

FIDC

Finance Industry Development Council

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

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)

Tel: 022 21027324/9820035553 • E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

July 19, 2013

**Mr. Rudra Narayan Kar,
Chief General Manager-In-Charge,
Foreign Exchange Department,
Reserve Bank of India,
Central Office Building,
Shahid Bhagat Singh Road,
Mumbai – 400 001.**

Respected Sir,

RE: External Commercial Borrowings (ECB) by Asset Financing NBFCs (NBFC-AFCs)

Sir, the Asset Financing NBFCs, (NBFC-AFC) registered with Reserve Bank of India have joined hands and formed a **Self Regulatory Organization (SRO)** under the name of **Finance Industry Development Council (FIDC)**. FIDC is an All India body and is registered as a Company U/s. 25 of Companies Act, 1956. Our main objective is to work towards bringing discipline amongst our members by enforcing a model code of conduct, represent the views of the industry to the appropriate authorities where necessary and present a unified face of this sector.

This has reference to the RBI Circular RBI/2013-14/126.AP.(DIR Series) circular no. 6 dated July 8, 2013 allowing NBFC-AFCs to avail ECBs under the automatic route. At the outset, we would like to convey our sincere thanks to you for meeting one of long standing demands of NBFC-AFCs. This is a step in the right direction consistent with the present economic environment in the country, as RBI has created another window for fund raising by NBFC-AFCs.

However, we feel that in order to give the desired boost to the infrastructure sector and to yield the expected results, few conditions in the above mentioned circular need to be modified. Following are the concerns:

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End Use of Funds Raised Through ECBs

As per para 3(i) of the above said circular, the end use of funds raised through ECBs by NBFC-AFCs has to be *“to finance the import of infrastructure equipment for leasing to infrastructure projects”*.

While we fully appreciate the condition that the funds have to be used for financing to the infrastructure sector, the restriction on the type of equipment and the mode of financing is what need to be broad based.

1. Financing of Domestically Manufactured Equipment Should Also Be Allowed

Currently majority of the leading infrastructure equipment manufacturers of the world have set base in India either directly or through a joint venture with a domestic partner. Further, large quantities of equipment are being manufactured by domestic players. As a result majority of the infrastructure equipment today are sourced locally and are not imported. Under these circumstances the restriction on use of ECB funds for financing only imported equipment is imprudent and highly restrictive.

2. Mode of Financing May Be Any

You may be aware that ever since service tax was imposed on the interest component of leasing and hire purchase transactions in 2001, NBFCs have being financing equipment by way of loans against hypothecation. Further, Financial Lease also has issues in claiming depreciation and Operating Lease is not considered as a financial activity. As such the restriction on use of ECB funds for “Leasing only” seems to be unjustified.

Suggestion:

Based on the facts stated above, we hereby request you to broaden the scope of the circular by allowing NBFC-AFCs to use ECB funds for “Financing” (mode could be lease/hire purchase/loans against hypothecation) of all infrastructure equipment (both domestic and imported)

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Para 3(i) may be modified so as to delete the words “the import of” and “for leasing”.

We look forward to receiving a positive reply from your end. Assuring you of our full cooperation always and thanking you in anticipation

Thanking you,

Yours sincerely,

FOR FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR

Director General

Cc:

Shri N. S. Vishwanathan

Principal Chief General Manager

Reserve Bank of India,

Department of Non-Banking Supervision

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