

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)
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February 23, 2015

Shri Arun Jaitley,
Union Minister of Finance,
Minister of Finance,
Government of India,
North Block,
New Delhi 110 001.

Hon'ble Finance Minister Sir,

SUB: Access to External Commercial Borrowings for NBFCs

Finance Industry Development Council (**FIDC**) is a Self Regulatory Organization (SRO) cum Representative Body of all the Asset Financing NBFCs, (NBFC-AFCs) registered with the Reserve Bank of India.

1. Background

- 1.1 Non Banking Finance Companies (“NBFCs”) play a very important role in infrastructure finance and in funding productive asset creation in the country. They finance sectors including SMEs, transportation & logistics, infrastructure, hospitals and educational institutions, assisting critical and under banked segments.
- 1.2 The recent initiative of the Government of India on “Make in India” would be heavily dependent upon contribution from these sectors.
- 1.3 A large part of NBFC loans are also provided to the priority sector as defined by the Reserve Bank of India.
- 1.4 Large systemically important NBFCs (“NBFC-SI”) having assets of Rs. 500 crores or more, are regulated by the Reserve Bank of India through a stringent set of exposure norms, corporate governance and capital adequacy limits. The RBI also conducts regular inspections to ensure compliance of NBFC-SI to various norms.

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2. Current Status

- 2.1 NBFC-SIs are today critically dependent upon the banking system for financing their long term funding needs. While competing with banks in the area of lending, NBFCs do not enjoy a level playing field as far as raising resources are concerned. Banks have access to current and savings accounts, public fixed deposits and the call money markets, while NBFCs are constrained to depend on banks for a substantial part of their funding needs.
- 2.2 In the current environment of higher interest rates and sectoral caps on banks' exposure to NBFCs, the ability of NBFC-SI to continue to serve these critical segments at reasonable interest rates is getting impaired. With limits on banks' ability to finance NBFCs, maintaining a healthy asset-liability match is also becoming a challenge. Capital adequacy norms are also much more stringent for NBFCs.
- 2.3 Banks and Infrastructure Finance Companies ("IFC") have access to ECBs. Many banks today compete with NBFCs for serving the similar sectors and even for extending consumer finance from a position of advantage. Access to ECBs for NBFCs would help bring down their costs and remove this anomaly at least partially.
- 2.4 Asset Financing NBFCs have a very limited access today to ECB only for the purpose of import of infrastructure equipment for the purpose of leasing them to infrastructure projects.
- 2.5 The Key Advisory Group constituted by the Ministry of Finance has, in its report dated January 31, 2012 had observed that limited sources of funding available to NBFCs is hampering their growth and ultimately, the objective of the Government of financial inclusion. It had recommended that ECB be made accessible to NBFCs.

3. Request

- 3.1 NBFCs should be allowed to raise ECB funds for tenures of five years or more and within the interest rate parameters as per existing ECB norms. In order to prevent any risk associated with currency exchange rates, these funds may be mandatorily hedged.

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3.2 End use of ECB funds may be allowed only for financing equipment and machinery for small and medium enterprises, commercial vehicles, financing construction of health care facilities, infrastructure projects, educational institutions, financing/leasing imported as well as indigenous infrastructure equipment and similar productive purposes. Utilisation of ECB proceeds should not be allowed for financing real estate and the capital market segments. End-use certification may be made mandatory to address any regulatory concerns on end use.

3.3 The amount of funds that an entity is allowed to access be tied to the net worth of the NBFC as well as its credit rating. The Government may also place reasonable limits on funds raised through the ECB route and relax the limit in a progressive manner based upon experience.

We shall be glad to supplement this representation with any additional information / clarification that may be required.

We thank you in anticipation of a positive response and assure you of our full co-operation always.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL