FIDC NEWS

Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

VOLUME – 13 NO. – 4 | January - March – 2022 | e-Edition No. 4 | FOR PRIVATE CIRCULATION

THE ROLE OF NBFCS AS A CATALYST IN ECONOMIC GROWTH

Mr.T T Srinivasaraghavan
Founder Chairman of FIDC
And Chairman Emeritus

NBFCs have very strong role to play in the growth and development of our economy and particularly in terms of financial inclusion, in the years ahead.

The smaller NBFCs are still family owned and family managed and often, three or even four generations of knowledge, relationships, expertise have been built up which no amount of artificial intelligence or machine learning can substitute

On 26th February 2022, at Shri Mukeshbhai C. Gandhi first memorial lecture our esteemed guest of honour Mr. T. T. Srinivasaraghavan shared his thoughts on NBFCs as a catalyst in economic growth

He began the session by giving heartfelt tribute to Shri Mukeshbhai Gandhi and how he remembers him as a very quiet but very committed, firm and passionate individual as well as a core founding member of FIDC. He further added that Shri Mukeshbhai has left behind an outstanding legacy in terms of the company that he's built, the team that he's built and of course in Shri Kamleshbhai a very capable successor to carry forward the legacy, to carry the torch going into the future.

Speaking about the role of NBFCs as a catalyst in economic growth Shri T T Srinivasaraghavan, Founder Chairman of Finance Industry Development Council and Chairman Emeritus began by saying…

NBFC is a fairly recent label

In order to talk about the role of NBFCs in economic growth, I think it is also important to talk a little bit about the history of NBFCs. NBFC is a fairly recent label. I think it was only in the 1990s that this nomenclature of NBFC came about, but in a very different avatar we go back almost 90 years. In the 1930s you had the first of what were then known as hire purchase companies and these were the first organized people, organised entities, that came forward to fill the huge gap that existed at the time in terms of financing small road transport operators, small businessmen, and so on, who wanted to get into business for themselves but did not have the financial support. They had the passion, the energy, and they were willing to work hard, but there weren't enough people to trust them with money. This is where the hire purchase companies came in.

Late Shri Mukeshbhai Gandhi
Co-Founder and Director Finance of MFSL, Former Director of FIDC and Member of Editorial Committee

Origin as hire purchase companies

To my memory, I think the first of the hire purchase companies, at least the most prominent one, was set up in the 1930s in Delhi, by Mr Ved Prakash Gupta, who is considered one of the pioneers in the world of hire purchase finance. Ved Prakash ji, literally created opportunities for hundreds of young entrepreneurs, mostly truck drivers in the northern part of India – Delhi, UP, Punjab and this was still pre-independence mind you. And that little initiative that he started in the 1930s soon took on a much bigger dimension as a large number of companies came up in and around Delhi and in Punjab and to this day you have a large cluster of finance companies in and around Jalandhar and Ludhiana. The legacy, so to speak, of the hire purchase companies continues, albeit in a different avatar even today.

Then of course it spread to the rest of the country and in the

AT A GLANCE

- The role of NBFCs as a catalyst in economic growth .... Sri. T T Srinivasaraghavan_Speech 1
- Regulatory Perimeter........ 3
- Extension of RBI deadline: Welcome relief for NBFCs and borrowers........ YS Chakravarti, MD and CEO, Shriram City Union Finance 6
- PM Modi asks financial institutions to come up with futuristic ideas to meet the emerging economic needs........ Prime Minister, Narendra Modi 6
- NBFCs have empowered them with agility, innovation and a cutting edge in providing formal financial services:........ RBI report 7
- Fixing the financial architecture........ C K G Nair & M S Sahoo 9
- Far too many small businesses in India stumble on loan eligibility........ Yugank Goyal, Nikhilla B.; Associate professor at Flame University 10
- How the virus changed our financial behavior........ Niranjan Rajadhyaksha 11
- How co-lending can help banking sector........ K Ram Kumar 12
- 'It is opportunity NBFCs rather than advantage NBFC........ BS Annual BFSI Insight Summit 13
- Geo-spatial maps tracking the growth of economic activities........ The Economic Survey-2021 14
- 2,250 Tech start-ups founded in 2021 register 39 per cent cumulative growth: .... Nasscom Report 15
- Gazing of the future prospects........ 16
- FY23 outlook: focus of NBFCs shifts to growth AMID normalisation in operating environment........ Jinay Gala, India Ratings and Research Pvt. Ltd. 18
- State of NBFC sector........ 19
- Moves........ 21
- Legal Eagle........ 23
- SEBI MOVES........ 24
- Periscope........ 26
- FIDC in Action........ 27

EDITORIAL COMMITTEE

- RAMESH IYER........ CHAIRMAN
- T T SRINIVASARAGHAVAN........ CHAIRMAN EMERITUS
- UMESH REVANKAR........ CO-CHAIRMAN
- KAMLESH GANDHI........ CO-CHAIRMAN
- K V SRINIVASAN
- RAMAN AGGARWAL
- MAHESH THAKKAR........ DIRECTOR GENERAL
- N M MUKHI........ EDITOR

Southern part of India, especially in Tamil Nadu and Andhra Pradesh there was a very strong push towards setting up hire purchase companies. Sundaram Finance, the company that I was privileged to serve for nearly four decades, was one of the pioneers in this part of the country and then of course many others followed over the years who played a role similar to that of MGF in Northern India.

Why I'm giving you this background is to help you understand that though NBFCs have in recent years been through a lot of turmoil both in terms of the economy, regulation and the competitive landscape, the road that they traversed in the early years was not an easy one either. In the 1950s and 60s for example, it was almost impossible for these companies to raise funding and it was due the pioneering efforts of the early stalwarts like Mr Ved Prakash Gupta and T. S. Santhanam of Sundaram Finance that the laws were rewritten, to enable Hire Purchase companies to function. For instance, the Motor Vehicles Act was amended to recognize the rights of hire purchase financiers and later, for leasing companies as well. Similarly, the State Bank of India Act was amended to permit lending to hire purchase companies. So, these were momentous milestones in the long and fascinating journey of what is today the NBFC sector!

Financial Inclusion minus the jargon

The most important thing however to note is this -Today it is very fashionable for people to talk about financial inclusion. Whether it is the government, the regulator, the media, everyone talks about financial inclusion, it has become a buzzword. However, what I would submit respectfully is, that it was the hire purchase companies, back in the 1930s and 40s that authored this concept of financial inclusion; they didn't know the jargon of course! They didn't put this fancy label of financial inclusion on what they did but the reality is, it is the hire purchase companies who took finance to the people who were largely unbanked or under banked, many of whom could not even sign their names! It was to such people these hire purchase companies offered finance, based on their intimate knowledge of the local conditions, of the borrower, the communities that they worked in, and this is how actually financial inclusion began in this country. Unfortunately, this is something that many people today may not realise but this is a crucial part of the growth and development of not only NBFCs in this country but of the concept of financial inclusion itself. As we moved into the 1980s, hire purchase companies began to diversify into leasing which was beginning to be recognised as a mainstream activity. Regulations started to become more organised and by the 1990s, NBFCs had become completely mainstream.

This little history lesson is only to help people appreciate and understand the long road that we have travelled as an industry, since many people make the mistake of thinking that NBFCs only came into being in 1998 or thereabouts, that is not the case.

Today, if you look at the large banks, be they public or private sector banks or the large NBFCs that came into existence in the last 15 to 25 years, most of them are major players in vehicle financing. When I say vehicle financing, it covers the entire gamut of two wheelers, three wheelers, four wheelers, small trucks, medium trucks, large trucks, heavy duty trucks and even construction equipment, the entire range of what you would call vehicle financing is today something that all the large banks all the large NBFCs are involved in.

CIBIL: A game changer

However, if you go back, say to the 1980s, banks were reluctant to touch commercial vehicle operators, nor would they finance two wheelers or cars, because they neither understood the risks involved nor did they have the collection mechanisms to tackle retail credit. However, in the late 1990s and the early 2000s, they realised that NBFCs were extremely successful in not only financing commercial vehicles and passenger cars but were equally adept at collecting the monies that they had lent – there were NBFCs who had 98% and 99% collection percentages and soon thereafter, you found a huge influx of not only domestic banks but also a number of foreign banks and a few multinational NBFCs who entered the fray, financing mostly passenger cars and a few of them, even commercial vehicles and heavy trucks! A business that was considered high risk suddenly became hot property. This was also the time the first credit information bureau, CIBIL came into being and suddenly all these guys with no credit history had a credit score.

A customer who was hitherto considered almost untouchable by the formal banking and lending system suddenly became their darlings because he had a credit score! So, one of the sterling contributions of the NBFCs was the mainstreaming of unbanked or underbanked customers who had no credit histories, and this was a dramatic game changer because it did two things. First, credit availability for those who didn't have bank statements, cash flow statements and so on improved dramatically, and more importantly,it gave borrowersa choice, as they were now armed with a credit score. A humble truck driver could now shop around for rates, something he could not have dreamt of in an earlier era. Logically, as competition came in everyone was forced to sharpen their pencils, not only in terms of pricing but also the service they offered and the customer outreach.The overall customer experience became far superior thanks to the opening up of this space to a much larger canvas. So the first big change that happened in the early 2000s was the advent of the credit bureaus and the entry of large players including the banks.

Parallelly, the regulatory landscape was also undergoing significant changes. During this period, the Reserve Bank of India (RBI) initiated several regulatory and supervisory measures to ensure the healthy and disciplined growth of this sector. The A C Shah Committee Report of 1992 is regarded as a watershed in more ways than one. It was in this period (April 1995) that an expert group under the Chairmanship of Shri P.R.Khanna was appointed for designing a supervisory framework for non-banking financial companies. Similarly, with a view to providing adequate regulatory support for streamlining the NBFC sector and to ensure that the sector grows on strong foundations, Reserve Bank of India (Amendment) Ordinance, 1997 (subsequently replaced by an Act) was promulgated in January 1997. The Act, apart from imposing certain entry point restrictions, strengthened RBI's powers in the regulation and supervision of the NBFC sector. The process of consolidation of the sector had well and truly begun. Many in the industry felt that some of these regulations were harsh, but in retrospect, I think it is fair to say that many of the changes that came about in the regulatory framework actually helped make the industry more

disciplined. As for good corporate governance, and overall transparency in the way NBFCs operate, they have improved significantly over the last 20 years. As I said earlier, it was probably a little painful while we were going through it but as we look back, I do believe that much of it pushed us to improve our processes, our discipline and generally made us more responsible as lenders. These are some of the snapshots of the fascinating journey that has brought us here.

So where do NBFCs go from here?

So where do NBFCs go from here? This is a question that's been asked often. With the banks becoming major purveyors of retail credit, will NBFCs disappear? With regulation becoming tighter, will NBFCs disappear? With funding being so hard to come by, will NBFCs disappear? My considered and humble answer to all these questions **is an emphatic No**. Banks are indeed large and formidable competitors but that does not mean that there is no room for anybody else. In fact, I have long believed that this is a model of collaboration rather than confrontation where the banks are wholesalers and NBFCs are retailers. Co-lending, priority sector on-lending and Business Correspondents are all prime examples of the wholesaler-retailer equation. In my view,the role that NBFCs have played will not only continue but will evolve into newer opportunities and newer areas.

If you look at the latest entrants to the NBFCs sector are the micro finance institutions (MFI) who typically serve the bottom of the pyramid. Fifteen years ago, this was the sole preserve of moneylenders, where nobody else dared to tread, but the MFIs have ably carried forward the NBFC tradition of delivering credit to the unbanked borrower and demonstrated how critical they are for the upliftment of people at the bottom of the pyramid. Looking at the various layers within the NBFC space, you have the MFIs, then you have the small NBFCs which typically operate in a single state or maybe in two or three states, the mid-sized NBFCs which operate regionally and then you have the larger NBFCs which operate nationally.

It is estimated that approximately two thirds of the Indian economy is basically made up of what are loosely called MSMEs (micro, small and medium enterprises) which could range from a tiny vendor at the street corner, the guy who runs a small truck, someone who owns three or four trucks or operates a JCB or a small welding unit all the way to a medium sized manufacturing unit. The canvas is vast, but they are all essentially entrepreneurs and as our economy grows, their need for capital will only continue to grow. But it is not only a question of capital, it is equally about understanding these businesses, understanding the opportunities and risks associated with these businesses, and very often this requires ground level knowledge and expertise. NBFCs have traditionally this role and will continue to do so in the years to come. No doubt, technology will play a major role to help navigate some of these complexities and progressively become a significant enabler for lenders and borrowers alike. However, the decades long expertise that NBFCs have developed, in financing MSMEs, is to my mind, quite unparalleled.

The level of in-depth understanding that NBFCs have, based on the relationships they have built and cultivated over a long period, their expertise in being able to assess credit, their ability to reach out their customers in a timely fashion, including giving them forbearance during their times of stress place them in a unique position that cannot be replaced by technology, nor can they be replaced by large banks because the knowledge that is required to assess, lend, and thereafter collect from these segments is indeed a specialised skill, built in many cases, over generations. Bear in mind, many of the smaller NBFCs are still family owned and family managed and often, three or even four generations of knowledge, relationships, expertise have been built up which no amount of artificial intelligence or machine learning can substitute. Technology is certainly a great support, a great enabler, but in this uniquely diverse landscape with its varied tapestries, it is, in my view, well-nigh impossible to build models that will answer to every situation.

As we look ahead to the next 10, 20, 30 years, and as India moves towards becoming a 5 trillion Dollar economy and beyond, with a young and aspirational population where 60% or so of our population is in the working age group, their dreams and ambitions will provide the foundations for an exciting new India that is waiting to be built. We as NBFCs, have an extremely vital role to play, alongside the banks and the larger institutions. NBFCs-big, medium, and small–will continue to be the bridge for the small entrepreneurs to move on to bigger things and into mainstream businesses, but at the start of their journey, it is us, the NBFCs, who have to hold their hands and lend them the financial support they need, to enable them to build on their dreams and move forward.

NBFCs – Challenges on the journey ahead

No doubt there will be challenges, the biggest of which is technology. Of course, this is something all of us recognize and each one of us is aware of the need to address the challenges of technology.

An equally important challenge will be that of funding. Unfortunately, there is still a lot of negativity around NBFCs thanks to a few high-profile failures in the sector, in recent times. However, what we can and must do is continue our commitment to the conduct of a responsible and ethical business and demonstrate that we are capable of being a disciplined set of players within the larger financial system.

The third one of course is regulation. We must expect that regulation will only get tighter since the publicly stated view of RBI is to harmonise regulations between NBFCs and Banks. FIDC, as an industry body has been vocally representing the problems and challenges that we face as NBFCs, but I think we should get accustomed to the reality that regulation is not going to become easier.If at all, it will only become tougher, but as we have demonstrated in the past, we have both the ability to adapt, and the resilience to bounce back from situations, however difficult they may be.

In closing, I would say that NBFCs have a very strong role to play in the growth and development of our economy and particularly in terms of financial inclusion, in the years ahead. Mukeshbhai's dream of the small NBFCs reaching out and improving the lives of people at the bottom of the pyramid is totally intact, completely alive. Wherever you are Mukeshbhai, you should be happy that the fantastic legacy you left behind will be carried forward not only by your team at MAS Financial Services Ltd. but by the entire NBFC sector.

Thank you for your attention, ladies and gentlemen. ■

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022: RBI/ DOR/2021-22/89; DoR.FIN.REC.95/03.10.038/2021-22 March 14, 2022. [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks, All Primary (Urban) Co-operative Banks/ State Co-operative Banks/District Central Co-operative Banks, All Non-Banking Financial Companies (including Microfinance Institutions, and Housing Finance Companies)]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Addition of 1 entry (entity) : RBI/2021-2022/183; DOR. AML. REC.94/14.06.001/2021-22; 10.3.2022; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Removal of 2 entries: RBI/2021-2022/178; DOR. AML. REC. 91/ 14. 06.001/2021-22; 08.3.2022; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Implementation of 'Core Financial Services Solution' by Non-Banking Financial Companies (NBFCs) : RBI/2021-2022/175; DoS.CO.PPG.SEC/10/11.01.005/2021-22; 23.2.2022; Department of Supervision; [All Non-Banking Financial Companies]

Regulations Review Authority (RRA 2.0) – Interim Recommendations – Discontinuation / Merger / Online Submission of Returns: RBI/2021-2022/163 DoS. CO. PPG. / SEC.08/11.01.005/2021-22; 18.2.2022; Department of Supervision; [All Scheduled Commercial Banks / All Payments Banks All Small Finance Banks / All Co-operative Banks All NBFCs / All Credit Rating Agencies]

Regulations Review Authority (RRA 2.0) – Interim Recommendations – Withdrawal of Circulars: RBI/2021-2022 / 162; DoS. CO. PPG. / SEC. 09 / 11. 01. 005/2021-22; 18. 2. 2022; Department of Supervision; [All NBFCs/ RNBCs]

New Definition of Micro, Small and Medium Enterprises – Clarification: RBI/2021-2022/161; FIDD.MSME & NFS.BC.No.16/06.02.31/2021-22; 18.2.2022 ; Financial Inclusion and Development Department; [The Chairman/ Managing Director/Chief Executive Officer All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks /All-India Financial Institutions/ All Non-Banking Financial Companies]

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications: RBI/2021-2022/158; DOR.STR.REC.85/21.04.048/2021-22; 15.2.2022; Department of Regulation. [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks All Primary (Urban) Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks All-India Financial Institutions (Exim Bank, NABARD, NHB and SIDBI) All Non-Banking Financial Companies (including Housing Finance Companies)]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Deletion of 3 entries: RBI/2021-2022/152; DOR. AML. REC. 82/ 14.06.001/2021-22; 19.1.2022; Department of Regulation. [The Chairpersons/ CEOs of all the Regulated Entities]

Framework for Facilitating Small Value Digital Payments in Offline Mode: RBI/2021-2022/146; CO. DPSS. POLC. No. S1264 / 02-14-003/2021-2022; 03.1.2022; Department of Payment and Settlement Systems. [The Chairman / Managing Director / Chief Executive Officer Authorised Payment System Operators and Participants (Banks and Non-banks)]

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List- Addition of entries: RBI/2021-2022/145; DOR. AML. REC. 75 / 14. 06.001/2021-22; 03.1.2022; Department of Regulation. [The Chairpersons/CEOs of all the Regulated Entities]

Bank Finance to NBFCs

The Reserve Bank on January 05, 2022 issued a Master Circular on Bank Finance to Non-Banking Financial Companies with consolidated instructions up to January 04, 2022. See: Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs): RBI/2021-22/149; DOR. CRE. REC. No. 77/ 21. 04. 172/ 2021-22; January 05, 2022; (All Scheduled Commercial Banks (excluding RRBs)

Loans can be upgraded from NPA to standard category only upon repayment of entire arrears: RBI

Loan accounts can be upgraded from non-performing asset (NPA) to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all credit facilities in the case of borrowers having more than one credit facility from a lending institution, according to RBI. This is as according to RBI's clarification on 'Prudential Norms on Income Recognition, Asset Classification and Provisioning.

Banks wanted the RBI to allow them to treat the two exposures separately due to provisioning implications. In its November 2021 circular, the RBI observed that some lending institutions upgrade accounts classified as NPAs to 'standard' asset category upon payment of only interest overdues and partial overdues. In order to avoid any ambiguity in this regard, the central bank had clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower.

With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), the instructions as specified for such cases shall continue to be applicable. In its clarification, the RBI said the 'previous 90 days period' for determination of 'out of order' status of a Cash Credit /Overdraft account shall be inclusive of the day for which the day-end process is being run. [Business Line, Feb. 15]

NBFCs get extra 6-months to keep system ready to implement NPA norms

RBI has given finance companies extra time till September 30, 2022 to have systems ready to implement rule wherein bad loans can be upgraded as 'standard' asset only when entire arrears of interest and principal are paid. In November 2021, RBI had given time till March 31, 2022 to implement the rule.

Mahesh Thakkar, director-general, Finance Industry Development Council (FIDC) said, "This is good for the industry as finance companies had asked for additional time. The financial year closure was approaching (March 2022), so firms will not be adversely affected. NBFCs will be able to provide, realign and also educate customers".

"There are issues like keeping small accounts out of this ambit of this rule which are yet to be addressed", he added.

Clarifying queries in asset recognition for lenders including banks and finance firms, RBI in a notification said the definition of 'out of order' will apply to all loans offered as an overdraft facility. This includes overdrafts not meant for business purposes and also those which entail interest repayments as the only credits.

The 'previous 90 days period' for determining 'out of order' status of a Cash Credit and Overdraft account will include the day for which the day-end process is being run.

Moreover, when borrowers have more than one credit facility with the lender, they have to repay the entire arrears of interest and principal for all the credit facilities to upgrade the account from non-performing asset to standard asset category. [BS Reporter, Feb. 16]

Specified NBFCs to implement core financial services solution by Sept 30, 2025: RBI

NBFCs–Middle Layer and NBFCs-Upper Layer with 10 and more 'fixed point service delivery units as on Oct 1, 2022 will be expected to implement the solution

Specified non-banking finance companies will have to implement core financial services solution by September 30, 2025. "…it has been decided that NBFCs– Middle Layer and NBFCs-Upper Layer with 10 and more 'fixed point service delivery units' as on October 1, 2022 shall be mandatorily required to implement 'Core Financial Services Solution (CFSS)', akin to the Core Banking Solution (CBS) adopted by banks," the Reserve Bank of India said on Wednesday. A 'fixed point service delivery unit' is a place of operation from where the business activity of non-banking financial intermediation is carried out by the NBFC and which is manned either by its own staff or outsourced agents. NBFC – Middle and Upper Layers with 10 or more 'fixed point service delivery units would be expected to implement this on or before September 30, 2025. "However, NBFC-UL shall ensure that the CFSS is implemented at least in 70 per cent of 'fixed point service

delivery units' on or before September 30, 2024," the RBI said.

Implementation of CFSS would not be mandatory for NBFC – Base Layer and NBFC – Middle and Upper Layers with less than 10 'fixed point service delivery units'. "However, they may consider implementation of a CFSS for their own benefit," the RBI said.

Seamless customer interface

The CFSS shall provide for seamless customer interface in digital offerings and transactions relating to products and services with anywhere and anytime facility, enable integration of NBFCs' functions, provide centralised database and accounting records, and be able to generate suitable MIS, both for internal purposes and regulatory reporting. The RBI's circular in October last year on Scale Based Regulation for NBFCs had said that NBFCs with 10 and more branches are mandated to adopt Core Banking Solution. NBFCs would be expected to submit a quarterly progress report on implementation of the Core Financial Services Solution, along with various milestones as approved by the board or committee of the board to the RBI from quarter ending March 31, 2023. [Business Line, Feb. 23]

RBI's Regulations Review Authority recommends withdrawal of additional 100 circulars

The Regulations Review Authority (RRA 2.0) has recommended withdrawal of additional 100 circulars in the second tranche of recommendations even as it suggested elimination of paper-based returns. The authority, which was set up in April 2021 with an objective to reduce the compliance burden on Regulated Entities (REs), has identified 65 regulatory returns that would either be discontinued/ merged with other returns or be converted into online returns. The RRA had recommended withdrawal of 150 circulars in the first tranche of recommendations made in November 2021.

The central bank, in a statement issued on Friday, said the RRA has also recommended creation of a separate Web page, 'Regulatory Reporting' on the RBI website to consolidate information related to regulatory reporting and return submission by the regulated entities at a single source.

These recommendations are expected to ease regulatory compliance for the regulated entities while improving the accuracy, speed and quality of data submission, it added. [Business Line, Feb. 18]

RBI's new fintech department has its work cut out

RBI created a new department to supervise and regulate fintech last week. It had previously hived off a division from within its Department of Payment Settlement Systems for this purpose. The creation of a dedicated department—the highest organizational unit within RBI for workflow allocation—is much needed in the light of rapid developments in fintech in recent years. Aside from the growth of pure-play fintech, this ecosystem has seen the entry of 'Big Tech' like Alibaba, as well as decentralized products and services based on blockchain technology. As the central bank should anticipate a vigorous contest for this emerging financial-services market, its new Fintech Department has its work cut out. Through the department, RBI plans to "not only promote innovation in the sector, but also identify the challenges and opportunities associated with it". [Mint, 11 Jan.]

RBI's New Rules Give Fintech Firms Wider Access to Credit Data

Financial technology firms could get wider access to credit data of millions of Indians after the Reserve Bank of India laid down new rules for entities that are able to access such data from credit information companies or credit bureaus. Until now, regulated firms such as those registered as non-bank lenders had access to such data. The RBI's latest set of rules do not specify that only regulated entities can access this data for purpose of analytics, allowing more companies to seek data from credit bureaus. The regulator, however, mandates that these "specified users" should be incorporated in India and owned and controlled by Indians. These entities should also have diversified ownership and relevant experience, the RBI said.

The Credit Information Companies Act limited data access to banks, NBFCs, regulated brokers, credit institutions, insurance providers and telecom companies among others, explained Navin Surya, chairman, Fintech Convergence Council. Unregulated financial services companies had to go through eligible partners for access, he said. A person familiar with the matter said the regulator wants to curb reckless lending and improve credit data processing. The new framework can help in that. [Bloomberg, Jan. 7]

RBI issues regulations under the amended Factoring Regulation Act, 2011

Government of India has recently amended the Factoring Regulation Act, 2011 ("the Act") which widens the scope of companies that can undertake factoring business. RBI issues regulations under the amended Factoring Regulation Act, 2011. In exercise of the powers conferred under the Act, the Reserve Bank has issued the following regulations:

a. Registration of Factors (Reserve Bank) Regulations, 2022 issued vide Notification No. DOR.FIN.080/CGM(JPS) – 2022 dated January 14, 2022 (published in Official Gazette – Extraordinary – Part-III, Section 4 dated January 17, 2022).

b. Registration of Assignment of Receivables (Reserve Bank) Regulations, 2022 issued vide Notification No. DOR.FIN.081/CGM(JPS) – 2022 dated January 14, 2022 (published in Official Gazette – Extraordinary – Part-III, Section 4 dated January 17, 2022).

Under the provisions of the regulations mentioned above, all existing non-deposit taking NBFC-Investment and Credit Companies (NBFC-ICCs) with asset size of Rs. 1,000 crore & above will be permitted to undertake factoring business subject to satisfaction of certain conditions. This will increase the number of NBFCs eligible to undertake factoring business significantly from 7 to 182. Other NBFC-ICCs can also undertake factoring business by registering as NBFC-Factor. Eligible companies may apply to the Reserve Bank for seeking registration under the Act. Further, in respect of trade receivables financed through a Trade Receivables Discounting System (TReDS), the particulars of assignment of receivables shall be filed with the Central Registry on behalf of the Factors by the TReDS concerned within 10 days. [RBI Press Release, Jan. 20]

Reserve Bank plans to bring all NBFCs under TreDS platform

The Reserve Bank of India plans to onboard all NBFCS on the Trade Receivables Discounting System (TReDS) platform, which is an initiative of the central bank to facilitate MSME receivable payments from corporates.

"Going forward, all NBFCs will be allowed to onboard the TreDS platform. In addition we have said TReDS can access GST and other linkages which are available so that any financial entity requires any information that should be possible, Kumar Sharma, executive director of RBI at the panel discussion Springboard@ 75 at SIDBI-ET summit.

He said RBI launched the TreDS platform, where MSME, the corporate buyer and a financier in the form of a bank which is available. In 2018 Government came out with the direction that the corporate with Rs 500 crore turnover must necessarily be on the TreDS platform, the compliance has been tardy but this matter is being pursued.

He said there are six crore MSMEs employing 12 crore people, contributing 45 % of the manufacturing output, 40% of exports and more than 28 per cent of GDP. However, there is huge mismatch vis a vis the credit that is required and that is flowing to the sector, with the gap being Rs 2.58 lakh crore. He said the most important thing that would benefit the MSMEs and banks in terms of increasing credit to the sector is adopting technology. [ET BFSI, Feb. 28]

Corporate bonds issuances to benefit from RBI's proposed norms: India Ratings

RBI's new norms propose to include corporate bonds along with existing securities that are allowed within the HTM category and removal of the 25% limit for this category

RBI discussion paper on prudential norms for banks' investment book, if implemented, is expected bring structural changes by allowing corporate bonds to qualify for the held to maturity (HTM) book, India Ratings and Research said. The proposed inclusion of corporate bonds will catalyse banks' investment in corporate bonds, especially long-term bonds, it said.

The rating agency believes there will be some key challenges in case of allowing corporate bonds in HTM. Firstly, HTM provides exclusion from regular mark to market; therefore, in the case of worsening credit quality, notional losses may go up disproportionately.

As per the discussion paper, an impairment test will be required to be conducted on a quarterly basis and if any impairment is found, it shall be debited to the profit and loss (P&L) account. India Ratings said to

avoid such a phenomenon, certain rating restrictions through a minimum rating threshold limit are required to trigger mark to market, and subsequent alignment with market-based pricing. Secondly, HTM in corporate bonds will reduce the stock of corporate bonds for trading, therefore impinging market liquidity, it said.

"Globally, the corporate bond market plays a key role in the financial system; a vibrant corporate bond market ensures better credit underwriting and efficient market mechanisms. Although market-based funding is more susceptible to vagaries in the capital market, it does not surpass the benefits of a developed bond market," it said. [Live mint, Feb. 2]

22.3% jump in consumer complaints under the various Ombudsman schemes

RBI saw a 22.3% jump in consumer complaints under the various Ombudsman schemes for the fiscal year 2020-21 [for 9 month period due to change in RBI financial year], bulk of them related to debit cards, online banking and credit cards. The Annual report covers the activities under the Banking Ombudsman Scheme, Ombudsman Scheme for non-banking financial companies (OSNBFC) and Ombudsman Scheme for Digital Transactions (OSDT). Banking Ombudsman accounted for 90.13% of complaints whereas OSNBFC accounted for 8.89% and OSDT accounted for 0.97% of the complaints during FY21.

The banking ombudsman received 2.73 lakh complaints during FY21, lower than 3.08 lakh complaints received during the previous year. The complaints related to ATM/debit cards transactions, mobile and electronic banking and credit cards accounted for 42.7% during the fiscal year 2020-21 compared to 44.65% in the previous year. OSNBFC on the other hand, saw a 38.7% jump in complaints, having received 26,957 complaints during the FY21 compared to 19,432 complaints in the previous year.

Under OSNBC, majority of the complaints related to non-adherence to FPC, non-observance to RBI directions and levy of charges without notice accounting for 75.32% of the complaints as compared to 63.23% in the previous year.

"The disposal rate improved significantly from 92.36% during July 1, 2019 to June 30, 2020 to 96.67% during July 1, 2020 to March 31, 2021, a five-year high, despite the volume of complaints handled being higher than the previous year on an annualized basis, and the human resources remaining the same, which can be attributed to end to-end digitization of complaint processing in CMS," said RBI in its report. [MINT, 12 Jan]

Maintain constant vigil on financial sector: FM Sitharaman to regulators

The high-level FSDC headed by Finance Minister Nirmala Sitharaman on February 22 deliberated on the challenges emanating from global and domestic developments and asked the regulators to maintain constant vigil on the financial sector. The Financial Stability and Development Council (FSDC) meeting attended by various financial sector regulators, including RBI Governor Shaktikanta Das, comes against the backdrop of rising tension between Russia and the US over Ukraine.

The Council also discussed measures required for further development of the financial sector and to achieve an inclusive economic growth with macroeconomic stability. "The Council deliberated on the various mandates of the FSDC and major macro-financial challenges arising in view of global and domestic developments.

"The Council noted that the government and all regulators need to maintain constant vigil on the financial conditions and functioning of important financial institutions, especially considering that it could expose financial vulnerabilities in the medium and long-term," the finance ministry said in a statement. [Business Standard, Feb. 22]

RBI Governor exhorts banks and NBFCs to continue process of capital argumentation

Reserve Bank Governor Shaktikanta Das on February 10 urged banks and NBFCs to continue the process of augmentation of capital and building up of appropriate buffers to meet future uncertainties. Unveiling the bi-monthly policy, Das said RBI has been watchful of the impact of the pandemic on the banking and NBFC sectors when the effects of regulatory reliefs and resolutions fully work their way through.

The Reserve Bank has accorded the highest priority to preserving financial stability by taking quick and decisive steps to ease liquidity constraints, restore market confidence and prevent contagion to other segments of the financial market, he said. Thus, he said, despite the pandemic-induced bouts of volatility, the Indian financial system has remained resilient and is now in a better position to meet the credit demands as recovery takes hold and investment activity picks up. [Business Standard, Feb. 10]

Small Value Digital Payments

The Reserve Bank on January 03, 2022 placed, on its website, the 'Framework for Facilitating Small Value Digital Payments in Offline Mode'. The framework incorporates the feedback received from the pilot experiments on offline transactions conducted in different parts of the country during the period from September 2020 to June 2021.

An offline digital payment means a transaction which does not require internet or telecom connectivity. Under this new framework, such payments can be carried out face-to-face (proximity mode) using any channel or instrument like cards, wallets and mobile devices. Such transactions would not require an Additional Factor of Authentication (AFA). Since the transactions are offline, alerts (by way of SMS and / or e-mail) will be received by the customer after a time lag. Transactions are subject to a limit of ₹ 200 per transaction and an overall limit of ₹ 2000 for all transactions until balance in the account is replenished. Balance replenishment can only occur in an on-line mode. Offline mode of payment can be enabled only after obtaining specific consent of the customer. Customers shall enjoy protection under the provisions of circulars limiting customer liability issued by Reserve Bank (as amended from time to time). [RBI circular, Jan. 3, 2022]

Not authorised any entity to address public grievances: RBI

Customers having grievances against Regulated Entities [REs] for deficiency in services, which is not redressed satisfactorily or in a timely manner by the REs can directly lodge their complaint on the Complaint Management System (CMS) portal (https:// www. rbi. org. in) or by e-mail at crpc@rbi.org.in, the Reserve Bank noted. The RBI on Wednesday said it has not authorised any external agency to redress public complaints against regulated entities.

Instances of misinformation being spread through certain sections of the social media about the Reserve Bank – Integrated Ombudsman Scheme 2021 (RB-IOS) – have come to the notice of the RBI, the central banks said in a statement. "It is clarified that RBI does not have any such arrangement with any entity for (the) redress of grievances against the Regulated Entities (REs). RBI has laid down a cost-free grievance redress mechanism under RB-IOS, which does not involve payment of fees or charges in any form or manner," it said. Customers having grievances against REs for deficiency in services, which is not redressed satisfactorily or in a timely manner by the REs can directly lodge their complaint on the Complaint Management System (CMS) portal (https:// www. rbi. org. in) or by e-mail at crpc@rbi.org.in, the apex bank noted. [Financial Express, March 9]

RBI unveils harmonised framework for microfinance lenders

RBI has asked regulated entities (REs) lending to the microfinance segment to ensure that loans are collateral-free and not linked with a lien on the borrower's deposit account, repayment obligations are capped, interest rates are not usurious, and there is no pre-payment penalty. These clauses are part of the central bank's harmonised regulatory framework for regulated lenders, including scheduled commercial banks, small finance banks, NBFC-MFIs and NBFC-Investment and Credit Companies.

Following the harmonisation of the regulatory framework, the central bank has done away with the margin caps that were specifically applicable to non-banking finance company—microfinance institutions (NBFC-MFIs). The central bank said the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, will be effective from April 1, 2022.

RBI said all collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households — households having annual income up to Rs.3 lakh — shall be considered microfinance loans.

The margin caps (not exceeding 10 per cent for large MFIs with loan portfolios exceeding Rs 100 crore and 12 per cent for the others) are no longer applicable to NBFC-MFIs. [Business Line, March 14]

EXTENSION OF RBI DEADLINE: WELCOME RELIEF FOR NBFCs, AND BORROWERS

The recent extension is a positive move both for borrowers and lenders. This will align the norms for NBFCs with those for banks.

YS Chakravarti
MD and CEO,
Shriram City Union Finance

Non-Banking Financial Companies (NBFCs) play a critical role in the Indian economy by providing access to funds to the last-mile customer. NBFCs provided credit of a sizable nature, amounting to over Rs. 26 lakh crore to individuals and various industries as of September 2021. Credit growth, at under 10% as of Decemeber 2021, indicates languishing credit demand. While the green shoots of recovery are visible in some sectors, small businesses are not out of the woods yet.

The government and RBI have taken several steps like the interest subvention and credit guarantee schemes, special liquidity windows and long term-repo operations to support the MSME sector. However, such sectors need continued regulatory support, including easy access to cheap credit, to help them tide over cash-flow disruptions.

Against this backdrop, RBI's decision to extend the deadline for implementation of its November 2021 circular on the recognition of non-performing loans by NBFCs is a relief. This will give a breather to NBFCs' bottom line, give them more time to put the new systems and processes in place, and also put less pressure on borrowers' credit profile. As per the circular, NBFCs need to recognise NPAs on a daily due-date basis. They can upgrade an account from 'NPA' to 'standard' only on payment of entire arrears, including interest. This will align the norms for NBFCs with those for banks. The deadline has now been extended to September 30, 2022.

RBI also specified that the exact due date for repayment, the frequency of repayment, breakup between principal and interest, and examples of special mention or NPA classification dates must be clearly specified in the loan agreement. Further, in the case of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified.

Earlier, the industry practice was to recognise stressed loans on a period-end basis and upgrade loans even on partial payment. The combination of day-end recognition and stricter norms for loan upgradation implies that stressed loans of NBFCs are likely to get classified as NPAs quicker and stay as NPAs longer, until the new collection mechanism is put in place.

The recent extension is a positive move both for borrowers and lenders; however, the extension would have been a lot more helpful had it come along with RBI's November 2021 circular, where RBI revised the framework for NBFCs to classify loans as 'standard' or 'NPA' as per Income Recognition and Asset Classification (IRAC) norms.

In Q3FY22 most NBFCs absorbed the impact of the RBI norms, taking a hit of ~100-300 bps on their GNPAs; thus, the clarification only defers the adoption of the new norms. Further, NBFCs are unlikely to reverse the provisions already existing, due to accounting complexities. Until the gap between the old and new NPA methodology is reduced, reversing the provisions will not seem fit. The hit from the revised norms has been higher for NBFCs that lend to economically weaker individuals, small businesses ,and vehicle financiers, due to the irregular repayment behaviour of small borrowers and cash-flow disruptions.

On the customer front, individual entrepreneurs and MSMEs, below a certain outstanding exposure, should be totally exempt from the new classification norms as their cash-flow mismatches are usually long-term.

Further, the norms have come just as NBFCs were seeing

[Continued on Page-10]

PM MODI ASKS FINANCIAL INSTITUTIONS TO COME UP WITH FUTURISTIC IDEAS TO MEET THE EMERGING ECONOMIC NEEDS

"Our Financing Sector will also have to consider innovative financing and sustainable risk management of new futuristic ideas and initiatives," stressed Prime Minister

"We have done many fundamental reforms and made new schemes to strengthen MSMEs. The success of these reforms is dependent on strengthening their financing"

The Prime Minister, Shri Narendra Modi on March 8 addressed a webinar on 'Financing for Growth & Aspirational Economy'. He said that the government has taken many steps to maintain the momentum of high growth in this budget. "By encouraging foreign capital flows, reducing tax on infrastructure investment, creating institutions like NIIF, Gift City, new DFIs, we have tried to accelerate financial and economic growth", he said. "The country's commitment to the widespread use of digital technology in finance is now reaching the next level. Be it 75 Digital Banking Units or Central Bank Digital Currency (CBDCs) in 75 districts, they reflect our vision", he added

The Prime Minister stressed the link between India's aspirations and strength of MSME. "We have done many fundamental reforms and made new schemes to strengthen MSMEs. The success of these reforms is dependent on strengthening their financing", he said.

The Prime Minister insisted that Industry 4.0 is not possible till the country moves ahead in the fields like fintech, agritech, meditech and skill development. Help of financial institutions in such areas will take India to new heights in industry 4.0, said the Prime Minister.

The Prime Minister asked whether India can emerge among top 3 countries in the sectors like constructions, startups, recently opened up sectors like drones, space and geo-spatial data. For this, he said, it is imperative that our industry and start up get full support of the financial sector. The expansion of entrepreneurship, innovation and search for new markets among the startups will happen only when there is deep understanding of these ideas of future among those who finance them. "Our Financing Sector will also have to consider innovative financing and sustainable risk management of new futuristic ideas and initiatives", Shri Modi emphasized.

He said India's aspirations are also linked with natural farming and organic farming. "If someone is coming forward to do new work in them, then it is necessary to think about how our financial institutions can help him", he added.

Referring to the work and investment in the health sector, the Prime Minister emphasized that in order to tackle the challenges relating to medical education, it is critical to have more and more medical institutions. "Can our financial institutions and banks can prioritize this in their business planning", the Prime Minister asked.

The Prime Minister touched upon environmental and ecological dimension of the budget. He reiterated India's goal of net-zero by 2070 and said that the work in this direction has already started. "To speed up these works, it is necessary to accelerate environment friendly projects. Study and implementation of green financing and such new aspects is the need of the hour today", he said. [PIB 8 March]

NBFCs HAVE EMPOWERED THEM WITH AGILITY, INNOVATION AND A CUTTING EDGE IN PROVIDING FORMAL FINANCIAL SERVICES: RBI REPORT

"Many NBFCs also recalibrated their business strategies, leveraging on digital technology with a strong emphasis on data analytics. NBFCs have a competitive edge in their superior understanding of regional dynamics, well-developed collection systems and personalised services in the drive to expand financial inclusion in India. Lower transaction costs, quick decision making, customer orientation and prompt provision of services have typically differentiated NBFCs from banks .": Report on Trend and Progress of Banking in India 2020-21

1. NBFCs have carved their place in the economy having the competitive edge

Reserve Bank of India in its "Report on Trend and Progress of Banking in India 2020-21" released on Dec. 28 noted that during 2020-21, NBFCs consolidated their balance sheets with credit deployment gaining traction, improved asset quality and enhanced capital buffers notwithstanding the testing challenges imposed by the pandemic. The ongoing COVID-19 pandemic has deeply impacted the NBFC sector. In Q1:2020-21, they faced severe disruptions during and in the wake of the nation-wide lockdown, leading to a standstill of economic activity and a contraction of Gross Domestic Product (GDP) by 24.4 percent. As the impact on the real sector spilled over to financial markets, NBFCs witnessed a sharp drop in collections and disbursements and a substantial increase in the cost of their borrowings even as access to market funding became restricted. The provision of moratorium also had an impact on their cash inflows, resulting in reduction in collections. Timely measures on monetary, fiscal, and regulatory fronts by the Reserve Bank and the government aided their revival, eased financial conditions and bolstered market sentiments. From Q2:2020-21 onwards, the situation improved, aided by policy support. Many NBFCs also recalibrated their business strategies, leveraging on digital technology with a strong emphasis on data analytics. The NBFC sector faced headwinds again when the second wave hit the country by March2021. With the passing of the second wave, the outlook is brightening again; however, downside risks remain significant.

NBFCs have a competitive edge in their superior understanding of regional dynamics, well-developed collection systems and personalised services in the drive to expand financial inclusion in India. Lower transaction costs, quick decision making, customer orientation and prompt provision of services have typically differentiated NBFCs from banks. The reach and last mile advantages of NBFCs have empowered them with agility, innovation and a cutting edge in providing formal financial services to underbanked and unserved sections of the society.

2. NBFCs Credit Intensity Rose Consistently

NBFCs can be classified on the basis of a) asset/liability structures; b) systemic importance; and c) the activities they undertake. In terms of liability structures, NBFCs are subdivided into deposit-taking NBFCs (NBFCs-D) - which accept and hold public deposits - and non-deposit taking NBFCs (NBFCs-ND) - which source their funding from markets and banks. Among non- deposit taking NBFCs, those with asset size of Rs.500 crore or more are classified as non-deposit taking systemically important NBFCs (NBFCs-ND-SI). As on September 30, 2021, there were 52 NBFCs-D and 312 NBFCs-ND-SI. Based on activities, there are 11 categories of NBFCs.

3. Ownership Pattern

The Reserve Bank has been monitoring the operations and growth of NBFCs-D in order to secure depositors' interest, given that deposits of NBFCs-D are not covered by the Deposit Insurance and Credit Guarantee Corporation (DICGC). The Reserve Bank has mandated that only investment grade NBFCs-D shall accept fixed deposits from the public up to a limit of 1.5 times of their NOF and for a tenure of 12 to 60 months only, with interest rates capped at 12.5 per cent.

4.Balance Sheet Expanded at Faster Rate by Growth in Credit and Investments of NBFCs-ND-SI

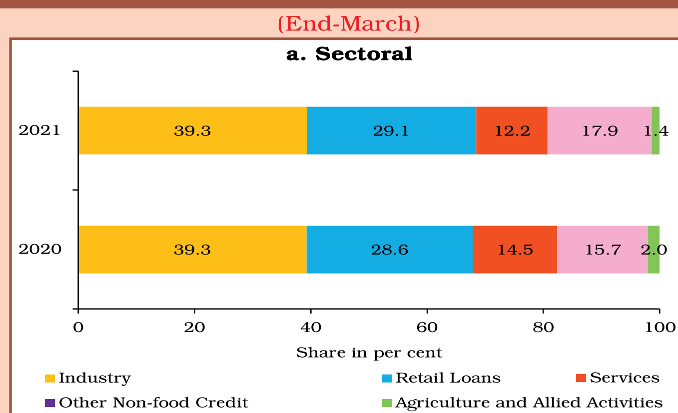
Public deposits of NBFCs-D grew strongly in 2019-20 and 2020-21 and remained a stable source of funding. On the assets side, investments continued to grow at an accelerated pace, while loans and advances picked up pace marginally vis-à-vis 2019-20 .

They sanctioned Rs. 1.34 lakh crore and disbursed over Rs. 79,000 crore to distribution utilities (DISCOMs) under the Liquidity Infusion Scheme as part of the Aatmanirbhar Bharat Abhiyaan of the Union Government. Under this scheme, they extended special long-term transitional loans at concessional rates to DISCOMS to enable them to clear their outstanding dues. A renewed focus on encouraging green energy and introduction of policy measures to boost renewable projects has enabled greater funding of renewable energy projects by NBFCs. Another government-owned NBFC in the railway sector recorded substantial growth (48 per cent) in annual disbursements in 2020-21. These three government-owned NBFCs contributed 35.5 per cent of credit flows from the NBFC sector during the year.

5. Sectoral Distribution of Credit of NBFCs

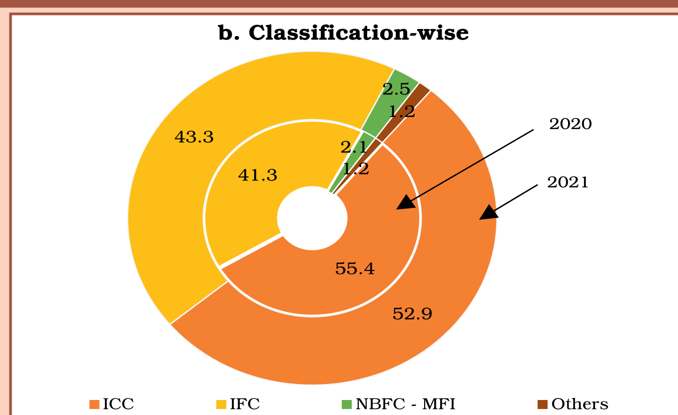
Industry remained the largest recipient of credit extended by the NBFC sector, followed by retail loans and services. In 2020-21, the share of the retail loan portfolio of the sector continued to rise with a concomitant fall in the share of services sector. ICCs and IFCs together comprise 96.2 per cent credit extended by NBFCs as of end-March 2021. The fall in the share of ICCs was primarily due to the strong growth of other two categories viz., IFCs and NBFCs-MFI (Chart 1 & 2).

Chart-1 : Distribution of NBFCs Credit



Source: Supervisory Returns, RBI.

Chart-2 : Distribution of NBFCs Credit



Source: Supervisory Returns, RBI.

In 2020-21, the recovery in sectoral lending of NBFCs has been uneven. Credit to agriculture and services recorded absolute declines, while retail and industrial sectors expanded. Growth in retail loans was primarily driven by housing loans, vehicle loans, microfinance and loans against the collateral of gold.

Both ICCs and NBFCs-MFI increased lending to the industrial sector at the cost of lending to agriculture. ICCs reduced their exposure to services [including commercial real estate (CRE)] in contact-sensitive segments severely affected by the pandemic. As NBFCs- MFI are required to have a minimum of 85 per cent of their net assets in microfinance loans by regulation, the share of retail loans in their overall credit portfolio is the largest. IFCs lend mostly to the industrial sector.

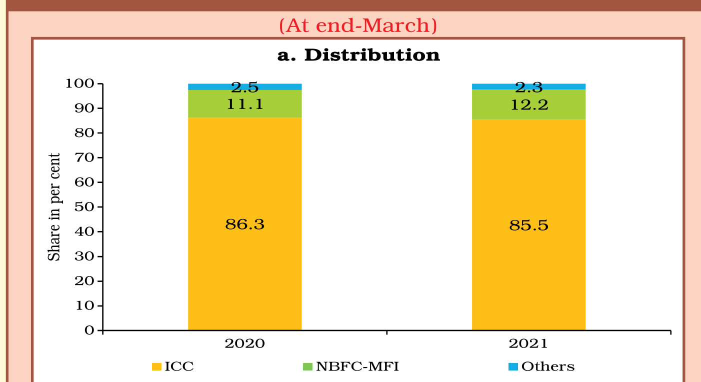
Notwithstanding disruptions caused by COVID-19 during the year, NBFCs' industrial credit grew, reflecting their lending to the power and railway sectors, by government-owned NBFCs, as alluded to earlier.

The MSME sector was among the most pandemic afflicted sectors. Accordingly, the Reserve Bank and the Union Government introduced several measures to revive activity in the sector: a) special refinance facilities for AIFIs, which included Rs. 15,000 crore to SIDBI for on-

lending/refinancing to the MSME sector; b) Emergency Credit Line Guarantee Scheme (ECLGS) which provided Rs. 3 lakh crore of unsecured loans to MSMEs and business; c) extension of the scheme of one-time restructuring of loans to MSMEs without an asset classification downgrade; d) permitting bank lending to NBFCs (other than MFIs) for on-lending to agriculture, MSMEs and housing to be classified as priority sector lending (PSL); e) introduction of on-tap Targeted Long-Term Repo Operations (TLTRO) in October 2020 for reviving specific sectors, including MSMEs.

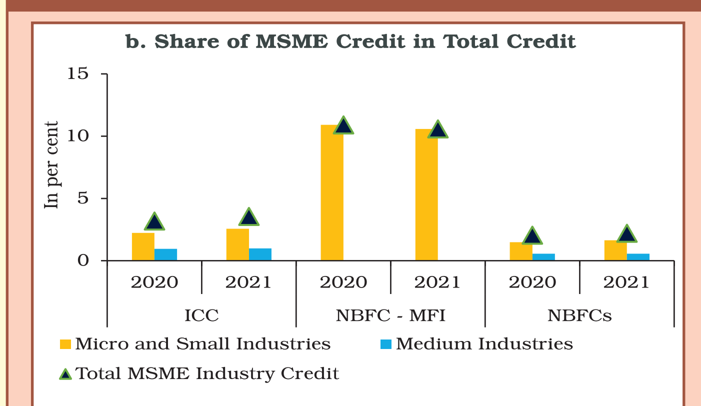
NBFCs' credit to MSMEs grew at 17.8 per cent during 2020-21. ICCs, together with NBFCs- MFI, are the main purveyors of MSME credit (Chart 3). Eleven per cent of the NBFCs- MFI' loan book comprises micro and small loans (Chart 4).

Chart-3 : MSME Credit by NBFCs



Note: MSME lending to industrial sector only.
Source: Supervisory Returns, RBI.

Chart-4 : MSME Credit by NBFCs



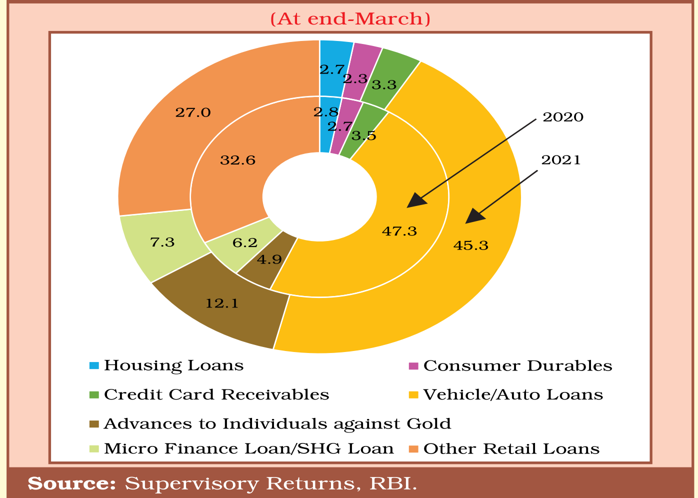
Note: MSME lending to industrial sector only.
Source: Supervisory Returns, RBI.

In view of the significance of the sector for income and employment generation, many regulatory policies to support the sector have been extended. The scheme of one-time restructuring of loans to MSMEs without an asset classification downgrade was extended in May 2021 and the exposure threshold was increased to Rs. 50 crore in June, 2021. The on Tap TLTRO scheme was extended till December 31, 2021. The special refinance facility was bolstered in April 2021 by providing fresh support of Rs.15,000 crore to the SIDBI to meet the funding requirements of MSMEs during 2021-22. In June 2021, another special liquidity facility of Rs. 16,000 crore was provided to the SIDBI for on-lending/refinancing through novel models and structures including double intermediation and pooled bond/loan issuances to meet MSMEs' short and medium- term credit needs with a focus on smaller MSMEs and businesses, including those in credit deficient and aspirational districts. The Union Government extended the ECLGS facility till September 30, 2021 or till guarantees worth Rs. 3 trillion are issued. Bank lending to registered NBFCs was permitted to be classified as PSL till September 30, 2021.

Nearly one-fourth of NBFCs' credit to the services sector goes to commercial real estate. In the total lending to commercial real estate by SCBs and NBFCs, the share of NBFCs was a sizable 25.5 per cent in March 2021. Credit flows to this segment have been severely affected as both banks and NBFCs reduced their exposures in view of the pandemic. In fact, credit flows from NBFCs were in the negative zone in 2020- 21 while banks' lending to the segment increased only marginally.

Vehicle loans credit, the largest segment in retail loans, witnessed reduction in share during 2020-21 owing to disruption of activity while the share of lending against gold doubled (Chart-5).

Chart-5 : Distribution of Retail Loans of NBFCs



Source: Supervisory Returns, RBI.

Vehicle financing is a niche area for NBFCs in which they still account for a predominant share. Component-wise, sales growth of commercial vehicles continued to be in the negative zone in 2020-21 while passenger vehicle sales picked up marginally aided by the opening up of the economy and a growing preference for personal vehicles. Tractor sales grew at a robust pace in 2020-21 as agriculture and rural areas were relatively insulated from the first wave and normal monsoon whetted activity. Consequently, NBFCs rebalanced their credit portfolios in favour of this section.

Incremental credit flows of NBFCs to the vehicle loans segment outpaced those of SCBs. By 2020-21, NBFCs had a larger vehicle loan portfolio than SCBs.

NBFCs consolidated their position in the gold loan segment vis-a-vis SCBs in 2020-21.

NBFCs-MFI play a crucial role in furthering financial inclusion, with a share of 31.1 per cent in total micro-credit.

Microfinance was adversely impacted by the pandemic. During the first wave of the pandemic (Q1:2020-21), the segment faced calamitous business interruptions with drop in collections on account of the nation-wide lockdown as well as the moratorium. Resumption of demand for credit facilitated higher disbursements by Q4:2020-21. The second wave further reduced the disbursements due to localised lockdowns. Nevertheless, the decline in Q1:2021-22 was not as severe as in Q1:2020-21.

In the case of NBFCs-MFI, the pandemic had differential impact on big and small NBFCs- MFI. The impact of the second wave was subdued as compared to the first wave -outstanding loans in June 2021 were higher than what was witnessed till December 2020, which bears testimony to the resilience of the segment.

6. Financial Performance of NBFCs

NBFCs' income growth decelerated steeply, as both NBFCs-ND-SI and NBFCs-D reported lower incomes in 2020-21. However, the sector has leveraged technology to counter the challenges posed by the pandemic through rationalisation of expenditure. Net profits of NBFCs-ND-SI witnessed a significant improvement in the aftermath of the first wave of COVID-19 and their cost to income ratios dropped. Conversely, NBFCs-D experienced a moderation in their income due to marginal growth in fund-based income. This, coupled with rising interest payments, increasing cost to income ratio and other expenditures, resulted in a decline in their profits. Net profits of NBFCs during H1:2021-22 declined on the back of fall in fund-based income.

Total expenses of NBFCs moderated during the year as interest expenses declined, although an increase in interest paid on fixed deposits reflected NBFCs-D preference for public deposits. Operating expenses declined during the year as NBFCs successfully reined in administrative costs by leveraging technology. Provisions against NPAs, however, increased significantly during the year reflective of NBFCs bracing for a potential increase in impaired assets after lifting of the asset classification standstill. In 2021-22 so far, expenses increased marginally as interest burden on bank credit declined.

[Report on Trend and Progress of Banking in India 2020-21, Reserve Bank of India, Released on Dec. 28]

FIXING THE FINANCIAL ARCHITECTURE

An empowered, well-funded resolution authority is urgently needed to strengthen the financial sector

C K G Nair & M S Sahoo

A bank failure makes major headlines as it affects the lives of many depositors and, in some cases, generates systemic stress or even instability. Often that is the case with the failure of non-banking finance companies (NBFCs) as well. It is because deposit-taking is considered a "high-intensity" promise that must be honoured and failure to do so invites serious consequences to all stakeholders. Even non-deposit taking NBFCs are indirect deposit-takers since their main source of funds is borrowing from the banks and the public.

The recent instances of such failures and their consequences are fresh in our minds: PMC Bank, Yes Bank, IL&FS, DHFL, SREI and Reliance Capital, all in rapid succession. Understanding the NBFC-bank linkage and its impact on the real sector, the Reserve Bank of India (RBI) has belatedly brought NBFCs under the Prompt Corrective Action framework, rightly softening the regulatory distinction between the banks and NBFCs.

The quick resolution of failure of high-intensity promising organisations has been an area of serious policy debate in advanced financial jurisdictions for decades. As a result, specialised organisations have been created to address such events with minimum disruption to the systems and the economy. The US Federal Deposit Insurance Corporation and the Canadian Deposit Insurance Corporation do precisely this. They insure deposits; supervise financial institutions for safety, soundness, and consumer protection; and make large and complex financial institutions resolvable.

In India, however, the regulators have been reluctant to give up their turf by insisting on a "cradle to grave" approach towards the entities under their regulatory oversight. Despite such a general posture, when the Financial Sector Legislative Reforms Commission (FSLRC) recommended a specialised authority, the Resolution Corporation (RC), to resolve failing financial institutions, there was not much resistance to the idea per se, though on details some differences persisted. A recognition of the importance of such an organisation was clear. The government acted on this proposal of the FSLRC by introducing the Financial Resolution and Deposit Insurance, or FRDI, Bill in 2017.

A road map to avoid any ambiguity or friction between the regulator and RC — as laid out by the FSLRC in terms of a five-stage approach —was also part of the FRDI Bill. It included:

1. Low risk to viability: RC will monitor the covered financial service provider, or FSP based on available data.

2. Moderate risk to viability: RC will conduct a special examination of the health of the covered FSP, communicate its concerns to the latter and may levy a premium surcharge.

3. Material risk to viability: In addition to 1 & 2 above, the RC will seek a resolution plan and intensify its engagement with the covered FSP.

4. Imminent risk to viability: Within 90 days of such a determination, the RC will apply for receivership of the covered FSP and the regulator must appoint the RC as the receiver.

5. Critical risk to viability: The RC will cancel or terminate all policies of insurance and apply for liquidation.

In all stages, except five, the regulator could apply its regulatory tools and intensify engagement with the FSP, till it was placed under the receivership of the RC. As such the role of the regulator was never undermined by the introduction of RC as a specialised authority to deal with the failure of FSPs and to manage deposit insurance, including its pay-outs.

Despite many positives, the FRDI Bill was withdrawn in 2018 following disagreement on one sub-clause regarding funding resolution. This provision of "bail-in"— partly using depositors' money in case of shortage of funds in resolving the failure of an FSP— was not a recommendation of the FSLRC. It recommended a well-funded RC through adequate capital, deposit insurance cover, risk-based premium and lines of credit from the government during major crises. Given this, the entry of a sub-clause for "bail-in" in the FRDI Bill, its withdrawal without much effort to save the Bill by removing the controversial sub-clause belie logic.

Though the RC, conceived long ago, is awaiting birth, the complex cases of IL&FS and DHFL reopened the eyes of the policymakers. However, they opted for using the now successful Insolvency and Bankruptcy Code, 2016 (IBC), a sub-optimal option, in resolving DHFL. Though an FSP is prone to insolvency for similar reasons as a company, additionally, the stress of companies spills over to the FSPs, leading to the famous "twin balance sheet" problem. Though the IBC experiment in the case of DHFL largely succeeded, the slow pace of resolution and the end result were far from satisfactory. The sub-optimal solution, if continued for long, is likely to be the regular solution, creating incentives to resist the optimal solution.

An FSP is structurally different from a company, though it may be registered as a company. An FSP uses "others'/clients" money for its business while a company uses equity and debt (debt is "other people's money" and cushions the differences somewhat). Differences in concerns of stress and objectives of resolution require a different approach for resolution of an FSP vis-a-vis a real sector entity.

Quick resolution of FSPs' stress is important for effective consumer protection. In the case of a systemically important financial institution speed becomes paramount in preventing spill-overs and systemic instability. The failure to strengthen the institutional architecture in tune with such regulatory requirements is myopic. Bad banks are only temporary solutions; till their own non-performing assets become overwhelming. Fintech disruptions are adding enormous weight of uncertainties on FSPs. Wake up! An empowered, well-funded resolution authority is an urgently needed pillar for strengthening the financial sector's regulatory-institutional architecture.

Nair is director, National Institute of Securities Markets, and was part of the team that designed and drafted the insolvency law. Sahoo, distinguished professor, National Law University, Delhi, was associated with its implementation. [Business Standard, Feb.7] ■

[Continued from Page-7 : EXTENSION OF RBI DEADLINE]

regularisation in cash-flows led by gradual economic recovery. Even as collection efficiency is improving across the sector, these norms may offset the gains in portfolio quality and provisioning requirements, leading to stagnant or marginally higher NPAs industrially in the short-term. However, six months from now, owing to the positive rub off from the budget's capex, the economy could be in a much better place and delinquencies could start to drop.

The NBFC industry has requested a further extension till March 2023, exemption of MSME loans, vehicle loans of up to 25 lakh, and retail loans of up to 2 crore, at least until economic conditions revert to the pre-pandemic state. Any softening in stance will lead to a healthy overall revival for the industry. As such, provisioning requirements for most lenders are not likely to increase as NBFCs follow the Ind-As accounting standard, wherein provisions are based on expected credit loss.

However, the gap between stage-3 assets and NPA ratios could take some time to narrow given the short-term surge in bad loans. The NBFC industry will work on strengthening of the collection efforts and processes in the 0-30 and 31-60 days-past-due buckets to avoid account downgrades and keep asset quality in check. This will be beneficial in the long term as it will enable overall better portfolio quality for individual companies and the sector, increase focus on and innovation in collection processes, and encourage better credit discipline from borrowers. [Financial Express, March 3] ■

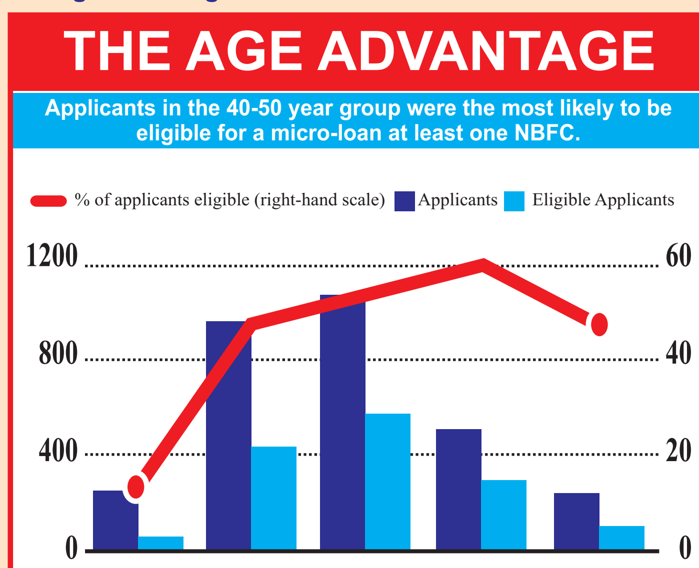
FAR TOO MANY SMALL BUSINESSES IN INDIA STUMBLE ON LOAN ELIGIBILITY

Yugank Goyal, Nikhilla B.; associate professor at Flame University

An analysis of micro-loan applications shows that entrepreneurs would fare better if they are trained on how to avail credit

The importance of the micro, small and medium enterprises (MSME) sector in India cannot be emphasized enough. Providing employment to about 120 million people, contributing about 30% of our gross domestic product (through manufacturing and service activities) and 45% of overall exports, MSMEs are crucial for promoting inclusive growth and encouraging innovation. In this context, nano-enterprises hold a special place. These are snacks counters, catering services, beauty salons, fashion boutiques, kirana stores and the like. In terms of volume, micro-units constitute 99% of all MSMEs, of which nano-enterprises form a considerable majority. The 73rd Round NSSO results of 2015-16 indicated that there are 62 million informal enterprises with less than 20 workers, 65% of which were single-worker units. These are survivalist enterprises with a few lakh rupees in annual turnover. To ignore this sector is unwise.

The age advantage



Government Schemes for MSMEs-Nano Units

The Central Government recognizes this. In order to bridge gaps in access-to-credit for small business owners, it had launched several schemes. For instance, the PM MUDRA (Micro Units Development and Refinance Agency) scheme and the Emergency Credit Line Guarantee Scheme, through which collateral free credit up to Rs.10 lakh was to be offered. These schemes, unfortunately, have not been as successful as envisaged. Disbursements are slow, which in turn affect MSMEs' books of accounts. Banks have not necessarily been enthused by the schemes either. Awareness is another problem. For instance, MSMEs trying to avail these loans often approach a bank without any business plans. Then there is the PM SVANIDHI (PM Street Vendors AtmaNirbhar Nidhi), which offers street vendors loans of Rs. 10,000, but even this programme has faltered on account of implementation snags.

A major problem is lack of data and knowledge on nano-units. By definition, most of these micro enterprises are informal in nature and therefore not enumerated in most surveys. And ground-level data gathering is difficult.

Analysis of dataset of nano enterprises collected by deAsra Foundation

Recently, we examined a large dataset of nano enterprises collected by deAsra Foundation, a nonprofit organization based in Pune, which has been assisting a large number of micro enterprises for several years. One of its programmes, an MSME loan initiative, was designed to match borrowers with a potential micro-lending financial institution (non-banking finance companies), thus reducing the search cost for both the parties involved. Entrepreneurs had to submit biographic, business and financial information, on the basis of which they were screened in. Through this single-window portal, entrepreneurs could apply to multiple NBFCs. Eligibility did not mean loan disbursement, but that eligible applicants would be considered.

Since all entries were done online, the exercise yielded a rich, first-of-its-kind, novel ground-level dataset on 3,000+ nano-enterprises, most of whom needed loans of less than Rs.1 lakh.

The most important finding was that only 49% were found to be eligible for a loan from one NBFC or another. The criteria that NBFCs laid down for eligibility included the supply of an applicant's postal pin code, loan amount, business type, business age, and if the applicant had a UPI identity, apart from address proof, bank statements and co-borrower's identity.

We realized that NBFCs valued these parameters differently. Logistic regression, a statistical technique, indicated that the pin code, loan amount and business age were most important for most NBFCs. The postal pin code was important because NBFCs perhaps preferred applicants in specific locations. We also found that applicants with a business address proof, co-borrower (a guarantor, that is, often a relative) and bank statement were more likely to qualify. It was also found that individual/proprietorship business has a significantly higher likelihood of qualifying than a private limited or partnership firm.

Females were more likely to be eligible than males: older ones had higher eligibility

At another level, the results of our study indicated that females were more likely to be eligible than males. If one looked at age, loan candidates with ages between 30-40 years formed the dominant applicant group, although older ones (40-50 years) had higher eligibility chances (see chart). In terms of business age, businesses which were 11-20 years old were the predominant eligible group, closely followed by those which were up to 10 years old. We also noticed that different NBFCs had different preference for business type (industry/sector), with no clear preference for one against the other, indicating that they were industry-agnostic.

Higher valued-loans did not default more

We also examined the cases of 131 candidates who secured loan from one of the NBFCs, and estimated default statistics. Those with higher valued-loans did not default more than those with smaller amounts. Read differently, this may indicate small loans tend to be defaulted upon more. At the same time, women borrowed a higher number of small loans and defaulted less, which supports the micro-lending scholarly narrative too. We also realized that most defaults were on working-capital loans.

Since small loans and working-capital loans were suffering from higher defaults, it appears that there is a need for training these micro-entrepreneurs. While young entrepreneurs applied more for loans, the older lot had better chances of being eligible, which suggests that experience is considered useful. In turn, this points to the need for training. Think about it: Many entrepreneurs who had bank accounts claimed they did not have bank statements and NEFT facilities, which indicate a lack of knowledge that can easily be addressed by training. Policy guidelines often miss the importance of this.

What challenges micro-businesses face?

This study allowed us to better understand what challenges micro-businesses face, specifically with respect to access to funds, in the country. More importantly, it also illuminated areas that require intervention. For instance, lack of financial literacy and the need for training and awareness are acute. We also learnt that for availing credit from micro-lending programmes, a business's geographical location could be crucial. While for this study, the majority of entrepreneurs were from Maharashtra, we hope that wider micro-level analyses of small businesses emerge from the ground that can be used to inform public policy.

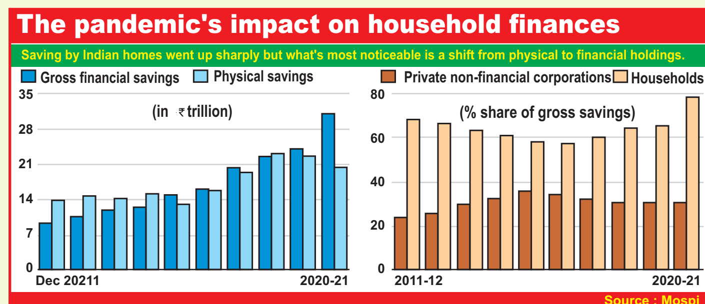
[Mint, 12 Jan.; Pradnya Godbole and Mayank Patel contributed to this article with data from deAsra Foundation. Yugank Goyal & Nikhilla B. are, respectively, associate professor at Flame University and an independent researcher. Sub-heading and emphasis are added to facilitate readers]

HOW THE VIRUS CHANGED OUR FINANCIAL BEHAVIOUR

Niranjan Rajadhyaksha

…it is worth pointing out that Indian households seem to have made a decisive switch from physical to financial savings, compared to what they did in the initial years of the previous decade… Financial hardships faced in 2020-21 could have lingering effects on household choices of spending, saving and borrowing Indian households faced a massive income shock in the worst months of the pandemic. How did they respond? And will their reaction have an impact on the trajectory of India's economic recovery in the years ahead?

The government recently released revised estimates on national income, consumption expenditure, savings and capital formation for the fiscal year that began soon after the pandemic hit India and ended on 31 March 2021. The new data can be used to get vignettes of how households managed through the crisis, especially their finances. Here are some salient facts.



The pandemic's impact on household finances

First, consumer spending in the first year of the pandemic fell compared to the previous fiscal year, more sharply in real terms than in nominal terms. Real personal final consumption expenditure, or consumer spending, came down by Rs.5 trillion, or nearly 6%. It fell by a more modest Rs.2 trillion (1.7%) in terms of current rather than constant prices.

Second, nominal spending on some items such as food, utilities, health and communications went up, despite the overall decline in consumer spending. The money spent on education remained more or less steady. The data on output suggests that households cut back on items such as clothing, footwear, restaurants and transport, partly because of the restrictions imposed on mobility during various lockdowns.

Third, even as the gross savings of Indian households went up by Rs.4.61 trillion in nominal terms, the distribution of these savings between financial and physical savings tells an important story. Gross financial savings increased by Rs.7.09 trillion while savings in physical assets declined by Rs.2.25 trillion. The money spent on precious metals such as gold and silver was more or less the same. (Note : Households include unincorporated enterprises in the informal sector.)

The sharp increase in gross financial savings by households in 2020-21 was partly forced by the harsh lockdown in the early months of the pandemic. The Reserve Bank of India had estimated that household financial savings had shot up to 21% of gross domestic product in the first quarter of 2020-21, but then came back to their normal level of around 8% once mobility restrictions were eased. The unusually high household savings in the first quarter have undoubtedly bloated the annual numbers, though this also means that the excess savings between April and June 2020 were not spent down.

Why would this be so? The answer is rooted in psychology. Economists generally believe that people respond to severely negative income shocks in two ways. They either borrow to maintain previous levels of consumption or cut their spending to protect savings. A lot depends on whether people expect the income shock to be temporary or permanent. The usual response to a temporary income shock is to smoothen consumption through borrowing, while in the case of a permanent income shock, the household cuts back on spending to protect savings over the long term.

The fact that household debt has not increased significantly in 2020-21, compared to the sharp increase in the two years after demonetization, suggests that Indian households have gradually begun to see income shocks as more permanent than transitory. This is just a guess from reading the macro numbers, but this is an issue that needs more detailed household surveys to understand the underlying behaviour.

It is likely that the gross financial savings rate of households—as a percentage of disposable income—will normalize as the economic recovery deepens. Yet, it is worth pointing out that Indian households seem to have made a decisive switch from physical to financial savings, compared to what they did in the initial years of the previous decade, when physical savings were higher than financial savings as a result of high inflation as well as negative real interest rates.

Effect on Private non-financial corporations

On the other hand, the savings of private sector companies—or private non-financial corporations, in the precise lingo of government statisticians— actually came down in nominal terms in 2020-21, by Rs.1.19 trillion. This fact sits uncomfortably with the overall trend of higher corporate profits plus weak capital spending by companies. Is it possible that the strengthening balance sheets of large companies hide the damage to the balance sheets of smaller companies?

The data cited in this column is on flows rather than stocks. It is quite likely that more savings in 2020-21 has increased the stock of household savings as well, though as this column had earlier argued in another context, a large increase in the stock of household financial savings is not immediately evident in banking data.

In countries such as the US, massive income support for households led to a stock of excess savings that is now being spent down, so an increase in household savings was a mirror image of a higher fiscal deficit. The Indian fiscal response to the pandemic shock was quite different, so the link between a higher fiscal deficit and household finances is less clear.

The Indian economy has recovered from its massive drop in output in the worst months of 2020. It is likely that the difficulties faced by households then could have lingering effects, especially in the choices made between spending, saving and borrowing. [Mint, Feb. 9; Niranjan Rajadhyaksha is CEO and senior fellow at Artha India Research Advisors, and a member of the academic advisory board of the Meghnad Desai Academy of Economics.]

[Continued from page-27 : PERISCOPE]

organizations

Many fintechs will reinvent themselves into data organizations and data providers that happen to provide payments and other financial services in order to differentiate their organizations in the eyes of investors and the market.

ESG-focused fintechs will have a big growth trajectory

Given the growing prioritization of ESG happening more broadly, there will likely be increasing interest in fintechs with ESG capabilities, including companies focused on climate change, decarbonization, and the circular economy.

There will be a stronger focus on deal making in underdeveloped regions

Investors will ramp up their targeting of jurisdictions considered to be under-developed in terms of financial services — making more deals in regions like Africa, Southeast Asia, Latin America, and the Middle East.

Unicorn status will lose some of lustre in developed markets, but remain key in emerging ones

The incredible rise in the number of unicorn companies, particularly in the US, will make the status less valuable for companies in developed markets — although it will continue to be an important building block for startups in emerging markets and less mature fintech hubs. [KPMG: Pulse of Fintech H2' 21, January 2022 Report]

HOW CO-LENDING CAN HELP BANKING SECTOR

K Ram Kumar

Co-lending framework is a great enabler for flow of credit to SME with NBFC bridging the last mile. Top bankers and NBFC chiefs say the co-lending model is a win-win proposition for banks, NBFCs and their customers

Co-lending may be just what the doctor ordered for improving the flow of credit to the unserved and underserved sectors of the economy at an affordable cost, going by the flurry of tie-ups between banks and non-banking finance companies (NBFCs) in the last few months. Top bankers and NBFC chiefs say the co-lending model (CLM) is a win-win proposition for banks, NBFCs and their customers.

The Reserve Bank of India (RBI) had issued a circular to scheduled commercial banks (excluding small finance banks, regional rural banks, urban co-operative banks and local area banks) on CLM on November 5, 2020, with a view to better leverage the comparative advantages of banks and NBFCs in a collaborative effort in respect of all categories of priority sector lending.

In view of incipient stress in micro, small and medium enterprises (MSME), there is a possibility that once the Emergency Credit Line Guarantee Scheme (ECLGS) ends on March 31, 2022, bankers may turn more circumspect in lending to MSMEs. But co-lending tie-ups can assuage any concerns they may have in lending to MSMEs.

ECLGS provides 100 per cent guarantee coverage from the National Credit Guarantee Trustee Company to select borrowers. Banks have restructured 24.51 lakh MSME accounts aggregating Rs.1,16,332 crore since January 2020 in the wake of the pandemic, as per RBI data. There is uncertainty as to how these accounts will perform in the third wave of the pandemic. So, banks can overcome their risk aversion through co-lending partnerships with NBFCs, which have demonstrated their prowess in sourcing, underwriting, disbursing and collecting loans.

CLM is based on the symbiotic relationship between banks and NBFCs. Lower cost of funds from banks and the greater reach of the NBFCs are expected to benefit borrowers. Under CLM, NBFCs are required to retain a minimum of 20 per cent share of the individual loans on their books, with the balance being held by banks. It is the mid- and small-sized NBFCs with below 'AA' rating, whose cost of funds is relatively higher, that are entering into tie-ups with banks.

NBFC ratings

However, large NBFCs with 'AA' and 'AAA' ratings, which are able to access low-cost resources from the market, see no particular advantage in partnering with banks." NBFCs are more efficient in sourcing, lending and collecting. What they lack is the cheaper source of funds, which we have. So, the partnership (between banks and NBFCs) is a win-win," Rajkiran Rai G, MD & CEO, Union Bank of India, said at the FICCI-IBA Conference (FIBAC) last month.

But getting CLM right is a big challenge as there are multiple issues – balance-sheet based lending model of banks versus cash-flow based lending model of NBFCs; valuation; eligibility criteria (for example, relating to income); etc – that need to be addressed. "We are focused more on policies and have very rigid filters. So, you (borrowers) have to fit into that then only you will get a loan.

Whereas NBFCs are more amenable to changes/flexibility. "We are more data-driven whereas NBFCs are more practical. So, they look at a shop, footfalls, cash-flows, and decide the customer can repay and they can take the risk. That is the basic difference between NBFCs and banks," explained Rai.

The Union Bank chief underscored that his Bank is developing products, which are a hybrid between a pure bank product and a pure NBFC product, suitable for co-lending. Rai underscored that co-lending cannot happen through a traditional branch, which does traditional credit products because for staff mindset will be a big issue.

"So, we created a separate branch and a separate team, which is groomed specifically for sanctioning loans under CLM. "...the ultimate beneficiary will be the customer because he will get money easily and at the right price. Everybody is positive about this model. We can build on that," Rai said.

Financial sector expert PH Ravikumar noted that when banks look at co-lending, they look at NBFCs which, on a monthly basis, originate some decent amount relevant for their balance sheet. "If you take, say, State Bank of India, Bank of Baroda, ICICI Bank, and HDFC Bank, if an NBFC does monthly origination of less than Rs.100 crore, it does not make a difference to their balance sheet.

"When it comes to microfinance or MSMEs, the ability of specialised NBFCs to spot, manage and contain the risk is much better than large banks. NBFCs have the skill sets, local focus, and local intelligence. Besides a structured approach, physical touch and feel are is also important to assess credit," he said.

So, increasingly co-lending becomes important provided there is a minimum monthly origination. Ravikumar opined that banks, therefore, give lines of credit to NBFCs, become familiar with them and understand their ability to originate, manage and contain risk. And the moment they are comfortable with that they move to co-lending.

Prashant Kumar, MD & CEO, YES Bank, observed that in a very short time (just six months), his Bank has been able to fully implement co-lending partnerships with three large NBFCs. "And every month we are adding almost Rs.300 crore... And we have a clear visibility, whereby we would be able to do something around Rs.1,000 crore per month," Kumar said.

Advantage of co-lending

Shachindra Nath, Executive Chairman and Managing Director, U GRO Capital, emphasised that the advantage of co-lending is that the bank knows that though it is using the NBFC's intermediation, eventually its end exposure is not to the NBFC but to an end customer. "In the next two years, co-lending (riding on the data tripod of GST, banking and bureau) will become the mainstay of providing capital to the last mile through NBFC as an intermediary. And I have no doubt about this," he said at FIBAC.

Nath is of the view that collaboration between large banks and niche NBFCs/fintech, wherein lending as a service (LaaS), would become a prominent force. Boston Consulting Group (BCG), in a recent report, said that driven by adverse selection, public sector banks (PSBs) have had extremely poor debt experience in small business finance resulting in their declining growth and receding relevance in this important segment.

PSBs would benefit, in particular, from partnerships with third party platforms and NBFCs/fintechs with last mile reach, it added. The global consulting firm is of the view that CLM needs to be reimagined as an open digital marketplace as against a cumbersome to operationalise one bank-to-one NBFC contract "Co-lending framework is a great enabler for flow of credit to SME with NBFC bridging the last mile. In its current form, as a one-to-one deal, it is very cumbersome and slow to implement," BCG said.

The firm observed that RBI should reimagine co-lending as an extension of the Open Credit Enablement Network (OCEN) framework into the secured lending domain with standardised protocols for a range of issues from credit appraisal, accounting, NPA recognition, security creation and enforcement, among others. First Loss Default Guarantee (FLDG) is a powerful enabler of partnerships.

"We need to institutionalise a regulatory framework to establish FLDG by Lending Service Providers (LSPs) to a lender with provision of appropriate mandatory regulatory capital to back it. A separate NBFC (FLDG) license may be created for specific purpose of regulating such LSP," BCG recommended. [Business Line, Jan. 17]

NATION BUILDING Through MONEY LENDING

TATA Motorsfinance
driven by trust

'IT IS OPPORTUNITY NBFCS RATHER THAN ADVANTAGE NBFCS'

Experts shed light on the opportunities ahead for NBFCs and how they can capitalise on them at Business Standard Banking Annual BFSI Insight Summit in October 2021 [Edited excerpts: Updated at March 17, 2022]

Leading names in the non-banking finance space, HDFC Vice Chairman and Chief Executive Officer (CEO) **Keki Mistry**; Centrum Group Chairman **Jaspal Bindra**; Indiabulls Housing Finance Vice Chairman and Managing Director (MD) **Gagan Banga**; Piramal Retail Finance CEO **Jairam Sridharan**; Sundaram Finance MD **Rajeev Lochan**; and Navi Chairman **Sachin Bansal** joined Tamal Bandyopadhyay at the Business Standard BFSI Insight Summit in October 2021, and shed light on the opportunities ahead for NBFCs and how they can capitalise on them. Edited excerpts:

Is it "advantage NBFCs?"

Keki Mistry: I don't think there is anything like advantage NBFCs (non-banking finance companies) or advantage banks. Both have a role to play. There is liquidity and it is available to everyone in the system. Rajeev Lochan: It is "opportunity NBFCs", rather than "advantage NBFCs". There is tremendous opportunity for all financial services firms to play a meaningful role in shaping the trajectory of the Indian economy.

We need to take advantage of technology to drive innovation. The regulatory support has been put in place, which will serve us well. All NBFCs who have set very high standards of governance and compliance will automatically be able to convert the opportunity into an advantage.

Sachin Bansal: If you are a well-run company, you have an advantage. The environment is very conducive. As an outsider who came into the sector a couple of years ago, I found the regulator extremely positive in its mindset. I see banks are leaving a lot of opportunities on the table.

That's where nimble NBFCs like ours can come in and have some advantage, mainly because we are faster compared to banks. We believe finance is a purely digital product, and the amount of physical intervention that should be required should be close to zero. That is the future we are envisioning. The next ten years will be golden for the financial services sector.

Jairam Sridharan: India has too few banks. The United States has 4,913 banks and India has 34. If we are looking to become a $5 trillion economy, we need to get $6 trillion in credit, and currently it is $2.6 trillion. The large public sector banks, with the capital they have, can provide $1.5 trillion extra credit. The number of banks that we have cannot provide the extra credit required, which is why we need non-banking finance institutions.

Jaspal Bindra: Pre-2018, it was "advantage NBFCs", irrespective of any parameter. From late 2018 to 2020, barring a handful of NBFCs, it was disadvantage NBFCs. Now, we are seeing advantage NBFCs, but with a little more selectivity. It is "advantage NBFCs" in availability and cost of funds for everyone, but the highly rated, those with a better vintage and better governance are getting the real benefit.

Gagan Banga: It is "advantage NBFCs", given the large asset side opportunity we have. It's all about who focuses on the right niche segment. There are periods of a steady state, and then all businesses swing towards volatility.

I am grateful the central bank has acted with great maturity and handled all the problems, indicating that NBFCs are not light-touch country cousins of banks. Rather, they are well-regulated entities. For those who choose to abide by regulations, the future is certainly very bright.

Does capital play a big role, with 15 per cent not being adequate?

Mistry: We at HDFC raised capital last year, by virtue of which our capital adequacy is in excess of 20 per cent. But traditionally, I believe, 15 per cent capital adequacy is more than enough. The capital adequacy that rises out of a debt-equity ratio, or leveraging, ultimately impacts your return on equity. The higher the capital adequacy, the lower your rn on equity, and vice versa. So, one has to balance these two factors.

Sridharan: There is a lot of liquidity in the system. Now, everybody has a significantly higher capital adequacy ratio than what they had two years ago. People are swimming in capital but not lending enough, and that is what we need right now.

Bindra: I agree that there should be a balance, rather than having excess capital or too little capital. The issue is, as we have seen on several occasions in the past, that people have been wrong-footed for not having enough capital. Now, we have too much capital and a desire to lend too much too soon, which itself is a risk. We need a balanced approach.

Bansal: We are overly capitalised because we are a startup, and we have to build a brand and make a name for ourselves. Our excess capital gives the lenders a lot of comfort to work with us. We are growing fast but I don't see us getting to leverage limits.

Lochan: There is a 15-20 per cent corridor at which we operate, and we have never had to raise capital at all. All our capital comes from internal accruals. It does build some sort of speed governor within the organisation. Our approach has been a prudent balance between growth, quality and profitability. I think 15 per cent is very good, and that is what the regulator requires us to hold.

Banga: There could be different strategies, and one can manage with internal accruals. For companies that do not have a long history, they don't have the flexibility. We have never gone below 20 per cent and are currently operating at 30 per cent.

What are the lessons learnt from the 2018 crisis?

Banga: For companies that have high capital adequacy, even if you have done dumb lending, you will never grow, because of asset quality issues. We have forever believed that the existential risks for NBFCs come from the liability side. There were no liquidity buffers, and there were certain refinance mechanisms that fail in times of crisis. With hindsight, I believe that the counter to all risk is to have moderate gearing, work with banks, never compete with them, and live within your means.

Sridharan: Well capitalised institutions rarely go bust on the asset side, it's always the liability side. And, it's always liquidity that can create life-threatening issues for you. It's critical that you are fully covered when it comes to liquidity, and clearly, many institutions underestimated the vicious power of liquidity to bring you to life-threatening situations.

Lochan: As intermediaries of risk, we should all aspire to be marathon runners. There may be temptations to sprint in-between, but we all know what happens when a marathoner sprints. [Business Standard, March 17]

GEO-SPATIAL MAPS TRACKING THE GROWTH OF ECONOMIC ACTIVITIES

The use of another kind of data – geo-spatial data and cartographic techniques – through Satellite Images to track, compare and represent longer term developments of economic activities: Economic Survey-2021-22

Geo-spatial maps not only let users visualize data but also help users to better understand trends, relationships and patterns. The use of maps is not entirely new and previous Economic Surveys have used them for years, but there is now a plethora of information from satellites, drones, mobile phones and other sources. Moreover, there has also been a dramatic improvement in cartographic technology that allows for better representation of the information.

Using satellite images, India's night-time luminosity is compared between 2012 and 2021 in Figures 1A and 1B. Night-time luminosity provides an interesting representation of the expansion of electricity supply, the geographical distribution of population and economic activity, urban expansion as well as growth of ribbon developments between urban hubs.

Similarly, using geospatial and cartographic techniques, the subsequent maps show the extent of physical as well as financial infrastructure development in India. This includes expansion of national highways, airports, commercial bank branches, metros, etc. The maps have been created by combining satellite data over the course of a 12 month period in each year.

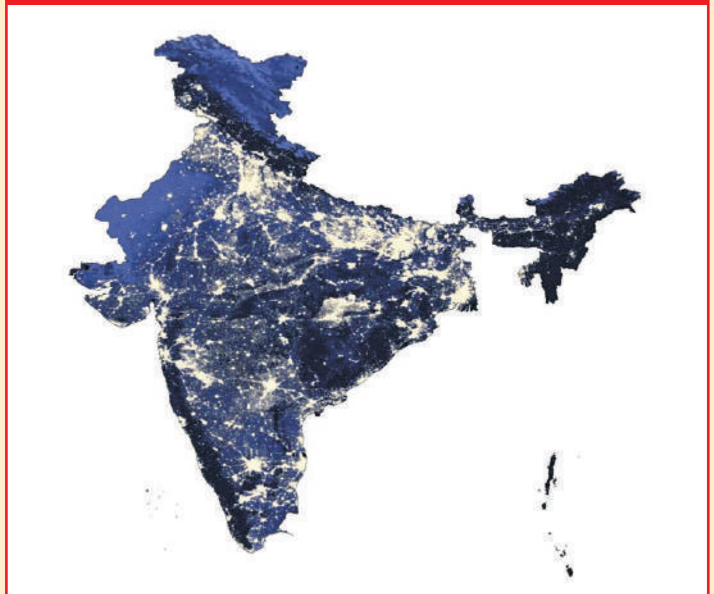
Here it is restricted to static two-dimensional images due to practical considerations of publication, readers may be aware that dynamic and multi-dimensional cartography is now commonplace for every-day activities like ordering a taxi or looking for an address.

Here we have given from Economic Survey-2021-22 presented on January 31, 2022 to the Parliament following six Map Charts of interest to the readers:

Figure 1A: India Night-time Luminosity 2012

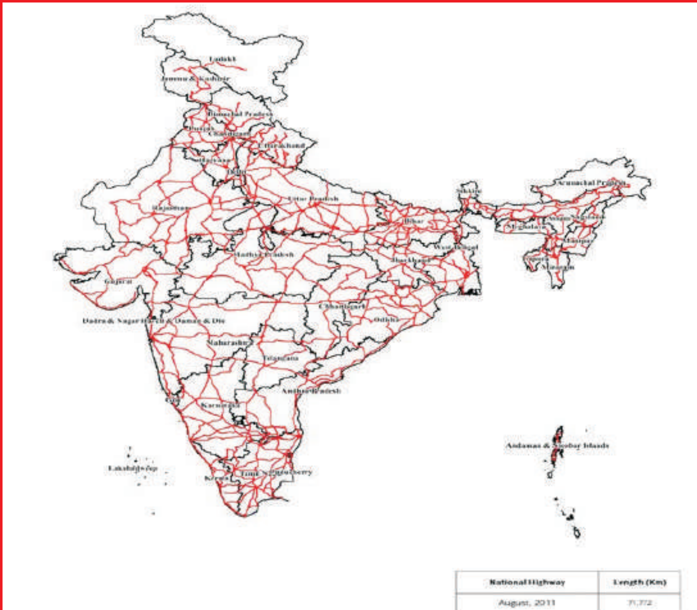
Source: NASA, MapmyIndia

Figure 1B: India Night-time Luminosity 2021



Source: NASA, MapmyIndia

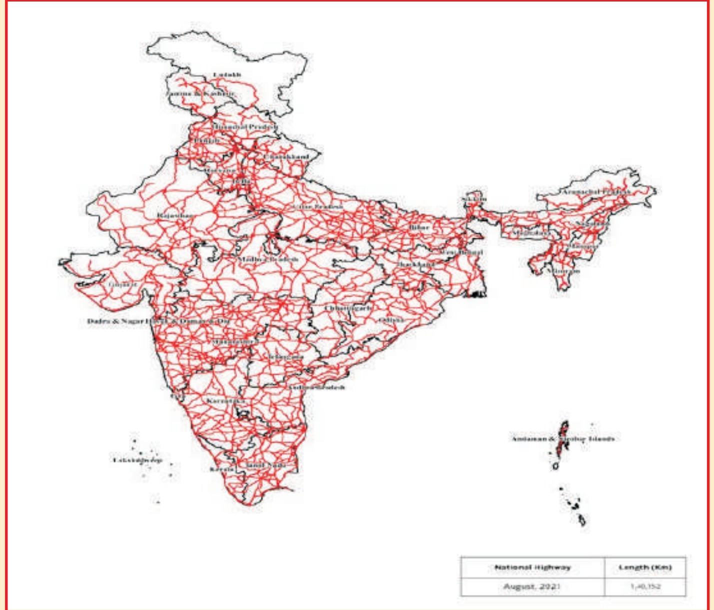
Figure 2A: India National Highway Network (As of August 2011)



National Highway	Length (Km)
August, 2011	71,772

Source: Minisry of Road Transport and Highways, MapmyIndia

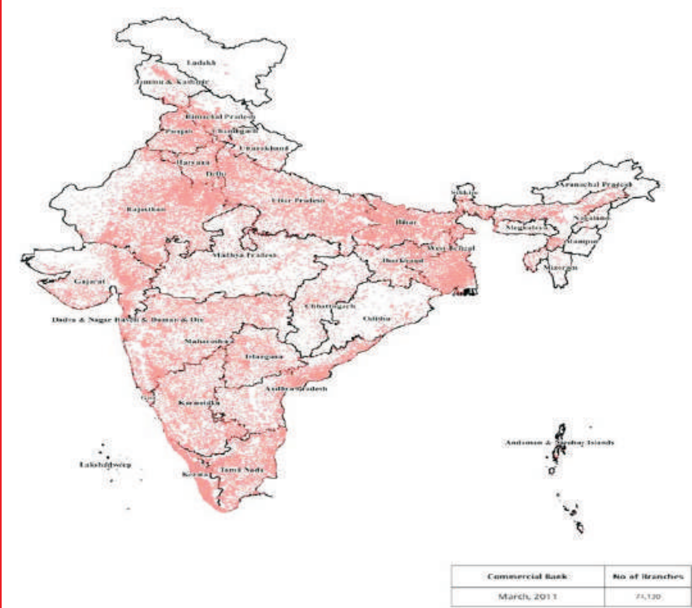
Figure 2B: India National Highway Network (As of August 2021)



National Highway	Length (Km)
August, 2021	1,40,152

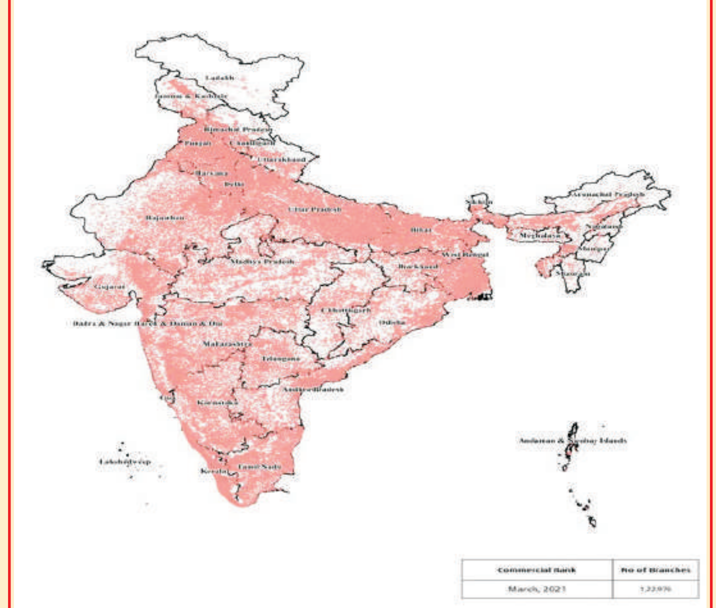
Source: Minisry of Road Transport and Highways, MapmyIndia

Figure 3A: Spread of Commercial Bank Branches in India (As of March 2011)



Source : Reserve Bank of India, Mapmy India

Figure 3B: Spread of Commercial Bank Branches in India (As of March 2021)



Source : Reserve Bank of India, Mapmy India

[Courtesy: Economic Survey-2021-Chapter -11]

[Continued from Page-24 : LEGAL EAGLE]

pertaining to doing business in India carry imprisonment as penalties, according to Observer Research Foundation. More than half the laws (or 54.9%) carry imprisonment clauses, the ORF said in its 'Jailed for Doing Business' report. Almost four out of every five (79.9%) compliances with imprisonment terms reside with state governments, the report notes, making a case for shedding the 'regulatory cholesterol' that governs businesses in India.

It's not that penalty clauses including imprisonment should not be in business laws but 26,134 imprisonment clauses are surely a regulatory excess whose biggest contribution would only be to create a rent-seeking climate, the report authored by Gautam Chikermane and Rishi Agrawal says. Labour Laws stand out for the number of imprisonment clauses. The report points out that the Companies Act, 2013 and its 14 accompanying rules themselves contain 176 imprisonment clauses and the jail terms range from three months to 10 years.

The other laws which the authors have pointed out for their distinct number of imprisonment clauses include: The Factories Act, 1948 along with its 58 rules contains 8,682 imprisonment clauses. The Legal Metrology Act, 2009 with its 29 rules has 391 imprisonment clauses. The Electricity Act, 2003 and its 35 rules contain 558 imprisonment clauses. The Motor Vehicles Act, 1988 with its nine rules. [Bloomberg, Feb. 15]

2,250 TECH START-UPS FOUNDED IN 2021 REGISTER 39 PER CENT CUMULATIVE GROWTH: NASSCOM REPORT

Nasscom identifies 135 soonicorns in tech sector that it anticipates getting unicorn status within the next 1-3 years

A total of 2,250 tech start-ups were founded in 2021, registering a 39 per cent cumulative growth (10 year compound annual growth rate (CAGR)) of Indian start-ups, according to a report by the National Association of Software and Service Companies (Nasscom).

The total number of Indian tech start-ups now stands at 25,000 to 26,000. Additionally, 12 per cent of all start-ups are leveraging deeptech to build solutions for local and global markets. Artificial Intelligence (AI) was the highest leveraged technology with a five year CAGR of 39 per cent followed by Internet of Things (IoT), Big Data and Analytics.

Inclusive, diverse ecosystem

The report states that the start-up ecosystem is becoming an inclusive and diverse ecosystem. As much as 48 per cent of start-ups are building solutions for India 1 and India 2 income groups; 10-15 per cent of start-ups have at least one woman co-founder, including 10 unicorns; 29 per cent of all start-ups are based outside established hubs.

Nasscom has also identified 135 soonicorns in the tech sector that it anticipates getting unicorn status within the next 1-3 years, following a large increase in the number of unicorns in the country last year.

Start-ups raised $24.1 billion in 2021, a two-fold increase over pre-Covid levels. In comparison to 2020, there was a 3X increase in number of high value deals (deals > $100 million). While the United States remains the leading source of foreign direct investment (FDI) in start-ups, worldwide involvement is also growing — 50 per cent of the deals had at least one India-domiciled investor.

Reducing compliance burden

Piyush Goyal, Minister of Commerce and Industry, at the launch of the report said the government is looking to reduce compliance burden to boost the ecosystem. It has already taken steps to resolve the angel tax issue. "Simplification of procedures, removal of restrictions and self-certification will be looked at. We have the budget coming up soon and all of us are anxiously waiting to see and hear what is done with some of the recommendations given…" he said.

Over 26,000 compliances have either been simplified, digitalised, or completely removed from the statute and 770 offenses have been decriminalised already, the minister added.

'Brighter future'

Further, Debjani Ghosh, President, Nasscom, said, "The performance of the Indian start-up ecosystem in 2021 has proved the resilience and dedication being put by multiple start-ups across segments. The ecosystem has grown immensely and positioned itself as a vital contributor to the growth of India's digital economy. With record-breaking funding, an increase in the number of unicorns, jobs being created in the near term, the Indian start-up ecosystem's future looks even brighter going ahead in 2022." [Business Line, Jan. 21]

Independent India at 100th year will be world's technological, economic powerhouse: Jitendra Singh

The minister pointed out that the government has tried to ensure digital infrastructure as a core utility to every citizen by providing unique digital identity, access to common service centres and has provided thousands of services on demand by seamless integration of services across departments and ministries.

Union Minister Jitendra Singh on January 15 said independent India will be the world's technological and economic powerhouse when it turns 100 years in 2047. Chairing the first ever meeting of sectoral experts to deliberate on Vision India @2047 from the governance perspective, organised by the Department of Administrative Reforms and Public Grievances (DARPG), he said several initiatives, policies, schemes and programmes during the last seven years have given rise to a new era, in what has been described as the dawn of New India and the emergence of Atmanirbhar Bharat. Singh, the Minister of State for Personnel, said that India in 2047 would have evolved beyond imagination.

"Not only are things moving fast, but the pace of this forward movement is much faster than ever before, which makes it very difficult to precisely visualise the exact shape of India that emerges 25 years from now," the minister said. But one thing is certain, he said, that when independent India turns 100, it will be the world's technological and economic powerhouse. Singh said, "As we formulate the vision for governance, one has to recognise that to bring citizens and government closer, digital institutions have to be created." He said that adopting 21st century management practices represents a significant challenge for governments and it is with this objective that Prime Minister Narendra Modi has embarked on the ambitious Vision India@2047 initiative. Referring to Prime Minister Modi's address on August 15 last year, Singh said India's "can do" generation can achieve every goal imaginable.

He said the unprecedented scale at which several programmes have been implemented like One Nation One Ration Card, e-Office, CPGRAMS, passport seva kendras, e-hospital reflects in the government's willingness to adopt the 'building to scale building to last' approach where reforms are deep rooted and long lasting, according to a Personnel Ministry statement.

The initiative for increasing efficiency in decision making envisaged reducing the channels of submission, financial delegation, operationalisation of e-Office version 7.0, digitisation of central registration units and operationalisation of desk officer system in all ministries and departments, the statement said. [Financial Express, Jan. 15]

India's economy set to improve over next 12 months: PwC Annual Global CEO Survey

The findings are based on a survey by the global consultancy that covered 4,446 CEOs in 89 countries and territories, including 77 from India, in October and November of 2021.

The optimism of India CEOs, up from 88 per cent last year, stands out at 94 per cent.

India's economic growth is all set to improve over the next 12 months despite the coronavirus pandemic-related problems and global headwinds, says the PwC Annual Global CEO Survey. The findings are based on a survey by the global consultancy that covered 4,446 CEOs in 89 countries and territories, including 77 from India, in October and November of 2021.

Despite a variety of headwinds, most notably those related to the ongoing pandemic, CEOs in India are significantly optimistic about the prospects for a stronger economy in the coming year, as per the survey released on Monday.

"99 per cent of CEOs in India believe India's economic growth will improve over the next 12 months, with 94 per cent of India CEOs being optimistic about global economic growth improving over the next 12 months as against 77 per cent of global CEOs," it said.

When it comes to the revenue prospects of their own companies, 98 per cent of CEOs are confident about growth during the same time period.

While for the most part, CEOs globally are at least as optimistic as they were last year about the prospects for economic growth in 2022, the optimism of India CEOs, up from 88 per cent last year, stands out at 94 per cent.

Sanjeev Krishan, Chairman of PwC in India, said that while Omicron has cast a shadow and CEOs are focused on the health and safety of their employees at the moment, their confidence and optimism over the past one year is a testimony to the resilience of Indian companies. The vigour with which most Indian business leaders took the challenges brought in by the pandemic head on, coupled with the will to emerge stronger in the face of adversity, has led to sustained growth for businesses in India, he said.

"Perhaps owing to the futuristic groundwork done during the difficult times, 97 per cent of India CEOs are confident about their own company's prospects for revenue growth not only in the near term but also over the next three years," he said.

Last year, 70 per cent of India CEOs viewed the pandemic as a top threat to growth while 62 per cent considered cyber threats as an impediment to growth.

This year, 15 per cent of CEOs in India are apprehensive about cyber risks hindering their company's ability to raise capital. "India CEOs also agree that cyber risks could cause severe revenue disruptions, with 64 per cent of respondents fearing a breach could hinder sales of products or services. Besides business disruptions, 47 per cent of chief executives believe cyber threats could impede their ability to develop products and services," the survey said.

Further, it said that among the India companies that participated in the survey, 27 per cent already have a net-zero commitment (22 per cent globally) in place, 40 per cent are in the process of developing and articulating their commitments (29 per cent globally), and only 30 per cent have neither made nor are in the process of making any net-zero commitment (globally 44 per cent). [Financial Express, Jan. 17]

Likely loan demand and terms and conditions of major sectors of economy in Q1 and Q 2 of FY 2022-23: RBI Survey

Reserve Bank released the results on February 10 of 18th round of its quarterly bank lending survey (BLS)[1], which captures qualitative assessment and expectations of major scheduled commercial banks (SCBs) on credit parameters (viz., loan demand, terms and conditions of loans) for major economic sectors ,i. e. agriculture, Mining & quarying, manufacturing, infrastructure, services and retail/personal[2]. The latest round of the survey collected senior loan officers' assessment of credit parameters for Q3:2021-22 and expectations for Q4:2021-22. Owing to uncertainty driven by the COVID-19 pandemic, an additional block was included in this survey round for assessing outlook for two quarters ahead as well as three quarters ahead.

Expectations for Q4:2021-22: Bankers reflected high optimism on loan demand from all major sectors during Q4:2021-22. Terms and conditions of loans are expected to ease further across the board during Q4:2021-22.

Expectations for Q1:2022-23 and Q2:2022-23: The momentum in loan demand from all the categories of borrowers is likely to be maintained till Q2:2022-23. Bankers expect easier terms and conditions of loans in the first half of 2022-23.

Sector-wise Expectations for extended period-Net responses

(Per cent)

Sectors	Loan Demand		Loan Terms and Conditions	
	Q1:2022-23	Q2:2022-23	Q1:2022-23	Q2:2022-23
All Sectors	56.9	53.4	29.3	25.9
Agriculture	48.3	50.0	31.0	31.0
Mining and Quarrying Sector	22.4	22.4	15.5	13.8
Manufacturing	55.0	50.0	26.7	26.7
Infrastructure	48.3	41.7	18.3	20.2
Services	55.0	53.3	30.0	31.7
Retail/Personal	48.3	53.3	31.7	33.3

(RBI Website)

NBFCs set to grow by 9.5% in FY22: Ind-Ra

India Ratings and Ratings (Ind-Ra) has maintained its stable outlook

on retail NBFC and housing finance company [HFC] sectors for FY22. Improved system liquidity and strong capital buffers have boosted loan disbursements, the ratings agency said. Ind-Ra has also maintained its negative outlook on the wholesale NBFCs, as they continue to face significant asset-quality challenges and increased competition from banks.

Among NBFCs, Ind-Ra has maintained a negative outlook on NBFCs offering commercial vehicle loans, loans against property, and small microfinance institutions, and a stable outlook on housing financiers, tractors and gold financiers for the next financial year.

Ind-Ra expects operating costs to normalize to pre-covid levels for NBFCs, leading to a moderation in pre-provision buffers to absorb higher-than-envisaged credit loss.

The rating agency expects non-bank lenders to grow by 9.5% year-on-year in FY22, whereas growth for HFCs would be around 10% year-on-year, higher than the expectations of 4-5% and 6.5%, respectively, for the fiscal year 2021.

While stress among NBFCs has moderated thanks to government schemes, Ind-Ra expects asset quality to remain elevated. Any recovery would hinge on the economy gaining momentum in FY22, it said. That said, the rating agency expects lower softer delinquencies and moderate addition to gross non-performing assets. [Mint, March 4]

Icra revises AUM growth outlook for retail NBFCs to 5-7% from 8-10% in FY22

Domestic rating agency Icra Ratings Thursday revised the asset under management (AUM) growth outlook of retail non-banking financial companies (NBFCs) to 5-7 per cent for the fiscal 2022 from an earlier expectation of 8-10 per cent. In the first half of FY2022, retail NBFCs grew by less than one per cent.

"Apart from the various regulatory changes over the last 3-4 months (such as scale-based regulations, prompt corrective action framework etc) and a muted H1 FY2022, we note that some of the key segments of retail-NBFCs, especially vehicle finance, are faced with supply-side constraints, which could pull-down growth vis a vis our expectation, even if the demand remains less impacted by the new wave of infections," the agency's Vice President (financial sector ratings) A M Karthik said. He expects AUM growth to revive to 8-10 per cent in FY2023. The agency said the growth outlook would be exposed to downside risk in case of significant disruptions caused by the new wave of infections in Q4 FY2022. [Business Standard, Jan. 21]

Covid after effects on NBFCs: Is the sector on revival path? CRISIL lists top 10 things to give a clear picture

The sector holds growth promise going forward, the report further said

NBFC have been showing improvement with aftereffects of Covid now fading out, rating agency CRISIL noted in a report. The sector holds growth promise going forward, the report further said. The report cites the growth measures, including both positives as well as negatives for the sector, while explaining what could go in favour of the financial services' companies. This is what it says about the sector!

Here are the top 10 things that explain revival in NBFCs:

1) Improving economic activity and strengthened balance sheet buffers, may help NBFCs in the private sector to grow their assets under management (AUM) grow 8-10 per cent, next fiscal. In comparison, an estimated 6-8 per cent rise in the current fiscal and 2 per cent in the last.

2) The report suggests growth will be driven by NBFCs with strong parentage and better funding access in the two largest segments - home loans and vehicle finance.

3) Asset quality performance will drive the financial services sector's fortunes going forward, as it being one of the key parameters of growth.

4) The ability to identify niches that cater to the relatively difficult-to-address customer segments and asset classes will fuel long-term growth for the NBFC sector.

5) The monthly collection efficiency ratio of NBFCs have also seen an improvement across segments in the quarter ended September.

6) Players with low leverage, high liquidity and strong parentage are expected to benefit from better funding access at optimal rates.

7) While for the rest - especially mid-sized and smaller players - co-lending, securitisation, or other partnerships with banks will facilitate a funding-light business model.

8) Organic consolidation is also underway, with larger NBFCs gaining share. In the three fiscals through 2021, the market share of the top 5 NBFCs has risen 600 basis points to 46 per cent.

9) NBFCs have navigated the challenges in the past couple of years by focusing on higher liquidity, capital and provisioning buffers.

10) On the contrary, intensifying competition from banks that, flush with liquidity, have sharpened focus on retail loans, which are the mainstay of NBFCs. [Zee Business, Jan. 12]

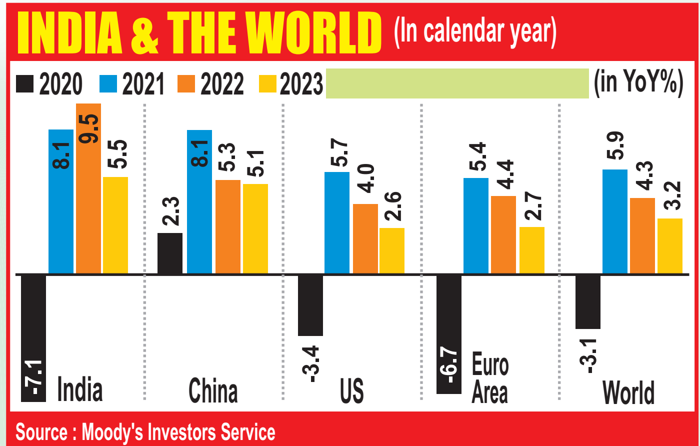
Moody's ups India's FY23 growth forecast to 8.4%

Moody's Investors Service on February 24 upgraded its financial year 2022-2023 (FY23) growth forecast for the Indian economy to 8.4 per cent from the earlier estimated 7.9 per cent as the country moves to normalcy, post the removal Covid-19 restrictions. However, it cautioned that high oil prices and supply distortions could drag the growth down.

Moody's has estimated the Indian economy to grow at 9.3 percent in FY22, official data for which will be released on Monday. "Fiscal push for infrastructure spending could help consolidate India's economic recovery. We have raised our 2022 calendar year (CY22) growth forecasts for India to 9.5% from 7%, and maintained our forecast for 5.5% growth in 2023 (CY23). This translates into 8.4% and 6.5% in fiscal years 2022-23 and 2023-24, respectively," Moody's said in its latest Global Macro Outlook.

The rating agency said there is an upside potential to the growth rate in FY23 as it assumes relatively restrained sequential growth rates. "We estimate the carry-over from a strong finish to 2021 will add 6%-7% to this year's annual growth. The 2022 Union Budget prioritises growth, with a 36 per cent increase in allocation to capital expenditure to 2.9 per cent of the GDP for fiscal year 2022-23, which the government hopes will crowd in private investment. With the RBI (Reserve Bank of India) leaving interest rates unchanged at its February meeting, monetary policy remains supportive," it said. [Business Standard, Feb. 25]

Fitch Ratings maintained its earlier projection of 10.3 percent growth in FY23 compared to 8.4 percent estimated for FY22.



Fitch said India's economy is rapidly recovering from the Covid-19 pandemic and financial-sector pressure appears to be easing. "However, the Negative Outlook on the sovereign's 'BBB-' rating reflects lingering uncertainty over the medium-term debt trajectory, particularly in light of India's limited fiscal headroom relative to rating peers," it cautioned.

The rating agency said the banking sector's near-term financial performance is likely to improve gradually amid the economic momentum and regulatory forbearance on pandemic-led stress. "Private banks will lead the recovery with faster loan growth than state banks, which may find it difficult to remain competitive without adequate growth capital," it said.

Fitch expects India's medium-term GDP growth to remain strong, averaging about 7 percent between FY24 and FY27. "This outlook is underpinned by the closing of the negative output gap, a supportive demographic structure, and the government's infrastructure drive and reform agenda. However, headwinds remain. Pressure on household incomes, especially in rural areas, could constrain consumption after the rebound that was fuelled by pent-up demand fades. There has also been some slippage on reform momentum," it added. [Business Standard, Feb. 25]

FY23 OUTLOOK: FOCUS OF NBFCS SHIFTS TO GROWTH AMID NORMALISATION IN OPERATING ENVIRONMENT

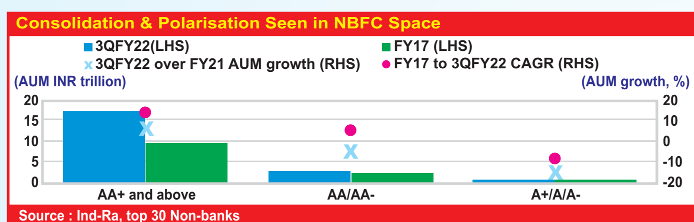
Jinay Gala
Associate Director, India Ratings and Research Pvt. Ltd.

India Ratings and Research (Ind-Ra) has maintained a neutral sector outlook and a Stable rating Outlook for non-banking finance companies (NBFCs) for FY23. Ind-Ra believes FY23, in absence of any negative event, would see normalisation of business activities, after facing challenges in the past few years following the default by Infrastructure Leasing & Financial Services Ltd ('IND D') leading to liquidity challenges and then the COVID-19 pandemic.

NBFCs would begin the year with sufficient capital buffers, stable margins and sizeable on-balance sheet provisioning, while adequate system liquidity would aid funding. Nevertheless, an expected increase in systemic interest rates and asset quality issues in some segments due to the lagged impact of pandemic would be a drag on the operating performance.

The sector has been facing increased regulatory oversight and push towards convergence with banks through various measures such as scale-based regulation, realignment in asset quality classification and Prompt Corrective Action norm. The incremental impact of the notification on NPA recognition however will be moderate as the maximum impact has already been seen in 3QFY22 figures and NBFCs are holding adequate provisions.

Figure 1



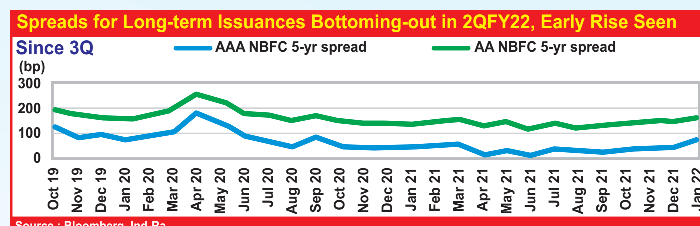
Secured Asset Business Could See Revival: Ind-Ra expects NBFCs to maintain loan growth of around 14% yoy in FY23, with FY22 growth closing at 7%-8%. Ind-Ra thus believes FY23 could be a year of normalcy in disbursements. The products such as loans against property, housing loans and vehicle finance could witness a higher demand than personal and unsecured business loans which saw a higher demand during the pandemic. Growth in the vehicle finance segment could revive depending on the availability of vehicles which are facing component shortage due to the pandemic, along with an increase in borrower confidence towards an economic recovery.

The gold loan segment could see moderate growth in tandem with gold prices along with opening up of other financing avenues for borrowers. Loans against property would see reasonable growth as it would remain the prime source for borrowers to avail loans for working capital or growth capital. Lenders in the personal loan and business loan segments in the unsecured category are likely to remain among the most impacted asset classes and lenders thus would remain cautious. In this aspect, supply chain financing where the obligations of lenders remain on strong anchors could gain traction. Tractor financing could remain stable with growth being in line with that of the agriculture sector and government rural spend.

Interest Rate would Inch-up, Requiring Recalibration across Funding Avenues: As we navigate out from the easy liquidity scenario, there could be a testing of floor regarding funding costs for lenders, where a rising interest rate would impact funding costs for incremental borrowings across lenders. The existing on-balance sheet liquidity would help in maintaining funding costs for certain quarters. However, the cost of incremental borrowings is likely to rise across capital market instruments which would be the first to get re-priced in a new operating environment where pass-through from banks could be with a lag.

During the pandemic, banks have been quite supportive towards lending to non-banks and their share has been rising in the funding mix of non-banks, which has been highlighted by the regulator in the rising risk of interconnectedness. Thereby, Ind-Ra believes as market confidence becomes stronger, a larger part of borrowings for large non-banks would move towards capital markets. There could some increase in the optimum use of commercial papers for balancing funding costs, as currently its share across lenders has largely been reduced. However, as the liability duration across lenders has increased, the impact of a rising interest rate would be limited on margins and lenders could catch up with an increase in lending yields as the situation demands.

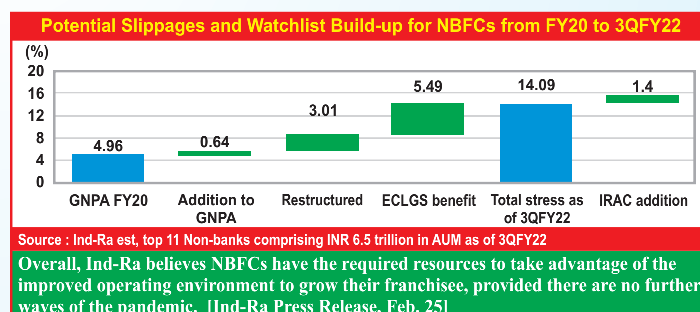
Figure 2



Credit Cost to Normalise, but Asset Quality Headline Number could remain Elevated: Ind-Ra expects loan growth in FY22 and FY23 to be around 8% yoy and 14% yoy, respectively, for its rated NBFCs (excluding government entities). NBFCs' stage 3 assets could increase to 6% by FY23 from 5.6% in 3QFY22, primarily due to slippages from the restructured and Emergency Credit Line Guarantee Scheme supported book. However, the credit cost impact is likely to be moderate as NBFCs have created adequate provisioning buffers.

Ind-Ra believes the segments facing heightened delinquencies for nonbanks are the ones where customer profile could be most vulnerable such as two-wheelers, passenger vehicles, unsecured business loans, microfinance and heavy commercial vehicles. Ind-Ra believes among these asset classes, the vehicle finance segment could see a revival in FY23 as the business momentum improves. The gold finance segment has shown a resilient performance in the pandemic and would continue to be so in the medium term.

Figure 3



Overall, Ind-Ra believes NBFCs have the required resources to take advantage of the improved operating environment to grow their franchisee, provided there are no further waves of the pandemic. [Ind-Ra Press Release, Feb. 25]

GNPAs of NBFCs to fall going ahead: CRISIL

Improvement in economic activities and collection efficiencies will help reduce gross non-performing assets (GNPAs) of NBFCs going ahead. Krishnan Sitaraman, Senior Director and Deputy Chief Ratings Officer, CRISIL Ratings said on March 4, "We expect GNPAs for NBFCs to reduce 150-200 bps by March 31, 2022. Some of the NBFCs that didn't see a material impact on their NPAs, due to the implementation of the revised recognition norms, are not expected to revert to the earlier framework."

Going forward, NBFCs are expected to focus on the near-term overdue to reduce delinquencies in the less than 60 days past due bucket and thus curb incremental slippages into NPAs, he further said.

"But with NBFCs bolstering their collection process, and economic activity improving, NPAs should reduce in the road ahead," he said "The improvement can be largely attributed to macroeconomic tailwinds and sharper focus on collections," it said, adding that future waves of the pandemic, and their consequent impact on NBFC asset quality, will bear watching. [Business Line, March 4]

Co-lending to MSEs to get a boost with introduction of guarantee cover

CGSCL covers credit facilities extended to MSEs jointly by scheduled commercial banks and NBFCs

Co-lending by banks and non-banking finance companies (NBFCs) to micro and small enterprises (MSEs) is expected to get a fillip as a credit guarantee scheme (CGS) has been introduced specifically to cover loan defaults in this sector.

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) recently launched a CGS for co-lending (CGSCL) to provide guarantee cover to credit facilities extended to MSEs under the co-lending model (CLM). CGSCL covers credit facilities extended to MSEs jointly by scheduled commercial banks (excluding small finance banks, regional rural banks, co-operative banks and local area banks) and NBFCs.

The introduction of CGSCL comes in the backdrop of Union Finance Minister Nirmala Sitharaman stating in the Union Budget for FY23 that CGTMSE scheme will be revamped with required infusion of funds. This will facilitate additional credit of Rs.2 lakh crore for MSEs and expand employment opportunities, she added.

Growth: Banks' credit to MSE sector rose by a robust 19.7 per cent year-on-year (y-o-y) as on January 28, 2022, against only 0.5 per cent y-o-y growth as on January 29, 2021, per latest RBI data. This growth came on the back of government's support measures to the sector and enhancement of the emergency credit line guarantee scheme (ECLGS) to support Covid-19 affected sectors.

Once the aforementioned measures are withdrawn, CGSCL could act as a catalyst, ensuring continued credit support from lenders to MSEs, a senior public sector bank official said. He emphasised that NBFCs have strengths in terms of origination and recovery while banks' have the advantage of lower cost of funds.

Once these two category of lenders join forces, the ultimate beneficiaries, the MSEs, will get credit at an affordable cost. Under CGSCL, CGTMSE will provide guarantee cover to credit facilities extended by a pair of Member Lending Institutions to a single eligible borrower in MSE sector. [Business Line, March 02]

Urban loan sanctions shrink as NBFCs shift focus to rural

Non-bank lenders go granular, seeking small-ticket loans to avoid competition from banks

Non-bank lenders are seeking out rural areas where competition with banks is less and the size of loans smaller, leading to a contraction in loan sanctions in urban areas. Sanctioned loans in urban areas, which typically account for a majority of the sector's loans, have shrunk 3% year-on-year (y-o-y) in the December quarter, showed data released by industry body Finance Industry Development Corp. (FIDC), jointly with credit information company Crif High Mark. In the same period, sanctions in the rural and semi-urban areas grew 13% and 19%, respectively. Data on sanctions helps gauge demand for credit among borrowers and the availability of loans in various pockets.

Experts pointed out that NBFCs have been going slow on large loans like big-ticket loans against property (LAP), unsecured personal loans and even wholesale credit which primarily originate in urban areas. This risk aversion to certain segments, part of a conscious decision to balance risk and reward, has led to a decline in urban loan sanctions, they said. "Right now, the mantra is to go granular and go deeper for small-ticket loans where there is a good risk-return pricing. These include rural, tier-3 and tier-4 areas rather than indulging in a very competitive urban market," said Pankaj Naik, associate director, India Ratings and Research Pvt. Ltd.

Naik said the bread-and-butter business of NBFCs is in vehicle finance and loan against property, where the trend is to avoid chunkier loans. On the urban side, he said revival will hinge on NBFCs again catering to segments like LAPs, wholesale loans and unsecured personal loans through digital routes.

"On the unsecured side, I think, NBFCs are still risk-averse and they want to look at the debt repayment capacity of borrowers before taking incremental exposures. Also, on the unsecured side, there were disruptions during the pandemic and some kind of over-leveraging would have happened by borrowers," Naik said, adding that the kind of products NBFCs offer in urban areas have some or the other issue at present which will get resolved over a period of time and these lenders would then press the accelerator and grow these businesses.

The FIDC-Crif High Mark data also showed that education loan sanctions dropped 31% y-o-y to Rs. 707 crore; loans of 1-3 years have declined 43% to Rs. 6,992 crore; and secured business loans have fallen 24% to Rs. 925 crore in the three months through December. Total sanctions by non-bank lenders grew 5% y-o-y to Rs. 3.07 trillion in the third quarter and NBFCs expect the March quarter to see further improvement.

According to Mahesh Thakkar, director-general at FIDC, there are three reasons behind the growth in rural credit as compared to loans in urban areas. During the covid-19 pandemic, NBFCs witnessed credit demand largely from the rural areas as people in urban areas avoided fresh loans, he said. "NBFCs are keener on rural loans because urban areas have heightened competition with banks which price their loans more aggressively. That apart, NBFCs are looking at smaller loans in rural areas where they realize there is a greater need for credit than urban centres," said Thakkar. [Shayan Ghosh, Mint, March 2]

NBFCs' loan sanctions up 5% YoY in Q3FY22: Data

Consumer credit drives action; commercial segment shows modest growth, according to FIDC-CRIF data

NBFCs reported a modest five per cent growth year on year basis in sanctions driven mostly by consumer segments including personal loans in the third quarter ended December 2021 (Q3FY22), according to FIDC-CRIF data.

Loans for commercial purposes, viz., loans against property, commercial equipment loans and business loans have shown modest or negative growth. It signifies that investment demand is yet to pick up among MSMEs and other commercial sectors. The unsecured business loans saw just seven percent rise in sanctions at Rs 17,619 crore and sanctions in equipment financing expanded by eight per cent to Rs 1,293 crore in Q3FY21.

Finance Industry Development Council and CRIF in statement said the growth has been by and large led by consumption loans – auto, personal loans and consumer loans. Commercial vehicle loans have now reached pre-pandemic levels of sanctions. The sanctions in personal loans were up 60 per cent to Rs 27,985 crore and consumer loans rose 33 per cent YoY to Rs 19,658 crore in Q3FY22.

The loan against shares (LAS) showed a sharp reduction, perhaps as a result of RBI signals on loans against shares. It shrunk by 23 per cent YoY to Rs 1,107 crore in Q3FY22.

Seen from a rural-urban classification angle, the semi-urban areas showed a 19 per cent YOY growth in sanctions, followed by 13 per cent in rural communities. The performance in the urban region was actually a drag with three per cent contraction. The quantum of loans is much less in rural and semi-urban areas than urban regions so adverse trends in cities pull down the overall performance.

The smaller states (in terms of GDP share) have shown more growth than larger states such as Maharashtra, Delhi, Tamil Nadu and Gujarat, FIDC said in a statement. [Abhijit Lele, Business standard, Feb. 24]

Budget 2022 must align tax regime for NBFCs in line with banks' taxation

India's tax laws have not kept pace and hence there are several areas in which NBFCs suffer higher tax cost or compliance burden as compared to banks.

NBFCs in India have played an important role over the years for business development

SUNIL GIDWANI, Partner at Nangia Andersen LLP

NBFCs play a crucial role in lending to businesses. Over the years, RBI has tightened NBFC regulatory framework especially for large and deposit taking NBFC and brought it close to the regulations applicable to the Banks.

However, the tax laws have not kept pace and hence there are several areas in which NBFCs suffer higher tax cost or compliance burden as compared to banks. We have highlighted below key changes required to bring NBFCs at par with banks.

Exemption for NBFC from thin capitalization rules

Currently, transfer pricing provisions provide that when an Indian company or a permanent establishment of a foreign company pays interest to an associated enterprise, then total interest deduction shall be capped at 30% of EBITDA. However, this capitalization rule does not apply to an Indian bank or a branch of a foreign bank. Considering Banks and NBFC, both being regulated by RBI and perform similar functions as bank, extending the exemption to NBFCs will create a more level playing field for all stakeholders especially NBFCs with significant foreign ownership.

Taxation of interest on NPAs on accrual basis

As per IT provisions, interest income from NPAs, is to be taxed on credit to profit & loss account or when it is actually received, whichever is earlier. This provision is applicable to all banks, financial institutions, NBFC and HFCs.

However, NBFC and HFCs, adopting IND AS accounting, have to recognise the interest income on the net carrying value of certain category of loans in the profit or loss account, whether or not the company has received or realised such interest income. This anomaly defeats the purpose of introduction of IT provision for taxing such interest income on receipt basis and the NBFC/HFCs end up paying tax on such interest income on accrual basis since credited to profit & loss account. Accordingly, the relevant provisions need an amendment to tax such interest income only on receipt basis.

Exemption from TDS on interest income received by NBFC

Presently, any person (borrower) making interest payments are required to withhold tax at 10% except when such payment is made to banks and public financial institutions. Further foreign banks are issued a Nil withholding order each year to enable them to receive any income without any TDS. However, when borrowers make interest payments made to NBFCs, the payers are required to withhold taxes.

Due to such withholding by borrowers, NBFC face severe cash flow constraints on a thin spread on interest which banks and other public financial institution do not encounter. Sometimes the aggregate TDS for the whole year is in excess of their annual tax liability. Additionally, due to voluminous transactions, NBFCs have to face severe administrative hardships in terms of collection of TDS certificates from their numerous customers. Accordingly, it is advisable to extend the exemption of no TDS to NBFCs and let them pay their tax ad advance tax.

TDS on cash withdrawals by NBFCs

As per the provisions introduced in the Finance Act 2019, any cash withdrawals in excess of INR 1 crore from current account attracts TDS of 2% to be deducted by the payer. Further, an exemption is provided when the payee is government body, banks, white-label ATM operators. In case of NBFCs they withdraw significant cash from banks to make disbursal of small ticket loans and thus, are subject to TDS of 2% by banks on such withdrawals. This impacts the cash flows of the NBFC and hampers its business model severely. The purpose of this TDS was to bring the unaccounted cash transactions within the tax net. One does not need these provisions for an RBI regulated lending institution and hence an exemption for NBFCs should be included.

Exemption benefit on interest on deposits held with HFC/NBFCs

Currently senior citizens are allowed a deduction up to INR 50,000 on interest income earned from saving bank account and fixed deposits held with banks, cooperative societies and post-offices. Fixed deposits accepted by HFC/NBFCs are also subject NHB/RBI regulations and there, interest income earned from deposits with HFC/NBFC should also be granted similar exemption.

NBFCs are now regulated almost like a banking entity. Therefore, for them to compete with banks they deserve a tax regime at par with banks. It is high time government appreciated the long pending requirements of the NBFC industry and resolves the issues faced by them. [Financial Express, Jan. 26]

RBI, NBFCs in early talks to open up credit card biz

The credit card business in the country may be in for a major shift. The Reserve Bank of India (RBI) and a few NBFCs are said to be in exploratory talks over the possibility of allowing the latter to issue credit cards on a standalone basis in a first-of-its-kind move.So far, NBFCs can only issue co-branded credit cards with banks.This development comes 18 years after the central bank's circular of July 7, 2004, which stated: "Any company, including a non-deposit taking company, intending to engage in this activity (credit cards) requires a Certificate of Registration, apart from specific permission to enter into this business, the pre-requisite for which is a minimum net-owned fund of Rs. 100 crore; and subject to such terms and conditions as the Bank (RBI) may specify in this behalf from time to time." The circular did not place any regulatory ban on NBFCs issuing credit cards.Since then, the consumer credit landscape has changed, and sources say, a revisit is on the anvil.The immediate trigger for the renewed interest in this area is that the circular of July 7, 2004, is being re-read along with the observations in the RBI's 'Report of the Working Group on Digital Lending through Online Platforms and Mobile Apps', which was put for public comments in November last year.This report called attention to the fact that "with an untapped base of 120 million formally employed Indians without a credit card, startups and venture capital firms are making a beeline for the digital lending market". And in keeping with this trend, 44 per cent of fintech funding in 2020 went to digital lending startups, and with more funding and increased collaboration between established and new players in the digital lending market, "the outlook for the sector is positive". The report added: "Digital credit cards and lines of credit should be all owed to operate without a license to further improve financial inclusion." According to the latest RBI Monthly Bulletin (January 2022), at end-November last year, there were 67 million credit cards (compared to 934 million debit cards), which is to be juxtaposed against the nearly 550-million customers who have credit bureau histories.

Industry sources pointed out despite credit cards being around in the country for well over three nearly decades, what's worrisome is that a shade over half the 67 million credit cards in circulation have been issued to a sub-segment of cardholders within this base. Simply put, even the most aggressive retail banks in the country are essentially carpet bombing a small pool of customers.

Additionally, a joint report by the NITI Aayog and Mastercard in May last year made a case for NBFCs' entry into the credit card domain.

It said that NBFCs account for 20-30 per cent of the overall credit given in the system. But "NBFCs are practically constrained from the credit card market on account of high-access barriers, especially regarding the issuance of general credit cards. They are barred from issuing variants of other cards, like charge cards, debit cards, and stored-value cards".

This report also observed: "For non-banking entities to play a stronger role in digital financial inclusion imperatives, they must be given equal footing in the system." This was an oblique reference that regulations must be "ownership neutral".

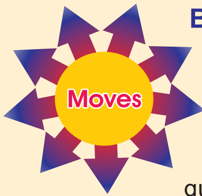
So far, only two NBFCs issue credit cards: SBI Cards and BoB Cards — both of which are in the state-run space.

In the past, three leading NBFCs — Bajaj Finance, Tata Capital, and Reliance Capital -had approached the RBI, citing its circular of June 7, 2004, seeking a nod to issue credit cards on a standalone basis on the Visa network. This was in anticipation that the central bank may activate the said circular and open up the credit card business to NBFCs, but this did not materialise.

Globally, leading credit card issuers are banks Citibank, Bank of America and JPMorgan Chase to name a few. The leading non-bank issuers are American Express and Discover. But there is nothing in many jurisdictions that explicitly bars non-banking. [RAGHU MOHAN, Business Standard, 7 Feb]

NBFCs looking to sell bad loans before RBI's asset classification norms kick in

Top NBFCs are preparing to sell off a big chunk of their non-performing assets to clean up their books and release liquidity ahead of Reserve Bank of India's September deadline to meet stringent asset classification norms. The move will help NBFCs avoid sudden spikes in bad assets and clean up books. The loan sales should pick up steam from the June quarter as the deadline ends in September. NBFCs are holding talks with asset reconstruction companies and expect the NPA sale to fetch decent returns without a sizeable haircut. [ETBFSI, March 03]



Budget 2022: Government's Credit Guarantee Schemes for MSMEs expanded

The government guarantee schemes for micro , small and medium enterprises will be expanded to help companies beat the Covid-19 impact. The emergency credit-linked guarantee scheme will be extended till March 2023, Finance Minister Nirmala Sitharaman said in her Budget 2022 speech on Feb. 1. The scope of the scheme has also been extended to Rs 5 lakh crore from Rs 4.5 lakh crore. The additional funds will be used to support the hospitality and related sectors, she said. So far, ECLGS has helped 1.3 crore MSMEs mitigate the pandemic impact.

The ECLGS allows borrowers to avail ûnancing from institutional lenders, where they also receive a one-year moratorium on repayments. The government provides guarantees for such ûnancing, making it a low risk product for lenders. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which was jointly set up by the MSME Ministry and SIDBI in 2000 to catalyse the flow of institutional credit to micro and small enterprises (MSEs) will be revamped with necessary funds, said Finance Minister Nirmala Sitharaman in her budget speech. This will facilitate additional credit of Rs 2 lakh crore for micro and small enterprises and expand employment opportunities," Sitharaman said. [BloombergQuint, Feb. 1]

Currently, the guarantee cover available under the scheme is restricted to the credit of Rs 2 crore even though it can be extended beyond that to eligible borrowers. The maximum credit risk borne by CGTMSE is restricted to Rs 1.5 crore, that is, 75 per cent of the amount in default, according to the details available on the scheme's portal.

As of February 1 in the current financial year, over 5.5 lakh CGTMSE guarantees were approved amounting to Rs 42,429.23 crore, of which 22,863 claims involving Rs 471.39 crore were disbursed, as per the scheme's data. [Financial Express, Feb. 1]

Data is the new oil, but data centres a bigger goldmine

Union Finance Minister Nirmala Sitharaman on Feb. 1 said data centres and energy storage systems have been granted infra status, enabling company's access to long-term financing and lower interest costs. Expansion in the data centre business is coming on the back of growing digital penetration and the adoption of Cloud. Companies will accelerate investments in data centres, spurred by the grant of infrastructure (infra) status to the industry."The data centre industry capacity is expected to double from 499 Mw in the first half of 2021 to 1,008 Mw in 2023. Increasing optic fibre network and 5G spectrum allocation would mean higher digital push, in turn increasing real estate demand," said Radha Dhir, CEO and country head of consultancy JLL India. The grant of infra status to the data centre industry has led to expectations of rapid growth on the back of a sizeable flow of foreign investment & private capital and will allow better access to capital borrowings at a reduced rate. It has also raised hopes of acceleration in digital biz which generate a large quantum of data in India's geographic location & favourable policies are expected to make the country a hub for data centres catering to Southeast Asia in the next 5 yrs. [Business Standard, Feb. 4]

Budget 2022: Int'l Arbitration centre at GIFT City for dispute resolution

Finance Minister Nirmala Sitharaman on February 1 announced the setting up of an international arbitration centre at the GIFT City – a planned business district in Gujarat – for timely resolution of disputes under international jurisprudence. Market participants said such a move would ensure fast disposal of cases and will attract investors and enhance ease of doing business.

"An international arbitration center will be established in GIFT City to ensure the fast disposal of disputes in international jurisprudence. The Government has aimed at ensuring fast disposal of cases and avoiding repetitive appeals. This is bound to attract more investors and companies. These are positive steps towards decreasing the burden on the courts," Prem Rajani, Managing Partner, Rajani Associates.

Further, it was also announced that foreign universities and institutions will also be allowed to offer courses in Financial Management, FinTech, Science, Technology, Engineering, and Mathematics at GIFT IFSC, free from domestic regulations, except those by International Financial Services Centres Authority, to facilitate availability of high-end human resources for financial services and technology. GIFT-IFSC is the maiden international financial services centre in India.

The finance minister also said that services for global capital for sustainable and climate finance in the country will be facilitated in the GIFT City. [BS Reporter, Feb. 1]

Surety Bonds: Insurers to give tough competition to banks

Finance Minister Nirmala Sitharaman, on Feb. 1, said the use of surety bonds (issued by insurers), as a substitute for bank guarantee (BG), will be made acceptable in government procurements. "Business such as gold imports may also find this useful. The IRDAI has given the framework for issue of surety bonds by insurance companies," said the Minister in her Budget speech.

Banking expert V Viswanathan said insurance companies will get new business. BGs require a customer to provide a margin (of 10-25 per cent) and commission (2-3 per cent) to the bank. However, in the case of surety bonds, a customer only needs to pay premium to the insurer.

Joydeep K Roy, Partner and Leader - Insurance, PwC India, observed that overall growth of infrastructure projects will automatically increase premiums in this regard, but the promulgation and introduction of Surety Bonds will open up a fresh stream of insurance revenue and capital and can even attract many specialised insurance companies to come into India with foreign capital. [Business Line, Feb. 01]

FM to banks: Join account aggregator net

Finance minister Nirmala Sitharaman urged chiefs of banks and NBFCs on February 22 to join the account aggregator framework to extend the flow of credit to small borrowers and promote digital lending.

The account aggregator platform, in a way, facilitates open banking by enabling customers of one member bank to avail services from any provider entity by making available their transaction history through consent. This enables them to avail loans from lenders who provide these based on proof of cash-flows. She emphasised that digital banking was an opportunity for banks to find new ways to reduce the cost of intermediation and provide cost-effective services. She told banks that they should go out and lend as, with a record profit of Rs 1.2 lakh crore in FY21 and Rs 79,000 crore in H1FY22, they have sufficient capital.

On Monday, SBI chief Dinesh Khara had informed the Finance minister in an industry interaction that information on cash-flows would enable credit to small businesses to grow at the same rate as personal finance. [BFSI News, Feb. 23]

India witnessing increasing digitisation, shift in consumers' financial behaviour: NITI VC Rajiv Kumar

India is witnessing increasing digitisation with people getting greater and easier access to financial services, which has led to a shift in consumers' financial behaviour from cash to e-wallets and UPI, NITI Aayog Vice Chairman Rajiv Kumar said on Monday. Kumar, while addressing 'NITI Aayog's Fintech Open Summit', further said the rise of fintech has accelerated financial inclusion. He also noted that the expansion of digital payments is an important pivot for creating a more equitable, prosperous and financially inclusive India. "India is witnessing increasing digitization with people getting greater and easier access to financial services. This has led to a shift in consumers' financial behaviour — from cash to e-wallets and UPI," Kumar said.

Speaking at the event, Union Minister for Railways, Communications, and Electronics and IT Ashwini Vaishnaw said the government believes in creating open platforms, such as CoWin and UPI, for healthcare, logistics and other sectors. An open platform is created using public investment, wherein numerous private entrepreneurs, start-ups and developers can

join to create new solutions, Vaishnaw added.

According to an official statement, a first-of-its-kind initiative, Fintech Open will bring together regulators, fintech professionals and enthusiasts, industry leaders, the start-up community and developers to collaborate, exchange ideas and innovate. It added that Fintech Open aims encourage an open ecosystem across the fintech industry and foster innovation and growth. [Mint/ PTI, Feb. 7]

Move to defer appeals to win taxpayers' trust: CBDT chief

The budget proposal to defer filing of appeals against the tax assessees until similar substantial question of law is decided by the high courts or the Supreme Court amounted to an extension of dispute resolution scheme — Vivad Se Vishwas (VSV) — and would confidence among taxpayers and reduce fresh generation of litigation, Central Board of Direct Taxes chairman JB Mohapatra told FE.

The VSV had existed between March 17, 2020, and March 31, 2021. It resolved nearly one third of all direct tax disputes but led to collection of just over Rs 54,000 crore, while the amount disputed was several times higher. Even as the Budget proposal to levy 10% tax deducted at source (TDS) on benefit or perquisite of a business raised hackles, the official said the move would ensure such payments in business promotion activities don't escape the tax net.

A new section 194R is proposed to be included in the Income Tax Act to provide that the person responsible for providing to a resident, any benefit or perquisite, whether convertible into money or not, arising from carrying out of a business or exercising of a profession by such resident, shall ensure that TDS has been deducted.

On the proposed move to not generate fresh litigation, the official said the new section 158AB will prevent repetitive appeals from the tax department side. "VSV was to eliminate and reduce continuing litigation in various courts, the new proposal is not to generate those kinds of litigation on behalf of the department, which are deemed to be infructuous or wait until the decision of the jurisdictional high court," he said. [Financial Express, Feb. 4]

Govt open to 'some tinkering' in capital gains tax regime: Revenue Secretary

The government is open to 'some tinkering' in the varied rates and holding period for computation of capital gains tax on shares, debt and immovable property, in a bid to make it simple, Revenue Secretary Tarun Bajaj said on Feb. 9. Under the Income Tax Act, gains from sale of capital assets, both movable and immovable, are subject to 'capital gains tax'. The Act, however, excludes movable personal assets such as cars, apparels, furniture from this tax.

Bajaj said the current capital gains tax structure is "too complicated" in terms of varied rates and period of holding across the assets and hence needs a relook. "We need to rework the capital gains structure for rates, holding period We would be open to some tinkering in it the next time we get an opportunity," Bajaj said at a CII event. [Business Standard, Feb. 9]

Digital rupee will start to be rolled out this year: Economic Affairs secretary

The Reserve Bank of India's digital currency is expected to be rolled out in the coming financial year and the requisite legislative changes have been proposed in the finance bill, economic affairs secretary Ajay Seth said. "Once the finance bill is approved, a legislative framework will be available for RBI to [roll it out]," he said, adding that a start will be made in FY23. The proposed central bank digital currency will open up opportunities, he said, creating an ecosystem for products and services. Seth said it was up to the RBI to decide whether to address the wholesale or retail market first.

Rs.20K cr infused as initial paid up capital into NaBFID

The Centre has infused Rs. 20,000 crore into the National Bank for Financing Infrastructure and Develop ment (NaBFID). This will help the development finance institution (DFI) start operations to catalyse investment in the infrastructure sector. The Department of Financial Services (DFS) notified February 7 as the date on which Rs. 20,000 crore of the share capital of the NaBFID had been allotted to the Centre. The institution had to be set up with an initial paid-up capital of Rs. 20,000 crore.It is preparing to commence operations in the April-June quarter. The DFI will be able to lend to or invest in infrastructure projects located in India and outside the country, prioritizing systemic risk mitigation, credit enhancement, subordinate debt, and debt maturities suited to project life spans, and raise long-term finance for this. [Business standard, Feb. 7]

Women borrowers' tally grows at CAGR of 19% in 5 yrs; men at 14%: CIBIL

The number of women borrowers has increased at a compound annual growth rate (CAGR) of 19 per cent in five years (calendar 2016-2021), compared to a CAGR growth of 14 per cent for male borrowers during the same period. The share of women borrowers has increased to 29 per cent in 2021 – up from 25 per cent in 2016, according to CIBIL data.

Credit penetration for women (percentage of borrowers to total adult population) has improved to 12 per cent in 2021 from 6 per cent in 2016.

The Credit Information Bureau said in terms of total outstanding retail credit balances, the share of women borrowers was 23 per cent. Growth in women borrowers has remained strong despite the aftermath of the Covid-19 pandemic. Women showed a stronger rate of growth at 11 per cent compared to the 6 per cent growth rate of male borrowers through CY 2021.

Further insights from mapping the emergence of women in India's retail credit market showed they maintained a better asset quality profile than men and they tend to be more disciplined borrowers. The 90+ days-past-due (DPD) consumer-level delinquency rate for women borrowers' stands at 5.2 per cent across retail credit products compared to male counterparts showing a rate of 6.9 per cent.

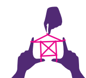
India's estimated population of 1,400 million comprises approximately 435 million adult females of which only about 54 million females are active borrowers. This data brings to the fore the huge potential of providing access to credit for women across India and empowering them while driving financial inclusion, CIBIL added. [Abhijit Lele, Business Standard, March 7]

Ukraine conflict likely to affect growth: RBI MPC member Jayanth Varma

Eminent economist Jayanth R Varma on March 6 said the Russia-Ukraine conflict is likely to have adverse effects on both economic growth as well as inflation and policy makers must remain alert and ready to respond rapidly to the emerging situation. Varma, who is also a member of the Monetary Policy Committee (MPC) of the Reserve Bank, in an interview to PTI said inflation is higher than target, though it is within the tolerance band.

Listing challenges faced by the Indian economy, Varma said while the economy has yet to recover from the cyclical economic slowdown which began around three years ago, investment has remained subdued during this period, and private consumption has not fully recovered from the pandemic.

"The economy faces new stresses emanating from geopolitical tensions," he said, adding that inflation is higher than the target though within the tolerance band. "The conflict is likely to have adverse effects on both economic growth and on inflation... Policy makers must in my view remain alert and stand ready to respond rapidly to the emerging situation, he said." Asia's third-largest economy is projected to grow 8.9 per cent in the fiscal year ending March 31, slower than previously anticipated 9.2 per cent, according to the recent government data. [Business Standard/PTI, March 7]



1800 102 1021 | capriglobal.in | caprihomeloans.com

Writ petition not maintainable against proceedings by banks: SC

The Supreme Court on Wednesday said borrowers, aggrieved by proceedings initiated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI) 2002 by the bank or the assets reconstruction company (ARC), have to avail the remedy under this law and no writ petition would be maintainable.

The apex court held this while vacating the order passed by the Karnataka High Court (HC) which had directed maintenance of status quo with regard to possession of mortgaged properties subject to the borrowers making a payment of Rs. 1 crore with the ARC concerned.

A bench of Justices M R Shah and B V Nagarathna, while referring to an earlier judgement delivered by the top court, opined that filing of writ petitions by the borrowers before the HC under Article 226 of the Constitution in the case was an "abuse of process" of the court.

"If proceedings are initiated under the SARFAESI Act and/or any proposed action is to be taken and the borrower is aggrieved by any of the actions of the private bank/bank/ARC, borrower has to avail the remedy under the SARFAESI Act and no writ petition would lie and/or is maintainable and/or entertainable," the bench said. [Business Standard, 12 Jan.]

Arbitration can be set aside only if award against public policy: SC

An arbitration award can be set aside only if the award is against the public policy of India, the Supreme Court has said. A Bench of Justices M Shah and B V Nagarathna said the award can be set aside under the Arbitration Act, if it is found to be contrary to the fundamental policy of Indian Law, interest of country, justice or morality or if it is patently illegal. The top court was hearing an appeal filed by Haryana Tourism Ltd against an order of the Punjab and Haryana High Court which set aside a 2005 award passed by the arbitrator as well as the order passed by the Additional District Judge, Chandigarh. HTL later terminated the contract after dispute arose between the parties and the matter was referred to the sole arbitrator. The arbitrator directed Kandhari Beverages to pay Rs 9.5 lakh while the counter claim lodged by it claiming Rs 13.92 lakh was dismissed by the arbitrator.

Kandhari Beverages thereafter filed objection petition Additional District Judge, Chandigarh under Section 34 of the Arbitration Act against the award passed by the arbitrator. The Additional District Judge dismissed the appeal/objection petition after which it filed further appeal before the high court under Section 37 of the Arbitration Act.

The high court allowed the said appeal by entering into the merits of the claim and has quashed and set aside the award passed by the arbitrator as well as the order passed by Additional District Judge, Chandigarh.

The apex court said the high court has exercised the jurisdiction not vested in it under Section 37 of the Arbitration Act. In view of the above and for the reasons stated above, the present appeal succeeds. The impugned judgment and order passed by the High Court is hereby quashed and set aside. The award passed by the arbitrator and the order passed by the Additional District Judge under Section 34 of the Arbitration Act overruling the objections are hereby restored, the bench said in January 11 order. An award can be set aside only if the award is against the public policy of India, it said. [Business Standard, Jan. 14]

Opt-Out Clauses – Indian Courts continue to shun Unilateral Arbitration Agreements

Recently, in Tata Capital Housing Finance Ltd v Shri Chand Construction and Apartment Pvt Ltd., the Delhi High Court has held that unilateral opt-out clauses (clauses that grant unilateral right to one party to give a go-bye to arbitration) cannot amount to a valid arbitration agreement since the clause lacks an essential element of an arbitration agreement, i.e., 'mutuality,' in as much as, the clause only gives one party, the right to walk out of arbitration.

The Delhi High Court has further held that under section 7 of the Arbitration and Conciliation Act, 1996 (Arbitration Act), the parties are not at liberty to split the claims which arise out of the same defined legal relationship, i.e., there cannot be a valid arbitration clause providing for arbitration of claims of one party and providing for the remedy of the court/any other fora for the claim of the other party. [Bloomberg, Jan. 12]

Builder's failure to get occupation certificate deficiency in service: SC

Failure of a builder to obtain occupation certificate is a deficiency in service under Consumer Protection Act 1986, the Supreme Court has said. A Bench of Justices D Y Chandrachud and A S Bopanna held that the builder would be liable to refund money if the homebuyers were forced to pay higher taxes and water charges due to lack of an occupancy certificate. The apex court was hearing an appeal against an order of the National Consumer Disputes Redressal Commission which dismissed a complaint by a cooperative housing society seeking refund of the excess taxes and charges paid to the municipal authorities due to alleged deficiency of the builder. [Business Standard/ PTI, Jan. 14]

Centre readies fresh round of bankruptcy code tweaks

The corporate affairs ministry is set to propose amendments to the Insolvency and Bankruptcy Code (IBC), based on recommendations made by a parliamentary panel, according to a person familiar with the development. The draft bill to amend IBC, which has to be first cleared by the Union cabinet, seeks to reduce the time between filing a bankruptcy petition and its admission in tribunals, speed up the approval of corporate rescue plans, and maximize the value of assets available for restructuring. The bill also seeks to add a new chapter on cross-border bankruptcy resolution to the IBC, filling a major gap in the current regime.

The bill also seeks to empower bankruptcy resolution professionals hired by lenders to run distressed companies to review the past conduct of the distressed company and take corrective steps to protect the interests of stakeholders. One of the proposals by the government panel that formed the basis of the proposed amendments was that the corporate rescue plan has to be cleared by the National Company Law Tribunal within 30 days. This, according to Vijayasarathy, would ensure faster resolution and makes it difficult for the promoters to carry out any preferred transaction. [Mint, Feb. 21]

Exception or exempting provision in taxing statute should be construed strictly: Supreme Court

The Supreme Court on February 23 said an exception or exempting provision in a taxing statute should be construed strictly and it is not open to the court to ignore the conditions prescribed in the policy and notifications issued in that regard.

The apex court said the exemption notification should be given meaning according to the legislative intendment and such statutory provisions have to be interpreted in light of the "words employed in them".

A bench of Justices M R Shah and B V Nagarathna dismissed a batch of appeals arising out of the judgment passed by the principal bench of the Customs, Excise, and Service Tax Appellate Tribunal (CESTAT), New Delhi.

The CESTAT had said that the appellants, 'Krishi Upaj Mandi Samiti' (Agricultural Produce Market Committees) located in different parts of Rajasthan, were liable to pay service tax under the category of "renting of immovable property service" for the period up to June 30, 2012.

In its 18-page judgement, the apex court noted that as per the law laid down by the top court, in a taxing statute, it is the plain language of provision that has to be preferred, where the language is plain and is capable of determining a defined meaning. [Financial Express, Feb. 23]

India's Business Laws need to shed 'Regulatory Cholesterol': Observer Research Foundation

Currently, there are 843 economic legislations, rules and regulations that oversee and influence businesses in India and in total contain up to 26,134 imprisonment clauses. Effectively, 37.7% clauses

[Continued on Page-16]

Initiate next generation reforms to improve ease of doing biz: FM asks SEBI

Finance Minister Nirmala Sitharaman on February 15 asked SEBI to initiate the next generation reforms to improve the ease of doing business and also be prepared to deal with possible market turbulence in the wake of actions by the US Federal Reserve.

Addressing the board of SEBI, Sitharaman appreciated the initiatives taken by the regulator and emphasised the need to take further steps to reduce compliance burden, cost of market intermediation apart from more measures to strengthen investor protection.

She also asked the watchdog to further boost the corporate bond market and also develop green bond market in the context of increasing focus on ESG (Environment, Social and Governance) investments.

SEBI has to "initiate next generation of reforms to improve ease of doing business and be prepared for the possible market turbulence on account of US Fed actions," Sitharaman said.

SEBI chairman, Ajay Tyagi highlighted the enhanced activity of fund raising through capital market to support the overarching objective of Union Budget towards capital formation in the economy. [Business Standard, Feb. 15]

Markets regulator SEBI turns its glare on insider trading, shows data

The share of insider trading cases being probed by the SEBI, in recent years, has sharply risen in the overall number of investigations by the markets regulator, the data shows. From FY19 to FY21, insider trading cases comprised over 30 per cent of the total number of investigation cases under SEBI's purview; in the ongoing financial year, this share stood at nearly 22 per cent (until November 2021). From FY03 until FY18, such cases mostly accounted for less than 20 per cent of the annual total — many a time even less than 10 per cent.

The annual average number of insider trading cases being probed by the regulator, too, has doubled over the past five years, including FY22, when compared with the previous years. SEBI has taken up a total 177 insider trading cases for investigation since April 2017 — an average of around 38 cases a year. The yearly average was 15 for the previous decade-and-a-half, shows a Business Standard analysis of SEBI's data. The past numbers were compiled from annual reports for the last 20 years. Additional information for the current financial year, which is not in the public domain, has been obtained through an application under the Right to Information (RTI) Act.

"...let me say among all the violations, we treat insider trading as the most serious one. It goes against the very basics of trust in the securities market," SEBI chairman Ajay Tyagi had said in his November interview with Business Standard. [Business Standard, Jan. 26]

SAT order disputes SEBI oversight on auditors

The Securities Appellate Tribunal (SAT) in a recent ruling overturned a SEBI order that pulled up a statutory auditor in a case pertaining to alleged financial fraud by Deccan Chronicle Holdings Ltd (DCHL), adding to the debate on SEBI's jurisdiction on auditors when they audit listed entities. The tribunal held that in case of any misconduct by auditors or chartered accountants, it is the Institute of Chartered Accountants of India's (ICAI's) responsibility to take appropriate action. The SAT order said "gross negligence or recklessness in adhering to accounting norms in the course of auditing can only point to the professional negligence, which would amount to misconduct to be taken up only by the Institute of Chartered Accountants of India".

The matter pertains to an appeal filed by Mani Oommen, a statutory auditor from C. B. Moulli & Associates, before the tribunal against a December 2019 order passed by a whole-time member of Sebi. The order prohibited Oommen from issuing any certificate of audit and restrained him from rendering any other auditing services to any listed company or intermediary for a year. [Mint, Feb. 25]

SEBI comes out with new disclosure format for abridged prospectus

To further simplify and provide greater clarity, markets regulator SEBI has come out with a new format for disclosures in abridged prospectus, whereby critical information will be provided in the front page of the offer document. Under the rules, every application form for the purchase of any securities of a company needs to be accompanied by an abridged prospectus.

After reviewing the disclosure requirement, it was felt that due to the multitude of information which is required to be disclosed, the look and text on the front page appears to be crowded, SEBI said in a circular issued on February 4.

Under the revised format, a company will have to disclose about name of the promoter, details of offer to public — types of issue, fresh issue and offer for sale (OFS)component, total issue size — and share reservations details on the front page of the abridged prospectus (DRHP or RHP). Also, the company is required to make disclosure about details of OFS by promoter, promoter group and other shareholders.

In the abridged prospectus containing salient features of the Red Herring Prospectus (RHP), the company will have to disclose about price band and minimum bid lot under the revised format. Also, the issuer company has to disclose about indicative timelines for opening and closing of the issue, initiation of refunds, credit of equity shares to demat accounts of allottees and commencement of trading of equity shares among others. [Business Standard, Feb. 7]

SEBI makes separation of Chairman, MD posts voluntary for India Inc

SEBI on February 15 made it voluntary for India Inc to have a separate chairperson and managing director (MD)/chief executive officer (CEO). The move comes weeks ahead of the April 1, 2022 deadline by which the top 500 listed companies by market value had to install two separate and unrelated, persons as chairman and MD/CEO.

"Considering rather unsatisfactory level of compliance achieved so far with respect to this corporate governance reform, various representations received, constraints posed by the prevailing pandemic situation, and with a view to enabling the companies to plan for a smoother transition, as a way forward, the SEBI board at this juncture has decided that this provision may not be retained as a mandatory requirement and instead be made applicable to the listed entities on a voluntary basis," the market regulator said in a press release, issued after its board meeting in New Delhi.

The reprieve will benefit more than 150 companies, which currently have the same individual as chairperson and MD/CEO, according to Prime infobase, a firm that maintains corporate information database. [Business Standard, Feb. 16]

SEBI mulls dispute resolution mechanism to boost investor protection

Market regulator SEBI is mulling a dispute resolution mechanism to increase investor protection and boost the trust in the market. "SEBI is examining, in consultation with regulated entities, the possibility of introducing alternate dispute resolution mechanism in various agreements between the regulated entities and their clients. This is with a view to providing an efficacious mechanism for resolving disputes between the investors and the regulated entities," the regulator said in a release. People in the know said SEBI is studying the feasibility of introducing an arbitration mechanism to settle disputes rising between investors and a listed company or a client and any regulated intermediary.

The move will help settle grievances with the help of an arbitrator without the need of going through the lengthy court process. "The proposal is still at the planning stage and its legal tenability is being studied. Listed companies need to be on board with the idea," said a person with the direct knowledge of the development.

Currently, SEBI has so-called Scores (shot for SEBI Complaints Redress System) for disposing of investor grievances. Using this system, an investor can log a complaint against a listed company or an intermediary. The complainee then has to resolve the issue within 30 day failing which SEBI can pull up the entity. The status of disposal of investor grievances received under Scores are displayed on SEBI's website on a monthly basis. The disclosure can help market participants identify serial defaulters.

Meanwhile, SEBI and various stock market intermediaries have put

in place investor charters to improve the investing experience. [Business Standard, Jan. 17]

SEBI notifies KRA rules; mandates audit trails of client's KYC records

To enhance the role of KYC Registration Agencies (KRAs), the markets regulator has notified new norms to make them responsible to carry out independent validation of the KYC records uploaded onto their system by the Registered Intermediary (RI). Besides, such agencies will have to maintain an audit trail of the upload/modification/download with respect to KYC records of clients, SEBI said in a notification on January 28.

Also, the intermediary will have to integrate its systems with the KRA to facilitate seamless movement of KYC documents to-and-from the intermediary to the KRA. Now it is mandatory to obtain prior approval of the SEBI, whenever there is a change in the controlling interest of KRA.

"KRA shall carry out an independent validation of the KYC records uploaded onto its system by the intermediary in such a manner as specified by the Board (SEBI) from time-to-time," the regulator said. To give these effects, SEBI notified KYC (Know Your Client) Registration Agency or KRA rules. The client who is desirous of opening an account/trade/deal with the SEBI-registered intermediary should submit the KYC details through the KYC registration form and supporting documents. KRA provides for centralized storage / digitization of the KYC records in the securities market. [Business Standard, Jan. 31]

SEBI puts in place disclosure norms for high-value debt-listed entities in connection with RPTs

Markets regulator SEBI on Jan. 7 came out with disclosure requirements for listed entities, which have listed their debt securities, in relation to related party transactions (RPTs). The new requirement will apply to "high-value debt-listed entities", the SEBI said in a circular.

High-value debt-listed entities are those entities that have listed non-convertible debt securities and an outstanding value of such securities are Rs 500 crore and above. Under this, certain disclosure requirements need to be placed by high-value debt-listed entities before the audit committee and shareholders for consideration of related party transactions RPTs. Such entities will have to justify as to why the RPT is in its interest, besides, a copy of the valuation or other external party report will have to be submitted to the audit committee as well as shareholders for approval.

In addition, these entities will have to place information on the percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT voluntarily to the audit committee and shareholders. The RPT disclosures need to be made to stock exchanges in the prescribed format. [Financial Express, Jan. 7]

SEBI tightens rules governing utilisation of IPO proceeds; tweaks OFS norms

Tightening rules for initial public offering (IPO), SEBI has put a cap on the usage of the issue proceeds for unidentified future acquisitions and restricted the number of shares that can be offered by significant shareholders. Also, the regulator has extended anchor investors' lock-in period to 90 days and now, funds reserved for general corporate purposes will be monitored by credit rating agencies, according to a notification issued on January 14.

Further, SEBI has revised the allocation methodology for non-institutional investors (NIIs). To give effect to these, SEBI has amended various aspects of the regulatory framework under the ICDR (Issue of Capital and Disclosure Requirements) Regulations.

This comes amid a slew of new-age technology companies filing draft papers with SEBI to raise funds through initial public offerings (IPOs). The regulator said that if a company in its offer documents sets out an object for future inorganic growth but has not identified any acquisition or investment target; the amount for such objects and amount for the general corporate purpose (GCP) will not exceed 35 per cent of the total amount being raised. It is seen that lately, in some of the draft offer documents, new-age technology companies are proposing to raise fresh funds for objects where the object is termed as 'funding of inorganic growth initiatives' without giving details. [Business Standard, Jan. 18]

[Continued from page-28 : FIDC IN ACTION]

NBFCs to seek exemption of small-value accounts from new NPA norms

On Tuesday, the RBI acceded to the industry's requests for an extension and granted an additional six months – up to September 30, 2022 – to NBFCs to comply.

The non-banking financial company (NBFC) industry is planning to continue talks with the Reserve Bank of India (RBI) to seek an exemption of small-value loan accounts from the ambit of the new asset classification norms for the sector. On Feb. 15, the RBI acceded to the industry's requests for an extension and granted an additional six months – up to September 30, 2022 – to NBFCs to comply.

Under the guidelines outlined in a circular dated November 12, 2021, NBFCs will be allowed to upgrade a non-performing borrower account to 'standard' only if all outstanding dues are cleared. Industry sources told FE they will continue talking to the regulator and seek further exemptions for some specific categories of loan accounts. "We are in constant touch with RBI officials. Now that they have extended the implementation deadline, we will request them to exempt vehicle loans of up to Rs 25 lakh and micro, small and medium enterprises (MSME) loans from the ambit of the circular," said a person privy to the developments.

In a letter to RBI chief general manager Manoranjan Mishra dated January 17; industry association Finance Industry Development Council had sought the deferment of the deadline for implementation by a year to March 31, 2023. Citing the impact of subsequent waves of the pandemic on borrowers, the letter sought an exemption for retail loans of up to Rs 2 crore from the ambit of the new guidelines "until situation returns to normal".

The deferment of the deadline sent stocks of some NBFCs soaring on Feb. 16.

Most listed NBFCs have already complied with the RBI's guidelines and accounted for the impact in Q3 results. YS Chakravarti, MD & CEO, Shriram City Union Finance, said, "We believe it could have been helpful if the measures extending the revised asset classification and provisioning norms had come along with the RBI circular issued on November 12, 2021. Most NBFCs have already absorbed the impact in their third-quarter results. The clarification by the RBI only defers the adoption of the new norms."

Companies are unlikely to reverse the provisions they have already made in order to avoid accounting complexities, Chakravarti said. "For Shriram City Union Finance, there will be no impact since our loan book is already well provided for."

Mahesh Thakkar, director general, Finance Industry Development Council (FIDC), said, "This is good for the industry. The financial year closure is approaching, so firms will not be adversely affected. NBFCs will be able to provide, realign and also educate customers."

India Ratings and Research had earlier said NPA accounting changes are likely to increase NPAs by around one third for NBFCs. [Shritama Bose, Financial Express, Feb. 17]

Lowering the limits for NBFCs under the SARFAESI Act

FIDC has been advocating lowering of limits for undertaking security enforcement under the SARFAESI Act for a long time. Over time, the minimum loan size limits have been reduced from Rs 1 cr to Rs 20 lakhs. It is well known that most of NBFC lending happens below this threshold and the limit of Rs 20 lakhs effectively prevents enforcement action on most of NBFC exposures. FIDC have requested the RBI and the Ministry of Finance to reduce the threshold level to Rs 1 lakh, so that except for the very marginal and unsecured borrowers, SARFAESI Act can be applicable to all NBFC loans.

The RBI while considering FIDC request, has asked for data on the following:

- Ticket size range of our loans (viz., below Rs 1 lakh, 1-5 lakhs, 5-10 lakhs, 10-20 lakhs and >20 lakhs)
- In how many cases has the industry enforced security where loan size is below Rs 1 cr. so far

There being no credible database for the aforesaid information, FIDC at the behest of the RBI is collecting sample data of the top NBFCs on urgent basis.

Account Aggregators await a UPI-Like Moment

A few months after account aggregators were officially launched in India, backed by India's largest banks, adoption is picking up but slowly. Account aggregators, registered as non-banking finance companies [NBFCs], will enable financial data sharing from "Financial Information Providers" [FIPs] with "Financial Information Users", with due customer consent.

Six banks, which include HDFC Bank Ltd., ICICI Bank Ltd., Axis Bank Ltd., Federal Bank Ltd., and IDFC First Bank Ltd., have linked to the account aggregator network. Six non-bank lenders have also gone live. Four companies are now offering account aggregator services to customers.

According to Sahamati, a not-for-profit supporting the account aggregator ecosystem, about 78,000 accounts have already been linked to account aggregators. 65,000 consent requests have been Fulfilled as of the first week of January 2022.

Usage will rise when more financial information providers join the ecosystem, said BG Mahesh, co-founder and chief executive officer of Sahamati. "We should expect all the large banks (including PSUs) to have rolled out multiple products using account aggregation this year," he said.

FIPs are institutions that oversee user data. Typically, these are the banks, mutual funds, pension funds, and NBFCs. The number of accounts linked to aggregators is a small fraction of those that exist across the sector. But it is early days yet. Initial technical hiccups need to be addressed and use cases need to be expanded. The open credit enablement network, a set of standards that enable collaboration and partnerships between lenders and digital platforms, will eventually come together with the account aggregator network to achieve the desired outcome — easier access to financial services. [Shivam Vahia, Bloomberg, 13 Jan.]

Banking frauds to increase over next two years: Deloitte survey

Suggests banks reimagine their fraud risk management framework.

Frauds in the banking sector are expected to increase over the next two years even as the banks brace themselves to the new challenges thrown up by the Covid-19 and pandemic induced digital adoption, the latest edition of the Deloitte India Banking Fraud Survey has revealed.

As many as 78 per cent of the respondents, which comprised 70 key C-Suite stakeholders/senior management responsible for compliance and fraud risk management, audit/finance, asset recovery from varied financial institutions in India, believed that frauds in the banking sector will increase over the next two years, the survey findings showed. The key reasons identified for the expected increase in fraud incidents over the next two years include large-scale remote working models, an increase in customers using non-branch banking channels and the limited/ineffective use of forensic analytics tools to identify potential red flags.

The survey findings also revealed data theft, cybercrime, third party-induced fraud, bribery and corruption, fake/fraudulent documentation as the main types of frauds that were experienced in the last two years. As many as 42 per cent of respondents (cumulatively) had been victims of such frauds in recent years. [Business Line, Jan. 17]

Mid-cap firms struggle to meet debt obligation as inflation bites

Rising raw material costs and covid-related disruptions are making it increasingly difficult for mid-cap companies to earn enough to make interest payments on their debt. An analysis of 77 companies in the BSE Midcap index showed debt serviceability of mid-cap firms declined in the December quarter. The interest coverage ratio (ICR), a measure of how easily a company can pay interest on its debt from earnings, declined sharply to 4.5 times at the end of the December quarter from 6.1 times at the end of the preceding quarter. Deepak Jasani, head of retail research at HDFC Securities Ltd, said that larger companies have managed costs better and even saw some market share gains.

An analysis of 383 companies in the BSE 500 index also showed that ICR slipped to 7.6 times in the December quarter from 8.1 times at the end of the preceding three months. The analysis excludes banks, financial services and insurance (BFSI), and oil and gas firms. Companies in automobiles, consumer staples, cement and industrials segments saw lower demand and rising input costs affecting their performance.

Shamsher Dewan, vice-president and group head, corporate ratings at ICRA Ltd, said that "the marginal contraction in the interest coverage ratio for the Indian corporate sector in the fiscal third quarter can be attributed to ... commodity-led headwinds across many of the key sectors. This coupled with higher working capital borrowings to support higher inventory cost/holding, led to higher interest expenses as well. Due to supply chain disruption in certain sectors, companies tend to stock up on inventories. Both these factors have led to higher working capital intensity in the corporates, which has resulted in higher working capital borrowing and higher interest costs." [Mint, Feb. 22]

SIDBI pumps in Rs 650 crore to help unrated NBFCs through RBI's liquidity facility

SIDBI has sanctioned financial assistance of Rs 650 crore to two Small Finance Banks (SFBs) — AU SFB and Jana SFB, so as to reach out to small-sized NBFCs), Micro Finance Institutions (MFIs) who in turn provide financial assistance to the small businesses and micro entrepreneurs. The role of relatively smaller NBFCs and MFIs, which usually operate in remote geographies (including credit deficient, backward and aspirational districts), in the socio-economic development of the country is well established. They normally cater to the informal MSME sector, especially new to credit businesses, small retail trade, micro credit and other small household businesses, in the hinterland due to their 'next-door' presence and accumulated knowledge about their clientele over a period of time.

The COVID-19 pandemic has adversely impacted the businesses of MSMEs leading to slow-down in income generation activities of these small businesses and micro enterprises. This has further adversely affected the collections and liquidity position of the NBFCs and MFIs. The smaller NBFCs and MFIs, in particular, have always faced challenges in accessing adequate institutional funding and generally source their funds support from other larger and well-established non-banking companies and SFBs.

Sivasubramanian Ramann, Chairman & Managing Director, SIDBI, in a statement, said, "The move is expected to benefit more than 40 small-sized NBFCs and MFIs which will help in mitigating the hardships being faced by such organisations in garnering resources for their businesses." An amount of Rs 530 crore has already been released to these SFBs. The financial assistance has been extended out of the Special Liquidity Facility of Rs 16,000 crore sanctioned by Reserve Bank of India to SIDBI to meet the challenges being faced by the MSMEs due to the prevailing Covid-19 pandemic situation. [ET online, Jan. 19]

Top Fintech Trends for 2022-Globally: KPMG

During 2021, interest and investment in fintech grew significantly in many regions of the world — its scope broadening well-beyond its early definition. This expanding scope, combined with the growing maturity of a number of fintech subsectors, increasing investment in less mature jurisdictions, and surging corporate interest, is expected to keep investment high as we enter 2022. Looking forward, here are our top predictions for the fintech market globally, notes KPMG in its Pulse of Fintech H2' 21, January Report:

Growing number of banks will offer embedded solutions

Embedded finance has been a growing trend over the past year and is well-positioned to grow even further as numerous banks embrace look to become service providers to non-bank and non-financial institutions looking to deliver a customer experience or service proposition involving financial services as a component of a larger offering.

There will be increasing regulatory scrutiny of embedded finance offerings

The increase in financial products or services embedded within and delivered through non-regulated entities is expected to drive greater levels of regulatory awareness and intervention over the next six-totwelve months as regulators look to protect customers by clarifying issues like accountability and available recourse.

Fintechs will focus on branding themselves as data

[Continued on page-12]

Budget 2022: NBFCs want parity with banks on taxation, refinance facility, reduction in SARFESI limit

The NBFCs have asked the government to allow for a refinance facility via SIDBI for NBFCs for onward lending to MSMEs, along the lines of National Housing Banking for housing finance companies. On the taxation front, they are seeking an exemption for Non-Deposit Taking Systemically Important NBFCs (NBFC-ND-SI) and Deposit-Taking NBFCs (NBFC-D) from tax deducted on the source on interest under Section 194A.

Non-banking finance companies (NBFCs) have sought parity with banks on taxation, exemption from tax deducted at source (TDS) on interest payment, and a refinance facility for onward lending to MSMEs, among other requests presented to the government ahead of the Union Budget on February 1, 2022.

In a pre-budget memorandum presented to the Ministry of Finance last month, NBFC body Finance Industry Development Council (FIDC) highlighted funding remains a challenge for the sector, leading to an inadequate and erratic flow of funds to non-bank lenders.

"Most NBFCs (except the very highly rated NBFCs) depend upon banks for their funding needs since the money markets and other institutional sources of funding are shallow or are restricted to highly rated NBFCs. This has resulted in an inadequate and erratic flow of funds to NBFCs and increased concentration risk at a systemic level. There is a dire need for an effective refinance mechanism (on similar lines as the NHB refinance or any other effective method) to ensure diversity and greater regularity in sources of funds to NBFCs," FIDC said.

Therefore, NBFCs have asked the government to allow for a refinance facility via SIDBI for NBFCs for onward lending to MSMEs, along the lines of National Housing Banking for housing finance companies.

"Considering the sizeable nature of the NBFC sector, which accounts for 25% of the credit exposure in the country, and its systemically critical position, the Budget can re-examine a permanent NBFC refinance window from the Reserve Bank of India (RBI) or the designation/creation of an institution as a backstop for NBFCs. We expect the Budget to continue with some of the liquidity and guarantee schemes to ensure near-term funding availability for NBFCs (non-infra) and to provide guidance on the medium-term support framework for the sector, which could boost investor confidence and would be key for a sustainable revival," rating and research agency ICRA said in a note recently.

The industry has sought an extension of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) coverage to loans given to educational institutions, which are covered under the MSME definition.

"Given that these institutions are now being slowly opened in many states, there is a considerable need to provide adequate financing for the restoration of normalcy and growth of the institutions. Covering these loans under the CGTMSE scheme would facilitate greater flow of funds to this critical and socially important sector," the memorandum read.

FIDC also sought acceptance of arbitration as a valid legal step for debt recovery under the Emergency Credit Line Guarantee Scheme (ECLGS) to avoid lengthy and costlier civil lawsuits.

On the taxation front, it sought an exemption for Non-Deposit Taking Systemically Important NBFCs (NBFC-ND-SI) and Deposit-Taking NBFCs (NBFC-D) from tax deducted on the source on interest under Section 194A.

"Tax is required to be deducted at the rate of 10 percent from interest paid to NBFCs. This creates severe cash flow constraints since NBFCs operate on a thin spread/ margin on interest, which at times is even lesser than the TDS on the gross interest. Further, due to enormous transactions, NBFCs have to face severe administrative hardship in terms of collection of TDS certificates from their thousands of customers," it said.

The NBFC body further said, "RBI has allowed banks and NBFCs to engage in Co-Lending to the priority sector. A single borrower may be co-funded by the bank and an NBFC in a pre-determined ratio. Both banks and NBFC may price the loan independently. However, the borrower shall be offered a single blended rate of interest. All the repayments made by the borrower (including the interest) by way of EMIs shall be made to an escrow account from where the amounts shall be credited to the bank and NBFC in respective proportion. In such a scenario, the borrower shall not be able to split the EMI and determine the exact interest component of the NBFC portion. Hence, TDS deduction shall be practically impossible. Therefore, it is important to bring both bank and NBFC at par on the TDS provisions."

NBFCs have also sought to lower minimum loan ticket size to enforce security receipt under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.

"The prime objective of giving NBFCs coverage under the SARFAESI Act was to bring parity with banks, HFCs and other FIs, and providing NBFCs with an important tool of recovery … The rider of Rs 20 lakhs does not fully justify the objective of bringing parity since the threshold for enforcing security interest under SARFAESI for HFCs, and other FIs is much lower at Rs 1 lakhs," FIDC said.

Therefore, it has sought to reduce the threshold from Rs 20 lakhs to Rs 1 lakh to bring NBFCs at par with HFCs, banks, SFBs, and other financial institutions as asset classification norms are also at par for all the institutions. [RITU SINGH, CNBC TV18, Jan. 19]

FIDC In Action

NBFCs seek priority sector tag for 2-wheeler loans financed by bank credit

Finance companies have sought priority sector lending status for the money they get from banks to give loans for buying two wheelers (TW). This would help them get cheaper funds from banks and increase lending, especially in rural areas, according to the Finance Industry Development Council (FIDC).

FIDC said in a plea to the RBI that two-wheelers play a crucial role in the rural economy as they help improve the standard of living, and bring about convenient and safer movement at affordable price. They also help increase earnings. "Considering the value and usage, we request the respected authority to consider the financial assistance to purchase two-wheelers in the rural economy as priority sector lending, as this will enable lenders to provide timely funds at cheaper cost," FIDC said. The use of two-wheelers in the rural economy is not limited to self-riding but also for carrying and delivering milk, vegetables and other merchandise of day-to-day use. The Indian rural market has a strong consumer base of about 740 million people, of which around 30 per cent only possess two-wheelers in the rural segment, FIDC added.

The penetration of two-wheelers is lower in India than in other developing countries. For 1,000 people, only 102 people have two-wheelers in India, compared to 166 in Malaysia, 281 in Indonesia and 291 in Thailand. [BS Reporter, Feb. 19]

[Continued on Page-26]

Mr. Mahesh Thakkar, Director General for and on behalf of
Finance Industry Development Council,
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar(E), Mumbai 400 077. Call: 022 - 21029898/91 9820035553
Email:directorgeneral@fidcindia.org.in;maheshthakkar45@yahoo.in
Connect: http://www.fidcindia.org.in/ https://twitter.com/FidcIndia
http://facebook.com/fidcindia/ https://www.linkedin.com/company/fidc-india
https://www.instagram.com/fidcindia/

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

Courtesy: The Hindu [on Feb. 1, 2022]

Designed by : Aditya Print Shop (M) 9825866610