

# 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)

**Shri Nitin Gadkari ji,**  
Hon'ble Minister of Micro, Small and Medium Enterprises,  
Government of India,  
Udyog Bhawan, Rafi Marg,  
New Delhi 110 001

May 8, 2020

Hon'ble Sir,

### **SUPPORT FOR NBFC SECTOR FOR ON-LENDING TO MSMEs**

We **thank you** for the opportunity to speak with you and share our views on financing the MSME sector and helping them to revive from the current lockdown situation.

We the Members of **Finance Industry Development Council (FIDC)** represent the retail NBFCs which principally provide funding support to Micro, Small and Medium enterprises in the Manufacturing and Services sectors, Truck/Taxi operators who own and operate their vehicles and construction equipment, marginal farmers, small shopkeepers and to other under-serviced segments. 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 carry on their economic activities 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 being in place in many states and districts under the red zone, it will take quite a while for these customers to return to normalcy and resume operations and earn income and pay the instalments.

The MSME sector also would require 2-4 months' additional working capital in order to resume normal manufacturing and other activities and several thousands of crores of funding would be required from banks and NBFCs to help them resume operations.



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As NBFCs, we depend substantially on banks for funding support to lend to the above customer segments. However, banks have developed complete risk aversion towards the small and medium sized NBFCs which do not have AAA and AA rating. In spite of the Government of India and the RBI providing various facilities to banks such as Partial Credit Guarantee and TLTRO, have neither taken the benefit of these schemes nor utilized their surplus liquidity to lend to NBFCs.

It is indeed heartening to note that the RBI has provided Rs 15000 crores to SIDBI for financing MSMEs out of which Rs 6000 crores is earmarked for providing finance to NBFCs. We do hope more such measures would be taken to boost the MSME segment.

We place before you 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, SIDBI may be made as the nodal agency to refinance NBFCs for on-lending to MSMEs. Additional capital may be provided to SIDBI so that their ability to finance NBFCs, especially the small and medium NBFCs is enhanced significantly. Such refinance may be provided for a period of at least 3-5 years so that they can on-lend to MSMEs for purchase of machinery/equipment/vehicles for growth.
2. **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 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 Government so that there is a widespread utilisation of all



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

3. **On-lending for Priority Sector Assets:** The RBI has permitted recognition of bank lending to NBFCs for on-lending to MSMEs as Priority Sector Lending (PSL) till December 31, 2020. We request that this arrangement be made permanent and not time bound and the current limit of 5% of PSL be enhanced to 10%. This would help channelize more funds to NBFCs.
4. **Credit Guarantee Scheme for MSMEs:** Sir, The CGTMSE scheme can play a vital role in enhancing credit flow to MSMEs. At present very few NBFCs have availed of this facility due the following factors:
  - a. The reimbursement of the guaranteed amount to the NBFC happens after a significant lapse of time.
  - b. Only 75% of the loss amount is reimbursed.
  - c. There are strict guidelines on the NBFC having a high Credit rating.
  - d. The guarantee is capped at 3 times of the guarantee commission and therefore, limits the amount of loss coverage and more so in Covid times.

We humbly request you to consider the following:

- a. Permit at least 60-70% of the claim amount to be released on account on a quarterly or semi-annual basis. This will enhance cash flows to the NBFCs and encourage them to lend more to MSMEs. As far as the recovery of any bad debt is concerned, the principle of subrogation would continue to apply and the NBFC shall hold the recovered amount in trust for CGTMSE and pay it at the end of every quarter



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- b. Enhance the rate of reimbursement of loss to at least 90% - this will ensure lower losses to NBFCs at the same time ensuring they have a “skin-in-the-game”. We recognise that this may lead to an increase in the guarantee fee/premium, but NBFCs would be willing to pay for the enhanced coverage.
  - c. The overall cap on the guarantee amount at 3 times may be removed to provide confidence to the NBFCs while lending to MSMEs n transport operators as well confidence boost to the banks while lending to NBFCs as the losses will be protected.
5. **Credit Rating is an Issue for small and medium NBFCs:** Sir, SIDBI has been a key lender to NBFCs. However, the internal hurdle norm of A Minus credit rating acts to filter out many of the small and medium NBFCs from seeking SIDBI assistance. The rating template used by credit rating agencies have significant weights assigned to size of the NBFC which over weighs the business vintage and/or the promoters’ background and experience in banking/NBFC business. Further, the credit rating scale is the same for a very large NBFC and a small NBFC. These factors make it very difficult for smaller NBFCs to obtain an “A” category credit rating, though many such entities may have been in business for more than a decade or two. We submit that SIDBI may kindly consider relaxing the external rating norms and permit small and medium NBFCs with a good track record and with experienced promoters to avail of refinance. We are confident that NBFCs’ past track record in servicing credit facilities from SIDBI has been very good in the past and request that this be kindly considered in a positive light.
6. **Extension of the Interest Subsidy Scheme for MSMEs:** The 2% interest subsidy scheme currently being offered to MSMEs on loans taken by them from banks and NBFCs is a very good step towards encouraging MSMEs to go for expansion/modernisation of manufacturing facilities/asset upgradation. In order to further encourage MSMEs to modernise their businesses, we request you to consider extension of this facility by another 2 years and also increase the subsidy element to 3% of the loans taken by the MSME.



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**We sincerely appeal to you to consider these measures as a step to help NBFCs manage the current situation and to enable them to play a due role in rebuilding India's economy and its MSME sector.**

***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**



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