FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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

April 13, 2020

Respected Sir,

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

We refer to our earlier letter dated **4th April, 2020** wherein we have highlighted the difficulties faced by our member NBFCs who finance retail MSME borrowers and truck/taxi drivers and marginal farmers. As a result of nation- wide lock down, our customers who earn and pay are significantly impacted and have sought moratorium from us and while we have allowed them the same, it has corresponding impact on our cash flows and we therefore seek your urgent and sympathetic consideration of the following requests :

1. **Relief for all standard loan contracts including overdues in 1-90 bucket**:
   We represent retail NBFCs who finance commercial vehicles, tractors, taxis and construction equipment to informal segment customers with little or no track record and to the MSME sector. These customers deploy these assets on daily basis and earn and pay our instalments. 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 1-2 instalments keep paying one instalment every month and remain stable and during peak deployment season, will pay overdue instalments and become current.

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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 (below 90 dpd) as on February 29, 2020. In other words, **there may be a standstill on aging of past overdues 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. **Moratorium on repayment by NBFCs on their borrowings from banks under all instruments:**

The NBFCs operate on a leverage of around 4-5x and while RBI circular dt 27th March, 2020 permits all the banks to offer moratorium to all its customers, there has been a widespread confusion prevailing and some of the banks have informed us that they are not allowed to offer moratorium to NBFCs. Further, we securitise significant part of loan book, particularly, priority sector loans and raise funding from the banks under PTC/DA and our role is that of servicing agent. In these cases, the investing banks have to give us permission to allow moratorium to our retail customers and then only, we can offer the facility to them. In fact, premier rating agency, CRISIL has issued a credit alert on 9th April on the similar issue of non-availability of moratorium to the NBFCs and has indicated to closely monitor the developments and take appropriate rating action where required (copy ***enclosed***). We therefore submit humbly for a clarification to be issued to the banks to the effect so that all the borrowings by the NBFCs from the banks under various instruments are eligible for moratorium under 27th March, 2020 circular.

3. **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 should 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 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. The above measures are urgently required to prevent a very large number of borrowers, both big and small, from slipping into NPA category during the current financial year.

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.

Sir, we, some of the Directors of FIDC seek an audience with yourself, either by audio or video con-call, on behalf of our members and seek your sympathetic consideration of our request and positive response.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL
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