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

May 29, 2020

FIDC Meeting with Hon'ble Finance Minister on 29th May, 2020 on theKey Concerns of NBFCs

FIDC had the video-call with the Hon'ble Finance Minister Smt. Nirmala Sitharaman and the Secretaries at MOF DFS and DEA on 29th May 2020.

We are submitting the issues discussed:

We appreciate the steps taken 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. **Funding** :**Recent Measures Announced by Ministry of Finance and RBI**

Special Liquidity Scheme of Rs.30,000 crs for NBFCs:

- The tenure of the NBFCs debt to be acquired by the SPV is only 3 months where as NBFCs lend for an average tenure of 3 years
- This will not result in additional cashflows to NBFCs
- May provide relief to existing holders of short term NBFC debt instruments to sell
- Therefore, it may not result in fresh lending to MSMEs
- Majority of small and medium NBFCs do not issue bonds and raise debt by way of term loans which are not covered under the scheme

Extended Partial Credit Guarantee Scheme:

- Guarantee valid only for 24 months in case of purchase of pools whereas the average pool tenure itself is 3-5 years for retail portfolio that includes automobiles, equipment and mortgage loans.
- Some banks including SBI have passed a policy last week to reduce the existing limits of their NBFC customers by an equivalent amount they are sanctioning under pool purchase. Therefore, it does not improve liquidity.
- In case of purchase of bonds, the tenure of the bonds eligible for purchase is 9 to 18 months (upto 12 months in case of unrated bonds).This will create ALM mismatch since NBFCs lend for 3 years on an average.

TLTRO 2.0:

- It has evoked lukewarm response from the banks and post bidding for Rs. 12,800 crs on 23rd April
- Till now the banks have not fully sanctioned or disbursed the loan amount and the bidding itself has been below par in comparison to TLTRO 1.0.
- Bonds and TLTRO funds investment are very cumbersome and it requires two stage approval process and treasury team and Credit department of the banks are involved and there is limited ownership of the same.
- Similarly, small NBFCs find it difficult to issue bonds and comply with requirements of listing, appointment of trustee etc.

Suggestions:

- *Special Liquidity Scheme should be amended to cover tenure up to 3 years so as to serve the purpose of improving the liquidity situation of NBFCs.*
- *Special Liquidity Scheme should also cover term loans taken by NBFCs from banks and FIs*

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- *The scheme should be for primary issuance of bonds or fresh term loans and not for secondary market purchase.*
- *Extended PCG scheme may cover new term loans sanctioned by banks to small and mid sized NBFCs (rated AA and below) up to 20% of loan amount till the entire loan is repaid.*
- *Extended PCG scheme in case of purchase of pools should be co-terminus with the tenure of the pool receivables.*
- *Extended PCG scheme should also have allocation of Rs. 10,000 crs of overall guarantee amount between purchase of pools 50% and balance 50% for term loans/bonds issuances.*
- *The tenure of the term loans and bonds eligible under the PCG scheme should be upto 4 years*
- *Banks should be persuaded to provide additional funds to their existing NBFC customers to the tune of 20% of existing limits under TLTRO 2.0 without any appraisal and collateral security.*
- *None of the above facilities should be used by banks to reduce their outstanding exposure on the NBFC customers and it should be over and above the current limits.*

2. Coverage for NBFCs under Emergency Credit Line Guarantee Scheme to Finance MSMEs

- NBFCs provide unsecured loans to MSMEs by way of working capital loans and there is no security on these loans. As per the FAQs released, the charge has to be created on the loan provided under the scheme within 3 months from the date of disbursal meaning thereby the unsecured loans may not be covered.

- There is an ambiguity in the FAQs released on the coverage of the scheme for individual borrowers. NBFCs mostly lend to individuals in their personal name for buying a tractor, truck or taxi and all of them are eligible under the definition of MSME. Pursuant to FAQ no. 8 the loans given in individual capacity are not covered under the scheme while as per FAQ no. 3 proprietorships are covered under the scheme.

Suggestions:

- *We submit that unsecured loans should also be covered under the scheme and mainly for the bottom end of the MSME segment.*

- *We submit that all individual borrowers who are at the bottom end of the MSME chain should also be covered under the scheme so that they can benefit as well and NBFCs which are the principal source of funding for them can provide it to their customers.*

3. **One Time Restructuring of Loan Repayment Terms**

- Retail NBFCs principally finance truck n taxi drivers, marginal farmers and very small biz man and
- Our field surveys during last 4-6 weeks have revealed that they will need working capital support to get back to normalcy post lock down and
- They are not sure of their cash flows due to disruption in their biz cycles and have requested to be given time to restart and gradually come back to 100% level of operations.
- Therefore, we will need to provide them staggered EMI Plan starting with lower EMIs from July and gradually increasing and possibly reaching normal EMI amount by end of March, 2021.

Suggestions:

- *We therefore seek permission to grant one time restructuring of loan repayment terms without any additional provisioning.*
- *RBI circular dt 11th February, 2020 does allow one time restructuring for MSMEs registered with GST upto 31st December, 2020 without any downgrade but with 5%*

additional provisioning. Our request is to expand the scope to all loans (and not only MSMEs) and that too without any additional provisioning.

- *We have already represented to RBI in this regard, and now we hereby seek your intervention and support in this regard.*

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
98200 35553