FIDC NEWS

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

VOLUME – 14 NO. – 1 April - June – 2022 e-Edition No. 5 FOR PRIVATE CIRCULATION

NEED FOR BORROWER CENTRIC REGULATIONS FOR LENDING

With the growth of Indian economy and the economic reforms brought in by the Govt in recent times, India witnessed a surge in demand for credit. This led to overlaps in the type of lending done by each of the lender categories and this resulted in RBI actively getting into the act of "harmonization" of regulations for these lenders. As a result of this change in regulatory approach, we have witnessed greater convergence and harmony in the norms, especially, the prudential norms prescribed for banks, NBFCs and FIs. In order to do this, RBI has also shifted focus to an "activity" based as against "entity" based regulation.

Raman Aggarwal
Director at FIDC and Area Head - NBFCs at CIEU

Lending, especially, retail lending is undergoing a major transformation in Modern India, with technology giving it a big boost. New age Digital lending has forced the regulator to not only setup an expert committee but also setup the first regulatory sandbox. With Financial Inclusion taking shape in our country, we are witnessing a surge in demand for credit. While, the regulator is working on the design and structure of the regulatory framework for digital lending, it is also the time to change the whole approach towards regulation of lending business in a diverse country like India.

Broadly, we have 3 types of lenders – banks (including Small Finance Banks, Regional Rural Banks, Co-operative Banks), Non-Banking Finance Companies NBFCs (including Housing Finance Companies HFCs, P2P lending NBFCs and Micro Financing NBFC-MFIs) and All India Financial Institutions (like SIDBI, NABARD etc.). All of them are regulated by Reserve Bank of India. Historically, the regulatory framework for each of these lender categories, as prescribed by RBI, falls into separate buckets backed by the provisions of the respective statutes governing various lenders (eg: Banking Regulation Act, 1949 , Reserve Bank of India Act, 1934 as amended from time to time). This was a direct fall out of the different nature of lending activities carried out by each of these lenders.

With the growth of Indian economy and the economic reforms brought in by the Govt in recent times, India witnessed a surge in demand for credit. This led to overlaps in the type of lending done by each of the lender categories and this resulted in RBI actively getting into the act of "harmonization" of regulations for these lenders. As a result of this change in regulatory approach, we have witnessed greater convergence and harmony in the norms, especially, the prudential norms prescribed for banks, NBFCs and FIs. In order to do this, RBI has also shifted focus to an "activity" based as against "entity" based regulation. A classic example is the RBI circular dt 14th March, 2022 which is on Master Directions for Microfinance Loans and is equally applicable to all the lenders (or "Regulated Entities REs" – as coined by RBI).

However, with lending getting more and more diversified covering a larger segment of the society including the unbanked, the need of the hour is for the regulations also to get more and more granular. A mere "activity" based approach does not suffice and there is a strong case for a "borrower" based approach to the prescription of regulatory norms. Let me explain with examples:

RBI issued a circular dt. 12th November, 2021 on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances. This was addressed to all the Regulated Entities REs (i.e banks, NBFCs & FIs) meaning they are equally applicable to each of these lenders. As per this, it is mandatory for lenders to ensure that by the end of 90th day of default, before the lenders close their accounts for the day they have to classify the defaulting borrower as a NPA. Secondly, the circular also clarifies that once a borrower account is classified as NPA, it can be upgraded back to the "standard" category only when the borrower repays the due amount (principal + interest + penal interest) in FULL i.e 100% of the overdue amount has to be repaid. Only then the NPA tag on the borrower gets removed.

Imagine these provisions in case of a small loan of Rs. 50,000/- (fifty thousand only) given to an individual running a kiosk / shop or a service provider like a plumber / mechanic or a simple worker in a

AT A GLANCE

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factory, as against a large loan of Rs. 500 crores given to a corporate towards its working capital. How prudent it is to have same norms for both the borrower categories, when it is a well known fact that a poor small borrower's needs, earnings, cashflows are extremely fragile and he / she is the first one to bear the brunt of any mishappening like natural calamity / pandemic / local bandhs / riots / etc. Further, in case of small service providers or workers the cash inflows happen only during the month ends, and in some cases even at the end of a quarter. Added to it are the fresh spendings that may arise towards any medical exigency, child education or even a family celebration.

For absolutely no fault of his / her, a poor small borrower may be forced to bear a NPA tag strictly by the end of the 90th day of default. And he needs to repay 100% of the overdue amount in order to get the NPA tag removed. The natural fall out of this shall be an early NPA tag which shall last longer. With the NPA tag, he / she is treated as an untouchable by all the Regulated Entities REs. The options left for him / her are to go back to the age old local moneylenders or be fortunate enough to borrow from a friend / relative.

Similarly, a loan taken by a driver to buy a second hand autorickshaw (3-wheeler) is subject to the same prudential norms as are applicable to a loan taken by a large transporter / fleet operator to buy a fleet of trucks / tempos (HCVs / LCVs etc). In this case, in order to prevent the loan from turning into a NPA, the lender is bound to reposses the vehicle anytime after the passage of 60 days (and before 90 days) of default . So, the poor driver of the autorickshaw is bound to be dispossessed of the vehicle also, which is the bread earner for him and his family. This shall almost seal his fate as being a bearer of NPA tag on a permanent basis.

In a nutshell, "flexibility" is a key factor which has to be an essential element of any regulatory norms prescribed for small borrowers and borrowers whose cash inflows happen only on month / quarter end. Rigidity in regulations not only impacts their borrowing capacity but also entails lenders getting more and more risk averse. This goes against the agenda of Financial Inclusion. Let me also clarify that often a counter argument put forth to this issue is that the lenders have the flexibility to prescribe the repayment schedule based on the nature and needs of the borrowers. But the key issue that is missed out is that the needs and business cashflows of small borrowers change so fast that it is impossible to foresee them right at the beginning of the loan agreement. The important need is to ensure flexibility right through the tenure of the loan agreement and not merely at the start of it.

To take the argument further, I was recently invited by a National level organization of MSMEs where credit was one of the key subjects for discussion. All the MSME borrowers had similar opinion and concerns on credit availability. While they are flooded with phone calls from banks and NBFCs offering loans, they still struggle to meet their credit needs due to:

- Mismatch in timing
- Terms of the loan products not in sync with their nature of business
- No provisions to cater to the disruptions caused in their cashflows unless the disruption is at the state or national level
- Some businesses demand specialized treatment
- Need for increased level of handholding in case of exigency

I have now spent more than 30 years in the lending space and have worked at the grass root level interacting with these small borrowers as well as worked with large NBFCs lending to large corporates. I have also had the fortune of being associated with an apex world body and have represented the NBFC sector for more than 20 years now. While I fully agree and appreciate the need to align our financial services sector with global practices, but I am equally convinced that we in India, are extremely fortunate to have a very robust and vibrant lending sector where non bank entities have not only grown but also matured and contributed to an extent that the regulator and the policy makers have decided to shed the term "shadow banks" (as is being used for non bank lenders in other parts of the world). And this has been possible simply because Non bank lenders in India are subject to (and compliant to) an equally robust and vibrant regulatory regime the credit for which entirely goes to RBI and the policy makers at the North Block. The key to the impressive growth of NBFCs is their focus on lending to the unbanked and under banked. And to do this, "flexibility based on the borrower's needs" is the guru mantra which draws the small borrowers despite the fact that the NBFC lending rates are higher than that of banks and FIs.

The world has also evolved to put human behaviour as the key focus area for any policy making process. Even the latest advances in technology have user as the main focus area. Therefore, it is of utmost importance for the regulator and the policy makers of Indian Financial Services sector, to start looking at the regulation of lending activity from the lens of the ultimate borrower and not merely the lender. In the effort towards harmonizing regulations of different lenders, it is important to ensure that the flexibility required to cater to the needs of the borrowers is not impacted. Inclusive financing has to be backed by inclusive regulations. [BFSI News, Blogs, May 30]

[Continued from page-12... RBI SUPERVISION AGENDA]

supervision of all SEs in 2022-23:

- Implementation of risk-based approach (RBA) for KYC/AML supervision of select UCBs and NBFCs;
- Issue of guidelines on compliance function and appointment of Chief Compliance Officers (CCOs) in NBFCs and UCBs;
- Unified fraud reporting system for all SEs;
- Undertaking cyber security enhancement measures;
- Further strengthening of audit mechanisms in SEs; and
- Scaling-up of operations of the CoS for capacity development and skill enhancement of supervisory staff.

Enforcement Department (EFD)

VI.126 Enforcement Department was set up in April 2017 with a view to separate enforcement action from supervisory process and to put in place a structured, rule-based approach to identify and process the violations by the REs of the applicable statutes and the rules, regulations, guidelines and orders made, directions issued, and conditions imposed there under by the Reserve Bank, and enforce the same consistently across the Reserve Bank. The objective of enforcement is to ensure compliance by the REs with laws, within the overarching principle of ensuring financial stability, public interest and consumer protection.

Agenda for 2022-23

VI.134 For the year ahead, the Department proposes to achieve the following goals:

- Towards facilitating improvement in compliance culture by REs, a system of preparing report on enforcement actions at half yearly intervals for dissemination of additional information amongst REs shall be put in place;
- Seminars focused on sensitisation of compliance officers of REs shall also be organised;
- The Department will provide inputs for compliance testing of REs to DOS, NHB and NABARD for frequently observed contraventions identified using the business process application so as to improve the compliance culture in REs; and
- The Department will examine the feasibility of a scale-based approach to enforcement. [Extract relating to NBFCs from the Reserve Bank of India Annual Report-2021-22 published on May 27, 2022. To facilitate readers Agenda for 2022-23 is placed in bold.]

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Provisioning for Standard assets by Non-Banking Financial Company – Upper Layer: RBI/2022-2023/61 DOR. STR. REC. 40/ 21.04.048/2022-23; 06.6.2022; Department of Regulation. [All Non-Banking Financial Companies (Including Housing Finance Companies)]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendment in 6 entries (individuals): RBI/2022-2023/59; DOR. AML. REC. 38/ 14. 06.001/2022-23; 30.5.2022; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

New Definition of Micro, Small and Medium Enterprises – Clarification: RBI/2022-2023/52; FIDD.MSME & NFS. BC. No. 7/ 06. 02.31/2022-23; 19.5.2022; Financial Inclusion and Development Department. [The Chairman/ Managing Director/Chief Executive Officer All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks /All-India Financial Institutions/ All Non-Banking Financial Companies]

Lending by Commercial Banks to NBFCs and Small Finance Banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to priority sectors: RBI/2022-2023/50; FIDD. CO. Plan. BC. No. 5/ 04. 09. 01/ 2022-23; 13.5.2022; Financial Inclusion and Development Department. [The Chairman/ Managing Director/ Chief Executive Officer All Scheduled Commercial Banks (Including Small Finance Banks) (Excluding Regional Rural Banks, Urban Co-operative Banks and Local Area Banks)]

Review of Minimum Investment Grade Credit Ratings for Deposits of NBFCs: RBI/2022-2023/37 DOR. FIN. REC. No. 30/ 03. 10. 001/ 2022-23; 02.5.2022; Department of Regulation. [All Deposit taking NBFCs (including deposit taking HFCs)]

Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs: RBI/2022-2023/36; DOR. GOV. REC. No. 29/ 18. 10. 002/ 2022-23; 29.4.2022; Department of Regulation. [All Non-Banking Financial Companies]

Legal Entity Identifier (LEI) for Borrowers: RBI/2022-2023/ 34; DOR.CRE.REC.28/21.04.048/2022-23; 21. 4. 2022; Department of Regulation. [All Scheduled Commercial Banks (Excluding Regional Rural Banks), All India Financial Institutions, Small Finance Banks, Local Area Banks, Primary (Urban) Co-operative Banks, and Non-Banking Financial Companies (including Housing Finance Companies)]

Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL): RBI/ 2022-2023/32; DOR. CRE.REC.24/21.01.003/2022-23;19.4.2022; Department of Regulation. [All Non-Banking Financial Companies]

Scale Based Regulation (SBR) for NBFCs: Capital requirements for Non-Banking Finance Companies – Upper Layer (NBFC-UL): RBI/2022-2023/30; DOR. CAP. REC. No. 21/ 21.06.201/2022-23; 19.4.2022 Department of Regulation. [All NBFCs identified as NBFC-UL, except Core Investment Companies (CICs)]

Loans and Advances – Regulatory Restrictions – NBFCs: RBI/2022-2023/29; DOR.CRE.REC.No.25/03.10.001/2022-23 ; 19.4.2022; Department of Regulation. [All Non-Banking Financial Companies]

Disclosures in Financial Statements- Notes to Accounts of NBFCs: RBI/2022-2023/26; DOR. ACC. REC. No. 20/ 21. 04. 018/ 2022-23; 19.4.2022; Department of Regulation. [All NBFCs]

Compliance Function and Role of Chief Compliance Officer (CCO): RBI/2022-2023/24; Ref. No. DoS. CO. PPG. / SEC. 01/ 11. 01.005/2022-23;11.4.2022; Department of Supervision. [The Chairman / Managing Director / Chief Executive Officer All Non-Banking Financial Companies]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendment in two entries: RBI/2022-2023/18; DOR. AML. REC. 11/14.06.001/2022-23; 04.4.2022; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs):RBI/2022-2023/14; DOR. CRE. REC. No. 07/ 21. 04.172/2022-23;01.4.2022; Department of Regulation. [All Scheduled Commercial Banks (excluding RRBs]

Will issue guidelines to make digital lending ecosystem safer: RBI Guv

The Reserve Bank of India Governor Shaktikanta Das said that the Central bank will soon issue guidelines to make digital lending ecosystem safe and sound. "Big tech's play in finance poses systemic concerns like overleverage", Das said at an event organised by Financial Express.

He said that blockchain players pose unique problems and regulating them will require globally coordinated action. "Blockchain platforms cannot be limited to a regulator or nation. Regulators can go for activity and entity-based regulations", he added.

Das further said, "earlier, RBI's approach was to provide sunset clauses. However, this year credit growth is around 12 per cent, compared to 5-6 per cent last year. Reasonably satisfactory credit growth is happening."

Taking a strict tone on loan recovery, Das said that loan recovery agents using harsh methods like calling up at odd hours, foul language is totally unacceptable. [Business Standard, June 17]

RBI lists rules for provisioning by NBFCs on advances to housing, realty, SME

The Reserve Bank of India (RBI) on Monday said that non-banking financial companies (NBFCs) in the upper regulatory layer will have to maintain provisions for standard advances based on category of assets like SME, real estate, and housing loans, including those given at teaser rates. This is seen as a step to prescribe bank-like regulatory norms for finance companies.

The individual housing loans and loans to small and micro enterprises (SMEs) will attract provision of 0.25 per cent. NBFCs will have to maintain 2 per cent provision for housing loans extended at a teaser rate. This provision will decrease to 0.40 per cent one year from the date on which the rates were raised.

NBFCs would have to keep a 0.75 per cent provision for advances to commercial real estate – residential housing (CRE - RH). Other real estate loans would carry slightly higher provisions of 1 per cent. The loans to medium-size enterprises and advances not included in any of other the categories would attract a 0.40 per cent provision.

'NBFC - Upper Layer' consists of finance firms that are specifically identified by the RBI as warranting enhanced regulatory requirements. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

The central bank said that current credit exposures due to permitted derivative transactions shall also attract provisioning requirements as applicable to the loan assets in the 'standard' category.

The RBI said NBFCs with net worth of Rs 250 crore and above would be required to comply with Indian Accounting Standards (Ind AS) to prepare financial statements. They shall continue to hold impairment allowances as required under Ind AS. These provisions will be included in the computation of the prudential floor. However, they shall not be considered for calculating net non-performing assets (NPAs), the RBI added. [Business Standard, June 6]

RBI to soon come out with regulatory architecture for digital lending platforms

Mushrooming technology companies extending financial services has made the regulatory role more challenging, says RBI's working group on digital lending

The Reserve Bank of India (RBI) will soon come out with a broad regulatory architecture to address the challenges posed by digital lending platforms, according to Governor Shaktikanta Das.

"... I think, very soon we will be coming out with a broad regulatory architecture which should be able to address the challenges that we are confronted with, with regard to lending through digital platforms, many of which are unauthorised, unregistered and, should I say, illegal," Das said in his address on the occasion of iconic week of Azadi ka Amrit Mahotsav celebrations organised by the Central Board of Indirect Taxes and Customs.

Over the past one year, thousands of people have fallen prey to predatory loan apps in the absence of any regulations, suffered even sexual harassment and ended up paying extortion money to loan recovery agents.

Protecting customers: The RBI's working group (2021) on digital lending, including lending through online platforms and mobile apps, noted that while the current share of digital lending in overall credit pie of the financial sector is not significant for it to affect financial stability, the growth momentum has compelling stability implications.

It is believed that ease of accessing digital financial services, technological innovations and cost-efficient business models will eventually lead to meteoric rise in the share of digital lending in the overall credit, per the group's report.

"The larger issue here is protecting the customers from widespread

unethical practices and ensuring orderly growth. As has been seen during the pandemic-led growth of digital lending, unbridled extension of financial services to retail individuals is susceptible to a host of conduct and governance issues," the group said.

Challenging role: The group also emphasised that mushrooming growth of technology companies extending and aiding financial services has made the regulatory role more challenging. In view of the ease of scalability, anonymity and velocity provided by technology, it has become imperative to address the existing and potential risks in the digital lending ecosystem without stifling innovation, it added.

"At the Reserve Bank, we do recognise the role of existing as well as emerging businesses for economic progress. Long-term success of any business is directly linked to its quality of governance, internal control systems and the robustness of its risk and organisational culture. The Reserve Bank has been pushing for improvements in the governance and compliance culture of its regulated entities through a series of measures," Das said.

Business models: The Governor emphasised that business models and strategies of individual entities should be conscious choices that are adopted following a robust strategic discussion in the Board, after considering all relevant aspects. Businesses should avoid aggressive short-term reward seeking culture, without regard for the build-up of excessive risks in the balance sheet, he added.

Das observed that the common characteristics of some inappropriate business models or strategies that are observed include inappropriate funding structure; and building asset liability mismatches which are highly risky and not sustainable.

He also underscored unrealistic strategic assumptions, particularly excessive optimism about capabilities, growth opportunities and market trends which may lead to poor strategic decisions that imperil business model viability; and over-focus on business considerations with neglect of risk, control and compliance systems. [Business Line, June 9]

RBI Gov asks people to approach local police for issues against unregistered digital lending apps

Shaktikanta Das said most of the digital lending apps are not registered with the central bank and operate by themselves. Customers borrowing from unregistered digital lending apps should approach the local police in case of any issue, Reserve Bank Governor Shaktikanta Das said on Wednesday, making it clear that the central bank will only act against entities registered with it.

In remarks that came in the wake of a spate of alleged suicides abetted by harassment by agents or officials of lending apps, Das said most of the digital lending apps are not registered with the central bank and operate by themselves.

Das said whenever it gets a complaint from any customer, the central bank directs customers of such unregistered apps to approach the local police, which will conduct an investigation and take necessary action on the issue. The RBI website has a list of apps that are registered with it on the website, the governor said, adding that the police in many states have acted against the wrongdoers as per the provisions of the law.

"It's my humble request to all those using such apps to first check if the app is RBI registered or not. If the app is RBI registered, the central bank will act immediately in case of any misdoing, I assure you," Das said in the customary post-policy press interaction.

Acknowledging that customers are also getting communication in the form of SMSes or calls in the name of banks, Das requested borrowers to not share personal details like one time passwords or CVV numbers with any such agents who can misuse the same for fraudulent activities. If a customer wants, she or he can check with their bank branch to ascertain the veracity before proceeding ahead, he added. [Business Line, June 8]

RBI issues guidelines on capital requirements for NBFCs-UL

NBFCs-Upper Layer will maintain, on an on-going basis, Common Equity Tier 1 (CET1) ratio of at least nine per cent of risk weighted assets, the RBI has said. This follows a circular for Scale Based Regulation for NBFCs. "This circular is applicable to all NBFCs identified as NBFC-UL, except core investment companies (CICs)," the RBI said in detailed guidelines on capital requirements issued on Tuesday.

Elements of the CET-1 capital will comprise of paid-up equity share capital issued by the NBFC, share premium resulting from the issue of equity shares, and capital reserves representing surplus arising out of sale proceeds of assets. Further, statutory reserves and revaluation reserves arising out of change in the carrying amount of an NBFC's property, consequent upon its revaluation in accordance with the applicable accounting standards may, at the discretion of the NBFC, will be reckoned as CET1.

Loans and advances under Rs. 5 crore: Meanwhile, in a separate set of guidelines on loans and advances by NBFCs, the RBI has spelt out regulatory restrictions for NBFCs in the Middle and Upper Layer. Unless sanctioned by the board of directors or committee of directors, NBFCs shall not grant loans and advances aggregating Rs. 5 crore and above to their directors (including the Chairman/Managing Director); relatives of directors; any firm in which any of director or their relative is interested as a partner, manager, employee or guarantor; or any company in which any director their relative is interested as a major shareholder, director, manager, employee or guarantor.

Real estate loans: In the real estate sector, the RBI has said that while appraising loan proposals, NBFCs shall ensure that the borrowers have obtained prior permission from government, local government, or other statutory authorities for the project, wherever required. "To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government or other statutory authorities," it added.

The guidelines on loans and advances will be effective from October 1, 2022. [Business Line, April 19]

Only 'BBB-' rated NBFCs can accept deposits, mandates RBI

In the series of tightening norms for non-banking finance companies, the Reserve Bank of India has said that the minimum investment grade credit rating for non-banking finance companies to accept deposits should be 'BBB-' from any of the Securities and Exchange Board of India-registered credit rating agencies.

The central bank's notification comes after it reviewed its earlier 2016 master direction on NBFCs' acceptance of public deposits. According to the 2016 notification, non-banking finance companies with net owned funds of Rs 25 lakh and above need to obtain a minimum investment grade or other specified credit ratings for fixed deposits from any one of the approved credit rating agencies at least once a year to accept public deposits. There are seven approved rating agencies namely CRISIL, ICRA, CARE Ratings, Fitch Ratings India, Brickwork Ratings, Acuite Ratings and Research and Infomerics Valuation and Rating, according to the notification. The minimum investment grade was 'BBB' for CARE, Brickwork and Infomerics. The RBI will now modify the 2016 circular based on its review, it said. [ETBFSI May 04]

RBI extends rationalisation of risk weight till March next for Home loans

The RBI had rationalised risk weight on individual housing loans by linking them with loan to value ratios for all new housing loans sanctioned up to March 31, 2022. In a move that will benefit borrowers, the Reserve Bank of India has proposed extending the lower risk weights on home loans by one more year till March 31, 2023. "This will facilitate higher credit flow for individual housing loans," RBI Governor Shaktikanta Das said on Friday. The Reserve Bank had on October 12, 2020, rationalised the risk weights on individual housing loans by linking them with loan to value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022. [Business Line, April 08]

RBI further tightens regulations for non-bank lenders

The Reserve Bank has announced a slew of regulatory changes for non-banking lenders by amending the October 2021 circulars on scale-based regulations, which have brought in large NBFCs almost on par with bankers when it comes to addressing their credit risk concentration. The regulator on Tuesday issued four separate circulars: Large

• As on 31st March 2022 - AUM ₹127,040.86 Crores • 1854 Branches • 775 Rural Centres

COMMERCIAL GOODS VEHICLE FINANCE • CONSTRUCTION EQUIPMENT FINANCE • PASSENGER COMMERCIAL VEHICLE FINANCE

FARM EQUIPMENT FINANCE • BUSINESS LOAN / WORKING CAPITAL LOAN • BILL / CHALLAN DISCOUNTING

TYRE FINANCE • FUEL LOAN • AUTOMALL • VEHICLE INSURANCE • FAMILY PROTECTION PLAN • LIFE INSURANCE

Corporate Office:
Shriram Transport Finance Co. Ltd.,
Wockhardt Towers, Level-3, West Wing, C-2, G-Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai-400 051. Tel: +91 22 4095 9595.
CIN - L65191TN1979PLC007874.

exposures framework for NBFCs — upper layer; Disclosures in their financial statements; Scale-based regulation for capital requirements – upper layer; and Regulatory restrictions on their loans and advances. These are improvements on the October 22, 2021, circulars.

On the large exposure framework with the upper layer, the regulator said these prudential guidelines are aimed at addressing credit risk concentration in NBFCs and are set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures. See the item titled: "RBI makes disclosure of exposures must for NBFCs" for further details.

Under the scale-based regulation for NBFCs' capital requirements — upper layer, they have to maintain an equity tier 1 capital of at least 9 per cent of the risk-weighted assets, wherein the common equity tier 1 capital will comprise the paid-up equity share capital, share premium resulting from equity shares, capital reserves representing surplus arising out of asset sales, statutory reserves, revaluation of reserves arising out of change in the carrying amount of property consequent to its revaluation in accordance with the applicable accounting standards.

All these may be reckoned as CET1 capital at a discount of 55 per cent, instead of as tier 2 capital under extant regulations. But this is subject only if the property is held for its own use by the NBFC and it can sell it readily at its own will sans any legal impediment; if revaluation reserves are presented/disclosed separately in the financial statements and the value is realistic and are in accordance with applicable accounting standards and are obtained from two independent valuers, among others.

It also allows an NBFC to reduce the accumulated losses from CET 1, while profits in the current financial year may be included on a quarterly basis if it has been audited or subject to limited review by the statutory auditors. Further, such profits shall be reduced by the average dividend paid in the last three years. Also, it allows deducting the entire losses in the current year from CET 1 (Common Equity Tier).

The new regulatory adjustments/deductions shall be applied in the calculation of CET1 capital if it is deducted from the sum of items for goodwill and other intangible assets, goodwill and all other intangible assets should be deducted from the common equity tier 1 capital.

Investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances, including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10 per cent of the owned fund of the NBFC. [Financial Express, April 19]

RBI issues new rules, penalties for credit & debit cards

The Reserve Bank of India (RBI) has overhauled rules governing debit and credit cards introducing penalities for banks for issuing or upgrading cards of customers without prior consent. It has also opened a window for non banking finance companies (NBFCs) to issue credit cards with the prior approval of the regulator. The regulator has asked banks to ensure that the overdue interest is not adjusted to the principal of the loan causing negative amortization. Banks have also been asked to ensure that unpaid charges, levies and taxes are not capitalised for compounding of interest.

The new directions are effective from July 01, 2022 and will apply to all scheduled banks and NBFCs. Banks with a net worth of Rs 100 crore and above are permitted to undertake credit card business either independently or in tie-up arrangement with other card issuing banks/NBFCs. Urban cooperative banks (UCBs) with minimum networth of Rs 100 crore and a core banking solution in place can also issue credit cards after RBI approval.

NBFCs will require special RBI permission to issue credit, debit or charge cards virtually or physically with a minimum net owned fund of Rs 100 crore.

The RBI singled out unsolicited issue or upgradation of cards for the first time putting the onus on banks for any liabilities arising from such issuances. "In case, an unsolicited card is issued/existing card upgraded and activated without the explicit consent of the recipient and the latter is billed for the same, the card-issuer shall not only reverse the charges forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed. In addition, the person in whose name the card is issued can also approach the RBI Ombudsman who would determine the amount of compensation payable by the card-issuer to the recipient of the unsolicited card as per the provisions of the Ombudsman Scheme, i.e., for loss of complainant's time, expenses incurred, harassment and mental anguish suffered by him/her," RBI said. Banks have to honour request for closure of a credit cards, immediately notifying the customer of the closure through email, SMS, etc. [Joel Rebello, ET Bureau, April 22]

RBI makes disclosure of exposures must for NBFCs

Non-banking financial companies (NBFCs) must report their real estate exposures and exposures to the capital markets and group companies, Reserve Bank of India (RBI) said on Tuesday, putting out specific disclosure norms for these intermediaries. The regulator also laid down a large exposures framework (LEF) for upper layer NBFCs and infrastructure finance companies.

All categories of NBFCs will have to make specific disclosures in their annual financial statements with respect to their direct and indirect exposure to the real estate sector, including securitised exposures, as well as details of their capital market exposures. They will also be required to report their sector-wise outstandings in a format similar to one that is currently applied to banks.

NBFCs will have to disclose the total amount of intra-group exposures, the total amount of top 20 intra-group exposures and the percentage of intra-group exposures to the total exposure. Further, they will be required to report details of their un-hedged foreign currency exposures and disclose the policies to manage currency-induced risks. Detailed disclosures of related party transactions and customer complaints will also be required of all categories of NBFCs.

Under the LEF, the exposure of an upper layer NBFC (excluding infrastructure finance companies) to a single counterparty must not be higher than 20% of its available eligible capital base. Subject to board approval, an additional 5% exposure beyond 20% may be allowed. For a group of connected counterparties, the exposure shall be capped at 25%, with an option to raise it to 35% in case of an infrastructure loan or investment. Infrastructure finance companies in the upper layer will be allowed a 25% exposure to a single counterparty, with the option to raise it to 30% with the board approval. An infrastructure finance company's exposure to a group will be capped at 35%.

As per the scale-based regulatory framework for NBFCs which comes into force on October 1, 2022, the upper layer will consist of those NBFCs which are specifically identified by the RBI as warranting enhanced regulatory requirements based on a set of parameters. The middle layer shall consist of all deposit-taking NBFCs, non-deposit-taking NBFCs with asset size of Rs 1,000 crore and above as well as standalone primary dealers, infrastructure debt funds, core investment companies, housing finance companies and infrastructure finance companies. All other NBFCs shall occupy the base layer.

NBFCs shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. Further, NBFCs shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements," the RBI said.

There will be specific guidelines governing loans to directors in the case of NBFCs in the upper and middle layers. Unless sanctioned by the board, such NBFCs shall not grant loans of Rs 5 crore or more to their directors, relatives of directors or companies with which a director may have a relationship. Loans given to senior officers shall be reported to the board and no senior officer shall be involved in sanctioning any credit facility to their own relatives. NBFCs in the base layer shall have a board-approved policy on grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding.

While appraising loan proposals involving real estate, upper and middle layer NBFCs shall ensure that borrowers have obtained prior permission from the government and other statutory authorities for the project, wherever required. "To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government/other statutory authorities," the RBI said.

Upper and middle layer NBFCs will have to make disclosures relating to corporate governance, including details of composition of the board, general body meetings as also penalties and strictures imposed by the RBI or other statutory authorities. They shall disclose all instances of breach of covenant of loans availed or debt securities issued, and details of divergence between provisioning and bad loans assessed by the company and regulators, if such divergence exceeds 5%. [Financial Express, April 20]

Parity between banks & NBFCs: Senior management at NBFCs to get mix of fixed & variable pay

The Reserve Bank of India on Friday laid down broad guidelines for non-banking financial companies (NBFCs) to follow while determining

compensation packages of their key management personnel (KMP) and senior management. These norms could be seen as the latest in a line of measures aimed at bringing greater regulatory parity between banks and non-bank lenders.

While compensation packages may comprise fixed and variable pay components, the proportion of variable pay must be commensurate with the role and prudent risk taking profile of KMP, the regulator said. "The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business-unit and company-wide level," the central bank said in a notification.

Not all the variable pay awarded after performance assessment may be paid immediately. A certain portion of the variable pay may be deferred to the time horizon of the risks.

The deferred compensation could be made subject to malus or clawback arrangements in the event of a subdued or negative financial performance of the company or employee misconduct.

The RBI mandated that senior personnel engaged in functions like financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key roles in the company. In other words, such personnel will be expected to have a higher proportion of fixed compensation.

"However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous," the notification said. No guaranteed bonus will be paid to KMP and senior management, the RBI said.

However, in the context of new hiring, a bonus will be permitted. Such bonus will neither be considered part of fixed pay nor of variable pay. [Financial Express, April 30]

Non-banks not allowed to load credit lines on prepaid wallets, cards: RBI

In a move that could impact a number of fintech players, the Reserve Bank of India (RBI) has asked non-bank prepaid payment instruments (PPIs) issuers to not load their PPI instruments through credit lines. In a circular addressed to the non-bank PPI issuers, the RBI said, "The PPI-master direction does not permit loading of PPIs from credit lines. Such practice, if followed, should be stopped immediately. Any non-compliance in this regard may attract penal action under provisions contained in the Payment and Settlement Systems Act, 2007".

This circular by the RBI is likely to impact those fintech players who offer credit lines to customers via their wallets in association with non-banking finance players. It may also affect fintechs who are issuing prepaid cards in association with a banking partner or a non-banking partner. As per the master directions, PPIs are permitted to be loaded/ reloaded by cash, debit to a bank account, credit and debit cards, PPIs, and other payment instruments issued by regulated entities in India. However, the guidelines do not permit credit lines to top up these instruments. [Business Standard, June 21]

RBI proposes norms for outsourcing of IT services by banks, NBFCs

The Reserve Bank on Thursday proposed norms for the outsourcing of IT services to ring-fence banks and other regulated entities from financial, operational and reputational risks. Regulated entities (REs) will not require prior approval from the central bank for the outsourcing of IT and IT-enabled services, according to RBI's draft Master Direction on Outsourcing of Information Technology (IT) Services.

"The underlying principle of these Directions is that the RE should ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers nor impede effective supervision by the supervising authority," said the draft, on which the RBI has invited comments from stakeholders by July 22.

Banks, payment banks, cooperative banks, credit information companies, NBFCs and other regulated entities, would be required to put in place a comprehensive board-approved IT outsourcing policy. "Outsourcing of any activity of the RE shall not diminish its obligations as also of its Board and senior management, who shall be ultimately responsible for the outsourced activity.

"RE shall take steps to ensure that the service provider employs the same high standard of care in performing the services as would have been employed by the RE if the same activity was not outsourced," the draft said. The RBI has also proposed that the REs should set up a robust grievance redressal mechanism, "which in no way shall be compromised on account of outsourcing", meaning responsibility for redressal of customers' grievances related to outsourced services would rest with them. [Business Standard/PTI, June 23]

RBI: NBFCs-UL, NBFCs-ML to have compliance function by April 1, CCO by Oct 1, 2023

NBFCs in the Upper Layer and Middle Layer should put in place a board approved policy and compliance function including the appointment of a Chief Compliance Officer latest by April 1, 2023 and October 1, 2023, respectively, the Reserve Bank of India has said. This follows the RBI's guidelines on Scale Based Regulations for NBFCs.

"As part of the overall structure for corporate governance, compliance function serves a critical role. Accordingly, it has been decided to introduce certain principles, standards and procedures for Compliance Function in NBFC-UL and NBFC-ML, keeping in view the principles of proportionality," the RBI said in a circular on Monday.

"Compliance function shall ensure strict observance of all statutory and regulatory requirements for the NBFC, including standards of market conduct, managing conflict of interest, treating customers fairly and ensuring the suitability of customer service," the RBI said, adding that the board or board committee should ensure that an appropriate compliance policy is put in place and implemented. Further, the board or board committee should prescribe the periodicity for review of compliance risk.

CCO-nodal point of contact: The Chief Compliance Officer (CCO) would be the nodal point of contact between the NBFC and the regulators and supervisors and would be a participant in the structured or other regular discussions held with RBI, according to the circular. Further, compliance to RBI inspection reports would be communicated to RBI through the office of the Compliance Function.

NBFCs would be expected to carry out an annual compliance risk assessment to identify and assess major compliance risks faced by them and prepare a plan to manage the risks. The annual review should cover aspects including compliance failures, if any, during the preceding year and consequential losses and regulatory action, listing of all major regulatory guidelines issued during the preceding year and steps taken to ensure compliance; compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards; and progress in the rectification of significant deficiencies and implementation of recommendations pointed out in various audits and RBI inspection reports.

'No dual hatting': "There shall not be any 'dual hatting'. The CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business," the RBI has further said. The CCO should be appointed for at least three year tenure and should be a senior executive of the NBFC with a position not below two levels from the CEO. [Business Line, April 11]

RBI-constituted panel to review customer service standards in banks, NBFCs

The RBI on Monday said it has set up a committee to evaluate the efficacy, adequacy and quality of customer service in banks, NBFCs, and other entities regulated by it. The six-member committee headed by former RBI deputy governor B P Kanungo has been asked to submit a report within three months from the date of its first meeting, the central bank said in a statement.

"Evaluate the efficacy, adequacy and quality of customer service in entities regulated by RBI vis-a vis the existing RBI guidelines on customer service and identify gaps, if any," is one of the terms of reference given to the panel. It will also review the emerging and evolving needs of the customer service landscape, especially in the context of evolving digital/ electronic financial products and distribution landscape and suggest suitable regulatory measures.

[Continued on Page-12]

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NBFC SECTOR HAS BEEN AT THE FOREFRONT OF DIGITISATION AND WIDESPREAD ADOPTION OF TECHNOLOGY

RAJIV SABHARWAL
Managing Director & CEO
Tata Capital Limited

This will help in bringing the under-served population into the fold of mainline financial services, apart from widening the credit universe for MSMEs

Financial institutions, including NBFCs, are also taking the mission forward by addressing some of the key challenges related to financial services for the under-banked and under-served populations.

Financial inclusion is undoubtedly one of the most critical drivers of economic progress, and is essential for our country to develop into a burgeoning economy. The government is creating a robust ecosystem to cater to the under-served. Key initiatives such as the Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana have enabled the masses to have bank accounts, get insurance protection, pensions and loans. Also, simplification of procedures for acquiring PAN, unique identification (Aadhaar), uncomplicated tax procedures through GST along with Digital India have contributed significantly to the country's financial inclusion objective. Financial institutions, including NBFCs, are also taking the mission forward by addressing some of the key challenges related to financial services for the under-banked and under-served populations.

Technology has enabled NBFCs to reinvent their business model. The NBFC sector has been at the forefront of digitisation and widespread adoption of technology in the financial services industry. Both big and small NBFCs have digitalised their processes, business functions, and the lending cycle and built dynamic underwriting models. NBFCs are agile and deliver with speed and efficiency by leveraging digital tools and platforms. This, in turn, has enabled NBFCs to expand their reach and offer their services to the unbanked population with the help of tools such as eKYC, e-signature, Aadhaar-based verification. Further, regional language Chatbots and Voicebots, RPA, cloud computing, AI and ML are helping businesses to build a deeper connect with customers and speed up processes that can enhance the overall customer journey. NBFCs are also leveraging India's growing smartphone and internet penetration by offering mobile-based financial services platforms in vernacular languages. These vernacular platforms have safe delivery systems that are designed to serve the under-served segments across different regions.

India's population is large and diverse; keeping the product-design simple and tailoring it to match the complex needs of a low-income individual or family promotes financial inclusion. For example, by creating simple and user-friendly mobile applications, NBFCs are enabling rural population to avail loans in a few minutes and in a hassle-free manner. Also, micro-savings led products help people to invest such that they can have financial liquidity and security. Over the years, NBFCs have invested in indigenous distribution networks and products to make finance easily accessible to the country's most remote locations.

The rapid use of all forms of technology is helping NBFCs create financial literacy programmes. While technology is crucial in accelerating financial inclusion in India, transparency is important to build trust. The teams that work hard to create financial awareness initiatives, engage with individuals, and earn their trust, are responsible for the last-mile connection that makes financial solutions viable. These teams gain insights on the challenges people face and the opportunities that can be created. Insights and data analytical tools are then applied to create specialised products to ensure development in the region. Also, education and the right access to financial solutions enable the vulnerable section to steer away from unscrupulous debt traps. Financial awareness programmes are designed to address different needs—to enable traders and manufacturers to understand the importance of a credit score or how a pension plan works. These education sessions are delivered across online platforms or in-person classroom formats. A tie-up with local community bodies boosts the efficacy of these.

Currently, there are close to 10,000 NBFCs spread across the country, with nearly 25% of the assets of the banking industry. However, financial inclusion needs to be a collaborative effort and, therefore, NBFCs partner with emerging fintech companies to create further efficiencies and build smarter products and services. Collaboration with fintechs will help NBFCs deepen their market penetration and increase their bottom line. This is evident with the growing interest between players from both segments to offer quick and inexpensive financing solutions. Also, there are collaborative efforts to support up-skilling and re-skilling programmes. The Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA) programme partners with tech companies to achieve inclusive education, create employment opportunities and helps bridge the digital divide.

Fintechs are also assisting NBFCs in connecting with loan-seekers from various backgrounds through operational automation and fraud detection tools. Big beneficiaries are the MSMEs. MSMEs are the growth-accelerators of our economy, instrumental for employment generation, and are also well-connected with the rural economy as more than half of the MSMEs operate in rural India. The collaboration between NBFCs and fintechs has enabled growth in the MSME lending space by making credit affordable. Digital financial inclusion will continue to evolve in India and we will contribute to the country's growth journey. A technology-led innovative financial ecosystem will boost inclusive growth, decrease income inequality and will empower people to be economically able and strong. [Financial Express, May 18]

[Continued from page-9…. EXPLAINED]

found, unlike in the case of a few leading private banks when AQRs were undertaken during the stints of governors Raghuram Rajan and Urijit Patel.

The RBI's *T&P:20-21* also observes "that a fallout of the pandemic and the slowdown in economic activity is that credit growth of commercial banks remained subdued in FY21, but NBFCs have stepped up to fill this space."

Can NBFCs do more? Few CEOs of NBFCs will go on record on this. But a tweak of inter-creditor agreements is one suggestion — that they, too, be made part of this scheme when a loan goes bad and a decision to restructure is on the anvil. Another is that the better-governed NBFCs be allowed to diversify their liability profile — for instance, why can't they be allowed to raise deposits of up to Rs 500,000, in line with the cover granted by the Deposit Insurance and Credit Guarantee Corporation (as a small portion of their liabilities)?

Looked at another way, non-deposit-taking NBFCs are almost the exact opposite of small finance banks (SFBs), when it comes to their business model. The former can't raise deposits, but can lend to just about any sector; the latter can raise deposits, but can lend no more than Rs 2.5 million to any one borrower. The SFB model may be ripe for a rethink as well, but that's another story.

So, what is one to make of the chatter that NBFCs should become banks, or be prepared to face extinction? "The desire to seek a banking license is driven both by the fear that the arbitrage window is almost non-existent *vis-a-vis* banks, and that the liabilities side has no public deposits," points out Y S Chakravarti, MD and CEO, Shriram City Union Finance.

What is clear as daylight is that regulatory arbitrage as a model is off the table, but that's not the same as saying that NBFCs will roll over and die. [Business Standard, May 23]

EXPLAINED: DO NBFCS HAVE A BETTER FUTURE THAN LARGE, DIVERSIFIED PLAYERS?

- Raghu Mohan

Non-banking financial companies may have entered a comfort zone years after having been put through the wringer.
Reserve Bank of India (RBI) data show that NBFCs have emerged stronger.

The impending merger of HDFC Ltd and HDFC Bank has reignited a hoary old debate — is the non-banking financial company (NBFC) model past its sell-by date? After all, if market leader HDFC Ltd — albeit a mono-line business entity — thought it fit to vacate this space by merging into its offspring, 45 years into its existence, isn't it possible that others may be unable to hold out much longer? But the reality on the ground points to a brighter dawn.

Reserve Bank of India (RBI) data show that NBFCs have emerged stronger, with reasonable balance-sheet growth, increased credit intermediation, higher capital and lower delinquency ratios. This was driven essentially by growth in credit and investment on the part of non-deposit-taking NBFCs. Deposit-taking NBFCs' numbers grew modestly: they adopted a more cautious approach.

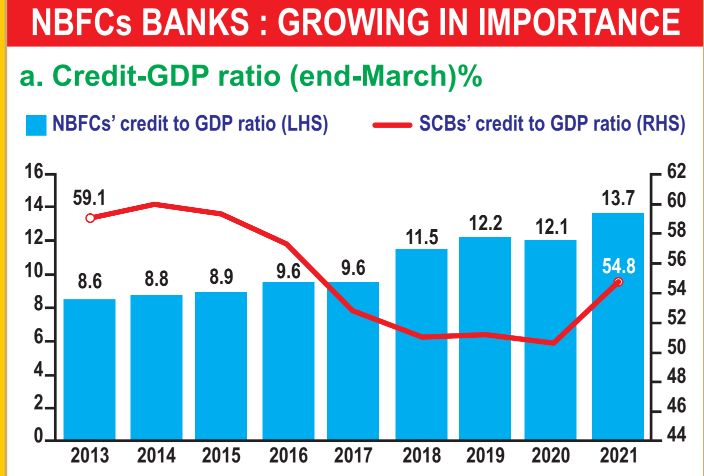
FY21 (the year for which systemic data is available) saw the share capital and reserves of NBFCs expand in a big way, with some raising additional capital via rights issues. This was to buttress their financials against the likely recognition of impaired assets after the lifting of the Supreme Court's order on the standstill on asset classification during the pandemic.

The *Report on the Trend and Progress of Banking in India (T&P:20-21)* notes that NBFCs' credit also gained traction with the support of regulatory initiatives, including the co-lending model in November 2020. This is a key reason why their credit-intensity — measured by the credit-GDP ratio — has risen consistently, reaching a high in 2021. Significantly, NBFCs' credit as a proportion of bank credit also went up.

Emerging themes

A few broad themes are also emerging — all indicating that NBFCs may be poised to take meaningful bites of market share.

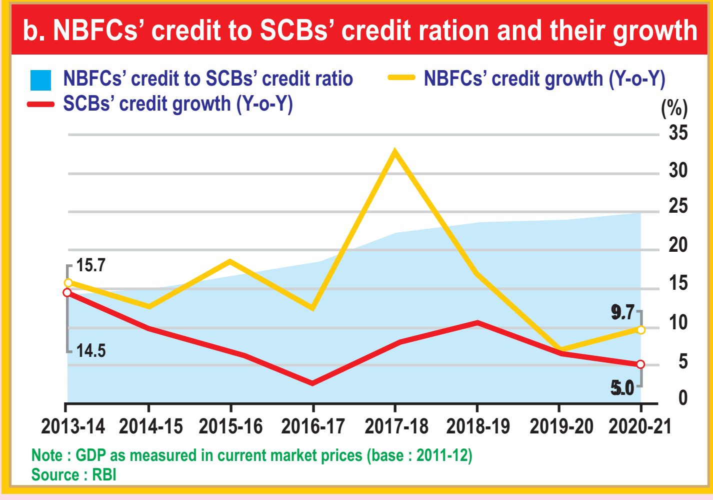
"We support micro-entrepreneurs in rural and semi-urban India. We have funded over 60,000 entrepreneurs, of whom 45 per cent are first-time borrowers — new to credit or new to category. A co-lending partnership with banks is complimentary, as we provide last-mile access," says Gaurav Gupta, managing director (MD) and chief executive officer (CEO) of Adani Capital.



It is also possible that NBFCs may prefer to team up with the more aggressive private banks, with fintech firms being the third pole of this scheme. This last aspect will become clear once the central bank unveils its operational circular based on the *Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps*. It's also opened up a debate: do sharply-focussed NBFCs have a better future than large, diversified players?

"The landscape is moving towards a stack architecture where banks will provide the basic plumbing and be responsible for hygiene of risk and security. At the next level, you will have NBFCs and non-NBFC fintechs that provide the customer interface and will collaborate with banks," explains Saurabh Tripathi, Asia Pacific regional leader at Boston Consulting Group (financial institutions practice).

And all of this is playing out even as the RBI weighs the issue of fresh banking licenses, though this will not to apply to NBFCs promoted by industrial houses. The larger point is that it's merely off the burner for now; it has not been ruled out.



Doubting Thomases

"This talk that NBFCs have no future came about because of the blowouts at a couple of them and the central bank tightening regulations. Plus, the big question mark on the liabilities side, where there are only two sources of funding — bank credit lines and the bond markets. Both these sources were seen to be slowing their exposure to NBFCs," notes Vimal Bhandari, executive vice-chairman and CEO of Arka Fincap.

Arka and Adani Capital are among a clutch of NBFCs that came into being in the wake of the turmoil at Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Corporation. The others are Gunit Chadha's APAC Financial Services, Bhupinder Singh's InCred, and Shachindra Nath's U GRO Capital.

Between them, these NBFCs raised close to Rs 5,000 crore during the post-IL&FS phase — the biggest-ever pool of capital to back professionals in this space, even as some legacy NBFCs were being put through the wringer.

Says Chadha (former Asia-Pacific boss of Deutsche Bank): "NBFCs have a significant opportunity to deliver credit. It's just that some NBFCs are building assets under management, and chasing an all-things-to-all-borrowers business model which will inevitably run head-on into banks."

Incidentally, Chadha got Multiples, the private equity firm headed by Renuka Ramnath, to pick up a 37 per cent stake in APAC just a month after the September 2018 blowout at IL&FS.

Advantage niche players?

Again, while it pays to be a niche player, it's also not quite the case that those with a large, diversified book are facing headwinds.

Rajiv Sabharwal, MD and CEO of Tata Capital, reckons that it's wrong to say that the NBFC model has no future. "In fact, the scale-based regulations (SBR) would make us stronger, with compliance similar to banks in the upper layer." The central bank's four-tiered SBR cuts out areas of arbitrage between banks and NBFCs that were detrimental to orderly growth and systemic stability.

"There are at least eight categories of NBFCs, of varying sizes and vintage. To paint them all with the same brush is wrong. The regulator recognises this and has brought in the SBR," adds Aseem Dhru, founder and CEO of SBFC Finance.

It's a view shared by every other NBFC corner-room occupant —

contrary to the widely-held belief — and sees the central bank's move as being pragmatic. The SBR has a base, a middle, an upper and a top layer, with a progressive increase in the intensity of regulation. The base layer consists of non-deposit-taking entities with assets of less than Rs 1,000 crore and certain others engaged in specific activities. The idea behind this architecture is that it enhances transparency and governance while not burdening them with higher-level regulations.

For instance, Dhru (a HDFC Bank veteran) had acquired the Rs 807-crore loan book of Karvy Financial Services. Backed by the Singapore-based Clermont Group and Arpwood Partners, he wants to redefine the play in lending to micro-enterprises: "One of the segments that we think is in the rain shadow of private banks and state-run banks are the small business segment. And we thought there's space to be a nationwide player here."

SBFC has plans to go public, and though the timing is not certain, it will yield a definite sense of what the world thinks of this model — it will be the first NBFC float in a long time. *Key takeaways*

NBFCs' share as measured by the credit-GDP ratio, which has risen consistently, must be seen in the context of the fact that the past four years have been difficult for them, with the central bank having closed the regulatory arbitrage window and put the top 50 NBFCs through an undeclared asset quality review (AQR), much like it did for banks.

And it is to the credit of the sector that no major variances were

"It's wrong to say that NBFCs have no future. The scale-based regulation will make us stronger, with compliance similar to banks"

RAJIV SABHARWAL
Managing Director & CEO, Tata Capital

"Some NBFCs are building assets under management, and trying to be all things to all borrowers. They will inevitably run head-on into banks"

GUNIT CHADHA
Founder, APAC Financial Services

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SAURABH TRIPATHI
Asia Pacific Regional Leader, Boston Consulting Group's Financial Institutions Practice

[Continued on page-7]

HOW FINANCIAL INCLUSION IS GIVING WOMEN'S EMPOWERMENT A LEG UP

- Radheshyam Jadhav

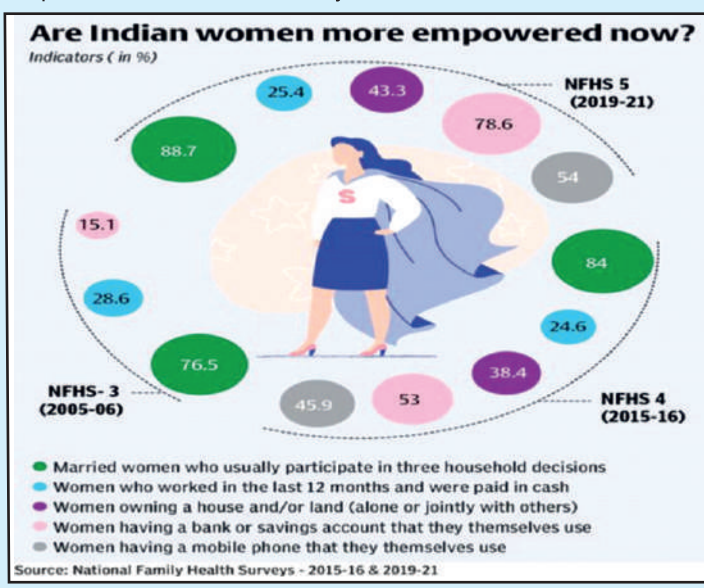
Of 45 crore Jan Dhan A/Cs opened in seven years, about 55% account holders are women

In 2005-06 only 15.1 per cent of Indian women had a bank or saving account that they themselves used. In 2016-17 the number of women using their bank accounts themselves went up to 53 per cent and now as per the National Family Health Survey (NFHS-5) – 2019-21 about 78.6 per cent of women in India have a bank or saving account which they operate themselves and not male members in the family.

What is Financial Inclusion?

The financial inclusion of women could be connected to the other empowerment parameters in the survey where women are prioritising their own needs and taking part in household decision making.

According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance— delivered in a responsible and sustainable way.



Banking, decision making

The government initiated the National Mission for Financial Inclusion (NMFI), namely, Pradhan Mantri Jan Dhan Yojana (PMJDY) in August 2014 to provide universal banking services for every unbanked household.

As per the government data, nearly 45 crore PMJDY accounts, which were opened in the last 7 years, currently have deposits of Rs. 1.57 lakh crore (as of January 26, 2022). About 55 per cent of these account holders are women. The average deposit in an account has also gone up from Rs. 1,065 per account in March 2015 to Rs. 3,449 by March 2021.

The NFHS–5 shows that financial inclusion might have bolstered the participation of women in household decision-making. Currently, about 88.8 per cent women usually participate in household decisions about health care for themselves, making major household purchases, and visits to her family or relatives. In 2015-16 the percentage of women involved in this decision-making was 84 per cent from the 76.5 per cent in 2005-06.

Ownership, health priorities

In 2015-16, about 38.4 per cent of women-owned houses and/or land (alone or jointly with others). The NFHS–5 data shows that today 43.3 per cent of women have a house and/or land.

In 2015-16, only 57.6 per cent of women used hygienic methods of

[Continue on page-13]

INDIA INC PLANS GREATER CAPEX PUSH IN FY23, SAYS CEO SURVEY BY BUSINESS STANDARD

More than half the CEOs surveyed say they plan to increase investment by over 25%

Companies in India are planning to accelerate investment in adding capacities in 2022-23 as consumer demand is showing signs of a pickup after two years of slowdown due to the pandemic and lockdowns, a dipstick survey of chief executive officers (CEOs) this month shows.

FY22 while 10.5 per cent said they would invest less than they did in the previous financial year.

Early this month, the Reserve Bank of India (RBI) had forecast investment was likely to gain traction with improving business confidence among investors, a pickup in bank credit, and continuing support from the government's capital expenditure on roads and highways.

Capacity utilisation in manufacturing recovered further to 72.4 per cent in the December quarter of FY22 from 68.3 per cent in the previous one, surpassing the pre-pandemic level of 69.9 per cent in the March quarter of FY20.

Corporate India usually starts planning projects when capacity utilisation crosses 75 per cent of the installed capacity. Reliance Industries, Tata Group, JSW, and Adani Group are among the top companies that have announced plans to invest in renewable energy, steel plants, and semiconductor businesses.

Production-linked incentive schemes have encouraged companies to invest.

"Demand has gone up and that brings with it supply-side constraints as a lot of small and medium enterprises have shut shop and the large ones are finding it difficult to meet manpower constraints," said the CEO of a manufacturing company.

TV Narendran, Tata Steel CEO and managing director, and president of the Confederation of Indian Industry (CII), on Monday said around 70 per cent of the CII's members planned to spend more on capex this year and also would hire more than they did in the past. "There is turbulence, but nothing will derail the growth trajectory significantly," he said.

The rising cost of raw materials due to a global spike in commodity prices was the main worry of the CEOs. Of them, 36.8 per cent said there would not be any impact on their earnings while 26.3 per cent were of the view that the effect on their costs would be 1-2.5 per cent. CEOs said inflation was a big worry and there were other factors chipping away at business sentiment.

CEO SURVEY BY *BS*

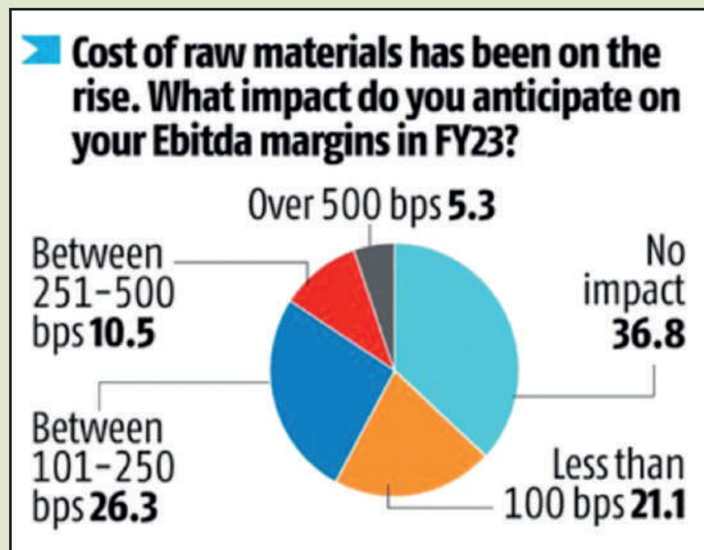
All figures in %

How are your company's capex plans for FY23 versus FY22?

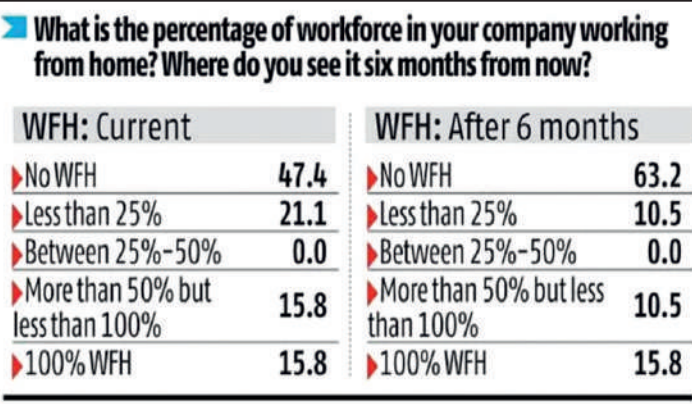
Lower	10.5
Similar	31.6
Higher by 1-25%	0.0
Higher by 26-50%	36.8
Higher than 50%	21.1

"Other than a severe pandemic wave, the biggest threat facing Indian businesses is unstable global macro-economic factors like inflation, interest rates, logistics/supply chain, and oil price and the ongoing geo-political tension," said the CEO of a hotel company.

When asked about the rising interest rates, both in India and overseas, 36.8 per cent said they were not greatly worried about it while a similar number said they were.

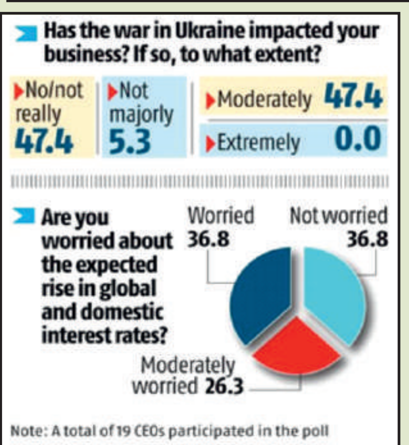


The rest were apprehensive about the matter but not very much anxious.



What is the percentage of workforce in your company working from home? Where do you see it six months from now?

WFH: Current		WFH: After 6 months	
No WFH	47.4	No WFH	63.2
Less than 25%	21.1	Less than 25%	10.5
Between 25%-50%	0.0	Between 25%-50%	0.0
More than 50% but less than 100%	15.8	More than 50% but less than 100%	10.5
100% WFH	15.8	100% WFH	15.8



Corporate India is veering around to the idea that employees will have to return to office in due course. Around 47.4 per cent of the CEOs said their colleagues were in office and 63.2 said in another six months, it will be only work in office. Only 15.8 per cent of the CEOs said they would allow work from home both now and in the future When asked about the war in Ukraine, 47.4 per cent said it had no impact while a similar number said it had moderately affected their businesses.

(Dev Chatterjee with Shally Mohile, Shivani Shinde, Ishita Ayan Dutt, Vinay Umarji, and Shine Jacob)

[Survey by Business Standard, Published on April 27]

SUPERVISION OF FINANCIAL INTERMEDIARIES BY RBI

Reserve Bank in its Annual Report released on May 27 has laid down its Agenda for Supervision of Regulated Entities for FY 2022-23 and has also given the details of what actions RBI had taken in this area of operations in FY 2021-22. Here an extract for what RBI has planned for NBFC sector for FY 2022-23 is presented along with actions taken in FY 2021-22.

Assessment and Prospects

I.18 The balance sheet of non-banking financial companies (NBFCs) expanded in 2021-22 (up to December 2021) but asset quality in the sector deteriorated. Nevertheless, capital cushions showed an improvement. Given the growing interconnectedness of NBFCs with other segments of the financial system, the Reserve Bank has issued guidelines on scale based regulations for NBFCs on October 22, 2021. The Reserve Bank has also issued guidelines on December 14, 2021 to extend the prompt corrective action (PCA) framework to NBFCs. The framework will be applicable to all non-government NBFCs in the middle, upper and top layers excluding primary dealers, housing finance companies and those NBFCs which are not accepting public funds. These measures will strengthen the financial health of the NBFCs.

DEPARTMENT OF SUPERVISION (DOS): ACTION IN FY 2021-22 AND AGENDA FOR FY 2022-23:

VI.79 The Department of Supervision (DoS) is entrusted with the responsibility of supervising all SCBs [excluding regional rural banks (RRBs)], Local Area Banks (LABs), Payments Banks (PBs), SFBs, CICs, AIFIs, UCBs, NBFCs [excluding Housing Finance Companies (HFCs)] and ARCs.

Non-Banking Financial Companies (NBFCs)

VI.99 The Department continued to effectively monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank, with the objective to protect the interests of depositors and customers, while ensuring financial stability.

Agenda for 2021-22

VI.100 The Department had identified the following goals for supervision of NBFCs in 2021-22:

- Designing supervisory reporting system under Indian Accounting Standards (IndAS) [Utkarsh] (Paragraph VI.101);
- Implementation of Central Fraud Registry (CFR) for NBFCs (Utkarsh) [Paragraph VI.102];
- Strengthening market intelligence (MI) and off-site supervisory assessment of NBFCs (Paragraph VI.103 - VI.104);
- Developing the risk-based approach for KYC/AML supervision of select NBFCs (Paragraph VI.105); and
- Monitoring effectiveness of customer service provided by NBFCs (Paragraph VI.106).

Implementation Status

Rationalisation of Supervisory Reporting System

VI.101 In order to enhance the effectiveness of off-site assessment and the quality of data collection of NBFCs, COSMOS returns of NBFCs have been rationalised and redesigned in the new XBRL system. Also, the NBFC returns have been redesigned to align with Ind-AS accounting norms and the same will be implemented in the CIMS portal. Further, differentiated MIS reports have been designed for off-site surveillance of NBFCs on an ongoing basis in the CIMS portal.

Central Fraud Registry (CFR) for NBFCs

VI.102 An XBRL based platform has been developed during the year for online reporting of frauds by NBFCs. Meanwhile, the development of unified fraud reporting format for all SEs (including NBFCs) under CIMS project has commenced. The unified fraud reporting format hosts an automated system of assigning unique ID for all individual accounts, which have been reported as frauds.

Enhanced Supervisory Assessment

VI.103 The Reserve Bank has set-up a centralised supervisory intelligence cell which prepares a
monthly MI report for SEs (including NBFCs) by consolidating information from various external
sources (brokers reports, rating downgrades and negative news mapped with internal CRILC data), internal sources (Sachet portal and monthly complaint analysis) and inputs received from other sources.

VI.104 Systemically important NBFCs as well as deposit taking NBFCs are closely monitored for any incipient signs of weakness and wherever required, the Reserve Bank undertakes on-site examination/scrutiny to assess their position. Weakness/deficiencies observed are immediately taken up with the management of the NBFCs for time-bound corrective action. The Reserve Bank also maintains oversight on the corrective actions taken by the companies.

KYC/AML Supervision of NBFCs

VI.105 Data templates were designed and shared with select NBFCs for data collection in 2021-22. These data will be utilised for generating the risk scores and risk profiling of NBFCs.

Customer Service by NBFCs

VI.106 The compliance with prescribed guidelines is checked during onsite assessment on sample basis and non-compliances, if any, are brought out in inspection reports of respective NBFCs. Adherence to Fair Practices Code and quality of customer services were also scrutinised for digital lending NBFCs and NBFCs attached to digital lenders having substantial customer interface, on a sample basis.

Agenda for 2022-23

VI.107 The Department has identified the following goals for supervision of NBFCs in 2022-23:

- Review the supervisory framework and the return format for NBFCs under Ind-AS based on the regulatory guidance in the matter (Utkarsh);
- Make changes in sectoral assessment in the context of recently released scalebased regulatory framework for NBFCs;
- Roll out KRIs for NBFCs to assess their cyber security risk profile through off-site design of KRIs; and
- Roll out of IT examination for select NBFCs.

Supervisory Measures for All Supervised Entities (SEs)

VI.108 A unified DoS has been operationalised in which the supervision of banks, UCBs and NBFCs is being undertaken in a holistic manner under one umbrella Department. This will improve handling of issues arising from regulatory/supervisory arbitrage, interconnectedness and information asymmetry.

Agenda for 2021-22

VI.109 The Department had set out the following supervisory goals for all SEs in 2021-22:

- Strengthening cyber security monitoring mechanism for SEs (Utkarsh) [Paragraph VI.110 - VI.111];
- Issuing of guidelines on IT governance, risk, controls and assurance practices (Paragraph VI.110 - VI.111);
- Integrate supervisory data structure for the Reserve Bank's REs by reviewing and consolidating the present framework of returns (Utkarsh) [Paragraph VI.112];
- Introduce supervisory data analytics with the capability for market surveillance, misconduct analysis, micro/macro prudential analysis (Utkarsh) [Paragraph VI.113]; and
- The CoS, under the guidance of Academic Advisory Council (AAC), will plan and develop curricula of all programmes based on identified areas where skill building/up-skilling are required, benchmark the programmes with international standards/ best practices, and develop appropriate teaching methods (Paragraph VI.114).

Implementation Status

IT and Cyber Security Related Developments

VI.110 The Reserve Bank has advised all SCBs (excluding foreign banks and RRBs) to identify critical infrastructure as per the National Critical Information Infrastructure Protection Centre (NCIIPC) guidelines issued in 2019. Cyber KRI return has been revised to capture cyber risks faced by banks in a better manner.

VI.111 The Reserve Bank has taken several steps to enhance monitoring of cyber security preparedness of SEs. Master Directions on Digital Payment Security Controls have been issued. Guidelines on usage of new technology, i.e., cloud services and security, and information technology governance, risk, controls and assurance practices are being drafted for placing on the Reserve

Bank's website for public comments. Further, the Reserve Bank conducted a phishing simulation exercise for select SEs to assess email security and cyber security preparedness. Based on the exercise, the SEs whose systems needed attention, were advised to implement a definative action plan with specific timelines.

Supervisory Data Analytics

VI.112 The offsite supervisory data are currently used in a variety of ways to aid policy formulation, identify incipient stress, ascertain status of borrowers across lenders, and check compliance to regulatory stipulations, among others. In addition to CRILC and CFR, the data capabilities of the Reserve Bank are being further upgraded through the revamped data warehouse, viz., CIMS. New integrated return formats have been developed after thorough review and rationalisation of the extant return formats.

VI.113 The Reserve Bank has developed a system for early identification of vulnerabilities to take timely and proactive action. It has been deploying data analytics to the quarterly offsite returns to provide effective and more comprehensive inputs to onsite supervisory teams. An early warning framework - which tracks macroeconomic variables, and market and banking indicators - complements the analysis. Bank-wise as well as system-wide supervisory stress testing adds a forward-looking dimension for identification of vulnerable areas. During the year, a micro-prudential analytical study as an input to the RBS model along with macro-prudential analysis was conducted for identification of stressed sectors. Market surveillance and misconduct analysis are also being undertaken on an ongoing basis.

College of Supervisors (CoS)

VI.114 In order to enhance the skill set of supervisory and regulatory personnel, the College of Supervisors was set up in May 2020. During the year, a total of 43 training programmes were conducted by CoS.

PCA Framework for NBFCs

VI.117 Considering the growing size of NBFCs and their substantial interconnectedness with other segments of the financial system, a PCA framework for NBFCs was introduced to further strengthen the supervisory tools applicable to them.

Risk Based Internal Audit (RBIA) Guidelines for Select HFCs and NBFCs

VI.120 RBIA guidelines were extended to all deposit-taking HFCs and non-deposit taking HFCs with asset size of Rs. 5,000 crore and above vide circular dated June 11, 2021. The circular intends, inter alia, to provide the essential requirements for a robust internal audit function, which includes sufficient authority, stature, independence, resources and professional competence, so as to align these requirements in larger NBFCs/UCBs with those stipulated for SCBs. It is expected that the adoption of RBIA by such entities would help to enhance the quality and effectiveness of their internal audit system.

Harmonised Guidelines on Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs)

VI.121 The Department issued harmonised guidelines on appointment of SCAs/SAs of commercial banks (excluding RRBs), UCBs and NBFCs (including HFCs) vide circular dated April 27, 2021. These guidelines provide necessary instructions regarding the number of auditors, their eligibility criteria, tenure, and rotation, while ensuring the independence of auditors. These guidelines will also ensure that the statutory auditors are appointed in a timely, transparent, and effective manner and strengthen the audit system in REs.

Core Financial Services Solution for NBFCs

VI.122 During the year, the Reserve Bank mandated certain categories of NBFCs to implement 'Core Financial Services Solution (CFSS)', akin to the Core Banking Solution (CBS) adopted by banks, which shall provide for seamless customer interface in digital offerings and transactions relating to products and services with anywhere/anytime facility, enable integration of NBFCs' functions, provide centralised database and accounting records, and be able to generate suitable MIS, both for internal purposes and regulatory reporting.

Agenda for 2022-23

VI.125 The Department proposes to achieve the following goals for

[Continued on Page-2]

[Continued from page-6.... REGULATORY PERIMETER]

Besides, it has also been asked to identify the best practices, adopted globally and domestically, in customer service and grievance redressal, especially for improvement in services rendered to retail and small customers, including pensioners and senior citizens.

Suggesting measures to leverage technology for enhancing customer service efficiencies, upgrading internal grievance redress mechanism in Regulated Entities and strengthening the overall consumer protection framework of RBI, is another task given to the panel. The RBI further said the Committee may also invite domain experts and RBI officials for consultations and/or to participate in its deliberations. [Business Standard/PTI, May 24]

Change the definition of 'fraud', bankers to urge RBI: Report

Indian banks will jointly move the Reserve Bank of India (RBI) asking to change the definition of the word "fraud" which crushes companies, leads to legalities even after the amount is repaid and petrify financiers, a media report said on Monday. According to the Economic Times report, all the high-street bank CEOs decided to make a representation to RBI at a meeting to discuss issues faced by the lenders.

Under the RBI, the regulation requires all banks to mark a lending company and all its accounts as "fraud account" when one lender puts a fraud tag. This leads to a process where lenders have to file police complaints and take a beating, which is often disproportionately higher than the size of the fraud. All these actions combined impede in the profits of the borrowing corporate and drives away creditors, investors and other stakeholders.

"We should have a system where the entire company is not tarnished because of a small diversion of funds and its entire borrowing is declared as 'fraud'. Such a declaration and associated procedure like filing of FIR can deepen the problems for a company, creating a negative perception and holding back banks from taking lending decisions," the Economic Times quoted Sunil Mehta, chief executive of the industry body Indian Banks Association, as saying. [Business Standard, May 16]

Follow public consultation process: RRA's suggestion to RBI

The Regulations Review Authority (RRA 2.0) has recommended the Reserve Bank of India (RBI) completely eliminate paper-based returns, and follow a process of public consultation for all important regulatory changes being contemplated. Further, instructions to the regulated entities (REs) should contain a brief statement of objective underlying the rationale for their issuance.

The RRA's Advisory Group (headed by Swaminathan J, Managing Director, State Bank of India) has recommended withdrawal of 714 regulatory instructions which have either become obsolete or redundant and have not been explicitly withdrawn.

The RRA noted while REs are required to comply with regulatory instructions, it is also recognised that any gap in understanding, interpreting, and implementing the instruction may lead to compliance of the instructions in letter, but not spirit. Therefore, the authority recommended the regulatory instructions should contain a brief statement of objective underlying the rationale for issuance of instructions. "This statement can help readers understand the necessity of the regulation. Also, it has been recommended the instructions should be supplemented with FAQs/ guidance notes and illustrations, wherever necessary," the Authority said.

RRA recommended creating a separate web page — 'Regulatory Reporting' on the RBI website. All the information relating to regulatory, supervisory and statutory returns would be consolidated at a single source on the RBI website.

The Authority has recommended complete elimination of paper-based returns and has identified 65 regulatory returns which should either be discontinued/merged with other returns or shall be converted into online returns.

A periodic review of regulatory or supervisory returns at least once in three years has been suggested. [Business Line, June 14] ■

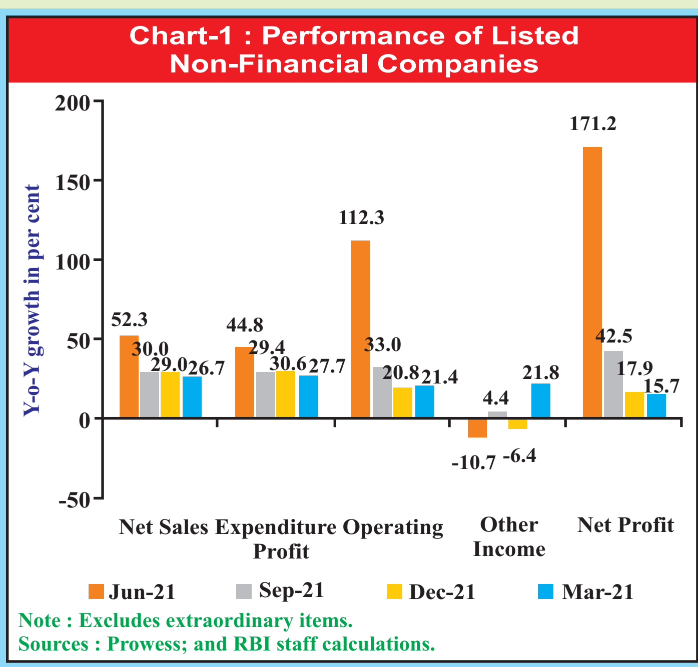
HEALTHY PERFORMANCE OF FINANCIAL & NON-FINANCIAL SECTOR

The Indian economy consolidated its recovery, with most constituents surpassing pre-pandemic levels of activity. Domestic macroeconomic conditions continued to gain strength as activity started to normalise in spite of a pick-up in COVID-19 infections in some parts of the country since the second fortnight of April. The Indian economy's recovery remains resilient, although risks stemming from global developments have thwarted the momentum. Inflation risks have become more accentuated in recent months.

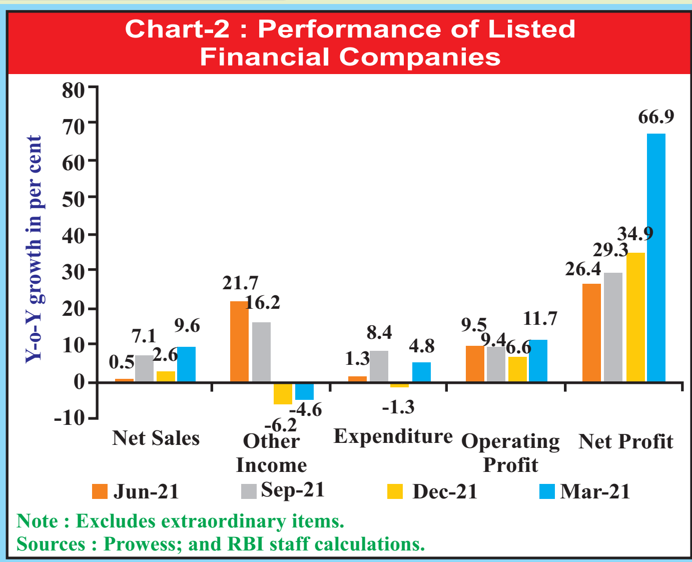
Double digit Credit Growth: The growth in scheduled commercial banks' (SCBs') credit to the commercial sector crossed double digits for the first time since August 2019 and accelerated to 11.1 per cent as on April 22, 2022 as compared with 5.7 per cent a year ago.

In April 2022, seven domestic banks, including two public sector banks and five private banks, increased their MCLRs in the range of 5 to 13 bps. The move to increase benchmark rates by some major banks is guiding the direction of lending and deposit rates of non-banking financial companies (NBFCs). Some major non-banks have increased their deposit and lending rates in April 2022.

Healthy Performance of Non-financial Companies in Q4: Q4: 2021-22 earnings declared by 409 listed non-financial companies, constituting around 56.3 per cent of all listed non-financial companies, indicate a healthy performance in terms of most of the key parameters (Chart-1). Net sales growth during the quarter remained robust, partly driven by a rise in output prices. Raw material costs of firms surged during the quarter owing to the impact of rise in various commodity prices. To cushion the impact of rising input costs, a few firms increased prices of their products while others adopted cost cutting measures, such as reducing discretionary expenses on advertisements, etc. Furthermore, wages and salaries registered an increase during the quarter. Overall, operating expenditure increased at a faster rate than sales which weighed on firms' operating margins. Nonetheless, growth in operating profits remained robust driven by strong performance from oil and gas companies. Other income, which includes income from treasury operations, etc., grew at a robust rate, however, higher tax expenses led to some moderation in net profits growth.



Sharp Jump in Net Profits of Banking and Financial Sector in Q4: Banking and financial sector, based on an analysis of 120 companies constituting around 73.7 per cent of all listed financial companies, registered strong operating performance during Q4:2021-22 (Chart -2). Net sales, which primarily includes interest income, registered a sharp increase with pick-up in credit growth. Other income, which includes, profit/loss from treasury operations, fees and commissions, however, registered a decline during the period. Expenditure increased at a subdued rate than the topline, resulting in double-digit growth in operating profits. Furthermore, gaining from improved asset quality, provisioning costs declined sharply during the quarter, contributing to a sharp jump in net profits. [Extract from the article titled: "State of the Economy" published on May 17 in Reserve Bank of India Bulletin]



[Continued from page-9.... WOMEN's EMPOWERMENT]

protection during their menstrual period. As per the NFHS- 5 about 77.3 per cent of women now use hygienic methods. Interestingly, only 48.2 per cent of rural women used hygienic methods in 2015-16 the percentage today is 72.3 per cent. This is a major indicator of how rural women are taking their own decisions, say women in Lasina village in Yavatmal. Earlier women depended on men for money even as they worked hard in the fields; today they handle their own money, say women in this village.

The number of women having mobile phones that they themselves use has also gone up from 45.9 per cent in 2015-16 to 54 per cent in 2019-21.

In 2005-06, about 37 per cent women experienced spousal violence, while in 2019-21, the number reduced to about 29.3 per cent.

Controlling their own lives

RBI's National Strategy for Financial Inclusion (NSFI) states that with greater control over their financial lives, women can help themselves and their families to come out of poverty; reduce their risk of falling into poverty; eliminate their exploitation from the informal sector, and increase their ability to fully engage in measurable and productive economic activities. [Business Line, May 19]

[Continued from Page 26... SEBI MOVES]

Exchanges," SEBI told the Parliamentary Standing Committee on Finance.

A Social Venture Fund (SVF) is an alternate investment fund that invests 75 per cent or more of its corpus in unlisted securities or partnership interests of social ventures that satisfy social performance norms defined by the fund. The fund may accept from and give grants to social ventures and may accept restricted or muted returns. Until March 31, 2022, SVFs have managed to raise just over Rs. 2,000 crore of which Rs. 578 crore have been actually invested. In comparison, other AIFs such as infrastructure fund have received about Rs. 7,900 crore of committed fund of which Rs. 6,821 crore have been invested.

The biggest hurdle for investing in SVFs is that SEBI rules allow only 'not-for-profit' entities to receive such funds. Investors, on the other hand, do not consider 'not for profit' enities as investible.

SEBI recently approved a separate framework for social stock exchange for the listing of non-profit organisations and for-profit social enterprises that are engaged in 15 broad eligible social activities approved by the market regulator. Existing social venture funds will be rechristened as social impact funds and can have a reduced corpus of Rs. 5 crore against Rs. 20 crore prescribed earlier. [Business Line, May 21]

MORE THAN 160 MILLION INDIANS ARE CREDIT UNDERSERVED

In TransUnion study 84% of underserved consumers and 35% of the unserved consumers, indicated that they plan to apply for new credit in the next six months. The top two credit products these consumers plan to apply for are credit cards and personal loans.

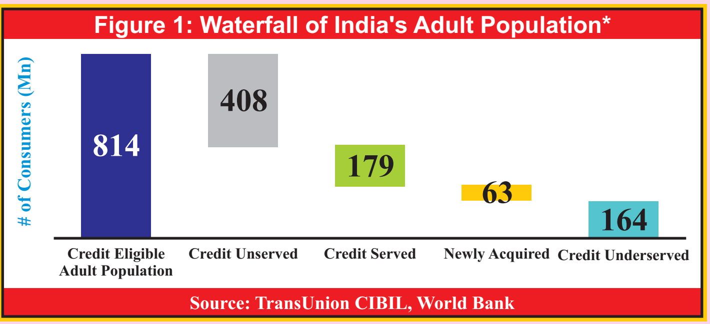
Approximately 5% Migrate to Being Credit Active Every Two Years.

More than 160 million consumers were considered to be underserved[2] in India at the end of 2021, according to a new global TransUnion study – "Empowering Credit Inclusion: A Deeper Perspective on Credit Underserved and Unserved Consumers." The study found that about 5% of consumers who started as credit underserved were found to have migrated to becoming more credit active in a two-year window.

The study findings are being shared as part of TransUnion CIBIL's ongoing commitment to improving financial inclusion and awareness across India so more consumers are able to participate in the formal credit economy. With about a fourth of India's adult population under 30 years of age, the new research is very timely. This group of consumers is most likely to seek their first ever loan or credit card from banks and credit institutions as their financial needs evolve.

"India's retail credit market is undergoing rapid evolution supported by the speed and scale of digital transformation. This transformation coupled with India's demographic dividend has triggered unprecedented opportunities for driving growth and financial inclusion in the market," said Rajesh Kumar, MD & CEO of TransUnion CIBIL. "Our study aims to uncover the significant potential that exists for driving speedier and sustainable financial inclusion across India. It helps the market participants better understand as to how many people are truly underserved from a credit perspective, while also determining paths for them to gain more credit opportunities."

Figure 1: Waterfall of India's Adult Population*



Source: TransUnion CIBIL, World Bank

* Credit eligible adult population is those in the age group of 20 to 65 years based on generally adopted lending policies.

The study explores the characteristics and behaviours of credit underserved consumers and their overall sentiments towards credit, while offering key insights into the credit journeys of these consumers. The underserved consumers are those who have minimal credit participation, limited to a single type of credit product and no more than two open accounts of that type, and have been active in the credit market for at least two years.

This study specifically excludes newly acquired consumers – those who have opened their first product within the past two years – from the underserved population, as many of those newly acquired consumers become more fully credit active soon after opening their first product. The study sought to understand those consumers who remain underserved over a longer time period.

Two cohorts of consumers were studied, each over a two-year time period – the first during the pre-pandemic period beginning March 2018 through March 2020, and the second beginning in June 2019 and studied through the pandemic time period of June 2021, to determine if there were any pandemic-related shifts with consumer credit migration trends.

In addition to India, TransUnion's global study looked at similar dynamics of unserved and underserved consumers in multiple markets, including Canada, Colombia, Hong Kong, South Africa and the United States, to get a better sense of the global market size, needs and behaviors of the underserved consumer segment.

Global Market Sizing of the Credit Underserved Populations

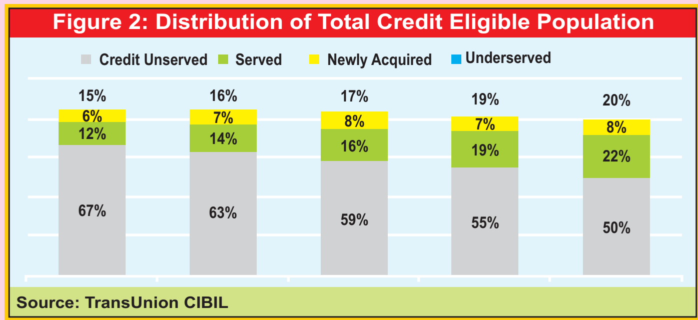
Region	Number of unserved consumers	Percentage of adult population that is unserved	Number of underserved consumers	Percentage of adult population that is unserved
United States	8.1 M	3%	37 M	14%
Canada	2.1 M	7%	7.5 M	24%
Colombia	16.3 M	44%	7.1 M	19%
Hong Kong	1.0 M	16%	1.8 M	28%
India	408 M	50%	164 M	20%
South Africa	20.6 M	51%	5.96 M	15%

Increased Credit Inclusion in India over a Four-year Period

The TransUnion CIBIL research showed that there has been a significant increase in credit served consumers, from 91 million in 2017 to 179 million in 2021, bringing estimated credit served levels from 12% to 22% of the adult population. The lack of credit score and credit history for unserved consumers is an impediment for getting credit opportunities, as many lenders are hesitant to extend credit to consumers without any credit history or score. For these traditionally unscorable consumers, they face a "chicken or egg" conundrum of how to get that first credit product when they lack a credit history.

"Although India has made great strides in increasing levels of credit inclusion across the country in recent years, the current reality highlights the importance of incorporating enriched credit data into the lending ecosystem, so that fewer consumers find themselves as credit unserved. Once these consumers can be evaluated by financial institutions, lenders can better determine where there might be new opportunities for growth and how they can expand credit inclusion further," said Kumar.

Figure 2: Distribution of Total Credit Eligible Population



Source: TransUnion CIBIL

In recognition of this problem, last year TransUnion CIBIL launched its CreditVision® New-to-Credit (NTC) Score to help drive greater

credit inclusion by enabling banks and lending institutions to provide access to credit for consumers seeking loans for the first time.

Once Underserved Consumers Become Credit Served, They are Likely to Apply for More Credit

Every year a portion of the underserved consumer population – those with minimal credit activity – become more fully credit active by opening additional credit products, while many remain in that underserved segment. To better understand how underserved consumers transitioned to becoming more fully credit active, the study looked at additional credit products opened by these consumers within the two-year period.

In the wider TransUnion global study, we found that in other emerging markets like Colombia and South Africa, the product types most commonly held by underserved consumers were microcredit (37%) and clothing loans (59%), respectively. In India, agriculture and micro finance loans, two-wheelers and consumption loans (personal loan, consumer durable loan or credit card) are the most preferred products to be opened by credit underserved consumers. The study also found that the performance of credit underserved consumers opening additional products and becoming served is not very different from credit established consumers.

Unserved or Underserved? Survey Confirms Varying Levels of Credit Satisfaction

TransUnion CIBIL also commissioned an in-region survey3 to gather sentiment from underserved and unserved consumers on the topic of credit. The findings revealed consumer beliefs, attitudes and experiences with credit that may be influencing current and future behaviors.

Key findings of the survey include:

(a) 27% of the underserved consumers responded that they do not have sufficient access to credit. This proportion is 58% for the unserved consumer segment.

(b) 38% of underserved consumers and 65% of unserved consumers responded that they were not satisfied with the current amount of credit.

(c) 39% of underserved consumers indicated that they did not need more credit as compared to 66% of unserved consumers. Both consumer segments specified the top reason as higher interest rates charged by financial institutions.

(d) 84% of underserved consumers and 35% of the unserved consumers, indicated that they plan to apply for new credit in the next six months. The top two credit products these consumers plan to apply for are credit cards and personal loans.

“Promoting financial inclusion starts with gathering a better understanding of the different nuances between the unserved, underserved and served populations and what makes them tick. For example, what drives unserved consumers to apply for credit, and why underserved consumers may need a different credit product, may vary greatly. As lenders are better able to meet the unique needs of these consumer segments and educate these unserved and underserved segments on ways they can build and improve their credit profiles, a larger percentage of consumers will become actively engaged in the credit system,” concluded Kumar. [TransUnion CIBIL released study, April 25]

Global Report-”Empowering Credit Inclusion: A Deeper Perspective on Credit Underserved and Unserved Consumers draws the following lenders’ takeaways:

Lenders’ Takeaways:

Empowering Credit Inclusion: The underserved are a unique segment of credit-visible consumers; they are in many ways less understood or targeted than unserved consumers – those who’ve never held any credit products. While many banks and lenders have programs specifically aimed at unserved consumers, few have developed specific strategies focused on the underserved. TransUnion was able to define and address key business questions regarding the underserved by leveraging our robust credit data, with the goal of empowering greater credit inclusion. While underserved consumers have expressed and demonstrated their desire and intent to grow their credit use in the future, concerns about high costs have made them hesitant to increase engagement with traditional credit products. Most underserved consumers have what many lenders typically consider higher-risk credit scores. However, our study revealed that the newly served — previously underserved consumers who become served — were lower risk, improved their credit scores and became more credit active than those who remained underserved. Since most underserved who became newly served did so by opening up a new account of a different product type, lenders can use these products, commonly loans and cards, as entry points to reach underserved consumers. Given the size, growth and performance demonstrated by the underserved, lenders have a prime opportunity to expand their universe by serving creditworthy, underserved consumers.

Determining an effective strategy to confidently lend to unserved consumers can present a significant challenge for lenders, given the lack of credit information for the unserved segment. Many lenders rely on traditional credit risk scoring models, which are generally not able to generate a score for currently unserved consumers. The availability of alternative consumer data sources, such as rental payments, short-term loans, telecommunications and utility payments, checking and savings accounts, and other potential indicators of creditworthiness, vary globally. However, leveraging alternative data sources that reflect behavior and activity on non-credit accounts can enhance a lender’s visibility into unserved consumers and provide a basis to assess their creditworthiness. As an example, TransUnion’s analysis in the US found that, with the inclusion of rental payment tradelines in the credit file, approximately 9% of those consumers who were previously unscorable under traditional risk scores became scoreable, with an average credit score of 631 — placing them in the near prime score band (VantageScore® 3.0 range of 601-644). A separate analysis in Latin America, specifically Colombia, found alternative credit data could help raise the country’s financial inclusion to 97% — well above the national government’s goal of 85%. By leveraging a combination of trended credit and alternative data solutions, which reveal deeper insights into consumer credit capacity and payment performance, lenders can better understand which consumers meet their target risk parameters and more confidently extend credit— opening the door for greater access to financial products than would otherwise be unavailable.

See them as people with needs: Better serving the underserved and unserved starts with seeing them — not just as scores or even as consumers, but first as people with needs, concerns and aspirations. Most underserved and unserved consumers said their need for credit is triggered by life events, suggesting that they see credit as a means to improve their lives. Better understanding their needs and potential future journey can inform lending strategies that meet them where they are today and help guide them to where they want to be financially in the future. Facilitating financial literacy and ongoing engagement can empower and support the underserved and unserved, enabling them to become consumers who can utilize credit access to start families, buy homes and launch businesses, thereby strengthening the economies in the communities where they live.

How underserved consumers became newly served: The path newly served consumers followed provides a general framework for the types and sequence of the credit products underserved consumers may be interested in as they advance their credit journeys. Globally, 87% of underserved consumers who became newly served did so by opening a second product of a different type. A majority of these products were personal loans — as we saw in Colombia, Hong Kong, India and South Africa.

The U.S. and Canada were the only two regions where the majority of newly served consumers’ second product type was a card. Unlike other regions, 83% of Hong Kong’s newly served consumers originated a third account of the same product type they already had — primarily an additional card — as opposed to opening a different product type. In Canada, 26% of newly served consumers opened a second product type originated with the same lender.

This finding reveals an opportunity for lenders to activate underserved consumers who may already be in their existing portfolios and build greater, long-term loyalty with them. However, in countries like Colombia and the United States, where most of these new product originations (85% and 98%) were with different lenders, lenders will need to develop compelling and competitive offers to maintain the loyalty of their current underserved consumers. **[Global Report-”Empowering Credit Inclusion: A Deeper Perspective on Credit Underserved and Unserved Consumers]**

NBFCS SEEK EXEMPTION FROM RBI FOR DAILY STAMPING OF ACCOUNTS FOR SMALL BORROWERS

- Surabhi

‘Given the erratic cash inflows of these borrowers, sometimes they miss the due date for EMI payment, but manage to make it by the end of the month’

Non-banking finance companies are in further dialogue with the Reserve Bank of India on NPA classification, which calls for daily stamping of accounts.

NBFCs have sought exemption for borrowers with loans up to Rs. 2 crore from the norms, pointing out that they often have erratic cash flows.

Helping small borrowers

“There’s one issue on which there has been a continuous dialogue, which is moving the NPA to a day stamping. We have pointed out to the regulator that our customer segments are often daily, weekly or monthly earners and for them, the due date for loan repayment is a month and not a date,” noted an industry source, adding that it would be challenging for such small borrowers to repay loans on the exact due date.

“We have accordingly sought some exemption for borrowers. This is not to help the industry but small borrowers,” the source said.

The RBI, in its circular on November 12, 2021, had issued clarifications on prudential norms on income recognition, asset classification and provisioning (IRACP) pertaining to advances.

As part of NPA classification norms, the RBI had said borrower accounts will be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date, it had said.

End-of-month payments

“The RBI has already given some relaxation in the norms with the extension of the deadline till September 30, 2022. Our other request on daily stamping of accounts is pending. This will especially impact borrowers in segments such as transport and MSME,” said another industry source.

The Finance Industry Development Council, a representative body of asset and loan financing NBFCs, too had requested the RBI to exempt small retail loans up to ¹ 2 crore from the guidelines until situation returns to normal.

“Given the nature of the business and erratic nature of cash inflows of these borrower segments, it does happen that they miss the due date for EMI payment, but manage to make payment by the end of the respective month,” it had said, adding that their ability to borrow further would be severely impaired if they continue to remain classified as NPA, in spite of paying most of the overdues.

The RBI had in February this year extended the deadline for NBFCs to meet the asset classification norms by September 30, 2022, from the earlier deadline of March 31, 2022.

Accelerated NPA recognition

Experts have said daily stamping of accounts would lead to an accelerated pace of NPA recognition of NBFCs.

“NBFC borrowers, typically where there is cash collection, pay their overdues generally with some delays. Accounts can get into NPA category just for a day’s delay in paying the installments and once it gets categorised as NPA it will not be able to become standard unless all the arrears are cleared,” India Ratings and Research had said in a note in December 2021. [Business Line, May 15]

NBFCS EXPECTED TO SEE QUALITY OF ASSETS IMPROVE, STRICTER COLLECTION

- Shayan Ghosh

New norms mandate NBFCs to upgrade a loan to the standard category only after all pending dues are repaid.

NBFCs would now tighten their collection standards and discourage borrowers from crossing 90 days of non-repayment to meet the new regulations.

Non-bank lenders are likely to report better asset quality in the March quarter on the back of stronger collections and making provisions under the new bad loan classification norms in the previous quarter itself.

However, analysts pointed out that non-banking financial companies (NBFCs) would now tighten their collection standards and discourage borrowers from crossing 90 days of non-repayment to meet the new regulations. The Reserve Bank of India has been bringing NBFCs on a par with banks in terms of regulations, and aligning their bad loan classification standards is another aspect of this harmonization.

Gross non-performing assets of NBFCs increased to 6.8% as on 31 December 2021, rising 150 basis points (bps) over 30 September 2021, according to an analysis by Crisil Ratings. The rating agency expected NBFCs to report a 150-200 bps reduction in bad loan ratio by 31 March-One basis point in 0.01%.

The new norms mandate non-bank financiers to upgrade a loan from the non-performing to standard category only after all pending dues are repaid, instead of allowing reclassification based on part payments. In February, RBI extended the deadline to comply with the new norm by another six months to 30 September.

“Our sense is that with these asset quality rules, NBFCs will become tighter in terms of their collection standards and early delinquency would be looked at far more closely,” said Prakash Agarwal, director and head of financial institutions, India Ratings and Research.

Historically, NBFCs used to classify a loan as bad after 180 days of non-repayment, which was gradually brought down to 90 days. Non-banks used to discourage customers from moving beyond 180 days of non-repayment and now they would make it tighter for customer to cross 90 days, Agarwal said, adding that he does not expect any sharp spike in reported bad loan numbers in the June or September quarters either.

Most large NBFCs had already revealed the impact of RBI’s new asset classification norm in the December quarter results since the extension came only in February. Analysts at ICICI Securities pointed out that many lenders indicated they would intensify collection intensity from 61-90 dpd (days past due) bucket to 31-60 dpd bucket. Dpd indicates the number of days repayment on a loan is overdue.

“New collection rhythm would, however, take three-four quarters to normalize, and convergence of NPA and stage-3 would be possible thereafter,” ICICI Securities said in a report on 6 April. Non-performing assets are termed stage-3 loans under the Ind-AS accounting standard used by NBFCs.

Business performance for non-bank lenders for the three months through March would likely see sustained traction in disbursements and improvement in collection efficiency resulting in better pre-provisioning operating profit, according to ICICI Securities.

Analysts expect NBFCs to post higher aggregate earnings on better loan growth and lower provisioning in the March quarter. Lenders focusing on financing small businesses, microfinance and commercial vehicles are out of woods with improvement in customer cash flows, according to a report by brokerage firm Prabhudas Lilladher.

Asset quality stress should ease as collection efficiencies have even crossed 100% in many companies, analysts believe.

“Secured lending business such as gold and housing finance companies can see margin pressure, due to increased competition. We reckon provisioning has peaked out and credit costs should likely return to pre-covid levels in coming quarters,” the Prabhudas Lilladher report said on 12 April.

With the pandemic receding and the economy opening up, Q4 can be extremely strong for NBFCs across the board, it said.

Companies are expected to show strong sequential growth of assets under management and their guidance is expected to be strong. [Mint, April 25]

WHAT THE LATEST CREDIT DISBURSAL NUMBERS SHOW

Jagadish Shettigar, Pooja Misra

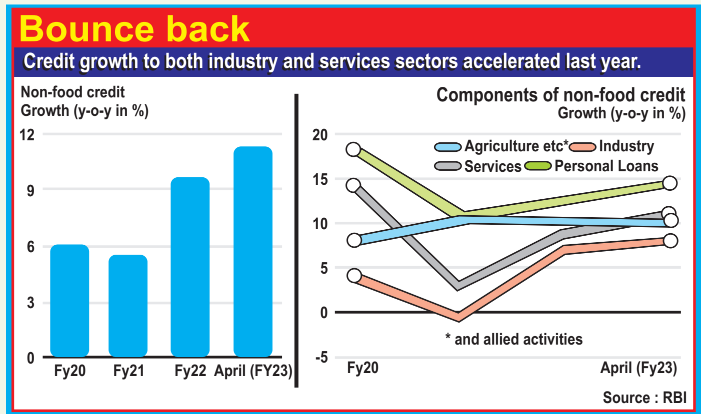
The engines of growth are humming again; the rise in credit disbursement by banks in 2011-22, as well as in April 2022, reflects this. But what is fuelling this credit growth, and what could change the trend? Mint explores:

Credit disbursal data: What do they show?

With the Indian economy getting back onto a growth trajectory, credit disbursal numbers are on the rise again. The Reserve Bank of India's annual report for 2021-22 shows that credit disbursal by scheduled commercial banks recovered pace in FY22. Bank credit grew at 9.6% in FY22, against 5.6% in FY21. The trend only seems to be improving, with gross bank credit in April 2022 growing 11.1% against 4.7% in April 2021. Non-food credit growth seems to have turned the corner—at 11.3% in April 2022 as against 4.7% in April—and credit offtake after August 2021 has been mostly positive.

Sector-wise, what's the credit disbursal trend?

While agriculture and allied activities have maintained pace, the growth of credit to industry has accelerated. It had contracted the previous year as an outcome of the pandemic and low consumption demand. Credit to medium enterprises and retail loans have grown sharply. Revival in credit disbursal to capital-intensive sectors such as infrastructure augurs well for the economy as it will boost economic growth and have a multiplier effect on other sectors. Credit growth in services sector has also risen, indicating a bounce-back by contact-intensive sectors (though still below pre-pandemic levels).



What about the credit-deposit ratio?

With CRR at 4% (which recently was raised to 4.5%) and SLR at 18%, banks were capable of lending 78% of their net time and demand deposits. But the credit-deposit ratio for FY22 was 72.2%, implying scope for improvement. Also not to miss is the fact that with the economy reviving, aggregate deposit growth for FY22 stands lower at 8.9% as against 11.4% in FY21.

What explains the rise in credit disbursal?

Manufacturing activity improved in FY22, with capacity utilization in the manufacturing sector touching 72.4% in Q3 from 68.3% in Q2. An overall rise in business activity has boosted industry-wide credit growth. Also, latest Central Statistics Office data shows gross fixed capital formation of 32.5% of GDP in FY22 as against 30.5% in FY21, reflecting the revival in investment demand. With credit disbursal on the rise for medium enterprises and personal loans, demand side economic indicators are also looking up.

What could affect credit growth?

Rising inflation prompted the Reserve Bank of India to raise key policy rates. It led to higher interest rates and higher production costs, narrowing margins of the industry. However, with consumption demand still to normalize, the industry cannot pass on rising costs. Also, supply chain disruptions on account of external developments such as Russia-Ukraine war and lockdown in China are likely to aggravate the situation.

[Mint, June 7; Jagadish Shettigar and Pooja Misra are faculty members at BIMTECH]

Loans to industry hit eight-year high, but large corporate segment lags

Led by the MSME sector, the loans in the industrial sector grew 8.1 per cent year on-year to Rs 31.52 lakh crore as on April 22. However, loans to the large enterprise segment grew just 1.6 per cent.

Bank credit to industry grew at its fastest pace in eight years in April 2022 though it stayed below the overall double-digit growth clip. The loans to the industrial sector including medium, small and micro industry grew 8.1% year on year to Rs 31.52 lakh crore as on April 22, according to the sectoral data released by the Reserve Bank of India (RBI).

Credit to medium enterprises grew at the fastest pace of 53.5 % year on year, while loans to micro and small enterprises grew 29 %. However, growth in the loans to large enterprises segment lagged at 1.6%. Banks have stepped up their exposure to medium and small enterprises on account of the government's Emergency Credit Line Guarantee Scheme which supported small businesses through the pandemic.

Picking up: The gross banking credit picked up in the last couple of months and witnessed double-digit growth. It grew at a strong 11.9% year-on-year (y-o-y), expanding by a significant 580 basis points (bps) for the fortnight ended May 6, 2022, up from 6.1% in the year-ago period.

Sequentially, bank credit also improved by 0.8 % from the immediate fortnight. In absolute term outstanding crossed Rs.120 lakh crore threshold as of May 6, 2022, expanding by Rs.12.8 lakh crore the last 12 months.

Credit growth rose 11.3 per cent year-on-year in April 2022 as compared to 4.7 per cent a year ago. This was driven by the low base effect, shift to bank borrowings due to high capital market rates, sustained rise in retail loans and higher working capital requirements owing to elevated inflation. Retail growth has been relatively higher due to improvement in the job market and economic activities. [ET CFO.com, June 3] ■

[Continued from Page 24... LEGLE EAGLE]

implemented in spite of the RBI having wide powers to ensure compliance of its directions, such as imposition of financial penalties.

"For example, while some internet banking applications and ATMs have good accessibility, many are still not accessible. Some financial services used by the public such as digital payment wallets or vendor card payment machines appear to offer no access whatsoever for visually impaired persons,"

The petitioner thus suggested that a committee be appointed to formulate steps and guidelines to address the issues concerning access to financial services for the visually impaired. [BFSI News, April 24]

Tata Capital Housing first it lost its customer's documents, then it lost the case.

After Shri Chand Construction and Apartment Pvt Ltd repaid the money it borrowed from Tata Capital Housing Finance, it wanted back the property documents it had given the financier as security. But Tata Capital Housing had lost them. Chand Construction sued Tata Capital Housing before the Delhi High Court for damages, saying that the lost documents delayed resale of the property and also fetched lower value.

Tata Capital Housing said it could not be sued before the High Court, because as per the agreement, any dispute would have to be taken to arbitration. But then, unluckily for Tata Capital Housing, the agreement also had 'an opt-out clause' under which Tata Capital Housing could opt out of arbitration. Notably, this option was not available to the other party.

The Delhi High Court said this was not a valid arbitration agreement at all, in the first place. It lacked the essential element of an arbitration agreement — "mutuality". [Business Line, Jan. 9] ■

Road sector needs a dedicated NBFC: Nitin Gadkari

The need for a dedicated non-banking financial company (NBFC) for the road sector should be addressed at the earliest, said Nitin Gadkari, Road Transport and Highways Minister. He also mooted the idea of a dedicated NBFC for the infrastructure sector at a conference on 'Realizing India's Socio-Economic Vision through Investment in Infrastructure', in New Delhi, on April 19, 2022.

"Road sector does not have a dedicated NBFC unlike power or railways, this needs to be addressed at the earliest. Tapping insurance and pension funds are viable options and we must look at tie-ups with foreign funds to offer accessible loans after hedging against the dollar. An infrastructure focused NBFC is the need of the hour," Gadkari said at an industry interaction organised by Assocham.

The government is working to systemically address the challenges in infrastructure development. Earlier, the land acquisition was a problem and a major reason for delay. Today, a project does not start before 80-90 per cent of acquisitions are done, he added. We have proposed project insurance in lieu of bank guarantees to speed up the process. Competition is healthy and we must strive for a low cost, high quality construction. [Business Line, April 19]

Allow large NBFCs to offer full banking services: CII chief

India requires a much larger number of banks to take banking to every corner, new CII president Sanjiv Bajaj said on Monday, highlighting the need for allowing large non-banking financial companies (NBFCs) to offer full banking services.

Large and strong NBFCs need to be given "more teeth", so that "they don't just provide last-mile banking but provide what banking can provide", of course, after putting in place an adequate amount of risk-mitigation measures prescribed by the Reserve Bank of India (RBI), said Bajaj, who is also the chairman and MD of Bajaj Finserv.

While India has only about 500-600 banks, including the regional rural ones, the US has a network of some 26,000 banks even while having a fourth of India's population, former chief economic advisor KV Subramanian had said earlier. [Financial Express, May 17]

STATE OF NBFC SECTOR

NBFCs see increase in demand for used vehicle financing post Covid

Non-Banking Financial Companies (NBFCs) are witnessing a rise in demand in financing for used vehicles post-Covid. The pandemic-driven personal preference for owning second and third cars in households, upgrade of two -wheeler owners to purchase pre -owned and cost of used vehicles, which are affordable than investing in new vehicles, are cited as the primary reasons for the spike in demand for used vehicles. This financial year, NBFCs offering finances for used vehicles are bullish at a rapid growth in the vertical.

One of the largest players in the used vehicle financing segment, Cholamandalam Investments & Finance Company (Chola) has recorded financing for used vehicles topping the list in vehicle finance consecutively for three years since 2019 -20. While the share of used vehicle finance in FY21 and FY22 was 27%, an increase by 1% over FY20, it was just 13% in FY 19. In 4Q last fiscal (FY22) alone, the number of used vehicles that were financed rose to around 57,0O0, a jump by 17,000 vehicles, when compared with the corresponding fourth quarter of FY21.

City based Sundaram Finance has financed about two-four million pre -owned/used/second hand cars annually in the past few years. The leading NBFC is expecting this market to grow steadily at 1O-15% annually post-Covid. Tata Capital Financial Services Limited (TCFSL) has said that the used car loan market has tremendous potential for growth especially in the tier 2 and tier 3 cities.

Rajiv Lochan, MD, Sundaram Finance said, used vehicle business grew at 15% CAGR in the past, accounting for about 20-25% of their overall business. "Looking ahead, we see the used vehicle business growing much faster for us. Our target is to achieve 30% share of our overall disbursements from the used vehicles segment over the next three years," he told TOI in an emailed statement.

Sarosh Amaria, MD, TCFSL, said it aims to grow faster than the industry growth rate, which is approximately 20 to 23% in FY22-23. Our partnerships and easy online access to used car loans will bring in opportunities for growth, he added. [ET BFSI, June 4]

Limited bank funding drags Impact NBFCs' growth: CIBIL assessment

Small- and medium-size finance companies serving the bottom of pyramid are hamstrung by limited supply of bank funds and need Rs 2.32 trillion in debt in the next five years. Impact NBFCs will need Rs 58,000 crore equity, according CIBIL assessment.

These companies, focusing on SMEs, vehicle and affordable housing, etc., are termed as "Impact NBFCs". They are victims of erroneous perception of being high risk clients (elevated defaults), limiting access to banks and debt markets.

Credit Information Bureau TransUnion CIBIL said a five-year analysis of these entities revealed that Less than 10 percent of Impact NBFCs have been able to achieve credible scale – portfolios above Rs 2,000 crore — in the past five years. [Business Standard, May 10]

NBFC earnings, growth revive in Q3, seen at pre-COVID levels in FY23: ICRA

The earnings and growth performance of non-banking financial companies have revived in the third quarter of the current financial year and are expected to head towards pre-COVID levels in the next fiscal year, rating agency ICRA said. ICRA pegs AUM growth of retail NBFCs at about 5 to 7 per cent in the current financial year and 8 to 10 per cent in the next, while that for Housing Finance Companies is estimated at 8 to 10 per cent in the current year and 9 to 11 per cent in the next.

"While the disbursement and AUM (assets under management) trends have revived in Q2FY2022 and Q3FY2022, the trend is likely to continue in Q4 of FY2022 as impact of the third wave of the pandemic was limited," the agency said. "ICRA notes that the disbursement growth would have to remain healthier for a sustained AUM growth."

Within the retail NBFC segment, the growth impetus is largely seen from personal credit, microfinance and gold loans as other traditional asset segments such as the vehicle finance space and credit for business still face hurdles on asset quality and supply bottlenecks, ICRA's Vice-President of Financial Sector Ratings said.

Liquidity: According to the agency, liquidity for the NBFC sector remains sufficient, in line with the trend of the last two years, with most players maintaining coverage for three-month-ahead repayments. Furthermore, lower AUM growth in the current financial year necessitated limited incremental funding requirements, ICRA said. "As per ICRA's estimates, NBFC and HFCs would require Rs.1.8-2.2 trillion of incremental fresh funding for meeting its growth requirement in FY2023; assuming entities continue to maintain their liquidity buffers." [ET Market, March 30]

NBFC recovery to bring higher Q4 profits; funding costs to rise, too

Non-bank lenders are likely to match India's mainstream banks in reporting better quarterly performances due to the receding impact of Covid shutdowns on collections and asset quality, although stricter provisioning norms ordered by the banking regulator could crimp margin expansion at the last-mile financiers of homes and cars. Motilal Oswal expects NBFCs under its coverage to report a year-on-year net profit growth of 32%.

"Collection efficiency has now normalised and even restructured accounts have selectively started repayments. Disbursement momentum is likely to be healthy in 4QFY22 but quite unlike the seasonally stronger 4Q that is typically expected for vehicle financiers. Momentum for housing financiers has been robust and we expect this buoyancy to sustain even in FY23," Motilal Oswal said in a preview note.

NBFC recovery to bring higher Q4 profits; funding costs to rise, too
Analysts see a clear demarcation among NBFCs with the top-rated ones like Bajaj Finance and Cholamandalam better placed compared to the rest of the market because of their easier access to funds, higher provisions and domination of main lines of business.

"The consumer-facing NBFCs are clearly ahead because even if the cost of funds rises a 50 basis points pass on to their customers will not make any difference like in the case of maybe vehicle finance

companies. Retail-oriented NBFCs are better placed and will continue to do well helped by growth in business volumes and better pricing power," said Siddharth Purohit, principal advisor, InvesQ Investment advisors. [Joel Rebello, ET Bureau, April 12]

NBFCs see turnaround in rural business

Non-banking financial companies expect a turnaround in loan disbursements this year, especially from rural areas, though consumers remain cautious about spending, and lenders face increased operation costs because of inflation. Mahindra Finance, which is looking to double its business growth this year, is expecting loan disbursements to pick up with an increase in vehicle prices and a possible easing of chip shortages. The non-bank lender is also looking to diversify its portfolio, with 15% of the loan book coming from non-vehicle segments such as SME, property and leasing.

"Our collections were surpassing disbursements so far. It's now that we have started disbursements growth. Assets this quarter have grown marginally by 1-1.5%. I don't have a doubt that asset growth is beginning to happen. Vehicle prices will go up. Even for the same volume, the value of disbursement will be high. Once the chip problem gets sorted, sales will go up. Markets are opening up, and demand is picking up," Ramesh Iyer, managing director and chief executive of Mahindra Finance, said in an interview. Iyer said that while the sentiment has improved, rural customers continue to be cautious about spending in the post-covid era. While aspirational spending has reduced, demand for livelihood assets has risen and that for non-livelihood assets continues to be weak—this even as operational costs have increased, resulting in a shrinking of margins.

Shriram Transport Finance, too, is expecting strong rural demand for used and small commercial vehicle finance loans. The non-bank lender saw 10% sequential growth in disbursements as price hikes in both new and used CVs led to higher ticket sizes, aiding value growth in disbursements. But volume growth still remains muted.

"Rural demand is very high. Used vehicle and small commercial vehicle demand are good. Heavy commercial vehicle demand had increased in March, but it subsided in April. Demand may come once geopolitical tensions come to a closure. Government spending has also slowed down," Umesh Revankar, managing director of Shriram Transport Finance, said in a post-earnings call with investors. [Gopika Gopakumar, Mint, May 9]

What do NBFCs want?

There are two arguments. The first is that if NBFCs become banks or merge with banks then the whole shadow bank tag will go away and they will gain more respect. The access to funds will be cheaper and more doors will open. But the big catch is compliance. They will instantly fall under the regulatory hurdles which is not easy. The RBI monitors and audits every piece and layer, which many of them either are not prepared for or don't want it. Currently, both NBFCs and HFCs have a certain degree of flexibility from the regulatory side, which bankers do not have.

NBFCs + FinTechs = Digital lending: Over the years, NBFCs built their loan books and focussed on tapping those markets where banks were absent. But in the last few years, they have embraced digital like never before. They have partnered with a number of FinTechs and created an unmatchable and unimaginable innovation in the credit space.

NBFCs and FinTechs have actually redesigned the whole credit segment. They are not disbursing the loan on the basis of your salary slip but on the basis of where and how you spend your salary, whether you party hard, or shop hard, whether you travel or eat… they collect all the data points by following various digital footprints. They conduct psychometric tests, check social media accounts and much more. India was actually waiting for such remarkable innovation where borrowers will knock on the credit windows again and again. This also opened new access to a whole different segment.

Today the majority of FinTechs want to become an NBFC. Many of them have either obtained or applied for an NBFC licence. Of course, FinTechs are also partnering with banks and other financial institutions, but according to my observation, the bond is much stronger today between NBFCs and FinTechs. In many cases, both are dependent on each other. [Extract from Amol Dethe's write up titled: The Future of NBFCs and FinTechs, ET BFSI, June 4]

Large NBFCs well placed to meet RBI's latest provisioning norm: Crisil

The Reserve Bank of India's (RBI) guidelines on category-wise standard asset provisioning announced on Monday are not expected to be onerous for most non-banking financial companies (NBFCs) in the upper layer as their provisioning is comfortably high, ratings agency Crisil said on Thursday.

In an impact assessment of provisioning norms undertaken by the agency, it said that upper layer NBFCs comply with Indian Accounting Standards (Ind AS) for preparation of financial statements. Typically, provisioning under gross stage 1 and gross stage 2 here is higher compared with the RBI's Income Recognition, Asset Classification and Provisioning (IRACP) norms.

The guidelines for provisioning are to be maintained for standard assets by upper layer NBFC. These have been specified by category of assets financed, and ranges from 0.25% to 1%. For a specific category of housing loans, say those extended at teaser rates, the provisioning rate is higher at 2%. The guidelines will be effective from 1 October, 2022.

Krishnan Sitaraman, senior director and deputy chief ratings officer, CRISIL Ratings, "Most large NBFCs follow Ind AS and also had significantly increased their provisioning buffer since March 2019. Hence, they are well placed to meet the new RBI guidelines. The aggregate Gross Stage 1 and Gross Stage 2 provisioning maintained by leading NBFCs range from 1.4% to 3.9%. Similarly, for most housing finance companies, it ranges from 0.8% to 1.8%." [Mint, June 10]

After a lull, NBFCs looking to step up funding for real estate sector

Housing market, Homes, Real estate, RealtyThe turn in the real estate cycle has improved the climate for resolving projects that were facing problems in execution and cash flows.

With a clean-up underway in the real estate sector and tight underwriting standards, finance companies are stepping up funding for projects and developers. The strong demand in real estate — residential, commercial, and logistics — is giving confidence to the likes of JM Finance, Piramal, LIC Housing, and Indiabulls Housing Finance. Lata Pillai, managing director and head (capital markets), real estate consultancy firm JLL, said: "We see more avenues for developers to get funding. Even the existing lenders are taking a relook at the real estate sector."

Many of them had paused additional funding owing to the challenges the sector faced. After the IL&FS crisis in 2018, some firms with a substantial exposure to real estate faced a challenge due to funding mismatches. However, that is changing now because many of them have set their books right. The turn in the real estate cycle has improved the climate for resolving projects that were facing problems in execution and cash flows. [Business Standard, June 7]

NBFCs seek staggered migration to new norms; NBFCs continue talks with RBI

Mid-sized and small non-banking financial companies (NBFCs) are likely to be hit by rising costs while making transition to the new regulatory framework prescribed by the Reserve Bank of India (RBI), aimed at maximising regulatory parity between banks and non-bank lenders. While they are preparing to deal with higher spends towards guidelines like the implementation of core financial systems, they continue to engage with the regulator to seek a smoother and more staggered migration to the new norms.

Industry executives FE spoke to said companies are seeking some relaxations in implementation and additions to the guidelines in order to achieve a smoother transition. One of the additions being sought is that the loan limit to invoke recovery proceedings under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act be harmonised for banks and NBFCs at Rs 1 lakh. Another request is that housing finance companies (HFCs) be allowed to exclude cash and bank balances while making calculations for the purpose of determining the minimum exposure they must have to home loans.

For companies transitioning to the ML, some were already quite closely regulated, especially those with asset sizes of Rs 250 crore-

Rs 1,000 crore. At the same time, a handful of companies who have a net worth or asset size of less than Rs 100 crore, it might be difficult for them to comply because having gone into the ML layer, there are a host of activities where the cost of operating the companies will be a little higher," Chokhani said. For example, a chief compliance officer will now be mandatory for all HFCs and that could raise costs as could the implementation of a core financial system.

The norms on large exposures are likely to be less of a problem for retail NBFCs, according to industry executives. In a recent conversation with investors, YS Chakravarti, MD & CEO, Shriram City Union Finance, said the cap on single counterparty and group exposures, set as a percentage of NBFCs' tier-I capital, translates into a fairly large outlay. "Wholesale NBFCs will have to reassess their lending if they have high exposures and take a more cautious approach, which will lead to de-risking of their book and in the long term be beneficial for the industry," he said.

Chokhani said a specific regulation posing a challenge to all HFCs is the one concerning the inclusion of cash and bank balances in total assets. "As per the guidelines, over 50% of assets have to be in housing loans. Senior executives of NBFCs have been engaging with the RBI to seek a phased implementation of the guidelines or to exclude cash assets from the calculation," he said. [Financial Express, April 29]

NBFCs can't have bank-like regulations

Raman Aggarwal, director at Finance Industry Development Council, believes that the RBI must ensure that the flexibility of lending among NBFCs should be retained. He spoke of harmonisation of regulations of NBFCs with that of banks, and while he agrees on certain aspects, he said that a full-fledged stringent harmonisation will be damaging.

Raman Aggarwal, director at Finance Industry Development Council, advocated for flexible norms for the non-banking financial sector, and said the sector cannot have bank-like regulations.

Aggarwal spoke of harmonisation of regulations of NBFCs with that of banks, and while he agrees on certain aspects, he said that a full-fledged stringent harmonisation will be damaging.

"With the Reserve Bank of India intending to harmonise regulations of NBFCs with that of banks, we need to see how far it is justified to bring NBFCs on par with banks. To my mind, this is debatable. If you are to regulate NBFCs like banks, then you are damaging that typical model of lending, which has an important element of flexibility, catering to the borrowers' needs. This can get damaged, the moment you bring in bank-like rigid regulations," Aggarwal told ETBFSI.

From the recently introduced norms for NBFCs, a "classic example" that can damage the sector are the asset classification norms, which were released on November 12, 2021. The guidelines seek to harmonise income recognition and asset classification practices of banks and NBFCs.

"A classic example in this case is RBI's November 12 circular, where RBI had said that henceforth NBFCs are required to follow the 90-day norm. So far, NBFCs have been slightly flexible.. for instance if someone is not able to pay within the 90-day bracket, but they are able to pay by that month end - a delay of three-four days, NBFCs would not treat that as an NPA (non-performing asset). However, with this asset classification norm, it is now a mandate for NBFCs to follow a day-end accounting.. meaning that if today is the 90th day, and the borrower has not repaid the loan, the NBFC will have to classify it as an NPA that day itself," he said.

Another problem in the asset classification norm is that if the borrower has paid partial amount, and the borrower has crossed their 90-day mark, NBFCs were still upgrading the borrower to a standard borrower. However, with these norms, this will not be possible.

Since regulations are already being done on these lines, Aggarwal said that it will be incomplete if certain privileges available to banks are not available to NBFCs, such as taxation and recovery. "Though these may not fall under the purview of RBI, the regulator should ensure that the negative bias towards NBFCs in these two matters should be harmonised," he said. [Nidhi S Chugh, ET BFSI, May 5] (The views expressed in this story are personal.)]

NBFC profitability to remain stable amid 85-105 bps in funding cost: Crisil

The hardening of interest rates is likely to raise the cost of funds for finance companies by 85-105 basis points (bps) as their debt, amounting to Rs 18 trillion, gets repriced in the current financial year, according to Crisil Ratings.

However, overall profitability of non-banking finance Companies (NBFCs) is likely to remain steady. cushioned by a reduction in credit costs. Credit costs, which have been rising the past few years, should dip this fiscal as most NBFCs hold substantial provisioning buffers. This should offset some of the impact of higher interest rates on profitability.

An analysis of NBFCs under Crisil's rating radar showed that Rs 15 trillion of debt as on March 31, 2022, is due for repricing this fiscal owing to interest reset or maturity. Another Rs three trillion of incremental debt is likely to be raised to support expected growth in lending.

The interest rate scenario has turned for NBFCs, with the Reserve Bank of India (RBI) hiking the repo rate by 90 bps in two tranches. "We expect another 75 bps of hikes, taking the total expected increase this fiscal to ~165 bps," Crisil said.

As for passing on increase in cost to customers (borrowers), CRISIL said the rise may not be in same extent as the increase in borrowing costs (85-105 basis points), amid intensifying competition from banks.

In home loans, (constituting 35-40 per cent of assets under management [AUM]), NBFCs should be able to pass on the higher rates to both existing and new clients since lending rates here are primarily floating in nature.

Other segments such as vehicle finance, and micro, small and medium enterprises (MSME) financing, comprise fixed-rate loans majorly. So only incremental loans would be charged at higher interest rates and here, too, they won't be as much as the rise in borrowing costs.

Consequently, gross spreads of NBFCs will compress 40-60 bps this fiscal. This squeeze will be offset by the substantial provisioning buffers built over the past two fiscals, which had cranked up their credit costs, it added. [Abhijit Lele, Business Standard, June 15] ■

[Continued from Page 24... HOW TECHNOLOGY]

extremely close to a human agent led the interactive call, are not only winning customer confidence but also enabling banks and non-banking lenders to automate their operations at a lower cost.

With customer journeys completely mapped and planned in advance, the customer responses automatically trigger next stage communications, thereby, slowly but firmly nudging the customer towards the desired outcomes. The personalized payment links are instantly generated and embedded in customer communications allowing them to make the payments in a secure, convenient, and trustworthy manner.

The complete digitization of last-mile operations with mobile collections app for field agents serves multiple ends. This is extremely useful to serve the rural customers who still prefer to be dealt with in-person for collections but want the convenience, simplicity, and customized experience that such digital platforms offer.

Digital debt collection reduces the costs of recovery and helps minimize delinquencies while improving speed and collection rates even in remote areas. It provides lenders with the requisite digital infrastructure to expedite recoveries across the delinquency buckets, including pre-due stages with reduced manpower for debt collections.

As collections get more cost-efficient, predictable, and faster, lenders with better recoveries would eventually consider lending to newer segments and remote areas, which have remained outside the credit umbrella for now. This is where a wholesome technology-led approach to collections can also contribute towards financial inclusion.

Anand Agrawal adds, "As a leading technology platform provider for loan collections and debt recoveries, Credgenics is committed to transforming this space and facilitating a unique win-win proposition for the entire ecosystem. We are already working with some of the leading banks and non-banking finance companies for digitizing their collections in rural India." [Financial Express, June 14] ■

NBFC 'third party lending' set to come under auditors' scrutiny

Various funding arrangements entered by non-banking financial companies (NBFCs) are set to come under scrutiny of auditors with effect from FY22 audit that starts in the next few weeks. The ministry of corporate Affairs (MCA) had tightened the rules for company audits last year mandating companies to provide a new declaration saying they have not lent money to an intermediary with an understanding that the intermediary will in turn loan, or fund, it to a third company.

While the rules will apply to all companies, market participant say they will have significant impact on NBFCs. NBFC 'third party lending' set to come under auditors' scrutiny. The development assumes significance as several cases have come to light in the last few years where the promoters of NBFCs have diverted funds of the lender to private entities who in turn moved this money into third party companies.

The new rules mandate company auditors to evaluate such funding arrangements and determine if they are in violation of foreign exchange and anti-money laundering rules. The Institute of Chartered Accountants (ICAI), which regulates auditors, issued a guidance note on Monday on how auditors need to approach this new law. In the guidance note ICAI noted that the new rules have "cast onerous responsibility on auditors as scope of reporting under these rules is very wide." "The rules are expected to apply to even banks and NBFCs since the section applies to all the companies under the Companies Act, and no specific exemption has been provided for NBFCs," said a person with direct knowledge of the matter. [Pavan Burugula, ET Bureau, April 27]

Govt embarks on 'Vision 2047' to put India on the developed economy's path

The Prime Minister's Office (PMO) is working on a blueprint for India@2047, a vision plan to make the country one of the world's top three economies and bring it closer to developed nation status by the 100th year of its independence, two officials aware of the matter said.

The plan will set specific targets for different economic sectors, the officials said on the condition of anonymity. The vision plan is expected to be finalized by next month, and an official announcement is likely around 15 August, the 75th anniversary of Indian. [Mint, April 22]

Prime Minister may roll out NSW system in August

Prime Minister Narendra Modi may formally launch on 15 August a National Single Window System (NSWS), a one-stop digital platform where companies can obtain all regulatory approvals. At least 3,400 central and state-level approvals are already available on the system, and work is underway to add more on a priority, two government officials said on condition of anonymity. Once completed, the system will serve as a single interface between the government and business, marking a significant step in India's efforts to improve the ease of doing business. [Mint, May 5]

India should aspire to become high-income country by 2047, says NITI Aayog CEO

India should aspire to become a high-income country by 2047 and this would need sustained economic growth year after year, NITI Aayog CEO Amitabh Kant said on Wednesday. Kant further said that India will grow if the country can use power of its private sector. "Our per capita income is approximately USD 2,000. India is a lower middle income country. Our aspiration should be to become a high-income country by 2047 and this would need sustained growth year after year," he said at an event in New Delhi.

Kant pointed out that in 1947, per capita income of South Korea, China and India were more or less equal. "Seventy-five years later South Korea's per capita income is 7 times of India," he added. Noting that China and South Korea recorded 10 per cent growth year after year, Kant said, "If India won't grow at higher rate then it will be caught in low income growth scenario." [Financial Express, April 20]

Govt mandates vehicles' fitness testing via automated stations from 2023

The government has made fitness testing of vehicles through Automated Testing Stations (ATS) mandatory in a phased manner starting April next year. In an official statement, the Road Transport and Highways Ministry (MoRTH) said that fitness testing for heavy goods vehicles and heavy passenger motor vehicles through an ATS will be mandatory from April 1, 2023. While in the case of medium goods vehicles and medium passenger motor vehicles and light motor vehicles (transport), the requirement will be made compulsory from June 1, 2024.

An Automated Testing Station (ATS) uses mechanical equipment to automate the various tests required to check the fitness of a vehicle. "The Ministry of Road Transport and Highways has issued a notification dated 5th April 2022, regarding mandatory fitness of motor vehicles only through an Automated Testing Station, registered in accordance with rule 175 of the Central Motor Vehicle Rules 1989," it said. Last year, the ministry said entities like special purpose vehicles, state governments, companies, associations and bodies of individuals may be allowed to open ATS for testing fitness of both personal and transport vehicles. [Business Standard, April 7]

Vehicle Dealers will soon be able to apply for Trade Certificates Online without Visiting RTO

Issuing a fresh statement on Saturday, the Ministry of Road Transport & Highways said," In an endeavor to promote ease of doing business, it is proposed that such agency can apply for a Trade Certificate and Trade Registration Marks electronically for multiple types of vehicles in a single application on the Vahan portal, without the need to visit the RTO. The Ministry of Road Transport & Highways had on May 5 published a draft notification about the amendments in certain provisions of the Central Motor Vehicles Rules 1989 pertaining to the Trade Certificate. [News HTS, May 8]

Eye on investment flows from neighbours: MCA tweaks incorporation rules aligning with FEMA

The Corporate Affairs Ministry (MCA) is keen on closing the regulatory gaps when it comes to investments flowing from countries with which India shares its land border. Towards this end, it has now aligned its company incorporation rules with FEMA so as to ensure that nationals of a country which shares land border with India do not get to incorporate a company in India without requisite security clearance from the Home Ministry.

MCA's Company Incorporation Rules have been amended to require declaration from the person incorporating a company that Foreign Exchange Management Act (FEMA) approvals have been obtained or not. This declaration has to be made in the now revamped FORM INC9, which is the declaration form furnished by subscribers to the memorandum of a company and first time directors. This FORM INC9 is submitted with the SPICe+ form (INC-32), which is the main vehicle for incorporation of companies through electronic mode. [Business Line, May 21]

CBDT notifies online tax dispute resolution scheme

The Central Board of Direct Taxes (CBDT) on Wednesday notified the e-Dispute Resolution Scheme, 2022, to settle tax disputes involving small taxpayers. Taxpayers having total returned income up to Rs. 50 lakh having income tax disputes not exceeding Rs. 10 lakh will be able to avail the scheme.

Taxpayers will not be required to appear before tax officials either personally or through an authorised representative in connection with any proceedings under this scheme and the entire communication will be in electronic mode.

The CBDT also notified constitution of a dispute resolution committee, which shall consist of three members, including two retired officers from the Indian Revenue Service who have held the post of commissioner of income tax or higher post for five years and one serving officer not below the rank of principal commissioner of income-tax. Members will have tenure of three years. [A2Z Taxcorp LLP, April 7]

Regulators must be a step ahead on digitisation: FM Nirmala Sitharaman

Union Finance Minister Nirmala Sitharaman on Tuesday stressed the role of digitisation in fair and transparent business practices. However, regulators have to be ahead of the curve in understanding digital methods to preclude the misuse of technology, she said.

"The Competition Commission of India (CCI), National Financial Reporting Authority (NFRA), and others have to be ahead of the curve to see where the regulations are falling into place, where they need a soft touch, and where they will have to be a deterrent and strong," Sitharaman said. [Business standard, June 8] ■

Moves

A Supreme Court Ruling on Loans against Pledged Shares

In an important ruling, the Supreme Court has clarified the law on pledge of securities which will impact transactions involving loans against shares. Merely because the entity which has extended the loan has become the beneficial owner of pledged shares doesn't mean the debt has been discharged, the apex court held. Loan against shares is a very common transaction structure specifically for NBFCs and the judgment will help bring clarity for them in line with the letter and spirit of the law, said Veena Sivaramakrishnan, partner at Shardul Amarchand Mangaldas.

The Issue: PTC India Financial Services Ltd. had extended a Rs 125 crore to NSL Nagapatnam Power and Infratech Ltd. NSL's parent— Mandava Holdings—pledged 26% shares of another subsidiary, NSL Energy Ventures Pvt. Ltd., to secure the loan. Since the debt wasn't paid, PTC moved to get itself registered as the beneficial owner of the pledged shares of NSL Energy. But before the sale could happen, NSL Power went into insolvency.

PTC Financial filed its claim as the financial creditor of the company, which was contested by Mandava Holdings or MHPL. Since PTC Financial had become the beneficial owner of the pledged shares, the value of the shares must be deducted from their claim, MHPL argued.

SC Judgment: The court examined the interplay between law of pledge under The Contract Act, 1872 and the Depositories Act, 1996 as well as Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996. It pointed out that just because the entity which has received the pledge—in this case PTC Financial—has become the beneficial owner does not have the effect of sale of shares by it. The pledge is not discharged or satisfied either in full or in part until the sale of shares happen, it said.

And that the entity which has given shares as security—in this case MHPL—would continue to have the option of redeeming it until the actual sale of securities has happened.

Invocation of a pledge in shares by getting registered as the beneficial owner with a depository would not mean the end of the road for the one who had given the security, said the Supreme Court.

Getting recognised as a "beneficial owner" would not mean "final sale" as per contract law, the apex court held. The sale of the pledge, it explained, can take place only to a third person. Sale to itself would be conversion which is not the actual sale as per law of pledge and the right of redemption would continue to vest with the one who had given the security, the court pointed out while upholding PTC Financial's case.

The act of getting registered as a beneficial owner was only an additional procedural step in the process of sale of a pledge. The actual sale will only happen when the shares are transferred to a third person and until then there will be an option to redeem the pledge, noted the Supreme Court. [Bloomberg, June 10]

Supreme Court sets up special courts in 5 states for cheque-bounce cases

To function in Delhi, Gujarat, Maharashtra, Rajasthan and UP from Sept 1

In a relief to victims in cheque-bounce cases, the Supreme Court on Thursday ordered setting up of special courts headed by retired judges in the five states with the most number of pending cases. The three-judge Bench of Justice L Nageswara Rao, Justice B R Gavai, and Justice S Ravindra Bhat in this suo motu case said the special courts would be set up from September 1 in Delhi, Gujarat, Maharashtra, Rajasthan, and Uttar Pradesh, to hear such cases under Section 138 of the Negotiable Instruments Act (cheque dishonour).

"We have incorporated the suggestions of the amicus curiae (friend of the court) concerning the setting up of the pilot courts in the five districts in each of the five states and we have given the timelines also," the bench said.

The court directed its secretary-general to communicate the order to the registrar general of the High Courts of the five states and directed them to file an affidavit on compliance by July 21, 2022. The next hearing on the matter has been slated for July 26. The report submitted by Amicus read, "It is suggested that the high courts must utilise the services of retired judicial officers for this purpose. This scheme could be tested on a pilot basis in five states with the highest pendency."

The amici curiae had reported on May 1 that there has been an increase in pendency of 737,124 cheque dishonour cases in just five months. Pending cases increased from 2,607,166 in November last year to 3,344,290 as of April 13, 2022. The states with the highest pendency of cases are Rajasthan (479,774), Gujarat (437,979), Delhi (408,992), and Uttar Pradesh (266,777). [Business Standard, May 20]

SC says labelling the cheque as 'security' would not mean it was not an instrument designed to meet a legally enforceable debt or liability

The reach of Section 138 of the Negotiable Instruments Act, which deals with dishonoring of cheques, was put to test in a case before the Supreme Court, Sunil Todi & others Vs State of Gujarat. The appellants were directors and Managing Director in RL Steels & Energy Ltd, a company to which Gujarat was supplying electricity. The appellants had given a post-dated cheque for Rs. 2.68 crore with an endorsement that read "to be deposited after confirmation only for security purpose." However, the company defaulted on paying its electricity bill and the state deposited the cheque; the bank (Karur Vysya Bank, Aurangabad) returned the cheque saying that the drawer had stopped payment.

The state of Gujarat filed a criminal complaint, seeking issue of summons and imposing a fine of Rs. 5.35 crore. The legal question before the apex court was whether this issue was covered by Sec 138 of the NI Act. The appellants contended that the section did not cover those cheques given as 'security', which "should not have been deposited for encashment in the first place."

The Supreme Court disagreed. It noted that just by labelling the cheque as 'security' would not mean it was not an instrument designed to meet a legally enforceable debt or liability. Once the electricity supply had been made, the dues became payable. It said that the very purpose of the NI Act was to enhance the acceptability of cheques and instill faith in negotiable instruments. The purpose of the provision of the said Act would become otiose if the provision of the said Act was interpreted to exclude cases where debt was incurred after the drawing of the cheque but before its encashment. [Business Line, April 4]

State-enacted moneylending laws do not apply to RBI-registered NBFCs, says Supreme Court

Only RBI has jurisdiction to regulate NBFCs; RBI Act clearly overrides other laws

In a significant ruling, the Supreme Court has held that state enactments regulating the business of moneylending would have no application on non-banking finance companies (NBFCs) registered with, and regulated by, the Reserve Bank of India (RBI).

The apex court has, in the matter of Nedumpilli Finance Company vs State of Kerala and several other civil appeals, held in its final judgment that Chapter III-B (dealing with NBFCs in RBI Act) is a complete code in itself as regards regulation of NBFCs. In addition to this, the RBI Act has provisions which override other state laws.

This would imply that NBFC regulation is only under the RBI Act, and only the Central bank has the powers to regulate the NBFCs registered with It., said experts. This is even as the Central bank's regulatory framework does not specifically address the aspect of regulating interest rates.

Overriding effect: The Supreme Court has held that Section 45-Q of RBI Act confers overriding effect upon Chapter III-B over other laws. Therefore the states of Gujarat and Kerala cannot contend that the laws made by them are in addition to the provisions of Chapter III-B.

"We are of the considered opinion that the Kerala Act and the Gujarat Act will have no application to NBFCs registered under the RBI Act and regulated by RBI. Therefore all appeals filed by NBFCs against the judgment of the Kerala High Court are allowed. Likewise, appeals filed by the State of Gujarat against the judgment of the

Gujarat High Court are dismissed," the order issued on Tuesday said.

Dual regulation avoided: Reacting to this judgment, Raman Aggarwal, Director and Spokesperson, of Finance Industry Development Council (FIDC), told BusinessLine, "This matter was a long-pending issue going on for many years. It was a serious matter. Had this gone against NBFCs, it would have meant dual regulation by the RBI and state governments, which could have created utter confusion."

Aggarwal noted that the SC order is absolutely clear that it is only RBI that had the jurisdiction of regulation of NBFCs, and the RBI Act supersedes state enactments. With this, state governments cannot pass laws that cover their applicability on NBFCs. Hitherto; states were taking the position that even NBFCs ought to register themselves as moneylenders under the State Moneylender laws.

Supreme Court has ruled in favour of FIDC. The long battle has come to an end in our favour after 15 years. Consequently, all criminal cases filed against the officers of the NBFCs will stand quashed, said Mahesh Thakkar, Director General, FIDC. [Business Line, May 10]

Supreme Court removes key regulatory overhang for NBFCs

The Supreme Court has finally put to rest the uncertainty around the applicability of state legislations on non-banking financial companies (NBFCs), by underscoring the primacy of the Reserve Bank of India (RBI) as the regulator and supervisor of NBFCs in India, with oversight on the rate of interest they charge borrowers.

The Supreme Court said the state enactments have no application to NBFCs registered under the RBI Act, and regulated by the RBI. It noted that the RBI Act takes a holistic approach with its Chapter III-B affording the RBI a supervisory role to oversee the functioning of NBFCs from the time of their birth (registration) till the time of their commercial death (winding up).

The Supreme Court said, while the RBI may not be controlling the rate of interest charged by NBFCs on loans advanced by them, it does have the power to step in to determine policy and issue directions. It observed that while the RBI generally leaves it to the market forces to determine the rate of interest — without any direct intervention — states cannot take advantage of this to step in and prescribe limits.

Says Krishnan Sitaraman, Senior Director and Deputy Chief Ratings Officer, CRISIL Ratings, "The ruling has two big takeaways for NBFCs. First, it has effectively reaffirmed regulatory sanctity for NBFCs registered with the RBI as a separate category of lenders, distinct from the traditional moneylenders. Second, while the Supreme Court has not specifically commented on the appropriateness of interest rates being charged by NBFCs, it has implicitly stated that the RBI has the jurisdiction and powers to look into the same and is already doing so through the various Regulations, Master Circulars and Master Directions issued by it. The ruling is specifically beneficial to gold loan NBFCs and other regulated NBFCs, including NBFC-MFIs, where sensitivity over interest rates is higher."

On their part, NBFCs need to be cautious about the interest rates they charge borrowers, and anything deemed usurious has the potential to be subjected to supervisory scrutiny by the RBI. [CRISIL Press Release, May 16]

Lenders can invoke personal guarantees in IBC cases, says Supreme Court

The Supreme Court has rejected a plea against a recent ruling by the National Company Law Appellate Tribunal (NCLAT), paving the way for lenders to initiate insolvency proceedings against promoters, directors and chairman who have signed personal guarantees on corporate loans. This is irrespective of pendency of any proceeding against the corporate debtor under the Insolvency Bankruptcy Code (IBC).

The appellate tribunal had in late January ruled that initiation of corporate insolvency was not a pre-requisite to initiate insolvency process against the personal guarantor of the corporate. The matter pertains to an appellate tribunal order in the State Bank of India versus Mahendra Kumar Jajodia case. The tribunal order was challenged in the apex court.

The SC verdict will ensure an optimal recovery for lenders and refrain them from taking steep haircuts, causing less losses to banks. It will also discourage defaulters from misutilisation of loan amount and transferring assets to related parties even before the recovery process is initiated. Under the IBC norms, a corporate resolution process or liquidation proceeding against the corporate debtor is required to initiate proceedings against personal guarantor. [Business Standard, May 11]

Liquidation process regulations: IBBI clears the air on retrospective applicability of certain 2019 changes

Norm on contribution to liquidation costs by financial creditors to apply only for liquidation processes that commenced post July 25, 2019. Insolvency regulator IBBI has now made it clear that the major changes effected to the liquidation process regulations in the year 2019 would only have a prospective effect. It has now brought in amendments to clarify that changes in regulations related to contribution to liquidation costs by financial creditors or financial institutions will apply only on those liquidation processes that commenced after July 25, 2019, when the liquidation process regulations were last amended on this front.

A similar dispensation will apply for regulatory changes effected on presumption of security interest and stakeholders consultation committee. The changes on these two fronts will also apply only for those liquidation processes that commenced after July 25, 2019, the IBBI has said.

The latest IBBI move provides a clarificatory language that the aforementioned requirements will be applicable to liquidation processes commencing on or after the date of the commencement of the 2019 Regulations i.e. July 25, 2019. [Business Line, April 30]

When IBC does not override other laws

Section 238 of the Insolvency and Bankruptcy Code, which says that the Code overrides any other law, has been held by the National Company Law Appellate Tribunal, New Delhi, to be not a king under which all other laws are subordinate.

In a case between the New Okhla Industrial Development Authority Vs the Liquidator of Mega Soft Infrastructure, an earlier judgment of the NCLT had directed the Authority to transfer a plot of land that belonged to Mega Soft Infrastructure, to Groovy Structures LLP, the winner in an auction. The Authority should file any claims for its dues from Mega Soft Infra before the Liquidator, it says. The Authority appealed against this before the NCLAT, saying it had its own rules to follow.

In a similar case involving the Municipal Corporation of Greater Mumbai (MCGM), the Supreme Court had observed that the Section 238 of IBC "cannot be read as overriding Municipal Corporation of Greater Mumbai's right in its public duty to control and regulate how its properties are dealt with." Holding that it was "MCGM's right, indeed its public duty" to control and regulate how its properties are to be dealt with—which is in accordance with the Sections 92 and 92-A of the MMC Act – the apex court had said: "This Court is of the opinion that Section 238 could be of importance when the properties and assets are of a debtor and not when a third party like MCGM is involved."

Invoking this judgment of the Supreme Court, the NCLAT said: "The above judgment of the Supreme Court fully supports the contention of the learned Counsel for the Appellant that Section 238 of the IB Code cannot be pressed to override the power of the Appellant as entrusted to it under the UP Industrial Area Development Act, 1976."

It said that the NCLT allowing the application for transferring the plot in favour of Groovy Structures LLP, did not mean that the transfer application need not be dealt with as per the 'Policy & Procedure for Institutional Property Management – March, 2009.' [Business Line, May 1]

Not entitled to recover dues, IT dept told in Oasis Textiles case

It is an established principle of law that once an adjudicating authority (NCLT) approves a resolution plan, all other claims stand extinguished from that moment. But apparently, the Income Tax department needed to learn this by losing a case.

Oasis Textiles went into insolvency and was later liquidated, on June

30, 2020. The Official Liquidator informed the income tax department of the proceedings at every step, practically giving a ball-by-ball commentary. However, the department did nothing to participate in the proceedings and stake its claim as an owed party. But later, the IT department made a claim for tax dues.

The Income Tax Appellate Tribunal (ITAT), Ahmedabad bench, said, 'sorry, you are not entitled to recover any dues'. Noting that the Official Liquidator had "intimated the IT department from time to time in writing" the Tribunal pointed out, "but no action has been taken by the department."

"Once a company is dissolved, it becomes a non-existent party and therefore no action can be brought in its name. Therefore, in view of the overriding effect of IBC, we hold that the Revenue is not entitled to recover the claim," ITAT said. The precedent cited in this case was a decision of the Supreme Court of India, in the case of Ghanshyam Mishra & Sons Vs Edelweiss Asset Reconstruction. In that case, the apex court had said: "when the resolution plan is approved by NCLT, the claims, which are not part of the resolution plan, shall stand extinguished and the proceedings related thereto shall stand terminated. [Business Line, April 4]

GST Council recommendations not binding on Centre and states: Supreme Court ruling may impact GST provisions

The Supreme Court has ruled that the GST Council recommendations are not binding on the Centre and the states, and are only 'persuasive, in a landmark judgment that may impact the landscape of GST provisions under judicial review. The Parliament and state legislatures possess equal powers to legislate on GST, the Supreme Court said, upholding the judgment of the Gujarat High Court in Ocean Freight matter in the case of Mohit Minerals. It is for the GST Council to suitably advise the Central government and the state governments, the Supreme Court bench led by Justice DY Chandrachud said.

The Supreme Court on Thursday struck down integrated goods and services tax (IGST) levy on ocean freight. It upheld the Gujarat HC order to quash levy of IGST on ocean freight under reverse charge, dismissing Revenue's special leave petition challenging the Gujarat HC decision that had gone in favour of taxpayers. "The Supreme Court has held that GST on ocean freight paid in case of import of goods is unconstitutional. As a corollary, the Indian importers who had paid such tax will be eligible to refund. Further, those importers who had not paid the tax on import of services will now not be required to pay tax because of this Supreme Court ruling," said Abhishek Rastogi.

The Supreme Court acknowledged that imposing tax on ocean freight is in violation of composite tax, ie, the government cannot dissect the unified import transaction to levy IGST on 'Ocean Freight' on transportation of goods from a place outside India to a place in India, said Himanshu Relan, Partner – Indirect Tax, Nangia & Co LLP. [Financial Express, May 19]

Delhi High Court seeks Centre, RBI stand on plea concerning accessible financial services for visually challenged

The Delhi High Court has sought the stand of the Centre, Reserve Bank of India and IIT- Delhi on a plea for constituting a committee for framing of guidelines to ensure that financial services are accessible to the visually challenged. A bench of Acting Chief Justice Vipin Sanghi and Justice Navin Chawla issued notice on an application by George Abraham and said that it expected the respondents to provide the names of competent persons who could be part of the committee.

The application is part of the petitioner's plea seeking directions to ensure that all financial services as well as bank websites, internet banking facilities and mobile phone applications for financial services are made accessible to people with visual challenges.

In his application, the petitioner stated that his concern was not with respect to an absence of law to address access to financial services for the visually challenged but a lack of their implementation, including the RBI's master circular.

Abraham submitted that these laws are being haphazardly

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HOW TECHNOLOGY IS TRANSFORMING DEBT COLLECTIONS IN RURAL MARKETS

Sanjeev Sinha

Digital debt collection reduces the costs of recovery and helps minimize delinquencies while improving speed and collection rates even in remote areas.

As collections get more cost-efficient, predictable, and faster, lenders with better recoveries would eventually consider lending to newer segments and remote areas, which have remained outside the credit umbrella for now.

The days of chasing customers with all available resources and without a scientific approach for debt recoveries — sometimes with outsourced and untrained manpower — seem to be over.

The digital transformation of rural India is getting strong support through a wider ecosystem-led push and enablement involving both the Government and the private sector. There have been significant advancements in connectivity, support infrastructure, and awareness of digital over the past few years. The pandemic further helped push digital adoption even in rural areas at a much faster pace.

Increased adoption in rural markets is set to take India's smartphone user base to one billion by 2026, according to a global predictions report by Deloitte. In fact, the smartphone demand in rural Indian markets is projected to increase at a 6% CAGR by 2026, in comparison to a 2.5% CAGR for urban circles. The ubiquitous and seamless internet connectivity combined with anytime, anywhere, and convenient access to digital financing at the fingertips has helped in the deeper penetration of formal credit.

According to a CII report, Agri credit has grown 10% from INR 8 lakh cr in FY15 to INR 14 lakh cr in FY20. Rural microfinance gross loan portfolios also grew, rising from INR 132.9K cr in March 2020 to INR 146.7K cr in March 2021. Technology disruption has lowered loan servicing costs and enabled lenders to service lower-value loans in rural areas.

According to Anand Agrawal, Co-founder and CTO, Credgenics, "The days of chasing the customers with all available resources and without a scientific approach for recoveries, sometimes with outsourced and untrained manpower are over. End-to-end technology platforms such as Credgenics facilitate the financial institutions in connecting effectively with the rural borrowers and digitalizing the entire collections process, including legal management capabilities."

Loan collections have traditionally been manual process-driven and human effort-intensive business functions. The traditional approach to collections relied on hostile recovery agents, persistent calls, repeated messaging, generalized communications, and outstretched dispute resolution, which appeared to be a crude attempt towards pushing the borrowers into paying their dues. However, the scenario is changing very fast.

Having witnessed the success of digital initiatives in urban India, banks and non-banking finance companies have been actively extending their digital banking services to rural India. There is a dramatic shift happening now with the immersion of technology-led digitization and automation initiatives in loan recoveries. The rural-focused FinTech, digitally-savvy NBFCs, and private banks have already taken a lead in this. The trends indicate better responses and outcomes when the traditional recovery approaches are replaced with modern tech-assisted, sophisticated, digitized, and data-driven collection approaches.

Customers are now easily reachable on multiple digital communication channels and prefer to be engaged on a channel and time of their choice. While it may seem that this is an urban phenomenon, an AI model, which analyses the behavioural patterns of a representative set of customers, is being readily applied to make outreach communications more relevant, useful, and effective for rural India.

The ease of personalizing the communications with relevant customer details such as name, account details, repayment amount etc in vernacular languages enables a different level of connection and trust building with customers. Usage of AI powered voicebots, which are

[Continued on Page-20]

Schemes of arrangement: SEBI mulls framework for entities that have only listed their debt securities

Markets regulator SEBI on Friday proposed introducing a framework for 'schemes of arrangement' for entities that have only listed their debt securities. Scheme of arrangement is a court-approved agreement between a company and its shareholders or creditors. Presently, for schemes of arrangement involving merger and amalgamation certain safeguards are available in LODR (Listing Obligations and Disclosure Requirements) rules and Listing Regulations. These are to protect the interest of investors of the entities that have listed specified securities — equity shares and convertible securities.

There is no separate framework prescribed for entities that have only listed debt securities or Non-Convertible Redeemable Preference Shares (NCRPS) under SEBI's NCS rules or Issue and listing of Non-Convertible securities norms.

In a discussion paper, SEBI said it is proposing to bring about a regulatory framework providing for schemes of arrangement for only debt listed entities in the listing regulations. "When a listed issuer undergoes restructuring, it impacts investors, irrespective of the security invested in. Hence a holder of debt securities/ NCRPS' is impacted as much as a holder of specified securities; this necessitates affording a similar protection to the former," SEBI said.

The regulatory framework for filing and processing would be on the same lines as for entities that have listed specified securities, where the regulator offers comments on the schemes of arrangement. Further, these stipulations would not be applicable to a restructuring proposal approved as part of a resolution plan by the tribunal under the Insolvency Code, as per the consultation paper. As on February 2022, around 700 entities have listed only debt securities and have outstanding debt securities listed on the stock exchange. According to the discussion paper, the listed entity should file the draft schemes of arrangement with exchange for obtaining the no-objection letter. This will be subject to certain conditions. [Financial Express, May 20]

SEBI amends rules to simplify procedure for transmission of securities

With an aim to simplify the procedure for transmission of securities, SEBI has revised the existing threshold limit for simplified documents to Rs 5 lakh from Rs 2 lakh currently for securities held in physical mode per listed issuer. Also, the threshold in this regard for securities held in the dematerialised mode for each beneficiary account has been increased to Rs 15 lakh from the present level of Rs 5 lakh.

Legal Heirship Certificate or its equivalent certificate issued by competent government authority will be an acceptable document for transmission of securities, the regulator said in a notification issued on Tuesday. The objective is to ensure that uniform processes are followed by the Registrars to an Issue and Share Transfer Agents (RTAs) / listed companies, which would further ease the transmission process for investors.

To effect this, the capital markets regulator has amended SEBI's Listing Obligations and Disclosure Requirements or LODR Regulations. The move comes after the board of SEBI approved a proposal in this regard in its meeting in late March. In its notification, the regulator has also listed documentation requirements in case of transmission of securities. [Financial Express, April 27]

SEBI comes out with new format for security cover certificate, revises timeline

The market regulator has also revised timelines for submission of security cover certificate, valuation report and quarterly compliance report, and regulatory compliance by debenture trustees.

With an aim to provide a holistic picture of all borrowings and the status of encumbrance on the assets of listed entities, capital markets regulator SEBI on Thursday came out with a new format for disclosing security cover to the stock exchange and debenture trustee. Also, the regulator has put in place obligations of the listed entity and debenture trustee (DT) with respect to preparation and submission of security cover format, according to a circular. It has specified the manner of preparation of security cover certificate by the listed entity and DT.

In addition, it has revised timelines of submission of security cover certificate, valuation report and quarterly compliance report, and regulatory compliance by debenture trustees. This comes after representations were received from issuers, debenture trustee(s) as well as other market participants on operational challenges faced in complying with certain provisions of circulars. They had also given suggestions on strengthening such requirements.

SEBI said a listed entity will be required to prepare the security cover certificate on a quarterly basis, and the statutory auditor of the listed entity will certify the book values of the assets provided in such certificate. Also, the debenture trustee on a quarterly basis is required to certify the market value of assets based on the due diligence carried out by it or its appointed agencies and submit the security cover certificate in a specified format. [Business Line, May 20]

SEBI issues SOP for dispute resolution under stock exchange arbitration mechanism

Capital markets regulator SEBI has come out with a new Standard Operating Procedures (SOP) for dispute resolution under the stock exchange arbitration mechanism for disputes between a listed firm or Registrars to an Issue and Share Transfer Agents (RTAs) and its shareholders. The arbitration mechanism will be initiated post exhausting all actions for resolution of complaints including those received through the SCORES portal.

The arbitration reference will be filed with the stock exchange where the initial complaint has been addressed. The new framework will come into force with effect from June 1, the SEBI said in a circular on Monday. The new SOP will be applicable to listed companies or RTAs offering services on behalf of listed companies. In case of claims or disputes arising between the shareholder or investor of listed firms and the RTAs, the RTAs will be subjected to the stock exchange arbitration mechanism.

In all such instances, the listed company will necessarily be added as a party. In case of arbitration matters involving a claim of up to Rs 25 lakh, a sole arbitrator will be appointed and, if the value of the claim is more than Rs 25 lakh, a panel of three arbitrators will be appointed. The process of appointment of arbitrator is required to be completed by the stock exchange within 30 days from the date of receipt of complete application from the applicant. [Financial Express, May 31]

SEBI amends InvITs rule; specifies draft filing fees for initial offer, rights issue

Capital markets regulator SEBI came out with a new norm to implement draft filing fees to be paid by infrastructure investment trusts (InvITs) for initial offer and rights issue. Now InvITs are required to pay non-refundable filing fees of 0.1 per cent in case of initial offer and 0.05 per cent in case of rights issue of the total issue size, including green shoe option, at the time of filing of draft placement memorandum or offer letter with respect to private placement, SEBI said in a notification uploaded on its website on Tuesday. To give this effect, the SEBI has amended InvIT rules. [Financial Express, May 10]

SEBI extends relaxation till Dec on listed cos' sending hard copies of annual reports to shareholders

Capital markets regulator SEBI on Friday extended the relaxation to listed companies whereby they will not be required to dispatch physical copies of annual reports to their shareholders till December this year. The decision has been taken after SEBI received multiple representations from listed companies, seeking dispensation from requirements of sending hard copies of annual reports to the shareholders.

Against this backdrop, the watchdog has decided to provide relaxation up to December 31, 2022, from LODR (Listing Obligations and Disclosure Requirements) Regulations, which require companies to send hard copies of annual reports to the shareholders who have not registered their email addresses, according to a circular.

Further, the notice of Annual General Meeting published by advertisement in terms of LODR rules should contain a link to the

annual report so as to enable shareholders to have access to the full annual report. "It is however emphasized that in terms of… LODR Regulations, listed entities are required to send hard copy of full annual report to those shareholders who request for the same," SEBI said.

Further, the requirement of sending proxy forms has been dispensed with up to December 31, 2022, in case of general meetings held through electronic mode only, as per the circular. The new framework will come into force with immediate effect, the SEBI said. [Financial Express, May 13]

SEBI mulls launch of confidential IPO filings to address privacy concerns

The SEBI has mulled introduction of confidential initial public offering (IPO) filings and "pre-filing" of offer documents, a move aimed at giving issuers flexibility and alleviating concerns around privacy. Industry players said the concept, if implemented, would give a fillip to the domestic capital markets, ease the process and encourage more companies to go public. To be sure, the proposals are still at a discussion stage with SEBI just floating a consultation paper seeking public feedback.

In the paper, SEBI has sought views on introduction of an alternative mechanism for regulatory review of offer documents by permitting pre-filing of offer documents for issuers contemplating IPO. Also, the regulator has asked for feedback on allowing the pre-filing of offer documents with only SEBI and stock exchanges "without making it available for public for an initial scrutiny" which will be akin to the concept of confidential IPO filings.

Global jurisdictions such as the US, UK and Canada allow pre-filing and confidential filing of IPO documents with their respective regulators. [Business Standard, May 11]

SEBI notifies rules in order to strengthen regulatory framework for CIS

To strengthen the regulatory framework for collective investment schemes, markets regulator SEBI has enhanced the net worth criteria and track record requirements for entities managing such schemes. Also, the regulator has mandated a minimum of 20 investors and a subscription amount of at least Rs 20 crore for each Collective Investment Scheme (CIS), according to a notification on Tuesday.

Currently, CIS rules do not mandate minimum number of investors, maximum holding of a single investor or minimum subscription amount. In addition, the regulator has put a cap on cross-shareholding in Collective Investment Management Company (CIMC) to 10 per cent to avoid conflict of interest. To give this effect, the SEBI has amended CIS regulations. The rules, first notified in 1999, have not been reviewed since then. The move comes after the board of SEBI approved a proposal in this regard in its board meeting in March. The new rule is aimed at strengthening the regulatory framework for collective investment schemes as well as empower the CIMCs to effectively discharge their responsibilities towards the investors.

CIS is a pooled investment vehicle in closed-ended investment space and the units of the schemes are listed on an exchange. The structure of CIS is a two-tier one as there are two entities involved in the process — the CIMC and trustees. CIMC is created to float and manage a CIS and the trustee is appointed as guardian of the funds and assets. With regard to eligibility criteria, SEBI said applicant or its promoters should have a sound track record and general reputation of fairness and integrity in all their business transactions. The applicant should have been carrying out business in the relevant field in which CIS schemes are proposed to be launched, for a period of at least five years; net worth should be positive in all the immediately preceding five years and should have profits in three out of the five years. CIMCs are required to have a minimum net worth of Rs 50 crore as compared to the present requirement of Rs 5 crore. [Business Standard, May 11]

SEBI readies framework for SPAC listing in India

Soon India may have its own version of a "blank cheque company." Like in the US, market regulator SEBI is likely to allow the listing of Special Purpose Acquisition Companies (SPAC). SEBI told the Parliamentary Standing Committee on Finance that it was deliberating on the framework of SPACs in Indian capital markets and a committee, which was set-up to look into it, is in the process of finalising its report.

Blank cheque companies: The model behind SPACs is like "have cash, will acquire a business." SPAC has no commercial operations but is formed strictly to raise capital through IPOs. The purpose of SPAC is to acquire or merge with an existing company. In the market lingo, SPACs are called "blank cheque companies." Reportedly, in 2020, nearly 250 SPACs were created, mainly in the US, with $80 billion invested. The year 2021 saw roughly 600 SPAC IPOs. Recently, SPACs created by Indian entities have been listed in the US. For example, ReNew Power's merged with US-based blank cheque firm RMG Acquisition Corporation II and then got listed on Nasdaq.

Raising money through IPOs is a lengthy process since it involves heavy regulatory filings and other obligations. In contrast, a company can be listed on exchanges in days if it merges or is acquired by a special-purpose acquisition company (SPAC). It is a vehicle born out of financial engineering but the easiest to understand, experts say. A SPAC that has a limited time frame for making an acquisition, compared with another buyer like a private-equity firm, which may drive a hard bargain. In India, however, the SEBI rules will define a SPAC.

Key feature: But during the recent market crash, since investors have been rushing out of risky assets, SPACs have been struggling for business and deals. A key feature of the SPACs is that blank cheque companies have a couple of years to find a company to take public; otherwise they must return money to investors and forfeit the incurred.

According to sources close to the development, SEBI told the Parliamentary standing committee that "The sub group of the primary market advisory committee (PMAC) is in the process of finalising the report on SPACs. Subsequently, a consultation paper for public comments may also be issued on the matter. Steps regarding SPACs framework may be taken only after consultation with PMAC. The company law committee report of the Ministry of Corporate Affairs (MCA) of February 2022, recommended introducing an enabling provision to recognise SPAC under the Companies Act and allowing a SPAC incorporated in India on domestic and global exchanges." [Business Line, May 19, 2022]

SEBI seeks Snooping powers to access digital communications

SEBI has set up an internal committee to review regulations, according to a source close to the development. "Technology is changing fast and this has also changed the way the market operates. But some of the regulations are from an earlier era. We want to make sure the regulations keep pace with innovations in the marketplace. While innovation will always be ahead, regulations should not be more than two steps behind," said the source.

This comes even as the regulator has been criticised for not doing enough when it comes to detecting fraud, insider trading and front-running in the market. "Front-running is a reality but the people involved do not leave any trail because they use digital platforms that enable anonymity. Messages on certain platforms disappear making it difficult for them to get caught," said the source.

Now, in a bid to have a better surveillance mechanism, the market regulator SEBI is seeking authorisation from the Centre under Section 69 (1) of the Information Technology Act, 2000, and Rule 4 of the Information Technology (Procedure and Safeguard for Monitoring and Collecting Traffic Data or Information) Rules. These rules allow select agencies to access digital communication channels and carry out interception and decryption of computer information. [Business Line, May 17]

SEBI to take measures to boost investments in social venture funds

SEBI is looking at ways to increase investments from social venture funds (SVF) in the country. So far, only 14 SVFs have come up with a cumulative investment of just Rs. 578 crore. "SEBI is examining to increase the investment avenue of SVFs in context of the work carried out for introducing the framework for Social Stock

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Corporates' Credit Quality Improved Sharply, Say Rating Agencies: Report

Corporate India's credit quality showed a sharp improvement in the second half of FY22. Still, high input prices and withdrawal of pandemic-related relief measures can pose pressures in the new year, rating agencies said on Friday.

CRISIL Ratings, which rates a large number of financial sector entities, reported an improvement in the credit ratio — the number of upgrades to downgrade — to 5.04 times in the second half of this financial year, from the 2.96 per cent in the first half of the fiscal. It attributed the improvement to a sustained rebound in demand, which lifted revenues of most sectors to pre-pandemic levels and proactive relief measures by the government that cushioned the pandemic blow. The agency gave a "positive" outlook on credit quality going ahead and expects the upgrades to outnumber downgrades in FY23. "Demand recovery, nimbleness in managing supply chains, and a tight leash on costs have shored up the median operating profit growth of the upgraded companies by 41 per cent in the past two fiscals — more than double the rate for the portfolio," its president and chief rating officer Subodh Rai said.

ICRA said credit quality rebounded in FY22 after the economic slowdown in FY20 and the pandemic scarred FY21. The downgrade of 184 entities lowered the downgrade rate to a mere 6 per cent, as against a ten-year average of 9 per cent, while the upgrade rate was 19 per cent in FY22 on the back of 561 entities rating upgrades, it said. The tourism, hotels and restaurants sector had the lowest credit ratio of 0.4, while the ferrous metals sector at 16 was the best, ICRA said.

India Ratings termed FY22 as a surprising "remarkable recovery" year. Its downgrades to upgrades ratio were at a decadal low of 0.3, marking a reversal of the three-year trend where downgrades exceeded upgrades. The agency said it upgraded the ratings of 276 companies in FY22, which represents 23 per cent of its rated portfolio, while only 86 companies' ratings had to be downgraded. It expects the pace of rating upgrades to moderate in FY23. Corporate India is also likely to experience a contraction in margins as the Russian war continues. Still, the agency's outlook has been placed as "stable" across sectors because of companies' ability to weather stress. [NDTV Profit, April 01]

Periscope

Financial strength of corporates will be tested in FY23: Ind-Ra

The financial strength of Indian corporates will get tested against multiple macroeconomic shocks - commodity inflation, tightening monetary policy and weak rupee - in FY23, with their risky debt likely to increase by Rs. 60,000 crore, according to India Ratings and Research (Ind-Ra).

In the post-war case, out of Rs. 25.2 lakh crore debt, Ind-Ra expects Rs. 6.9 lakh crore to be with weak entities (with net leverage exceeding 5 times), taking into account (1) impact of buoyant commodity prices, (2) 1 per cent increase in the interest rates and (3) weakening rupee by 10 per cent. It could be Rs. 6.3 lakh crore in a pre-war case.

The agency analysed the top 1,385 corporates by estimating the change in their FY23 debt protection metrics in a post-war (Russia-Ukraine) scenario and pre-war scenario.

Healthy balance sheets: While Ind-Ra expects large entities to show resilience on account of healthy balance sheets, easy access to financing and pricing power, small and medium entities could face headwinds due to buoyant commodity prices and firming interest rates. "Commodity producer corporates could witness their balance sheets strengthening moderately on account of higher commodity prices and deleveraging. Commodity consumers however could find higher commodity prices affecting their profitability," the agency said in a note.

Favourable financing condition: From a financing point of view, the agency opined that the banking sector's improved appetite, owing to improving balance sheet and a rising demand from bond investors, will be conducive for financing in FY23. Higher commodity prices tend to increase the working capital requirements for corporates. The agency, however, believes that the cost of financing will be higher in FY23 than that in FY22, further affecting the debt-heavy entities.

Rupee depreciation: Ind-Ra observed that in FY23, a continued rupee depreciation is likely to exacerbate the challenges for both Indian importers and foreign currency borrowers. "An improvement in demand, although modest, could help the entities in import-oriented sectors or net importers to pass on the impact of weak rupee to their customers.

"Foreign currency borrowers with large unhedged positions are likely to be the worst affected by the weakening of rupee," the agency said. Ind-Ra assessed that as of 31 March 2021, approximately Rs 1 lakh crore of debt was denominated in foreign currency. However, entities in export oriented sectors such as textiles, auto, capital goods, gems & jewellery are likely to benefit from the rupee depreciation. [Business Line, April 25]

New Development Bank opens regional office in GIFT City

The New Development Bank (NDB) has announced the launch of its Indian Regional Office (IRO) in Gujarat International Finance Tec-City (GIFT City). Working in close coordination with the NDB Headquarters at Shanghai (China), the Indian Regional Office will focus on project origination (including initial project preparation and technical assistance), pipeline development, project implementation and monitoring as well as regional portfolio management, the NDB said in a statement. The regional office will cater to infrastructure and sustainable development needs in India and Bangladesh

"The Indian Regional Office will be instrumental in enhancing NDB's engagement with borrowers and stakeholders. IRO expands our on-the-ground presence, contributing to preparing and implementing projects. "….the Indian Regional Office is part of NDB's effort to increase the quality and complexity of its operations, creating a network of business and development opportunities," said Marcos Troyjo, NDB President. [Business Line, May 20]

India lines up banks, others for e-commerce scheme to take on Amazon, Walmart

India's scheme to break Amazon AMZN.O and Walmart's dominance of its e-commerce sector, by establishing its own open network, has begun lining up banks and other key players needed to move it forward, sources familiar with the matter said. Some of India's biggest banks are in discussions about setting up "buyer platforms" to let their customers place orders for goods and services over the Open Network for Digital Commerce (ONDC), which the Indian government soft-launched in April, the sources told Reuters.

The success of the network, which would promise equal access to all online sellers and buyers regardless of their size, is a priority for Prime Minister Narendra Modi, who faces pressure from small businesses for action against the outsized influence of Amazon and Walmart's Flipkart in India's e-commerce. Policymakers in other countries as well are looking at ways to rein in big tech companies' dominance of online purchases.

ONDC Chief Executive T. Koshy said he had held talks with banks, venture capitalists and telecoms companies, but declined to name them or to comment on how far the discussions had progressed. ONDC aims to cover at least 100 cities and towns by August, with a target of signing up 900 million buyers and 1.2 million sellers in five years.

Indian e-commerce was worth more than $55 billion in gross merchandise value in 2021 and will grow to $350 billion by the end of this decade, according to government estimates. Amazon and Flipkart control more than 60% of that market, which now accounts for about 8% of consumer purchases in a country of 1.35 billion people.

The platforms would allow the banks to drive use of their cards, loans, and other services, the sources said. The banks and other financial institutions had already committed to a combined initial investment of 2.55 billion rupees ($32.8 million) in the project. [Nasdaq, Reuters, June 1]

World Bank Report: Extreme poverty in India eased 12.3 percentage points during 2011-2019

Extreme poverty in India dropped to 10.2% in the pre-Covid year of 2019 from as much as 22.5% in 2011 and the pace of reduction in rural India has been more dramatic than in urban areas, according to

a World Bank working paper.
The poverty level in rural and urban areas declined by 14.7 and 7.9 percentage points, respectively, during the 2011-2019 period. While it eased to 11.6% in rural areas in 2019, the urban poverty level stood at 6.3%.
Interestingly, urban poverty inched up by 2 percentage points in the demonetisation year of 2016 and rural poverty rose by 10 basis points in 2019 (coinciding with an economic slowdown before the Covid spread its tentacles), the paper showed.
The World Bank working paper, titled Poverty in India Has Declined over the Last Decade But Not As Much As Previously Thought, has been authored by economists Sutirtha Sinha Roy and Roy van der Weide.
The paper observed that consumption inequality in the country has eased after 2011, with barely any change between 2015 and 2019. Farmers with small landholding sizes have experienced higher income growth. Real incomes for farmers with the smallest landholdings have risen by 10% in annualised terms during the 2013-2019 period.
Extreme poverty has been measured in terms of the number of people living on less than $1.90 a day (roughly Rs 145). [Financial Express, April 18]

BoB launches digital co-lending platform to facilitate NBFC partnerships

Public sector banks Bank of Baroda on Monday announced the launch of an end-to-end Digital Platform to facilitate co-lending of loans in partnership with NBFCs. The platform will provide seamless integration between the Bank and multiple NBFC partners to strengthen accelerate and simplify the co-lending process.
The company said in a statement, the platform uses rule-based algorithms for underwriting, enables credit assessment checks, enables Retail, MSME, Agri co-lending product offerings and increases process efficiency.
The digital co-lending platform has state-of-the-art capabilities to handle both the option 1 (Non-Discretionary) and option 2 (Discretionary) models of co-lending for secured as well as unsecured products as per the latest RBI guidelines on the co-lending model, it added.
Bank of Baroda Executive Director Vikramaditya Singh Khichi said, "The Digital Co-Lending Platform will pave the way for both Bank of Baroda and our NBFC partners to seamlessly integrate and enable lending to borrowers with improved TAT. Co-lending is a priority area for the Bank and we believe that this state-of-the-art platform will help to achieve significant milestones in the coming years. The Bank is targeting to partner with at least 10 NBFCs and also to build a Rs.10,000 crore co-lending loan book through the digital platform in the next two years." [Live Mint, May 9]

CCI probes debt trustee units of SBI, Axis, IDBI on suspected fee cartel

India's antitrust body is investigating the trustee units of State Bank of India, Axis Bank and IDBI Bank for suspected collusion on fees, triggering a lawsuit by a group representing them, documents seen by Reuters showed.
Indian regulations mandate that companies raising debt appoint a so-called "debenture trustee" to protect the interests of investors. The trustees charge a fee from the companies issuing the debt and make independent due-diligence checks on them.
The three under investigation - SBICAP Trustee Company, Axis Trustee and IDBI Trusteeship - are among the leaders in the business in India overseeing hundreds of billions of dollars by rendering trustee services for not just debt securities, but also real estate and other investment funds.
The Competition Commission of India (CCI) in a confidential December order stated the Trustees Association of India - a body where the trio are founding members - last year "substantially" increased the fee for assisting companies raising debt and prevented members from going below a floor price, thereby hurting competition.
The antitrust probe and the impending court hearing, details of which have not been previously reported, could have ramifications on India's nearly $500 billion corporate debt market by altering costs and affecting the way trustees operate. [Business Standard, April 7] ■

[Continued from page-29…. FIDC IN ACTION]

Restriction on Securitisation of "Exposure to other Lending Institutions"

FIDC drawing the attention of Reserve Bank of India towards the restriction imposed through the Master Direction dated 24th September, 2021 in respect of Securitisation of Standard assets directing that "Assets eligible for securitization shall not include underlying assets with exposure to other lending institutions," urged the Regulator to allow securitization of underlying exposure to NBFCs.
Explaining genesis FIDC noted that Large NBFCs from time-to-time securitise NBFCs lending exposure to other institutional investors for fund & risk management purposes. Restriction on such securitization transactions curtails access of credit to small NBFCs and disturbs their liquidity management. One of the sources of credit for smaller NBFCs is the credit extended by large NBFCs. Large NBFC ensures not only stability within the sector but also ensures dissemination of credit to grass root last mile borrowers through smaller NBFCs.
During the last two years of pandemic, smaller NBFCs have faced lot of challenges in getting access to the credit and during such time the larger NBFCs have played a critical role by providing increasing lending to smaller NBFCs. In FY 21 small NBFCs were provided Rs. 9287 crore which rose to Rs. 17191 crore in FY 22 according to ROC charge data, said Mahesh Thakkar, director general, FIDC.

Threshold for enforcing security interest under the SARFAESI Act to be reduced from Rs. 20 lakhs to Rs. 1 lakh for NBFCs

FIDC on May 25 once again took up the issue of bringing parity in respect of recovery proceedings under SARFAESI Act for NBFC sector with Union Finance Minister pleading that "to bring parity between recovery procedures available to Banks /Financial Institutions, Housing Finance Companies and NBFCs, it was requested to allow NBFCs recovery proceedings under SARFAESI Act for loans above Rs. 1 lakh." This will not only harmonize the various frameworks but will also help in bringing litigation cost of NBFCs which will help providing financing to small MSME borrowers at a competitive cost, said Mahesh Thakkar, director general FIDC.
NBFCs have faced challenges due to this limit being set at Rs. 20 lakhs as it takes abnormally longer time for resolution of stressed account in absence of SARFAESI which goes as high as 5 years which not only increases the number of stressed accounts on NBFCs balance sheet but also increases the legal and litigation cost of NBFCs. This cost unnecessarily gets loaded on the good MSME borrowers which are standard and making timely servicing.
FIDC further noted that "It may be relevant to mention here that the average size of loans sanctioned by NBFCs is far lower at about Rs 5 lakhs, implying that most of the customers of NBFCs are out of the present threshold of Rs 20 lakhs. This effectively places the NBFCs at a disadvantage by preventing NBFCs from usage of a legally valid recovery tool available to banks, creating a piquant situation that in respect of the same customer a bank may resort to the provisions of the SARFAESI Act, while an NBFC cannot". There would be another dichotomy in the case of co-lending and it is not clear as to whether the participating bank can invoke the SARFAESI Act for its own share but the partner NBFC is not permitted to do so, because of the present stance of RBI, averred the note submitted to Finance Minister. FIDC also took up the issue with RBI and Finance Secretary, Economic Advisor, Niti Aayog suitably. ■

Banks can provide credit to NBFCs for on-lending to priority sectors on an ongoing basis: RBI

The Finance Industry Development Council had recently requested the RBI to extend the facility for another one year until March 2023

The Reserve Bank of India on Friday said that banks can provide credit to non-banking finance companies for on-lending to certain priority sectors on an ongoing basis. The facility of lending by commercial banks to NBFCs and lending by small finance banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to certain priority sectors, was permitted up to March 31, 2022.

"To ensure continuation of the synergies that have been developed between banks and NBFCs in delivering credit to the specified priority sectors, it has been decided to allow the above facility on an on-going basis," the RBI said.

Bank credit to NBFCs (including housing finance companies) for on-lending will be allowed up to an overall limit of five per cent of an individual bank's total priority sector lending in case of commercial banks.

In case of SFBs, credit to NBFC-MFIs and other MFIs which are members of RBI recognised 'self-regulatory organisation' of the sector, will be allowed up to an overall limit of 10 per cent of an individual bank's total priority sector lending.

"These limits shall be computed by averaging across four quarters of the financial year, to determine adherence to the prescribed cap," the RBI further said.

SFBs are allowed to lend to registered NBFC-MFIs and other MFIs that have a 'gross loan portfolio' (GLP) of up to ₹ 500 crore as on March 31 of the previous financial year, for the purpose of on-lending to priority sector.

FIDC In Action

The Finance Industry Development Council, which is the representative body of assets and loan financing NBFCs, had recently also requested the RBI to extend the facility for another one year until March 2023.

It had noted that end borrowers of NBFCs continue to be those who face challenges in accessing formal credit and for whom NBFCs have devised credible ways to service. [Business Line, May 13]

Inclusion of Rural Two-Wheeler financing under Priority Sector

FIDC pleaded to the Union Finance Minister, Minister for MSMEs and Reserve Bank of India Governor to consider the financial assistance to purchase Two-Wheelers [TW] in Rural economy as priority sector lending, as this will enable lenders to provide timely funds at cheaper cost as TW play critical role in rural economy as it helps in improving the standard of living, convenient and safer movement at affordable pricing and helps in increasing the earnings also.

FIDC noted in its representation to RBI Governor on 18th February 2022 that "the major use of TW in rural economy is not limited to self-riding but it is used for carrying and delivering milk, vegetables, merchandise etc. TWs are used as commercial asset used for delivery of goods such as food products, textiles and many articles of day to day use. Most MSMEs based in rural areas use TW". Indian Rural market has a strong consumer base of approximately 74 crore people of which around 30% only possess TW in rural segment.

Responding to the FIDC plea RBI advised on March 31, 2022 that we have examined the issue and our observations are as follows.

* The proposal to address 'funds at cheaper cost' through inclusion of Two-Wheeler financing in the Priority Sector Lending (PSL) may not materialize as the interest rates on all types of loans have been de-regulated, and no preferential dispensation with regard to interest rates has been prescribed under PSL. The banks determine interest rates as per their cost of funds and, inter alia, credit risk involved.
* Further, the primary consideration under PSL is to enable direct access to bank credit to those borrowers, and segments of the economy, that, though credit worthy, are unable to obtain credit from the formal banking system. Inclusion of retail consumer finance, such as two-Wheeler loans will crowd out small borrowers viz., small and marginal farmers, micro and small units and weaker sections, etc., and may not be in the interest of achieving financial inclusion in the country.
* Furthermore, loans to manufacturing units engaged in manufacture of motor cycles, Wholesale & Retail trade and repair of motor vehicles/motor cycles, Renting and leasing of motor vehicles, etc., which confirm to the definition of MSME (either manufacturing or services) are already covered under the ambit of PSL guidelines.
* Accordingly, it has not been found feasible to include individual Two-wheeler loans under PSL guidelines

Co-lending is an inevitable marriage of NBFCs and FinTechs, say NBFC leaders

Spurred by RBI, banks and NBFCs are entering co-lending pacts. While the banks bring funds, the NBFCs bring the last-mile reach and customers. NBFC leaders along with Raman Aggarwal, director FIDC discuss the rise of co-lending business model, in a panel discussion at ETBFSI FinNext Summit 2022.

"The government of India and RBI are looking at co-lending platforms for providing maximum loans to enterprises and the underserved segment. Co-lending of priority sector loans by banking and non-banking institutions is leveraging NBFCs' reach to assist Banks in meeting their priority sector lending goals. These partnerships are helping address the enormous credit gap."

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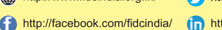
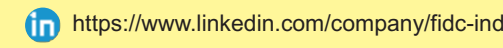
Connect:  http://www.fidcindia.org.in/  https://twitter.com/FidcIndia
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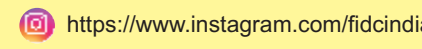 https://www.instagram.com/fidcindia/

Suggestions and feed-back

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