FIDC NEWS

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

VOLUME – 11 NO. – 2 | July - September – 2019 | FOR PRIVATE CIRCULATION

'NBFCs ARE PLAYING AN EXTREMELY IMPORTANT ROLE': FINANCE MINISTER

Finance Minister Nirmala Sitharaman

The Centre has "comprehensively" dealt with the NBFC crisis, Finance Minister Nirmala Sitharaman said soon after presenting her maiden Budget.

Also, in a well thought out approach through the Finance Bill, the government has strengthened the regulatory authority of RBI over NBFCs, she said. Sitharaman earlier announced a slew of measures to help NBFCs come out of the current morass.

The crisis in NBFC sector seems to have bottomed out, although woes of some players still persist, finance minister Nirmala Sitharaman said on Saturday, a day after the Budget announced a raft of measures to fix issues faced by NBFCs. "We shall be closely monitoring with RBI to see how it's moving. So strictly speaking, I feel the NBFC issue has been addressed," she said.

While presenting the Budget, the Finance Minister did recognise the fact that NBFCs play an important role in sustaining consumption demand as well as capital formation in the small and medium segments. In this context, the FM mentioned that NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk averse.

The Budget proposals for NBFCs:

For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs.1-lakh crore during the current financial year, the government will provide a one-time six months' partial credit guarantee to public sector banks for the first loss of up to 10 per cent.

NBFCs raising debt through public issues will now not be required to create or maintain a debenture redemption reserve (DRR). At present, DRRs are required for public issues, with private placements being exempt. Now, DRRs need not be created for public issues of debt by NBFCs, too.

To bring more participants, especially NBFCs, not registered as NBFCs-Factor on the Trade Receivables Discounting Systems (TReDS) platform, amendment in the Factoring Regulation Act, 2011 is necessary and steps will be taken to allow all NBFCs to directly participate on the TReDS platform.

Budget proposes to provide greater parity in the tax treatment of NBFCs vis-à-vis scheduled banks, by extending the benefit of Section 43D of the ITA to deposit-taking NBFCs and systemically important non deposit-taking NBFCs. This is a welcome measure as tax authorities have previously attempted to tax interest income on bad or doubtful debts held by NBFCs on an accrual basis, despite no income potentially arising or having been actually received.

The Budget also proposes to make a matching amendment in Section 43B of the ITA to provide that any sum payable by an assessee as interest on any loan or advances from a deposit-taking NBFC or a systemically important non deposit-taking NBFC shall be allowed as a deduction if it is actually paid on or before the due date of furnishing the return of income of the relevant previous year, provided the assessee has not claimed the same deduction in the year in which the liability to pay such some was incurred by the assessee.

More Regulatory Power to RBI: Apart from the above, the Budget, in the Finance Bill, has proposed amendments/insertions to some of the sections of the RBI Act (45-IA, 45-IC, 45-ID, 45-IE, 45 MAA, 45 MBA, 45 NAA, 58 B, 58 G) for strengthening the regulatory authority of the RBI over NBFCs.

Section 45-IA is proposed to be amended to empower the RBI to notify different amounts of net-owned funds for different categories of NBFCs. Two new sections — 45-ID and 45-IE — have been inserted giving powers to the RBI to remove directors from office and supersession of the board of directors for all NBFCs other than government companies.

Section 45 MAA has been inserted to give powers to take action against auditors, and Section 45 MBA for resolution of the NBFCs. Section 45 NAA directs any group company of NBFC to furnish financial statements. Sections 58 B and 58 G have been amended to increase the fine for false declaration, return and information. In the above context, it is important to mention that the Financial Stability Report of the RBI put forth details about the exposures, asset quality, asset-liability mismatch and capital adequacy of NBFCs. The report states that there are 9,659 NBFCs registered with the RBI as on March 31, 2019, of which, 88 were deposit accepting and 263 were systematically important non-deposit accepting NBFCs.

The Budget proposals around NBFCs are "quite welcome", said Raman Aggarwal, Chairman, Finance Industry Development Council (FIDC). [Business Line, July 6]

'NBFCs are playing an extremely important role' says Finance Minister in her Budget Speech

"Non-Banking Financial Companies (NBFCs) are playing an extremely important role in sustaining consumption demand as well as capital formation in small and medium industrial segment. NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk averse. For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees one lakh crore during the current financial year, Government will provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10%. Further, Reserve Bank of India (RBI) is the regulator for NBFCs. However, RBI has limited regulatory authority over NBFCs. Appropriate proposals for strengthening the regulatory authority of RBI over NBFCs are being placed in the Finance Bill."

"NBFCs which do public placement of debt have to maintain a Debenture

AT A GLANCE

- NBFCs are playing an extremely important role': Finance Minister ....FM Nirmala Sitharaman 1
- NBFC reforms to enhance credit-access; here's how....Saurabh Tripathi, Senior Partner & Deep Mukherjee, Associate Director, BCG 2
- Regulatory Perimeter.... 3
- SEBI MOVES.... 4
- There is no asset-liability mismatch for majority of NBFCs'.........TT Srinivasaraghavan, The Founder Chairman of FIDC and Managing Director of Sundaram Finance 5
- RBI's endeavor is a well functioning NBFC sector....RBI Governor, Shaktikanta Das 6
- Regulatory & Supervision Agenda of RBI for NBFCs for F Y 2019-20.... 7
- FIDC In Multimode Action : Photo Story 8
- Legal Eagle.... 9
- Moves.... 10
- FIDC Top Team Swings Into Action on War Footing.... 10
- Periscope.... 11
- FIDC IN ACTION.... 12

EDITORIAL COMMITTEE

- Mr. RAMAN AGGARWAL ...Chairman, FIDC
- Mr. K. V. SRINIVASAN ... Co-Chairman, FIDC
- Mr. T. T. SRINIVASARAGHAVAN
- Mr. ALOK SONDHI
- Mr. MAHESH THAKKAR ... Director General, FIDC
- Mr. MUKESH GANDHI
- Mr. N M MUKHI ... Editor

The Smart Gold Loan from Manappuram

Higher loan amounts at lower interest!

OGL Online Gold Loan Convenient • Liquid • Fully Insured

Facility for taking gold loan, from your home or office, even renewal and interest payment! 24x7

MANAPPURAM GOLD LOAN

MANAPPURAM FINANCE LIMITED

Toll Free : 1800 420 22 33 24x7 SMS : GHELP to 56070 www.manappuram.com

Redemption Reserve (DRR) and in addition, a special reserve as required by RBI, has also to be maintained. To allow NBFCs to raise funds in public issues, the requirement of creating a DRR, which is currently applicable for only public issues as private placements are exempt, will be done away with."

"To bring more participants, especially NBFCs, not registered as NBFCs-Factor, on the TReDS platform, amendment in the Factoring Regulation Act, 2011 is necessary and steps will be taken to allow all NBFCs to directly participate on the TReDS platform.

Efficient and conducive regulation of the housing sector is extremely important in our context. The National Housing Bank (NHB), besides being the refinancer and lender, is also regulator of the housing finance sector. This gives a somewhat conflicting and difficult mandate to NHB. I am proposing to return the regulation authority over the housing finance sector from NHB to RBI. Necessary proposals have been placed in the Finance Bill."

"Government has announced its intention to invest 100 lakh crore in infrastructure over the next five years. To this end, it is proposed to set up an expert committee to study the current situation relating to long term finance and our past experience with development finance institutions, and recommend the structure and required flow of funds through development finance institutions."

"Financial gains from cleaning of the banking system are now amply visible. NPAs of commercial banks have reduced by over 1 lakh crore over the last year, record recovery of over 4 lakh crore due to IBC and other measures has been effected over the last four years, provision coverage ratio is now at its highest in seven years, and domestic credit growth has risen to 13.8%. Government has smoothly carried out consolidation, reducing the number of Public Sector Banks by eight. At the same time, as many as six Public Sector Banks have been enabled to come out of Prompt Corrective Action framework."

"Having addressed legacy issues, Public Sector Banks are now proposed to be further provided 70,000 crore capital to boost credit for a strong impetus to the economy. To further improve ease of living, they will leverage technology, offering online personal loans and doorstep banking, and enabling customers of one Public Sector Bank to access services across all Public Sector Banks. In addition, Government will initiate steps to empower accountholders to remedy the current situation in which they do not have control over deposit of cash by others in their accounts. Reforms will also be undertaken to strengthen governance in Public Sector Banks." [Extract from Budget Speech of Union Finance Minister on NBFCs- with some change of order of speech]

NBFC REFORMS TO ENHANCE CREDIT-ACCESS; HERE'S HOW

Saurabh Tripathi, Senior Partner & Deep Mukherjee, Associate Director, BCG

NBFCs are now a dominant supplier of credit to several segments. Given the current liquidity crisis, a structural reforms agenda that would enable sustainable growth of the NBFC sector is crucial

In FY19, NBFCs contributed 40% of new loan accounts in retail, consumer, housing, and small business segments. This contribution is broad-based across geographies—49% in tier one and two centres, and 32% in tier five and six centres

NBFCs have become Dominant Supplier of Credit: It is evident, and acknowledged that the importance of NBFCs in the Indian financial system is rising. To the extent that India has to enhance access of credit to a diverse set of borrowers with unique requirements, NBFC's centrality is likely to increase. NBFCs have graduated from being a significant class of lender to being a dominant supplier of credit to several segments. In FY19, NBFCs contributed 40% of new loan accounts in retail, consumer, housing, and small business segments.

Outstanding job for NTC: This contribution is broad-based across geographies—49% in tier one and two centres, and 32% in tier five and six centres. This is much more than that of other lenders, such as public sector banks, private sector banks or others, including MNC banks, all of whom play in these segments. In terms of providing credit to first time borrowers, or "new-to-credit (NTC) customers", NBFCs have done an outstanding job—57% of NTC borrowers in tier one and two, and 55% in tier five and six get their first loan from an NBFC.

State is backing this pillar of Indian lending : It is reassuring to note that both, the government and RBI have worked in concert to support the NBFC industry during the liquidity crisis. The government's budget announcement to provide first loss guarantee for portfolio purchases from NBFCs, and a slew of measures from RBI to ease flow of credit to NBFCs are strong signals that the state is backing this pillar of Indian lending. Further, changes in the RBI Act, giving it more powers to better supervise and regulate NBFCs, clearly signal the intent for a more hands-on role of the regulator towards developing the NBFC sector.

The system should promote more NBFCs with unique capabilities in data, analytics, and technology to set shop. Given the increasing complexity of assessing credit quality in small business, SMEs and NTC customers, there is a need for constant entry of innovative, quick-footed lenders, with the mandate to experiment. Depending on the existing banking set-up, to take up the entire mantle of financial innovation and experimentation, given the stringent regulatory asks, is a tad optimistic. However, there is a need to re-look the entire framework of regulatory consideration to ensure that NBFCs achieve their full potential in terms of enabling financial inclusion.

Reforms in 5 fields: The crisis provides an opportunity to reflect on structural reforms agenda, to enable sustainable growth of the NBFC sector. Such measures fall under five categories relating to regulation, innovation in funding instruments, bank finance reforms, strengthening market discipline, and reinforcing systemic support for NBFCs.

Regulatory cognisance of heterogeneity: NBFCs are a heterogeneous space, given their focus on specific assets class and borrower segment. The risk-return profiles and overall financial profiles of these players in terms of return on equity, risk-adjusted return on capital, application lifestyle management, and liquidity gaps are quite diverse. The regulatory requirement for liquidity and capital should, ideally, be cognisant of this structural diversity, and avoid one-size-fits-all regulations, particularly with respect to liquidity and capital requirement. Else, it may potentially distort market structure, affecting credit availability in certain segments.

Diversifying source and instrument of funding: Apart from banks and mutual funds, we need to enhance funding from insurance and pension funds. Such long-term investors are risk-averse by design. Since many NBFCs are unlikely to be rated at, or above AA levels, such investors will not be able to invest in NCD of NBFCs. To address this, it is critical to encourage financial market innovations like covered bonds. Covered bonds are safer than both, standalone corporate bonds, as well as securitised papers, and would be favoured by conservative investors.

Banks need to treat NBFC as partner, not borrower. Banks' lending model of treating NBFCs as any other institution borrower needs to change. Co-lending may be the preferred model of the future. The co-lending scheme, introduced by RBI, allows NBFCs to lend to customers jointly with banks. NBFCs acquire the customer, lend a part of the loan to them, and provide first loss guarantee to the banks to lend the remaining part. Banks lend to the same customer at a lower rate, in line with their lower cost of funds and lower consequent risk costs. Banks and NBFCs can operate more closely. Technology integration of their systems will ensure much faster decision-making, and seamless customer experience while controlling the risk.

Enhance market disclosure: NBFCs may be subject to enhanced market disclosures. Specifically, granular and in-depth disclosures on asset portfolio quality, funding sources, and liquidity profile may be required. As such, increasing liquidity or capital requirement may not solve for ill-considered lending strategy for some NBFCs. However, disclosures, and consequent market scrutiny will force a certain discipline in maintenance of prudential limits on both, the asset and the liability side of the business.

Backstopping NBFCs: Create a refinance and liquidity support institution for NBFCs engaged in SME finance. As the present crisis has shown, liquidity, more often than insolvency, takes an NBFC down. NBFCs require a lender of last resort. We need one institution that has the capability to undertake repo of securities, backed by NBFC loan portfolio that can be resorted to at a time of need, to raise funds for short periods. [Financial Express, Sept. 6]

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Large Exposures Framework: RBI/2019-20/60; DBR.No.BP.BC.18/21.01.003/2019-20; 12-09-2019 [All Scheduled Commercial Banks]

Priority Sector Lending – Lending by banks to NBFCs for On-Lending: RBI/2019-2020/39; FIDD.CO.Plan.BC.7/04.09.01/2019-20; 13.8.2019; Financial Inclusion and Development Department. [The Chairman/ Managing Director & CEOs All Scheduled Commercial Banks (Excluding Regional Rural Banks]

Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans by NBFCs: RBI/2019-2020/30; DNBR (PD) CC.No.101/03.10.001/2019-20; 02.8.2019; [All NBFCs]

External Commercial Borrowings (ECB) Policy – Rationalisation of End-use Provisions: RBI/2019-2020/20; A.P. (DIR Series) Circular No. 04; 30.7.2019; [All Category-I Authorised Dealer Banks]

Permission to acquire financial asset from other Asset Reconstruction Companies (ARCs): RBI/DNBR/2018-2019/227; DNBR.PD (ARC) CC.No.07/26.03.001/2018-19; 28.6.2019; [All registered Asset Reconstruction Companies]

RBI measures to boost credit flow to NBFCs

India's NBFC sector, currently facing a liquidity squeeze, could access easier credit thanks to two key measures by the Reserve Bank of India (RBI) – permitting banks to on-lend to priority sectors through NBFCs and ease in banks' counter-party exposure limit to single NBFC. Now if a bank lends to NBFCs for onward lending to the priority sectors, it will automatically be considered as priority sector lending for the bank.

The central bank on Aug. 7 eased lending norms, which allow banks on-lending through non-banks to agriculture (investment credit) up to Rs. 10 lakh, micro and small enterprises up to Rs. 20 lakh and housing up to Rs. 20 lakh per borrower. On-lending to these three categories of NBFCs would be classified as priority sector lending. Detailed guidelines on the measure will be issued by month-end.

The RBI's statement on developmental and regulatory policies read, "With a view to further increasing the credit flow to certain priority sectors, which contribute significantly to the economic growth in terms of export and employment, and recognising the role played by NBFCs in providing credit to these sectors, it has been decided to allow, subject to certain conditions, bank lending to registered NBFCs (other than MFIs) for on-lending."

RBI governor Shaktikanta Das said at the post-policy conference the central bank would not allow any large NBFC to collapse. "It is our endeavour to make sure that there is no collapse of any systematically-important non-banking financial company," Das said. The central bank also raised a bank's exposure limits towards a single NBFC to 20% of the Tier-I capital of a bank against 15% currently.

"The broader message is that RBI is nudging banks to lend more," said Raman Aggarwal, Chairman, FIDC, an industry body for non-banking finance companies. "Ever since the liquidity crisis hit the NBFC sector, we have been aggressively pushing for restoration of this arrangement." [Financial Express, Aug. 8]

Reserve Bank increases banks' loan exposure limit to single NBFC: The RBI on Sept. 12 increased loan exposure limit of banks to a single NBFC (excluding gold loan companies) from 15 per cent to 20 per cent of its capital base, a move that will help increase credit supply to the crisis-ridden NBFC sector.[Business Standard, Sept. 13]

Link all new floating-rate home, auto loans to repo from Oct: RBI to banks

The RBI has made it mandatory for banks to link all new floating-rate loans for housing, auto and MSMEs to external benchmark like repo from October 1, a move aimed at ensuring faster transmission of policy rate cuts to borrowers. The external benchmarks, to which the banks will be required to link their lending rates, could be repo, 3-month or 6-month Treasury bill yield, or any other benchmark published by the Financial Benchmarks India Private Ltd (FBIL).The banks have also been asked to reset the interest rate under external benchmark at least once in three months. [Business Standard, Sept. 4]

Relaxation of end-use stipulations under External Commercial Borrowings Framework for Corporates and NBFCs

Based on the feedback received from stakeholders and with a view to further liberalise the External Commercial Borrowings (ECB) framework, the Reserve Bank of India, in consultation with the Government of India decided to relax the end-use restrictions relating to external commercial borrowings for Working Capital requirements, General Corporate purposes and Repayment of rupee loans. Eligible borrowers will now be allowed to raise following ECBs from recognised lenders, except foreign branches/ overseas subsidiaries of Indian banks:

i) ECBs with a minimum average maturity period of 10 years for working capital purposes and general corporate purposes. . Borrowing for on-lending by NBFCs for the above maturity and end-uses is also permitted.

ii) ECBs with a minimum average maturity period of 7 years for repayment of 'Rupee Loans' availed domestically for capital expenditure. Borrowings for on-lending by NBFCs for the repayment of rupee loans would also be permitted. For repayment of Rupee loans availed domestically for purposes other than capital expenditure and for on-lending by NBFCs for the same, the minimum average maturity period of the ECB would have to be 10 years.

iii) It has further been decided to permit eligible corporate borrowers to avail ECB for repayment of 'Rupee Loans' availed domestically for capital expenditure in manufacturing and infrastructure sector and classified as SMA-2 or NPA, under any one-time settlement arrangement with lenders. Lender banks are also permitted to sell, through assignment, such loans to eligible ECB lenders, except foreign branches/ overseas subsidiaries of Indian banks, provided, the resultant ECB complies with all-in-cost, minimum average maturity period and other relevant norms of the ECB framework. [RBI Press Release, July 30]

RBI ups cap on bank credit to NBFCs

In a bid to boost credit to the needy segment of borrowers, the RBI on Aug. 13 said bank credit to NBFCs) for on-lending to the agriculture, micro and small enterprises (MSE) and housing categories under priority sector lending (PSL) will be allowed up to a limit of 5 per cent of the individual bank's total PSL on an ongoing basis. The move is expected to encourage banks to lend to NBFCs, especially housing finance companies (HFCs), which are currently facing a liquidity crunch.

The RBI said its latest instructions will be valid for the current financial year, after which they will be reviewed. However, loans disbursed under the on-lending model will continue to be classified as PSL till the date of repayment/maturity.

Under the on-lending model, banks can classify only fresh loans sanctioned by NBFCs out of bank borrowings on or after the date of issue of the circular. Loans granted by HFCs under the existing on-lending guidelines will continue to be classified under priority sector by banks.

Bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under the respective categories, subject to conditions. For the 'term lending' component of 'Agriculture' the limit is Rs. 10 lakh per borrower. For MSE borrowers, it is Rs. 20 lakh. The limit for on-lending by HFCs has been doubled to Rs. 20 lakh per borrower. [Business Line, Aug. 14]

RBI clarifies on foreclosure penalty

RBI clarified that banks and NBFCs cannot impose foreclosure charges/pre-payment penalties on any floating rate term loan sanctioned, for purposes other than business, to individual borrowers with or without co-obligant(s). The central bank has done away with foreclosure charges/pre-payment penalties on all floating rate term loans sanctioned to individual borrowers with effect from May 7, 2014. [Business Line, Aug 02]

Banks should lend to NBFCs instead of being risk averse

RBI Governor Shaktikanta Das on July 19 came down heavily on

public sector banks (PSBs) for not reducing their lending rates despite liquidity remaining ample, bond yields being at a multi-year low, and policy rates being lowered by 75 basis points (bps) in the past six months.

RBI Governor Shaktikanta Das nudged banks to lend to NBFC, instead of remaining risk-averse, since NBFCs are dependent on bank loans. The statement by the RBI said Das discussed the "recent initiatives to address issues relating to NBFCs and the role banks can play in mitigating lingering concerns". Banking sources said the governor stressed that the central bank had taken enough measures to help provide liquidity to the sector through banking channels, but banks had not shown much willingness to avail of those. [Business Standard, July 20]

Housing finance companies to be treated as NBFCs; come under RBI oversight

The Reserve Bank on Aug. 13 said housing finance companies (HFCs) will be treated as one of the categories of NBFCs for regulatory purposes and it will come under its direct oversight. The Finance (No 2) Act, 2019 (23 of 2019) has amended the National Housing Bank Act, 1987, conferring certain powers for regulation of HFC with RBI, it said in a release. The RBI direction comes after notification issued by the central government, it added.

Finance Minister Nirmala Sitharaman in her maiden Budget 2019-20 speech in early July had announced that the National Housing Bank (NHB) will not remain as the regulator for the HFCs.

"HFCs will henceforth be treated as one of the categories of NBFCs for regulatory purposes. Reserve Bank will carry out a review of the extant regulatory framework applicable to the HFCs and come out with revised regulations in due course," the apex bank said in the release. In the meantime, HFCs shall continue to comply with the directions and instructions issued by the National Housing Bank (NHB) till the Reserve Bank issues a revised framework, it added. [Business Standard/PTI, Aug. 14]

RBI Announces Additional Liquidity Facility to Banks for Purchase of Assets from and/or onlending to NBFCs/HFCs

As articulated during the post-MPC media conference on June 6, 2019, the RBI has been closely monitoring top NBFCs/HFCs, identified on the basis of their size and credit behaviour. Over the past six months or so, the Reserve Bank has also infused adequate liquidity in to the system through OMOs, currency swaps, phased increase in Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR), etc. For more than a month now, there is surplus liquidity in the system. In the meantime, an Internal Working Group in RBI is reviewing the liquidity management framework and their recommendations are expected towards the middle of July 2019.

In order to enable the banks to implement this announcement and deal with the NBFCs/HFCs issue effectively, the Reserve Bank of India will provide required liquidity backstop to the banks against their excess G-sec holdings. A circular in this regard will be issued separately. In addition to the above, the RBI has also decided to frontload the FALLCR scheduled to increase by 0.5 percent each in August and December 2019 and permit banks to reckon with immediate effect the increase in FALLCR of 1.0 per cent of the bank's NDTL, to the extent of incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs) over and above the amount of credit to NBFCs/HFCs outstanding on their books as on date, which will enable the banks to avail additional liquidity of Rs. 1,34,000 crores. [RBI Press Release, July 5]

RBI restricts access to credit data of consumers

The RBI has ordered commercial banks and non-banking lenders to stop providing unregulated entities access to consumer data held by credit bureaus, dealing a blow to scores of fintech startups that have based their business models on such information. In a letter to banks and NBFCs, the central bank said it noticed that they had appointed agents and permitted them to access the database of credit information companies. Such actions are against the Credit Information Companies (Regulation) Act, 2005 (CICRA), it said and warned of penalties if any of the regulated entities violated its order. The RBI also asked all lenders to inform it within 15 days of the measures they had taken to curb this practice. [ETtech, Sept.19]

SEBI provides new format for compliance report on corporate governance

SEBI on July 16 came out with a new format for compliance report on corporate governance to be submitted by listed companies to stock exchanges. SEBI prescribed new format for disclosures to be made on quarterly basis, annual basis for the whole of financial year and within six months from end of financial year that can be submitted along with second quarter report. "In view of the revised timelines under the amended regulations, the circular shall come into force with effect from the quarter ended September 30, 2019," SEBI said. [Business Line, July 16]

SEBI likely to ease share buyback norms for NBFC

In the wake of the liquidity crisis hitting the NBFCs and housing finance companies (HFCs), SEBI might ease share buy-back norms for these firms. The proposal is expected to be presented at the regulator's board meet on Aug. 21. If approved, then the new norms will follow the government's scheme to provide a one-time partial credit guarantee to public sector banks (PSB) for purchase of pooled assets of financially sound NBFCs. Apart from other things, the scheme envisages that NBFC or HFCs will have the option to buy-back their assets after a specified period of 12 months as a repurchase transaction, on a right of first refusal basis. [Business Standard, Aug. 20]

SEBI asks finance ministry to consider changes in laws for DVRs

SEBI had announced a new framework for DVR issuances after a board meeting on June 27. However, some of the regulations it has proposed will need amendments in laws such as the Companies Act and the Securities Contract Rules. One of SEBI's key recommendations was to scrap the profitability criteria for companies that want to issue such instruments. Also, share capital and debenture rules under the Companies Act say that the maximum amount of equity that can be issued through DVRs can only be 24% of the total. SEBI wants this to be raised to 74%. The current rules under the Companies Act only permit issuance of superior-right shares at a ratio of not more than 2:1. SEBI wants this eased to 10:1.

DVRs are special shares with different voting rights or dividend rights compared with a normal share. Start up founders award these to themselves so they can retain control while diluting equity to raise capital from PE investors and other sources. In some cases, companies also issue shares with inferior or no voting rights but higher dividend rights. By doing so, minority investors will have a greater share in the dividend pie but little say in terms of strategy. [ET CFO, Aug. 14]

SEBI to relax norms to allow smart cities issue funds through 'Muni Bonds'

SEBI is planning to ease its norms for 'Muni Bonds' to help smart cities and other registered entities working in areas of city planning and urban development work, like municipalities, raise funds through issuance and listing of their debt securities. SEBI had issued its Issue and Listing of Debt Securities by Municipalites (ILDM) Regulations nearly five years ago and since then seven municipalities have raised nearly Rs.1,400 crore by issuing their debt securities, which are commonly known as 'Muni Bonds'.

Officials said that the regulator is now proposing to allow this route for a larger number of entities including special purpose vehicles set up under the central government's ambitious 'Smart Cities Mission'. Besides, Sebi also plans to allow this route for other structures where a group of municipalities pool their resources together to jointly raise funds through issuance of bonds. These structures are generally known as Pooled Finance Development Funds. [Live Mint/PTI, Aug. 11]

THERE IS NO ASSET-LIABILITY MISMATCH FOR MAJORITY OF NBFCS'

TT Srinivasaraghavan, the founder chairman of FIDC and Managing Director of Sundaram Finance, feels elated as NBFCs' role has been acknowledged for the first time by a Finance Minister in Budget speech. He welcomed the measures put forth by Finance Minister Nirmala Sitharaman to address some of the burning issues facing the sector. He spoke to Business Line about the liquidity scenario, slowdown in the automobile sector and near-term challenges.

Have liquidity constraints eased now in the NBFC sector?

Liquidity is better. For some of the larger NBFCs, liquidity has eased. Actually, for many of the bigger players, liquidity was always available but it came at a higher cost after the IL&FS issue flared up in Q3 of last year.

In the last month or so, the cost of funds has eased which, I believe, is reflective of the fact that liquidity too has started easing. From Q3 of FY19 to Q1 of this fiscal, we are definitely in a better place. However, for medium and small players, I don't think liquidity has eased. They were actually untouched by the capital market happenings and were largely dependent on bank borrowings. With banks tightening the screws on lending to the smaller players and also increasing the rates, they have been badly hit.

Numerically, they are large and it is they who deliver much of the last mile credit. If there is a greater push by the government/RBI and if banks free up the funds a little bit, the situation with the medium and small NBFCs will improve.

What do you have to say on the issue of ALM (asset-liability mismatch) in the NBFC sector?

There is no ALM problem for most of the NBFCs. This is mostly uninformed discourse that NBFCs have an ALM issue. Where is the question of ALM for vehicle financing NBFCs, which have an average lending duration of 3-5 years, or consumer durable financing NBFCs, which have asset tenures of 12 months or less?

The HFCs (housing finance companies) have an issue in terms of asset-liability mismatch given that they lend for 15-20 years and there is no long-term funding source available for them.

That is a systemic issue but that again is nothing new. It has been there for decades. But it is important to realise that there are no ALM issues for the overwhelming majority of NBFCs.

Is there any hope for revival in the commercial vehicle (CV) sector in the near term?

The first six months of the last year was a boom time for the CV sector. But starting from Q3, sales dropped month after month, including in Q1 of the current year.

The actual problem started with the introduction of the revised axle load norms. That came at a time when CV sales were at a peak. It created a 15-20 per cent excess capacity, especially in the M&H (middle and heavy) CV segment. Rural sentiment was negative, freight movement has been sluggish, thereby resulting in the M&H CV segment going into a free fall.

And now there is talk of BS-VI and pre-buying ahead of the launch. My own feeling is that even if there is pre-buying, it will be a limited one, largely driven by replacement buying. Even with that, the CV sector is likely to go through a bumpy ride over the next 12-18 months.

There are lots of unknowns surrounding BS-VI, including higher initial cost, availability of fuel across the country, and so on. But this is not the first time we are seeing this downturn. Cyclicality is a known factor in the CV sector. I expect a revival in the second half of FY21.

What is your take on the slowdown in other auto segments?

The biggest worry is the passenger car segment. CV is cyclical and there it is a question of 'when' and not 'if'. But in the case of passenger vehicles, one wonders what will trigger the revival and the turnaround.

The outlook is currently bleak for the passenger vehicle segment. This is the more worrying area because of the cascading effect it can cause. The recent buzz around Electric Vehicles will only add to the confusion in the customers' minds.

What is your company's strategy this year in light of the CV slowdown?

What we have done well over the years is to develop a diversified portfolio.

If you look at our FY19 numbers, we did not grow in the CV segment and yet we registered an increase in disbursements of almost 10 per cent, which is an indication of strong growth in other segments. It is a question of shuffling the pack and being nimble-footed.

It is certainly going to be a tough year. But there still are areas of opportunity to increase our market presence and market share. There are pockets of opportunity in the market which we can tap. Even in the CV segment, there are gaps in the market.

Infrastructure is a big story, today and for the future. The continuing focus of the government on the infrastructure space will help boost the construction equipment segment.

If the monsoon turns out well, the farm sector could see a revival and positive rural sentiment will result in increased consumption spending. We see good growth prospects in the construction equipment and farm equipment segments. [Excerpts from interview by G Balachandar, Business Line, Published on July 10]

For well-run NBFCs, liquidity is no longer a problem

Various problems facing the NBFC sector, and the liquidity crunch

"There has been too much loose talk about NBFCs. One infrastructure company (ILFS) went bust, Dewan Housing Finance Corporation went under, and these two are not NBFCs. The Reliance Anil Dhirubhai Ambani Group is going through its set of problems. There are 9,983 registered NBFCs in the country, and just three have defaulted. Does this constitute a crisis? Since September 2018, how many more companies have defaulted or gone under? The media has gone overboard, creating a self-fulfilling prophecy."

"As a consequence the flow of credit has been cut off by banks. "Collections are used for debt settlement and there is no growth capital available. This entire crisis erupted because of uninformed discourse creating its own momentum. This has wide ramifications for the economy. There are many small finance companies serving the last-mile delivery. Those lines have been cut off. Local NBFCs, which help people like small traders, form a separate ecosystem by themselves."

"Mutual funds shut shop for NBFC lending. They were, any way, lending only to the triple-A rated NBFCs. The small guys were funded by banks and that came down to a trickle. Banks, fortunately, are in a better place now."

Why slowdown in the automotive sector?

"There has been overcapacity in commercial vehicles. It has been exacerbated by having to shift to Bharat Stage 6 emission norms, and the changing of axle-load norms. There are a lot of unknowns surrounding BS6, including higher initial cost, availability of fuel across the country, and so on. These things have to find their own level."

"However, what is more difficult to understand is the steep fall in passenger car sales. Banks are major players in funding of cars, but they do not have a problem with liquidity. Yet people are not buying cars like they did earlier. They are not coming to the showrooms. Is there buyer fatigue? Is it because of Uberisation? Whatever the reason, sales are tanking. We are not very sure what will revive sales. Then there is the introduction of electric vehicles (EVs) to contend with."

On the proposed switchover to electric (of a particular segment of vehicles) by 2025, he questions whether it is practical? "If there are going to be 3.5 million EVs plying on the roads by 2025, will we be ready with batteries and charging stations? Nothing happens overnight."

At the same time, Srinivasaraghavan feels that two-wheelers are the place to begin. He supports his argument, saying that two-wheeler batteries are smaller, offering more possibilities and opportunities. However, he points out that we will be dependent on China for the lithium in the batteries. "Can we let them get a stranglehold on our industry?"

"We are over the worst. For well-run, well-managed NBFCs, liquidity is no longer a problem. The problem is from the demand side. Over the years, we have developed a diversified portfolio. We will be going after pockets of opportunity still available in the market. We have gone through this kind of phase in 2013 as well. We have to tighten our belts, and wait for the cycle to turn." *[Edited & abridged Interview of T T Srinivasaraghvan by Sushila Ravindranath, Published: Financial Express, Aug. 29]* ■

RBI'S ENDEAVOR IS A WELL FUNCTIONING NBFC SECTOR

[RBI Governor Shaktikanta Das gave his first interview with media since taking office in December. Here's an edited transcript of what e said on issues concerning NBFCs sector.]

On the economic slowdown and the RBI's response:

"The accommodative stance will depend on incoming data. How inflation numbers look how the growth numbers look. Primarily how inflation looks. With regard to the slowdown, I would not give a particular timeline and it's not possible. But overall if you see the trend, I think the fourth quarter of last year was partly a base effect and partly due to investment slowdown and demand contraction, which I had articulated in the monetary policy committee minutes. For that, so far as monetary authority is concerned, the law gives us a certain role and mandate and we have tried our best to play that role. We have reduced the policy rates by 75 basis points and we have shifted to accommodative. And shifting of the stance to accommodative itself means a rate cut of 25 basis points at least. So therefore effectively, the rate cuts have been 100 basis points if you take into account the change in stance."

On providing liquidity:

"Parallel to that we have also ensured surplus liquidity in the system. Liquidity was in deficit but at the moment for the past 1 1/2 months, the system is in liquidity surplus by more than 1 trillion rupees.

"We will ensure the banks are provided adequate funds. While the system is in surplus mode, it is possible that one or two banks may have liquidity issues. Given the role the RBI is assigned, inflation is primary target, and given due weightage to the fact that growth momentum has slowed down. For the revival, various stakeholders have to play the role."

On investment slowdown:

"There have been sectoral problems, like in the auto sector. Our survey shows that an additional insurance requirement has had an impact. So every sector has had its problem. But when the world is changing you also have to change. Then there was the credit squeeze; now availability is there. The banks were unable to lend significantly, burdened with NPAs and the focus of the banks was on recovery and consolidation and not on credit. The banks are now in a better position to lend. While banks were not lending, NBFC entered their space. But for a year or so, credit flow has been affected. Another thing I would like to address the crowding out effect. It's a good thing that the fiscal deficit has been brought down and recapitalization has been announced. Every stakeholder, the government, the private sector and the RBI are playing their role and I think things are moving in the right direction. And things should improve now."

On liquidity and NBFC problems:

"We have to constantly monitor and remain alert as the regulator and as a monetary authority. We have to analyse and review the situation. Here at the RBI, we have broad medium and long-term goals. If some issue becomes critical, not a day passes without some internal high-level review. On NBFC, not a day passed in the last several months where we don't have a discussion or a review internally. Either on the sector or individual NBFCs. And we are monitoring the top 50 NBFCs which we have identified in terms of balance sheet size, volume of operation and in terms of governance practices and credit behavior. Our supervision teams are closely monitoring them. We are in constant interaction with the banks and it's our endeavor to ensure a collapse of another NBFC, especially a large one, doesn't happen. Having said that, if NBFCs have undertaken certain governance practice and certain ways of function and they have to a price for it, they will have to pay a price for it."

On banks being proactive:

"We are in constant engagement with banks. After the June 7 circular, the banks are more enabled to resolve the crisis and stress in the individual NBFCs. Now inter-credit agreement is mandatory. Earlier it wasn't. We have also given 30 days for review and another six months for restructuring and we are having constant engagement with the banks. So the banks, under the June 7 circular, have to play a proactive role. We are constantly in touch with large lenders to such NBFCs, including some housing finance, where we see some signs of fragility."

Consolidation in NBFCs:

"If somebody has diverted or there has been sort of ever-greening, there has been gold plating, if there has not been so diligent lending, so obviously they have to pay the price. Our effort is to segregate the way there have been lapses. Our focus is the overall system maintains stability. When I say system, it obviously includes all the major players. Therefore, our effort is to see that there are no repeat instances of systemically important large NBFC collapsing. And in the process some promoters have to make certain sacrifices, promoters have to accept haircut, the banks will have to deal with it appropriately within the parameters. One or two cases, the banks have signed inter-creditor agreements and they are resolving this crisis. The way I look at it, the responsibility is on the NBFCs themselves, to find market instruments to resolve their problems. Market instruments and the promoter have to bring in additional capital, he has to do a stake sale, he has to securitize his assets and mobilize liquidity, and he has to meet debt obligations. And then the role of the lenders. We are in discussion with the lenders who have to protect their money also. They also have a parallel role to try and resolve this issue. That will also mean sacrifice on the part of the promoter also. The RBI will ensure adequate liquidity to banks."

On refinancing:

"This Refinance window or a liquidity window is a misnomer. We cannot lend money directly to one NBFC. Under the law, RBI is the lender of last resort, but we haven't reached that situation where we invoke that particular legal provision. So RBI in today's time cannot and would not be lending directly to NBFCs. We cannot give them clean money. It is up to the bank and depending on the collateral. We are backing up the banks. There is nothing called a liquidity window. Money is fungible, and when money is fungible having these windows, I think, is not relevant."

When will the crisis be over?

"Difficult to say when it finishes. It's our effort to ensure there is no contagion. It is our endeavor to ensure there is no collapse of another systematically important NBFC."

On cases of adventurism:

"There have been instances where it has happened. Some of the NBFCs have diverted. It hasn't happened in a large scale. That is not the case. In some cases, we have noticed this has happened. A large number have encountered business failures, encountered external factors, which has impacted business models. We are coming up with a new regulatory framework. We are a work in progress. Risk management guidelines are also there for NBFCs. Now HFCs are coming under RBI, we are constantly reviewing it internally. The RBI's endeavor is a well functioning NBFC sector and a robust regulatory framework which prevent the kind of situation we have encountered in the past year."

On interest-rate transmission:

"There is a case for banks to show better monetary policy transmission. We have to keep in mind that banks have gone through a period of crisis and they are just recovering, they are just about recovering, so that aspect has also to be kept in mind. So if you drive and ask them to fix interest rates administratively, we cannot lose sight of the fact that banks will also have to recover and comeback to a level where they are out of the woods. If we see the PCA banks have fulfilled the conditions to come, they will come."

On financial stability:

"I would like to say our primary focus — apart from price stability and keeping the objective of growth — it is also to ensure the stability of the financial sector, which includes banks and NBFC. And in the long run, if India has to grow and show improved growth rates, it will need a well-functioning financial sector." [Source: Live Mint, July 22]

REGULATORY & SUPERVISION AGENDA OF RBI FOR NBFCs FOR F Y 2019-20

NBFCs : DEPARTMENT OF NON-BANKING REGULATION (DNBR)

NBFCs play an important role in providing credit by complementing commercial banks and catering to niche sectors. The Department of NonBanking Regulation (DNBR) is entrusted with the responsibility of regulating the NBFC sector.

AGENDA FOR 2019-20 [DNBR]:

Disclosure Requirements: In order to bring in more transparency and provide an effective and robust disclosure framework for NBFCs, the extant disclosure requirements for NBFCs will be reviewed.

Harmonisation of NBFC Categories: The exercise of harmonising the regulatory framework for various categories of NBFCs, initiated during the year, will be pursued with a view to further bringing down the number of categories of NBFCs, thereby facilitating better implementation of activity based regulation.

Fair Practices Code (FPC) for ARCs: A set of principles in the form of FP

Liquidity Risk Management Framework for NBFCs

NBFCs have developed significant inter-linkages with the rest of the financial sector in terms of access to public funds and participation in credit intermediation, with implications for systemic risks. This has warranted a review of the liquidity risk management for NBFCs.

The extant ALM guidelines are applicable to non-deposit taking NBFCs with an asset size of Rs. 1 billion and above, and deposit taking NBFCs having a deposit base of Rs. 200 million and above:

• Instructions on the three pillars of ALM framework, viz., ALM information systems, ALM organisation (including formation of Asset-Liability Committee (ALCO), its constitution, etc.) and ALM processes.

• Monitoring of structural and short-term dynamic liquidity and interest rate sensitivity.

• Maturity gap analysis across time buckets with main focus on 30/31 days time bucket in which the negative gap is not supposed to exceed 15 per cent of the cash out flow.

• CICs with asset size of Rs. 5 billion and above to disclose the maturity pattern of assets and liabilities.

Proposed Changes

a. Augmentation of the General Framework for Management of Liquidity Risk

i) ALM Guidelines: ALM guidelines have been recast on the lines of those applicable to banks, incorporating (a) offbalance sheet and contingent liabilities; (b) stress testing; (c) contingency funding plan; (d) intra-group fund transfers; (e) collateral position management; and (f) diversification of funding.

ii) Maturity Buckets Revised: Maturity buckets have been made granular by trifurcating the 1 to 30/31 days bucket into 1-7 days, 8-14 days and 15 to 30 days, with cumulative gap limits set at 10 per cent, 10 per cent and 20 per cent of the respective outflows. Cash flow stress will be captured at an early stage and mitigation is expected to be timely.

iii) Liquidity Risk Monitoring Tools: NBFCs will be required to monitor (a) concentration of funding (by counterparty, instrument, currency); (b) available unencumbered assets (that can be used as collateral for raising funds); and (c) market related monitoring information (equity prices, coupon on debts raised, regulatory penalty and the like).

iv) Stock Approach to Liquidity Risk Management: Boards of NBFCs are required to identify critical ratios and monitor them against internally prescribed ceilings [an illustrative list could include short-term liabilities to total assets; short-term liabilities to long-term assets; commercial papers to total assets, non-convertible debentures (NCDs) of original maturity less than one year to total assets; short term liabilities to total liabilities; long term assets to total assets].

b. Introduction of the Liquidity Coverage Ratio (LCR) for Large NBFCs

The proposed LCR framework will apply to all deposit taking NBFCs and NBFC-ND-SIs with asset size of Rs.50 billion and above. It will be implemented in a phased manner.

• **LCR is defined as: Stock of High Quality Liquid Assets (HQLAs)** Total Net Cash Outflows over the next 30 calendar days

• NBFCs to maintain LCR of minimum 60 per cent from April 1, 2020, progressively increasing in equal steps till it reaches the required level of 100 per cent, by April 1, 2024 and maintaining it at minimum 100 per cent on an on-going basis with effect from April 1, 2024.

• NBFCs to hold HQLAs to cover the net cash outflow over the next 30 day period under a situation of stress.

• Computation of HQLAs to be based on prescribed haircuts applied on the eligible assets.

• For computation of net cash outflow in the 30 day period, the stress scenario is built by overestimating outflows by 15 per cent and underestimating inflows by 25 per cent. ■

NBFCs: Department of Non-Banking Supervision (DNBS)

AGENDA FOR 2019-20 [DNBS]

Concerted efforts would be made during 2019-20 towards further strengthening each of the four supervisory pillars of NBFCs.

Onsite Supervision

Inspection of all regulated entities (i.e., banks/NBFCs) will be conducted together to facilitate better understanding of intra/inter-group transactions and exposures and to obtain a holistic view of an NBFC which has other NBFCs/ banks in the same group. The concept of Senior Supervisory Manager, as the central point of contact for a single large NBFC/group of NBFCs, will be implemented for focussed attention on large entities/groups. In addition, system of on-site inspection and off-site surveillance mechanism is being strengthened and a review of the supervisory/regulatory framework of CICs would be undertaken keeping in view the need for close monitoring of CICs, which tap funds from the market and invest in/lend to the group companies.

Off-site Surveillance

Off-site returns for NBFCs are being revised and rationalised from 21 to 17 returns, while deepening and widening the information set being obtained. The returns are being developed in XBRL, with in-built validation checks. Various reports have been designed to check timely submission of data along with accuracy of reporting as well as to pick up early warning signals of weakness in the regulated entity.

ENFORCEMENT DEPARTMENT (EFD)

The Enforcement Department (EFD) was set up in April 2017 to enforce regulations uniformly across the banks, with an objective to engender greater compliance by the regulated entities, within the overarching principle of ensuring financial stability, public interest and consumer protection.

AGENDA FOR 2019-20 [FED]

The Enforcement Policy and Framework, which was developed in the background of the Department's mandate to undertake enforcement action against commercial banks, will be taken up for revision in the light of the extension of its mandate to undertake enforcement action against cooperative banks and NBFCs. In pursuance of the extended mandate, EFD regional offices (ROs), which were set up in 2018-19, will be strengthened during the year, with sufficient manpower. A database management system to capture violations, record enforcement action and compliance and generate MIS is proposed to be designed.

Widening the Coverage of Ombudsman Scheme for NBFCs

VI.103 The Ombudsman Scheme for NBFCs was implemented in February 2018. Offices of NBFC Ombudsman are functioning from the four metro centres-Chennai, Kolkata, Mumbai and New Delhi; each handling complaints of customers of NBFCs from South, East, West and North zones, respectively. The scheme was initially made applicable to deposit taking NBFCs registered with the Reserve Bank and subsequently widened to encompass NBFC-NDs having customer interface and asset size of Rs. 1 billion and above, with effect from April 26, 2019 as announced in the Statement on Developmental and Regulatory Policies of April 4, 2019. [Extract from Reserve Bank of India, Annual Report-2018-19, Aug. 29] ■

FIDC IN MULTIMODE ACTION

FIDC Managing Committee Meeting on 22nd June, 2019 at Chennai

FIDC Co-Chairman Mr. K V Srinivasan moderating the Panel discussion on "Strengthening the NBFC Sector" on 21st August, 2019 at Mumbai

FIDC Media Meet on "NBFC Liquidity Crisis- Hype and Reality" on 2nd July, 2019 at Mumbai

Release of the Code for Responsible Lending (CRL) by Nobel Laureate Prof. Mohammad Yunus. CRL has been signed by FIDC , MFIN and SA-DHAN

FIDC Media Meet to discuss "Union Budget & NBFCs- Unfinished Agenda" on 25th July,2019 at New Delhi

FIDC Director General Mr. Mahesh Thakkar addressing at 9th MINE India Conference by B2B Infomedia 8th August 2019 at Mumbai

IFC Collaborates with FIDC to Conduct Training Program for NBFCs

International Finance Corporation (IFC), an arm of World Bank Group, has collaborated with FIDC for conducting training programs for NBFCs on "Commercial Credit Reporting" aimed at building capacity of NBFCs to enhanced reporting and enquiring on Commercial Credit Information Data from the Credit Bureaus, Raman Aggarwal, chairman FIDC announced. The "Engagement Letter" to this effect was signed

On September 11 at a private event held at World Bank Office in New Delhi. These training programs shall greatly enhance the awareness, expertise and professionalism of our member companies, especially, the large number of small and medium sized NBFCs catering to the credit needs in rural and semi urban areas, Mahesh Thakkar, director General, FIDC added.

Mr. Mahesh Thakkar, Director General, FIDC receiving "India 's Greatest CFO" Award at 4th Edition of Pride of the Nation Series- India's Greatest Brands & Leaders Awards & Business Summit 2019 on 16th September 2019 at Hotel Taj Lands End, Bandra, Mumbai.

Taxman can't act without notice

The Supreme Court last week emphasised that notice to an assessee under section 143(2) of the Income Tax Act is mandatory and even if he had participated in the proceedings, such notice could not be dispensed with by the department. In this case, CIT vs Laxman Das,, there was a raid on a stockbroker and his income was reassessed, leading to the dispute. He pointed out that he was not given notice under Section 143(2). The 'department invoked Section 292BB, which says that if the assessee had participated in the proceedings, no notice was required. The Madhya Pradesh High Court dismissed that stand, leading to the appeal. Dismissing that appeal, the Supreme Court explained that Section 292BB was meant to cure certain defects in the notice and did not dispense with notice altogether. [Business Standard, Aug.19]

Bank can reject cheque for repayment

A bank need not accept cheques/draft in repayment of a loan if it decides to do so, the Supreme Court observed last week in its judgment, Shakeena vs Bank of India. In this case, the borrower defaulted on repayment of a loan and the bank invoked the Securitisation Act to sell the mortgaged property. This was challenged by the borrower in the debt recovery tribunal and later in the Madras High Court. The borrower was given several options and opportunities to pay the amount before the sale of the property was registered. In one last-ditch effort the borrower offered cheques for the loan amount, which was rejected by the bank maintaining that they were not a valid tender. The Supreme Court rejected the appeal of the borrower on several counts and asserted that the bank could not be faulted for rejecting the cheques. [Business Standard, Aug.26]

Presumption in bounced cheque

The Supreme Court last week reiterated that once a cheque is issued by the drawer, there is a presumption under Section 139 of the Negotiable instruments Act in favour of the holder. It is presumed that the cheque received was for the discharge of a debt or other liability. The person complaining of a bounced cheque must first prove the circumstances under which the cheque was issued in his favour and that it was issued in discharge of a legally enforceable debt. After that, the burden shifts to accused person to rebut the presumption, showing that there is no debt or liability. In this case, Shree Dhaneswari Traders vs Sanjay Jain, the accused was not able to rebut the statutory presumption. However, the trial court and Bombay High Court rejected the complaint. Setting aside the high court judgement, the Supreme Court convicted the drawer of the cheques and imposed a penalty of Rs. 2.90 lakh, plus Rs. 50,000 as compensation. [Business Standard, Aug.26]

Banks have no lien over deposit made by debtor to show bonafides for loan settlement, rules SC

The Supreme Court has said a deposit made by a debtor to show his bonafides in a case of loan settlement cannot be considered a secured asset under the SARFAESI Act and has to be refunded. "The deposit was not towards satisfaction of the debt in question, and that is precisely why the High Court had directed that the deposit would be treated (as) a deposit in the Registry of the High Court," the SC said in Kut Energy Pvt Ltd versus PNB.

Referring to an earlier ruling in the case of Axis Bank, the SC noted that a secured creditor would be entitled to proceed only against the secured assets mentioned in the notice under Sec 13(2) of the SARFAESI Act, 2002. "In the instant case also, the money was expressly to be treated to be with the Registry of the High Court," said HC bench, and directed that Rs. 40 crore deposited by the appellants be refunded. It was hearing an appeal against an order passed by the High Court of Himachal Pradesh in Shimla in March this year. [Business Line, Aug. 26]

Criminal offences in Companies Act to be slashed, govt mulls 65 changes

In a move to relax punishment for fraud under the Companies Act, the corporate affairs ministry is planning to withdraw the criminalisation aspect in 65 sections where the offences are compoundable or not serious in nature, a government official in the know said. "Criminalisation has had no worthwhile outcome. We will look at decriminalising most of the compoundable offences. Conviction can lead to many far-reaching consequences, which is not the intention of the law," a senior government official said. [Business Standard, Aug. 19]

Venue of arbitration only at place named

When an arbitration contract specifies the jurisdiction of the court at a particular place, only such court will have the jurisdiction to deal with the matter because the parties intended to exclude all other courts. In one case, Brahmani River Pellets vs Kamachi Industries, the parties had agreed that the "venue" of arbitration shall be at Bhubaneswar. When disputes arose, one party moved the Madras High Court for the appointment of an arbitrator. It appointed a former judge of the high court as the sole arbitrator. Its view was that mere designation of "seat" by parties did not oust the jurisdiction of other courts, it further stated that in the absence of any express clause excluding the jurisdiction of other courts, both the Madras High Court and the Orissa High Court will have jurisdiction over the arbitration proceedings. On appeal, the Supreme Court set aside that ruling, observing that the intention of the parties was to exclude all other courts. The contract might not have used expressions like "exclusive Jurisdiction", "only", "exclusive", " alone", but that did not make any difference, the Supreme Court said and asked the parties to go before the Orissa High Court, it advised. [Business Standard, Aug. 5]

Heavy fine on bounced cheques

An amendment to the Negotiable Instruments Act grants power to the trial court to impose a fine for issuing cheques without sufficient balance in the bank. The order can be passed at the interim stage, even before the final decision. The fine could be 20 per cent of the cheque amounts. This amendment was made in 2018 to tighten the rule against bounced cheque. In the judgment of the Supreme Court in the case. G J Raja vs Tejraj Surana, the trial court and the Madras High Court applied the rule against the drawer and imposed the fine. But he appealed to the Supreme Court. It found that the bounced cheques were issued in 2016. the judgment said : "The new rule is not applicable in this case. In our view, the applicability of new Section 143A must be held to be prospective in nature where offences were committed after the introduction of Section 143A." ■

[Continued from page-12]

the NBFCs. The AIF could subscribe to non-convertible debentures for onward lending by NBFCs.

FIDC has also suggested that NBFCs be allowed an on-tap facility for issuance of NCDs to the retail market by offering these instruments through an easy and cheaper procedure. It is hopeful of some intervention after putting forward these suggestions at the pre-Budget meeting with the Finance Minister as well as in discussions with the RBI.

Aggarwal noted that asset-liability mismatch is largely an issue only for long-term lenders such as HFCs and infra financing NBFCs. However, even smaller NBFCs that cater to retail segments or MSMEs are being painted with the same brush and are consequently finding it difficult to raise funds. "As such, the current crisis is more a growth related issue and not a solvency issue," he said, pointing out that total disbursement by NBFCs during the fourth quarter of last fiscal fell by 31 per cent.

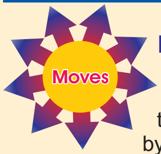
Ramesh Iyer, Vice-Chairman and Managing Director, Mahindra Finance, noted that retail NBFCs bring a lot of customers to the formal banking channel and none of these companies has till now defaulted on payments.

George Alexander Muthoot, Managing Director, The Muthoot Group, said that banks have been reluctant to fund NBFCs and have also increased their lending rate. "The RBI has reduced the repo rate, but banks are still lending at about 9.5-10 per cent," he noted. [Business Line, July 2]

IFC and FIDC – Commercial Credit Reporting Information Workshop

First Training Workshop on Commercial Credit Reporting is organized in New Delhi by FIDC in partnership with IFC on Sept. 26. Mr. Satish Mehta, Consultant to WBG and the Founding Managing Director of CIBIL will be the faculty. Senior officials from IFC and Equifax Credit Bureau shall also be present to interact with the participants. The program is hosted by FIDC member M/s Paisalo Digital Ltd.

FIDC, in partnership with IFC, have planned to organize seven such programs in different selected cities across the country. These workshops will be not only for operating level loan officers (Credit and Risk Departments)in the NBFCs, but also for CXOs and senior management of the NBFCs, including Small and Medium sized NBFCs. ■



Corporate tax cuts to boost capital base of banks, NBFCs

A number of banks, NBFCs and HFCs could see an improvement in their capital base and return on assets with the recent cuts in corporate tax rates. According to a report by ICICI Securities, the corporate tax reduction will lead to an aver age of 10 to 14 basis points improvement in return on assets and Tier-1 capital respectively in 2019-20. According to Rajiv Mehta, Lead Analyst –Institutional Equities, Yes Securities, the corporate tax cuts would translate into a direct benefit of nearly 15 per cent on earnings, 2.5-5 per cent on book value and 30-80 basis points on capital position for most banks and NBFCs. "It is tantamount to a large recapitalisation of the financial system, strengthening growth capacity and loss-absorbing buffer", he added. [Business Line, Sept, 23]

Rs 1.45 lakh crore fiscal stimulus announced by FM

The Finance Minister on Sept. 20 announced Rs 1.45 lakh crore fiscal stimuli that include slashing corporate tax to 22 per cent from 30 per cent, cutting down the minimum alternate tax (MAT) and lowering tax to 15 per cent for companies putting fresh capital into manufacturing. Around 1,000 companies would save nearly Rs 37,000 crore due to recent corporate tax rate cut, according to a Crisil report. [IANS, 23 Sept.]

Government removes Debenture Reserve norm for HFCs, NBFCs

The government has removed the redemption reserve requirement for issuance of debentures by NBFCs, housing finance companies [HFCs] and listed firms, a move aimed at reducing cost for raising capital. Under the companies law, these entities raising money had to create Debenture Redemption Reserve (DRR) of 25% of value of outstanding debentures and that requirement has now been done away with. The changes would be applicable for public issue as well as private placements. In the case of unlisted companies, the DRR requirement has been reduced to 10 per cent from 25 per cent of the outstanding debentures. The amendments are aimed at "creating a level-playing field between NBFCs, HFCs and listed companies on the one hand and also between them and banking companies and all India financial Institutions on the other, which are already exempted from DRR," the release said. [Business Line/PTI, Aug. 19]

Govt raises limit for raising funds without diluting voting rights

The Union government on Aug. 16 liberalized rules that would allow Indian companies to raise share capital without diluting the voting rights of all existing shareholders. The move is expected to help promoters, particularly of start-ups to retain control when they raise capital from new investors. The ministry of corporate affairs said it has amended provisions of the Companies Act relating to the issue of shares with differential voting rights (DVRs). This, it said, was to allow promoters of companies to "retain control even as they raise equity capital from global investors".

Prior to the amendment, the Companies (Share Capital and Debentures) Rules of 2014 allowed the issue of shares with differential voting rights, subject to riders—the business should have distributable profits for the previous three years, and the capital raised through shares with differential voting rights must not exceed 26% of the post issue capital. The amendment has also done away with the condition of having three years of distributable profits and raised the cap, said the statement. A copy of the amended rules was awaited at the time of publishing this report. Differential voting rights also allow investors to take a substantial stake in a company and be a financial investor without voting rights, crossing a threshold that may mandate an open offer. [Live Mint, Aug. 17]

Govt plans debt waiver for 'small distressed borrowers' under insolvency law

The government plans to give debt waiver for "small distressed borrowers" under the insolvency law framework, according to a senior official. The proposed waiver would be offered as part of 'Fresh Start' provisions under the Insolvency and Bankruptcy Code (IBC). [Live Mint, 18 Aug.]

All communication with taxpayers via digital ID No: CBDT

Looking to counter tax harassment charges, India's direct taxes body has mandated that any communication with taxpayers will now have to be only through electronic means bearing an identification number.

The earlier cases of manual correspondence will have to be uploaded on the dedicated Income Tax Business Application (ITBA) platform. "This will allow authorities to see in real time the actions of assessing officers, the kind of communication he sends out, the number of notices or summons. This will bring more accountability," said a senior government official.

A taxpayer can treat any communication without an identification number as invalid. "Any communication not in conformity with the prescribed guidelines shall be treated as invalid and shall be deemed to have never been issued," the official said. Taxpayers' responses will also have to be electronically updated, bringing down any physical interface between tax officers and taxpayers. The CBDT on Aug. 14 issued a directive to field in this regard. The finance ministry [by CBDT] has notified the e-assessment scheme 2019 for conducting faceless scrutiny assessment of income tax returns (ITR) on Sept. 12.[Economic Times, Aug. 15]

FIDC TOP TEAM SWINGS INTO ACTION ON WAR FOOTING

NBFC sector unwittingly caught and pushed into crisis that adversely affected its growth due to drying of funding sources and crisis of confidence due to two defaulting entities. Although, one of them was coglomarate of diverse activities and other was housing finance company they were deemed by media, financing agencies and capital market functioneries as NBFCs.

FIDC as a representative body and SRO of NBFC Sector swung into action on all fronts. Strategy was to ensure liquidity for the sector players to restore growth momentum of NBFCs. To move RBI, Government, banks for the purpose was prime task.

The Chairman, Co-Chairman, Director General and leading members of the Managing Committee briefed the authorities through various Representations and the Meetings held with them as well as with media from time to time.

FIDC top brass highlighted the liquidity crunch being faced by the sector players, especially the small and medium sized NBFCs and plumating growth of the sector. FIDC followed a multi-pronged approach:

Dialogue with Authorities:

i) Ministry of Finance:

- Meetings with Addl Secy, Dept. of Financial Services, Principal Economic Advisor and Jt Secretaries at Dept. of Revenue, followed by written representations.

- Pre-budget Meeting:

- Chairman attended the Pre-budget Meeting with the Hon'ble Finance Minister and her team, where he made a detailed presentation on the key issues and the way forward. The same was well received and acknowledged by the FM.
- Chairman had discussion with Finance Secretary and his team on the need to amend Factoring Regulation Act (so as to allow all NBFCs participate on the TReDs platform) and the need to exempt NBFCs from Debenture Redemption Reserve (DRR). *These endeavors met great success as many of these suggestions were incorporated by FM in her budget proposals for NBFCs.*

ii) Reserve Bank of India:

- FIDC was invited to the Meeting convened by Governor, RBI with the NBFC sector, where the Chairman made a strong representation
- Meetings with Executive Director and Chief General Manager, Dept. of Non-Banking Regulation, followed by written representations

iii) NITI Aayog:

- Meetings with Head, Economics & Finance and OSD to Vice Chairman

Iv) Roundtable on NBFCs with CEPR:

FIDC partnered with Centre for Economic Policy and Research (CEPR) to organize a Roundtable on NBFCs, which was attended by Vice Chairman, NITI Aayog, Members from PM Economic Advisory Council, Swadeshi Jagran Manch, Senior Economists, Senior CAs who are Independent Directors on the Boards of leading Public Sector Banks and leading players from the NBFC sector.

V) Meetings with Other Stakeholders

Society of Indian Automobile Manufacturers (SIAM) convened a joint meeting of leading OEMs with FIDC member NBFCs to discuss the credit crunch faced by the auto sector, which has severely impacted the vehicle sales.

-FIDC office bearers met the Chairman / MD of some of the banks to discuss on the sharp decline in bank lending to NBFCs

-FIDC has written to Indian Banks Association (IBA) requesting for a joint meeting with leading bankers

Vi) Media Interaction

-Office bearers of FIDC had regular interaction with print and electronic media to clarify on the undue hype created post IL&FS default

Everyone present appreciated the efforts made and unanimously pitched for having a focussed interaction with the media to present the real picture and suggest short term and long term measures. FIDC organized Media meets in Mumbai and Delhi in this regard.

Guarantee for NBFC assets: Rules framed with tough riders

The finance ministry on Aug .13 notified a scheme to enable public-sector banks (PSBs) to implement a crucial Budget announcement under which the government would offer a one-time partial guarantee to the banks to buy pooled assets worth Rs 1 lakh crore of financially-sound NBFCs this fiscal. This will cover their first loss of up to 10%.

As per the scheme, the assets will be purchased by the PSBs at fair value and they must be rated by credit rating agencies accredited by the RBI.

The government, however, set some tough criteria for the NBFC/HFCs to get relief. The guarantee will be given for the assets of those NBFCs whose capital to risk (weighted) assets ratio was not below the minimum regulatory requirement of 15% as of March 31, 2019. Similarly, the capital adequacy of an HFC must have been 12% or above at the end of March. Their net non-performing assets should not have crossed more than 6% as of end-March.

They should have made a net profit in at least one of the last two preceding financial years (FY18 and FY19). The NBFCs/HFCs should not have been reported under SMA category by any bank for their borrowings during last one year prior to August 1, 2018.

NBFCs/HFCs will pay a fee equivalent to 0.25% a year of the fair value of assets being purchased by the bank under this scheme to the government (must be routed through the purchasing bank).

The window for the guarantee will open for a period of six months (from Aug. 13), or till such date by which assets worth Rs one lakh crore get purchased by banks, whichever is earlier.

Those whose assets are sold under this scheme should rework their asset-liability structure within three months to have positive ALM in each bucket for the first three months and on cumulative basis for the remaining period. “At no time during the period for exercise of the option to buy back the assets, should the CRAR go below the regulatory minimum. The promoter shall ensure this by infusing equity, where required,” the government said.

The guarantee provided by the government on the assets will be valid for 24 months from the date of purchase and can be invoked on the occurrence of default. The NBFCs/HFCs can have the option to buy back their assets after 12 months as a repurchase transaction, on a right of first refusal basis.

Only those NBFCs that are registered under the RBI Act, excluding those registered as micro-finance institutions and core investment companies, are eligible for the scheme. Similarly, only those HFCs registered with the National Housing Bank (NHB) are eligible.

Assets originated up to March 31 will only be eligible under this scheme and they should be standard in the books of NBFCs/HFCs on the date of sale. The pool of assets should have minimum rating of ‘AA’ or equivalent at fair value prior to the partial credit guarantee by the government.

NBFCs/HFCs can sell up to a maximum of 20% of their standard assets as of March 2019, subject to a cap of Rs 5,000 crore at fair value. “Any additional amount above the cap of Rs 5,000 crore will be considered on pro rata basis, subject to availability of headroom,” the ministry said.

The underlying assets should represent the debt obligations of a homogeneous pool of obligors and individual asset size in the pool is capped at Rs 5 crore (i.e. asset pool should be sufficiently granular).

The purchasing bank can invoke the GoI guarantee if the interest and/or instalment of principal remains overdue for a period of more than 90 days (i.e. when liability is crystalised for the underlying borrower) during the validity of such guarantee, subject to the condition that the guarantee is for the first loss up to 10%. [Financial Express, Aug. 14]

Simpler KYC may not make life easier for NBFCs

Despite measures by the finance ministry to ease the customer onboarding process, or KYC (know your customer), for both banks and NBFCs, lenders say the recent policy action may not lower their physical verification costs, especially for rural customers.

Finance minister announced a slew of relief measures for the economy on, which included allowing NBFCs to directly onboard those customers whose credentials have already been vetted by banks from the UIDAI maintained Aadhaar database.

Industry experts, however, said that, in the absence of an RBI approved mechanism for banks to share these KYC details with nonbanks, the process may be restricted to those loan accounts that are opened jointly by a bank and NBFC under the co-lending model. “This kind of arrangement can only work where banks and NBFCs are co-lending,” said Anurag Jain, founding member Digital Lenders Association of India (DLAI) and cofounder of KredX. Under the colending model, an NBFC and bank tie up to open loan accounts with pre-decided exposures. “The impact may have been more if they had allowed NBFCs to authenticate their own customers via Aadhaar without having to depend on banks. We will wait for the final clarifications, which will be issued by RBI, on the exact mechanism under which the process would work,” Jain said. [ET Bureau, August 26]

Credit squeeze on smaller NBFCs seen abating

The liquidity crisis that had squeezed funding to NBFCs now seems to be partially abating for smaller companies. However, fears of a slowdown crippling consumer demand are now emerging.

Mahesh Thakkar, Director-General, FIDC, said: “Smaller NBFCs are now slowly beginning to get credit. This is not across the board but there has been some improvement since the IL&FS crisis. But conditions are yet to go back to normal.” YS Chakravarti, Managing Director and CEO, Shriram City Union Finance, said while liquidity conditions could be better, bank funding is still available.

According to FIDC-CRIF data, sanctions by NBFCs in the fourth quarter of 2018-19 dropped by 30.79 per cent to Rs. 1.96 lakh crore as against Rs. 2.83 lakh crore in the same period a year ago. Many NBFCs are hopeful that the slew of measures announced in the Budget and the Reserve Bank of India for the sector will further improve liquidity.

Availability of funds for larger NBFCs however, seems to be still an issue, especially for those in sectors like housing finance. “Cost of credit is high and many banks do not want to lend to the perceived risky sectors,” said another player. [Business Line, Aug. 19]

NBFCs’ disbursement in Q 1 plunges further 30%, reveals FIDC-CRIF data

Data for Q1 2019-20 (i.e April - June, 2019 compiled by CRIF) of the current Financial Year on total disbursements made by NBFCs across various products shows a drop of 30% Y-o-Y basis, Mahesh Thakkar, director general of FIDC said on Sept. 6.

NBFCs continued to feel the liquidity crunch during Q1 of the current fiscal, primarily due to banks getting risk averse when it came to lending to NBFCs, he added. Some remedial measures have been announced since July, 2019 by the Govt and RBI, starting with the budget announcement of the Partial Credit Guarantee scheme. The key point is that all the measures to infuse liquidity are routed through banks and as long as banks are risk averse, the desired impact is not seen. Therefore, it is most important to develop funding sources outside the banking system. This is where a Refinance Mechanism for NBFCs is a must. It will also enable the Govt to directly infuse liquidity , as is being done for HFCs through National Housing Bank. Either a new refinancing body like NHB or an existing body like SIDBI can take up this role. MUDRA can refinance large number of small and medium NBFCs, he suggested.

Gold Loans are seeing an increasing trend. This primarily seems to be more towards the borrowers trying to meet their liabilities, including children education, medical expenses, house repairs etc, he explained.

Extend the Co-origination of Loan Scheme to Deposit Taking NBFCs (NBFC -D): FIDC

A meeting of top brass of FIDC took place with Shri N S Vishwanathan, Dy Governor, RBI on 22nd August. Based on discussion on important issues at the said meeting, FIDC submitted a representation on 6th Sept. highlighting main issues on which the suggestions were made for review on them: [1] The requirement of AA credit rating should be applicable post the Partial Credit Guarantee by GoI and a clarification that condition of minimum AA credit rating shall include AA- (AA minus). [2] RBI should rephrase the term NDSI to SI, thereby removing the prefix ND (i.e., Non Deposit Taking) so as to ensure that even the Deposit taking (D) NBFCs with asset base of Rs 500crs and above are duly covered in this definition. [3] The need of the hour is to develop funding sources for NBFCs outside the banking system. [4] Extend the Co-origination of Loan Scheme to Deposit Taking NBFCs (NBFC -D) also. [5] The data on bank credit to NBFCs may be split into Government owned and Private NBFCs. This shall not only present the factual position but also facilitate policy formulation. [6] Implementation of the new Working Capital norms for NBFCs may be deferred by one year considering the current situation. FIDC conveyed sincere thanks for accepting the request to hold periodical meetings with FIDC on a regular basis. ■

Economy slowdown: FIDC urges FM to convene meeting with NBFC sector

With the Centre learnt to be readying up a comprehensive package to address sectoral woes, the Finance Industry Development Council (FIDC) has urged the Finance Minister Nirmala Sitharaman to convene a meeting with NBFC sector as part of her current engagement with important stakeholders of the economy.

Sitharaman has kicked off a series of meetings to better understand the sectoral issues and frame an appropriate policy response. The first round of such meetings was held with banks on Monday. This is being followed up with meetings with representatives of MSME sector and automobiles in the subsequent days.

FIDC—which is a representative body of NBFCs—has in a letter written to Sitharaman said that it is now important to ensure proper implementation of the measures announced in the recent budget. It is also equally important to take steps to minimise the risk of the current liquidity crisis occurring again in the future. FIDC Chairman Raman Aggarwal in the letter, had stressed the need to incentivise banks to lend more to NBFCs; develop funding sources outside the banking system; create refinance window for NBFCs; allow NBFCs to issue secured debentures "on Tap" and create a platform for regular dialogue between Finance Ministry and the NBFC sector. [Business Line, Aug. 6]

IMF on Sept. 12 said that India's economic growth is "much weaker" than expected due to corporate and environmental regulatory uncertainty and "lingering weakness" in some non-Bank financial companies. [ET CFO, Sept 13]

FIDC hails RBI's booster dose for NBFCs

Central bank measures on priority sector lending, increase in bank exposure limit to NBFC will enhance fund flow to the sector, says FIDC Chief Aggarwal. FIDC — a representative body of NBFCs — has welcomed the RBI's measures to enhance credit flow to the NBFC sector.

"This is a big victory for FIDC. We have been raising the priority sector issue with the Government at the highest levels including PM, FM and RBI Governor since December last year", Raman Aggarwal, Chairman, FIDC told Business Line.

FIDC In Action

The RBI on Aug. 7 in its latest monetary policy review allowed bank lending to registered NBFCs (other than MFIs) for on lending to agriculture (investment credit) upto Rs. 10 lakhs, MSMEs upto Rs. 20 lakhs and housing upto Rs. 20 lakh per borrower (up from Rs. 10 lakh at present) to be classified as priority sector lending.

This concept of bank lending to NBFCs for onward lending to various sectors being categorised as priority sector lending was there till 2011. This facility was removed in 2011 and now being restored, but with certain specified sectors such as agriculture, MSME and housing. "This RBI move will improve fund flow to NBFC sector," Aggarwal said. Besides the priority sector move, RBI also today raised the bank's exposure limit to a single NBFC to 20 per cent of Tier-I capital of the bank. It was 15 per cent earlier. [Business Line, Aug. 7]

NBFCs seek access to Mudra NHB-like refinance window

In order to tide over the ongoing liquidity crisis, an industry body has sought a dedicated liquidity window for NBFCs through the banking channel, classification of bank loans to NBFCs as priority sector lending (PSL) and access to refinance under the Micro Units Development and Refinance Agency (Mudra) scheme.

At an event organised by the Finance Industry Development Council, an association of registered NBFCs, non-bank lenders also asked for the setting up of a permanent refinance window and an alternate investment fund (AIF) as well as a facility for on-tap issuance of non-convertible debentures (NCDs) to retail investors. Raman Aggarwal, chairman, FIDC, said that in the nine months since IL&FS defaulted, no NBFC has defaulted, even as they had to restrict lending. "As such, the current crisis is more a growth-related issue and not a solvency issue," he observed.

In its representations to the government and the Reserve Bank of India (RBI), FIDC has asked for all registered NBFCs to be allowed to avail refinancing under the Mudra scheme. They have asked for the external credit rating criteria to be replaced by other stipulated financial parameters, which may be "more realistic and doable". The cap of 6% on the maximum spreads allowed should be done away with, FIDC said, and systemically important NBFCs should be allowed to act as aggregators by availing refinance from Mudra for on-lending to small- and medium-sized NBFCs.

As a long-term measure to tackle liquidity deficit, the industry has asked for a dedicated refinance window for NBFCs along the lines of the National Housing Bank, which provides refinance to HFCs. An AIF would help channelise the flow of institutional funds to NBFCs, while the on-tap mechanism for raising retail money would offer a cost-effective fund-raising mechanism, FIDC said. [FE Bureau, July 3]

Need refinance mechanism to support NBFCs: FIDC to FM

FIDC, a representative body of NBFCs, on Aug. 9 urged Finance Minister Nirmala Sitharaman to put in place a refinance mechanism to support NBFCs during troubled times. This was conveyed to Sitharaman during the specially-convened meeting by the Finance Minister with representatives of financial intermediaries and capital markets.

"We requested for a refinance mechanism on the lines that National Housing Bank provides for housing finance companies to be provided for large NBFCs. For smaller NBFCs, we have suggested that MUDRA should do refinance," Raman Aggarwal. Chairman, FIDC said. NBFCs have, in recent times, struggled with liquidity problem, with some of them even facing a blowout due to asset-liability mismatches. The meeting also saw discussions around the Budget proposal to provide partial guarantee to banks for them to lend to NBFCs, it is learnt. The meeting was also attended by S Viji, Chairman, Sundaram Finance. [Business Line, August 09]

'Open refinancing window for crisis-hit non-banking financial companies sector'

Growth and not solvency is the issue, says FIDC

Calling for a reality check on the continuing crisis in the NBFC sector, the Finance Industry Development Council (FIDC) has sought intervention from the government and the RBI for improved funding to meet the requirement of growth capital.

The measures suggested by the FIDC include a dedicated liquidity window for NBFCs through banking channels, categorising bank lending to NBFCs for on-lending [to the priority sector] as priority sector lending and permitting small- and medium-sized NBFCs to avail refinancing under the Pradhan Mantri Mudra Yojana (Mudra scheme). "A dedicated liquidity window for NBFCs can be provided for a one-year period on the lines of a special repo window created by the RBI in 2008 for banks under the liquidity adjustment facility (LAF) for on lending to NBFCs," said Raman Aggarwal, Chairman, FIDC.

It has also called for setting up a permanent refinance window for NBFCs akin to that provided by the National Housing Bank to housing finance companies. Further, it has suggested setting up an alternative investment fund (AIF) to channelise institutional funds to

[Continued to Page-9]

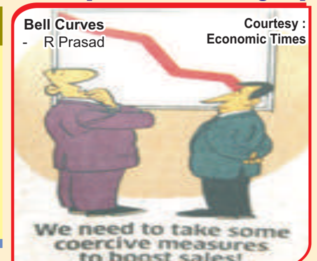
Published by :

Mr. Mahesh Thakkar, Director General
for and on behalf of
Finance Industry Development Council,
101/103, Sunflower, 1st Floor,
Rajawadi Road No.2, Ghatkopar (East), Mumbai 400 077.
Call: 022 - 21029898/91 9820035553
Email: directorgeneral@fidcindia.org;
maheshthakkar45@yahoo.in
Website: www.fidcindia.org

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 : directorgeneral@fidcindia.org

- Editorial Committee



Printed by : Aditya Print Shop (M) 9825866610