REPORT OF THE COMMITTEE TO REVIEW THE WORKING OF THE CREDIT AUTHORISATION SCHEME

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY

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LETTER OF TRANSMITTAL

S. S. MARATHE

July 7, 1983

Dear Governor Singh,

COMMITTEE TO REVIEW THE WORKING OF THE CREDIT AUTHORISATION SCHEME

I have pleasure in transmitting the Report of the Committee to Review the working of the Credit Authorisation Scheme appointed by the Reserve Bank of India on 3rd November 1982.

The report is a co-operative effort in which all members have contributed in terms of their knowledge and experience. On behalf of the Committee I would like to specially acknowledge the help and guidance received by us from all those in the Reserve Bank of India who were, one way or another, associated with the work of the Committee.

Yours sincerely,

(S. S. Marathe)

Dr. Manmohan Singh,
Governor,
Reserve Bank of India,
Central Office,
BOMBAY.

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CHAPTER I

INTRODUCTION

Background

1.1 At his meeting with the Chief Executives of major scheduled commercial banks on the 25th October 1982 at which the broad contours of the credit policy for the busy season 1982-83 were set, the Governor, Reserve Bank of India (RBI) observed that the Credit Authorisation Scheme (CAS) had been operative for a number of years and although periodic assessment of its operations had been made, time was apposite for its independent review. In this background, he announced the Reserve Bank's decision to set up a Committee to review the working of CAS.

Terms of reference of the Committee

1.2 The Committee to review the working of CAS 'from the point of view of its operational aspects', was thereafter set up on the 3rd November 1982, with the following terms of reference:

(i) To examine the objectives, scope and content of the Scheme and make suggestions with regard to making modifications therein, if any, having regard to the changing economic situation.

(ii) To examine the adequacy or otherwise of the credit appraisal machinery/procedures in commercial banks, and based thereon, suggest modifications, if any, in the modalities in this behalf.

(iii) To study the existing set-up for compliance with the requirements of the Scheme within the commercial banks both at the Head and Regional Office levels and suggest any modification therein considered necessary to facilitate proper appraisal and expeditious disposal of applications and monitoring thereof.

(iv) To examine the existing data base relevant for making recommendations by banks to Reserve Bank of India for authorising a given level of credit for a particular party and suggest modification/simplification, if any, in that behalf.

(v) To examine the existing format for submitting applications by banks to Reserve Bank of India in respect of seeking authorisation and suggest modifications therein, if necessary.

(vi) To study the desirability of introducing time bound guidelines to be observed within commercial banks and Reserve Bank for speeding up the processing and disposal of applications.

(vii) To make any other recommendations which are germane to the Scheme.

1.3 The Committee comprised the following :

1.	Shri S. S. Marathe, Former Secretary to Government of India (Ministry of industry), PUNE.	Chairman
2.	Dr. P. D. Ojha, Executive Director, Reserve Bank of India, BOMBAY.	Member
3.	Shri B. V. Sonalker, Chairman, Central Bank of India, BOMBAY.	Member
4.	Shri V. N. Nadkarni, Dy. Managing Director* (Operations), State Bank of India BOMBAY.	Member
5.	Shri S. P. Acharya, Chartered Accountant, 16, Raja Santosh Road, Alipore, CALCUTTA.	Member
6.	Prof. Sampat P. Singh. National Institute of Bank Management, BOMBAY.	Member
7.	Shri R. C. Mody, Chief Officer, Industrial Credit Department,** Reserve Bank of India, Central Office, BOMBAY.	Member-Secretary

* Since appointed Managing Director of the State Bank of India.

** Since named Industrial & Export Credit Department.

A copy of the Memorandum setting up the Committee is given in *Appendix I.*

Methodology

1.4 The first meeting of the Committee was held at Bombay on the 1st December 1982 when its deliberations were initiated by Shri A. Ghosh, Deputy Governor, Reserve Bank of India who conceded that there was a need for improvement in operational aspects but cautioned against dilution of the lending discipline initiated through the medium of CAS. According to him, the delays about which complaints were voiced were often due to incomplete information furnished in credit proposals or the projections of sales, current assets/liabilities being found unrealistic. The banks' perception of the problems concerning credit to individual borrowers was different from that of the Reserve Bank which took macro perspective of the economy.

At this meeting, the Committee perceived the tasks before it and drew up a broad outline of its work plan. Thereafter, it met ten times, once each at New Delhi, Madras and Calcutta and on rest of the occasions at Bombay. The Committee invited views in writing from all major commercial banks including foreign banks functioning in India, all-India financial institutions, a representative cross-section of industry associations and individual experts in the field of banking and finance (vide *Appendix II*). It later held discussions with some of them (vide *Appendix III*). Public sector undertakings account for a substantial portion of bank credit falling within the purview of CAS. However, despite requests made by the Committee to the Standing Committee on Public Enterprises (SCOPE), no meeting could take place with them.

1.5 The terms of reference, inter alia, required the Committee to examine adequacy of credit appraisal machinery in banks and study their existing set-up for complying with the requirements of CAS. The Committee took the assistance of the Management Services Department (MSD) of the Reserve Bank for this task.

1.6 The Committee requested the President of the Institute of the Chartered Accountants of India for his views on the data base/information system prescribed under CAS for supply of information from borrowers to banks and from the latter to the Reserve Bank.

1.7 The data relating to CAS coverage of bank borrowers and bank credit (sector-wise and activity-wise) from year to year was tabulated and made available to the Committee by the Industrial and Export Credit Department (IECD) of Reserve Bank of India. The Reserve Bank of India also provided to the Committee a number of case studies (without disclosing the names of banks and borrowers) pertaining to working capital and term loan proposals actually handled by its IECD under CAS.

Scheme of the Report

1.8 The report deals with all the terms of reference. However. the chapters have not been arranged in the same order in which they have been given in paragraph 1.2. Chapter II gives, in brief, the origin of CAS and the environmental changes since its inception which have led to alterations in its content and objectives over the years. Chapter III contains the views for and against the concept as well as operation of CAS, presented to the Committee in written communications and during verbal discussions. The broad approach of the Committee to the Credit Authorisation Scheme is presented in Chapter IV. The Committee's main proposals for modifications in the Scheme, its frame work, operational aspects and the information system are given in Chapter V. In this chapter, the direction in which discretion may be vested in banks within the frame work of the Scheme to ensure timely flow of credit to the borrowers has also been suggested. The modifications in the Scheme envisage increasing incentives for borrowers as well as bankers to comply fully with all the requirements of the Scheme including the information system. Chapter VI deals with the relevance of the Scheme to term lending by commercial banks in the present context and the need for an on-going co-ordination between them and term lending institutions in this area. Chapter VII has been devoted to the description of organisational set-up in commercial banks and RBI to deal with the proposals falling within the purview of CAS and suggests improvements in them so as to improve the quality of lending as well as speedy disposal of the proposals. The promotional role in respect of improving quality of lending and related activities which RBI is playing through the operation of CAS, is the subject matter of Chapter VIII. Suggestions for widening and strengthening this role have also been made in this chapter. Chapter IX contains 'Summary of Observations and Recommendations'.

Acknowledgements

1.9 The Committee received valuable information and guidance in examination of the issues covered by its terms of reference from bankers, all-India financial institutions, all-India industry associations and certain distinguished experts who gave their views to it in writing and/or during personal discussions and it is grateful to them. It wishes in particular, to express its gratitude to Shri L. K. Jha, Chairman, Economic Administration Reforms Commission, Government of India for having spared a lot of his valuable time for holding prolonged and very useful discussions with the members of the Committee.

The Committee would like to record its appreciation of the excellent work done by the IECD of Reserve Bank of India. In addition to providing a very efficient secretarial support, the IECD and specially its statistical wing made available valuable information and extensive data on CAS. The Committee would also like to mention the help it received from Dr. Y. B. Damle, Adviser, Management Services Department of the Reserve Bank of India and his team consisting of Sarvashri B. J. Mandhyan, V. S. Das, L. N. Ramaswamy and R. Bhalla in respect of the very useful study of the credit appraisal machinery, etc. of certain banks, carried out by them. The Committee is also thankful to the State Bank of India for providing facilities to the Committee for holding one of the meetings.

The Committee wishes to express its gratefulness to Dr. Manmohan Singh, Governor, Reserve Bank of India for the help and guidance it received in discharging its function and for extending the time limit for submission of its report. Shri A. Ghosh, Deputy Governor, Reserve Bank of India at the first meeting gave a broad perspective to the deliberations of the Committee, and he and his senior colleagues also provided valuable guidance from time to time. The Committee also wishes to place on record its appreciation and thanks to Shri R. C. Mody, Member-Secretary and his team consisting of Sarvashri G. K. Udeshi, Deputy Chief Officer, A. B. Telang, Assistant Chief Officer and K. A. George, Staff Officer. Their knowledge of the working of the Scheme and their unfailing courtsey and cooperation at all stages of the Committee's work made our task both easier and more pleasant.

CHAPTER II

CREDIT AUTHORISATION SCHEME — A HISTORICAL PERSPECTIVE

Origin of CAS

2.1 In 1965, the Indian economy was passing through a period of considerable stress and Reserve Bank of India felt that there was imperative need to preserve a 'reasonable balance between aggregate monetary flows and the availability of real goods and services'. As part of the credit policy announcement for the busy season 1965-66 made on 20th November 1965, the Reserve Bank, inter alia, advised all scheduled commercial banks that 'in order that the growth of bank credit may be more closely aligned to the requirements of the Plan and as an additional measure of credit regulation', they would be required to obtain the Reserve Bank's prior authorisation before sanctioning any fresh credit limit (including commercial bill discounts) of Rs. 1 crore or more to any single party or any limit that would take the total limit enjoyed by such party from the entire banking system to Rs. 1 crore or more on secured and/or unsecured basis.

This was the beginning of what came to be known a little later as the Credit Authorisation Scheme (CAS).

Environmental changes

2.2 It is now over 17 years since the Scheme has been in operation. During this period several developments have taken place in the environment in which it has been operating, necessitating changes in the scope, content, and even objectives of the Scheme. Some of the major identifiable changes are, introduction of social control over banks in 1967 which was accompanied by the concept of sectoral deployment of credit and followed a little later, in July 1969 by nationalisation of the 14 major scheduled commercial banks. Following upon nationalisation, a major directional change took place in the form of earmarking a fixed percentage of bank credit for specific purposes such as agriculture, small scale industries, etc. (later termed as 'priority sectors') and initiation of credit planning exercises in banks at the behest of RBI. The Dehejia Committee had recommended in its report in the same year that the banking system should not be guided merely by security considerations but should take a total view of the borrower's operations.

The emphasis on bank lending to 'priority' and 'weaker' sectors increased with the introduction of the 20-Point Programme in 1976 and

Integrated Rural Development Programme (IRDP) in 1979. It received further filip with the release of the reports of the Krishnaswamy Working Group in 1980 (which, among others, fixed sub-targets for 'weaker' sectors, agriculture, etc.) and of the Ghosh Committee in 1982 (which further refined the definitions and 'groups' needing special attention). During 1973-74 and again in 1979-80, the country witnessed bouts of runaway inflation which had far reaching impact not only on credit policy but overall approach to lending. In April 1980, six more banks were nationalised. These changes understandably had their impact, direct or indirect, on the structure of the Scheme and the policies governing its operation.

2.3 The period since November 1965 during which CAS has been in operation can broadly be divided into four phases.

During the first phase which lasted from the inception of the Scheme till about the middle of 1970, RBI's role was confined to satisfying itself, through a brief scrutiny of the banks' applications about the purpose of the advance and in the process, monitoring the facilities allowed, so as to exercise a measure of restraint on bank lending to large borrowers so that they did not pre-empt the available resources of the banking system. The main emphasis during this phase was on preventing excessive lending to particular units or business groups because of their close links with particular banks. No data base had been built in the system and no lending norms had been prescribed, nor any information system instituted for follow-up of credit. In the absence of these, there was no method either of precisely assessing the credit needs of borrowers or ensuring end-use of funds by them.

2.4 During the second phase which commenced in June 1970 and lasted till about the middle of 1975, the Reserve Bank sought to introduce in banks a more organised approach towards assessment of credit needs of their large borrowers and their decision making on the proposals. It prescribed during this period, for the first time, a set of forms in which certain essential data were to be obtained by banks from the borrowers seeking credit facilities covered by CAS. The same data were also required to be furnished by banks to RBI at the time of seeking authorisation. Through this modified mechanism, a closer look was sought to be had at the borrowers' credit requirements and, at the same time, a beginning was made towards prevention of stock piling and diversion or siphoning away of funds for inter-corporate investments or for lending to sister concerns, etc.

2.5 With the acceptance by the Reserve Bank of India of the recommendations of the Study Group to Frame Guidelines for Follow-up of Bank Credit (better known as the Tandon Committee) in mid-1975, CAS entered the third and perhaps the most important phase. In the background of steep rise in the demand for bank credit unrelated to rise in production and inflation touching unprecedented levels during 1973-74, it was felt necessary to correlate the need for bank credit of borrowers to their business/production plans as also their own resources including long term funds at their disposal. There was a perceptible shift as a result from a 'security based' to a 'need based' approach to bank credit.

2.6 The recommendations of the Tandon Committee required assessment of credit needs of borrowers on the basis of certain norms for inventory and receivables, and working out the maximum permissible quantum of bank credit on the basis of prescribed methods, besides supply of follow-up information by borrowers to banks. For the first time, a direct link was thus sought to be established between bank credit and production and distribution needs of the borrowers. Reserve Bank required the guidelines proposed by the Tandon Committee to be adopted by banks in respect of all credit limits of Rs. 10 lakhs and above and these guidelines also became the basis of RBI's scrutiny of applications under CAS. In the process, the operation of CAS came to be based on clearly enunciated quantitative criteria as against a system of scrutiny, the main emphasis of which was on preventing excessive liberality in credit allocation to favoured customers or groups. During this phase which lasted till about the end of 1980, the concepts like net working capital and acceptable minimum current ratio, were adopted and the role of a bank in financing working capital needs defined in clearer terms. This also meant that the traditional banker's view regarding a customer's needs and credit-worthiness became less relevant than the quantitative assessment based on ceratin normative criteria which determined need. Security as such remained necessary but no more a sufficient criterion and there could be occasions for a difference between the commercial perception of banks of their customers' credit needs and the permissible credit limits as worked out on the basis of the Tandon Committee norms.

2.7 The fourth and the current phase commenced in December 1980 with the adoption by RBI of most of the recommendations of the Working Group to Review the System of Cash Credit (Chore Committee) which not only sought continuation but strengthening of the discipline introduced during the third phase. The principal implication of Method II of lending recommended by the Tandon Committee and reiterated by the Chore Committee was insistence on stepping up of contribution by the borrowers out of internal resources and long term funds. for working capital purposes. Besides, the banks were enjoined to exercise better supervision and control over borrowers through a system of annual review of accounts as also quarterly operating data with a view to ensuring better follow-up of bank credit. With the exception of sick units, other units needing adhoc/temporary limits for short duration and those involved in expansion of the existing capacity or setting up of new projects, the larger borrowers enjoying working capital facilities of Rs. 50 lakhs and over were required to be placed immediately on Method II of lending, with the provision that those unable to comply with it immediately should be enabled to gradually do so within a period not exceeding 5 years. Besides, penalties including freezing of limits were prescribed for those who failed to fall in line with the requirements of the new information system which was made the kingpin of the discipline sought to be enforced. The Chore Committee's recommendations essentially meant reiteration of the unimplemented recommendations of the Tandon Committee regarding control over unduly heavy dependence on banks for working capital needs. The system cannot be said to have fully stabilised yet and efforts on the part of those entrusted with the task of making it work, are continuing.

2.8 It will thus be seen that an arrangement which started as a measure of restraint on excessive bank lending to large borrowers and for monitoring the same, has developed over the years into a mechanism to ensure that resources of banks are deployed as far as large borrowers are concerned, to meet only their genuine productive needs. The method for determining these needs on the basis of certain well defined principles has also been developed. The CAS now operates on this basis.

Structural changes in CAS

2.9 Over the years, CAS has undergone a series of changes. Some of them are structural. Thus, the cut-off point which was Rs. 1 crore to start with in 1965 was raised to Rs. 2 crores in November 1975 and further to Rs. 3 crores in August 1982. In November 1982, it was raised to Rs. 5 crores for export-oriented manufacturing units. Certain adjustments in the provisions of the Scheme in regard to the requirement or otherwise of obtaining prior authorisation from the Reserve Bank in particular situations have also been made from time to time. In May 1971, term loans to non-CAS borrowers above a particular cut-off point were brought within the ambit of the Scheme. CAS was applicable to both private and public sectors to start with but the latter was taken out of its purview in May 1969. The Scheme was, however, made applicable to the public sector again in March 1973 with a higher cut-off point of Rs. 3 crores in respect of working capital facilities (as against Rs. 1 crore applicable to the private sector at that time) and Rs. 1 crore in respect of term loans (as against Rs. 25 lakhs then for private sector). In 1982. the cut-off point for the private sector borrowers as far as working capital facilities are concerned was brought at par with that in respect of borrowers in the public sector.

2.10 The particulars of changes effected in the Scheme from time to time since its inception, have been chronicled in *Appendix IV* while the outline of the Scheme as it exists today is given in *Appendix V*. Statistical data showing the coverage of the Scheme in terms of number of borrowers, limits sanctioned, share in the total non-food credit, etc. are furnished in *Appendix VI.* Broadly, the Scheme as on 31st December 1982 covers 877 borrowers and the total limits sanctioned to them amount to Rs. 11395 crores. The public sector borrowers are 185 i.e. 21% of the total number of CAS borrowers but they account for as much as 44.6% of the amount of total limits sanctioned. The outstanding credit to all the borrowers under CAS formed 29% of total non-food credit of commercial banks as at end-September 1981, as per the latest available data.

Objectives of CAS

2.11 The aim initially was to closely align the growth of bank credit to the requirements of the Plan and as an additional measure of credit regulation; the objectives were enlarged and redefined in May 1978 as under :

(a) To ensure that additional bank credit is in conformity with the approved purposes and priorities and that the bigger borrowers do not pre-empt scarce resources;

(b) To enforce financial discipline on the larger borrowers, where necessary, on uniform principles;

(c) Where a borrower is financed by more than one bank, to ensure that the customer's proposal is assessed in the light of the information available with all the banks; and

(d) To bring about improvement in the techniques of credit appraisal by banks and their system of follow-up.

Thus, by broad-basing the objectives of CAS, an attempt was made to enlarge its scope with a view to ensuring a greater degree of credit discipline on the part of the banks as well as borrowers.

2.12. The relevanse of CAS and its objectives as also changes required therein in the present day context, are discussed in the subsequent chapters.

CHAPTER III

CREDIT AUTHORISATION SCHEME — DIFFERENT VIEWS

3.1 The Committee examined a wide cross-section of views presented to it by bankers, financial institutions, industry associations and experts. While some questioned the very rationale of the Scheme, others wanted drastic changes in its structure and operation. There were yet others who were appreciative of the useful role it had played in bringing about orderliness, discipline, and qualitative improvement in bank lending and wanted only marginal modifications and relaxations in its operational aspects. The criticism as well as the points made in favour of the Scheme came from all categories of persons and organisations and as such it cannot be said that any particular group as a whole was critical or appreciative of it. This chapter summarises the views as expressed to the Committee.

Views against CAS

3.2 A point made by some was that the Scheme involves RBI, the Central Banking Authority of the country, in lending operations of banks at the micro level. It was, according to them, incorrect in principle besides being unhealthy and undesirable from a practical angle. The role of a Central Bank vis-a-vis advances portfolios of banks should be limited to laying down broad guidelines and prescribing aggregates where necessary. Associating itself with credit decisions of banks in individual cases, according to some, was undesirable for the Central Banking Authority on two counts. On the one hand, it made inroads into the legitimate area of commercial banks' authority and on the other, it took upon itself the moral if not legal, responsibility for such decisions. The situation was particularly embarrassing because there were quite a few instances where a bank's lending went sour and it was landed with substantial bad debts in cases which, ironically, had the blessings of the Reserve Bank in the form of its formal authorisation under CAS. The fact that RBI, under the Scheme, while giving clearance to the credit proposals from banks, made it clear to them that it took no responsibility for the soundness of the proposal from the angle of creditworthiness of the borrower which was the concern of the banks — did not seem to improve the matters. RBI thereby lost its moral authority to objectively judge the methods of operations of a bank, which under the law of the land and recognised practice in several countries, was an area of its responsibility as the Central Banking Authority. From the operational angle, the exercise involved in obtaining Reserve Bank's prior authorisation, according to some, added one extra tier to decision making process on credit proposals after they have been cleared in a bank at the highest level, viz. its Board of Directors. This caused delay, quite often considerable, in availability of funds to the borrowers in a situation where time was of the essence. In this connection it was also said by some that whereas the original objective of CAS was to align the growth of bank credit more closely to the requirements of the Plan, over the years, it had been so operated as to lose sight of this objective and involve RBI increasingly in lending operations of banks at the micro level.

3.3 There were some others who argued that while at some stage the Reserve Bank's authorisation of large credit limits sanctioned by banks was justified so as to ensure that some of the large borrowers wielding influence and power in the management of banks did not pre-empt scarce resources of the banking system, this was no longer necessary in the present context in which all major banks are in the public sector. These banks have no links with business houses and both Government of India and RBI themselves are represented on their Boards of Directors. The chances of pre-emption of funds by large parties were also now otherwise limited as specific proportions had been laid down in respect of advances to 'priority sectors' and to 'weaker sections' of the society under national programmes like IRDP and the new 20-Point Programme. Besides. over the years, a system of quarterly credit budgeting had developed in banks in which the Credit Planning Cell of the Reserve Bank itself is involved, for allocating resources of banks to different productive sectors.

3.4 It was further contended that RBI had by now prescribed comprehensive guidelines for banks in regard to sanction of large credit limits in terms of norms and methods laid down by the Tandon and Chore Committees; and the banks had developed the necessary expertise and credit appraisal machinery to be able to process the proposals on the prescribed lines. In view of this, some of them felt that there was no need any more for proposals being referred to RBI for prior clearance. It was also argued that wherever there was need for deviation from norms and guidelines, the best judges were the bankers and not the Reserve Bank. This was so because of the banks' intimate knowledge of their borrowers and clearer understanding of their needs, while RBI had no direct contact with them.

3.5 Another point made was that there were very few cases of rejections and modifications of limits referred to RBI by banks under CAS and the exercise at RBI level was, therefore, from a practical angle. more or less superfluous. It resulted in loss of precious time without any compensating benefits to the banking system or to the economy. It was argued that the overall machinery of control and supervision over the banking system which RBI operates should be sufficient to ensure that the banks followed its guidelines. The surveillance, as far as larger accounts are concerned, could be strengthened further by instituting a system of post-disbursement scrutiny of such cases by RBI. This could serve the underlying purpose of CAS without erosion of the legitimate authority of banks and their Boards of Directors, in the matter of taking final decisions on all credit proposals irrespective of the amount and would avoid loss of time involved in obtaining prior authorisation from the Reserve Bank; the sanctions could then be communicated to the borrowers speedily.

3.6 Lastly, it was argued that a control mechanism which after 17 years of operation was still needed was clearly ill-suited to serve the objectives which prompted its introduction. There was a prima facie case, in the opinion of some, to critically review its working and modify it drastically so that after a period, its continuance would become unnecessary.

View points in defence of CAS

3.7 There were several who held that CAS had played a major, according to some historic, role in bringing about certain amount of uniformity, objectivity and discipline in bank lending, relating it positively to the end-use of funds. The Scheme had also been instrumental in the process of transforming the earlier security based approach of banks into a need based one. In this context, the fact of the nationalisation of major banks, in their opinoin, was not strictly relevant. Banks even after nationalisation continue to remain commercial institutions. It is possible that judgement of banks would differ from that of RBI when it came to taking a view on credit needs of the 'valued' clients of a bank. Thus, what may be 'need based' from a bank's point of view may not be so considered by RBI which looked at the requirement from a wider macro concept of credit deployment for various sectors of the economy. CAS, it was said, also acted as a curb on banks to over lend in an inflationary situation where borrowers tend to pile up inventories in anticipation of price rise.

3.8 A few bankers argued that it was not always possible for them to resist demands of their important and valued clients in public as well as private sectors, even if they did not fall within the parameters of the prescribed norms. The overriding powers of RBI under CAS insulated them from pressures built up by such borrowers. Some of the bankers also expressed the view that CAS was instrumental in avoiding unhealthy competition by introducing a uniform system of lending and improved appraisal machinery. They felt that but for the Scheme, the willingness and ability of banks to appraise the proposals on the basis of uniform norms and methods would have been less and credit expansion excessive as well as undesirable.

3.9 The exercise on credit budgeting, it was felt, did take care of sectoral deployment of bank credit but could not ensure its fair and equitable deployment amongst individual borrowers within a particular sector. It would be possible for a few borrowers to absorb the entire amount allotted to a particular sector in the absence of the Scheme. Hence, it was held that the work being done in the Credit Planning Cell of RBI in this connection, though extremely useful, was essentially a complementary activity and in no way, a substitute for that under CAS.

3.10 As regards the objection to CAS on grounds of tenets of Central Banking, it was the view of some that the concepts in this regard could not be static and had to vary from period to period and situation to situation. The Central Banking ethos in India since the dawn of Independence had taken its own course and had in many ways moved away from the traditional concept. Reserve Bank had in this process, played a unique and vital role in promoting economic development and in building up and strengthening the banking structure of the country — a role which is without a parallel in any country. RBI is responsible for the health of the financial system and for ensuring deployment of funds in the context of given socio-economic objectives of the country. There could, according to some experts, therefore, be no serious objection to CAS on grounds of theory and practice of Central Banking.

3.11 Some others held the view that the representation of RBI on the Boards of commercial banks could not be a substitute for its functions under CAS. The role of a nominee director was different. He neither had the time nor necessarily the expertise needed for detailed assessment of individual loan proposals. Besides, the Boards do not deal exclusively with the credit proposals and the matters brought before them include the whole gamut of the bank's operations. Thus, the nominee director cannot be expected to look into the credit proposals in all their details required under the Scheme.

3.12 There was also a view expressed by some that the discipline envisaged under the Tandon and Chore Committees' recommendations was not being enforced, particularly in proposals which were below CAS cut-off point. It was also pointed out that the information system designed by these committees had not yet taken root and withdrawal of CAS at this stage would further impede the building up of the information system. The banks had yet to take effective steps to ensure prompt payment of bills of small scale units by their large borrowers, despite measures to this effect being advocated by RBI for several years.

3.13 While conceding that delays should be avoided and time factor was important in decision making, it was universally accepted that there was need for rationalisation as much in commercial banks as in the

Reserve Bank. It was also recognised that a pre-condition for such a rationalisation was greater cooperation from the borrowers in timely supply of the requisite information to the banks for credit appraisal. Regarding the suggestion made by some that the present Scheme be substituted by a post-facto scrutiny by RBI, it was felt by others that such an arrangement would not in practice be effective as it would not be possible to take corrective measures on an on going basis wherever necessary. Those who were in favour of the Scheme felt that while there was need for some modifications in CAS and streamlining it in its operational aspects, there was no case for its scrapping or substituting by a system of post-facto scrutiny.

After examining the views presented to it, the Committee formulated its own approach to the Credit Authorisation Scheme which is discussed in the next chapter.

CHAPTER IV

COMMITTEE'S APPROACH TO THE CREDIT AUTHORISATION SCHEME

4.1 The Committee was, inter alia, required to examine the objectives, scope and content of CAS and to make specific recommendations. It would like to spell out its approach to CAS and its perception of the role of the Reserve Bank in ensuring that there is orderly deployment of credit based on established norms.

4.2 At the outset, the Committee would like to stress that CAS is not to be looked upon as a mere regulatory measure which is confined to large borrowers. The basic purpose of CAS is to ensure orderly credit management and improve quality of bank lending so that all borrowings, whether large or small, are in conformity with the policies and priorities laid down by the Central Banking Authority. If the CAS scrutiny has to be limited to a certain segment of borrowers, it is only because of administrative limitations or convenience; and it should not imply that there are to be different criteria for lending to the borrowers above the cut-off point as compared to those who do not come within the purview of the Scheme.

4.3 The Committee would also like to point out that the process of lending has to be viewed as a whole in the context of the country's need for speedy development; and if the quality of lending has to be improved or delays avoided, it can only be done through a process which involves the borrower, the commercial banks and the agencies concerned in the Reserve Bank. It is not possible to avoid delays or improve quality of lending merely by concentrating on a single point. The borrowers have to do their bit by providing all the necessary and relevant information in time and in adequate detail. The long time taken in commercial banks in processing applications has to be reduced by suitable organisational changes. Similarly, the time taken for scrutiny in the Reserve Bank also requires attention partly because it is the last stage of the process, and, because of earlier delays, it is found more irksome by the borrower. Improvement in the system as a whole has to be a conscious and continuous process in order to achieve the desired results. There has to be a co-operative effort by all the three elements, viz. commercial banks, borrowers and Reserve Bank and there is need for a continuing dialogue amongst them.

4.4 The material presented to the Committee and the discussions it has had with different sections of bankers, borrowers and the Reserve Bank clearly show that the CAS has been extremely useful in improving the quality of credit appraisal and shifting the focus from security based lending to need based lending, determined on established criteria. The need for prior approval by the Reserve Bank acts as a deterrent to unhealthy competitive lending. In more recent years, RBI has tried to ensure that appraisals by commercial banks take account of the norms recommended by the Tandon Committee and lately by the Chore Committee. However, while there has been considerable improvement in the commercial banks' appraisal systems, there are still wide variations as between banks and sometimes, in the quality of proposals put up by the same bank. There are also delays, often inordinate, in processing applications. Similarly, among the borrowers also many have introduced modern techniques for the management of working capital and finance. In several cases, tools like planning for working capital, cash budgeting and management information systems are increasingly being used. But here again there is a considerable variation even amongst large borrowers; and the relatively smaller ones are still way behind. Altogether, while the working of the CAS has contributed a great deal and the banks as well as the borrowers have in many cases improved their systems, there is still a long way to go.

4.5 Yet another factor that the Committee has observed is that the perception of banks, both in public and private sectors, of the needs of a client tends to be sometimes different from that of the Central Banking Authority. Whereas the banks do try to function within the framework of policy guidelines and disciplinary requriements of RBI, commercial considerations quite often weigh with them. As a result, there are several occasions when the norms of financial discipline are diluted and guidelines laid down on the basis of the reports of the Tandon, Chore and Bhuchar Committees (vide paragraphs 2.5, 2.7 and 6.3 respectively) are overlooked. The public ownership of banks cannot bridge the difference between the view points of lender and monetary authority.

4.6 In this background, the Committee felt that continued surveillance by the Reserve Bank over the lending operations of commercial banks has still an important role to play. The argument that the actual number of cases in which the Reserve Bank had to reject or modify the banks' proposals was relatively small was not, in the view of the Committee, an adequate reason for removing RBI scrutiny. This was so for several reasons. In many cases, it was pointed out that the banks themselves had modified their proposals as a result of across the table discussions among the borrowers, bankers and RBI. Further, the number of ineligible limits would have been much larger and the quality of lending in banks would have suffered but for the fact the Reserve Bank approval and surveillance were there in the background. The statistics given in *Appendix VI* (Statement No. 5) are inclusive of cases where limits sanctioned were subject to certain conditions or stipulations which, inter alia, included a directive that corrective action will be taken by the banks within-a specified period.

4.7 The Committee however recognises that even now some customers meet with all the requirements of the Scheme including the needs of the information system and that in a substantial number of cases, the proposals coming from the commercial banks are not modified by RBI. It feels that the main objective of the Scheme should be to further strengthen competence for credit appraisal in the commercial banks and to ensure that the discipline in lending is, as far as possible, imposed by the banks themselves. Besides, in order to minimise the delays on the part of commercial banks in meeting the credit requirements of such borrowers, some modifications in the Scheme are called for. It would be desirable, therefore, to evolve a system in which there is an incentive for the borrowers to comply with all the requirements of the Scheme including the information system and for the banks to improve the quality of credit appraisal. This can best be achieved by ensuring that all the cases where such compliance exists, receive preferential treatment in the form of not requiring a prior authorisation of the Reserve Bank.

4.8 The Committee feels that an approach along these lines rather than alterations in the present Scheme in terms of higher cut-off points, or exclusion of certain types of lendings from the purview of CAS, would be a more appropriate course at this stage. The details of the proposed approach are spelt out in Chapter V.

CHAPTER V

PROPOSED MODIFICATIONS TO THE SCHEME

5.1 In the light of the approach outlined in the preceding chapter, the Committee carefully considered the various suggestions and alternatives which emerged in the course of its discussions. Some of these suggestions were in line with the Committee's approach of seeking to maximise the degree of discretion given to the commercial banks, subject to adequate safeguards that their proposals will be in conformity with the norms laid down for determining credit needs. The proposed scheme as outlined in the following paragraphs was, in the view of the Committee, preferable to the alternatives suggested to it. For instance, in order to establish a 'fast track' for eligible proposals, it had been suggested that banks could be classified into one or more categories depending on their record and the expertise attained by them in credit appraisal. Similarly, borrowers could be classified into categories.

5.2 While the Committee noted that the purpose of these suggestions was the same as the Committee had in mind, viz. to give discretion to the banks without detriment to the quality of lending, it was unable to accept the first suggestion. There would be serious difficulties in classifying banks, more so because as pointed out earlier (vide paragraph 4.4), there are often considerable variations in the quality of proposals emanating from the same bank. Further, banking is a highly sensitive activity and any implication that a particular bank is not eligible to be placed in the highest category, can have serious repercussion for the bank. The classification of borrowers could be possible; but the Committee felt that it was more logical to classify *proposals* rather than borrowers. This would ensure that each lending operation was in conformity with the norm requirements and there would be a continuing incentive for borrowers as well as banks to come up with proposals which would receive preferential treatment in the sense of not requiring prior approval from the Reserve Bank. The modified approach as described in the subsequent paragraphs is based on these considerations.

Modified approach

5.3 On the basis of case studies and other records of IECD perused by the Committee, it recommends that banks be allowed discretion to deploy credit in CAS cases which fulfil the following requirements, without RBI's prior authorisation :

(i) The estimates/projections in regard to production, sales, chargeable current assets, other current assets, current liabilities (other than bank borrowings), and net working capital are reasonable in terms of past trends and norms (wherever specified), and assumptions regarding most likely trends during the future projected period.

(ii) The classification of assets and liabilities as 'current' and 'non-current' is in conformity with the guidelines issued by RBI.

(iii) The projected current ratio is not below 1.33 : 1 (except under exempted categories) and slip back in it, if any, from a higher level in the past to the projected level is on account of permissible activities indicated by RBI and not due to any diversion of funds outside the company — vide *Appendix VII*.

(iv) The borrower has been submitting quarterly operating statements for the past 6 months within the stipulated time and undertakes to do so in future also.

(v) The borrower undertakes to submit his annual accounts promptly and the bank carries out the annual review of the facilities irrespective of the fact whether the borrower needs enhancement in credit facilities or not.

5.4 The credit proposals conforming to all the above requirements could be sanctioned by banks and the drawals thereunder be allowed by them on the basis of quarterly operating statements. Simultaneously, the bank should send the relevant proposal to the Reserve Bank along with a certificate signed by a senior executive (duly authorised in this respect by the bank's Board) to the effect that he had satisfied himself that it conformed to all the requirements stated in paragraph 5.3. The format of the certificate will be prescribed by RBI. This will facilitate speedy release of funds to borrowers conforming to all the requirements of the Scheme including information system. The proposal when received in RBI will however, go through the normal process of scrutiny as at present and if, as a result of the scrutiny, it is found that the credit limit sanctioned was not warranted or was excessive. corrective action will be taken by the bank as may be directed by the Reserve Bank. In such cases, RBI may stipulate that, until further notice, credit proposals from these borrowers should be referred to it for its prior authorisation.

5.5 RBI has recently liberalised the Scheme in respect of certain export oriented manufacturing units by raising the cut-off point applicable to them to Rs. 5 crores (vide item I(iii) (1) of *Appendix V*). The Committee feels that those export-manufacturing units whose export turnover was not less than 75% of the turnover of the goods manufactured by them, however, deserve a special treatment and in their case, the credit proposals should be disposed of at banks' level without prior reference to

RBI, provided banks are satisfied and certify about the reasonableness of exporters' credit needs. This will of course, be subject to the same conditions as indicated in the concluding portion of paragraph 5.4.

5.6 The remaining proposals received under CAS should continue to undergo pre-disbursement scrutiny of RBI. The focus of RBI scrutiny in these cases should also be on the requirements laid down in paragraph 5.3. A clear understanding of the respective roles to be played by RBI and commercial banks in regard to the type of scrutiny each should undertake would contribute in a big way to expeditious disposal of the applications and efficient use of bank resources.

Exemptions from prior authorisation and enlarging discretionary powers of banks in respect of certain specific facilities

5.7 This should remain an on-going exercise. It is understood that certain relaxations in both these areas were allowed as recently as in November 1982. To the extent lending discipline is not diluted and the objective is to facilitate productive activity of borrowers uninterruptedly, the exemptions and increased discretionary powers may be allowed from time to time. At present there is a provision in terms of which ad hoc cash credit and bill limits/packing credit limits can be released by banks to CAS parties for periods upto 3 months for various purposes upto 10% / 25% of the existing limit, subject to a maximum of Rs. 50 lakhs. It is the general complaint that amount-wise restriction limits the benefit of this exemption mainly to borrowers having working capital limits of Rs. 5 crores or less. The borrowers having existing working capital limits in excess of Rs. 5 crores may need ad hoc increases which will be substantially higher than what could be allowed to them within the abovementioned discretionary limit of Rs. 50 lakhs. The Committee therefore, feels that the existing arrangement for borrowers enjoying working capital limits upto Rs. 5 crores may continue, while in respect of those with worknig capital limits in excess of Rs. 5 crores, the banks could be permitted to allow ad hoc limits to the extent of 25% of the additional limits asked for without any ceiling provided they are found need based by banks.

5.8 The Committee noted that since the introduction of CAS (vide *Appendix IV*) a number of exemptions have been granted in respect of prior authorisation from the Reserve Bank. Some examples are: advances against Government securities, Government supply bills, inland bills received for collection and export packing credit upto Rs. 5 lakhs per bank. The Committee felt that some of these exemptions appeared to be contrary to the concept of permissible bank finance computed on the basis of minimum contribution by borrowers towards net working capital. In view of this, the Committee recommends that such exemptions, granted from time to time, may be reviewed by RBI with a view to simplifying and rationalising the arrangements.

Non-fund based facilities

5.9 The two main non-fund based facilities covered by CAS are financial guarantees and letters of credit. Certain guarantees such as performance guarantees, bid bonds and those in lieu of earnest money deposits are already out of the purview of CAS. The guarantees in respect of repayment of credit facilities allowed by others, mainly non-banking or para banking institutions, given by banks on behalf of CAS parties in favour of such creditors have necessarily to be monitored in the same way as credit facilities allowed by banks themselves. Any exemption in this regard would be enabling banks to indirectly grant such facilities out of the funds of the organised sector (it may be from LIC, UTI or any other such body) beyond the permissible bank finance, thereby neutralising the credit discipline sought to be enforced; such guarantees can at any time devolve on the guaranteeing bank itself in the event of inability of parties to honour their financial commitment to the creditors. The guarantees issued by banks in respect of credit facilities by others have therefore, in all reasonableness, to be treated at par with credit facilities directly allowed by them. Their exemption from any lending discipline is not justified. Deferred payment guarantees which are in the nature of term loans are dealt with in Chapter VI.

5.10 Facility by way of letters of credit (L/Cs) established for CAS parties was brought under the purview of CAS in 1978 when it was noticed that banks were often over committing themselves by allowing these facilities to their customers. Admittedly, there is no out go of funds initially in these cases but the experience showed that the customers often defaulted, thus forcing opening banks to honour their commitments by extending additional credit facilities, thereby exceeding limits authorised under CAS. At the same time, it cannot be ignored that L/C facility is often required at a short notice under unexpected circumstances like sudden availability of certain essential equipment abroad at a price valid for a specific period and so on. It does not appear reasonable to deprive genuine parties of L/C facility at short notice, only because some have misused such facilities and placed banks in a situation wherein they had no option but to extend credit to them beyond permissible limit in order to meet their own irrevocable commitments. As it is, RBI has not found, it is learnt, possible to lay down any precise guidelines or norms to be followed by banks for allowing L/C facility to CAS parties. The facilities are authorised by RBI in these cases generally subject to the stipulation that bills received under them will be retired by parties out of their own funds or out of the drawing power available in the existing accounts which are necessarily covered by authorisation. In keeping with the spirit of the policy of placing increasing degree of reliance on judgement of banks, it is recommended that L/C facility be exempted from requirement of prior authorisation. This should apply to L/Cs established for acquisition of current assets as well as capital equipment. However, before opening the relative L/Cs, banks should fully satisfy themselves that the applicants are in a position to honour their commitments under L/Cs either from their own resources or from the existing borrowing arrangements. In the case of import/local purchase of capital equipment for new/expansion project, payment therefor should be made out of the funds released by the term lending institutions/banks under the financing arrangement agreed to by them.

Inventory/Receivable norms

5.11 A plea had been made to the Committee by many that there was a need to review the inventory norms fixed by the Tandon Committee some eight years ago. The norms prescribed at that time were in respect of fifteen industry groups. There are substantial inter-industry variations in regard to levels of inventory/receivables, and some times, even in the same industry, the legitimate requirements of units can vary depending upon product characteristics, geographic location or market segment to which they cater. While it is clearly not possible to disaggregate the norms to take account of all such variations, the Committee feels that further disaggregation within reasonable limits should be attempted. The revision of the existing norms however, should not necessarily mean an upward revision and liberalisation in all cases. There are many factors which may justify reduction in inventory and receivable norms in some cases. It is well known that the inventory levels of industry in this country are higher than those in developed countries. While this may be justifiable in some cases by the circumstances obtaining here, there should be no bar to consideration of reductions, wherever feasible.

Revision of norms has to be an on-going exercise. This is one of the functions of the Committee of Direction (COD), a body comprising representatives of RBI, banks and some experts, constituted by RBI in 1975 for an on-going review of the operational problems and other related issues connected with bank credit. The Tandon Committee had considered COD as a body which should impart dynamism to the work done by it. It is suggested that COD should take up immediately the task of reviewing the existing norms, prescribing norms for more industries and further disaggregation of industry groups to the extent necessary. In order to facilitate speedy exercise in this area, the Committee suggests that COD may constitute appropriate number of industry-wise sub-committees. These sub-committees should put up their suggestions to COD which should thereafter deliberate and act on them wherever necessary, as early as possible. As suggested, the review should be repeated at reasonable intervals.

Existing format for submitting applications by banks under CAS

5.12 The examination of the forms and data base is one of the terms of reference of the Committee. It sought the advice of the Institute of Chartered Accountants of India in this regard. The Institute, in its report, has stated that the forms are "very comprehensive and tuned to meet the need based approach to lending". While advocating the retention of the basic structure and contents of the forms, the Institute has suggested certain modifications therein. The Committee therefore recommends that COD may examine these suggestions and recommend changes wherever it finds them desirable and feasible.

Decentralisation of CAS work

5.13 It has been suggested to the Committee that the administration of CAS be decentralised and entrusted to Regional Offices of RBI at metropolitan centres with a view to avoiding delays in disposals. The Committee is unable to accept the suggestion. If the scrutiny of proposals were to start at the Reserve Bank's Regional Offices, it would become a two-tier exercise as against single tier at present, as the Regional Offices even if empowered, may have to refer all complex issues (which alone involve discussion and delay) to RBI's Central Office. Besides, the present centralised system ensures uniformity of approach in dealing with proposals pertaining to similar units, size-wise and activity-wise, in different parts of the country. Keeping in view these factors as also comparatively small number of cases that fall within the purview of CAS, the Committee is of the view that the present arrangement acts to the best advantage of all concerned. Borrowers on their own are not expected to visit RBI for discussions. But wherever they or their bankers feel that they should join in the discussions on their proposals at RBI, they are allowed to make trips to RBI at Bombay. As the borrowers covered by CAS are large and resourceful parties and such discussions are few and far between, visits to Bombay for the purpose should not possibly cause to them any undue hardship or expense beyond their means. The Committee feels that the existing arrangements need no change.

Suggestion regarding direct contacts between RBI and the concerned Zonal/ Regional Offices of the applicant bank

5.14 The Committee feels that whereas correspondence relating to appraisal/sanction of facilities has necessarily to be carried out with the Head Offices of banks, there should be no objection to obtaining clarifications, etc., wherever available from the concerned Zonal/ Regional Office or even branch of the bank. Such exchanges in fact, should be encouraged. The copies of correspondence with such offices should necessarily be endorsed both by banks and RBI to Head Offices of the former.

Borrowers with working capital limits below cut-off point

5.15 At present, banks are required to report to RBI at monthly intervals (Form A) outstandings in respect of borrowers enjoying credit limits of Rs. 1 crore and above. In addition, quarterly operating statements (Form B) in respect of such borrowers are also to be furnished. We are informed that the information so received is not being put to adequate use largely due to the inability of banks to submit the statements in time and free of inconsistencies. We feel that there is imperative need for corrective action both by banks and the Reserve Bank in this regard. Steps should therefore be taken to ensure timely submission of these data and their compilation and analysis in RBI so that the feed back thus received becomes an effective instrument of monitoring advances portfolios of banks, covering advances even below the CAS cut-off point. The Committee considers the proper functioning of the information system under reference as crucial in the context of the new approach being advocated by it.

Publication of booklet on CAS

5.16 The Committee recommends that a loose leaf suitably designed booklet be prepared by RBI on CAS and made available as a priced publication to any one who requires it. The booklet should be revised and updated periodically taking into account modifications made in the Scheme from time to time.

CHAPTER VI

CREDIT AUTHORISATION SCHEME AND TERM FINANCE

6.1 Provision of term finance for setting up new units or for expansion/modernisation/diversification of existing ones, is the function primarily of term lending institutions which have been specially set up for the purpose, at all-India as well as State levels. Banks on the other hand are required mainly to provide working capital credit for operating the units and utilising the capacity that has been created. The roles of banks and the institutions are thus largely complementary. Banks, however, do provide term finance to a limited extent on their own as well as in participation with term lending institutions. In the case of small borrowers, there is a 'composite loan' scheme under which finance, short term as well as medium and long term, is provided by banks as a package. Where banks provide term finance, they are entitled to refinance from Industrial Development Bank of India (IDBI) upto certain limits although they do not in all cases avail of it. The proportion of outstanding term loans to total non-food bank credit has been on an increase during the past few years; the proportion has gone up from 15.5% of the total non-food bank credit as at the end of June 1975 to 26.3% as at the end of June 1981 (as per latest available data).

CAS as applicable to term loans

6.2 Term loans exceeding Rs. 25 lakhs repayable over a period of more than 3 years to non-CAS private sector parties were brought within the purview of prior authorisation under CAS in May 1971 (vide item 8 of *Appendix* IV). In March 1973 when CAS was again extended to the public sector, the cut-off point for term loans to public sector borrowers was fixed at Rs. 1 crore. In November 1982, the cut-off point for term loans to non-CAS private sector parties was raised to Rs. 50 lakhs, and to Rs. 1 crore, if they were manufacturer-exporters with annual average export turnover during the preceding 3 years exceeding 25% of the total turnover of goods manufactured by them. In case however, term loans are allowed in participation with all-India term lending institutions or where they are refinanced by the Industrial Development Bank of India (IDBI)/National Bank for Agriculture and Rural Development (NABARD) prior approval of RBI for a specific term loan proposal is not required unless the banks' share exceeds Rs. 25 crores. Term loans to CAS parties require CAS approval irrespective of the amount. The banks and term lending institutions were advised in October 1979 that where aggregate rupee term loan assistance to be granted by them individually or in participation with other agencies exceeds Rs. 1 crore, the financing pattern of the project should be cleared by IDBI. Insofar as sick units are concerned, following the recommendations of the Standing Co-ordination Committee (para 6.5), RBI had advised the banks in July 1981 that credit limits decided upon at joint meetings to be called by IDBI/ other all-India term lending institutions for finalisation of package of reliefs, need not be referred to RBI for clearance under CAS. This exemption was however available only if the proposals containing the package were forwarded to RBI sufficiently in advance, say, at least a month before the date of the joint meeting and credit limits determined at such meetings were in conformity with the views of the Reserve Bank conveyed by it either through its representative or in writing.

Recommendations of the Inter-Institutional Group regarding term lending by commercial banks

6.3 Till 1978, there was no agreed basis of participation of banks in term financing. An inter-institutional group (better known as Bhuchar Committee) was therefore set up by the Reserve Bank in March 1978 and in terms of its recommendations, RBI issued guidelines in November 1978 according to which:

(i) Term loan requirements of industries with project cost not exceeding Rs. 1.50 crores may be financed by banks preferably in participation with the State level institutions (such as State Financial Corporations and State Industrial Development Corporations).

(ii) Banks are not to ordinarily participate in giving term loans for projects the cost of which exceeds Rs. 1.50 crores but does not exceed Rs. 5 crores.

(iii) In case of large projects, where the project cost exceeds Rs. 5 crores, the banks could participate to the extent of 25 to 30 per cent of the total term loan (including deferred payment guarantee) requirements of the project.

The objective of the above requirements as mentioned by the Bhuchar Committee in its report is that the share of the banking system in term loans on an aggregate basis does not exceed about 25% of the total term loans sanctioned by the term lending institutions; for this purpose guarantees/acceptances of deferred credit should be treated as term loans.

6.4 The rationale behind restrictions imposed by RBI and parameters laid down by the Bhuchar Committee on term lending by banks is that the principal function of commercial banks is provision of working capital finance for productive activities and neither their expertise nor the quantum and pattern of their resources permits them to go into the field of project financing on their own, i.e. without the support of IDBI refinance or participation of all-India term lending institutions, in a big way. In the case of private sector parties, restriction placed on term lending by commercial banks also ensures that the borrowers do not circumvent convertibility stipulations of the all-India term lending institutions.

In May 1982, RBI in consultation with Government of India liberalised the policy in regard to grant of short term loans (repayable within 3 years) by banks to existing companies having substantial internal accruals for financing their modernisation, expansion or diversification programmes, costing over Rs. 5 crores. It was decided that banks could grant such short term loans without any participation from all-India term lending institutions, to the extent of 33 1/3 — 40 per cent of the project cost, provided the internal generation of the company executing the project was able to take care of the balance amount of the project cost. In exceptional cases, it was provided that banks could consider providing such short term loans even upto a maximum of 50 per cent of the project cost (the balance amount of 50 per cent being met from out of internal generation), on an undertaking that the companies concerned would take steps to widen their equity base as soon as possible; the additional credit to the extent of 10 — 16 2 3 per cent that the banks were thus to provide, would be of a shorter duration, only to bridge the gap between immediate credit requirements for financing the project and issue of additional capital by the company. The relevant projects will be appraised by IDBI in respect of their technical, financial and commercial viability and IDBI will also satisfy itself that the loan can be repaid within the period of 3 years on the basis of the projected profitability. It was emphasised that companies availing of such short term loan assistance would not dilute any of the prescribed financial norms and banks were to restrict their exposure to such loans to the minimum.

Industrial Development Bank of India's memorandum to the Committee

6.5 IDBI in a memorandum to the Committee has made a number of suggestions recommending modified approach of RBI in respect of term lending by commercial banks. The Committee suggests that these issues be taken up by the Reserve Bank directly with IDBI and suitable changes in approach and procedures, wherever desirable and feasible, be made as a result of mutual discussions. It, however, feels that factors on account of which restrictions on term loans by banks were introduced and have been continued all these years, still remain valid and perhaps more so as is evidenced by rising share of term loans in the portfolios of banks. The Committee feels that considering the increasing demands on bank resources from various sectors hitherto neglected, the restrictions on term loans by banks should continue. Another point which the Committee would like to emphasise, though not strictly falling within its terms of reference, is that there is need for fresh look on the norms laid down by the Bhuchar Committee. In fact, there is an in-built provision in the recommendations of the said Committee itself, for the guidelines to be reviewed by IDBI periodically in consultation with RBI or through a Standing Co-ordination Committee which in terms of the recommendations of the Bhuchar Committee was set up to take up this and other related issues. The Standing Co-ordination Committee should effectively function, as intended, as the focal point of co-ordination on an on-going basis, between RBI, commercial banks and term lending institutions.

6.6 The Committee incidentally finds that the deferred payment guarantee facility which, according to Bhuchar Committee, is in the nature of term loan facility is not covered by CAS requirements in respect of term loans for non-CAS parties. This is an anomaly which may be looked into by RBI.

CHAPTER VII

ORGANISATIONAL ARRANGEMENTS/PROCEDURES IN COMMERCIAL BANKS AND IN RBI AND DESIRABILITY OF INTRODUCING TIME BOUND GUIDELINES

7.1 The Committee has been required, inter alia, to examine the adequacy or otherwise of credit appraisal machinery/procedures in commercial banks and suggest modifications therein in order to facilitate expeditious disposal of applications. It has also been required to study the desirability of introducing time bound guidelines within commercial banks as well as the Reserve Bank for speeding up the processing and disposal of CAS applications.

7.2 The Committee felt that the issue of proper and timely disposal of proposals falling under the purview of CAS may be assessed not only by study of systems in banks but also in the Reserve Bank. It, therefore, decided to have the existing procedures examined both in commercial banks and in RBI. It, accordingly, entrusted the task to the Management Services Department (MSD) of RBI. MSD studied the set-up and procedures in banks on a sample basis, selecting 7 public sector banks (2 each having Head Offices in the Western, Eastern and Northern regions and one in the Southern region of the country) of different sizes. MSD studied the organisational pattern and systems in IECD as also disposal of some CAS applications by it, on a sample basis covering 95 party files.

7.3 The studies, therefore, were limited in coverage. However, they do indicate the nature of problems — though not the exact quantum — which exist in this respect. The studies brought out that taking the system as a whole, more than necessary time was being taken for disposal of proposals/applications both in banks and in the Reserve Bank. The Committee is aware that this may not be true of all banks and in all cases of proposals submitted to RBI. On the basis of these limited findings for instance, the time taken by a bank from the date of receipt of a proposal from the borrower and its submission to RBI for authorisation, has varied between one day and 313 days; on this basis the average time worked out to 142 days. In the Reserve Bank, the period between receipt of a CAS application (in completed form) and issue of RBI's decision on it, has varied between one day and 145 days (excluding the time involved in seeking clarifications from the lending banks); the average time in RBI on this basis worked out to 42 days. In about a quarter of cases, however, the RBI found it necessary to seek further clarifications from banks. In such cases, the average time taken from the date of receipt of application worked out to 95 days. The time taken within the banks depends upon several factors, e.g. the adequacy of internal appraisal machinery, receipt of complete information from the borrowers, etc. Similarly, the time taken in RBI, among others, would depend upon the supply of all the relevant information required under the Scheme.

Mechanism and stages of processing of CAS proposals in banks

7.4 In banks which were covered under the sample, it was found that there were organisational and procedural variations; the relative numbers and quality of staff handling the proposals also differed widely. Basically, most banks had four organisational tiers viz. branch, Regional Office, Zonal Office (Local Head Office in the case of State Bank of India) and Head Office (Central Office in the case of State Bank of India) through which a credit proposal normally passed. All the banks except one, however, have the practice of bypassing one or two tiers insofar as proposals coming under the purview of CAS are concerned. And yet the number of hierarchical levels at which proposals are appraised at each of the tiers are several in each of the said banks. Thus, while the tiers are generally 2 or 3 (4 only in one), the total number of levels in the banks concerned vary between 10 and 15. At 3/4th of these levels, recommendations and decisions are made, while at the remaining ones only calculations and basic scrutinies relating to collection and analysis of data are carried out. The number of levels at Central/Head Offices is noticeably large except in one bank; in the case of this bank, the levels at Zonal Offices are too many. The multiplicity of levels while contributing to some extent to improvement in processing, tends to delay disposal of the proposals. In one major bank, there exists a healthy practice of 2 to 3 levels discussing a proposal together, arriving at a consensus and putting up a joint processed note. Thus, some of the levels are bunched and the adverse effect of multiplicity of levels is reduced.

7.5 In the opinion of the Committee, the number of tiers should normally be 2 and could be 3 in cases like SBI where the Local Head Offices have a major role to play. The system, however, observed in one bank of eliminating the branch from the tiers, is not considered a healthy one on several counts. Branch is an invaluable tier which can provide vital insight into a borrower's capability and potential; it has also the feel of his day-to-day position, liquidity and overall financial health. Its elimination, therefore, could prove counter-productive. From the view point of quality and speed of disposals, the solution lies not in the elimination of the branch but in concentrating CAS advances at selected number of specialised branches in metropolitan centres equipped with necessary expertise and staff strength. One of the major banks has already introduced this system and another has started it recently. The Committee feels that it will be desirable for all banks to adopt this approach. These branches should be headed by officers of fairly senior rank and requisite expertise; their proposals should directly go to Head Offices with copies to intermediate offices, wherever any. In making this recommendation, the Committee has kept in view the volume of work involved in banks in processing CAS cases. The total number of CAS borrowers was 877 as on 31st December 1982. They were not distributed uniformly among banks. At one end, the largest bank accounted for 25% of CAS parties. At the other end, were banks which had just 1 or 2 borrowers coming in this category. Their accounts are already mostly in branches in metropolitan centres or where not, could even be made to concentrate in such branches. The size of the problem is thus manageable.

7.6 The need, however, would still remain for rationalising the number of levels at each tier. This could be achieved by adopting a committee approach at each of the tiers wherein appraising, initiating officer can circulate a background note for discussion amongst different concerned levels and a joint view could be taken and put up to the final authority at that tier for decision.

7.7 The thorough processing at the initiating tier (which Committee feels should invariably be the branch) should reduce the task at the upper tier/s so that the latter could concentrate mainly on inter-unit comparisons, where necessary, and view the proposal from credit policy, overall funds position and credit budget angles. The existing system of forwarding proposals after they are cleared by Head Offices of banks to RBI in anticipation of Board sanction, should continue.

7.8 Whereas it is not the intention of the Committee to prescribe any uniform set-up for scrutiny of CAS proposals and expects each bank to be governed by factors like its organisational culture and geographical spread, it advocates adoption of the broad approach indicated above. It, however, enjoins upon the banks to ensure that the proposals put up to their Board, etc. invariably contain definite views on various requirements of lending discipline prescribed in paragraph 5.3. This will help in uniform treatment of the proposals in judging their compliance with the lending discipline and also categorise the proposal as being eligible to pass through 'fast track' or otherwise.

Qualifications, competence and expertise of commercial banks' staff

7.9 The proper and timely disposal of credit proposals depends as much on the organisational structure and procedures as on the quality and competence of staff handling the work. The position in this regard varies from bank to bank. In some banks there is a conscious policy of recruiting professionally qualified staff like Chartered Accountants, engineers, and financial analysts for appraisal and monitoring work. While it is desirable to have a mix of professionals in credit appraisal departments at different tiers and levels, increasing emphasis should be on job training and personal competence. Appraisal by experienced and competent staff would obviate, more than anything else, the need for large number of queries and clarifications when the proposal moves upwards within the bank and later, from the bank to the Reserve Bank. The Committee feels that continuous interfacing with corporate borrowers as a rule would greatly improve the quality of appraisal as well as its speed.

Machinery in RBI

7.10 Proposals are initiated at the level of a junior officer who carries out the initial detailed scrutiny and puts up the case direct to the Deputy Chief Officer (DCO)/Joint Chief Officer (JCO) in-charge of the concerned industry group. Depending upon the amount involved, the DCO/JCO either disposes of or puts up the case to the Chief Officer (CO) who, in turn, puts it up further (if beyond his authorisation powers) to the Executive Director (ED) or in his absence, to the Deputy Governor (DG). Normally, an authorisation case ends up at the level of ED but the latter refers it to the DG, whenever he considers necessary or where a policy issue is involved. The decision making levels are thus essentially three, viz. DCO/JCO, CO and ED. All cases of rejection or reduction in limits have, however, necessarily to be marked to ED. The sample study of 95 proposals by MSD reveals that under the present system, the percentage of proposals disposed of at various levels is as under :

1)	DCO/JCO	34 per cent
2)	CO	21 per cent
3)	ED/DG	45 per cent

7.11 The average time for disposal of an application on the basis of MSD sample study as stated earlier, was 42 days including 18 days which intervened between its receipt and initiation of processing work on it and 5 days taken for the issue of the authorisation letter, after the final decision was taken. The actual time for processing and decision making was thus 19 days. In a number of cases (about 24%), however, clarifications had to be sought by RBI, as a result the average time taken in these cases came to 95 days. The Committee feels that if the banks adopt the norms prescribed under the Scheme and supply complete information, the time taken may be reduced considerably. It feels that steps should be taken by RBI to reorganise the Department (IECD) handling CAS cases so as to cut down delays. Some of the steps may be (i) redistribution of work load among various industry groups and dealing officers, (ii) calling for further information from banks/borrowers promptly after receipt of the relevant proposals and after consulting the senior officer-in charge of the industry group, (iii) streamlining procedures in regard to preparation of notes on credit proposals so as to focus attention on only the important issues (paragraph 5.3), (iv) augmenting the strength of staff to eliminate the 'lag' time in taking up the proposal for scrutiny, and (v) improving infrastructure facilities in the Department for quick contacts with banks and for transmittal of decisions. The Committee hopes that with the suggestions made in paragraph 5.3 for putting certain proposals on a 'fast track', considerable improvement in the matter of delay will occur. It will also hopefully lead to improved compliance on the part of borrowers which, in turn, should enable the banks to improve and expedite the processing of proposals and lending operations.

Expertise and competence of staff

7.12 The work being undertaken in IECD for handling CAS proposals is of a technical nature, requiring fair degree of skill in credit appraisal. The Committee hopes that in posting staff members to the Department, the authorities in RBI would give due weightage to the special needs of CAS so that taking the Scheme as a whole, the objectives of improving the quality of lending by commercial banks as well as of ensuring flow of credit for productive purposes in time, get promoted.

Desirability of introducing time bound guidelines to be observed within commercial banks and Reserve Bank for speeding up the processing and disposal of applications

7.13 As a result of the various suggestions made in the foregoing paragraphs, it is expected that there will be considerable reduction in the time taken in disposal of CAS proposals both in banks and in RBI. The time involved could depend on various factors like amount involved, complexity of the case, extent to which there is need for reference to past records of the borrower, his presentation of the case as far as the bank is concerned and the bank's presentation as far as RBI is concerned. The Committee feels that keeping in view all these factors, a specific time prescription may be arbitrary. However, the Committee recommends that both in the Reserve Bank and in the commercial banks, a system should be established by which all pending cases are reported to an appropriately senior level once a month if the pendency is in excess of a specified number of days. The appropriate limit may be 120 days in the case of commercial banks and 30 days in the case of RBI. The Committee also suggests that as a rule, the date of first receipt of application should be put in all cases at the top of the proposal.

CHAPTER VIII

LOOKING AHEAD

8.1 In the preceding chapters, the Committee has outlined its approach to the issues involved and has made specific recommendations in regard to the terms of reference given to it. The recommendations of the Committee, it will be seen, are based on its perception that a healthy development of the banking system requires observance of norms and discipline in lending which ultimately have to be ensured by the banks themselves. The role of the Reserve Bank should be primarily supportive and supervisory rather than restrictive and regulatory.

8.2 It is in this context that the Committee's recommendations on various issues have to be viewed. It recognizes that in practice there are problems and that the environment in which banking system operates can, on occasions, build up unhealthy pressures from borrowers or through other sources to dilute banking norms or guidelines laid down by the Reserve Bank. The Committee hopes that with the active help and support of the Reserve Bank, the banks will be able to evolve an operational culture which will be virtually immune to unhealthy pressures and which will have an in-built discipline in conforming to the broader parameters of policy laid down by the Central Banking Authority.

8.3 If the system moves in this direction, need for a regulatory role for the Reserve Bank in respect of individual credit limits will diminish, if not disappear. A move towards this end, however, is as much a matter of organisational arrangements as it is of the spirit in which they are implemented. The recommendations of the Committee essentially seek to reduce the area and intensity of regulation by the Reserve Bank at the micro level; but it is our conviction that the Reserve Bank has, indeed, a very important and growing role to play in ensuring an orderly deployment of credit for various sectors, including industry. The allocative efficacy of the lending system at the macro level has to be the primary function of the Central Banking Authority; and in order to be able to discharge such a function effectively, the Reserve Bank will have to continue to be in close touch with the trends in lending to different industries and to large and small borrowers.

8.4 The gradual diminution of the area in which prior authorisation by the Reserve Bank is needed before banks can disburse credit to individual parties should not, therefore, mean any erosion of its role or reduction in the responsibilities of the Industrial and Export Credit Department (IECD). In recent years, the Committee understands that the IECD has, in addition to its regulatory responsibility, been engaged in functions of co-ordinative or promotional nature. For instance, the IECD analyses problems in terms of credit needs of specific sectors such as textiles, fertilisers, jute, sugar, tea and petroleum which together account for a large chunk of total credit provided by the banking system and which even otherwise are of critical importance to the national economy. Its Export Finance Division is actively concerned with export promotion through accelerating the flow of commercial bank credit, short as well as medium term, to the export sector. The Department also interacts on a continuing basis with other agencies such as the Export Import Bank of India, Export Credit and Guarantee Corporation and other agencies. Similarly, IECD plays an active role in rehabilitation of sick industrial units whose borrowings from the banking system exceed Rs. 1 crore, and in this context it has close liaison, inter alia, with all-India term lending institutions.

8.5 There is, however, one area in which the Committee finds that little is being done at present. The applications received from borrowers coming within the purview of Credit Authorisation Scheme and Forms A & B which banks are required to furnish to IECD contain a great deal of important and relevant information. At present there is no effective system or mechanism to process these data; but if these were properly analysed, tabulated and computerised, an effective data base could be developed which would be very valuable in many ways. Apart from providing those concerned with credit policy, quantitative information on industry-wise credit flows, it would also generate valuable information on inventory and receivable levels, trends in turnover, profitability, credit limits and inter-company comparisons. This, in turn, would make possible industry-wise and even unit-wise profiles which would be of use not only to the different departments in the Reserve Bank but could indeed become an important input for policy making in Government.

8.6 The Committee understands that there is at present a proposal for installation of an in-house computer in the Reserve Bank with terminals available to various officials. With the availability of the proposed computer facilities, data base presently available could be made more comprehensive by feeding it information pertaining to term finance available to industrial units from term lending institutions. All this, of course, depends upon whether or not the Reserve Bank receives prescribed information in time and free of inconsistencies. The Committee regrets to note that the position in this respect is extremely unsatisfactory. The supply of information by the borrowers to banks as well as its compilation and transmission by banks to the Reserve Bank is erratic and very often too tardy as to make the information hardly of any use for policy making. The Committee hopes that all efforts will be made to improve this situation radically and that its recommendations to provide incentives to those who comply with the requirements of the information system will contribute towards such improvement. The Committee also hopes that term lending institutions will make available the requisite information to the Reserve Bank on a regular basis.

8.7 The Committee finds that Form A wherein outstandings in respect of credit limits aggregating Rs. 1 crore and above are to be reported by banks to the Reserve Bank monthly has generally been in arrears. It appears to the Committee that the periodicity of the form could be reduced to quarterly and it should be made incumbent on the banks to send these returns regularly and without excessive time lags.

8.8 The Committee understands that at present the borrower having credit limits from banks above Rs. 50 lakhs cannot change his banker without the consent of the existing banker. The purpose behind it is evidently to restrain unfair competition among banks and emergence of undesirable practices to attract business. The Committee, however, finds that the present arrangements sometimes lead to banks becoming oblivious to the problems of the borrowers and the latter have no redress. The Committee suggests that a mechanism should be evolved by the Reserve Bank by which an aggrieved borrower should have the opportunity to get redress in appropriate cases, without undue delay.

8.9 If the broad approach of the Committee is acceptable and its recommendations are implemented in the spirit in which they are being made, the nature and content of the work of IECD will change considerably. The specific recommendations of the Committee providing a 'fast track' for eligible applicants will also reduce work relating to prior authorisation of credit limits. The Committee recommends that in view of this, the present CAS may be redesignated as "Credit Monitoring Scheme" so as to reflect the important change in approach and emphasis.

CHAPTER IX

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

1. CAS is not to be looked upon as a mere regulatory measure confined to large borrowers. Its basic purpose is to ensure orderly credit management and to improve quality of bank lending so that all borrowings, whether large or small, are in conformity with the policies and priorities laid down by the Central Banking Authority. The continued surveillance by RBI over the lending operations of banks through CAS has still an important role to play (paragraphs 4.2 and 4.6).

2. It would be desirable to evolve a system in which there is an incentive for the borrowers to comply with all the requirements of the Scheme and for the banks to improve the quality of credit appraisal. This can be best achieved by ensuring that all cases where such compliance exists, receive preferential treatment in the form of not requiring prior authorisation of RBI (paragraph 4.7).

3. The banks should be allowed discretion to deploy credit in CAS cases which fulfil the following requirements, without RBI's prior authorisation :

i) Reasonableness of estimates/projections in regard to sales, chargeable current assets, other current assets, current liabilities (other than bank borrowings) and net working capital, (ii) classification of current assets and current liabilities in conformity with the guidelines issued by the Reserve Bank, (iii) maintenance of minimum current ratio of 1.33 : 1 (except under exempted categories), (iv) prompt submission of quarterly operating statements by the borrower, for the past 6 months with an undertaking to do so in future also, and (v) an undertaking by the borrower to submit his annual accounts promptly and regular annual review being carried out by the bank even where enhancement in credit facility is not involved (paragraph 5.3).

4. The deployment of credit by a bank under its discretion, should be subject to its furnishing a certificate to RBI signed by a senior executive (duly authorised in this respect by its Board) to the effect that he had satisfied himself about the proposal conforming to all the requirements stated under 3 above (paragraph 5.4).

5. The proposals referred to in 4 above would go through normal process of scrutiny in RBI and if as a result of it, it was found that the

credit limit sanctioned was not warranted or was excessive, corrective action would be taken by the bank as directed by RBI (paragraph 5.4).

6. In respect of export-oriented manufacturing units which export not less than 75% of the turnover of the goods manufactured by them, the credit proposals should be disposed of at banks' level, without prior reference to RBI, provided the banks are satisfied about the reasonableness of the exporters' credit needs and subject to condition similar to that indicated under 5 above (paragraph 5.5).

7. The other CAS proposals not satisfying the suggested parameters should continue to undergo pre-disbursement scrutiny at RBI as at present. Such a scrutiny should recognise the respective roles of RBI and banks in regard to the type of scrutiny each should undertake in order to ensure expeditious disposal of the applications (paragraph (5.6).

8. Exemptions from prior authorisation and enlarging discretionary powers of banks in respect of certain specific credit facilities should remain an on-going exercise (paragraph 5.7).

9. For borrowers having working capital limits in excess of Rs. 5 crores, banks could allow ad hoc limits for periods up to 3 months to the extent of 25% of their additional limit sought for without any ceiling, provided they are found need based by banks (paragraph 5.7).

10. Some of the present exemptions from prior authorisation may be reviewed by the Reserve Bank as they appeared to be contrary to the concept of permissible bank finance computed on the basis of minimum contribution by borrowers towards net working capital (paragraph 5.8).

11. In keeping with the spirit of the policy of placing increasing degree of reliance on judgement of banks, the L/C facilities for acquisition of current assets as well as capital equipment, should be exempted from the requirement of prior authorisation (paragraph 5.10).

12. The Committee of Direction (COD) should take up immediately the task of reviewing the existing inventory and receivables norms, prescribing norms for more industries and further disaggregation of industry groups to the extent necessary. COD may constitute appropriate number of industry-wise sub-committees for this work. The review of norms should be repeated at reasonable intervals (paragraph 5.11).

13. COD may examine certain suggestions made by the Institute of Chartered Accountants of India about modifications in CAS forms and recommend changes in them wherever they find them desirable and feasible (paragraph 5.12).

14. RBI should, wherever available, obtain clarifications. etc. on CAS proposals under its scrutiny from the concerned Zonal/Regional Office/branch office of the applicant bank, with copies of correspondence endorsed to the bank's Head Office (paragraph 5.14).

15. Steps should be taken by RBI to ensure prompt submission of data by banks in Forms A & B so as to make it an effective instrument of monitoring their advances portfolios (paragraph 5.15).

16. RBI should prepare a booklet on CAS and revise and update it periodically. It should be made available as a priced publication (paragraph 5.16).

17. The suggestions made by the IDBI in its memorandum to the Committee regarding modifications in RBI's approach to term lending by commercial banks should be taken up directly by RBI with IDBI and suitable changes in approach and procedures wherever desirable and feasible, be made as a result of mutual discussions (paragraph 6.5).

18. The factors on account of which restrictions on term loans by banks were introduced and have been continued all these years, still remain valid and perhaps more so, as is evidenced by rising share of term loans in the portfolios of banks. The restrictions on term loans by banks should, therefore, continue (paragraph 6.5).

19. There is a need for having a fresh look at the norms laid down by the Bhuchar Committee in 1978. The Standing Co-ordination Committee which was set up in terms of the recommendations of that Committee should effectively function as a focal point of co-ordination on an on-going basis between RBI, commercial banks and term lending institutions (paragraph 6.5).

20. In the interest of quality and speed of disposals, CAS advances in banks should be concentrated, to the extent possible, at selected number of specialised branches in metropolitan centres equipped with necessary expertise and staff strength (paragraph 7.5).

21. The committee approach should be adopted for rationalising the number of levels at each tier in a bank, wherein appraising/initiating officer can circulate a background note for discussion amongst different concerned levels and a joint view could be taken (paragraph 7.6).

22. Credit proposals put up to the banks' Boards, etc. should invariably contain definite views on various requirements of lending discipline prescribed in paragraph 5.3. This will help in uniform treatment of the proposals in judging their compliance with the lending discipline and also categorise the proposal as being eligible to pass through 'fast track' or otherwise (paragraph 7.8).

23. While it is desirable to have a mix of professionals (Chartered Accountants, engineers and financial analysts) in credit appraisal departments of commercial banks at different tiers and levels, increasing emphasis should be on job training and personal competence (paragraph 7.9).

24. Steps should be taken by RBI to reorganise IECD so as to cut down delays. This may be done by redistribution of work load among various industry groups, prompt action on proposals requiring clarifications, streamlining procedures in regard to preparation of notes on credit proposals so as to focus attention on only the important issues, augmenting the strength of the staff to eliminate the 'lag' time in taking up the proposals for scrutiny, and improving infrastructure facilities for quick contacts with banks and for transmittal of decisions (paragraph 7.11).

25. The work in IECD for handling CAS proposals is of a technical nature and requires fair degree of skill in credit appraisal. The authorities in RBI should give due weightage to this aspect (paragraph 7.12).

26. On account of various factors which have a bearing on time involved in disposal of credit proposals in commercial banks and RBI, the Committee feels that a specific time prescription may be arbitrary. A system should however be established by which all pending cases are reported to an appropriate senior level once a month if the pendency is in excess of 120 days in the case of commercial banks and 30 days in the case of Reserve Bank (paragraph 7.13).

27. The data being collected from banks in Forms A and B contains great deal of important and relevant information. This needs to be properly analysed, tabulated and computerised so as to develop an effective data base which would be valuable in many ways. All efforts should be made to improve radically the extremely unsatisfactory position in regard to submission of the forms in time, free of inconsistencies and incentives should be provided to those who comply with the requirements of the information system. The periodicity of Form A could be reduced from monthly to quarterly but then it should be made incumbent on the banks to send them regularly and without excessive time lag (paragraphs 8.5, 8.6 and 8.7).

28. With the installation of the proposed computer facility in RBI, the data base could be made more comprehensive by feeding into it information pertaining to term finance available from term lending institutions (paragraph 8.6).

29. A mechanism should be evolved by RBI by which an aggrieved borrower (enjoying credit facilities over Rs. 50 lakhs) should have the opportunity to get redress in appropriate cases, wherein he desires transfer of his borrowal account from one bank to another (paragraph 8.8).

30. The present CAS may be redesignated as "Credit Monitoring Scheme" so as to reflect the important change in broad approach and emphasis (paragraph 8.9).

S. S. MARATHE
CHAIRMAN

P. D. OJHA	**V. N. NADKARNI**
B. V. SONALKER	**S. P. ACHARYA**
SAMPAT P. SINGH	**R. C. MODY**

BOMBAY
JUNE 29, 1983

APPENDIX I

RESERVE BANK OF INDIA
INDUSTRIAL CREDIT DEPARTMENT
CENTRAL OFFICE
12TH FLOOR, P.B. NO. 10030
BOMBAY-400 023.

MEMORANDUM

In pursuance of the decision taken at the meeting which the Governor had with the Chairmen of the major banks on the 25th October 1982, the Reserve Bank of India appoints the following persons to constitute a Committee to review the working of the Credit Authorisation Scheme from the point of view of its operational aspects :

1.	Shri S. S. Marathe, Former Secretary to Government of India (Ministry of Industry), Pune.	Chairman
2.	Dr. P. D. Ojha, Executive Director, Reserve Bank of India, Bombay.	Member
3.	Shri B. V. Sonalker, Chairman, Central Bank of India, Bombay.	Member
4.	Shri V. N. Nadkarni Deputy Managing Director (Operations), State Bank of India, Bombay.	Member
5.	Shri S. P. Acharya, Chartered Accountant, 16, Raja Santosh Road, Alipore, Calcutta.	Member
6.	Prof. Sampat P. Singh, National Institute of Bank Management, Bombay.	Member

7. Shri R. C. Mody, Chief Officer, Industrial Credit Department, Reserve Bank of India,, Bombay. — Member-Secretary

2. The terms of reference of the Committee are as follows :

(i) To examine the objectives, scope and content of the Scheme and make suggestions with regard to making modifications therein, if any, having regard to the changing economic situation.

(ii) To examine the adequacy or otherwise of the credit appraisal machinery/procedures in commercial banks, and based thereon, suggest modifications, if any, in the modalities in this behalf.

(iii) To study the existing set-up for compliance with the requirements of the Scheme within the commercial banks both at the Head and Regional Office levels and suggest any modification therein considered necessary to facilitate proper appraisal and expeditious disposal of applications and monitoring thereof.

(iv) To examine the existing data base relevant for making recommendations by banks to Reserve Bank of India for authorising a given level of credit for a particular party and suggest modification/simplification, if any, in that behalf.

(v) To examine the existing format for submitting applications by banks to Reserve Bank of India in respect of seeking authorisation and suggest modifications therein, if necessary.

(vi) To study the desirability of introducing time bound guidelines to be observed within commercial banks and Reserve Bank for speeding up the processing and disposal of applications.

(vii) To make any other recommendations which are germane to the Scheme.

3. The Committee is expected to submit its report within three months.

4. The secretarial services will be provided by the Industrial Credit Department, Reserve Bank of India, Bombay.

Sd/-

(A. GHOSH)
DEPUTY GOVERNOR

3-11-1982

APPENDIX II

NAMES OF BANKS, INDUSTRY ASSOCIATIONS AND INDIVIDUALS WHO FURNISHED THEIR VIEWS IN WRITING TO THE COMMITTEE

I (a) **Banks — Indian**

1. Andhra Bank
2. Allahabad Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Corporation Bank
8. Indian Bank
9. Indian Overseas Bank
10. New Bank of India
11. Oriental Bank of Commerce
12. Punjab National Bank
13. Punjab and Sind Bank
14. State Bank of Bikaner and Jaipur
15. State Bank of Hyderabad
16. State Bank of India
17. State Bank of Indore
18. State Bank of Mysore
19. State Bank of Patiala
20. State Bank of Travancore
21. Syndicate Bank
22. Union Bank of India
23. United Bank of India
24. United Commercial Bank
25. Vijaya Bank
26. Lakshmi Commercial Bank Ltd.
27. Karnataka Bank Ltd.

(b) **Banks — Foreign**

28. American Express International Banking Corporation
29. Citibank N.A.
30. Grindlays Bank p.l.c.
31. Hongkong and Shanghai Banking Corporation
32. The Chartered Bank

(c) **Term lending Institutions**

33. Industrial Development Bank of India @

@ Combined views of all-India term lending institutions.

II Industry Associations

1. Associated Chambers of Commerce and Industry of India, New Delhi
2. Association of Indian Engineering Industry, New Delhi
3. All India Manufacturers' Organisation, Bombay
4. Bengal Chamber of Commerce and Industry, Calcutta
5. Bombay Chamber of Commerce and Industry, Bombay
6. Fertiliser Association of India, New Delhi
7. Federation of Indian Chambers of Commerce and Industry, New Delhi
8. Indian Jute Mills Association, Calcutta
9. Indian Sugar Mills Association, New Delhi
10. Indian Cotton Mills Federation, Bombay
11. Indian Chamber of Commerce, Calcutta
12. Textile Machinery Manufacturers' Association (India), Bombay

III Individuals

1. Shri K. B. Chore, Former Chief officer, Department of Banking Operations and Development, Reserve Bank of India
2. Shri R. K. Datta, Former Chairman, United Bank of India
3. Shri B. K. Dutt, Former Chairman, United Bank of India
4. Dr. N. L. Hingorani, Professor, National Institute of Bank Management
5. Dr. R. M. Honavar, Director, Institute for Financial Management and Research
6. Shri H. T. Parekh, Former Chairman. Industrial Credit and Investment Corporation of India
7. Shri K. N. R. Ramanujam, Former Chief Officer, Industrial Finance Department, Reserve Bank of India
8. Shri R. K. Talwar, Former Chairman, State Bank of India and Industrial Development Bank of India
9. Shri P. L. Tandon, President, Board of Governors, National Council of Applied Economic Research

APPENDIX III

NAMES OF PARTIES WITH WHOM THE COMMITTEE HELD DISCUSSIONS

I. Chairmen/Chief Executives/Executive Directors of banks and term lending institutions

(a) **Indian Banks**

1.	Shri R. Srinivasan	—	Allahabad Bank
2.	Shri Y. V. Sivaramakrishnayya	—	Bank of Baroda
3.	Shri D. N. Shukla	—	Bank of India
4.	Shri R. M. Muthiah	—	Bank of Madura Ltd.
5.	Dr. M. V. Patwardhan	—	Bank of Maharashtra
6.	Shri J. N. Pathak	—	Bank of Rajasthan Ltd.
7.	Shri M. N. Goiporia	—	Dena Bank
8.	Shri M.G.K. Nair	—	Indian Bank
9.	Shri B. L. Khurana	—	New Bank of India
10.	Shri S. L. Baluja	—	Punjab National Bank
11.	Shri Mohinder Singh	—	Punjab and Sind Bank
12.	Shri C. R. Sen Gupta	—	United Bank of India
13.	Shri R. R. Kumar	—	Union Bank of India
14.	Shri J. S. Bhatnagar	—	-do-
15.	Shri B. K. Chatterji	—	United Commercial Bank
16.	Shri T.K.K. Bhagavat	—	Vysya Bank Ltd.

(b) **Foreign Banks**

1.	Mr. Ashok Dayal	—	Grindlays Bank p.l.c.
2.	Mr. K. W. Barker	—	Hongkong & Shanghai Banking Corporation
3.	Mr. A. J. Kemps	—	The Chartered Bank

(c)	**Term lending institutions**		-do-
1.	Shri R. C. Shah	—	Export Import Bank of India
2.	Shri M. R. B. Punja	—	Industrial Development Bank of India
3.	Dr. S. A. Dave	—	-do-
4.	Shri S. H. Khan	—	-do-
5.	Shri S. S. Nadkarni	—	Industrial Credit and Investment Corporation of India
6.	Shri S. V. Shah	—	-do-
7.	Shri D. N. Davar	—	Industrial Finance Corporation of India
8.	Shri D. G. Ramaiah	—	-do-
9.	Shri G. S. Patel	—	Unit Trust of India
10.	Shri P. S. Gopalakrishnan	—	-do-
II.	**Other officials of banks**		
1.	Shri R. Sankaran	—	Andhra Bank
2.	Shri J. N. Daulatjada	—	Bank of Baroda
3.	Shri K. S. Vaitheeswaran	—	-do-
4.	Shri G. S. Dahotre	—	Bank of India
5.	Shri N. S. Parulekar	—	-do-
6.	Shri N. D. Prabhu	—	Canara Bank
7.	Shri L. S. Mehta	—	Dena Bank
8.	Shri S. M. Mehta	—	-do-
9.	Shri A. J. Sellakumar	—	Indian Overseas Bank
10.	Shri N. R. Natarajan	—	-do-
11.	Shri S. V. N. Sambantham	—	Indian Bank
12.	Shri N. P. Saigal	—	New Bank of India
13.	Shri H. C. Nakra	—	Punjab National Bank
14.	Shri B. Mahajan	—	-do-
15.	Shri H. S. Kohina	—	Union Bank of India
16.	Shri Samaokar	—	Citibank N.A.
17.	Shri S. K. Jain	—	-do-
18.	Shri Girish Apte	—	-do-
19.	Shri K. B. Chandrasekar	—	The Chartered Bank
20.	Shri A. R. Gurbaxani	—	Hongkong and Shanghai Banking Corporation
21.	Shri Narayanaswamy	—	-do-

III. **Industry Associations**

1.	Shri C. K. Hazari	—	Association of Indian Engineering Industry
2.	Shri Tapan Mitra	—	-do-
3.	Shri S. D. Kulkarni	—	-do-
4.	Mrs. M. Roy	—	-do-
5.	Shri S. Venkitraman	—	Fertiliser Association of India
6.	Shri Abraham Joseph	—	Federation of Indian Exporters Organisation
7.	Shri A. Ray	—	Indian Tea Association
8.	Shri S. Kabiraj	—	-do-
9.	Shri Y. K. Vohra	—	-do-
10.	Shri J. S. Mehta	—	Indian Sugar Mills Association
11.	Shri H. C. Kothari	—	-do-
12.	Shri D. D. Puri	—	-do-
13.	Shri R. V. Kanoria	—	Indian Jute Mills Association
14.	Shri H. P. Lohia	—	-do-
15.	Shri C. V. Radhakrishnan	—	Indian Cotton Mills Federation
16.	Shri Arvind Lalbhai	—	-do-
17.	Shri Kantikumar R. Podar	—	-do-
18.	Shri N. Venkataraman	—	Associated Chambers of Commerce & Industry
19.	Shri V. P. Punj	—	-do-
20.	Shri H. R. Gupta	—	-do-
21.	Shri Abhijit Sen	—	Bengal Chamber of Commerce & Industry
22.	Shri K. S. Italia	—	-do-
23.	Shri Tapan Mitra	—	-do-
24.	Shri M. Ghose	—	-do-

25.	Dr. K. J. S. Ahluwalia	—	Federation of Indian Chambers of Commerce and Industry
26.	Shri V. H. Dalmia	—	-do-
27.	Shri S. S. Mitra	—	-do-
28.	Shri S. Bhattacharya	—	-do-
29.	Shri Y. P. Srivastava	—	-do-
30.	Shri M. R. Bhandari	—	-do-

IV. **Individuals**

1. Shri L. K. Jha, Chairman, Economic Administration Reforms Commission, Government of India.
2. Dr. R. K. Hazari, Former Deputy Governor, Reserve Bank of India.
3. Dr. K. S. Krishnaswamy, Former Deputy Governor, Reserve Bank of India.
4. Shri K. B. Chore, Former Chief Officer, Department of Banking Operations and Development, Reserve Bank of India.
5. Dr. Hiten Bhaya. Former Chairman, Hindustan Steel Limited.
6. Shri R. K. Talwar, Former Chairman, State Bank of India and Industrial Development Bank of India.
7. Shri G. Lakshminarayanan, Former Chairman, Indian Bank.
8. Shri B. K. Dutt, Former Chairman, United Bank of India.

V. **Reserve Bank of India**

1. Shri V. B. Kadam, Executive Director.
2. Shri S. S. Tarapore, Adviser-in-Charge, Credit Planning Cell.
3. Dr. (Kum.) Meenakshi Tyagarajan, Adviser, Department of Economic Analysis and Policy.

APPENDIX IV

Chronology of Credit Authorisation Scheme

Sr. No.	Date	Particulars of changes effected	Remarks
(1)	(2)	(3)	(4)
1.	20.11.1965	CAS introduced with cut-off point of Rs. 1 crore (all fund based limits including term loans) for borrowers in the private as well as public sector.	Term loans excluded for the purpose of computing cut-off point with effect from 31.8.1978 (vide item 27 below)
2.	22.7.1968	Both pre-shipment and post-shipment credit limits exempted from prior authorisation.	Pre-shipment advances except upto Rs. 5 lakhs subsequently made subject to prior authorisation with effect from 6.7.1974 (vide item 15 below)
3.	27.1.1969	Credit limits for financing **distribution** of fertilisers exempted from prior authorisation.	Exemption withdrawn later.
4.	8.4.1969	Credit limits against fixed deposits exempted from prior authorisation.	Exemption withdrawn on 6.10.1977 and restored on 29.11.1982 (vide items 24 and 43 below).

(1)	(2)	(3)	(4)
5.	12.5.1969	The following facilities were exempted from prior authorisation :	
		a) Transfer of credit limits from one bank to another **without** any increase.	
		b) Extension of time for limits sanctioned for a temporary period and authorised by RBI earlier.	
		c) Advances to State Governments, the Food Corporation of India and State Co-operative Banks for financing of **food procurement** operations.	
		d) Advances granted to State Electricity Boards and public sector undertakings and those granted against the guarantees of the Central and State Governments.	Exemption withdrawn on 21.3.1973 (vide item 14 below).
		e) Advances against Government and other trustee securities.	
		f) Limits against Government supply bills.	
		g) Bill limits under IDBI Scheme of Rediscount and term loans sanctioned on a pari passu basis with IDBI, ARDC (Now NABARD) or under their refinancing schemes.	
6.	19.8.1969	The following facilities were exempted from prior authorisation :	
		a) Purchase/Discount of inland **documentary** bills.	Exemption withdrawn w.e.f. 28.9.1979 (vide item 32 below).

(1)	(2)	(3)	(4)
		b) Limits against supply bills drawn on semi-Government bodies (Port Trusts, Electricity Boards, Municipal Corporations).	
7.	30.6.1970	**Banks advised to submit credit proposals accompanied by data base in Forms I to V.**	Revised w.e.f. 31.12.1975 (vide item 21 below).
8.	20.5.1971	**Term loans for amounts exceeding Rs. 25 lakhs for more than 3 years to non-CAS parties in the private sector subjected to prior authorisation.**	Cut-off point raised to Rs. 50 lakhs w.e.f. 29.11.1982 (vide item 43 below).
9.	22.7.1971	Limits for acceptance of documentary bills drawn under Bill Market Scheme exempted from prior authorisation.	Exemption withdrawn w.e.f. 31.8.1978 (vide item 27 below).
10.	13.9.1971	The following facilities were exempted from prior authorisation :	
		a) Bills discounting limits in lieu of cash credit/overdraft specifically authorised by RBI not resulting in any increase.	
		b) Re-allocation of limits within the overall working capital limits provided it does not result in waiver of any specific condition stipulated by RBI (Reallocation of limits from exempted category to non-exempted category to continue to be subject to prior authorisation, unless of purely temporary nature).	
		c) Occasional negotiation of bills, bank drafts or third party (outstation) cheques.	Withdrawn w.e.f. 28.9.1979 (vide item 32 below)

(1)	(2)	(3)	(4)
11.	11.12.1971	Defence-cum-supply packing credit limits exempted from prior authorisation.	
12.	7.1.1972	The following facilities were exempted from prior authorisation :	
		a) Sanction of credit limits upto Rs. 10 lakhs for periods not exceeding 3 months.	Raised to Rs. 25 lakhs w.e.f. 18.12.1972 and further to Rs. 50 lakhs w.e.f. 29.11.1982 (vide items 13 and 43 below).
		b) Where application for enhancement in limits in excess of Rs. 10 lakhs is pending with RBI, banks may release interim limit upto Rs. 10 lakhs.	Discretion limit raised to Rs. 25 lakhs w.e.f. 29.11.1982 (vide item 23 below).
		c) Purchase of third party (outstation) cheques/bank drafts.	Exemption withdrawn w.e.f. 28.9.1979 and restored on 29.11.1982 (vide items 32 & 43 below).
		d) Advances against the security of inland documentary bills (demand documentary bills or usance bills drawn on D/P basis) received for collection.	Withdrawn w.e.f. 28.9.1979 (vide item 32 below)
		e) Restoration to the original level of a limit authorised by RBI but reduced by the bank itself.	
		f) Credit limits sanctioned to a party in replacement of its limits with another bank as a result of which during the intervering period, i.e. till the accounts with the existing bank are adjusted, the total limits of the party aggregate/exceed Rs. 100 lakhs.	

(1)	(2)	(3)	(4)
		g) Temporary excess drawings not exceeding 5% or Rs. 10 lakhs whichever is lower, over the sanctioned limit and advances against uncleared effects.	
		h) Renewals of credit limits sanctioned on a regular basis at the existing/reduced levels.	
13.	18.12.1972	The following facilities were exempted from prior authorisation :	
		a) Sanction of temporary limits upto Rs. 25 lakhs for a period of 3 months.	Exemption limit increased to Rs. 50 lakhs w.e.f. 29.11.1982 (vide item 43 below).
		b) Where application for enhancement is made to RBI, interim accommodation upto Rs. 25 lakhs pending RBI authorisation for a higher limit may be released.	
		c) Temporary excess drawings over the sanctioned limit upto 10% or Rs. 25 lakhs, whichever is lower.	
14.	21.3.1973	**CAS again extended to public sector borrowers (including State Electricity Boards) as also advances covered by Central & State Govt. guarantees with cut-off point for working capital limits at Rs. 3 crores and term loans at Rs. 1 crore.**	
15.	6.7.1974	Export packing credit limit brought within the purview of prior authorisation. However packing credit limit upto Rs. 5 lakhs to a single borrower from one bank exempted from prior authorisation.	

(1)	(2)	(3)	(4)
16.	8.11.1974	**Banks advised to implement inventory/receivables norms based on interim report of the Tandon Committee.**	
17.	19.4.1975	**Committee of Direction set up in RBI.**	
18.	21.8.1975) &) 15.9.1975)	**Detailed instructions applicable to borrowers having working capital facilities of Rs. 10 lakhs and over, issued to banks based on the final report of the Tandon Committee.**	
19.	7.11.1975	**Cut-off point for working capital limits raised to Rs. 2 crores for borrowers in the private sector.**	
20.	17.11.1975	Interim/bridge finance exceeding Rs. 25 lakhs for private sector borrowers and Rs. 100 lakhs and over for public sector borrowers for capital expenditure subjected to prior authorisation unless such finance is against bank's share of term loans sanctioned on pari passu basis with all-India term lending institutions or against the latter's committed financial assistance.	
21.	3.12.1975	CAS data base revised (Forms I to V).	
22.	14.7.1976	Guidelines issued for scrutiny of annual/quarterly information/data from borrowers to banks.	

(1)	(2)	(3)	(4)
23.	7.12.1976	**Data in Form A (monthly) and Form B (quarterly) called for from banks on an on-going basis in respect of borrowers having aggregate credit limits of Rs. 1 crore and above from the banking system.**	
24.	6.10.1977	Advances against fixed deposits brought under the purview of prior authorisation.	Exempted again on 29.11.1982 (vide item 43 below).
25.	18.5.1978	**Objectives of the CAS re-defined** and certain changes made in exemptions such as (a) temporary/interim limits (b) term loans (c) simplification of data obtained from SSI units.	Powers to grant temporary/ interim limits withdrawn w.e.f. 1.9.1979. Gradually restored after 27.3.1980
26.	17.7.1978	Banks advised that slip-back in current ratio should not normally be permitted except in a few selected circumstances where it could be allowed to fall but not below 1.33 : 1.	
27.	31.8.1978	a) Cut-off point for working capital limits (Rs 2 crores for private sector borrowers and Rs. 3 crores for, public sector borrowers) to be computed without taking into account term loan outstandings. b) L/C limits for import local purchase of capital and other goods to CAS parties subjected to prior authorisation. c) DPG limits for purchase of capital goods/acceptance limits to CAS parties subjected to prior authorisation.	

(1)	(2)	(3)	(4)
		d) The following facilities were however exempted from prior authorisation : (i) L/Cs for import of capital goods where — full margin is provided in cash — financial institutions have sanctioned term loans for purchase of such imported goods — bank itself has sanctioned a term loan and obtained RBI authorisation. — term loans sanctioned for purchase of imported goods are themselves exempted from prior authorisation. — L/Cs are for Rs. 50 lakhs/100 lakhs for private/ public sector borrowers in a year (July-June). (ii) L/Cs for other goods (1) where full margin is provided in cash deposit, or by earmarking drawing power (2) where L/C amount does not exceed 10% of working capital limits authorised by RBI. (iii) DPG/Acceptance for 'high priority industries' provided aggregate of such limits and term loans at the discretion of banks do not exceed Rs. 50 lakhs in a year.	
28.	4.9.1978	Banks advised of commonly occurring deficiencies in credit proposals submitted to RBI which lead to delay in their disposal.	

(1)	(2)	(3)	(4)
29.	15.11.1978	**Guidelines issued to banks on their participation in term loans based on the recommendations of Inter-Institutional Group (Bhuchar Committee).**	
30.	8.6.1979	(a) Banks advised to properly organise a 'Cell' in their Head/Central Offices to keep a continuous watch on the operations of larger borrowers and on key branches accounting for bulk of their advances. (b) Acceptance limits for buyers under/outside IDBI Bills Rediscounting Scheme exempted from prior authorisation. (c) Working capital term loan carved out of existing working capital limit exempted from prior authorisation.	
31.	23.7.1979	When RBI makes modifications in credit proposals submitted under CAS, banks' Boards should be informed of such modifications.	
32.	28.9.1979	Banks advised to treat credit limits for purchase of third party (outstation) cheques/bank drafts, advances against secured documentary bills received for collection, purchase/discount of demand documentary bills and usance bills on D/P basis on par with other inland bills facilities and referred to RBI for prior authorisation.	

(1)	(2)	(3)	(4)
33.	25.10.1979	Banks advised that where aggregate rupee term loan from SFCs. SIICs, SIDCs, banks and all-India financial institutions exceeds Rs. 1 crore, the proposal should be referred to IDBI for prior clearance of the financing pattern of the project. Similar advice given by IDBI to all-India term lending institutions and SFCs, SIICs, SIDCs.	
34.	3.12.1979	Banks permitted to allow temporary excess drawings upto 10% of the **existing credit** limits or Rs. 25 lakhs whichever is less for periods upto 3 months or release increased limits to this extent pending clearance of application for authorisation by RBI.	
35.	28.1.1980	Borrowers advised to furnish data on production in physical terms while applying for authorisation.	
36.	24.3.1980	Letter of credit limits sanctioned to Government and other specified agencies engaged in **distribution of fertilisers** exempted from prior authorisation.	
37.	27.3.1980	Banks given certain discretionary powers to sanction **additional** packing credit limits, credit limits to new units, limits for meeting certain emergent needs upto 10-15% of the existing limits or Rs. 25-50 lakhs whichever is less for periods upto 3 months.	Modified w.e.f. 29.11.1982 (vide item 43 below)

(1)	(2)	(3)	(4)
38.	8.12.1980	**Recommendations of the Working Group to Review the System of Cash Cedit (Chore Committee) advised to banks for implementation in respect of borrowers having working capital facilities of Rs. 50 lakhs and over.**	
39.	3.10.1981	Limits under IDBI's Rediscounting Scheme allowed to manufacturer-sellers not to be taken into account while computing the total limits for the purpose of cut-off point and also for obtaining prior clearance from RBI.	
40.	24.10.1981 & 9.2.1982	Banks given additional instructions/ clarifications on the recommendations of the Chore Committee.	
41.	20.5.1982	Guidelines issued to banks on their participation in term loans for projects costing more than Rs. 5 crores modified to suit borrowers' requests for short term loans up to 3 years' duration without the participation of term lending institutions envisaged by Bhuchar Committee.	
42.	11.8.1982	Cut-off point in respect of working capital facilities to private sector borrowers raised to Rs. 3 crores making it uniform with that in respect of public sector borrowers.	

(1)	(2)	(3)	(4)
43.	29.11.1982	(a) Cut-off point raised to (i) Rs. 5 crores in respect of working capital limits to export-oriented manufacturing units and, (ii) Rs. 1 crore in respect of term loans to such units. (b) Cut-off point for term loans of more than 3 years sanctioned to private sector borrowers raised to Rs. 50 lakhs from Rs. 25 lakhs. (c) Exemption from prior authorisation granted in respect of : — **Additional** packing credit limits upto 25% of existing packing credit limits or Rs. 50 lakhs, whichever is less, for a period not exceeding 3 months. — Purchase of third party outstation cheques/bank drafts. — Advances against fixed deposits in borrowers' names. — Temporary working capital limits upto 10% of the existing such facilities. or Rs. 50 lakhs, whichever is less, for a period not exceeding 3 months. — Interim working capital limits of Rs. 25 lakhs where release of higher facilities sanctioned by banks is pending with the Reserve Bank for authorisation.	

Note : Major landmarks have been shown in bold letters.

APPENDIX V

CREDIT AUTHORISATION SCHEME — AN OUTLINE

Genesis

Since November 1965, the scheduled commercial banks are required in terms of the Credit Authorisation Scheme (CAS) to obtain Reserve Bank's prior approval before releasing credit facilities to individual borrowers beyond certain specified limits. The Scheme has been amended from time to time and its existing provisions are as under:

I. (i) **Type of borrowers covered**

All borrowers in the private and public sectors.

(ii) **Credit facilities covered**

All fund-based facilities as also letters of credit and financial (incluing deferred payment) guarantee facilities from the banking system to borrowers coming within the purview of the Scheme.

(iii) **Cut-off point**

(1) **Working capital**

All fresh credit limits (including bills purchased and discounted) of Rs. 3 crores or more sanctioned by the banking system to an individual borrower or enhancement in limits that would take the total credit limits enjoyed by such a borrower to the above level. In case of manufacturing export units where annual average export turnover of goods manufactured by them during the last 3 years is more than 25 per cent of the total turnover, the cut-off point is Rs. 5 crores. The non-fund based facilities referred to under (ii) above as also outstanding term loans however, are not taken into account for the purposes of the cut-off point. The limits for discounting bills covering sale of machinery on deferred payment basis under IDBI Bills Rediscounting Scheme are also not taken into account for the purpose.

2. **Term loans to borrowers not covered by (1) above**

Individual term loans from the banking system exceeding Rs. 50 lakhs (Rs. 1 crore for manufacturing export units as defined under (1) above) to a borrower in the private sector and Rs. 1 crore or more tc a borrower in the public sector sanctioned singly or jointly with other banks repayable over a period exceeding 3 years. (Where borrowers are already covered by iii(1) all term loans irrespective of the amount. will need prior authorisation).

II. Credit facilities exempted from prior authorisation

Particulars of credit facilities under I(iii) (1) and I(iii) (2) above exempted from prior authorisation are given in the Annexure hereto.

III. Discretionary powers vested in banks

(i) The banks may allow by way of **additional** packing credit limits up to 25% of the existing export packing credit limits or Rs. 50 lakhs, whichever is less, for a period not exceeding three months. The discretion is, however, available only where the packing credit limits are clearly defined and segregated; it will not be available in the case of combined/inter-changeable limits for cash credit and packing credit.

(ii) Where **additional** working capital facilities are urgently needed for a new **manufacturing unit established by an existing company**, the banks may allow temporary limits up to 10% of the existing limit or Rs. 50 lakhs whichever is less, for a period not exceeding three months.

(iii) Temporary working capital limits upto 10% of the existing such facilities or Rs. 50 lakhs, whichever is lower, for a period not exceeding three months.

(iv) Interim working capital limits upto Rs. 25 lakhs where release of higher facilities sanctioned by banks is pending with the Reserve Bank for authorisation.

The outstandings at any one time under the facilities at (iii) and (iv) above should not exceed Rs. 50 lakhs.

IV. Applications

Banks have to apply for prior authorisation of credit proposals for facilities under I(iii) (1) and I(iii) (2) above in the prescribed Forms I to V. Separate sets of forms have however been prescribed for obtaining CAS approval in respect of working capital requirements of sugar mills, State Road Transport Corporations and tea companies. In all cases banks are also required to submit a copy of the latest balance sheet of the borrower and office note put up to the appropriate sanctioning authority in the bank for sanctioning credit facility in question.

V. Reporting of limits

All fund-based working capital limits of Rs. 1 crore and above but below the stipulated cut-off point to a single borrower from the banking system as well as working capital limits and term loans falling under the exempted categories should be reported to RBI soon after they are sanctioned, duly accompanied by CAS Form I and brief self-contained note or copy of the office note referred to in Item IV above.

VI. Periodical statements

(i) Banks are required to submit to RBI monthly/quarterly data on the limits/outstandings and certain operational data in respect of borrowers enjoying working capital facilities of Rs. 1 crore and above from the banking system.

(ii) All borrowers enjoying working capital limits of Rs. 50 lakhs and above are required to submit quarterly/half-yearly statements to banks regarding their operational and funds flow data.

VII. Administration of CAS

CAS is administered by the Industrial & Export Credit Department of Reserve Bank of India, Central Office, Bombay-400 023. Applications for authorisation of credit facilities as also information/data and statements mentioned under V and VI(i) above have to be submitted by all scheduled commercial banks to this address.

ANNEXURE

Part I : **Exemptions in respect of working capital limits allowed under the Credit Authorisation Scheme**

a) **Cash credit/overdraft**

1. Export Packing Credit limits aggregating Rs. 5 lakhs to a single borrower from one bank.
2. Defence packing-cum-supply credit limit against confirmed defence orders or acceptance of tenders.
3. Limits against Government Supply Bills and fixed deposits in borrowers' names.
4. Advances against Government and other Trustee Securities.
5. Advances to State Governments, Food Corporation of India and State Co-operative Banks for financing of food procurement operations.
6. Limits against supply bills drawn on semi-Government bodies (i.e., Port Trusts, Municipalities, Municipal Corporations, District and Rural Boards, Panchayats, Improvement Trusts and State Electricity Boards).
7. Reallocation of credit limits sanctioned to individual parties for working capital purposes within the overall limits specifically authorised by the Reserve Bank for such purposes, provided such inter-changes do not result in the waiver of any specific condition on which the authorisation was granted earlier. This exemption does not cover the re-allocation of limits from the exempted categories (i.e. those which do not require Reserve Bank's prior authorisation) to the non-exempted categories, unless such transfers are purely temporary.
8. A limit which was authorised by the Reserve Bank earlier, but later reduced by the bank itself, is sought to be restored to the original level.

b) **Purchase/Discount of Bills**

1. Purchase of third party outstation cheques/bank drafts.
2. Limits for discounting the accepted bills (within the framework of Bill Market Scheme) which are not accompanied by documents of title to goods, if sanctioned in lieu of cash credit/overdraft limits specifically authorised by the Reserve Bank (not resulting in any increase in the overall limits).
3. Post-shipment credit facilities relating to exports.

Part II : **Exemptions in respect of term loans and financing of deferred receivables under the Credit Authorisation Scheme**

1. Term loans upto an aggregate of Rs. 50 lakhs from the entire banking system in one year (July-June) to a borrower engaged in the industries listed under the high priority category for investment in capital assets, irrespective of whether the party is covered under the Credit Authorisation Scheme or not.

2. Term loans sanctioned for a project on a pari passu basis with IDBI, NABARD, IFCI and/or ICICI (or under the refinancing schemes of IDBI/NABARD), where the share of the banking system in the term loans and deferred payment guarantee facilities is not more than Rs. 25 crores.

3. Limits sanctioned for financing of deferred receivables in regard to domestic sales under the IDBI Bills Rediscounting Scheme (and also outside the scheme provided these are in conformity with the terms and conditions of the IDBI Bills Rediscounting Scheme).

4. Interim finance/bridge loans for amounts exceeding Rs. 25 lakhs for private sector borrowers and Rs. 1 crore and above for public sector borrowers against :

   i) bank's share of the term loans sanctioned on pari passu basis with IDBI/NABARD provided such bridge finance is released only after these institutions have made a firm commitment to grant the term loans and the bank's share therein has been determined.

   ii) the **committed** financial assistance from the all-India financial institutions (i.e., IDBI, NABARD, IFCI, ICICI, LIC and UTI) after obtaining copies of their letters of concurrence for the grant of such bridge loans.

Part III : **Exemptions in respect of Letiers of Credit/Deferred Payment Guarantees/Acceptances allowed under Credit Authorisation Scheme.**

1. **Letters of credit for purchase/import of goods other than capital assets :**

(a) where full margin has been provided in cash, deposits or by earmarking drawing power in the unit's borrowal accounts.

(b) fresh letter of credit limits allowed to a borrower which would take the total letter of credit limits to an amount not exceeding

10% of the working capital limits authorised by the Reserve Bank (excluding discretionary limits and those exempted from prior authorisation).

(c) L/cs sanctioned to Government, other specified agencies engaged in distribution of fertilisers.

2. **Letters of credit for purchase/import of capital equipment**

(a) where full margin has been provided;

(b) where financial institutions have sanctioned term loans and have agreed to release funds for retirement of bills drawn under the letters of credit opened by banks;

(c) where term loans have been sanctioned by banks and Reserve Bank's authorisation, where required, has been obtained;

(d) where term loans sanctioned for purchase/import of the relative assets are exempt from the Reserve Bank's prior authorisation; and

(e) fresh letter of credit or enhancement in letter of credit limits for purchase/import of capital equipments for amounts not exceeding Rs. 50 lakhs in a year (July-June) for private sector borrowers and Rs. 100 lakhs in a year for public sector borrowers.

3. **Deferred payment guarantee/Acceptance limits**

(a) Sanction of deferred payment guarantee limits for purchase of capital equipment and also acceptance limits in connection therewith to borrowers engaged in industries listed under high priority category provided the aggregate amount of such limits together with term loans provided at the discretion of the banks does not exceed Rs. 50 lakhs in a year.

(b) Acceptance limits sanctioned by banks under the IDBI Bills Rediscounting Scheme and also outside the Scheme on behalf of purchasers of indigenous machinery provided these are in conformity with the terms and conditions of the IDBI Bills Rediscounting Scheme.

APPENDIX VI — STATEMENT NO. 1

Coverage of CAS as on 31st December 1982 at a glance

(Amounts in crores of rupees)

Sector	Number of borrowers	Percentage of total number of borrowers	Limits sanctioned	Percentage of total amount of limits sanctioned
Public	185	21.1	5072	44.6
Private	692	78.9	6323	55.4
	877	100.0	11395	100.0

Note : The statement is based on the information available in the party files in IECD.

APPENDIX VI — STATEMENT NO. 2

Statement showing size-wise distribution of credit limits to large borrowers

(Amounts in crores of rupees)

As at the end	Rs. 1—2 crores		Rs. 2—5 crores		Rs. 5—10 crores		Rs. 10—15 crores		Rs. 15—20 crores		Above Rs. 20 crores		Total	
	No. of parties	Limits	No. of parties	Limits	No. of parties	Limits	No. of parties	Limits	No. of parties	Limits	No. of parties	Limits	No. of parties	Limits
September 1977	Information not available													
September 1978	Information not available													
September 1979	758	1112	772	1862	234	1580	83	1012	31	541	73	3377	1951	9484
September 1980	771	1102	680	2063	251	1786	87	1071	55	788	82	4936	1926	11746
September 1981 (Latest available)	750	1142	766	2364	271	1939	88	1110	54	938	101	6080	2030	13573

Notes: (i) The statement is based on monthly Form A data received from banks in respect of borrowers enjoying aggregate credit limits of Rs. 1 crore or more from the banking system.

(ii) The information relates to only non-food credit.

APPENDIX VI — STATEMENT NO. 3

Sector-wise total limits sanctioned and outstanding credit (non-food) of large borrowers

(Amounts in crores of rupees)

As at the end	Public Sector	Private Sector	Total out-standing	Total limits sanc-tioned	Utilisation (Percentage of 4 to 5)
(1)	(2)	(3)	(4)	(5)	(6)
September 1977	1147	3242	4389	7284	60.26
September 1978	1640	3601	5187	Not available	Not available
September 1979	1961	4267	6230	9484	65.69
September 1980	2781	4429	7210	11746	61.38
September 1981 (Latest available)	3320	5366	8816	13573	64.95

Notes :

(i) The statement is based on monthly Form A data received from banks in respect of borrowers enjoying aggregate credit limits of Rs. 1 crore or more from the banking system.

(ii) Public sector includes cooperative sector.

APPENDIX VI — STATEMENT NO. 4

Statement showing bank credit (non-food) availed of by large/CAS borrowers

(Amounts in crores of rupees)

As at the end	Total scheduled commercial banks' credit		Credit availed of by large borrowers		Percentage of			
	Total	Non-food	All large borrowers	CAS borrowers	(4) to (2)	(4) to (3)	(5) to (2)	(5) to (3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
September 1977	13888	11449	4389	3633	31.6	38.3	26.2	31.7
September 1978	15748	13483	5187	4418	32.9	38.5	28.0	32.8
September 1979	19764	17031	6230	5343	31.5	36.6	27.0	31.4
Sepetmber 1980	22060	20211	7210	6250	32.7	35.7	28.3	30.9
September 1981 (latest available)	27164	25288	8816	7364	32.5	34.9	27.1	29.1

Notes : (i) The statement is based on monthly Form A data received from banks in respect of borrowers enjoying aggregate credit limits of Rs. 1 crore or more from the banking system.

(ii) CAS borrowers (Column 5) include those enjoying aggregate credit limits of Rs. 2 crores or more in private sector and Rs. 3 crores or more in public sector.

APPENDIX VI — STATEMENT NO. 5

Industry-wise break-up of credit limits applied for, authorised, reduced and rejected by RBI during the year 1982

(Amounts in crores of rupees)

Sr. No.	Type of Industry	Total amount applied for	Total amount autho-rised	Total amount reduced	Total amount in respect of appli-cations rejected
1.	2.	3.	4.	5.	6.
1.	Plantations — Tea	5.51	5.41	0.10	—
2.	Mining & Quarrying — Coal	2.00	2.00	—	—
3.	Mining & Quarrying — Iron Ore	0.73	0.73	—	—
4.	Mining & Quarrying — Others	1.65	0.85	—	0.80
5.	Sugar	174.39	160.69	10.20	3.50
6.	Edible Oils & Vanaspati	9.38	7.40	—	1.98
7.	Food Manufacturing and Processing	1.27	1.27	—	—
8.	Tobacco & Tobacco Products	8.48	5.98	2.50	—
9.	Cotton textiles	108.72	89.61	15.36	3.75
10.	Jute Textiles	10.75	10.75	—	—
11.	Silk & Synthetic Fibres	73.65	54.81	18.85	—
12.	Wool & Woollen Textiles	8.30	8.30	—	—
13.	Other Textiles	0.67	0.67	—	—
14.	Paper and Paper Products	22.24	8.64	3.60	10.00
15.	Leather & Leather Products	1.25	1.25	—	—
16.	Rubber & Rubber Products	21.59	16.55	5.04	—
17.	Heavy Industrial Chemicals	14.71	11.76	2.95	—
18.	Fertiliser — Manufacture	96.15	90.15	6.00	—
19.	Drugs & Pharmaceuticals	17.28	11.51	5.27	0.50
20.	Plastic and Plastic Products	6.10	6.10	—	—
21.	Chemical — Others	35.35	27.38	2.76	5.21
22.	Petroleum Products	112.02	112.02	—	—
23.	Cement	29.15	27.47	1.68	—

1.	2.	3.	4.	5.	6.
24.	Iron and Steel	328.80	316.57	4.48	7.75
25.	Basic Metal and Metal Products — Others	9.47	4.70	1.00	3.77
26.	Heavy Engineering — Electrical Machinery	189.80	185.81	0.69	3.30
27.	Heavy Engineering (except Electrical Machinery)	75.66	66.10	2.45	7.11
28.	Light Engineering	187.10	91.76	37.40	57.94
29.	Manufacture of Transport Equipment — Railway	0.50	0.50	—	—
30.	Manufacture of Transport Equipment — Others	66.12	63.51	—	2.61
31.	Manufacturing — Others	33.04	21.48	4.05	7.51
32.	Electricity Generation and Distribution	68.15	43.85	20.00	4.30
33.	Trade — Foodgrains	7.10	7.10	—	—
34.	Trade — Fertilizers	49.50	49.50	—	—
35.	Trade — Raw Cotton	3.40	3.40	—	—
36.	Trade — Raw Jute	21.41	21.41	—	—
37.	Trade — Others	110.38	102.09	8.19	0.10
38.	Transport and Communication	4.11	4.00	0.11	—
39.	Financial and Development Institutions*	5.83	4.50	0.33	1.00
40.	Municipalities and Adm. Bodies	5.95	1.95	—	4.00
41.	Hotel — Restaurants — Tourism	0.15	—	—	0.15
42.	All others	37.06	27.80	9.26	—

* Investment companies, financial companies, Industrial Development Corporations.

Note: The amounts involved in rejection or reduction of credit proposals are not truely reflected in the statement due to the modifications made in some of the proposals on the basis of discussions with RBI which were later cleared in toto.

APPENDIX VI — STATEMENT NO. 6

Statement showing receipt and disposal of credit applications in IECD

	1979	1980	1981	1982
(i) Applications pending consideration at the beginning of the year	122	228	109	83
(ii) Applications received during the year	1525	1558	2084	2238
	1647	1786	2193	2321
(iii) Applications authorised during the year	976	1512	1612	1444
(iv) Applications rejected during the year	55	46	50	48
(v) Applications in respect of which further particulars were called for, etc.	388	119	448	702
(vi) Applications pending consideration at the end of the year	228	109	83	127
	1647	1786	2193	2321

APPENDIX VII

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
BOMBAY-400 005

Confidential

Ref. DBOD. No. CAS (COD) BC. 90/27C-78 July 17, 1978
Asadha 26,1900 (Saka)

All Scheduled Cmmercial Banks.

Dear Sir,

Study Group to frame guidelines for follow-up of bank credit — Slip back in current ratio

In paragraph 6.12 of its Report, the Study Group on the follow-up of bank credit had recommended that the net working capital (NWC) (Excess of current assets over current liabilities) of a borrower in absolute terms as well as in relation to the working capital gap (difference between current assets and current liabilities other than short-term borrowings from banks) should not be allowed to deteriorate but should improve over a period. In other words, the aim should be to move forward and the borrowers who have built up their NWC by plough back of profits or otherwise should not be allowed to dilute the position for any reason. It has been represented to us that rigid adherence to the above concept may cause hardship under certain circumstances.

2. The issue has been examined by us in consultation with the Committee of Direction and we have to advise that banks may, as a special case, consider permitting relaxation to the industrial units which have good past performance record and which have built up a sound current ratio over a period of time for the following purposes :

i) For undertaking either an expansion of existing capacity or for diversification.

ii) For fuller utilisation of existing plant capacity.

iii) For meeting a substantial increase in the unit's working capital requirements on account of abnormal price rise.

iv) For investment in allied concerns with the concurrence of the bank, if such an investment is considered necessary in the business interests of the borrowing unit, e.g., for procuring supply of raw materials, etc.

v) For bringing about a reduction in the level of deposits accepted from the public for complying with statutory requirements.

vi) For repayment of the instalments due under foreign currency loans and other term loans.

3. While permitting relaxation in the circumstances stated above, banks should ensure that the current ratio of atleast 1.33:1 is maintained. In other words, the relaxation should not result in reducing the unit's contribution from the long-term sources below a minimum of 25% of its **current assets.**

4. The borrowers who are in the first method stage (i.e., whose contribution from the long term sources of funds is less than 25% of the current assets) should not normally be allowed to expand their activities without bringing in additional equity or raising term loans so as to ensure that their financial structure is not weakened as a result of expansion. However, in exceptional cases, relaxations may be permitted for temporary periods in regard to the units which can reasonably be expected to make good the gap out of cash generations within a short period. Cases of such units should be constantly reviewed.

5. The slip back in the current ratio should not normally be allowed except under the circumstances indicated in the foregoing paragraphs. The banks should particularly note that units which have diverted their funds outside the business by giving loans and advances not in the nature of advance payments for raw materials, etc., and units which seek to enlarge their investments in other concerns not approved by the bank/s should not be allowed diminution in their current ratio under any circumstances.

Yours faithfully,

Sd/-

(K. B. Chore)
Addl. Chief Officer.