

AFTER A LULL, NBFCs BANKING ON BETTER TIMES

- Shobha Roy

Some NBFCs expect business to be back to pre-pandemic levels by Q2. Disbursements are expected to gain momentum in the run-up to the festival season and pent-up demand for credit

Non banking finance companies (NBFCs), which had witnessed a drop in disbursements and collections in Q1 (April-June) FY22, expect business to bounce back to the pre-pandemic levels by the end of this fiscal. While collections have already started improving, disbursements are also expected to gain momentum in the run-up to the festival season, good monsoon and pent-up demand for credit across various sectors. According to Mahesh Thakkar, Director General of Finance Industry Development Council (FIDC), Q1 of the current fiscal was not very good, but Q2 (July-September) is seeing an improvement. By Q3 (October-December) the industry should bounce back to around 95 per cent of the pre-pandemic levels.

“Sales are picking up in the auto sector, demand is coming in from MSMEs... the monsoon has been good, and demand is there ahead of the festival season. People have learnt to live with the pandemic and are looking forward to go out. This will give a push to consumption. Spending will improve,” Mahesh Thakkar told Business Line.

Growth in disbursements

Some of the NBFCs expect business to be back to pre-pandemic levels by Q2 of this fiscal. Shriram City Union Finance (SCUF), for instance, expects disbursements to return to pre-pandemic levels by the second quarter of this fiscal, backed by a steady pick-up in demand across two-wheeler loans, loan against gold, personal loans, and MSME finance.

The NBFC is looking to aggressively push two-wheeler loans, which have witnessed very little delinquency, as well as gold loans. While it also plans to push personal loans and SME loans, however, it would continue to remain cautious and prefer to lend to existing customers, said YS Chakravarti, MD and CEO. “We normally do disbursements worth Rs.6,500-6,600 crore during a quarter. We have disbursed close to Rs. 2,000 crore in July alone, and we hope to register close to Rs. 6,000 crore during the second quarter of this fiscal,” he said.

According to Oommen K Mammen, CFO, Muthoot Finance, while disbursements were low in May, by the end of June it started picking up. The company is targeting a 15 per cent growth in assets under management (AUM) this fiscal.

“In Q2 we are expecting a better business compared to Q1. The restrictions (across various States) are being relaxed, and people have started getting back (to business),” he said, indicating that it will push up the demand for credit.

The AUM of the sector grew by a modest 4 per cent in FY21 vis-a-vis six per cent in FY20 (16 per cent in FY19). The housing finance companies (HFCs)

grew by about 6 per cent during the last fiscal; within the other NBFC space, retail credit (consisting of vehicles, business loans, personal credit, microfinance) grew by four per cent, while the wholesale credit declined on a year-on-year basis, said a recent report by ICRA.

Overall, the sectoral AUM is expected to grow at 7-9 per cent in FY22, bolstered by the growth in NBFC retail credit and HFCs, which is expected to be about 8-10 per cent, while NBFC wholesale credit growth would remain muted, the report said.

Collections improve

The ICRA report further suggests that the risks for the NBFC sector remain elevated in the near term, and the revival is likely to happen in the next fiscal.

The second wave of Covid-19 had a varied impact on the business and operations of NBFCs (private NBFCs, including HFCs). While large HFCs saw relatively limited impact on their collection efficiency (CE), other NBFCs, having exposure to several segments such as vehicle finance, business loans and microfinance, witnessed their CEs decline by about 20-25 per cent in May 2021 vis-a-vis the average Q4 (January-March) FY21 when the lockdown imposed by various States was more stringent and widespread. The CE improved marginally (up by three-to-five per cent) in June 2021 vis-a-vis May 2021 levels, with States steadily relaxing restrictions.

“The impact on CE was lower during Q1 FY22 compared to what was witnessed in Q1 FY21, and initial feedback indicates a further improvement in CE in July 2021. Sustenance of the same in the subsequent months and no further impediments in the revival trends would be crucial from an asset quality perspective. **We note that the headline asset quality numbers for June 2021 would be significantly elevated vis-a-vis March 2021, but the same is expected to subside over a couple of quarters if the CEs continue to trend upwards in the subsequent months,” said AM Karthik, Vice President, Financial Sector Ratings, ICRA Ltd.**

The restructured book for the NBFCs (excluding HFCs) is expected to move up to 4.1-4.3 per cent by March 2022, while the same for the HFCs is estimated to go up to 2-2.2 per cent. The overall sectoral restructured book is expected to double to 3.1-3.3 per cent by March 2022 vis a vis 1.6 per cent in March 2021.

“Notwithstanding the near-term pressures, the net increase (adjusting for write-offs) in the 90 plus days past due (90+dpd) in the current fiscal is expected to be about 50-100 basis points. ICRA draws comfort from the provisions maintained by the entities, which continue to remain about 100 bps higher than the pre-Covid levels,” Karthik added.

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REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

New Definition of Micro, Small and Medium Enterprises:

RBI/2021-2022/63; FIDD.MSME & NFS. BC. No. 12/ 06. 02.31/2021-22; 25.6.2021; 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]

New Definition of Micro, Small and Medium Enterprises -

Addition of Retail and Wholesale Trade: RBI/2021-2022/67; FIDD.MSME & NFS.BC.No.13/06.02.31/2021-22; 07.7.2021; 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]

Roadmap for LIBOR Transition: RBI/2021-2022/69; CO.FMRD. DIRD.S39/14.02.001/2021-22; 08.7.2021; Financial Markets Regulation Department [The Chief Executive Officer/ Chairman/Managing Director, All Commercial and Co-operative Banks / All India Financial Institutions / Non-Banking Financial Companies including Housing Finance Companies and Standalone Primary Dealers]

Rating of Deposits of HFCs – Approved Credit Rating Agencies and Minimum Investment Grade Credit Rating:

RBI/2021-2022/74; DOR. FIN. REC. No. 34/03.10.136/2021-22; 29.7.2021; Department of Regulation [All deposit taking Housing Finance Companies (HFCs)]

Resolution Framework for COVID-19-related Stress – Financial Parameters – Revised timelines for compliance:

RBI/2021-2022/80; DOR. STR. REC. 38/ 21. 04.048/2021-22; 06.8.2021 Department of Regulation; [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 All-India Financial Institutions All NBFCs (including HFCs)]

Notification as ‘Financial Institution’ under Section 2(1)(m)(iv) of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest

Act, 2002 (SARFAESI Act): RBI/2021-2022/91; DOR.FIN.REC.No.41/03.10.136/2021-22; 25.8.2021; Department of Regulation [All Housing Finance Companies (HFCs)]

Application for Aadhaar e-KYC Authentication Licence: RBI/2021-2022/98; DOR.AML.REC 48/ 14. 01. 001/2021-22; 13.9.2021; Department of Regulation [The Chairpersons / CEOs of all Non-Banking Finance Companies (NBFCs), Payment System Providers and Payment System Participants]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Deletion of one entry: RBI/2021-2022/99; DOR. AML. REC. 49/ 14. 06.001/2021-22; 13.9.2021; Department of Regulation [The Chairpersons/ CEOs of all the Regulated Entities]

Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021: RBI/DOR/2021-22/85; DOR.STR.REC.53/21.04.177/2021-22; September 24, 2021 [All Scheduled Commercial Banks (including Small Finance Banks but excluding Regional Rural Banks); All All-India Term Financial Institutions; All NBFCs including HFCs]

“PRISM” to strengthen compliance by lenders

The platform is a web-based end-to-end workflow automation system

The RBI is putting in place a Platform for Regulated Entities for Integrated Supervision and Monitoring (PRISM), a web-based end-to-end workflow automation system, to strengthen compliance by supervised entities (SEs). This comes in the backdrop of continuous engagement and more frequent reviews of risk profiles and supervisory assessments being envisaged for supervised entities, including banks and non-banking financial companies.

With the growing intensity and reach of the Reserve Bank's supervisory function, the focus of its new approach to 'continuous supervision' is on early identification of risks and conduct of supervisory actions,

according to an article in RBI's latest monthly bulletin. This is aimed at helping supervised entities to strengthen their internal defences and resilience and bringing focus on root cause analysis (RCA).

PRISM will have various functionalities (inspection; compliance; incident functionality for cyber security; complaints; and returns functionalities), with built-in remediation workflows, time tracking, notifications and alerts, management information system (MIS) reports and dashboards. [Business Line, Aug. 17]

RBI extends on-tap TLTRO scheme till December 31

The RBI has extended the on-tap targeted Long Term Repo Operations (TLTROs) scheme by three months till December 31. This is in view of the nascent and fragile economic recovery. The RBI had, on October 9, 2020, first announced that it would conduct on tap TLTRO with tenors of up to three years for a total amount of up to Rs. 1-lakh crore at a floating rate linked to the policy repo rate. The scheme was available up to March 31, 2021. But it was later extended.

Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by the entities in five specific sectors. This scheme was further extended to stressed sectors identified by the Kamath Committee in December 2020 and bank lending to NBFCs in February 2021. The liquidity availed under the scheme can also be used to extend bank loans and advances to these sectors. As per RBI data, under on-tap TLTRO, banks had availed Rs. 5,000 crore on March 22, 2021, and Rs. 320 crore on June 14, 2021. [Business Line, Aug. 6]

RBI allows wallets, white label card networks to access RTGS, NEFT systems

RBI on July 28 allowed payment system providers, prepaid card issuers, card networks and white label ATM operators access to its Centralised Payment Systems (CPS), such as real time gross settlement (RTGS) and National Electronic Fund Transfer (NEFT) systems in the first phase of its plan bring non-banks in the same platform. The RBI had announced opening up of the CPS space in its April policy.

“Direct access for non-banks to CPS lowers the overall risk in the payments ecosystem. It also brings advantages to non-banks like reduction in cost of payments, minimising dependence on banks, reducing the time taken for completing payments, eliminating the uncertainty in finality of the payments as the settlement is carried out in central bank money, etc.,” the RBI said. It will also avoid the risk of failure or delay in execution of fund transfers initiated and processed by the non-bank entities, the central bank said in a statement on its website.

The new non-banks allowed now will be allotted separate Indian Financial System Code (IFSC), and will be allowed to open a current account with the RBI in its core banking system. With this, they will no longer be dependent on banks for routing their payments. The kind of access will depend upon the need of the non-bank. For example, prepaid instrument issuers will get access to NEFT, but card network and ATM operators won't need it. Card networks will also not be allowed to use the RBI's current account for their own settlement guarantee and related activities.

Since the non-banks can do the transactions themselves, customers' data protection will be ensured. The non-banks can also bring innovative products and new capabilities to assimilate and analyse the data, the RBI said. [Business Standard, July 29]

Welcoming the RBI's move to allow authorised non-bank payment system providers to participate in CPS, the industry body, Payment Council of India said it would also trigger financial innovations and enhance customer protection. [Business Line, July 31]

RBI aligns deposit-taking norms for HFCs with NBFCs

Approves seven CRAs and their respective minimum investment-grade credit rating

The RBI has decided to align the provisions for Housing Finance Companies (HFCs) relating to the rating of deposits taken by them with provisions on the subject prescribed for NBFCs. Accordingly, the central bank has approved seven Credit Rating Agencies (CRAs) – Crisil, ICRA, CARE Ratings, Fitch Ratings India Pvt Ltd, Brickwork Ratings, Acuite Ratings & Research and Infomerics Valuation and Rating – and their respective minimum investment-grade credit rating. [Business Line, July 30]

Digital currency model likely by the end of year: RBI

The Reserve Bank expects to come out with a model for operations of



fiat digital currencies by the end of the year, Deputy Governor T Rabi Sankar said on Friday. He reiterated that the RBI is internally evaluating the possibility of introducing a fiat digital currency, going into a slew of aspects like its scope, technology, distribution mechanism and validation mechanism. In a July 22 speech, Sankar had said that India is also thinking for a phased introduction of a digital currency saying the time for them is now. China has already started a trial run for its digital currency, while the Bank of England and the US Federal Reserve are also looking at it.

"It will be difficult to pin a date on it (introducing DC). We should be able to come out with a model in the near future, probably by the end of this year," Sankar told reporters at the post-policy review press conference. In the July 22 speech, Sankar had said that such currency is likely to be in the arsenal of every central bank going forward and setting up such a system will require a nuanced approach. [ET BFSI.com/PTI, Aug.6]

RBI announces Digital Payments Index

The RBI had earlier announced the construction of a composite Reserve Bank of India – Digital Payments Index (RBI-DPI) with March 2018 as base to capture the extent of digitisation of payments across the country. The index for March 2021 stands at 270.59 as against 207.84 for March 2020, announced while launching the index on January 1, 2021.

The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are – (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%). Each of these parameters has sub-parameters which, in turn, consist of various measurable indicators. The RBI-DPI index has demonstrated significant growth in the index representing the rapid adoption and deepening of digital payments across the country in recent years. [ETBFSI July 28]

RBI introduces the Financial Inclusion Index

RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualised as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators. The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35%), Usage (45%), and Quality (20%) with each of these consisting of various dimensions, which are computed based on a number of indicators.

The Index is responsive to ease of access, availability and usage of services, and quality of services, comprising in all 97 indicators. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

The FI-Index has been constructed without any 'base year' and as such it reflects cumulative efforts of all stakeholders over the years towards financial inclusion. The annual FI-Index for the period ending March 2021 is 53.9 as against 43.4 for the period ending March 2017. The FI-Index will be published annually in July every year. [RBI Press Release, Aug. 17]

RBI extends deadline to meet targets under One-Time Debt Restructuring

Citing the impact of the second Covid wave, the Reserve Bank of India has eased by six months the deadline to meet four operational parameters under the one-time debt restructuring scheme announced in August 2020. The parameters include total debt-to-Ebitda ratio, current ratio, debt service coverage ratio and average debt service coverage ratio. The deadline has been extended to Oct. 1, 2022 from March 31, 2022. "Recognising the adverse impact of second wave of Covid-19 on revival of businesses, and the difficulty it may pose in meeting the operational parameters, it has been decided to defer the target date," the RBI said in its statement of developmental and regulatory policies.

A committee headed by KV Kamath had recommended specific ratios to be met under these parameters for 27 stressed sectors which were affected by the first wave of the Covid-19 pandemic. The suggestions were accepted by the RBI and were to be incorporated by banks while

they were implementing resolution plans for corporate accounts under the one-time restructuring scheme. The ratios prescribed under the total outside liabilities/adjusted total net worth will, however, be required to be met by March 31, 2022, the RBI said, since it was expected to be crystallised upfront as part of the resolution plan. [Bloomberg, Aug. 6]

RBI issues framework for outsourcing of activities by Payment System Operators

Under the framework released by the RBI on Aug. 3, PSOs will not outsource core management functions, including risk management and internal audit; compliance and decision-making functions such as determining compliance with KYC norms. The RBI has also clarified that outsourcing of any activity by the PSO will not reduce its obligations, and those of its board and senior management, who will ultimately be responsible for the outsourced activity. The responsibility of addressing the grievances of its customers shall rest with the PSO, including in respect of the services provided by the outsourced agency. The service provider will also have to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures arising out of any outsourced activity, it added. [Financial Express, Aug. 3]

RBI notifies inclusion of retail, wholesale trade under MSME category

The Reserve Bank on July 7 notified the inclusion of retail and wholesale trade under the micro, small and medium enterprises (MSME) category. This will help retail and wholesale trade benefit from priority sector lending under RBI guidelines. Earlier on July 2, the Ministry of Micro, Small and Medium Enterprises had decided to include retail and wholesale trade under MSMEs for the limited purpose of priority sector lending. The revised guidelines will benefit 2.5 crore retail and wholesale traders. The move would also allow them to register on the Udyam portal for MSMEs. [Financial Express, July 7]

[Please see for the details how Re-inclusion of Retail and Wholesale Trade in definition of MSMEs was done at the behest of FIDC's top team's persuasive virtual meeting with the Minister for MSMEs in the article titled: 'NBFCs' BUSINESS OPPORTUNITIES FAR WIDENED IN MSME SECTOR WITH INCLUSION OF RETAIL & WHOLESALE TRADES AS MSMEs' on page-4.]

RBI announces opening of third cohort under Regulatory Sandbox

RBI on Sept. 13 announced the opening of the third cohort under the Regulatory Sandbox. The application for the third cohort may be submitted from October 1 to November 14, 2021, it said. The theme for the third cohort is MSME lending.

In separate statements, the RBI also announced that eight entities have been selected for the 'test phase' of the second cohort on cross border payments. Six entities have completed the 'test phase' of the first cohort on retail payments. "The products were evaluated based on mutually agreed test scenarios and expected outcomes. All the products have been found viable within the boundary conditions defined during testing under Regulatory Sandbox," the RBI said. The products found acceptable under this cohort may be considered for adoption by regulated entities subject to compliance with applicable regulatory requirements, it further said. [Business Line, Sept. 13]

Application for Aadhaar e-KYC Authentication Licence

RBI vide circular dated Sept. 13 has advised that "In terms of Section 11A of the PML Act, 2002, entities other than banking companies may, by notification of the Central Government, be permitted to carry out authentication of client's Aadhaar number using e-KYC facility provided by the Unique Identification Authority of India (UIDAI). Such notification shall be issued only after consultation with UIDAI and the appropriate regulator."

Said circular further adds that a detailed procedure for processing of applications under the aforementioned Section for use of Aadhaar authentication services by entities other than banking companies has been provided by the Department of Revenue, Ministry of Finance vide their circular dated May 9, 2019.

Accordingly, NBFCs, Payment System Providers and Payment System Participants desirous of obtaining Aadhaar Authentication License - KYC User Agency (KUA) License or sub-KUA License (to perform authentication through a KUA), issued by the UIDAI, may submit their application to RBI for onward submission to UIDAI. The applications can also be forwarded over email. The format of the application is provided in the Annex to the said circular. [RBI website]

NBFCs' BUSINESS OPPORTUNITIES FAR WIDENED IN MSME SECTOR WITH INCLUSION OF RETAIL & WHOLESALE TRADES AS MSMEs

This is a landmark decision that will give retail MSMEs the support they need to survive, revive and thrive. The retail and wholesale traders are like engines which propel the business ecosystem forward. This will help crores of our traders get easier finance; various other benefits and also help boost their business.

To strengthen MSME and make them engines for economic growth, Shri Nitin Gadkari, Minister for MSMEs announced the revised guidelines that will benefit 2.5 Crore Retail and Wholesale Traders. He said Retail and wholesale trade were left out of the ambit of MSME, now under the revised guidelines, retail and wholesale trade will also get benefit of priority sector lending under RBI guidelines. Now be allowed to register on Udyam Registration Portal. Accordingly, Ministry of Micro, small & Medium Enterprises, Policy Division issued a memorandum on July 2 which stated as under:

The Government has received various representations and it has been decided to include Retail and wholesale trades as MSMEs and they are allowed to be registered on Udyam Registration Portal. However, benefits to Retail and Wholesale trade MSMEs are to be restricted to Priority Sector Lending only.

3. Accordingly, the list of eligible additional activities under NIC Code 45, 46 and 47 are as under:

4. The Udyam Registration is allowed for above three NIC Codes

45	Wholesale and retail trade and repair of motor vehicle and motorcycles
46	Wholesale trade except of motor vehicles and motor cycles
47	Retail Trade Except of Motor Vehicles and motor cycles

and activities mentioned against them.

5. The Enterprises having Udyog Aadhaar Memorandum (UAM) under above three NIC Codes are now allowed to migrate to Udyam Registration Portal or they can file Udyam Registration afresh.

Reserve Bank of India vide a circular titled "New Definition of Micro, Small and Medium Enterprises - Addition of Retail and Wholesale Trade" dated July 7 advised said amendment in definition of MSME to all banks, All India Financial Institutions and all NBFCs.

PM Modi hails inclusion of retail & wholesale trade under MSME as 'landmark step'

In a tweet, the prime minister said, "Our government has taken a landmark step of including retail and wholesale trade as MSME. This will help crores of our traders get easier finance; various other benefits and also help boost their business. We are committed to empowering our traders."

Official sources said the move will have an immediate impact on smaller retailers and wholesalers with businesses up to Rs 250 crore of turnover in availing immediate-term finance as part of various schemes announced under "Atmanirbhar Bharat" programme.

This landmark decision will have a structural impact for the sector, helping it to get formalized by giving better finance options for businesses that want to get structured, they said, adding it will give retail MSMEs the support they need to "survive, revive and thrive". [The Print, July 3]

How has the industry responded? The announcement has seen a positive response from the industry associations reported by the First Post on July 2.

• Commenting on the development, Confederation of All India Traders (CAIT) said, with this decision, traders will be able to avail requisite finances from banks and financial institutions under priority sector lending. Besides, now the traders can avail the benefits of several other government schemes for MSMEs, it said in a statement.

• Kumar Rajagopalan, CEO, Retailers Association of India (RAI) said, "this is a landmark decision that will give retail MSMEs the support they need to survive, revive and thrive."

• BC Bhartia, National President and Praveen Khandelwal, secretary general of the Confederation of All India Traders (CAIT) said the move will benefit more than eight crore small businesses of the country. They said in a press statement, "traders now will be able to avail requisite finances from the banks and financial institutions under Priority Sector Lending. They could now also leverage several other Government schemes for the MSMEs."

SMB Story reported on July 17 the views of AICOSMIA and individuals of retail community:

Sudhir Jha, Vice President of MSME Development Forum and General Secretary of All India Confederation of Small and Micro Industries Association (AICOSMIA), believes that this should have happened before but it is better late than never. He also said, "The retail and wholesale traders are like engines which propel the business ecosystem forward."

Several individuals from the retail community also opined that this move will help them get easy access to loans especially since the new notification allows them to register on the Udyam Registration portal, which already has more than 30 lakh MSMEs registered.

The Confederation of All India Traders (CAIT) had earlier demanded restoration of MSME status taken away in June 2017 from over 80 million retail and wholesale traders. "Traders will be able to avail requisite finances from banks and financial institutions under priority sector lending," CAIT said as reported by Economic Times on July 3. In fact, Retailers Association of India (RAI) has in the past made multiple representations to various authorities, including one to Gadkari seeking the restoration of MSME status for retailers that was withdrawn in 2017.

FIDC BECAME MOVER OF BOTH [1] EXTENSION OF DATE OF REGISTRATION OF MSMEs AND [2] INCLUSION OF RETAIL AND WHOLESALE TRADE IN MSMEs

Although the MSME Ministry has said it 'received various representations' and some industry associations like Confederation of All India Traders (CAIT) and Retailers Association of India have also confirmed that they have been trying since 2017 to reinstate inclusion of Retail and Wholesale Trade in MSMEs definition they were not successful. The trigger came with FIDC's effective and fact studded dialogue with the Minister on June 15. That helped him to make up his mind to go ahead, it is believed.

It is quite relevant and interesting that Shri Gadkari within two days of his meeting with FIDC on 15th June announced extension of deadline for registration of MSMEs to 31st December 2021. Following Notification of MSME Ministry is clear evidence about it:

Ministry of Micro, Small & Medium Enterprises

Ministry of Micro, Small and Medium Enterprises Extends Validity of Udyog Aadhaar Memorandum from 31st March, 2021 to 31st December, 2021

Posted On: 17 JUN 2021 7:19PM by PIB Delhi

Ministry of Micro, Small and Medium Enterprises has issued an amendment to the original notification No. S.O. 2119 (E) dated 26.06.2020 vide 2347(E) dated 16.06.2021, extending the validity of EM Part-II and UAMs from 31.03.2021 to 31.12.2021. This would



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facilitate the holders of EM Part-II and UAMs to avail benefits of the provisions under various existing schemes and incentives including Priority Sector Lending benefits of MSME.

Considering the hardships faced by MSMEs during the prevailing COVID-19 situation and the representations received from the various MSME associations, financial institutions and Government departments dealing with the interest of MSME Sector, the said amendment has been carried out.

It is expected that existing EM Part-II and UAM holders would be able to migrate to the new system of Udyam Registration, which was launched on 1st July, 2020, and would avail the benefits of Government Schemes, thereby paving the way for strengthening MSMEs and leading to their faster recovery, boost to their economic activity and creation of jobs.

Interested enterprises can register on <https://udyamregistration.gov.in> free of cost and without any documents. Only PAN and Aadhaar are required for registration on the Udyam portal. So far, this portal has facilitated registration and classification of 33,16,210 enterprises as on 17.06.2021 (5.26.43 PM).

The Hon'ble Minister acts quickly after virtual Meeting on 15 06 21 with FIDC says Shri Mahesh Thakkar, director general, FIDC

As requested by FIDC during a meeting on 19th June [it was in fact 15th] 2021, the Ministry of MSMEs has announced revised guidelines for MSMEs with the inclusion of Retail and Wholesale trades as MSMEs:

FIDC Top Team had a dialog with Hon'ble Minister of MSMEs Shri Nitin Gadkari in a virtual meet on 15 June. FIDC cogently pleaded for extension of deadline for Udyam registration in view of Covid-19 pandemic and inclusion of retail and wholesale traders in MSMEs and some other measures.

Inclusion of traders in MSME definition: FIDC said that the Retail and wholesale trade was included in the definition of "Services" under MSME Definition until 2017 when office memorandum was issued vide which wholesale and retail trade was excluded from MSME definition. Consequently, RBI also aligned its MSME

definition in accordance with MSME Ministry's notification dated June 2020 resulting in rendering retail and wholesale trade loans ineligible for Priority Sector Lending and other scheme benefits.

Retail and wholesale Traders are backbone of supply chain; there are over 2.34 crore trader MSMEs in India, which is roughly 36% of total MSMEs in India. While there is a need for synchronization of MSME definition across various platforms, FIDC requested Shri Gadkari that the retail and wholesale trade sector be specifically included in MSME definition in various RBI circulars.

After the meeting with the Minister Shri Mahesh Thakkar, director general, FIDC noted that **"The Hon'ble Minister has assured FIDC of considering all issues positively."**

NBFC body urges Nitin Gadkari to include traders in MSME definition, extend Udyam registration deadline

Credit and Finance for MSMEs: Finance Industry Development Council (FIDC), a representative body for assets and loan financing NBFCs catering to MSMEs, has urged MSME Minister Nitin Gadkari to include retail and wholesale trade in the list of activities allowed for registration as MSME. The suggestion was part of the representation made to the minister by the industry body earlier this week to boost credit flow to MSMEs followed by a letter reiterating the requests sent on Saturday to the minister. "Traders constitute around 35 per cent of total MSMEs in the country and are thus not eligible for liquidity support from the banking system and extension of priority sector benefits much needed for them," the letter read. Copies of the letter and representation made were seen by Financial Express Online.

Retail and wholesale trade was included in the definition of "Services" under the MSME definition until 2017 when an office memorandum was issued that excluded wholesale and retail trade from the MSME definition, FIDC said. Consequently, RBI aligned its MSME definition in accordance with MSME Ministry's notification dated June 2020, rendering retail and wholesale trade loans ineligible for priority sector lending and other scheme benefits. "While there is a need for synchronization of MSME definition across various platforms, we request that the retail and wholesale trade sector be specifically included in MSME definition in various RBI circulars, the representation noted.

FIDC also requested Nitin Gadkari to extend the deadline for MSMEs to register on the new government registration portal Udyam Registration till March 2022 from earlier April 1, 2021. Following MSME Ministry's Notification dated June 2020, RBI had issued a circular to its registered entities and made Udyam Registration a mandatory document for MSME classification with effect from April 1 2021 for any scheme benefit, the representation said. The extension would help Covid-hit MSMEs who otherwise "would be deprived of various Government scheme benefits and the resulting revival of the economy." [Sandeep Soni, Financial Express, June 20]

Why is it relevant? Asks the First Post in its report on July 2. With

FIDC extends its deep gratitude to **Shri Nitin Gadkari, the Hon'ble Minister of MSME, for the inclusion of Retail and Wholesale trades as MSMEs.**



Government announces inclusion of retail and wholesale trades as MSMEs



By CNBCTV18.com | Jul 02, 2021, 02:14 PM IST (Published)



Minister of MSME and Road Transport, Nitin Gadkari on Friday announced revised guidelines for MSMEs with the inclusion of retail and wholesale trades as MSMEs.

As requested by FIDC during a meeting on 19th June 2021, the Ministry of MSMEs has announced revised guidelines for MSMEs with the inclusion of Retail and Wholesale trades as MSMEs

the revised guidelines the retail and wholesale trades will be now be allowed to register on **Udyam Registration Portal**.

Gadkari said that retail and wholesale trade were left out of the ambit of MSME.

Now under the revised guidelines, retail and wholesale trade will also get benefit of priority sector lending under the Reserve Bank of India guidelines.

The fine print adds: Gadkari said that the NDA government is committed to strengthening the MSME sector and make them engines for economic growth. His announcement also comes amid several relief measures announced by Union Finance Minister Nirmala Sitharaman, who had increased the limit under the

[Continued on Page-14]

NON-BANKING FINANCIAL COMPANIES (NBFCs): SOUNDNESS AND RESILIENCE

Despite the pandemic conditions during the year, the GNPA ratio for the sector declined with a more than commensurate fall in the NNPA ratio attesting to higher provisioning...

Credit extended by NBFCs rose 8.8 per cent (y-o-y) during 2020-21 after a deceleration in the preceding year that was marred by credit events in the sector and muted demand. Despite the pandemic conditions during the year, the GNPA ratio for the sector declined with a more than commensurate fall in the NNPA ratio attesting to higher provisioning, and capital adequacy improved marginally (Table-1)

Table-1 : Asset Quality and CRARs of NBFCs

	GNPA Ratio	NNPA Ratio	CRAR
(per cent)			
Mar-2015	4.1	2.5	26.2
Mar-2016	4.5	2.5	24.3
Mar-2017	6.1	4.4	22.1
Mar-2018	5.8	3.8	22.8
Mar-2019	6.1	3.3	20.1
Mar-2020	6.8	3.4	23.7
Mar-2021 ³²	6.4	2.7	25.0

Source : RBI Supervisory returns and staff calculations.

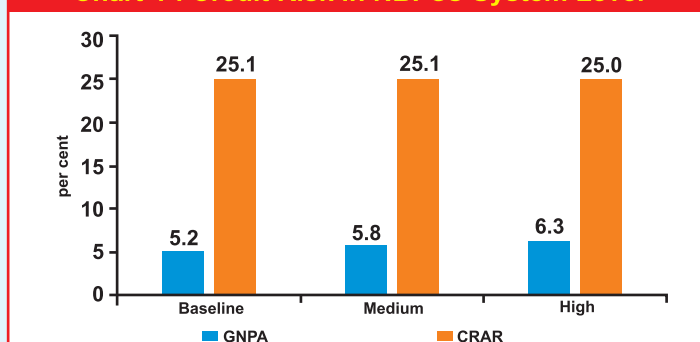
NBFC-MFIs, which are primarily dependent on bank borrowings for funding, have been undergoing asset quality stress during the pandemic. Their GNPA ratio ballooned from 2.0 per cent of total advances in March 2020 to 4.9 per cent in March 2021 as business dislocation dampened recoveries. Furthermore, their SMA-2 advances increased from 0.2 per cent to 1.3 per cent of total advances. Decline in collection efficiency could impact the liquidity position of NBFC-MFIs negatively and have implications for the quality of their borrowings.

Stress Test – Credit Risk

The resilience of the NBFC sector to credit risk shocks was assessed through system level stress tests conducted for a sample of 177 NBFCs. Two scenarios were used, viz., medium and high risk involving increase in the GNPA ratio of the sector by 1 SD and 2 SD, respectively.

Under a high-risk shock of 2 SD, the GNPA ratio of the sector increases by more than one percentage point and the capital adequacy ratio declines marginally (Chart-1).

Chart-1 : Credit Risk in NBFCs-System Level



Source : RBI supervisory returns and staff calculations

Capital adequacy ratios of seven NBFCs were below the minimum regulatory requirement of 15 per cent in March 2021. Under medium and high risk scenarios the system-level CRAR of 12.6 per cent and 14 per cent of NBFCs, respectively, would fall below the minimum regulatory requirements.

Interconnectedness

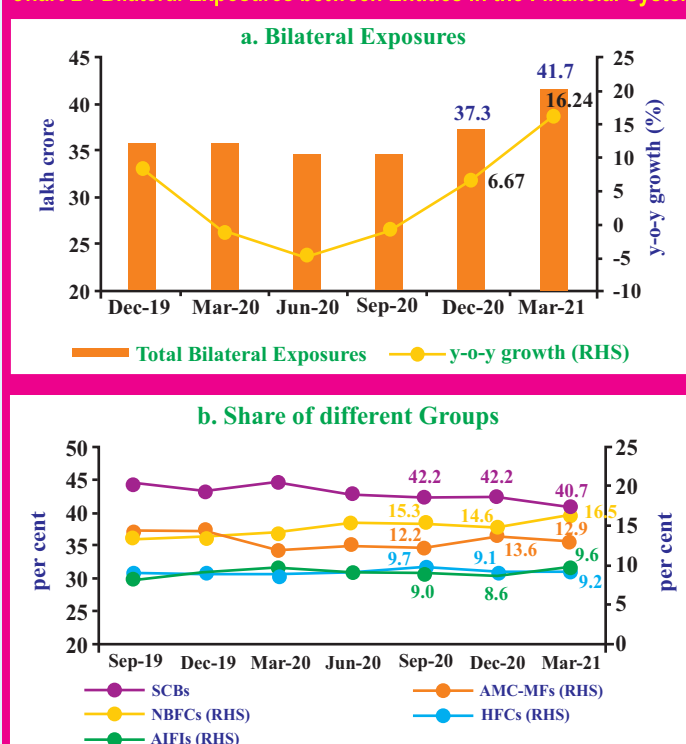
Network of the Financial System

A financial system network with financial institutions as nodes and bilateral exposures as links provides opportunities for investment, risk diversification, sourcing of funds and liquidity management. At the same time, however, the network exposes its constituents to negative externalities - spillovers and spillbacks - by creating channels through which shocks can spread, leading to contagion. The interconnectedness of financial institutions could amplify systemic shocks. For the analysis presented here, the coverage has been expanded relative to the previous issue of the FSR (January 2021) by including 31 additional entities. To this extent, data across the two periods may not be exactly comparable.

The total outstanding bilateral exposures among the entities in the financial system stabilised after a sharp fall during Q1:2020-21 following the onset of the COVID-19 pandemic. This was primarily due to increased exposures of SCBs to NBFCs and HFCs and of asset management companies - mutual funds (AMC-MFs) to the financial system.

SCBs had the largest bilateral exposures; however, their share declined by March 2021 on account of the shrinking inter-bank market while the share of NBFCs and HFCs rose sharply due to significant jump in their payables. Owing to the rallies in the equity markets, the share of AMC-MFs in bilateral exposures increased during 2020-21. On the other hand, the share of All-India Financial Institutions (AIFIs) and insurance companies went down marginally (Chart-2).

Chart-2 : Bilateral Exposures between Entities in the Financial System



Source : RBI supervisory returns and staff calculations.

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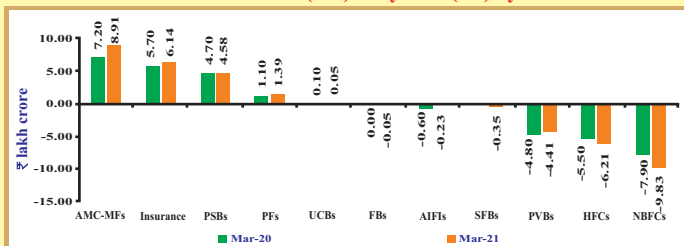
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In terms of inter-sectoral exposures, AMC-MFs, followed by insurance companies, were the biggest fund providers in the system, whereas NBFCs were the biggest receiver of funds, followed by HFCs. Among the major bank groups, PSBs had a net receivable position vis-à-vis the entire financial system whereas PVBs had a net payable position.

In March 2021, AMC-MFs, insurance companies and pension funds recorded increase in their receivables from the financial system while those of PSBs fell marginally. Among the entities which received funds from the financial system, NBFCs and HFCs recorded increases, while payables of PVBs declined y-o-y (Chart-3).

Chart-3 : Net Receivables (+ve) / Payables (-ve) by Institutions



Source : RBI supervisory returns and staff calculations.

Exposure of AMC-MFs

AMC-MFs maintained their position as the largest net providers of funds to the financial system in terms of inter-sectoral exposures in March 2021. Their gross receivables stood at Rs. 9.84 lakh crore (around 32 per cent of their average AUM) whereas their gross payables were Rs. 0.93 lakh crore as at end-March 2021.

The major recipients of their funding were SCBs, followed by NBFCs, HFCs and AIFIs. Their receivables from SCBs increased in Q4:2020-21 with the revival of banking sector stocks.

Instrument-wise, the share of equity holdings in AMC-MFs' receivables saw a sharp increase in H2:2020-21 as equity markets remained buoyant. The share of long-term debt funding by AMC-MFs fell sharply but recovered moderately during Q4:2020-21. AMC-MFs' holdings of CPs increased over those of CDs as corporates resorted to market borrowings in the low interest rate scenario and the banking system remained flush with liquidity.

Exposure of Insurance Companies

Insurance companies were the second largest net providers of funds to the financial system (gross receivables were at Rs. 6.68 lakh crore and gross payables at Rs. 0.54 lakh crore in March 2021). SCBs were the largest recipients of their funds, followed by NBFCs and HFCs, mainly in the form of LT debt and equity. LT debt mostly comprised of subscription to debt issued by NBFCs and HFCs.

Exposure to NBFCs

NBFCs were the largest net borrowers of funds from the financial system, with gross payables of Rs. 11.69 lakh crore and gross receivables of Rs. 1.86 lakh crore as at end-March 2021. The share of funding by SCBs grew substantially in Q4:2020-21 while that of AMC-MFs and insurance companies dipped.

During Q4:2020-21, the NBFC funding mix saw a decline in the share of LT debt while that of LT loans increased.

Exposure to HFCs

HFCs were the second largest net borrowers of funds from the financial system, with gross payables of Rs. 6.93 lakh crore and gross receivables of Rs. 0.72 lakh crore as at end-March 2021. During Q4:2020-21, their borrowing profile was marked by a higher share of borrowings from SCBs, whereas the shares of AMC-MFs and insurance companies declined. The proportion of fund mobilisation through LT loans grew and that in the form of CPs contracted.

Contagion Analysis

Solvency Contagion Losses for SCBs due to NBFC/ HFC Failure

Banks provide a substantial part of the funding for NBFCs and HFCs which are the largest borrowers of funds from the financial system. Therefore, failure of any NBFC or HFC would act as a solvency shock to their lenders. The solvency losses caused by these shocks can spread further by contagion.

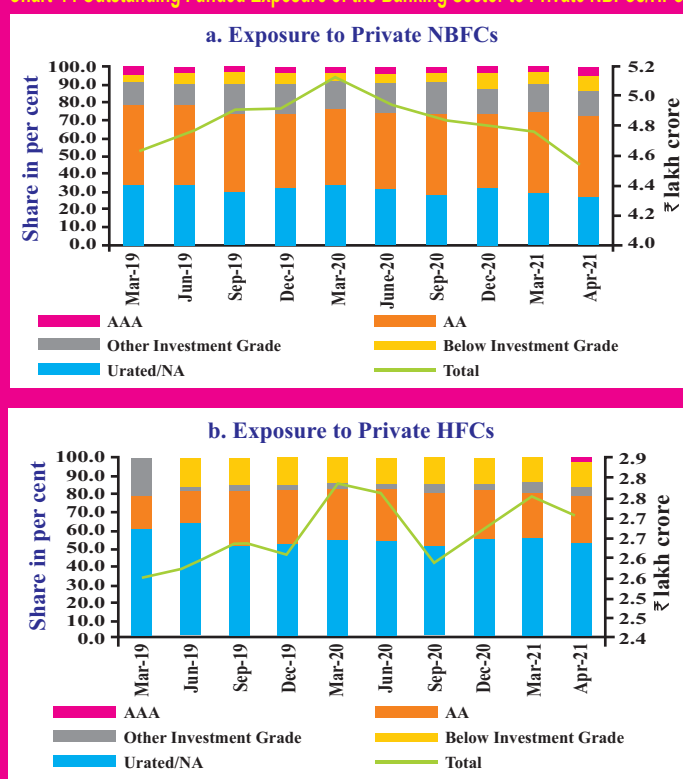
By end-March 2021, idiosyncratic failure of any NBFC or HFC with the maximum capacity to cause solvency losses to the banking system could have impacted banks' total Tier-1 capital by 2.52 per cent and 4.86 per cent, respectively, but would not have led to failure of any bank.

MACROFINANCIAL RISKS

Bank Credit to NBFCs/HFCs

1.81 Banking sector exposure to the NBFCs/HFCs cohort showed contrasting movements during 2020-21. Exposure to private NBFC sector declined whereas lending to private HFCs rose during the last two quarters coinciding with the surge in sale of residential houses during H2:2020-21. In April 2021, however, bank exposure to HFCs too contracted.

Chart-4 : Outstanding Funded Exposure of the Banking Sector to Private NBFCs/HFCs



Source : CRILC and Prime Database

Summary and Outlook

Network analysis throws light on the dominant positions occupied by mutual funds and insurance companies as purveyors of funds and by NBFCs and HFCs as recipients in the financial system. As the inter-bank market continues to contract, amidst abundant liquidity conditions, contagion risks due to failure of banks have ebbed. On the other hand, contagion risks associated with the failure of NBFCs and HFCs remain significant, pointing to the need for continued vigilance to signs of incipient stress. [Extract From Financial Stability Report, July 2021 of RBI related to NBFCs & HFCs]

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CAN BFSI COMPANIES DIGITIZE LEGAL DOCUMENTS?



Shivam Singla
Founder and CEO, Leegality

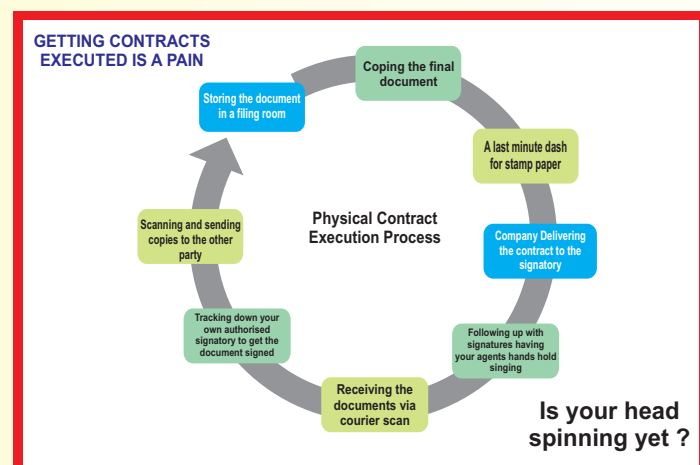
The BFSI industry is one of the key sectors for the country that directly impacts economic growth. The COVID-19 pandemic is catalysing digital transformation across industries, and the BFSI sector should not be left behind. Embracing digitization to its fullest will ensure that this industry can only grow to provide exceptional service to customers.

For BFSI institutions, getting paperwork signed (agreements, forms, declarations etc.) is a critical, and unavoidable, final step to kick-start commercial relationships with customers, partners, vendors, business correspondents and other key stakeholders.

But, while Banks and FIs have digitized most processes (KYC, Origination, Payments, and Customer Support etc.) – digital journeys often hit a roadblock when it comes to getting paperwork signed!

Consider the process for getting even a single document signed – from procuring the right stationary, to buying the requisite stamp papers, to printing and collating the documents, to filling information, to verifying information, to sharing scans, to sending couriers, to running office boys, to getting physical signatures, to verifying signatures & communicating approvals, till safely storing the documents in a physical room/warehouse.

And even once this process is complete – the document can become a pain to track down/retrieve months/years later when it might be needed for enforcement or required for an RBI audit.



For any BFSI organization – this process needs to be repeated many, many times during the course of a single day to keep business flowing. Depending on the size and the nature of the organization, this can easily mean hundreds, thousands and even lakhs of documents a year.

At this scale, paperwork moves from being a mere annoyance – to a terrible drag on business.

Is there a way across this final frontier of digitization?

A path-breaking technology offers BFSI companies a way out

BFSI companies are now, finally, eliminating reliance on paper-based documentation – thanks to a revolutionary technology introduced 6 years back – Aadhaar eSign.

For a long time, acceptable formats of digital signatures in India were limited to USB-token-based electronic signatures. But procuring USB token digital signatures involved a multi-step process and required high tech literacy to operate and use. Such tokens were, therefore, unsuitable for digitizing signatures for 1.3 billion people of our country. Due to this, only a very narrow niche of professionals use token based signatures today (you've probably seen your CA use these unwieldy and clunky devices!)

Aadhaar eSign has flipped the situation on its head.

Introduced in the IT Act in 2015, Aadhaar eSign offers individuals a way to generate legally binding, secure electronic signatures by way of a simple Aadhaar authentication. Now any Indian can affix an electronic signature using only their Aadhaar number and a working

mobile Internet connection!

With Aadhaar eSign enabling a scalable, democratic process for all Indians to sign electronically – BFSI companies were handed a potent tool to remove the first obstacle in the journey to going paperless – the signature.

But taking signatures online is not enough. For complete execution of a document in a compliant way – there are several other steps involved that also need to be digitized.

Here, Indian start-ups have filled the void – innovating various tech tools and processes on top of the Aadhaar eSign layer that have enabled, among other things:

- * digitization of stamp papers
- * alternate modes of electronic signing compliant with Indian conventions
- * enhanced security and storage of documents
- * automated eContract workflows that would not have been possible in a physical journey.

Through these tools, BFSI institutions can now allow entire business paperwork processes to be digitized in a scalable and compliant way.

The developments in the digital documents ecosystem are very similar to the metamorphosis of the payments ecosystem in India – where a government backed technology – UPI – unlocked a torrent of product and solution innovation among Indian fintechs.

So why should BFSI opt for a digitized documentation process?

Quicker turnaround time for financial transactions: Elimination of paper means no need to print, scan, courier or send a runner to collect signatures. Paperwork that needed 7-10 days can now be closed in minutes. Customer relationships can begin faster – quicker sign-ups, speedier account openings, etc.

Easier expansion of financial inclusion: Financial inclusion is driven by micro-credit and micro-transactions however, the cost of servicing these operations often hinders expansion to lesser banked sections of the economy. With digital paperwork reducing latent costs of paper – onboarding processes become cheaper and this in turn reduces the cost of servicing smaller ticket sizes. From a distribution perspective – digital paperwork allows for a more rapid expansion of DSA/Business Correspondent networks in rural areas.

Operational convenience and efficiency: Merely processing the journey of a single agreement (preparing zero-error documentation, secure document lifecycle, safe storage) is a big load on teams. With digital paperwork these touchpoints either get eliminated or become completely automated – allowing BFSI employees to focus on more productive work.

Better legal security: Electronically signed documents are inherently tamper-proof and can be stored safely with multiple backups. They neither face the risk of natural disasters. In fact, our legal system favours digital documentation.

Enhanced customer experience: Perhaps the most important benefit. Digital paperwork allows BFSI institutions to provide 100% end-to-end digital journeys – from KYC to agreement closing. This offers an unparalleled customer experience. Customers no longer need to physically interact with agents to complete paperwork. And in these pandemic times, this also offers customers the safety of transacting without physical interactions.

The BFSI industry is one of the key sectors for the country that directly impacts economic growth. The COVID-19 pandemic is catalysing digital transformation across industries, and the BFSI sector should not be left behind. Embracing digitisation to its fullest will ensure that this industry can only grow to provide exceptional service to customers. [ET BFSI.com, Sept 5. The views expressed and responsibility about it are solely of the author.]

GROWTH EXPECTATIONS OF NBFC SECTOR: ICRA SURVEY

The GoI and the RBI directed funding would be key for the sustainable near-term revival of the sector as the operating environment remains volatile in view of the rise in the infection rates... Non-banks would require about Rs. 2.0 trillion of additional funding in FY2022.

Growth expectations of lenders have moderated compared with the earlier survey done in December 2020 by ICRA. 42% of the issuers now in June 2021 expect growth of more than 15% in the AUM in FY2022. The analysis presented is based on the aggregate results of ICRA's survey in June 2021 of 65 NBFCs/HFCs/MFIs, constituting ~60% of the industry AUM (excluding NBFC-IFC and NBFC-IDF).

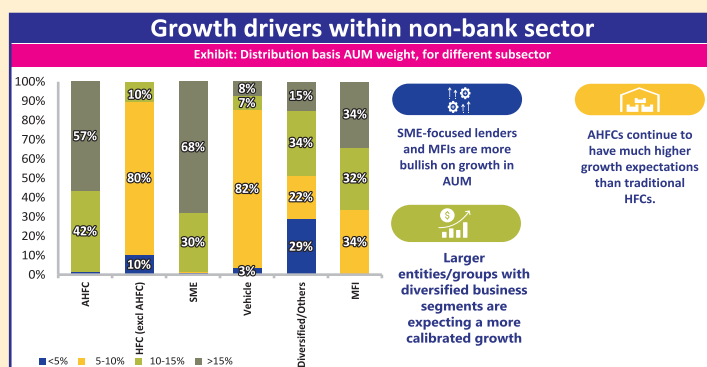
RESULTS IN NUTSHELL:

- 83% of the overall issuers are expecting credit costs to either remain stable or to increase in FY2022 compared with FY2021, thus reflecting the expectation that asset quality stress will continue.
- 70% of the overall issuers are expecting the reported GNPA/Stage 3% ratio as of the end of March 2022 to remain stable or increase from the March 2021 levels. However, a divergent trend is seen within subsectors; 86% of the HFCs expect reported numbers to remain largely stable while 67% of the MFIs are expecting a decline in the reported numbers.
- 55% of the issuers expect restructuring to still be contained within less than 2% of AUM, though a sizeable 26% expect 2-4% of the AUM to get restructured in FY2022, which is higher than the earlier survey expectations. Vehicle financing NBFCs expect much higher restructuring.
- Over 70% of the issuers feel that GoI/RBI support (like last fiscal) would be required this year as well. More impacted sector such as MFIs, vehicle financing NBFCs, and wholesale lending NBFCs are keener on such support compared with HFCs.
- The number of issuers expecting to raise capital almost doubled to 56% this year compared with earlier survey results. Within the sector, the proportion of MFIs expecting to raise capital is much higher than HFCs and NBFCs, possibly to take care of higher credit costs.
- 80% of the issuers are expected to maintain or increase on-balance sheet liquidity to take care of market volatility. Further, despite the pressure in the operating environment, 94% of the issuers expect higher or stable profitability in FY2022 vis-à-vis FY2021.

Growth Expectations of NBFC Sector :

Within the set, MFIs are more bullish on growth compared to HFCs. Relatively larger players expecting modest growth of 5-10%, leading to overall industry growth of 7-9%.

- Moderation in growth expectations seen across category of non-banks possibly due to the impact of Covid 2.0 on business in Q1 FY2022.
- Lenders expecting growth to pick up in remainder of FY2022, leading to overall higher growth compared to FY2021.
- Smaller-size entities expected to grow at a much higher rate owing to the base effect.



ICRA's Observations from Restructuring 1.0

- The overall restructuring by non-bank finance entities in FY2021 was significantly lower than previously anticipated (4-6% of AUM in January 2021).
- The overall restructuring by non-banks is estimated at 1.6% of the AUM as of March 2021.
- NBFCs and small-sized entities witnessed higher restructuring in FY2021.
- Almost 85% of the restructured portfolio for these non-banks has 3-12 months moratorium, thus asset quality of this book would only be visible by Q3FY2022.
- Overall, only 1% of restructured AUM had moratorium greater than 12 months. Thus, the entire set could be eligible for further restructuring under restructuring 2.0.

Segments Expecting Higher Restructuring:

- Vehicle, SME and MFI portfolios expecting higher restructuring.
- Segments such as MFIs, SME lending and vehicles expected to undergo

larger share of restructuring compared with industry average.

- In line with the trend seen in FY2021, HFC portfolio likely to remain largely resilient.

Expectations on Credit Costs

- Overall, 18% (by number) and 13% (by AUM weight) of the respondents are expecting a further increase in credit costs in FY2022.
- In line with the expectations on higher gross Stage 3 and higher restructuring expected for SME-focused non-banks and MFIs, the credit costs for these lenders are also expected to increase further in FY2022.

While HFCs are expecting to maintain the credit costs at FY2021 levels, credit costs are still expected to be higher than the pre-Covid levels.

Capital raise plans in FY2022

More issuers are looking at raising capital in FY2022. About 56 % of Issuers are planning to raise capital compared to only 28% in previous year.

- 25% of Affordable HFCs could raise capital to fund higher growth projections.
- 37% of NBFCs likely to raise capital for both growth as well as confidence capital.
- 64% MFIs would need capital for growth and for strengthening the balance sheet to withstand higher credit losses.

Maintenance of Liquidity buffers to withstand market volatility- Expectations

Expectation of on-balance sheet liquidity (as a % of AUM) as of FY2022 vis-à-vis		Expectation of on-balance sheet liquidity (as a % of AUM) as of March 2022 vis-à-vis	
September 2020		March 2021	
Survey Dec. 2020		Survey June 2021	
Maintain	41%	59%	
Decrease	31%	20%	
Increase	28%	21%	

ICRA's View: Liquidity and capital are adequate

- Entities were maintaining liquidity to cover more than 3-months of debt repayments (without factoring any collections) for a major part of the last fiscal.
- Considering the emerging uncertainties because of Covid-19, which could affect their near-term collections and fresh debt raise, ICRA expects the liquidity. Profile to be maintained with adequate buffer to give comfort to various stakeholders. Non-banks would require about Rs. 2.0 trillion of additional funding in FY2022.

The extension of the on-tap Targeted Long-Term Repo Operations (TLTRO) scheme and the priority sector lending (PSL) status of lending to NBFCs for on-lending to specific segments would support the credit flow to the sector. The GoI and the RBI directed funding would be key for the sustainable near-term revival of the sector as the operating environment remains volatile in view of the rise in the infection rates.

- Capitalisation of non-banks is expected to remain adequate, considering the low growth expectations, although internal generation is muted.

Expectation of improved profitability on the back of business growth

- Most non-banks are expecting an improvement in the return indicators in FY2022, supported by business growth, expectation on improvement in margins and controlled credit costs.
- Some mid-sized non-banks expect lower profitability owing to higher credit costs.
- Earnings to remain under pressure (around 30% below the pre-Covid level and similar to FY2021) in FY2022 as growth is expected to remain below historical trends while the cost of funds is expected to increase and credit costs are expected to remain high as write-offs are likely to remain high.

High expectation of continued GoI/RBI support*

Mid-sized entities and non-banks lending to the relatively more impacted sectors such as MFIs, vehicle loans, SME and small HFCs believe Government/RBI directed liquidity/funding support should continue in the current fiscal. [*It is pertinent to note that RBI had extended "On-tap TLTRO scheme till December 31" in August and Finance Ministry has widened scope of ECLGS on May 30 till Sept. 30]

ICRA's Sector Outlook for 2022:

Entities were maintaining liquidity to cover more than 3-months of debt

repayments (without factoring any collections) for a major part of the last fiscal.

- Considering the emerging uncertainties because of Covid-19, which could affect their near-term collections and fresh debt raise, ICRA expects the liquidity profile to be maintained with adequate buffer to give comfort to various stakeholders. Non-banks would require about Rs. 2.0 trillion of additional funding in FY2022.
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- Capitalisation of non-banks is expected to remain adequate, considering the low growth expectations, although internal generation is muted. [NBFC – Retail & Commercial Finance, July 2021 Survey by ICRA, [https://www.icraresearch.in/research/View Research Report/3807-Edited and abridged. Some sub headings are added.](https://www.icraresearch.in/research/View%20Research%20Report/3807-Edited%20and%20abridged%20Some%20sub%20headings%20are%20added%20.)]

[Continued from page-1]

Comfortable liquidity

Liquidity cover at a number of NBFCs has improved from a year ago, putting them in a better position to service debt in the near-term, and cushioning the impact of lower collections because of the second wave, said a CRISIL Ratings study. That is a change from last year when asset-quality and liquidity fears multiplied after a moratorium on repayments and stringent lockdowns affected collections.

Fund-raising through special RBI and government schemes, improving collections in the second half of fiscal 2021, and limited disbursements are some of the factors that supported liquidity.

In the first half of last fiscal, nearly 45 per cent of the funds raised via bonds were through schemes announced following the first wave of the pandemic, such as the targeted long-term repo operations and partial credit guarantee. Even NBFCs that did not have strong parentage managed to raise close to 60 per cent of their incremental bond funding through these routes.

This apart, in the fourth quarter, debt market borrowings also began to rebound. Bond and commercial paper issuances in March 2021 saw the highest on-month rise since January 2020. Even bank funding improved to nearly seven per cent during January-March 2021. With collections picking up and disbursements subdued, liquidity was bolstered.

"Most CRISIL rated NBFCs have built significant on-balance-sheet liquidity. This will allow them to manage the impact of the second wave of the pandemic better than the first. Nevertheless, business challenges linked to the pandemic will continue through most of this fiscal. In this milieu, we expect many NBFCs to continue maintaining strong liquidity cover for debt repayments and operating expenses. That would also help them assuage potential investor/ lender concerns in the near term," said Krishnan Sitaraman, Senior Director and Deputy Chief Ratings Officer, CRISIL Ratings, in the study. [Business Line, Aug. 16]

"Non-banks' collections picked up in June 2021 and further increased in July 2021," said a report by Kotak Institutional Equities, adding that early trends in the second quarter are encouraging, though there may be wide variations in the pace of recovery.... Data with the National Payments Corporation of India from the National Automated Clearing House (NACH) reveals that the number of unsuccessful auto-debit requests in July was at its lowest level this fiscal year. [Business Line, Aug. 17]

With the implementation of the insolvency law, the days of feudalism of corporate debtors where they had considered it their divine right to be in control are gone. Feudalism is never ever good, but feudalism in a capitalistic system I think is possibly the worst.

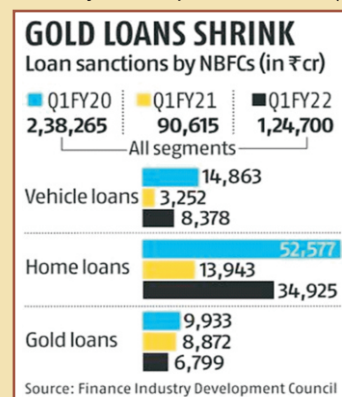
- KV Subramanian, Chief Economic Adviser

NBFC LOANS REPORT STRONG 37.6% GROWTH, BANKS STILL ON SINGLE-DIGIT

- Abhijit Lele

Reflecting a gradual pick-up in activity, finance companies reported a strong 37.6 per cent growth in sanctions in categories like vehicle loans, housing loans and loan against shares (LAS), among others, at Rs 1.24 trillion in Q1 (first quarter) of FY22 compared to Rs 90,615 crore in Q1 of FY21.

The scale of sanctions was still way below the Q1 numbers of FY20, which stood at Rs 2.38 trillion, according to data by the Finance Industry Development Council (FIDC).



This implies that the economy is trudging back to a laboured recovery, but is far away from the pre-pandemic normalcy, a concern that the Reserve Bank of India (RBI) has been stressing time and again to continue with its accommodative stance till signs of durable growth emerge.

However, the data also point to green shoots in the retail space, which for long has been the engine of credit growth in the system. But the pandemic has pushed up bad debts in retail segment as well, forcing banks to

cut back on lending. NBFCs may have stepped in to fill the void, the perk up in lending suggest.

Contrary to the growth in NBFC segment, banking system credit was anemic, rising at mid-single digit at the end of Q1. Only in Q2, the credit growth has picked up pace somewhat, but still in single digits. Banking system credit grew just 6.7 per cent year-on-year on August 27, which is better than last year's 5.5 per cent growth, but still far lower than how the retail-focused NBFCs are expanding their credit books.

This is because large corporate firms are deleveraging, while they are also not investing more because of the slack in capacity utilisation, Reserve Bank of India (RBI) Governor Shaktikanta Das said on Thursday.

However, FIDC also cautioned that the sharp rise in NBFC credit growth is because of a low base, and may not adequately reflect growth in the sector. Effect of the curbs imposed to contain the spread of the pandemic in Q1 was less severe than steps taken in April-June 2020 when economic activity almost came to a grinding halt.

Loans to individuals for purchasing vehicles showed a robust comeback in April-June 2022 (Q1 of FY22) with 157.6 per cent growth in sanctions at Rs 8,378 crore from Rs 3,252 crore in Q1 of FY21. The activity level was much higher during the pre-pandemic period with sanctions in the region of Rs 14,863 crore during April-June 2019 (Q1 of FY20).

The housing loan segment also saw strong business with sanctions rising by about 150 per cent to Rs 34,925 crore in Q1 of FY22 against Rs 13,943 crore in Q1 of FY21. The slew of rebates in duties, lower interest rates and processing fee waivers along with discounts have partly contributed to the demand for housing loans, NBFC executives said. The sanctions in April-June 2019 were higher at Rs 52,577 crore.

Showing the effects of a buoyant stock market and slew of initial public offerings (IPOs), sanctions on LAS vaulted from Rs 461 crore in Q1 of FY21 to Rs 1,334 crore in Q1 of FY22. The sanction was about Rs 668 crore in Q1 of 2019-20. [Business Standard, Sept. 11]



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OVER 9,000 NBFCs GET A NEW FINANCING MARKET AS GOVERNMENT OPENS FACTORING GATES

- Nirmala Sitharaman



Parliament on July 29 passed the Factoring Regulation (Amendment) Bill, 2021, to bring changes in the legislation aimed at helping the MSME sector. "It is a very important Bill which will benefit the MSMEs of this country because a difficulty is constantly expressed by the MSME that

their receivables are getting delayed.

Finance Minister Nirmala Sitharaman said the amendments will help the MSMEs. **"Presently, there are only seven NBFCs which can extend this factoring benefit for MSMEs. Now by amending the Act, we will bring in 9,000 NBFCs — all of them can reach MSMEs," Sitharaman said.** Currently, seven non-bank finance companies called NBFC factors do the majority of the factoring through the principal business condition. These are Canbank

Factors, India Factoring and Finance, SBI Global Factors, Siemens Factoring, Bibby Financial Services, IFCI Factors and Pinnacle Capital Solutions.

"As a result, there is a provision of selling their receivables to a third party. If the third party is going to make an immediate availability of funds, they [MSMEs] shall be able to move their business smoothly. There are several such advantages in factoring from payment of the seller," Sitharaman said. It ensures a smoother working capital cycle for the seller and healthier cash flow for MSME, she added.

Highlighting the role of MSMEs in India, she said their contribution to GDP is very high. "They nearly contribute 40 per cent of all exports also in the manufacturing sector. If they are able to access NBFCs, who can perform as a factoring third party as well, you can imagine the number of MSMEs getting direct benefits because of this," said Sitharaman. ■

Factoring Bill: Will NBFCs Jump In To Solve An Age-Old Financing Problem?

Ridhima Saxena

NBFCs are getting a "golden goose" and they should make best of it. "This brings a lot of comfort to those smaller NBFCs that aren't specialists in invoice discounting." Further, factoring would also give greater power to NBFCs to recover dues from debtors. NBFCs will need to train their risk officers, legal and credit appraisal teams to evaluate and take credit calls for factoring invoices.

Ensuring adequate financing and liquidity for small businesses is a problem India has grappled with for long. Large businesses and even the government delay payments often. Formal finance has left many small enterprises untouched. And small businesses are left walking a tight-rope balancing their production cycles and working capital requirements.

Attempts to solve this problem, via platforms such as TReDS, have seen modest success at best. The government's now hoping the Factoring Regulation (Amendment) Bill, 2021, which permits all non-bank lenders to offer services via trade receivable platforms, will help ease liquidity constraints for small and medium enterprises. The bill, passed on July 27, is based on the recommendations of the eight-member UK Sinha Committee, set up by the Reserve Bank of India to review the financing framework for micro, small and medium-sized enterprises in 2019.

The new factoring law will allow MSMEs to access 9,000 NBFCs for factoring invoices, as opposed to just seven that are currently allowed to do the business, Finance Minister Nirmala Sitharaman said while discussing the bill in Rajya Sabha. The move, she said, will broaden the credit facilities for MSMEs and ensure a smoother working capital cycle.

The law comes at a point when the market is volatile and lenders are wary of giving unsecured or long-term loans to MSMEs, said Aseem Dhru, managing director and chief executive at SBFC Finance Pvt. "But with factoring getting opened up for NBFCs, they can lend short-term funds to MSMEs," Dhru said. "The risk here's lower as the receivables are to be recovered from debtors, who are usually large corporates." It also expands the pool of lenders from which MSMEs can access credit, he said.

"As MSME lending forms a significant portion for NBFCs, the development will give a tremendous boost to supply-chain financing as they will now also be able to participate in the factoring market on the TReDS platform." Raman Aggarwal, Director, Finance Industry Development Council said

'Factoring' the Opportunity: Currently, there are three electronic trade receivable discounting, or TReDS, platforms in India. These include Receivables Exchange of India Ltd., Invoicemart by A TReDS and M1xchange. Using these platforms, small businesses can submit bills for goods sold to larger corporations. Lenders pay small businesses a certain amount upfront, after some discounting, based on the assumption that the larger corporate will make good on

the payment within a certain period of time.

At the end of an agreed period, which can be anywhere between 30-180 days, the platform collects the dues from the large corporate and settles the same with the lender. For receivables acquired under factoring, however, if the lender doesn't get repaid within 90 days of the due date the credit is treated as non-performing.

Invoice Discounting: To be sure, invoice discounting is slightly different from factoring as it allows the financier or factor, which could be a bank or NBFC, to take the ownership of receivables at a discount from the assignor or the vendor. The factor then collects the payment from the debtor or the company that owes the money to the vendor.

Factoring is superior to invoice discounting, said Sundeep Mohindru, chief executive officer at M1Exchange. "It ensures MSMEs have healthier cash flows as delays in receivables and the onus of collection is transferred to the financier, while the financier also has greater comfort as it takes charge of receivables," he said. According to Mohindru, NBFCs are getting a "golden goose" and they should make best of it.

"NBFCs can access a host of invoices from large corporates on the platform and offer factoring based on their risk appetite, while collections of receivables is facilitated by TReDS....With all limitations for doing invoice discounting gone, they need to only worry about giving the best rate for invoices". Sundeep Mohindru, CEO, M1Exchange

Manish Lunia, co-founder of FlexiLoans.com, an SME-focused NBFC that specialises in supply-chain finance, agreed that the opportunity is large and added the TReDS platform will give greater comfort to financiers. "Linkage to MSME documentation, the authenticity of documents, linkage of GST and e-invoicing, these are some of the many benefits of using TReDS," he said. "This brings a lot of comfort to those smaller NBFCs that aren't specialists in invoice discounting." Further, factoring would also give greater power to NBFCs to recover dues from debtors. "Factoring gives a lot of powers to the financier to recover the loan, which was earlier not there with bill discounting," he said. "In bill discounting, our customer was the vendor, but with factoring I assume the rights to recover from the larger corporate, which was earlier not allowed." FlexiLoans.com looks to increase its disbursements towards invoice discounting from Rs 40 crore a month to Rs 100 crore by the end of this calendar year. "About half of our supply chain financing could

happen through factoring.”

The move also benefits NBFCs with no experience of supply chain finance to enter the business. For instance, SBFC Finance, Dhru said, will now look to enter the factoring market, expanding its current suite of lending products. “The basic problem of factoring has been that the RBI insisted that factoring should be done via NBFCs that have 50% of their income coming from factoring. This was a big roadblock that has now been removed,” he said. “Presently, we are not doing supply chain financing, but are looking at this opportunity.”

Pricing: A Key Determinant: Even as TReDS provides a ready platform for NBFCs to start the factoring business, the business may not be lucrative for small and mid-sized NBFCs if the invoices are not priced appropriately. “As the market has so far remained dominated by NBFC Factors (the seven NBFCs that were earlier allowed to do the business) and banks, the pricing of invoices usually ranges between 8-12% per annum for nearly 70% of all factoring arrangements on TReDS,” said Lunia. This rate is lower than the existing cost of funds for most small and mid-sized NBFCs, he said. However, if this pricing, or simply put the rate of discounting, improves to 12-16% per annum, there is a clear opportunity, Lunia said. Agreed Dhru. In factoring, the risk is priced based on the quality and size of the debtor, he said. “Small and mid-sized NBFCs may want to target demand coming from debtors who are MSMEs or lower-rated corporates, and the pricing will need to reflect the higher risk”

Further, for a wider range of NBFCs to participate, the TReDS platform will also need to widen the base of debtors on its platform. TReDS will need to provide a wider range of MSMEs and on-board more NBFCs. The amendment to the Factoring Act has released supply, and the platform will now need to bring in a wider range of invoices that can be negotiated. It is a mix of these two that will ultimately grow the factoring business. Aseem Dhru, CEO, SBFC Finance

Besides, small and mid-sized NBFCs will also need to evolve their systems to do the factoring business, Mohindru said. “Factoring is essentially a short-term credit line of 60-90 days,” he said. “So, it’s a very fast rotation paper. NBFCs will have to learn how to do the business by upgrading their infrastructure and software systems to suit the requirement.”

Therefore, NBFCs will need to train their risk officers, legal and credit appraisal teams to evaluate and take credit calls for factoring invoices. “While most large NBFCs are prepared and may go live in two-weeks to a month, small and mid-sized ones may take much longer,” said Mohindru. [Courtesy: Bloomberg, Aug. 4]

The factoring business needs a further push

The essential aim of the amendments is to enhance NBFC participation in the sector. NBFCs with no prior footprint in the factoring business can register as factors with the Reserve Bank of India.

However, the TReDS system, which began in 2017, has not exactly made waves, having discounted invoices just above Rs.15,000 crore from 25,000 MSMEs so far. The non-TReDS factoring services to MSMEs are estimated at four times this figure. However, all this is just a drop in the ocean, as far as the credit needs of MSMEs are concerned. MSMEs, which account for 45 per cent of manufacturing output and 40 per cent of exports, accessed just 6 per cent of outstanding gross bank credit of Rs.100 lakh crore (Rs. 6 lakh crore) and under a fifth of advances to industry

(Rs. 31 lakh crore) as of September 2020. For factoring to emerge as a viable form of finance to MSMEs, deeper ecosystem changes are required. The TReDS platform, like the formal banking system, is unable to reach out to suppliers and buyers who are not at the top of the ratings pyramid. Factors are unwilling to discount bills owed by a less than A-rated entity in the absence of trade credit insurance. It is precisely these entities, with their shaky liquidity which need to be a part of the factoring universe. At present they are more in the non-TReDS segment. The IRDA, which issued trade credit insurance guidelines in April, needs to ensure early implementation. There is also a lack of awareness among MSMEs regarding factoring services, particularly with respect to exports. As for fostering competition in factoring, NBFCs cannot readily compete in costs with banks.

For factoring to work for MSMEs, the buyer must pick up the tab. TReDS must become the dominant factoring vehicle. Finally, factoring services have to be priced competitively for MSMEs which cannot access bank credit easily. [Editorial: Business Line, Aug. 4]

Major Amendments Incorporated in the Bill

The Factoring Regulation (Amendment) Bill, 2020, seeks to broaden the participation of entities in the factoring business, thus expanding the avenues of working capital credit to even small businesses. It also relaxes restrictive provisions in the extant law and empowers the central bank to come out with norms for better oversight of the \$6-billion factoring market.

The new Bill seeks to allow all NBFCs, instead of a select few, to engage in the factoring business. The factoring Bill also seeks to amend the definitions of “assignment”, “factoring business” and “receivables”, to bring them in sync with international definitions, and to insert a new definition of “Trade Receivables Discounting System”.

India is way behind comparable developing economies

Despite growth in recent years, the factoring market accounts for only 0.2% of India’s GDP, way behind comparable developing economies such as Brazil (4.1%) and China (3.2%). In India, factoring credit makes up for only 2.6% of total formal MSME loans, way below 11.2% in China. Mature factoring markets, more specifically Europe, continue to dominate the factoring market, accounting for 68% of global factoring. The factoring market worldwide is projected to reach \$9.2 trillion by 2025. Parliament passes Factoring Regulation (Amendment) Bill; to help expedite MSME payments. [FE Bureau, July 29]

The Finance Ministry also plans to make it mandatory for CPSEs with a turnover of over Rs 250 crore to register on the TReDS platform

The Factoring Regulation (Amendment) Act 2021 passed by the parliament last week throws a big liquidity lifeline to credit-starved MSMEs and brings a huge number of NBFCs into the trade receivables business. The Act has opened up the factoring market for 9,500 NBFCs from the current seven allowing them to tap a vast pool of business that’s currently unavailable to them.

The Finance Ministry also plans to make it mandatory for CPSEs with a turnover of over Rs 250 crore to register on the TReDS platform. As of December 2020, of 4,599 companies having turnover of more than Rs 500 crore, 1,461 companies have registered themselves on the TReDS platform. 170 CPSEs and 3,903 MSMEs registered with these CPSEs have also been on-boarded on the platform. Totally, 11,690 MSMEs have on-boarded. [ETBFSI Aug. 03]

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VEHICLE SCRAPPAGE POLICY IS A SIGNIFICANT MILESTONE IN INDIA'S DEVELOPMENT JOURNEY: PRIME MINISTER MODI



PM Modi launched Vehicle Scrappage Policy



Nitin Gadkari at Investors Summit, Gandhinagar

“Vehicle scrapping will help phase out unfit and polluting vehicles in an environment friendly manner. Our aim is to create a viable circular economy and bring value for all stakeholders while being environmentally responsible.” Narendra Modi, PM said on Aug. 13 while launching National Automobile Scrappage Policy during the ‘Investors Summit for setting up Vehicle Scrapping Infrastructure’ in Gandhinagar, Gujarat.

Both the Kandla port in Kutch and Alang ship-breaking yard in Bhavnagar can play a crucial role in realising India's dream of becoming the scrap recycling hub of entire South-East Asia. There is no scrapping infrastructure in our neighboring countries. If that happens, scrap material from all over the world would come here for recycling: Nitin Gadkari

OPPORTUNITIES GALORE:

WHAT NITIN GADKARI SAID AT INVESTOR'S SUMMIT ?

- ▶ Cheap raw material acquired from scrapped vehicles would bring down the price of vehicles and boost their sales, thereby raising GST collection
- ▶ This policy of scrapping unfit vehicles is beneficial for all the stakeholders. It will boost manufacturing, create employment and increase our savings.
- ▶ Cost of new vehicles will also come down as the scrap would provide copper, aluminum, steel, plastic and rubber to the industry. If we recycle on a continuous basis, we can recover 99 per cent of the materials. As per an estimate, this will lead to a reduction of 40 per cent in the raw material cost, which will lead to reduction in prices and higher sales.
- ▶ As per an estimate, states as well as the Centre's GST income would increase by Rs 30,000 to Rs 40,000 crore each once the sale of vehicles picks up.
- ▶ Government also wants investors to start fitness centres in each district under the Public Private Partnership model.

WHAT PRIME MINISTER URGED:

- ▶ Setting up vehicle scrapping infrastructure opens a new range of possibilities. I would request our youth and start-ups to join this programme.
- ▶ The policy intends to create scrapping infrastructure in the form of Automated Testing Stations and Registered Vehicle Scrapping Facilities across the country.
- ▶ The vehicle scrappage policy will bring in investments of around Rs 10,000 crore.
- ▶ The vehicle scrapping will help to phase out unfit and polluting vehicles in an environment-friendly manner.
- ▶ “This policy will deeply benefit our middle class,” A certificate will be issued on the scrappage of old cars. It will ensure that these people get discount on buying new cars and benefit on taxes.
- ▶ Modernity in mobility not only reduces the burden of travel and transportation, but also proves helpful for economic development.

NITTY-GRITY OF SCRAPPAGE POLICY ELUCIDATED

- Avishek G Dastidar

India's vehicle scrapping policy, unveiled in March, has now been launched. A look at how owners of old vehicles should test for fitness, and why such a policy is important for the economy and environment:

Why scrap old cars, and how?



INVESTORS' SUMMIT AT GANDHINAGAR, GUJARAT ON AUG. 13

Under the policy, personal vehicles over 20 years old are marked for scrapping if they fail a fitness test.

The launch of India's vehicle scrapping policy, or the “Voluntary Vehicle-Fleet Modernisation Programme”, seeks to usher in a new age of what it means to own and use an automobile in India. It was

unveiled in Parliament in March by Road Transport & Highways Minister Nitin Gadkari.

On Aug. 13, while launching the policy in an investor summit in

Gujarat, Prime Minister Narendra Modi said it would help phase out unfit and polluting vehicles in an environment-friendly manner. “Our aim is to create a viable circular economy and bring value for all stakeholders while being environmentally responsible,” he said.

The policy dictates that all automobiles over a certain age should be off the roads in the interest of better pollution control and safety, which new vehicles ensure. Commercial vehicles over 15 years old and personal vehicles over 20 years old are marked for scrapping — it doesn't matter if they run on diesel or petrol — if they fail an automated fitness test. These will be deregistered; the owner can choose to scrap them, but cannot use them on the road.

What is a circular economy?



A circular economy depends on reuse, sharing, repair, refurbishment, remanufacturing and recycling of resources to create a closed-loop system, minimising the use of resources, generation of waste, pollution and carbon emissions.

When a car is scrapped, apart from metals including iron and steel, many other parts may emerge that can be refurbished and ploughed back into use. Recycled steel from scrap, even seats and plastic parts, have value in the scrap economy. It is similar to the economic activity of scrappage of old ships, like in Alang shipbreaking yard in Gujarat.

In a circular economy, products, materials, equipment and infrastructure are kept in use for longer, thus improving productivity.

How many vehicles will come under its ambit initially?

India has 51 lakh light motor vehicles that are more than 20 years old and 34 lakh over 15 years old. Around 17 lakh medium and heavy commercial vehicles are older than 15 years without valid fitness certificates, according to data with the Ministry of Road Transport and Highways.

This does not mean that vehicle owners need to rush to scrap their old vehicles. India is still not ready with the infrastructure to either test or scrap vehicles in such large numbers. The investor summit seeks to sensitise India's industry about the scope and profitability of the scrappage industry. Gadkari had told Parliament in March that the resultant ecosystem can attract investment worth Rs 10,000 crore and create 35,000 new jobs.

When is the implementation happening?

The government has come out with rules and specifications on what kind of Automated Fitness Centres should come up and who can set them up. It has also come up with how the scrapping yards should be. It will give India Inc time to come up with an ecosystem wherein testing and subsequent scrapping can happen organically without the consumer facing duress.

That is why mandatory testing of heavy commercial vehicles will start in April 2023, and that of other categories of vehicles — personal vehicles, for instance — will start, in a phased manner, in June 2024. There are talks within the government to alter the rollout plan by a few months.

Why should I scrap?

To help vehicle owners find a reason to retire old vehicles, the government envisages that the scrappage certificate will entitle the

owner with something extra, such as a tax rebate, sops, and a discount on the new car. The certificate is tradable, which means it can be used by anyone and not necessarily by the owner of the scrapped vehicle.

Does it help the economy?

Globally, a scrappage policy has been followed by boost in demand in the auto manufacturing sector, especially in Europe and the US. This has also been a tool to deal with economic slowdown in the manufacturing sector and consumption due to recession. Besides, there are spelt-out benefits vis-à-vis environment since newer cars come with better emission standards and better fuel efficiency.

What if an old personal vehicle passes the fitness test?

In that case, the owner can continue to use it, but the charges for reregistration will be much steeper. In a draft notification issued in March, reregistration charges of all vehicles have been proposed to be hiked from eight to around 20 times, depending on the type of vehicle. These charges will kick in from October this year. Personal vehicles, for instance, are up for reregistration after they have completed 15 years.

What will the fitness centres be like?

Automated Fitness Centres will have tracks and equipment suitable to test for various criteria such as emission norms, braking and other parameters, without human intervention. The Ministry has requested states to consider providing land for free for these centres.

Market demand will drive the number and concentration of fitness centres in an urban area. For example, Delhi with its huge vehicle fleet may have more fitness centres than a city with much fewer cars. But the government wants at least 718, or one in each district. The Centre is promoting model Inspection and Certification Centres worth Rs 17 crore in all states. It has sanctioned 26 such model centres. The Centre does not want these facilities too far from city centres, so that vehicle owners do not have to travel great distances. As for scrapping centres, the Ministry has elaborated how these will be operated. These are not exactly new in India. Notably, MMRPL, a joint venture between Mahindra and state-owned MSTC Limited, is one of the first such centres in India, operating out of Greater Noida. [Indian Express, Aug. 14, 2021]

Tata Motors ties up with Gujarat govt to set up vehicle scrapping centre

Tata Motors has signed a memorandum of understanding (MoU) with the Gujarat government through the ports and transport department. The scrappage centre, which will be for both passenger and commercial vehicles, will have a capacity of recycling up to 36,000 vehicles a year. Tata Motors will set up the scrapping centre in association with a partner at Ahmedabad, it added. [Business Standard, Aug. 13]

The eco-system is critical for policy on scrapping

Scrappage plan has sops for buying new vehicles, pain for driving old ones

The official launch of a vehicle-scrapping programme, the broad provisions for which were announced in March this year, by the prime minister at a business summit in Gujarat reflects its significance. It aims to fulfil the multiple mandate of stimulating the economy by stoking demand for new vehicles as many western economies did after 2008 and of reducing vehicular pollution in Indian towns and cities. On paper, the policy, otherwise known as Voluntary Vehicle Fleet Modernisation Programme, has the potential to achieve both aims.

First, it sets specific start dates for the programme: April 2023 for heavy commercial vehicles over 15 years old and June 2024 for private vehicles more than 20 years old. All vehicles over this age have to be off the road if they fail an automated fitness test. After that, they will be deregistered, which means they cannot run and the owner can choose to scrap them. The government policy has designed “nudge” incentives to encourage owners to scrap their “end-of-life” cars in the form of a break on registration charges on new vehicle purchases, a lower goods and services tax, a road tax rebate of up to 25 per cent for a new private vehicle, and 15 per cent for a commercial vehicle. At the same time, the policy seeks to disincentivise ownership of old vehicles that do pass the fitness test

by imposing steep re-registration charges — road tax plus a green tax.

These sound intentions, however, are predicated on the fulfilment of several conditions, none of which can be taken for granted. The first is that the Motor Vehicles Act falls in the Concurrent List of the Constitution, so some of the tax breaks embedded in the policy will require the cooperation of the state governments, which levy annual or lifetime taxes on motor vehicles, and it is as yet unclear whether states are on board. Second, the country lacks the necessary eco-system, in the shape of automated fitness centres or sufficient scrapping centres. The government wants at least 718 fitness centres (i.e. one in each district) and has sanctioned 26 model centres at a cost of Rs 17 crore. Here, too, the cooperation of the states would be necessary. The creation of large-scale scrapping centres may be uncertain, too. Though a vibrant raddi industry exists for old vehicles, it is largely unorganised and piecemeal. An organised business linked to the policy will require large-scale logistics and real estate, which could limit the business to larger enterprises rather than micro, small, and medium enterprises.

Of course, such centres are likely to have a ready business at hand by 2023-24. The government data shows that there are 5.1 million light motor vehicles more than 20 years old and 3.4 million over 15 years old. Another 1.7 million medium and heavy commercial vehicles ply without fitness certificates. For the policy to work, it is critical for the government to come up with clear incentives for scrapping centres so that they are up and running before the policy comes into effect. Without these, the policy, which has the potential to generate a decent level of unskilled-level employment, will end up like the e-vehicles policy, where the lack of recharging centres has constrained the expansion of the industry. The proof of this policy, therefore, will lie in the detail. [Business Standard Editorial Comment, August 15]

[Continued from Page-5]

Emergency Credit Line Guarantee Scheme (ECLGS) by 50 percent to Rs 4.5 lakh crore to help small businesses get credit at concessional rate.

What is the likely impact and likely benefits?

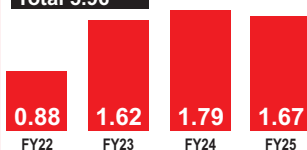
Experts, industry office bearers, bankers opine about this welcome decision for inclusion of Retail and wholesale traders in MSMEs:

- This will enable traders to get access to much-needed capital having been impacted greatly due to the COVID19 pandemic. Several measures announced for the MSME sector over the past year will now be applicable to retail and wholesale traders as well.
- This move is also likely to enable smaller retailers and traders to avail of the Resolution Framework for COVID-19-related stress announced by the Reserve Bank of India wherein MSMEs with aggregate exposure of up to Rs 25 crore and classified as standard as of March 31, 2021, can avail of this restructuring scheme without being downgraded to another category of asset.
- Currently, 95 percent of the retail industry in the country is MSMEs and this move is set to benefit 13-14 million retailers in India.
- It will have a structural impact for the sector, helping it get formalized by giving better finance options for businesses that want to get structured. It will give retail MSMEs the support they need to survive, revive and thrive.
- The move has an immediate impact on smaller retailers with businesses up to Rs 250 crore of turnover in availing immediate-term finance as part of various schemes announced under Atmanirbhar Bharat.
- The covid pandemic affected traders will now be able to restore their businesses by obtaining necessary finances from the banks which were earlier denied by the Banks.
- The sector has Rs 6 lakh crore banking sector exposure and classification of this under MSME guideline is positive in terms of getting additional loans and also it eases from restructuring point of view which is the need of the hour.
- MSMEs, which self-certify their existence by registering on the government portal, are eligible for a wide variety of benefits ranging from interest rate subsidy on bank loans, to exemption under direct tax laws and concession in electricity bills, among others.

MONETISATION TARGET

Figures in ₹ trn

Total 5.96



Source : NMP, Niti Aayog

KEY SECTORS

Sector/Assets

Aviation
25 airports, AAI stake
in pvt airports

Roads

26,700 km

Power generation 6.0 Gw
hydel & solar assets

Coal mining

160 projects

Natural gas pipeline

8,154 km

Telecom

2,86 lakh km fiber;

14,917 towers

Nirmala

Sitharaman,

Finance

Minister

Warehousing assets

210 lakh MT

Railway stations

redevelopment

400 stations



FM announces plan to monetise assets, realise Rs 6 trillion till 2024-25

Finance Minister Nirmala Sitharaman on August 23 announced a pipeline of assets the government is looking to monetise to collect about Rs 6 trillion to partly fund its ambitious infrastructure projects over four years ending 2024-25. About Rs 88,000 crore will be realised through asset monetisation in the current financial year. FM, however, clarified that the ownership of all these assets would remain with the government, and there would be a mandatory hand-back of assets after a certain time period. "So, the government is not selling away these assets," she said.

The National Monetisation Pipeline (NMP) will constitute 14 per cent of the Centre's share of Rs 43.29 trillion in the National Infrastructure Pipeline (NIP). Global players such as Blackstone, Blackrock, and Macquarie have shown interest in participating in the

monetisation process.

"By bringing private participation, we will be able to monetise these assets better and resources obtained through monetisation would be used for putting further investment into infrastructure building," she added. [Business Standard, Aug. 24]

FinMin exploring insurance bonds as alternative to bank guarantees

The government is considering to introduce insurance bonds as an alternative to bank guarantees, Finance Secretary T V Somanathan said at Mumbai on August 24 during a meeting between industry captains and Finance Minister. "Government is exploring on instituting insurance bonds as alternatives to bank guarantees," an official statement said.

Bank guarantees are usually asked for while extending a loan and typically require a collateral. An insurance bond is also a surety but it does not require any collateral. As per reports last year, insurance regulator Irdai was also looking at the option of insurers offering surety bonds in the context of road projects.

The economy is moving gradually from a bank-led lending model to a more market-based finance model and the operationalisation of the Development Finance Institution (DFI) will ensure long-term lending for projects, finance minister Sitharaman said. The DFI will increase competition for banks and also improve their efficiency; the statement quoted her as saying. [Business Standard, Aug. 24]

Govt mulls automatic admission of IBC cases to cut delays in resolutions

Looks to strengthen information utility system to decide on default; move may cut delays in resolution of cases that lead to value erosion and higher haircuts.

As delays plague Insolvency and Bankruptcy Code proceedings leading to value erosion of assets, the government is mulling to make the admission process automatic. The information utility system under the IBC will have to be strengthened to make the process automatic, according to reports. Under the amended rules, the corporate insolvency applications have to be admitted within a fortnight, but the process drags on for months, which leads to value erosion and raises the chances of the asset being liquidated.

With the use of information utility [IU], the adjudicating authority need not hear the admission process, which may save time and effort, given that the judicial infrastructure is short-staffed. Cases under Section 7 which is meant for financial creditors, who may file an application to initiate Corporate Insolvency Resolution Process either by themselves or jointly with other creditors before the National Company Law Tribunal, can go under the automatic route. The national e-governance service is India's first IU registered with the Insolvency and Bankruptcy Board of India under the IBC. One of its main objectives is a time-bound resolution by providing verified information to creditors and to adjudicating authorities. [ETCF July 22]

Govt working on a common portal for financial products and schemes: DFS Additional Secretary Sanjeev Kaushik

The Department of Financial Services is working on a national common

portal where citizens can access different financial products, protection products of insurance companies and benefit schemes with a single click. "This is the starting of financial empowerment, whereby customers or clients of banks will have access to products savings products, loan products, of a number of financial institutions, from which they can choose the best the optimum interest rate and tenor and the best product that works for them, not just for borrowing from banks, but also from for savings for their hard-earned money," said Sanjeev Kaushik, Additional Secretary, Department of Financial Services, Ministry of Finance, at ETBFSI Summit.

This national common platform will ultimately harness the power of Digital India as it will use the powerful digital and mobile technology to extend some of these services to bank customers and common citizens, he said. For this, the government has started a pilot project in Varanasi where it is trying to link account holders with various options for online fixed deposits recurring deposits and goal linked savings schemes. [ETBFSI, Aug. 27]

PSBs to push co-lending with NBFCs, digital, agri financing under Ease 4.0 reform

Co-lending with non-banking firms, digital, agriculture financing, and technological resilience for 24x7 banking are expected to be part of Ease 4.0 Index, a reform agenda for 2021-22 for public sector banks, sources said. Launched in January 2018, Enhanced Access and Service Excellence (Ease) is the common reform agenda for all public sector banks (PSBs) aimed at institutionalizing clean and smart banking.

Ease 4.0 reforms agenda for financial year 2021-22 is likely to be unveiled by Finance Minister Nirmala Sitharaman later this week, sources said. [Economic Times/PTI, Aug. 23]

Businesses can now self-certify GST returns, instead of mandatory CA audit

Under the Goods and Services Tax (GST), filing of annual return — GSTR-9/9A — for 2020-21 is mandatory for all registered businesses, barring those with an aggregate annual turnover of up to Rs 2 crore. Besides, taxpayers with a turnover of over Rs 5 crore have to submit a reconciliation statement in form GSTR-9C. This statement was required to be certified after an audit by a chartered accountant.

Through a notification, the Central Board of Indirect Taxes and Customs (CBIC) amended GST rules and provided that taxpayers with aggregate turnover during a financial year exceeding Rs 5 crore would furnish a self-certified reconciliation statement along with the annual return, instead of a CA certified statement. [Business Standard, August, 1]

Accounting standards and special courts to be created for LLPs: MCA

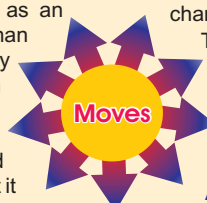
The regulatory framework for limited liability partnerships (LLPs) is set to get more refined with a new set of accounting standards, a special regime for start-ups using the LLP form, and special courts for trial of offences. The ministry of corporate affairs (MCA) has said amendments to the LLP Act passed by Parliament in the just-concluded monsoon session primarily for decriminalizing offences, also provide for a set of changes aimed at making this flexible legal structure of business more popular.

Secretary in the ministry Rajesh Verma said in a review of the corporate sector that the amendments introduced two new concepts of "small LLP" and "start-up LLP" which would enjoy lesser compliance, lesser fee and lesser penalties for minor violations.

Also, special courts for swift trial of offences under the LLP Act and in-house adjudication of cases within the ecosystem of the ministry are envisaged. An in-house, administrative way of dealing with offences is already in place for companies under regional directors and registrars of companies. This system is expected to become fully online later this year. The amendments also empower the government to bring out a set of accounting and auditing standards for LLPs, the review said. There are about 215,000 LLPs in the country currently. More than 76,000 LLPs, or, 35% of all the LLPs in the country, are business services. Entrepreneurs in trading and manufacturing sectors also prefer LLPs. In FY21, the number of LLPs incorporated saw a 17% growth, as per official data. [Mint, Aug. 19]

India winning global bond index spot early next year, Morgan Stanley says

India is likely to win inclusion into one of the world's top bond indices early next year, investment bank Morgan Stanley said on Sept. 8, predicting it could trigger an instant \$40 billion buying surge and as much as \$250 billion over the next decade. JPMorgan's influential GBI-EM and Global Aggregate indices are likely to include India in early 2022, Morgan Stanley's analysts said in a note. "We expect one-off index inflows of \$40 billion in 2022/23, followed by annual inflows of \$18.5 billion in the next decade, pushing foreign ownership up to 9% by 2031," they added. [Business Standard, Sept. 8]



SC approves deduction of interest paid via debentures for tax calculation

The Supreme Court (SC) has allowed MM Aqua Technologies to deduct interest paid via issue of debentures from its income for the purpose of income tax calculation. The judgment, which came this week, may provide relief to a number of companies that want to restructure their interest liability into payments by securities.

The court held that the interest was "actually paid" by the assessee through issuance of debentures, which has extinguished its liability to pay interest. To reach this conclusion, the court relied on the fact that the accounts of the bank reflected the amount received by way of debentures as its business income for the assessment year in question.

MM Aqua Technologies was in default of the payment of principal and interest on loan from ICICI Bank. So, the two parties agreed that the interest be paid through issue of 'debentures' by the assessee to the lender. The assessee, after the conversion of interest into debentures, claimed the interest under Section 43B of the IT Act as paid. SC held that explanation 3C to section 43B(d) of Income Tax Act is 'clarificatory' and does not add a new condition retrospectively. Yashesh Ashar, partner, Bhuta Shah & Co, said: "The judgment could pave the way for corporates under stress in the current environment to restructure their interest payment as debentures or other instruments, and deduct the same for income tax purposes. This is provided the lender recognises such interest payment in its books and pays tax on it." [Business Standard, Aug. 13]

Regulator's consent not must for Compounding Offences under SEBI Act: Supreme Court

The Supreme Court has ruled that the consent of the SEBI is not mandatory for settling securities-related cases but the regulator's views should be sought and considered. The ruling by a bench of Justice DY Chandrachud and Justice MR Shah came on July 23 on a plea against the decision of the trial court to deny compounding of offences under the SEBI Act as the regulator had not given its consent.

Ideal Hotels & Industries Ltd. had come out with an IPO in 1995 and was subsequently accused of price-rigging and insider trading. Apart from other proceedings, the market regulator also filed a criminal complaint for violation of SEBI regulations. Gupta argued in the Supreme Court that the words of the statute nowhere mention the requirement of the regulator's consent and compounding should be allowed if, after assessing the facts, there is no reason to deny it, he argued. The regulator opposed the request citing "serious wrongdoings" that a case does not exist for the interference of this court, the regulator said.

While the statute has entrusted the powers of compounding offences to SAT or to the Court, as the case may be, before which the proceedings are pending, the view of SEBI as an expert regulator must necessarily be borne in mind by the SAT and the court, and would be entitled to a degree of deference. While SEBI does not have a veto, having regard to the language of Section 24A of SEBI Act, its views must be elicited. Supreme Court in the instant case noted the serious nature of the offence and did not grant any relief to Gupta. [Bloomberg, July 25]

Arbitral Awards Can Be Enforced Against Non-Signatories, Rules Supreme Court

In yet another pro-arbitration decision, the Supreme Court has held that a foreign award can only be challenged on limited grounds under the Indian law. That an entity is not a party to the arbitration agreement is not one of those, the apex court said. A division bench of Justices RF Nariman and BR Gavai said the grounds for refusal of enforcement of foreign award under the Indian law cannot be "expansively interpreted". To attempt to bring non-parties within this ground is to try and fit a square peg in a round hole. Supreme Court Order

Hong Kong-based Integrated Sales Services Ltd. had entered into a commission agreement with DMC Management Consultants Ltd., an Indian company. Due to a dispute, arbitration proceedings were initiated by ISS. The agreement was governed by laws of Delaware, U.S. and contained an arbitration clause which stated that any dispute between the parties was to be referred to a single arbitrator in Missouri. The proceedings culminated in arbitral award against DMC and some entities which were not a party to the arbitration

agreement. This included DMC's chairman and two other companies in which he exercised substantial control, Gemini Bay Consulting Ltd. and Gemini Bay Transcription Private Ltd.

The Supreme court said there is nothing in the grounds which precludes enforcement of awards against non-signatories. The provision speaks only of parties to the agreement being under some incapacity, or the agreement being invalid under the law to which parties have subjected it, the court said. There can be no doubt that a non-party to the agreement, alleging that it cannot be bound by an award made under such agreement, is outside the literal construction of Section 48(1)(a) said Supreme Court. Finally, the argument that an award is perverse can no longer be used to refuse enforcement post the 2015 amendment to arbitral law. [Bloomberg, Aug. 20]

12 offences to be decriminalised under Amendment to LLP Act: FM

Nirmala Sitharaman, Union Finance Minister in a press conference today announced decriminalisation of 12 offences and a change in the definition of Limited Liability Partnership (LLP). As the cabinet proposed an amendment to the Limited Liability Partnership Act, it decriminalised 12 offences for LLPs and three sections to be omitted. Earlier there were 24 penal provisions in the LLP Act, 21 compoundable offences, and 3 non-compoundable offences. "This will bring LLP an equal playing field as compared to the large corporates," said FM.

FM announced the expansion of the scope of what can be a small LLP. This will now be LLP with the contribution of Rs 5 crores or a turnover of Rs 50 crore and more. This earlier was the contribution of more than Rs 25 lakhs of turnover of more than Rs 40 lakhs. This would also mean that any Limited Liability Partnership is not required to audit their books of account except where their annual turnover is more than Rs 50 crores or if their contribution is more than Rs 5 crores. [ETCF, July 29]

Will not haul up RBI for declaring loans as NPAs, says Apex Court

"Economy is booming in the country after the second Covid wave," said the Supreme Court on Friday as it refused to entertain a batch of pleas seeking contempt action against the Governor of Reserve Bank of India and senior officials of other banks for declaring loan accounts as Non-Performing Assets (NPA). The top court said that contempt is between court and contemnor and it is not inclined to initiate contempt action against senior officials of banks. "In our considered view, we are not inclined to exercise our contempt jurisdiction, since it is not in the interest of justice," said a bench of Apex court. We are not going to haul up the RBI for this.

The bench said that petitioners are at liberty to seek remedy under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act), 2002. Advocate Vishal Tiwari, appearing in a batch of petitions said that despite the top court's order of September 3, 2020 that the accounts which were not declared NPA till August 31, 2020 shall not be declared NPA till further orders, banks unilaterally declared the accounts as NPA under the Act. [Business Line, Sept. 5]

Gujarat high court is the first to adopt a full scale live streaming of its proceedings in the country

The Supreme Court of India gave an in-principle approval to live streaming through a judgment in 2018. The court last month also released the draft rules for live streaming of proceedings. The draft rules were shared with the high courts for their feedback. Live streaming of court proceedings is a step in the right direction but one must tread with caution, Chief Justice of India Justice NV Ramana said during the launch of the live streaming of the Gujarat High Court proceedings. The high court became the first court in the country to adopt a full scale live streaming of its proceedings on Saturday the July 17. This comes a year after the high court started live streaming its proceedings on an experimental basis on YouTube. It is high time for de-mystifying the justice delivery system in the country and furthering access through open courts. Access to justice will become a true reality, when litigants and interested parties get to witness, understand and comprehend justice dispensation first hand, he added. [Bloomberg, July 18]





SEBI Chief Tyagi says that debt market in India needs to develop the way equity markets are today

SEBI chairman noted that during 2020-21 compared to the previous year, the resources mobilized through corporate bonds grew at 13.4 per cent compared to 5.2 per cent for bank credit. "If we compare the actual resources mobilized during the same year i.e. 2020-21, the amount raised by bond issuances was 36.4 per cent more than the net incremental bank credit to the commercial sector. "This shows how the importance of capital markets is increasing by the day as a source of finance to the corporate world," he said.

Not only on the demand side, simultaneously, from the supply side as well, we are seeing an increased interest by households in the securities markets, he added. During 2020-21 (upto Q3), the household financial savings deployed in the securities markets amounted to 1.2 per cent of GDP compared to 0.3 per cent during each of the previous two years. "In absolute terms, this is a huge increase and if sustained, will give a tremendous boost to both the capital markets and the economy," he noted. [Business Standard, July 28]

SEBI in talks with Centre on setting up of Repo Clearing Corporation

SEBI is in talks with the Central government on setting up of a Repo Clearing Corporation as part of efforts to develop a vibrant corporate bond market in the country, G Mahalingam, Whole-Time Member, has said. Mahalingam said SEBI recognises that Repo market is one of the important pillars for having a vibrant corporate bond market. He highlighted that SEBI has been in talks with various asset management companies who are willing to bring the initial funding for Repo Clearing Corporation.

"Once you have a good Repo Clearing Corporation, the repo market will gain lot of traction as credit risk vanishes out of the horizon and there will be a central counter party settlement," he said. "SEBI is also in active discussion with the government on the budget announcement of introducing a new backstop facility for government purchase of corporate bonds that may fail," he added.

Mahalingam noted that corporate bond outstanding in India was Rs.36-lakh crore, which was about 18 per cent of the country's GDP. "While this 18 per cent looks healthy, India is actually lagging far behind the US which has ratio of 124 per cent or South Korea where it is far excess of 50 per cent or Brazil where it is close to 70 per cent," he added. The development of our corporate bond market is therefore critical and has to play an important role for the rebound of the economy in a big way, he said. [Business Line, July 29]

SEBI halves the post-IPO lock-in period for promoters to 18 months

The SEBI has halved the lock-in period to 18 months that promoters have to observe on 20 per cent of their shareholding following an initial public offering (IPO). Meanwhile, the lock-in on pre-IPO shareholding of non-promoters has also been halved to six months and minimum lock-in for venture capital funds will be six months from the date of acquisition instead of existing one year. Market experts said Sebi's move will encourage more companies to go public. Currently, 20 per cent of the promoter shareholding—known as minimum contribution—is subject to a three-year lock-in and the rest of the shareholding is locked in for one year. The lock-in on minimum contribution will be reduced to just 18 months if the IPO is entirely an offer for sale or where 50 per cent of the issue proceeds are not meant for capital expenditure. The requirement is to ensure that promoters have skin-in-the-game, particularly in case of companies that raise public capital for project financing or setting up of a Greenfield project.

Controlling shareholders

In a move that will usher the domestic capital markets into a new era, SEBI's board agreed in-principle to replace the concept of promoter

with 'controlling shareholders'. However, as this will involve rewriting of several existing regulations, it will be done in a "smooth, progressive and holistic manner." SEBI has said it will engage with other regulators to resolve regulatory hurdles, prepare draft amendments to securities market regulations and develop a roadmap for implementation of the proposed transition.

"In recent years, a number of businesses and new-age companies with diversified shareholding and professional management that are coming into the listed space are non-family owned and do not have a distinctly identifiable promoter group. Further, there is increasing focus on better corporate governance with responsibilities and liabilities shifting to the board of directors and management," SEBI said in a release. Experts said the concept will help pin responsibility on individuals in cases where companies have zero promoter shareholding.

Changes to AIF regulations

SEBI has said done away with the investment restrictions on the residual portion of investable funds of venture capital funds (VCF). It has also allowed category -I AIF –VCF to invest at least 75 per cent of investable funds in unlisted equity shares or in companies listed or proposed to be listed on a SME exchange. "Now Category-I VCFs will have more flexibility to deploy the 25 per cent of the investible funds in debts of companies which they are not invested in as well as investments in listed firms. This should make the Category I VCF structure more flexible for the investment managers," said Yashesh Ashar, partner, Bhuta Shah & Co.

SEBI eases disclosure burden of companies

SEBI, on Aug. 17, removed certain disclosure requirements for acquirers and promoters of companies. Under the new rule, some of the disclosure requirement over an acquisition or sale of 5 percent shares in a company and any change of 2 per cent thereafter, annual shareholding disclosures and creation or invocation or release of encumbrance (pledge) shares will not be required, SEBI said. The amendment will be effective from April 1, 2022. Under the new system driven disclosures (SDD), exchanges will disseminate data based on its aggregation from depositories without human intervention.

Other amendments: SEBI has also amended other listing obligations. The amendments pertain to issuers who have listed non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instruments and/ or perpetual non-cumulative preference shares. Only emails of annual reports and other documents will have to be sent to holders of non-convertible securities by companies, the SEBI said. [Business Line, Aug. 17]

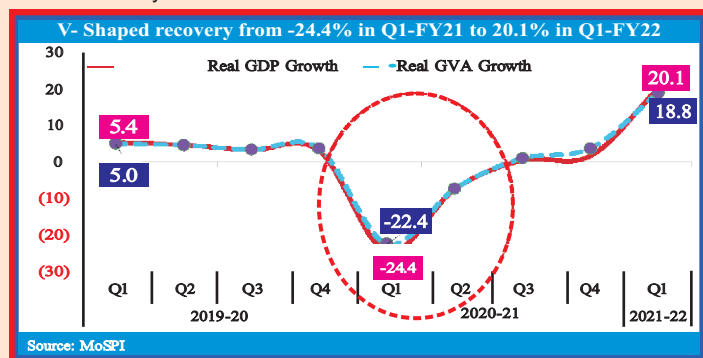
SEBI mulls IPO reforms on book building, price band aspects

SEBI is contemplating reforms in the IPO norms, especially on the book building, fixed price aspects and certain provisions pertaining to price band, its chairman Ajay Tyagi said on July 28. Apart from initial public offer (IPO), the regulator is looking into further reforms on preferential issue front, Tyagi said at the FICCI's annual Capital Market Conference. "We have few other proposals in pipeline that are in the early discussion stage IPO reforms on the book building and fixed price framework and provisions relating to price band and further reforms on preferential issue- being some of them," Tyagi said. The SEBI chairman said the framework for the minimum public shareholding has been revised to make it easier for large companies to launch IPOs. He further said that the focus on review of equity fund raising norms will continue in the near future. In India, the funds raised through IPOs during the last 5 years i.e. 2016-21 are six times more than the funds raised in the five years preceding that i.e. 2011-16, from Rs 0.3 trillion to Rs 1.8 trillion, Tyagi said. [Business Standard, July 28]

Q1:FY 2021-22 data reasserts India's V-shaped recovery amid a more intense second wave

The second wave impacted Q1 output of FY 2021-22. Nonetheless, the output has been large enough to post a YoY growth of 20.1 per cent recovering more than 90 per cent of the pre-pandemic Q1 output of 2019-20. India's real GVA has also grown to a similar extent YoY at 18.8 per cent posting a recovery of more than 92 per cent of its corresponding pre-pandemic level. These estimates reaffirm India's resilient V-shaped recovery despite an intense second wave! V-shaped recovery from -24.4% in Q1-FY21 to 20.1% in Q1-FY22 noted the Finance Ministry monthly report.

Outlook A broad based rebound in several leading macroeconomic indicators in July and August offer bright prospects for India's continued economic recovery. With Government and RBI's unflinching commitment to put the economy back on track, India is poised for an even faster recovery in the next three quarters of 2021-22. Rapidly increasing vaccination coverage and richer experience with pandemic management provide the confidence that the recovery can be continued even in the event of a third wave.



The days of high cost debt fuelled growth is over, say analysts

India's top companies are deleveraging by cutting debt fuelled. Opting for lower-cost loans, aggressive asset sales and avoiding new projects were methods Corporate India had adopted to check debt. Analysts said Indian companies don't want debt-fuelled growth, considering the economy is slowing down and banks are cracking the whip. "There are several companies which were taken to the bankruptcy courts by the banks for failing to pay their debt. Apart from private groups, public sector companies used the Covid-hit financial year to deleverage their balance sheet.

"India Inc is selling assets including international subsidiaries to make sure they do not face the ignominy of banks sending their companies to bankruptcy courts. Apart from public shame, it is also opening the groups to reputational damage. The new projects are also on hold," said the chief financial officer of a large business group who asked not to be named. Banks are tightening their disbursements to companies with low visibility of cash flows. We are expecting more companies to sell assets in the next few months to reduce their debt," said a banker. Analysts said lockdowns to contain Covid-19 had devastated sales and profitability in the first quarter, so India Inc will continue its efforts to reduce debt. [Business Standard, July 26]

Coronavirus stress evident in financial sector as stressed loans jump, NBFCs less affected

Indian financial system's stress loans jumped at least by Rs 4.60 lakh crores during the Covid period, taking the gross stressed loans to 12.6% of total loans in June 2021, from 8.2% of loans as of March 2020, estimates Nomura Securities. On an aggregate basis, gross NPAs and restructured assets across banks and NBFCs increased to Rs 13.2 lakh crore in June 2021 from Rs 8.6 lakh crore in March 2020 due to an addition of Rs 3.7 lakh crore in loans due past 90 days and also Rs 2.4 lakh crore of restructured assets after adjusting for recoveries and write offs during the period.

Segregating the stress between banks and NBFCs, total stress has increased to 13.3% in June 2021 versus 8.9% in March 2020 for banks, while it has increased to 6.7% in June 2021 versus 3.1% in March 2020 for NBFCs, including loans given through the government sponsored Emergency Credit Line Guarantee Scheme (ECLGS). [ET Bureau, Aug. 31]

Liquidity buffer of NBFCs has improved over last year, says Crisil

NBFCs are better placed currently on the liquidity front than they were a year ago, enabling them to service their near debt without much difficulty, despite a fall in collections because of the second wave of Covid-19, rating agency Crisil said in a note.

According to Crisil, fund-raising through special government schemes, improving collections in the second half of fiscal 2021, and limited disbursements have bolstered the liquidity cover of these NBFCs. Around 45 per cent of funds raised by these entities in Q1FY21 were through schemes such as targeted long-term repo operations and partial credit guarantee. And, NBFCs with not very strong parentage raise around 60 per cent of their

debt through these routes.

"...business challenges linked to the pandemic will continue through most of this fiscal. In this milieu, we expect many NBFCs to continue maintaining strong liquidity cover for debt repayments and operating expenses. That would also help them assuage potential investor/lender concerns in the near term", said Krishnan Sitaraman, Senior Director, Crisil Ratings. [Business Standard, July 12]

Mutual funds increase exposure to NBFC debt papers

Debt mutual funds are gradually increasing their exposure to NBFCs amid visible signs of recovery, pent-up demand for credit with unlocking of the economy and less-than-expected asset-quality concerns after the second wave of the Covid-19 pandemic. According to latest data, the overall exposure of mutual funds (MFs) in NBFC debt papers increased to Rs. 1.54-lakh crore as of June 2021 from Rs. 1.38-lakh crore during the same period last year. Of the total exposure as of Q1FY22, share of Commercial Papers (CPs) stood at Rs. 62,845 crore (from Rs. 54,233 crore in June 2020) while exposure to NBFC bonds and NCDs stood at Rs. 91,295 crore (Rs. 83,612 crore).

The exposure of debt mutual funds to NBFCs is gradually increasing since September 2020 to touch Rs. 1.49-lakh crore as of March 2021 and Rs. 1.54-lakh crore as of June 2021 accounting for 9.2 percent of the total debt mutual fund AUM. [Business Line, July 30]

Number of unique wilful defaulters rose by 286 in pandemic

The number of wilful defaulters has increased from 2,208 to 2,494 at the end of March 31, 2021, Finance Minister Nirmala Sitharaman informed Parliament on Tuesday. As per RBI data on global operations, during the last three financial years, public sector banks (PSBs) have effected recovery of Rs 3,12,987 crore in non-performing assets (NPAs) and written-off loans. "RBI has further apprised that the total number of unique wilful defaulters reported by PSBs was 2,017 as on March 31, 2019, 2,208 as on March 31, 2020 and 2,494 as on March 31, 2021," she said. They may also initiate criminal proceedings against wilful defaulters, wherever necessary, she added. The total size of the top 100 wilful defaults rose 5.34% in FY20 from Rs 80,344 crore as of March 2019. [ETBFSI July 28]

Webinar on Explaining Factoring Act and Introduction to TReDS for NBFCs & MSMEs by RXIL

An important educational Webinar is organised by IMC-FIDC-RXIL from 05.00 pm to 06.30 pm on Wednesday, October 06, 2021. IMC Chamber of Commerce and Industry (IMC) and Finance Industry Development Council (FIDC) in collaboration with Receivables Exchange of India Ltd. (RXIL) invite members of IMC and FIDC to this unique online learning experience at the Webinar on Explaining Factoring Act and Introduction to TReDS for NBFCs & MSMEs by RXIL. There is no fee but registration is required. Register by email to bharati@imcnet.org. Zoom Link: <https://zoom.us/j/94779088173?pwd=SzJFUzR5cVYrRWREbDQ5aWdVVFYnQT09> Meeting ID: 947 7908 8173; Passcode: Nbf61.

ECLGS' scope expanded and scheme extended till 31.03.2022

Government has been receiving demands from various Industry bodies and other stakeholders to extend the scheme to ensure continued support to eligible sectors/businesses. With a view to support various businesses impacted by the second wave of COVID 19 pandemic, it has been decided to extend the timeline of Emergency Credit Line Guarantee Scheme (ECLGS) till 31.03.2022 or till guarantees for an amount of Rs 4.5 lakh crore are issued under the scheme, whichever is earlier. Further, the last date of disbursement under the scheme has also been extended to 30.06.2022.

Some modifications have been made in the scheme to enable support to businesses impacted by the second wave of COVID. The modification introduced would ensure that businesses adversely impacted by the second wave of COVID 2019 get enhanced collateral free liquidity. Further this provides much needed support to all the ECLGS borrowers (which mainly consist of MSME units) in time for the busy / festival season. Emergency Credit Line Guarantee Scheme (ECLGS) since its launch, has extended relief to over 1.15 crore MSMEs and businesses.

Existing borrowers under ECLGS 1.0 & 2.0 would be eligible for additional credit support of upto 10% of total credit outstanding as on 29.02.2020 or 31.03.2021, whichever is higher.

Businesses who have not availed assistance under ECLGS (ECLGS 1.0 or 2.0), can avail credit support of upto 30% of their credit outstanding as on 31.03.2021.

Businesses in sectors specified under ECLGS 3.0, who have previously not availed ECLGS, can avail credit support up to 40% of their credit outstanding as on 31.03.2021, to the maximum of Rs.200 crore per borrower;

Incremental credit can be availed within these limits by existing ECLGS borrowers whose eligibility increased because of change in cut off date to 31.03.2021 from 29.02.2020.

Accordingly, Borrowers who have availed assistance under ECLGS and whose credit outstanding as on 31.03.2021 (excluding support under ECLGS) is higher than that on 29.02.2020 shall be eligible for incremental support within the cap stipulated under ECLGS 1.0,2.0 or 3.0. [PIB Delhi, Sept. 29]

FIDC's active interaction with authorities: Authorities have been quite responsive and positive: Mr. Ramesh Iyer, chairman, FIDC

FIDC has actively made various Representations and held the Meetings with various authorities from time to time. FIDC chairman Mr. Ramesh Iyer while briefing about the FIDC's interactions with the Authorities said that total 19 Representations were made since April 2021 till June 21 to various authorities on variety of subjects affecting NBFC sector. Further, the virtual Meetings were held with RBI, SIDBI, Niti Aayog, RBI-constituted ARC Committee, Group of Advisors to Regulations Review Authority and MSME Minister Shri Nitin Gadkari by top team of FIDC. Mr. Iyer noted that the Authorities have been quite responsive and positive. Giving details of very heartening response to FIDC's virtual meet with Hon'ble Minister for MSMEs Shri Nitin Gadkari Shri Mahesh Thakkar, director general FIDC noted that the Hon'ble Minister acts quickly after virtual Meeting on 15.06.21 with FIDC.

The Chairman of IMC's NBFC Committee for the year 2021-22 is Mr. Ramesh Iyer and IMC-FIDC are planning for the **IMC NBFC Summit** in November/December 2021.

FIDC urges upon RBI to enable easy access to all NBFCs to the TReDS platform

With the amendment of the Factoring Act, it is observed that all RBI registered NBFCs have also, alongside banks, been made eligible to undertake factoring activity. In view of necessity of getting registration with the Central Registry set-up under section 20 of SERFAESI Act as per Section 19 (1) of Factoring Act it is our understanding that in order to engage in the factoring activity, there is a need for the NBFCs to have easy access to the TReDS platform before they can undertake the factoring business

"We would like to state that NBFCs are far ahead of the curve to provide finance to MSMEs," noted Mahesh Thakkar, director general FIDC. FIDC urged upon RBI "to arrange for a webinar for the benefit of NBFCs, so that the NBFCs can be made aware of the processes and procedures thereby facilitating a wider set of financiers on the TReDS platform without much loss of time and that the objectives of amendments to the Factoring Act can be achieved in a smooth and purposeful manner."

Emergency Credit Line Guarantee Scheme – initiation of legal action and commencement of Arbitration Proceedings

Under Emergency Credit Line Guarantee Scheme operated by National Credit Guarantee Trustee Co. Ltd. (NCGTC), a stand was taken by it with MLIs that "legal action would be considered initiated if legal action is taken by filing suit in court prior to arbitration as mere arbitration proceedings would not be acceptable and claims with the said action would be rejected." Since the NBFCs and the borrowers to the contract have mutually agree to a valid arbitration agreement under the loan documents, no civil Suit can be filed before any Civil Court in view of the bar under Sec. 5 read with Sec. 8 of the Arbitration & Conciliation Act, 1996. Moreover, legal action cannot be initiated by NBFC before the DRT for recovery of debt as NBFC is neither bank nor Fin. Institution.

FIDC in a representation to NCGCT on July 2 stated that the FAQ 83 clarifies that the legal action shall be considered as initiated upon "commencement of the arbitration proceedings" providing elaborate details as to what and how NBFCs takes action in case of default by the borrowers. FIDC pleaded that 'please accept the notice issued by NBFC to the borrower referring the dispute to arbitration which is deemed to be received by the borrower in terms of section 3 of the Act, as the appropriate document for filing claim before NCGTC in case of the arbitration proceedings'.

In response NCGCT issued amended FAQs on 11th August, 2021 and added FAQ 161 to state as under: Arbitration proceedings are not considered as legal action for recovery of dues. However, a carve out has been provided for low value loans of up to Rs.10 lakhs for which the filing and payment of interim claim shall be permissible without insistence on initiation of legal proceedings. Subsequent to filing of an eligible claim, 75% of amount in default pertaining to loan

under ECLGS shall be settled for payment by NCGTC. However, the balance amount (25% of amount in default pertaining to loan under ECLGS) shall be paid only after conclusion of recovery proceedings or till decree gets time barred, whichever is earlier. The Bank should, therefore, initiate appropriate legal action for recovery of dues to claim the balance 25% of amount in default.

The MLIs are aggrieved at this clarification issued by NCGTC by way of amendment to the FAQ, which is contrary to FAQ 83. FIDC therefore on Aug. 20 took up again with CEO, NCGCT stating that "we request your urgent intervention in the matter and direct NCGTC to further amend and rectify the FAQ No. 161 issued on 11.08.2021 to the extent of deleting the words "Arbitration proceedings are not considered as legal action for recovery of dues. We also request that the option of Arbitration under the head "Legal Action Taken" should be immediately activated on their website of NCGTC for the Application process for interim payment".

FIDC urges IBA to advise banks that the restriction on current accounts is not applicable to NBFCs for collection

Post the RBI circular on current accounts, while it has been NBFCs endeavour to shift collections to the Banks which have provided credit facilities to them. There are multiple locations where those banks do not have a presence or are quite far from our branches. This has resulted in many practical difficulties such as safety issues for cash and NBFC executive; local banks are not willing to sanction a credit facility just to facilitate collections due to capital requirements at their end, as such sanction of a credit facility will not be utilized. Similarly for local cheques collection time increases due to requirement of sending cheques to nearest CMS branch. Converting all collections accounts into CC is not feasible as most banks do not have the technology support to do the same. Measures (i. e. cash pick-up/CMS) are leading to increase in cost of collection for NBFC/HFC. In many locations, NBFCs have no choice but to select a non-bank aggregator for cash (despite local banks being available for collections) - the cost structure of these aggregators is at least 3X of banks.

FIDC therefore requested IBA to advise banks that the restriction on current accounts is not applicable to NBFCs, as already confirmed by RBI in their guidelines, insofar as they are required for collection. The collections can then be pooled in the CC/OD account of NBFC. Further, in order to maintain credit discipline, payments can continue to be routed through the CC/OD accounts.

Inclusion of 'Educational Institutions' under various MSME Sector Government schemes

FIDC in a representation to Shri Narayan Rane, Hon'ble Minister of MSME on Aug. 10 said that inclusion of 'Educational Institutions' under various MSME sector schemes is the need of the hour for the country's economic, social and youth development. FIDC requested the following Govt policy measures for revival of education sector:

[1] Inclusion of 'Educational Institutions' under Credit Guarantee Fund Scheme for NBFCs (CGS-II) which was introduced by Credit Guarantee Trust for Micro & Small Enterprises ('CGTMSE') in January 25, 2017 providing 75% guarantee for loans up to Rs.2 Crore to MSMEs by NBFCs.

[2] Inclusion of education sector under Emergency Credit Line Guarantee Scheme (ECLGS 3.0)

[3] Introduction of new 'Refinance scheme' for onward lending by NBFCs to MSME sector.

[4] Introduction of Central Sector Interest Subsidy Scheme ('CSIS') for NBFCs.

Liquidity Support to NBFCs for Lending to MSMEs

SIDBI has been allocated Rs. 15,000 crores for a period of up to one year, to extend support to MSMEs as per the RBI announced policy statement on April 7, 2021 that fresh support of Rs.50,000 crore will be provided to the AIFIs for new lending in FY 2021-22.. This is a welcome move and should help MSMEs, which are struggling to repay their debts. In the previous year, a similar support was extended to SIDBI, which was for a maximum period of 12 months. While it did provide immediate relief, the short tenure of the

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assistance did not provide ALM comfort to NBFCs.

FIDC had urged the Government that this refinance may be provided for a period of at least 3 years and RBI was urged to increase the overall support outlay to AIFIs from Rs. 50,000 crores to at least Rs. 75,000 crores and the additional Rs. 25,000 crores may be made available exclusively to medium and small NBFCs, through SIDBI for period of 3 years.

Moreover, FIDC pleaded on June 29, 2021 that Credit Rating should be one of the assessment parameters, and not an eligibility criterion, for Refinancing NBFCs. Instead, SIDBI should take into consideration Key Balance Sheet parameters such as CRAR, NPAs, and Track Record along with Promoters experience and understanding of the market.

Standardisation in criteria for bank's selecting NBFC partners for co-lending

RBI had formulated regulatory norms for a co-lending model between Banks and NBFCs for priority sector lending and advised Banks to formulate a Board approved policy for NBFC partner selection vide circular dated Nov. 5, 2020. Accordingly, several Banks have published their Board approved policies detailing the parameters for partner NBFC selection. FIDC perceiving a need for uniformity for the eligibility criteria for CLM between banks and NBFCs urged upon RBI vide its request on July 14, 2021 to use its good offices through IBA for a general advisory to Banks for standardized criterion for selection of partner NBFC.

FIDC suggested that the norms prescribed by RBI for "Declaration of Dividends by NBFCs" vide a recent circular dated June 24, 2021 could be adopted by banks for the Co-Lending partner NBFC selection which would go a long way in giving a philip to the CLM as envisaged by RBI.

We need to be careful not to impose full-scale bank-like requirements on NBFCs: PEA Sanjeev Sanyal



India needs strong support from debt capital like bank loans for long-term economic growth, Principal Economic Advisor Sanjeev Sanyal said on Sept. 8 while speaking at an interactive webinar organised by non-bank lenders' forum FIDC on "Role of NBFCs in building Atmanirbhar Bharat".

"In the end, if you look at economic history, rapid economic growth sustained over long periods of time have never happened with just equity markets financing that growth, it has eventually happened with debt capital, a lot of it coming from banks," he said. The debt market is also not doing too badly, he said while underscoring the fact that the corporate debt market is under-developed.

"We are well capitalised for the banking system which is in the position to expand again after many years of cleaning. NBFCs will also be in a good state for the most part," he said. The wider financial system, including credit rating agencies, analysts and the media, needs to behave in a "responsible" way to let this credit expansion happen, he added. Credit rating agencies do not see a problem coming and when it arises, they create massive problems by downgrades which causes a wider problem, he rued.

At a time when the regulatory demands from NBFCs are growing, Sanyal said "we need to be careful not to impose" full-scale bank-like requirements on such companies that operate because of the flexibility. However, he conceded that the large-sized ones classified as systemically important entities will have to adhere to certain norms. [Business Standard, Sept. 8]

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ADVISORY ON "NON-COMPLIANCE OF FPC & OUTSOURCING GUIDELINES"

Dear Members,

You are aware of the efforts and outreach of FIDC in the recent past with Government of India (GoI) and the Reserve Bank of India (RBI) at various fora. FIDC has been able to apprise the GoI and RBI of the issues in ease of doing business and we must compliment them for acceding to some of our requests and gradually rolling out the related policy guidelines – the recent one being on use of KYC by NBFCs.

You may appreciate that the role of FIDC being the only national level representative body of NBFCs also casts certain responsibilities on FIDC as also its constituents and particularly all the members. While we have been bringing to your notice, from time to time, the regulatory developments, FIDC has also been impressing upon all its members periodically and during all our interactions that the NBFCs have responsibility to ensure regulatory compliances in letter and spirit. Kindly refer our advisories issued on April 29, 2019, April 04, 2020, April 18, 2020 and September 07, 2020 (copies being appended herewith).

We at FIDC are glad to note the visible improvements in the governance standards of the companies resulting in enhancement in the image of the sector not only in the overall financial system but also among the regulatory authorities.

We may apprise the members that recently, RBI in a communication dated 7th September 2021 to FIDC enumerated specific violations/non-compliances of FPC and Outsourcing Guidelines and also forwarded a list of 38 NBFCs (members and non-members, including some of the PSUs) where RBI has found some violations in their inspection. RBI has advised FIDC to inform the concerned NBFCs to take necessary measures to ensure high standards of customerservice and compliance with other RBI guidelines. (The copy of the said letter and its Annex – gaps observed enclosed).

FIDC has, through a separate communication, taken up with the concerned NBFCs individually. FIDC also felt it necessary to sound all member NBFCs in general also to use this opportunity to review implementation of their FPC and Outsourcing guidelines with an aim at plugging the gaps, if any, as early as possible.

In case your company has any observations or difficulties or any issue to be addressed to RBI, you may write to us.

For
FINANCE INDUSTRY DEVELOPMENT COUNCIL
MAHESH THAKKAR,
DIRECTOR GENERAL

Suggestions and feed-back

We would appreciate your views, suggestions and feed-back to make the 'FIDC News' more useful and illuminating. Your inputs and contributions too are welcome on : directorgeneral@fidcindia.org.in

- Editorial Committee

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