

FIDC

## Finance Industry Development Council

*(A Representative Body of NBFCs in India)*

101/103, Sunflower, 1<sup>st</sup> Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

Tel: 022 21029898/9820035553 • E-mail: [directorgeneral@fidcindia.org.in](mailto:directorgeneral@fidcindia.org.in)



[www.fidcindia.org.in](http://www.fidcindia.org.in)



March 06, 2025

The Chief General Manager,  
Department of Financial Inclusion & Development Department,  
Reserve Bank of India,  
Central Office Building, 10<sup>th</sup> floor,  
Shahid Bhagat Singh Road  
Mumbai-400 001

Madam/Sir,

### **SUB: REQUEST FOR REGULATORY REVISIONS TO ENHANCE MSME CREDIT DISPENSATION**

We **thank you** for inviting FIDC to the 29<sup>th</sup> Meeting of Standing Advisory Committee on Flow of Credit to MSMEs held under the Chairmanship of Shri Swaminathan J, Deputy Governor, RBI on 3<sup>rd</sup> March, 2025 at Ahmedabad, whereat our Co-Chairman Shri Kamlesh Gandhi represented FIDC.

We are giving hereinbelow summary of issues raised at the Meeting on behalf of NBFCs.

We seek your kind attention on certain regulatory measures that can significantly **enhance credit availability to MSMEs** by enabling Non-Banking Financial Companies (NBFCs) to play a more effective role in financial intermediation. MSMEs are the backbone of economic growth, and improving their access to credit will support expansion, job creation, and financial inclusion.

In this regard, we propose the following **key enablers** for consideration:

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### 1. Lowering the SARFAESI Threshold for NBFCs

The **SARFAESI Act, 2002**, currently allows NBFCs with asset sizes above **₹100 crore** to enforce security interest for **non-performing assets (NPAs) of ₹20 lakh and above**. However, a large portion of MSME loans is in the range of **₹2 lakh to ₹20 lakh**, making it difficult for NBFCs to recover such dues effectively.

We propose reducing the threshold from **₹20 lakh to ₹2 lakh**, which will:

- **Improve recovery mechanisms for smaller MSME loans**, making credit to this segment less risky.
- Encourage NBFCs to **offer more secured lending to MSMEs**, as they would have a stronger legal recourse in case of default.
- **Reduce credit costs** by mitigating losses on smaller loan defaults, making financing more affordable for MSMEs.

This change would **enhance credit flow to smaller MSMEs**, particularly those in need of working capital and term loans, without compromising financial stability.

### 2. Reduction of Risk Weightage for Secured MSME Loans

We propose a reduction in the risk weightage for **secured MSME loans**, as these loans, backed by collateral or government-backed credit guarantees, inherently carry lower credit risk. A lower risk weightage would:

- Improve credit availability for MSMEs.
- Reduce borrowing costs.
- Align with economic priorities of financial inclusion and MSME growth.



### 3. Introduction of Dedicated Refinancing Facilities for MSME Lending by NBFCs

NBFCs face **liquidity constraints**, which limit their ability to provide long-term and affordable credit to MSMEs.

To address this, we propose the introduction of **dedicated refinancing facilities for NBFCs**, including:

- **A special MSME refinancing window under SIDBI or NABARD**, where NBFCs can access low-cost funds for onward lending to MSMEs.
- **Eligibility for NBFCs to participate in RBI's liquidity and refinance schemes**, ensuring that they can expand their lending activities.
- **Government-backed guarantee mechanisms** to support refinancing, reducing NBFC borrowing costs and allowing lower lending rates to MSMEs.

A well-structured refinancing facility will **enhance NBFC liquidity**, enabling them to **disburse more credit to MSMEs without relying solely on high-cost market borrowings**.

### 4. Removal of ₹20 Lakh Limit for MSME Loans under PSL for Onward Lending

The current limit of ₹20 lakh for MSME loans to qualify as **Priority Sector Lending (PSL)** assets for banks' lending to NBFCs restricts funding for growing MSMEs. **Removing this limit** will:

- Improve MSME credit flow by allowing larger loans to qualify.
- Enable better collaboration between banks and NBFCs.
- Support the financing needs of growing MSMEs.

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### 5. Removing the Separate Registration Requirement for NBFCs to Undertake Factoring

Factoring is a critical tool for financing MSME receivables, yet NBFCs are required to obtain additional registration as an NBFC-Factor under RBI's Factoring Regulation Act, 2011. Allowing NBFCs to engage in factoring under their existing registration will:

- Expand access to supply chain financing for MSMEs.
- Encourage more NBFCs to offer factoring solutions, ensuring liquidity for small businesses.

#### Conclusion

These measures will **strengthen MSME credit flow**, reduce financing costs, and enhance the financial system's efficiency. We urge the regulatory authorities to consider these reforms as enablers for **expanding MSME credit dispensation** and driving economic growth.

We look forward to your kind consideration and an opportunity to discuss these proposals further.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR**  
**DIRECTOR GENERAL**