FIDC

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

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

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October 04, 2021

MR. S. RAMANN,
CHIARMAN & MANAGING DIRECTOR,
SMALL INDUSTIES DEVELOPMENT BANK OF INDIA (SIDBI),
SWAVALAMBAN BHAWAN,
C-11, G-BLOCK,
BANDRA-KURLA COMPLEX,
BANDRA (E), MUMBAI-400051

Dear Sir,

SUB: CREDIT FLOW TO MSMES THROUGH NBFCs

Finance Industry Development Council (FIDC) is a Representative Body of Asset and Loan Financing of the NBFCs registered with the Reserve Bank of India and operating across the country. FIDC was formed 17 years ago and is the recognized face of the NBFC sector. We have been engaged in regular interaction both with Reserve Bank of India and Govt. of India, which include pre-budget meetings and also important policy related meetings with RBI. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

Over the past few years, NBFCs have assumed an increasingly important role in ensuring credit flow to the MSMEs. NBFCs are committed to furthering this role and be a prime mover in the growth and development of MSMEs.

We at FIDC have been advocating certain measures to improve credit flow to MSMEs through NBFCs. While many of our suggestions (including the addition of retail and wholesale trade under the definition of MSME) have been addressed, there are a few issues which remain to be addressed. We request your kind views and consideration of these steps. These include:

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a. Extension of CGTMSE coverage to loans given to Educational Institutions:

Educational Institutions are covered under the definition of MSMEs under the MSME Ministry Circular No. 5(6)/2/2009-MSME POL dated July 21, 2009. However, CGTMSE coverage is not available for loans given by NBFCs to educational institutions. NBFCs provide term loans to schools and colleges for expansion of classroom facilities and for working capital. Most educational institutions have been under lockdown for the past 18 months owing to the pandemic. Given that these institutions are now being slowly opened in many states, there is a considerable need to provide adequate financing for the restoration of normalcy and for growth of the institutions. Covering these loans under the CGTMSE scheme would facilitate greater flow of funds to this critical sector.

b. Restoration of CGTMSE coverage to 3 times the guarantee fee:

The recent reduction in the amount of payout admissible under the CGTMSE scheme to twice the amount of guarantee fee plus the recoveries has severely dampened the risk appetite of NBFCs in financing MSMEs. With the CGTMSE cover becoming lesser and costlier, NBFCs have no choice than to become risk averse or to insist on secondary collateral to manage their risks. This may severely restrict the flow of funds from NBFCs to MSMEs. We request restoration of the earlier limits for admission of claims under the scheme.

c. Acceptance of Arbitration as a valid legal step taken for debt recovery under the ECLGS scheme:

Arbitration is the most cost effective, quick and popular means adopted by NBFCs for recovery/settlement of NPAs. This avoids lengthy and costlier civil law and suits and helps unclog the legal system. Most defaulters do so

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due to business constraints or cash flow mismatches and not due to mal-intention and hence usage of softer tools such as arbitration would be most appropriate. The Arbitration and Conciliation Act has adequate controls and safeguards to ensure a fair procedure. In fact, the FAQs released by the Government include arbitration as a sufficient step for claiming relief under the ECLGS scheme. However, the NCGTC has taken a stand to the contrary. We sincerely request that this anomaly be removed.

Further, the High Courts in the country also prefer and advise the litigating parties to explore arbitration as per the 1996 Act before reaching the judicial forum. The arbitration process has been bestowed quasi-judicial powers accordingly and award passed by the arbitrator is converted in to decree and the same is enforceable in the court having jurisdiction on the property of the judgment debtor. The entire process mentioned above is legally valid and takes at times more than a year and should be recognised as valid legal remedies for delinquent accounts while processing claims under CGSMSE program.

d. Refinance mechanism for NBFCs:

Most NBFCs (except the very highly rated NBFCs) depend upon banks for their funding needs since the money markets and other institutional sources of funding are shallow or are restricted to highly rated NBFCs. This has resulted in inadequate and erratic flow of funds to NBFCs and increased concentration risk at a systemic level. There is a dire need for an effective refinance mechanism (on similar lines as the NHB refinance or any other effective method) to ensure diversity and greater regularity in sources of funds to NBFCs. We believe that SIDBI is most suited as an institution to provide such a facility to NBFCs for onward lending to MSMEs and other appropriate sectors. We have discussed this matter with the RBI and the Ministry of Finance as well. We would sincerely appeal to you to kindly consider this proposal.

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e. **Criteria used by SIDBI for provision of funding support to NBFCs:**
   SIDBI has emerged as a key source of funding for NBFCs, especially the small and medium ones. One of the criteria used as a filter by SIDBI is credit rating. Given the rather standardised templates employed by rating agencies, size of the NBFC becomes as key input to credit rating and as such, smaller NBFCs end up receiving lower rating, irrespective of vintage and other financial parameters. While rating should be an important consideration for SIDBI to assess its credit risk, we submit that this may be seen as only one of the criteria, which could be counter-balanced with vintage of NBFC, the track record and experience of the key personnel, financial parameters, credit quality and capital adequacy. We submit that rating therefore not be used as a qualifying criterion for a "go-no go" decision for lending to NBFCs.

We would be grateful for your kind consideration of these suggestions, which we believe would go a long way in channelising funds from NBFCs to MSMEs and other deserving sectors. We also request you for a meeting with some of the key Members of FIDC to discuss these and explore further opportunities for NBFCs to contribute to the economy.

Thanking you,
Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
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