


भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 2266 0358

June 7, 2012

Reserve Bank Cancels the Licence of The Madhavpura Mercantile Co-operative Bank Ltd., Ahmedabad (Gujarat)

In view of the fact that The Madhavpura Mercantile Co-operative Bank Ltd, Ahmedabad (Gujarat) [the co-operative bank] had ceased to be solvent, all efforts to revive it in close consultation with the Government of India had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India (RBI) passed an order cancelling the banking licence issued to the co-operative bank with effect from the close of business on June 04, 2012. The Central Registrar of Co-operative Societies, New Delhi (CRCS) has also been requested to issue an order for winding up the co-operative bank and appoint a liquidator.

The co-operative bank was granted a licence by RBI on August 19, 1994 to commence banking business in India. During 1999-2000 the co-operative bank resorted to indiscriminate lending, particularly to stock broking firms in gross violation of lending norms. In March 2001, there was a sudden run on the co-operative bank following rumours of its large exposure to Ketan Parekh, a leading stock broker at Mumbai, who suffered huge losses in his share dealings. The co-operative bank was also holding substantial amount (₹ 800.00 crore) of inter-bank deposits from a large number of UCBs in Gujarat and from other banks and this posed a systemic risk for the co-operative banks in Gujarat. With a view to protecting the interests of the depositors, RBI issued directions to the bank on March 13, 2001 under Section 35A of the Banking Regulation Act, 1949 (AACS) [the act] restricting certain operations. RBI issued requisition to Central Registrar of Co-operative Societies (CRCS) to supersede the Board of Directors of the co-operative bank under Section 48 of the Multi State Co-operative Societies Act, 1984. The CRCS superseded the Board and appointed an Administrator on March 14, 2001 to oversee the affairs of the co-operative bank.

The statutory inspection of the co-operative bank conducted by RBI under section 35 of the Act with reference to financial position of the bank as on March 31, 2001 inter alia revealed its precarious financial position as under :

- i) The co-operative bank's net worth was assessed at (-) ₹ 1147.13 crore and the bank was not having adequate assets to meet its liabilities as required under Section 22 (3) (a) of the Act.
- ii) The co-operative bank had not complied with the requirements of minimum capital and reserves in terms of the provisions of Section 11 (1) of the Act.
- iii) The entire capital and reserves of the co-operative bank had eroded and the deposit erosion was to the extent of 90.9%.
- iv) The gross NPAs formed 88.2% of the gross advances.
- v) The co-operative bank had a net loss of ₹ 1192.81 crore.

In order to safeguard the interests of the depositors and a large number of UCBs which had placed deposits with the co-operative bank, the Government of India / CRCS formulated a Scheme of Reconstruction for the co-operative bank. Consequently, the

directions imposed by RBI under Section 35 A of the B.R.Act, 1949 (AACs) were withdrawn and the Scheme of Reconstruction was made applicable from the close of business of August 23, 2001 for a period of ten years with the approval of RBI. The scheme envisaged infusion of funds, retention of existing deposits, converting call money borrowings from banks/institutions into term deposits, DICGC meeting its obligation in full to the co-operative bank's eligible depositors, investment of fresh deposits in Government securities, management aspects etc. During the period of ten years, the Reconstruction Scheme did not make much progress mainly due to non-fulfillment of commitments for contribution to Revival Fund by UCBs and poor track record of recovery including from Ketan Parekh. The scheme expired on August 23, 2011.

RBI conducted statutory inspection of the co-operative bank under Section 35 of the Act with reference to its financial position as on March 31, 2011. It was revealed that the co-operative bank's assessed net worth was (-) ₹ 1316.50 crore, CRAR was (-) 1941.1%, gross NPAs were ₹ 1126.55 crore i.e. almost 99.99% of its gross advances, accumulated losses were ₹ 1357.41 crore and deposit erosion was 100%. Due to precarious financial position of the co-operative bank, it was placed under Directions issued under Section 35 A of the Act from the close of business of August 23, 2011 for a period of six months and extended up to August 23, 2012, subject to review. The existing Board of Administrators was also allowed to continue till further orders. The Ministry of Agriculture, Govt. of India was advised vide our letter dated August 23, 2011 to firm up the proposal, if any, for revival of the co-operative bank in consultation with various stakeholders and forward to us for further consideration.

Govt. of India, vide their letter dated September 07, 2011 forwarded a Modified Reconstruction Scheme proposed by the co-operative bank. The Modified Reconstruction Scheme was examined and it was found that its Net Worth would remain negative, even if the said Modified Scheme is implemented. Its chances of revival were, therefore, considered remote. The Govt. of India was also advised of the position that there is no other option but to initiate the process of liquidation of the bank.

Central TAFcub, in its meeting held on January 04, 2012, also recommended that there are no other options but to initiate steps for liquidation of the bank.

In view of the precarious financial position of the co-operative bank, a Show Cause Notice (SCN) dated March 16, 2012 was issued asking it to show cause as to why the license granted to it to carry on banking business in India under Section 22 of the Act should not be cancelled. The co-operative bank in its reply dated April 18, 2012 to the SCN accepted that the precarious financial position of the co-operative bank which was attributed to the fraud amounting to ₹ 1200.00 crore committed on the co-operative bank by the share broking community including Ketan Parekh and his associates in collusion with the then members of the Board of Directors. As per the bank, an amount of ₹ 803.00 crore constituting 72% of the total advances were unsecured due to unenforceable securities and defective documentation and hence not recoverable. The co-operative bank also accepted that the Reconstruction Scheme failed due to non-fulfillment of commitment of UCBs to contribute to the Revival Fund because many UCBs feared for the safety of their moneys and even the amount of ₹ 343.36 crore was returned in terms of CRCS notification of April 2008 on the representation made by the co-operative bank and petition filed by them before the Gujarat High Court. The Board of Administrators through a resolution left it to RBI to decide the future set up of the co-operative bank. Thus the co-operative bank accepted all the irregularities / deficiencies observed in the SCN issued for cancellation of licence.

The co-operative bank had furnished another revival plan envisaging a loan of 1000.00 crore from World Bank / European Banks which will be procured by an NRI who will invest ₹ 500.00 crore for the next ten years in the form of preference shares totaling ₹ 5000.00 crore. It was observed that the co-operative bank was neither aware of the

antecedents of the investor nor the genuineness of the sources of the funds. The co-operative bank was not sure whether the proposal will result in a turnaround for the co-operative bank by making its net worth positive. The proposal is also not in conformity with the bye-laws of the bank for allotment of preference shares to an investor who is not a loanee and the proposed capital structure is not in conformity with the provisions of Section 33 of the Multi State Co-op. Societies Act, 2002. Hence, it has not been considered a concrete proposal for revival.

As already stated the financial position of the co-operative bank as on March 31, 2011 was highly precarious with Assessed Net Worth at (-) ₹ 1316.50 crore, CRAR at (-) 1941.1%, gross NPAs at 99.99% of its gross advances (₹ 1126.59 crore) and accumulated losses at ₹ 1357.41 crore. The deposits of the bank have been eroded fully. The co-operative bank has admitted that the revival of the bank failed due to difficulty in mobilising revival fund from the contributing UCBs and poor track record of recovery particularly from the Ketan Parekh group. The co-operative bank was placed under directions under Section 35A of the Act with effect from August 23, 2011. The Modified Reconstruction Scheme forwarded by Govt. of India was not found to be viable and Govt. of India was advised vide our letter dated December 26, 2011. The fresh proposal envisaging investment of ₹ 1000.00 crore is neither complete nor viable for revival of the co-operative bank as already explained in para 9 above. It is also not in conformity with the provisions of Multi State Co-operative Societies Act, 2002 and the guidelines issued by RBI.

From the facts and circumstances mentioned above it is observed that :

- i) The co-operative bank is not complying with the provision of Sections 11(1) and 22(3) (a) & (b) of the Act. There is no revival plan or merger proposal pending with RBI.
- ii) There is no likelihood of the co-operative bank being able to resume normal functioning in the foreseeable future.
- iii) The co-operative bank is not in a position to pay its present and future depositors in full as and when their claims accrue.
- iv) The affairs of the co-operative bank are being conducted in a manner detrimental to the interests of its depositors.
- v) The financial position of the co-operative bank is so precarious that there is no scope for its revival
- vi) The public interest would be adversely affected if the co-operative bank is allowed to carry on its business any further.

Therefore, Reserve Bank of India took the extreme measure of cancelling the licence of the co-operative bank in the interest of co-operative bank's depositors. Consequent to the cancellation of licence, The Madhavpura Mercantile Co-operative Bank Ltd., Ahmedabad (Gujarat) is prohibited from carrying on the business of 'banking' as defined in Section 5(b) of the Banking Regulation Act, 1949 (AACS).

For any clarifications, depositors may approach Shri Kamaljeet Singh, Assistant General Manager, Urban Banks Department, Reserve Bank of India, Ahmedabad. His contact details are as below:

Postal Address: Urban Banks Department, Reserve Bank of India, Ahmedabad Regional Office, La Gajjar Chambers, Ashram Road, Ahmedabad -380 009, Telephone Number: (079) 26582822, Fax Number: (079) 26584853. [Email](#).