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NBFCs seek cheap bank money to fund CV purchases

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THE asset-financing NBFCs want banks to provide long-term funds at affordable costs so that they can deploy funds to boost commercial vehicles sales. They want banks to create a separate refinancing window for NBFCs-AFCs based on the track record irrespective of their size.

It is said more than 90% of such NBFCs are small and medium-sized firms. Finance Industry Development Council (FIDC), the self-regulatory body of NBFCs-AFCs registered with RBI, said that banks should allow differential rate of interest for NBFCs given that 80% of their funding is for priority sector lending.

In a statement, FIDC chairman and Sundaram Finance MD, T T Srinivasagraghavan said that there should be formal acceptance of relationship between banks and NBFCs as wholesaler-retailer and not competitors.

He welcomed the meeting convened by the ministry of finance in Delhi recently which was attended by FIDC, IBA and PSU banks. Leading PSU banks had reaffirmed their commitment to fund NBFCs-AFCs at the meeting. It created a platform for the banks and NBFCs to come together to boost credit flow to the CV sector, he said. The meeting was held subsequent to an earlier one which had discussed issues relating to funding for NBFCs involved in financing commercial vehicles in the wake of the second stimulus package announced by the government.

With CV sales in December '08 dropping by 50% compared to November '08 and 70% over December '07, there was a compelling need to boost CV sales through infusion of funds at an affordable cost.

The funding requirement of NBFCs engaged in CV financing is estimated to be Rs 11,000 crore and is likely to go up with a few other NBFCs expected to come up with their requirements shortly.

Mr Srinivasaraghavan said, "The asset financing NBFCs represented by FIDC are not seeking any bailout package. What we would like is for the bankers to look at their long-term funding needs, especially given the track record that none of these companies have posed any problem to their bankers in the past. In fact, in funding smaller sectors, the NBFCs had better recovery experience than banks."

While favourably considering the needs of small players, the banks should not insist on collateral security and credit rating by rating agencies. The banks can draw comfort from the fact that almost all NBFCs-AFCs are deposit taking and as such are subject to stringent RBI norms, he said.

Magma Fincorp's vice-chairman & managing director Sanjay Chamria told ET: "Worried about the degrowth in the commercial vehicle (CV) segment, the finance ministry and RBI have decided to increase credit flow to NBFCs-AFCs at reduced interest for onward lending to customers who cannot access bank credit." "Since about 40-45% of the total CV finance is done by NBFCs-AFCs, these measures are expected to have a positive impact on the sale of CVs," he added.

A Kolkata-based retail asset financing company, Magma Fincorp has a diversified product portfolio comprising commercial vehicle finance, car & utility vehicle finance, construction equipment finance, used commercial vehicle finance, strategic construction equipment finance and SME finance.

FIDC has also welcomed the assurance by the finance ministry to favourably consider the pending requirements of NBFCs such as lower risk weightage for less risky asset classes, proper legal frame work for recovery and parity in tax matters. This would enable companies to play a more meaningful role in the last mile credit delivery, Srinivasaraghavan said in the statement.