

FIDC

## Finance Industry Development Council

*(A Representative Body of NBFCs in India)*

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

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[www.fidcindia.org.in](http://www.fidcindia.org.in)

June 29, 2023

Shri Sandeep Varma,  
Chief Executive Officer  
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)  
1st Floor, SIDBI, Swavalamban Bhavan,  
C-11, G-Block, BKC, Bandra (East), Mumbai - 400 051

### **SUB: CGTMSE- NBFC SCHEME MODIFICATION**

Dear Sir,

At the outset, we at Finance Industry Development Council (FIDC) would like to share our appreciation for numerous initiatives which Credit Guarantee Fund Trust for Micro & Small Enterprise (CGTMSE) has undertaken to ensure that credit flow to the crucial Micro & Small Enterprises (MSE) is increased through providing guarantee cover to various financing institutions including NBFCs.

It is also pertinent to submit that many NBFCs have considered support provided by CGTMSE to be crucial towards their financing operations as numerous advantages are provided to a Company which is a Member Lending Institution (MLI) of CGTMSE and has obtained guarantee cover thereto.

However, we respectfully submit that recent modifications made in NBFC Scheme which were issued on 19th May 2023 via Circular Number CGTMSE/44/37 (Circular) will lead to exclusion of several NBFCs from CGTMSE cover and impede flow of credit to MSEs.

The revised criteria for NBFCs as per Circular are as below:



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<b>NBFCs with vintage up to 3 years</b>	<b>NBFCs with vintage more than 3 years</b>
NBFC registered with RBI engaged in financing Micro and Small enterprises (MSE) as defined under the MSMED Act, 2020	NBFC registered with RBI engaged in financing Micro and Small enterprises (MSE) as defined under the MSMED Act, 2020
Minimum Capital to risk weighted asset ratio (CRAR) of 20%	Minimum Capital to risk weighted asset ratio (CRAR) of 15%
Net Non-Performing Asset (NPA) is less than or equal to 4 %.	Net Non-Performing Asset (NPA) is less than or equal to 4 %.
Should have completed one full fiscal year of operations and reported profit	Should have reported profit in at least 2 years out of the last 3 years of audited financial statements
Minimum Net Owned funds ₹ 20 crore and minimum asset size of ₹ 50 crore	Minimum Net Owned funds ₹ 50 crore and minimum asset size of ₹ 100 crore

We laud CGTMSE for placing criteria for Capital Adequacy and NPA which take into account (a) capital support and (b) places a premium on underwriting quality, which are two important criteria for MLIs who intend to obtain registration. These are the key health indicators for any NBFC and should be a hurdle for considering MLI.

However, we submit that criteria prescribed for profitability is quite tough. Further, an NBFC which is highly capitalized and which has robust credit operations may not necessarily have profitability due to following factors:

- Higher expenditure for technology, employees, branch expansion,
- Expenditure for new product expansion,
- Support of patient capital which has long term view for growth and is sure of profitability.



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**Hence, we request that**

- (a) Profitability criteria be tweaked from 3 years hurdle period to 5 years and**
- (b) Opportunity be allowed to deserving NBFCs to be considered as MLI through an exception route.**

We also like to take this opportunity to seek a meeting with you, to give a detailed briefing regarding the rationale behind these requests. We may schedule this meeting at the date and time most convenient to you. We look forward to hearing from you.

Thanking you in anticipation

Regards

**For Finance Industry Development Council**

**MAHESH THAKKER  
DIRECTOR GENERAL**



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