

# FIDC

## Finance Industry Development Council

*(A Representative Body of Assets and Loan Financing NBFCs)*

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

Tel: 022 21029898/9820035553 • E-mail: [directorgeneral@fidcindia.org](mailto:directorgeneral@fidcindia.org) Website: [www.fidcindia.org](http://www.fidcindia.org)

7<sup>th</sup> September, 2020

**Smt. Nirmala Sitharaman ji**

Minister of Finance

Govt of India

North Block

New Delhi – 110 001

Hon'ble Finance Minister Madam,

**Sub: Review Meeting on One-time restructuring, disbursements under ECLGS and PCGS 2.0: progress and challenges on 3<sup>rd</sup> September, 2020**

We are **very grateful** to you and your officials for having invited us to join the review meeting on 3<sup>rd</sup> September, 2020 and giving us the opportunity to share our experience in implementation of the various schemes announced by your good self under AtmaNirbhar Bharat program to support MSME borrowers. As you already know, we represent the interests of retail financing NBFCs which finance millions of micro and small enterprises which take loans principally in individual names to purchase vehicles, equipment, tractors etc and also for working capital purposes and the schemes announced by you during the last 3-4 months have been quite effective in supporting the truck/taxi drivers, machine operators, marginal farmers and small shopkeepers for giving them more time to pay their instalments, giving them additional funding support and also for the NBFCs to raise borrowings from the banks at lower interest rates.

Our members have already shared in the meeting some of the challenges and also suggestions to deal with the same so that we can significantly improve the utilization of these schemes and we list down the same for your kind perusal and conveying your decision to make the schemes more effective :

**One time restructuring:**



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1. NBFCs have been mandated to follow IND AS norms on provisioning for credit losses and these provisions are much higher than RBI norms. RBI guidelines on provisioning for restructured accounts require additional provisioning of 10%. IND AS norms require provisioning to be done for credit losses on historical average and own experience of respective lenders and therefore, all accounts are adequately provided for. We therefore suggest that the additional provisioning requirement may be dropped for restructured accounts for NBFCs.
2. Currently guidelines on one time restructuring prescribe the customer account to be in 0-30 bucket as on the date but exclude standard accounts in 31-90 bucket. Given that the micro & small enterprises have uneven cash flows and even prior to Covid, were having viability issues, we seek your consideration of this scheme for all the standard accounts in 0-90 bucket so that the wider spectrum of customers can benefit from it.

### **Emergency Credit Line Guarantee Scheme:**

1. NBFCs principally lend for purchase of trucks, equipment, tractors and passenger vehicles to millions of farmers, small and marginal and self-employed businessmen in tier towns and no of these customers use the tractors for commercial applications and passenger vehicles for their business use. Currently, the loans given for passenger vehicles and tractors, both used in the business and/or commercial applications are excluded from the coverage of ECLGS and it reduces the eligible pool of loans where we can provide the benefits of additional lending to our customers. We therefore request inclusion of passenger vehicles to self-employed customers and tractors to small and marginal farmers within the ambit of the scheme.
2. NBFCs raise funding from the banks by assigning the receivables from the existing loan contracts and these loans are then transferred to the banks while servicing is continued to be done by the NBFCs which have originated the loans. Banks don't have reach to these customers and under the current guidelines, NBFCs can't provide loans to these customers and banks are unable to provide. We therefore request that NBFCs be permitted to



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provide loans under ECLGS to its own customers whose contracts have been assigned by it for the purpose of raising funding resources from the banks.

3. The current scheme mandates 1+3 years of repayment in which the customer will pay interest for first year and then repayment of loan is done in next 3 years. Our existing loan size is very small and at times, the customer may not want 1+3 but lesser period of repayment. We therefore request flexibility in fixing the tenure but not exceeding 1+3 years based on the customer's desire and cash flows.
4. Given the small ticket size and for customers who have taken loans earlier, due to repayments the outstanding loan amount as on 29<sup>th</sup> Feb,20 is reduced and we can offer only 20% of the current loan amount under the scheme. We seek permission to lend more than 20% of the current outstandings to the customer but ECLGS benefit may be limited to 20% and the NBFCs may take further exposure on its own risk on the same security cover. It will make the loan offering more attractive for the customer and we can increase the disbursements.

### **PCG 2.0:**

1. The guarantee under PCG 2.0 @ 20% is limited to 18 months and as a result, banks are giving loans to NBFCs repayable entirely in 18 months whereas NBFCs are giving loans to their customers for 36-48 months. It also results in ALM mismatch for the NBFCs creating liquidity stress. We therefore suggest to increase the tenure of guarantee under PCG 2.0 to 36 months so as to encourage the banks to lend for 36 months.
2. There are no of small and medium NBFCs which operate in tier towns and meet the funding needs of micro and small enterprises which are not catered by the banks and large NBFCs and these small and mid sized NBFCs are not equipped to issue bonds and therefore are unable to utilize the benefits of PCG 2.0 window made available from the ministry. We therefore suggest if the PCG 2.0 can also be extended for term loan facilities granted to the NBFCs but limited to end use of funds for lending to micro and small enterprises.



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3. NBFCs have started disbursing under ECLGS specially after 7<sup>th</sup> Aug post inclusion of individuals under the scheme and it is expected to pick up pace in Sep. Banks can provide funding support to the NBFCs in this mission of providing credit to the individual borrowers by lending to NBFCs. We therefore request line of refinance from the banks for the loans extended under ECLGS at repo rate so that the ultimate customer can benefit from lower rate of interest and adequate liquidity is provided to the NBFCs from the banks.

Madam, We are very grateful to you and your officials' recognition of the role played by the NBFCs in providing credit to the underserved micro and small enterprises in tier towns and taking series of measures to further effectively disseminate the flow of credit to these needy people and giving us an opportunity to present our case before your good self and **we commit and promise that we will communicate to all our members for fast tracking all the measures announced by you and ensure to provide regular data to the designated departments for regular reviews.**

**The Advisory sent to all NBFC Members is enclosed herewith for your reference.**

Kind regards

Assuring you of our full co-operation always and thanking you in anticipation

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR**  
**DIRECTOR GENERAL**  
**9820035553**



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