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
Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org Website: www.fidcindia.org

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

April 30, 2020

Hon'ble Finance Minister Madam,

FUNDING SUPPORT FOR NBFC SECTOR

We **thank** the Ministry of Finance, the Reserve Bank of India and the Securities and Exchange Board of India for the proactive measures to help mitigate the negative economic fallouts of the Corona Virus pandemic.

We the Members of **Finance Industry Development Council (FIDC)** represent the retail NBFCs which principally provide funding support to Truck/Taxi operators who own and operate Commercial Vehicles, Construction Equipment, Passenger vehicles etc., to marginal farmers, to small shopkeepers and to other Micro, Small and Medium enterprises. 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 deploy their assets and make even their ends meet. While we have provided the moratorium to all our customers and more than 90% of them have opted for it, we feel that with extended lock down till 3rd May all over India and its possible extension beyond 3rd May in many states and districts under the red zone, it will take quite a while for these customers to return to normalcy and deploy their assets and earn income and pay the instalments.

The feedback from most of our members across India is that our retail customers in the lower tier towns and rural areas are seeking much more than 3 months moratorium to restart the payment and also seeking lower EMIs in the current environment. It is only fair that we evaluate such requests in a liberal way.

As NBFCs, we depend substantially on banks for funding support to lend to the above customer segment which are not catered by the banks owing to small size and limited/no credit history. NBFCs' dependence on the banking system has increased in the aftermath of the IL&FS issue with the money markets' appetite for NBFC debt diminishing sharply. It is only a handful of AAA/AA rated entities which have access to the capital markets for borrowings and rest all the entities have to depend on the banks for borrowings.

However, banks have developed complete risk aversion towards the small and medium sized NBFCs which do not have AAA and AA rating and despite various measures announced in the recent past by the RBI and the Government of India, the banks have not been lending to these small and medium sized NBFCs. Some of the steps taken are:

1. Partial Credit Guarantee scheme by the Govt of India up to Rs. 1.00 lakh crores for purchase of priority sector asset pools
2. Term Loans to NBFCs for the purpose of on-lending to Priority Sector customers.
3. Provision of liquidity under TLTRO 2.0 for Rs. 50,000 crs
4. Provision of lines of credit worth Rs. 50,000 crs through SIDBI/NABARD/NHB

However, the banks have neither adequately availed the above facilities from RBI or the Government of India nor used their own liquidity to lend to their existing long standing NBFC customers and have cited number of reasons such as reaching sectoral caps, defaults by IL&FS and DHFL or their internal board policies. In fact, the banks have parked more than Rs. 7.00 lac crores under reverse repo with RBI earning only 3.75% instead of utilizing TLTRO funds at 4.40% and lending to NBFCs. As a result, the response to TLTRO 2.0 first auction has been very poor demonstrating apathy amongst the banks to lend to the NBFCs

Similarly, SIDBI has highly restrictive policies for selection of NBFCs which can qualify for credit support from it and as a result, no meaningful support has come from SIDBI to the

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small and medium NBFCs which cater to the same customer segment, MSMEs which SIDBI is supposed to support.

Clearly, availability of funds to NBFCs is a challenge due to Risk aversion by the banks to lend to small and mid-sized NBFCs despite an enabling environment created by Government of India and RBI through various measures.

We therefore propose following suggestions to overcome funding constraints to NBFCs:

1. **Establishing a Refinance Mechanism** to reduce the overdependence on banks. This will establish a dedicated non-bank channel for NBFCs to avail of long-term finance for on-lending to the under-served sectors of the economy. For this:
   - MUDRA norms on cap on interest rate spread and minimum prescribed credit rating need to be tweaked
   - SIDBI and NABARD (including its subsidiaries NAB-SAMRUDHHI and NAB-KISAN) may be allocated funds specifically for this purpose
   - Role of National Housing Bank may be expanded to refinance all NBFCs and not only HFCs

2. **Establishing a SPV** with initial capital infused by the Government and this SPV may then raise debt through issue of bonds. This SPV may use the funds exclusively for funding of small and medium sized NBFCs. The SPV should be allowed to leverage about 4 times thus providing 50000 crs of fresh funds to the NBFCs.

3. **Providing credit guarantee for the funding support by the banks:** The Govt. of India may provide sovereign guarantee to the banks for their additional exposure on NBFCs, so long as it is lent to the deserving segments comprising MSMEs/farmers/affordable housing segment etc., so that the banks feel comfortable and confident to lend. This guarantee should be for both term loans and asset pool purchase and should be valid for 4 years or the full tenure, whichever is less. All the new facilities sanctioned by the banks may be eligible for the credit guarantee from the Govt so that there is a

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widespread utilisation of all the schemes. The guarantee commission may be charged from the respective NBFCs and be recovered by the banks and remitted to Govt. of India.

4. **<u>On-lending for Priority Sector Assets</u>**: The Reserve Bank of India has, vide a notification dated 13th August 2019, has created a window for On-lending for priority sector assets by registered NBFCs on-lending to following segments:

- Micro and Small Enterprises up to ₹ 500 lakhs;
- Agriculture (Term Lending) up to ₹ 10.0 lakhs and
- Housing up to ₹ 20.0 lakh per borrower

Banks may kindly be advised to extend credit at cheaper interest rates to NBFCs under this window provided by the Regulator to ensure credit reaches the target segment of MSME, Agri transportation sectors and boost consumption.

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.

We thank you in anticipation of a positive response and assure you of our full co-operation all the times.

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
98200 35553