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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Shri Shaktikanta Das
Governor
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Marg
Fort, Mumbai – 400 001.

May 04, 2020

Respected Sir,

NOTE ON NBFCs' URGENT ISSUES DISCUSSEED AT A CALL ON 4TH MAY 2020

We **thank you** very much for the opportunity to e-meet with you and place before you and your team our views on the prevailing situation and the impact on the NBFC sector. We sincerely appreciate the proactive steps being taken by the RBI and the continuous dialogue with the industry being maintained by the Bank.

We at FIDC believe that robust governance standards are necessary for the healthy growth of any sector and have been striving to inculcate this spirit among our members. We have, in furtherance of this objective, sent out an advisory to all our members a few days ago, emphasising inter alia, the need to adhere to a strict code of conduct while approaching customers for a collection call. We have advised our members to exercise restraint and empathy towards the customers especially in view of the current disruption of the economic cycle. We pledge to be of assistance to the RBI to ensure sustainable and balanced growth of the NBFC sector.

We have pleasure in summarising below the views of the NBFC sector that we discussed on the call:

1. **Moratorium on loans:** A very large proportion of our customers being small road transport operators, contractors, MSMEs and agriculturists have faced significant economic

disruption. We have offered moratorium to most of our customers pursuant to the RBI Notification dated March 27, 2020 to help ameliorate their situation. However, NBFCs have not been able to avail of matching moratorium on their liabilities, giving rise to a risk especially to the smaller NBFCs. We request that NBFCs be given moratorium on their liabilities as well to ensure financial and liquidity stability to the sector.

2. **Allowing a one-time restructuring window:** Feedback from our customer segments suggest that the disruption of cash flow cycles would last for a large part of the current financial year and in fact would last longer amongst "Earn & Pay" segment viz. transport operators, contractors and MSMEs. While the three months moratorium has provided some relief to them, they may not be in a position to commence loan servicing from the fourth month as a result of the disruption. We request you to allow a one-time restructuring window till March 2021 for amending the loan repayment schedules and/or extending loan tenures or restructuring the EMIs, without affecting the asset classification, in line with the revised expectation of cash flows of our customers. This window exists today till December 2020 in respect of MSME loans (vide RBI Circular RBI/2019-20/160 DOR.No.BP.BC.34/21.04.048/2019-20 dt. 11th Feb. 2020). We submit that this window be extended to all other borrowers as well. We also request that as a special dispensation, the 5% provision requirement be done away with in view of the abnormal situation.

3. **Funding Issues:** NBFCs have been facing a negative perception since the IL&FS event and this has resulted in banks becoming extremely risk averse on the issue of extending loans to NBFCs, especially to the small and medium ones. The experience of TLTRO 2.0 so far clearly emphasises this risk aversion on the part of banks. We request the RBI to consider providing funds to a refinance mechanism through SIDBI, NABARD and/or their associate institutions which can provide long term loans to NBFCs for their on-lending operations. We further request you to kindly consider allocating the unsubscribed part of TLTRO 2.0 to these institutions as well.

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4. **Provisioning requirement on moratorium loans:** The RBI Notification dated April 17, 2020 requires a provision of up to 10% (or as per the Board approved policy under Indian Accounting Standard) in respect of all loans which are at least 1 day past due and where a moratorium has been granted. Given the nature of our borrowers and their businesses, it is routine for them to pay the EMIs a few days later. This usually happens due to various local factors (e.g., a truck operator's prolonged absence from home while driving the truck) and is not to be seen as a sign of credit risk. A very substantial number of such customers service the loans before they become 30 days past due. We request you to kindly consider this factor and permit provisioning to be made where moratorium has been given, only on loans that are 30 or more days past due.

We sincerely request your kind consideration of these suggestions. We look forward to your continued support and guidance to NBFCs.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
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