

# 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)

**Smt. Nirmala Sitharaman ji,**  
Hon'ble Minister of Finance,  
Ministry of Finance,  
Government of India,  
North Block,  
New Delhi 110 001

May 20, 2020

Hon'ble Finance Minister Madam,

### **Liquidity Support and other measures for NBFCs as part of “AtmaNirbhar Bharat” package**

We sincerely **thank you** for taking steps to support the MSMEs and to provide liquidity support to NBFCs to help them assist MSMEs to emerge from the after-effects of the Covid-19 related disruption. We appreciate the Government of India's efforts to revitalise the economy and the spirit behind the unprecedented initiatives being taken towards building an “**AtmaNirbhar**” India. At FIDC we have carefully studied the announcements made today on the following matters:

1. Liquidity Support of up to Rs 30,000 crs to NBFCs
2. Partial Guarantee Scheme of Rs. 45,000 crs
3. Guarantee for MSME loans of Rs 300,000 crs.

and would request changes/improvements to the decisions taken with a view to making them effective.

#### **1. Special Liquidity Scheme for NBFCs amounting to Rs 30,000 crs:**

Ma'am, NBFCs offer long term financial assistance to MSMEs for the purpose of business expansion and for long term working capital. The average tenure of our assistance is 3-5 years and in order to maintain a healthy asset-liability matching, we also borrow for average tenures of 3-5 years.



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The scheme for liquidity support of Rs 30,000 crs is for a period of only 3 months and as such cannot be utilised for any on-lending purposes to MSMEs. It can only provide relief to existing holders of short term NBFC debt instruments to sell off their holding and may in fact result in no additional cash flow to NBFCs. It may not have the desired effect of encouraging NBFCs to lend to the MSME sector. Any NBFC availing of funds under this scheme may in fact, end up in disturbing its asset-liability matching.

### **Request:**

We sincerely request you to **extend the tenure of this assistance to three years instead of three months**. This would have the following positive effects:

1. NBFCs can actually deploy these funds to on-lend to MSMEs – this would help MSMEs to restart and grow their businesses
2. NBFCs will have no ALM mismatches and would emerge stronger
3. Significant amount of funds will flow into the hands of NBFCs, especially the small and medium ones, which have been especially affected by banks' risk aversion.
4. The default rate on the scheme would be very low (perhaps negligible) since the funds would be put to productive use. This would result in lower guarantee obligation on the part of the Government.

### **2. Portfolio Guarantee Scheme amounting to Rs 45,000 crs:**

We welcome the decision to extend 20% first loss guarantee to NBFC debt and to do away with stringent credit rating norms. This measure can provide significant relief to smaller NBFCs. However, we note that this too is limited to short term instruments of less than one year and as such suffers from similar disadvantages as aforesaid.

### **Request:**

We appeal to you to kindly **extend the loans/instruments covered under the partial guarantee to those with a residual maturity of three years** (instead of less than one year). The actual tenure of the Government guarantee could be up to one year as envisaged. This would enable NBFCs to raise funds for



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the correct tenure and help in them on-lending to MSMEs without weakening their asset-liability position. The other advantages aforesaid would apply as well.

### **3. Emergency Credit Line Guarantee Scheme for MSME:**

We believe this measure taken by the Government is indeed very appropriate and should have a salubrious effect on the MSME sector. We at FIDC pledge our support to this scheme and our members are keen to assist MSMEs under the scheme. We also appreciate the fact that the loans covered would be for a four year period and this should enable MSMEs to invest in their business with confidence.

NBFCs provide the crucial last-mile credit delivery and often lend to those MSMEs that are not/inadequately financed by banks. We have a suggestion which should enable NBFCs to play their due role in revitalising India's MSMEs.

#### **Request:**

We request **allocation of 20% out of the amount of Rs 300,000 crs. for utilisation by NBFCs.** This would ensure that the weaker profiles of MSMEs which are mainly catered to by NBFCs (including small road transport operators, contractors, small manufacturing units and marginal farmers) also are able to get additional funds through this initiative. This would provide grounds for a very inclusive guarantee scheme where all deserving MSMEs would be able to benefit.

**We sincerely appeal to your goodself to consider these measures as a one-time step to help NBFCs manage the current situation and to enable them to play a due role in the rebuilding efforts.**

Yours faithfully,

**For FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR  
DIRECTOR GENERAL  
98200 35553**



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