Finance Industry Development Council

(A Representative Body of Assets and Loan Financing NBFCs)

VOLUME – 13 NO. – 1 | April - June – 2021 | e-Edition No. 1 | FOR PRIVATE CIRCULATION

FINANCIAL SECTOR IN THE NEW DECADE

Shri Shaktikanta Das
Governor,
Reserve Bank of India

The COVID-19 pandemic has set forth the wheels of transformation for everything around us; from our work life to our policy priorities…we toil towards addressing the challenges raised by COVID-19 with the aim to emerge as a modern and transformed India.

Keeping in view the increasing significance of NBFCs in the financial system, we are in the process of finalising the guidelines on their dividend distribution and scale based regulation.

In the Indian context, maintaining the health of the banking sector remains a policy priority. As I have stressed on several earlier occasions, the strength of a banking system depends on building its capital base while at the same time focusing on corporate governance and ethics-driven compliance culture. Banks and NBFCs need to enhance their skill-set to identify risks early, measure them, mitigate the risk proactively and build up adequate provisioning buffers to absorb potential losses. They should also augment their internal stress testing framework with severe but plausible stress scenarios. Upgradation of IT infrastructure and improving customer services together with cybersecurity measures are other key issues which also need attention.

Increasing Significance of NBFCs in Financial System : On our part, we have reorganized RBI's supervision of banks, nonbanking financial companies (NBFCs) and urban co-operative banks (UCBs) under one umbrella and initiated a series of measures to strengthen supervisory oversight on these entities. Our focus is more on early identification of risks, putting in place a structured early supervisory intervention framework and increasing the focus on root causes of vulnerabilities than on symptoms. We are also harmonising the supervisory rigour across banks and NBFCs.

The Reserve Bank has also been taking steps to provide all round support to improve the resilience of these sectors. Apart from liquidity support through targeted long-term repos (TLTRO) and special liquidity support windows, other measures included priority sector classification benefit to banks' lending to NBFCs for on-lending to priority sector, promoting co-lending model, harmonisation of exposure limits for banks' exposure to NBFCs under the large exposure framework, synchronisation of risk weights for exposures of banks to rated NBFCs with those of corporates, and relaxations for minimum holding period for securitisation and assignment. We have also strengthened the liquidity risk management framework with the introduction of granular maturity buckets and glide path for introduction of liquidity coverage ratio (LCR) for NBFCs. To augment risk management practices, a functionally independent Chief Risk Officer (CRO) with clearly specified roles and responsibilities was mandated for large NBFCs. The guidelines for Core Investment Companies (CICs) were revised in August 2020 with a view to address complexity and multiple leveraging, strengthen risk management and corporate governance practices, and induce transparency through disclosures. The revised regulatory framework for Housing Finance Companies (HFCs), issued in October 2020, aimed at harmonising the regulations between HFCs and NBFCs in a non-disruptive manner. Further, keeping in view the increasing significance of NBFCs in the financial system, we are in the process of finalising the guidelines on their dividend distribution and scale based regulation.

Banking sector: Way Ahead : The Reserve Bank is striving towards a more competitive, efficient and heterogeneous banking structure. The licensing policies for universal banks, small finance banks (SFBs) and payments banks are a step in this direction. Presently, ten SFBs and six payments banks are operational.

I foresee four distinct sets of banking landscapes emerging in the current decade. The first set will be dominated by a few large Indian banks with domestic and international presence. Second, there will be several midsized banks with economy-wide presence. The third set would encompass smaller private sector banks, SFBs, regional rural banks and co-operative banks, which may specifically cater to the credit requirements of small borrowers. The fourth segment would consist of digital players who may act as service providers directly to customers or through banks as their agents or associates. In fact, digital players would increasingly emerge as critical pieces across all segments.

Let me now dwell upon the interplay and synergies that could be exploited by these four segments while they compete with each other to move up the ladder. Each of these segments needs to comprehend the future needs of the society and respond to the growth in the Indian financial sector. IT systems need to be developed to handle the exponential surge in the number of transactions. The example of Unified Payments Interface (UPI) which took three years' (2017-2019) to register a monthly count of 1 billion transactions, but doubled to 2 billion a month in a short span of another year clearly stands out. This demonstrates the need for scalability of systems and platforms in such a way that it can be easily scaled up, not 'incremental scalability, but 'exponential scalability'.

FinTech and Digital Lending : India is on the way to becoming Asia's top financial technology (FinTech) hub with 87 per cent FinTech adoption rate as against the global average of 64 per cent. The FinTech market in India was valued at Rs.1.9 trillion in 2019 and is expected to reach Rs. 6.2 trillion by 2025 across diversified fields like digital payments, digital lending, peer to

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peer (P2P) lending, crowd funding, block chain technology, distributed ledgers technology, big data, RegTech and SupTech, to name a few. In a world where the FinTech companies are leading in terms of the volume of digital transactions and playing a more active role in the banking and finance industry, it is important that the commercial banks adapt to the technological changes and work in tandem with these entities so that in future they are part of the ecosystem rather than competing with Fintech companies for business. A meaningful collaboration and co-existence in providing affordable and efficient value-added services would help both the worlds.

From the regulatory perspective, it is RBI's priority to foster effective regulations with continuous knowledge acquisition so that we stay ahead of the curve. The Reserve Bank's endeavour is to ensure that the regulations do not constrain innovation; rather they should encourage and nurture innovation, without compromising the need for financial sector stability, cybersecurity, customer protection, etc. Optimality in regulation and supervision is the key. With this objective in mind, we have recently constituted a working group on digital lending, including lending through online platforms and mobile apps. Overall, an orderly growth of Fintechs will benefit all the stakeholders in the financial sector.

Financial Sector and Payment System – Lifeline of the Economy : While we are on Fintech and technology, it would be extremely relevant to touch upon the developments in our payment systems where India has shown remarkable progress in recent years. As the adage goes "the best way to predict the future is to create it" and at the Reserve Bank, this is our unwavering approach when it comes to the future of payment systems. With our commitment to foster innovation, and provide state-of-the-art and safe experience to users, we have placed ourselves in the forefront of payment systems on a global stage. India has emerged as one of the leaders when it comes to payment systems; perhaps akin to the recognition in the COVID vaccine front. Sustaining this position is both challenging and exciting.

The growth rate of Indian payment systems has been phenomenal, creating new records with each passing day. Digital payments volume in India increased at a compounded annual growth rate of over 55 per cent in the past five years from 5.9 billion in 2015-16 to 34.3 billion in 2019-20, almost six times in 5 years. Retail payment systems such as the UPI and Aadhaar Enabled Payment Service (AePS) have changed the entire dynamics of retail payment systems as they are being used at every nook and corner of the country. Last year when many other nations were writing cheques to provide stimulus to the people, we, in India, processed 274 crore digital transactions to provide Direct Benefit Transfer (DBT) to the people straight into their bank accounts.

24x7 and interoperability are two key aspects that are the hallmarks of our payment systems and it would continue to be so. Interoperability is sine-qua-non if the existing infrastructure has to be leveraged to its optimum use. RBI's recent initiative in setting-up a Payment Infrastructure Development Fund (PIDF) to expand the reach of digital payments infrastructure into less penetrated regions is aimed at making payments more inclusive. The emphasis of the Reserve Bank is on operationalising all our payment systems round the clock, 365 days a year and I am happy to say that with 24x7 NEFT and RTGS systems, we are among a few countries that provide the facility to transfer any amount at any point of time.

The success of UPI in India has attracted immense admiration from the international community and several countries across the globe have expressed interest in developing a system on similar lines which could provide a basis for stronger bilateral business operations and economic partnerships. The UPI system also has the potential to unfold into a cheaper and faster alternative to available means for multilateral cross-border payments as well. It would be appropriate to mention that our RTGS also has multi-currency capabilities and with 24x7 operations now, there is a scope to explore whether its foot-prints could be expanded beyond India. With the Reserve Bank at the forefront of nurturing innovation, the day is not far, when we will experience cheaper, faster and safer cross border remittances. Also, the indigenous Rupay card network has shown astounding growth across strata and has a significant market share. With Rupay having international presence, our home-grown card network could make a mark in the global financial landscape, going forward.

Future Technologies, Safe and Robust CBDC : The Reserve Bank is intensively involved in developing an ecosystem, which would not only nurture the future technologies, but also stimulate the technological aspirations of the financial community. On these lines, to enable the growth of FinTech in India, the Reserve Bank in August 2019 entered into the elite class of select few countries which have their very own regulatory sandbox ecosystem, where any regulated or unregulated entity can come and live test their innovative products or services in a controlled environment. This is a collaboration between the regulator, the innovators, the financial service providers and the end users (customers) which would ensure that Indian consumers continue to receive the best in class financial services. The responses to the 1st Cohort on "Retail Payments" and the 2nd Cohort on "Cross Border Payments" were encouraging. Additionally, the Reserve Bank has also created our own Innovation Hub (RBIH). This hub will collaborate with financial sector institutions, technology industry and academic institutions for exchange of ideas and development of prototypes related to financial innovations. The Bank for International Settlements (BIS) and several central banks have also set up such hubs to stay ahead of the curve in technology absorption.

While doing all these, we need to be watchful of the risks associated with certain technological innovations. That being said, while we are working on introducing a digital version of the fiat currency, the Reserve Bank is also assessing the financial stability implications of introducing such a Central Bank Digital Currency (CBDC). As the underlying technology is still developing, we are exploring ways for a clear, safe and legally certain settlement finality, which is most crucial for a secure and efficient payment system. It also needs to be appreciated that there are not many practical instances of operationalisation of CBDC across the world; this calls for utmost precaution so that we can produce a safe and robust model.

Cyber Crisis Proofing of Systems : Enhancing cyber resilience is another important aspect when it comes to digital innovations. As we are expanding our operating hours and allowing for increased access and increased interoperability, there are persisting threats of cyber-attacks to our systems. Experience shows that even the most efficient and protected systems can get compromised which could expose stakeholders to disproportionate risks. The Reserve Bank is constantly creating awareness of such incidents and encouraging banks and non-banks to establish and maintain capabilities to avert such attacks. One must also know how to ring-fence such attacks when they occur and swiftly repair and restore the systems to normalcy. Cyber crisis proofing of systems by undertaking periodic tests as well as drills is essential.

With increased digitisation and development of FinTech, the traditional ways of credit evaluation are expected to be replaced by new-age credit evaluation methods that focus on a slew of non-financial and reliable transactional data. Many FinTech firms have already adopted such an approach but it is expected that in times to come, this may become more mainstream than remaining a niche. This will further facilitate the cause of financial inclusion. At the same time, however, it throws up a host of new challenges in terms of concerns of data privacy, consent, and security. Ethical behaviour of stakeholders in the payments value chain is important to surmount these concerns. Ability of financial sector entities to respond to these challenges may become a key factor in the determination of their competitive advantage.

Concluding observations : In the dynamic world of financial services, and more so after the pandemic, FinTech is expected to challenge the financial sector with innovations and its exponential growth. Harnessing FinTech for customer services will effectively control costs and expand the banking and non-banking businesses. The increased use of digital payments brought about by COVID-19 could fuel a rise in digital lending in the current decade as companies accumulate consumer data and enhance credit analytics. This in turn presents new and complex trade-offs between financial stability, competition and data protection; thereby, warranting new regulatory frameworks and novel ways of monitoring. It is imperative for the financial sector regulators to monitor global developments and formulate policy responses to the risks and the opportunities.

Going forward, banks need to address the financing needs of new sunrise sectors without undermining the traditional sectors of the economy. This conclave gives us an opportunity to look back on what has been accomplished and deliberate on what still needs to be done. I wish to reiterate that we at the Reserve Bank are fully committed to use all our policy tools to secure a robust recovery of the economy from the debilitating effects of the pandemic. The Reserve Bank remains devoted to build an enabling environment to develop the financial sector and create necessary preconditions for growth while preserving financial stability.

[Extract from Address by Shri Shaktikanta Das, Governor, Reserve Bank of India Delivered on March 25, 2021 with the theme of "India's Decade: Reform. Perform. Transform." Emphasis by italics and sub headings are added to facilitate readers]

REGULATORY PERIMETER

RBI NOTIFICATIONS & CIRCULARS :

Priority Sector Lending (PSL) - Lending by banks to NBFCs for On-Lending: RBI/2021-2022/15 FIDD.CO.Plan.BC.No.8/04.09.01/2021-22; 07.4.2021; Financial Inclusion and Development Department [The Chairman/ Managing Director Chief Executive Officer All Scheduled Commercial Banks (Excluding Regional Rural Banks, Small Finance Banks, Urban Co-operative Banks and Local Area Banks)]

Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package: RBI/2021-2022/17; DOR. STR. REC. 4/21. 04.048/2021-22; 07.4.2021; Department of Regulation [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)]

Implementation of Section 51A of UAPA, 1967 and Security Council Resolution: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List & Democratic People's Republic of Korea (DPRK)Order, 2017: RBI/2021-2022/19; DoR. AML.REC.03/14.06.001/2021-22 08.4.2021; Department of Regulation [The Chairpersons/ CEOs of all the Regulated Entities]

Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs): RBI/2021-2022/25; Ref. No. DoS. CO. ARG/ SEC. 01/ 08. 91. 001/ 2021-22; 27.4.2021; Department of Banking Supervision [The Chairman/Managing Director/Chief Executive Officer, All Commercial Banks (Excluding RRBs) All Primary (Urban) Co-operative Banks (UCBs) All Non-Banking Finance Companies (NBFCs) (Including Housing Finance Companies)]

Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs: RBI/2021-2022/27; FIDD. CO. Plan. BC. No. 10/ 04. 09.01/2021-22; 05.5.2021; Financial Inclusion and Development Department; [The Chairman/ Managing Director Chief Executive Officer Small Finance Banks]

Periodic Updation of KYC – Restrictions on Account Operations for Non-compliance: RBI/2021-2022/29; DOR. AML.REC 13/14.01.001/2021-22; 05.5.2021; Department of Regulation [The Chairpersons/ CEOs of all the Regulated Entities]

Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses: RBI/2021-2022/31; DOR.STR.REC.11/21.04.048/2021-22;05.5.2021; Department of Regulation [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)]

Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs): RBI/2021-2022/32; DOR.STR.REC.12/21.04.048/2021-22; 05.5.2021; Department of Regulation [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including Housing Finance Companies)]

Amendment to the Master Direction (MD) on KYC: RBI/2021-2022/35; DOR.AML.REC.No.15/14.01.001/2021-22; 10.5.2021; Department of Regulation [The Chairpersons/ CEOs of all the Regulated Entities]

Customer Due Diligence for transactions in Virtual Currencies (VC): RBI/2021-2022/45**;** DOR. AML.REC 18 /14.01.001/2021-22 31.5.2021; Department of Regulation. [All Commercial and Co-operative Banks / Payments Banks/ Small Finance Banks / NBFCs / Payment System Providers]

Resolution Framework - 2.0: Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) – Revision in the threshold for aggregate exposure: RBI/2021-2022/ 47; DOR. STR. REC. 21/21.04.048/2021-22;04.6.2021; Department of Regulation. [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including HFCs)]

Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses – Revision in the threshold for aggregate exposure: RBI/2021-2022/46; DOR. STR. REC. 20/21. 04. 048/ 2021-22; 04.6.2021; Department of Regulation. [All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks All All-India Financial Institutions All Non-Banking Financial Companies (including HFCs)]

Declaration of dividends by NBFCs: RBI/2021-22/59; DOR. ACC. REC. No.23/21.02.067/2021-22; 24-06-2021 [All NBFCs]

Bank lending to NBFCs under PSL extended

Bank lending to NBFCs (other than microfinance institutions) for on-lending to agriculture, MSME and housing will continue to be classified as priority sector lending (PSL) for six more months, according to the RBI. The dispensation, whereby bank lending to NBFCs for on-lending to specified sectors was recognised as PSL, was available from August 13, 2019 till March 31, 2021. But now it has been further extended for another six months, up to September 30, the RBI said in its latest Statement on Developmental and Regulatory Policies.

With a view to encouraging farm credit to individual farmers against pledge/ hypothecation of agricultural produce, the RBI has enhanced the loan limit under PSL from Rs.50 lakh to Rs.75 lakh per borrower. This enhanced limit is against the pledge/ hypothecation of agricultural produce backed by Negotiable Warehouse Receipts (NWRs)/electronic-NWRs (e-NWRs) issued by warehouses registered with the Warehousing Development and Regulatory Authority (WDRA). For other Warehouse Receipts, the loan limit for classification under PSL will continue to be Rs.50 lakh per borrower. [Business Line, April 07]

RBI allows SFBs to on-lend to NBFC-MFIs under priority sector lending norms

RBI on May 5 has brought changes in the priority sector lending norms to allow small finance banks to on-lending to NBFC-MFIs as they were not permitted earlier. RBI said, "In view of the fresh challenges brought on by the COVID-19 pandemic and to address the emergent liquidity position of smaller MFIs, it has been decided to allow PSL classification to the fresh credit extended by SFBs to registered NBFC-MFIs and other MFIs (Societies, Trusts etc.) which are members of RBI recognised 'Self-Regulatory Organisation' of the sector and which have a 'gross loan portfolio' of upto ¹ 500 crore as on 31 March 2021, for the purpose of onlending to individuals." Bank credit will be permitted up to 10% of the bank's total priority sector portfolio as on March 31, 2021 and the above classification will be valid up to March 31, 2022. [ETBFSI, May 05]

RBI announces rationalisation of compliance to KYC norms

RBI on May 5 announced the rationalisation of compliance to Know Your Customer (KYC) norms. The measures include extending the scope of video KYC for new categories of customers such as proprietorship firms, authorised signatories and beneficial owners of Legal Entities and for periodic updation of KYC as well as the introduction of more customer-friendly options, including the use of digital channels for periodic updation of KYC details of customers.

It has also announced the conversion of limited KYC accounts opened based on Aadhaar e-KYC authentication in non-face-to-face mode to fully KYC-compliant accounts as well as enabling the use of KYC Identifier of Centralised KYC Registry (CKYCR) for video-based customer identification process and submission of electronic documents (including identity documents issued through DigiLocker) as identity proof. "Keeping in view the Covid related restrictions in various parts of the country, Regulated Entities are being advised that for the customer accounts where periodic KYC updating is due or pending, no punitive restriction on operations of customer accounts shall be imposed till December 31, 2021 unless warranted due to any other reason or under instructions of any regulator/enforcement agency or court of law, etc," RBI Governor Shaktikanta Das said. [Business Line, May 05]

Now, an inter-regulator fintech regulator

The Financial Stability and Development Council (FSDC) have constituted a first-of-its-kind inter-regulator panel to address the regulatory challenges posed by the fintech industry, two people with direct knowledge of the matter told us. It may contain officials from the RBI, finance ministry, the SEBI and the IRDAI. This group will seek better coordination among regulators to deal with fintech companies. "The fintech space has innovated so much with the structures that nowadays no single regulator has complete control or information about a large fintech entity; hence cooperation within regulators is a welcome step," said a person privy to the matter. "There has to be a standard procedure in place too between various regulators to deal with Black Swan events." [ET tech, June 4]

M Rajeshwar Rao
Deputy Governor

RBI sets up RRA to streamline regulations and reduce compliance

The RBI had set up a Regulations Review Authority (RRA) initially for a period of one year from April 1, 1999, for reviewing regulations, circulars, reporting systems, based on the feedback from public, banks and financial institutions. The recommendations of the RRA enabled streamlining and increasing the effectiveness of several procedures, simplifying regulatory prescriptions, paved the way for issuance of master circular and reduced reporting burden on regulated entities."Considering the developments in regulatory functions of the Reserve Bank over the past two decades and evolution of the regulatory perimeter, it is proposed to undertake a similar review of the Reserve Bank's regulations and compliance procedures with a view to streamlining/ rationalising them and making them more effective," it said.

Accordingly, it decided to set up RRA 2.0 to review the regulatory prescriptions internally as well as by seeking suggestions from the RBI-regulated entities and other stakeholders on their simplification and ease of implementation. The RRA would be set up for a period of one year from May 1, 2021, unless its tenure is extended by the Reserve Bank. "The RRA will engage internally as well as externally with all regulated entities and other stakeholders to facilitate the process," the central bank said. The RRA 2.0 will focus on streamlining regulatory instructions, reduce compliance burden of the regulated entities by simplifying procedures and reduce reporting requirements, wherever possible, it added.

The panel will recommend ways to make regulatory and supervisory instructions more effective by removing redundancies and duplications. To reduce the compliance burden on regulated entities by streamlining the reporting mechanism; revoking obsolete instructions if necessary and obviating paper-based submission of returns wherever possible, is another major terms of reference of the panel. [Business Line, April 29]

RBI sets up advisory group to assist Regulatory Review Authority

RBI's Regulations Review Authority (RRA 2.0) has constituted a six-member Advisory Group headed by S Janakiraman, Managing Director, State Bank of India, to support it in reviewing the central bank's regulations and compliance procedures with a view to streamlining/ rationalising them to make them more effective. "The Group will assist the RRA by identifying areas/ regulations/ guidelines/ returns which can be rationalised and submit reports periodically to RRA containing the recommendations/ suggestions," RBI said.

TT Srinivasaraghavan, Former MD and Non-Executive Director, Sundaram Finance and chairman Emeritus of FIDC for life time is one of the members of group. The Group has decided to invite feedback and suggestions from all regulated entities, industry bodies and other stakeholders. Suggestions and feedback can be e-mailed to the Group latest by June 15, 2021. The RRA will examine and suggest the changes required in dissemination process of RBI circulars/ instructions. [Business Line, May 7]

RBI's relief: Hit by second Covid wave, MSMEs call for more support

The RBI on May 5 announced measures to ensure liquidity and provide support to small businesses that have been hit by the second wave of Covid. It allowed re-opening of one-time restructuring for individuals and MSMEs till September 30. In cases where individual borrowers and MSMEs have availed restructuring of loans that provided a moratorium of less than two years, banks are being allowed to modify the moratorium period up to two years. For MSMEs restructured earlier, banks are allowed to review working capital sanctioned limits based on a reassessment.

"The RBI has most correctly recognised how small businesses and financial entities at the grassroots level are bearing the considerable burden of the pandemic. It has, thus, unveiled measures to help them," said Deepak Sood, secretary general of ASSOCHAM. "It's a great move and will boost the confidence of businesses. But the problem with loan restructuring is that it is difficult for businesses to prove the viability of a business on paper at this time due to the uncertainty caused by the second wave," said Mukesh Gupta, president, Chamber of Indian Micro, Small and Medium Enterprises. Gupta further said that restructuring should be allowed for loans that have been categorised as non-performing assets (NPAs). According to RBI norms, a borrower's account has to be a standard asset.

"In fact, after restructuring, the account should be categorised as a standard account, if the bank thinks that the project is viable," he said, adding that delayed payment to MSMEs by various government agencies and large corporates continues to remain a challenge. [Business Standard, May 5]

Reserve Bank to strengthen risk-based supervision of banks, NBFCs

The Reserve Bank has decided to review and strengthen the Risk Based Supervision (RBS) of the banking sector with a view to enable financial sector players to address the emerging challenges. The RBI uses the Risk Based Supervision [RBS] model, including both qualitative and quantitative elements, to supervise banks, urban cooperatives banks [UCBs], NBFCs and all India financial institutions. "It is now intended to review the supervisory processes and mechanism in order to make the extant RBS model more robust and capable of addressing emerging challenges, while removing inconsistencies, if any," the RBI said while inviting bids from technical experts/consultants to carry forward the process for banks.

In case of UCBs and NBFCs, the Expression of Interest (EOI) for 'Consultant for Review of Supervisory Models' said the supervisory functions pertaining to commercial banks, UCBs and NBFCs are now integrated, with the objective of harmonising the supervisory approach based on the activities/size of the supervised entities (SEs).

"It is intended to review the existing supervisory rating models under CAMELS approach for improved risk capture in forward looking manner and for harmonising the supervisory approach across all SEs," it said. Annual financial inspection of UCBs and NBFCs is largely based on CAMELS model (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Systems & Control). The RBI undertakes supervision of SEs with the objective of assessing their financial soundness, solvency, asset quality, governance framework, liquidity, and operational viability, so as to protect depositors' interests and financial stability. In case of Urban Cooperative Banks (UCBs) and NBFCs, it conducts the supervision through a mix offsite monitoring and on-site inspection, where applicable. [Business Standard/PTI, May 2]

RBI tightens dividend payout norms for NBFCs, links them to bad debt

RBI on June 24 tied down a NBFC's ability to pay dividends to certain factors, including how much bad debt it has in its books and whether it has declared it correctly. The dividend ratio, which is the ratio between the amount of the dividend payable in a year and net profit, is now capped at 50 to 60 per cent, depending upon the nature of the business. Any extraordinary income in the year has to be excluded from profits to arrive at the dividend ratio, the RBI said. However, there will be no such cap on NBFCs that do not take public deposits and also do not have a customer interface.

Before declaring the dividend, the board has to ensure that the regulator has not found any underreporting of non-performing assets (NPAs) by the NBFC. The NPAs, satisfied by the RBI and auditors, have to be below 6 per cent for 3 consecutive years. The NBFC should have the minimum CRAR, which would be at least 15 per cent, in those 3 years. For standalone primary dealers, which deal in government business, the minimum capital adequacy will be 20 per cent.

Any NBFC that does not meet the criteria will also be eligible for dividend payout subject to a cap of 10 per cent. However, it must have a net NPA ratio of less than 4 per cent at the end of the financial year for which it is paying the dividend, the RBI said. The auditors' qualifications on the accounts and long-term growth plans of the NBFC have to be taken into consideration too before the board approves dividend, the RBI said. The dividend ratio has to be calculated on equity shares and compulsorily convertible preference shares that add up to the core capital. "The Reserve Bank shall not entertain any request for ad-hoc dispensation on the declaration of dividends," RBI said. [Business Standard, June 25]

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PERFORMANCE OF NBFCs DURING THE PANDEMIC: A SNAPSHOT

The consolidated balance sheet of NBFCs grew at a slower pace in Q2 and Q3:2020-21 following the pandemic and muted credit demand. NBFCs continued to disburse credit despite disruptions caused by the pandemic, albeit at a slower pace. The retail sector benefitted from incremental credit from NBFCs, partly aided by their low GNPA ratios and the ability of NBFCs to adapt to customer preferences. The profitability of the NBFCs improved in Q2:2020-21 compared to the corresponding quarter of the previous year as fall in expenditure was steeper than fall in income. The asset quality of NBFCs witnessed improvement in 2020-21 so far, compared to Q4:2019-20 on account of regulatory forbearance; the full effect of the pandemic on asset quality, however, may only become evident over time.

I. Introduction

The Non-Banking Financial Companies (NBFC) sector in India has traversed highs and lows to reach where it is today. Their scale of operations and diversity in financial intermediation are testimony to their adaptability and agility in transforming their business models, gauging needs of a growing economy and the evolving regulatory milieu. NBFCs complement banks in the credit intermediation process by offering diversified, tailor-made financial products through innovative service delivery mechanisms. Furthermore, they facilitate financial inclusion by providing credit to unbanked sections of the population. Over the years, NBFCs have assumed systemic importance due to their inter-linkages with the banking sector, capital market and other financial sector entities. They consolidated their positions in the lending space following asset quality concerns for banks. NBFCs' credit to Gross domestic product (GDP) ratio increased from 8.6 per cent in 2012-13 to 12.2 per cent in 2018-19 before moderating slightly to 11.6 per cent in 2019-20 in the wake of the pandemic.

The IL&FS default in September 2018 impacted market confidence and resulted in liquidity stress and higher borrowing costs for NBFCs. The Reserve Bank strengthened its regulatory oversight over the sector, and NBFCs also took proactive steps in correcting asset-liability mismatches. NBFC credit grew even after the IL&FS default, albeit at a slower pace, aided by bank borrowings and supportive policy measures. However, just as the NBFC sector was finding its bearings, the COVID-19 pandemic struck and exacerbated the challenges faced by the sector.

This article looks at the performance of select NBFCs during the pandemic period, covering Q2 and Q3: 2020-21 using supervisory data filed by NBFCs . As the impact of COVID-19 spilled over onto the real sector in 2020-21 due to the imposition of lockdowns, social distancing and a near standstill in economic activities, NBFCs have been hit hard. The impact of the pandemic can be seen on both asset quality and liquidity, although the latter was addressed to a considerable extent through timely policy measures.

II. A General Overview of the NBFC sector

There were 9,507 NBFCs registered with the Reserve Bank as on January 31, 2021. In terms of total assets, NBFCs-ND-SI constituted around 83 per cent of the total assets of the sector, while NBFCs-D accounted for 14.5 per cent and NBFCs-ND, 2.3 per cent at end-March 2020.

As NBFCs specialise in offering loans to niche areas and cater to specific sectors, they are also categorised based on activities that they undertake. For the sake of consistency in analysis, this article covers only those NBFCs which have regularly filed returns in all quarters from March 2019 to December 2020. Our sample NBFCs represent around 78 percent of the assets of NBFC universe in December 2020. In this sample, NBFCs- ICC (Investment & Credit Companies) account for over half the asset size at end-December 2020. Infrastructure Finance Companies (IFCs), comprising largely of government-owned NBFCs, have the next largest share in total asset size of sampled NBFCs. NBFCs-MFI, which play a key role in micro finance and financial inclusion, accounted for around two per cent in the asset size of sampled NBFCs.

III. A Balance Sheet-based Analysis of NBFCs:

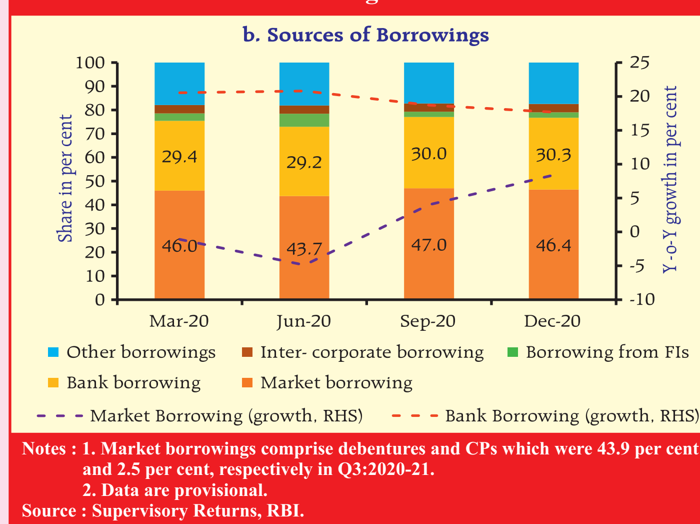
The consolidated balance sheet of NBFCs registered a Y-o-Y growth of 13.0 per cent and 11.6 per cent in Q2 and Q3:2020-21, respectively. This deceleration compared to corresponding quarters of 2019-20 could be attributed to the COVID-19 induced economic slowdown and weak demand. However, this double-digit growth in an adverse macroeconomic environment points to the resilience of NBFCs, which were able to cushion the impact of the pandemic on their balance sheets through quick adoption of technology, policy support and reasonably strong fundamentals. Both NBFCs-ND-SI and NBFCs-D experienced a slowdown in their balance sheets in Q2 and Q3: 2020-21 vis-à-vis previous periods, as loans and advances moderated sharply.

III.1 Liabilities Structure of NBFCs:

NBFCs rely on both secured and unsecured sources of borrowings for their funding requirements. Bank borrowings, debentures, and commercial paper (CPs) are the major sources of their funding. While bank borrowings and debenture issuances may be secured or unsecured, commercial paper and inter-corporate borrowings are unsecured sources. Due to risk aversion and market pessimism post-IL&FS, the share of market borrowings (debentures and CPs) in the total borrowing had fallen and correspondingly, the share of bank borrowings had risen. NBFCs also moved towards longer term borrowings in tune with the tenure of their assets to manage their asset-liability mismatch.

Q1:2020-21, the quarter following the nationwide lockdown, witnessed a reduction in the growth as well as share of market borrowings due to heightened risk aversion and spike in yields. However, various liquidity augmenting measures undertaken by the Reserve Bank and the Government to tackle the COVID-19 disruptions created favourable market conditions and the situation eased in Q2 and Q3:2020-21 as indicated by the pick-up in market borrowings, particularly in debenture issuances. In the same period,

Chart-1 : Borrowing Profile of NBFCs



Notes : 1. Market borrowings comprise debentures and CPs which were 43.9 per cent and 2.5 per cent, respectively in Q3:2020-21.
2. Data are provisional.
Source : Supervisory Returns, RBI.

bank borrowings grew at a robust pace, although slight deceleration was exhibited in Q3:2020-21. (Chart-1)

An unfavourable mix of COVID-19, sell-offs in financial markets and the abrupt winding-up of specific schemes by a mutual fund contributed to NBFCs facing record spike in yields on their debt in Q1: 2020-21. The extent of risk aversion was starkly visible from the spread of debt market instruments of NBFCs. The spread of three-year AAA NBFC bonds' yields over government securities' yields peaked to 230 basis points in May 2020, while the spread of CPs over treasury bills yields peaked to 236 basis points in April 2020.

As already noted the policy interventions helped in alleviating the constraints in the sector and paved way for the return of market confidence as spreads in Q2 and Q3: 2020-21 narrowed to levels lower than the pre-COVID period. Nevertheless, the market

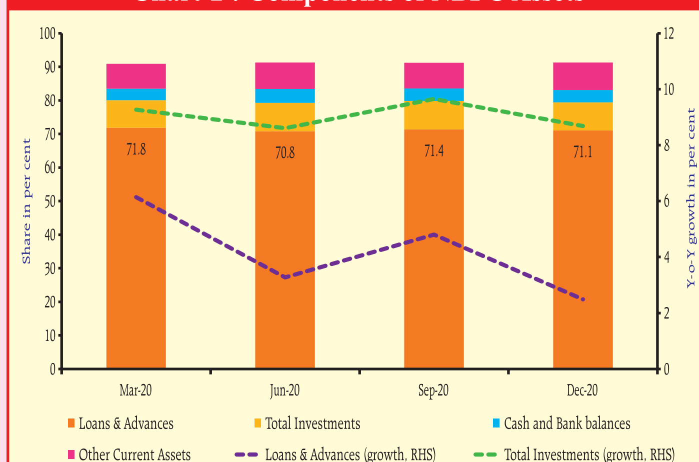
differentiation continued between the highly rated and other NBFCs, notwithstanding the surplus liquidity and aggressive policy rate cuts. NBFC papers, particularly debentures, are subscribed to by a host of market participants. Banks, mutual funds, insurance companies and pension funds together accounted for half the NBFC debenture market in December 2020. Retail participation in the NBFC debenture issuances, notwithstanding their small share in overall subscription, witnessed an upswing since June 2020. On the other hand, the CP market is dominated by mutual funds and banks, which together accounted for 93 per cent of the NBFC CP issuances in Q3:2020-21. Mutual funds reduced their exposure to NBFC CPs between March and September 2020 on account of redemption pressures, as noted earlier. However, Q3:2020-21 witnessed a renewed interest of mutual funds in NBFC CPs. Banks' subscription of CPs increased at a steady pace after Q1:2020-21.

Term loans constituted over four-fifth of NBFC bank borrowings at end-December 2020, followed by working capital loans and cash credit. While term loans continued to grow at a robust pace, they exhibited a deceleration in Q2 and Q3:2020-21, compared to Q2 and Q3: 2019-20 reflecting tepid demand for on-lending of funds. An uptick in working capital loans was witnessed in Q3: 2020-21 as NBFCs tried to find their footing and economic activity started gaining traction.

III.2 Assets Structure of NBFCs:

Loans and advances constituted around 71 per cent of the total assets in Q3:2020-21 and continued to be the largest component on the asset side of NBFCs' balance sheet. NBFCs posted 4.8 per cent and 2.5 per cent credit growth in Q2 and Q3:2020-21 (Y-o-Y), respectively. Loss of income and livelihoods and subsequent fall in consumption demand as well as discretionary spending resulted in NBFCs' credit growth remaining in modest zone in contrast to their usual robust trend. Even investments grew slowly at 8.7 per cent in Q3:2020-21, compared to 24.4 per cent in Q3:2019-20, reflecting lack of profitable investment opportunities in a low interest rate

Chart-2 : Components of NBFC Assets



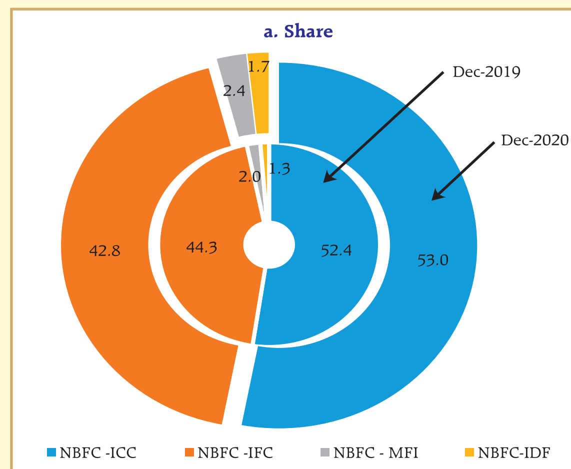
Notes : Data are provisional.
Source : Supervisory Returns, RBI.

regime. However, NBFCs continued to preserve cash to ensure adequate liquidity in view of the prevailing uncertainty due to the pandemic (Chart-2).

ICCs (53 %) and IFCs (43%) together constitute about 96 per cent of the total credit extended by NBFCs, while the share of NBFC-MFI was 2.4 percent and IDFC's (Infrastructure Debt Funds] share was 1.7 percent in Dec. 2020. The overall deceleration in credit growth was mirrored in all categories, notably in ICCs and IFCs, the latter witnessing a decline in credit growth in Q3:2020-21. Credit disbursal by NBFCs-MFI decelerated in Q2 and Q3:2020-21 but grew at a faster pace compared to other categories raising their share from 2.0 percent to 2.4 percent (Chart-3).

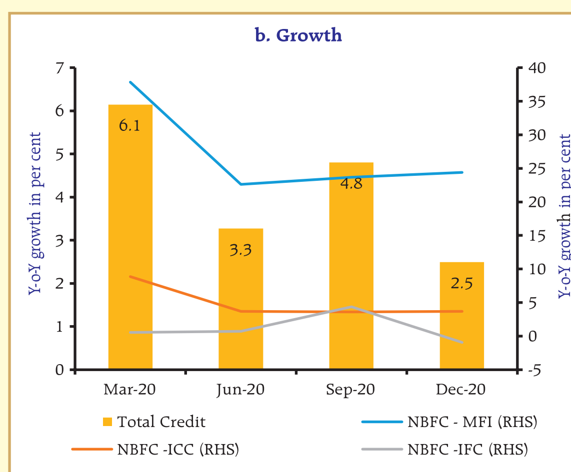
An analysis of NBFC loan portfolio also reveals that over 70 per cent of NBFC advances are long term (that is, receivable after more than one year). An increase in the share of NBFCs' loans in the less than 3- month bucket after the outbreak of pandemic indicates NBFCs'

Chart-3 : Category-wise Credit of NBFCs-ND-SI



Notes : Data are provisional.
Source : Supervisory Returns, RBI.

Chart-3 : Category-wise Credit of NBFCs-ND-SI



Notes : Data are provisional.
Source : Supervisory Returns, RBI.

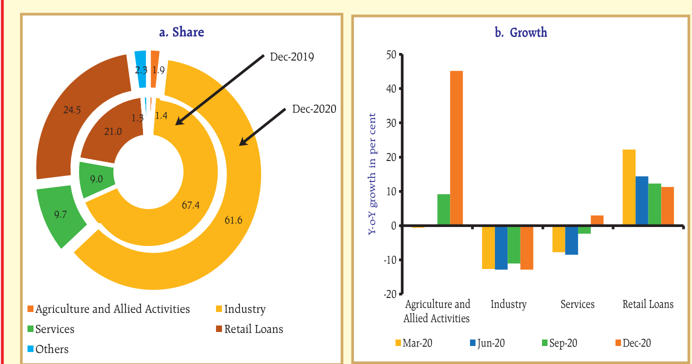
role in facilitating short-term credit needs of the economy. Long-term loans and advances are largely disbursed by ICCs, IFCs and IDFs, whereas ICCs and MFIs are the major players in the short-term lending. MFIs are particularly instrumental in providing small-ticket loans to further financial inclusion. An increase in the share of MFI loans in the less than 3- month bucket and 3-12 months bucket, particularly in Q1: 2020-21 (and continuing, in the case of less than 3-months loans), points to the crucial role they are undertaking in providing unsecured, short-term loans to small borrowers in the immediate aftermath of outbreak of COVID-19 to tide over short-term needs.

Investments are the second largest component on the assets side of NBFC balance sheets after loans and advances. Around 60 per cent of NBFCs investments are long- term in nature. Amongst a variety of instruments at the disposal of NBFCs, equity shares and units of mutual funds seems to be the most popular, where NBFCs invest around 67 per cent of total investments, followed by government securities and government guaranteed bonds. Investment in mutual funds saw a jump in Q1 and Q2:2020-21 before moderation in Q3:2020-21.

III.3 Sectoral Deployment of Credit:

The industrial sector remained the largest recipient of credit from NBFCs-ND-SI even as its share moderated between Q3:2019-20 and Q3:2020-21. Retail sector, followed by services, are the other major beneficiaries and their share grew during the period under consideration (Chart-4a). Industrial sector, particularly micro and

Chart-4 : Sectoral Credit of NBFCs-ND-SI



Notes : Data are provisional.
Source : Supervisory Returns, RBI.

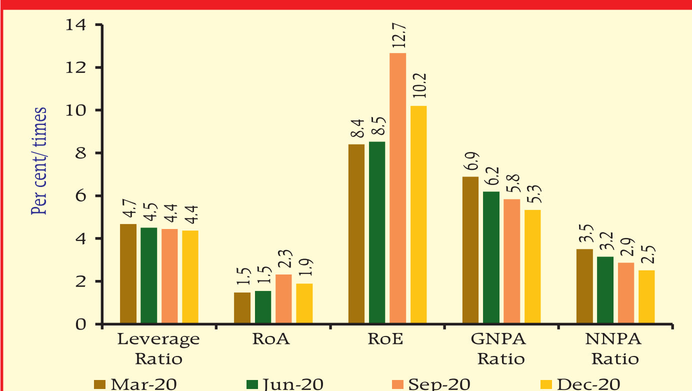
small and large industries, seemed the worst hit by the pandemic as they posted decline in credit growth. Imposition of lockdown, abrupt stoppage of economic activities and disruption in supply chains to contain the spread of the virus could have affected these sectors the most. Agriculture was the bright spot with the highest growth in disbursements in Q3:2020-21, however, it could be partly attributable to a favourable base effect. Services and retail loans segments bucked the overall trend and exhibited an improvement in growth vis à vis last year in December 2020, though in case of the former, it could be attributed to base effect (Chart- 4b).

Incremental credit flows (on year-on-year basis) to the retail sector continued to increase in Q2 and Q3: 2020-21, but at a slower pace, while services sector saw marginal increase in Q3: 2020-21, wherein vehicle loans, gold loans, transport and tourism were the beneficial segments. Players in the retail segment stayed above the curve by gauging the public sentiments and playing to their strengths. With the persistence of the pandemic and the need for observing social distancing norms, passenger vehicles sales increased by 13.6 per cent in December 2020. It is mirrored in the disbursal of vehicle loans by NBFCs, as these loans grew by 10.7 per cent in Q3:2020-21. Loans against gold also grew robustly as it filled in the cash requirements and possible working capital requirements of small firms. However, incremental credit to industries declined in the same period as the sector is yet to shake off the impact of the pandemic.

IV. Financial Performance and Asset Quality of NBFCs:

The profitability of NBFCs dipped in the immediate aftermath of the COVID-19 in Q1:2020-21, as businesses suffered economic losses

Chart-5 : Financial Ratios and Asset Quality

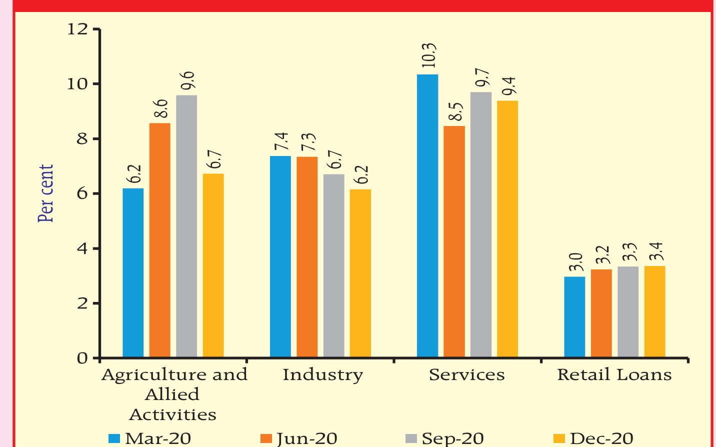


Notes : Data are provisional.
Source : Supervisory Returns, RBI. All ratios except leverage ratio[8] are in per cent.
Leverage ratio is expressed as times of net owned funds.

due to nation-wide lockdowns. Both return on assets (RoA) and return on equity (RoE) deteriorated in Q1:2020-21 compared to the corresponding period in 2019-20. However, the situation improved marginally in Q2: 2020-21 as NBFCs' expenditures registered a steeper fall than income. RoA and RoE improved from 1.8 and 10.3 per cent, respectively in Q2:2019-20 to 2.3 and 12.7 per cent, respectively in Q2:020-21. Profitability of the sector remained stable in Q3:2020-21. Asset quality of NBFCs witnessed improvement in 2020-21 so far, compared to Q4:2019-20 on account of regulatory forbearance. However, GNPA ratio of NBFCs was elevated in Q1 and Q2:2020-21 compared to the corresponding period in 2019-20. In Q3:2020- 21, both GNPA and NNPA ratios fell compared to Q3:2019-20. Nevertheless, the true extent of NPAs in the sector may be gauged in the upcoming quarters as the interim order by the Supreme Court on asset classification standstill was lifted in March 2021 (Chart-5).

Among sectors, industry witnessed sequential reduction in their GNPA ratio while GNPA ratio of retail loans remained low compared

Chart-6 : Sector-wise GNPA ratio



Notes : Data are provisional.
Source : Supervisory Returns, RBI.

to other sectors. Improvement in asset quality of NBFCs during 2020- 21, so far, can be partially attributable to the reduction in impaired assets in the industrial sector (Chart-6).

V. Conclusion:

The consolidated balance sheet of NBFCs grew at a slower pace in Q2 and Q3:2020-21 as the economy continued to weather the headwinds of COVID-19 pandemic and muted credit demand. However, NBFCs continued to disburse credit despite disruptions caused by the pandemic, albeit at a slower pace. Sequential easing of spread of NBFCs debentures over the corresponding G-sec yield along with increased retail participation in the NBFC debenture market augured well for the market and public perception regarding the sector. The retail sector benefitted from incremental credit disbursed by the sector, aided by their low GNPA ratios and by staying tuned to customer preferences. The profitability of the NBFCs improved in Q2:2020-21 compared to the corresponding quarter of the previous year on account of steeper fall in expenditure than in income. Given the persistence of infections, the full effects of the lockdown and suspension of business on the asset quality of NBFCs will be evident gradually. [Reserve Bank of India Bulletin, May 2021. Released on May 17] *This article is prepared by Nandini Jayakumar, K. M. Neelima, and Gopal Prasad, from the Department of Economic and Policy Research under the guidance of Ashok Sahoo, Adviser. The views expressed in this article are those of the authors and do not represent the views of the Reserve Bank of India. Extract from the article. Emphasis by underline were added to facilitate readers]

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'CONNECTED COMMERCE: CREATING A ROADMAP FOR A DIGITALLY INCLUSIVE BHARAT

"NBFCs can be enabled to participate more freely in the payment ecosystem through specific measures, such as issuance of credit cards and allowing for OTP based mandates, e-KYC and other services to be provided similar to banks," it said in a report titled 'Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat' and jointly released with Mastercard.

NITI Aayog has called for strengthening the payment infrastructure to promote a level playing field for NBFCs and banks while suggesting diversification of credit sources to enable growth opportunities for MSMEs.

Based on five roundtable discussions held in October and November 2020, the report titled 'Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat' highlights key issues and opportunities, with inferences and recommendations on policy and capacity building. The roundtable participants included representatives from the government, banks, financial regulator, fintech enterprises and various ecosystem players and innovators. The conversation spanned themes such as: last-mile infrastructure push for boosting digital commerce, fixes needed for an efficient supply-chain financing environment, pivoting towards aggregation models, and drawing up level-playing-field conditions between banks and NBFCs.

Accelerating the Next Phase of Digital Financial Inclusion

We have seen a lot of effort and much success on the supply side of DFI: in e-governance, the JAM trinity, in GST (goods and services tax). Most bank or digital accounts can be credited through the government's Direct Benefit Transfer (DBT) schemes, or transfers from employers, or peer-to peer transfers. However, the break in the digital financial flow comes at the last mile, where account holders mostly withdraw cash for their end-use. For market players, it is critical to address this gap on the demand side by creating user-friendly digital products and services that encourage the behavioral transition from cash to digital.

Key inferences: To strengthen acquisition infrastructure needed for double-sided growth of digital commerce (whether merchants or consumers): • Increase innovation and investment in the acquisition space, encouraging non-banks to build acceptance infrastructure - Allow for the adoption of more automated infrastructure developments, such as interoperable QR - Allow payment schemes to induct non-banks as associate members NBFCs can be enabled to participate more freely in the payment ecosystem through specific measures, such as: • Issuance of credit cards • Allowing for OTP based mandates, e-KYC and other services to be provided similar to banks.

Digitizing Last-Mile Service Delivery

So far, efforts on the supply side of DFI have seen manifestations either in e-governance, the JAM trinity or GST systems. In the current system, most bank or digital accounts can be credited through government's DBT schemes, or transfers from employers, or through peer-to-peer transfers. However, the break in the digital financial flow comes at the last mile where account holders have to withdraw cash or write physical checks for their end use. For market players, it is critical to address this gap on the demand side by creating user-friendly digital products and services that encourage behavioural transition from cash to digital. For the government, it is essential to incentivize small businesses, consumers, and merchants for the digitized last mile.

The 2018 Reserve Bank of India (RBI) High-Level Committee Report on Deepening Digital Payments underscored the importance of expanding acquisition infrastructure across the country. Growth of acceptance infrastructure can replace cash-out networks, help reduce cash holdings, and aid digital transition. Acceptance infrastructure includes last-mile points that accept and support customer payments made via mobile phones, cards, bank accounts, and comprise dedicated point of sale (PoS) devices, mobile PoS apps, and QR-code systems, inter al. A strong acceptance infrastructure is a critical parameter of DFI, as it ensures merchants have the capacity to accept digital payments and also supports the transition from cash to digital payments.

Current Scenario: Recent steps by the regulator RBI in operationalizing the Payment Infrastructure Development Fund (PIDF) support the recommendations of this report. It envisages the creation of 3 million new touch points every year (1 million physical PoS devices, and 2 million digital—QR code or soft PoS). The regulator has prescribed a subsidy of 30-50% of the cost of physical PoS and a 50-75% subsidy for digital or soft-PoS for the payment acceptance points deployed as part of this Fund.

Interoperable QRs: Bharat QR and BHIM UPI QR are examples of QR codes standardized to promote digital payments among merchant establishments, e-commerce and m-commerce entities. In 2020, Pine Labs, an Indian unicorn start-up and merchant platform launched its paper, POS. It is an all-inone solution for merchants to accept multiple forms of UPI and Bharat QR payments through a single merged static QR code at the point of sale, providing an alternative to traditional, standalone PoS terminals for grocers, departmental stores, taxi services, unmanned kiosks, etc. Similarly, Paytm and others use UPI QR to accept payments from their own apps and other wallets' UPI-supporting apps.

Key Inferences: To strengthen the acquisition infrastructure required for double-sided growth of digital commerce (both merchants and consumers): To strengthen payment infrastructure, RBI's PIDF fund will help create 3 million new acceptance points every year in Tier3 to Tier-6 locations, with PoS hardware, QR code and soft-PoS. Allow market-driven models to determine interchange fees Increase innovation and investment in the acquisition space, encouraging non-banks to build acceptance infrastructure Allow for the adoption of more automated infrastructure developments, such as interoperable QRs Encourage payment entities to develop solutions such as offline payments, near-field communication (NFC) and SoftPoS, card-on-file, cloud tokenization, etc Allow payment schemes to induct non-banks as associate members, and thereby become active members of the acceptance ecosystem

Driving Supply-Chain Financing

Supply-chain financing (SCF) services could help fill the credit gap for MSMEs (micro, small and medium enterprises) in a cost-effective and efficient manner. SCF consists of several options that aim to finance suppliers by using invoices and receivables as interim collaterals. One reason SCF has not picked up in India is the largely 'dealer-based financing' mindset.

Two common SCF methods are factoring and reverse factoring. Factoring is a financial transaction where suppliers sell their accounts receivable to a third party (a bank or fintech) at a discount. Reverse factoring is also an accounts receivable financing mechanism, but in this case the transaction is initiated by the buyer.

One of the panelists highlighted two key reasons for the slow adoption of SCF in India: onboarding MSMEs digitally, and getting buyers to accept receipts on a digital portal for SCF.

Banks have traditionally preferred offering working capital loans over supply chain-based financing due to lack of borrower data and difficulty in assessing the collateral provided. However, the growth of SCF could ease access-to-credit challenges for India's MSME sector. This could bundle well with the MSME Champions initiative which aims to help MSMEs capture new opportunities in manufacturing and services sector.

The RBI has also approved of and backed TReDS (Trade Receivables Discounting System), a digital initiative for SCF, where MSMEs can get their invoices factored. Only banks and NBFC-Factors can be part of the TReDS platform today, and an amendment in Factoring Regulation Act is required to bring other NBFCs into the fold. The government has already taken the initiative to amend the Act, and this is likely to happen in 2021. Bringing NBFCs into the fold will boost SCF options for MSMEs registered on the TReDs platform.

Key Inference: With these developments and with the MSME Ministry constituting five task forces around areas such as Industry 4.0, exports and integration of technology centres, a sixth task force

in public private partnership (PPP) mode may be required to address SCF challenges and allied issues.

Interoperable QRs: Bharat QR and BHIM UPI QR are examples of QR codes standardized to promote digital payments among merchant establishments, e-commerce and m-commerce entities. In 2020, Pine Labs, an Indian unicorn start-up and merchant platform launched its paper, POS. It is an all-inone solution for merchants to accept multiple forms of UPI and Bharat QR payments through a single merged static QR code at the point of sale, providing an alternative to traditional, standalone PoS terminals for grocers, departmental stores, taxi services, unmanned kiosks, etc. Similarly, Paytm and others use UPI QR to accept payments from their own apps and other wallets' UPI-supporting apps.

Pivoting Toward Aggregator-Driven Models

Aggregator platforms can be a powerful mechanism for solving a variety of financial inclusion challenges. For example, the Indian start-up Urban Company aggregated 30,000 individual workers/service providers (plumbers, electricians, carpenters, beauticians, etc.) across 18 cities. It was able to seamlessly provide credit/interest free loans, etc., to professionals on the platform with no formal credit scores.

Similarly, Sahamati is an account aggregator ecosystem collective. It aims to create a new kind of digital data model wherein account aggregators (a type of NBFC regulated by the RBI) will act as data intermediaries between users and entities that are the primary owners of data, as well as banks, financial institutions, and NBFCs that maintain and manage it. The account aggregator architecture is built to help individuals and small businesses avail credit easily by allowing lenders to assess their credit risk based on their personal data with their consent.

Key Inferences: Pivots towards aggregator-based models can be increased further to solve for challenges such as providing credit and lending and moving India to an open banking/finance ecosystem. Some specific measures could be:

- Permitting a regulatory sandbox model on aggregator platforms in the credit and lending space, tested in pilot mode. The third cohort of RBI's regulatory sandbox, focused on MSME lending, could allow for such models to be developed.
- NITI Aayog's Data Empowerment and Protection Architecture (DEPA) could be a suitable template to allow fintech to cocreate new account aggregator enterprises that address various segments—credit, lending, and other aspects.

Creating a Wider Digital Financial Ecosystem

A level playing field for NBFCs and banks with respect to issuance of credit cards and e-KYC will deepen credit culture and financial inclusion.

NBFCs currently account for 20-30% of the overall credit given in the system. For non-banking entities to play a stronger role in digital financial inclusion imperatives, they must be given equal footing in the system. 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.

Panelists recommended a level playing field with respect to issuance of credit cards, e-KYCs (online identification or 'know your customer' verification process) and OTP (one-time password) based mandates. This would help deepen financial inclusion via improved credit culture in India.

Non-banks have entered the market and expanded the range of payment services available to the Indian consumer, backed by their strength in technology and customer-centric innovation. Banks and non-banks are partnering to offer the combination of trust (banks) and innovation (nonbanks) to the Indian consumer. This "best of both worlds" approach should be allowed to flourish. Credit cards are a key instrument for the growth of digital payments in India.

Current Scenario:

A 2013 Master circular from RBI allowed the issue of cobranded cards by NBFCs under certain conditions. The Central KYC (know your customer) Registry Operating Guidelines, 2016, mandates that every reporting entity must capture an individual's data as per the common KYC template and upload it on the CKYC registry, along with a scanned copy of the supporting documents. Lending through OTP-based e-KYC authentication under RBI's KYC Master Direction is currently capped at Rs 60,000.

Key Inferences: NBFCs should be enabled to participate more freely in the payment ecosystem through specific measures:

- Issuance of credit cards
- Allowing for OTP-based mandates, e-KYC and other services, similar to banks

There should be an increase in the limits for loan accounts permitted under OTP-based e-KYC onboarding. The limits for credit cards issued under the same process should also be increased commensurate to the average loan ticket sizes via digital modes (Rs 3,00,000)

- Smaller NBFCs should also be promoted at the regional level for better outreach

Shifting Toward Digital Lending

With the rise in internet usage and Smartphone penetration, financial services firms are looking at more aggregated solutions around digital lending models driven by cutting-edge technologies such as AI, ML and rating-based models. Digital lending has some inherent advantages over traditional lending, such as faster approval of credit, use of alternative data to assess creditworthiness, and operating cost efficacy.

Current Scenario: The digital lending market is expected to grow to $100 billion by 2023. As digital lending matures with innovative models such as point-of-sale financing, invoice discounting exchanges, and buy-now pay-later, we should look at how we can drive the next phase of digital consumer lending.

There have been recent concerns in India stemming from an increasing number of unauthorized digital lending platforms that provide a promise of quick loan disbursement. RBI did issue a clarification that such digital lending platforms, which are used on behalf of banks and NBFCs, must disclose the name of the bank or NBFC upfront to the customers.

Governments in countries like the UK have backed the peer-to-peer (P2P) lending model and have been active participants in platforms like Funding Circle and Zopa. Regulators in the US have staunchly supported P2P systems and have come up with measures to safeguard the industry.

A Medici report from 2020 says that India has over 19 P2P lenders which have facilitated over Rs 500 crore in loans. This space is highly regulated by the RBI, where all the platforms registered with it are categorized as NBFC-P2P entities.

Key Inference: P2P lending is a sunrise space in the Indian financial ecosystem. While regulator RBI has relaxed P2P lending norms over recent years, some measures to bolster this area could include the following:

- Measures to encourage electronic contracting for P2P transactions. This would save the hassles of filing and record keeping and pave the way for borrowers to honor their loan commitments legally *Compliance requirements can be strengthened for mandatory reporting on payment defaults. This would provide a holistic picture of creditworthiness

The report has further suggested digitizing registration and compliance processes. "Enabling agricultural NBFCs to access low-cost capital and deploying a 'phygital' (physical + digital) model for achieving better long-term digital outcomes is also needed," it said adding digitizing land records will also provide a major boost to the sector.

"The COVID-19 pandemic alerted us all to the fragility of cash and the resilience of digital technologies, including digital payments. The past year saw low-value digital transactions surging across India as consumers switched from cash for everyday purchases—online and offline—amidst growing health and safety concerns", noted Ari Sarker, Co-President, Asia Pacific, Mastercard in the foreword of the report. ***[Extracts from the Report titled 'Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat' related to key takeaway for NBFC sector. The link for Niti Aayog full report: https://niti.gov.in/writereaddata/files/Connected-Commerce-Full-Report.pdf]***

NON-BANKS WELL GEARED TO HANDLE SECOND COVID-19 WAVE, THOUGH NORMALISATION COULD GET EXTENDED

- Jinay Gala
India Rating and Research

Ind-Ra believes over the past 18 months, funding costs for non-banks have moderated for high rated non-banks, though lending yields have not softened to a similar extent leading to margin expansion which has offset some of the negative carry of on-balance sheet liquidity.

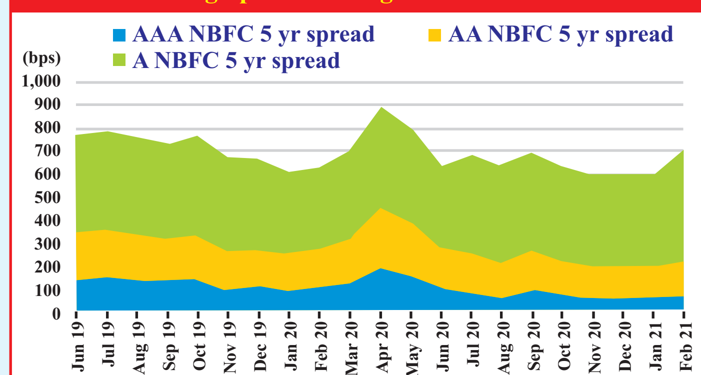
As the country stares at the second wave of COVID-19 pandemic, authorities have started taking measures which are likely to have a significant impact on economic activities. Maharashtra and New Delhi, which together contribute 18% to India's GDP, are reporting a sharp spike in COVID cases. A clear picture for some states undergoing elections will be reflected post completion of the election exercise. When the economy was just recovering from the effects of the earlier measures taken in wake of the pandemic, the second wave and the resultant migration action could bode serious challenges for the asset quality of non-banks.

Non-banks have been reporting a sharp improvement in collection efficiency since September 2020, which is likely to have been partly supported through customers' savings. As the economic activity, especially non-essential, gets curtailed, customers might find not enough savings to support payments. Furthermore unlike last time, the regulators have not announced any dispensation and hence there is an elevated possibility of a rise in softer delinquencies in coming months. Having said that, Ind-Ra believes that all have learned the lessons, be it authorities, lenders and borrowers, and they are better placed to face this challenge.

Also, Ind-Ra opines non-banks are better prepared to manage as they have ramped-up defences in form of stronger capitalisation buffers and better on-balance sheet liquidity buffers. Moreover, as of now, the lending environment remains subdued. Ind-Ra also notes the tested systems of non-banks to reach out to customers as well as benefits of operational efficiency would provide further support.

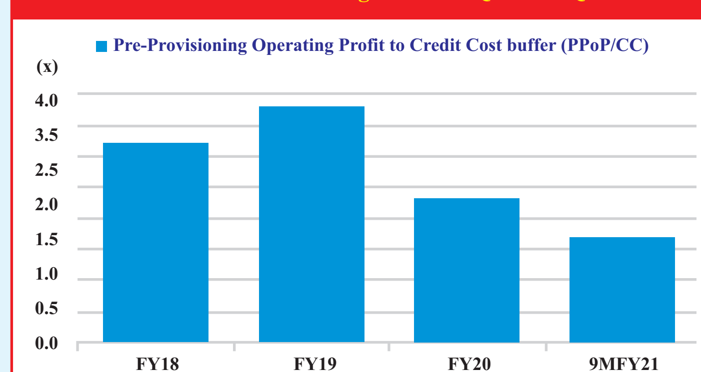
Ind-Ra believes non-banks had built adequate COVID provisions (150-200bp) during the first wave, where collection efficiency across major asset classes had normalised near pre-COVID levels. Benefits such as ECLGS schemes getting extended would help borrowers facing working capital challenges, thereby reducing immediate pressure on asset quality. The strengthened capital buffers would provide buffer over and above the pre-provision operating buffer to absorb incremental credit cost.

Figure-1 : Moderating Volatility in Funding Spreads of Higher Rated Issuers



Source : Bloomberg, Ind-Ra

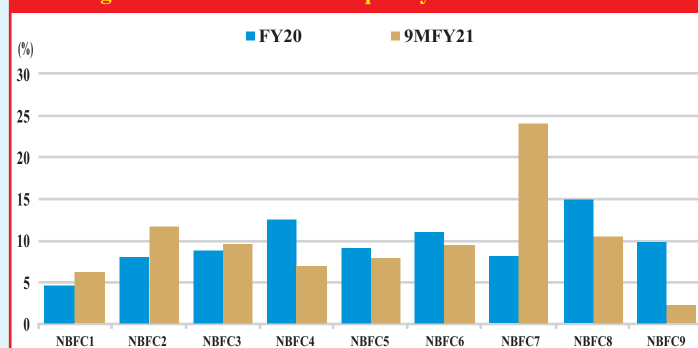
Figure-2 : Moderating PPoP/CC Buffers for Large Non-banks due to COVID Provisioning Done in 4QFY20-3QFY21



Source : Ind-Ra est, company data for large 11 NBFCs

Ind-Ra believes over the past 18 months, funding costs for non-banks have moderated for high rated non-banks, though lending yields have not softened to a similar extent leading to margin expansion which has offset some of the negative carry of on-balance sheet liquidity. With the regulator extending ECLGS along with continuing priority sector lending category classification for lending by banks to non-banks for on-lending, along with the funds provided to All-India financial institutions such as SIDBI* ('IND A1+') and NABARD* ('IND AAA'/Stable)[i] would help maintain liquidity ease in the system.

Figure-3 : Balance Sheet Liquidity as% of Total Assets



Source : Ind-Ra est, company data

Few of the sectors funded by non-banks such as housing, commercial vehicle finance, micro finance loans, loan against property, gold loans, and unsecured personal /business loans could see a varied impact based on each asset class strength.

Housing which benefited immensely due to the relaxation of stamp duty, moderation in interest rates and time correction on property prices saw a significant demand in 3Q and 4QFY21. However incrementally, with withdrawal of the stamp duty benefit and slight tightening in housing loan lending rates, demand sustenance for FY22 could be tested.

The commercial vehicle finance segment had seen a recovery due to the festive season and good kharif & rabi output. However, the lockdown could moderate economic activity, impacting large fleet and medium vehicle operators, whereas small road operators due to their agile nature would remain moderately impacted as essential services are still operating at full scale and construction activity has been allowed under a new circular. Early warning variables such as diesel consumption and retail vehicle sales have been moderating which could impact commercial vehicle borrowers' cash-flows due to the slowdown of economic activity, also asset inflation in steel prices, cement prices could impact demand.

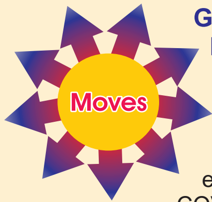
While microfinance loans are yet to normalise their collection to pre-COVID levels, urban microfinance loans could be severely impacted and collection efficiency could moderate with the lockdown and the consequent labour migration. Whereas rural microfinance institutions still would be able to navigate as essential services could see a minimal impact.

Gold loans can see renewed interest due to lenders getting cautious for loan against other collaterals. However, the recent correction in gold prices needs lenders to be cautious and have strong risk filters to contain overdue interest inflating loan to value ratios.

Loan against property has been a strong funding source for micro, small and medium enterprises; however, most enterprises would have already utilised all collaterals in hand for catering their working capital funding needs, and thus incremental growth in the segment is likely to remain weak. Also, asset quality pressures have been high, largely due to a moderation in property prices, reduced balance transfer leading to lower availability of top-up loans and inflated loan to value due to aggressive collateral assessments.

Unsecured personal loans and business loans could be impacted as the cash flows of self-employed borrowers would be strained due to the slowdown in April while uncertainty regarding demand would dry up order flows. Lenders in lieu of the rising second wave need to be cautious against these categories as normalisation of collection from the first wave impact is awaited.

Ind-Ra has maintained a stable outlook for non-banks operating under the retail category, whereas a negative outlook for wholesale nonbanks for FY22. The agency would remain watchful on developing implications of the renewed challenges with the second wave. [India Rating & Research, 12 April]



Government expands Emergency Credit Line Scheme due to COVID-19 second wave disruptions

The union finance ministry on Sunday further expanded the scope of the Emergency Credit Line Guarantee Scheme (ECLGS) amid the economic disruption caused by the second wave of COVID-19 pandemic. Under 'ECLGS 4.0', 100% guarantee cover will be extended to loans of up to Rs. 2 crore given to hospitals, nursing homes, clinics, medical colleges for setting up on-site oxygen generation plants. The interest rate has been capped at 7.5% for the same.

"Borrowers who are eligible for restructuring as per RBI guidelines of May 05, 2021 and had availed loans under 'ECLGS 1.0' of overall tenure of four years comprising of repayment of interest only during the first 12 months with repayment of principal and interest in 36 months thereafter, will now be able to avail a tenure of five years for their ECLGS loan i.e. repayment of interest only for the first 24 months with repayment of principal and interest in 36 months thereafter," the ministry said. [Live Mint, 30 May]

In an announcement on Sunday, the government said: • The civil aviation sector is also now eligible to access loans under the scheme. • The tenure of loans already availed under the scheme has been extended to five years from four years earlier. • Those who have already availed loans under the scheme can get additional assistance of up to 10% of outstanding dues as of Feb. 29, 2020. • A specification announced in a previous round, where hospitality, travel and tourism, leisure and sporting sectors could access the scheme only if they had outstanding credit of less than Rs. 500 crore has been removed.

The scheme will be valid till September 2021 or till guarantee amount of Rs. 3 lakh crore is exhausted, said the government in a release. Disbursements under the scheme are permitted till December 2021, it added. [Bloomberg, May 31]

New window ECLGS 3.0 for enterprises in Hospitality, Travel & Tourism, Leisure & Sporting sectors

In recognition of the continuing adverse impact of COVID-19 pandemic on certain service sectors, the Government has now extended the scope of Emergency Credit Line Guarantee Scheme (ECLGS)through introduction of ECLGS 3.0 to cover business enterprises in Hospitality, Travel & Tourism, Leisure & Sporting sectors which had, as on 29.02.2020, total credit outstanding not exceeding Rs.500 crore and overdues, if any, were for 60 days or less, on that date i.e. 29 Feb 2020. ECLGS 3.0 would involve extension of credit of upto 40% of total credit outstanding across all lending institutions as on 29.02.2020. The tenor of loans granted under ECLGS 3.0 shall be 6 years including moratorium period of 2 years. Further, the validity of ECLGS i.e. ECLGS 1.0, ECLGS 2.0 & ECLGS 3.0 have been extended up to 30.06.2021 or till guarantees for an amount of Rs. 3 lakh crore are issued. Last date of disbursement under the scheme has been extended to 30.09.2021. [Ministry of Finance, PIB, March 31]

SIDBI launches quick delivery schemes for COVID preparedness

Small Industries Development Bank of India (SIDBI), the principal financial institution engaged in the promotion, financing and development of Micro, Small and Medium Enterprises (MSMEs), has launched SHWAS and AROG to help the MSMEs with required financial support. SHWAS is SIDBI assistance to the Healthcare sector in War Against Second wave of COVID19 and AROG is SIDBI Assistance to MSMEs for Recovery & Organic Growth during COVID19 pandemic, two new quick credit delivery schemes. The schemes are devised under the guidance from Government of India (GoI) which facilitates funding for production and services related to supply of oxygen cylinders, oxygen concentrators, oximeters and essential drugs.

SIDBI, considering the current distress caused by COVID 19 and being a national emergency, has devised these schemes to cater to help assist healthcare service providers fight against the pandemic. These schemes envisage 100% funding upto an amount of Rs 2 crore to a MSME unit at attractive interest rate of 4.50%-6% p.a., within 48 hours after receipt of all the documents / information. Details of the schemes are available on SIDBI website. [ETBFSI April 30]

Public Interest Entities: NFRA publishes provisional database of companies, auditors

The National Financial Reporting Authority (NFRA), a regulatory body that oversees public interest entities as regards their compliance to accounting and auditing standards, has compiled a provisional database of companies and their auditors as of March 31, 2019. This includes about 6,500 companies comprising listed companies (around 5,300), unlisted companies (around 1,000), and insurance and banking companies. . This provisional data has been published on the website of the NFRA (https:// www. nfra. gov. in / nfra_domain), an official release said. This data will be updated/revised going forward based on the collection of further data and information. "Similar exercise for compilation of the database as of March 31, 2020 will be undertaken shortly," release added. [Business Line, May 07]

Finance Minister announces relief package of Rs. 6,28,993 crore to support Indian economy in fight against COVID-19 pandemic

Smt. Nirmala Sitharaman, Finance Minister on June 28 announced a slew of measures to provide relief to diverse sectors affected by the 2nd wave of COVID-19 pandemic. The measures announced also aim to prepare the health systems for emergency response and provide impetus for growth and employment. A total of 17 measures amounting to Rs. 6,28,993 crore were announced.

New Credit Guarantee Scheme for Micro Finance Institutions up to guarantee cover of Rs. 7500 crore:
Out of 3 broad packages, the Economic Relief from Pandemic consisted of 3 Guarantee schemes; Credit Guarantee Scheme for Micro Finance Institutions is new one, which aims to benefit the smallest of the borrowers who are served by the network of Micro Finance Institutions. Guarantee will be provided to Scheduled Commercial Banks for loans to new or existing NBFC-MFIs or MFIs for on lending up to Rs 1.25 lakh to approximately 25 lakh small borrowers. Loans from banks to be capped at MCLR plus 2%. Maximum loan tenure will be 3 years, and 80% of assistance to be used by MFI for incremental lending. Interest rates will be at least 2% below maximum rate prescribed by RBI. *The scheme focuses on new lending, and not on repayment of old loans.* MFIs will lend to the borrowers in line with extant RBI guidelines such as number of lenders, borrower to be member of JLG, ceiling on household income & debt. Another feature of the scheme is that all borrowers (including defaulters up to 89 days) will be eligible. Guarantee cover will be available for funding provided by MLIs to MFIs/NBFC-MFIs till March 31, 2022 or *till guarantees for an amount of Rs. 7,500 crore are issued, whichever is earlier*. Guarantee will be provided up to 75% of default amount for up to 3 years through National Credit Guarantee Trustee Company (NCGTC). *No guarantee fee to be charged by NCGTC under the scheme.*

Second scheme is for 1.10 lakh crore Loan Guarantee Scheme for COVID Affected sectors: Under this new scheme, additional credit of Rs 1.1 lakh crore will flow to the businesses. This includes Rs 50,000 crore for health sector and Rs 60,000 crore for other sectors, including tourism with guarantee cover of 50% for expansion & 75% for new projects.

Third one is an extension of Emergency Credit Line Guarantee Scheme (ECLGS) up to Rs. 4.5 lakh crore, which was launched as part of Aatma Nirbhar Bharat Package in May, 2020, with Rs 1.5 lakh crore. The overall cap of admissible guarantee is raised from Rs. 3 lakh crore to Rs. 4.5 lakh crore out of which Rs 2.73 lakh crore are sanctioned and Rs 2.10 lakh crore already disbursed under the scheme. [Source: PIB, June 28] ■

Vehicle ownership transfer: Road ministry notifies changes in motor vehicle rules

The Ministry of Road Transport and Highways has notified certain changes in the Central Motor Vehicles Rules, 1989, to facilitate the owner of a vehicle for nominating a person in the registration certificate, which would help the motor vehicle to be registered or transferred in the name of the nominee, in case of death of the owner. Now, the owner can put the name of the nominee at the time of registration of the vehicles and can also add it later through an online application. Ministry proposes providing nominee details in vehicle RCs to ease ownership transfer in case of death. The government "has invited suggestions and comments from public and all stakeholders on the proposed amendment...," it had said. Currently, transferring ownership to a nominee requires complying with a raft of procedures. [Business Line/PTI, May 02]

MCA amends board meeting rules to permanently allow virtual resolutions on financial statements, restructuring

The corporate affairs ministry has amended its board meeting rules to permanently allow resolutions on matters such as approval of financial statements and matters relating to mergers and acquisitions through videoconferencing or other audiovisual means. [Economic Times, June 17] ■

RBI raises concerns over dual microfinance regulation in Assam

RBI has expressed strong reservations about Assam's bid to regulate microfinance activities by way of legislation, because the Act, promulgated on January 27, leads to dual regulation of a key component of the credit market. During the first meeting of the newly formed Assam government and microfinance stakeholders in Guwahati on Saturday, RBI officials are said to have argued that banks and non-bank micro-lenders, which are regulated by it and operate within a laid down framework, should not come under the purview of the state-level Act.

The Assam Microfinance Institutions (Regulation of Money lending) Act, 2020, requires microfinance lenders to seek separate registrations for operating in a particular village or town. Without fresh area-wise registrations, no lender can offer fresh loans and recover existing dues. The state government had said earlier that it would frame guidelines to follow the provisions of the Act. This, according to the Act, is "to protect and relieve the economically vulnerable groups and individuals from the undue hardship of usurious interest rates and coercive means of recovery". [ET Bureau, May 17]

Limitation of time for filing cases is back due to recent surge in Covid-19

The Supreme Court directed that the period of limitation, as prescribed under any general or special laws in respect of all judicial or quasi-judicial proceedings, whether condonable or not, would stand extended till further orders. The SC has also clarified that, in continuation of their order dated March 8, 2021, the period from March 14, 2021 till further orders, would also be excluded in calculating the limitation periods prescribed under Sections 23 (4) and 29A of the Arbitration Act, Section 12A of the Commercial Courts Act, provisos (b) and (c) of Section 138 of the NI Act and any other laws, which prescribe periods of limitation for instituting proceedings, outer limits within which the court or tribunal can condone delay and termination of proceedings. The order dated March 23, 2020 has been restored until further orders and the next date of hearing in the matter is July 19, 2021. [The National Law Review, May 4]

Automatic vacation of stay on completion of 365 days, whether or not the taxpayer is liable for delay itself was discriminatory and liable to be struck down

The Supreme Court in a recent judgement in case of PepsiCo India, analysed the constitutional validity of Income Tax Appellate Tribunal's (ITAT) power to 'grant stay on demand and to further extend the period of stay which shall not exceed 365 days and the ITAT shall have to dispose the appeal within such period.' The Apex court found that the provision stipulating the automatic vacation of stay beyond 365 days, even if the assessee was not responsible for delay in disposing the appeal, was both 'arbitrary' and 'discriminatory' and was therefore liable to be struck down as offending Article 14 of the Constitution of India. [Business Line, May 16]

The Indian company had filed an appeal before the ITAT against an order of assessment passed by the Income Tax Department. Subsequently, a stay of operation of the order of the Assessing Officer was granted by the ITAT for a period of six months. The stay continued to be extended until no further extension could be provided as per law. Apprehending coercive action from the Revenue, the company filed a writ petition before the Delhi High Court challenging the constitutional validity of relevant provisions. The High Court held that the clubbing together of 'well behaved' assesses and those who cause delay in the appeal proceedings, is itself violative of Article 14 of the Constitution of India, that prescribes equality before the law. The Supreme Court commented that the object of the said provision (i.e., automatic vacation of stay on completion of 365 days, whether or not the taxpayer is liable for delay) itself was discriminatory and liable to be struck down. Accordingly, the said provision was held to be constitutionally invalid and was struck down by the Apex court. Further, it was directed that any order of stay shall stand vacated after the expiry of the period or periods mentioned in the said section, only if the delay in disposing of the appeal is attributable to the assessee. [Nangia Andersen, a law firm]

GST: Provisional Attachment Power Draconian, Says Supreme Court

The provision under the Goods and Services tax regime that allows the revenue department to provisionally attach property, including bank accounts, of a taxpayer is draconian in nature. And before this power is exercised, conditions prescribed under the law must be strictly fulfilled, the Supreme Court said on April 20. In saying so, the apex court overturned the Himachal Pradesh High Court's order which had denied relief to the taxpayer Radha Krishan Industries. In this case Joint Commissioner of State Taxes and Excise had provisionally attached the company's receivables saying it was found to be involved in tax credit fraud. The attachment, amounting to Rs 5 crore, was done based on the directions of Commissioner of State Taxes and Excise. Radha Krishan Industries challenged this order before the high court. The apex court set aside the provisional attachment order against Radha Krishan Industries. [Bloomberg, Apr 20]

Indian Companies can Arbitrate Abroad, Supreme Court Rules

The Supreme Court has held that two Indian companies can choose a foreign jurisdiction to arbitrate their disputes. And that such an agreement will not adversely impact either parties' ability to seek interim relief before Indian courts. The apex court's ruling on April 20 has partially overturned the Gujarat High Court's November order in favour of GE Power Conversion India against PASL Wind Solutions Pvt. Ltd. This landmark judgment truly showcases the evolved and pro-arbitration stance that the Supreme Court has been taking, Shaneen Parikh, partner at Cyril Amarchand Mangaldas, said. Parikh had represented GE Power in the case. The ruling upholds and respects party autonomy, which is a fundamental part of arbitration and in doing so, also recognises the right of Indian parties to choose their preferred seat of arbitration, even if outside India. Shaneen Parikh, Partner, Cyril Amarchand Mangaldas said. The ruling also clarifies that interim relief and recourse to Indian courts will be available even if domestic parties have opted for a foreign jurisdiction as the seat of arbitration. "This is a long awaited and very welcome decision for the global arbitration community," Parikh said. [Bloomberg, Apr 20]

IBC: Lenders Can Go After Personal Guarantors, Supreme Court Says

The Supreme Court of India has made way for lenders to initiate insolvency proceedings against personal guarantors, usually promoters, of stressed companies. The court has upheld the constitutionality of the government notification that had operationalised the Insolvency and Bankruptcy Code provision against personal guarantors of companies facing insolvency. The Government notification is legal and valid, the apex court said. "It is also held that the approval of the resolution plan relating to a corporate debtor does not operate so as to discharge the liabilities of the personal guarantors of the corporate debtor. The writ petition and transferred petitions are dismissed in above terms without costs," the apex court has held. Personal insolvency provisions constitute Part III of the IBC. While it applies to partnerships and individuals, the government had operationalised the provisions in November 2019 only for personal guarantors. This made way for creditors to go after individual promoters and others who stood as guarantors for loans granted to the companies undergoing insolvency proceeding. [Bloomberg, May 21]

Supreme Court rejects plea for loan moratorium

The Supreme Court on June 11 refused to pass direction on a plea seeking remedial measures to redress the financial hardship faced by borrowers during the second wave of Covid-19 pandemic, saying it is in the realm of policy decision. The top court was hearing the plea which sought directions to the Centre and the RBI to take effective and remedial measures, including in the form of fresh loan moratorium, to redress and overcome the financial stress and hardship faced by borrowers during the second wave of COVID-19 pandemic and the lockdown. "Be that as it may, the financial relief and other measures are in the domain of the government and essentially related to policy matter," the bench said. "We are, thus, of the view that no direction, as prayed in the writ petition, be passed. We, however, observe that all the issues, which are raised, are policy matters and it is for the Union of India and the RBI to consider and take appropriate decision."[Business Standard/PTI, June 12]

SEBI to set up fund to buy stressed corporate bonds: FM Sitharaman

SEBI will set up Corporate Debt Market Development Fund (CDMDF) to provide liquidity to mutual funds and other participating institutional investors in the corporate bond market, Finance Minister Nirmala Sitharaman said. As the financial sector evolves from a bank-dominated system to a market-oriented system, supporting financial markets has become an important aspect, Sitharaman said. "Hence a permanent arrangement of an SPV facility is considered for providing liquidity, so that they can act as the buyer of the last resort, during stress times, and to some extent even acting as a market maker during times of peace," she said. Mutual funds account for 60%-70% of trades in corporate bond market, commercial papers and certificate of deposits, thereby facilitating fundraising by issuers such as banks, corporates, NBFCs, and Housing Finance Corporations, Sitharaman said. [Business Standard, March 26]

SEBI proposed framework for setting up a gold exchange

SEBI on Monday proposed an elaborate framework for setting up a gold exchange wherein the yellow metal will be traded in the form of electronic gold receipts and will help in having a transparent domestic spot price discovery mechanism. Also, the proposed denominations — reflecting underlying physical gold — of Electronic Gold Receipts (EGRs) are 1 kilogram, 100 grams, 50 grams and subject to conditions, those can also be even for 5 and 10 grams. [Live Mint, May 17]

SEBI allows AIF, VCs to invest up to $ 1.5 billion overseas

SEBI on May 21 doubled the overall limit for overseas investments by alternative investment funds[AIFs] and venture capital [VCs] to $1,500 million (around Rs. 10,000 crore). These categories of funds can now invest up to $1,500 million in overseas markets. Earlier the cap was at $750 million. "All other regulations governing such overseas investment by eligible AIFs/VCFs shall remain unchanged," SEBI circular said. [Business Line, May 22]

India Inc must separate CMD post, deadline won't be extended: SEBI

SEBI has asked Indian companies to work towards separating the roles of chairperson and managing director (MD). The deadline is a year away, but the market regulator is hinting that it won't extend it. Listed entities were initially required to separate the roles of chairperson and MD/ CEO from April 01, 2020 onwards. However, based on industry representations, an additional time period of two years was given for compliance. [Business Standard, April 7]

SEBI comes out with new registration framework on transfer of business by intermediaries

SEBI on Friday put in place a new registration framework for registered intermediaries transferring business to other legal entity. In a circular, the regulator said it has been receiving registration applications pursuant to transfer of business (SEBI regulated business activity) from one legal entity which is a SEBI registered intermediary (transferor) to another legal entity (transferee). In this regard, SEBI clarified that the transferee will have to obtain fresh registration from the regulator in the same capacity before the transfer of business if it is not registered with the markets watchdog in the same capacity. [Financial Express, March 26]

SEBI rationalised the existing framework pertaining to reclassification of promoter/ promoter group entities

This includes exemption from existing requirements, in cases of reclassification pursuant to an order of the regulator under any law in line with existing exemption already available in cases of resolution plan approved under the Insolvency and Bankruptcy Code. The exemption has also been provided from the requirement of seeking approval of shareholders in cases where the promoter seeking reclassification holds shareholding of less than 1 per cent, subject to the promoter not being in control, SEBI said. In addition, exemptions have been granted in few procedural requirements related to reclassification such as obtaining request from promoter, approval from the board and shareholders in case of open offer under SEBI Takeover Regulations and scheme of arrangement. [Business standard, May 11]

Business Responsibility and Sustainability Reporting

SEBI said that disclosure requirements under business responsibility and sustainability reporting [BSSR], covering environmental, social and governance perspectives will be applicable to the top 1,000 listed entities by market capitalisation. [Business standard, May 11]

SEBI plans to ease post-IPO lock-in for promoters, amend key definition

Regulator mulls replacing concept of 'promoter' with 'person in control'

SEBI on May 11 proposed to liberalise the "Issue of Capital and Disclosure Requirements" (ICDR) by easing the lock-in period for promoters and rationalising the definition of "promoter group". The proposals, if implemented, will ease the regulatory burden for listed firms and could encourage more companies to list. [Business Standard, May 12] ■

WHAT NBFCs NEED FROM MINISTRY OF MSMEs TO SERVE MSMEs BETTER: FIDC DIALOG WITH HON'BLE SHRI NITIN GADKARI

MSME Minister Hon'ble Shri Nitin Gadkari

FIDC team in a virtual meet on 15 June asked to re-instate pay-out cap under CGS-II scheme, processing of claims under CGTMSE pertaining to FY 20-21 and extension of dead line for Udyam registration besides inclusion of traders, education in MSMEs and seeks extension of subvention scheme for NBFCs

Many MSMEs are unaware of the new registration process and its benefits. Only 25.98 lakh MSMEs have registered on Udyam at the end of March 2021 which is significantly low considering there are estimated 7 Crore MSMEs in India. FIDC said to the Ministry for MSMEs while presenting key issues on behalf of NBFCs, considering the pandemic, Udyam Registration deadline may be extended until March 22.

Inclusion of traders in MSME definition: Retail and wholesale trade was included in the definition of "Services" under MSME Definition until 2017 when office memorandum was issued vide which wholesale and retail trade was excluded from MSME definition. Consequently, RBI also aligned its MSME definition in accordance with MSME Ministry's notification dated June 2020 resulting in rendering retail and wholesale trade loans ineligible for PSL and other scheme benefits

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

Re-instate pay-out cap of CGS-II scheme: While in case of CGTMSE the guarantee coverage and cap on IRR have been re-instated by circular of 8, June 2021, but the reduction in pay-out cap is not reversed. Considering that NPAs have increased due to pandemic, reduction in pay-out cap makes it unviable for NBFCs to lend to MSMEs without guarantee support. It is pertinent that NBFCs have played critical role in successful implementation of CGS scheme. Within 3 years of CGTMSE scheme coming into operation, 17K Crore guarantees have been issued for NBFCs as against 24K Crore for PSBs, where the scheme has been in operation since 2001. FIDC requested the Minister to re-instate pay-out cap to 3 times of premium paid and recoveries remitted for effective implementation of scheme.

Settlement of CGTMSE claims pertaining to FY20-21: Due to Supreme Court embargo on declaring NPAs from 1st September 2020 until 23rd March 2021, NBFCs and Banks could not declare NPAs for the said period. Consequently, Banks and NBFCs could file CGTMSE claim only when the embargo was lifted on 23rd March 2021. Although Banks and NBFCs filed claims within 31st March 2021, but these could not be processed by CGTMSE due to huge pile-up of claims rendering them in-eligible to be utilized in FY21 pay-out cap.

FIDC request that all claims filed during FY21 (especially during 24th March 2021 to 31st March 2021) but not processed, be treated as claims for FY21 as one-time exception, otherwise this will be a huge financial loss to Banks and NBFCs.

Extend MSME Subvention Scheme to NBFCs: Interest subvention scheme for MSMEs 2018 launched by SIDBI in April 2019, for a period of 2 years was later extended in October 2020 but for only Banks. The October 7, 2020 circular issued by the RBI also left out NBFCs outside the domain despite the MSME lending volumes of NBFCs, said FIDC top brass.

MSME Subvention Scheme has provided substantial relief to the MSME segment. However, in absence of notification from the MSME Ministry and corresponding RBI notification the said Scheme cannot be utilized by the NBFC industry to support MSMEs, retail and wholesale trading community, FIDC added and asked extension of validity of MSME Subvention Scheme for NBFCs for the FY22

Include Education in MSME definition: The Government's objective of '100% Gross enrolment ratio' under NEP policy pre-supposes a robust infrastructure. 20% of the funding to education ecosystem is funded by NBFCs and these need immediate support. To support the education infrastructure segment FIDC suggested that (1) Include education infrastructure under ECLGS 3.0; (2) Providing relief to borrower education institutions through introduction of Central Sector Interest Subsidy Scheme (CSIS); (3) Cover Education Infrastructure segment under CGTMSE scheme; and (4) Introduce re-finance mechanism for Financial Institutions focused on lending to education sector, FIDC suggested. **[FIDC had an interactive and positive virtual Meeting with MSME Minister Hon'ble Minister Shri Nitin Gadkari on 15th June 2021. [The Hon'ble Minister has assured FIDC of considering all issues positively, noted Mahesh Thakkar, director general, FIDC. The Hon'ble Minister acts quickly after FIDC virtual Meeting on 15 06 21 by announcing extension of Udyam Registration date till Dec. 2021.]** ■

TReDS platform RXIL discounts receivables worth Rs 1,000 crore in a month

The government with the support of RBI has been promoting TReDS as an effective tool to address the working capital woes of MSMEs. TReDS platform such as RXIL is essentially an online auction-based price discovery platform wherein MSMEs are able to get timely payment of their supplies once they raise the invoice and the buyer accepts it. This then initiates the online bidding process of their trade receivables by financiers (mostly banks). "The average rates for financing are between six per cent to eight per cent, depending on the buyers' creditworthiness. This helps reduce the interest costs making their working cycles smoother. Plus, they gain access to capital in less than 48 hours," said Ketan Gaikwad, MD and CEO.

The RBI accredited TReDS (Trade Receivables Discounting System) Exchange Platform was doing transactions worth Rs 69 crores in April 2020 and reached a whopping Rs 1,105 crore in March 2021, the firm's MD and CEO Gaikwad told Financial Express Online. With over 7,000 MSMEs registered on the platform, the firm claims to have processed close to 5,00,000 invoices drawn on over 600 buyers till date from its inception in 2017. On a cumulative basis, RXIL has processed throughput of more than Rs.10,000 crore since inception. Launched in 2016, RXIL is a joint venture between the SIDBI and the NSE with State Bank, ICICI and Yes Bank as other stakeholders. [Financial Express, April 6]

Government has decided to allow all NBFCs to provide discount loans to MSMEs against their dues, using the Trade Receivables and Discounting System or TReDS platform. [The print, Aug. 25, 2020]

NBFCs get nod to function in GIFT

Non-bank finance companies, both local and global, can now start operations in Gujarat's GIFT City. They will be allowed to offer the whole range of services — loans, exotic derivative trades, investment banking, and third-party product sales. The move by the International Financial Services Centre (IFSC), the regulator of the special economic zone, should draw top financial services companies from across the world, helping localise services that are typically offered overseas. "There are many overseas entities including non-banks, which are keen to set up financial services businesses in India. IFSC provides a great platform and flexibility in terms of ownership, competitive tax regime and ability to repatriate funds freely," said Dipesh Shah, head development, IFSCA. [Economic Times, April 23]

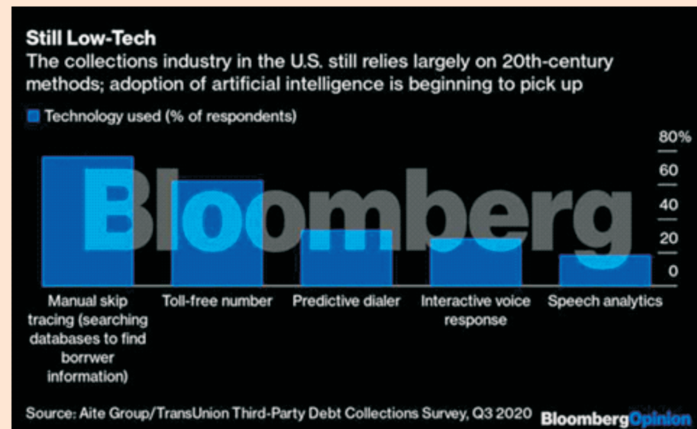
Collections without collectors- Recovery without human contacts

Debt collection is heading — toward less muscle and more intelligence, of the artificial kind. Yet for all the help from technology, collections are still hard in villages due to barriers of language, education and entrenched cash use. Farmers simply don't know how to use the new digital tools. Or they may miss a deadline because of a temporary cash flow mismatch.

Spocto Solutions' Kisan Pay is not an app, but an automated voice call, which lets farmers choose when they can repay loans and how. The selections trigger text messages with online payment links. The bot stays on the call to help borrowers navigate the unfamiliar world of online money transfers. Spocto is working on Rs 1.2 lakh crore ($16 billion) of loan portfolios spread across some of India's largest banks and nonbank financiers. Its recovery rate in cases where borrowers have missed one instalment is 85%, compared with 70% for traditional channels. There is cost savings for creditors.

The value to lenders comes from the behavioral clues Spocto picks up in the process of nudging customers to pay on time. By training his algorithms to mine the data, Srivastava is able to predict which customers will most likely resume paying after missing a couple of instalments, and who will probably default. For creditors, bad loan ratios and loss provisions fall.

Ten years ago, there were almost 10,000 collection firms in the U.S. Now, their number has dwindled below 7,000. See how technology is used in USA in collection industry



FIDC-CRIF data on NBFC for Q3 and Q4 for FY 2020-21 shows that overall sanctions in Q4 have recovered to FY 20 levels

FIDC-CRIF data released on June, 11 shows" Overall sanctions in Q4 have recovered to FY 20 levels, though they are still lower than FY 19 levels", said Mahesh Thakkar, director general, FIDC. It indicates that all vehicle loans (auto, CV/CE) are lower than Q4 FY 20 and FY 19 levels by a significant margin. However, Home loan sanctions have improved significantly and this has compensated the downfall in case of vehicle loans. A significant dip in sanctions to the MSME segment in Q4 FY 21 (represented by Long term loans, unsecured business loans and property loans) compared to FY 19 & FY 20. The data released indicate that "the industry is yet to catch up to the levels reached in Q4 FY 19 especially in case of vehicles, CE & MSME loans".

Large NBFCs may tap equity markets in next 6-12 months

Several NBFCs are likely to hit the market over the next six months to a year to raise equity, aiming to tap robust capital markets, said industry experts. NBFCs are expected to scout for funds through various routes, including IPOs, capital markets, QIPs, and ECBs. The capital adequacy ratio, the capital buffer signifying a financial service firm's financial stability, of NBFCs is in the range of 19-25% on average, against the regulatory requirement of 15%. "The fund raise is anticipated as the markets, especially the IPO market, are good and there are not many other avenues of fund raising. The secondary markets have already been overshot, so this is a good time to leverage (the primary markets)," said Mahesh Thakkar, director general, FIDC. [Live Mint, May 21]

FIDC's Interaction with all members on video-conferencing

FIDC had organised an online Interactive Meeting with all members of FIDC through video-conferencing with FID directors on Tuesday, JUNE 22, 2021. Interaction covered current issues faced by the NBFC sector players like Liquidity, Funding, Restructuring, Moratorium, Provisioning and other issues.

Interaction with FIDC Board of Directors

• As on 31st March 2021 - AUM ₹ 1,17,243 Crores • 1817 Branches • 820 Rural Centres

COMMERCIAL GOODS VEHICLE FINANCE • CONSTRUCTION EQUIPMENT FINANCE • PASSENGER COMMERCIAL VEHICLE FINANCE

FARM EQUIPMENT FINANCE • BUSINESS LOAN / WORKING CAPITAL LOAN • BILL / CHALLAN DISCOUNTING

TYRE FINANCE • FUEL LOAN • AUTOMALL • VEHICLE INSURANCE • FAMILY PROTECTION PLAN • LIFE INSURANCE

Corporate Office:
Shriram Transport Finance Co. Ltd.,
Wockhardt Towers, Level-3, West Wing, C-2, G-Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai-400 051. Tel: +91 22 4095 9595.
CIN - L65191TN1979PLC007874.

FIDC IN MULTIFOLD ACTION MODE

FIDC request for permitting the partial functioning of RBI registered NBFCs in various states declaring partial lockdown due to 2nd Covid-19 wave

[1] FIDC on April 6 thanked Shri Mr. Sitaram Kunte, Chief Secretary,Government of Maharashtra, Mumbai for acceding FIDC request and issued the Revised Order dated 5th April 2021 allowing all RBI-registered NBFCs to partially keep their offices open, subject to certain conditions.

[2] The Government of Rajasthan has added NBFCs in the Permitted Category to partially function in Lockdown. See Page 6, Clause 31 of the Circular No. P. 7(1) Home-7/ 2021 dated 30-04-2021.

[3] FIDC on April 19 requested Shri Vijay Kumar Dev, Chief Secretary, Government of NCT of Delhi to exempt RBI-Registered NBFCs under Clause 4 (I)(ii) of the Order dated 19th April 2021 and issue necessary Advisory that the essential operations of NBFCs in NCT of Delhi are allowed to continue on par with banking operation and to facilitate the essential staff to provide the essential services to our stakeholders.

[4] FIDC on May 6 appealed Shri Anil Kumar Singhal, IAS, Principle Secretary, A.P Secretariate (S.O), Guntur, to exempt RBI-Registered NBFCs under Clause (j)of the said Order dated 5th May, 2021 and issue necessary Advisory that the essential operations of NBFCs in the state of Andhra Pradesh are continued on par with banking operation.

NBFCs seek easing of rules on NACH mandate cancellation

NBFCs especially those with assets below Rs 500 crore, are seeking easing of rules to allow mandate cancellation facility (for NACH) through simpler means such as Whatsapp/SMS in a secure manner. FIDC said this facility should work on a “best effort” basis and not be made mandatory as most customers are not tech-savvy and are not comfortable transacting on electronic platforms. Many of these NBFCs are very small and operate in a limited geography and do not have a well-developed website. Also, most of their customers are not tech-savvy and are not comfortable with transacting on electronic platforms. However, they may be comfortable in using SMS or Whatsapp, FIDC said in communication to National Payments Corporation of India (NPCI). [Business Standard, April 2]

FIDC asks RBI to implement guidelines for appointment of auditors from April 1, 2022

FIDC in connection with RBI circular on Appointment of Statutory Auditors for NBFCs [including HFCs] dated April 27, 2021 pleaded with RBI Governor on April 28 that its provisions should be made applicable from April 01, 2022 i.e. FY 23 onwards for a smooth transition as most of the NBFCs have already finalised the auditors for FY 22 and the flexibility of changing auditors in the second half of FY 22 doesn’t really help as (a) shareholder approval would be required and the notice of the AGM would have already been finalised. Identifying a new auditor will take some time. (b) It would be difficult for any new auditor to audit the accounts in a 6 months period. For a smooth implementation and minimum disruption therefore the applicability of the circular can be with effect from 1 April 2022. It will provide the NBFCs sufficient time to plan. FIDC also requested that the cooling period should be reduced to 5 years instead of 6 years as this will then better align with the Companies Act.

FIDC taking up the matter again on May 19 suggested the RBI that “Taking into account the avowed objective of improving the independence of auditors, RBI may consider setting up an expert committee. This committee may consist of representatives from NBFCs, Chartered Accountants, Audit Firms, Institute of Chartered Accountants of India, for discussing and evaluating provisions of this circular and then bring out changes to ensure effective implementations and wider acceptance with least disruption”.

In view of certain clarifications being sought in the matter by FIDC, RBI published Frequently Asked Questions (FAQs) and the necessary clarifications on this issue. [See for details RBI website]

FIDC requested to reinstate guarantee cover under Credit guarantee fund scheme for NBFCs (CGS-II) to 75 per cent

In a letter to MSME minister Nitin Gadkari, the FIDC requested to reinstate guarantee cover under Credit guarantee fund scheme for NBFCs (CGS-II) to 75 per cent which was recently revised to 50 per cent. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) had framed CGS II for providing guarantees in respect of credit facilities extended by eligible NBFCs to micro and small enterprises (MSE) borrowers. “We urge upon that the guarantee cover may please be reinstated to earlier 75 per cent levels, particularly in these uncertain and stressful times, the letter said. [Business Standard, April 18]

FIDC seeks relief for MSMEs benefited under RBI’s Restructuring Framework 1.0

FIDC has sought loan restructuring for the micro, small and medium enterprises (MSME) who benefited from the previous loan restructuring framework provided by the RBI amid the pandemic. In a letter to RBI Governor, Mahesh Thakkar, the Director General of FIDC said that the second wave of the Covid pandemic has created new uncertainties in the country’s economic revival and MSME customers are the most affected category of borrowers, especially in sectors such as education (school and school bus operators), transportation (staff bus and route bus operators) and tourism (taxi operators, travel operators).

He noted that in the earlier framework, restructuring was done for MSMEs also based on expectations that market conditions would improve and should get to normal by March, 2021.These customers have seen their prospects of revival, which looked promising in the past quarter, suddenly and substantially negatively impacted due to the second wave. As per certain research reports, 40 per cent of trucks are stranded due to lockdowns and freight rates down by 20 per cent in 75 major routes in the country, thereby impacting the livelihoods of millions of truck operators and drivers.”Hence, we request you to kindly clarify/permit providing relief to MSME customers whose contracts were restructured under Resolution Framework 1.0 by using this window to modify such plans to the extent of increasing the period of moratorium and/or extending the residual tenor up to a total of 2 years, along the same lines as the support provided to individuals and small businesses. We request the RBI to issue an amendment or clarification on the matter,” the letter said.

The RBI on May 5, 2021 permitted restructuring of loans and advances availed by individuals and small businesses. Clause 22 of the notification permits lending institutions to provide further relief to those borrowers, who had availed the benefit of restructuring in terms of Resolution Framework - 1.0, where the resolution plan permitted moratorium of less than two years. Among other recommendations, the NBFC body has also suggested the inclusion of hybrid use of tractors under the definition of small businesses, thereby allowing restructuring of such mixed-use tractor (equipment) loans. [ET BFSI.com/IANS May 15]

FIDC urged the RBI to regularize benefit of Priority Sector Lending for NBFCs

FIDC urged the RBI to regularise the benefit of PSL classification for lending by banks to NBFCs as part of the overall PSL policy in its Representation to RBI Governor on April 17. This will enable banks and NBFCs to cater to the needs to MSME sector in a more organised manner. While the central bank has been extending, on an ad-hoc basis, the time-period for on-lending benefit by six months at the time of each review, however, it would be better if this was regularized, said Mahesh Thakkar, director general, FIDC.

Further, under the on-lending model, only fresh loans granted by NBFCs are allowed PSL benefit. The existing unencumbered pools of eligible PSLs do not qualify for such classification benefit.

“We, hereby, request the RBI to allow refinance, apart from by way of buy-out but also qualifying for hypothecation for DP for bank finance against existing unencumbered MSME pool originated by NBFCs,” said the letter. [Business Standard, April 19]

FIDC-IFC workshop organised on May 6 on effect of Restructuring and Moratorium on Credit reports

As a part of FIDC-International Finance Corporation [of World Bank Group] joint initiative, a workshop designed specifically for financial institutions, to delve into the Moratorium granted as part of COVID-19 Relief, and its impact on lenders was organized on May 6 online. This training program clarified various aspects from the points of the NBFCs, on new products and services on commercial credit information data from 4 credit bureaus operating in India and related aspects to focus during these difficult times. It was helpful to assess & maintain Assets Quality for NBFCs. After welcome by Mr. Mahesh Thakkar, director general, FIDC, Mr. Raman Aggarwal, director, FIDC delivered keynote address. It was followed by Ashutosh Tandan who introduced services of IFC. An effective presentation on “Commercial Credit Reporting, Products for NBFCs to leverage and the impact of Moratorium

Welcome to FIDC Governing Council

Two new members to FIDC Governing Council on 22 06 21

Mr. D Arulselvan
Executive Vice President & Chief Financial Officer,
Cholamandalam Investment & Finance Company Ltd.

Mr. Gajendra Singh
Managing Director,
Dhara Motor Finance Ltd.

“It is widely acknowledged, amongst the various financial intermediaries, NBFCs have emerged as one of the effective channels for facilitating funding access to MSEs, particularly by providing the last mile connectivity.” SIDBI

granted as part of COVID-19 Relief" was made by Mr. Satish Mehta, Consultant, World Bank Group. Ms. Sumitra Kumari, Strategy, Product & Marketing Lead, Commercial and Microfinance Products, Head- India Data Operations of Equifax made a presentation followed by interaction with the participants from NBFC sector.

Liquidity Support for Small NBFCs (Asset size up to Rs. 500 crores)

NBFCs are important drivers of credit to self-employed informal segment of borrowers significantly contributing to the goal of financial inclusion. But the liquidity for small NBFCs has continued to be a challenge, despite various measures taken by RBI in the past. The announcements made on 5th May have addressed the liquidity needs of small MFIs, but NBFCs have been missed out. Liquidity situation for these companies would be further aggravated since they have to restructure loans given by them, without any support on their liability side. It is an established fact that the only mode and source of borrowing for these small NBFCs is term loans from banks and FIs like SIDBI, NABARD (along with its subsidiaries NABSAMRUDDHI & NABKISAN). They do not access capital market, nor do they issue bonds or debentures.

FIDC requested on May 19 RBI to consider favourably our following requests: (a) An additional Rs. 25,000 crores may be made available exclusively to medium and small NBFCs (asset size up to Rs. 500 Crs.), through SIDBI for period of 3 years; (b) The benefit of PSL classification for lending by Banks to NBFCs for on-lending may please be regularized as part of the overall PSL policy and the limit of Rs 20 lakhs per borrower done away with; (c) Besides outright buy-out, the Banks may be allowed to also finance against existing unencumbered MSME pool originated by NBFCs, albeit within the overall limit of 5% of individual bank's PSL lending; (d) The scope of RBI Circular dt 5th May, 2021 on SFBs lending to MFIs may please be extended for on-lending to be treated as PSL, so as to cover small NBFCs also; (e) We request RBI to consider NABARD extending Refinance Policy for Schematic Lending under Special Liquidity Facility for all small NBFCs for their agri-Loans. [FIDC Representation, May 19]

NBFC body seeks inclusion of education in ECLGS

The NBFC body in a letter to Finance Minister Nirmala Sitharaman noted that the business of many NBFCs include education loans to students to finance their higher education expenses in India and abroad and education institution loans (EIL) for financing education infrastructure growth needs of schools, colleges and universities. Last week, the government had expanded the scope of ECLGS 2.0 and said that Special Mention Accounts-1 (SMA-1) will now be eligible for credit under the scheme. SMA-1 borrowers in the healthcare sector and 26 other high stress sectors as identified by the Kamath Committee are now eligible under ECLGS 2.0. "We believe that inclusion of education sector under ECLGS will not only provide regular source of funding to educational institutions enabling them to cope up with short term liquidity problem arising out of closure of schools/colleges etc, but also the cash flows would be more aligned to the elongated repayment term," the letter said. [DT Next, April 26]

NBFCs seek fresh debt recast as Covid-19 second wave wreaks havoc

Amid the resurgence of Covid-19 and with states imposing lockdowns, NBFCs are seeking a revival of the debt restructuring scheme. Those who had availed themselves of the recast earlier should get a second chance, the FIDC said in a letter to the RBI Governor. "Considering the severe second wave of Covid-19, the retail borrowers, including the MSMEs [micro, small and medium enterprises], as also the retail and wholesale trader industry shall be in urgent need of support from the lenders, to revive their economic activities," FIDC said. It added that in this "challenging environment for borrowers and lenders", it would be helpful, if RBI extends the August 6 notification on one-time restructuring till at least March 31, 2022.

The FIDC has said, borrower accounts, irrespective of whether they have been restructured on an earlier occasion, and if they are standard as of March 31, 2021, should be allowed restructuring without any downgrade in asset classification. Also, RBI may prescribe broad guidelines for restructuring such accounts on the lines of the recommendations made by the Kamath Committee.

FIDC have also sought restructuring benefit for small NBFCs with asset size lower than Rs 500 crore, who are dependent on banks for their funding. Else, this may create an asset-liability mismatch for such NBFCs, FIDC said. Small NBFCs constitute 75-80 per cent of active players and have 10-15 per cent share in total assets. Unlike large NBFCs, they do not access bonds and external commercial borrowings for resources, said FIDC Director Raman Aggarwal. Furthermore, they have sought liquidity support for the sector for on-lending to MSMEs. In this regard, they have asked the central bank to increase its outlay for all India financial institutions (AIFIs) from Rs 50,000 crore to Rs 75,000 crore. "While the existing allocation for other sectors may continue at their prescribed limits, the additional Rs 25,000 crore may be made available exclusively to medium and small NBFCs, through SIDBI for period of 3 years," the industry body said. [Business Standard, April 28]

Nominated as a member of the Reserve Bank set up advisory group to assist Regulatory Review Authority

TT Srinivasaraghavan, Former MD and Non-Executive Director, Sundaram Finance and Chairman Emeritus of FIDC for life time is nominated as one of the members of the Reserve Bank set up advisory group to assist Regulatory Review Authority. "It is at once both gratifying and humbling to be invited to serve on a Regulatory advisory group. If after a lifetime of serving the sector, I am able to share some of my experiences and learning for the larger good, nothing would make me happier," he said. Hearty Complements of the NBFC Sector.

Small NBFCs urge their core of problems addressed: Covid-19- (2)

Small NBFCs have been given a miss altogether in the relief measures announced by the regulator on May 5. Raman Aggarwal, Director at FIDC said, "Small NBFCs have been grappling with a tight liquidity position for the last 2.5 years. Now again they would land up in a situation where they will have to restructure customer's loans but no back-up on the liability side." Aggarwal adds, "Giving a specific allocation to SIDBI and allowing them to provide a three year term loan to small NBFCs below Rs 500 is the need of the hour".

FIDC In Action

Small NBFCs are saying if the ground situation in terms of lockdown and containment measures prolongs it would impact their business. Rajasthan based Kamal Autofinance Pvt Ltd's MD, Shreyans Kasliwal said, "The impact probably is going to be worse than last year and most of the short-term measures adopted last year in terms of our industry they weren't really helpful to the bulk of the players, all the TLTROs weren't subscribed and banks weren't interested in it. Auctions were not purchased; the ones purchased were given only to a handful of companies." He emphasised:"Restructuring doesn't really solve anything as it doesn't address the core problem; it's just the deferment of the problem. I'm not really convinced and simply deny that there are NPAs in the system. We need to ensure liquidity reaches down where it's required."

A North India based NBFC, funding small commercial vehicles asked "What about our liabilities? Where we've taken funds from lenders, they (Banks & large NBFCs) have been saying there's nothing on restructuring guidelines and if they do they will have to declare it to the credit bureaus and our whole credibility goes down." These small NBFCs have been seeking additional liquidity support and some relief on their liability side as well.

FIDC in a letter to the RBI has urged to increase the overall support to AIFIs with the additional Rs 25,000 crore. [See details in item titled: "Rs. 25,000 crore may be made available exclusively to medium and small NBFCs, through Sidbi for a period of three years" [ET BFSI, May 19]

NBFCs get credit facility from SIDBI for MSMEs

FIDC had Virtual Meetings with RBI & SIDBI and have received the response from SIDBI stating "in the light of present Covid-19 pandemic situation, RBI has provided a Special Liquidity Facility-2 (SLF-2) of Rs. 15,000 crore to SIDBI in order to address liquidity needs of the MSME sector, to be delivered through various financial intermediaries. SIDBI has accordingly launched the Schemes to support liquidity needs of MSME sector through intermediaries viz., NBFCs, MFIs and Banks and direct credit under Special Liquidity Facility-2. The details of the Schemes are hosted on SIDBI's website." FIDC has asked the NBFCs to directly contact SIDBI to avail funding on May 28.

Mr. Mahesh Thakkar, Director General for and on behalf of
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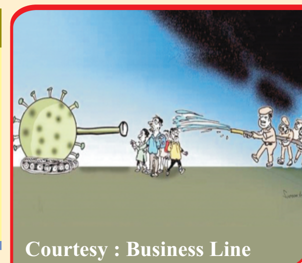
- Editorial Committee



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