FIDC NEWS
Finance Industry Development Council
(A Self-Regulatory Organisation for Non-Banking Finance Companies (NBFCs) registered with RBI)

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We are "very closely" monitoring NBFC situation & will take every step to ensure financial stability: RBI Governor

Shaktikanta Das
RBI Governor

"So far as RBI is concerned, it remains committed to ensuring we have a robust well-functioning NBFC sector." RBI Governor

"Whatever liquidity is generated has to percolate to the NBFC levels; this needs to be corrected by special window through banks as a temporary measure." Raman Aggarwal, chairman, FIDC

The Reserve Bank of India is "very closely" monitoring the situation facing the NBFCs and will not hesitate in taking any steps required for maintaining financial stability of the economy, said the Central Bank's Governor Shaktikanta Das, in a press conference following the RBI's second bi-monthly monetary policy meet this fiscal on June 6.

"We have been closely monitoring the activity, performance and the developments in the NBFC sector including that of the housing finance companies [HFCs]. We are also monitoring major entities in this universe of the NBFCs and HFCs... So far as RBI is concerned, it remains committed to ensuring we have a robust well-functioning NBFC sector, and the RBI will not hesitate to take whatever steps are required to ensure that financial stability is not adversely impacted in any manner by any development," Das told.

His remarks on the NBFCs came against the backdrop of the continued troubled situation facing the non-bank financiers. On June 5, DHFL, a major non-bank lender, saw rating downgrade in all of its papers to D (Junk rating) after it announced its decision to delay servicing its repayments. The scenario, especially in the housing finance sector, is casting shadow on the health of the entire financial sector. The country's banks and top mutual funds have significant exposure to the housing finance industry.

Supervision mechanism is robust : "As you know the periodicity of the NBFC supervision was about 18 months earlier. Now it is reduced to 12 months. So every year there is major inspection of the NBFCs. Major Entities are being closely monitored," Das added. With regard to the strengthening of the supervision mechanism, Das mentioned that about a fortnight ago the RBI had announced the formation of a separate cadre for regulation of banks, NBFCs and other financial institutions. "I would like to believe that our supervision mechanism is robust," he asserted.

In its three-day policy that concluded June 6, the Reserve Bank has also decided to set up an internal working committee to look at the liquidity management framework of the NBFCs. This committee will submit its report by mid-July.

The Governor noted that the individual entities themselves are restoring to market mechanism to mobilise liquidity and additional resources for meeting their liabilities and commitments.

Das also pointed that the system level liquidity is in surplus mode now adding the RBI will infuse about Rs 15,000 crore June 13 through its Open Market Operations (OMOs). "Other instruments are available. As and when we take decisions will keep on infusing liquidity, again based on requirements," he said.

NBFCs need Funds for Growth: Raman Aggarwal, Chairman at the Finance Industry Development Council, an association of the NBFCs, though didn't seem fully convinced by the steps taken by the RBI so far.

"The issue is not of solvency but of growth. We need funds for growth. While the RBI has taken measures to generate liquidity through OMOs, money eventually lands up at banks, but they are reluctant to give money to the NBFCs," he said.

"Whatever liquidity is generated has to percolate to the NBFC levels; this needs to be corrected by special window through banks as a temporary measure. For the long-term solution, the Mudra scheme, especially for the large number of small-scale NBFCs, needs to be activated," he added.

Chief Financial Officer at Mahindra Financial, V Ravi, sounded more optimistic than FIDC's Aggarwal. He hailed the RBI's move to set up the committee for looking into NBFCs liquidity management framework and hoped the panel will look into the possibility of a special window to the non-bank lenders through banks.

"The RBI has constituted a committee. It has been given a very tight deadline. We continue to request the regulator to provide special financing window through banks. I am sure this will be one of the areas the panel will look into," said Ravi.

In its monetary policy meeting that ended on June 6, the RBI announced a 25-basis point cut in the repo rate and changed its stance from neutral to accommodative, meaning that the rate hike is off the table for now. This is the third time the reduction has happened in the interest rates this calendar year, taking the total quantum to 75 basis points.

After the first two rate cuts in the year (February and April), there has been about 20-21 basis points of transmission by banks, Das said adding that he expects this transmission momentum to only increase going forward. "This is our expectation as we go forward, it is going to be higher and faster transmission also. This will find its impact into individual consumer loans, consumer durable loans and there are chances of reduction in rates in that sector as far as new loans are concerned," he concluded. [Mannu Arora, ETCFO, June 6. Slightly edited, sub-headings supplied]

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Non-banking Financial Companies: Current Status and Way Forward

Shri Shaktikanta Das is the first RBI Governor to directly speak about current status and way forward for NBFC Sector thereby laying down Agenda for the sector in present turmoil.

10. Let me now turn to Non-Banking Financial Companies (NBFCs). They play an important role in the Indian financial system given their unique position in providing complementarity as well as competition to banks. They cater to diverse financial needs of a wide variety of customers, both in urban and rural areas. This sector, with a size of around 16 per cent of the combined balance sheet of SCBs, has been growing at a faster pace in recent years. As at end-March 2019, the aggregate CRAR of NBFC sector was 19.3 per cent, while the gross NPA ratio was 6.6 per cent. The credit growth of NBFCs, which was over 20 per cent earlier, slowed down in the third quarter of 2018-19 after the debt default by a systemically important NBFC. However, market confidence somewhat resurfaced in the last quarter of 2018-19 as the major sources of funding registered a recovery.

11. The debt default by a large NBFC in mid-2018 highlighted the vulnerability and need for strengthening regulatory vigil on the sector in general and on the asset liability management (ALM) framework in particular. The Reserve Bank has recently come out with draft guidelines for a robust liquidity framework for the NBFCs.

12. Further, the Reserve Bank has relaxed the norms for NBFCs to securitise their loan books. In addition, banks have been allowed to provide partial credit enhancement (PCE) to bonds issued by the systemically important non-deposit taking NBFCs and Housing Finance Companies.

13. With a view to eschewing the regulatory arbitrage between banks and non-banks, the Reserve Bank has been aligning the regulatory and supervisory frameworks for NBFCs with that of SCBs. A comprehensive Information Technology (IT) framework for strengthening off-site surveillance of NBFCs is being put in place. Further, multiple categories of NBFCs are being rationalised into fewer categories in order to provide them greater operational flexibility.

14. The Reserve Bank has also taken steps to enhance the supervision over NBFCs. These efforts are primarily focused on improving the four supervisory pillars – on-site examination, off-site surveillance, market intelligence and annual reports of statutory auditors. A fifth pillar of supervision in the form of an institutionalised arrangement for periodic interaction with all the stakeholders including statutory auditors, credit rating agencies and banks having large exposures to NBFCs are being put in place.

Specialisation for supervision & regulation

21.The build-up of risks among regulated entities due to exposure concentrations, non-transparent market practices and the associated contagion effects in the banking sector have significant implications for financial stability. Considering these issues, the Reserve Bank has now decided to build a specialised regulatory and supervisory cadre for regulation and supervision of banks, non-banks and co-operatives. This specialised cadre in the Reserve Bank will play a pivotal role so that sound banking and non-banking sectors efficiently intermediate the financing requirements of the entire economy.

Way forward

24. Let me now turn to NBFCs. The conventional approach to their regulation and supervision has been light-touch, so that they could complement banks with their diverse financial products for niche areas and reach a large cross-section of population through innovative service delivery mechanisms. However, with a view to strengthen the sector, maintain stability and avoid regulatory arbitrage, the Reserve Bank has been proactively taking necessary regulatory and supervisory steps, keeping in mind the requirements of the time. In the light of recent developments, there is a case for having a fresh look at their regulation and supervision. It is our endeavour to have an optimal level of regulation and supervision so that the NBFC sector is financially resilient and robust. At the same time, NBFCs should be enabled to operate as well-functioning entities with necessary capacity to reach wider sections of population. The Reserve Bank will continue to monitor the activity and performance of this sector with a focus on major entities and their inter-linkages with other sectors. We will not hesitate to take any required steps to maintain financial stability in the short, medium and long-term.

25. As you are aware, fine tuning and improving supervision and regulation are continuous exercises. Towards this direction, we have reduced the periodicity of the NBFC supervision to 12 months from 18 months earlier. We expect the Board of Directors of companies themselves to act diligently and take necessary action based on Reserve Bank's supervision reports.

26. Further, our objective is to harmonise the liquidity norms between banks and NBFCs, taking into account the unique business model of the NBFCs vis-à-vis banks. In this context, the final guidelines on the liquidity risk management framework which we have proposed recently will be issued shortly. *[Indian Banking Sector: Current Status and the Way Forward: Speech delivered by Shri Shaktikanta Das, Governor, RBI on June 8, 2019 at the NIBM, Pune; extract about NBFC sector]* ■

NBFCs bridging the gap between organised and unorganised lending, and are an important pillar of the economy: SBI report

In her foreword to the report, Anshula Kant, Managing Director (Stressed Assets, Risk and Compliance), SBI, said: "NBFCs have been playing an important role in bridging the gap between organised and unorganised lending, and are considered an important pillar of the economy.

"In recent times, the regulators have come out with various policy measures, including partial credit enhancement. harmonisation, and co-origination as an enabler for the sector."

Additionally, RBI's recent announcement of setting up a committee on the Development of Housing Finance Securitisation Market is a welcome move, as a liquid secondary mortgage market would enable competitive interest rates and better asset liability management for financial institutions, Kant added.

NBFC Sector's growth of 22%: According to the SBI report, as of March 2018, the aggregate size of loans and advances of NBFC sector (including HFCs), registered an annual growth of around 22 per cent, amounting to Rs. 27 lakh crore. Continuing the trend, the first half of FY19 recorded a growth of 12 per cent, with loan size reaching Rs. 30-lakh crore. However, with the subsequent portfolio sell-out and liquidity issues, the loan size of NBFCs might not have expanded at the same pace as in H2FY19.

Net interest margin of NBFCs likely to come under pressure: With limited availability of liquidity and sell-down of portfolios, net interest margins (NIMs) of NBFCs might be under pressure across the board, with small- and low-rated NBFCs facing balance sheet contraction, according to an industry wrap by State Bank of India's economic research department.

SBI's NBFC industry wrap said that in some of the sub-sectors, such as housing finance, the high leverage is a cause for concern, and needs to be addressed appropriately along with efficient asset-liability management (ALM), which will always be critical.NBFCs, with higher exposure to SMEs/loan against shares and developer loans, may see near-term pain, it added. Referring to liquidity issues and ALM mismatches being faced by some of the NBFCs, the report said they have witnessed an increase in the cost of funds, and are trying to shore up the liquidity levels now.

No change in financials: Overall, given the current backdrop in the NBFC space, the report assessed that nothing major has changed in the financials of the sector per se, except the overall perception towards the sector. Further, both asset quality as well as capital to risk-weighted assets (CRAR) ratio look better in than the previous year, and the model followed by NBFCs is more or less the same as hitherto. At the same time, it is also true that some of the NBFCs have raised interest rates in the last few months amid liquidity issues. [Business Line, April 15] ■

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Licensing as Authorised Dealer- Category II: RBI/2018-2019/170; DNBR (PD) CC.No.098/03.10.001/2018-19; 16.4.2019 [All Systemically Important Non-Deposit taking NBFCs – Investment and Credit Companies]

Risk Management System – Appointment of Chief Risk Officer (CRO) for NBFCs: RBI/2018-2019/184; DNBR (PD) CC. No.099/03.10.001/2018-19; 16.5.2019 [NBFCs– Investment and Credit Companies, Infrastructure Finance Companies, Micro Finance Institutions, Factors and Infrastructure Debt Funds]

Liquidity Risk Management Framework for Non-Banking Financial companies and Core Investment Companies – Draft Guidelines for public comments: RBI; May 24, 2018; [All Non-Banking Financial Companies (NBFCs) including Core Investment Companies (CICs)]

Amendment to Master Direction (MD) on KYC: RBI/2018-19/190**;** DBR.AML.BC.No.39/14.01.001/2018-19**;** May 29, 2019 **[**The Chairpersons/ CEOs of all the Regulated Entities]

Extension of relaxation on the guidelines to NBFCs on securitisation transactions: RBI/2018-19/191**;** DNBR (PD) CC. No. 100/03.10.001/2018-19**;** May 29, 2019 **[**All NBFCs]

Prudential Framework for Resolution of Stressed Assets: RBI/2018-2019/203; DBR.No.BP.BC.45/21.04.048/2018-19; 07.6.2019. [Department of Banking Regulation]

Certain NBFCs to get license for forex dealership

In a move that will make it easy to purchase foreign exchange for overseas travel, the RBI, on April 4, announced that certain NBFCs will be able to get a license as authorised foreign exchange dealer. "With a view to improve the ease of undertaking forex transactions by increasing the last-mile touch-points of regulated entities to sell foreign exchange for non-trade current account transactions, it has been decided that non-deposit taking systemically important NBFCs (NBFCs-NDSI) in the category of Investment and Credit Companies (ICCs) will be made eligible to apply for grant of Authorised Dealer Category II license," said the statement on Developmental and Regulatory Policies, which was released along with the first bi-monthly Monetary Policy Statement of 2019-20.The RBI will issue detailed guidelines on this proposal by the end of the month. At present, under the Foreign Exchange Management Act, 1999, foreign exchange transactions are only handled by authorised bodies such as banks. [Business Line, April 04]

RBI extends Ombudsman Scheme for NBFCs to Non-Deposit Taking NBFCs

RBI on April 26 has extended the coverage of Ombudsman Scheme for Non-Banking Financial Companies (NBFCs), 2018 to eligible Non Deposit Taking Non Banking Financial Companies (NBFC-NDs) having asset size of Rs. 100 crore or above with customer interface. Earlier, RBI had covered all deposit accepting NBFCs to begin with on Feb. 23, 2018. [RBI Press Release, April 26]

Extension of relaxation on the guidelines to NBFCs on securitisation transactions

To encourage NBFCs to securitise/assign their eligible assets, RBI decided to relax the Minimum Holding Period (MHP) requirement for originating NBFCs, in respect of loans of original maturity above 5 years, to receipt of repayment of six monthly installments or two quarterly installments (as applicable), subject to the prudential requirement of "Minimum Retention Requirement (MRR) for such securitisation/assignment transactions shall be 20% of the book value of the loans being securitised/20% of the cash flows from the assets assigned." This extension of relaxation is granted till 31st Dec. 2019. [RBI circular, May 29]

RBI tells bigger NBFCs to appoint chief risk officer

The RBI told NBFCs with assets size of over Rs 5000 crore to appoint a chief risk officer to improve standards of their risk management. "With the increasing role of NBFCs in direct credit intermediation, there is a need for NBFCs to augment risk management practices," RBI said on May 16.

"Boards of NBFCs should strive to follow best practices in risk management. The CRO is required to function independently so as to ensure highest standards of risk management," RBI said. RBI also told NBFCs to ensure independence of their CRO. The CRO shall be a senior official in the hierarchy of an NBFC and shall have professional qualification/ experience in the area of risk management.

"The CRO shall not have any reporting relationship with the business verticals of the NBFC and shall not be given any business targets. Further, there shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility," RBI said. In case the NBFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges. [ET Bureau, May 17]

National Housing Bank (NHB) on May 29 directed bigger housing finance companies (HFCs) to appoint a chief risk officer (CRO) in a bid to improve risk management practices. The move follows a similar direction given by the RBI to appoint a CRO in a NBFC. [Business Standard, May 30]

RBI tweaks KYC norms for regulated entities

The RBI has carried out important changes in its master direction on Know-Your-Customer (KYC) for regulated entities (REs), including allowing banks to carry out Aadhaar authentication/offline verification of an individual who voluntarily uses his Aadhaar number for identification purpose, and adding 'proof of possession of Aadhaar number' to the list of Officially Valid Documents (OVD).

Further, REs other than banks can identify a customer through offline verification under the Aadhaar Act with his/her consent.

Temporary ceasing of bank a/c: "For existing bank account holders, PAN or Form No 60 is to be submitted within such timelines as may be notified by the government, failing which the account shall be subject to temporary ceasing till PAN or Form No 60 is submitted. "However, before temporarily ceasing operations for an account, the RE shall give the customer an accessible notice and a reasonable opportunity to be heard," the RBI said.

The changes by the RBI come in the wake of the government notifying amendments to the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, in February.

The central bank said 'proof of possession of Aadhaar number' has been added to the OVD list with a provision that when the customer submits this proof as OVD, he may submit it in such form as issued by the Unique Identification Authority of India (UIDAI). [Business Line, May 29]

RBI releases draft liquidity framework guidelines for NBFCs

RBI on May 24 released the draft guidelines on liquidity risk management framework for NBFCs and core investment companies (CICs). In its draft guidelines, RBI has proposed to introduce a Liquidity Coverage Ratio (LCR), which is the proportion of high liquid assets set aside to meet short term obligations for all NBFCs with an asset size of more than Rs. 5000 crore. Starting April 2020, NBFCs will have to maintain a minimum of 60% of LCR as high liquid assets which will be increased in a calibrated manner to 100% by April 2024, RBI said.

The regulator has also proposed to revise the ALM of NBFCs to ensure that the difference between inflows and outflows during the first 7 days is not more than 10% of the total outflows. Similarly over the next 8-14 days and 15-30 days, the cash flow mismatch should be only 10-20% of the cumulative outflows. This is to ensure that NBFCs' reliance on external debt to repay its maturing debt is reduced, given the current market conditions where funding from banks and mutual funds has become scarce.

RBI has also asked NBFCs to adopt liquidity risk monitoring tools to capture any possible liquidity stress. This will include concentration of funding by counterparty/ instrument/ currency, availability of unencumbered assets that can be used as collateral for raising funds, certain early warning market-based indicators, such as, price-to-book ratio, coupon on debts raised, breaches and regulatory penalties for breaches in regulatory liquidity requirements, RBI said. [Live Mint, 24 May]

RBI constitutes committee to review mortgage securitisation

The RBI has constituted a six-member committee on Development of Housing Finance Securitisation Market to review the existing state of mortgage securitisation in India and various issues

constraining market development, and to develop the market further. The terms of reference of the committee, headed by Harsh Vardhan, Senior Advisor, Bain & Co, will review the regulations relating to mortgage-backed securitisation (MBS) currently in place, and make specific recommendations on suitably aligning the same with international norms.

It will analyse the prevalent structures for MBS transactions, including legal, tax, valuation and accounting-related issues, and suggest necessary modifications to address the requirements of both originators as well as investors.

The committee will identify the critical steps required for standardisation of MBS practices such as conforming mortgages, mortgage documentation standards, digital registry for ease of due diligence, and verification by investors.

It will assess the role of various counterparties, including the servicers, trustees, and rating agencies in the securitisation process, and suggest measures required, if any, to address the key risks such as structural, fiduciary and servicer risks.

The committee will recommend specific measures for facilitating secondary market trading in mortgage securitisation instruments, such as broadening the investor base, and strengthening the market infrastructure. It will analyse the inter-linkages between securitisation and other related financial market segments/instruments and recommend necessary policy interventions to leverage these inter-linkages. "For a vibrant securitisation market to develop, it is imperative that the market moves to a broader issuance model with suitable structuring of the instruments for diverse investor classes.[Business Line, May 29]

RBI gives final nod to eMandate for auto-debits by fintech firms

The RBI has given final nod to electronic mandates via both debit cards as well as netbanking in place of the earlier Aadhaar based authentication, enabling banks and fintech companies to auto-debit recurring payments such as for home loans and mutual funds.

The National Payments Corporation of India (NPCI) has received the final go-ahead from the central bank earlier this month and the retail payments body has now directed the banks to implement both the e-mandate measures by June 30. When Aadhaar was used by financial entities, customer verifications were done through the citizen's database. Post the access restriction, banks looked for alternative modes of authenticating its customers.

Earlier, e-Mandates were used by banks and other fintech companies for auto-debiting multiple recurring payments namely equated monthly installments (EMIs) or payments for systematic investment plans. [The Banking & Finance Post, April 26]

RBI sets up committee on corporate loans

The RBI has constituted a six-member committee on the Development of Secondary Market for Corporate Loans to come up with recommendations to increase the efficiencies of the debt market and aid in the resolution of stressed assets. As per its terms of reference, the committee, headed by TN Mahoharan, Chairman, Canara Bank, will make recommendations on required policy/regulatory interventions for facilitating the development of secondary market in corporate loans, including loan transaction platform for stressed assets. It will create a loan contract registry to remove information asymmetries between buyers and sellers, its ownership structure and related protocols, such as standardisation of loan information, independent validation, and data access.

The committee is expected to make suggestions on the design of the market structure for loan sales/auctions, including online platforms and the related trading and transaction reporting infrastructure; and the need for, and role of, third-party intermediaries, such as servicers, arrangers, and market makers. It will suggest appropriate measures for enhanced participation of buyers and sellers in loan sale/transfer. "A vibrant, deep and liquid secondary market for debt would go a long way in increasing the efficiencies of the debt market in general, and will aid in resolution of stressed assets in particular. "A well-developed secondary market for debt will also aid in transparent price discovery of the inherent riskiness of the debt being traded," the RBI said in a statement.[Business Line, May 29]

RBI to create regulatory & supervisory cadre to monitor banks and NBFCs

The RBI Board reviewed the "present structure of supervision in RBI in the context of the growing diversity, complexities and interconnectedness within the Indian financial sector. With a view to strengthening the supervision and regulation of commercial banks, urban cooperative banks and Non-Banking Financial Companies, the Board decided to create a specialised supervisory and regulatory cadre within the RBI," at its meeting held on May 21 said in a press statement.

RBI Central board also discussed current economic situation, global and domestic challenges and various areas of operations of the Reserve Bank. Among other important matters, the Board discussed the Medium Term Strategy document, covering, inter-alia, the Mission Statement and the Vision Statement. [Business Line, May 22]

RBI wants e-payments to be 14.8% of GDP, up from 8.4%

The RBI has drawn a road map for increasing the share of digital payments to 14.8% of gross domestic product (GDP) by December 2021 as against 8.4% in 2018. The RBI aims to achieve this by empowering every Indian with access to a bouquet of e-payments options that is safe, secure, convenient, quick and affordable. [TNN, May 16]

'RBI's revised circular no breather for NBFCs'

FIDC tells RBI to put in place a mechanism to provide liquidity support to NBFCs

NBFCs are not entirely enthused by the RBI's revised stressed assets circular, contending that it does not give any additional advantage or benefit to such companies.

'No additional benefits': Raman Aggarwal, Chairman, FIDC, said the latest RBI circular covers NBFCs, but it does not give any additional benefit to these companies. "Even if a borrower is paying to an NBFC but has defaulted with a bank the NBFC gets roped into signing the ICA (inter-creditor agreement) and be part of the resolution plan. Further, in such cases, the NBFC's role shall be highly subdued since their share in the overall value would be below 75%. So, we may land up in a situation where NBFCs may be forced to follow the resolution process (RP) failing which additional provisioning may be required. As such, this does not add value to the entire recovery process of NBFCs," Aggarwal said. FIDC believes the new circular reduces flexibility for these firms in resolving the stressed assets, he added.

"We are trying to decipher the rationale behind the move to include NBFCs in a general circular. NBFC exposure in a loan consortium will be very limited. Putting everyone in a general basket will affect the NBFCs because their NPAs will also increase. They will have to wait along with larger banks and will not be able to find quick solutions," Hemant Kanoria, chairman and managing director, Srei Infrastructure Finance Ltd said. [Live Mint, June 13]

Funding for NBFCs should accompany RBI's liquidity management rules: FIDC

RBI intends to prescribe stringent rules for liquidity risk management as many NBFCs were hit by a severe asset liability mismatch.

The NBFCs, most of whom are cash strapped, want the RBI to implement liquidity risk management rules only in tandem with an arrangement for making available much needed funds. Else, RBI should defer the roll out of risk management rules until liquidity situation become normal.

"The proposed guidelines should be made concomitant with provision of a mechanism of liquidity support for NBFCs. Currently, with the tight liquidity conditions in the industry have made generation of funds a very difficult task. We request the RBI to kindly consider putting in place a suitable mechanism for such liquidity support," FIDC, industry body said in representation to RBI.

FIDC also said that proposed norms should be applied only to those NBFCs that have assets of Rs 1000 crore or more to make the guidelines practicable and yet, address the overall systemic risk. Many of these measures such as granular maturity buckets, the stock approach, diversification of funding sources, stress testing etc., become very onerous for non-systemically important, smaller NBFCs, FIDC said.

FIDC also sought exemption from public disclosures for finance companies which are dependent only on bank/institutional loans and have not publicly issued debentures, commercial paper or deposits. [Business Standard, June 14] ■

‘NBFCs yet to recover from IL&FS crisis; pain to persist another qtr’

Raman Aggarwal, Chairman, FIDC

RamanAggarwal: It has been over two quarters since a mammoth Rs 91,000 crore alleged scam first came to light at financial services firm IL&FS, stunning India’s financial world. The non-banking financial companies (NBFCs) are still grappling with the unpleasant after-effects of this crash and the attendant weakness and growth issues.

The issue came to light last September when an IL&FS group firm defaulted on servicing bank loans and deposits, and failed to meet the commercial paper redemption obligations due that month

Q: What is your assessment of the current liquidity position of the NBFCs? To what extent has the situation improved post the IL&FS crisis?

Raman Aggarwal: The liquidity position of the non-bank lenders has improved in the last few months but it remains tight. They seem to be struggling on the growth front.

Just to give some numbers, after clocking around 20% growth in their loan disbursals in the last couple of years before the IL&FS crisis, the non-bank financiers witnessed, on an average, a de-growth of about 19% in the October-December quarter. And this trend is likely to have continued in the subsequent Jan-March quarter.

In a nutshell, the non-bank financiers haven’t yet recovered completely from the IL&FS crisis. They are continuing to face growth hurdles. Their pain is likely to remain for at least a quarter or so.

Q: Where do you think the NBFCs are borrowing from? The mutual funds are still reluctant to buy their papers...

Raman Aggarwal: The non-bank lenders seem to have learnt from the IL&FS crisis and are now in a better position to manage their assets and liabilities.

Following the IL&FS default payments, many NBFCs reduced their Commercial Paper exposure. They are today increasingly borrowing long-term money through bonds and debentures. Some have also turned to the international bond markets.

Following the IL&FS default payments, many NBFCs reduced their Commercial Paper exposure. They are today increasingly borrowing long-term money through bonds and debentures. Some have also turned to the international bond markets.

Simply put, NBFCs have replaced of their overused short-term market instrument, Commercial Paper, with long-term ones.

Q: Following the IL&FS crisis, in the last six months alone there have been a slew of consolidations in this space. Bandhan Bank & Gruh Finance; Indiabulls Housing and LVB etc. Do you expect this trend to continue going forward? Who all will survive this period?

Raman Aggarwal: I feel this trend of consolidation is expected to continue going forward. The non-bank lenders are short on capital, and therefore it makes sense for them to merge with banks, which have access to deposits. It is a win-win situation for the banks too as they stand to gain from the sourcing and collections strength of the non-bank financiers.

But even as this consolidation is going to be the trend, one must not count NBFCs out. Non-bank financiers in India have a unique business model; they have come out stronger post the IL&FS crisis. Such category of lenders will always have a strong footprint in the game.

Even as this consolidation is going to be the trend, one must not count NBFCs out. Non-bank financiers in India have a unique business model, they have come out stronger post the IL&FS crisis. Besides consolidation, another trend that the industry witnessed of late, and which is expected to continue, has been the increasing collaboration with banks. This is reflected in the increased volumes in the securitization markets, where NBFCs sold a fair chunk of their portfolio loans to banks. There are more tie-ups happening for co-origination of loans too.

On these similar lines, I strongly feel that non-bank lenders, after reaching a certain size and scale, should be given the option of voluntarily converting themselves into a bank. This would help the sector gain further momentum.

Q: Over the next three months, around Rs 1.3 lakh crore of short-term debt is maturing. Do you fear default in a few cases?

Raman Aggarwal: I don’t foresee any defaults happening by lenders. It is unlikely that there will be problems in redemption. If you see, the liquidity position of the lenders a few months back was even more severe, and despite that they then managed to stave off the default. There was never a question of insolvency with them. Nor it is now.

But I must concede that the sluggishness in growth is something which is likely to continue for some time until conditions for financing, especially for the large chunk of small and mid-sized NBFCs improve dramatically. And my feeling is, this will happen soon.

Q: How can the financing conditions for NBFCs improve? What specific actions are required from the regulators?

Raman Aggarwal: There are about 11,000 NBFCs registered today. Of these, barring a few, most are small and mid-sized lenders.

One must note that many such financiers don’t have access to markets in the first place, and this is where a scheme like the MUDRA (Micro Units Development and Refinance Agency Bank) can improve the state of affairs in a huge way. (MUDRA is a public sector financial institution in India and provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to medium and small enterprises.)

A few of the lending conditions under this scheme could be eased- like currently it provides loans to borrowers subject to a condition that they must have a minimum BB- credit rating. Instead of this clause, since getting a rating is usually difficult, the company’s financial parameters or historical performance could be looked into.

Another way to improve the liquidity condition is by way of providing a dedicated refinance window, like what the housing finance companies are used to availing from their regulator, National Housing Bank.

Reducing the minimum holding periods, especially in case of smaller tenor loans, is another option. This would release substantial capital for the non-bank lenders. The regulator (Reserve Bank of India) did reduce the minimum holding period to six months from a year for the five-year loan assets. However, such a step is required for smaller tenor loans too for a significant impact to take place.

We pitched these proposals in our recent meetings with the RBI Governor, the PM and the NITI Aayog. These proposals would go a long way in tackling the finance woes of NBFCs across the spectrum.

And going forward, we are quite hopeful that especially once the elections are over, a few of the proposals mentioned above may be taken up on priority and get materialized. *[ETCFO, April 30. Edited excerpts from the interview by Mannu Arora]* ■

As Auto Sales Skid, Manufacturers & NBFCs Brainstorm On Revival Plans

NBFCs’ body says not risk averse to auto sector, but point to multiple challenges

The Finance Industry Development Council (FIDC), a representative body of NBFCs, has assured the Society of Indian Automobile Manufacturers (SIAM) that the NBFCs will “not turn risk averse” towards the automobile sector, although several of them are facing multiple challenges of “liquidity crunch” and new regulatory hurdles.

“We have given them an assurance that per se there is no change in stance on our intent to fund automobiles. The current situation is tight for us which is manifesting in our lower disbursements to the automobile sector also,” Raman Aggarwal, Chairman, FIDC, told BusinessLine here after the meeting with SIAM officials.

The main purpose of the meeting was to discuss threadbare the reasons behind the sharp decline in automobile sales in the country in the recent months. “Our meeting focused on whether the primary reason for drastic drop in vehicle sales is lack of demand or is it also due to lack of credit coupled with higher cost of credit,” Aggarwal said.

He said that FIDC not only acknowledged the decline in NBFC disbursements to automobile sector, but also explained the reasons for this trend. SIAM had also highlighted the trend of fall in “wholesale funding” of auto dealerships.

IL&FS fiasco: FIDC is learnt to have conveyed to SIAM that NBFCs have been faced with multiple challenges of “liquidity crunch (post-IL&FS blow-out)” and new RBI requirements. It was pointed out that NBFCs are heavily reliant on banking system for funding and post the IL&FS blow-out there has been severe reluctance on part of the banking system to extend funding support.

RBI norms: Moreover, NBFCs are not able to take advantage of securitisation in a big way because some of the guideline changes sought with RBI is yet to be accepted by the banking regulator.

To add fuel to the fire, the RBI has, with effect from April 1, this year mandated that companies including NBFCs which have over Rs. 150 crore funding from the banking system should have at least 40 per cent in the form of working capital loans.

“It’s not only credit crunch, even the new RBI working capital norms are a big challenge for NBFCs. The new working capital norm will have a negative impact as NBFCs have to rejig so as to conform to 40 per cent norm. In the next couple of months, this will have to go up to 60 per cent,” Aggarwal said.

In the December quarter last year, disbursements by NBFCs — a key player in auto financing — had declined 25 per cent as regards financing of commercial vehicles.

Why no leasing? SIAM officials were also keen to understand why ‘leasing’ as an activity is not taking off in the country. Taxation issues, including high tax deducted at source (TDS) on lease rentals and high GST rate, are seen as reasons behind the poor interest on ‘leasing’, it is learnt. [K R Srivatsa, Business Line, May 10] ■

FUNDING SUPPORT TO NBFCs TO ENSURE LIQUIDITY & RESOURCES FOR GROWTH

Present liquidity crisis signify a hard reality that is being faced by NBFCs since their inception: LACK OF RELABLE FUNDING FOR GROWTH. New Government should seize opportunity to make this vibrant platform for pushing inclusive development of the economy in Government's 5 year plan by ensuring FUNDING to it on the basis of measures suggested by FIDC here under in its Pre-Budget Memorandum.

The IL&FS's-a conglomerate of long term financing infra firm's- default in September 2018 resulted in a sudden change in the perception of the strength of the entire NBFC sector [including the erstwhile original asset financing companies]. As is typical in such situations, it is the negativity in the sentiments which plays the key role rather than the actual performance. Although perception at the highest level in Government was clear but unwittingly it is allowed to engulf other areas of the sector. A decisive action as that was taken in 2008 is need of the hour. As the representative body of the NBFC sector, FIDC believes that authorities should seize this Golden Opportunity to make this vibrant sector with-short-term and long term measures indicated here under- to make it strong and self-sustaining for its future growth.

Current Situation:

1. The core issue today relates to the sudden and great impact on the growth of NBFC sector and is not a solvency issue.
2. This has heavily impacted the flow of credit to the key sectors of the economy like Automobiles, MSMEs and Consumer Goods, which have suffered heavily.
3. Defaults by one Infrastructure Financing NBFC and a Housing Finance Company do not represent the actual picture of the NBFC sector.
4. The typical NBFC model is a heavily retail and small business focused lending model with average asset tenure of 2-5 years.
5. Therefore, asset liability mismatch is practically a non-issue for NBFCs and is more relevant for long term infra project financing and housing finance companies.
6. While the flow of bank funds to NBFCs has dropped since October 2018, the recent data released by RBI on sectorial deployment of bank credit presents a different picture. This is because the figure for bank credit to NBFCs includes Government owned NBFCs.

Banks are the Major Contributors to Funding NBFCs

Banks continue to be the major source of funding for NBFCs. When it comes to Small and Medium NBFCs, (which comprise of 95% of the total number of NBFCs) banks are the only option. The major concern arising as a fall out of this negativity has been a sudden change in attitude and the perception that majority of the public-sector banks have shown towards NBFCs. The most disturbing aspect has been the apprehension and reluctance on the part of the banks to continue with the existing lending arrangements to NBFCs. Instances of banks withdrawing the unutilized lines of credit or showing apprehension / reluctance in renewal/rolling over the existing credit lines have been reported by some of our members. While they are willing to buyout NBFC portfolios but that is merely a band aid solution which does not ensure growth of NBFCs.

Ensure percolation of liquidity down to NBFCs

RBI has taken measures to address overall liquidity in the system by way of open market operations and other means. However, the liquidity thus created naturally ends up with the banks. It is the hesitation and reluctance on the part of banks to ensure percolation of this liquidity down to NBFCs which needs to be addressed immediately. The same may be done by

* incentivizing banks to fund NBFCs
* Creating a window for flow of bank credit dedicated to NBFCs
* Excluding PSU NBFCs while calculating sectoral bank exposure to NBFCs.

Measures to Address the Funding / Liquidity Concerns of the NBFC Sector

Short Term Measures – Need Immediate Action

1. The crying need of the hour is to create a dedicated liquidity window for NBFCs through the banking channels. The same may be provided for a period of one year. Precedence may be drawn from a special repo window created by RBI in 2008 for banks under the liquidity adjustment facility (LAF) for on lending to NBFCs.
2. Since 1999, RBI had allowed all bank lending to NBFCs for on-lending to the priority sector, to be treated as priority sector lending by banks. This gave a huge incentive to banks to lend to NBFCs. While it ensured sufficient bank funding to NBFCs at a reasonable cost, it also facilitated banks to meet their PSL targets. However, this was abruptly withdrawn in 2011. The same arrangement may be restored urgently.
3. For Small &Medium sized NBFCs, eligibility norms for NBFCs for availing refinance from MUDRA should be made favorable by:

* Allowing all RBI registered NBFCs to avail refinance
* External Credit Rating criteria may be replaced by prescribing some additional financial parameters to be met, which may be more realistic and doable.
* The cap of 6% on the maximum spreads allowed should be done away with, since market forces ensure that the rates are within acceptable limits

Systemically Important NBFCs should be Allowed to Act as Aggregators by availing refinance from MUDRA for on lending to small and medium sized NBFCs.

Long Term Measures

1. Setup up a Permanent Refinance Window for NBFCs

A dedicated "Refinance window for NBFCs", on the lines of National Housing Bank (which provides refinance to Housing Finance Companies) has been a long-standing demand of the NBFC sector. The Parliamentary Standing Committee on Finance in their 45th Report dated June 2003 (relating to The Financial Companies Regulation Bill, 2000) had recommended setting up of a new refinance institution for NBFCs.

2. Establishment of Alternate Investment Fund

An Alternate Investment Fund (AIF) may be established to channelize institutional funds to NBFCs..Non-convertible debentures (secured by hypothecation of business receivables of NBFCs) could be subscribed to by the AIF for onward lending by NBFCs. These NCDs could be administered by investor trustees who could take care of the interests of the AIF and its constituents and would be subject to all extant guidelines in this regard. The manner of constitution of the AIF and the sources of its funds could be discussed further.

3. "On Tap" Issuance of Secured Bonds/NCDs

NBFCs have access to Non-Convertible Debentures ("NCDs") having flexible tenure and rates, both through the private placement (with restrictions) and public issue. While private placements have severe restrictions on the number of investors, the frequency of issue etc., public issue of bonds tends to be very expensive, laborious and inflexible.

It is proposed that NBFCs be allowed an on-tap facility for issuance of NCDs to the retail market by making the offering of NCDs through an easy to operate and less costly procedure, but with proper governance to provide investor protection and comfort. ■

MORE NBFCs TIE UP WITH BANKS UNDER LOAN SCHEME

- Ashwin Manikandan

An Increasing number of non-banking financial companies are partnering with banks under the RBI's loan co-origination scheme since its announcement last year, as liquidity tightness in the subsequent months forced these non-banks to look for cheaper routes to raise funds.

Industry experts said that anywhere between Rs 5,000 crore and Rs 10,000 crore worth of these loans may have been sanctioned under the scheme since its launch in August last year. Under the co-origination scheme for priority sector lending, partnership dynamic between the two sets of lenders would be such that loans would be originated by NBFC with a minimum exposure of 20% and banks would fund the rest of the loan with pre-agreed rates of lending by the two players.

These loans much cheaper to the end-borrower : "Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans…a weighted average of the benchmark interest rates in proportion to the respective loan contribution can also be offered," according to an RBI circular. This will render such loans much cheaper to the end-borrower than a typical loan given by an NBFC.

High adoption probability of the scheme: While industry experts said that it is still early days for the scheme and no conclusive data has been collated to show how many such loans have been distributed, market demand for cheap funding coupled with the eagerness NBFCs have shown in selling their loan pools to banks — reflected in the elevated securitisation volumes in the second half of FY19 — indicate high adoption probability of the scheme.

"The scheme works well for both parties. For NBFCs, it can help boost profitability without investing too much funds, while from a bank's perspective, it can help them complete their priority sector lending targets without bearing costs of operation with low credit risks," said Prakash Agarwal, director, financial sector rating, India Ratings.

"Currently, our estimate is that these loans would be in single-digit thousand crores, but given the liquidity crunch in the market, they may incrementally pick up going in FY20."

While larger NBFCs have stayed away from co-origination model, mid-cap NBFCs such as IIFL, Village Financial Services, Paisalo Digital and Capital Float are among the players which have tied up with banks to co-originate loans.

"Sale of securitised loan pools for MFIs to banks went up to Rs 26,000 crore in FY19 as against Rs 9,700 crore in the previous fiscal. While there is an obvious demand for assignment-based and colending based models for loan origination, it needs to be seen how much risks banks are willing to take on these schemes," said Anil Gupta, head of financial sector ICRA.

The rating agency said that based on demand and sectoral targets, an upside market potential of at least Rs 10,000 crore is seen for the disbursement of these loans under the scheme.

While most private sector banks have deployed a business-correspondent based model for meeting priority sector targets, some public sector banks such as SBI and Bank of India are weighing the possibility of collaboration opportunity with NBFCs under the scheme.

It is a good tool: "We have tied up with a few NBFCs and will start our disbursements next quarter. It is a good tool to reach out to niche target markets where we don't have penetration. We find credit risks also much lower," a senior banker from Bank of India told ET. [ET Bureau, May 17] ■

RESCUING NBFCs: NEW FM's DIFFICULT CHOICE

Shilpy Sinha, Saloni Shukla

NBFCs, a key constituent of the economy, are in trouble. The debate is - bail out all or only the deserving ones.

It is nine months since Infrastructure Leasing & Financial Services (IL&FS) imploded. RBI has pumped in nearly Rs 3.6 lakh crore in liquidity since April 2018. Conversion of loans into tradable securities or securitisation is at record highs. Non-banking finance companies (NBFCs) have sold assets worth at least Rs 1.3 lakh crore. Defaults by big borrowers are few and far between. "The contagion and its cascading effect on the economy are clearly visible."

Not just that. Some NBFC lenders such as Mahindra Financial and Shriram Transport have raised more than a billion dollars in overseas debt. Some others have recovered from a slump and are posting record profits. "The contagion and its cascading effect on the economy are clearly visible.

Nirmala Sitharaman, the 59-year-old economist from Jawaharlal Nehru University who has just taken charge of the finance ministry, has her job cut out. That is to pull up the economic growth rate, which has slumped to a five-year low. But she is starting her innings with a key player severely injured.

Incentivise Banks To Lend To Private NBFCs

"The new FM can incentivise banks to lend to private NBFCs," said Raman Agarwal, chairman, FIDC, a representative body of NBFCs. "The issue of bank's hesitation and increasing costs needs to be addressed. The situation is critical for small and medium-sized NBFCs, where banks play a big role in providing growth funds."

Ever since IL&FS defaulted, the entire industry is on the ropes. Mutual funds, a key lender to the segment but without reliably long-term funds, have frozen because of redemption pressures. So NBFCs, a key intermediary that lent to millions of small firms and individuals to buy cars and motorcycles, are unable to meet the demand. SMEs account for 8% of India's GDP.

That's partly blamed for the collapse in sale of automobiles and cut in discretionary spending. Automobile sales fell 17% in April, the sharpest decline in almost 8 years, data from Society of Indian Automobile Manufacturers shows. Maruti Suzuki, the auto bellwether reported a 19.6% decline in sales; tractor sales by Mahindra & Mahindra, a key indicator to farm economy, were 14.7% less in the fourth quarter than a year ago.

"Basic thing that the government can do is to ensure that growth capital is available to all deserving NBFCs," said KV Srinivasan, founder of Profectus Capital, backed by private equity firm Actis. "This will create a positive ripple in the financial services sector. Auto sales, two-wheeler and SME have taken a hit because of liquidity squeeze in the past six-eight months."

Liquidity Window

A key demand of the industry has been that the RBI lend funds to NBFCs under an exclusive window by keeping their assets as collateral. This, the industry argues, would help them overcome the resistance of traditional lenders such as banks and mutual funds in lending to them.

"Special window is like giving medicine to a sick patient," said Piran Engineer, an analyst with Motilal Oswal. "Next time you would not want to fall sick. Prudent players will take a step back and look at their business model."

NBFCs are preserving liquidity and in the process are shrinking their balance sheets.

"Investors and lenders are showing discomfort for NBFCs that have holes particularly due to related party transactions," said Abizer Diwanji, national head, EY. "NBFCs, which have excess of 8 times leverage, haven't been able to manage liquidity well." Normal disbursement for Indiabulls Housing was Rs 12,000 crore to Rs 13,000 crore in a quarter. After the IL&FS crisis, Indiabulls reduced disbursements to Rs 3,000 crore in the December quarter and to Rs 7,000 crore in March. Margins are squeezed due to higher cost of funds and CP primary issuances going down. For instance, the share of CP percentage for Gruh Finance was 20-22%. It has fallen to 15%.

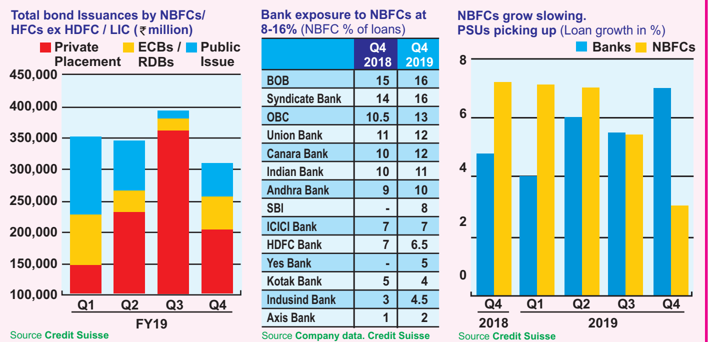
Liquidity balance for NBFCs has gone up to 8-10% from 3-4% before the crisis. Long-term money is even more difficult.

But is it liquidity that's at the root of the inability of NBFCs to lend?

The net banking system liquidity moved to a surplus in the week ended May 31 to more than Rs 2,000 crore, that is for the first time in more than three months. The average liquidity deficit in May was Rs 38,736 crore, down from Rs 72,014 crore a month before, data from CARE Ratings show. The average call rate at 5.89% in the week was lower than the repo rate of 6%.

If the data is any indication, it is not the liquidity but something else which is holding back NBFCs.

"The control and the regulations for NBFCs are made by the RBI, so probably the new finance minister may have to direct the regulator to lend a helping hand," says Kuntal Sur, head of financial services at PwC. "It's not as if they are facing any fiscal or tax hurdle the new FM can help with.''



Bank exposure to NBFCs at 8-16% (NBFC % of loans)

	Q4 2018	Q4 2019
BOB	15	16
Syndicate Bank	14	16
OBC	10.5	13
Union Bank	11	12
Canara Bank	10	12
Indian Bank	10	11
Andhra Bank	9	10
SBI	-	8
ICICI Bank	7	7
HDFC Bank	7	6.5
Yes Bank	-	5
Kotak Bank	5	4
Indusind Bank	3	4.5
Axis Bank	1	2

Source Company data. Credit Suisse

Struggling vs Thriving

"Investors will trust NBFCs which managed the crisis well without RBI's assistance, had strong internal norms and diversified into less riskier segments," said Digant Haria, analyst, Antique Broking. "Those NBFCs to whom banks are willing to buy portfolio but averse to lending will gain confidence gradually as they realign the business practices related to ALM, concentration of sectors, ticket size of loans."

Painting the entire industry with the same brush would be doing injustice to those who have managed the risk well, while others compromised on it for higher market valuations. Many of the NBFCs, using cheaper funds from mutual funds, borrowed for short term to lend for long term to boost their profitability.

"The NBFC sector on a broad base does not have a problem," says Gautam Chhugani, director, India financials at Bernstein, a research house. "The problem is concentrated with the real estate-focused NBFCs. The Bajajs, Shrirams, Mahindras are not affected. They are able to raise money and drive disbursements."

While the chorus was that the entire industry was affected when the credit markets froze last year, there is a realisation that it was only in pockets such as mortgages where there was trouble. There too, it is mostly concentrated in builder loans where inventory has piled up.

"There will be fear when there are sporadic events," says Rashesh Shah, chairman, Edelweiss Financial. "There was fear when certain corporate groups defaulted. Octoberto-December was very challenging where even I didn't know who is in what shape even within the industry. After March, I feel confident that all these are all manageable accounts. This is a liquidity problem and not a solvency problem as there is value in the asset."

What's The Legacy?

There's little doubt that the NBFC problems need to be addressed, but a thorough study of it is essential so that the good ones get the benefits while the bad ones meet their fate.

"The new finance minister should make some positive statements to cheer up the NBFC sector and assure them that the finance ministry and the RBI will always stay vigilant if any need arises," says Sur of PwC. "That is a better idea than forcing her to bring about some regulation to help them." [Abridged. ET Bureau, June 05]

Finance company to pay compensation

The Supreme Court last week set aside a judgment of the National Consumer Commission and asked a finance company to compensate a widow for "unnecessarily dragging her through legal proceedings on account of its deficiency of service." In this case, Ashatai vs Shriram City Union Finance Ltd, a person took a loan from the finance company. The loan was secured through an insurance policy issued by a sister company of the finance company. After paying the first installment and insurance premium, the person died. The company demanded further installments towards the loan. His wife asked the company to recover the loan through the insurance policy. The company refused to do so. Therefore, the woman moved the consumer court. Though she succeeded in the district and state consumer fora, the National Commission rejected her plea. She moved the Supreme Court. It found fault with the National Commission, which had interfered with the courts below when it was not called for. Its power was limited to the error of jurisdiction committed by courts below. Moreover, the National Commission erred on facts also, the Supreme Court said.[Business Standard, April 22]

IBC does not bar cheque bounce trial

The Calcutta High Court ruled that the declaration of a moratorium on a company under the Insolvency and Bankruptcy Code (IBC) did not prohibit the continuation of criminal proceedings against the company or its directors in a cheque bounce case. In this case, Mbl Infrastructure Ltd vs Sri Manik Chand, the company and its chairman-cum-managing director were being prosecuted under the Negotiable Instruments Act for issuing a cheque which was dishonoured by the bank. They moved the high court to quash the trial, arguing that the cheque was issued while IBC proceedings were pending and the resolution professional was in charge. The high court rejected their plea and told them to stand trial. The judgment pointed out that Section 14 of the IBC showed that the declaration of a moratorium itself did not create any bar for the continuation of the criminal proceedings under Section 138/141 of the Act. Moreover, the high court cannot go into the merits of the case while using its discretionary power and the accused can raise objections before the trial court. [Business Standard, April 22]

Pre-deposit must in all cheque cases

The Supreme Court ruled that the amended provision in the Negotiable Instruments Act tightening curbs on those accused of issuing bounced cheques shall be applicable with retrospective effect. This Section 148 states that in an appeal by the drawer of the cheque against his conviction, the appeal court may order him to deposit at least 20 per cent of the fine or compensation awarded by the trial court. The question raised in the case, Surinder Singh vs Virender Gandhi, was whether this rule applied retrospectively. The accused was convicted by a trial court for issuing a cheque without sufficient balance. When he appealed, the court asked him to deposit 25 percent of the amount before taking up the case. The Punjab and Haryana High Court dismissed his appeal. He argued before the Supreme Court that the amendment carried out last September was not applicable to him as the case was initiated before that time. Dismissing the appeal, the court stated that the law was amended because of the delay tactics adopted by unscrupulous drawers of dishonoured cheques. They thought filing of appeals and obtaining stay on proceedings would help them. In such cases, the payee would suffer. The court further stated that provisions of the Criminal Procedure Code could not be invoked in such cases. [Business Standard, June 3]

Madras HC sets aside its single-judge order on NBFC registration

A division bench of the Madras High Court has set aside a single judge order that ordered restoration of Certificate of Registration (CoR) of NBFC cancelled by the central bank for non-compliance of the enhanced net owned fund (NOF) norms. The bench also directed the NBFCs to approach the appellate authority within 30 days and raise their concerns to get the grievances redressed.

RBI had notified an enhanced NOF holding by all NBFCs on March 27, 2015, which stipulated them to have Rs. 1 crore as NOF as of April 1, 2016 and Rs. 2 crore as of April 1, 2017. The stipulation of NOF was not maintained by several NBFCs and show-cause notices were issued by the RBI to them. RBI had cancelled the CoR of over 1,500 NBFCs for non-compliance.

Subsequently, a number of NBFCs approached the high court with writ petitions against the cancellation of CoR and the single judge bench ordered in favour of the NBFCs, directing to restore the CoRs and extending time to the companies to comply with the requirements till March 31, 2019. Following this, RBI filed an appeal and the division bench of justice T S Sivagnanam and justice V Bhavani Subbaroyan issued an order setting aside the earlier order.

The bench, after considering various arguments from the parties, observed that the order passed by the single bench extending the time for compliance of the NOF requirement till March 31, 2019 was without jurisdiction, and consequently, liable to be interfered with. RBI had argued that instead of approaching the court, there was an appeal remedy available and the companies have filed the writ petitions without approaching the appellate authority. While allowing the appeal by RBI, the division bench held that the writ petitions by the companies were not maintainable in the light of the statutory appeal remedy available in the statute. The division bench observed that such prayer should be considered by the appellate authority on merits and in accordance with the law. The petitioner companies include Nahar Finance & Leasing, Lodha Finance India, Senthil. [FE Bureau, May 2]

PMLA prevails over Bankruptcy Act and insolvency code, rules HC

The Delhi High Court has held that the Prevention of Money Laundering Act (PMLA) prevails over the Bankruptcy Act and insolvency code when it comes to attachment of properties obtained as "proceeds of crime". The High Court, however, said that the PMLA, Recovery of Debt and Bankruptcy Act (RDBA), Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act and Insolvency and Bankruptcy Code (IBC) must co-exist and be enforced in harmony.

Third party rights: The High Court order came on a batch of appeals by the Enforcement Directorate (ED) against the orders of PMLA appellate tribunal on the pleas of various banks. The ED had challenged the tribunal's orders on the issue of third party rights over a property attached by the agency. The tribunal had held that third parties, banks in this case, which have legitimately created rights such as a charge, lien or other encumbrances, have a superior claim over such properties.

The High Court set aside the appellate tribunal's order and held that the objective of PMLA being distinct from the purpose of RDBA, SARFAESI Act and IBC, the latter three legislations do not prevail over the former. "An order of attachment under PMLA is not illegal only because a secured creditor has a prior secured interest [charge] in the property, within the meaning of the expressions used in RDBA and SARFAESI Act," the High Court said. It also said that by virtue of Section 71, PMLA has the overriding effect over other existing laws in the matter of dealing with "money-laundering" and "proceeds of crime". [The Hindu, April 15]

Probe thoroughly before calling a firm 'shell', Tribunal tells SEBI

Courts and tribunals are coming down heavily on SEBI for branding companies as 'shell' without any investigation and putting trading curbs. Latest is the Securities and Appellate Tribunal (SAT), which set aside SEBI and BSE's directions against SVC Industries, which was branded as 'shell' merely based on the fact that the company had not done any production since 2000. A list of suspected firms was shared by the Serious Fraud Investigation Office (SFIO) with SEBI but the regulator did not conduct its own investigation.

On June 9, 2017, SEBI had recommended the exchanges to suspend trading in over 300 suspected 'shell' companies. "No investigation has been done to find out as to whether the appellant company (SVC Industries) is a shell company or not. Contention that SEBI and BSE were not required to investigate as to whether the company is a shell company or not is totally erroneous," SAT said. Earlier, Gauhati High Court had set aside the SEBI order against

[Continued on Page 9]

Budget 2019: NBFCs seek special liquidity window, tax sops for retail investors in corporate bonds

The Finance Minister met financial sector and capital market executives on June 13 at a pre-budget consultation meeting.

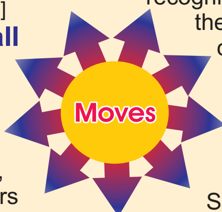
In the pre-Budget consultation meeting, the FIDC — a body of NBFCs — said the current crisis in NBFC sector is not about the solvency (of a few players) but liquidity. The defaults by IL&FS and one housing finance company, it insisted, "don't represent the true picture of the NBFC sector".

"The crying need of the hour is to create a dedicated liquidity window for NBFCs through the banking channels. The same may be provided for a period of one year," said Raman Aggarwal, chairman of FIDC. Precedence may be drawn from a special repo window created by RBI in 2008 for banks under the liquidity adjustment facility (LAF) for on-lending to NBFCs, he suggested.

Also, the government must seriously consider setting up a dedicated "refinance window for all NBFCs", along the lines of National Housing Bank (which offers such a facility to only housing finance companies) to ensure that any such liquidity crisis doesn't recur, FIDC has suggested.

From a dedicated liquidity window for cash-strapped non-banking financial companies (NBFCs) to tax sops for retail investors in corporate bonds and additional incentives to draw more investors to term-insurance plans, financial-sector players on Thursday presented a raft of demands before finance minister Nirmala Sitharaman, as she rustled up inputs for the upcoming Budget. [FE Bureau, June 14]

National business register: A record of all business enterprises in the country



The Ministry of Statistics and Programme Implementation (MoSPI) plans to compile a national business register of all business enterprises in the country that can be periodically updated. The details will include the name of an enterprise, its location, activities, type of ownership, number of workers and PAN/TAN. The register will list all business enterprises operating in the country. The register will capture economic data from both organised and unorganised sectors, helping get a better fix on economic activity and the jobs situation in the country.

The business register will list establishments at the district-level covering seven Acts and authorities — the Factories Act, the Shops and Commercial Establishments Act, the Companies Act, the Societies Registration Act, the Co-operative Societies Act, the Khadi and Village Industries Board and the Directorate of Industries. Data will be collected from registration records and surveys. Rajasthan and Tamil Nadu are among a few states that have created business registers but dynamic updation of these registers is not happening. Training programmes have started and the govt plans to begin the field work in June. [ET Bureau, May 16]

MCA examining pre-packaged insolvency solutions to cut delay under IBC

Prepackaged insolvency resolution, allowing creditors and shareholders with a pre-negotiated corporate reorganisation plan to approach NCLT, may be taken forward by the government as a key route in the time to come. Sources said "this will aid the existing framework and cut costs and the time taken during the resolution process. This is part of a consultation process under the law panel of the IBC identifying issues impacting its efficacy and make recommendations.

The government had constituted insolvency law panel under the chairmanship of MCA secretary in March 2019 to analyse the functioning and implementation of the code, identifying the issues impacting the efficiency of the insolvency resolution and liquidation framework for corporates, individual partnership firms under the code and make suitable recommendations to address the issues. The ministry had also invited comments from stakeholders on the insolvency resolution of group companies, pre-packaged insolvency resolutions relating to the IBC (2016) and Application to Adjudicating Authority Rules, 2016 in April this year.[Economic Times, June 4]

India on road to 'car registration portability'

Owners of cars or other vehicles relocating from one State to another will be spared the tedium of re-registering their vehicles and changing the vehicle number plates, if a planned move of the Road Ministry takes off. The proposed policy is still in the idea stage and was discussed at the Group of Transport Ministers meeting a few months ago, according to an official.

To get around this, the Road Transport Ministry had written to all the State governments with a suggestion to introduce a common tax regime across States based on the price of cars. Currently, car buyers tend to flock to States that offer lower tax rates, which make for cheaper cars. If implemented, this will enable number portability of vehicles across regions.

Another line of thought in the government is to allow seamless transfer of relatively older vehicles – those that have completed a few years. This means relatively older vehicles will not require a re-registration and related paperwork when used in a different State. This would, to some extent, separate the genuine buyers from those looking to "manage addresses" in their hunt for a cheaper vehicle. [Business Line, May 21]

Government notifies new accounting standard on leases; effective from Apr 1

The government [corporate affairs ministry] has notified a new accounting standard Ind AS 116 that will bring in more transparency in recognition and disclosures about leases in companies' balance sheets, a senior official said Sunday. The Indian Accounting Standard (Ind AS) 116 is expected to have a significant impact on various industries, including aviation where airlines mostly operate planes on lease. Ind AS 116 is the equivalent of IFRS (International Financial Reporting Standards) 116.

Ind AS 116 — to be effective from April 1 — sets out the principles for recognition, presentation and disclosure of leases. The official said the standard will help in ensuring more transparency when it comes to recognition of leases by companies and also prevent "window dressing" of accounts.

"Lessors will need to re-look at their accounting policy of recognising lease income on transition to Ind AS 116 and it may have significant impact on ongoing recognition and measurement of rental income in the financial statements," Sandip Khetan said. [ET, CFO]

Bank lending to NBFCs picks up, cost of funds likely to ease in FY20

NBFCs that have been grappling with higher cost of funds since past two quarters may get some relief as loans to the troubled sector are likely to get cheaper with banks offering lower lending rates this year as compared to 2018-19. . However, now banks are not only opening up again, but also offering lower interest rates on case-by-case basis, depending upon the borrower's credit quality and underlying assets.

To be sure, latest data from the RBI reflects that the sector is regaining bankers' trust. Banks lent over Rs 70,000 crore to NBFCs in January-March period, which was 12.3 percent higher than the loans extended in the previous quarter. While it still does not match up with the sequential growth of 35 percent seen in March last year, NBFCs are hopeful of better liquidity conditions going forward. Backed by the 50 basis point policy rate cut by RBI since February this year, lenders have reduced their marginal cost-based lending rates (MCLR) by 5-10 basis points so far. [Moneycontol.com, 16 May]

[Continued from Page 8]

Assam Company on related grounds.

"The SAT order essentially holds that before branding a company as a shell company, a thorough examination by SEBI and BSE is required, rather than first branding a company as 'shell' and collecting evidences subsequently to prove such a decision. While the intent of SEBI is to contain risk in the listed space, the process adopted was found to be questionable," said Sumit Agrawal, Founder RegStreet Law Advisors and ex-SEBI official. In the SVC Industries issue, the tribunal observed that it took SEBI two months to issue directions to exchanges to take actions. Such direction to place 331 shell companies under GSM Stage VI (draconian trading segment) without verifying their credentials/ fundamentals was wholly illegal and in violation of the principles of natural justice, SAT observed. [Business Line, May 29]

SEBI proposes to reduce time taken for rights issue process

SEBI on May 21 proposed reducing the overall time taken for rights issue to around 31 days as well as make the application and allotment process more efficient. Currently, rights issue process takes 55-58 days from the time company decides to launch the issue till listing. "... there is a need to reduce the timelines both in the pre-issue opening phase and after issue closure such that the issuer and shareholders benefit from process efficiencies," SEBI said in a discussion paper.

Besides, the regulator proposed to eliminate the requirement of giving newspaper advertisement and replacing it with intimation to the shareholders through the stock exchanges and e-mail. The regulator said the discussion paper evaluates means to reduce time between announcement of terms of the issue and issue closing, which would help in reducing price risks. Further, SEBI suggested moving to electronic modes of receiving entitlements, processing, payment and settlement in a rights issue including use of ASBA (Applications Supported by Blocked Amount) as payment mode, among others. [Moneycontrol.com/PTI, May 21]

SAT asks SEBI to pay Rs.50,000 costs for passing order sans 'application of mind'

In a rare instance, the Securities and Appellate Tribunal (SAT) has imposed costs of Rs.50,000 on SEBI in a case wherein the regulator had passed an ex-parte interim order restraining a trader from markets for indulging in fraudulent and manipulative trading. The Tribunal observed that despite there being 'no shred of evidence' to conclude that there was manipulative intent on the part of Sanjay Gupta, a trader, SEBI let its ex-parte order continue for a year without application of mind.

SEBI counsel pleaded with SAT for waiver of the costs and contended that "such imposition of costs would send a ripple down the throat of respondent (SEBI)." But SAT, which on earlier occasions too has reprimanded SEBI for its high-handedness in ex-parte orders, was in no mood to relent. "Be that as it may. We find that in given circumstances of the case, cost is justified." [Business Line, June 19]

SEBI proposes review of buyback norms for companies with NBFC, HFC as subsidiaries

SEBI on May 22 proposed changes to share buyback norms for companies having NBFCs and housing finance companies as subsidiaries. A discussion paper has been issued to seek suggestions relating to review of conditions for buyback of securities. According to the discussion paper, the committee has proposed that post buyback debt to capital and free reserves ratio of 2:1 should be considered on consolidated basis, excluding subsidiaries that are regulated and have AAA ratings. Such subsidiaries should not have a debt to equity ratio of more than 5:1 on standalone basis, as per the discussion paper. "Further, PMAC suggested that infrastructure companies are not separately regulated and have better use of money and therefore no such exclusion may be considered for infrastructure companies," SEBI said. [Moneycontrol.com/PTI, May 22]

SEBI has sought powers to conduct inspection of books of accounts of listed companies for contravention of any securities law.

With an aim to thwart financial frauds, regulator SEBI has sought powers to conduct inspection of books of accounts of listed companies for contravention of any securities law and also to take direct action against the fraudsters. Besides, SEBI has proposed a heavy penalty for altering, destroying, mutilating, concealing or falsifying records and documents or other tangible objects with intent to obstruct, impede or influence a legal investigation. SEBI has also proposed that any disgorgement order for recovery of illegal gains should be applicable to all joint actors, without making it conditional on the gains or averted losses of the violators. [Business Today/PTI, March 24]

Market Regulation: The insider trading rules conundrum

A new stock exchange circular not only places promoters and employees of a listed company at a detrimental position but also poses challenges for the firm itself in terms of planning of corporate actions and raising funds.

Subsequent to the notification of Amended Regulations 2018 [i. e. SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2018 (PIT Amendment Regulations)], recently, on April 02, 2019, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), came out with a circular for all listed entities in the nature of clarification to the clause 4 of schedule B, dealing with the closure of trading window.

The circular withdraws the liberty and prudence of the compliance officer

Mr. K V Srinivasan,
FIDC Co-Chairman addressing at FIDC-PL Corporate Access Interactive Session with Institutional Investors on "NBFC Liquidity Concerns" at MCA Club, BKC, Mumbai on 13 06 19.

to determine the time of closure of trading window on the origination of UPSI in case of financial results and provides that Clause 4 of the Schedule B be read as the trading window of a listed company is to be mandatorily closed at the end of each quarter and shall remain closed up-till the expiry of the 48 hours from the declaration of the financial results of the previous quarter.

The aforesaid circular, which has been issued in the form of a clarification, based on discussions with SEBI, has far-reaching implications for listed companies, their promoters and employees, along with the industry at large. This mandatory closure of trading window immediately at the end of each quarter till the date of result announcement would mean that the trading window of a listed company shall practically remain closed for approximately 200 days out of 365 days of a calendar year. The restriction on trading would therefore also affect the planning and execution of transactions such as preferential allotments, right issues, takeover offers, ESOPs, warrant conversion, pledging of shares for raising funds and other similar transactions which need not be in the nature of insider trading, says Deepika Vijay Sawhney, Partner (Securities Laws & Transaction Advisory) – Corporate Professionals. [Moneycontrol.com, May 10]

SEBI moots 10% 'pre-deposit' of penalty to fight frivolous appeals

To check frivolous appeals of its orders, SEBI is seeking a mandatory deposit of 10 percent of the penalty amount. The regulator has sought an amendment to the SEBI Act to provide for a "pre-deposit" by any entity seeking to challenge its order relating to a penalty or refund, recovery, disgorgement and compounding, officials said. [Business Line, June 3]

SEBI's new default probability rule to monitor credit rating agencies

SEBI has introduced a "probability of default" mechanism to keep credit rating agencies (CRAs) in check. The directive could reduce the number of companies that are in the top-rated category. According to the new framework, rating agencies have to assign the default probability to each rated debt instrument, and disclose its benchmark by December-end. The move assumes significance given that it helps reduce recurrence of major default cases such as the IL&FS crisis.

"In order to enable investors to discern the performance of a CRA vis-a-vis a standardised probability of default (PD) benchmark scale, CRAs, in consultation with SEBI, shall prepare and disclose standardised and uniform PD benchmarks for each rating category on their website, for 1-year, 2-year and 3-year cumulative default rates, both for the short-run and long-run," SEBI said on June 13.

The standardised and uniform PD benchmarks should be disclosed on the website of each CRA — for ratings of long-term and short-term instruments on a consolidated basis for all financial instruments rated by a CRA — by December 31, 2019. Further, the regulator tweaked norms on computation of default rates by rating agencies. It says rating agencies may re-index probability benchmark and tolerance level from time to time. According to it, CRAs will calculate the cumulative default rate based on the issuer, by using Marginal Default Rate (MDR) for the last 10-year period. [Business Standard, June 14]

SEBI may soon allow DVR shares with superior rights

At its next board meeting to be held on June 27, SEBI is likely to come out with guidelines on differential voting rights (DVR), new norms for buyback and pledging of shares by promoters, sources close to the development told Business Line. Apart from superior DVRs and buyback of shares by high debt companies, high financing deals involving loan against shares to promoters by mutual funds and NBFCs have been a contentious issue of late. SEBI is likely to come out with strict measures to state that any method of encumbrance of shares will be considered pledging and will require full disclosure by lender of money and borrowers, mainly promoters. [Business Line, June 23]

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs)

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Tel: 022 21029898/9820035553 E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

April 29, 2019

Dear Members,

In line with the role of FIDC as a Self-Regulatory Organisation ("SRO"), it was decided at the Managing Committee Meeting of FIDC held on 14th March 2019 at Mumbai that the Members must adhere to all rules and regulations formulated by any/all authorities from time to time.

Any misuse or violation, if noticed and be known to FIDC will be reported to Reserve Bank of India and/or any other relevant authority.

This is in consonance of a Self-Regulatory role the regulators expect FIDC to play.

We as Law-abiding Citizens and Institutions will have to be self-disciplined and showcase NBFC sector as the one caring for the society, fully following all governance standards. High degree of corporate governance will not only benefit the individual organisation, but also show the entire NBFC industry in a positive light, thus opening doors among lenders, prospective investors, regulators and the Government.

We urge you to support FIDC in this endeavour in letter and spirit.

A line in confirmation will be highly appreciated.

Thanking you,

Yours truly,

FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL

SIDBI's pilot scheme for fintech NBFCs to boost digital lending

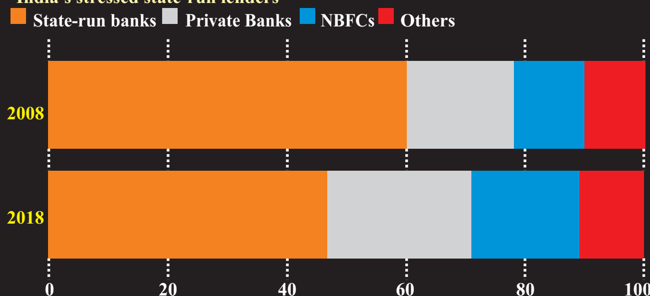
To give a fillip to digital lending, Small Industries Development Bank of India (SIDBI) has put together a pilot scheme to extend financial assistance of up to Rs. 10 crore to new-age fintech non-banking finance companies (NBFCs) engaged in financing small businesses and other income-generating activities. Fintech NBFCs are digital loan companies. They leverage information technology to provide fast and convenient access to funding.

SIDBI has set the exposure cap for lending to a single new-age fintech NBFC at 30 per cent of NOF of the new-age fintech NBFC, subject to maximum cap of Rs.10 crore. The development bank will charge minimum upfront fee of 0.075 per cent to 0.25 per cent of the sanctioned assistance, plus applicable taxes.

In a speech in March, the RBI Governor Shaktikanta Das said that the central bank has granted licenses and permitted seven purely digital loan companies (NBFCs) to commence operations. [Business Line, May 15]

DECADE OF GROWTH OF NBFCs AND BANKS

Private banks and non-bank finance companies took market share away from India's stressed state-run lenders



Note : As a share of total lending
Source : Reserve Bank of India data compiled by HDFC Securities

Bloomberg

FIDC PARTICIPATION AT EDUCATIVE EVENTS

FIDC Director General Mr. Mahesh Thakkar addressing at 8th MINE India Conerence by B2B Informedia 15th May 2019 at Chennai

FIDC Chairman Mr. Raman Aggarwal adressing at MINE India Conference by B2B Informedia on 22nd February 2019 at Delhi

FIDC Director General Mr. Mahesh Thakkar addressing on "NBFCs: Leapfrogging to Posperity" on 10th April 2019 at Chennai

Mr. Raman Aggarwal chairing ASSOCHAM National Council for NBFCs Meeting at Delhi on 9th May 2019

RBI must allow deposit-taking NBFCs to apply for forex dealership license: FIDC

Finance Industry Development Council (FIDC) wants the RBI to allow deposit-taking NBFCs with an asset size of more than Rs. 500 crore to be eligible for grant of Category II Forex license.

"We welcome the RBI initiative, but there is no reason to keep away the deposit-taking NBFCs from this activity of forex dealership. This (forex) is only a fee-based activity, and why should deposit-taking NBFCs be denied this benefit," Raman Aggarwal, Chairman, FIDC, told Business Line. It may be recalled that the RBI had, on April 4, announced that certain NBFCs would be able to get a license as authorised foreign exchange dealer.

The central bank said that non-deposit-taking systemically-important NBFCs in the category of investment and credit companies will be made eligible to apply for grant of authorised dealer category II license.

By excluding large deposit-taking NBFCs from the eligibility criteria, leading NBFCs such as Mahindra Finance, Sundaram Finance and Shriram Transport Finance, will not be eligible. "This is not a prudent decision," said Aggarwal. FIDC is a self-regulatory body for asset financing NBFCs.

The RBI is expected to issue detailed guidelines on this proposal (forex dealerships) by the end of this month. Currently, under FEMA, foreign exchange transactions are handled only by authorised bodies such as banks. [Business Line, April 05]

RBI committee on securitisation should cover all securitisation transactions and not restrict it to only housing mortgages: FIDC

FIDC wants the proposed RBI committee on securitisation to cover all securitisation transactions and not restrict it to only housing mortgages. On April 4, the RBI said that it would soon set up a committee to assess the state of the housing finance securitisation market in the country.

This panel is expected to propose measures to further develop these markets and identify critical steps required, such as definition of conforming mortgages, mortgage documentation standards, digital registry, and avenues for trading in securitised assets. [Business Line, April 05]

RBI should further relax the securitisation guidelines to give a helping hand

FIDC In Action

NBFCs and housing finance companies (HFCs) see the securitisation tap running dry in the next few months. They are now pinning their hopes on banks' resuming their lending to them in support of their operations. While some NBFCs feel that the Reserve Bank of India should further relax the securitisation guidelines to give a helping hand, there are other who are of the opinion that the long-term sustainable solution would be the return of bank funding (lending) for sustenance of NBFC/HFC operations.

Meanwhile, FIDC, a representative body of NBFCs, has written to the RBI seeking changes to the securitisation guidelines. It wants the central bank to do away with the prescribed minimum holding period (MHP) and minimum retention requirement (MRR). As an immediate relief, the MHP for loans with maturity of two to five years should be reduced from six to three months, said Raman Aggarwal, Chairman, FIDC. NBFCs have to follow Ind AS from April 1, 2018 and the requirement of MHP and MRR denies the benefit of a true sale, resulting in additional capital requirement. [Business Line, May 14]

NBFCs educative interaction and networking sessions

FIDC has arranged an educative interaction and networking programme coinciding with the meeting of Managing Committee held on Saturday, 22nd June 2019 at Hotel Hyatt Regency, 365, Anna Salai, Teynampet, Chennai . Sessions consist of "Commercial Credit Reporting" by World Bank Group and a Session on "FATCA/CRS" by Deloitte.

FIDC-CRIF NBFC DATA SHEET 2018-19 Q4 & Q3 SHOWS ALARMING DECLINE

Industry sanctions of NBFC loans dipped by 31% during Q4 of 2018-19. It's alarming, noted FIDC. Product-wise assistance reveals that except Gold loans in most of the categories there is a sharp decline. These are the sectors (i. e. housing, auto, CV etc.) having huge linkages with economy and employment generation opportunities. There is loss of jobs too.

It's high time Regulators, Bankers, Funders and Investors take note of this and work out quick remedial measures for well-run Asset and Loan Financing NBFCs in Auto, MSME, and Retail etc, says Shri Mahesh Thakkar, Director General, FIDC.

Even during Q 3 YOY there was sharp drop in volumes, especially in medium/long term loans, Secured & Unsecured business loans, LAP & CV loans. However, there was no negative impact on auto loans; except for taxi loans (of course expected growth did not happen). Maximum impact was on industrialised states such as Gujarat, Maharashtra, Delhi and Tamilnadu. [FIDC emails]

The Meeting with Institutional Investors which have invested/funded NBFCs

The Round-Table Meeting with about 30 Institutional Investors and Analysts which have invested/funded/advised to invest in NBFC Sector was held on June 13 at MCA Club, Mumbai.

The Meeting was organised by Prabhudas Liladher Pvt. Ltd., with the purpose of allaying the fear of crisis in NBFC Sector, as being continuously reported day in and day out in print and TV media, to explain them what FIDC has been representing to RBI, PMO, MOF, Niti Aayog etc. on this and what's the likely outcome of this and when. FIDC made a presentation at the round-table meet followed by Q & A session.

FIDC Feedback on Draft Liquidity Risk Management Framework for NBFCs and CICs to RBI

RBI had put out draft guidelines on liquidity risk management framework for NBFCs for suggestions. While responding to draft guidelines FIDC stated that "Several of the measures such as granular maturity buckets, the Stock approach, diversification of funding sources, stress testing etc., become very onerous for non-systemically important, smaller NBFCs. We request that the guidelines be made applicable only to those NBFCs that have assets of Rs1000 cr or more to make the guidelines practicable and yet, address the overall systemic risk." FIDC also pleaded that "the guidelines be made concomitant with provision of a mechanism of liquidity support for NBFCs." Or alternatively, the implementation of these guidelines may kindly be deferred until return of normal liquidity conditions for the sector. FIDC apprehended that there is possibility that lenders to NBFCs may have reservations on their funding being utilised for HQLA and not for business. So, guidance on this aspect was requested. FIDC also sought clarification on certain issues.

Levy of GST on additional interest charged

FIDC on April 14 sent a representation to Shri Upender Gupta, Commissioner, GST Policy Wing to seek clarification on levy of GST on additional interest charged in instalment payment based financing products. FIDC pleaded that any additional interest charged for default in payment of loan instalment would not be treated as part of the value of interest [consideration for supply of lending services] and therefore would not be liable to GST as interest itself is exempt from GST, if one abides by interpretation of section 15 of the CGST Act, 2017 as hinted by the FAQ.

Pre-Budget Memo to new Finance Minister

FIDC submitted Pre-Budget Memorandum with a plea that NBFCs' liability side of Balance Sheet needs immediate attention. There is a crying need to create a dedicated liquidity window for NBFCs to tackle the current liquidity crunch. It is equally important to also open up funding avenues on a long term basis

FIDC also requested that in respect of Tax issues much desired parity with banks, FIs including Housing Finance Companies should be brought about.

In respect of Recoveries there is a need to be made it fast tracked and facilitated by doing away with the rider of minimum loan ticket size of Rs.1.0 cr for Enforcement of Security Interest under the SARFAESI Act. ■

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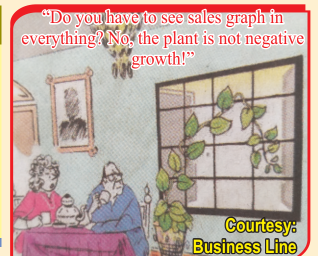
Suggestions and feed-back

We would appreciate your views, suggestions and feed-back to make the **'FIDC News'** more useful and illuminating. Your inputs and contributions too are welcome on : fidcnews@gmail.com

- Editorial Committee



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