

STATE INDUSTRIES PROMOTION CORPORATION OF TAMILNADU LTD  
19-A, RUKMANI LAKSHMIPATHY ROAD, EGMORE, CHENNAI-8

**O.O.No.08/2018**

Dated: 25 .10.2018

**OFFICE ORDER**

Sub: SIPCOT-TERM LOAN LENDING ACTIVITY - RECOVERY OF DUES  
THROUGH ONE TIME SETTLEMENT (OTS) - REVISION OF POLICY  
AND GUIDELINES – BOARD'S APPROVAL - REG.

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The Board of SIPCOT at its meeting held on 26.9.2018 revised the One Time settlement (OTS) policy including the principle, guidelines and the procedure as detailed in the annexure. This revised OTS policy is effective from the above mentioned date of Board Meeting.

The processing fee to be collected along with OTS application is Rs.25,000/- (Rupees Twenty five thousand only) - (non-refundable) + GST as applicable.

The above Office order is issued in supersession of all earlier proceedings/ Circulars/Office orders issued in this regard.

Encl: as above

Sd/-  
K.SRINIVASAN  
MANAGING DIRECTOR

To  
All General Managers  
All HODs  
All Project Managers/All Project Officers/P.O. i/c.  
PS to MD

//FORWARDED BY ORDER//

ASSISTANT GENERAL MANAGER(F&R)

**ANNEXURE TO OFFICE ORDER NO. 08/2018 dated 25 .10.2018****Eligibility**

All the Term Loan units including accounts which were technically written off are eligible for settlement of dues by way of OTS.

**Parties to negotiate with under OTS**

1. Principal Borrower/s
2. Guarantors
3. Parent Company
4. Other interested parties like legal heirs, purchaser of charged assets of the Corporation (subsequent buyers), tenants, etc.
5. OTS offer should be received in writing.

OTS Application Form should be submitted as per the prescribed form enclosed.

Details to be furnished along with OTS application are given below:

- i. Present net worth of promoters / guarantor duly certified by the Statutory Auditors in case the assisted unit is a Limited Company and by a Chartered Accountant in the case of individual / partnership firm.
- ii. Last 3 years audited working results of borrowing unit / company and provisional working results for the incomplete financial year.
- iii. Payment of processing fees
- iv. Down payment
- v. Source of funds to remit the OTS amount
- vi. Reason for default
- vii. Factors affecting unit function

**Receipt of Down Payment under OTS**

At the time of receipt of the OTS Application Form from the borrower unit / company, upfront payment to the extent of at least 15% of the principal outstanding amount should be collected to evidence commitment to the OTS process. In case the borrower unit / company has genuine difficulty to make the down payment, relaxation may be made after getting due approval from the Managing Director. If the proposal is not approved under OTS for some

reason or other, the down payment received shall be adjusted to the loan account and the borrower may be informed in writing accordingly. However, if the down payment is remitted by a third party on behalf of the unit / company the amount so received shall be kept in Sundry Deposit Account and in case the OTS offer is not found acceptable by the Corporation, such down payment would be refunded without interest.

### **Timelines for processing proposals under OTS**

The timelines for processing proposals under OTS is 90 days from the date of OTS application. The approving authority of OTS is Board of SIPCOT.

### **Examination of OTS proposal**

#### **Essential factors**

Essential factors that need to be kept in view while pursuing OTS are:

- ❖ The quality of the security available and the age since the account ceased to generate income.
- ❖ Net Present Value of the realizable value of the security charged and net worth of the borrower / promoter(s) / guarantor(s).
- ❖ Present status of the borrower unit / company and its financial performance
- ❖ Possibility of better recovery through other means, including through legal recourse.
- ❖ Envisaged means of raising funds by the borrower/promoters for meeting the OTS payment.
- ❖ Consideration / approval of OTS by other lenders and comparison of terms thereof with that offered to the Corporation.

### **Valuation of Security Assets:**

#### **Valuation of Assets**

As any compromise settlement would generally involve sacrifice on the part of the Corporation, the assets charged to the Corporation should be got valued by an empanelled valuer of TIIC, to assess its realizable value. Based on the realizable value, alternative courses of action should be weighed upon. While comparing the realizable value of assets with the recoverable dues, the net fixed assets, wherever

possible, as per latest balance sheet should also be looked into to satisfy that any variance with the realizable value given by the valuer is reasonable. Reasons for such variation, if warranted, should be commented upon, while recommending the case for OTS. A second valuation shall also be done by the Internal Valuation Committee as a matter of abundant caution.

The Internal Valuation Committee will be framed with the following Officers:

1. Project Officer (located nearby the Assisted Unit) – Member and Coordinator
2. Officer in the rank of Tahsildar and above (on deputation to SIPCOT) for Valuation of Land.
3. Officer in the Rank of Asst Executive Engineer / Asst. Manager (Civil) and above including deputationists for valuation of Buildings and Plant & Machinery.

### **Valuation Report – Validity**

While considering the OTS proposal, it is to be ensured that the valuation of securities is not more than one year old and the approved Engineers and the Internal Valuation Committee are providing Guide line value, Market Value, Realisable Value and Distress Sale Value in the valuation reports. Besides the report shall mention the classification of property viz. commercial / residential / industrial / agricultural and location of property i.e. Corporation / Municipal towns / Villages. The Internal Valuation Committee shall also report on the functioning status of the unit.

### **Realizable Value – Validity**

The Realizable value should be based on valuation carried out as on a recent date, preferably after receipt of the OTS offer. Such valuation if already done, should normally not be more than one year old. At the time of offering the assignment to the valuer, it should be made clear that the realizable value of the assets, which would be the possible realization that the Corporation could expect out of their immediate sale, should be clearly indicated.

### **Net Present Value (NPV):**

The OTS amount should generally be not less than the NPV of the realizable value of available securities. The NPV of realizable value of available securities should be assessed objectively.

Thus, if in any case OTS proposed to be accepted is less than the NPV of securities, the reason therefor should be clearly spelt out. NPV of realizable value of available securities has to be compared with the OTS amount offered. Efforts should be made for maximizing recovery.

Following aspects are to be taken into account while calculating NPV of securities:

- a) NPV of securities is to be computed only on **Realizable Value** of the securities and not on the Market Value. It is to be ensured that Guideline Value (GV), Market Value (MV), Realizable Value (RV) and Distress Sale Value (DSV) are furnished in the Panel Valuers Valuation Reports and the Internal Valuation Committee Report. Realizable value only is to be taken for computation of NPV.
- b) The higher of the two Realizable values should be reckoned.
- c) NPV to be arrived at after deducting cost of realization from the Realizable Value. The Cost of Realization to be determined as under:
  - i) Where the RV is upto Rs.100.00 lakhs : 5% of RV of the security
  - ii) Where the RV is more than Rs.100.00 lakhs: 3% of RV of the security

NPV, net of cost of realization will be reckoned as the NPV of the security.

The Net Present Value is arrived at based on future cash flows. It factors the time taken for realizing a particular amount. It is the present value of amount/s that may be recovered at a future date/s. Assuming that the likely time that may be required to realize the value of security is two years, the NPV of that asset/s today will be less than the realizable value. It is arrived at by discounting the Realizable Value of the available security and is calculated by applying a discounting rate, with annual compounding.

- a) For arriving at NPV of the realizable value of the available securities, the NPV is to be calculated by applying the discount rate. The rate to be applied is 10%.

b) The discounting factor for finding out NPV of future amount at different discounting rates is shown in a separate table given below. The Realizable Value of Securities (net of cost of realization) should be divided by the factor for the specific discount rate for the specific number of years.

c) The number of years to be applied is the time taken for realization of securities which depends upon case history, type of property, location of property, etc. the number of year / time for this purpose should not exceed for:

Sl.No.	Classification	Corporation Limits	Municipal Limits/ Towns	Villages
1	Commercial properties	1	2	3
2	Houses / Residential properties, plots	1	2	3
3	Industrial properties	2	3	3
4	Agricultural Land	2	3	3
5	Plant & Machinery	3	3	3

If the asset is under possession for more than 5 years or auctioned for more than 3 times, then NPV may be arrived by discounting for 4 years, irrespective of the type and location of property.

Where there are different types of securities available in the same borrowal account, NPV net of cost of realization for each type should be calculated by applying the relevant discounting factor for the relevant year and sum of the different NPVs (net of cost of realization) to be compared with the OTS amount.

FACTOR FOR ARRIVING NPV	
Period	Discount rate to be applied
1 year	1.1000
2 Year	1.2100
3 Year	1.3310
4 Year	1.4641

To get Net Present Value, divide the Realizable Value less cost of realization by the above factor.

### Definition of the terms used in the OTS Policy

Crystallization date	The last date of the month, when the OTS request is submitted to the Board for approval.
Total dues	Total dues is the Principal + Interest + Funded Interest (if any) + Interest on Funded Interest on the crystallization date.
Notional Dues (ND)	Outstanding balance as on the date of last disbursement. (+) Simple interest on the outstanding balance at the rate charged to the unit during the tenure of the loan from the date last disbursement upto crystallization date. (-) Repayment made in Principal and Interest after the date of last disbursement. (irrespective of appropriation)
Net present value (NPV)	Net Present Value of securities is computed by discounting realizable value of securities, net of cost of realization, as applicable at a discount rate of 10% for the realization periods stipulated for various securities.
Sacrifice (waiver)	Total dues minus OTS amount approved

### Minimum Settlement Amount

Term Loan units including technically written off cases	<p><b>a) <u>Notional Dues:</u></b> Outstanding balance as on the date of last disbursement. (+) Simple interest on the outstanding balance at the rate charged to the unit during the tenure of the loan from the date last of disbursement upto crystallization date.  (-) Repayment made in Principal and Interest after the date of last disbursement. (irrespective of appropriation)</p> <p><b>b) <u>IRR</u></b> OTS amount to cover IRR of 13%.</p> <p><b>c) <u>Net Present Value</u></b> of the Realisable value of securities Discounted at 10% for applicable years</p> <p><b>Minimum OTS amount:</b> Lower of (a) or (b) or (c) plus other Dues with applicable interest.</p>
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### **Screening and Negotiation Committee:**

The proposal of F&R Department duly vetted by IA Department for minimum OTS amount shall be submitted to this Committee for negotiation and arrive at the OTS amount.

The Managing Director shall be the Chairman of the Committee

Other Members:

1. General Manager(A&LA)
2. General Manager(P&D)
3. Chief Financial Officer
4. S.E. or SE i/c
5. AGM (Legal)
6. AGM (Internal Audit)
7. AGM(Development) in case the assisted unit is an allottee of SIPCOT.
8. AGM(F&R) – Member and Convener

The Committee also scrutinize the proposal for fixing the upset price in respect of sale of assets of the possession taken units by SIPCOT and recommend the upset price for approval of MD.

### **Communication of OTS Approval:**

On receipt of communication regarding approval of OTS proposal by the approving authority (Board of SIPCOT), the OTS approval letter should be issued to the borrower unit / company. It should be ensured that all the terms & conditions, as stipulated by the approving authority, have been duly incorporated in the OTS approval letter.

### **OTS – Payment Terms:**

The OTS payment terms should be broadly structured on the following lines:

- ❖ The OTS amount should normally be paid in one lump sum, within a period of one month, from the date of issue of OTS approval letter to the borrower unit / company.
- ❖ Where the borrower unit / company is not able to pay the OTS amount in one lump sum, a reasonable portion of the crystallized OTS amount should be insisted for payment, upfront.
- ❖ In such a case, 20% of the approved OTS amount should be made payable as first installment, within one month of issue of the OTS approval letter



- ❖ The balance amount should be made payable, within a short period thereafter, and in any case not exceeding 6 months from the date of issue of OTS approval letter, with applicable interest.

### **Follow-up Aspects**

The OTS approval accorded by the Corporation might not necessarily result in full recovery of the settlement amount in case the borrower unit / company does not honour its commitment. It would, therefore, be prudent to maintain proper follow-up in the OTS cases also. The normal follow-up requirements such as renewal of insurance policy, periodic site visits, calling for progress reports / financial statements, wherever applicable, should be ensured to the extent possible as per the extant instructions, so as to take care of the Corporation's interests.

### **Extension of OTS Payment period**

The condonation of delay in settlement of accounts may be considered on merits, with applicable interest by the Managing Director upto 2 years.

The condonation of delay of more than two years in settlement of account under OTS, for the units in exceptional cases, will be considered by the Board, with applicable interest, on case-to-case basis.

### **Payment of Interest during OTS period**

While settling the account under OTS, the settlement of account vis-à-vis charging of interest, till date of settlement, will be as under :

- i. No interest need to be paid, if the account is settled within one month.
- ii. For settlement beyond one month upto one year period, Simple Interest at 13% p.a. will be charged from the crystallization date till the date of settlement.
- iii. Beyond one year, if the concern is coming forward for settlement, then for the first year, Simple Interest at 13% p.a. will be charged and then for the period from second year onwards compound interest at 13% p.a. will be reckoned for compounding the interest at quarterly rests from the crystallization date, till the date of settlement.

**Approval of Changes / Modification in Terms of OTS**

Any changes / modification or relaxation in the terms of the OTS approval, other than the extension of payment period, can be considered only by the Board, subject to overall conformity of the proposal to the extant OTS guidelines. Any change in the original terms of the OTS approval being agreed to should be communicated to the borrower unit / company and should also be got duly accepted by the authorized official / person of the borrower unit / company.

**Withdrawal of OTS approval**

In respect of cases where the borrower unit / company is not found to be honouring the OTS payment, even after persistent follow up, it would be necessary to withdraw the OTS approval and initiate / pursue appropriate legal action for recovery of the Corporation's dues. The powers for withdrawal of approval in respect of all OTS cases, the initiation / pursuing of legal action could, thereafter, be got approved from the Managing Director.

**Release of Security Documents / Issue of No Dues Certificate**

Only after the approved OTS amount, along with interest thereon, has been received in full as per the terms of OTS approval, the security documents should be released to the borrower unit / company/ other charge holders, as applicable. No Dues Certificate, if required, should also be issued only thereafter.

**General Guidelines**

- i. There shall not be reversal of interest earned / credited to the loan account.
- ii. Waiver shall not exceed the interest outstanding and shall result in collection of the entire principal disbursed and simple interest together with other dues, except the cases where the realizable value is very low.
- iii. Wherever borrowers have filed cases against SIPCOT / made counter claim, settlement under the Scheme shall be subject to withdrawal of the case / counter claim.
- iv. The revised OTS scheme indicated above will not be applicable to those borrowers, where an OTS has already been granted earlier, unless the approval has since been withdrawn / legal action initiated and in such cases the approving authority shall take into account the OTS offers received earlier.

- v. OTS approval will be valid for one year if part of OTS amount is received within 3 months. If no payment is received within 3 months, the OTS approval will stand withdrawn.
- vi. The decision of SIPCOT regarding eligibility, interpretation of the OTS policy and offering OTS to individual units shall be final and binding upon the borrower and without prejudice to the rights and remedies available to SIPCOT relating to recovery, which shall be invariably mentioned in all communications related to OTS settlement.
- vii. Any relaxation to the OTS policy shall be approved by the Board.

**AREA DEVELOPMENT DUES :**

The Area Development Dues outstanding (excluding the dues during possession period of SIPCOT) with simple interest @ 15.5% p.a. till the date of settlement along with OTS amount will be collected in respect of the SIPCOT assisted units which are located in SIPCOT Industrial Complexes/Parks/Growth Centers.

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**ENCLOSURE****Specimen of OTS Application Form**

(To be submitted on the letter head of the borrower unit/company)

Date:

The Managing Director,  
SIPCOT Limited.

Dear Sir,

Sub: One Time Settlement of dues payable to SIPCOT

In connection with outstanding dues payable by our unit / company to SIPCOT, we would like to propose One Time Settlement (OTS) of our dues so as to amicably close our account with SIPCOT. In this connection, we furnish below the following details of our offer for your kind consideration.

Sl.No.	Details	Rs.
1	Total outstanding liability to SIPCOT as on  (Position as of the previous month in which OTS application is received)	
2	Amount proposed to be paid by the unit / company towards OTS (Break-up towards principal, interest and other charges)	
3	Amount of waiver / sacrifice sought from SIPCOT	
4	Terms of payment of the proposed OTS amount (Period of payment proposed like one limpsum, immediate down payment of ..... % and balance in installments of Rs..... Each.	
5.	Salient operation and financial highlights of the unit / company for the last 3 financial years (Audited Balance Sheet of the unit / company for the last 3 years / provisional results for the incomplete years as on ..... to be enclosed).	
6.	Reasons for approaching SIPCOT for OTS	

Sl.No.	Details	Rs.
7.	Sources of OTS payment proposed (by promoters / guarantors, internal generation, etc.	
8.	The present level of operations of the unit / company In case the unit / company is not in operation, how long ceased to be in operation and reasons thereof.	
9.	Details of dues, if any, to other Institutions and working capital Bankers, including details of settlements reached with them, if any.	
10	Net worth statements of Proprietor / Partners / Directors / Guarantors duly certified by the Statutory Auditors in the case of a company and by a Chartered Accountant in other cases.	
11.	Any other particulars that may be relevant to mention.	

2. We would request you to consider our above offer and advise us of the decision taken in this regard at an early date. Should you require any further information / clarification we would be happy to provide the same to you.

3. Further, we note that as per the Corporation's Policy, the Corporation reserves the right to enhance the OTS offer, keeping other factors in view.

Managing Director / Authorised Official /  
Proprietor / Partner