

FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

KEY DISCUSSION POINTS

Meeting with Shri Nitin Gadkari Ji, Hon'ble Minister of Road Transport & Highways and Micro, Small and Medium Enterprises

15 June, 2021

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We are the representative Body of **Asset and Loan Financing NBFCs** registered with the RBI .

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Set up 17 years ago we have been regularly representing and acting as bridge for the industry before various fora, i.e., RBI, Fin Min, MSME ministry, trade & Industry bodies on key policy issues including Pre-budget meetings, policy announcements, recent pandemic measures etc.

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Our membership includes almost all the leading NBFCs and regional associations across the country for small and mid sized NBFCs.

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On behalf of all NBFCs, we are honored to have an opportunity to present key issues to MSME Ministry

→ It is heartening to note the following RBI observations in the Bulletin for May 2021:

- ✓ NBFCs play an important role in the Indian Financial Intermediation space by complementing bank credit, undertaking niche financing and promoting financial inclusion.
- ✓ NBFCs in the retail loan sector stayed ahead of the curve aided by their relative low delinquency.

→ There is an imminent need for resolution of below issues to promote credit flow to MSMEs:

1. Extension of deadline of Udyam registration
2. Inclusion of wholesale and retail trade under MSME definition
3. Re-instate pay-out cap under CGS-II scheme
4. CGTMSE claims processing pertaining to FY20-21
5. Extension of MSME subvention scheme for FY21-22
6. Inclusion of Education sector under MSME definition

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We welcome Ministry's endeavor to bring the unorganized MSME sector within the folds of legislative framework so that benefits can be extended to MSMEs in a comprehensive manner.

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Consequent to *MSME Ministry's Notification dated June 2020, RBI issued circulars to its registered entities and made Udyam Registration as mandatory document for MSME classification with effect from 1st April 2021 for any scheme benefit.

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Many small and medium enterprises are unaware of the new registration process and its benefits. **Only 25.98 lakh MSMEs have migrated and registered on Udyam at the end of March 2021.** This is significantly low considering there are estimated 7 Crore MSMEs in India.

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Considering the pandemic, **Udyam Registration deadline may kindly be extended until March 22,** otherwise large number of small businesses would be deprived of various Government scheme benefits and the resulting revival of economy.

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Retail and wholesale trade was included in the definition of “Services” under MSME Definition until 2017 when office memorandum was issued vide which wholesale and retail trade was excluded from MSME definition.

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Consequently, *RBI also aligned its MSME definition in accordance with MSME Ministry’s notification dated June 2020 resulting in rendering retail and wholesale trade loans ineligible for PSL and other scheme benefits

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Retail and wholesale Traders are backbone of supply chain; **there are over **2.34 Crore trader MSMEs in India, which is roughly 36% of total MSMEs in India**

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While there is a need for synchronization of MSME definition across various platforms, we request that the **retail and wholesale trade sector be specifically included in MSME definition in various RBI circulars**

→ CGTMSE vide circular no. 176/ 2021-22 dated April 1, 2021, reduced guarantee coverage from 75% to 50%, capped IRR at 18% per annum and reduced pay-out cap to 2 times of sum total of premium paid and recoveries remitted.

→ Whilst the guarantee coverage and cap on IRR has since been re-instated vide circular no 181/ 2021-22 Dated 8, June 2021, the reduction in pay-out cap is not reversed.

→ Considering that NPAs have increased due to pandemic, reduction in pay-out cap makes it unviable for NBFCs to lend to MSMEs without guarantee support

→ It is pertinent to mention that NBFCs have played critical role in successful implementation of CGS scheme. **Within 3 years of CGTMSE scheme coming into operation, *~17K Crore guarantees have been issued for NBFCs** as against 24K Crore for PSBs, where the scheme has been in operation since 2001.

→ We request **re-instatement of pay-out cap to 3 times** of premium paid and recoveries remitted for effective implementation of scheme.

→ Due to Supreme Court embargo on declaring NPAs from 1st September 2020 until 23rd March 2021, NBFCs and Banks could not declare NPAs for the said period

→ Consequently, Banks and NBFCs could file CGTMSE claim only when the embargo was lifted on 23rd March 2021.

→ Although Banks and NBFCs filed claims within 31st March 2021, but these could not be processed by CGTMSE due to huge pile-up of claims rendering them in-eligible to be utilized in FY21 pay-out cap.

→ Considering the unique situation presented by pandemic and stand-still clause on NPA, we earnestly request that **all claims filed during FY21 (especially during 24th March 2021 to 31st March 2021) but not processed, be treated as claims for FY21 as one-time exception**, otherwise this will be a huge financial loss to Banks and NBFCs.



Interest subvention scheme for MSMEs 2018, was launched by SIDBI in April 2019, for a period of 2 years. The scheme was later extended in *October 2020 but for only Scheduled Commercial Banks and Co-operative Banks



The October 7, 2020 circular issued by the RBI left NBFCs outside the domain despite the MSME lending volumes of NBFCs



MSME Subvention Scheme has provided substantial relief to the MSME segment. However, in absence of notification from the MSME Ministry and corresponding RBI notification the said Scheme cannot be utilized by the NBFC industry to support MSMEs, retail and wholesale trading community.



We request **extension of validity of MSME Subvention Scheme for NBFCs for the FY22**



The Government's objective of '100% Gross enrolment ratio' under NEP policy pre supposes a robust education infrastructure.



~20% of the funding to education ecosystem are funded by NBFCs and these need immediate support. Suggested measures to support the education infrastructure segment:-

- **Include education infrastructure under ECLGS 3.0**
- Providing relief to borrower education institutions through introduction of **Central Sector Interest Subsidy Scheme (CSIS)**
- **Cover Education Infrastructure segment under CGTMSE scheme**
- **Introduction of re-finance mechanism** for Financial Institutions focused on lending to the education sector

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Thank You