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NBFCs Seek RBI Help to Tide Over Liquidity Squeeze

Urge the central bank to ease funding and securitisation norms

OUR BUREAU MUMBAI

Non-banking finance companies have urged the Reserve Bank of India to liberalise fund-raising norms to tide over the tight liquidity situation.

Executives of large NBFCs met the RBI governor D Subbarao to discuss the challenges facing the sector. They asked RBI to allow asset finance companies to raise funds through external commercial borrowing, or ECBs.

“We requested the governor to allow asset finance companies to access the ECB market,” said Mahesh Thakkar, director general, Finance Industry Development Council, a representative body for NBFCs.

“This is cost-effective and longterm funding. NBFCs want stable policy for the next 10 years.”

At present, infrastructure, housing finance and micro-finance NBFCs are allowed to borrow funds through the ECB route. The Reserve Bank of India advised NBFCs to hedge their ECB portfolio.

NBFCs, which play a key role in funding the small and medium enterprises and in remote areas where banks cannot reach, urged the Reserve Bank of India to relax norms on securitisation and priority sector. This will help them sell portfolios to banks and raise funds.

Changes to rules last year, such as minimum holding period of six months and cap on interest rate, led to a slump in securitisation. NBFCs sought risk weight norms on certain lines of business, such as lending to trucks, to be brought at a par with banks. For banks, risk weight on commercial vehicle loans is 75 basis points, while for NBFCs it is 100 basis points.

A basis point is one hundredth of a percentage point. But the central bank may not oblige due to the rising delinquencies in that portfolio.

Delinquencies in commercial vehicle loans are increasing, with the monthly collection ratio dropping. “The decline in collection efficiency indicates that borrowers are increasingly delaying repayments; there is, therefore, a likelihood of increase in non-performing assets (NPAs) over the next few quarters,” said Crisil, a rating company.

Another demand was that NBFCs should be made part of the corporate debt-restructuring programme. CDR is a mechanism to reduce the burden of debt of a company by reducing the interest rate and extending the tenure of the loan.

A committee headed by former RBI deputy governor Usha Thorat had proposed revisions in asset classification, provisioning norms and higher tier-1 capital requirements for NBFCs. The norms require NBFCs to move to a 90-day norm after which a loan will become a non-performing asset if interest is not paid. Currently, NBFCs follow a 180-day norm.