

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 Mohammad Mustafa,
CMD,
Small Industries Development Bank of India (SIDBI),
Swavalamban Bhavan, Plot No.C-11,
'G' Block, Bandra Kurla Complex,
Bandra East, Mumbai-400051**

May 02, 2020

Dear Sir,

REPRESENTATION ON BEHALF OF NBFC SECTOR FOR SPECIAL RELIEF MEASURES

We wish to place on record our **thanks** to Shri S N Singh, Chief General Manager for an opportunity to share the industry's views on a phone call on April 30, 2020. We had discussed a range of matters and we have pleasure in summarising the discussion and the requests from NBFCs.

As you are aware, FIDC is the representative body for NBFCs that provide loans to MSMEs and the retail segment inter alia, for procurement of business assets and for working capital. Our customers include SRTOs, contractors, agriculturists, traders, as well as MSMEs manufacturing/supplying various goods and services. Owing to the Covid-19 related lock down, the business cycles of all these customers have been seriously impacted and their financial condition seriously impaired.

Pursuant to the RBI notification dated March 27, 2020 our members have given moratorium on loan repayment to most of our customers. However, most of our members NBFCs have not been able to avail of similar moratoria from their lenders.

With the exception of AAA & AA rated NBFCs, most small and medium NBFCs have been facing difficulties in raising debt ever since the IL&FS episode came to light. Money market



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appetite for such NBFCs has almost become extinct. This situation has aggravated due to the current Covid-19 related economic disruption.

The role of SIDBI as a refinancer as well as the key channel for lending to MSMEs has therefore become extremely crucial. We at FIDC look forward to SIDBI playing an increasingly important role in aiding NBFCs in providing last-mile credit connectivity to deserving MSMEs and other crucial parts of the economy.

It is with this background, we at FIDC submit the following requests to you:

1. Liquidity Support for NBFCs under the RBI-announced scheme: It is indeed heartening to see that the RBI has provided Rs 15000 crs of credit line to SIDBI for helping entities overcome immediate liquidity constraints. (We understand that out of this corpus, Rs 6000 crs is ear-marked for NBFCs). We indeed thank SIDBI for taking this task up, which will go a long way in ameliorating the immediate concerns of NBFCs. Our submission in this respect is to either extend the tenure of such a facility to say, 3 to 5 years or merge this facility at the end of the initial period of one year into a long term loan (of course depending upon the NBFCs' track record in servicing this facility). This would enable NBFCs to plan their ALM in the correct manner and would provide the confidence to lend to MSMEs for their long term business needs
2. A more liberal approach towards 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



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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 and request that this be kindly considered in a positive light.

3. Most of our members' customers are self-employed and work and earn on a day-to-day basis and hence are economically vulnerable. In view of the disruption of economic activities, they may be unable to service their EMIs and NPAs of NBFCs are likely to increase. We request SIDBI to kindly consider this situation and relax the gross NPA norm applicable for NBFCs to qualify for refinance. The relaxation may kindly be extended at least until the end of this financial year i.e., for all refinance proposals submitted to SIDBI till March 31, 2021.
4. 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 lag of 3 years.
 - b. Only 75% of the loss amount is reimbursed

We humbly submit that as the administrator of the CGTMSE scheme, SIDBI may 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
- b. Enhance the rate of reimbursement of loss to at least 85-90% - this will ensure lower losses to NBFCs at the same time ensuring they have a "skin-in-the-game". We



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recognise that this may lead to an increase in the guarantee fee/premium, but NBFCs would be willing to pay for the enhanced coverage.

We request your kind consideration of our suggestions. This would go a long way in helping MSMEs to restart operations and emerge stronger from this crisis.

At FIDC we would also approach the RBI and the Government of India and request them to enhance the funding support to SIDBI since we believe that SIDBI is best placed to serve the interests of the MSME sector given the wealth of experience the institution has in understanding the issues faced by the sector.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

**MAHESH THAKKAR
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