FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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

Tel: 022 21029898/9820035553 • E-mail: directorgeneral@fidcindia.org.in

www.fidcindia.org.in `

March 20, 2025

To
The Governor,
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Road
Mumbai 400001

SUB: REQUEST FOR DEFERMENT OF NET OWNED FUNDS (NOF) REQUIREMENT FOR NBFCs

Respected Sir,

Finance Industry Development Council (FIDC), a representative body of Non-Banking Financial Companies (NBFCs) registered with the Reserve Bank of India, with a legacy of 21 years, is the recognized face of the NBFC sector, representing almost all leading NBFCs and a large number of small and medium-sized NBFCs. Further, FIDC has also submitted its application for recognition as Self-Regulatory Organization (SRO) for NBFCs.

We respectfully submit this petition to urge the Reserve Bank of India (RBI) to defer the mandated increase in Net Owned Funds (NOF) for NBFCs from ₹2 crore to ₹5 crore by March 31, 2025, and subsequently to ₹10 crore by 2027.

While we fully support RBI's objective of strengthening the financial sector, we would like to highlight the unintended adverse consequences that this sudden increase will have on small and mid-sized NBFCs, their borrowers, and the broader economy.

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Impact on Small NBFCs and Financial Inclusion:

1. **Severe Risk of Mass Closure** – There are over 9,000 NBFCs operating in the country, many of which cater to borrowers at the grassroots level. These institutions are already compliant with RBI regulations and play a critical role in last-mile credit delivery. However, most of them lack the capacity to raise additional capital due to regulatory restrictions on borrowing for capital infusion. As a result, many will be forced to shut down.

2. **Reduced Credit Access for Small Borrowers** – These NBFCs serve the unbanked and underbanked segments, including micro and small businesses, farmers, traders, and self-employed individuals. If forced to shut down, their borrowers will have no option but to turn to informal and unauthorized moneylenders, leading to higher interest costs and financial distress.

3. **Impact on Growth** – The MSME sector, which relies heavily on small NBFCs for working capital and business expansion, will face a credit crunch. This could impact employment, local businesses and overall economic growth.

4. **Leading to Penalization** – Small NBFCs have remained fully compliant with RBI's existing regulations, including prudential norms and risk management frameworks. However, increasing the capital requirement without an alternative framework for smaller NBFCs places an undue burden on them despite their regulatory adherence.

5. **Procedure/process-related delays** - Even the NBFCs who are wanting to put in efforts to increase their NOF are having challenges from ROC angle as Ltd. Cos. can issue fresh shares only in demat format and getting ISIN numbers from

CDSL is taking 8-9 months and 3-4 months from NSDL, after which getting shares of existing shareholders demat is taking a long time.

In light of these challenges, we request the RBI to:

1. ***Defer the implementation of the ₹5 crore NOF requirement beyond March 31, 2025, to allow NBFCs more time for capital augmentation.***
2. ***Introduce a phased compliance roadmap beyond 2027, considering the size, scale, and risk profile of different NBFCs.***
3. ***Allow alternative fund-raising mechanism for small NBFCs, such as government-backed credit lines or incentives for investors willing to fund them.***

We believe that a balanced approach will not only strengthen the financial sector but also preserve the critical role of small NBFCs in financial inclusion and economic development.

We trust that the RBI will consider this request with due **urgency** and look forward to a positive response.

Yours faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553