions to be taken to transfer the case to 'DC transit schedule' thereafter within a month it should be ensured that all other pending recovery actions are completed and unit moved to that status.
- (b) If the assets remain unsold even after making paper publication for three times, the Recovery Officer shall put up the file with details of collateral security / surety and any other property of the borrower / surety for simultaneous recovery action against the collateral security of borrower and / or sureties to the DGM [R] in Head Office and Branch Manager at Branch Offices for orders. After approval of the competent authority for further action, the recovery officer shall send the file to M[L]/ DM [L-R] in Head Office/Branch Office through DGM [R]/BM for needful action along with the up to date statement of account obtained from the accounts department / officer.
- (c) If the recovery officer after the sale of the assets under Section 29 of the SFC's Act on verifying and investigation finds that there is no other security, no surety and no other property owned by the borrower and further recovery is not at all possible, he should put up the file with detail note to the DGM [R] in Head Office and Branch Manager in BOs for orders. DGM [R] in Head Office and BM in BO, will instruct the recovery officer either to place the note before

the DRC for write off / waiver or to take further recovery action as the case may be.

- (d) If the action under section 29 of the SFC's Act is challenged in any court by the borrower, recovery officer shall provide para-wise remarks to the concerned legal officer for filing reply to the Courts without any delay. The recovery officer shall follow the circular No. 394 dated 02.06.1992 issued in this regard. The said circular is provided at **Annexure – XXV**. A separate register with regard to dealing of the litigation cases in the manual be referred.
- (e) Recovery officer should always keep vigil against the defaulting companies as to whether any other creditor has taken any recovery action including referring to NCLT proceedings, in case of companies.
- (f) If the recovery officer comes to know about winding up proceedings, he should immediately bring it to the notice of DGM [R] in HO and BM in BO, for necessary recovery action to take over the assets and their disposal under Section 29 before the company is ordered winding up.

13. SALE OF SECURED ASSETS UNDER SARFAESI ACT:

The other remedy available to the Corporation for realization of secured assets is to initiate action under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act). The SARFAESI Act has come into force from 21.6.2002. The Act provides for taking action against the **secured assets** under Sec.13 of the Act by following the due procedure as prescribed in the Security Interest (Enforcement) Rules 2002. It is to be noted that the account should have become NPA to initiate recovery action under this act. The guidelines issued vide Circular No. MD/C-3718 dated 31.10.2013 shall be followed meticulously. The above circular is enclosed in **Annexure – XXVI**.

The provision of this Act are not applicable if : (i) the debt does not exceed Rs. 1.00 lakh; (ii) the amount due is less than 20% of the

principal amount and the interest thereon. For more details, the Circular No. MD/103/2004-05 dated 14-02-2005 may be referred.

The procedure explained above in this chapter for sale of assets under Sec. 29 through e-auction also will be applicable for the sale of the assets under this Act, by the following procedures meticulously as explained in the SARFAESI Act. The various formats indicated above are also applicable for the action under this Act. Wherever additions / modifications / deletions are necessary, the same may be suitably done to suit the situation on case to case basis.

For various formats for demand notice to be issued to borrowers / guarantors, possession notice, panchnama while taking possession of assets and inventory, sale of assets through e-auction along with terms and conditions of sale, sale certificate, etc., the various circulars related to the actions under SARFAESI Act may be referred. The details of various other circulars are given below :

1. Circular No. KSFC/HO/MD/103/2004-05 dated 14-02-2005.
2. Circular No. KSFC/HO/MD/ED(F)/1273/2008-09 dated 07-11-2008 (Circular No. 840).
3. Circular No. KSFC/HO/MD/Legal/1008/2010-11 dated 08-11-2010.
4. Circular No. KSFC/HO/MD/Legal/1170/C-4096/2010-11 dated 20-01-2011.

CHAPTER–VI

FOLLOW-UP OF DC TRANSIT CASES, DC REFERRED CASES, SUIT FILED CASES AND LITIGATION CASES

1. DC TRANSIT CASES:

After the completion of action under Section 29 / SARFAESI Act, the cases are shifted to DC transit schedule till further recovery actions such as referring to DC, invoking of PG, considering of OTS, referring to DRT are taken. The status code “29” (under the name “DC Transit Cases”) is assigned to these category of cases. Once the appropriate recovery action is taken, the case should be shifted to appropriate schedule. The recovery officers should take further appropriate actions on priority in these cases and see that further action is taken for recovery. BMs / HODs shall review this schedule periodically and ensure that further appropriate action is taken.

2. DC CASES: [SEC 32G OF SFCs ACT/SEC 3 (1) OF KPM(R) OF DUES ACT 1979]

This is a provision available to KSFC for recovery of the Public Money as arrears of land revenue. This provision enables the Corporation to proceed against the borrower including the secured and unsecured assets.

This provision can be effectively made use of in the following circumstances :

- (a) If the remedies available under Sec.29 or under Sec.31(1)(a) are not found appropriate.
- (b) To recover the balance dues from the borrower not exceeding Rs.10.00 lakhs after the sale of the assets U/s 29 of the SFC’s Act by proceedings against the borrower’s any other secured or unsecured assets.

Under the above provisions, the CMD/Managing Director is the competent authority to issue the Certificate. However it should be ensured that a notice should be issued to the person against whom the action is contemplated. The proforma of notice to be issued is given at **Annexure - XXVII**. Before issue of the Certificate, it is mandatory that the reply, if any given by the person to the notice, are taken into consideration and the reasons for accepting or rejecting the same are duly recorded. Since this is one area which is frequently challenged in the Courts, it is necessary that the above procedure is duly followed.

2.1 PROCEDURES

- (a) Action should be taken by the Recovery officer after recalling the loan (Procedure stated for recalling the loan shall have to be followed by the Recovery Officer).
- (b) If after recalling the loan, some considerable delay is caused on account of accommodation shown to the borrower for making the payments, then the recovery officer shall take action to issue Show Cause Notice (the procedure stated for Show Cause Notice shall have to be followed).
- (c) On receipt of the reply or no reply or compliance or non-compliance to the Recall Notice/Show Cause Notice, the procedure stated herein shall have to be followed by the Recovery officer.
- (d) The Recovery officer shall put up the file with his recommendation for taking decision to issue Certificate to the HOD in HO/BM. Once the HOD/BM is also of the view that the action under KPM(RD) Act is suitable, the Recovery Certificates along with the covering letters as per the **Annexure-XXVIII** shall be put up to the Managing Director through the concerned ED/GM.
- (e) Once the certificate and covering letter has been signed by the MD, the file shall be sent back to the HOD in recovery department and concerned BM for arranging to dispatch the same to the DC of the jurisdiction. Thereafter the file shall be sent back to the recovery officer through HOD/BM with a copy of the certificate. The recovery

officer shall follow up the certificate and recovery in pursuance of the certificate with the concerned Special Tahasildar, deputed to the Corporation in this behalf.

2.2 WITHDRAWAL OF DC CERTIFICATE

The certificate issued under Sec 32G of SFCs Act / KPM(RD) Act may be withdrawn by the Managing Director at any stage of the proceedings. A few circumstances under which recommendation may be made to the Managing Director for withdrawal of the certificate are given below:

- (a) Having issued the Certificate, the Corporation later on feels that to pursue other remedies is more advantageous than the one under KPM(RD) Act /Sec 32G of SFCs Act.
- (b) The borrower pays substantial amounts and requests for withdrawal of Certificate which is favorably considered.
- (c) The borrower's request, if any, for rehabilitation of the unit, is favorably considered by the Corporation.

The Recovery officer recommending withdrawal of the certificate shall have to make detailed note in the note sheet of the recovery file, as per **Annexure - XXIX(A)**, explaining the circumstances along with recommendation on alternative remedies for recovery and the draft DO letter to be addressed to the DC by the MD, and put up the file to the HOD for getting the necessary approval and signature from the MD. The formats of proposal for withdrawal of the DC certificate, covering letter to DC for withdrawal of DC certificate is given at **Annexure - XXIX(B)**.

Once the DC Certificate is withdrawn, the Recovery Officer shall under the signature of the HOD in HO / BM in BO, send the Memo Prepared as per **Annexure -XXIX(C)** to (a) Special Tahasildar, (b) Controller Department / Officer, (c) Insurance Department / Officer. Recovery Officer shall also inform, with the approval of the DGM/BM, to any other institution / Bank involved in joint finance cases.

Recovery officer should also pass the entries for withdrawal of certificate in the respective register kept for the action under KPM(RD) Act/Sec 32G of SFCs Act.

2.3 FURTHER GUIDELINES TO BE FOLLOWED IN RESPECT OF DC REFERRED CASES :

The Board in its meeting held on 11.3.2002 has approved operational guidelines on recovery functions. As per Circular No.812 dated 3.4.2002 further guidelines to be followed in respect of DC referred cases are given in the subsequent paras.

The Internal Audit Department has come across several deficiencies while auditing the DC referred cases in the Branch Offices and Head Office. Although the deficiencies are brought to the notice of the concerned officers for compliance and to prevent re-occurring of the deficiencies brought out on record, no significant improvement is seen and the same kind of deficiencies are being noticed during subsequent audits also. In this regard following guidelines are to be followed:

(a) Guidelines for Special Tahsildars :

Special Tahsildars are no doubt should act according to the provisions of the related Act while initiating recovery action in respect of revenue recovery cases. This apart they should take the various actions suggested below which enables them to have effective follow-up and early action:

- (a) Soon after copy of the certificate or intimation to this effect from the concerned offices is received, close follow up is necessary to get the certificates issued from the respective DC's office. If the same is not received within a reasonable period of time, attempt should be made to get the same by close follow-up. If there is inordinate delay, the same should be brought to the notice of concerned HOD/ BM to take-up the issue with the DC's office.

- (b) Soon after the certificate is received, necessary entry should be made in the register and open a separate file. Recovery proceedings as per the Act should be initiated within a period not exceeding 30 days from the date of receipt of Certificate.
- (c) In case payments are not forthcoming after the issue of demand notice, action should be initiated for the disposal of the property by issuing sale notification in the leading newspapers of the region and also other newspapers depending upon the type of industry and the amount involved. The aim should be to make the advertisement more effective and economical.
- (d) Since valuation report of the properties to be auctioned is required before hand, the same should be obtained from the concerned office before release of the sale notification and updated at 6 months interval.
- (e) In case, the property cannot be sold for an acceptable value, the sale should be postponed. The same should be intimated to the concerned office, the very next day of the auction through a letter. In such cases, simultaneous action shall be initiated to investigate and bring the personal properties of the borrowers for sale. In each case, the details of the properties held by the borrowers are available in the loan files. The recovery officers should also investigate into the personal properties of the borrowers / guarantors no sooner the account slips to doubtful category. Hence, it is necessary to discuss with the concerned officers and collect all the available details of other properties well in advance. Further, the Special Tahsildar should also immediately initiate actions to make thorough investigation of the properties held in the name of borrowers by using local revenue authorities / administration and attach the same for recovery of dues.
- (f) Subsequent sale notifications shall be issued by giving maximum two months gap between the one already issued.
- (g) Apart from giving publication in the newspapers, other modes of publicity like distributing pamphlets in the local area, taking help of

village accountant, panchayat office, local leaders, etc., may also be adopted to speed up disposal process.

- (h) Wherever it is difficult to sell the properties on account of various reasons, it is necessary to hold the discussions with the concerned officers and the borrowers for one time settlement of the amount due to the Corporation. In other cases also, parallel efforts should be made for one time settlements. Concerned HODs/ GMs / BM be consulted regarding OTS proposal wherever such efforts are called for.
- (i) The Special Tahsildar should invariably be accompanied by the official from Head Office / Branch Office who is in charge of recovery of DC referred cases for all the public auction.
- (j) In respect of DC referred cases, if the borrowers approach Court against the recovery actions under KPM(RD) Act / Sec 32G of SFCs Act, the Special Tahsildar should keep constant touch with the concerned officer and the legal counsel who is attending to the cases. He should make all efforts to see that the Court litigations are cleared at the earliest by providing all the necessary documents to the legal counsel.
- (k) After exhausting all recovery measures, if the dues are still outstanding, the Special Tahsildar should give a certificate certifying that the balance amount stands irrecoverable. The present living conditions of the borrowers should also be mentioned in detail in the no property certificate (NPC).
- (l) Actions under KPM (RD) Act/Sec 32G of SFCs Act shall be concluded as early possible say within a maximum period of two years from the date of issue of certificate by DC.

b) Guidelines for Officials in-charge of DC cases in the Corporation:

It is an accepted practice to identify an officer in the Head Office to look after DC referred case. However, with regard to maintaining records, follow up etc., there is no uniform procedure. Therefore, the

following guidelines be followed for the effective recovery out of DC referred cases:

(i) Notice under KPM (RD) / Sec 32G of SFCs Act to the promoters and collateral security owners shall be issued within two months from the date of conclusion of sale of assets under Sec.29 of SFC's Act / SARFAESI Act or within one month of taking decision by the competent authority whichever is earlier. Further action should be taken to issue of DC certificate within one month after expiry of time given in the KPM (RD)/Sec 32G of SFCs Act notice.

(ii) Check whether the DC certificate issued by the Corporation has reached the office of the concerned DC and in turn is forwarded to the Special Tahsildar of KSFC. This should be followed up closely as delays are expected to take place at these stages.

(iii) A register of DC referred cases shall be maintained in the office dedicating one full page per case and this should contain all the necessary details of each case along with information on present status.

(iv) After the issue of DC certificate, the recovery file should be transferred to the official in-charge of DC cases in the office after filing a copy of the DC certificate along with other relevant papers.

(v) Separate computer code shall be allotted for DC referred cases and separate schedules generated periodically to facilitate upto-date information on each accounts, recovery follow-up and reviews. The codes for KPM (RD) Act cases is 10 and Sec 32G of SFCs Act is 37.

(vi) Quarterly DC schedule should be reconciled with the DC register. Similarly, this information shall be reconciled with the register of DC cases maintained in the office of Special Tahsildar.

(vii) To ensure that the Special Tahsildar shall commence recovery proceedings within 30 days from the date of receipt of the DC

certificate, through close follow up.

(viii) All the information required in connection with initiating recovery proceedings by Special Tahsildar should be furnished. The important information being bio-data/networth statements of the promoters / guarantors, photographs, correct addresses, any additional information / investigation reports regarding personal properties of promoters/ guarantors and so on.

(ix) The Special Tahsildar should issue sale advertisements in the local newspapers and other leading papers of the state / outside the state depending upon the requirements, type of industry, amounts involved etc.

(x) Auction sale date should be fixed giving sufficient time for inspection of the assets and also to participate in the auction sale by the prospective buyers. The original promoters / guarantors / collateral security owners also be kept informed about this.

(xi) Valuation reports for the assets brought for sale should be furnished well in advance in the prescribed format to the Special Tahsildar and must be made available before issue of first advertisement. If the value of primary assets is less than the liability, the Special Tahsildar shall take action to attach the collateral security and personal properties of the promoters / guarantors simultaneously along with primary assets.

(xii) The official in charge of DC cases should personally attend each and every auction conducted by Special Tahsildar and record the proceeding of auction sale outcome and put up the file for information / orders of the higher authorities.

(xiii) In case, the Special Tahsildar is unable to get the price equivalent to or more than the valuation in auction sale, subsequent auction sales shall be lined up in a gap of two months each. If in the event, the Special Tahsildar fails to get offer nearer to or more than the valuation in three advertisements, then a decision may be taken to recommend confirmation of the sale for an amount less than the valuation with the prior clearance of delegated authority.

The competent authority for this purpose shall be the next higher authority of sanctioning the loan. Although the provisions under Revenue Recovery Act provide authority to the Special Tahasildar for disposing of the properties, the above procedure is laid down with a view to ensure the recovery of maximum possible amount under a situation where the public offer received is significantly lower than the valuation inspite of more than three advertisements.

As per the Revenue Recovery Act, the Special Tahasildar is to recommend the sale by accepting 25% down payment on the spot. To facilitate this, the Special Tahasildar, depending upon the higher offer received in the earlier three auctions may forward a note to the delegated authority to get clearance for selling the assets less than the valuation. The next publication shall be fixed in quick succession after getting the clearance for selling the assets so that the Special Tahasildar will be free to agree for the sale price and accept the initial deposit. Under such circumstances, the Special Tahasildar may inform the earlier bidder in advance to participate in the present auction sale also.

The DC referred cases shall be reviewed on quarterly basis by the HODs / GMs of respective Circles along with the Special Tahsildar & detailed proceedings shall be drawn.

2.4 GUIDELINES REGARDING GEOGRAPHICAL LOCATION:

(a) Where the properties are located outside the jurisdiction of Special Tahsildar :

Wherever, the properties are located outside the jurisdiction of Special Tahsildar, the certificate to be issued to the DC of the concerned District in which the property is located, forward the same with a request concerned Special Tahsildars of that area in which the property is located. The Branch Managers shall ensure that these certificates are forwarded to concerned Tahsildars and follow it up with them for further course of action on regular basis.

(b) Guidelines for the properties located outside the State:

Wherever the properties located are outside the State, the Certificate

be issued under Section 5 & 10 of Central Revenue Recovery Act 1890. As per this act, the Managing Director has to issue certificate to the Deputy Commissioner of Bangalore Urban District (as the Head Office of KSFC is situated in Bangalore city) with a request to transmit the certificate to the concerned Deputy Commissioner of Districts of other States to recover the amount as arrears of land revenue. On such receipt, the Deputy Commissioner of Bangalore Urban District, has to transmit the papers to the concerned Deputy Commissioner of the District in another State to recover the amount by sale of properties – movable or immovable. The Special Tahsildar situated at Bangalore Urban District shall handle these cases for further follow-up. Further, the concerned branch managers shall keep in touch with the Special Tahsildar situated at Bangalore Urban District and follow up for further course of action or regular basis.

3. SUIT FILED CASES :

- (a) The Corporation files original suits or miscellaneous petition under Section 31 of SFCs Act for recovery of dues. Applications under Section 31(1) (aa) for the enforcement of guarantors / surety's liability are increasing day by day in view of the decision either to take simultaneous action under this provision in addition to action under Section 29.
- (b) As soon as recovery action is initiated as stated above on filing of suit/ miscellaneous petition, immediately a register should be opened and details be entered therein by the legal officer. The case has to be then followed up by the recovery officer / legal officer of the department at HO / BO. However, the concerned recovery officer will be responsible for following up their respective cases before the Court and the Legal Counsels and for any delay, the concerned officer will be responsible. However, the concerned Legal Officers will be held responsible if any problem area is not addressed.
- (c) The legal officer should open files pertaining to litigation and record in these files the dates of hearing and the progress achieved in hearing of these cases in the Court from time to time. Further he

should obtain copies of order sheet from the LC/LA on an yearly basis.

- (d) The recovery officer should schedule these cases for review in the BO level DRC meetings. The LC/Legal Adviser and the legal officer should be invited for the meetings. The recovery officer should ensure that in a year all the suit filed cases are reviewed in the DRC meeting either at HO or at the BO.
- (e) Besides the above, review meetings should be held under the Chairmanship of the Recovery section Head in respect of HO cases and the respective General Managers in respect of BO cases to review all these cases atleast on quarterly basis. Detailed proceedings of these cases should be prepared and sent to ED and MD for their information. Copy of such proceedings shall also be sent to Legal Department at HO.

4. LITIGATION CASES : (cases filed against Corporation)

- (a) The litigation cases are those cases where the borrowers/guarantors/ sureties or any other persons have filed suit / writ petition / complaint / CRP / MFA / RFA / appeals, etc., against the Corporation in respect of recovery action or aggrieved by any action of the Corporation. If any of such matter is filed, it does not mean that further recovery action should be stalled / suspended unless the Court orders for stay of recovery action. The recovery officer shall get the information from the legal officer or from the LAs/LCs as to the direction or order issued by the Court, if any. Recovery officer should liaison with the legal officer for vacation of stay and for final disposal of the case.
- (b) The recovery officer shall, with the approval of HOD/BM as the case may be, arrange to get the caveats filed through legal officer whenever recovery action like taking over of the assets under Section 29 of SFCs Act, publication of sale notification for sale of assets by the Corporation or sale proclamation and sale publication by the Special Tahsildar, are taken and wherever the recovery officer

apprehends that the borrower may cause litigation. The purpose of filing caveats is to prevent the borrower/sureties/any persons from obtaining ex-parte stay/injunction. The caveat will remain in force for 90 days from the date of its filing. The recovery officer shall watch these dates. The Caveat notice cannot be renewed and if found necessary, a fresh caveat should be filed. The caveat will be filed by the LC/LA of the Corporation.

- (c) The recovery officer and legal officer should regularly follow up such cases where recovery proceedings are stayed by a Court order.

CHAPTER - VII

OTHER REMEDIES UNDER VARIOUS ACTS FOR RECOVERY

1. COMPANIES ACT:

The Company being a juristic person stands on a different footing and the affairs of the Company right from incorporation till winding up are governed by the Companies Act, 1956 and 2013.

The most important aspect of the Companies Act applicable to Recovery would be the winding up proceedings of a company. When a company petition is filed for an order for winding up of the Company, by any creditor, the same is examined by the Company Court which may either reject the petition or allow the petition and pass an order for winding up of the company.

Where an order for winding up is passed, the Corporation has two options viz., to stand outside the winding up proceedings as a secured creditor and seek permission to sell the secured assets of the Company or by making an application to the Company Court **OR** to file a claim application before the Official Liquidator claiming to be a secured creditor. Guidelines issued in this regard vide Circular No.833 dated 13-06-2003 is given at **Annexure – XXX**.

2. APPLICATION UNDER SECTION 7 OF THE INSOLVENCY AND BANKRUPTCY CODE:

The Corporation can also file an application for enforcement of its rights where the borrower is a company and LLP in a time bound manner under Sec.7 of the Act. When the application is made under Section 7 of the Act before the National Company Law Tribunal (NCLT), along with the application we need to furnish records of the default and name of the resolution professional. On receipt of the application within 14 days notice will be issued as per procedure and decided in maximum 2 days. For details, refer ION NO. KSFC/HO/ED-1/Legal/032/16-17 dated 30-12-2016.

In respect of other constitutions (proprietor / partnership / society / Trust etc.), the Corporation can invoke provisions of IBC as and when Central Govt. notifies (giving effect for the said provisions).

3. NEGOTIABLE INSTRUMENTS ACT, 1881 - NI ACT (as amended):

Many borrowers issue cheques towards payment for the amounts due to the Corporation. In some cases, when such cheques are presented for encashment, the same are dishonoured, the most often quoted reason being "insufficient funds". This means that the borrower while issuing the cheque knew fully well that there was insufficient money in his account to honour the cheque, but still issued it. This amounts to cognizable offense under the provisions of the Negotiable Instruments Act.

The Corporation in such cases can proceed against the Borrower by filing a complaint under Section 138 of NI Act before the jurisdictional Magistrate. However, for filing a complaint certain prerequisites are required to be complied with:

- (a) A notice has to be issued under Section 138(B) of NI Act to the borrower represented by proprietor / all partners and/or MD/other directors & guarantors, in case cheque is issued by guarantors, within 30 days from the date of receipt of intimation from the bank regarding dishonour of the cheque demanding upon the drawer of the cheque to make the payment of the cheque amount within 15 days from the date of receipt of the said notice. It is important to preserve the dishonoured cheque, bank intimation and acknowledgement card for having served the notice.
- (b) If the drawer fails to make the said payment, a complaint under Section 138 of NI Act has to be filed before the jurisdictional magistrate within 30 days thereon.
- (c) The Recovery Officer filing the complaint must appear before the Court and give his statement to register the complaint and to take cognizance of the offense.

- (d) After cognizance is taken, the Court would follow the procedure contemplated under the Code of Criminal Procedure 1973.

3. THE RECOVERY OF DEBTS DUE TO BANKS & FINANCIAL

INSTITUTIONS ACT 1993 (DRT):

The above said act was passed with the objectives of setting up of a Tribunal for speedy disposal of cases where amounts due to banks / FIs are in excess of Rs.10.00 lakhs.

The Corporation can file an application before the Debts Recovery Tribunal seeking an order against the borrowers and sureties which includes guarantors also. The claim should be filed strictly within the **Limitation period**. Further unsecured liability can also be enforced under the provisions of this Act.

However, filing an application before DRT involves expenses in the form of Court Fees, Advocate fees and expenses for preparation of paper, books containing all the relevant documents, etc. Therefore, this remedy may be resorted only when the Corporation cannot take action under any of the other alternative remedies mentioned above with necessary justifications.

In the event, a decision is taken to file an application before the DRT, required information has to be furnished in the format enclosed as **Annexure -XXXI**.

CHAPTER - VIII

CHRONIC ASSET RESOLUTION SCHEME

The Corporation has introduced a schemes for settlement / resolution of NPA cases and redressing grievances of loss making units / entrepreneurs to have an exit option of the loan liability of the Corporation. Under this scheme, the borrowers / guarantors can come up with a proposal for settlement towards loan liability. The Corporation has framed guidelines applicable to different types of cases which seek one time settlements. The prevailing schemes for settlements are:

- (a) One time settlement Scheme of the Government of Karnataka for loans of Rs.10 lakhs and below;;
- (b) MCAR (amended) scheme for resolution of Pre-MoU cases; and
- (c) Resolution Scheme for Post MoU D III Cases.

The recovery officers are advised to follow the respective policy in settlement of the cases. The respective circulars are given vide **Annexure – XXXII (A), XXXII (B) and XXXII (C)** respectively.

CHAPTER -IX

MANAGEMENT OF NON-PERFORMING ASSETS

The Corporation is saddled with huge pile of NPAs. The reasons for such piling up may be lack of proper follow-up, delayed recovery action, failure of scheme of rehabilitation, changes in government policies etc. As a result, the NPA level of Corporation had risen. Therefore the management of NPAs is necessary.

The most important function of the Recovery would be to manage the NPAs and bring down the level of NPAs to single digit. This calls for concerted effort of all concerned. In recovery function, appropriate and timely action should be taken in tackling NPAs. The following bench mark, time standard and responsibilities are fixed at the time of targets finalisation.

1. PERFORMANCE BENCH MARKS :

The Corporation has also introduced performance bench marks for various areas including recovery. This is applicable both to branches and the Head Office. Under the scheme, the bench marks are defined at the beginning of the year. The concerned officers as well as the Branch Managers, General Managers and HODs at HO are made responsible for achieving the minimum performance in key result areas. The key result areas pertaining to recovery are defined as follows :

- a. QUARTERWISE & ELEMENTWISE RECOVERY TARGETS
- b. ASSETWISE COLLECTIONS OTHER THAN SECTION 29 & DC CASES
- c. REDUCTION IN NPAs - OTHER THAN SECTION 29 & DC CASES
- d. COLLECTION BY SALE OF ASSETS U/s 29 OF SFC's ACT/ SARFAESI ACT

It is imperative that strategies are worked out for tackling NPAs. The

following bench marks and time standards would to a large extent ensure that a thorough follow up of NPA cases is undertaken. It may be mentioned here that the basic function of initiating appropriate action lies with the concerned recovery officer. But that does not absolve the other authorities above him from their responsibility of monitoring, guiding and taking appropriate and timely decisions in order to reduce/eliminate NPAs.

Having fixed the responsibility of timely action on the Recovery Officer, it also becomes necessary that the other authorities in the hierarchy also exercise their functions in consonance with the efforts of the Recovery Officer. Such combined effort on the part of the concerned would certainly help in reducing the NPAs.

The classification of NPAs is to be followed up as per the RBI guidelines issued from time to time.

2. FOLLOW UP:

(a) Standard category assets :

Regular follow up by the Recovery Officer and visit once in 6 months. It is the responsibility of the Recovery Officer, BM/HOD to ensure that the asset remains in the Standard category and for this purpose, necessary reviews and timely actions in the form of reschedulement are provided to the units wherever necessary. This means that constant monitoring of the standard assets must be carried out to see that this portfolio grows

(b) Sub-Standard category assets :

In all cases falling in this category, regular follow up and visit once in 2 months must be carried out by the Recovery Officer. The BM or HOD must review such cases and invariably visit the units at least once in 6 months. All efforts should be made to prevent this category from slipping further into Doubtful category and on the other hand, everything possible effort must be done to upgrade the asset to Standard category. It is necessary to assess the reasons for the slippage of assets and take

appropriate remedial measures to prevent further slippage. This could include rescheduling and funding of interest wherever found feasible. Such action should be taken within 3 months from the date when it is noticed that the asset has slipped into Sub-Standard category. The responsibility lies with the Recovery Officer for taking such remedial measures. However, if no action is initiated within 6 months from the date of identification of the assets as Sub-Standard asset, it is the responsibility of BM/HOD to initiate appropriate action as deemed necessary in the case to prevent further slippage.

(c) Doubtful-I category:

In this category of cases, the units should be visited atleast once in 2 months by the Recovery Officer and once in 6 months by the BM/HOD. Necessary action to prevent the assets from slipping further should be taken at the threshold level itself i.e., when it is noted that the account is about to slip from the Sub-Standard category to Doubtful-I category. Once it is noticed that the asset slips into Doubtful-I category and also assets which are already in Doubtful-I category, the Recovery Officer should carry out an analysis of the reasons and the circumstances resulting in the asset slipping into Doubtful-I category. This should include examining the security available, assessing the security position vis-a-vis the liability, viability of extending rehabilitation package/rescheduling/funding of interest or any other facility as prevalent in the Corporation from time to time which may help in revival of the unit. However, such action should be taken within one month from the date of which the asset slips to Doubtful-I category by the Recovery Officer. It is also the responsibility of BM/HOD/GM (Circle)/DRC to guide and issue instructions as the case may be to ensure that necessary and timely action is taken to prevent further slippage of the asset. A decision to either revive / rehabilitate the unit or to take further action in any case be taken within 6 months from the date of slippage of the account from Doubtful-I category. Constant review shall be carried out to ensure that appropriate action is initiated within the time prescribed in such cases.

Where it is felt that the unit or asset is beyond rehabilitation / revival,

appropriate recovery action must be initiated within one month from the date a decision is taken that the rehabilitation package will not yield better results. This shall be the responsibility of the recovery officer / BM /HOD. Constant review shall be carried out to ensure that appropriate action is initiated within the time prescribed in such case.

As soon as asset slips to Doubtful category, action should be taken to identify the personal properties of the promoters and guarantors and necessary action may be taken to obtain necessary documents of such properties also. This process should be completed within a period of 3 months from the date of decision to take over the unit.

(a) Doubtful-II & Doubtful-III category :

A thorough review should be made periodically and effort should be made to prevent any assets from slipping into the Doubtful category by taking appropriate timely action. However, in cases which are already in this category and any marginal cases which may get slipped into this category, the following action is to be initiated.

(i) Thorough analysis be carried out which includes valuation of assets/ securities to assess whether there is any mis-match between the assets and liabilities of the unit.

(ii) Further, recovery action in such cases which includes recall of loan, issue of advertisements, sale of assets, sale of collateral security if any, action under KPM(RD) Act, Sec 32G of SFCs Act, invoking PG and filing of petition under Sec.31(1)(aa) or any other action under remedies available to the Corporation should be initiated. Further, the possibility of settlement of accounts by extending reliefs and concessions as per the prevailing policies should be explored. OTS, must be initiated as expeditiously as possible.

Since this category is the most sticky category, constant review shall be carried out at regular intervals to ensure that the assets in these category reach their logical end and the portfolio gets cleaned up.

(e) Monitoring of Threshold and slipped cases:

The IT department has provided a programme to generate the list of threshold cases i.e., cases which are likely to slip from present asset status to a lower grade and slipped cases i.e., where the asset status has already slipped during the financial year to lower grade. The BOs should generate the above information every month and review the list on a continuous basis, in order to avoid any asset slipping further down and also to improve the asset portfolio by upgrading the status wherever possible by taking necessary follow up steps.

CHAPTER - X

RESCHEDULING / REHABILITATION

1.RESCHEDULING OF LOAN REPAYMENT :

During the course of recovery, the recovery officers are supposed to ascertain the performance of the unit and the various problems faced by the unit. This can be inferred by frequent visits to the unit and by discussion with the loanees concerned. The unit may not be functioning well due to various problems beyond the promoters control and hence, not in a position to make the payments as per the schedule. The recovery officer at this stage should apply his mind to find out the reasons as to why the promoters of the unit are unable to pay the installment as per the schedule and requesting for re-phasement.

The recovery officer should find out and analyse the reasons for inadequate earnings of the unit for meeting its commitments. The reasons may be delay in implementation of the project, delay in sanctioning of working capital, inadequate/non-availability of working capital, raw-material problem, production problem, marketing problem, management problem etc. It is, therefore, necessary to examine all these aspects in detail. If the problems are genuine and they are temporary in nature, the recovery officer should take up the case for rescheduling. In the meanwhile, the parties might have requested the Corporation to reschedule the repayment period explaining all these problems faced by them. In such situation also, the recovery officer should study and find out whether the unit is really facing problems and requires timely help. If the recovery officer comes to a conclusion that the loanee is making request for rescheduling on flimsy and unjustifiable grounds, such requests should not be considered and such units may be treated as deliberate defaulters and action may be initiated for recovery of the dues after rejecting the request with reasons.

There may be some units which have just completed the implementation of the project but are not in a position to work satisfactorily due

to teething problems. On the other hand, there could be some units which have implemented the projects successfully and might have even worked for more than few years but are still facing insurmountable problems in running the unit. In such situations, if the recovery officer, prima facie, finds that the units need rephasing, then he should take up rescheduling of the repayment of loans after collecting the following information/documents:

- (a) Audited Profit & Loss A/c statement and Balance Sheet for the period preceeding 3 years;
- (b) Reasons for default ;
- (c) Default, if any, with other institutions like KIADB, KSSIDC, KSIIDC, Bank, KPTCL, etc.,
- (d) Projected profitability and cash flow statements with detailed assumptions as to how the unit function satisfactorily in future years;
- (e) Details of working capital requirements indicating the sanction of the need based facility or otherwise;
- (f) Order position on hand if any.

Following additional particulars/information should be obtained from units which have just completed implementation.

- (i) Date of completion of the implementation of the project;
- (ii) Date of sanction of power from KPTCL;
- (iii) Date of commencement of regular production
- (iv) Date of sanction of working capital and limits of sanction etc.,

The Recovery Officer should ensure that the promoters of such units comply with the above requirements in order to take up their request for rephasing. He should visit the bankers of the unit, other financial institutions/agencies to have first hand information of the working of the unit. He should discuss with the promoters to obtain further clarifications on various issues. After examining the above details, the recovery officer should prepare note recommending rescheduling to the competent author-

ity for his approval. In case the unit is not in a position to earn interest portion to pay, it is necessary to fund the interest while rephasing the repayment of loan. The proforma of note for rescheduling and funding is given at **Annexure-XXXIII(A)**. While fixing the repayment period, the Recovery officer should see that the Debt Service Coverage Ratio on an average will be 1.5 : 1.0.

The Recovery officer should note that while rescheduling, the rate of interest for the principal in default and funded interest are charged in accordance with interest rate schedules prevailing in the Corporation as applicable to a rescheduled case.

After obtaining the approval of the competent authority, the recovery officer should send the communication of rescheduling as per **Annexure-XXXIII(B)** after noting it in the rescheduling register as per **Annexure – XXXIV(A)**.

After issue of the rescheduling communication, the acceptance for the same should be obtained as per **Annexure-XXXIII(C)** and intimate to Controller department / officer and Systems Department for noting the revised repayment schedule for raising future demands as per rescheduling.

2.REHABILITATION OF UNITS :

2.1. Identification of Sickness :

The Recovery officer may come across with cases where rescheduling of repayment of loans by itself is not sufficient to make the unit healthy. In other words, these units have the symptoms of sickness or have already become sick, requiring special treatment to resolve the health of unit. It is utmost important that the recovery officer shall identify such units in time, so that the necessary remedial measures could be taken up to bring them back to normalcy. Sometimes, the promoters themselves would have come forward with a request for reliefs claiming that their units have become sick.

All potentially viable sick units/service sector projects assisted by the Corporation are eligible to seek rehabilitation packages for revival. The

unit should be capable of being restored to normal health within a reasonable time. However, sick units categorized as a case of suspected fraud are not eligible for such package and in such cases, steps should be taken for recovery of dues.

The Government, RBI, SIDBI and other developmental institutions attach greater importance for rehabilitation of sick units in order to revitalise the idle investment and bring productivity back. Therefore, it is necessary to identify such sick units and extend timely assistance. The RBI and SIDBI have evolved procedures and guidelines for identifying the sick units and also for extending the rehabilitation package.

2.2. Definition of Sick MSME Unit :

As per RBI guidelines, an SME unit may be classified as sick if:

(a) Any of the borrowal accounts of the unit remains substandard for more than six months i.e., principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard, is reduced in due course.

OR

(b) There is erosion in the net worth of the borrower due to accumulated cash losses to the extent of 50% of its net worth during the previous accounting year; and

(c) The unit has been in commercial production for atleast 2 years.

NOTE : Proper analysis of financial statements shall be carried out. The units which do not have operating profits and have accumulated loss should only be covered / extended the benefits under the scheme. The interest payment on the loans shall be reckoned in the expenditure while determining the operating profit / loss incurred by the unit. Further, the interest actually paid only shall be taken into account and if it is accounted on accrual basis, the same shall not be considered while working out the cash profit/loss.

2.3. Reliefs & Concessions Under Rehabilitation :

The various facilities available to the sick units are as follows:

- (a) Waiver of penal interest: Waiver of penal interest included in the overdue interest, if the age of default of the unit is 5(five) and above. Penal interest already recovered shall not be waived.
- (b) Funding of remaining interest overdues upto to cut-off date without further interest, if 50% of the interest dues (after deducting penal interest as above) is paid and funded interest shall be repaid within 1-3 years.
- (c) Funding of remaining interest overdues upto the cut-off with further interest at 10.50% pa. (after deducting penal interest as above) if the promoters are not in a position to clear the interest overdues and funded interest shall be repaid within 1-3 years.
- (d) Waiver of compound interest:- In respect of doubtful accounts, if the revival of the unit is possible by waiver of compound interest apart from penal interest included in the overdue interest, may be considered on case to case basis, subject to the condition that the promoters shall clear the entire simple interest dues under the rehabilitation package. Penal and compound interest already recovered shall not be waived.
- (e) Rescheduling of repayment of loan outstanding i.e. loan balance and principal overdues. The rate of interest shall be charged at contracted rate of interest (net) + 1% p.a. subject to minimum of 13% p.a. (net) and maximum of 15% p.a.(net). The rebate of 0.5% p.a. which are allowed for prompt payment will be applicable for future prompt payment. No other interest rebate / concessions extended earlier shall be applied / continued. A penal interest of 2.00% p.a. shall be charged for further default on the defaulted amount.
- (f) Need based additional term loan for acquisition of fixed assets and WCTL required for re-starting / operating the unit on viable lines could also be considered as part of rehabilitation package. A interest

concession of 1% p.a. on the normal rate of interest may be considered for the additional TL/WCTL.

In this regard, **Circular no. 955 dated 3-10-2012** containing guidelines shall be referred. There could be changes in reliefs and concessions from time to time. Hence, the recovery officer should refer the latest circular / guidelines in this regard.

CHAPTER – XI

ISSUES INVOLVING CHANGE IN MANAGEMENT / CONSTITUTION, SECURITY AND OTHER INCIDENTAL MATTERS

There are cases where the units undergo changes in the management / constitution during the course of repayment of loan to the Corporation. Some of the units may come with a proposal for changing the security / guarantee. As per the terms of sanction and loan documents, the promoters of such units have to take prior approval from the Corporation for effecting such changes. The Corporation will examine the request of the parties after collecting necessary details before according approval for changes. The procedure followed by the Corporation in approving the changes on various issues are dealt as under:

1.TRANSFER OF LOAN :

- (a) During the course of repayment of loan to the Corporation, the borrower may come with a proposal to dispose off the unit and may seek approval of the Corporation for transfer of the unit to the buyer. On receipt of such request from the borrower for transfer of the unit, the Recovery Officer should examine the following :
- i) Reasons for transfer;
 - ii) The Securities created by the borrower / co-obligant / guarantors;
 - iii)The liability of the borrower to the Corporation;
 - iv)The loans availed by the borrower on the second, third and paripassu charge basis from other institutions, arrangement for repayment of such loans. Whether second or third charge and paripassu charge holders are agreeable for transfer;
 - v)The mode and method of transfer of assets and liability by the borrower to the buyer;
 - vi)The constitution of the buyer such as proprietary, partnership, company, society, trust, etc., and whether such parties holds required license / certificate for running industry;

- vii) The background, net worth, tax liability of the buyer who intends to acquire assets and liability of the borrower, KYC documents of the buyer;
 - viii) Proposal for clearing over dues if any;
 - ix) In case loan to be transferred is secured by collateral security, the arrangements by the buyer for the continuation or substitution of collateral security;
 - x) If the land/building of the borrower pertains to KIADB/KSSIDC, the approval for transfer from such authorities;
 - xi) If the land/building is leasehold, lessor's consent/approval for such transfer;
 - xii) Working capital arrangements to be made for the proposed transferee;
 - xiii) Opinion & NOC from the buyer's bankers;
 - xiv) Financial statements of the buyers and their associate concerns if any;
 - xv) Affidavit from the borrower, etc.
- (b) The recovery officer should call for the necessary details keeping above requirements before taking up processing. Further the recovery officer should also discuss with the borrower and the intending buyer/transferee and also arrange for discussion with HOD/ED in respect of HO cases and BM/GM (Circle) in respect of BO cases, if necessary. The recovery officers are required to examine all the aspects and should prepare a note along with legal opinion. The legal opinion should include details on the documents to be obtained and title opinion in case of changes in securities. The proposal should be placed before the competent authority for approval.
- (c) It may be noted that the borrower has to execute necessary documents in favour of the buyer for transfer of assets indicating there in the liabilities/mortgage/charge on the properties. The Cor-

poration will consider the transfer of loan subject to the buyer executing the necessary documents in favour of the Corporation. The borrower is liable to the Corporation till the entire transfer process, including the execution of the necessary documents in favour of the Corporation by the transferee, is complete.

2.1 RELEASE OF PRIMARY SECURITIES / COLLATERAL SECURITIES / GUARANTEE.

- (a) It is our experience that many of the borrowers approach us for release of primary securities or collateral securities or guarantees during the currency of the loan. The request may be for release of a portion of the property or the entire property. The Corporation generally does not release any of the securities or guarantees till the entire loan is repaid. However, the release of securities or guarantees will be considered by the Corporation based on the merits of the case.
- (b) Some of the plant and machinery may be obsolete/idle. The promoters may be proposing to dispose off these obsolete/idle machinery and hence request for release of charge on such machinery.
- (c) The borrower's request for release of security may be for various reasons. The borrower may intend to dispose off a portion of the land and building which is mortgaged to the Corporation and utilize the amount as working capital for the unit. He may intend to put up a new unit in a portion of the land with the financial assistance from other Bank/FI and offer it as security to other Bank/ FI.
- (d) The borrowers may also come for release of collateral security and guarantees of the directors, partners, corporate guarantee and bank guarantee.
- (e) The recovery officer after receiving the request from the borrower should go through the proposal in detail and call for the necessary

details such as sketch and description of land and building, valuation of land, building, plant and machinery and mode of payment, the opinion / consent of II , III and pari passu charge holders etc.,

- (f) The recovery officer after going through the details and discussion with the borrower and after obtaining guidance from higher authorities, if there is a need, he may discuss with the DGM(R) in HO and the BMs in Branch offices. Thereafter, the recovery officer shall put up to DGM(R) in HO and BMs in Branch Offices with his recommendation for approval or otherwise. The recovery officer should know while recommending for relinquishment of securities that such relinquishment will not adversely affect the security position for the loan and / or viability of the project. If the security is for sale, the sale proceeds should be credited to the Corporation to the account of the loanee for adjusting towards the loan balance.
- (g) If the request is for release of security for promoting other units or leasing to other units or securing to other Institutions/ Banks for other facilities, the recovery officer can recommend for release of the security if the security position and the viability of the project are not adversely affected. The competent authority may release the property without insisting on the payment of value of such properties in exceptional cases
- (h) In respect of collateral security, many a time the borrowers approach Corporation for relinquishment of collateral security or for substituting the collateral security during the currency of the loan. The Corporation may consider the request for release of collateral security or for substitution of collateral security as the case may be depending on the total security position, the present loan liability and track record of the loanee. The recovery officer should know under what circumstances the collateral security was taken for the loan. He should after receipt of the request for release of the collateral security from the borrower, examine various aspects before recommending to the higher authorities. The request may be for release of collateral security without any substitution or release of collateral security after getting a replacement. If the release of collateral

security is without substitution, the recovery officer should carefully examine the various aspects such as regularity in repayment, reduction in loan, the performance of the unit in the past and at present and convince himself that the relinquishment of the collateral security will not adversely affect the interest of the Corporation. In respect of release of security with substitution, he should satisfy himself with regard to the value of such property along with saleability and other aspects. The recovery officer, therefore, should collect all details such as title deeds, revenue / city records which shall be scrutinized by the legal officer and thereafter prepare the valuation report. In case of movable assets, he should collect FD receipts, LIC policy and purchase bills etc., The value of substituted collateral security should be satisfactory & should meet the Corporation norms. The release of earlier security should be only after all the conditions in respect of substituted securities are completed.

- (i) The Corporation receives requests quite often for release of personal guarantees. The request may be for release of personal guarantee of one or more directors, one or more partners and one or more third parties who have offered their guarantee. The Corporation does not normally release the personal guarantee of any person unless it is substituted. The Corporation may consider release of guarantee of one or two persons in exceptional cases when the unit is regular in repayments and the working of the unit is satisfactory and unit will not be affected by releasing of such guarantees without insisting on substituted guarantees. The Corporation generally gives consent for release of guarantee of the out going Director/Partner/3rdparty under the following circumstances:-
 - (i) If the change of the Director/s is approved by the Corporation
 - (ii) If alternative personal guarantee is offered, accepted and guarantee deeds are executed by the Corporation.
 - (iii) If the change in the constitution of the firm is accepted.
- (j) The recovery officer after receiving the request from the borrower should examine in detail as regards to net worth of the incoming

director / partners / third party, his financial stakes, his status in the society, his capability in managing the industrial concern, credit opinion of banks wherever applicable, etc. The recovery officers should discourage the release of personal guarantees when the units are in bad shape and defaulted heavily to the Corporation.

- (k) After the approval by the competent authority, the communication to the borrower and copy to the concerned parties shall be issued.
- (l) After securing acceptance letter from the concerned party, the recovery officer should ensure the necessary documents are executed by the borrowers/guarantors. This should be coordinated with the Legal Officer.

2.2 RELEASE OF IMMOVABLE COLLATERAL SECURITY IN NPA CASES:

Whenever the Corporation initiates recovery action in default cases, in some cases the owners of immovable collateral security (given by third parties) / borrowers may approach the Corporation for release of collateral security. In such cases, the property should have been brought for sale atleast once under e- auction. The highest offer received or the market value, whichever is higher, shall be the amount to be collected towards release of collateral security.

The guidelines issued in Circular No.950 dated 31/03/2012 and Circular No.922 dated 14/01/2016 should be adhered to.

3. CHANGE OF LOCATION:

- (a) During the course of recovery, the borrower may approach the Corporation seeking permission for changing the location of the unit. The Corporation generally does not allow change of locations as shifting of unit will involve lot of expenditure for the borrower. Further the shifting of the unit to a new location may make the unit ineligible for incentives from the Government. If the unit is located in rented

premises and the change is to similar incentives areas, the effect of change will not be severe. If the unit is located on the own land and building financed by the Corporation and is proposed to be shifted to different incentive areas, the effect on the unit will be very severe. It is, therefore, very much necessary to examine the expenditure of shifting and the financial impact on the unit due to change in incentives. The recovery officer should, therefore, make a cost benefit analysis of the shifting proposal. He should also examine as to what should be done regarding the existing land and building, wherever applicable, after the shifting of the unit to the new premises. He should further examine regarding the time required for shifting the unit to the new premises till the commencement of production. He should also examine the availability of basic infrastructural facilities such as water, power approach road, etc., in the changed location. In a nutshell, it can be stated that change of location amounts to reappraisal of project.

- (b) The Corporation generally does not fund the expenditure involved in shifting of the location. The entire expenditure should be borne by the borrower. The recovery officer should also ensure that the borrower gets the consent from DIC / Bankers / Other Financial Institutions/ Licensing Authorities etc., for change of location.
- (c) The recovery officer should get the legal documents in respect of the new premises such as title deeds, Katha, Revenue Records, Tax paid receipts etc., and shall refer them to legal officer for scrutiny and clearance form legal section. The Recovery officer after examination should put up the file to the competent authority, through proper channel, for approval.
- (d) After the approval by the competent authority, the communication shall be issued to the borrower.
- (e) After securing acceptance letter from the concerned party, the recovery officer shall ensure that the necessary documents are executed by the borrower for the above change. The concerned Legal Officer should get the necessary documents executed.

4. LEASING OF PART OF THE PREMISES / BUILDING :

- (a) There may be request from borrowers for approval for leasing of the entire unit to other party. If the request is for leasing of the entire unit, the Corporation does not encourage such requests.
- (b) In respect of leasing part of the vacant land or part of the land and building or part of the building only, the recovery officer should examine the impact of the proposal on the security position available to the Corporation and the project viability. He should also examine the terms of lease and mode of payment of lease rent to the Corporation. The recovery officer after collecting the draft lease deed shall refer to the legal officer for his opinion and advice as to the clauses in the draft Lease Agreement. A few clauses can be suggested for modification, on case to case basis.
- (c) The recovery officer thereafter should prepare a detailed note and put up to the competent authority through proper channel authority, for approval.
- (d) After the approval by the competent authority, the communication conveying the approval shall be issued. If the approval is subject to certain terms & conditions, the compliance of the same shall be ensured.

5. CHANGE OF CONSTITUTION:

- (a) One of the conditions of the sanction of loan by the Corporation is that the borrower shall not effect change in constitution of unit without prior approval of the Corporation in writing. Therefore it is necessary for the borrower to take the prior approval of the Corporation for any change in the constitution of unit during the currency of the loan. The change of constitution may be for any one of the following:-
 - (i) Proprietary to partnership;
 - (ii) Proprietary to Private Limited / LLP;

- (iii) Partnership to Proprietary;
 - (iv) Partnership to Private Limited /LLP.
- (b) During the course of recovery, the Corporation may receive such request from the borrower. Normally the Corporation approves such request on being satisfied that such thing would certainly improve the overall condition, management and financial status of the borrower's industrial concern.
- (c) Whenever such request is made to the Corporation, the recovery officer shall call for any one or more of the following relevant information / documents from the borrower :
- i) Reasons for effecting change in the constitution;
 - ii) Biodata, net worth statement, KYC documents, CIBIL reports and Income Tax Returns, etc., of persons who are proposed to be admitted as new partner / director;
 - iii) Draft partnership deed;
 - iv) Audited Financial statement for preceding three years of the associated concerns with which the persons who are to be admitted as partner / director are associated with;
 - v) The qualification, experience certificate of such persons to be admitted as new partner / Director;
 - vi) Investment proposed to be made by such persons who may be admitted as new partner / Directors;
 - vii) The proposal for clearing of overdues if any of the borrower concern;
 - viii) Affidavit of such persons declaring he / she is not related to any director of the Corporation;
 - ix) Memorandum and Article of Association of the company;
 - x) Certificate of incorporation of the company;

- xi) Certificate of commencement of business of company, in case of Public Limited;
 - xii) List of the shareholders and their share holdings;
 - xiii) List of the directors and their shareholdings;
 - xiv) Consent from other concerned institutions / Bank / DIC;
- (d) After collection of the above information, the recovery officer shall examine the relevant documents with respect to the net worth of the persons proposed to be inducted as partners / directors. In case of company, he should find out whether the object clause of the Memorandum of Association of the company permits to carry out the business of the borrower concern. He should further examine the directors status, net worth, share holdings, their involvement in any other association etc. In case of joint finance, the recovery officer shall insist the borrower for obtaining the consent / clearance for change of constitution from the institution / Bank involved in Joint finance.
- (e) The recovery officer, in case change of constitution from proprietary to private limited and partnership to private limited, shall also further examine and discuss with the concerned parties as to the mode of transfer of assets and liabilities from the proprietor to the company and from the partnership to the company. The recovery officer in this connection shall have to discuss with the legal officer and appraise the mode of transfer to the borrower concern. The legal modes of transfer are as follows:-
- i) The proprietor / partners shall have to transfer the assets and liabilities by executing conveyance deed to the company **OR**
 - ii) The proprietor / partner shall induct the company as its / his partner and enter into partnership deed and thereafter to dissolve the firm giving all the assets and liabilities to the company under proper dissolution deed.
 - iii) Both the cases attract payment of stamp duty under relevant Stamp Act. In case of conveyance deed, it needs to be registered with the concerned Sub-Registrar.

- (f) After examination of the above aspects and having discussion with the partners concerned the recovery officer shall put up the file with detailed note to HOD in HO and BMs in BO for seeking approval of the competent authority. After the approval by the competent authority, the communication conveying the approval shall be issued.
- (g) The following conditions depending on the case and circumstances should be written in the communication in addition to special conditions:

The approval is subject to :

- i) Legal clearance to the satisfaction of the Corporation;
 - ii) Concerned parties shall execute necessary documents in favour of the Corporation;
 - iii) Incoming partners / directors shall execute personal guarantee;
 - iv) To furnish registered partnership deed and Forms A & C;
 - v) NOC from other concerned Institution / Bank;
 - vi) Validity of approval, (which may be restricted to 45 days);
- (h) After getting the acceptance letter, the recovery officer shall ensure that the necessary documents are executed in this regard;
 - (i) The concerned legal officer shall get the necessary documents executed.

6. PARI – PASSU CHARGE / SECOND CHARGE / THIRD CHARGE

- (a) During the course of the recovery, the borrower may come with a request to permit him / them for creation of pari – passu charge / second charge and third charge either for availing further term loan or for working capital. The Corporation considers ceding pari – passu charge / second charge/ third charge on the assets secured to it, in favour of FI/Bank / Government of Karnataka / SIDBI based on the need and requirements of the borrower. The Corporation does not cede pari – passu charge in favour of any Bank / Institution /

Person for providing working capitals assistance. The Managing Director is authorised to approve issue of NOC of pari-passu charge in respect of cases sanctioned by him/her and the Board/EC cases. In respect of other cases, the next higher level to the loan sanctioning authority is authorized to issue NOC for pari-passu charge.

- (b) Usually, the Corporation gives its consent for II charge in case the unit is sanctioned development loan / seed money by the Government of Karnataka. In case, the Corporation gives its consent for II charge as above, the consent for III charge will be given to the Bank which provides the need based working capital to the unit. If the Bank desires to have II charge, the borrower shall have to secure consent from the Government for pari passu / II charge between them. Then only, the Corporation will give its consent for creation of pari- passu / II charge to the Bank.
- (c) Whenever, the borrower requests for II charge / III charge, the recovery officer shall verify from the loan files / II charge register / legal file / recovery file that such permission has not already been given by the Corporation. The confirmation of the legal officer shall be obtained in the note sheet before further processing. In case, the request is for II charge in favour Government / Banks and consent was not given in the past, the recovery officer shall put up the file to the competent authority for approval. In case, II charge permission has already been given to Bank, the borrower shall have to bring " no objection " / consent " letter for shifting banker's II charge to III charge or else no objection from the Bank and Govt. / Bank for sharing II charge on pari-passu basis between them. After getting such consent letter, the recovery officer shall put up the file. In case no consent for II charge is given by the Corporation, II charge shall be considered to the Bank for extending working capital facility. In case, II charge is already given to the Government, III charge can be given to the Bank. The recovery officer after examining the quantum of working capital and banker's letter agreeing to consider granting working capital, shall put up the file for approval.

- (d) After the approval of the above by the authority, the recovery officer shall issue II/ III charge letter to the borrower under copy to the Government / Bank as the case may be. However, in the Joint financed units, the recovery officer shall incorporate a condition in the letter to the effect that the similar consent shall be secured by the borrower from the other lending institution / Bank. The recovery officer shall enter the second charge in the register immediately after approval.
- (e) After the issuing the letter ceding II / III charge to the borrower / Government / Bank, if there is any request of the borrower / bank for memorandum of entry for creation of such charge, the recovery officer shall refer the file to the Legal Officer through BMs. The Legal Officer shall do the needful.

N.B.: The charge on the assets is shared on pari-passu when more than one financial institution / banks are involved in term finance. The charge on the assets is also shared on pari-passu along with the bank under rehabilitation package for the portion of working capital loan which is irregular and has been converted into a working capital term loan. Whenever the borrower approaches the Corporation requesting to cede pari -passu charge to cover the term loan to be availed from other financial institution /Bank, the recovery officer should examine the project, security position and viability of the project etc., Thereafter he should put up to the DGM(R) in HO and BMs in BOs for orders.

CHAPTER –XII

DELEGATION OF POWERS IN RESPECT OF RECOVERY FUNCTIONS

EXTRACT OF CIRCULAR NO.950 DT: 31.03.2012

1. Issue of Notice under Section 29 of SFCs Act:

Particulars	Approving Authority
In respect of files maintained at BOs	Branch Manager
In respect of files maintained at HO	HODs at HO
NB: In the notice, the borrowers/guarantors shall be called upon to show cause, if any to the concerned authority who is empowered to issue the seizure order (BMs/GMs/EDs/MD)	

2. Taking recovery action under SARFAESI Act :

The branch Managers, AGMs of super 'A' Grade BOs and HODs at HO are designated as "Authorised Officers" to initiate/continue the proceeding under SARFAESI Act in respect of all cases.

3. Issue of Recall Notice:

Particulars	Approving Authority
In respect of files maintained at BOs :	
a) Loan upto the delegated sanctioning powers of BMs	Branch Manager
b) Others cases	General Manager
In respect of files maintained at HO	Executive Director

4. Seizure of assets :

Particulars	Approving Authority
Up to the delegated sanction powers of BM and in respect of vehicles (irrespective of amount sanctioned)	Branch Manager
Up to the delegated sanction powers of GMs	General Manager
Up to the delegated sanction powers of EDs	Executive Director
In all other cases including files maintained at HO	Managing Director

5. Payment of watch & ward charges:

Particulars	Approving Authority
In respect of files maintained at BOs	Branch Manager
In respect of files maintained at HO	HODs at HO

6. Payment of professional fees to advocates:

Particulars	Approving Authority
If the payment of fees is as per the guidelines issued vide Circular No.810 dated: 13.03.2002	BMs / HOD s
Any relaxation in the above	Managing Director

7. Fixing the reserve price while bringing the asset for sale through e-auction:

The Branch Manager and HODs are empowered to fix the reserve price as per the guidelines given vide Circular No. 921 dated: 15.10.2010 (with the approval of the Competent Authority, in respect of the assets where the reserve price is to be fixed which is lesser than the internal / external valuation).

8. Issue of sale advertisement & incurring expenditure for the same:

Particulars	Approving Authority
In respect of files maintained at BOs	Branch Manager
In respect of files maintained at HO	HODs at HO

9. Sale of assets under section 29 of SFC's Act /SARFAESI ACT:

Particulars	Approving Authority
To bring the assets for sale through e-auction	BM/HODs at HO
To approve sale of assets	GM in respect of BO cases and ED in respect of HO cases

10. Action under KPM(RD) Act/Sec.32(G) of SFC's Act:

Particulars	Approving Authority
Issue of notices under KPM(RD) Act/Sec.32(G) of SFC's Act:	BM/HODs at HO
To issue Certificate of Recovery to the Deputy Commissioner under the Karnataka Public Moneys (Recovery of Dues) Act/Sec.32(G) of SFC's Act*	Managing Director

* N.B: In the show cause notice, borrowers/guarantors/ owners of the collateral securities shall be asked to show cause to the Managing Director.

11. Filing case in DRT and to incur necessary expenditure in that connection:

Particulars	Approving Authority
In respect of all files maintained at BOs / HO	Managing Director

12. Filing of petition under Section 31 and filing of suits under Civil Procedure Code:

Particulars	Approving Authority
In respect of cases maintained at BOs	Branch Manager
In respect of cases maintained at HO	HOD

13. Release of units from Section 29:

Particulars	Approving Authority
To release the units by collecting entire interest overdues or 50% of the total overdues, whichever is higher	Branch Manager / HOD
To release the units by collecting 50% of the total interest overdues or 25% of the total overdues, whichever is higher	General Manager
To release the units by collecting 25% of the total interest overdues or 15% of the total overdues, whichever is higher	Executive Director
Any further relaxation beyond above	Managing Director

14. Filing of cases under Section 138 of Negotiable Instrument Act:

Particulars	Approving Authority
In respect of cases maintained at BOs	Branch Manager
In respect of cases maintained at HO	HOD

15. Change in location of unit:

Particulars	Approving Authority
In respect of cases maintained at BOs	General Manager
In respect of cases maintained at HO	Executive Director

16. Change in constitution without releasing existing personal guarantees:

Particulars	Approving Authority
In respect of cases maintained at BOs	General Manager
In respect of cases maintained at HO	Executive Director

N. B: Change should have the consent of the borrowers/guarantors, by obtaining the fresh guarantee deed.

17. Change in Management:

Particulars	Approving Authority
In respect of cases sanctioned by ED/GM/DGM/AGM/BM	Next higher level of loan sanctioning authority
In respect of cases sanctioned by Board / EC / Managing Director	Managing Director
N.B: Change should have consent of borrower / guarantor/s by obtaining fresh guarantee deed.	

18. Change in collateral security:

Particulars	Approving Authority
In respect of loans sanctioned by the Branch Manager	Branch Manager
In respect of other cases	Executive Director
Note: The change in collateral security is subject to the condition that the loan account should not be in default. The valuation of new collateral property shall not be less than the earlier one. Further, the quality of collateral security in terms of locational importance, saleability etc, is not compromised.	

19. Release of Collateral Security:

Particulars	Approving Authority
Release of collateral security with payment of 100% of market value or SR rate whichever is higher: (a) Account which are in standard category and there is no dilution in collateral security for the remaining loan outstanding. (b) Accounts which are in NPA (the property should have been brought for sale atleast once under e-auction and if the highest offer received is more than 100% of the internal valuation as assessed above or the market value whichever is higher, the highest offer received shall be collected for release of collateral security).	General Manager Executive Director
Release of collateral security without any payment in respect of accounts under standard category and present loan balance is backed by sufficient security, the security norms prescribed under Lending Policy shall not be diluted.	Next higher level of loan sanctioning authority, Managing Director in respect of loans sanctioned by MD /EC / Board.

20. Sharing of charge over primary assets on pari-pasis with other financial institutions / Banks:

Particulars	Approving Authority
In respect of all cases	Next higher level of loan sanctioning authority, Managing Director in respect of loans sanctioned by MD /EC / Board.

21. Rescheduling of loans:

Particulars	Approving Authority
To approve the rescheduling of term loan in respect of all cases involving overall repayment period up to 20 years from the date of first disbursement	Managing Director
To approve the rescheduling of term loan in respect of all cases involving overall repayment period up to 15 years from the date of first disbursement	Executive Director
To approve the rescheduling of term loan in respect of all cases involving overall repayment period up to 12 years from the date of first disbursement	General Manager
To approve the rescheduling of term loan in respect of all cases involving overall repayment period up to 08 years from the date of first disbursement	Branch Manager / HOD s

N.B: Rescheduling should have the consent of borrowers/guarantors and fresh guarantee deed shall be obtained.

22. Funding of interest dues :

Particulars	Approving Authority
To approve the funding of interest dues with or without charging further interest on such funding interest or charging further interest for the rate considered appropriate depending on the merit of each case.	Next higher level of loan sanctioning authority, Managing Director in respect of loans sanctioned by MD /EC / Board.
Note: Funding of interest dues should have consent of borrower / guarantor/s and fresh guarantee deed shall be obtained.	

23. Others:

Particulars	Approving Authority
Execution of sale deeds on behalf of the corporation with respect of sale of property under: (a) Section 29 (b) SARFAESI Act	BM / HOD at HO Authorised Officer
To sign escrow agreement	Branch Manager / HOD at HO
To issue NOC to cede second charge / third charge in favour of commercial bank / government subject to the condition that the bank agrees to sanction need-based working capital. After obtaining relevant sanction order, second charge may be ceded in the prescribed format.	Branch Manager / HOD at HO

24. General Guidelines :

- a. The AGMs in Super 'A' BOs are empowered to exercise delegated powers on par with AGMs of 'A' grade BOs in respect of recovery functions:
- b. The Managing Director is authorised to take decisions beyond the delegated powers of EDs whenever it is not specifically mentioned.
- c. In the event of absence of the designated officer, the next higher authority is authorised to exercise the delegated powers of such designated officer.
- d. Limits of "Loans upto their delegated sanctioning power" is as per delegation of sanction powers given under:

Sanctioning authority	Maximum amt. (in lakhs)
Branch Managers of 'B' grade BOs	50.00
Branch Managers of 'A' grade BOs	75.00
Branch Managers of super 'A' grade BOs	100.00
General Managers	150.00
General Managers	300.00

The above figures are inclusive of all the loans sanctioned under any scheme like PE loans, Corporate loans, Bridge Loans, financing of existing assets etc. the cumulative sanctions of the accounts which are in currency shall be the criteria for determination of the ceiling and subject to change with Board approval from time to time. The term 'Branch Manager' wherever the context so requires shall mean DGM / AGM / Sr.Manager / Manager heading the respective branch.

e. The interpretation of the above guidelines by the Managing Director shall be final and binding.

KARNATAKA STATE FINANCIAL CORPORATION
BANGALORE



RECOVERY MANUAL

DETAILS OF ANNEXURES

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ANNEXURE – I

**REGISTER OF LOAN FILES RECEIVED FROM CREDIT/
APPRAISAL DEPT.**

Sl. No	A/c No.	Name & address of the Unit	Date of receipt of file	No. of volumes of file received	Name of the officer to whom referred	Signature of the officer	Date of sending the file to records	Signature of the officer in-charge of records	Remarks
1	2	3	4	5	6	7	8	9	10

ANNEXURE – II

STATUS REPORT OF THE UNIT

01	Location of the unit	Office				
		Factory				
02	Line of Activity					
03	Constitution					
04	Promoters of the unit					
05. Particulars of loan availed from KSFC:						
	A/c No.	Date of Sanction	Amount sanctioned	Amount disbursed	Rate of interest	Remarks
		Total:				
06	Amount in default of the term loans of KSFC as on _____					
	(Amt.in Rs.)					
	Loan Balance					
	Principal dues					
	Interest dues					
	Other debits					
	Total liability					
07	Asset Classification					
08	Total repayment made since inception:			Amount in Rupees		
	Towards Principal					
	Towards Interest					
	Other Debits					
	Total					
	Repayment for the year					
	Repayment for the previous year					
09	Last payment made by the unit					
10	Last cheque dishonoured by the unit					

11	Security details: Land Building Machinery/vehicle Current assets Collateral security TOTAL:	Memorandum value	Present value
12	Personal Guarantee: a) Promoters b) Third party		
13	Promoters networth details	As per memorandum	Present position
14	Accommodation / benefits extended		
15	Brief details on dealing with banks/ institutions		
16	Present status of the unit		
17	Request of the unit, if any		
18	Recovery action taken		

ANNEXURE – III

KARNATAKA STATE FINANCIAL CORPORATION

..... OFFICE

Dear Sri.....

I visited your unit today at about..... AM/PM. At the time of visit, you were not available for discussion. My purpose of visit was to persuade you to make payments towards the overdues in your loan account. I would like to discuss this matter in detail with you at our office on..... at..... AM/PM.

I request you to visit our office on the said date.

With Regards,

Yours sincerely,

()

Sri.....

.....

.....

.....

ANNEXURE – IV

KARNATAKA STATE FINANCIAL CORPORATION OFFICE

VISIT REPORT

1	Name of the unit	
2	Address : Factory Office	
3	Date of visit	
4	Place of visit	Factory / Office
5	Name of the person contacted and his position in the unit	
6	Overdues position as on..... Principal dues Interest dues Other debits Total	
7	Amount collected during visit	
8	Proposal given by the unit for clearing of the dues	
9	Comments of the visiting officer on the proposal given by the Unit	
10	Irregularities if any found during the visit *	
11	Recommendations of the Officer	

SIGNATURE OF THE
RECOVERY OFFICER

IRREGULARITIES MEANS:

- 1 Leasing of unit to a third party
- 2 A few secured assets are not found at the factory
- 3 The unit is undertaking additional construction and acquiring machines without giving satisfactory reasons.

ANNEXURE – V (A)

(To be typed on DO letter head of HOD(R)/BMs)

Dear Sri.....

Sub: PAYMENT OF OVERDUES

On review of your file, I find that the following amounts are overdue in your loan account as on.....

A/C. No.	Principal Default	Interest Default	Other Debits	Total Default

I also find that you did not give any acceptable proposal for payment of the overdues. In spite of repeated demands and visits to your unit by Deputy Manager / Manager, you continue to be a defaulter. I request you, at least now to view the matter seriously and clear the entire overdue. If you still choose to remain as a defaulter, I will be constrained to initiate legal action for recovery.

With regards,

Yours sincerely,

Sri.....
.....
.....
.....

cc to : The unit's Bankers

ANNEXURE -V (B)

(To be typed on HOD(R) /BMs Letter Head)

REMINDER
R P A D

Dear Sri.....

I invite your reference to my DO letter No..... dated on the above subject. I regret to note that you have not cleared the dues or submitted an acceptable proposal for clearing of the dues. You have also not explained the reasons for default and submitted audited financial statement of account of your unit. The overdues in your loan account has already reached an alarming stage. The statement of account as on is enclosed.

As a last chance, I am giving you this opportunity to clear substantial portion of the overdue within ten days from the date of receipt of this letter and submit the following:

- 1 Reasons for default
- 2 Proposal for clearing of the balance dues
- 3 Audited financial statement for the proceeding 2/3 years
- 4 A note on the performance of the unit for the current year.

With regards,

Yours sincerely,

Sri.....
.....
.....
.....

ANNEXURE -VI

(To be issued by MD/ED/GM)

R P A D

M/s.....
.....
.....

Dear Sirs,

Sub: PAYMENT OF OVERDUES

Ref:

On review of your file, it is noticed that following amounts are overdue as on

A/C. No.	Principal Default	Interest Default	Other Debits	Total Default

It is also noticed that you have paid only Rs..... during this year till This payment is unsatisfactory when compared to the overdue amount which is payable by you.

We are writing this letter to give you a last opportunity to clear overdues within ten days from the date of receipt of this letter and for submitting an acceptable proposal for payment. Please note that the undersigned will be reviewing your file again. If it is found that there is no satisfactory response from you, we will be constrained to initiate legal action for recovery of dues.

May we hope that you will respond positively and you will not give any scope for initiating recovery action against you.

Thanking you,

Yours faithfully,

MD/ED/GM

- CC TO : 1. To all the partners/directors of the unit
2. Unit's Bankers
3. Guarantors / sureties

ANNEXURE -VII

KARNATAKA STATE FINANCIAL CORPORATION

..... OFFICE

R P A D

M/s.....
.....
.....

Dear Sirs,

Sub: PAYMENT OF OVERDUES
** Default Review Committee Meeting

With reference to the above, we request you to call on our office on at AM/PM with the following information for detailed discussions regarding payment of dues.

- a) Reasons for default
- b) Audited statement of account for the last 3 years/preceding 3 years.
- c) A note on the working performance of the unit
- d) Proposal for clearing of overdues.

You are also requested to make substantial payment towards the overdues during the visit to our office on that date.

Thanking you,

Yours faithfully,

HOD/ BM/Recovery Officer

CC : The unit's Banker : With a request to attend the meeting
: The guarantors / sureties

** Strike out whichever is not applicable.

ANNEXURE – VIII

(DRAFT SCN UNDER SECTION 29 OF SFCs ACT TO THE BORROWER UNIT)

KARNATAKA STATE FINANCIAL CORPORATION

M/s.
.....
.....

by R P A D

Sub: Show-Cause Notice under Section 29 of the SFC's Act.

1. I invite your kind attention to the terms and conditions of the loans which were communicated by the Corporation's letter No. _____ dated: _____ and accepted by you and also to the agreed terms and conditions incorporated in the security documents executed by you in respect of the said loans and also to the notice No. _____ dated _____ issued by _____.
2. In spite of the agreed terms and conditions and various letters and reminders, it is regretted to note that you have failed to comply with the following:

a) To pay the amount due as per the instalments agreed upon on due date and as assured. The overdues as on _____ are as follows:-

(Rs.in lakhs)

A/c No.	Loan Balance	Principal	Interest	Other debits	Total

The account has become Non-Performing Asset as on _____.

- b) To furnish periodical returns, Profit & Loss account, Balance Sheet /Financial Statements at regular intervals as agreed upon earlier.

c) At your request, the Corporation extended rescheduling of principal arrears along with funding of interest arrears. But in spite of this facility, you have failed to pay the installments as per the new schedule.

3. I, therefore hereby call upon you to comply with the aforesaid requirements and / to pay the aforesaid amount with interest thereon within ten days from the date of receipt of this letter.

4. Further, this is to inform you that in the event of your failure to pay / comply with the aforesaid requirements and to the aforesaid amount within the aforesaid time, the Corporation would proceed to consider the proposal of taking action under Section 29 of the SFCs Act 1951 for taking over possession of the assets of your concern and/or release the paper notification as per the draft enclosed. Further, any cause shown by you touching the said proposal _____ * would be considered by the Corporation before taking a decision thereon if such a cause is shown within ten days from the date of receipt of this letter.

Yours faithfully,

HOD /BRANCH MANAGER

Copy

to:-

The Guarantors /Sureties

The Banker for information

Other Term Lending Institutions.

*NOTE: It may be mentioned that in HO cases, cause is required to be shown to the MD and in respect of BO cases, the cause is required to be shown to the authority who is duly authorised to issue the order under Section 29 of SFCs Act for take over of the unit.

KARNATAKA STATE FINANCIAL CORPORATION
HEAD OFFICE, No.1/1, THIMMAIAH ROAD
BANGALORE – 560 052.

PUBLIC NOTICE

This is for the kind information of general public that following industrial concerns have drawn loan amount from the Karnataka State Financial Corporation on the security and guarantees detailed against each concern, have committed defaults in payment of their dues to the Corporation and have failed to honour their proposal, but to initiate legal action as per the provisions of Sec. 29 of the State Financial Corporation Act, 1951 or as per the provisions of Karnataka Public Moneys (Recovery of Dues) Act, 1979 to recover the dues. The general public are hereby informed that any person dealing with these industrial concerns and on the assets secured to the Corporation will be doing so at their own risk and cost.

Sl. No.	Name and address of the unit	Name of the proprietor/ partner / M.D	Place of business/ regd. Office	Loan drawn (Rs. in lakhs)	Security offered	Personal guarantees	Amount in default (Rs. in lakhs)

ANNEXURE – IX

**FORMAT OF THE STATUTORY NOTICE TO BE ISSUED TO THE
DEFAULTING UNIT**

(Suitably amended/added depending on the fact & requirement)

STATUTORY NOTICE

R.P.A.D.

To:

The unit / all promoters

Sirs,

Karnataka State Financial Corporation (for short, the 'Corporation') having its Head Office at No.1/1, Thimmaiah Road, Bangalore 560 052, is issuing the following notice to you:

1. At your request the Corporation sanctioned to you term loan(s) of Rs..... (Rupees only) subject to the terms and conditions set out in the Corporation's letter(s) dated and accepted by you.
2. As security for the repayment of this loan you hypothecated your movable properties in favour of the Corporation and executed Hypothecation Deed dated You also entered into a loan agreement with the Corporation on incorporating the agreed terms and conditions therein.
3. Further at your request Sriyuthsgave their personal guarantee for the repayment of the aforesaid loan and executed a deed of guarantee dated
4. As collateral security for the repayment of this loan Sri/Smt. mortgaged his/her immovable property bearing

....., by deposit of title deeds on
He/she also entered into collateral security agreement with the Corporation on incorporating the agreed terms and conditions therein.

5. The entire amount of this loan was fully released to you/ Loan was limited to the extent of Rs.....
6. In spite of the agreed terms and conditions as well as pre-installment notices issued and post-installment demands made you have failed to pay the amounts of installments that became due and payable as particularized in the annexed statement of account.
7. In view of the defaults committed by you and for the purpose of protecting its interest and public interest, the Corporation hereby requires you under Section 30 of the State Financial Corporations Act as well as the agreed terms and conditions of the contract made by you with the Corporation in respect of the loans to discharge forthwith in full all your liabilities to the Corporation in respect of the aforesaid loan.
8. The total amount due from you towards such full discharge of the term loan taken by you from the Corporation is Rs.*..... as on as per the statement of account annexed to this notice. (*Entire Liability Including Loan Balance.)
9. Therefore, by this notice we hereby call upon you to pay the aforesaid amount, with interest thereon on quarterly rest basis on the footing of compound interest with effect from, within ten days from the date of receipt of this notice failing which the Corporation would proceed to recover the same at your risk and cost.
10. This is to further inform you that in the event of your failure to pay the aforesaid amount within the aforesaid time the Corporation would proceed to take steps to recover the same under the provisions of the State Financial Corporations Act or under the provisions of

Recovery of Debts due to Banks and Financial Institutions Act, 1993
or under the provisions of Karnataka Public Moneys (Recovery of
Dues) Act, 1979.

Thanking You,

Yours faithfully,

ED/GM /BM

cc to:

- 1 All guarantors
- 2 Accounts/Recovery/BO
- 3 KSSIDC/KIADB/other term lending institutions.

ANNEXURE – X

Ref: KSFC/HO/LEGAL/ED(O)/D-353/03-04

Date: 23-04-03

CIRCULAR – 828

Sub: Amendments to CPC.

The Corporation has been filing cases in the Courts of respective District Judges under the provisions of Sec.31(1) and 31(1)(aa) of the SFCs Act 1951. It is the experience of the Corporation that these cases take long time to reach their logical end. It has also been observed that in many of the cases filed by the Corporation service of notice/summons itself has taken 3-4 years after filing of the petition. This has resulted in substantial delay in getting an order from the Court by the Corporation. In turn the entire recovery process itself has been getting delayed.

The Code of Civil Procedure (CPC) has been amended by the Amendment Act No.22/2002 dated 24-05-2002. The said amendments came into effect from 1-7-2002.

Far-reaching and effective changes have been brought in by the amendment Act in respect of the following:

1. Issue of service of Summons :- The Plaintiff can now apply to the Court for issue of Summons to the Defendants through the process of Court, by RPAD or through Courier Service (approved by the Court) and also the party himself may take out summons and serve the same on the Defendants. All these steps can be taken simultaneously by filing an application to the Court for ordering issue of summons by all the three modes simultaneously. The relevant provisions are extracted below:

Order V Rule 9 C.P.C.

9. Delivery of Summons by Court:-

- (1) Where the Defendant resides within the jurisdiction of the Court in which the suit is instituted, or has an agent resident within that jurisdiction who is empowered to accept the service of the summons,

the summons shall, unless the court otherwise directs, be delivered or sent either to the proper officer to be serviced by him or one of his subordinates or to such courier services as are approved by the Court.

- (2) The proper officer may be an officer of a Court other than that in which the suit is instituted, and, where he is such an officer, the summons may be sent to him in such manner as the court may direct.
- (3) The services of summons may be made by delivering or transmitting a copy thereof by registered post acknowledgment due, addressed to the defendant or his agent empowered to accept the service or by speed post or by such courier services as are approved by the High Court or by the Court referred to in sub-rule(1) or by any other means of transmission of documents (including fax message or electronic mail service) provided by the rules made by the High Court.

9A. Summons given to the Plaintiff for service:

- (1) The Court may, in addition to the service of summons under rule 9, on the application of the plaintiff for the issue of a summons for the appearance of the defendant, permit such plaintiff to effect service of such summons on such defendant and shall, in such a case, deliver the summons to such plaintiff for service.
- (2) The service of such summons shall be effected by or on behalf of such plaintiff by delivering or tendering to the defendant personally a copy thereof signed by the judge or such officer of the Court as he may appoint in this behalf and sealed with the seal of the Court or by such mode of service as is referred to in sub rule(3) of Rule 9.
- (3) The provisions of Rules 16 & 18 shall apply to a summons personally served under this Rule as if the person effecting service were a servicing officer.
- (4) If such summons, when tendered, is refused for if the person served refuses to sign an acknowledgment of service or for any reasons

such summons cannot be served personally, the Court shall, on the application of the party, re-issue such summons to be served by the Court in the same manner as a summons to a defendant.

The procedure to be adopted for serving the summons / notice is contained in the provisions Order 5 Rule 16 to 18. The same is also extracted below for ready perusal:

16. Person served to sign acknowledgment:

Where the serving officer delivers or tenders a copy of the summons to the defendant personally, or to an agent or other person on his behalf, he shall require the signature of the person to whom the copy is so delivered or tendered to an acknowledgment of service endorsed on the original summons.

17. Procedure when defendant refuses to accept services or cannot be found:

Where the defendant or his agent or such other person as aforesaid refuses to sign the acknowledgment, or where the serving officer, after using all due and reasonable diligence, cannot find the defendant, (who is absent from his residence at the time when service is sought to be effected on him at his residence and there is no likelihood of his being found at the residence within a reasonable time) and there is no agent empowered to accept service of the summons on his behalf, nor any other persons on whom service can be made, the serving officer shall affix a copy of the summons on the outer door or some other conspicuous part of the house in which the defendant ordinarily resides or carries on business or personally works for gain, and shall then return the original to the Court from which it was issued, with a report endorsed thereon or annexed thereto stating that he has so affixed the copy, the circumstances under which he did so, and the name and address of the person (if any) by whom the house was identified and in whose presence the copy was affixed.

18. Endorsement of time and manner of service:

The serving officer shall, in all cases in which the summons has been served under Rule 16, endorse or annex, or cause to be endorsed or annexed, on or to the original summons, a return stating the time when and the manner in which the summons was served, and the name and address of the personal (if any) identifying the person served and witnessing the delivery or the tender of the summons.

FILING OF WRITTEN STATEMENT:

The time within which the Defendants should file written statements as also been amended. A maximum of 90 days can be granted to the Defenants to file his written statement. If the same is not filed, the Court can proceed to pronounce the judgement or make such other order in relation to the suit. The relevant provisions are reproduced below:

ORDER VIII

Rule [1. Written Statement :

The Defendant shall, within thirty days from the date of service of summons, on him, present a written statement of his defense.

PROVIDED that where the Defendant fails to file the written statement within the said period of thirty days, he shall be allowed to file the same on such other day, as may be specified by the Court, for reasons to be recorded in writing, but which shall not be later than ninety days from the date of service of summons].

Rule [1a. Duty of defendant to produce documents upon which relief is claimed or relied upon him

- (1) Where the Defendant bases his defense upon a document or relief upon any document in his possession or power, in support of his defense or claim for set off or counter claim, he shall enter such document in a list, and shall produce it in Court when the written statement is presented by him and shall, at the same time, deliver the documents and a copy thereof, to be filed with the written statement.

- (2) Where any such document is not in the possession or powers of the Defendant, he shall, wherever possible, state in whose possession or power it is.
- (3) A document which ought to be produced in Court by the Defendant under this rule, but, is not so produced shall not, without the leave of the Court, be received in evidence on his behalf at the hearing of the Suit.]

GIVING EVIDENCE :

Amendments have also been effected under Order XVIII pertaining to examination of witnesses. The Examination-in-Chief of a witness can now be done by way of filing an affidavit. The Court may either record the cross-examination or appoint a commissioner to do the same. The relevant provisions viz., Order XVIII Rule 4 is reproduced below:

Rule [4. Recording of Evidence:

1. In every case, the examination-in-chief of a witness shall be on affidavit and copies thereof shall be supplied to the opposite party by the party who calls him for evidence.

PROVIDED that where documents are filed and the parties rely upon the documents, the proof and admissibility of such documents which are filed along with affidavit shall be subject to the orders of the Court.

2. The evidence (cross-examination and re-examination) of the witness in attendance, whose evidence (examination-in-chief) by affidavit has been furnished to the Court, shall be taken either by the Court or by the Commissioner appointed by it.

PROVIDED that the Court may, while appointing a Commission under this sub-rule, shall be taken into account such relevant factors, as it thinks fit.

With these amendments it is expected that the cases filed by the Corporation can now be disposed off expeditiously. The Branch

Managers are instructed to prevail upon the Local Counsels to effectively follow the amendments mentioned above and get the cases filed by the Corporation disposed of as early as possible.

Feed back / difficulties in following the above in practice may be sent to Head Office for clarification / further instructions. All the concerned are advised to take immediate steps in this direction.

ACCOUNTABILITY:

The question of accountability in following up cases in various Courts at various stages seems to be a grey area in the Corporation. Very often, the Recovery Officers are of the opinion that the concerned Legal Officers in a Branch / Department are responsible, whereas the Legal Officers feel that the Recovery officers are responsible since various items of information that have to be made available to the Legal Counsels for presentation before the Court are to be given by the Recovery Officers. This confusion has to come to an end. It is hereby decided that the concerned Recovery Officers will be responsible for following up their respective cases before the Court and the Legal Counsels and any delay will be held against them. However, the concerned Legal Officers will be held responsible if any problem area is not redressed.

The content of this Circular may also be brought to the notice of all the Legal Counsels of the BOs / Legal Advisor / ALA by the concerned BMs / HODs.

Sd/-,

EXECUTIVE DIRECTOR [OPERATIONS]

To:

All the EDs / General Managers / Departmental Heads / BMs/ / IA Offices
DGM (Legal) – A suitable system for monitoring pendency in District Courts / High Court /DRT should be brought to practice.

Legal Advisor / ALA & LCs

Library / Notice Board

cc: The Executive Director (Finance) – for information

The Managing Director – for kind information.

ANNEXURE – XI

**FORMAT OF THE TAKE OVER ORDER UNDER SECTION 29 OF
THE SFCs ACT.**

PROCEEDING IN THE MATTER OF M/S. _____
_____ WHEREAS, at the request of M/s. _____
_____ a proprietor concern /Partnership firm registered
under the Partnership Act, 1932/Company incorporated under the com-
panies Act, represented by its proprietor / Partners / Directors _____
_____ (hereinafter called” the Karnataka State
Financial Corporation (for short “the Corporation”) sanctioned loan / loans
of Rs._____.

WHEREAS as security for the repayment of the said loans the
concern / firm / company executed the security documents in favour of
the Corporation and incorporated the agreed terms and conditions therein.

WHEREAS, inspite of the agreed terms and conditions as well as
various notices including the notice dated _____ under Sec-
tion 30 of the SFCs Act, the concern/Firm/ Company committed default
in repayment of the said loans.

WHEREAS, in view of the defaults committed by the concern/firm/
Company and the need to take expeditions steps to protect the interest
of the Corporation and to recover the amounts due, the Corporation has
decided to exercise its rights conferred under Section 29 of the SFCs
Act, 1951, for recovery of Rs. _____ due as on _____
_____ with further interest, cost etc.

ORDER

I CMD / MD / ED / GM / BM of the Karnataka State
Financial Corporation hereby order in exercise of the powers conferred
under Section 29 of the SFC Act, 1951, that the possession of assets
of the industrial concern of M/s..... situated at
..... be taken over for the recovery of the amounts of
Rs..... lakhs* due as on with further interest, cost,
charges etc.

I further hereby authorise the Officers of the Corporation specified below jointly or severally to take over possession of the assets of the aforesaid industrial concern in pursuance of the order passed herein above, if necessary, by breaking open the locks put to the premises.

NAME OF THE OFFICERS :

- 1.
- 2.

Dated the of

MD / ED / GM / DGM / AGM/ BM
KARNATAKA STATE FINANCIAL CORPPORATION

* Entire liability including loan balance

ANNEXURE – XII

The Circle Inspector of Police /
The Sub Inspector of Police

Sir,

The Corporation has decided to take over the possession of all the assets of M/s..... situated at..... the said firm committed default in the matter of repayment of loan sanctioned by the Corporation. The undersigned has authorised the following officers either jointly or severally to take possession of the assets of the above unit.

- 1.

- 2.

- 3.

Since the officers may face some resistance from the management or workers of the unit at the time of taking over the possession, necessary police help may please be extended as and when requested by the above officers.

Thanking you,

Yours faithfully,

MD / ED / GM / DGM / AGM / BM

ANNEXURE - XIII

**FORMAT OF MAHAZAR TO BE DRAWN AT THE TIME OF TAKE
OVER OF THE UNIT UNDER SECTION 29.**

MAHAZAR REPORT

Place :

Date :

This Mahazar has been drawn at the premises of M/s..... situated at at about AM/PM on this day in the presence of witnesses who have signed below:

We, the authorised officers Sri..... and having been duly authorised by the CMD / MD / ED /GM / BM of Karnataka State Financial Corporation, _____, in pursuance of order bearing No..... dated passed under Sec. 29 of the State Financial Corporation Act 1951, to take over all the assets of M/s.....

In pursuance of the said order dated passed by the CMD / MD / ED /GM / BM of the Karnataka State Financial Corporation, against the aforesaid industrial concern, a copy of the order was also sent to the industrial concern to its office address, one copy of the order has been delivered/affixed in the premises of the industrial concern.

We, the authorised officers went to take possession of the assets of the industrial concern as per the orders of the CMD / MD / ED /GM / BM.

We, the authorised officers took possession of the assets of the above industrial concern in the presence of the following witnesses:

- 1.
- 2.

and also in the presence of the witnesses who have signed below:

The details of inventory of the assets of the industrial concern found this day and took possession comprising of movables and immovables which are more fully described hereunder on behalf of the Karnataka State Financial Corporation.

SCHEDULE - I
(Land and Building)

1	Location and address	
2	Measurement of the site/land	
3	Measurement of the buildings	
4	Type of construction/condition of building	
5	Other details (if any)	

SCHEDULE - II
(Plant and Machinery)

Sl. No.	Description of machinery with details of make, attachments such as motors, electricals, machine no. if any	No.
1		
2		

SCHEDULE - III
(Current Assets / other assets)

Sl. No.	Description of Current Assets and other Assets if any	No.
1		
2		

Accordingly, we, authorised officers took possession of the movable assets found in the premises mentioned above and we have also taken possession of factory premises as per the schedule mentioned above under Sect. 29 of the Karnataka State Financial Corporation Act. 1951. Necessary locks are also put and sealed.

1. Name :
Signature

2. Name :
Signature

3. Name :
Signature

AUTHORISED OFFICERS

(For and on behalf of the Karnataka State Financial Corporation)

Date :

Place :

Witnesses:

1.Name :
Signature

2.Name :
Signature

ANNEXURE - XIV

**FORMAT OF AGREEMENT FOR APPOINTING SECURITY AGENCY TO
GUARD THE ASSETS / UNIT TAKEN OVER UNDER SECTION 29**

THIS AGREEMENT made at on between M/ s. Karnataka State Financial Corporation a body Corporate established under State Financial Corporation Act 1951 having its Head Office at Bangalore and a Branch office at hereinafter called 'THE CORPORATION' which expression shall unless repugnant to the context or meaning thereof, including its successors in office and assigns of the first part and M/s..... having its office at represented by Sri..... hereinafter called 'THE SECURITY AGENCY' of the second part.

WITNESSETH AS UNDER :

Whereas the Corporation has taken over the industrial assets of M/ s..... having its place of business at IN PURSU- ANCE OF THE ORDER dated issued by the CMD / MD / ED /GM / BM Sri/ Smt..... in exercise of the power vested under Section 29 of the State Financial Corporation Act 1951 through their authorised officers Sri..... Manager (R) and Sri..... Deputy Manager on

Whereas it is found necessary that the security of the factory assets of the above industrial concern has to be done by a qualified staff of the security agency and whereas the security agency has, its roll, staff- skilled and well-versed in security work and rendering such services to other industrial undertakings and institutions.

Whereas the Corporation considers necessary that services of the Security Agency is necessary for safeguarding the properties and assets which are taken over by the Corporation and for maintaining vigilance,

the Corporation considers that the security agency has got the requisite skill to maintain vigilance in the matter of safeguarding the above premises and machinery, the details of which are given in the Annexure herein enclosed in this agreement. The Security Agency has agreed to give the necessary security vigilance at the above premises and the Corporation has agreed to hereafter.

It is now agreed to between the parties as follows being the terms and conditions of the contract:

1. This agreement will be in force from initially for a period of months and it is, however, liable to be terminated by one month's notice either side at any time. In the event of such earlier termination, the remuneration payable by the Corporation to the shall be limited to the period of time upto the day of its termination.
2. The security Agency shall provide a security force of guards on 3 shifts basis, is working from 8 am to 4pm and guards each in second and third shifts from 4pm to 12am and from 12am to 8 am hours each day per shift including Sundays and Holidays.
3. In consideration of the undertaking done by the Security Agency in terms of this agreement, the Corporation agreed to pay the security agency at the rate of Rs..... for guards working on Second and third shifts and Rs..... for the guard who works on first shift per month in all a sum of Rs..... being paid on or before the first week of every month against the bill submitted to the Corporation.
4. It is expressly agreed by the Security Agency that the guards shall be provided with necessary torch and other equipments to effectively maintain the security of the plant and machinery located in the premises.
5. The Security Agency will, at no extra cost, provide Guards and Head Guard, to make supervision, to supervise the performance of

the security force provided by it, atleast once a day. The security agency will record the details of such supervising in a register to be maintained for the purpose. This register should be sent for review by the Branch Manager / HOD / GM of the Corporation at by the end of every month.

6. The security Agency shall agree for the maintenance of such registers and forms as are found necessary for the effective performance of the work undertaken. The register indicating the names of the security personnel on duty should be made available for inspection at all times. The security agency will make their own agreements for registers and other stationery.
7. The security agency agree to supply uniforms and equipment to the members of the security force and ensure that they wear the same on duty.
8. The members of the security force provided by the security agency shall be the employees of the security agency and not connected in whatsoever manner with the Corporation.
9. The security agency shall be solely liable regarding payment of salaries, bonus, provident fund, if any grant of leave, holidays, offs, disciplines etc., of the security force provided by it.
10. The security agency shall be responsible for replacement of any members of the security force falling sick or proceeding on leave or otherwise absent, at no additional cost to the Corporation. Any members of the security forces whose work or conduct is reported to be unsatisfactory by the Corporation shall be replaced without any question at no additional cost to the Corporation.
11. In the event of theft or pilferage of the assets mentioned in the Annexure, the security agency shall immediately submit a written report to the Corporation and actively assist in its investigation. If necessary, the security agency shall in consultation with the Corporation, report such incidents to the police and follow up the same if it is referred to court of law. The security agency shall also agree

to render such secret service as required by the Corporation or as found necessary in the circumstances.

12. The GM /HOD /BM of the Corporation at shall be the person authorised by the Corporation to give instructions to the security arrangement or procedures directly from time to time. Similarly, the security force must report all matters to the above GM / HOD / BM of the Corporation at through the security agency.
13. The security agency shall not allow any person to enter the premises without the written prior permission from the GM / HOD / BM of the Corporation.
14. The security agency shall cover at its cost its security force under the provisions of the Employees State Insurance Act and Scheme made there under, collect the employees contribution at the determined rate by the Government from time to time and remit both the employers and employees contributions to the Employees State Insurance Corporation directly.
15. The security agency shall be solely responsible for all the accidents or personal injuries to the security guards employed by it. If any loss or damage were to take place or to be caused to the property in the premises mentioned in the annexure, the security agency agrees to reimburse the same as determined by the MD / ED /GM / HOD / BM as the case may be.

In witness whereof the Corporation and the Security Agency have set their hands to this agreement on the day, month and year above written and this agreement has been executed in duplicate.

For M/s. KARNATAKA STATE FINANCIAL CORPORATION

HOD / BRANCH MANAGER

SECURITY AGENCY

ANNEXURE – XV

KARNATAKA STATE FINANCIAL CORPORATION

INSPECTION & VALUATION REPORT

(a) PREAMBLE:

(i) Name of the BO / Department	
(ii) Name and designation of the inspecting Officer/Officers:	
(iii) Date of inspection	
(iv) Name of the Unit	
(v) Address	
(vi) Nature of security being valued	Primary / Collateral / Others (to specify)

2. VALUATION:

Land:

(i) Address with property number as per legal documents	
(ii) Layout plan	A copy of the layout plan approved by the concerned authority be enclosed. If it is not there, the inspecting officer shall prepare a layout sketch, attest it, and enclose to the report.
(iii) Owner's name	

Note : If it is a land allotted by KIADB/KSSIDC, the same may be mentioned with details of allotment such as date, name of the allottee, terms of allotment, dues payable if any etc.,

(i) Schedule of the property: North by : South by : East by : West by :	
(ii) Extent of the land/site	
(iii) Shape of the property	
(iv) The surface conditions	
(v) Comments on locational advantages/dis-advantages and salability	
(vi) Present valuation a) Based on S R Rates b) Market value	Rs. (at Rs. /Sq.Mtr.)

(b) Building:

(i) Type of building	Industrial / Commercial / Residential / Others
(ii) Measurements (block / building-wise)	
(iii) Type of construction	

(iv) Valuation of individual item of building and rate taken per Sq.Mtr. of area:

Sl No	Item	Rate / Sq.M.	Value at the current price	Rate of depreciation	Depreciated value

TOTAL:

(v) Comments on present condition of the building, age, salability, balance life etc.,	
--	--

(c) Equipments (Plant & machinery, vehicles, furniture, other assets):

(i) Description :

Sl. No	Description with machine no. if any.	Supplier's name	Cost at current price	Age of the machine	Rate of depreciation	Depreciated amount
TOTAL:						

(ii) General comments on the maintenance of the machine, technology obsolescence, salability etc., which form basis for valuation:

(iii) Brief comments on the nature of the machines keeping in view of the value of loss if shifted, cost involved for shifting etc.,:

3. SUMMARY OF VALUATION:

[Rs.in lakhs]

Particulars	Based on S R Rates	Based on Market value
(a) Land		
(b) Building		
(c) Equipments		
(d) Others if any		
GRAND TOTAL		

4. GENERAL REMARKS IF ANY:

Name of the inspecting Officer:

Designation:

Signature:

Date :

Name of the HOD / BM:

Designation:

Signature:

Date :

ANNEXURE – XVI

**FORMAT OF LETTER TO BE SENT TO THE BORROWER
BEFORE BRINGING THE ASSETS FOR SALE**

**KARNATAKA STATE FINANCIAL CORPORATION
..... OFFICE**

BY: R.P.A.D.

M/s.....
.....
.....
.....

Dear Sirs,

Sub: Default of Repayment of the Loan

~~~~~

This is to inform you that the assets of your unit were taken over under Sec. 29 of the SFC's Act on ..... The Corporation is contemplating to sell the assets by releasing paper advertisement. Still if you come forward to pay and settle the entire dues within 15 days, the assets will be handed over to you.

Thanking you,

Yours faithfully,

HOD / BM

CC : The Units Bankers  
KSSIDC/DIC/ Directorate of Inds. & Commerce.

(NOTE: This letter should be sent to KSSIDC only if the unit is located in a shed and allotted by KSSIDC).

**ANNEXURE -XVII**

FORMAT OF LETTER TO BE RECEIVED FROM THE BORROWER UNIT  
FOR HAVING RECEIVED THE ASSETS TAKEN OVER UNDER SECTION  
29

(to be obtained in the unit's letter head)

To,

-----  
KSFC

Dear Sir,

Sub: Acknowledgment of taking possession of assets  
seized by the Corporation.

~~~~~

We hereby acknowledge the receipt of the assets taken over by your Corporation as per mahazar dated in good condition. We undertake to clear the dues as per the proposal given by us to you now. Further, we abide by all the terms and conditions of sanction of loan and the security documents executed in your favour. All the original contract/ documents executed by us in your favour shall continue to be in force till the entire loan is repaid in full.

Thanking you,

Yours faithfully,

Proprietor/Managing Partner/
Managing Director.

ANNEXURE-XVIII

Ref: No.GM (O):307/D1-15132

Dated: 10-11-1990

CIRCULAR NO-307

Sub: Guidelines concerning seizure of assets
housed in the leased private premises.

There are good number of our assisted units which are housed in the leased private premises (sheds). Many lease agreements are registered but there are some, especially 11 month leases, which are unregistered. While the Corporation has the right to receive three months advance notice before lease termination by the lessor in the case of registered leases, no such right is enjoyed by the Corporation in the case of unregistered leases. The land lord may have given an undertaking to issue notice of eviction to the Corporation before termination of an unregistered lease, but there is rarely complied with by the land lords. Further more, the Rent Control Act recognises tenants but not the lease/ lessee and persons/ organisations to whom lease hold rights might have been assigned. It is also possible that the lease period (original or renewed) itself might have expired before action is initiated under Section 29 of the SFC's Act.

In view of these peculiarities, it is important that all the branches and recovery department in Head Office pay due care while initiating recovery action timely both at the time of taking over the assets under Section 29 and thereafter if the unit is housed in a leased private shed. To facilitate it, the following guidelines are issued with immediate effect.

1. Before take over, check whether or not lease is in currency. If so, find out the remaining lease period, notice of eviction, if any, given by the landlord, name and present correct address of the land lord. This shall be recorded in the note sheet put up to competent authority for approval of take over under Section 29.

2. Within a period of one month from the date of seizure if the unit is not returned nor is it likely to be returned to the loanee, then the plant and machinery hypothecated to Corporation should be shifted to Corporation's godown as early as possible. The land lord should be informed of shifting of plant and machinery by the Corporation. Regarding payment of rent to the land lord, after due verification of whether or not the loanee has paid the rent (including deposit and/ or rent advance, if any), the payment may be made only for the period of seizure, i.e. From the date of seizure to the date of shifting of machinery and that too as per lease agreement (after adjusting for deposit and rent advance if any paid by the loanee). The loanee's account shall be debited for the same and he /she be informed in writing of the payment(s) so made.
3. UNDER NO CIRCUMSTANCES, RENT/ RENT ARREARS SHALL BE PAID FOR THE PERIOD OTHER THAN THE PERIOD OF SEIZURE.
4. If, in the opinion of BM/DGM [R], it is essential to retain the plant and machinery in the same shed in the interest of expeditious sale at a fair price, then they may be retained in the same private shed for a period NOT exceeding six months. Efforts should be made to dispose them off before the expiry of this period. If not, the plant and machinery hypothecated to our Corporation should be immediately shifted to our Corporation's Godown. After due verification, the rent for the period of seizure may be paid to the land lord and the loanee's account debited for the same.
5. Whenever the plant and machinery housed in the private shed are sold to a third party, no assurance / commitment shall be given to the buyer regarding the continuation of lease facility to him / her. The buyer should be explicitly told to shift the machinery from the private shed immediately after the possession is handed over. In the alternative, he / she should produce a letter from the land lord consenting for continuation in the same shed at the time of handing over the possession of assets.
6. The normal practice is to try to sell the assets by taking over under Section 29 before the case is referred to Special Tahsildar for recovery

of dues under KPM (RD) Act. In some cases however, the recommendation is made to directly refer the case(s) to Deputy Commissioner. While so recommending, it has to be recorded both in the note sheets and the forwarding letter the particulars concerning lease as indicated in guidelines 1 above. Further, the rent may be paid to the land lord for the period of attachment by the Special Tahsildar, i.e., from the date of attachment till the date of removal of machinery and the same shall be debited to loanee's account. Both the Special Tahsildar and the BM/DGM [R] should ensure that the machinery are not kept in the private shed for longer than six months period. If, under special circumstances of the case, the machinery were to be continued to be kept in the private shed beyond six months period, a prior approval of the undersigned must be obtained by sending a note justifying the continuation and consent of the land lord.

7. On receipt of a copy of notice of eviction issued by the lessor of the shed, the BM/ DGM [R] should ensure that the action is taken to persuade the loanee to make good the arrears of rent. Also, a reply may be sent to the lessor informing him / her of our persuading the lessee-loanee to clear rent arrears.
8. The sale advertisement should NOT mention about the availability of leasehold rights for transfer. Only the assets hypothecated / mortgaged to the Corporation should be mentioned. Similarly, the DC Certificate issued under KPM (RD) Act need not contain the schedule of leased premises. But, it should be indicated in the certificate that the assets are housed in the leased premises giving the correct address of both the premises and the lessor.

The above guidelines shall be brought to the notice of all concerned officials in your office.

Sd/-
General Manager (O)

ANNEXURE-XIX (A)

Ref: No.KSFC/HO/ED(O)/R-I/D-3713

Dated: 25-02-2004

CIRCULAR NO-847

Sub: Safeguarding of assets taken over under Section 29 – HO cases

The cases where the sanction exceed Rs.75.00 lakhs but located outside Bangalore is monitored by the HO Recovery Department. In case of defaulting units action under Sec.29 is being taken by taking over units and watch & ward is being posted to safeguard the assets. At present, the keys of the taken over units are being handed over to the branches for the purpose of opening of the units for inspection whenever the need arises. But the bills regarding watch and ward are being processed at HO for payment. It is reported now and then that thefts are taking place in the units and it has become difficult for the HO Recovery Department to monitor the cases as the units are located at far off places like Gulbarga, Bidar, Belgaum and it is also seen that branch office is not monitoring any aspect other than opening the units for inspection. The matter has been discussed in detail and it is now decided that once the unit is taken over under Sec.29 in respect of HO cases, the Department will be taking the necessary formalities like drawing the Mahazar, posting the guards, entering the agreement with the security agency and handing over the keys to the branch. The branch will have the responsibility of monitoring the units as follows:

- (a) to make surprise inspections to verify whether the appointed security guards are available at the unit and are looking after the assets of the unit;
- (b) to make the payments to the security agency as per the agreement;
- (c) to open the units for inspection at the direction of the HO Recovery Department whenever the need arises;
- (d) to submit quarterly performance evaluation report in respect of Security Agency as per the format enclosed;

- (e) to open the unit once in 6 months and verify the assets available as per the Mahazar and redraw the mahazar. In case there are any missing assets, police complaint has to be lodged against the security agency and also to deduct the value of the machinery/assets and recover the same from the agency.

This procedure will come into effect immediately.

Sd/-,
EXECUTIVE DIRECTOR (OPERATIONS)

ANNEXURE-XIX(A) (continued)

**FORMAT FOR EVALUATION OF SECURITY AGENCIES
(Separate format to be used for each unit)**

<i>Sl. No.</i>	<i>Particulars</i>	<i>Details</i>
1.	NAME OF THE SECURITY AGENCY	
2.	NAME OF THE UNIT	
3.	DATE OF TAKE OVER	
4.	DATE OF VISIT	
5.	PURPOSE OF VISIT	
6.	NAME OF OFFICERS / OFFICIALS VISITED	
7.	NAME OF SECURITY PERSONNEL AVAILABLE	
8.	DATE OF MAHAZAR COMPARED WITH	
9.	EVALUATION	
10.	SIGNATURE OF OFFICER	
11.	SIGNATURE OF HOD / BRANCH MANAGER	

ANNEXURE – XIX(B)

KSFC/HO/CMD/ED (F)/813 /2010-11

date: 15.10.2010

CIRCULAR No.921

*Sub: Sale of secured assets through e-auction
- fixing of reserve price / delegation of powers.*

Ref: 1) Circular No.901 dated 9.4.2010

2) Circular No.901 (A) dated 15.4.2010

As you are aware, the Corporation has introduced the system of bringing the secured assets for sale through e-auction which are taken over under Section 29 of SFCs Act / SARFAESI Act. In this regard, detailed guidelines are issued vide above referred circulars. The progress made in this regard was reviewed in the BMs / ZMs meeting held on 13.08.2010. It was observed that due importance has not been given for sale of assets through e-auction. It was noted that out of 260 cases in the Section 29 category, only 78 cases have been brought for sale through e-auction. Further, it is observed that under e-auction, indicating the reserve price is mandatory and sale cannot be concluded below the reserve price. On this point, the Departmental Heads and BMs requested that fixation of reserve price needs to be rationalized.

In this regard, a note was placed before the Board in its meeting held on 30.09.2010. The Board took note of the suggestions detailed in the note. After examining the suggestions, the Board approved the adoption of the following guidelines for fixing the reserve price while bringing the asset for sale through e-auction.

Sl. No.	Criteria	Reserve Price
1	In respect of assets brought for sale for first 03 times through e-auction	SR value or market value, whichever is higher.
2	In respect of assets brought for sale more than 03 times and upto 05 times through e-auction	SR value or highest offer received earlier whichever is higher.
3	In respect of assets brought for sale more than 05 times through e-auction	Highest offer received on earlier occasions, if the highest offer received is more than 75% of SR value which shall be approved by EDs. However, CMD may approve the guidance value lesser than the above value on case to case basis on merits.
4	In respect of assets brought for sale on more than 08 times through sale procedure other than e-auction	(a) SR value or market value, whichever is higher for first time under e-auction. (b) For second and subsequent attempts under e-auction, highest offer received on earlier occasions, if the highest offer received is more than 75% of SR value which shall be approved by EDs. However, CMD may approve the guidance value lesser than the above value on case to case basis on merits.
5	In respect of cases where the difference between SR value and market value is more than 100% of SR value and no offers are received for the first three attempts under e-auction.	The formula of $(2x+1y) / 3$ to be adopted, where 'x' is market value and 'y' is SR value to determine the guidance value.

The Board approved the implementation of the above guidelines for fixing the reserve price while bringing the assets for sale through e-auction and empowered the concerned General Managers to give approvals for confirmation of sale under e-auction, strictly as per norms. However, the concerned Departmental Heads / Branch Managers shall submit a monthly report for review and audit to the concerned EDs.

The above guidelines for fixing the reserve price (guidance value) are also applicable to public auctions conducted by Special Tahsildar of

KSFC under Section 32(G) of SFCs Act and KPM (RD) Act, depending upon the number of times the asset brought for sale under public auction.

The Board also approved the proposal for opening a help desk in the premises of all the BOs and Head Office to facilitate those bidders who may not have net facility to participate in the e-auction. An officer / official shall be earmarked as the nodal person for this purpose. However, in respect of HO, the Head of EG Department shall be the nodal officer. These nodal officers should be trained on the e-auction procedure. A dedicated computer together with accessories should be allocated for this purpose.

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

Sd/-

CHAIRMAN & MANAGING DIRECTOR

ANNEXURE – XIX(C)

Ref: KSFC/HO/MD/legal/C-686/2011-12

18.5.2011

CIRCULAR - 894

Sub: Guidelines for Sale of assets under Sec.29 of SFC's Act.

The Supreme Court by its judgement dated 14.3.2011 in the case of Kerala Financial Corporation Vs. Vincent Paul & another has made certain observations regarding the procedure to be followed while selling the properties under Sec.29 of SFC's Act. A copy of the judgement is enclosed to this circular.

The Supreme Court has observed that the Central Government has not yet framed rules under the SFC's Act laying down the procedures to be followed for sale of assets under Sec.29 of SFCs Act. Till such time the Central Government frame rules in this regard, the Supreme Court in the said judgement has laid down the procedure that has to be followed by the State Financial Corporations. The directions issued by the Supreme Court is extracted and annexed to this circular.

The concerned are hereby advised to follow the guidelines laid down by the Supreme Court meticulously while bringing the properties for sale under Sec.29 of SFC's Act.

As regards Point No. (viii) in the observations, the Corporation is already issuing letter to the Borrower enclosing a copy of the sale notification which contains details of the reserve price etc., To meet the requirements of direction No. (viii), we may also include in the said letter the details of the valuation arrived at by the Corporation and give an opportunity to the borrower to participate in the bid.

Henceforth, in all cases where assets are brought for sale under Sec.29 of SFC's Act the directions given by the Supreme Court in the above referred case may strictly be followed.

This comes into force with immediate effect.

sd/-

MANAGING DIRECTOR

GUIDELINES OF SUPREME COURT / PROCEDURE TO BE FOLLOWED WHILE SELLING THE PROPERTIES UNDER SEC.29 OF SFCS ACT.

(i) The decision / intention to bring the property for sale shall be published by way of advertisement in two leading newspapers, one in vernacular language having sufficient circulation in that locality.

(ii) Before conducting sale of immovable property, the authority concerned shall obtain valuation of the property from an approved valuer and in consultation with the secured creditor, fix the reserve price of the property and may sell the whole or any part of such immovable secured asset by any of the following methods:

(a) by obtaining quotations from the persons dealing with similar secured assets or otherwise interested in buying such assets; or

(b) by inviting tenders from the public ; or

(c) by holding public auction ; or

(d) by private treaty.

Among the above modes, inviting tenders from the public or holding public auction is the best method for disposal of the properties belonging to the State.

(iii) The authority concerned shall serve to the borrower a notice of 30 days for sale of immovable secured assets.

(iv) A highest bidder in public auction cannot have a right to get the property or any privilege, unless the authority confirms the auction sale, being fully satisfied that the property has fetched the appropriate price and there has been no collusion between the bidders.

(v) In the matter of sale of public property, the dominant consideration is to secure the best price for the property to be sold. This can be achieved only when there is maximum public participation in the process of sale and everybody has an opportunity of making an offer. It becomes a legal obligation

on the part of the authority that property be sold in such a manner that it may fetch the best price.

(vi) The essential ingredients of sale are correct valuation report and fixing the reserve price. In case proper valuation has not been made and the reserve price is fixed taking into consideration the inaccurate valuation report, the intending buyers may not come forward treating the property as not worth purchase by them.

(vii) Reserve price means the price with which the public auction starts and the auction bidders are not permitted to give bids below the said price, i.e., the minimum bid at auction

(viii) The debtor should be given a reasonable opportunity in regard to the valuation of the property sought to be sold, in absence thereof the sale would suffer from material irregularity where the debtor suffer substantial injury by the sale

ANNEXURE – XX

**FORMAT OF SALE PUBLICATION / ADVERTISEMENT FOR SALE OF
ASSETS TAKEN OVER UNDER SECTION 29**

KARNATAKA STATE FINANCIAL CORPORATION
..... OFFICE

Assets of M/s..... situated at taken over by the Corporation under Section 29 / SARFAESI Act of the State Financial Corporations Act 1951 are available for sale on 'AS IS WHERE IS CONDITION' THROUGH E-AUCTION.

Name of the Borrower:

Name of the secured creditors:

Details of the assets for sale:

LAND

BUILDING

PLANT & MACHINERY

Reserve Price: Rs.

EMD : Rs.

Date & Time of inspection of the assets:

Commencement of e-auction: Date & Time :

Closure of e-auction : Date & Time :

Last date to pay EMD & to obtain bid key from e-procurement cell : Date & Time

Terms and conditions: The comprehensive terms and conditions considering joint finance cases and official liquidator is enclosed. This may be suitably modified to suit the needs of the individual cases.

HOD / BRANCH MANAGER

ENCLOSURE TO ANNEXURE XX
KARATAKA STATE FINANCIAL CORPORATION
Head /Branch Office.

Ph: _____, **Fax:** _____ **Website:**www.ksfc.in

1. M/s. Karnataka State Financial Corporation in association with other financial institutions (if any) / the Official Liquidator*(if applicable), attached to the Hon'ble High Court of Karnataka and unit name **M/s._____**(hereinafter referred to as the said unit/firm/company) and the sale is under Sec 29 of SFCs' Act 1951 and the sale is through e - auction.

* If the unit is under the purview of OL, the details such as court order details wherein permission is given for sale of the assets and other details to be mentioned suitably.

2. Inspection of the land measuring _____ (leasehold rights from KIADB if applicable) offered for auction situated at _____ to be held on _____ between _____am and _____ pm. Persons interested in purchase of above assets may inspect the same on the date and time mentioned above. In the event of the intending purchasers, failing to take inspection or being unable for any reason to take inspection on the date so fixed for such inspection the intending purchaser shall be deemed to have taken inspection of the said property.

3. The EMD is of Rs._____. EMD will not carry any interest.

4. **e-auction will commence** : from _____ at _____ am and close by _____ at _____ pm.

5. The sale is on "AS IS WHERE IS AND WHATEVER THERE IS BASIS ". The rule of Caveat Emptor is applicable.

6.The offerers prior to submitting their offers for assets are expected to visit and inspect the same at the site at their expenses as the same are being offered to be sold on "AS IS WHERE IS AND WHATEVER THERE IS BASIS ". They should ascertain on their own, all informations of the assets under sale.

7. It shall be presumed that all the facts were taken into account by the offerer while submitting their offers. The offerer shall be deemed to have full knowledge of the assets, whether he inspects it or not.
8. The assets will be sold on "AS IS WHERE IS AND WHATEVER THERE IS BASIS ". This is to say, the offerer(s) will be deemed to have made themselves aware of the physical condition, dimension, size etc., of the assets by inspecting the assets before submitting their offer and no complaint/ claim in this regard will be entertained by KSFC / Official Liquidator /Financial Institutions/Banks or High Court after the submission of the offer.
9. The sale of assets being made by M/s Karnataka State Financial Corporation is and as such shall not relieve the directors or any persons who may be liable to the secured creditors as guarantors or otherwise.
10. M/s Karnataka State Financial Corporation / Official Liquidator,/ Financial Institutions and the Hon'ble High Court of Karnataka , Bangalore do reserve their right to accept or reject any offer without assigning any reasons thereof. (The sale shall be subject to confirmation by the Hon'ble High Court of Karnataka and the decision of the Court shall be binding on all the parties in respect of OL cases).
11. The highest offerer in the inter-se bidding shall not be eligible to withdraw his offer till the finalisation of sale proceedings (by the Hon'ble High Court of Karnataka, if applicable) and shall not be entitled to damage interest on the Earnest Money Deposit.
12. The EMD's of the unsuccessful offers will be returned within one month from the closure date of e-auction, by way of cheque / RTGS only. The EMD's will not carry any interest.
13. The final offers so received will be placed before the competent authority (Hon'ble Court in case of OL cases) for sanction/acceptance or otherwise and the intimation of acceptance, if sanctioned shall be given to the offerer within one week from the date of sanction of sale of the assets. The offerer shall pay balance purchase consideration within 15 days from the date of final acceptance of the particular offer.

14. After the closure of e-Auction, the successful bidder will be intimated through e-mail to pay 25% of the bid amount (including EMD) before closing hours of the same working day and the sale is subject to the approval of the Competent Authority. In case the successful bidder fails to pay this amount within the stipulated time, the EMD paid by him will be forfeited without further notice. In respect of unsuccessful bidder, the EMD amount will be refunded.

15. After receipt of the initial amount of 25% as above, the offer will be sent for approval of the Competent Authority. Only after obtaining the approval of the Competent Authority, the confirmation of sale will be communicated to the bidder. If the sale is not confirmed by the Competent Authority, the amount deposited will be refunded without interest. No right accrues on mere submission of bid or deposit of 25% of the bid amount. The balance 75% of the bid amount shall be paid within 15 days from the date of communication confirming the sale. In case, the bidder fails to pay the balance amount within the stipulated time, the amount paid by him will be forfeited and sale will be cancelled.

16. If the purchaser does not pay the balance amount of purchase consideration to M/s Karnataka State Financial Corporation, in time, M/s Karnataka State Financial Corporation / Official Liquidator / KSIIDC shall terminate the sale and forfeit the deposit. The intending purchaser shall not retreat from offers made by them after M/s Karnataka State Financial Corporation accepts it.

17. As from the date of confirmation of sale of the assets sold to the purchaser, it shall be at their sole risk, cost and on account of the purchaser as regards the destruction or any damage by fire or otherwise whatsoever it may be.

18. If the purchaser fails to pay the purchase money payable by him to the M/s Karnataka State Financial Corporation within the time specified herein above and fails to adhere to the terms and conditions of sale, then the entire amount deposited by him / her till then shall be forfeited and M/s Karnataka State Financial Corporation / Official Liquidator / KSIIDC Ltd., shall be at liberty to sell the assets by conducting sale by auction.

without being bound to give previous notice in writing of its intention to sell the assets at such time and subject to such conditions and in such manner in all respects as Karnataka State Financial Corporation / Official Liquidator / KSIIDC Ltd., shall think proper with due sanction and orders of the Hon'ble High Court of Karnataka, Bangalore, as may be applicable. The deficiency in price, if any occasioned by such second sale and all costs, charges and expenses occasioned by such subsequent sale or any attempted second sale with interest thereon as may be fixed by the Hon'ble Court from the date of confirmation of the first sale shall immediately to such subsequent sale be made good and paid by the defaulting purchaser by way of liquidated damages while any profit of such subsequent sale shall not belong to such defaulting purchaser.

19. Conditional offers and incomplete offers will not be entertained by KSFC/OL/KSIIDC.

20. In case, the sale is not confirmed or is set aside on any ground whatsoever, the highest offerer / purchaser shall be entitled to refund of his deposit or EMD as the case may be without interest and shall not be entitled to be paid his costs, charges and expenses occasioned by his offer for the sale of the property not be declared as purchaser thereof and incidental to the sale nor shall be entitled to any compensation / damages whatsoever.

21. Any outstanding dues such as Income-Tax, Sales Tax, Central Excise Duty, or any other taxes / dues payable by the company to any Government/ Semi Government Organisation and local bodies will be borne by KSFC/KSIIDC out of the sale proceeds as per law. *

* This may be suitably modified on case to case basis with the approval of the competent authority.

22. (a) On approval of sale in favour of the successful bidder by the Hon'ble High Court / competent authority, KSFC will issue sale communication confirming the sale of the property subject to additional terms and conditions, if any, laid out in the matter while approving the sale.

(b) On compliance of the terms and conditions of sale, receipt of sale

price in full, possession of the assets will be handed over to the purchaser by KSFC.

(c) Thereafter, KSFC will request KIADB (in respect of KIADB properties) to transfer the land in the name of the purchaser by executing lease-cum-sale agreement / sale deed upon compliance of the terms and conditions of allotment by KIADB in terms of MOU between KSFC and KIADB. The purchaser shall bear all the expenses including stamp duty, registration charges, etc., thereof towards getting the sale deed executed.

23. The owner of the above properties may also bring offers from interested buyers.

24. The Corporation reserves the right to accept or reject any offer without assigning any reason.

25. Interested persons may seek any additional information required and other usual terms and conditions of sale at the time of inspection or may contact the undersigned.

Date: _____

Place : _____

Authorised Officer.

ANNEUXRE – XXI (A)

**FORMAT OF LETTER TO BORROWER ON RELEASED
ADVERTISEMENT CALLING FOR OFFER FOR ASSETS TAKEN OVER
UNDER SECTION 29 / SARFAESI ACT.**

KARNATAKA STATE FINANCIAL CORPORATION
..... OFFICE

BY: R.P.A.D.

M/s.....

.....

.....

Dear Sirs,

Sub : Release of sale publication for sale of your
unit taken over u/s.29 of SFC's Act.

~~~~~

This is to inform you that the Corporation has released a sale  
publication in the following news papers as per the copy enclosed.

1.

2.

The sale publication has already appeared as mentioned above.  
You can also persuade any interested parties to send their offers in  
response to the paper publication. A copy of the sale publication is  
enclosed herewith for your reference.

Thanking you,

Yours faithfully,

HOD / BRANCH MANAGER

Encl : Copy of the paper advertisement

cc : All the promoters / Guarantors / sureties

**ANNEXURE- XXI (B)**

**KARNATAKA STATE FINANCIAL CORPORATION**

Ref : KSFC : ED:L-R: 455 : D 4605

Date : 14-07-1993

**CIRCULAR NO.455**

Subject : Intimation to loanees of units taken over under Section 29 by sending a copy of paper clipping of the sale advertisement.

-:O:-

It has come to the notice of head office that a xerox copy of the paper clipping of the sale advertisement appearing in the news papers is not sent in all the cases to the loanees whose units' are taken over under Section 29 and assets are brought for sale by sale advertisement. It may, however, be possible that the officers are intimating the loanees as to the release of paper publication and also to pursue any interested parties to send their offers.

All the concerned recovery officers are hereby asked, in addition to the existing procedure, to intimate the loanees about the paper publication of sale advertisement by sending a xerox copy of the paper publication of the sale advertisement and inviting them to pursue the interested parties to send their offers to KSFC. This should be religiously observed.

Sd/-

EXECUTIVE DIRECTOR.

**ANNEXURE NO. - XXII**

**FORMAT OF SALE NOTE TO BE PUT UP FOR APPROVAL  
OF THE COMPETENT AUTHORITY**

**NAME OF THE UNIT :**

|                                               |                                |                                     |                       |       |
|-----------------------------------------------|--------------------------------|-------------------------------------|-----------------------|-------|
| 1. Name of the Department                     |                                |                                     |                       |       |
| 2. Name & Address of the unit and Account No. |                                |                                     |                       |       |
| 3. Constitution                               |                                |                                     |                       |       |
| 4. Name of the promoters                      |                                |                                     |                       |       |
| 5. Name of the guarantors                     |                                |                                     |                       |       |
| 6. Loan sanction<br>KSFC<br>KSIIDC            | Date of sanction               | Amount sanctioned<br>(Rs. in lakhs) | Sanctioning authority |       |
| 6. Total Amount disbursed                     | KSFC : lakhs<br>KSIIDC : lakhs |                                     |                       |       |
| 7. Type of Activity                           |                                |                                     |                       |       |
| [Rs.in lakhs]                                 |                                |                                     |                       |       |
| 8. Overdues position as on<br>KSFC<br>KSIIDC  | Principal                      | Interest                            | O.D                   | Total |
| 9. Recovery so far made KSFC                  | Principal                      | Interest                            | O.D                   | Total |
| 10. Date of takeover of unit under Sec.29     |                                |                                     |                       |       |

|                                                                         |                  |               |  |
|-------------------------------------------------------------------------|------------------|---------------|--|
| 11. Details of Primary security                                         | Rs. in lakhs     |               |  |
| <b>A] Primary Security</b>                                              | Memorandum value | Present value |  |
|                                                                         |                  |               |  |
| [i] Land                                                                |                  |               |  |
| [ii] Building                                                           |                  |               |  |
| [iii] Machinery                                                         |                  |               |  |
| 12.Assets brought for sale now through e-auction(primary)               |                  |               |  |
| 13.Date of sale publication under process                               |                  |               |  |
| 14.No. Of advertisements made earlier including the current one by KSFC |                  |               |  |

**Details of earlier Sale advertisements:**

a) Advertisement made by KSIIDC:( if applicable)

| Sl. no. | Date of publication | Offers received | Highest offer received |
|---------|---------------------|-----------------|------------------------|
|         |                     |                 |                        |

(b) Advertisement made by KSFC:

| Sl. no. | Date of publication | Offers received | Highest offer received |
|---------|---------------------|-----------------|------------------------|
|         |                     |                 |                        |

|                                              |  |
|----------------------------------------------|--|
| 14. Description of assets : Location         |  |
| 15.Date of e-auction                         |  |
| 16.Offers received during previous e-auction |  |

**17.Details of present offers:**

| S.No. | Name of the offerer | Offered Amount | Terms of payment |
|-------|---------------------|----------------|------------------|
|       |                     |                |                  |

**18.BACKGROUND:**

**19.EFFORTS MADE TO SELL THE PRIMARY ASSETS:**

**20.DETAILS OF THE PRESENT SALE ADVERTISEMENT & BIDS:**

**21.RECOMMENDATIONS OF SALE:**

The proposal for sale of land and building/ plant and machinery is recommended subject to the following terms and conditions.

1]Sale is on 'AS IS WHERE IS AND WHAT IS BASIS'

2]The purchase price shall be exclusive of the following dues which shall be borne separately by you:

a] Dues to KPTCL / ESCOM/ Sales Tax & Other statutory dues.

b] Property tax arrears if any to local authorities.

c] Stamp duty and Registration fees payable at the time of registration of the property.

3]The purchase price shall be payable as under:

a] 25% of sale price [including EMD of Rs. ....] shall be paid within 24 hours from the closure of the e-auction.

b] Balance 75% of sale price of Rs.\_\_\_\_\_ shall be paid within 30 days from the date of intimation of acceptance of offer.

4]The possession of the land and building on “ **As is where is and What is Basis**” shall be delivered only after the full purchase price is paid.

5] The sale deed shall be obtained within 30 days from the date of full payment is made.

6]The purchase price is subject to approval by competent authority and concurrence of KSIIDC/Financial Institutions (if any).

**22.Further course of action proposed to recover the balance amount:**

Manager(R)

BM / HOD

**ANNEXURE NO. XXIII**  
**(LETTER TO COMMUNICATE DECISION TO AGREE TO SELL THE**  
**PROPERTIES THROUGH E-AUCTION)**

To

\_\_\_\_\_  
\_\_\_\_\_

RPAD

Dear Sir,

Sub: Sale of primary assets of M/s\_\_\_\_\_ .

Ref: 1.Your offer to purchase the assets in e-auction in response to sale notification dated \_\_\_\_\_

2.Your letter dated \_\_\_\_\_.

With reference to the above, we are pleased to inform you that your offer for purchase of the assets of the captioned company / firm / unit located at \_\_\_\_\_ in response to e-auction sale notification dated \_\_\_\_\_ for Rs. \_\_\_\_\_ (Rupees \_\_\_\_\_) is accepted by the Corporation subject to the terms and conditions enumerated in the sale notification and the following:

1]Sale is on 'AS IS WHERE IS AND WHAT IS BASIS'.

2]Details of assets sold are industrial land at \_\_\_\_\_ measuring \_\_\_\_\_ industrial buildings thereon and the plant and machinery as notified. (as the case may be)

3] The sale price is Rs. \_\_\_\_\_, out of which you have paid 25% of the sale amount i.e. Rs. \_\_\_\_\_

4] Balance 75% of sale price i.e. Rs. \_\_\_\_\_ shall be paid within \_\_\_\_\_ days from the date of receipt of this letter.

5] The possession of the land, building and plant and machinery shall be given only after the payment of balance amount in full.

6] KIADB dues will be paid by KSFC & KSIIDC/Financial Institutions (based on case to case basis and depending upon e-auction condition). (If applicable)

7] The purchaser shall pay:

a] Dues to KPTCL / ESCOM/ Sales Tax & Other statutory dues.

b] Property tax arrears if any to local authorities.

c] Stamp duty and Registration charges, etc., payable at the time of registration of the property.

8] The purchase price is subject to approval by competent authority and concurrence of KSIIDC (if applicable).

9] In case of default of payment of the balance amount as stated above within the stipulated period, the sale stands automatically cancelled and part payment made by you including EMD amount i.e. Rs. \_\_\_\_\_ will be forfeited without any further notice.

10] The registration of the property should be completed within 30 days from the date of final payment of the sale.

You are requested to communicate your acceptance for the above and remit the entire sale amount within the stipulated period failing which the part amount paid till date by you will be forfeited and the sale will be cancelled as detailed above.

Kindly acknowledge receipt of the letter.

Thanking you,

Yours faithfully,

BM / HOD

**ANNEXURE – XXIV(A)**

(LETTER TO BE ISSUED BEFORE HANDING OVER THE POSSESSION  
OF THE ASSETS SOLD U/S.29 OF SFC'S ACT)

**DELIVERY NOTE**

Sub : Sale of Assets of M/s.  
Ref : Our letter No.        dated  
~~~~

In pursuance of the decision for sale, the assets of M/s.....
located at as described here under has been sold to
..... (purchaser). The possession of the said assets described
below has been given to the purchaser on "AS IS WHERE IS" and "WHAT
IS" basis on

ANNEXURE

(Description of property)

All that piece and parcel of the property bearing, measuring
together with structures, fittings and fixtures thereon consists of
and bounded on the :

- East by :
- West by :
- North by :
- South by :

(List of machinery and equipments)

| No. | Description | Quantity |
|-----|-------------|----------|
| 1 | | |
| 2 | | |

HOD / BRANCH MANAGER

To :

Purchaser

ANNEXURE – XXIV(B)

LETTER OF ACKNOWLEDGEMENT TO BE RECEIVED FROM THE BUYER
OF THE UNIT SOLD UNDER SECTION 29.

To,

M/s. Karnataka State Financial Corporation
.....
.....

ACKNOWLEDGEMENT

I / We received the possession of the following assets from you in 'AS IS
WHERE IS CONDITION" for which I/we entered agreement for sale.

SCHEDULE-A

(Description of land and building)

SCHEDULE-B

(Description of Plant and Machinery)

Place :

Date :

For M/S.....

Purchaser Name and Signature

ANNEXURE-XXV

Ref: No.KSFC/GM (O)/R/L/394/D1494

Dated: June 2,1992

CIRCULAR NO-394

Sub: Litigation matters and expeditious steps

During the recent Budget Meetings, the Managing Director expressed the need for vigorous follow up and constant review of litigation matters that are pending in various Courts in order to avoid any avoidable delays to receive the decisions from the respective Courts. Therefore the following steps shall be taken in respect of litigation matters

1. Soon after the receipt of the Court Notice, Plaint, Writ petition, application, CRP, MFA, Complaints, etc., from the Courts or Authorities the concerned Recovery Officer who is handling the case shall prepare parawise remarks quoting and flagging relevant documents/papers and submit within 15 days to the concerned Legal Adviser/ Local Counsel/Advocate who has been entrusted within the matter through concerned Manager (Legal) or Deputy Manager (Legal).
2. In any pending matter if additional information is required the same shall be given by the concerned Recovery Officer to the Legal Adviser/ Local Counsel/ Advocate without any delay through Manager (Legal) or Deputy Manager (Legal).
3. If in any file which is in the stage of pre-recovery the concerned officer of the Inspection, Disbursement and Monitoring Department, shall provide the information within 15 days to the Legal Adviser/ Local Counsel/ Advocate who has been entrusted with the matter through concerned Manager (Legal) or Deputy Manager (Legal).
4. The Manager (Legal) or the Deputy Manager (Legal) of the HO/BOs shall thereafter keep constant touch with the Legal Adviser/ Local Counsel/ Advocate and follow up with him the matters constantly and see that the matter shall not suffer delay for want of information, documents, evidence etc., required by the concerned Legal Adviser/ Local Counsel/ Advocate. If such information documents, evidence

etc., are needed the same shall be immediately brought to the notice of the concerned Recovery Officer and also the Head of the Branch/ Section for ensuring the submission/ giving of the same without any delay to the concerned Legal Adviser/ Local Counsel/Advocate/Court.

5. The Deputy General Manager (Recovery) in Head Office and the Zonal Managers shall review periodically, the litigation matters if need be along with concerned officers, Legal Adviser/ Local Counsel/ Advocate and Special Tahsildars with respect to the matters concerned to them.

Sd/-

General Manager (O)

ANNEXURE - XXVI

CIRCULAR

KSFC/HO/MD/C-3718/2013-14

31-10-2013

Sub : **Action under SARFAESI Act.**

- Ref: 1) CircularNo.KSFC/HO/MD/103/2004-05
dated 14-2-2005.
- 2) Circular No.KSFC/HO/MD/ED(F)/1273/2008-09
dated 7-11-2008. (Circular No.840).
- 3) Circular No.MD/Legal/1088/C-2993/2010-11,
dated 8-11-2010.
- 4) Circular No.KSFC/HO/MD/Legal-1170/C-4096/
2010-11, dated 20-1-2011.

The Corporation is initiating action against Secured Assets mainly in the form of collateral security under the provisions of SARFAESI Act. Detailed guidelines on the procedures to be followed in compliance of the provisions of the SARFAESI Act have been issued earlier under the Circulars referred above.

It has come to the notice of the Management that in many of the cases where action is initiated under the provisions of SARFAESI Act, the said action is challenged before the DRT taking plea that Corporation has not followed the procedure prescribed under the provisions of SARFAESI Act. In a few cases this has led to the sale conducted by the Corporation being set aside. In the event of sale being set aside, it could involve cancellation of Sale Deed executed by the Corporation, refund of sale proceeds to the purchaser along with interest on the said purchase price besides reversing of entries already made on the basis of the sale.

In order to avoid such a situation, all the concerned are hereby instructed to follow the provisions of SARFAESI Act while taking action under the said Act. SARFAESI Act has been amended during the year 2013 the amendments introduced need to be taken note of.

The steps that need to be followed are highlighted in Annexure enclosed to this circular, for strict compliance.

MANAGING DIRECTOR

All the BM's / AGM's
DGMs Audit Cells,
HOD's in Head Office
General Managers
Executive Directors

Continuation to Annexure XXVI

STEPS TO BE FOLLOWED WHILE INITIATING ACTION
UNDER SARFAESI ACT

1. The account has to be classified as an NPA. **Sec.2(1)(o) of SARFAESI Act**
Definition of NPA as per the Sec.2(1)(o) of SARFAESI Act is -

“**non-performing asset**” means an asset or account of a borrower, which has been classified by a bank or financial institution as sub-standard, [doubtful or loss asset,-

(a)in case such bank or financial institution is administered or regulated by any authority or body established, constituted or appointed by any law for the time being in force, in accordance with the directions or guidelines relating to assets classifications issued by such authority or body;

(b)in any other case, in accordance with the directions or guidelines relating to assets classifications issued by the Reserve Bank;]

2. Demand notice under Sec.13(2) of SARFAESI Act needs to be issued to the owner of the Secured Asset.

Note: (Notice shall give details of amount payable by the borrowers and the secured assets intended to be enforced for non payment)

**DEMAND NOTICE
U/S 13(2)of
SARFAESI Act
read with Rule 3
of SI(E) Rules
FORMAT I(a) or I(b)
AS APPLICABLE**

3. **Rule 3(1)** Demand notice has to be issued by Registered Post to the owner of Secured Asset with a copy marked to the Borrower.
Rule 3(2) Where the borrower is a body

Corporate (Company) the demand notice shall be served on the registered office of the Company. **Rule 3(4)** Where there are more than one borrower, the demand notice shall be served on each borrower. Office copy and acknowledgments are to be filed properly as the same will have to be produced before DRT / Court if the owner of the property approaches Court against the recovery action.

**Sec.13(2)of SARFAESI Act read with Rule 3 of SI(E) Rules
FORMAT I(a) or I(b) AS APPLICABLE**

4. If service of notice is not effected, then **within 7 days** from receipt of the unserved RPAD covers, service of notice is to be effected by affixing a copy of the demand notice in a conspicuous place of the Secured Asset, a photograph of the notice pasted on

**Rule 3 of Security Interest (Enforcement) Rules, 2002
FORMAT-1(c)**

the premises to be obtained **AND** the contents of the demand notice also to be published in two leading newspapers, one in vernacular language having sufficient circulation in the locality.

5. If any objection to the notice is received **within 60 days** from issue of the notice/ publication of notice, the Authorised Officer **SHALL** consider such representation or objection and if the same is not acceptable or tenable, the Authorised officer **SHALL** communicate within **FIFTEEN DAYS** of receipt of such objection the reasons for nonacceptance of the objection to the owner of the security.

**Sec.13(3A) of SARFAESI Act
(As amended) w.e.f. 15-1-2013**

6. If the debtor fails to discharge the liability in full **within 60 days** the Authorised Officer shall proceed to take possession of the secured

Sec.13(4)(a) read with Rule 8(1) of SI(E) Rules

asset by delivering Possession Notice to the owner **AND** also by affixing Possession Notice on the outer door or conspicuous place of the property, a photograph of the notice pasted on the premises to be obtained.

**POSSESSION
NOTICE**

FORMAT – II

Note:(Possession to be taken only after expiry of 60 days mentioned in Sec.13(2) notice. If the notice is not served, then 60 days shall have to be reckoned from the date of paper publication)

**PUBLICATION OF
POSSESSION
NOTICE
MANDATORY**

7. The Possession Notice **SHALL** also be published in two leading newspapers, one in vernacular language having sufficient circulation in the locality. The Possession Notice shall be published as soon as possible, but in any case not later than **SEVEN days** from the date of taking possession.

FORMAT-II

**Rule 8(2) of SI(E)
Rules**

**Sec.14(1) of
SARFAESI Act**

(Vernacular language to mean Kannada / or local language. Matter should be published in Kannada/ local language in Kannada / local language newspaper)

8. **Sec.14(1)**Where the possession of any secured asset is required to be taken by the secured creditor or if any of the secured asset is required to be sold or transferred by the secured creditor under the provisions of this Act, the secured creditor may, for the purpose of taking possession or control of any such secured asset, request, in writing, the Chief Metropolitan Magistrate or the District Magistrate within whose jurisdiction any such secured asset or other documents relating thereto may be situated or found, to take

**As amended w.e.f.
15-1-2013**

possession thereof, and the Chief Metropolitan Magistrate or as the case may be, the District Magistrate shall, on such request being made to him-

**As amended w.e.f.
15-1-2013**

(a) take possession of such asset and documents relating thereto; and

(b) forward such asset and documents to the secured creditor;

Provided that any application by the secured creditors shall be accompanied by an Affidavit duly affirmed by the authorised officer of the secured creditor, declaring that-

**Rule 8(5) of SI(E)
Rules**

(i)the aggregate amount of financial assistance granted and the total claim of the Bank as on the date of filing the application;

(ii)the borrower has created security interest over various properties and that the Bank or Financial Institution is holding a valid and subsisting security interest over such properties and the claim of the Bank or Financial Institution is within the limitation period;

(iii)the borrower has created security interest over various properties giving the details of properties referred to in sub-clause (ii) above;

(iv)the borrower has committed default in repayment of the financial assistance granted aggregating the specified amount;

(v)consequent upon such default in repayment of the financial assistance the account of the borrower has been classified as a non-performing asset;

**Rule 8(5A) as
amended w.e.f.
15-1-2013**

(vi) affirming that period of sixty days notice as required by the provisions of subsection(2) of section 13, demanding payment of the defaulted financial assistance has been served on the borrower;

(vii) the objection or representation in reply to the notice received from the borrower has been considered by the secured creditor and reasons for non-acceptance of such objection or representation had been communicated to the borrower;

**Rule 8(5B) as
amended w.e.f.
15-1-2013**

(viii)the borrower has not made any repayment of the financial assistance in spite of the above notice and the Authorised Officer is, therefore, entitled to take possession of the secured assets under the provisions of subsection (4) of section 13 read with section 14 of the principal Act;

(ix)that the provisions of this Act and the rules made thereunder had been complied with;

Provided further that on receipt of the affidavit from the Authorised Officer, the District Magistrate or the Chief Metropolitan Magistrate, as the case may be, shall after satisfying the contents of the affidavit pass suitable orders for the purpose of taking possession of the secured assets;

provided also that the requirement of filing affidavit stated in the first proviso shall not apply to proceeding pending before any District Magistrate or the Chief Metropolitan Magistrate, as the case may be, on the date of commencement of this Act.

[(1A) The District Magistrate or the Chief Metropolitan Magistrate may authorise any officer subordinate to him,-

(i) to take possession of such assets and documents relating thereto; and

(ii) to forward such assets and documents to the secured creditor]

9. Authorised Officer **SHALL** obtain valuation of property from Approved Valuer **AND** fix the reserve price of the property in consultation with Competent Authority.

**PUBLIC NOTICE
FOR SALE OF
PROPERTY WITH
DETAILS**

Note: (Valuation to be obtained from Approved Panel Valuer)

FORMAT-III

[(5A) Where the sale of an immovable property, for which a reserve price has been specified, has been postponed for want of a bid of an amount not less than such reserve price, it shall be lawful for any officer of the secured creditor, if so authorised by the secured creditor in this behalf, to bid for the immovable property on behalf of the secured creditor at any subsequent sale.

**Rule 8(6) of SI(E)
Rules**

(5B) Where the secured creditor, referred to in Sub-Section(5A), is declared to be the purchaser of the immovable property at any subsequent sale, the amount of the purchase price shall be adjusted towards the amount of the claim of the secured creditor for which the auction of enforcement of security interest is taken by the secured creditor, under sub-section(4) of section 13.

10. **[Within seven days]*** After taking possession the Authorised Officer shall issue a Public Notice for sale of property in two leading newspapers, one in vernacular language having sufficient circulation in the locality. The sale publication shall include the following terms of sale apart from other terms and conditions which may be stipulated based on the facts of the case.

**Rule 8(7) of SI(E)
Rules read with
Rule 9(1)&(2) of
SI(E) Rules**

**Rule 9(1) of SI(E)
Rules**

* These words are deleted.

(a) The description of the immovable property to be sold, including the details of the encumbrances known to the secured creditor;

Rule 9(2) proviso

(b) the secured debt for recovery of which the property is to be sold;

Note: (amount due prior to issue of notice to be indicated)

**Rule 9(3) of SI(E)
Rules**

(c) reserve price, below which the property may not be sold;

(d) time and place of public auction or the time after which sale by any other mode shall be completed, in case of e-auction, the details of conduct of e-auction;

**Rule 9(4) of SI(E)
rules**

(e) depositing earnest money as may be stipulated by the norms;

(f) any other thing which the Authorised Officer considers it material for a purchaser to know in order to judge the nature and value of the property.

**Rule 9(5) of SI(E)
Rules**

**Rule 9(6)
FORMAT-IV**

11. The notice of sale **SHALL** be fixed on a conspicuous part of immovable property brought for sale, and a photograph taken after affixture.

12. In case of paper publication, the sale **SHALL** take place after expiry of 30 days from the date on which public notice of sale is published in newspapers.

Note: (Sale process or e-auction shall begin only after expiry of 30 days after publication of Sale Notice).

13. No sale shall be confirmed if the amount offered by the bidders is less than the reserve price.

14. On being declared as the highest bidder, Purchaser shall immediately deposit 25% of the amount of sale price (including EMD) with the Authorised Officer. If the highest bidder fails to deposit 25% of the sale price, the property can be brought for sale once again.

15. The balance amount of purchase price is required to be paid by the purchaser to the Authorised Officer on or **before 15 days** of confirmation of sale of the immovable property or such extended period as agreed between the parties.

16. In case the purchaser defaults in paying either 25% amount or the balance amount, the amounts deposited shall be forfeited as the case may be (10% EMD OR 25% of deposit as the case may be) and the property shall be resold.

17. On confirmation of sale by the Confirming Authority and after receiving the entire payment, the Authorised Officer shall issue Certificate of Sale as per the format.

PS : Following shall be read along with para no. 10.

No sale of immovable property under these rules shall take place before the expiry of thirty days (30 days) from the date on which the public notice of sale is published in newspapers as referred to in the proviso to sub-rule (6) or notice of sale has been served to the borrower;

The sale shall be confirmed in favour of the purchaser who has offered the highest sale price in his bid or tender or quotation or offer to the authorized officer and shall be subject to confirmation by the secured creditor.

ANNEXURE - XXVII

[FORMAT OF SHOW CAUSE NOTICE UNDER KPM(RD) ACT]

(NOTE : MAY BE ALTERED/AMENDED DEPENDING ON THE REQUIREMENT)

To,

R.P.A.D.

Sir,

1. At your request the Corporation sanctioned to you term loan(s) of Rs..... (Rupees only) subject to the terms and conditions set out in the Corporation's letter(s) dated and accepted by you.
2. As security for the repayment of this loan you hypothecated your movable properties in favour of the Corporation and executed Hypothecation Deed dated You also entered into a loan agreement with the Corporation on incorporating the agreed terms and conditions therein.
3. Further at your request, Sriyuthsgave their personal guarantee for the repayment of the aforesaid loan and executed a deed of guarantee dated
4. As collateral security for the repayment of this loan Sri/Smt. mortgaged his/her immovable property bearing, by deposit of title deeds on He/she also entered into collateral security agreement with the Corporation on incorporating the agreed terms and conditions therein.
5. The entire amount of this loan was fully was released to you.
6. In spite of the agreed terms and conditions as well as pre-installment notices issued and post-installment demands made you have failed

to pay the amounts of installments that became due and payable as particularized in the annexed statement of account.

7. In view of the defaults committed by you and for the purpose of protecting its interest and public interest, we have no other alternative but to proceed against the assets secured to the Corporation.

The position of the loan account as on _____ is as under:

(Rs. In lakhs)

| |
|----------------|
| Loan balance |
| Principal dues |
| Interest dues |
| Other debits |
| Total |

Therefore, we hereby call upon you to show cause to the Managing Director of this Corporation within 10 days from the date of receipt of this letter as to why the Corporation should not initiate recovery action as contemplated under Sec.3 of the Karnataka Public Money's (Recovery of dues) Act, 1979, or Sec 32G of SFCs Act for recovery of the said dues as arrears of land revenue from you at your cost and risk.

Yours faithfully,

HOD / B M

ANNEXURE XXVIII

FORMAT OF LETTER TO DC FOR REFERRING RECOVERY UNDER KPM(RD) ACT.

Dear Shri.....

Sub: Recovery of loan amount due to the Corporation
from.....

I am sending herewith a certificate dated....., the two copies thereof issued by me under Sec.3(1) of the Karnataka Public Moneys (Recovery of Dues) Act, 1979 in respect of the above said party for further action at your end.

With kind regard,

Yours sincerely,

Sri..... I.A.S.,

Deputy Commissioner,

..... Dist.

FORMAT OF FORM I

(Part of Annexure – XXVIII)

Certificate under Sub-clause (C) and clause (D) of sub-section(1) of the Karnataka Public Money(Recovery) of Dues) Act, 1979.

WHEREAS Sri/Smt..M/s _____
proprietary concern/joint family concern/Partnership concern registered
under the Indian Partnership Act, 1932/Public Limited company/Private
Limited company incorporated and registered under the Indian Companies
Act, 1956 for having its place of business at
_____ and registered office at
_____ being an industrial concern / engaged in
_____ and represented by:

Hereinafter referred to as 'THE BORROWER'(which term shall unless
repugnant to the context or meaning thereof include the respective heirs,
executors, administrators, legal representatives, successors, in office and
assigns) borrowed a sum of Rs. _____
on _____ as financial assistance from the Karnataka
State Financial Corporation (for short KSFC), Head Office at No.1/1,
Thimmaiah Road, Bangalore-560 052 / Branch office _____ for
the purpose of establishing an industry for _____.

WHEREAS the borrower has made default in repayment of the loan and
has failed to comply with the terms of the agreement entered into with
the KSFC.

Now, therefore, I the undersigned hereby certify that the sum due by
the borrower to KSFC is Rs. _____ (Rupees
_____ only) as on
_____ with interest at _____ % p.a. on the
balance due as per Annexure-I.

Description of the loan given including the : Please see Annexure- I
Principal amounts

Description of the property Please see Annexure- II
Offered as security

DATED at Bangalore this _____ day of _____ 20 _____

MANAGING DIRECTOR
KARNATAKA STATE FINANCIAL CORPORATION
NO.1/1, THIMMAIAH ROAD, BANGALORE-560 052.

TO
THE DEPUTY COMMISSIONER
_____ DISTRICT.

Annexure – I

(Part of Annexure – XXVIII)

(TO THE CERTIFICATE OF M/S.....

STATEMENT OF ACCOUNT AS ON

MANAGING DIRECTOR
KARNATAKA STATE FINANCIAL CORPORATION
NO.1/1, THIMMAIAH ROAD, BANGALORE -560 052.

Annexure – II
(Part of Annexure – XXVIII)

(TO THE CERTIFICATE OF M/S.....)

SCHEDULE -A
(Description of land and building)

SCHEDULE -B)
(Details of Plant and Machinery)

SCHEDULE -C
(Details of collateral security of Guarantors/ sureties)

MANAGING DIRECTOR
KARNATAKA STATE FINANCIAL CORPORATION
NO.1/1, THIMMAIAH ROAD, BANGALORE -560 052

ANNEXURE- XXIX(A)

**FORMAT OF NOTE ON WITHDRAWAL OF RECOVERY PROCEEDINGS
UNDER KPM(RD) ACT.**

KARNATAKA STATE FINANCIAL CORPORATION
BRANCH OFFICE

(PROPOSAL FOR WITHDRAWAL OF DC CERTIFICATE)

| | | | |
|--|---------------|------------|----------------|
| 1. Name & address of the unit : | | | |
| 2. Details of loan sanctioned : | | | (Rs. In lakhs) |
| Loan(s) | Date of Sand. | Amt. Sand. | Amt. Disbursed |
| I | | | |
| II | | | |
| III | | | |
| IV | | | |
| TOTAL : | | | |
| GRAND TOTAL : | | | |
| 3. DC Certificate issued on : | | | |
| 4. DC Certificate amount : | | | (Rs. In lakhs) |
| Principal : | | | |
| Interest : | | | |
| Other Debits : | | | |
| 5. Amounts recovered subsequent to issue of DC Certificate : | | | |
| Principal : | | | |
| Interest : | | | |
| Other Debits : | | | |
| 6. Dues position as on : | | | |

| Loans | Principal | Interest | Other Debits |
|---------|-----------|----------|--------------|
| I | | | |
| II | | | |
| III | | | |
| IV | | | |
| TOTAL : | | | |

7. Reasons for withdrawal of DC Certificate :

8. Recommendations of the Recovery Officer :

9. Recommendations of the HOD / BM :

10. Recommendations of ZM / GM (Zones) / GM(R):

ANNEXURE –XXIX(B)

**FORMAT OF COVERING LETTER TO DC FOR WITHDRAWING
RECOVERY UNDER KPM(RD) ACT.**

(To be issued in MD's Letter Head)

Dear Sir.....

Sub: Withdrawal of D C Certificate dated
issued in respect of M/s.....

I have issued a Certificate dated of in pursuance
of Sec 32G of SFCs Act / Section 3(1) of the Karnataka Public Moneys
(Recovery of Dues) Act. 1979. This certificate has been forwarded to the
Special Tahasildar for further action.

The Corporation has now decided to initiate action under section 29 of the
SFCs Act for recovery of dues/to consider rehabilitation of the unit. I, therefore,
request you to drop further proceedings in this matter and suitably advise the
Special Tahasildar..... zone, in this behalf.

With regards,

Yours sincerely,

Sri..... I.A.S.,
Deputy Commissioner
..... Dist.

Cc to:

- 1 The Special Tahasildar
.....
- 1 DGM(C)/
- 2 Unit Bankers

ANNEXURE XXIX (C)

**FORMAT OF MEMO FOR WITHDRAWING RECOVERY FROM KPM(RD)
ACT.**

MEMO

The D C Certificate dated issued to Deputy
Commissioner on is withdrawn in pursuance of the order
passed by the Managing Director on

cc :

DGM(C)

ANNEXURE-XXXI

KARNATAKA STATE FINANCIAL CORPORATION

BRANCH OFFICE : _____

**PROPOSAL FOR FILING THE CLAIM BEFORE DRT FOR RECOVERY
OF DUES**

| | | |
|--|----------|--|
| 1. Name and address of the unit | | |
| 2. Constitution | | |
| 3. Name of the promoter/s | | |
| 4. Sanction details:
Date of sanction
Amount sanctioned
Amount disbursed | | |
| 5. Dues position as on: _____
Loan balance
Principal dues
Interest dues
Other Debits
TOTAL: | | |
| 6. Payment received so far:
By direct payment
By sale of assets
By subsidy
By realization of col.security (FD/NSC/LIC etc)
TOTAL: | | |
| 7. Date /amount of last repayment made | | |
| 8. Details of security available:
a) Land
b) Building
c) Plant & Machinery
d) Current assets
e) Collateral security
TOTAL: | Original | |

NOTE: Valuation report in respect of assets available / collateral security should be enclosed.

| | | | |
|---|---------|-------------|---------------|
| 9. Details of paripassu / second charge ceded in favour of bank / financial institutions if any | | | |
| 10. Personal guarantee:
a) Name of the guarantors (promoters/partners/directors)
b) Name of third party guarantors | | | |
| 11. Details of personal property investigation (in respect of both promoters / guarantors): | | | |
| (a) Whether investigation done (if done, a copy of the investigation report to be enclosed as annexure) | | | |
| (b) Details of personal properties identified | Sl. No. | Description | Present Value |
| (c) Liabilities if any on these properties | | | |
| (d) Net value of personal properties | | | |
| 12. Recovery actions initiated by KSFC in chronological order:
a) Date of issue of recall notice under Section 30 of SFCs Act
b) Date of issue of notice of payment of balance dues to borrowers / guarantors after the sale conclusion of primary / col. security under Sec.29, if any
c) Date of issue of notice invoking PG, if any
d) Date of issue of legal notice to the borrowers / guarantors / col. security owners if any
e) Date of issue of notice under KPM(RD) Act to the promoters / collateral security owners / guarantors.
f) Details of other important recovery actions taken if any. | | | |
| 13. Present status of recovery in the Corporation :
a) Whether it is under Section 29, if yes, reasons for pending
b) Whether actions has been initiated under KPM(RD) Act
c) Whether properties have been attached by the special tahsildar
d) Whether the actions under Section 31(1)(a) / 31(1)(aa) has been initiated, if yes status | | | |

| | |
|---|--|
| <p>14. Details of case filed by bank / other financial institutions if any:</p> <p>a) Name of the Bank / institution</p> <p>b) Case No. & date of suit filed by bank / institution</p> <p>c) Property attached by bank / institution</p> <p>d) Value of the property</p> <p>e) Amount claimed by the bank / institution</p> <p>f) Stage of pendency of claim before DRT</p> <p>g) Whether KSFC is made a party</p> <p>h) Details of Bank petition and replies filed by KSFC</p> | |
| <p>15. Expenses likely to be incurred towards court fee, advocate fee, miscellaneous expenses etc., if the case is filed with DRT</p> | |
| <p>16. Justification for referring the case to DRT/BO Recommendation</p> | |

BRANCH MANAGER / HOD

ZONAL MANAGER / GM

ANNEXURE-XXXII(A)

REF : KSFC/HO/MD/ED(F)/927/2009-10 DATE : 30.09.2009

CIRCULAR NO.877

Sub : Modifications to Special One Time Settlement Scheme of Government of Karnataka

Ref : 1) Circular No.793 dated 10.07.2007.

2. 2. ಸರ್ಕಾರ ಅದೇಶ ಸಂಖ್ಯೆ ಆಇ 56 ಬಿಎಫ್‌ಸಿ, ಬೆಂಗಳೂರು, ದಿನಾಂಕ 26.09.2009

-:o:0:o:-

With reference to the above, please find herewith enclosed above referred GO dated 26.09.2009 on the captioned subject (Anneuxre-I) which is self explanatory. The Government has modified the existing special OTS Scheme issued vide GO No. ಆಇ 82ಬಿಎಫ್‌ಸಿ, 2006 ಬೆಂಗಳೂರು, ದಿನಾಂಕ 22.06.2007. The salient features / working

guidelines of the modified scheme are as under:

- a) The existing settlement formula which was applicable for the loans upto Rs.2.00 lakhs has now been extended to the loans upto Rs.5.00 lakhs.
- b) In respect of loans more than Rs.5.00 lakhs and upto Rs.10.00 lakhs, the settlement formula has been linked to the value of secured assets i.e., primary and collateral on SR value basis. The revised settlement formula for these loans is minimum 75% of the value of secured assets (SR value) **OR** present P+OD whichever is higher.
- c) The modified GO is made applicable with effect from 26.09.2009 and the scheme is valid upto 31.12.2009. Under no circumstances the validity of the scheme shall be extended. The scheme shall come to a close automatically on 31.12.2009
- d) This modified scheme is not applicable to the accounts where the promoters have paid the entire settlement amount as per the existing GO. However, if the promoters have not paid the entire settlement

amount as per the existing formula, such accounts shall be covered under the modified scheme.

- e) With the introduction of this modified scheme the earlier settlement formula issued vide Circular No. 793 dated 10.07.2007 ceases to exist.
- f) The State Government is reimbursing the amount in the form of equity to the extent of OTS amount now being paid by the borrowers under the modified scheme.
- g) Since the Government is reimbursing the amount in the form of equity, the eligible reimbursement of interest subsidy can not be credited to the borrower's account. After payment of the OTS amount by the borrowers as per the revised settlement formula, the write-off / waiver effect shall be given for the sacrificed amount. It may please be noted that there shall not be any write-off in respect of loans above Rs.5.00 lakh and upto Rs.10.00 lakh cases. In respect of loans upto Rs.5.00 lakhs the proposals which involves write-off shall be placed before the Managing Director for approval.
- h) The OTS proposals under this modified scheme shall be processed as per the revised format enclosed (Annexure-II) to this circular.
- i) The data entry has to be made in "OTS DATA ENTRY FORM" available under Recovery Maintenance Data Incorporation OTS Details Incorporation Data Entry Form GoK – Modified for each case covered under this modified scheme, as per the format given at Annexure-III.

All other terms and conditions mentioned in circular No.793 dated 10.07.2007 remains unaltered. All the BMs/ZMs are hereby instructed to inform the revised scheme to all the existing eligible units and ensure that maximum cases are settled under the scheme before 31.12.2009. This shall be brought to the notice of all the concerned in your office / department.

MANAGING DIRECTOR

ANNEXURE – II
(PART OF ANNEXURE XXXII(A))

KARNATAKA STATE FINANCIAL CORPORATION: BRANCH
OFFICE:.....

Sub : OTS proposal in respect of M/s / Sri / Smt.
under modified OTS package of GoK issued vide GO dt.29.09.2009.

| | | | | | | |
|---|---|------------------|-------------------|------------------|-----|---------|
| 1 | NAME OF THE UNIT / PARTY & ADDRESS | | | | | |
| 2 | ACCOUNT NUMBER | | | | | |
| 3 | CONSTITUTION PROPRIETARY /PARTNER-SHIP / COMPANY) | | | | | |
| 4 | NAME OF THE PROMOTER/S | | | | | |
| 5 | LOAN DETAILS | Date of Sanction | Amount sanctioned | Amount disbursed | ROI | Remarks |
| | | | | | | |
| 6 | PROMOTERS CLASS
(SC / ST / BC /MC / GENERAL) | | | | | |
| 7 | ACTIVITY / PRODUCT | | | | | |
| 8 | TOTAL DEMAND AS ON | TERM LOAN | | SSC | | |
| | | NORMAL | SI | NORMAL | SI | |
| | Principal | | | | | |
| | Interest | | | | | |
| | Other debits | | | | | |
| | TOTAL: | | | | | |

| | | | | | |
|-----|---|-----------|----|--------|----|
| 9 | REPAYMENT RECEIVED | | | | |
| | SO FAR: | TERM LOAN | | SSC | |
| | Principal | NORMAL | SI | NORMAL | SI |
| | Interest | | | | |
| | Other debits | | | | |
| | TOTAL: | | | | |
| 10 | PRESENT DUES POSITION | TERM LOAN | | SSC | |
| | AS ON : | | | | |
| | Principal | NORMAL | SI | NORMAL | SI |
| | Interest | | | | |
| | Other debits | | | | |
| | TOTAL: | | | | |
| 11 | ASSET CATEGORY AS ON 01.04.2006 | | | | |
| 12. | AVAILABILITY OF SECURITY IN RESPECT OF LOANS ABOVE Rs.5.00 LAKHS AND LESS THAN Rs.10.00 LAKH CASES (ON SR VALUE BASIS): | | | | |
| | PRIMARY | | | | |
| | COLLATERAL | | | | |
| 13. | OTS AMOUNT TO BE PAID BY THE BORROWER IN RESPECT OF TERM LOAN | | | | |
| 14. | ELIGIBLE REIMBURSEMENT AMOUNT FROM GOK (EQUIVALENT TO THE OTS AMOUNT PAID BY THE BORROWER) | | | | |

| |
|---|
| 15. ADDITIONAL INFORMATION:* |
| 1. OTS Payment that was supposed to be made by the borrower as per the original OTS Scheme of GoK |
| 2. Eligible reimbursement from GoK as per original OTS Scheme which is now being foregone due to the modification |
| 16. SSC AMOUNT TO BE PAID BY THE BORROWER ON SI BASIS (WITHOUT WRITE-OFF) |
| 17. AGENCY LOAN OUTSTANDING (to be settled by the party separately): |

PRINCIPAL

INTEREST

- This additional information is required to assess the impact of the modified GO on the interest recovery.

18. CERTIFICATION / RECOMMENDATION :

It is hereby certified that the unit/account is eligible for extending the OTS under the modified OTS package of GoK. Hence it is recommended for extending the OTS for loans extended by KSFC subject to the payment of OTS amount of Rs. by the borrower / guarantor with resultant sacrifice by way of write-off of Rs., waiver of interest dues of Rs.. as on

Further, the party should settle the SSC dues of Rs. on SI basis, with resultant sacrifice in the form of waiver of interest dues of Rs. as on

OFFICER INCHARGE OF RECOVERY

ANNEXURE-III
(PART OF ANNEXURE XXXII(A))
INFORMATION REQUIRED TO BE FILLED IN “GOK-MODIFIED” OTS
DATA ENTRY FORM

(Amount in Rupees)

| | |
|---|--|
| Name of the Unit / Borrower | |
| Account Number (Six digits) | |
| Amount Disbursed | |
| Gross other debits | |
| Gross Simple Interest Demand | |
| Amount recovered so far | |
| Present outstanding: | |
| Loan outstanding (Principal) | |
| Interest dues | |
| Other Debits | |
| Availability of security (in respect of above Rs.5.00 lakh and upto Rs.10.00 lakh cases): | |
| 1. Primary | |
| 2. Collateral | |
| OTS amount paid by the borrower | |
| Eligible Reimbursement amount from GoK | |
| Sacrificed amount: | |
| 1. Write-off | |
| 2. Waiver | |
| Payment supposed to be made by the borrower as per the original OTS scheme of GoK | |
| Eligible reimbursement foregone on account of modified OTS scheme of GoK | |

ANNEXURE XXXII-B
MODIFIED CHRONIC ASSET RESOLUTION (MCAR) SCHEME
[FURTHER AMENDMENTS]
CIRCULAR 922 dated 14.01.2016

1. ACCOUNTS ELIGIBLE FOR SETTLEMENT :

(a) The loan should have been sanctioned on or before 31.10.2003.

and

The account should be in Doubtful - III category as on 31.03.2011, provided the account was in Doubtful - III category for a period not less than two years preceeding the cut - off date;

(b) All accounts under MR category.

2. INELIGIBLE CASES:

(i) All loans sanctioned for CRE sector (construction and real estate sector) are ineligible for resolution under this scheme. However, in respect of cases where the primary and collateral securities have been sold can be considered under the scheme. The CRE definition as prevailing now (i.e. residential layout development, residential apartments, commercial and office building, warehouse / godowns prominently used for sub-letting and assistance under rental discounting schemes) may be adopted for the categorization of projects under CRE.

(ii) Cases of willful default fraud and malfeasance.

(iii) RESOLUTION FORMULA:

| | Category | Minimum Resolution Amount |
|---|--|---|
| A | Where the value of primary assets is more than amount payable on 2 times of SI* | Disbursed amount + other debits + 2 times of SI demanded less repayments, without any write off. |
| B | Where the value of secured assets + 50% of net value of PP assets is more than the amount payable on SI basis and not falling under 'A' above. | On SI basis (i.e. disbursed amount + other debits + SI demanded less repayments) without any write off. |
| C | Where the value of secured assets + 50% of net value of PP assets is less than the amount payable on SI basis and more than 30% of (P+OD) | 75% of value of secured assets + 50% of net value of PP assets OR 30% of P+OD which ever is higher. |
| D | The secured assets are sold / realised and net value of PP assets is - nil- or less than 30% of (P+OD) | Maximum possible amount as determined by the Sub Committee of the Board chaired by the Managing Director and recommendation of the Sub Committee will be placed before the Board. |

* the amount payable on 2 times of SI means: Disbursed amount + other debits + 2 times the SI demanded less (-) repayments.

Notes:

- (a) If the collateral security is a single dwelling house and occupied by the owner of the property, a concession of 25% on its value may be given while determining the settlement amount. However, this concession is not applicable for settlement under option 'C' , as 25% concession is already extended under the said option.
- (b) In respect of the collateral / personal properties located in rural areas as defined in the MCAR policy, in addition to the concession in valuation of the property upto 25% proposed for the single dwelling houses, an additional concession upto 25% may be provided.
- (c) In respect of the cases where the chief promoters are deceased / suffering from chronic disease / incapacitated and are unable to run the enterprise nor earning any revenues from any other source, after detailed PP investigation, a concession upto 25% may be given on the settlement amount as determined in the respective resolution formula.
- (d) In respect of the cases where primary and collateral securities are sold and the minimum resolution amount is determined on SI basis as per Formula 'B' in addition to the existing concessions indicated at (b) & (c) above, an additional concession upto 25% may be offered, considering the factors like duration of loan, rate of interest, repayments already made, encumbrances, litigations and time frame involved in the realization of dues through Courts.
- (e) It is proposed that the cases which involve these concessions at (b), (c) & (d) above be placed before the Sub-Committee chaired by the Managing Director and the extent of concessions be decided in this meeting and the recommendations will be placed before the Executive Committee / Board for final approval.
- (f) The cases settled on or after 01.04.2009 shall have an option to pay the balance settlement amount along with 100% delayed period

interest calculated at 15% p.a. on simple interest basis till the date of entire payment. Further, they have an option to opt for the new scheme in which case, the part of any settlement amount paid including initial amount will be considered for settlement under the same.

- (g) OTS cases approved prior to 01.04.2009 are not eligible for re-validation. However, part of the OTS amount paid towards OTS settlement including initial payment will be taken into consideration for settlement of account under the scheme.
- (h) The resolution amount proposed to be collected as indicated above is the minimum amount.
- (i) Detailed PP reports as per the prescribed formats in vogue should be certified by the HODs in the Head Office and Branch Managers in case of BOs. PP reports should be further certified by the concerned GMs in respect of BO cases.
- (j) For determining the resolution amount in respect of cases where the disbursed loan amount is less than or equal to Rs.10.00 lakh, the value of PP assets may not be taken note of in case the Government of Karnataka extends the validity of Special OTS scheme.
- (k) Net value of PP assets means, the value of the personal property as per the valuation guidelines less the liability of other financial institutions / banks and statutory liabilities like Sales Tax, PF arrears etc., provided the property in question is attached by respective authorities.
- (l) **Release of single dwelling house offered by third party as collateral security:** In respect of cases which are eligible for settlement under the scheme and where the borrowers have not come forward for settlement, the request of third party collateral security owners / legal heirs can be considered if it is the only residential house belonging to them. The terms and conditions and other guidelines are enclosed at **Annexure - I**.

3. DELEGATION OF AUTHORITY TO APPROVE THE RESOLUTION:

A. Where no assets are available (i.e. no primary, collateral and PP assets):

| Particulars | Approving Authority |
|---|---|
| Resolution proposal without write off i.e. P+OD and above irrespective of waiver amount | Next higher loan sanctioning authority*. |
| Resolution proposal involving write off | Board, based on the recommendations of Executive Committee. |

B. Cases where primary, collateral and PP assets are available

| Particulars | Approving Authority |
|--|---|
| Upto Resolution amount Rs.50.00 lakh without write off and if the loan sanctioned by the loan sanctioning authority is DGM /ZM and below irrespective of waiver amount | General Managers* |
| Upto resolution amount of Rs.75.00 lakh without write off and if the loan sanctioned by the loan sanctioning authority is GM and below irrespective of waiver amount. | Executive Directors* |
| Upto resolution amount of Rs.100.00 lakh without write off and if the loan sanctioned by the loan sanctioning authority is ED and below irrespective of waiver amount. | Managing Director |
| Resolution without any write off irrespective of waiver amount | Executive Committee |
| Resolution proposal involving write off | Board, based on the recommendations of Executive Committee. |

* If the loan was sanctioned earlier by a delegated authority, the approving authority for resolution in such cases will be the next higher loan sanctioning authority. For example, if the loan was earlier sanctioned by 'Mr. A' in his capacity as a Branch Manager, the resolution package pertaining to this loan cannot be approved by 'Mr.A' in his capacity as a Zonal Manager / DGM and likewise. In such cases, the approving authority will be the next higher level authority of ZM / DGM.

5. GENERAL GUIDELINES:

- (i) Reliefs under this scheme cannot be claimed as a matter of right. The Corporation reserves the right to accept or reject proposal for resolution under the scheme at its discretion.
- (ii) An upfront payment of 25% of PD + OD amount shall be collected before processing the proposal which shall be held in ARPA till final resolution of the account is decided upon. The said amount shall not be refunded. Further, in case the proposal is not backed either by secured assets or by PP assets, the designated authority to decide the down payment to be made.
- (iii) If the entire resolution amount under the scheme is not paid within the stipulated time, the initial amount will be adjusted to the loan account and further recovery action shall be initiated in the normal course by cancelling the resolution package under the scheme.
- (iv) There shall be no revision and no discretion provided under the scheme to collect the resolution amount less than what is prescribed by the resolution formula unless otherwise provided as above.
- (v) The initial amount / part payment of OTS amount still kept in ARPA / Suspend account shall be taken into consideration towards 25% of initial payment as required under the scheme.
- (vi) The resolution package as approved by the competent authority shall be placed before the next higher authority for information.
- (vii) Approved settlement amount has to be paid within 90 days from the date of communication without interest. 25% of the approved amount (including initial deposit) should be paid within 30 days. Another 25% should be paid by the end of 60 days from the date of communication and the balance 50% before the expiry of 90 days from the date of communication. The settlement package offered should lapse automatically at the end of the 90th day from the date of communication. The head of recovery departments in HO and Branch heads are responsible for communication of cancellation of the resolution immediately after the expiry of 90 days.

6. GUIDELINES FOR VALUATION OF PRIMARY / COLLATERAL / PERSONAL PROPERTIES.

| | |
|--|--|
| Urban areas and semi-urban areas (for primary, collateral and PP assets) | The valuation is to be determined taking into consideration the 100% SR value or market value whichever is higher. |
| Rural areas (for primary, collateral and PP assets) | The valuation is to be determined taking into consideration the 100% SR value. |

Note:

1. Definition of urban & semi - urban areas: All areas coming under BBMP, BMRDA, BIAPA, all City Corporations, all district head quarters, all town municipal corporations and all areas coming under taluka head quarters. Further, areas falling within 25 Kms from the outer limits of BBMP, 10 Kms from the outer limits of the other City Corporations and 5 Kms from the outer limits of City / Town Municipal Councils shall be treated as semi - urban areas.
2. Definition of rural areas: All areas excluding (1) above.

PART OF ANNEXURE XXXII-B

TERMS AND CONDITIONS / GUIDELINES FOR RELEASE OF THIRD PARTY COLLATERAL SECURITY

1. The request for release of third party collateral security should have been made by its owner / legal heirs only and the collateral security given should be the only residential house of its owner / legal heirs.
2. The term third party means that the owner / owners of collateral security property should not be a family member / relatives of the borrower of a particular loan account to which the collateral security has been given. The term family member is defined as in the lending policy of KSFC.
3. The property should have been brought for sale under Sec.29 / SARFAESI Act/ Revenue recovery for a minimum of 3 times and was not able to sell the property. In such cases 75% (25% concession) of its value shall be collected and release the property to its owners / legal heirs.
4. In respect of request received for considering reliefs and concessions of beyond 25% of its value based on certain issues such as Death of owner, health grounds, litigations etc., in such situations, the following shall be the criteria for extending additional reliefs and concessions over and above 25% as indicated above, subject to maximum additional concessions of 25%.

| Sl.No. | Particulars | Percentage |
|--------|--|------------|
| 1 (a) | If the collateral security owner have expired subsequent to mortgage of the property . | 20% |
| | OR | |
| (b) | The owner of the collateral security is suffering from chronic deceases resulting in incapacitation. | |
| 2 | If the collateral security property is under litigation and could not be sold even after release of minimum total 8 advertisements for sale of the property (litigation should have been there prior to 31.3.2011) | 5% |
| 3 | Locational disadvantages such as surrounded by slum, multiple tenancy, sub-lease etc., the committee after studying the report can decide on extending additional concession. | 5% |

5. MODE OF PAYMENT: The approved amount shall be paid within 90 days from the date of communication without interest as per the schedule of payment applicable to the settlement under this scheme as per para 5 (vii).

6. DELEGATION OF AUTHORITY TO APPROVE THE RELEASE OF COLLATERAL SECURITY:

| Sl.No. | Particulars | Approving authority. |
|--------|---|--|
| 1 | In respect of cases where the release of collateral security property for an amount of 75% of its value | a. If the approval amount is Rs.20.00 lakh and below - GM
b. If the approval amount is above Rs.20.00 lakh upto Rs.50.00 lakh - ED
c. If the approval amount is above Rs.50.00 lakh - MD |
| 2 | In respect of cases where the request of concession is more than 25% of its value. | Board based on the recommendations of MCAR Sub committee. |

7. GENERAL GUIDELINES:

- a) Reliefs under this scheme cannot be claimed as a matter of right. The Corporation reserves the right to accept or reject the proposal under the scheme at its discretion.
- b) An up-front payment of 10% of 75% of the value of the collateral security property shall be collected before processing the proposal and the same shall be held in ARPA till final decision is taken.
- c) If the entire approved amount for release of collateral security property is not paid within the stipulated time, the amount paid will be adjusted to the loan account and further recovery action shall be initiated in the normal course by cancelling the offer given. There shall be no revision and no discretion provided under the scheme to collect the approved amount less than what is approved as per the scheme by the competent authority.

- d) If the third party collateral security owner has paid any part payment earlier to the loan account by themselves with a request for release of collateral security property and to avoid sale of the property, in such cases, the amount already paid so far shall be taken into account as part payment towards release of collateral security under this scheme.
- (e) If the collateral security owner has also given personal guarantee for the loan, in such cases only the mortgaged collateral security property would be released. However, regarding PG, only after PP investigation and no PPs are found, the personal guarantee can be released.
- (f) The release of third party collateral security property under this scheme can be considered even though when the primary assets are available for disposal with the Corporation and held up due to litigation, non saleability and other issues.
- (g) While availing concessions beyond 25%, in the event of owners of the property is dead and anyone who is suffering from chronic disease s resulting in incapacitation, in such cases authenticated copy of the certificate should be furnished as a proof.
- (h) For valuation of collateral security property, the guidelines given as per MCAR (amended) scheme will be applicable.
- (i) This scheme is applicable only for third party collateral of residential property and the owner should not own any other residential / commercial properties / vacant sites apart from the one which has been given as security. Further, in order to ascertain the same, an affidavit from the collateral owner should be obtained and also personal property investigation has to be carried out by the concerned Branch / department.
- j) If more than one collateral security property has been given to a particular loan account, then while examining request for release of collateral security property from one of the collateral security owner, the Corporation should inform the other collateral security owners in writing about this scheme and to ask them to avail the same if interested.

ANNEXURE- XXXII(C)
OTS for Post MoU Cases

CIRCULAR No.924

Sub : Reliefs and concessions for closure of loan
accounts of Post MoU Doubtful cases

-:o:0:o:-

The existing Modified Chronic Assets Resolution Scheme (Further Amended) issued vide Circular No.922 dated 14.01.2016, covers the cases sanctioned on or before 31.10.2003 for settlement of chronic Doubtful-III accounts. There is no resolution scheme for cases sanctioned on or after 01.11.2003.

It was felt necessary to introduce a resolution scheme for post-MoU doubtful category cases and cases which are not fulfilling the eligibility criteria of the existing MCAR (Amended) Scheme. In this background, a proposal was placed before the Board in its meeting held on 13.05.2016 and after detailed deliberations, the Board approved a proposal for extending reliefs and concessions for closure of these loan accounts by waiver of part of penal interest. The scheme details are enclosed at Annexure-I. The eligible proposal shall be submitted as per the format given at Annexure-II

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

Encl: As above.

EXECUTIVE DIRECTOR – I

ANNEXURE- XXXIII(A)

FORMAT OF NOTE ON RESCHEDULING OF LOAN

| | | |
|----|-----------------------|--|
| 01 | Name of the unit | |
| 02 | Address : | |
| 03 | Constitution | |
| 04 | Size of the industry | |
| 05 | Products manufactured | |
| 06 | Name of Directors | |

7 Details of loan/s availed from KSFC :

(Rs. in lakhs)

| Date of Sanction | Amount sanctioned | Amount drawn as on date | Rate of interest | Remarks |
|------------------|-------------------|-------------------------|------------------|---------|
| | | | | |

8. Details of term loans availed from other Institutions :

9 Details of working capital assistance availed :

| Name & address of the bank | Type of facility | Amount sanctioned/availed |
|----------------------------|------------------|---------------------------|
| | | |

10. Repayment schedule of term loan/s of KSFC :

| Account Number | Date of first release | Total repayment period | |
|----------------|-----------------------|------------------------|--|
| | | | |

11. Repayment made to KSFC upto _____ : (since inception)

- a) Principal
- b) Interest
- c) Other debit

TOTAL

12. Amount in default of the term loan(s) of KSFC :

| Account No. | Loan Balance | Dues as on | | | Total Default |
|-------------|--------------|------------|----------|------|---------------|
| | | Principal | Interest | O.D. | |
| | | | | | |

13. Next principal instalment of the term loan(s) of KSFC :

| Account Number | Date on which due | Amount of the instalment |
|----------------|-------------------|--------------------------|
| | | |

14. Default in respect of the term loan of other Institutions :

15. Facilities provided by the KSFC so far :

a. Date on which rescheduling facilities provided :

b. Date on which assistance under RSR scheme provided:

16. Payments made by the party during the current financial year:

| Date | Amount paid (Rs.) | Remarks |
|------|-------------------|---------|
| | | |
| | | |
| | | |

17. Working results of the unit

(Rs. in lakhs)

| Details | | | |
|---|--|--|--|
| Total Income | | | |
| Net Profit/Loss | | | |
| Add : Depreciation | | | |
| Add : Interest debited to P&L A/c. but not paid | | | |
| Cash Profit | | | |

18. Reasons for the default (as stated by the Borrower) :

19. Recovery action taken by the KSFC :

20. Present working conditions and future prospects (as assessed by the Officers of KSFC):

21. Details of the securities available :

a. Primary security: (Rs. in lakhs)

| Details | As per the appraisal Memorandum | Present Value |
|---------|---------------------------------|---------------|
| | | |

- b. Collateral Security :
- c. Personal guarantee other than the borrower :

22 Office Recommendations :

23 A] Funding of Interest Arrears :

The interest arrears of Rs..... as on has been funded and the same shall be repaid in ... monthly/quarterly installments as noted below commencing from

First ... monthly/quarterly installment of Rs..... each

Next ... monthly/quarterly installment of Rs..... each

Last ... monthly/quarterly installments of Rs..... each

B] Rescheduling of Principal Loans :

The Loan outstanding of Rs..... (including principal amount in default of Rs.....) as on, shall be repaid in monthly/quarterly installments as noted below commencing from

First ... monthly/quarterly installment of Rs..... each

Next ... monthly/quarterly installment of Rs..... each

Last ... monthly/quarterly installments of Rs..... each

24. Payment of Current Interest :

The current interest on funded interest and term loans should be paid on every quarter commencing from 10th of and on the corresponding day of every subsequent quarter. A quarter shall mean 10th of March, 10th of June 10th of September and 10th of December. The interest shall be calculated on the footing of compounding interest on quarterly rest basis.

25 Rate of Interest :

A] Funded Interest : The funded interest shall carry interest at p.a. In case of default in payment of principal and interest, an

enhanced rate of 2.5% shall be levied on the amount in default for the period of default.

B] Term Loan : The term loan shall carry interest at p .a. In case of default in payment of principal and interest, an enhanced rate of 2.5% shall be levied on the amount in default for the period of default.

With the above rescheduling the comparative repayment period will be as follows:-

| Loans | Original repayment period from the date of first disbursement | Revised repayment period from the date of 1st disbursement | Extention in the repayment period |
|---------|---|--|-----------------------------------|
| I loan | | | |
| II loan | | | |

26. Other Conditions :

a You should comply with all the requirements with regard to giving effect to the rescheduling.

b The Corporation reserves the right to accelerate the repayment schedule in case of better performance of the unit.

c In case of default in repayment of installments, as per the terms of rescheduling the corporation reserve the right to withdraw the rescheduling facility and initiate necessary action for the recovery of overdues as per the original schedule.

d All other terms and conditions stipulated while sanctioning the loans, remain unaltered.

DY. MANAGER / MANAGER (RECOVERY)

HOD / BM

ANNEXURE - XXXIII(B)

**FORMAT OF LETTER OF COMMUNICATION OF RESCHEDULING/
FUNDING**

To :

.....
.....
.....

R.P.A.D.

Dear Sirs,

Sub : Funding of Interest arrears and Rescheduling of
principal arrears of your loan account No.....

Ref : Your request letter dated

With reference to the above, we are pleased to inform you that the Corporation has Funded the interest arrears and rescheduled the repayment of the principal default as noted below:-

A] Funding of Interest Arrears :

The interest arrears of Rs..... as on has been funded and the same shall be repaid in ... monthly/quarterly installments as noted below commencing from

First ... monthly/quarterly installment of Rs..... each

Next ... monthly/quarterly installment of Rs..... each

Last ... monthly/quarterly installments of Rs..... each

B] Rescheduling of Principal Loans :

The Loan outstanding of Rs..... (including principal amount in default of Rs.....) as on, shall be repaid in monthly/quarterly installments as noted below commencing from

First ... monthly/quarterly installment of Rs..... each

Next ... monthly/quarterly installment of Rs..... each

Last ... monthly/quarterly installments of Rs..... each

Rate of Interest :

A] Funded Interest : The funded interest shall carry interest at p.a. In case of default in payment of principal and interest, an enhanced rate of 2.5% shall be levied on the amount in default for the period of default.

B] Term Loan : The term loan shall carry interest at p .a. In case of default in payment of principal and interest, an enhanced rate of 2.5% shall be levied on the amount in default for the period of default.

Payment of Current Interest :

The current interest on funded interest and term loans should be paid on every quarter commencing from 10th day of (month) and on the corresponding day of every subsequent quarter. A quarter shall mean 10th of March, 10th of June 10th of September and 10th of December. The interest shall be calculated on the footing of compounding interest on quarterly rest basis.

OTHER CONDITIONS:

- a. You should comply with all the requirements with regard to giving effect to the Funding/rescheduling.
- b. The Corporation reserves the right to accelerate the repayment schedule in case of better performance of the unit.
- c. In case of default in repayment of installments, as per the terms of rescheduling the corporation reserve the right to withdraw the rescheduling facility and initiate necessary action for the recovery of overdues as per the original schedule.

d. All other terms and conditions stipulated while sanctioning the loans, remain unaltered.

We request you to kindly communicate your acceptance to the above within 10 days in writing.

Thanking you,

Yours faithfully,

HOD / BM

CC TO : Accounts / Legal

ANNEXURE – XXXIII(C)

ACCEPTANCE LETTER FOR FUNDING/RESCHEDULING

(To be obtained in the companies/borrowers letter head)

To :

.....

KSFC,

.....

Dear Sir,

Sub : Acceptance for Funding/Rescheduling of our term loan
accounts

Ref : Your Funding/Rescheduling letter dated

~~~~~

This is to confirm our acceptance of the terms and conditions outlined in your above letter with respect to funding of interest arrears and rescheduling of principal dues of our loan account(s). We hereby undertake to repay the loan installments with interest as per the schedule without fail. Further, we abide by all the terms and conditions of sanction of loan and the security documents executed in your favour. All the original contract/documents executed by us in your favour shall continue to be in force till the entire loan is repaid in full.

Thanking you,

Yours faithfully,

[Signature of Borrower]

**ANNEXURE – XXXIV (A)**

**RESCHEDULING / FUNDING REGISTER**

[Amount in Rupees]

SL. NO.	ACC. NO.	NAME & ADDRESS OF THE UNIT	DATE OF RESCHEDULING	REASONS FOR RESCHEDULING	TOTAL REPAYMENT PERIOD AS PER SANCTION RESCHEDULING	
1	2	3	4	5	6	7

EXTENSION	PRINCIPAL RESCHEDULED	INTEREST FUNDED	SIGNATURE OF OFFICER	SIGNATURE OF DGM(R)
8	9	10	11	12

**ANNEXURE – XXXIV(B)**

**SECTION 29 CASES REGISTER**

SL NO	A/C. NO	NAME & ADDRESS OF THE UNIT	DATE OF SEIZURE	POSITION OF LOAN ACCOUNT AT THE TIME OF SEIZURE					SIGNATURE OF THE OFFICER
				LOAN BAL.	PRIN. DUES	INT. DUES	O.D	TOTAL DUES	
1	2	3	4	5	6	7	8	9	10

DATE OF RELEASE OF THE UNIT	VALUATION OF ASSETS		DATE OF RECALL NOTICE	DATE OF SALE PUBLICATION	SALE OF ASSETS		REMARKS
	VALUE	DATE			DATE	SALE AMOUNT	
11	12	13	14	15	16	17	18

**ANNEXURE – XXXIV(C)**  
**DC CERTIFICATE REGISTER**

[Rs. In lakhs]

SL. NO	A/C. NO.	NAME & ADDRESS OF THE UNIT	POSITION OF LOAN ACCOUNT AS PER NOTICE				
			LOAN BALANCE	PRINCIPAL DUES	INTEREST DUES	OTHER DEBITS	TOTAL LIABILITY
1	2	3	4	5	6	7	8

DATE OF DC CERTIFICATE	DESPATCH NO. & DATE	PLACE OF DC	SIGNATURE OF THE OFFICER	REMARKS
9	10	11	12	13

**ANNEXURE – XXXIV(D)**

**MR CASES REGISTER**

Sl. No.	A/c No	Name of the unit	Date of DRC Meeting	Date of Board meeting	Write off Amount (In Rs.)	Waiver Amount (In Rs.)	Remarks
1	2	3	4	5	6	7	8



**ANNEXURE – XXXIV(E)**

**RECALL NOTICE ISSUED REGISTER**

[Rs. in lakhs]

SL. NO.	A/C. NO.	NAME & ADDRESS OF THE UNIT`	DATE OF APPROVAL OF NOTICE	DATE OF ISSUE OF NOTICE
1	2	3	4	5

POSITION OF LOAN ACCOUNT AS PER NOTICE				
LOAN BALANCE	PRINCIPAL DUES	INTEREST DUES	OTHER DEBITS	TOTAL LIABILITY
6	7	8	9	10

SUBSEQUENT ACTION	DATE	SIGNATURE OF THE OFFICER	REMARKS
11	12	13	14

**ANNEXURE – XXXIV(F)**

**SECTION 31 CASES REGISTER**

SL. NO.	A/C NO.	NAME & ADDRESS OF THE UNIT & GUARANTORS/ SURETY	MISC. NO.	DATE OF FILING	AMOUNT CLAIMED
1	2	3	4	5	6

NAME OF LC	PROPERTIES ATTACHED	HEARING DATES	REMARKS
7	8	9	10

**ANNEXURE – XXXIV(G)**

**WRITE OFF/ WAIVER AND ONE TIME SETTLEMENT CASES**  
**REGISTER**

[AMOUNT IN RUPEES]

SL. NO.	A/C. NO.	NAME & ADDRESS OF THE UNIT	DATE OF DRC	DATE OF APPROVAL OF BOARD	OTS AMOUNT	BASIS OF SETTLEMENT
1	2	3	4	5	6	7

SACRIFICE		ASSET CLASS	DATE OF COMMUNICATION	SIGNATURE OF OFFICER	REMARKS
WRITE OFF	WAIVER				
8	9	10	11	12	13

**ANNEXURE – XXXIV(H)**

**DRT CASES REGISTER**

SL. NO.	A/C NO.	NAME & ADDRESS OF THE UNIT & GUARANTORS / SURETY	CASE NO.	DATE OF FILING
1	2	3	4	5

AMOUNT CLAIMED	NAME OF LC	PROPERTIES ATTACHED	HEARING DATES	REMARKS
6	7	8	9	10

**ANNEXURE – XXXIV(I)**

**CUSTOMER ENQUIRY REGISTER**

SL. NO.	DATE	NAME & ADDRESS OF THE CUSTOMER	TELEPHONE NO. AND OTHER CONTACT DETAILS	PURPOSE OF ENQUIRY	ACTION TAKEN		SIGNATURE OF THE CUSTOMER
					REFERRED TO	ATTENDED BY	
1	2	3	4	5			

**KARNATAKA STATE FINANCIAL CORPORATION**  
**BANGALORE**



**RECOVERY MANUAL**

