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**

Shri Shaktikanta Das
Governor
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Marg
Fort, Mumbai – 400 001

April 04, 2020

Respected Sir,

SUB:REPRESENTATION ON BEHALF OF NBFC INDUSTRY ON COVID-19 PANDEMIC

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

The measures announced by the Ministry on 26th March 2020 to provide succour to the economically weaker sections, those announced by the RBI on 27th March 2020 and slew of relaxation provided by the SEBI in the wake of global pandemic are indeed unprecedented, far reaching and bold measures to help the Indian economy survive and rebuild itself.

We would like to highlight some issues arising out of COVID-19 Regulatory Package notification issued by the RBI on March 27, 2020 (hereinafter "the Circular") and their corresponding impact on NBFC/ HFC industry, which requires further clarity so as to allow effective percolation of benefit of deferment/ moratorium extended by the RBI:

1. **Relief for overdue loan contracts:**

   RBI has announced that Lending Institutions are permitted to allow a moratorium of three months for a period starting from March 1, 2020 to May 31, 2020 on payment of instalments in respect of all term loans outstanding as on March 1, 2020.

Retail NBFCs financing Commercial Vehicles, Tractors, Taxis and Equipment provide finance to informal segment customers with little or no track record and to the MSME sector. These borrowers earn and pay through their business cash flows. Post 19th March, 2020, collections have come to grinding halt as lock down has been enforced and all our branches are shut down and our field officers have been stopped from going to the customers. Most of our customers have also been constrained to close operations as a result of the lockdown.

It is quite usual that many of our customers comprising of Truck and Taxi drivers and Marginal Farmers having 2-4 acres of land, and who are in 1-90 bucket having delayed in 1-3 instalments keep paying one instalment every month and remain stable and during peak deployment season, will pay overdue instalments and become current. These customers have not been able to pay during 20th March till 31st March and will not be able to pay during the lock down period due to their earnings coming to a halt. If the buckets for such customers are moved forward, it shall have following impact –

a. **NPAs shall shoot up very sharply,**
b. **Credit loss will jump sharply,**
c. **Contracts moving to 90+ as a result shall not be eligible to get any future funding and therefore there would be a serious impact on their business sustainability.**

Hence, we request that the moratorium should also be applicable to all overdue loans which are standard accounts as on February 29, 2020. In other words, **there may be a standstill on aging of past overdue for the moratorium period**. For example, a loan account with an overdue position of 60 days as on February 29, 2020, if offered moratorium of 3 months, will continue to remain at 60 days overdue till May 31, 2020. After May 31, 2020 the overdue position will change with every passing day.

2. <u>Extension of tenure to recover the interest during moratorium period</u>:

The circular stipulates extension of balance tenure by 3 months to match the moratorium of 3 months during March-May, 2020. Interest on moratorium period has to be recovered as additional amount over and above the EMI. It will cause hardship during current times and specially in case of MSME customers who take working capital loans under LAP wherein

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

the long tenure will imply substantial increase in the EMIs for additional interest. Secondly, we also take NACH mandates for the EMI amount and all of it has to be freshly obtained from lakhs of customers for the additional interest. We therefore submit for your kind consideration that interest during the moratorium period be allowed to be recovered from the customer at the end of the tenure in as many additional EMIs of similar amount as may be required.

3. **Lines of credit for NBFCs either directly from RBI or through banks and lifting the exposure cap as some of the banks have been citing exposure caps as a limiting factor:**

The RBI has announced several measures to ease availability of credit and improve liquidity for NBFCs and particularly the ones engaged in providing loans to the needy and unorganized sectors that qualify for priority sector classification. Some of the recent measures include:

1. Extension of period from 31st March 2020 to 31st March 2021 for On-lending to NBFCs for priority sector loans.
2. Partial Credit guarantee scheme for purchase of retail priority secured advances from NBFCs under direct assignment and extension of this facility till 30th June,2020.
3. Increase in the exposure limit to a single NBFCs from 15% to 20% of the bank's capital base.
4. Latest guidelines allowing banks to subscribe to the bonds, commercial paper and NCDs issued by the NBFCs over and above the existing limits.

However, a feedback from the NBFC industry participants is that the banks are highly risk averse to extend new term loans/working capital facilities, and cite exposure cap and breaches on cap for the sector and are generally restricting the new exposure to AAA rated entities or Government owned NBFCs and as a result, hundreds of small and mid-sized NBFCs which cater to the needs of informal and marginal truck drivers and farmers and MSMEs are deprived of the liquidity support from the banking system.

We therefore humbly submit that the banks be advised to provide liquidity support by way of term loans and subscription to bonds and NCDs of investment grade NBFCs starting from BBB-. Further, the NBFCs lending to priority sector should be given more support to

effectively disseminate the credit to the under-served segments in tier towns, by removing the artificial limit of Rs 20 lakhs imposed on such loans.

Besides we submit that a Special liquidity line can be created for NBFCs to be drawn against assets held by the NBFCs and could be used to repay market borrowings in these tough times. Such a line is currently available to banks but not to NBFCs. This back stop will provide these entities with a lifeline and will also give confidence to the rest of the market who lend to these entities. It is also recommended that Government should create an SPV to buy corporate bonds of various entities including NBFCs and HFCs to normalize the credit markets which have got dislocated due to CoVID 19.

4. **Moratorium to apply to all the instruments like NCD/ PTC/ DA as otherwise it will result in downgrading of these instruments:**

The present relief package announced by the RBI does not cover debt raised through capital market instruments such as NCDs, PTCs and pools purchased under direct assignment invested by the banks. This would put undue stress on the NBFCs who have raised funds through issuance of debt.

We humbly submit that corresponding moratorium be applied to all such instruments viz., NCDs, PTCs and other instruments of similar nature. If such a moratorium is not possible, there must be a mechanism for an auto-roll over or reissue of such instruments. This will help the industry to avoid any unnecessary rating downgrade and liquidity squeeze.

5. **Restructuring of Loans:**

While the three months moratorium which is permitted to be offered will provide some breathing space to the deserving segments, it may not be enough as the lockdown will have a huge impact on the cash flows of various businesses and individuals for a longer period. Hence, it is requested to allow a one-time window for restructuring of the Loans. This facility is currently available to MSMEs and could be considered for all other borrowers as well, given the environment. The restructuring of loans will enable lenders to reassess the cash flows of the customers and accordingly revise its repayment, which in

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

turn will help the customers repay the loan on regular basis when things normalize. This restructuring may kindly be allowed without the need for a 5% provisioning as mandated by the current scheme.

We sincerely appeal to the Reserve Bank of India 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