

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs - AFCs)

4 March 2011

Smt. Uma Subramaniam
Chief General Manager -in-Charge
Department of Non-Banking Supervision
Central Office
Centre I, World Trade Centre, Cuffe Parade
Mumbai-400 005.

Madam,

Subject: Classification of Asset Financing NBFCs

Some of our members in Tamilnadu and Kerala have brought to our notice a recent objection being raised by inspecting officials from RBI while carrying out inspection of Asset Finance NBFCs (NBFC-AFC).

They appear to have contended that finance for the purchase of Passenger cars, Two-wheelers, etc would not qualify to be treated as Asset finance and such Assets should be excluded while calculating the percentage of income and Assets for the 60% norm prescribed for determining the status as an AFC. They have further contended that the Assets referred above are for the personal use of the borrowers and do not generate any income and therefore should be excluded for the purpose of classification as AFC. (A copy of the letter from RBI, Trivandrum is enclosed). They have further instructed the company not to accept fresh deposits or renew existing deposits, till the matter is finally disposed off.

It may please be recalled that it was pursuant to a detailed representation made by FIDC in October 2006 (Copy enclosed) that RBI was kind enough to recognise Asset financing NBFCs as a distinct class of companies. It is relevant to reproduce this extract from the Mid-term Review of Annual Policy for the Year 2006-07 " A request had been received from the representatives of the NBFC sector to provide a separate classification for NBFCs engaged in financing tangible assets. Companies engaged in financing real/physical assets supporting economic activity such as automobiles, general purpose industrial machinery and the like would generally correspond to the classification as asset financing companies. Accordingly, it is proposed to re-group them as asset financing companies. Detailed operational instructions in this regard would be issued separately."

RBI has all along been recognising such Assets for classification purposes and its present stand that they are personal Assets is therefore very surprising, to say

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the least. The RBI Directions define an NBFC- AFC as follows:

" AFC would be defined as any company which is a financial institution carrying on as its Principal business, the financing of physical Assets supporting productive/economic activity, such as, Automobiles, Tractors, Lathe machines, generator sets, earth moving and material handling equipments moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total Assets and total income respectively".

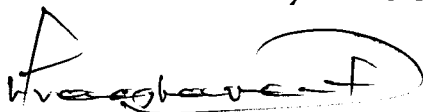
A plain reading of the above would show that in order to be classified as an AFC:

1. The financing should be for real/physical Assets and
2. The Assets should be such that they support productive/economic activity. The interpretation that such Assets should be used for commercial purposes or generate income is without any basis. It is pertinent to note that over 80% of all Automobiles sold in the country are financed and a narrow interpretation of this nature would virtually bring automobile sales in the country to a grinding halt. It is well accepted that financing of tangible assets is safer since, irrespective of their end-use, they are quickly realizable, without much erosion in value.
3. We submit that the laudable objective of creating a distinct class of finance companies who finance tangible assets would be completely defeated if they are classified as loan companies.

In view of the seriousness of the matter and our above submissions, we request you to suitably clarify that financing of all tangible/physical/real assets, as laid out in the RBI Directions, would be eligible for reckoning the classification of NBFC-AFC.

Thanking you,

Yours Sincerely,
For Finance Industry Development Council



T.T.Srinivasaraghavan
Chairman



भारतीय रिज़र्व बैंक

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www.rbi.org.in

DNBS (T) No. ¹² /02.01.012/2010-11

October 20, 2010

The Managing Director
Sroeragh General Finance Ltd
40/5454 E, Vallamattam Estate
T.θ. Road
Kochi - 682035

Dear Sir,

NBS 3 Return for quarter ended September 30, 2010

Please refer to your letter dated October 15, 2010 on the captioned subject. We observe from the return submitted by you that the classification of the company has been mentioned as 'Asset Finance Company'. In this connection, we invite your attention to our letter DNBS(T) No.1653/02.01.012/ 2009.10 dated June 1, 2010 and advise that the reclassification mentioned therein i.e. 'Loan Company' may be retained by the company till a review is made in this regard and the company accordingly should stop accepting, renewing public deposits held by it as advised therein.

Yours faithfully,

(A. Lakshmi Kumari)
Manager

गैर-बैंकिंग पर्यवेक्षण विभाग, बेकरी जंक्शन पोस्ट बॉक्स नं- 6507, तिरुवनंतपुरम - 695 033.

टेलीफोन: 0471-2338818, फैक्स: 0471-2338818, ई-मेल: dnbsthro@rbi.org.in

Department of Non - Banking Supervision

Bakery Junction, PB No. 6507, Thiruvananthapuram - 695 033

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DNBS (T) No. 557/02.01.012/2010-11

November 19, 2010

The Managing Director
Sreeragh General Finance Ltd .
40/5454 E, Vallamattam Estate
T.D. Road
Kochi - 682035

Dear Sir,

Classification of the company

Please refer to your letter dated October 19, 2010 on the captioned subject. In this connection, we clarify that loans for purchase of two wheelers which are used only for commutation by the borrowers should not be taken as eligible assets for classification under 'AFC'.

2. Similarly loans for purchase of two wheelers used by self employed persons like milk vendor, newspaper vendor, etc should also not be included.
3. You may, therefore, recalculate asset/ income pattern of your company and advise us.

Yours faithfully,

(Vijaylaxmi D. Kini)
Deputy General Manager

गैर-बैंकिंग पर्यवेक्षण विभाग, बेकरी जंक्शन पोस्ट बॉक्स सं. 6507, तिरुवनंतपुरम - 695 033.

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942
DNBS (T) No. /02.01.012/2010-11

February 3, 2011

The Managing Director
Sreeragh General Finance Ltd
40/5454 E, Vallamattam Estate
T.D. Road
Kochi - 682035

Dear Sir,

Classification of the company

Please refer to your letter dated January 12, 2011 forwarding your NBS 3 return for the quarter ended December 31, 2010. We observe therefrom that the company had accepted/renewed deposits during the quarter. We advise you not to accept/renew deposits till the company's representation for reclassifying it as 'Asset Finance Company' is considered.

Yours faithfully,

(Vijaylaxmi D. Kini)
Deputy General Manager

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