

ORDER

**The Ichalkaranji Jiveshwar Sahakari Bank Ltd., Ichalkaranji –
Cancellation of licence to carry on banking business in
India under Section 22(2) of the Banking Regulation
Act, 1949 (As Applicable to Co-operative Societies)**

The Ichalkaranji Jiveshwar Sahakari Bank Ltd., Ichalkaranji, Dist. Kolhapur, Maharashtra State (hereinafter referred to as the 'bank') was registered as a co-operative society on January 01, 1996 and it was granted a licence by the Reserve Bank of India on June 10, 1996, under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act'), to conduct banking business.

2. The Inspection of the bank was taken up with reference to its financial position as on March 31, 2003 on May 06, 2003 and on commencement of the inspection it was noticed by the Inspecting Officer that the bank had a cash balance of Rs 391.00 only on that date. The financial position of the bank had become so precarious that it had to rely on day-to-day cash receipts to honour the claims of small depositors. The bank's liquidity was only Rs 4.24 lakh (approx.) as against its deposit liability of Rs. 491.61 lakh. It had been defaulting in maintenance of CRR/SLR since September 30, 2000. Further, it was also observed that the bank was avoiding repayment of term deposits and the overall affairs of the bank were being mismanaged by the management of the bank. In view of the above, pending receipt of final Inspection Report, it was decided to issue a directive to the bank under Section 35A of the banking Regulation Act, 1949 (AACS) and accordingly the bank was placed under directions with effect from the close of business as on May 14, 2003. On the basis of RBI's requisition dated September 20, 2003 the Board of Directors of the bank was superseded on September 26, 2003 for gross mismanagement of the credit portfolio and the bank's affairs.

The final inspection report of the bank, conducted with reference to its position as on March 31, 2003, revealed that its financial position was precarious. On account of high NPAs, its Net Worth was assessed negative at Rs.27.66 lakh leading to deposits being eroded to the extent of 5.6%. Its CRAR stood at (-)4.7%. The bank was classified as Grade IV. The other irregularities observed during the inspection were as under:

- i. The bank had not observed customary safeguards while sanctioning loans and advances to the borrowers.
- ii. The quality of credit appraisal obtaining in the bank was extremely poor and post disbursement supervision was also not satisfactory. This had resulted in very high accretion to NPAs.
- iii. The bank did not follow the guidelines regarding prudential norms relating to income recognition, assets classification and provisioning.
- iv. The bank had defaulted in the maintenance of CRR and SLR on many occasions.
- v. The bank was paying higher interest on saving deposits at 5% per annum.
- vi. The bank's interest rate on deposits and advances were not in tune with market trend.

The said inspection report was sent to the Ichalkaranji Jiveshwar Sahakari Bank Ltd. vide letter No. UBD.MUM.Insp.011/12.07.1562/2003-04 dated July 17, 2003 for compliance.

3. A subsequent inspection of the bank that was conducted with reference to its financial position as on March 31, 2005, to assess the position regarding bank's revival/rehabilitation, revealed the following major deficiencies and irregularities:

- i. The real or exchangeable value of paid-up share capital and reserves of the bank had deteriorated further and was assessed as negative at (-) Rs.276.05 lakh as on March 31, 2005. Thus the bank was not having adequate assets to meet its liabilities and hence did not comply with the provisions of Section 22(3)(a) of the Act. Also the bank did not comply with the requirement of

minimum share capital prescribed in terms of the provisions of Section 11(1) of the Act.

- ii. The bank's CRAR was negative and stood at (-) 63.5% as on March 31, 2005 as against the prudential regulatory standard of 9%.
- iii. The erosion in the value of assets had not only wiped out the entire owned funds but the deposits had also been eroded to the extent of Rs.276.05 lakh forming 76.8% of the total deposits.
- iv. The bank had not observed customary safeguards while sanctioning loans and advances to the borrowers.
- v. The quality of credit appraisal obtaining in the bank was extremely poor and post disbursement supervision was also not satisfactory. This had resulted in very high accretion to NPAs.
- vi. The Gross NPAs of the bank were assessed at Rs.464.70 lakh which formed 99.9% of the gross loans and advances as on March 31, 2005. The Net NPAs were assessed at Rs.186.15 lakh forming 99.4% of the Net loans and advances as on that date.
- vii. The bank had not prepared the profit and loss account objectively. As per the bank's records, it had shown a net loss of (-) Rs.128.70 lakh for the year ended March 31,2005. After taking into account shortfall in the provisioning requirements towards BDDR as assessed by the Inspecting Officer, the bank's accumulated loss would have aggregated to (-) Rs.343.35 lakh as against the published accumulated loss of (-) Rs.330.23 lakh.
- viii. The bank did not follow the guidelines regarding prudential norms relating to income recognition, assets classification and provisioning.
- ix. The system of internal inspection and concurrent audit had not been put in place.
- x. No concrete steps had been taken to review the NPAs and revive the operations of the bank.

The said inspection report was sent to the Ichalkaranji Jiveshwar Sahakari Bank Ltd. vide letter No.UBD.MUM.Insp.001/12.07.1562/2004-05 dated July 05, 2005 for compliance, but it did not submit the compliance to the said inspection report.

4. From the foregoing it is clear that the bank's operations were being carried on in a manner detrimental to the interests of the depositors and that of the public and was in violation of Section 22(3)(b) of the Act.

5. In view of what has been stated above the bank was served a notice on September 02, 2005 calling on it to show cause as to why the licence granted to it under Section 22 of the Act on June 10, 1996 to carry on banking business, should not be cancelled and the bank be taken into liquidation. The bank replied to the show cause notice vide its letter No.10166 dated October 25, 2005. The reply submitted by the bank was not found satisfactory and could not be accepted, as it did not offer any viable alternatives to revive the bank.

6. It is, therefore, evident from the foregoing that:

- i. The bank does not comply with the provisions of Sections 11 (1), 18, 22 (3)(a), and 24 of the Act.
- ii. The bank is not in a position to pay its present depositors.
- iii. The affairs of the bank are being conducted in a manner detrimental to the interests of the depositors.
- iv. The financial position of the bank leaves no scope for its revival.
- v. In all likelihood public interest will be adversely affected if the bank is allowed to carry on its business.

7. Having regard to all these facts, the Reserve Bank of India is satisfied that allowing the bank to carry on banking business any further would be detrimental to the interests of the present and future depositors. Hence, the licence granted to the bank to conduct banking business deserves to be cancelled. Accordingly, the licence dated June 10, 1996 granted to the Ichalkaranji Jiveshwar Sahakari Bank Ltd., Ichalkaranji, Dist. Kolhapur (Maharashtra) to conduct banking business in India under Section 22 of the Act read with Section 56 of the Banking Regulation Act, 1949 is hereby cancelled. This order makes it obligatory on the part of the bank to stop conducting 'banking business' within the meaning of Section 5(b) of the Act, including acceptance and repayment of deposits, with immediate effect.

8. Copy of this order be served on the Ichalkaranji Jiveshwar Sahakari Bank Ltd.,
Ichalkaranji, Dist. Kolhapur (Maharashtra).

(V. S. Das)
Executive Director