

FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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March 12, 2021

**Hon'ble Minister Shri Nitin Gadkari ji,
Ministry of Micro, Small & Medium Enterprises,
Udyog Bhawan,
Rafi Marg,
New Delhi – 110011**

Respected Sir,

Sub: Filing of claims under CGTMSE – Request for a Virtual Meeting

We represent the interests of retail NBFCs who primarily cater to the funding needs of MSMEs including retail/ wholesale traders. These MSME customers are mostly new to credit and having very little/no banking history. These are also the customers who earn and pay and therefore most vulnerable in any economic cycle and in the present pandemic they have been mostly locked down and unable to perform any economic activity so as to even make their two ends meet. The fact needs no reiteration that MSMEs are the largest employers in the country and contribute more than 35% to GDP and 40% of exports. This segment is majorly dependent on NBFCs and other informal sources for their funding needs.

We refer to paragraph 10 of Credit Guarantee Fund Scheme for NBFCs (CGS-II) (“hereinafter CGS Scheme”), which states that in order to lodge any claim under CGS Scheme, the account should have been classified as an NPA as per RBI norms (instalment is overdue for a period of three months or more) and the account should have completed the 12 months’ lock-in period requirement, post crystallisation of the portfolio.

We wish to draw your kind attention to the interim order passed by Hon'ble Supreme Court on 3rd September 2020, pertaining to Gajendra



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Sharma vs. Union of India & Anr. (Writ petition no. 825/2020), directing that the accounts which had not been declared as NPA till August 31, 2020, shall not be declared NPA till further orders. As of today, there does not seem to be a clarity on vacation of the said order.

Consequently, in compliance with the above-said order of the Hon'ble Supreme Court, the NBFCs are not able to declare any account, which otherwise is more than 90 days past due as NPA.

As a corollary of the said embargo on declaration of NPA, the Member Lending Institutions (MLIs) are unable to lodge their claims on CGTMSE, as they are not able to meet the criteria of declaration of NPAs. This in turn has led to piling up of large number of claims with MLIs which are not getting uploaded to / registered with CGTMSE.

It may also be noted that as per construct of the scheme, even recovery steps are getting hampered, since we cannot enter into a settlement with the customer until the case is registered under CGS scheme. If a settlement is entered into with the customer, the case would no longer reflect as an NPA on the books of the lending institution, thereby making it ineligible for CGTMSE claim. This results in a paradox, where the MLI stands to lose on both counts, i.e., CGTMSE cover and delay in recovery, resulting in deterioration in customer's ability to pay. Since this could not have been the intent of the Scheme, i.e., to put the MLI in totally untenable situation, this needs urgent and immediate intervention.

Request:

Under the circumstances, we would earnestly urge upon the Ministry of MSME to kindly direct the CGTMSE to accept claims where factually the days past due (dpd) has moved to beyond 90 dpd (and therefore as per



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the prevailing RBI norms, qualify to be declared as NPAs), and the cases have otherwise completed the mandatory lock-in period of 12 months, even if the account are not getting declared as NPA due to the Supreme Court stay on declaration of NPAs.

While on one side such direction would allow CGTMSE to manage the claims flow effectively, on the other hand it will allow the MLIs to contain their losses and undertake recoveries effectively. This shall also ensure that the whole objective of Govt's push to MSME financing does not get defeated, as the coverage under the CGTMSE is one of the key incentives for NBFCs to take exposure on MSMEs. As such, it is more in the interest of entire MSME sector that the Govt. needs to address the matter urgently, till the time the court delivers its final verdict.

We sincerely appeal to the Ministry of MSME to consider above request, which would ensure implementation of CGS Scheme in spirit and enable lenders to focus on recoveries and providing new credit to MSMEs

Sir, we seek an audience with yourself and your officials, through VC, on behalf of our members and seek your sympathetic consideration of our request and positive response.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

**MAHESH THAKKAR
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