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F. No. 3/77/2013-AC
Ministry of Finance
Department of Financial Services

Jeevan Deep Building,
Parliament Street,
New Delhi, dated 9th January, 2014

To,

Chief Executive
Indian Banks' Association
Mumbai.

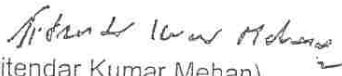
Sub:- **Operational Guidelines for 'Scheme for Extending Financial Assistance to Sugar Undertakings, 2014'-regarding -**

Sir,

The undersigned is directed to refer to IBA's email dated 6.1.2014 forwarding the draft Operational Guidelines on the above subject.

2. In this connection, the Operational Guidelines for the 'Scheme for Extending Financial Assistance to Sugar Undertakings, 2014' are enclosed herewith for circulating the same to the Banks for information and further necessary action.

Yours faithfully,


(Jitendar Kumar Mehan)
Under Secretary(AC)
Phone 23748762
acsec-bkq@nic.in

Copy for information/necessary action to :-

- i) Shri T. Jacob, Joint Secretary(S&SA), Department of Food & Public Distribution(DFPD), Krishi Bhawan, New Delhi.
- ✓ ii) Shri Rajan Sehgal, Director(SDF), Department of Food & Public Distribution, Krishi Bhawan, New Delhi w.r.t. his OM No. 20(90)/2013-SP.II dated 3.1.2014.
- iii) Chairman, NABARD with the request to take further necessary action as per the Operational Guidelines.
- iv) Chairperson, SBI, Mumbai with the request to be in touch with DFPD for taking further necessary action as 'Nodal Bank' in the matter.
- v) CGM(incharge), RPCD, RBI, Mumbai
- vi) Chairman, IBA & CMD, PNB

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Operational Guidelines for Scheme for Extending Financial Assistance to Sugar Undertakings, 2014

1. **Purpose of loan:** the loan will be utilized by the sugar mills for clearance of cane price arrears of previous sugar seasons and timely settlement of cane price of current sugar season relating to the Fair and Remunerative Price (FRP) fixed by the Central Government to the sugarcane farmers.

2. **Modalities and Extent of loan:**

i) Loans will be sanctioned to the sugar mills, which have been functional during 2013-14 sugar season and the quantum of loan would be equivalent to last three sugar seasons' excise duty, cess and surcharge on sugar (including notional equivalence for exports or availed Cenvat).

ii) The loan duration would be 5 years including 2 years of moratorium.

iii) The lending will be subject to various norms relating to security, future cash flows for the life of loan (five years), establishing the viability & debt servicing capacity, conduct of loan including the restructuring guidelines as notified by RBI for the sugar industry from time to time. The NPA units are also covered under the scheme provided the State Government concerned gives its guarantee for their new loans.

iv) Loans sanctioned by 30th June 2014 and disbursed by 30th September 2014 by the lending banks, pursuant to this notification, would be eligible for interest subvention facility.

v) The disbursement shall be in a separate account so that the utilization of the money for the said purpose is easily monitored. In case of a Consortium/Multiple Banking Arrangement, the loan will be disbursed by the lead bank/lead lender.

3. **Security for the loan**

i) The loans will be backed by the existing security and collaterals of the sugar industry availing the loan including other assets of promoters, which are free from encumbrances, to be decided by the individual banks.

ii) A charge on the Fixed Assets of the Sugar Mill.

iii) Personal Guarantee of the Promoters/directors, wherever available to the existing limits, shall be extended to the proposed loan.

iv) The disbursement of the loan may be done, pending creation of security, in view of the urgency of the matter. The creation of charge shall be completed within a maximum period of three (3) months.

4. Interest Subvention:

i) Interest subvention up to 12% or at the actual rate charged by the banks, whichever is lower, as per the normal banking practice shall be provided to the sugar mills through participating Scheduled Commercial Banks, Regional Rural Banks and Cooperative Banks for the total duration of the loan i.e. 5 years including moratorium of 2 years.

ii) The interest subvention during the repayment period i.e. from 3rd to 5th year would be provided by the Central Government, if the account is regular i.e., the repayment of principal is as per the schedule. If a sugar mill defaults on repayment of principal, the benefit of interest subvention will not be available to the extent of default, as long as the account is irregular and the sugar mill will be responsible for repayment of interest for the period of default along with the principal. Further, banks will be free to take necessary action against the defaulting borrowers as per the banking norms.

iii) In the event of any surplus cash flow during moratorium or repayment period with the borrowers, accelerated payments will be considered to be decided by the bank and the interest subvention liability of Department of Food and Public Distribution (DFPD) towards loan account would be accordingly get reduced.

5. Modalities of payment of interest subvention: The DFPD will release the interest subvention amount on quarterly basis, in advance, to the nodal bank, i.e. State Bank of India(SBI). The amount from third quarter onwards shall be released as advance subject to furnishing of disbursement particulars. The interest earned on the interest subvention advance shall be adjusted in the quarterly installment from 3rd quarter onwards. In the event of delayed release of subsidy, the banks will be entitled to claim interest subvention claim inclusive of compounding of interest for delayed period as levied as per the normal banking practice on the borrowers account.

6. Utilization certificate: The concerned sugar mill shall submit a utilization certificate, duly verified by the respective Sugar/Cane Commissioner, certifying that the loan amount has been utilized for the purpose specified in the scheme. The State Sugar/Cane Commissioner shall also monitor the utilization of the loan. Any failure to submit the utilization certificate shall lead to non-reimbursement of interest subvention by the Central Government.

7. Considering the large number of banks' lending to the sugar mills, it is proposed that the State Bank of India(SBI) is appointed as 'Nodal Bank' for interacting with DFPD and managing the subsidy funded for onward reimbursement to respective banks. In order to smoothen the operation, each participating bank (except Cooperative Banks and RRBs) should notify one of their Delhi branch as a 'Focal Point Branch' for collecting the claim from all the branches of a particular Bank and lodge the claim with the Nodal Bank, which will honour the claim of all the participating banks and submit information to DFPD. The focal point branch should collect information in advance from all its branches who have disbursed loan under the Scheme and lodge the claim in advance to avoid compounding of interest. As regards the Rural Cooperative Banks and Regional Rural Banks (RRBs), the NABARD would coordinate on behalf of these banks and would submit the claims to SBI for reimbursement. For Urban Cooperative Banks (UCBs), the SBI would directly coordinate with these banks.

8. **Instructions for lending banks:** The major problem faced by the Nodal Bank is getting information from linked banks and submission of claim in time. Lending banks shall ensure submission of the interest subvention claim statement within one week of close of the previous quarter.

- a) The lending bank branches shall obtain a certificate from the Chartered Accountant regarding the correctness of the claim made and submit it to the Nodal Bank. Each lending bank shall also submit a utilization certificate certifying that the loan amount has been utilized for the purpose as specified in the scheme.
- b) The branches while submitting the claim for interest subvention shall certify that the loan has been utilized for the purpose as specified in the scheme.
- c) Special calculation sheet in Excel format with an inbuilt formula be used for facilitating correct calculation of claim.
- d) Claim of lending bank should be certified by bank's external auditors prior to submission to the Nodal Bank.
- e) The requisite data/information would be provided by the lending banks to Nodal Bank, i.e. SBI in the proforma prescribed by DFPD in consultation with & as agreed upon by the Nodal Bank for the purpose, at regular intervals.
