

MSBL/HO-ADMIN/ /2016-17

Date : 13<sup>th</sup>December, 2016

To,  
The Chief General Manager,  
Reserve Bank of India,  
Department of Co-op. Bank Supervision,  
Mumbai Regional Office,  
Bandra - KurlaComplex ,  
Bandra (East), Mumbai - 400 051.

### **Subject: Revitalization Plan**

We are grateful to you for the meetings granted and kind words of advice on the steps we need to take to protect the interests of Shareholders, Depositors Employees

Notwithstanding the restraints placed on Operations, the Board and Key Personnel have been tirelessly working towards not only revival but revitalization of the 69 year old Institution trusted by thousands over the decades gone by

We write today to place before you our ambitious yet feasible Plans and humble requests related thereto

Kindly permit us to revisit the history to begin with

#### **Background:**

The present Board assumed charge of the Bank on 15<sup>th</sup> April 2015 to replace the previous Board that had failed to deliver any satisfactory results to the Shareholders

Neither the Shareholders nor the Incoming Directors were aware of the complexities and gravity of the problems arising from mismanagement

At this point of time, we refrain from raising any allegations since our priority is to get the Bank active and put it on growth path. We will certainly be investigating the malpractices and take every step needed to bring the guilty to the Books under due process of Law

The Bank was restrained to conduct normal banking operations vide your letter dated 31.08.2016 , based on Audit Report as at 20.03.2014 that reflected Negative CARR and high NPA that related to the period when the present Management had no role to play

You have graciously increased the Per Depositor withdrawal limit from Rs 1000/- to Rs 5000/- on the 8<sup>th</sup> September of 2016

We are glad to mention that not more than 11594 Depositors (13 %) have lined up to draw this amount till 28.09.2016, thereby reflecting their confidence in the Bank and faith in Indian Banking System being supervised by you

**Directives:**

The financial health improvement targets set out for us by you were as follows

CARR from- 36.92 to –15.84

NPA reduction from 102.67 Cr to at least 78.80 Cr

We are indeed obliged that an opportunity is provided. Our efforts in this direction that were underway from the day we assumed charge have only been galvanized with your intervention followed by guidance

**NPA Status**

The Recovery process initiated even prior to the above mentioned Directive and the ramped up efforts post the directive, have started yielding results on multiple fronts as tabulated below

<b>Particulars</b>	<b>Earlier Board Period As on 31.03.2015</b>	<b>New Board Period as on 31-03-2016</b>	<b>New Board Period as on 30-09-2016</b>
<b>I)Advances O/s</b>			
A)Sanctioned by previous Board	180.22	147.26	137.56
b)Sanctioned by current Board	–	25.34	34.28
<b>Total Loans</b>	<b>180.22</b>	<b>172.60</b>	<b>171.84</b>
<b>II)NPA</b>			
A)Previous Board Approved Loans*	94.81	92.30	102.05
B)Current Board Sanctions**	0.00	0.01	0.62
<b>Gross</b>	<b>94.81</b>	<b>92.31</b>	<b>102.67</b>
<b>III)Recoveries</b>			
A)Loans by Previous Board	3.58	6.79	0.98
B)Loans by Current Board	0.00	0.00	0.00
<b>Total</b>	<b>3.58</b>	<b>6.79</b>	<b>0.98</b>
<b>Ratio Analysis</b>			
NPA/Old Loans(IIA/IA)	52.61%	62.68%	74.19%
NPA/New Loans(IIB/IB)	-	0.04%	1.81%
Gross ( II/I)	52.61%	53.48%	59.75%
Recovery/Old Loans (IIIA/IA)	1.99%	4.61%	0.71%
Recovery/New Loans (IIIB/IB)	NA	NA	NA
Gross (III/A)			

<b>Legal Status</b>			
Symbolic Possession		65.84	42.37
Physical Possessions		4.69	15.15
Disposal Stage		5.25	3.67
Hearing Stage		11.00	21.97
Notice Issued Stage		5.28	19.51
<b>Total</b>		<b>92.31</b>	<b>102.67</b>

### Own Funds (Rs Cr)

Particulars	As on 31.03.2015 (Reference Date)	31-03-2016	30-09-2016	REMARK
Authorized Capital	10.00	10.00	10.00	
Paid Up	6.48	6.39	6.47	
Free Reserves	3.62	3.64	3.64	
BDDR Provision	50.69	62.50	*71.65	* Estimated prov.
Revaluation Reserves	7.85	7.40	7.40	
Loss B/f Loss for the Year	9.27	28.36	40.27	
Accumulated Loss	19.09	11.91	**12.90	** Estimated loss [including additional BDDR Provision]
	28.36	40.27	53.17	

### Notes:

The increase in loss is less/more than fresh BDDR creations during our period due to following measures taken by us-

Reduction in interest rate on deposits from 10 % to 4%

### OTS Update

We have been continuously following up, on paper and in person; with each of the Top 50 NPA Borrowers and their respective Guarantors

Our efforts have borne fruits and we are hopeful of arriving at formalization of OTS for 19 Top Accounts with total exposure of Rs 47.97 Crore. The process would get completed by Dec 31<sup>st</sup>2016.

It may kindly be noted that in our projections, we have taken a conservative approach and reflected a low amount than what is assessed as on date

Rather than going all out on Auction/Attachment of Property we are opting for OTS simply because of the fall in Property prices due to recent measures by the Government

We may kindly be permitted to state that the timeline and the amount that would be settled at depends upon case by case approvals

#### **REVITALIZATION MEASURES:**

The Board is seized of the fact that unless the Bank operations are revived in quick time, the interests of over 83911 Depositors Banking with us and over 17940 members would be severely affected if not compromised

With due regards to the financial health of the Bank, the transformations taking place at rapid pace on Digital Payment space and the state of Co-operative Sector, we are working on not only the much needed fundamental transformation but also both Organic and Inorganic opportunities and challenges

#### **Fundamental Transformation**

In order to ensure synchronization with the Banking and Payment Systems of all kinds as well as bring in accountability in Real time, we are-

- Evaluating Core Banking Systems for On Line operations
- Studying the UPI and other Mobile Payment facilities provided by NPCI
- Partnering with a Bank for Debit Cards/Prepaid Cards/Wallets
- Team realignment, flab shedding for productivity and viability

#### **Organic Transformation**

The organic measures aim to attain, if not cross the targets set by you on CARR and NPA fronts

The bare minimum quantum needed is Rs.38.50 Cr by way of Own funds and Recoveries

#### **A) Shareholder Funds:**

Our last Equity enhancement was in the Year 2007 when our deposit base was Rs.184.10 Cr

By March 17, we propose to increase the Authorized and Issued Capital to Rs 25 Cr.

Since the Operational clampdown, we have been frequently interacting with both Depositors and Shareholders. We are happy to mention that they are steadfast in their faith in the Bank and their support is encouraging

We have arrived at the decision to increase the Capital not only to meet with CARR but to have adequate funds on hand for Technological upgrade and other fundamental transformation measures listed above

**B) NPA Recovery:**

While all out efforts on Legal and Moral fronts are ongoing, we propose to fast-track the recovery of Big Ticket and Business Loans through OTS

The last Quarter of the year generally sees considerably activity on Asset acquisition for Capital Gains set off purposes and this is what we hope to leverage with the margin available between Market Value and OTS to be arrived at being able to absorb most of the fall in Real Estate prices

**We anticipate following improvement in our Portfolio Status by 31.03.2017 (In Crore)**

Aspect	Amount [Rs. in Cr.]	Impact on Working Funds
<b>Shareholder Funds</b>		
Capital	25.00	+ Rs.18.61 Cr
Free Reserves	3.64	---
Revaluation Reserves	7.40	----
Provisions	54.09	- 8.41 Cr
<b>Loans</b>		
Regular	69.17	
NPA	78.80	
<b>Total Loans</b>	<b>147.97</b>	
<b>CARR</b>	<b>-15.84%</b>	
<b>NPA % (Gross)</b>	<b>53.25%</b>	
<b>NPA % (Net)</b>	<b>26.32%</b>	

**C) Emerging Position:**

The anticipated CARR and NPA Status by 31-03-2017 would thus be as under-

## **B) Inorganic Transformation**

### **Proposition:**

**Bank to act as magnet to attract, service and groom a large number of CASA and Secured Loan Accounts from the Co-operative Credit Society(CCS) Sector who are in dire need of Banking Services but need the same hand-holding, personalized Services culture unlike the professional commercial banking**

### **Genesis:**

**The Demonetization and promotion of Digital Transactions has posed immense challenges for all Entities in general and Survival challenges to the Co-operative Credit Societies (CCS)**

**The elite amongst these have recognized the irreversible changes taking place for the betterment of economy and desire to pass on the benefits of the changes to their Members.**

**As you are aware, Sir, the CCS Sector renders highly personalized Services meeting the hand-holding requisites of the Bottom rung of Society helping it overcome low degree of financial literacy. Invariably, the CCS have been working with Local Banks for accessing Banking Services like cheque clearances/remittances etc.**

**Since the CCS cannot turn Banks overnight and many may not even be eligible to obtain a Banking License, the fate of their Account Holders hangs by a slim thread**

**Some of our Directors are also associated with one or more CCS and seized of the challenges**

**Our Bank has always been seen in positive light within the Sector and we have now been approached by a number of medium –sized CCS**

**These Entities have evaluated their options carefully and have arrived at the conclusion of our Bank being most appropriate Platform in view of the following-**

- **Our roots going back to CCS fraternity**
- **Presence in Mumbai**
- **Transitory, surmountable challenges currently faced by us**
- **Our need and desire to transform inside out, adopting technology and consolidating Management Team**
- **Positivity of intent for Depositors and Members shared by both sides**

### **Anticipated Benefits:**

- **Ready base of Members willing to contribute to proposed Capital expansion**
- **Huge jump in Deposit base in the range of 200% to 400%**
- **Option to acquire Secured(Gold Loans) Loans {Subject to Lending Norms} thus generating higher Revenues**

- **Opening of Rural Branches , a step not taken till now due to resource crunch and uncertainty of business levels in Rural Areas being addressed at one go**

**We have carried out a couple of number crunching exercises and believe that the Bank can emerge stronger, larger and much more socially relevant through such collaborative steps if permitted by your goodselves**

**REQUISITES AND REQUESTS:**

**In order for us to transform ourselves and thereafter embark upon the Mission to achieve the Inorganic growth, we need to-**

**Issue Fresh Capital to the extent of Rs 18.5Crore for which your In Principle permission is solicited since the same would be required by the State Government to whom we will be submitting the Application**

The restraints placed on us need to be relaxed, modified to enable us to resume normal Banking activities , same being subject to Capital increase and NPA reduction in shortest possible time. We are open to, rather voluntarily refrain from Fresh lending(other than against Deposits with us) till the NPA drop significantly

**TIMELINE:**

As things stand, we believe that the March 2017 Balance Sheet will reflect a qualitative and quantitative improvement if we are fortunate to have the above requests acceded to

Thanks & Regards,

(Mrs.A.A. Malgaonkar)  
Hon. Chairperson

To,  
The Chief General Manager  
Reserve Bank of India  
Department of Co-op. Bank Regulation  
Bandra- Kurla Complex,  
Bandra (East), Mumbai-400051.

Respected Sir,

**Sub : Revitalization Plan – II**

Earlier depositors confidence had become shaky when their hard earned money had become intangible to them, however currently with support of both the regulators, bank was able to contain the depositors and attain stability. Depositors had reposed their confidence and strong support with the expectation that we have taken all steps necessary to arrest adverse consequence of financial crisis emanating from the restrictions imposed.

We are in a process to strengthen regulation and supervision, promotion and use of standards of sound business and financial practice, regulatory actions, explicit deposit protection. It is our endeavour to attend, control & manage on priority all risks affecting banking & finance as financial markets are very fragile due to domestic as well as foreign reasons. In view of financials of the bank and present circumstances solutions, such as rights issues or improvement in Tyre I capital, needs to be pursued in the first instance to attain viability and for the said reason we had undertaken coherent contingency planning, financial risk assessment and crisis management.

We further submit following for your perusal with a request to explore possibility of grant of relaxations for following,

1. Established in 1969, Maratha Sahkari Bank Ltd. is Mumbai (Maharashtra) based co-operative bank having completed 70 years of existence ( including period as Credit Co. op. Society). The bank has 7 branches covering most of the commercial locations in Mumbai.
2. At present management of the bank is with the elected members of Board of Directors who assumed charge on 15<sup>th</sup> April 2015 and none of the members of the Board were having any role in the management of the bank as on 31/03/2014 or prior to that.
3. Bank had a vital role in mobilizing deposits and providing financial support to the people in the middle and lower income groups and the marginalized sections of the society. It is admitted position that financial impairment is not a cause but an effect.
4. Family of the Maratha Sahakari Bank Ltd. consist of eighty four thousand depositors, about eighteen thousand share holders and about eighty five staff members. The business of the bank at the peak level was close to Rs.500 crores and had a very strong customer's base of three lac customers.
5. Depositors largely coming from middle and lower income groups had a very huge emotional and financial attachment may be due to procedural simplicity, close contact, informal atmosphere and local involvement had been the inherent strength which kept attracted small depositors despite the adverse financials.

6. Basis of the proposal is circular issued by RBI bearing no. UBD.PCB.Cir.no 39/09.16.900/08-09 dated 23<sup>rd</sup> January 2009. The circular provides that Reserve Bank would consider financial restructuring proposal as an additional option for resolution of problem bank.
7. Para 3 (ii) provides that portion of deposits of Individual depositors above Rs. 1 lakh may be converted into equity.
8. In terms of the said guide line we propose mobilisation or conversion of deposits (as per balance sheet of March 2016 Rs.196 crores) in form of IPDI or say Long Term Deposits so as to qualify as quasi equity under tier I capital. These deposits may carry interest at lower or rate applied to savings bank account.
9. Present management proposes to publish the list of defaulters and accounts involving sacrifice on CIBIL and had taken necessary steps to achieve it. Due to huge amount of remissions, the overdue interest receivable is approximately Rs. 98 crores. It is our rough estimate that post restructuring bank would be able to recover 20% of the OIR and will achieve remarkable improvement in financials. Disclosing accounts involving sacrifice may help in achieving this position.

It is not in dispute that the bank had the vital role in mobilizing deposits and providing financial support to the people in the middle and lower income groups and the marginalized sections of the society.

- a. Then management of the bank had not laid thrust on, up gradation of hardware and software so as to meet the competition from the other cooperative banks. Bank had huge potential to attract CASA deposits which was need of the present day working but then management had hardly done anything to achieve mobilization of CASA deposits.
- b. CBS implementation was far from being termed as satisfactory. Despite the difficulties explained herein above and also hereunder, depositors continued with their support and mobilization of low cost deposits can be improved to 40% of total deposits. Cost of deposit in current year is estimated to be 4% (reduction of about 3% over prior year) by reducing interest rate to 4% since October 16.
- c. Due to restrictions imposed by RBI recovery of dues by settlement was not possible. Recently bank had approached for approval of OTS scheme.
- d. Bank had not availed the indirect facility available through RBI web site CIBIL which registers even interest remission granted by the bank in compromise settlement. It is expected that with a marginal expenses list of defaulters and interest remissions are put on CIBIL there is a very good chance that even earlier dues will be recovered (OIR 98 crore) and expected recovery can be about 15% to 20% of total Overdue Interest Receivable of Rs. 98 crore approx.
- e. There is no cash loss but the entire carried forward loss is due to provisioning made. Carried forward loss as on 31.03.2016 is Rs. 40.27 crores while provisions made are Rs. 63 crores. We had ambitious plans for recovery and with recovery of NPA, these provisions will be reversed and vis-à-vis loss will be wiped out.  
(Annexure-A)
- f. Besides if we are allowed by RBI to mobilize fresh share capital or Long Term Deposits as mentioned here before then there will be substantial improvement in Net Worth and CRAR.

- g. This gap will be further reduced by another 20 crores from projected recovery in OIR. This depicts financial viability of the bank. It is pertinent to note that there is no cash loss and even loss due to provisions had adequate cushion and shall not be the hurdle in decision for restructuring.

SN	PARTICULARS	31.03.2016	30.09.2016	31.12.2016
				<b>Rs. in lakhs</b>
1	Cash & Bank Balance	1,360.72	1,579.25	1,505.28
2	Investment	11,866.59	11,202.89	11,682.07
3	Loans & Advances	17,259.71	17,183.70	16,543.61
<b>4</b>	<b>Sub Total A</b>	<b>30,487.02</b>	<b>29,965.84</b>	<b>29,730.96</b>
5	Gross NPA - Amount	9,231.21	10,266.72	11,284.22
6	Less:50% of Gross NPA	4,615.61	5,133.36	5,642.11
<b>7</b>	<b>Sub Total B</b>	<b>25,871.42</b>	<b>24,832.48</b>	<b>24,088.85</b>
8	Add: Realizable value of Land & Building (As per Market Value)	3,000.00	3,000.00	3,000.00
<b>9</b>	<b>Net Realizable Assets</b>	<b>28,871.42</b>	<b>27,832.48</b>	<b>27,088.85</b>
10	Deposit	28,114.81	28,157.78	28,149.91
<b>11</b>	<b>Gap</b>	<b>(756.60)</b>	<b>325.30</b>	<b>1,061.06</b>

The above table provides comparative position of audited results of March 16 and unaudited results of Sept 16 and December 16. The table is prepared to withstand extreme condition with assumption that 50% of the advances may not be recovered and even with this assumption no threat is depicted. In any case we do not envisage any threat to depositors hard earned money. As on march 16, readily realizable assets are in excess of deposits and position is comfortable. Even the unaudited results do not depict any threat even under extreme assumptions and bank is potentially viable.

However as abundant precaution for viability of restructuring proposal we suggest that we shall be allowed to reverse interest paid to uninsured depositors or in alternate this amount shall be converted into IPDI or LTD for which we are approaching you with a request to consider.

We also request following permissions/approvals,

- I. Permission for conversion of uninsured deposits into LTD or mobilization of mesh capital.
- II. Permit us to obtain fresh mesh capital.
- III. Permission to renew existing cash credit and Gold Loan accounts.
- IV. Appropriation of term deposits held under lien to advances.
- V. Approval of VRS scheme.
- VI. Approval of One Time Settlement scheme.
- VII. Approval for expenses to disclose name of defaulters to CIBIL.

Our humble request to you is to provide us an opportunity to present the restructuring proposal in person for partial modifications/ relaxations of restrictions imposed u/s 35A of B R Act.

Thanking you

Yours sincerely,

For **Maratha Sahakari Bank Ltd.,**

**V.S.Rawool**  
**Chief Executive Officer**